

Monash Absolute Investment Company Limited

Monash Absolute Investment Company Limited (ASX: MA1) March 2021 End of Month Update

6 April 2021

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 (“NTA”) 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 31 March 2021 the NTA Pre-Tax was \$1.4514.

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

In March, the Pre-Tax NTA rose 1.32% (after fees). This compares to the S&P/ASX200 that was up 2.44%, and the Small Ords up 0.79%.

The market rotation continued with many high growth stocks and COVID “winners” falling double-digit percentages. Over the last few months the cash weight has been building as positions have been trimmed in the “winners” stocks and completely exiting stocks that have met target prices, such as Afterpay (ASX: APT) or have sold out following a change of view, such as Kogan (ASX: KGN). In general, this selling was well timed, and reduced the portfolio’s exposure to underperforming stocks.

The 2021 financial year continues to be strong. Over nine months the Pre-Tax NTA is up 32.50% (after fees) despite the significant company income tax that was paid (paradoxically, the Pre-Tax NTA is calculated after taxes paid, but before tax yet to be paid) that will be returned to shareholders in the form of franking credits, and also the expenses for the restructure that have been incurred. By comparison, the S&P/ASX200 did 18.02% and the Small Ords 22.79%.

Company at a Glance 31 March 2021

ASX Code	MA1
Portfolio Size	\$ 70.2M
Share Price	\$1.41
Shares on Issue	44.96m

Estimated NTA (unaudited) 31 March 2021

Estimated NTA Pre Tax	\$1.4514
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Return Estimate to 31 March 2021

	NTA Pre Tax
1 Month	1.32%
3 Months	-0.33%
CYTD	-0.33%
FYTD	32.50%
1 Year	69.65%
2 Years p.a.	23.69%
3 Years p.a.	15.30%
Since Inception p.a. (April 2016)	9.40%

Portfolio Structure 31 March 2021

Outlook ¹ Stocks (Long)	11 Positions	58%
Outlook Stocks (Short)	2 Positions	- 2%
Event, Pair and Group (Long)	3 Positions	12%
Event, Pair and Group (Short)	1 Position	0%
Cash		32%
TOTAL		100%
Gross Exposure		71%
Net Exposure		68%

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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It's now been a full 12 months since the low point of COVID's impact on global equity markets. It was a period where our flexible mandate was of great benefit to the Company's performance, as we were able to sell and short stocks without regard to the fact that the cash weight was rising, and then cover and buy at low prices.

At Monash Investors our investment philosophy and approach is quite different from other managers, and even from our long/short peers. This applies to our shorts as well as our longs. In both cases, we tend to have fewer positions, but our payoff requirements are higher. There are always fewer shorts in the portfolio than longs, as absolute shorts tend to be much harder to find. In order to avoid concentration risk for shorts, short weights are less than half the size of the longs. As a result, total short holdings have only averaged 5-6% of the portfolio since inception, typically spread between 2-3 stocks at a time but the number of stocks will increase if there are more opportunities.

This has occasionally raised the question of why we bother doing it. Well the answer is it generally adds some value, and it can at times make an oversized contribution to the portfolio. The 12 months to 31 Jan 2021 (for which we have a contribution analysis below) demonstrates such a period.

Stock	Contribution	Price Move	Weight	Top Up Trades	Months Held
Flight Centre	3.5%	-67%	-2.5%	4	2.3
Corporate Travel	1.6%	-42%	-2.5%	2	5.3
Freedom Foods	1.4%	-74%	-1.8%	0	7.2
Qantas	1.1%	-40%	-2.5%	3	1.3
IDP education	0.8%	-25%	-1.5%	0	1.0
Skycity Entertainment	0.7%	-46%	-1.0%	1	1.3
Star Entertainment	0.6%	-43%	-1.0%	1	1.3
Eagers Automotive	0.5%	-13%	-2.5%	1	1.5
G8 Education	0.4%	-43%	-1.5%	1	2.0
Treasury Wines	0.4%	-16%	-2.5%	2	5.8
Crown Resorts	0.4%	-30%	-1.0%	1	1.2
Estia Health	0.2%	-31%	-1.0%	1	1.1
Regis Healthcare	-0.1%	1%	-1.0%	0	1.5
Kathmandu	-0.1%	5%	-2.5%	0	2.0
AVERAGE per stock		-33%	-1.8%	1.2	2.5
TOTAL CONTRIBUTION	11.6%				

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The table shows that over the 12 months, the shorts contributed 11.6% to the return for the year, which was about 1/3 of total return for that particular time period. In the year to 31 January, there was an average weight in shorts of only 1.8% per stock, and on average they fell by 33% while we held them. The average holding period was a brief 2.5 months per stock. The overall size of the short positions swung around between 2% and 16%, and averaged 5% for the year.

The key to making money in these positions was our strong view on stock price, driven by bottom up analysis that quickly incorporated new information. Our forecasts are supported by the playing out of recurring business situations or recurring patterns of behaviour. It is also important to know when to cover the shorts and lock in investment gains, here our focus on valuation provides the insight. As always selling/covering discipline is a key driver of the investment returns we are able to generate.

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

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

SA, NT and WA Advisers	Andrew Fairweather	P: +61 401 716 043 andrew@winstoncapital.com.au
VIC, NSW and ACT 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.

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Independent Investment Research (IIR) has awarded a Recommended rating for the Monash Absolute Investment Company Limited (ASX: MA1). To access the IRR report, please refer to our website at www.monashinvestors.com or [click here](#)

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