Monash
ABSOLUTE INVESTMENT FUND

Monthly Performance Report

April 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 rose by 1.9% after fees in April. For the financial year to date, the Fund's performance is up 15.4% after fees while the ASX200 is flat.

During the month we took some profits in a number of our stocks that have been doing particularly well. Controlling stock weights is part of our process for preserving capital. It also has the benefit of reducing the volatility of the Fund. As a result, the weight of the long positions in the Fund fell from 83% in March to 69% in April.

At the same time we have been finding more stocks to short. The weight in the Fund of all the short positions changed from -4% in March to -13% in April.

Return Summary Since Inception[1]

Since Inception (p.a.)	15.20%
1 Month	1.87%
3 Months	1.34%
6 Months	4.59%
FYTD	15.40%
1 Year	12.63%
2 Years	7.76%
3 Years	13.20%
Cumulative	72.02%

[1]Inception date of Fund is 2 July 2012.

Portfolio Analytics Since Inception

Sharpe Ratio	1.39
Sortino Ratio	3.17
Standard Deviation (p.a.)	8.95%
Positive Months	65%
Maximum Drawdown	-7.71%
Avg Gross Exposure	88%
Avg Net Exposure	77%
Avg Beta	0.58
Avg VAR	1.20%

Monthly Portfolio Metrics

Outlook Stocks (Long)	16 Position: 56%
Outlook Stocks (Short)	3 Positions: -8%
Event, Pair and Group (Long)	5 Positions: 13%
Event, Pair and Group (Short)	2 Positions: -5%
Cash	43%
Gross Exposure	83%
Net Exposure	57%
Beta	0.35

Key Fund Information

FUM	$32m
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

Monash ABSOLUTE INVESTMENT FUND

Monthly Performance Report

April 2016

Stock Focus

Coca-Cola Amatil (ASX Code: CCL)
Market Cap $6,500m
Sector: Beverages

Given the structural headwinds faced by CCL, we think that analyst forecasts are too high, as is the multiple that the market is placing on those earnings. It is not the low risk growth company that it once was.

In shorting CCL, we draw confidence from identifying recurring situations and patterns of behaviour that gave rise to significant falls in stock prices previously. We see CCL as an example of the market underestimating significant change, analyst reputation management, the limitations of company guidance and overlooked signals.

The story so far
Coca-Cola Amatil is one of the largest manufacturers and distributors of beverages in the Asia-Pacific. It has established brands like Coca-Cola, Mount Franklin & Powerade, and newer ones like Barista Brothers & Monster Energy. Its Australian beverages division represents 70% of its EBIT, with beverages for NZ, Indonesia & PNG most of the rest.

It has built an impressive business, with market leading brands for which consumers are prepared to pay a premium over competitors like Pepsi, and a ubiquitous availability of its product range providing scale and route density that keeps its logistics costs low.

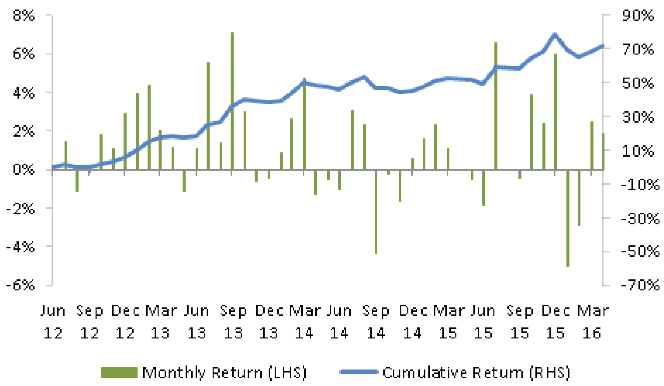
As a result, it is a highly profitable business with EBIT margins historically in the mid to high teens, but over the last three years it has struggled to grow its Australian beverage volumes and revenues, which have fallen 1%pa and 2%pa respectively. Even worse, over the last three years company NPAT has been -5%pa and EPS -10%pa.

Despite this, the analyst consensus forecast for the next three years is that CCL will grow revenue by 2%pa and EPS by 3% pa. The market also continues to rate the stock highly, with a PE of 16x for this years earnings.

