The University of Queensland Business School

The University of Queensland Australia

CREATE CHANGE

Student Managed Investment Fund September 2020 Update

September 2020 Fund Update

Fund Review

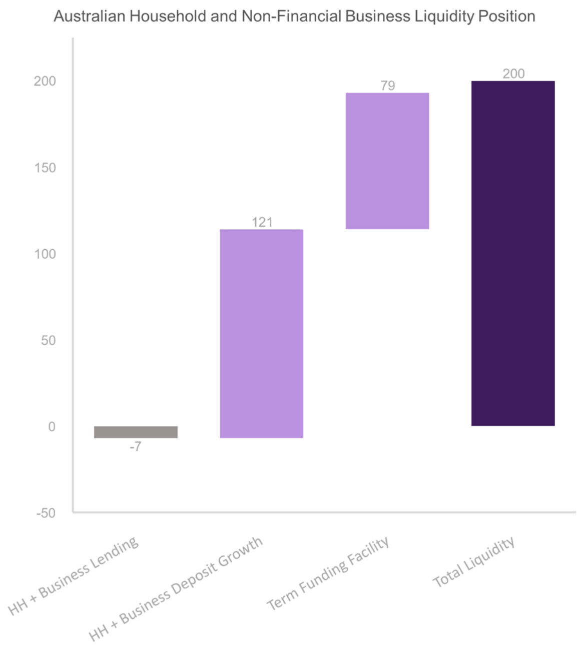
The SMIF portfolio returned -1.3% over September in what was an extremely turbulent month. This compared to the -3.4% return of the All Ordinaries Accumulation Index, representing an outperformance against the benchmark of 2.1%. Top performers over the month included James Hardie (ASX:JHX), Service Stream (ASX:SSM), which benefited from the recent NBN fibre-to-premise announcements, and Johns Lyng Group (ASK:JLG), with returns of 7.5%, 6.8%, and 6.1%, respectively. Positions which experienced the largest declines included City Chic Collective (ASX:CCX), Woolworths Group (ASX:WOW), and Qube Holdings (ASX:QUB), with declines of -11.0%, -8.6%, and -8.4%, respectively.

The month also marked the end of Zion Capital's tenure as PMs of the SMIF. Over our tenure since May, we have witnessed periods of market recovery and uncertainty, with the All Ordinaries rebounding by 14.2% over the period and the SMIF delivering a return of 16.5%, outperforming the benchmark by 2.3%. This has been the result of a disciplined investment process combined with prudent risk management strategies in diversifying the fund. Many of our initial investments outlined in our May update as part of our diversification strategy into smaller caps have performed extremely well, including Integral Diagnostics (ASX:IDX), Ingenia Communities (ASX:INA), City Chic Collective (ASX:CCX), and PWR Holdings (ASX:PWH), all of which have delivered returns in excess of 20% to date.

Market Update

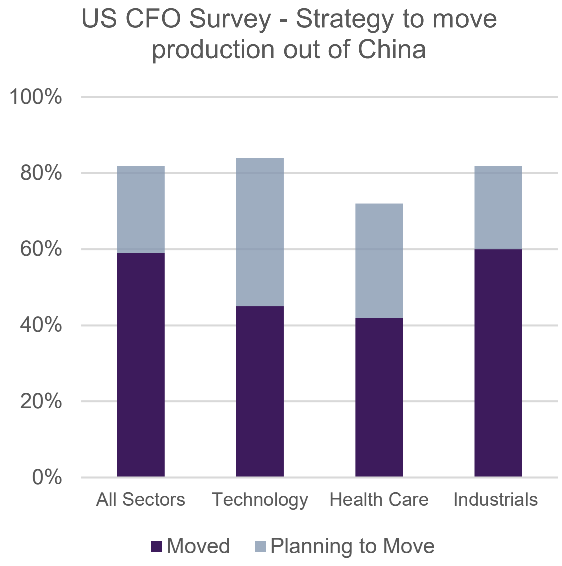
Suresh Tantia of Credit Suisse perfectly summarised current market sentiment in his recent note to clients, contending that while the list of downside risks far outweighs the upside tailwinds, the collective excess liquidity created by Central Banks supersedes all other factors. Corresponding with Tantia's call was the first fortnight of net US credit rating upgrades by Moody's and S&P, a mere 6 months after a cumulative $1.2USD trillion in US investment grade bonds had been downgraded in the space of 28 days.

