

## Monash Absolute Investment Company Limited

Date: 8 August 2019

### **Monash Absolute Investment Company announces a proposal to restructure into an Exchange Traded Managed Fund**

The Board of Monash Absolute Investment Company Limited (**MA1** or **Company**) is pleased to announce its intention to propose that MA1 be restructured.

#### **Proposed Restructure**

Under the restructure, MA1's shareholders would receive units in an ASX listed Exchange Traded Managed Fund (**ETMF**) that would hold MA1's existing portfolio of listed investments, with a small percentage (approximately 3.5% of the current value of MA1) of unlisted investments retained in MA1 (to be realised on an orderly basis and the proceeds distributed to shareholders) (**Proposed Restructure**).

Importantly, the Proposed Restructure will:

- Address the large discount to the net tangible asset (**NTA**) value at which MA1 shares have historically traded.<sup>1</sup> Under the proposal MA1 shareholders will receive ETMF units, which will, in effect, re-set the market price. The new units will trade on the ASX in a tight band around NTA, due to the actions of a market maker.<sup>2</sup>
- Provide liquidity: Units will be issued/redeemed by the ETMF at NTA to support the market making activity. ETMF unit holders will be able to continue to buy/sell their holdings on the ASX.

The Manager (Monash Investors Pty Ltd) will continue to manage the portfolio. There will be no change to the portfolio investments of MA1 investors before and after the restructure. Investors would have an economic exposure to the same assets, although technically through a different type of security.

#### **Conditions**

The Proposed Restructure will be subject to a number of conditions precedent, including shareholder approvals required under the Corporations Act and the ASX Listing Rules, satisfactory resolution of the current ASIC review of the ETMF sector, ASX approval for the new ETMF to be listed and a satisfactory opinion from an Independent Expert in relation to the restructure. If these conditions are not satisfied, the Proposed Restructure will not proceed.

Subject to the conclusion of the ASIC review being satisfactory, the Board expects to send to shareholders over the coming months a Notice of Meeting, an Explanatory Memorandum and an Independent Expert's report on the Proposed Restructure.

<sup>1</sup> Based on the Pre-Tax NTA at the end of each month and the corresponding share price the average discount to NTA over the last 12mths to July 2019 has been 18.5%

<sup>2</sup> Under the new structure, the responsible entity of the new ETMF will engage a market maker who will create liquidity by making a market through buying and selling units at an agreed spread to the ETMF's NTA.

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### Comments from the Chairman

MA1 Chairman, Paul Clitheroe said: "The Independent Directors are pleased to announce a solution, pending an expert's report and shareholder approval, to the persistent discount. The proposal, if it proceeds, will close the gap between NTA and the market price for MA1, plus provide liquidity, whilst allowing investors to retain their exposure to the same investment strategy".

"Shareholders have made it clear, that while supportive of the fund's strategy and its strong investment performance, the discount of the share price to NTA and lack of liquidity, should be addressed by the Board."

### Background

The Board, together with the Manager has been seeking advice and working to improve the liquidity of the market in MA1 shares and to reduce the discount to NTA at which MA1 shares have traded. A number of initiatives have already been implemented, including: an on-market-buyback, an off-market-buyback and a share purchase plan, improved communication and disclosure, the issue of options and the payment of dividends.

In addition, under the Manager, there has been strong investment performance (as at 31 July 2019 the calendar year to date Pre-Tax NTA has increased by +28.7% (after fees).

Nevertheless, the gap between the market price and NTA per MA1 share has persisted.

### Proposed solution

Following extensive analysis of a wide range of options, the MA1 Board has concluded that a restructure of MA1 into an ETMF is in the best interests of MA1 shareholders and intends to propose, and to recommend that shareholders vote in favour of, a restructure to the Company.

The Board's aim is to take advantage of the ETMF structure that, after completion of the Proposed Restructure, will allow shareholders' investments to trade at, or close to, NTA, versus the current 20% discount to NTA<sup>3</sup>.

This would also resolve the liquidity issue.

The Board estimates that the ongoing annual running cost of the ETMF<sup>4</sup> will be around \$100,000 less than the cost of the current company structure. The cost to implement the Proposed Restructure will be approximately \$300,000, which when compared to the current \$9.5m discount to NTA at which MA1 was trading as at 31 July 2019, highlights the considerable value that the Proposed Restructure will unlock for MA1 shareholders.

<sup>3</sup> Share Price as at 31 July 2019 was \$0.89 versus the Pre-Tax NTA of \$1.1066 representing a 20% discount

<sup>4</sup> It is anticipated that this saving will offset the costs of running MA1 as an unlisted company until the value of unlisted investments can be realised and MA1 de-registered.

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In summary, under an ETMF structure, the advantages of being an ASX listed investment product would remain unchanged, and in addition, because the investment vehicle becomes open-ended, the investment will be liquid and the price of the listed ETMF would always be in line with the NTA due to the actions of an external market maker that would be appointed.

