

ACORN CAPITAL

Acorn Capital Investment Fund

December 2015 Update

(ASX: ACQ)

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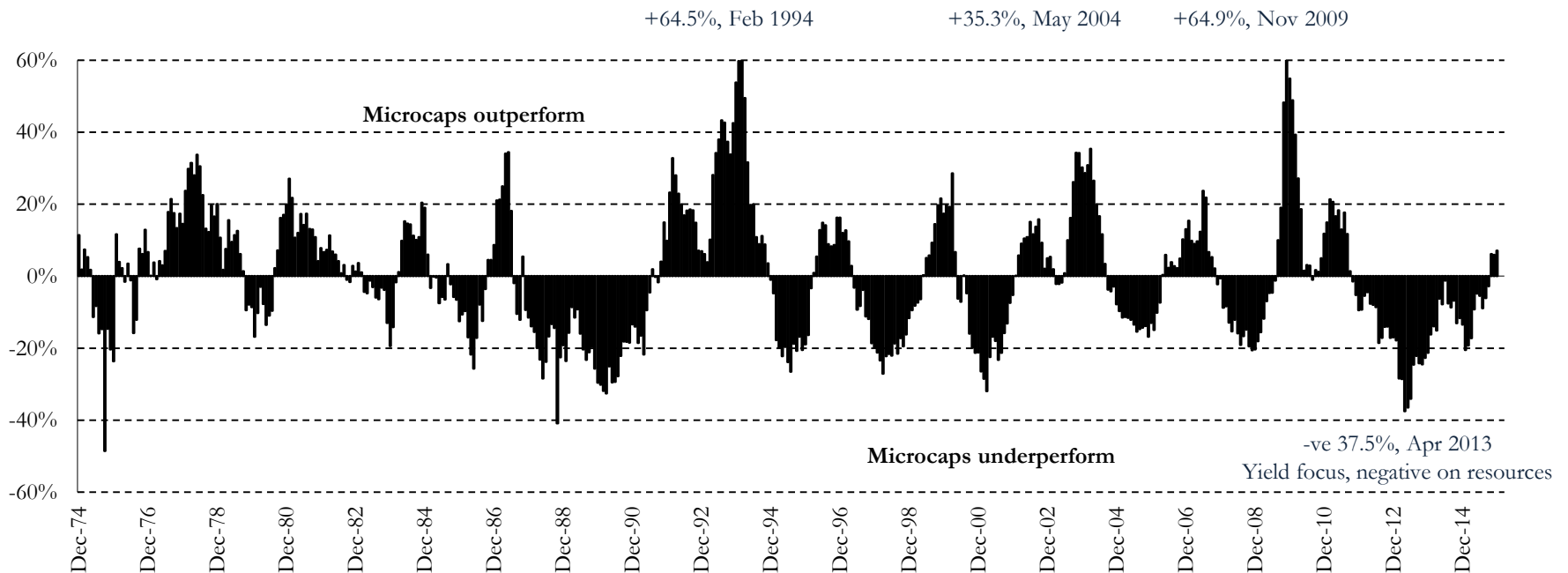
- ACQ investment portfolio performance for calendar year to December was 14.97% ⁽¹⁾ versus 10.57% and 3.78% for the S&P/ASX Small Ordinaries and All Ordinaries Accumulation Index respectively
- Microcap Sector underperformed the All Ordinaries Accumulation Index over the quarter posting a return of +4.87% versus +6.62% respectively
- Best performing sectors within the ACQ investment portfolio for the December 2015 quarter were Consumer Staples, Utilities and Healthcare
- Unlisted portfolio weight finished the quarter at approximately 14%
- During the quarter as a part of the ongoing share buy back ACQ purchased 825,782 shares at a VWAP of \$0.8063

(1) Portfolio performance is unaudited and post all operating expenses but before 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

Microcap sector relative performance has improved in the year to 31 December 2015

