MHOR AUSTRALIAN SMALL CAP

MONTHLY PERFORMANCE UPDATE

AS OF 31ST AUGUST 2016

FUND RETURNED +2.95%

PEREFORMANCE TO BENCHMARK

	1 MONTH	SINCE INCEPTION
FUND	+2.95%	+2.95%
BENCHMARK	-1.56%	-1.56%
VALUE ADD	+4.52%	+4.52%

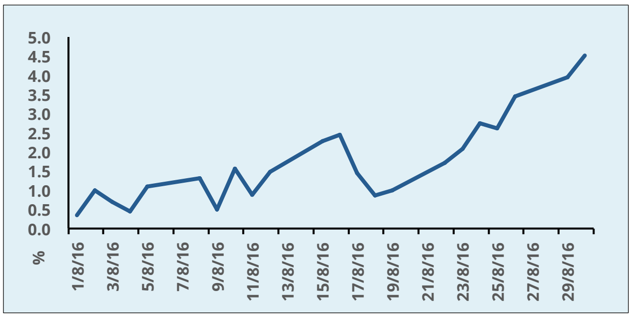
HISTORICAL PERFORMANCE

2016	AUGUST	YEAR TO DATE
RETURN (%)	+2.95%	+2.95%

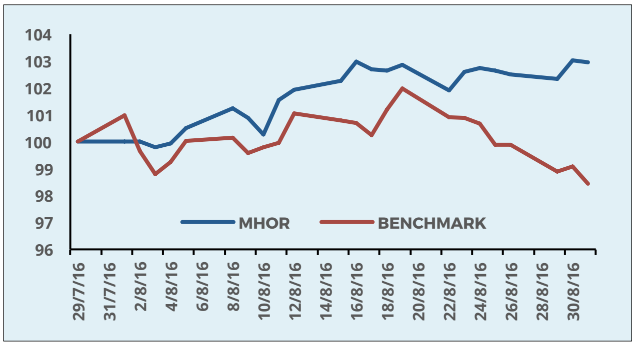
TOP HOLDINGS

1	ALLIANCE AVIATION	AQZ
2	IMDEX	IMD
3	THINK CHILDCARE	TNK
4	NATIONAL VETERINARY	NVL
5	OSPREY MEDICAL	OSP

CUMULATIVE PERFORMANCE OVER BENCHMARK



MHOR VERSUS BENCHMARK



OVERVIEW AND WELCOME

Welcome to the first monthly report for the MHOR Australian Small Cap Fund. The fund got off to a positive start in its first month, outperforming the Small Ordinaries Benchmark by +4.52%. This comprised a +2.95% absolute positive return (our focus) against a market backdrop of -1.56%.

We started the month with 100% cash and worked steadily through the month to a roughly 95% invested position across 29 listed stocks and 1 pre-IPO investment. During the month, the fund averaged around 50% invested, meaning our underlying stocks performed considerably better than the headline +2.95% absolute performance in the period.

After some positive press the fund has seen a surge in applications. Word of mouth and the inflows has timed nicely with a number of new companies identified to go into the portfolio coupled with our desire to keep a strong cash buffer into the weeks ahead of the US election.

MHOR is expanding, we are pleased to welcome Dominic Rose to the MHOR team. Until recently Dominic was the head of small cap research at Deutsche Bank. Dominic has a long history with small cap stocks and is already adding serious value to the portfolio. Welcome to MHOR Dominic.

JAMES SPENCELEY

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ABOUT THE PORTFOLIO

When constructing the portfolio, we have sought to achieve an aggregate exposure that delivers a growth profile that is greater than that of the broader market. Our stock selections seek out support from strong or emerging industry themes and broadly fall into three main types of exposures; value with a catalyst including turnarounds, high quality growth where growth is underestimated and undervalued, and some select early stage high growth companies that offer strong promise.

PORTFOLIO EXPOSURE AND METRICS

CHARACTERISTIC	PORTFOLIO	MARKET***
1YR FORWARD PE	12.5X*	15.9X
1YR FORWARD DIV. YIELD	3.3%	3.8%
2YR EPS GROWTH CAGR**	C. 20%	5%

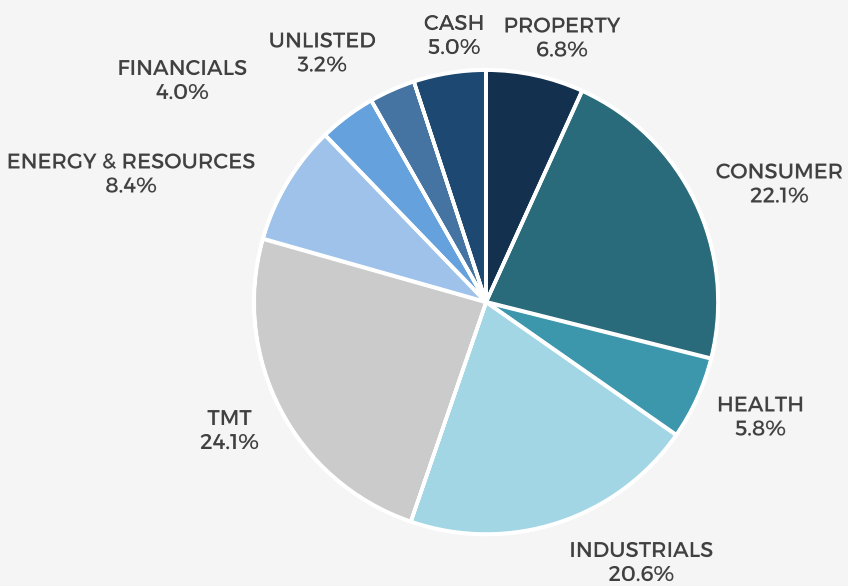
*Ex Select early stage companies, ** MHOR and FactSet Consensus data, *** FactSet Consensus for Small Industrials

