

Firetrail Absolute Return Fund

ARSN 624 135 879

Interim report – for the half-year ended 31 December 2021

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The interim report does not include all the notes of the type normally included in the annual financial report. Accordingly, this interim report should be read in conjunction with the annual financial report for the year ended 30 June 2021 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 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 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 2021.

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 +/- 5%), 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

The Responsible Entity also has a Compliance Committee consisting of one non-external member and three external members.

The functions of the Compliance Committee are set out in s601JC as being to:

- (a) monitor to what extent the Responsible Entity complies with each Scheme's Compliance Plan and report on its findings to the Responsible Entity;
- (b) report to the Responsible Entity any breaches of the Corporations Act involving a Scheme, or any breach of the provisions included in a Scheme's constitution in accordance with s601GA of which the Compliance Committee is aware or suspects;
- (c) report to ASIC if the Compliance Committee is of the view that the Responsible Entity has not taken, or does not propose to take, appropriate action to deal with a matter reported under paragraph (b) above; and
- (d) assess at regular intervals whether each Scheme's Compliance Plan is adequate and report to the Responsible Entity on the assessment, and to make recommendations to the Responsible Entity about any changes it considers should be made to a Scheme's Compliance Plan.

The committee met two times during the half-year.

Directors' report (continued)

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 Australian cash rate market, represented by the RBA Cash Rate returned 0.05% over the 6 months period to 31 December 2021. The Fund outperformed the benchmark over the 6 months period to 31 December 2021 by 2.07%.

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

	Half-year ended	
	31 December	31 December
	2021	2020
	\$'000	\$'000
Total comprehensive income for the period	<u>7,741</u>	<u>32,929</u>

Distributions

No distribution was paid/payable in the current and comparative half-year reporting periods.

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 half-year.

Matters subsequent to the end of the half-year

No matter or circumstance has arisen since 31 December 2021 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.

Likely developments and expected results of operations

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Directors' report (continued)

Environmental regulation

The operations of the Fund are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

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 5.

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



Mr A Ihlenfeldt
Director

Brisbane
8 March 2022



Auditor's Independence Declaration

As lead auditor for the review of Firetrail Absolute Return Fund for the half-year ended 31 December 2021, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in black ink, appearing to read 'Ben Woodbridge', written over a light blue horizontal line.

Ben Woodbridge
Partner
PricewaterhouseCoopers

Brisbane
8 March 2022

Firetrail Absolute Return Fund
Condensed statement of comprehensive income
For the half-year ended 31 December 2021

Condensed statement of comprehensive income

	Half-year ended	
	31 December	31 December
	2021	2020
	\$'000	\$'000
Investment income		
Dividend/distribution income	6,720	3,384
Net gains/(losses) on financial instruments at fair value through profit or loss	16,410	45,473
Other operating income	161	72
Total net investment income/(loss)	23,291	48,929
Expenses		
Management fees	2,550	1,625
Performance fees	12	7,347
Short selling expenses	10,887	5,446
Transaction costs	1,093	993
Interest expense	12	589
Other operating expenses	996	—
Total operating expenses	15,550	16,000
Operating profit/(loss) for the half-year	7,741	32,929
Total comprehensive income for the half-year	7,741	32,929

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

Firetrail Absolute Return Fund
Condensed statement of financial position
As at 31 December 2021

Condensed statement of financial position

		As at	
		31 December	30 June
		2021	2021
	Notes	\$'000	\$'000
Assets			
Cash and cash equivalents		371,910	316,268
Margin accounts		3,796	6,499
Receivables		255	7,684
Financial assets at fair value through profit or loss	4	752,159	634,479
Total assets		<u>1,128,120</u>	<u>964,930</u>
Liabilities			
Distributions payable		–	30
Payables		3,871	11,262
Financial liabilities at fair value through profit or loss	5	727,775	619,457
Total liabilities		<u>731,646</u>	<u>630,749</u>
Net assets attributable to unitholders - equity	2	<u>396,474</u>	<u>334,181</u>

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

Firetrail Absolute Return Fund
Condensed statement of changes in equity
For the half-year ended 31 December 2021

