

ACORN CAPITAL

Acorn Capital Investment Fund

September Quarter 2015 Update

(ASX: ACQ)

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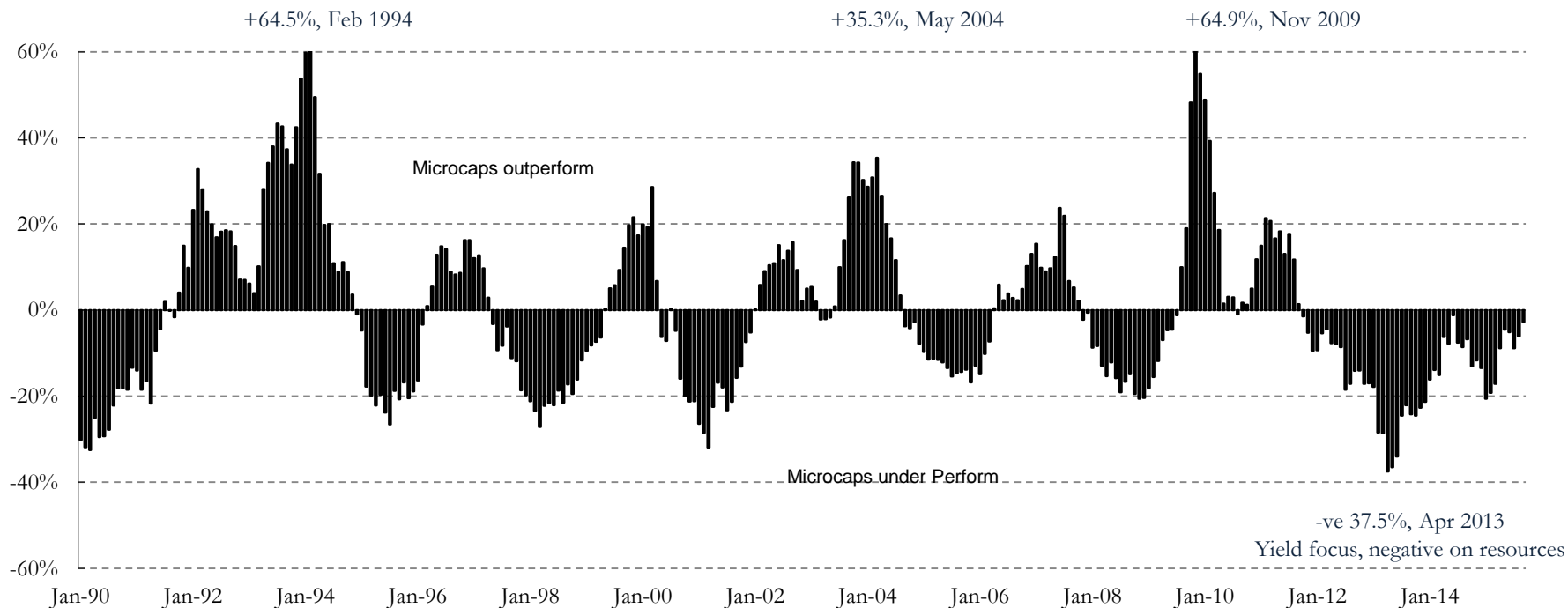
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- ACQ Portfolio performance for the September 2015 quarter of -1.98% versus -3.90% and -5.79% for the S&P/ASX Small Ordinaries and All Ordinaries Accumulation Index respectively
- Microcap sector has strongly outperformed the All Ordinaries Accumulation Index over past 6 months posting a return of -0.32% versus -11.68% respectively
- Completed two new unlisted investments in PAFtec and Genea, bringing unlisted portfolio weight to approximately 13% as at 30 September 2015
- Two unlisted investments, amaysim and Mitula successfully listed on the ASX, bringing the number of unlisted liquidity events to four since inception. A total of 10 unlisted investments have been completed
- On 9 September 2015, ACQ announced an on-market share buyback of up to 10% of the its issued capital over the coming 12 months

### Microcap sector relative performance has improved in the year to 30 September 2015

- Microcaps generated a return of -2.90% in 12 months to 30 September 2015 as compared to the All Ordinaries Accumulation Index of -0.16%
- Materials Resources and Energy were key contributors to the Microcap Sector underperformance in the 12 months to 30 September 2015 returning -20.71% and -46.09% respectively
- Evidence exists of some recent improvement in sentiment towards resources equities <sup>(1)</sup>. If sustained this may be positive for Microcap Resources

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



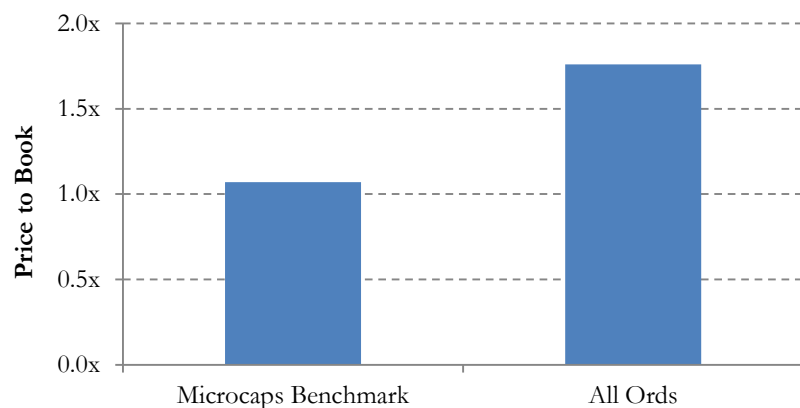
Source: Acorn Capital, as at 30 September 2015. Microcap performance based on Acorn Capital/SIRCA ('Securities Industry Research Centre of Asia-Pacific') Microcap Accumulation Benchmark

