

Small Companies Strategy – Investment Newsletter

Performance (As at 30th June 2015)	Month to Date (%)	Quarter to Date (%)	Year to Date (%)	Fin Year to Date (%)	Rolling 1yr (%)	Inception (%)
JMFG Small Co. Strategy	-4.60	-3.50	9.28	18.01	18.01	39.21
Small Ords Accum. Index	-7.77	-4.04	2.97	0.44	0.44	13.34
Outperformance	3.17	0.54	6.31	17.57	17.57	25.87

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 June.

The ASX Small Ordinaries Accumulation Index declined **7.77%** in the month of June versus the ASX All Ordinaries accumulation Index falling 5.4%.

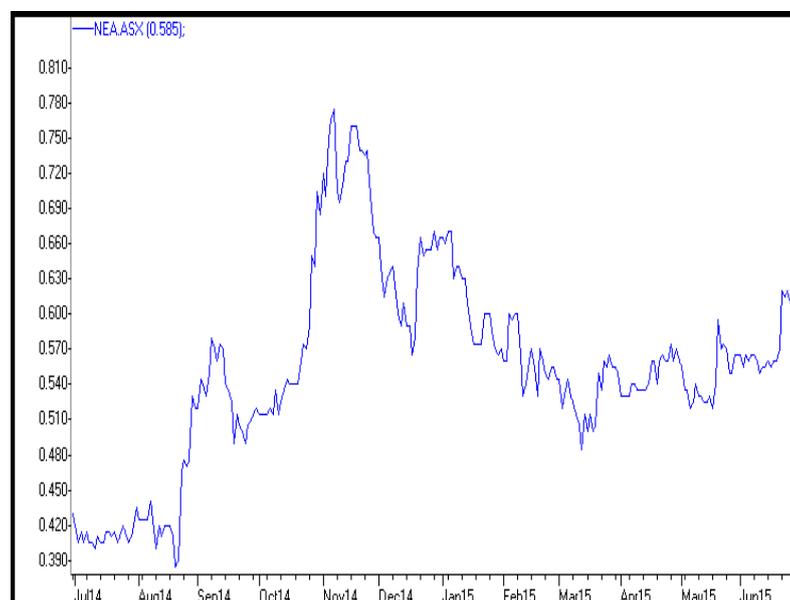
The likelihood of Greece exiting the Eurozone escalated considerably in the last week of June with the country effectively 'defaulting' on a repayment to the IMF. This forced the Greek government to introduce limits on the value of bank withdrawals in an attempt to preserve cash. The key concern affecting markets is that a Greek exit could have a contagion effect on Europe, forcing up the cost of debt for other poorly positioned countries such as Spain, Italy and even France. The Greek government held a referendum on 5 July to gauge the public's support for its hard-line stance against austerity. At the time of writing, 90% of the votes have been counted with 61% voting No. We discuss our thoughts on Greece in more detail later in this note. To put it into context Greece accounts for 0.26% of global GDP. At US\$246bn, Greek GDP is the equivalent of 16% of Australian GDP or <8.5 days of Chinese GDP.

Australian March quarter GDP rose 0.90% which was above expectations of 0.70%. The reading takes annual GDP growth to 2.3% year on year. The stronger reading saw the A\$ rise over 2% on the day despite indications consumers are drawing down on savings. Weak wage growth and poor productivity are likely to continue to stymie GDP, whilst the housing market remains suspiciously buoyant. Overall we see increasing difficulty for the RBA to further reduce interest rates.

Australia recorded its largest ever trade deficit in April at \$3.9bn versus expectations of a \$2.1bn deficit. After 10 years of negotiating, Australia finally signed the landmark free-trade agreement (FTA) with China. The government forecasts that the combined China, Japan and Korea FTAs will boost Australian exports to the three countries by 11.1% and increase imports by 8.3% through to 2035. Exports to these countries are expected to grow in value by approximately \$20bn.

The Bureau of Meteorology escalated its El Nino warnings throughout the month indicating a heightened expectation of below average rainfall for southern and eastern Australia, which in turn could lead to drought conditions developing in 2015.

Chart of the Month – Nearmap Ltd (NEA)



Nearmap captures, develops and processes aerial images cheaper, quicker and with higher quality than traditional methods. The company uses a HyperPod camera (proprietary technology) attached to an aircraft. The company can photograph areas multiple times a year with much greater resolution than traditional satellite capturing systems.

Nearmap has aerial coverage over 85% of Australia's population and launched in the US last year. Given the large fixed cost nature of the business there is a great deal of operational leverage once the initial ground capture has been complete.

The revenue model is subscription based (90% of earnings) but NEA can also provide higher resolution on-demand specialty flying services. Key customers are government, local councils and insurance companies. New competition has entered the market this year however NEA has a significant head start due to its highly established data base.

