JM Financial Group

Issue 79: November 2021

Small Companies Strategy – Investment Newsletter

Performance (As at 30th November 2021)	Month (%)	Rolling 3 Months (%)	Rolling 1yr (%)	Rolling 3yrs (%)	Inception Gross (%)	Inception Annualised (%pa)
JMFG Small Companies Strategy	**+0.85**	**+1.64**	**+5.38**	**+71.55**	**+215.67**	**+16.76**
Small Ords Accumulation Index	-0.31	-1.54	+18.44	+46.38	+102.62	+9.99
Outperformance	**+1.16**	**+3.18**	**-13.06**	**+25.17**	**+113.05**	**+6.78**

Although the JMFG Small Companies 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 events that influenced the share market and portfolio in November

For the month of November, the JMFG Small Companies strategy exceeded its benchmark, gaining 0.85% versus the Small Ordinaries Accumulation Index losing 0.3%, while also outperforming over the last 3 months. Although the strategy hasn't performed up to its historical standards over the past 12 months, it still has very strong longer-term performance, averaging a positive 16.76% per annum after fees and taxes since inception over 7 years ago. We are still seeing continued signs of a turnaround in the relative performance of many companies in the portfolio.

The best-performing sector for November was Materials which rose by a substantial 6.3%. Other strong-performing sectors in November were Telecommunications +5.2%, Consumer Staples +4.5%, and Real Estate Trusts +4.3%. Energy was the worst-performing sector falling 8.3% on concerns that new coronavirus strains may extend pandemic conditions. Other weak sectors included Financials -6.5%, I.T. -2.9%, and Consumer Discretionary -1.3%.

Through November we made several small adjustments to the portfolio, locking in profits, moderating risk, and taking advantage of buying opportunities in the pandemic-related temporary volatility. Broadly, we moderated exposure to Consumer Discretionary and Staples, I.T., and Healthcare sectors and shored up our position in Materials. The portfolio cash position remained steady around 4.5%.

The strongest performers for the portfolio during the month included:

- Chalice Mining +49%, Strandline Resources +28%, Universal Biosensors +20%, and Megaport +19%

The weakest performers for the portfolio during the month included:

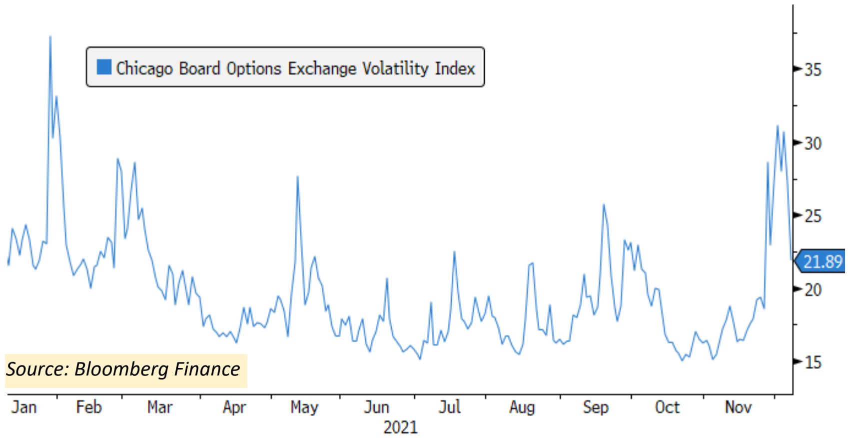
- PolyNovo -20%, Beamtree Holdings -15%, Webjet -13%, and Alcidion Group -12%

Chart of the Month – Volatility Index 2021

The Chicago Board Options Exchange Volatility Index, or the VIX, measures the implied volatility of S&P 500 options expiring over the following 30 days. The VIX is often referred to as a 'fear index' and is the most popular tool used to estimate equity market uncertainty. Towards the end of November, the VIX spiked to levels not seen since early in the year on news of the emerging Omicron COVID variant and the US Federal Reserve signalling faster tapering. However, even at these relatively high levels, the VIX is still nowhere near the 82 mark it reached during the crash in March 2020 at the start of the pandemic.

The Omicron variant is likely the biggest influence over the VIX's recent move, as its transmissibility, lethality, and immunity from vaccines remain uncertain for the time being. The energy sector has been the hardest hit by the news, with WTI Crude prices tumbling 25% in November, as the Omicron-related threat of further restrictions is a risk to the demand side of the equation.

VIX spikes are generally short-lived as markets process new information. This was the case with the Omicron variant of Covid-19, as the VIX at the time of writing is already trading below 20 from an intraday high of 35.2 one week ago. An early assessment of news flow from South Africa is that Omicron, while seemingly more contagious, is not increasing the rate of hospitalisation. As such, the volatility was used as an opportunity to add to positions in sectors that were impacted.



JMFG Small Companies Strategy		ASX Small Ordinaries Index	
Best	**Worst**	**Best**	**Worst**
Chalice Mining (CHN)	PolyNovo (PNV)	Novonix (NVX)	Tyro Payments (TYR)
Strandline Resources (STA)	Beamtree Holdings (BMT)	Chalice Mining (CHN)	Nearmap (NEA)
Universal Biosensors (UBI)	Webjet (WEB)	Nickel Mines (NIC)	Nuix (NXL)

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

Chalice Mining (CHN) – up 49% for the month. Chalice benefitted from a few good announcements and activities – overall market sentiment for materials sector improved, company demerged its gold projects as Falcon Metals Ltd, and its maiden mineral resource announcement for the Gonneville PGE-Ni-Cu-Co-Au deposit at Julimar exceeded expectations.

