

Monthly Performance Report

July 2016

Fund Strategy

The Monash Absolute Investment Fund ARSN 606 855 501 (Fund) offers investors an Australian equity fund that aims to deliver high absolute returns of 12-15% p.a. (after fees), over a full investment cycle and preserve investor capital each financial year.

The Fund is benchmark unaware, style and stock size agnostic, both long and short and only invests in compelling opportunities. In keeping with the Fund's absolute return objectives, if the team cannot find stocks that meet the very high return hurdle requirements, the Fund will preserve that capital in cash at bank.

Monthly Update

The Fund was up 1.9% (after fees) for the month. Key contributors were Impedimed (ASX: IPD) up 41%, as it widened the application of its medical technology beyond lymphedema, and Catapult (ASX: CAT), up 25%, on the back of an acceleration in its sales, and despite a capital raising at a discount, in which the Fund participated.

Given the strength of the market in July, the portfolio was hampered by its short holdings. Key detractors were Coca Cola Amatil (ASX: CCL) up 12% despite no significant news and Woolworths (ASX: WOW) also up 12% following the release of its quarterly sales which were in line with recent downgrades.

The Fund has been finding more shorting opportunities over the last few months, with both Event[i] trade shorts and Outlook[ii] driven shorts increasing. As a result the net exposure of the Fund, at 65%, is about 10% below the Fund's long term average.

Monthly Portfolio Metrics

Outlook Stocks (Long)	17 Position: 62%
Outlook Stocks (Short)	3 Positions: -9%
Event, Pair and Group (Long)	5 Positions: 19%
Event, Pair and Group (Short)	3 Positions: -8%
Cash	35%
Gross Exposure	98%
Net Exposure	65%
Beta	0.43

Return Summary Since Inception¹

Since Inception (p.a.)	14.31%
1 Month	1.93%
3 Months	0.35%
6 Months	1.70%
FYTD	1.93%
1 Year	8.66%
2 Years	7.17%
3 Years	11.32%
Cumulative	72.63%

¹Inception date of Fund is 2 July 2012.

Portfolio Analytics Since Inception

Sharpe Ratio	1.28
Sortino Ratio	2.78
Standard Deviation (p.a.)	9.04%
Positive Months	65%
Maximum Drawdown	-7.71%
Avg Gross Exposure	88%
Avg Net Exposure	77%
Avg Beta	0.58
Avg VAR	1.17%

Key Fund Information

FUM	\$33m
Minimum Investment	\$20,000
Management Fee	1.53% p.a.
Performance Fee	20.5% above the RBA Cash Rate with High Water Mark
Pricing Frequency	Daily
Distributions	Annually
APIR Code	MON0001AU
Morningstar Category	Alternatives Strategies

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Impedimed

Impedimed is a medical device company that produces equipment capable of measuring changes in fluid levels in the human body in a highly accurate, non-invasive way. It has been given a Category 1 reimbursement code in the USA – the only other Australian listed companies similarly positioned are Cochlear and Resmed. The US regulator is keen to see the product in use as it allows diseases to be identified early, reducing the cost of treatment.

Their primary product, L-Dex, allows for the early detection of an otherwise incurable condition called Lymphedema, which affects many cancer patients after chemotherapy.

More significantly, Impedimed is not just about lymphedema, as this is a platform business. L-Dex can measure body-fluid changes anywhere in the body. One area in which they are currently developing a new product is the early detection of chronic heart disease, a market many times larger than lymphedema. They have recently also flagged an extension into kidney disease.

Insights

1. Behaviour of regulators and hospitals. Globally, the rising cost of healthcare to governments is a big issue. In the USA, Medicare is penalizing hospitals that are readmitted within 30 days of initial procedures. Impedimed have a product that is unique in its ability to cheaply detect problems early, which leads to more effective treatment, thereby reducing longer term costs. The surprisingly strong encouragement by regulators, and rapid early adoption by hospitals, is evidence of the product's future penetration and ultimate demand.

