

Fund Statistics Table

Features	Summary
Unit Price	\$1.3400 (Unaudited)
Units on Issue	33,532,416.43
Fund NTA	\$44,932,486.73
3 month performance to December 31st	12.81%
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 – regular quarterly redemptions.
Fund Universe	Listed & Unlisted Micro Cap Companies

Fund Commentary

The last quarter of the calendar year 2016 was one of surprising strength in the Blue Chip sector post the US Elections, with the ASX 200 closing up 4.20% over the period.

The Small Ordinaries Index closed down 2.90% and the Small Resources Index also closed down 1.70% over the same period. The MOF is up 12.81% over the same period.

The MOF continues to perform strongly this financial year with the Fund up 18% for the six months to December 31st.

The main drivers to this performance so far in this financial year have been companies that were identified as having the potential to grow at rates above the norm, these include; Intiger Group, Zelda Therapeutics, Esports Mogul Asia Pacific, Cycliq Group amongst others. Negative contributions have come from our investments in the IT sector – mainly Velpic and 1-Page.

A number of our strategic early stage investments have also come to market recently with consistent positive results despite the overall market remaining relatively mixed.

We have seen substantial increases in the carrying value of our coal investments with stakes in both the Kontrarian Resource Fund and Valiant Coal being revalued upwards (both + 300%) in line with recent capital raises and the overall coal market roaring back to life in calendar year 2016. We expect to see this trend continue into 2017 with a number of our Coal assets being listed via an Initial Public Offering in the first half of 2017.

Through our active and involved approach to investing, Merchant Funds Management (**Merchant**) identified Coal as one of the key commodities with rebound potential over the last couple of years. Similarly, during 2016 Merchant also made significant investments into Oil & Gas companies believing the fundamental outlook for this commodity is similar to both Iron Ore and Coal in that the oversupply and demand risk are both too highly skewed to the negative. Like our Coal investments, we acted early and expect to see significant rerating of the carrying values in these investments in 2017.

1-Page (1PG)

Many of you would have seen the recent press articles relating to our investment into 1PG. The Merchant Opportunities Fund began buying toward the latter half of 2016 and continued to build upon this investment, obtaining a 5% stake in the company in November 2016. Upon visiting with Key Management in San Francisco, it became clear to me that they didn't support our vision for the Company moving forward.

1PG listed via a reverse takeover in late 2014 and quickly became a market darling in the technology sector, with its share price appreciating from \$0.20 to \$5.44 within a year. Over the past 15 months, the share price has fallen significantly, as the market realised that the business has continued to generate limited revenue which did not support its inflated market valuation. Long story short, the Company was the worst performing stock in the ASX All Ordinaries in 2016, with its share price falling close to 95% and ending the year below its \$0.20 listing price.

1PG is described on its website as: "An HR technology company transforming the way large enterprises identify and connect with in-demand talent. Coupling expert knowledge with artificial intelligence, 1-Page's Source platform empowers recruiters to work smarter and eliminate hiring delays."

The business is based in San Francisco. It was founded by Patrick Riley and his daughter Joanna Riley, who was also CEO until late December 2016. From all accounts Ms Riley is an impressive woman, however the cold hard facts remain that 1PG has now spent more than two years and circa \$25 million trying to get traction for its product in the marketplace, with very little success. The company has approximately \$32 million in cash remaining. With a current spending rate averaging \$1.5 million per month and monthly revenue being a tiny fraction of that amount, our concern as the major shareholder, is that the Company will run out of cash very quickly.

In addition, with a depreciating Aussie Dollar I do not believe it makes sense for an Australian-listed entity to be pouring its funds into a business based in San Francisco. Our Prime Minister, The Hon. Malcolm Turnbull, talks about innovation for Australian jobs. Yet 1PG is probably the worst example I've seen – it is blatantly using Australian Dollars (and costing Australian jobs) for a pie-in-the-sky investment idea in the US.

The MOF has accumulated a stake 1PG that is now north of 9%. There have been a few changes of late – Ms Riley has resigned as the CEO (but not stepped off the board), her father has exited three-quarters of his share holding, and an Australian-based Non-Executive Director has resigned – but our request was actually for the orderly wind down of the 1-Page business in the US and for the Riley family to cancel their shares and take the business private. As mentioned above, I did not receive a positive reception to this idea when in San Francisco. Since then, with Patrick Riley selling most of his shares and Ms Riley stepping down as CEO, it doesn't look like they are too keen on the idea either. Stepping down as CEO is hardly a vote of confidence in the business!

Given our inability to get traction with the Company, Merchant has called a vote to refresh the Board, to be held on 17 February 2017 in Perth. With a new board in place it will enable 1PG to move in a new direction, investing its funds into business opportunities within Australia with near term profitability and an improved likelihood of a return for shareholders.

Should you require any additional information about this investment please visit www.turnthepage.biz

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

Intiger Group Ltd	IAM.ASX
Brookside Energy Ltd	BRK.ASX
Affinity Business Insurance Pty Ltd	Private, soon to be listed
Polynovo Ltd	PNV.ASX
Kontrarian Resource Fund No 1	Private Fund
Cycliq Group Ltd	CYQ.ASX
ESports Mogul Pty Ltd	ESH.ASX
1-Page Ltd	1PG.ASX
Stack-A-Joint Venture Pty Ltd	Private
Zelda Therapeutics Ltd	ZLD.ASX

Redemptions & Applications

There will be a redemption offer closing on 28 February 2017, please keep an eye out on the website for the relevant forms.

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,



Andrew Chapman
Managing Director
M: 0447 034 714
P: 08 9389 3600
E: achapman@merchantfm.com.au

Chris Mews
M: 0408 094 583
P: 03 9691 5421
E: cmews@merchantgroup.com.au

Margot Biggs
P: 08 9389 3609
E: mbiggs@merchantfm.com.au

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