Monthly Performance Report

June 2020

Monthly Update

For the month of June the portfolio was down -4.70 % (after fees). This compares to the S&P/ASX200, which was up by 2.61%, and the Small Ords, which was down -1.95%.

A number of the stocks that recovered so strongly for us over the last couple of months had a pull back, as many of the larger cap laggards continued their modest recovery.

The portfolio rose by 6.02% (after fees) for the 12 months to 30 June, compared to the S&P/ASX200, which was down by -7.68%, and the Small Ords which was down by -5.67%.

Thus ends another financial year. Looking back, we can see that we experienced a once in a cycle event. With some satisfaction and relief, we can say that our investment philosophy performed well during this crisis.

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

Since Inception (p.a.)	9.20%
1 Month	-4.70%
3 Months	30.79%
6 Months	-3.37%
FYTD	6.02%
1 Year	6.02%
3 Years	9.38%
5 Years	6.28%
Cumulative	102.17%

Monthly Portfolio Metrics

Outlook Stocks (Long)	23 Positions: 80%
Outlook Stocks (Short)	1 Positions: -2%
Event, Pair and Group (Long)	2 Positions: 10%
Event, Pair and Group (Short)	1 Positions: -2%
Cash	14%
Gross Exposure	91%
Net Exposure	86%

Portfolio Analytics Since Inception[2]

Sharpe Ratio	0.46
Sortino Ratio	0.76
Standard Deviation (p.a.)	15.65%
Positive Months	62%
Maximum Drawdown	-29.10%
Avg. Gross Exposure	90.10%
Avg. Net Exposure	78.40%
Avg. Beta	0.59
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/

Some would say it's not over, and in an economic sense that is true. However, we expect that like all other crashes of recent decades, the impact on the financial markets going forward will be more like fading ripples compared to the initial shock.

Looking back at previous crashes, they had been occurring every 6-8 years.

Over my life major equity crashes/corrections worth highlighting have been the following:

- 1974 Oil Shock (strong)
- 1982 Bear Market (weak)
- 1987 Crash of '87 (strong)
- 1994 Bond Market Crisis (weak)
- 2000 Tech Wreck (strong)
- 2008 Global Financial Crisis (strong)
- 2020 COVID-19 (weak)

The GFC was unusual because up to that point a weak crash followed a strong crash. Or to rationalise it, after a strong crash it takes some time for governments, corporates and investors to be incautious enough to create the conditions where another big crash can occur. As a result, I expected that following two big crashes, at worst we would have a weak crash in the mid 2010's, if any. Subsequently, having "skipped" the mid 2010s crash, we only had a weak crash in 2020. If history is a guide to the future, we can expect a strong crash in the later half of this decade.

Which brings us to the latest drama. The COVID-19 Crash was relatively shallow and quick as major crashes go. But from an investment point of view, there are some lasting effects. It has accelerated the penetration of on-line shopping and remote working, to the detriment of shopping centres and office property. There may be only a medium term impact on leisure travel, but there is likely to be a permanent impact on corporate travel, with the widespread acceptance of video communication and what constitutes "essential travel."

Something else to consider for the future is the limits to the dovish trend in behaviour by central bankers and governments over time, which has crept up on us slowly, but is now reaching extremes. Note also that bearish commentators are often so gloomy because they ignore the positive impact of government/regulatory action when making their dire predictions.

So, using Australia as an example, let's give a thought to how this regulatory behaviour came about, where it's likely heading, and its implications.

"Courageous" Decisions[3]

[3] Yes Minister Episode Six
Sir Humphrey: If you want to be really sure that the Minister doesn't accept it, you must say the decision is "courageous".

Early 70s: Gough Whitlam "Crash through or crash"

Early 80s: Malcom Fraser "Life wasn't meant to be easy"

Early 90s: Paul Keating "The recession we had to have"

<u>Politicians learnt to outsource the tough decisions</u>

Mid 90s: RBA interest rate decisions become independent of government

<u>Career public servants learned not to be so brave either</u>

1995-2008: RBA cash rate fluctuates from 7.50% to 4.25% to 7.25%

2008-2020: RBA cash rate falls from 7.25% to 0.25%

2020: RBA purchases government bonds in the secondary market (quantitative easing)

Now, we can't get much more dovish than quantitative easing. In essence, the government issues bonds and the RBA ends up buying them. The great fear was that "printing money" like this would lead to inflation. Except in the USA and Europe where it has been done since the GFC, it hasn't. Similarly, since 1997 Japan engaged in quantitative easing without inflationary effects. Fiscal stimulus remains a potential inflationary catalyst, but bizarre as it is the RBA could one day write off the debt and the money may never need to be paid back.

So where does that leave us. With this crash out of the way, and its effect of making corporates, government and investors more cautious, paradoxically it is now safer to invest in the share market. We will likely have clear(ish) air to the next crash, which will be due in 6-8 years.

The market has stabilised, and we are back to situation normal. The extreme situation that caused us to consider top down impacts on our holdings has passed. Our bottom up approach to investing once again dominates. Some businesses do very well and others poorly, most reside in that great mass in the middle. Our job is to keep finding stocks that we can own or short, so that we can deliver good returns to our investors.

Bernard: And that's worse than "controversial"?
Sir Humphrey: Oh, yes! "Controversial" only means "this will lose you votes". "Courageous" means "this will lose you the election"!

Monash
ABSOLUTE INVESTMENT FUND

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