

October 2014 -0.30%

Last 12 months +4.83%

### Key Points: Monash Absolute Investment Fund

❑ *Boutique Manager launched in July 2012 by Simon Shields, former Head of Equities at UBS & Colonial First State, and Shane Fitzgerald, previously JPMorgan's Head of Insurance & Diversified Financial Research.*

❑ *The Fund is a long biased, equity long/short hedge fund. The strategy is style agnostic, absolute return focused, and aims to invest in compelling opportunities that have a specific profit opportunity. The Fund can also short, use derivatives and go to cash to protect capital.*

❑ *Performance to date has been above Index, with lower volatility and lower downside deviation. The fund also has higher Sharpe and Sortino ratio's than the ASX200 Accumulation Index*

❑ *All non-investment roles are outsourced to recognised service providers allowing the managers to focus on the portfolio's performance.*



**Monash**INVESTORS

Key Performance	Monash AIF	ASX 200 Acc
Oct-14	-0.30	4.43
Annualised Return	17.84	18.82
Latest 3 Months	-2.40	-0.57
Latest 6 Months	-0.93	2.95
Latest 12 Months	4.83	6.39
Latest 24 Months p.a.	19.97	15.51
Latest 36 Months p.a.	n/a	13.73
Latest 60 Months p.a.	n/a	8.19
% Positive Months	64.29	75.00
Best Month	7.08	5.37
Worst Month	-4.31	-5.38
Largest Drawdown	-4.60	-6.72
Average +ve Return	2.79	2.96
Average -ve Return	-1.09	-2.90
Annualised Standard Deviation	8.32	10.45
Downside Deviation (Since Inception)	3.58	5.93
Sharpe Ratio (Since Inception)	1.70	1.46
Sortino Ratio	3.85	2.47

\*The statistics for the ASX200 are adjusted to the Fund's start date

### Management Company Overview

Monash Investors (Monash) is a Sydney-based early stage "boutique" fund manager established in May 2012 by two experienced and senior joint CIO's, Simon Shields and Shane Fitzgerald, each of whom have over 20 years' experience in financial markets. Prior to establishing Monash Simon Shields was one of Australia's leading fund managers. He spent five years at UBS Global Asset Management as head of equities. Prior to this he spent nine years at Colonial First State, also as head of equities, which followed a period of eight years with Rothschild and Westpac (BT Investment Management). His experience at these large institutional managers covered a range of long only investment styles including Value (Rothschild, Westpac), Growth (Colonial) and Discounted Cash Flow (UBS).

Shields has a B Comm, a law degree (UNSW) and an MBA (Deakin). In his previous role at UBS the Australian Share Fund which he managed was awarded "Best of the Best" fund by Money Magazine in 2012.

Shane Fitzgerald who has a B.Comm (Hons) spent the previous 20 years as an equity analyst, including fourteen years "sell side" experience with JP Morgan where he was Head of Insurance and Diversified Financial Research, and four years "buy side" experience working with Shields at UBS.

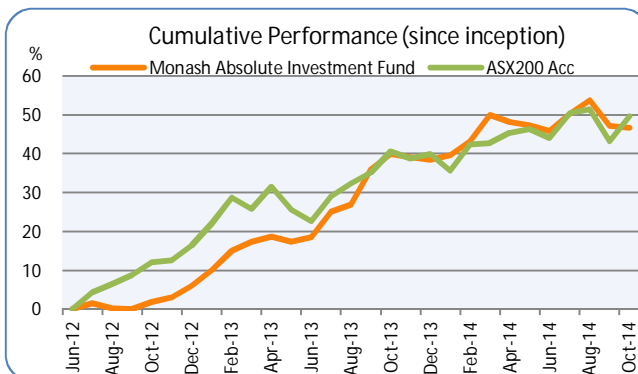
Shields and Fitzgerald own 80% of Monash, with the balance held by two minority shareholders, UBS Global Asset Management (Australia) Pty Ltd, and Allan Moss. Shields and Fitzgerald are also significant investors in the Fund on the same terms as other unit holders.

### Investment Approach

Shields' and Fitzgerald's motivations for leaving the security of their previous positions to launch Monash are integral to the Fund's investment strategy: Firstly, they wanted to control their own destiny and make decisions away from their previous corporate environments.

Secondly they believed long-only funds were no longer at the cutting edge of the industry, with absolute return strategies providing flexibility to adjust investment styles to suit changes to the underlying market.