ABOUT THE MONTH

August is reporting season for the majority of listed small cap companies in Australia. This meant we had to take some exposure at the prevailing market price for companies that would shortly be reporting results. Our tactic early in the month was to limit our investment sizes. Consequently our equity exposure grew through the month and as reporting season delivered actionable information we added to positions. The investment team participated in over 100 meetings or calls with management teams during the month, on top of the work done prior to the fund go live date of 1st August.

Entering reporting season with the need to establish a portfolio from scratch afforded us a "clean" set of eyes when assessing the market. It was very clear that certain high profile larger small cap companies had attracted considerable fund manager attention in the weeks and months leading into reporting season as large managers sought "safety" in the largest and best performing momentum growth names. However, in doing so the larger funds tended to congregate in the same highly priced names, so small disappointments in the company's results were amplified by this crowding effect, which led to big share price declines – we were cognizant of this and careful to avoid those stocks.

PORTFOLIO SECTOR EXPOSURES



WHAT HAPPENED IN THE PORTFOLIO

Here we highlight a small number of stocks that contributed to return in the month

Alliance Aviation (AQZ) +27%. AQZ has been operating against a challenging (mining services) sector backdrop. Its financial performance and share price suffered. AQZ has a good business, a good market position and an experienced management team that made some very positive decisions that have improved the quality of their business significantly. The market has overlooked this. Management de-risked the business by moving from a company owned fixed cost to maintain its fleet, to an externalised variable cost maintenance overseas (sorry Australia) at materially lower cost. This gives the business the flexible cost base it much needed to operate in the variable demand conditions of the mining sector.

Equally importantly, management has also diversified the earnings exposure away from mining services by adding tourism and operational support to other carriers (see recent Virgin deal announcement). It opened up what we think is a material value opportunity with the acquisition of a surplus high quality fleet from Austrian Airlines late last year which AQZ expects to monetise over time through multiple different opportunities like selling whole aircraft, leasing, breaking up and either selling or using components in its existing fleet. Management is now seeing the fruits of these changes with improved cash flow supporting re-instatement of a dividend. Despite weaker profits from mining customers, AQZ is today a better business.

We entered the position at roughly 3x earnings; the stock is now up and trading and on 4.1x FY17 our earnings forecasts and should pay a dividend at least of 5 cents for F17 (we have 7 cents in our model), this dividend should be fully franked and despite this payout the company would continue its steady de-leveraging story from 1.9x Net Debt/EBITDA in F16 to 1.3x in FY17.

FY16 NTA was $127m, and there was $22.4m of Franking credits on the balance sheet at FY16. This compares to a market cap of $89m, fully diluted for the effect of the Austrian Airlines deal (noted above) but without the value accretion that we believe should come from it. As with many small caps, the junior in an Industry just like a team can often have the most potential. We remain happy holders and see further upside on this name.

Imdex (IMD) +72% has performed strongly since we added it to the portfolio. The market has become more aware of the leveraged position this business has to the increases in AUD Gold price as cashed-up gold producers look to put capital to work in drilling out future mining prospects. The management team are in the process of exiting their Oil and Gas business and re focusing on the profitable core minerals business. This core business has significant operating leverage.

Think Childcare (TNK) +27% is large holding for the fund and was up strongly for the month on the back of a solid half-year result. Think have a great management team, the business has a flexible capital structure and we are likely to see further disciplined acquisitions from the team. The supportive political environment for childcare means we view this as a sector with positive macro tailwinds.

We actively manage the portfolio, we take advantage of our nimbleness and size to exit positions if the basis for our initial investment changes. Some examples this month included;

We exited our position in **Automotive Holdings Group (AHG) +17%;**, our investment thesis was that there was a likely change in CEO and this would be a positive catalyst for the stock, signalling a move back to core business and away from the logistics business. That event happened during the month and the CEO retried, with the share price up significantly on that news. With the upside catalyst gone we no longer felt the valuation adequately represented the potential downside risk of the ASIC inquiry into the mark up that car dealers add to finance (40% of AHG car sales are bundled with finance). A change in regulation here could have a material impact to the business.

In terms of negatives this month, on results release we quickly exited our positions in WPP and EHE for small losses. We didn't like either of their results, they did not match our expected model. Discipline proved valuable with the stocks both down significantly since we exited. It's an important (positive) reminder that there are no emotions in investing.

OUTLOOK

With the fund posting a sold result over reporting season we are now turning our attention to further evolution of the portfolio. We will continue to identify great businesses, that have huge potential over the coming years, while positioning the portfolio to consider macro events of the coming months.

In summary, we are happy with the performance over what has been a volatile reporting season and again delighted to report a positive absolute and outperformance result for the fund's first month.

HOW TO APPLY: APPLY ONLINE **HERE** OR DOWNLOAD THE APPLICATION FORM **HERE**