MHOR AUSTRALIAN SMALL CAP

MONTHLY PERFORMANCE UPDATE

AS OF 31ST OCTOBER 2016

FUND RETURNED -2.28%

PERFORMANCE TO BENCHMARK

	1 MONTH	3 MONTHS	SINCE INCEPTION
FUND	-2.28%	+0.00%	+0.00%
BENCHMARK	-4.72%	-4.77%	-4.77%
VALUE ADD	+2.43%	+4.77%	+4.77%

HISTORICAL PERFORMANCE

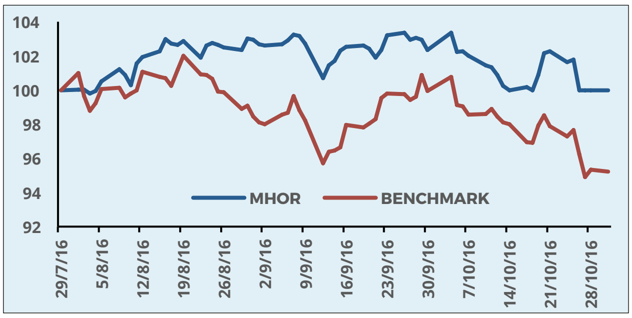
2016	AUGUST	SEPTEMBER	OCTOBER	YEAR TO DATE
RETURN (%)	+2.95%	-0.59%	-2.28%	+0.00%

MHOR TOP CONTRIBUTORS – OCTOBER 2016

1	FANTASTIC HOLDINGS	FAN
2	TOPBETTA HOLDINGS	TBH
3	THINK CHILDCARE	TNK

CUMULATIVE PERFORMANCE OVER BENCHMARK

MHOR VERSUS BENCHMARK



OVERVIEW AND WELCOME

Welcome to the MHOR Small Cap Fund report for October 2016.

The fund outperformed the market by +2.43% which was comprised of an absolute -2.28% for October versus the benchmark index which was down -4.72%. This result would have placed at #3 out of the 30 Small cap managers tracked by Morningstar (we hope to be formally added to their performance tracking shortly).

We entered the month with 29 Stocks (1 unlisted) and 26% cash.

During the month we were positioning into the US election. Fund inflows continued strongly during October and we deployed more cash towards the end of the month, finishing at 17% cash.

JAMES SPENCELEY

ABOUT THE MONTH

October was a weak month for Equities with the Small Ordinaries index down -4.72%. Market sentiment was heavily influenced by the global macro, particularly rising US bond yields in anticipation of a potential US Fed rate rise in December and the November US election.

The largest positive contribution came from the takeover of Fantastic Holdings (FAN), gains from TopBetta (TBH) and our favorite childcare operator Think Childcare (TNK). The major detractor being Ardent Leisure (AAD) which accounted for half the fund's loss for the month. More on each of these in the 'What happened in the Portfolio' section.

ABOUT THE PORTFOLIO

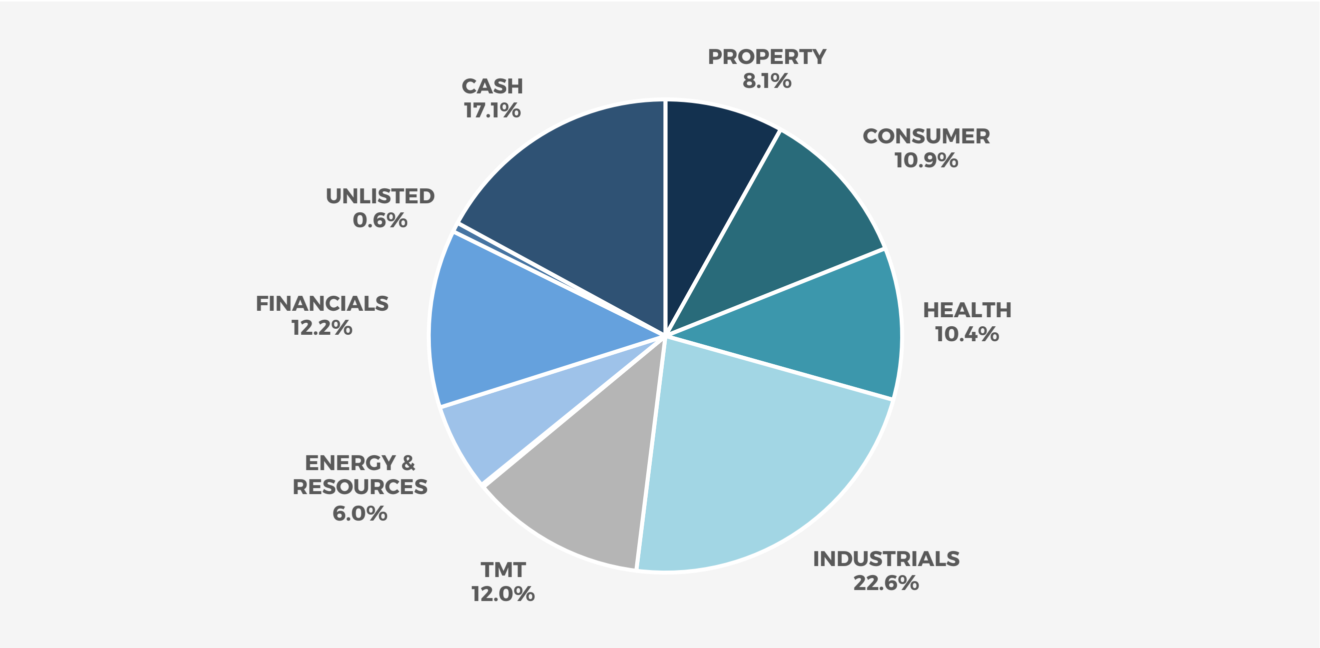
The portfolio is constructed to achieve an aggregate exposure that delivers a growth profile that is materially above that of the broader market. We are targeting strong or emerging industry themes to provide that growth tailwind, and at a stock level we are looking for names that have value catalysts, we are also attracted to high quality growth stocks where we think that the market has under-estimated growth, and some select early stage companies that offer strong promise.

