MonashINVESTORS

Monthly Performance Report

January 2016

Fund Strategy

The Monash Absolute Investment Fund (Fund) offers investors an Australian equity fund that aims to deliver high absolute returns of 12-15% p.a. (after fees), over a full investment cycle and preserve investor capital each financial year.

The Fund is benchmark unaware, style and stock size agnostic, both long and short and only invests in compelling opportunities. In keeping with the Fund's absolute return objectives, if the team cannot find stocks that meet the very high return hurdle requirements, the Fund will preserve that capital in cash at bank.

Monthly Update

The Fund declined by 5.0% after fees in January, which was another weak month for the Australian market – the ASX200 fell 5.5%. This has been the first month this financial year that we have followed the market down significantly, after a run of strong months; since June the Fund is up 13.9% while the ASX200 is down 6.0%.

We detailed last month how some of our stocks had been particularly strong in December on the back of good news. To a large extent, January was a story of a few of these pulling back on no news from their highs in a falling market.

During the month we closed out a number of longs and shorts, and built others. The net result was to increase our cash to 19%.

Return Summary Since Inception[1]

1 Month	-4.97%
3 Months	3.10%
6 Months	6.85%
FYTD	13.87%
CYTD	-4.97%
1 Year	15.05%
2 Years	10.26%
3 Years	15.51%
Since Inception (p.a.)	15.91%
Cumulative	69.74%

[1]Inception date of Fund is 30 June 2012.

Portfolio Analytics Since Inception

Sharpe Ratio	1.46
Sortino Ratio	3.43
Standard Deviation (p.a.)	8.96%
Positive Months	65%
Maximum Drawdown	-6.05%
Avg Gross Exposure	88%
Avg Net Exposure	77%
Avg Beta	0.59
Avg VAR	1.2%

Monthly Portfolio Metrics

Outlook Stocks (Long)	17 Position: 70%
Outlook Stocks (Short)	3 Positions: (-7%)
Event, Pair and Group (Long)	7 Positions: (20%)
Event, Pair and Group (Short)	2 Positions: -2%
Cash	19%
Gross Exposure	110%
Net Exposure	87%
Beta	0.36

Key Fund Information

FUM	$28m
Minimum Investment	$20,000
Management Fee	1.53% p.a.
Performance Fee	20.5% above the RBA Cash Rate with High Water Mark
Pricing Frequency	Daily
Distributions	Annually
APIR Code	MON0001AU
Morningstar Category	Alternatives Strategies

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Stock Focus

Four of our Outlook stocks cost the performance this month, the rest of the portfolio netted out to have little impact.

Micro-X (MX1) fell 15%. Micro-X makes new generation portable X-Ray machines designed to replace the current cumbersome machines used by hospitals. Their distributor is Carestream, the global market leader in this space, who launched the product globally to a strong reception in November. The company also plans to roll out lightweight machines for non-hospital uses (eg ruggedised for military field hospitals) and is in the process of developing a second product for IED detection by the military and police.

We bought Micro-X pre-IPO at the equivalent of 22.2c per share. It IPOed in December at 50c, we increased our holding at that time, and then sold some on market at 60c. It closed 31 December at 58c. However, as planned, it will not start to make significant sales until mid year and with the weak market the shares drifted down to close at 49c in January. We have been buyers again below 50c.

Netcomm Wireless (NTC) fell 19%. NTCs share price is being driven largely by the success of its fixed wireless broadband, which is ideal for those rural and outer urban homes where optic fibre is not economic and copper can't do the job – about 10% of homes.

It rose strongly in November on being selected by AT&T in the USA for its rollout and the price settled around $3 for most of December, closing at $2.93. We had been sellers above this price. In February however, the stock fell more than the market to $2.37, on no news.

