

## Small Companies Strategy – Investment Newsletter

Performance (As at 30 <sup>th</sup> June 2019)	Month (%)	Rolling 3mths (%)	Rolling 1yr (%)	Rolling 3yrs (%)	Inception (%)
<b>JMFG Small Companies Strategy</b>	<b>+4.54%</b>	<b>+9.25</b>	<b>+5.68</b>	<b>+37.68</b>	<b>+110.98</b>
Small Ords Accumulation Index	+0.92%	+3.75	+1.92	+35.52	+54.92
<b>Outperformance</b>	<b>+3.62%</b>	<b>+5.50</b>	<b>+3.76</b>	<b>+2.16</b>	<b>+56.06</b>

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) and taxes. Strategy Inception for Performance Data is July 1<sup>st</sup> 2014.

### Month in Review – A review of events that influenced the share market and portfolio in June

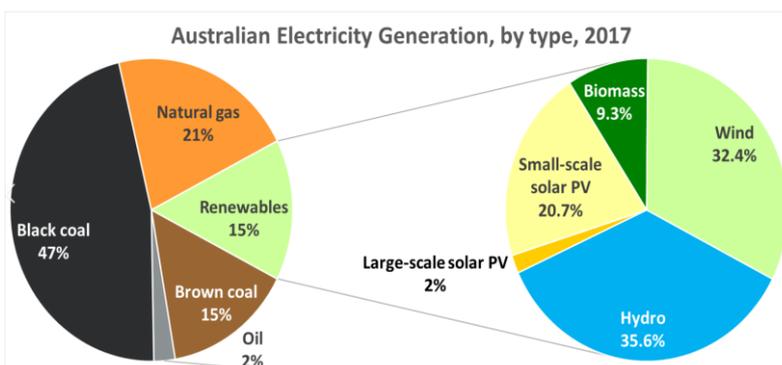
The ASX Small Ordinaries Accumulation Index had another moderate month, rising 0.92%. The JMFG strategy however had a solid month, rising 4.54% to outperform its benchmark by 3.62%. The Fund had a very good quarter, rising 9.25% against a benchmark increase of 3.75%. Confession season continued in June with several companies downgrading guidance, but fortunately none affecting our portfolio. Strongest market sectors across the broader market included Materials +6.4%, essentially on strong iron ore prices, Industrials +5.4%, Healthcare +4.2%, Property Trusts +4.2% and Financial +3.5%. The latter three sectors are likely to have been beneficiaries of a further reduction in the cash rate, with the RBA cutting 0.25% to 1.25% at its June meeting. Weakest sectors included Consumer Discretionary -1.5%, I.T. +1.0% and Energy +2.1%. The ASX Small Industrials increased +0.4% in June while the ASX Small Resources climbed 2.9%. With a further cut in the RBA rate in July we expect yield-based and non-economically sensitive sectors to provide relative performance.

For the third month running, our best stocks included Mach7 +36% and Polynovo +28%, and a newcomer to the portfolio, Imdex, also had a solid month rising +28%. Weakest stocks included Loneer, a relatively small stock in the portfolio -21%, Netwealth -16% and Bravura -14%. The ASX Small Ordinaries, having reached historically high levels, has underperformed the broader Australian market by around 4% over the past few months but continues to trade at a 12-month forward PER premium, as per *Factset* consensus data, of 17.9x, compared to the ASX 200 index at 16.3x. The higher I.T. exposure within the ASX Small Ordinaries, in part, explains some of the gap.

We cut three stocks from the portfolio during the month; Citadel on recent price strength, Pinnacle Investments, as part of a shift away from market based businesses and Enevis, where we have had a long term sell strategy in this highly illiquid company. We only added one new stock for the month, Washington Soul Pattinson, and as part of an attractive capital raising which included a share purchase plan, we substantially added to positions in APN Industrial REIT. On price strength, we moderated positions across Xero, Temple & Webster and Saracen, and continued to moderate positions in the disappointing loneer. The cash holding at month end was 8.2%.

### Chart/Table of the Month – Electricity Generation & Snowy 2.0

Australia has electricity generation capacity of 47,000 megawatts (MW) and a demand level in the order of 35,000MW. The higher capacity is required to meet peak demand periods, particularly through the summer months. In terms of annual electricity generation, renewables accounted for around 15% of Australia's annual consumption in 2017 and with ongoing construction of wind and solar farms, renewables generation would be higher in 2019. Snowy 2.0 will add significantly to generation capacity, with an additional 2,000MW anticipated. Snowy 2.0 will allow water to flow from the Snowy's highest dam, Tantangara, to Talbingo Dam with a power station complex between the two to convert the energy into electric grid power. The beauty of this network is that during lower demand periods, and particularly during low demand periods when the wind is blowing, renewables can be used to pump water back up to Tantangara for later use when both electricity demand levels and power prices are high.



Snowy 2.0 will provide fast start, on-demand generation, which will become critical as more intermittent renewable energy sources, such as wind and solar come online and as coal fired power stations retire. Its 2,000MW capacity is expected to provide up to 175 hours of storage for the National Electricity Market (NEM), providing stable, reliable energy during periods of prolonged weather events, like wind or solar droughts. If all goes to plan, commissioning of generation is expected to occur from late 2024 with full commissioning by late 2025. In time it would be reasonable that similar arrangements are developed across other impoundments across Australia.