(1) Morgan Stanley, Metals & Mining Research, 'Turning the Tide', 9 October 2015

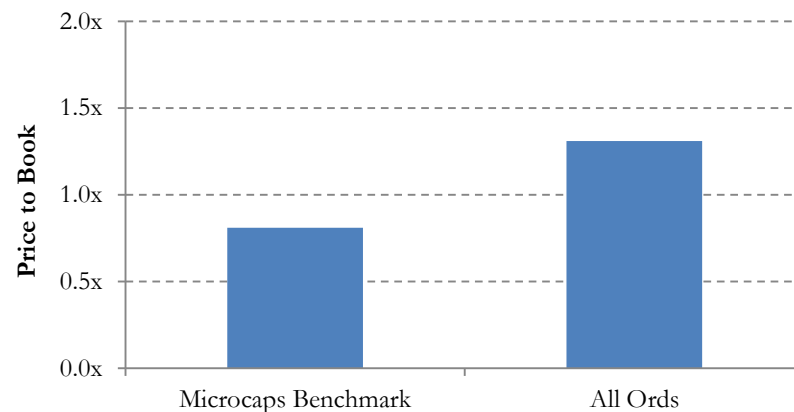
- Acorn Capital believes that on historic metrics the microcap sector represents more compelling relative value than broader market

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

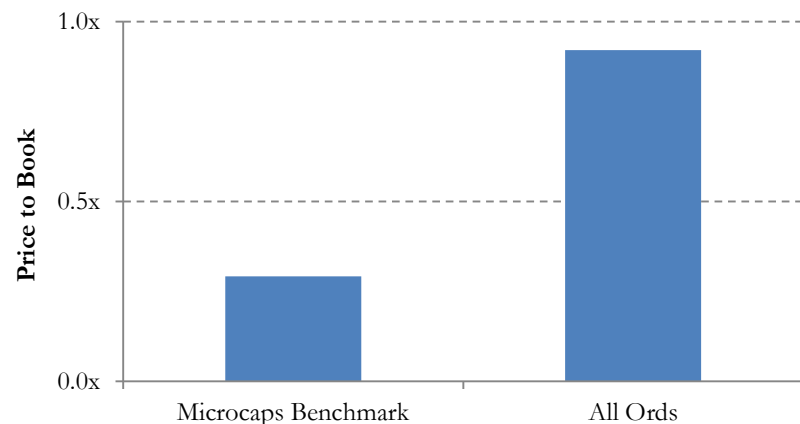
#### Broad Market



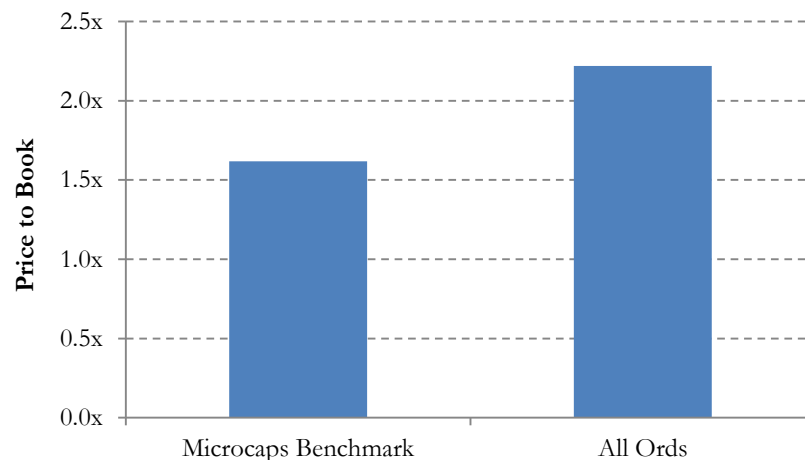
#### Resources



#### Energy



#### Broad Market ex Resources & Energy



## Microcap sector return in the September 2015 Quarter was led by Telco Services and Materials ex Resources

- Microcap sector return was -0.1% for the quarter to September 2015, relative to the S&P Small Ordinaries Accumulation Index which returned -3.9%.
- Best performing sectors were Telco Services (+28.6%), Materials ex Resources (+20.6%) and Consumer Staples (+16.4%) which had an aggregate Benchmark Weight of 8.0% of the Microcap sector
- The worst performing sectors were Energy (-17.5%), Materials - Resources (-7.7%) and Health Care (-4.7%) which had an aggregate Benchmark Weight of 32.6% of the Microcap sector

