

## Small Companies Strategy – Investment Newsletter

Performance (As at 31 <sup>st</sup> March 2016)	Month to Date (%)	Quarter to Date (%)	Cal. Year to Date (%)	Fin. Year to Date (%)	Rolling 1yr (%)	Inception (%)
<b>JMFG Small Co. Strategy</b>	<b>2.48</b>	<b>-4.41</b>	<b>-4.41</b>	<b>17.27</b>	<b>13.11</b>	<b>39.05</b>
Small Ords Accum. Index	5.47	1.03	1.03	8.08	3.72	8.56
<b>Outperformance</b>	<b>-2.99</b>	<b>-5.44</b>	<b>-5.44</b>	<b>9.19</b>	<b>9.39</b>	<b>30.49</b>

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 1<sup>st</sup> 2013.

### Month in Review- A review of events that influenced the share market in March.

March was a better month for equity markets with the Small Ords finishing up 5.47%. Despite the strong move the Small Ords is only up 1% for the quarter as investors struggle to gain confidence around the ongoing Chinese slowdown and the stop-start US economy.

After outperforming the market for eight of the last nine months the Small Companies Strategy has underperformed the market for the last two months. Whilst this is disappointing it's worth pointing out that the nature of long term investing inevitably means there will be months in which sectors in which we are underweight experience significant outperformance. The two most recent examples of this are the 20% rise in gold stocks in February and the 22% rise in energy stocks in March. We are watching these moves very closely but remain unconvinced that these are long term trends supported by rising demand.

As mentioned, the bounce in resources continued with oil prices rising 13%, up 50% from February lows. Despite the bounce in prices, oil consumption remains weak and inventories remain stubbornly high. With OPEC set to meet in April to discuss production freezes, the oil price will likely remain volatile in the short term.

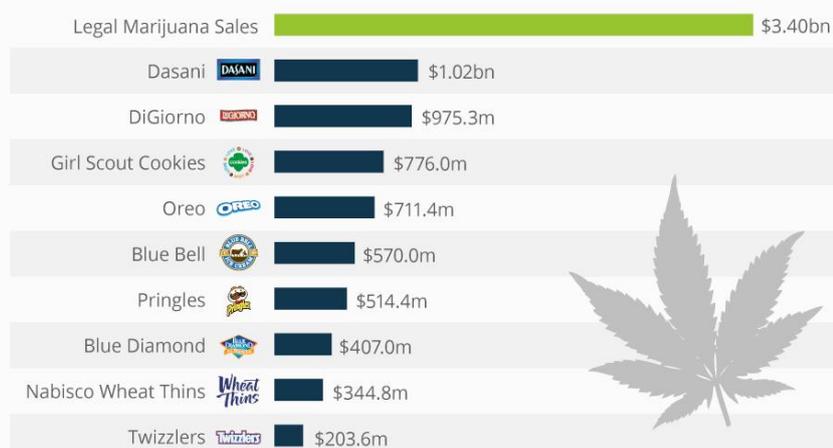
With US rates remaining flat and resource prices rising the Australian Dollar hit its highest level in ten months, sitting at over 77c at the time of writing – good news for travellers and importers, bad news for US dollar earners and exporters.

In stock specific news the recovery in bank share prices was halted during the month after ANZ came out flagging higher bad debt provisions due to ongoing weakness in resource related lending. This should've come as no surprise but once again served as a reminder that although commodity prices have risen from their lows the operating environment remains very tough for a large majority of producers. With ANZ now yielding over 7% the market appears to be factoring in further bad debts and a potential cut to dividends.

### Chart of the Month – Up in Smoke

#### America's 2015 Marijuana Sales In Context

2015 legal marijuana sales and selected 2014 company sales in the U.S.\*



Former President Bill Clinton may not have inhaled but it's clear many are, with legal marijuana sales in the United States reaching an amazing \$3.4bn in 2015.

As the chart on the left shows the sales of marijuana in America are relatively phenomenal given it's only legally available for sale in five States.

In fact marijuana sales dwarf the sales of household names such as Oreos and Pringles, although the latter two may be significant beneficiaries of increased sales of the former. *Complementary goods* is the official economic term.

