DMX | Monash

Monash Investors Small Companies Fund

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August 2024 – Investor Update

Established in 2012 by Australian funds management industry veterans, Simon Shields & Shane Fitzgerald, and joined in 2024 by Michael Haddad & Steven McCarthy through our merger with fellow ASX smaller companies specialist, DMX Asset Management.

Unit Price August 30	$1.5589
Number of Stocks	43
% Cash Held - month end	8%

	Monash Fund	Small Ords
1 Month Return	-4.7%	-2.0%
3 Month Return	-5.7%	0.0%
1yr Return	4.7%	8.5%
3yr Return pa	-1.3%	-2.9%
5yr Return pa	8.2%	3.9%
10 yr Return pa	6.9%	5.8%
Since Inception (2 July 2012)	9.4%	5.9%

Returns are net of fees, and assume reinvestment of distributions. Past performance is not indicative of future performance

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.

Dear Investor,

The Monash Investors Small Companies Fund declined 4.7%, lagging an also-weak broader market with the Small Ordinaries down 2.0%.

The month of August is a seasonally busy one for us, with most companies reporting their full year results. We went into this reporting season particularly positive, with many of our key holdings having pre-reported, guided positively, or displayed prior strong operating momentum that would indicate all is on-track and ‘more to come’. Despite the NAV decline for the month, which was largely attributable to just a couple stocks, we’re happy with developments on the whole, and are particularly enthused about the portfolio composition and potential for value creation in the periods ahead.

With the merger with DMX now complete, Michael Haddad having joined the Portfolio Management team, and our two firms having now been integrated into one cohesive & focused investment process, we’re focusing in this month’s report on some of the recent changes to portfolio composition while emphasising the continuity of the time-tested Monash philosophy & process.

Commentary

Principal detractors this month included our largest position – **Austin Engineering** – which declined 19% following a strong full-year result, strong guidance for the year ahead, though clearly neither strong enough to match the expectations of some investors. From our perspective, the result was *fine*. We remain focused on the medium term here and note Austin has a very strong balance sheet, has made considerable improvements to its business model over the past few years which are now clearly bearing fruit, enjoys strong continued operating momentum, and trades at a relatively low multiple of normal and growing earnings (around 10 times). We remain convicted with this position, and believe in time the market will come to fully appreciate the growth opportunity here and value within its shares.

The other position that did some damage this month was **Johns Lyng Group**, which fell 35% largely on the back of its full-year results which were below both our and the market’s expectations. Johns Lyng is a leading building services and disaster recovery company, with a strong history of profitable growth in the Australian market. The company has been growing into the vast United States market, and supported by its core Australian business

and track record, we had backed them to succeed in the US. Johns Lyng had previously been a larger holding for us but was reduced earlier in the year following a poor result that implied the US market is proving harder than expected. Reducing our holding in response to *early warnings* such as this helps protect capital in case fundamentals do deteriorate further, and importantly – helps to mitigate any bias we may have toward a stock. Unfortunately, the full-year result released in August fell considerably below expectations, and the shares finished the month down 35%. We took the decision to exit our remaining position on the back of this result as our original thesis around US growth is clearly not materialising.

The experience this past month with each of Austin and Johns Lyng – which together represent over half of our decline, and all of our relative underperformance – highlights that we must and do take a well-considered and pragmatic approach to each often very different situations. In the case of Johns Lyng, a complete exit was called for, while in the case of Austin, we're very enthusiastic continuing holders and are looking forward to a prospective year ahead for the business.

On the other side of the ledger, the portfolio benefited from positive developments with a number of holdings. Infrastructure services company, **SRG Group**, rose 18% over the month on the back of its strategically interesting announced acquisition of Diona – a complementary infrastructure business with a focus on water security and energy transition. The deal will be all-cash, and is being funded using a prudent level of debt together with a well-supported equity capital raise. We've been invested in SRG for some time, and took the opportunity to add to our holding at an attractive price point via its institutional placement. Much like Austin, SRG has demonstrably improved its business and economic model over the past few years, is prudently managed from a balance sheet perspective, enjoys strong current operating momentum that we expect to continue, and remains priced attractively with the potential for material further upside.

Another interesting company that performed well for us during the period is **Servcorp**, which rose 14% on the back of better-than-expected results, and positive outlook into 2025. Servcorp's been around for many years, and we believe has something of an unfair reputation as a stodgy business with a lazy balance sheet. The company holds considerable surplus cash on its balance sheet, which does help as it's grown into new markets and committed to lease office floors for its serviced & virtual office business. Its historic growth rate hasn't been particularly impressive, but in recent years and in particular post-COVID, its economic model has grown stronger. Its mature core serviced office business has been overlayed with virtual offers, as we increasingly seek to work flexibly. Profitability has undergone something of a step-change, and the company is generating considerable free cashflow. While its shares are increasingly reflecting the positive developments of recent times, we believe there's further to run, in particular as the IPO of its Middle Eastern unit in 2025 looks increasingly likely.

