JM Financial Group

Investment Newsletter
September 2023

Australian Equities Strategy

Performance *(Net*)*	**1 Month (%)**	**3 Months (%)**	**1 Year (%)**	**3 Years (% pa)**	**5 Years (% pa)**	**Inception** (% pa)**
JMFG Australian Equities Strategy	**-0.9**	**+0.1**	**+5.2**	**+2.2**	**+3.1**	**+6.0**
All Ords Accumulation Index	-2.8	-0.7	+13.1	+10.8	+6.8	+7.6
Outperformance	**+1.9**	**+0.8**	**-7.9**	**-8.6**	**-3.7**	**-1.6**

*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 the month*

For the month of September, the JMFG Australian Equities strategy declined 0.9%, outperforming the S&P/ASX All Ordinaries Accumulation Index by 1.9% and has outperformed in three of the last four months. Global markets declined for a second month in a row as rising long term bond rates, driven higher by continued strong economic data, led to a sentiment shift to rates remaining higher for longer. Most central banks left rates on hold as the impact of recent rapid rate rises on the economy is assessed. The notable exceptions were China, cutting the required reserve ratio in a stimulatory measure, and the European central bank, lifting rates 25bps though signalling that this was likely the last raise in this cycle.

This month, large-capitalisation stocks (-2.8%) outperformed small-capitalisation stocks (-4.0%). Within sectors, Energy was the only positive performer as the oil price recovery continued. Sectors exposed to rising interest rates were the worst performers this month with Property -8.6%, Technology -7.9%, and HealthCare -6.2%. Other underperforming sectors were Consumer Discretionary -3.7%, unwinding gains through reporting season, Communications -3.5%, and Industrials -3.2%. Outperforming, albeit negative returning, sectors were Financials -1.6%, Consumer Staples -1.6%, Materials -1.8%, and Utilities -1.9%.

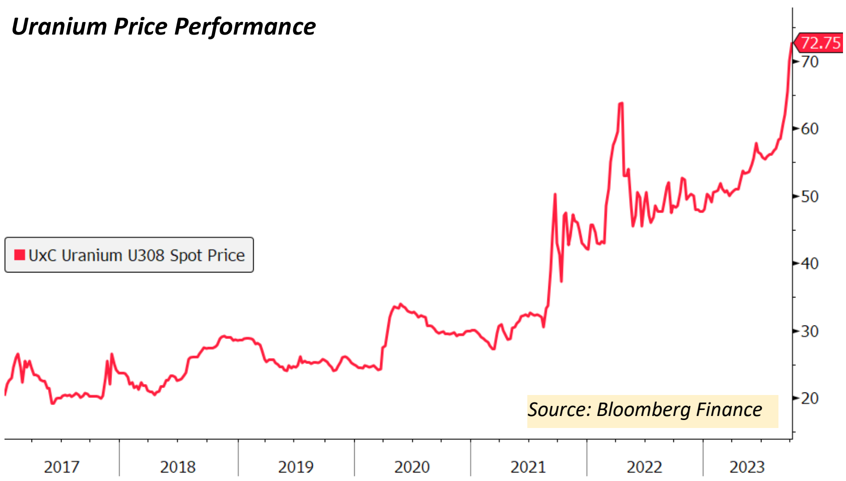
During September, a number of positions were reduced as several themes played out to expectations. Proceeds were rotated into a few larger and more defensive positions. Cash remains moderately elevated in keeping with a cautious outlook.

Chart of Interest – *Uranium Price Surge*

In our March Investment Newsletter, we provided an update on the uranium market and described how sentiment was shifting globally towards nuclear energy with increased requirements for electricity production diversity and supply security. During September the spot uranium market surged to a multiyear high at US$70/lb, and continued higher into October, demonstrating the tightness of the market and how quickly it can move as utilities scramble to secure supply.

The uranium price surge has occurred alongside a similar rise in traditional energy commodities. Over September oil prices jumped 9.7% as brent crude rose from US$86.86 to $95.31 per barrel.

Uranium Price Performance



Australian listed uranium companies followed this move and performed well over September. Boss Energy rose 39.8% as one of the strongest performers remains on track for first production towards the end of this year and becoming Australia's next Uranium producer. Paladin Energy was also strong, rising 30.2% over September while reiterating during the month that they remain on track and on budget to first production in Q1 2024. While Boss and Paladin look to be near term beneficiaries due to their nearing production the high uranium price also provides smaller uranium developers access to capital.

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 Australian Equities Strategy*

CONTRIBUTORS

Paladin Energy (PDN)

As discussed above, the uranium price surged during September, which saw uranium producers performing strongly. As a near term producer, Paladin is well placed to benefit, as the price spike assists it in contracting offtake for when production begins in early 2024.

