The University of Queensland Business School

THE UNIVERSITY OF QUEENSLAND
AUSTRALIA
CREATE CHANGE

Student Managed Investment Fund July 2020 Update

July 2020 Fund Update

Fund Review

The SMIF portfolio returned 2.54% over the month of July, outperforming the All Ordinaries Accumulation Index return of 0.95% by 1.59%. Top performers in the fund included City Chic Collective (ASX:CCX), Northern Star Resources (ASX:NST), and Breville Group (ASX:BRG), with returns of 17.2%, 15.7%, and 13.9%, respectively. Positions which experienced the largest declines include Sydney Airport (ASX:SYD), Qube Holdings (ASX:QUB) and CSL (ASX:CSL), with returns of -7.8%, -6.2%, and -5.9%, respectively.

CCX saw a significant uplift in its share price after announcing their acquisition of U.S. plus-sized fashion retailer, Catherines, from distressed US-listed Ascena Retail Group for US$16mn. Over the 12 months to April 2020, Catherines achieved online revenues of US$67mn and website traffic of 22mn. The acquisition will fast-track CCX's online presence in the US market after CCX acquired the Avenue and Hips & Curves businesses in 2019. Catherines is a well-established player in the U.S. plus-sized apparel market, targeting mature value-conscious women. With a larger presence in the U.S. South and Mid-West, Catherines strongly complements CCX's Avenue acquisition last year (which has a larger focus on the North-East) and presents significant cross-selling opportunities across CCX's portfolio of brands. With a similar playbook to that of Avenue, the integration of Catherines is expected to be relatively seamless, with plans to streamline their operating model, integrate supply chains and logistics, and improve online experience. The company's pre-release results were also ahead of expectations, with revenues of $195mn up 31% on pcp, and EBITDA of $29.3mn, highlighting the strength of the company's omnichannel model.

In July, the SMIF portfolio managers were also able to speak to the CEO of Integral Diagnostics Limited (ASX:IDX) Dr. Ian Kadish. We are thankful for his time and the conversation has added to our conviction in the business after entering into a position in IDX in mid-May at the beginning of our tenure.

Market Update

The Australian All Ordinaries Accumulation Gross Index delivered a positive return of 0.95% in the month of July, as the pace of the market rally continued to deteriorate due to the economic uncertainty surrounding the implications of further COVID induced lockdowns. Travel stocks were hit hardest in July, with Webjet (ASX:WEB), Qantas (ASX:QAN) and Corporate Travel Management (ASX:CTD) all weaker by more than 10%. Surging Iron Ore and Gold prices supported natural resources companies, with the price of gold hitting a record high of US$1981 on the back of continued weakness in global real yields helping companies like Saracen (ASX:SAR) and Northern Star Resources (ASX:NST). The Australian dollar remains strong maintaining 0.71 AUD/USD levels, appreciating 30% from the March lows.

Looking overseas, the S&P 500 delivered a strong positive return of 5.31% in July on the back of Q3 earnings results that were largely better than expected, with 85% of companies beating on earnings by an average of 22.7%. The FAANG names all beat expectations, with the standout result being delivered by Apple. Whilst the result was formidable given the current environment, the team continues to consider its view on the case that that markets are overemphasizing secular tailwinds and underappreciating the scope and size of fiscal stimulus. As Jamie Dimon declared in J.P.Morgan's Q3 update, current unemployment insurance (UI) and loan deferrals are potentially just delaying the true size and nature of the impending recession. Hence, there is a case to argue that Apple might not be a truly defensive consumer staple company and simply a luxury goods company currently supported by Washington D.C.

