

# ACORN CAPITAL INVESTMENT FUND LIMITED

2019 ANNUAL GENERAL MEETING

15 NOVEMBER 2019

ASX : ACQ



INNOVATION



EFFICIENCY



GROWTH



DIVERSITY



**ACORN  
CAPITAL**  
NEXT GENERATION INVESTING



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## **AGENDA**

- **INTRODUCTION** **JOHN STEVEN**
  
- **PORTFOLIO UPDATE & COMMENTARY** **ROBERT ROUTLEY/  
ROBERT BRUCE**
  
- **FORMAL BUSINESS** **JOHN STEVEN**
  
- **CLOSURE OF MEETING** **JOHN STEVEN**

## **AGENDA**

- |  |   |
|--|---|
| ▪ <b>INTRODUCTION</b>                      | <b>JOHN STEVEN</b>                      |
| ▪ <b>PORTFOLIO UPDATE &amp; COMMENTARY</b> | <b>ROBERT ROUTLEY/<br/>ROBERT BRUCE</b> |
| ▪ <b>FORMAL BUSINESS</b>                   | <b>JOHN STEVEN</b>                      |
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## ACQ BOARD



### Experienced board and majority independent directors

- **John Steven – Independent Chairman**
  - Senior Partner National Capital Markets and Commercial Business Unit of law firm Minter Ellison
- **Judith Smith – Independent Director**
  - Director of LUCRF, Director Funds SA and former Head of Private Equity at IFM Investors
- **David Trude – Independent Director**
  - Chairman of Baillieu Holst and Hansen Technologies, Director of MSL Solutions
- **Barry Fairley – Director**
  - Former Managing Director and Non Executive Director of Acorn Capital
- **Rob Brown – Director**
  - Non Executive Director of Acorn Capital

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# Highlights for the 2019 Financial Year



Item	31 October 2019	30 June 2019	30 June 2018
NTA per Share Before Tax <sup>(1)</sup>	\$1.402	\$1.220	\$1.351
NTA per Share Post Tax <sup>(1)</sup>	\$1.301	\$1.179	\$1.262
ACQ Share Price	\$1.175	\$1.02	\$1.15
Dividends Paid in Relation to Financial Year		\$0.07	\$0.07
Dividend Reserve		\$19.2m	\$18.8m

Source: Acorn Capital Investment Fund 2019 Annual Report & Acorn Capital Limited  
(1) NTA based on monthly NTA reporting per share

## Speech by Robert Routley, CEO Acorn Capital Limited

### ACQ Key Highlights for the 2019 Financial year

Firstly I would like to acknowledge and welcome all ACQ shareholders here today and thank you on behalf of Acorn Capital for your support.

The current slide sets out some of the Company's key highlights for the 2019 financial year and the first 4 months of the 2020 financial year. After adjusting for the \$0.07 dividend and tax paid of \$0.032, the Net Tangible Asset backing per share before tax decreased by approximately 2.3% over FY19. This compared an appreciation in the S&P/Small Ordinaries Accumulation Index over the same period of +1.92%. We will discuss portfolio performance later in this presentation. The Net Tangible Asset backing per share has increased by 14.8% as at 31 October 2019 as compared to 30 June 2019.

# Update for the 2020 Financial Year to Date



- Pre-Tax NTA per share as at 31 October 2019 was \$1.402
- Discount to NTA has seen some improvement since 30 June 2019

	30 June 2019 <sup>(1)</sup>	31 October 2019 <sup>(1)</sup>	<b>14 November 2019 <sup>(2)</sup></b>
Discount to Post-Tax NTA <sup>(1)</sup>	13.4%	9.7%	<b>3.2%</b>
Discount to Pre-Tax NTA <sup>(1)</sup>	17.4%	16.2%	<b>10.3%</b>

