Monthly Performance Report

April 2020

Monthly Update

For the month of April the portfolio was up 20.69 % (after fees). This compares to the S&P/ASX200 which was up by 8.78%, and the Small Ords, which was up by 14.27%.

This brings the financial year performance for the portfolio to -2.17% (after fees) compared to S&P/ASX200 down by -13.78%, and the Small Ords, which is down by -13.00%. April saw a strong and rapid rally continuing off the low that occurred on the 23rd of March.

Over the two months, the daily moves in the ASX200 have been extreme, with moves greater than 2% occurring on 11 days.

It has been a challenging time to manage portfolios, but our portfolio has come through it better than most, from what we can tell from public unit prices. We have endeavoured to keep you as informed as we can during this time with interim updates and articles.

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

Since Inception (p.a.)	8.29%
1 Month	20.69%
3 Months	-14.43%
6 Months	-10.84%
FYTD	-2.17%
1 Year	0.61%
3 Years	6.88%
5 Years	4.08%
Cumulative	86.56%

Monthly Portfolio Metrics

Outlook Stocks (Long)	21 Positions: 91%
Outlook Stocks (Short)	1 Positions: -2%
Event, Pair and Group (Long)	2 Positions: 10%
Event, Pair and Group (Short)	0 Positions: 0%
Cash	2%
Gross Exposure	103%
Net Exposure	98%
Beta	0.47

Portfolio Analytics Since Inception[2]

Sharpe Ratio	0.42
Sortino Ratio	0.66
Standard Deviation (p.a.)	14.98%
Positive Months	62%
Maximum Drawdown	-29.10%
Avg. Gross Exposure	90.00%
Avg. Net Exposure	78.20%
Avg. Beta	0.59
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/

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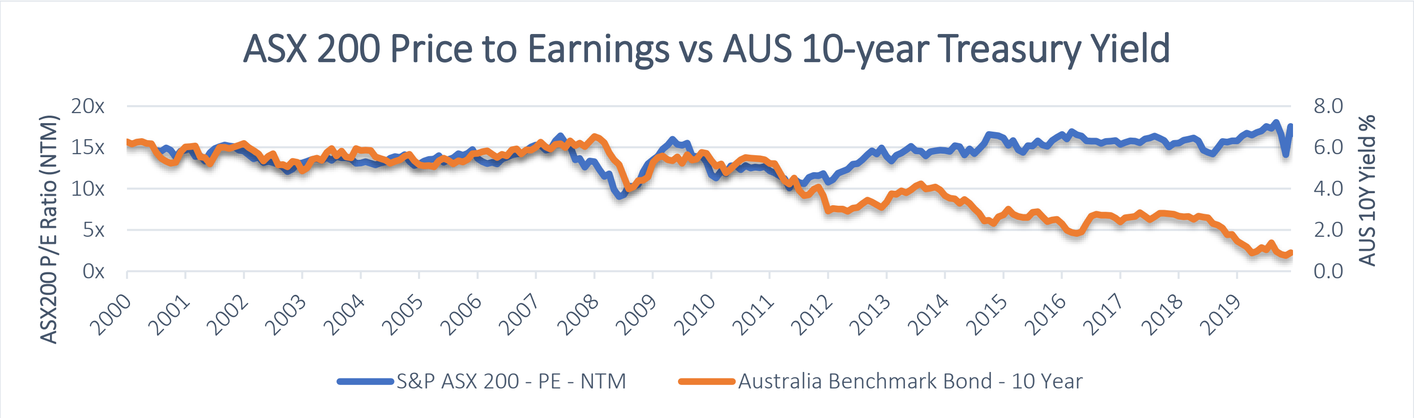
In February and March 2020, uncertainty around the impacts of COVID-19 was at an all-time high and fear was at its peak. The Western world was only beginning to face the epidemic with exponential infection rates, mounting deaths, shortages in medical staff, equipment and no vaccine or effective treatment measures in sight.

During April, we noted levels of uncertainty falling, allowing markets to price expectations beyond COVID-19 with the worst of the pandemic appearing behind us. Drug company Gilead released promising drug trial results for its Remdesivir drug and we saw positive progress on potential vaccines. Most notably, social distancing coupled with extensive testing and contact tracing has emerged unequivocally as the effective solution to the health care crisis. Unfortunately, this solution comes at significant economic and social disruption and cost. However, this disruption is temporary and central banks and governments have undertaken unprecedented measures to support businesses with liquidity. The productive capacity of the economy has not been permanently destroyed, at the cost of expanded government deficits and debt levels.

In early April, we noticed this decline in uncertainty and accordingly covered the majority of our short positions. In addition, we continued to deploy our cash to purchase high-quality companies with established operations at material discounts (60% or above upside) to intrinsic value. We also rebuilt existing positions. Whilst we expect short-term earnings results to be weak, we look through short-term disruptions and calculate valuations for ourselves on medium-term discounted future cash flows. We believe the market had been too near-term focused. Based on this outlook, we started April with 34% cash, by mid-April we reached close to 100% fully invested.

A common theme many observed in April was that valuations are high relative to long term historical price-to-earnings ("PE") ratios. This is true, compared to the often cited 10-year cyclically adjusted PE ratios. However, as shown in the chart below, interest rates are at record lows, and stock prices must be seen in that context. Given world debt-to-GDP ratios, there is little chance the world's central banks can raise them any time soon without catalysing a catastrophic sell-off and wrecking pensions worldwide. We therefore believe these valuation levels may be with us for some time longer. Interest rates may rise in the future, but only if the economy has improved to such a point that its liquidity is sufficiently robust.



Source: FactSet

Monash ABSOLUTE INVESTMENT FUND

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Our response in April 2020 benefitted from Monash Investors' benchmark unaware mandate. Being benchmark unaware in times of significant volatility is an advantage. The post Global Financial Crisis recovery had largely been dominated by a period of low volatility. Low volatility generally yielded low-tracking errors amongst benchmark-aware funds. This meant that these funds were not forced to buy/sell equities because their tracking error did not exceed their threshold. But in current times of high volatility, tracking errors can easily, and materially, exceed thresholds. Given our benchmark unaware mandate, we were not forced to prematurely sell stocks or lock in short term losses.

Our ability to respond to changes in market signals with agility and better position the portfolio is one of the core advantages of the Monash Investors strategy. As at the end of April, Monash Investors remains bullish, but dynamic. Whilst COVID-19 infection and death rates are improving, resurgence remains a risk we're watching closely. Countries like Singapore have demonstrated that we have to remain vigilant and social distancing protocols may return, extending the period of economic disruption and recovery.

As we demonstrated in February, if the market signals change or uncertainty increases, we will respond accordingly to best align the portfolio for our investors.

Please click here for a recent interview with Simon Shields (Principal, Monash Investors) on our current market views.

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