Monash Absolute Active Trust

Hedge Fund (ASX : MAAT)

6% p.a Target Distribution

Buy and Sell on the ASX or direct

Long/Short Australian Equities

Proven Track Record

November 2021 Fund Update

During November, the Fund rose 1.31% (after fees). This compares to a decrease of -0.54% for the S&P/ASX200 and a fall of -0.31% for the Small Ords.

Most AGMs are held in November, at which time companies take the opportunity to provide trading updates (and revise their guidance, if needed). Despite not being very long after the full year results disclosed in August, some companies will surprise one way or the other.

The Fund's portfolio holdings tended to be on the "right side" of this AGM season with OFX Group (ASX: OFX), Australian Strategic Materials (ASX:ASM) and EML Payments (ASX:EML) doing particularly well for us. Their price appreciation led us to trim some of these positions. In the case of ASM we cut the position more substantially as it was the closest to our price target.

It didn't all go our way though, with Nearmap and Electro Optic Systems disappointing. We reduced the positions in both of these stocks as a result. The winners and losers for the month are discussed in more detail below.

On the buying side, we added a new stock to the top 10 positions and covered one of the short positions.

December tends to be a pretty quiet month for stock specific news flow, and it really doesn't pick up until late January. The emergence of a new Covid strain and ongoing monetary policy deliberations may be the biggest drivers of stock prices this December, rather than stock specific news.

[1] Inception date is 28 May 2021. Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

Return Summary[1] (after all fees)

1 Month	FYTD
1.31%	5.90%

6 Months	Since Inception[1]
10.77%	11.07%

Our Investment team: Sebastian Correia, Simon Shields and Shane Fitzgerald

Winners

OFX Group (ASX: OFX) **+29%**

OFX is an international money services provider based in Sydney with eight offices across the world and more than 400 staff. It offers money transfers and foreign exchange services for consumer and business clients across 55 different currencies. It has a market cap of about $500m.

OFX has a March financial year end, so its update was due to its first half result[i], rather than an AGM. It delivered an across the board beat to Revenue, Net Operating Income (NOI) and underlying EBITDA[ii]. It also reiterated its previous guidance of double digit NOI growth, with management flagging on the conference call that October and early November trading have seen a continuation of the positive underlying trends evidenced in 1H22. This provided further upside to consensus forecasts.

OFX only entered the portfolio in June and we built on the position further in September. Since our first purchase it is up 49%.

For most of the time since it listed 8 years ago, OFX has been a disappointment. We are very wary of "turnarounds" so in the case of OFX we wanted to see the improvement underway before we purchased any shares. With the "new" management team in place at OFX for two years now, we have had time to observe their progress. Their focus away from retail consumers and towards corporate customers including the likes of Amazon, WiseTech and Link Market Services is paying off, and this was demonstrated again with this result.

Australian Strategic Materials (ASX: ASM) **+26%**

ASM is a refiner of rare earths into metals which are the basis for important components in much modern technology. Importantly for Western economies, ASM operates outside of Chinese rare earths supply chains which is of strategic value in the current geopolitical climate. It has a market cap of about $1.6b.

ASM advised in late November that its Korean metal plant had achieved a significant milestone, with the start of hot commissioning and production of Neodymium metal ingots. It continues to deliver a unique mine-to-metal strategy assisted by positive tailwinds in the rare earth markets. We are attracted to ASM as a business for its global refinery rollout, which is a game changer for the industry in terms of lower energy requirements and pollution, at a time when customers want to reduce their reliance on China.

The weighting in ASM has changed significantly since we first purchased it in March at $4.80 in a placement. We cut the position by about two-thirds around $12.50 in August, and bought most of that stock back again in October below $10, before selling again in November around $13. The driver for our trading activity has been our focus on what we assess the stock to be worth. The volatility of ASM's share price has meant that we have had frequent opportunities to take advantage of our clear view of its valuation.

Winners (cont.)

EML Payments (ASX: EML) **+22%**

EML provides a payments solution suite configurable to their customers' industries and needs. This allows businesses to accept payments and move money globally with EML's powerful APIs and software solutions, designed to help generate growth and improve customer experience. This makes EML a critical piece of business infrastructure in many growth industries that require open banking, digital wallets or loyalty and rewards offerings. There is also the "legacy" gift cards business which is transitioning to digital. It has a market cap of about $1.3b.

In May this year EML ran in to problems with the Central Bank of Ireland (CBI) which is the regulator of its recently acquired Prepaid Financial Services (PFS) business. There was a subsequent update in August that was not taken well by the market. CBI had asked for "certain limits to be applied to programs" that could "materially impact the European operations", with EML's proposed growth targets "higher than what the CBI would want to see".

In our September report we observed that at face value this would seem to be negative news but we were not so perturbed highlighting that:

1. The nature of the potential directions is more limited than those originally foreshadowed by the CBI in May 2021.
2. We expect that the proportion of EML's PFS business that this will apply to will decrease sharply over time.
3. While EML has to be careful in how it responds publically to the regulator, we do not think that this outcome will have much effect on EML's future earnings apart from increasing compliance costs somewhat.

