



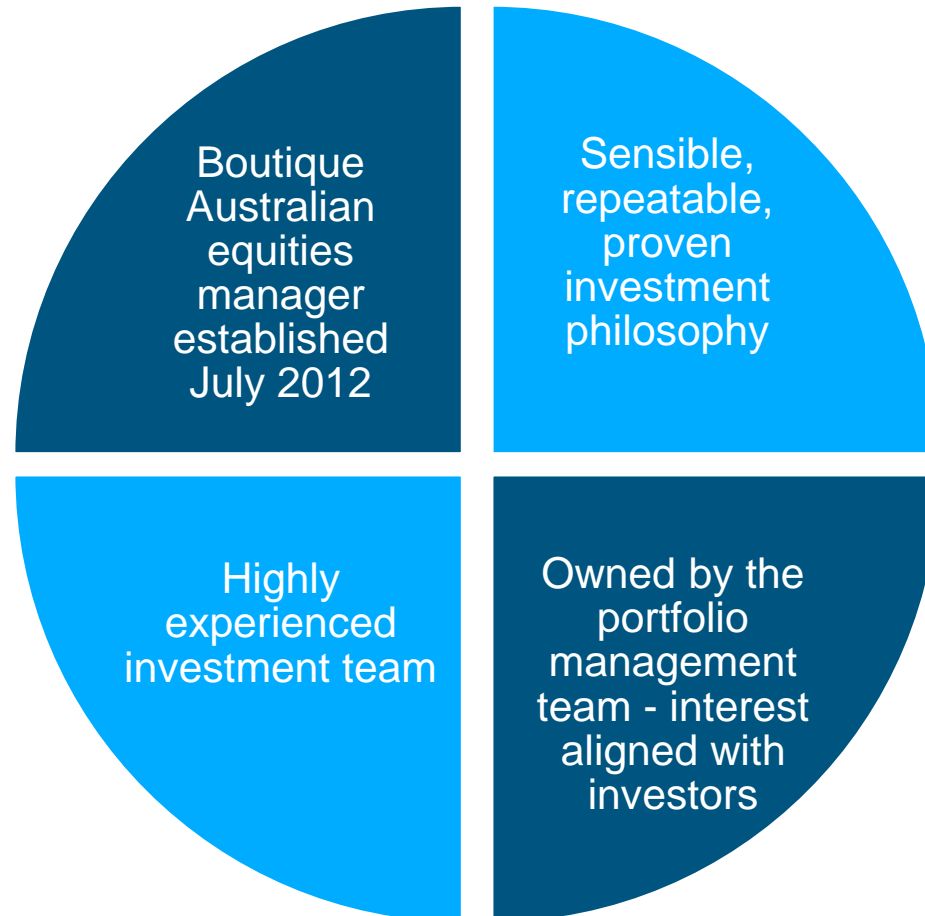
# **Australian Small Companies Specialist**

Post Reporting Season Webinar

September 2023

## About the Manager

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## Australian Small Companies Specialist



# Products

- Monash Investors Small Companies Fund – retail unit trust (MON0001AU)
- Monash Investors Small Companies Trust (Hedge Fund) – Exchange Traded ASX: MAAT

## Performance as at 31 August 2023 (after fees)

Monash Investors Small Companies Fund	1 Month	3 Months	1 Year	3 Years (p.a)	5 Years (p.a.)	7 Years (p.a.)	Since Inception (p.a.)
Fund Return	2.6%	6.1%	1.3%	7.4%	10.0%	7.6%	9.8%
S&P/ASX Small Ordinaries (Total Return)	-1.3%	2.2%	-1.1%	3.0%	2.4%	5.2%	5.7%
Outperformance	3.9%	3.9%	2.4%	4.4%	7.6%	2.5%	4.1%

Since inception date 2 July 2012

Monash Investors Small Companies Trust (ASX MAAT)	1 Month	3 Months	1 Year	3 Years (p.a)	5 Years (p.a.)	7 Years (p.a.)	Since Inception (p.a.)
Fund Return	2.6%	6.1%	1.3%				0.1%
S&P/ASX Small Ordinaries (Total Return)	-1.3%	2.2%	-1.1%				-3.7%
Outperformance	3.9%	3.9%	2.4%				3.8%

Since inception date 28 May 2021

**Past performance is not a reliable indicator of future performance.**

### Sources

Monthly Performance Report & Unit Prices [www.monashinvestors.com](http://www.monashinvestors.com) ASX Indices: S&P Dow Jones Total Return Indices

These Funds are appropriate for investors with "High" and "Very High" risk and return profiles. A suitable investor for these Funds 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 available at [www.monashinvestors.com](http://www.monashinvestors.com) for further information.



