

Student Managed Investment Fund June 2023 Update



June 2023 Fund Update

Dollar values are in AUD unless stated otherwise.

Fund Update

The Fund was down 1.49% for the month of June, which represents an underperformance of 3.43% (All Ords Benchmark (ASX: XAO) +1.94% MoM).

17 of the Fund's 30 holdings were down over the month. The Fund's underperformance can largely be attributed to the performance of John Lyng Group (ASX: JGL) and CSL Ltd (ASX: CSL) which are overweight holdings and were down -18.03% and -10.01%, respectively.

On a positive note, Rio Tinto (ASX: RIO) was the Fund's best performer, up +4.93%, James Hardie Industries (ASX: JHX) continued its momentum from a strong May, up +4.22%, and new addition, Data#3 (ASX: DTL) was in the green +4.02%.

Fund Changes

Sunshine Asset Management executed their initial buy and sell recommendations during June. All trades aim to comply with our investment strategy, which is inspired by SMIF's investment philosophy. Sunshine Asset Management aims to identify short-term equity market mispricing and capitalise on these inefficiencies over long-term investment horizons. We do not execute transactions for the sake of change, we employ a holistic strategy that emphasises robust bottom-up company fundamentals and top-down structural outlooks.

The additions to the Fund included RPMGlobal (ASX: RUL), QBE Insurance (ASX: QBE), Spark NZ (ASX: SPK), Michael Hill International (ASX: MHJ), IGO (ASX: IGO) and Data#3 (ASX: DTL).

The largest addition to the Fund by weighting was RUL. RUL is a leading provider of software and advisory services to Tier 1 mining companies such as Rio Tinto and BHP. We believe RUL is well placed to capture tailwinds from the structural increase in technology utilisation in the resources sector. Additionally, their transition to a subscription business model in FY17 has provided earnings certainty and reduced customer churn.

Insurance provider QBE was the second largest addition to the Fund. We have liked management's focus on balance sheet strength and improvement

of operational efficiency. Additionally, the insurance industry is experiencing favourable pricing tailwinds following the pandemic. As a result, we expect underwriting quality to continue to improve and it is an opportunistic time to buy as QBE trades at a discount relative to peers.

Telecommunications company SPK was the third largest addition to the Fund. SPK's recent sale of their TowerCo business exemplifies management's ability to capitalise on long-term investment opportunities. We look favourably on Spark's increased NZ datacentre investment, with the market expected to grow strongly with NZ's increased data demand tailwind (~19% 2027 CAGR).

Jewellery provider MHJ was our fourth largest addition to the Fund. We believe the high-end retail sector is well insulated from the tightening cycle largely due to savings buffers accumulated by high-income households during the pandemic. Additionally, their balance sheet consolidation and acquisition of Bevilles signpost underappreciated growth plans.

The mining company IGO was another addition. Our buy thesis revolves around IGO's strong fundamentals coupled with their exposure to critical forward-facing metals. We view IGO's stable and fully integrated nickel segment as the key to their continued success in the lithium and rare metals sector.

Finally, cloud computing and ICT solutions provider DTL was the final addition to the Fund. DTL has consistently demonstrated EPS growth ability and there exists a strong growth pipeline in the fragmented markets of NSW and VIC. DTL maintains strong relationships with global IT vendors which has been the key to attracting and maintaining customers. Additionally, we believe there exists upside potential in the increased scrutiny on enterprises' & governments' cyber profiles and this introduces opportunities for their high-margin Cybersecurity Services division.

We have completely exited our positions in Chorus Ltd (ASX: CNU), Bank of Queensland (ASX: BOQ), Dusk Group (ASX: DSK), Codan Ltd (ASX: CDA) and reduced our holding in Rio Tinto (ASX: RIO).

The position in CNU was closed out, delivering a total return of +21.68% p.a. CNU's recent poor cash flow coverage, high gearing, and expensive relative valuation motivated our decision to exit the position. Central to CNU's initial investment thesis was increasing data demand; copper-borne broadband cannot cope with increased congestion, necessitating installation of CNU's fibre. However, ~15% of CNU's revenue derives from copper connections. So, 'growing' forces Chorus' withdrawal of copper services, with 10% (1H23) churn on fibre broadband then retained; structural growth is limited to roll-ups of the 98% complete UFB roll-out. In summary, we view SPK as the better opportunity to capitalise on data demand trends.