From an investment perspective they saw the ability to invest with true conviction, to short if necessary, to invest in pre IPO's, and without the limitations of being fully invested as a more attractive approach.



Both also viewed the inability to take advantage of offshore opportunities as being counter-intuitive to their goal of growing capital in a risk controlled manner. Also the size of long-only funds and liquidity requirements had led to most capital flowing into large cap stocks rather than the compelling investments which were available in smaller companies, or to funds with greater flexibility.

This report qualifies Financial Advisors for 0.5 CPD points on completion of AFM's online test available at [www.fundmonitors.com](http://www.fundmonitors.com)

The Monash Absolute Fund is listed on [www.prismselect.com](http://www.prismselect.com) and applications can be made online using OLIVIA123.

### Performance - Net of Fees (%)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2014	0.80	2.62	4.71	-1.27	-0.50	-1.01	3.06	2.30	-4.31	-0.30	-	-	5.95%
2013	3.90	4.39	2.00	1.13	-1.10	1.05	5.57	1.40	7.08	2.96	-0.58	-0.47	30.58%
2012	-	-	-	-	-	-	1.46	-1.15	-0.20	1.81	1.09	2.91	6.01%



The pair also felt that while it was possible for benchmark aware long only funds to out-perform a market index, significant efforts went into looking for marginal returns, with an inability to protect capital in negative markets. They therefore saw a need to run a benchmark unaware fund in order to reliably grow investor wealth.

### Investment Strategy:

The Fund's investment strategy is a natural progression of this and is best described as long biased, equity long-short, with a strong focus on absolute returns rather than relative to an index or the market.

The Fund can therefore go short to profit from specific opportunities or to hedge against risk, or invest in companies due to be listed within 12 months. It can also take advantage of offshore opportunities when appropriate, and invest across all market sectors and company sizes.

The Fund does not invest because it needs to have certain equity exposures or invest in stocks purely because they are large cap and therefore target a specific or low tracking error. As such the Manager sees little benefit of making small risk adjusted gains.

A natural result of this approach is that portfolio is concentrated, with capital preservation being a high priority. In addition, the Fund does not have a style bias to either growth, or value, and is benchmark unaware.

The strategy core is the manager's focus on only making investments that they believe have "compelling" returns. Compelling is defined as an investment with an asymmetric payoff and/or large return. Asymmetric is taken as an expected return of at least twice the potential downside risk.

In addition to having an asymmetric payoff, a compelling opportunity combines factors such as having a high level of EPS and CFPS growth, are underestimated or misunderstood in some way by market, represent strong value, or have a near term price catalyst.

The focus on capital preservation involves being able to hold cash if no compelling opportunities are available, and the Manager sees this as a major advantage. This flows directly from the core of the investment philosophy of not having to be fully invested, but to only invest when a compelling, profitable opportunity exists.

### Portfolio Construction, Research & Analysis

The Manager divides the portfolio's investments as being either Outlook Driven or Event Driven.

Outlook Driven are those where there is a high payoff expected over time, usually as a result of market re-rating or earnings upgrades. They usually make up the majority of the Fund's exposure, and the Manager looks for strong upside potential (defined as a return of greater than 60%) for outlook driven investments.

