30 June 2022 – Factsheet

Centuria LifeGoals

Centuria

Firetrail Australian High Conviction Fund

The Fund aims to outperform the ASX200 accumulation index over the medium to long term.

Investment manager

Firetrail Investments Pty Limited

Investment strategy

The Fund provides exposure to a concentrated portfolio of approximately 25 Australian securities at any time. Only those securities that Firetrail's investment team has the highest conviction to generate the greatest returns will be included in the portfolio. The process employs an unconstrained approach to fundamental research to identify companies Firetrail believes offer the most attractive forecast returns based on our medium-term view.

Target allocation

Australian equities	90-100%
Cash	0-10%

Performance returns

RETURNS TO 30/06/2022	1 MTH	3 MTH	6 MTH	1 YR	2YR[1]
Net returns (%)[2]	-5.72%	-8.98%	-8.51%	-5.21%	7.59%

1. Periods greater than 1 year are expressed in annualised terms.
2. Past performance is not a reliable indicator of future performance.

Performance graph

A $10,000 investment in Centuria Firetrail Australian High Conviction Fund made at inception is worth $11,345 as of 30 June 2022 after all fees and taxes paid within the Investment Option.

Key features

APIR code	OVS5658AU
Minimum initial investment	$500
Minimum additional investment plan	$100
Minimum switching amount	$500
Minimum balance	$500
Contribution fee	Nil
Annual management fee[1]	0.93%
Performance fee[2]	0.00
Suggested timeframe	Minimum 5 years

1. Refer to PDS for fee breakdown.
2. 15% of any performance greater than the S&P/ASX 200 Accumulation index.

Fund commentary

The Fund returned negative 8.98% for the quarter ending 30 June 2022. For the month of June the Fund returned negative 5.72%.

Contributors to returns

Positive contributors included Seek, Nufarm and Woodside Petroleum. Negative contributors included Virgin Money UK, ResMed and a nil holding in Commonwealth Bank. We discuss each further in our commentary below.

Positive contributors

ResMed

ResMed announced the acquisition of MediFox Dan, a software solutions provider for home health therapists and nursing homes in Germany. The business is modest in size compared to ResMed but strategically important as it establishes a European beachhead for ResMed's SaaS division. We attribute share price outperformance during June to positive comments from the CEO around higher device sales as the company navigates supply chain issues.

QBE Insurance

QBE outperformed as fixed income yields continued to move in its favour. 3-year Government bond yields across US/UK/Australia moved up another ~30bps in June. After a slow start, the North American crop season made a late catch-up, reducing the risk of late planting claims in QBE's Crop business.

Ampol

The Ampol share price rose as margins in its refining business continued to benefit from the dislocation in energy markets. Benchmark refining margins have been running at above US$30/bbl versus long-term levels of US$8/bbl, increasing the chances of a material off-market buyback at the end of the calendar year.

Negative contributors

OZ Minerals

OZ Minerals provided an update to the market on 2022 production and cost expectations. Production guidance was lowered by 13% due to constraints on equipment availability and a temporary conveyor belt issue. Like other resource stocks in June, cost guidance was revised upwards. OZ Minerals flagged average inflation of ~8% across all of its assets, with higher costs being felt in labour, transport, fuel, explosives and ground support.

Qantas Airways

Qantas released an update that highlighted continued strong travel demand, a further $500m reduction in net debt since April, and no change to 2H22 EBITDA guidance. In response to increased costs caused by higher oil prices, Qantas also stated that it will be reducing domestic capacity by 10-15% from July 2022 until March 2023. Provided Virgin takes similar steps, the profit pool for Qantas and the industry should remain relatively healthy despite lower numbers of flights overall.

Newcrest Mining

We didn't hear anything specific from Newcrest in June, but the stock underperformed as the gold price declined and peer gold miner Evolution Mining announced a significant cost increase. Evolution flagged 5-6% labour inflation, but it was the increased cost of diesel and substantial ramp up in East Coast power prices that were the major drivers. We understand Newcrest's East Coast power contract prices are fixed until sometime next year.

Portfolio positioning and changes

We begin FY23 with developed economies facing a period of monetary tightening, which is driving widespread stagflation fears. While the range of scenarios remains wide, it appears likely that consensus earnings estimates will be rebased lower over the year. However, share price valuations have already moved to factor in lower growth scenarios, with the one-year forward PE of the Australian market already down 5 PE points YTD.

With this backdrop, we believe it is appropriate to hold a relatively balanced portfolio in terms of thematic exposure, with stock-specific risk maintained at a high level.

With underweight positions in Yield and Rate Sensitive categories broadly offsetting each other, our main thematic exposure is an overweight holding in global stocks. Our positioning across each category can be summarised as follows:

- Australia: overweight cyclicals with strong market positions like Qantas Airways and Seek, and defensives like The Lottery Corp and Telstra. Underweight consumer staples.
- Resources: overweight oil and decarbonisation metals through exposure to Santos and Lynas Rare Earths. Underweight iron ore.
- Global: holdings in companies that either have robust demand profiles like ResMed and CSL, or businesses that are priced too cheaply for their reality, like James Hardie and Lendlease.
- Yield: underweight real estate and infrastructure stocks, overweight gold through our holding in Newcrest Mining.
- Rate Sensitive: underweight Aussie banks, overweight QBE Insurance and Virgin Money UK.

Material changes made to the portfolio over the March quarter include:

- Exited positions in Amcor, Woodside Energy and Xero
- Initiated positions in Origin Energy (funded by Woodside Energy) and CSL
- Increased position sizes in ResMed, Incitec Pivot and Tabcorp (ahead of the de-merger)
- Reduced position sizes in Qantas Airways, OZ Minerals and Seek

The portfolio remains highly concentrated with 75% active share and 60% stock-specific risk.

Disclaimer: this commentary has been directly sourced from Firetrail's quarterly factsheet available on their website.

Contact Information

Ashton Maggs

Relationship Manager
Email: ashton.maggs@centuria.com.au

Sean Cole

Relationship Manager
Email: sean.cole@centuria.com.au