MHOR AUSTRALIAN SMALL CAP

MONTHLY PERFORMANCE UPDATE

AS OF 28TH FEBRUARY 2017

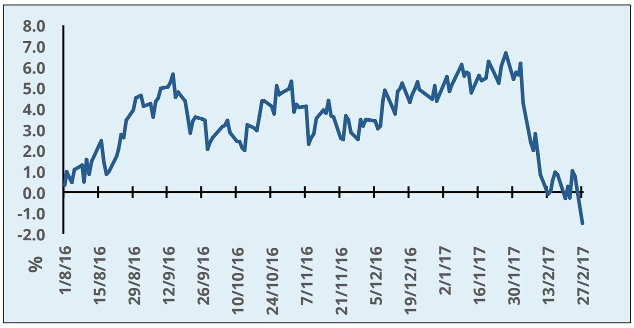
FUND RETURNED -5.62% (AFTER FEES)

NAV: 1.0154

PERFORMANCE TO BENCHMARK

	1 MONTH	3 MONTHS	SINCE INCEPTION
FUND	-5.62%	-2.79%	-5.15%
BENCHMARK	+1.31%	+2.40%	-3.65%
VALUE ADD	-6.93%	-5.19%	-1.50%

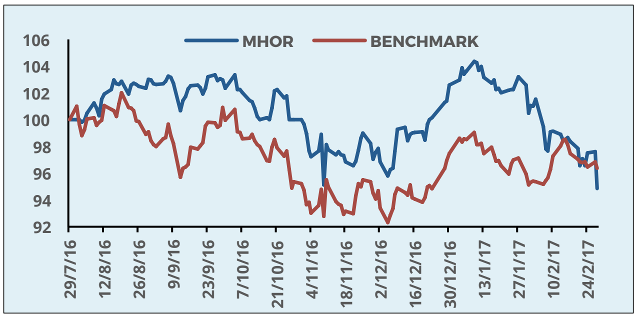
CUMULATIVE PERFORMANCE OVER BENCHMARK



HISTORICAL PERFORMANCE

2016/17	DECEMBER	JANUARY	FEBRUARY
RETURN (%)	+5.15%	-2.03%	-5.62%

ABSOLUTE PERFORMANCE



MHOR TOP CONTRIBUTORS – FEBRUARY 2017

1	NEXTDC	NXT
2	IMF BENTHAM	IMF
3	POLYNOVO	PNV

OVERVIEW AND WELCOME

Welcome to the MHOR Small Cap Fund report for February 2017. The Fund returned -5.62% for the month, underperforming the benchmark index which was up 1.31%. Since inception in August 2016, the Fund has returned an absolute -5.15% compared to the benchmark which is down -3.65% over the period.

The Small Cap market continues to present both challenges and opportunities. Since Trump's victory in November, stock markets around the world have exhibited heightened month-on-month volatility as investors position for a more uncertain global political backdrop, coupled with a rising interest rate environment in the US. Additionally, the domestic Small Cap market has seen capital flow towards ASX100 banks and cyclicals, leading to a considerable valuation adjustment. We view this Small Cap market correction as healthy, creating opportunities for the Fund to invest in high-quality growth companies at a more attractive entry point.

The beauty about smaller companies is that their growth prospects tend to be less correlated to global factors, but are instead driven by industry and stock specific dynamics that we can identify and keep track of. Whilst we are disappointed with the Fund's underperformance during February, our portfolio largely met expectations in terms of results and outlook presented during earnings season. We believe performance observed in February reflects a dislocation between market sentiment and underlying stock fundamentals; a dislocation, which will likely be only temporary in nature albeit we can't see clearly when its impact will dissipate.

