Monash Investors Small Companies Fund

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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.

December 2024 – Investor Update

Unit Price 31st December	$1.6290
Number of Stocks	44
% Cash Held - month end	5%

	Monash Fund	Small Ords
1 Month Return	-0.1%	-3.1%
3 Month Return	-1.0%	-1.0%
1yr Return	11.8%	8.4%
3yr Return pa	-1.0%	-1.6%
5yr Return pa	8.3%	4.0%
10 yr Return pa	7.9%	7.3%
Since Inception (2 July 2012)	9.5%	6.1%

Returns are net of fees, and assume reinvestment of distributions.

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. Click here for TMD.

Dear Investor,

The Monash Investors Small Companies Fund was virtually unchanged for December, down 0.1%, ahead of the Small Ordinaries which declined 3.1%. For the quarter, we were in-line with the index’s 1% decline, while for the full calendar year the Fund generated a strong result of 11.8%, comfortably ahead of the index’s 8.4% return and with a degree of outperformance in-line with our longer-term averages.

As you’re aware, in recent times we’ve modestly broadened the portfolio (from 37 holdings a year ago to 44 today), while slightly reducing exposure to its largest positions. Our top 10 holdings represent ~43% of the Fund versus ~55% a year ago. We’ve also been more explicitly targeting a fairly fully-invested position, with cash now capped at 10% (and ideally somewhat lower). The opportunity set is vast and we believe our portfolio is highly prospective. We want to own a good spread of these great opportunities on your behalf while maintaining large positions in our higher conviction names.

What we’re seeing in terms of outcomes from the combination of a slightly broader portfolio, a lower exposure to our largest positions, and the portfolio being more fully invested, is results that are directionally more closely aligned with the broad smaller companies index while still carrying the expectation of outperformance over time. We believe outperformance in the zone of 3% pa is a reasonable objective. From our perspective, in terms of the value on offer and prospectiveness of holdings across our portfolio, our expectation for outperformance remains consistent notwithstanding what we believe has been a significant improvement to the risk profile of the Fund.

Commentary

In a weak month for the broad market, a number of our stocks were a drag on our performance. **Metro Mining** fell 5% following a strong run, while our largest position – **Austin Engineering** – fell 6%. Not significant declines, but for larger holdings, these oscillations are felt. Larger declines to smaller companies were also felt, with **EML Payments** down 17% following the shock departure of its new CEO, Ron Hynes. Having joined the business less than six months earlier the Board terminated Hynes’s employment just before Christmas citing the need for alternative leadership to execute the company’s newly adopted EML 2.0 strategy. While never nice news to receive, it’s important to take a balanced approach in re-assessing companies in these situations. The CEO was very new to the role and the Board has decided he’s not the right guy for the role. It would be much worse to keep the wrong person in place, though the impact from the latter wouldn't be felt until well into the future, if at all. EML has made clear strides in its turnaround, as we reported last month. Non-core assets have been divested, the business is re-focused on growth in addition to reducing costs, and valuation metrics are attractive. In a global payments landscape, we believe EML may be appealing to a number of strategic or financial acquirers and with its patchy past and wide-open register we wouldn't be surprised to see corporate activity here at some stage.

Our small gold positions were a mixed bag with **Bellevue Gold** down 12% and **Vault** down 6%, while **De Grey** contributed positively, up 16% following an announced takeover by gold major, Northern Star. The takeover of De Grey highlights some of the benefit of owning a broad portfolio across smaller ASX companies. Many of these companies have prime assets and are better-positioned within larger companies. The potential for the occasional takeover is an interesting aspect of smaller companies investing.

Other positive contributors included **Peninsula Energy** which recovered 11% following its disappointing November. We'd added to our holding around its lows with these incremental purchases helping performance as the stock has inched back up. Key positive contributors this month though were our pharma exposures **Botanix Pharmaceuticals** and **Opthea**, up 21% and 13% respectively. Each is developing and are in the early stages commercialising life-enhancing pharmaceutical products in their respective niches. Each is well-funded, well-managed, and very significant addressable markets globally. Each being very strong in their respective field from a product perspective, the potential to gain distribution within larger future parents makes each company a takeover target in time as they continue through their commercialisation phases. Given the binary nature though of these sorts of businesses, we expect to keep any individual exposure relatively contained.