Condensed statement of changes in equity

		Half-year ended	
		31 December	31 December
		2021	2020
	Notes	\$'000	\$'000
Total equity at the beginning of the half-year	2	<u>334,181</u>	<u>203,864</u>
Comprehensive income for the half-year			
Profit/(loss) for the half-year		<u>7,741</u>	<u>32,929</u>
Total comprehensive income for the half-year		<u>7,741</u>	<u>32,929</u>
Transactions with unitholders			
Applications	2	<u>94,729</u>	56,402
Redemptions	2	<u>(40,184)</u>	(17,310)
Reinvestment of distributions	2	<u>7</u>	20
Total transactions with unitholders		<u>54,552</u>	<u>39,112</u>
Total equity at the end of the half-year		<u>396,474</u>	<u>275,905</u>

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

Firetrail Absolute Return Fund
Condensed statement of cash flows
For the half-year ended 31 December 2021

Condensed statement of cash flows

	Half-year ended	
	31 December	31 December
	2021	2020
	\$'000	\$'000
Cash flows from operating activities		
Proceeds from sale of financial instruments at fair value through profit or loss	572,361	163,724
Purchase of financial instruments at fair value through profit or loss	(563,928)	(141,883)
Transaction costs on financial instruments at fair value through profit or loss	(1,093)	(993)
Dividend/distribution received	7,400	3,617
Dividend paid on short selling	(12,057)	(5,342)
Interest expense paid	(12)	(589)
Management fees paid	(2,480)	(1,560)
Performance fees paid	(12)	(6,940)
Other income received	161	72
Other expenses paid	(996)	–
RITC received/(paid)	257	(335)
Net cash inflow/(outflow) from operating activities	(399)	9,771
Cash flows from financing activities		
Proceeds from applications by unitholders	95,123	55,958
Payments for redemptions by unitholders	(39,059)	(17,363)
Distributions paid	(23)	(47)
Net cash inflow/(outflow) from financing activities	56,041	38,548
Net increase/(decrease) in cash and cash equivalents	55,642	48,319
Cash and cash equivalents at the beginning of the half-year	316,268	148,935
Cash and cash equivalents at the end of the half-year	371,910	197,254
Non-cash financing activities	7	20

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

Notes to the interim financial statements

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Firetrail Absolute Return Fund
Notes to the interim financial statements
For the half-year ended 31 December 2021
(continued)

1 Basis of preparation of interim financial statements

This interim report for the half-year ended 31 December 2021 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 financial report for the year ended 30 June 2021 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 8 March 2022. The directors of the 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 2021. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

There are no other standards, interpretations or amendments to existing 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.

Comparative information has been revised where appropriate to enhance comparability. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

2 Net assets attributable to unitholders

Under AASB 132 *Financial Instruments: Presentation*, puttable financial instruments meet the definition of a financial liability to be classified as equity where certain strict criteria are met. The Fund shall classify a financial instrument as an equity instrument from the date when the instrument has all the features and meets the conditions.

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

	As at			
	31 December 2021 Units	31 December 2020 Units	31 December 2021 \$'000	31 December 2020 \$'000
A Class				
Balance as at 1 July	251,040,642	178,193,164	307,708	186,816
Applications	70,654,645	48,444,472	88,029	56,332
Redemptions	(32,242,608)	(15,016,571)	(40,046)	(17,010)
Units issued upon reinvestment of distributions	3,930	14,079	5	14
Profit/(loss) for the half-year	–	–	6,606	29,555
Closing balance	289,456,609	211,635,144	362,302	255,707

	As at			
	31 December 2021 Units	31 December 2020 Units	31 December 2021 \$'000	31 December 2020 \$'000
B Class				
Balance as at 1 July	18,994,304	15,670,430	25,765	17,048
Applications	3,902,763	56,190	5,130	70
Redemptions	(101,262)	(252,721)	(138)	(300)
Units issued upon reinvestment of distributions	1,690	5,018	2	6
Profit/(loss) for the half-year	–	–	1,034	3,374
Closing balance	22,797,495	15,478,917	31,793	20,198

Firetrail Absolute Return Fund
Notes to the interim financial statements
For the half-year ended 31 December 2021
(continued)

