



Student Managed Investment Fund August 2020 Update



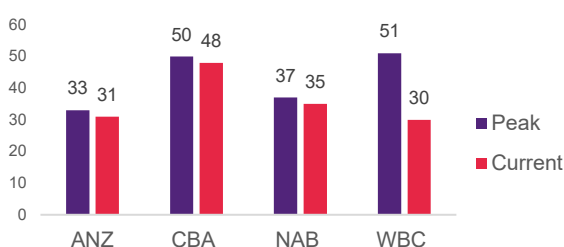
August 2020 Fund Update

Fund Review

Over the month of August, the SMIF portfolio returned 1.1%, compared to the All Ordinaries Accumulation Index return of 3.7%, representing an underperformance of 2.6%. With reporting season underway, top performers in the fund included Integral Diagnostics (IDX.ASX), PWR Holdings (PWH.ASX), and Chorus (CNU.ASX), with returns of 20.8%, 12.1%, and 11.8%, respectively. Positions which experienced the largest declines include Resmed (RMD.ASX), Cooper Energy (COE.ASX) and Northern Star Resources (NST.ASX), falling by 13.9%, 12.0% and 11.7%, respectively.

The Australian All Ordinaries Accumulation Index delivered a positive return of 3.7% in the month of August, with local shares buoyed through the month despite divergent results across sectors. Qantas, Corporate Travel Management, Flight Centre and Webjet were among the market's best performers in August, as the tourism sector was able to beat the extremely conservative expectations set by analysts coming into the month. Income scarcity was an important takeaway from reporting season, with 72% of companies that paid a FY19 dividend either scrapping or significantly reducing their FY20 dividend. Additionally, 70% of companies did not issue formal guidance during reporting season. The team is looking towards the Australian AGM season, which should provide greater colour on the health of Australian companies as fiscal stimulus, rent relief and mortgage moratoriums (figure 1) begins to be withdrawn. The Australian dollar remains strong maintaining 0.73 AUD/USD levels, appreciating 33% from March lows.

Fig. 1: Australian Mortgage Deferrals - Billion A\$



Source: Credit Suisse estimates

Portfolio earnings highlights

Resmed Inc. (RMD.ASX) released earnings for the fourth quarter ending June 30 2020, reporting FY20 revenue growth of 13.4% to \$2,957m, gross profit margin expansion of 135bps to 58.1% and a net profit of \$621.6m compared to the prior period of 4Q19 of \$404.6m. Divisionally, Devices revenue increased +11% from FY19 and +15% from 3Q20 to \$1,507m for the full year, supported by strong ventilator demand due to various Government contracts to supply ventilators around the world. The strong performance of the Devices segment was enough to offset the weakness in the Masks and other segment (servicing OSA patients), with quarter and annual revenue growth of +2% and +13% respectively to \$1,094m in revenue as of June 30 2020. This decline in revenue from new patient starts did not come as a surprise with RMD expecting a U-shaped recovery in patient diagnosis, up from the double-digit declines seen during lockdowns around the world. Finally, the SaaS business saw revenue up +29% for the year to \$354.6m with the growth attributed to its MatrixCare acquisition as well as software launches including the AirView platform and ResMed Mask Selector. Moving forward, the Zion Capital remain focused particularly on monitoring the recovery of RMD's sleep business and any changes to government contracts to supply ventilators.

Breville Group Ltd (BRG.ASX) released earnings for the full year ended June 30 2020 with strong results largely expected by the market, as observed in the run up to the result. The company reported FY20 revenue growth of +25.3% to \$952.2m, a net profit of \$66.2m (compared to FY19 of \$67.4m) and a decline in diluted EPS of -2.5% to 50.5 cps. Divisionally, the Global Product segment saw revenue growth of +24.9% to \$764.4m supported by strong online adoption in 2H20 in the Australia and New Zealand markets and success of further roll outs in Europe (Spain and France) as well as in existing markets. The successful Sage brand launch in France and advantageous Sage Direct Model supported top line revenue growth as

