Monash Absolute Investment Fund

(APIR MON0001AU)

6% p.a Target Distribution

Double Digit returns since inception

Long/Short Australian Equities

Proven Track Record[1]

June 2022 Fund Update

During the June quarter, the Fund fell -6.87% (after fees). This compares to a decrease of -11.90% for the S&P/ ASX200 and a fall of -20.39% for the Small Ords.

As we previously stated the conditions that gave rise to the high growth, low interest rate, low inflation economy that we have enjoyed for the most part of the last 30 years are turning. The portfolio continues to be positioned in anticipation of these conditions playing out further. This protected it from the significant equity market sell down in June.

Energy is no longer cheap and international supply chains are less reliable, the non-discretionary costs of electricity, petrol, food and rents/mortgages are all rising. Falling house prices will reverse the "wealth effect." Put this all together and discretionary spending by households will contract substantially from their COVID induced high.

Another related theme in the portfolio is the effect of underinvestment in the resources (particularly energy) industry due to discouragement by governments, activists and institutional investors. We see little change to this dynamic despite the rise in commodity prices that would otherwise induce significant capacity expansion, albeit with a lag of several years.

We continued to make substantial changes to the portfolio in June. While we expect the demand for oil to remain strong relative to supply, we are no longer so sure about metals, and have exited our non-oil resources exposure. At the same time we have taken profits on a number of shorts, where the case for further falls has become less clear cut. This leaves our remaining shorts focused predominantly on consumer discretionary spending. As a result, the portfolio's net exposure has now increased by about 5% since last month.

The portfolio is positioned to weather the challenge in equities, and is ready to take the opportunities that will be presented. This will involve both identifying stocks to buy at bargain prices, as well as continuing to close out short positions which have done enough. This is similar to the situation we found ourselves in during the COVID crash, which resulted in exceptional returns[1].

Return Summary[1] (after all fees)

1 Month	3 Months
-1.00%	-6.90%

1 Year	3 Years
-10.80%	+11.00%

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

[1] Inception date is 28 May 2021. Past performance is not indicative of future performance.

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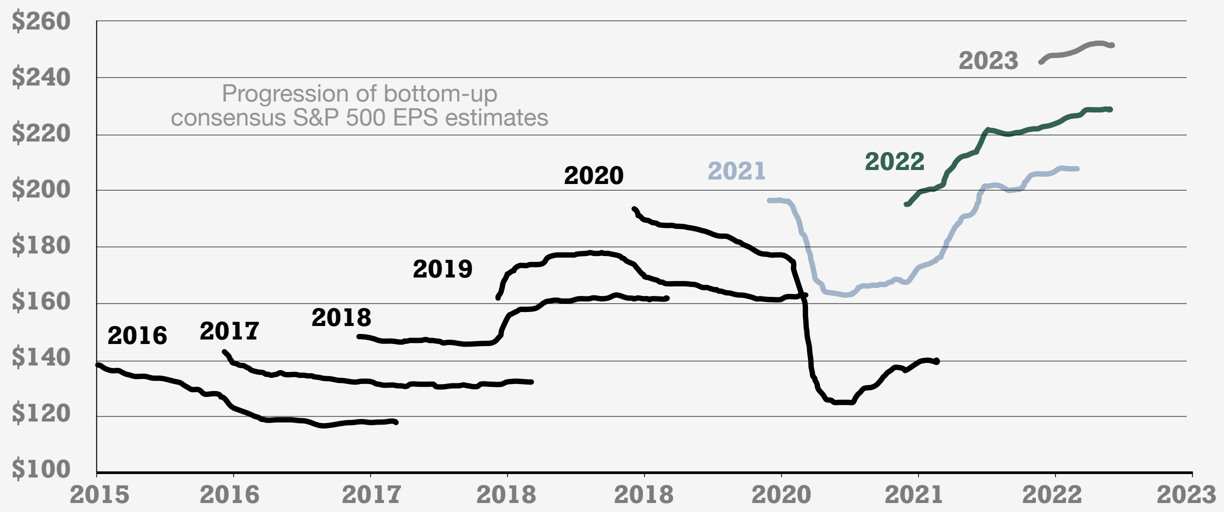
Reporting season will soon be upon us. This month we present a chart which shows over time the earnings per share (EPS) estimates for the S&P500 as a whole, based on forecasts by analysts at the individual stock level. Note that in the USA they use a December year end, rather than a June year end, for their financial year.

Each line represents the path of the EPS estimate as we head towards that year's results season. For example the 2016 EPS estimates fell over time, as did those for 2017.

We can see that until recently analysts were still increasing EPS forecasts for 2022 and 2023. They have now stopped rising but are yet to be revised down by analysts.

This is despite GDP growth having been downgraded by at least half, while cost pressures on companies have been rising. We also expect in Australia this results season that outlook statements by companies will be weaker than usual, and there will be significant downgrades here for FY23.

Exhibit 3: Consensus earnings estimates have stopped rising, but not yet started to decline



Source: FactSet, Goldman Sachs Global Investment Research

There is an increasing amount of commentary by economists and company analysts foreshadowing that downgrades are coming. Most recently, Barrenjoey put out a Retailing sector report comparing the current retailing environment to that during the GFC.

They noted that while not perfect, there are some similarities between today and 2007-09 in the US. Inflation was increasing (oil prices); interest rates were rising; house prices and consumer confidence were falling.

Key conclusions they made for this period included that:

- Avg peak-to trough like for like sales by retailers fell 15%, taking 2 years to do so
- It took another 3 years for like for like sales to recover to their peak
- Average EBIT margins troughed at ~4% (vs. ~10% pre-GFC)
- US retailer share prices bottomed once the second derivative of analyst EPS downgrades turned positive (i.e. less deep cuts)

This look-back at what happened during the GFC mostly aligns with our (Monash Investors) forward looking expectations as we set out in this update last month. The main difference being that we think that this time there will be a particular headwind for household goods, as the demand jump, created by COVID lockdowns and the trend to work from home, unwinds.

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Monthly Portfolio Metrics

Outlook Stocks (Long)	**11 Positions: 41%**
Outlook Stocks (Short)	**1 Position: -2%**
Event, Pair and Group (Long)	**2 Positions: 22%**
Event, Pair and Group (Short)	**2 Positions: -15%**
Cash	54%
Gross Exposure	80%
Net Exposure	46%

Return Summary Since Inception (after fees)[2]

CYTD	-18.78%
FYTD	-10.83%
1 Month	-1.00%
3 Month	-6.87%
6 Month	-18.78%
1 Year	-10.83%
2 Years (p.a.)	13.60%
3 Years (p.a.)	11.01%
4 Years (p.a.)	11.00%
5 Years (p.a.)	11.05%
7 Years (p.a.)	8.32%
Since Inception (p.a.)	10.06%

Portfolio Analytics Since Inception[2]

Sharpe Ratio	0.53
Sortino Ratio	0.93
Standard Deviation (p.a.)	16%
Positive Months	61%
Maximum Drawdown	-29%
Avg. Gross Exposure	91%
Avg. Net Exposure	79%
Avg. Beta	0.66
Avg. VAR	1.3%

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

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