JM Financial Group

Issue 53: September 2019

Investment Newsletter

Performance *(As at 30th September 2019)*	Month (%)	Rolling 3mths (%)	Rolling 1yr (%)	Rolling 3yrs (%)	Inception (%)
JMFG Australian Equities Strategy	**+0.63**	**+4.86**	**+12.34**	**+28.27**	**+72.88**
All Ords Accumulation Index	+2.13	+2.82	+12.08	+39.50	+58.79
Outperformance	**-1.50**	**+2.04**	**+0.26**	**-11.23**	**+14.09**

Although the JMFG Australian Equities 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 the share market and overview of the portfolio for September*

The ASX 200 Accumulation Index rebounded in September to finish up 2.13%, with the JMFG Australian Equities Strategy posting a modest positive return of 0.63%, underperforming its benchmark by 1.5% for the month. The Strategy held onto its rolling 3-months lead, with a net rise of 4.86% against the benchmark's rise of 2.82% for the quarter, to ultimately outperform by 2.04%.

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 ASX All Ords continues to trade near all-time high levels at 16.8x the 12-month forward PER, as per *Factset* consensus data. The Financials Sector's recent good performance is likely a result of an improving housing market, with residential clearance rates rising to above 70% in 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 took advantage of price weakness to strengthen holdings in Appen, BHP Group, and Nearmap. We topped up St Barbara on a combination of price weakness and improvement in fundamentals with its Canadian asset continuing to yield good results. We also topped up Webster with the stock trading well below its $1.60/share NTA backing. Subsequent to topping up BHP, the stock rallied through the month, and we reduced our holding again later in the month. We trimmed Netwealth following news of a director selling shares, and Elixinol after evaluating its expensive approach to global expansion. The portfolio finished the month with 11.9% cash.

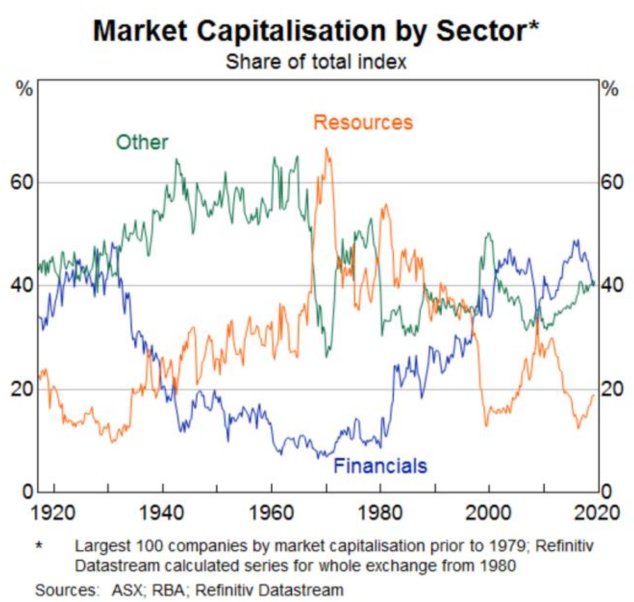
The strongest performers for the portfolio during the month included:

- FlexiGroup +37%, Zip Co +36% and NetWealth Group +19%

The weaker performers for the portfolio during the month included:

- Appen -18%, Mach7 Technologies -15% and Enevis -15%

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



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.

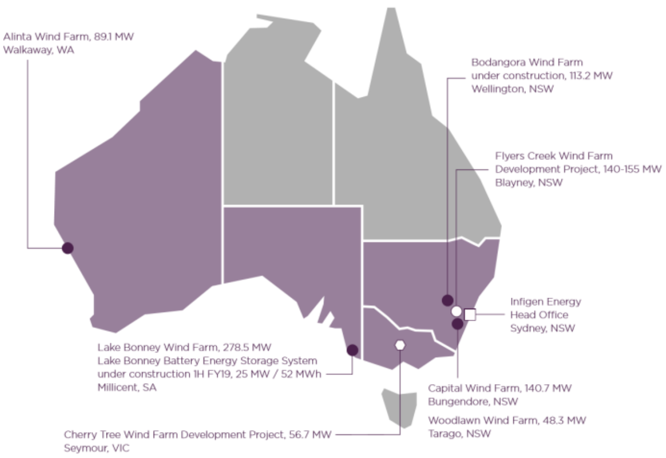
Due Diligence – *A closer look at a stock of interest*

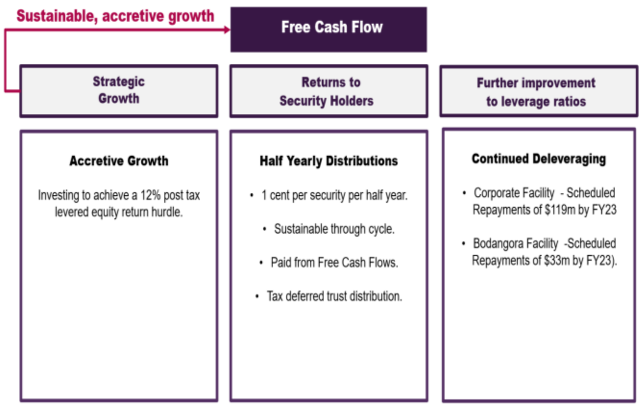
Infigen Energy (IFN)

Infigen owns and operates renewable energy assets. It currently operates three wind farms at Lake Bonney in S.A. with 278.5MW capacity and a battery storage facility. In W.A. near Geraldton, it has an 89MW wind facility, and in NSW it has an 113MW facility at Wellington and 189MW of capacity north-west of Canberra at two locations. Infigen has a further 8 wind farms either planned or under development that could deliver in excess of 800MW of additional capacity. In addition to its wind assets, Infigen has two solar farms in development in NSW, with total capacity of 62MW and a further 3 solar farms in the pipeline that could deliver up to 185MW of additional capacity.

While Infigen has many development plans in the pipeline, it does carry a large debt level on its balance sheet that will limit the number of assets able to be developed at any one time. It also recently began paying distributions and will most likely keep paying distributions in the immediate future, thereby limiting the rate of development. In FY19, Infigen generated $156m in earnings before interest, tax, depreciation and amortisation (EBITDA). This compares to its year-end net debt of $532m. Whilst it is not uncommon for infrastructure assets to have relatively high gearing, we expect the focus of the company will be to reduce the ratio of net debt to EBITDA, maintain a level of dividends and manage growth in the asset base prudently. The JMFG Small Companies Strategy recently acquired Infigen at prices at a 10-15% discount to book value, and at a minor premium to its net tangible asset value.

Wind Energy Assets





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.