JM Financial Group

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Investment Newsletter

Performance *(As at 31st December 2019)*	**Month (%)**	**Rolling 3mths (%)**	**Rolling 1yr (%)**	**Rolling 3yrs (%)**	**Inception (%)**
JMFG Leaders Strategy	**-2.00**	**+1.80**	**+17.09**	**+31.11**	**+54.26**
ASX 200 Accumulation Index	-2.17	+0.68	+23.40	+34.03	+58.10
Outperformance	**+0.17**	**+1.12**	**-6.31**	**-2.92**	**-3.84**

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

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

The ASX 200 Index finished the year at 6684.1 points, falling 2.4% through December, following on from a strong rise to a new high-water mark set in November, and overall growing 18.4% versus its prior New Year's Eve finish of 5646.4 points. Incorporating yield, the All Ords Accumulation Index saw out 2019 at 72445.0 points, which, against the prior year finish of 58709.8 points, was a rise of 23.4%. The JMFG Leaders Strategy outperformed its benchmark for the month of December, despite posting a negative return of -2.0% for the month – a result which pushed the Strategy's after-fees performance ahead of the All Ords Accum. Index by 1.12% for the latest quarter.

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%.

There was no trading during the month as we could see no compelling change in fundamentals or influential factors to drive any amendments to the Strategy stock composition for the month. The portfolio finished December with 11% held in cash.

The stronger performers for the portfolio during the month included:

- Northern Star Resources +18%, PolyNovo +10% and Magellan Financial Group +8.5%

The weaker performers for the portfolio during the month included:

- Jumbo Interactive -27%, WiseTech Global -14% and Technology One -9.8%

Chart of the Month – ASX 200 Index & Value – Can the run continue?

The chart below is a comparison between the ASX 200 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 200 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 had done relatively consistently over the five and a half years since inception, but 2019 proved a difficult year. The ASX 200 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 200 Accumulation Index (ASX 200) gaining 23.4% in just one 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 6.5% of the ASX 200 on its own.

Best Performers of the ASX 200 for 2019

The best performers of the ASX 200 over 2019, excluding any companies taken over during the year, were:

Avita Medical (AVH) +696% – entered ASX 500 on 18 March and grew 358% from that point, it also entered the ASX 300 on 23rd September and the ASX 200 on 8th November.

PolyNovo (PNV) +231% – entered the ASX 200 Index on 23rd September, then drifted down 12% from that point.

EML Payments (EML) +208% – stock in this global payment technology solutions provider has grown consistently throughout the year.

Fortescue Metals Group (FMG) +173% – the steel giant continued its recovery through refocusing into North American operations.

Magellan Financial Group (MFG) +141% – consistently grew funds under management with strong net inflows.

Silver Lake Resources (SLR) +141% – gold producer, entered ASX 200 on 23rd September and kept growing by 34% from that point.

AfterPay Touch (APT) +136% – "buy now, pay later" payments technology innovator with solid growth profile despite a few hiccups due to sector regulatory scrutiny.

Nanosonics (NAN) +123% – healthcare equipment treatment technology success story.

Jumbo Interactive (JIN) +107% – entered ASX 200 on 23rd September but ended down 40% from there to finish having doubled for the year, overall.

Gold Road Resources (GOR) +106% – entered ASX 200 on 23rd September and traded sideways since.

Year in Review – *2019 Australian Market's Best and Worst*

Worst Performers of the ASX 200 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:

Costa Group Holdings (CGC) -64.1% 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.

Pilbara Minerals (PLS) -55% experienced delays with its commercial offtake partner, requiring throttling of their lithium production.

Mayne Pharma (MYX) -43% amidst declining sales and increasing competitive pressure in key generic product divisions.

St Barbara (SBM) -40% after a few production roadblocks, declining ore grades and increasing AISC for their gold production.

New Hope Corporation (NHC) -39% dropped initially on poor results announced in March, and steadily declined through the rest of the year.

Whitehaven Coal (WHC) -38% declined steadily through the year.

G8 Education (GEM) -32% declining occupancy, profits down 20% and sale of 25 centres in WA shook investor confidence in the childcare provider.

Blackmores (BKL) -30% fell on flat 1H19 profit results and is yet to recover.

Bank of Queensland (BOQ) -25% on a multi-year slide on its continued decline in cash receipts and further forecasted challenging times ahead.