2 Net assets attributable to unitholders (continued)

	As at			
	31 December	31 December	31 December	31 December
	2021	2020	2021	2020
	Units	Units	\$'000	\$'000
M Class				
Balance as at 1 July	760,490	–	708	–
Applications	1,749,351	–	1,570	–
Units issued upon reinvestment of distributions	1	–	–	–
Profit/(loss) for the half-year	–	–	101	–
Closing balance	2,509,842	–	2,379	–
Total net assets attributable to unitholders			396,474	275,905

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. For the half-year ended 31 December 2021, there were three separate classes of units and each unit has the same right attaching to it as all other units in the same class of the Fund. Unitholders of A class, B class and M class units are entitled to be notified of any general meetings regarding of the fund, voting rights and dividends. The difference between the unit classes is in regards to fees as outlined in the Product Disclosure Statement and Information Memorandum.

3 Distribution to unitholders

No distribution was paid/payable in the current and comparative half-year reporting periods.

4 Financial assets at fair value through profit or loss

	As at	
	31 December	30 June
	2021	2021
	\$'000	\$'000
Listed equities	716,055	611,502
Listed unit trusts	31,704	6,541
Unlisted equities	4,400	16,300
Futures	–	136
Total financial assets at fair value through profit or loss	752,159	634,479

5 Financial liabilities at fair value through profit or loss

	As at 31 December 2021 \$'000	30 June 2021 \$'000
Listed equities	623,696	527,752
Listed unit trusts	103,871	91,705
Futures	208	—
Total financial liabilities at fair value through profit or loss	727,775	619,457

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.

The Fund has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

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).

(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 the annual financial statements for the year ended 30 June 2021. 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.

6 Fair value measurements (continued)

Fair value hierarchy (continued)

(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, option pricing models 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.

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 counter party 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.

6 Fair value measurements (continued)

Fair value hierarchy (continued)

Recognised fair value measurements

The tables below set out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31 December 2021 and 30 June 2021.

As at 31 December 2021	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets at fair value through profit or loss:				
Listed equities	716,055	–	–	716,055
Listed unit trusts	31,704	–	–	31,704
Unlisted equities	4,400	–	–	4,400
Total financial assets	752,159	–	–	752,159

Financial liabilities at fair value through profit or loss:				
Listed equities	623,696	–	–	623,696
Listed unit trusts	103,871	–	–	103,871
Futures	208	–	–	208
Total financial liabilities	727,775	–	–	727,775

As at 30 June 2021	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets at fair value through profit or loss:				
Listed equities	611,502	–	–	611,502
Listed unit trusts	6,541	–	–	6,541
Unlisted equities	16,300	–	–	16,300
Futures	136	–	–	136
Total financial assets	634,479	–	–	634,479

Financial liabilities at fair value through profit or loss:				
Listed equities	527,752	–	–	527,752
Listed unit trusts	91,705	–	–	91,705
Total financial liabilities	619,457	–	–	619,457

There were no transfers between levels during the half-year ended 31 December 2021 and 30 June 2021.

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 2021 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 are no outstanding contingent assets, liabilities or commitments as at 31 December 2021 (30 June 2021: none).

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the interim report and notes set out on pages 6 to 16 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, 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 2021 and of its performance for the financial half-year ended on that date.
- (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
8 March 2022



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

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Firetrail Absolute Return Fund (the Registered Scheme) which comprises the Condensed statement of financial position as at 31 December 2021, the Condensed statement of comprehensive income, Condensed statement of changes in equity and Condensed statement of cash flows for the half-year ended on that date, significant accounting policies and explanatory notes and the directors of the Responsible Entity's declaration.

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

1. giving a true and fair view of the Registered Scheme's financial position as at 31 December 2021 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*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

We are independent of the Registered Scheme in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the directors of the Responsible Entity for the half-year financial report

The directors of the Responsible Entity 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 responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether 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 2021 and of 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*.

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.

A stylized, handwritten signature of 'PricewaterhouseCoopers' in black ink.

PricewaterhouseCoopers

A stylized, handwritten signature of 'Ben Woodbridge' in black ink.

Ben Woodbridge

Ben Woodbridge
Partner

Brisbane
8 March 2022