

# Monash Investors

## Post Reporting Season Webinar

13 September 2022



# Agenda

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1. The Presenters
2. The Fund
3. MA1 Final Dividend
4. Fund Performance
5. Reporting season
6. Case Study: Lovisa
7. Portfolio Activity and Positioning
8. Q & A



# Portfolio Managers



**Sebastian Correia**  
CA, B.Comm

**Former Lead Consultant  
EY Valuations and  
Transactions Advisory**

**11 years as an  
investment professional**



**Simon Shields CFA,  
B.Comm (Hons), LLB, MBA**  
Co-Founder

**Former Head of Australian  
Equities at UBS and CFS**

**35 years experience as an  
analyst or portfolio manager  
across a variety of styles**



**Shane Fitzgerald**  
B.Comm (Hons)  
Co-Founder

**Former Head of JPMorgan  
Insurance and Diversified  
Financial Research**

**29 years experience across  
“buy side” and “sell side”**



# The Fund

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- An active Australian equity fund with a flexible mandate
- Aiming to achieve<sup>1</sup>
  - **double digit after fee returns pa over the long term** ✓ 10.7%pa<sup>1</sup> (a/fees) 10+ years
  - **while preserving capital over the medium term** ✓ >95% of time over rolling 3 year periods
  - **target 6%pa distribution yield, 1.5% paid quarterly** ✓ policy started from FY 2021
- Strong absolute and relative track record
- Two ways to invest with us
  - **Monash Absolute Investment Fund APIR: MON0001AU**
  - **Monash Absolute Active Trust (Hedge Fund) ASX: MAAT**

<sup>1</sup> Net Return (after fees) to 31 August 2022, Inception date of the Fund is 2 July 2012. Distribution policy commenced 1 July 2021. Past performance is not a reliable indicator of future performance. In relation to the target distributions, this is a target return only. There is no guarantee the Fund will meet its investment objectives. The Fund reserves the discretion to amend its distribution policy.



# Monash Absolute Active Trust (Hedge Fund) ASX: MAAT

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Australia's first LIC converted to an ETMF

## 1. Better structure for investors than an LIC

- Trades at NAV with a small spread
- Market maker provides liquidity
- Regulated as an investment product

## 2. Better transparency than an LIC

- iNAV disclosed in real time through the day on our website
- Holdings are disclosed with a two month lag, see ASX announcements or our website

## 3. Better dividend experience than an LIC

- Does not make tax payments to ATO
- Trust regulations allow more regular and reliable distributions

## 4. One of the only Australian Equity Long/Short ETMFs



# Monash Absolute Investment Company Limited (MA1)

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- **Final Distribution 4.4c per share**
  - Following MA1's audit, the directors have declared a dividend of 4.4c
  - Dividend will be paid on 21<sup>st</sup> September 2022
- **Shareholder Meeting**
  - Shareholders have been sent notice of the general meeting for 29 September 2022
  - Resolutions to appoint and enable DW Advisory as liquidators
- **Liquidation**
  - There is only one unlisted asset of value left for the liquidator to sell
  - Any surplus above the statutory minimum will be returned to shareholders
  - The liquidator expects the process will be complete by 31 December 2022



# Monash Absolute Active Trust (Hedge Fund) ASX: MAAT

## Returns (After Fees) to 31 August 2022

	MAAT Stock Price +	MAAT Dividend =	MAAT Total Return
<b>1 Month</b>	1.7%	–	1.7%
<b>3 Months</b>	5.9%	1.5%	7.4%
<b>1 Year</b>	-15.9%	6.0%	-9.9%
<b>Inception p.a.</b> <small>From 28 May 2021</small>	-6.6%	6.0%	-0.6%

## Index Total Returns

ASX200	Small Ords
1.2%	0.6%
-2.4%	-2.6%
-3.4%	-14.7%
1.7%	-5.7%

Past Performance is not a reliable indicator of future performance. MAAT: Announcements <https://www2.asx.com.au/markets/etp/maat>

- Distributions payable as at COB last business day each quarter
- Unit price is quoted ex-dividend on the first business day each quarter
- DRP available
  - Update your election and other unit holder details via the Mainstream unit registry portal
  - Or go to our website, click “ASX:MAAT”, and click “Update Your Details Form”
- Tax, distribution and holding statements available via our website
  - Provided by Mainstream Unit Registry
  - Go to our website and click “Investors Login”

This Fund is appropriate for investors with “High” risk and return profiles. A suitable investor for this Fund is prepared to accept high risk in the pursuit of capital growth with a medium to long investment timeframe. Investors should refer to the [TMD](#) for further information.



