DMX | Monash

Monash Investors Small Companies Fund

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February 2025 – Investor Update

Established in 2012, Monash Investors merged with fellow ASX smaller companies specialist, DMX Asset Management in 2024. We're focused on pursuing mispriced opportunities across the ASX smaller companies spectrum. Companies with clear catalysts or pathways to value realisation, and carrying material upside potential.

Unit Price 28th February	$1.6137
Number of Stocks	45
% Cash Held - month end	6%

	Monash Fund	Small Ords
1 Month Return	-4.3%	-2.8%
3 Month Return	-1.1%	-1.5%
1yr Return	5.0%	7.3%
3yr Return pa	3.1%	2.1%
5yr Return pa	9.8%	5.6%
10 yr Return pa	7.4%	6.5%
Since Inception (2 July 2012)	9.3%	6.2%

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 declined 4.3% in February, in a weak month for the broader market (with the Small Ordinaries down 2.8%) as we had to contend with negative sentiment globally as well as an unusually diverse set of company reports for the December half.

With the February reporting season now behind us, and following many meetings we've held with portfolio companies (current and prospective), we remain convicted in the overall composition of the Fund, and believe our companies on the whole remain on-track and likely to deliver positive results for the remainder of financial year 2025. The below commentary updates on a number of important holdings, and we provide an expanded insight into our long-held investment in **Lovisa** which is facing a few short-term challenges.

Commentary

The main detractors this month included one of our top holdings – **Austin Engineering** – whose half year results fell short of expectations. Its shares fell 12% to cost us 0.8% in NAV terms. Austin, in our view, is an under-rated mining services business supplying essentially consumable equipment (heavy machinery trays & buckets) to the mining industry globally. It does have a cyclical component, but at its core is a robust business presenting a compelling value proposition to its customers and enjoying a strong market position. Its balance sheet is robust, growth potential meaningful, and valuation multiples very attractive – in particular, after its recent de-rate. **Opthea** handed back some of its recent gains, declining 16% to cost us 0.5%. We await with interest further developments with its vision-enhancing & life-changing Wet AMD therapies with commercialisation around the corner. Finally of note, our lithium and uranium positions fell an average of 20% – **Pilbara**, **Paladin** & **Peninsula Energy** – as sentiment toward these metals soured. Together, the trio cost us 1.7%. We're comfortable with the balance sheet positions of each of Pilbara & Paladin, with each having the capacity to ride out short-term commodity price movements. The upside for these, too, remains significant with lithium and uranium in our view having favourable long-term demand tailwinds together with supply constraints that should result in somewhat higher pricing. Peninsula Energy, too, should be strongly profitable even at today's uranium price once it has completed its mine re-start process. In the short term though, its shares are discounting the likelihood of a further equity raise as its balance sheet probably won't support the required capital works to fully re-start

production and the working capital uplift required to get through to cashflow break-even. We watch with interest and will re-assess our small position here as developments unfold in the months ahead.

Losses were offset to some degree by a few pleasing results and developments. **Eagers Automotive** reported OK results, but with expectations for the sector so low, the market cheered this result, with its shares rising 16% and adding 0.7% for the Fund. Eagers has now returned us around 50% since initially investing last July, and remains interesting to us as an under-rated leader with a robust economic model in what some may consider a *boring* industry. We don't mind boring if the economics are strong and value compelling! **Southern Cross Electrical** rose 20% on its strong results, while **EML Payments** rose 18% as the company continues to re-focus and turn its fortunes around. The market's renewed enthusiasm for EML was augmented by its fairly new Executive Chairman purchasing $3m of stock on market post-result. EML is a good example of a company that we've been gradually re-building a meaningful stake in over the past six months or so. The company has had a very challenging few years, but shedding non-core operations, cutting costs, and re-focusing on organic growth positions it well as management seek to re-build shareholder value. What was less than a 1% position six months ago has been added to in the 60c range, the 80's and again on the dip following the December shock departure of its new CEO. With the shares now approaching $1, we're back to a relatively full 4% weight for the portfolio and, we believe, well placed to benefit from further positive operating momentum and hopefully share price re-rating.

Growth slow-down for Lovisa: Weighing the Pros & Cons; Maintaining a Long-Term Perspective

Lovisa was flat for the month with its shares holding up in the wake of a mixed half-year result and current operating update provided late in the month. As we write, its shares have fallen 15% moving into March, bringing the de-rate from its October highs to over 30%. We believe Lovisa is a great case study that highlights our process, while also a good example of how we manage position sizing as share prices move around often quite substantially, often on not much news. The company in our view is fundamentally very strong and sound, but as with anything in life, there are no absolutes. Recent developments serve to highlight how we must continually assess and weigh the good with the not so good, and remain measured in our enthusiasm for any portfolio holding.

Lovisa is an Australian-grown global success story, with its unique fashion jewellery & accessory concept in the midst of a global roll-out. The company has grown revenue over the past decade at an average annual clip of 20% as it's reached over 940 stores across 50 countries. Interestingly, shares outstanding have barely moved, with this stellar growth being entirely internally funded. What's most interesting to us though is that not only can the company fund its growth internally, the nature of its capital light, landlord-sponsored model is such that it doesn't require any incremental equity to fund its growth. Accordingly, virtually all its earnings are distributed to shareholders via its strong and growing dividend stream. We believe that despite Lovisa's relatively full 'at face value' P/E metrics, the market has historically probably underappreciated the economic impact of high growth essentially free of incremental equity.

