

Monash Absolute Investment Company Limited

Monash Absolute Investment Company Limited (ASX: MA1) March 2020 Mid-Month Update

16 March 2020

In the interests of keeping the market fully informed of performance on a timely basis during a period of extreme market volatility, we release a mid-month estimate of the Pre-Tax Net Tangible Asset Backing per share. It is only a guide, the official NTA is calculated as at the end of each month. All return calculations include dividends paid.

We estimate that at **13 March 2020** the NTA Pre-Tax was \$0.9489.

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.

Mid-Monthly Commentary

For the first two weeks of March the Pre-Tax NTA was down -9.52% (after fees) compared to the S&P/ASX200 down -13.46%, and the Small Ords, which was down by -15.98%.

For the financial year until 13 March, the Pre-Tax NTA is down -8.81% (after fees). This compares to the S&P/ASX200 down -13.56%, and the Small Ords, which was down -17.60%.

The global outbreak of Coronavirus Disease 2019 (COVID-19) has continued to progress, with containment strategies by governments now widespread.

The outbreak and the response to it by government, business and consumers is developing so rapidly, that analyses of the situation quickly become out of date.

In this mid-month update, building on our report of two weeks ago, we provide a summary of the major investment actions that we have taken so far, why, and how the portfolio is positioned.

Company at a Glance 13 March 2020

ASX Code	MA1, MA1O
Portfolio Size	\$42.3m
Share Price	\$0.78
Shares on Issue	44.3m

Estimated NTA (unaudited) 13 March 2020

Estimated NTA Pre Tax	\$0.9489
-----------------------	----------

Return Estimate to 13 March 2020

	NTA Pre Tax
Month to Date	-9.52%
3 Months to Date	-16.26%
CYTD	-16.26%
FYTD	-8.81%
1 Year to Date	-0.79%
2 Years p.a. to Date	-0.30%
3 Years p.a. to Date	3.11%
Since Inception p.a. (April 2016)	0.34%

Portfolio Structure 13 March 2020

Outlook ¹ Stocks (Long)	19 Positions	65%
Outlook Stocks (Short)	1 Position	-2%
Event, Pair and Group (Long)	2 Positions	9%
Event, Pair and Group (Short)	1 Position	-12%
Cash		40%
TOTAL		100%
Gross Exposure		88%
Net Exposure		60%

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

Before February

The portfolio began February with a net exposure of about 80%. That is to say, it had a cash weight of about 20%. It was an increase over the prior month from around 8%. To get there we had sold a few stocks that were near our price targets in January (Infomedia, Nearmap and Temple & Webster) and we had generally been taking profits in stocks that had performed well, in order to control their weight in the portfolio (Afterpay, Electro Optic Systems and EML Payments).

Mid-February

The news from China about COVID-19 got worse over the first half of the month. In the first instance, factories in Wuhan were temporarily closed. Ultimately, restrictions progressed to other regions and the movement of goods by ships from China. This was a problem for any company that relies on Chinese factories to manufacture part or all of their product. The concern was that sales would be lost if inventories were emptied prior to the reestablishment of supply.

For Australia, supply chains are not the only concern. Businesses that sell to the Chinese would be effected too. Resources, tourism and education are obvious examples. But, by how much? If COVID-19 was a problem restricted to a small set of businesses, and it would only impact their earnings for at most a year, it would not be such a big deal.

As investors, we are always trying to sensibly incorporate what we know into our decision making. If we were overly cautious we wouldn't invest much in anything at all.¹ As evidence grows for any developing situation that can effect a company's business outlook or stock price, there comes a point that it becomes solid enough to act on.

It was on the morning of the Wednesday 26th February that week (the market had "only" fallen -2.5% by then) that we felt if we had enough information to act without jumping at shadows and getting whipsawed.

The final straw for us was the just updated situation summary from the CDC of 25th February (time in the USA being a day behind us), where it assessed the immediate health risk to the general American public as low but went on to state:

*"However, it's important to note that current global circumstances suggest **it is likely that this virus will cause a pandemic. In that case, the risk assessment would be different.**"* (my emphasis in bold)

We saw that as a clear signal of likely developments, and we acted on it.

Wednesday 26 February, Portfolio selling increased cash weight from 20% to 40%.

On Wednesday 26th February, we decided to sell/short businesses exposed to travel and tourism or that have logistics chains into China. Overall, we reduced our exposure to the market so that our cash weight, which had been about 20%, finished at about 40%.

¹ You may have heard the joke that economists have predicted 7 of the last 1 recessions.

Monash Absolute Investment Company Limited

We took a group trade (basket) approach to shorting stocks. For travel stocks, we shorted Corporate Travel, Flight Centre and Qantas, about 2.5% each. We also shorted the casino stocks (Crown, Sky City and Star City) about 1% each. Overall, this shorting is about 11%, all in liquid stocks to enable us a rapid response to market outcomes amid COVID-19 developments.

