

# Monash Absolute Investment Company Limited

**Monash Absolute Investment Company Limited (ASX: MA1)**

**Thursday, 3<sup>rd</sup> November 2016**

## October 2016 End of Month Update

In the interests of keeping the market fully informed of performance on a timely basis, we release a preliminary estimate of the Pre-Tax Net Tangible Asset Backing per share. It is only a guide, the official NTA will be released later in the month. We estimate that as at 31 October 2016 the NTA Pre-Tax was \$0.9844.

## Company Strategy

The Monash Absolute Investment Company offers investors access to an investment strategy that seeks to:

- achieve a targeted positive return over a full investment cycle; and
- avoid a negative return each financial year

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

## Commentary

The NTA (est) was up 0.73% (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 Net Profit Before Tax 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%, with the NZ Commerce Commission indicating an adverse view towards its merger with Vodafone NZ because it is likely to lessen competition.

## Company at a Glance 31 October 2016

ASX Code - Shares	MA1
ASX Code - \$1 Options Sep17	MA1O
Portfolio Size	\$52.1m
Share Price	\$0.930
Option Price	\$0.011
Shares on Issue	52.5m

## Portfolio Structure 31 October 2016

Outlook Stocks (Long)	20 Positions	71%
Outlook Stocks (Short)	2 Positions	-6%
Event, Pair and Group (Long)	6 Positions	18%
Event, Pair and Group (Short)	1 Position	-0 %
Cash		18%
<b>TOTAL</b>		<b>100%</b>
Gross Exposure		94%
Net Exposure		82%

## NTA (unaudited) 30 September 2016

NTA Pre Tax	\$0.9773
NTA Post Tax	\$0.9860

## Estimated NTA (unaudited) 31 October 2016

Estimated NTA Pre Tax	\$0.9844
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## Return Estimate to 31 October 2016

	1 month	Since Inception 12 April 2016
NTA Pre Tax	0.73%	2.23%

For more information about the Company and the strategy please refer to the Monash Investors website at [www.monashinvestors.com](http://www.monashinvestors.com). You can also [follow us on Livewire here](#) or [subscribe to our updates here](#)

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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.

### Shorting Stocks

When a fund manager borrows a stock that he doesn't own in order to sell it on market, it is known as shorting. In contrast to owning a stock, shorting allows a Portfolio 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 Portfolio.

### 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 15<sup>th</sup> 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 26<sup>th</sup> 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. 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 Portfolio covered was about 17% lower than that the average price at which it shorted the stock.

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