



Monash Absolute Investment Company Limited

ABN 86 610 290 143

Annual Report 2020

Year Ended 30 June 2020

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**Monash Absolute Investment
Company Limited**

ABN 86 610 290 143

**Appendix 4E
for the year ended 30 June 2020**

Final Report

This final report is for the reporting year from 1 July 2019 to 30 June 2020. The previous corresponding year end was 30 June 2019.

Results for announcement to the market

| | | | \$ | | \$ |
|---|------|--------|----------------|----|-----------|
| Revenue from ordinary activities | Down | 14.95% | from 6,281,950 | to | 5,342,751 |
| Profit before tax for the year | Down | 22.52% | from 3,781,237 | to | 2,929,536 |
| Profit from ordinary activities after tax attributable to members | Down | 23.38% | from 2,776,906 | to | 2,127,625 |

Dividends

| Dividend information | Cents per share | Franked amount per share | Tax rate for franking | Date of payment |
|----------------------|-----------------|--------------------------|-----------------------|-----------------|
| 2020 Final dividend | 1.0 cent | 1.0 cent | 30.0% | 30/10/2020 |
| 2019 Final dividend | 2.0 cent | 2.0 cent | 30.0% | 30/10/2019 |

2020 Final dividend dates

| | |
|------------------|-------------------|
| Ex-dividend date | 22 September 2020 |
| Record date | 23 September 2020 |
| Payment date | 30 October 2020 |

Net tangible assets

| | 30 June 2020 \$ | 30 June 2019 \$ |
|---|-----------------------|-----------------------|
| Net tangible asset backing (per share) before tax | 1.1043 | 1.0589 |
| Net tangible asset backing (per share) after tax | 1.0820 | 1.0544 |

Brief explanation of results

The gross portfolio return before all fees and expenses was approximately 10.90% for the year from 1 July 2019 to 30 June 2020.

Other information required by Listing Rule 4.3A

The Company has the ability to hedge market risk and apply hedging strategy.

Audit

This report is based on the Annual Report which has been audited. The audit report is included in the Company's Annual Report which accompanies this Appendix 4E. All the documents comprise the information required by Listing Rule 4.3A.

**Monash Absolute Investment
Company Limited**

ABN 86 610 290 143

**Annual Report
for the year ended 30 June 2020**

**Monash Absolute Investment Company Limited
Corporate Directory**

| | |
|---------------------------|--|
| Directors | Paul Clitheroe AM (Independent Chairman) Suvan de Soysa (Independent Director) Simon Shields (Non-Independent Director) |
| Secretary | Laura Newell |
| Investment Manager | Monash Investors Pty Limited Level 5, 139 Macquarie Street Sydney NSW 2000 |
| Registered office | Boardroom Pty Limited Level 12, 225 George Street Sydney NSW 2000 Phone: (02) 9290 9600 |
| Administrator | Link Fund Solutions Pty Limited Level 12, 680 George Street Sydney NSW 2000 Phone: (02) 8280 7100 |
| Prime broker | Morgan Stanley & Co. International plc Level 26, Chifley Tower 2 Chifley Square Sydney NSW 2000 Phone: 1800 808 576 |
| Share registrar | Boardroom Pty Limited Level 12, 225 George Street Sydney NSW 2000 Phone: (02) 9290 9600 Fax: (02) 9279 0664 Email: enquiries@boardroomlimited.com.au |
| Auditors | Ernst & Young 200 George Street Sydney NSW 2000 Phone: (02) 9248 5555 |
| Stock exchange | Australian Securities Exchange (ASX) The home exchange is Sydney ASX code: MA1 Ordinary Shares |
| Website | www.monashinvestors.com |

Monash Absolute Investment Company Limited ABN 86 610 290 143

Annual Report - For the year ended 30 June 2020

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Dear Fellow Shareholders,

The Company has achieved another positive financial year result with the NTA growing by 6.12% based on the opening and closing pre-tax NTA (Net Tangible Assets), after fees and expenses. The Company's share price at 30 June 2020 was \$0.9850. As at the 30 June 2020, the pre-tax net tangible asset backing (NTA) of the Company was \$1.1043 per share. The post-tax NTA at the 30 June 2020 was \$1.0820 per share. More detailed information on the performance is provided by Simon Shields from Monash Investors in his Chief Investment Officer's report in this Annual Report.

Update on the proposed restructure of the Company into an ETMF

Following our announcement on 8 August 2019 to propose the Company be restructured into an ETMF, the Company announced on 5 May 2020 that it had executed an implementation agreement with The Trust Company (RE Services) Limited to implement the restructure. Further on 14 July 2020, after ASX provided an indication of their proposed timing, we provided an update on the indicative timetable for the restructure and we expect that we will be in a position to despatch the notice of meeting to shareholders by the end of September 2020 with the aim to completion by the end of 2020. We will continue to keep you updated on the progress.

Options

A total of 538,369 bonus options were exercised during the financial year. Upon the exercise of the bonus options, the Company issued an equal number of loyalty options with an exercise price of \$1.15 per share with an expiry date of 15 November 2021. No loyalty options have been exercised during the financial year.

Dividend

The Board has declared a fully franked dividend of 1 cent per share for the Financial Year ended 30 June 2020.

Shareholder Communication

We continue to provide shareholders weekly month to date performance updates and monthly NTA reports via the ASX announcements page. During the COVID-19 market volatility this year, we were pleased to be able to provide webinar updates on investment performance and our outlook on the portfolio positions.

We will continue to provide updates on investment performance and on the progress of the proposed restructure. I encourage you to visit our website at www.monashinvestors.com and use the subscription feature to ensure you receive information on these updates.

The Company's Annual General Meeting and investment update presentation will be held in Sydney on 5 November 2020 at 11am and I hope you can attend.

On behalf of the Board, I would like to thank the manager for their work during the year and thank you for your ongoing support.

Yours Sincerely,



Paul Clitheroe AM

Monash Absolute Investment Company Limited
Chief Investment Officer's Report
For the year ended 30 June 2020

FY20 was quite a year. The sort of year a market experiences once a cycle. As crashes go, the speed of the COVID decline and of the recovery was much faster than usual. On a total return basis, the ASX200 finished down -7.68% for the year, which was worse than the Small Ords at -5.67%. We managed to do much better than that, with our NTA rising +6.12% after fees.

On average the portfolio held 25 positions at any one time, including 2 short positions, and while the cash weighting averaged 15%, it varied between 0% and 50% over the financial year.

Our attitude to cash and shorting in the portfolio does not just set MA1 apart from other LICs, it is also fundamental to our strategy which is designed to deliver double digit annual returns over the long term, without loss of capital over the medium term, and this year it was more important than ever.

The flexibility afforded the portfolio to hold cash while looking for compelling investment opportunities, is a key aspect of our ability to focus on absolute returns. It allows the manager discretion to protect the portfolio somewhat in times of crisis and wait for compelling opportunities.

A second really important aspect of our approach, which enabled us to do as well as we did this year, is our identification of recurring business situations and patterns of behaviour, which supports our forecasting and decision making.

From the point of view of returns, it was a year of two halves, with all the excitement occurring in the second half.



This chart shows what happened quite nicely. The blue line is the ASX 200 rebased to start at 100. It rose at the start of the calendar year started. It fell away as COVID came, before hitting a low point in March and recovering somewhat over the next few months.

The dots show where our cash holdings were at various times. After starting the calendar year at 8%, our cash weighting moved to 20% by the end of January as the market rose and we trimmed some holdings.

In February, the markets began to fall away, and while COVID was largely responsible for this, it was at that stage very hard to judge to what extent it would have a relevant impact on our companies.

However, watching the daily reports from the Centres for Disease Control and Prevention (CDC) in the United States helped us work it out early enough to get a jump on the markets. Late in February, the CDC in effect said: "The risk assessment for the US population is low, but a global pandemic is likely, in which case our risk assessment would change". That was a trigger for us. We have seen that sort of language behaviour with companies many times. We knew where that was going and that led to us selling.

Our initial reaction was to sell down retail stocks in our portfolio that would be exposed Chinese supply chains, and short stocks exposed to travel like airlines and travel agents. As COVID progressed we realised a wider group of companies would be affected so we shorted aged care and childcare stocks, too. Ultimately our cash weight got as high as 50%.

As the pandemic went on, though, some of those stocks actually got to such a level that they became attractive and we closed those positions out. And in fact, then we started to buy. We even ended up having positive positions in Qantas (ASX: QAN) and Webjet (ASX: WEB) at one point. However, they were relatively short-term trades.

Once the market was down by 35% from its highs, we were buying quite aggressively. Over the next month the portfolio became fully invested, and it made portfolio returns well ahead of the market. The keys to having the confidence to buy back in were our detailed understanding of each company's business, and our discounted cash flow (DCF) valuations. This was the third important aspect of our approach to being able to deliver good returns through this volatility, and is the "bread and butter" of our day to day activity as fund managers.



Simon Shields
Principal
Monash Investors

Company Profile

Investment Objective

The investment objectives of Monash Absolute Investment Company Limited (the "Company") are:

- to achieve a targeted positive return over a full investment cycle which it considers to be a minimum period of 5 to 7 years; and
- avoid a negative return each financial year.

Investment Strategy

The Company's investment strategy is to invest in a portfolio of Australian and international listed equity securities, pre-IPO securities, exchange-traded and over-the-counter derivatives and cash, in order to target an absolute return.

The Company's absolute return strategy seeks to achieve a targeted positive return by taking long positions in some securities and short positions in other securities. Various investment techniques are used to maximise returns including pairs trading, price targets, stop loss levels (set by reference to price or changes to circumstances), holding cash and the use of derivatives.

The Company employs an investment approach which is high conviction, benchmark unaware, security size agnostic, investment style (i.e. growth, value, discounted cash flow) agnostic and has a capital preservation focus.

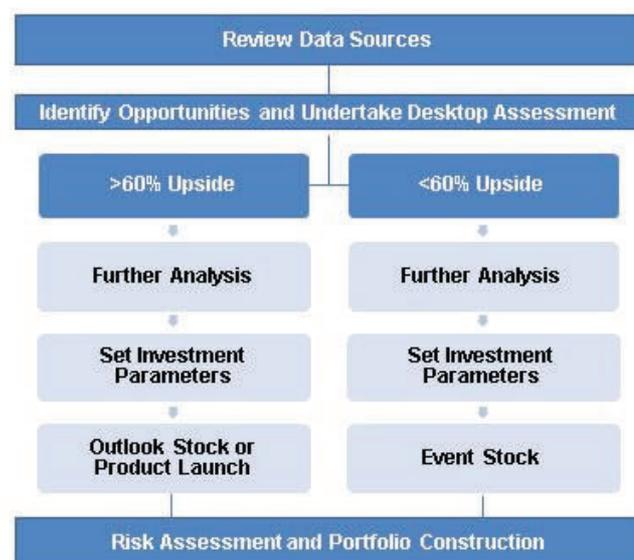
Investment Philosophy

The Company is focused on identifying securities that meet one or more of the following characteristics:

- **Insight:** securities that are considered to be underestimated or misunderstood in some way by the market;
- **Growth:** securities with high growth in revenue, cash flow or earnings per share forecast;
- **Value:** securities that represent a high expected pay-off to a target price the Company sets; and
- **Event:** securities identified with a near term event or catalyst that the Company believes should drive a share price reaction.