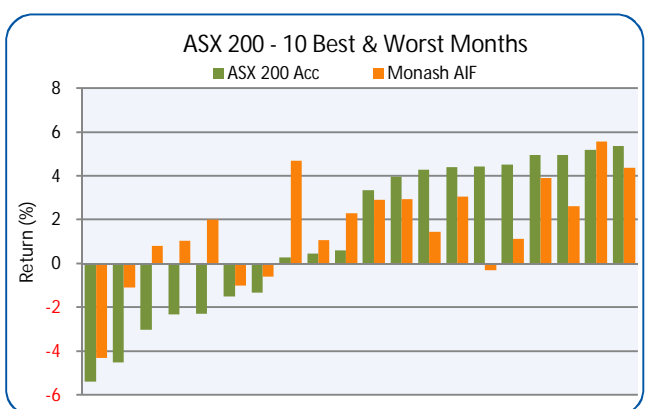
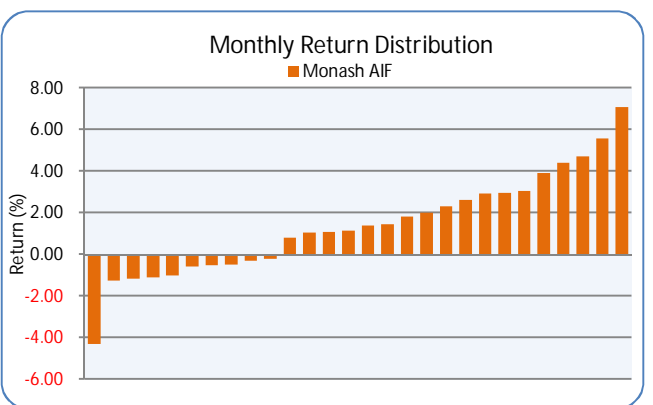
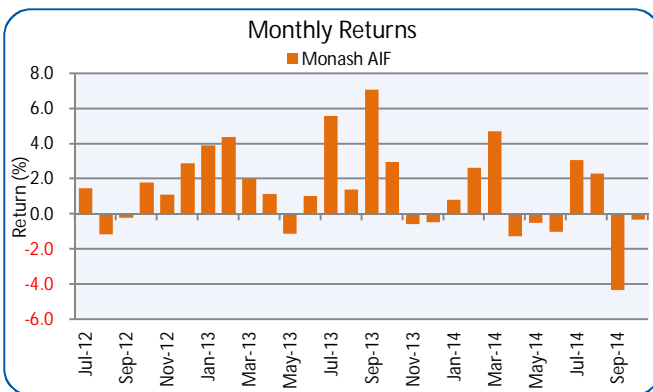
These opportunities require a significant research effort in order to fully understand the company. The manager has developed a proprietary screening model which incorporates P&L, Balance Sheet, Cash-flow and Valuation templates. Based on this research and analysis the manager completes a formal investment proposal prior to making the investment. The proposal covers the Investment thesis, expected signposts, potential risks to the investment thesis, and valuation and potential payoffs. The proposal also includes the proposed investment action, including entry and exit levels, and stop loss limits.

The Manager obtains a very detailed understanding of the company to enable them to assess the upside potential and how or why the market may be mispricing the company. These stocks can be held for long time frames, and provided the investment thesis remains valid the stop loss limits may be "soft" rather than hard.

Event Driven opportunities are those where a specific catalyst, or event, is likely to lead to a change in stock price, either up or down. They can be long or short, or could be an equally weighted pairs trade.

### Monash Absolute Investment Fund Key Terms

Strategy	Equity Long/short
Geographic Mandate	Australian Focused, Global
Domicile/Structure	Australian Unit Trust
Investor Type	Wholesale only
Min. Investment	A\$500,000
Additional Investment	A\$50,000
Management Fee	1.75% p.a
Performance Fee	20% p.a, with high water mark
Hurdle	No
Min. Term	No minimum
Investment/Redemption	Monthly; 2 business days notice
Inception Date	Jul-12
Fund Size	A\$45 million
Manager's Total FUM	A\$45 million
Status	Open





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Event catalysts include company results or company or industry events, either pre or post the event, or liquidity events, block trades or IPO's.

Event Driven stocks have a more moderate payoff. Idea generation for these trades are sourced from a combination of market knowledge, and the managers' network of brokers formed during their previous careers.

Event Driven trades require prompt action and the Manager can conduct the required analysis by importing historical financials and forward earnings information to their proprietary valuation template.

Having extensive market experience and the network noted above also assists in making these decisions, although a written investment thesis is also prepared, with hard stop loss limits set in advance and noted in the trade alert system.

All investment decisions, whether Outlook or Event driven, are based on the unanimous agreement of both Shields and Fitzgerald. This also follows for current positions; if either one of them is uncomfortable with an investment it is removed from the portfolio.

### Investment Risk & Processes

Prior to investment, limits are set for each entry and exit, including stop loss limits, and the portfolio is diversified by stock, sectors, themes, and pay-off horizons. Overall exposure, either at the portfolio or stock level, can be reduced by holding cash, options and futures, and by shorting stocks.

The portfolio is concentrated both by its defining philosophy and strategy, and normally holds around 25 positions, the majority of which are long. Stock, sector/theme limits are set at 10 and 20% respectively. Typically an Outlook Driven stock weighting is 5-8% of the portfolio, while Event Driven stock weighting is 2-5%.

The Fund may use leverage or borrow to increase exposure but its use is minimal. Net average exposure since inception has been 75% with average beta since inception of 0.63, and VAR of 1.3%.

For portfolio management the manager uses the Imagine and Eze Castle systems for real time measurement of VAR/Beta and portfolio weights and exposures respectively.