Best & Worst Performers for June 2015

JMFG Small Companies Strategy		ASX Small Ordinaries Index	
Best	Worst	Best	Worst
St Barbara -SBM	Manalto-MTL	CuDeco-CDU	Energy Resources of Aust-ERA
Sirtex Medical-SRX	Qube Holdings-QUB	Kathmandu Hldgs-KMD	Bradken-BKN
Freelancer -FLN	Webster -WBA	Skilled Group-SKE	Virtus Health-VRT

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

St Barbara Ltd- (Price move in June 47c to 57c)

The gold miner is rapidly reducing its cost of production, now achieving profits of approximately A\$300 per ounce. Wisely the company has embarked on an early debt reduction scheme by utilizing the increased earnings to buy-back approx. 20% of outstanding Senior Secured Notes. The notes carry a coupon interest rate of 8.875% and are US\$ denominated and were due to mature in April 2018. We expect to see further cost reductions enhancing the prospect of further de-risking of the company's balance sheet resulting in a strengthening profit outlook.

Manalto Ltd- (Price move in June 24c to 18c)

MTL operates a United States centred cloud-based software package which allows master-franchise operators greater brand control across the social media spectrum. With an estimated 50mn franchises operating globally the growth opportunities are significant, as are the challenges of infiltrating large franchise operations. There has been no official data release behind the share price weakness in June, however we note that on 3rd June the company reported it had several contracts awaiting sign-off by clients with an addressable market of more than 5000 units. The active pipeline figure has grown from approx. 91,000 units in April to approx. 125,000 units

CuDeco Ltd- (Price move in June \$1.275 to \$1.70) Not held.

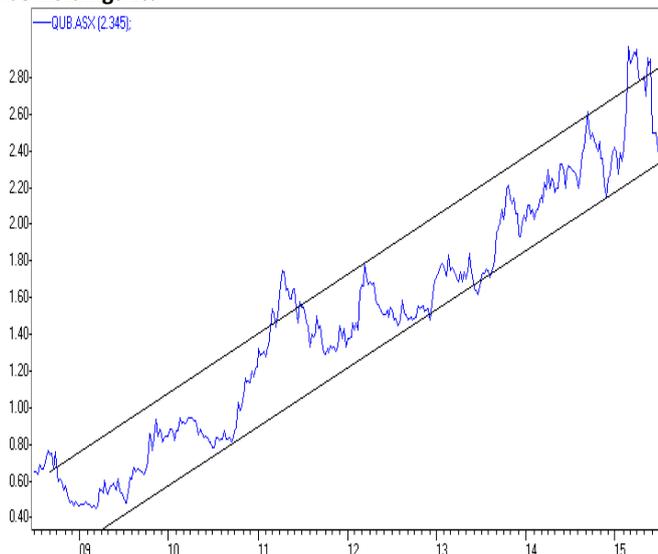
Late in June CDU announced it had entered into a supply agreement with the Shijiao Group, one of the largest copper recyclers in China. It has several treatment options including smelter and electrolytic treatments. CuDeco will supply 40,000 tonnes of high grade native copper per year resulting in increased earnings for the company.

Energy Resources of Australia Ltd- (Price move in June \$1.345 to 40c) Not held.

ERA announced it would temporarily shelve plans for its Ranger 3 Deeps project due to the ongoing weakness of the uranium price. However the key negative came when ERA's largest shareholder, Rio Tinto, said it no longer supported the future development of the project. Rio's declaration saw ERA's chairman and two non-executive directors resign. Ultimately these events have caused investors to question the long term viability of the company.

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

Qube Holdings Ltd



Regrets? We have a few. Every now and then we identify a company we believe has all the characteristics of a future top 20 company; Qube is one of those companies. We rate the management team as superior and the assets as top quality and uniquely positioned for future growth. Despite our strong rating we fully endured a 19% share price decline in June. The catalyst for the price fall occurred early in the month when the company warned the market to lower earnings estimates due to the loss of several iron ore haulage contracts.

In hindsight we should have taken a profit on some of your shares, however we believe the company is laying a very strong foundation for future growth.

A good example is the Moorebank Project which involves a 99 year lease over 243ha of land. The company has recently received approval for the development of Australia's largest intermodal freight precinct in South Western Sydney.

Qube will operate the IMEX port shuttle and interstate terminal handling up to 1.5 million 20 foot equivalent (TEU) shipping containers per annum. The precinct will contain up to 850,000 sq metres of integrated warehousing capacity when fully developed. The project will deliver major benefits to its customer network through the efficient movement of freight in Sydney. It is also expected to increase rail modal share, alleviating Sydney's traffic congestion by reducing freight on the existing road network between Port Botany, the airport precinct and Western Sydney. Qube also specializes in the handling of auto imports into Australia.