Monash Investors Small Companies Fund

(APIR MON0001AU)

High Conviction Fund

Australian Small Companies

Proven Track Record[1]

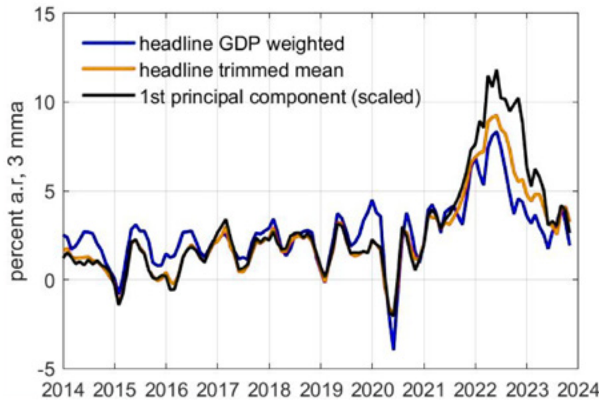
December 2023 Fund Update

The market continued to rise in December with the Fund up 4.7% after fees compared to the S&P/ASX Small Ords up 7.2% for the month. The Small Ords finished up 7.8% for the year, so the entire year's gains pretty much all came down to this last month.

Our Fund's performance in the last quarter lagged the market, we were up 2.0% compared to 8.5% for the Small Ords. This offset the outperformance that we had achieved over the prior 9 months. For the full year we finished up 3.0% compared to the Small Ords' 7.8%. Whilst disappointing, we have seen this pattern numerous times before, with the portfolio subsequently rewarding us for patience and conviction.

So, what caused the market to turn around in the last quarter? The likeliest explanation was that the market responded to recent data that inflation continues to normalise. We have seen the peak in interest rates, so central banks will eventually follow with rate cuts. Figure 1 shows global inflation and it is quite a striking chart. We are now re-entering the inflation range that existed for most of the 2010's.

Global headline inflation – monthly annualised run-rate



Source: UBS, Haver

[1] Inception date is 2 July 2012. Past performance is not indicative of future performance.

Return Summary[1] (after all fees)

1 Month	3 Months
+4.7%	+2.0%

1 Year	3 Years
+3.0%	+0.6% pa

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

This fund is appropriate for investors with "High" and "Very High" risk and return profiles. A suitable investor for this fund is prepared to accept high risk in the pursuit of capital growth with a medium to long investment timeframe. Investors should refer to the TMD for further information.

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Portfolio Commentary

So why did the Fund lag the market this quarter? The short answer is that our portfolio is concentrated and our largest positions didn't pull their weight. Over time our Fund has been well served by its concentration and we are confident that despite this volatility it will do so in the future.

Our largest 15 stocks represent about 73% of the portfolio. Six of these stocks went up, on average by about 20% for the quarter, which was well ahead of the market's return of 8.5%. One was flat but the other eight went down, by an average of about -11%.

None of the stocks that fell have anything significantly wrong with their businesses. All are either leaders in their industries or otherwise well placed to take advantage of growth opportunities. Collectively, we are expecting an average upside pay-off to our calculated valuations of more than 60% from these stocks. We consider each below.

The Uranium stocks

The price of Uranium has risen steadily over the year, reaching a high of around $90/lb recently, up from around $50/lb at the start of the year. Our exposures to the sector are Boss Energy and Paladin (ASX: BOE & PDN), both of which have large reserves in good jurisdictions, strong management expertise and are low risk plays on the commodity. We have discussed the prospects for uranium supply and demand in a previous monthly fund update, and it remains highly favourable. Despite their stock prices going backwards this quarter, we are still up about 30% on our average entry prices, with significant upside remaining.

Healthcare

Our two healthcare stocks are Impedimed and Telix (ASX: IPD & TLX). Again, we have reviewed these stocks in previous updates. Telix continues to strongly grow its radiopharmaceutical sales and has a pipeline of new drugs to come. Impedimed is becoming the standard of care to monitor cancer patients for lymphedema, and has recently had a board and management shakeout that should lead to an even more highly focused business.

Return Summary Since Inception (after fees)[2]

	MAIF	Small Ords
CYTD	2.95%	7.82%
FYTD	0.94%	6.42%
1 month	4.73%	7.23%
3 Month	1.99%	8.52%
6 Month	0.94%	6.42%
1 Year	2.95%	7.82%
2 Years pa	-6.78%	-6.19%
3 Years pa	0.59%	0.95%
4 Years pa	7.47%	2.95%
5 Years pa	12.82%	6.40%
7 Years pa	7.80%	5.91%
Since Inception pa	9.34%	5.92%

Johns Lyng and NextEd

It's been a while since we reviewed Johns Lyng (ASX: JLG) in an update. It continues to grow its building services business strongly in Australia and the USA as a preferred supplier to insurance companies and strata bodies in Australia and Home Owners Associations in the USA. JLG is in a strong position to capture revenue from both regular repair work and catastrophic restoration projects in Australia and the USA.

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NextEd (ASX: NXD) was the closest we had to a problem stock for the quarter. It was down 21% on the back of the Federal government targeting student visa loopholes to reduce immigration, despite an ongoing recovery in its business post Covid. Ironically NextEd is likely to be a winner from the federal government changes because it is a highly reputable provider, that is well-placed to capture students seeking to remain in Australia under the revised student visa programmes.

Two larger cap stocks

While we are focused on small companies, we do also hold a limited number of larger cap stocks in the Fund. Among them are QBE, the insurance company, and Technology One, the accounting and organizational software provider (ASX: QBE & TNE).

QBE is a beneficiary of rising insurance premiums and TNE also continues to raise its margins through pricing power. The businesses of both continue to do well and they are both trading at the lower end of their valuation multiple range. These stocks are well placed for both earnings growth and multiple re-rating.

Looking at the portfolio as a whole

Monash Investors aims to identify businesses which are likely to undergo step-changes in their business prospects which will lead to material share price movements. We draw upon our experience in order to exploit recurring business situations and patterns of behaviour, to identify and invest in a portfolio of compelling opportunities.

Our retail exposures Temple & Webster and Lovisa (ASX: TPW & LOV) did very well over the quarter as did our gold stocks and mining services exposures.

The Fund's major exposures continue to be to Healthcare, Consumer Discretionary, IT, Energy (via Uranium), and Mining Services.

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For more information about MAIF 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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