

Monash Absolute Investment Company Limited

Monash Absolute Investment Company Limited (ASX: MA1) July 2018 End of Month Update

1 August 2018

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 2018 the NTA Pre-Tax was \$1.0112

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

The Company's pre-tax NTA increased 2.79% (after fees) for the month of July, during which the S&P/ASX200 rose 1.39% and the Small Ords fell -1.01%.

July is typically a quiet month before the deluge of the August reporting season. Nevertheless, some of the stocks in the portfolio reported good news and rose strongly.

- EML Payments (ASX: EML) made two positive announcements and rose 18%. It won a large European gaming client and a large German mall operator.
- Nearmap (ASX: NEA) reported stronger than expected growth in the USA and rose 32%.
- Afterpay Touch Group (ASX: APT) was the biggest contributor rising 52% following its quarterly update. We discuss the reasons for the share price rise further below.

Buy Back and Share Issue

On 13th July 2018, the Company announced its decision to proceed with the off market equal access buy back and share issue at a 5% discount to pre-tax NTA. It also flagged that it expects to be able to repeat this regularly. We believe this arrangement will benefit shareholders and encourage them to consider this opportunity.

Company at a Glance 31 July 2018

ASX Code	MA1
Portfolio Size	\$50.3m
Share Price	\$0.895
Shares on Issue	49.2m

Estimated NTA (unaudited) 31 July 2018

Estimated NTA Pre Tax	\$1.0112
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Return Estimate to 31 July 2018

	NTA Pre Tax
1 Month	2.79%
3 Months	8.23%
6 Months	-0.80%
FYTD	2.79%
1 Year	15.42%
Since Inception p.a. (April 2016)	2.15%

Portfolio Structure 31 July 2018

Outlook Stocks (Long)	19 Positions	64%
Outlook Stocks (Short)	1 Positions	-3%
Event, Pair and Group (Long)	4 Positions	13%
Event, Pair and Group (Short)	0 Positions	0%
Cash		26%
TOTAL		100%
Gross Exposure		80%
Net Exposure		74%

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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Afterpay (ASX: APT)

Afterpay's share price increased 52% during the month and was a material contributor to the portfolio's performance. This dramatic increase in the share price was on the back of a very positive business update that showed that the Australian business continues to power ahead and critically the USA business is showing signs of replicating the Australian success. In the USA, only 6 weeks after launch, APT already has 200 retailers transacting on the platform and a further 200 contracts signed and awaiting implementation. \$11m of underlying sales have occurred in the first full month of operations there. To put this into context, it took APT 16 months to reach this level of cumulative sales in Australia.

Australian underlying sales through the platform reached \$2.18bn (up 289% on previous corresponding period (pcp) with 16,500 retailers (up 175% on pcp) now transacting, and 2.2 million customers (up 162% on pcp) having used the product. Momentum in the in-store offering is also building with 10,000 individual shopfronts now live. The rate of retailer and consumer adoption that APT has achieved is remarkable, with millennials in particular rapidly adopting the service. Importantly, the channel checks that we have conducted with retailers also paint a positive story, with all universally supportive of Afterpay. Retailers have told us that it has been good for business and that it creates a rare win-win scenario.

In addition to the business update, a few other share price drivers are in play. A large short interest had developed in APT peaking at nearly 10% of the share register largely on the back of regulatory concerns. We have looked extensively into this topic and concluded that these concerns are misplaced. While there have been examples of misuse of the APT platform these are isolated, particularly considering the massive volume of transactions going over the platform.

The business update has seen significant short covering with short interest now down to 4.4%. We also suspect that some buying has been driven by small cap managers for index purposes. Now that APT's market capitalisation has risen so much, it has a meaningful index weight and therefore long only small cap managers can no longer ignore it. The easiest call they can make is to neutralise their position and move to a benchmark weight, which leads them to buy the stock.

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