# Monash Investors Small Companies Trust

## Hedge Fund (ASX : MAAT)

High Conviction Fund

Australian Small Companies

Proven Track Record[1]

Buy and Sell on the ASX or direct

## August 2023 Fund Update

In the month of August, the Fund rose +2.6% (after fees). This compares to the Small Ords return of -1.3% for the month. If you look at our performance tables at the end of this update it can be seen that we are beating the Small Ords over all time periods.

August is a reporting season month. For most companies this means providing details of their results to the period ended 30 June. Over time the market has become notorious for strong price reactions to company results. This year was an extreme example. Within the Small Ords this month more than 1/5th of stocks rose greater than +7.5% and more than 1/3rd fell over -7.5%.

Our portfolio had extremely divergent outcomes this month too, however on balance we had a good month compared to the market.

Our best contributor was Healthia (ASX: HLA) the roll up of physiotherapy, podiatry and optometry clinics. It received a takeover offer at an 80% premium to its share price, which had been falling for about 18 months due to staff absenteeism. This had been impacting revenue and margins since the end of Covid lock downs due to staff wariness of transmitting illness. We had sold some stock at higher levels but maintained a holding as we considered the stock grossly mispriced.

The next best contributor was Johns Lyng, the building repairs contractor (ASX: JLG, rising +21%) which had a stronger outlook than expected and was additionally somewhat re-rated by the market.

Our performance was also helped by our group trades in gold stocks and uranium stocks which both benefitted from their underlying commodity price strength.

[1] Inception date is 28 May 2021. Past performance is not indicative of future performance.

## Return Summary[1] (after all fees)

| 1 Month | 3 Months | 1 Year | Since Inception |
|---|---|---|---|
| +2.6% | +6.2% | +0.8% | +0.1% pa |

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

This fund is appropriate for investors with "High" and "Very 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.

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The biggest detractor was NextEd (ASX: NXD, falling -18%) which provides education and training to tertiary students.  It has benefited from the surge in Australian immigration however its outlook disappointed, because of a temporary Covid visa program which did not require their students to continue studying to stay in the country. Recently, students have increasingly exploited this loophole to avoid the vocational studies typically required under the original student visas. The government has since rectified the visa requirement, and the stock has recovered somewhat from its lows (it was down more than -40% at its worst).

We expect NextEd to benefit from the recovery in vocational students.

The next biggest detractor was the lithium miner Sayona (ASX: SYA, falling -24%) which announced the immediate departure of its CEO and a strategic review by the board. We promptly exited the stock.

We will have more to say about the outlook for the market and our portfolio at our post reporting season webinar on Tuesday the 12th of September. You can register here if you haven't already done so.

### Return Summary Since Inception (after fees)[2]

| | MAAT | Small Ords |
|---|---|---|
| CYTD | 4.81% | 3.54% |
| FYTD | 3.13% | 2.19% |
| 1 month | 2.57% | -1.31% |
| 3 Month | 6.18% | 2.22% |
| 6 Month | 5.25% | 0.90% |
| 1 Year | 0.83% | -1.12% |
| 2 Years pa | -4.67% | -8.14% |
| Since Inception pa | 0.10% | -3.69% |

### Return Summary Since Inception (after fees)[2]

| | MAIF | Small Ords |
|---|---|---|
| CYTD | 5.23% | 3.54% |
| FYTD | 3.17% | 2.19% |
| 1 month | 2.58% | -1.31% |
| 3 Month | 6.15% | 2.22% |
| 6 Month | 5.48% | 0.90% |
| 1 Year | 1.33% | -1.12% |
| 2 Years pa | -4.18% | -8.14% |
| 3 Years pa | 7.41% | 3.00% |
| 4 Years pa | 9.09% | 2.77% |
| 5 Years pa | 9.98% | 2.40% |
| 7 Years pa | 7.61% | 5.15% |
| Since Inception pa | 9.84% | 5.72% |

[2] Due to lack of MAAT history, data from Monash Small Companies 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/

# Monash Investors Small Companies Trust

Hedge Fund (ASX : MAAT)

## Temple and Webster and consumer spending

Finally this month a discussion about Temple and Webster (ASX: TPW) the online furniture retailer. It illustrates how we dealt with the dilemma of a stock which has good structural growth but was likely facing great cyclical headwinds.

We like the Temple and Webster (TPW) business for its structural growth – it will continue double digit growth in online furniture sales taking market share from predominantly bricks and mortar retailers. We are able to get 60%+ to our valuation.

However, with the cost of living crisis worsening through May to July, we had become increasingly concerned that discretionary retailers would provide disappointing trading updates and weak outlook statements in their full year results.

After a bounce in TPW's share price we sold out in early July to protect the portfolio because if bad consumer news was to continue, its share price would likely go materially lower. This turned out to be a poor decision in the short term, with TPW's share price continuing to rally, as did those of other retailers, co-incident with USA listed retailers re-rating over that time. The rally was despite macro news in Australia continuing to be bearish for household goods retailers in particular - they were the weakest segment of consumer spending and had negative like-for-like growth.

As it turned out however most of the retailers that reported in August experienced better than expected sales revenue in the period post 30 June, even if still negative versus the previous corresponding period (pcp). For example, Nick Scali reported written orders down -11% like–for-like compared to July 2022 which was a positive surprise, because it was less negative than the market expected.

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Temple and Webster on the other hand came in at +16% for the 6 weeks since 30 June versus the pcp.

We see now that our concerns for retail sales were too pessimistic. Despite the cost of living crisis comprising the rapid rise in mortgage rates, rents, and utility prices:

1. Unemployment has not risen much, wages are rising and immigration has been very high – so the total amount spent by consumers has grown significantly even if per capita discretionary spend is under pressure.
2. Strong employment and high immigration has also kept house prices high, so the wealth effect has supported spending.
3. Most retailers have been able to raise prices to offset increasing costs, with this assisting their sales revenue.

While TPW delivered a result that was in line with expectations for FY23, and showed surprisingly strong sales growth post 30 June, its share price fell 5% on the day due to management's disclosure that it would be increasing its marketing spend above its business as usual level (which would reduce its margin next year).

With fears for a poor sales outlook out of the way, and a demonstration of TPW's continued impressive structural growth, we re-established our portfolios holdings in the stock.

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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