

# Monash Absolute Investment Fund

(APIR MON001AU)



6% p.a Target  
Distribution



Double Digit returns  
since inception



Long/Short  
Australian Equities



Proven Track  
Record

## December 2021 Fund Update

During the December quarter, the Fund rose 6.62% (after fees). This compares to a total return of 2.09% for the S&P/ASX200 and 2.03% for the Small Ords.

Our strong portfolio performance this quarter was broad-based. It resulted from oversized contributions from a number of holdings and some well-timed investment decisions. While the top contributors have very different industry exposures, what they have in common is strong earnings outlooks driven by recurring business situations.

The top contributor was Healthia (ASX: HLA) which rose 27%. It has a network of physiotherapists, podiatrists and optometrists. It is a great example of a business that is showing good like for like sales growth as well as growing through bolt on acquisitions. It still trades on a relatively modest near term multiple despite its history of high teen earnings per share growth.

OFX Group (ASX: OFX) rose 46%, and due to its lower weight was only the second best contributor. It provides foreign exchange money transfers across 55 different currencies. It is now focusing more on business clients than consumers. Its larger clients include Amazon, Wisetech and Link Market Services. This has led to a strong turn-around in its growth and margins. During the quarter, OFX also announced an accretive acquisition to materially expand its North American operations' scale and profitability.

The next best contributor was Johns Lyng Group (ASX: JLG) rising 49%. A relatively recent addition to the portfolio, it undertakes building work and strata management services, mostly in Australia. In the last quarter it made a highly eps accretive acquisition in the United States.

## Return Summary (after all fees)

1 Month	3 Months
2.62%	6.62%
FYTD	Since Inception (p.a.) <sup>1</sup>
9.79%	13.07%



Our Investment team: Sebastian Correia, Simon Shields and Shane Fitzgerald

<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.

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As it is the end of the calendar year, we're taking the opportunity to review our results versus our objectives over the longer term. We are using the Monash Absolute Investment Fund (MAIF) as the reference portfolio, as it has been going for 9 years. The Monash Absolute Active Trust (Hedge fund) (ASX: MAAT) has only been around for 6 months. The MAIF and the MAAT follow the same investment strategy, and both provide quarterly distributions to investors.

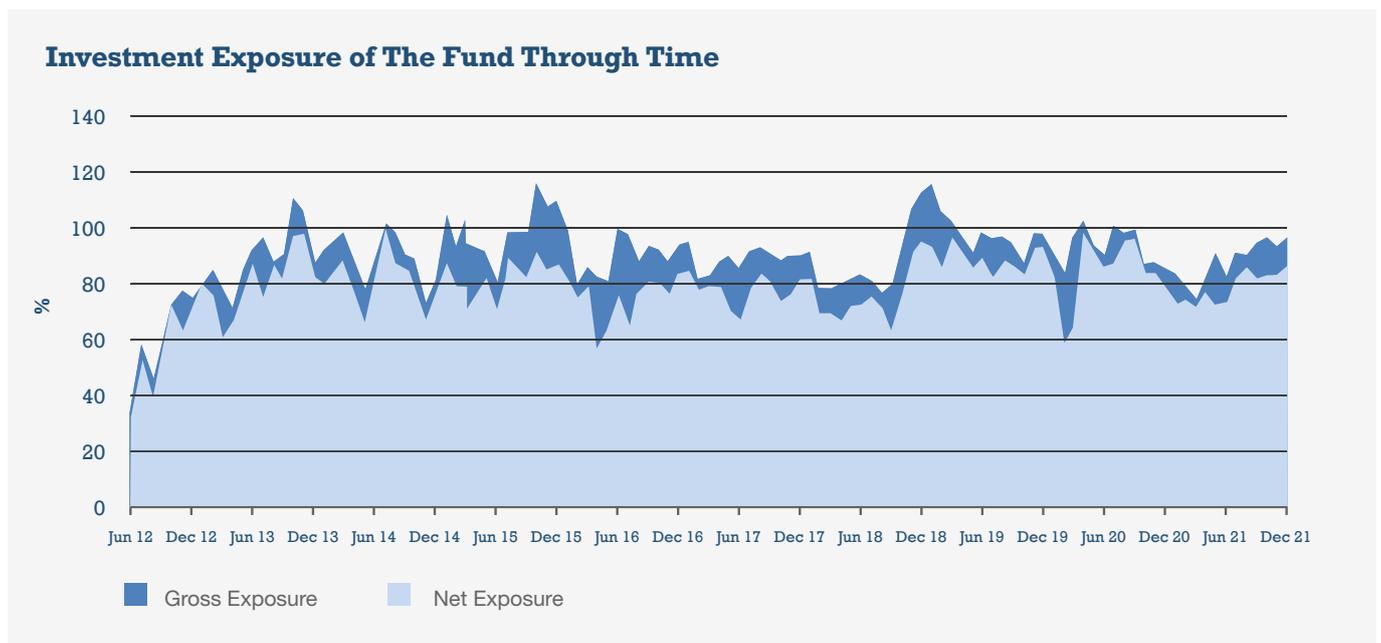
Since we started, it has been the objective of the Fund to deliver double digit returns after fees over a market cycle (say, 7 years) while seeking to preserve capital over the medium term (say, 3 years).

