JM Financial Group

Issue 1: May 2015

Investment Newsletter

Market Performance (As at 31 May 2015)	May 2015	Calendar YTD	1 Year
S&P All Ords Accum. Index	0.58%	9.21%	9.61%

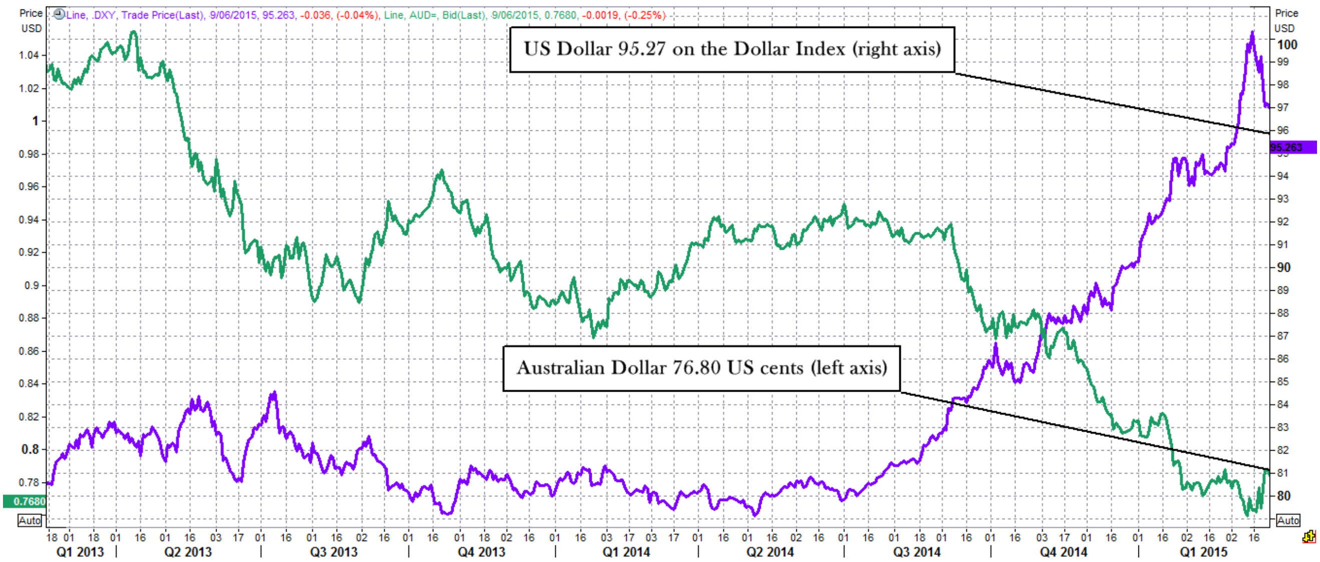
Month in Review - *A review of events that influenced the share market in May.*

The Reserve Bank of Australia (RBA) cut interest rates by 0.25% to a record low of 2%, forecasting inflation to remain consistent with its target for the next one to two years. In cutting rates the RBA highlighted Australia's declining terms of trade, in main caused by the sharp decline of commodity prices. It also suggested it was working with other regulators to assess and contain the risks that may arise from the overheating housing markets, particularly in Sydney and Melbourne. We are not convinced of the RBA's inflation forecast. In the past a weak Australian Dollar has been a driver for above average inflation. For that reason we think it unlikely the RBA will be able to cut interest rates again without a further material deterioration of conditions including commodity prices and the labour market.

The Federal Coalition Government released its second Budget, which had a more Labor-like tone to it. It offered $5bn in tax reliefs for small businesses including an immediate 100% tax write-off on business spending on items of $20,000 or less – until June 2017. It cut the business tax rate from 30% to 28.5% for businesses with an annual turnover of less than $2m, reaching 96% of all Australian businesses. The Federal Budget and the RBA interest rate cut combined to buoy the share prices of many listed retail companies. With historically high levels of consumer debt we remain unconvinced that current consumer discretionary spending levels will sustain retailer share price outperformance.

Crucially for the market 3 of the 4 major banks reported interim results whilst CBA released its 3Q trading update. After 7 years of strong margin and interest rate support (you may recall the RBA turned a blind-eye when the banks failed to pass on 100% of several interest rate cuts early in the cutting cycle), the banks appear to have come to the point where most of the low lying fruits have been picked. Earnings momentum generally appears to have hit some turbulence, however despite this uncertainty, NAB showed foresight in raising new capital allowing it to comply with the potential increase in regulated capital requirements for their mortgage books.

