The University of Queensland Business School

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Student Managed Investment Fund May 2021 Update

May 2021 Fund Update

Introducing BC Capital

The month of May marks the beginning of BC Capital's tenure as Portfolio Managers of the Student Managed Investment Fund. We would like to thank the outgoing team, Plutus Capital, for their guidance when handing over the SMIF portfolio. We give notable mention to Saphira Rekker and Khoa Hoang who have been ready to assist every step of the way to secure a smooth transition. They have also been supportive and positive to new ideas and additions that we have suggested to implement while managing the fund.

BC Capital is committed to the SMIF investment philosophy of investing in quality and sustainable companies with aims of long-term organic growth. Long term profitability and strong forward-looking strategies are key to generating returns for the coming years. We have an increased focus on sustainability, in particular looking at ESG measures and quantifying the portfolio's carbon footprint. Combined, BC Capital aim to use these strategies with the prospect of successfully continuing to grow the fund for the next 6 months as well as excel in the learning aspect of our tenure.

Fund Update

The portfolio returned 1.32% during the month of May. When compared to the benchmark All Ordinaries Accumulation Index return of 1.59%, this represents a total underperformance of 0.27%. This slight underperformance was due to some mean reversion in positions that had a strong April, a drawdown from our largest position Macquarie Group (ASX:MQG), along with being underweight to Commonwealth Bank (ASX:CBA) which had a strong month.

The fund increased its exposure to the real estate and financial sectors by taking up positions in Charter Hall Long Wale REIT (ASX:CLW) and Suncorp (ASX:SUN). The fund also decreased its holdings in the Energy sector through the sale of Origin (ASX:ORG), along with decreasing our exposure to commodities and mining through partial sales in Rio Tinto (ASX:RIO) and BHP Group (ASX:BHP).

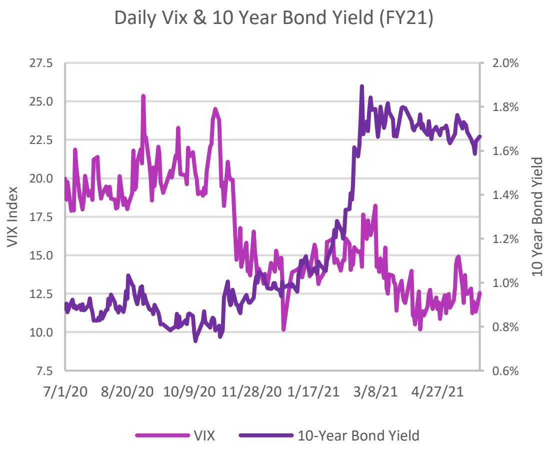
Top performers in the portfolio for the month included Sydney Airport (ASX:SYD) and Northern Star Resources (ASX:NST). Sydney was rather unaffected by Victorian lockdowns as it continues to benefit from optimism around the vaccine rollout along with increased domestic foot traffic. Northern Star benefited from rising commodity prices, gold in particular had a strong month which benefited the NST share price.

Amongst the portfolios biggest detractors was a recently entered position Elders (ASX:ELD), despite beating analysts EPS forecasts by 19% the share price was punished. The farming and agribusiness sector remains strong, with another strong month of commodity exports and land transactions along with the newly announced 'National Soils Project' this is a position we remain confident in for the long term.

Market Update

Risk on Sentiment Continues

During the month we saw the risk on sentiment continue. The Vix peaked following the Australian budget this month before trailing downward. A similar narrative was evident with the 10-Year bond yield, peaking at a high of 1.75% for the month, before ultimately finishing the month 8 Bps lower.



The bond market once again had a rather quiet response to the RBA's monthly policy meeting, which highlighted declining unemployment rates and "faster than anticipated" GDP growth throughout the March quarter. Despite this bullish outlook for the labour market and output, the RBA has indicated that inflation and wages growth are expected to remain low. Investors however are still forward looking, with more and more people anticipating a rate hike early into 2022 or late 2021.

Federal Budget 2021-22

On May 11th, the Australian government presented their federal budget, which has been framed to prioritise jobs and investment. A focus has been placed on digital transformation, deregulation, infrastructure and skills, in order to cause structural reforms across many of the government portfolios. The budget deficit is forecast to be $161 billion for 2021-22, with net debt reaching 30% of GDP, at $617.5bn. Job creation, business & education, are being bolstered through the increased spending, in particular the additional $19bn and $2.7bn invested into universities and apprenticeships respectively. Low- and middle-income tax offset is to be extended, potentially impacting consumer discretionary spending. In addition, $110bn is to be used within a 10-year plan to increase Australian infrastructure, alongside this, $1.6bn is being used to benefit the environment, funding technologies, including clean hydrogen and energy storage.

Iron Ore Trade Tensions Escalate

China has announced its intentions to diversify its supply of Iron ore from Australia. Iron ore is Australia's largest export, with the commodity set to bring in $150 billion this year from export revenue. This news has come in addition to Chinese restrictions on other commodity exports from Australia such as coal and wine.

