Firetrail
Invest with Conviction

FIRETRAIL ABSOLUTE RETURN FUND

MONTHLY REPORT | MARCH 2024

PERFORMANCE (AFTER FEES)[1]

	Month	Quarter	1 Year	3 Years p.a.	5 Years p.a.	Fund inception p.a.[3]	7 Years p.a.	Strategy inception p.a.[5]
Fund[2]	4.58%	(1.92%)	(0.19%)	(6.99%)	1.71%	0.93%	-	-
Strategy composite[4]	4.58%	(1.92%)	(0.19%)	(6.99%)	1.71%	-	2.41%	6.42%
Benchmark	0.36%	1.07%	4.14%	2.09%	1.48%	1.48%	1.47%	1.54%
Excess Return	**+4.22%**	**-2.99%**	**-4.33%**	**-9.08%**	**+0.23%**	**-0.56%**	**+0.94%**	**+4.89%**

1. Past performance is not a reliable indicator of future performance.

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 (after fees).

PORTFOLIO POSITIONING – 31 MAR 2024

Top 3 Overweight Holdings (Alphabetical)
CSL Ltd
Newmont Corp
Nufarm Ltd

FUND DETAILS

Unit Prices	31 March 2024
Application Price	$1.0395
Redemption Price	$1.0323
NAV Price	$1.0359
Fund Details	
APIR Code	WHT5134AU
Benchmark	RBA Cash Rate
Inception Date	14 March 2018
Risk/Return Profile	High
Fund Size	$203mil
Management Fee*	1.28% p.a.
Performance Fee*	20% of outperformance above an annual Hurdle

*Please read the Product Disclosure Statement for more details

FUND EXPOSURE – 31 MAR 2024

	Portfolio Exposure
Long Equity	163.5%
Short Equity	-163.4%
Net Equity Exposure	0.1%

Past performance is not a reliable indicator of future performance.
The Product Disclosure Statement ('PDS') and Target Market Determination ('TMD') of the Fund are available at https://firetrail.com/firetrail-absolute-return-fund/.
2. Firetrail Absolute Return Fund ('Fund'). Net Fund returns are calculated based on exit price with distributions reinvested, after ongoing fees and expenses but excluding taxation. 3. Fund inception is 14 March 2018. 4. The Fund has been operating since 14 March 2018. To give a longer-term view of our performance for this asset class, we have also shown returns for the Firetrail Absolute Return Strategy Composite ('Strategy') which has been operating since 30 June 2015. Strategy performance has been calculated using the monthly returns (after fees) of the Fund from 14 March 2018 to current date, as well as the monthly returns of the Macquarie Pure Alpha Fund (after fees) between 30 June 2015 to 23 November 2017. The 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. The composite returns for the Strategy and the RBA Cash Rate (Benchmark) exclude 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. Net Fund returns are in AUD terms. Net Fund returns are calculated based on exit price with distributions reinvested, after ongoing fees and expenses but excluding taxation. Past performance is for illustrative purposes only and is not indicative of future performance. 5. Strategy inception 30 June 2015.

PORTFOLIO COMMENTARY

The Fund returned 4.58% (after fees) for the month ending 31 March 2024, outperforming the RBA cash rate by 4.22%.

For the quarter ending 31 March 2024, the Fund returned negative 1.92% (after fees) underperforming the RBA Cash Rate by 2.99%.

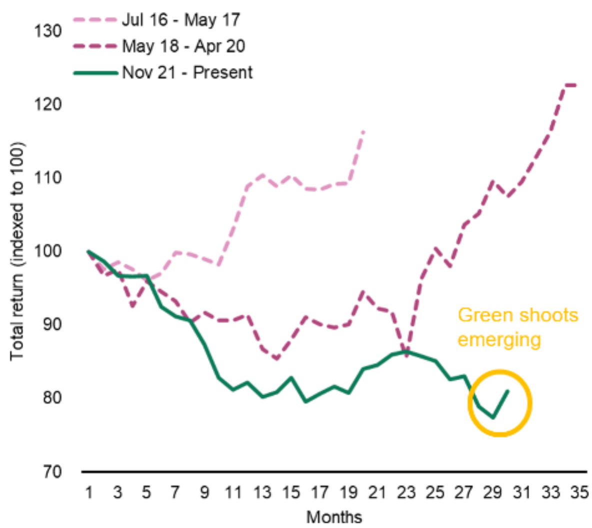
GREEN SHOOTS EMERGING

We saw green shoots for the portfolio emerge in March with a number of positive signs for our positioning. Performance over the last 24 months has not been up to Firetrail's or our investors' standards. This was driven by:

