JM Financial Group

Issue 5: September 2015

Small Companies Strategy – Investment Newsletter

Performance *(As at 30th September 2015)*	Month to Date (%)	Quarter to Date (%)	Cal. Year to Date (%)	Fin. Year to Date (%)	Rolling 1yr (%)	Inception (%)
JMFG Small Co. Strategy	**5.71**	**5.87**	**15.54**	**5.87**	**17.44**	**47.18**
Small Ords Accum. Index	-0.53	-3.90	-1.05	-3.90	-4.90	8.92
Outperformance	**6.24**	**9.77**	**16.59**	**9.77**	**22.34**	**38.26**

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 September.*

The ASX Small Ordinaries Accum. Index fell 0.53% in the month of September versus the ASX All Ordinaries Accum. Index falling 2.50%.

September capped off a poor quarter for equity markets with the All Ordinaries Index testing lows not seen since 2013. As the sell-off in all things China related continued in earnest, the US Federal Reserve erred on the side of caution electing to keep interest rates on hold.

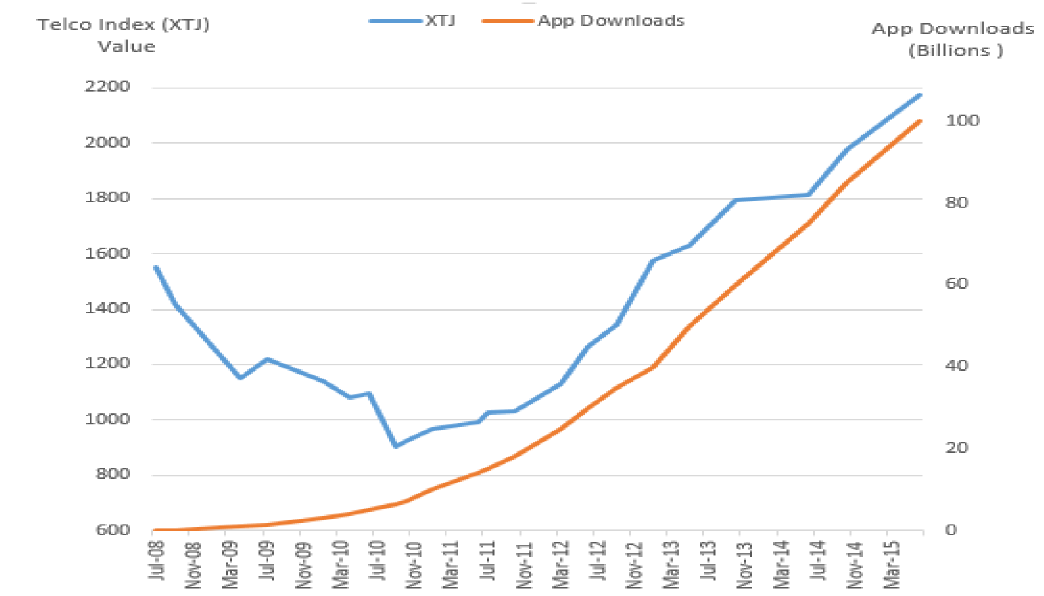
Whilst this was an attempt to steady markets and restore confidence it had the opposite effect, causing further selling and leaving investors uncertain as to how the underlying US economy was progressing. Federal Reserve Chair, Dr Janet Yellen, was quick to assuage investor fears, pointing to solid job gains, a low unemployment rate of 5.1% and increasing household spending and business investment.

Domestically our market suffered with resource stocks being the prime selling target as fears over a China slowdown continued to gather momentum. This culminated in a 3.5% one day fall late in the month after global resources powerhouse, Glencore, was sold down more than 30% in one night on the London Stock Exchange. Unsurprisingly, the 3.5% fall was led by BHP which fell to a 7 year low and saw many commentators calling for a revision to their progressive dividend policy which now sees BHP paying a forecast 7.5% dividend yield but potentially having to tap into its cash reserves in order to do so.

Throughout the turmoil there was a brief period of positivity when the wider business community reacted favourably to the change in PM, with Malcolm Turnbull being viewed as “pro-business”. With promises of a stronger economy and an increased focus on innovation and technology we look forward to this being translated into policy.

At the company level, Origin Energy (ORG) announced a $2.5bn capital raising to reduce its debt levels, Veda Group (VED) received a non-binding takeover from US rival Equifax and the frenzy of merger activity in the telecommunications sector continued with Vocus Communications (VOC) announcing a merger with M2 Group (MTU).

