

MERCHANT LEADERS FUND

Welcome to 2019 which I hope is a little less bruising than the latter part of 2018. The office is back open and after a brief break over Christmas all Merchant personnel are back on deck.

Wow what a finish to 2018...fair to say we haven't seen such ugliness in the market since the Global Financial Crisis (GFC) and that was now some 10 years ago. The US market dropped like a stone and took basically all other developed nations with it. As per our last Newsletter published in mid-December, the same three themes were the cause, but the speed at which they translated to substantial market falls intensified into the Christmas holiday period.

Since then though, the US Market (and by default ours) has staged a remarkable recovery bouncing over 7% in the month of January alone as fears ease. At the time of writing this Newsletter although the ASX 100 is still down approximately 5% for the financial year and the Merchant Leaders Fund hasn't been immune from a fall, albeit not as great as the broader index, which is exactly what the Fund is designed for.

As above, what has changed over my years in the industry is the speed at which the markets are moving; what starts off as a natural pause and consolidation in markets very quickly turns into a mini correction (or in the case of the Nasdaq - a full correction which is defined as a 20% drop from previous peak), whereby quality assets are sold off and liquidity dries up just as quickly. Given the model we are operating, the Merchant Leaders Fund rebalances quarterly and is based purely on quantitative rationale, we are less prone to 'tinker' with the portfolio as most Fund Managers do thereby setting a course and riding through the storm as can be seen from the current unit price. During the December quarter we have made several changes to the portfolio, we sold Northern Star Resources Ltd (NST) and Aristocrat Leisure Limited (ALL) and bought Dexus (DXS) and Scentre Group (SCG) – two ASX listed property companies.

ABOUT MERCHANT LEADERS FUND

In July 2018, Merchant launched a new fund called the Merchant Leaders Fund. The Merchant Leaders Fund provides clients with broader exposure to Australia's leading companies, using bespoke quantitative analysis to identify stocks in the ASX-100 that are expected to outperform and underperform, with investments made accordingly.

The Fund is intended to generate total returns over and above the ASX 100, after all fees and expenses.

The Merchant Leaders Fund is now open for investors.

The Fund is open for new applicants, with a minimum initial investment amount of A\$100,000.

Unit Price as at
31 January 2019

\$0.9638

MERCHANT LEADERS FUND MODEL RESULTS FOR ASX 100

TOP 10 RANKED

South 32 Limited	S32
JB HIFI	JBH
Rio Tinto Limited	RIO
Scentre Group	SCG
Charter Hall Group	CHC
Magellan Financial	MFG
Janus Henderson Group PLC	JHG
Whitehaven Coal Limited	WHC
BlueScope Steel Limited	BSL
Dexus	DXS

BOTTOM 10 RANKED

Transurban Group	TCL
Aust. and New Zealand Banking Group Ltd	ANZ
Orica Limited	ORI
Healthscope Limited	HSP
National Australia Bank Limited	NAB
Bank of Queensland Limited	BOQ
Newcrest Mining Limited	NCM
Spark Infrastructure Group	SKI
AusNet Services Limited	AST
TABCORP Holdings Limited	TAH

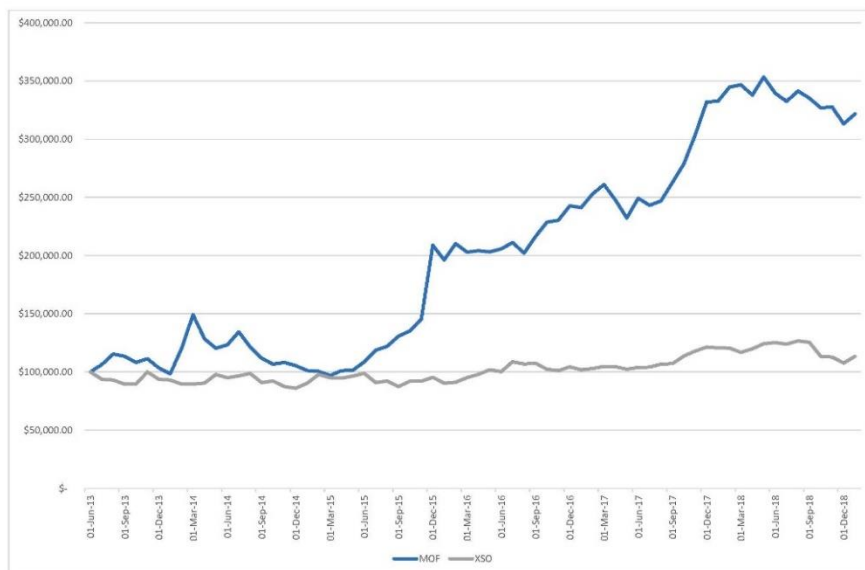
MERCHANT OPPORTUNITIES FUND

The Merchant Opportunities Fund is currently sitting at \$1.7763 which is down circa 5.26% for the financial year to date. Like most Funds, we haven't been immune from the broader sell off that occurred in the latter part of 2018. Specifically, for the Micro and Small Cap. markets the sell off translates very quickly to a liquidity strike where buyers dissipate quicker than a summer storm.

Our current view remains to maintain a relatively concentrated portfolio of both listed and unlisted companies in sectors / industries we see continued expansion or structural advantages. Our largest holdings in the Opportunities Fund currently are in the Biotech, Medical Cannabis, Information Technology, Oil and Gas, and out of favour Resources sectors.

The major contributor to the positive portfolio performance over the last month has been our large overweight position in PolyNovo Limited (PNV). For those of you who have been with us along the journey, you will know this is one of my favourite companies on the ASX which has been in the Opportunities Fund at various weightings for almost 5 years. It is a very well run Biotech company that produces products with a genuine human interest angle. Having been actively involved over the course of our investment, we have seen the Company grow from a market cap. of approximately \$30m at the time of investment to over \$400m where it is now. We remain one of the largest shareholders of PolyNovo and continue to believe that we will see substantial further gains in the coming 12 months.

MERCHANT OPPORTUNITIES FUND - PERFORMANCE MERCHANT OPPORTUNITIES FUND V ASX SMALL ORDINARIES INDEX as at 31 JANUARY 2019



ABOUT MERCHANT OPPORTUNITIES FUND

The Merchant Opportunities Fund enables investors to get exposure to early-stage opportunities. This includes both early-stage ASX-listed companies or those soon to be listed. Through our comprehensive and strong networks, the Merchant Opportunities Fund provides investment opportunities that our clients could not necessarily find themselves, such as investing in companies at the pre-IPO stage.

The Merchant Opportunities Fund has consistently outperformed, with returns (after fees) well ahead of the ASX Small Ordinaries Index over a 1-year, 3-year, and a 5-year period.

Unit Price as at
31 January 2019

\$1.7763

DISCLOSURE

Merchant Funds Management Pty Ltd (ACN 154 493 277) is the Manager of Merchant Opportunities Fund, under an agreement with our Responsible Entity, CIP Licensing Limited, AFSL 471728.

Merchant Leaders Fund is a wholesale only Fund managed by Merchant Funds Management Pty Ltd (ACN 154 493 277) under an agreement with CIPL Licensing Limited, AFSL 471728.

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