

FIRETRAIL AUSTRALIAN SMALL COMPANIES FUND

MONTHLY REPORT | MARCH 2024

PERFORMANCE (AFTER FEES)¹

| | Month | Quarter | 6 Months | 1 Year | 3 Years p.a. | Fund inception p.a. ³ |
|-------------------|---------------|---------------|---------------|----------------|---------------|----------------------------------|
| Fund ² | 7.33% | 9.30% | 21.67% | 32.42% | 5.55% | 14.77% |
| Benchmark | 4.79% | 7.55% | 16.71% | 13.83% | 2.72% | 3.10% |
| Excess Return | +2.54% | +1.76% | +4.96% | +18.59% | +2.84% | +11.67% |

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 – 31 MAR 2024

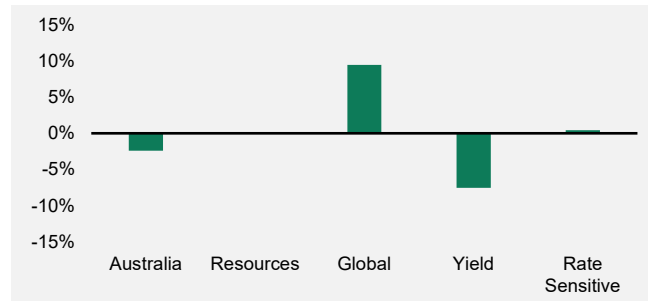
| Top 3 Overweight Holdings (Alphabetical) |
|--|
| Genesis Minerals Ltd |
| Regis Healthcare Ltd |
| Viva Energy Group Ltd |

FUND DETAILS

| Unit Prices | 31 March 2024 |
|---------------------|--|
| Application price | \$1.4843 |
| Redemption Price | \$1.4755 |
| NAV Price | \$1.4799 |
| 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 | 46 |
| Fund size | \$190mil |
| 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 – 31 MAR 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 7.33% (after fees) for the month ending 31 March 2024, outperforming the ASX Small Ordinaries Accumulation Index by 2.54%.

For the quarter ending 31 March 2024, the Fund returned 9.30% (after fees), outperforming the ASX Small Ordinaries Accumulation Index by 1.76%.

CONTRIBUTORS TO RETURNS

Positive contributors to returns for the month included holdings in location sharing app Life360, gold miner Genesis Minerals, and gas company Cooper Energy. Detractors included holdings in agricultural chemical company Nufarm, global bus operator Kelsian, and novated leasing company McMillan Shakespeare. We discuss each further in our commentary below.

POSITIVE CONTRIBUTORS

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.

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.

Cooper Energy

Victorian-based gas producer Cooper Energy continued its ascent in March, reflecting positive operating performance at the Orbost gas plant and progress in decommissioning several wells in Bass Strait that are currently recognised as liabilities. Cooper Energy is one of the most leveraged companies to a rising East Coast gas price on the ASX. In March, the market operator, AEMO, released a report highlighting the significant future shortfall in gas for the southeastern states. Peak winter gas demand for the southeastern states was over 2,000 TJ/day in July 2022. Historically, around half of this was supplied by a plant called Longford, operated by Exxon Mobil. In the space of 6 years (to 2028), Longford output will decline by more than 700 TJ/day, likely necessitating LNG imports into Victoria. To be economic, this requires a market gas price of A\$18/GJ compared to Cooper Energy's average current received price of ~A\$8/GJ!

NEGATIVE CONTRIBUTORS

Nufarm

Nufarm shares underperformed as peer results highlighted continued destocking across crop protection customers. We expect Nufarm will report cyclically weak H1 FY2024 result in May, but believe medium-term fundamentals remain strong.

Kelsian Group

Transport provider Kelsian underperformed in March on no stock specific news. Elsewhere in the exciting world of bus transport, Keppel Infrastructure trust paid A\$600 million for Ventura, a Victorian bus operator with 30% market share. This represents an EV/EBITDA multiple of 7.9x compared to Kelsian's FY2024 trading multiple of 8.5x. Optically, this makes Kelsian appear somewhat overvalued. However, there are two very important differences to be aware of. Firstly, we understand that most of Ventura's contracts expire in 3-4 years compared to Kelsian's weighted average contract term of 5 years. Secondly and most importantly, Ventura's EBITDA margins are 26%, which is more than double that of Kelsian. Keppel may be disappointed at the level of margin compression when the contracts are renewed. The multiple of FY2028 EBITDA paid for the business could well be 20x, not the headline 8x!