As the RBA prepares in November to add an exclamation point to the dovish monetary policy stance set over the past six months, current liquidity positioning for Australian (and OECD nation) households and non-financial businesses remains vastly positive (figure below). As our portfolio tenure comes to an end, Tantia's words and current equity market positioning remind the team of ever relevant market adage – don't fight The Fed, or in the COVID case, don't fight global Central Banks.



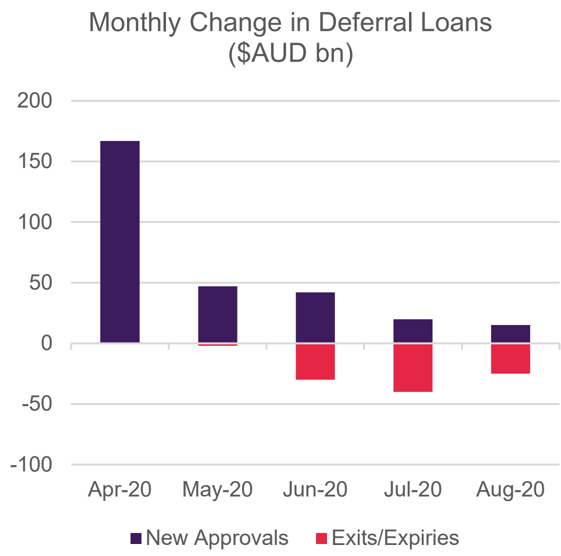
Source: Citi, RBA, APRA

Given the backdrop of the extremely dovish monetary policy, we find it important to also touch on two downside risks Tantia's presents in his note. Firstly, the risk of de-globalisation seems to be more prevalent than ever as the economy rebounds from COVID. While policymakers can call for repatriating supply chains and blue-collar industries such as manufacturing and industrials, the private sector will ultimately lead the way on whether or not these policies come to fruition. According to UBS's US CFO survey, high IP companies with production in China are planning on doing exactly that (figure below). This lead from large US companies could force the hand of Australian companies, who have tried their best to walk that tightrope between China and the Western world over the past 12 months. This leads the SMIF team to wonder if the foreign policy risks effecting TWE and A2M's are idiosyncratic or an illustration of what's to come as the western world beings larger scale de-globalisation, predominantly away from China.



Source: UBS

Lastly, Tantia speaks to the stalling of fresh fiscal stimulus in the US, with Republicans and Democrats appearing further than ever from a newly agreed upon deal. Likewise, Australia's private sector driven 'fiscal package' of loan deferrals will begin to be removed over the coming months, with the pace of exits remaining staggeringly low even as the economy appears to rebound (figure below). While the measures presented in the Australian Budget given on Tuesday night were largely positive for equity markets, the team looks to AGM season to provide an update on how the consumer is reacting to these easing conditions being removed. With population growth grinding to a halt and Jobkeeper trickling off, the words of executive teams will be ever important to check the pulse of the Australian consumer going into the Christmas period and onwards.



Source: Goldman Sachs

Position Updates

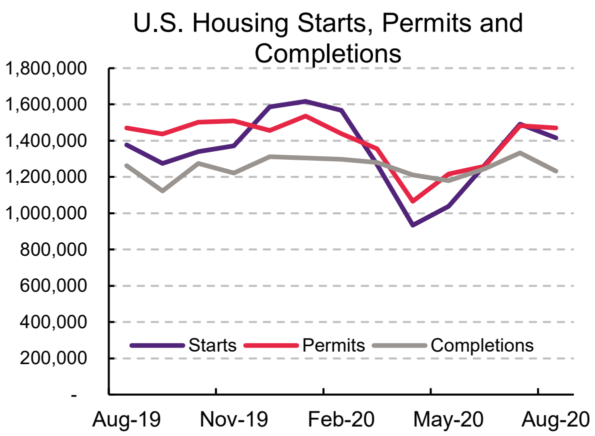
City Chic Collective (ASX:CCX)

Zion Capital believe City Chic Collective presents significant and strong online presence in the retail sector, supplying a niche and specialty market globally. The team's conviction in the position and thesis has remained strong throughout our tenure. This holding was introduced to the SMIF Portfolio in May and has performed strongly, delivering price returns of 21.3%. The omni-channel business model, tried and tested throughout the COVID-19 pandemic, has been highly successful for CCX. The business is supported by a diversified product range, an attractive value proposition to customers and an experienced management team.