## Total Returns (After Fees) to 31 August 2022

	Monash Fund	ASX200	Small Ords	MAIF Average Cash Held
3 Months	6.9%	-2.4%	-2.6%	39%
1 Year	-9.4%	-3.4%	-14.7%	22%
3 Years pa	11.8%	5.5%	4.1%	19%
5 Years pa	12.4%	8.1%	6.9%	19%
7 Years pa	8.5%	8.5%	8.9%	20%
<b>MAIF Inception pa</b> From 2 July 2012	10.7%	9.8%	6.4%	21%

Past performance is not a reliable indicator of future performance.

### Sources

MAIF : Monthly Performance Report & Unit Prices [www.monashinvestors.com](http://www.monashinvestors.com)

ASX Indices: S&P Dow Jones Total Return Indices

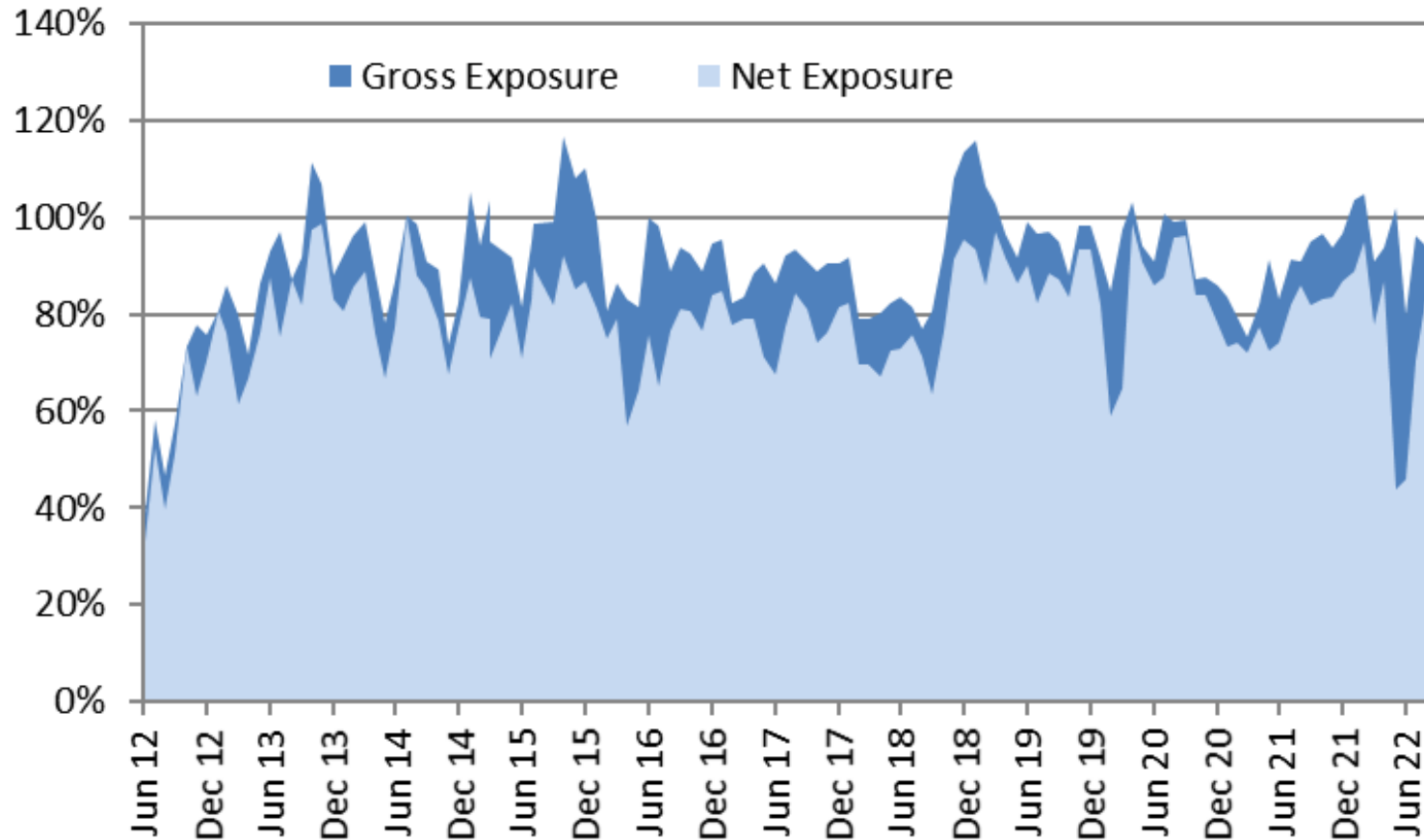
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# Returns not generated through leverage

