Monash ABSOLUTE INVESTMENT COMPANY

Monash Absolute Investment Company Limited

Monash Absolute Investment Company Limited (ASX: MA1) **2 July 2019**
June 2019 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 30 June 2019 the NTA Pre-Tax was $1.0587.

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 was up 1.04% (after fees) compared to the S&P/ASX200 up 3.70% and the Small Ords, which was up 0.92%.

For the Financial year, the Pre-Tax NTA was up 8.75% (after fees) compared to the S&P/ASX200 up 11.55% and the Small Ords, which was up only 1.92%.

The best contributors this month were Telix (ASX: TLX) which was up 18% and EML Payments (ASX: EML) up 13%. These two were also decent contributors over the year being up 88% and 115% respectively.

Portfolio returns were quite volatile over the course of the last 12 months.

The December quarter was particularly poor, with world markets concerned about trade wars, slowing growth, and in Australia the property market and retail sales: the Pre-Tax NTA fell -15%.

However the portfolio roared back in the second half of the year, with global concerns receding and in Australia, the federal election resolved and interest rate cuts: the portfolio's Pre-Tax NTA jumped by 23%.

Company at a Glance 30 June 2019

ASX Code	MA1
Portfolio Size	$48.0
Share Price	$0.815
Shares on Issue	44.3m

Estimated NTA (unaudited) 30 June 2019

Estimated NTA Pre Tax	$1.0587

Return Estimate to 30 June 2019

	NTA Pre Tax
1 Month	1.04%
CYTD	23.15%
6 Months	23.15%
FYTD	8.75%
1 Year	8.75%
Since Inception p.a. (April 2016)	3.33%

Portfolio Structure 30 June 2019

Outlook Stocks (Long)	20 Positions	83%
Outlook Stocks (Short)	1 Positions	-2%
Event, Pair and Group (Long)	1 Positions	9%
Event, Pair and Group (Short)	1 Positions	-2%
Cash		12%
TOTAL		**100%**
Gross Exposure		97%
Net Exposure		88%

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.

The stock with the most news flow this month was **AfterPay (ASX: APT)** which, through good news and bad, ended up 4% for the month, having started at $24.15.

1. In the first week of June, AfterPay mishandled a US media release on its sales which necessitated it disclosing an 11 month business update[1] and the share price was flat, the market being happy that it was progressing as expected.

2. In the second week, it raised equity on the Monday and had a partial sell down by its founders all at $23, about a 5% discount to the market price[2]. When it came back on the following day, it rallied to $25.60.

3. But it fell sharply on the Wednesday, due to a "Notice from AUSTRAC"[3] investigating its payment systems, reaching a low of $19.98 during the week. The market soon worked out that the likelihood of an existential risk to AfterPay from this review was pretty small, and the stock rallied up to a high of $27.90 by the second last day of June.

4. Then on the last day of the month, Visa made an announcement[4] and Forbes wrote an article[5], disclosing that Visa would be trialling its own point of sale (POS) instalment payment solution. This sent the stock back down to a low of $22.50 before rallying to close at $25.07 to be up 4% for the month.

Our view on this latest drama is that there is little competitive threat to AfterPay from Visa, at this stage. The Visa approach relates only to credit cards, and is a catch up to "MasterCard Instalments" (January 2016) and even Westpac getting into credit card instalment lending.

These credit card instalment plans differ considerably from AfterPay, in that they still expose the customers' to account fees and interest charges, and they need to be customised by each card-issuing bank. They are unlikely to get much traction with AfterPay's customer base, 80% of whom do not use a credit card.

This month we include a note on one of the smaller portfolio exposures **Fluence Corporation (ASX: FLC).** It provides decentralised water and waste-water treatment equipment and consumables, and is experiencing rapid growth.

Water matters
In 2018, Cape Town was set to become the first developed city to run out of water. The city staved off "Day Zero" (the day on which all taps run dry) by only weeks when rain finally arrived. The city's desalination projects are still years away from completion. Cape Town is by no means unique. From Murray-Darling Basin issues and East Coast Australian droughts to California's dustbowl and Chennai in India (see below), water scarcity and contamination is a global and growing challenge. This also makes it a market opportunity.

