

Monash Absolute Active Trust

Hedge Fund (ASX : MAAT)



6% p.a Target
Distribution



Buy and Sell on
the ASX or direct



Long/Short
Australian Equities



Proven Track
Record¹

May 2022 Fund Update

During May, the Fund fell -5.50% (after fees). This compares to a decrease of -2.60% for the S&P/ASX200 and a fall of -7.01% for the Small Ords.

The conditions that gave rise to the high growth, low interest rate, low inflation economy that we have enjoyed for the most part of the last 30 years are turning.

Energy is no longer cheap and international supply chains are less reliable, the non-discretionary costs of electricity, petrol, food and rents/mortgages are all rising. Falling house prices will reverse the “wealth effect”. Put this all together and discretionary spending by households will contract substantially from their COVID induced high.

We run a long biased portfolio looking for stocks with a strong upside payoff, we have typically been about 80% net invested (85% long less 5% short). However, in the face of these changing conditions we have been adjusting the portfolio holdings since December. Cautiously at first, but more significantly with supporting evidence as time has progressed.

We now have a net exposure of about 40% (70% long less 30% short). The composition of the stock holdings has changed substantially too. About 20% of the portfolio is now resources (up from 5%) and most of the shorts we hold are in consumer discretionary stocks.

The portfolio is positioned to weather the challenge in equities, and is ready to take the opportunities that will be presented. This will involve both identifying stocks to buy at bargain prices, as well as closing out short positions which have done enough. This is similar to the situation we found ourselves in during the Covid crash, which resulted in exceptional returns¹.

¹ Inception date is 28 May 2021. Past performance is not indicative of future performance.

Return Summary¹ (after all fees)

| | |
|----------|-----------------|
| 1 Month | 3 Months |
| -5.50% | -7.10% |
| 6 Months | Since Inception |
| -16.70% | -7.50% |



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

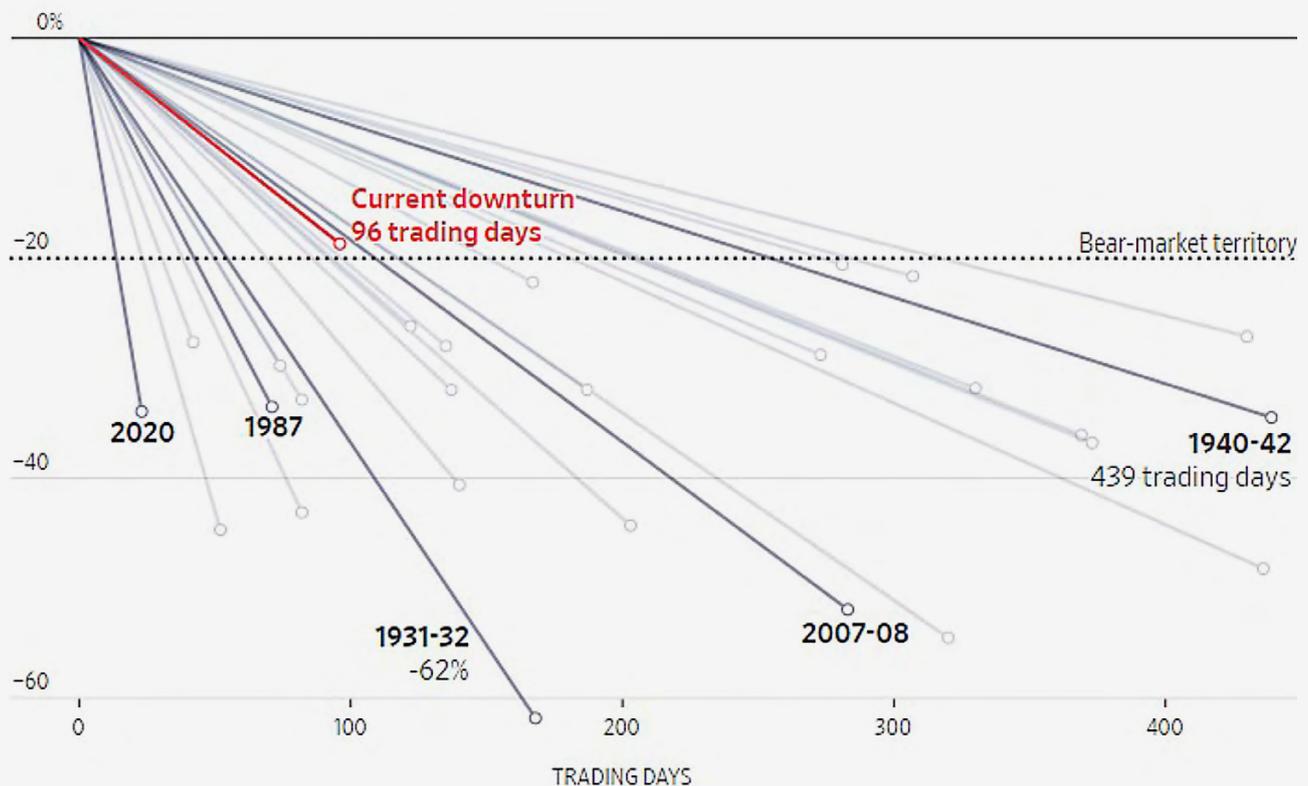
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After achieving very high returns over the last few years, the portfolio has suffered so far this calendar year while we adjusted our holdings to the changing opportunities presented. We currently hold a significant cash balance to be deployed as opportunities begin to present during this sell off.

