

**Monash Absolute Investment
Company Limited**

ABN 86 610 290 143

**Annual Report
for the year ended 30 June 2021**

**Monash Absolute Investment Company Limited
Corporate Directory**

Directors	Paul Clitheroe AM (Independent Chairman) Suvan de Soysa (Independent Director) Simon Shields (Non-Independent Director) Paul Jensen (Independent Director) (appointed 29 October 2020)
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 For enquiries relating to shareholdings, dividends and related matters, please contact the share registrar.
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 (delisted on 1 June 2021)
Website	www.monashinvestors.com

Monash Absolute Investment Company Limited ABN 86 610 290 143

Annual Report - For the year ended 30 June 2021

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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 2021.

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 unless otherwise stated:

Paul Clitheroe AM (Independent Chairman)
Suvan de Soysa (Independent Director)
Simon Shields (Non-Independent Director)
Paul Jensen (Independent Director) (appointed 29 October 2020)

Principal activities

The effective date of the Company's restructure into an ETMF was 28 May 2021. This was approved by the Company's shareholders at an Extraordinary General Meeting (EGM) held on 10 May 2021. The restructure involved the transfer of the listed assets of the Company to a newly formed ETMF called Monash Absolute Active Trust (ASX: MAAT).

Prior to the Company's restructure as disclosed under Significant changes in the state of affairs, the investment strategy of the Company was 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 Company and the Investment Manager entered into a variation to the existing Investment Management Agreement (IMA) to allow the transfer of listed assets from the Company to MAAT and to change the investment strategy to any investment strategies agreed by the Company and the Manager from time to time, being holding unlisted assets until such time as the value of those unlisted assets are realised. The Company was removed from the Official List of Australian Securities Exchange on 1 June 2021.

Dividends

Dividend information	Cents per share	Franked amount per share	Tax rate for franking	Date of payment
2021 Interim dividend	13.0 cents	13.0 cents	30.0%	21/04/2021
2020 Final dividend	1.0 cent	1.0 cent	30.0%	30/10/2020

As disclosed in the shareholder booklet despatched in relation to the ETMF restructure, the Board is pleased to declare a 2021 final dividend of 11.8 cents per ordinary share fully franked at 30% to be paid to the Company's shareholders (Second Distribution). Dates are below:

2021 Final dividend dates

Record date	24 August 2021
Payment date	6 September 2021

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

The operating profit before tax was \$16,328,356 for the year ended 30 June 2021 (2020: \$2,929,536). The net result after tax was a profit of \$11,286,019 (2020: \$2,127,625).

Financial Position

The net asset value of the Company for the financial year ended 30 June 2021 was \$8,456,593 (2020: \$48,571,702).

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 2020 financial 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. Following the Company restructure into an ETMF, as required under ASX Listing Rule 7.22.3, the terms of the options have been reorganised such that the exercise price of each option has been reduced by the same amount as the capital return of \$0.9235 per share. Every option is now an option exercisable at \$0.2265 each for a fully paid share. A total of 538,369 loyalty options have been issued.

As at 30 June 2021, 346,430 loyalty options (30 June 2020: nil) have been exercised.

On 29 October 2020, Paul Jensen was appointed as an independent director of the Company.

The Company announced on 8 August 2019 its intention to restructure the Company into an Exchange Traded Managed Fund ("ETMF"). At the Company's EGM held on 10 May 2021, the Company's shareholders approved all the resolutions in relation to the proposed restructure of the Company into a newly established ETMF called Monash Absolute Active Trust (ASX: MAAT).

On 31 May 2021, the Company announced it had completed the transfer of its listed assets and payment of the cash transfer amount to MAAT and the in-specie distribution of units in MAAT was made on 4 June 2021 on a 1 for 1 basis to the Company's shareholders.

On 1 June 2021, the Company was removed from the Official List of Australian Securities Exchange and MAAT units commenced trading on the ASX on 10 June 2021.

There were no other significant changes in the state of affairs of the Company during the year ended 30 June 2021.

Matters subsequent to the end of the financial period

On 23 August 2021, the Directors declared a final fully franked dividend of 11.8 cents per ordinary share franked at 30.0%, which is expected to be paid on 6 September 2021.

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

In line with the Company's restructure to an ETMF, the Company intends to pay a cash distribution (Second distribution (Special dividend)) to shareholders in September 2021 quarter. The Company will realise the unlisted assets that it holds in an orderly manner and it is expected that the Company will be wound up and a final distribution (Third distribution (Capital return)) paid to shareholders before 30 June 2022.

