The University of Queensland Business School

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Student Managed Investment Fund March 2021 Update

March 2021 Fund Update

Fund Update

The portfolio returned 1.3% during the month of March. When compared to the benchmark All Ordinaries Accumulation Index return of 1.8%. This represents a total underperformance of 0.6%.

In March, the Covid vaccine roll out around the globe has continued to be a focus with new daily cases increasing only slightly; however, remaining low. Stemming from Australia's favourable control of the virus, the country's GDP rose 3.1% in the December to March quarter on the back of strong export growth and increased discretionary spending; this was comfortably above consensus forecasts. This strong recovery looks set to continue with consumer confidence returning to December highs and the unemployment rate only 0.4% higher than pre-COVID levels. Continuing with its quantitative easing program, Australia's 10-year price declined 13 bps to 1.79% while in commodities, iron ore eased off it is highs to $168.18, bringing with it a drop of the AUD to $0.76 USD.

Top performers in the portfolio for the month included Sonic Healthcare Limited (ASX: SHL), Bapcor Limited (ASX: BAP) and James Hardie Industries plc (ASX: JHX) which returned 10.60%, 9.5% and 9.1% respectively. The poorest performers were Cooper Energy Limited (ASX: COE), Chorus Limited (ASX: CNU) and Rio Tinto Group (ASX: RIO) which returned -16.9%, -14.2% and -12.9% respectively.

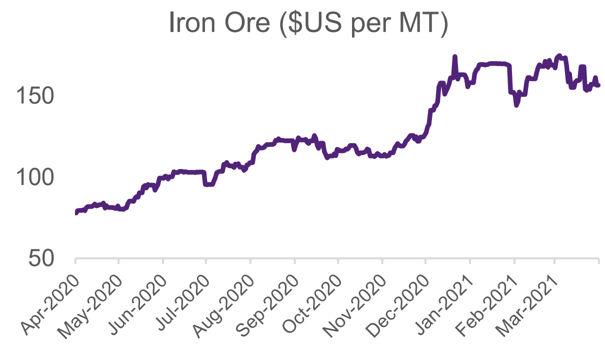
Market Update

The Australian All Ordinaries delivered a 1.8% return in March. In the U.S markets, the S&P500 gained 4.2% and the Dow Jones rallied 6.6% off the back of America's latest 1.9 trillion stimulus package and a shift to value stocks. As a result, the NASDAQ only rose a modest 0.4% after being down as much as 4.4%.

Iron ore prices and its implications for Australian recovery

Iron ore prices have continued to steadily rise on the back of China's increased demand coupled with continued supply constraints by foreign producers such as Brazil, enabling a strong recovery of the Australian economy. Stemming from the budgeted iron price of $55USD, the March 31st price of $156USD has fuelled the 3.1% GDP growth in the December quarter and posted a trade surplus of $8.1 billion. This is the first time in Australian history where a trade surplus of above $8 billion has been recorded and treasurer Josh Frydenberg has also described that these high prices lend confidence to the country's continued recovery.

However, China's demand for the resource has begun to pull back in as of late, reflected in a reduction of $1.2 billion, or 12%, of total Chinese imports. Although only having a limited effect in the short term on the surplus, it is unlikely that the high iron prices will remain throughout the coming year with analysts predicting a drop to $100-$120 per MT by year end.



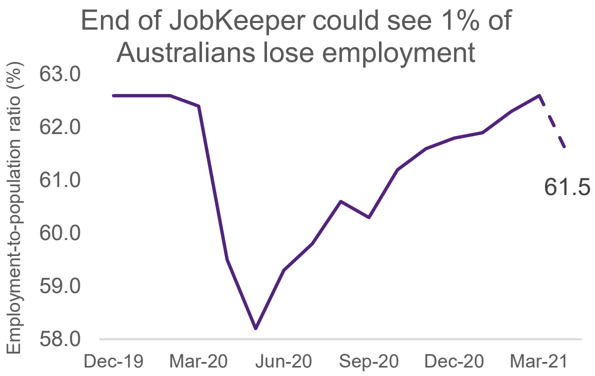
Source: CapitalIQ

End of Job Keeper and the impact on struggling businesses

The end of the JobKeeper scheme came at a time where the economy continues to experience large scale adjustment to recover from the effects of the pandemic. Over the past 12 months, JobKeeper has been a lifeline to many struggling businesses and industries with January still seeing over

370,000 applications submitted. Especially in areas that remain under financial pressures such as travel, tourism and retail, cost cutting measures are expected to lead to increased unemployment levels once again.

