

## Investment Newsletter

Performance (As at 31 <sup>st</sup> December 2019)	Month (%)	Rolling 3mths (%)	Rolling 1yr (%)	Rolling 3yrs (%)	Inception (%)
<b>JMFG Australian Equities Strategy</b>	<b>-0.30</b>	<b>+0.63</b>	<b>+24.48</b>	<b>+34.84</b>	<b>+73.98</b>
All Ords Accumulation Index	-1.90	+0.75	+24.06	+34.60	+59.97
<b>Outperformance</b>	<b>+1.60</b>	<b>-0.12</b>	<b>+0.42</b>	<b>+0.24</b>	<b>+14.01</b>

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; non-annualised and includes management fees paid (post 1 Jan 17) and taxes. Strategy Inception for Performance Data is July 1<sup>st</sup>, 2014.

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

The ASX All Ordinaries Index finished the year at 6802.4 points, falling 1.9% through December, following on from a strong rise to a new high-water mark set in November, and overall growing 19.1% versus its prior New Year's Eve finish of 5709.4 points. Incorporating yield, the All Ords Accumulation Index saw out 2019 at 71813.9 points, which, against the prior year finish of 57887.9 points, was a rise of 24.1%. The JMFG Australian Equities Strategy outperformed its benchmark for the month of December, despite posting a slightly negative return of -0.3%, a result which pushed the Strategy's after-fees performance ahead of the All Ords Accum. Index by 0.42% for the calendar year.

The market experienced another unusual month with most segments down substantially, but the overall market remained in the vicinity of November's peak. The best performing market segments were Materials +1.55% and Utilities +0.78%, the only positive total return sectors for the month of December. Weakest sectors included Consumer Staples -8.05%, Telecommunications -5.80%, I.T. -4.60% and Property Trusts -4.41%.

Trading during the month was again minimal. We increased our holding in Mach7 Technologies via a capital raising event. We sold some Webster as the stock neared the proposed Scheme offer price of \$2.00 per share. We trimmed our holding in PolyNovo on a rise driven by the long-awaited announcement of CE mark approval. And we let go of the last of our St Barbara holding to avoid exposure to any further potential disappointments given the recent trend in its constrained growth and rising operating costs on lower gold grades. Notably, St Barbara had been in the JMFG Australian Equities Strategy since inception and was a strong contributor to performance overall. The portfolio finished the month with a 6.7% weighting in cash.

The strongest performers for the portfolio during the month included:

- Medical Developments +28%, PolyNovo +10% and Opthea +9.2%

The weaker performers for the portfolio during the month included:

- Goodman Group -9.8%, Zip Co -9.7% and Pro Medicus -9.6%

### Chart of the Month – ASX All Ordinaries & Value – Can the run continue?

The chart below is a comparison between the ASX All Ordinaries Index on a total return basis (left-hand side) and the 12-month forecast Price to Earnings Ratio (PER) of the same Index (right-hand side). The total return is indexed to a starting point of 100 and is shown on a logarithmic scale, to ensure similar percentage points movements over time are more easily compared. Since the end of 2004, the ASX All Ordinaries Index on a total return basis (all dividends reinvested) has more than tripled, but the GFC caused a major disruption in the process. The Index almost halved during the tumultuous GFC period, recovered somewhat through 2009 and then largely tracked sideways through to the end of 2012. With the exclusion of 2015 and 2018, the Index has been on a tear since then. It looked expensive at the end of 2016 and kept going before moderating in 2018. So, can the run continue?

It is not a question we like to answer on a short-term basis. There are so many factors at play, from the micro through to the macro. All of these factors combine together to determine the outcome of equity markets the world over, and of specific indices or stocks within those



markets. We have no special skill in assessing all those factors, but we do know that, over time, the ASX All Ordinaries should generate solid returns, and if we do our job well in selecting stocks, we should outperform the Index. Within the normal expectations of volatility, that is something we have done relatively consistently over the five and a half years since inception. The ASX All Ordinaries is far more diverse today than it ever has been with significant broadening of higher growth segments of Health Care and I.T. This, in part, explains the growth in the 12-month forward PER of the index to all time high levels, and it also provides far greater long-term growth potential for the Index going forward. So, while it looks expensive today, the composition of the Index makes it a very different beast.

