JM Financial Group

Issue 82: February 2022

Leaders Strategy – Investment Newsletter

Performance *(As at 28th February 2022)*	Month (%)	Rolling 3 Months (%)	Rolling 1yr (%)	Rolling 3yrs (%)	Inception Gross (%)	Inception Annualised (%pa)
JMFG Leaders Strategy	**+2.2**	**-0.1**	**+11.3**	**+43.7**	**+66.8**	**+6.9**
ASX 200 Accumulation Index	+2.1	-1.7	+10.2	+50.2	+79.1	+7.9
Outperformance	**+0.1**	**+1.6**	**+1.1**	**-6.5**	**-12.3**	**-1.0**

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 reasons, 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 February*

For the month of February, the JMFG Leaders strategy rose 2.2% as the market showed signs of stability following a volatile start to the year. The strategy outperformed the ASX 200 Accumulation Index by 0.1% for the month, continuing the recent trend which has seen outperformance in each of the last six months. We continue to make refinements to the portfolio to ensure the strategy remains aligned with the current market environment.

The best-performing sectors for the broader Australian market in February were Energy, which continued its rise by a substantial 5.8%, and Consumer Staples, which recovered some of its January decline, up 5.6%. Other rising sectors included Utilities 3.0%, Materials 2.6%, Financials 2.4%, Property 0.9%, and Industrials 0.1%. Sectors which fell through February were Information Technology -6.9%, Consumer Discretionary -5.8%, Communications -2.2% and HealthCare -0.2%.

During February, a significant amount of new information came to market with the first half reporting season. New positions were entered in Materials and Information Technology on weakness to increase exposure to sectors that are underweight. The free cash level was increased to around 8%, reflecting the volatile environment and enabling the strategy to take advantage of opportunities this may present.

The strongest performers for the portfolio during the month included:

- South32 +25%, Northern Star +24%, Woodside Petroleum +20%, and Endeavour Group +14%

The weakest performers for the portfolio during the month included:

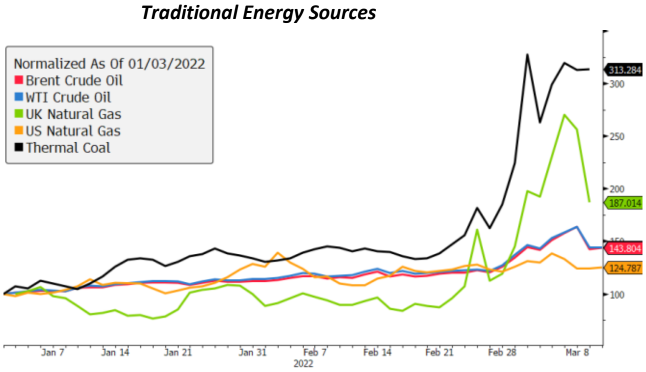
- Mineral Resources -18%, Xero -17%, Sonic Healthcare -8%, Netwealth Group -7%

Chart of the Month – *Energy Market*

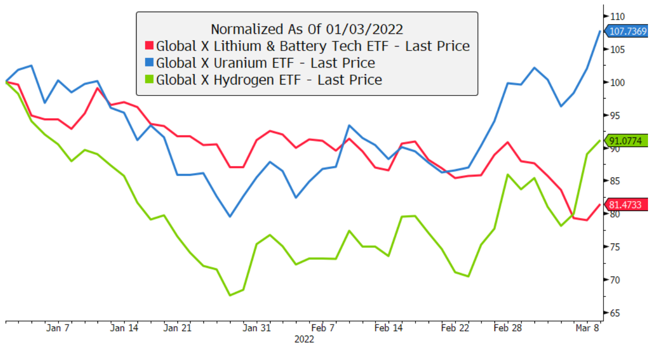
The start of 2022 has seen an interesting reversal in some of the broad energy trends that have led the market in recent years. The charts below show the comparative performance of traditional energy sources and future-facing energy sources over the year to date, demonstrating this clear reversal. Traditional energy commodities, such as crude oil, natural gas, and coal, have all strongly rallied in recent months following the Russian invasion of Ukraine underscoring a multiyear underinvestment in these traditional energy sources as countries have instead been investing in renewables.

Countries globally have announced a move away from cheap Russian energy which will mean more expensive resources will need to be relied upon while the transition to future-facing energy takes place. This comes at a time when global demand is rebounding as international travel returns and economic activity recovers. This strong performance of traditional energy has not been paralleled in the performance of future-facing energy and the equities in these industries have had a bumpy start to 2022. However, while Uranium equities have had a volatile start to the year, their performance is still positive year-to-date. The strong tailwinds of recent years are expected to persist, however, and the need for catch-up investment in traditional energy projects is also likely to be required to fill the gap as the transition takes place over the next decade.

Traditional Energy Sources



Future-Facing Energy Sources



Source: Bloomberg Finance

JMFG Leaders Strategy - February		S&P/ASX 200 Index - February	
Best	**Worst**	**Best**	**Worst**
South32 (S32)	Mineral Resources (MIN)	Cimic Group (CIM)	Life360 Inc (360)
Northern Star (NST)	Xero (XRO)	Sims (SGM)	Novonix (NVX)
Woodside Petroleum (WPL)	Sonic Healthcare (SHL)	Silver Lake Resources (SLR)	Tyro Payments (TYR)

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

South32 (S32) – up 25% for the month. South32 reported 1H underlying earnings of $1Bn, soaring on the recovery in commodity prices amid events unfolding in Eastern Europe. Analyst forecasts predict continuing strength in base metals for the next two to three years, strongly favouring the breadth of base metals exposure in South32's asset portfolio.