1. **Our small company overweight generated strong performance in 2020-2021, however it was a large detractor in 2022**. Although we anticipated rising interest rates would be negative for small companies, we underestimated the pace of interest rate hikes and were too slow to unwind this position. We reduced our small company overweight to zero by June 2022. Looking forward, 2022's headwinds look set to become tailwinds for small companies. We have gradually been increasing our small company exposure since June 2023 (although not to the same level as 2022) and expect this to be a strong contributor over the coming years.
2. **Short-term headwinds impacted a number of high conviction long positions in last 6 months**. For example, Newmont production issues, Domino's Pizza weakness in Japan/France. We have done a forensic review of these companies and the outlook remains very attractive. We used the share price weakness to top up positions at attractive prices. We did see a thesis breakdown for one underperformer, Alumina, and exited the position.

Pleasingly, we have started to see a positive reversion in March and April. However, there is still much more work to do. Since strategy inception in June 2015,[1] the Firetrail Absolute Return Strategy has had two similar drawdowns. Both were followed by a sharp recovery, and further outperformance.

Figure 1: The Strategy has had two similar protracted drawdowns in its 9 year history. Both were followed by a strong recovery and further outperformance



Source: Firetrail, post-fee performance, April 2024

Past performance is for illustrative purposes only and is not a reliable indicator of future performance.

The Fund continues to be managed by the same investment team who delivered material outperformance in the past. We have further strengthened the team in 2024 with the additions of two experienced analysts with a track record of alpha generation on the long and short side: Matthew Thomson and Dean Fremder.

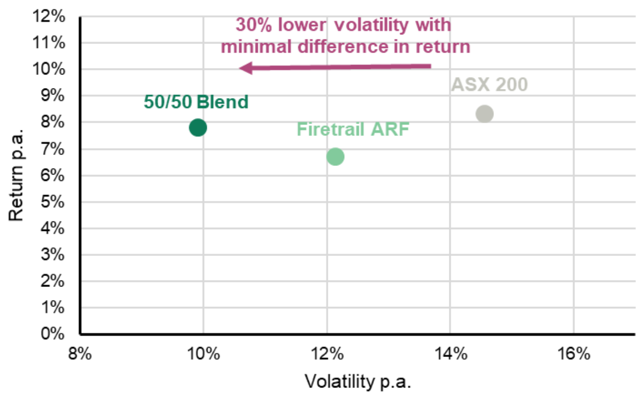
[1] Firetrail Absolute Return Strategy performance has been calculated using the monthly returns (after fees) of the Firetrail Absolute Return Fund from 14 March 2018 to current date, as well as the monthly returns (after fees) of the Macquarie Pure Alpha Fund between 30 June 2015 to 23 November 2017.

When we look at the portfolio, we are confident that a strong recovery will materialise. Some of the valuation dislocations we are seeing today are as extreme as what we saw during COVID:

1. Energy, Healthcare and Gold offering extremely compelling value today e.g. Santos, CSL, Newmont
2. Abundance of undervalued small caps with strategic assets e.g. Regis Healthcare, Life360, a2 Milk
3. Shorting opportunities in banks, expensive defensives, and select bond proxies, where we see material downside risks.

The Fund is designed to provide both portfolio protection during equity market drawdowns and reduce overall portfolio volatility without sacrificing returns. Figure 2 highlights how blending the Firetrail Absolute Return Fund with the ASX 200 (Australian equity market exposure) has reduced overall portfolio volatility by over 30%, with a minimal impact on the long run average return (after fees, since Strategy inception).