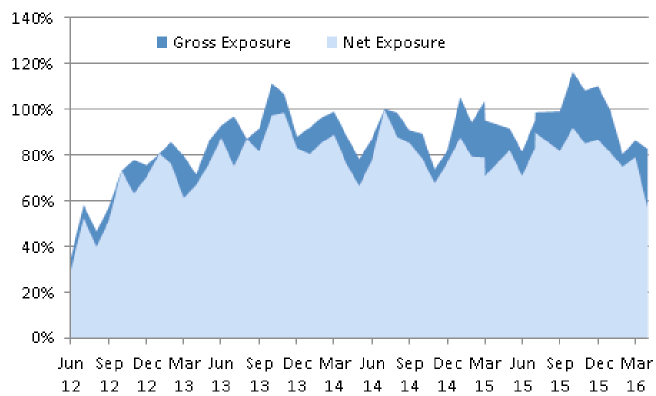
The road ahead
Unfortunately for Coca-Cola Amatil, its most popular products (carbonated soft drinks) are typically high in sugar. The problems caused by sugar are receiving increasing media and government attention, and there is a growing consumer tendency to reduce sugar in their diet. It is the company listed on the ASX most exposed to this theme.

Sugar is being targeted, as the cause of adult onset diabetes is the body's inability over time to deal with chronic levels of high blood sugar. Governments are concerned about this because

Cumulative Return Since Inception



Gross/Net Exposure Since Inception



world diabetes rates are skyrocketing, as are direct healthcare costs, let alone the cost of lost productivity. The World Health Organisation estimates the global prevalence of adult onset diabetes has risen from 4.7% in 1980 to 8.5% in 2014. Diabetes is a major cause of blindness, kidney failure, heart attacks, stroke and lower limb amputation.

Many governments are now actively trying to reduce sugar consumption; some are even putting a tax on it. Soft drink taxes exist in France, Mexico and Norway. They are proposed in Indonesia, South Africa, and the UK.

So how does CCL meet our investment criteria for shorting?

Insight:
Customer Behaviour – At the margin, encouraged by health organisations and government, consumers will continue to reduce the quantity of sugary drinks in their diet.

CCL's response – CCL is "seeking better alignment" with The Coca-Cola Company (KO) who owns 29% of CCL, and has significant influence at the staff and board level. This is a concern because KO makes its money from selling syrup to bottlers like CCL; so it wants higher volumes, even at the expense of CCL's margin. In the past, drops in CCL's revenue have at times been associated with large falls in margin, as it seeks to maintain market share.

Overlooked Signal – CCL is "on track to return to mid single-digit growth in EPS over the next few years" which is really the least management could say if they want to stay employed at the company, given its stellar history.

Analyst Behaviour – Analysts are always reluctant to deviate from company guidance or stray too far from the herd. In particular, analyst forecasts are typically sticky in the low positive single digits, in situations where their better judgement tells them they should be marginally negative.

Growth:
Carbonated soft drink volumes have been losing "share of throat" for the past eight years (Retail World) and while bottled water has been increasing, CCL's share of water has gone backwards as retailers' private label has grown. Channel checks this year indicate that Coca-Cola Amatil has cut the price of key brands such as Coca-Cola and Sprite to boost carbonated soft drink volumes and is discounting its leading Mt Franklin brand in an attempt to regain lost market share in bottled water.

We expect that there will be significant revenue and earnings downgrades for CCL over the next three years.

Value:
Based on consensus earnings estimates the stock is trading on an FY16 PE of 16x (December year end) which is high for a stock with such a modest growth outlook and competitive challenges. Our price target assumes both earnings downgrades and a PE de-rating. In combination we expect more than a 30% payoff to the downside.

Event:
There is no particular event expected for CCL that will trigger a price fall, though we see earnings downgrades over time, and an increasing focus by the market on both the changing consumer preferences towards high sugar drinks, and the action by governments to reduce sugar consumption.

For all business development enquiries, please contact

Andrew Fairweather
Winston Capital partners (Acting on behalf of Monash Investors)
P. +61 401 716 043
E. Andrew@winstoncapital.com.au

For all investor enquiries, please contact

White Outsourcing Pty Ltd (Acting on behalf of the Fund)
P. +61 2 8262 2800
E. registry@whiteoutsourcing.com.au
Monash Fund Unit Registry, GPO Box 5482, Sydney NSW 2001

For all other enquiries

E. contactus@monashinvestors.com