The University of Queensland Business School

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Student Managed Investment Fund February 2021 Update

February 2021 Fund Update

Fund Update

The portfolio returned -0.24% during the month of February. When compared to the benchmark All Ordinaries Accumulation Index return of 1.43%, this represents a total underperformance of 1.67%.

The last week of February saw global share markets fall in light of recent increase in long-dated treasury yields, accelerating the raising concerns about valuations. Throughout the month, yields increased as much as 100 basis points in the US and 130 basis points in Australia from last year's lows. Domestically, the movements in bond yields shook faith in the global share market rally. Telecommunications, IT, retail and healthcare stocks were particularly affected, recording the largest drops in price. Commodity prices largely rose over the month, helping push the AUD to a three-year high of $US0.80 before retreating.

Top performers in the portfolio for the month included Codan Limited (ASX: CDA), PWR Holdings Limited (ASX: PWR) and Rio Tinto Group (ASX: RIO) which returned 25.0%, 23.3% and 15.3% respectively. The poorest performers were Service Stream Limited (ASX: SSM), Appen Limited (ASX: APX) and Northern Star Resources Limited (ASX: NST) which returned -39.6%, -25.3% and -20.4% respectively.

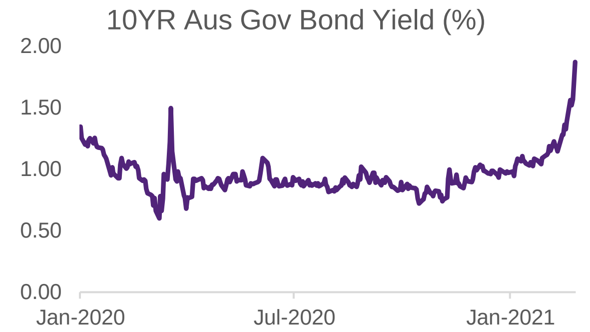
Market Update

The Australian All Ordinaries delivered a 1.43% return in February, despite falling 1.53% in the final week of the month. In U.S markets, the S&P500 and Dow Jones Industrial Index rose 0.99% and 2.38% respectively whereas the NASDAQ Composite Index fell by 1.57% as bond selloffs brought valuations into question.

Rising bond yields will prove a challenge for central banks

During the month, 10-year Australian Government bond yields rose rise substantially as a result of optimism regarding the vaccine rollout and a renewed global path to economic recovery. The sharp uplift in bond markets has also been accentuated by ongoing fiscal stimulus and anticipation of a short-term spike in inflation.

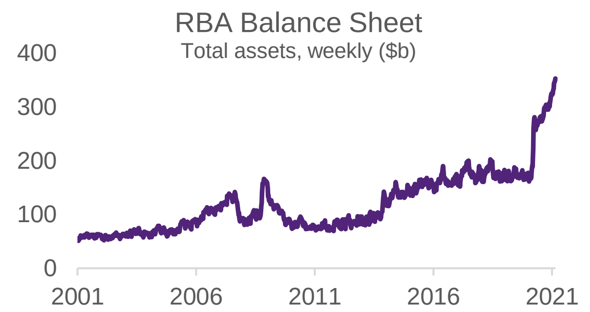
Although rising bond yields are a normal occurrence during economic recoveries as investors anticipate stronger nominal growth, it will prove a challenge for the RBA and central banks across the world to target interest rates in the face of slow wages growth. In the case of a loose labour market and stagnating wages growth, the anticipated near-term pick-up in inflation subsequently won't be sustained. If rates are raised too early, or bond purchasing programs wound up prematurely, this will mean the RBA will undershoot their inflation goals.



Source: RBA, Yieldbrker

RBA stands firm on monetary policy

At the start of February, the RBA announced an unchanged cash rate and 3-year Australian Government bond target of 0.1% respectively. An additional $100 billion of bonds issued by the Australian Government, state governments and territories was also announced to be purchased



Source: RBA

upon the completion of the current round of bond purchases in mid-April.

The RBA's announcement comes in light of the Australian economy performing stronger than expected. Strong employment growth has seen a decline in the unemployment rate to 5.8%, coupled with strong retail spending. The RBA suggests that GDP is now expected to return to pre-COVID levels by the middle of this year.