# Key performance metrics on a page

(Before Fees, Since Inception 2 July 2012 to 31 Aug 2023)

## Monash Investors Small Companies Fund

**9.8% p.a.**  
After Fee  
Return

**4.1% p.a.**  
Outperformance  
vs Small Ords

**-5.8%**  
Shorts  
Average Weight

**6.7%**  
S&P ASX 100  
Average Weight

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



# Investment Philosophy

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Every year we can look back and see that the best and worst performing stocks produce significant share price gains / losses

We expend all of our research effort to find these companies in advance:

## Identify Step Changes

- Monash Investors aims to identify businesses which are likely to undergo step-changes (either positive or negative) in their business prospects which will lead to material share price movements

## Look for Recurring Situations

- We draw upon our experience in order to exploit recurring business situations and patterns of behaviour, to identify and invest in a portfolio of compelling opportunities



# Investment Process

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There are several steps in the Monash Investment Process:

**Recurring  
Situations**

**Compelling  
Investments**

**Selling  
Discipline**

**Portfolio  
Construction**



# Recurring Situations

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At the core of the Monash Investment Philosophy is the view that in business there are certain activities/events that can result in material changes in business prospects.

As Investment Managers, the challenge is to identify when these situations will actually make a difference. This is where Monash's decades of experience and extensive company research come into play.

Monash undertakes hundreds of meetings a year with companies and while undertaking this work we are always looking out for recurring situations that are under-estimated including:

Geographic expansion

Store Roll Outs

Regulatory change

Limitations of company guidance

Change in relative power

New and better products or services

Overlooked signals

Business disruption



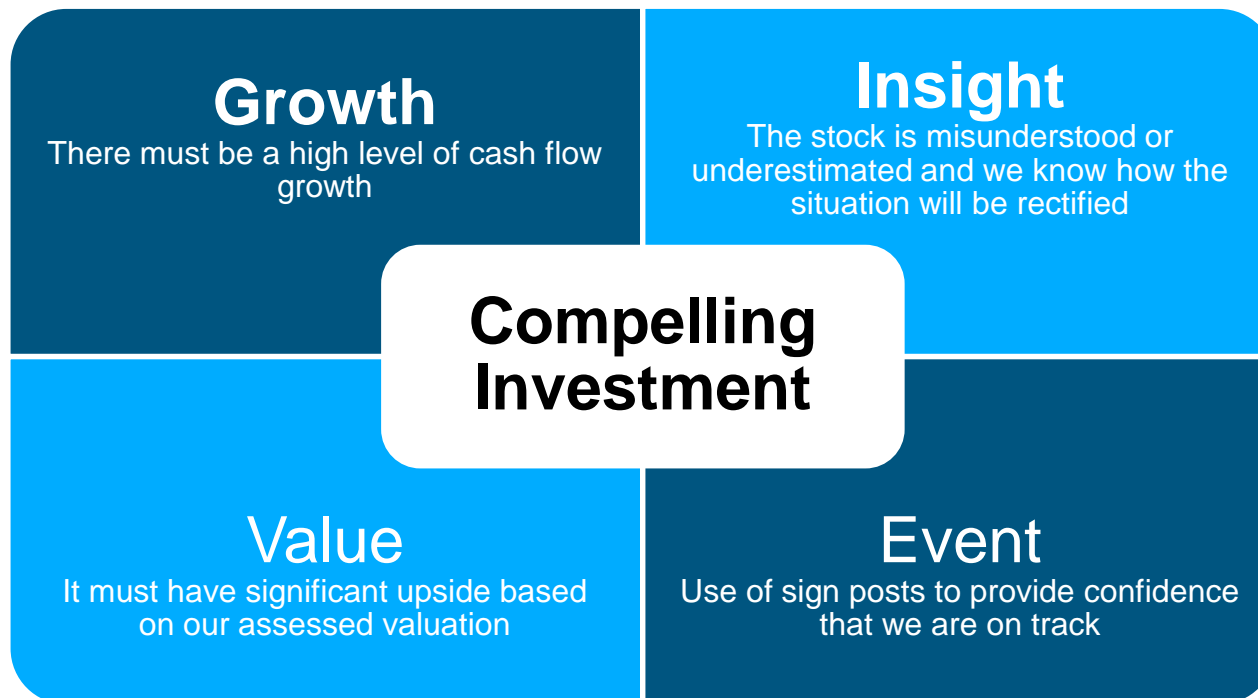
# Compelling Investments

A compelling investment is one where if the market held the same view as Monash Investors about that business' prospects, it would be trading materially higher or lower today, reflecting this view

Long position >60% upside

Short positions >30% downside

Stocks that meet our demanding requirements must have the following attributes:





# Selling Discipline

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All positions are monitored by our Sign Post system which monitors each position against key investment parameters in real time.

The triggering of any of these items results in an active response by the investment managers