## Gross/Net Exposure



Source: Monash Investors



# Good track record Shorting Stocks

## Shorts target >30% downside payoff

- We target absolute returns, not relative value
- Number of shorts fluctuates with opportunities identified
  - Typically hold 2 or 3 short stocks at any time
  - Position weight up to -2.5%
  - Average holding period 2 to 3 months

## Portfolio Shorts

Returns and Contributions are not annualised

	<b>3 months</b> <small>since 30 April 2022</small>	<b>1 Year</b> <small>to 30 April 2022</small>	<b>3 Years</b> <small>to 30 April 2022</small>	<b>5 Years</b> <small>to 30 April 2022</small>
<b>Absolute Contribution of shorts</b>	2.3%	0.2%	14.0%	12.3%
<b>Portfolio Return After fees</b>	-5.3%	-3.5%	49.9%	82.0%
<b>Average Weight of shorts in Portfolio</b>	-15.7%	-5.9%	-4.7%	-5.5%

Shorts have made a good contribution to portfolio returns

In both rising and falling markets

Shorts are usually a relatively small part of the portfolio

Source: Periods to 30 April 2022, Link Fund Solutions. Periods since 30 April 2022, Mainstream.  
Past performance is not a reliable indicator of future performance



# Reporting Season: Background

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- **Late 2021** inflation and interest rate surprise
  - 2 years of Covid supply issues kicked off “non transient” inflation
  - Oil price rises will drive additional inflation from food, mining and transport
  - Fed turned hawkish in December
- **1<sup>st</sup> Half Calendar 2022:** war in Europe surprise, falling stock prices
  - War in Europe Surprise causing fear, uncertainty
  - Increased prices for grain, fertiliser and further increases in oil, energy
  - Weak stock prices, market shortens earnings focus and values safety more highly
  - Growth stocks, small cap stocks, low liquidity stocks all underperform
- **Implications of higher oil prices and interest rates for economy**
  - More inflation: Higher prices for petrol, commodities, food
  - Higher mortgage rates
  - Higher cost of non-discretionary items means there will be less discretionary spending



- **ASX 200 7% EPS growth over FY22**
  - EPS growth was a 0.4% beat
  - driven by 7.5% rev growth, which was a 1.1% beat
  - But lower profit margins due to mismatch in passing on cost rises
- **Business inventories and consumer demand strong**
  - Businesses intentionally over ordered due to supply chain fears
  - Luckily for them, consumer spending held up despite rising non discretionary costs
  - As expected household goods sales growth lagged, but surprisingly it didn't fall
- **Our view is that we are now past the peak in commodity cost pressures**
  - Destocking and cost inflation are a continuing risk to margins
  - Will consumer spending maintain its momentum as the cost of living rises?







# Top 10 Holdings and Reporting Season

## Ranked by weight at date of result

Top Holdings February 2022	Top Holdings August 2022	Business Description	Result Announcement	Month Return
Healthia	Telix	Cancer Imaging & Therapy	Miss (higher costs)	-16%
EML Payments	OFX	International Money Transfer	In Line	-3%
Lovisa	Lovisa	Jewelry Retailer	Beat	30%
OFX	John Lyng	Building Services	In Line	-6%
John Lyng	Healthia	Physio, Podiatry, Optical	In Line	4%
People Infrastructure	QBE	Insurance	Beat	6%
QBE	IDP Education	Language Testing	Beat	2%
Superloop	City Chic	Ladies Apparel	Miss (inventory build)	-29%
Short: Magellan	Woodside	Oil and Gas	In Line	7%
Short: Tyro	Short: Flight Centre	Travel Agency	In Line	4%

