

Firetrail Absolute Return Fund

ARSN 624 135 879

**Interim report - for the half-year ended
31 December 2019**

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The interim financial report does not include all the notes of the type normally included in the annual financial report. Accordingly, this interim financial report should be read in conjunction with the annual financial report for the year ended 30 June 2019 and any public announcements made in respect of the Firetrail Absolute Return Fund during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

This interim financial report covers the Firetrail Absolute Return Fund as an individual entity.

The Responsible Entity of the Firetrail Absolute Return Fund is Pinnacle Fund Services Limited (ABN 29 082 494 362). The Responsible Entity's registered office is Level 19, 307 Queen Street, Brisbane, QLD, 4000.

Directors' report

The directors of Pinnacle Fund Services Limited, the responsible entity ("Responsible Entity") of the Firetrail Absolute Return Fund ("the Fund"), present their report together with the interim financial statements of the Fund for the half-year ended 31 December 2019.

Principal activities

The Fund is a registered managed investment scheme domiciled in Australia.

The Fund is an absolute return fund which aims to generate positive returns in all market environments. The Fund aims to deliver returns above the RBA Cash Rate ('Benchmark') over the medium to long term. The Fund is typically expected to be market neutral (net market exposure generally between 0% - 10%), which effectively means the Fund is constructed in a way where returns are not dependent on the performance of the underlying share market. There may be circumstances where the portfolio's net market exposure is negative. This may occur when the Fund's gross exposure to short positions is larger than the Fund's gross exposure to long positions. The Fund achieves market neutrality by investing in a combination of long and short positions in equity securities listed, or expected to be listed, on the Australian Securities Exchange (ASX), as well as both long and short positions in equity issued by companies listed, or expected to be listed, in international markets. Exposure may also be through the use of derivatives.

Firetrail Investments Pty Limited is the Investment Manager of the Fund.

The Fund did not have any employees during the half-year.

Directors

The following persons held office as directors of Pinnacle Fund Services Limited during the half-year or since the end of the half-year and up to the date of this report:

Mr I Macoun
 Mr A Ihlenfeldt
 Mr C Kwok
 Mr A Whittingham (appointed 5 August 2019)
 Mr A T O'Callaghan (resigned 5 August 2019)

The Responsible Entity also has a Compliance Committee consisting of one non-independent person and two independent persons. The committee's role is to oversee the compliance requirements of the Fund operated by the Responsible Entity.

Review and results of operations

There have been no significant changes to the operations of the Fund since the previous financial period. The Fund continued to invest funds in accordance with target asset allocations as set out in the governing documents of the Fund.

The performance of the Fund, as represented by the results of its operations, was as follows:

	Half-year ended	
	31 December	31 December
	2019	2018
	\$'000	\$'000
Net operating profit/(loss) before financing costs attributable to unitholders	21,670	(11,255)

Distributions

Distributions - Class A

Distributions paid and payable	-	151
Distributions (cents per unit)	-	0.0850

Directors' report (continued)

Review and results of operations (continued)

Distributions - Class B

Distributions paid and payable	-	75
Distributions (cents per unit)	-	0.4302

Significant changes in state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Fund that occurred during the financial half-year.

Matters subsequent to the end of the financial half-year

No matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect:

- (i) the operations of the Fund in future financial periods, or
- (ii) the results of those operations in future financial periods, or
- (iii) the state of affairs of the Fund in future financial periods.

Rounding of amounts to the nearest thousand dollars

Amounts in the directors' report have been rounded to the nearest thousand dollars in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, unless otherwise indicated.

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

This report is made in accordance with a resolution of the directors.



Mr A Ihlenfeldt
Director

Brisbane
11 March 2020



Auditor's Independence Declaration

As lead auditor for the review of Firetrail Absolute Return Fund for the half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in black ink, appearing to read 'Craig Thomason', with a long horizontal flourish extending to the right.

Craig Thomason
Partner
PricewaterhouseCoopers

Sydney
11 March 2020

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Firetrail Absolute Return Fund
Statement of comprehensive income
For the half-year ended 31 December 2019

Statement of comprehensive income

	Half-year ended	
	31 December	31 December
	2019	2018
	\$'000	\$'000
Investment income		
Interest income from cash	335	289
Dividends/Trust distribution income	4,451	1,656
Net gains/(losses) on financial instruments at fair value through profit or loss	25,475	(8,653)
Other operating income	27	84
Total net investment income/(loss)	30,288	(6,624)
Expenses		
Management fees	1,528	739
Short selling expenses	6,485	3,193
Transaction costs	605	694
Other operating expenses	-	5
Total operating expenses	8,618	4,631
Operating profit/(loss) for the half-year	21,670	(11,255)
Other comprehensive income	-	-
Total comprehensive income for the half-year	21,670	(11,255)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Firetrail Absolute Return Fund
Statement of financial position
As at 31 December 2019

Statement of financial position

		As at	
		31 December	30 June
		2019	2019
	Notes	\$'000	\$'000
Assets			
Cash and cash equivalents		169,389	202,548
Margin Accounts		1,840	308
Receivables		411	4,755
Financial assets at fair value through profit or loss	4	366,609	304,002
Total assets		538,249	511,613
Liabilities			
Distributions payable		-	90
Payables		1,294	2,126
Financial liabilities at fair value through profit or loss	5	315,363	304,026
Total liabilities		316,657	306,242
Net assets attributable to unitholders - equity	2	221,592	205,371

The above statement of financial position should be read in conjunction with the accompanying notes.