Investment Process

To achieve its objectives, the Company's Investment Manager employs the following investment process which generally involves the steps set out in the diagram below:



Investment Process (continued)

a) Review Data Sources (Idea Generation)

The Company's Investment Manager applies its investment philosophy to help identify securities that have one or more of the characteristics **Insight, Growth, Value** and **Event** by:

- filtering news and ideas from a number of data sources including company releases, news media, equity broking research houses and meetings with equity broking analysts;
- meeting with senior management of the companies in which the Investment Manager may consider investing; and/or
- consulting with the business and professional networks of the Investment Manager.

b) Identify Opportunities and Undertake Desktop Assessment

Once a potential opportunity is found, a desktop assessment is undertaken to determine whether the security meets the hurdle rates of return.

If the anticipated return on buying the investment is greater than 60%, the security is a potential candidate to become an outlook stock or product launch stock. If the expected return on "shorting" the investment is greater than 30%, the security is a candidate to become an outlook short position.

If the expected return is less than 60% for buying or 30% for "shorting", then the security may qualify as an event stock. Securities will only qualify as event stocks if the Company can identify an event or catalyst it believes will drive returns.

What are Outlook Stocks or Product Launch Stocks?

Outlook stocks (both long positions and short positions) and product launch stocks are securities, in the Investment Manager's view, whose current valuation does not reflect the future earnings potential of the business.

- **Long Outlook Positions** have strong business outlooks with large valuation upside and moderate to low downside risk;
- **Short Outlook Positions** have poor business outlooks with large valuation downside; and
- **Product Launch Stocks** are early stage businesses in the process of launching a new product or expanding into a new region, which the Company believes is highly attractive to the business, and may be higher risk.

What are Event Stocks (Long and Short Positions)?

Event stocks (long and short positions) are securities that, in the Company's view, are due to experience, or have experienced, a catalyst that has not yet been factored into the value of the Company (an **Event**). An Event can be information or news about the equity investment that should have an impact on the valuation of the investment. Events fall into three broad categories:

- pre-events, for example, ahead of an earnings announcement or strategy briefing;
- post-events, for example, following an earnings announcement or strategy briefing; and
- liquidity events, for example, as a result of a share issue or sell down by an existing holder.

c) Further Analysis & Setting Investment Parameters

Further Analysis

For outlook stocks and product launch stocks, a further analysis is undertaken to confirm the expected upside to the investment opportunity. This may include:

- visits with the company, its competitors, suppliers, customers, regulators or industry experts;
- creating a detailed financial model of the company; and
- writing up an investment proposal that summarises the investment thesis, expected signposts and potential thesis violations.

c) Further Analysis & Setting Investment Parameters (continued)

For event stocks, the Investment Manager considers the effect and likelihood of an event impacting a company that may drive its share price. An event is not required for an outlook stocks or product launch stocks; it is the outlook for the underlying business and our assessment of the existing mispricing of the security if the market was fully aware of the opportunity that drives these investments. An event stock it is all about the event itself and the expected share price reaction to that event that drives the investment.

The Investment Manager continually monitors for any new information that can impact positively or negatively on each investment (the rationale for the investment in a particular security).

Setting Investment Parameters

Price targets are determined for each investment and continually monitored.

Stop loss levels are determined based on either share price movements (for outlook stocks or product launch stocks) or the occurrence of thesis violations for event stocks (for example the identified event does not impact the valuation of a security as expected).

d) Portfolio Construction based on Risk Assessment

The portfolio is constructed in accordance with investment guidelines required by the Company from time to time and it aims to diversify within the portfolio for securities, sectors, countries and investment themes.

Once an investment opportunity is identified, the risk is reviewed to determine the weight of the security in the portfolio. The risk assessment “triangulates” the following factors:

- the likelihood of the investment thesis success versus thesis violation. That is the Company's confidence that the investment thesis will play out as expected;
- the potential upside pay-off;
- the liquidity of the security; and
- the portfolio's risk exposure to similar investment themes and industries.

The Company is able to reduce exposure through holding cash, options, futures and shorting securities. The Company's portfolio may at times have a large amount of cash holdings.

Corporate Governance Statement

The Board of Directors of Monash Absolute Investment Company Limited is committed to maintaining high standards of Corporate Governance. The Corporate Governance Statement discloses the extent to which the Company has followed the 3rd Edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Principles and Recommendations).

The Corporate Governance Statement adopted by the Board can be found in the Company's Corporate Governance section <http://www.monashinvestors.com/listed-company/corporate-governance/>.

Directors' Report

The Directors present their report together with the financial report of Monash Absolute Investment Company Limited (the "Company") for the year ended 30 June 2020.

Directors

The following persons held office as Directors during the year or since the end of the year and up to the date of this report:

Paul Clitheroe AM (Independent Chairman)
 Suvan de Soysa (Independent Director)
 Simon Shields (Non-Independent Director)

Principal activities

The investment strategy is to invest in a portfolio of Australian and international listed equity securities, pre-IPO securities, exchange-traded and over-the-counter derivatives and cash.

There was no significant change in the nature of the activity of the Company during the year.

Dividends

| Dividend information | Cents per share | Franked amount per share | Tax rate for franking | Date of payment |
|-----------------------------|------------------------|---------------------------------|------------------------------|------------------------|
| 2020 Final dividend | 1.0 cent | 1.0 cent | 30.0% | 30/10/2020 |
| 2019 Final dividend | 2.0 cent | 2.0 cent | 30.0% | 30/10/2019 |

2020 Final dividend dates

| | |
|------------------|-------------------|
| Ex-dividend date | 22 September 2020 |
| Record date | 23 September 2020 |
| Payment date | 30 October 2020 |

The Company's dividend objective is to pay dividends provided the Company has sufficient profits reserve and franking credits available and it is within prudent business practices to do so.

The amount of any dividend will be at the discretion of the Board. Currently, it is the Board's intention that all dividends paid to shareholders will be franked to 100% or to the maximum extent possible.

Review of operations

Coronavirus (COVID-19) impact

Coronavirus disease (COVID-19) is a highly infectious disease caused by a newly discovered coronavirus. The disease has spread worldwide and was declared a pandemic by the World Health Organisation on 11 March 2020. COVID-19 has had a significant impact on global and domestic economies as a result of measures taken by governments to slow the spread of the virus. Local and overseas equity, debt and commodity markets have also been impacted by the threat of COVID-19.

The Company has established and documented a risk management program for the oversight and management of the Company's material business risks. This risk management program continues to be applied in the current environment in which the Company operates whilst the impacts of COVID-19 are felt in the equity markets. The Company has considered the impact of COVID-19 and other market volatility in preparing the financial statements. As a result, the Company has reviewed the appropriateness of the inputs to its valuations, the fair value hierarchy and related disclosures. As at reporting date, the determination of the carrying value of financial instruments at fair value through profit or loss has included a consideration of the impact of COVID-19. There has been no impact on other assets or liabilities nor on the going concern of the Company.

Review of operations (continued)

The nature of COVID-19 continues to evolve and the financial and economic impacts are still taking shape. This may result in changes to the future estimates and outcomes applied to the measuring of the Company's assets and liabilities. Major adjustments, if any, have been reflected up to the reporting date. Beyond this date, the impact of events that arise after the reporting period will be accounted for in future reporting periods. Refer to the Chief Investment Officer's Report for further details.

Results of operations

The operating profit before tax was \$2,929,536 for the year ended 30 June 2020 (2019: \$3,781,237). The net result after tax was a profit of \$2,127,625 (2019: \$2,776,906).

The net tangible asset backing before tax as at 30 June 2020 was \$1.1043 per share (2019: \$1.0589).

Further information on the operating and financial review of the Company is contained in the Chairman's Letter on page 1 and the Chief Investment Officer's Report on page 2 of the Annual Report.

Financial Position

The net asset value of the Company for the financial year ended 30 June 2020 was \$48,571,702 (2019: \$46,765,083).

Significant changes in the state of affairs

On 19 November 2018, the Company issued pro-rata bonus options to eligible shareholders with an expiry date of 15 May 2020. A total of 538,369 bonus options were exercised during the year. Upon the exercise of the bonus options, the Company issued an equal number of loyalty options with exercise price of \$1.15 per share with an expiry date of 15 November 2021. A total of 538,369 loyalty options have been issued. As at 30 June 2020, nil loyalty options (30 June 2019: nil) have been exercised.

The Company announced on 8 August 2019 its intention to restructure the Company into an Exchange Traded Managed Fund (ETMF). This proposed restructure will be subject to a number of conditions and if these conditions are not satisfied, the proposed restructure will not proceed. On 5 May 2020, the Company executed an Implementation Agreement with The Trust Company (RE Services) Limited (Perpetual) relating to the establishment of the ETMF.

There were no other significant changes in the state of affairs of the Company during the year ended 30 June 2020.

Matters subsequent to the end of the financial period

On 14 July 2020, after ASX provided an indication of their proposed timing of restructure of the Company into an ETMF, the Company provided an update on the indicative timetable for the proposed restructure and the expectation is that a notice of meeting to shareholders will be sent by the end of September 2020 with the aim to completion of the restructure by the end of 2020.

On 19 August 2020, the Directors declared a final full franked dividend of 1 cent per ordinary share franked at 30.0%, which is expected to be paid on 30 October 2020 out of the profits reserve at 30 June 2020.

No other matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

Likely developments and expected results of operations

The Company will continue to pursue its investment objectives for the long term benefit of the members. This will require continual review of the investment strategies that are currently in place and may require changes to these strategies to maximise returns.

Likely developments and expected results of operations (continued)

On 8 August 2019, the Company announced a proposal to restructure the Company into an ETMF. On 5 May 2020, the Company announced that it had executed an implementation agreement with The Trust Company (RE Services) Limited to implement the restructure. The Company's indicative timetable announced on 14 July 2020 is that a notice of meeting to shareholders will be sent by the end of September 2020 with the aim to completion of the restructure by the end of 2020.

Environmental regulation

The Company is not affected by any significant environmental regulation in respect of its operations.

To the extent that any environmental regulations may have an incidental impact on the Company's operations, the Directors of the Company are not aware of any breach by the Company of those regulations.

Information on directors

Paul Clitheroe AM Independent Chairman, Non-executive Independent Director

Experience and expertise

Paul Clitheroe has had an extensive career within the financial services industry as a company director, key practitioner and also educator. Paul was Chairman of the Australian Government Financial Literacy Board from 2002 to 2019. The Board oversaw the national strategy for financial literacy with a particular focus on schools, universities and vocational education. He was host of "Money" on Channel 9 from 1993 to 2002. His Talking Money segments ran on radio stations across Australia and his Money books have sold over 750,000 copies. He founded Money Magazine in 1999.

Paul was appointed as a Member of the Order of Australia in 2008 for services to the financial services industry and the community. In 2012 he was made a Life Member by FINSIA. He holds the Chair of Financial Literacy at Macquarie University and is a Professor in the School of Business and Economics.

Other current directorships

Paul is Chairman of Ecstra Foundation and the youth anti drink driving body RADD. He is also Chairman of the ASX listed entity, InvestSMART Group Ltd as well as the Clitheroe Foundation.

Former directorships in last 3 years

Paul Clitheroe has not held any other directorships of listed companies within the last three years.

Interests in shares and options

Details of Paul Clitheroe's interests in shares of the Company are included later in this report.

Interests in contracts

Paul Clitheroe has no interests in contracts of the Company.

