

Leaders Strategy – Investment Newsletter

Performance (As at 30 th April 2022)	Month (%)	Rolling 3 Months (%)	Rolling 1yr (%)	Rolling 3yrs (%)	Inception Gross (%)	Inception Annualised (%pa)
JMFG Leaders Strategy	-1.4	+7.5	+12.5	+29.1	+76.1	+7.5
ASX 200 Accumulation Index	-0.9	+8.2	+10.2	+31.0	+90.5	+8.6
Outperformance	-0.5	-0.7	+2.3	-1.9	-14.4	-1.1

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 April

For the month of April, the JMFG Leaders strategy fell 1.4%, underperforming the S&P/ASX 200 Accumulation Index by 0.5%. Returns over the last 3 months remain positive, up 7.5%, albeit slightly underperforming the benchmark, and over the past 12 months the strategy is up 12.5%, well ahead of the benchmark.

The broader Australian market saw volatility return in April with divergent performance across sectors. As inflation concerns came to the fore, defensive sectors performed best with Utilities rising 9.3%, Consumer Staples 3.3%, HealthCare 2.4%, and Property 0.6%. Other strong performers were Industrials 3.4% and Energy 2.4%, while Financials returned 0.1% and Communications -0.3%. Conversely, growth-oriented sectors underperformed with Technology -10.4%, Materials -4.3%, and Consumer Discretionary -3.2%.

During April, several positions were exited to reduce market exposure in anticipation of increased volatility. The free cash level increased to around 8% at month end.

The strongest performers for the portfolio during the month included:

- Ramsay Health Care +25%, Mineral Resources +11%, QBE Insurance Group +7%, and Endeavour Group +7%

The weakest performers for the portfolio during the month included:

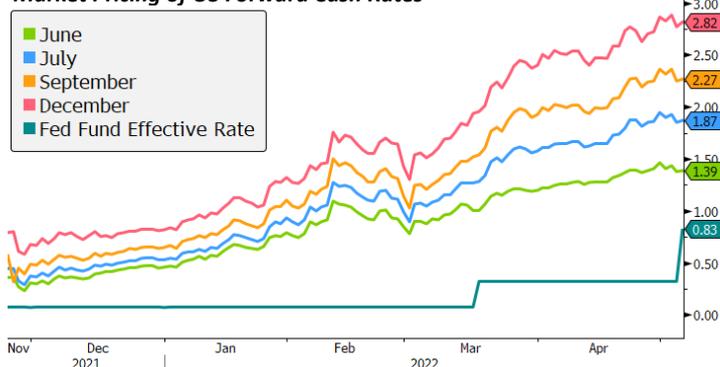
- Megaport -38%, Netwealth Group -12%, Northern Star -9%, and BHP Group -7%

Chart of the Month – Interest Rate Expectations

Market Pricing of Aussie Forward Cash Rates



Market Pricing of US Forward Cash Rates



Source: Bloomberg Finance

Central bank meetings have been relatively benign for the last few years as the various bank governors set expansionary policies and were intending to keep these settings in place for several months, if not years. In the RBA's case, we recall there was a commitment to not raising rates until at least 2024. However, the emergence of inflation sooner, and stronger than expected, meant that May's round of meetings has been the most eagerly anticipated for some time. So far in May, we have seen the RBA lift rates to 0.35%, more than anticipated, the US Fed hike rates 50 basis points to 1.0% at the upper end, and the Bank of England raise rates 25 basis points to 1.0%.

The two adjacent charts show the market expectations for cash rates out to the end of this calendar year for both the US and Australia. As can be seen, interest rate expectations have steadily increased over the last few months and are now anticipated to be 3.0% for Australia and 2.8% for the United States by the end of the year. Several 50 basis point rises will be required should these targets eventuate. Equity markets have pulled back in line with the increasing anticipation of rate rises, particularly high growth/valuation sectors. The question for equity markets is whether the central banks can engineer a "soft landing" for the economy, thus avoiding a recession, a question that will be answered in good time. Meanwhile, rising rates generally coincide with periods of economic growth. Supporting this idea, unemployment is near record lows, real wage growth is emerging, strong retail sales continue, and commodity prices remain elevated. Recent quarterly updates have reflected this with strong revenue growth continuing, however global supply chain disruptions and COVID induced labour constraints have also been evident, though these headwinds should abate going forward.

