

Investment Newsletter

Performance (As at 30 th April 2019)	Month (%)	Rolling 3mths (%)	Rolling 1yr (%)	Rolling 3yrs (%)	Inception (%)
JMFG Leaders Strategy	+1.04	+7.18	+7.13	+30.62	+44.70
ASX 200 Accumulation Index	+2.37	+9.29	+10.41	+37.12	+45.44
Outperformance	-1.33	-2.11	-3.28	-6.50	-0.74

Although the JMFG Leaders 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 2014.

Month in Review – A review of events that influenced the share market in April

JMFG's Leaders Strategy increased 1.04% through April, underperforming the ASX 200 Accumulation Index which rose 2.37% for the month. Over the 3-month period, the Australian Top 200 rallied by 9.29%. Strongest sectors during the month included Consumer Staples and Information Technology each rising 7.3%, Consumer Discretionary +5.0% and Financials +4.4%. Weakest sectors were Property Trusts -2.6%, Materials -2.0%, and Utilities -0.5%.

Through April we added a number of stocks to the portfolio. These included A2 Milk, Bega and Bellamy's in the Consumer Staples segment, and the Information Technology business Altium. Whilst Consumer Staples businesses typically have defensive characteristics, in the case of A2 Milk and Bellamy's they each have strong growth opportunities as they expand their businesses globally. We broadly increased exposure to Materials, and reduced our positions in banks selling out of NAB entirely, seeing it as the weakest of the four major banks. We also sold out of ResMed on price strength that saw it move beyond our long term valuation assessment. The portfolio cash holding at month-end was 11.2%.

The stronger performers for the portfolio during the month included:

- The A2 Milk Company +17%, Webjet +16%, and Bega Cheese +11%

The weaker performers for the portfolio during the month included:

- South32 -10%, Northern Star -8.5%, and BlueScope Steel -3.6%

April is traditionally one of the strongest months of the year, this year being no exception. Conversely, May is often one of the weakest months of the year for equities, particularly for Financials. The Australian Federal Election is an added distraction for the market this year, particularly given potential changes to franking credit rebates and capital gains tax, should a change of government occur. In all likelihood any changes to these taxes will take time given a clear Senate majority seems a longshot.

Chart/Table of the Month – Equity Markets



In this month's chart, we compare a selection of equity market returns, indexed from 30th April 2018 through to 30th April 2019.

Over that 12 month period, on a total returns basis, which includes the accumulation of dividend and capital returns, the Australian market has performed quite well in its own right, and against most other markets.

The US S&P 500 (yellow) and NASDAQ (purple) composite performed better than the Australian market (light blue), rising by 15.8% and 13.5% respectively, compared with the Australian market which rose 10.2%. The ASX Small Ordinaries (light green) by comparison rose 7.2%.

The Chinese (brown) and German (white) markets were in negative territory, falling between 2-4%. The Japanese (dark blue), French (dark green) and UK (grey) markets were between 1-5% ahead for the 12 month period.

From an Australian market perspective there were two sectors that stood out over the 12 months. The high growth, high P/E Ratio IT sector increased 33%, with many companies finding attractive niches in the IT space. The Property Trust sector, offering attractive yields and moderate growth also attracted funds, aided by ongoing low interest rates both in Australia and globally.

Due Diligence – A closer look at a stock of interest

Cleanaway Waste Management (CWY)

Cleanaway has been a part of the portfolio for two years and overall has been an exceptional performer for what has traditionally been considered a defensive business.

Two years ago, the company was valued at \$2.05bn. It has since grown to a market capitalisation of \$4.6bn, through a combination of strong organic growth into an expanding range of services and market sectors served, and through the value-accretive acquisition of public company Tox Free Solutions Ltd in 2018.

Cleanaway covers a surprising breadth of market segments with a range of general and bespoke essential services in addition to its core general waste, recycling and hygiene systems. It also operates services in wastewater, construction and demolition waste, management, water-jet cutting, high-pressure cleaning, treatment and disposal of medical,

hazardous, petrochemical and septic waste, and secure product and document destruction. The company can tailor services to the specific needs of organisations throughout the manufacturing, defence, government, construction/demolition, logistics, mining, medical, property, retail, hospitality, automotive, and utilities sectors.

