JM Financial Group

Issue 55: November 2019

Small Companies Strategy – Investment Newsletter

Performance *(As at 30th November 2019)*	Month (%)	Rolling 3mths (%)	Rolling 1yr (%)	Rolling 3yrs (%)	Inception (%)
JMFG Small Companies Strategy	**+0.52**	**+3.81**	**+30.12**	**+46.98**	**+147.37**
Small Ords Accumulation Index	+1.56	+3.68	+16.62	+38.23	+61.42
Outperformance	**-1.04**	**+0.13**	**+13.50**	**+8.75**	**+85.95**

Although the JMFG Small Companies 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), taxes and 2.64% est. accrual of performance fees. Strategy Inception for Performance Data is July 1st, 2014.

***Month in Review** – A review of events that influenced the share market and portfolio in November*

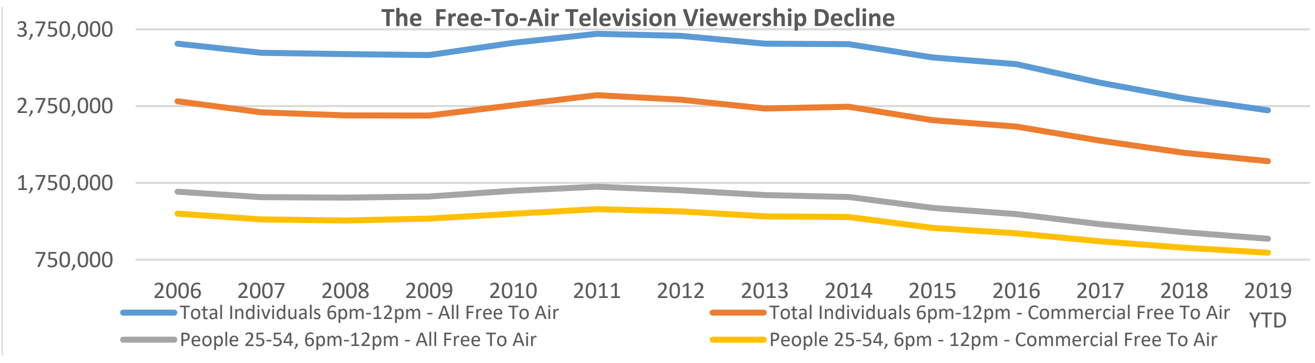
The JMFG Small Companies Strategy had a relatively flat month, rising a modest 0.52% and underperforming its benchmark, the ASX Small Ordinaries Accumulation Index, by 1.04% for the month. The Strategy is up 30.12% over the rolling 12-month period, compared to its benchmark at 16.62% and its rolling three year performance is just short of 50%, compared with its benchmark at 38.23%.

The market was quite unusual through November with most segments of the broader market up strongly, with the exception of the Financials sector which fell by 2.05%. Utilities declined 0.6% and the Property Trust sector increased 2.3%. Strongest sectors included I.T. +11.0%, Health Care +8.9%, and Consumer Staples +8.3%. The ASX Small Ords Accum. was comparatively weak, rising by 1.56% for the month, compared with the ASX 200 which increased by 3.28%. Our best stocks for the month included Bravura +21% and one of the largest holdings in the portfolio, Xero, which increased 18%, Medical Developments up 17%, Cleanaway 15%, and Appen 12%. Weakest stocks included New Century Resources -24%, Opthea -22%, PolyNovo -21% and SelfWealth -9%.

Trading during the month was very quiet. We added one new stock to the portfolio, Nine Entertainment Holdings, and we partially reduced our stake in SelfWealth, which has been part of a longer-running sell-down program following share price strength since April 2019. Nine Entertainment has transformed itself from an advertising-only company in free-to-air television, into an advertising and subscription business with longer-term growth prospects in the form of the program streaming businesses, Stan and 9Now. Its acquisition of Fairfax has significantly broadened the portfolio of assets and diversified it away from the traditional free-to-air product, which has experienced significant audience decline over the past 13+ years. Since the start of 2019 the ASX Small Companies Index has increased by 22%. Over the same time, the next-twelve-months PER for the Index has risen from 14.5x to over 19x, a 31% increase, based on *FactSet* consensus data. This now places the Index at all-time highs over the past 15 years of data and exceeding high points experienced in 2013. The cash holding at month-end was 11.1%, down slightly from the prior month-end at 13%.

