

Innovation Strategy – Investment Newsletter

Performance <i>(As at 31st December 2017)</i>	December Quarter (%)	Fin. Year to Date (%)	Cal. Year to Date (%)	Rolling 1yr (%)	Inception (%)
JMFG Innovation Strategy	+19.39	+23.36	N/A	N/A	+23.36
Small Ords Accum. Index	+13.69	+18.70	+20.02	+20.02	+18.70
Outperformance	+5.70	+4.66	N/A	N/A	+4.66

Although the JMFG Innovation 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, includes fees but excludes the effects of franking credits and tax. Strategy Inception for Performance Data is July 1st 2017.

Quarter in Review- A review of events that influenced the portfolio in the December quarter

The JMFG Innovation portfolio, in its second quarter, increased +19.4%, ahead of the All Ordinaries Accumulation Index return of +8.20% and the ASX Small Ordinaries Accumulation Index return of +13.7%. For the six months of operation the Innovation portfolio increased by 23.4%, well ahead of the All Ordinaries Accumulation Index +9.3%, and the ASX Small Ordinaries Accum. +18.4%.

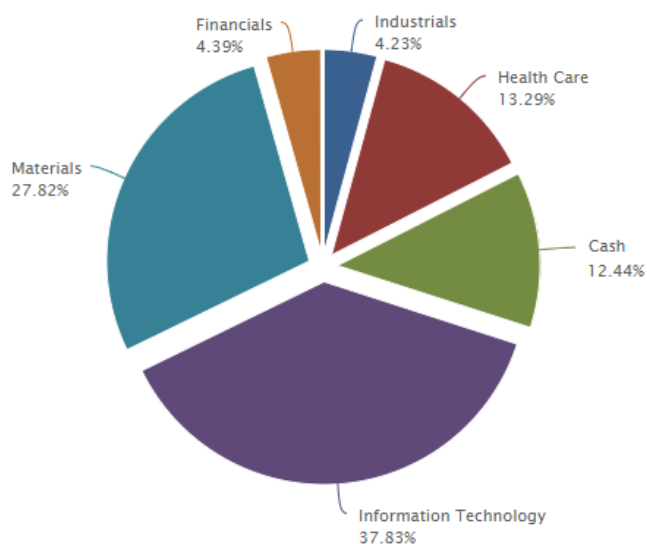
The Innovation Strategy launched on 1st July 2017, with the aim of taking advantage of micro capitalisation companies that have developed unique concepts capable of either disrupting existing business practices or selling such concepts/technologies to existing businesses to provide value enhancing efficiencies. The aim of the Innovation strategy is to exploit these micro capitalisation companies that JMFG traditionally would not invest in due to size or liquidity constraints. To ensure we can take meaningful positions in micro capitalisation businesses we envisage a maximum sustainable strategy size of \$50m.

During the quarter we substantially added to the portfolio, reducing the cash position from over 40% to 12%. Investments included:

- Software – Big Un Ltd, SelfWealth, Citadel Group, and Dragontail Systems
- Technology – Titomic, and PolyNovo
- Innovative Resource – Echo Resources, and Jervois Mining

During the quarter we traded out of Family Zone on price strength and Apply Direct on the basis of better prospects elsewhere. We also took advantage of several attractively priced capital raisings. The major contributors to performance during the quarter included Big Un Ltd, Global Geoscience, Mach7 Technologies, Livehire, SenSen Networks, Echo Resources, Titomic, and PolyNovo. Detractors through the quarter included Apply Direct, Dragontail Systems, and SelfWealth.

Innovation Strategy Industry Exposures – 31 December 2017



Principles of the Innovation Strategy

The JMFG Innovation Strategy is designed to take advantage of listed Australian micro capitalisation companies that have potential to grow exponentially.

Candidate companies typically have innovative concepts, technologies, or natural assets that are likely to be in demand through the development of technologies which have potential to become a part of everyday life within the foreseeable future.

We aim to acquire companies once the technology or concept has been largely developed with commercialisation at or very close to realisation. We expect initial equity upside potential to be within the coming quarters, and sustainable upside for several years as execution of growth strategies are realised.

