AUSTRALIAN
RESEARCH
INDEPENDENT INVESTMENT RESEARCH

Monash Absolute Investment Company (ASX: MA1)

June 2020

INDEPENDENT
INVESTMENT RESEARCH

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1) The research process has complete editorial independence from the company and this included in the contract with the company;

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3) Our research does not provide a recommendation, in that, we do not provide a "Buy, Sell or Hold" on any stocks. This is left to the Adviser who knows their client and the individual portfolio of the client.

4) Our research process for valuation is usually more conservative than what is adopted in Broking firms in general sense. Our firm has a conservative bias on assumptions provided by management as compared to Broking firms.

5) All research mandates are settled upfront so as to remove any influence on ultimate report conclusion;

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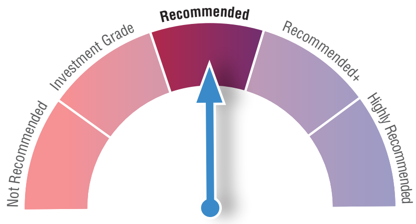
INDEPENDENT
INVESTMENT RESEARCH

Monash Absolute Investment Company

(ASX code: MA1)

Note: This report is based on information provided by the company as at June 2020

Rating



Key Investment Information	
Name of LIC	Monash Absolute Investment Company
Investment Manager	Monash Investors Pty Limited
ASX Code	MA1
Investment Type	LIC
Expected ETMF Conversion Date	TBD
Distribution Policy	Cash distribution of a minimum of 6% p.a.
MER	1.50%
Performance Fee	20% of returns above RBA Cash Rate hurdle subject to a High Water Mark.

Fees Commentary

Fees are very high due to the inappropriately low performance fee hurdle tied with the 20% performance fee.. In IIR's strong view, the benchmark should be structured on a RBA cash plus X% basis, with +4% being a broadly appropriate level over the RBA Cash rate benchmark.

Portfolio Characteristics	
Number of Stocks	20-25
Single Stock Limit	15%
Net Exposure Typically	75% +/- 15%
Cash Limit	0%-50%
Portfolio Turnover	Circa 200%

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

OFFER OVERVIEW

The Monash Absolute Investment Company Ltd (MA1 or 'the Company) is seeking to convert from a Listed Investment Company (LIC) to an Exchange Traded Managed Fund (ETMF) and list on the Australian Securities Exchange (ASX). The expected name is Monash Absolute Active Trust and the likely ASX code is MAAT (or alternately referred to as 'the Fund'). To do so, the Company will require at least 75% of voting MA1 investors to vote in support of the resolution to convert into an ETMF. The conversion, should the vote pass, is expected to be finalised by September 2020 and in which case investors will benefit from the Fund trading at parity to NTA (in contrast to the MA1 8% discount to NTA as at the date of this report). MA1 is based on an exact replication of the longer standing the Monash Absolute Investment Fund (MAIF or interchangeably referred to the Fund where relevant to the same strategy). MAIF has an 8-year track-record, commencing in July 2012). The Fund's strategy is based on benchmark unaware, market cap agnostic, absolute value, long-short Australian equities strategy. The absolute returns aspect is based on discretionary rotation in and out of cash, which historically has been as high as 40% of the total portfolio. To a lesser degree, the ability to short also contributes to the absolute returns aspect, although the Fund has very limited short exposure as a percentage of the total portfolio. Reflecting both cash and short components, market beta has historically averaged approximately 0.59 over the 8 year track record of the underlying strategy and only very rarely exceed 0.80. The Manager intends to pay a consistent 1.5% per quarter distribution (6% p.a.) once MA1 converts to an ETMF, although realised distributions may exceed this level.

INVESTOR SUITABILITY

The Fund is a relatively concentrated Australian equities mandate which historically has recorded portfolio turnover levels averaging approximately 200%. Notwithstanding the cash allocation and ability to short aspects, the concentrated nature of the portfolio has generated a risk profile broadly in-line with the broader equities market. That said, the high conviction and concentrated nature of the mandate may mean that the Trust's returns, volatility and drawdowns may vary considerably relative to the broader market. It is critically important that investors understand that the 'absolute returns' reference in the Fund title refers to seeking absolute value in equities (as opposed to returns relative to an equities benchmark) rather than, say, a market neutral strategy. The high portfolio turnover means that historically much of the total returns has represented distributed income. In this regard, the Fund is better suited to lower marginal tax rate investors. The Fund has exhibited relatively low correlation to Australian equities (averaging 74%) and, as such, can be viewed as a diversifying investment to a larger portfolio of domestic equities. Given the latter and low beta, IIR views the Fund best suited as a satellite investment to a core investment in Australian equities. Over the FYTD period, MA1 has markedly outperformed Australian equities (12.6% versus -6.3% for the S&P/ASX 200 TR Index), illustrating the Fund's inherent potentially to materially outperform in down markets, and in no small part due to the ability to go materially into cash.

RECOMMENDATION

IIR ascribes a "**RECOMMENDED**" rating to the Monash Absolute Investment Company Ltd. IIR holds the Manager in high regard, with a solid and stable team, proven processes and a performance track-record true to style. The FYTD performance clearly highlights the Manager's ability to outperformance during periods when outperformance is most valued - in down markets and the ability to preserve capital. Our key concern regarding the Fund, and it is a big concern, are the very high level of fees due to the inappropriately low performance fee hurdle tied with the 20% performance fee. Notwithstanding the absolute returns nature of the strategy, an average historic beta of 0.60 is indicative of material long equities risk, in addition to a higher historic volatility and roughly comparable drawdown profile to the broader equities market and a drawdown profile . In IIR's strong view, the benchmark should be structured on a RBA cash plus X% basis, with +4% being a broadly appropriate level over the RBA Cash rate benchmark. It is highly likely the IIR rating would be a notch higher if the Fund incorporated an appropriate performance fee structure.

SWOT ANALYSIS

Strengths

- MAIF (net and gross) has shown a consistent track-record of outperformance (with the exception of '4 years p.a.' for MAIF net of fees) as at 31 May 2020. These metrics however have an inherent entry and exit timing aspect however. On a rolling year basis, alpha has varied from periods of out- and under-performance. This is to be expected and is true to style.
- There is an implicit asymmetry to investment manager performance in the eyes' of investors, with downside protection being more highly valued than positive performance in a bull market. The Fund has materially outperformed the market over the Covid19 period.
- In IIR's view, the Manager should be given kudos by being one of a few fund managers that have gone down the route of converting a LIC to a unit trust. While there are advantages and disadvantages of the restructuring, as noted in the Product Overview section, investors will clearly benefit from the Fund trading at parity to NTA.
- Monash Investors was founded in 2012 by Simon Shields (PM) and Shane Fitzgerald. (Co-PM). The Manager is owned by the PMs, who collectively have 60 years of combined experience at institutional grade managers, including UBS, CFS, and JP Morgan. The PMs have a large proportion of their own wealth invested in the Fund strategy, creating a strong alignment with shareholders, especially regarding downside risk mitigation.

