JM Financial Group

Issue 9: January 2016

Small Companies Strategy – Investment Newsletter

Performance *(As at 31st January 2016)*	Month to Date (%)	Quarter to Date (%)	Cal. Year to Date (%)	Fin. Year to Date (%)	Rolling 1yr (%)	Inception (%)
JMFG Small Co. Strategy	**-1.50**	**-1.50**	**-1.50**	**20.84**	**32.27**	**43.29**
Small Ords Accum. Index	-5.11	-5.11	-5.11	1.52	4.53	1.97
Outperformance	**3.61**	**3.61**	**3.61**	**19.32**	**27.74**	**41.32**

Although the JMFG Small Companies Strategy is generally representative of client portfolios, Individual performance may differ from the results above. These differences can arise due to various issues, some of which may relate to initial timing of investments and cash inflows and outflows. Performance is non-annualised, excludes fees and the effects of franking credits and tax. Strategy Inception date July 1st 2013.

Month in Review- *A review of events that influenced the share market in January.*

The buoyant mood in markets across December was quickly forgotten in January with the Small Ordinaries Index falling over 5% as fears of a sharper slowdown in China were compounded by weakening oil prices and disappointing US economic data.

In fact the start to year was the worst in Wall Street's history with the Dow Jones Industrial Average falling over 6% in the first eight days of trading. Given the increasingly uncertain environment it was no surprise the US Federal Reserve elected to hold rates steady with their commentary pointing to increased caution going forward even opening the door to a potential rate reversal later in the year if required.

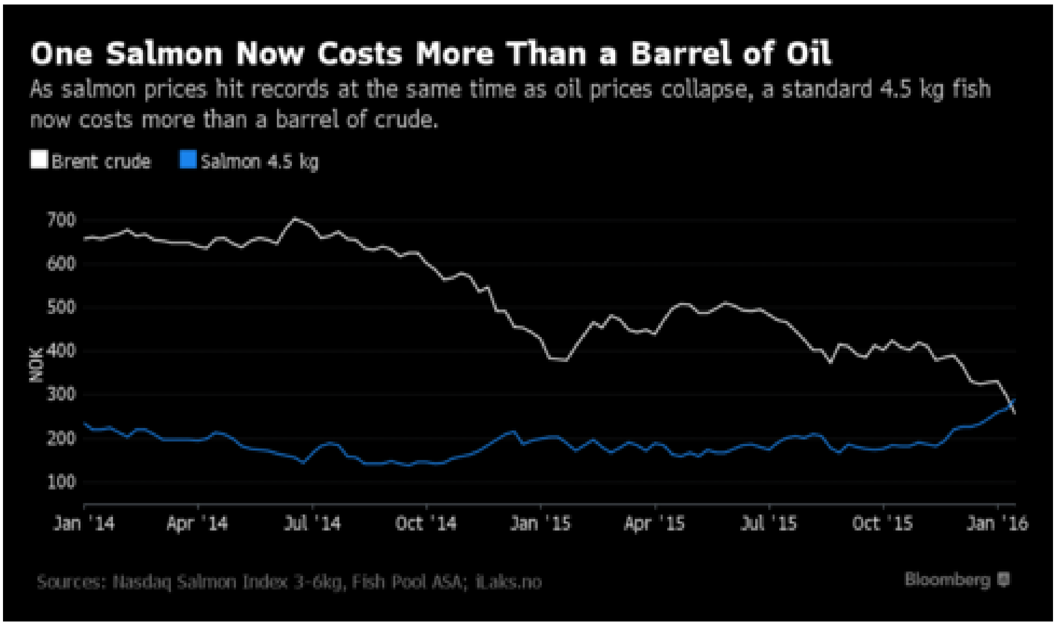
Although Chinese GDP came in at an enviable 6.9% for 2015 this was the lowest growth rate for 25 years and lead to falls in the Chinese Yuan, the Australian dollar and the crude oil price.

In stock specific news Dick Smith's woes finally came to a head with the business going into administration due to poor sales and an unmanageable inventory position. A pertinent reminder for stock market investors about the importance of doing rigorous due diligence when companies are coming out of private equity ownership. Dick Smith wasn't the only retail business to report negative news during the month with earnings downgrades from Godfreys, Lovisa and GUD Holdings as the depreciation of the Australian Dollar (AUD) negatively impacted gross margins.

The disparity between Wesfarmers and Woolworths was again apparent with Woolworth's announcing the closure of its Masters Hardware business whilst Wesfarmers announced its entry into the UK Home Improvement market through the purchase of the UK's second largest home improvement business, "Homebase".

With February heralding the beginning of the Half Yearly reporting season we look forward to market moves being once again driven by company specific fundamentals.

Chart of the Month **– Salmon vs Oil**



Much has been said about the oil price and quite rightly given a barrel (bbl.) of crude oil now costs less than an average, 4.5kg salmon. (A barrel was worth two times the salmon price a year ago).

