

# Monthly Performance Report

## March 2020

### Monthly Update

For the month of March, the portfolio was down -20.04% (after fees) compared to the S&P/ASX200 down by -20.65% and the Small Ords, which was down by -22.38%.

This brings the financial year performance for the portfolio to -18.94% (after fees) compared to S&P/ASX200 down -20.74%, and the Small Ords, which is down by -23.87%.

Every crash is different. This one wasn't caused by high interest rates, market exuberance, the end of a capex boom, or lending gone bad, but rather by a government decreed shutdown in order to stop the spread of a disease.

A once in one hundred year infectious disease? Perhaps, but the immediate and extreme response by government is a product of our times, driven by modern technology and communication, and the much higher value placed on human life by contemporary society.

### Monthly Portfolio Metrics

<b>Outlook Stocks (Long)</b>	19 Positions: 75%
<b>Outlook Stocks (Short)</b>	1 Positions: -2%
<b>Event, Pair and Group (Long)</b>	3 Positions: 9%
<b>Event, Pair and Group (Short)</b>	1 Positions: -14%
<b>Cash</b>	35%
<b>Gross Exposure</b>	97%
<b>Net Exposure</b>	65%
<b>Beta</b>	0.47

### Return Summary Since Inception<sup>1</sup>(after all fees)

<b>Since Inception (p.a.)</b>	5.78%
<b>1 Month</b>	-20.04%
<b>3 Months</b>	-26.12%
<b>6 Months</b>	-26.95%
<b>FYTD</b>	-18.94%
<b>1 Year</b>	-11.41%
<b>3 Years</b>	-0.53%
<b>5 Years</b>	0.26%
<b>Cumulative</b>	54.57%

### Portfolio Analytics Since Inception<sup>2</sup>

<b>Sharpe Ratio</b>	0.28
<b>Sortino Ratio</b>	0.40
<b>Standard Deviation (p.a.)</b>	13.26%
<b>Positive Months</b>	62%
<b>Maximum Drawdown</b>	-15.21%
<b>Avg. Gross Exposure</b>	89.90%
<b>Avg. Net Exposure</b>	77.90%
<b>Avg. Beta</b>	0.58
<b>Avg. VAR</b>	1.20%

<sup>1</sup> Inception date is 2 July 2012. Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

<sup>2</sup>Glossary of terms can be found on the Fund's website at [www.monashinvestors.com/glossary/](http://www.monashinvestors.com/glossary/)

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At some stage, the world will get on top of Covid-19, hopefully sooner rather than later. At its core, this is a healthcare problem, specifically the capacity of the hospital system to handle the sick. In order to solve this problem, never seen before social distancing measures are in effect, that have effectively shut down large parts of the economy.

Critically, the productive capacity of the economy has hardly changed at all due to this crisis. Yes, it will take time for capacity to ramp back up, for retailers to rehire staff etc post the shutdowns. But unlike genuine economic recessions there is no economic healing that will be required, unless too many businesses are bankrupted, and the government is doing its best to stop that from happening. That said, government deficits and debt levels will take a long, long time to recover, and for this reason alone the current level of interest rates may well be the new normal.

In ordinary market conditions, in order to find a stock with significant upside you either have to find it early, just as its business prospects are starting to improve dramatically (this is where Monash Investors spends most of its analytical power) or move up the risk curve and invest in an early stage business (e.g. biotech, pre-revenue businesses). Now however, with the dramatic pull back in share prices, the equity market is a target-rich environment where we can find opportunities in any number of stocks with established operations where the risk return equation is so far in investors' favour it is almost unbelievable.

There are a wide range of stocks that have fallen 50% across the equity market since this crisis started and we have had a handful in our portfolio as well. Prior to the crisis, our analysis indicated that they were materially undervalued. As readers would know, we only invest when we believe there is greater than 60% upside. Following a 50% decline, for a stock to get back to pre covid-19 levels it then has to rise 100%. To then go further and reach our 60% price target it has to rise a total of 220%. Let's bring this to life with some examples: EOS, SSM and JIN, our 3 largest positions.

**Electro Optic Systems (EOS-ASX) – 60% off its pre Covid-19 levels.** We have written about this stock extensively, but to quickly recap it is a genuine world leader in laser targeting systems and its major product line application is remote weapons systems, with developing commercialisation in communications and space debris management. Its operations have been virtually unaffected by Covid-19, apart from some social distancing measures in the production facilities reducing productivity at the margin. Its supply chain is unaffected. It has a cash balance in excess of \$80m and yet the share price at its worst was down 72%. It is expanding its productive capacity in remote weapons systems to be able to generate \$900m of revenues up from \$250m currently, but more importantly, the maintenance contracts associated with this business are creating a large and rapidly growing annuity stream. Its communication division has a \$620m revenue backlog and growing, and then there is the space debris division. We have been adding to our holdings in weakness.

**Service Stream (SSM-ASX) – 35% off its pre Covid-19 levels.** A network services provider, specifically for telecommunications and water infrastructure. Its operations would be unaffected by Covid-19, in fact it would be considered an essential service, as with all the people working at home and home schooling the upkeep of the telecommunications system is absolutely critical. It has a strong liquidity and balance sheet position, very strong management and a transparent medium term earnings outlook and now is trading on just 11x PE. We have been adding to our holdings in weakness.

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Jumbo Interactive (JIN-ASX) – 39% off its pre Covid-19 levels. This is a new addition to the portfolio which was added recently following the share price fallout from Covid-19. As an online provider of Lottery tickets its operations are unaffected by Covid-19. While it is likely that overall lottery sales will decline as discretionary expenditure is pulled in, social distancing means that its ability to sign up new online customers is greatly enhanced. We have been tracking JIN for a while now and the selloff in the share price provided an opportunity, and we are up 20% from our entry point.

Importantly we have a long list of new stock opportunities that we are investigating, and as mentioned above the equity market is a target-rich environment right now.

Currently we have around 33% cash, and are looking to deploy this cash progressively as we gain confidence that the worst is behind us. For example, when we can see the daily count of new cases starting to flatten out globally. At a stock specific level, it is when a valuation reaches a point that is irrational, as long as we have confidence that it will not face a balance sheet or liquidity issues. Demand will come back, debt servicing will be resumed, but if liquidity runs out then the business will need a cash injection or fail.

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