

Student Managed Investment Fund May 2023 Update



May 2023 Fund Update

Dollar values are in AUD unless stated otherwise.

Fund Update

The Fund was down 2.95% for the month of May and underperformed the benchmark All Ordinaries Total Return Index by 1.54%. The month of May saw the RBA resume their hawkish tone and unexpectedly increase the OCR by 25pts. The Australian equity market responded accordingly. Most notably the consumer discretionary sector (ASX 200 Consumer Discretionary Index) led a 6.44% decline as the outlook on discretionary spending continued to worsen.

James Hardie Industries (ASX: JHX) and Cleanaway Waste Ltd (ASX: CWY) were the Fund's best performers for the month of May, up 13.14% and 7.44%, respectively. Conversely, the consumer facing equities were the worst performers with Dusk Group (ASX: DSK) and Elders Ltd (ASX: ELD) down 32.62% and 17.88%, respectively.

Fund Changes

There were no changes to the composition of the Fund over the month of May. The management of the Fund did change over the later stages of May. Summit Capital handed over management responsibility to Sunshine Asset Management for the next 12 months. On behalf of all those involved with the SMIF, we would like to thank Summit Capital for their management of the Fund. Sunshine Asset Management aims to institute changes to the portfolio's composition over the month of June. The summary of the changes will be presented in the June 2023 Fund update.

Market Update

Unemployment remained at 3.90%, the lowest level since February 2008. The strong labour market is helping to offset some of the impacts of rising inflation on household incomes. Our perspectives on the labour market remain steadfastly consistent. We acknowledge that while employment growth has shown a tendency towards a slower pace, it may not entirely offset the burgeoning population increase. As a result, we agree with the market consensus and anticipate unemployment to reach 4.7% by the conclusion of

2024. Although this may seem like a substantial increase at first glance, it's important to view it in context - we're starting from an extraordinarily low base. This transition, while noticeable, is a balanced response to the dynamic shifts in our demographic landscape.

Headline CPI increased by 7.0% over the 12 months to the March quarter, taking it to the highest level of inflation since 2008. The main drivers of inflation have been rising energy prices, food prices, and housing costs. We see inflation decreasing in the near-term, moving synchronously with the RBA's trajectory. However, there does exist a significant layer of uncertainty surrounding the adjustment in goods prices — the speed and depth of their potential decline is an area of much conjecture.

Internationally, inflation in the service sector has demonstrated a tenacious resistance to fluctuation, proving to be stubbornly persistent. When considering Australia specifically, wage growth emerges as a crucial determinant. As of now, it remains reliably aligned with the notion of inflation resuming its course back into the RBA's target range. This underlines the symbiosis between wage progression and inflation controls, a relationship we will continue to monitor closely.

GDP is expected to grow at a rate of 1.25% throughout 2023, which could lead to a slight decline in GDP per capita over the same period. The softened near-term forecast, in comparison to the assessment from three months ago, mirrors the gentle weakening observed in recent activity data. A discernible pause in domestic demand growth was noted in the final quarter of last year, and early indicators for 2023 hint at a more subdued expansion. The growth in household consumption is likely to persist at a languid pace throughout the year, as the combined pressure of inflation and escalating interest rates impacts real disposable income. However, we anticipate a resurgence of consumption growth to levels reminiscent of its pre-pandemic trend beginning in the medium term. This revival will be bolstered as the impact of earlier monetary policy adjustments fades, the cash rate retreats, inflation stabilizes, and household wealth recuperates. Furthermore, planned tax reductions

are expected to offer a boost to disposable income, providing a supportive environment for consumption growth.

Position Updates

James Hardie Industries (ASX: JHX +13.14%)

The month of May saw JHX release their FY23 results. Earnings were in the lower end of their twice reduced guidance, however, the market did react positively to their initial Q1FY24 NPAT guidance (US\$155 v US\$137 consensus). We expect sales volumes to remain low over the short to medium-term as the housing construction and renovation market remains stagnant across their two largest markets, Australia, and North America.

Despite the poor top-down outlook, the FY24 guidance and FY23 result is the perfect example of a business with strong pricing power and a large competitive moat. For example, sales in FY23 fell 9% yet prices increased 10% and management has taken active cost cutting measures (6% decrease in North America workforce).

Cleanaway Waste Ltd (ASX: CWY +7.44%)

The market reacted positively to management's presentation at the Macquarie Australia Conference. CWY reaffirmed the guidance provided in the H1FY23 presentation. FY23 EBITDA is expected to be A\$670m and D&A is expected to be A\$370m. In a market where guidance downgrades are more frequent than upgrades, the reaffirmation was taken positively by investors.

The market's reaction is further signs of investors flocking to companies that remain relatively insulated from the short to medium-term economic uncertainty. CWY's defensive positioning and monopolistic tendencies make it an attractive opportunity in the current climate.

