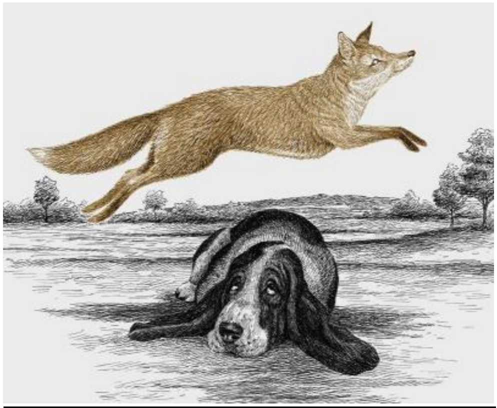
Quick Brown Fox Asset Management

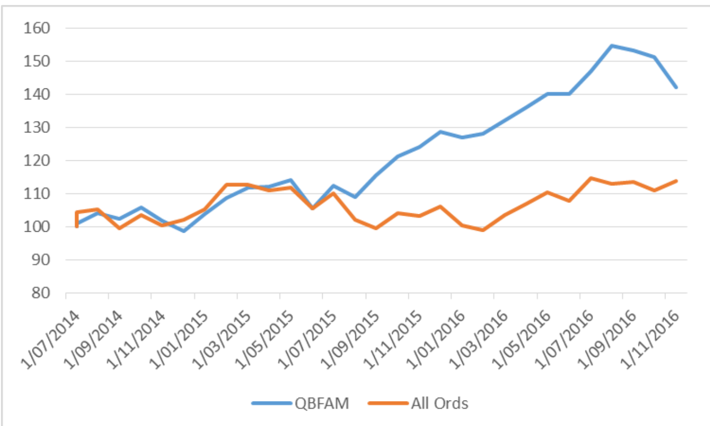


Monthly Report – November 2016

November was a month for contrast for equities. A dramatic selloff on the prospect of a Donald Trump presidency quickly reversed within 24 hours. This reversal came on the back of his victory speech where he stated that “We are going to fix our inner cities and rebuild our highways, bridges, tunnels, airports, schools, hospitals. We’re going to rebuild our infrastructure, which will become, by the way, second to none. And we will put millions of our people to work as we rebuild it.” This has led to the acceleration in the “Reflation” trade with the expectations of fiscal stimulus leading to interest rate rises. This in turn led to strong rallies in the banking sector (where long bond rates will have a benefit, particularly in the US) and the commodities space on the potential increase in infrastructure spending. Despite this rally there is a still very little to no detail on Trump’s infrastructure plan and we believe the market may be getting ahead of itself. The fund had a poor month on downgrades from SDI and Vocus.

	1 month	3 months	6 months	1 year	Since Inception (annualised)
					1-Jul-14
QBFAM	-5.94%	-8.06%	1.52%	14.39%	15.65%
All Ords	2.46%	0.63%	3.13%	10.01%	5.48%
Small Ords	-1.19%	-4.42%	0.81%	13.51%	6.86%

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



AGM Season

In Australia, the focus has been on AGM season and it would be fair to say that it has provided en masse one of the worst outlooks in recent memory. Downgrades were broadbased and when combined with higher interest rates led to significant selloffs in some share prices. Some of the more notable downgrades were:

- HSO – blaming affordability and confidence
- BGA – dairy prices
- FXJ – low listing volumes in Domain,
- ADH – homewares retailer, weak sales
- CAR – downgrade specific to the Stratton finance acquisition
- AMP – wealth protection claims and insurance impairments
- FLT – lower margin flights, set up for a further downgrade after pointing to a stronger second half
- QAN – revenue down
- GMA – lower GWP, higher claims
- VTG – Telstra reseller, Telstra has renegotiated agreement
- ISD – weak performance from King Content
- VOC – lost contracts associated with the NextGen acquisition
- AYS – margin pressure
- BAL – regulatory changes in China

The other interesting aspect is a number of the companies above pointing to weakness in the first half being reversed in the second half of the financial year. This potentially sets them up for a further downgrade.

The companies that did downgrade were treating harshly by the market with the combined impact of rising rates (and rising discount rates) as well as lower than expected earnings.

The funds' performance was weak primarily due to downgrades from SDI and Vocus.

SDI put out a vague announcement highlighting some issues with the first half sales and in particular first half margins. A few days later at the AGM the company released more detail with one of the key drivers to the weaker result being the UK pound. Whilst this does lower earnings, the operational aspect of the business have not changed. We took the opportunity to reduce our position above 90 cents but are willing to continue to hold the position longer term.

Vocus was a more complex case. Earlier in the year it was our largest position at over 8% of the fund. As the price rallied above $9, we sold a substantial amount on valuation grounds and reduced our position to 2.6%. Then the company acquired NextGen, which was expected to add to earnings and more importantly increased the company's connectivity to the NBN from 68 to 112 of 121 points of interconnect. As the price fell we started to add to our position and when it hit the low $5 range, it became our biggest position. The fall from above $9 to the low $5 range came on the back of a multitude of issues, these were:

- Concerns around margin issues with migration to the NBN. However, given M2's history as a pure reseller, the impact for Vocus was considerably lower than for TPG and Telstra.
- Concerns that the company had come about through the merger of 4 companies in a short period of time. These companies were Vocus, Amcom, M2 and NextGen. Whilst extensive

M&A is usually a red flag, the rational for each subsequent deal made sense from a strategic point of view.

- The founder of Vocus, James Spencely, sold two thirds of his shares and left the company in a heated boardroom standoff. The management team left to lead the business is now essentially the M2 team.

The final piece of the puzzle was the company's guidance at the AGM which disappointed the market on the back of lost contracts in NextGen from the time between the acquisition being announced and settlement. In reviewing our decision making around the position, we concede that we were too eager to buy the stock back. M&A activity is seldom easy and NextGen has some issues. Whilst the assets have strategic value and are an important addition to the existing network, the loss of contracts so soon after being acquired is a concern. The market now has very little growth priced in for Vocus and as a result we are happy to hold, albeit at a reduced position. We continue believe their fibre network has significant value, although we do note that improving sales and gaining market share will be crucial elements going forward. In the current volatile market it is becoming increasingly important to stick to ones valuation discipline. In the case of Vocus, we perhaps didn't wait for that "Margin of Safety" to appear.

<u>The Portfolio</u>

The fund is currently invested in 16 positions and retains a cash balance of 30.3% (up from 30.2% last month).