

## Small Companies Strategy – Investment Newsletter

Performance <i>(As at 30<sup>th</sup> November 2015)</i>	Month to Date (%)	Quarter to Date (%)	Cal. Year to Date (%)	Fin. Year to Date (%)	Rolling 1yr (%)	Inception (%)
<b>JMFG Small Co. Strategy</b>	<b>6.31</b>	<b>14.89</b>	<b>32.80</b>	<b>21.69</b>	<b>37.11</b>	<b>69.17</b>
Small Ords Accum. Index	0.02	7.13	6.01	2.95	6.50	16.69
<b>Outperformance</b>	<b>6.29</b>	<b>7.76</b>	<b>26.79</b>	<b>18.74</b>	<b>30.61</b>	<b>52.48</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 November.

The ASX Small Ordinaries Accum. Index rose 0.02% in November versus the ASX All Ordinaries Accum Index falling 0.69%.

November was a tale of two halves for equity markets with the All Ords being dragged down early in the month on the back of a broad based sell off in commodities, then rallying as a range of US economic data releases pointed to moderate growth in GDP for the world's largest economy.

It was not all good news globally though with Japan slumping back into a recession, indicating that its "Abenomics" \$25 billion quantitative easing programme has largely been a failure. It now joins a long list of macroeconomic levers that have failed to rejuvenate Japan's stagnating economy.

As mentioned previously commodities were heavily sold off during the month as iron ore and copper fell to 10 year and 6 year lows respectively. Understandably, this flowed through to our large resources companies with Sims, BHP, Arrium and Santos, all falling heavily. This sell off was further compounded when the tragic events at BHP's Brazilian iron ore mine led to a significant loss of life and potential environmental issues for years to come.

There was plenty of news at a stock level though with results from CBA and AACo, capital raisings from TPG Telecom, Catapult and IPH, an acquisition by SG Fleet Group and Qube announcing a takeover bid for Asciano, trumping rival Brookfield's bid in the process.

With most capital raisings been well supported and the IPO market remaining buoyant we are hopeful that the recent bounce in the market will translate into another "Santa Claus Rally", a term coined to explain the fact that, somewhat strangely, December is 4 times more likely to record a positive market performance than an average calendar month.

### Chart of the Month – The evolving Chinese economy

#### Chart 1. Chinese shoppers spent more than some countries' annual GDP.

Alibaba Singles' Day sales, 2015



Although there has been plenty of discussion about China's slowing economy, it's important to understand the transition away from an infrastructure economy to a domestic consumption based economy.

Nowhere is this more evident than in Chinese e-commerce company, Alibaba's, recent 'Singles' Day' sales. Initially started as a day to celebrate being single and independent, the day has developed into a country wide shopping holiday much like the US's Black Friday.

This year's celebration saw a record \$20bn (AUD) of sales across the day with Alibaba processing a staggering 710 million transactions. Given this number is greater than some countries' annual GDP it's a timely reminder of how strong China's economy actually is.

## Best & Worst Performers for November 2015

JMFG Small Companies Strategy		ASX Small Ordinaries Index	
Best	Worst	Best	Worst
Enverro /DateTix – ERR	St Barbara- SBM	Lynas – LYC	Dick Smith - DSH
Mayne Pharma – MYX	Mainstream BPO - MAI	Bellamy's – BAL	Mesoblast – MSB
SRG Ltd - STS	Webster - WBA	SG Fleet Group- SGF	Bradken - BKN

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

Enverro/DateTix – (up 97% for the month)

Recent microcap IPO, DateTix, bounced strongly upon listing following the success of its much larger rival, Match.com (the owner of Tinder). DateTix is a Hong Kong based social media and dating platform which is expanding to Beijing, Shanghai, Sydney and Melbourne next year.

Bellamy's – (up 44% for the month). **Not held.**

One needs only read the daily papers or turn on the television to see the publicity surrounding Bellamy's, Australia's leading infant formula producer. Chinese demand for the product has been extraordinary with reports of customers buying entire shelves of product to ship through "grey" channels into China at exorbitant prices (up to 10x the price of a tin in Australian supermarkets). The announcement of the end to the one-child policy in China at the beginning of the month understandably added further fuel to the thematic. Although we have sadly missed Bellamy's (up 434% this year) there is some element of caution to be had at these levels with China recently announcing draft legislation on imported foods in order to curb the potentially dangerous, unregulated grey market trading.

St. Barbara – (down 25% for the month)

With the gold price falling over \$100 in November it was no surprise that St Barbara was dragged down across the month as a range of gold stocks were sold down heavily. We discuss the ongoing investment in St Barbara in more detail below.

Dick Smith – (down 59% for the month). **Not held.**

For the second consecutive month DSH was the worst performer in the Small Ords Index after announcing a \$60m write down of inventory and in the process flagging another potential profit downgrade.

### Site visit feedback – St Barbara (Leonora Gold Mine)

As flagged in previous newsletters our attraction to St Barbara was not a trade on an improving gold price but rather a view on the ability of the company to turnaround its operational performance and pay down its debt through increased cash flow.

Although our thesis has been proven correct so far, we continue to do due diligence on both the company and its operating mines as we seek to understand what levels of production each of the assets may be capable of. As part of this due diligence the JMFG team recently visited the company's flagship Gwalia mine gold mine at Leonora in WA.

The Gwalia mine is an underground mine purchased by St Barbara from Sons of Gwalia in 2005, which re-commenced production in 2008. The mine achieved 250k oz. of production in FY15 and is SBM's largest producing mine.

The site visit commenced with a 4WD drive trip 1500m below the surface to the heart of the mine in order to view current mining operations. Although this is incredibly deep (said to be the deepest gold mine in the world using trucks to carry crushed ore to surface) the mine still remains prospective at these levels and offers further potential extensions to the mine life. As 8 trucks transport ore to surface 24/7 the company continues to explore the deposit at depths with early drilling results potentially adding 4 more years of mine life. The ability to continually find more gold at depth has been one of the keys to SBM's success. Interestingly the obstacles are not so much finding gold but rather how to get it out safely and efficiently, considering ventilation and transport issues.

The site visit concluded with a tour of the crushing plant and mill which easily handles the current volumes of ore being brought to surface. Gold bars are then produced from solution before being driven to Kalgoorlie in an armoured vehicle and ultimately being flown to the Perth Mint.



Orange is the new black