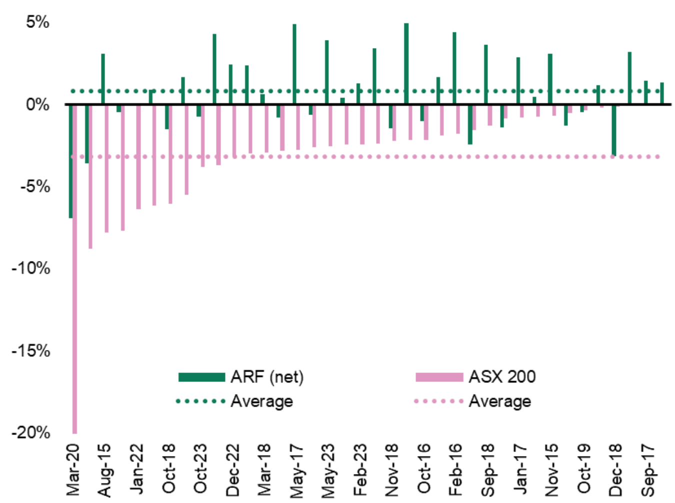
Figure 2: The Firetrail Absolute Return Fund provides material diversification benefits when blended with ASX 200



Source: Firetrail, Factset, April 2024. Since Strategy inception
Past performance is not a guarantee of future returns.

The Fund continues to provide diversification from negative equity market returns. Since inception, the Strategy has delivered a positive return in 63% months where the ASX 200 return was negative. On average, the Fund delivered a positive return of +0.84% (after fees) in negative ASX 200 months, versus the average ASX 200 return of -3.18% in these months.

Figure 3: Firetrail Absolute Return Fund performance (after fees) in negative markets since strategy inception. The Fund has delivered a positive return in 63% negative ASX 200 months



Source: Firetrail, April 2024
Past performance is not a guarantee of future returns.

Companies mentioned are illustrative only and not a recommendation to buy or sell any particular security.

We thank our investors for their continued support. We are determined to return the Fund back to the levels of outperformance delivered historically. We are confident the current portfolio is well-positioned to do so.

CONTRIBUTORS TO RETURNS

Positive contributors for the month included Newmont, Genesis Minerals, and Life360. Negative contributors included Nufarm, SEEK, and Domino's Pizza. We discuss each further in our commentary below.

POSITIVE CONTRIBUTORS

Newmont

Newmont shares outperformed as the USD gold price rose 8%. Newmont is a position we have been adding to following some short-term disappointments. Newmont is the world's largest gold miner with a well-diversified portfolio of assets, mainly across low-risk geographies. We believe the market has incorrectly extrapolated some short-term issues into the share price. We continue to see material upside to Newmont shares.

Genesis Minerals

Gold miner Genesis Minerals rose strongly in March, reflecting a record gold price and the release of the company's inaugural 5-year plan. There was plenty to digest and we flew West to investigate. In short, Genesis plans to increase production from 135,000 ounces of gold in FY2024 to 325,000 ounces in FY2029 (a compound annual growth rate of 18.3% p.a.) while reducing costs. This will result in a significant increase in free cash flows. Pleasingly, over 90% of the gold planned to be mined in the next 5 years is in the company's reserves and the cumulative gold production over the same time frame is less than half of Genesis' current reserves. Strong growth underpinned by high quality reserves puts Genesis in an enviable position relative to every other gold company on the ASX. In line with management's track record, we suspect that Genesis' 5-year plan is conservative and see multiple opportunities for the company to exceed market forecasts.

Life360

Location sharing app Life360 rallied by over 60% during the month after announcing its 2023 result. The company announced that it will introduce an advertising revenue stream to leverage its 61.4 million Monthly Active User base. Given paying subscribers only make up 10% of the Life360 user base, introducing advertising presents a significant opportunity for monetization. Life360 has exponentially grown in popularity and is now the fifth most used social media app in the US after Facebook, Messenger, WhatsApp and BeReal.

NEGATIVE CONTRIBUTORS

Nufarm

Nufarm shares underperformed as peer results highlighted continued destocking across crop protection customers. We expect Nufarm will report a cyclically weak H1 2024 result in May, but believe medium-term fundamentals remain strong.

SEEK

SEEK shares underperformed as new job ad volumes for February showed a continuation of the -20% trend compared to the same time last year.

Domino's Pizza

Domino's shares underperformed, unwinding some of the share price recovery seen through February following a better-than-feared result. We look forward to learning more about Domino's plans to turnaround underperforming regions at an upcoming Investor Day in April.

