MHOR
ASSET MANAGEMENT

MHOR AUSTRALIAN SMALL CAP

MONTHLY PERFORMANCE UPDATE

AS OF 30th APRIL 2017

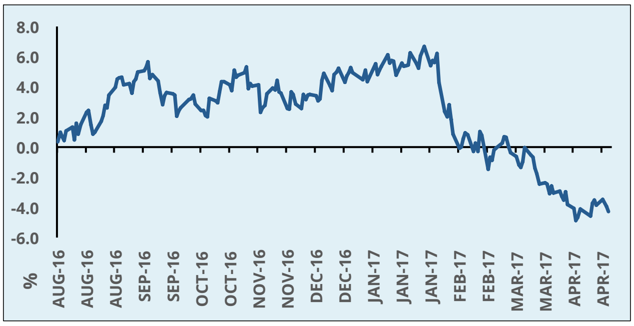
FUND RETURNED -2.03% (AFTER FEES)

NAV: 1.0104

PERFORMANCE TO BENCHMARK

	1 MONTH	3 MONTHS	SINCE INCEPTION
FUND	-2.03%	-6.08%	-5.61%
BENCHMARK	-0.25%	+3.75%	-1.33%
VALUE ADD	-1.78%	-9.83%	-4.29%

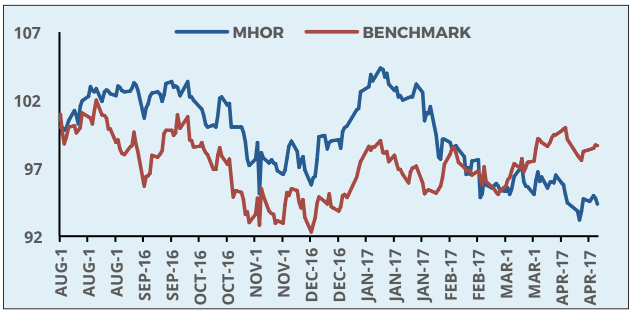
CUMULATIVE PERFORMANCE OVER BENCHMARK



HISTORICAL PERFORMANCE

2017	FEBRUARY	MARCH	APRIL
RETURN (%)	-5.62%	+1.57%	-2.03%

ABSOLUTE PERFORMANCE



MHOR TOP CONTRIBUTORS – APRIL 2017

1	TOPBETTA	TBH
2	OROCOBRE	ORE
3	SPEEDCAST INTERNATIONAL	SDA

OVERVIEW AND WELCOME

Welcome to the MHOR Small Cap Fund report for April 2017. The Fund returned -2.03% for the month, underperforming the benchmark index which was down 0.25%. Since inception in August 2016, the Fund has returned an absolute -5.61% compared to the benchmark which is down -1.33% over the same period.

We uphold our view that the recent underperformance experienced by Small Caps versus Large Caps presents a significant opportunity set for the MHOR Team to prosecute. We believe the growth outlook for selective Small Caps remains superior to Large Caps and, importantly, less contingent on global macro externalities, such as US fiscal policy or commodity prices. Indeed, most of the near-term earnings growth forecast to be delivered by the ASX100 market comes from the big miners, driven by commodity price rises over the past year or so. However these price gains have recently fallen sharply and we anticipate expectations of earnings growth in large cap land to rapidly follow suit. The Banks too appear to have material earnings headwinds from a slowing housing market and an apparent increased regulatory capital burden. In addition, we see the relative valuation of Small Caps as having become considerably more attractive which provides a margin of safety for investors.

We entered April with 31 stocks and 1.9% cash, we exit the month with 32 stocks and 4.4% cash.

