

# Monthly Performance Report

## November 2018

### Monthly Update

For the month of November, the portfolio was down by -0.37% (after fees) compared to the S&P/ASX200 down -2.21% and the Small Ords down -0.37%.

The Fund has also beaten the market over the financial year to date, being down by -3.34% (after fees) compared to -6.72% and -8.84% respectively.

Despite a fluctuating market, the portfolio had a quiet month for stock specific news flow. The two main exceptions were G8 Education (ASX: GEM) and Coca-Cola Amatil (ASX: CCL) both of which contributed positively.

### Monthly Portfolio Metrics

Outlook Stocks (Long)	18 Positions: 63%
Outlook Stocks (Short)	1 Positions: -2%
Event, Pair and Group (Long)	7 Positions: 36%
Event, Pair and Group (Short)	1 Positions: -6%
Cash	9%
Gross Exposure	108%
Net Exposure	91%
Beta	0.57

### Return Summary Since Inception<sup>1</sup>(after all fees)

Since Inception (p.a.)	8.23%
1 Month	-0.37%
3 Months	-6.30%
6 Months	-3.38%
FYTD	-3.34%
1 Year	-5.79%
3 Years	-0.48%
5 Years	3.62%
Cumulative	66.12%

### Portfolio Analytics Since Inception<sup>2</sup>

Sharpe Ratio	0.64
Sortino Ratio	1.19
Standard Deviation (p.a.)	9.37%
Positive Months	60%
Maximum Drawdown	-15.21%
Avg. Gross Exposure	88.1%
Avg. Net Exposure	76.30%
Avg. Beta	0.57
Avg. VAR	1.17%

<sup>1</sup> Inception date is 2 July 2012. Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

<sup>2</sup>Glossary of terms can be found on the Fund's website at [www.monashinvestors.com/glossary/](http://www.monashinvestors.com/glossary/)

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G8 was up 36% for the month, following a trading and strategy update that highlighted improved occupancy. This is being driven by the settling down of the Child Care Subsidy and some operational initiatives.

On the other hand, CCL is a short position. This means that it is a stock we have borrowed in order to sell, and we benefit if its share price falls.

CCL also had a trading update during November, but it reported bad news. The company disclosed that FY19 will be another “transitional” year – a euphemism for flat to down earnings. This has been driven by lower revenues and higher costs than analysts were expecting. As a result CCL fell 13% for the month, which benefitted the portfolio.

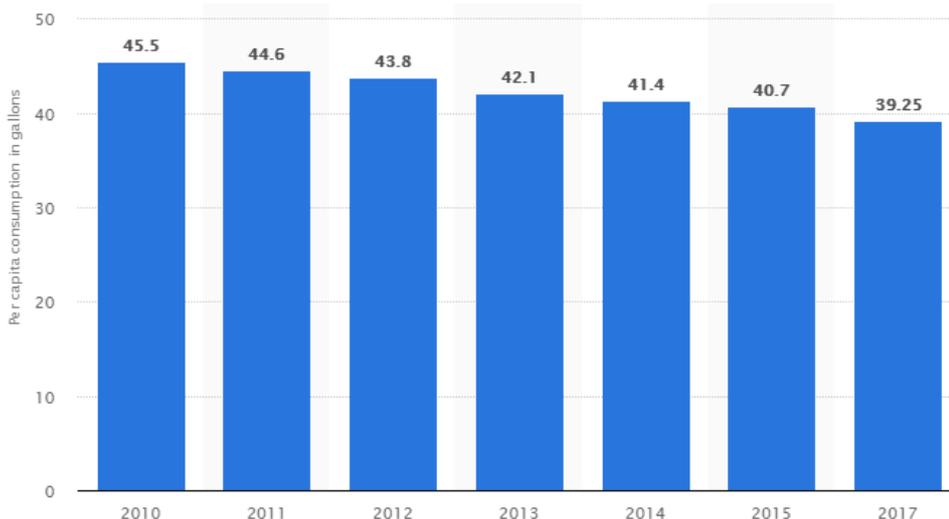
We have been short Coca-Cola Amatil for some time. Here’s why.

Coca-Cola Amatil (ASX: CCL) has an exclusive franchise granted by The Coca-Cola Company (NYSE: KO) to sell their products in Australia, NZ, Fiji and a large part of Indonesia. KO owns 30% of CCL, it sells CCL the syrup, provides some marketing support, and CCL does the rest. What could go wrong?

### 1. Consumers are trying to cut down sugar and sugar substitutes in their drinks.

The chart below shows a consistent per capita decline in US soft drink sales. In 2017 sales of US Soda drinks fell for their 13th year in a row, to their lowest level since 1985, when Beverage Digest (a trade publication) began tracking consumption trends.

The trends are much the same in Australia, with CCL itself recently stating that changing consumer preferences, and concerns about sugar in particular, are impacting sales.



Data visualized by  + a b | e a u

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2. **Coke's water business is struggling** too, with CCL recently noting the proliferation of private label water that is undercutting their premium Mount Franklin brand, and crowding it out from supermarket shelves.
3. **CCL is complaining of a persistently deflationary retail environment**, which makes it hard to recover lost volumes and increasing costs through price rises.
4. **There are increasing regulatory imposts** including container deposit schemes. CCL notes that their near term earnings will continue to be impacted by the implementation of container deposit schemes in NSW, Queensland, ACT and Western Australia.
5. **Indonesia isn't working out for them** with more capex required, weaker than expected macro-economic conditions, and lower than expected consumer spending in beverages. CCL stated that in Indonesia in 2018 so far there has been a beverages value decline of 1% and a volume decline of 2%.
6. **The business has been struggling for years**, and it's getting tougher. Following an EPS decline of 37% for the 3 years 2012 – 2014, CCL set out to achieve the modest target of mid-single digit EPS growth. It was able to do this for the next 3 years with an EPS growth averaging 4%pa. However, here we are in 2018 and now even these modest growth targets cannot be met with the EPS likely to decline in both 2018 and 2019.
7. **The 30% ownership of CCL by KO remains a long standing conflict of interest**. KO sells syrup to CCL, and the more syrup it sells and the higher its price, the better off KO is. With its 30% shareholding KO is effectively able to control the board if it wishes. At a management level, CCL is part of the Coca-Cola system, with staff moving between KO and other Coca-Cola bottlers such as CCL.
8. **It's expensive**. CCL trades on an FY18 PE of 16x with a declining earnings outlook.
9. **It's dividend yield of 5.5% is reliant on a payout ratio of 85%**. With any significant fall in earnings its dividend level will be at risk.
10. **It's not a crowded short trade**, with only 3.4% of CCL's capital shorted.

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For all business development enquiries, please contact  
**Winston Capital Partners (Acting on behalf of Monash Investors)**

Andrew Fairweather	P: +61 401 716 043 Andrew@winstoncapital.com.au
Stephen Robertson	P: +61 418 387 427 stephen@winstoncapital.com.au

For all investors enquiries, please contact

Link Fund Solutions Pty Limited (Acting on behalf of the Fund)  
+612 9547 4311  
[LFS\\_registry@linkgroup.com](mailto:LFS_registry@linkgroup.com)

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