JM Financial Group

Issue 68: December 2020

Australian Equities Strategy – Investment Newsletter

Performance *(As at 31st December 2020)*	Month (%)	Rolling 3 Months (%)	Rolling 1yr (%)	Rolling 3yrs (%)	Inception Gross (%)	Inception Annualised (%pa)
JMFG Australian Equities Strategy	**+1.81**	**+10.66**	**+8.11**	**+24.38**	**+77.77**	**+9.25**
All Ords Accumulation Index	+1.75	+14.43	+3.64	+24.02	+65.79	+8.09
Outperformance	**+0.06**	**-3.77**	**+4.47**	**+0.36**	**+11.98**	**+1.16**

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 the share market and overview of the portfolio for December

The JMFG Australian Equities Strategy had a poor final quarter to the year, largely on the recovery of perceived value or low PER stocks in November, an area of the market we tend to be intentionally underweight. Overall, however, the Strategy produced a successful year with a total return of 8.11% and an excess return, after all management and performance fees and GST, of 4.47%. Pleasingly, the JMFG Australian Equities Strategy has achieved a long-run annualised total return of 9.25% and long-run annualised excess return of 1.17%.

The month of December produced a mixed bag with I.T. and Materials providing strong total returns, rising 9.48% and 8.80% respectively. The next-best returns were far more moderate and came from Consumer Staples +2.26% and Consumer Discretionary +0.98%. Weakest returns came from Utilities -5.38%, Health Care -4.85% and Industrials -2.70%. Spot iron ore prices continued to rally, rising 25% to US$155/t at month-end and spot gold prices rallied 7% in US$ terms, providing a broad, underlying base for the Materials sector to perform with base metal prices largely buoyant through the month in A$ terms.

During the month, we reduced our cash position from 7.9% to 5.4%. We exited TPG Telecom and entered Uniti Group after Uniti announced an asset purchase from Telstra which appeared to be on terms very favourable to Uniti. We took part in the Medical Developments capital raising, increasing our position there. We also entered Nuix, a recent technology IPO, and returned St Barbara to the portfolio.

The strongest performers for the portfolio during the month included:

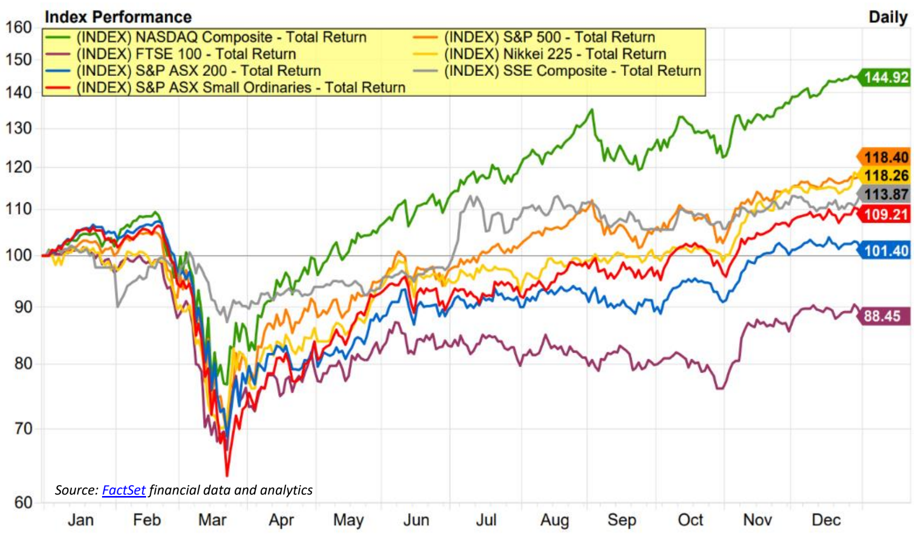
- Fortescue Metals Group +29, PolyNovo +21%, Pro Medicus +16%, and Rio Tinto +12%

The weakest performers for the portfolio during the month included:

- Appen -22%, Opthea -17%, Ansell -7%, and ASX -7%

Chart of the Month – Relative Index Performance for 2020

The chart below shows the 2020 returns of some of the most widely followed indices around the world compared to Australian market indices. The NASDAQ Composite Index, a technology-concentrated US-based index, is the standout performer below, returning investors 44.9% for 2020. This is significantly higher than the US broad-based index S&P 500, which returned 18.4% for the year. Outside of the US, the Japanese Nikkei 225 stock index, returned 18.3% and reached its highest level since 1991. The Nikkei 225 finished 2020 at a level of 27,444 which is still significantly down from its all-time high of 38,957, which it hit in December 1989.



