MHOR AUSTRALIAN SMALL CAP

MONTHLY PERFORMANCE UPDATE

AS OF 30th JUNE 2017

FUND RETURNED +2.28% (AFTER FEES)

NAV: 1.0669

PERFORMANCE TO BENCHMARK

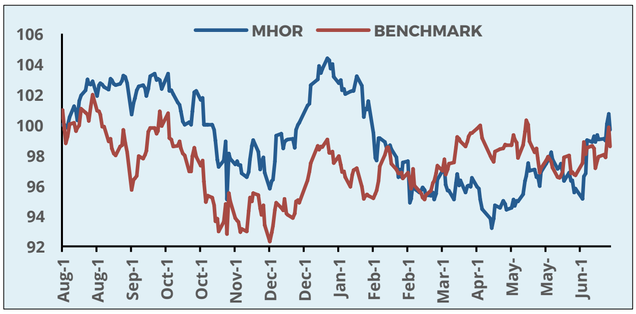
	1 MONTH	3 MONTHS	SINCE INCEPTION
FUND	+2.28%	+3.45%	-0.34%
BENCHMARK	+1.99%	-0.35%	-1.43%
VALUE ADD	+0.29%	+3.80%	+1.09%

CUMULATIVE PERFORMANCE OVER BENCHMARK

HISTORICAL PERFORMANCE

2017	APRIL	MAY	JUNE
RETURN (%)	-2.02%	+3.23%	+2.28%

ABSOLUTE PERFORMANCE



MHOR TOP CONTRIBUTORS – JUNE 2017

1	TOPBETTA HOLDINGS	TBH
2	IMDEX	IMD
3	G8 EDUCATION	GEM

OVERVIEW AND WELCOME

Welcome to the MHOR Small Cap Fund report for June 2017. After May's strong result (+3.24% absolute return & +5.29% value add), we are pleased to report The Fund continued that positive performance in June, positing an absolute return of +2.28% and outperforming its benchmark by +0.29%. Since inception (August 2016), The Fund has outperformed the benchmark by +1.09% (with an absolute return of -0.34% vs the market -1.43% over the same period).

For the second consecutive month, Small Caps outperformed Large Caps (Small Ords +1.99% vs ASX100 -0.18% in June); perhaps a sign that investors are once again returning to Small Caps in search of growth at a reasonable price? During June, smaller industrials gained +1.99%, rebounding back after a sharp sell-off over the prior month (-2.89% in May) on a raft of disappointing trading updates (many of them from retailers). Smaller resources stocks were broadly flat in June, holding onto May's +1.63% increase. Within the Small Cap universe, we continue to see the market paying a healthy premium for earnings surety and liquidity. Investors also remain cautious about consumer related stocks against a tough macro backdrop, specifically retailers with Amazon's pending entry adding another layer of uncertainty to the mix.

Nothing has changed our view that the domestic Small Cap equity market continues to offer up good investment opportunities with compelling value and less reliance on global macro forces. We firmly believe that Small Caps remains a stock picker's market with strong potential for outperformance available to those willing to stick by their process and do the hard work. Our pipeline of new ideas continues to grow and evolve; we constantly utilize our proprietary screening technology to efficiently narrow down the vast array of prospects into a subset which we can then apply our rigorous bottom-up fundamental analysis to assess a stock's suitability for investment by The Fund. True to our stated investment process, we have strategically positioned The Fund to directly benefit from a number of identified industry themes and trends, including the impact of technology proliferation and disruption, ageing demographics driving increased demand for affordable healthcare, and industry consolidation. Additionally, we are always seeking out overlooked classic value plays or leveraging James' corporate experience to assess the many turnaround situations out there.

We entered June with 31 stocks and 7.0% cash, exiting the month with 31 stocks and 8.5% cash.

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ABOUT THE MONTH

The benchmark Small Ordinaries index gained +1.99% in June, recovering most of May's -2.05% decline. The June rally was principally driven by Small Industrials (XSI), which rose +1.99% during the month, after being sold off -2.89% in May on the back of a high number of profit warnings. Small Resources (XSR) were broadly flat (-0.01%), holding onto May's +1.63% increase. Small Caps outperformed Large Caps for a second consecutive month with the ASX100 off -0.18% (May -3.47%). US equities remain buoyant (S&P500 +0.48% in June); however, June saw the tech sector underperform (NASDAQ -0.94%) as investors worried about elevated valuations, taking profits and rotating into cheaper banks and industrials (Dow +1.62%). Investor optimism in Europe, initially spurred on by the French election outcome in May, markedly soured in June as Theresa May's gamble on holding a snap UK election dramatically backfired with the Conservatives losing their overall majority, increasing the uncertainty surrounding upcoming Brexit negotiations (FTSE fell -2.76% in June). Better than expected economic data drove Chinese stocks +2.41% higher, somewhat allaying investor fears about the impact of recent fiscal and property market tightening measures (recall that Chinese equities surrendered c.3% over the course of April and May). With many domestic Small Cap industrials updating the market on their year-to-date trading performance and outlook during May, June is typically a quieter month for stock specific news flow. This was evidenced by a material reduction in profit warnings delivered in June; notable June offenders were Murray Goulburn, Quintis, Monash IVF Group, Ballamy's, Watpac, Gateway Lifestyle, Retail Food Group, Ardent Leisure, Infigen Energy and Mineral Resources (MHOR avoided all of these).