Suvan de Soysa Non-executive Independent Director, Chairman of Audit and Risk Committee

Experience and expertise

Suvan de Soysa has over 31 years' experience in wealth management. He was a co-founder of Ipac Securities Limited, which became a leading financial planning and portfolio management firm that was acquired by AXA APH in 2002. At Ipac Securities Limited, Suvan held a range of senior executive roles with accountability for financial planning, strategic partnerships, investment product and registry services, and was managing director of the private client business AXA Life subsidiary in the UK. Suvan has consulted extensively to the financial services industry and held a range of governance roles, as a director of Ipac Securities Limited and Ipac Asset Management, and director of joint ventures with several Australian financial institutions. He has served on audit and compliance committees and been a nominated responsible officer on behalf of the trustee of superannuation funds in Australia.

Suvan de Soysa is Chairman of Chancellor Portfolio Services Pty Ltd.

Suvan de Soysa holds a Bachelor of Science (Economics) Hons from University of London and Bachelor of Laws from University of Sydney. He gained his admission as a solicitor in 1985 and is a Fellow of FINSIA and a Fellow of the Australian Institute of Company Directors.

Information on directors (continued)

Other current directorships

No current directorships.

Former directorships in last 3 years

Suvan de Soysa has not held any other directorships of listed companies within the last three years.

Interests in shares and options

Details of Suvan de Soysa's interests in shares of the Company are included later in this report.

Interests in contracts

Suvan de Soysa has no interests in contracts of the Company.

Simon Shields Executive Non-Independent Director

Experience and expertise

Simon Shields is one of Australia's leading fund managers with over 30 years of industry experience including as Head of Australian Equities at UBS Asset Management (Australia) Limited (UBS) and Head of Australian Equities at Colonial First State Limited (CFS). Simon has been a member of and/or led multi-award winning equity teams across a range of investment styles. Simon commenced his career as an analyst with Westpac Investment Management Limited (now part of BT Investment Management Limited), before moving into a portfolio management role. In 1995, he moved to Rothschild Australia Asset Management Limited as a Portfolio Manager, responsible for value-style Australian equities. In March 1998, he joined CFS as a Senior Portfolio Manager, responsible for growth style Australian and New Zealand equities, before becoming the Head of Australian Equities in January 2004. In July 2007, he moved to UBS as Managing Director and Head of Australian Equities and in 2011 also took responsibility for the ING Investment Management Limited Australian equity team following its acquisition by UBS.

Simon Shields holds a Bachelor of Commerce with honours, Bachelor of Law and Masters of Business Administration and is a Chartered Financial Analyst.

Other current directorships

Simon Shields is a director and co-founder of Monash Investors Pty Limited.

Former directorships in last 3 years

Simon Shields has not held any other directorships of listed companies within the last three years.

Special responsibilities

Senior Portfolio Manager of Monash Investors Pty Limited

Interests in shares and options

Details of Simon Shields' interests in shares of the Company are included later in this report.

Interests in contracts

Details of Simon Shields' interests in contracts of the Company are included later in this report.

Company secretary

Laura Newell

Laura Newell is an experienced Chartered Company Secretary who has worked for a broad range of organisations, both in-house and for corporate secretarial service providers.

Laura Newell has over nine years of experience in company secretarial and governance management of ASX & NSX listed entities, unlisted public entities and FTSE100 entities. She has worked with Boards and executive management of listed and unlisted companies across a range of industry sectors.

Laura Newell is a Company Secretary of a number of ASX listed and unlisted public companies. She holds a degree with Honours in Law and Criminology and a Master's degree in Law and Corporate Governance. She is an Associate of the Governance Institute of Australia (GIA).

Monash Absolute Investment Company Limited
Directors' Report
For the year ended 30 June 2020
(continued)

Meetings of directors

The numbers of meetings of the Company's Board of Directors and of each board committee held during the year ended 30 June 2020 and the numbers of meetings attended by each Director were:

| | Directors' Meetings | | Meetings of committee | |
|----------------|---------------------|---|---------------------------|---|
| | | | Audit and Risk Compliance | |
| | A | B | A | B |
| Paul Clitheroe | 7 | 7 | 4 | 4 |
| Suvan de Soysa | 6 | 7 | 4 | 4 |
| Simon Shields | 7 | 7 | 4 | 4 |

A = Number of meetings attended

B = Number of meetings held during the time the Director held office or was a member of the committee during the year

Remuneration report (Audited)

This report details the nature and amount of remuneration for each Director of Monash Absolute Investment Company Limited in accordance with the *Corporations Act 2001*.

Remuneration of Independent Directors

The Independent Non-Executive Directors are remunerated by the Company. It is the policy of the Board to remunerate at market rates commensurate with the responsibilities borne by the Independent Non-Executive Directors. The remuneration of the Independent Non-Executive Directors is not linked to the performance or earnings of the Company.

The Directors will be entitled to receive the following benefits:

- (a) Paul Clitheroe: \$50,000 p.a.
- (b) Suvan de Soysa: \$40,000 p.a.

Simon Shields is remunerated by the Investment Manager and will not receive Directors' fees or any other form of remuneration from the Company.

Details of remuneration

The following tables show details of the remuneration paid by the Company to the Directors of the Company for the current financial year.

| 2020 | Short-term employee benefits | | Post-employment benefits | Total |
|--|------------------------------|----------------|--------------------------|---------------|
| | Salary and fees | Superannuation | | |
| Name | \$ | \$ | \$ | \$ |
| Independent Directors | | | | |
| Paul Clitheroe AM | 45,662 | 4,338 | | 50,000 |
| Suvan de Soysa | 25,000 | 15,000 | | 40,000 |
| Sub-total Independent Directors | 70,662 | 19,338 | | 90,000 |
| Non-Independent Director | | | | |
| Simon Shields* | - | - | | - |
| Sub-total Non-Independent Director | - | - | | - |
| Total key management personnel compensation | 70,662 | 19,338 | | 90,000 |

Monash Absolute Investment Company Limited
Directors' Report
For the year ended 30 June 2020
(continued)

Remuneration report (Audited) (continued)

Details of remuneration (continued)

| 2019 | Short-term employee benefits | Post-employment benefits | |
|--|---------------------------------|-----------------------------|---------------|
| Name | Salary and fees \$ | Superannuation \$ | Total \$ |
| Independent Directors | | | |
| Paul Clitheroe AM | 45,662 | 4,338 | 50,000 |
| Suvan de Soysa | 24,030 | 15,970 | 40,000 |
| Sub-total Independent Directors | 69,692 | 20,308 | 90,000 |
| Non-independent Director | | | |
| Simon Shields* | - | - | - |
| Sub-total Non-Independent Director | - | - | - |
| Total key management personnel compensation | 69,692 | 20,308 | 90,000 |

* Mr Simon Shields received no fees as an individual. Mr Simon Shields is a shareholder and officer of Monash Investors Pty Limited. See Director Related Entity Remuneration section for details of fees paid to Monash Investors Pty Limited.

Director Related Entity Remuneration

All transactions with related entities were made on normal commercial terms and conditions.

Simon Shields is a Director and beneficial owner of Monash Investors Pty Limited, the entity appointed to manage the investment portfolio of Monash Absolute Investment Company Limited. In its capacity as Investment Manager, Monash Investors Pty Limited was entitled to a management fee of 1.50% p.a. (plus GST) of gross assets amounting to \$763,882 net of reduced input tax credits (2019: \$686,984).

As at 30 June 2020, the management fee payable to the Investment Manager was \$68,230 (2019: \$65,032).

In addition, Monash Investors Pty Limited is to be paid, annually in arrears, a performance fee being 20% (plus GST) of the Portfolio's outperformance and subject to a high water mark.

For the year ended 30 June 2020 in its capacity as Investment Manager, Monash Investors Pty Limited was entitled to a performance fee amounting to \$674,662 net of reduced input tax credits (2019: \$928,328).

As at 30 June 2020, the performance fee payable to the Investment Manager was \$724,028 (2019: \$996,254).

No Director has received or become entitled to receive a benefit (other than those detailed above) by reason of a contract made by the Company or a related Company with the Director or with a firm of which he is a member or with a Company in which he has substantial financial interest.

Remuneration of Executives

There are no executives that are directly paid by the Company. However, Simon Shields is considered a Non-Independent Director on the basis that he is a Director and a shareholder of Monash Investors Pty Limited and due to his role as an Investment Manager in that entity, is integrally involved in the operation of the Company. Monash Investors Pty Limited remunerates Simon Shields as an employee and also provides day to day management of the Company and is remunerated as outlined above.

Remuneration report (Audited) (continued)

Details of remuneration (continued)

Director Service Agreements

Remuneration and other terms of employment for the Independent Non-Executive Directors are formalised in service agreements with the Company.

Paul Clitheroe AM, Non-Executive Chairman and Director

- Commenced on 20 January 2016
- Term of appointment is in accordance with the Company's Constitution and the Listing Rules of the Australian Securities Exchange (ASX)
- Base annual salary, inclusive of superannuation for the year ended 30 June 2020 of \$50,000

Suvan de Soysa, Non-Executive Director

- Commenced on 20 January 2016
- Term of appointment is in accordance with the Company's Constitution and the Listing Rules of the Australian Securities Exchange (ASX)
- Base annual salary, inclusive of superannuation for the year ended 30 June 2020 of \$40,000

Simon Shields is not remunerated by the Company.

Equity Instrument Disclosures Relating to Directors

The Company's Directors and their related parties held the following interests in the Company:

Ordinary Shares Held

2020

| Director | Position | Balance at | | | Balance at |
|-----------------|--------------------------|--------------------|---------------------|------------------|---------------------|
| | | 1 July 2019 | Acquisitions | Disposals | 30 June 2020 |
| Paul Clitheroe | Independent Chairman | 500,000 | - | - | 500,000 |
| Suvan de Soysa | Independent Director | 500,000 | - | - | 500,000 |
| Simon Shields | Non-Independent Director | 200,001 | 200,000 | - | 400,001 |
| | | 1,200,001 | 200,000 | - | 1,400,001 |

2019

| Director | Position | Balance at | | | Balance at |
|-----------------|--------------------------|--------------------|---------------------|------------------|---------------------|
| | | 1 July 2018 | Acquisitions | Disposals | 30 June 2019 |
| Paul Clitheroe | Independent Chairman | 500,000 | - | - | 500,000 |
| Suvan de Soysa | Independent Director | 500,000 | - | - | 500,000 |
| Simon Shields | Non-Independent Director | 200,001 | - | - | 200,001 |
| | | 1,200,001 | - | - | 1,200,001 |

Directors and Director related entities disposed of and acquired ordinary shares in the Company on the same terms and conditions available to other shareholders.

Remuneration report (Audited) (continued)

Equity Instrument Disclosures Relating to Directors (continued)

Options Held

2020

| Director | Position | Balance at 1 July 2019 | Options Acquired* | Options Exercised/ Expired* | Balance at 30 June 2020 |
|-----------------|--------------------------|-----------------------------------|------------------------------|--|------------------------------------|
| Paul Clitheroe | Independent Chairman | 500,000 | - | (500,000) | - |
| Suvan de Soysa | Independent Director | 500,000 | - | (500,000) | - |
| Simon Shields* | Non-Independent Director | 200,000 | 200,000 | (200,000) | 200,000 |
| | | 1,200,000 | 200,000 | (1,200,000) | 200,000 |

2019

| Director | Position | Balance at 1 July 2018 | Options Acquired* | Options Exercised/ Expired* | Balance at 30 June 2019 |
|-----------------|--------------------------|-----------------------------------|------------------------------|--|------------------------------------|
| Paul Clitheroe | Independent Chairman | - | 500,000 | - | 500,000 |
| Suvan de Soysa | Independent Director | - | 500,000 | - | 500,000 |
| Simon Shields | Non-Independent Director | - | 200,000 | - | 200,000 |
| | | - | 1,200,000 | - | 1,200,000 |

* On 19 November 2018, the Company issued pro-rata bonus options to eligible shareholders. During the year, Simon Shields exercised his bonus options at \$1.05 per share and was issued 200,000 loyalty options. No other directors exercised their options as at expiry date of 15 May 2020. No options have been exercised by the directors as at 30 June 2019.

