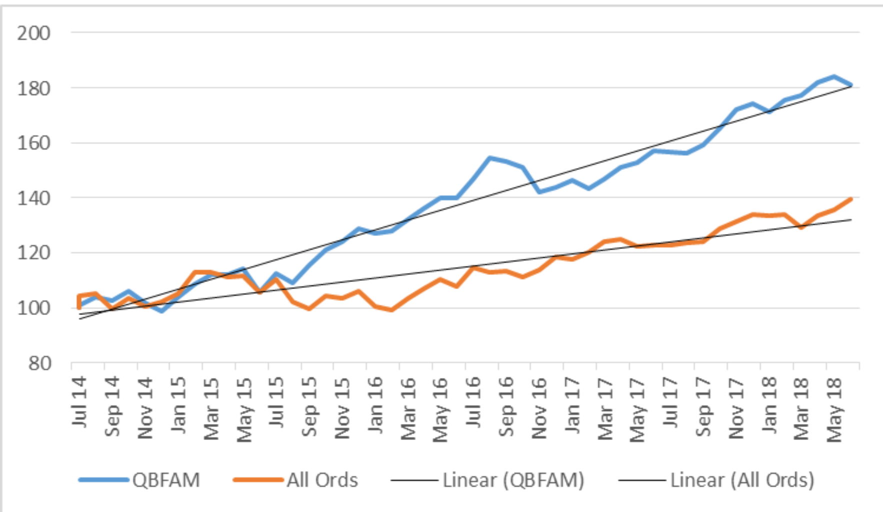
Quick Brown Fox Asset Management

Monthly Report – June 2018

The Australian equity market had a strong month to end the financial year. The June return came primarily from the ASX top 20 with smaller companies lagging behind. The Energy sector was the best performer on the back of a 10.6% rise in the price of oil. Financials (+4.0%) rebounded on the back of the banks with the troubles of the royal commission forgotten temporarily. The worst performing sector yet again was Telcos (-5.8%) as Telstra disappointed investors with the guidance given at their strategy day. It now appears FY19 will see another significant dividend cut. Our portfolio underperformed the broader market with a downgrade from Hansen Technologies and a merger announced between SRG and GCS both having an impact. On the positive side, Horizon Oil (+11.1%) and Veris (+8.9%) both had strong gains

	1 month	3 months	6 months	1 year	2 year (annualised)	Since Inception (annualised)
						1-Jul-14
QBFAM	-1.8%	2.0%	3.8%	15.2%	13.6%	16.0%
All Ords	2.9%	8.0%	4.0%	13.7%	13.4%	8.7%
Small Ords	1.1%	7.7%	4.7%	24.2%	15.0%	11.3%

Over the longer term, the portfolio 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 portfolio was impacted by two events over the course of June. The major impact was a downgrade from Hansen Technologies.

Hansen Technologies is a business we have owned off and on since 2015. We initially purchase a large position around $1.60, after trimming a few times we completely exited on valuation grounds above the $4 mark. Following our exit the price dropped backed down towards $3 and we re-entered with a small position. Then in November last year, the company announced a strong trading update at its Annual General Meeting. With the price still in the $3.30 range, we added a little bit more. The price then drifted up over $4.50 over the next 6 months and we seemed justified in our purchases.

However, that all changed when the company reported a drop in profit in the 2nd half and a flat outlook for FY19. The 2nd half drop was expected but the guidance for the next financial year was a disappointment. We had expected the company to continue to grow revenues and profit in FY19 on the back of its latest acquisition, Enoro. Within that acquisition the company had acquired a price of analytical software that it could cross sell across its existing client book. This cross sell has not eventuated and as a result our long term growth expectations have been revised down. We exited our position above the $3.30 mark with a broadly flat round trip on our most recent purchases.

The other major impact on the portfolio was a merger announced between **SRG and GCS**. We are in an unusual position here as we own both companies and unfortunately both sold off during the month. The merger though appears to make sense to us. From an investment perspective we viewed SRG as the higher quality business with a more diversified revenue base whilst GCS was trading on a cheaper multiple with a better balance sheet. The combination of the two businesses is an attempt to fill a void in the midteir sector of the infrastructure construction market. In recent years there has been significant M&A activity with Cimic being aggressive in taking out companies such as UGL and Sedgman. The new entity as a result should be well positioned to win work and in addition there are significant potential revenue synergies between the two.

Elsewhere, two of our current holdings provided solid trading updates.

Veris provided guidance for the FY18 year with revenue growth of 35% and for revenue growth in FY19 of 30%. In addition the company expects margins will be higher next year with the inclusion of recent acquisition, Elton Consulting. The company is benefitting from the ramp up in East Coast infrastructure spending and through its Urban Planning division has early stage exposure to new projects being planned.

Locality Planning Energy put out its most comprehensive update since being listed. The most intriguing part of their announcement was their forecasts for the next few years. These can be seen below.

Shown in $ millions	FY 18/19 E	FY 19/20 E	FY 20/21 E
Gross Revenue	$44.2	$79.7	$115.2
Cost of Goods	$34.4	$63.6	$92.8
Gross Profit	$9.80	$16.0	$22.4
Margin %	22%	20%	19%
Operational Expenses	$9.10	$11.3	$13.0
Profit (NPAT)	$0.68	$4.65	$8.20

Source: Company Filings

Whilst these are aggressive forecasts, the company has since listing hit all their targets and their revenue is on average locked in for 7.2 years. The company currently has a market capitalisation of $43m and if they come close to the FY21 number we would expect the shares to trade at a multiple of where they are now.

The Portfolio

The fund is currently invested in 22 companies. The cash level is currently 41.6% (up from 38.3%). We trimmed our positions in CSL. Resmed, AxsessToday and Gentrack whilst selling out of Hansen Technologies. We added to existing positions in Spark Infrastructure, Locality Planning Energy and Adacel Technologies. We also added a new position in Cimic.

SKI	6.0%
SRG	4.9%
GTK	4.3%
TME	4.0%
DDR	4.0%
Other Positions	35.2%
Cash	41.6%

Sector Positioning

The fund maintains a strong overweight to the IT sector with other exposures in Industrials, Healthcare, Utilities, Consumer Discretionary, Financials, Energy and REITs. Our IT weight has been falling in recent times whilst we have been adding to Industrials (with an Infrastructure focus) and Utilities.