

Monthly Performance Report

January 2017

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 down 4.01% (after fees) for the month of January, during which the Small Ords fell 2.44% and the S&P/ASX300 fell 0.77%. It was a really tough month for any portfolio with a bias towards smaller cap growth stocks, this being a trend that began during October 2016.

Followers of the financial press would be aware that there were a number of high profile earning downgrades in January – the Fund had no exposure to them. Stocks such as Aconex, Bellamy's Australia, Servcorp and Virtus Health.

Indeed, one of the stocks with the biggest weight in the Fund, EML Payments, announced a major new client (being Mcmillan Shakespeare, Australia's largest salary packaging company – and equivalent to a 10% earnings upgrade for EML) yet it fell 6% for the month.

Further good news was that the Fund's short positions went backwards (on average) and that stocks that had been recently added to the Fund's portfolio were positive contributors. Speedcast rose 2.6% and the resources group trade rose about 2.5% for the month.

Nevertheless, all these positives were outweighed by the derating of many of the stocks in the Fund, despite the absence of bad news, and the lack of reasons to believe that they will not meet expectations (with only one exception).

Monthly Portfolio Metrics

Outlook Stocks (Long)	21 Positions: 72%
Outlook Stocks (Short)	2 Positions: -5%
Event, Pair and Group (Long)	4 Positions: 18%
Event, Pair and Group (Short)	0 Positions: 0%
Cash	15%
Gross Exposure	95%
Net Exposure	85%
Beta	0.83

Return Summary Since Inception¹

Since Inception (p.a.)	10.55%
1 Month	-4.01%
3 Months	-8.60%
6 Months	-8.28%
FYTD	-6.51%
1 Year	-6.72%
3 Years	4.28%
Cumulative	58.34%

¹Inception date of Fund is 2 July 2012.

Portfolio Analytics Since Inception

Sharpe Ratio	0.86
Sortino Ratio	1.67
Standard Deviation (p.a.)	9.37%
Positive Months	64%
Maximum Drawdown	-11.36%
Avg Gross Exposure	89%
Avg Net Exposure	79%
Avg Beta	0.58
Avg VAR	1.20%

Key Fund Information

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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The Fund's portfolio is exposed to a relatively concentrated group of businesses that have strong outlooks and are delivering growth, but they are all well within the Fund's weight stock limits. Monash Investors have been progressive sellers of many of these stocks as their prices were rising, and this discipline has helped during these adverse conditions. Monash Investors are not trying to catch falling knives either. Monash Investors' view is that value is now even more compelling for the Fund's outlook stocks.

February 2017 is a reporting month and Monash Investors' waits for confirmation of how the Fund's stocks are going. While Monash Investors can't control short term market trends, they have every confidence that the underlying success of these businesses will be reflected in their share prices sooner or later.

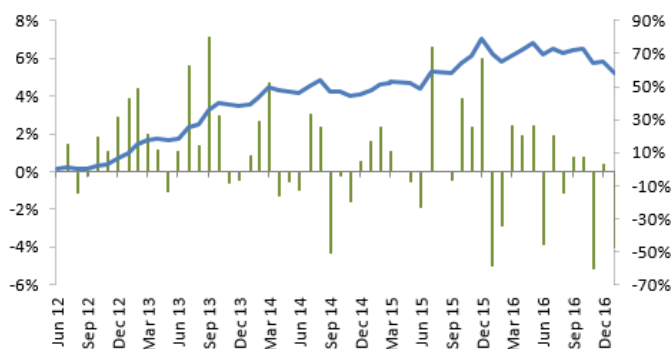
A Comment on 2016 from Simon Shields, Portfolio Manager at Monash Investors (the Investment Manager of the Fund)

At Monash Investors we are always looking to find stocks that will make money (long or short) for the Fund and we set the bar high for growth and for value. At the same time, we try to avoid low growth stocks that just go up and down with the market. Sometimes this is easier to do than other times, and 2016 was a tough year for the Fund despite avoiding the high profile stock 'blow ups' and numerous profit downgrades in well-known stock names.

Every investment manager has a view on the market: that's what they're are paid for. I could well be wrong but on balance I am positive. There has been a lot of stimulus provided by central bankers for a long time now, and as usual they have lagged winding it back in their response to recovery. The markets are coming out of the Global Financial Crisis (GFC) (financial crises take a long time to get over) and the down leg of the resources super cycle at the same time. Europe is being stimulated by working age population growth, the USA will be stimulated by likely tax cuts and infrastructure spending at a time of tight employment. The Chinese want a steady ship as they move to next year's political transition. Monash Investors see the glass half full, rather than half empty. There is still a lot of cash on the sidelines, and there is no euphoria.

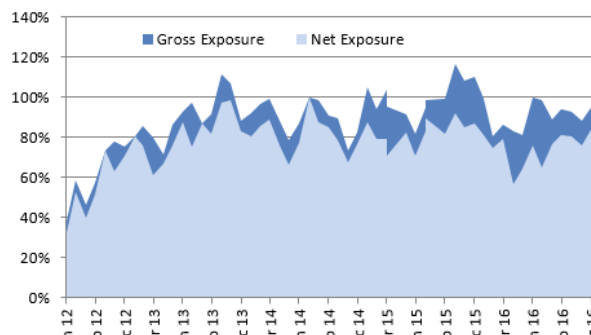
Resources hit their low point near the start of 2016 and rose steadily (we completely missed it, but forecasting commodity price changes is not a key part of what Monash Investors does – we are very bottom up, not much top down); subsequently the overall change in sector leadership since October 2016 has been pretty sharp. We don't see the main reason for the fall in prices of small cap growth stocks being because there is a lack of appetite for risk, or that people don't want to look out a couple of years for earnings. We see it very much part of a sector

Cumulative Return Since Inception



Gross/Net Exposure Since Inception

Gross/Net Exposure Since Inception



rotation where the marginal dollar is being allocated to resources at the same time as there has been some transitioning away from small cap managers in Australia. This has arisen because most investors and investment managers have been so underweight resources post the super cycle, and underweight large cap stocks generally because they have been unappealing. In the USA small cap stocks have done well. By the way, many of the Fund's stocks have USD revenues, which is another positive for their valuations.

Going forward, Monash Investors will continue to seek out businesses that meet the Fund's hurdles, and be ruthless in exiting them if they discover that they are wrong. In general, the Fund's stocks have been continuing to do very well as businesses, so Monash Investors are hopeful of a good reporting season.

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Important Information

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