Directors and Director related entities acquired options in the Company on the same terms and conditions available to other shareholders.

The Directors have not, during or since the end of the financial year, been granted options over unissued shares or interests in shares of the Company as part of their remuneration.

End of remuneration report

Insurance and indemnification of officers and auditors

During the financial year, the Company paid a premium in respect of a contract insuring the Directors of the Company, the Company Secretary and any related body corporate against liability incurred as such by a Director or Secretary to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Non-audit services

The Board of Directors has considered the position and, in accordance with advice received from the Audit and Risk Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services in Note 19 to the financial statements, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor;
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

Rounding of amounts

In accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, the amounts in the Directors' Report and in the financial report have been rounded to the nearest dollar, unless otherwise specified.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 17.

This report is made in accordance with a resolution of Directors.



Paul Clitheroe AM
Independent Chairman

Sydney
19 August 2020



Building a better
working world

Ernst & Young
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Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

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Fax: +61 2 9248 5959
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Auditor's Independence Declaration to the Directors of Monash Absolute Investment Company Limited

As lead auditor for the audit of the financial report of Monash Absolute Investment Company Limited for the financial year ended 30 June 2020, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

Ernst & Young

Rita Da Silva
Partner
19 August 2020

Monash Absolute Investment Company Limited
Statement of Comprehensive Income
For the year ended 30 June 2020

| | Notes | Year ended | |
|--|-------|--------------------|--------------------|
| | | 2020 | 2019 |
| | | \$ | \$ |
| Investment income from ordinary activities | | | |
| Net realised gains on investments | | 14,679,977 | 2,098,119 |
| Net unrealised (losses)/gains on investments | | (9,673,500) | 3,620,684 |
| Dividend income | | 330,541 | 486,491 |
| Interest income | | 14,290 | 75,164 |
| Net foreign exchange (loss)/gain | | (8,557) | 1,492 |
| | | 5,342,751 | 6,281,950 |
| Expenses | | | |
| Management fees | 21(b) | (763,882) | (686,984) |
| Performance fees | 21(b) | (674,662) | (928,328) |
| Brokerage expense | | (148,121) | (107,383) |
| Short dividend expense | | (144,317) | (147,486) |
| Stock loan fees | | (13,787) | (29,072) |
| Accounting fees | | (95,231) | (88,887) |
| Share registry fees | | (28,335) | (26,791) |
| Company secretarial fees | | (52,468) | (50,882) |
| Tax fees | 19 | (13,675) | (21,270) |
| Directors' fees | | (90,000) | (90,000) |
| ASX fees | | (43,850) | (45,780) |
| Audit fees | 19 | (45,203) | (42,230) |
| Marketing expense | | (28,025) | (67,396) |
| Legal fees | | (94,971) | (1,361) |
| Other expenses | | (176,688) | (166,863) |
| | | (2,413,215) | (2,500,713) |
| Profit before income tax | | 2,929,536 | 3,781,237 |
| Income tax expense | 7 | (801,911) | (1,004,331) |
| Profit for the year after tax | | 2,127,625 | 2,776,906 |
| Other comprehensive income for the year, net of tax | | - | - |
| Total comprehensive income for the year | | 2,127,625 | 2,776,906 |
| | | Cents | Cents |
| Earnings per share for profit attributable to the ordinary equity holders of the Company: | | | |
| Basic earnings per share | 24 | 0.05 | 0.06 |
| Diluted earnings per share | 24 | 0.05 | 0.06 |

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Monash Absolute Investment Company Limited
Statement of Financial Position
As at 30 June 2020

| | | At | |
|--|--------------|-------------------|-------------------|
| | Notes | 2020 | 2019 |
| | | \$ | \$ |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 8 | 8,185,788 | 5,649,277 |
| Other receivables | 9 | 108,289 | 95,353 |
| Financial assets at fair value through profit or loss | 10 | 44,380,702 | 44,558,761 |
| Other current assets | | 40,736 | 49,531 |
| Total current assets | | 52,715,515 | 50,352,922 |
| Non-current assets | | | |
| Deferred tax assets | 11 | 1,320,279 | 1,468,745 |
| Total non-current assets | | 1,320,279 | 1,468,745 |
| Total assets | | 54,035,794 | 51,821,667 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Other payables | 12 | 910,333 | 1,238,247 |
| Financial liabilities at fair value through profit or loss | 13 | 2,232,705 | 2,150,728 |
| Current tax liabilities | | 2,321,054 | - |
| Total current liabilities | | 5,464,092 | 3,388,975 |
| Non-current liabilities | | | |
| Deferred tax liabilities | 14 | - | 1,667,609 |
| Total non-current liabilities | | - | 1,667,609 |
| Total liabilities | | 5,464,092 | 5,056,584 |
| Net assets | | 48,571,702 | 46,765,083 |
| EQUITY | | | |
| Issued capital | 15 | 44,221,463 | 43,656,176 |
| Profits reserve | 16(a) | 13,917,969 | 10,428,052 |
| Accumulated losses | 16(b) | (9,567,730) | (7,319,145) |
| Total equity | | 48,571,702 | 46,765,083 |

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Monash Absolute Investment Company Limited
Statement of Changes in Equity
For the year ended 30 June 2020

| Notes | Issued capital \$ | Profits reserve \$ | Accumulated losses \$ | Total \$ |
|--|-------------------------|--------------------------|-----------------------------|-------------------|
| Balance at 1 July 2018 | 48,454,318 | 8,094,292 | (7,319,145) | 49,229,465 |
| Profit for the year | - | - | 2,776,906 | 2,776,906 |
| Other comprehensive income | - | - | - | - |
| Total comprehensive income for the year | - | - | 2,776,906 | 2,776,906 |
| Transactions with owners in their capacity as owners: | | | | |
| Dividends paid | - | (443,146) | - | (443,146) |
| Capital transaction costs, net of tax | 15(b) (85,704) | - | - | (85,704) |
| Shares issued under share purchase plan | 13,009 | - | - | 13,009 |
| Share buy back | 15(f) (4,725,447) | - | - | (4,725,447) |
| Transfer to profits reserve | 16(a) - | 2,776,906 | (2,776,906) | - |
| | (4,798,142) | 2,333,760 | (2,776,906) | (5,241,288) |
| Balance at 30 June 2019 | 43,656,176 | 10,428,052 | (7,319,145) | 46,765,083 |
| Balance at 1 July 2019 | 43,656,176 | 10,428,052 | (7,319,145) | 46,765,083 |
| Profit for the year | - | - | 2,127,625 | 2,127,625 |
| Other comprehensive income | - | - | - | - |
| Total comprehensive income for the year | - | - | 2,127,625 | 2,127,625 |
| Transactions with owners in their capacity as owners: | | | | |
| Dividends paid | - | (886,293) | - | (886,293) |
| Shares issued on options exercised | 15(b) 565,287 | - | - | 565,287 |
| Transfer to profits reserve | 16(a) - | 4,376,210 | (4,376,210) | - |
| | 565,287 | 3,489,917 | (4,376,210) | (321,006) |
| Balance at 30 June 2020 | 44,221,463 | 13,917,969 | (9,567,730) | 48,571,702 |

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Monash Absolute Investment Company Limited
Statement of Cash Flows
For the year ended 30 June 2020

| | | Year ended | |
|--|-------|------------------|--------------------|
| | Notes | 2020 \$ | 2019 \$ |
| Cash flows from operating activities | | | |
| Proceeds from sale of financial assets at fair value through profit or loss | | 73,841,306 | 51,853,137 |
| Payments for purchase of financial assets at fair value through profit or loss | | (71,341,014) | (52,248,986) |
| Proceeds from short sale of financial liabilities at fair value through profit or loss | | 14,392,605 | 10,375,113 |
| Payments for settlement of financial liabilities at fair value through profit or loss | | (11,718,049) | (11,900,525) |
| Dividends received | | 300,607 | 486,491 |
| Interest received | | 18,196 | 82,298 |
| Dividends paid on short stocks | | (120,066) | (147,486) |
| Interest paid | | (3,547) | (18,245) |
| Investment management fees paid | | (760,991) | (687,100) |
| Performance fees paid | | (928,328) | - |
| Brokerage expenses paid | | (152,672) | (107,856) |
| Payments for other expenses | | (661,973) | (624,986) |
| Net cash inflow/(outflow) from operating activities | 23 | 2,866,074 | (2,938,145) |
| Cash flows from financing activities | | | |
| Dividends paid to Company's shareholders | | (886,293) | (443,146) |
| Payments for shares bought back | | - | (4,725,447) |
| Capital transaction costs | | - | (122,434) |
| Shares issued under share purchase plan | | - | 13,009 |
| Shares issued on options exercised | | 565,287 | - |
| Net cash outflow from financing activities | | (321,006) | (5,278,018) |
| Net increase/(decrease) in cash and cash equivalents | | | |
| | | 2,545,068 | (8,216,163) |
| Cash and cash equivalents at the beginning of the year | | 5,649,277 | 13,863,948 |
| Effects of exchange rate changes on cash and cash equivalents | | (8,557) | 1,492 |
| Cash and cash equivalents at the end of the year | 8 | 8,185,788 | 5,649,277 |

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

1 General information

Monash Absolute Investment Company Limited (the "Company") is a listed public company domiciled in Australia. The address of Monash Absolute Investment Company Limited's registered office is Level 12, 225 George Street, Sydney, NSW 2000. The Company's investment strategy is to invest in a portfolio of Australian and international listed equity securities, pre-IPO securities, exchange-traded and over-the-counter derivatives and cash.

The financial statements of the Company are for the year ended 30 June 2020.

The financial statements were authorised for issue by the Board of Directors on 19 August 2020.

2 Significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*.

Monash Absolute Investment Company Limited is a for-profit entity for the purpose of preparing the financial statements.

(i) Coronavirus (COVID-19) impact

Coronavirus disease (COVID-19) is a highly infectious disease caused by a newly discovered coronavirus. The disease has spread worldwide and was declared a pandemic by the World Health Organisation on 11 March 2020. COVID-19 has had a significant impact on global and domestic economies as a result of measures taken by governments to slow the spread of the virus. Local and overseas equity, debt and commodity markets have also been impacted by the threat of COVID-19.

The Company has established and documented a risk management program for the oversight and management of the Company's material business risks. This risk management program continues to be applied in the current environment in which the Company operates whilst the impacts of COVID-19 are felt in the equity markets. The Company has considered the impact of COVID-19 and other market volatility in preparing the financial statements. The Company has considered the impact of COVID-19 and other market volatility in preparing the financial statements. As a result, the Company has reviewed the appropriateness of the inputs to its valuations, the fair value hierarchy and related disclosures. As at reporting date, the determination of the carrying value of financial instruments at fair value through profit or loss has included a consideration of the impact of COVID-19. There has been no impact on other assets or liabilities nor on the going concern of the Company.

