Monash INVESTORS

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

September 2023 Fund Update

In the month of September, the Fund fell 4.7% in a challenging environment with the S&P/ASX Small Ords Index also declining 4.0%. As it was reporting season in August, there was very little corporate news flow. Rather, macro-economic factors dominated the markets.

The prevalent focus of the market in September was the ongoing concern over the "cost of living crisis", heightened by the recent spike in the oil price. This has naturally raised concerns over the impact on inflation in the near-term and what the RBA will do in response. Fixed interest markets priced in a further 29 basis point increase across the yield curve over the month of September.

We have argued for several months that we are towards the end of the increases in interest rates and that this headwind on equity markets will fade. While another one or even two rate increases are possible, the heavy lifting has been done. Remember the level of indebtedness is now significantly higher than in previous interest rate cycles and therefore today's level of interest rates is equivalent to much higher implied interest rates seen previously.

Consistent with this, the largest drag on the portfolio during the month was our exposure to consumer discretionary stocks (Lovisa, Temple & Webster and education stock NextEd). Critically, the outlook for each of these stocks remains compelling, driven by stock-specific opportunities. Lovisa has an enormous store roll-out opportunity and while the roll-out of these stores will be lumpy, it will underpin strong high double-digit

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
-4.7%	-1.7%	+3.7%	-1.9% 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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growth for many years to come. Temple & Webster is the leading player in the online furniture market in Australia and has significant growth potential based on overseas experience. Furthermore, it has a compelling retail offering being able to deliver product within days instead of the usual months that customers experience with other furniture retailers. NextEd had been adversely impacted by the Covid era 408 Visa but the Government has now repealed it, turning a headwind into a significant tailwind.

In short, while the short term concerns over the "cost of living crisis" may dampen near term share price performance, the long term outlook for our consumer discretionary exposures will prevail.

One shining light in the portfolio this month was our exposure to uranium via Paladin and Boss Energy, with the uranium price rising 20% to break through the US$70lbs level. We expand on this topic below.

The Fund's major exposure are to Healthcare, Consumer Discretionary, Energy (via Uranium), and IT.

Return Summary Since Inception (after fees)[2]

	MAAT	Small Ords
CYTD	-0.10%	-0.64%
FYTD	-1.70%	-1.94%
1 month	-4.69%	-4.04%
3 Month	-1.70%	-1.94%
6 Month	1.26%	-2.47%
1 Year	3.66%	6.85%
2 Years pa	-5.41%	-9.04%
Since Inception pa	-1.87%	-5.24%

Return Summary Since Inception (after fees)[2]

	MAIF	Small Ords
CYTD	0.94%	-0.64%
FYTD	-1.04%	-1.94%
1 month	-4.08%	-4.04%
3 Month	-1.04%	-1.94%
6 Month	2.07%	-2.47%
1 Year	4.54%	6.85%
2 Years pa	-4.69%	-9.04%
3 Years pa	5.89%	2.57%
4 Years pa	6.64%	1.06%
5 Years pa	9.12%	1.63%
7 Years pa	6.86%	4.31%
Since Inception pa	9.36%	5.29%

[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)

Uranium market outlook

The spot uranium price rallied strongly over the month, rising 20% to break through the US$70lbs level. There is a material projected supply deficit opening up in the industry and utilities' contracting activity has picked up. While estimates of this short fall vary, the most commonly quoted figure is 40Mlb pa. To put this figure into context, the existing supply of uranium from mining and secondary supply is approximately 140mlbs pa. In fact, right now uranium demand outstrips supply with this shortfall coming from the running down of existing utility inventory. This has seen inventory levels fall to unsustainably low levels.

The projected deficit is coming from both the supply and demand sides of the equation. From the supply side, the low uranium price over the past decade has stymied any development of new mines and seen many mines put under care and maintenance. The other supply issue is Russia, with increasing pressure building for Western Utilities to turn away from this source.

On the demand side, the growth is significant. Around the world, there is a growing realisation that renewables and energy storage solutions are not yet at a level to meet the base load requirements to allow the decommissioning of fossil fuel energy production. This is seeing a number of Governments turning to nuclear as a solution in their net zero emission plans. Right now, there are 59 new reactors in 15 countries actually under construction and a further 100 in 17 countries in advance planning. To put this into context the existing fleet of operating reactors worldwide is 436. In addition there are a number of financial entities that are purchasing spot uranium, further tightening the market.

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Of course, supply deficits only exist on paper, in the real world you cannot consume more than what actually exists. Therefore, this deficit will be resolved from a combination of demand destruction and supply responses, both of which can only come about from a higher uranium price. Most of the new supply coming on stream (including Paladin and Boss Energy) is coming from mine restarts with incentive pricing above US$60lbs required. Of course to generate new mines an even higher incentive price is required. Importantly, utilities' demand for uranium is highly price inelastic and uranium represents a miniscule cost in proportion to power plants' overall operating costs. This combined with a clear supply deficit is clearly a big positive for the outlook for the uranium price.

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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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