JM Financial Group

Issue 85: May 2022

Australian Equities Strategy – Investment Newsletter

Performance *(As at 31st May 2022)*	**Month (%)**	**Rolling 3 Months (%)**	**Rolling 1yr (%)**	**Rolling 3yrs (%)**	**Inception Gross (%)**	**Inception Annualised (%pa)**
JMFG Australian Equities Strategy	**-4.4**	**+1.6**	**-1.6**	**+21.7**	**+81.2**	**+7.8**
All Ords Accumulation Index	-3.1	+2.7	+4.7	+27.6	+90.6	+8.5
Outperformance	**-1.3**	**-1.1**	**-6.3**	**-5.9**	**-9.4**	**-0.7**

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 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 May*

For the month of May, the JMFG Australian Equities strategy fell 4.4%, underperforming the All Ordinaries Accumulation Index by 1.3%. The broader Australian market saw increased volatility in May as Reserve Bank rate rises, to combat inflation, led to increasing concern from investors that this may cause further market weakness. In this environment, small-capitalisation stocks significantly underperformed large-capitalisation stocks by 4.4% while all but one sector declined, and traditional defensive sectors provided minimal protection. Materials was the only positive sector, returning 0.1%, with the other outperforming sectors being Utilities -0.2%, Industrials -0.5%, Energy -0.7% and HealthCare -1.1%. Underperforming sectors were Property -8.7%, Technology -8.7%, Consumer Staples -6.7%, Communications -6.5%, Consumer Discretionary -5.3%, and Financials -3.5%.

During May, market volatility was used to trim some positions that had rallied and top up some existing positions during the market downturn. DGL was exited and South32 added as a new position. Cash levels finished the month around 8%, in line with last month-end and reflecting higher volatility.

The strongest performers for the portfolio during the month included:

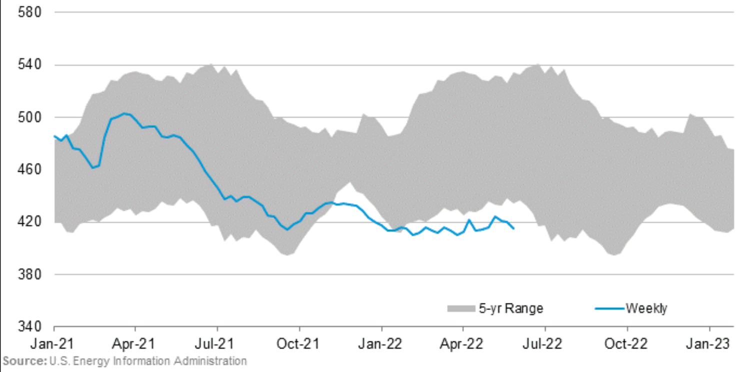
- PolyNovo +30%, Stanmore Resources +13%, Mineral Resources +9%, and South32 +5%

The weakest performers for the portfolio during the month included:

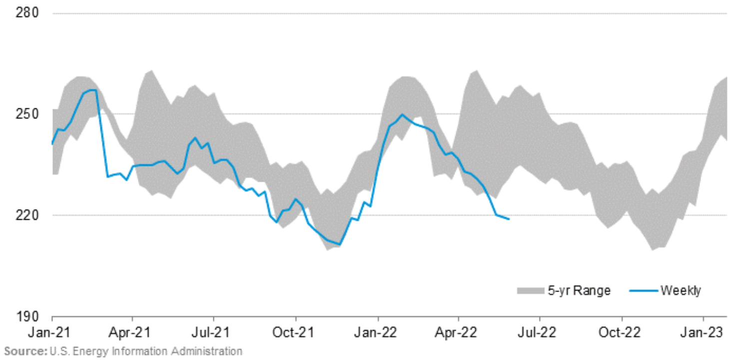
- Serko -30%, Universal Biosensors -30%, Alcidion Group -20%, and Adairs -18%

Chart of the Month – *Oil Inventories*

U.S. Crude Oil Stocks (million barrels)



U.S. Gasoline Stocks (million barrels)



While oil and gasoline markets can be particularly volatile, typically inventory stockpiles can be used to reduce extreme price volatility. In years of high prices these inventories are reduced to take advantage of higher prices and the inventories are then replenished during years of weaker energy prices. This also occurs seasonally whereby inventories of gasoline and petrol are increased ahead of busy driving seasons. However, in recent months oil and petrol markets have undergone massive price increases and this has not yet been helped by the release of existing stockpiles. The Russian invasion of Ukraine has been a major contributing factor to this with western countries weaning themselves off Russian oil supplies. This has coincided with major global supply chain issues and steadily increasing demand and economic growth.

The charts to the left further show how this has impacted stocks of crude oil and gasoline by comparing the current weekly level of inventories to the average level at each date over the previous 5 years. Ahead of the busier US driving season of June through September there is typically an increase in crude and gasoline inventories that are drawn down over the subsequent months. This year, however, oil prices soaring early in the year has meant that stockpiles have been drawn down earlier and have not substantially increased ahead of the US driving seasons. This leaves US crude oil and gasoline inventories well below the typical level at this time of year. Consequently, there is expected to be ongoing oil and gasoline price pressure throughout the next few months when demand typically increases.

JMFG Australian Equities Strategy - May		ASX All Ordinaries Index - May	
Best	**Worst**	**Best**	**Worst**
PolyNovo (PNV)	Serko (SKO)	Tigers Realm Coal (TIG)	Atomos (AMS)
Stanmore Resources (SMR)	Universal Biosensors (UBI)	Bubs Australia (BUB)	Step One (STP)
Mineral Resources (MIN)	Alcidion Group (ALC)	Infomedia (IFM)	Booktopia Group (BKG)

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

PolyNovo (PNV) – up 30% for the month. PolyNovo hit a 3-year low early in the month but recovered well with persistent director buying. The main company-specific news was that the CEO search was progressing with a suitable candidate identified and close to being appointed.