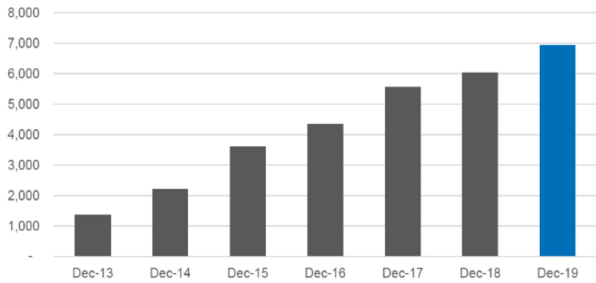
Looking into August, local markets face two distinct catalysts; earnings season and the implications of state-wide reversal of re-openings. Firstly, as stated in the June update, EPS estimate dispersions for the ASX are at record highs, with the Energy and Industrials sectors demonstrating the greatest earnings uncertainty. While markets can take some level of confidence from U.S. reporting so far, the disconnect between U.S. and Australian policy decisions diminishes the validity of using Q3 reporting as a leading indicator for the ASX reporting season. The team will be paying particular attention to company outlook statements and the potential for a second round of capital raisings. Secondly, as of writing, the Victorian government is implementing extensive lockdowns that will be detrimental to nation-wide growth through the September quarter. While JobKeeper and continued stimulus measures have been confirmed by policy makers, the pent-up demand fueling record retail sales data could begin to reverse as consumer confidence is influenced by COVID-19 fatigue and the likelihood of increased rightsizing in businesses.

Stock Spotlight (ASX:INA)

Ingenia Communities Group was added into the SMIF portfolio in mid-May for its 1) strong demand from ageing populations who face limited alternatives, 2) stable inflation-linked cash flows, and 3) strong development pipeline and acquisition opportunities. Since then, the position has performed particularly well and we believe the low-interest rate environment post-COVID will only create additional pressure on investment income, increasing demand for INA's land lease models among self-funded retirees and pensioners. INA's pre-reported 325 new home settlements and 179 deposits on hand despite the pandemic, was comparable to the prior FY however average sale prices were higher at $430,000 (compared to $384,000 in FY19).

In April, INA engaged in a $175mn equity raising which we believed to be strategic as opposed to addressing liquidity concerns given their undrawn facilities at the time. Since then, the company has completed 2 acquisitions of a 4.2-hectare developed lifestyle community in NSW Central Coast and a 6.4-hectare greenfield development site near Ballarat, Victoria, continuing to expand their rental base and the industry's largest development pipeline. Both acquisitions are expected to be EPS accretive in FY21/22, with INA's strong balance sheet and size allowing it to continue its acquisition of attractively priced assets in a time where its competitors are constrained for cash. We believe the company is well-positioned to continue its expansion coming out of the pandemic.

Growth in number of income-producing sites



Source: Company Reporting Internal Filing Statistics

While the company's exposure to holiday parks along Australia's east-coast was an initial concern in May, since then, we have changed our view and see these assets as a positive. As state border restrictions are reinstated and international travel likely impossible until at least mid-2021, we believe INA's QLD and NSW holiday parks will benefit from increased local travel for some time to come. Negative sentiment around air-travel and a preference towards coastal, isolated destinations would also likely play to INA's advantage.

Portfolio ESG Focus

In accordance with University of Queensland ESG Policy, the Zion Capital portfolio is managed with an ESG focus maintained throughout. The Portfolio Managers believe mitigating ESG risk is fundamental to preserving capital in the long run and as such have selected a portfolio of companies with little downside ESG risk and actively manage the business with a focus on environmental, social and governance impacts.

Portfolio and Industry ESG Combined Score comparisons reveal the Zion Capital portfolio to be better performing in 7 of the 11 GICS Sectors (see ESG metrics on page 6). The lower relative ESG scores in the Communication Services, Consumer Discretionary, Energy and Utilities sectors can be explained by smaller market cap holdings and less sophisticated or no ESG reporting available for some holdings. Zion Capital do not perceive material risk to the portfolio with such holdings and actively seek to ensure any risks are controlled.

