

Innovation Strategy – Investment Newsletter

Performance <i>(As at 31st March 2019)</i>	March Quarter (%)	Fin. Year to Date (%)	Cal. Year to Date (%)	Rolling 1yr (%)	Inception (%)
JMFG Innovation Strategy	+7.13	-14.31	+7.13	-16.77	-1.91
Benchmark - Fixed Rate 10.25% pa	+2.53	+7.69	+2.53	+10.25	+17.92
Outperformance	+4.6	-22.0	+4.6	-27.02	-19.83

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, and includes fees (post 1 Jan 17) and taxes. Strategy Inception for Performance Data is July 1st 2017.

Quarter in Review – A review of events that influenced the portfolio in the March quarter

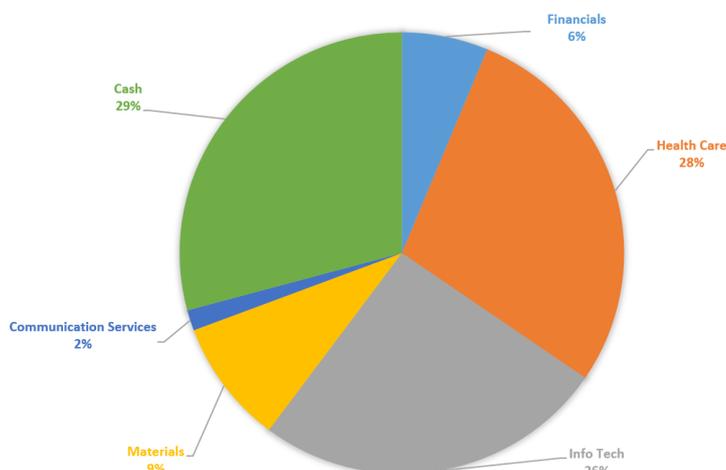
The JMFG Innovation portfolio, in its seventh quarter, grew 7.13%, well ahead of its quarterly benchmark fixed rate cash return of 2.53%. The portfolio, while expected to be volatile, had disappointing progress through 2018 but appears to be recovering this year, following our strategy and orientation adjustment decisions made through these last two quarters.

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.

Two new stocks were added to the portfolio: multi-specialty electronics company Codan, given their continuing growth across all business units; and pathogen detection specialist Genetic Signatures. We added to positions in Sensen Networks and Selfwealth – despite slow news flow being met with impatient selling pressure, we find the broader opportunities for these two companies to be compelling, and the price weakness presented an opportunity to take a more meaningful holding.

During the quarter, we removed several underperforming stocks from the portfolio, including Empired, Family Zone, Jervois, Nuheara, and Quickstep Holdings, we also removed solid performer Rhipe owing to its now high valuation. We trimmed positions in Citadel Group on a rebound, and underperformers Novonix, RMA Global, and Vault Intelligence with a view to exiting entirely in the near term in the absence of any turnaround news. The cash position of the portfolio at quarter's end was 29.2%.

Innovation Strategy Industry Exposures – 31 March 2019



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 March 2019

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

Bluechiip – up 66.0%

Half year financial accounts showed strong cumulative reader and chip sales growth, along with a strong sales pipeline and a large order from their biggest customer.

Selfwealth – up 27.8%

Selfwealth finished the quarter on a high with a positive capital raising outcome and continued growth in active traders using the platform. The company also announced strong underlying revenue growth.

Mach7 Technologies – down 11.9%

The stock came under selling pressure in the absence of expected news about new contracts to get Mach7 to cashflow break-even. However, the combination of growing revenues and restructuring efforts announced this quarter are likely to see Mach7 cashflow positive in the near term on already announced recurring revenue contracts.

Nuheara – down 14.1%

Despite diversifying the product offering, gaining recognition for its quality of product in the over-the-counter hearing aid consumer space, Nuheara struggled to convert demand into sales, and sales into profits.

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



Top 5 Holdings by Weight at End March 2019 Quarter

Mach7 Technologies	12.1%	Medical software enabling efficient access/use of healthcare data and imaging
Polynovo	11.7%	Dressing for full-thickness wounds and potential for use in reconstructive surgery
Bluechiip	8.3%	MEMS-based tagging systems, especially suited for ID of biospecimens in cryostorage
Selfwealth	6.3%	Online trading and investor services platform
Codan	5.1%	Radio devices, metal detection, tracking solutions for security, military, government, NGO, business, and consumer users