



THE BOAT FUND

**TBF SMALL
CAP VALUE
GROWTH
FUND**

**OCTOBER 2017
MONTHLY REPORT**



THE BOAT FUND

Investment Manager

TBF Investment Management Pty Ltd
ACN 160 092 419 ARN 434240
Level 26, 44 Market St Sydney 2000
T. 02 9089 8854
E. info@tbfinvest.com.au
www.tbfinvest.com.au
www.facebook.com/TheBoatFund

Portfolio Managers:

Ron Shamgar - ron@tbfinvest.com.au

Responsible Entity

Equity Trustees Ltd
ABN 46 004 031 298
AFSL number 240975

Administrator & Custodian

FundBPO Pty Ltd
Client Services Registry Team
GPO Box 4968
Sydney NSW 2001
T. 1300 133 451
E. registry@fundbpo.com

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INTRODUCTION: OCTOBER 2017 MONTHLY REPORT

Dear Investor, we provide this monthly report to you following conclusion of the month of October.

The Fund finished October up +2.32%. By comparison the XSOAI was up +6.02% for the month. The main contributors were AXL, CGR and STI. Detractors were PFG and MCP.

The month of October kept us busy with several conferences being held that exhibited some interesting companies. October is also the start of AGM season where companies take the opportunity to update the market on their business performance. In addition many investors receive their dividend cheques during the month and this sometimes flows onto further buying momentum into stocks. We are generally seeing continued exuberance in some sectors of the market such as Technology, Cannabis and Lithium. Most of these companies have little to no revenue yet command some hefty valuations. We avoid the hype, even though in the short term there can be some spectacular returns for those able to time it well. Eventually and as always, it all ends up in tears.

We continue to stay disciplined and look for profitable, cash generating businesses we can buy at a discount to their intrinsic valuation. In times like this it may sound boring, but for us it's as exciting as ever and over the long term – this strategy is a good recipe for success.

During October we added a new position to the fund and there appear to be some interesting and well-priced new IPOs coming to market. We will discuss those in time. In this report **we can reveal a new holding in the Fund in MSL Solutions (MPW).**

MPW is a **software company that provides solutions for over 2,000 clients across 20 countries** in the sports, leisure and hospitality sectors. Clients may include Golf clubs and associations, Clubs, stadiums and resorts. MPW software solution is made up of several modules that the company can upsell to its customers. The company has 53% of its revenue as recurring SaaS income and is consolidating smaller players in its industry to become the dominant software provider in the sector.

We are attracted to MPW due to the predictable nature of a majority of its revenue, a balance sheet with circa **\$20M in cash and assets held for sale**, and a prospectus forecast of just under \$6M in cash profits. With a market cap of \$63M at 25 cents we think the market is significantly undervaluing this business.

MPW reminds us of a similar type of business we owned previously in Intecq (ITQ). We first bought ITQ almost 4 years ago at \$1.80 and sold it in a takeover to Tabcorp for \$7.20 about 3 years later. Just like MPW, ITQ had a similar revenue profile and customer base which we found quite attractive. Key catalysts for MPW in the next 6 months are to meet FY18 guidance, continue to make accretive bolt on acquisitions, and realise its investment in a tech company that is currently held for sale with a recent valuation of its holding of \$12M. We believe that once these catalysts are met, the stock will re rate closer to our **50 cents valuation** of the company.

PORTFOLIO HIGHLIGHTS

Spirit Telecom (ST1) provided a Q1 FY18 update with cash receipts growing 56% on pcp to \$4.2M driven mainly by organic growth and the recent acquisition of World Without Wires. The company added 49 new buildings to its network of 398 and connected apartments grew by 10% to 20,786. The commercial division continues to be the core growth driver with substantially lower capex required than residential, Yet with ARPU of \$550 compared to \$65 in residential. The company has guided to continued strong growth this year and we expect EBITDA to exceed \$4M with EPS exceeding 1.2 cents in FY18. **We now value ST1 at 22 cents.**



Aksesstoday (AXL) announced a strong quarterly update with loan receivables increasing by 27% over Q4 FY17 to \$212M, an increased debt facility of \$63M to \$175M, and finally a pleasing earnings guidance upgrade to \$6.5M NPAT for FY18. The company confirmed that market conditions remain favourable and operational efficiencies are gaining traction following the IT systems upgrade. Further highlights include the commencement of a pilot in Canada where AXL will look to expand its business model, and the establishment of a future warehouse securitisation facility in order to reduce the cost of funding. Following the update AXL conducted an equity raise of \$12M in order to support further strong organic growth across its portfolio of services. We did not participate in the raise due to the current size of the holding in the portfolio but **we continue to hold the stock and value the company at \$2.20.**



PORTFOLIO HIGHLIGHTS

Zenitas Healthcare (ZNT) is a community based health care provider providing in home care, nursing and dementia services through a network of 800 care workers in QLD, NSW and VIC. ZNT is also the largest aged care national podiatry provider with 64 podiatrists and a 25% market share. In addition ZNT has a network of medical centres providing primary care mainly in VIC. During the month ZNT announced a \$30M equity raising in order to capitalise on an acquisition pipeline of \$46M in revenue and \$7M in EBITDA. The raising will give ZNT a stronger position to negotiate final terms with the various vendors as they complete the purchases over the next few months. The proposed acquisitions will be focussed on filling current gaps in ZNT national footprint of allied health, primary care and home care offerings.



