



Monash Absolute Investment Fund

October 2015 – Month End Note¹

Monash Absolute Investment Fund Unit Price Performance After Fees

Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD
2012/13	1.46%	-1.15%	-0.20%	1.81%	1.09%	2.91%	3.90%	4.39%	2.00%	1.13%	-1.10%	1.05%	18.53%
2013/14	5.57%	1.40%	7.08%	2.96%	-0.58%	-0.47%	0.86%	2.62%	4.72%	-1.27%	-0.54%	-1.01%	23.05%
2014/15	3.06%	2.32%	-4.31%	-0.22%	-1.61%	0.55%	1.55%	2.33%	1.08%	0.08%	-0.55%	-1.86%	2.21%
2015/16	6.57%	0.22%	-0.46%	3.88%									10.44%

Returns to 30 October 2015		Return Characteristics Since Inception ¹		Portfolio Metrics as at 30 October 2015	
3 Months	3.63%	Positive Months	65%	Outlook Stocks (long)	17 69%
Financial YTD	10.44%	Avg Gain in Up Months	2.56%	Outlook Stocks (short)	4 -12%
Calendar YTD	13.32%	Avg Loss in Down Months	-1.09%	Event, Pair & Group Trades	7 35%
1 Year	12.11%	Maximum Draw Down	-6.05%	Net Exposure	92%
2 Years	8.48% p.a.	Sharpe Ratio	1.61	Gross Exposure	116%
3 Years	18.08% p.a.	Sortino Ratio	4.42	FUM \$A	27
Since Inception	16.13% p.a.	Average Beta	0.60	Beta	0.58
Standard Deviation	8.23% p.a.	Average VAR	1.1%	VAR	1.8%

The Fund rose 3.9% in October, assisted by a rising share market and a few positive announcements by stocks we hold.

We continue to find compelling opportunities to add to the portfolio, and this has increased the number and weight of our Outlook Driven stocks, both long and short.

The Highs

Emerchants (EML) rose 37.3%. Emerchant's share price is being driven by the success of its offering to betting companies – an ATM card that clients can use to withdraw their winnings.

During October, it released its September quarter cash flow report demonstrating active card growth of 57%. This is expected to accelerate over FY16 with the ramp of new customers (Bet365 and Crownbet) and organic growth from existing customers (Sportsbet and Ladbrokes).

William Hill, who is the only major corporate bookmaker that is not offering the Emerchants winnings card, also released its results. It significantly underperformed the market in terms of amounts staked (-18% yoy vs Ladbrokes +61% yoy) and active player growth (+10% yoy while the market is conservatively growing at ~25% yoy).

This bodes well for the likely adoption of the card by betting companies in the UK, where it is expected that EML will announce its first wagering client in the new year.

¹ Reference to the Australian Market is based on the S&P ASX200 Accumulation Index. Inception date of Fund is 30 June 2012.

AirXpanders (AXP) rose 17.2%. AXP makes a patient controlled tissue expander which significantly improves the experience of breast reconstruction following a mastectomy. AXP's product is the first meaningful product innovation in this area of medicine in over 30 years.

This product is very beneficial to the patients, with less pain and more control over their healing process than saline expanders. The social community of breast cancer victims is incredibly active. One blog in the US has about 60m users. We expect that doctors will see significant encouragement from the patients.

The product is also beneficial to doctors as it is easy to use, and increases their productivity. The product is rapidly being adopted by Australian surgeons. After the first 90 days since its launch it had a 10% market share.

It is currently moving through a USA approval process, following a successful trial there.

The Low

ERM Power (EPW) fell 15.0% before we exited. By month end it had fallen 26.8%.

At its AGM management issued a surprise profit update which was around 10% below market expectations. The drivers of this downgrade were (i) lower profits from its Oakey Power Station, and (ii) more worryingly, margins coming under pressure from competitors pricing aggressively. This soft margin commentary is deeply concerning, given that the business should be experiencing a meaningful margin improvement due to the increasing mix of business being sourced from materially higher margin SME customers, particularly as management didn't downgrade volume guidance.

The other aspect of this downgrade which is of concern is that contracts written by the EPW electricity retailing business are multi year, and therefore management should have a very good idea of the near term profit outlook for the business. There was no mention of the margin pressure at the recently released result.

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