

Leaders Strategy – Investment Newsletter

Performance (As at 31 st August 2020)	Month (%)	Rolling 3 Months (%)	Rolling 1yr (%)	Rolling 3yrs (%)	Inception Gross (%)	Inception Annualised (%pa)
JMFG Leaders Strategy	+1.71	+3.24	+0.56	+19.88	+43.04	+5.97
ASX 200 Accumulation Index	+2.83	+6.04	-5.08	+19.45	+46.36	+6.37
Outperformance	-1.12	-2.80	+5.64	+0.43	-3.32	-0.40

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 – and is after management fees (post 1 Jan 17) and taxes (excluding imputation credit benefits). Strategy Inception for Performance Data is July 1st, 2014.

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

The JMFG Leaders Strategy increased 1.71% in August, underperforming its benchmark by 1.12%, the ASX 200 Accumulation Index which increased 2.83%. The Strategy underperformed its benchmark by 2.80% for the rolling 3 months but outperformed by 5.64% for the rolling 12-month period. The annualised return since inception over six years ago is 5.97% p.a., compared to its benchmark return of 6.37% p.a., after all fees and taxes and excluding any imputation credit benefits.

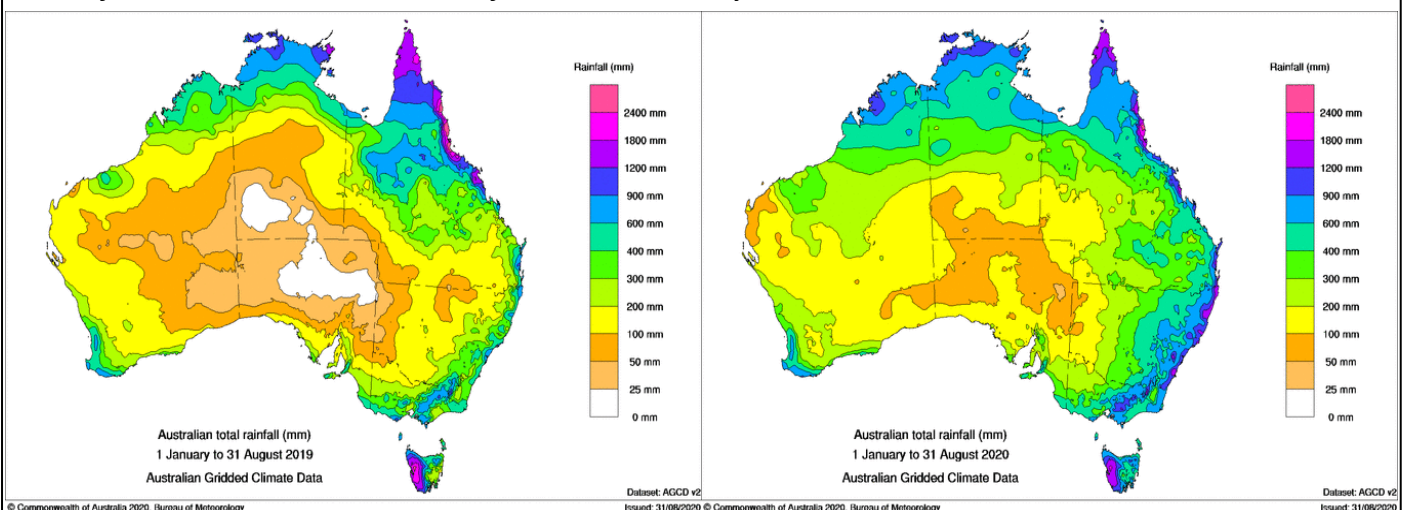
For a second month running there was a wide divergence of returns across sectors, with the strongest performers in the broader market including I.T. +15.5%, Consumer Discretionary +8.7%, Property Trusts +7.9% and Industrials +4.6%. The weakest sectors included Utilities -4.8%, Telecommunications -3.8% (reversing last month's gains), Consumer Staples -0.4% and Materials +1.2%. The ASX Small Ordinaries Index for the second consecutive month did better than the broader market, rising 7.2% in August, benefitting from the strong rally in the I.T segment where there is a much larger relative representation than the ASX 200 Index.

