Monash ABSOLUTE INVESTMENT COMPANY

Monash Absolute Investment Company Limited

Monash Absolute Investment Company Limited (ASX: MA1) **3 July 2020**
June 2020 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. All return calculations include dividends paid.

We estimate that at 30 June the NTA Pre-Tax was $1.1045.

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.

Monthly Commentary

For the month of June, the Pre-Tax NTA fell -4.95% (after fees). This compares to the S&P/ASX200 that was up 2.61%, and the Small Ords down -1.95%.

A number of the stocks that recovered so strongly for us over the last couple of months had a pull back, as many of the larger cap laggards continued their modest recovery.

The Pre-Tax NTA rose by 6.14% (after fees) for the 12 months to 30 June, compared to the S&P/ASX200 which was down by -7.68%, and the Small Ords which was down by -5.67%.

Thus ends another financial year. Looking back, we can see that we experienced a once in a cycle event. With some satisfaction and relief, we can say that our investment philosophy performed well during this crisis.

The two key features of our approach that were most important at this time, were:

1. our flexible mandate
2. relying on recurring situations/behaviours

Company at a Glance 30 June 2020

ASX Code	MA1, MA1O
Portfolio Size	$ 50.3M
Share Price	$0.985
Shares on Issue	44.8m

Estimated NTA (unaudited) 30 June 2020

Estimated NTA Pre Tax	$1.1045

Return Estimate to 30 June 2020

	NTA Pre Tax
1 Month	-4.95%
3 Months	28.06%
CYTD	-2.52%
FYTD	6.14%
1 Year	6.14%
2 Years p.a.	7.45%
3 Years p.a.	9.12%
Since Inception p.a. (April 2016)	3.99%

Portfolio Structure 31 May 2020

Outlook[i] Stocks (Long)	23 Positions	80%
Outlook Stocks (Short)	1 Position	-3%
Event, Pair and Group (Long)	2 Positions	9%
Event, Pair and Group (Short)	1 Position	-2%
Cash		16%
TOTAL		**100%**
Gross Exposure		89%
Net Exposure		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.

Some would say it's not over, and in an economic sense that is true. However, we expect that like all other crashes of recent decades, the impact on the financial markets going forward will be more like fading ripples compared to the initial shock.

Looking back at previous crashes, they had been occurring every 6-8 years.

Over my life major equity crashes/corrections worth highlighting have been the following:

- 1974 Oil Shock (strong)
- 1982 Bear Market (weak)
- 1987 Crash of '87 (strong)
- 1994 Bond Market Crisis (weak)
- 2000 Tech Wreck (strong)
- 2008 Global Financial Crisis (strong)
- 2020 COVID-19 (weak)

The GFC was unusual because up to that point a weak crash followed a strong crash. Or to rationalise it, after a strong crash it takes some time for governments, corporates and investors to be incautious enough to create the conditions where another big crash can occur. As a result, I expected that following two big crashes, at worst we would have a weak crash in the mid 2010's, if any. Subsequently, having "skipped" the mid 2010s crash, we only had a weak crash in 2020. If history is a guide to the future, we can expect a strong crash in the later half of this decade.

Which brings us to the latest drama. The COVID-19 Crash was relatively shallow and quick as major crashes go. But from an investment point of view, there are some lasting effects. It has accelerated the penetration of on-line shopping and remote working, to the detriment of shopping centres and office property. There may be only a medium term impact on leisure travel, but there is likely to be a permanent impact on corporate travel, with the widespread acceptance of video communication and what constitutes "essential travel."

Something else to consider for the future is the limits to the dovish trend in behaviour by central bankers and governments over time, which has crept up on us slowly, but is now reaching extremes. Note also that bearish commentators are often so gloomy because they ignore the positive impact of government/regulatory action when making their dire predictions.

So, using Australia as an example, let's give a thought to how this regulatory behaviour came about, where it's likely heading, and its implications.

"<u>Courageous" Decisions</u>[1]
Early 70s: Gough Whitlam "Crash through or crash"
Early 80s: Malcom Fraser "Life wasn't meant to be easy"
Early 90s: Paul Keating "The recession we had to have"

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[1] Yes Minister Episode Six
Sir Humphrey: If you want to be really sure that the Minister doesn't accept it, you must say the decision is "courageous".
Bernard: And that's worse than "controversial"?
Sir Humphrey: Oh, yes! "Controversial" only means "this will lose you votes". "Courageous" means "this will lose you the election"!

Politicians learnt to outsource the tough decisions
Mid 90s: RBA interest rate decisions become independent of government

Career public servants learned not to be so brave either
1995-2008: RBA cash rate fluctuates from 7.50% to 4.25% to 7.25%
2008-2020: RBA cash rate falls from 7.25% to 0.25%
2020: RBA purchases government bonds in the secondary market (quantitative easing)

Now, we can't get much more dovish than quantitative easing. In essence, the government issues bonds and the RBA ends up buying them. The great fear was that "printing money" like this would lead to inflation. Except in the USA and Europe where it has been done since the GFC, it hasn't. Similarly, since 1997 Japan engaged in quantitative easing without inflationary effects. Fiscal stimulus remains a potential inflationary catalyst, but bizarre as it is the RBA could one day write off the debt and the money may never need to be paid back.

So where does that leave us. With this crash out of the way, and its effect of making corporates, government and investors more cautious, paradoxically it is now safer to invest in the share market. We will likely have clear(ish) air to the next crash, which will be due in 6-8 years.

The market has stabilised, and we are back to situation normal. The extreme situation that caused us to consider top down impacts on our holdings has passed. Our bottom up approach to investing once again dominates. Some businesses do very well and others poorly, most reside in that great mass in the middle. Our job is to keep finding stocks that we can own or short, so that we can deliver good returns to our investors.

This announcement has been authorised for release to the ASX by the Board of Directors of MA1.

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[i] Glossary of terms can be found on the Company's website at www.monashinvestors.com/glossary/