JM Financial Group

Issue 67: November 2020

Small Companies Strategy – Investment Newsletter

Performance *(As at 30th November 2020)*	Month (%)	Rolling 3 Months (%)	Rolling 1yr (%)	Rolling 3yrs (%)	Inception Gross (%)	Inception Annualised (%pa)
JMFG Small Companies Strategy	**+6.67**	**+5.66**	**+19.54**	**+60.22**	**+191.13**	**+18.12**
Small Ords Accumulation Index	+10.27	+7.66	+5.98	+21.57	+71.07	+8.73
Outperformance	**-3.60**	**-2.00**	**+13.56**	**+38.65**	**+120.06**	**+9.39**

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 November*

The announcement of vaccines during November saw the market rotate back into some of the stocks worst affected by COVID-19 with the strongest sectors including Energy +28.5%, Financials +16.1%, Telecommunications +13.6%, and Property +13.3%. The Materials sector rallied +7.3%, but its components varied wildly with gold stocks in decline following a 6% fall in the US$ gold price while base metals prices in US$ were all strong, with copper +12%, nickel +7%, zinc +11%, and lead +17% – in addition, iron ore rallied 3%. With its focus on industrial companies, this is essentially where the portfolio fell short during the month. The weakest sectors for the month included Consumer Staples -0.7%%, Utilities 1.5%, and Health Care +2.7%.

The JMFG Small Companies Strategy rose by 6.67% in November, underperforming its benchmark by 3.60%. The Small Ordinaries Accumulation Index rose by 10.27%. The Strategy underperformed its benchmark by 2.00% for the rolling 3 months but has comfortably outperformed across all longer time periods, after deducting paid and accrued fees and taxes and excluding any imputation credit benefits.

This month, we continued our more defensive shift by topping up our property exposure, increasing positions in Centuria Industrial REIT and BWP Trust, and adding Shopping Centres Australia to the portfolio. We continued our buying of Universal Biosensors and topped up Infomedia and Super Retail Group. After the acquisition of OptiComm by Uniti Group received Court approval, our OptiComm shares were converted to cash and Uniti Group shares. After their strong performances this year, we exited Xero and trimmed our position in Tesserent.

The strongest performers for the portfolio during the month included:

- Beach Energy +49%, Universal Biosensors +44%, Mach7 Technologies +36%, and Uniti Group +31%

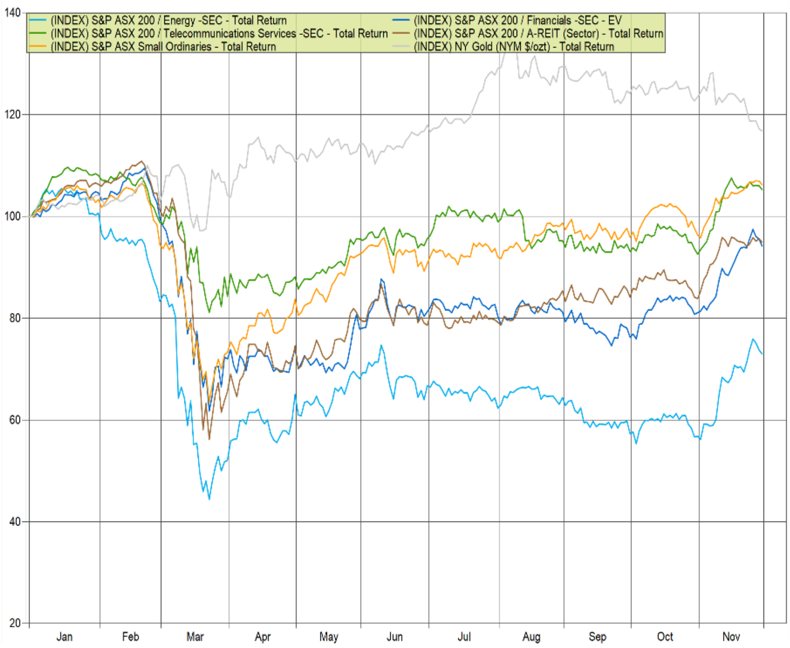
The weakest performers for the portfolio during the month included:

- Saracen Mineral Holdings -16%, Super Retail Group -12%, Class -11%, and Codan -10%

Chart of the Month – Vaccine Related Recoveries

The chart opposite shows the performance over the year of the four best performing sectors in November against the ASX Small Ordinaries Accumulation Index and Gold. The chart highlights that after the knee-jerk recovery from the initial market impact of the pandemic from late March through to end May, those four best performing sectors in November all lagged the market significantly from June through October, while the ASX Small Ordinaries Index continued to rise.

While not shown, the components of the Materials sector tell a similar story, the weakest components – base metals stocks – all rallied strongly in November as base metals prices recovered on increased optimism following several vaccine announcements. At the same time, gold stocks declined as the US$ gold price retreated. The US$ gold price, having rallied 30% from March through to early August, has been on a steady decline since then, but that decline accelerated in November as the vaccine announcements were made.



