JM Financial Group

Issue 80: December 2021

Australian Equities Strategy – Investment Newsletter

Performance *(As at 31st December 2021)*	Month (%)	Rolling 3 Months (%)	Rolling 1yr (%)	Rolling 3yrs (%)	Inception Gross (%)	Inception Annualised (%pa)
JMFG Australian Equities Strategy	**+1.6**	**+4.1**	**+9.0**	**+45.4**	**+93.8**	**+9.2**
All Ords Accumulation Index	+2.7	+2.5	+17.7	+51.4	+95.2	+9.3
Outperformance	**-1.1**	**+1.6**	**-8.7**	**-6.0**	**-1.4**	**-0.1**

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 December*

For the month of December, the JMFG Australian Equities strategy continued its recent positive performance finishing up 1.6% and has a positive return in all reported periods since inception. The strategy underperformed the All Ordinaries Accumulation Index by 1.1% for the month, however remains ahead of the index by 1.6% for the final quarter of the year. As indicated in earlier editions of this newsletter, the rewards of persisting with a growth-oriented strategy are beginning to be realised. Positive equity market performance is expected to continue in 2022 as the economy expands, but volatility is anticipated in the months ahead with rising inflation concerns, and the strategy has been set accordingly with a view to longer-term outperformance.

The best-performing sector for the broader Australian market in December was Utilities which rose by a substantial 7.9% and Materials remained strong rising 6.5%. Other sectors showing strength through December were Real Estate Trusts +4.9%, Financials +4.3%, and Industrials +4.0%. Only three sectors lost ground over the course of the month, the worst being I.T. losing 5.3%, followed by Healthcare down by 2.4% and Consumer Staples which shed 2.3%.

In December, we made several adjustments to the portfolio, locking in profits and taking advantage of buying opportunities in the pandemic-related temporary volatility. We also took a close look at risks and opportunities in the Banks sector, resulting in trading out of Westpac, trimming CBA, and increasing positions in NAB, ANZ, and Macquarie. The portfolio cash position remained steady at c. 7%.

The strongest performers for the portfolio during the month included:

- DGL Group +28%, Mineral Resources +24%, Pilbara Minerals +23%, and Appen +16%

The weakest performers for the portfolio during the month included:

- Dubber Corporation -24%, Elementos -20%, Alcidion Group -18%, and Liontown Resources -14%

Chart of the Month – A Decade of Asset Class Returns

The table below shows various asset class level returns for Australian investors over the last 10 years, and how they performed over each calendar year period. International companies have been the star of the last decade dominated by the US and particularly large technology companies. This trend continued in 2021 with the MSCI World ex Australia Index returning almost 30% over the last 12 months. After facing tough years during the GFC, Australian property has performed well over the last decade. While the S&P/ASX 300 Real Estate Index struggled in 2020, it bounced back strongly in 2021 returning almost 25% and outperforming Australian equity markets. Large Australian companies also topped the list of asset class performance, however still returned substantially less than their international counterparts. Meanwhile, emerging markets (EM) and small companies have both underperformed equity markets broadly over the decade. Bonds and cash have underperformed equity and property for the 10 years and continued this weak performance in in 2021.

2021 proved to be much of the same as the last decade and equities are expected to continue to outperform in 2022; however, a changing economic environment makes it difficult to discern whether the future will continue to look like the recent past. Rising interest rates, rising inflation, and accelerating global economic growth each have the potential to disrupt the status quo of financial markets.