The nature of COVID-19 continues to evolve and the financial and economic impacts are still taking shape. This may result in changes to the future estimates and outcomes applied to the measuring of the Company's assets and liabilities. Major adjustments, if any, have been reflected up to the reporting date. Beyond this date, the impact of events that arise after the reporting period will be accounted for in future reporting periods.

(ii) Compliance with IFRS

The financial statements of Monash Absolute Investment Company Limited also comply with IFRS as issued by the International Accounting Standards Board.

(iii) New and amended standards adopted by the Company

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2019 that have a material impact on the amounts recognised in the prior periods or will affect the current or future periods of the Company.

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

(iv) Historical cost convention

These financial statements have been prepared under the accruals basis and are based on historical cost convention, as modified by the revaluation of financial assets and liabilities at fair value through profit or loss.

(v) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

(vi) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2020, and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Company.

(b) Investment income

Investment income is measured at the fair value of the consideration received or receivable.

(i) Net changes in fair value of investments

Realised and unrealised gains and losses on investments measured at fair value through profit or loss are recognised in the Statement of Comprehensive Income. Changes in fair value of financial instruments at fair value through profit or loss are recorded in accordance with the policies described in Note 2(g) to the financial statements.

(ii) Dividends

Dividend income is recognised on the ex-dividend date with any related foreign withholding tax recorded as an expense.

(iii) Interest income

Interest income from financial assets at amortised cost is recognised on a time-proportionate basis using the effective interest method and includes interest from cash and cash equivalents.

(c) Income tax

The income tax expense for the year comprises current income tax expense and deferred tax expense.

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities/(assets) are measured at the amounts expected to be paid to/(recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year.

Current and deferred income tax expense/(benefit) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses carried forward are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

2 Significant accounting policies (continued)

(c) Income tax (continued)

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(d) Cash and cash equivalents

For the purpose of presentation in the Statement of Cash Flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(e) Due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the year. The due from brokers balance is held for collection and are recognised initially at fair value and subsequently measured at amortised cost less impairment.

(f) Other receivables

Receivables may include amounts for interest and dividends. Dividends are accrued when the right to receive payment is established. Where applicable, interest is accrued on a monthly basis. Amounts are generally received within 30 days of being recorded as receivables.

(g) Financial assets and liabilities

The Company's investments are classified as at fair value through profit or loss. They comprise:

Classification

(i) Financial assets

The Company classifies its financial assets in the following measurement categories:

- those to be measured at fair value through profit or loss; and
- those to be measured at amortised cost.

The Company classifies its investments based on its business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The Company's portfolio of financial assets is managed and performance is evaluated on a fair value basis in accordance with the Company's documented investment strategy. The Company's policy is to evaluate the information about these financial assets on a fair value basis together with other related financial information.

For equity securities and derivatives, the contractual cash flows of these instruments do not represent solely payments of principal and interest. Consequently, these investments are mandatorily measured at fair value through profit or loss.

For cash and cash equivalents and other receivables, these assets are held in order to collect the contractual cash flows. The contractual terms of these assets give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding. Consequently, these are measured at amortised cost.

2 Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(ii) Financial liabilities

The Company makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. Short sales are held for trading and are consequently classified as financial liabilities at fair value through profit or loss.

For financial liabilities that are not short sales, these are classified as financial liabilities at amortised cost (management fees payable, performance fees payable, unsettled trades and other payables).

Recognition and derecognition

Purchases and sales of financial assets at fair value through profit or loss are recognised on trade date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised when the obligation under the liabilities are discharged.

Measurement

At initial recognition, the Company measures financial assets at fair value. Transaction costs of financial assets at fair value through profit or loss are expensed in the Statement of Comprehensive Income.

Subsequent to initial recognition, all financial assets and liabilities at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Statement of Comprehensive Income.

When an investment is disposed, the cumulative gain or loss is recognised as realised gains and losses from the sale of financial instruments in the Statement of Comprehensive Income.

For financial assets and financial liabilities at amortised cost, they are initially measured at fair value including directly attributable costs and are subsequently measured according to their classification.

The Company's accounting policy on fair value measurements is discussed in Note 4.

Impairment

For financial assets at amortised cost, if at the reporting date, the credit risk has not increased significantly since initial recognition, the Company shall measure the loss allowance at an amount equal to 12-month expected credit losses. However, where there has been a significant increase in credit risk since initial recognition, the loss allowance will be based on the lifetime expected credit loss. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that credit risk may have significantly increased. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. Any contractual payment which is more than 90 days past due is considered credit impaired.

(h) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the Statement of Financial Position where the Company currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

As at the end of the reporting period, there are no financial assets or liabilities offset or with the right to offset in the statement of financial position.

(i) Other payables

Payables include liabilities and accrued expenses owed by the Company which are unpaid as at the end of the reporting period.

2 Significant accounting policies (continued)

(j) Expenses

All expenses, including management fee, are recognised in the Statement of Comprehensive Income on an accruals basis.

(k) Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(l) Profits reserve

A profits reserve has been created representing an amount allocated on a monthly basis from current profit that is preserved for future dividend payments.

(m) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

In accordance with the *Corporations Act 2001*, the Company may pay a dividend where the Company's assets exceed its liabilities, the payment of the dividend is fair and reasonable to the Company's shareholders as a whole and the payment of the dividend does not materially prejudice the Company's ability to pay its creditors.

(n) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares; and
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(o) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Where applicable, the Company qualifies for Reduced Input Tax Credits (RITC) at a rate of at least 75%; hence fees for these services have been recognised in the Statement of Comprehensive Income net of the amount of GST recoverable from the taxation authority.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of Financial Position.

2 Significant accounting policies (continued)

(o) Goods and Services Tax (GST) (continued)

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(p) Rounding of amounts

In accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, the amounts in the Directors' Report and in the financial report have been rounded to the nearest dollar, unless otherwise specified.

(q) Functional and presentation currency

The functional and presentation currency of the Company is Australian dollars.

(i) Foreign currency translation

Foreign currency transactions are translated into Australian dollars at the functional currency spot rates of exchange at the date of the transaction.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of foreign assets and liabilities at year end exchange rates are recognised in the Statement of Comprehensive Income.

Translation differences on monetary assets and liabilities, forward foreign exchange hedging contracts, exchange traded equity options and investments are reported as part of the change of value of investments on the Statement of Comprehensive Income. All other foreign exchange gains and losses are presented in the Statement of Comprehensive Income within revenue.

Assets and liabilities denominated in a foreign currency are translated at the functional currency spot rates of exchange at reporting date.

(r) Comparatives

Where necessary, comparative information has been reclassified to be consistent with current reporting period.

3 Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including interest rate risk and price risk), credit risk and liquidity risk. The Board of the Company has implemented a risk management framework to mitigate these risks.

(a) Market risk

Market risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

(i) Price risk

Exposure

The Company is exposed to equity securities price risk. This arises from investments held by the Company and classified in the Statement of Financial Position as financial assets at fair value through profit or loss.

The investment strategy, investment process, investment guidelines and risk measurement tools used by the Investment Manager are directed towards managing the risk that the Portfolio will fall in value whilst targeting an absolute return. The permitted investments and investment guidelines are detailed in Company Profile on page 4 of the Annual Report.

3 Financial risk management (continued)

(a) Market risk (continued)

Sensitivity

The following table illustrates the effect on the Company's equity from possible changes in market risk that were reasonably possible based on the risk the Company was exposed to at reporting date, assuming a flat tax rate of 30 per cent. The analysis is based on the assumption that the equity index had increased by 5% and 10% or decreased by 5% and 10% with all other variables held constant, and that all the Company's equity instruments moved in line with the index.

| | Impact on post-tax profit | |
|--------------|----------------------------------|-------------|
| | 2020 | 2019 |
| | \$ | \$ |
| Decrease 5% | (1,475,180) | (1,484,281) |
| Increase 5% | 1,475,180 | 1,484,281 |
| Decrease 10% | (2,950,360) | (2,968,562) |
| Increase 10% | 2,950,360 | 2,968,562 |

Post-tax profit/(loss) for the year would increase/decrease as a result of gains/(losses) on equity securities classified as at fair value through profit or loss.

At 30 June 2020, the net portfolio position was \$42,147,997 (2019: \$42,408,033).

(i) Cash flow and fair value interest rate risk

The Company's interest bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis.

The table below summarises the Company's exposure to interest rate risks. It includes the Company's assets and liabilities at fair values, categorised by the earlier of contractual repricing or maturity dates.

At 30 June 2020

| | Floating interest rate \$ | Fixed interest rate \$ | Non- interest bearing \$ | Total \$ |
|--|--|---|---|---------------------|
| Financial assets | | | | |
| Cash and cash equivalents | 8,185,788 | - | - | 8,185,788 |
| Other receivables | - | - | 108,289 | 108,289 |
| Financial assets at fair value through profit or loss | - | - | 44,380,702 | 44,380,702 |
| | 8,185,788 | - | 44,488,991 | 52,674,779 |
| Financial liabilities | | | | |
| Other payables | - | - | (910,333) | (910,333) |
| Financial liabilities at fair value through profit or loss | - | - | (2,232,705) | (2,232,705) |
| Current tax liabilities | - | - | (2,321,054) | (2,321,054) |
| | - | - | (5,464,092) | (5,464,092) |
| Net exposure to interest rate risk | 8,185,788 | - | 39,024,899 | 47,210,687 |

3 Financial risk management (continued)

(a) Market risk (continued)

At 30 June 2019

| | Floating interest rate \$ | Fixed interest rate \$ | Non- interest bearing \$ | Total \$ |
|--|------------------------------------|---------------------------------|-----------------------------------|--------------------|
| Financial assets | | | | |
| Cash and cash equivalents | 5,649,277 | - | - | 5,649,277 |
| Other receivables | - | - | 95,353 | 95,353 |
| Financial assets at fair value through profit or loss | - | - | 44,558,761 | 44,558,761 |
| | <u>5,649,277</u> | <u>-</u> | <u>44,654,114</u> | <u>50,303,391</u> |
| Financial liabilities | | | | |
| Other payables | - | - | (1,238,247) | (1,238,247) |
| Financial liabilities at fair value through profit or loss | - | - | (2,150,728) | (2,150,728) |
| | <u>-</u> | <u>-</u> | <u>(3,388,975)</u> | <u>(3,388,975)</u> |
| Net exposure to interest rate risk | <u>5,649,277</u> | <u>-</u> | <u>41,265,139</u> | <u>46,914,416</u> |

Sensitivity

At 30 June 2020, if interest rates had increased or decreased by 75 basis points ("bps") from the year end rates with all other variables held constant, post-tax profit for the year would have been \$42,975 higher/\$42,975 lower (2019 changes of 75 bps: \$29,659 higher/\$29,659 lower), mainly as a result of higher/lower interest income from cash and cash equivalents.

(b) Credit risk

Credit risk is defined as the risk that a counterparty will be unable to pay its obligations in full when they fall due, causing a financial loss to the Company.

The Company does not have a significant concentration of credit risk that arises from an exposure to a single counterparty or group of counterparties having similar characteristics. The main concentration of credit risk, to which the Company is exposed, arises from cash and cash equivalents and other receivables balances. None of these assets are credit impaired nor past their due date. The maximum exposure to credit risk at the reporting date is the carrying amount of cash and cash equivalents and other receivables.

The Company manages credit risk by only entering into agreements with creditworthy parties.