Weaknesses

- Fees very high, not account of the MER (which IIR deems broadly in-line with lesser FUM managers) but due to the inappropriately low performance fee hurdle tied with the 20% performance fee. Notwithstanding the absolute returns nature of the strategy, an average historic beta of 0.60 is indicative of material long equities risk, in addition to a higher historic volatility and roughly comparable drawdown profile to the broader equities market and a drawdown profile . In IIR's strong view, the benchmark should be structured on a RBA cash plus X% basis, with +4% being roughly appropriate (corresponding to circa 60% of the equity market risk premia). IIR notes the marked differential between gross and net performance of MAIF, which in large part represents the financial crystallisation of the performance fee.
- Should the vote in favour for conversion be approved, the Manager will pay a minimum 1.5% per quarter distribution (6% p.a.). The actual level may be higher should realised gains exceed this amount, given a unit trust must distribute all realised gains in the year earned. However, should total returns be below this level, a component of total distributions will represent a return of capital, and potentially a drawdown of capital at the least favourable point of time during a down market.
- A part of the dual investment objective is to generate double digit returns over a full investment cycle. While the Fund may have a relatively low beta and correlation to broader equities markets it has a higher level of volatility and comparable drawdown profile. That is, the Fund can not fully escape significant market events (and when correlations often move to one). Notwithstanding the strategy, IIR believes investors would be better suited by an alpha investment objective.

Opportunities

- Historically, the Fund has exhibited relatively low correlation and beta relative to the broader equities market. As such, the strategy may be deemed as a truly active and diversifying strategy relative to broad market exposure;
- There are a host of disadvantages and advantages in converting from an LIC to an ETMF. This includes trading at parity to NTA and the ability to grow FUM (both advantages), while the absence of permanent capital and the inability to smooth an income profile (without a partial repayment of capital) all being deemed as disadvantages.

Threats

- Historically, the Fund has exhibited greater volatility and roughly a comparable drawdown profile to the broader equities market. The key point to note is that, notwithstanding the variable allocation to cash and the 110/10 long-short nature of the strategy, the Fund does incorporate material risk, some of which naturally stems from a more concentrated investment portfolio.

PRODUCT OVERVIEW

The Fund's strategy is based on benchmark unaware, market cap agnostic, absolute value, long-short Australian equities strategy. The absolute returns aspect is based on an ability to go materially into cash, with cash positioning being an outcome of not being able to find compelling ideas that meet the Manager's 60%/-30% total return investment hurdle. Historically, cash has been as high as 40% of the total portfolio. To a lesser degree, the ability to short also contributes to the absolute returns aspect. That said, short positioning has rarely exceeded 10% of the portfolio. Reflecting both cash and short components, market beta has historically averaged approximately 0.59 over the 8 year track record of the underlying strategy and only very rarely exceed 0.80.

The Fund has a dual investment objective: 1) to generate double digit returns over a full investment cycle; and, 2) to do so with a low net exposure, correlation, beta and drawdown risk (risk of capital loss) relative to the broader Australian equities market. Historically, while the second objective has been met, IIR would suggest the first has not. Over a rolling 3-year period (one can argue the duration of a 'full market cycle'), net returns have exceeded 10% on only 27% of data points (42% for gross returns). However, the Fund has generally outperformed (63% of rolling periods on a gross basis, albeit only 49% on a net basis). This talks to what IIR pointed out in the 'Weaknesses' section that we believe investors would be better served by an alpha performance objective.

Monash Investors was founded in 2012 by Simon Shields (PM) and Shane Fitzgerald (Co-PM) The Manager is owned by the PMs, who collectively have 60 years of combined experience at institutional grade managers, including UBS, CFS, and JP Morgan. The PMs have a large proportion of their own wealth invested in the Fund strategy, creating a strong alignment of interest with shareholders, and especially regarding downside risk mitigation.

Should the vote in favour for conversion be approved, the Manager will pay a minimum 1.5% per quarter distribution (6% p.a.). The actual level may be higher should realised gains exceed this amount, given a unit trust must distribute all realised gains in the year earned. However, should total returns be below this level, a component of total distributions will represent a return of capital, and potentially a drawdown of capital at the least favourable point of time during a down market.

Fees are based on a 1.5% p.a. MER and a performance fee equal to 20.5% p.a. over a RBA Cash Rate hurdle with a high water mark.

Fund Restructure from an LIC to an ETMF

On 5 May 2020, the MA1 announced that it had executed an Implementation Agreement with The Trust Company (RE Services) Limited (Perpetual) relating to the conversion of MA1 to an ETMF. The Manager and Perpetual are working to finalising a notice of meeting to be dispatched to MA1 shareholders by the end of July 2020. The parties are aiming for completion of the conversion by September 2020.

In voting for the resolution, the date of which is yet to be determined, investors should carefully consider both the advantages and disadvantages relative to the existing LIC structure.

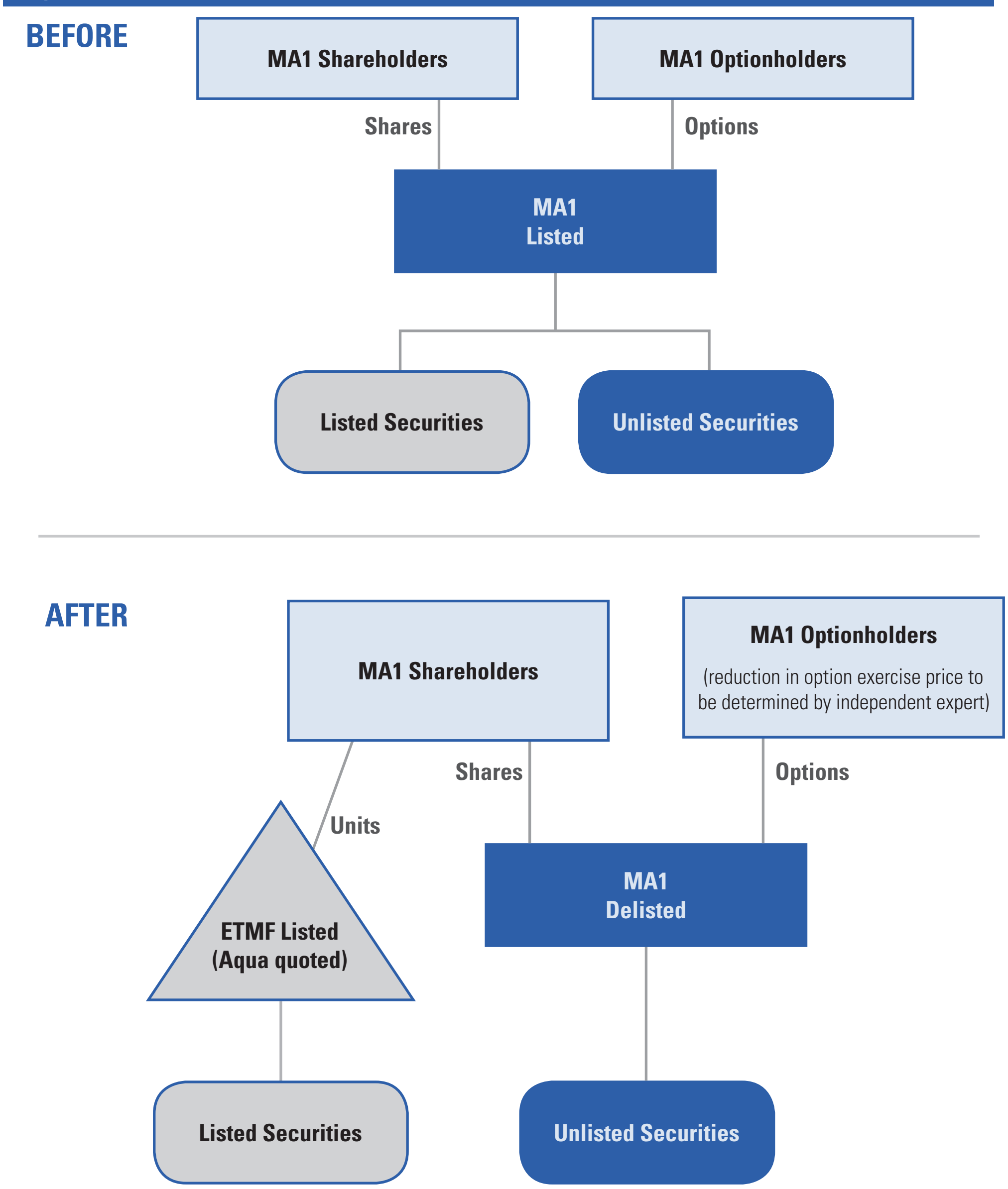
With respect to initiatives to close a discount gap to NTA, IIR believes the investment manager and board of MA1 is leading the way in terms of acting in the best interests of shareholders. If shareholders vote in favour of the proposal it will be the first such conversion to an ETMF in the Australian market. IIR suspects however it will not be the last.

