

## Investment Newsletter

Performance (As at 31 <sup>st</sup> October 2019)	Month (%)	Rolling 3mths (%)	Rolling 1yr (%)	Rolling 3yrs (%)	Inception (%)
<b>JMFG Leaders Strategy</b>	<b>-0.32</b>	<b>-2.17</b>	<b>+12.59</b>	<b>+35.0</b>	<b>+51.05</b>
ASX 200 Accumulation Index	-0.35	-0.91	+19.28	+42.6	+56.47
<b>Outperformance</b>	<b>+0.03</b>	<b>-1.26</b>	<b>-6.69</b>	<b>-7.6</b>	<b>-5.42</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 management fees paid (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 October

The ASX 200 Accumulation Index was relatively flat in October, declining by 0.35%, with the JMFG Leaders Strategy similarly falling by 0.32, resulting in the Strategy slightly outperforming its benchmark by 0.03% for the month. For the 3 months period, the Leaders portfolio finished down by 2.17%, trailing the benchmark ASX200 Accum by 1.26%. We are starting to see banks come under pressure, albeit later than we anticipated, and we look forward to seeing the Leaders Strategy pick up some more recovery momentum in line with our view regarding the difficulties ahead for the big banking sector incumbents.

Healthcare dominated the broader market in October with the sector rising 7.6% for the month. Other sectors showing the most positive performance for the month included Industrials +3.0%, Utilities +1.4% and Property Trusts +1.2%. Weakest sectors for October included Information Technology -3.9%, Financials -2.8% and Consumer Staples -2.2%. The Healthcare Sector's recent good performance is due to its largest constituent CSL's rise to new all-time highs following good results and strong earnings outlook presented at its October AGM, as well as a solid contribution from Resmed's 7.2% return for the month.

During the month, we added one stock to the portfolio, Pro Medicus. Pro Medicus is seen as a higher quality and faster radiology imaging provider and is well-placed to live up to its 100x PER valuation – recent price weakness was an opportunity to include this industry leader in the portfolio. We were comfortable with the trajectory of the portfolio otherwise, and saw no other compelling additions, removals, and tuning adjustments needed or practicable. The portfolio finished the month with 9.4% cash.

The stronger performers for the portfolio during the month included:

- BlueScope Steel +11%, Xero +11% and CSL +10%

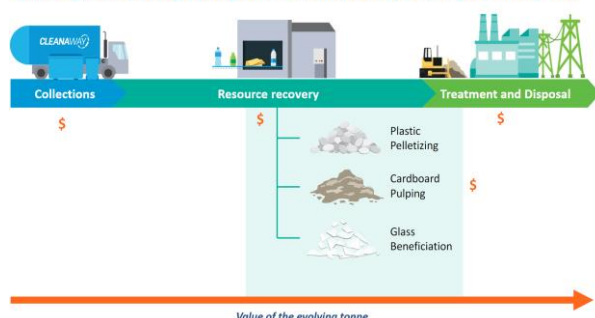
The weaker performers for the portfolio during the month included:

- Wisetech Global -25%, Northern Star Resources -11% and Newcrest Mining -10%

### Infographic of the Month – Closing the Loop on Waste

Waste is a global issue that has had greater prominence in Australia over the past 12 months. Factors leading to this regrettable situation include; rejection of Australia's waste by China, fires of toxic waste materials stored both in warehouses and yards, and waste companies going into administration leaving collection, storage, separation and recycling of waste a major issue for local councils. A range of proposals and trials are currently in place to deal with the issues, but all outcomes are likely to have some adverse cost impact on households. With the appointment of receivers to SKM Recycling, the concept of paying councils to collect recycling materials is now defunct. All future contracts should involve councils paying to have recycling material collected. A small number of councils in Melbourne are about to start trialing additional bins for separate glass, plastics and cardboard collection. The plan also includes all organic waste going into a single bin.

Continuing to invest in the right 'package' of assets across the value chain through the evolving tonne



The ultimate closed loop solution requires treatment facilities where remaining waste, unable to be recycled, can be converted into energy production. Environmental processing of the smokestack has apparently advanced such that little or no gas materials are released into the atmosphere. A component of the small amount of end hard waste (flyash) has some potential to be used in road surfaces. Any residual hard waste to be deposited into landfill is reported to be a very small fraction of the original volume. Any closed loop system in Australia may still be some time off as the costs to build plants to fully deal with household waste across a city the size of Melbourne or Sydney is likely to be in the billions. In addition, any appropriate return potential may require government assistance. Nevertheless, such a solution is ultimately necessary.

