MHOR AUSTRALIAN SMALL CAP

MONTHLY PERFORMANCE UPDATE

AS OF 31ST DECEMBER 2016

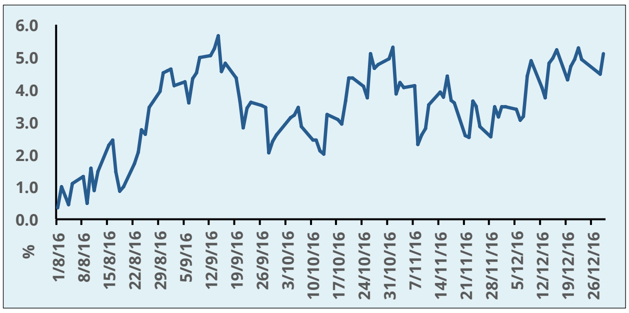
FUND RETURNED +5.14% (AFTER FEES)

NAV: 1.0982

PERFORMANCE TO BENCHMARK

	1 MONTH	3 MONTHS	SINCE INCEPTION
FUND	+5.14%	+0.43%	+2.59%
BENCHMARK	+3.61%	-2.30%	-2.51%
VALUE ADD	+1.53%	+2.73%	+5.10%

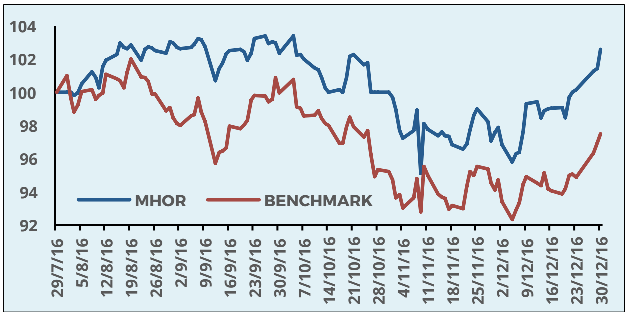
CUMULATIVE PERFORMANCE OVER BENCHMARK



HISTORICAL PERFORMANCE

2016	AUG	SEP	OCT	NOV	DEC	YTD
RETURN (%)	+2.95%	-0.60%	-2.28%	-2.43%	+5.14%	+2.59%

ABSOLUTE PERFORMANCE



MHOR TOP CONTRIBUTORS – DECEMBER 2016

1	SPIRIT TELECOM	ST1
2	ROBO 3D	RBO
3	NEXTDC	NXT

OVERVIEW AND WELCOME

Welcome to the MHOR Small Cap Fund report for December 2016.

We are pleased to report the **Fund returned +5.14%** for the month of December against the benchmark, which was up 3.61%. This resulted in an outperformance relative to the market of 1.53%. Since inception in August 2016, the Fund has outperformed the market by 5.10%, returning an absolute +2.59% compared to the benchmark which is down -2.51%.

We entered December with 34 stocks (including 1 unlisted) and just 1.4% cash as we were looking to take advantage of the post Trump rally as much as we could. In December we changed tack, with the later part spent preparing the fund for the upcoming earnings season, steadily de-risking the portfolio into market strength, raising cash that we hope to put to work following the clarity that comes from earnings reports due mid to late February. Our plan for earnings season - avoid unnecessary risk, move quickly where we see opportunity and getting set early in the stocks we like. The benefits of being small and nimble!

We exited December with 33 stocks and 11.2% cash.

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ABOUT THE MONTH

December was a stronger month for Small Cap equities with the Small Ordinaries index rallying 3.61% following a soft November where the benchmark index fell 1.19%. Markets continued to be influenced by global macro factors, particularly the November US Federal Election result and the December US Fed meeting. Equities rallied as bonds sold off, largely on the back of the 'reflation trade' spurred on by Trump's victory and promises of increased fiscal stimulus and corporate tax cuts. The Fed's December rate rise met market expectations, underscoring the strength of the US economic recovery, although, the Fed's outlook for three more hikes during 2017 was slightly more hawkish than the market had anticipated. Indeed, it will be interesting to see how Trump's fiscal ambitions are balanced against the Fed's view on the rate cycle over the course of 2017. Domestically, higher multiple Small Cap stocks continued to underperform in December while value names found stronger support. The highest profile profit downgrades during December were Bellamy's, Shaver Shop and Touchcorp (none of which the Fund owned).

