

# Monthly Performance Report

## January 2019

### Monthly Update

For the month of January, the portfolio was up by +8.00% (after fees) compared to the S&P/ASX200 up +3.87% and the Small Ords which was up +5.56%. Financial year to date the Fund is down -4.03% (after fees) compared to -3.23 and -7.89% respectively.

As we have noted for a number of months now, the stocks in the portfolio have generally been making positive announcements, with little bad news reported. The good news trend continues this month and resulted in quite a strong bounce back from December.

In [last month's update](#) we provided a detailed overview of our thinking on the macro picture affecting the equity market. In short, we acknowledged that economic growth is slowing, however the market had become unrealistically bearish.

### Monthly Portfolio Metrics

<b>Outlook Stocks (Long)</b>	21 Positions: 71%
<b>Outlook Stocks (Short)</b>	1 Positions: -2%
<b>Event, Pair and Group (Long)</b>	8 Positions: 33%
<b>Event, Pair and Group (Short)</b>	2 Positions: -9%
<b>Cash</b>	7%
<b>Gross Exposure</b>	116%
<b>Net Exposure</b>	93%
<b>Beta</b>	0.57

### Return Summary Since Inception<sup>1</sup>(after all fees)

<b>Since Inception (p.a.)</b>	7.90%
<b>1 Month</b>	8.00%
<b>3 Months</b>	-1.08%
<b>6 Months</b>	-7.13%
<b>FYTD</b>	-4.03%
<b>1 Year</b>	-8.40%
<b>3 Years</b>	-0.95%
<b>5 Years</b>	3.39%
<b>Cumulative</b>	64.94%

### Portfolio Analytics Since Inception<sup>2</sup>

<b>Sharpe Ratio</b>	0.56
<b>Sortino Ratio</b>	0.99
<b>Standard Deviation (p.a.)</b>	10.26%
<b>Positive Months</b>	59%
<b>Maximum Drawdown</b>	-15.21%
<b>Avg. Gross Exposure</b>	88.8%
<b>Avg. Net Exposure</b>	76.80%
<b>Avg. Beta</b>	0.57
<b>Avg. VAR</b>	1.20%

<sup>1</sup> Inception date is 2 July 2012. Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

<sup>2</sup>Glossary of terms can be found on the Fund's website at [www.monashinvestors.com/glossary/](http://www.monashinvestors.com/glossary/)

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This month we have seen the US Federal Reserve make numerous dovish comments and all but placed further interest rate increases on hold. Both sides of the US and China trade negotiations have been making positive comments on the prospects of a deal.

The Australian housing market appears to be adjusting as expected to the tighter credit conditions and the recent relaxation of the regulations imposed by APRA on investors loans are a positive. The changes to come out of the Banking Royal Commission are yet to be announced; but once again we would stress that both the underlying demand and supply of housing in Australia is not a concern and all that needs to happen is for the market to adjust to the new requirements for credit. The UK BREXIT negotiations remain a concern and something we are monitoring closely, but would note that we have no exposures in the portfolio that have any meaningful leverage to the UK economy.

Many stocks made a positive contribution but the most notable were Nearmap (ASX: NEA) and Afterpay Touch (ASX: APT) and a stock that we had previously held returned to the portfolio this month: Kogan (ASX: KGN).

**Nearmap (ASX: NEA)** rose 41% in January following the release of preliminary results for the half<sup>3</sup>.

Nearmap provides online photomaps. It is a software as a service business model (SaaS) for business and government. Its key growth metric is Annualised Contract Value (ACV). In Australia ACV rose 23% and in the USA 107%. The total ACV growth for the company was 42%, which is well ahead of analysts expected sales growth rates, which have generally been in the mid 20%'s.

It did not release much further detail, and we will have to await a full set of half-year accounts on 20 February for more information.

We have traded our holdings in Nearmap somewhat this financial year. We first built a significant position in July at \$1.13. As it rose, we sold some, finally halving our position to a 2.5% portfolio weight in early October at \$1.67. It came off fairly sharply during that month, and we were able to buy it back to a 4% weight at \$1.33 in late October.

We have once again taken advantage of its price rise to sell stock, moving back from a 5% weight, to a 2% weight at around \$2 in January. It closed the month at \$2.12.

We have always had a firm price target for what the company should be worth if it all works out, it is still well below that. It begs the question, why did we sell any, at any time in the last six months? Because, once again, in the near term it looks extremely expensive. It is currently trading on a P/E ratio for FY 2021 of 51x based on analyst forecasts.

Even if everything works out for NEA its share price is not going to go up in a straight line, and we think it's prudent to cut back. If history is any guide, we will get another chance to buy stock at lower levels.

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<sup>3</sup> <https://www.asx.com.au/asxpdf/20190110/pdf/441s7cdkfbqbc.pdf>

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**Afterpay Touch (ASX: APT)** rose 28% in January following an end of a first half preliminary update<sup>4</sup>.

By now Afterpay is a stock that does not need an introduction, with over 2.5m customers and 21,500 retailers having transacted with them in Australia and New Zealand over the last 12 months.

The update showed that it is continuing to positively surprise the market with its rate of growth here and in the USA. Total underlying sales were up 140% for the half. At the same time, its net transaction losses have fallen to the bottom end of their expected range (0.6% - 1.0%) and the proportion of its revenue that is attributable to late fees has fallen from about 30% to about 20%. This showed how the business is improving its quality as it is maturing, and reduces the risk of regulatory interference.

APT remains one of our larger portfolio holdings with a weight of 7%.

**Kogan (ASX: KGN)** rose 26% this month but we did not hold it for much of that rise.

We have discussed Kogan quite a lot in our monthly reports and we have even done a presentation on it. It is an extremely well managed internet based retailer that has grown its sales and margins strongly over the last several years. It listed about 2 and a half years ago.

We have made money from both owning Kogan and shorting Kogan. As we entered January we had no position either way as we were waiting to see how the effects of the late 2018 consumer slow down played out for Kogan. Kogan had also been suffering from the lingering effects of the change in GST collection on overseas purchases, and the sell down by management. As a result we viewed the stock price as particularly cheap, given the level of profits we expect it to earn over the medium to longer term, but were cautious on re-entering until we knew where the business would find a base.

We found that out in January, when it too had a business update<sup>5</sup>. In a nutshell it is back on track and we bought back in. We got to about a 3% weighting at \$4.20, which is around the current price level. Based on analyst forecasts, it's trading on a P/E of 18.5x for FY 2020, falling to a P/E of 15x for 2021.

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<sup>4</sup> <https://www.asx.com.au/asxpdf/20190118/pdf/441ykd4b04mwlw.pdf>

<sup>5</sup> <https://www.asx.com.au/asxpdf/20190117/pdf/441xjyf2cfzjp6.pdf>

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