Monash ABSOLUTE INVESTMENT FUND

Monthly Performance Report

May 2019

Monthly Update

For the month of May, the portfolio was up by 1.68% (after fees) compared to the S&P/ASX200 up 1.17% and the Small Ords which was down -1.25%.

Stocks with high rates of fully franked dividends, such as banks, responded strongly to the result of the federal election. As a result, the large cap stocks tended to jump in price relative to small cap stocks.

Despite the lack of bank stocks in the portfolio, the Fund had a good month, too. Two of the Outlook stocks had positive announcements during the month, with Electro Optic Systems (ASX: EOS) up 40% and EML Payments (ASX: EML) up 34%.

It continues to be a strong start to the calendar year with the portfolio up 23.46% (after fees) compared to up 15.46% and up 15.75% for the two indices, respectively.

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

Since Inception (p.a.)	9.61%
1 Month	1.68%
3 Months	10.46%
6 Months	13.50%
FYTD	9.71%
1 Year	9.67%
3 Years	2.30%
5 Years	5.06%
Cumulative	88.55%

Monthly Portfolio Metrics

Outlook Stocks (Long)	22 Positions: 81%
Outlook Stocks (Short)	1 Positions: -3%
Event, Pair and Group (Long)	2 Positions: 8%
Event, Pair and Group (Short)	0 Positions: 0%
Cash	14%
Gross Exposure	92%
Net Exposure	86%
Beta	0.57

Portfolio Analytics Since Inception[2]

Sharpe Ratio	0.70
Sortino Ratio	1.31
Standard Deviation (p.a.)	10.30%
Positive Months	61%
Maximum Drawdown	-15.21%
Avg. Gross Exposure	89.30%
Avg. Net Exposure	77.30%
Avg. Beta	0.57
Avg. VAR	1.20%

[1] Inception date is 2 July 2012. Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

[2]Glossary of terms can be found on the Fund's website at www.monashinvestors.com/glossary/

Monash
ABSOLUTE INVESTMENT FUND

Monthly Performance Report

May 2019

This was a busy month for EML payments, one of the larger holdings in the portfolio, and we discuss these developments in detail below.

EML Payments (EML: ASX)

In the last two weeks, EML has made two significant announcements - the acquisition of Flex-e-Card[3], and a multi-year contract with Smartgroup[4]. Each of these announcements is significant in its own right.

Collectively they add $9m to EBITDA[5] over time, which is material given management's guidance of $27-28m for this year, FY19. While EML is yet to provide guidance for FY20, prior to these announcements EBITDA in the range of $34m would have been about right, given the number of programs still maturing in EML's portfolio, the strong organic growth in these programs, and of course, the significant fixed cost leverage in the business. Following these announcements, FY20 EBITDA in the range of $40m is expected, representing over 40% growth in EBITDA from the previous year.

The acquisition of Flex-e-Card solidifies EML's market dominance in the shopping mall gift card market in Europe. Post this acquisition, EML will provide shopping mall gift card programs in over 800 malls globally. This acquisition adds $4m initially in EBITDA and is being cash funded. This will grow once EML becomes the issuer of the card programs, in addition to strong organic growth in this market. In Europe, there are still significant numbers of malls that use paper based gift programs. There is also an increasing trend for corporates offering staff rewards in the form of mall gift cards. This industry vertical dominates EML's earnings, and while it doesn't get the same attention as EML's other opportunities, the earnings potential remains underappreciated by the market.

The eight year contract with Smartgroup to provide branded General Purpose Reloadable card programs for the payout of Salary Packaging benefits, sees EML now dominate the Salary Packaging market in Australia. Management has indicated that once the program is operational it will add around $6m at the midpoint of guidance in revenues. With a gross margin of 85% and minimal additional costs, the EBITDA from this contract will likely be around $5m.

The strength of EML's business offering is its ability to tailor its products to meet the needs of its customers. It is more than a payment processing company. It is for this reason that once EML gains a foothold in an industry, by solving an inherent problem / service enhancement, it tends to move on to dominate that industry. Examples of this included card based gift cards in Australia and now Europe, sport betting in Australia, and the Salary Packaging industry in Australia.

Right now, it has a major foothold in the sports betting markets in UK/Europe and has made a strong start in the emerging sport betting market in the USA. Given EML's impressive track record of becoming a must have partner once they demonstrate their product offers to an industry, and given the scale of these industries, this should see EML continue to achieve impressive earnings growth. EML also generates significant free cash flow, and we would expect the commencement of dividend payments.

---

[3] https://www.asx.com.au/asxpdf/20190520/pdf/4456ltjts3dfc3.pdf

[4] https://www.asx.com.au/asxpdf/20190523/pdf/445b0h3k9ww2np.pdf

[5] EBITDA is earnings before interest, tax depreciation and amortisation and is a measure of a company's operating performance.

Monash
ABSOLUTE INVESTMENT FUND

Monthly Performance Report

May 2019

For all business development enquiries, please contact
Winston Capital Partners (Acting on behalf of Monash Investors)

Andrew Fairweather	P: +61 401 716 043 Andrew&winstoncapital.com.au
Stephen Robertson	P: +61 418 387 427 stephen@winstoncapital.com.au

For all investors enquiries, please contact

Link Fund Solutions Pty Limited (Acting on behalf of the Fund)
+612 9547 4311
LFS_resgistry@linkgroup.com