

## Firetrail Absolute Return Fund | Key Long Positions | 31 December 2023

The Firetrail Absolute Return Fund is a market neutral strategy with minimal correlation to equity market direction. The strategy is built on fundamental, deep dive research guided by the philosophy that 'every company has a price'.



CSL  
(CSL)

CSL was established by the government in 1916 and is now one of Australia's largest companies. CSL has three divisions. 1) CSL Behring uses plasma to produce lifesaving treatments for rare diseases, 2) CSL Seqirus produces flu vaccines, and 3) CSL Vifor produces therapies for iron deficiency and kidney disease.

### What Matters

1. **CSL Behring revenues** - CSL Behring makes up 70% of CSL's revenue. its key Immunoglobulin products are used to treat a number of immune deficiency diseases. We estimate this division can grow revenues at a double-digit pace for the next three years, supported by the return of immunoglobulin supply and the launch of a number of new products.
2. **Gross margin improvement** - Margins were negatively impacted through COVID due to the high fees required to attract plasma donors. As consumer balance sheets have tightened, the fee to attract donors has fallen. We estimate gross margins can return to pre-COVID levels over the next four years, driven by lower donor fees and other internal initiatives.



Incitec Pivot  
(IPL)

Incitec Pivot is a leading Explosives and Fertilisers manufacturer. Its Explosives are used by mining companies around the world to unlock resources like gold, iron ore and copper. Incitec's Fertilisers are used by farmers across the east coast of Australia.

### What Matters

1. **European gas prices** - Fertiliser and explosives prices are driven by the price of gas, a major manufacturing input. Geopolitical conflict and underinvestment in supply are resulting in higher gas prices and higher fertiliser/explosives prices. Incitec Pivot accesses low-cost Australian gas. It benefits from higher prices without seeing higher gas costs.
2. **Explosives market undersupplied** - Demand for explosives continues to grow, but Australian supply hasn't kept pace. The undersupply will force buyers into a volatile import market. Incitec Pivot will benefit from increasing demand for domestic supplies given its manufacturing base is in QLD.



Kelsian  
(KLS)

Kelsian is Australia's largest private operator of public transport. It operates bus and ferry services around the country. It also operates in the UK, Singapore, and has recently acquired the fourth largest coach operator in the USA. Kelsian's earnings are highly defensive. Revenues are contracted for many years. They are inflation protected and generally government contracts.

### What Matters

1. **All Aboard America** - Kelsian's US acquisition creates a platform to grow in a large, fragmented market. The business has outperformed expectations. There are many opportunities for new tender wins and increased work with existing clients.
2. **Australia buses** - The market is not factoring in new contract wins in Australia. Kelsian have won 24 contracts in 26 years and there are many upcoming tender opportunities. We find it hard to believe management will not continue an excellent track record of contract wins.



QBE Insurance Group  
(QBE)

QBE is a top 20 global insurer and reinsurer by gross written premium. QBE primarily sells its insurance policies to businesses through the broker channel, across Australia, Europe, the US and Asia.

### What Matters

1. **Rising insurance pricing** - Global insurance prices have risen for over three years now. In most cases, price increases are outstripping cost inflation. We expect steady improvement in QBE's key operating metric, the Combined Operating Ratio.
2. **Simplification** - QBE has reduced exposure to US property, exited unprofitable segments and reinsured some uncertain long-dated liabilities. QBE is now set up to be a more predictable business with more stable earnings in future years.



Santos  
(STO)

Santos is a leading, low-cost oil and gas producer. It is Australia's largest supplier of natural gas.

### What Matters

1. **Oil demand/supply** - Firetrail forecasts oil demand to be robust until 2030 despite rising electric vehicle adoption. An underinvestment in supply over the last 10 years will result in higher energy prices over the medium to long term.
2. **Materially undervalued** - Since 2019, Santos has doubled in size through the acquisition of Oil Search and has grown revenues materially. Despite the company's growth, strong management team, high-quality assets and growth projects, Santos' share price currently sits below pre-COVID levels.

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### Research Ratings



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Link to the Product Disclosure Statement: [WHT5134AU](#)

Link to the Target Market Determination: [WHT5134AU](#)

For historic TMD's please contact Pinnacle client service Phone 1300 010 311 or Email [service@pinnacleinvestment.com](mailto:service@pinnacleinvestment.com)

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