Monash Absolute Investment Fund

Monthly Performance Report

September 2017

Monthly Update

The portfolio increased by 3.53% (after fees) for the month of September, during which the S&P/ASX200 fell 0.02% and the Small Ords rose 1.31%.

In somewhat of a delayed response to the reporting season, a number of our stocks that had good financial results in August had their share prices kick on in September.

For example, Lovisa (ASX: LOV) continued to re-rate, rising a further 14% in September after 10% in August, when it beat full year expectations at its result by 7%. We note that Lovisa has advertised on line for employees in Los Angeles, which would be its first USA based store. Despite Lovisa's rally, the market is not yet pricing in a US store rollout.

Return Summary Since Inception[1]

Since Inception (p.a.)	9.69%
1 Month	3.53%
3 Months	5.19%
6 Months	3.49%
FYTD	5.19%
1 Year	-5.49%
3 Years	3.36%
Cumulative	62.52%

Monthly Portfolio Metrics

Outlook Stocks (Long)	19 Positions: 72%
Outlook Stocks (Short)	2 Positions: -5%
Event, Pair and Group (Long)	4 Positions: 14%
Event, Pair and Group (Short)	0 Positions: 0%
Cash	19%
Gross Exposure	91%
Net Exposure	81%
Beta	0.59

Portfolio Analytics Since Inception

Sharpe Ratio	0.80
Sortino Ratio	1.56
Standard Deviation (p.a.)	9.11%
Positive Months	63%
Maximum Drawdown	-15.21%
Avg. Gross Exposure	90.5%
Avg. Net Exposure	80.7%
Avg. Beta	0.59
Avg. VAR	1.20%

[1] Inception date is 2 July 2012

<u>Skydive the Beach (ASX: SKB)</u>

Another stock that did well for the portfolio in September was SKB rising 16% in September following a result that was in line with expectations in August.

SKB is named after its original sky diving site on a beach at Wollongong. It has 70% of the tandem sky diving business in Australia and New Zealand. SKB has also expanded into other adventure experiences like white water rafting and ballooning, and as a result it is changing its name to Experience Co.

SKB is experiencing double digit like for like revenue growth as it satisfies strong demand for sky-diving, while also growing through acquisitions, and expanding its margins through increasing efficiency.

Despite jump completion rates being impacted last year by poor weather, organic revenue growth was about 12%. They are guiding for a similar amount this year but, if they get normal jump completions, it would likely be about 6% higher. Analysts are not including this higher number in their forecasts.

One way it is increasing efficiency is by upgrading its fleet with new engines and larger planes. The new planes are able to increase jump throughput and lower the cost per jump to SKB as demonstrated by the table below. It is also increasing its margins through acquisition cost synergies and scale benefits.

	EXISTING ENGINES	UPGRADED ENGINES
Engine time before overhaul	3,600	7,000
Minutes per flight	24	16
Flights per hour	2.5	3.75
Flights per lifetime	9,000	26,250
Average fuel per flight	86	55
Flights per maintenance period	500	750

Source: ASX: SKB Presentation to Morgan Stanley Micro-Cap Conference

We believe that there is significant international growth ahead of SKB as well as domestically in other areas of adventure experiences. SKB targets earning accretive smaller acquisitions with a multiple of 3-5times EBITDA, but with the larger ones up to 7-8 times EBITDA, and those would require a capital raise.

On current analyst consensus forecasts for FY18, SKB is trading on an EBITDA multiple of 11x and a P/E of 20x. Given the upside earnings surprise that we expect this year, and due to the substantial growth that the company should achieve in future years, our price target is at much higher levels.

Monash
ABSOLUTE INVESTMENT FUND

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