## Year in Review – 2019 Australian Market’s Best and Worst

Overall, the Australian Market rose convincingly through 2019, with the ASX All Ords Accumulation Index (ASX 500) gaining 24.1% over the year.

Top sectors were Health Care +43.47%, I.T. +33.47%, Consumer Discretionary +32.43%, with the Telecommunications, Materials and Industrials sectors all neck and neck just above the 27% mark. The sectors with the least growth for 2019 were Financials +13.53%, Utilities +16.21% and Property Trusts +19.36%. While we can see from the list below, some individual Health Care and I.T. stocks may have been among the biggest gainers, the real drivers for the sectors’ leading growth were the biggest stocks moving more water with a perhaps less spectacular splash through the sheer weight of their respective capitalisations – the obvious example of this being the “only 49%” growth achieved by health care giant CSL, which accounts for over 6% of the All Ords Index on its own.

### Best Performers of the ASX All Ordinaries for 2019

The best performers of the ASX 500 over 2019, excluding any companies taken over during the year, were:

Avita Medical (AVH) +653% – entered ASX 500 on 18 March and grew 358% from that point, it also entered the ASX 300 on 23<sup>rd</sup> September and the ASX 200 on 8<sup>th</sup> November.

iSignthis (ISX) +590% – entered ASX 500 on 18<sup>th</sup> March and ASX 300 on 23<sup>rd</sup> Sept but was suspended by the ASX at the start of October. It did however rise by 1058% through the year prior to losing 1/3<sup>rd</sup> of the year’s gains on bad press and subsequent investigations.

Opthea (OPT) +413% – entered ASX 500 on 18<sup>th</sup> March and increased over 540%, but ended down 20% from its high point.

PolyNovo (PNV) +231% - entered the ASX 200 Index on 23<sup>rd</sup> September.

EML Payments (EML) +220% - entered no new major indices and was already in the ASX 200 and ASX 500 at the start of the year.

Alacer Gold Corp (AQG) +218% - entered ASX 300 index on 23<sup>rd</sup> September.

Resimac Group (RMC) +213% - mortgage origination and loan management business, entered no new indices.

Electro Optic Systems (EOS) +212% - advanced electro-optic technologies for aerospace and defence, entered no new indices.

Zip Co (Z1P) +200% - a retail payments business, also entered the ASX 300 in September.

Ramelius Resources (RMS) +196% - a gold miner, also entered the ASX 300 in March.



### Worst Performers of the ASX All Ordinaries for 2019

The worst performers through the year included a mix of businesses, although there were a couple of consistent themes amongst those worst underperformers. Several resource companies that did not live up to production expectations were amongst the major decliners. High debt levels or a limited level of cash reserves for companies developing operations was another consistent theme. Unsurprisingly, the worst performing companies were those with a combination of operational and financial leverage that performed below expectations. In these situations, the impact on equity valuation is, unsurprisingly and nearly always, severe. The worst performers for the year are as follows:

Metals X (MLX) -82% with suspension of operations at its major copper mine and weaker than expected production from its tin operations.

ARQ Group (ARQ) -81% operating in the competitive domain and web management segment for enterprise and SME’s, and doing so with an over-gear’d balance sheet.

Heron Resources (HRR) -79% on disappointing performance of its recently commissioned Woodlawn zinc-copper project in NSW and requirement for additional funding.

Australis Oil & Gas (ATS) -70% on a combination of disappointing exploration and production results.

Terramin Australia (TZN) -69%, a small explorer and developer of mines with no major successes through the year.

New Century Resources (NCZ) -68% on slower start up and recoveries of their New Century zinc tailings operation.

Costa Group Holdings (CGC) -65% on poor seasonal yields across several agricultural divisions as well as delays in international production and a net debt level that is on the high side.

Speedcast International (SDA) -64% on poor operational results and downgrades in a grossly over-gear’d business.

Syrah Resources (SYR) -63% on poor operation results at its graphite operations.