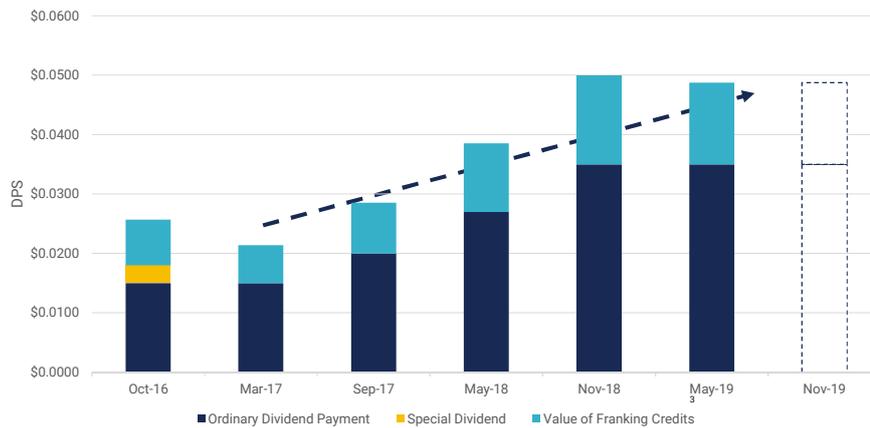
(1) Estimated by Acorn Capital with reference to the corresponding month end ACQ closing share price

(2) Estimated by Acorn Capital with reference to the closing ACQ Share Price of \$1.225 and last published NTA adjusted for dividends payable (3.5 cents)

## ACQ Key Highlights for the 2020 Financial year

Continuing from the previous slide, as at 31 October 2019 ACQ's Pre-Tax NTA was \$1.402 compared to the pre-tax NTA as at 30 June 2019 of \$1.22. As shown in the table above the discount to NTA has shown some improvement since 30 June 2019.

# Annualised cash dividend yield is 5.7%<sup>(1)</sup> as at 14 November 2019

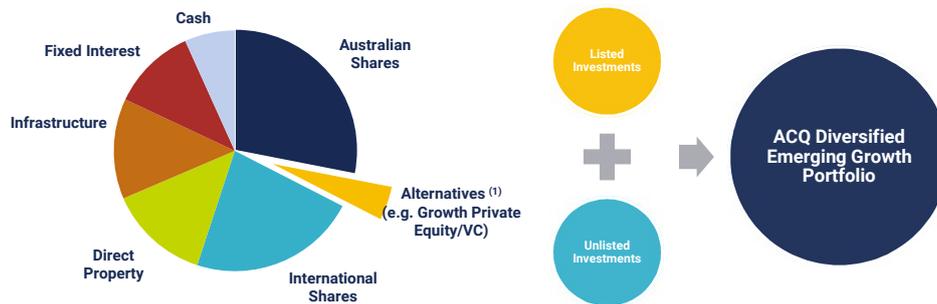


(1) 3.5 cent dividend annualised to 7 cents, yield calculated on 14 November 2019 ACQ share price \$1.225

## Dividends

Moving to dividends and as at 30 June 2019 ACQ had \$19.2m in its dividend reserve, which equates to over 5 years of dividend coverage. As per announcement on 26 August 2019, the ACQ Board has reconfirmed its intent to pay at least 5% of the 30 June post –tax NTA in dividends on an annual basis.

## ACQ provides long term investors an efficient platform to allocate capital to an alternate growth strategy



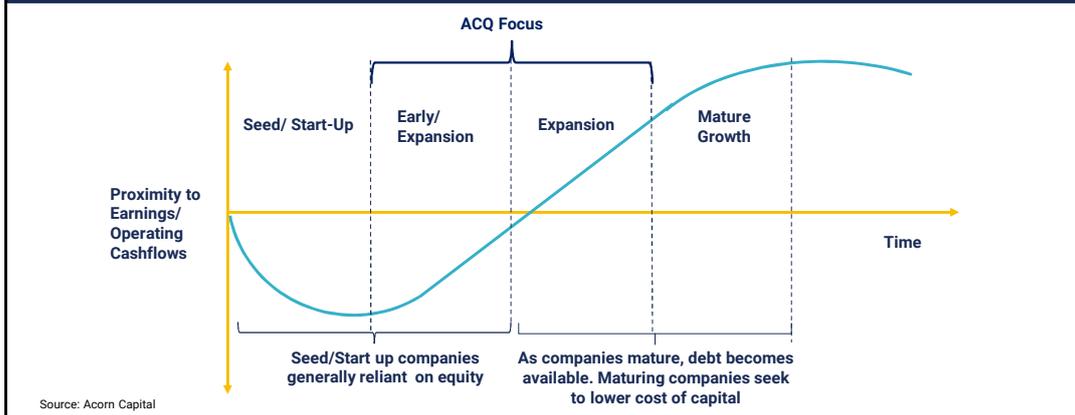
(1.) Acorn Capital illustration of Asset Allocations in a Diversified Portfolio