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

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.

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

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.

Simon Shields Executive Non-Independent Director

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.

Paul Jensen Non-Executive Independent Director

Mr Jensen is a qualified and accomplished director, having served as an executive and non-executive director for over 20 years on both ASX listed and unlisted boards, with extensive experience in the listed investment company sector. Mr Jensen has a Bachelor of Commerce and Administration (Accounting and Commercial Law) from Victoria University Wellington and he is a Fellow of the Australian Institute of Company Directors.

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).

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 2021 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	5	5	4	4
Suvan de Soysa	5	5	4	4
Simon Shields	5	5	4	4
Paul Jensen	4	4	2	2

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

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 18 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 6.

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



Paul Clitheroe AM
Independent Chairman

Sydney
23 August 2021



**Building a better
working world**

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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 2021, 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
23 August 2021

Monash Absolute Investment Company Limited
Statement of Comprehensive Income
For the year ended 30 June 2021

	Notes	Year ended	
		2021	2020
		\$	\$
Investment income from ordinary activities			
Net realised gains on investments		18,280,296	14,679,977
Net unrealised gains/(losses) on investments		3,696,786	(9,673,500)
Dividend and distributions income		748,238	330,541
Interest income		8	14,290
Net foreign exchange gain/(loss)		402	(8,557)
Other income		16,771	-
		22,742,501	5,342,751
Expenses			
Management fees	20(b)	(905,155)	(763,882)
Performance fees	20(b)	(4,303,846)	(674,662)
Brokerage expense		(182,027)	(148,121)
Short dividend expense		-	(144,317)
Stock loan fees		(32,343)	(13,787)
Accounting fees		(96,680)	(95,231)
Share registry fees		(53,990)	(28,335)
Company secretarial fees		(46,242)	(52,468)
Tax fees	18	(15,400)	(13,675)
Directors' fees		(123,737)	(90,000)
ASX fees		(57,780)	(43,850)
Audit fees	18	(53,744)	(45,203)
Marketing expense		(62,920)	(28,025)
Legal fees		(235,812)	(94,971)
Other expenses		(244,469)	(176,688)
		(6,414,145)	(2,413,215)
Profit before income tax		16,328,356	2,929,536
Income tax expense	7	(5,042,337)	(801,911)
Profit for the year after tax		11,286,019	2,127,625
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		11,286,019	2,127,625

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 2021

		At		
	Notes	2021	2020	
		\$	\$	
ASSETS				
Current assets				
Cash and cash equivalents	8	13,356,161	8,185,788	
Other receivables	9	345,578	108,289	
Financial assets at fair value through profit or loss	10	1,682,026	44,380,702	
Other current assets		44,690	40,736	
Total current assets		15,428,455	52,715,515	
Non-current assets				
Deferred tax assets	11	-	1,320,279	
Total non-current assets		-	1,320,279	
Total assets		15,428,455	54,035,794	
LIABILITIES				
Current liabilities				
Other payables	12	4,695,658	910,333	
Financial liabilities at fair value through profit or loss	13	-	2,232,705	
Current tax liabilities		2,276,204	2,321,054	
Total current liabilities		6,971,862	5,464,092	
Total liabilities		6,971,862	5,464,092	
Net assets		8,456,593	48,571,702	
EQUITY				
Issued capital	14	2,877,138	44,221,463	
Profits reserve	15(a)	16,249,092	13,917,969	
Accumulated losses	15(b)	(10,669,637)	(9,567,730)	
Total equity		8,456,593	48,571,702	

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 2021

Notes	Issued capital \$	Profits reserve \$	Accumulated losses \$	Total \$
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	14(b) 565,287	-	-	565,287
Transfer to profits reserve	15(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
Balance at 1 July 2020	44,221,463	13,917,969	(9,567,730)	48,571,702
Profit for the year	-	-	11,286,019	11,286,019
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	11,286,019	11,286,019
Transactions with owners in their capacity as owners:				
Dividends paid	-	(10,056,803)	-	(10,056,803)
Shares issued on options exercised	14(b) 398,394	-	-	398,394
Transfer to profits reserve	15(a) -	12,387,926	(12,387,926)	-
Return of capital through in-specie distribution	14(f) (41,742,719)	-	-	(41,742,719)
	(41,344,325)	2,331,123	(12,387,926)	(51,401,128)
Balance at 30 June 2021	2,877,138	16,249,092	(10,669,637)	8,456,593

