



MHOR
ASSET MANAGEMENT

MHOR AUSTRALIAN SMALL CAP

MONTHLY PERFORMANCE UPDATE

AS OF 31ST OCTOBER 2018

FUND RETURNED -7.75% (AFTER FEES)

NAV: 1.2784

PERIOD	FUND	BENCH	RELATIVE
1 MONTH	-7.75%	-9.60%	1.85%
3 MONTHS	-4.61%	-7.67%	3.06%
6 MONTHS	-2.72%	-4.22%	1.50%
12 MONTHS	3.70%	2.59%	1.11%
INCEPTION*	19.42%	11.94%	7.48%

*Inception: 1/8/16

OCTOBER 2018 PERFORMANCE

Fund performance for the month of October 2018 was -7.75% (net of all fees) versus the benchmark of -9.6%. Since inception (August 2016) the fund has delivered returns of 19.4%.

DRIVERS OF FUND PERFORMANCE

October was a tough month, the market sell-off was broad and the portfolio performed poorly albeit better than the market. Stock wise positives included NVT, MGX & SEA and detractors were ST1, WEB & GUD. In the month we sold 5 stocks & added 3 new ones. The fund exited the month with 16% cash & 46 investments.

OCTOBER WINNERS

NVT (+13% for month), one of our GARP (growth *at* a reasonable price) stocks, received a \$5.50 takeover offer from a Private Equity lead consortium including Founder, Director & 13% shareholder, Rod Jones. NVT has been through some contract turmoil that has crystallised material profit downgrades over the past 3 years, however new management has come in and tough decisions to close unprofitable assets have been made. We got involved in July, on the basis that NVT was a quality growth business with strong cash generation in a growing end market and new management, given time, had the strategy and discipline to demonstrate that. However, the PE led bid has arrived, no doubt seeing the same opportunity we do. NVT's board, has assessed the bid as inadequate, but has engaged, seeking an uplift before allowing DD.

We think there is the potential of a higher bid to get the board over the line. MGX (+17%) is an Iron Ore junior, with a market cap of \$640mn. Its principle asset a 65.5% (high) grade Iron Ore mine

at Koolan Island (KI) off the coast of WA. It has \$452mn cash (at 30/9/18), no debt and \$65mn of remaining capex to spend on KI until cashflow, which implies an EV for the mine of c.\$250mn. KI has 5 years of mine life, expected to produce 21mn tonnes of 65.5% grade ore, all subject to offtake at market-based pricing.

MGX would receive around US\$100 (A\$135) a tonne at today's spot price due to its high-grade ore, versus an expected life of mine cash cost of A\$41. That's a big profit margin of \$90+ tonne. The mine is expected to enter production in early 2019.

OCTOBER LOSERS

ST1 (-16%), a micro-cap telco, released an underwhelming market update. Growth in ST1's high margin commercial business although strong, was not enough to offset the decline in low margin non-core revenue. We expect ST1 will see its growth rate pick up later this year as it executes its recently won Victorian Government contract, to provide fast internet in NBN blackspot areas.

WEB (-16%), an online travel company, underperformed despite no new news. We anticipate that the market feared the impact of a hot European summer on travel bookings. WEB has no doubt been impacted, although management had already called out this risk at its August results release and factored some of this into its outlook given at that time. Of the high growth stocks in the market, WEB is one of the stand-out cheapest in our view, trading at a sub-market multiple for F20, when the full impact of the Thomas Cook deal can be observed in WEB's P&L. Too cheap for the growth so we added to our WEB position on the back of the share price weakness.

POSITIONING

Fundamental news – slowing domestic retail like for like sales and old media profit warnings in the month confirmed our view that those sectors remain investment no-go zones. The Australian Consumption super-cycle is over, and discretionary retail is the nexus of pain in our view. Headwinds for retail are building (not over), and many retail stocks are likely to show illiquid characteristics in a downturn and look out-right dangerous to us. Our cyclical preferences remain resources, energy & mining services and focus on 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