PORTFOLIO POSITIONING

The Firetrail Absolute Return Fund is a market neutral portfolio (long/short) with zero net market exposure and beta (+/- 0.1) to ensure Fund performance is uncorrelated to equity market direction. The Fund is driven by our best long and short ideas. Overall, we see the portfolio as follows:

The long portfolio can be summarised as:

- 163.5% long exposure across a diversified portfolio of stocks with upside based on our medium-term earnings forecasts.
- Overweights include:
    - Energy companies exposed to commodities where supply is constrained in the medium term, such as Santos and Incitec Pivot.
    - Commodity companies exposed to decarbonisation such as Mineral Resources, NextGen Energy, and Lynas Rare Earths with attractive cost positions and strong growth outlooks.
    - Market leaders including CSL, ResMed, and James Hardie Industries who are well placed to strengthen their competitive position through the cycle.
    - Financials with leverage to a higher interest rates environment and better industry outlook including QBE Insurance, Medibank Private, and Suncorp.
    - Undervalued companies with quality attributes including Treasury Wine Estates and Domino's Pizza.

The short portfolio can be summarised as:

- 164.4% short exposure across a diversified portfolio of earnings shorts and risk-reducing shorts
- Earnings shorts aim to profit from companies that downgrade near term earnings. The current market is creating heightened opportunities as companies deal with rising costs and easing demand at a time of peak margins.
- Risk-reducing shorts offset equity market exposure and control portfolio risk such as style, size, sector, and thematic biases to ensure returns are driven by stock specific factors.
- The short portfolio is overweight banks, large cap iron ore miners and bond proxies where we see increasing near term earnings risks.

STOCK DEEP DIVE – BLUESCOPE: THE SUM OF THE PARTS

BlueScope Steel is well-known as Australia's largest steelmaker. The company's blast furnace at Port Kembla has been operating for over 90 years. Port Kembla Steelworks now sits within a broader, vertically-integrated asset portfolio including steelmaking and value-added steel products targeting the building and construction sectors in Australia, New Zealand, Asia and North America.

Over the past decade, BlueScope's well-regarded management team have accelerated operating improvements and growth. The company's steelmaking position in Australia has been secured with a regionally-competitive asset. There has also been a focus on growing downstream products, which has increased BlueScope's local earnings defensibility and quality. Finally, the business now has a global growth platform led by a major expansion at its North Star steelmaking operations in North America.

The transformation to more diversified, predictable earnings that are less exposed to cyclical factors has allowed the company to increase shareholder returns over time. We expect this to continue as a period of major capital investment comes to a close.

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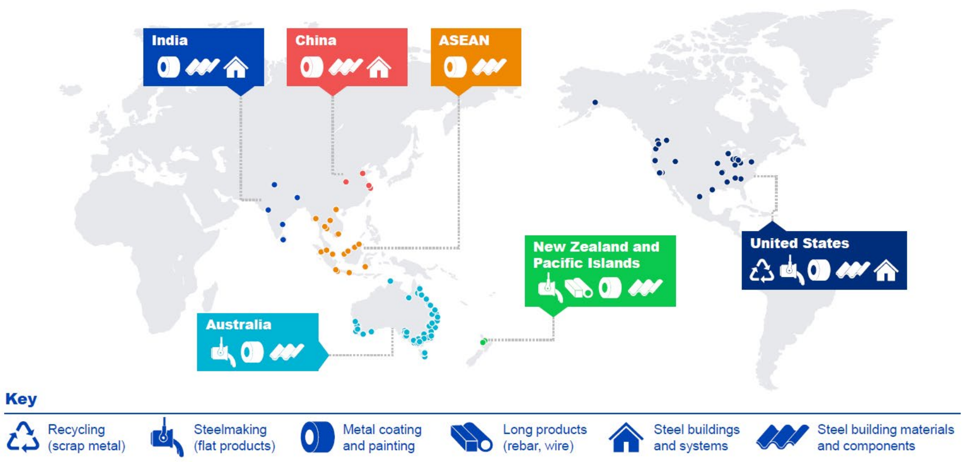
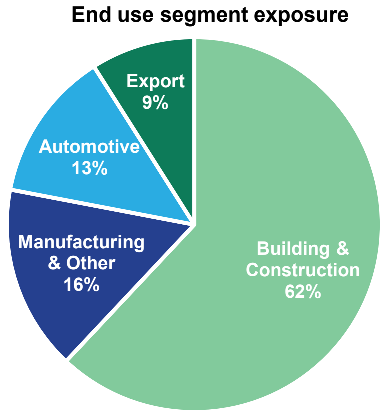
Figure 4: BlueScope has a global, vertically integrated portfolio of assets including steelmaking and value-added products



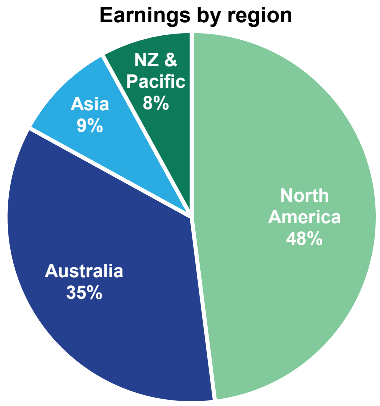
Source: BlueScope, 2024

Figure 5: BlueScope sells into a range of end markets, with building & construction the largest.