The Company determines credit risk and measures expected credit losses for financial assets measured at amortised cost using probability of default, exposure at default and loss given default. Management considers both historical analysis and forward looking information in determining any expected credit loss. At 30 June 2020 and 30 June 2019, all receivables, amounts due from brokers, cash and short-term deposits are held with counterparties with a credit rating of BBB+ or higher and are either callable on demand or due to be settled within 1 week. Management consider the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Company.

3 Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Investment Manager manages liquidity risk by monitoring the asset size of the Company as a whole on executing transactions.

The assets of the Company are largely in the form of readily tradeable securities which can be sold on-market if necessary. Accordingly, the Company is not considered to be exposed to material liquidity risk.

Maturities of financial liabilities

Financial liabilities that are sold short are open ended regarding their maturity as they are typically held for medium to long term. All other non-derivative financial liabilities of the Company have maturities of less than 1 month.

4 Fair value measurements

The Company measures and recognises the following assets at fair value on a recurring basis:

- Financial assets and financial liabilities at fair value through profit or loss (FVTPL)

The Company has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

(a) Fair value hierarchy

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1),
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

(i) Fair value in an active market (level 1)

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs.

The Company values its investments in accordance with the accounting policies set out in Note 2 to the financial statements. For the majority of its investments, the Company relies on information provided by independent pricing services for the valuation of its investments.

The quoted market price used for financial instruments held by the Company is the last sale price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

(ii) Fair value in an inactive or unquoted market (level 2 and level 3)

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions.

4 Fair value measurements (continued)

(a) Fair value hierarchy (continued)

For other pricing models, inputs are based on market data at the end of the reporting period. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions. The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Company holds.

Recognised fair value measurements

The following table presents the Company's assets and liabilities measured and recognised at fair value at 30 June.

| At 30 June 2020 | Level 1 \$ | Level 2 \$ | Level 3 \$ | Total \$ |
|---|--------------------|---------------|------------------|--------------------|
| Financial assets | | | | |
| Equity securities | | | | |
| Australian equity securities | 43,015,272 | - | 1,010,492 | 44,025,764 |
| International equity securities | - | - | 354,938 | 354,938 |
| Total financial assets | 43,015,272 | - | 1,365,430 | 44,380,702 |
| Financial liabilities | | | | |
| Australian equity securities sold short | (1,259,036) | - | (973,669) | (2,232,705) |
| Total financial liabilities | (1,259,036) | - | (973,669) | (2,232,705) |
| | | | | |
| At 30 June 2019 | Level 1 \$ | Level 2 \$ | Level 3 \$ | Total \$ |
| Financial assets | | | | |
| Equity securities | | | | |
| Australian equity securities | 42,076,765 | - | 1,510,267 | 43,587,032 |
| International equity securities | 686,727 | - | 285,002 | 971,729 |
| Total financial assets | 42,763,492 | - | 1,795,269 | 44,558,761 |
| Financial liabilities | | | | |
| Australian equity securities sold short | (2,150,728) | - | - | (2,150,728) |
| Total financial liabilities | (2,150,728) | - | - | (2,150,728) |

Included within Level 1 of the hierarchy are listed investments. The fair value of these financial assets has been based on the last sale price at the end of the reporting year, excluding transaction costs.

The investments included in Level 3 of the hierarchy include amounts in relation to Initial Public Offerings and Placements in which the Company has subscribed. These investments are not listed on any securities exchange as at year end and therefore represent investments not in an active market. In valuing these unlisted investments, included in Level 3 of the hierarchy, the fair value has been determined using the valuation technique of the subscription price and the amount of securities subscribed for by the Company under the relevant offers without any deduction for estimated future selling costs, adjusted for subsequent arm's length transaction pricing or other market data where available.

4 Fair value measurements (continued)

(a) Fair value hierarchy (continued)

During the prior year, investments amounting to \$193,979 were transferred from level 3 to level 1 relating to the listing of an unlisted equity security in 2018. In addition, investments amounting to \$109,759 were transferred from level 1 to level 3 as a result of suspension of the equity security during the year ended 30 June 2019. The investments in level 2 amounting to \$182,225 in 2018 were sold and realised in 2019. There were no other transfers between levels.

The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Disclosed fair values

For all financial instruments other than those measured at fair value their carrying value approximates fair value.

The carrying amounts of other receivables and payables are reasonable approximations of their fair values due to their short-term nature.

(iii) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the movement in fair value of level 3 instruments for the year ended 30 June 2020 and 30 June 2019 by class of financial instrument.

At 30 June 2020

| | Unlisted equity securities \$ |
|---|--|
| Opening balance | 1,795,269 |
| Purchases | 329,835 |
| Sales of financial assets | (207,238) |
| Short sale of financial liabilities | (959,196) |
| Losses recognised in the Statement of Comprehensive Income | (566,909) |
| Closing balance | 391,761 |
| Total gains or losses for the year included in the Statement of Comprehensive Income for financial assets and liabilities held at the end of the year | (875,485) |

At 30 June 2019

| | Unlisted equity securities \$ |
|---|--|
| Opening balance | 2,926,105 |
| Sales of financial assets | (360,363) |
| Transfers in to level 3 | 405,922 |
| Transfers out of level 3 | (193,979) |
| Losses recognised in the Statement of Comprehensive Income | (982,416) |
| Closing balance | 1,795,269 |
| Total gains or losses for the year included in the Statement of Comprehensive Income for the financial assets and liabilities held at the end of the year | (488,577) |

4 Fair value measurements (continued)

Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements.

| Description | Fair value \$ | Unobservable inputs* | Range of inputs (probability - weighted average) | Relationship of unobservable input to fair value |
|---|---------------|--|--|--|
| As at 30 June 2020 Unlisted equity securities | 391,761 | Recent sales transaction price adjusted for 15% to 30% reduction | N/A | Direct |
| As at 30 June 2019 Unlisted equity securities | 1,795,269 | Recent sales transaction price | N/A | Direct |

* The valuation of unlisted equity securities is based on the acquisition price of the security and the price may be adjusted based on a determination that a change in the carrying value is required due to impacts of changes in the financial and economic environment, or if an impairment has occurred, or if there has been an arm's length transaction in relation to the security that warrants an updated valuation.

5 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Income taxes

The Company has recognised deferred tax assets relating to capitalised share issue costs and unrealised losses on investments of \$1,320,279 at 30 June 2020 (30 June 2019: \$1,468,745). During the year, the Company utilised carried forward losses against taxable profits as it satisfied the continuity of ownership test and same business test. Refer to Note 11 for further details.

Financial instruments

For the majority of the Company's financial instruments, quoted market prices are readily available. However, certain financial instruments, for example unquoted securities are fair valued using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel of the Investment Manager.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments. For more information on how fair value is calculated please see Note 4 to the financial statements.

6 Segment information

The Company has only one reportable segment. The Company is engaged in investment activities primarily conducted in Australia, deriving revenue from dividend income, interest income and from the sale of its investments.

7 Income tax expense

(a) Income tax expense through profit or loss

| | Year ended | |
|---|------------|-----------|
| | 2020 | 2019 |
| | \$ | \$ |
| Deferred tax on temporary differences | 801,911 | 1,004,331 |
| | 801,911 | 1,004,331 |
| <i>Income tax expense is attributable to:</i> | | |
| Profit from continuing operations | 801,911 | 1,004,331 |

(b) Numerical reconciliation of income tax expense to prima facie tax payable

| | Year ended | |
|--|------------|-----------|
| | 2020 | 2019 |
| | \$ | \$ |
| Profit from continuing operations before income tax | 2,929,536 | 3,781,237 |
| Tax at the Australian tax rate of 30.0% (2019: 30.0%) | 878,861 | 1,134,371 |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Franking credits on dividends received | (121,526) | (196,140) |
| Imputation credit gross up | 36,458 | 58,842 |
| Franking credits lost | 2,150 | 5,188 |
| Underprovision in prior year | 14,949 | 2,070 |
| Franking credits on dividends accrued | (8,981) | - |
| Income tax expense | 801,911 | 1,004,331 |
| The applicable weighted average effective tax rates are as follows: | 27.37% | 26.56% |

(c) Amounts recognised directly in equity

| | Note | Year ended | |
|---|------|------------|---------|
| | | 2020 | 2019 |
| | | \$ | \$ |
| Aggregate deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity: | | | |
| Deferred tax: Share issue costs | 11 | 22,038 | 148,446 |

8 Current assets - Cash and cash equivalents

| | At | |
|-----------------------|-----------|-----------|
| | 2020 | 2019 |
| | \$ | \$ |
| Current assets | | |
| Cash at bank | 184 | 180 |
| Cash at broker | 8,185,604 | 5,649,097 |
| | 8,185,788 | 5,649,277 |

8 Current assets - Cash and cash equivalents (continued)

Risk exposure

The Company's exposure to interest rate risk is discussed in Note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

Cash investments are made with the following financial institutions:

| | |
|---|-------------------------------------|
| Australia and New Zealand Banking Group Ltd | Standard & Poor's Rating |
| Morgan Stanley & Co. International plc | AA- BBB+ |

9 Current assets - Other receivables

| | At | |
|----------------------|----------------|---------------|
| | 2020 | 2019 |
| | \$ | \$ |
| Dividends receivable | 29,934 | - |
| Interest receivable | 2 | 3,908 |
| GST receivable | 78,353 | 91,445 |
| | 108,289 | 95,353 |

Other receivables are non-interest bearing and unsecured.

The carrying amounts of other receivables are reasonable approximations of their fair value due to their short-term nature.

10 Current assets - Financial assets at fair value through profit or loss

| | At | |
|-------------------------------|-------------------|-------------------|
| | 2020 | 2019 |
| | \$ | \$ |
| Listed equity securities | 43,015,272 | 42,873,251 |
| Unlisted equity securities | 1,365,430 | 1,685,510 |
| Total financial assets | 44,380,702 | 44,558,761 |

The market values of all investments as at 30 June 2020 are disclosed on page 48 of the Annual Report. Listed securities are readily saleable with no fixed terms.

Changes in fair values of financial assets at fair value through profit or loss are recorded in investment income in the Statement of Comprehensive Income.

(a) Investment transactions

The total number of contract notes that were issued for transactions in securities during the financial year was 599 (2019: 459). Each investment transaction may involve multiple contract notes.

The total brokerage paid on these contract notes was \$339,498 (inclusive of GST) (2019: \$249,057).

(b) Risk exposure and fair value measurements

Information about the Company's exposure to price risk and about the methods and assumptions used in determining fair value is provided in Note 3 and 4.

11 Non-current assets - Deferred tax assets

| | 2020 | At | 2019 |
|---|------------------|-----------|------------------|
| | \$ | | \$ |
| The balance comprises temporary differences attributable to: | | | |
| Capitalised share issue costs | 22,038 | | 148,446 |
| Tax losses carried forward | - | | 1,307,043 |
| Other temporary differences | 18,192 | | 13,256 |
| Net unrealised losses on investments | 1,280,049 | | - |
| | 1,320,279 | | 1,468,745 |
| | | | |
| | 2020 | At | 2019 |
| | \$ | | \$ |
| Movements: | | | |
| Opening balance | 1,468,745 | | 1,384,496 |
| (Charged)/credited: | | | |
| - directly to equity | (126,407) | | (126,407) |
| - directly to profit or loss | (22,059) | | 210,656 |
| Closing balance | 1,320,279 | | 1,468,745 |

12 Current liabilities - Other payables

| | 2020 | At | 2019 |
|--------------------------|----------------|-----------|------------------|
| | \$ | | \$ |
| Management fees payable | 68,230 | | 65,032 |
| Performance fees payable | 724,028 | | 996,254 |
| Unsettled trades | - | | 91,665 |
| Interest payable | 1,571 | | - |
| Other payables | 116,504 | | 85,296 |
| | 910,333 | | 1,238,247 |

Other payables are unsecured and are usually paid within 30 days of recognition.

