

Small Companies Strategy – Investment Newsletter

Performance (As at 31 st December 2020)	Month (%)	Rolling 3 Months (%)	Rolling 1yr (%)	Rolling 3yrs (%)	Inception Gross (%)	Inception Annualised (%pa)
JMFG Small Companies Strategy	+1.94	+7.67	+21.48	+58.04	+198.64	+18.32
Small Ords Accumulation Index	+2.76	+13.83	+9.21	+21.05	+75.78	+9.06
Outperformance	-0.82	-6.16	+12.27	+36.99	+122.86	+9.26

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 December

The JMFG Small Companies Strategy had a comparatively 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 avoid on the basis that it tends not to produce high returns over any sustained period. Overall, however, the Strategy produced another successful year with an excess return, after all management and performance fees and GST, of 12.27% and a total return for the year of 21.48%. Pleasingly, the JMFG Small Companies Strategy achieved both a total return and an excess return ahead of its long-run annualised average total return of 18.32% and long-run annualised average excess return of 9.26%.

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.

We continued to build a slightly more defensive tilt into our portfolios, increasing our exposure to gold by adding to positions in Aurelia Metals and St Barbara, and introducing Regis Resources into the portfolio, partly offset by the removal of Saracen Minerals, which has moved into the ASX100. We also exited Appen, which has also moved into the ASX100, as well as the small positions in Aroa Biosurgery and United Wireless. These stocks were replaced with positions in lower-multiple businesses, Mineral Resources and NRW Holdings. We added to our position in Super Retail Group and reduced our position in PolyNovo following price strength.

The strongest performers for the portfolio during the month included:

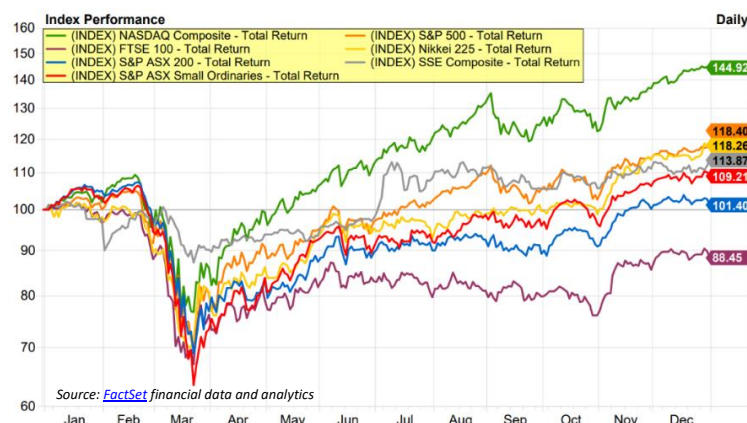
- Imdex +26%, PolyNovo +21%, Mineral Resources +16%, and Pro Medicus +16%

The weakest performers for the portfolio during the month included:

- Opthea -17%, Tesserent -6%, Universal Biosensors -5%, and Netwealth -5%

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.

Best & Worst Performers for December 2020

JMFG Small Companies Strategy		ASX Small Ordinaries Index	
Best	Worst	Best	Worst
Imdex - IMD	Opthea - OPT	City Chic Collective - CCX	Mesoblast - MSB
PolyNovo - PNV	Tesseract - TNT	IGO Ltd - IGO	Service Stream - SSM
Mineral Resources - MIN	Universal Biosensors - UBI	Asaleo Care - AHY	Integrated Research - IRI

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

Imdex (IMD) – up 26% for the month. Imdex continued to benefit from the resurgence across the mining industry with its global exposure in drilling optimisation products and sensors being used across gold, copper, iron ore and a range of other minerals.

City Chic Collective (CCX) – up 46% for the month (Not held). City Chic Collective announced the acquisition of the leading UK plus size brand Evans for A\$46m, adding to their portfolio of brands across Australia/New Zealand, North America, and the United Kingdom.

Opthea (OPT) – down 16% for the month. With little news flow since its capital raising and listing in North America, the company has continued to drift despite several positive broker recommendations emanating from North America since its new listing.

Mesoblast (MSB) – down 46% for the month (Not held). The rollercoaster ride continues at Mesoblast. The company announced mid-December that its randomised controlled trial remestemcel-L in ventilator-dependent patients with moderate to severe acute respiratory distress syndrome (ARDS) due to COVID-19 infection was not likely to meet the 30-day mortality reduction endpoint.

Mineral Resources (MIN)

Mineral Resources is a diversified mining business with five core divisions comprising:

- **Mining Services:** Offered through CSI Mining Services and Process Minerals International (PMI). CSI provides contract crushing, screening, processing, and specialist mining services. Mining services include design, manufacturing, commissioning, and ongoing site operation and maintenance, as well as materials handling, plant and equipment hire/maintenance, tailings recovery, mine design, engineering and construction. PMI specialises in all facets of new mines through to initial production.
- **Commodities:** Comprises investments in a portfolio of mining assets in the Pilbara and Yilgarn regions of WA with major projects in iron ore and lithium.
- **Construction Projects:** Involves investing in future projects that potentially support the company's mining services operations.
- **Innovation & Infrastructure:** Helps to pioneer solutions to improve efficiencies across mining operations both for clients and its own internal projects.
- **Energy:** Aims to source clean energy and reduce carbon emissions across all operations, with a dedicated centralised team allowing better management of energy projects, efficiencies, and sharing learnings across operations.

Mineral Resources reports two key financial segments being Mining Services and Commodities, the latter being its direct commodity interests. The commodities segment is dominated by Mineral Resources' interests in iron ore, both in terms of revenue and earnings, with its lithium interests operating at break even. The current strong iron ore price should see further growth in the Commodities division in FY21.

Operating Segments (\$ million)	FY19 Revenue	FY19 Underlying EBITDA	FY19 Margin	FY20 Revenue	FY20 Underlying EBITDA	FY20 Margin
Mining Services	850	209	25%	1,275	359	28%
Commodities	1,184	246	21%	1,684	457	27%
Central	-	(8)		-	(28)	
Inter-segment	(523)	(15)		(834)	(23)	
MRL Group	1,512	433	29%	2,125	765	36%

Source: Mineral Resources FY20 Presentation