With supply of Iron ore reducing significantly from Covid, particularly from Brazil due to the large impact on working conditions in Brazilian mines. This has resulted in a large spike in Iron Ore prices during Covid, which has seen Australia benefit significantly from as the solidified exporter to China. China imports 72% of the worlds Iron Ore, and Australia exports 54% of the worlds Iron Ore, therefore their recent dependence on Australian Iron has created a monopolistic type market for the product. The high dependence signifying the importance of the relationship between the two countries. As supply is starting to increase due to the Covid Vaccine rollout, China is looking to source from other countries.

As trade tensions are escalating between the two Iron Ore giants, the Iron Ore and Australian Iron Ore market are under huge risk as National Income and Australian Iron Ore companies could see large reductions in revenue. As the production from overseas has not reached full capacity to match China's huge demand, the export rate is currently stable. Further news in the coming months should give a good signal on the Iron Ore market and the implications of these tensions.

The price of Iron saw large volatility from this speculation. The spot price ranging from $185 up to $233 a tonne this month. With the price being considered a proxy for China's economic health. The price closing at $205/tonne at the end of the month after the Chinese Government crackdowns on speculation.

Vaccine Rollout

In the federal budget, the vaccine rollout was further revised, with the assumption that every Australian who would like to get the vaccine, will be able to have the first dose (of 2) by the end of 2021. As of May 28th, Australia has reached 3.9 million doses. However, markets have continued to look through this laggard rollout, instead focusing on the impending road to global recovery.

Position Updates

CarSales (ASX: CAR)

Carsales this month announced their plans to expand into the US market with their agreement to acquire a 49% stake in the US-based 'Trader Interactive' for a price of A$797 million. With management noting their rationale behind the acquisition being the exciting opportunity to expand their international reach, in particular gaining access to attractive verticals in the US market.

Trader Interactive, is a leading provider of online advertising and marketing services products serving the motorsports, recreational vehicle, commercial truck and equipment segments.

The market initially reacted negatively to the news, potentially unsettled by the fact the announcement that this acquisition will have an immediate and negative impact on EPS. Noted by management, who stated the acquisition will have a mid-single digit earnings impact immediately following the finalisation of the deal.

Despite this initial downturn, the share price has since recovered leading into the end of the month. Along with this, the acquisition and current Carsales position remain in line with BC Capitals investment thesis. We anticipate the acquisition to provide good synergies for Carsales going forward and provide good exposure to the US market.

Operationally, in 2020, Trader Interactive generated adjusted revenues of US$123 million, with an EBIDTA of US$61 million.

Charter Hall Long WALE REIT (ASX: CLW)

Charter Hall announced their intentions of a fresh capital raise on May 18th to expand on their current portfolio of property assets.

The capital raise will allow CLW to take up 50% interest in a portfolio of 4 property buildings. The properties comprise three modern suburban office properties and one modern life sciences property all with impressive leases. The raise was noted as a $250 million raise at a price of $4.65, representing a 3.3% discount to the previous close. Subsequently, the share price fell on the news to be in line with the entitlement offer price. However has since recovered, closing the month at $4.78.

The entitlement offer will partially fund the acquisitions and associated transaction costs. CLW's largest shareholder Charter Hall Group (11.5%), has agreed to take up its full entitlement, reflecting a pledge of approximately $29 million.

The announcement also came with the news of an earnings upgrade to a forecasted EPS of 29.2 cents or greater. The update reflects a growth of 3.2% over FY20.

Whilst the acquisition increases exposure to east coast office space, we are highly commendable of the tenants these properties are leased to. 75% of the acquired properties are leased to the Commonwealth Government, an AAA investment grade credit rated tenant. This increases CLW's exposure to Commonwealth Government tenants from 16% to an impressive 21%.

The acquisitions' total property purchase price comes to $415.4 million and reflects a passing yield of 5.2%. Along with this, the transaction will improve CLW's growth profile with the proportion of fixed rent reviews across the REIT's portfolio increasing from 57% to 61%.

Portfolio Management Team

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Performance:

	1 Month	3 Months	6 Months	1 Year	Inception p.a.	Inception*
SMIF	1.32%	8.42%	8.10%	18.91%	13.58%	38.05%
All Ordinaries Accumulation Index	1.59%	6.72%	9.86%	26.13%	10.25%	28.00%
Alpha	-0.27%	1.71%	-1.76%	-7.22%	3.33%	10.04%

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

*Total return since fund inception on 19 November 2018.