Cimic Group (CIM) – up 35% for the month (Not held). On 23rd Feb, the company announced its majority shareholder Hochtief had made an unconditional cash offer of $22 per share to acquire the balance of the company. The offer was a 33% premium to the day's close price. Cimic also released news of new contract wins in Sydney and Hong Kong, a contract extension with Esso, and an exit from the Middle East.

Mineral Resources (MIN) – down 18% for the month. The company reported much weaker than expected results, with falling iron ore prices and widening discounts contributing to a 12% drop in 1H revenue, but confirmed it was on track for FY22 volume guidance. It further announced expansion of its lithium opportunities via a JV with Albemarle and offtake arrangements with Ganfeng Lithium.

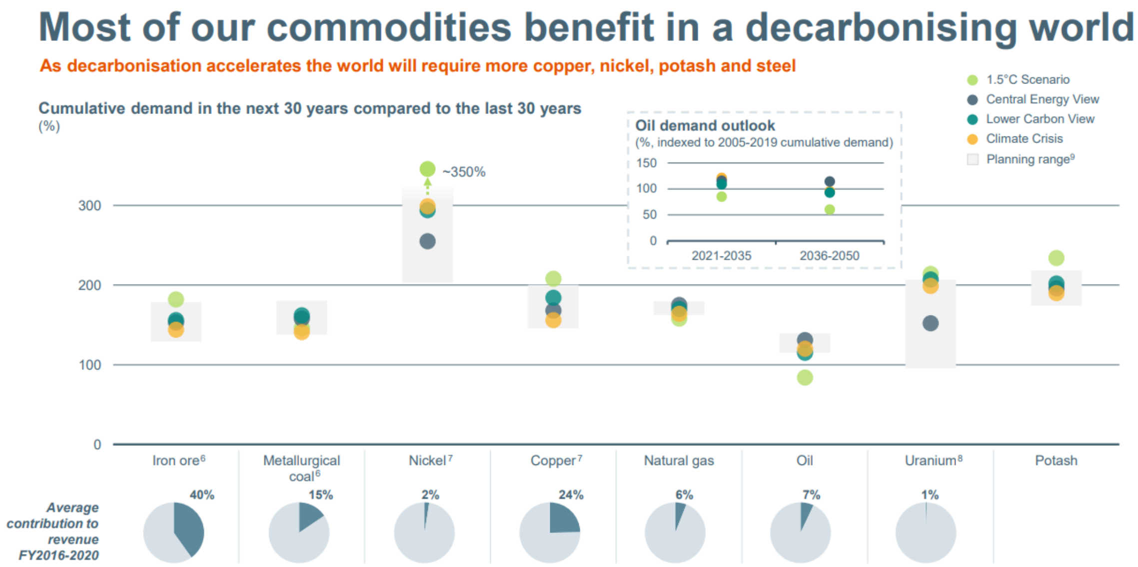
Life360 Inc (360) – down 37% for the month (Not held). Despite releasing strong net growth in subscriber numbers, earnings and acquisition activities, the underlying FY loss of $34M, increasing from $16M reveals how much it is costing the company to continue to appeal despite subscriber churn and concerns about it on-selling precise location data of its userbase to unrelated third parties. Further, the company blames a recent decline in sales on stalking issues raised with Apple's AirTags products operating in a similar space.

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

BHP Group Ltd (BHP), a global resources company with a market capitalisation of $255bn, is the largest Australian listed company and accounts for 10.2% of the ASX All Ordinaries index following consolidation of its dual-listed structure. Over the past decade, BHP has pursued a strategy of "shrinking to greatness", including divesting South32, selling US onshore gas assets, and, more recently, selling its remaining coal assets to Stanmore Coal and merging BHP Petroleum with Woodside Petroleum (subject to shareholder approval). Mike Henry, BHP's current CEO, commenced in the role at the start of 2020 and has continued to refine and realign BHP's portfolio strategy to future-facing commodities. This realignment is now complete with the exit of out-of-favour fossil fuel assets.

BHP's largest commodity exposure is iron ore followed by copper, with increasing exposure to nickel and potash. It remains unclear yet whether BHP will only focus on growing within these existing commodities or expand into additional future-facing commodities like lithium or hydrogen. M&A in Electric Vehicle related commodities has commenced and BHP is expected to participate more actively going forward. Although commodity prices can be volatile, the current supply/demand dynamics are as favourable as ever, particularly in the future-facing commodities to which BHP has pivoted. As a result, BHP has become a significant cash generator, returning ~A$40bn to investors over the last two years and retaining plenty of dry powder for new investments. After years of shrinking, BHP is now in a position of strength from which it is well placed to enter a period of growth.

Future-facing commodities are expected to perform well going forward, with demand expected to outpace the growth in supply due to decarbonisation which is driving a transition to electric vehicles and the increased electrification of the broader expanding global economy. Transitions often take years, sometimes decades, to play out. As discussed in the last newsletter, there are still gains to be had in the medium term in "old" energy, to which JMFG strategies are also well positioned.



Source: BHP climate change briefing - 10 Sept 2020