

Small Companies Strategy – Investment Newsletter

Performance (As at 28 th February 2018)	Month (%)	Rolling 3mths (%)	Rolling 1yr (%)	Rolling 3yrs (%)	Inception (%)
JMFG Small Companies Strategy	-0.70	+8.62	+24.24	+63.39	+96.15
Small Ords Accumulation Index	+0.03	+3.02	+20.81	+36.05	+44.47
Outperformance	-0.67	+5.60	+3.43	+27.34	+51.68

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 1st 2014.

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

The JMFG Small Companies Strategy declined 0.70% in January, short of the Small Ords Accumulation Index, which was flat at 0.03% (ASX Small Resources +0.42% and ASX Small Industrials -0.08%). The Index did particularly well compared to the S&P 500, which finished the month down 2.6%. The Australian market did not experience the same degree of volatility as the US market, falling around 4% at its lowest point compared with the US market, which fell 8.5% at its lowest point during the month.

Stocks within the ASX Small Ordinaries were largely results-driven through February, with a number of large moves, both positive and negative. Major positives included Mesoblast, Nine Entertainment, Altium, Service Stream and Bellamy's, all of which increased over 20% during the month, and all releasing solid results and outlook statements. At the other end of the scale, there were many more that fell by over 20%: Myer Holdings, Beadell Resources, Amaysim, IPH, Wisetech, BWX, CSG, Silver Chef, Platinum Asset Mgt, EML Payments, iSentia, Super Retail Group, IMF Bentham and Genworth Mortgages. We couldn't identify any real themes across the Small Ordinaries Index; movements appeared to be quite stock specific.

During the month, we added Cleanaway, Xero, Megaport and Updater to the portfolio, all of which have solid growth prospects, the latter three providing growth in developing new market segments, while Cleanaway offers a market consolidation opportunity. We removed Hansen Technologies and EML Payments. Hansen Technologies was sold following strong share price performance. EML Payments, which has been a good contributor to performance, was sold following a reasonable result but a disappointing outlook statement. The portfolio cash balance at month-end was unchanged from the prior month-end, at 14%. We continue to take a conservative approach, with higher than usual cash levels. We expect the increased market volatility seen over the past two months will provide opportunities, both in terms of new stocks to the portfolio and trading around existing core positions.

Table of the Month – Corruption Perceptions Index

Transparency International, a global coalition against corruption, produces an annual corruption perceptions index. The index ranks 180 countries and territories – tabling the results of surveying a combination of experts and business people, rating the countries on a scale of 0 to 100, where 0 is highly corrupt and 100 is deemed to be very clean.

More than two thirds of the 180 countries scored below 50, with the average score 43. Australia, as could be expected, ranks highly (latest score of 77), although its score has been in decline over recent years and is 12 points behind New Zealand, which sits on top of the table, with a score of 89.

A high rank would be expected of a developed economy. Perception of an economy with minimal corruption would certainly assist in attracting capital, and would be a strong indicator of market integrity. In recent times, the ASX has pushed to grow the number of listed entities on its exchange. While one benefit is a broader range of investment alternatives, it is imperative that regulators ensure market integrity is maintained. We have noticed an alarming number of quite misleading company releases over recent history.

Corruption Perceptions Index: 2017 - 2012

Country	Rank	CPI score 2017	CPI score 2016	CPI score 2015	CPI score 2014	CPI Score 2013	CPI Score 2012
New Zealand	1	89	90	91	91	91	90
Denmark	2	88	90	91	92	91	90
Finland	3	85	89	90	89	89	90
Norway	4	85	85	88	86	86	85
Switzerland	5	85	86	86	86	85	86
Singapore	6	84	84	85	84	86	87
Sweden	7	84	88	89	87	89	88
Canada	8	82	82	83	81	81	84
Luxembourg	9	82	81	85	82	80	80
Netherlands	10	82	83	84	83	83	84
United Kingdom	11	82	81	81	78	76	74
Germany	12	81	81	81	79	78	79
Australia	13	77	79	79	80	81	85
Hong Kong	14	77	77	75	74	75	77
Iceland	15	77	78	79	79	78	82
Austria	16	75	75	76	72	69	69
Belgium	17	75	77	77	76	75	75

Best & Worst Performers for February 2018

JMFG Small Companies Strategy		ASX Small Ordinaries Index	
Best	Worst	Best	Worst
GSC – Global Geoscience	CAT – Catapult Group Internat'l	NEC – Nine Entertainment Co	IPH – IPH
TPW – Temple & Webster	YOW – Yowie Group	MSB – Mesoblast	BWX – BWX
APX – Appen	EML – EML Payments	ALU – Altium	AYS – Amaysim Australia

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

Global Geoscience Limited – up 32.9% for the month

A strong result following further process testing of its ore. Crushed to a finer material (38mm versus 150mm under previous testing) the acid leach time reduced by 60% and recoveries of lithium at 97% and boron at 98% were achieved.

Nine Entertainment Co Holdings Limited – up 35.7% for the month (Not held)

Reported a strong 1H18 result with EBIT +61% and NPAT +55% pre significant items. The result was underpinned by stronger ratings and revenue share, combined with TV costs which were 1% lower. The company was also optimistic on its outlook.

Catapult Group International Limited – down 36.8% for the month

Continuing losses reported in its 1H18 result did not thrill the market. In addition, churn rates were released, which were higher than anticipated levels.

IPH Limited – down 35.9% for the month (Not held)

Another poor result saw underlying earnings decline 9%, and this was achieved despite ongoing acquisitions. Diluted EPS fell 10.8%. The intellectual property services sector has proven to be highly disappointing as an investment proposition with all stocks in the space underperforming over the past two years.

Due Diligence – A closer look at a stock of interest

Citadel Group (CGL) – Business Smarts

Citadel is a technology and software company providing secure real-time enterprise information services to Health, Education, National Security and Defence industries. Citadel's range of services includes business critical software, digital solutions, big data processing and knowledge management systems. Essentially, Citadel helps to protect businesses. Examples of its offerings include:

- Design, installation and maintenance of communication systems and components in the healthcare sector, including technical suites, telemedicine, training facilities, patient entertainment systems, check-in, location and information kiosks
- Security solutions including CCTV, number plate recognition, facial capture and matching
- Integrated document management; providing enterprises the ability to connect securely, anytime, anywhere, from any device, with flexibility to choose the Cloud provider
- Systems that ensure centralised single-location records, to prevent duplication and inconsistent information, and integrated systems that only allow access by approved personnel.

Citadel listed in late 2014 and has enjoyed continuous growth since then. The company is capitalised at over \$300m and is on track to earn over \$15m in net profit in FY18, with all contracts secure for FY18. Importantly, Citadel has had a high degree of success in renewing contracts, highlighting how well the company is regarded by its customer base. The chart below shows contract renewal across 14 of its major customers, with each different shading across the horizontal representing a new contract period.

Citadel Major Contract Renewals