Advantages

- An ETMF restructure ensures that the investments in the portfolio continue to be accessible by way of a listed vehicle, but adds the benefit of ensuring that the price trades in line with NTA and that there is always liquidity.
- In providing continued exposure to an investment strategy, shareholders are not denied sufficient time for the embedded value of the investments made by a manger to be realised, as would be the case in a wind-up or potentially a merger or the replacement of the investment manager. Additionally, it keeps market exit and CGT realisation timing control in the hands of investors.

- Conversion also avoids manager termination costs. Any alternative proposal may result in a dispute with the manager as to the remaining fees that would otherwise be payable under the Investment Management Agreement (IMA), which is generally not able to be terminated during a remaining term other than for cause. Additionally, under an IMA, any change in the investment strategy requires the agreement of the manager, which may not be obtained.
- Conversion also removes the risk of market impact costs which is present in a wind-up and potentially also in a merger and change of investment manager outcome. With conversion, no investments are sold on market to enable the restructure and therefore no value is lost. This is a particular issue for less liquid underlying investments in a portfolio where divestment could be challenging / costly. In a conversion the entire portfolio of listed investments is transferred to the unit trust structure in return for the issue of units to the LIC. Units in the unit trust are then distributed by the LIC to the LIC shareholders in line with their existing shareholding via an in-specie distribution.
- Conversion, by removing the liquidity constraints in a smaller LIC for larger investors wishing to invest, can facilitate FUM growth in the investment vehicle. This may ultimately see investors benefit by way of a lower MER on the basis of scale benefits. IIR also notes that unit trust costs overall are likely to be lower, given the removal of the board and associated costs. Given the whole conversion cost exercise involves total costs of around $300K, the removal of director fees alone should lead to a two year payback profile to investors.

Proposed Conversion to an ETMF



- Finally, it should be noted that any franking credit reserves not distributed by way of a special distribution and tax deferred assets will be retained in the unlisted component of the portfolio and can be distributed from the proceeds of the ultimate realisation of assets in the unlisted portfolio.

Disadvantages

- The Manager estimates that as much as 30% of the FUM of MA1 represent arbitrage positions, and will seek to sell on conversion. This potentially creates an issue for remaining investors. Specifically, remaining investors could conceivably incur taxation consequences from portfolio turnover to fund redemptions. However, the Manager has allayed these concerns by confirming that for large redemptions (such as those by large investors exiting on the implementation of the restructure) it can do a special distribution (and has done so in the past) so that the redeeming unit holders receive the tax liability for tax liability for the realised gains they caused. However, should any such investors choose to gradually divest on market post conversion (to minimise the extent of a tax liability), the above risk may well crystallise for remaining investors. IIR also notes that given the Fund will be paying a 1.5% quarterly distribution this may eliminate (or will at least lessen) on an ongoing basis the impact of realised gains on new investors.
- A key to outperform is the ability to ride out market gyrations, and stay focussed on long term goals. Probably the issue which most challenges an investment managers ability to remain long term focussed, are the liquidity constraints which come when running an open-ended fund. Because the pool of funds available to be invested isn't fixed under this structure, the portfolio manager has to ensure that there is always enough cash on hand to meet redemptions from clients. On the flip side, through periods when investor applications exceed redemptions, the portfolio manager will be pressured to deploy that capital into the market, even if they believe stock prices may be overvalued. These pressures can be particularly acute in periods of heightened market volatility, when redemption activity can increase considerably. For example, through the financial crisis period of 2008, many small cap managers were forced into selling key portfolio holdings at sub-optimal prices, so as to raise cash and meet investor redemptions. By contrast, the investment managers with stable pools of capital were able to take advantage of the forced sellers, by acquiring these parcels of shares at often bargain prices. In comparison, the manager of an open-end fund is often forced into selling off their highest quality companies at undervalued prices through such bear market periods. Loyal investors in open ended funds during these periods are often left as investors in the remaining lower quality less liquid stocks in the fund. Academic evidence tends to support this proposition that closed end funds don't suffer the performance drag from having to fund investor redemptions at inopportune times.
- The company structure of LICs allows it to retain earnings and pay dividends at a rate set by the company. This is different to a unit trust, which must distribute all realised gains in the year earned. The results of these differing tax structures tend to mean consistency of LIC dividends and lumpiness of unit trust dividends. Investors who rely on these dividends to fund their living expenses clearly prefer the former. Unit trust investors are subject to the taxation implications of the trading activities of other investors. Net redemption requests may require the manager to sell underlying portfolio holdings which, in turn, may crystallise a capital gain. This leads to the distribution of a CGT liability to remaining investors. Furthermore, the level of the CGT liability may be a function of gains accumulated well before an investor entered the unit trust (creating 'inter-generational' issues).
- In contrast to a LIC, in a unit trust all realised trading profits are passed through to the investor in the year realised. This generally creates a lumpy and market related distribution profile (in contrast to that of a LIC). That said, we note the Manager will pay out a minimum 1.5% per quarter distribution.

MANAGEMENT GROUP PROFILE

Monash Investors was established by Simon Shields and Shane Fitzgerald in December 2011. The Monash Absolute Investment Fund (MAIF) was launched in July 2012. In September 2015, Monash Investors appointed Winston Capital Partners (WCP) to manage distribution to intermediaries, family offices and institutional clients. In February 2016, the Manager incorporated Monash Absolute Investment Company Limited (LIC), lodged Prospectus with ASIC & launched offer raising $ 52.5M (net after fees $50.1M). MA1 commenced trading on ASX in April 2016. Monash Investors Pty Ltd is owned as follows: 50.5% Simon Shields; 33.7% Shane Fitzgerald; and, 15.8% by minority shareholders. There are four staff: two are investment professionals (the principals), one COO and one research analyst.