### Quiet reporting season

Top 10: 3 wins, 2 losses

Top 20: 5 wins, 3 losses

### Take-overs for two of our smaller holdings

Nearmap, rose 50%

PTB Group, rose 35%



# Lovisa (ASX:LOV): Global Store Roll Out

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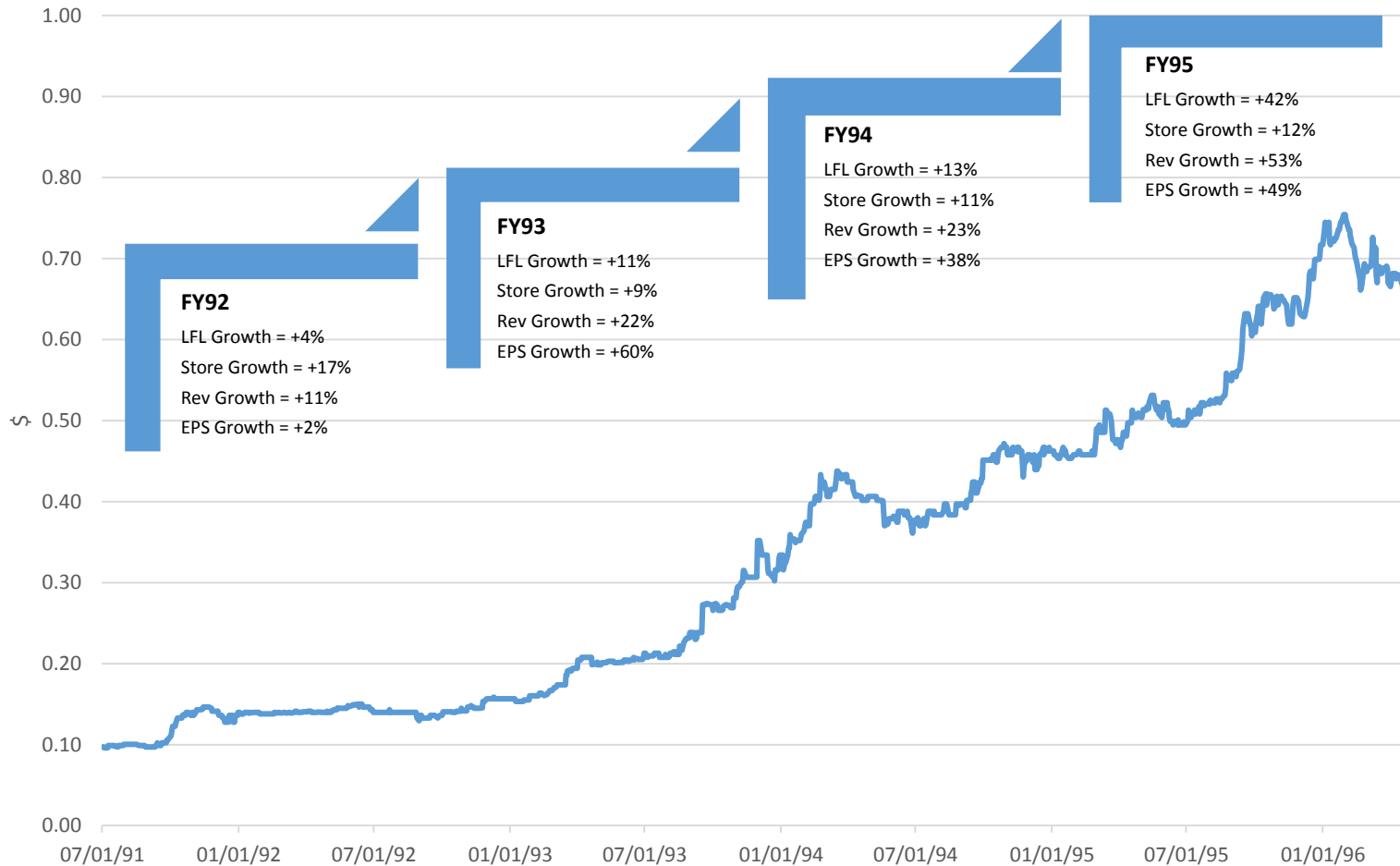


- **A recurring situation that the market misprices**
  - The stock market has difficulty correctly pricing successful store roll outs
  - During the store roll out phase companies have seen their stock prices boom
  - There has been numerous examples of this on the ASX over time
  
