

Monthly Performance Report

December 2017

Monthly Update

The portfolio increased 1.27% (after fees) for the month of December, during which the S&P/ASX200 rose 1.81% and the Small Ords rose 3.20%. It's the 7th positive month in a row for the Fund which has returned 15.58% (after fees) so far this financial year.

December was a relatively uneventful month for the portfolio. The best contributors to return were smaller positions with share prices that did well, while a number of the larger positions marked time.

In the last couple of months there have been several new holdings added as Long Outlookⁱ stocks, and profits/exits taken in some of the other stocks

Return Summary Since Inception¹(after all fees)

Since Inception (p.a.)	11.13%
1 Month	1.27%
3 Months	9.88%
6 Months	15.58%
FYTD	15.58%
1 Year	8.26%
3 Years	7.12%
5 Years	11.00%
Cumulative	78.58%

Monthly Portfolio Metrics

Outlook Stocks (Long)	22 Positions: 79%
Outlook Stocks (Short)	3 Positions: -7%
Event, Pair and Group (Long)	3 Positions: 10%
Event, Pair and Group (Short)	0 Positions: 0%
Cash	19%
Gross Exposure	96%
Net Exposure	81%
Beta	0.63

Portfolio Analytics Since Inception

Sharpe Ratio	0.96
Sortino Ratio	1.90
Standard Deviation (p.a.)	9.14%
Positive Months	65%
Maximum Drawdown	-15.21%
Avg. Gross Exposure	88.60%
Avg. Net Exposure	76.70%
Avg. Beta	0.58
Avg. VAR	1.20%

¹ Inception date is 2 July 2012

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A Comment on 2017 by Simon Shields from Monash Investors

I wrote a piece in the monthly update this time last year when our portfolio returns were being impacted by a market bias against smaller cap growth stocks, which had started during the preceding October.

Despite positive news from a number of the portfolio stocks, and avoiding a raft of high profile earnings downgrades, January 2017 had been a difficult month with the portfolio falling about 4%.

The trend continued into February 2017, despite a strongly positive reporting season from our companies as businesses. Of the top 12 holdings, 7 beat expectations, 4 were in line and just 1 disappointed, and yet the portfolio fell another 2%.

By the end of May 2017, the portfolio was down almost a further 2%, which was quite extraordinary, given the continued positive updates and good business momentum of the stocks held. That was the lowest point of returns with the portfolio down about 14% for the rolling 12 months.

All through that period of negative returns, Shane Fitzgerald and I intensively reviewed the Fund's stocks, to ensure we maintained a portfolio of companies that met our high standards for growth and value. Our activity levels were never higher, and you may recall that I reported on a trip that I did in June 2017, to check on the US exposures of our investments. In June 2017, the portfolio rose about 2%.

As it turned out, we continued to be mostly right in our assessments. The August reporting season was another strong one for us. Out of the top 12 holdings, 6 beat, 4 were in line and 2 disappointed, and while the portfolio only rose about 1.15% that month, it was the start of a run of strong months.

In those 7 months in 2017 from May to December, the portfolio bounced back by about 18%. We expect to continue to see positive announcements from our stocks through the coming reporting season of February 2018, and their stock prices should respond. We are also continuing to find new stocks with high pay-offs to invest in, while we harvest and exit from some existing holdings that have done their job.

Investing is fraught with uncertainty, which we seek to reduce as much as we can while targeting double-digit returns for the portfolio. While at times, outcomes can paradoxically be adverse to reality, that just increases the opportunity for returns. In the short to medium term, the unpredictability of news flow, or wider trends in markets can make a wise approach to investing seem foolish. 2017 has been a great lesson in the reward for working hard and smart, and sticking with our common sense approach to investing.

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¹ Long Outlook stocks have strong business outlooks with large valuation upside and moderate to low downside risks.

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