Flagship Products				
Product Name	Inception	B'mrk	Excess/absolute return objective	FUM
Monash Absolute Investment Fund (MAIF)	2 July 2012	RBA Cash Rate	Achieve double digit returns per annum (after fees) over a full market cycle while seeking to avoid loss of capital over the medium term	$16m
Monash Absolute Investment Company Limited (MA1)	12 April 2016	RBA Cash Rate	Achieve a targeted positive return over a full investment cycle (5 to 7 years) and avoid a loss of capital over the medium term	$56m

INVESTMENT TEAM

Simon Shields and Shane Fitzgerald share joint responsibility for managing the portfolio. Decisions are agreed upon before they are implemented. They analyse stocks together and split the responsibility for modelling individual stocks between them on a case-by-case basis. Stocks are typically analysed using a standardised model integrating the P&L, Cash Flow and Balance Sheet. Investment Theses/Violations, price targets, soft stop losses and catalysts are agreed upon prior to investment. This consistency in approach ensures familiarity and enhances the ability to back up for each other on all stocks. Simon and Shane are assisted by Sebastian Correia (Research Analyst).

As consistent with a small team, there is no sector specialisation between the two PMs, notwithstanding that both have in the past have focused on particular sectors to differing degrees. The advantages of this structure is that fosters co-ownership of investment ideas, facilitates informed discussion of all investment decisions, and avoids an over-representation of a sector/sectors simply based on each team members sector focused approach, which may not present the best relative value play.

As FUM grows, additional analysts may potentially be added to the team. The first review will be when the Manager has $100m in FUM. IIR deems the team size is currently adequate for the capital that is being managed.

The qualifications and experience of key members of the investment team are summarised below.

Simon Shields CFA, B.Comm (Hons), LLB, MBA. Simon has 32 years of experience in fundamental investing in Australian Shares. Previously Head of Equities at UBS Asset Management and Colonial First State. Co-founded Monash Investors 7 years ago. • Member of / led multi-award winning equity teams across different investment styles.

Shane Fitzgerald B.Comm (Hons). Highly rated equity analyst 26 years an equity analyst, including 14 years sell side experience. Head of JPMorgan Insurance and Diversified Financial Research. Member of the multi award winning JPMorgan Research Team.

Sebastian Correia, CA (Australia & New Zealand), B.Comm (Hons) – Research Analyst. Sebastian joined Monash Investors 2 years ago, with 6 years' experience in corporate finance and management consulting at EY (Ernst & Young). Prior to joining Monash Investors, he worked at as a Senior Valuation Analyst in EY's leading Transaction Advisory team.

Key Investment Personnel		
Name, Position	Years in Industry	Years with Manager
Simon Shields	32	7
Shane Fitzgerald	26	7
Sebastian Correia	6	2

INVESTMENT PROCESS

Investment Philosophy

The Manager believes that while most stocks are reasonably fairly priced most of the time, opportunities to identify significant mispricing occurs because of recurring business situations or recurring patterns of behaviour by investors, analysts and company management. These can give rise to investment opportunities, both long and short, before they are fully appreciated by the market, across the market cap spectrum.

The behaviour of investment market participants (Sell Side, Buy Side and Company Management) is constrained by structural limitations, which can be exploited by experienced fund managers with a mandate to do so.

The Manager holds that most of the time well-covered stocks are relatively efficiently priced by the equity market. However not all stocks are well covered (there may be few analysts covering them) and not all well covered stocks are always efficiently priced (for example, a cyclical business environment, due to business or other disruption). The Manager terms these "Outlook" opportunities. In addition, sometimes it takes the market a little while to efficiently price a stock for a likely asymmetric risk, or in the light of new information; sometimes a liquidity event presents an opportunity. These are termed "Event" opportunities. The Manager invests in both these opportunities in slightly different ways, as discussed in the Portfolio Construction section.

On both the long and short side, the Manager is focused on asymmetric payoffs that have a combination of four attributes: insight, growth, value, and event. Insight may represent misunderstood or mispriced stocks which the Manager has a view on how the situation may be resolved. Growth relates to high levels of forecast EPS and CFPS growth. Value relates to stocks that offer a large payoff to the Manager's assessed valuation. While event relates to stocks that potentially have a near term catalyst.

The critical aspect to understanding the Manager's investment style is to understand its conceptualisation and execution of its absolute return component. By absolute returns, the Manager seeking to fulfil its dual objectives of limiting losses over the medium term and double digit returns over a full investment cycle. It means it does not invest at all in a relative sense to the broader market. Rather, it invests purely on the basis of what it views as stock specific absolute value with a strict adherence to price targets. That is, once a stock hits its price target the position is sold.

As a corollary of this, the variable cash position is therefore almost invariably driven as a consequence of stock buys and sells - i.e, by the identification of attractive investments (either long or short) and price developments relative to internal price targets. With the exception of perceived extreme events, the cash allocation is not based on macro or overall market valuation views. The Manager is purely a bottom up absolute value stock picker.

The focus on a bottom-up process plays to the strengths of the Manager. As small 'shop', this is of course not akin to some sort of large global macro manager with considerable macro and strategic allocation views.

The Manager's sell discipline represents its primary source of risk management and capital preservation, in addition to prudent portfolio diversification guidelines and short position processes. With respect to both 'outlook' and 'event' stocks, there is a strict approach to buying and sell disciplines, the latter based defined sell events / triggers. These are based on 1) price, 2) investment thesis violation, 3) early warning signals, and events.

Regarding price, once a target is achieved or a stop-loss hit on a short a stock is sold, trimmed as a price rises, and reviewed on price falls. An investment violation development results in an exit of the position. Early warning signals include short interest spike, a downward earnings reduction, a or 'sign post' miss, with all leading to a stock position trim. The transpiring of an identified event leads to the Manager exiting a position.

Investment Process

The investment process is style agnostic. The Manager seeks compelling investment opportunities exist across all investment styles and therefore employs an approach that applies growth, value and catalysts.

Each investment stands alone with outcomes to be looked for and specific actions to be taken. In making each long investment, the Manager is typically looking for situations where a >60% return can be achieved (Outlook stocks). Lower returning positions are only established when there is a catalyst event that will see the return achieved over a defined period of time.

The Manager seeks investments that will make money irrespective of the prevailing market or economic conditions. It is looking for situations where the behavioural constraints of market participants can produce circumstances where it can find the attributes it is looking for. Specifically, is seeking to identify stocks that have:

1) an asymmetric payoff; and, 2) a combination of the following characteristics a) are underestimated or misunderstood in some way by the market, b) high level of EPS and CFPS growth, c) represent strong value, and d) have a near term catalyst.

Short Positions

The Manager implements two types of short position trades: 1) a standard stock specific short; and, 2) pair trade positions. It should be noted, that short positions have a far lesser degree of materiality in terms of total returns performance than longs.