JAMES SPENCELEY

GARY ROLLO

ABOUT THE MONTH

The Small Ordinaries index gained 1.31% during February, partially recovering from January's 2.44% decline. Market attention turned from global macro factors towards the domestic earnings season which we viewed as typically mixed. Similar to what we observed during the prior reporting season (August 2016), results which came either ahead or in-line with market expectations where generally met with muted share price reactions while 'misses' experienced substantial de-ratings. Market sentiment has been soured by a significant number of disappointing trading updates of late. Indeed, the Small Cap company 'wall of shame' downgrade list expanded considerably during the month, with honorable mentions going to Ozforex, GBST, Genworth Mortgage Insurance, iSentia, CSG Ltd, RCG Corp, Adairs, Gateway, Eureka, Shaver Shop, Ardent Leisure and Spotless (we avoided almost all offenders excluding Adairs in which we had a small position). In addition, Small Caps stock prices continue to be impacted by capital outflows as Large Cap managers reweight towards ASX100 banks and cyclicals (Trump 'reflation' trade), compounded by a number of Small Cap funds losing institutional mandates during February (in some instances, creating extreme selling pressure on smaller, less liquid stock prices).

ABOUT THE PORTFOLIO

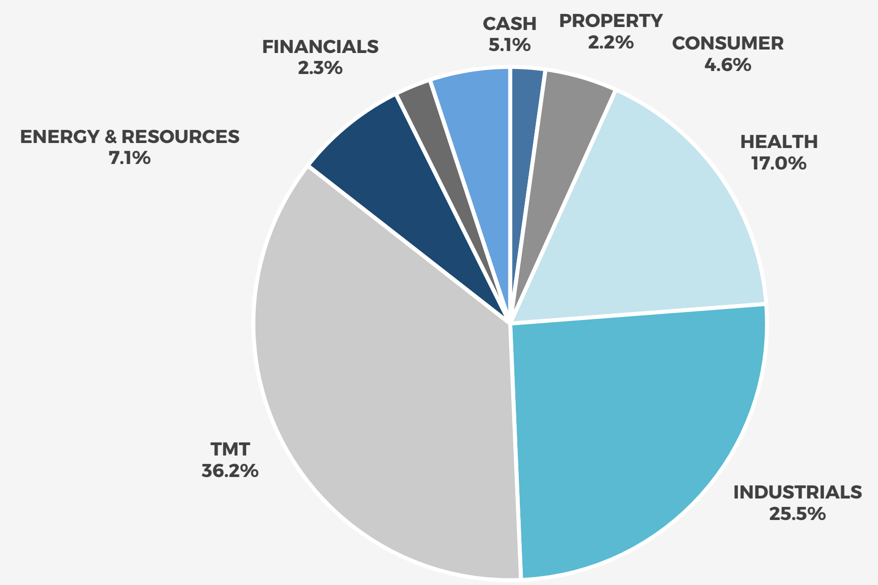
The Fund's largest positive contributions came from NextDC (NXT), IMF Bentham (IMF) and Polynovo (PNV). Major detractors for the month were AirXpanders (AXP) and TopBetta (TBH). More on each of these in the 'What happened in the Portfolio' section. The portfolio continues to have growth bias, has considerable exposure to smaller "undiscovered", we believe, attractive undervalued growth stories. We continue to search and find interesting 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	14.9X*	14.4X
1YR FORWARD DIV. YIELD	2.8%	3.3%
2YR EPS GROWTH CAGR**	C. 20%	5.5%

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

PORTFOLIO SECTOR EXPOSURES



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WHAT HAPPENED IN THE PORTFOLIO

NextDC (NXT) +20%. We were encouraged to see data centre operator, NextDC, rally 20% during February on the back of a strong interim result and positive outlook commentary, somewhat allying market fears about increasing competition. Based on our industry experience and channel checks, we concluded that domestic demand for data storage will continue to outpace industry supply for the foreseeable future, underpinned by the structural shift of enterprise resources to the cloud. Consequently, we took advantage of the stock's weakness heading into the result to buy more. NXT delivered a better than expected interim result (110% EBITDA growth on 39% revenue growth) with FY17 guidance left unchanged ($46-50m EBITDA), suggesting some upside earnings risk and certainly laying the foundation for very strong earnings growth in FY18 and beyond. We rate management very highly and see the company as particularly well placed to continue executing the growth strategy and capitalizing on the surging structural demand for data centre services.