That in itself doesn't sound overly impressive until you realise that a barrel contains nearly 159 litres.

On an AUD equivalent a $30 US/bbl. oil price translates into a remarkable 27c/litre. A sobering thought when you're filling your car with $1.40/litre petrol!

JM Financial Group
AFSL 238397 ABN 68 007 364 132

Level 8, 140 Bourke St, Melbourne, VIC, 3000
Ph: +61 3 9627 9900

Web: www.jmfg.com.au
Email: enquiries@jmfg.com.au

Best & Worst Performers for January 2016

JMFG Small Companies Strategy		ASX Small Ordinaries Index	
Best	**Worst**	**Best**	**Worst**
Praemium – PPS	Platinum Asset Mgmt. – PTM	Resolute Gold – RSG	Shine Corporate – SHJ
Amaysim – AYS	BT Investment Mgmt. – BTT	MMA Offshore – MRM	Sino Energy – SEH
Datetix - DTX	Temple & Webster – TPW	Saracen Minerals – SAR	Whitehaven Coal - WHC

What We Think – *A summation of the top hits and misses for the month of December.*

Praemium – (up 25% for the month)

After underperforming for a large part of last year it was pleasing to see Praemium announce record inflows to its managed investment platform. At its quarterly update Praemium announced fund inflows were up 42% on last year with Dec ending FUM at a record $4.5bn. At this level Praemium should record a maiden profit in FY16, a significant milestone for the company.

Resolute Gold - RSG – (up 30.0% for the month). **Not held.**

Resolute was a strong performer after a better than expected quarterly cash flow report. As previously mentioned we only have the one gold investment in St Barbara.

Platinum Asset Mgmt. – (down 20% for the month)

January was a tough month for two of our listed financial service companies, in PTM and BTT. Given their revenues are impacted by the value of markets and continued growth of money flowing into equities it was no surprise that the fall in markets led to selling in both names. We continue to be attracted to their long term fundamentals, undemanding PEs and attractive dividend yields.

Shine Corporate – (down 73% for the month). **Not held.**

In another blow for the listed personal injury market, Shine Corporate revised down its earnings guidance by 50% on the back of weaker performance from its key revenue earners as well as write-down of the value of its expected future case wins (Work in Progress). The accounting treatment of *"Work in Progress"* continues to come under scrutiny from ASIC and other financial regulators.

Due Diligence – *A closer look at a company of interest*

Amaysim Australia (AYS) – Early in January we added Amaysim to the Strategy following its acquisition of a smaller competitor, Vaya.

Amaysim is a business we have been following closely since its listing in mid-2015 and is the leading MVNO (mobile virtual network operator) in Australia. With 1m customers, Amaysim is the 4th largest telecommunications provider in Australia offering subscriptions to a range of voice and data plans on the Optus 3G and 4G networks.

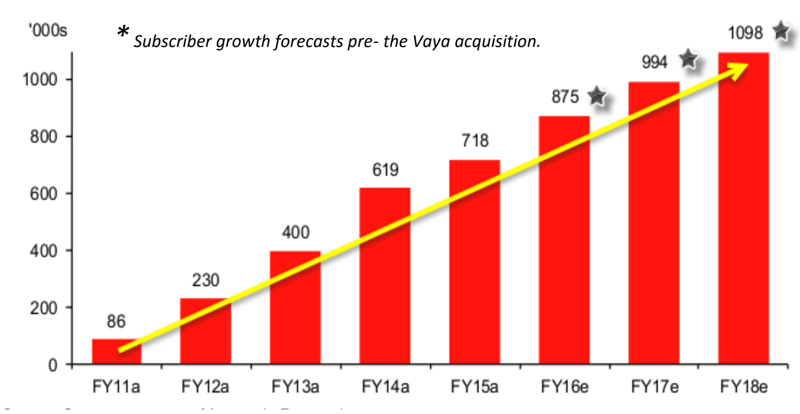
As recently as two weeks ago Apple announced flat growth in iPhone sales indicating that as mobile phone innovation plateaus the absolute desire to have the newest iPhone is reducing. With smartphone penetration reaching near saturation levels increasingly customers are exiting onerous long term contracts in favour in SIM only pre-paid plans with no lock-in contracts. With customers not needing to upgrade to the newest handset through a subsidized phone plan, Amaysim's SIM only, BYO handset model becomes increasingly attractive.

Amaysim leverages this demand through its predominantly online activation model with no costly shopfronts or retail outlets. This significantly reduces overheads allowing the cost savings to be reinvested in low cost data and voice pricing.

Although the company still sells some SIM cards through retail partners such as 7-11, Australia Post and Coles, it's targeting 100% of its subscriber activations and payments to occur online in the medium term.

With customer growth being its key focus, the acquisition of smaller competitor, Vaya, adds 140,000 subscribers and an immediate earnings uplift.

Fig 1 amaysim closing subscriber base



With a disruptive business model, no debt and low capital expenditure requirements, Amaysim ticks many of the boxes we look for in a successful emerging company.