

Student Managed Investment Fund August 2021 Update



August 2021 Fund Update

Fund Update

The fund's benchmark, the all ordinaries index, continued to perform strongly throughout the month of August, returning 2.08%. However, a strong reporting season for some of the fund's holdings meant that the portfolio was able to produce a return of 4.54%, outperforming the benchmark by 2.47%.

The strong performance in August was led by PWR Holdings (ASX:PWH), James Hardie (ASX:JHX) and Resmed (ASX:RMD), who has been a top contributor for 3 successive months. The funds biggest detractors were BHP Group (ASX:BHP) and Rio Tinto (ASX:RIO), who both fell significantly as a result of tumbling iron ore prices.

Market Update

Reporting Season

It was a busy month for analysts and fund managers, as reporting season was well underway throughout August. We continued to review the portfolio and discuss any changes due to unforeseen results. We are also exploring the best uses of the dividends we expect to receive in the coming months.

Iron Ore Prices

Iron ore prices begin to fall from their historic highs throughout August, primarily due to weakened Chinese demand for raw materials, and Brazil's increased iron ore production. The reduced iron ore demand from China, is linked to the government's recent crackdown on steel manufacturing pollution and their widespread restrictions to contain their latest COVID-19 outbreak. In addition, Brazilian iron ore export volumes increased by 11.86% year on year in August. Resulting in an iron ore price that is 10.88% lower than in July.

RBNZ Interest Rates

Heading into August, many investors anticipated that the RBNZ would announce a rise in rates. However, the RBNZ decided to hold rates at 0.25%, as a result of the government's imposition of COVID restrictions nation-wide. The decision to halt the increase in interest rates due to increased COVID restrictions, draws parallels to the situation within Australia, indicating that it is unlikely the RBA will make any changes to Australia's interest rate in the short term and very much has their sights set on a longer-term strategy.

Square's Acquisition of Afterpay

Square Inc (NYSE:SQ) announced their all-scrip acquisition of Afterpay (ASX:APT) for a value of A\$39 billion. It will boost Afterpay's growth within the US market, where it faces fierce competition with technology giants. The deal will help Afterpay integrate into the US consumer and merchant markets, in turn driving retail sales through the buy now pay later product. Square are setting up a secondary listing as a CHESS depositary interest on the ASX so that Afterpay shareholders will receive ASX-listed square stock, however, shareholders can also opt to receive NYSE-listed Square shares.

Position Updates

BHP Group (ASX:BHP)

BHP investors were hit with four major market events that have thrown significant uncertainty around BHP's value. Firstly, it was announced that Woodside Petroleum (ASX:WPL) is in discussions to merge with BHP's petroleum business. The deal will value the combined petroleum group at about \$41 billion and will likely be a scrip deal. Although the deal will provide investors with Woodside shares, the move away from oil & gas positions BHP as future-facing in an ESG lens.

Secondly, the group announced they are going to delist from the London Stock Exchange, with European investors receiving shares in the Australian listed entity. The spread between the Australian and European listed companies has been attractive to algorithmic and quantitative based traders over the past 20 years while the dual listing has existed, as the Australian shares usually commanded a premium due to franking credits.

Thirdly, the group announced further investment of USD 5.7 billion into their potash mining projects in Canada, a pivotal moment for shareholders, who now have further diversification away from BHP's typical four pillars: Coal, iron ore, copper and petroleum.

Lastly, the tumbling iron ore price has been a key contributor to the stocks falling price throughout the month. However, as a result of the high iron ore prices in the past 6 months, investors will receive a dividend of USD 2.00 per share on 21st September 2021.

Sydney Airport (ASX:SYD)

Last month Sydney Airport received a takeover offer from a consortium involving IFM investors, QSuper and Global Infrastructure Partners, at \$8.25 per share, which was subsequently rejected

by the board. Throughout August, the consortium placed a revised bid of \$8.45, however, this bid was also rejected by the board. There is now some speculation on whether they will revise their bid again, and if there may be another party or consortium that will launch a rival bid.

PWR Holdings (ASX:PWH)

PWR was the funds top contributor throughout August. The gains were driven by strong FY21 results, in the form of increases of 21% in revenue, 29% in EPS, and 50% in dividends. There were also strong signs for future growth, with their emerging technologies business revenue growing 113%, and their North American segment's revenue growing 71%.

City Chic Collective (ASX:CCX)

City Chic was also one of the top contributors, and this was again driven by strong FY21 results. They grew their revenue by 33%, customer base by 61% and underlying NPAT by 135%. Again, their international expansion, partly driven through acquisitions, seems to be progressing at a good rate, with sales outside ANZ now contributing to 44% of group sales.