### ACQ Investment Strategy

So what is ACQ's investment strategy and how might it fit into an investment portfolio? ACQ provides shareholders with a diversified exposure to an alternative investment strategy focused on emerging companies or microcaps. These are smaller capitalised companies, including those with early stage private equity and venture capital characteristics.

ACQ has a long-term investment horizon of up to 10 years and shareholders should consider ACQ within their alternatives asset allocation. The limited liquidity of the underlying investment portfolio is a distinguishing feature of the investment strategy deployed by ACQ which means that the "closed end" Listed Investment Company or LIC structure is an appropriate way to offer the investment strategy to non-institutional investors. In addition to being an appropriate pooled investment structure to access illiquid assets investors also benefit from the transparency, disclosure and governance requirements of being an ASX listed company.

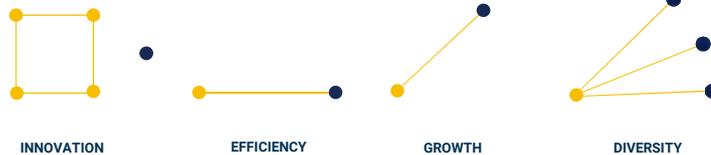
# ACQ provides investors with access to innovation and entrepreneurialism in developing companies



## ACQ Investment Universe

This leads us to a discussion of the characteristics of the companies that ACQ focuses on. The diagram on this slide depicts the growth cycle of a company, from Seed/Start Up through to Mature Growth. The underlying investments targeted by ACQ at the time of investment (both listed and unlisted) are those classified as early/expansion and expansion opportunities. Acorn Capital believes that such investment opportunities have similar characteristics to those that an investor might find in a venture capital or growth private equity fund. Such companies typically display a relatively high demand for equity capital (when compared to larger capitalised companies) and are often exploiting opportunities created by long-term structural trends or thematic.

# ACQ targets attractive financial returns and provides access to investments that have an impact



## ACQ Investment Strategy

The objective of ACQ is to provide its shareholders with attractive financial returns through a disciplined repeatable investment process. At the same time, ACQ shareholders have exposure to a universe of companies that are distinguishable by both size, stage of development and delivered outcomes.

At this point I would like to hand over to my colleague, Robert Bruce, a portfolio manager at Acorn Capital, who will now speak in more detail about the ACQ portfolio performance.

## ACQ investment portfolio generated a return of 17.04%<sup>(1)</sup> for the year to 31 October 2019

Periods to 31 October 2019	3 months	6 months	1 year	2 years p.a.	3 years p.a.	5 years p.a.	Since inception p.a. <sup>2</sup>
ACQ (Post Fees & Op Costs) <sup>1</sup>	+7.14%	+13.91%	+17.04%	+14.39%	+10.93%	+11.96%	+10.25%
ACQ (Before Fees & Op costs) <sup>2</sup>	+9.48%	+16.87%	+20.56%	+18.29%	+13.80%	+14.62%	+13.04%
Acorn Capital / SIRCA Microcap Acc. Index <sup>3</sup>	-1.84%	+2.24%	+14.41%	+8.34%	+10.38%	+9.62%	+8.69%
S&P/ASX Small Ords Acc. Index <sup>5</sup>	+4.52%	+11.86%	+16.54%	+7.05%	+7.38%	+8.96%	+7.65%
S&P/ASX All Ordinaries Acc. Index <sup>5</sup>	-0.50%	+7.72%	+19.39%	+10.93%	+12.42%	+8.76%	+8.48%