During the month, we made several portfolio changes. We removed Afterpay on significant price strength and cut positions in Telstra and TPG Telecom. We entered ResMed during the month and topped up Megaport after putting out a strong full year result. We reduced Newcrest Mining and shifted into Saracen, which has better long-term gold production growth prospects. We also exited Santos to reduce our exposure to the oil and gas space.

The strongest performers for the portfolio during the month were: Megaport +30%, BlueScope Steel +13%, Xero +12% and Seven Group Holdings +12%.

The weakest performers for the portfolio during the month were: Telstra -14%, Northern Star -13%, Newcrest Mining -9% and Commonwealth Bank -4%.

Chart of the Month – Australian Total Rainfall and Water Security



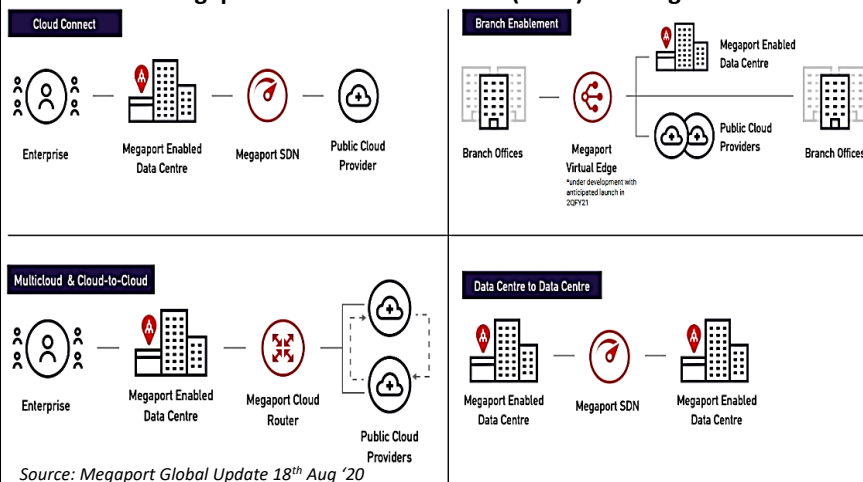
Through 2017-2019 the Murray-Darling Basin and Australia generally experienced one of the worst droughts on record for the region with consistently high temperatures and greatly reduced rainfall through the region. However, the first 8 months of 2020 have tracked much better than the three prior years, providing Australia's primary irrigation region with much needed rainfall to improve the water security of the region. The diagrams above show the greatly improved rainfall conditions in 2020 compared to the prior corresponding period in 2019. This increased rainfall also gives growers access to higher quality water which can significantly improve crop yields.

Due Diligence – A closer look at a stock of interest

MegaPort Limited (MP1)

MegaPort is a global network provider that offers customers private, high-speed, and scalable connectivity between data endpoints. For large business dealing with significant volumes of data, the process of transferring this data between data centres or to a Public Cloud Provider (AWS, Microsoft Azure, Google Cloud) can be quite complicated and costly. The volume of the data being transferred has historically meant that provisioning for the data transfer could take weeks of preparation. Businesses requiring these significant data transfers to occur periodically (weekly or monthly) would likely have to constantly pay for the redundant network capacity so it is available for the periodic transfers. MegaPort offers a solution to these problems by installing its software into data centres and renting redundant fibre between data centres around the world, so that it is instantly available for customers to ramp up connection speed and capacity. MegaPort has been operating at a loss for 7 years but has steadily increased the number of data centres on their network to 380 in August 2020, which now offers attractive scale to new customers joining the network.