McMillan Shakespeare

Novated lease provider McMillan Shakespeare pared some gains in March following a 26% return in February. Surprisingly, CFO Ashley Conn announced his resignation during the month following three and a half years in the role. We expect continued strong earnings growth over the next 3 years as the company benefits from electric vehicle uptake and novated lease penetration.

PORTFOLIO POSITIONING

Positioning can be summarised as follows:

- A concentrated portfolio with an active share of 84%.
- 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.

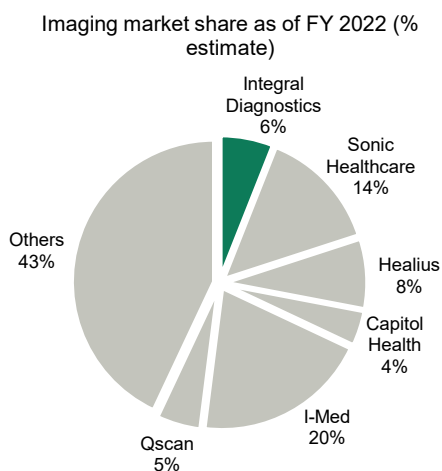
INTEGRAL DIAGNOSTICS DEEP DIVE

Integral Diagnostics provides diagnostic imaging services to GPs, medical specialists and hospital groups. Integral Diagnostics has 91 sites across Australia and New Zealand that offer a range of imaging modalities including MRIs and CTs. The imaging services industry benefits from several structural growth drivers including:

1. An ageing population
2. Increasing incidence of chronic disease
3. A shift to higher cost imaging modalities that increase diagnostic accuracy such as MRI and CT devices
4. A more proactive approach to management of illness

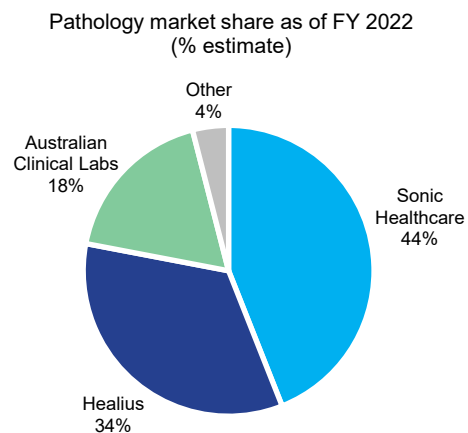
Large, high quality imaging players also have the potential to grow via acquisition. The industry is fragmented relative to the pathology market with 43% of the imaging market made-up of small independents relative to a mere 4% of the pathology market. Integral Diagnostics has been acquisitive having made five acquisitions since FY2020.

Figure 1: A fragmented industry provides opportunities as an acquirer and a target



Source: Integral Diagnostics, Medicare, FactSet, Goldman Sachs, Firetrail.

Figure 2: In contrast, the pathology market is much more concentrated



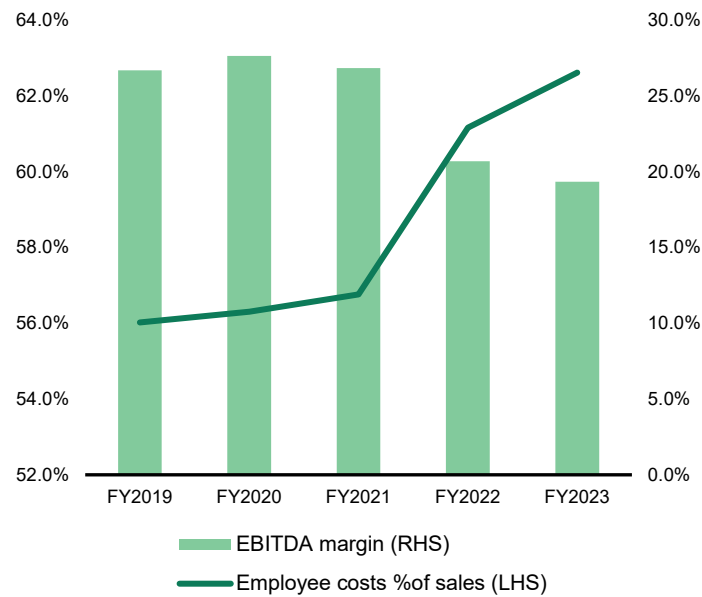
Source: Integral Diagnostics, Medicare, FactSet, Goldman Sachs, Firetrail.