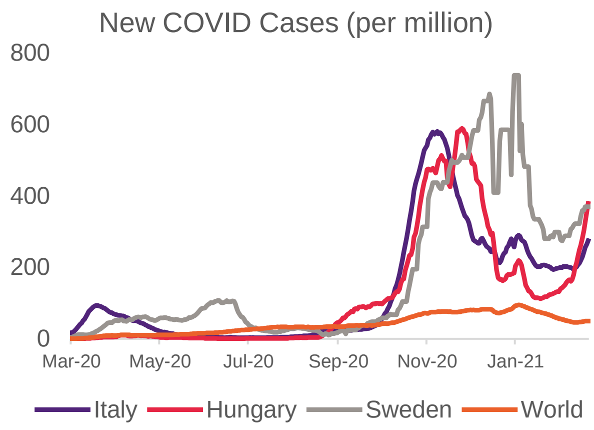
Despite this optimistic outlook, wage and price pressures remain subdued. In the December quarter, the CPI only increased by 0.9% and wage growth is currently at the slowest rate on record. Both of these are expected to pick-up over the short to medium term, but only by modest levels.

Similar to previous announcements, the RBA stressed that the cash rate will not be increased until inflation is sustainably within the 2 to 3 per cent target band. For inflation to reach this target, a significantly tighter labour market is required to allow for material growth in wages. The reinforced stance of the RBA is that these conditions will not be met until 2024 at the minimum.

COVID-19 infections continue to plague recovery efforts

Despite the ongoing global vaccination attempt, February has been a mixed month for COVID cases. The administration of vaccines has been steadily increasing globally and began in Australia at the end of the month. To further push vaccinations along, the first single-shot vaccine – produced by Johnson & Johnson – was approved by the US Food and Drug Administration for emergency use.

Despite this, infection rates have again deteriorated across certain parts of Europe. A growing list of countries, including Italy, Sweden and Hungary, have experienced a recent surge in new daily cases. Such outbreaks, and the lockdowns necessary to contain them, will be expected to act as a drag on the momentum in the global economy, at least for the near term.



Position Updates

Sonic Healthcare (ASX: SHL)

Sonic Healthcare's half-year earnings were as expected, reflecting the growth that was experienced over 2020, with revenue up 33% to A$4.4 billion, and profit increased by 166% to $678 million. Revenue was largely bolstered by COVID-19 testing, outweighing the 1% decline in the core business due pandemic related shutdowns. Margins were also expanded, particularly in the laboratory and imaging divisions, the most significant of which was a decrease in fixed costs relative to revenue in the laboratory division. Europe for the first time has overtaken the local business in Australia as the second largest region by revenue – the United States remained the largest market. Although earnings have been outstanding as expected, there are concerns regarding the longevity of COVID testing revenues and the health of the core business. Despite unprecedent earnings boost, the existing dividend was maintained at 36¢ per share.

Overall, markets were fairly neutral towards Sonic Healthcare's earnings announcement despite the outstanding result. The large revenue jump was expected amongst analysts and results reflected little change in the core business. Sonic's performance in the near future will be heavily dependent on the persistence of COVID-19 testing as vaccines are administered globally.

Rio Tinto (ASX: RIO)

On the back of the speculated commodities super cycle and bullishness in commodity prices, ASX mining shares continued to rally in February. Rio Tinto was a major beneficiary from elevated iron ore and copper prices, with their share price as well as the respective commodity prices hitting multi-year highs. There has been unprecedented demand for copper, boosted by rising production of electric vehicles and renewable energy projects. On the other hand, the rise in iron ore prices was partially attributed to supply-side challenges from Vale, the world's largest iron ore producer and China restocking inventories following Lunar New Year. Rio Tinto also reported a 20% jump in profits to reach their highest level in nine years, which enabled them to pay out a record dividend far above consensus expectations. While ESG was a large concern surrounding Rio Tinto's inclusion in the SMIF portfolio, the company seems to have taken steps to earn back trust following the Juukan Gorge scandal. We believe there has been an appropriate adjustment with regards to management and the board but will continue to monitor Rio's commitment on measuring and reporting on social impact metrics.

Codan (ASX: CDA)

Codan was one of the top performers in the portfolio this month, reaching a new high of $14 following the release of their half year results. Codan reported record half year earning with revenues increasing 14% to $194.5 million and NPAT increasing 36% to $41.3 million. Codan's performance well exceeded consensus and market expectations. Despite declining gold prices, demand for gold detectors in key markets remained strong with a 66% uplift in recreational gold detector sales on the back of increased distribution into mass market retail and investment into new manufacturing capacity. The jump in metal detection product sales was able to offset a 50% decline in the sales of their communications division which has been disrupted as a result of COVID-19. Currently, the division has a backlog of $40 million in orders. In light of this, the company also grew the interim dividend to 10.5 cents per share (+40% pcp), which was well received by the market.