Chart of the Month - *The A$ has declined almost 20% against the US$ over the last 2 years, opening the door to: 1) Higher import prices 2) Increased earnings for our export companies, and 3) Potentially rising Australian inflation.*



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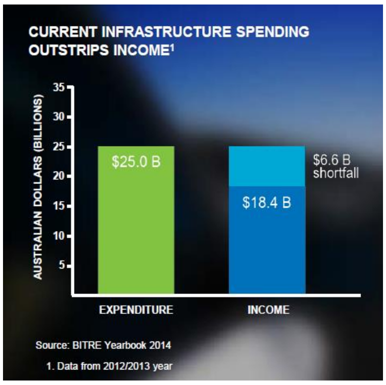
Due Diligence – *A look at two companies we are closely following.*

Transurban Group Ltd (TCL) – Transurban is Australia's premier toll road operator with 11 key road assets, 1 tunnel asset in Australia and 2 road assets in the US.



In May the Infrastructure Australia audit report was released warning the cost of road congestion in Australia will soar to more than $50 billion p.a. by 2031. PM Tony Abbott said toll roads are a necessary part of the solution.
Importantly TCL is very aware of the opportunities before it. In early May the company highlighted the $6.6bn shortfall of infrastructure income versus infrastructure spending in Australia.

From an investment viewpoint TCL displays investment characteristics that are very attractive. We describe these as *defensive growth* qualities. Defensive in that the concessions granted to the company are very long term and that there are more vehicles on the roads than ever before. Growth in that the government must now seek the assistance of the private sector to make up for the decades of non-investment in road infrastructure.

Catapult Group International Ltd (CAT) - "The most used secret in sport"

CAT is the leading global sports analytics company for measuring athletic data.
The company produces wearable hardware and analytical software to collect and analyse more than 1000 data-points-per-second of the athlete's performance.
CAT has 500 clients across 50 countries.

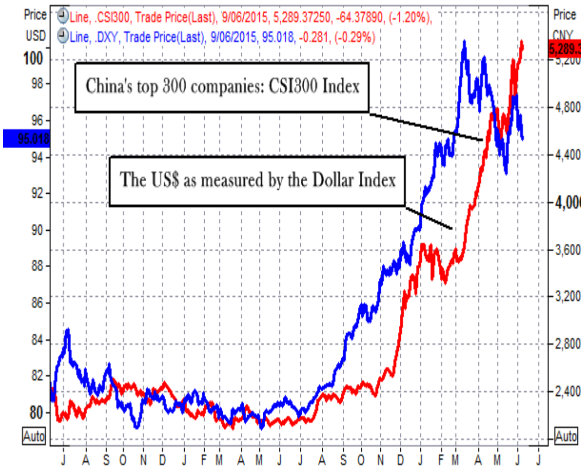
Its customer base is drawn from the AFL (all clubs), NRL (all clubs), NFL (14 of 32 clubs), NBA (10 of 32 clubs), 10 UK Soccer teams (including Chelsea and Rangers) and high profile UEFA teams such as AC Milan, Real Madrid and Bayern Munich.

Although well represented, CAT believes it only has 4% global penetration with significant potential to grow in Nth America and Europe.
When watching vision of a game you will notice the CAT device is contained within a small built-in pocket at the back of the players' jumper.

Looking ahead – *Identifying issues that could affect the share market*

- Much is being written regarding the prospects of the US Federal Reserve raising interest rates in 2015. The US economy is gaining strength after extreme weather events and the west coast port strike slammed economic growth in the March quarter. This increases the likelihood of a US interest rate hike in 2015. Any rate hike is also likely to be accompanied by further increases in the value of the US Dollar (lowering the A$), making it difficult for central banks elsewhere in the world to cut interest rates without increasing the risk of rising inflation. Australia's exporters are likely to continue to benefit from a weaker A$, whilst our importers may be forced to try and push through price increases to protect their margins.

- China's transition away from an economic model based on manufacturing and exports, to one based on domestic demand appears to be heading in the right direction as denoted by the index of its top 300 companies (CSI300) rising almost 150% since April 2014. Some of the key planks of China's strategy have been to significantly increase domestic wages, implement social safety nets (healthcare & pensions), implement deposit guarantees for bank deposits up to US$80,000, adopt a highly active role in the long term reduction of pollution and attack corruption at the highest levels.



Consumer confidence should gradually rise as these benefits and conditions permeate through the population. Australia's proximity to China should once again provide our economy with many opportunities however in the future these opportunities are more likely to involve our service providers as well as our mining companies.

- Greece continues to trouble the European Union with its struggle to repay short term loans and a general unwillingness of the newly elected government to maintain austerity measures. At this stage the European Community is holding firm, however the Greek coalition government leaders are under increasing pressure from members their own parties to stare down the demands for repayment. A disorderly exit by Greece from the EU would have a negative effect on the Euro Dollar and thus global currency markets.