MHOR AUSTRALIAN SMALL CAP

MONTHLY PERFORMANCE UPDATE

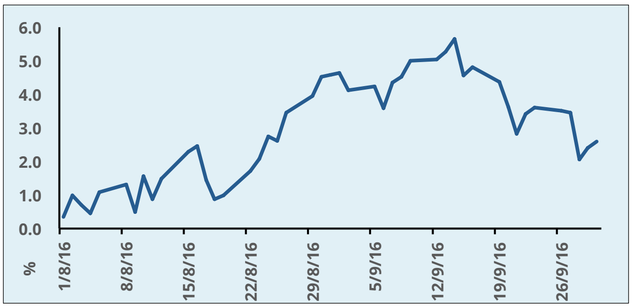
AS OF 30TH SEPTEMBER 2016

FUND RETURNED -0.59%

PERFORMANCE TO BENCHMARK

	1 MONTH	2 MONTHS	SINCE INCEPTION
FUND	-0.59%	+2.34%	+2.34%
BENCHMARK	+1.53%	-0.06%	-0.06%
VALUE ADD	-2.12%	+2.40%	+2.40%

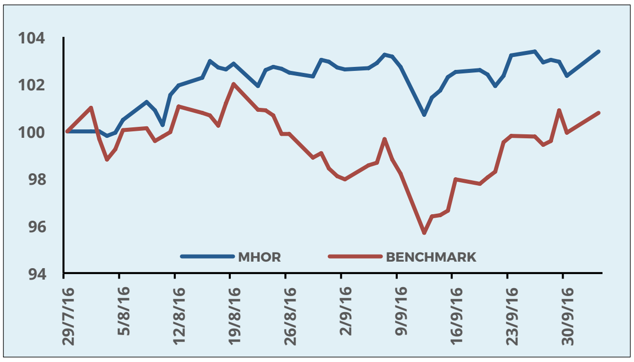
CUMULATIVE PERFORMANCE OVER BENCHMARK



MHOR MONTHLY RETURNS

2016	AUGUST	SEPTEMBER	YEAR TO DATE
RETURN (%)	+2.95%	-0.59%	+2.34%

MHOR VERSUS BENCHMARK



MHOR TOP CONTRIBUTORS – SEPTEMBER

1	AIRXPANDERS	AXP
2	NEXTDC	NXT
3	CBL CORPORATION	CBL

OVERVIEW AND WELCOME

Welcome to the monthly report for September 2016 for the MHOR Small Cap Fund. The fund returned -0.59% for the month, versus the benchmark index of +1.53%.

We started the month around 95% invested, with 5.1% cash and steadily built the cash position to 26% by the end of the month. Fund inflows have continued strongly and contributed to the higher cash balance. At 30 September, the fund held 28 listed equity investments and 1 unlisted pre-ipo opportunity.

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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 high growth companies that offer strong promise.