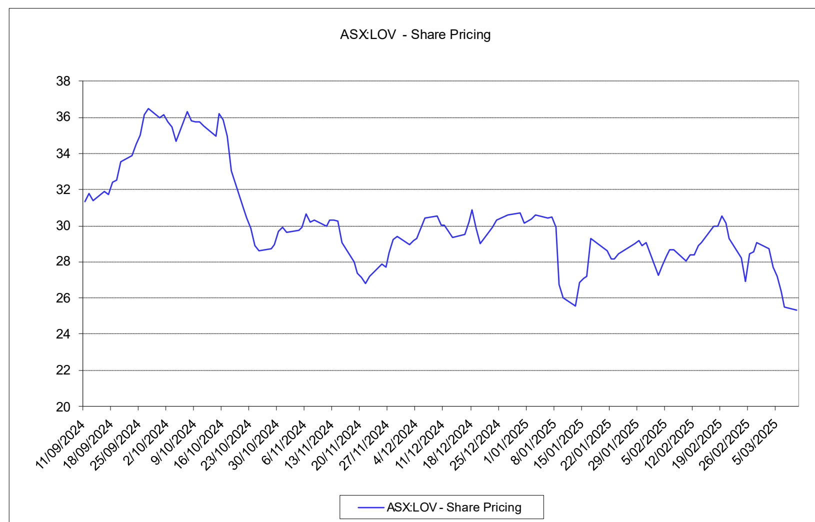
Today though, the company and its shares are under pressure. The company's store roll-out has slowed considerably. Our estimates are that Lovisa has comfortably 200-300% store growth ahead, but we'll be waiting a long-time for this with annual new store growth halving from ~20% to ~10%. Two factors have held the company back in recent times. First, US growth has stalled initially as servicing capacity was restricted with these stores supplied direct out of China, then further as lease terms prove difficult and the company exercises patience in signing new sites. We believe the latter is a prudent and critical discipline for any retailer, and we're enthused that a new US-based distribution centre is now on-line and can support potentially a factor increase to the number of current North American stores. Similarly elsewhere around the globe, growth has been slower but strategic, with beachheads established in many prospective markets. When conditions are right, we see no reason why Lovisa can't once again accelerate its growth.

We do need to balance the positives against the negatives, and the uncertainties. In the case of Lovisa, its store roll-out has slowed, but its same store sales have also flatlined. The combination of slower store growth and weak sales is a concern. On the other hand, within a very soft retail environment broadly speaking, perhaps flat is actually a pretty good outcome. Also concerning is the rise of copy-cats. Any successful industry and business will attract competition. Lovisa has operated through an extended purple patch this past decade, but perhaps

the years ahead will present fresh challenges as capital is attracted to the space, potentially slowing growth and threatening margins.

Assessing and weighing these up are what make our job so interesting, and as evidenced by any Livewire Buy Sell Hold episode, two perfectly intelligent individuals in this industry can assess the same company and reach polar opposite conclusions. Ever mindful of this, it's important as analysts we're constantly aware, seeking, and respectful of counter-opinions. Within our own team, we will have differing conclusions on a stock-by-stock basis. Ultimately, it's possible both the bears and bulls are right, with the difference coming down to time horizon. The following charts illustrate the ups and downs of Lovisa over the years.

First, the six-month chart shows a stock under pressure and significantly de-rating in the wake of softer growth numbers. The bears have been right:



Second, long-term investors have created significant wealth through remaining invested for the journey. The shares are up 1000% over 10 years, excluding dividends, which at 100% of earnings now amount to a 40% dividend yield on Lovisa's share price a decade ago. Bulls here have dominated:

From our perspective on Lovisa, we sit somewhere in the middle, and have a view that subtlety adapts to the prevailing valuation. Lovisa was previously an outsized position for us, and served the portfolio well in particular for the bounce last year from ~$20 to ~$35. Reaching around 8% of the Fund into those highs, we did pull the position back to 5% in July. Weakness since brings it to ~4% of the Fund, which we're comfortable with and believe is currently right-sized. We're short-term neutral and can appreciate both the bull and bear case. But we

remain long-term bullish, and as always we're patient. The time is not quite yet, but we are monitoring the company closely and expect to capitalise on a potentially more favourable entry point to re-up our holding here. With the current market stumble and investors growing skittish – in particular around longer-duration, high-growth assets – we wouldn't be surprised to see Lovisa lower in the short term, and we view this as a potential opportunity rather than a source of anxiety, and as always, we encourage our investors to try to maintain a similar perspective on any individual stock within our portfolio, as well as even the portfolio as a whole, and one's broader asset allocation as we enter a less certain and more volatile market environment.

Summary

While a tricky month for the market, and across many stocks in our portfolio, we remain enthused about the set-up for the portfolio which is populated by a broad range of mispriced opportunities across the smaller companies market cap spectrum. All things equal, the corollary to declining stock prices is higher expected returns (from those lower bases), and we seek to enhance these returns through opportunistically rotating out of more mature, fully-valued investments and into more prospective opportunities our process yields.

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

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