Small Companies Strategy – Investment Newsletter

Performance *(As at 31st March 2022)*	Month (%)	Rolling 3 Months (%)	Rolling 1yr (%)	Rolling 3yrs (%)	Inception Gross (%)	Inception Annualised (%pa)
JMFG Small Companies Strategy	**+5.9**	**-6.1**	**+2.1**	**+60.0**	**+201.5**	**+15.3**
Small Ords Accumulation Index	+5.3	-4.2	+9.7	+31.8	+96.8	+9.1
Outperformance	**+0.6**	**-1.9**	**-7.6**	**+28.2**	**+104.7**	**+6.2**

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 reasons, some of which may relate to initial timing of investments, and cash inflows and outflows. Performance is calculated on a TWRR basis after management fees (post 1 Jan 2017), performance fees (paid or accrued), GST, and excludes the effect of franking credits. Strategy Inception for Performance Data is July 1st, 2014.

Month in Review – *A review of the share market and overview of the portfolio for March*

For the month of March, the JMFG Small Companies strategy rose 5.9%, outperforming the strong recovery of the S&P/ASX Small Ordinaries Accumulation Index by 0.6%. The refinements made to the portfolio to better align the strategy with the current market environment, discussed in last month's newsletter, contributed to the improved performance.

All Sectors for the broader Australian market were positive in March with the best-performing sectors being Technology, which rebounded a substantial 13.2%, and Energy, which continued to perform strongly up 9.6%. Other strongly performing sectors included Financials 8.3%, Materials 8.2%, and Utilities 6.7%. Commendable performances were seen in Consumer Discretionary 4.0%, Industrials 4.0%, Communications 3.5%, and Consumer Staples 3.3%. Rounding out the sectors were HealthCare 1.9% and Property 1.2%.

During March, the portfolio continued to be refined with some strongly performing positions reduced, making room for allocations received from placements in two new energy related names, as well as new positions and additions to more value-oriented opportunities. The free cash level rose to more than 6% during the month as we trimmed positions of some strong performers on the way up, after having substantially reduced the cash position in February.

The strongest performers for the portfolio during the month included:

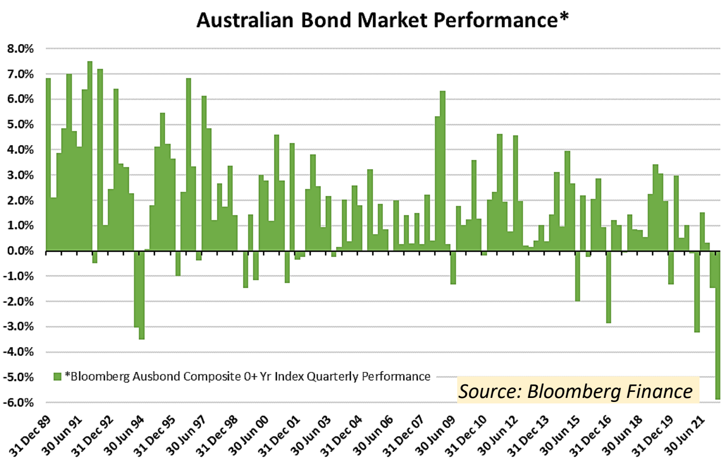
- Stanmore Resources +58% (from purchase price), Uniti Group +44%, Strandline Resources +30%, and IGO +29%

The weakest performers for the portfolio during the month included:

- Credit Clear -15%, Dubber Corporation -15%, Judo Capital Holdings -10%, and Universal Biosensors -7%

Chart of the Month – *Bond Market Performance*

During periods of market stress, asset class correlations tend to increase, limiting overall portfolio diversification. However, bonds (particularly government issued bonds) have historically exhibited low correlation with equities during volatile markets and have been used by investors to hedge against major equity declines. The chart to the right shows the quarterly returns of the Bloomberg Ausbond Composite Index, a measure of the Australian debt market that broadly includes both corporate and government issues. The chart shows how returns have had low volatility with few negative quarterly returns. This has been the case across many market regimes including the Internet bubble, the Global Financial Crisis, and the COVID-19 recession in early 2020. As such, the March 2022 quarter stands out as an anomaly with the Australian debt market having its worst result in decades and bonds globally failing to elicit the typical "flight to safety" after the Russian invasion of Ukraine.



Consumer Price Index Inflation Rates in February 2022 (% Change YoY)	
Country	**CPI**
Japan	0.9%
Australia	3.5%
United Kingdom	5.5%
Canada	5.7%
United States	7.9%
Turkey	54.4%

Source: OECD (2022), "Prices, Consumer prices", Main Economic Indicators

The already low level of interest rates and rising inflation rates are factors that have likely influenced the bond market's recent underperformance. The table to the left shows how inflation is currently running across several countries. The invasion of Ukraine has put further upward pressure on inflation as energy prices have soared due to Russia being a major oil and gas exporter. Australia is now exceeding the RBA target of 2-3 per cent and other countries have inflation running at multi-decade highs. This heightened inflation means that bond investors need a high interest rate on their investment to break even on investments after inflation, putting upward pressure on interest rates and hurting returns for bond investors. In juxtaposition to difficulties being faced in the bond market, Australian equities have bounced strongly off the lows of January and the S&P/ASX 200 Index returned +2.2% over the March quarter despite the volatility.