As expected, the company released strong results throughout the tenure. After temporarily closing stores in Australia and New Zealand due to COVID-19 shutdowns, the business announced the staged reopening of stores in May and outlined cost reductions achieved due to rental relief, working capital efficiencies, deferring non-essential capex spending and JobKeeper Subsidy Scheme eligibility for employees in Australia. Zion Capital recognise strong tailwinds for the company in an estimated AUD$50bn plus-sized women's clothing market globally. Currently City Chic maintains a portfolio of five brands across key geographical segments of Australia and New Zealand, USA, Europe and the United Kingdom with an online penetration rate of 65% of total sales. In July the business completed an AUD$80m capital raising and despite an unsuccessful bid on the eCommerce assets of Catherines, US specialty retailer in plus-size women's fashion, Zion Capital remain confident in the business. The disciplined approach by management and optionality added for other inorganic growth opportunities are seen as positives.

James Hardie Industries (ASX:JHX)

James Hardie Industries was an existing holding in the UQ SMIF Portfolio as the Zion Capital team began their tenure. Over the management period, JHX returned 60.1% and contributed a significant proportion to the portfolio performance. This strong performance was a result of a variety of factors including the business's strong competitive position and ability to be flexible and capitalise on changes to the macroeconomic environment during the COVID-19 pandemic. Zion Capital perceive JHX to present an extremely attractive investment for the fund. The company is well positioned in the building materials market, with a strong history of developing and manufacturing housing materials coupled with the more recent focus on integrating the supply chain and harmonising the global organisation into one core business. JHX has displayed organic growth with a broad portfolio of diversified products, globally led product innovation and patent development and has succeeded in gaining market share and maintaining margins in a cyclical industry. The strong ESG focus within the company alongside the long term 'green economy' tailwinds further contribute to our conviction in the position.



Source: U.S. Census Bureau, HUD, from 17th September 2020. Figures used are seasonally adjusted annual rates. August 2020 figures are preliminary.

More recently, JHX has been able to capitalise on weaker competition during COVID-19 shutdowns, particularly in the US Fibre Cement market. The business adapted strongly by deciding to keep plants open during April and subsequently supporting pent up demand as the housing market exhibited some recovery. Zion Capital believe JHX is well positioned to be a beneficiary of increased housing starts and manufacturing budget initiatives on the domestic front too despite disruptive shutdowns in APAC and Europe. The 1Q21 result, saw James Hardie meet growth targets and EBIT margins above guidance ranges in its North America and Asia Pacific businesses. The company has decided to keep dividends suspended despite stronger than expected performance and liquidity position and remains focussed on their three-year strategic plan including a shift to Lean manufacturing, push/pull demand creation and solidify market share and working capital while generating new avenues for growth.

Zion's Reflection on PM Tenure

Industry Engagement

Since taking over management of the portfolio back in May, one of the highlights of the experience has been the opportunity to engage with both company management and experienced members of the funds management industry. Early on in our tenure the team spoke to Dr. Andrew Blattman, (MD & CEO - IPH), followed by Scott Didier (CEO - JLG) and Dr. Ian Kadish (MD & CEO – IDX). Speaking to company management provides an insight that transcends what can be extracted from reports and financials. Some key takeaways from these meetings included what they believe differentiates their product or service from the market, their vision for the company and even some headwinds they foresee moving forward.

As mentioned, the team was also fortunate enough to speak with numerous industry portfolio managers: Chris Scarpato and Joshua Derrington (Alvia Asset Partners), Ben Griffiths and Tim Serjeant (Eley Griffiths Group), Ben Rundle (NAOS Asset management), Caroline Mullin (Merlon Capital), Andrew Mitchell (Ophir Asset Management). Special mention to Liam Polkinghorne (Hyperion Asset Management) for acting as an industry mentor and providing much appreciated guidance over our tenure. The team is extremely grateful to have learnt from such experienced members of the industry and thank everyone for giving up the time to speak to us.

