The University of Queensland Business School

THE UNIVERSITY OF QUEENSLAND
AUSTRALIA
CREATE CHANGE

Student Managed Investment Fund February 2020 Update

February 2020 Fund Update

Fund Review

The portfolio returned -6.1% for the month ending February 28th, compared with the benchmark All Ordinaries Accumulation Index return of -8.1%, providing an overall outperformance of 2% for the month. The top performing investments for the month were Northern Star Resources (ASX: NST), Breville Group (ASX: BRG) and Shopping Centres Australia Property Group (ASX: SCP), returning 6.9%, 4.2% and 4.2% respectively. The worst performers for the month were Reliance Worldwide Corporation (ASX: RWC), Qube Holdings (ASX: QUB) and Origin Energy (ASX: ORG) delivering returns of -24.9%, -15.1% and -14.9% respectively. The significant underperformance in February relative to previous months was driven by the global spread of COVID-19 and led to significant selloffs on global markets.

NST retreated from its all time high of $14.96 late in the month as the gold price dropped with many hedge funds selling gold to cover margin calls as the coronavirus fallout intensified. Northern Star however delivered a very strong half-yearly result with net profit increasing 54% from the previous half-year result. The portfolio managers note that there have been no significant changes in the operations of NST since the part acquisition of Kalgoorlie Lake View in early January and we believe that investment in the company serves as a good natural hedge to market collapses as we are seeing presently.

BRG surged in early February to an all-time high of $25.50 following its half-yearly results, with revenue and net profit up 25.4% and 14.1% respectively on the previous half-yearly result. The “Global Product” line, which sells premium products designed and developed by Breville. Since the coronavirus the price of Breville has come down significantly to $19.45 as of COB 28th February. The portfolio managers believe BRG is an extremely high-quality company and enjoys a significant competitive advantage, particularly with several of their end-consumer products and we believe that this is a company that will be less impacted by the coronavirus, particularly given that a number of its products are not made in traditional Asian manufacturing hubs.

SCP released a very solid half-yearly result, with net profit of 90.2m, up 129.5% on the prior half-yearly result.

Reliance Worldwide Corp (ASX:RWC) fell 24.9% in February, with NPAT falling for the half year by 21%. The company suffered weaker performance across its various geographical operations, affected by a weaker housing market in Australia and the Eurozone, a slowdown in US operations, and Brexit issues plaguing the UK arm, John Guest. With ongoing forecasts looking weak, alongside other concerning long-term issues with the position, the fund managers decided to exit Reliance the position in early March.

Appen (ASX:APX) fell 18.3% for the month, despite demonstrating solid earnings and dividend growth across the business. Highlights in the full year report included the Speech and Data division revenue growing by 32%, and the Relevance division growing revenue by 37%. Looking forward, the company expects little impact to earnings from COVID-19. We believe the company has been unjustifiably caught up in the worldwide sell-offs and panic from COVID-19. We remain supportive of management and the businesses’ operations, and continue to see Appen as a quality business, on that is key for our technological exposure.

Stock Spotlight (ASX: SCP)

Shopping Centres Australasia Property Group (SCP:ASX) is an internally managed real estate investment trust. SCP owns and manages 91 high quality investments that are spread across sub-regional and neighbourhood shopping complexes. The portfolio has a focus on non-consumer discretionary with anchor tenants such as Wesfarmers and Woolworths, with this focus providing limiting exposure to a declining retail backdrop.

The fund initially took a position in the company in September and has since returned 4.2%. Strong portfolio performance has driven share price growth in recent months with 98.3% occupancy rates and funds from operations up 19.1% to $78.5m. Moreover, as BBSW rates continue to fall, resulting in a decrease in SCP’s cost of capital, boosting returns on assets.