- (1) Portfolio performance is unaudited and calculated as the movement in NTA before tax effects, which is post all management fees, performance fees and operating costs. Performance includes dividends paid and payable but has not been grossed up for franking credits received by shareholders. All figures include unlisted valuations are performed by Acorn Capital in accordance with ACQ Board approved policies
- (2) Calculated by Acorn Capital, based before all fees and costs and using last trade price for portfolio.
- (3) Acorn Capital / SIRCA Microcap Accumulation Index data is verified 3 months in arrears by SIRCA ('Securities Industry Research Centre of Asia-Pacific')
- (4) Inception is 1 May 2014
- (5) Source: FactSet

Thank you Rob and good morning ladies and gentlemen and thank you for your continued support.

### ACQ Portfolio Update

ACQ has returned +17.04% for the 12 months to 31 October 2019 which compares to the S&P/Small Ordinaries Accumulation Index of +14.41%. As the table shows, ACQ has outperformed the S&P/ASX Small Ordinaries Accumulation Index over all periods since inception. On a pre-fee basis ACQ has returned 13.04% pa. since inception which is 5.39% and 4.56% in excess of the S&P/ASX Small Ordinaries Accumulation Index and the S&P/All Ordinaries Accumulation Index respectively.

Over the past year, the Acorn Capital portfolio has seen its relative performance vary along with the diverse trends in the market. It really was a tale of two halves. In the 6-months to Dec 2018 ACQ outperformed during the 4<sup>th</sup> quarter sharp market correction, but then in the ensuing market rebound as expectations of global tightening about faced towards easing and potentially talk of Quantitative Easing, the ACQ portfolio underperformed. Whilst the strategy remained consistent and to be fully invested, some of our larger more valued investments did not capture market interest and we underperformed by 7-10% against the comparable indexes. In particular, the Small Ords was driven by the WAAA's which on average rose 94% in FY19, while ACQ's larger investments in the likes of Redbubble, Shine and Redhill Education underperformed.

On the positive side, our conviction in the outlook for Telix was rewarded whilst we realised 90% of the Genea investment which was acquired at the end of 2018. The Financial Sector performed well with broad performance across Zip Co and EML Payments, whilst the unlisted position in Moula Money was revalued following a successful capital raise in December 2018. And in Resources an overweight positioning in gold stocks before Christmas was rewarded when the AUD price rose strongly to all-time highs.

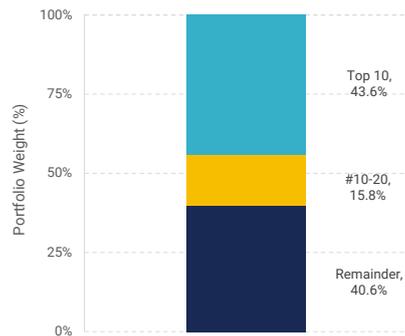
The strong performance towards the end of FY19 has continued through the four months to 31 October with 5% out performance over the past 3 and 6-months. Pleasingly, the performance was driven by a broad number of stocks across most sectors.

# ACQ investment portfolio had 43.6% of FUM in top 10 investments<sup>(1)</sup>

## Top 10 Holdings (as at 31 October 2019)

		% Gross Portfolio
1.	Telix Pharmaceuticals Limited	9.2%
2.	Moula Money Pty Ltd (UL)	8.5%
3.	Calix Limited	4.5%
4.	Redbubble Limited	3.9%
5.	Shine Corporate Ltd	3.8%
6.	Carbon Revolution Pty Ltd (UL)	3.1%
7.	Redhill Education Limited	2.8%
8.	Innovative Asset Solutions Group (UL)	2.7%
9.	Flare HR Pty Ltd (UL)	2.5%
10.	Lifestylepanel Holdings (UL)	2.5%
<b>Total</b>		<b>43.6%</b>