We have built a position in ZNT in the last few months, as we are attracted to the sector ZNT is operating in. In saying this, we are cognisant of the inherent risks of a roll up play and will monitor their progress carefully. Pleasingly the integration of the 2 recent acquisitions of Dimple and Nextt Care are ahead of expectations. ZNT last 2 quarterlies have shown the business has the ability to generate strong free cash flows and management has reiterated solid organic growth of circa 10% with guidance in FY18 of \$13.5M EBITDA with a further additional contribution of \$4M in EBITDA from the current acquisition pipeline in FY18 alone. **We value ZNT at \$1.70 per share.**

EML Payments (EML) EML announced an agreement with InfoSync services for its B2B virtual payment division in North America. InfoSync provides outsourced accounting and payroll services to more than 7,500 restaurants in the U.S. and will allow EML to integrate the B2B virtual payment technology into its accounting platform to offer an electronic payment solution for its clients. InfoSync manages over \$1.4 Billion in annual payments and at 20% conversion rate, EML GDV opportunity is over \$200M at a 1% margin. The company is confident of securing further clients such as this one in the coming months and years. EML is on track to generate close to \$8B of GDV this year and we believe the company can achieve over \$20B in GDV within 5 years. This places EML on a strong growth trajectory of revenue and earnings growth for the foreseeable future and why EML is the largest holding in the Fund. **We value the business at \$3.00 for FY18.**



Experience Co. (EXP) (Formerly known as Skydive the Beach Group (SKB)) announced the acquisition of GBR Helicopters in Cairns QLD for \$20M. GBR has 22 Helicopters in its fleet and operates as a tourism business, commercial flights and a training school. GBR offers full and half day scenic flights to the Great Barrier Reef and other surrounding areas around Cairns. The acquisition diversifies EXP mix of adventure activities and is EPS accretive. We expect GBR to contribute in excess of \$4M in EBITDA to the group going forward. EXP is slowly but surely gaining significant investor interest and broker coverage as the company keeps delivering on its stated strategy. The company's current market cap is \$350M compared to \$70M when we first invested in it about 2.5 years ago. **We value EXP at 90 cents.**



PORTFOLIO AND PERFORMANCE REVIEW

The Fund ended October 2017 holding an interest in 21 ASX listed businesses. As demonstrated by the below chart "Fund concentration: Cumulative % FUM across Holding Categories as at 31 October 2017" the Fund continues to remain concentrated with just over 74.60% of FUM concentrated across the top 15 holdings.

The portfolio continues to be diversified across a range of industry sectors as shown by the below Chart "GICS Sector and Cash Weighing of total FUM" as at 31 October 2017.

Additionally, the Fund's portfolio is spread across key market capitalisation bands within our investment universe of companies capitalised under \$500 million, as shown in the chart "% of Invested FUM in market cap band" as at 31 October 2017.

At 31 October 2017 total FUM exposed to equities was 87.10% with the balance held in cash.

PERFORMANCE

Over the month of October the unit price of the Fund increased by +2.32% whereas the XSOAI increased by +6.02% resulting in underperformance by the Fund over the XSOAI of -3.70% over the period.

From inception of the Fund (6 May 2013) to 31 October 2017, the Fund has returned 16.26% pa (including reinvestment of all distributions and net of all fees) whereas the XSOAI has returned 7.51% pa resulting in an outperformance by the Fund over the XSOAI of 8.75% pa.

The chart below shows the change in value of \$100,000 invested in the Fund compared the XSOAI from Inception to 31 October 2017 (including reinvestment of all distributions and net of all fees).

We look forward to providing our next report in the middle of December 2017.

