



MHOR
ASSET MANAGEMENT

MHOR AUSTRALIAN SMALL CAP

MONTHLY PERFORMANCE UPDATE

AS OF 31ST DECEMBER 2017

FUND RETURNED +5.34% (AFTER FEES)

NAV: 1.3510

PERIOD	FUND	BENCH	RELATIVE
1 MONTH	5.34%	3.20%	2.14%
3 MONTHS	16.29%	13.69%	2.60%
6 MONTHS	26.63%	18.70%	7.93%
12 MONTHS	23.02%	20.02%	3.00%
INCEPTION*	26.21%	17.00%	9.20%

*Inception: 1/8/16

DECEMBER 2017 PERFORMANCE

Fund performance for the month of December 2017 was 5.34% (net of all fees) versus the benchmark of 3.20%. Since inception (August 2016) the fund has delivered returns of 26.2%.

DRIVERS OF FUND PERFORMANCE

Performance was broad based, of the 35 active positions, 27 were +ve, 1 neutral and 7 -ve in the month. Notable positives included VTI, AQZ and TBH and notable detractors were GEM & ST1. The fund exited the month with 34 stocks, and 11.7% of cash.

DECEMBER WINNERS

VTI management were on the road in December explaining the business, no doubt highlighting the comparatively short sales cycle it enjoys for its product, which should translate to faster sales progress than other listed medical device plays. AQZ, continued its strong recent share price move – it remains one of the cheapest and lowest risk ways to play the improving commodity price regime here in Australia in our view. TBH delivered news on four significant customer wins this month – 2 Australian corporate bookmakers, 1 UK & 1 US, we anticipate that these should move TBH to cashflow positive and provide demonstration of how TBH can scale its business to address a large opportunity.

DECEMBER LOSERS

GEM provided a negative trading update – earnings are expected to fall 6% short of expectations this year. The stock fell 20%. GEM is now on 15x earnings, a 20%+ discount to the market, for a business that we think is better quality & lower risk than the market & we expect to grow earnings faster than the market. ST1 declined on digesting a capital raising to fund a faster growth trajectory.

OUTLOOK – 2018: POSITIVE MACRO

We aren't macro forecasters but from time to time it's appropriate to articulate how we see the macro climate and

investing background. Coming into 2018 we see equity markets as buoyant and Investors optimistic from synchronised global expansion of the world's major economic blocks evident in 2017.

US Corporate tax cuts, a development of late 2017, will in our view engender a response from Corporate America – Capex, Hiring - expansion type activity that we expect will start to show up in US economic data in 2018, re-enforcing the outlook for global growth and perhaps elongating the length of the expansion cycle.

The macro bull case is that this elongated expansion provides scope for World's Central Banks to increase rates against a positive economic backdrop in a measured fashion. For now, we think that's the view that the market will take. As always its important to maintain flexibility, and be ready for change if that's the best course for the portfolio.

A MOMENT IN TIME - RAPID EVOLUTION = OPPORTUNITIES

At least as important as the macro picture is the opportunity backdrop. *We believe we are at a stage in the innovation cycle where we have a rich pipeline of investment opportunities in our small cap investment universe.* The MHOR investment philosophy draws us to companies that are positively exposed to industry change, those applying technology to change the sector status quo, rapidly gain market share, often from incumbents, and efficiently scale their business models into large markets hitherto previously unaddressable by companies of their means and size.

PORTFOLIO POSITIONING

Our view is growth over (expensive) defensives – we expect stocks that benefited from a falling/low interest rate environment to come under valuation pressure as the extended period of declining global interest rates looks behind us now. We expect the market to continue to position for economic expansion, both cyclical & structural, consequently we continue to position the portfolio to benefit from this, as it did in 2017. This means Resources & Energy, mining services & contractors, cyclicals, technology and stocks with overseas earnings (exposed to faster growth overseas).

We continue to find investment opportunities exposed to positive themes and tailwinds in these sectors without having to pay excessive prices to do so. We currently hold 11.7% of the fund in cash, allowing flexibility to take advantage of opportunities as they arise.

