JM Financial Group

Issue 74: June 2021

Australian Equities Strategy – Investment Newsletter

Performance *(As at 30th June 2021)*	Month (%)	Rolling 3 Months (%)	Rolling 1yr (%)	Rolling 3yrs (%)	Inception Gross (%)	Inception Annualised (%pa)
JMFG Australian Equities Strategy	**+1.61**	**+7.41**	**+19.76**	**+24.87**	**+87.14**	**+9.37**
All Ords Accumulation Index	+2.56	+8.66	+30.24	+34.20	+86.64	+9.33
Outperformance	**-0.95**	**-1.25**	**-10.48**	**-9.33**	**+0.50**	**+0.04**

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 after management fees (post 1 Jan 2017), performance fees (paid or accrued), GST, and excludes the effect of franking credits. Strategy Inception for Performance Data is July 1st, 2014.

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

The JMFG Australian Equities Strategy returned 19.76% over the last 12 months, and whilst this performance lagged the benchmark, we feel that some caution is required during the current period of high valuations and extremely low interest rates. Hence, we are carrying more cash than usual, at around 13%.

For June, I.T. was the best-performing sector in the broader market, rising 13.4% for the month. Other strong-performing sectors included Telecommunications +5.6%, Property Trusts +5.5%, Consumer Staples +5.3%, Consumer Discretionary +4.5%, and Energy +4.0%. The worst-performing sector for June was Financials -0.2%, which was also the only sector down for the month. The other weak sectors of the broader market included Materials +0.3%, HealthCare +2.2%, Industrials +3.0%, and Utilities +3.5%.

Larger companies overall underperformed small companies during the month of June. The S&P/ASX 200 Accumulation Index returned 2.26% for the month, trailing the S&P/ASX Small Ordinaries Accumulation Index, which returned a strong 3.08%.

Several adjustments were made to the portfolio during June. Woolworths Group and Worley were added to improve the defensive qualities of the portfolio and balance against some of our riskier positions. We continued our buying of Chalice Mining and Lotus Resources, and trimmed positions in a number of other securities.

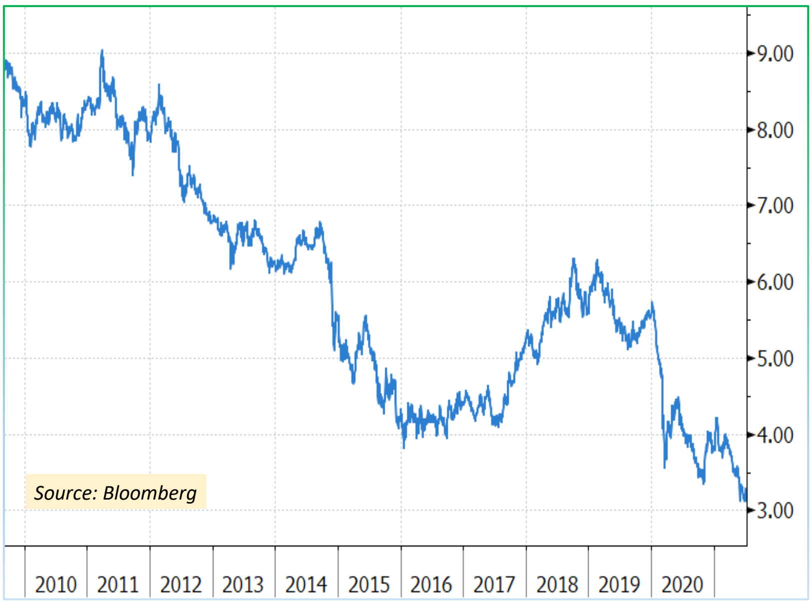
The strongest performers for the portfolio during the month included:

- Universal Biosensors +14%, Pro Medicus +27%, Megaport +23%, and Netwealth Group +18%

The weakest performers for the portfolio during the month included:

- Northern Star -16%, Chalice Mining -15%, Alcidion Group -13%, and Opthea -12%

Chart of the Month – S&P/ASX 200 Energy Proportion of the S&P/ASX 200



Over a year after going negative, the oil price has recovered substantially, reaching its highest level in three years in recent weeks. Similarly, coal lost ~60% of its value between 2018 and 2020 but has surged almost 200% since bottoming in August last year. However, energy companies continue to shrink as a proportion of the Australian indices. The chart to the left shows the S&P/ASX 200 Energy Index market capitalisation as a proportion of the S&P/ASX 200, illustrating its broad overall decline over 10 years has resumed, despite the recent rallies. To some extent, this can be explained by the fact that a mature industry, such as the energy sector, pays out a substantial amount of its earnings as dividends, while other less mature industries will return fewer dividends and invest more. However, energy has over this time greatly underperformed equally mature sectors, such as banks, which also pay substantial dividends. A more likely explanation for the move is a decreased appetite among investors for coal, oil and gas producing companies.

