MHOR AUSTRALIAN SMALL CAP

MONTHLY PERFORMANCE UPDATE

AS OF 31ST JANUARY 2017

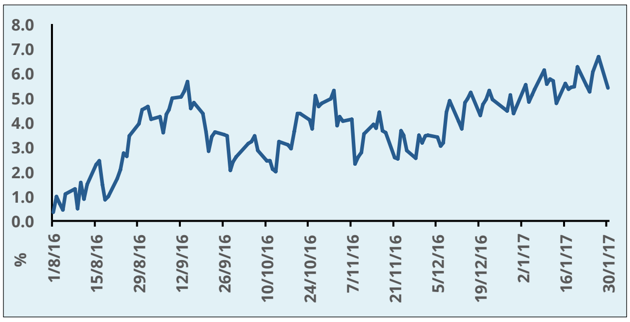
FUND RETURNED -2.0% (AFTER FEES)

NAV: 1.0791

PERFORMANCE TO BENCHMARK

	1 MONTH	3 MONTHS	SINCE INCEPTION
FUND	-2.03%	+0.50%	+0.50%
BENCHMARK	-2.44%	-0.13%	-4.89%
VALUE ADD	+0.41%	+0.63%	+5.40%

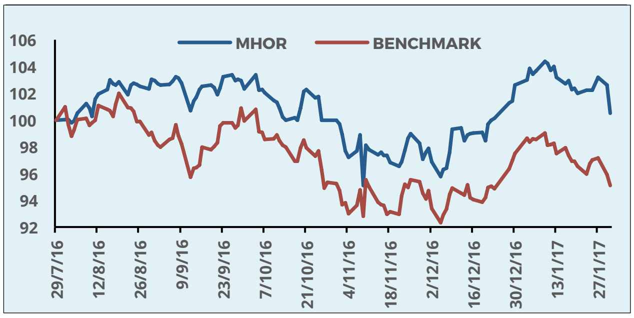
CUMULATIVE PERFORMANCE OVER BENCHMARK



ABSOLUTE HISTORICAL PERFORMANCE

2016 / 17	NOVEMBER	DECEMBER	JANUARY
RETURN (%)	-2.43%	+5.15%	-2.03%

ABSOLUTE PERFORMANCE



MHOR TOP CONTRIBUTORS – JANUARY 2017

1	IMDEX	IMD
2	SMART PARKING	SPZ
3	THINK CHILDCARE	TNK

OVERVIEW AND WELCOME

Welcome to the MHOR Small Cap Fund report for January 2017. The Fund outperformed the market by 0.41% over the month, comprising an absolute return of -2.03% versus the benchmark index which was down -2.44%. We are pleased to reach our six month milestone with the Fund having outperformed the market by 5.40% since inception in August 2016, returning an absolute 0.51% compared to the benchmark which is down -4.89% over the period.

We entered January with 33 stocks and 11.2% cash, after taking some profits during December to de-risk the portfolio ahead of earnings season in February and to raise cash so we can take advantage of any potential investment opportunities. Our plan for earnings season - avoid unnecessary risk, move quickly where we see opportunity and getting set early in the stocks we like. The benefits of being small and nimble!

Fund inflows have remained subdued since the US Federal Election in November, which we attribute to investors taking a breather to digest the global macro outlook, as well as seasonality.

We exited January with 34 stocks and 4.5% cash.

JAMES SPENCELEY

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ABOUT THE MONTH

January was a softer month for Small Cap equities with the Small Ordinaries index declining 2.44%, consolidating somewhat having gained 3.61% in December. Global factors continue to influence the direction of markets. While the December market rally was largely driven by Trump's victory and his promises of increased fiscal stimulus and corporate tax cuts (the so-called 'reflation trade'), the January pullback predominantly reflected heightened market concerns about Trump's hard line immigration and protectionist policies. Consequently, domestic gold stocks and value names generally found the most support during the month as investors took a more defensive position heading into the February results season. Volumes were seasonally low which also compounded many stock moves. Adding to the cautious tone was the large number of profit downgrades issued by Small Cap stocks during January, most notably Bellamy's (round 2!), Oroton, Village Roadshow, McGrath, Aconex, Servcorp and Virtus Health (none of which the Fund owned).

ABOUT THE PORTFOLIO

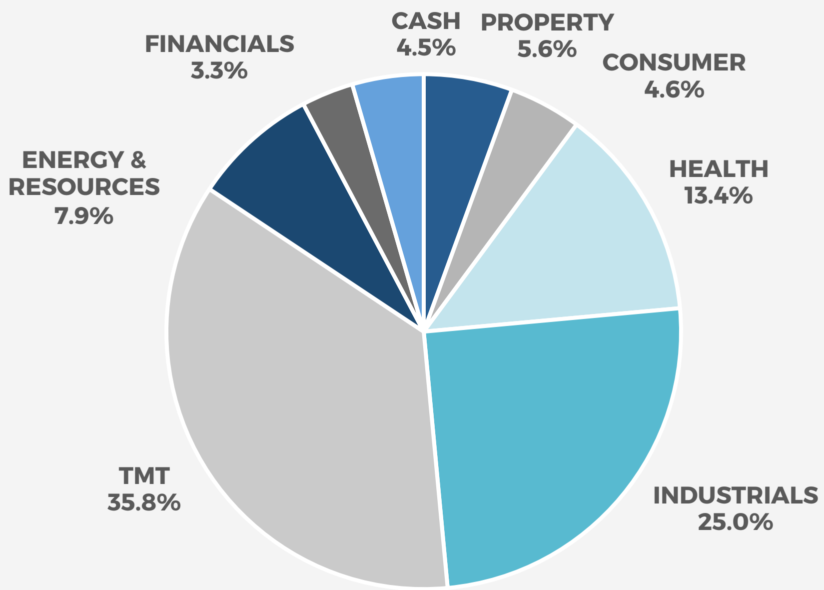
The Fund's largest positive contributions came from Imdex (IMD), Smart Parking (SPZ) and Think Childcare (TNK). The only major detractor for the month was NextDC (NXT). More on each of these in the 'What happened in the Portfolio' section. The portfolio continues to have growth bias, has considerable exposure to smaller "undiscovered", we believe, attractive undervalued growth stories. We continue to search and find interesting new emerging small cap equity stories with little or no institutional ownership, picking those that have the scope to be discovered by larger small cap funds has so far served the fund well.