MegaPort Network as a Service (NaaS) Offerings



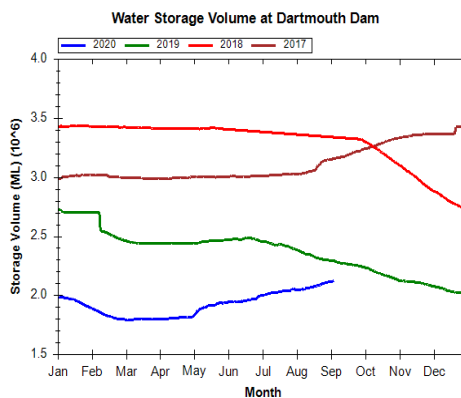
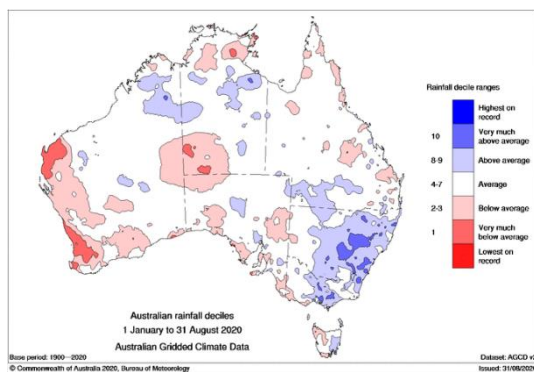
There are numerous economic factors that are tailwinds to MegaPort's growth. The increasing volume, variety and velocity of data transfer require businesses to consider their data storage and transfer needs. There is also a shift in business preferences more broadly towards OpEx spending on IT and Cloud Storage, rather than significant up-front CapEx spending. This is illustrated by the various "X-as-a-Service" IT companies that have experienced significant growth in recent years.

However, it is worth noting that there is immense growth already priced by the market, considering MegaPort has the highest Enterprise Value to Sales Ratio of a non-healthcare company in the S&P/ASX 200 Index.

Water Catchments & Water Security

As seen on the charts on the prior page, rainfalls across Australia have been substantially better in 2020 than in 2019 and the two prior years. It can also be seen in the left-hand chart, immediately below, that rainfall in the eight months to the end of August 2020 has generally been average, or above average, across Australia and in particular the Murray/Darling basin – with the exception of the west coast and in a few inner regional areas. Good seasonal rainfalls provide the foundations for a good agricultural season but good rainfall, in conjunction with healthy water storage levels, provides the basis for exceptional growing seasons, where high water usage annual crops, like cotton and rice, can be grown across a wider area of land and, at the same time, yield substantially higher levels than would otherwise be the case.

While some of our catchment areas have relatively high water storage levels, other areas still require substantial spring rains to achieve a high level of water security. The Murrumbidgee system is well placed for the coming growing season with its two main storages, Blowering Dam at 76% of its 1.61m ML (megalitre) capacity and Burrinjuck Dam at 83% of its 1.03m ML capacity. In comparison, the larger Murray/Goulburn system is in good shape for this time of year but not quite as well off as the Murrumbidgee system. Dartmouth sits at 55% of its 3.86m ML capacity, Hume at 62% of its 1.87m ML capacity and Eildon at 57% of its 1.89m ML capacity. Many catchments across the country are still very low, including the Menindee Lakes system on the Darling at 27% of its 1.73m ML capacity, Copeton Dam in North Eastern NSW at 16% of its 1.36m ML capacity and Burrendong Dam at 44% of its 1.19m ML capacity. Australia's major food bowl in the east is in good shape for the 20/21 season, but more rain in parts is still needed to improve water security from recent low levels.



The largest water storage on the Murray system is Dartmouth Dam at 3.86m ML. While water levels are still low in comparison to recent years, the improving trend should see levels rise above 2019 in the near future, given rains for the year to date are the best the eastern parts of Australia has seen since 2016. Note the declining trends through spring in 2018 and 2019.