

Firetrail Absolute Return Fund

APRIL 2019

ABOUT FIRETRAIL

Firetrail is an investment management boutique which is majority owned by the Firetrail investment team. Additionally, the investment team is invested alongside clients in the investment strategies.

ABSOLUTE RETURN FUND

The Absolute Return Fund ("Fund") is a market neutral strategy with minimal correlation to equity market direction. It aims to generate positive returns in all market environments. The strategy is built on fundamental, deep dive research guided by the philosophy that 'every company has a price'.

INVESTMENT OBJECTIVE

The Fund aims to outperform the RBA cash rate over the medium to long term.

STRATEGY PERFORMANCE TO 30 APRIL 2019

	Net Strategy	Benchmark	Net Excess
1 Month (%)	0.76	0.12	0.63
3 Months (%)	(0.38)	0.36	(0.74)
1 Year (%)	(2.86)	1.50	(4.36)
3 Years (%)	6.24	1.53	4.70
Inception (% p.a.)	13.43	1.61	11.82

FUND DETAILS

Unit prices	30 April 2019
Application price	\$0.9828
Redemption price	\$0.9730
NAV price	\$0.9779

Fund Details	
APIR Code	WHT5134AU
Benchmark	RBA Cash Rate
Inception date	14 March 2018
Fund size	\$218m
Management fee*	1.50% p.a.
Performance fee*	20% of outperformance

*Please read the Product Disclosure Statement for more details

PORTFOLIO POSITIONING 30 APRIL 2019

Top 3 Overweight Holdings (Alphabetical)
Amcor Ltd
Woolworths Group Ltd
WorleyParsons Ltd

FUND EXPOSURE 30 APRIL 2019

	Portfolio Exposure
Long Equity	152%
Short Equity	152%
Net Equity Exposure	0%

Past performance is not an indicator of future performance.

The Firetrail Absolute Return Strategy Composite Performance has been calculated using the monthly returns (after fees) of the Firetrail Absolute Return Fund from 14 March 2018 to current date, as well as the monthly returns of the Macquarie Pure Alpha Fund between 30 June 2015 to 23 November 2017. The Firetrail Absolute Return Fund employs the same strategy as was used by the same investment team that managed the Macquarie Pure Alpha Fund as at 23 November 2017. Firetrail has records that document and support the performance achieved as the Macquarie Pure Alpha Fund. All of the investment decision makers are employed by Firetrail Investments and the decision process remains intact and independent within Firetrail Investments. The Composite returns for the Strategy and the RBA Cash Rate (Benchmark) excludes returns between 24 November 2017 and 13 March 2018. During this period the investment team did not manage the strategy. As such, the annualised performance periods stated are inclusive of the combined composite monthly returns, and do not include the period when the team were not managing the strategy. For example, the annualised return over 3 years for the strategy and benchmark are inclusive of 36 monthly performance periods available in the Composite return period, excluding the period between 23 November 2017 and 13 March 2018. For additional information regarding the performance please contact us through the link on our website.

PORTFOLIO COMMENTARY

The Fund returned 0.76% during April, outperforming the RBA Cash Rate by 0.63%.

Small, Mid and Large cap positions were positive contributors during the month, whilst fundamental shorts detracted from performance.

Top contributors for the month

A midcap long position in buy now, pay later provider Afterpay (+22%) contributed to performance as the company continued to add retailers and customers to its product offering in the United States. After demonstrating its success in the Australian market over the past 3.5 years, Afterpay entered the US market mid last year. Both merchant additions and customer additions have been strong in the US so far, with over 1 million customers and 2,800 retailers now using the Afterpay platform there. A significant portion of our valuation for Afterpay is dependent on penetrating the US market. If the stock gets anywhere close to the level of penetration in Australia (2.5 million active Australian customers on Afterpay), we believe further upside remains. The company will also enter the UK market (under the name Clearpay) in the next few months.

A long position in A2 Milk (+17%) was also a positive contributor to performance. A2 Milk continues to penetrate its two largest market opportunities – being infant formula sales into China, as well as fresh A2 product into the US market. As a lead indicator port shipments from Lyttleton in New Zealand of Stage 1-3 infant formula were up 84% y/y for the first three months of calendar year 2019. Subsequent to month end, A2 reiterated its guidance for second half revenue growth to be broadly in line with the first half, which was 41% growth.

Top detractors for the month

A short position in paint producer DuluxGroup (+32%) was the largest detractor for the month. The stock rallied after Japanese company Nippon Paints bid for the company with an all cash offer at a 28% premium to the last close price. This bid, which has been recommended by DuluxGroup's board, implies an acquisition multiple of around 25x 1 year forward earnings. We were short the company based upon near term earnings risk at the upcoming May result. Our position has now been closed out, but we await with interest to see whether the future earnings of the company validate the price paid by Nippon.

Rio Tinto (-2.6%) detracted from performance after a strong rally in recent months. Iron ore producers have benefitted from the unfortunate tailings dam failure in Brazil last year, which has taken ~80 mt out of the market. At the same time Chinese demand has remained robust this calendar year, as can be seen in the low level of port inventories in China. When constrained supply meets steady demand, it's the recipe for a commodity rally, which has driven the price of iron ore from USD65 per ton in July last year to USD95 recently. However during March, materials names including Rio took a breather.

ONE INTERESTING THING THAT HAPPENED THIS MONTH....

Was the alignment of Easter, Anzac Day, and school holidays in Australia. Whilst many people took the opportunity for a 10 day long extended break, for businesses this can either be a significant drag or benefit to operating performance. Add to this any interruption caused from the election campaign and it makes for an interesting final three months of fiscal year 2019.

Whilst we will see the details of the impact when company results are released in August we believe significant impacts will be felt across:

- 1) Airlines: Domestic airlines Qantas and Virgin should benefit as families take holidays around Australia and offshore. Load factors on planes get higher, creating both fixed cost and price leverage. But on the flipside politicians are campaigning in their home electorates, meaning Canberra Airport should be a fair bit quieter!
- 2) Advertisers: Domestic readers can't have missed the political advertising across television, radio and digital mediums. Where there is a fixed inventory of ad slots (e.g. 24 hours of television), increased demand can be leveraged into price rises which flow to the bottom line. But for formats such as outdoor advertising, a majority of the billboards are on publicly owned land – which can't take any political ads. So choose your winner carefully!

Whilst this alignment creates some noise, the effects are largely one off in nature. Care will need to be taken in analysing results for the true underlying trends. In the meantime many companies will look forward to the FY20 year where the leap year's extra day should give a "free" 0.274% extra growth!

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