

## Small Companies Strategy – Investment Newsletter

Performance <i>(As at 31<sup>st</sup> May 2015)</i>	Month to Date (%)	Quarter to Date (%)	Year to Date (%)	Fin Year to Date (%)	Rolling 1yr (%)	Inception (%)
<b>JMFG Small Co. Strategy</b>	<b>2.99</b>	<b>1.15</b>	<b>14.55</b>	<b>23.70</b>	<b>19.65</b>	<b>45.93</b>
Small Ords Accum. Index	2.35	4.05	11.64	8.90	7.26	22.89
<b>Outperformance</b>	<b>0.64</b>	<b>(2.90)</b>	<b>2.91</b>	<b>14.8</b>	<b>12.39</b>	<b>23.04</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.

The ASX Small Ordinaries Accumulation Index rose 2.35% in the month of May versus the ASX All Ordinaries Index rising 0.58%. The key performance differential was caused by the sell-off in shares of the major banks after reporting tougher trading conditions.

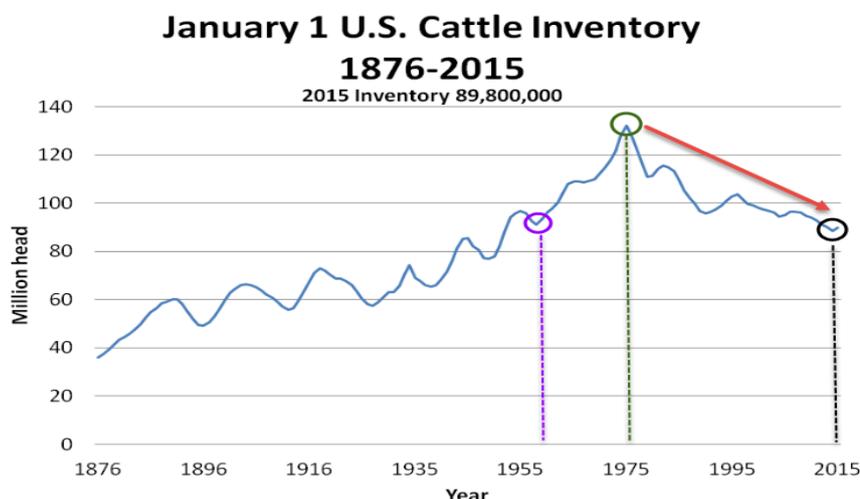
The Reserve Bank of Australia (RBA) cut interest rates by 0.25% to a record low of 2%, forecasting inflation to remain consistent with its target for the next one to two years. In cutting rates the RBA has highlighted Australia's declining terms of trade, in main caused by the sharp decline in commodity prices. It also suggested it was working with other regulators to assess and contain risks that may arise from the hot housing market.

In the past, a weak Australian Dollar has been a driver for the emergence of above average inflation. For that reason we think it unlikely the RBA will be able to cut interest rates again without a further material deterioration of conditions, including commodity prices and the labour market.

The Federal Coalition Government released its second Budget which had a more Labor-like tone to it. It offered \$5bn in tax reliefs for small businesses including an immediate 100% tax write-off on business items purchased up to \$20,000. It also cut the business tax rate from 30% to 28.5% for businesses with an annual turnover of less than \$2m, reaching 96% of all Australian registered businesses. The Federal Budget and the RBA's interest rate cut combined to buoy the share prices of many listed retail companies. However with consumer debt levels at historic highs we remain unconvinced that current consumer discretionary spending levels will sustain retailer share price outperformance.

The A\$ declined 3.2% against the US\$ to 76.46, at the same time the US\$ rose 2.5% on the Dollar Index as investors continue to assess the possibility that the US Federal Reserve will increase interest rates sometime in calendar 2015. Rising US interest rates will likely put a dampener on the prospects for any further interest rate cuts here.

### Chart of the Month – A long term driver for your investment in AAC



The worst US drought in 70 years has resulted in a material reduction in the size of the US cattle herd. The chart on the left indicates the present US cattle herd numbers <90mn head versus a peak of over 130mn in 1975.

The last time the cattle herd numbered ~90mn head was approx. 57 years ago. Back then the US had a population of approx. 175mn versus the present 320mn. The US population in 1975 when the cattle herd was at its peak stood at 216mn.

**Based on these numbers the ratio of cattle to people in the US has halved since 1958.**

## Best & Worst Performers for May 2015

JMFG Small Companies Strategy		ASX Small Ordinaries Index	
Best	Worst	Best	Worst
Sirtex - SRX	Manalto – MLT	Tiger Resources – TGS	Independence Group - IGO
Webster – WBA	Aust. Agricultural Co.- AAC	Starpharma – SPL	Hills Ltd - HIL
Catapult - CAT	Spark New Zealand - SPK	United Group - UGL	Horizon Oil - HZN
Tandou - TAN	Emerchants - EML	Sirius Resources - SIR	Aust. Agricultural Co.- AAC

### **What We Think** – Where we go to look for investment opportunities and how we decide to invest.

Some of the key long-term themes helping formulate our investment philosophy are 1) Aging populations, 2) Climate Change, 3) Food and water supply/demand, 4) Productivity via technology, and 5) Superannuation.

At the company level we look for 1) Strong company management and 2) High barriers to entry.

Most of the western world, including parts of Asia, is suffering from the effects of aging populations. Here and in the US the trend has been driven by the retiring Baby-Boomer generation. In China it has been primarily driven by the effects of the One-Child policy restrictions. Healthcare, superannuation & retirement living are segments of the economy that are already benefitting from the 'Aging of the Population'. Your portfolio is exposed to these sectors through shareholdings in SRX, LHC, PTM and PPS.

Despite more of us getting older, the world's population continues to grow, putting unprecedented stress on food and water resources. The onset of climate-change greatly exacerbates these stresses to the point where we are experiencing the breakdown of traditional weather patterns and the emergence of extreme and less predictable weather events.

This theme is the fundamental reason behind your shareholdings in AAC, TAN and WBA. AAC is now a fully integrated beef producer and WBA a walnut producer, both of which are benefitting from the ongoing four year drought in California. Recently, WBA has successfully acquired another one of your holdings, TAN, which will add valuable water rights to WBA's business going forward.

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

#### **Catapult Group International Ltd (CAT)** - "The most used secret in sport"

Catapult is the leading global sports analytics company for measuring athletic data.

The company produces a series of systems comprising wearable hardware and analytical software to collect and analyse more than 1000 data points per second of the athlete's performance. Catapult currently has 500 clients across 50 countries. Its customer base is drawn from the AFL (all clubs), NRL (all clubs), NFL (14 of 32 clubs), NBA (10 of 32 clubs), 10 UK Soccer teams (including Chelsea and Rangers) and high profile UEFA teams such as AC Milan, Real Madrid and Bayern Munich.

CAT's business model targets the high end, best of breed teams and sports associations then filters down through the lower grade and junior-age levels. Although they are well represented, they believe they only have 4% global penetration with significant potential to grow in Nth America and Europe.

With so much at stake financially in the world of top-line sport, the information collected by the CAT device provides coaches and clubs with such a significant and proven competitive edge, the entire competition may be compelled to access this type of data.



We chose to feature CAT this month because easy vision of your investment can be accessed by simply turning on your TV to watch a game of AFL or NRL. You will notice the players' jumpers have a small pocket built-in at the back of the neck that contains the device.