The chart below puts the current market sell off in perspective. Unlike the Covid Crash labelled as 2020, which was very sharp and short, the current bear market is much more typical. Given we are just at the beginning of what is likely to be an extended rise to normalise interest rates in the face of quite extreme inflation pressures, as well as an unwinding of quantitative easing, it is highly likely we will see the current downturn shown in red extend itself further.

S&P 500 bear markets and the current downturn, declines and duration



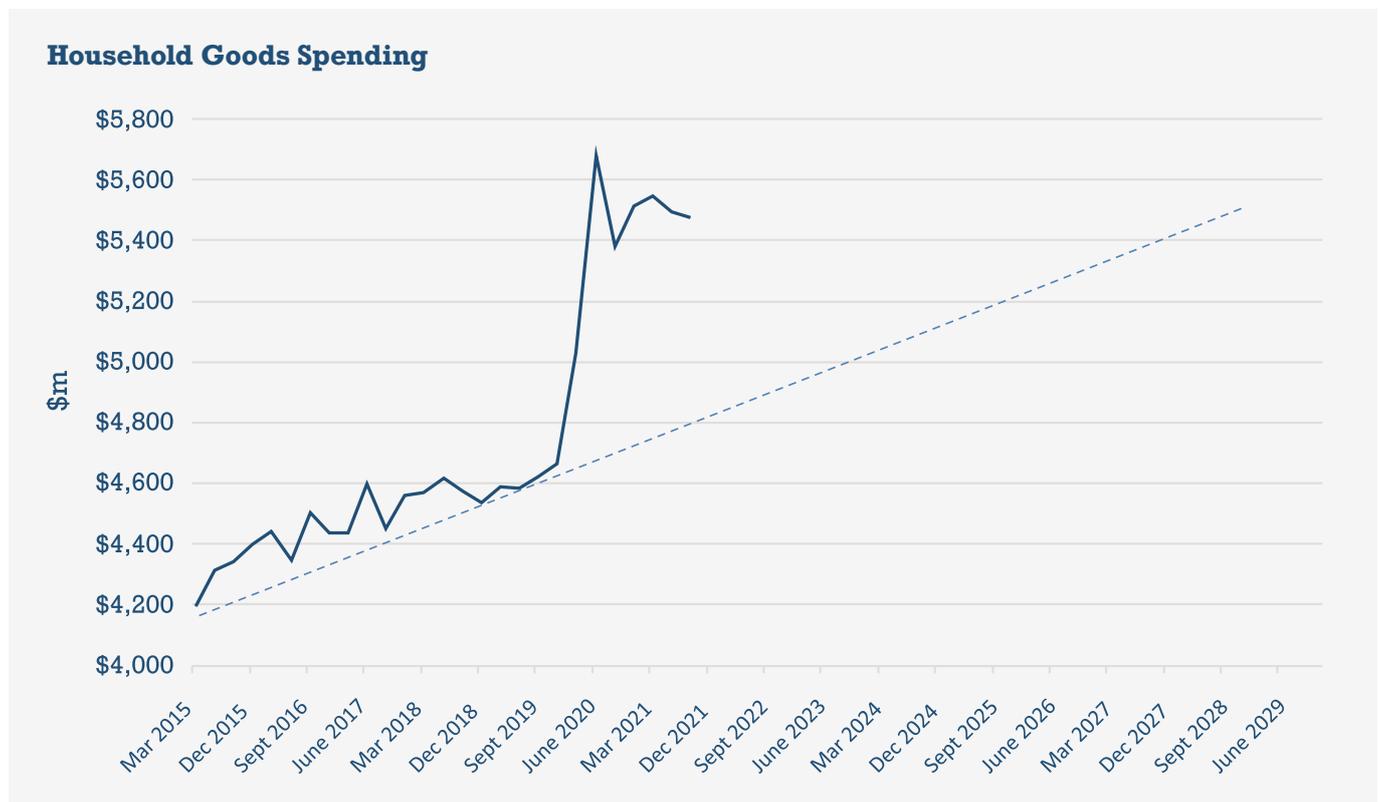
Note: Current downturn represents change from S&P 500 record high on Jan 3, 2022
 Source: Dow Jones Market Data
 Nate Rattner/The Wall Street Journal

