



# Student Managed Investment Fund October 2020 Update



# October 2020 Fund Update

## Introducing Plutus Capital

October has been the first month of Plutus Capital's tenure as portfolio managers. We would like to thank the outgoing team, Zion Capital, for their guidance. We give notable mention to Catherine Allfrey, Principal and Portfolio Manager at WaveStone Capital, for agreeing to mentor the team throughout our tenure – we greatly appreciate this opportunity.

Plutus Capital is committed to the SMIF Investment Philosophy. We aim to invest in quality, sustainable companies with opportunities for organic growth over the long-term. We believe long term profitability and strong forward-looking strategies are key to generating shareholder returns over coming years.

We look forward to managing the fund over our tenure and engaging with the SMIF community.

## Fund Update

The portfolio returned 1.41% during the month of October. Compared to the benchmark All Ordinaries Accumulation Index return of 2.08%, this represents a total underperformance of 0.67%.

This month has been turbulent for the ASX and global equity markets, largely stemming from a resurgence of coronavirus cases and uncertainty surrounding the US election. The financial sector saw strong gains as a result of better than expected earnings from the big four banks whilst recent COVID-19 winners in the discretionary sector underperformed.

Top performers in the portfolio included ResMed Inc (ASX:RMD), Bapcor Limited (ASX:BAP) and Johns Lyng Group (ASX:JLG) which returned 16.87%, 12.81% and 11.55% respectively. The poorest performers were Cooper Energy (ASX:COE), City Chic Collective (ASX:CCX) and IPH Limited (ASX:IPH) which generated returns of -10.00%, -9.62% and -8.24% respectively.

Since becoming portfolio managers, Plutus Capital has added six positions to the portfolio that we believe will benefit from strong industry tailwinds and will provide long-term capital appreciation in line with the SMIF investment philosophy. These new holdings include Cleanaway Waste Management Limited (ASX:CWY), Codan Limited (ASX:CDA), Downer EDI Limited (ASX:DOW), Australia and New Zealand Banking Group (ASX:ANZ), Commonwealth Bank of Australia (ASX:CBA) and Carsales.com Limited (ASX:CAR).

Furthermore, the team has taken action to reduce the concentration of the top five positions within the portfolio. During the month, the concentration was reduced from 28.70% to 23.70%. This was done to reduce exposure to sectors that have outperformed during recent market rallies and reallocate capital to underinvested sectors in the portfolio that will assist the portfolio in beating the benchmark over the long-term. Subsequently, positions in Breville Group Limited (ASX:BRG), ResMed Inc (ASX:RMD) and Chorus Limited (ASX:CNU) have been trimmed. The portfolio's position in Northern Star Resources (ASX:NST) has been halved due to a proposed merger-of-equals with another SMIF holding, Saracen Mineral Holdings (ASX:SAR). We have taken this announcement as an opportunity to reduce the fund's gold exposure following recent performance and to minimise idiosyncratic risk arising from the merger.

Following our discussions with the team's industry mentor, Catherine Allfrey, we have decided to sell positions in Shopping Centres Australasia Property Group (ASX:SCP) on the basis of structural headwinds generated from the transition to online shopping that has been catalysed by the coronavirus. The team has also sold the fund's positions in Westpac Banking Group (ASX:WBC) and Magellan Infrastructure Fund (ASX:MICH) due to incompatibility with the UQ ESG policy. The total number of positions in the portfolio has now increased to 31 holdings.

Finally, the team would like to note the fund's significant underweighting in the financial sector. We believe the purchase of two of Australia's 'Big Four' banks, CBA and ANZ, will remain as core holdings within the portfolio. Whilst we acknowledge recent monetary policy actions have placed downward pressure on margins, we believe further exposure to the financials sector will position the fund to beat the benchmark index.

## Market Update

In the first two weeks of October, the ASX rallied over five percent on the announcement of the federal budget and positive outlook in Victoria following a period of strict lockdown. The budget showcased a dedication to fiscal stimulus over the short to medium term, with the aim of reducing unemployment. Government spending efforts are centred around infrastructure, income support and incentives for real investment. Construction operators, business owners and taxpayers are expected to be the key beneficiaries of new budget measures. It has been clear that the Morrison government is committed to fiscal stimulus in conjunction with the RBA's monetary efforts, and markets have reacted strongly.

