Monash
ABSOLUTE INVESTMENT COMPANY

Monash Absolute Investment Company Limited

Monash Absolute Investment Company Limited (ASX: MA1) **Friday, 3rd February 2017**

January 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 31st January 2017 the NTA Pre-Tax was $0.9001.

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.

Commentary

The Company was down 4.05% (after fees) for the month of January, during which the Small Ords fell 2.44% and the S&P/ASX300 fell 0.77%. It was a really tough month for any portfolio with a bias towards smaller cap growth stocks, this being a trend that began during October 2016.

Followers of the financial press would be aware that there were a number of high profile earning downgrades in January. Fortunately, the Company had no exposure to these stocks, such as Aconex, Bellamy's, Servcorp and Virtus.

Indeed, one of the stocks with the biggest weight in the Company, EML Payments, announced a major new client (Mcmillam Shakespeare, Australia's largest salary packaging company and equivalent to a 10% earnings upgrade for EML) yet it fell 6% for the month.

Commentary continued next page.

Company at a Glance 31 January 2017

ASX Code - Shares	MA1
ASX Code - $1 Options Sep17	MA1O
Portfolio Size	$47.4m
Share Price	$0.90
Option Price	$0.008
Shares on Issue	52.5m

Portfolio Structure 31 January 2017

Outlook Stocks (Long)	21 Positions	74%
Outlook Stocks (Short)	2 Positions	-5%
Event, Pair and Group (Long)	4 Positions	19%
Event, Pair and Group (Short)	0 Positions	0%
Cash		13%
TOTAL		**100%**
Gross Exposure		98%
Net Exposure		87%

NTA (unaudited) 31 December 2016

NTA Pre Tax	$0.9381
NTA Post Tax	$0.9588

Estimated NTA (unaudited) 31 January 2017

Estimated NTA Pre Tax	$0.9001

Return Estimate to 31 January 2017

	1 month	Since Inception 12 April 2016
NTA Pre Tax	-4.05%	-6.29%

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

Further good news was that the Company's short positions went backwards (on average) and that stocks that had been recently added to the Company's portfolio were positive contributors. Speedcast rose 2.6% and the resources group trade rose about 2.5% for the month.

Nevertheless, all these positives were outweighed by the derating of many of the stocks in the Company, despite the absence of bad news, and the lack of reasons to believe that they will not meet expectations (with only one exception).

The Company's portfolio is exposed to a relatively concentrated group of businesses that have strong outlooks and are delivering growth, and are all well within the Company's weight stock limits. We have been progressive sellers of many of these stocks as their prices were rising, and this discipline has helped during these adverse conditions. We are not trying to catch falling knives, either, however our view is that value is now even more compelling for the Company's outlook stocks.

February 2017 is a reporting month, and we wait for confirmation of how the Company's stocks are going. While we can't control short term market trends, we have every confidence that the underlying success of these businesses will be reflected in their share prices sooner or later.

A Comment on 2016 from Simon Shields, Portfolio Manager at Monash Investors (Investment Manager)

At Monash Investors we are always looking to find stocks that will make money (long or short) for the Company and we set the bar high for growth and for value. At the same time, we try to avoid low growth stocks that just go up and down with the market.

Sometimes this is easier to do than other times, and 2016 was a tough year for the Company despite avoiding the high profile stock 'blow ups' and numerous profit downgrades in well-known stock names.

Every investment manager has a view on the market: that's what they're are paid for. I could well be wrong but on balance I am positive. There has been a lot of stimulus provided by central bankers for a long time now, and as usual they have lagged winding it back in their response to recovery. The markets are coming out of the Global Financial Crisis(GFC) (financial crises take a long time to get over) and the down leg of the resources super cycle at the same time. Europe is being stimulated by working age population growth, the USA will be stimulated by likely tax cuts and infrastructure spending at a time of tight employment. The Chinese want a steady ship as they move to next year's political transition. Monash Investors see the glass half full, rather than half empty. There is still a lot of cash on the sidelines, and there is no euphoria.

Resources hit their low point near the start of 2016 and rose steadily (we completely missed it, but forecasting commodity price changes is not a key part of what Monash Investors does – we are very bottom up, not much top down); subsequently the overall change in sector leadership since October 2016 has been pretty sharp. We don't see the main reason for the fall in prices of small cap growth stocks being because there is a lack of appetite for risk, or that people don't want to look out a couple of years for earnings. We see it very much part of a sector rotation where the marginal dollar is being allocated to Resources at the same time as there has been some transitioning away from small cap managers in Australia. This has arisen because most investors and investment managers have been so underweight Resources post the super cycle, and underweight large cap stocks generally because they have been unappealing. In the USA small cap stocks have done well. By the way, many of the Company's stocks have USD revenues, which is another positive for their valuations.

Going forward, Monash Investors will continue to seek out businesses that meet the Company's hurdles, and be ruthless in exiting them if they discover that they are wrong. In general, the Company's stocks have been continuing to do very well as businesses, so Monash Investors are hopeful of a good reporting season.