Suncorp Group (ASX: SUN + 6.57%)

SUN did not make any notable price sensitive announcements over the month. Their strong month can be attributed to more information regarding ANZ's acquisition of Suncorp Bank coming to light. Both banks made their latest submissions to the ACCC, emphasising the difficulties that Suncorp bank faces as a regional tier 2 bank.

We aim to hold on our position in Suncorp Group until the July 28th ACCC verdict. If the acquisition is allowed, we would hold our position and if the acquisition is denied we would exit our position.

Dusk Group (ASX: DSK -32.62%)

DSK provided their final FY23 guidance during the month, lowering their sales estimates from A\$138.4m to A\$135 – A\$137m. Management also expects EBIT of A\$16-17m in FY23, compared to their A\$26.5m FY22 result.

The negative announcement coupled with DSK's direct exposure to the weak macroeconomic conditions resulted in a heavy sell-off. We are cautious of DSK's exposure to the short to medium-term macroeconomic uncertainty and aim to reassess its position in the portfolio.

Elders Ltd (ASX: ELD -17.88%)

ELD's H1FY23 release saw a 46% year-on-year earnings decrease, and the market reacted accordingly. The 23c dividend is a 5c decrease on their H1FY22 distribution. ELD's real estate segment was a notable poor performer due to the macroeconomic and real estate market conditions.

The agricultural industry has faced strong headwinds recently; livestock prices have softened; fertiliser prices remain volatile and weather conditions have delayed harvests. We value ELD's exposure to the agricultural industry, however, aim to reassess its position in the portfolio, particularly with pending management changes.

Performance:

	1 Month	3 Months	6 Months	1 Year	Inception p.a.*
SMIF	-2.95%	-0.92%	-1.03%	2.78%	8.45%
All Ordinaries Accumulation Index	-1.41%	0.46%	0.83%	3.63%	9.61%
Alpha	-1.54%	-1.38%	-1.86%	-0.85%	-1.16%

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

* CAGR since fund inception on 19 November 2018

Top 5 Contributors (%)

Company Name:	Monthly Return:
James Hardie Industries	13.14%
Cleanaway Waste Ltd	7.44%
Suncorp Group Ltd	6.57%
Integral Diagnostics	5.70%
CSL Ltd	1.93%

Top 5 Detractors (%)

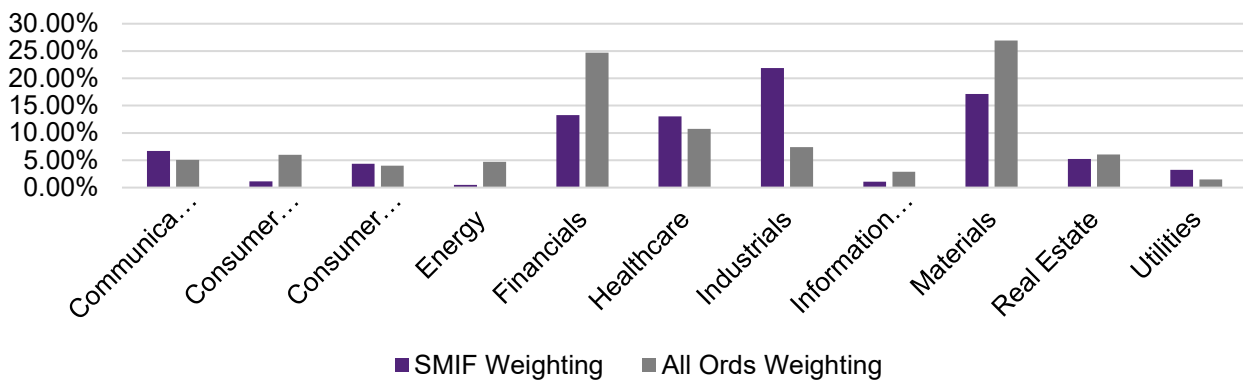
Company Name:	Monthly Return:
Dusk Group	-32.62%
Elders Ltd	-17.88%
Pwr Holdings Ltd	-11.85%
Wesfarmers Ltd	-8.27%
DDH1 Drilling	-6.47%

Sector Breakdown:

Contributors to Returns (%)

	SMIF Weighting	All Ords Weighting	Overweight / (Underweight)
Communication Services	6.70%	5.09%	1.61%
Consumer Discretionary	1.15%	5.98%	-4.83%
Consumer Staples	4.34%	4.03%	0.30%
Energy	0.49%	4.74%	-4.25%
Financials	13.28%	24.71%	-11.44%
Healthcare	13.05%	10.75%	2.30%
Industrials	21.89%	7.40%	14.50%
Information Technology	1.05%	2.88%	-1.82%
Materials	17.15%	26.91%	-9.77%
Real Estate	5.24%	6.04%	-0.80%
Utilities	3.24%	1.47%	1.77%
Cash	12.43%	n/a	n/a

