

Monthly Performance Report

July 2018

Monthly Update

The portfolio increased 3.35% (after fees) for the month of July, during which the S&P/ASX200 rose 1.39% and the Small Ords fell -1.01%.

July is typically a quiet month before the deluge of the August reporting season. Nevertheless, some of the stocks in the portfolio reported good news and rose strongly.

- EML Payments (ASX: EML) made two positive announcements and rose 18%. It won a large European gaming client and a large German mall operator.
- Nearmap (ASX: NEA) reported stronger than expected growth in the USA and rose 32%.
- Afterpay Touch Group (ASX: APT) was the biggest contributor rising 52% following its quarterly update. We discuss the reasons for the share price rise further below.

Monthly Portfolio Metrics

Outlook Stocks (Long)	19 Positions: 67%
Outlook Stocks (Short)	1 Positions: -3%
Event, Pair and Group (Long)	4 Positions: 12%
Event, Pair and Group (Short)	0 Positions: 0%
Cash	24%
Gross Exposure	81%
Net Exposure	76%
Beta	0.47

Return Summary Since Inception¹(after all fees)

Since Inception (p.a.)	9.91%
1 Month	3.35%
3 Months	7.23%
6 Months	-1.36%
FYTD	3.35%
1 Year	14.62%
3 Years	3.79%
5 Years	7.26%
Cumulative	77.62%

Portfolio Analytics Since Inception

Sharpe Ratio	0.83
Sortino Ratio	1.61
Standard Deviation (p.a.)	9.22%
Positive Months	63%
Maximum Drawdown	-15.21%
Avg. Gross Exposure	88.00%
Avg. Net Exposure	76.40%
Avg. Beta	0.57
Avg. VAR	1.20%

¹ Inception date is 2 July 2012

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Afterpay (ASX: APT)

Afterpay's share price increased 52% during the month and was a material contributor to the portfolio's performance. This dramatic increase in the share price was on the back of a very positive business update that showed that the Australian business continues to power ahead and critically the USA business is showing signs of replicating the Australian success. In the USA, only 6 weeks after launch, APT already has 200 retailers transacting on the platform and a further 200 contracts signed and awaiting implementation. \$11m of underlying sales have occurred in the first full month of operations there. To put this into context, it took APT 16 months to reach this level of cumulative sales in Australia.

Australian underlying sales through the platform reached \$2.18bn (up 289% on previous corresponding period (pcp) with 16,500 retailers (up 175% on pcp) now transacting, and 2.2 million customers (up 162% on pcp) having used the product. Momentum in the in-store offering is also building with 10,000 individual shopfronts now live. The rate of retailer and consumer adoption that APT has achieved is remarkable, with millennials in particular rapidly adopting the service. Importantly, the channel checks that we have conducted with retailers also paint a positive story, with all universally supportive of Afterpay. Retailers have told us that it has been good for business and that it creates a rare win-win scenario.

In addition to the business update, a few other share price drivers are in play. A large short interest had developed in APT peaking at nearly 10% of the share register largely on the back of regulatory concerns. We have looked extensively into this topic and concluded that these concerns are misplaced. While there have been examples of misuse of the APT platform these are isolated, particularly considering the massive volume of transactions going over the platform.

The business update has seen significant short covering with short interest now down to 4.4%. We also suspect that some buying has been driven by small cap managers for index purposes. Now that APT's market capitalisation has risen so much, it has a meaningful index weight and therefore long only small cap managers can no longer ignore it. The easiest call they can make is to neutralise their position and move to a benchmark weight, which leads them to buy the stock.

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