JM Financial Group

Issue 3: July 2015

Small Companies Strategy – Investment Newsletter

Performance *(As at 31st July 2015)*	Month to Date (%)	Quarter to Date (%)	Cal. Year to Date (%)	Fin. Year to Date (%)	Rolling 1yr (%)	Inception (%)
JMFG Small Co. Strategy	**4.64**	**4.64**	**14.20**	**4.64**	**18.22**	**45.48**
Small Ords Accum. Index	1.56	1.56	4.57	1.56	-2.77	15.11
Outperformance	**3.08**	**3.08**	**9.63**	**3.08**	**20.99**	**30.37**

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 July.*

The ASX Small Ordinaries Accum. Index rose 1.55**%** in the month of July versus the ASX All Ordinaries Accum. Index rising 4.23%.

Once again financial markets were focussed on macroeconomic issues over the month of July with Greece yet again dominating the headlines. As flagged in our previous newsletter, an emphatic "No" vote was lodged with the majority of Greeks voting against the hard line austerity measures being proposed. This act of defiance against the European Union was short lived however with the Greek parliament approving sweeping austerity measures only a week later to free up much need funding from the Eurozone.

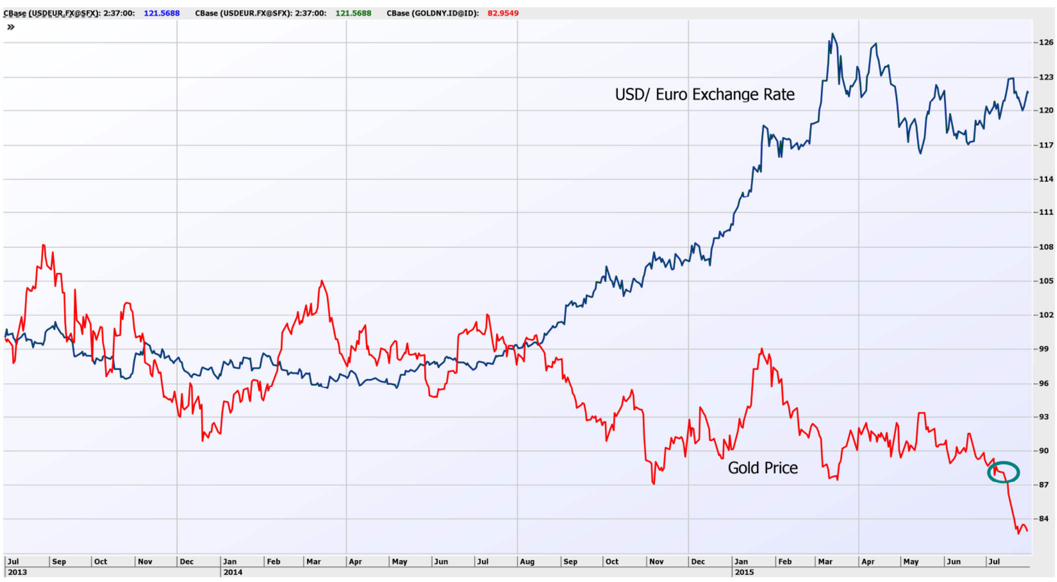
Although these measures appear to have defused the crisis in the short term, uncertainty will remain for quite some time as the ability for Greece to reform pensions, increase taxes, tighten public spending and liberalise its economy is rightly questioned.

If the Greek issues weren't troublesome enough, China's yo-yoing stock market managed to consign the Greeks to page 2 of the financial papers when their equity markets plunged, wiping $4 trillion from equity values. The rout was temporarily halted in mid-July when a series of desperate measures were enacted, forcing trading halts across most of the market and imposing bans on selling by directors. This proved largely ineffective with the Shanghai Composite Index falling 8.5% in a day, the largest daily fall in the Chinese market since 2007.

This couldn't have come at a worse time for the Chinese as MSCI officials are currently considering whether to add China A-shares to global benchmarks.

As this global uncertainty heightened across July the US Dollar reconfirmed its "safe haven" status rising 5% against the Aussie Dollar and 1.6% against the Euro. The rotation into the USD gained further support when a mini 'flash crash' occurred in the gold market after 5 tonnes of bullion was unloaded on the Chinese market causing 3.5% fall in the price of gold in a matter of minutes. Although the exact cause of the fall remains unclear it appears that a combination of lower than expected Chinese Gold Reserves, the US Dollar strength and Gold Exchange Traded Fund selling may have led to the dramatic sell off.

Chart of the Month - USD/EUR exchange rate (blue) versus the Gold Price (red)



As we touched on earlier, the gold price plummeted in July (green circle) as a large seller flooded the market.

