



ACORN CAPITAL

Acorn Capital Investment Fund

2015 Annual General Meeting

Investment Manager's Report

(ASX: ACQ)

Robert Routley – Acorn Capital

19 November 2015

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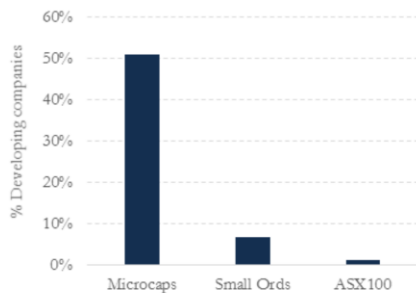
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## ABOUT ACQ

### Unique alternative investment strategy amongst LICs providing investors with access to a diversified portfolio of emerging companies

- Portfolio generally consists of ASX listed and unlisted companies with a market capitalisation less than approximately \$500 million at the time of investment
- Over 50% of Listed Microcaps are “growth companies”, being those companies with revenues 10% or less than their market capitalisation, similar characteristics to that of venture capital/growth private equity investments
- ACQ is suitable for investors with a long term investment horizon looking for exposure to early and expansion stage of development

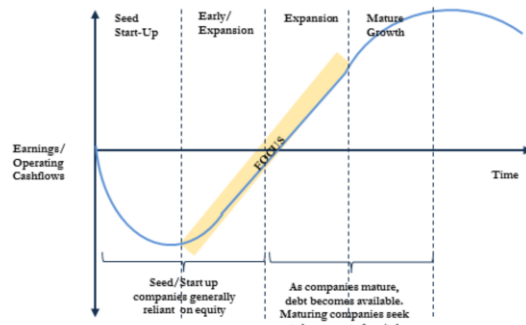
#### Percentage of Growth <sup>(1)</sup> Companies



Source: Acorn Capital, as at 31 October 2015

(1) Calculated by number of companies using IRESS subject to data availability.

#### Illustration of Finance Decision Across Company Life Cycle



Source: Acorn Capital

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Many thanks John. My name is Robert Routley and I am the Head of the Private Market group at Acorn Capital Limited, the manager of the Company. At Acorn Capital I have product responsibility for the strategy employed by the Company, being investments in both listed and unlisted microcap companies.

### About ACQ

ACQ has an alternative investment strategy that is unique amongst LICs in that investors are provided with access to a diversified portfolio of listed and unlisted emerging growth companies or ‘microcaps’. Specifically, ACQ invests in companies with equity valuations of approximately \$500m or less.

The diagrams on these slides demonstrate a few characteristics of the ACQ portfolio. Firstly, a majority as “growth companies” which we define as companies that have revenues that are 10% or less of their market capitalisation. The investments that ACQ targets are at the early/expansion stage of their development.

## OPERATING PERFORMANCE

### ACQ Pre-Tax NTA was \$0.9238 per share as at 31 October 2015

- The portfolio performance for the 2015 financial year was impacted by the under performance in the energy, information technology and cash holdings within the portfolio
- ACQ performance was also impacted due to the relative immaturity of the portfolio, reflected in the relative weight of unlisted investments
- For the financial year to date the portfolio returned 3.54% as compared to the S&P/ASX Small Ords Acc. Index return of 2.94% over same period

### Summary Statistics to 31 October 2015

Period	1 month	FYTD	6 months	12 months	Since inception (p.a.)
ACQ Portfolio <sup>1,2</sup>	+5.63%	+3.54%	+1.54%	-0.62%	-2.05%
S&P/ASX Small Ords Acc. Index	+7.12%	+2.94%	-2.83%	+2.43%	+1.63%
S&P/ASX All Ords Accumulation Index	+4.59%	-1.47%	-6.24%	+0.45%	+2.30%

(1) Performance data is unaudited

(2) Portfolio performance is post all operating expenses. Excludes management fees, taxes and initial IPO and placement commissions. Performance has not been grossed up for franking credits received by shareholders

## Operating Performance

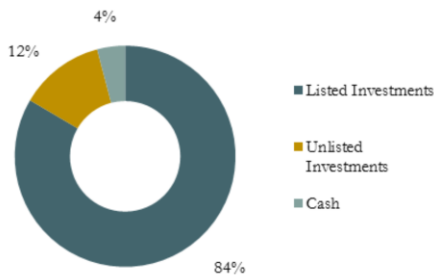
On 11 November 2015 ACQ disclosed a pre-tax NTA of \$0.9238. ACQ's NTA and its performance, as well as the performance of select indices, set out in this table. ACQ's performance over the 2015 financial year was impacted by the under performance of the energy, information technology sectors and cash holding with the portfolio. Performance was also impacted by the relative immaturity of the portfolio. The ACQ portfolio is one that is appropriate for investors with a long term investment horizon who are looking for exposure to early and expansion stage companies. By definition, the investment strategy in these companies will take a period of time to mature. Acorn Capital, as manager of ACQ has run investment strategies similar to that of ACQ for several years. We have seen this cycle before and remain confident in ACQ's investment strategy. ACQ's performance benchmark is the S&P/Small Ordinaries Index and ACQ has outperformed this index for the current financial year to date but has underperformed since inception.

