JM Financial Group

Issue 74: June 2021

Small Companies Strategy – Investment Newsletter

Performance *(As at 30th June 2021)*	Month (%)	Rolling 3 Months (%)	Rolling 1yr (%)	Rolling 3yrs (%)	Inception Gross (%)	Inception Annualised (%pa)
JMFG Small Companies Strategy	**+2.25**	**+7.25**	**+28.82**	**+62.16**	**+216.90**	**+17.92**
Small Ords Accumulation Index	+3.08	+8.50	+33.23	+28.09	+94.70	+9.99
Outperformance	**-0.83**	**-1.25**	**-4.41**	**+34.07**	**+122.20**	**+7.93**

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 June

The JMFG Small Companies Strategy rose 2.25% for the month, falling short of the ASX Small Ordinaries Accumulation Index, which rose 3.08%, resulting in minor underperformance against the benchmark of 0.83%. The Strategy underperformed its benchmark by 1.25% for the rolling 3 months and has underperformed the benchmark by 4.41% for the rolling year after all fees. The annualised return since inception, over six years ago, is 17.92%, outperforming its benchmark return of 9.99% p.a. in the long term.

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%.

During the month, we added Warrego Energy to the portfolio and subsequently participated in a placement undertaken by the company. Warrego has a 50% interest in a joint venture in the Perth Basin and is currently focused on drilling and testing the West Erregulla Gas Project. Warrego Energy replaces Beach Energy for energy exposure in the Small Companies Strategy, Beach was removed from the portfolio during the month. During June, we also continued the buying of Dusk Group we commenced in the previous month and began selling down positions in Mineral Resources, Universal Biosensors, and Top Shelf International Holdings. Mineral Resources and Universal Biosensors have been strong performers for the JMFG Small Companies Strategy during FY21 and the sell-down brings these positions back to more suitable weights.

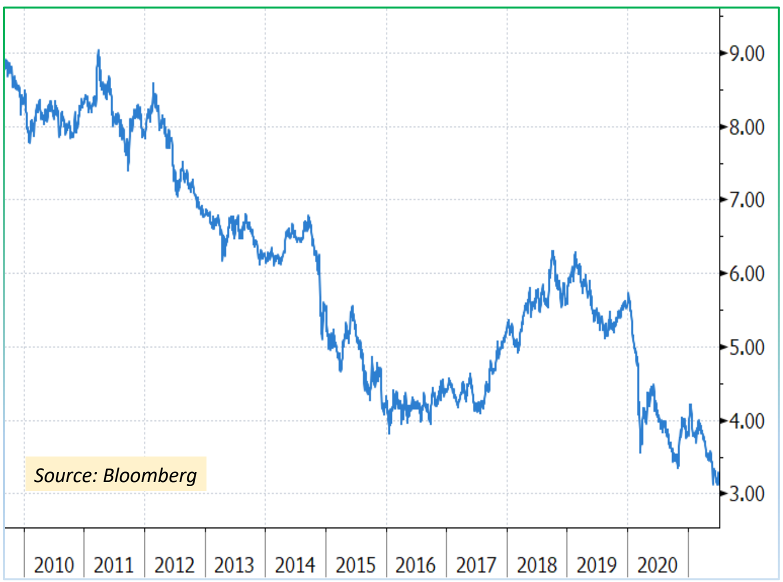
The strongest performers for the portfolio during the month included:

- Universal Biosensors +29%, Pro Medicus +27%, Megaport +23%, and Brickworks +20%

The weakest performers for the portfolio during the month included:

- Alcidion Group -13%, Top Shelf International -12%, Opthea -12%, and Regis Resources -11%

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 Small Companies Strategy		ASX Small Ordinaries Index	
Best	**Worst**	**Best**	**Worst**
Universal Biosensors (UBI)	Alcidion Group (ALC)	Telix Pharmaceuticals (TLX)	De Grey Mining (DEG)
Pro Medicus (PME)	Top Shelf (TSI)	Bubs Australia (BUB)	Nuix (NXL)
Megaport (MP1)	Opthea (OPT)	Marley Spoon (MMM)	Genworth Mortgage (GMA)

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.

Telix Pharmaceuticals (TLX) – up 35% for the month (Not held). Telix Pharmaceuticals is a biotechnology company focused on developing radiation therapy drugs for the treatment of different forms of cancer. During June, the company gave an update on the FDA New Drug Application for Illuccix, a product used for prostate cancer screening. The FDA noted there were not any outstanding issues in the application submission, indicating Illuccix is on track for approval towards the end of 2021.

Alcidion Group (ALC) – down 13% for the month. After several strong-performing months, Alcidion Group share prices slipped during the month of June with no major announcements being made. The company did give a UK-focused presentation which included details on the market dynamics faced in the UK, the current low level of market penetration, and Alcidion's opportunity within the NHS. On the last day of the month, the company also announced that a co-founder had resigned as a Non-Executive Director of the company.

De Grey Mining (DEG) – down 21% for the month (Not held). During June, the price of gold fell 7.2% from US$1907 to US$1770 while the S&P/ASX All Ordinary Gold Index lost 13.0% in value. De Grey is particularly leveraged to the gold price as it is currently primarily focused on exploration and firming of its gold resource, and a falling gold price negatively affects the company's future ability to raise capital to fund further exploration or build processing plants.

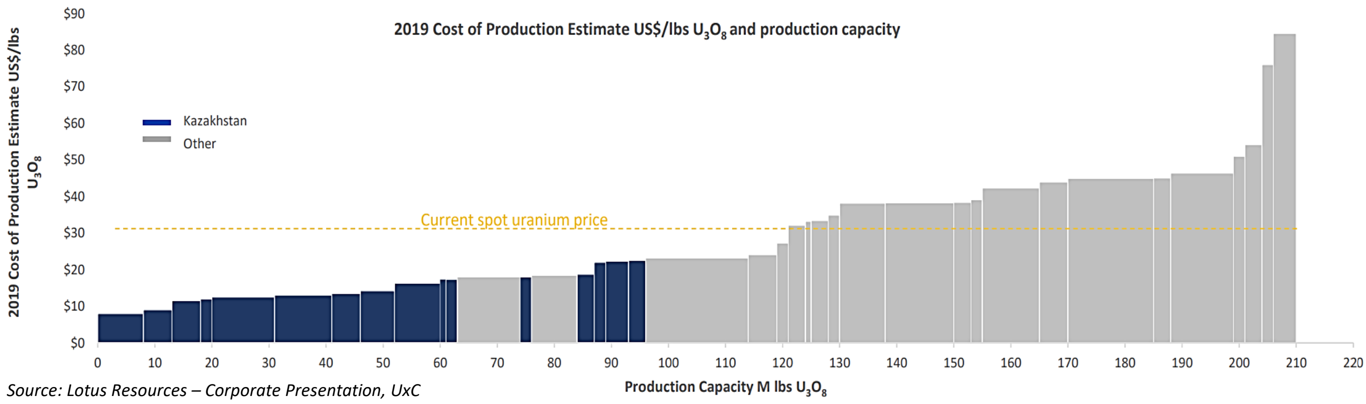
Due Diligence – *A closer look at a stock of interest*

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