### Comparison between existing and proposed structures

	Existing MA1 Structure	Proposed ETMF Structure
<b>Access to Investment</b>	Listed on ASX	Listed on ASX
<b>Liquidity</b>	Closed-Ended - liquidity solely determined by number of buyers and sellers on the ASX	Open-Ended – liquidity supplied by the issuing and redeeming of units
<b>Price vs NTA</b>	Determined by the buyers and sellers on the ASX - poor liquidity often sees Listed Investment Companies (LIC) trade at large discounts	A Market Maker ensures that the price stays within a tight band around the NTA

### ASIC review of ETMF sector

ASIC announced on 30 July 2019<sup>5</sup> that it was reviewing the regulatory settings for exchange traded managed funds that have internal market makers. Based on our advice and information obtained so far, and subject to further discussion with ASIC and ASX, the Board believes that the ETMF structure after the completion of the ASIC review will remain a viable option and that MA1 will be able to proceed with the Proposed Restructure.

The Board intends to put the Proposed Restructure to MA1 shareholders as soon as possible after completion of the ASIC review.

### Advantages of the Proposed Restructure relative to other proposals

The Independent Directors have considered winding up MA1 and returning the capital in cash or as stock in another company to shareholders as an alternative to the Proposed Restructure.

Compared to this alternative, the Proposed Restructure has major advantages:

#### 1. Remains listed on the ASX

The Board and the Manager have consistently received feedback that having a listed vehicle is important to the vast majority of investors. This Proposed Restructure ensures that the listed investments held by MA1 continue to be held in a listed vehicle, but adds the benefit of an external market maker to ensure that the price trades in line with NTA and that there is always liquidity.

<sup>5</sup> <https://asic.gov.au/about-asic/news-centre/find-a-media-release/2019-releases/19-195mr-asic-implements-pause-on-admission-of-managed-funds-with-internal-market-makers/>

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### 2. Continued exposure to the investment strategy

The Proposed Restructure provides a continued exposure to the Manager's investment strategy. Winding up or replacing the strategy after only three years would deny shareholders sufficient time for the embedded value of the investments made by the Company to be realised.

The strategy is a long-term proposition based on an investment cycle of 7 years. As at 31 July 2019, after all fees and all expenses, the return of the Monash Absolute Investment Fund (which MA1's investment strategy mirrors) has been 10.27% pa since its inception in June 2012<sup>6</sup>. The NTA of MA1 is up 28.7% for the calendar year to date at 31 July 2019.

MA1 Chairman, Paul Clitheroe said:

"In the original prospectus I recommended investors invest with a minimum 7 year time frame to allow the benefits of the manager's strategy and philosophy to work in our favour. Share holders we speak to agree with this but want the share price to reflect NTA. At the same time, both investors wishing to buy into this strategy and those who wish to sell, want a high level of liquidity. If approved, this proposal can achieve these positive outcomes"

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".

### 3. Avoids manager termination costs

The Proposed Restructure avoids Manager termination costs. Any alternative proposal may result in a dispute with the Manager as to the remaining fees that would otherwise be payable under the Investment Management Agreement, which has approximately 7 years left to run and is not able to be terminated during that period other than for cause. Additionally, under the Investment Management Agreement any change in the investment strategy requires the agreement of the Manager, which may not be obtained.

### 4. Has no market impact costs

The restructuring of MA1 into an ETMF will not incur any market impact costs. No investments will be sold on market to enable the restructure; therefore, no value will be lost. This is a particular issue for the unlisted investments held by MA1 where divestment could be challenging/costly, and for the stocks with poorer liquidity profiles. Rather, the entire portfolio of listed investments will be transferred to the ETMF in return for the issue of units to MA1. Unlisted investments will continue to be held by MA1.

<sup>6</sup> Past performance is no guarantee of future performance. Inception date of Monash Absolute Investment Fund is 2 July 2012.

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Units in the ETMF will then be distributed by MA1 to the MA1 shareholders in line with their existing shareholding via an in-specie distribution.

### 5. No loss of deferred tax assets

Deferred tax assets will be retained in MA1 for the benefit of existing shareholders, whereas under other proposals deferred tax assets would be lost.

### Details of the Proposed Restructure

ETMFs are governed by the ASX AQUA Rules. One of the requirements under the AQUA Rules is that an ETMF does not hold unlisted investments. Currently, around 3.5% of MA1's NTA is the value attributed to unlisted investments, which cannot be transferred into the ETMF.

To facilitate the Proposed Restructure, the existing MA1 structure will be left in place with its value consisting of only the unlisted investments, the deferred tax assets and a small amount of cash to fund its operations.

Under the Proposed Restructure, existing MA1 shareholders will own both their MA1 shares as well as the same number of units in the new ETMF, with the current NTA divided between the two entities as follows:

- 1) ETMF - the NTA of the Listed Investments + Cash, which is approximately 96% of the current NTA; and
- 2) MA1 - the Unlisted Investment + Deferred Tax Assets + Cash, which is approximately 4% of the current NTA.

