



**MHOR**  
ASSET MANAGEMENT

# MHOR AUSTRALIAN SMALL CAP

## MONTHLY PERFORMANCE UPDATE

AS OF 30<sup>TH</sup> SEPTEMBER 2018

**FUND RETURNED -0.03% (AFTER FEES)**

**NAV: 1.3857**

PERIOD	FUND	BENCH	RELATIVE
1 MONTH	-0.03%	-0.35%	0.33%
3 MONTHS	4.67%	1.10%	3.57%
6 MONTHS	6.78%	8.86%	-2.08%
12 MONTHS	19.28%	20.32%	-1.04%
INCEPTION*	29.45%	23.82%	5.63%

\*Inception: 1/8/16

### SEPTEMBER 2018 PERFORMANCE

Fund performance for the month of September 2018 was -0.03% (net of all fees) versus the benchmark of -0.35%. Since inception (August 2016) the fund has delivered returns of 29.5%.

### DRIVERS OF FUND PERFORMANCE

September fund performance was driven by exposures to Mining Services and Resources, specifically Energy. Notable positives included AQZ, ASL, & SEA and detractors were WEB & EML. The fund exited the month with 48 investments, and 16% cash.

### SEPTEMBER WINNERS

AQZ (+11% for month), now up 350%+ since we first started buying the stock, continues to perform as the market appreciates those positive attributes we have written about many times in our monthlies. The next catalyst for the stock is AQZ's upcoming AGM where we anticipate a material capital management / dividend event reflecting the quality of the earnings and asset position the business is now in.

ASL (+10%) started to perform post the "indigestion" associated with its significant capital raise in August used to fund its acquisition of long-term JV partner Barmenco. We like the 100% ownership of the JV assets (African mining) as the exposures are well understood by ASL management and investors. Barmenco's Australian domestic underground mining assets offer a lower capital intensity, higher returns and lower earnings volatility than ASL's existing businesses. We think these are quality factors the market will appreciate over time, in the meantime buying ASL on sub 4x EBITDA, a material discount (35%+) to peer like exposures, made sense to us. We sold NWH to maintain a balanced

exposure to the mining services sector.

SEA (+16%) rose on higher oil prices and we think expectations rising ahead of what we see are very important production results in SEA's September Operational report due in early October. SEA acquired proven acreage in a large re-capitalisation like transaction in March 2018. The first (5) wells associated with that acreage - Live Oak - were drilled in mid-August, meaning that we should get the important initial production stats (IP30) in this report for these wells. This data will give us some early insights on expected future returns SEA might get as it deploys the latest drilling and completion technology across the acquired acreage.

### SEPTEMBER LOSERS

WEB (-9%) declined as travel agent peer Thomas Cook (UK listed) announced a profit warning driven by above average warm weather in Europe blunting near term demand. WEB has exposure to the European market and called this softness out at its results in August. We think any weakness is limited and certainly transitory.

EML (-11%) retraced some of its gains since its lows in April (+50% ago). We note that EML has signed its large German Malls contract, which is significant for the business for many years ahead, however what earnings that contract delivers in this year will depend on how fast EML and the customer can deploy.

### POSITIONING

With macro-economic and market valuation settings where they are we are modestly bullish and expect the market to continue its grind higher. We continue to favour cyclical growth (Resources), GARP and overseas earners. In the month we sold 5 names, including NWH, and added 7 new stocks to the portfolio, including 4 Resources stocks.

We increased our resource related exposure to a modest overweight. We swapped some mining services names for resources, on value given recent underperformance on the recent trade war narrative and emerging market concerns. Our largest underweight remains the discretionary consumer sectors as we continue to see headwinds from house price declines and credit tightening impacting domestic consumption.

**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](http://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