



ACORN CAPITAL

MGD Wealth Portfolio Solutions - Manager Spotlight January 2011 - Acorn Capital

About the Manager

Acorn Capital is a Melbourne based specialist microcap manager established in 1998, focused on the microcap sector of the ASX. Acorn is the largest specialist microcap investor in the Australian market and has recently expanded the investment domain to include unlisted as well as listed microcap companies.

About the Fund

The Acorn Capital Microcap Trust (the Fund) is one of the few Australian specialist funds focused exclusively on microcap stocks (micro-caps are defined as those stocks outside of the top 250 companies). The Fund invests in listed or soon to be listed companies, with 80-100% of its assets in Australian shares, and up to 20% in cash and similar investments.

Why have we chosen Acorn

We believe that the Australian Microcap sector is an extremely inefficient market, and that Acorn's significant resources (including large team) and style of investing should be able to exploit the ample opportunities in this subsector, by backing good management and buying sustainable high growth businesses.

Philosophy on investing

Acorn's philosophy revolves around the inefficient pricing of microcap companies relative to larger listed companies, and the opportunities for larger excess returns relative to risk.

An inefficient sector

The pricing of microcap companies is inefficient relative to large listed companies, providing opportunities for excess returns relative to risk.

Research

In-depth fundamental research, both at the sector and company level, is essential in the microcap sector and is the cornerstone of Acorn's investment performance. Acorn believes that fundamental research is more important than valuation techniques and they make investment decisions based on relative value against a peer group. Acorn's strong commitment to research is evidenced by our highly experienced research team, comprehensive database and knowledge of the microcap sector compiled over the past decade.

Investment process

Acorn have a rigorous quantitative and qualitative investment process, with an emphasis on:

1. quality of management,
2. outlook in respect of external environment,
3. business strategy,
4. competitive strengths, and
5. profit and cash flow.

The process starts with the eligible universe of over 1200 stocks, which is then whittled down to a Research list of 280 stocks. Analysts then pick the best stocks in each sector to construct a portfolio of between 65 and 80 stocks.

Investment talent

Douglas Loh is the Chief Investment Officer. Douglas has complete oversight of all investments and he liaises with the analysts to develop the structure of client portfolios. Douglas is also responsible for the day-to-day running of Acorn Capital.

Tim Hall is Head of Research. In addition to overseeing the research functions of analysts at Acorn Capital, Tim is also responsible for undertaking fundamental investment research on companies within the Industrials, Information Technology, Telecommunications and Materials (ex Resources) sectors and selecting investments for client portfolios.

Top Ten holdings

Top Ten Holdings	Sector	Weight (%)
Intrepid Mines	Materials - Resources	5.47
Perseus Mining	Materials - Resources	3.66
The Reject Shop	Consumer Discretionary	3.20
Integra Mining	Materials - Resources	3.03
Decmil	Industrials	2.61
Grange Resources	Materials - Resources	2.56
Mermaid Marine	Industrials	2.55
Indophil Resources	Materials - Resources	2.35
St Barbara	Materials - Resources	2.34
Straits Resources	Energy	2.28

Holdings as at 30/11/2010.

Source: Acorn Capital Microcap Trust. Sectors have been defined based on GICS (Global Industry Classification Standard). To learn more about Acorn Capital visit www.acorncapital.com.au