Yours Sincerely,

Ron Shamgar and the TBF Team

SELECTION OF STOCKS IN THE FUND'S PORTFOLIO:

 MCPHERSON'S

 Consolidated Finance Group
Asset Finance Aggregation

 ExperienceCo.

 zenitas
HEALTHCARE LIMITED

 EML
empowering your payments

 Axesstoday

 CML Group

 spirit
Internet's future

 MSL SOLUTIONS
M-POWER

 smartpay
payment solutions made easy

 mnf group

 rhipe

 NZME
NEW ZEALAND MEDIA AND ENTERTAINMENT

 GAGE ROADS
BREWING CO

 Prime

 QMS

FUND GROWTH VALUE CAP SMALL TBF

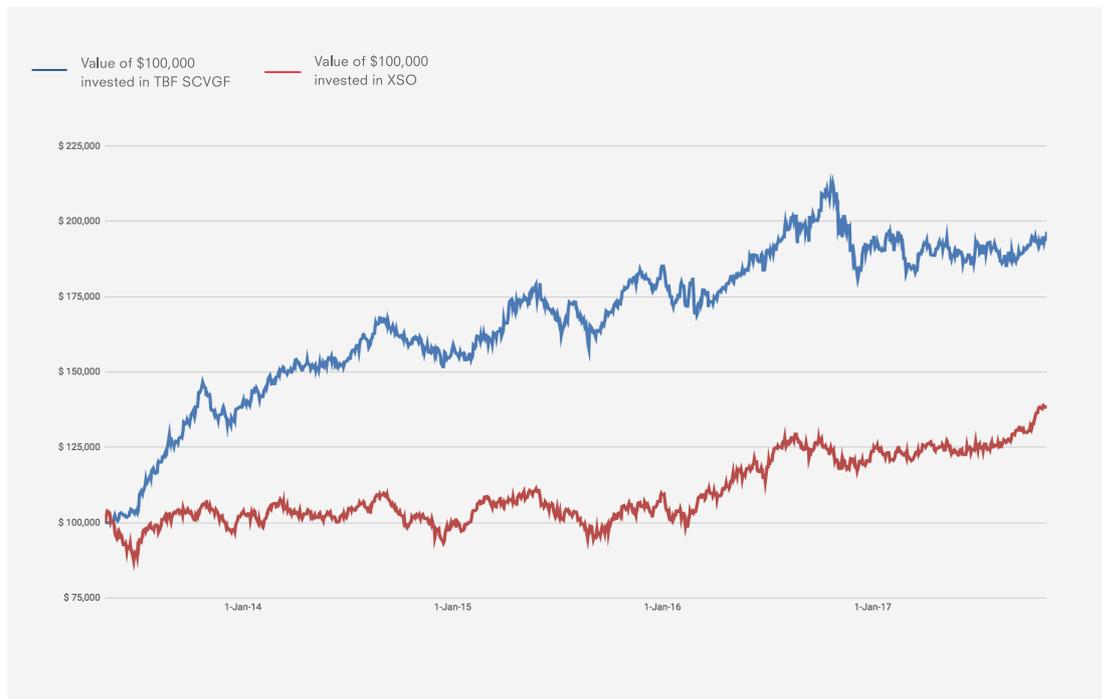
Unit Price¹ **\$1.4448**

Annualized return since inception² **+16.26%**

October 2017 Monthly performance³ **+2.32%**

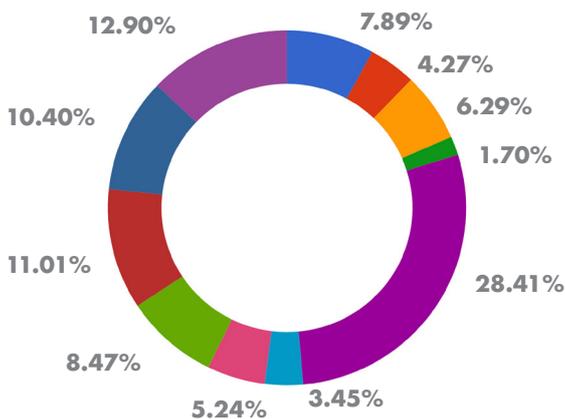
For the month ending 31 October 2017	1 Month Return ¹	3 Month Return	Financial Year YTD	Calendar YTD	1 Year Return	2 Year Per Annum	4 Year Per Annum	Since Inception P.A.
TBF SCVGF	2.32%	2.56%	2.50%	1.61%	-4.16%	5.09%	8.33%	16.26%
Small Ordinaries Accumulation (XSOAI)	6.02%	10.32%	10.69%	11.92%	14.58%	14.73%	6.87%	7.51%
Outperformance-TBF SCVGF vs XSOAI	-3.70%	-7.75%	-8.19%	-10.32%	-18.74%	-9.64%	1.46%	8.75%

Value of \$100,000 invested in TBF SCVGF Fund vs XSOAI since inception (6 May 2013 to 31 October 2017)



* Source: IRESS Net of fees & assumes the reinvestment of all distributions. Past performance is not a reliable indicator of future performance. 1. As of 31/10/2017 | 2. 6/5/2013 to 31/10/2017 | 3. 01/10/2017 to 31/10/2017

