

Monthly Performance Report

October 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 0.75% (after fees) for the month of October, during which the equities market fell. The S&P/ASX300 was down 2.17% for the month, within which the Small Ords was down 4.72%.

Stocks held short were positive contributors in October. Ainsworth Game Technologies (ASX: AGI) fell 17% this month after announcing weak guidance for 1H17. It expects NPBT^[1] to be \$15m vs \$35m last year, due to lower market share and an increase in R&D spend. Coca-Cola Amatil (ASX: CCL) closed down 7% for the month, with analysts highlighting challenges for soft-drink sales following its investor day. Sky Network Television (ASX: SKT) fell 7% this month as well, with the NZ Commerce Commission indicating an adverse view towards its merger with Vodafone NZ because it is likely to lessen competition.

The key detractor this month was Netcomm Wireless (ASX: NTC) which fell 19% without any obvious news flow effecting the price. It is lack of news flow that is an issue for NTC. The market is anticipating there are announcements that it could make in the short to medium term for wireless broadband and fibre to the connection point. The stock has been trading in a broad range between \$2 and \$3, finishing the month towards the lower end.

[1] NPBT is the Net Profit Before Taxes

Monthly Portfolio Metrics

Outlook Stocks (Long)	20 Positions: 71%
Outlook Stocks (Short)	2 Positions: -6%
Event, Pair and Group (Long)	6 Positions: 17%
Event, Pair and Group (Short)	1 Positions: -1%
Cash	19%
Gross Exposure	93%
Net Exposure	81%
Beta	0.56

Return Summary Since Inception¹

Since Inception (p.a.)	13.52%
1 Month	0.75%
3 Months	0.36%
6 Months	0.71%
FYTD	2.29%
1 Year	5.23%
2 Years	8.61%
3 Years	7.39%
Cumulative	73.24%

¹Inception date of Fund is 2 July 2012.

Portfolio Analytics Since Inception

Sharpe Ratio	1.23
Sortino Ratio	2.67
Standard Deviation (p.a.)	8.85%
Positive Months	65%
Maximum Drawdown	-7.71%
Avg Gross Exposure	88%
Avg Net Exposure	76%
Avg Beta	0.58
Avg VAR	1.18%

Key Fund Information

FUM	\$36m
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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Shorting Stocks

When a fund manager borrows a stock that they do not own in order to sell it on market, it is known as shorting. In contrast to owning a stock, shorting allows a fund to benefit from downward movement in share prices. By shorting, a fund manager can take advantage of an insight that a stock should fall in price, rather than just only acting on insights identifying cheap stocks.

While stock prices tend to rise over time, downward movements in share prices can often be quite sharp, hence the saying "Up by the steps, down by the elevator". This leads Monash Investors to take an opportunistic approach to shorting stocks, rather than holding a permanent broad based "short" portfolio.

Monash Investors is looking for each of its shorts to go down in price, unlike many other long-short managers who are generally only aiming to have their shorts underperform their longs.

Depending on the amount of downside pay-off anticipated, Monash Investors can classify a short in one of two ways. Where the degree of downside is large it is an "Outlook" short. When the amount of downside is more modest, but there is a near term catalyst, it is an "Event" short. In October there were examples of both in the Fund.

Ainsworth

Ainsworth Game Technologies was held as an "Event" short. Towards mid-October, Monash Investors formed the view that their domestic sales had been suffering due to the popularity of Aristocrat's Lightning Link poker machine. This was in stark contrast to the commentary from management in August for growth domestically in FY17.

The short position was established with a portfolio weight of -2.5%. The downside pay-off was expected to be at least 15% and the catalyst was expected to be an update by the company at its AGM on the 15th of November.

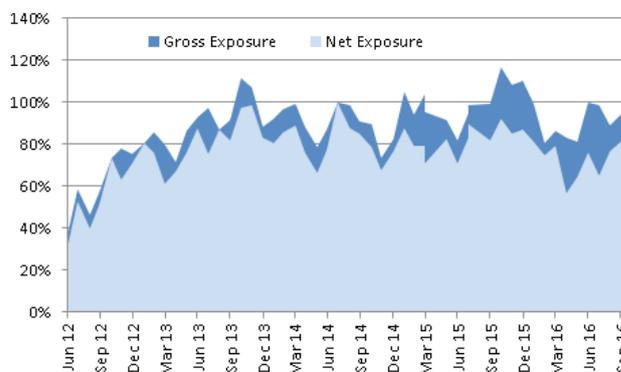
As it turned out, the company couldn't wait until the AGM to disclose the bad news, and made its announcement on the 26th of October.

There are 7 analysts covering the stock according to Factset. They dropped their earnings forecasts by about 20% following the announcement. One dropped his recommendation of the stock from Buy to Hold. The stock fell about 10% on the day. With the event over the process of buying back the shorted stock began. This is known as covering.

Cumulative Return Since Inception



Gross/Net Exposure Since Inception



Several days were allowed to cover the stock, because it was expected that there would likely be some ongoing weakness in the share price. By 31 October covering was almost completed and the portfolio weight was only -0.3%. The average price at which the Fund covered was about 17% lower than that the average price at which it shorted the stock.

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Important Information

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