ABOUT THE PORTFOLIO

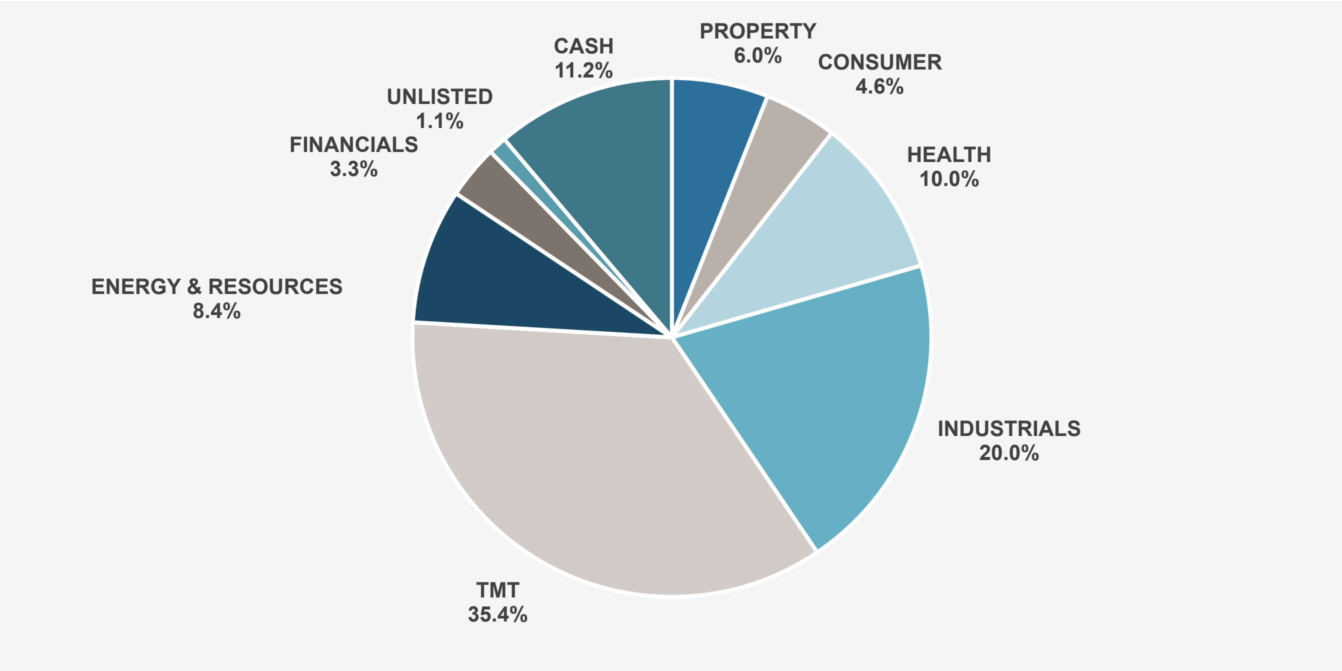
The Fund's largest positive contributions came from Spirit Telecom (ST1), Robo 3D (RBO) and Nextdc (NXT). The only major detractor for the month was Ellex Medical Lasers (ELX). More on each of these in the 'What happened in the Portfolio' section. The portfolio continues to have growth bias, has considerable exposure to smaller "undiscovered", we believe, attractive undervalued growth stories. We continue to search and find interesting new emerging small cap equity stories with little or no institutional ownership, picking those that have the scope to be discovered by larger small cap funds has so far served the fund well.

