



MHOR
ASSET MANAGEMENT

MHOR AUSTRALIAN SMALL CAP

MONTHLY PERFORMANCE UPDATE

AS OF 30th SEPTEMBER 2017

FUND RETURNED +2.43% (AFTER FEES)

NAV: 1.1618

PERFORMANCE TO BENCHMARK

	1 MONTH	3 MONTHS	12 MONTHS	SINCE INCEPTION
FUND	+2.43%	+8.89%	+6.05%	+8.53%
BENCHMARK	+1.31%	+4.41%	+2.98%	+2.91%
VALUE ADD	+1.13%	+4.49%	+3.07%	+5.61%

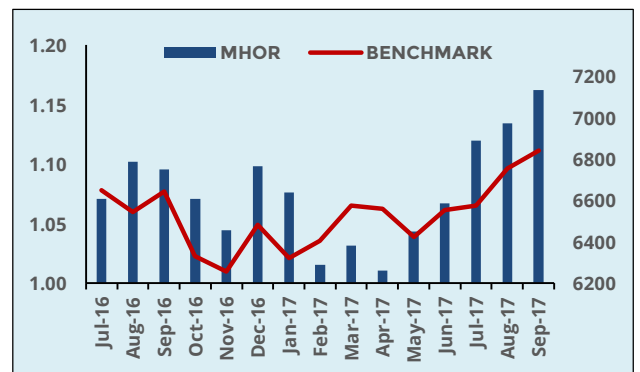
RECENT PERFORMANCE

2017	JULY	AUGUST	SEPTEMBER
RETURN (%)	+4.95%	+1.30%	+2.43%

MHOR TOP CONTRIBUTORS - SEPTEMBER 2017

1	SYRAH RESOURCES	SYR
2	SPEEDCAST INTERNATIONAL	SDA
3	G8 EDUCATION	GEM

MHOR NAV VERSUS BENCHMARK



OVERVIEW AND WELCOME

Welcome to the MHOR Small Cap Fund report for September 2017. The Fund delivered an absolute positive return of +2.43% for the month, outperforming the benchmark index by +1.13%. Since inception (August 2016), the Fund has returned an absolute +8.53%, beating the benchmark by +5.61% (Vs Small Ords +2.91% over the same period).

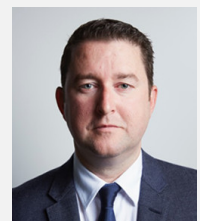
September was a busy, yet highly productive, month for The MHOR Team, wrapping up the results 'road show' presentations which spilled over into the beginning of the month and working up the new investment ideas that arose during the period. Our strategy coming into results season involves taking risk out of the portfolio, aiming to reduce exposure to stocks which may disappoint on earnings and/or outlook and raising cash levels which we can look to deploy as opportunities present themselves. Larger funds typically take some time to digest the vast quantity of earnings updates released in August before turning their attention to evaluating and executing new ideas. With this dynamic in mind, we use our size to our advantage by being nimble and getting a jump on the market.

Pleasingly, we added a number of new positions to The Fund that have already contributed positively to attribution.

The Small Cap equity market continues to outperform the larger bourse (XSAOI +1.31% vs ASX100 -0.64% in September), led by the ongoing rally in smaller resources stocks and increased investor confidence in smaller industrials, which we believe offer superior growth at better prices relative to their larger counterparts.

With earning season now out of the way, near-term market sentiment will likely be macro driven. From our standpoint, the fundamentals remain supportive of global equities (synchronized global growth, cheap credit, full employment etc). The next major scheduled period for domestic corporate news flow will be the October/November AGM season where companies often provide a quarterly update. We remain of the view that The Fund is well positioned to outperform the benchmark index with a diverse portfolio of stocks leveraged to multiple structural growth themes and trends, as well as a number of overlooked classic value plays.

We entered September with 33 stocks and 14.6% cash, exiting the month with 36 stocks and 6.7% cash.



JAMES SPENCELEY



GARY ROLLO

ABOUT THE MONTH

The benchmark Small Ordinaries index gained +1.31% during September, outperforming the ASX100 which declined -0.64%. Smaller Resources (XSR) continued their strong run, rallying a further +2.0% over the month, while Smaller Industrials (XSI) were broadly flat (+0.1%). Wall Street reached new highs in September (S&P500 +1.9% for the month), largely driven by Small Caps which attracted solid buying on news that Trump had gained Republican support for his planned tax cuts. Despite the near-term disruptions caused by this year's devastating hurricane season, the US Fed delivered a hawkish address which saw the yield curve sharply steepen and the US dollar strengthen against most key cross rates as the market repriced the likelihood of at least one more rate hike this year. The EV thematic gained strong momentum during the month, spurred on by China announcing plans to stop producing combustion only engines and a raft of global Auto OEMs announcing EV platforms, volume and timeline targets adding authenticity to the global discussion.

