

Leaders Strategy

Performance (Net*)	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% pa)	5 Years (% pa)	Inception** (% pa)
JMFG Leaders Strategy	-3.1	+8.5	-0.8	+5.9	+6.0	+6.6
ASX 200 Accumulation Index	-3.2	+9.4	-1.1	+5.5	+7.1	+7.5
Outperformance	+0.1	-0.9	+0.3	+0.4	-1.1	-0.9

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 the month

For the month of December, the JMFG Leaders strategy declined 3.1%, outperforming the S&P/ASX 200 Accumulation Index by +0.1% for the month. The strategy's recent performance remains strong, ahead of the benchmark in reported periods over the last three years. Nascent market recovery ended abruptly as central bank commentary this month remained stubbornly hawkish despite softening inflation data, which increased recession fears and reversed the narrative of the previous two months. Earnings estimates remain elevated and at risk as we head into February reporting season, although Australia, the lucky country, remains somewhat insulated in the global economy.

This month, large-capitalisation stocks (-3.2%) again outperformed small-capitalisation stocks (-3.7%). As measured by the S&P/ASX 200 Accumulation Index, every sector declined this month, with the best performers being Materials -0.9%, and Utilities -1.2%. Other defensive sectors also performed relatively well with Staples -1.8% and Communications -2.6% outperforming the broader market. Discretionary -7.0% was the worst performing sector during December with other sectors that underperformed including I.T. -5.4% and Industrials -4.9%.

During December, portfolio positioning was adjusted to more defensive stocks as the market rally looked to have run out of steam. Cash levels remain moderately elevated reflecting a cautious stance, providing opportunity to take advantage of market volatility.

Chart of Interest – Asset class returns for 2022

After a particularly volatile 12 months, asset class returns look vastly different to last year. With a major risk-off shift, the bank bills class was the best performer for 2022 despite the Bloomberg Australia Bank Bill Index only returning a meagre +1.3%. Large-cap Australian equities significantly outperformed other equity markets with the S&P/ASX 100 Index posting a positive return while the MSCI World ex Australia Index fell -12.5%. Global bond markets had one of their worst years in decades with the Bloomberg Global-Aggregate Index falling -12.3% as interest rates around the world climbed. High yield debt interestingly outperformed the global bond market, demonstrating the inverse relationship between interest rates and credit spreads that is generally observed. Emerging markets were heavily impacted by continued lockdowns in China with the MSCI Emerging Markets falling -14.3%. The Small Ords had a tough year after a strong performance over the prior 3 years. Similarly, Real Estate, which had very strong performance over the decade following the GFC, substantially underperformed in 2022 with higher interest rates driving up borrowing costs and increasing the required rate of return for property owners.

Quilt of Asset Class Returns

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
32.44%	48.03%	27.94%	12.66%	16.74%	27.09%	1.92%	27.97%	9.21%	29.58%	1.25%	Bloomberg Australia Bank Bill Index
22.42%	21.54%	15.01%	11.80%	13.18%	20.00%	1.65%	23.99%	7.77%	24.97%	0.61%	S&P/ASX 100 Index
21.00%	13.03%	10.37%	10.16%	12.50%	13.38%	1.52%	22.03%	5.73%	17.61%	-12.19%	Bloomberg Global High Yield Corporate Index
16.74%	10.13%	6.93%	3.35%	11.72%	11.04%	0.46%	21.31%	5.09%	16.88%	-12.28%	Bloomberg Global-Aggregate Index
14.14%	8.67%	6.10%	2.33%	11.72%	8.54%	-2.19%	18.61%	4.62%	3.44%	-12.52%	MSCI World ex Australia Index
9.66%	2.87%	5.26%	2.14%	7.92%	6.90%	-2.35%	12.98%	0.77%	3.43%	-14.33%	MSCI Emerging Markets Index
6.53%	2.27%	2.69%	-0.87%	5.24%	3.68%	-5.10%	7.19%	0.37%	0.03%	-18.40%	S&P/ASX Small Ordinaries Index
3.97%	-0.76%	-3.80%	-4.30%	2.07%	1.75%	-8.69%	1.50%	-5.00%	-1.53%	-19.76%	S&P/ASX 300 Real Estate Index

Sources: Bloomberg Finance, JMFG

Key Contributors and Detractors for the Month – JMFG Leaders Strategy

CONTRIBUTORS

Northern Star (NST)

Gold stocks outperformed the broader market in December as the market moved lower. Northern Star had no material announcements during the month and simply moved higher with the rest of the gold space. As discussed below, the expected slowing of rate rises and weakness in the USD index positively impacted the commodity and related company valuations during December.

