The University of Queensland Business School

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# Student Managed Investment Fund November 2020 Update

# November 2020 Fund Update

## Fund Update

The portfolio returned 3.7% during the month of November. When compared to the benchmark All Ordinaries Accumulation Index return of 10.2% this represents a total underperformance of 6.5%.

This month the ASX and global equity markets posted their strongest returns since the mid-1980's. This largely stemmed from optimism surrounding the US election results and the emergence of promising coronavirus vaccines trial results from US-based pharmaceutical companies Pfizer and Moderna. In response to these trials, the market rallied strongly with the financials, materials and industrials sectors performing particularly well. In contrast, recent pandemic outperformers in the technology and healthcare sectors lagged the broader index.

Top performers in the portfolio for the month included Sydney Airport Limited (ASX: SYD), Australia and New Zealand Banking Group Limited (ASX: ANZ), Downer EDI Limited (ASX: DOW), Cleanaway Waste Management Limited (ASX: CWY) and Commonwealth Bank of Australia Limited (ASX: CBA) which returned 23.1%, 20.4%, 18.2%, 16.6% and 14.6% respectively. The poorest performers were Saracen Materials Limited (ASX: SAR), Northern Star Resources Limited (ASX: NST) and Codan Limited (ASX: CDA) which generated returns of -16.5%, -15.1% and -10.1% respectively.

Whilst four out of our six new additions to the portfolio have performed extremely well this month, the direct exposure to gold from miners such as Saracen and Northern Star as well as implicit exposure through Codan has weighed on the overall performance. Whilst gold was an appropriate investment to pursue with regards to this year's increased market instability, recent positive vaccine news is driving bullish sentiment within the market. Despite this, Plutus Capital plans to continue to hold gold due to its hedging abilities against inflationary pressures, especially considering the record fiscal and monetary stimulus that has been enacted this year by governments and central banks globally. Furthermore, we remain confident in the long-term value that can be generated from the unique synergies arising from the Saracen and Northern Star merger. Currently, gold maintains a benchmark weighting of approximately 5% in the portfolio and Plutus Capital believes the dovish monetary policy backdrop still possesses inflationary risk in the medium and long-term.

As a team we now seek to reassess the viability of certain stocks within the portfolio and attempt to identify companies in sectors that will benefit from structural headwinds in order to derive long-term value for the fund.

## Market Update

The Australian All Ordinaries Accumulation Index delivered an extremely strong return of 10.2% in the month of November. This was fuelled by promising vaccine announcements and certainty surrounding the results of the US election. Whilst this month's returns were high compared to previous months, the All Ordinaries Index still remains 6.7% off the pre-COVID, all-time highs reached in February.

In overseas markets, the S&P 500 delivered a positive return of 10.8%, the NASDAQ returned 11.8% and the Dow returned 11.8% eclipsing 30,000 points and reaching new all-time highs.

### Stimulus

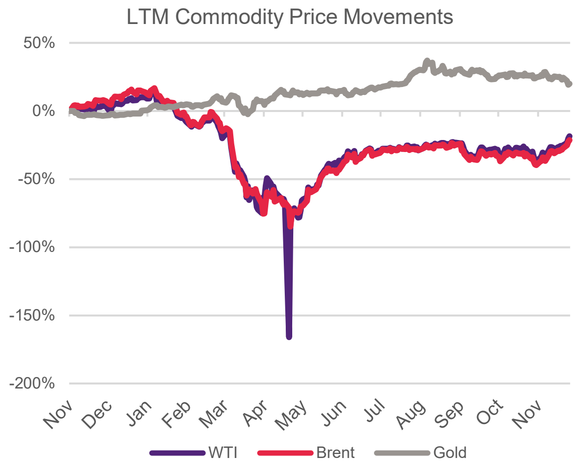
The start of November saw the Reserve Bank of Australia (RBA) initiate a $100 billion secondary market purchase program of Australian Government Securities (AGS) and securities issued by state and territory central borrowing authorities. To be conducted over the next six months, the program will entail purchases of approximately $5 billion of medium to long-dated bonds each week. The RBA will also continue in its yield curve control activities by purchasing government securities as needed to ensure the yield on the 3-year treasury bonds are within the target of 0.25%. Despite the depreciatory effects of this quantitative easing program, the Australian dollar remained strong at AUD/USD 0.73.