ABOUT THE PORTFOLIO

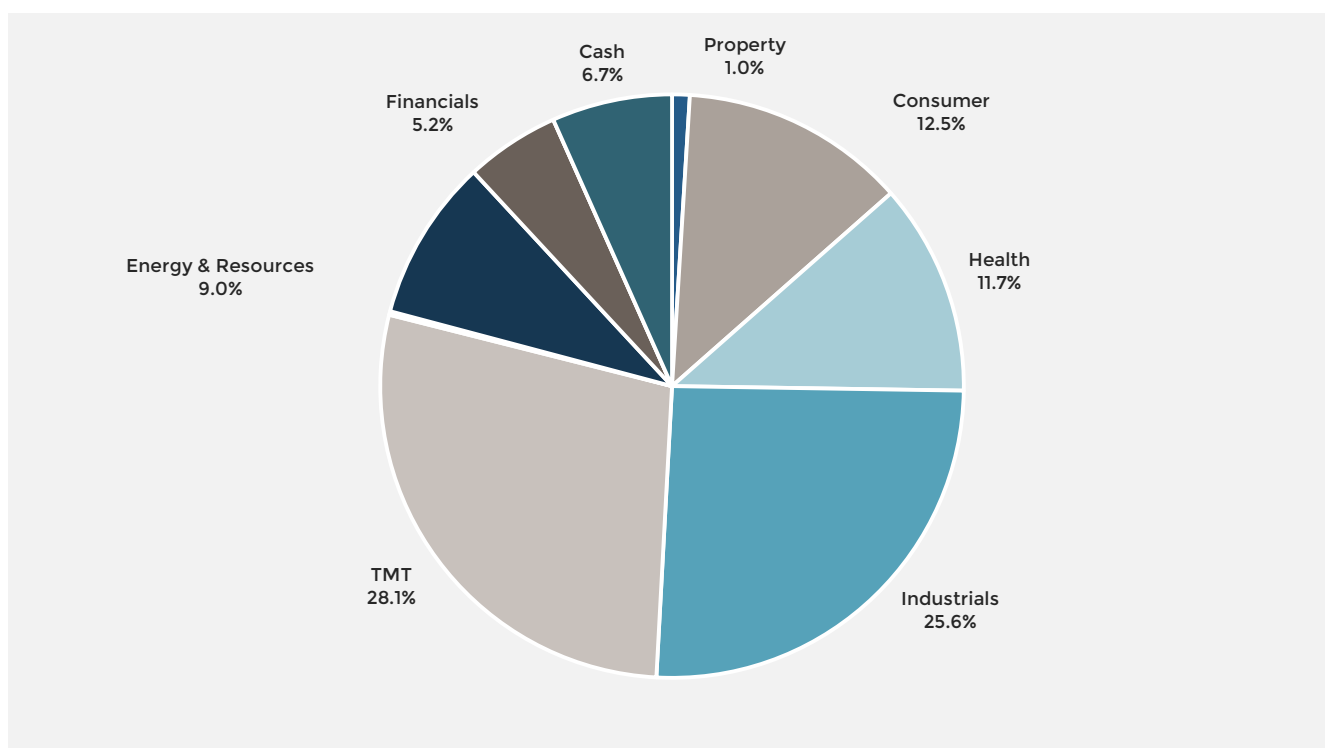
Three of the Fund's largest positive contributions came from Syrah Resources (SYR), SpeedCast International (SDA) and G8 Education (GEM). The major detractor for the month was TopBeta Holdings (TBH). More on each of these in the 'What happened in the Portfolio' section. The portfolio continues to exhibit a growth bias and has considerable exposure to smaller "undiscovered", we believe, attractive undervalued growth stories. We continue to search and find interesting new and 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	13.6X*	18.4X
1YR FORWARD DIV. YIELD	3.4%*	3.5%
2YR EPS GROWTH CAGR**	C. 20%	C. 7.5%

