

Monash Absolute Investment Company Limited

Monash Absolute Investment Company Limited (ASX: MA1) June 2018 End of Month Update

4 July 2018

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 June 2018 the NTA Pre-Tax was \$0.9840.

Company Strategy

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.

In December 2017, the Company announced a renewal of the on-market buy-back as part of its ongoing capital management program. During the month of June, 54,146 shares were bought under the Company's on market share buyback.

Monthly Commentary

The Company's pre-tax NTA increased 1.06% (after fees) for the month of June, during which the S&P/ASX200 rose 3.27% and the Small Ords rose 1.06%. Looking back over the 12 months to 30 June it was a good financial year, with the pre-tax NTA (after fees) rising 12.55%. The portfolio remains relatively conservatively positioned, holding 29% in cash.

Buy Back and Share Issue

On 20th June 2018, the Company announced its intention to conduct in the first quarter of FY19 an off market equal access buy back and share issue at a 5% discount to pre-tax NTA. It also flagged that it expects to be able to repeat this regularly.

We believe this arrangement will benefit shareholders and encourage them to consider this opportunity.

Company at a Glance 30 June 2018

ASX Code	MA1
Portfolio Size	\$48.5m
Share Price	\$0.82
Shares on Issue	49.2m

Estimated NTA (unaudited) 30 June 2018

Estimated NTA Pre Tax	\$0.9840
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Return Estimate to 30 June 2018

	NTA Pre Tax
1 Month	1.06%
3 Months	-0.24%
6 Months	-2.73%
FYTD	12.55%
1 Year	12.55%
Since Inception p.a. (April 2016)	0.98%

Portfolio Structure 30 June 2018

Outlook Stocks (Long)	17 Positions	60%
Outlook Stocks (Short)	2 Positions	-5%
Event, Pair and Group (Long)	4 Positions	17%
Event, Pair and Group (Short)	0 Positions	0%
Cash		29%
TOTAL		100%
Gross Exposure		82%
Net Exposure		71%

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.

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The indicative timetable is outlined in the ASX announcement on 20th June 2018 and is available [here](#). Simon Shields from Monash Investors, provided further explanation on the arrangement in a teleconference on 22nd June 2018 which is available on the Company website, [which can be found on this link](#).

The following summarises what the Company is doing, why it's doing it, and how it compares to the alternatives.

What we are doing – we are doing 3 things.

1. Off Market Equal Access Buy back at a 5% discount to pre-tax NTA, buying up to 10% of the Company's shares on issue.
 - a. The pre-tax NTA at 30 June is 98.4c per share.
 - b. A 5% discount to that value is about 93.5c per share.
 - c. This compares to the ASX market price at 30 June of 82c per share.
 - d. Any shareholder at the record date Friday 3rd August 2018, about a month from now, will be able to sell some or all of their shares at the 5% discount to pre-tax NTA, based on whatever the pre-tax NTA will be on Friday 31 August 2018.
 - e. The offer closes on Friday 7th September 2018, so a shareholder will know in advance what that buy back price is.
2. Share Issue via Share Purchase Plan ("SPP") and Placement is also at a 5% discount to pre-tax NTA.
 - a. We will only issue the number of shares that are bought back.
 - b. The offer price for the SPP will be the same as the buyback price.
 - c. Any shares that remain unissued after the SPP concludes are available for Placement to sophisticated investors, at a 5% discount to pre-tax NTA.
 - d. For example, if:
 - i. 3m shares are bought back, and
 - ii. 1m shares are issued under the SPP
 - iii. 2m shares may be issued at a future date via a Placement(s).
3. Subject to market conditions, the Company flagged its intention to repeat this in the future to provide a reliable ongoing liquidity facility.
 - a. So, we are taking two well understood existing mechanisms: the off market buyback and the share issue via SPP and placement, and
 - b. We are combining them, in a repeatable way, to address an issue that is affecting our LIC.

Why we are doing it

1. To reduce the share price discount to NTA
 - a. Over the last 12 months the shares have traded at an average 15% discount to NTA.
 - b. We are very disappointed that people who need to sell their shares have to accept such a discount.
 - c. We are not the only small LIC suffering from this problem.

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2. To increase the liquidity, and the investability, of the shares.
 - a. It's not that the shares are illiquid relative to the size of the company. In the 2 years since we listed 34m shares have traded, which amounts to 62% of issued shares.
 - b. Rather, as a smaller LIC, larger investors are concerned that it takes too long to buy the stock they want, and too long to sell, and
 - c. They are concerned they will not get a fair price, by overly affecting the stock price when they are buying or selling in size.
 - d. So, they are only induced to buy at a large discount, if at all.
3. The off market buy back and issue of shares addresses both these problems (discount and liquidity).
 - a. It should work because it is not a one off
 - b. It allows investors to invest or divest in size at regular intervals
 - c. At a fair price
 - d. It allows new investors to invest more confidently in the stock even when there is little or no discount in the price versus the NTA.

Comparing the alternatives

1. This is not the first thing we have tried.
 - a. We have progressively increased communication with the market
 - i. Monthly reports
 - ii. Post reporting season updates
 - iii. Regular visits to larger existing and potential shareholders
 - iv. Weekly performance updates
 - v. Disclosed that dividends are likely to commence following this FY end.
 - b. We have undertaken On-Market share buy back
 - c. But the NTA discount has persisted
2. We looked at doing an Off Market buyback at a 5% discount on its own
 - a. But this would just shrink the company
 - b. While management fees are variable, some costs are fixed (e.g. Audit, ASX, Corporate)
 - c. The fixed costs would become too large as a % cost vs the size of the Company
 - d. It would be a one-off so the discount would likely re-occur after the buyback ended.
3. We looked at converting the Company to an ETMF (Exchange Traded Managed Fund)
 - a. ETMFs use a broker as a market maker to keep the share price in a tight range around the NTA
 - b. But it's costly to convert the Company to an ETMF and there are additional costs for market making and ASX compliance.
4. We could wind the Company up and make a capital return to shareholders.
 - a. We have a number of supportive long term shareholders who like our absolute return strategy and like LIC vehicles.

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- b. We have many new shareholders who have also bought since listing in order to get exposure to the Company's investment strategy at a low price and want to see us deliver on it, and
 - c. 2 years is too soon to wind up the strategy when shareholders have invested on the basis that it is designed to deliver absolute returns over an investment cycle of 7 years.
5. The advantages of the announced buy back and share issue arrangement
- a. Provides certainty
 - i. 5% discount vs on market
 - ii. Allows for larger transactions without market impact
 - b. Low cost
 - c. Need not shrink the size of the Company
 - d. Ongoing arrangement, not a "one off"
 - e. Uses well understood existing mechanisms

At the time of writing, MA1 shares are trading at a very significant discount to the price at which they are likely to be bought by the off market buy back. The regular buy back and share issue mechanism that we have flagged provides a framework to address this discount, and we believe this will benefit shareholders and we encourage them to consider this opportunity.

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