This is an absolute objective, not a relative objective like trying to beat the ASX200 index over a cycle. It has profound implications for the stocks we include, their weights and how we control for risk.

If we were just looking to beat the index, we would be trying to pick stocks that have a higher pay-off than the average stock in the market, and we would control for risk by controlling their weights relative to the size of stocks and sectors in the index. This is the typical way fund managers "construct" portfolios. All sectors are represented, there are lots of stocks (60+) and as a result bet sizes around each stock and sector weight are small (no more than say +/- 2%, but typically <1%). We don't do this.

We are trying to deliver an absolute return, so instead we require a minimum expected absolute pay-off every time we make an investment. It doesn't matter to us whether a stock is relative value, it needs to be absolute value. Generally we work this out by doing a Discounted Cash Flow (DCF) valuation on a stock. We then invest in stocks that have at least 60% upside to the DCF assessed price. This leads to far fewer stocks in the portfolio (say 20) and larger positions (average weight say 4-5%).

If we can't find stocks with the pay-off we need, we hold cash and wait for opportunities. The cash weight is an outcome. This is also a great way of automatically protecting against the risk of prices falling when the market is expensive. The chart below shows how our investment exposure has changed month to month since we started.



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The light blue line is the portfolio's net exposure. It has averaged 79%. This means that on average we have had 21% cash in the portfolio. The dark blue line shows the level of shorts in the portfolio. Since we started we have averaged 6% of the portfolio in shorts, while 85% of the portfolio has been long (85% long – 6% short = 79% net invested). The gross exposure of the portfolio has therefore been 91% (85% long + 6% short = 91% gross invested).

As a result, the portfolio is typically invested in the market to less than 100%. This means that our results have not been generated through leverage.

I'm pleased to say that we have met the return objectives that we set for ourselves. More than that we have also beaten the ASX200 and the Small Ords, even though that is not what we set out to do, and we did it while only being about 79% invested in the market.

When we started this fund, we came from a background of long only, benchmark aware investing. At that time we had an average of 25 years' experience each, managing large amounts of money across diverse styles. Our new fund departed from this background. We took the best from our experience as relative return managers and established our own approach focused on absolute returns.

It is so different from the rest of the industry that asset consultants and asset allocators often have difficulty deciding how to classify our approach. More recently we have begun to get a warmer reception.

We have learned things along the way, too. For example, we have become better at shorting, which has contributed 2.5%pa to our returns over the last 3 years. We also made a change to our selling discipline about 5 years ago which led to us better minimizing losses when things go against us, further improving our overall returns by better preserving investor capital.

The table below shows our performance over multiple time periods, along with average cash levels and the total returns for the ASX200 and the Small Ords. The fund returns are all after deducting our fees.

Performance	MAIF	Avg Cash	ASX200	SmallOrds
1 Month	2.6%	15%	2.7%	1.4%
3 Month	6.6%	16%	2.1%	2.0%
6 Month	9.8%	18%	3.8%	5.5%
1 Year	17.1%	21%	17.2%	16.9%
2 Years (p.a.)	23.9%	18%	9.0%	13.0%
3 Years (p.a.)	28.1%	16%	13.6%	15.7%
4 Years (p.a.)	15.8%	18%	9.3%	9.1%
5 Years (p.a.)	14.3%	19%	9.8%	11.2%
7 Years (p.a.)	12.0%	20%	9.0%	11.3%
MAIF Since Inception <sup>2</sup> (p.a.)	13.1%	21%	11.0%	8.7%

Best wishes for the year ahead.

<sup>2</sup>Inception date 2 July 2012

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## Monthly Portfolio Metrics

Outlook Stocks (Long)	<b>16 Positions: 79%</b>
Outlook Stocks (Short)	<b>1 Positions: -3%</b>
Event, Pair and Group (Long)	<b>2 Positions: 12%</b>
Event, Pair and Group (Short)	<b>1 Positions: -2%</b>
Cash	13%
Gross Exposure	97%
Net Exposure	87%

## Return Summary Since Inception<sup>3</sup> (after fees)

CYTD	17.15%
FYTD	9.79%
1 Month	2.62%
3 Month	6.62%
6 Month	9.79%
1 Year	17.15%
2 Years (p.a.)	23.91%
3 Years (p.a.)	28.12%
4 Years (p.a.)	15.81%
5 Years (p.a.)	14.26%
7 Years (p.a.)	12.00%
Since Inception <sup>2</sup> (p.a.)	13.07%

## Portfolio Analytics Since Inception<sup>3</sup>

Sharpe Ratio	0.71
Sortino Ratio	1.28
Standard Deviation (p.a.)	16%
Positive Months	64%
Maximum Drawdown	-29%
Avg. Gross Exposure	91%
Avg. Net Exposure	79%
Avg. Beta	0.66
Avg. VAR	1.2%

<sup>3</sup> Inception date 2 July 2012

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For more information about MAIF and the strategy, please refer to the Monash Investors website at [www.monashinvestors.com](http://www.monashinvestors.com). You can also [follow us on Livewire here](#) or [subscribe to our updates here](#)

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