Monash ABSOLUTE INVESTMENT FUND

Monthly Performance Report

May 2018

Monthly Update

The portfolio increased 3.81% (after fees) for the month of May, during which the S&P/ASX200 rose 1.90% and the Small Ords rose 3.70%.

The portfolio remains relatively conservatively positioned, holding 28% in cash. Pleasingly, we had some of our larger positions do particularly well this month, resulting in a strong return for the portfolio.

The Financial Services Royal Commission continues to pressure bank shares, and the Fund has no exposure to them in the portfolio. On the other hand, the Fund has an exposure to Challenger (ASX:CGF +19% in May), which is not only seeing good growth in its business, but is becoming somewhat of a safe haven for fund managers as an exposure to financial services.

Return Summary Since Inception[1] (after all fees)

Since Inception (p.a.)	9.60%
1 Month	3.81%
3 Months	-2.16%
6 Months	-2.50%
FYTD	11.29%
1 Year	13.53%
3 Years	4.22%
5 Years	7.95%
Cumulative	71.94%

Monthly Portfolio Metrics

Outlook Stocks (Long)	17 Positions: 64%
Outlook Stocks (Short)	2 Positions: -5%
Event, Pair and Group (Long)	3 Positions: 13%
Event, Pair and Group (Short)	0 Positions: 0%
Cash	28%
Gross Exposure	82%
Net Exposure	72%
Beta	0.47

Portfolio Analytics Since Inception

Sharpe Ratio	0.79
Sortino Ratio	1.53
Standard Deviation (p.a.)	9.29%
Positive Months	63%
Maximum Drawdown	-15.21%
Avg. Gross Exposure	88.20%
Avg. Net Exposure	76.40%
Avg. Beta	0.57
Avg. VAR	1.20%

[1] Inception date is 2 July 2012

Other noteworthy positive contributors this month were:

Emeco (ASX: EHL) +27%: Emeco is Australia's largest lessor of heavy mining and construction equipment, such as dozers, diggers, trucks and graders. It is a highly cyclical industry, and right now the equipment rental market is in its positive phase. Excess inventory in the second hand market has dried up, the lead time to acquire new vehicles is extending beyond a year, and rental rates are rising.

Emeco as a stock is in its up phase too. New brokers' analysts are initiating coverage, and the analysts are progressively increasing their earnings forecasts and price targets.

Emeco's cashflow is rising strongly due to higher rates of asset utilisation and higher rental rates on those assets. It is on somewhat of a "capex holiday" because the age of its fleet is low, and it is putting that cash to good use – paying down its debt.

It has also been raising equity to enable what has become a rather rapid consolidation of its industry, resulting in cost synergies as well as increased pricing power. It has been raising equity to do so (not debt) which has made its gearing ratios improve quickly.

Emeco's latest acquisition occurred early in May. Matilda Equipment supplies late model, low hour mining equipment rentals. While Matilda has historically sold its equipment towards the end of its first major component life, Emeco can better take advantage of it by maintaining it through its own workshops and then place it back into its equipment hire fleet, to customers who do not require near new equipment. The stock responded positively to the capital raise and aacquisition.

Lovisa (ASX: LOV) +20%: Lovisa presented at a Sydney conference in early May, and later in the month conducted an investor day at its head office in Melbourne.

Lovisa is a retailer of fast fashion jewellery, such that it designs and has manufactured its own, branded, inventory. Because it is vertically integrated, unlike a third party retailer such as a department store or a JB Hi-Fi, its inventory does not face direct competition. Another strength is its cookie cutter approach to rolling out and managing stores, which allows its client facing staff to focus on sales.

As its overseas store roll out moves beyond beach heads, Lovisa is rerating. The expectation of an acceleration of the store roll-out is now driving the stock price. A much greater rate of growth in new stores has always been a key part of our investment thesis because of our focus on recurring business situations and and patterns of behaviour.

The key takeaways from it's investor day were that:

- Senior employees from across the business have the skills and experience to support and execute the Executive Team's plans.
- Lovisa has a competitive edge in its systematic approach to identifying early jewellery trends, focussing on "speed to market" and exiting the product once "late majority" has been achieved.
- It has relentless focus on unit and store economics. Floorplans are developed weekly, with about 50% of range altered in stores each week, while 15% is considered core.

- Management expects to launch an online store in the next 12 months but given the low Average Transaction Value of about $20, it is unlikely to be a meaningful contributor in the short term.
- They have expanded their global property team in order to accelerate the global rollout.

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