### Commodities

The spot price for iron ore increased by 10.6% to $129.82 USD per tonne driven by strong demand from China as a result of recovery focused infrastructure projects and diminishing iron ore stockpiles. Key holdings in the SMIF portfolio BHP (ASX: BHP) and Rio Tinto (ASX: RIO) have benefited greatly from this price appreciation and are approaching all-time highs last reached during the GFC in 2008.

In addition, Brent Crude and WTI Oil prices rallied to 9-month highs which contributed to a rally in the energy sector. In particular, Cooper Energy (ASX: COE) rallied on news of easing travel restrictions and continued demand for oil and gas.

In contrast, the gold price saw weakness dropping 3.2% in November to $1808.77 per ounce. This was driven by the recent vaccine announcements and investors transitioning away from safe haven assets.




Source: FRED & World Gold Council

## Vaccine

On November 16, Moderna announced the phase three test results of their COVID-19 vaccine, claiming to be 95% effective. Soon after on November 18 Pfizer announced their results, also claiming 90% effectiveness. These results have made the potential for a vaccine in early 2021 a reality and drove a continued market rally into the later part of the month. As expected, so called "recovery" stocks in the travel and tourism sectors soared. COVID-19 vaccines across the world are still pending regulatory approval and will likely not become widely available until mid-2021. Nonetheless, the end is in sight and markets have reacted accordingly.

## US Election

In early November, it became clear that Democratic candidate Joe Biden will become the 46th president of the United States. Markets globally responded favourably with hopes of stimulus packages and a renewed response to the COVID-19 pandemic. While the presidential race and the House of Representatives have swung in the Democrats favour, the Senate is still undecided. The outcome of the Georgia run-off elections on January 6 will determine the likelihood that a widespread stimulus bill will pass and will dictate the legislation the Biden presidency and lower house can pass for the next two years. While it would be remiss to say that this news has led to stability in the short term, there is a likelihood that leading out of the COVID-19 pandemic, trade tensions with China may be eased somewhat and the economic prospects of the U.S. improved.

# Stock Spotlights

## Downer EDI (ASX: DOW)

Downer EDI was introduced into the SMIF portfolio in October and has performed strongly delivering a return of 18.1% in November. Downer EDI is an integrated services company that specialises in a range of infrastructure management services across Australia and New Zealand. Earlier this year, DOW announced a major overhaul of its business operations with management flagging the sale of its non-core mining and laundry businesses. These sales were originally postponed due to the extraordinary market volatility caused by the onset of the COVID-19 pandemic.

Plutus Capital's conviction and thesis towards Downer is centred on the execution of this strategic shift towards its core urban services businesses consisting of transport, utilities and asset services. We believe the divestment of the non-core, capital intensive business will allow Downer to allocate those resources into expanding the profitability of its core offerings, such as executing on a recent unified field operations contract with NBN Co worth $320 million to build out fibre network over an eight-year period.

In June, Downer sold its mining consultancy and software business Snowden. Although terms of the deal were not released, the sale represents a portion of the Company's $500 million mining services business unit, and signalled for potential divestment from the area in the future. This was followed by the sale of its stake in RTL Mining and Earthworks JV, a heavy machinery hire company, for $20 million in October. In November, Downer sold its blasting services business for $62 million with plans to divest the rest of the mining portfolio consisting of open cut mines.