Important Information: The information given in this publication is general information only, which means it does not take into account your investment objectives, financial situation or needs. You should therefore consider whether the information is appropriate to your needs before acting on it, seeking advice from a financial adviser. The PDS documents are available on our website www.mhor.com.au and contain important information, including information about the risks of investing in stocks and small caps. You should obtain and consider the PDS before making a decision to invest in the Fund. The PDS is issued by the responsible entity, Equity Trustees Ltd ABN 46 004 031 298, AFSL number 240975

HOW TO APPLY: APPLY ONLINE [HERE](#) OR DOWNLOAD THE APPLICATION FORM [HERE](#)

+61 2 9191 9500

info@mhor.com.au

www.mhor.com.au

ABN 32 611 709 927

FACT SHEET

MHOR ASSET MANAGEMENT

MHOR is an independent boutique investment manager and was established in 2016 by Gary Rollo and James Spenceley, based in Sydney.

MHOR's investment team is a combination of successful entrepreneur with real world business building experience and fund manager with a proven investment process and performance track record. MHOR holds its own AFSL licence and today manages the MHOR Australian Small Cap Fund. MHOR is 100% owned by its employees.

MHOR AUSTRALIAN SMALL CAP FUND

The fund's investment universe are stocks listed in Australia and New Zealand outside of the S&P ASX 100 stocks. We believe Smaller Companies are the growth and innovation engine of Australia, with many established to specifically commercialise a single product or service, often in industries where change is badly needed. Investing alongside talented founders and managers, unencumbered by the legacy of an industry status quo, can create significant value.

We believe that with the right investment process, team, skills and experience that this value can be un-locked for investors, crystallising the potential in the under-researched asset class. The fund's objective is to outperform its benchmark – the S&P/ASX Small Ordinaries Accumulation Index - over a rolling five year period and aims to deliver strong absolute positive returns. The fund has an independent trustee (Equity Trustees), is priced daily, has a low minimum investment of \$20,000, and is Audited by Deloitte.

OUR APPROACH

Real world business experience + proven investment process:

We have built our investment team with the specific objective of being able understand management's challenges and opportunities from an operator's perspective, believing that combining this understanding with a disciplined and proven investment process helps unlock the value creation potential in Small Caps for our investors.

Philosophy & Process:

Our investment philosophy is theme led, we aim to benefit from direct positive exposure to the tailwinds of change. Investment opportunities are researched on a bottom up basis, we aim to have portfolio risk and return driven by stock specific factors that we can research, not hard to call macro factors.

We seek an advantaged edge, investing where we believe we know more than the market, aiming to find stocks before their potential is fully discovered by others. Our portfolio construction process aggregates and selects from these investment candidates, building a balanced portfolio of under-valued companies with absolute upside.

Performance driven:

The Investment team believe that fund size is a factor in delivering investment performance. Fund size will be limited to that which does not restrict the ability to perform.

Alignment:

The employees of the manager have made significant personal investments in the fund, providing strong alignment between the Investment Team and our investors.



JAMES SPENCELEY

The company's CEO **James Spenceley** is one of Australia's most successful entrepreneurs, founding and growing his previous business, Vocus Communications into one of the best small cap growth stories in recent years, now a multiple billion dollar business.



GARY ROLLO

Chief Investment Officer, **Gary Rollo** has a proven track record as a successful small cap portfolio manager. Gary spent six years as a Portfolio Manager at Renaissance Asset Management, a dedicated Australian small cap investment firm. During those six years the fund outperformed the Small Ordinaries Index by over 13% p.a.

FUND INFORMATION	
APIR CODE	ETL0030AU
ARSN	105 436 753
MINIMUM INVESTMENT	\$20,000
APPLICATIONS & REDEMPTIONS	Daily
BENCHMARK	S&P ASX Small Ordinaries Index (Acc)
PORTFOLIO MANAGERS	Gary Rollo and James Spenceley
STOCK HOLDINGS	25-75
INDIVIDUAL STOCK LIMIT	10%
AUTHORISED STOCKS	Stocks listed on the ASX or NZX and unlisted companies expected to list within 12 months
UNLISTED STOCK LIMIT	20%
CASH LIMIT	0-50%
INVESTMENT STYLE	Long only
INVESTMENT TEAM	MHOR Asset Management
RESPONSIBLE ENTITY	Equity Trustees Limited
RECOMMENDED INVESTMENT PERIOD	Medium to long term
INCEPTION DATE	1 August 2016