

31 December 2017

## Fund Statistics Table

Features	Summary
Unit Price	\$1.8333 (unaudited)
Units on Issue	31,818,068.75
Fund NTA	\$58,331,938
6-month performance to 31 <sup>st</sup> December	<b>33.17% 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 6 months of the 2017/18 Financial Year, following on from a 21.21% return net after fees, for the 2016/2017 Financial Year.

The MOF is currently invested in approximately 30 different companies and our assets under management at the time of writing, are in excess of \$60m.

We mostly compare the performance of the MOF to the Small Ordinaries Index which is **up 16.78% over the same period. For context the ASX 100 is up approximately 5.12% over this time.**

As per our September update, we are still viewing 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, the skill in the management of the Fund revolves around due diligence and the ability to find opportunities where we can add substantial value to companies through either, management or capital or in a lot of cases, both.

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

As at 31<sup>st</sup> December 2017, we have been investors in 1PG for just on 12 months and have overseen a complete board spill and have now completed the winding up of the old loss-making business that was formerly the listed 1-Page. Merchant's CFO Chris Mews has joined Tod McGrouther and myself on the board to assist in the transition and importantly to reduce operational costs. With the interest earned each quarter covering all company expenses, we are now in a position to pursue a suitable transaction. It is fair to say that this process has taken longer and cost more than I had budgeted but we expect to be able to release something to the ASX in the coming weeks about the direction of the 1PG shell company.

## **Medical Cannabis**

As big believers of this industry since the beginning on the ASX, we are still holding 3 large positions in the MOF: AusCann, Zelda and CannPal.

We have exited both MMJ and MGC over the last few months in favour of holding the above. With the recent Federal Government announcement concerning the exportation of Medicinal Cannabis to overseas destinations, we expect all the above companies to continue to benefit as the industry matures.

We will continue to look at investment opportunities in this space and are actively looking at transactions that have a European slant as we believe Europe will eventually be the largest market for Medicinal Cannabinoids in the world.

## **Portfolio Holdings**

We are very comfortable with the performance of the MOF for the 6 months to 31<sup>st</sup> December 2017 and whilst we do not expect this performance to continue on the same trajectory to 30<sup>th</sup> June, we do expect the portfolio to continue to show gains from here.

Given the favourable backdrop for both the domestic and international economies, we are expecting the tailwinds that we have been experiencing, to continue into 2018. The re-emergence of the Emerging Market trade internationally confirms that the Australian Small Cap Market and specifically the MOF is well positioned to take advantage of the current cycle.

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

PolyNovo Limited
Kontrarian Resources Fund Pty Ltd
CannPal Animal Therapeutics Ltd
1-Page Limited
Auscann Group Holding Ltd
Cycliq Group Ltd
MLS Pty Ltd
Brookside Energy Limited
Zelda Therapeutics Ltd
Rate My Agent Pty Ltd

## Redemptions & Applications

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

As always, should you have any queries please visit 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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