IMF Bentham (IMF) +11%. Another strong positive contributor for the month was litigation funder, IMF Bentham. In our view, IMF remains a 'hidden gem' within the Small Cap investment universe, being a high-quality company with solid growth prospects and attractive valuation metrics, yet relatively under-researched with just three brokers covering the stock (a small number considering the $300m market cap). IMF, which has demonstrated a strong track record of successful case selection and positive portfolio returns over many years ($2.55 money back for every $1 invested since listing), has established a leading market position in Australia (c.70% share) and continues to build scale in the US. IMF have recently launched a US$200m special purpose vehicle with Fortress (a US based Fund Manager) which will focus on financing US matters, diversifying IMF's risk and we expect delivering superior returns. Notwithstanding the lumpy nature of the company's earnings, we do like the defensive qualities of the business (i.e. relatively low correlation between litigation funding and GDP). IMF's interim result showed growth across all operating metrics and the $3.35b investment portfolio should see the company continue to deliver strong results in FY18 and FY19. We think it is only a matter of time before the market discovers this hidden gem.

PolyNovo (PNV) +5%. PolyNovo, a medical device company, also contributed positively to the Fund's performance in February. PolyNovo designs, develops and manufactures solutions using its patented NovoSorb biodegradable polymer technology. The company's first commercial product, the BTM (Biodegradable Temporising Matrix), is a tissue scaffold that facilitates the regeneration of the dermis after it has been lost or damaged through trauma, burns, surgery or wounding. In December, PolyNovo's BTM product was awarded US FDA approval for surgical wound application in the US, opening up various markets for commercial sales. Whilst early days, we have been impressed with the company's management, technology and commercialization strategy. In our view, this stock offers significant upside potential as the product gains market traction.

TopBetta (TBH) -39%. A major detractor to February's performance was TopBetta, a disruptive gaming company focused on launching its Global Tote product which will enable corporate bookmakers and tote operators from around the world to participate in a global pool. International thoroughbred racing fixtures and greyhound races will be the first pooled products to launch with other racing and sports to follow in time. The material share price decline was largely driven by the company issuing an update warning that the product launch date had been delayed, pending approval from the Northern Territory Racing Commission (NTRC). The company subsequently notified the market that the NTRC had not accepted the current application so TBH will work through the issues and continue to work with other jurisdictions to go live. Although the delay is disappointing, we believe TBH has a number of options to push ahead with the launch of the Global Tote.

AirXpanders (AXP) -33%. Another major detractor to the Fund's performance in February was AirXpanders, a medical device company focused on commercializing its AeroForm Tissue Expander System used in breast reconstructions following mastectomy. AeroForm was granted US FDA *de novo* clearance in December and the company raised A$45m via an equity placement in February with the funds earmarked for building inventory, accelerating investment in US sales and marketing, and completing expansion of the commercial manufacturing capacity in Costa Rica. We participated in the raising and continue to view the product and market opportunity positively. The equity story here remains attractive, a great product, addressing a care opportunity where it's simply a better solution and we anticipate strong product advocacy to drive AXP's product adoption. We like the scale of the opportunity, the M&A appeal and the anticipated growth profile.

OUTLOOK

Results season presented us with the opportunity to meet with a significant number of management teams, allowing us to test the investment cases underpinning our current portfolio, as well as build upon our pipeline of new ideas. Notwithstanding recent share price volatility, the Small Cap market continues to offer numerous attractive investment opportunities across a broad range of sectors, and with growth prospects less reliant on global macro factors. Further, we view the Small Cap market correction as healthy, providing a more attractive entry point and offering a greater margin of safety.

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

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