JM Financial Group

Issue 79: November 2021

Australian Equities Strategy – Investment Newsletter

Performance (As at 30th November 2021)	Month (%)	Rolling 3 Months (%)	Rolling 1yr (%)	Rolling 3yrs (%)	Inception Gross (%)	Inception Annualised (%pa)
JMFG Australian Equities Strategy	**+0.96**	**+1.90**	**+9.12**	**+40.74**	**+90.54**	**+9.08**
All Ords Accumulation Index	-0.33	-1.76	+16.69	+46.77	+90.12	+9.05
Outperformance	**+1.29**	**+3.66**	**-7.57**	**-6.03**	**+0.42**	**+0.03**

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 November

For the month of November, the JMFG Australian Equities strategy outperformed the All Ordinaries Accumulation Index by 1.29%, finishing the month up 0.96% and the rolling 3 months up 1.9%. The improvement in relative performance has continued, bringing the 12-month return to 9.12%, after fees and taxes. Whilst the strategy has underperformed the benchmark in prior periods, we continue to see encouraging signs of improved performance from many of our individual holdings, as covered in previous newsletters. Our recent bias towards the resources sector is paying dividends as global economies recover.

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 the Banks, Healthcare, and Consumer Staples sectors and shored up our position in Materials, including some gold exposure. The portfolio cash position increased to around 7%.

The strongest performers for the portfolio during the month included:

- Chalice Mining +49%, Universal Biosensors +20%, Megaport +19%, and Pilbara Minerals +18%

The weakest performers for the portfolio during the month included:

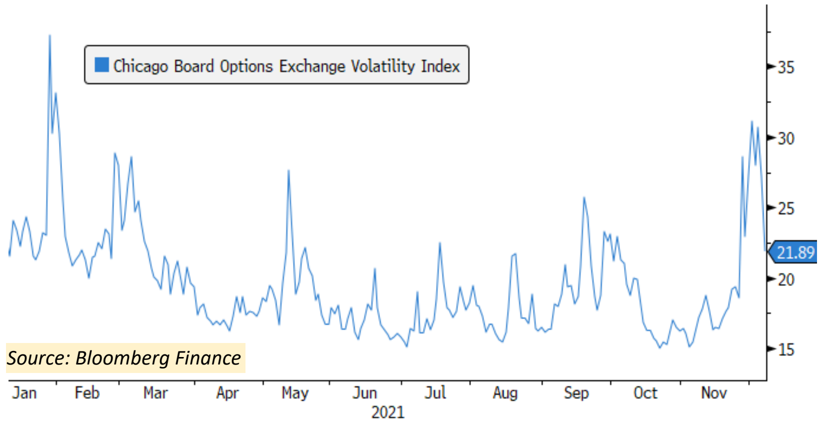
- DGL Group -18%, Serko -17%, Westpac Banking Group -17%, and Worley -12%

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.



Source: Bloomberg Finance

JMFG Australian Equities Strategy		ASX All Ordinaries Index	
Best	**Worst**	**Best**	**Worst**
Chalice Mining (CHN)	DGL Group (DGL)	AVZ Minerals (AVZ)	Laybuy Group Holdings (LBY)
Universal Biosensors (UBI)	Serko (SKO)	Novonix (NVX)	Damstra Holdings (DTC)
Megaport (MP1)	Westpac Banking Group (WBC)	Pantoro (PNR)	Splitit Payments (SPT)

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.

