JM Financial Group

Issue 80: December 2021

Leaders Strategy – Investment Newsletter

Performance *(As at 31st December 2021)*	Month (%)	Rolling 3 Months (%)	Rolling 1yr (%)	Rolling 3yrs (%)	Inception Gross (%)	Inception Annualised (%pa)
JMFG Leaders Strategy	**+3.4**	**+4.6**	**+11.9**	**+38.8**	**+73.2**	**+7.6**
ASX 200 Accumulation Index	+2.8	+2.1	+17.2	+46.9	+87.9	+8.8
Outperformance	**+0.6**	**+2.5**	**-5.3**	**-8.1**	**-14.7**	**-1.2**

Although the JMFG Leaders 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 Leaders strategy continued its recent positive performance, finishing up 3.4%, and has a positive return in all reported periods since inception. The strategy outperformed the ASX 200 Accumulation Index by 0.6% for the month, continuing the recent outperformance over the final quarter of the year. 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 the risks and opportunities in the Banks sector, resulting in trimming Westpac and CBA, adding NAB and Judo Capital Holdings to the portfolio, and increasing the holding in ANZ Banking Group. The portfolio cash position increased to c. 8%.

The strongest performers for the portfolio during the month included:

- Mineral Resources +24%, South32 +14%, Worley +11%, and SCA Property Group +9%

The weakest performers for the portfolio during the month included:

- Megaport -13%, Pinnacle Investments -5%, CSL -5%, and Xero -2%

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 Leaders Strategy - December		S&P/ASX 200 Index - December	
Best	**Worst**	**Best**	**Worst**
Mineral Resources (MIN)	Megaport (MP1)	Mineral Resources (MIN)	Magellan Financial Group (MFG)
South32 (S32)	Pinnacle Investments (PNI)	GrainCorp (GNC)	Imugene (IMU)
Worley (WOR)	CSL (CSL)	Champion Iron (CIA)	Afterpay (APT)

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 +17.7% at the upper end, and the ASX top 20, 50, 100, 200 and 300 indices all in between. The ASX 200 Accumulation Index, this Fund's benchmark, returned 17.2%.

The benchmark index recovered its pre-COVID high on 31 May 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 3% 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 the worst performers list was dominated by companies with stock specific issues generally related to COVID.

Best Performers of the S&P/ASX 200 for 2021*

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.

Uniti Group (UWL) +160% - Uniti competes with NBN for the construction of FTTP networks and has seen strong increases in its contracted construction pipeline from which it can generate long-term ARR.

Chalice Mining (CHN) +158% - Chalice owns the Julimar Nickel-Copper-PGE Project which includes the largest nickel sulphide deposit discovery worldwide in 20 years. With soaring demand for these 'green metals,' Chalice is well position to take advantage of strong prices in coming years.

Life360 Inc (360) +157% - Family safety service company experiencing accelerating user growth post COVID lockdowns.

Lynas Rare Earths (LYC) +156% - Rare Earths miner and producer benefiting from strong underlying commodity prices.

Allkem (AKE) +133% - Lithium explorer and producer in Argentina benefiting from strong underlying commodity prices.

Pinnacle Investments (PNI) +125% - Investment management company that invests and provides investment services to fund managers, added managers and saw funds under management growth in its underlying managers.

GrainCorp (GNC) +103% - Agri-business that benefited from strong demand and growing conditions in 2021 and operational improvements.

WiseTech Global (WTC) +91% - Provides global logistics operating systems and benefited from constrained capacity resulting in increasing freight rates which accelerated digitisation and consolidation in the industry.

Reece (REH) +85% - Plumbing supplies company benefiting from strong demand.

Worst Performers of the S&P/ASX 200 for 2021*

PolyNovo (PNV) -61% - Unwind of high sales growth expectations for its synthetic wound care product for skin trauma (NovoSorb BTM) as sales were impacted by reduced access to hospitals during COVID; this was compounded by Hernia production delays and an unexpected CEO transition.

Magellan Financial Group (MFG) -56% - Funds management services provider Magellan saw its share price decline over the latter half of the year amid concerns over lacklustre performance of its managed funds, net outflows, and anticipated pressure for the group to cut its fees to more market-comparable levels.

Appen (APX) -54% - Appen has continued to suffer alongside adverse sentiment across the high-PE end of the I.T. sector and adverse first-half headwinds which the company has assured the market will largely be remedied through its 2H order book strength.

Kogan.Com (KGN) -53% - Online marketplace that unwound a COVID sales bump from 2020.

The A2 Milk Company (A2M) -52% - Continued impact from reduced travel and regulation impacted China infant milk powder sales and CEO transition.

Regis Resources (RRL) -44% - Regis Resources continues to grow its revenue and production, but, in line with the bulk of the gold sector, it has experienced increasing costs and declining investor sentiment in the current market cycle.

AGL Energy (AGL) -43% - AGL declined consistently throughout the year, partly due to the whole Energy sector being out of favour, and partly due to forecast and actual declining underlying profits (down 34%) and a net loss of $2bn announced mid-year.

Redbubble (RBL) -41% - Redbubble's bottom line suffered from supply chain problems; revenues were down 28% to $106M, while numbers of selling artists, unique customers, and shipped packages grew substantially.

PointsBet Holdings (PBH) -39% - Continued to grow revenues but at growing costs translating to worsening net income, company raised funds to continue business development before subsequently announcing results that showed further divergence between its growing turnover and falling net earnings.

Mesoblast (MSB) -37% - Mesoblast financed its ongoing operations and multiple concurrent trial activities with a $138M placement earlier in the year at $2.30, a price-point the company fell to shortly thereafter and continued sliding on other disappointments to close the year out at $1.41/share.

**Note: Based on Index membership on 31/12/2021 – excluding NVX, LTR, PDN & IMU (joined Index on 20/12/21) and including RBL & KGN (exited Index on 20/12/21). Fund holdings during the year in bold.*