Monash ABSOLUTE INVESTMENT FUND

Monthly Performance Report

June 2018

Monthly Update

The portfolio decreased -0.04% (after fees) for the month of June, during which the S&P/ASX200 rose 3.27% and the Small Ords rose 1.06%.

Looking back over the 12 months to 30 June it was a good financial year, with the portfolio returning 11.24% after fees, whilst holding 27% in cash, and delivering lower volatility compared to the market and an average beta of 0.57.

As it is the end of the financial year, a full annual review of the portfolio will be also be published later in July. The annual update, will discuss the portfolio's highs and lows over the last financial year, and discuss the portfolio's positioning for the financial year ahead.

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Return Summary Since Inception[1] (after all fees)

Since Inception (p.a.)	9.46%
1 Month	-0.04%
3 Months	-0.64%
6 Months	-3.76%
FYTD	11.24%
1 Year	11.24%
3 Years	4.86%
5 Years	7.72%
Cumulative	71.86%
Beta	0.47

Monthly Portfolio Metrics

Outlook Stocks (Long)	17 Positions: 63%
Outlook Stocks (Short)	2 Positions: -5%
Event, Pair and Group (Long)	4 Positions: 16%
Event, Pair and Group (Short)	0 Positions: 0%
Cash	27%
Gross Exposure	84%
Net Exposure	73%

Portfolio Analytics Since Inception

Sharpe Ratio	0.78
Sortino Ratio	1.51
Standard Deviation (p.a.)	9.23%
Positive Months	63%
Maximum Drawdown	-15.21%
Avg. Gross Exposure	88.10%
Avg. Net Exposure	76.40%
Avg. Beta	0.57
Avg. VAR	1.20%

[1] Inception date is 2 July 2012

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The biggest contributor to the portfolio in June was **Afterpay (ASX: APT)** which was acquired in May (for the second time) following the stock's entry into the US market. Progress in the US appears to be at the upper end of expectations, with 241 retailers signed up by 4 July. Afterpay rose 19% over the month.

While there were a few notable winners in June, the rest of the portfolio was mixed and the short positions - with the exception of **Kogan (ASX: KGN)** - tended to go against us, with the overall result being a relatively flat outcome.

The portfolio was highly active in Kogan, and the position was initially held as a long, which was then sold in early June, shorted, and finally, covered before the month was over.

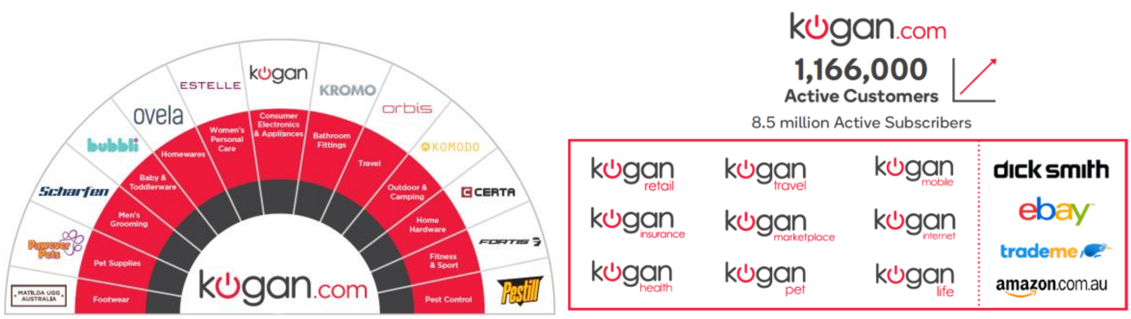
An overview of Kogan (ASX: KGN)

Kogan -25% for June (positive contributor as a short position)

Kogan is a retailer that operates only via the internet. Founded in 2006, its first product was Kogan branded televisions, which it imported directly from a manufacturer. It listed on the ASX in 2016 and its current level of sales is more than $400m p.a.

It now sells many different types of products under the Kogan brand and various private labels as well as distributing the products of numerous well-known third party brands such as Nike, Samsung etc. It also sells its own brands on other websites, such as ebay and Amazon.

In the last few years, it has expanded into other "verticals" such as Travel, Mobiles and Insurance.



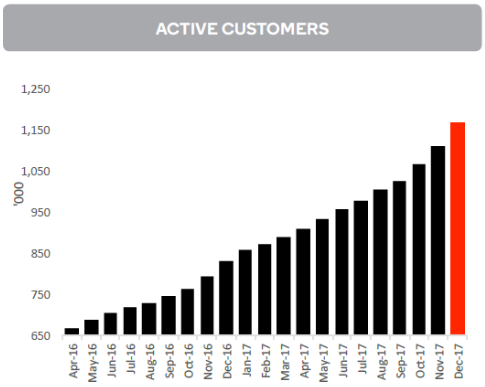
Source: kogan.com 1 HFY18 Results Presentation February 2018