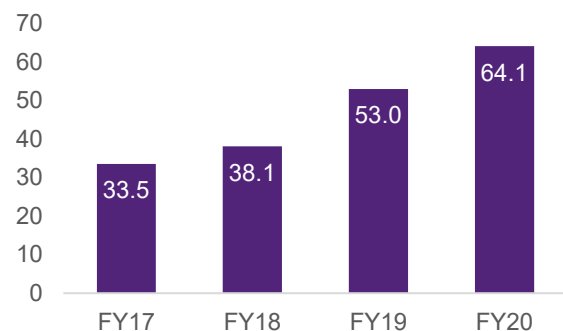
well as unification improving distribution channels. The company flagged strong “sell-out” patterns in all regions whilst “sell-in” was dampened at times due to inventory shortages with increased demand due to lockdown work from home. The Distribution segment saw revenue growth of +26.9% to \$187.8m with strong sales in ANZ and the promising launch of the Breville Air range. BRG did not provide guidance however we are reassured in the company’s adaptability to shocks through a strong inventory position and performance in unpredictable times.

Chorus (CNU.ASX) rallied 11.8% in August after reporting solid results that highlighted the resilient nature of the UFB asset base and were in line with management guidance given in February. EBITDA grew 2% largely driven by Fibre Broadband ARPU increasing 1.9% as an influx of clients moved to 1GB plans during COVID-19 (98% YOY plan growth). Overall capex was down 18% after the completion of the UFB1 rollout and the suspension of non-essential rollout activity which allowed management to deliver a FY20 final dividend of 14cps. Management recognised that despite the negative impact of COVID-19 on financial results, the pandemic was able to accelerate positive underlying trends that will continue to support the business with consumers now placing greater value on the reliability and unlimited capacity that Fibre Broadband can deliver. Most impressively, CNU management were willing to give EBITDA, capex, and FY21 dividend guidance, a rarity in this year’s August reporting season. The key catalysts for CNU through 1H21 will be the Commerce Commission’s PQ and IM methodology reports, expected to be released over the next 3 months.

Integral Diagnostics (IDX.ASX) was one of the fund’s standout performers for the month, rallying 20.8% on the steps of a strong FY20 result. Operating EPS of 17cps only beat broad expectations marginally due to the continued guidance on patient volumes and costs provided throughout the COVID-19 period. However, operating revenue and EBITDA grew by 18.7% and 20.9%, respectively, with the firm declaring a 4.0cps fully franked final dividend. Within the result, the large impact on patient activity in March and April was evident however June numbers were largely in line with pre COVID-19 expectations. Some of the notable FY20 achievements

highlighted were the installment of 2 new CT’s and completion of a new PET facility at John Flynn Private Hospital and the continued investment into the development of its proven AI software, introducing 2 new algorithms over the period which will assist in continuing the upward growth trajectory of the company. Managing the ongoing impacts of COVID-19, digital and AI technology acceleration and the integration of recent acquisitions have been highlighted as some of the key priorities for FY21.

IDX Operating EBITDA - \$AUDm



Source: Company Reporting

PWR Holdings (PWH.ASX) rallied 12.1% through August, after reporting results that were largely in line with expectations. Despite disruptions to this year’s racing season, revenues were flat at A\$65.7mn after a strong first half performance and declines in motorsports of -14% being offset by strong US sales in the automotive aftermarket segment and Emerging Technologies and OEMs. We note this is largely in line with our expectations, with Emerging Technologies and OEMs growing by 62% and 60%, respectively, (off a small base). Management did note that whilst no programs in the OEM segment were cancelled because of the pandemic, the timing of these revenue streams were delayed by ~6 months. EBITDA pre-AASB 16 was flat on FY19 at A\$21.6m though NPAT was lower by A\$1.2m or 8.1% at A\$13.0m from increased financing costs. Throughout the pandemic, the company reduced staff working days to 4 days a week and drew down a A\$5mn loan facility as a precaution. Despite delays, the company maintains that it is on track in executing its growth and investment program. Management is optimistic on the outlook for motorsports with many competitions resuming and expecting to complete at least 75% of the planned races for the year.

