

FIRETRAIL AUSTRALIAN SMALL COMPANIES FUND

MONTHLY REPORT | FEBRUARY 2024

PERFORMANCE (AFTER FEES)¹

	Month	Quarter	6 Months	1 Year	3 Years p.a.	Fund inception p.a. ³
Fund ²	2.72%	10.49%	8.60%	20.75%	4.28%	13.09%
Benchmark	1.72%	10.05%	6.88%	7.84%	1.39%	1.97%
Excess Return	+1.00%	+0.44%	+1.72%	+12.91%	+2.88%	+11.12%

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.

AUSTRALIAN SMALL COMPANIES FUND

The Australian Small Companies Fund ("Fund") is a concentrated portfolio of our most compelling Australian Small Company ideas. 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 ASX Small Ordinaries Accumulation Index over the medium to long term (after fees).

PORTFOLIO POSITIONING – 29 FEB 2024

Top 3 Overweight Holdings (Alphabetical)
Genesis Minerals Ltd
Regis Healthcare Ltd
Viva Energy Group Ltd

FUND DETAILS

Unit Prices	29 February 2024
Application price	\$1.3829
Redemption Price	\$1.3747
NAV Price	\$1.3788
Fund Details	
APIR Code	WHT3093AU
Benchmark	S&P/ASX Small Ordinaries Accumulation Index
Inception date	20 February 2020
Risk/Return Profile	High
Number of Holdings	39
Fund size	\$100mil
Management fee*	0.85% p.a.
Performance fee*	20% of outperformance above an annual Hurdle of 2% above Benchmark

*Please read the Product Disclosure Statement for more details

THEMATIC POSITIONING – 29 FEB 2024



Source: Firetrail. Relative to the Benchmark

Past performance is not a reliable indicator of future performance.

2. Firetrail Australian Small Companies 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 20 February 2020.

The Product Disclosure Statement ('PDS') and the Target Market Determination ('TMD') of the Fund is available at www.firetrail.com. Any potential investor should consider the PDS and TMD before deciding whether to acquire, or continue to hold units in, the Fund.

PORTFOLIO COMMENTARY

The Fund returned 2.72% (after fees) for the month ending 29 February 2024, outperforming the ASX Small Ordinaries Accumulation Index by 1.00%.

CONTRIBUTORS TO RETURNS

Positive contributors to returns included financial services technology provider Bravura Solutions, novated leasing company McMillan Shakespeare, and diversified fund manager HMC Capital. Detractors included holdings in WA gas producer Strike Energy, global bus operator Kelsian, and gold producer Genesis Minerals. We discuss each further in our commentary below:

POSITIVE CONTRIBUTORS

Bravura Solutions

Bravura outperformed after announcing an upgrade to their cost-out program for the third time in 12 months. The business is rapidly returning to historical margins after experiencing a significant deterioration in recent years. The turnaround also means Bravura's balance sheet is in a strong position. Bravura is well-placed to grow revenues from key clients in the UK, and is in the running for Super Fund Admin RFPs in the Australian market. We continue to see significant upside in Bravura with consensus expectations still very undemanding.

McMillan Shakespeare

Novated leasing company McMillan Shakespeare outperformed after reporting stronger than anticipated earnings. The highlight of the result was a 26% increase in novated car sales which propelled segment earnings up 71% year-over-year in the second half. We expect continued strong earnings growth as the company benefits from electric vehicle uptake and novated lease penetration.

HMC Capital

HMC Capital outperformed after delivering a strong H1 2024 result. Funds Under Management (FUM) increased 37% over the year, reaching \$8.5 billion. Investors were reminded of HMC's strong track record of growth, which has persisted despite tough market conditions. As a result, the market was willing to reward the company for its new medium-term FUM target of \$20 billion. FUM growth will be focused on attractive asset classes including healthcare, last mile logistics, the energy transition, and data centres.

NEGATIVE CONTRIBUTORS

Strike Energy

WA-focused gas developer Strike Energy fell sharply in February after reporting flow test results below market expectations. These results were highly disappointing following promising drilling data in recent months. Based on these results, and that of peers Mineral Resources and Beach Energy, the Perth Basin is proving more geologically complex and difficult to develop than anticipated. We exited the position due to thesis breakdown.

Kelsian

Transport operator Kelsian declined following the release of a messy half year result in late February. Operationally, the business is performing in line, if not ahead of expectations in key divisions. However, the result was marred by increased depreciation, interest costs and poor cash flow. However, we expect these issues to be temporary and continue to see significant upside to Kelsian shares on a medium-term view.