**Predetermined  
Price Targets**

**Changes in  
Consensus Estimates**

**Spikes in  
Short Interest**

**Business  
Performance Against  
specific time gated  
Sign Posts**



# Portfolio Construction

Typical number of positions 25-40

Cash limited to maximum of 10%

Up to 20% of portfolio can be S&P/ASX 100 stocks

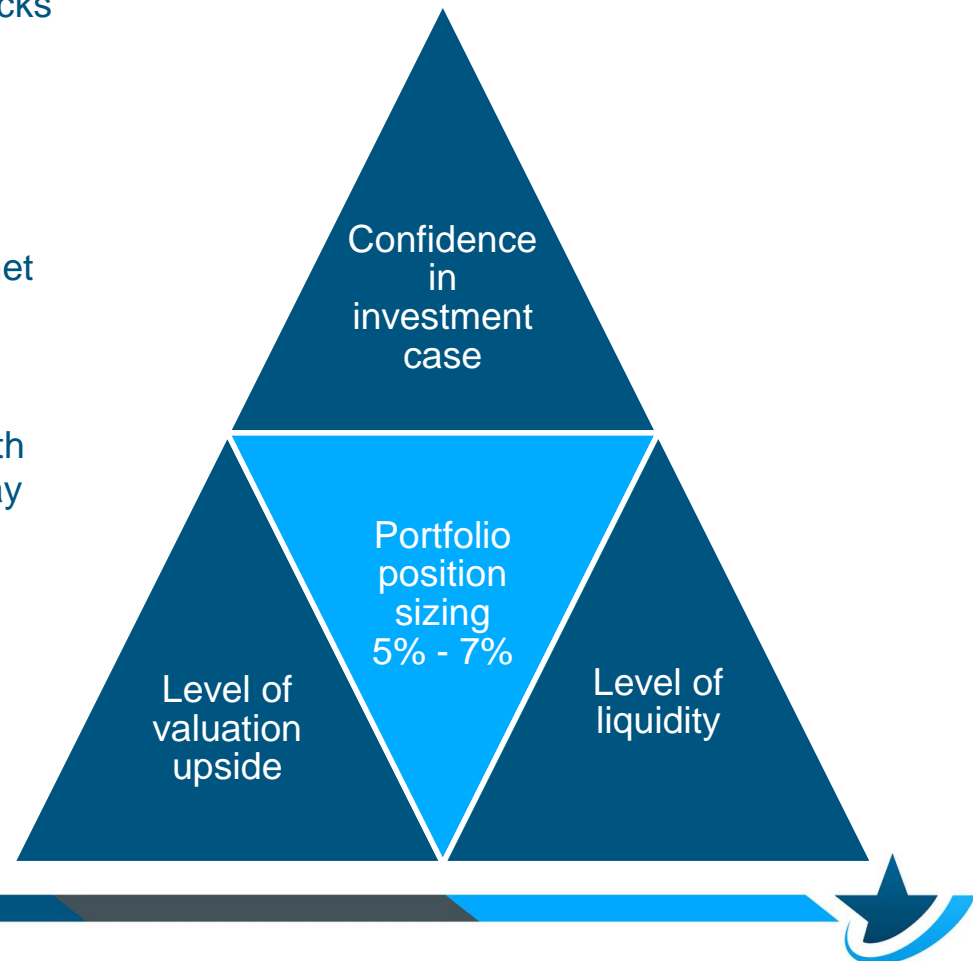
Up to 20% of portfolio can be Shorted

## Triangulating position size

Typical long position sizing when all criteria is met is 5% - 7%

A strong investment case and >60% upside is required in every position we enter, however both factors can have a range of outcomes which may result in variance in position sizing

The major limiting factor to position sizing is liquidity. When it is relatively poor, the position sizing is lowered.



# Monash Shorting Strategy

## Shorting Philosophy

- **All-weather shorting:** aim to make money in falling and rising markets
- **Risk management:** liquidity, position sizing, discipline
- **Payoff > 100%:** achievable by topping up short positions as they fall
- **Valuation is not enough:** “it’s expensive” is not a sufficient reason to short
- **Selective and opportunistic:** idea generation emerges from market opportunities

## Recurring Shorting Situations

Abrupt management exit

Emerging structural challenges to earnings

High cash burn, slowing growth

Financial accounting irregularities

Near term catalysts (e.g. balance sheet risk)





**Monash**INVESTORS

**Observations**

**Positioning**

**Portfolio Activity**



# Observations

August was a volatile reporting season

- 1/5 of stocks had price moves greater than +7.5%
- 1/3 of stocks had price falls greater than -7.5%

The price moves mostly indicate positive or negative earnings surprise

Best sectors:

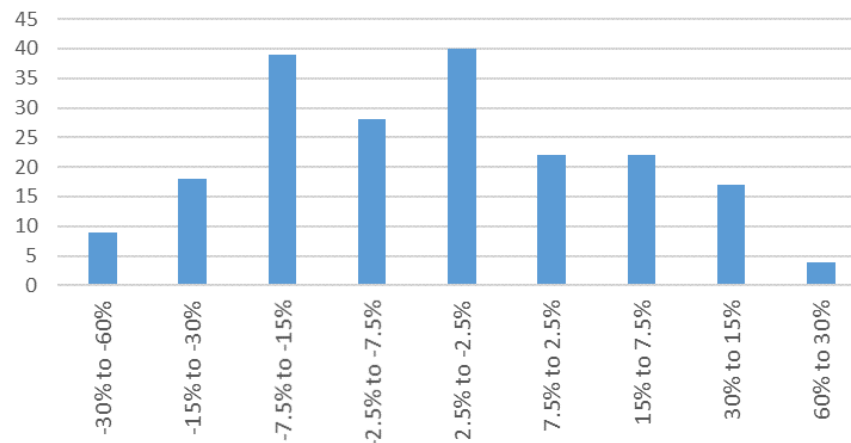
- Energy
- Consumer Discretionary

Worst sectors:

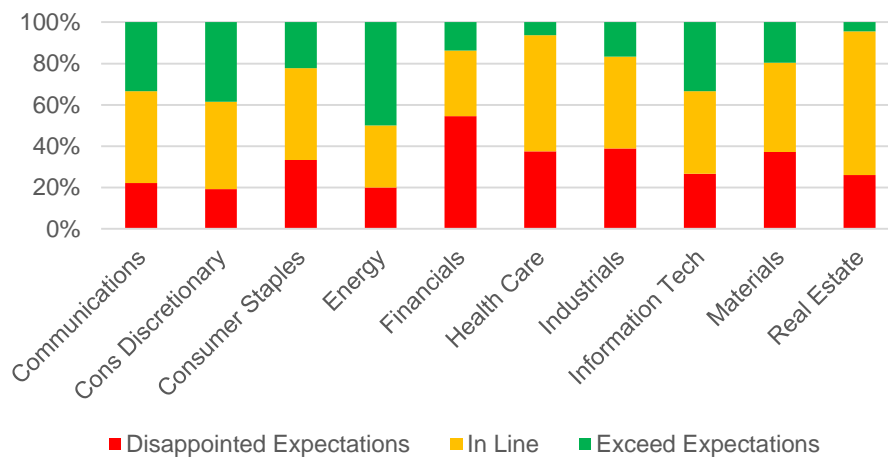
- Financials
- Industrials
- Healthcare

Source: Monash Investors, FactSet

Small Ords Price Changes Aug23



Sector Performance



# August report season

## August Portfolio Return 2.6% versus Small Ords -1.6%

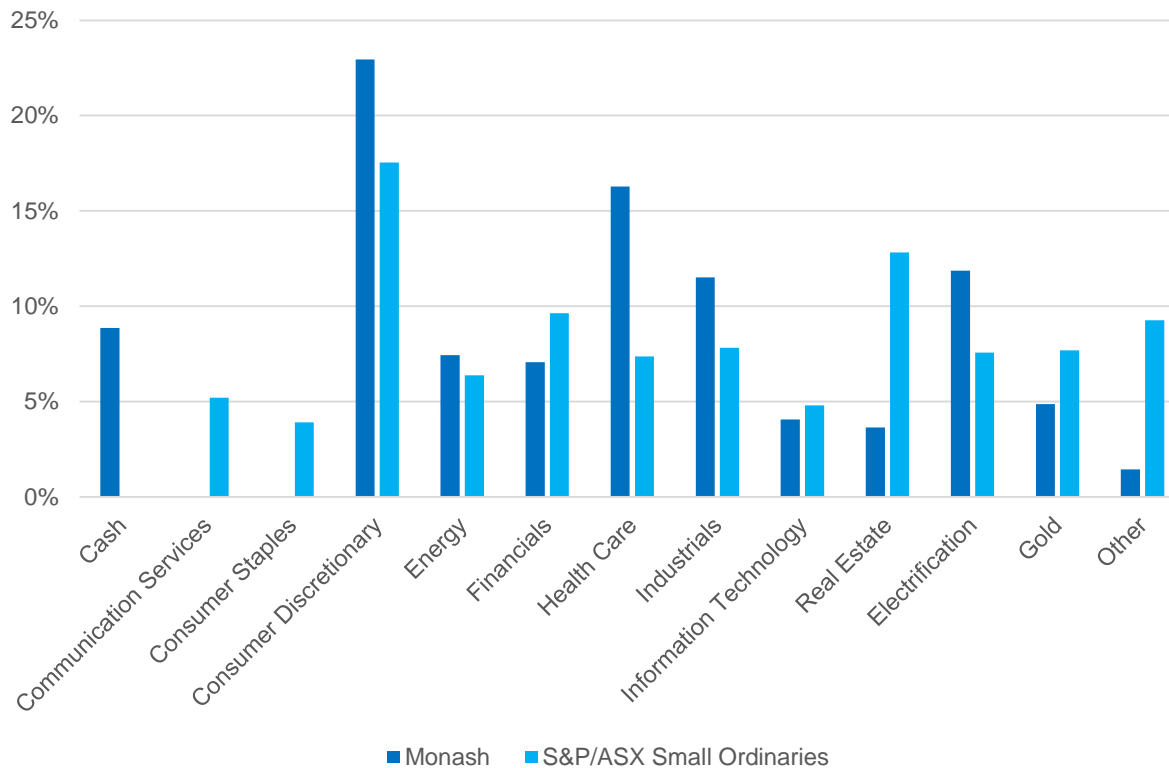
- 3.9% outperformance helped by Healthia takeover contributing 2.3%