PORTFOLIO EXPOSURE AND METRICS

CHARACTERISTIC	PORTFOLIO	MARKET***
1YR FORWARD PE	14.1X*	15.9X
1YR FORWARD DIV. YIELD	4.1%	3.1%
2YR EPS GROWTH CAGR**	C. 16.7%	7.7%

*Ex Select early stage companies, ** MHOR and FactSet Consensus data, *** FactSet Consensus for Small Ordinaries Forward P/E

PORTFOLIO SECTOR EXPOSURES



WHAT HAPPENED IN THE PORTFOLIO

Fantastic Holdings (FAN) +43%. Fantastic Holdings, which owns the Fantastic Furniture, Original Mattress Factory (OMF) and Plush retail stores was subject to an all cash takeover offer from Steinhoff Asia Pacific Holdings at a 43% premium to last close. The $3.50 cash offer has been unanimously recommended by the board.

We like the FAN business a lot, the price point Fantastic Furniture operates at is a defendable 'necessity' product, more staple than luxury. As a result, sales are less effected by economic conditions or housing trends. Additionally, there is a roll out strategy and good growth upside from OMF; equally the Plush brand is making real in roads in the higher end furniture market (think Nick Scali). Other listed retailers have been publishing strong numbers and positive sector commentary. The unloved or undiscovered Fantastic was highly likely to also be trading well, was more defendable than peers, has EPS growth at around market average, and was cheap at an FY17 P/E of 11.7x and a healthy 5.7% fully franked dividend yield (all pre bid). FAN had a defensible and less cyclical core business with a strong growth strategy and we believed this was not reflected in the value when we purchased it. Fantastic was an under held stock by small cap managers, so it was great to see our belief in the value of the company so strongly backed up by the healthy 43% takeover premium offered by Steinhoff.

TopBetta (TBH) +75%. TBH started the month at a ~$10m mark cap, it is well and truly a microcap and therefore unlikely to be well known by most. This is the smallest stock in the MHOR fund but we believe this company has an under discovered product in the 'Global Tote' which has the potential to transform the size and scale of the business.

The Global Tote product (if successful) can disintermediate the existing three Totalizer Agency Boards (TABs) operated by TAB Corp and Tattersalls. A TAB takes no risk on the betting placed into the market (by adjusting the odds) and the current 3 take a fixed 18% return as the market operator. TBH's Global Tote plans to offer a competitive Tote which would be available to the online bookmakers (betfair etc), professional gamblers and retail gamblers directly. With moderate success this is a multi billion-dollar turn over market.

If Global Tote gains some level of success, this business can potentially generate a multiple of their current market cap in profits. We have been following this management team closely and in late September the company announced it had obtained the relevant license to operate the Global Tote business. While there are still a number of dependencies for the Global Tote to go live, the license (in our view) was the most critical and signals the company is focused and making progress with this product. As this is at the speculative end of the market we only have a small allocation, that said we believe, if successful, even this small allocation has the potential to generate significant returns for the fund.

Think Childcare (TNK) +7.5%. Our favorite childcare operator Think traded up this month after being sold off on low volume in September. Think have, in our opinion, the best management team in the listed childcare space. The business has the balance sheet flexibility for further acquisitions and a demonstrated track record of improving the businesses they acquire. Each individual childcare center is a micro business; it is an industry where the operator has more impact on performance than global events. They are low capital intensity businesses which generate strong cash flows. Very defendable business, good macro tailwinds and a great management team. We remain long term and supportive holders.

Ardent Leisure (AAD) –30%. The tragic events at the Dreamworld amusement park in October caused a well publicized and significant drop in the AAD share price. We were invested in the stock for the potential market re-rate on the back of non-core asset sales and the resulting clean up of the structure of the listed entity. The imminent sale of the marina business was a positive catalyst we were waiting for. It is impossible to predict an event such as the tragedy at Dreamworld, what is important is how you react. We exited the stock immediately given the risks around the situation, significant uncertainty on key issues and and the overall future of Dreamworld. Clearly the share price and investment decisions are insignificant to the suffering and loss for the people involved. Our thoughts are with the families of those affected.

OUTLOOK

With the US election outcome now decided, the uncertainty and distraction of that behind us, we are seeing signs that investment decisions based on stock and sector fundamentals are re-emerging in the market, rather than the macro and newsflow driven markets that we have seen in the recent past.

The daily rotation between sectors and divergence between the DOW, S&P500 and NASDAQ post US election is a contrast to the long spell of high correlation caused by monetary stimulus. The world markets are shifting away from the rising tide equity markets caused by the various QE strategies globally and this potential new climate will be an advantage for active funds. The effects of Trump as President appear at this early stage to be much more suited to active management with already noticeable divergence between good sectors and stocks vs. bad sectors and stocks.

This post election climate should create more opportunity for outperformance and we feel the portfolio and a number of our new opportunities will perform well at the underlying business level and these names will be less sensitive to the positioning and gyration over predictions on inflation, rates and trade policies of Trumponomics.

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