BOQ delivered a total return of -16.06% p.a. We believe BOQ's weak fundamentals are a testament to their lack of scale and inability to face the industry headwinds in the banking sector. To organically grow without economies of scale, BOQ has to price their products at low profitability levels, as evidenced by gradual erosion of their NIM (24bpt 5-year decrease) and ROE (FY18 ~ 8.8%, FY22 ~ 6.6%). Additionally, erosion of profitability will be compounded by the roll-off of the term funding facility, increased capital requirements and increased competition.

The position in DSK was closed out, delivering a total return of -42.84% p.a. DSK's weak competitive positioning in an unfavourable market does not align with our long-term investment objectives. We do acknowledge that DSK has presented some strong fundamentals and does trade cheap, however, Dusk's store network model pretermits fragrances' value as a complementary good in super & hypermarket distribution (#1 channel globally). Likewise, we are sceptical of Dusk's ability to overcome high market fragmentation, especially considering broader macroeconomic conditions.

Finally, the sale of CDA (total return -12.99% p.a.) and the reduction in weighting of RIO was a bid to reduce the Fund's exposure to the mining technology and materials sectors, respectively. We saw RUL and DDH1 Drilling (ASX: DDH) as the businesses with greater upside in the mining-tech sub-sector. Also, with the addition of IGO, we felt keeping our exposure to the materials industry below 20% was important. BHP, when compared to RIO, held greater upside due to the composition

of their current materials exposure and their investment in critical materials.

Market Update

June saw the 3rd lowest monthly change in the All-Ordinaries Index since the start of the tightening cycle in May 2022 (XAO +1.94% MoM).

The RBA raised the OCR to 4.10% in June on the basis that CPI (core and headline) continue to remain above target and the labour market remains tight, indicating that consumption will not slow at a rate that was expected.

Ultimately, the impact of the tightening cycle on the Australian and some other global economies remains uncertain. The hopeful 'soft-landing' is becoming increasingly probable as the labour market seems to be immune from central banks hawkishness. However, as service inflation now is the largest contributor to the high CPI prints, it is becoming clear that the labour market must soften and so the economy must be shocked for CPI to return to target.

The volatility that continues to be induced by the monthly CPI prints, labour force updates, retail sales releases and central bank minutes continues to cloud the performance of the benchmark and particular sectors. Maintaining a long-term outlook is difficult in these conditions, however, as markets are more than ever at the mercy of macroeconomic data, we attempt to see past short-term reactionary price movements and continue to trust our investment philosophy.

A few macroeconomic/sector specific questions that we will focus on over the coming months will be the following:

- Is it a prudent time to enter the banking sector when the direction of arrears numbers remains uncertain?
- If interest rates are expected to remain relatively high over the medium term (i.e., the era of cheap money is over), what are the trends that will be observed across consumer facing companies and businesses exposed to the construction sector?

Position Updates

Rio Tinto Ltd (ASX: RIO +4.93%)

The only price sensitive announce by RIO was the proposed expansion of their aluminium smelter in Canada. The US\$1.1 billion investment is estimated to increase downstream capacity by 160,000 metric tonnes per year.

More significantly, the iron ore price underwent a significant rebound in the early stages of June and normalised in the later stages of the month. RIO's iron ore segment accounted for ~70% of earnings in FY22. Iron ore traded at a 6-week high as the market held positive sentiment regarding the probability of fiscal stimulus directed towards the Chinese property market. The bets taken on the Chinese economy also positively affected BHP Ltd (ASX: BHP), which was up 3.45% in June.

John Lyng Group (ASX: JLG -18.03%)

JLG's month in the red was in response to their FY23 earnings guidance update. The update, which was marketed as an earnings upgrade, was in fact a downgrade. Revenue and EBITDA (excluding commercial construction) is expected to be 10% higher than previous guidance and 50% higher than FY22 results. The earnings upgrade was regarded as poor quality, as the increased revenue was solely due to increased demand for their catastrophe activities segment.

The market did see past this spin. Their commercial construction segment revenue and EBITDA was downgraded \$7.9m and \$5m, respectively. Also, the company wrote off \$2.3m of bad debts.

CSL Ltd (ASX: CSL -10.01%)

CSL provided guidance for FY23 and FY24 which was lower than market expectations. Firstly, the strength of the USD is expected to result in a loss between US\$230 – US\$250m, up from US\$175m. Additionally, FY24 earnings are expected to be between US\$2.9 – US\$3 billion, which is lower than analyst expectations of US\$3.5 billion. The earnings update for FY24 follows the finalisation of their FY24 budget and consideration of analyst expectations.