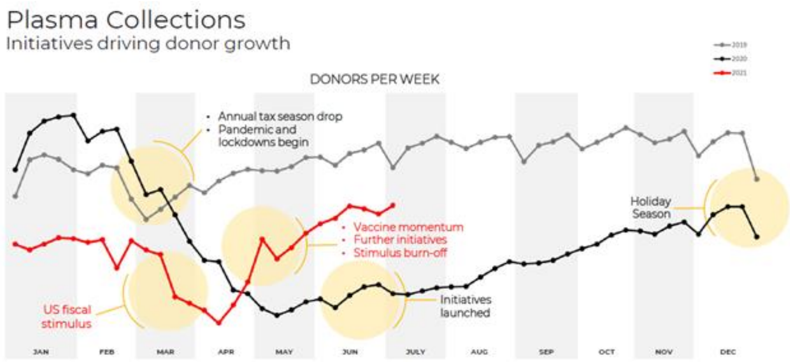
AVZ Minerals (AVZ) – up 94% for the month (Not held). AVZ announced a JV with Suzhou CATH Energy Technologies for $240M equity funding to develop its Manono Lithium and Tin Project. Other funding negotiations also underway to support the entirety of its construction requirements. AVZ also joined the DRC Battery Council, a good sign that the DRC Government endorses AVZ's participation in its battery minerals supply chain development commitments.

DGL Group (DGL) – down 18% for the month. DGL acquired Austech Chemicals to add its unique IP around chemical formulations used in the automotive industry - costing $13M cash and 5.3m shares in DGL. DGL also closed its acquisition of Shackell Transport P/L for $9m cash and stock. This follows immediately after completing AUSBlue and Profill Industries acquisitions.

Laybuy Group Holdings (LBY) – down 41% for the month (Not held). Company revised its FY22 revenue growth guidance vs prior year from 90-100% down to 60-70%, despite growing 1H revenues from NZ$13M to $21M and cited lower average UK commissions than expected as the main cause. The overall Buy Now Pay Later related industry has seen declining investor sentiment in recent months.

Due Diligence – *A closer look at a Company of Interest – CSL Limited (ASX: CSL)*

CSL Limited is the poster child of Australian biotech success stories, listing in June 1994 at $2.30 (adjusted price of $0.76) then climbing steadily to a pre-COVID high of $342 before trading around $300 recently. Revenue has grown from just under A$200m at listing to US$10.3bn in FY21. CSL is a quality company with strong management, defensible earnings due to lifesaving products, industry leading margins, a strong track record of product development and acquisition, several late-stage products in the pipeline coming to market over the next few years, and strong growth prospects amongst its existing products due to large unmet demand.



Source: CSL Ltd

A longer-term position in CSL is expected to be maintained for the above reasons. However, the positions in Australian Equities and Leaders were reduced to below market weight due to CSL trading close to all-time highs of 45x Price to Earnings ratio and on concerns that plasma collection would take longer to recover, impacting revenue into FY23 due to the 9-month lag from collection to use.

CSL's Behring business is reliant on paying donors, mainly in the US, to collect Plasma for many of its products. Plasma collection has been impacted by COVID stay at home orders, while US stimulus payments have also reduced the need for some people to donate blood to supplement cash. Recent US border closures to Mexico have also reduced the donor pool, impacting 5-10% of collections. Further, COVID-safe practices and incentive payments to encourage the return of donors have increased the cost of collection, resulting in lower margins. FY21 collections were 20% below the prior year, while FY22 remains 10% below FY20 and is not expected to exceed pre-COVID levels until December 2021. This is despite CSL opening 25 collection centres in FY21 with a further 40 planned in FY22. CSL currently has over 300 collection centres in the US. New COVID variants like Omicron may further delay the recovery in collections.

Date	Acquisition	Therapeutic Area	Price paid (US$m)
June 2001	Nabi	US plasma collection	152
Dec 2003	Aventis Behring	Plasma products	675
Oct 2014	Norvartis	Flu vaccine	275
June 2017	Wuhan Zhong Yuan Rui De	Biological products	440
Aug 2017	Calimmune	Gene therapy for sickle-cell disease	91
June 2020	Vitaeris	Kidney transplant	50
June 2020	uniQure	Gene therapy for Hemophilia B	450

Source: JMFG

Rumours of a large potential acquisition of Swiss-based Vifor Pharma group have also created softness in the CSL share price. Vifor is a leader in treatment of iron deficiency and kidney disease and, if successful, would be CSL's largest acquisition to date, estimated at US$10bn, with a potential capital raising to fund the purchase. The rationale for the investment is unclear at this stage as it is outside of CSL's existing therapeutic area, however CSL has a successful track record of acquisition to provide some confidence in such a move.