In both cases, the decision to do so is based on the same research methodology as long positions. Notably, based on an assessment of fundamental merit, or lack thereof, and price target considerations. In the case of pair trades, these often implemented when the Manager is uncertain about the direction of a key earnings determinant. For example, the direction of a commodity price. To factor neutralise this, the Manager will go long a fundamental attractive sector stock and go short a fundamentally unattractive sector cohort stock.

Adopted risk constraints on single stock short positions are conventional and prudent given the potential for total loss yet limited gain with shorts. Specifically, position sizing is less than longs, timing of expected catalyst events, limited sector / thematic correlation across the short portfolio, and short covering considerations all come into play. Adopting a more conservative stance versus longs, the Manager sets a higher bar on shorts, notably where it believes the downside price to where it is trading at the date of purchase incorporates at least 30% downside. Positions are then unwound when the short stock hits the Manager's valuation target.

Dynamic Cash Allocation

The strategy's ability to hold a material allocation to cash is the primary driver of the absolute returns character of the strategy.

Variable cash allocation in the portfolio is primarily a function of stock divestments (when stocks hit valuation targets) and, in the context of that, an absence of buying opportunities. With the exception of perceived extreme events, it is in no way a Tactical Asset Allocation (TAA) based on macro economic and overall market valuation views. This approach generally differentiates the cash allocation aspect of the strategy from other absolute return strategies with the ability to go materially into cash.

Portfolio Construction & Risk Management

Once an investment opportunity is identified as compelling, the risk is reviewed again in the context of deciding the weight of the stock in the portfolio. This risk assessment "triangulates" the following factors: 1) the likelihood of the investment thesis success versus thesis violation; 2) the potential upside pay-off; 3) the liquidity of the stock; and, 4) the portfolios risk exposure to investment themes and industries

The portfolio is typically concentrated and may at times have a large amount of cash and other protection in place. Outlook stocks tend to be the majority of the stocks held by portfolio weight. The numbers fluctuate but are not expected to exceed 25 long positions. A typical weight for each holding is 6-8%, less if stock liquidity is low. The Manager will typically have a 0.5% to 1.5% weight in individual Product Launch stocks and limit the portfolios overall exposure to 10%.

Event stocks fluctuate in number and may be long or short positions. As a group, they tend to be a minority of the stocks held by portfolio weight. A typical weight for each holding is 2.5%, but can be more or less depending on liquidity and the certainty of the expected pay-off.

The table below details portfolio factor risk limits.

Portfolio Risk Parameters	
Permanent	**Dynamic**
Diversified by	Stocks (10% max on purchase, 15% at any time)
	Sectors (20% max on purchase, 25% at any time)
	Investment Themes if correlated (max % as determined)
	Payoff time horizons
Stock exposures	Outlook 5-7% per stock. Portfolio typically: 60% +/- 10%
	Event 2-3% per stock. Portfolio typically: 8% +/- 8%
	Product launch 0.5-1.5%, Portfolio typically: 7% +/- 3%
	In the case of Pre-IPO stocks, this is typically limited to 5% of the portfolio position (maximum of 20% according to investment restrictions)
Portfolio exposures	Net Exposure: Typically 75% +/- 15%. Max -50% to 150%
	Long Exposure: Typically 85% +/- 15%. Max 0% to 200%
	Short Exposure: Typically 10% +/- 10%. Max -100% to 0%
	Minimum 20% NAV realisable within 24 hours
	Minimum 50% NAV realisable within 5 days
	Minimum 80% NAV realisable within 10 days
	Pre-IPO stocks are typically limited to 5% of the portfolio position (maximum of 20% according to investment restrictions)

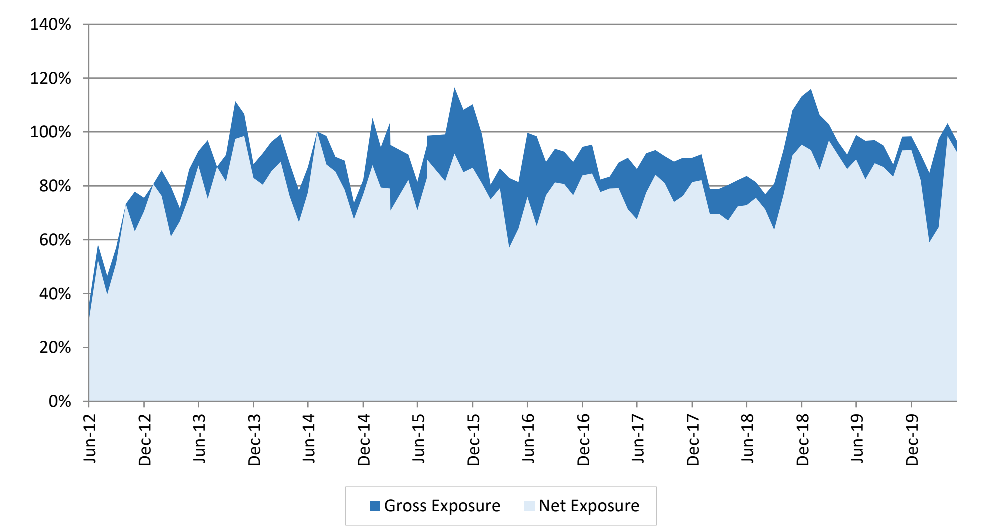
Sell decisions are based on the factors below.

Sell Disciplines		
Type	**Sell event / trigger**	**Dynamic**
Outlook Stocks ((e.g. >60% upside/ -30% downside)	Price	Exit on Achievement of Price Target
		Trim weight as price rises
		Review on Price Fall
	Thesis	Exit on Investment Thesis Violation
	Early Warning	1/3 weight reduction on Short Interest Spike
		1/3 weight reduction on Downward Earning Revision
		1/3 weight reduction on Sign Post Miss
Event Stocks (e.g. short term trade)	Price	Exit on Pre-defined price target or stop loss
	Event	Exit post event effect or date deadline

By portfolio holdings, the portfolio holdings by sector, market cap, and Top 10 holdings as at 31 May 2020 are diagrammatically presented and tabled below. Similarly, net exposure over time. With respect to the latter, the chart highlights both the dynamic nature of the cash allocation over time.

Portfolio by Sector , Market Cap and Top 10 holdings (31 May 2020)					
Sector	**%**	**Market Cap**	**%**	**Top 10 Holdings**	**%**
Energy	1.2%	>$10,000m	7.9%	ELECTRO OPTIC SYSTEMS HOLDINGS LTD	7.7%
Materials	0.0%	$2bn to $10bn	10.8%	EML PAYMENTS LIMITED	7.1%
Industrials	24.3%	$1bn to $2bn	14.5%	AFTERPAY LIMITED	5.1%
Consumer Discretionary	18.4%	$500m to $1bn	27.0%	PEOPLE INFRASTRUCTURE LIMITED	5.0%
Consumer Staples	-1.6%	<$500m	30.3%	HEALTHIA LIMITED	5.0%
Health Care	20.8%	Cash	9.4%	KATHMANDU HOLDINGS LIMITED	4.9%
Financials	0.0%			LOVISA HOLDINGS LIMITED	4.9%
Information Technology	24.6%			NANOSONICS LIMITED	4.9%
Communication Services	2.8%			ALTIUM LIMITED	4.6%
Utilities	0.0%			TELIX PHARMACEUTICALS LIMITED	4.5%
Real Estate	0.0%				
Cash	9.4%				

Net Exposure over Time



Source: The Manager

PERFORMANCE ANALYTICS

As noted, the MA1 is near exact replication of the of the longer standing MAIF. As such, the historic performance of MAIF can be viewed as a near direct proxy for the Fund and, as a longer standing mandate, a better guide in assessing the investment skill, the ability to achieve stated investment objectives as well as the repeatability of investment process and hence alpha performance. While neither MA1 nor MAIF do not have a formal benchmark, IIR has included the ASX 200 and Small Ords indices as the most appropriate basis of comparison.