Gross Debt to GDP and Unemployment

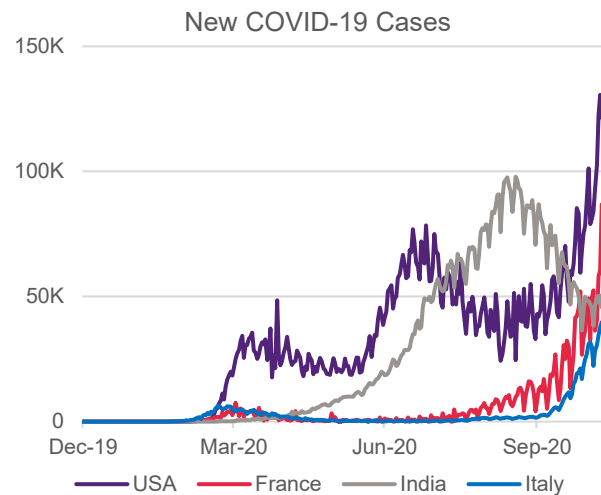


Source: ABS Labour Force, Australia and Treasury.

Throughout October, it became clear that the lockdown in Victoria had been successful with case numbers consistently declining. Interstate borders have progressively opened throughout the month and will likely continue to do so into November. Compared to other international countries, Australia's superior control of coronavirus should contribute to a more confident reopening and recovery of the economy.

Internationally, uncertainty surrounding U.S. fiscal stimulus prospects and rising new coronavirus cases still largely dominate market sentiment.

Following easing of restrictions mid-year, countries in Europe have been forced to re-enter lockdown, with the prospects of U.S. restrictions not clear until after the election. Worldwide, daily cases have exceeded 500,000 per day and continue to rise.



Source: OWID

Heading into November, markets will respond to the U.S. election and how a Trump or Biden led administration will combat rising coronavirus cases on both a fiscal and public health standpoint. As fears of a more prolonged pandemic increases, and a vaccine looking less likely until 2021, the direction of the domestic equities market will be of notable interest given the relatively positive outlook and path of economic recovery.

## Stock Spotlights

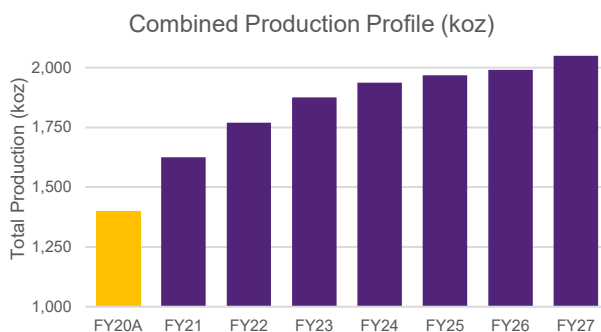
### Saracen Mineral Holdings (ASX:SAR) & Northern Star Resources (ASX:NST)

Saracen Mineral Holdings (ASX:SAR) was added to the SMIF portfolio in August to diversify the fund's exposure and minimise performance volatility. Since then, such positions have performed particularly well with Saracen and Northern Star Resources returning 1.1% and 42.7% respectively, amidst a highly volatile market.

In October, SAR and NST entered into a proposed merger-of-equals to create a combined entity worth \$16 billion with a robust \$186 million cash position. The proposed merger is expected to be highly EPS accretive and realise \$1.5 - \$2 billion in unique operational and strategic synergies for shareholders. Under the arrangement, SAR and

NST will consolidate their holdings of the ‘Super Pit’ in Kalgoorlie (KCGM), of which both companies currently hold a 50% equity stake. The merger will also create a portfolio of high-quality Tier 1 production centres across Kalgoorlie (WA), Yandal (WA) and Alaska (USA), which will provide stable, large-scale gold production into the long-term. These centres will future proof operations with approximately 19 Moz in gold reserves and 49 Moz in total resources.

The combined entity will be the sixth largest gold producer in the world and is targeting 2 Moz of output from the three key production centres by FY27 with a 30% increase in production projected over the next 30 years.



Source: Company Filings

From an operational standpoint, the merger will streamline operations across the jointly-held mines, drive production efficiencies and accelerate growth opportunities across exploration, development and production stages. With the majority of the existing senior leadership from both companies retained, the proposed board and management team possess deep industry experience.

The team takes the standpoint that the merger will create a high-quality, gold miner which will exhibit strong growth and have the necessary resources to compete on a global scale. The combined entity possesses strong opportunities for organic growth and the enhanced financial strength provides the flexibility to continue to pursue accretive M&A opportunities to drive value. The team is confident the strong demand for gold will continue as a result of the global low interest rate environment and continued market uncertainty.

## Financials Sector

October was led with a rally of the banking sector, due to an easing of responsible lending regulations and the release of full-year earnings.

Treasurer Josh Frydenberg announced a change to regulation that allowed lenders to rely on information provided by borrowers, enacting a ‘borrower responsibility’ principle. This will allow banks to increase lending activity to stimulate the domestic economy and has improved the outlook for bank profits in the medium-term. Despite the large loan provisions charged across the sector, full year earnings across a number of banks were better than expected.