Source: BlueScope, Firetrail, February 2024

Figure 6: BlueScope's global expansion has resulted in more diversified and predictable earnings.



Source: BlueScope, Firetrail, February 2024

A regionally-competitive Australian steel producer

BlueScope's Australian earnings are highly dependent on the global competitiveness of the Port Kembla steel mill. BlueScope emerged as a more competitive steel producer in 2015 following a major restructuring that resulted in a lower cost base at Port Kembla. While not the lowest cost producer, BlueScope has repositioned itself to successfully compete against low-priced imports, mainly from China and Southeast Asia.

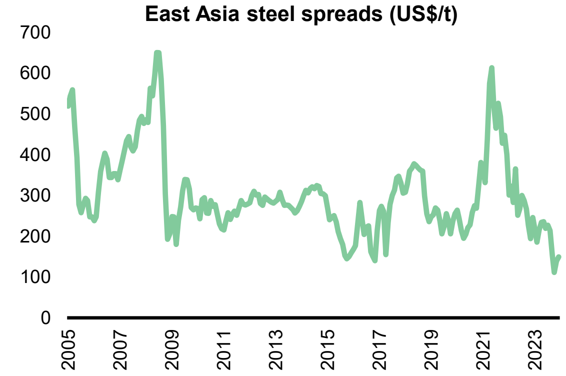
Steelmaking profitability is driven by the steelmaker spread. The spread is the steel price (in this case the Asian Hot Rolled Coil price), less the cost of inputs (iron ore and coal). In other words, the spread is the profit a producer makes on each tonne of steel sold.

Asian steel spreads have fallen to multi-year lows not seen since 2015-16. In 2015-16, China was exporting a significant amount of steel (100 metric tonnes) before enacting supply side reforms to reduce overcapacity in the following years. We find ourselves in a similar situation in 2024. China steel exports are approaching 100mt as a combination of weak domestic property and infrastructure demand forces local steel mills to the export market. As a result, steel prices (and spreads) have collapsed due to an oversupplied market.

Figure 7: China steel exports have risen significantly due to weak local demand

Source: Firetrail, January 2024

Figure 8: …causing steel prices to collapse in an oversupplied market

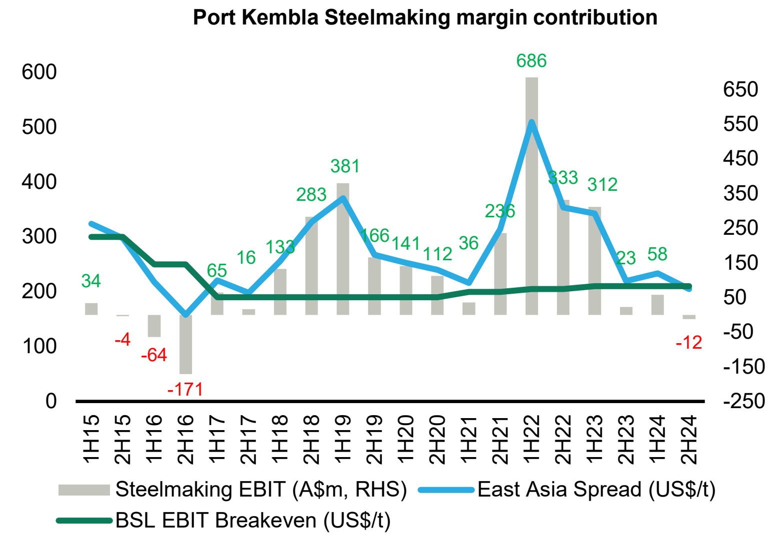


Source: Firetrail, January 2024

Fortunately, BlueScope now finds itself in a much better position compared with 2015-16. BlueScope has reduced its breakeven cost on a tonne of steel produced at Port Kembla from $300/t to $200/t. Port Kembla is now competitive with Chinese producers despite the higher cost of doing business in Australia. However, both BlueScope and Chinese steelmakers are marginally loss making at current steel prices.