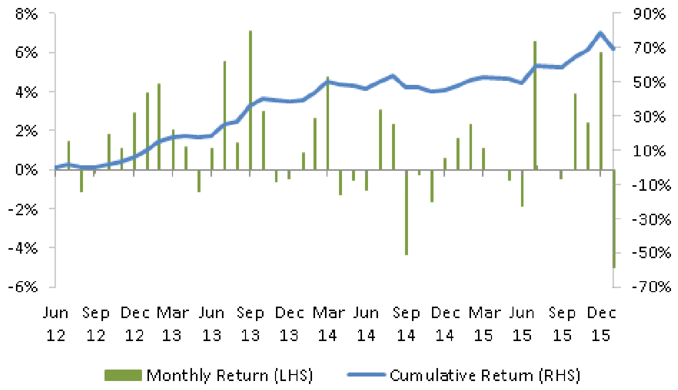
In Australia, NBN disclosures indicate their rollout is accelerating. Last week in the USA the FCC (Federal Communications Commission) released a broadband progress report on the US.

The FCC report "concludes that broadband is not being deployed to all Americans in a reasonable and timely fashion." In particular 39% of the rural citizens don't have access to broadband; that's 23.4m people out of 60.1m. This compares to only 4% of urbanites. There is a growing focus by regulators and government globally to close this gap.

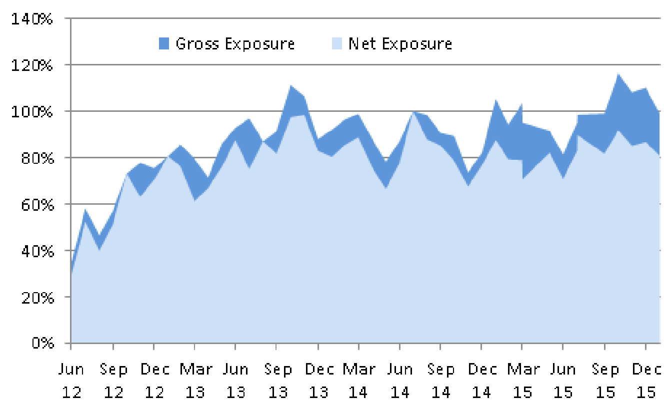
The FCC defines broadband as 25 Mbps download / 3 Mbps upload. In December 2015, NBN launched its 50/20 Mbps speed tier for fixed wireless. NTC appears to be the only incumbent in this space globally.

Yowie (YOW) fell 25%. Yowie sells chocolates that enclose figurines; it is similar to Kinder Surprise which sells 2 billion units per year, but none in the USA.

Cumulative Return Since Inception



Gross/Net Exposure Since Inception



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Yowie has overcome the barriers to entering the USA and is increasing its distribution and sales rapidly. It is now ranged across Walmart, amongst others. Early adopter US retailers are moving quickly to distribute Yowie, due to its high gross margin and unit sales relative to other confectionary items.

Despite being stocked by a small proportion of US stores, Yowie is already the #8 selling front end candy item among large national retailers, behind items from Snickers, Reese's, M&Ms, Kit Kats, Twix and Hershey (which has two items in the top 8).

The fall in the Yowie share price should not have been due to its recent switch to a new capsule and change of manufacturer in late December, as it results in an increase in margin, and Yowie has enough inventories to cover until July. It is also implausible for the owner of the current capsule to replicate the success of the Yowie product.

There was, however, a large consistent seller in January, resulting from the loss of a portfolio management team at an institution. It is likely that all three of these reasons contributed to the fall. At this price we think that Yowie represents outstanding value, given its prospects.

Lovisa (LOV) fell 39%. Lovisa actually had some bad news, suffering an earnings downgrade and a disproportionate derating.

Lovisa develops and retails "fast fashion" jewellery, with stores throughout Australia and 5 other countries and is starting up in the UK. It announced that it's gross margin had fallen due to currency depreciation (expected) and the impact of excess inventory clearance sales (not expected). The net result was a downgrade to earnings by analysts of about 10% for FY15 and 13% for FY16.

Despite the need to clear slow moving stock, like for like sales still came in at 4.1% which should ensure inventory positioning is fairly clean at 31 December. Critically we do not see either of these items adversely impacting long term earnings, as the negative impact of the currency will be recaptured with price increases and excessive inventory clearances are somewhat one-off in nature. We continue invest in Lovisa for its store rollout to the UK and ultimately the US, which when complete will dramatically increase the store footprint of the business.

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