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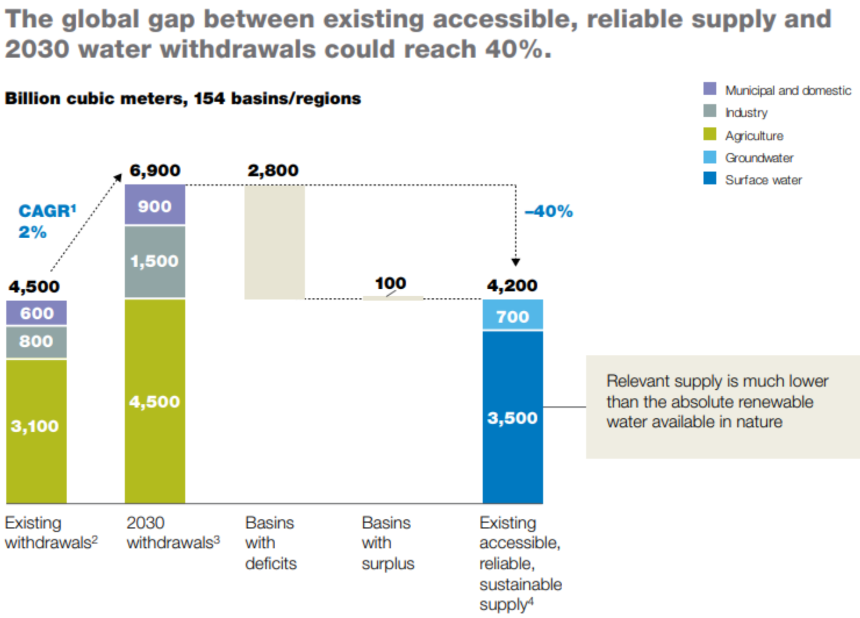
[1] https://www.asx.com.au/asxpdf/20190606/pdf/445nfbwsw88mkx.pdf
[2] https://www.asx.com.au/asxpdf/20190611/pdf/445r1f2dvzsxrm.pdf
[3] https://www.asx.com.au/asxpdf/20190613/pdf/445t7hch93v5t0.pdf
[4] https://usa.visa.com/about-visa/newsroom/press-releases.releaseId.16441.html
[5] https://www.forbes.com/sites/jeffkauflin/2019/06/27/layaway-is-cool-again-and-now-visa-wants-a-piece-of-the-12-trillion-market/#299398fb4238

Lake Puzhal supplies water to about 4.6 million people in Chennai, India. Source: Copernicus Sentinel-2 Satellite via Maxar Technologies

Much like Cape Town, many countries are inadequately prepared for these emerging crises. Coupled with diminishing supply and rising demand, water shortages affect 2.7 bn people, today. It is estimated that water demand for food production and manufacturing will increase 60% and 400% by 2050, respectively. Overall global water consumption is forecast to double by 2050. McKinsey estimates a global water supply shortfall of 40% by 2030, a mere 10 years away.



[1]Compound annual growth rate.
[2]Based on 2010 agricultural-production analyses from International Food Policy Research Institute (IFPRI).
[3]Based on GDP, population projections, and agricultural-production projections from IFPRI; considers no water productivity gains between 2005 and 2030.
[4]Existing supply that can be provided at 90% reliability, based on historical hydrology and infrastructure investments scheduled through 2010, net of environmental requirements.

Source: 2030 Water Resources Group; global water supply and demand model; agricultural production based on IFPRI IMPACT-WATER base case

Source: McKinsey On Sustainability & Resource Productivity 2012

So why are these cities getting caught out to dry?

Constructing traditional desalination / water treatment facilities is capital intensive, complex and slow to deploy. Centralised water treatment plants tend to be landlocked with aging infrastructure that cannot be expanded easily and upgrades are costly. However, there is a viable alternative. Global Water Intelligence estimates by 2021 USD$22bn per annum will be spent on decentralised solutions, which are cost efficient, quick to deploy and scalable. As investors, how can we participate in such significant tailwinds?

Fluence Corporation (ASX:FLC) is a leading global provider of decentralised water treatment and waste-water management solutions. It is a pure-play on the water thematic and winner of *Global Decentralised Water & Wastewater Treatment Company of the Year* by Frost & Sullivan in 2018[6]. Fluence has a market capitalisation of A$202m, generated US$101.1m in revenue in FY18 with a US$200m order-book and operates in 70 countries across the Americas, Africa, Middle East and China.

