



Firetrail

INVESTMENTS

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Three fundamental rules of investing

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Past performance is not a reliable indicator of future performance.

Firetrail High Conviction Strategy Composite Performance

Firetrail Australian High Conviction Fund ('Fund'). Net Fund returns are calculated based on exit price with distributions reinvested, after ongoing fees and expenses but excluding taxation. Fund inception is 14 March 2018.

To give a longer-term view of our performance for this asset class, we have also shown returns for the Firetrail High Conviction Strategy Composite ('Strategy') which has been operating since 29 November 2005. 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 High Conviction Fund (after fees) between 29 November 2005 to 23 November 2017. The Fund employs the same strategy as was used by the same investment team that managed the Macquarie High Conviction Fund as at 23 November 2017. Firetrail has records that document and support the performance achieved as the Macquarie High Conviction Fund. The composite returns for the Strategy and the S&P/ASX 200 Accumulation Index (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 a reliable indicator of future performance.

Three fundamental rules of investing

1 Every company has a price

2 Focus on 'What Matters'

3 Taking a longer view

A proven approach to uncovering opportunities

1. Every company has a price

Which is the better investment?

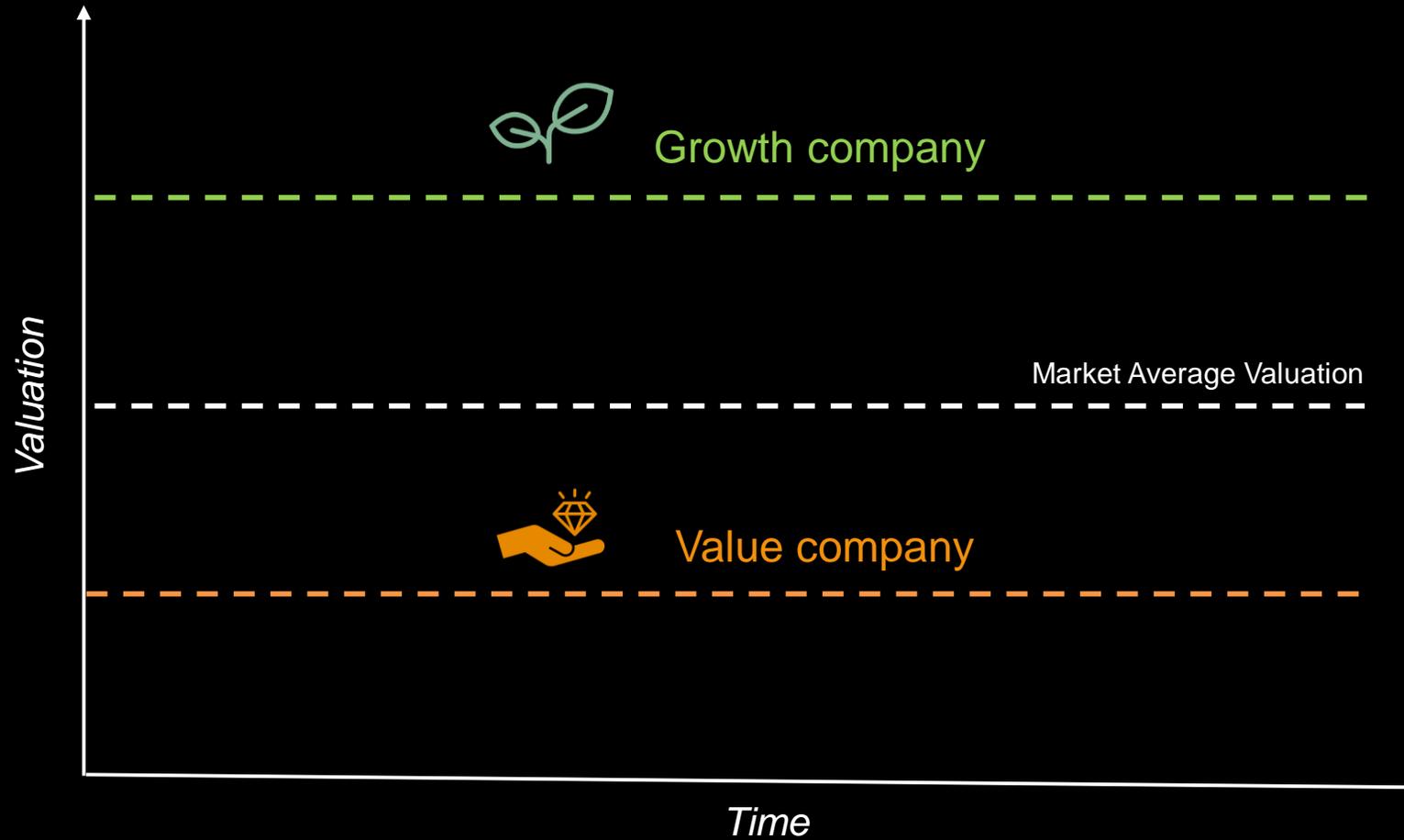


vs.