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 2021

	Year ended	
Notes	2021	2020
	\$	\$
Cash flows from operating activities		
Proceeds from sale of financial assets at fair value through profit or loss	141,211,437	73,841,306
Payments for purchase of financial assets at fair value through profit or loss	(123,791,928)	(71,341,014)
Proceeds from short sale of financial liabilities at fair value through profit or loss	18,969,899	14,392,605
Payments for settlement of financial liabilities at fair value through profit or loss	(19,427,067)	(11,718,049)
Dividends and distributions received	774,946	300,607
Interest received	10	18,196
Other income received	16,771	-
Dividends paid on short stocks	(24,251)	(120,066)
Interest paid	(30,157)	(3,547)
Investment management fees paid	(955,027)	(760,991)
Performance fees paid	(698,190)	(928,328)
Brokerage expenses paid	(178,398)	(152,672)
Income taxes paid	(3,766,908)	-
Payments for other expenses	(1,010,750)	(661,973)
Net cash inflow from operating activities	22 <u>11,090,387</u>	<u>2,866,074</u>
Cash flows from financing activities		
Dividends paid to Company's shareholders	(6,318,810)	(886,293)
Shares issued on options exercised	398,394	565,287
Net cash outflow from financing activities	<u>(5,920,416)</u>	<u>(321,006)</u>
Net increase in cash and cash equivalents	5,169,971	2,545,068
Cash and cash equivalents at the beginning of the year	8,185,788	5,649,277
Effects of exchange rate changes on cash and cash equivalents	402	(8,557)
Cash and cash equivalents at the end of the year	8 <u>13,356,161</u>	<u>8,185,788</u>

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 an unlisted 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. Prior to its restructure, the Company's investment strategy was 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 Company and the Investment Manager entered into a variation to the existing Investment Management Agreement (IMA) to allow the transfer of listed assets from the Company to MAAT and to change the investment strategy to any investment strategies agreed by the Company and the Manager from time to time, being holding unlisted assets until such time as the value of those unlisted assets are realised.

Following the restructure of the Company into a newly established Exchange Traded Managed Fund called Monash Absolute Active Trust (ASX: MAAT) which was approved by the Company's shareholders on 10 May 2021, the Company was removed from the Official List of Australian Securities Exchange on 1 June 2021. MAAT units commenced trading on the ASX on 10 June 2021.

The financial statements of the Company are for the year ended 30 June 2021.

The financial statements were authorised for issue by the Board of Directors on 23 August 2021.

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.

As the Company intends to wind up on 30 June 2022, the going concern basis of preparation is no longer appropriate and the financial statements have been prepared on a liquidation basis. The liquidation basis means assets have been written down to the lower of their carrying amounts and net realisable value and additional liabilities have been recognised to the extent there was a present obligation at the reporting date. Net realisable value approximates fair value hence there is no change in the carrying amounts of any assets or liabilities. The accounting policies set below have been applied within this context.

(i) Compliance with IFRS

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

(ii) 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 2020 that have a material impact on the amounts recognised in the prior periods or will affect the current or future periods of the Company.

(iii) 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.

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

(iv) 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.

(v) 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 2021 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

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.

(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, interest payable and other payables).

2 Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

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.

(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.

2 Significant accounting policies (continued)

(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) 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.

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.

(o) 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.

(p) 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.

2 Significant accounting policies (continued)

(q) 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.

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	
	2021	2020
	\$	\$
Decrease 5%	(58,871)	(1,475,180)
Increase 5%	58,871	1,475,180
Decrease 10%	(117,742)	(2,950,360)
Increase 10%	117,742	2,950,360

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 2021, the net portfolio position was \$1,682,026 (2020: \$42,147,997).