Firetrail Absolute Return Fund
Statement of changes in equity
For the half-year ended 31 December 2019

Statement of changes in equity

		Half-year ended	
		31 December	31 December
		2019	2018
	Notes	\$'000	\$'000
Total equity at the beginning of the half-year	2	<u>205,371</u>	<u>41,670</u>
Comprehensive income for the half-year			
Profit/(loss) for the half-year		21,670	(11,255)
Other comprehensive income for the half-year		<u>-</u>	<u>-</u>
Total comprehensive income for the half-year		21,670	(11,255)
Transactions with unitholders			
Applications	2	26,396	165,434
Redemptions	2	(31,873)	(7,344)
Units issued upon reinvestment of distributions	2	28	-
Distributions paid and payable	2	<u>-</u>	<u>(226)</u>
Total transactions with unitholders		(5,449)	157,864
Total equity at the end of the half-year		<u>221,592</u>	<u>188,279</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Firetrail Absolute Return Fund
Statement of cash flows
For the half-year ended 31 December 2019

Statement of cash flows

	Half-year ended	
	31 December 2019 \$'000	31 December 2018 \$'000
Cash flows from operating activities		
Proceeds from sale of financial instruments at fair value through profit or loss	62,572	40,049
Purchase of financial instruments at fair value through profit or loss	(85,450)	(47,679)
Transaction costs on financial instruments at fair value through profit or loss	(605)	(694)
Dividend/Trust distribution received	3,855	1,526
Dividend paid on short selling	(6,754)	(2,688)
Interest received	336	289
Management fees paid	(1,229)	(550)
Other expenses paid	-	(5)
RITC received/(paid)	153	(87)
Other income received	27	85
Net cash inflow/(outflow) from operating activities	(27,095)	(9,754)
Cash flows from financing activities		
Proceeds from applications by unitholders	26,734	165,513
Payments for redemptions by unitholders	(32,736)	(7,307)
Distributions paid	(62)	-
Net cash inflow/(outflow) from financing activities	(6,064)	158,206
Net increase/(decrease) in cash and cash equivalents	(33,159)	148,452
Cash and cash equivalents at the beginning of the half-year	202,548	40,162
Cash and cash equivalents at the end of the half-year	169,389	188,614
Non cash financing activities	28	-

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the interim financial statements

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1 Basis of preparation of interim financial statements

This interim report for the half-year ended 31 December 2019 has been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standard AASB 134 *Interim Financial Reporting*.

This interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made in respect of the Firetrail Absolute Return Fund ("the Fund") during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The interim report was authorised for issue by the directors on 6 March 2020. The directors of Pinnacle Fund Services Limited ("the Responsible Entity") have the power to amend and reissue the interim report.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Fund's annual financial report for the year ended 30 June 2019. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

There are no other standards that are not yet effective and that are expected to have a material impact on the Fund in the prior periods or will affect the current or future reporting periods and on foreseeable future transactions.

2 Net assets attributable to unitholders

Movements in the number of units and net assets attributable to unitholders during the half-year were as follows:

	As at			
	31 December 2019 No. '000	31 December 2018 No. '000	31 December 2019 \$'000	31 December 2018 \$'000
Class A				
Balance as at 1 July	207,508	22,031	189,608	22,725
Applications	27,148	161,307	26,096	165,204
Redemptions	(32,336)	(6,231)	(30,923)	(6,293)
Units issued upon reinvestment of distributions	24	-	22	-
Distributions paid and payable	-	-	-	(151)
Profit/(loss) for the half-year	-	-	19,889	(10,269)
Closing balance	202,344	177,107	204,692	171,216

Firetrail Absolute Return Fund
Notes to the interim financial statements
For the half-year ended 31 December 2019
(continued)

2 Net assets attributable to unitholders (continued)

	As at			
	31 December 2019 No. '000	31 December 2018 No. '000	31 December 2019 \$'000	31 December 2018 \$'000
Class B				
Balance as at 1 July	16,999	18,285	15,763	18,945
Applications	305	220	300	230
Redemptions	(978)	(1,004)	(950)	(1,051)
Units issued upon reinvestment of distributions	7	-	6	-
Distributions paid and payable	-	-	-	(75)
Profit/(loss) for the half-year	-	-	1,781	(986)
Closing balance	<u>16,333</u>	<u>17,501</u>	<u>16,900</u>	<u>17,063</u>
Total net assets attributable to unitholders			<u>221,592</u>	<u>188,279</u>

As stipulated within the Fund's Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund. There were two separate classes of units and each unit has the same rights attaching to it as all other units in the same class of the Fund.