The company's recent report for first half FY19 showed the key driver of recent growth was in solid waste services; with increased landfill volumes and major contract wins with Coles, NSW Central Coast, the NSW Container Deposit Scheme, and Brisbane City Council for resource recovery. Revenue was up over 9%, EBITDA up almost 15% and free cash flow up 127%. The company retains a conservative balance sheet with a Net Debt to EBITDA ratio of 1.5x and maintains a comfortable 50% dividend payout policy.

Overall, the company's incumbent scale and approach to quality waste management sets a high benchmark barrier against any serious competitive challenge. Australia's waste management industry is benefitting from several tailwinds currently – these include growing

Cleanaway CWY:ASX 2-year History



waste volumes per capita, improving resource recovery rates, and industry consolidation, as well as an increasing demand by China for pre-treatment of materials it imports. Cleanaway's network of waste-related infrastructure assets (in particular landfill sites) and its scale and expertise as Australia's dominant waste industry player in this time of growing global sustainability, places it in a position of strength for the future ahead.

AUSTRALIA GOES TO THE POLLS

After the last election and prior to by-elections and redistributions since then, the Coalition held 76 seats with Labor 69 and Independents 5, a total of 150 seats. Australia's upcoming federal election will see 151 seats contested in the House of Representatives, following redrawing of boundaries, resulting in two new seats (ACT and Victoria) and the abolition of one seat in South Australia. Both new seats are notionally Labor under the 2016 election results, as is the abolished seat.

Following by-elections and defections, the current parliament consists of 73 Coalition seats (58 Liberal, 15 National), 69 Labor and 8 crossbenchers including four independent, and one each of Greens, Katter's Australia, Centre Alliance and Nationals, the latter moving to the crossbench following the Coalition's dumping of Malcolm Turnbull, but guaranteeing confidence and supply. Under the redrawn boundaries and assuming the Nationals crossbencher returns to the Coalition, the Coalition effectively has 73 seats compared with Labor 72 and 6 independents. Polls and bookmaker odds would suggest a change of government is likely, although some recent polls have suggested a tightening in the contest.

Twenty three seats of the current 150 seat parliament are held by less than 3% with 8 of these in Queensland, 7 in New South Wales and 5 in Victoria. There are also 17 seats where the final two candidates were not both the ALP and Coalition. These seats are always interesting viewing on election night, with the alternative candidates being a mix of Independents, Greens, One Nation, Katter and Central Alliance candidates. Whatever the outcome, Australia deserves a more stable government than it has experienced over the past dozen years.

	Coalition	Labor	Others	Total
Old Boundaries	76	69	5	150
New Boundaries	74	72	5	151
With by-elections	73	72	6	151

Tight Seats

Coalition Seats (73)			Labor Seats (72)		
State	Electorate	Margin	State	Electorate	Margin
QLD	Capricornia	LNP 0.6	QLD	Herbert	ALP 0.02
QLD	Forde	LNP 0.6	VIC	Corangamite (*)	ALP 0.03
NSW	Gilmore	LIB 0.7	WA	Cowan	ALP 0.7
QLD	Flynn	LNP 1.0	QLD	Longman	ALP 0.8
NSW	Robertson	LIB 1.1	VIC	Dunkley (*)	ALP 1.0
NSW	Banks	LIB 1.4	NSW	Lindsay	ALP 1.1
QLD	Petrie	LNP 1.7	VIC	Macnamara	ALP 1.2
QLD	Dickson	LNP 1.7	QLD	Griffith	ALP 1.4
WA	Hasluck	LIB 2.1	TAS	Braddon	ALP 1.7
NSW	Page	NAT 2.3	NSW	Macquarie	ALP 2.2
SA	Boothby	LIB 2.7	NSW	Eden-Monaro	ALP 2.9
VIC	Chisholm	LIB 2.9	VIC	Isaacs	ALP 3.0