Monash ABSOLUTE INVESTMENT FUND

Monthly Performance Report

December 2020

Superior SQM RESEARCH

Monthly Update

In December, the portfolio rose 2.51% (after fees). This compares to the S&P/ASX200 that was up 1.21%, and the Small Ords up 2.76%. The portfolio did well to keep up with the market this month, given the cash weighting of over 20%. The portfolio returns were boosted by buying back some of the Afterpay (ASX: APT) and Kogan (ASX: KGN) sold at higher prices in October, both which rebounded sharply in December.

The 2021 financial year has so far been strong. Over six months the portfolio is up 35.63% (after fees). The S&P/ASX200 did 13.20% and the Small Ords 20.28%.

While the COVID-19 pandemic has been a once in a century experience for the world, for the markets it has been far less dramatic – with the crash of calendar year 2020 being a once in a cycle experience, and a brief one at that. In 2020 the S&P/ASX200 was down by -32.0% at its worst for the year, but it recovered to be up 1.4% at 31 December.

Return Summary Since Inception[1] (after all fees)

Since Inception (p.a.)	12.60%
1 Month	2.51%
3 Months	18.97%
6 Months	35.63%
FYTD	35.63%
1 Year	31.06%
3 Years	15.37%
5 Years	8.95%
Cumulative	174.21%

Monthly Portfolio Metrics

Outlook Stocks (Long)	14 Positions: 72%
Outlook Stocks (Short)	1 Positions: -2%
Event, Pair and Group (Long)	3 Positions: 10%
Event, Pair and Group (Short)	1 Positions: -1%
Cash	22%
Gross Exposure	86%
Net Exposure	78%

Portfolio Analytics Since Inception[2]

Sharpe Ratio	0.65
Sortino Ratio	1.15
Standard Deviation (p.a.)	16.38%
Positive Months	62%
Maximum Drawdown	-29.10%
Avg. Gross Exposure	90.20%
Avg. Net Exposure	78.90%
Avg. Beta	0.62
Avg. VAR	1.20%

[1] Inception date is 2 July 2012. Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

[2] Glossary of terms can be found on the Fund's website at www.monashinvestors.com/glossary/

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Keeping 2020 in perspective

"Prediction is difficult, especially about the future." – a quote repeated by many people, over centuries. Equity fund managers live this uncertainty daily as there is always some stock making an announcement or being buffeted by unpredictable news flow.

While over time, stock investors receive good returns from society's growing wealth, it doesn't occur in a straight line. Over the last 50 years, there has been a significant market downturn every 5 – 7 years. In one sense, around 2020 we were due for a crash. However, every one of those downturns had a different cause and played out differently.

On the other hand, one thing doesn't change at all - the continuing opportunity to make money from stocks that are at times mispriced.

Our philosophy of seeking out mispriced stocks by calculating our own DCF based valuations in the light of recurring business situations and patterns of behaviour worked well this year. We apply it bottom up on a stock by stock basis, while incorporating top down knowledge of the wider world.

In the first couple of months of 2020, before the full extent of COVID-19's reach was understood, it had already begun to have an impact on stock prices. But in an age where there is little opportunity to obtain an information advantage because communication is so good, we weren't initially in a position to judge whether the market was getting it right or not.

That changed when we were able to read between the lines of the disclosures made by the Centres for Disease Control and Prevention in the United States in late February. This led us to sell positions, and establish short positions in companies whose deteriorating business outlook impacted their valuations the most, such as in industries that relied on overseas travel or transport. It followed that our cash weighting increased from about 20% to 50% over a week, limiting the impact of the market crash on our portfolio.

When we price stocks, we estimate not just their near term cash flow, but also as best we can their outlook over many years into the future. Prices fell so fast that within a few weeks we could see a number of stocks that had attractive medium to longer term outlooks that were trading at huge discounts to our valuations, and we began to buy them. Some of these were healthcare and technology based stocks that would see their revenues and profits increase because of COVID-19. We also topped up our existing stocks that we had already thought were bargains before the crash.

As a result of buying these stocks we became fully invested, and enjoyed very strong returns in the ensuing months. The fund finished the calendar year up 31.06% after fees, well ahead of the S&P/ASX200 which was up only 1.4% and the Small Ords which was up 9.2%.

Hoping you were able to enjoy the Christmas & New Year period. Here's to a better year ahead.

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