Final Words from Zion Capital

Zion Capital would like to thank Dr Clive Gaunt, the broader UQ Business School Team and everyone that offered their time to speak to the team throughout our 5-month tenure. Saying we have learnt a lot from this experience would be an immense understatement; the team has obtained a broad set of new skills that will be invaluable moving forward in our careers, wherever that may be. We strongly encourage anyone considering involving themselves in the SMIF community to do so: the opportunity to apply knowledge obtained from your studies in a real-world situation is one that doesn't come around often. Finally, Zion would like to congratulate the incoming team of PM's, Plutus Capital. We wish you luck for your tenure ahead and look forward to working with you in transitioning the portfolio.

Portfolio Management Team

Name	*Current Enrolment and Contact*
Golden Chen	Bachelor of Advanced Finance & Economics golden.chen@uq.net.au
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Quantitative Data:

SMIF Portfolio Holdings:

Ticker	Company Name	Portfolio Weight		Position 30th September	Return*
CNU	Chorus Limited	6.6%	▲2	$16,149	43.9%
BRG	Breville Group Limited	6.2%	▼1	$15,178	39.2%
MQG	Macquarie Group Limited	6.1%	▼1	$14,827	-5.8%
RMD	ResMed Inc.	5.6%		$13,498	17.3%
APX	Appen Limited	4.2%		$10,258	94.5%
JHX	James Hardie Industries plc	4.2%	▲1	$10,207	27.6%
SHL	Sonic Healthcare Limited	3.9%	▲3	$9,517	51.2%
CSL	CSL Limited	3.9%	▲1	$9,471	27.3%
BHP	BHP Group	3.9%	▼3	$9,398	11.0%
APA	APA Group	3.9%	▼2	$9,359	-8.9%
NST	Northern Star Resources Limited	3.5%	▲1	$8,620	31.1%
RIO	Rio Tinto Group	3.5%	▼1	$8,583	4.9%
MICH	Magellan Infrastructure Fund	3.3%	▲1	$8,044	-15.3%
PWH	PWR Holdings Limited	3.2%	▲1	$7,828	25.6%
WOW	Woolworths Group Limited	3.1%	▼2	$7,432	-2.7%
INA	Ingenia Communities Group	2.8%		$6,918	22.1%
QUB	Qube Holdings Limited	2.6%		$6,313	-2.5%
SYD	Sydney Airport Limited	2.6%	▲2	$6,264	-31.4%
CCX	City Chic Collective Limited	2.4%	▼1	$5,948	21.3%
IDX	Integral Diagnostics Limited	2.4%	▼1	$5,925	23.8%
SCP	Shopping Centres Australasia Property Group	2.4%		$5,767	-21.8%
SAR	Saracen Mineral Holdings Limited	2.3%		$5,635	-7.3%
SSM	Service Stream Limited	2.3%		$5,551	-3.6%
JLG	Johns Lyng Group Limited	2.2%		$5,249	17.3%
IPH	IPH Limited	2.1%	▲2	$4,998	-4.3%
BAP	Bapcor Limited	2.0%	▼1	$4,807	-4.2%
WBC	Westpac Banking Corporation	1.9%	▼1	$4,715	-39.4%
COE	Cooper Energy Limited	1.7%		$4,148	-15.1%
	Cash and Dividends Receivable	5.1%		$12,369	
		TOTAL		**$242,976**	