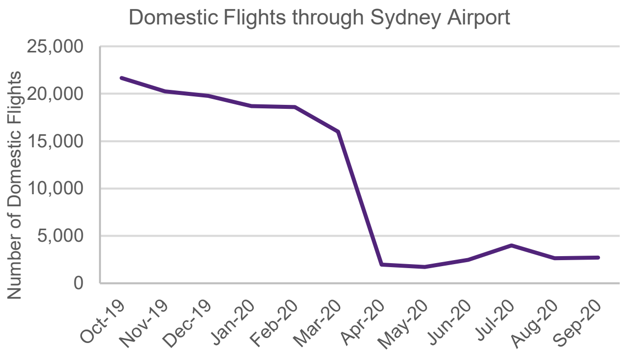
However, the sale of Spotless Laundry business which offers commercial laundry services in multiple cities and regions across Australia was halted after the withdrawal of private-equity backed South Pacific Laundry's (SPL) bid due to anti-competition concerns raised by the ACCC. With this in mind, the team plans on remaining vigilant regarding Downer's future divestment activity.

## Sydney Airport Limited (ASX: SYD)

The aviation industry has undoubtedly been the hardest hit amidst the economic lockdown of the global pandemic. Airports have suffered as governments have imposed strict cross-border closures and mandated self-quarantine for domestic and international travellers. Specifically for SYD, this has led to a significant flow on effect, forcing large scale pay cuts, layoffs and operational disruptions as seen at the height of the pandemic in March/April.

In the wake of Australia's successful lockdown measures and near-elimination of COVID, alongside news of successful vaccine trials, Sydney Airport has benefited from hopes of fast-tracked domestic and international travel. As a result, SYD was the best performer in the SMIF portfolio returning 23.1% in November. Recent data released in October shows overall passenger traffic is still down 94.6% pcp with international travel down 97.4% to 38kPax and domestic passengers down 92.6% to 187kPax. Despite this drop, Australia's largest carrier Qantas indicated an increase in domestic flights to 15 per day (down from 45/day pre-COVID) and Plutus Capital expect a modest recovery in domestic traffic driven by the expected lift of travel restrictions and the opening of domestic borders by Christmas.

Plutus views Sydney Airport as an unregulated monopoly asset which is a key gateway for aviation in Australia. We remain confident in its ability to maintain this dominant position in the market post-COVID and believe that it will provide good exposure to further pandemic recovery related news.The current cash flow neutrality and balance sheet flexibility with sufficient cash on hand to cover expenses until FY22 allows Sydney Airport to transition back toward growth once the recovery arrives. We also note that earlier in the year global infrastructure player Brookfield entered into SYD's share register with a 5% stake. We eye a potential takeover or continued accumulation.




## Clarification of WBC and MICH Sale in October

Plutus chose to sell Westpac consequent to a myriad of widely reported ESG problems. While Westpac has begun to embrace positive social change, vestiges of these ESG concerns linger overhead, and thus, diversification into CBA and ANZ on the grounds of greater ESG compliance was deemed prudent.

In regards to MICH, this was added to the fund last year when it was permitted under the rules at the time. Since then, however, the current rules do not allow managed portfolios/funds to be added to the portfolio. The main reason behind this stems from the difficulty in verifying whether underlying holdings meet SMIF's ESG policy.

