Monash INVESTORS

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

March 2022 Fund Update

The March quarter was a tough one for us. Despite fortuitously positioning the portfolio for higher oil and commodity prices ahead of the Ukraine invasion, price falls in our smaller growth stocks saw our portfolio fall -13.26%.

In times of higher interest rates and uncertainty the equity market shortens its earnings focus and also values safety more highly. This causes higher growth and small cap businesses to be de-rated relative to slower growth and defensive larger cap companies.

We have certainly seen this over the last quarter, with a big divergence between large cap and small cap returns.

At a business level, there are winners and losers. Having recognised as early as December that resource companies would benefit from much higher earnings in the future than the market was forecasting, we bought BHP, RIO, Santos and Woodside amongst others (ASX: BHP, RIO, STP, WPL). These stocks helped the portfolio somewhat over the quarter.

During the quarter we sold down a number of smaller cap growth stocks, as a result the portfolio has a reduced exposure to longer duration technology businesses. This had the net effect of increasing the Fund's cash weight to a bit over 20%. This leaves the portfolio well positioned to take advantage of high pay-off opportunities that we can find as the result of the fall in some stock prices.

Return Summary[1] (after all fees)

1 Month	3 Months	6 Months	Since Inception[1]
-0.77%	-13.26%	-7.43%	-1.14%

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

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

www.monashinvestors.com
contactus@monashinvestors.com

SUPERIOR SQM RESEARCH

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The last 6 months or so has seen a sea change in the world's medium to long term outlook for inflation, interest rates and geo-political certainty. These macro issues have consequences for equity values at the stock level, and we don't see inflection points like this in the market very often.

Surprise #1, mid to late 2021 – "Transient" Inflation Actually Persistent

Supply chain disruption was an early feature of Covid in 2020. Demand spikes led to some empty shelves at the supermarket and a shortage of home office furniture and equipment. On the supply side, the manufacture and transport of goods was effected by transport disruptions and lock downs. These things were all seen as short term impacts on inflation, which at that time was only expected to be transitory.

But disruption and inflation continued into 2021. For example, on the supply side, computer chip shortages reduced the numbers of new cars made. This also led to an increase in the price of used cars. Building materials have also seen a sustained increase in prices.

By late 2021, despite lockdowns and transport disruptions the price of oil was high as well. At this point it was now clear that inflation was persistent, as the price of oil was rising on lack of investment in new capacity, not due to unexpected structural growth in economic activity. A higher oil price ads to inflation as it increases the cost of commodity extraction and processing, agriculture and transport.

There is usually a 5 year lag in higher oil prices resulting in enough additional capacity to bring prices down. Given the evident current lack of desire of governments and corporates to invest in hydrocarbons, we confidently formed the view that it was likely to take even longer than that this time.

Surprise #2, late 2021 to early 2022 – Interest Rate Surprises

In mid-December 2021 the US Fed realised that inflation was persistent and changed their language on interest rates, disclosing that it would speed up the taper of its asset-purchase program. The Fed also indicated it saw as many as three rate hikes in 2022.

In January 2022, they brought forward the date at which they would start to implement hikes stating: "With inflation well above 2 percent and a strong labor market, the Committee expects it will soon be appropriate to raise the target range for the federal funds rate."

However by March 2022, they were in full panic mode. They approved a 0.25 percentage point rate hike, and officials indicated an aggressive path ahead, with rate rises coming at each of the remaining six meetings in 2022. They also reduced their expectations for economic growth this year and sharply raised their outlook for inflation, now expecting US core inflation to be above 4% for 2022.

Surprise #3, late February 2022 – War in Ukraine

The effect of the war in Ukraine is to exacerbate inflationary forces. Ukraine is a major fertilizer and grain exporter. The grain harvest will be much reduced in Ukraine this year, and its ability to export any fertilizer is questionable. Russia is a major exporter of oil and gas. Sanctions on Russia has reduced its ability to export oil somewhat and the European Union is seeking to wean itself from Russian gas over the year.

On the back of this food and energy prices are higher. We have seen retail petrol prices rise globally. In the UK, the Bank of England recently stated "We expect inflation to rise to around 8% in spring 2022 and perhaps even higher later this year."

The war has also caused significant geo-political changes and uncertainty. It is now generally accepted that the European approach to dealing with Russia was naïve. It is likely that the sanctions against Russia will persist in the medium term. It has also brought concerns about another totalitarian regime, China, into greater focus.

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Portfolio Positioning

The underperformance of the portfolio was exacerbated by three of our largest holdings that fell with the market at its worst, but did not rebound with it. These stocks are Healthia, PeopleIn and Telix (ASX: HLA, PPE, TLX) all are strongly growing businesses with strong balance sheets. The first two have modest valuation multiples. Telix less so, but it has much higher earnings growth ahead of it. We are very confident that it won't be too long before all three recover and move to new highs. Another negative was that we exited two other stocks, EML Payments and Nearmap (ASX: EML, NEA) at depressed prices due to our "two strike" rule for risk control.

Concentrated portfolios can deliver volatile returns, but we are confident that short term stock price falls will be overshadowed with price rises by successful businesses. Our investment approach has been designed to provide double digit per annum after fee returns over the longer term, and that is a better guide of what our investors should expect. We have delivered an annual return of 11.1% for the last 10 years.

Our experience as fund managers has been that periods of negative returns or underperformance by our portfolio represent buying opportunities to our investors, given the solid anchoring of our holdings in large pay-offs to our DCF[2] valuations.

Monthly Portfolio Metrics	
Outlook Stocks (Long)	13 Positions: 57%
Outlook Stocks (Short)	2 Positions: -5%
Event, Pair and Group (Long)	3 Positions: 26%
Event, Pair and Group (Short)	1 Positions: -2%
Cash	24%
Gross Exposure	91%
Net Exposure	76%

Return Summary Since Inception (after fees)[6]	
CYTD	-13.26%
FYTD	-5.75%
1 Month	-0.77%
3 Month	-13.26%
6 Month	-7.43%
Since Inception[4]	-1.14%

Portfolio Analytics Since Inception[4]	
Sharpe Ratio	0.59
Sortino Ratio	1.04
Standard Deviation (p.a.)	16%
Positive Months	63%
Maximum Drawdown	-29%
Avg. Gross Exposure	91%
Avg. Net Exposure	80%
Avg. Beta	0.66
Avg. VAR	1.3%

[4] Inception date 28 May 2021.
[5] 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/
[6] Past performance is not indicative of future performance.

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For MAAT Unit Registry enquiries, please contact

Mainstream Fund Services Pty Limited
P: 1300 133 451 (in Australia)
+61 2 8259 8888 (international)
E: registry@mainstreamgroup.com

For all business development enquiries, please contact

Cameron Harris
P: +61 400 248 435
cameron@gsmcapital.com.au

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