Small Companies Strategy

Performance (Net*)	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% pa)	5 Years (% pa)	Inception** (% pa)
JMFG Small Companies Strategy	**-4.5**	**+3.7**	**-19.0**	**+1.9**	**+6.6**	**+11.9**
Small Ords Accumulation Index	-3.7	+7.5	-18.4	+1.4	+2.9	+6.3
Outperformance	**-0.8**	**-3.8**	**-0.6**	**+0.5**	**+3.7**	**+5.6**

*Although the JMFG Small Companies 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 Small Companies strategy declined -4.5%, underperforming the S&P/ASX Small Ordinaries Accumulation Index by -0.8%. Nascent market recovery ended abruptly as central bank commentary this month remained stubbornly hawkish despite softening inflation data, increasing recession fears and reversing 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%). Global factors are still weighing on the smaller end of the market with valuations under pressure from higher interest rates and slowing global economies while larger companies in Australia have benefitted from stronger commodity prices, somewhat offsetting these negative pressures. 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 somewhat adjusted to more defensive stocks as the market rally looked to have run out of steam. Lower market volumes that have prevailed over the year were even more pronounced over December across the Small Companies universe, so trading was relatively light.

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

Sources: Bloomberg Finance, JMFG

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**

JM Financial Group
AFSL 238397 ABN 68 007 364 132

Level 8, 140 Bourke St, Melbourne, VIC, 3000
Ph: +61 3 9627 9900

Web: www.jmfg.com.au
Email: enquiries@jmfg.com.au

Key Contributors and Detractors for the Month – *JMFG Small Companies Strategy*

CONTRIBUTORS

Regis Resources (RRL)

Gold stocks outperformed the broader market in December as the market moved lower. Regis 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.

Stanmore Resources (SMR)

Coal companies generally outperformed during December with several strong macro factors favouring the sector. This follows a couple of months of underperformance with fears in the market surrounding the Labour government's plan to impose price caps on coal. However, Stanmore being exposed only to metallurgical coal (used in steelmaking) rather than thermal coal (used in electricity production) means it is not subject to these price caps.

DETRACTORS

Australian Ethical Investment (AEF)

As described last month, Australian Ethical is particularly leveraged to the direction of the market and it moved lower last month given December's market weakness. However, the company continues to progress well. It reported that, at the end of November, FUM had risen A$2.4Bn since the end of September, following the completion of the Christian Super successor fund transfer.

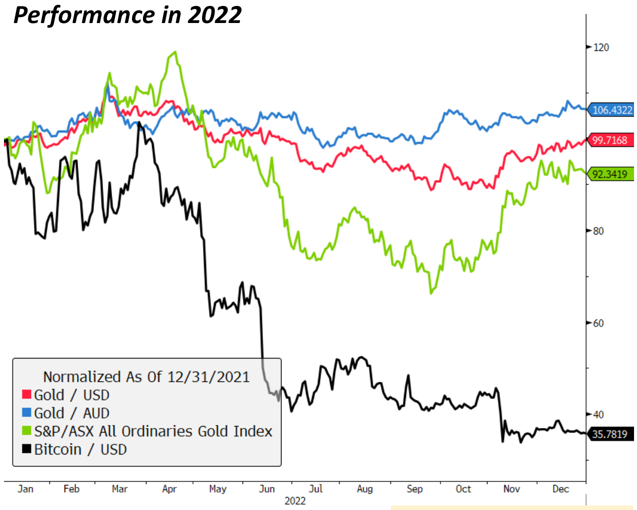
Strandline Resources (STA)

December started off well for Strandline with the company selling its first shipment of Heavy Mineral Concentrate (HMC) out of Coburn for $6.5m. This was a significant announcement showing the company can sell unrefined product while the Mineral Separation Plant is completing commissioning. However, late in December Strandline reported that it had a dispute with one of its contractors who had initiated legal proceedings seeking A$13.5m in damages.

Topic of Interest – *Gold*

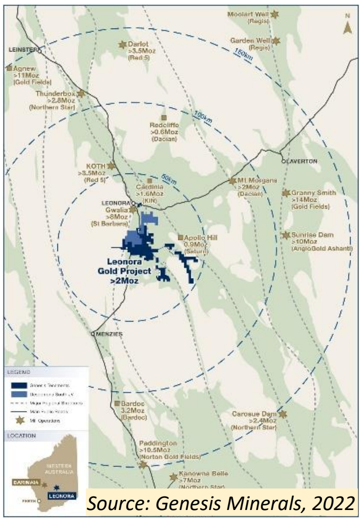
Trying to predict the price of Gold can be like finding fool's gold – it may appear attractive, but the results can be less so, as has been the experience of many through 2022. This is due to there being several diverse factors that influence the price, combined with the non-fundamental nature of its 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



Source: Genesis Minerals, 2022

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.