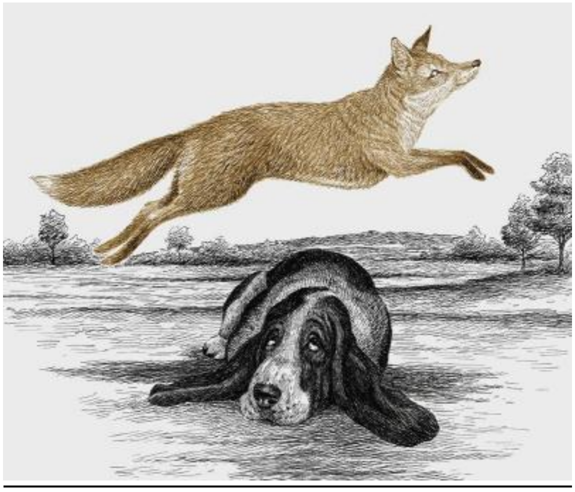
Quick Brown Fox Asset Management

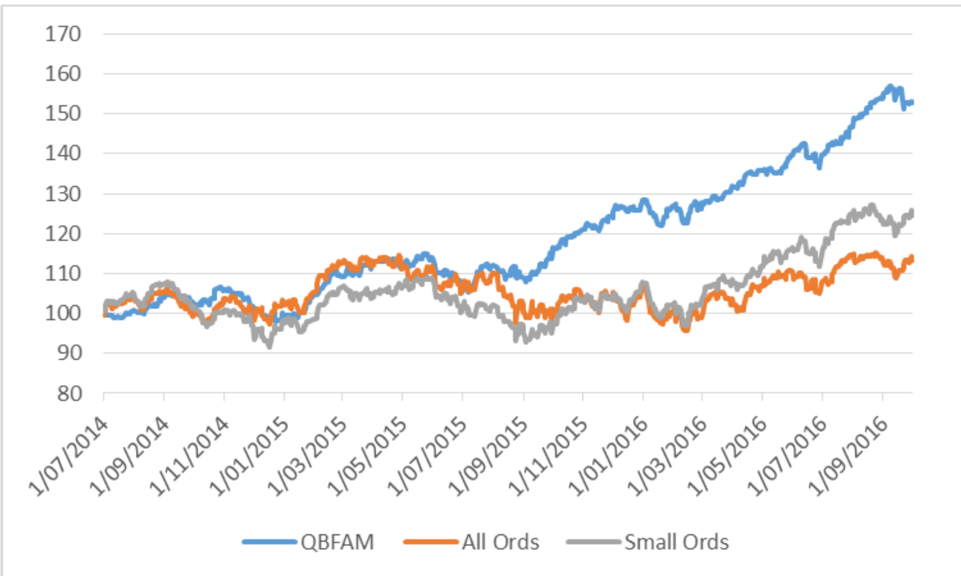


Monthly Report – September 2016

With reporting season out of the way, Australian stocks saw their direction dictated by global factors in September. The major ones were yet another delay in tightening from the Federal Reserve, the prospect of Deutsche Bank being insolvent and the indication from OPEC that they will endeavour to cut oil supply. The fund had a soft month, down slightly in absolute terms and lagging behind the market. The key driver to this was our positioning in the Telco sector which we review below.

	1 month	3 months	6 months	1 year	Since Inception
					1-Jul-14
QBFAM	-0.85%	9.37%	15.98%	32.73%	53.22%
All Ords	0.40%	5.30%	9.51%	14.01%	13.50%
Small Ords	1.53%	8.50%	14.84%	29.16%	24.68%

Over the longer term, the fund maintains a strong lead over the market.



Telcos

We entered the month with a 4.5% position in Vocus and a 2.9% position in TPG Telecom. Over the month Vocus fell 19% and TPG fell 31%. The fall was driven by TPGs FY16 result.

The actual reported result was in line with both guidance and consensus expectations. However, their guidance for next year missed expectations with EBITDA expected to be $820-830m versus a consensus of $880m. This represents growth of somewhere between 6-7% against a market that was expecting closer to 14%. This led to a significant de-rating of the stock. A stock that had traded for the last four years in the mid 20's was now sub 20x.

The market has become concerned with two key issues arising from the rollout of the National Broadband Network (NBN):

1) Increasing usage charges from the NBN; and
2) A price war developing between the resellers as they try to take advantage of the NBN rollout.

Both of these factors are negative for the companies in the sector as both reduce margins. The reality now is that further growth will have to come through market share gains on the consumer side (offset by lower margins) and through continued growth in the corporate business. The lower margins on the retail side means that growth rates will slow from what we have seen historically.