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As we noted earlier, consumer discretionary spending is of particular concern for us. The next chart shows how spending on household goods in Australia was brought forward because of the Covid lockdowns, and is a chart we have created based on the latest data from the Australian Bureau of Statistics. If this spending had been growing at the rate it was before Covid, it would have taken till about 2028 to reach the current level.

Household goods are overwhelmingly consumer durables such as furniture, appliances, electronics, computers, technology, hardware and garden supplies. Many listed companies have an exposure to some of these areas as their core business.



Source: ABS and Monash Investors

It's reasonable to assume post Covid that sales of household goods would have fallen back through the trend line before finding its level and stabilising at a similar growth rate. Given the increasing cost of necessities (petrol, electricity, food, rent/mortgage) the contraction in discretionary spending will be quite severe, and fall disproportionately on demand for household goods.

Analysts have not yet in any significant way cut their forecasts for companies that will be effected. It's not so much that the current earnings year (FY22) will disappoint, as consumer behaviour is only reportedly beginning to change now. Rather, the sales will be impacted in following year (FY23) – company guidance this coming August will be weaker than usual and analyst forecasts will be cut. We expect for many retail stocks this will be one of the weakest reporting seasons in years.

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Monthly Portfolio Metrics

| | |
|-------------------------------|--------------------------|
| Outlook Stocks (Long) | 11 Positions: 43% |
| Outlook Stocks (Short) | 2 Position: -5% |
| Event, Pair and Group (Long) | 3 Positions: 24% |
| Event, Pair and Group (Short) | 5 Positions: -24% |
| Cash | 62% |
| Gross Exposure | 96% |
| Net Exposure | 38% |

Return Summary Since Inception (after fees)³

| | |
|-----------------|----------------|
| CYTD | -18.81% |
| FYTD | -11.77% |
| 1 Month | -5.50% |
| 3 Month | -7.12% |
| 6 Month | -16.69% |
| Since Inception | -7.47% |

Portfolio Analytics Since Inception²

| | |
|---------------------------|-------------|
| Sharpe Ratio | 0.53 |
| Sortino Ratio | 0.95 |
| Standard Deviation (p.a.) | 16% |
| Positive Months | 62% |
| Maximum Drawdown | -29% |
| Avg. Gross Exposure | 91% |
| Avg. Net Exposure | 79% |
| Avg. Beta | 0.67 |
| Avg. VAR | 1.3% |

²Due to lack of MAAT history, data from Monash Absolute Investment Fund (MAIF) (inception date 2 July 2012) has been used. Glossary of terms can be found on the Fund's website at www.monashinvestors.com/glossary/

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

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