

## Monash Absolute Investment Company Limited

22 October 2018

### Monash Absolute Investment Company Limited (ASX Code: MA1)

#### MA1 rejects costly proposal to liquidate company

On Monday 8 October, Sandon Capital Investments (Sandon) emailed the Chairman of Monash Absolute Investment Company (MA1) a Merger Proposal, which Sandon described as incomplete, conditional and non-binding, and released this proposal to the ASX on Friday 12 October.

Since the initial contact, the board of MA1 has worked diligently in order to assess the proposal. During this time, we have also met twice with Sandon to explore the proposal and to avoid misunderstanding it.

#### The proposal

Sandon described their offer as a “Merger Proposal” but it is more realistically characterized as a request to liquidate MA1, and distribute the proceeds to MA1 shareholders. Sandon also proposes that if any MA1 shareholder prefers, the shareholder could use his/her own proceeds to apply for Sandon shares (SNC-ASX), rather than take cash.

#### Costs and risks borne by MA1 not Sandon

Sandon has clarified that the basis for calculating the cash value of each share is “post-tax NTA less any deferred tax assets and transaction costs”. Sandon proposes that all costs and risks of liquidation will be borne by MA1 shareholders. Our analysis reveals they would be substantial.

Furthermore, the starting point is not the 21% uplift suggested by Sandon. The shares have been trading on average, over the last 3 month ends prior to SNC announcement, at \$0.86. This compares to the average month end Post Tax NTA of \$1.02 over the same period. So the discount before costs is 16%.

#### Cost estimates

1. Deferred tax assets. These are assets that shareholders of MA1 will benefit from over time, but would be forgone in the event of a liquidation. These amount to 2.9% of NTA as at 30 September 2018.
2. Market impact costs. This would impact the price achieved for the less liquid portfolio holdings and the sale of unlisted investments. These costs would not be incurred by MA1 in the course of its normal business. We assess these at 3-5% of NTA.
3. Legal Costs. These would be associated with the scheme of arrangement, legal, accounting and tax work, and an independent experts report. We assess these at 0.5% of NTA.

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4. Costs associated with terminating Monash Investors' management agreement. This runs until 23 February 2026. A proposal for liquidation or change of control does not give rise to a right for MA1 to terminate the agreement.

The first three sets of costs alone, amount to 6.4% to 8.4% of the NTA, which reduces the discount from 16%, to 7.6% - 9.6%. When the cost of terminating the management agreement is included, it is clear that there is little benefit, and potentially a negative benefit, to MA1 shareholders from the proposal.

### MA1 Embedded Value

MA1 Chairman, Paul Clitheroe said, "I would like to refer shareholders back to my Chairman's Letter in the Prospectus, where I stated that you are strongly advised to consider any investment in the Company (MA1) as a long term proposition, so over 7 years in your portfolio". He elaborated that "I made this point in the Prospectus because, one of the key reasons for doing this is to allow sufficient time for the embedded value in the investments made by the Company to be realised".

Simon Shields, Portfolio Manager added, "We have undertaken very detailed research, combined with our decades of experience, to put together a portfolio of compelling investments. Every stock in the portfolio has, in our opinion, an exciting outlook. These take a variety of forms such as geographic expansion, new product rollout, cyclical recovery, or some other step change in the business prospects for our holdings. The value to be created takes time to be realised, as the businesses execute on the opportunities before them. Therefore any premature divestment of the stocks in the portfolio before they have realised their potential would come at a significant opportunity cost".

### Outlook

Paul Clitheroe, stated "The Board of MA1, remains absolutely focused on delivering value to our shareholders. While investment markets created a very challenging back drop for the Company in its first year, over the 12 month period ending September 2018 the NTA has increased 14.2%."

"As you will see from the investment performance update released this morning the Monash Investors team has handled the recent bout of market volatility very well. While short term performance should never be taken as a guide it does give me confidence the investment strategy can deliver on its goals."

### Rejection of the proposal by MA1

The board of MA1 rejects the Sandon Merger Proposal as a costly bid to liquidate MA1. The costs comprise: tax, market impact and legal costs of 7.6% – 9.6%; the cost of terminating the management agreement, and; the loss of embedded value.

In the Sandon announcement to the ASX on 12 October, it also called for the MA1 Board to abandon the recently announced bonus issue. The rationale for this is not entirely clear, particularly considering Sandon themselves undertook a 1-for-1 bonus issue last financial year.

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The bonus issue is a free entitlement provided to all shareholders. Should it be exercised it will increase company's size, operating scale and liquidity, to the benefit of all shareholders. As such, it is the Board's intention to continue with the recently announced bonus issue as part of our ongoing program to add value to our shareholders.

Other recent initiatives that we have undertaken include increasing communications, the frequency of performance disclosures, and implementing an innovative buy back scheme.

The board of MA1 thanks Sandon for its proposal.

Regards

**Simon Shields**

**Director, MA1 and Monash Investors**

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For more information about the Company and the strategy, please refer to the Monash Investors website at [www.monashinvestors.com](http://www.monashinvestors.com). You can also [follow us on Livewire here](#) or [subscribe to our updates here](#)