With a sizeable net cash position, Codan soon announced their $114m cash acquisition of US-based wireless communications technology provider, Domo Tactical Communications. The company has been a long-term supplier of wireless communications equipment to more than 20 key United States government agencies and is the premier provider of tactical communications technology products across the globe. The acquisition is expected to be highly EPS accretive, generating $90 million of sales and $9 million net profit in the first year. Whilst subject to regulatory approval in the US and UK, Codan expects that the acquisition will be completed by the end of April. Markets responded very positively to the news, which was reflected in Codan's share price.

Portfolio Management Team

Name	*Current Enrolment and Contact*
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Quantitative Data:

SMIF Portfolio Holdings:

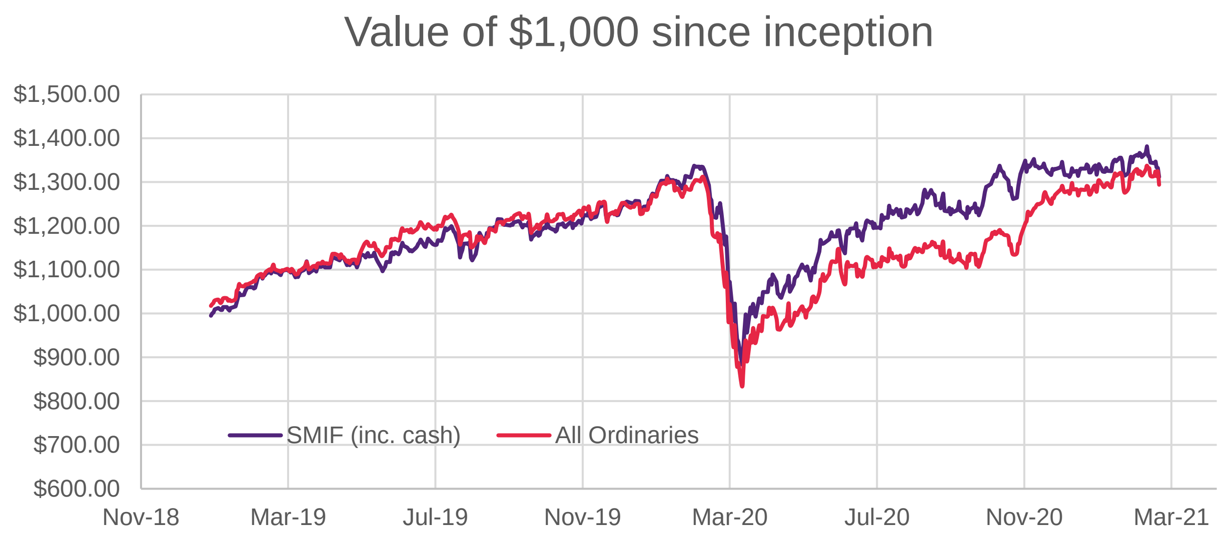
Ticker	Company Name	Portfolio Weight		Position 26th February	Return*
JHX	James Hardie Industries plc	7.4%	▲3	$19,058	35.4%
MQG	Macquarie Group Limited	6.9%	▼1	$17,668	12.2%
BHP	BHP Group	5.1%		$12,970	53.2%
BRG	Breville Group Limited	4.6%	▼2	$11,671	54.4%
RIO	Rio Tinto Group	4.5%	▲1	$11,574	41.4%
ANZ	Australia and New Zealand Banking Group Limited	4.1%	▲3	$10,442	34.0%
CNU	Chorus Limited	4.0%	▼2	$10,316	34.2%
PWH	PWR Holdings Limited	3.6%	▲9	$9,146	46.7%
SHL	Sonic Healthcare Limited	3.6%	▼2	$9,107	44.7%
CBA	Commonwealth Bank of Australia	3.5%	▲1	$9,053	16.5%
RMD	ResMed Inc.	3.5%	▼3	$8,887	20.6%
CSL	CSL Limited	3.4%	▼1	$8,665	16.4%
CWY	Cleanaway Waste Management Limited	3.3%		$8,561	-2.7%
APA	APA Group	3.3%	▲1	$8,417	-18.1%
CCX	City Chic Collective Limited	3.2%		$8,258	68.3%
WOW	Woolworths Group Limited	3.1%	▲2	$8,038	5.3%
QUB	Qube Holdings Limited	3.0%	▲1	$7,721	19.2%
NST	Northern Star Resources Limited	3.0%	▲11	$7,678	-14.2%
SYD	Sydney Airport Limited	2.9%	▲3	$7,483	-18.1%
INA	Ingenia Communities Group	2.9%	▼4	$7,373	30.2%
IDX	Integral Diagnostics Limited	2.7%		$6,787	41.8%
JLG	Johns Lyng Group Limited	2.6%	▲1	$6,727	50.4%
CAR	carsales.com Ltd	2.6%	▼4	$6,519	-16.7%
CDA	Codan Limited	2.4%	▲3	$6,232	21.5%
DOW	Downer EDI Limited	2.0%		$5,186	5.3%
APX	Appen Limited	2.0%	▼6	$5,024	-4.8%
BAP	Bapcor Limited	1.9%	▼3	$4,843	-3.5%
IPH	IPH Limited	1.7%		$4,272	-18.2%
COE	Cooper Energy Limited	1.5%	▲1	$3,852	-21.1%
SSM	Service Stream Limited	1.2%	▼4	$3,114	-45.9%
		TOTAL		$254,641	