### Performance Review

The Fund's historical performance is just over 2 years, and to date the Manager has recorded slightly below market returns, but with less risk and volatility. Since inception in July 2012 the Fund has produced an annualised return of 17.84% against the return of 18.82% achieved by the S&P/ASX200 Accumulation Index.

The Fund's Sharpe and Sortino ratios are above those of the ASX since inception, indicating the Fund's lower volatility and risk profile.

The Fund has two return objectives. The first is to achieve a return of 12 to 15% after fees over the investment cycle with low market volatility.

The second is to avoid capital loss over each year to 30th June. Shields and Fitzgerald believe that this allows them time to offset market weakness with the underlying performance of their investments. The payment of distributions and performance fees are also aligned with this, only being paid after the end of the financial year.

While the performance to date has been in approximately in line with that of the ASX200 Acc Index, it has been achieved in a range of market conditions since the Fund's inception.

### Operational, Business Risk and Compliance

All non-investment functions are outsourced including Compliance, 3rd Party Marketing, Administration, Legal and IT. In addition all investment-related service functions are outsourced including Custody, Prime Broking and Administration. Each service provider is monitored on a regular basis against their service level agreement.

Monash Investors has three directors and also acts as the Fund's Trustee. In addition to Simon Shields (Chairman) and Shane Fitzgerald, the COO of UBS Global Asset Management (Australia) Glen Rice is a director.

The Fund has an external compliance consultant, Harbridge Investment Partnerships, with both Shields and Fitzgerald responsible for day to day compliance. The Board has elected to outsource compliance monitoring to an external compliance consultant, who reports directly to the Shields, but with full access to the Board if required. Compliance duties include regular audit of the Company's compliance with the Compliance and Risk Management Plan. Both Shields and Fitzgerald responsible for day to day compliance.

The Board has established Risk Management procedures. The Board is responsible for identifying and managing risks. Annually, they also determine whether an additional assessment is required.

A Business Continuity Plan (BCP) has been approved by the Board.

AML procedures are in place, which are compliant with the Anti-Money Laundering and Counter-Terrorism Financing Act 2006.

### Structure, Terms & Conditions and Fees

Monash Investors Pty Limited (ABN 67 153 180 333) is an Australian company which was registered with ASIC in December 2011. The company holds AFS Licence number 41720 issued in May 2012.

The Fund is only open to wholesale and sophisticated investors and is structured as an unregistered Australian domiciled Unit Trust, with no offshore version.

The minimum investment is \$500,000 with a minimum additional investments of \$50,000 increments. The Manager and Trustee has discretion to accept lower amounts from approved wholesale investors.

Applications and redemptions are monthly provided they are received at least two business days prior to the last business day of the month, with redemption proceeds paid 15 business days after month end. This is faster than many comparable funds, but the Manager has the discretion to limit redemptions to 7% of NAV per month.

There is a 1.75% per annum management fee, payable monthly, with a performance fee of 20% pa of absolute returns before fees, accrued monthly and paid annually in July subject to a high water mark. There is no hurdle, and Series accounting is employed to ensure all investors are charged performance fees on their own investment's performance.

A buy/sell spread of 0.25% is applied to both investments and redemptions. Expenses are capped at 0.2% pa of the NAV. All fees are subject to GST. The Fund distributes taxable income, if any, as at 30 June each year.

### Service Providers

Custodian:	UBS AG, Australia
Prime Broker:	UBS AG, Australia
Administrator:	White Outsourcing
Auditors:	Moore Stephens

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Australian Fund Monitors (AFM) is a specialist research and information provider focusing on the Absolute Return and Hedge Fund Sector. Established in 2006, AFM holds AFS licence 324476 to provide general advice to wholesale investors only.

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This enables investors or their advisors to understand the objective and processes behind each fund's strategy, and structure and operations of the management company. When used in conjunction with the quantitative comparison of the fund's key performance and risk indicators (KPI's) included in each Fund Review, the reader is in a better position to make an informed decision regarding the suitability of the fund for individual investor's requirements.

### AFM Fund Reviews are updated every month:

Out of date research is potentially inaccurate research. Not only can a fund's performance and risk profile change over the course of the year (typically the cycle for much of the managed fund research available) but so can operational details and investment personnel. Each AFM Fund Review contains an expiry date, and each fund manager is not permitted to distribute out of date reviews.

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We believe that this is a specialised area of the managed fund market, and as such requires a specific focus and expertise. The seniority and experience of AFM's research team and our focus explains why we label our product as:

"Trusted, Targeted Research"

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