3 Financial risk management (continued)

(a) Market risk (continued)

(ii) 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 2021

	Floating interest rate \$	Fixed interest rate \$	Non- interest bearing \$	Total \$
Financial assets				
Cash and cash equivalents	13,356,161	-	-	13,356,161
Other receivables	-	-	345,578	345,578
Financial assets at fair value through profit or loss	-	-	1,682,026	1,682,026
	<u>13,356,161</u>	<u>-</u>	<u>2,027,604</u>	<u>15,383,765</u>
Financial liabilities				
Other payables	-	-	(4,695,658)	(4,695,658)
Current tax liabilities	-	-	(2,276,204)	(2,276,204)
	<u>-</u>	<u>-</u>	<u>(6,971,862)</u>	<u>(6,971,862)</u>
Net exposure to interest rate risk	<u>13,356,161</u>	<u>-</u>	<u>(4,944,258)</u>	<u>8,411,903</u>

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
	<u>8,185,788</u>	<u>-</u>	<u>44,488,991</u>	<u>52,674,779</u>
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)
	<u>-</u>	<u>-</u>	<u>(5,464,092)</u>	<u>(5,464,092)</u>
Net exposure to interest rate risk	<u>8,185,788</u>	<u>-</u>	<u>39,024,899</u>	<u>47,210,687</u>

3 Financial risk management (continued)

(a) Market risk (continued)

Sensitivity

At 30 June 2021, 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 \$70,120 higher/\$70,120 lower (2020 changes of 75 bps: \$42,975 higher/\$42,975 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 2021 and 30 June 2020, 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.

(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 unlisted securities.

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.

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.

4 Fair value measurements (continued)

(a) Fair value hierarchy (continued)

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 2021	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets				
Equity securities				
Australian equity securities	-	-	1,212,496	1,212,496
International equity securities	-	-	469,530	469,530
Total financial assets	-	-	1,682,026	1,682,026
<hr/>				
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
<hr/>				
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)

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 unlisted securities 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.

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.

There were no transfers between levels for recurring fair value measurements during the year.

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.

4 Fair value measurements (continued)

(a) Fair value hierarchy (continued)

(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 2021 and 30 June 2020 by class of financial instrument.

At 30 June 2021

	Unlisted equity securities \$
Opening balance	391,761
Purchases	207,658
Settlement of financial liabilities	959,196
Gains recognised in the Statement of Comprehensive Income	123,411
Closing balance	1,682,026

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

123,411

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 the financial assets and liabilities held at the end of the year

(875,485)

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 2021 Unlisted equity securities	1,682,026	Recent sales transaction price	N/A	Direct
As at 30 June 2020 Unlisted equity securities	391,761	Recent sales transaction price adjusted for 15% to 30% reduction	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 Company 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.

Financial instruments

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	
	2021	2020
	\$	\$
Income tax expense	5,042,337	801,911
	5,042,337	801,911
<i>Income tax expense is attributable to:</i>		
Profit from continuing operations	5,042,337	801,911

7 Income tax expense (continued)

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

	Year ended	
	2021	2020
	\$	\$
Profit from continuing operations before income tax	16,328,356	2,929,536
Tax at the Australian tax rate of 30.0% (2020: 30.0%)	4,898,507	878,861
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Franking credits on dividends received	(295,266)	(121,526)
Imputation credit gross up	88,580	36,458
Franking credits lost	39	2,150
Franking credits on dividends accrued	(968)	(8,981)
Franking credits on dividends paid	8,980	-
Underprovision in prior year	-	14,949
Deferred tax assets not recognised	342,465	-
Income tax expense	5,042,337	801,911
The applicable weighted average effective tax rates are as follows:	30.88%	27.37%

(c) Amounts recognised directly in equity

	Note	Year ended	
		2021	2020
		\$	\$
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	14,692	22,038

8 Current assets - Cash and cash equivalents

	At	
	2021	2020
	\$	\$
Current assets		
Cash at bank	26,790	184
Cash at broker	13,329,371	8,185,604
	13,356,161	8,185,788

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+

Monash Absolute Investment Company Limited
Notes to the Financial Statements
For the year ended 30 June 2021
(continued)

9 Current assets - Other receivables

	At	
	2021	2020
	\$	\$
Dividends receivable	3,226	29,934
Interest receivable	-	2
GST receivable	342,352	78,353
	345,578	108,289

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	
	2021	2020
	\$	\$
Listed equity securities	-	43,015,272
Unlisted equity securities	1,682,026	1,365,430
Total financial assets	1,682,026	44,380,702

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) 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

	At	
	2021	2020
	\$	\$
The balance comprises temporary differences attributable to:		
Capitalised share issue costs	14,692	22,038
Other temporary differences	9,668	18,192
Net unrealised losses on investments	225,622	1,280,049
Costs relating to ETMF structure	92,483	-
Deferred tax assets not recognised	(342,465)	-
	-	1,320,279

Deferred tax assets have not been recognised in respect of these losses as there are no tax planning opportunities or other evidence of recoverability.

