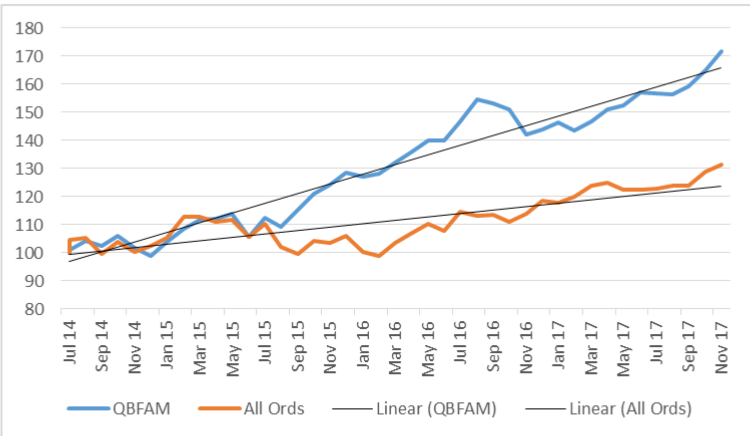
Quick Brown Fox Asset Management

Monthly Report – November 2017

The Australian Equity had another solid month in November. This despite the announcement of a Royal Commission into the Banking industry by the Federal Government which came on the final day. The announcement of this inquiry had an immediate impact on the share prices of the big four. Part of the reason we have avoided the banks over recent years is the potential for greater regulation. For the best part of 30 years the banks have benefitted from a favourable regulation and lower interest rates allowing households to take on more debt. These two tailwinds are now in the process of reversing and we believe they will limit the ability of the banks to grow for years to come. The broader market finished up 1.9% for the month with smaller companies outperforming. The portfolio returned 4.1% with the key driver being a number of the IT stocks held in the portfolio.

	1 month	3 months	6 months	1 year	2 year (annualised)	Since Inception (annualised)
						1-Jul-14
QBFAM	4.1%	10.0%	12.7%	21.0%	17.6%	17.2%
All Ords	1.9%	6.1%	7.4%	14.8%	12.4%	8.1%
Small Ords	3.9%	11.6%	17.3%	19.9%	16.6%	10.5%

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



Note: All returns are pre fees and unaudited. The fund is not currently available for external investment. To access our investment strategy please contact [Tamim Asset Management](#).

Portfolio News

October and November see a majority of Australian companies hold their Annual General Meeting. It can be a time for companies to issue earnings guidance for the financial year. Last year this period proved challenging as a number of companies downgraded expectations just months after the August reporting season. Due to that, a trend we noticed this year amongst companies was that they were much more hesitant to give guidance during reporting season. This ultimately led to a more benign AGM season with fewer disappointments.

The portfolio performed well during the month driven by the exposure to the IT sector as well as some positive guidance from infrastructure related stocks.

Some of the more significant moves in the portfolio were:

1) **Gentrack** (+19.6%) is a New Zealand based company and as such runs to a different financial calendar. They announced their full year result late in the month which saw both revenue and EBITDA increase 43%. The growth was boosted by three acquisitions during the year; however organic EBITDA growth was still 24%. In addition the company upgraded their long term EBITDA growth target from 10% to 15%. The company is our largest holding and we continue to be excited by the outlook.

2) The IT services sector saw some significant gains with **Melbourne IT** (+24.3%) and **Dicker Data** (+12.5%) both posting solid gains. Dicker Data notably announced a number of new distribution deals which eased investor concerns post the loss of Cisco in New Zealand earlier this year.

3) **SRG Limited** (+15.2%) gave strong guidance at their AGM on the back of an increasing infrastructure workload. Revenue guidance represents growth of between 17-30% with strong growth in EBITDA expected as well.

It wasn't all positive news, we did have an earnings downgrade from one of our smaller positions, **Inabox**. The company downgraded on the back of the recent acquisition of Hostworks. Hostworks is a cloud services business that had achieved revenue of $22m and EBITDA of $0.6m in FY16. On acquisition, Inabox believed that they could achieve $2.9m of cost synergies primarily through reducing staff and rent costs. This meant the business was expected to add meaningfully to EBITDA in FY18.

Revenue for Hostworks is now expected to be $15m in FY18 suggesting the loss of multiple clients and whilst the company expects the acquisition to be breakeven, we believe they may have set the market up for further disappointment. In addition the fall in earnings has meant the small amount of debt on the balance sheet becomes more meaningful.

The Portfolio

The fund is currently invested in 20 companies. The cash level is currently 33.2% (down from 38.9%). We added one new position, increased three existing positions, and exited Inabox completely whilst continuing to trim our position in Altium following its strong run.

GTK	8.6%
AXL	6.7%
DTL	5.7%
DDR	4.3%
MLB	3.9%
Other Positions	37.6%
Cash	33.2%

Sector Positioning

The fund maintains a strong overweight to the IT sector with other exposures in Healthcare, Financials, Industrials, Consumer Discretionary, Energy and REITs.