Monash ABSOLUTE INVESTMENT COMPANY

# Monash Absolute Investment Company Limited

**Monash Absolute Investment Company Limited (ASX: MA1)** **4 June 2018**
**May 2018 End of Month Update**

In the interests of keeping the market fully informed of performance on a timely basis, we release a preliminary estimate of the Pre-Tax Net Tangible Asset Backing per share. It is only a guide, the official NTA will be released later in the month.

We estimate that as at 31 May 2018 the NTA Pre-Tax was $97.35.

## Company Strategy

The Company is benchmark unaware, style and stock size agnostic, both long and short, and only invests in compelling opportunities. In keeping with the Company's absolute return objectives, if the investment manager cannot find stocks that meet the very high return hurdle requirements, the Company will preserve that capital in cash at bank.

In December 2017, the Company announced a renewal of the on-market buy-back as part of its ongoing capital management program. During the month of May, 105,677 shares were bought under the Company's on market share buyback.

## Monthly Commentary

The Company's pre-tax NTA increased 4.20% (after fees) for the month of May, during which the S&P/ASX200 rose 1.09% and the Small Ords rose 3.70%.

The portfolio remains relatively conservatively positioned, holding 28% in cash. Pleasingly, we had some of our larger positions do particularly well this month, resulting in a strong return for the portfolio.

The Financial Services Royal Commission continues to pressure bank shares, and the Company has no exposure to them in the portfolio. On the other hand, the Company has an exposure to Challenger (ASX:CGF +19% in May), which is not only seeing good growth in its business, but is becoming somewhat of a safe haven for fund managers as an exposure to financial services.

## Company at a Glance 31 May 2018

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|---|---|
| **ASX Code** | MA1 |
| **Portfolio Size** | $48.1m |
| **Share Price** | $0.83 |
| **Shares on Issue** | 49.3m |

## Estimated NTA (unaudited) 31 May 2018

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|---|---|
| **Estimated NTA Pre Tax** | $0.9735 |

## Return Estimate to 31 May 2018

| | **NTA Pre Tax** |
|---|---|
| **1 Month** | 4.20% |
| **3 Months** | -2.27% |
| **6 Months** | -2.62% |
| **FYTD** | 11.35% |
| **1 Year** | 13.51% |
| **Since Inception p.a.** | 0.51% |

## Portfolio Structure 31 May 2018

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|---|---|---|
| **Outlook Stocks (Long)** | 17 Positions | 64% |
| **Outlook Stocks (Short)** | 2 Positions | -5% |
| **Event, Pair and Group (Long)** | 3 Positions | 13% |
| **Event, Pair and Group (Short)** | 0 Positions | 0% |
| **Cash** | | 28% |
| **TOTAL** | | **100%** |
| **Gross Exposure** | | 82% |
| **Net Exposure** | | 72% |

For more information about the Company and the strategy, please refer to the Monash Investors website at www.monashinvestors.com. You can also follow us on Livewire here or subscribe to our updates here

Other noteworthy positive contributors this month were:

**Emeco** (ASX: EHL) +27%: Emeco is Australia's largest lessor of heavy mining and construction equipment, such as dozers, diggers, trucks and graders. It is a highly cyclical industry, and right now the equipment rental market is in its positive phase. Excess inventory in the second hand market has dried up, the lead time to acquire new vehicles is extending beyond a year, and rental rates are rising.

Emeco as a stock is in its up phase too. New brokers' analysts are initiating coverage, and the analysts are progressively increasing their earnings forecasts and price targets.

Emeco's cashflow is rising strongly due to higher rates of asset utilisation and higher rental rates on those assets. It is on somewhat of a "capex holiday" because the age of its fleet is low, and it is putting that cash to good use – paying down its debt.

It has also been raising equity to enable what has become a rather rapid consolidation of its industry, resulting in cost synergies as well as increased pricing power. It has been raising equity to do so (not debt) which has made its gearing ratios improve quickly.

Emeco's latest acquisition occurred early in May. Matilda Equipment supplies late model, low hour mining equipment rentals. While Matilda has historically sold its equipment towards the end of its first major component life, Emeco can better take advantage of it by maintaining it through its own workshops and then place it back into its equipment hire fleet, to customers who do not require near new equipment. The stock responded positively to the capital raise and aacquisition.

**Lovisa** (ASX: LOV) +20%: Lovisa presented at a Sydney conference in early May, and later in the month conducted an investor day at its head office in Melbourne.

Lovisa is a retailer of fast fashion jewellery, such that it designs and has manufactured its own, branded, inventory. Because it is vertically integrated, unlike a third party retailer such as a department store or a JB Hi-Fi, its inventory does not face direct competition. Another strength is its cookie cutter approach to rolling out and managing stores, which allows its client facing staff to focus on sales.

As its overseas store roll out moves beyond beach heads, Lovisa is rerating. The expectation of an acceleration of the store roll-out is now driving the stock price. A much greater rate of growth in new stores has always been a key part of our investment thesis because of our focus on recurring business situations and and patterns of behaviour.

The key takeaways from its investor day were that:

- Senior employees from across the business have the skills and experience to support and execute the Executive Team's plans.
- Lovisa has a competitive edge in its systematic approach to identifying early jewellery trends, focussing on "speed to market" and exiting the product once "late majority" has been achieved.
- It has relentless focus on unit and store economics. Floorplans are developed weekly, with about 50% of range altered in stores each week, while 15% is considered core.

- Management expects to launch an online store in the next 12 months but given the low Average Transaction Value of about $20, it is unlikely to be a meaningful contributor in the short term.
- They have expanded their global property team in order to accelerate the global rollout.

**For all business development enquiries, please contact**
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