The Shanghai Stock Exchange (SSE) Composite returned 13.9%, falling more quickly than all other indices in response to the global pandemic but recovering steadily over the rest of the year. The main London Stock Exchange index, the FTSE 100, was the worst performer of all, returning -11.6%.

In Australia, the S&P ASX 200, which has only a minor exposure to I.T, returned a moderate 1.4%. The strong performance of the materials sector helped the ASX 200 rally towards year end. The S&P ASX Small Ordinaries index performed far better, returning 9.2%, having a greater exposure to gold, I.T., and consumer discretionary sector companies, which all enjoyed solid annual returns over the year.

Year in Review – *2020 Australian Market's Best and Worst*

After experiencing a sharp decline in March, the Australian market recovered convincingly such that the All Ordinaries Accumulation Index delivered a 3.6% return for 2020.

The top performing sectors were I.T. +58%, Materials +18%, and Consumer Discretionary +11%, reflecting the growing reliance in technology over the year, the strong iron ore price, and the spike in discretionary spending with stimulus payments. Meanwhile, the worst-performing sectors were Energy -28%, Utilities -17%, and Industrials -12%, all having high degrees of operating leverage and being adversely affected by persistent lockdowns. Other major sectors included Consumer Staples +6%, Telecommunications +5%, Health Care +4%, Property -5%, and Financials -6%.

Best Performers of the All Ordinaries for 2020

The best performers of the All Ordinaries for 2020 were:

De Grey Mining (DEG) +1890% - entered the All Ordinaries on June 22nd this year after a huge price increase over the first half of the year since a high-grade gold discovery in February and ongoing, promising drilling results through the balance of the year.

Chalice Mining (CHN) +1633% - also entered the All Ordinaries on June 22nd. Continuous high-grade drill results released through the year saw Chalice experience a sustained rally.

Redbubble (RBL) +389% - an index constituent for the entire year. The online multivendor marketplace for printing artwork experienced significant revenue growth through 2020 with the spike in e-commerce activity.

Temple & Webster (TPW) +307% - entered the index June 22nd. The company was held in the JMFG Small Companies Strategy from the start of the year until October.

Afterpay (APT) +303% - an index constituent for the entire year. The buy now pay later company lost over 60% of its value in March with market concerns around bad debts in a weakening economic environment. Afterpay then proceeded to grow substantially through the year with the boom in e-commerce spending and is now one of the largest companies in the Australian market.

AVZ Minerals (AVZ) +295% - an index constituent for the entire year. AVZ is an explorer with a large lithium asset in DRC.

Liontown Resources +291% - entered the index June 22nd. Liontown owns a lithium project in Western Australia, and resources in Tanzania.

Cardinal Resources (CDV) +258% - an index constituent for the entire year. A gold explorer with assets in Ghana.

Pilbara Mineral (PLS) +234% - an index constituent for the entire year. Pilbara owns a significant lithium asset in Western Australia.

Sezzle (SZL) +195% - entered the index June 22nd. The buy now pay later company has been held in the JMFG Australian Equities Strategy and the JMFG Small Companies Strategy since June.

The worst performers in 2020 were particularly concentrated in the energy sector with decreased economic activity substantially reducing demand for energy products. Furthermore, companies with high levels of debt or operating leverage were also among the worst performers as they struggled to cover fixed charges in the face of declining revenues. Other poor performers included companies that experienced strong performances in 2019 but failed to deliver on expectations in 2020 and subsequently fell substantially.

Worst Performers of the All Ordinaries for 2020

The worst performers of the All Ordinaries for 2020 were:

Liquefied Natural Gas (LNG) -77% - price fell significantly early in the year before going into voluntary administration and being suspended in May after failing to obtain additional funding.

FAR (FAR) -75% - a small oil and gas producer. Has been suspended since September after deciding to sell the company's main asset.

MMA Offshore (MRM) -73% - provides services to oil and gas companies.

US Masters Residential Property Fund -74% - holding New York residential real estate assets, a high debt level and plagued by large fees.

Phoslock Environmental Technologies (PET) -70% - a water technology company with accounting irregularities.

Decmil Group (DCG) -68% - a provider of construction and engineering services losing expected revenue in a contract dispute.

ResApp Health (RAP) -66% - software for respiratory disease diagnosis.

Bathurst Resources (BRL) -65% - a coal producer.

Mosaic Brands (MOZ) -64% - a bricks and mortar apparel retailer.

NetLinkz (NET) -62% - a small software-based networking company.