

## Investment Newsletter

Performance (As at 30 <sup>th</sup> September 2019)	Month (%)	Rolling 3mths (%)	Rolling 1yr (%)	Rolling 3yrs (%)	Inception (%)
<b>JMFG Leaders Strategy</b>	<b>+0.02</b>	<b>+0.52</b>	<b>+5.84</b>	<b>+31.57</b>	<b>+51.52</b>
ASX 200 Accumulation Index	+1.84	+2.37	+12.47	+40.03	+57.03
<b>Outperformance</b>	<b>-1.82</b>	<b>-1.85</b>	<b>-6.63</b>	<b>-8.46</b>	<b>-5.51</b>

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 1<sup>st</sup> 2014.

### Month in Review – A review of the share market and overview of the portfolio for September

The ASX 200 Accumulation Index rebounded in September to finish up 1.84%, with the JMFG Leaders Strategy having a virtually flat month, rising only 0.02%. For the September quarter, the Leaders portfolio finished up 0.52% but behind its benchmark by 1.85%.

Strongest sectors across the broader market in September included Energy +4.7%, Financials +4.1%, Consumer Discretionary +3.0%, and Materials +3.0%. Weakest sectors included Telecommunications -3.0%, Property Trusts -2.7%, and Health Care -2.5%. The ASX200 continues to trade near all-time high levels at 16.8x the 12-month forward PER, as per Factset consensus data. Following its recent rebound, the Financials Sector total return over the past 12 months is right in line with the ASX200 index around 12%. The Financials Sector's recent performance is likely a result of an improving housing market, with residential clearance rates rising to above 70% in both Sydney and Melbourne, reports of loan applications levels soaring, and quarterly house prices increasing for the first time in over 18 months.

During the month, we added one stock, internet lottery business Jumbo Interactive. Jumbo has proven itself as an innovative online lottery access operator with significant leverage – although Jumbo's forward multiple looks high (around 45x), we expect growth to continue in the order of 25-30% p.a. over several years on the back of its innovative marketing strategies. With some market volatility during the month, we topped up holdings in Appen, Altium, and Charter Hall Retail REIT on price weakness. The holding in BHP Group was trimmed, following a rally during the month, to lock in profits. The portfolio finished the month with 11.6% cash.

The stronger performers for the portfolio during the month included:

- Jumbo Interactive +8.0%, Santos +7.2% and ANZ Banking Group +6.7%

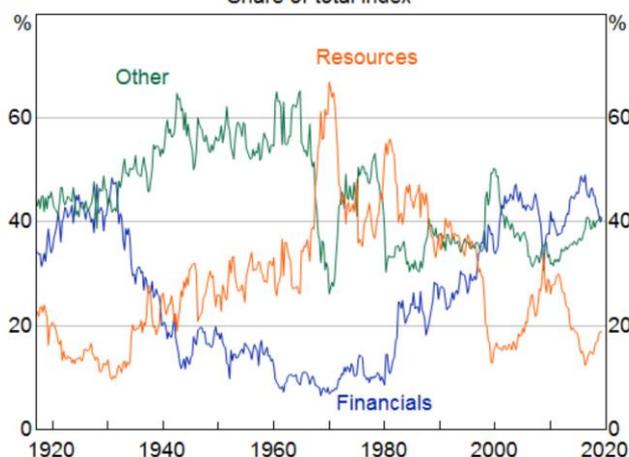
The weaker performers for the portfolio during the month included:

- Appen -18%, Altium -9.3% and Northern Star Resources -7.2%

### Chart/Table of the Month – 100-Year Market Sector Trend

#### Market Capitalisation by Sector\*

Share of total index



\* Largest 100 companies by market capitalisation prior to 1979; Refinitiv Datastream calculated series for whole exchange from 1980  
Sources: ASX; RBA; Refinitiv Datastream

The chart opposite highlights the changing mix of the Australian share market over the last 100 years. It highlights the rise of Australia as a resources nation, from the early 1930s through to the 1970s including the Poseidon bubble in the late 1960s, triggered by Poseidon Nickel, but a bubble that saw many mining shares spike.

From the early 1980s, and broadly coinciding with the deregulation of the Australian financial system, and later the introduction of compulsory superannuation, the Financials Sector has grown rapidly to now represent around 40% of the Australian market. Growth in the Australian Financials Sector has come at the expense of the Resources Sector.

The combination of remaining sectors comprises the 'Other' category in the chart. This has accounted for 30-50% of the Australian market over the past 50 years. Over the last decade, 'Other' has climbed from the low 30% level back to 40% representation. The increase in 'Other' has not been a function of volatility within the Resources or Financials sectors over the past decade, but from meaningful growth in Health Care, Information Technology and Infrastructure, thereby broadening the Australian listed base.

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

### Jumbo Interactive (JIN)

Jumbo interactive is a leading digital retailer of national jackpot lotteries and charity lotteries. It essentially works with lottery providers to assist in increasing the total number of tickets sold in a lottery, earning a commission on each ticket sold through their digital network. Jumbo provides a simple and secure online distribution channel to handle ticket transactions. Jumbo differentiates itself by providing customers with more ways to play each lottery, offering guaranteed prize payouts, jackpot alerts and results notification services. In particular, Jumbo offers syndicate options, a facility not available through the Tatts Group's online site, *theLott.com*, although these are available directly through bricks and mortar agencies.

Jumbo Interactive is a highly cash generative, capital-light business. To put this in perspective, in FY15 it generated \$29m in revenue, produced \$6m in earnings before interest, tax, depreciation and amortisation (EBITDA), an equivalent \$6m in operational cashflow and reinvested \$5m of capital back into the business. In FY19 Jumbo generated \$65m in revenue, produced \$42m in EBITDA but \$49m in operational cashflow, and reinvested a similar \$5m of capital back into the business. The really interesting feature of the additional \$36m in revenue between FY15 and FY19 was that the entire additional revenue fell through to EBITDA.

Changes to lottery systems over the past few years have meant that jackpots tend to get larger and become more frequent. Jackpot size is a major driver of customer participation in lotteries, and for Jumbo, their syndicate offerings have greater appeal. Jumbo charges a premium over theLott.com online site for standard and system entries, hence they operate at a disadvantage in relation to these purchases. Jumbo's competitive advantage therefore is the fact that theLott.com does not provide syndicate options.



HOME LOTTERY

NDM Endeavour Foundation  
Prize Home Lottery



WINNER'S CHOICE

NDM Endeavour Foundation  
Ultimate Life Changer Lottery



## Australian House Prices

The chart below displays indices of house prices across each of Sydney, Melbourne and Brisbane, as well as the Eight Capital weighted average house price. The chart runs from the September 2003 quarter through to the June 2019 quarter (last data label not shown). The chart highlights the declines seen over recent periods with Sydney down 13% from peak, Melbourne down 11% and Brisbane down a more modest 4%. Recent reports from property groups and recent press articles suggest prices have begun to rise again. Sydney and Melbourne prices are reported to be up between 3-4% over the September 2019 quarter, with clearance rates over the quarter consistently above 70% and over recent weeks above 75%, but generally on thin volumes. A further reduction in interest rates should help this trend continue.