PORTFOLIO EXPOSURE AND METRICS

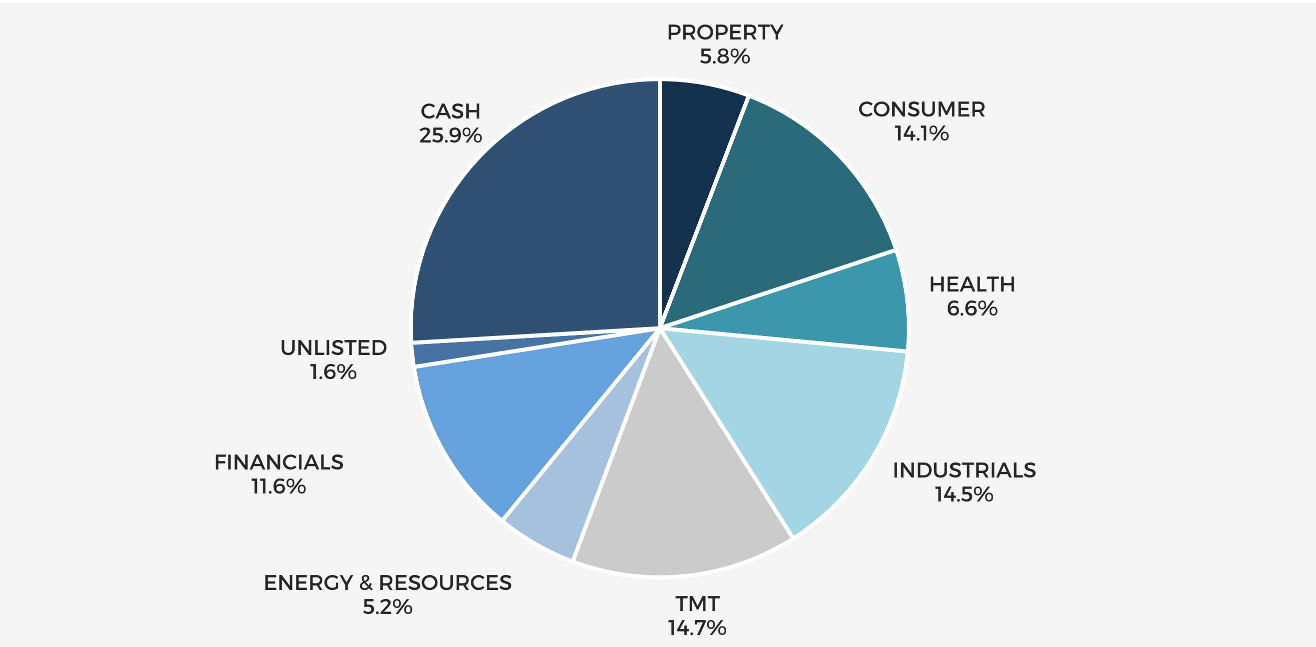
CHARACTERISTIC	PORTFOLIO	MARKET***
1YR FORWARD PE	14.0X*	15.8X
1YR FORWARD DIV. YIELD	4.1%	3.7%
2YR EPS GROWTH CAGR**	C. 20%	6%

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

ABOUT THE MONTH

September is a busy month meeting management teams post the August reporting period, with your investment team participating in almost 200 due diligence meetings during the month. The month saw a significant number of small caps raising capital, including a number of stocks in your portfolio. Whilst these capital raises impacted share price returns in the period, the businesses are now in a better position for growth as a result – we highlight NXT and CBL is this regard later in this report. Key performers for the month included AXP, CBL, and NXT, whilst key detractors PRG, PLG & TNK. We decided to sell our PRG position, despite the stock's strong value characteristics, as its operational update raised concerns that it may be losing share in its core Workplace business, which could be a source of further earnings weakness and investor concern. PLG had a weak start to listed life, but has since recovered somewhat. TNK, our favourite childcare centre operator, suffered modest share price declines on low volumes in the period, but the company remains on track with capacity to do significant value enhancing acquisitions and we remain happy holders.

PORTFOLIO SECTOR EXPOSURES



WHAT HAPPENED IN THE PORTFOLIO

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

Airxpanders Inc (AXP) +20%. Key performers during the month for us included AXP, one of our favourite small cap medical device players. AXP has a disruptive device that is a replacement for traditional saline based implants necessary in breast re-construction surgery; its key product Aeroform is currently undergoing an FDA approval process. During the month US-based Management met with investors and re-iterated that its dialogue with the FDA remained constructive and consistent with its expectation of receiving FDA approval in December for what we think will be a truly disruptive device in its end market. We like AXP as we believe it has a large addressable market opportunity, and its solution brings a novel but straightforward concept that we think will have strong end market penetration. We expect that FDA clearance, expected by the end of this calendar year, will be a significant catalyst for the stock.

Two of our other best performers in the month – NXT and CBL – raised capital, we make the case below that both have strong businesses, generating high returns that deserve investment. We participated in the capital raise events and remain holders of both stocks.

