

30 September 2017

## Fund Statistics Table

Features	Summary
Unit Price	\$1.4514
Units on Issue	32,418,075
Fund NTA	\$47,145,606
3-month performance to 30 September	<b>5.67% net after fees</b>
Investment Style	Opportunistic
Fund Status	Open only to Sophisticated Investors Redemptions –quarterly
Fund Universe	Listed & Unlisted Micro Cap Companies

## Fund Commentary

I am pleased to report that the Merchant Opportunities Fund (MOF or Fund) has performed strongly over the first quarter of the 2017/18 Financial Year, following on from a 21.21% return net after fees for the Financial Year for 2016/17.

The MOF is currently invested in approximately 30 different companies and our assets under management at the time of writing, are nearing \$50m once again.

In comparison to the index we mostly track, the Small Ordinaries Index is **up 3.20% over the same period.**

Currently, we are seeing the market as favourable in terms of the niche we are in with good deal flow and no shortage of companies requiring growth capital. As always though the skill in the management of the Fund, it revolves around due diligence and the ability to find situations where we can add substantial value to companies through either, management or capital or in a lot of cases, both.

### **PolyNovo (ASX:PNV)**

Per our last quarterly newsletter, where we anticipated that this company would turn around in this Financial Year, I am pleased to say that our prediction at the date of writing has proven correct so far. PNV has added a couple of million dollars to the MOF bottom line over the last few months, a trend we suspect will continue with their sales strategy in full swing now.

In our typical method of researching companies and backing people, David Williams whom is the Chair of PNV and Prof Dr John Greenwood and Julian Burton (Founders of Skin) OAM have all proven to be an exceptional bet for the MOF over the years. All three have made significant contributions in taking PNV from \$0.06 to \$0.28 and we expect the share price to continue to push higher still over the next 12 months.

### **1-Page (ASX:1PG)**

As the business of 1-Page is in the process of being completely sold off to a US company, we anticipate looking to relist the company in the coming months with a new business via a reverse takeover.

1-Page the Company currently has circa \$26m in cash assets which should provide enough capital to attract and complete the acquisition of a suitable business. This should result in the 1PG stock trading at higher values as soon as practical.

As a board of 1PG we are currently evaluating multiple businesses with the view to executing a transaction in the near term.

### **Brookside Energy (ASX:BRK)**

In our typical contrarian view of the markets, we have been increasing our investment in the Oil & Gas Sector which has been very out of favour over the last 18 months. We expect this sentiment is due to the increase in investors focus on the battery component sectors – lithium, graphite and cobalt.

We made our investment into Brookside over 12 months ago (and have expanded on it recently) and have the view that as the oil price recovers based on fundamental demand, we will see a substantial uplift in the valuation of BRK. BRK currently has approx. 800m shares on issue and almost 1,280 production acres in a highly prolific oil producing area of the US with non-operator acreage changing hands at circa US \$20,000 per acre. We are confident in-time, the market will realise the strategy the BRK management team have implemented and we should see the stock re-rate toward the NTA of \$0.032 per share ( $\$20,000 \times 1,280 / 800M$  on issue).

### **Kontrarian Resource Fund**

Per above rationale for our Oil & Gas investments, Merchant Group formed a fund called the Kontrarian Resource Fund #1 almost 3 years ago to 'cherry pick' distressed assets from companies that were converting from Resource companies to Companies in other sectors. Over the course of the first 12 months we purchased out of favour resource assets with the view to holding them and selling them off at a later date. With the resumption of the Resources trade recently we have begun the process of selling these assets at a substantial uplift and will look to wind down this fund in the near term.

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

Cycliq Group Ltd	CYQ.ASX
Brookside Energy Ltd	BRK.ASX
Polynovo Ltd	PNV.ASX
Velpic Limited	VPC.ASX
CannPal Ltd	Private (proposed ticker CP1.ASX)
1-Page Ltd	1PG.ASX
Kontrarian Resources Fund Pty Ltd	Private Fund
Zelda Therapeutics Ltd	ZLD.ASX
Alerte Digital Health Ltd	Private
AusCann Group Holdings Ltd	AC8.ASX

## Redemptions & Applications

The MOF is currently open to new investors monthly with redemptions available on a quarterly basis. All information relating to this can be found on the website. It is the intention of the Investment Manager at this time to accept investments from Sophisticated investors only.

As always, should you have any queries please see our website [www.merchantfunds.com.au](http://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 or I on the numbers below.

Regards,



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