JMFG Small Companies Strategy - March		ASX Small Ordinaries Index - March	
Best	**Worst**	**Best**	**Worst**
Stanmore Resources (SMR)	Credit Clear (CCR)	Lake Resources (LKE)	Zip Co (Z1P)
Uniti Group (UWL)	Dubber Corporation (DUB)	Sayona Mining (SYA)	Fineos Corporation Holdings (FCL)
IGO (IGO)	Judo Capital Holdings (JDO)	Core Lithium (CXO)	Siteminder (SDR)

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

Stanmore Resources (SMR) – up 58% (from purchase price) for the month. Stanmore raised ~A$694mil in equity for the acquisition of BHP's 80% interest in BHP Mitsui Coal (BMC). While the raise was well flagged and expected by the market, Stanmore also released estimates on its earning capacity with BMC with current coal prices, which exceeded prior expectations. Other coal producers also performed well during March as surging oil and gas prices increased the need for alternative, already-serviceable energy sources.

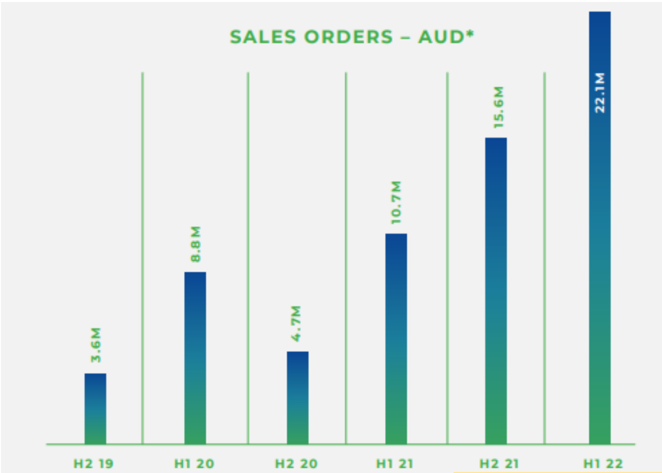
Lake Resources (LKE) – up 120% for the month (Not held). Small lithium names were soaring in March with the three best performers in the Small Ordinaries all focused on Lithium. During March, Lake announced that the company had entered a Memorandum of Understanding with Japan-based trading company Hanwa for the offtake of 25,000 tonnes per annum of lithium carbonate for 10 years.

Credit Clear (CCR) – down 15% for the month. With no real negative announcements during March, Credit Clear looks to be still digesting its recent capital raise of A$29.5mil to fund the acquisition of ARMA. The company also announced that it signed up 18 new clients in February and that digital plans for ARMA clients exceeded $2mil only 13 days after integration with Credit Clear.

Zip Co (Z1P) – down 33% for the month (Not held). At the end of February, Zip announced its intention to acquire Sezzle via the issue of shares while also undertaking an equity raising of A$148.7mil to support its balance sheet and continue to fund growth. The acquisition had been expected by the market because of prior announcements; however, the overlap in customers between Zip and Sezzle was revealed to be ~25%, which means the combined business could cannibalise revenues.

Due Diligence – *A closer look at a Company of Interest* – Mach7 Technologies Ltd (ASX: M7T)

Mach7 Technologies Limited (Mach7), founded in 2007, is a global medical enterprise imaging systems provider. The core offering is the Mach7 Enterprise Imaging Solution, encompassing Enterprise Data Management, Enterprise Viewing, and Reading and Department Workflow applications. A Vendor Neutral Archive coupled with Workflow Management tools allows for the fast storage, access, retrieval and viewing of images across a healthcare network with connectivity to the Cloud. In July 2020, Mach7 acquired Client Outlook and the *eUnity* Enterprise Diagnostic Viewing technology to augment Mach7's enterprise imaging platform. This offers healthcare professionals access to patient images to diagnose and treat patients. Mach7's solutions can be deployed on a component basis or in a unified comprehensive platform.



Source: Mach7 HY result presentation

Within the global healthcare sector there is a clear increasing digitisation trend. Furthermore, within the health system there is a shift towards enterprise solutions rather than bespoke solutions for each internal department. Mach7 is well positioned to capture market share resulting from both trends with its enterprise focused solutions and its vendor neutral archive and data administration tools.

Mach7 has undergone significant transformation over the last few years as it emerges as a leading player in the enterprise imaging space. Key to this transformation was the mid-2020 acquisition of Client Outlook, adding image viewing capabilities to its existing data management solution. In addition to the obvious synergies and cross sell opportunities, the acquisition increased the addressable market opportunity from $0.6bn to ~$4bn in the enterprise imaging space, which is part of the total Connected Care market estimated to be $188bn by 2025. Mach7 is well placed to take increasing market share due to recent "Best in KLAS" ratings that rank Mach7's *eUnity* 2nd in the Universal Viewer category and its data management solution 3rd in the Vendor Neutral Archive category. The KLAS rating system is widely followed by industry players and being in the top 3 of both categories puts Mach7 on the radar to be included in Requests for Proposals as contracts come up for renewal. This, in turn, is expected to lead to more contracts being signed. Sales orders are a strong indication of future revenue, and these have been tracking steadily higher over the last few years and are expected to accelerate following the KLAS ratings.

Mach7 has performed poorly of late with senior management changes, acquisition integration, COVID issues, and a distracting litigation claim. In addition to this it has been caught up in the technology sector sell off. However, Mach7 remains attractive with strong revenue growth and now being EBITDA positive, unlike many of its tech sector peers, it remains a key holding across several JM Financial Group strategies.