With the Australian Government amending the Narcotic Drugs Act in February the interest in Australia's three listed cannabis stocks has increased dramatically.

Whilst we like to take advantage of regulatory change, at this stage the listed companies remain a little too speculative.

\*52 weeks ending Jan 2015. Oreo & Dasani fiscal year ended April & May 2015 respectively  
@StatistaCharts Source: Company Reports

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## Best & Worst Performers for March 2016

JMFG Small Companies Strategy		ASX Small Ordinaries Index	
Best	Worst	Best	Worst
Temple & Webster – TPW	Sirtex – SRX	Senex Energy – SXY	Slater & Gordon – SGH
Aconex – ACX	Universal Biosensors – UBI	Sino Gas & Energy – SEH	1-Page – 1PG
Mayne Pharma – MYX	Mainstream BPO – MAI	AWE Ltd – AWE	Highfield Resources – HFR

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

Aconex – (up 27% for the month)

The largest contributor to performance was Aconex, a new addition to the Strategy in February following a very strong 1H16 result which showed the online construction collaboration business was growing market share significantly in Asia and the Americas. During March the company announced a \$96m acquisition of a competitor that will give it dominant market share in Europe. The company announced an equity raising to fund the purchase which we are currently participating in. (TPW was up 38% for the month but this was from a small base given the previous month's fall.)

Senex Energy – (up 60% for the month). **Not held.**

Just as gold companies hurt us in February, oil companies did similar in March. With the oil price rising 13% a number of small oil stocks bounced strongly. In fact 4 of the top 5 performers in the Small Ords were oil stocks. At this stage many oil company share prices are reflecting further strong gains in oil. Given the large inventory builds yet to be wound down this thesis remains uncertain. We continue to watch closely for any sustained changes to demand.

Sirtex – (down 9.6% for the month)

A combination of lower than expected patient treatments in 1H16 and fears over the potential outcome of a future clinical trial saw Sirtex sold off reasonably heavily across the month. We acknowledge the risks associated with the clinical trials but feel the share price is understating Sirtex's current salvage therapy market share.

Slater & Gordon – (down 55% for the month). **Not held.**

The personal injury law firm continues to trade down over debt fears. The stock exited the Top 100 index during the month coming back to the Small Ords. A rather inglorious fall from grace.

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

#### **Medical Developments - MVP**

The company 'Medical Developments' may not be familiar to most but at some stage most readers will have come across MVP's key asset, Pentrox or more commonly, the "Green Whistle". The green whistle can be seen regularly in the AFL, NRL and numerous other sporting codes given its wide use in treating serious sporting injuries.

The green whistle contains the active ingredient, methoxyflurane, an analgesic that is used to treat acute trauma pain as well as assisting in pain relief for brief but painful procedures such as wound changing, patient transportation and dental procedures.



*Johnathan Thurston getting pain relief from the 'green whistle'*

Unlike alternatives such as morphine and fentanyl, Pentrox is not an opioid based narcotic – opioid based narcotics can close the airways which makes them potentially hazardous in many trauma procedures. The easy application of Pentrox through inhalation makes the drug highly portable and avoids the obvious needle risks that come with injectable pain relief.

Although the green whistle has been a mainstay for ambulances and doctors in Australia for thirty years the product was largely abandoned in the USA in the 1970's due to a lack of adequate clinical data and fears that the drug could become toxic at higher concentrations.

Medical Developments along with the CSIRO has done a significant amount of work in recent years reformulating the product and manufacturing process in order to produce the drug in larger quantities and at a lower cost. Alongside this process the company back filled its clinical profile including a 300 person Phase 3 trial in UK hospitals which overwhelmingly proved its value as a safe and highly effective pain relief treatment.

This hard work has been handsomely rewarded with the company signing distribution deals with Mundipharma and Galen Pharmaceuticals to distribute the drug throughout the UK, and thirty nine additional countries in Europe. Whilst this been impressive the company is hoping to get approval in the US in the next few years which could dramatically increase revenues and profitability.