Novonix (NVX) – up 61% for the month (Not held). Company has benefitted from reinvention under its renewed Board in recent years and is now seeing all time-highs on future growth expectations as it plans to deliver locally produced innovative anode and cathode materials for North American electric vehicle and grid storage battery demand and taking advantage of US government spending plans in this sector. Novonix opened a new manufacturing and R&D facility in Tennessee during the month.

PolyNovo (PNV) – down 20% for the month. PolyNovo continues its slide amid adverse overall sentiment for Healthcare sector components whose growth depends on unfettered access to hospitals for sales and promotion activities. PolyNovo was also impacted by the announcement of the resignation of its Managing Director Paul Brennan.

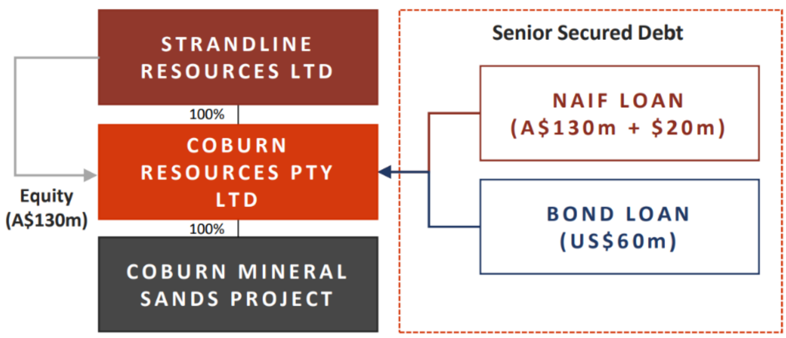
Tyro Payments (TYR) – down 29% for the month (Not held). Despite steady growth in transaction value, Tyro's share price support has weakened dramatically this month – possibly due to initial concerns around potential retail impact while the Omicron-variant of Covid-19 became a variant of concern, or due to the potential competitive landscape impact of Square taking over Afterpay and listing in Australia.

Due Diligence – *A closer look at a stock of interest*

Strandline Resources (STA)

Strandline is a mineral sands exploration and development company with assets in both Australia and Tanzania. Currently, the main priority for the company is the Coburn Mineral Sands Project in Western Australian which is on track for first production of heavy minerals in the last quarter of next year. Strandline has already raised the required capital for the project and has 100% of its production covered by offtake agreements, largely de-risking the project.

COBURN'S FUNDING STRUCTURE

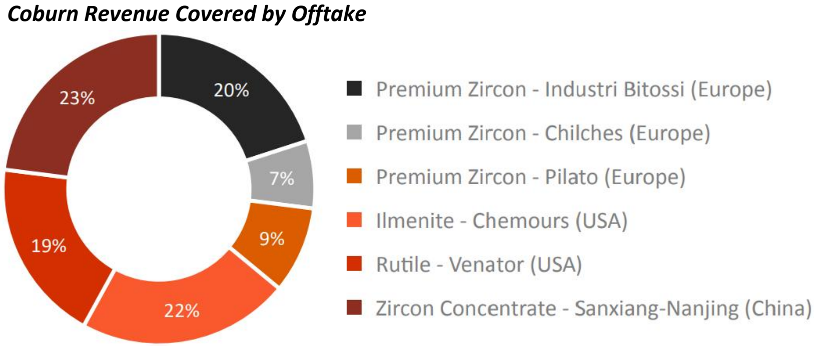


Source: Strandline Resources Investor Presentation, 10/11/2021

The Coburn Project is Strandline's flagship asset with construction currently progressing ahead of schedule to reach first production. Based on the expectations of the Definitive Feasibility Study, the Coburn Project is expected to produce an average annual EBITDA of A$104m over 22.5 years. Since the release of the DFS, mineral sands prices have continued to be strong and operating costs continue to be locked in on budget, putting Strandline in a position to beat the estimates provided in its DFS. In late November, the company announced that it had entered a 10-year transport and storage agreement with Qube, meaning that Strandline now has 65% of all its operating costs locked in at or below budget.

While not as advanced as the Coburn Project, Strandline's Tanzania Mineral Sands Projects are well positioned and continue to progress. In early December, it was announced that Strandline was invited to a contract signing ceremony with the Tanzanian Government for the Tanzanian Project which will outline the key aspects of the development.

Coburn Revenue Covered by Offtake



Source: Strandline Resources Annual Report 2021

While greenfield site development is inherently risky, Strandline has already cleared many of the significant hurdles. Being fully funded and having offtake agreements for 100% of the mineral sands production sets the company up well to commence production. There remains exposure to construction risk and unexpected cost blowout events or delays with ~30% of construction completed so far. However, as Strandline is currently progressing ahead of schedule and at or below budget, the company has some headroom to deal with surprises. Overall, Strandline has potential to rerate and de-risk if construction continues smoothly and the company nears first production.