The carrying amounts of other payables are reasonable approximations of their fair values due to their short-term nature.

13 Current liabilities - Financial liabilities at fair value through profit or loss

| | 2020 | At | 2019 |
|------------------------------|------------------|-----------|------------------|
| | \$ | | \$ |
| Equity securities sold short | 2,232,705 | | 2,150,728 |

When the Company sells securities it does not possess, it has to cover this short position by acquiring securities at a later date and is therefore exposed to price risk of those securities sold short. The sales agreement is usually settled by delivering borrowed securities. However, the Company is required to return those borrowed securities at a later date.

Monash Absolute Investment Company Limited
Notes to the Financial Statements
For the year ended 30 June 2020
(continued)

14 Non-current liabilities - Deferred tax liabilities

| | 2020 | At | 2019 |
|---|--------------------|-----------|------------------|
| | \$ | | \$ |
| The balance comprises temporary differences attributable to: | | | |
| Net unrealised gains on investments | - | | 1,666,437 |
| Other temporary differences | - | | 1,172 |
| | - | | <u>1,667,609</u> |
| | | | |
| | 2020 | At | 2019 |
| | \$ | | \$ |
| Movements: | | | |
| Opening balance | 1,667,609 | | 615,759 |
| Charged: | | | |
| - profit or loss | (1,667,609) | | 1,051,850 |
| Closing balance | - | | <u>1,667,609</u> |

15 Issued capital

(a) Share capital

| | | 30 June | 30 June | 30 June | 30 June |
|-----------------|-------|-------------------|------------|-------------------|------------|
| | Note | 2020 | 2019 | 2020 | 2019 |
| | | Shares | Shares | \$ | \$ |
| Ordinary shares | 15(c) | 44,853,003 | 44,314,634 | 44,221,463 | 43,656,176 |

(b) Movements in ordinary share capital

| | | 2020 | 2020 |
|-------------------------------------|---------|-------------------|-------------------|
| | Details | Shares | \$ |
| Opening balance | | 44,314,634 | 43,656,176 |
| Shares issued on options exercised | 15(e) | 538,369 | 565,287 |
| Closing balance 30 June 2020 | | 44,853,003 | 44,221,463 |

| | | 2019 | 2019 |
|---|---------|-------------------|-------------------|
| | Details | Shares | \$ |
| Opening balance | | 49,223,436 | 48,454,318 |
| Shares issued under share purchase plan | | 13,539 | 13,009 |
| Share buy back | | (4,922,341) | (4,725,447) |
| Cost of issued capital, net of tax | | - | (85,704) |
| Closing balance 30 June 2019 | | <u>44,314,634</u> | <u>43,656,176</u> |

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

15 Issued capital (continued)

(d) Dividend reinvestment plan

The Company has established a dividend reinvestment plan (DRP) for shareholders. The DRP is currently not in place.

(e) Options

On 19 November 2018, the Company issued pro-rata bonus options to eligible shareholders with an expiry date of 15 May 2020. A total of 538,369 bonus options were exercised during the year. Upon the exercise of the bonus options, the Company issued an equal number of loyalty options with exercise price of \$1.15 per share with an expiry date of 15 November 2021. A total of 538,369 loyalty options have been issued. As at 30 June 2020, nil loyalty options (30 June 2019: nil) have been exercised.

The bonus options issued by the Company on 19 November 2018 gave rise to a derivative financial liability under *AASB 132 Financial Instruments: Presentation*. The bonus options expired on 15 May 2020, and therefore, the liability is extinguished. The fair value of the derivative financial liability as at 30 June 2020 is nil (2019: nil).

(f) Share buy back

On 13 July 2018, the Board announced that it would conduct an off-market equal access buy back and share purchase plan. It was also announced that the on-market buy back would conclude effective 13 July 2018.

On 12 September 2018, the Company successfully completed the equal access off-market buy back and share purchase plan. The buy back and offer price was \$0.96 per share and the Company bought back 4,922,341 shares for a total consideration of \$4,725,447. All shares purchased by the Company were cancelled. A small number of shareholders participated in the share purchase plan applying for a total of 13,539 shares for a total consideration of \$13,009. No share buy back plan was announced during the year ended 30 June 2020.

(g) Capital risk management

The Board of Directors will actively manage the capital of the Company. The overriding intention is to deliver value to shareholders.

To achieve this, the Board monitor the monthly net tangible assets results, investment performance, the Company's indirect cost ratio and share price movements.

The Company is not subject to any externally imposed capital requirements.

16 Profits reserve and Accumulated losses

(a) Profits reserve

| | Notes | 2020 \$ | At 2019 \$ |
|-------------------------------|-------|-------------------|------------------|
| Movements: | | | |
| Opening balance | | 10,428,052 | 8,094,292 |
| Transfer from current profits | | 4,376,210 | 2,776,906 |
| Dividends paid | 17 | (886,293) | (443,146) |
| Closing balance | | 13,917,969 | 10,428,052 |

This reserve details an amount preserved for future dividend payments as outlined in accounting policy Note 2(l).

16 Profits reserve and Accumulated losses (continued)

(b) Accumulated losses

Movements in accumulated losses were as follows:

| | 2020 | At |
|-----------------------------|--------------------|-------------|
| | \$ | 2019 |
| | | \$ |
| Opening balance | (7,319,145) | (7,319,145) |
| Profit for the year | 2,127,625 | 2,776,906 |
| Transfer to profits reserve | (4,376,210) | (2,776,906) |
| Closing balance | (9,567,730) | (7,319,145) |

17 Dividends

(a) Ordinary shares

| 2020 | Cents per share | Franked amount per share | Amount | Tax rate for franking | Date of payment |
|---------------------------------------|------------------------|---------------------------------|---------------|------------------------------|------------------------|
| Ordinary shares - 2019 final dividend | 2.0 cents | 2.0 cents | \$886,293 | 30.0% | 30/10/2019 |

(b) Dividend franking account

The Company's franking account balance as at 30 June 2020 was \$265,794 (30 June 2019: \$526,257). Subsequent to year end, the Company will receive \$8,981 in franking credits as a result of dividends accrued at 30 June 2020 (30 June 2019: \$nil).

(c) Dividends not recognised at the end of the reporting period

On 19 August 2020, the Directors declared a final full franked dividend of 1 cent per ordinary share franked at 30.0%, which is expected to be paid on 30 October 2020 out of the profits reserve at 30 June 2020.

18 Key management personnel disclosures

(a) Key management personnel compensation

| | Year ended | |
|------------------------------|-------------------|-------------|
| | 2020 | 2019 |
| | \$ | \$ |
| Short-term employee benefits | 70,662 | 69,692 |
| Post-employment benefits | 19,338 | 20,308 |
| | 90,000 | 90,000 |

Detailed remuneration disclosures are provided in the remuneration report on pages 12 to 15.

19 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditors of the Company and its related practices:

| | Year ended | |
|---|-------------------|-------------------|
| | 2020 | 2019 |
| | \$ | \$ |
| Ernst & Young | | |
| <i>Audit and other assurance services</i> | | |
| Audit and review of financial statements | 45,203 | 42,230 |
| Total remuneration for audit and other assurance services | 45,203 | 42,230 |
| <i>Taxation services</i> | | |
| Tax compliance services | 13,675 | 21,270 |
| Total remuneration for taxation services | 13,675 | 21,270 |
| Total remuneration of Ernst & Young | 58,878 | 63,500 |

The Company's Audit and Risk Committee oversees the relationship with the Company's External Auditors. The Audit and Risk Committee reviews the scope of the audit and the proposed fee. It also reviews the cost and scope of other audit-related tax compliance services provided by the audit firm, to ensure that they do not compromise independence.

20 Contingent assets and liabilities and commitments

The Company had no contingent assets, liabilities or commitments as at 30 June 2020 (2019: nil).

21 Related party transactions

(a) Key management personnel

Disclosures relating to key management personnel are set out in Note 18.

(b) Transactions with other related parties

All transactions with related entities were made on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Simon Shields is a Director and beneficial owner of Monash Investors Pty Limited, the entity appointed to manage the investment portfolio of Monash Absolute Investment Company Limited. In its capacity as Investment Manager, Monash Investors Pty Limited was entitled to a management fee of 1.50% p.a. (plus GST) of gross assets amounting to \$763,882 net of reduced input tax credits (2019: \$686,984).

As at 30 June 2020, the management fee payable to the Investment Manager was \$68,230 (2019: \$65,032).

In addition, Monash Investors Pty Limited is to be paid, annually in arrears, a performance fee being 20% (exclusive of GST) of the Portfolio's outperformance and subject to a high water mark.

21 Related party transactions (continued)

(b) Transactions with other related parties (continued)

For the year ended 30 June 2020 in its capacity as Investment Manager, Monash Investors Pty Limited was entitled to a performance fee amounting to \$674,662 net of reduced input tax credits (2019: \$928,328).

As at 30 June 2020, the performance fee payable to the Investment Manager was \$724,028 (2019: \$996,254).

No Director has received or become entitled to receive a benefit (other than those detailed above) by reason of a contract made by the Company or a related Company with the Director or with a firm of which he is a member or with a Company in which he has substantial financial interest.

During the year, Monash Absolute Investment Fund, a related party, transferred some of its holdings on unlisted securities to the Company. The transfer was conducted at fair value with a total consideration of \$329,835.

22 Events occurring after the reporting period

On 8 August 2019, the Company announced a proposal to restructure the Company into an Exchange Traded Managed Fund (ETMF). On 5 May 2020, the Company announced that it had executed an implementation agreement with The Trust Company (RE Services) Limited to implement the restructure. The Company's indicative timetable announced on 14 July 2020 is that a notice of meeting to shareholders will be sent by the end of September 2020 with the aim to completion of the restructure by the end of 2020.

On 19 August 2020, the Directors declared a final full franked dividend of 1 cent per ordinary share franked at 30.0%, which is expected to be paid on 30 October 2020 out of the profits reserve at 30 June 2020.

No other matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

23 Reconciliation of profit after income tax to net cash inflow from operating activities

| | Year ended | |
|--|------------------|--------------------|
| | 2020 | 2019 |
| | \$ | \$ |
| Profit for the year | 2,127,625 | 2,776,906 |
| Proceeds from sale of financial assets at fair value through profit or loss | 73,841,306 | 51,853,137 |
| Payments for purchase of financial assets at fair value through profit or loss | (71,341,014) | (52,248,986) |
| Proceeds from short sale of financial liabilities at fair value through profit or loss | 14,392,605 | (11,900,525) |
| Payments for settlement of financial liabilities at fair value through profit or loss | (11,718,049) | 10,375,113 |
| Net realised gains on investments | (14,679,977) | (2,098,119) |
| Net unrealised losses/(gains) on investments | 9,673,500 | (3,620,684) |
| Effects of foreign currency exchange rate changes on cash and cash equivalents | 8,557 | (1,492) |
| Change in operating assets and liabilities: | | |
| Increase in other receivables | (12,936) | (60,485) |
| Decrease/(increase) in other current assets | 8,795 | (15,651) |
| Decrease/(increase) in deferred tax assets | 148,466 | (84,249) |
| (Decrease)/increase in other payables | (236,249) | 998,310 |
| Increase in provision for income taxes payable | 2,321,054 | - |
| (Decrease)/increase in deferred tax liabilities | (1,667,609) | 1,088,580 |
| Net cash inflow/(outflow) from operating activities | <u>2,866,074</u> | <u>(2,938,145)</u> |

24 Earnings per share

(a) Basic earnings per share

| | Year ended | |
|---|------------|-------|
| | 2020 | 2019 |
| | Cents | Cents |
| Basic earnings per share attributable to the ordinary equity holders of the Company | 0.05 | 0.06 |

(b) Diluted earnings per share

| | Year ended | |
|---|------------|-------|
| | 2020 | 2019 |
| | Cents | Cents |
| Diluted earnings per share attributable to the ordinary equity holders of the Company | 0.05 | 0.06 |

The options issued by the Company are non-dilutive hence diluted earnings per share is the same as basic earnings per share.

