



**MHOR**  
ASSET MANAGEMENT

# MHOR AUSTRALIAN SMALL CAP

## MONTHLY PERFORMANCE UPDATE

AS OF 30<sup>TH</sup> APRIL 2018

**FUND RETURNED 1.26% (AFTER FEES)**

**NAV: 1.3141**

PERIOD	FUND	BENCH	RELATIVE
1 MONTH	1.26%	2.75%	-1.49%
3 MONTHS	-2.44%	0.44%	-2.88%
6 MONTHS	6.60%	7.11%	-0.52%
12 MONTHS	30.06%	18.45%	11.61%
INCEPTION*	22.76%	16.87%	5.89%

\*Inception: 1/8/16

### APRIL 2018 PERFORMANCE

Fund performance for the month of April 2018 was 1.26% (net of all fees) versus the benchmark of 2.75%. Since inception (August 2016) the fund has delivered returns of 22.8%.

### DRIVERS OF FUND PERFORMANCE

Notable positives included SDA & SPZ and notable detractors were EGS & TBH. The fund exited the month with 42 stocks, and 20.6% of cash driven by inflows late in the month.

### APRIL WINNERS

SPZ (+9% in the month), released data on its 3Q PCN (parking ticket issuance) indicating strong growth, further validating our view of SPZ's profit potential. With the shares up 100% YTD we took profits reducing our weight. However we continue to see SPZ as cheap for the self-funded growth it offers at 16x F19 PE on our model, with likely further years of strong growth ahead.

SDA (+15%), a satellite communications provider, has been a core holding in the fund since November 2016. The stock reacted well to improving energy market sentiment, a sector where SDA has exposure, a growing energy sector would be good for SDA profits.

### APRIL LOSERS

EGS (-36%) was a notable detractor in the month as it returned to the market following its protracted capital raising process. TBH (-31%) continued its recent declines as concerns regarding its ability to start material corporate bookmaker operations remain stuck in the hands of its regulator.

### DOWNGRADE SEASON

As May arrives so does the unofficial start of the downgrade season. The lower liquidity profile at the smaller end of the market can amplify the downgrade pain, so it pays to be prepared ahead of time. Our

view is that downgrade risk appears highest in consumer exposed names, especially discretionary retail, where the fund remains underweight, we aren't tempted by low valuations in this sector.

Downgrade season however also presents opportunity, as the market tends to sniff out those stocks at risk of a downgrade ahead of time in blanket "fear" fashion, depressing prices. We think that when the "fear" subsides these stocks will outperform, but it pays to be careful, and so our emphasis is on finding quality stocks with valuations depressed by temporary "fear".

An example of a stock where we have high conviction that the market's fears are overdone is IPH, we've been buying through late March and early April at historic valuation lows – paying 13x F18 PE for a stock that we think is higher quality than the market (itself on 18x) and growing faster. IPH is capital light, we think IPH can grow its earnings by 10% compound over the next 3 years, pay a 6.5% dividend (plus franking) and still generate excess cash. We expect IPH and other quality "fear" stocks to outperform when the market gets confirmation that things are tracking to plan.

### ACTIVITY & POSITIONING

We added 7 new stocks to the portfolio in April including SIQ & BUL and others that we will talk to in future reports.

SIQ is a BPO player, it's a high-quality company that historically has successfully added value through M&A. SIQ recently raised capital for future acquisitions at \$11.05, we didn't participate in the raise but bought on market (sub the raise price). We see SIQ priced at a market multiple, but offers better quality and growth prospects than the market and has its balance sheet already primed for what we think will be further value creating M&A.

BUL is a domestic East Coast gas player, it has assets that are candidates to be one of the next developed gas fields to bring supply to either the domestic gas market or to LNG export projects. Both of these demand sources look to be short of gas to meet their needs, and we see value as transactions occur to address future expected supply shortfalls.

Sector wise we remain constructive for cyclical industrials, particularly those exposed to resource spending. We remain cautious on retail (earnings) and property (valuation).

**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](http://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](#)**

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# 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