- Microcaps generated a return of 10.33% in 12 months to 31 December 2015 as compared to the All Ordinaries Accumulation Index of 3.78%
- The year to December 2015 was first the rolling year since September 2011 (4 years) the Microcaps had outperformed the All Ordinaries

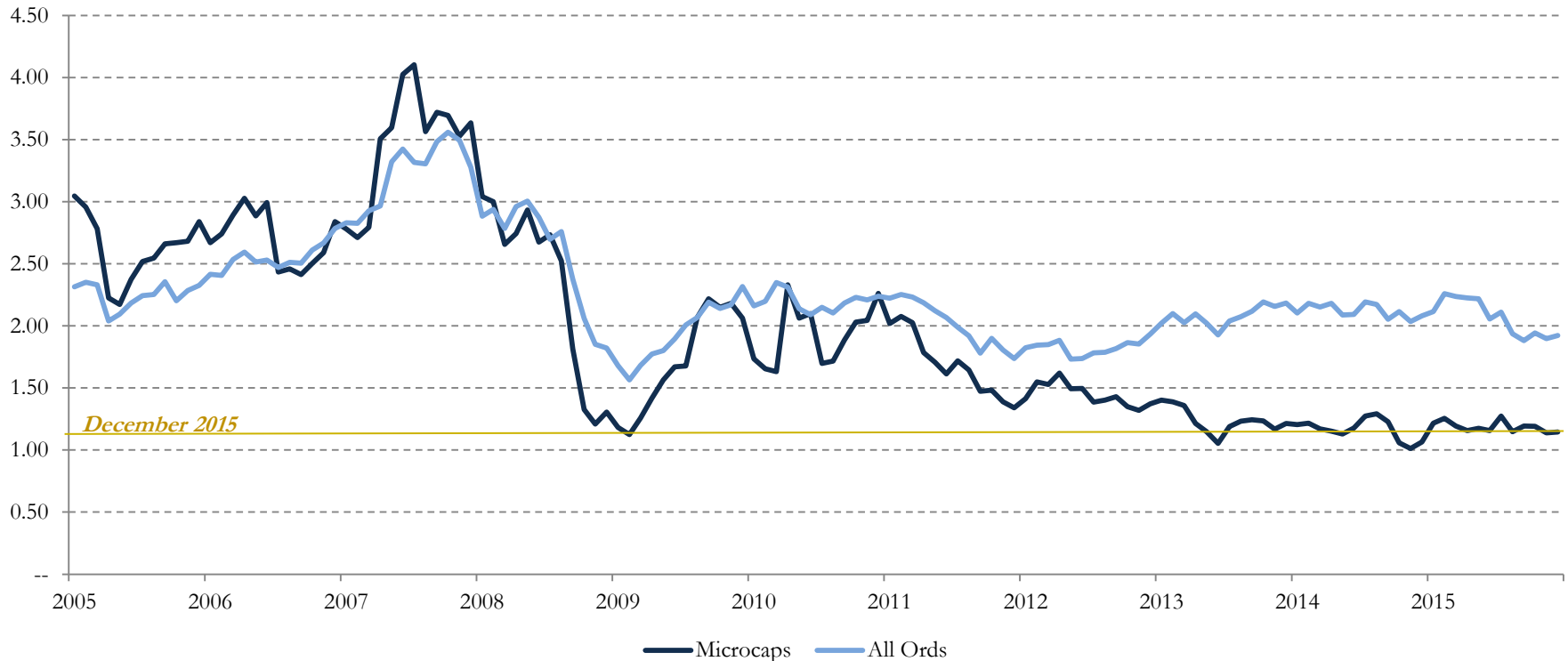
Rolling 12 Month Return Differentials (Microcaps vs All Ords)



Microcap Sector Price/Book (P/B) is still at relatively low levels

- Chart below shows that P/B ratios for Microcaps experienced different results since GFC to the All Ords
- As shown, since 2013 P/B for Microcaps have returned to GFC levels of 1.1x whilst All Ords have remained around 2.0x