Figure 9 shows Port Kembla's pure steelmaking profitability at different steelmaker spreads. Given most of the market is lossmaking today, we believe current prices are unsustainable and have to move up.

Figure 9: Port Kembla is competitive with China producers despite the higher cost of doing business in Australia.



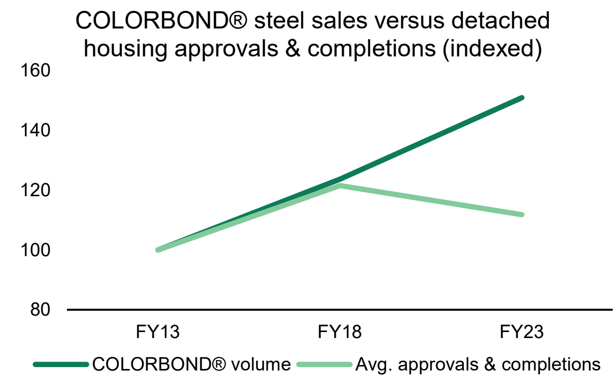
Source: BlueScope, Firetrail, April 2024

The shift to downstream

A competitive cost position in steelmaking has allowed BlueScope to focus on taking international market share with its value-added branded products. The most prominent example is Colorbond. Colorbond is pre-painted steel used for roofing, fencing and siding. It competes against traditional tiles, timber and brick in building and construction. Other value-added BlueScope products include Truecore, Zincalume metallic coated steel, and Tru-Spec steel.

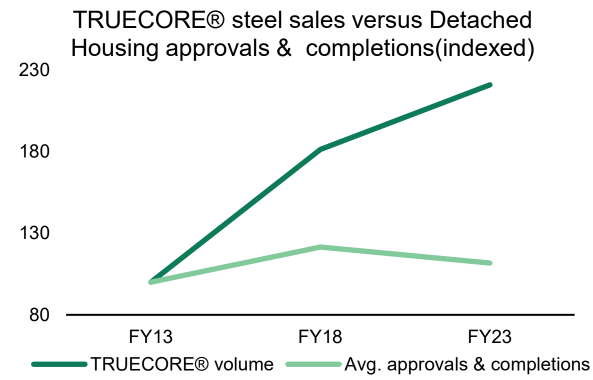
An aggressive growth strategy for value-added products has seen brands such as Colorbond and Truecore take significant share against peers. For example, Colorbond's share of roofing today sits close to 60%, versus 40% ten years ago. Truecore has moved from less than 5% of the new build framing market to over 15%. Importantly, BlueScope has largely kept competing products out. Colorbond has 90% share of metal roofing today.

Figure 10: Colorbond sales have taken material market share in detached housing



Source: Firetrail, April 2024

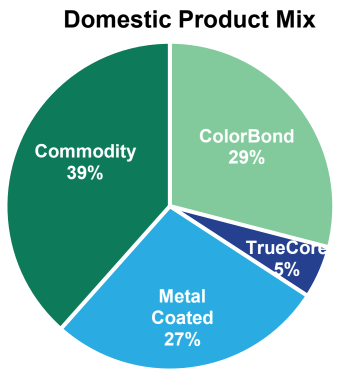
Figure 11: Truecore sales have also grown faster than overall building activity



Source: Firetrail, April 2024

Unlike commodity steel such as hot rolled coil, there is minimal linkage to a global price index for value-added steel. Instead, Colorbond and Truecore sell at a local price which is linked to pricing for competing products such as roof tiles. Figure 12 and 13 illustrate Bluescope's domestic product mix and the linkage to commodity import parity pricing.

Figure 12: Only 39% of BlueScope Australia's sales are driven by regional commodity pricing



Source: Firetrail, April 2024

Figure 13: Colourbond, TrueCore, and metal coated lines (to a degree), are protected from import pricing dynamics