# Portfolio Management Team

| *Name* | *Current Enrolment and Contact* |
|---|---|
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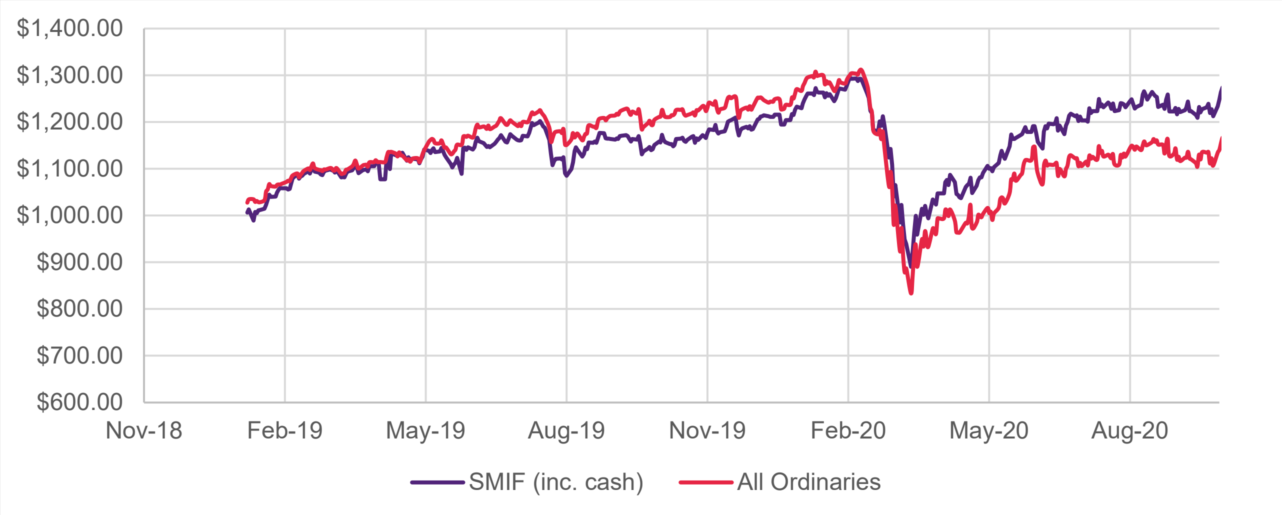
# Quantitative Data:

## SMIF Portfolio Holdings:

| Ticker | Company Name | Portfolio Weight | | Position 30th November | Return* |
|---|---|---|---|---|---|
| MQG | Macquarie Group Limited | 6.8% | | $17,195 | 9.2% |
| JHX | James Hardie Industries plc | 4.8% | ▲2 | $12,151 | 51.9% |
| CNU | Chorus Limited | 4.2% | ▼1 | $10,735 | 39.7% |
| RMD | ResMed Inc. | 4.0% | ▲1 | $10,230 | 38.8% |
| BRG | Breville Group Limited | 4.0% | ▼2 | $10,065 | 33.2% |
| BHP | BHP Group | 4.0% | ▲4 | $10,050 | 18.7% |
| CSL | CSL Limited | 3.9% | ▲2 | $9,814 | 31.9% |
| APX | Appen Limited | 3.7% | ▼1 | $9,497 | 80.0% |
| SHL | Sonic Healthcare Limited | 3.7% | ▼4 | $9,454 | 50.2% |
| CWY | Cleanaway Waste Management Limited | 3.7% | ▲2 | $9,386 | 6.7% |
| APA | APA Group | 3.7% | ▼3 | $9,377 | -8.7% |
| RIO | Rio Tinto Group | 3.6% | ▲1 | $9,227 | 12.8% |
| ANZ | Australia and New Zealand Banking Group Limited | 3.6% | ▲2 | $9,033 | 15.9% |
| CBA | Commonwealth Bank of Australia | 3.5% | ▼1 | $8,777 | 12.9% |
| PWH | PWR Holdings Limited | 3.1% | | $7,828 | 25.6% |
| WOW | Woolworths Group Limited | 3.0% | ▼3 | $7,544 | -1.2% |
| QUB | Qube Holdings Limited | 2.8% | ▲2 | $7,193 | 11.1% |
| SYD | Sydney Airport Limited | 2.8% | ▲5 | $7,173 | -21.5% |
| INA | Ingenia Communities Group | 2.8% | ▼2 | $7,145 | 26.2% |
| CAR | carsales.com Ltd | 2.8% | ▼3 | $7,095 | -9.3% |
| SSM | Service Stream Limited | 2.4% | ▲2 | $6,120 | 6.2% |
| IDX | Integral Diagnostics Limited | 2.4% | ▼1 | $5,981 | 25.0% |
| CCX | City Chic Collective Limited | 2.3% | ▲3 | $5,723 | 16.7% |
| JLG | Johns Lyng Group Limited | 2.2% | ▼2 | $5,666 | 26.7% |
| DOW | Downer EDI Limited | 2.1% | ▲5 | $5,236 | 6.3% |
| SAR | Saracen Mineral Holdings Limited | 2.0% | ▼6 | $5,134 | -15.6% |
| BAP | Bapcor Limited | 2.0% | ▼2 | $4,963 | -1.1% |
| IPH | IPH Limited | 1.9% | ▲1 | $4,830 | -7.5% |
| CDA | Codan Limited | 1.7% | ▼1 | $4,414 | -14.0% |
| NST | Northern Star Resources Limited | 1.7% | ▼3 | $4,313 | 21.2% |
| COE | Cooper Energy Limited | 1.7% | | $4,266 | -12.7% |
| | Cash and Dividends Receivable | 3.5% | | $9,787 | - |
| | | TOTAL | | **$255,402** | |

