

# Monthly Performance Report

## September 2016

### Fund Strategy

The Monash Absolute Investment Fund ARSN 606 855 501 (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 was up 0.73% (after fees) for the month of September, during which the equities market also rose. The S&P/ASX200 was up 0.48% for the month.

Medical device companies continued to be good contributors in September. Airxpanders (ASX: AXP) rose 20% this month after it was highlighted at the annual meeting of the American Society of Plastic Surgeons. Impedimed Limited (ASX: IPD) fell sharply off its August high, but then recovered strongly following an academic article supporting its efficacy, to close up 3% for the month. Finance related businesses also boosted the September return. Challenger Limited (ASX: CGF) was up 11% for the month without an obvious catalyst. Silver Chef (ASX: SIV) too rose 11%, following a small capital raise to fund growth.

The key detractor this month was Catapult Group International Limited (ASX: CAT) which fell 11% this month to \$3.45. The Fund had purchased additional shares in its July placement at \$3 and sold them around \$4. The business outlook for CAT remains very strong, but its share price has been volatile since the placement. The remainder of the Fund's holdings, on balance, did well in September.

### Monthly Portfolio Metrics

Outlook Stocks (Long)	20 Positions: 70%
Outlook Stocks (Short)	1 Positions: -3%
Event, Pair and Group (Long)	6 Positions: 17%
Event, Pair and Group (Short)	1 Positions: -3%
Cash	19%
Gross Exposure	94%
Net Exposure	81%
Beta	0.54

### Return Summary Since Inception<sup>1</sup>

<b>Since Inception (p.a.)</b>	<b>13.60%</b>
1 Month	0.73%
3 Months	1.53%
6 Months	1.83%
FYTD	1.53%
1 Year	8.50%
2 Years	8.09%
3 Years	8.17%
Cumulative	71.95%

<sup>1</sup>Inception date of Fund is 2 July 2012.

### Portfolio Analytics Since Inception

Sharpe Ratio	1.22
Sortino Ratio	2.66
Standard Deviation (p.a.)	8.93%
Positive Months	66%
Maximum Drawdown	-7.71%
Avg Gross Exposure	88%
Avg Net Exposure	76%
Avg Beta	0.58
Avg VAR	1.17%

### Key Fund Information

FUM	\$36m
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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### Medical Devices

Businesses that successfully develop important new categories of medical devices have provided extraordinary returns to investors in the past.

For example, ResMed (ASX: RMD) was founded in 1989 following the development of the first continuous positive airway pressure (CPAP) device at the University of Sydney. It is used to treat obstructive sleep apnea. Despite attracting competitors, it now has sales of \$2.4b per year with a net profit margin around 18%. Today it trades on a P/E multiple greater than 20x and its market capitalisation is more than \$10b.

Similarly, Cochlear Limited (ASX: COH) was formed in 1981 to develop hearing implants, following Dr Graeme Clark's work at the University of Sydney. It is used to treat hearing loss. COH has attracted competitors, yet has sales of \$1.1b per year with a net profit margin of around 18%. Today it trades on a P/E multiple greater than 36x and its market capitalisation is more than \$8b.

Monash Investors sees a similar opportunity for two other businesses that the Fund holds. Airxpanders and Impeded. We discuss Airxpanders below.

#### Airxpanders

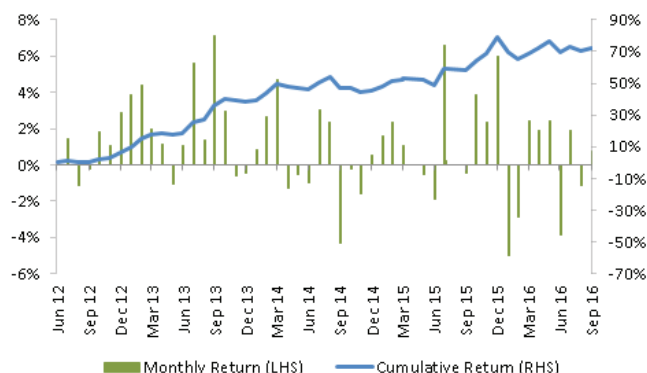
AXP has developed and is in the process of commercialising a tissue expansion medical device for women who are having a breast reconstruction following a mastectomy. Traditionally the process has been a cumbersome and painful one, with the patient needing to visit the plastic surgeon's office every fortnight to receive a saline injection to expand the temporary implant.

AXP's AeroForm technology eliminates this. It is a patient controlled wireless tissue expander. It releases small amounts of carbon dioxide from a capsule to expand the temporary implant faster with less pain.

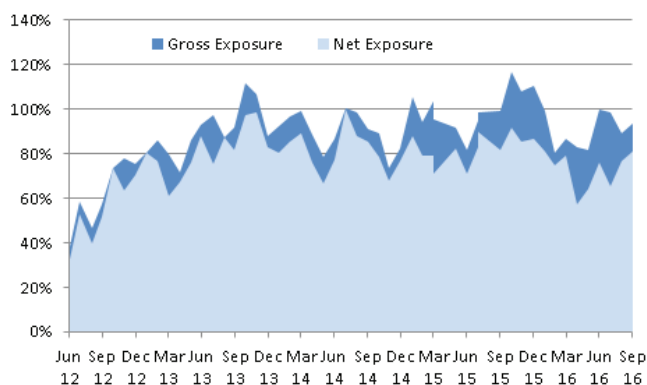
The device has been launched due to strong demand in Australia, being added to the Department of Health's Prostheses List in November 2014. AXP is currently awaiting Food and Drug Administration (FDA) approval in the US for the commercialisation of the product there. Monash Investors expect AXP to receive FDA approval by the end of the year.

According to the American Society of Plastic Surgeons there were 74,694 breast reconstructions completed in the US that used an expander in 2014, with 60% of these being bilateral (therefore the total number equates to circa 120,000).

### Cumulative Return Since Inception



### Gross/Net Exposure Since Inception



The response from patients and surgeons has already been overwhelmingly positive. The annual meeting of the American Society of Plastic Surgeons is the world's largest gathering of plastic surgeons.

Last year a presentation on Aeroform at the conference was standing room only and it was voted best presentation. This year a paper was presented at the conference demonstrating that patients achieved full tissue expansion in less than half the time of traditional expanders.

Subject to approval by the FDA (and their response so far has been encouraging) Monash Investors expects the rapid adoption of this new technology. This is a product with global demand, and given its pricing, the typical margins in the medical devices industry, and the multiples that the market is prepared

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to pay for such businesses, Monash Investors expects this share price to more than double in the medium term.

[i] Event means securities that Monash Investors has identified a near term event or catalyst that it believes should drive a share price reaction.

[ii] Outlook means securities that in Monash Investors' view whose current valuation does not reflect the future earnings potential of the business.

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#### Important Information

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