THE UNIVERSITY OF QUEENSLAND
AUSTRALIA
CREATE CHANGE

Portfolio Management Team

Name	*Current Enrolment and Contact*
Golden Chen	Bachelor of Advanced Finance & Economics golden.chen@uq.net.au
Matisse Clark	Bachelor of Advanced Finance & Economics matisse.clark@uq.net.au
Lachlann Smith	Bachelor of Advanced Finance & Economics lachlann.smith@uq.net.au
Brendan Wilson	Bachelor of Advanced Finance & Economics brendan.wilson@uq.net.au

Quantitative Data:

SMIF Portfolio Holdings:

Ticker	Company Name	Portfolio Weight		Position 30th June	Return*
RMD	ResMed Inc.	6.6%		$15,978	38.9%
BRG	Breville Group Limited	6.4%	▲2	$15,636	43.4%
MQG	Macquarie Group Limited	6.3%	▼1	$15,313	-2.8%
CNU	Chorus Limited	5.8%	▼1	$14,049	25.2%
NST	Northern Star Resources Limited	5.1%		$12,476	48.6%
APX	Appen Limited	4.4%		$10,731	103.4%
APA	APA Group	4.1%		$9,966	-3.0%
BHP	BHP Group	4.0%	▲1	$9,702	14.6%
RIO	Rio Tinto Group	3.8%	▲1	$9,282	13.4%
SHL	Sonic Healthcare Limited	3.8%	▲1	$9,213	46.4%
JHX	James Hardie Industries plc	3.7%	▲1	$8,923	11.5%
CSL	CSL Limited	3.7%	▼4	$8,913	19.8%
MICH	Magellan Infrastructure Fund	3.4%		$8,161	-14.1%
WOW	Woolworths Group Limited	3.2%		$7,891	3.3%
INA	Ingenia Communities Group	3.0%	▲2	$7,206	27.2%
PWH	PWR Holdings Limited	3.0%	▼1	$7,202	15.5%
CCX	City Chic Collective Limited	2.9%	▲2	$6,950	41.7%
QUB	Qube Holdings Limited	2.8%	▼2	$6,866	6.0%
SCP	Shopping Centres Australasia Property Group	2.4%	▲1	$5,821	-21.0%
SYD	Sydney Airport Limited	2.3%	▼2	$5,591	-38.8%
IDX	Integral Diagnostics Limited	2.1%		$5,232	9.3%
IPH	IPH Limited	2.1%		$5,193	-0.6%
SSM	Service Stream Limited	2.0%		$4,861	-15.6%
WBC	Westpac Banking Corporation	2.0%		$4,785	-38.5%
JLG	Johns Lyng Group Limited	1.9%		$4,548	1.7%
COE	Cooper Energy Limited	1.8%		$4,444	-9.0%
BAP	Bapcor Limited	1.8%		$4,432	-11.7%
	Cash and Dividends Receivable	5.8%		$14,176	
		TOTAL		**$243,539**	

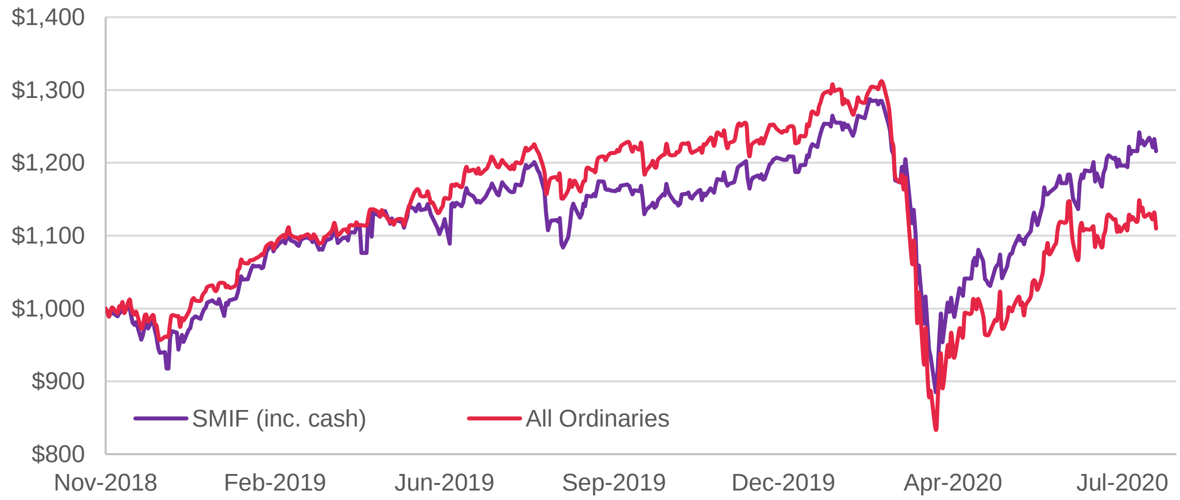
*Total return on each position since purchase, net of fees, excluding dividends