Source: FactSet financial data and analytics

Best & Worst Performers for November 2020

JMFG Small Companies Strategy		ASX Small Ordinaries Index	
Best	**Worst**	**Best**	**Worst**
Beach Energy – BPT	Saracen Mineral Holdings – SAR	Unibail-Rodamco-Westfield – URW	Kogan.Com – KGN
Universal Biosensors – UBI	Super Retail Group – SUL	Pilbara Minerals – PLS	Alkane Resources – ALK
Mach7 Technologies – M7T	Class – CL1	Webjet – WEB	Silver Lake Resources – SLR

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

Beach Energy (BPT) – up 49% for the month. The biggest driver for the company over the month was the oil price which rallied from around US$36/b to over US$47/b. The company also announced announced plans to extend its portfolio in the Cooper Basin through the acquisition of Senex's interests in the basin.

Unibail-Rodamco-Westfield (URW) – up 73% for the month (Not held). Having been a significant casualty of the Covid-19 pandemic, the company experienced a strong rally after news of vaccines with significant success rates.

Saracen Mineral Holdings (SAR) – down 16% for the month. A weaker gold price and, perhaps, some retracement following a significant rally on the news of its agreed merger of equals with Northern Star.

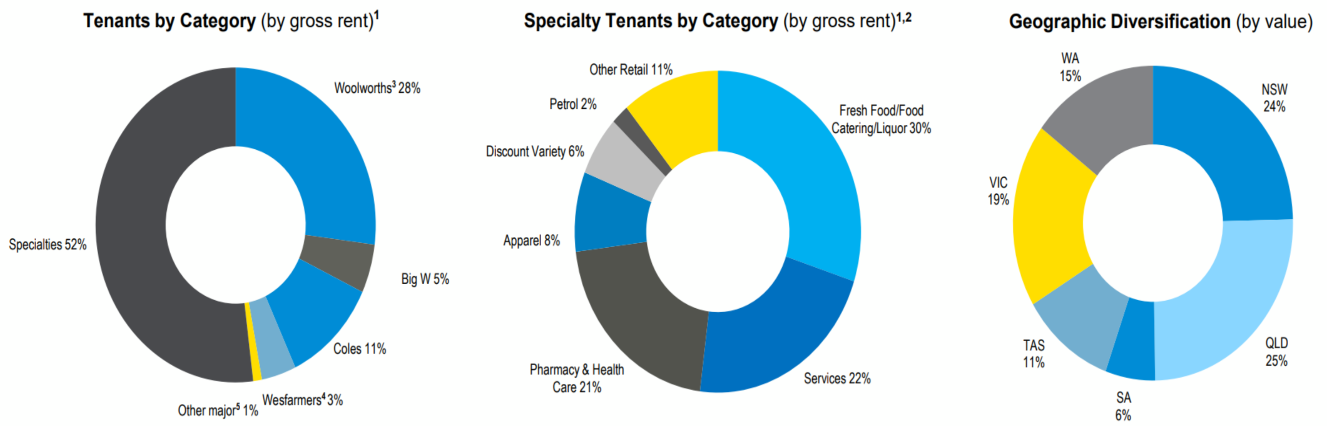
Kogan.Com (KGN) – down 20% for the month (Not held). Having been a major beneficiary of the significant lockdowns in Australia's attempts to eradicate community transmission, interest in Kogan and other online businesses is waning. With freedoms being eased, there is every expectation that growth rates will moderate and a more even playing field with bricks and mortar retailers will return.

Shopping Centres of Australia (SCP)

Shopping Centres Australia owns a portfolio of 91 neighbourhood, sub-regional and free-standing shopping centres across Australia, with a total portfolio value in excess of $3.2b. The attraction of this asset class is its resilience through a higher exposure to non-discretionary retail tenants, with over 70% of rents coming from major tenants. Woolworths Group, Wesfarmers, and Coles essentially act as major anchor tenants for their food-based retailing, home improvement, fuel, and liquor interests.

While tenants by category are evenly split, with the majors Woolworths, Coles, Big W, and Wesfarmers' interests in K-Mart, Bunnings and Target all representing 48% of gross rents, the remaining half of gross rents is the Specialties categories which are also dominated by non-discretionary retailing. For example, the 52% Specialties gross rents is further divided into Fresh Food/Food Catering/Liquor at 30%, Pharmacy & Health Care 21% and Services 22% (Hair Dressing, Beauty etc). Highly discretionary retailing – including apparel, discount variety and "other" – is around 25% of Specialties gross rents, or 12-13% of total gross rents. In other words, Shopping Centres Australia's portfolio of properties does not carry as much risk as many other retail trusts lacking such tenant diversification.

Total occupancy for Shopping Centres Australia sits at 98.2%, with Specialty vacancy at 5.1% – both numbers are similar to occupancy levels at the end of fiscal year 2019. While rent relief through the major lockdown periods, particularly over the last six months, will have some impact on earnings, the magnitude is expected to be minor. Funds from Operations – the measure of cashflow available for distribution to shareholders – in FY20, was $124.3m, down 2.4% on the $127.4m reported for FY19. With its moderate gearing at 25.6%, the low interest rate environment, and earnings recovery potential, we expect SCP's yield returning toward 15c per share will provide underlying strength to the share price as more normal trading conditions return.



Source: SCA Property Group FY20 Results Presentation

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