3 Distributions to unitholders

The distributions for the half-year were as follows:

	Half-year ended			
	31 December 2019 \$'000	31 December 2019 CPU	31 December 2018 \$'000	31 December 2018 CPU
Class A				
Distributions paid - December	-	-	151	0.0850
	<u>-</u>	<u>-</u>	<u>151</u>	<u>0.0850</u>

	Half-year ended			
	31 December 2019 \$'000	31 December 2019 CPU	31 December 2018 \$'000	31 December 2018 CPU
Class B				
Distributions paid - December	-	-	75	0.4302
	<u>-</u>	<u>-</u>	<u>75</u>	<u>0.4302</u>

4 Financial assets at fair value through profit or loss

	As at	
	31 December 2019 \$'000	30 June 2018 \$'000
Financial assets at fair value through profit or loss		
Listed equities	325,319	273,439
Listed unit trusts	40,030	29,531
Unlisted equity securities	-	1,032
Futures	1,260	-
Total financial assets at fair value through profit or loss	366,609	304,002

5 Financial liabilities at fair value through profit or loss

	As at	
	31 December 2019 \$'000	30 June 2019 \$'000
Financial liabilities at fair value through profit or loss		
Listed equities	278,964	273,600
Listed unit trusts	36,399	30,424
Futures	-	2
Total financial liabilities at fair value through profit or loss	315,363	304,026

6 Fair value measurements

The Fund measures and recognises the below financial assets and liabilities at fair value through profit or loss on a recurring basis.

Fair value hierarchy

Classification of financial assets and financial liabilities

The Fund classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

6 Fair value measurements (continued)

Fair value hierarchy (continued)

(i) Fair value in an active market (level 1)

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs.

The Fund values its investments in accordance with the accounting policies set out in note 2. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

The quoted market price used for financial assets held by the Fund is the last traded price; the appropriate quoted market price for financial liabilities is the last traded price. When the Fund holds derivatives with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies this bid or asking price to the net open position, as appropriate.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

(ii) Fair value in an inactive or unquoted market (level 2 and level 3)

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions.

For other valuation techniques, inputs are based on market data at the end of the reporting period. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

The fair value of derivatives that are not exchange traded is estimated at the amount that the Fund would receive or pay to terminate the contract at the end of reporting period taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The foreign currency contracts are valued at the forward rate.

Investments in other unlisted unit trusts are recorded at the redemption value per unit as reported by the investment managers of such trusts.

Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

6 Fair value measurements (continued)

Fair value hierarchy (continued)

Valuation techniques employed may not fully reflect all factors relevant to the positions the Fund holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including liquidity risk and counterparty risk.

The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Fund for similar financial instruments.

Recognised fair value measurements

The tables below set out the Fund's financial assets and liabilities (by class) at fair value according to the fair value hierarchy at 31 December 2019 and 30 June 2019.

As at 31 December 2019

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets at fair value through profit or loss				
Listed equities	325,319	-	-	325,319
Listed unit trusts	40,030	-	-	40,030
Futures	1,260	-	-	1,260
Total financial assets at fair value through profit or loss	366,609	-	-	366,609
Financial liabilities at fair value through profit or loss				
Listed equities	278,964	-	-	278,964
Listed unit trusts	36,399	-	-	36,399
Total financial liabilities at fair value through profit or loss	315,363	-	-	315,363

6 Fair value measurements (continued)

Fair value hierarchy (continued)

As at 30 June 2019

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets at fair value through profit or loss				
Listed equities	273,439	-	-	273,439
Listed unit trusts	29,531	-	-	29,531
Unlisted unit trust	1,032	-	-	1,032
Total financial assets at fair value through profit or loss	304,002	-	-	304,002
Financial liabilities at fair value through profit or loss				
Listed equities	273,600	-	-	273,600
Listed unit trusts	30,424	-	-	30,424
Futures	2	-	-	2
Total financial liabilities at fair value through profit or loss	304,026	-	-	304,026

(iii) Transfers between levels

There were no transfers between levels for the half-year ended 31 December 2019 or the year ended 30 June 2019.

7 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Fund as at 31 December 2019 or on the results and cash flows of the Fund for the half-year ended on that date.

8 Contingent assets and liabilities and commitments

There were no outstanding contingent assets, liabilities or commitments as at 31 December 2019 and 30 June 2019.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the interim financial report and notes set out on pages 5 to 15 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards and the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Fund's financial position as at 31 December 2019 and of its performance for the financial half-year ended on that date, and
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



Mr A Ihlenfeldt
Director

Brisbane
11 March 2020



Independent auditor's review report to the unitholders of Firetrail Absolute Return Fund

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Firetrail Absolute Return Fund (the Registered Scheme) which comprises the statement of financial position as at 31 December 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors of the Responsible Entity's declaration.

Directors of the Responsible Entity's responsibility for the half-year financial report

The directors of the Responsible Entity of the Registered Scheme are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors of the Responsible Entity determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Registered Scheme's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Firetrail Absolute Return Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Firetrail Absolute Return Fund is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Registered Scheme's financial position as at 31 December 2019 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Craig Thomason', with a long horizontal flourish extending to the right.

Craig Thomason
Partner

Sydney
11 March 2020