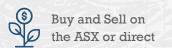


Hedge Fund (ASX: MAAT)









Proven Track Record¹

April 2022 Fund Update

During April, the Fund fell -0.95% (after fees). This compares to a decrease of -0.85% for the S&P/ASX200 and a fall of -1.50% for the Small Ords.

During April, the Fund was on the right side of a few stock specific announcements. This explains its relative outperformance this month, despite its bias to smaller cap companies which have generally been underperforming large cap. This is explained in more detail later in this commentary.

Inflation has been building and central banks have failed to raise interest rates early enough or high enough. They are now playing catch up, and it has all the makings of a classic economic cycle, the like of which we have not seen for decades.

It is fair to say that interest rates have never been this low while inflation has been this high. At the same time unemployment is at record lows, supported by generous government spending and perhaps helped by a net loss in migration last year.

Now that the economy is opening up, Australians are unleashing pent up spending outside Australia on overseas travel. There will also be less discretionary spending, particularly on goods, by consumers in Australia, with inflation driving higher spending on petrol, food and mortgage payments. This in turn will dampen domestic business profits and employment. Eventually (typically) the RBA will still be trying to dampen inflation even as the economy is stalling.

The stock market anticipates economic downturns and this hurt the portfolio in the first quarter of 2022. As fund managers we have seen this scenario play out several times in the past. After some time, the portfolio typically rebounds much stronger than its drawdown to yield good returns for our investors. This is evident from our performance over the last 10 years. The portfolio is well positioned for the likely business winners and losers (for our shorts), while also holding a cash level that allows us to take advantage of the opportunities as they present themselves.

Return Summary¹ (after all fees)

1 Month

3 Months

-0.95%

-5.72%

6 Months

Since Inception

-10.70%

-2.08%



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.



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As referenced above, the Fund benefited from a few positive stock specific announcements. This includes from companies such as PTB Group and Johns Lyng (ASX: PTB, JLG) which rose 5% and 2% respectively, where trading updates occurred and lead to increase in share price. Likewise, evident competition headwinds for Tyro (ASX: TYR), a stock that we have sold short, led to it falling -28%. Once again, bad news is being dealt with far more harshly than good news is rewarded.

The major detractors were Nearmap and Lovisa (ASX: NEA, LOV) which fell -17% and -12%. Neither of these two companies had any bad news during the month. Both trade on relatively high (but not excessive) multiples because of their strong profit growth outlook and so are susceptible to falling in the current market. Indeed, at the time of writing (early May) both companies have since confirmed their growth and guidance.

The announcement that was of most consequence to the portfolio was one for a stock that we no longer owned, which would have caused us a significant additional loss if we had not exited beforehand.

EML Payments (ASX: EML) is a stock that had been in the portfolio since 2013. We have made excellent returns from this investment with the share price ultimately rising 30 fold from our entry due to the rapid expansion of its business. During this time our weight in the stock varied considerably based on our calculation of its remaining upside pay-off and also as we controlled for risk and portfolio weight.

It fell significantly in price as the Covid pandemic worsened and has generally been very volatile since February 2020 with several high profile announcements. Our weight in the stock also has been much more volatile since then too, more recently because recent events have triggered our "early warning" selling discipline.

At the February result, the company missed its expected first half profit expectations due to cost increases. At that time it did not change its full year guidance, claiming that it would make up the profit shortfall by the end of the year. We have a two strike rule and this was its first strike. We sold one third of our holding. A few weeks later short interest in EML spiked to 9%. This signals that other investors are very pessimistic about its prospects, and we treat this signal with respect. It could flag that we are missing something. This was its second strike and we exited the position.

Admittedly, it was quite painful to sell it. We do not think there is anything fundamentally wrong with the company, and we expect it will grow its earnings very strongly over time. Furthermore, we were selling at a time of price weakness. Nevertheless, the early warning triggers and our selling discipline are there to stop us otherwise falling in love with a company and suffering "a death of a thousand cuts" due to growing headwinds against it that we may otherwise downplay.

In April EML came out with a further update. Unfortunately it has now downgraded its full year guidance by -8%. The day of this announcement the stock price fell -38%.

Our long-term view on EML hasn't changed. We still think it's a great business, with very strong profit growth ahead over the next five years. And it's now very cheap. However our investment discipline keeps us from reentering the stock until we can see that the growth is back on track and the next announcement is not another early warning trigger.

We retain our energy position in Woodside, Santos and Karoon Energy (ASX: WPL, STO, KAR) as well as a broader exposure to resources through BHP, RIO and South32. (ASX: BHP, RIO, S32).





Hedge Fund (ASX: MAAT)

Monthly Portfolio Metrics	
Outlook Stocks (Long)	14 Positions: 62%
Outlook Stocks (Short)	1 Positions: -2%
Event, Pair and Group (Long)	3 Positions: 44%
Event, Pair and Group (Short)	1 Positions: -2%
Cash	18%
Gross Exposure	89%
Net Exposure	82%

Return Summary Since Inception (after fees) ³	
CYTD	-14.08%
FYTD	-6.64%
l Month	-0.95%
3 Month	-5.72%
6 Month	-10.69%
Since Inception	-2.08%

Portfolio Analytics Since Inception ²		
Sharpe Ratio	0.58	
Sortino Ratio	1.02	
Standard Deviation (p.a.)	16%	
Positive Months	62%	
Maximum Drawdown	-29%	
Avg. Gross Exposure	91%	
Avg. Net Exposure	80%	
Avg. Beta	0.67	
Avg. VAR	1.3%	



 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/
 ³ Inception date is 28 May 2021. Past performance is not indicative of future performance.



Hedge Fund (ASX: MAAT)

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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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