

Investment Newsletter

Performance (As at 31 st January 2020)	Month (%)	Rolling 3mths (%)	Rolling 1yr (%)	Rolling 3yrs (%)	Inception (%)
JMFG Australian Equities Strategy	+9.41	+9.24	+34.77	+47.79	+90.36
All Ords Accumulation Index	+4.69	+5.52	+24.59	+41.02	+67.47
Outperformance	+4.72	+3.72	+10.18	+6.77	+22.89

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 management fees paid (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 January

The ASX All Ordinaries Index finished January at 7121.2 points, having set a new all-time high of 7260.0 points during the month – a strong start to the Australian Market for 2020. The JMFG Australian Equities Strategy outperformed its benchmark for the month of January, rising 9.41% against the All Ords Accum’s rise of 4.69% on an after-fees performance basis. The Strategy holds a strong outperformance position in all reported periods.

The Australian equities market experienced an all-segment rise contributing to January’s new record high levels, on the back of shifting global political and economic dynamics. The best performing market segments were Health Care +12.0%, Information Technology +11.1%, and Consumer Staples +8.2%. Weakest sectors included Utilities +0.6%, Energy +0.7%, and Materials +1.8%.

Portfolio trading during the month was again minimal. New on-line lending business Wisr was added to the portfolio – the company is demonstrating its ability to undercut banks with a low cost-base operation, and while early days yet, Wisr may already have early mover advantage to establish itself and build reasonable share ahead of increasing competition in the neo-bank space. We trimmed our holding in Woodside Petroleum and Cleanaway following a brief boost in share price strength. We exited Nearmap after it had failed to show the anticipated recovery since its disappointing results last half, delivering a poor trading update through January. In the face of an increasingly competitive landscape, risks have increased. The portfolio finished January with an 11.7% weighting in cash.

The strongest performers for the portfolio during the month included:

- Wisr +68%, PolyNovo +42% and Infigen Energy +22%

The weaker performers for the portfolio during the month included:

- New Century Resources -20%, loneer -5.3% and Newcrest Mining -2.4%

Chart of the Month – How Immune to World Epidemics are Markets?

As we enter the half-year reporting season, we are already seeing some companies adjust expectations in advance of the results release, indicating the probable extent of the short-term impact of the recent China-originating outbreak of the new form of human-infecting coronavirus. The immediate types of services being adversely impacted, to varying degrees, have been tourism-based; transport and accommodation companies which have fallen sharply. Supply chains have also experienced some impact and with inventory stockpiles declining more severe impacts could be expected without containment in the very near future.

S&P 500 performance over the course of each outbreak

Virus	Date Range	Trading Days	S&P 500 % Change
SARS	Jan. 2003 - March 2003	38	-12.8%
Avian Influenza	Jan. 2004 - Aug. 2004	141	-6.9%
MERS	Sept. 2012 - Nov. 2012	43	-7.3%
Ebola	Dec. 2013 - Feb. 2014	23	-5.8%
Zika	Nov. 2015 - Feb. 2016	66	-12.9%
Coronavirus	Jan. 2020 - Present	5	-2.6%

SOURCE: CIB Research, FactSet. Coronavirus data as of market close on 1/21.



Immune: world epidemics and global stock market performance



Similarly, Australian tertiary education institutions are missing out on expected significant international student fees due to last-minute enrolment cancellations this year, and healthcare related companies with Chinese operations are experiencing delays to hospital bookings, especially surgeries.

We have seen around a dozen significant outbreaks over the past twenty years, and the longer-term impact on markets around the world historically is that although there is often a reactive downturn initially and during the outbreak, eventually other, greater economic forces return markets to their prior trajectories. At some point, the new pathogen receives a cure or treatment, or is tolerated adequately by the population such that it stops being passed on, and eyes turn back to running business, government, education and pastimes.

Due Diligence – A closer look at a stock of interest

Wisr (WZR)

Wisr is a marketplace lender and financial technology pioneer in the growing Australian consumer finance market. First and foremost, it sees itself as a technology company committed to building products, apps and services unencumbered by old technology or expensive store networks. Its ultimate goal is to provide efficient and easy to use financial services, helping Australians with their financial needs.