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*
BRG	Breville Group Limited	6.6%	▲1	\$16,359	50.0%
MQG	Macquarie Group Limited	6.4%	▲1	\$15,835	0.6%
CNU	Chorus Limited	6.4%	▲1	\$15,700	39.9%
RMD	ResMed Inc.	5.6%	▼3	\$13,763	19.6%
APX	Appen Limited	4.2%	▲1	\$10,448	98.1%
BHP	BHP Group	4.1%	▲2	\$10,008	18.2%
JHX	James Hardie Industries plc	3.9%	▲4	\$9,496	18.7%
APA	APA Group	3.8%	▼1	\$9,450	-8.0%
CSL	CSL Limited	3.8%	▲3	\$9,438	26.8%
SHL	Sonic Healthcare Limited	3.7%		\$9,198	46.1%
RIO	Rio Tinto Group	3.6%	▼2	\$8,918	9.0%
NST#	Northern Star Resources Limited	3.5%	▼7	\$8,627	31.2%
WOW	Woolworths Group Limited	3.3%	▲1	\$8,133	6.5%
MICH	Magellan Infrastructure Fund	3.3%	▼1	\$8,102	-14.7%
PWH	PWR Holdings Limited	3.3%	▲1	\$8,075	29.5%
INA	Ingenia Communities Group	2.9%	▼1	\$7,145	26.2%
QUB	Qube Holdings Limited	2.8%	▲1	\$6,891	6.4%
CCX	City Chic Collective Limited	2.7%	▼1	\$6,684	36.3%
IDX	Integral Diagnostics Limited	2.6%	▲2	\$6,321	32.1%
SYD	Sydney Airport Limited	2.5%		\$6,115	-33.1%
SCP	Shopping Centres Australasia Property Group	2.5%	▼2	\$6,064	-17.8%
SAR^	Saracen Mineral Holdings Limited	2.3%		\$5,690	-6.4%
SSM	Service Stream Limited	2.1%	▲1	\$5,199	-9.7%
JLG	Johns Lyng Group Limited	2.0%	▲2	\$4,946	10.6%
BAP	Bapcor Limited	2.0%	▲3	\$4,942	-1.5%
WBC	Westpac Banking Corporation	2.0%	▼1	\$4,911	-36.9%
IPH	IPH Limited	1.9%	▼4	\$4,788	-8.3%
COE	Cooper Energy Limited	1.6%	▼1	\$3,911	-19.9%
	Cash and Dividends Receivable	4.5%		\$11,094	
	TOTAL			\$246,251	

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

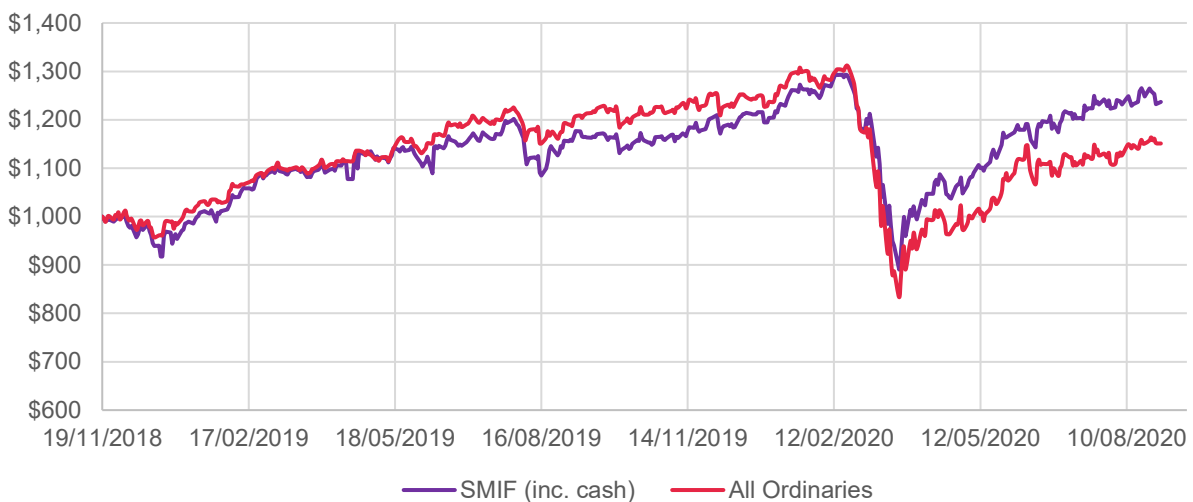
^SAR was added to the portfolio in mid-August, representing 2.5% of the portfolio at the time