## Distribution of holdings by weight

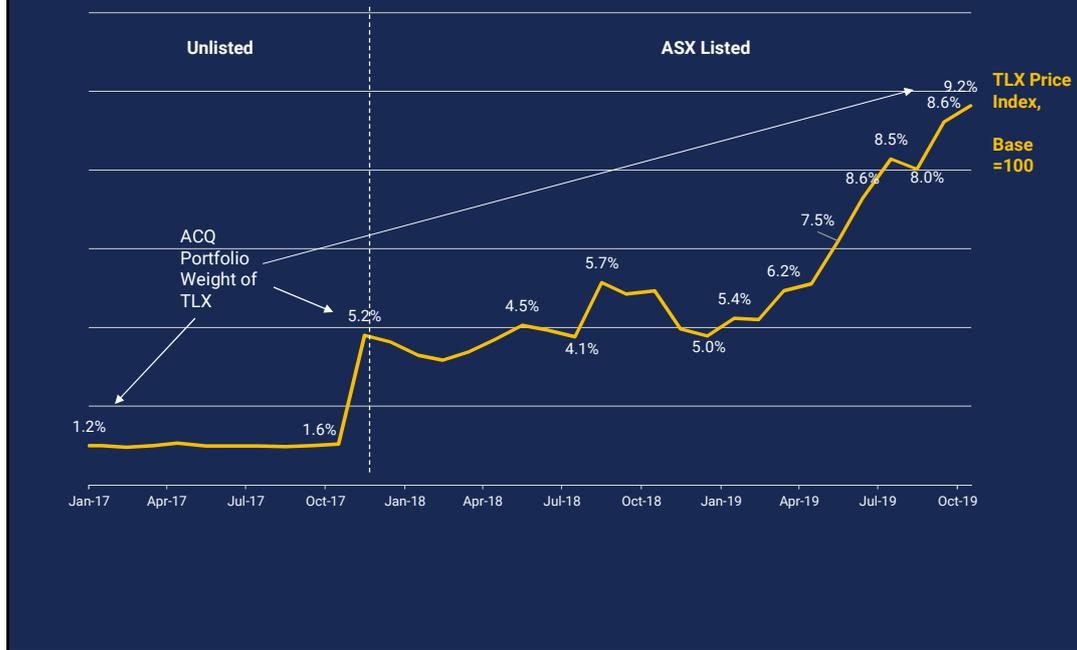


(1) Source: Acorn Capital, as at 31 October 2019

## Portfolio

This slide provides some colour around ACQ's investment portfolio. As at 31 October 2019, ACQ held a total of 82 investments. 43.6% of the Company's portfolio is held in the Top 10 investments, and 59.4% in the Top 20 investments.

## Case Study: Telix Pharmaceuticals Limited (TLX)



### Case Study Telix Pharmaceuticals Limited

By way of background TLX was an early stage private investment that ACQ completed in January 2017 that is now listed on the ASX. Telix is a health technology company that focused in the area of radio pharmaceuticals. Accordingly it sits within the healthcare component of the ACQ portfolio. This slide shows a time series of the TLX indexed share price since we have owned it and the associated portfolio weight. As is evident from the chart, we started at a relatively lower portfolio weight and allowed the position to grow over time. The relatively small weight at initial time of investment reflects our portfolio risk management approach. The decision to grow the portfolio weight through investing further capital or simply holding the investment (as is the case here) reflects growing confidence in the investment case and management – as you can see our conviction has grown over time, The other point to note with this investment is that the company listed to access the lowest cost of equity (at the time) to further develop the business, An ASX listing was regarded as just another step in the development of the company – it was a liquidity event but not an exit event. To date this investment within the ACQ portfolio has generated a 7.8x money return and an IRR (as at 31 October 2019) of greater than 100% p.a.