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

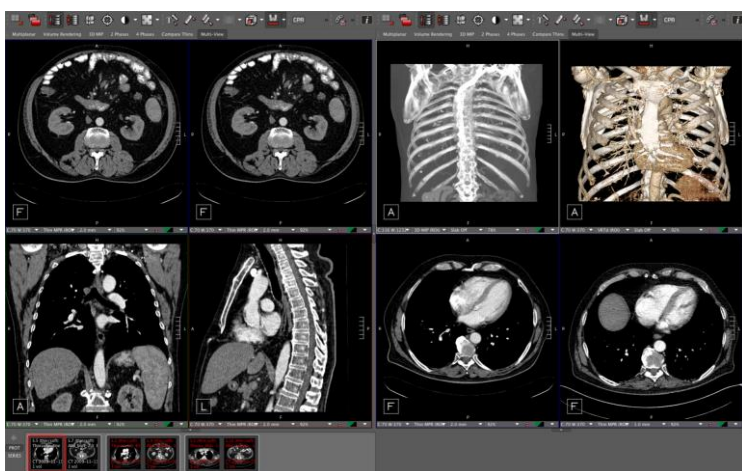
### Pro Medicus (PME)

In the company’s own words, Pro Medicus [ASX:PME] is a leading health imaging IT provider. Founded in 1983, the company provides a comprehensive range of health imaging software and services to hospitals, imaging centres and healthcare groups. These solutions are branded “Visage” and provide one of the most comprehensive, enterprise level, end-to-end offerings available in the radiology market today. The Visage product line comprises solutions for RIS (Radiology Information Systems) / Practice Management, Healthcare Imaging and e-health. These systems can be used either individually or in combination by radiologists and other medical imaging professionals to interpret the images created by medical imaging equipment such as X-Ray and Ultrasound machines and CT and MRI Scanners, and communicate the results to their referring clinicians.



Pro Medicus posted revenues of A\$50.1m for FY19, a 48% rise on the previous year, and net profit after tax was A\$19.1m, a rise of 92% on the previous year. With EPS of 18.5c, growing from 9.7c FY18, the company is trading on PER multiples well in excess of 100x, and will have to continue to repeat growth in similar proportion to warrant such optimistic valuation.

#### Example of Visage’s advanced radiology visualisation capability



The company reported significant profit growth increases in all geographical segments, particularly in Europe and North American markets, where it considers itself to be only beginning to make strong inroads, highlighting that there remains significant opportunity and demand for further growth in those markets.

While Pro Medicus remains committed to ongoing research and development to improve and diversify its offerings to fit unmet needs, at this stage of its commercialisation costs are more about cementing its competitive moat – a “best-in-class” reputation. Hospitals and imaging centres that have taken up Visage are spreading positive word of mouth into their associated healthcare networks, and Visage has quickly set the benchmark standard for how image data, archiving and practice management integration is done.

## Fun Facts – Humanity’s Real Best Friend, Trees: Already in “The Cloud”

There are over 60,000 species of trees in the world. A typical tree can absorb as much as 22kgs of carbon dioxide per year and sequesters 1 tonne of carbon by the time it reaches 50 years of age. Nearly half of a tree’s wood mass is carbon; each 1kg of wood results from the net absorption of 1.7kg of CO<sub>2</sub> from the atmosphere.

Trees maintain water in the liquid phase up to their total height by maintaining a dispersed column of water in thin tubes (xylem) using root pressure, capillary action and the cohesive force of water. It’s an extraordinary combination of mechanisms that solves the challenge of how to grow past 10m height, as just pushing or sucking water against gravity in a tube past 10.3m otherwise causes the transported water to vaporise. In a quiet enough environment, and a big enough tree, the water flowing up a tree’s xylem micro-tubes is barely audible to an unaided ear pressed against the bark. Arborists are investigating how to use the acoustic signature of trees struggling to source water in order to locate such stressed trees and intervene ahead of permanent damage.

Photosynthesis has a long-understood chemical reaction: CO<sub>2</sub> is joined to water with sunlight (specifically, photons) to produce glucose and oxygen. The glucose goes on to be utilised by the plants themselves, and by everything from bacteria through to large animals; whether by splitting glucose for direct energy or storing it as starch or fibre, or by combining it with other elements and molecules to create the myriad building blocks of cellular life.

The humble tree is fundamental to much of the life on Earth; beautifying the landscape, providing myriad renewable resources and fulfilling many vital roles. Anything humans do in this world needs to show respect to the things that help sustain and protect our planet. Investing is no different. We all enjoy our creature comforts, some of which are derived from industries that have not always been the kindest to the world. But times are changing and industries, to varying degrees, are taking on far greater social responsibility than at any time previously. Any investment decision we make at JM considers, as part of our process, the approach that companies have to their social responsibilities, and it makes good economic sense to do so. Companies which contribute to their own sustainable future are more likely to have a thriving business model - whether or not they are in “The Cloud”!



Australia’s ancient Wollemi Pine