### Attribution for the 3 months to 30 September 2015

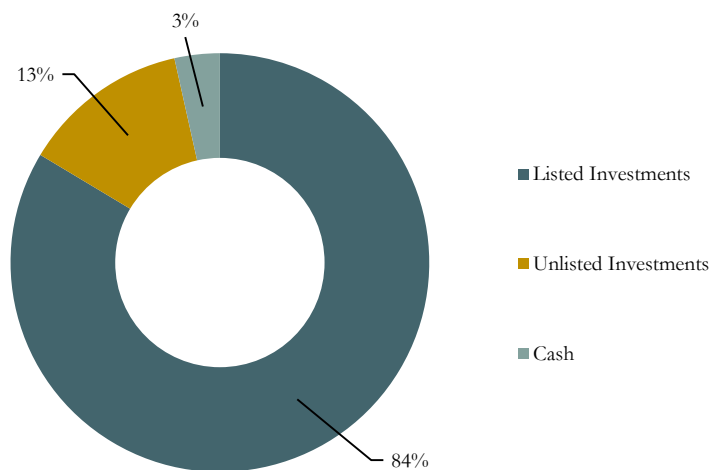
To 30 September 2015	Microcap Benchmark Sector Return (%)	Benchmark Weight (%)
Consumer Discretionary	3.57%	15.57%
Consumer Staples	16.39%	5.79%
Energy	-17.52%	7.37%
Financials – AREITs	3.20%	7.73%
Financials – ex AREITs	-1.12%	11.30%
Healthcare	-4.66%	8.51%
Industrials – Capital Goods	-1.98%	5.52%
Industrials – ex Capital Goods	0.69%	6.39%
Information Technology	9.92%	11.98%
Materials – ex Resources	20.55%	0.71%
Materials – Resources	-7.69%	16.70%
Telecommunication Services	28.61%	1.50%
Utilities	-1.71%	0.90%
<b>Total</b>	<b>-0.09%</b>	<b>100.00%</b>

Source: Acorn Capital, as at 30 September 2015. Microcap performance based on Acorn Capital/SIRCA ('Securities Industry Research Centre of Asia-Pacific') Microcap Accumulation Benchmark.

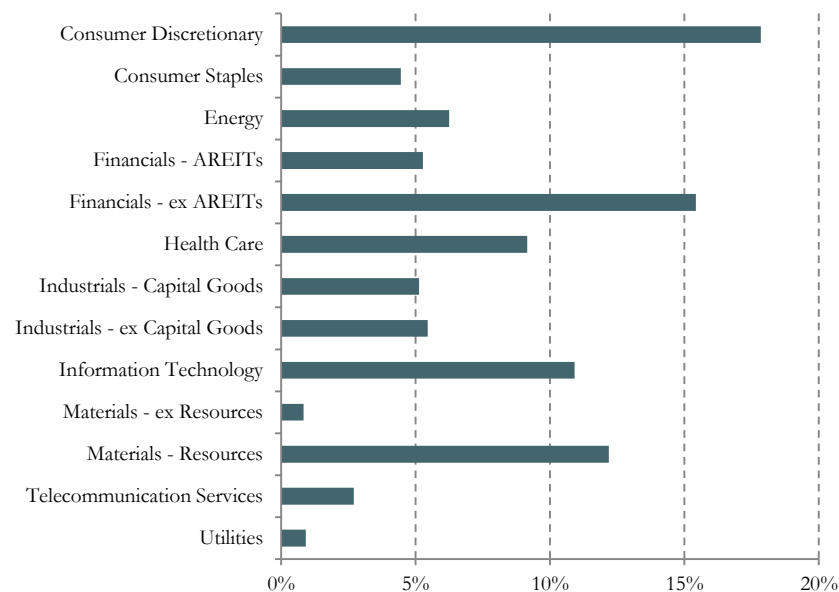
## The ACQ Investment Portfolio is diversified across all microcap sectors

- ACQ Investment Portfolio investment commenced on 1 May 2014 (ACQ listing date) and holds 91 stocks as at 30 September 2015
- Unlisted investments represent approximately 13% of gross portfolio assets

### Composition of Gross Portfolio Assets <sup>1</sup>



### Sector Weights <sup>1</sup>



(1) Source: Acorn Capital As 30 September 2015

## At 30 September 2015 the 10 largest stock holdings account for 29.4% of the ACQ Investment Portfolio

- Portfolio strategy is to diversify by sector and by stock number to manage risk
- Largest position, Servcorp, represented 5.3% of the ACQ Investment Portfolio
- Average market capitalisation of the listed companies that ACQ is invested in is approximately \$245 million

