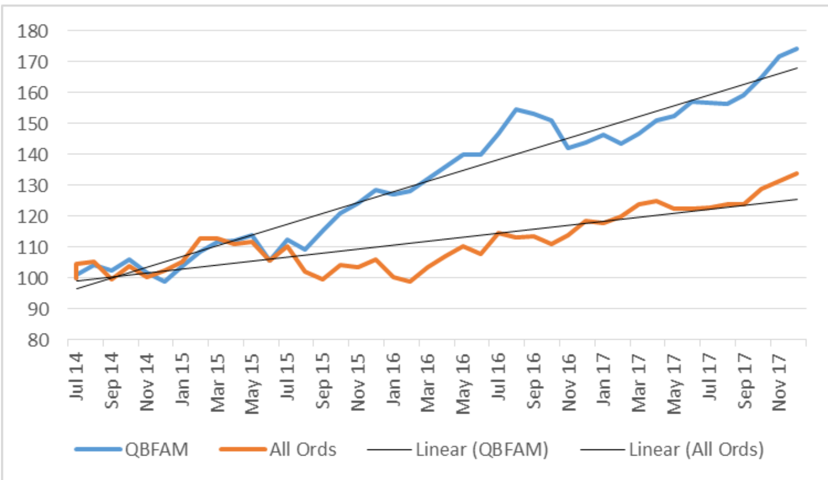
Quick Brown Fox Asset Management

Monthly Report – December 2017

The Australian Equity continued to rally in December driven largely by commodity companies. Smaller Companies once again outperformed larger ones. Speculation amongst pre revenue companies (and cryptocurrencies) has been rising in recent times. Whilst many investors are sitting on impressive returns at this point, eventually the tide will turn and lead to substantial pain for those late to the party. The fund returned 1.4% for the month, slightly below that of the market. Overall for 2017 we returned 21.1% which is above the broader market.

	1 month	3 months	6 months	1 year	2 year (annualised)	Since Inception (annualised)
						1-Jul-14
QBFAM	1.4%	9.5%	11.0%	21.1%	16.4%	17.2%
All Ords	2.0%	8.2%	9.3%	12.5%	12.1%	8.6%
Small Ords	3.2%	13.7%	18.7%	19.4%	16.2%	11.2%

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](#).

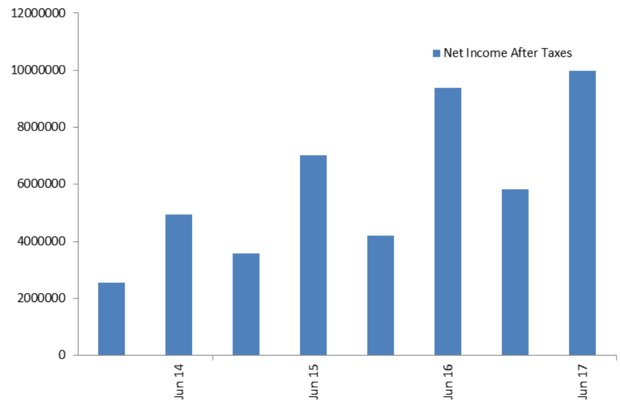
Portfolio News

The return from December was boosted by strong returns from **IMF Bentham** (+23.8%) and **Beach Energy** (+18.6%). We trimmed our position in IMF given the company's strong run over the course of this year. With a number of high profile cases potentially set to complete over the next year, investors have bid the stock up in anticipation of success. Whilst we still like the company we do note the downside risk has increased whilst upside potential has fallen. As a result we have chosen to reduce our exposure.

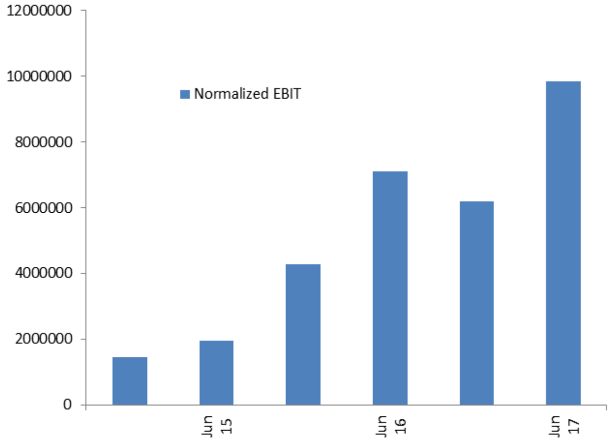
Another strong performer was **Hansen Technologies** (+9.1%). After exiting Hansen Technologies in early 2016 at a price close to $4, we reinitiated a small position on valuation grounds earlier this year in the low $3 range. Post the full year result the price stagnated as investors were concerned with the lack of profit growth. We held our position because we believed the underlying performance (ex currency moves) was strong. So come AGM we were interested in how the business was progressing. The trading update provided for the first half of the financial year was strong with increased orders and higher margins. In addition, we believe the market is underestimating the potential upside from the analytical software recently acquired in the Enoro purchase. The company has a substantial opportunity to cross-sell this across its existing client base which could underpin growth over the coming years.

Post AGM season we did receive earnings updates from two companies in the portfolio. Both **Data #3** (-5.2%) and **Paragon Care** (-3.6%) pointed to a soft first half but indicated they still expected strong full year results. In most cases were a company points to a strong rebound in the second half we are sceptical. However, in the case of Data #3 and Paragon it is slightly different. Both companies have historically had a large skew in earnings to the second half of the year. With fixed costs (salaries, rent etc.) spread over the full 12 months, it means that the first half of the year can be more volatile with regards to the bottom line.

The chart below shows Data #3's net profit over the last four years. The average first half / second half split is 34/66. Last year had the strongest first half over this period at 37% of the full year total due to a pair of large projects. These projects haven't been repeated this year and the company saw some delays due to the Queensland election. All of this means a lower top line will flow through to a softer profit result in this year's first half.



Paragon is a younger business than Data #3 but you can see from the below a similar trend is developing with 63% of the company's earnings coming in the second half. This split is expected to be more pronounced this year. The company has also indicated it will likely upgrade its full year expectations on the back of recent acquisitions in the not too distant future.



We continue to hold our positions in both companies and will continue to monitor their progress over the course of the financial year.

The Portfolio

The fund is currently invested in 21 companies. The cash level is currently 33.3% (up from 33.2%). We added one new position, increased two existing positions, and trimmed our positions in Altium and IMF Bentham.

GTK	8.9%
AXL	6.1%
DTL	5.3%
DDR	4.3%
HSN	4.1%
Other Positions	38.0%
Cash	33.3%

Sector Positioning

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