

Innovation Strategy – Investment Newsletter

Performance (As at 30 th September 2018)	September Quarter (%)	Fin. Year to Date (%)	Cal. Year to Date (%)	Rolling 1yr (%)	Inception (%)
JMFG Innovation Strategy	-0.47	-0.47	-7.64	+10.28	+13.94
Benchmark - Fixed Rate 10.25% pa	+2.58	+2.58	+7.67	+10.25	+12.81
Outperformance	-3.05	-3.05	-15.31	+0.03	+1.13

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

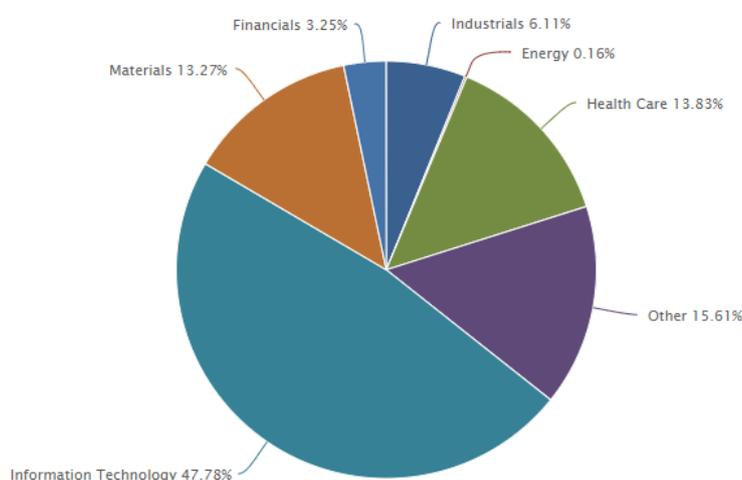
The JMFG Innovation portfolio, in its fifth quarter, declined 0.47%, behind its quarterly benchmark fixed rate cash return of 2.58%. For the 12 months of operation, the Innovation portfolio has increased by 10.28%, in line with its benchmark of 10.25% for the period. The portfolio, while expected to be volatile, has been disappointing over 2018 and has resulted in the removal of several investments.

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-cap companies that JMFG traditionally would not invest in due to size or liquidity constraints. To ensure we can take meaningful positions in micro-cap businesses, we envisage a maximum sustainable strategy size of \$50m.

The portfolio had a relatively flat quarter with Echo Resources and SelfWealth declining 48% and 38% respectively, offset by gains in Vault Intelligence and The Citadel Group which increased by 104% and 23% respectively. During the quarter, we removed several stocks from the portfolio: DigitalX, Megaport, Pointerra, and Data Exchange were each removed from the portfolio upon reassessments; and Titomic was removed following very strong price performance.

We cut positions in Echo Resources, Matador, and Rhipe – the latter two on strong share price performance – and added to positions in Vault Intelligence (via capital raising), Global Geoscience, and RMA Global. Two new stocks were added to the portfolio: Family Zone, upon a pull back to reasonable value; and Bluechiip Ltd, on a \$15.9m deal signing and capital raising. The cash position of the portfolio at quarter's end was 15.6%.

Innovation Strategy Industry Exposures – 30 September 2018



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.

JMFG Innovation Strategy – Results Overview for Quarter Ending September 2018

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

Vault Intelligence – up 104.4%

Vault, an EH&S software and hardware business, assists companies in managing their workforce, and ensuring all aspects of safety and compliance are up to date. Vault raised capital during September, and announced a major Singapore-based distribution partner.

The Citadel Group – up 23.1%

The Citadel Group released a solid full year result with revenue up 10%, profit before tax up 19%, net profit after tax up 26%, and earnings per share rising 35%. Management also confirmed their confidence in the outlook for FY19 – based on the record number of contract wins and growing subscriber base, as well as the strongest ever pipeline of opportunities.

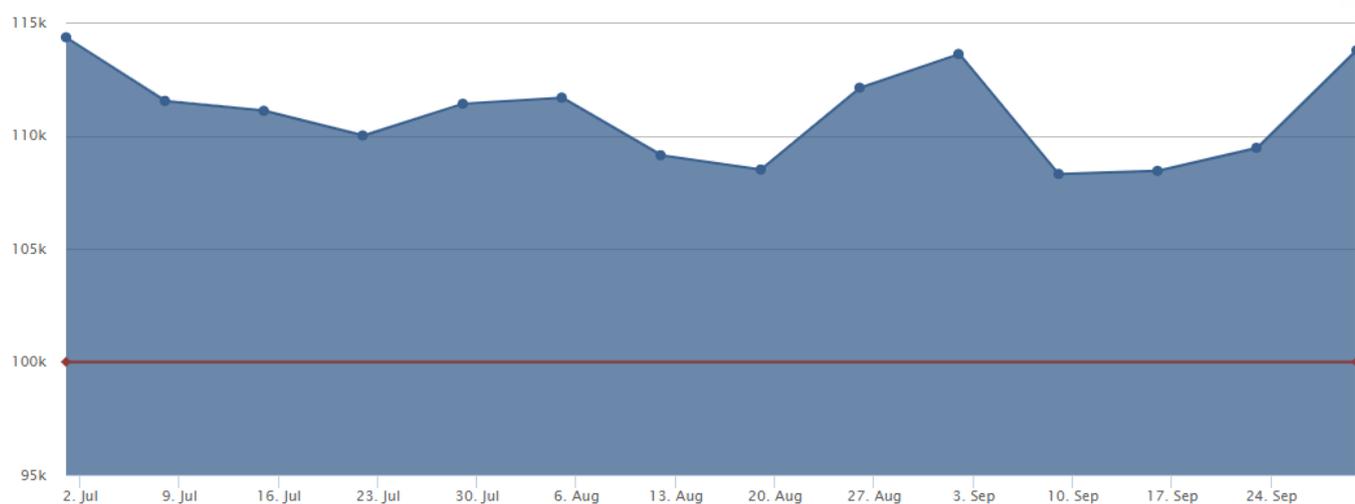
Echo Resources – down 48.1%

Echo reported very disappointing results from their Yandal gold project's Bankable Feasibility Study, which demonstrated that Phase II of their project had a very high all in sustaining cost (AISC). At an AISC above \$1,500/oz, Phase II is unlikely to justify the risks. Without improved grades elsewhere in the project, only Phase I would appear to be economic – but it has a limited mine life of 3.5-4.0 years.

SelfWealth – down 38.1%

SelfWealth released its fourth quarter cashflow report which showed a cash operating loss of \$1.7m and \$5.0m loss for FY18. Perhaps most disappointing was the modest 6% trade volume growth due to two weak volume months on the ASX at the start of the quarter.

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



Top 5 Holdings by Weight at End September 2018 Quarter

PolyNovo	8.1%	Dressing for full-thickness wounds and potential for use in reconstructive surgery
Vault Intelligence	7.8%	EH&S software/hardware business, assists managing workforce, safety, and compliance
The Citadel Group	6.7%	Secure real-time enterprise data and services to Health, Education, Defence
Quickstep Holdings	6.1%	Composite solutions to aerospace, defence, and advanced manufacturing sectors
Matador Mining	5.9%	Mineral explorer focused on a unique gold project in Newfoundland, Canada