ABOUT THE PORTFOLIO

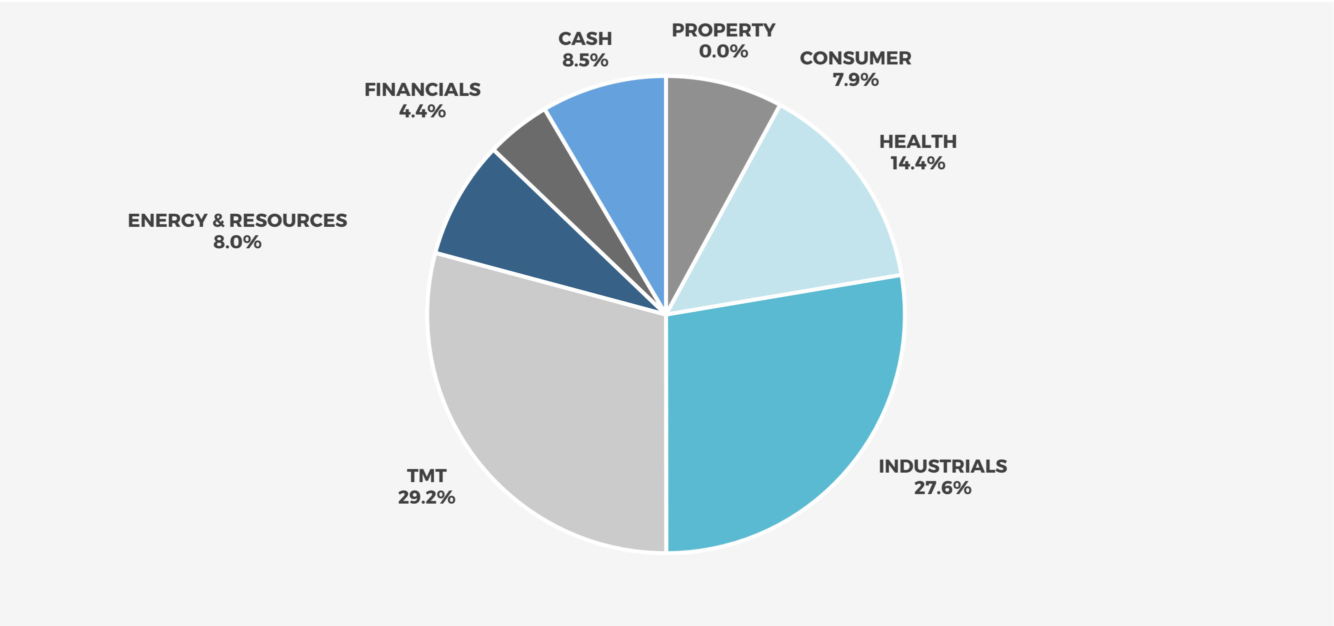
Three of the Fund's largest positive contributions came from TopBetta Holdings (TBH), Imdex (IMD) and G8 Education (GEM). The major detractor for the month was AirXpanders (AXP). More on each of these in the 'What happened in the Portfolio' section. The portfolio continues to exhibit a growth bias and has considerable exposure to smaller "undiscovered", we believe, attractive undervalued growth stories. We continue to search and find interesting new and emerging Small Cap equity stories, picking those that have the scope to be discovered by larger Small Cap funds.

PORTFOLIO EXPOSURE AND METRICS

CHARACTERISTIC	PORTFOLIO	MARKET***
1YR FORWARD PE	14.5X*	15.0X
1YR FORWARD DIV. YIELD	2.2%	3.0%
2YR EPS GROWTH CAGR**	C. 20%	5.2%

*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

TopBetta Holdings (TBH) +45%. A key positive contributor to The Fund's attribution in June was disruptive gaming company, TopBetta. The stock price ran on the back of news that TopBetta had secured a commitment from racing form analyst and professional punter, Sean Bartholomew, to bet an estimated $200m into The Global Tote pools over the next 12 months. This agreement is a significant development for the company, in our view, representing a strong positive endorsement from one of the country's leading racing punters, and importantly, substantially de-risking The Global Tote roll-out with guaranteed liquidity over the coming year. The Global Tote went live in May via a soft launch with early results extremely encouraging. The seeding of the pools with substantial liquidity, courtesy of Sean Bartholomew, will enable TopBetta to accelerate the roll-out of The Global Tote across all Australian races, whilst laying a firm foundation for the product to attract bookmakers and punters from around the world. Sean Bartholomew noted that he is backing The Global Tote because it has the lowest take-out rate which means it is the fairest system he has seen for punters, both big and small (10% take rates vs traditional totes operated by TAB Corp and Tattersalls at 16-18%). Mr Bartholomew will be incentivized through the issue of 2 million TBH options exercisable at $0.20, vesting on 30 June 2018 subject to his compliance with agreed betting amounts into TopBetta in 11 of the 12 prior months. As the world's first 'B2B only' wagering tote pool product and offering very competitive take rates for punters, we continue to believe The Global Tote has the potential to be a 'game changer' for bookmakers, punters and racing bodies around the world. The size of the prize on offer is a multi-billion dollar market; with a market cap of just $40m, TBH presents an attractive risk-reward proposition, from our standpoint.

