Monash ABSOLUTE INVESTMENT FUND

Monthly Performance Report

January 2020

Monthly Update

For the month of January, the portfolio was up 4.20% (after fees) compared to the S&P/ASX200 up 4.98% and the Small Ords, which was up 3.38%.

Financial year 2020 has been going well. For the seven months since 30 June, the portfolio is up 14.32% (after fees) compared to the S&P/ASX 200 up 8.20% and the Small Ords, which was up 7.40%.

Over the last year, the portfolio has benefitted from holding companies that are not just growing strongly, but are also meeting or exceeding the market's expectations for their growth. On the other hand, we have generally avoided companies that have missed their growth expectations. Heading towards the February reporting season, a number of companies had January "confessions" to make. While the portfolio generally avoided the disappointers and was the beneficiary of good news, we were on the wrong side of one announcement.

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

Since Inception (p.a.)	10.83%
1 Month	4.20%
3 Months	4.19%
6 Months	9.06%
FYTD	14.32%
1 Year	32.17%
3 Years	11.26%
5 Years	8.12%
Cumulative	118.01%

Monthly Portfolio Metrics

Outlook Stocks (Long)	19 Positions: 75%
Outlook Stocks (Short)	2 Positions: -5%
Event, Pair and Group (Long)	3 Positions: 12%
Event, Pair and Group (Short)	0 Positions: 0%
Cash	18%
Gross Exposure	92%
Net Exposure	82%
Beta	0.58

Portfolio Analytics Since Inception[2]

Sharpe Ratio	0.86
Sortino Ratio	1.60
Standard Deviation (p.a.)	10.15%
Positive Months	63%
Maximum Drawdown	-15.21%
Avg. Gross Exposure	89.80%
Avg. Net Exposure	78.30%
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/

Winners

Electro Optic Systems (ASX: EOS) +42%

In previous monthly updates, we wrote at length on EOS. Recently, we were so bold as to include it as our contribution to Livewire's series 'One thing investors can't ignore in 2020'. We were the only fund manager to contribute a stock – the others made non-stock specific observations about threats and opportunities in 2020.

EOS has rewarded our confidence early, making two significant announcements in January. The first confirmed the progress of its US business[i], which is entering into a Special Security Arrangement with the US Department of Defence to permit it to undertake classified contracts in the US. The second was the acquisition of a microwave communications business, a step in ultimately migrating EOS's space communications customers to laser broadband[ii].

Afterpay (ASX: APT) +32%

Afterpay continues to attract enormous media interest, which is to be expected from a company that has in the last 5 years invented the "Buy Now Pay Later" category, been used by 17% of the Australian purchasing population, has 3 million active customers here, and another 3 million combined in the USA & UK.

Market scepticism is falling away, because Afterpay is continuing to execute successfully on this global opportunity, APT's share price re-rated in January, ahead of its earnings announcement to come in February.

Losers

As noted earlier, its been unusual for us to be on the wrong side of trading updates over the last year. In January however, we did suffer one, and narrowly avoided another.

Nearmap (ASX: NEA) -33%

NEA sold off hard on a downgrade[iii]. Elevated churn in the US and slowdown in Australia were the key concerns. They also disclosed a number of "one-off" issues – which is common occurrence when a company is looking to make excuses for a poor result, but taken in their stride if things are going well.

Fortunately, we had completely sold out ahead of this announcement. Our sell down was initially triggered by observing a significant rise in the amount of NEA short sold, which we use as an early warning flag. We completed our sell down following additional analysis that reduced our confidence further.

Kogan (ASX: KGN) -32%

While Kogan increased its sales strongly (+16% versus the previous corresponding quarter) and this was a positive surprise, it's gross profit didn't keep up (only growing +9%)[iv]. The market focussed on the sales mix change between high margin third party brands (sales down) and lower margin market place (sales up). Another concern was in the mobile phone division, where sales were weaker than expected. Kogan remains a strongly growing business.

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[i] https://www.asx.com.au/asxpdf/20200131/pdf/44dph6f8f9gfsd.pdf
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