Source: Bloomberg Finance, JMFG

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total	
32.44%	48.03%	27.94%	12.66%	16.74%	27.09%	1.92%	27.97%	9.21%	29.58%	373.09%	**MSCI World ex Australia Index**
22.42%	21.54%	15.01%	11.80%	13.18%	20.00%	1.65%	23.99%	7.77%	24.97%	263.05%	**S&P/ASX 300 Real Estate Index**
21.00%	13.03%	10.37%	10.16%	12.50%	13.38%	1.52%	22.03%	5.73%	17.61%	183.70%	**S&P/ASX 100 Index**
16.74%	10.13%	6.93%	3.35%	11.72%	11.04%	0.46%	21.31%	5.09%	16.88%	140.59%	**MSCI Emerging Markets Index**
14.14%	8.67%	6.10%	2.33%	11.72%	8.54%	-2.19%	18.61%	4.62%	3.44%	115.14%	**S&P/ASX Small Ordinaries Index**
9.66%	2.87%	5.26%	2.14%	7.92%	6.90%	-2.35%	12.98%	0.77%	3.43%	113.18%	**Bloomberg Global High Yield Corporate Index**
6.53%	2.27%	2.69%	-0.87%	5.24%	3.68%	-5.10%	7.19%	0.37%	0.03%	57.38%	**Bloomberg Global-Aggregate Total Return Index**
3.97%	-0.76%	-3.80%	-4.30%	2.07%	1.75%	-8.69%	1.50%	-5.00%	-1.53%	21.23%	**BBG AUB Bank Bill**

JMFG Australian Equities Strategy - December		ASX All Ordinaries Index - December	
Best	**Worst**	**Best**	**Worst**
DGL Group (DGL)	Dubber Corporation (DUB)	Anteotech (ADO)	Magellan Financial Group (MFG)
Mineral Resources (MIN)	Elementos (ELT)	Grange Resources (GRR)	Booktopia Group (BKG)
Pilbara Minerals (PLS)	Alcidion Group (ALC)	Genetic Signatures (GSS)	Nitro Software (NTO)

Year In Review – *2021 Australian Market's Best and Worst*

The Australian market performed well in 2021 as it continued to recover from the March 2020 COVID drawdown. Remarkably, all major indices finished within 1% of each other with the ASX Small Ordinaries Accumulation Index +16.9% at the lower end, the ASX All Ordinaries Accumulation Index (this Fund's benchmark) +17.7% at the upper end, and the ASX top 20, 50, 100, 200 and 300 indices all in between.

The benchmark index recovered its pre-COVID high on 15 April 2021 and spent the second half of the year attempting to establish new highs in the face of the Delta and then Omicron COVID outbreaks, finishing approximately 7% above its pre-COVID high, but a couple of percentage points below its intra-year high. This sets 2022 up for another solid year in equity markets as the economy reopens and expands, though repeating the exceptional 2021 performance will be challenging and the market is expected to be more volatile as we transition to rising interest rates and as inflation threatens.

Looking closer at subsectors for 2021, it was interesting to note the divergence between the ASX Emerging Companies Index +43.8%, performing strongly due mainly to the strength of micro-cap resource stocks, and the ASX All Technology Index +3.7%, which was held back by larger capitalised tech names that de-rated as rate rise expectations were brought forward first by the market and then the respective central banks. Top-performing sectors in the ASX 200 Index were Telecommunications (+32.6%), REITs (+26.1%), Financials (+25.2%), and Consumer Discretionary (+24.3%). Middle of the pack were Materials (+13.9%), Industrials (+13.9%), Consumer Staples (+10.2%), Utilities (+9.8%), and Healthcare (+9.3%). Bringing up the rear were Energy (+0.5%) and Technology (-2.2%) which was the only negative sector this year. The best performers list in 2021 was dominated by battery metals stocks while tech and, in particular, the Buy now-Pay later sector dominated the worst performers list.

Best Performers of the S&P/ASX All Ordinaries for 2021*

Novonix (NVX) +660% - Under new leadership, Novonix has expanded its focus into US-based advanced anode materials and now researching cathode materials, aiming to solve the inefficient and expensive 40,000km-long battery components supply chain problem currently faced by US industry.

Cettire (CTT) +657% - Online luxury goods retailer that floated late 2020 and experienced rapid growth through 2021, significantly beating prospectus forecasts.

