

## Small Companies Strategy – Investment Newsletter

Performance (As at 31 <sup>st</sup> August 2021)	Month (%)	Rolling 3 Months (%)	Rolling 1yr (%)	Rolling 3yrs (%)	Inception Gross (%)	Inception Annualised (%pa)
<b>JMFG Small Companies Strategy</b>	<b>+0.48</b>	<b>+0.21</b>	<b>+8.96</b>	<b>+54.04</b>	<b>+210.56</b>	<b>+17.13</b>
Small Ords Accumulation Index	+4.98	+8.95	+29.51	+33.43	+105.79	+10.59
<b>Outperformance</b>	<b>-4.50</b>	<b>-8.74</b>	<b>-20.55</b>	<b>+20.61</b>	<b>+104.77</b>	<b>+6.54</b>

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 after management fees (post 1 Jan 2017), performance fees (paid or accrued), GST, and excludes the effect of franking credits. Strategy Inception for Performance Data is July 1st, 2014.

### Month in Review – A review of events that influenced the share market and portfolio in August

For the month of August, JMFG Small Companies Strategy rose 0.48%, bringing the return for the past 12 months to 8.96% after fees and taxes. Although the strategy has underperformed the benchmark over the last 12 months, we feel the reasons are well understood and have been covered in recent newsletters. Many of our core stocks have performed well, resulting in overall annual gains, but perhaps not at the same level as the overall market. We have seen signs since late August that conditions overall are normalising, with the market softening through the beginning of September and the strategy outperforming its benchmark so far for the month. The performance of the strategy relative to longer-term periods continues to be very strong.

August's best-performing sector of the broader market was Information Technology which rose by 17%. Other strong-performing sectors of were Consumer Staples +6.9%, Health Care +6.8%, and Property Trusts +6.3%. Only two sectors finished in the red for the month, the worst-performing being Materials which was down 7.3% for the month, followed by Energy which was down 3.9%. The other weak sectors still managed a positive result overall, including Utilities +1%, Industrials +2.7%, and Consumer Discretionary +3.4%.

August is the peak of reporting season in Australia, when companies with the financial year-end of 30 June issue their annual reports. With many companies reporting during the month, trading for the portfolio was active. An advantage of our operation size is that we can be nimble with our positioning and enter and exit most of our positions quickly without causing a substantial impact on price.

The strongest performers for the portfolio during the month included:

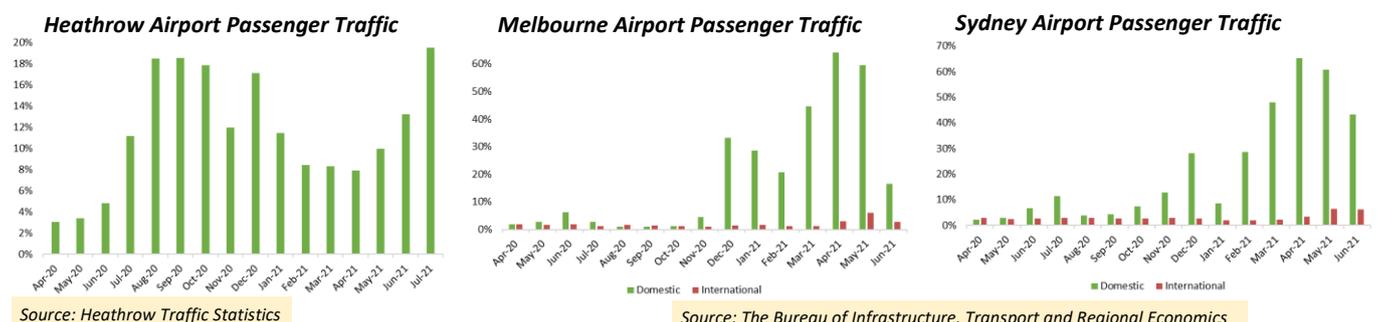
- Beamtree Holdings +27%, Pilbara Minerals +26%, Class +16%, and Index 13%

The weakest performers for the portfolio during the month included:

- Dusk Group -19%, Warrego Energy -17%, Mineral Resources -10%, and Bapcor -10%

### Chart of the Month – Airport Traffic Data as a Percentage of 2019 Levels

As developed nations hit their vaccination targets and come out of lockdown, restrictions on domestic and international travel are likely to be gradually eased. To try determining how restrictions easing will impact travel, we can examine how passenger traffic has responded since local restrictions have been eased. The charts below show airport passenger traffic from April 2020 as a percentage of the same month's traffic in 2019. Furthermore, the charts for the Australian airports separate out domestic and international travel to clearly differentiate between these categories. Towards the end of 2020, Heathrow Airport, historically one of Europe's busiest airports, saw passenger levels gradually recovering as the first wave of the pandemic began to pass. However, as cases resurged while the Delta Variant spread, Heathrow passenger traffic again slumped before once more improving as the local vaccine rollout hit its key milestones. When restrictions eased in Australia, domestic travel recovered rapidly – exceeding 60% of pre-pandemic travel traffic for Melbourne and Sydney airport – while international travel showed no signs of recovery due to international arrival quota constraints. These domestic travel numbers highlight the willingness of individuals to travel when restrictions are eased; however, this traffic is quickly extinguished by rising COVID-19 case numbers.