## PORTFOLIO

### The ACQ Portfolio is diversified across all microcap sectors

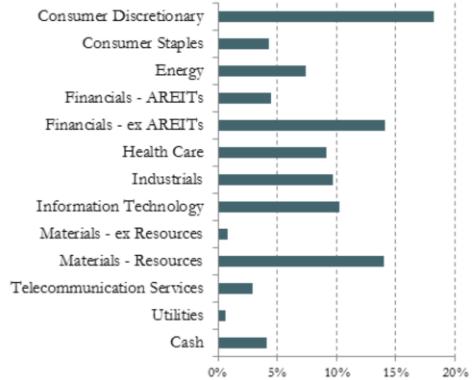
- ACQ Portfolio commenced construction on 1 May 2014 (ACQ listing date) and held 87 stocks as at 31 October 2015
- Unlisted investments represent approximately 12% of gross portfolio assets

#### Composition of Gross Portfolio Assets (Oct-2015)



(1) Source: Acorn Capital As 31 October 2015

#### Sector Weights (Oct-2015)



### Portfolio

ACQ invests across all industries. The first diagram illustrates the weightings to various sectors in the portfolio, while the second shows the composition of the gross portfolio assets. The portfolio holds 87 stocks as at 31 October 2015 with unlisted investments representing 12% of gross portfolio assets. We envisage that this proportion will increase over time as the portfolio matures and these investments continue to perform well.

## PORTFOLIO

### At 31 October 2015 the 10 largest stock holdings account for 28.5% of the ACQ Portfolio

- Portfolio strategy is to diversify by sector and by stock number to manage risk
- Largest position, Servcorp, represented 4.4% of the ACQ Investment Portfolio
- Average market capitalisation of the listed companies in the portfolio is approximately \$239 million

Top 10 Holdings <sup>1</sup>	% of ACQ Gross Portfolio Assets
Servcorp Limited	4.38%
Hub24 Limited	4.16%
RedBubble Ltd (unlisted)	4.09%
Genea Limited (unlisted)	3.41%
Burson Group Limited	2.53%
IPH Limited	2.05%
Bellamy's Australia Limited	2.00%
Excelsior Gold Limited	1.99%
SUB161 Pty Ltd (unlisted)	1.95%
Generation Healthcare REIT	1.91%
<b>Top 10 Positions</b>	<b>28.48%</b>

(1) Source: Acorn Capital. As at 31 October 2015

## Portfolio

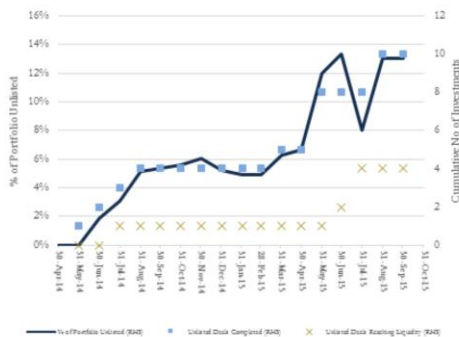
As ACQ's portfolio matures, so too does it continue to concentrate. The 10 largest holdings of ACQ account for 28.5% of the total portfolio, with Servcorp representing the largest holding at 4.38%. The average market capitalisation of the listed companies that are held in the ACQ portfolio is approximately \$239 million. Note that each of RedBubble, Genea and Sub 161, which are listed Top 10 holdings are private or unlisted investments and I will go into further detail on the unlisted investments shortly.

## UNLISTED INVESTMENT ACTIVITY

Since inception ACQ has made 10 unlisted investments, four of which have reached liquidity events

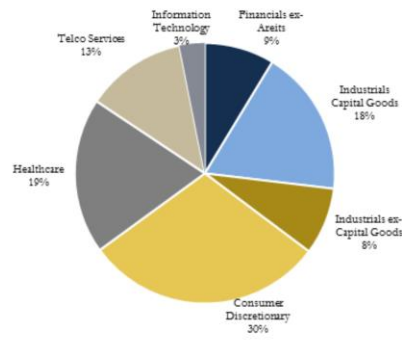
- Since inception, through to October 2015, ACQ has invested approximately \$7.7m in unlisted investments
- Weighted average duration of unlisted investments is approximately 0.6 years, compared to Acorn Capital's historical experience of 2.5 years
- For the four unlisted investments that have reached liquidity, the weighted average absolute return on capital is +68%

### Unlisted Investment Rate



1. Acorn Capital estimates as at 31 October 2015

### Sector Composition of Unlisted Investments<sup>2</sup>



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## Unlisted Investment Activity