Top 10	Price Return	Comment
Johns Lyng Group	21.4%	Great result – conservative guidance – momentum building in US
Paladin Energy	15.0%	Mine restart on track for early CY24 – the real story is the Uranium price pushing towards \$60
Temple & Webster	9.1%	Confirmation the business is back on high growth trajectory
Lovisa Holdings	4.3%	Solid result all round, store rollout continues to strengthen and runway remains enormous
Sandfire Resources	-0.7%	Solid mining result albeit cash cost at higher end of our expectations – outlook for Cu improving
IDP Education	-1.0%	Strong result with high margin student placement business growing 53%
Telix Pharmaceuticals	-2.0%	Bit of a month of consolidation – numerous valuation catalyst coming over next 6-12mths
QBE Insurance	-5.0%	Price consolidating after strong run – premium rates increases reaccelerating which will lead to earnings upside – trading at a historically low PE, 2.3x below Standard Deviation
Impedimed	-7.7%	Share price impact by Board “raid” – Operationally everything coming together will be a big 2yrs for the business
NextEd Group	-18.5%	Caught up in the 408 visa saga – mid month looked like Gov’t wasn’t going to remove 408 then on last few days Gov’t announced 408 would be scrapped.



# Sector Exposure at 31 August 2023

We split the Materials sector into those stocks exposed to the electrification theme, gold and other. Monash total exposure to Materials is 18.2% versus the S&P ASX Small Ordinaries exposure of 24.5%



Source: Monash Investors, ishares S&P/ASX Small Ordinaries ETF  
 "Other" includes building materials, ferrous mining and other commodities



# Recent Activity

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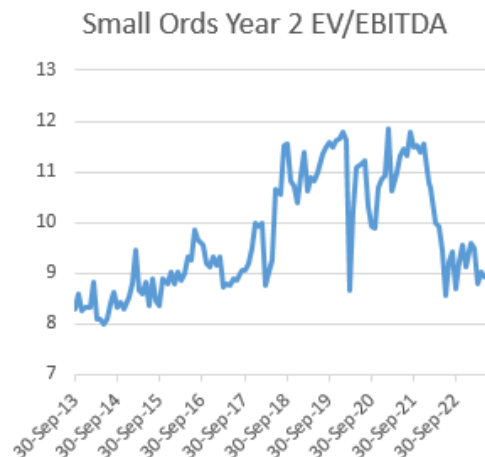
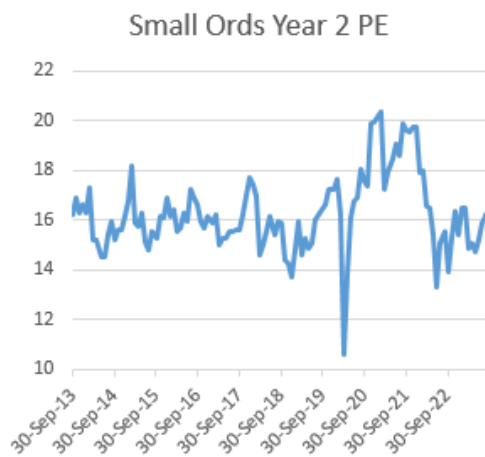
- **Healthcare remains a key exposure**
  - Compelling new products rapidly being adopted
  - Telix (cancer patients: radio-pharmaceutical for better imaging)
  - Impedimed (cancer patients: bioimpedence monitor for lymphedema)
- **Consumer discretionary holdings rebuilt**
  - “Cost of living crisis” plateaus as inflation eases and RBA rates rises cease
  - Lovisa (global store roll out)
  - Temple & Webster (rapidly growing online furniture retailer)
- **Large exposure within Materials to what we call “Electrification”**
  - Lithium, Graphite, Copper – a diversified exposure to 8 companies
  - Mining Services support the boom – NWH, Monadelphous
- **Finding more shorting opportunities**





# Small Caps are due a decent run

- **Small stocks have underperformed large cap stocks**
  - Small Caps price index is -19.3% from its high, 31 December 2021
  - ASX100 price index is -0.2% over that time



- **Small caps will benefit more than large caps**
  - Falling inflation and interest rates, and reduced uncertainty
  - Coming out of the macro dominated environment stock picking is key

Source: Monash Investors, S&P Dow Jones Indices, FactSet



# Summary

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- We continue to find stocks that meet our criteria
- Our investments are generally executing in line or better than our expectations
- This gives us continued confidence in the outlook for the portfolio
- The plateauing of inflation and interest rates sets the conditions for small cap stocks to recover
- Stock picking becomes more important with the reducing market focus on macro-economics



# Contact us

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