Fluence has a multi-channel revenue model. One revenue channel is through the sale of modular units called “Smart Product Solutions”, usually within containers which are ideal for decentralised water treatment. These containers can be packaged together to rapidly expand capacity on-demand (see “Aspiral”, “Nirobox” below). It also undertakes larger “Build-Own-Operate-Transfer” projects and “Custom Engineered Solutions” largely financed with non-recourse debt financing. Fluence also has a healthy aftermarket and recurring revenue model that enables higher margin accretion over time as the revenue mix evolves. Fluence is focused on driving growth in its Smart Product Solutions and Recurring Revenue segments which earn higher gross margins and have a key competitive advantage: proprietary technology.

	Water Treatment	Desalination	Reuse	Wastewater Treatment	Wastewater-to-Energy	Food & Beverage Processing
aspiral			✓	✓		
NIROBOX™	✓	✓	✓			
subre			✓	✓		
Custom Engineered Solutions	✓	✓	✓	✓	✓	✓

Source: Fluence 2019 AGM Presentation

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[6] https://www.fluencecorp.com/2018-decentralized-water-treatment-company-of-the-year/

So why do we like it?

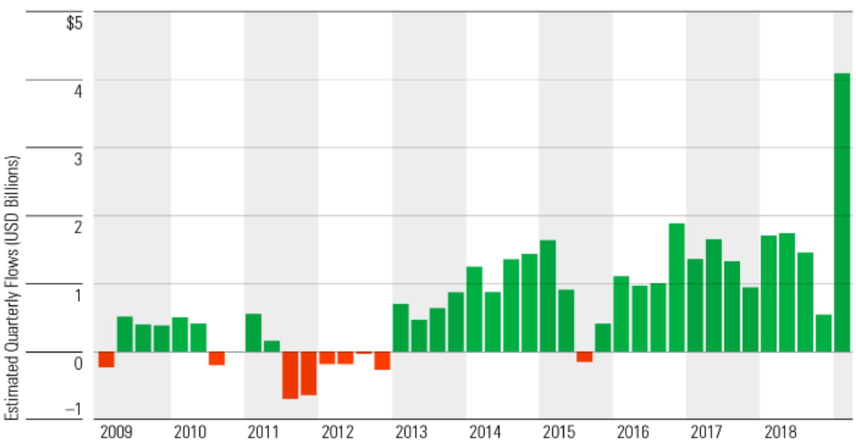
Fluence uses its patented-protected membrane aerated biofilm reactor ("MABR") to tap into a significant total addressable market through a full suite of water treatment solutions from waste-water treatment to desalination that caters for diverse customer requirements and situations. Incumbent water treatment technology is over 100 years old and ripe for disruption. Fluence's solutions have 90% lower energy consumption and 60-70% lower operating costs than competing technologies. Fluence has an experienced Management team skilfully executing its product roll out, achieving 74% YoY organic revenue growth (December FY18).

Even with modest assumptions, Fluence's revenue and earnings potential is sizeable. In particular, China's has allocated US$15 bn to treat rural water sources, an opportunity Fluence is leveraging with current partnership agreements.

The balance sheet is strong with US$40.8m net cash (December FY18) and Management is guiding to be EBITDA[7] positive by 4Q 2019 which we see as a key change in its risk profile and a potential signal to the market for a re-rating.

Lastly, with over US$4 bn of flows into ESG-orientated funds during the first quarter of 2019, we anticipate a strong investor appetite for Fluence once it achieves de-risking milestones (e.g. EBITDA-positive).

Quarterly Estimated ESG Flows



Source: Morningstar Direct. Data as of 4/2019. Includes ESG Integration, Impact, and Sustainable Sector funds as defined in Sustainable Funds U.S. Landscape Report, 2018. Includes funds that have been liquidated; does not include funds of funds.

Why is this flying under the radar?

Like most microcaps, we followed Fluence before any analyst coverage and it remains largely undiscovered or insufficiently understood. Fluence's operations are global and complex requiring extensive research to understand and value. In addition, there remains a fair amount of execution risk and its growth may be volatile.

In general, microcaps can require substantial research and patience before significant returns are earned. We suggest watching for Fluence's EBITDA-positive achievement, additional broker coverage and continued strong revenue growth.

7 EBITDA is earnings before interest, tax, depreciation and amortization and is a measure of a company's operating performance.

Monash Absolute Investment Company Limited

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