

Monash Absolute Investment Company Limited fails to respond to a proposal to allow shareholders to approve a merger

12 October 2018

On 8 October 2018 Sandon Capital Investments Limited (ASX:SNC) ("**SNC**" or the "**Company**") provided a non-binding, indicative offer to Monash Absolute Investment Company Limited (**MA1**).

The offer contained an attractive proposal to merge SNC and MA1 (**Proposal**), offering MA1 shareholders a chance to receive shares in SNC, cash, or a combination of both in return for their MA1 shares at NTA¹.

SNC suggested to MA1 that the Proposal be implemented by an MA1 board approved scheme of arrangement, allowing MA1 shareholders an opportunity to vote on the Proposal.

If implemented, SNC believes the Proposal would offer a number of tangible benefits to MA1 shareholders (including a means to substantially eliminate the large discount to net tangible assets applying to MA1's shares, reduced corporate costs and lower management fees). An exit at NTA would also compare favourably to the recent equal access buyback conducted at a 5% discount. A copy of the Proposal is appended to this announcement.

To date, MA1's board has not responded to the Proposal.

Instead, MA1 announced on 11 October 2018 a proposed bonus option issue. The options to be issued by MA1 will have exercise prices which exceed the trading price of MA1 since it began trading on ASX on 11 April 2016. In SNC's view, these options have little if any value and will not allow MA1 to reduce MA1's share price discount to NTA.

In SNC's view, the decision by the MA1 board to ignore the Proposal and to instead announce an intention to undertake a bonus option issue is not consistent with the best interests of MA1's shareholders.

The SNC board remains willing to consider implementing the Proposal and calls on the MA1 board to abandon the bonus option issue.

Contact

If MA1 or SNC shareholders have any questions regarding this announcement, please call Gabriel Radzyninski on 02 8014 1188 Or 0408 936 357

¹ Please refer to the appended Proposal letter for further details.

8 October 2018

Mr Paul Clitheroe AM
Independent Non-executive Chairman
Monash Absolute Investment Company Limited

Via email: xxx

Dear Paul,

Merger proposal

Sandon Capital Investments Limited (SNC) is pleased to set out the terms of a possible merger between SNC and Monash Absolute Investment Company Limited (**MA1** and the **Proposal**).

Benefits

The Proposal offers substantial benefits for MA1 shareholders including:

- a means by which to eliminate the large and persistent discount to net tangible assets (NTA) per share at which MA1 shares have traded since listing;
- the opportunity for MA1 shareholders to consider exiting their investment at NTA, which would represent an uplift of approximately 21% to MA1 Shareholders;¹
 - an exit at NTA would also compare favourably to the recent equal access buyback conducted at a 5% discount;
- the flexibility of either scrip (SNC Shares) or cash alternatives (or a mix of both);
 - SNC Shares currently offer a fully franked dividend yield of 7.2% (9.9% when grossed up for imputation credits)²;
- A lower management fee for those MA1 Shareholders who become SNC shareholders. SNC's management fee is 1.25% compared to 1.50% for MA1; and
- Reduced corporate expenses of the merged entity.

If the Proposal proceeds, it has the potential to create a single listed investment company with a larger capital and shareholder base. The merged entity would have a:

- post-tax NTA of approximately \$70 million (illustrated using the unaudited NTAs of SNC and MA1 as at 31 August 2018);³ and
- reduced management expense ratio as a result of:
 - 1) SNC's existing fixed costs being spread across a larger capital base; and
 - 2) the removal of duplicated expenses such as director's fees, auditing fees, marketing, insurance, compliance and other public listed company costs. We estimate this saving to be at least \$500,000 per annum.

¹ Based on today's closing share price of \$0.84 and MA1's 31 August 2018 post tax NTA

² This yield assumes interim and final dividends totalling 7.0 cents per share and today's closing SNC share price of \$0.97.

³ Assuming 50% of MA1 shareholders elect to accept the Scrip Offer.

Indicative proposal

Based on our due diligence to date and our review of MA1's publicly available information, we are pleased to present this non-binding indicative proposal.

Form of the transaction

We anticipate that the transaction would take the form of a friendly merger using a scheme of arrangement under which all of the shares of MA1 would be acquired by SNC in return for shares in SNC as discussed below. Additionally, subject to legal and tax advice, we want to provide a cash alternative to MA1 shareholders so that they can exit their shareholding at post-tax NTA (less any deferred tax assets and transaction costs).

