

Innovation Strategy – Investment Newsletter

Performance <i>(As at 30th September 2017)</i>	Sept 17 Quarter (%)	Fin. Year to Date (%)	Cal. Year to Date (%)	Rolling 1yr (%)	Inception (%)
JMFG Innovation Strategy	+3.26	+3.26	N/A	N/A	+3.26
RBA Cash Rate Total Return Index	+0.37	+0.37	N/A	N/A	+0.37
Outperformance	+2.89	+2.89	N/A	N/A	+2.89

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 September quarter

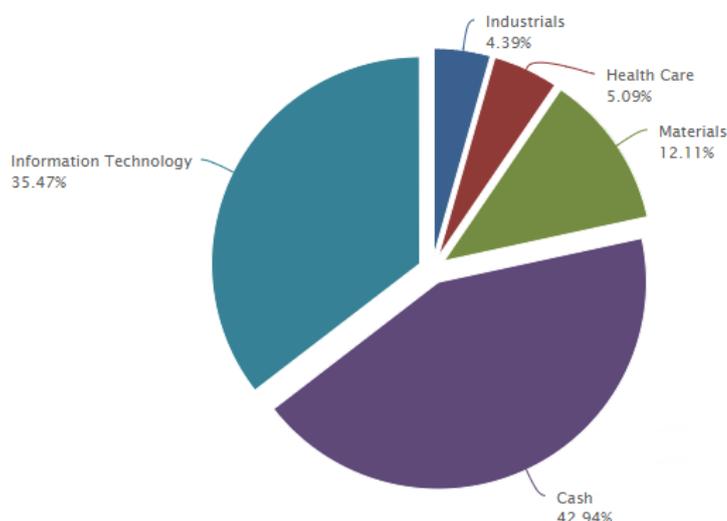
The JMFG Innovation portfolio, in its inaugural quarter, increased +3.26%, ahead of the RBA Cash Rate TRI of +0.37%. The Innovation Strategy launched on 1st July 2017, with the aim of taking advantage of micro capitalisation companies that have developed unique concepts capable of either disrupting existing 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 that would limit any meaningful impact on our larger capitalisation strategies. To ensure we can take meaningful positions in micro capitalisation businesses we envisage a maximum sustainable strategy size of around \$50m.

During the quarter we made initial investments in a range of businesses with unique concepts. These included:

- Software businesses – Family Zone Cyber Safety, Apply Direct, Livehire, Mach7, Integrated Research, SenSen Networks, Rhipe
- Technology business – Quickstep Holdings
- Innovative resource businesses – Global Geoscience, New Century Resources

At the end of the quarter, the strategy held around 40% cash. The high level of cash is a function of the early stage of the strategy's development as the investment team works through potential candidates. However, high cash levels will be a normal part of the strategy from time to time. Liquidity in micro capitalisation companies, market circumstances, and the time-frame to understand new concepts and technologies and how they can be exploited, all combine to make lead times from analysis through to execution somewhat longer than larger established businesses. Generally speaking, our preference is to retain a reasonable cash level to ensure opportunities can be exploited as they become available, rather than relying on sales of existing investments to fund new opportunities.

Innovation Strategy Industry Exposures – September 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 are expected 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 also usually expect management to have a significant personal exposure to the success of the business.

Best & Worst Performers for Quarter Ending September 2017

JMFG Innovation Strategy

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

Family Zone Cyber Safety – up 100% for the portfolio during the quarter

Family Zone raised capital through the quarter at \$0.40/share. Having met management and understood the unique proposition developed by the company to provide a parental control platform that not only restricts content access but also manages usage times for devices (desktop, laptop and mobile broadband devices), we invested in this business through the capital raising. With a number of contracts secured both locally and globally with schools and telecommunication companies, to be sold as a subscription-based application service, Family Zone have been able to validate their technology with significant upside potential on a global scale.

New Century Resources – up 20% for the portfolio during the quarter

The New Century Mine is an established mining operation which is currently in care and maintenance. The new owners have been able to establish reworking the existing 70+ million tonnes of tailings and potentially complementing this with ore from established and adjacent new ore bodies. Tailings alone provide for a 10 year mine life, with opportunities to extend mine life through the surrounding ore bodies. Trial processing has indicated a level of recoveries of the tailings, which at 7 million tonnes per annum and at current zinc prices, could generate over \$400m per year in free cashflow. This compares to an enterprise value sub \$300m. Many risks however do exist, the most significant being the zinc price which has run from around US\$1500/t to above \$3000/t. Other risks include recoveries at full-scale production, eventual processing costs to produce zinc concentrate as well as zinc processing costs. Given the free cashflow potential, we believe the risks warrant investment.

Global Geoscience – up 10% for the portfolio during the quarter

Global Geoscience is developing a 100% owned Lithium-Boron project in Nevada, USA. The resource is close to the surface, high grade, and in a form that will allow acid-leaching treatment to extract the ore, as opposed to traditional roasting processes. The resource has the potential to be amongst the lowest cost Lithium operations globally. The concentrations of the resource will mean that revenue will be derived in roughly equal proportions from Lithium and Boron. Lithium demand is expected to grow rapidly as the uptake of electric vehicles translates into higher energy storage demands over the next two decades. Risks as the company progresses towards commercialisation are high, as they always are when dealing with a new resource. However, we have taken some confidence from the management and board that has been put in place to guide this business through to profitability. The company is led by James Callaway as non-executive chairman, a former non-exec chairman at Orocobre Ltd, with a track record in building junior resource companies into successful enterprises. Other directors include Alan Davies, former CEO of Energy & Industrial Minerals Rio Tinto, and Bernard Rowe, Managing Director at Global Geoscience since IPO in 2007.

Quickstep – down 20% for the portfolio during the quarter

Quickstep manufactures advanced carbon fibre composite solutions to the aerospace, defence, automotive and other manufacturing sectors. It has partnership and contract arrangements with groups including Lockheed Martin, Northrop Grumman and BAE systems. It is an approved supplier to the F-35 Lightning II Joint Strike Fighter program and has been selected by Lockheed Martin as the sole supplier of composite wing flaps for the military C-130J Super Hercules and commercial LM-100J transport aircraft. A refocus on aerospace and defence along with productivity improvements is expected to see an improvement through FY18.

Top 5 Holdings by Weight at End September 2017 Quarter

Family Zone Cyber Safety	9.7%	Application-based cyber safety platform protecting networked and mobile devices
New Century Resources	6.0%	Zinc Mining & Processing of Tailings
Global Geoscience	5.5%	Development of high grade Lithium-Boron project in Nevada
ApplyDirect	5.4%	Online Job Advertisement & Applicant Processing aimed at bypassing agencies
Livehire	5.3%	Online Live Talent Communities connecting employers with potential employees