MA1 will be delisted and placed into runoff, and the unlisted investments realised once liquidity events occur across each investment. At the time of the restructure there will be four unlisted investments which are anticipated to have liquidity events (IPOs or trade sales) over the next 6 to 24 months. As these events occur, the proceeds will be distributed via dividends to MA1 shareholders.

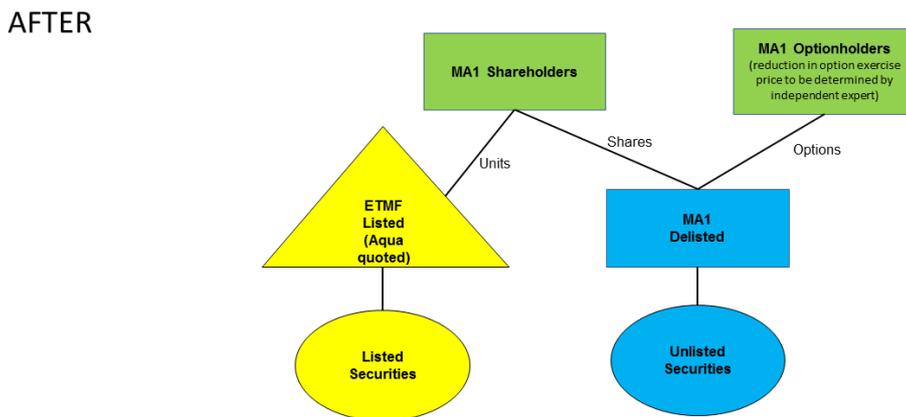
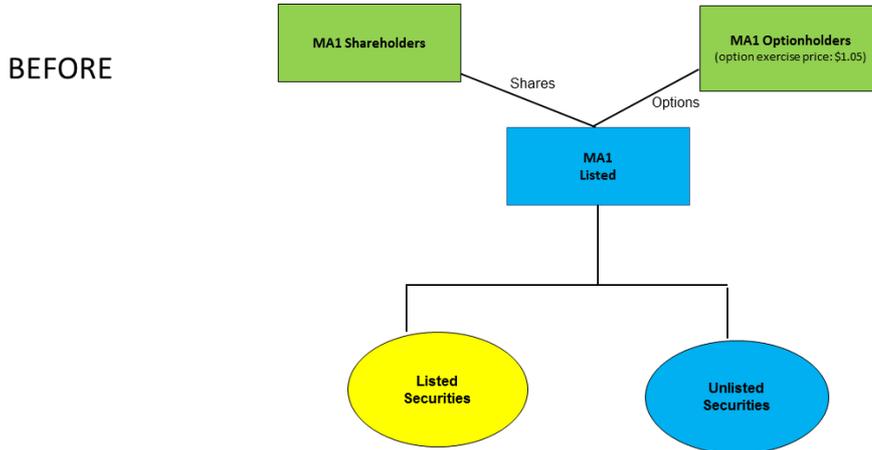
The Manager believes that there is material upside to be realised from each of these unlisted investments, provided that the investments are allowed to run their course. In addition, the deferred tax assets left behind in MA1 may be able to be utilised to offset any tax if the unlisted investments can be profitably realised.

More details about the nature of the investments remaining in MA1 post the Proposed Restructure will be provided in the meeting documentation that will be sent to MA1 shareholders.

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## Investment structure diagrams

The diagrams below illustrate the investment structure “before” and “after” the Proposed Restructure.



## Options

As part of the Proposed Restructure, in accordance with the ASX Listing Rules, it is intended that the terms of the listed options currently on issue in MA1 will be reorganised. This would see the exercise price of each option being reduced in proportion to the value of the listed investments and cash being transferred to the ETMF.

The Company intends that the Independent Expert to be appointed will provide an opinion on the value of the listed investments and cash to be transferred to the ETMF. The amount of the reduction in exercise price will then be determined based upon the Independent Expert's opinion.

The Board is pleased to be able to announce its intention regarding the Proposed Restructure.

We will keep you informed of the progress of the proposal and the timing of the finalisation of the ASIC review.

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### Investor Teleconference – Monday 12<sup>th</sup> August 2019

I will be hosting a teleconference call on Monday 12<sup>th</sup> August 2019 at 11am AEST to discuss this Proposed Restructure and take questions.

Details of the teleconference are as follows:

1. **Date:** Monday 12<sup>th</sup> August 2019
2. **Phone details:** Australia **1300 264 803** , International **+613 8687 0650**
3. **Time:**
  - 11.00AM (NSW, VIC, QLD, TAS,)
  - 10.30AM (SA, NT)
  - 9.00AM (WA)

Yours sincerely,  
**Paul Clitheroe**  
Chairman, MA1

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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](#)