# JM Financial Group

Issue 57: January 2020

## Small Companies Strategy – Investment Newsletter

| **Performance** *(As at 31st January 2020)* | Month (%) | Rolling 3mths (%) | Rolling 1yr (%) | Rolling 3yrs (%) | Inception (%) |
|---|---|---|---|---|---|
| **JMFG Small Companies Strategy** | **+4.89** | **+6.54** | **+42.55** | **+62.94** | **+158.86** |
| Small Ords Accumulation Index | +3.38 | +4.84 | +19.81 | +39.77 | +66.39 |
| **Outperformance** | **+1.51** | **+1.70** | **+22.74** | **+23.17** | **+92.47** |

*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 0.82% 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 January*

The JMFG Small Companies Strategy increased 4.89% in January from its post accrued performance fee basis at the end of December 2019. In effect the strategy outperformed its benchmark by 1.51% for the month, compared to the ASX Small Ordinaries Accumulation Index which increased by 3.38% in January. The Strategy is up 42.55% over the rolling 12-month period, compared to its benchmark at 19.81%, and its rolling three-year performance is up by c63%, compared with its benchmark c40%.

While the ASX Small Ords Accum. increased 3.38% in January, the ASX 200 Accum. Index recorded a stronger increase of 4.98% for the month, showing the strength for the month was in the bigger players across the stronger sectors. 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%. Our best stocks for the month included PolyNovo +42%, Infigen Energy +22%, Mach7 +18% and Opthea +15%. Weakest stocks included Nearmap -33% (weak trading update), New Century Resources -20% (falling zinc price), SelfWealth -13% (despite release of strong trading metrics), and Webjet which was down 10% following the coronavirus outbreak.

We added one new holding to the portfolio during the month, new on-line lending business Wisr – 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 reduced holdings in health stocks Medical Developments and Mach7 Technologies on significant price strength, and added to health stock PolyNovo on price weakness early in the month, but by month end it was our best performing stock in the portfolio. We also trimmed St Barbara, Temple & Webster, and Cleanaway on price strength through the month. Net cash holdings in the portfolio at month-end increased from 10.1% to 13.9%.

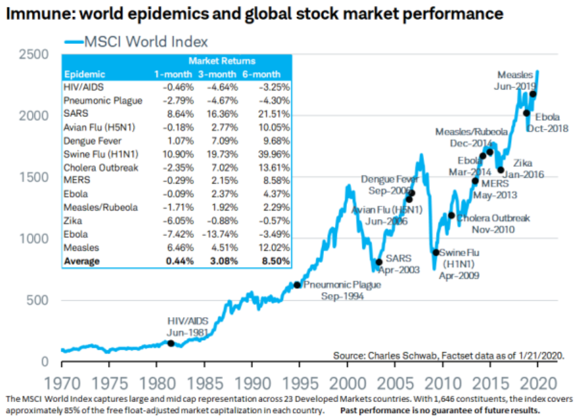
### ***Chart of the Month – How Immune to World Epidemics are Markets?***

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: Citi Research, FactSet. Coronavirus data as of market close on 1/27.




| Epidemic | Market Returns 1-month | 3-month | 6-month |
|---|---|---|---|
| HIV/AIDS | -0.46% | -4.64% | -3.25% |
| Pneumonic Plague | -2.79% | -4.67% | -4.30% |
| SARS | 8.64% | 16.36% | 21.51% |
| Avian Flu (H5N1) | -0.18% | 2.77% | 10.05% |
| Dengue Fever | 1.07% | 7.09% | 9.68% |
| Swine Flu (H1N1) | 10.90% | 19.73% | 39.96% |
| Cholera Outbreak | -2.35% | 7.02% | 13.61% |
| MERS | -0.29% | 2.15% | 8.58% |
| Ebola | -0.09% | 2.37% | 4.37% |
| Measles/Rubeola | -1.71% | 1.92% | 2.29% |
| Zika | -6.05% | -0.88% | -0.57% |
| Ebola | -7.42% | -13.74% | -3.49% |
| Measles | 6.46% | 4.51% | 12.02% |
| **Average** | **0.44%** | **3.08%** | **8.50%** |

The MSCI World Index captures large and mid cap representation across 23 Developed Markets countries. With 1,646 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. **Past performance is no guarantee of future results.**

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.

## Best & Worst Performers for January 2020

| JMFG Small Companies Strategy | | ASX Small Ordinaries Index | |
|---|---|---|---|
| **Best** | **Worst** | **Best** | **Worst** |
| PolyNovo – PNV | Nearmap – NEA | Mesoblast – MSB | Nearmap – NEA |
| Infigen Energy – IFN | New Century Resources – NCZ | PolyNovo – PNV | Kogan.Com – KGN |
| Mach7 Technologies – M7T | SelfWealth – SWF | Afterpay – APT | Seven West Media – SVW |

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

**PolyNovo (PNV)** – up 42% for the month. Company announced that December was its first $2m NovoSorb BTM sales month, a major milestone – that, along with its expanding presence in Hong Kong, Singapore and Europe, and its first patient treated in Germany in January, combined to stimulate a return to enthusiasm for the stock after a brief lull last quarter.

**Mesoblast (MSB)** – up 42% for the month (Not held). Cellular medicine company MSB submitted clinical efficacy data to the FDA for its treatment of paediatric SR-aGVHD and presented its commercial plans at the Biotech Showcase in San Francisco.

**Nearmap (NEA)** – down 33% for the month. After months of very little news, apart from acquiring a roof geometry technology company in December, and a drifting valuation amid analyst concerns about saturation and competition in the aerial mapping space, Nearmap released a downgrade to guidance at the end of the month, further disappointing investors.

**Kogan.Com (KGN)** – down 32% for the month (Not held). Despite announcing a "record half" for gross sales and gross profit, Kogan.com's numbers missed analyst forecasts and the share price dropped sharply as the business was revalued in line with the actual, somewhat disappointing, figures.

**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 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 smarthphone 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.