

Small Companies Strategy – Investment Newsletter

Performance (As at 30 th June 2020)	Month (%)	Quarter (%)	Rolling 1yr (%)	Rolling 3yrs (%)	Inception Gross (%)	Inception Annualised (%pa)
JMFG Small Companies Strategy	+4.84	+37.05	+19.54	+53.49	+146.29	+16.21
Small Ords Accumulation Index	-1.95	+23.90	-5.67	+19.45	+46.14	+6.53
Outperformance	+6.79	+13.15	+25.21	+34.04	+100.15	+9.68

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 – and is after management fees, taxes (excl imp. credit benefits) and any paid or accrued 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 June

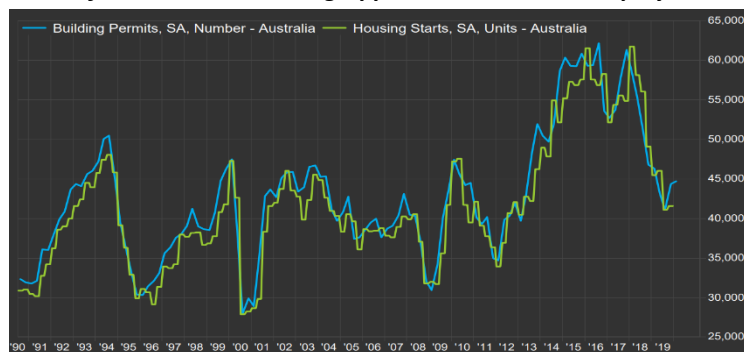
The JMFG Small Companies Strategy had another strong month in June, rising 4.84%, a pleasing result both in absolute terms and against its benchmark, which fell 1.95%, resulting in outperformance against the benchmark of 6.79%. The Strategy outperformed its benchmark by over 13% for the quarter and over 25% for FY20, but more importantly grew by a solid 19.5% for the financial year, placing it several percentage points ahead of its 6 year annualised return of 16.21%. Whilst pleasing to reflect on a strong set of numbers, our work is never done, even more so in the unprecedented circumstances we find ourselves in, and so with focus, discipline and humility it's heads down again for FY21.

The IT sector was again the strongest performer in the broader market, rising 6.0% for the month and a cumulative 48% over the quarter. Other strong sectors included Consumer Discretionary +5.4%, Consumer Staples +5.1% and Financials +4.4%. The weakest sectors included Energy -2.0%, Property Trusts -1.4% and Industrials -1.3%. The ASX Small Ordinaries index was weaker than the broader market, declining 1.95% compared with the ASX 200, which increased 2.61% for June.

During the month, we exited Altium following a further downgrade, and the last of our SenSen, and introduced Class Ltd and Sezzle. Class is a cloud-based portfolio administration tool used by accountants to manage client self-managed superannuation accounts as well as general portfolio and trust accounts, while Sezzle is a buy now pay later service but offers additional financial wellbeing tools and a pathway to a credit rating. We added to our holdings in several of the Property Trusts held in the portfolio and reduced exposure to Opthea on strength through the middle of the month. Overall, we increased our cash exposure through the month to 15.6%.

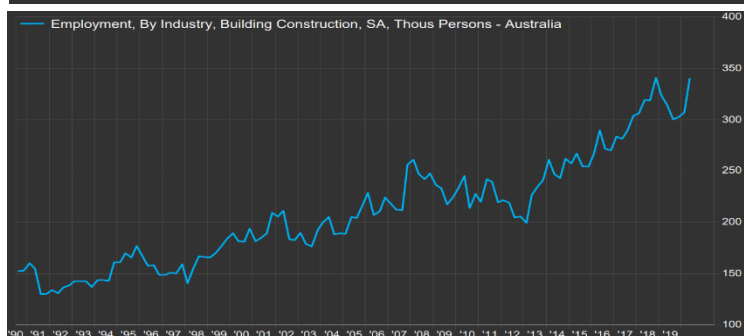
Our best performing stocks over the month included Infigen +57% on takeover news, Aurelia Metals +54%, Sezzle +50%, Temple & Webster +44% and Mach7 +44%. Our worst performers included Opthea -21%, Medical Developments -11% and Clover -11%.