Wisr aims to take a holistic client approach, with customer financial wellness and responsible lending at the core of its fintech solutions. In essence, Wisr aims to offer innovative financial solutions for people with good credit histories. Wisr will generally need to maintain an efficient operating cost structure as it will, in all likelihood, have a higher funding cost than traditional banks which obtain a significant proportion of their funding from relatively low-cost customer deposits.

Wisr recently raised over \$36m to help it accelerate and scale its core lending business, continue development of its ecosystem of products, attract new talent and strengthen its balance sheet. Following the Royal Commission into banking and the general negative sentiment toward traditional banks, in conjunction with the evolution of digital banking, the environment for Wisr to attract business away from traditional banks could not be more ideal. While execution of their strategy is still a substantial risk, the upside potential, should they get it right, is significant amongst the next generation of aspirants, the Millennials and Gen-Y's, who have known nothing but a digital environment.

The Rise of Neo-Banks

Wisr is Australia's first neo-lender, providing a new way of helping Australians get a smarter, fairer, Wisr deal on personal loans.

- ✓ Smarter - We've built a simple and easier way to apply for your loan.
- ✓ Fairer - We provide personalised low rates for applicants with good credit.
- ✓ Wisr - Borrow between \$5,000 and \$50,000[^] with transparent terms and online tools.

Wisr has partnered with a range of businesses to assist in the distribution of its products. As part of this arrangement, Wisr offers its partners' employees a range of financial wellness programs, including:

1. Tools that allow employees to better understand their financial position and creditworthiness
2. Customisable debt reduction smartphone apps that help to automatically pay-down credit card and loan debt
3. Online financial education modules and face-to-face advisory services
4. Payroll integrated solutions

The bottom line is that Wisr is adopting a socially responsible approach to financial solutions. If it does it well, then the opportunities are potentially significant.

What even is "the Coronavirus"?

We have heard much about "the coronavirus" causing the current international disease contagion, but a little under-reported is that this is more specifically the name of a whole *category* of virus than can infect mammals and birds. The pathogen behind the latest outbreak referred to as "novel coronavirus" and "2019-nCoV", and more recently COVID-19, is the latest to be identified. All coronaviruses sport spikey projections on their outer surfaces that resemble the points of a crown, or "corona" in Latin, as their original appearance in microscopes was as a circle with a ring of spikey protrusions. More recent technology has been able to identify that their shape is primarily spherical, and the "pod" houses the replicating virus RNA, and that the "spike" proteins can latch onto vulnerable cells, inject their payload and convert the infected cell into a factory, replicating itself until the cell is consumed.

Only seven of the known coronaviruses can infect humans, including the novel coronavirus. Human coronaviruses were first identified in the mid-1960's. The seven variants that can infect people are known as:

229E NL63 OC43 HKU1 MERS-CoV SARS-CoV 2019-nCoV / COVID-19

Doctors can test their patients for coronavirus infections by analysing respiratory specimens and blood serum. Diagnostic identification is not easy, as symptoms are similar at least initially for all coronavirus infections – being the usual immune system responses including runny nose, coughing, headache, sore throat, and fever. Patients with existing respiratory disease or compromised immune systems are at the most risk of subsequent complications. There are no available directly targeted treatments for any human coronavirus, but most people recover on their own and can ease the process by taking pain/fever relief medications, using a humidifier, taking hot showers, drinking plenty of fluids and staying home to rest.

As research groups around the world race to develop a vaccine for the novel coronavirus – the US-CDC aims to have such a vaccine ready for clinical trials within three months – JMFG is monitoring what Australian listed health care stocks are making progress in both detection and treatment, and evaluating their investability for our portfolio strategies. It's important to note that, even if a vaccine is developed soon, health officials still must take time to evaluate further outbreak data before conducting further tests and eventually, and safely, administering the vaccine.