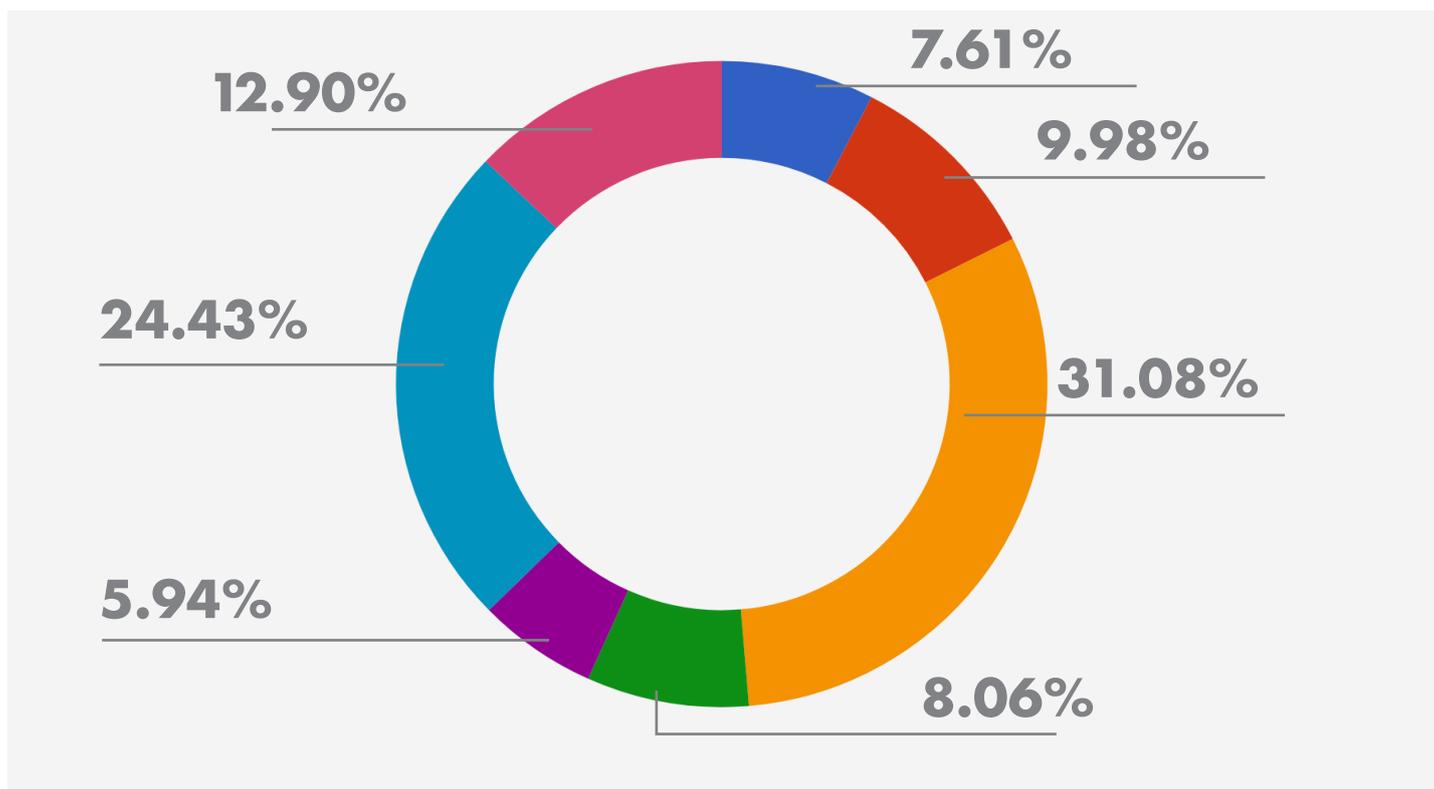
GICS Sector and Cash Weighting % of Total FUM as at 31 October 2017



- Consumer Discretionary (Consumer Durables & Apparel)
- Consumer Discretionary (Consumer Services)
- Consumer Discretionary (Media)
- Consumer Staples (Food, Beverage & Tobacco)
- Financials (Diversified Financials)
- Financials (Insurance)
- Healthcare (Healthcare, Equipment & Services)
- Industrials (Commercial & Professional Services)
- Information Technology (Software & Services)
- Telecommunication (Diversified Telecommunication Services)
- Cash

Before any investment decision is made, you should read the PDS issued by Equity Trustees Ltd available at www.tbfinvest.com.au which contains important information.

% of FUM Invested in Key Market Cap Band



% of FUM Invested in Key Market Cap Band

- 0 to 25 million
- 25 to 50 million
- 50 to 100 million
- 100 to 150 million
- 150 to 200 million
- 200 million +
- Cash

Fund Concentration: Cumulative % FUM Across Holding Categories as at 31 October 2017