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

## Value of $1000 Since Inception:




## Performance:

| | 1 month | 3 months | 6 months | 12 months | Inception (Nov 2018)* |
|---|---|---|---|---|---|
| SMIF | 3.7% | 3.3% | 9.5% | 6.1% | 27.7% |
| All Ordinaries Accumulation Index | 10.2% | 8.6% | 16.4% | -0.1% | 25.0% |
| Alpha | -6.5% | -5.3% | -6.9% | 6.2% | 2.7% |

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

## Sector Breakdown:

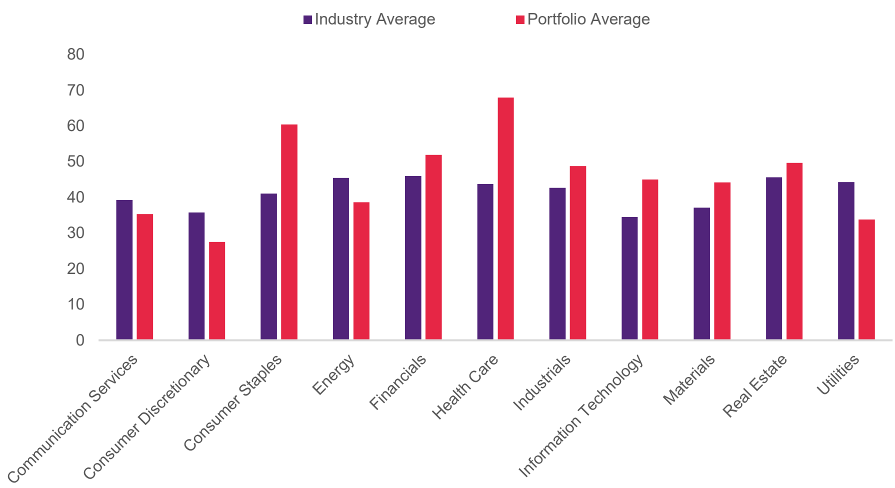
| | % Weight | Change in rank* |
|---|---|---|
| Industrials | 18.6% | - |
| Materials | 16.6% | - |
| Health Care | 14.4% | - |
| Financials | 14.3% | - |
| Consumer Discretionary | 11.6% | - |
| Communication Services | 7.3% | - |
| Information Technology | 5.7% | - |
| Utilities | 3.8% | - |
| Consumer Staples | 3.1% | - |
| Real Estate | 2.9% | - |
| Energy | 1.7% | - |

*Since last update

**Key Portfolio Metrics**:

| | SMIF | All Ords Acc. |
|---|---|---|
| **Returns** | | |
| Annualised return | 12.5% | 11.6% |
| **Risks** | | |
| Annual volatility | 20.9% | 23.2% |
| Beta | 0.89 | 1.00 |
| Tracking error | 10.5% | 0.0% |
| **Risk/Return Trade Off** | | |
| Sharpe ratio | 0.41 | 0.33 |
| Information ratio | 0.17 | 0.00 |
| Jensen's alpha | 1.8% | 0.0% |
| Treynor's measure | 0.10 | 0.08 |
| **Distribution of Returns** | | |
| Capture ratio | 90% | 100% |
| Downside capture | 92% | 100% |
| Upside capture | 83% | 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.