In most circumstances, we aim to have a close relationship with management to ensure the companies invested in have the necessary skills to take their business from concept stage through to full commercialisation. We would normally expect management to have a significant personal exposure to the success of the business.

Best & Worst Performers for Quarter Ending December 2017

JMFG Innovation Strategy

Hits & Misses – A summation of the top hits and misses for the portfolio during the December quarter.

Big Un Limited – up 113% for the portfolio during the quarter (inc realised gains)

Continuation of announcements through the quarter and particularly in October/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 – all added to interest in this new age media business. A further update in December and new partnership agreements supported the stock through mid-December.

SenSen Networks – up 62% for the portfolio during the quarter

SenSen operates in the development and commercialisation of artificial intelligence data analytics software for the transportation and gaming sectors. A strong IPO with the shares trading to \$0.16 from the \$0.10 offer price, and was further supported by a solid trading update and new contract wins during the quarter.

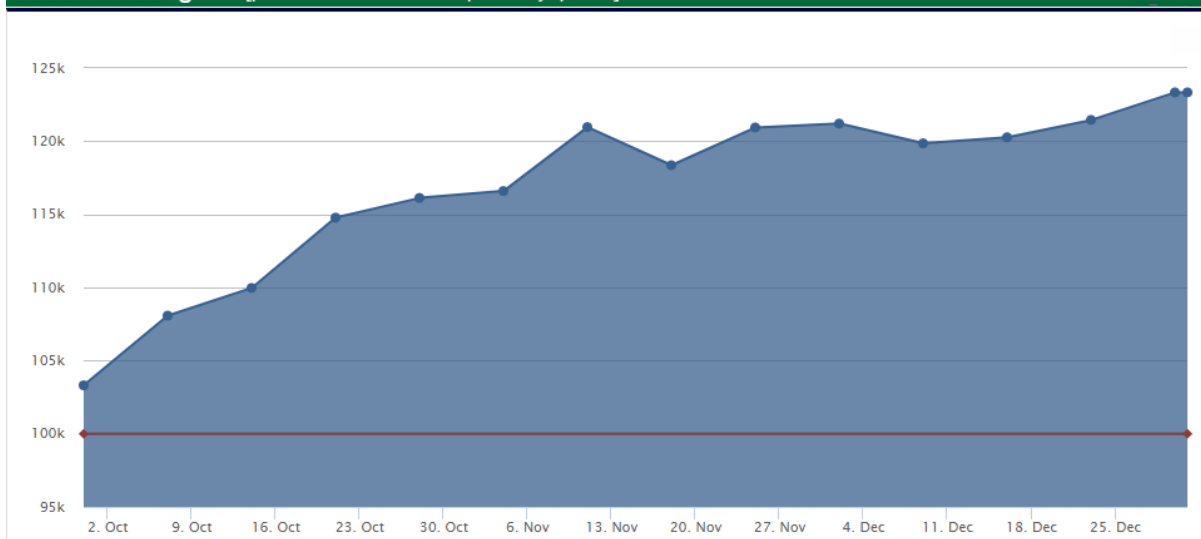
Mach7 Technologies – up 65% for the portfolio during the quarter

With a new highly credentialed CEO on board, a positive trading update, new contract wins and partnerships announced, as well as a new institutional investor, Mach 7 looks to be turning the corner. We are expecting contract wins in North America to accelerate with the business achieving scale and credibility in its most important market.

European Cobalt – down 39% for the portfolio during the quarter (no longer held)

The stock weakened early in December before plummeting later in the month on very poor exploration results. We had begun selling early in the month at higher prices, replacing European Cobalt with a more attractive proposition, but only completed toward month end.

Innovation Progress [per \$100k Invested at Inception 01 July 2017]



Top 5 Holdings by Weight at End December 2017 Quarter

Echo Resources	7.7%	Redevelopment of an existing gold mine and processing plant
Global Geoscience	7.0%	Development of high grade Lithium-Boron project in Nevada
Mach7 Technologies	6.7%	Medical software for the efficient access and use of imaging technology
PolyNovo	6.5%	Dressing for full-thickness wounds and potential for use in reconstructive surgery.
Livehire	6.3%	Online Live Talent Communities connecting employers with potential employees