PORTFOLIO EXPOSURE AND METRICS

CHARACTERISTIC	PORTFOLIO	MARKET***
1YR FORWARD PE	16.8X*	15.1X
1YR FORWARD DIV. YIELD	4.1%	3.3%
2YR EPS GROWTH CAGR**	C. 19.5%	6.3%

*Ex Select early stage companies, ** MHOR and FactSet Consensus data, *** FactSet Consensus for Small Ordinaries Forward P/E

PORTFOLIO SECTOR EXPOSURES



WHAT HAPPENED IN THE PORTFOLIO

Spirit Telecom (ST1) +22%. Spirit Telecom is a small but fast-growing ISP, focused on supplying broadband services on next generation wireless infrastructure to multi-dwelling user locations including residential, business, student accommodation, community housing and business parks. ST1 has been on our radar for some time, it operates in a sector we know well and we were looking for the right opportunity to get involved in what we think is a multi-year rollout story emerging at its scale tipping point – fast growing revenues, strong gross margins on top of a relatively fixed and now covered cost structure. The Fund joined the register during December as a cornerstone investor in Spirit's $2.25m capital raising which part funded the $4.2m acquisition of Phone Names. The Phone Names business owns and markets inbound 13/1300/1800 smart numbers, owning over 2,200 phone names and with a blue-chip customer base, including Domino's Pizza (1300 DOMINOS), Harvey Norman (1300 GO HARVEY) and Vodafone (1300 VODAFONE). We saw merit in the Phone Names acquisition which provides solid cross-sell opportunities and strong cash generation to support the more capex requirement for growth in the core business and we calculate that the transaction is incredibly EPS accretive (c.40%). With a market cap of just $30m, we see significant upside potential for Spirit Telecom, both organically and through further M&A.

Robo 3D (RBO) +68%. The Fund's first pre-IPO investment, Robo 3D, listed on the ASX on 22 December 2016, making a positive debut. Robo 3D is a California-based designer and distributor of 3D printers and associated products for the desktop segment of the 3D printing industry. The Company has experienced strong sales momentum with recent launches on the online stores of large US retailers, Target and Office Depot, while the release of two new competitively priced 3D printer models ('Robo C2' & 'Robo R2) are expected to drive further growth during 2017. Robo 3D has an established sales footprint through large US retail customers, including Amazon, Best Buy and Staples, and its international expansion is underway with the recent signing of distributors in Canada, Mexico and Australia. We were attracted to the Company's technology, its well-developed product portfolio, impressive retail penetration and exposure to the fast growing desktop 3D segment (estimated to be growing c.30% p.a.).

NEXTDC (NXT) +15%. NEXTDC is a national data centre operator which provides investors with leverage to the strong thematic of corporate enterprises increasingly adopting cloud delivered services. Although the NXT is a capital-intensive business, once fully operational, data centres generate strong, visible steady returns and cash flows over many years. We were pleased to see the stock bounce in December after being sold off since raising capital in September (to fund the development of its second Sydney data centre, S2), largely due to market fears about increasing competition. We continue to believe these competition fears are overplayed with industry channel checks indicating that demand remains materially ahead of supply and there being no magic new competitive solution to industry capital intensity on the market.

Ellex Medical Lasers (ELX) –12%. The only major detractor to the Fund's performance was Ellex Medical Lasers which saw some share price consolidation following a strong run in November and a capital raising in early December ($10.3m to fund the acceleration of iTrack). We remain happy holders and buoyed by the growth opportunities ahead for ELX.

OUTLOOK

2016 was certainly an eventful year for markets, full of surprises like Brexit and Trump, although generally constructive for global equities. Towards the end of the year, the decade-long bull market in bonds began to unwind, driving the Dow towards record levels and leading equity investors to transition away from defensive-growth and bond proxy stocks and into cyclicals and value names. Although markets have interpreted Trump's victory as bullish for equity markets, the Fed has signaled that it intends to continue tightening over the course of 2017 as the US economy has been recovering nicely under the previous administration. The stronger US dollar should bode well for Australian companies with US earnings, as well as those operating in the resources, manufacturing and tourism sectors.

The rising tide of drive for social change, nationalism and protectionism sweeping the globe cannot be ignored; we will be keeping a close eye on Europe during 2017 where a number elections are scheduled to take place (e.g. The Netherlands in March, France in June, and Germany before October end). Indeed the fund exited its CBL position due to its heavy exposure to the Euro – a risk we don't want to take so we moved on, knowing we can come back later if the risk dissipates.

Notwithstanding these global macro risks, we continue to see numerous opportunities for Fund outperformance, particularly at the smaller, undiscovered value end of the market. We are looking for great small Australian businesses, before others have found them, screening many, investing in a few and making good returns. There are many out there, we are not constrained by lack of opportunity.

Happy 2017 from your investment team at MHOR!

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