(c) Weighted average number of shares used as denominator

| | Year ended | |
|---|------------|------------|
| | 30 June | 30 June |
| | 2020 | 2019 |
| | Number | Number |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 44,404,452 | 45,322,847 |
| Weighted average number of ordinary and potential ordinary shares used as the denominator in calculating diluted earnings per share | 44,404,452 | 45,322,847 |

Monash Absolute Investment Company Limited
Directors' Declaration
For the year ended 30 June 2020

In the opinion of the directors of Monash Absolute Investment Company Limited:

- (a) the financial statements and notes set out on pages 18 to 42 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the Company's financial position as at 30 June 2020 and of its performance for the year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 2(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the chief executive officer and chief financial officer of the Investment Manager required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.



Paul Clitheroe AM
Independent Chairman

Sydney
19 August 2020

Independent Auditor's Report to the members of Monash Absolute Investment Company Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Monash Absolute Investment Company Limited (the Company), which comprises the statement of financial position as at 30 June 2020, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of Monash Absolute Investment Company Limited is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Company's financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Existence and valuation of investments

| Why significant | How our audit addressed the key audit matter |
|--|--|
| <p>The Company has a significant investment portfolio consisting primarily of listed and unlisted equities. As at 30 June 2020, the value of these equities, was \$42.1m which represented 87% of the net assets of the Company.</p> <p>As detailed in the Company's accounting policy in Note 2(g) of the financial report, these financial assets and liabilities are recognised at fair value through profit or loss in accordance with Australian Accounting Standards.</p> <p>Pricing, exchange rates and other market drivers can have a significant impact on the value of these financial assets and liabilities and the financial report. Accordingly, valuation of the investment portfolio was considered a key audit matter.</p> | <p>We assessed the effectiveness of the controls relating to the existence, completeness and valuation of investments.</p> <p>We obtained and considered the assurance report on the controls of the Company's administrator in relation to fund administration services for the year ended 30 June 2020 and considered the auditor's credentials, their objectivity and the results of their procedures.</p> <p>We agreed all investment holdings to third party confirmations at 30 June 2020.</p> <p>For investments where readily observable market data was available, we assessed the fair value of investments in the portfolio held at 30 June 2020 to independently sourced market prices.</p> <p>For investments where readily observable market data was not available, we assessed key inputs and assumptions, considering alternative valuation methods and assessing sensitivities to key factors.</p> <p>We assessed the adequacy of the disclosures in Note 3 and Note 4 of the financial report in accordance with the requirements of Australian Accounting Standards.</p> |

Information Other than the Financial Report and Auditor's Report

The directors are responsible for the other information. The other information comprises the information included in Company's 2020 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.



We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 16 of the Directors' Report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Monash Absolute Investment Company Limited for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Rita Da Silva
Partner

Sydney
19 August 2020

Monash Absolute Investment Company Limited
Investments at Market Value
As at 30 June 2020

Investments at Market Value

| Securities code | Securities | \$ | % |
|-----------------------------------|---|--------------------|----------------|
| Consumer Discretionary | | | |
| BSA | BROADCAST SERVICES AUSTRALIA LTD | 559,641 | 1.26% |
| JIN | JUMBO INTERACTIVE LIMITED | 2,229,391 | 5.02% |
| | KAYLA TECHNOLOGIES PTY LTD | 398,005 | 0.90% |
| KGN | KOGAN.COM LIMITED | 400,384 | 0.90% |
| KMD | KATHMANDU HOLDINGS LIMITED | 2,032,092 | 4.58% |
| LOV | LOVISA HOLDINGS LIMITED | 1,841,894 | 4.15% |
| NEXU | NEXDIUS PTY LTD | 304,302 | 0.68% |
| RFG | RETAIL GROUP FOOD LIMITED | 1,644,322 | 3.71% |
| | | 9,410,031 | 21.20% |
| Energy | | | |
| APT | AFTERPAY LIMITED | 2,493,210 | 5.62% |
| NXS | NEXT SCIENCE LIMITED | 90,254 | 0.20% |
| | | 2,583,464 | 5.82% |
| Financials | | | |
| EML | EML PAYMENTS LIMITED | 2,285,829 | 5.15% |
| PPE | PEOPLE INFRASTRUCTURE LIMITED | 2,184,400 | 4.92% |
| | | 4,470,229 | 10.07% |
| Health Care | | | |
| HLA | HEALTHIA LIMITED | 2,669,112 | 6.01% |
| IPD | IMPEDIMED LIMITED | 262,327 | 0.59% |
| MVP | MEDICAL DEVELOP. INTERNATIONAL LTD | 680,766 | 1.53% |
| NAN | NANOSONICS LIMITED | 2,075,026 | 4.68% |
| PCK | PAINCHEK LTD | 322,424 | 0.73% |
| PNV | POLYNOVO LIMITED | 1,295,418 | 2.92% |
| TLX | TELIX PHARMACEUTICALS LIMITED | 2,081,015 | 4.69% |
| | | 9,386,088 | 21.15% |
| Industrials | | | |
| CGL | THE CITADEL GROUP LIMITED | 2,474,378 | 5.58% |
| EOS | ELECTRO OPTIC SYSTEMS HOLDINGS LTD | 1,974,529 | 4.45% |
| FLC | FLUENCE CORPORATION LIMITED | 734,368 | 1.66% |
| | LUMITRON HOLDINGS INC | 354,938 | 0.80% |
| PET | PHOSLOCK ENVIRONMENTAL TECHNOLOGIES LIMITED | 471,932 | 1.06% |
| SSM | SERVICE STREAM LIMITED | 1,839,426 | 4.14% |
| | | 7,849,571 | 17.69% |
| Information Technology | | | |
| ALU | ALTium LIMITED | 2,023,861 | 4.56% |
| BID | BIDENERGY LTD | 884,337 | 1.99% |
| IFM | INFOMEDIA LTD | 2,220,143 | 5.00% |
| MOBOOMU | MOBOOM LIMITED | 308,186 | 0.70% |
| NEA | NEARMAP LIMITED | 2,188,140 | 4.93% |
| PVS | PIVOTAL SYSTEMS CORPORATION | 8,728 | 0.02% |
| WJA | WAMEJA LIMITED | 402,980 | 0.91% |
| | | 8,036,375 | 18.11% |
| Materials | | | |
| AJX | ALEXIUM INTERNATIONAL GROUP LIMITED | 651,908 | 1.47% |
| LCK | LEIGH CREEK ENERGY LIMITED | 508,132 | 1.14% |
| | | 1,160,040 | 2.61% |
| Telecommunication Services | | | |
| UWL | UNITI GROUP LIMITED | 1,484,904 | 3.35% |
| | | 1,484,904 | 3.35% |
| | Total Long Portfolio | 44,380,702 | 100.00% |
| | Total Short Portfolio | (2,232,705) | |

* Sector classification is based on the Global Industry Classification Standard (GICS)

Monash Absolute Investment Company Limited
Shareholder information

The Shareholder information set out below was applicable as at 31 July 2020.

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report, is listed below.

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

| Holding | Class of equity security | | |
|------------------|--------------------------|-------------------|---------------|
| | Ordinary shares | | |
| | No. of Shareholders | Shares | Percentage |
| 1 - 1000 | 55 | 15,587 | 0.03 |
| 1,001 - 5,000 | 119 | 374,347 | 0.84 |
| 5,001 - 10,000 | 146 | 1,174,812 | 2.62 |
| 10,001 - 100,000 | 377 | 12,426,078 | 27.70 |
| 100,001 and over | 50 | 30,862,179 | 68.81 |
| | 747 | 44,853,003 | 100.00 |

There were 38 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

| Name | Ordinary shares | |
|--|-------------------|-----------------------------|
| | Number held | Percentage of issued shares |
| CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C> | 5,899,199 | 13.15 |
| J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 3,550,139 | 7.92 |
| NATIONAL NOMINEES LIMITED | 3,177,926 | 7.09 |
| ONE MANAGED INVT FUNDS LTD <SANDON CAPITAL INV LTD A/C> | 2,603,005 | 5.80 |
| BNP PARIBAS NOMS PTY LTD <DRP> | 2,112,623 | 4.71 |
| MR BARRY MARTIN LAMBERT & MRS JOY WILMA LILLIAN LAMBERT <LAMBERT SUPER FUND A/C> | 1,310,362 | 2.92 |
| PICKO PTY LTD | 1,183,180 | 2.64 |
| BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD | 894,817 | 1.99 |
| MORGCAM PTY LTD | 539,316 | 1.20 |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 532,616 | 1.19 |
| MS PAULA SIRTES <DOLPHIN HOLDINGS A/C> | 500,000 | 1.12 |
| MR PAUL HUGH CLITHEROE & MRS VICKI CLITHEROE | 500,000 | 1.12 |
| DE SOYSA SUPER MANAGEMENT PTY LTD <DE SOYSA SUPER PEN FUND A/C> | 500,000 | 1.12 |
| PERPETUAL CORPORATE TRUST LTD <AFFLUENCE LIC FUND> | 494,427 | 1.10 |
| BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP> | 477,665 | 1.06 |
| MR ALAN WILLIAM BLOW | 405,082 | 0.90 |
| SHIELDS NOMINEES PTY LTD | 400,000 | 0.89 |
| ANISAM PTY LTD <GUPTA 2002 A/C> | 350,000 | 0.78 |
| GASEOUS PTY LTD <LIQUID SUPER A/C> | 323,366 | 0.72 |
| CSALT SUPER PTY LTD | 300,000 | 0.67 |
| | 26,053,723 | 58.09 |

Monash Absolute Investment Company Limited
Shareholder information
(continued)

C. Substantial holders

Substantial holders in the Company are set out below:

| Name | Number held | Percentage |
|--|--------------------|-------------------|
| Mirabella Financial Services LLP | 6,270,002 | 14.14% |
| Sandon Capital Pty Ltd | 4,478,787 | 10.10% |
| Affinity Managed Accounts | 3,837,868 | 8.66% |
| Phoenix Portfolios Pty Ltd | 3,361,484 | 7.58% |
| Investment Administration Services Pty Ltd | 2,254,343 | 5.09% |
| Total | 20,202,484 | 45.57% |

D. Voting rights

The voting rights attaching to each class of equity securities are set out below:

Each share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

E. Stock Exchange Listing

Quotation has been granted for all of the ordinary shares and options of the Company on all Member Exchanges of the ASX Limited.

F. Unquoted Securities

There are no unquoted shares.

G. Securities Subject to Voluntary Escrow

There are no securities subject to voluntary escrow.