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ABOUT THE MONTH

The Small Ordinaries index eased 0.25% in April, paring March's 2.66% gain and underperforming the ASX100 (+1.1%). Domestic Large Cap equities advanced (predominantly driven by the banks and defensive industrials such as property and healthcare) while global markets were mixed, with the US rising 1.0% (driven by tech names and some good earnings results) and China falling 2.1% (moderating growth concerns). Domestic Small Cap equities continue to be impacted by capital outflows with media reports citing further Small Cap institutional manager mandate losses. During April, the Small Industrials Index (XSI) gained 0.5% while Small Resources (XSR) continued to retreat, down a further 3.6% (backing up on a 3.8% drop in March). Sustained commodity price selling (particularly spot iron ore, base metals and oil) largely reflected growing fears about global oversupply, stalled US policy stimulus implementation and tighter Chinese policy (money markets, property curbs and a crack-down in off-balance sheet lending). Additionally, there was a broader reduction in investor risk appetite ahead of the French election (concluding early May) and escalating North Korean tensions. The heightened level of global macro uncertainty supports our underweight resources position (which we have retained despite the sell-off). Lower commodity prices and some softer domestic data points (weak retail sales, low wage growth and property bubble fears) saw the Aussie weaken against the Greenback. Over the course of April, domestic retail stocks suffered from continued selling pressure against this backdrop and with more news flow relating to Amazon's impending arrival. Notable April profit warnings came from The Reject Shop, Village Roadshow, Automotive Solutions, Ten Network Holdings, Range International and Yowie (none of which we owned). Upgrades were announced by Helloworld, Shaver Shop, Kogan and A2 Milk.

ABOUT THE PORTFOLIO

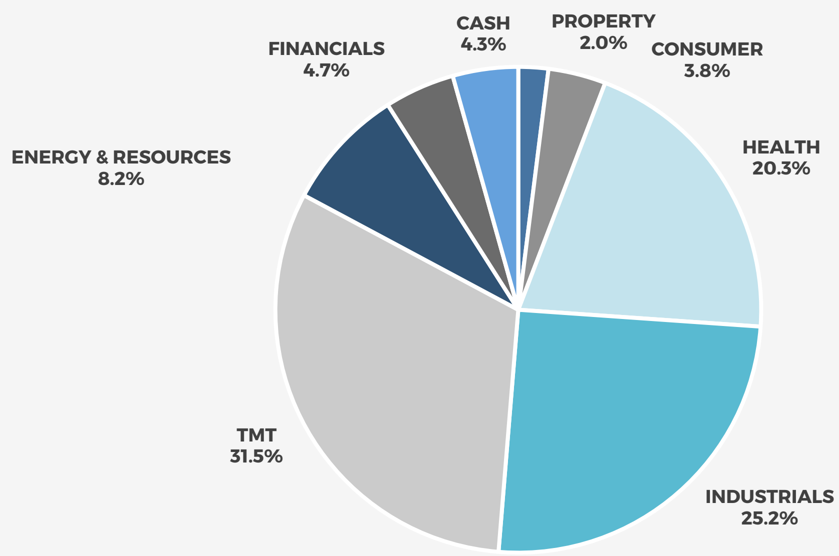
The Fund's largest positive contributions came from TopBetta Holdings (TBH), Orocobre (ORE) and SpeedCast International (SDA). The major detractor for the month was Syrah Resources (SYR). More on each of these in the 'What happened in the Portfolio' section. The portfolio continues to have growth bias, has considerable exposure to smaller "undiscovered", we believe, attractive undervalued growth stories. We continue to search and find interesting new emerging small cap equity stories, picking those that have the scope to be discovered by larger small cap funds.

PORTFOLIO EXPOSURE AND METRICS

CHARACTERISTIC	PORTFOLIO	MARKET***
1YR FORWARD PE	15.5X*	15.5X
1YR FORWARD DIV. YIELD	2.9%	3.1%
2YR EPS GROWTH CAGR**	C. 20%	5.9%

*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

TopBetta Holdings (TBH) +45%. Disruptive gaming company, TopBetta, was a positive contributor to The Fund during April, rallying after receiving regulatory approval for The Global Tote product, as well as announcing the acquisition of Mad Bookie and securing global distribution rights for UK and Irish greyhound racing. Having had its initial application knocked back by the Northern Territory Racing Commission (NTRC) in March, the regulatory body approved the revised submission in April, providing TBH with a clear pathway to commercially launch the innovative and disruptive product. We see The Global Tote as having the potential to be a 'game changer' for bookmakers, punters and racing bodies around the world. As the world's first 'B2B only' wagering tote pool product, The Global Tote will combine wagering liquidity from global bookmakers across a large range of products and events, whilst offering materially more competitive margins for professionals (10% take rates vs traditional totes operated by TAB Corp and Tattersalls at 16-18%) and better odds for punters. Importantly, as a totalizer product, TBH takes no risk on the betting placed into the market (by adjusting the odds). The Global Tote went live in early May with early results extremely encouraging. With a market cap of just $30m and a multi-billion dollar market opportunity to prosecute, we remain attracted to the risk-reward proposition on offer.