Monash Absolute Investment Company Limited
Notes to the Financial Statements
For the year ended 30 June 2021
(continued)

11 Non-current assets - Deferred tax assets (continued)

	2021	At	2020
	\$		\$
Movements:			
Opening balance	1,320,279		1,468,745
(Charged)/credited:			
- directly to equity	(7,346)		(126,407)
- directly to profit or loss	(1,312,933)		(22,059)
Closing balance	-		1,320,279

12 Current liabilities - Other payables

	2021	At	2020
	\$		\$
Management fees payable	20,418		68,230
Performance fees payable	4,593,512		724,028
Interest payable	3,908		1,571
Other payables	77,820		116,504
	4,695,658		910,333

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

	2021	At	2020
	\$		\$
Equity securities sold short		-	2,232,705

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 2021
(continued)

14 Issued capital

(a) Share capital

	Note	30 June 2021 Shares	30 June 2020 Shares	30 June 2021 \$	30 June 2020 \$
Ordinary shares	14(c)	45,199,433	44,853,003	2,877,138	44,221,463

(b) Movements in ordinary share capital

Details		2021 Shares	2021 \$
Opening balance		44,853,003	44,221,463
Shares issued on options exercised	14(e)	346,430	398,394
Return of capital through in-specie distribution	14(f)	-	(41,742,719)
Closing balance 30 June 2021		45,199,433	2,877,138

Details		2020 Shares	2020 \$
Opening balance		44,314,634	43,656,176
Shares issued on options exercised	14(e)	538,369	565,287
Closing balance 30 June 2020		44,853,003	44,221,463

(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.

(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. Following the Company restructure into an ETMF, as required under ASX Listing Rule 7.22.3, the terms of the options have been reorganised such that the exercise price of each option has been reduced by the same amount as the capital return of \$0.9235 per share. Every option is now an option exercisable at \$0.2265 each for a fully paid share. A total of 538,369 loyalty options have been issued. As at 30 June 2021, 346,430 loyalty options (30 June 2020: 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 was nil.

14 Issued capital (continued)

(f) Return of capital

On 4 June 2021, in line with the restructure of shareholders' investments from shares in the Company into MAAT, the Company returned capital in-specie amounting to \$41,742,719. This was part of the in-specie distribution of units in MAAT on a 1 for 1 basis to the Company's shareholders (see Note 16(a)).

(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.

15 Profits reserve and Accumulated losses

(a) Profits reserve

	Notes	2021 \$	At 2020 \$
Movements:			
Opening balance		13,917,969	10,428,052
Transfer from current profits		12,387,926	4,376,210
Dividends paid	16	(10,056,803)	(886,293)
Closing balance		<u>16,249,092</u>	<u>13,917,969</u>

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

(b) Accumulated losses

Movements in accumulated losses were as follows:

	2021 \$	At 2020 \$
Opening balance	(9,567,730)	(7,319,145)
Profit for the year	11,286,019	2,127,625
Transfer to profits reserve	(12,387,926)	(4,376,210)
Closing balance	<u>(10,669,637)</u>	<u>(9,567,730)</u>

16 Dividends

(a) Ordinary shares

2021	Cents per share	Franked amount per share	Amount	Tax rate for franking	Date of payment
Ordinary shares - 2021 interim dividend	13.0 cents	13.0 cents	\$5,870,280	30.0%	21/04/2021
Ordinary shares - 2020 final dividend	1.0 cent	1.0 cents	\$448,530	30.0%	30/10/2020

The in-specie distribution of units in MAAT on 4 June 2021 amounting to \$45,480,712 was made on a 1 for 1 basis to the Company's shareholders. This amount is composed of in-specie capital return of \$41,742,719 and in-specie distribution of \$3,737,993.

(b) Dividend franking account

The Company's franking account balance as at 30 June 2021 was \$14,913 (30 June 2020: \$265,794). Subsequent to year end, the Company will receive nil franking credits as a result of dividends accrued at 30 June 2021 (30 June 2020: \$8,981).

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

On 23 August 2021, the Directors declared a final fully franked dividend of 11.8 cents per ordinary share franked at 30.0%, which is expected to be paid on 6 September 2021.

17 Key management personnel disclosures

(a) Key management personnel compensation

	Year ended	
	2021	2020
	\$	\$
Short-term employee benefits	101,472	70,662
Post-employment benefits	22,265	19,338
	123,737	90,000

The Company paid director's remuneration to Mr Paul Clitheroe, Mr Suvan de Soysa and Mr Paul Jensen. Mr Simon Shields received no fees as an individual. Mr Simon Shields is a shareholder and officer of Monash Investors Pty Limited.

