Monash ABSOLUTE INVESTMENT FUND

Monthly Performance Report

October 2018

Monthly Update

For the month of October, the portfolio was down by -5.73% (after fees) compared to the S&P/ASX200 down -6.05% and the Small Ords down -9.60%.

The Fund has also beaten the market over the financial year to date, being down by -2.98% (after fees) compared to -4.61% and -8.60% respectively. We see the pull back as a correction which has now largely run its course.

Going into October net cash was sitting at about 36% and reached a peak of 40%. This high cash weighting was an outcome of taking profits/exiting positions and our view that there were relatively few stocks around that could meet our investment hurdles. However, with the pull back in the market, particularly for quality high growth stocks, we began to re-invest the cash, so that by the end of the month net cash was down to 23%.

Monthly Portfolio Metrics

Outlook Stocks (Long)	18 Positions: 62%
Outlook Stocks (Short)	1 Positions: -3%
Event, Pair and Group (Long)	6 Positions: 23%
Event, Pair and Group (Short)	1 Positions: -5%
Cash	23%
Gross Exposure	93%
Net Exposure	77%
Beta	0.57

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

Since Inception (p.a.)	8.41%
1 Month	-5.73%
3 Months	-6.12%
6 Months	0.67%
FYTD	-2.98%
1 Year	-2.35%
3 Years	0.43%
5 Years	3.57%
Cumulative	66.75%

Portfolio Analytics Since Inception[2]

Sharpe Ratio	0.66
Sortino Ratio	1.22
Standard Deviation (p.a.)	9.42%
Positive Months	61%
Maximum Drawdown	-15.21%
Avg. Gross Exposure	87.90%
Avg. Net Exposure	76.10%
Avg. Beta	0.57
Avg. VAR	1.16%

[1] Inception date is 2 July 2012. Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

[2] Glossary of terms can be found on the Fund's website at www.monashinvestors.com/glossary/

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Portfolio Activity

<u>Selling before the fall</u>

The portfolio benefitted early in the month from a sell down in our Afterpay (ASX: APT), Nearmap (ASX: NEA) and Emeco (ASX: EHL) positions which were reduced by about half, as we took profits from their strong share price runs. While we did not completely exit these holdings, we did reduce them by more than half.

The performance of these shares over the month, -30% for APT, -21% for NEA, and -17% for EHL while dramatic were not due to business issues, but rather, typical for such high growth stocks this month.

<u>Lovisa (ASX: LOV)</u>

The one stock in the portfolio that did have a business issue was Lovisa and although it was only a minor issue, it was not the month to disclose bad news. Ultimately its stock price fell 26% for the month.

Lovisa reported a slow down in its like for like sales from around +2% to -0.9%. To put this in perspective, this reduces its analyst forecast sales growth this year from 18% to about 15%. Its overall sales growth is driven by its global store roll out, which is accelerating, rather than it's like for like sales. Lovisa was one of the largest positions in the portfolio, so the fall in its share price effected portfolio performance considerably.

<u>Kogan (ASX: KGN)</u>

It's worth noting that we had absolutely no exposure to Kogan, which fell 50% during October. Kogan updated the market that it had a slow down in sales growth due to changes in the GST regime for imports, a rising advertising spend and a fall in margins.

Kogan is a stock we follow closely and have made money previously from both its rise and its fall. Its share price volatility is inconsistent with the quality of the company, and we expect it will continue to provide opportunities for us.

<u>Buying back in</u>

We do not view the stock market as being in danger of a crash, which is typically accepted to be a 20% fall from its high. Rather we see the market as merely going through a correction, which is typically defined as a 10% fall.

Our confidence stems from the strength and momentum of the global economy, and the persistency of low inflation and low interest rates. While inflation and rates should rise a little, they are signs of a world economy doing well, not poorly. As a result profits and stock prices should continue to grow.

So we see the pull back as a valuation correction, and an opportunity to gain exposure at great prices to stocks that have been unreasonably penalised.

The first phase of this was to rebuild some of the positions in which we had been recently taking profits, such as APT, NEA and EHL.

The second phase was to take a diversified approach to picking up some of the higher growth and higher quality companies, which had suffered a severe pull back in share price.

Our approach has been to purchase a dozen businesses across 4 broad categories. The businesses all have a broad revenue base, which is typically spread widely by numbers of customers and geographies, and are less likely to suffer setbacks. Half are ASX 100 market cap companies and the others are generally not far outside the 100. They all are highly liquid.

1. High Growth, low maturity
2. High Growth, more mature
3. High Quality, moderate growth
4. High Quality, low PE

These are group trades, where we are taking a basket approach, and our exposure to each of these companies is relatively low. It is not the individual weights that will drive the outcome, rather it is our confidence that we are able to achieve exposure to these companies as a group, at great prices.

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