Monash ABSOLUTE INVESTMENT FUND

Monthly Performance Report

March 2019

Monthly Update

For the month of March, the portfolio was up by 2.21% (after fees) compared to the S&P/ASX200 up 0.73% and the Small Ords which was down 0.12%. It's been a strong start to the calendar year with the portfolio up 14.24% (after fees) compared to up 10.89% and up 12.59% for the two indices respectively.

The Fund had strong performances from a range of stocks, namely Afterpay (ASX: APT), EML Payments (ASX: EML), Nearmap (ASX: NEA), and MNF Group (ASX: MNF). All of these stocks had gains ranging between 8% and 13%, largely due to the market's continued positive reaction to their recently reported results.

However, the key positive contributor was once again Leigh Creek (ASX: LCK) which rallied 52% during the month. We discussed LCK in the previous Monthly Update. However, it warrants further discussion given that it remains vastly undervalued by the market, and its share price is likely to be volatile.

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

Since Inception (p.a.)	8.61 %
1 Month	2.21%
3 Months	14.24%
6 Months	-1.36%
FYTD	1.52%
1 Year	0.87%
3 Years	1.10%
5 Years	3.07%
Cumulative	74.48%

Monthly Portfolio Metrics

Outlook Stocks (Long)	21 Positions: 87%
Outlook Stocks (Short)	1 Positions: -3%
Event, Pair and Group (Long)	3 Positions: 13%
Event, Pair and Group (Short)	1 Positions: 0%
Cash	3%
Gross Exposure	103%
Net Exposure	97%
Beta	0.57

Portfolio Analytics Since Inception[2]

Sharpe Ratio	0.63
Sortino Ratio	1.12
Standard Deviation (p.a.)	10.20%
Positive Months	60%
Maximum Drawdown	-15.21%
Avg. Gross Exposure	89.20%
Avg. Net Exposure	77.10%
Avg. Beta	0.58
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/

<u>Leigh Creek (ASX: LCK)</u>

The big news for LCK this month was that it received its maiden 2P reserve certification[3]. This is hugely important, as this certification is "bankable" and thus will allow the project to move into the commercialisation phase. LCK's initial 2P reserve certification is 1,153 PJ, which makes it the largest uncontracted 2P gas reserve in the East Coast Gas market. It is initial because the reserve only accounts for 1 of the 3 coal seams in LCK's Petroleum Exploration License 650. As such, LCK's 2P reserves will increase significantly over time.

So what does all of this mean? The first point is that this is a very large 2P reserve. The 2 charts below put it into context. It is the 7th largest in the East Coast market held by any company, with all of the 6 larger 2P reserves contracted to LNG export. The 2P in the Telford Basin (100% owned by LCK) is similar in size to the current 2P reserves in the Copper Basin and is larger than the Otway, Bass, Gunnedah, Clarence-Moreton, Sydney and Galilee Basins combined. It truly is a very large gas reserve, and obviously very material to the LCK share price.

LCK has a number of options for the commercialisation of the project: 1) sale of synthetic natural gas via a pipeline into the Australian East Coast market; 2) manufacturing ammonia-based fertilizer product (Urea); or 3) a combination of both as the reserve is so large it can easily do both.

LCK does not have the balance sheet to develop this asset on its own. This will be resolved through a Joint Venture / Farm-in Partner together with some modest capital raisings along the way. LCK has confirmed that it is in active discussions with both financial and strategic partners to execute these strategies. There are many moving parts in all of this, which makes deriving a definitive valuation problematic. What will the syngas transfer price into the Joint Venture be? What will the LCK ownership of the Joint Venture be? These two issues are interrelated. Which of the three options will LCK take? What is the timing etc…? However, any way you cut it, our analysis shows that LCK remains vastly undervalued by the market.

It is estimated that LCK can produce syngas at a cost of \$1/GJ. This is the feedstock that is used to produce Urea fertiliser, or it can be processed into pipeline quality gas at a further cost of \$4-5/GJ. As a point of comparison, pipeline quality natural gas is currently sold for around \$10/GJ in Australia.