*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	-0.24%	-0.33%	4.85%	7.39%	27.32%
All Ordinaries Accumulation Index	1.43%	3.52%	12.42%	9.56%	29.39%
Alpha	-1.67%	-3.85%	-7.57%	-2.17%	-2.07%

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



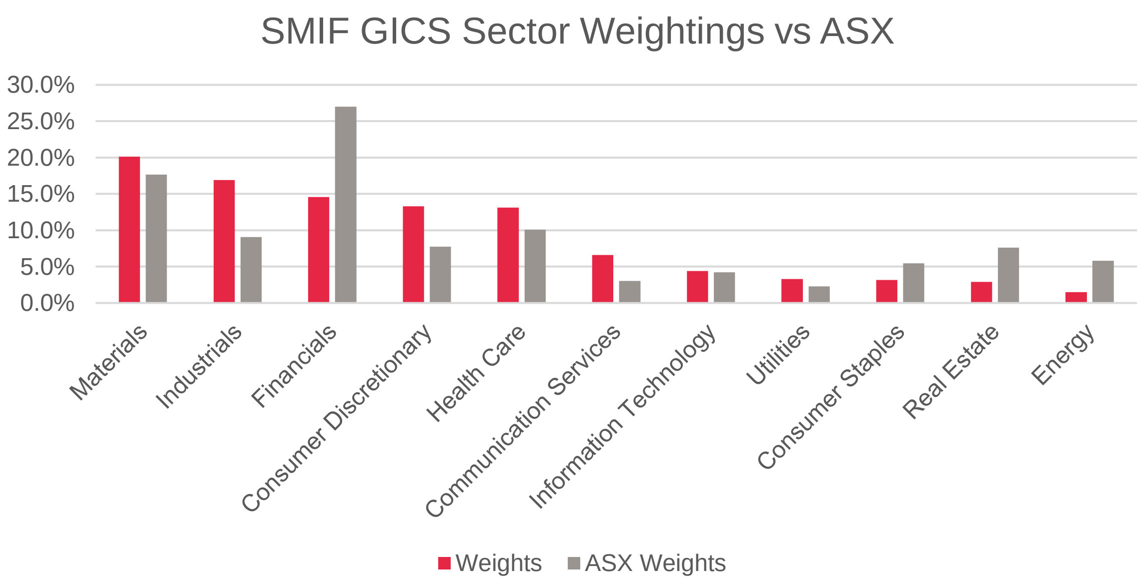
Sector Breakdown:

	% Weight	Change in rank*
Materials	20.1%	▲1
Industrials	16.9%	▼1
Financials	14.6%	▼2
Consumer Discretionary	13.3%	▲1
Health Care	13.1%	▲1
Communication Services	6.6%	-
Information Technology	4.4%	-
Utilities	3.3%	-
Consumer Staples	3.2%	-
Real Estate	2.9%	-
Energy	1.5%	-

*Since last update

Key Portfolio Metrics:

	SMIF	All Ords Acc.
Returns		
Annualised return	11.8%	11.7%
Risks		
Annual volatility	20.6%	23.4%
Beta	0.94	1.00
Tracking error	8.1%	0.0%
Risk/Return Trade Off		
Sharpe ratio	0.34	0.31
Information ratio	0.03	0.00
Jensen's alpha	0.2%	0.0%
Treynor's measure	0.07	0.07
Distribution of Returns		
Capture ratio	88%	100%
Downside capture	90%	100%
Upside capture	80%	100%



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.