The table below details the key returns, risk, and risk-return data points since inception of the strategy. The charts below this reflect the 'shape' of performance over time of what IIR deems to be the more telling aspects of absolute and relative performance.

MA1, MAIF, and Indices - Historic Returns (to 31 May 2020)

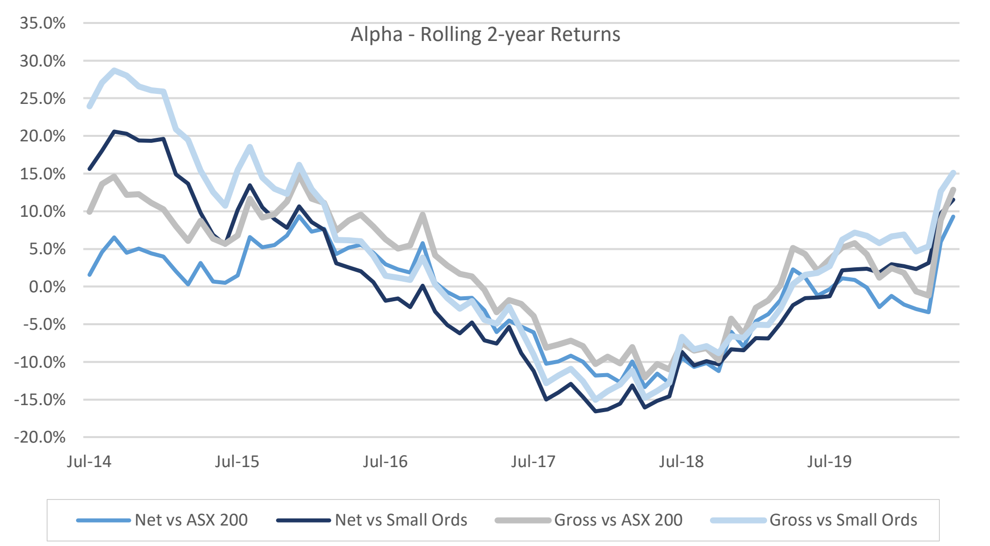
Fund	MA1 NTA	MA1 Price	MAIF (post fees)	MAIF (Gross)	ASX200	Small Ords
CYTD	2.6%	2.0%	1.4%	0.6%	-12.7%	-7.4%
FYTD	11.7%	30.3%	11.3%	13.9%	-10.0%	-3.8%
1 Year	12.9%	30.3%	12.5%	15.7%	-6.7%	-2.9%
2 Years pa	10.8%	13.8%	11.1%	14.7%	1.8%	-0.5%
3 Years pa	11.7%	11.3%	11.9%	15.0%	4.4%	7.5%
4 Years pa	n/a	n/a	4.8%	7.1%	6.0%	6.5%
5 Years pa	n/a	n/a	6.9%	9.9%	4.3%	6.6%
7 Years pa	n/a	n/a	8.%	12.5%	6.7%	6.7%
Inception pa	5.4%	1.8%	10.0%	14.1%	8.9%	6.0%

- MAIF (net and gross) has shown a consistent track-record of outperformance (with the exception of '4 years p.a.' for MAIF net of fees) as at 31 May 2020. These metrics however have an inherent entry and exit timing aspect however. IIR notes the marked differential between gross and net performance of MAIF, which speaks to what IIR views as an inappropriately low performance fee hurdle. We say this in context of the historic beta, volatility,and drawdown risk, all of which indicative what is definitively a large long equities market strategy.
- A better guide to outperformance and its shape over a market cycle is based on rolling returns. In this regard, IIR has adopted a rolling 2-years analysis. This analysis is illustrated in the chart below. As evident, there have been periods of marked out- and under-performance. This is not to be unexpected given the average historic beta of 0.59, meaning general underperformance in strong upwards markets, particularly momentum based markets (during which Active typically underperforms Passive - See Appendix) and vice versa. Over the mid 2016 to mid 2019 period, a high degree of underperformance

was driven by not generally holding the Top 6 contributor stocks to total ASX 200 returns (as a function of total returns of each stock and market capitalisation). Additionally, the Manager was not a holder of the 'WAAAX' stock cohort, with the exception of Afterpay.

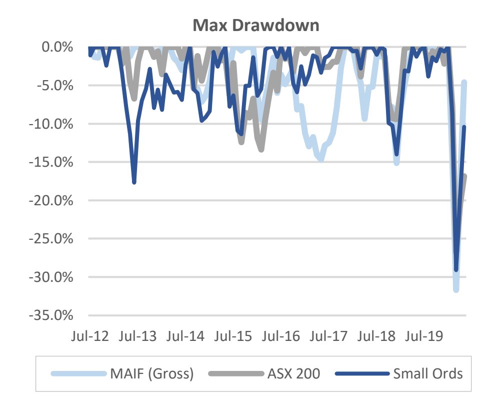
- The absence of these stocks is consistent with the absolute returns investment strategy, in the sense of a GARP view of the world. That is, they would have generally been excluded by the high to very high valuation multiples the majority (and all WAAAX stocks) have traded at. For the Manager to be invested in such stocks, would therefore have been a case of 'style drift', which would have been a major concern for IIR (as it highly dilutes the degree past performance is indicative of potential future performance, in addition to being potentially 'misleading' for investors). As an aside, the Manager was far from being the only active investor not present in such stocks, or especially in the case of CSL, being less than market weight (many being precluded from being so due to prudent portfolio diversification stipulations).
- The two charts below illustrate the absolute and relative maximum drawdown profile of MAIF, with >0% in the second chart indicating a lower level of drawdown relative to the indices. The key to note, and notwithstanding the variable cash allocation and the 110/10 long-short aspect, the strategy broadly incorporates the same degree of downside risk as the market as a whole, some of which naturally stems from a more concentrated portfolio. The 2020 to April is somewhat surprising. Despite the cash weighting rising to 40% by late February, the strategy fell largely in-line with the market in March due to the strategy having some retail exposure (indirectly) as well as high P/Es stocks.