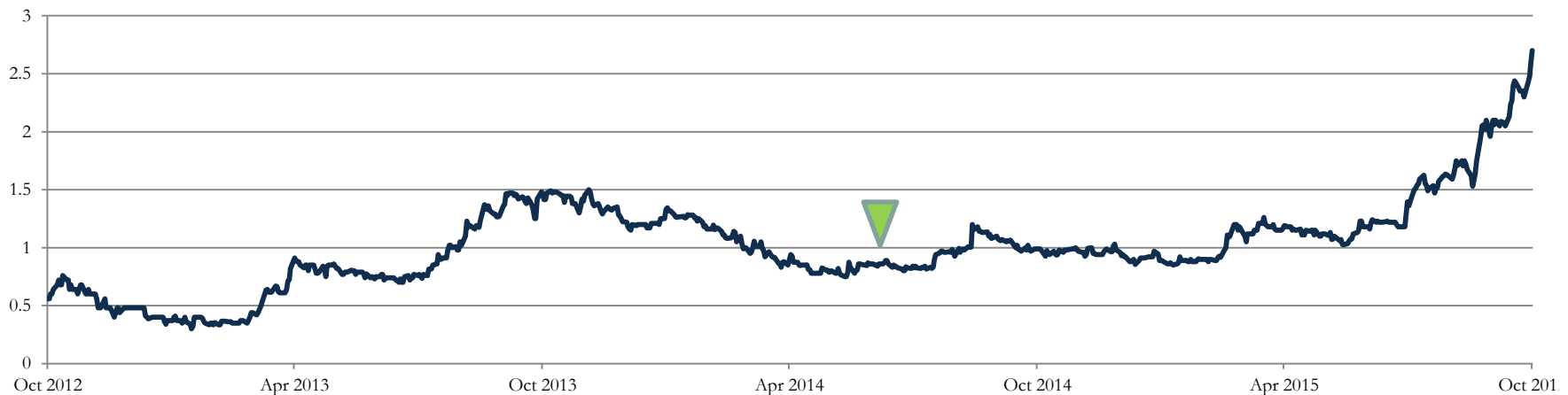
Top 10 Holdings <sup>1</sup>	% of ACQ Gross Portfolio Assets
Servcorp	5.30%
RedBubble (Unlisted)	4.32%
Genea (Unlisted)	3.56%
Hub24	3.31%
Burson Group	2.72%
IPH	2.11%
Bellamy's Australia	2.08%
Generation Healthcare	2.05%
Fiducian Group	2.00%
SUB161 (Unlisted)	1.95%
<b>Top 10 Positions</b>	<b>29.40%</b>

(1) Source: Acorn Capital As at 30 September 2015



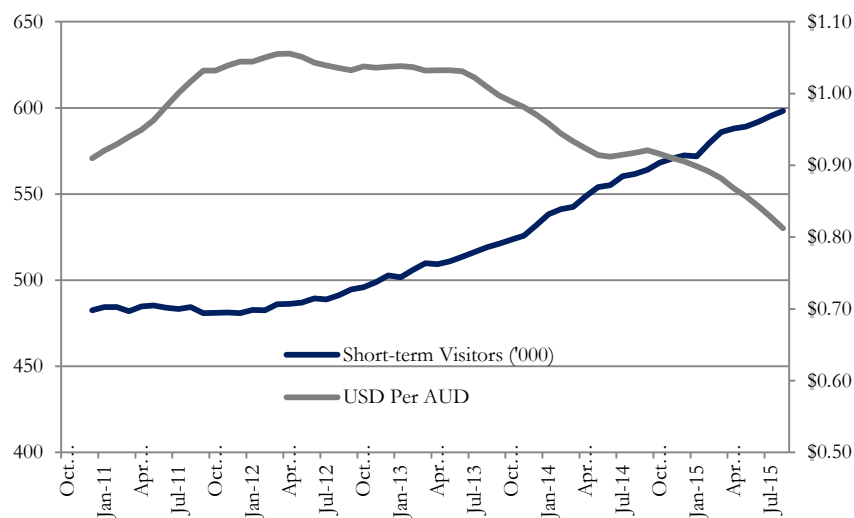
- HUB24 is the key “Fintech” exposure within the ACQ portfolio and is the 4<sup>th</sup> largest portfolio holding at 3.3%. HUB has developed an industry leading non-aligned Wrap account for independent financial planners.
- Growth is being driven by the ongoing structural shift by financial planners away from aligned planning groups.
- HUB’s technology is recognized by independent surveys as one of the best Wrap account solutions available.
- The key financial attraction to the stock is its operating leverage, with incremental margin above 80%. By 4Q FY16, we expect HUB to be profitable.
- HUB has had its strongest ever year both operationally and in terms of share price performance. Funds Under Administration has grown 100% to \$1.9bn, Revenue is up 152% and the share price is up 172% in the past year.

### HUB24 Share Price Performance



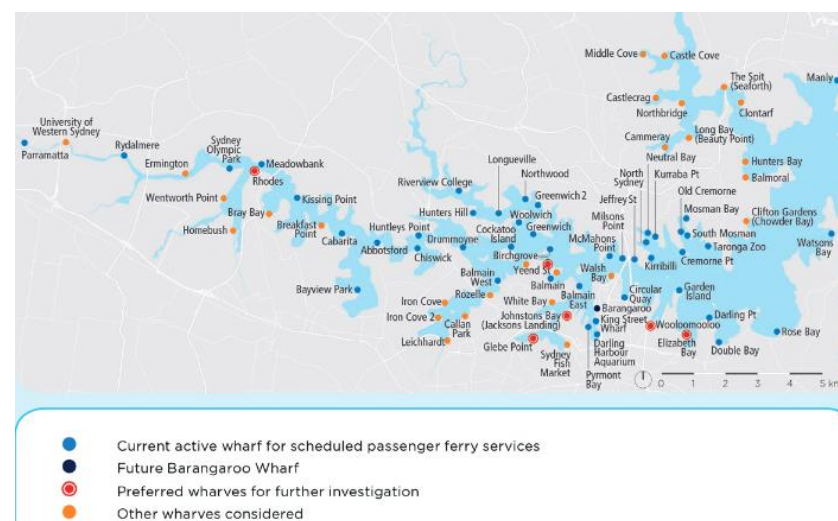
- Ferry & tourism operator SLK is driven by growing domestic and inbound tourism plus secure commuting contracts.
- Track record delivering earnings & cash flow growth, and management proven ability expansion in new regions.
- SLK's core business is growing at 7% CAGR, with recent TSM acquisition providing diversification, doubling fleet on a 6.5x EV/EBITDA multiple, delivering 35% EPS accretion on a full year basis before relying on synergies.
- Post acquisition Sealink generates 69% of its revenue from monopolistic (natural or secured tender) routes.
- TSM acquisition provides a young & fuel efficient fleet with contracted earnings, and opportunity to take advantage of new routes & tourism driven markets, where they previously lacked scale and fleet availability
- After 30% EPS growth in FY15 we expect 42% and 15% growth in FY16-17 respectively. Free cash flow accelerating as fleet expansion completed allowing consistent 60% payout.

