

Investment Newsletter

Performance (As at 30 th June 2019)	Month (%)	Rolling 3mths (%)	Rolling 1yr (%)	Rolling 3yrs (%)	Inception (%)
JMFG Leaders Strategy	+3.37	+5.23	+6.82	+35.81	+50.68
ASX 200 Accumulation Index	+3.70	+7.97	+11.55	+43.83	+53.40
Outperformance	-0.33	-2.76	-4.73	-8.02	-2.72

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 June

The Australian Market extended its post-election rally into June with the ASX 200 Accumulation Index rising by 3.7% for the month, while JMFG's Leaders Strategy gained 3.37%, falling slightly short of its benchmark. Confession season also continued through June with several companies downgrading guidance, fortunately only minimally affecting our portfolio. Strongest sectors for the month included Materials 6.4%, Industrials 5.4%, and Property Trusts and Healthcare both growing 4.2% – the latter two sectors were likely to have been the beneficiaries of a further reduction in the cash rate, with the RBA cutting 0.25% to 1.25% at its June meeting. The weakest sectors were Consumer Discretionary -1.5%, Information Technology 1%, and Energy 2%. With a further cut in the RBA rate in July, we expect yield-based and non-economically sensitive sectors to provide relative performance.

Much of the portfolio composition movements during June were as part of a move away from consumer discretionary exposure with tighter economic conditions ahead, and moving towards stronger yields and defensive stocks. We added Charter Hall Retail, Shopping Centres Australia Property Group and BWP Trust REITs and removed Stockland. Cochlear was returned to the portfolio and we added Polynovo. We also removed Bellamy's Australia, The A2 Milk Co, and Bega Cheese amid ongoing concerns around China distribution strategies. We also took advantage of brief share price weakness to top up holdings in Wesfarmers, McMillan Shakespeare and Macquarie Group. The portfolio cash holding at month-end was 19.5%.

The stronger performers for the portfolio during the month included:

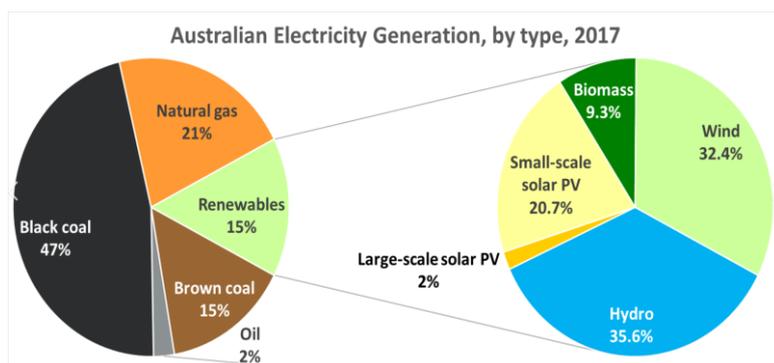
- Newcrest Mining +17%, BlueScope Steel +14%, and Wisetech Global +14%

The weaker performers for the portfolio during the month included:

- Nine Entertainment -10%, McMillan Shakespeare -6%, and Computershare -3%

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.

Due Diligence – A closer look at a stock of interest

Newcrest Mining (NCM)

As global economic conditions favour interest in quality supply of gold, we find Newcrest in a strong strategic position to meet potential long-term gold demand, with its attractive combination of low All-In-Sustaining-Cost to produce of \$738/oz average across its mines in the March quarter (with its Cadia operation in NSW having the lowest AISC of \$147/oz due to the value of its copper and other base metals co-production), a world-leading resource/reserve base of around 90moz, and its commitment to maintain rigorous exploration and acquisition activities giving it possibly the longest overall mine life estimate of its peers.

Newcrest is also a significant producer of copper, which gives it a second gear for revenue generation when copper cycles up in price.

Newcrest’s approach to cost-management, through its innovations in sublevel and block cave developments, and onsite leaching of concentrates, has given it substantial out-performance versus the gold price fluctuations alone.

Over the half year ending December 2018, Newcrest produced 1.2 million ounces of gold at a then record low half-yearly AISC of \$747/oz.



Gold Price (AUD) Jan-Jun 2019



Newcrest delivered \$739million in EBITDA and \$176million in free cash flow for that half. At that point, Newcrest had racked up 10 consecutive halves of positive free cash flow to cumulatively generate over \$3.5 billion of free cash flow since 1 January 2014.

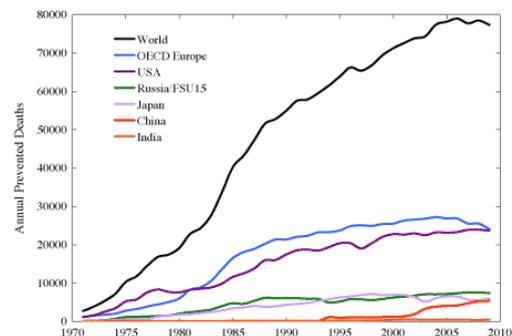
Given last quarter’s further reduced AISC, and positive news regarding northern hemisphere acquisitions and joint ventures, and the recent dramatic rise in the gold price, we anticipate another solid result for Newcrest Mining for the half ending June 2019.

Interesting and Ethical Power Generation Ideas to Come

In a 2013 paper published by NASA, scientists Kharecha and Hansen demonstrated statistically how coal and gas are far more harmful than nuclear power, and the degree to which nuclear power adoption has historically prevented net cumulative human deaths in the order of 1.8million, had fossil fuels been used instead: it’s clear that more alternatives to fossil-fuel based generation are worth pursuing.

With the increasing and emergent demand for sustainable alternative sources of power generation across the world, let’s look briefly at a couple of less broadly known power generation ideas yet to take off in a big way, but could be significant contributors of the future.

Thorium fueled nuclear reactors: Thorium has several advantages as a nuclear fuel: it produces less of the nuclear by-products normally used to make nuclear weapons and less of the long-lived radioactive byproducts of conventional nuclear power, its use in suitable nuclear reactors can reduce the hazard of nuclear accidents, unlike natural uranium its energy content can be used almost in its entirety, and thorium ore minerals are abundantly available in Australia. While military interest helped pay for R&D to solve technical issues of uranium reactors, thorium has been waiting for different economies of scale to stimulate interest. Thorium reactors are being investigated in India and China currently to alleviate severe and fatal pollution problems and meet energy demand frugally. Australia stands to benefit whether by adoption of the technology after it matures, or as a supplier of thorium fuels as it has the 3rd largest thorium reserves, after India and Brazil.



Mean net deaths prevented annually by nuclear power between 1971-2009 for various countries/regions

Thermal Energy Storage Systems: These can be used to drive electricity generating turbines by heating and cooling water or atmospheric air (without burning pollution generating fuels). Alternatively it can be used to provide heat directly to processes that would have otherwise used electricity or fuel-combustion to provide that heat. From district heating to industrial food processing; greenhouses to manufacturing paper; beer brewing to textile production every process uses energy to make heat. Generation of heat can account for up to 92% of the total energy requirements for industry, services and households. In industrial processes alone, Australia uses over 53 GWh of natural gas per annum, much of which is used to produce heat.

This technology, innovated recently in Australia, is based on controlling the temperature of a large reservoir of molten silicon – it is being deployed in pilots and commercially this year. We look forward to seeing this sector heat up over time!