Source: Heathrow Traffic Statistics

Source: The Bureau of Infrastructure, Transport and Regional Economics

JMFG Small Companies Strategy		ASX Small Ordinaries Index	
Best	Worst	Best	Worst
Beamtree Holdings (BMT)	Dusk Group (DSK)	Blackmores (BKL)	Mount Gibson Iron (MGX)
Pilbara Minerals (PLS)	Warrego Energy (WGO)	Clinuvel Pharmaceuticals (CUV)	Champion Iron (CIA)
Class (CL1)	Mineral Resources (MIN)	loneer (INR)	Accent Group (AX1)

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

**Beamtree Holdings (BMT)** – up 27% for the month. Formerly PKS Holdings, Beamtree is a healthcare technology specialist providing clinical patient-care workflow systems for various participants in healthcare services. Company valuation spiked in the last days of the month, with annual results revealing continued strong growth in a sustainable trend, along with announcing a favourable acquisition of competitor Potential(x) and rebranding of the combined entity.

**Blackmores (BKL)** – up 37% for the month (Not held). Despite bearish analyst expectations regarding headwinds in markets north of the equator, Blackmores produced a good result ahead of expectations, completing the year with an attributable profit of A\$28.6m and increase over the prior year of 89% and set to share the profits in a 42 cents per share dividend.

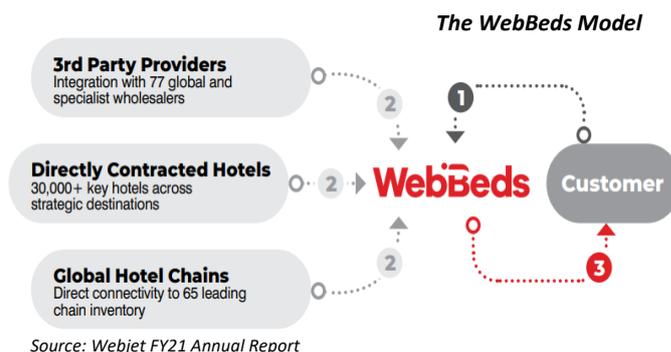
**Dusk Group (DSK)** – down 19% for the month. Dusk revealed another good growth result, but the year ahead shows signs of tapering off in the face of headwinds in the retail discretionary in-person shopping experience as Australia is facing pandemic-related lockdowns without the financial support measures made available last year.

**Mount Gibson Iron (MGX)** – down 29% for the month (Not held). Weakening iron ore futures impacted the entire sector to varying degrees. Mount Gibson gave back all its prior 12 months of overall gains with market pressures likely to impact its ability to return to a growth trajectory in the near term. Results showed a 24% fall in after-tax profits and a commensurate 33% reduction in dividend.

### Due Diligence – A closer look at a stock of interest

#### Webjet Limited (WEB)

While travel conditions are improving for vaccinated countries around the world, travel companies are preparing for a boom in post-pandemic travel spending in the coming years. Webjet has spent the last 18 months transforming the business to stop the cash-flow burn during lockdowns and put the business in a strong position to capture market share and improve margins as restrictions ease and the company is back to full operations. With many smaller competitors being unable to continue to operate, and many ceasing operations altogether, Webjet has potential to become a larger business in the coming years than it was prior to the pandemic.



Webjet's operations are split between its consumer business (B2C) and its wholesale markets business (B2B).

The B2C business operates across Australia and New Zealand where Webjet claims to have more than a 50% share of the online travel agent flights market. With significant closures of traditional bricks and mortar travel agents, Webjet is in prime position to increase its addressable market as more customers switch to online travel agents. Since the onset of COVID-19, Flight Centre shut down more than half of its 740 local stores to become a leaner business and focus on improving efficiencies, a move which is likely to see more customers moving towards using an online travel agent. Furthermore, the last 18 months has shown the increasing willingness of consumers to shift their discretionary spending to online sales channels. These factors could offer Webjet's B2C the potential to come out of the pandemic a stronger business.

The B2B segment operates internationally throughout Europe, AMEA, and APAC under the WebBeds banner. WebBeds has positioned itself as an intermediary between its hotel supply partners and WebBeds' clients. The B2B clients typically include retail and corporate travel agents, tour operators, and other wholesalers. These customers can then gain access to a large inventory of available beds, rather than having to maintain relationships directly with thousands of hotel operators. Furthermore, WebBeds helps its hotel suppliers to better manage vacancies and increase overall reach. Over the last 18 months, WebBeds has focused on investing in technology to drive cost reductions in its model. The business has historically targeted a "8/4/4" model whereby WebBeds earns 8% revenue on the total transaction value it facilitates and has costs of 4% which would give it an EBITDA/TTV margin of 4%. With the cost efficiencies derived through recent investment, WebBeds is now targeting a "8/3/5" model at scale which would earn it a 5% EBITDA/TTV margin. If WebBeds can achieve these margin targets as it returns to scale, it would further drive its post-pandemic recovery, becoming an overall significantly stronger business.

Webjet looks to be performing well as markets reopen. At the end of August, Webjet provided a trading update indicating that the business would return to having positive operating cash flow for the 6 months ending 30 September. The company also announced that WebBeds had returned to profitability for July and August and was on track to continue to be profitable in September. While the B2C business was performing well in April and May, Webjet indicated it had faced difficulties in the wake of more lockdowns in the ANZ region. Overall, Webjet looks to be in a strong position for a reopening and is well exposed to a post-pandemic surge in travel.