Performance:

	1 Month	3 Months	6 Months	1 Year	Inception p.a.*
SMIF	-1.49%	-0.32%	1.32%	9.86%	8.36%
All Ordinaries Accumulation Index	1.94%	-1.05%	-1.67%	7.91%	9.51%
Alpha	-3.43%	0.73%	2.99%	1.95%	-1.15%

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:
Rio Tinto Ltd	4.93%
James Hardie Industries	4.22%
Data#3 Ltd	4.02%
BHP Group Ltd	3.45%
DDH1 Drilling	3.09%

Top 5 Detractors (%)

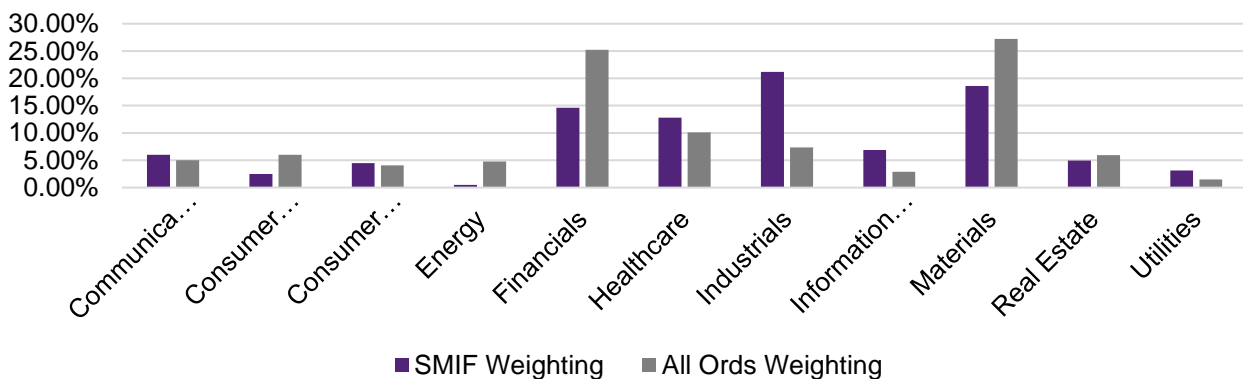
Company Name:	Monthly Return:
Johns Lyng Group	-18.03%
CSL Ltd	-10.01%
Ingenia Group	-6.79%
Charter Hall LW REIT	-5.99%
QUBE Holdings Ltd	-5.63%

Sector Breakdown:

Contributors to Returns (%)

	SMIF Weighting	All Ords Weighting	Overweight / (Underweight)
Communication Services	6.01%	5.01%	1.00%
Consumer Discretionary	2.50%	6.00%	-3.49%
Consumer Staples	4.48%	4.09%	0.39%
Energy	0.49%	4.74%	-4.25%
Financials	14.62%	25.22%	-10.59%
Healthcare	12.77%	10.09%	2.69%
Industrials	21.17%	7.34%	13.83%
Information Technology	6.91%	2.91%	4.00%
Materials	18.59%	27.19%	-8.60%
Real Estate	4.92%	5.92%	-1.01%
Utilities	3.13%	1.50%	1.62%
Cash	4.40%	n/a	n/a

SMIF GICS Sector Weightings against Benchmark



SMIF Portfolio Holdings:

SMIF Portfolio Holdings:				For the month of June 2023:			Since Inception:		
Ticker	Company Name	Portfolio Weight	Position as at 30th June	Capital Gains	Dividends	Return	Capital Gains	Dividends	Return
MQG	Macquarie Group Ltd	7.84%	\$22,024.88	1.44%	0.00%	1.44%	8.76%	5.11%	12.81%
PWH	Pwr Holdings Limited	5.09%	\$14,288.16	-2.03%	0.00%	-2.03%	30.47%	3.32%	32.39%
RUL	RPMGlobal Hldgs Ltd	4.53%	\$12,735.15	-1.88%	0.00%	-1.88%	-1.88%	0.00%	-1.88%
DDH	Ddh Drill	4.44%	\$12,478.24	3.09%	0.00%	3.09%	5.19%	9.82%	14.96%
BXB	Brambles Limited	4.38%	\$12,306.14	3.00%	0.00%	3.00%	14.86%	3.15%	17.56%
RMD	Resmed Inc	4.23%	\$11,877.22	-1.23%	0.00%	-1.23%	14.12%	1.15%	14.94%
SHL	Sonic Healthcare	3.63%	\$10,208.59	0.65%	0.00%	0.65%	11.04%	4.58%	14.27%
CWY	Cleanaway Waste Ltd	3.62%	\$10,170.93	-0.77%	0.00%	-0.77%	5.52%	2.30%	7.63%
QBE	QBE Insurance Group	3.61%	\$10,154.16	-1.69%	0.00%	-1.69%	-1.69%	0.00%	-1.69%
BHP	Bhp Group Limited	3.60%	\$10,122.75	3.45%	0.00%	3.45%	8.36%	12.24%	18.30%
JLG	Johns Lyng Group	3.59%	\$10,081.40	-18.03%	0.00%	-18.03%	29.76%	3.26%	31.67%
JHX	James Hardie Indust	3.57%	\$10,017.00	4.22%	0.00%	4.22%	11.85%	2.01%	13.39%
CSL	Csl Limited	3.26%	\$9,153.54	-10.01%	0.00%	-10.01%	5.38%	1.34%	6.53%
NST	Northern Star	3.23%	\$9,084.16	-4.88%	0.00%	-4.88%	26.32%	4.68%	28.73%
WES	Wesfarmers Limited	3.20%	\$8,979.88	0.08%	0.00%	0.08%	4.73%	5.21%	9.92%
SUN	Suncorp Group Ltd	3.17%	\$8,903.40	0.82%	0.00%	0.82%	13.12%	7.50%	19.70%
APA	Apa Group	3.13%	\$8,779.14	-3.87%	2.88%	-0.99%	-4.16%	5.06%	1.46%
SPK	Spark New Zealand	3.05%	\$8,578.79	-0.36%	0.00%	-0.36%	-0.36%	0.00%	-0.36%
CAR	Carsales.Com Ltd.	2.96%	\$8,313.18	1.15%	0.00%	1.15%	2.28%	2.91%	5.08%
CLW	Chtr H Lwr	2.77%	\$7,779.40	-7.60%	1.61%	-5.99%	-7.83%	6.26%	-1.01%
QUB	Qube Holdings Ltd	2.55%	\$7,167.75	-5.63%	0.00%	-5.63%	2.21%	3.25%	5.22%
MHJ	Michael Hill Int	2.50%	\$7,035.60	-3.92%	0.00%	-3.92%	-3.92%	0.00%	-3.92%
DTL	Data#3 Limited	2.37%	\$6,667.20	4.02%	0.00%	4.02%	4.02%	0.00%	4.02%
IGO	Igo Limited	2.28%	\$6,399.20	-0.21%	0.00%	-0.21%	-0.21%	0.00%	-0.21%
INA	Ingenia Group	2.15%	\$6,037.66	-6.79%	0.00%	-6.79%	2.06%	2.60%	4.56%
IPH	Iph Limited	1.95%	\$5,465.34	-2.25%	0.00%	-2.25%	1.46%	4.54%	5.87%
IDX	Integral Diagnostics	1.65%	\$4,637.92	0.00%	0.00%	0.00%	-1.01%	3.40%	2.45%
RIO	Rio Tinto Limited	1.47%	\$4,128.84	4.93%	0.00%	4.93%	6.81%	11.84%	17.03%
ELD	Elders Limited	1.28%	\$3,605.84	0.46%	0.00%	0.46%	-25.32%	5.01%	-18.50%
WDS	Woodside Energy	0.49%	\$1,377.60	-1.88%	0.00%	-1.88%	14.49%	16.59%	30.91%
CASH		4.40%	\$12,355.93						
TOTAL		100.00%	280,914.99			-1.49%			8.36%

Portfolio Management Team

<i>Name</i>	<i>Current Enrolment and Contact</i>
Tom Collier	Bachelor of Advanced Finance & Economics t.collier@uqconnect.edu.au
Amelia Fox	Bachelor of Advanced Finance & Economics amelia.fox@uqconnect.edu.au
Omar Rahman	Bachelor of Advanced Finance & Economics o.rahman@uqconnect.edu.au
Harry Lusk	Bachelor of Advanced Finance & Economics h.lusk@uqconnect.edu.au
Avinesh Ganasan	Bachelor of Advanced Finance & Economics a.ganasan@uqconnect.edu.au

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.

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