Monthly Performance Report

January 2018

Monthly Update

The portfolio increased 0.82% (after fees) for the month of January, during which the S&P/ASX200 fell -0.45% and the Small Ords fell -0.54%. It's the 8th positive month in a row for the Fund which has returned 16.54% (after fees) so far this financial year.

January is typically a very quiet month for the market, with companies in black out prior to the reporting month of February, and many people taking summer holidays. This January was no exception, but there were a few announcements of note for the Company holdings.

The most significant of these was a profit upgrade by Sirtex Medical Ltd (ASX: SRX) which two weeks later received a takeover offer at a 49% premium.

Return Summary Since Inception[1] (after all fees)

Since Inception (p.a.)	11.11%
1 Month	0.82%
3 Months	5.44%
6 Months	16.20%
FYTD	16.54%
1 Year	13.72%
3 Years	6.86%
5 Years	10.33%
Cumulative	80.05%

Monthly Portfolio Metrics

Outlook Stocks (Long)	21 Positions: 74%
Outlook Stocks (Short)	2 Positions: -5%
Event, Pair and Group (Long)	4 Positions: 13%
Event, Pair and Group (Short)	0 Positions: 0%
Cash	18%
Gross Exposure	92%
Net Exposure	82%
Beta	0.33

Portfolio Analytics Since Inception

Sharpe Ratio	0.96
Sortino Ratio	1.91
Standard Deviation (p.a.)	9.07%
Positive Months	66%
Maximum Drawdown	-15.21%
Avg. Gross Exposure	88.70%
Avg. Net Exposure	76.80%
Avg. Beta	0.58
Avg. VAR	1.17%

[1] Inception date is 2 July 2012

Monash ABSOLUTE INVESTMENT FUND

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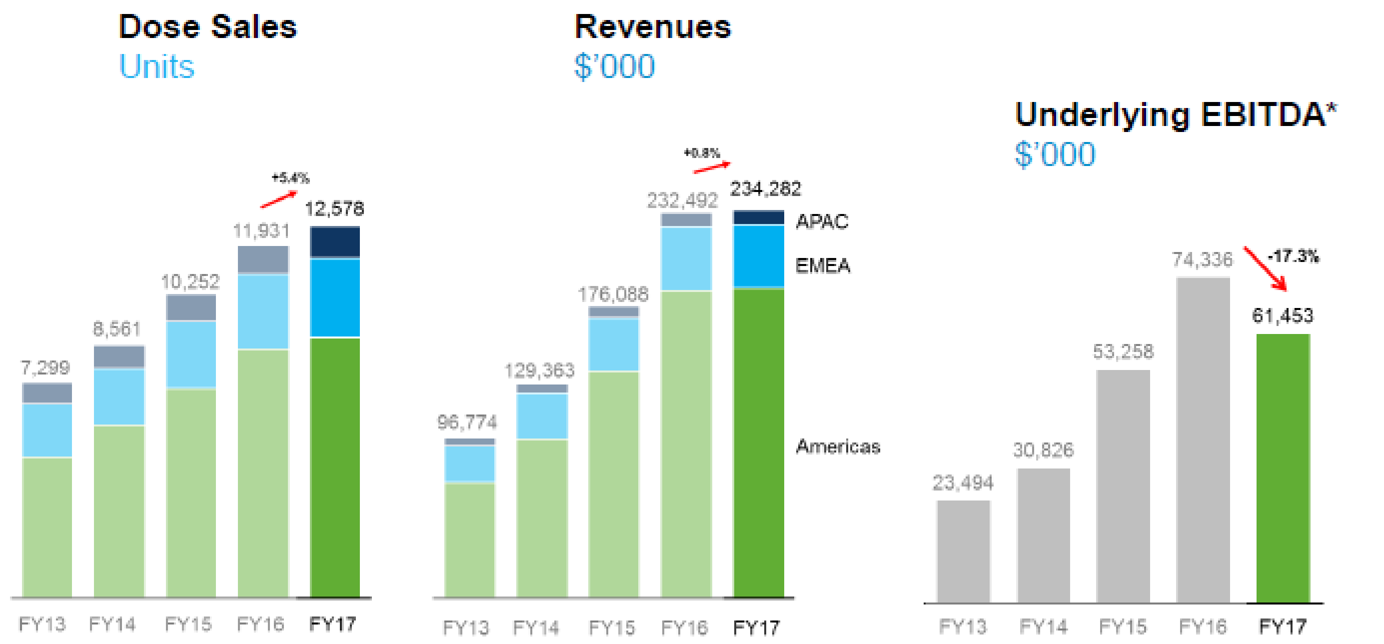
Sirtex ("SRX") manufactures and distributes a liver cancer treatment that applies targeted radiation therapy known as SIR-Spheres Y-90 resin microspheres.

Although Sirtex is a great Australian success story, it is a company with a chequered history. FY17 was a particularly bad year for Sirtex, with

1. flattish revenue growth despite increasing volumes, leading to analyst profit downgrades (see the bar charts)
2. the departure of its Managing Director following concerns over the timing of his share sales
3. a major medical trial applying Sir-Spheres failing to meet its end point.
4.

While Sirtex's "underlying" Net Profit After Tax fell 20% in FY17 to $42m, its reported profit was a Net Loss After Tax of $26m due to asset impairment charges following the failure of the medical trial.

Prior to these problems SRX had been trading on about a 12 month forward Price Earnings ("PE") ratio of around 30x on its underlying profit (which is typical for many healthcare stocks) but following these issues it fell to around 15x on lower earnings forecasts. As a result, the share price more than halved.



Source: SRX - UBS Australasia Conference 2017 (CEO presentation dated 14/11/2017)

Following the appointment of a new managing director the company began to implement a turnaround strategy focussing on costs and revenues, and by November 2017 the company was claiming that Profit Before Tax had been stabilised.

At this point the company had become interesting to us as a potential investment opportunity, our view being that it was trading at a substantial PE discount to its healthcare peers, and if it could continue to run smoothly for another 6 months it would substantially rerate.

However, while the new CEO could control costs and productivity, getting revenue growth back on track was not going to be an easy turnaround, as it had a strong competitor and the company had lost market share. As a result, we did not invest at that time, but waited until the outlook was more certain.

On 17 January 2018, SRX provided a trading update ahead of its half year result which was to be the following month. The new FY18 guidance materially beat analyst expectations. It was about 14% higher than expected mostly due to its cost out program and the company stated that it expected dose sales to accelerate over the rest of the year.

At this point, the stock qualified as a Long Event Trade/Stock[i], and the Fund purchased shares. We expected that if the business could stay on track it would lead to a re-rating of the stock over the next 6 months of at least 30%, to be closer to that of other Health Care shares with similar attributes.

We didn't have to wait long to get the re-rating. Two weeks later on 30 January 2018 SRX announced it had a binding Scheme of Implementation Deed with Varian Medical Systems, Inc (NYSE: VAR) to acquire 100% of the shares in Sirtex for $28 per share in cash, a premium of 49% to its last close.

[i] Event Stocks (Long and Short Positions) are securities that, in the Investment Manager's view, are due to experience, or have experienced, a catalyst that has not yet been factored into the value of the company

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