Monash ABSOLUTE INVESTMENT FUND

Monthly Performance Report

April 2021

Superior SQM RESEARCH

Monthly Update

The 2021 financial year continues to be strong. Over ten months the Fund is up 42.43% (after fees) By comparison, the S&P/ASX200 did 22.12% and the Small Ords 28.91%.

The global economic recovery is well underway. Equity markets had already been anticipating it well in advance, with their strong one year rise from the Covid-19 lows. Now equity markets appear to be entering the next phase. We are adjusting the portfolio accordingly, however the portfolio was affected by this sea change in April.

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

Since Inception (p.a.)	12.73%
1 Month	0.72%
3 Months	4.74%
6 Months	29.98%
FYTD	42.43%
1 Year	54.35%
3 Years	20.24%
5 Years	10.85%
Cumulative	187.95%

Monthly Portfolio Metrics

Outlook Stocks (Long)	14 Positions: 69%
Outlook Stocks (Short)	1 Positions: -2%
Event, Pair and Group (Long)	1 Positions: 10%
Event, Pair and Group (Short)	0 Positions: 0%
Cash	23%
Gross Exposure	82%
Net Exposure	77%

Portfolio Analytics Since Inception[2]

Sharpe Ratio	0.67
Sortino Ratio	1.19
Standard Deviation (p.a.)	16.08%
Positive Months	64%
Maximum Drawdown	-29.10%
Avg. Gross Exposure	90.20%
Avg. Net Exposure	78.90%
Avg. Beta	0.63
Avg. VAR	1.23%

[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/

Performance Highs and Lows in April

In April the portfolio lagged the market, delivering a small positive return for the month. We have previously noted that the cash weight had been increasing as we trimmed rising stocks and exited some positions. The cash weight finished at 29% for the month but that only partly accounted for our portfolio lagging the strong market. The bigger problem was that too many of the stocks fell in price despite the strong market, and offset much of the gains from the strongly rising shares.

The biggest detractor was Telix (ASX: TLX), which fell -13%. There was no news event that caused this. The next biggest detractor was Bill Identity (ASX: BID) which fell -22%, on a disappointing quarterly update. Given that this missed our "sign post" we immediately cut a third of the position. Electro Optic Systems (ASX: EOS) also released its quarterly update, and while there was no revenue or earnings miss for us, the market marked the stock down -11% over the month on the tardiness of its cash receipts. These three stocks cost the portfolio -2.4% alone.

We did have some good wins too. People Infrastructure (ASX: PPE) rose 21%, on favourable analyst coverage despite no news. EML Payments (ASX: EML) rose 17%, partly explained by a small acquisition. Unity Group (ASX: UWL) rose 20%, another stock that climbed without obvious news flow. These three stocks added about 3.3% collectively to the portfolio return, more than offsetting the three major detractors.

During April we were quite active on the short side, which added value too. Early in the month we shorted Kogan (ASX: KGN) and JB Hi-Fi (ASX: JBH) on concerns about slowing future sales growth and contracting margins. We were concerned in particular for Kogan that it had a worsened inventory problem, which it confirmed late in the month. The stock finished down -18% from our entry price and we closed out the position prior to month end. When JB Hi-Fi made its quarterly update, it also provided evidence of peaking sales growth and margins, which the CEO all but confirmed by announcing he was leaving to go to Premier Investments. We closed out our JBH position before the end of the month with the stock down from our entry price by -12%. These two short positions added 0.8% to the portfolio return.

Investment response to the progressing economic and market cycle

It's hard to avoid noticing: economic growth is strong and getting upgraded, and there are some modest inflation pressures coming through – though inflation is strong in areas like commodities, building materials, and products where supply is constrained by a lack of computer chips. Usually at this time in the cycle, central banks would be trying to nip future inflation in the bud by raising interest rates. Instead the RBA is saying quite the opposite, announcing ultra-low rates are here to stay for three years, and the US Fed is still about as dovish as it has ever been. To add fuel to the fire, both the Australian and USA governments are making announcements of increased spending.

This is very positive for the stock market overall, in the near to medium term. Very strong economic growth, low interest rates, central banks asleep at the wheel, governments on a spending spree. Overall, analyst consensus EPS growth for the average stock will accelerate. We should expect plenty of positive surprises at the next reporting season in August and the one that follows in February 2022.

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Even when cash rates start to rise in a "normal" cycle, it's still a good time to invest. The "bad" time to invest is when central banks continue to ratchet rates up when growth is starting to slow. One day it will happen, but that's some time away.

Right now, growth is becoming widespread. Since the GFC, growth has mostly been concentrated in small pockets of the market, the highest profile of these being tech related stocks. These stocks tended to be smaller companies, though some have grown quite large. The thing is, with growth becoming more widespread there is less competition for this relatively smaller number of stocks. As stocks they will not be in so much demand from investors. This materially changes our view on how these stocks will be treated by the market. Or to put it another way, long duration growth stocks, particularly those with "back ended" earnings growth, will be priced less aggressively by the market in lieu of near term growth opportunities.

So where does that leave us? The great benefit of our approach to investment is that we have the flexibility to incorporate our learnings from recurring business situations and patterns of behaviour to inform our assessment of stock price targets and adjust the portfolio accordingly.

Here's the implication from our insight about this stage of the market cycle: we have to adjust our expectation downwards for the price that these back ended high growth stocks should be trading. This reduces our target prices below our required thresholds for a number of our companies. Indeed, we have already been seeing the share prices of many high growth companies (like the WAAAX stocks) fall while the market has been rising overall.

As a result we have been doing some selling, and our cash weight since the end of April has been rising.

We will continue to keep you updated on our portfolio activity.

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