Although this was a severe short term move, the longer term chart (left) indicates that gold has been under pressure for quite some time as it suffers from the rotation into the US Dollar.

Whilst portfolios have a holding in gold mining turn-around story, St. Barbara, we remain underweight the gold sector and miners in general.

Best & Worst Performers for July 2015

JMFG Small Companies Strategy		ASX Small Ordinaries Index	
Best	**Worst**	**Best**	**Worst**
Catapult - CAT	Sino Gas Energy - SEH	Webjet - WEB	Atlas Iron - AGO
Freelancer – FLN	Manalto - MTL	Impedimed - IPD	Beadell Resources - BDR
McMillan Shakespeare - MMS	Nearmap – NEA	Pacific Brands – PBG	Medusa Mining - MML

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

Catapult Ltd – (up 34% for the month)

As we highlighted in our May newsletter, Catapult continues to gain traction in the elite sport analytics market. Catapult announced higher than previously forecast Q4 unit sales and revenues and was aided by an announcement from FIFA during the month allowing the use of GPS trackers in games as well as in practice sessions.

Sino Gas Energy – (down 20% for the month)

Sino continued to fall throughout July as the market struggled to digest the impact of a large capital raising earlier in the year at much higher prices and continued uncertainty around global energy prices. Upon review of these factors and the lack of a turnaround catalyst on the horizon we elected to sell the stock from the portfolios.

Webjet – (up 38% for the month). **Not held**

Online travel company, Webjet, reported better than expected bookings numbers for the quarter, reaffirming their previous profit guidance. Given the slowdown in leisure travel witnessed by Flight Centre many were expecting Webjet to be suffering as well. Although this was a strong performance from Webjet we still question a business model premised around charging customers a >$30 booking fee for a service that is offered for free on some competing websites.

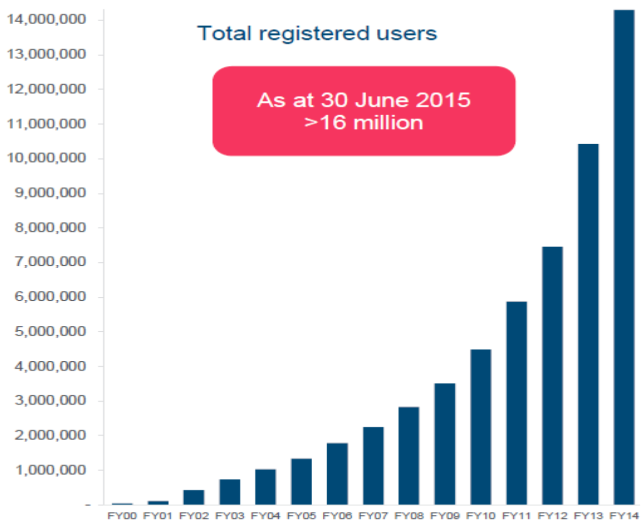
Atlas Iron Limited – (down 70% for the month). **Not held**

Atlas Iron resumed trading in July after being suspended for three months as it looked to restructure its balance sheet with an $80m capital raising. Although the capital raising was completed, it fell short of expectations occurring at a 58% discount to its last trading price. We did not participate in the raising given our bearish view on small cap iron ore miners.

Due Diligence – *Every month we will take a brief look at one of your share holdings.*

Freelancer (FLN) – A global marketplace

Freelancer.com is the world's largest online marketplace for freelancing and outsourced services. Connecting small businesses, consumers and individuals with a global workforce of skilled, online freelancers.



Freelancer.com boasts over 850 different job categories, encompassing website/I.T and software design, media and architecture, writing and content, data and admin, engineering, manufacturing and sales and marketing.

We were attracted to the disruptive nature of Freelancer's business model which capitalises on the growing trend of adopting flexibility in the workforce. By outsourcing projects and services to freelancers, businesses can reduce their overheads and streamline their processes. The use of contractors and freelancers is not a new concept but the ability to bring them all together in an online marketplace is potentially revolutionary.

As Freelancer grows its user base, it should begin to benefit from the *'network effect'* – a phenomenon whereby a good or service becomes more valuable as more people use it. This concept has been at the heart of the success of online marketplaces such as eBay and Amazon. Due to the nature of high growth businesses where cash flows are reinvested to grow the user base, Freelancer is somewhat unique in that it can't be valued like a classic industrial company that is focused on near term profits and dividends.

However, given the strong growth in user numbers (15.8 million registered users) and large increases in posted projects, gross payment volumes and revenues we are comfortable that management is executing on the vision to transform the freelancing industry.