



MHOR
ASSET MANAGEMENT

MHOR AUSTRALIAN SMALL CAP

MONTHLY PERFORMANCE UPDATE

AS OF 31ST JULY 2018

FUND RETURNED 1.23% (AFTER FEES)

NAV: 1.3402

PERIOD	FUND	BENCH	RELATIVE
1 MONTH	1.23%	-1.01%	2.24%
3 MONTHS	1.98%	3.74%	-1.75%
6 MONTHS	-0.51%	4.19%	-4.70%
12 MONTHS	19.69%	22.58%	-2.88%
INCEPTION*	25.19%	21.24%	3.96%

*Inception: 1/8/16

JULY 2018 PERFORMANCE

Fund performance for the month of July 2018 was +1.23% (net of all fees) versus the benchmark of -1.01%. Since inception (August 2016) the fund has delivered returns of 25.2%.

DRIVERS OF FUND PERFORMANCE

Notable positives included APT, IPH & EML and notable detractors were ST1 & VTI. The fund exited the month with 45 stocks, and 12% of cash.

JULY WINNERS

APT (+52% in the month), provided a business update showing stronger than expected domestic revenues, profits and operational metrics but it was activity levels reported in its nascent US business that captured the market's imagination. We trimmed our position in APT following its stock price move. We note the entrenched market viewpoints on this stock – risk around APT product garnering attention from regulators (product perceived as a credit offer, but not currently regulated as such) versus the scale of the opportunity in the US (and presumably elsewhere over time).

Our view is to keep exposure modest as the regulatory risk clarifies, but move quickly as catalysts for US performance emerge. IPH (+10%), performed well without specific news in the month. We attribute this to the market recognising IPH as a high quality modest growth business, its cheap valuation and positive leveraged exposure to AUD currency weakness. EML (+18%) announced a material contract with a Global mall operator for operating a gift card scheme in its German malls, which we see as significant for F19 earnings expectations.

JULY LOSERS

ST1 (-18%) released its 4Q18 update, which underwhelmed. Revenue growth was tempered for the group by low margin “off-net” revenue declining faster than expected. The key profit growth engine – high gross margin “on-net” corporate business – continued its growth trajectory and we remain of the view that 2019 should be a year where ST1 starts leveraging off its expanded operational network and overhead structure. VTI (-39%), contact lens microcap, saw its share price deteriorate as its quarterly report highlighted lower operational metrics than expected in its US rollout plan and continued cash burn against modest funding resources.

ACTIVITY & POSITIONING

We added 5 new stocks to the portfolio in June including CTD, TME (more later) & TNE, and sold out of EVN (our long term gold play, on valuation and gold price risk) and ZNT (the acquisition led growth story appears to have run out of steam and funding likely needs topping up for it to continue). The portfolio has been made “match fit” for earnings season, with exposures reflecting our preferences for mining services (strength) versus our negative stance on domestic consumption (retail, and other discretionary consumer exposures).

TME-GROWTH AT A REASONABLE PRICE

TME started listed life with much fanfare in 2011 as the fast growing “EBay of NZ”. Turned out the reality was that TME was an under-invested listings board, and “tech-debt” meant it would be the expense line that would be high growth, not profits – Expense CAGR F12-17 was 25% versus EPS over the same period at just 5%. The fruits of that expense growth has however built the opportunity TME faces today, in its online classifieds businesses – Jobs (aka SEK), Motors (CAR) & Property (REA/DHG). These assets have had their tech stacks renovated and now appear primed to drive that offline to online classifieds in the NZ market, resulting we think as a (long overdue) uptick in earnings growth for TME. We think TME can deliver high single digit EPS growth (perhaps more if property kicks), plus a growing dividend that takes a total return (growth plus dividend) to 12-13% run rate per annum. TME trades on 18x F19 PE (same multiple as market) and 4.5% dividend yield, in our view GARP, and an example of the quality (mid-tier) growth stock we've been adding to the portfolio of late.

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](#)

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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