Monthly Performance Report

April 2019

Monthly Update

For the month of April, the portfolio was up by 6.28% (after fees) compared to the S&P/ASX200 up 2.37% and the Small Ords which was up 4.11%. It continues to be a strong start to the calendar year with the portfolio up 21.41% (after fees) compared to up 13.51% and up 17.22% for the two indices respectively.

In general, the portfolio stocks' businesses continue to progress well, and the portfolio has not suffered any significant set backs on the Fund stocks this year.

In particular, it has been the higher growth stocks such as Afterpay (ASX: APT), EML Payments (ASX: EML) Kogan (ASX: KGN), Lovisa (ASX: LOV) and Nearmap (ASX: NEA) that have driven the recent good numbers.

In this month's update we revisit Kogan, which performed strongly following its quarterly sales announcement. It is a stock that the Fund has been variously long or short at times, and has made money in both directions.

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

Since Inception (p.a.)	9.46 %
1 Month	6.28%
3 Months	12.42%
6 Months	11.21%
FYTD	7.90%
1 Year	11.95%
3 Years	2.53%
5 Years	4.59%
Cumulative	85.43%

Monthly Portfolio Metrics

Outlook Stocks (Long)	22 Positions: 83%
Outlook Stocks (Short)	1 Positions: -2%
Event, Pair and Group (Long)	3 Positions: 11%
Event, Pair and Group (Short)	0 Positions: 0%
Cash	8%
Gross Exposure	97%
Net Exposure	92%
Beta	0.57

Portfolio Analytics Since Inception[2]

Sharpe Ratio	0.70
Sortino Ratio	1.28
Standard Deviation (p.a.)	10.36%
Positive Months	61%
Maximum Drawdown	-15.21%
Avg. Gross Exposure	89.20%
Avg. Net Exposure	77.10%
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

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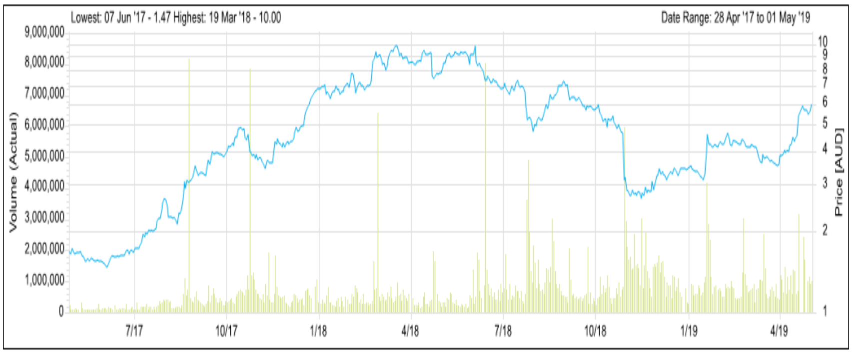
Kogan.com Limited (ASX: KGN)

Kogan is Australia's largest internet-only retailer, with 1,589,000 customers active in the last 12 months, up 23% from a year ago[3]. As the chart[4] shows, there has been a relentless growth in customers over time.

It has a growing number of "Verticals." It is not just a retailer of its own private label goods and those of third parties. It also sells for third party retailers on a commission basis through its marketplace service, and it sells services such as mobiles, travel and insurance on a commission basis too.

It continues to add initiatives/verticals such as Kogan Energy Compare (an initial entry into the utilities market), Kogan Cars (to allow customers to secure cars from dealers across Australia) and Kogan First (free shipping for members).

Despite the steady growth in its customer numbers, the Kogan share price has been far from steady. In the last 2 years it's gone from less than $2 to more than $10. As recently as November it was down to $3 again and now 5 months later, it has doubled to almost $6. doubled to almost $6.