Rolling 2-year Alpha



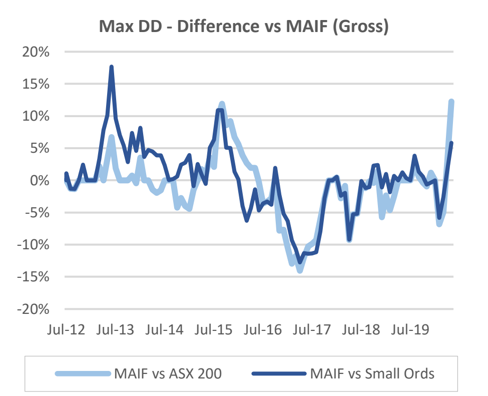
Source: IIR

Maximum Drawdown



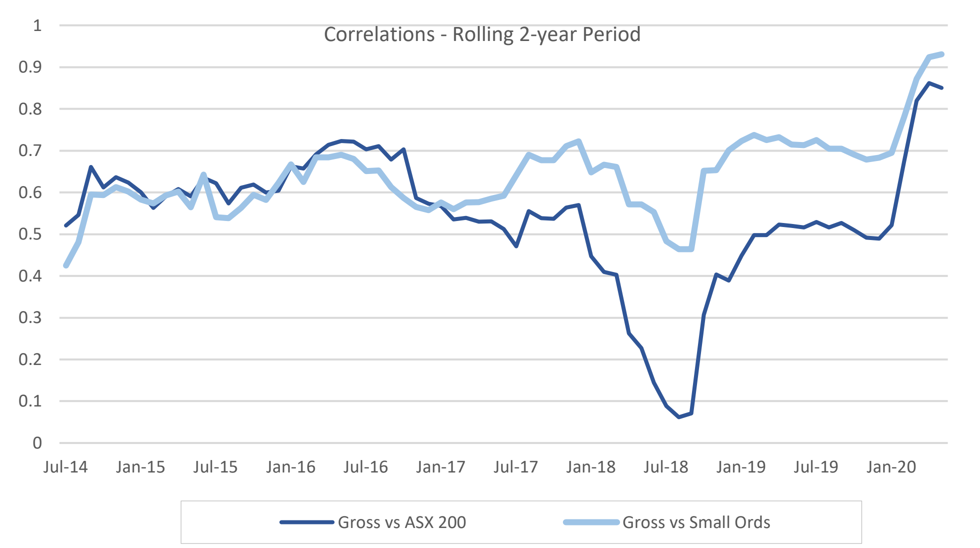
Source: IIR

Maximum Drawdown Differential



Source: IIR

Rolling 2-year Correlation



Source: IIR

The chart below illustrates rolling 2-year correlation. The spike more recently reflects a correlations to one market environment. Otherwise, the strategy may be deemed as a truly active and diversifying strategy relative to broad market exposure.

APPENDIX: RESURGENCE OF ACTIVE INVESTING?

In IIR's view, there are a range of market dynamics that are supportive of active (vs passive), activism and value investing for the foreseeable future. Active investing comes in three different forms: growth, value, and agnostic (a combination of growth and value to varying degrees as opportunities present).

Less 'Trafficked' Investment Style

In a low returns, concentrated investing world the need for a strategic allocation to active, long only investing has never been higher. Counter-intuitively the amount of capital now proportionately allocated and managed to 'active' long only investing has never been lower. Market conditions are favourable, with many quality companies now trading at distressed prices, ripe for "active" ownership.

There has been a ~14% decline in the number of "active" fund managers in Australia between 2014 and Jan-2019. Since Jan 2019, there have been a significant number of Australian equity fund mangers close:

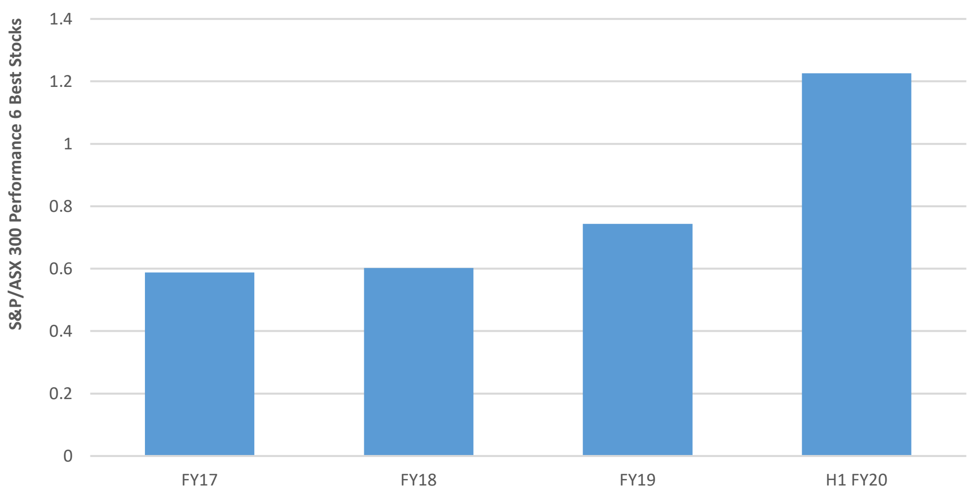
Notable examples being: KIS Capital; Sigma Funds; JCP Investment Partners; Dual Momentum; Janus Henderson Australian equity funds; MHOR Asset Management; Discovery Asset Management; Denning Pryce; Adam Smith Asset Management; Concise Asset Management; Arnhem Investment Management; UBS Asset Management Australian equity funds (transferred to Yarra Capital); Altair Asset Management

Combined with the rise of, industry funds, and passive investing, this has created the least "active" equity market in a generation. Only 5% of Australian portfolios are allocated to "active" equity investing today.

As such, few investors are competing for small and mid cap assets (given passive strategies are disproportionately larger cap mandates). Fewer are seeking to actively manage those holdings to maximise returns. Returns in the rest of the market are increasingly correlated and based on momentum (based on size or "hotness").

Furthermore, as evident from the chart below, the breadth of returns that has driven ASX 300 returns has become concerningly narrow. For example, in FY19 74% of the ASX300 performance derived from six stocks. Being underweight CSL alone, which would have been the case for the vast majority of active investors based on single stock portfolio construction limits alone, would have cost active mandates considerably.

Percentage of S&P/ASX 300 Returns from Top 6 Market Cap Weighted Performers



Source: IIR

This narrowness in itself implies material risk in relation to the continued likelihood of passive strategies outperforming the majority of active strategies. And that is without the economic impact of COVID-19. It is now a universal view amongst market commentators that successfully negotiating the equity market fallout of the virus will require careful stock selection to weed out the losers from the relative winners. Furthermore, it is IIR's view that the equity markets are under appreciating the duration of the recovery process, even without the prospect of a second and possibly even third wave of infections ('W' shape recession).

1HFY20	FY19	FY18	FY17
CSL	CBA	BHP	CBA
WES	TLS	CSL	BHP
JHX	BHP	WPL	ANZ
MQG	TCL	WES	NAB
WOW	CSL	MQG	CSL
LLC	GMG	RIO	RIO

The Cyclicality of Active vs Passive

The active versus passive investing debate is relentless. If you do a simple cost/benefit analysis, advocates of passive investing have compelling facts on their side. Over the last five years, 82% of U.S. large-cap equity mutual funds lagged the S&P 500 index. In the U.S., expense ratios for active mutual funds typically range between 0.5% to 0.75%, while most passive index funds are between zero and 0.25%.

However, in IIR's view the choice between active and passive management is not a zero-sum game, with each having a place in investor portfolios based on the individual needs and wants of the investor.