#The team sold down 1.0% of the fund's position in NST in mid-August and allocated proceeds into SAR

Performance:

	1 month	3 months	6 months	12 months	Inception (Nov 2018)*
SMIF	1.1%	6.1%	4.6%	6.9%	23.1%
All Ordinaries Accumulation Index	3.7%	7.1%	-2.5%	-3.5%	15.1%
Alpha	-2.6%	-1.1%	7.1%	10.4%	8.0%

*Total return since fund inception on 19 November 2018. Alpha may not equal SMIF return minus All Ordinaries return due to rounding.

Value of \$1000 invested since inception

Key Portfolio Multiples:

Metric	
Median P/NTM EPS	24.3x
Median P/BV	3.7x
Average ROE	13.9%

Market Capitalisation Breakdown:

	Number of Stocks	% Weight
ASX1-100	13	51.8%
ASX101-200	10	29.8%
ASX201-300	0	0.0%
ASX301-500	5	13.9%
Cash and Dividends Receivable		4.5%

Sector Breakdown:

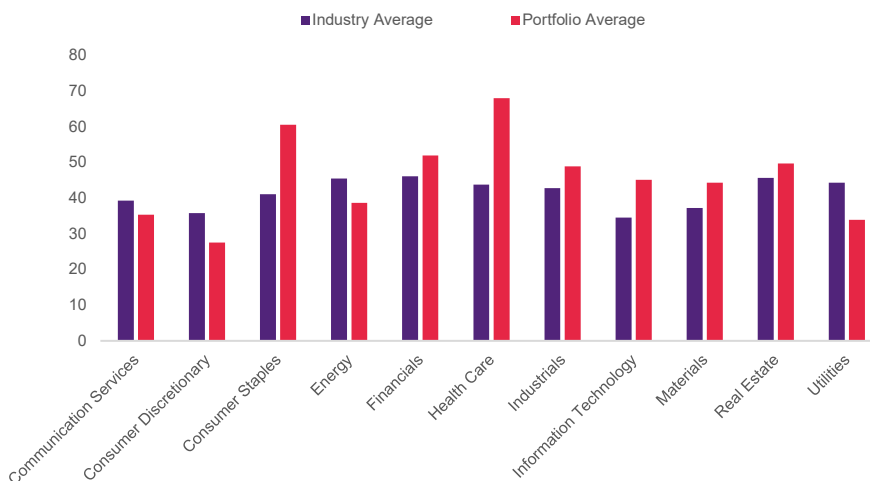
	% Weight	Change in rank*
Materials	18.2%	-
Health Care	16.5%	-
Consumer Discretionary	15.3%	-
Financials	12.3%	-
Industrials	11.9%	-
Communication Services	6.7%	-
Real Estate	5.6%	-
Information Technology	4.4%	-
Utilities	4.0%	-
Consumer Staples	3.5%	-
Energy	1.7%	-

*Since last update

Key Portfolio Metrics:

	SMIF	All Ords Acc.
Returns		
Annualised return	12.4%	8.2%
Risks		
Annual volatility	21.0%	22.5%
Beta	0.87	1.00
Tracking error	11.2%	0.0%
Risk/Return Trade Off		
Sharpe ratio	0.44	0.23
Information ratio	0.43	0.00
Jensen's alpha	4.8%	0.0%
Treynor's measure	0.11	0.05
Distribution of Returns		
Capture ratio	94%	100%
Downside capture	92%	100%
Upside capture	86%	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.