Portfolio Changes & Integration with DMX

With the merger with DMX now complete and our teams & processes fully integrated, we reiterate the overarching attributes of the Monash Fund remain the same, including its mandate, strategy and focus on owning quality smaller ASX companies with meaningful growth profiles. We also emphasise that we'd made significant enhancements to the Fund in 2023 which are adding value. Specifically, we tightened our mandate to be 90%+ invested at all times. This has resulted in a re-doubling of our focus on identifying and investing in quality companies, and to some extent meant the focus has progressively shifted away from seeking to identify opportunities to *short*. Shorting had only ever been a very minor part of our process, and while it contributed positively, this contribution has been dwarfed by that of the long-term ownership of smaller growing companies that go on to become multi-baggers. In effect, our focus on running a broad portfolio of positions and seeking to be relatively fully invested has (constructively) absorbed our research capacity and crowded out shorting. With this, we've not initiated any new shorts for some time, and our last short was closed several months ago. Feedback on this evolution and our virtually exclusive focus on identifying opportunities on the long side has been positive, and our expectation is to amend the Fund PDS in the near future to reflect the cessation of shorting.

Another welcomed by-product of seeking to maintain a fully-invested position has been we do have a rich vein of opportunities that we're tapping into. This has been augmented through the merger with DMX and the expansion of our effective coverage across the ASX smaller companies universe. We expect over time the number of portfolio holdings will remain slightly elevated, around the 40-45 level we're at now. The portfolio will maintain its liquidity profile, which is an important attribute. But we also recognise that the Fund is an

interesting vehicle through which investors have historically and can continue to obtain a minority exposure to a few prospective micro-cap opportunities. Individually these may not all be super-liquid, but within a portfolio of this nature can be managed to an overall portfolio-wide desired liquidity profile. Again, we've always had these exposures in the Monash Fund, but the merger with DMX really enhances our capability in this respect.

As we continue to evolve the portfolio, the key theme to note from recent activity has been the slight broadening of number of holdings, the introduction of a small number of highly prospective smaller companies, held at relatively low weights in the portfolio. We reduced slightly our positions in each of **Telix** and **Lovisa**, which helped both in freeing up capital as we establish a handful of smaller positions, as well as – in the case of Lovisa – reducing our exposure to a larger position that underperformed for the month. It's both a practical challenge and interesting opportunity to balance our desire to maintain high conviction holdings against the need to run a broad portfolio of prospective opportunities. We believe targeting a 40-45 stock portfolio with individual position sizes ranging from around 1% to 5% is the right sort of middle ground as we manage that natural inherent tension.

Portfolio Composition

The Fund aims to outperform the S&P/ASX Small Ordinaries (Total Return) index over a full market cycle.
The Fund's major exposures remain to **Mining Services**, **Retail**, **Energy and Electrification** (via Uranium, Copper and Lithium), **Healthcare**, and **IT**. Examples of our top holdings across these themes include **Austin Engineering**, **Lovisa**, **Telix Pharmaceuticals**, **Eagers Automotive**, and **Pilbara Minerals**. Selected other holdings to highlight the diversity across the portfolio include **Smartpay**, **Sandfire Resources**, **Southern Cross Electrical**, and emerging technology leaders **Catapult**, **Readytech**, and **RPMGlobal**. These companies all exhibit some combination of attributes we're looking for: quality, growth, diversity, and attractive valuations. We look forward to expanding on many of these and bringing to life our investment process in future monthly reports. And as always, are happy to discuss the portfolio and its composition with you at any time.

Summary

We've been through a pivotal period in the 12-year history of Monash, and we're excited about what the future holds, and to be delivering differentiated and value-adding portfolio exposures to our loyal investors. The ASX is populated by many hundreds of interesting smaller companies, with the holy grail being those small growing companies that can be acquired at reasonable prices. Capturing both their growth, plus eventual multiple re-rate as others cotton-on, can lead to exceptional returns. We've enjoyed some of these in the past, and we're enthused about the potential to identify future success stories, and hopefully provide you with meaningful exposure to these through the Fund.

While the portfolio has been relatively soft the past couple months, the value embedded across the portfolio, and potential for strong future returns in our view is very real. Its thematic diversification and multiple ways to win, we believe, support the Fund as an important component to investors' broader asset allocation.

Thank you for your trust and support. We welcome your direct enquiry any time.

Simon, Shane & Michael
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