Portfolio Management Team

<i>Name</i>	<i>Current Enrolment and Contact</i>
Chris Gilmore	Bachelor of Advanced Finance & Economics c.gilmore@uqconnect.edu.au
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Performance:

	1 Month	3 Months	6 Months	1 Year	Inception p.a.	Inception*
SMIF	4.54%	11.37%	20.75%	24.86%	16.71%	53.74%
All Ordinaries Accumulation Index	2.08%	5.62%	12.72%	25.25%	11.44%	35.20%
Alpha	2.47%	5.74%	8.03%	-0.39%	5.26%	18.53%

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 August	Return*
MQG	Macquarie Group Limited	6.7%		\$20,676	31.2%
RMD	ResMed Inc	4.7%		\$14,549	97.3%
PWH	PWR Holdings Limited	4.6%		\$14,008	124.7%
JHX	James Hardie Industries	4.3%	▲1	\$13,366	96.8%
CCX	City Chic Collective Limited	4.1%	▲4	\$12,550	155.8%
SHL	Sonic Healthcare Limited	4.1%		\$12,456	97.8%
CBA	Commonwealth Bank of Australia	3.6%		\$11,113	43.0%
ANZ	Australia and New Zealand Banking Group Limited	3.6%		\$11,112	42.6%
JLG	Johns Lyng Group Limited	3.6%	▲1	\$11,029	146.4%
CWY	Cleanaway Waste Management Limited	3.4%	▲1	\$10,407	18.3%
BXB	Brambles	3.4%	▲1	\$10,342	12.9%
CSL	CSL Limited	3.3%	▲3	\$10,294	38.2%
BHP	BHP Group	3.3%	▼9	\$10,262	42.1%
SYD	Sydney Airport Limited	3.3%	▼2	\$10,178	0.9%
CLW	Charter Hall	3.3%	▼1	\$10,166	9.8%
INA	Ingenia Communities Group	3.2%	▲1	\$9,754	72.2%
CNU	Chorus Limited	3.1%	▲2	\$9,409	22.4%
CAR	carsales.com Ltd	2.8%	▲4	\$8,760	12.0%
WOW	Woolworths Group Limited	2.8%	▲1	\$8,517	11.5%
APA	APA Group	2.7%	▼2	\$8,317	-19.0%
SUN	Suncorp	2.7%	▲2	\$8,237	20.3%
RIO	Rio Tinto Group	2.6%	▼6	\$7,956	24.6%
QUB	Qube Holdings Limited	2.6%	▲2	\$7,947	22.6%
NST	Northern Star Resources Limited	2.4%	▼3	\$7,340	106.2%
ELD	Elders	2.2%	▲2	\$6,691	-0.4%
IPH	IPH Limited	2.1%	▲3	\$6,561	25.6%
DOW	Downer EDI Limited	2.1%	▲3	\$6,556	33.1%
IDX	Integral Diagnostics Limited	2.1%	▼4	\$6,533	36.5%
CDA	Codan Limited	2.0%	▼3	\$6,257	22.0%
BAP	Bapcor Limited	1.7%	▼2	\$5,133	2.2%
APX	Appen Limited	1.1%		\$3,233	-38.8%
	Cash and Dividends Receivable	2.5%		\$7,765	
	TOTAL			\$307,473	

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

Sector Breakdown:

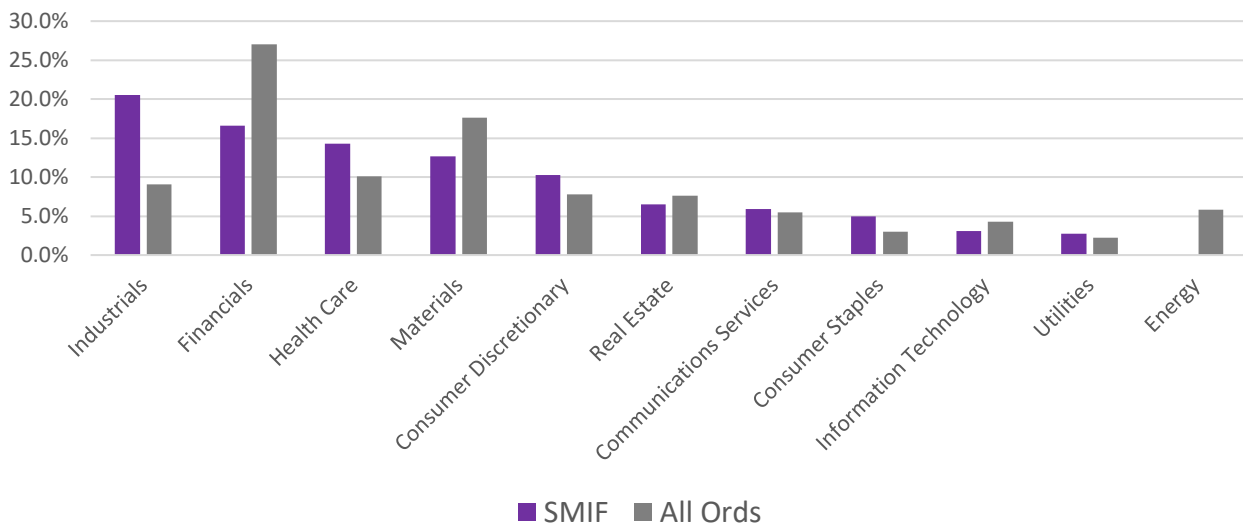
	% Weight	Change in rank*
Industrials	20.50%	
Financials	16.63%	
Health Care	14.26%	
Materials	12.66%	
Consumer Discretionary	10.31%	
Real Estate	6.48%	
Communications Services	5.91%	▲ 1
Consumer Staples	4.95%	▼ 1
Information Technology	3.09%	
Utilities	2.70%	
Energy	0.00%	

*Since last update

Contributors to Returns (Basis Points)

Top 5 Contributors (Bps)	
PWH	62.7
JHX	59.9
CCX	53.2
RMD	47.9
CNU	41.3

Top 5 Detractors (Bps)	
BAP	-21.0
CDA	-24.6
IDX	-31.3
RIO	-49.3
BHP	-57.7

SMIF GICS Sector Weights vs All Ordinaries

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.