SMIF Portfolio Holdings:

Ticker	Company Name	Portfolio Weight		Position 31st May	Return*
MQG	Macquarie Group Limited	6.8%	▲1	$18,839	19.6%
ANZ	Australia and New Zealand Banking Group Limited	4.1%	▲2	$11,455	47.0%
CBA	Commonwealth Bank of Australia	4.0%	▲7	$11,069	42.4%
CWY	Cleanaway Waste Management Limited	3.9%	▲1	$10,839	23.2%
JHX	James Hardie Industries	3.9%	▼4	$10,833	59.5%
BHP	BHP Group	3.9%	▼3	$10,766	49.1%
PWH	PWR Holdings Limited	3.8%	▲2	$10,531	68.9%
SHL	Sonic Healthcare Limited	3.6%		$9,985	58.5%
RMD	ResMed Inc	3.6%	▲3	$9,814	33.1%
CCX	City Chic Collective Limited	3.5%	▲1	$9,586	95.4%
CSL	CSL Limited	3.5%	▲3	$9,577	28.6%
CLW	Charter Hall	3.4%		$9,273	0.2%
BXB	Brambles	3.3%		$9,240	0.9%
NST	Northern Star Resources Limited	3.2%	▲4	$8,798	147.2%
RIO	Rio Tinto Group	3.2%	▼9	$8,785	37.6%
WOW	Woolworths Group Limited	3.1%		$8,490	11.2%
INA	Ingenia Communities Group	3.1%		$8,465	49.4%
APA	APA Group	3.0%	▼5	$8,362	-18.6%
CNU	Chorus Limited	3.0%	▼4	$8,250	7.3%
JLG	Johns Lyng Group Limited	2.9%	▼1	$8,016	79.1%
CDA	Codan Limited	2.8%		$7,767	51.4%
QUB	Qube Holdings Limited	2.7%	▼2	$7,570	16.8%
SYD	Sydney Airport Limited	2.7%		$7,496	-25.7%
SUN	Suncorp	2.7%		$7,339	7.2%
IDX	Integral Diagnostics Limited	2.5%	▼1	$6,971	45.6%
CAR	carsales.com Ltd	2.4%	▼4	$6,732	-13.9%
ELD	Elders	2.2%		$6,132	-8.7%
BAP	Bapcor Limited	2.1%	▼2	$5,791	15.4%
DOW	Downer EDI Limited	2.0%	▼4	$5,609	13.9%
IPH	IPH Limited	1.7%	▼3	$4,823	-7.7%
APX	Appen Limited	1.5%	▼3	$4,042	-23.4%
	Cash and Dividends Receivable	1.8%		$4,844	
		TOTAL		$276,093	

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

Sector Breakdown:

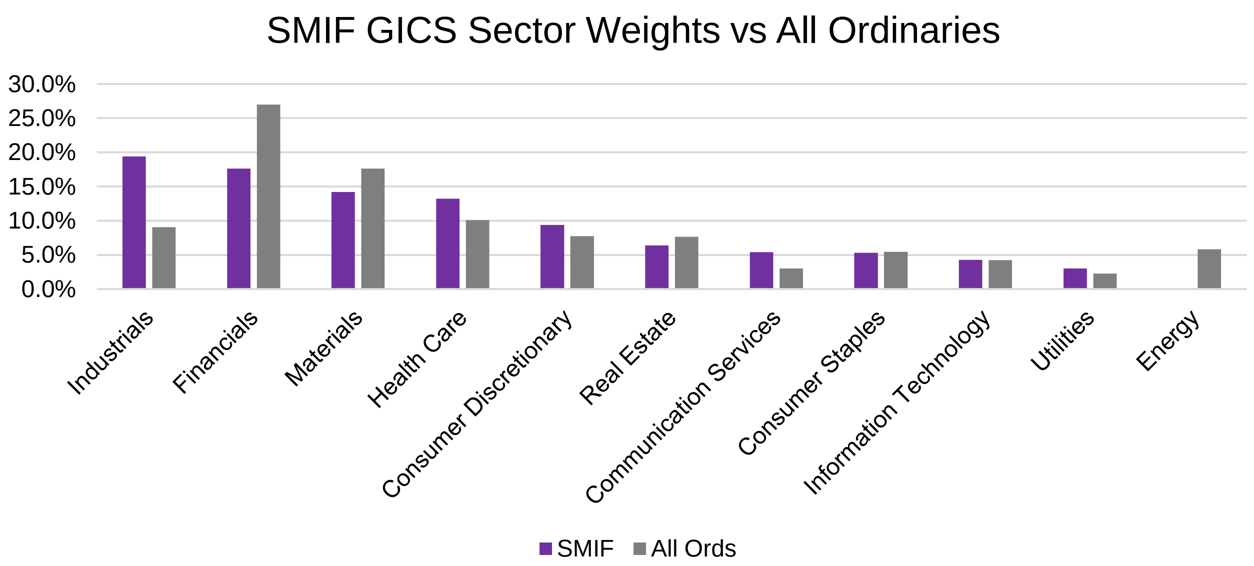
	% Weight	Change in rank*
Industrials	19.4%	▲1
Financials	17.6%	▲1
Materials	14.2%	▼2
Health Care	13.2%	
Consumer Discretionary	9.4%	
Real Estate	6.4%	▲4
Communication Services	5.4%	▼1
Consumer Staples	5.3%	▲1
Information Technology	4.3%	▼2
Utilities	3.0%	▼2
Energy	0.0%	

*Since last update

Contributors to Returns (Basis Points):

Top 5 Contributors (Bps)	
CBA	43.0
NST	32.4
SYD	31.8
PWH	23.3
CSL	22.8

Top 5 Detractors (Bps)	
MQG	-38.5
APA	-26.2
APX	-24.3
ELD	-21.2
CNU	-19.2



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.