Orocobre (ORE) +13%. Another positive contributor to The Fund in April was lithium producer, Orocobre. ORE shares were heavily sold off and shorted following the disappointing trading update issued in February which included a downgrade to FY17 production guidance and revealed operational issues with the pond management system at the company's Olaroz Lithium Facility (ORE 66.5%) located in Argentina. Hedge funds took advantage of the situation and published their bear case on the stock, highlighting fears that the pond management system was inadequate for the Facility and would likely cost a significant amount to remedy (potential capital raising). However; with the release of the March quarter trading update in April, ORE sought to ease investor concerns, reiterating February production guidance and noting that external consultants had reviewed the ponds and recommended increasing the number of pumps at a modest $1.5m capital cost. Pleasingly, this positive operational update reassured the longs and squeezed out some of the shorts. Notwithstanding the numerous teething issues experienced as ORE ramps up production to full nameplate capacity (Stage 1 is 17,500tpa of lithium carbonate) at its Olaroz Lithium Facility, our investment thesis is underpinned by the company's world-class, low-cost project and our positive medium-term outlook for lithium sector (electric vehicles).

SpeedCast International (SDA) +9%. Satellite communications provider, SpeedCast International, also added positively to The Fund in April. The shares bounced on the back of an upbeat investor day where Management confirmed earnings expectations consistent with consensus forecasts and highlighted that the integration of the transformative CapRock acquisition was progressing well and we anticipate potential upside risk to current synergy targets. The US$425m acquisition of CapRock, which completed in January 2017, more than doubles the size of the company and materially increases its oil & gas exposure (from c.14% of revenue to c.45%), making SpeedCast the global leader in maritime broadband services. We think deal timing is particularly opportunistic considering the depressed level of oil & gas earnings (caused by the material drop in the oil price over the last two years) and the reasonable multiple paid (7x LTM EBITDA pre-synergies on trough earnings). Synergies to play for are substantial, targeting $24m per annum by the end of year two. We also expect SpeedCast, now as the world's largest commercial buyer of satellite capacity, to achieve material cost savings from increased scale and geographic coverage, while revenue opportunities will likely arise from expanding services to existing and new customers. Without factoring in a cyclical recovery in the energy sector, on our forecasts we see SpeedCast trading on sub 12x FY18 EPS, falling to 10x in FY19. We see scope for a re-rating as the synergies are delivered and the balance sheet metrics improve.

Syrah Resources (SYR) -19%. The major detractor to April's performance was graphite player, Syrah Resources, which faced renewed selling pressure despite the company reassuring investors that construction of its world-class Balama graphite mine in Mozambique remains on track and on budget. Investors remain cautious given recent management changes, project delivery risks, and fears that Balama's significant scale (350,000 tonnes per annum) will ultimately drive down global graphite prices (incidentally, which have softened over the past year). Additional concerns relate to the fact that most of the company's future production capacity remains uncontracted to date and that extra capital may be required to build the planned high value add spherical graphite processing plant intended to be located in the US Chemicals hub of Louisiana. Whilst we fully acknowledge the risks associated with bringing on such a large project as Balama, we rate the new CEO highly and view Syrah as particularly well placed to capitalise on anticipated strong medium-term market fundamentals. There are few, if any, genuinely World leading resource bodies embedded in Small Cap Australia, however no matter how you look at Syrah's Balama project it is undeniably one. Balama is a very large, long mine life high-grade resource that offers a low position on the cost curve. With leverage to disruptive technology (Electric Vehicles), and an open share register, we see Syrah as a standout takeover target at these prices.

OUTLOOK

The outlook for global equities remains broadly constructive, underpinned by the solid US economic recovery, abating risks to the EU (further reduced by the recent outcome of the French election) and valuation appeal relative to alternative asset classes. Key risks we see to the global macro relate to Trump executing his stimulatory policy (promised tax cuts, infrastructure investment and banking deregulation), China managing an orderly slow down and Europe holding together. On the domestic equities front, we see scope for Small Caps to reverse recent market trends and outperform their larger counterparts, driven by more attractive fundamentals. Small Caps offer better growth at more attractive prices and are less correlated to broader macro forces.

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

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