

Innovation Strategy – Investment Newsletter

Performance <i>(As at 31st March 2018)</i>	March Quarter (%)	Fin. Year to Date (%)	Cal. Year to Date (%)	Rolling 1yr (%)	Inception (%)
JMFG Innovation Strategy	-4.49	+17.83	-4.49	N/A	+17.83
Benchmark - Fixed Rate 10.25% pa	+2.53	+7.75	+2.53	+10.25	+7.72
Outperformance	-7.02	+10.08	-7.02	N/A	+10.11

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 March quarter

The JMFG Innovation portfolio, in its third quarter, declined 4.49%, behind its quarterly benchmark fixed rate cash return of 2.53%. For the nine months of operation, the Innovation portfolio has increased by 17.83%, exceeding its benchmark of 7.72% for the period – while also outperforming the ASX Small Ordinaries Accumulation Index, which increased 15.39%.

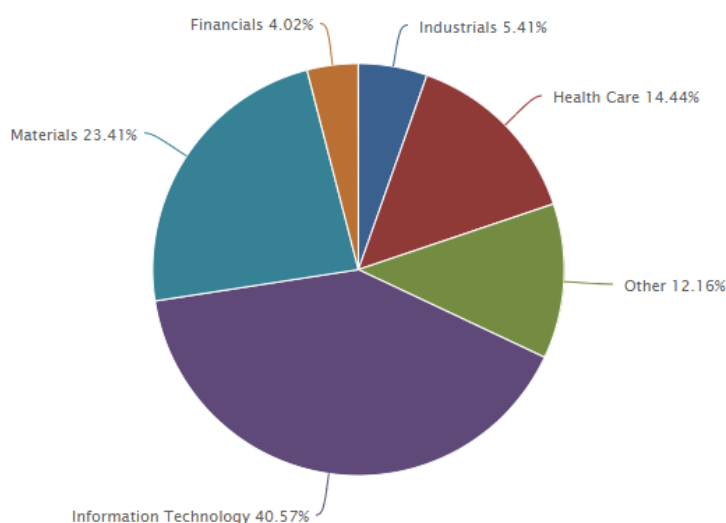
The Innovation Strategy launched on 1st July 2017, with the aim of taking advantage of micro capitalisation companies that have developed unique concepts capable of either disrupting existing business practices, or selling such concepts/technologies to existing businesses to provide value enhancing efficiencies. 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.

The quarter was a difficult one with the broader market declining by 3.55%, as measured by the ASX All Ordinaries Accumulation Index, and volatility increased, particularly on the back of US President Donald Trump declaring tariff protection in the US on certain industries and the threat of retaliation by China and other nations. During the quarter we made several trades and slightly increased the cash position from 12% to 14%. New investments included:

- Software – DigitalX, Empired, Pointerra
- Technology – Novonix and Megaport

During the quarter, we profitably traded out of BigUn Ltd, following a sharp rise in the share price, and we removed BrainChip, given a lack of expected, but not forthcoming, commercial contract announcements.

Innovation Strategy Industry Exposures – 31 March 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 March 2018

JMFG Innovation Strategy

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

Global Geoscience – up 35.7%

A strong return 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. During the quarter the company progressed its Pre-Feasibility Study and the company was included into the S&P/ASX 300 Index.

Dragontail Systems – up 14.6%

Dragontail reported growth in customer receipts, reflecting implementation of contracts and engagements with strategic customers such as KFC Asia and Domino’s Pizza. It also announced a new partnership agreement with Visionmax Solutions, a digital ordering platform for IT Infrastructure and Point of Sale ordering solutions.

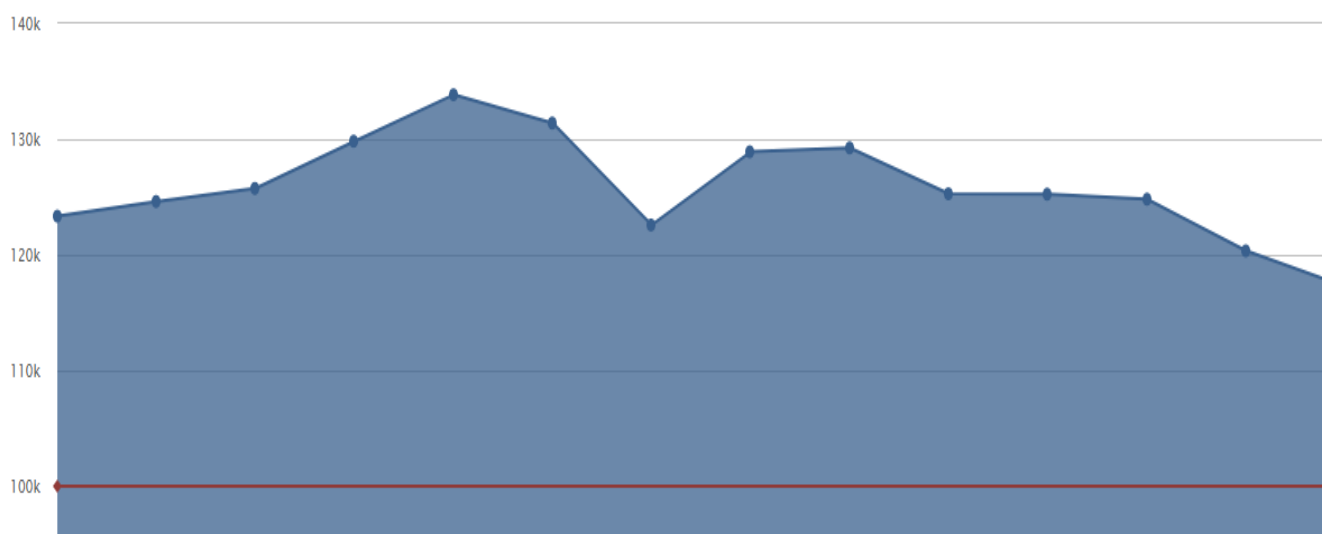
Pointerra – down 52.0%, added to the portfolio on weakness

Pointerra, a 3D geospatial data technology business, was added to the portfolio during the quarter. The company announced the signing of a business partnership agreement with Total Earth Solutions (TES), whereby TES will procure an aerial 3D dataset of the Perth Local Government Area and Pointerra will host the dataset. The two companies will share subscription revenue.

DigitalX – down 52.9%, added to the portfolio on weakness

Added during the quarter, DigitalX has redefined its business to be an advisor and consultant on blockchain technology and digital coin offerings. It also announced the launch of a cryptocurrency fund and a crypto news and data service.

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



Top 5 Holdings by Weight at End March 2018 Quarter

Mach7 Technologies	7.7%	Medical software for the efficient access and use of healthcare data and imaging
PolyNovo	6.9%	Dressing for full-thickness wounds and potential for use in reconstructive surgery
Global Geoscience	6.3%	Development of high grade Lithium-Boron project in Nevada
Echo Resources	6.1%	Redevelopment of an existing mine and strategic processing plant
Rhipe Ltd	6.0%	Reseller and promoter of transformational software systems for SMEs