

## Leaders Strategy – Investment Newsletter

Performance (As at 31 <sup>st</sup> December 2020)	Month (%)	Rolling 3 Months (%)	Rolling 1yr (%)	Rolling 3yrs (%)	Inception Gross (%)	Inception Annualised (%pa)
<b>JMFG Leaders Strategy</b>	<b>+2.62</b>	<b>+11.43</b>	<b>+7.14</b>	<b>+20.43</b>	<b>+54.85</b>	<b>+6.96</b>
ASX 200 Accumulation Index	+1.21	+13.70	+1.40	+21.57	+60.31	+7.53
<b>Outperformance</b>	<b>+1.41</b>	<b>-2.27</b>	<b>+5.74</b>	<b>-1.14</b>	<b>-5.46</b>	<b>-0.57</b>

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 – and is after management fees (post 1 Jan 17) and taxes (excluding imputation credit benefits). 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 JMFG Leaders 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. The Strategy did outperform in December, returning +2.62% against the S&P/ASX 200 Accumulation index which returned just 1.21%. Overall, however, the Strategy produced a successful year with a total return of 7.14% and an excess return, after all management fees and GST, of 5.74%. The JMFG Leaders Strategy has achieved an annualised total return of 6.96%, after all management fees. The Strategy's focus on income over capital growth generally means it tends to track relatively close to its benchmark.

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.

December was a quiet trading month for the Leaders Strategy. We exited our position in TPG Telecom and entered into Nuix, a recent technology IPO.

The strongest performers for the portfolio during the month included:

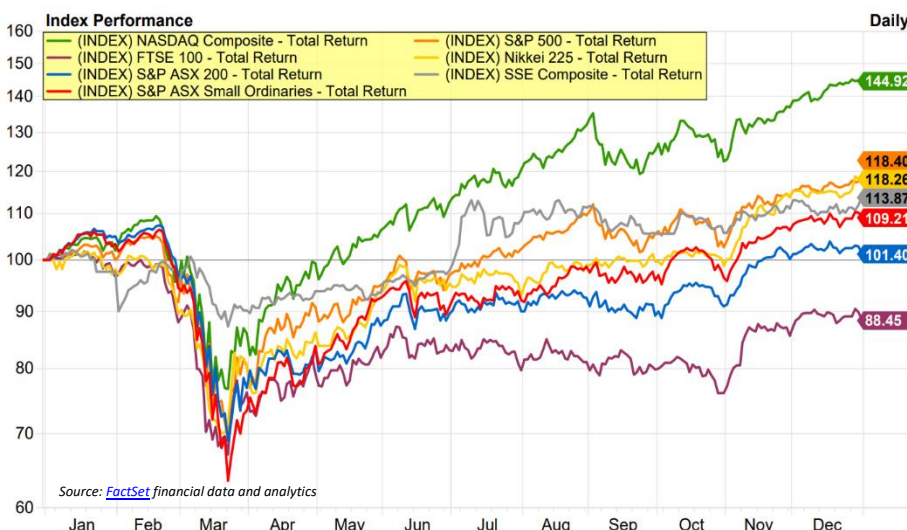
- Fortescue Metals Group +29, PolyNovo +21%, Pro Medicus +16%, and Rio Tinto +12%

The weakest performers for the portfolio during the month included:

- Appen -22%, Aurizon Holdings -8%, 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 S&P/ASX 200 Accumulation Index delivered a 1.4% 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 S&P/ASX 200 for 2020

The best performers of the S&P/ASX 200 for 2020 were:

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.

Pilbara Minerals (PLS) +234% - an Australian lithium miner. Pilbara underperformed at the beginning of the year such that it was removed from the S&P/ASX 200 index in June, but went on to rise over 250% since October with the recovering lithium price.

Kogan.Com (KGN) +153% - entered the index June 22<sup>nd</sup> with the boom in e-commerce spending.

Fortescue Metals (FMG) +135% - an index constituent for the entire year and a substantial beneficiary from the strong iron ore price.

Mineral Resources (MIN) +133% - an index constituent for the entire year and another strong-performing iron ore producer.

Netwealth (NWL) +106% - an index constituent for the entire year. Netwealth had over 110% growth in their managed assets for 2020.

PolyNovo (PNV) +97% - an index constituent for the entire year. PolyNovo had continued strong sales growth in their product NovoSorb. PolyNovo has been a long-term holding in all JMFG Strategies.

Hub24 (HUB) +92% - an Australian wealth management platform. Tracking similarly to Pilbara, Hub24 underperformed during the first half of the year, was removed from the S&P/ASX 200 index in June, then recovered substantially towards the end of the year.

NEXTDC (NXT) +86% - an index constituent for the entire year. Strong demand for data centre space has NEXTDC planning future builds which will see continued earnings growth for many years.

Xero (XRO) +84% - an index constituent for the entire year. Xero continued to increase its accounting software subscribers during the pandemic and is now cash flow positive.

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 consequently fell substantially.

### Worst Performers of the S&P/ASX 200 for 2020

The worst performers of the All Ordinaries for 2020 were:

Southern Cross Media (SXL) -62% - removed from the index on September 21<sup>st</sup> after coming into 2020 with a substantial debt level.

Avita Therapeutics (AVH) -62% - removed from the index on December 21<sup>st</sup>. Avita is a skin repair biologic and had a large rise in 2020 but failed to deliver on expectations.

Flight Centre Travel (FLT) -60% - an index constituent for the entire year. The travel retailer was one of the worst-affected travel stocks.

Unibail-Rodamco-Westfield (URW) -51% - an index constituent for the entire year. The mall owner suffered from retailers not paying rent.

IOOF Holdings (IFL) -48% - an index constituent for the entire year, a troubled wealth manager facing allegations of corporate misconduct.

Oil Search (OSH) -47% - an index constituent for the entire year, an oil producer hurt by the falling oil price.

Webjet (WEB) -46% - an index constituent for the entire year. Webjet is a travel bookings business burning through cash reserves in 2020.

oOh!media (OML) -42% - removed from the index on September 21<sup>st</sup> as the outdoor advertiser's revenue fell significantly.

Origin Energy (ORG) -41% - an index constituent for the entire year. Origin is an energy retailer with a substantial investment in natural gas.

Treasury Wine Estates (TWE) -40% - an index constituent for the entire year. Hurt by Chinese anti-dumping measures against winemakers.