This impact will be felt in some regions more so than others, such as Cairns which has one of the highest number of residents on the subsidy outside of major cities. Although employment has improved in some areas such as the Gold Coast, Cairns remains in a dire position down almost 12% since February last year. As of early March 2021, national unemployment rates were only 0.4% higher than their pre-COVID levels; however, with projections of 150,000 Australian workers to lose their job in a short period after the deadline, or 1% of the Australian workforce, the true strength of the Australian economy will be revealed for the first time since March last year.



Source: ABS, Treasury estimates

Position Updates

Bapcor Limited (ASX: BAP)

Bapcor Limited is the leading provider of automotive aftermarket parts, accessories and services across Australia and New Zealand. In March, Bapcor announced the expansion of its presence in Asia through the acquisition of a minority (25%) stake in SGX-listed Tye Soon Limited for $12 million.

Tye Soon is the prominent independent automotive parts distributor in Asia operating in core markets such as Singapore, Malaysia, Hong Kong, South Korea and Thailand. The company has annual revenues of approximately $193 million and a network of 58 store locations.

Plutus Capital sees great potential in Bapcor's Asian expansion strategy as it provides the company with access into fast-growing markets for aftermarket parts and accessories. In addition, Asian countries are expected to contribute up to 60% of world GDP growth by 2030 with 2.4 billion new individuals entering the growing middle class. The growth in these regions sees that Bapcor is well placed to benefit from the rise in discretionary income which will provide opportunities for material, long-term profit growth.

The acquisition of the Tye Soon stake follows record first half 2021 earnings with Bapcor's total revenues increasing 25.8% to $884 million, NPAT increasing 54.0% to 70.2 million and the dividend increased by 12.5% to 9 cents per share. Bapcor has been a recent COVID winner as international border closures have seen consumers shift discretionary spending from international to domestic travel and automotive parts. The record $86 billion in stimulus and initiatives such as JobKeeper and JobSeeker provided additional income for consumers to purchase discretionary items.

Bapcor's specialist wholesale and retail segments were the greatest beneficiaries with EBITDA increasing 55% and 56% respectively on the back of increased supply chain investment, management initiatives and online sales growth. Bapcor also increased store locations by 27 during the period to total 1,100 stores across Autobarn, Burson, Autopro and Sprint brands in Australia and New Zealand.

Plutus Capital sees potential for weaker second-half results as a result of the wind down of the JobKeeper program, the continued vaccine rollout and the potential for international border openings which may see spending diverted from autoparts and domestic travel to international. Despite this, we believe Bapcor will continue to execute on its growth strategy and drive same-store and online sales.

Breville (ASX: BRG)

Breville as one of the so-called "COVID winners" has seen large growth in revenue through 2020 as cashed-up consumers used fiscal stimulus to purchase home goods. The resulting share price appreciation led to an all-time high of $31.35 on February 16 when half year earnings were released, that has since faltered down to $27.00 (March 31). Earnings displayed 29% growth year on year with revenue similarly up 29%. Although global supply chain concerns have been brought up, there are two key macroeconomic effects underpinning the fall in price.

Firstly, as March 28 saw an end to the JobKeeper program, markets have shown a lack of faith in continued consumer spending. As a heavily discretionary consumer purchase, Breville is expected to feel the brunt of this shift. Secondly, as both domestic and international travel become a possibility, consumers are expected to shift their spending away from home improvement and towards saving for a potential holiday. Both effects are expected to see a reversal of the incredible growth seen in 2020.

However, Breville is more than just a COVID winner. Since 2017, Breville has seen a CAGR of revenue of 21%. CEO Jim Clayton cites the long-term shift to work from home as a structural theme Breville intends to capitalise on over the next 5 years. The company, having raised $104 in equity in May 2020, intends to invest in growing their global business by expanding into more emerging markets.

Overall, it is Plutus Capital's view that Breville has significant scope for growth beyond the pandemic. Although the lockdown provisions and stimulus driving it in the short-term and coming to an end, the home goods market still shows promise.