Performance:

	1 month	3 months	6 months	12 months	Inception (Nov 2018)*
SMIF	2.54%	13.18%	-2.88%	1.68%	21.77%
All Ordinaries Accumulation Index	0.95%	8.51%	-13.62%	-9.02%	10.98%
Alpha	1.59%	4.67%	10.73%	10.70%	10.79%

*Total return since fund inception on 19 November 2018

Value of $1000 invested since inception



Key Portfolio Multiples:

Metric	
Trailing P/E	28.5x
P/B	3.8x
ROE	16.6%

Market Capitalisation Breakdown:

	Number of Stocks	% Weight
ASX1-100	13	54.0%
ASX101-200	9	27.0%
ASX201-300	0	0.0%
ASX301-500	5	13.2 %
Cash and Dividends Receivable		5.9%

Sector Breakdown:

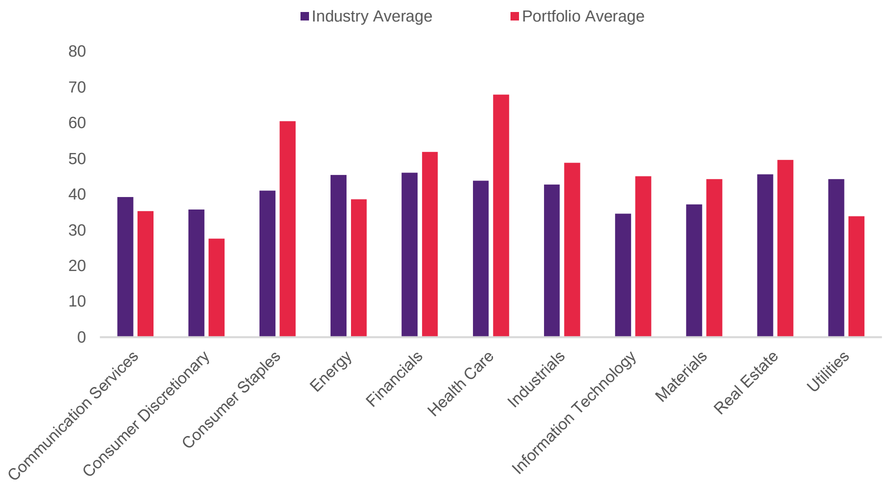
	% Weight	Change in rank*
Materials	17.6%	▲1
Health Care	17.2%	▼1
Consumer Discretionary	14.9%	-
Financials	12.3%	▲1
Industrials	11.8%	▼1
Communication Services	6.1%	-
Real Estate	5.7%	-
Information Technology	4.7%	-
Utilities	4.3%	-
Consumer Staples	3.4%	-
Energy	1.9%	-

*Since last update

Key Portfolio Metrics:

	SMIF	All Ords Acc.
Returns		
Annualised return	12.3%	6.3%
Risks		
Annual volatility	21.0%	22.6%
Beta	0.87	1.00
Tracking error	11.1%	0.0%
Risk/Return Trade Off		
Sharpe ratio	0.45	0.15
Information ratio	0.58	0.00
Jensen's alpha	6.4%	0.0%
Treynor's measure	0.11	0.03
Distribution of Returns		
Capture ratio	95%	100%
Downside capture	92%	100%
Upside capture	88%	100%

ESG Metrics:



Source: Eikon Refinitiv ESG Combined Score (FY0). Industry Average comprised of S&P/ASX300 GICS Sector average scores.

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.