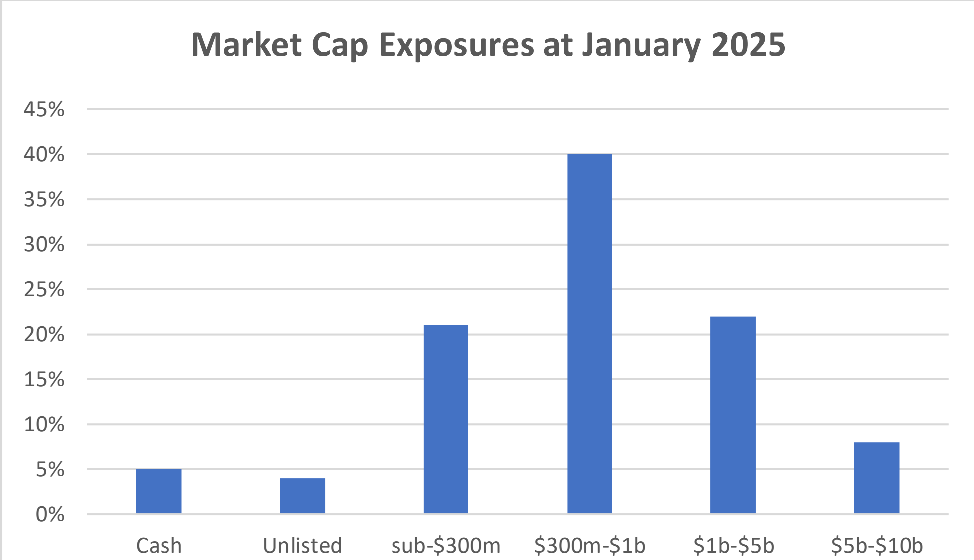
<u>A Broad Portfolio with Multiple Ways to Win</u>

An important dynamic within our portfolio that we've really emphasised is its multi-thematic nature. We primarily own what we consider to be higher quality growing companies that carry the prospect of both meaningful earnings growth over time, as well as valuation re-rate as they grow and graduate through the market cap ranks attracting greater investor interest. Recent examples include **RPMGlobal** and **Catapult Communications**. Each of which are high quality software businesses with significant growth potential, high switching costs (and/or inferior alternatives), and low customer churn. Each of which has also re-rated over the past year as they've grown and joined the ASX300 index.

But we're very deliberate in ensuring the portfolio has a broad range of opportunities with lots of idiosyncratic risk. We want to own good assets that are mispriced by the market, but we also want them to be somewhat fundamentally different from each other. Opthea is very different from Peninsula Energy, and Southern Cross Electrical is very different from Lovisa. Each of these are interesting for their own unique reasons, and spreading your capital across a range of such opportunities gives us multiple ways to win, while simultaneously helping us manage risk. A selection of key portfolio themes, and stock examples include:

Consumer	**Lovisa, Viva Leisure, Shriro**
Pharmaceutical	**Telix, Botanix, Opthea**
Energy	**Paladin, Peninsula, Karoon**
Software	**Readytech, RPMGlobal, Catapult**
Gold	**De Grey, Vault, Bellevue**
Financials	**Fiducian, Count, Sequoia**
Other idiosyncratic	**Austin Engineering, SRG Global, Metro Mining**

Further, our portfolio is well spread across the smaller companies spectrum, and maintains an attractive overall liquidity profile. Current market cap exposures are:



These market cap exposures are consistent with our primary focus on the $300m to $5b (below ASX-100) market cap range, with an emphasis on the $300m to $1b zone in particular. We find this zone particularly interesting for the combination of relatively low broker coverage, so we can gain more of an edge from our own proprietary research of companies that are otherwise not so well-covered and potentially misunderstood. It's also the zone where reasonably-priced growing companies start to attract wider institutional interest and can potentially re-rate. Readytech is a good example of a growing software business, attractively valued, in the $300m market value range. We believe it is much easier for a company at this size to re-rate to say $1b than a $10b company to re-rate to $30b.

<u>ASX Smaller Companies Market Outlook</u>

Following the merger of our firms, Monash Investors with DMX Asset Management, the combined team has done considerable fresh work in screening and assessing the opportunity set. The Monash portfolio continues to evolve as we seek to rotate capital into the most prospective of opportunities. With the recent research work we've been doing across the market we'd like to share a few observations:

1) Smaller companies have underperformed large caps over the past few years, with unusual macroeconomic conditions (higher inflation, higher interest rates, and COVID-disruptions) disproportionately impacting smaller companies.
2) Business conditions and earnings are normalising, and capital has been returning to smaller companies. But there have been clear winners and many laggards. Certain stocks and sectors have become quite richly valued, while others remain as cheap and interesting as ever.
3) Higher quality good small caps are being bid very high, while some of the slightly smaller ones remain attractive. Many resources companies and sectors have lagged their underlying commodities, and many remain interesting for their own unique reasons.

In sum, we have a positive outlook for smaller companies in general, looking out to 2025 and beyond. But this view is nuanced, with those pockets of overvaluation carrying the potential to disappoint and drag on performance. **We're of the view that within ASX smaller companies, individual stock selection including avoiding as best one can those areas of overvaluation remains key from the perspective of generating respectable returns while controlling for risk**.

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

Simon, Shane & Michael
DMX | Monash Investors

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