Monthly Performance Report

November 2019

Monthly Update

For the month of November, the portfolio was up 0.10% (after fees) compared to the S&P/ASX200 up 3.28% and the Small Ords which was up 1.56%.

Financial year 2020 has been going well. For the five months since 30 June, the portfolio is up 9.84% (after fees) compared to the S&P/ASX 200 up 5.34% and the Small Ords, which was up 4.19% Overall the portfolio was essentially flat this month. There was little strong news flow either way, but for these two items.

On the negative side Leigh Creek (ASX: LCK) fell 28% as yet another month went by without the announcement of a project development partner for its large South Australian gas reserve, and a near term capital raising became more likely[i]. On the positive side EML Payments (ASX: EML) rose 20% following an acquisition which saw 25% increase in EPS[ii] on a proforma basis, post cost synergies. It also announced a large new client in the USA, Simon Mall Group[iii].

Monthly Portfolio Metrics

Outlook Stocks (Long)	20 Positions: 82%
Outlook Stocks (Short)	1 Positions: -3%
Event, Pair and Group (Long)	5 Positions: 14%
Event, Pair and Group (Short)	0 Positions: 0%
Cash	7%
Gross Exposure	98%
Net Exposure	93%
Beta	0.58

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

Since Inception (p.a.)	10.49%
1 Month	0.10%
3 Months	3.97%
6 Months	11.08%
FYTD	9.84%
1 Year	26.08%
3 Years	8.44%
5 Years	7.71%
Cumulative	109.45%

Portfolio Analytics Since Inception[2]

Sharpe Ratio	0.82
Sortino Ratio	1.52
Standard Deviation (p.a.)	10.20%
Positive Months	63%
Maximum Drawdown	-15.21%
Avg. Gross Exposure	89.70%
Avg. Net Exposure	78.01%
Avg. Beta	0.57
Avg. VAR	1.18%

[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/

Monthly Performance Report

November 2019

This month we have a short piece on one of the larger holdings in the portfolio Electro Optic Systems (ASX: EOS).

Electro Optic Systems (ASX: EOS) – Winning the arms race

EOS uses lasers to track satellites in space and to target enemy vehicles on the battlefield. It might sound like science fiction but it has $250m of sales and $36m of EBIT[iv] locked in for next year, with sales growing at 40%, and EBIT 50% the following year. It has no debt. At a PE[v] of 20x for FY21, surging earnings and positive announcements to come, EOS is our number 1 pick for 2020.

It operates in three divisions, only one of which is currently being valued by the market. Let's start with that one.

Defence

These remote weapon systems sit on top of vehicles and are armed with machine guns, canons and missiles. The division has an order backlog of more than $600m and tender submissions worth more than $2.5b with existing customers[vi]. There is no competitor system as cheap, light or effective, so they have had a 100% tender win rate. We expect the tender pipeline to strengthen strongly in the near term due to the need of the West to stay ahead of Chinese and Russian technology, and the emerging threat from drones.

Space

EOS makes more than 15,000 space tracks each week. Their infrastructure is much cheaper to build and operate than the established global radar networks. It is also developing lasers to manoeuvre space debris in orbit. The main opportunity is military, with management estimating the potential market at $2b of the next 10 years. This division currently operates close to break even.

Communications

EOS has now completed several technology breakthroughs required for next-generation space communications. EOS has invested around $250 million over 9 years, including around $50 million of contributions from government partners in the USA and Australia. Their laser technology provides the equivalent bandwidth of optical fibre to satellites, which is 20 times the maximum bandwidth achievable with the micro-wave technology exclusively in use to-day.

EOS has formed a Communications division by merging its space communications assets with EM Solutions, which provides mobile microwave satellite communications, as a way of introducing its new laser based technology to the communications market. This new division is already EBIT positive.

Conclusion

While we expect that the stock price will climb in 2020 on contract wins from the Defence division, we believe that the Space and Communications divisions will ultimately be worth more than the current value of the company.

It's products might look like they are straight out of a movie, however they are improving our standard of living, and it's a great company visit. Most importantly, it has been a good investment for us. We first bought the stock in February 2018 at $2.90, it closed November 2019 at $6.

Monash
ABSOLUTE INVESTMENT FUND

Monthly Performance Report

November 2019

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

SA, NT and WA Advisers	Andrew Fairweather	P: +61 401 716 043 andrew@winstoncapital.com.au
QLD, NSW and ACT Advisers	Stephen Robertson Cameron Harris	P: +61 418 387 427 stephen@winstoncapital.com.au P: +61 400 248 435 cameron@winstoncapital.com.au
VIC and TAS Advisers	Chris Niall	P: +61 419 011 628 chris@winstoncapital.com.au

For all investors enquiries, please contact

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

[i] https://www.asx.com.au/asxpdf/20191121/pdf/44bskk6k7sg765.pdf
[ii] EPS is earnings per share
[iii] https://www.asx.com.au/asxpdf/20191129/pdf/44c3vzmhb7svl3.pdf
[iv] EBIT is earnings before interest and taxes
[v] PE is the price-earnings ratio
[vi] https://www.asx.com.au/asxpdf/20191121/pdf/44bsjn46hykwgl.pdf