Whilst we believe Integral Diagnostics will continue to pursue an inorganic growth strategy, in the near term the company is focused on organic growth, increasing labor productivity and a recovery in EBITDA (earnings before interest, taxes, depreciation, and amortization) margins. Below we discuss two factors which we believe the market is missing when it comes to Integral Diagnostics expanding EBITDA margins over the medium term.

Artificial intelligence diagnostic tools to increase labor productivity

A shortage of radiologists, sonographers and nuclear medicine practitioners has driven significant wage inflation across Integral Diagnostics' business. As the below chart shows revenue growth has not kept pace with the increasing wage costs driving substantial EBITDA margin declines.

Figure 3: Integral Diagnostics' EBITDA margins have declined as a result of wage inflation for diagnostic imaging specialists



Source: Company reporting, Firetrail, February 2024.

Artificial Intelligence (AI) has the potential to materially improve labor productivity for large, high quality imaging players such as Integral Diagnostics that have made the requisite investment in technology and workflow systems. AI can be applied to scans to identify abnormalities and draw radiologists' attention to areas of concern allowing for faster assessments.

AI diagnostic tools are currently being applied to high volume, low complexity scans such as ultrasound and X-Ray. Radiologists therefore have more availability to focus on higher cost, higher complexity images such as MRI and CT. MRI, CT and Nuclear Imaging are up to 8 times more expensive than an X-Ray scan.

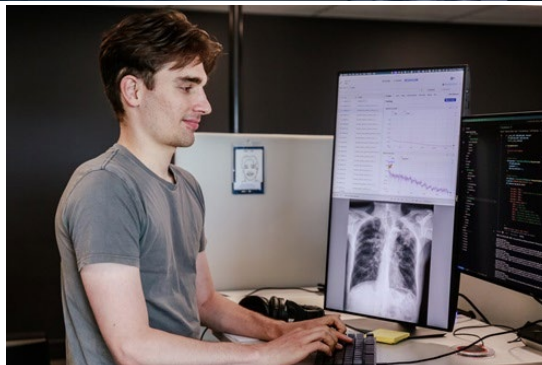
Currently, 5% of scans assessed by Integral Diagnostics use AI diagnostic tools. The company expects the number of scans using AI to increase by 2-3 times over the next 12 months. A productive radiologist can get through 200 scans per day on average. As more AI tools become available and confidence in their diagnostic ability increases there is the potential to increase the scans assessed per radiologist 5-fold to 1,000 scans per day. A material tailwind to labor productivity if realised.

In addition, AI tends to be better at multi-tasking than a radiologist. Radiologists focus on a specific condition, organ, or region of the human body when assessing an image. AI may prove better at identifying abnormalities outside the original scope of testing, improving patient outcomes. The volumes will likely grow in tandem as further scans are required to verify the potential diagnosis. A more wholistic and proactive approach to diagnosing health conditions will help reduce the growing burden of an ageing population on the healthcare system.

Figure 4: Radiologists are already using machine learning and artificial intelligence tools in medical imaging

CSIRO study identifies AI models to improve automated chest X-ray diagnoses

The research from CSIRO's Australian e-Health Research Centre demonstrates the potential for AI to better support clinicians.



Source: CSIRO, November 2023.

Margin tailwind from Teleradiology

Teleradiology involves patient's scans being sent to a radiologist, that is not on site at the clinic, for assessment. The radiologist may be working from a more centralised larger clinic or even from home. Having the ability to route patient images to different locations allows companies like Integral Diagnostics to better manage the supply of workers. In addition, Teleradiology provides less costly assessments with a 3-4% margin benefit from routing scans through this channel. Integral Diagnostics estimates approximately 15% of their imaging volumes are assessed via teleradiology. The company expects teleradiology to double to 30% over the coming years, improving both the supply of radiologists and reducing the cost per scan.

In summary, AI and Teleradiology present tangible ways for Integral Diagnostics to improve its labor productivity, imaging volumes and drive better margin outcomes over the medium term.

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- 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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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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