QBE Insurance Group (QBE)

QBE dipped in November after releasing a performance update and revealing that higher catastrophe costs put its full year outlook at risk. However, QBE also reported that business performance continued to be resilient with the company being able to achieve rate increases above inflation in most cases. Despite the share price dipping in November on the update, QBE went on to perform relatively well in December's weak market.

DETRACTORS

CSL (CSL)

CSL primarily makes its earnings outside of Australia in USD. As such, the stock generally benefits from USD strength and is hurt by USD weakness. This explains CSL's performance in December with the USD Index falling 2.5% for the month. CSL also announced in December that its COO would take over as CEO & Managing Director in March 2023, with Paul Perreault retiring after 10 years in the position.

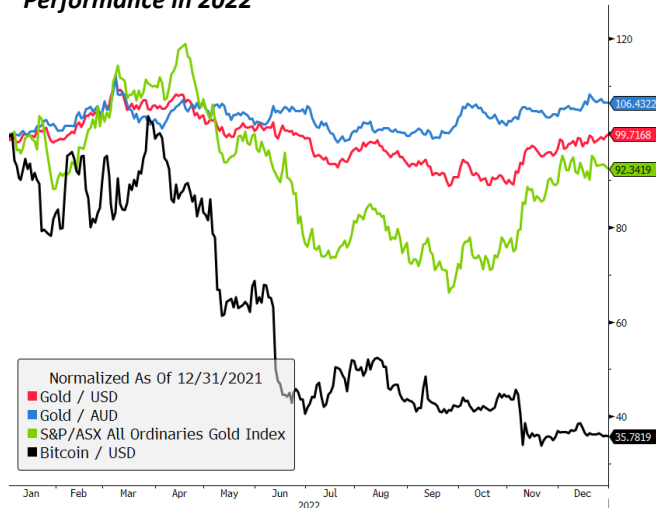
Goodman Group (GMG)

Property was amongst the weaker performing sectors for December and Goodman Group was dragged down with the rest of the sector. No material announcements were made by the company during December. Goodman Group continues to grow earnings well and reported in November that it was forecasting operating EPS to grow 11% in FY23.

Topic of Interest – Gold

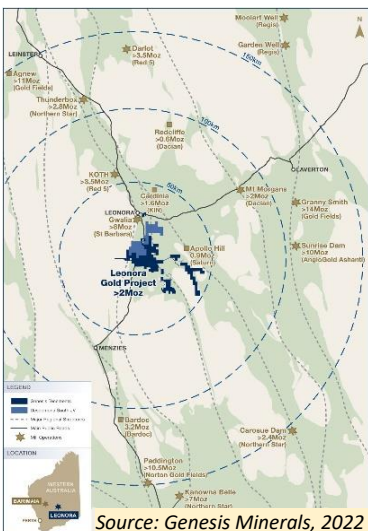
Trying to predict the price of Gold can be like finding fool's gold – it may appear attractive, but the results can be less so, as has been the experience of many through 2022. This is due to there being several diverse factors that influence the price, combined with the non-fundamental nature of its value. As a rough guide, demand for gold can be split one third to consumers, one third to investment, and one third to central banks. That said, the factors that are traditionally favourable for the gold price are starting to play out: central banks potentially slowing the pace of rate rises, slowing global growth with the risk of a global recession increasing as central banks maintain hawkish commentary, the USD index appearing to have peaked, continuing geopolitical tensions and, less traditionally, the demise of Bitcoin which had been starting to gain traction as an alternative to gold. Indeed, some economists, including ANZ Bank's, have recently lifted their 2023 year end price target from US\$1700/ounce to US\$1900/ounce.

Performance in 2022



Source: Bloomberg Finance

Leonora Gold Hub



While predicting the gold price can be difficult, assessing the value of gold mining companies can prove more rewarding. For much of 2022, the gold price and the price of gold stocks has been out of sync, with miners underperforming the gold price as rising costs have resulted in reduced margins. Many Australian gold stocks are significantly down this year while the gold price in USD is flat and in AUD is up high single digits. This disconnect appears to have begun to correct in line with the more favourable dynamics for gold.

The Leonora gold district has been heating up in recent times with long expected consolidation starting to take place. Genesis Minerals and St Barbara have entered a scheme of arrangement to merge and form Hoover House. Hoover House will become the next major Australian gold producer, combining the Ulysses and Gwalia mines and St Barbara's mill, with a 14.7Moz Resource and production target more than 300k ounces of gold per year. Meanwhile, Genesis continues its takeover of Dacian Gold, while Red 5's new King of the Hills Mill has recently declared commercial production and has been touted as a desirable takeover target.