



MHOR
ASSET MANAGEMENT

MHOR AUSTRALIAN SMALL CAP

MONTHLY PERFORMANCE UPDATE

AS OF 31ST JANUARY 2018

FUND RETURNED -0.29% (AFTER FEES)

NAV: 1.3471

PERIOD	FUND	BENCH	RELATIVE
1 MONTH	-0.29%	-0.54%	0.25%
3 MONTHS	9.27%	6.65%	2.62%
6 MONTHS	20.31%	17.65%	2.66%
12 MONTHS	25.20%	22.35%	2.85%
INCEPTION*	25.83%	16.36%	9.47%

*Inception: 1/8/16

JANUARY 2018 PERFORMANCE

Fund performance for the month of January 2018 was -0.29% (net of all fees) versus the benchmark of -0.54%. Since inception (August 2016) the fund has delivered returns of 25.8%.

DRIVERS OF FUND PERFORMANCE

Performance was mixed, of the 35 active positions, 13 were +ve, 3 neutral and 19 -ve in the month. Notable positives included ST1, AXL & DUB and notable detractors were TBH & AQZ. The fund exited the month with 35 stocks, and 14.5% of cash.

JANUARY WINNERS

ST1 has been in our portfolio since November 2016, we upped our stake helping fund its acquisition of Phone Names and have maintained our investment since. ST1 is now growing fast and showing increasing positive operational leverage that comes from scaling a high gross margin telco business over fixed operating costs. DUB is another telco play, a sector where we think we have some expertise! The stock reacted well to a funding round in December, funding that allows management to execute on its growth plan, and to the positive quarterly operational update at the end of January. AXL shares rose in January on a new broker discovering the stock and we expect a positive trading update at 1H18 results time due in February.

JANUARY LOSERS

TBH was the principal detractor in the month, updating the market that its landmark Global Tote (a TBH company licenced offshore) deal with Ladbrokes "had not been approved in its current form" by the Northern Territory Racing Commission (NTRC). "Ladbrokes remains committed to working with TBH.." – suggesting a partner engaged to get the approval required. We note the NTRC have already approved TBH's domestically licenced retail arm to trade with the Global Tote.

OUTLOOK

The macro forces at play for the year ahead – outlined in our December report – remain in place. Synchronised global growth, impact of US corporate tax cuts, global rates remain low (funding/cash remains cheap and readily available) versus the view that global interest rates will rise, from its low base, the effect of which will be a drag on economies and markets and could expose poor capital allocation decisions during a prolonged period of artificially super low rates. These two opposing forces will bump hard against each other in the coming year, likely increasing volatility and with it opportunity. We look to maintain our portfolio flexibility, raising the cash level in the portfolio to 20% as I type, being ready for a change in markets should it arrive generally and more specifically ahead of reporting season later in February.

PORTFOLIO POSITIONING

Our view remains that there is good value in cyclically exposed names, with our preferred expression of this being mining services. We think this sector will emerge from reporting season with a robust outlook, and see valuations as very supportive. Yes all these names have re-rated, as earnings have stabilised, but we expect a strong flush of earnings upgrades from this group, on materially better balance sheets.

We continue to be cautious on domestic retail, we note valuations are cheap and fears are high, but there are few real quality players with cheap valuations, and the outlook for domestic consumption remains challenged – we prefer to play domestic consumption through staples (such as our telco exposure).

Our biggest sector under-weight is property/REIT (10.8% of the index), we have 1% exposure here (in a stock at a 30% plus discount to NTA) in this sector as we remain concerned about high valuations and the impact on this sector to rising rates.

We continue to screen for companies that are trading at valuations lower than the market, but offer better growth, balance sheet flexibility and/or risk profile than the market to anchor the value element of our portfolio.

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 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](#)

+61 2 9191 9500

info@mhor.com.au

www.mhor.com.au

ABN 32 611 709 927

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