Price to Book – Microcaps relative to All Ordinaries Accumulation Index



Source: Acorn Capital estimates as at 31 December 2015

Microcap sector return in the three months to December was led by Consumer Staples and Utilities

- Microcap sector return was 4.40% for the three months to December 2015, relative to the S&P Small Ordinaries Accumulation Index which returned 11.32%.
- Best performing sectors were Consumer Staples (+16.27%), Utilities (+15.91%) and Healthcare (+11.95%) which had an aggregate Benchmark Weight of 15.48% of the Microcap sector
- The worst performing sectors were Materials – ex Resources (-5.75%), Industrials – Capital Goods (-4.66%) and Energy (-3.46%) which had an aggregate Benchmark Weight of 14.69% of the Microcap sector

Attribution for the 3 months to 31 December 2015

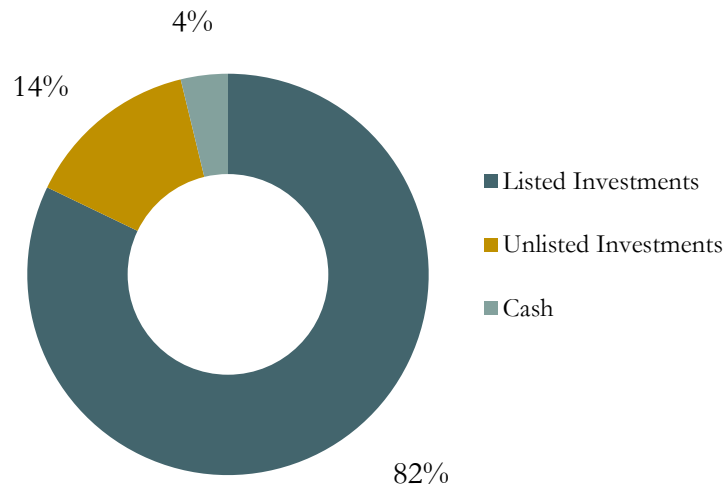
To 31 December 2015	Microcap Benchmark Sector Return (%)	Benchmark Weight (%)
Consumer Discretionary	7.68%	16.08%
Consumer Staples	16.27%	4.87%
Energy	-3.46%	8.04%
Financials – AREITs	11.12%	8.38%
Financials – ex AREITs	5.96%	11.27%
Healthcare	11.95%	9.07%
Industrials – Capital Goods	-4.66%	5.94%
Industrials – ex Capital Goods	2.11%	6.70%
Information Technology	4.30%	10.23%
Materials – ex Resources	-5.75%	0.71%
Materials – Resources	-2.78%	15.67%
Telecommunication Services	-1.68%	1.49%
Utilities	15.91%	1.54%
Total	4.40%	100.00%

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

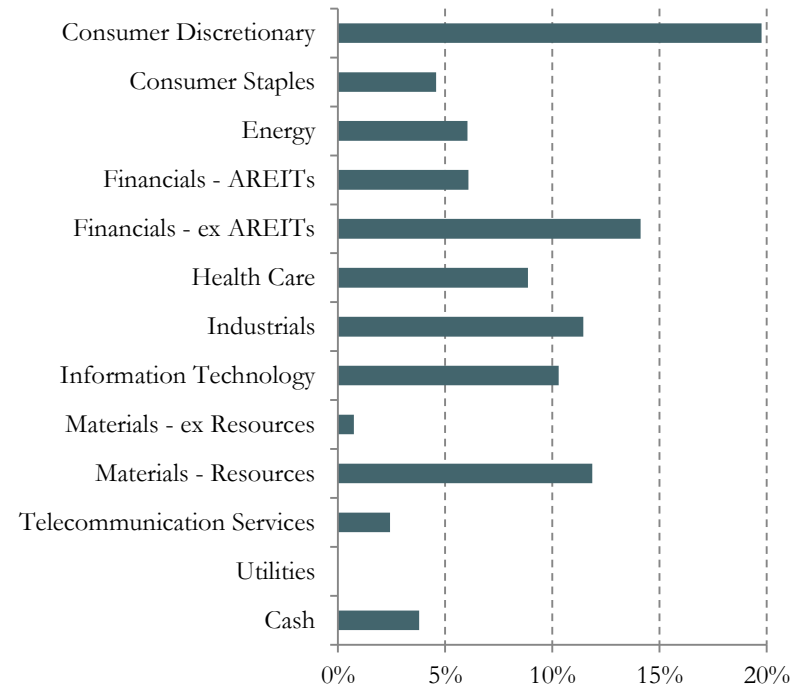
The ACQ Investment Portfolio is diversified across all microcap sectors