Portfolio Management Team

Name	*Current Enrolment and Contact*
Campbell Depper	Bachelor of Commerce and Bachelor of Science c.depper@uq.net.au
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Quantitative Data:

SMIF Portfolio Holdings:

Ticker	Company Name	Portfolio Weight		Position 31st March	Return*
JHX	James Hardie Industries plc	8.0%		$20,796	47.7%
MQG	Macquarie Group Limited	7.3%		$18,951	20.3%
BHP	BHP Group	4.6%		$11,959	41.3%
BRG	Breville Group Limited	4.3%		$11,286	49.3%
ANZ	Australia and New Zealand Banking Group Limited	4.3%	▲1	$11,244	44.3%
RIO	Rio Tinto Group	3.9%	▼1	$10,078	23.2%
SHL	Sonic Healthcare Limited	3.9%	▲2	$10,071	60.0%
CBA	Commonwealth Bank of Australia	3.7%	▲2	$9,557	23.0%
PWH	PWR Holdings Limited	3.6%	▼1	$9,443	51.5%
RMD	ResMed Inc.	3.5%	▲1	$9,141	24.0%
APA	APA Group	3.5%	▲3	$9,078	-11.6%
CNU	Chorus Limited	3.4%	▼5	$8,851	15.2%
CSL	CSL Limited	3.4%	▼1	$8,733	17.3%
CWY	Cleanaway Waste Management Limited	3.3%	▼1	$8,639	-1.8%
WOW	Woolworths Group Limited	3.2%	▲1	$8,337	9.2%
CCX	City Chic Collective Limited	3.1%	▼1	$8,135	65.8%
INA	Ingenia Communities Group	3.0%	▲3	$7,676	35.5%
QUB	Qube Holdings Limited	2.9%	▼1	$7,520	16.1%
JLG	Johns Lyng Group Limited	2.8%	▲3	$7,315	63.5%
NST	Northern Star Resources Limited	2.7%	▼2	$7,129	-20.3%
IDX	Integral Diagnostics Limited	2.6%		$6,702	40.1%
SYD	Sydney Airport Limited	2.5%	▼3	$6,617	-27.6%
CDA	Codan Limited	2.5%	▲1	$6,423	25.2%
CAR	carsales.com Ltd	2.4%	▼1	$6,216	-20.5%
BAP	Bapcor Limited	2.0%	▲2	$5,303	5.7%
DOW	Downer EDI Limited	2.0%	▼1	$5,166	4.9%
APX	Appen Limited	1.8%	▼1	$4,765	-9.7%
IPH	IPH Limited	1.8%		$4,621	-11.5%
COE	Cooper Energy Limited	1.2%		$3,200	-34.5%
SSM	Service Stream Limited	1.1%		$2,884	-49.9%
		TOTAL		$254,641	-

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

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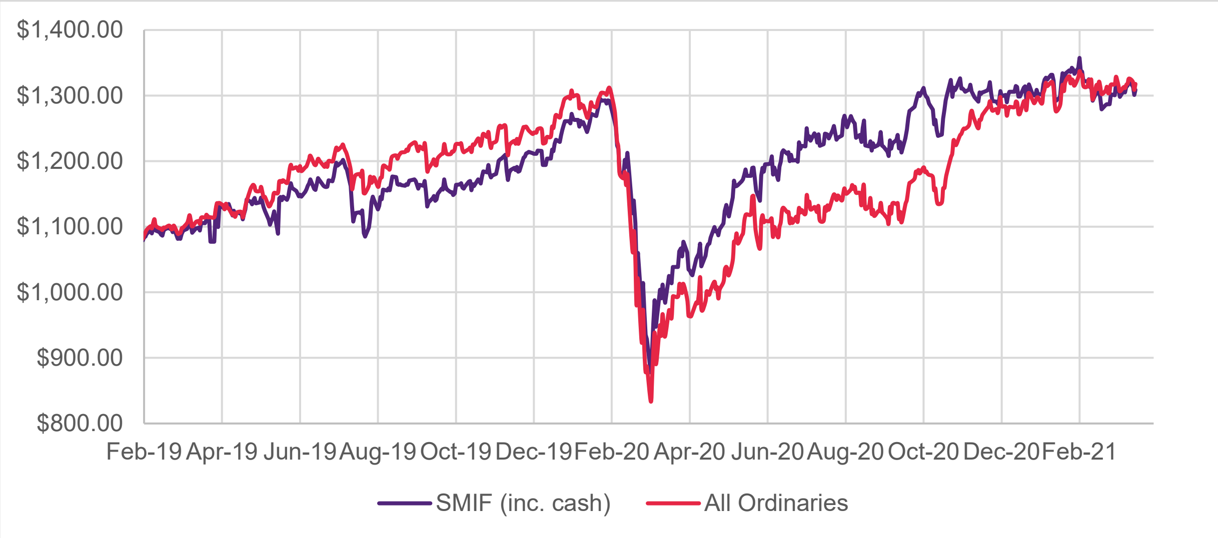
Performance:

	1 month	3 months	6 months	12 months	Inception (Nov 2018)*
SMIF	1.27%	0.79%	7.30%	32.10%	30.30%
All Ordinaries Accumulation Index	1.84%	3.61%	18.56%	41.14%	31.78%
Alpha	-0.57%	-2.82%	-11.26%	-9.04%	-1.48%

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

*Total return since fund inception on 19 November 2018.



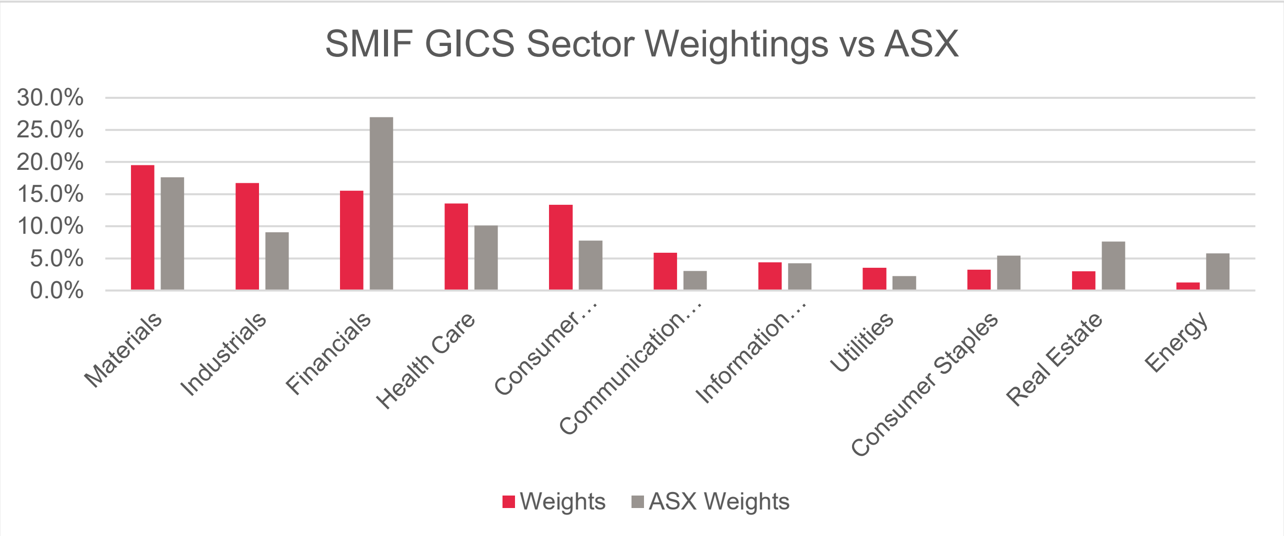
Sector Breakdown:

	% Weight	Change in rank*
Materials	20.1%	-
Industrials	16.9%	-
Financials	14.6%	-
Health Care	13.3%	▲1
Consumer Discretionary	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	11.9%	12.4%
Risks		
Annual volatility	20.7%	23.5%
Beta	0.94	1.00
Tracking error	8.4%	0.0%
Risk/Return Trade Off		
Sharpe ratio	0.32	0.30
Information ratio	-0.01	0.00
Jensen's alpha	-0.1%	0.0%
Treynor's measure	0.07	0.07
Distribution of Returns		
Capture ratio	90%	100%
Downside capture	93%	100%
Upside capture	84%	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.