18 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	
	2021	2020
	\$	\$
Ernst & Young		
<i>Audit and other assurance services</i>		
Audit and review of financial statements	49,344	45,203
Other services	4,400	-
Total remuneration for audit and other assurance services	53,744	45,203
 <i>Taxation services</i>		
Tax compliance services	15,400	13,675
Total remuneration for taxation services	15,400	13,675
 Total remuneration of Ernst & Young	 69,144	 58,878

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.

19 Contingent assets and liabilities and commitments

The Company had no contingent assets, liabilities or commitments as at 30 June 2021 (2020: nil).

20 Related party transactions

(a) Key management personnel

Disclosures relating to key management personnel are set out in Note 17.

(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 \$905,155 net of reduced input tax credits (2020: \$763,882).

As at 30 June 2021, the management fee payable to the Investment Manager was \$20,418 (2020: \$68,230).

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.

20 Related party transactions (continued)

(b) Transactions with other related parties (continued)

For the year ended 30 June 2021 in its capacity as Investment Manager, Monash Investors Pty Limited was entitled to a performance fee amounting to \$4,303,846 net of reduced input tax credits (2020: \$674,662).

As at 30 June 2021, the performance fee payable to the Investment Manager was \$4,593,512 (2020: \$724,028).

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 prior 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.

On 31 May 2021, the Company announced it had completed the transfer of its listed assets and payment of the cash transfer amount to MAAT. A 1 for 1 basis in-specie distribution of units in MAAT to the Company's shareholders were made on 4 June 2021 (see Note 16(a)).

21 Events occurring after the reporting period

On 23 August 2021, the Directors declared a final fully franked dividend of 11.8 cents per ordinary share franked at 30.0%, which is expected to be paid on 6 September 2021.

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.

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

	Year ended	
	2021	2020
	\$	\$
Profit for the year	11,286,019	2,127,625
Proceeds from sale of financial assets at fair value through profit or loss	141,211,437	73,841,306
Payments for purchase of financial assets at fair value through profit or loss	(123,791,928)	(71,341,014)
Proceeds from short sale of financial liabilities at fair value through profit or loss	18,969,899	14,392,605
Payments for settlement of financial liabilities at fair value through profit or loss	(19,427,067)	(11,718,049)
Net realised gains on investments	(18,280,296)	(14,679,977)
Net unrealised (gains)/losses on investments	(3,696,786)	9,673,500
Effects of foreign currency exchange rate changes on cash and cash equivalents	(402)	8,557
Change in operating assets and liabilities:		
Increase in other receivables	(237,289)	(12,936)
(Increase)/decrease in other current assets	(3,954)	8,795
Decrease in deferred tax assets	1,320,279	148,466
Increase/(decrease) in other payables	3,785,325	(236,249)
(Decrease)/increase in provision for income taxes payable	(44,850)	2,321,054
Decrease in deferred tax liabilities	-	(1,667,609)
Net cash inflow from operating activities	11,090,387	2,866,074

Monash Absolute Investment Company Limited
Directors' Declaration
For the year ended 30 June 2021

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

- (a) the financial statements and notes set out on pages 7 to 30 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 2021 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.

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



Paul Clitheroe AM
Independent Chairman

Sydney
23 August 2021



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working world**

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Independent auditor's report to the members of Monash Absolute Investment Company Limited

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 2021, 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 the Company is in accordance with the *Corporations Act 2001*, including:

- a. Giving a true and fair view of the Company's financial position as at 30 June 2021 and of its financial performance for the year ended on that date; and
- b. 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 APES 110 *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.

Emphasis of matter - basis of accounting

We draw attention to Note 2 of the financial report, which describes the basis of accounting. It is the directors' intention to wind up the Company prior to 30 June 2022. As a result, the financial report has been prepared on a liquidation basis. Our opinion is not modified in respect of this matter.

Responsibilities of the directors for the financial report

The directors 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 to 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. When such use is inappropriate and the directors use an alternative basis of accounting, we conclude on the appropriateness of the directors' use of the alternative basis of accounting. We also evaluate the adequacy of the disclosures describing the alternative basis of accounting and reasons for its use. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
- 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.



Ernst & Young



Rita Da Silva

Partner

Sydney

23 August 2021