- ACQ Investment Portfolio investment commenced on 1 May 2014 (ACQ listing date) and holds 91 stocks as at 31 December 2015
- Unlisted investments represent approximately 14% of gross portfolio assets

Composition of Gross Portfolio Assets (Dec-2015)



Sector Weights (Dec-2015)



At 31 December 2015 the 10 largest stock holdings account for 32.5% of the ACQ Portfolio

- Portfolio strategy is to diversify by sector and by stock number to manage risk
- Portfolio concentration has increased from 26.4% in December 2014 which is consistent with the portfolio maturing
- Largest position, Redbubble, represented 6.3% of the ACQ Investment Portfolio
- Average market capitalisation of the listed companies in the portfolio is approximately \$288 million

Top 10 Holdings

% of ACQ Gross Portfolio Assets

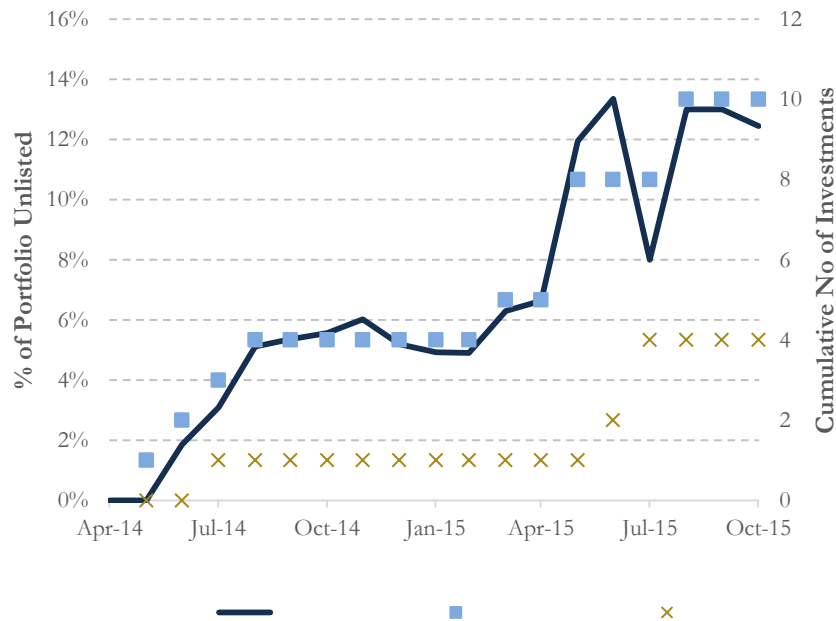
RedBubble (Unlisted)	6.27%
Hub24	6.06%
Servcorp	4.02%
Genea (Unlisted)	3.29%
IPH	2.40%
Burson Group	2.32%
Fiducian Group	2.13%
Orocobre	2.10%
Generation Healthcare REIT	1.98%
Touchcorp	1.97%
Top 10 Positions	32.54%