Imdex (IMD) +17%. Imdex, a leading provider of drilling fluids and downhole instrumentation to the global minerals industry, was another key positive contributor in June. The company's shares rallied in response to the release of an investor presentation which highlighted increasing demand for its core products, driven by the early stages of a cyclical upswing in global minerals exploration activity. Initially underpinned by the stronger gold price, the company noted that it is now seeing a broader based recovery across base metals. In general, major, intermediate and junior resource companies are well-funded and have indicated expanded exploration budgets in 2017, albeit still well below peak levels. Higher exploration budgets reflect increased sector-wide confidence in the commodity price outlook, as well as the fundamental need to replace depleting resources and reserves. Imdex is highly leveraged to increased activity; as more rigs return to work, more drilling fluids are consumed and additional instrumentation is required. Evidence of the cyclical upswing can be found in the company's update on instruments on hire; as at the end of May 2017, Imdex's REFLEX tool fleet was up 40% on the prior year and at the highest level since November 2012. Higher utilization of the existing instrumentation fleet drives significant growth in Imdex's operating earnings as these tools generate very high margins (we estimate well north of 50%) with minimal incremental costs of deployment. With this in mind, if the cycle continues to recover as indications would suggest, we see material upside risk to consensus earnings estimates in FY18 and FY19. Additionally, Imdex has a strong balance sheet in a net cash position, bolstered by last year's $40m capital raising.

G8 Education (GEM) +10%. The Fund also benefited in June from our investment in child care provider, G8 Education. Having previously sold out of our position in GEM based on valuation grounds, we decided to get back into the stock in late May, participating in the $100m capital raising. For us, the opportunity presented by this capital raising ticked a lot of boxes. Firstly, GEM is a solid business with strong cash flows and defensive characteristics, the kind of business that institutional investors normally pay a premium for. Secondly, valuation was compelling with the stock price having come off quite a way, largely on the back of investor fears about the potential for an earnings downgrade driven by industry oversupply (the $3.20 offer price implied a year-forward PE of just 11.5x coupled with a 7.5% dividend yield and a mid-to-high single digit EPS growth profile over the medium-term). The company addressed these concerns, issuing a trading update which confirmed FY17 consensus EBIT forecasts and outlined how the impact of softer occupancy and acquisition delays had been offset by price increases and strong cost control. Thirdly, the equity injection materially improves the balance sheet position with net leverage reduced from 2.2x to 1.1x, providing ample headroom to fund the development pipeline. Further benefits will come when the domestic club facility comes into the capital structure to replace the expensive bonds. Finally, announced management and board changes improve corporate governance which has been an issue for some in the market. GEM should also benefit from changes to child care government funding scheduled to be introduced from 1 July 2018 (75% of families estimated to be better off under the changes). These are the types of investment opportunities which we are constantly looking out for; good cash flow businesses with solid growth prospects that have been temporarily mispriced by the market and with identifiable re-rating catalysts ahead.

AirXpanders (AXP) -20%. The major detractor to June's performance was AirXpanders, a medical device company focused on commercializing its AeroForm Tissue Expander System used in breast reconstructions following mastectomy. Despite the company's update to the market highlighting encouraging early signs of the US commercialization, the shares faced renewed selling pressure in June. We suspect this selling pressure largely reflects investor concerns about the time to profitability for the company (likely 2 or so years) and if the $45m of cash raised in January will be enough to see it through. Indeed, AXP is not alone here; as investors have de-risked their portfolios over the past six months, across the market we have seen a broader sell-off in stocks yet to turn a profit, particularly those where the path to profitability stretches more than a year.

OUTLOOK

Many of the macro tailwinds which have driven global equities higher over the past six months appear broadly intact, in our view. The US economic recovery, now in its seventh year, shows no signs of faltering, supported by a strong labour market and a healthy corporate sector. Notwithstanding uncertainties surrounding 'Trumponomics', the strength of the underlying US economy and constructive outlook gave the Fed enough confidence to hike rates once again in June (as widely anticipated) and stick to its forecast for one more this year. Furthermore, economic data out of Europe continues to improve, giving rise to a synchronized chorus of hawkish comments made by central bankers. Although investors will likely remain cautious about the ability for global markets to withstand the inevitable winding back of easy monetary policies, the fact that these discussions are taking place suggests we are in a better place. Whilst the UK election result was potentially a blow for Brexit negotiations, we don't envisage any major fall out for global markets. Perhaps more pertinent for Australia, recent Chinese economic data has also surprised to the upside. Nothing has changed our view that domestic Small Caps stocks continue to present good investment opportunities with compelling value and less reliance on global macro forces.

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