JMFG Leaders Strategy - April		S&P/ASX 200 Index - April	
Best	Worst	Best	Worst
Ramsay Health Care (RHC)	Megaport (MP1)	Ramsay Health Care (RHC)	EML Payments (EML)
Mineral Resources (MIN)	Netwealth Group (NWL)	GrainCorp (GNC)	Megaport (MP1)
QBE Insurance Group (QBE)	Northern Star (NST)	AMP (AMP)	Life360 (360)

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

Ramsay Health Care (RHC) – up 25% for the month. Subject of a buyout bid by a consortium led by US private equity firm KKR & Co. joined by Abu Dhabi Investment Authority, Ramsay share price jumped on the \$88/share valuation with the offer placing a 37% premium to the closing price when the news was made public. Ramsay went on to announce its profits would more than halve on COVID-related impediments, news which softened the share price a little as the buyout is still conditional on due diligence outcomes.

GrainCorp (GNC) – up 22% for the month (not held). Second-best performer of the index, GrainCorp continues its outperformance trajectory of the recent two years, announcing stronger than forecast global demand for its wheat and oil-seed crops as a second consecutive bumper crop in Australia’s East will service supply shortages in the Northern Hemisphere and provide GNC strong supply chain margins.

Megaport (MP1) – down 38% for the month. Megaport dropped sharply through the month on its quarterly update revealing revenue growth, while still strong, was below expectations for the March quarter. This combined with continued softening sentiment in the Technology sector contributed the most to the fall.

EML Payments (EML) – down 47% for the month (not held). Media speculation early in the month about a takeover deal that was abandoned before becoming public was followed by further unfavourable news when the company announced a substantial downgrade for FY22 financials, citing significant increases in underlying overheads and deteriorating foreign exchange expectations.

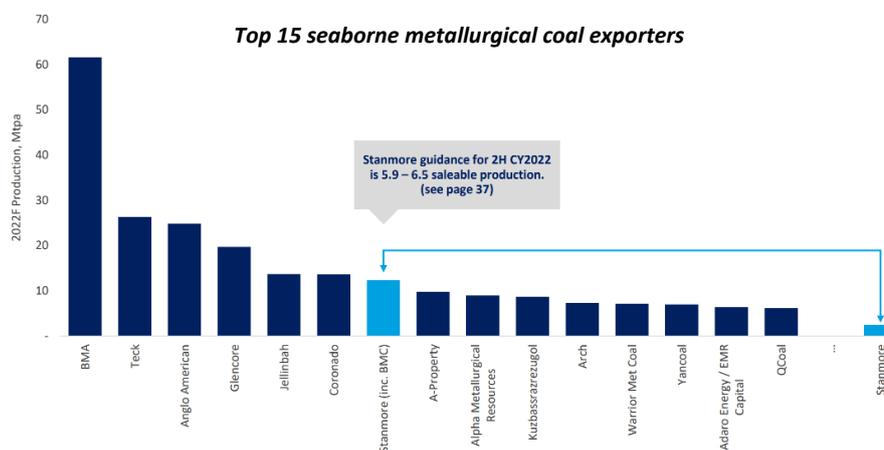
Due Diligence – A closer look at a Company of Interest – Stanmore Resources (ASX: SMR)

Stanmore announced in late 2021 that it had entered into a definitive agreement with BHP to acquire its 80% interest in BMC (BHP Mitsui Coal). The transformational acquisition will substantially increase the scale of Stanmore and make it one of the leading metallurgical coal producers globally. The agreement came at fortuitous timing for Stanmore as coal prices have soared into 2022. There is now a major focus amongst western countries on energy security following the Russian invasion of Ukraine and the energy crisis that has followed across Europe. The focus for the company now is generating large cashflows on the elevated coal price to pay down the debt used to fund the BMC acquisition.

BMC Asset Location



The acquisition of BMC was announced for cash consideration of US\$1.2B which Stanmore funded through US\$625m of debt and US\$506m entitlement offer, a substantial amount for a company that had a capitalisation of ~A\$320m prior to the issue. The acquisition was well supported by Singapore listed company GEAR (Golden Energy and Resources) who owned ~75% of Stanmore shares prior to the raise. While a chunky acquisition, at current coal prices Stanmore project that it could generate US\$900-1,100m EBITDA with BMC earning US\$508m EBITDA in 1H22. A continuation of elevated coal prices and operational performance of BMC would allow Stanmore to quickly extinguish a large amount of the debt used to fund the acquisition and begin paying cash to investors. The BMC acquisition completion was announced in early May and coal prices remain at elevated levels.



While coal prices are expected to eventually normalise as the supply/demand imbalances are resolved, it is difficult to discern how quickly this will occur and what level to which coal prices will ultimately fall. Many years of underinvestment means that there is a lack of new coal to come into production. While newer energy sources take time to come online, existing producers are being increasingly relied upon to supply the market. JMFG took a stake in Stanmore through its entitlement offer after seeing the attractive valuation of the acquisition and the strong fundamental backdrop of necessary energy security.

Source: Stanmore Investor Presentation, 3 March 2022