JMFG Australian Equities Strategy		ASX All Ordinaries Index	
Best	**Worst**	**Best**	**Worst**
Universal Biosensors (UBI)	Northern Star (NST)	Australian Strategic Materials (ASM)	Cyclopharm (CYC)
Pro Medicus (PME)	Chalice Mining (CHN)	Bubs Australia (BUB)	Seafarms Group (SFG)
Megaport (MP1)	Alcidion Group (ALC)	Altium (ALU)	Ora Branda Mining (OBM)

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

Universal Biosensors (UBI) – up 29% for the month. In early June, Universal Biosensors announced guidance for sales of the Sentia wine testing product, forecasting the company would reach $1 million in sales by the end of September. Towards the end of June, the company released sales numbers for the Sentia device for the year to date, indicating sales were already nearing $0.8 million.

Australian Strategic Materials (ASM) – up 64% for the month (Not held). Australian Strategic Materials is developing the long-life Dubbo Project to produce a range of in-demand metals such as zirconium and niobium. While there were no major announcements during June, prices for zirconium and zirconium-based compounds rose strongly, driving the share price up in sync.

Northern Star (NST) – down 16% for the month. During June, the price of gold fell 7.2% from US$1907 to US$1770 while the S&P/ASX All Ordinaries Gold Index lost 13.0% in value. Northern Star fell in line with other major producers.

Cyclopharm (CYC) – down 42% for the month (Not held). Cyclopharm is developing a lung ventilation imaging system whereby a patient inhales a gas to allow a SPECT camera to capture multiple images of the patient's lung. Towards the end of June, Cyclopharm announced that it had received notification from the FDA that the Technegas New Drug Application required more work, delaying the expected launch of the product by 9 months.

Due Diligence

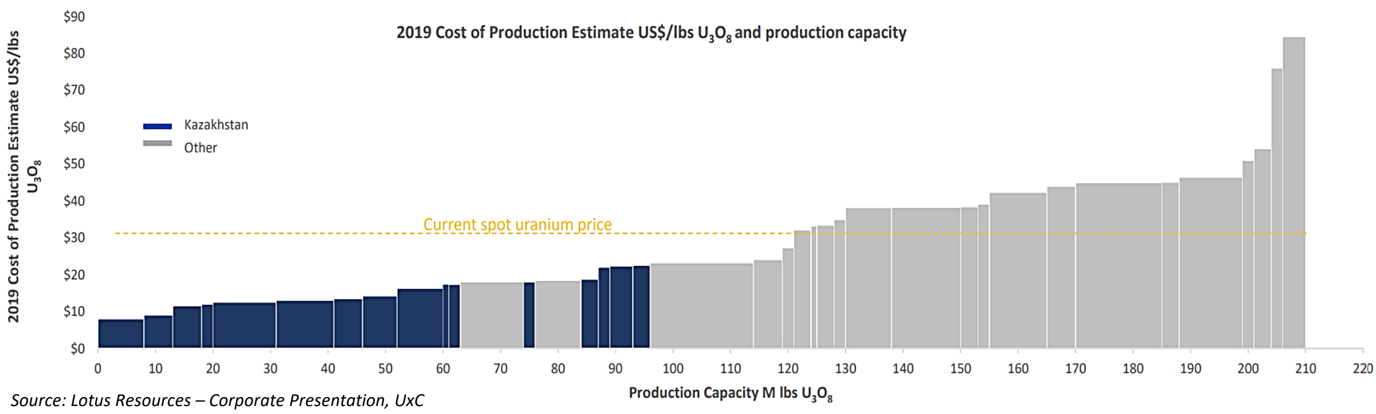
Uranium Supply and Demand

Since Uranium prices bottomed in late 2016, the spot uranium price has recovered 80% and lead to growing interest in the market as to how far prices can continue to rally. Market views on the future of the uranium price are particularly contentious, with strong views on how nuclear energy will play a part in future energy production and where the uranium supply will come from. With Australia having the largest uranium reserves of any country and several large mining companies having some exposure to uranium mining, it is worth understanding the uranium market dynamics and possibilities.

With USA's new president championing a focus on "clean energy", the world increasing 2050 targets for a reduction in carbon emissions, and reaching the tail end of several nuclear weapon disarmament projects that had produced a steady amount of nuclear fuel, many analysts argue that uranium is headed for a squeeze that could send the price soaring as it did in 2007. While the uranium price is now marginally above US$30/lbs, the price rose to over US$100/lbs during 2007 before crashing, reflecting what can happen in the event of a squeeze.

Market analysts bearish on uranium look to the low cost of production out of Kazakhstan, as shown below, and the potential for the country to supply substantial amounts of ore below the current spot price. According to the March 2021 Australian Resources and Energy Quarterly Report, Kazakhstan was responsible for 41% of worldwide uranium production and is the lowest-cost producer. Furthermore, there are substantial civil stockpiles worldwide which are gradually being drawn down. Given these substantial inventories, it could be difficult to maintain high uranium prices if uranium consumers begin to draw down more of the civil stockpiles as prices rise. While this drawdown of stockpiles cannot last indefinitely, it could provide time for lower-cost mines to come online and provide supply into any uranium shortage.

Many large Australian miners have exposure to uranium either as a by-product of a mine for another metal or by a separate uranium mining operation. BHP's Olympic Dam is one of the largest copper deposits in the world but is also the largest known uranium deposit which produced 3.7kt of uranium in 2020. Rio Tinto holds a majority stake in Energy Resources of Australia from which it produced 1.3kt of uranium. There are also several smaller listed pure-play uranium miners getting attention with the recent price rises.



Source: Lotus Resources – Corporate Presentation, UxC