There was considerable anecdotal evidence that businesses were pulling back on airplane travel, among them major accounting firms, investment banks and global companies like Amazon.com. Anecdotally, plans for travel overseas by holidaymakers were being scrapped. We therefore expect further guidance downgrades from the travel companies. The casino businesses have related exposures for all three aspects of their businesses: conventions, grind and high rollers.

We also sold down or exited some companies that we held. Having exited for Chinese logistics exposure Kogan and McPherson's; and halved our weight in Lovisa. We have also exited the travel company software provider, Serko. This selling of our holdings amounted to about another 10%.

The ASX200 fell -10% in the last 5 days of February to finish down -7.7% for the month.

1 week later, Thursday 5 March, Portfolio selling increased cash weight from 40% to 50%

Our base case had been that within the more geographically isolated countries (Australia/NZ, UK, USA/Canada) consumer behaviour would change minimally, the exception being for travel and tourism. However, by only a week later it became clear that these countries were on the same path as the more geographically connected countries of Asia and Europe.

By this time the ASX200 had only fallen by another 2% in the 3 days since the end of February, and we decided to short exposures to education and aged care (G8 education, IDP Education, Estia Health) on the basis that it was likely that there would be reduced utilisation of child-care, universities and aged care facilities. We shorted an additional 5% in total, but it brought our cash weight up to 50%, because of fall in value of the market and our holdings. This was the highest cash weighting the portfolio has ever held.

1 week later, Thursday 12 March, Market had fallen a further -16%

As the news from Europe and the USA worsened, markets reacted dramatically. On Monday the 9th and Thursday the 12th, the ASX200 fell more than 7% on each day.

It was clear on the morning of Thursday the 12th that it was going to be a bad day because Wall Street's S&P500 had fallen almost 5% overnight, and the US futures markets were indicating worse to come. Given how far markets had fallen we thought it would be a good day to begin selectively buying stocks, and that turned out to be the case.

By the close of Thursday 12 March, the market had fallen -20.4% since we had decided to start selling on the 26th of February.

Monash Absolute Investment Company Limited

Thursday/Friday 12/13 March, Portfolio buying decreased cash weight from 50% to 40%

We had been selective in our selling, and were now being selective in our buying. As stock prices fell, a number of quality growth stocks, with very little if any exposure to the consumer or logistical effects of the Coronavirus had fallen in price dramatically. A few of these stocks we had avoided buying previously because of their high price multiples. With the fall in the market, this was no longer the case.

As a result we established new positions in Jumbo Interactive (online lotteries) and Nanosonics (medical equipment disinfection). We also re-established a position in Nearmap (online aerial imagery) which we had previously sold out of as it had achieved our price target. We topped up our weights in Electro Optic Systems (laser targeting) and EML Payments (transaction facilitation). In total, we increased our net equity holdings by 10% to 60%.

Performance Impact and Outlook

We do not expect the worst Coronavirus news is behind us, or that its economy wide or stock specific impacts are fully understood.

The wild swings may well continue, on Friday 13 March the ASX200 initially fell -9.2% before closing +4.4% on the day, which was a rise from the low of +13.7%.

We all expect corrections of this type to happen regularly. The definition of a correction is down -10% from a high point. The definition of a crash is down -20%. In recent times we have seen corrections in 1994, 2011 and 2015, and crashes in 1987, 2000 and 2008. So, that's about once every 5 or 6 years. We can now add 2020 as a year in which a crash occurred.

The impact of the market pull back on our portfolio has been quite severe so far, though we have performed better than the market, and we are well placed to benefit from its eventual recovery.

In the past we have had large draw-downs like this associated with "risk off" events and every time we have seen the portfolio rebound strongly. The advantage of Monash Investors' approach is to be able to react when needed, but also to be able to be patient investors that can take advantage of opportunities in high quality companies.

This announcement has been authorised for release by the Board of Monash Absolute Investment Company Limited.

Monash Absolute Investment Company Limited

**For all business development enquiries, please contact
Winston Capital Partners (Acting on behalf of Monash Investors)**

QLD, SA, WA, NT Advisers	Andrew Fairweather	P: +61 401 716 043 andrew@winstoncapital.com.au
VIC, ACT & NSW Advisers	Stephen Robertson	P: +61 418 387 427 stephen@winstoncapital.com.au
VIC, QLD & NSW Advisers	Cameron Harris	P: +61 400 248 435 cameron@winstoncapital.com.au

For shareholder enquiries, please contact

Boardroom Pty Limited
P: 1300 737 760 (in Australia)
+612 9290 9600 (international)
[E: enquiries@boardroomlimited.com.au](mailto:enquiries@boardroomlimited.com.au)

This presentation has been prepared by Monash Absolute Investment Company Limited (**MA1**) and Monash Investors Pty Ltd (ABN 67 153 180 333, AFSL 417 201) (**Investment Manager**) as authorised representatives of Winston Capital Partners Pty Ltd ABN 29 159 382 813, AFSL 469 556 ("Winston Capital") for the provision of general financial product advice in relation to 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 Glossary of terms can be found on the Company's website at www.monashinvestors.com/glossary/