## Case Study: Moula Money Pty Ltd (Moula)

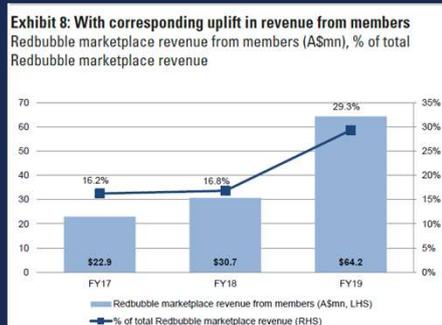


### Case Study: Moula Money Pty Ltd

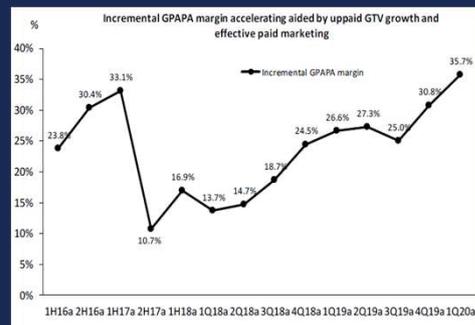
The second case study is that of Moula Money Pty Ltd. Moula was established in 2013 and had completed seed/start-up financing rounds prior to ACQ's initial investment in March 2017. Moula is an Australian-built fintech platform providing good Australian businesses with a smarter way to borrow, through fast, simple and hassle-free loans. Moula has experienced strong growth over the past five years, processing over 20,000 business loan applications and growing its loan book by 124% in 2019. By integrating business' accounting data with its world-class tech, Moula can process applications and make responsible lending decisions within minutes, and businesses can access the credit the following day. As the chart above illustrates, since ACQ has been invested, the company has completed four funding rounds, each of which has provided an independent revaluation event for ACQ's investment. Like Telix, as the business develops and conviction grow it provides an opportunity for ACQ to increase its portfolio weight. To date Moula (based on third party revaluation events) has a calculated IRR of approximately 80% p.a. and 3x money return.

## Other Portfolio Events

- Carbon Revolution expected to IPO on 29 November with resulting \$0.03/share NTA accretion at listing price.
- Re-rating of Redbubble (ASX:RBL) continues as execution of strategy delivers improved returns from revenue through to earnings.
- Inexpensive investment in Shine Corporate (SHJ:ASX) with near term catalyst
- Major copper discovery by Stavelly Resources in western Victoria



Source: Goldman Sachs, 19<sup>th</sup> Sep 2019



Source: Canaccord Genuity, 24<sup>th</sup> Oct 2019

## Portfolio Commentary

I now want to provide you with an update on some recent events within the ACQ portfolio.

During October, Geelong-based carbon wheel designer and manufacturer, Carbon Revolution completed a successful IPO capital raising of \$90m with the final IPO price of \$2.60 per share resulting in a +67% premium to the value at which ACQ held Carbon Revolution as at 30 September 2019. Such revaluation will have an impact on ACQ's Net Tangible Asset backing of approximately +\$0.03/share. ACQ was an early institutional supporter of Carbon Revolution which should be congratulated on achieving its listing.

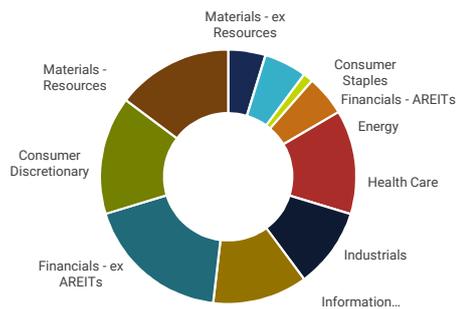
Acorn Capital has held an investment in Redbubble since 2015, and whilst its share price performance as a listed company has not been a smooth path, the company's strategy has been consistent as revenue grew steadily. Recently, the management team has been able to demonstrate that the strategy to achieve greater customer loyalty (member sales +133%), expanded product range (launching 12 new products in 6 months), forming >50 content partnerships and increasing scale, are now all producing high gross margins and operating leverage to earnings. We retain our conviction on this investment opportunity given both growth prospects and relative valuations to peers.

Shine Corporate is a position built patiently over 18-months taking advantage of opportunities. We believe that it remains inexpensive and an example of largely ignored microcap stock trading at 6x FY19 cash flow, and a potential catalyst to come with the settlement of a significant class action.

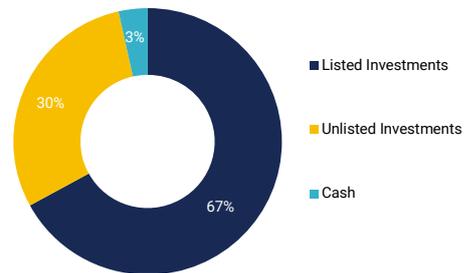
Stavelly Resources recently made a potentially significant copper discovery in western Victoria. Drilling is still at an early stage, but the thick intercepts of high-grade copper at shallow depths are the perfect ingredients for a large low-cost operation. ACQ quickly built a position after announcement of the discovery.