## Commonwealth Bank of Australia (ASX:CBA)

Commonwealth Bank of Australia is the nation’s largest provider of integrated financial services that span across retail and institutional banking, funds management and stockbroking.

Full-year results were released to the market during August and beat analyst expectations. The bank reported a cash NPAT of \$7.296 billion which was down 11.3% on FY19 results. This was due to \$2.518 billion in loan impairments incurred as a result of COVID-19. Most notably, COVID-19 related home loan deferrals of 135,000 represented 8% of total accounts, which was down from the 154,000 peak in March.

Whilst the bank faces continued downward pressure on margins given current new record low interest rates, the team maintains that increasing the portfolio’s exposure to financials will assist in beating the benchmark index over the long-term.

## Portfolio Management Team

Name	Current Enrolment and Contact
Campbell Depper	Bachelor of Commerce and Bachelor of Science <a href="mailto:c.depper@uq.net.au">c.depper@uq.net.au</a>
Joshua Leung	Bachelor of Advanced Finance & Economics <a href="mailto:josh.leung@uq.net.au">josh.leung@uq.net.au</a>
Denham Loos	Bachelor of Advanced Finance & Economics <a href="mailto:d.loos@uq.net.au">d.loos@uq.net.au</a>
Selena Sekulic	Bachelor of Advanced Finance & Economics <a href="mailto:c.sekulic@uq.net.au">c.sekulic@uq.net.au</a>
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Kate Wiseman	Bachelor of Advanced Finance & Economics <a href="mailto:k.wiseman@uq.net.au">k.wiseman@uq.net.au</a>

**Quantitative Data:****SMIF Portfolio Holdings:**

Ticker	Company Name	Portfolio Weight		Position 30th September	Return*
MQG	Macquarie Group Limited	6.4%	▲2	\$15,717	-0.2%
CNU	Chorus Limited	4.4%	▼1	\$10,917	42.1%
BRG	Breville Group Limited	4.4%	▼1	\$10,897	44.2%
JHX	James Hardie Industries plc	4.3%	▲2	\$10,651	33.1%
RMD	ResMed Inc.	4.1%	▼1	\$10,107	37.1%
SHL	Sonic Healthcare Limited	4.1%	▲1	\$9,993	58.8%
APX	Appen Limited	4.0%	▼2	\$9,728	84.4%
APA	APA Group	3.9%	▲1	\$9,504	-7.5%
CSL	CSL Limited	3.9%	▼1	\$9,489	27.5%
BHP	BHP Group	3.6%	▼1	\$8,918	5.3%
RIO	Rio Tinto Group	3.4%	▲1	\$8,411	2.8%
CWY	Cleanaway Waste Management Limited	3.3%		\$8,050	-8.5%
WOW	Woolworths Group Limited	3.2%	▲2	\$7,785	2.0%
CBA	Commonwealth Bank of Australia	3.1%		\$7,661	-1.4%
ANZ	Australia and New Zealand Banking Group	3.1%		\$7,505	-3.7%
PWH	PWR Holdings Limited	3.1%	▼2	\$7,482	20.0%
CAR	Carsales.com Ltd	3.0%		\$7,249	-7.3%
INA	Ingenia Communities Group	2.9%	▼2	\$6,993	23.5%
QUB	Qube Holdings Limited	2.7%	▼2	\$6,665	2.9%
SAR	Saracen Mineral Holdings Limited	2.5%	▲2	\$6,148	1.1%
IDX	Integral Diagnostics Limited	2.4%	▼1	\$5,939	24.1%
JLG	Johns Lyng Group Limited	2.4%	▲2	\$5,856	30.9%
SYD	Sydney Airport Limited	2.4%	▼5	\$5,826	-36.2%
SSM	Service Stream Limited	2.2%	▼1	\$5,443	-5.5%
BAP	Bapcor Limited	2.2%	▲1	\$5,423	8.1%
CCX	City Chic Collective Limited	2.2%	▼7	\$5,376	9.6%
NST	Northern Star Resources Limited	2.1%	▼16	\$5,079	42.7%
CDA	Codan Limited	2.0%		\$4,909	-4.3%
IPH	IPH Limited	1.9%	▼4	\$4,586	-12.2%
DOW	Downer EDI Limited	1.8%		\$4,431	-10.1%
COE	Cooper Energy Limited	1.5%	▼3	\$3,733	-23.6%
	Cash and Dividends Receivable	4.0%		\$9,933	-
	<b>TOTAL</b>			<b>\$246,403</b>	