Tigers Realm Coal (TIG) – up 44% for the month (not held). Coal has seen price strength due to Russia-Ukraine war concerns highlighting that near-term energy demands may come under pressure given the lack of recent investment in coal inventory development globally. Tigers Realm increased production targets for the coming two years and revealed its strategic plan sell higher quality coal into Asian markets.

Serko (SKO) – down 30% for the month. Serko released its FY22 results and revealed its net loss had widened by 22% to NZ$36m. While the company maintains its view that its medium-term revenue goal of $100M is achievable, and current quarter transaction volumes indicate business travel recovery has sustained, the market is treating high-PE technology stocks harshly on any news that falls short of expectations.

Atomos (AMS) – down 62% for the month (not held). Atomos was sold off after it released a trading update in the first week of May, guiding to FY22 revenue of $80-90m after having the previous month reconfirmed guidance for revenue of $95M+. The company also was the subject of some downgrades in analyst forecasts that cast further doubt on the numbers and suggested the overall content creator and streaming space has become saturated with increasing competition throughout the pandemic.

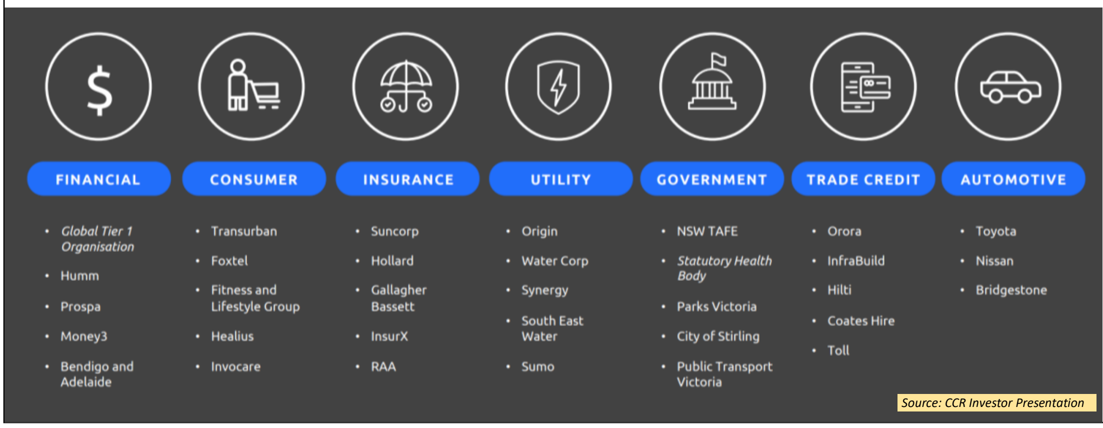
Due Diligence – *A closer look at a Company of Interest* – Credit Clear (ASX: CCR)

Credit Clear provides receivables management systems and collection services for its clients with the ability to offer a combination of digital and traditional in-person collection services, the latter via its recent acquisition of ARMA Group. Credit Clear takes a margin on debt collected and does not take risk through buying and owning debt books. Credit Clear is a founder-led business with CEO Andrew Smith and COO Shane Ashton, co-founders of ARMA, and Executive Director Lewis Romano, co-founder of Credit Clear, combining to provide deep industry knowledge and expertise to grow the recently combined operations. Clients (see table below) include several sizeable organisations across a range of sectors including Financial, Consumer, Insurance, Utilities, Government, Trade Credit, and Automotive.

The business has multiple revenue expansion opportunities including new client wins, growth of existing clients' debt books, cross-sell of existing ARMA clients to the digital offering and international expansion, all aided by favourable sector tailwinds as rising cost of living, combined with strong employment, creates a bullish environment for debt collection services. Taking each of these opportunities in turn:

- **New client wins** - 65 new clients have been signed up over the last quarter at a faster than expected pace. This has resulted in a recent small capital raise to press ahead with onboarding of new clients as well as continuing to chase additional clients. The current pace of new client wins is expected to continue.
- **Growth of existing clients** - Consistently strong performance across the existing client base is driving an uplift in business being awarded to Credit Clear. It is expected that the enhanced hybrid collection offering will increase the size of this opportunity.
- **Cross-sell** - The recent acquisition of ARMA's in-person collection team is complemented by Credit Clear's existing digital platform. This hybrid offering is already proving to enhance collections as the digital offering has been rolled out across existing ARMA clients and is shown to increase the potential amount able to be collected, as well as increasing margins. Digital collections attract a 90% margin which compares well to margins for traditional methods of 65%.
- **International expansion** - The partnership with Techub in South Africa is now live and is Credit Clear's first international platform deployment. Techub has committed to roll out Credit Clear's digital collection solution to its entire US$1 billion debt portfolio. Additional international opportunities are expected to be entered over time.

Revenue for March was a record $2.9m for the month, an annualised run rate of $35m, and the opportunities described above are expected to drive strong revenue growth into FY23 and beyond. Further, Credit Clear has confirmed it will be profitable from July 2022, with operating leverage expected to lead to earnings growth ahead of revenue growth. Small growth companies have not been in favour this year, however the investment case for Credit Clear stands out due to the strength of near-term earnings, combined with industry tailwinds and a quality founder-led and incentivised management team.



Source: CCR Investor Presentation