Chart of the Month – Cumulative App downloads through the Apple Store vs Performance of the Australian Telco Sector (XTJ)



With the release this month of the iPhone 6s we thought we would have a look at the correlation between the growth in App downloads and the performance of the Australian Telco sector.

A staggering 100 billion apps have been downloaded from the App Store since 2008.

Telcos have been able to offset the loss of home phone rentals and text message price deflation by focussing on data packages and bundling of deals for the next *must-have* iPhone.

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Best & Worst Performers for September 2015

JMFG Small Companies Strategy		ASX Small Ordinaries Index	
Best	**Worst**	**Best**	**Worst**
St. Barbara – SBM	McMillan Shakespeare - MMS	St. Barbara – SBM	LNG Ltd – LNG
Veda Group – VED	Catapult – CAT	Northern Star – NST	Energy World Corp. - EWC
IPH Ltd - IPH	Universal Biosensors - UBI	Starpharma Holdings - SPL	AWE Ltd - AWE

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

St. Barbara – (up 98% for the month)

The market finally began to appreciate the turnaround in small cap gold miner, St Barbara, during the month with its FY15 gold production beating expectations. Given its strong production and free cash flow growth the company can now comfortably service its debt whilst funding future exploration. Pleasingly, our thesis was somewhat reinforced when Macquarie Securities initiated coverage on SBM with a $1 price target.

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

Small gold miner, Northern Star rose strongly over the month after increasing its forecast production guidance. Although NST was a strong performer we are comfortable only holding the one gold stock (SBM) given our attraction is to the company turnaround and not a long term trade on the future gold price.

McMillian Shakespeare – (down 10% for the month)

McMillian Shakespeare earns 70% of its profits from the provision of salary packaging services to employees. Unfortunately this leaves MMS vulnerable to selling pressure whenever there's a change of government or the words "tax reform" are whispered. We don't believe the Turnbull administration poses any serious threat to salary packaging or fringe benefits tax but we continue to watch the space closely.

Liquefied Natural Gas Ltd - (down 53% for the month). **Not held**

2014 market darling, Liquefied Natural Gas Ltd continued its nasty fall in September after further delays in signing contracts with project partners increased question marks over the company's ability to deliver to original timelines. Selling pressure was further exacerbated with the broader small cap energy sector being heavily sold off over the month. In fact, the 5 worst performers in the Small Ordinaries Index were all energy stocks. We continue to have zero energy exposure in the Strategy.

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

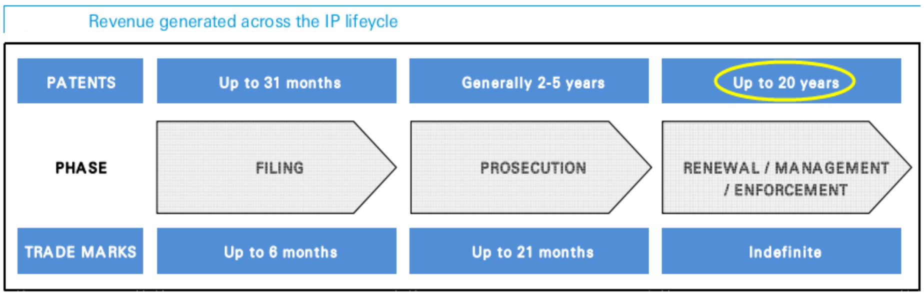
IPH Ltd – riding the innovation wave.

After listing in November 2014, IPH Ltd has become one of the star performers of 2015. Although not widely known, IPH is the holding company for some of Australia's and Asia's oldest and largest intellectual property law firms including Spruson & Ferguson (est. 1887), Practice Insight and Fisher Adams Kelly.

The Group offers a range of services including providing protection, commercialisation, and management of intellectual property (IP).

The IP industry is dominated by the electrical, mechanical, engineering and pharma sectors and one only has to look at the ongoing IP battles between Apple and Samsung to realise how important it is for companies to protect their investments in innovation.

One of the attractions of IPH is the ability to earn revenues across the entire life cycle of the intellectual property: the filing phase, the prosecution phase and the ongoing renewal phase which can involve the payment of fees over the entire life of the patent or trademark which in many instances can be up to 20 years.



When evaluating small cap investments one of our key criteria is the strength of management, and IPH Managing Director, David Griffith, ticks all the boxes. David has been MD since 1999, has worked within the business since 1974 and is a past President of the Institute of Patent and Trade Mark Attorneys of Australia. He also has significant "skin in the game" with a personal shareholding of approx. 6m shares.

With the tremendous advancements in technological and medical innovation set to continue we think the future for IP protection and servicing is strong and a well led IPH is ideally positioned to capitalise on that trend.