

Fund Statistics Table

Features	Summary
Unit Price	\$1.1939
Units on Issue	34,126,287.68
Fund NTA	\$40,744,206.21
3 month performance to September 30th	5.12%
12 month performance to June 30th	89.23%
Investment Style	Opportunistic
Fund Status	Open only to Sophisticated Investors – PDS to be issued shortly to re-open the MOF to all investor types. Redemptions – new PDS to be launched to reinstate regular quarterly redemptions.
Fund Universe	Listed & Unlisted Micro Cap Companies

Fund Commentary

The last quarter was one of short term market fluctuations and movements for no real gain.

The overall ASX 200 closed up 2.91% for the quarter. The Small Ordinaries Index closed up 3.85% and the Small Resources Index closed up 7.64% over the same period.

As the stats above show, this quarter saw the re-emergence of the small resource trade with money flowing into most of the material spaces with Small Resource companies the most prolific raisers of capital recently.

With valuations and demand for projects at historically low levels, pricing is currently in the favour of the buyer however as always, caution is required as the volume of resource companies looking to raise funds are at all-time highs.

On the other hand, the IT sector has been beaten down over the last quarter, this sector of the market has had no love over the last three months as capital has moved on toward more cyclical industries such as resources. There are many examples of companies in the portfolio trading on historically low share prices with a number of investments contained

within the portfolio, valued at less than the cash they hold in the bank. Where this occurs and we feel the business plan is solid, we continue to buy on the down dips adding to positions.

As The Merchant Opportunities Fund (MOF) continues to invest in the above two sectors, we specifically have been focussing on more short term trading opportunities in the Resources sectors and more long term core portfolio positions, in the IT sector.

With the ASX in somewhat of limbo land for smaller companies due to planned legislative changes, we have a number of pre-IPO investments coming to market over the next quarter with the backdoor listing of Zelda Therapeutics, AusCann Holdings, Cycliq and ESports all scheduled to list or relist prior to Christmas. We expect decent gains to be made over the coming months from all the above.

Portfolio gains over this period have come from investments in the following sectors – FinTech, IT, Oil & Gas and Gold.

We have had substantial uplift from FinTech with a circa \$1m profit being made over the quarter from a company called Intiger Group (ASX: IAM). Intiger Group is a company we have backed since it was private, providing much needed capital and more recently assisted the company in finding a partner for a back door listing.

During the quarter we realised a substantial profit through an investment in Pantoro, Pantoro is a gold company with assets in WA, first class management and currently in production. We used the re-rating of this company and the market interest to exit our whole position for an approximate 80% uplift over our cost price.

In our counter cyclical nature, the MOF has over the last 12 months been making strategic investments in both the Coal and Oil sectors. We have taken the view with the demise of both the Coal and Oil prices over the last couple of years to record lows, that in a lot of cases 'the baby has been thrown out with the bath water' and have tried to negotiate and secure Coal and Oil investments with the view of holding them for a few years until prices increase.

What we didn't foresee was the rapid speed at which both the Thermal and Coking Coal prices have increased over the last 6 months. With a near doubling of prices over this time, our investments in this sector look set to provide substantial uplift to the unit price of the MOF over the coming months as we book profits into the cycle. The reason for the rapid increase in the price of Coal is China. In an effort to curb pollution, China has regulated the amount of days coal mines are allowed to operate – reducing days operating from 333 per annum to 275 per annum. Combine this with the unusual weather patterns we are having in Australia at the moment, I suspect the first sign of flooding in Queensland will push the coal price even higher.

The top 10 holdings in the MOF (in no order) as at the time of writing are:

Intiger Group Ltd
Brookside Energy Ltd
Polynovo Ltd
Velpic Ltd
ESports Mogul Pty Ltd
1-Page Ltd
Stack-A-Joint Venture Pty Ltd
Zelda Therapeutics Ltd
Digital X Limited
Wave Park Group Pty Ltd

Redemptions & Applications

As previously discussed in our June newsletter, we will be opening the Fund up to both applications and redemptions in the new year. We will be initiating a quarterly redemption facility and a monthly application option and all details will be published on the website.

As always, should you have any queries please see our new website www.merchantfunds.com.au where you will find historical data and relevant forms and information to manage your holding or please feel free to call either Chris, Margot or I on the numbers below.

Regards,



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