In assessing the potential impact of reduced margins, it is worth looking at the history of the NBN. From an economic perspective the NBN is a deeply flawed asset, a model stolen from a smaller country and applied to a much larger area. The Labour government that started the project was not focused on financial outcomes. Any strategy now to "recoup" its capital costs will end in tears, and ultimately the government most likely needs to accept a lower return.

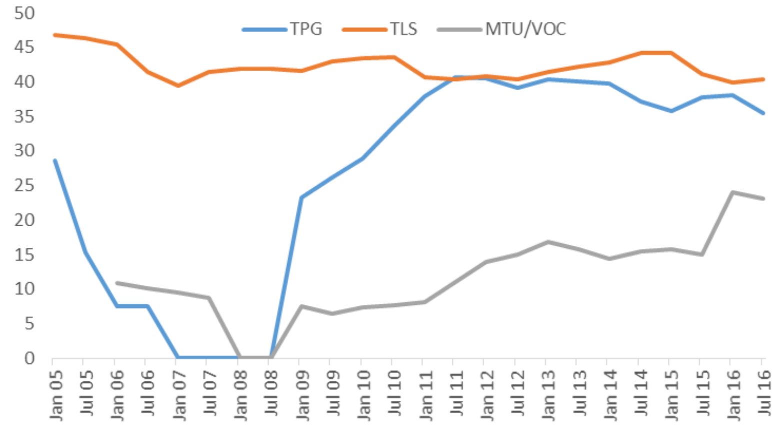
Back in April this year, with take up of the NBN services poor, the NBN Co sat down with the industry and reworked their charging structure, at the centre of discussions was the controversial Connectivity Virtual Circuit (CVC) charge. This is a charge based on how much capacity you use and exists nowhere else in the world. As a result of the six-week industry-wide consultation, the NBN Co provided a discounted 2 year price for the CVC. The discount model is intended to remain in place up to two years, but will be reviewed on an ongoing basis in conjunction with the industry. However, in a further twist the communications minister announced just this month that the NBN Co will once again enter into negotiations with the industry with a view to potentially abandoning the CVC charge.

So right now, there is plenty of uncertainty. The result has been a consensus downgrade to margin expectations. The main companies at risk are Telstra and TPG.

TPG's recent result showed a slight decline in margins. However, it is worth highlighting that margins in iiNet and Corporate actually rose.

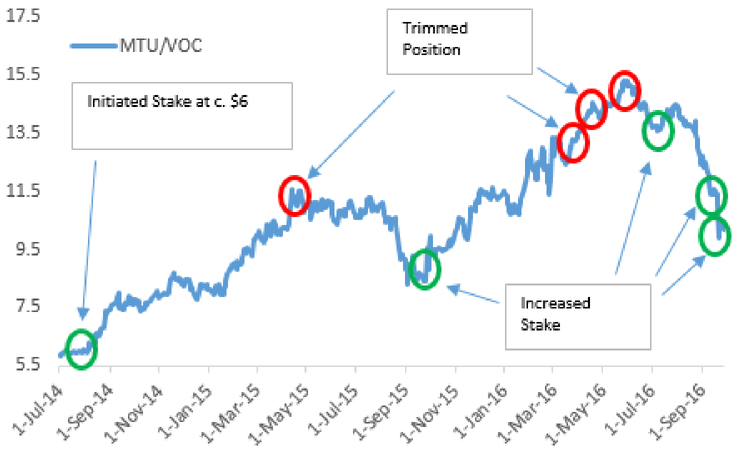
EBITDA %	TPG Consumer			TPG/AAPT Corporate	iiNet
	Broadband	Mobile/Other	Total		
FY15	41%	21%	38%	38%	-
FY16	40%	20%	38%	41%	24%

If we look at the last 10 years of the industry we note that Telstra and TPG through ownership of their own infrastructure have had significantly higher margins than Vocus (or M2 prevously).



This is important, because it highlights the major difference between Vocus and the other industry participants. Vocus's consumer business comes from the merger with M2 Group. M2 was a reseller and utilised other peoples network, hence their margins were always lower. As a result the impact of the NBN on their margins is significantly different from the other players in the sector.

So with this in mind we were surprised at the speed of the selloff in Vocus over the month. We have held Vocus (and prior to that M2) since the inception of the fund. Back in February it was our largest position at 9.0%. After a strong rally through May, we had reduced our holding to 2.6%. As the price has fallen, we have increased our stake and it is once again our largest position at 7.6%.



<u>**The Portfolio**</u>

The fund is currently invested in 15 positions and retains a cash balance of 30.2% (down from 29.5% last month). In addition to the moves within the Telco sector, we reduced our positions to ALU, MNF and TME.