Liontown Resources (LTR) +450% - Liontown owns the Kathleen Valley Lithium Project which it expects to develop to production by 2024 in time to meet forecast lithium supply shortages. The company expects to be a low-cost operation, targeting 6% lithium spodumene (SC6.0) production costs of US$314/dmt. Recently SC6.0 has sold for more than US$1,500/dmt, offering huge margins for Liontown if it can execute its strategy.

AVZ Minerals (AVZ) +356% - Lithium and Tin explorer in the DRC benefiting from strong underlying commodity prices and project development.

Imugene (IMU) +300% - Clinical stage immuno-oncology biotech company that had FDA Investigative New Drug approvals, strategic partnerships, capital raise and trial progress through the year.

Vulcan Energy (VUL) +277% - Lithium explorer in Europe benefiting from strong underlying commodity prices and project development.

Pilbara Minerals (PLS) +268% - Pilbara owns the Western Australian Pilgangoora Lithium-Tantalum Project, one of the largest hard rock lithium deposits in the world and the largest pure-play lithium producer in Australia. During 2021 Pilbara announced various expansion plans for its operations. Pilbara has also run several digital auctions for excess spodumene selling 10,000dmt in October for a price of US$2,629dmt SC6.0.

Paladin Energy (PDN) +260% - Uranium miner with its existing Langer Heinrich mine on care and maintenance, but on the verge of restarting due to the rise in the Uranium price.

Grange Resources (GRR) +211% - Iron Ore and magnetite mining business that benefited from increases in the underlying commodity price and increased production, paying a special dividend late in the year.

Johns Lyng Group (JLG) +191% - A building reconstruction firm that conducts insurance building repair work and has grown via acquisition and recently accelerated its expansion into the US via acquisition of Reconstruction Experts.

Worst Performers of the S&P/ASX All Ordinaries for 2021*

Laybuy Group Holdings (LBY) -82% - NZ-based buy-now-pay-later firm, Laybuy Group Holdings, has fallen consistently since listing mid-2020, a combination of arriving late on the scene, lacklustre growth metrics compared with peers, and the sector coming under scrutiny by financial regulators.

Splitit (SPT) -81% - Slower growth and management change combined with crowded BNPL sector which is out of favour due to increased scrutiny by regulators.

Ora Banda Mining (OBM) -78% - Ora Banda has seen a steady fall in market support through 2021, along with most of the gold mining industry, despite increasing its resources/reserves estimates, upholding production guidance, and selling its Mt Ida Gold asset to TNT Mines.

CleanSpace Holdings (CSX) -78% - CleanSpace listed late in 2020, a timely business for a pandemic-bothered global market. The share price fell away through the first half of 2021 amid a downgraded outlook citing the ongoing pandemic as the impediment to delivering on forecasts and a subsequent Board refresh.

Damstra Holdings (DTC) -78% - Workplace management solution provider that unwound a COVID sales bump from 2020.

Nuix (NXL) -73% - Data analytics company that successfully listed late in 2020, Nuix disappointed the market, missing its prospectus forecasts at its first outing in February 2021.

Zoono Group (ZNO) -71% - Antimicrobial products developer Zoono continued to unwind its stellar pandemic-boosted sharp rise from the first half of 2020 – although the company continues to earn strong income compared to pre-pandemic periods.

Ecofibre (EOF) -71% - Shares in hemp-related nutraceuticals and fibre products provider Ecofibre declined through the year on a significant decline in sales versus prior years and USA-based pandemic-related supply chain disruptions.

Limeade (LME) -70% - Shares in "employee experience" software company Limeade dropped sharply in March after its 2020 financial results fell short of market expectations, and support for the company continued to decline for the remainder of the year despite some changes to key management personnel.

Greenland Minerals (GGG) -69% - Despite rising interest in uranium globally, Greenland Minerals fell away sharply early in the year after changes to the Greenland government resulted in a rejection of the company's plans to access the country's significant uranium potential.

**Note: Based on Index membership on 31/12/2021. Fund holdings during the year in bold.*