

## Small Companies Strategy – Investment Newsletter

Performance (As at 30 <sup>th</sup> November 2017)	Month to Date (%)	Quarter to Date (%)	Cal. Year to Date (%)	Fin. Year to Date (%)	Rolling 1yr (%)	Rolling 3yrs (%)	Inception (%)
<b>JMFG Small Co. Strategy</b>	<b>+4.91</b>	<b>+12.10</b>	<b>+16.67</b>	<b>+13.78</b>	<b>+10.99</b>	<b>+76.52</b>	<b>+85.23</b>
Small Ords Accum. Index	+3.91	+10.16	+16.29	+15.02	+20.50	+45.66	+40.71
<b>Outperformance</b>	<b>+1.00</b>	<b>+1.94</b>	<b>+0.38</b>	<b>-1.24</b>	<b>-9.51</b>	<b>+30.86</b>	<b>+44.52</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 calculated on a TWRR basis; non-annualised, and includes fees (post 1 Jan 17) but excludes the effects of franking credits and tax. Strategy Inception for Performance Data is July 1<sup>st</sup> 2014.

### Month in Review – A review of events that influenced the share market in November

The JMFG Small Companies Strategy increased 4.91% in November, ahead of the Small Ords Accumulation Index which increased 3.91% (ASX Small Resources +8.09% and ASX Small Industrials +2.80%). Strongest sectors included Energy +6.0%, I.T. +5.8%, Property Trusts +5.6% and Consumer Staples +4.7%. The market was held back by the Financials sector, which was flat for the month. The royal commission into the banking sector, which was announced on the final day of the month, had little impact on the market.

The Small Ordinaries Index has continued on its strong rally, rising over 16% calendar year to date and over 10% in the last quarter. While multiples look stretched with the forward 12-month rolling Price to Earnings Ratio (PER) now at 18.0x, from 17.4x at the end of October, based on consensus Factset data, the earnings outlook remains solid. Nevertheless, greater caution needs to be taken. Over the past ten years, the Small Ordinaries Index has briefly peaked over 18x on two occasions before retreating to around 16x. The strong earnings outlook backed by high A\$ commodity prices, improving global economic growth, and a low interest rate environment, however, could be enough to sustain a high forward 12 month PER multiple for some time.

Having introduced BIG Un Limited into the portfolio in early October at \$1.70, we reduced holdings in November around the \$3.40 level. We also reduced holdings in New Century Resources later in the month, having topped up positions on an attractive capital raise price earlier in the month. We introduced three new companies into the portfolio in November: Polynovo, a medical technology business with initial US sales validating the technology; AfterPay Touch, a direct debit payment solution business which has had exceptional acceptance amongst millennials; and SelfWealth, a disruptive flat-fee equity trading and portfolio assistance business. Class Ltd was sold from the portfolio after a disappointing trading update.

### Chart/Table of the Month – Global Economic Forecasts

#### Region Economic Summary



	Real GDP	CPI	Unemployment Rate	Current Account	Govt Debt
	% vs year ago	% vs year ago	Percent	% of GDP	% of GDP
China	6.8	1.9	4.0	1.2	15.5
European Union	2.5	1.7	7.5	-	82.1
Euro Zone	2.5	1.4	8.9	4.3	87.9
France	2.2	1.0	9.7	-1.6	97.9
Germany	2.8	1.5	3.6	8.2	64.8
India	5.7	2.9	5.0	-2.4	46.1
Italy	1.8	1.0	11.1	3.5	134.7
Japan	1.6	0.7	2.8	4.0	197.9
United Kingdom	1.5	3.0	4.3	-4.6	89.2
United States	2.3	2.0	4.1	-2.6	105.0

Source: FactSet Economics Standardized Database

We last updated the Global Economic Factors table in June. Since then, there has been a marked improvement in global economic conditions. Real GDP growth across Europe has lifted by around 0.5% to 2.5% – France is up from 1.1% to 2.2% and Germany up from 1.7% to 2.8%.

In addition, the U.S. is up from 2.1% to 2.3% and Japan is up from 1.3% to 1.6%. China continues to grow in the high 6% range, and in India, while growth has moderated slightly from 6.1% to 5.7%, the overall rate is still high. Only the UK has substantially deteriorated, with growth dropping from 2.0% to 1.5%. In addition to the improvement in Real GDP growth, inflation rates have generally increased, but remain within comfortable levels.

Improving global growth is no doubt a major factor behind rising commodity prices, along with a lack of new supply for many hard commodities. Given the lead times to prove up and develop many of the base metals (copper, lead, zinc, nickel), should higher global growth continue, it would be reasonable to expect commodity prices to remain buoyant.

