



MHOR
ASSET MANAGEMENT

MHOR AUSTRALIAN SMALL CAP

MONTHLY PERFORMANCE UPDATE

AS OF 28TH FEBRUARY 2019

FUND RETURNED 5.53% (AFTER FEES)

NAV: 1.2876

PERIOD	FUND	BENCH	RELATIVE
1 MONTH	5.53%	6.78%	-1.25%
3 MONTHS	5.10%	8.01%	-2.91%
6 MONTHS	-7.11%	-3.06%	-4.04%
12 MONTHS	-3.09%	3.48%	-6.57%
INCEPTION*	20.28%	20.45%	-0.17%

*Inception: 1/8/16

FEBRUARY 2019 PERFORMANCE

Fund performance for the month of February 2019 was +5.53% (net of all fees) versus the benchmark of +6.78%. Since inception (August 2016) the fund has delivered returns of 20.3%.

DRIVERS OF FUND PERFORMANCE

February saw global equity markets continue their rally post late 2018 sell-off. Small Cap reporting season arrived with the winners being tech, overseas earners & mining services, the losers domestic cyclicals. Generally speaking, it was a weak reporting season, with the density of downgrades appearing higher than normal. For the Fund positives included APX, ASL & SPT, detractors this month included SEA, SIQ & ST1. In the month we added 6 new stocks and sold 6 taking advantage of strong prices towards the end of the month. The Fund exited the month with 20% cash & 39 investments.

FEBRUARY WINNERS

APX (+47% for month), delivered impressive growth at its results reminding investors of the benefits of exposure to a rapidly growing theme – the provision of quality annotated datasets for use in machine learning & AI.

ASL (+37%), had been one of the weaker performing mining services stories in 2018 despite its obvious valuation appeal in our view. February saw the stock bounce on what we saw as “average” results & outlook so we took the opportunity to sell and move on.

SPT (+65%), IPO'd at the end of January and continued its strong share price run, it looks like it has become a popular day trading stock with remarkable traded volumes each day for its size of market cap. We sold on strength.

FEBRUARY LOSERS

SEA (-18%), underperformed the market despite a rising oil price in the month. SEA's quarterly showed production at the top end of its guidance for F18 aided by Initial Production results for wells drilled in the period, continuing the trend of coming in better than the expected type curves – higher IP rates and “oilier”. We think the underperformance comes from market concerns about funding in a weak oil price environment. We view SEA's strong hedging position and the capex flexibility as offering resilience and view SEA as cheap.

SIQ (-19%). With hindsight we got this one wrong as we took the view heading into reporting season that the risk of modest earnings downgrades were in the price and that SIQ's quality and growth track record would shine through. 3% EPS downgrades crystallised 19% decline in share price – indicating the market had a different view!

ST1 (-36%), delivered weak earnings. Costs needed to support growth arrived but new sales initiatives didn't gain the traction expected, crunching margins in 1H19. The results were poor. Management report that they have cut the excess cost and sales are now back on track and forecast “normal” margins for 2H19. The market rightly took a dim view and marked the shares down.

POSITIONING

With the US Fed announcing it's on hold in January, the scene was set for the market to revert to its pre-October disposition of rewarding high growth stocks with “white hot” valuations. We expect this valuation regime to continue and we are looking for quality visible growth stocks but at cheaper valuations; these can be found in Small Caps.

We went into reporting season expecting to find some large share price falls on operational disappointments in stocks the Fund didn't own. We reviewed most of the major disappointers including BKL, PGH, BIN, ING, EHL, SGF, PPS, HUO, & HSN, hoping to find good value. We bought into BIN (win-win on ACCC yes/no on DADI) and PPS (growth product launched at large addressable market), on the basis that valuations looked “bombed-out”. The others didn't pass the test. Consumer related stocks fared better than we expected, but we remain cautious & under-weight, as all the issues we have previously articulated remain in play.

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