## Australian Visitor Arrivals vs. AUD/USD



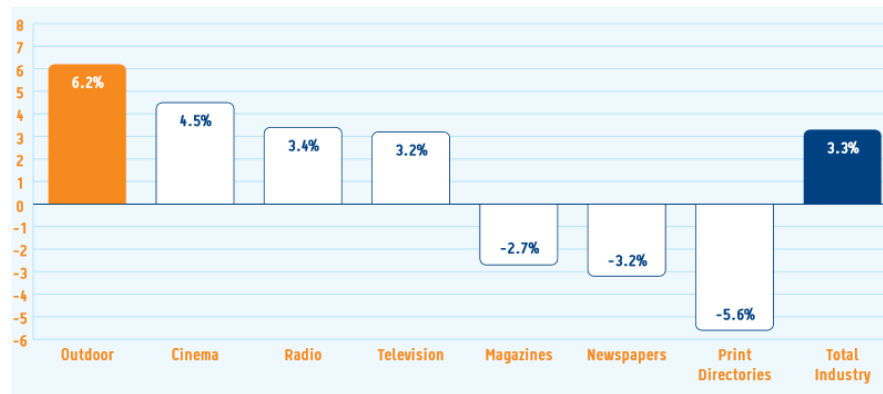
Source: FactSet, ABS, NSW Govt, Acorn Capital

## 7 new ferry wharves for potential growth

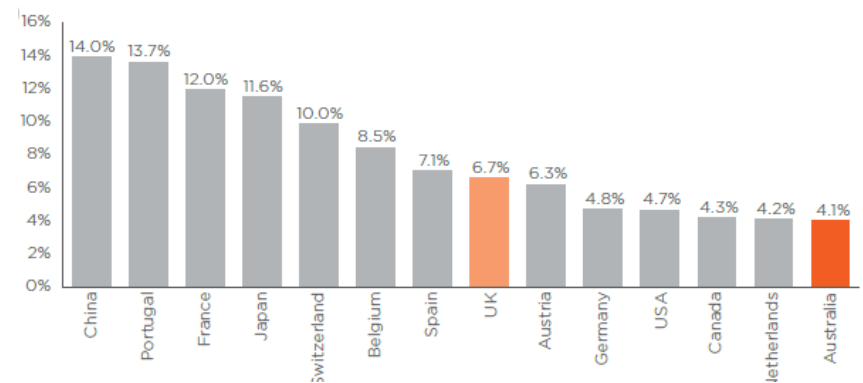


- Out Of Home (“OOH”) advertising market has grown from 3.1% to 4.5% of the Australian market since 2003.
- OOH accelerated growth in 2014 to 10.7% against a flat market. The industry has a \$1bn target for 2017.
- OOH industry is well positioned to grow both from digitalisation opening a greater market, and changes to audience viewing habits. FTV suffering fragmentation and declining audiences falling 7% in 1H15.
- Digital screens are providing a new dimension, giving OOH operators access to budgets that were previously unobtainable because of the lack of "time relevance" of static screens.
- Digital share has grown from 7.5% in 2012 to 18.8% in 2014 and reached 25.4% in September.
- Digital growth is not straight forward with council objections. While moderating short term growth it lessens risk of oversupply and lengthens the runway for future growth.
- Acorn has exposure through both QMS and oOh Media.

### Australian Advertising Expenditure 2003-13 Cagr



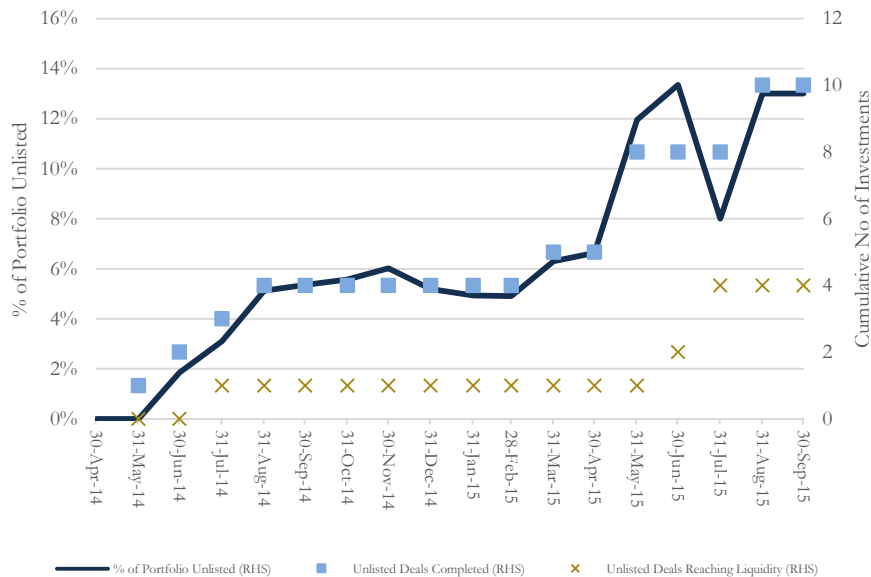
### OOH Market Share Still Relatively Low



