



MHOR
ASSET MANAGEMENT

MHOR AUSTRALIAN SMALL CAP

MONTHLY PERFORMANCE UPDATE

AS OF 31ST MAY 2018

FUND RETURNED 0.32% (AFTER FEES)

NAV: 1.3183

PERIOD	FUND	BENCH	RELATIVE
1 MONTH	0.32%	3.70%	-3.38%
3 MONTHS	-0.78%	4.11%	-4.89%
6 MONTHS	2.79%	6.89%	-4.10%
12 MONTHS	26.39%	25.40%	0.99%
INCEPTION*	23.15%	21.19%	1.96%

*Inception: 1/8/16

MAY 2018 PERFORMANCE

Fund performance for the month of May 2018 was 0.32% (net of all fees) versus the benchmark of 3.70%. Since inception (August 2016) the fund has delivered returns of 23.1%.

DRIVERS OF FUND PERFORMANCE

Notable positives included IGE, IPH & WEB and notable detractors were SPZ & DNA. The fund exited the month with 43 stocks, and 17.5% of cash.

MAY WINNERS

IGE (+43% in the month), an early stage developer of waste plastics to road ready fuel projects, benefitted from rising awareness of China's recent moves to limit importation of plastic waste and the problems that Western nations now face in dealing with this waste material. IPH (+23%), benefitted from a management presentation providing comfort that earnings for F18 are on track, we expect that early June's AUD decline should also bolster investor support for this offshore earner. WEB (+14%), benefitted from the recent rally of the larger cap growth names in the index. WEB's valuation stands out when compared to peers growing at similar rates.

MAY LOSERS

SPZ (-52%) warned its UK business was performing behind expectations and that its UK management team had been removed. SPZ, up 100%+ in the prior 3 months had attracted "hot money" positioning for earnings upgrades, which amplified the share price decline. Despite our disappointment with SPZ UK's operational performance in 2H18 we think the medium to long

term fundamentals of the UK business remain good although our confidence is clearly lower. Our view is that SPZ remains a fast growing business, fully funded to deliver cash generative growth (we have EPS doubling in each of F19 and F20), and at 12x F19 PE valuation is attractive. However investor trust needs to be rebuilt, and sentiment is likely to govern near term share price performance. We have lowered our SPZ exposure, and look to revisit at a time when we expect fundamentals to govern share price performance.

DNA (-33%), frontier casino operator, a position we started buying recently. It stands out on our valuation screens as very cheap (3x EV/EBITDA). DNA's been cheap for a while, just not this cheap, it has a good balance sheet and is cash generative. DNA also has a catalyst emerging in the potential resolution of a dispute with the vendor of DNA's key asset - Star Vegas Casino. The resolution could result in an A\$18mn final payment to the vendor and 18% of DNA shares being cancelled - collectively representing over 1/3 of DNA's market cap. In the meantime, DNA has been buying back its own stock and a Director's been buying too.

ACTIVITY & POSITIONING

We added 2 new stocks to the portfolio in May including EML - more on that later, and sold out of ORE on rising risk in emerging markets (its key asset is in Argentina). We added to BAP, NBL, HZN, NWH and WEB, whilst trimming others.

EML is a digital payments provider, it's been a market darling in the past, and a stock that we as a team have debated many times, drawn to its potential of offering scalable exposure to a large market. We have however each time decided not to get involved as we could not get comfortable with high earnings expectations and a high valuation that demanded delivery. However the stock lost approximately half its value over the past 6 months as those forecasts started to unwind to a level where we believe we can now see how those earnings can be delivered, and the value framework the stock sits within is a lot less demanding now. Whilst there remains work for management to do to deliver on the lower earnings expectations, we think the stock performs if they do as opposed to the priced to perfection valuation the business had in the past.

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