- **Australian examples**
  - Harvey Norman (ASX: HVN) 1991-95
  - JB Hi-Fi (ASX: JBH) 1994-98
  - Flight Centre (ASX: FLT) 1997-00
  - Lovisa (ASX: LOV) since 2015





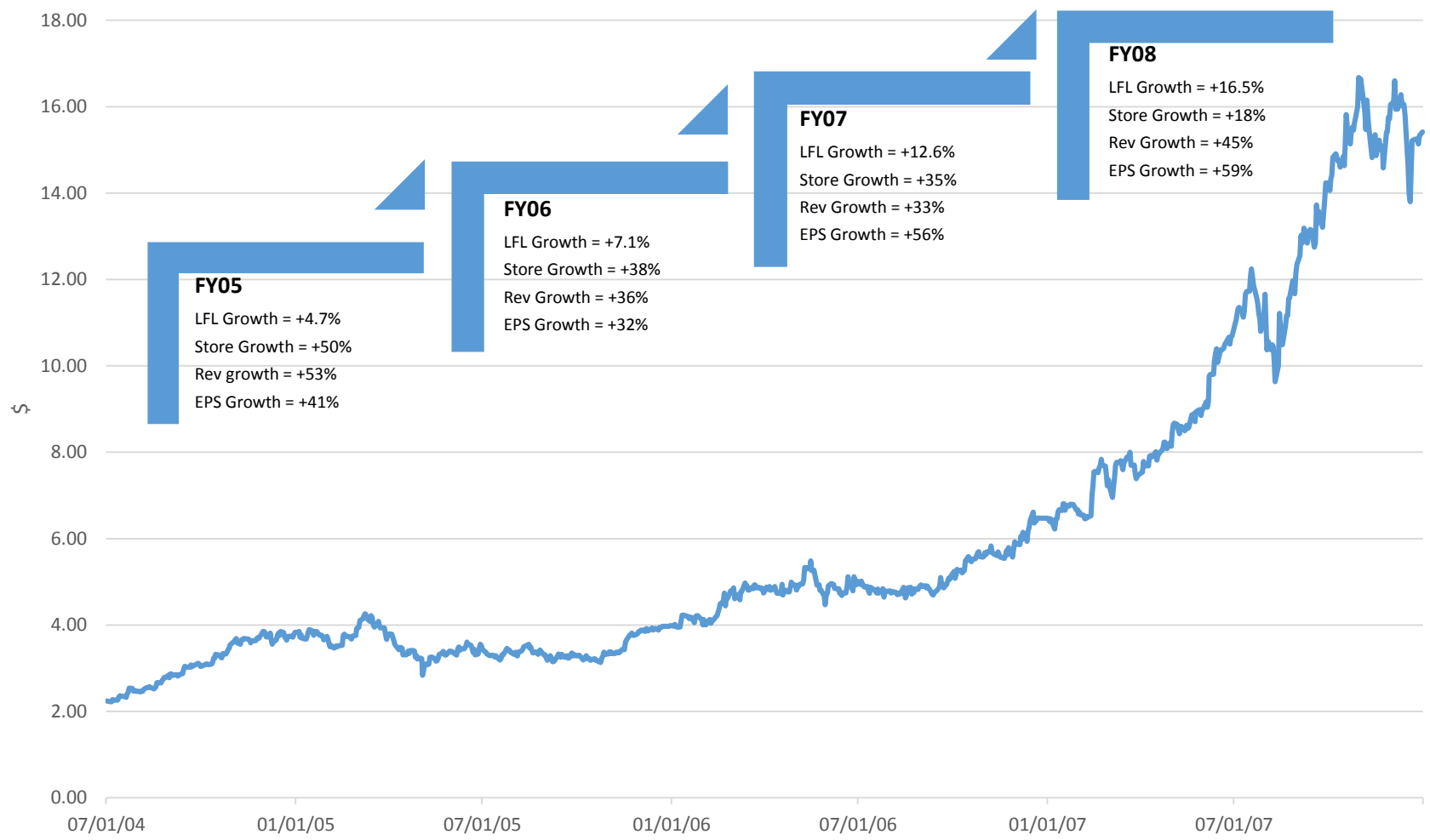
# ASX:HVN Share Price Chart



Source: FactSet and Company Announcements on <https://www2.asx.com.au/>



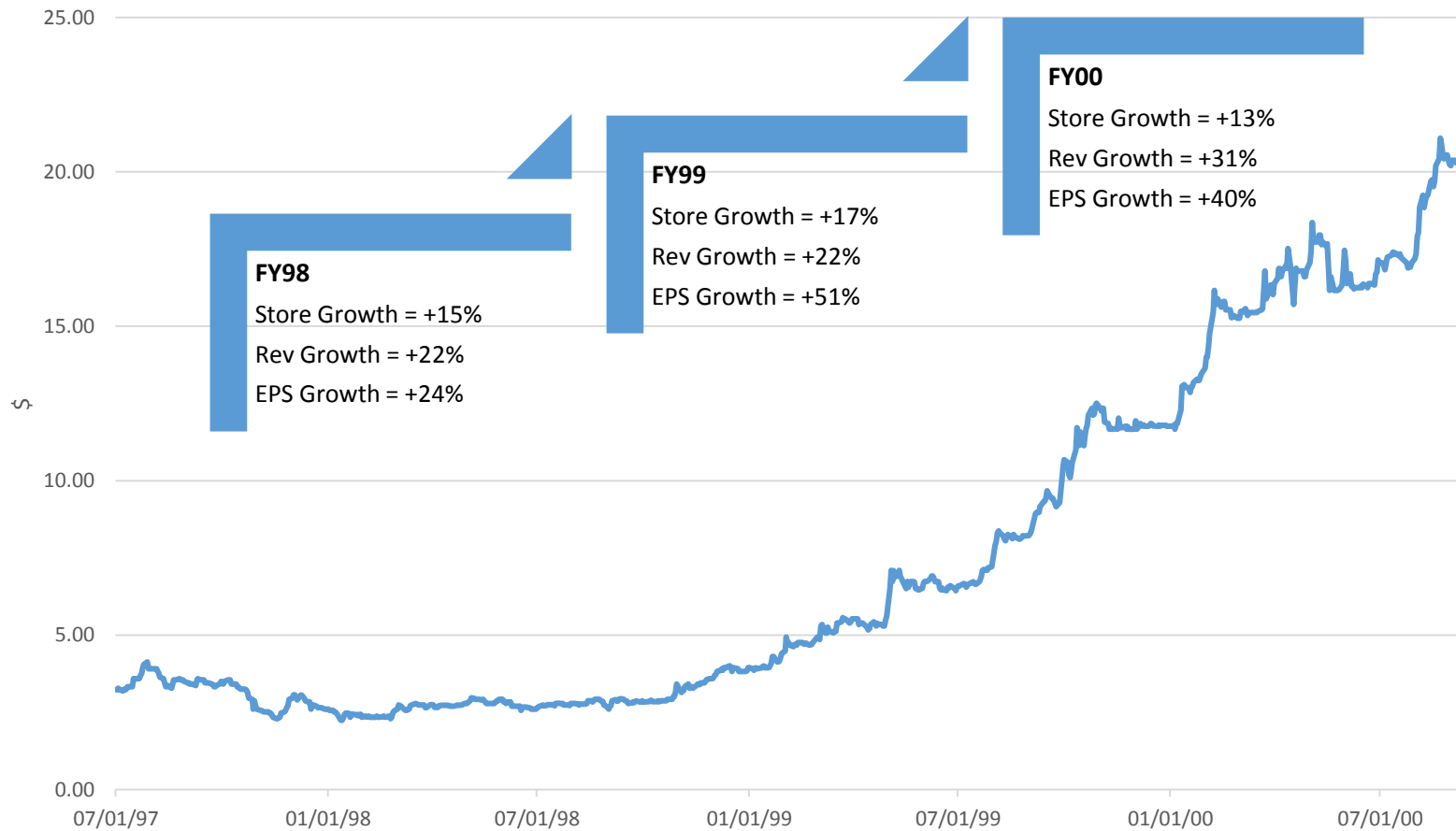
# ASX:JBH Share Price Chart



Source: FactSet and Company Announcements on <https://www2.asx.com.au/>



# ASX:FLT Share Price Chart



Source: FactSet and Company Announcements on <https://www2.asx.com.au/>



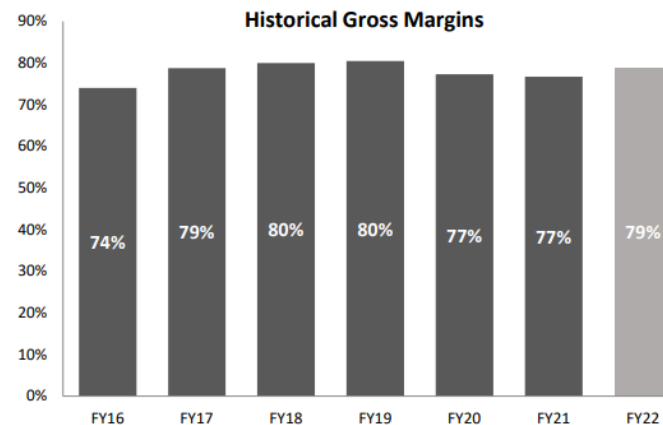
# Lovisa (ASX:LVH): Global store roll out



## Insight

- Successful retail concept – fast fashion jewellery