2. Underestimation of significant change. The application of Impedimed's systems into patient monitoring is a big change to current procedures. While the market is pricing Impedimed for strong near term growth, it has not yet incorporated reasonable forecasts of longer term sales and profitability into its share price.

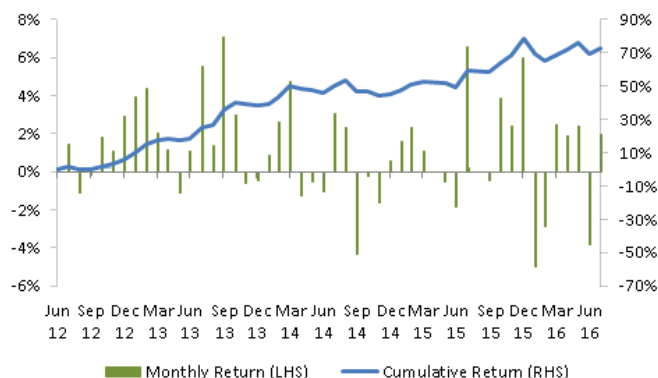
3. Lack of analyst coverage. There are currently only 3 analysts covering the company, and none are from Tier 1 stock broking firms. As more analysts begin to cover the stock, increased distribution of research on it will lead to a re-rating

Growth

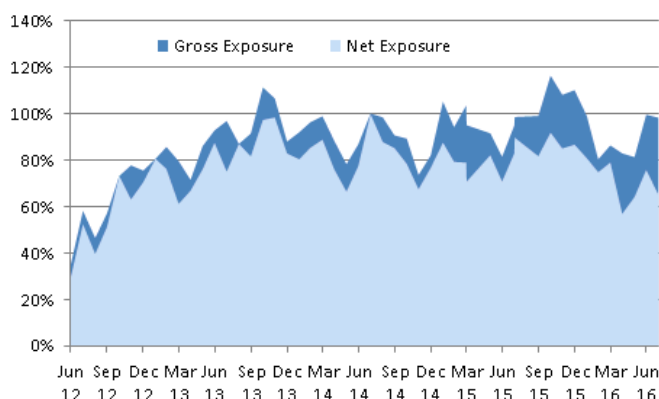
1. Impedimed is on track to meet its goal of 50 new sites commercially using L-Dex by the end of the year. It has also flagged that the clinical trial program to support marketing of its heart failure product should be complete by August 2017.

2. It has announced two agreements with the Mayo Clinic for the development of new applications and has also signed

Cumulative Return Since Inception



Gross/Net Exposure Since Inception



a partnership with Redox which provides middleware that interfaces with 120 electronic medical records systems.

3. Impedimed's video for SOZO (click here to see video) highlights the potential for this next generation product to integrate a range of healthcare and wellness applications with remote patient monitoring. It is expected that, in addition to revenue from sales of the device, IPD will look to generate high margin, annuity revenue from subscriptions for app and monitoring services that can be tailored to meet patient specific needs.

Value

Impedimed's previous disclosures to the market, and current reimbursement rates, imply an addressable market in the USA for Lymphedema and heart disease applications at around A\$3,500m per year.

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Successful medical device companies tend to have high profit margins. For example, Resmed makes a net profit after tax of about 20% of its sales. In Impedimed's case this would equate to a net profit of A\$700m p.a for the US market alone.

Successful medical device companies also tend to trade on high valuation multiples. Again, for example, Resmed's market capitalisation is about 20x its profit. Impedimed's market cap is currently around \$500m, so the potential upside payoff for investors in Impedimed is many multiples of the current share price if they are successful.

[i] Event means securities that Monash Investors has identified a near term event or catalyst that it believes should drive a share price reaction.

[ii] Outlook means securities that in Monash Investors' view whose current valuation does not reflect the future earnings potential of the business.

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