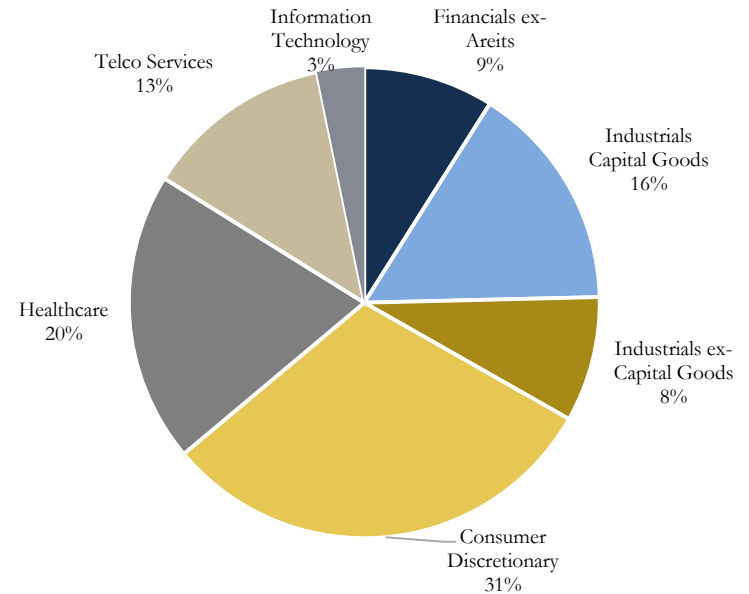
## Since inception ACQ has made 10 unlisted investments, 4 of which have reached liquidity events

- Since inception, through to September 2015, ACQ has invested approximately \$7.7m in unlisted investments
- Weighted average duration of unlisted investments (unlisted and those that have reached liquidity events) is approximately 0.6 years, compared to Acorn Capital’s historical experience of 2.7 years
- For the 4 unlisted investments that have reached liquidity, the weighed average absolute return on capital is **+68%**

### Unlisted Investment Rate



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



1. Acorn Capital estimates as at 30 September 2015

## Recent Unlisted Investments



**Description** Genea is a pioneer of fertility treatment backed up by in-house research and technology development. Genea has 3 main divisions, Genea Fertility (IVF), Genea Biomedix (medical devices) and Genea Biocells (stem cell library for use in drug research).

**Website(s)** [www.genea.com.au](http://www.genea.com.au)  
[www.geneabiomedx.com](http://www.geneabiomedx.com)  
[www.geneastemcells.com.au](http://www.geneastemcells.com.au)

**Sector** Healthcare

**Stage** Expansion



**Description** PAFtec specialises in innovative and quality respirator design and manufacturing

**Website** [www.paftec.com.au](http://www.paftec.com.au)

**Sector** Industrials ex-Capital Goods

**Stage** Expansion



REDBUBBLE



amaysim



SUB161<sup>o</sup>  
CONNECTING GAS TO MARKET

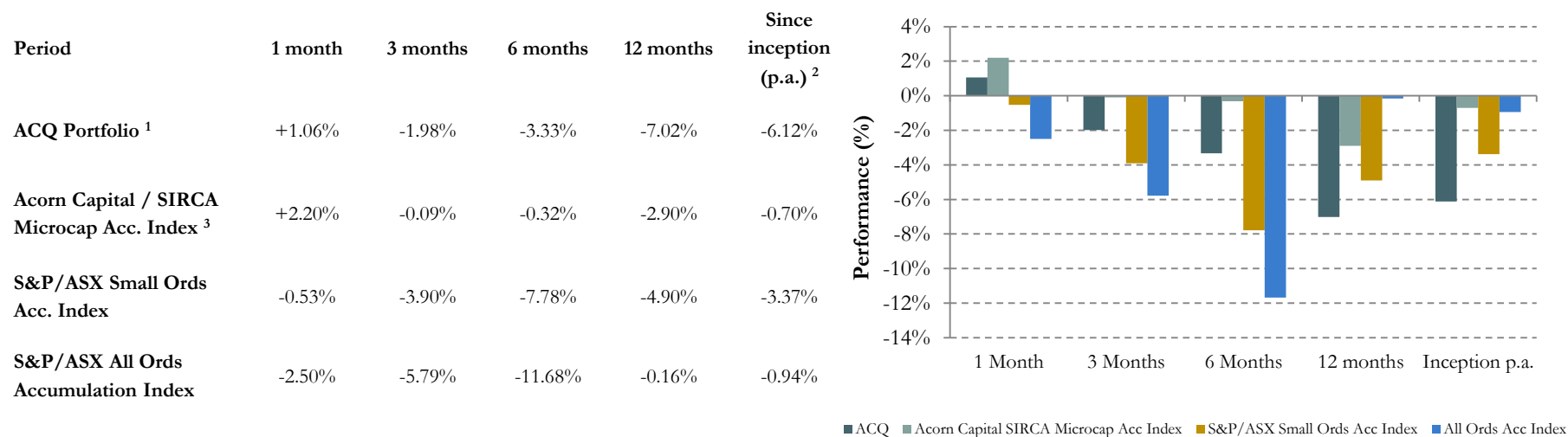


Genea  
WORLD LEADING FERTILITY

### ACQ Investment Portfolio stock selection is designed to focus on medium to long term performance

- ACQ has generated a return of -1.98% <sup>(1)</sup> for 3 months to September 2015, compared to the S&P/ Small Ordinaries Accumulation Index of -3.90%
- ACQ has benefited from the microcap sector outperforming the broader market over the past 6 months which compares to the All Ordinaries Accumulation Index