- Vertically integrated, stable profit margins
- Quick Payback from new store openings
  - around 12mths
  - high returns on invested capital
- Highly experienced Management Team and Board
- New CEO – China/India store rollout experience

Country	Store number growth			
	FY22	FY21	Variance	New Stores
Australia	154	153	1	6
New Zealand	25	24	1	3
Singapore	17	18	(1)	0
Malaysia	32	28	4	4
South Africa	69	64	5	7
United Kingdom	42	41	1	2
France	59	52	7	8
Germany	40	38	2	6
Belgium	11	8	3	3
Switzerland	6	8	(2)	0
Netherlands	5	6	(1)	0
Austria	3	3	0	0
Luxembourg	2	2	0	0
Poland	1	0	1	1
USA	118	63	55	55
Canada	1	0	1	1
Middle East	44	36	8	8
<b>Total</b>	<b>629</b>	<b>544</b>	<b>85</b>	<b>104</b>



Source: Lovisa FY22 Presentation

## Growth

- Still early stages of a global store rollout
- LOV currently has 629 stores
  - using Australia as a benchmark
  - store count will easily exceed 2,000
- Compared to Australia 158 stores, pop 25m
  - UK 41 stores, pop 67m
  - EU 124 stores, pop 446m
  - USA 81 stores, pop 330m

## Value

- Near term valuation metrics can look high
  - At \$22 FY23 P/E is 33x
  - But is actually cheap because based on its runway of future earnings growth
- Current Price target >100% upside



# ASX:LOV Share Price Chart



Lovisa Holdings Ltd.



Source: FactSet and Company Announcements on <https://www2.asx.com.au/>



# ASX:LOV Share Price Chart



Lovisa Holdings Ltd.



