

Investment Newsletter

Performance (As at 31 st January 2020)	Month (%)	Rolling 3mths (%)	Rolling 1yr (%)	Rolling 3yrs (%)	Inception (%)
JMFG Leaders Strategy	+6.69	+8.73	+21.52	+41.24	+64.60
ASX 200 Accumulation Index	+4.98	+5.66	+24.25	+40.82	+65.98
Outperformance	+1.71	+3.07	-2.73	+0.42	-1.38

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 1st, 2014.

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

The ASX 200 Index finished January at 7009.9 points, having set a new all-time high of 7144.9 during the month – a strong start for the Australian Market for 2020. The JMFG Leaders Strategy outperformed its benchmark for the month, rising 6.69% against the ASX 200 Accum's rise of 4.98% on an after-fees performance basis.

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 tuning during the month was minimal. We added transport and logistics solutions company Qube Holdings to the portfolio – with its strong Top100 company position and established network of port locations throughout Australia, we anticipate a good 1H result and 2H outlook based on a potential lift in demand for its mine to market services with the recent relaxing of China's materials import bans. We exited Jumbo Interactive and WiseTech Global on ongoing disappointing performance. We pruned BlueScope Steel and Magellan Financial Group following price strength, and trimmed Woodside Petroleum due to its operational risks in the near-term. The portfolio finished January with 14% held in cash, with some funds committed to participation in Northern Star's share purchase plan.

The stronger performers for the portfolio during the month included:

- PolyNovo +42%, Magellan Financial Group +18%, and Woolworths Group +16%

The weaker performers for the portfolio during the month included:

- BlueScope Steel -5.4%, Newcrest Mining -2.4%, and Rio Tinto -1.6%

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: CR Research, FactSet. Coronavirus data as of market close on 1/21/2020.



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

Qube Holdings (QUB)

Qube is Australia’s largest integrated, whole supply chain provider of logistics services for both import and export activities. It was formed in 2007 after Toll acquired Patrick Corporation in 2006. Several ex-Patrick executives left to join with Kaplan Funds Management to develop their logistics ideas. In 2007, the new Qube logistics business acquired the global assets of P&O Steam Navigation, which, along with other acquisitions, took Qube into diversified rail, bulk and agricultural commodities operations.

In 2011, Qube converted its listed investment scheme Qube Logistics into a corporatised entity and was admitted to the ASX for trading as Qube Holdings Limited (ASX ticker: QUB). A year later, Qube rebranded its former P&O assets to Qube Ports and Bulk (formerly POAGS) and Qube Logistics (formerly POTAs) the container transport division. At the 10-year anniversary mark of the falling out resulting from Toll’s takeover of Patrick Corp., Qube Holdings acquired a 50% stake in Australia’s leading container terminal operator Patrick Container Terminals. In subsequent years, Qube realigned its business operations to form separate divisions Ports, Bulk, Logistics, and Infrastructure and Property. A separate division consolidates its joint venture projects such as the grain-loading and bulk liquids facilities in Port Kembla.



The company now operates in over 130 locations across Australia, New Zealand and South East Asia and employs in excess of 6,500 employees.

The company’s latest half year results revealed a post-amortisation NPAT of \$123million, increasing by over 15%, and underlying revenue growth of 4.7% to \$1.73billion.

At its recent AGM (November), Chairman Allan Davies reaffirmed guidance, despite known downside risk factors, and stated that he “expects to report another solid increase in underlying NPAT (pre-amortisation) and continued improvement in underlying earnings per share, assuming no material change to domestic or global economic conditions for the remainder of FY20.”

Consistent leadership and strategy by the management team has realised consequent profit growth which has translated to solid growth in share price and resulting total shareholder returns. This has come despite headwinds including the impact of China banning imports in retaliation to US-imposed trading restrictions. As China relaxes its import bans, and when we get past the current coronavirus outbreak concerns, Qube is likely to be engaged to rapidly clear the backlog on wharves, and return to an increasing demand for the company’s many shipping and related services.



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.