Exchange ratio

The Proposal will involve shareholders exchanging their MA1 shares for shares in SNC on NTA for NTA valuation basis.

Number of new SNC shares to be issued to each eligible MA1 shareholder	=	Number of MA1 shares held by the eligible MA1 shareholder as at the Scheme record date	x	<div>Post-tax NTA backing of MA1 per MA1 share (less deferred tax assets and MA1's transaction costs)</div> <div>Pre-tax NTA backing of SNC per SNC share (less SNC's transaction costs)</div>
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Illustratively, based upon the 31 August 2018 post-tax NTA of MA1 (\$1.0179 per share) and SNC's pre-tax NTA (\$1.0289 per share), eligible MA1 shareholders would have received approximately 982 new SNC shares for each 1000 MA1 shares held.

Continuing with the illustration, MA1 shareholders would, all things remaining equal, enjoy an increase in value of more than 21% based on today's closing share price for MA1 and using 31 August 2018 NTAs for each company.

We believe this is a compelling proposition for MA1 shareholders.

Shareholding in combined company

Under the Proposal SNC will issue up to approximately 43.5 million SNC ordinary shares⁴. Practically, we expect some MA1 shareholders will elect to accept cash as consideration. Assuming 50% scrip election, following completion of the transaction, current MA1 shareholders would own approximately 32% of the combined entity on a fully diluted basis.⁵

About SNC

SNC's objectives are to preserve shareholder capital, deliver a positive absolute return over the medium term and to provide shareholders with a growing stream of fully franked dividends.

SNC is a value investor seeking to purchase investments below its assessment of their intrinsic value. As an activist investor, SNC takes value investing one step further by aiming to influence and encourage changes that can preserve or enhance the value of its investments. SNC is managed by Sandon Capital Pty Ltd.

⁴ Assuming 100% scrip acceptance. The final number of shares will depend on the final exchange ratio of the two companies' respective NTA's per share.

⁵ Assuming 50% by value of MA1 shareholders elect the scrip alternative.

SNC's gross investment returns since inception in December 2013 are 11.6% per annum. Furthermore, SNC's returns have exhibited a low correlation (0.35) with those of the broader share market⁶.

SNC has declared fully franked dividends of 26 cents per share since inception and has approximately 1,260 shareholders.

Timetable

After you have confirmed your in-principle interest in this Proposal, we will instruct our lawyers, Kardos Scanlan, to immediately prepare an industry standard merger implementation agreement (including appropriate provisions relating to exclusivity, deal protection and costs) for your review and comment.

SNC wishes to pursue discussions with MA1 in relation to the Proposal in a compelling and constructive manner. We are prepared to work with you over the next 10 days to bring this offer to MA1 shareholders subject to you giving us reasonable access to MA1 information and personnel.

SNC believes that it is in the best interests of all stakeholders, including MA1 shareholders that the parties progress quickly to announce an agreed transaction. With this in mind, we require your response to this letter by 10.00am (Sydney time) on Thursday 11 October 2018.

Our objective would be to hold the scheme meeting in early December 2018, so that MA1 shareholders electing to become SNC shareholders will have the opportunity to receive any interim dividend that SNC directors might declare in respect of the half year ending 31 December 2018.

Confidentiality

SNC has taken appropriate steps to maintain the confidentiality of this letter and has confined knowledge of this initiative and the proposal to a very small circle of people on a need to know basis. It is our expectation that MA1 will do the same until we are able to execute a definitive agreement and make a joint announcement.

Conclusion

The Proposal is incomplete, conditional and non-binding. This letter sets out current intentions only, is not an offer capable of acceptance and does not otherwise give rise to a binding contract. This letter is not, and cannot be considered to be a notification of a proposed offer pursuant to section 631 of the Corporations Act.

Unless a binding document is entered into, SNC will not be under any obligation to MA1 with respect to the Proposal or this letter (whether legal, moral or otherwise).

SNC believes that the Proposal is a compelling proposition for MA1 shareholders.

If you have any questions about this letter please do not hesitate to contact me at 0408 936 357.

Yours sincerely



Gabriel Radzynski

Chairman

⁶ As compared to the S&P/ASX200 Accumulation Index on a monthly basis to the end of September 2018.