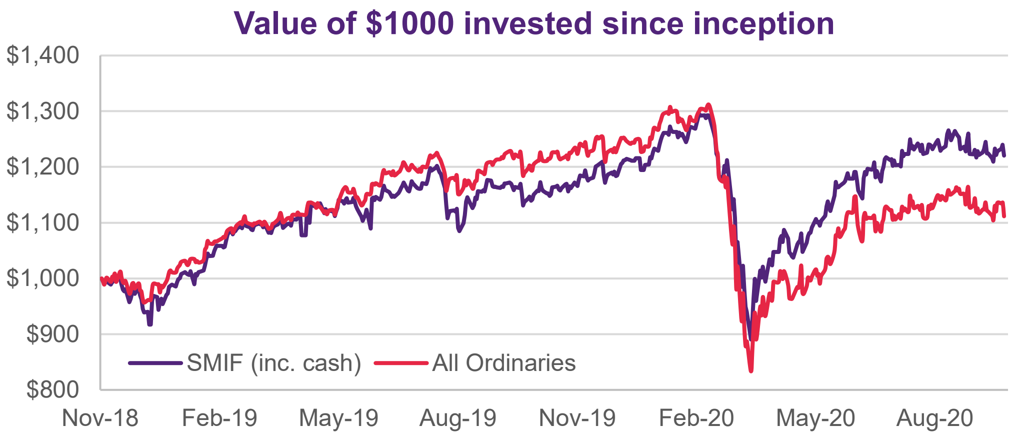
*Total return on each position since purchase, net of fees, excluding dividends

Performance:

	1 month	3 months	6 months	12 months	Inception (Nov 2018)*
SMIF	-1.3%	2.3%	21.9%	5.0%	21.5%
All Ordinaries Accumulation Index	-3.4%	1.1%	19.1%	-8.8%	11.2%
Alpha	2.1%	1.2%	2.8%	13.7%	10.3%

Alpha may not equal SMIF return minus All Ordinaries return due to rounding.

*Total return since fund inception on 19 November 2018.



Key Portfolio Multiples:

Metric	
Median P/NTM EPS	24.8x
Median P/BV	3.7x
Average ROE	13.9%

Market Capitalisation Breakdown:

	Number of Stocks	% Weight
ASX1-100	13	50.7%
ASX101-200	10	30.6%
ASX201-300	0	0.0%
ASX301-500	5	13.6 %
Cash and Dividends Receivable		5.1%

Sector Breakdown:

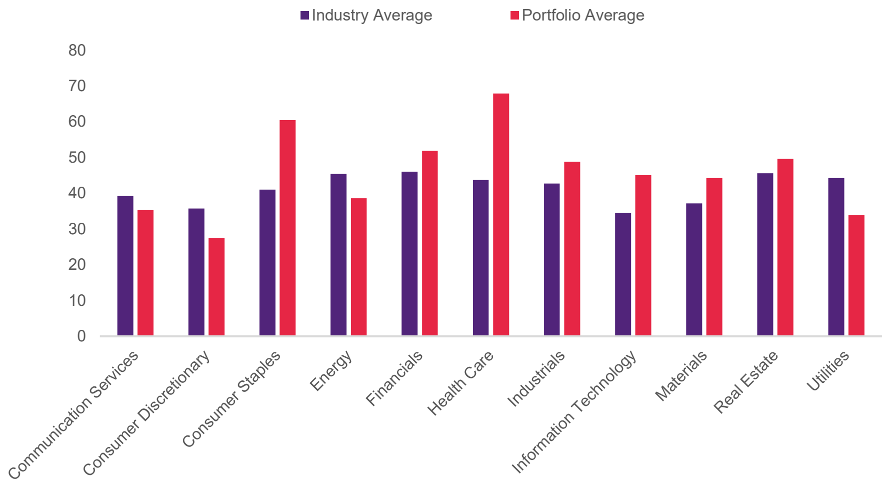
	% Weight	Change in rank*
Materials	18.4%	-
Health Care	16.7%	-
Consumer Discretionary	14.6%	-
Industrials	12.3%	▲1
Financials	12.0%	▼1
Communication Services	7.0%	-
Real Estate	5.5%	-
Information Technology	4.4%	-
Utilities	4.1%	-
Consumer Staples	3.2%	-
Energy	1.8%	-

*Since last update

Key Portfolio Metrics:

	SMIF	All Ords Acc.
Returns		
Annualised return	11.0%	5.8%
Risks		
Annual volatility	20.7%	22.8%
Beta	0.89	1.00
Tracking error	10.5%	0.0%
Risk/Return Trade Off		
Sharpe ratio	0.37	0.11
Information ratio	0.52	0.00
Jensen's alpha	5.4%	0.0%
Treynor's measure	0.09	0.02
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.

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