The production of Urea is particularly attractive as an option because the cost of the feedstock is so low, and it doesn't need to be further modified. This compares to the more usual process for Urea production, which takes expensive pipeline quality natural gas and converts it into Urea feedstock gas. We would also note that Australia imports almost all of its Urea, and from an environmental perspective, there is an arguable positive, as it will see LCK convert coal into fertiliser

Whether LCK ultimately produces Urea or pipeline quality natural gas, the cost of production is so low that it will generate very attractive rates of return regardless of which option is chosen. It will come down to the negotiations with the various potential partners, which places LCK in a strong position as it has the 2P reserves that everyone needs.

[3] https://www.asx.com.au/asxpdf/20190327/pdf/443t28kl9nsvhw.pdf

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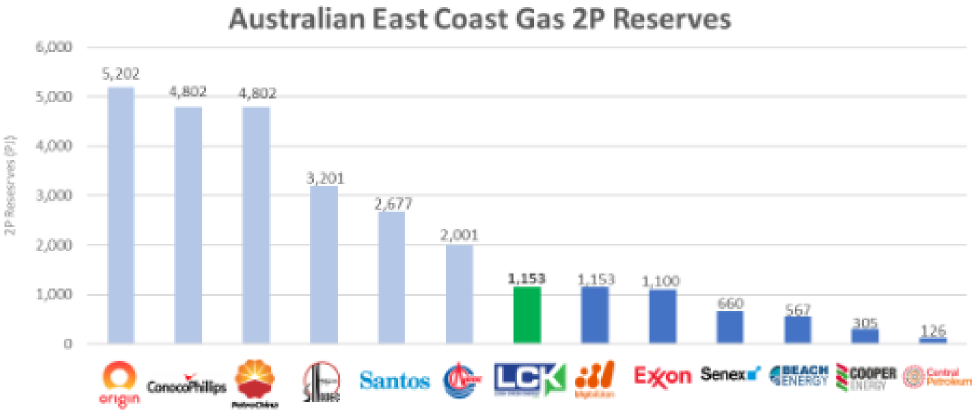
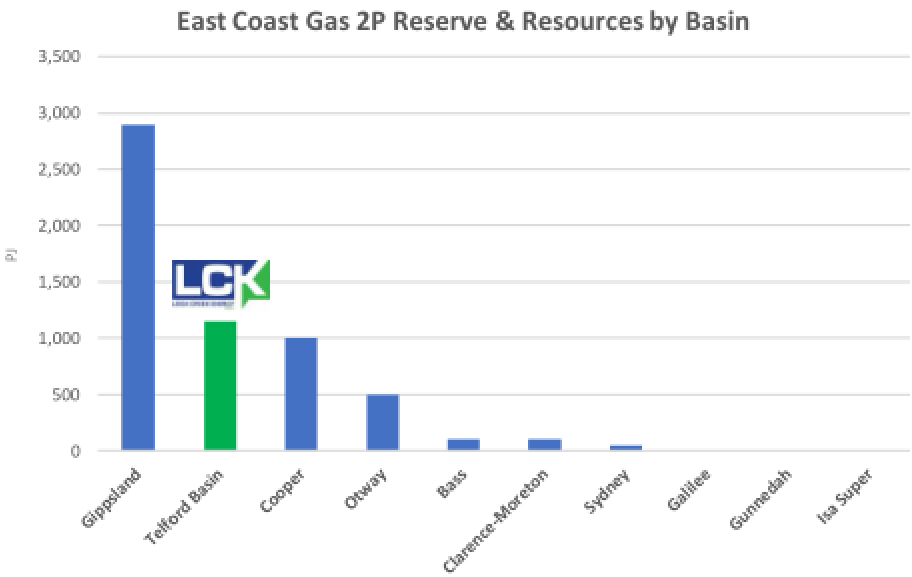


Source: Australian Energy Regulator 2018

NB: Light blue colour denotes that gas reserves for Origin Energy, ConocoPhillips, PetroChina, Sinopec, SANTOS and CNOCC are contracted to LNG export projects



Quantity of reserves (PJ) and resources (PJ) in the East Coast Gas Market as of June 2018. Excludes Surat and Bowen Basins.

Source: [1] Australian Consumer and Competition Commission - Gas inquiry, 2017–2020, Interim report, December 2018 (data obtained from gas producers)

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