Source: Acorn Capital As at 31 December 2015

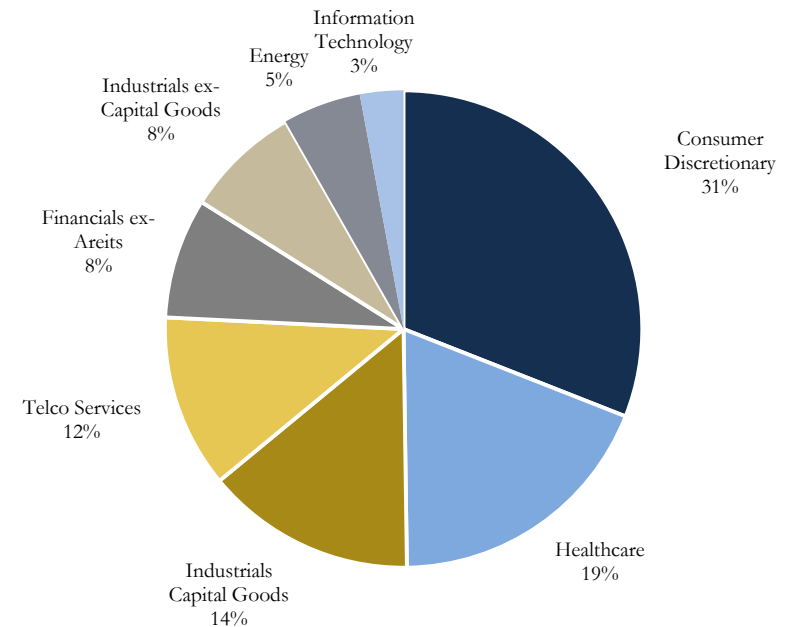
Since inception ACQ has made 11 unlisted investments, four of which have reached liquidity events

- Since inception, through to December 2015, ACQ has invested approximately \$8.5m in unlisted investments
- Completed 1 new unlisted investment in the December 2015 quarter
- Weighted average duration of unlisted investments is approximately 0.7 years, compared to Acorn Capital's historical experience of 2.5 years

Unlisted Investment Rate



Sector Composition of Unlisted Investments

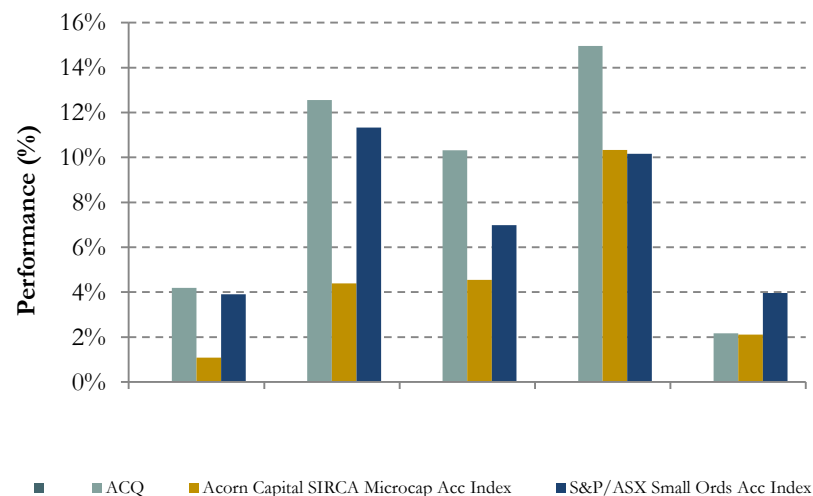


ACQ Investment Portfolio stock selection is designed to focus on medium to long term performance

- ACQ has generated a return of 12.55% ⁽¹⁾ for three months to December 2015, compared to the S&P/ Small Ordinaries Accumulation Index of 11.32%
- 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 31 December 2015¹

Period	1 month	3 months	6 months	12 months	Since inception (p.a.) ²
ACQ Portfolio ¹	4.19%	12.55%	10.32%	14.97%	2.17%
Acorn Capital / SIRCA Microcap Acc. Index ³	1.08%	4.40%	4.54%	10.33%	2.11%
S&P/ASX Small Ords Acc. Index	3.91%	11.32%	6.98%	10.16%	3.96%
S&P/ASX All Ords Accumulation Index	2.65%	6.62%	0.45%	3.78%	3.31%



- Portfolio performance is unaudited and post all operating expenses but before 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

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% |