NextDC (NXT) +7%. NXT is a national data centre operator and is one of the few ways that investors can play one of the strongest technology themes around – the corporate enterprise adopting cloud delivered services. NXT is a capital-intensive business, but one that generates consistent, visible, long term high returns on that capital. It has an excellent management team, a strong strategy, great customer list and quality assets. NXT is an example of a high growth company where we believe the market is under-estimating the earnings growth and under-valuing the consistency and visibility of the returns.

NXT raised capital in September to fund its development of S2, its second data centre site in Sydney. S1, the existing Sydney site, is a 14MW facility opened in 1H14 and is now 82% contracted some 2.5 years later. We think that when full – 95% utilised – that S1 will deliver a 25%+ pre-tax (EBIT) return on capital, it has a 35-year asset life and will generate great cashflow over this period (cash return on capital will be higher than the 25% EBIT returns). We think those type of returns, driven by the strength of the cloud theme, and the quality of the cashflows over that length of duration, deserve further investment. NXT intends that S2 will be a 30MW facility, it raised $150mn in equity, to cover initial capital spend of roughly that amount on S2 over the next 18 months. We think that the capex for the whole project will probably be in the $400-450mn region. That capex is on top of a similar amount for its new 25MW Melbourne data centre, M2 and new 6MW facility B2 in Brisbane. All up the capex for these facilities will be around $1bn, a material investment likely committed in stages over the next four to five years. This offers strong visibility on earnings growth for investors, provided that NXT can fund the investment. NXT have $390mn of cash and undrawn debt facilities to meet the first couple of years investment needs. As NXT's EBITDA grows - NXT expect FY17 EBITDA to be $45-50mn, our model sees this triple by F19 – this will free up additional debt capacity and add to operational cashflow to meet these capex needs over the longer term. We think NXT remains a very attractive medium to long-term investment.

CBL Corporation (CBL) +22%. CBL is an insurer and is firmly in the undiscovered camp (only two brokers cover it) despite a market cap of $800mn+. CBL listed about a year ago, a UBS float, it was a modest raise of NZ$125mn. CBL being an insurer is a specialised business, its products, and the risk and returns associated with them, can be complicated to understand, its operates in end markets that larger and less focused insurers find difficult to operate in profitably. The combination of these two factors, small raise and complicated nature of the business, has meant that its addressable investor audience at the time of the IPO was small, but we think, with the robust earnings growth profile of 20-30% per annum, a PE of just 12x F17, and a market cap of $800mn+, that's now changing. We have followed this company since its IPO and it was one of the first investments that the fund made when we started.

CBL has a great management team – aligned with investors with their significant equity holdings – that have built the products, business and key relationships with distribution and other market participants over many years.

One of CBL strongest attributes is its ability to focus on markets where larger competitors find difficult to operate in profitably. CBL's focus, cost structure, long track record and relative size allows it to sustainably generate returns in specialized markets, an example includes offering mandatory residential construction insurance in France, a market where CBL has strong and growing market share. CBL has a long track record in this market, strong market share and generates strong returns. CBL are also growing in other niche segments, finding profitable growth in markets that other larger insurers find difficult to enter. Recently CBL acquired one of its distributors and obtained an A grade credit rating. The combination of this means that we expect strong volume growth and better unit returns going forward. The acquisition, and growth, requires capital, the capital raise proceeds will be used here, to fund the future returns of the business, as well as re-structuring some high cost debt. Consensus forecasts for CBL have risen over 30% since August; we think CBL has the ability to grow its earnings at a 20-30% rate over the next two to three years. Quality, growth, value and its undiscovered nature make this a standout investment in our view.

OUTLOOK

We see lots of capital raising activity in the small cap market; the capital raises at the smaller market cap range in general are much more interesting than the larger cap size raise processes. There are a mix of interesting growth companies, and solid businesses at reasonable prices, particularly in the lower market cap region of the market. However we have been maintaining a healthy cash balance as the macro picture – US election and market concerns over US Fed interest rate hikes – appears to act as a cap on the market. Our size and the quality of our ideas list means we can deploy this quickly, when clarity on the macro emerges.

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