

# Monash Absolute Investment Company Limited

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

**5 November 2018**

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 October 2018 the NTA Pre-Tax was \$0.9445.

## 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.

## Monthly Commentary

For the month of October, the pre-tax NTA was down by -5.69% (after fees) compared to the S&P/ASX200 down -6.05% and the Small Ords down -9.60%.

The portfolio has also beaten the market over the financial year to date, being down by -2.98% (after fees) compared to -4.61% and -8.60% respectively.

We see the pull back as a correction which has now largely run its course.

Going into October net cash was sitting at about 33% and reached a peak of 40%. This high cash weighting was an outcome of taking profits/exiting positions and our view that there were relatively few stocks around that could meet our investment hurdles.

However, with the pull back in the market, particularly for quality high growth stocks, we began to re-invest the cash, so that by the end of the month net cash was down to 21%. As of today it is down to 5%.

The market has now recovered somewhat from its intra-month low. Pleasingly this is also reflected in the performance of the portfolio, since then.

## Company at a Glance 31 October 2018

ASX Code	MA1
Portfolio Size	\$41.9m
Share Price	\$0.80
Shares on Issue	44.3m

## Estimated NTA (unaudited) 31 October 2018

Estimated NTA Pre Tax	\$0.9445
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## Return Estimate to 31 October 2018

	NTA Pre Tax
1 Month	-5.69%
3 Months	-5.64%
6 Months	2.16%
FYTD	-2.98%
1 Year	4.11%
Since Inception p.a. (April 2016)	-0.34%

## Portfolio Structure 31 October 2018

Outlook Stocks (Long)	18 Positions	62%
Outlook Stocks (Short)	1 Position	-3%
Event, Pair and Group (Long)	6 Positions	25%
Event, Pair and Group (Short)	1 Position	-5%
Cash		21%
<b>TOTAL</b>		<b>100%</b>
Gross Exposure		96%
Net Exposure		79%

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

## Monash Absolute Investment Company Limited

### Portfolio Activity

#### Selling before the fall

The portfolio benefitted early in the month from a sell down in our Afterpay (ASX: APT), Nearmap (ASX: NEA) and Emeco (ASX: EHL) positions which were reduced by about half, as we took profits from their strong share price runs. While we did not completely exit these holdings, we did reduce them by more than half.

The performance of these shares over the month, -30% for APT, -21% for NEA, and -17% for EHL while dramatic were not due to business issues, but rather, typical for such high growth stocks this month.

#### Lovisa (ASX: LOV)

The one stock in the portfolio that did have a business issue was Lovisa (ASX: LOV) and although it was only a minor issue, it was not the month to disclose bad news. Ultimately its stock price fell 26% for the month.

Lovisa reported a slow down in its like for like sales from around +2% to -0.9%. To put this in perspective, this reduces its analyst forecast sales growth this year from 18% to about 15%. Its overall sales growth is driven by its global store roll out, which is accelerating, rather than it's like for like sales. Lovisa was one of the largest positions in the portfolio, so the fall in its share price effected portfolio performance considerably.

#### Kogan (ASX: KGN)

It's worth noting that we had absolutely no exposure to Kogan, which fell 50% during October. Kogan updated the market that it had a slow down in sales growth due to changes in the GST regime for imports, a rising advertising spend and a fall in margins.

Kogan is a stock we follow closely and have made money previously from both its rise and its fall. Its share price volatility is inconsistent with the quality of the company, and we expect it will continue to provide opportunities for us.

#### Buying back in

We do not view the stock market as being in danger of a crash, which is typically accepted to be a 20% fall from its high. Rather we see the market as merely going through a correction, which is typically defined as a 10% fall.

Our confidence stems from the strength and momentum of the global economy, and the persistency of low inflation and low interest rates. While inflation and rates should rise a little, they are signs of a world economy doing well, not poorly. As a result profits and stock prices should continue to grow.

So we see the pull back as a valuation correction, and an opportunity to gain exposure at great prices to stocks that have been unreasonably penalised.

## Monash Absolute Investment Company Limited

The first phase of this was to rebuild some of the positions in which we had been recently taking profits, such as APT, NEA and EHL.

The second phase was to take a diversified approach to picking up some of the higher growth and higher quality companies, which had suffered a severe pull back in share price.

Our approach has been to purchase a dozen businesses across 4 broad categories. The businesses all have a broad revenue base, which is typically spread widely by numbers of customers and geographies, and are less likely to suffer setbacks. Half are ASX 100 market cap companies and the others are generally not far outside the 100. They all are highly liquid.

1. High Growth, low maturity
2. High Growth, more mature
3. High Quality, moderate growth
4. High Quality, low PE

These are group trades, where we are taking a basket approach, and our exposure to each of these companies is relatively low. It is not the individual weights that will drive the outcome, rather it is our confidence that we are able to achieve exposure to these companies as a group, at great prices.

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This presentation has been prepared by Monash Absolute Investment Company Limited (**MA1**) and Monash Investors Pty Ltd (ABN 67 153 180 333, AFSL 417 201) (**Investment Manager**) as authorised representatives of Winston Capital Partners Pty Ltd ABN 29 159 382 813, AFSL 469 556 ("Winston Capital") for the provision of general financial product advice in relation to MA1 and is for information purposes only, and does not constitute an offer, invitation, solicitation or recommendation with respect to the purchase or sale of any securities in MA1. The information is not investment or financial product advice and is not intended to be used as the basis for making an investment decision. Please note that, in providing this information, MA1 has not considered the objectives, financial position or needs of any particular recipient. MA1 strongly suggests that investors consult a financial advisor prior to making an investment decision. Past performance is not a reliable indicator of future performance. See the ASX Company Announcements platform at [www.asx.com.au](http://www.asx.com.au) for further information.