In November EML provided an update on its ongoing regulatory correspondence with the CBI[iii]. Most notably EML/PFS will now be able to sign new customers and launch new programs while staying within the "material growth restrictions."

Additionally, the CBI articulated i) **broad-based reductions in limit controls on programs will not be imposed** and the CBI is satisfied to engage with EML/PFS with a view to agree on appropriate control/risk limits under its framework, and ii) **CBI intends to remove its material growth limitation** on volumes (not revenue) after 12 months, or potentially earlier following third-party verification of its remediation plan being implemented.

We see this as a face saving back tracking by the CBI that had previously misunderstood the nature of the business in which EML was engaged. It leaves EML with its growth in tact but a de-rated share price and we were buyers of the stock on this latest announcement.

Losers

Nearmap (ASX: NEA) -27%

Nearmap provides cloud-based high quality aerial maps and geospatial data. It has over 11,000 business and government clients in Australia and the USA. Revenue growth has typically been strong and is skewed to North America. It has 400 employees and a market cap of around $1b.

At its AGM the company provided initial guidance for FY22 of 17-25% Annual Contract Value (ACV) growth[iv]. The worst case scenario is below the bottom end of its medium term ACV guidance of 20-40%. This caused the share price to fall -11% on the day.

We reacted to this unexpected reduction in guidance by reducing the holding in NEA by 1/3, in line with our risk management process. It is now one of the smaller holdings in the portfolio.

We continue to hold NEA because we are optimistic that their revenue growth will accelerate, and significant profit margin expansion will follow as they increase the density of their user base in each geography they cover. Our price target remains little changed as a result of the recent downgrade.

Indeed, given NEA's recent history of conservatively managing expectations, we believe the upper end of its guidance range remains the target for NEA. However the automatic reaction of reducing the holding is an important risk control measure, and we can rebuild the investment with increasing confidence that they are back on track.

Electro Optic Systems (ASX: EOS) -23%

EOS's main intellectual property is around the use of lasers for tracking and communication. This has allowed them to develop advanced technology systems for the military such as Remote Weapon Systems (RWS) for Armoured Fighting Vehicles, Counter Drone Defence Systems, Space Awareness and Control Systems, and Satellite Communications. It has sales of over $200m per year, which are growing strongly, but a market cap of only $360m.

Despite its multiple revenue drivers, EOS has been a serial disappointment over the last 12 months. The biggest issue has been the infrequency of securing new large contracts for its RWS and Counter Drone businesses. However, cash conversion has been a problem, as have delays and costs associated with Covid affected logistics. Late October, EOS further revised down its FY21 revenue guidance by -7%, and rather than delivering a small profit will now make a small loss[v].

As a result of these ongoing problems we have progressively cut the weight in the stock, however we are reticent to exit completely.

Assuming only modest progress across its divisions, the stock is very cheap on a Discounted Cash Flow (DCF) basis. The FY23 broker consensus Price Earnings (PE) is a standout at less than 10x. The value to EOS of the first SpaceLink satellite project alone will be worth more than the current share price. While the stock's value is very compelling, for purposes of risk control we now only maintain a small weighting.

[i] https://cdn-api.markitdigital.com/apiman-gateway/ASX/asx-research/1.0/file/2924-02449170-2A1337344?access_token=83ff96335c2d45a094df02a206a39ff4
[ii] Earnings before interest, taxes, depreciation and amortization
[iii] https://cdn-api.markitdigital.com/apiman-gateway/ASX/asx-research/1.0/file/2924-02457476-2A1341376?access_token=83ff96335c2d45a094df02a206a39ff4
[iv] https://cdn-api.markitdigital.com/apiman-gateway/ASX/asx-research/1.0/file/2924-02450459-2A1337982?access_token=83ff96335c2d45a094df02a206a39ff4
[v] https://cdn-api.markitdigital.com/apiman-gateway/ASX/asx-research/1.0/file/2924-02442142-2A1333870?access_token=83ff96335c2d45a094df02a206a39ff4

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Monthly Portfolio Metrics	
Outlook Stocks (Long)	17 Positions: 77%
Outlook Stocks (Short)	1 Positions: -2%
Event, Pair and Group (Long)	2 Positions: 8%
Event, Pair and Group (Short)	1 Positions: -3%
Cash	19%
Gross Exposure	91%
Net Exposure	81%

Portfolio Analytics Since Inception[2]	
Sharpe Ratio	0.70
Sortino Ratio	1.25
Standard Deviation (p.a.)	16%
Positive Months	63%
Maximum Drawdown	-29%
Avg. Gross Exposure	90%
Avg. Net Exposure	79%
Avg. Beta	0.66
Avg. VAR	1.2%

[2] Due to lack of MAAT history, data from Monash Absolute Investment Fund (MAIF) (inception date 2 July 2012) has been used. Glossary of terms can be found on the Fund's website at www.monashinvestors.com/glossary/

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For more information about MAAT 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

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