## 30% of the ACQ portfolio is in unlisted assets as at 31 October 2019

**ACQ Sector Diversification**



**ACQ Portfolio Composition**



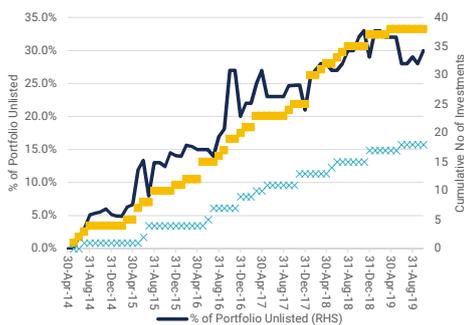
Source: Acorn Capital, as at 31 October 2018

### Portfolio

As at 31 October 2019, 30% of the gross portfolio assets were in unlisted assets. Acorn Capital is actively considering a number of new unlisted investments in the areas of Fintech – Payments, Software, Vehicle Finance and Medical Technologies that will potentially be added to the portfolio in the next 3-4 months.

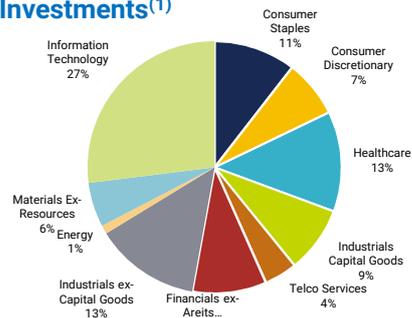
ACQ has invested \$41.6m in 38 unlisted opportunities, 18 of which have reached liquidity events<sup>(1)</sup>

### Unlisted Investment Rate



Source: Acorn Capital estimates as at 31 October 2019  
1. Since ACQ listing on ASX in May 2014 to 31 October 2019

### Sector Composition of Unlisted Investments<sup>(1)</sup>



## Unlisted Investment Activity

A key distinguishing feature of ACQ's investment strategy is its ability to invest in unlisted investments. As this slide shows, since its inception ACQ has completed 38 unlisted investments. As at 31 October 2019, eighteen of ACQ's unlisted investments (excluding Carbon Revolution) have reached liquidity events. The ongoing ability to reach liquidity events and extract a return premia from unlisted investments provides support to the overall investment strategy deployed by ACQ. From a valuation perspective we have continued to maintain an average and weighted average uplift of unlisted revaluations into a liquidity event of 50% and 39% respectively.

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## **ADOPTION OF THE 2019 ANNUAL REPORT**

### **AGM RESOLUTION**

TO RECEIVE AND CONSIDER THE FINANCIAL REPORT OF THE COMPANY AND THE REPORTS OF DIRECTORS AND AUDITORS FOR THE YEAR ENDED 30 JUNE 2019, AS SET OUT IN THE 2019 ANNUAL REPORT

## REMUNERATION REPORT



### ACQ RESOLUTION

THE REMUNERATION REPORT FOR THE YEAR  
ENDED 30 JUNE 2019 IS ADOPTED

	Voted	%
<b>For</b>	6,140,927	91.75
<b>Against</b>	460,555	6.88
<b>Open-Usable</b>	91,607	1.37

## RE-ELECTION OF DIRECTORS



### ACQ RESOLUTION

RE-ELECTION OF DIRECTORS

RE-ELECTION OF ROBERT BROWN

	Voted	%
<b>For</b>	6,740,480	98.66
<b>Against</b>	0	0
<b>Open-Usable</b>	91,607	1.34

## RE-ELECTION OF DIRECTORS



### ACQ RESOLUTION

RE-ELECTION OF DIRECTORS

RE-ELECTION OF JUDITH SMITH

	Voted	%
<b>For</b>	6,738,701	98.63
<b>Against</b>	1,779	0.03
<b>Open-Usable</b>	91,607	1.34

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