Monash Absolute Investment Company Limited

Monash Absolute Investment Company Limited (ASX: MA1) **4th August 2017**
July 2017 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 31 July 2017 the NTA Pre-Tax was $0.8755.

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.

Monthly Commentary

The portfolio's pre tax NTA increased 0.14% (after fees) for the month of July, during which the S&P/ASX200 fell 0.01% and the Small Ords rose 0.34%. The portfolio had a small increase in value despite weakness in a couple of our Outlook stocks[i], but this was offset by modest rises across most of the portfolio.

There was little news in July, as the market waits for the August "reporting season". We are optimistic going into August given the lack of major downgrades pre August (the "confession season") from stocks we hold. The positive trend that started in May, where our stocks seem to be recovering from the severe sector rotation of the previous six months, seems to be continuing.

During the month 214,633 shares were brought back under the share buyback. A total of 747,952 shares have now been bought back.

Continued next page.

Company at a Glance 31 July 2017

ASX Code - Shares	MA1
ASX Code - $1 Options Sep17	MA1O
Portfolio Size	$45.4m
Share Price	$0.79
Option Price	$0.001
Shares on Issue	51.7m

Portfolio Structure 31 July 2017

Outlook Stocks (Long)	20 Positions	69%
Outlook Stocks (Short)	2 Positions	-5%
Event, Pair and Group (Long)	5 Positions	17%
Event, Pair and Group (Short)	2 Positions	-3%
Cash		21%
TOTAL		**100%**
Gross Exposure		93%
Net Exposure		79%

Estimated NTA (unaudited) 31 July 2017

Estimated NTA Pre Tax	$0.8755

Return Estimate to 31 July 2017

	NTA Pre Tax
1 Month & FYTD	0.14%
3 Months	1.12%
6 Months	-2.71%
1 Year	-10.75%
Since Inception p.a.	-7.06%

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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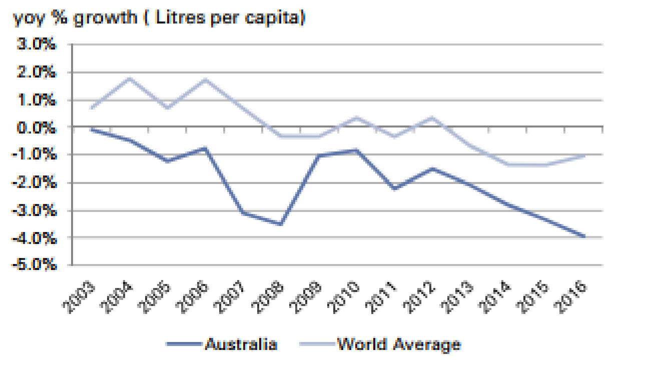
In this month's update, we are focussing on two of the portfolio's Outlook short positions. These are stocks that we have borrowed in order to sell, so as to profit from a fall in their share price, which is a key feature of the Company's investment strategy. We set price targets based on our fundamental research and then look to buy them back at a lower prices than what we sold them for.

Outlook Short - Coca Cola Amatil (ASX:CCL) share price fell 12% in July.

We shorted the stock in April 2017, following a downgrade, because analysts were not adequately forecasting the move away from sugary drinks by Australians, and were still pricing the company like a reliable growth stock, which it is no longer. The two charts below tell the story. Per capita soft drink consumption has been falling in Australia for years, and now prices are falling too.

In the past, this weakness was offset by CCL's bottled water brand Mount Franklin, which is now facing strong price competition from other suppliers and the home brands of supermarkets. Similarly, growth from Indonesia & PNG (23% of EBIT) has failed to offset the decline in their major Australian division.

Carbonated soft drinks consumption



Source: Company data, Goldman Sachs Global Investment Research.

Non-Alcoholic Beverages CPI: %chg vs pcp

Source: Company data, Goldman Sachs Global Investment Research.

The bad news keeps coming for CCL. On 7 July 2017 it was announced that Woolworths would not stock their new No Sugar drink, and that Domino's would not be renewing their supply arrangement with CCL at all – they are switching to Pepsi . On 25 July 2017 it was confirmed by a Woolworths spokesman that they are also pulling all but two of Mount Franklin's water products.

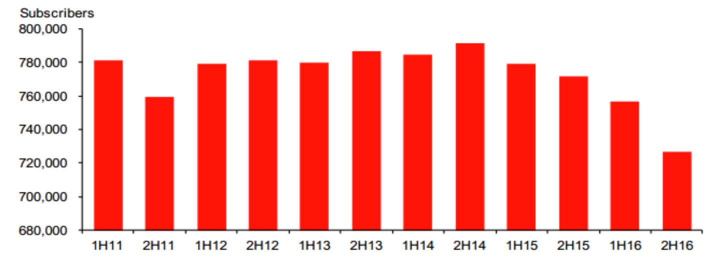
Since we shorted CCL on 21 April 2017 at $9.68, the stock has fallen to $8.24 (31 July 2017) a decline of 15%.

Outlook Short - Sky Network Television (ASX: SKT) share price fell 5% in July.

Sky is New Zealand's incumbent Pay TV provider and also owns Prime, a Free to Air (FTA) TV channel. We started shorting Sky in February 2015, following two halves of disappointing Pay TV subscriber numbers. The fall in subscribers really attracted our attention (see the first chart, below) because Sky has a monopoly on rugby in NZ, so it was widely believed by analysts that it was protected from competition and had strong pricing power.

NZ analysts have been slow to accept that the impact of competition from Netflix and other streaming services. Like CCL, it has historically been priced as a growth utility. This competition is not just fragmenting the market and resulting in a loss of subscribers and advertisers (see the second chart) but also putting downward pressure on the prices Sky can charge, so its total revenue is actually going backwards (it fell 6% last year).

At the same time, costs are going up due to increased competition for content. As a result, its profit margin has fallen from 18% in 2015 to about 12% for 2017. We expect that it is only going to get worse, given the viewing habits of Generation Y (those born after 2000) and with Amazon entering the market. Last week Amazon paid a reported 25% more than Sky UK (no longer related to Sky NZ) to win the exclusive global rights for the ATP tennis as an example of the price competition for content.



Source: Company data, Macquarie Research, May 2016

Since the Company first shorted Sky on 14 April 2016 at $4.36, the stock has fallen to $3.11 (31 July 2017) a decline of 31%.

[i] Outlook stocks are securities, in the Investment Manager's view, whose current valuation does not reflect the future earnings potential of the business.