SMIF GICS Sector Weightings against Benchmark



SMIF Portfolio Holdings:

SMIF Portfolio Holdings:				For the month of May 2023:			Since Inception:		
Ticker	Company Name	Portfolio Weight	Position 31st May	Capital Gains	Dividends	Return	Capital Gains	Dividends	Return
MQG	Macquarie Group Ltd	7.53%	21,171.76	-6.50%	2.89%	-3.61%	7.85%	5.22%	12.12%
PWH	Pwr Holdings Limited	5.19%	14,584.80	-11.85%	0.00%	-11.85%	32.30%	3.41%	34.27%
JLG	Johns Lyng Group	4.28%	12,033.25	-6.07%	0.00%	-6.07%	38.52%	3.35%	40.28%
DDH	Ddh Drill	4.23%	11,880.48	-6.47%	0.00%	-6.47%	0.62%	10.66%	11.28%
RMD	Resmed Inc	4.18%	11,746.90	-3.74%	0.19%	-3.54%	14.11%	1.18%	14.96%
BXB	Brambles Limited	4.18%	11,733.96	-3.58%	0.00%	-3.58%	12.85%	3.28%	15.74%
CNU	Chorus Limited	3.82%	10,721.28	-4.12%	0.00%	-4.12%	9.93%	5.07%	14.00%
CWY	Cleanaway Waste Ltd	3.63%	10,210.20	7.44%	0.00%	7.44%	5.86%	2.38%	8.03%
CSL	Csl Limited	3.60%	10,110.87	1.93%	0.00%	1.93%	8.26%	1.37%	9.35%
SHL	Sonic Healthcare	3.59%	10,099.53	-0.71%	0.00%	-0.71%	10.98%	4.66%	14.31%
NST	Northern Star	3.45%	9,708.32	-4.09%	0.00%	-4.09%	29.10%	4.78%	31.46%
JHX	James Hardie Indust	3.40%	9,548.28	13.14%	0.00%	13.14%	10.58%	2.06%	12.21%
BHP	Bhp Group Limited	3.36%	9,454.50	-5.36%	0.00%	-5.36%	6.75%	12.50%	17.36%
APA	Apa Group	3.24%	9096.24	-2.33%	0.00%	-2.33%	-3.30%	4.55%	1.63%
SUN	Suncorp Group Ltd	3.12%	8,778.00	6.57%	0.00%	6.57%	12.89%	7.81%	19.83%
WES	Wesfarmers Limited	3.09%	8,675.94	-8.27%	0.00%	-8.27%	1.61%	5.65%	7.25%
CLW	Chtr H Lwr	2.98%	8,361.40	-0.92%	0.00%	-0.92%	-4.84%	5.84%	1.30%
CAR	Carsales.Com Ltd.	2.89%	8,107.27	-2.23%	0.00%	-2.23%	1.38%	3.00%	4.31%
RIO	Rio Tinto Limited	2.70%	7,597.00	-4.68%	0.00%	-4.68%	4.93%	12.13%	15.87%
QUB	Qube Holdings Ltd	2.66%	7,469.55	-3.26%	0.00%	-3.26%	3.18%	3.31%	6.16%
BOQ	Bank Of Queensland.	2.62%	7,362.62	-5.69%	4.93%	-0.76%	-27.04%	8.23%	-18.78%
INA	Ingenia Group	2.27%	6,371.40	-1.64%	0.00%	-1.64%	3.95%	2.67%	6.42%
IPH	Iph Limited	1.95%	5,486.28	-3.20%	0.00%	-3.20%	1.63%	4.67%	6.15%
IDX	Integral Diagnostics	1.68%	4,722.76	5.70%	0.00%	5.70%	-0.45%	3.49%	3.07%
ELD	Elders Limited	1.25%	3,507.20	-21.09%	3.20%	-17.88%	-27.18%	5.22%	-20.07%
DSK	Dusk Group	1.15%	3,230.25	-32.62%	0.00%	-32.62%	-48.86%	7.94%	-37.64%
CDA	Codan Limited	1.05%	2,953.60	-2.61%	0.00%	-2.61%	-19.04%	2.77%	-15.20%
WDS	Woodside Energy	0.49%	1,372.00	1.84%	0.00%	1.84%	15.26%	18.02%	33.28%
CASH		12.43%	34,918.47						
TOTAL			281,014.11	-3.36%	0.41%	-2.95%	6.41%	4.68%	8.45%

** SYD and UWL privatisation are accounted for in the cash balance.

Portfolio Management Team

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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.