Stanmore Resources (SMR)

Stanmore operates several coal assets producing predominantly metallurgical coal. During September Australian Premium Coking Coal Futures rallied 22.5% from US$265.33 to US$325.00 per ton with robust Chinese demand and ongoing supply issues. Stanmore was also added into the S&P/ASX 300 Index during September which is likely to drive increased visibility in the company amongst investors.

DETRACTORS

CSL Ltd (CSL)

CSL declined 8.3% in the month of September. Negative sentiment towards the stock continued unabated following the August result release. This sentiment was further exacerbated in September due to the impact of rising 10-year bond yields on the valuation of higher growth stocks like CSL. Further, the emergence of GLP-1 drugs weighed on sentiment due to the potential impact of these drugs on CSL's current and future revenue, notably in relation to major adverse cardiovascular events and kidney disease.

Goodman Group (GMG)

Goodman Group declined 8.2% in the month of September giving back some of the gains from last month. There was no company-specific news during the month. Goodman Group declined for similar reasons to CSL, in this case due to the negative impact of rising rates on property valuations.

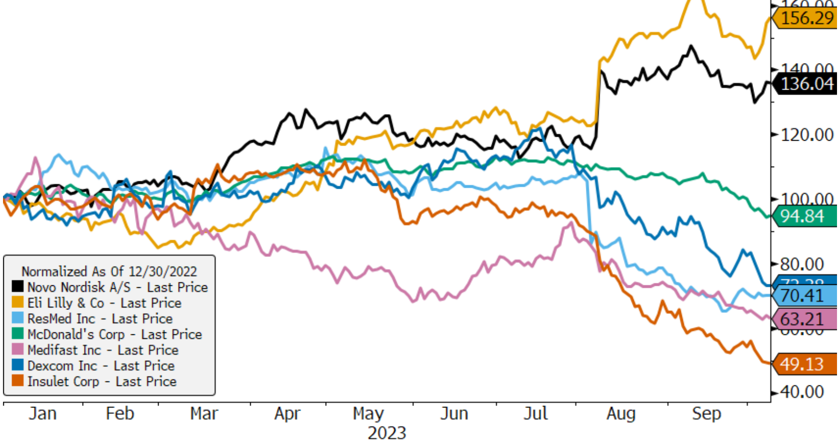
Topic of Interest – *GLP-1 receptors and ResMed*

Glucagon-like peptide-1 (GLP-1) is a natural hormone released after eating which stimulates the production of insulin by the pancreas to maintain healthy blood glucose levels. Type 2 diabetic patients have insufficient GLP-1 release, resulting in fluctuating blood glucose levels leading to health complications. Historically, treatment for diabetes focused on managing insulin levels. More recently GLP-1 receptor agonists (GLP-1Ra) drugs have been developed to replicate natural GLP-1 hormones, with the first GLP1-Ra diabetic treatment drug approved by the FDA in 2005 and a further 6 subsequently approved. GLP-1 and GLP-1Ra's have also been observed to assist in weight loss by slowing the emptying of the stomach, resulting in people feeling fuller for longer and reducing food consumption.

In August, Novo Nordisk published top-line results from its SELECT study, reporting that Wegovy (its GLP1-Ra drug) significantly reduced the risk of major adverse cardiovascular events. While these drugs have been available and used for over a decade, the SELECT result significantly increased excitement about the potential application beyond diabetes and obesity to address other medical conditions like heart disease, kidney disease, and obstructive sleep apnea (OSA). Indeed, the share prices of leading GLP-1Ra drug developers Novo Nordisk and Eli Lilly have significantly increased since August. Correspondingly, share price declines have been observed in ResMed (OSA), McDonalds (fast food), Medifast (weight loss products), Dexcom and Insulet (diabetes devices), some potential losers from "weight loss" drugs. Meanwhile, Weight Watchers has recovered of late due to diversifying away from its traditional obesity market by acquiring a telehealth company that only consults on Wegovy.

The impact on diabetes and food consumption is clear, however it is less clear for OSA. While studies show that obesity is linked to OSA, it is not the sole cause, in fact many OSA patients are not obese. Further, no studies currently show the impact of these drugs on OSA, and there are increasing reports of side effects from use (including nausea, vomiting and others). Since early August, ResMed traded down 37% with the SELECT study released and short positions in the stock revealed. ResMed remains the market leader in OSA devices in a market that remains underpenetrated. This fall appears overdone compared to any expected impact.

Impact of GLP-1 Agonists on various companies



Source: Bloomberg Finance