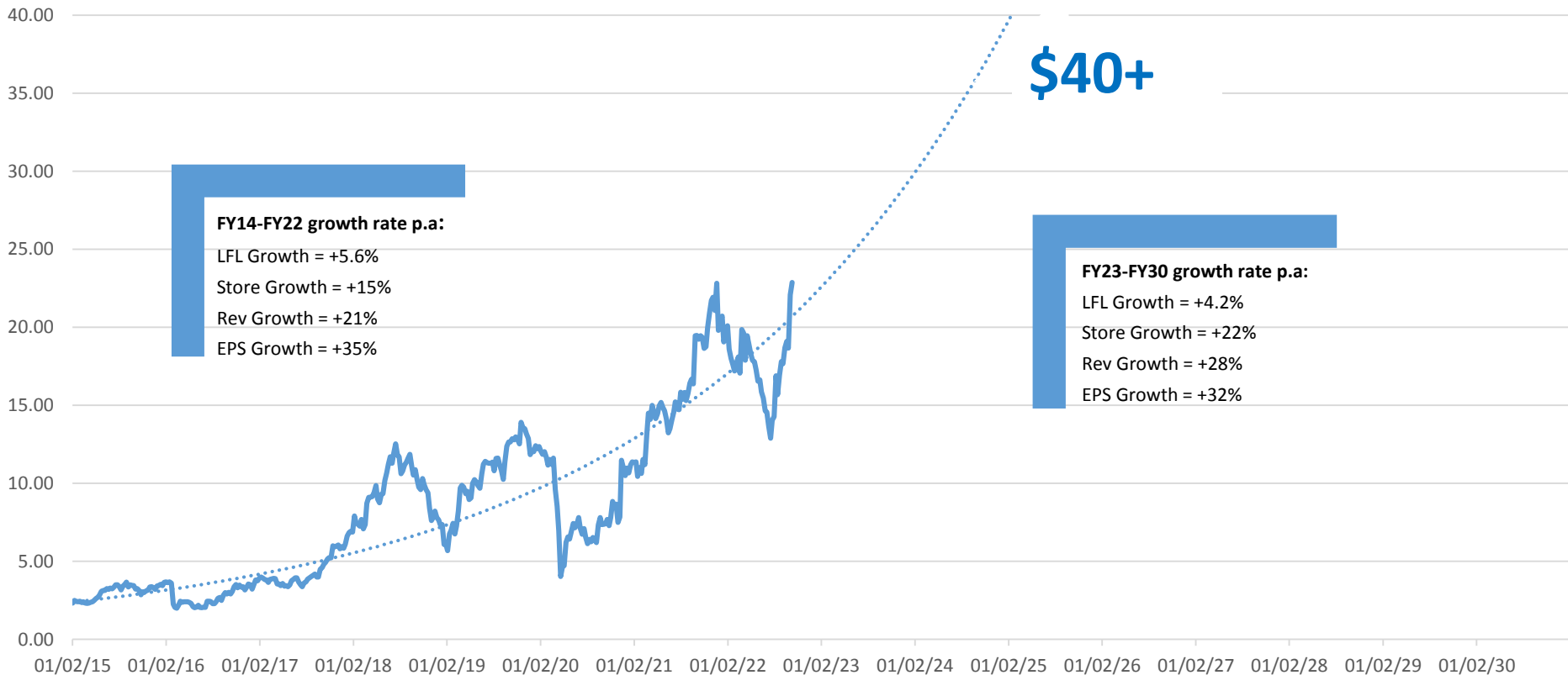
Source: FactSet and Company Announcements on <https://www2.asx.com.au/>



# ASX:LOV Share Price Chart



Lovisa Holdings Ltd.



Source: FactSet and Company Announcements on <https://www2.asx.com.au/>



# Recent Portfolio Activity leaves portfolio well positioned

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## April/May mostly Selling & Shorting

- Consumer sentiment and housing market fears worsened, reducing our FY23 forecasts
  - Exited 3 stocks we owned and reduced weight in others
  - Shorted 11 Consumer related stocks
  - Net Exposure fell from 78% to 44%
- This was the right thing to do April/May/June
  - ASX200 fell -11.9% and Small Ords fell -20.4%. MAIF fell “only” -6.9%.

## July/August mostly Buying & Covering

- Consumer behaviour better than indicated and stock price falls offered value
  - Purchased 5 new stocks
    - High quality inflation protected: IDP Education, Johns Lyng
    - Cyclical with strong franchise: James Hardie, RealEstate.com
    - Strongly growing, profitable on-line retailer: Temple & Webster
  - Topped up other existing stocks, covered most of the consumer shorts
  - Net exposure rose from 44% to 86%
- Our view is this was the right thing to do July/August
  - ASX200 rose +7.0% and Small Ords rose +12.1%. MAIF rose +7.9%.
  - For the 5 months ASX200 -5.7%, Small Ords -10.8%, MAIF +0.5%,





# Portfolio snapshot as at 31 August 2022

Type	# of Positions	Weight MAIF	Weight MAAT
Outlook Stocks – Long	14	63%	63%
Outlook Stocks - Short	2	-3%	-3%
Event, Pair and Group Trades - Long	4	27%	22 <sup>1</sup> %
Event, Pair and Group Trades - Short	1	-1%	-1%
Cash	N/A	14%	19%
<b>Total</b>	<b>21</b>	<b>100%</b>	<b>100%</b>
<b>Gross Exposure</b>		<b>94%</b>	<b>90%</b>
<b>Net Exposure</b>		<b>86%</b>	<b>81%</b>

<sup>1</sup> Within the product launch group position MAIF has a 5% weight in unlisted stocks that MAAT is denied under ASX AQUA listing rules  
Glossary of terms can be found on at our website at [www.monashinvestors.com/glossary/](http://www.monashinvestors.com/glossary/)



- Q & A with the Portfolio Managers



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