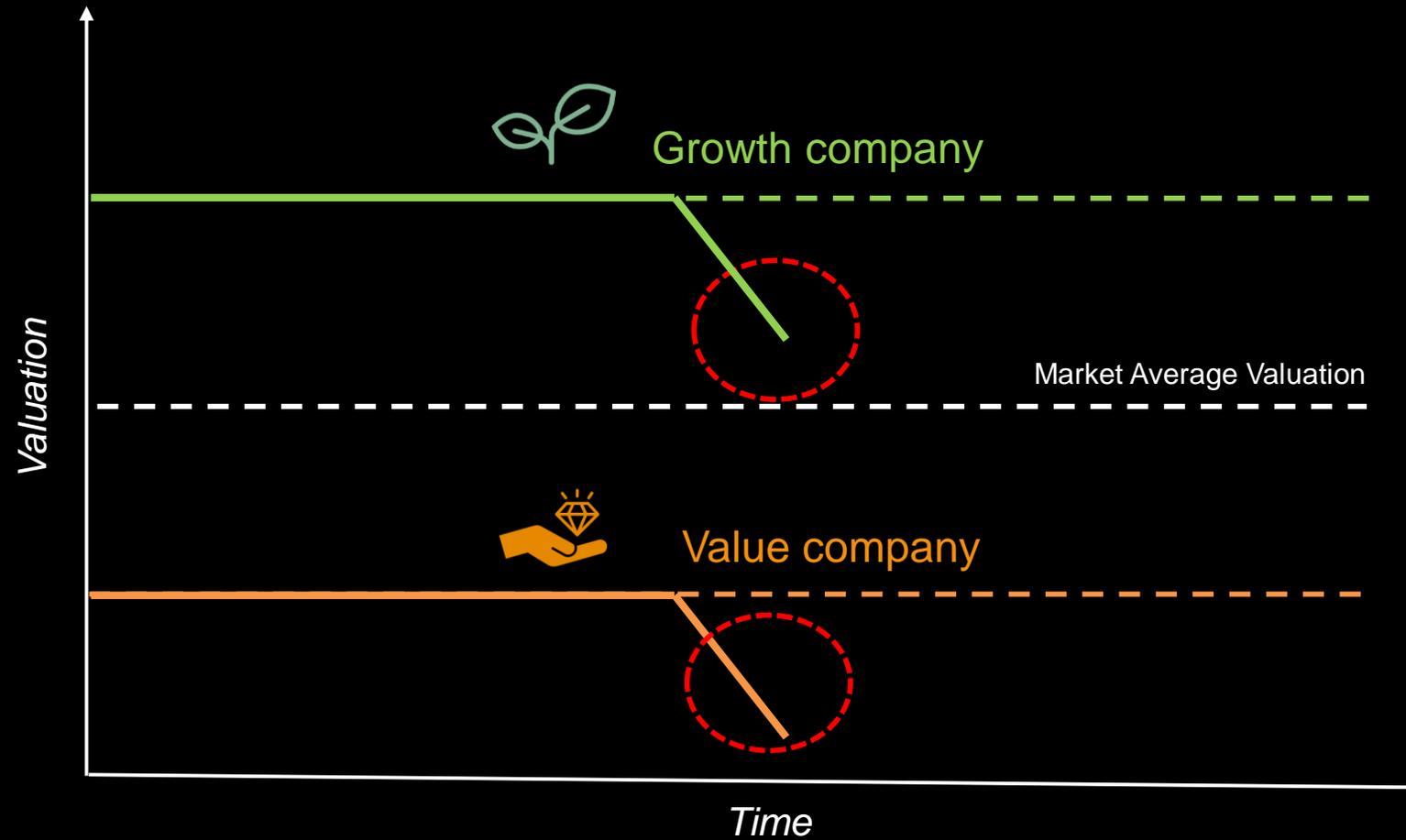
Knowing the 'Price' is key

What's a company worth?



Every company has a price!