*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

Syrah Resources (SYR) +16%. From a top-down perspective, Syrah's stock gained over the month as investors scrambled for equity exposure to the global EV thematic, a sector which received a significant sentiment boost from news that China plans to set a deadline for its carmakers to stop selling petrol/diesel engines to help reduce air pollution. From a bottom-up perspective, Syrah shares rallied in response to the **signing of a binding sales agreement for 30kt of graphite from the Balama operation**. Together with the three previously announced binding agreements, Syrah now expects to have its first year of production underwritten. During the month, Syrah also completed a A\$110m equity raising to fund the completion of the US\$205m Balama project and associated working capital requirements, as well as phase one of the upscaled Battery Anode Material (BAM) plant. With Balama now fully funded, the key near-term catalysts we see for the stock include achieving first production (scheduled for October/November 2017), ramping up towards year-one production guidance of 140-160kt and further developing the higher-value BAM strategy. Considering graphite is a key component of lithium-ion batteries used in electric vehicles and energy storage, and **Balama will be the world's largest natural graphite mine (with a 50 year mine life)**, we see Syrah as particularly well placed to capitalize upon the rapidly evolving EV thematic.

SpeedCast International (SDA) +9%. SDA's share price rallied as investors digested **strong cashflow performance at the August results** and to an improving outlook for stocks exposed to energy market activity, coupled with its compelling valuation. With c.40% of service revenues derived from the global energy market, SpeedCast is highly leveraged to energy market activity and the oil price. **Brent crude hit a new high for 2017 in September**. Additionally, the lower Aussie dollar is beneficial from a valuation standpoint considering SpeedCast reports earnings in USD. At the fundamentals level, at the interim results in August, Management confirmed expectations for stronger organic growth generation in the second half and over the course of 2018, that integration of the transformative Harris CapRock deal is progressing well with cost synergies on the deal upgraded. **We view valuation as particularly attractive**, with the stock trading on just **13x 2018 EPS (10x cash EPS)**, which is way too cheap for a quality business with significant growth potential across a number of markets (energy, maritime, government) and an improving balance sheet (ND/EBITDA forecast to fall to 2.1x in 2018).

G8 Education (GEM) +6%. Childcare operator, G8 Education, also generated positive attribution for The Fund during September. The market was encouraged by the **announced acquisition of a portfolio of 19 childcare centres** priced at just 3.75x EBIT which led to consensus earnings upgrades. Although GEM's corporate strategy has recently shifted focus towards greenfield developments, this EPS accretive acquisition serves to remind investors that the domestic childcare market remains highly fragmented **with attractively priced consolidation opportunities still out there**. We think the new management team has done a good job navigating through tougher market conditions (sector occupancy impacted by increased industry supply and static subsidies) by divesting underperforming assets, containing costs and improving the capital structure (equity injection plus new \$200m club bank facility from Domestic Banks). **The sector outlook for 2018 appears positive, underpinned by increased government funding** scheduled to commence from 1 July 2018 and likely less supply growth. GEM shares have re-rated, however, we still see value considering the **stock is trading on a sub-market PE (15x Vs market on 17x) despite better earnings growth and a higher dividend yield**.

TopBeta Holdings (TBH) -20%. The major detractor to the Fund's performance in September was disruptive gaming company, TopBeta. During the month, the stock was sharply sold off after a newspaper article was published making reference to a shareholder, RBW Nominees (representing 6.21% of TBH's issued capital). TopBeta released a statement to the ASX to address the article and clarify that the Board does not believe that the company has any exposure to the issues raised in the article (relating to misappropriated client funds by an associate of RBW Nominees). In our view, this press represents 'noise' with no change to the underlying fundamentals. Indeed, the quarterly update released in early October confirmed that the company is performing very well with 29% sequential growth in wagering and tournament turnover during the September quarter (in-line with guidance of \$55m) and at **better than expected margins**. We expect further positive market updates as our internally tracked numbers suggest that TopBeta are on track to exceed their \$75m turn-over forecast. **As the market begins to understand this and the higher margins we expect the stock will re-rate significantly.**

OUTLOOK

Global economic growth is currently experiencing a strong and broad upturn, predominantly driven by the ongoing US business cycle expansion, improved Eurozone activity, better than expected Chinese growth, and supported by ultra-easy monetary policies. Domestically, GDP growth is below trend as higher commodity prices and increased fixed asset investment are being partially offset by soft consumer activity and stagnant wage growth. As such, investors are preferring to play the resources and mining services themes rather than retail and consumer related stocks. We still see plenty of opportunity within the Small Cap universe, a market which presents superior earnings growth at more attractive valuations, and with less reliance on global macro forces.

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