Chart of the Month** – **Television: The Decline of Viewership

Digitisation has changed many things including free-to-air tv audiences. Despite digitisation resulting in an increase in the number of free-to-air channels available in Australia, the total tv audience across all free-to-air channels has been in sharp decline since 2006. The total audience viewing television between the prime time viewing period of 6pm-12pm has declined by 24% since 2006, and by 27% when the non-commercial network audience is excluded. Within the higher-rated target audience of people in the 25-54 age bracket, being those with higher income levels and spending capacity, the audience decline between 2006 and 2019 is 37% across all stations, and a similar amount for commercial stations. The audience fragmentation has seen much of the audience relocating to online and streaming services, including social media video content, viewed across computers, smartphones, tablets and, more recently, "Smart TVs" being TVs with embedded media player computer technology. Digital advertising in Australia was negligible in 2006, prior to the first Apple iPhone launch in January 2007. Digital advertising in Australia now represents over 60% of total advertising.



JM Financial Group
AFSL 238397 ABN 68 007 364 132
Level 8, 140 Bourke St, Melbourne, VIC, 3000
Ph: +61 3 9627 9900
Web: www.jmfg.com.au
Email: enquiries@jmfg.com.au

Best & Worst Performers for November 2019

JMFG Small Companies Strategy		ASX Small Ordinaries Index	
Best	**Worst**	**Best**	**Worst**
Bravura Solutions – BVS	New Century Resources – NCZ	NRW Holdings – NWH	Metals X – MLX
Xero – XRO	Opthea – OPT	Sundance Energy – SEA	Jupiter Mines – JMS
Medical Developments – MVP	Polynovo – PNV	Technology One – TNE	New Century Resources – NCZ

Hits & Misses – *A summation of the top hits and misses for the month of November*

Xero Ltd (XRO) – up 18% for the month

During November, Xero released their six month result to the end of September 2019. Strong growth trends continued with subscriber and revenue metrics growing around 30%. The result demonstrated operational leverage with EBITDA growing 91%.

NRW Holdings (NWH) – up 32% for the month (Not held)

At NRW Holdings AGM, management provided a solid outlook across each of its four divisions; civil, mining, drill & blast and mining technologies. NRW also announced the acquisition of BGC Contracting for $116m, a business that is expected to provide strong strategic benefits to the existing NRW divisions.

New Century Resources (NCZ) – down 24% for the month

New Century Resources suffered due to weakness in spot zinc prices in November. Spot zinc fell by over 10%, or US$270/t, in November to finish the month at US$2310/t. This was somewhat disappointing having rallied by a similar amount in the prior month.

Metals X (MLX) – down 42% for the month (Not held)

Targeted mining production of 2mtpa continued to be delayed at its Nifty Copper operations and late in the month the company announced immediate suspension of mining activities at Nifty, allowing it to focus on its joint venture tin operations in Tasmania.

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

Nine Entertainment Holdings (NEC)

Traditional media; print, television, radio, and outdoor have experienced ongoing fragmentation for much of the past two decades. Audience decline in traditional free to air television and the loss of the rivers of gold (real estate, motor vehicle and employment advertising) in newspapers, have had a profound impact on sector revenues and profitability. Digital streaming and investment into new media businesses however are starting to bring new life to old media companies, such that the revenue growth potential from these new businesses is offsetting the revenue fragmentation experienced in old media.

Streaming is bringing new life to the traditional television model with the opportunity to deliver television product at a time that is convenient to the consumer, without the consumer having to pre-plan the recording of content. Not only does this drive a new revenue stream for free to air television product but it also delivers a more valuable viewership in that more is known about the viewer demographics, given streaming requires a login to an app, and sign-up to the app requires a level of personal demographic information.

Through its acquisition last year of Fairfax, Nine Entertainment has also gained access to Stan, a subscription-only, entertainment streaming business, which competes with Netflix. The advantage it has over Netflix is that it does not create content that competes against the traditional US production houses, meaning that those production houses are more likely to distribute through Stan than Netflix. Disney, however, recently launched its own independent streaming service, but this opportunity is unlikely to be available to the many other production houses given the strength of the Disney brand and its very specific genre. In addition the large marketing and advertising costs create a barrier to entry – for example, Stan spends many tens of millions each year on promotions.

The vagaries of advertising markets will always cause earnings volatility for companies in the media space, but Nine Entertainment has developed or acquired several attractive growth components to its business and added a more stable subscription base to its revenue stream, making it a more attractive proposition through the cycle.

BROADCASTING

DIGITAL VIDEO

STAN

METRO MEDIA

DOMAIN