



MHOR
ASSET MANAGEMENT

MHOR AUSTRALIAN SMALL CAP

MONTHLY PERFORMANCE UPDATE

AS OF 31ST DECEMBER 2018

FUND RETURNED -5.92% (AFTER FEES)

NAV: 1.1526

PERIOD	FUND	BENCH	RELATIVE
1 MONTH	-5.92%	-4.18%	-1.74%
3 MONTHS	-16.82%	-13.70%	-3.12%
6 MONTHS	-12.94%	-12.75%	-0.19%
12 MONTHS	-14.69%	-8.67%	-6.02%
INCEPTION*	7.67%	6.86%	0.81%

*Inception: 1/8/16

DECEMBER 2018 PERFORMANCE

Fund performance for the month of December 2018 was -5.92% (net of all fees) versus the benchmark of -4.18%. Since inception (August 2016) the fund has delivered returns of 7.7%.

DRIVERS OF FUND PERFORMANCE

December was another weak month for equity markets, a fourth sequentially down month for the Small Ords index. Global macro factors and very weak sentiment again drove share prices. The fund performed poorly, with most stocks under water for the month.

Stock wise, positives included MGX, TME and TGR, detractors were ASL, OML, SEA & SIQ. In the month we sold 3 stocks & added 3 new ones. The fund exited the month with 19% cash & 38 investments.

DECEMBER WINNERS

MGX (+5% for month), benefitted from a firming Iron Ore price (up 9%), making it a strong performer versus a very weak small resources index (down 5%). MGX has appeared in the Monthly in the recent past so we won't go through the thesis again but note that the company is on track for its first shipment in March and has significant cash on its balance sheet (>\$400mn at 30/9).

TME (+5%), appeared in the Monthly in November due to the PE bid. The bid got a modest bump upwards in early December and looks a done deal.

TGR (+5%), is a recent investment that we think is benefitting from good volume growth, stable to positive pricing that should add to margins with a further attractive growth option in Prawn farming that could yield improved returns versus the existing Tassal Salmon business. The stock looks cheap for this growth

option in our view, and we think its defensive growth qualities add to our portfolio structure.

DECEMBER LOSERS

ASL (-18%), continued its recent under-performance, this time we think driven by macro factors & sentiment – a weak commodity price environment, as there was no stock specific news in the period.

OML (-21%), was hurt by evidence of weakening fundamentals in the media sector – some profit downgrade news coming from more traditional media players (structural decliners) impacted sentiment. This plus the market focusing on retail risk into Christmas trading (retail brands are large outdoor media buyers) we think caused the weakness on no stock specific news.

SEA (-29%), was again impacted by the move in oil (Brent -8%). The company updated the market in the month with more positive IP30 production data and noting that a weaker Oil price environment would see the capex plan adjusted if necessary. Management believe that the current asset suite makes positive returns at an oil price as low as \$30. We continue to hold seeing the capex flexibility as the key differentiator for SEA.

SIQ (-13%), one of our GARP stocks (that hasn't worked recently). We think the market is lumping all the auto related stocks into the same basket as it reacts to very weak new monthly car sales data. We expect that this has some impact on SIQ, but at the margin; SIQ makes solid earnings as a transaction processor as it administers novated lease schemes largely for charities and governments, which we see as relatively defensive.

POSITIONING

Stock specific fundamentals are being roundly ignored in many current share prices. The fund has added some more tech exposure in the month – 3 new names as this sector has got quite a bit cheaper and the fundamentals haven't changed.

Positioning: There are plenty of reasons the consumer will be weak in 2019 and we are not tempted by the low valuations on offer here. We have maintained our cyclical exposures (painfully); we think they have been oversold in the market downdraft. Our preference remains GARP for our growth exposure & overseas earners.

Equity Trustees Limited ("Equity Trustees") (ABN 46 004 031 298), AFSL 240975, is the Responsible Entity for the MHOR Australian Small Cap Fund. Equity Trustees is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX: EQT). This information has been prepared to provide you with general information only. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. Neither MHOR, Equity Trustees nor any of its related parties, their employees or directors, provide and warranty of accuracy or reliability in relation to such information or accepts any liability to any person who relies on it. Past performance should not be taken as an indicator of future performance. You should obtain a copy of the Product Disclosure Statement (PDS) before making a decision about whether to invest in this product. PDS documents are available at www.mhor.com.au and contain important information, including information about the risks of investing in stocks and small caps.

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