## Best & Worst Performers for June 2019

JMFG Small Companies Strategy		ASX Small Ordinaries Index	
Best	Worst	Best	Worst
Mach7 Technologies – M7T	Ioneer – INR	Clean Teq Holdings – CLQ	Dacian Gold – DCN
Polynovo – PNV	Netwealth Group – NWL	Imdex – IMD	ARQ Group – ARQ
Imdex – IMD	Bravura Solutions – BVS	Ausdrill – ASL	Liquefied Natural – LNG

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

#### Mach7 Technologies (M7T) – up 36% for the month

Mach 7 announced that Mr David Chambers was appointed to the role of Chair of the Board, having previously been a non-executive director of the company. David has extensive healthcare and I.T. industry experience, having previously been the CEO of Promedius and has held senior positions across a number of Nasdaq-listed companies.

#### Clean Teq Holdings (CLQ) – up 38% for the month (Not held)

The company announced that it commenced a partnering process for its wholly owned Sunrise nickel, cobalt and scandium project. The partner would ideally take project level ownership, enter a long term offtake arrangement, and assist in other financing solutions.

#### Ioneer (INR) – down 21% for the month

Despite an upgrade to its mineral resource and testwork to produce battery grade lithium hydroxide and carbonate as well as boric acid, Ioneer continued to decline. The market has become restless waiting for a boric acid offtake agreement and partner to fund construction.

#### Dacian Gold (DCN) – down 67% for the month (Not held)

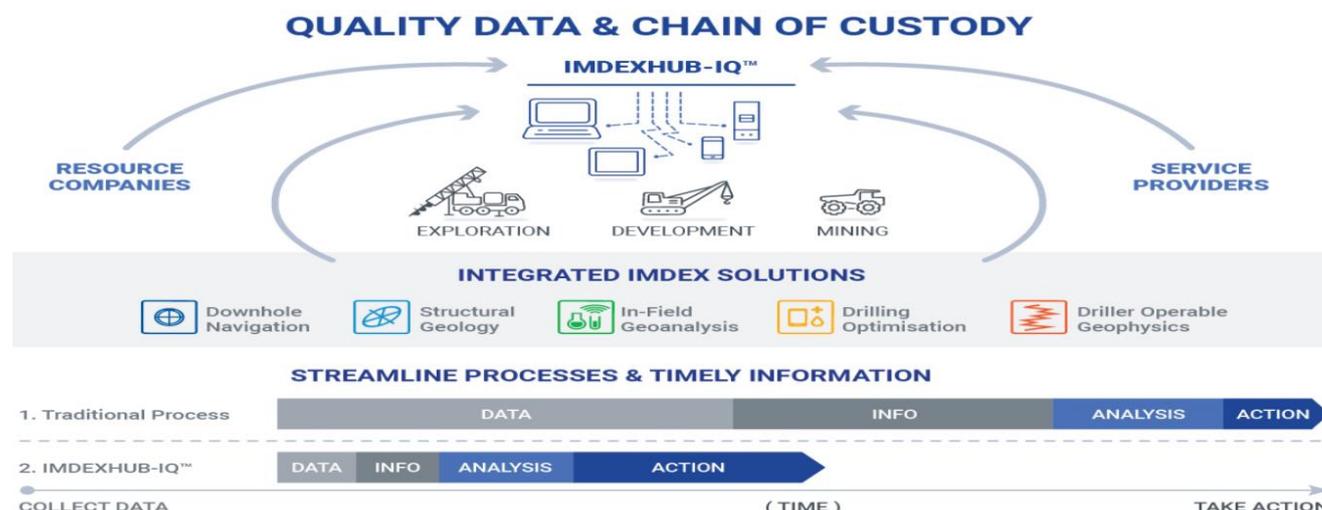
Low June quarter production guidance and high operating cost, due to poor mine performance and low grades, raises question marks over the viability of its Mt Morgans operation.

### Due Diligence – A closer look at a stock of interest

#### Imdex (IMD)

Imdex provides mining, equipment, technology and services to resource companies and drilling contractors in all major mining regions of the world. At its core, it provides solutions to improve the process of identifying and extracting ore in the most efficient manner from below the earth's surface.

The range of products and technologies provide geological information in real-time to help in day to day and intraday decision making to assist clients increase productivity across the full mining chain. The ability to make real time decisions is critical in a mining operation and particularly in an underground mining operation where equipment breakdowns, wall failures, or labour shortages can severely impede mining rates. Specifically, the Imdex solutions include; Downhole Navigation to ensure drill targets are hit, Structural Geology to ensure business decisions are based on accurate and reliable structural data, Drill Optimisation to ensure the best components and techniques are used for the specific geology, In-Field Geoanalysis for the complete workflow of sample collection, preparation and interpretation of data wherever and whenever it is needed, Driller Operable Geophysics to identify rock types and geological correlation on-site without the need for a trained technician on site. Imdex primarily operates in the nonferrous mining market and to that extent is dependent on base and precious metal prices, in particular gold and copper. Gold prices are currently strong and the long-term outlook for copper demand, along with limited new supply, should provide a solid backdrop for Imdex in a moderate growth environment.



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