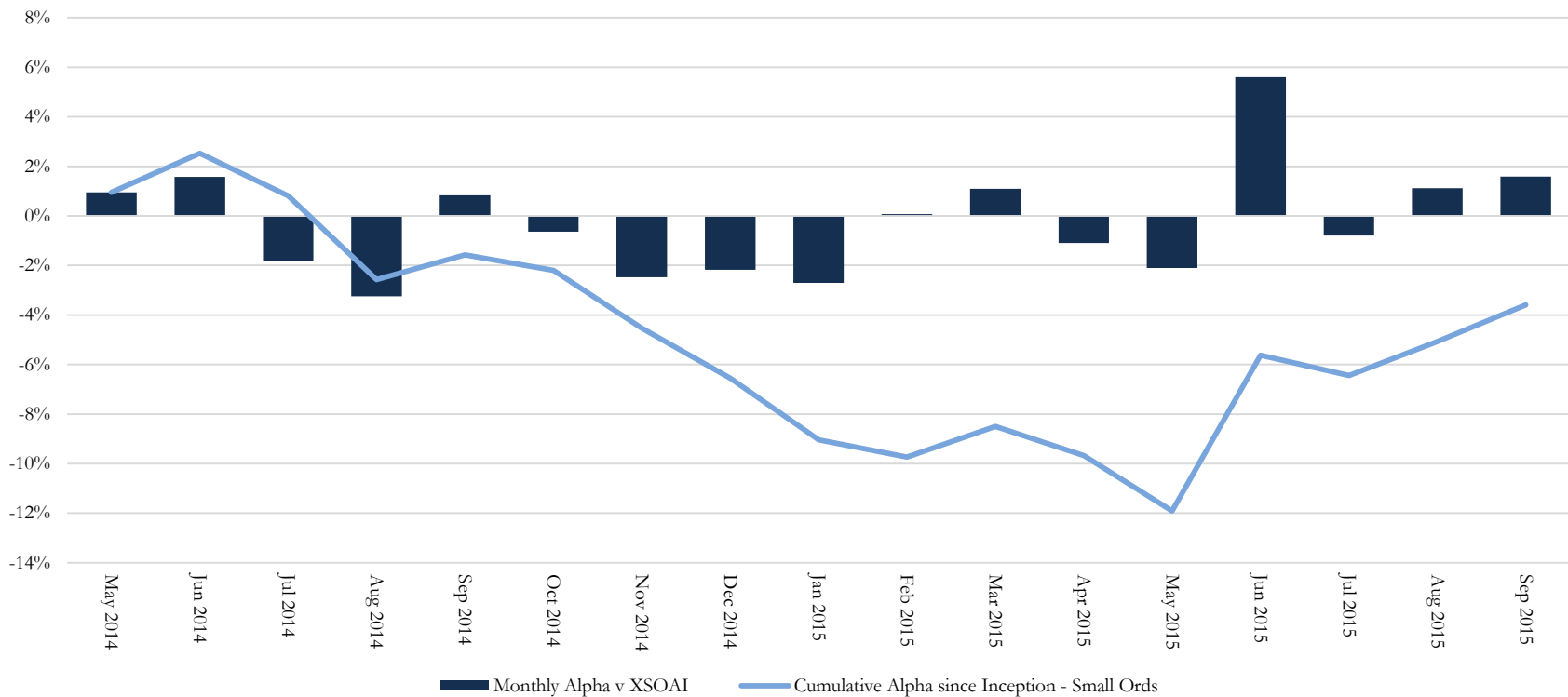
### ACQ Performance as at 30 September 2015<sup>1</sup>



- Portfolio performance is unaudited and post all operating expenses, excluding management fees, taxes and initial IPO and placement commissions. Performance has not been grossed up for franking credits received by shareholders. All figures are unaudited, unlisted valuations performed by Acorn Capital in accordance with ACQ Board approved policies
- Inception is 1 May 2014
- Acorn Capital / SIRCA Microcap Accumulation Index data is verified 3 months in arrears by SIRCA

- Cumulative underperformance of the ACQ portfolio has recently improved as compared to the S&P/ASX Small Ordinaries Accumulation Index
- Since inception ACQ through to 30 September 2015 has underperformed the S&P/Small Ordinaries Accumulation Index and Microcap Index by approximately by 3.6% and 7.2% (nominal)