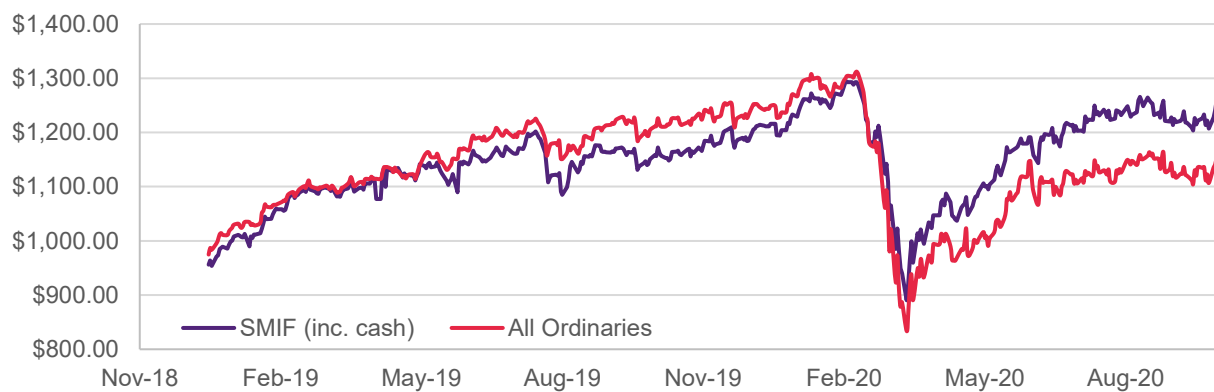
\*Total return on each position since purchase, net of fees, excluding dividends

**Performance:**

	1 month	3 months	6 months	12 months	Inception (Nov 2018)*
SMIF	1.41%	1.18%	14.51%	6.87%	23.20%
All Ordinaries Accumulation Index	2.08%	2.24%	10.94%	-6.51%	13.47%
Alpha	-0.67%	-1.06%	3.57%	13.38%	9.73%

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

\*Total return since fund inception on 19 November 2018.

**Value of \$1,000 since inception**

**Sector Breakdown:**

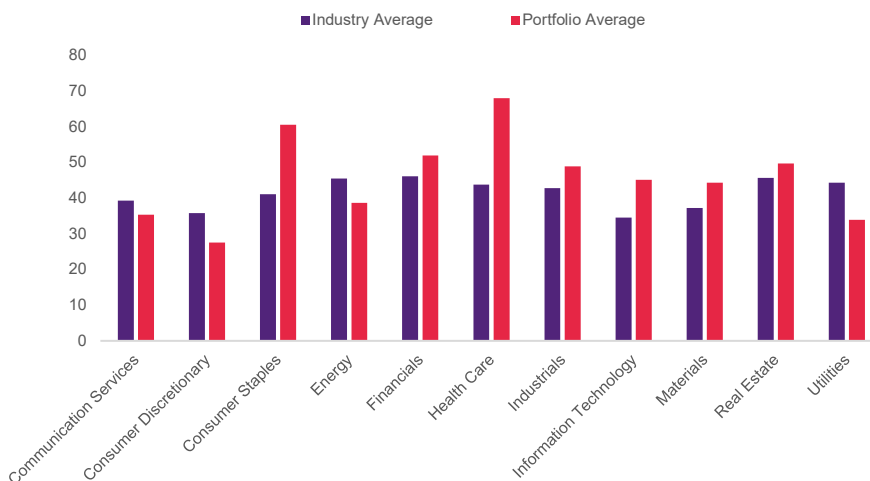
	% Weight	Change in rank*
Industrials	17.3%	▲3
Materials	16.6%	▼1
Health Care	15.0%	▼1
Financials	13.1%	▲3
Consumer Discretionary	12.3%	▼2
Communication Services	7.7%	-
Information Technology	6.2%	▲1
Utilities	4.0%	▲1
Consumer Staples	3.3%	▲1
Real Estate	3.0%	▼3
Energy	1.6%	-

\*Since last update

## Key Portfolio Metrics:

	SMIF	All Ords Acc.
<b>Returns</b>		
Annualised return	11.3%	6.7%
<b>Risks</b>		
Annual volatility	20.9%	23.0%
Beta	0.89	1.00
Tracking error	10.4%	0.0%
<b>Risk/Return Trade Off</b>		
Sharpe ratio	0.36	0.13
Information ratio	0.47	0.00
Jensen's alpha	4.9%	0.0%
Treynor's measure	0.08	0.03
<b>Distribution of Returns</b>		
Capture ratio	95%	100%
Downside capture	91%	100%
Upside capture	87%	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.