

Monash Absolute Investment Company Limited

Monash Absolute Investment Company Limited (ASX: MA1)

Tuesday, 6th December 2016

November 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 30 November 2016 the NTA Pre-Tax was \$0.9356.

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 Company was down -4.96% (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 turn around from the previous month, where the Company was up and both of those indexes down. With the Company 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 'Eventⁱ Trades', and a number of Outlookⁱⁱ 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.

Given the stock specific risks the Company takes, such volatility from time to time can be expected.

Company at a Glance 30 November 2016

ASX Code - Shares	MA1
ASX Code - \$1 Options Sep17	MA1O
Portfolio Size	\$49.2m
Share Price	\$0.925
Option Price	\$0.013
Shares on Issue	52.5m

Portfolio Structure 30 November 2016

Outlook Stocks (Long)	21 Positions	74%
Outlook Stocks (Short)	2 Positions	-6%
Event, Pair and Group (Long)	6 Positions	11%
Event, Pair and Group (Short)	0 Positions	0 %
Cash		22%
TOTAL		100%
Gross Exposure		91%
Net Exposure		79%

NTA (unaudited) 31 October 2016

NTA Pre Tax	\$0.9845
NTA Post Tax	\$0.9911

Estimated NTA (unaudited) 30 November 2016

Estimated NTA Pre Tax	\$0.9356
-----------------------	----------

Return Estimate to 30 November 2016

	1 month	Since Inception 12 April 2016
NTA Pre Tax	-4.96%	-2.84%

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

Monash Absolute Investment Company Limited

One of the risk management strategies that the Company uses for capital preservation purposes are price based stop losses for 'Event Trades'. An 'Event Trade' is one where we believe a near term event will drive the share price of a stock (either up or down). The stop loss is typically set to be one third of the anticipated payoff expected. For example, if a return of +15% is expected, a stop loss will be triggered if the stock moves down by -5%.

During November, some stop losses were triggered in the Company 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 United States 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 Company 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 Company no longer had a holding.

Vocus

Vocus (ASX: VOC) is a fully integrated Telco servicing households and corporates. The Company 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 AGM.

Vocus stated that its Australian consumer internet and Nextgen businesses 'have not met expectations'. Overall EBITDA guidance provided for F2017 was 4% to 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 F2017-F2019 resulting quickly in a similar size fall in the share price on the day. The Company exited the stock, due to the Company's investment thesis being violated, which is another important risk management strategy.

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.

Monash Absolute Investment Company Limited

Despite this trend being strong in October, The Company suffered little impact from it back then. However, the Company 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 bioimpedance 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 effecting 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 Company 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 Company experienced causes much portfolio manager angst –who are also large investors in the strategy. It may well be that the full extent of the sector rotation has not yet been seen and its impact on some of the stocks in the Company. However, all of the Outlook driven stocks held in the Company 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 Company will continue to hold moderate positions in these companies despite the volatility that may be encountered along the way.

This information has been prepared by Monash Absolute Investment Company Limited (MA1) and is for information purposes only and does not constitute an offer, invitation, solicitation or recommendation with respect to the purchase or sale of any securities in MA1.

The information is not investment or financial product advice and is not intended to be used as the basis for making an investment decision. Please note that, in providing this information, MA1 has not considered the objectives, financial position or needs of any particular recipient. MA1 strongly suggests that investors consult a financial advisor prior to making an investment decision. Past performance is not a reliable indicator of future performance. See the ASX Company Announcements platform at www.asx.com.au for further information.

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.