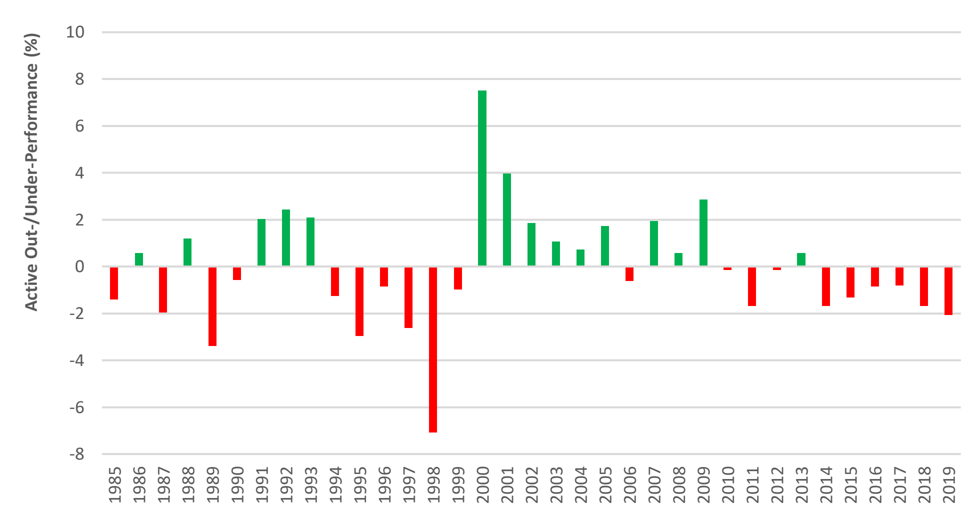
Over and above this general view, IIR notes that the performance of active and passive management has been cyclical, with each style trading periods of outperformance. Market corrections are inevitable and a common occurrence in equity markets over time. Excluding the current correction, there have been 26 market corrections over the past 31 years, and active management outperformed passive management in 19 out of 26 corrections.

During market corrections, the flexibility of active management allows for reducing exposure on the downside and ramping up exposure to capture alpha in the early stages of recovery. Active management has typically outperformed passive management during market corrections, because active managers have captured less downside (passive largely capture 100% downside) and more upside as the market recovers.

A time series comparison of active versus passive investment style illustrates the cyclical nature of performance. To represent active management in this comparison, all index funds and enhanced index funds have been removed. To represent passive management, the Morningstar S&P 500 Tracking category. The same cyclicality is present in other investment categories such as mid-caps, small-caps, and global/international equities.

As illustrated in the chart below, passive large-blend strategies have outperformed active large-blend strategies for the last six years, which helps to explain why in 2019 passive US equity funds had inflows of $164 billion, while more than $205 billion under active management headed for the exits.

Active vs Passive Out- / Under-Performance



Source: IIR

But the past six years only tell part of the story. A wider look at the chart reveals active and passive have traded the lead in performance over time. From 2000 to 2009, active outperformed passive nine out of 10 times. During the 1990s, passive outperformed active seven out of 10 times. And over the course of the past 35 years, active outperformed 15 times while passive outperformed 20 times.

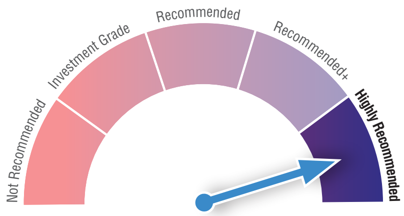
The chart also illustrates that during those corrections, active outperformed passive 19 out of 26 times, with an average rate of outperformance of 1.48%. By allowing investors to respond to changing markets, active management empowers investors to maximize opportunity as conditions demand.

APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd "IIR" rating system

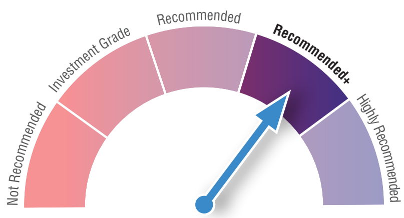
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
Highly Recommended	83 and above



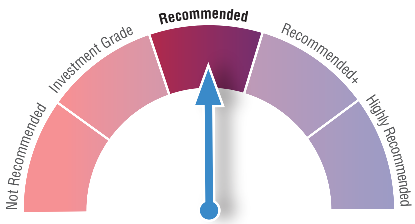
This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.

Recommended +	79–83



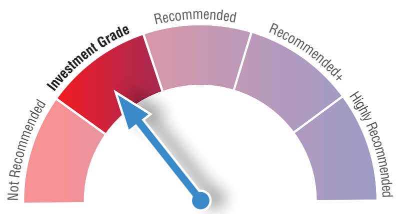
This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.

Recommended	70–79



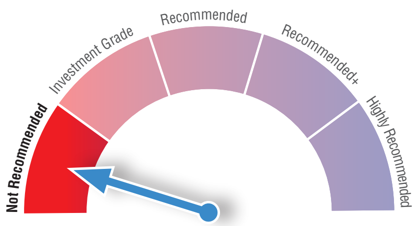
This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.

Investment Grade	60-70



This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.

Not Recommended	<60

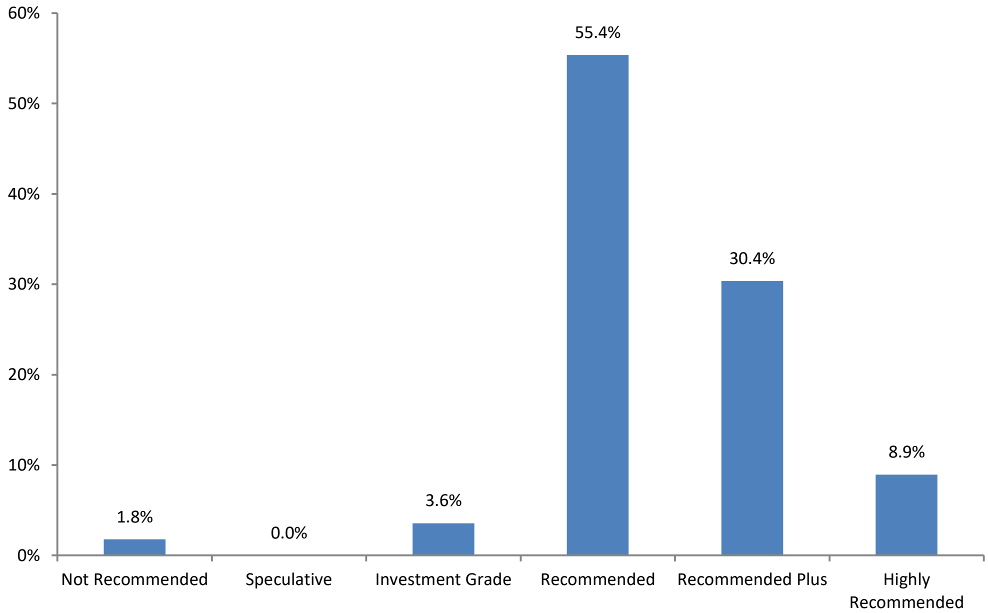


This rating indicates that IIR believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

SPREAD OF MANAGED INVESTMENT RATINGS



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