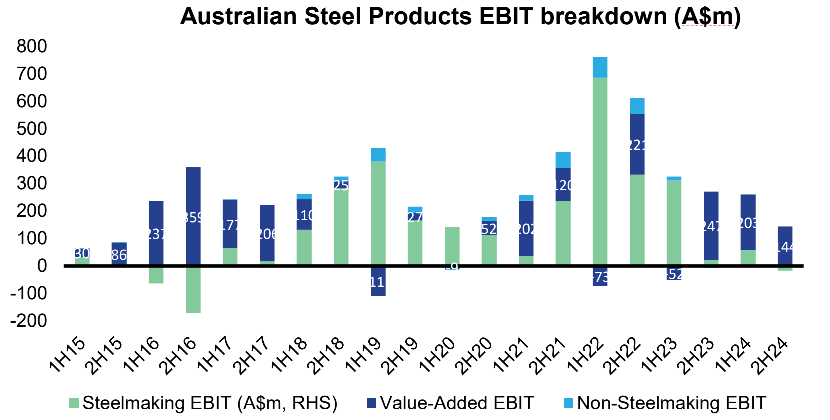
Import Parity Pricing Linkage	
Colorbond / TrueCore	0%
Metal coated	50%
Other Commodity (HRC, CRC)	90%

Source: Firetrail, April 2024

The key benefit of BlueScope's value-added products is that profitability typically has an inverse relationship to global steel prices and spreads. When global steel spreads are low, Colorbond margins are high. This acts as a stabilizing force on the overall earnings base.

Figure 14 breaks out the Australian Steel Products segment earnings. As steelmaking has become more competitive and value-added product earnings have grown, the overall Australian earnings quality has improved with less volatile cashflows.

Figure 14: Value-added product earnings have protected BlueScope group earnings when steelmaking earnings are weak, resulting in more predictable cashflows



Source: BlueScope, Firetrail, April 2024

We see strong upside to BlueScope's current share price. It remains a key holding in the Firetrail Absolute Return Fund.

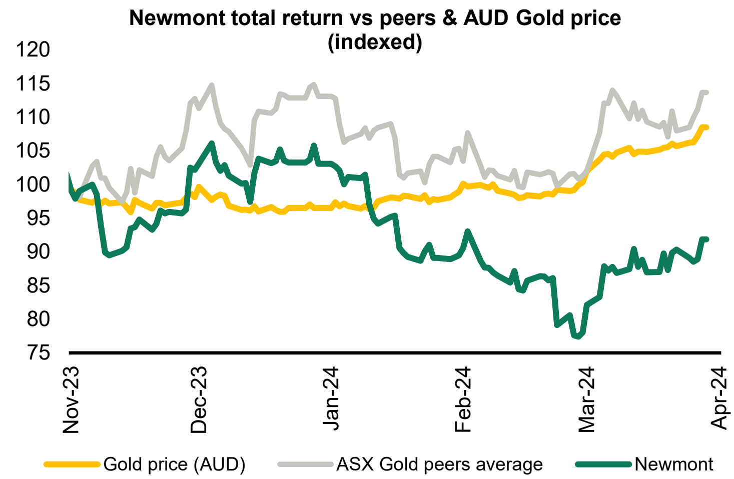
ONE INTERESTING THING THAT HAPPENED THIS MONTH…

The Gold price rose another 5% in March, taking gains to 17% over the last 6 months. In AUD terms, Gold is up a similar amount at 15%. Most ASX-listed gold miners have performed in line with the Gold price over this period, with one notable exception: Newmont.

Newmont has underperformed the commodity by 20% following completion of the Newcrest Mining merger and subsequent ASX-listing in October 2023. The underperformance has been due to disappointing production guidance versus market forecasts. Given the diversification and high-quality nature of Newmont's asset portfolio, we believe these issues will be temporary.

Looking forward, Newmont is well-placed to benefit from a strong Gold price and is trading on a highly attractive valuation. Gold's recent shine could also result in more favourable outcomes on planned non-core asset disposals. Newmont remains a key holding in the Firetrail Absolute Return Fund.

Figure 15: Newmont has lagged the gold rally. We see the potential for a material recovery over the coming 12-24 months.



Source: FactSet, Firetrail, March 2024.

Get vital insights direct from the Firetrail investment team – Introducing the Firetrail Equity Edge Podcast.

We interview Firetrail's Portfolio Managers and Equity Analysts about a stock we have invested in to provide you with the **Firetrail Equity Edge.**

The questions are always the same:

- What is the company and what does it do to make money?
- What is the stock market missing regarding the company's outlook?
- What is the bear- and bull-case for the company?

All in under 10 minutes.

The podcast has proven to be a hit, with recent episodes covering Life360 and Ampol.

Simply scan the QR code below or listen via your favourite podcast platform. Simply search for "Firetrail Equity Edge".

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