Chart of the Month – Building Approvals, Starts and Employment



Building permit approvals are a leading economic indicator examined by analysts. Available every month, it provides insight into future building activity. As shown by the chart to the left, the building permit curve marginally leads the housing starts curve. Building construction is strongly procyclical, shifting significantly with changes in demand. Representing ~8% of Australian GDP, the construction sector is followed due to the size of the industry and the effects that substantial shifts in demand can have on GDP.

In recent years, building permits and construction activities have declined on the back of an overall housing price stabilisation, reaching 7-year lows in 2019. Due to the time it takes for permits to be reviewed and approved, it will be some time before the effects of the pandemic and the Federal Government HomeBuilder grant become apparent.



Employment is generally much stickier and makes for a lagging indicator as employers prefer to maintain employees during short periods of low demand. Therefore, the construction industry employment provides a clearer indication of the industry trend over the last 30 years.

Best & Worst Performers for June 2020

JMFG Small Companies Strategy		ASX Small Ordinaries Index	
Best	Worst	Best	Worst
Infigen - IFN	Opthea - OPT	Amaysim - AYS	Webcentral - WCG
Aurelia Metals - AMI	Medical Developments - MVP	Infigen - IFN	Myer Holdings - MYR
Sezzle - SZL	Clover Corporation - CLV	Aurelia Metals - AMI	IVE Group - IVG

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

Infigen (IFN) – up 57% for the month. Infigen received a conditional takeover offer during the month at \$0.80/share. This was topped by a competing offer with greater conditions but at \$0.86/share. The original offer was subsequently increased to \$0.86/share with few conditions, but within minutes the second offer was increased to \$0.89/share. Further offers may occur.

Amaysim (AYS) – up 76% for the month (Not held). Amaysim confirmed previous guidance for FY20 of \$33-\$39m and announced the acquisition of 77,000 subscribers for \$15.8m from OVO Mobile, taking its total subscriber base to over 820,000.

Opthea (OPT) – down 21% for the month. After a strong month in May, Opthea retreated in June following the release of its Phase 2a trial results of its drug, OPT-302, in Diabetic Macular Edema. While the main game for OPT-302 is in Wet Macular Degeneration where it achieved very strong Phase 2b results, the market was underwhelmed in relation to its treatment in Diabetic Macular Edema.

Webcentral Group Ltd (WCG) – down 34% for the month (Not held). Previously known as ARQ Ltd and before that Melbourne IT, Webcentral is in a precarious financial position and may not survive under its current structure.

Due Diligence – A closer look at a stock of interest

Class Ltd (CL1)

Class Limited develops software for wealth management professionals. The company historically focused on the Self-Managed Super Fund (SMSF) administration market, administering over 180,000 SMSFs in Australia. Class Super is used by accountants and to manage the complex regulatory and compliance requirements of SMSFs. Administrators/accountants choose to take up the Class Super software to manage their SMSF clients and pay Class a Licence Fee of +\$200 p.a. for each client they manage, generating over A\$36m in ARR for Class.

Having captured significant market share in this segment Class is now seeking to grow its Class Portfolio and Class Trust software. Class estimates that the market for investment trust management is similar in scale to the market for SMSF management and that there is greater growth opportunity in this segment.

In January, Class acquired corporate compliance technology company NowInfinity for A\$25m which is expected to generate A\$7m in revenue for Class in FY20. NowInfinity offers complementary services to Class with the two sharing many customers. The acquisition presents Class the opportunity to cross-sell software across client bases and offer a more competitive integrated software suite to new clients. NowInfinity also brings 2,000 Wealth Accounting clients to Class's customer base so that the company now has 3,500 Wealth Accounting clients. This establishes relationships with the target market for the Class Super software.

Administration & Reporting



Integration



Class looks to have strong upside potential with the Class Trust software supported by a strong recurring revenue stream from Class Super. With a strong balance sheet and free cash flow generation, Class also looks set to make any acquisitions necessary to help accelerate their growth. The upcoming annual result release will be the first opportunity for investors to assess the benefits of NowInfinity to Class as the first result since the acquisition.

Class Super Administration Software System: <https://www.class.com.au/products/class-super/why-use-class-super/>

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