## Best & Worst Performers for November 2017

JMFG Small Companies Strategy		ASX Small Ordinaries Index	
Best	Worst	Best	Worst
BIG Un – BIG	SelfWealth – SFW	Elders – ELD	Monash IVF Group – MVF
Mach7 Technologies – M7T	Catapult Group Internat. – CAT	Appen – APX	MACA – MLD
Melbourne IT – MLB	Class – CL1	Impedimed – IPD	Webjet – WEB

### Hits & Misses – A summation of the top hits and misses for the month of November

#### BIG Un Limited – up 40.2% for the month

Continuation of announcements in November – including an acquisition in the US, a market update highlighting 2Q trading +398% versus the prior year, and an update on the US market – have all added to interest in this new age media business.

#### Elders Limited – up 35.5% (Not held)

A rally ahead of its FY17 result release continued after the mid-month release, which saw the stock price rise from above \$5.00 to just under \$7.00.

#### SelfWealth Limited – down 20.0% for the month

Despite good demand pre float, the listing was disappointing, with the stock price falling from a 20c issue price to 16c at month end. The AGM presentation highlighted the opportunity to capture market share through its disruptive online share trading platform.

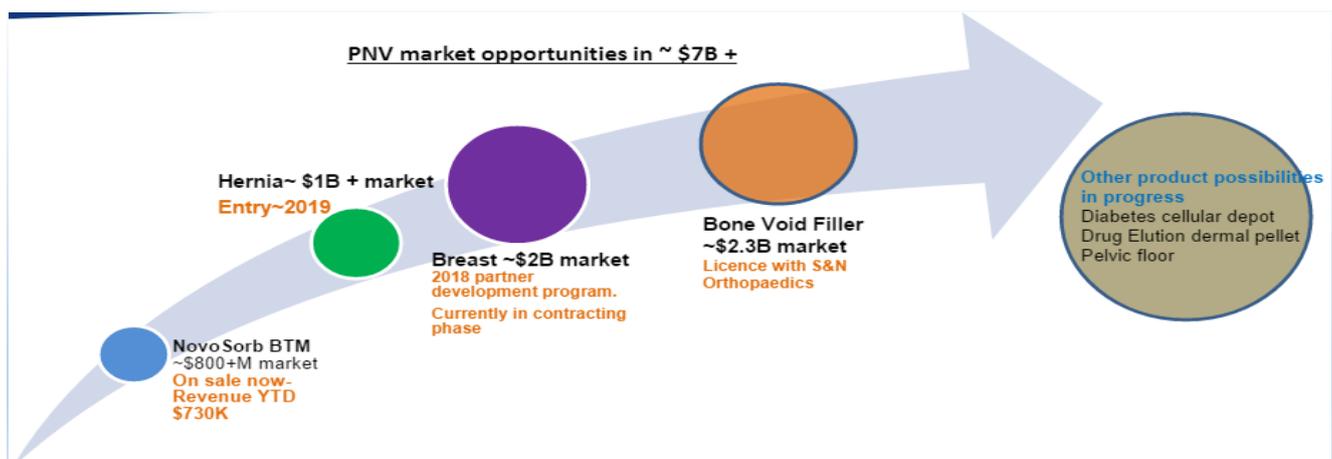
#### Monash IVF Group Ltd – down 22.8% for the month (Not held)

A trading update at its AGM outlined an expectation for 1HFY18 NPAT to be 20% lower, with Monash IVF's market share declining 2.5% in 1Q, equating to a decline of 6.6% in their Australian stimulated cycles. Higher costs were also a factor with additional legal and CEO recruitment costs. A significant doctor departure is expected to further impact earnings in FY19.

### Due Diligence – A closer look at a stock of interest

#### PolyNovo (PNV) – Another Australian Medical Success

PolyNovo is an exciting Australian medical technology business that has developed NovoSorb BTM™, a biodegradable polymer technology used in the treatment of burns, surgical wounds and Negative Pressure Wound Therapy. The product is a wound dressing intended for treatment of full-thickness wounds and burns, where the dermal structure has been lost to trauma, or damaged and requiring surgical removal. Essentially, the polymer is placed in the wound, allowing the dermis layer to regenerate into the polymer, with the polymer then disintegrating over a 12-month period. After the dermis has partially regenerated, around three weeks post initial surgery, an outer skin layer is grafted over the dermis, with results showing significantly improved functional and cosmetic outcomes vs existing treatments. NovoSorb BTM is considered a disruptive product.



US FDA approval was obtained in December 2015 for NovoSorb BTM for use in reconstructive and surgical wounds, an estimated US\$800m market. Since then, PolyNovo has been building a path to market, and working to gain recognition. The first US patient was announced in February 2017, and PolyNovo has subsequently announced several orders and reorders to major US hospitals. NovoSorb BTM offers significant potential for PolyNovo, but longer-term upside could come from the application of the polymer in the hernia, breast reconstruction, and Bone Void Filler markets. PolyNovo estimates total revenue market opportunities could exceed US\$7b.