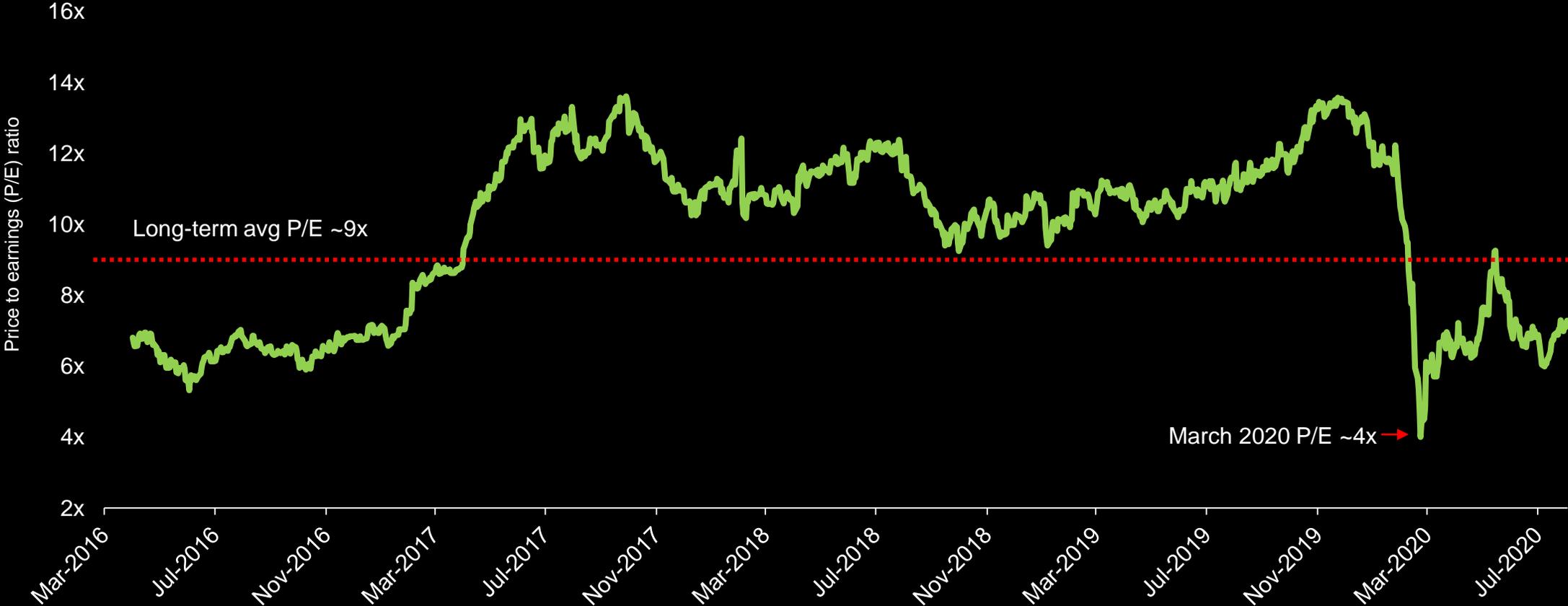
What's a company worth?



The market regularly de-rates companies

Qantas Case Study

Qantas Airways (QAN.ASX) - P/E Ratio (trailing 12-months)



Qantas valuation de-rated materially in March 2020

Sources: LHS Chart, Company Data

2. Focus on 'What Matters'

Focus on 'What Matters'



What's interesting



'What Matters'

1. Balance Sheet & Cashflow

2. Qantas Domestic business

- Focus on 2 or 3 issues to cut through the noise
- Firetrail analysts dive deep into 'What Matters'
 - *Could be large profit drivers, volatile earnings drivers or future earnings impacts*
 - *'What Matters' may change over time*
- Gain an edge via research, business judgement and a three-year horizon
- Our research may lead us to uncomfortable opportunities

Focusing on 'What Matters' cuts through the noise

Qantas WM #1 – Balance Sheet & Cashflow



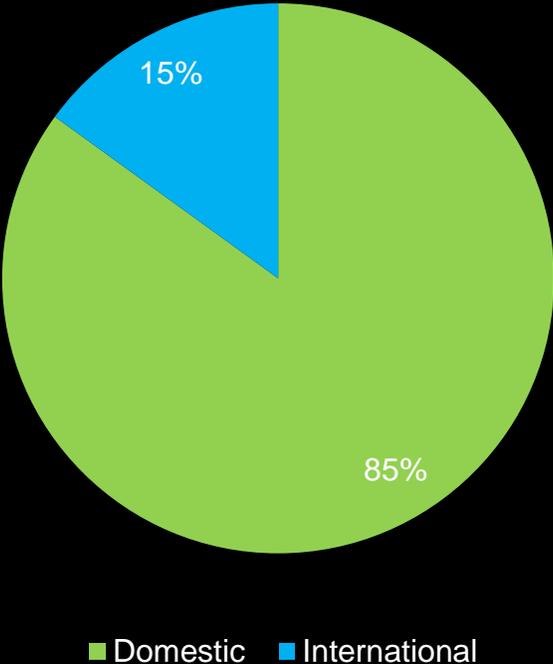
Source: Shutterstock

1. How much cash Qantas had on its balance sheet?
2. How much cash it was burning through in a lockdown scenario?
3. What Alan Joyce and the team were doing to raise additional capital and reduce costs?

Qantas could survive until late 2021 under lockdown conditions

Qantas WM #2 – Domestic business

Qantas EBIT Split (FY19)



Understanding the domestic business

- 1. Private equity acquisition of key competitor Virgin
- 2. A transformational cost-out program
- 3. Qantas Frequent Flyer Business (QFF)

Focusing on ‘What Matters’ created an uncomfortable opportunity

3. Taking a longer view

Putting it all together



1. Qantas had enough liquidity to survive an extended period of lockdowns
2. A rational domestic market + cost-out program + strong QFF business = potential for Qantas Domestic to generate record profitability in 2-3 years time
3. There was too much negative news about international travel factored into the share price

An uncomfortable opportunity with material upside

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2 Focus on 'What Matters'

3 Take a longer-term view

A proven approach to uncovering opportunities