Genesis Minerals

Gold miner Genesis Minerals underperformed during the month. No company specific news was released and we used the opportunity to add to our holdings. The company continues to be our highest conviction pick in the Gold sector. The Gold sector makes up 9% of the ASX Small Ords benchmark.

PORTFOLIO POSITIONING

Positioning can be summarised as follows:

- A concentrated portfolio with an active share of 86%.
- Overweight:
 - Globally exposed growth companies such as Life360 and Neuren Pharmaceuticals.
 - Compelling cyclicals such as Premier Investments and Nufarm.
 - Energy-exposed and decarbonisation minerals companies such as Karoon Energy and NexGen Energy.
- Underweight property and bond proxies, offset by select defensive exposures in gold and social infrastructure.
- Underweight Australian cyclicals, with overweight positions in select consumer and housing exposed names.

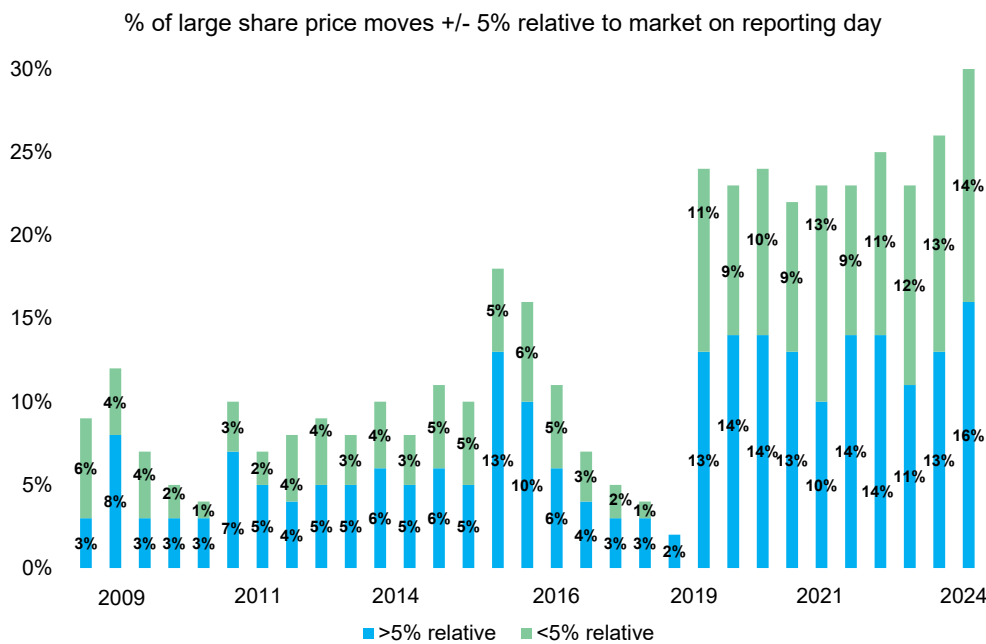
SMALL THINGS THAT MATTER THIS MONTH...

Reporting season wrapped up in Australia late last week. Below are three themes the team noticed during the month.

1. Share prices becoming more volatile on result day

Analysis by JP Morgan shows that the share price moves up or down on result day are getting bigger each year. The proportion of stocks moving +/-5% post-results increased to a record 30% in February showing the importance of having a diversified, actively managed portfolio.

Figure 1: Reporting season volatility highlights the increasing importance of active management



Source: JP Morgan estimates, Bloomberg Finance L.P., February 2024.

2. High quality businesses taking share in declining markets

Quality companies with strong brand awareness took share in declining markets. A great example in the Firetrail Small Companies Fund was A2 Milk. Despite seeing a 14% decline in the China Infant Formula Market, A2 grew sales in its China segment by 17%. The sales growth reflects the strength of the brand and strong execution by management expanding in Tier B, C & D cities. A common theme of reporting season was companies choosing to maintain investment in marketing to drive market share gains, positioning them for a strong rebound when overall market growth returns.

3. Companies pulling the price lever

We saw a lot of retailers report record gross profit margins in H1 2024 despite softer sales. Companies that stand out include Nick Scali and Beacon Lighting. Both reported gross margins of more than 2% above historical averages. Retailers benefitted from two tailwinds. Firstly, freight costs are normalising, and suppliers are desperate to find volumes to fill expanded manufacturing capacity. Secondly, given the pressures on other parts of the profit and loss statement, including rent and wage cost inflation, companies have chosen to retain the price benefits rather than pass them on to consumers.

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Link to the Product Disclosure Statement: [WHT3093AU](#)

Link to the Target Market Determination: [WHT3093AU](#)

For historic TMD's please contact Pinnacle client service Phone 1300 010 311 or Email service@pinnacleinvestment.com

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