In line with the fund's investment strategy, SCP has reaffirmed guidance in their half year reports. Management noted that the focus remains in finding high quality tenants while remaining aware of gearing levels and keeping this ratio below 35% in this late stage of the economic cycle. The company noted that during the past six months, major acquisitions included the $78.4 million purchase of Warner Marketplace. Moving forward into 2020, the initial SURF 1 will be wound up and is expected to return an IRR in excess of 10%.

Market Update

The bull run of Australian equities continued throughout the early part of February with the Australian All Ordinaries Index hitting an all-time high of 7,255.20 in mid-February. Since then the markets have suffered a very sharp decline, falling to 6,511.5 by the end of February and delivering a monthly return of -8.1%.

The significant February decline was attributable to the global outbreak of COVID-19, with a number of outbreaks throughout the western world. There has been a lot of commentary on this pandemic and it is important that one thing is made absolutely clear in this report, the portfolio managers (PMs) have no expertise in forecasting global health pandemics and the impacts of them on day-to-day market movements. What we are trying to do is invest in companies that are earning high returns on capital, have sustainable competitive positions and long-term prospects and, perhaps most importantly, are reasonably priced.

Whilst the human impact of this virus is terrible, and for that reason more than any other we hope there is a quick recovery, it is worth noting that this pandemic does present some opportunities for the fund in the long term. Before the current PMs took over late last year, many equities were highly priced, resulting in the proposal of a fairly defensive portfolio. The COVID-19 outbreak may present some lucrative buying opportunities if prices drop low enough, and over the coming month the PMs will discuss where the best investment opportunities lie, and we look forward to purchasing more high quality businesses.

Global financial markets and speculators tend to overreact to daily news, including global health pandemics, and it is worth noting that in the US alone, influenza has resulted in the deaths of 18,000 people, compared to 3,000 deaths worldwide caused by COVID-19. The impact of this virus on business investment and consumer confidence is obvious, and there is no doubt many companies around the world will be negatively impacted by the virus. However, equity's have delivered incredible results over a long period of time during which there have been no shortage of global disasters (including pandemics, world wars and political and economic turmoil). As was said in the January update, remaining invested in high-quality businesses, throughout bull and bear markets, is the best way to deliver lucrative long-term results.

Monetary Policy Update

The RBA's outlook for the Australian economy has become significantly more uncertain over the last month with the cash rate dropped 0.25% to 0.50%. With the last two quarters of GDP growth have beat expectations (2.2% over the year), the RBA noted that the signs of a global slowdown had begun to ease over the last few months. However, they expressed significant concern with the continued development of the COVID-19 outbreak, and its early impact on short term demand. Continued concerns further exist with the residential housing market remaining strong, particularly inner city Sydney and Melbourne. QIC notes that manufacturing production is down, and that there has been a significant reduction in the level of real investment in Australia. The USA PMI was also down as a result of manufacturing and services industries.

Investors appear to be concerned that the global economy was weakening independently of the impact of the coronavirus outbreak. This presents significant risks given that there is likely to be a reduction in consumption as consumers begin to panic. The fund's view is that this risk should be taken seriously, and that the RBA's rate cut is unlikely to be enough as global supply chains begin to be affected. The government has expressed its intention to implement fiscal policy, however, it is still unclear what form this will take.

Portfolio Management Team

Student	*Current Enrolment*
Xavier Clark	Bachelor of Commerce & Economics
Elyse Dwyer	Bachelor of Advanced Finance & Economics (BAFE)
Zach Hayward	Bachelor of Advanced Finance & Economics (BAFE)
Patrick Jaffe	Bachelor of Advanced Finance & Economics (BAFE)
Callum McFaul	Bachelor of Advanced Finance & Economics (BAFE)
Jordi Montaner	Bachelor of Advanced Finance & Economics (BAFE)

Quantitative Data:

Holdings:

Ticker/ Company Name		Portfolio Weight	Position 28th Feb 2020	Return*
FAIR	Betashares Australian Sustainability Leaders ETF	16.3%	$ 38,424	-7.3%
CNU	Chorus Limited	8.5%	$ 19,918	1.3%
MQG	Macquarie Group Limited	6.8%	$ 16,045	-6.9%
RMD	ResMed Inc.	5.9%	$ 13,790	-2.4%
SCP	Shopping Centres Australasia Property Group	4.6%	$ 10,761	4.2%
APA	APA Group	4.1%	$ 9,730	-5.2%
MICH	Magellan Infrastructure Fund	3.9%	$ 9,126	-7.4%
SHL	Sonic Healthcare Limited	3.5%	$ 8,266	-9.1%
SYD	Sydney Airport Limited	3.5%	$ 8,306	-7.4%
RIO	Rio Tinto Group	3.4%	$ 7,942	-11.6%
WOW	Woolworths Group Limited	3.4%	$ 7,915	-7.3%
	CASH (including dividends receivable)	3.3%	$ 7,707	
QUB	Qube Holdings Limited	3.1%	$ 7,344	-15.1%
NST	Northern Star Resources Limited	3.1%	$ 7,242	6.8%
BRG	Breville Group Limited	3.1%	$ 7,352	4.2%
BHP	BHP Group	2.9%	$ 6,720	-14.7%
CSL	CSL Limited	2.9%	$ 6,808	-0.8%
WBC	Westpac Banking Corporation	2.8%	$ 6,619	-5.9%
JHX	James Hardie Industries plc	2.5%	$ 5,872	-11.2%
ORG	Origin Energy Limited	2.5%	$ 5,919	-14.9%
NCK	Nick Scali Limited	2.4%	$ 5,649	1.7%
TGR	Tassal Group Limited	2.3%	$ 5,486	-10.7%
APX	Appen Limited	2.2%	$ 5,242	-18.3%
BAP	Bapcor Limited	1.8%	$ 4,135	-7.6%
RWC	Reliance Worldwide Corporation Limited	1.4%	$ 3,225	-24.9%
		TOTAL	$ 235,539	

*Total return since purchase

Performance:

	1 month	3 months	6 months	12 months	Inception (Nov 2018)
SMIF	-6.1%	-1.8%	2.3%	9.1%	17.8%
All Ordinaries Accumulation Index	-8.1%	-5.6%	-1.0%	8.2%	18.1%

Portfolio Metrics:

Metric:	
P/E	22.7
P/B	2.9
ROE	12.2

Market Capitalisation Breakdown:

	Number of Stocks	% Weight
S&P/ASX1-100	15	55.6%
S&P/ASX101-200	6	22.5%
S&P/ASX201-300	1	2.1%
S&P/ASX301-500	0	0.0%
ex-All Ordinaries	1	3.9%

Sector Breakdown:

	% Weight
Industrials	15.9%
Healthcare	12.3%
Financials	10.7%
Materials	10.0%
Consumer Discretionary	7.3%
Real Estate	7.2%
Consumer Staples	5.69%
Telecommunication	3.5%
Utilities	3.1%
Information Technology	2.2%
Energy	2.5%

Note: METRICS ABOVE ARE EXCLUSIVE OF FAIR ETF

Information on the Fund and Disclaimer

This update has been prepared by the student portfolio managers of the University of Queensland Business School Student Managed Investment Fund. The Fund was seeded by the University with $200,000 in 2018 and the first investments were made in November 2018. The University of Queensland is the sole owner of the assets in the Fund and no fees are payable by the University for the management of the Fund. The Fund recognises the support of Morgans Brisbane as stockbroker to the Fund.

The information in this update is prepared primarily for educational purposes and to keep internal and external Fund stakeholders informed. Any views expressed in this update are the views of the student portfolio managers. The accuracy, reliability or completeness of data or information presented in this update is not guaranteed. The information is not intended as a securities recommendation or statement of opinion intended to influence a person or persons in making a decision in relation to an investment.