Monash
ABSOLUTE INVESTMENT FUND

Monthly Performance Report

November 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 down 5.15% (after fees) for the month of November, during which the Small Ords fell by 1.19% and the S&P/ASX300 was up 2.80%. It was quite a turnaround from the previous month, where the Fund was up and both of those indexes down.

With the Fund having no holdings in banks and little in resources, there was a lack of exposure to the sectors that drove the performance of the market.

The key detractors were a few adverse 'Event[i] Trades', and a number of 'Outlook[ii] stocks' that fell. Some of these are discussed on the next page. The size of these stock moves was made larger by the volatility and the sector rotation that followed the victory of Donald Trump in the US election.

Since the Fund started, almost four and a half years ago[iii], it has had a number of monthly moves up and down of around this size. Given the stock specific risks the Fund takes, such volatility from time to time can be expected.

One of the risk management strategies that the Fund uses for capital preservation purposes are price based stop losses for 'Event Trades'. The stop loss is typically set to be one third of the anticipated payoff expected. For example, if a return of 15% is

Return Summary Since Inception[1]

Since Inception (p.a.)	11.90%
1 Month	-5.15%
3 Months	-3.75%
6 Months	-6.71%
FYTD	-2.98%
1 Year	-2.49%
3 Years	5.72%
Cumulative	64.32%

[1]Inception date of Fund is 2 July 2012.

Portfolio Analytics Since Inception

Sharpe Ratio	1.01
Sortino Ratio	2.02
Standard Deviation (p.a.)	9.25%
Positive Months	64%
Maximum Drawdown	-8.01%
Avg Gross Exposure	88%
Avg Net Exposure	76%
Avg Beta	0.58
Avg VAR	1.18%

Monthly Portfolio Metrics

Outlook Stocks (Long)	21 Position: 73%
Outlook Stocks (Short)	2 Positions: -6%
Event, Pair and Group (Long)	6 Positions: 10%
Event, Pair and Group (Short)	0 Positions: 0%
Cash	23%
Gross Exposure	88%
Net Exposure	76%
Beta	0.61

Key Fund Information

FUM	$35m
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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expected, a stop loss will be triggered if the stock moves down by 5%.

During November, some stop losses were triggered in the Fund on the day that Donald Trump won the US election. Two examples are provided below.

Aristocrat

Aristocrat (ASX: ALL) is a successful Australian poker machine manufacturer. Its market share has been growing strongly in the US driven by top performing content and hardware.

A long position in Aristocrat was established in anticipation of a stronger than expected result and outlook statement by the company. However, a couple of weeks prior to the result, the Managing Director announced his resignation, and this happened to occur on the day of the US election result. The share price fell sharply on the open to be down about 12% for much of the day, which triggered the stop loss and the Fund sold its holdings at a loss. By the end of the day, the stock, and the market as a whole, had recovered somewhat.

When Aristocrat reported its earnings later in the month it delivered a result better than expected and the stock rallied further, however the Fund no longer had a holding.

Vocus

Vocus (ASX: VOC) is a fully integrated Telco servicing households and corporates. The Fund established a position in Vocus after it had already fallen about 40% from its recent high due to two factors.

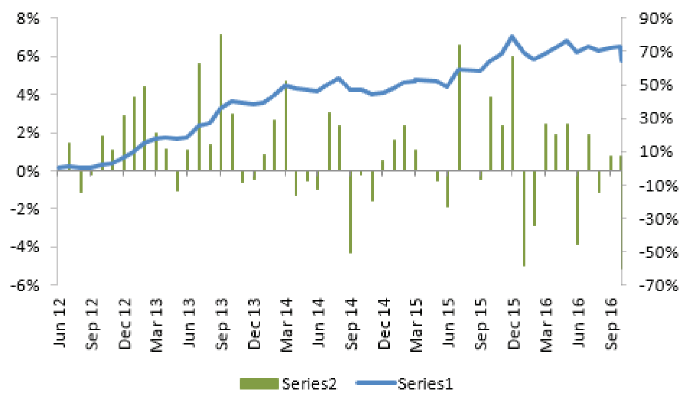
Firstly, the stock had initially fallen due to outlook statements made by a competitor, TPG Telecom (ASX: TPM) which was being impacted by the NBN rollout. This should not have been such a problem for Vocus due to its reseller model.

The second leg down for Vocus was due to a boardroom stoush, which resulted in two of the directors leaving. With no change to the Managing Director, who is held in high regard, Monash Investors held the view that there was a degree of overreaction by the market.

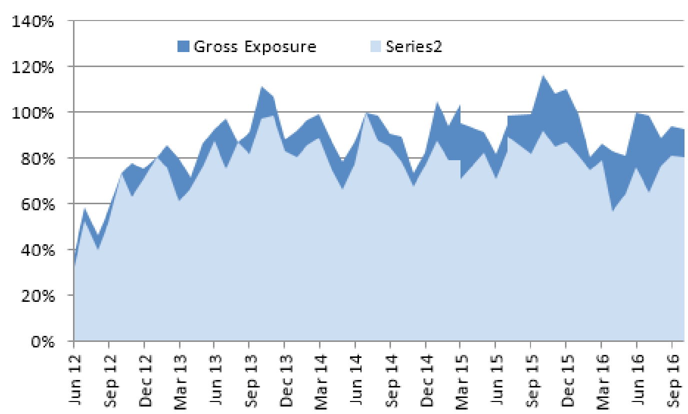
A 3% position was established and the stock began to recover. The investment thesis seemed to be on track, however, bad news came at the Annual General Meeting (AGM).

Vocus stated that its Australian consumer internet and Nextgen businesses 'have not met expectations'. Overall EBITDA guidance provided for FY2017 was 4- 9% below consensus expectations and was weighted to the second half. It also excluded several items as one-offs. Brokers lowered their earnings and cash flow estimates by 20-30% for FY2017-F019 resulting quickly in a similar size fall in the share price on the day. The Fund exited the stock, due to the Company's investment thesis being violated, which is another important risk management strategy.

Cumulative Return Since Inception



Gross/Net Exposure Since Inception



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

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

[iii] Inception date is 2 July 2012

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The Impact of Sector Rotation

Many of our 'Outlook stocks have been impacted somewhat by the desire of the market to re-rate resources, banks and large cap industrial stocks generally, which has led to a de-rating of smaller cap growth stocks.

Despite this trend being strong in October, the Fund suffered little impact from it back then. However, the Fund felt its force in November. A couple of examples are provided below.

Impedimed (ASX: IPD)

Impedimed is a medical device company that is rolling out a product that monitors various diseases using bioimpedence spectroscopy. It is likely to be a game changing device for the monitoring of patients with Lymphodema and heart disease, and is being enthusiastically backed by the US regulator and hospitals. It fell 25% last month without any obvious news flow affecting the price.

Catapult (ASX: CAT)

Catapult provides wearable technology for professional athletes. It delivered positive news at its AGM where it set strong guidance for next financial year, and indicated its imminent launch into the 'pro-summer' market, yet finished the month down 8% in share price.

The Fund will continue to hold both positions, as the thesis for both stocks is unchanged, despite the recent share price volatility.

A month like the one the Fund experienced causes much angst for portfolio managers, particularly when they are also large investors in the strategy. It may well be that the full extent of the sector rotation and its impact on some of the stocks in the Fund is yet to be seen. However, all of the outlook driven stocks held in the Fund have been selected because of their strong business outlooks and the large upside pay-offs that should arise over the medium to long term. As long as this remains the case, the Fund will continue to hold moderate positions in these companies despite the volatility that may be encountered along the way.

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