Since inception, ACQ has made 10 investments in unlisted companies. Of these, four have already reached liquidity events at a weighted average return on capital of over 68%. With the market for initial public offerings having been strong over the past 12 months, the weighted average hold period of ACQ's unlisted investments that have reached liquidity events (being amaysim, Mitula, QMS and OneVue) has been only 0.6 years. Our historical experience has been a hold period of 2.5 years so we would expect the portfolio hold period to increase over time. The unlisted investments that are or have been in the ACQ portfolio are set out below. These investments have been in a variety of different industries, from Health Care, in the case of Genea which is in the IVF and fertility sector, to industrials, being Carbon Revolution, a Geelong-based company that has developed the world's first volume production one-piece carbon wheel for use in the automotive industry. Shareholders will be familiar with QMS, amaysim, Mitula and OneVue following their successful listings over the past 18 months. Redbubble is an on-line consumer market place which showcases amateur art for application to fashion and homeware and has been growing at an impressive rate.

UNLISTED INVESTMENT ACTIVITY





## MICROCAP SECTOR DYNAMICS

In year to 31 October 2015 the microcap sector outperformed the All Ordinaries for the first time since September 2011

- Microcaps generated a return of 6.46% in the 12 months to 31 October 2015 as compared to the All Ordinaries Accumulation Index return of 0.45%
- Energy and Industrials Capital Goods were key contributors to the Microcap Sector underperformance in the 12 months to 31 October 2015 returning -32.89% and -21.59% respectively

### Rolling 12 Month Return Differentials (Microcaps vs All Ords)



Source: Acom Capital, as at 31 October 2015. Microcap performance based on Acom Capital/SIRCA (Securities Industry Research Centre of Asia-Pacific) Microcap Accumulation Benchmark

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### Microcap Sector Dynamics

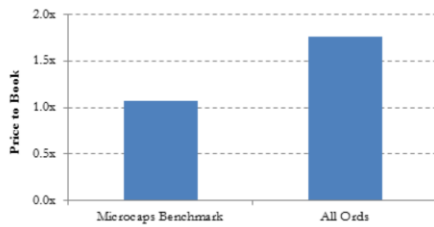
In the year to 31 October 2015, the microcap sector outperformed the All Ordinaries for the first time since September 2011, with a return of 6.46% versus 0.45%. The level of microcap underperformance in recent times is as great as it ever has been. This has been driven by a combination of the performance of the Energy and Resources sectors, while at the same time there has been a significant flight to yield over recent times. While we can't predict where markets will move, we do know that over long periods of time the performance of microcaps and the All Ordinaries has been similar so any mean reversion would be may result in outperformance by the microcap sector.

## MICROCAP SECTOR DYNAMICS

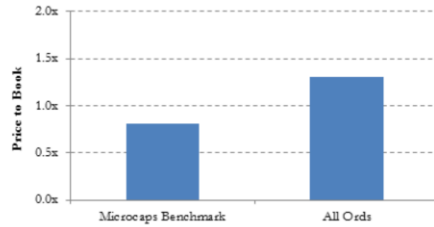
- Acorn Capital believes that on historic investment metrics the microcap sector represents more compelling relative value than the broader market

### Microcap v All Ords Price/Book Comparisons for Broad Market & Selected Sectors

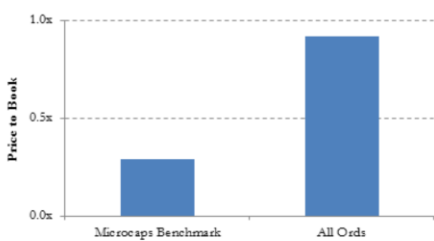
#### Broader Market



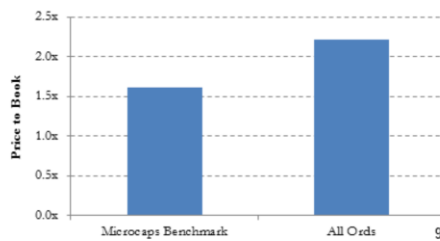
#### Resources



#### Energy



#### Broad Market ex Resources & Energy



Source: Acorn Capital Estimates as at 30 September 2015

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### Microcap Sector Dynamics

The extent to which the microcap sector has underperformed the All Ordinaries is demonstrated on this slide. This shows the discount in which microcaps are valued, on a price-to-book basis, when compared to the All Ordinaries. We believe that microcaps currently represent a deep and attractive discount to the broader market.

## ACQ OPERATIONS

- On 24 September 2015 the ACQ board commenced an on market share buyback
- As at 17 November 314,079 shares have been purchased at an average price of \$0.7589, with the highest price paid of \$0.7900

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### **ACQ Operations**

As shareholders will be aware, ACQ announced a buy-back of its own shares on 9 September 2015. Since the commencement of the buy-back the Company has (as of 17 November 2015) purchased 314,079 shares at an average and highest price of \$0.7589 and \$0.7900 respectively. At the announcement of the buy-back the ACQ Board considered that the discount in share price presented a compelling investment opportunity and would be in the best interests of all shareholders. Many thanks for your time today and I now hand back to John to go through the formal aspects of today's meeting.