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[3] April 2019 business update https://www.asx.com.au/asxpdf/20190418/pdf/444dyb0fj7kmm4.pdf

[4] 1 HFY19 Results Presentation https://www.asx.com.au/asxpdf/20190222/pdf/442vvcwj7km8p3.pdf

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Kogan has been a great case study in the stock market over emphasising short term trends, and passing extreme verdicts. A nimble investor that is able to look through such noise and pick sensible entry and exit points, can do well from the volatility.

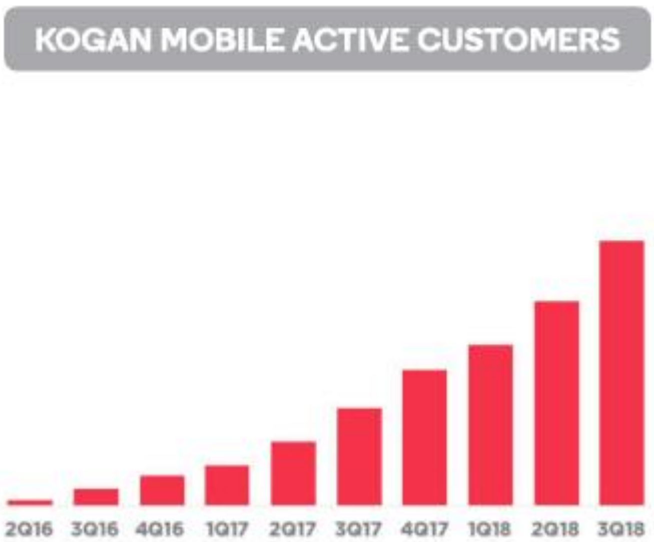
The most recent rally in the Kogan share price is a recovery from

(i) a badly handled series of sell downs by its founders,
(ii) a short term concern for the Australian retail outlook that existed towards the end of 2018,
(iii) the impact of changes to the way the Australian government collected GST on overseas sourced purchases, and
(iv) short term cycles in the business from mobile phone plan promotions

As a result of all of the above the market had become quite pessimistic on the outlook for its earnings, with analyst consensus forecasting no growth in profit for FY19.

On the other hand, our detailed modelling of the Kogan business led us to forecast that it was very unlikely that the business could possibly have flat earnings, and that there was good reason to believe that despite a weak December half (the six months to December 2018) its FY19 growth should be back on track.

In particular, the pattern of its mobile phone plan promotions gave us cause for optimism. Despite a steady rise in customers, the growth in Kogan mobile phone gross profit typically appears to stall on a quarter-by-quarter basis every second quarter. See the Kogan mobile charts below.



Normally this has little impact on the overall business because of strong growth in other Verticals. But for the final quarter of Calendar 2019 there was no offsetting growth because of the changed GST rules washing through.

Now, the reason why we see this pattern in the mobile phone gross profit is because Kogan alternates between promoting short term plans (30-90 day plans) and long term plans (365 day plans). It may well sell the same number of plans each time, but it makes a lot more money in a quarter where it sells a 365 day plan, than when it sells a 90 day plan.

This is because the plans are paid for by customers in advance and Kogan gets paid its commission when the customer pays. The commission Kogan makes on a 365 day plan is much greater than the commission that it gets paid for selling a single 90 day plan. It is true that Kogan will also get paid additional commission if the plan is renewed, but that is revenue it earns over time, not in the quarter when the initial plan is sold. This gives rise to the gross profit pattern seen in the chart.

As a result of the resumption of the 365 day promotions in the New Year, the result to 30 March 2019 was much stronger. Overall for Kogan, 9 month EBITDA was 15% higher than the prior corresponding period[5]. This led to consensus earnings increasing by about 20%. This flowed on to an exaggerated move in the share price which benefitted not just from the earnings upgrades, but from a re-rating. Over the month the stock price jumped 58%.

Based on our analysis, the portfolio was well positioned for this positive surprise, with a 5% portfolio weight heading into the quarterly sales announcement. The Fund has since reduced its holdings somewhat.

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[5] April 2019 business update https://www.asx.com.au/asxpdf/20190418/pdf/444dyb0fj7kmm4.pdf