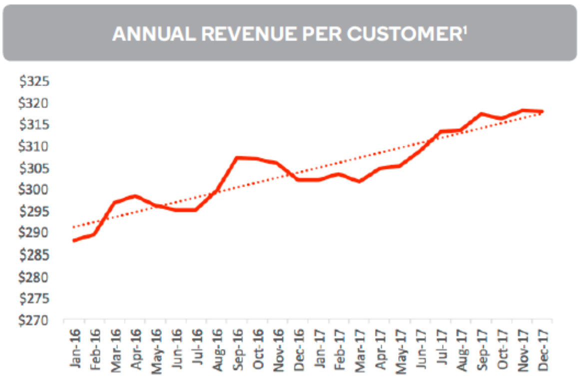
Why Kogan Works

Kogan's business model was designed from the outset to profitably sell popular products at low prices:

- Using data analytics to identify products that are in demand, to manage their inventory/pricing, and optimise their end to end logistics

- For their private label brands they source directly from the lowest cost manufacturer
- For their third party brands from the lowest cost distributor, and
- And they use technology to automate the process



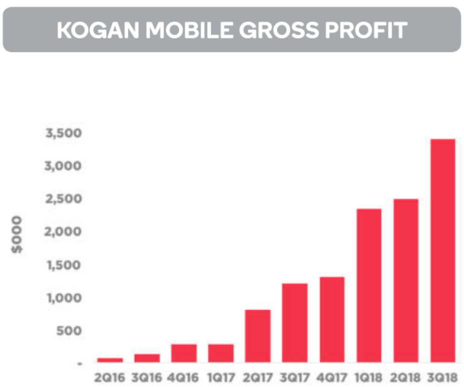


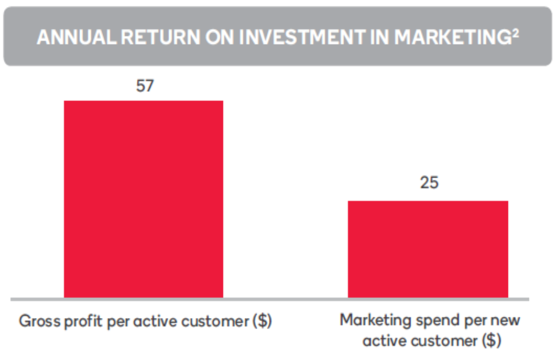
Source: kogan.com 1 HFY18 Results Presentation February 2018

Kogan Mobile: Transformed the business

In 2016 Kogan began acting as an agent for Vodafone. Unlike other mobile phone resellers, Kogan is retaining its own brand and customer relationship, without being responsible for service delivery in any way. In return for signing up customers, Kogan keeps a fixed percentage of every customer payment.

The mobile phone business has grown surprisingly quickly. The key is Kogan's low cost of customer acquisition, communicating to its active customers (more than 1.1m) its email database (more than 8.5m addresses) and via paid searches. All leveraging off the brand awareness built from its retail.





Source: Kogan.com quarterly Cash Flow Statement and Trading Update

Kogan's Competitive Advantage – and what the market is not yet pricing

Kogan's two growth drivers are well understood by the market

1. Kogan Kinetics
    a. Growth in customers
    b. Allows scale efficiencies
    c. Allows more products, verticals
    d. Attracts more customers
2. Low Customer Acquisition Cost (CAC)
    a. More than 8m email addresses
    b. More than 1m active customers
    c. Traffic to the website is mostly free
    d. CAC $25 per new customer

Kogan's increasing scale and low CAC is now allowing Kogan to enter markets where the incumbents suffer from high acquisition costs. As demonstrated by its entry into Mobiles.

Analysts are not yet assuming that they will continue to enter such verticals, but it's very likely that they will, given the high returns available to them if they do. Companies with high returning opportunities within their skill set, will almost always attempt to exploit them. It is a pattern of behaviour we see time and again. Consistent with that, they recently announced entering the broadband market. Potential future verticals are gas, electricity, and credit.

So looking to the medium to longer term, we can see the business become much greater in scale, and this is not being assumed in analyst forecasts.

Kogan - a Long Term Buy but a Short Term Sell

The portfolio was holding about a 3% weight in Kogan at the beginning of June on the basis that it was fairly priced at the time on analyst forecasts, but the analysts were not including likely future verticals, so there was still a large pay off ahead.

However, in early June the management of Kogan presented a very strong behavioural signal and we decided to sell the holding, and then short the stock to a -2.5% weight.

The two founders owned 60% of the company and attempted unsuccessfully to sell about 1/6th of their holdings when the share price had closed at $9.80. This was following two positive announcements made by the company in 2 days which had driven the share price up from $9.09. As they were attempting to sell only one month before the end of the financial year the market was highly suspicious.

We see management selling large amounts of stock as having a track record correlated with future earnings disappointment for a company, versus the expectations of the market. So we sold out over the next day, and then shorted the stock the following day, for an average price of $8.47. We then covered (bought back the stock) at $6.99 and by the end of the month the stock closed at $6.82.

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