### ACQ Monthly Excess Return (Alpha) Compared to the S&P/Small Ordinaries Accumulation Index<sup>1</sup>



1. Acorn Capital estimates as at 30 September 2015

ACQ Key Details		ACQ Metrics	
<b>Company</b>	Acorn Capital Investment Fund Limited	<b>Net Proceeds Raised in IPO</b>	\$50.1 million
<b>Manager</b>	Acorn Capital Ltd	<b>Market Capitalisation</b>	\$36.8 million
<b>IPO Date (Inception)</b>	1 May 2014	<b>Gross Market Value of Portfolio <sup>(1)</sup></b>	\$44.5 million
<b>Ordinary Shares on Issue (ACQ)</b>	50,820,001	<b>NTA before any Tax Effect<sup>(1)</sup></b>	\$0.8720
<b>Options on Issue (ACQO)</b>	<ul style="list-style-type: none"> <li>▪ 50,820,000</li> <li>▪ Exercise Price, \$1.00</li> <li>▪ Last date for exercise, 24 October 2015</li> </ul>	<b>NTA After Tax<sup>(1)</sup></b>	\$0.9169
<b>Number of Shareholders</b>	1,056	<b>ACQ Performance Since Inception<sup>(1)(2)</sup></b>	-6.1%
<b>Acorn Capital &amp; Shareholders Interest in ACQ</b>	14.5%	<b>XSOAI Since Inception</b>	-3.4%
		<b>Acorn Capital/SIRCA Microcap Acc Index Since Inception <sup>(1)(3)</sup></b>	-0.7%

(1) Unaudited

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

(3) Acorn Capital / SIRCA Microcap Accumulation Index data is verified 3 months in arrears by SIRCA ('Securities Industry Research Centre of Asia-Pacific')



## ACQ is a Listed Investment Company that provides investors exposure to a diversified portfolio of Microcap Companies

- “Microcap Companies” are defined as those entities with an equity valuation below that of the 250th largest (by full market capitalisation) ASX-listed entity
- Microcap Companies comprise Listed Microcaps (being those listed on ASX) and Unlisted Microcaps (being either entities not listed on the ASX, or unlisted instruments of Listed Microcaps)
- ACQ’s primary objective is to achieve after-fee returns on its investment portfolio in the long term that are higher than the S&P/ASX Small Ordinaries Accumulation Index, through long-term capital growth by way of investment in a diversified portfolio of Microcap Companies
- ACQ offers investors access to a diversified portfolio in the asset class of Microcap Companies
- Attractive product for long term investors within their own diversified portfolios
- ACQ offers a long term strategy that should be considered in the context of investment choices in the alternative asset class

### INVESTMENT PHILOSOPHY

- Identify the best investments within each industry based on relative value, remaining fully invested across all industries
- Exploit inefficiencies in the pricing of Listed and Unlisted Microcap Companies
- Investment opportunities for long term capital growth are identified through research and regular company interaction
- Manage risk through creation of diversified portfolios

### INVESTMENT STRATEGY

- |                                   |   |
|-----------------------------------|---|
| ▪ Research Driven Stock Selection | Significant potential value added due to lack of research in microcap sector      |
| ▪ Economic Sector Diversified     | Enable relative rank, provide diversification by industry, optimise risk / reward |
| ▪ Style agnostic                  | Avoid style bias, capture both growth and value, developing and mature companies  |
| ▪ Long term investor              | Minimise transaction costs and maximise participation in the primary market       |
| ▪ Stock Numbers                   | Create diversified portfolios, reduce volatility                                  |

### TARGET PORTFOLIO

### METRIC

- |  |  |
|--|--|
| ▪ Portfolio Sector Weights                         | Acorn Capital / SIRCA Microcap Benchmark (although exposures may vary from the benchmark)        |
| ▪ Range of Unlisted Exposure                       | Weight not fixed but expected to be 0-50%  |
| ▪ Average Investment Duration                      | Anticipated to be 2-5 years  |
| ▪ Exposure to Single Company at Time of Investment | Max 7.5% of portfolio at time of investment  |
| ▪ Cash   | To a level considered appropriate as determined by the Manager, although typically less than 10% |

Director	Background
<p>John Steven <i>Chairman and Independent Non-executive Director</i></p>	<p>John is the non-executive Chairman of ACQ. He is the head of Minter Ellison's Mergers &amp; Acquisition Division. He practises in the corporate and capital markets area and also has an extensive general corporate practice. <i>B.Ec, LLB (Hons), DipComLaw</i></p>
<p>Judith Smith <i>Independent Non-executive Director</i></p>	<p>Judith was formerly the Head of Private Equity at IFM Investors and Chair of the IFM Risk Committee. Judith was also a member of the IFM Investments Committee. She also held various investment management roles including more than a decade at National Mutual Funds Management. <i>B.Ec (Hons), M.AppFin</i></p>
<p>David Trude <i>Independent Non-executive Director</i></p>	<p>David is a senior corporate banking executive with 40 years' experience in a variety of financial services roles in the banking and securities industries. He is the Chairman of Baillieu Holst. David was formerly Managing Director, Australian CEO of Credit Suisse, where he is currently a Consultant. He currently holds several other board positions. <i>B.Com</i></p>
<p>Robert Brown <i>Director</i></p>	<p>Robert is an independent director of Acorn Capital and is Chairman of its subsidiary Australian Microcap Investments Pty Ltd. He is an emeritus professor of finance in the Department of Finance, University of Melbourne, where his research has focused on security market behaviour. <i>B.Ec (Hons), M.Ec, GradDipAcc, FCPA, SF Fin</i></p>
<p>Barry Fairley <i>Director</i></p>	<p>Barry is Acorn Capital's Managing Director. He founded Acorn Capital in 1998 and has more than 40 years of investment experience. <i>Dip of Mining Engineering, SA Fin</i></p>