PORTFOLIO EXPOSURE AND METRICS

CHARACTERISTIC	PORTFOLIO	MARKET***
1YR FORWARD PE	15.2X*	15.1X
1YR FORWARD DIV. YIELD	4.1%	3.3%
2YR EPS GROWTH CAGR**	C. 20%	6.5%

*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

Imdex (IMD) +18%. A strong positive contributor for January was Imdex, a leading provider of drilling fluids and downhole instrumentation to the global minerals industry. In addition to providing strong leverage to a cyclical recovery in global minerals drilling activity, the company has a real competitive advantage having developed valuable intellectual property and technology designed to increase drilling efficiency and productivity which we believe mining and drilling companies will continue to focus on. Management have done a good job restructuring the business, cutting operating costs, divesting and closing loss-making oil and gas units, and raising capital to restore the balance sheet position. Demand for Imdex's drilling products has steadily grown on the back of higher commodity prices and equity capital raisings amongst resource companies for brownfield and greenfield exploration expenditure. Notwithstanding the strong stock price performance since our initial investment, we see scope for further outperformance as the market gains confidence in the company's cash-generating potential, via what we anticipate will be driven by robust margin expansion.

Smart Parking (SPZ) +7%. Encouragingly, our investment in Smart Parking continues to perform well for the Fund. Smart Parking is a global car parking business with two operating segments; Management Services and Technology. The Management Services business (c.90% Group revenue) operates more than 120,000 car parking spaces in the UK on behalf of retail customers, landowners and managing agents. The technology business designs, develops and specializes in on-street and off-street parking technology and software, which enables clients to manage parking efficiently and cost effectively. The growth outlook for Smart Parking's Management Services business remains robust; the company is targeting more than 130 new managed services sites in the UK during FY17 (Vs 143 total installations in June 2016). The economics of this business are very attractive; average EBITDA margins per site per month are 70% with a payback on capital invested less than 4 months. The Technology business outlook is also highly prospective, with over $30m of tenders, quotes and proposals in the pipeline for key markets, but we view this business as a longer term value creation option. We expect the stock to continue to perform well as management execute on the Management Services growth strategy and as sell-side coverage increases (only one broker currently covers the stock yet the market cap is now north of $100m).

Think Childcare (TNK) +13%. Think Childcare, which owns, manages and operates 37 childcare facilities across Australia, continues to contribute positively to the Fund's performance. We rate Management highly and remain attracted to the favourable industry dynamics and the consolidation opportunities. From a portfolio diversification perspective, we like the defensive nature of childcare's cashflows which should show minimal correlation to global macro volatility. We also see upside earnings risk from further M&A activity, as well as from potential legislative changes aimed at increasing the female workforce participation rate. Valuation is undemanding with the stock trading on 12x CY18 earnings and yielding 4%.

NextDC (NXT) -15%. The major detractor to the Fund's performance in January was NextDC, we believe on fears of rising competition (principally the press coverage of AirTrunk – a new start-up in the space) coupled with the market taking a different view on how it values growth stocks such as NXT. We have some experience with James having operated a business with assets in this sector and hence we think we have an edge on what's really going on in this space. We saw multiple news reports suggesting AirTrunk could be close to getting funding, plus claims that it plans to have a better operating efficiency profile and a materially lower capex cost than the competition in the Australian market. Our experience, cross checked with industry contacts suggests that its unlikely that there is a new technology stack or approach to building datacenters that is material enough to lower the capital costs involved to sufficiently deliver an advantage to a new entrant over that available to current industry players here in Australia, including NXT. In addition, our view is that the drivers behind the demand in NXT's business – the emergence of enterprise ready products from the large hyper-scale software and hardware companies (Microsoft, Amazon, Oracle, Google, Salesforce to name but a few) delivering cloud based services has arrived. We are early in the adoption phase by enterprise customers, the market is large and growing fast. We think the market is over-reacting to competition fears and under-estimating the pace and quality of the earnings growth in NXT. We used the weakness in NXT's share price to buy more.

OUTLOOK

Over the course of 2017, we believe global markets will continue to be heavily influenced by change and uncertainty brought about by factors such as 'Trumpnomics' (regular updates via Twitter!), 'Brexit' (hard Brexit looking increasingly likely), and the rising tide of discontent with existing social and economic establishments across the world, which will be particularly relevant in Europe where a number of elections are scheduled to take place (e.g. The Netherlands in March, France in June, and Germany before October end) – a fact that caused us to review and sell our exposure to companies that we considered overly exposed to this risk – for example CBL, the NZ insurer that we think operationally looks attractive, but the potential macro risk made us to decide to sell and take a look another day.

We actively pursue reducing as much external macro risk from the portfolio as we can, instead searching out those companies where the operational exposure and risks are stock specific and success is more down to the talents of management executing a good strategy. We continue to see numerous opportunities for Fund outperformance, particularly at the smaller, undiscovered value end of the market. We are looking for great small Australian businesses, before others have found them, screening many, investing in a few and making good returns. There are many out there, we are not constrained by lack of opportunity.

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