



Student Managed Investment Fund August 2023 Update



August 2023 Fund Update

Dollar values are in AUD unless stated otherwise.

Summary

The SMIF was up 1.47% for the month of August, which represents an outperformance of the benchmark of 2.21% (ASX: XAO - 0.74%). The SMIF's outperformance was led by strong reporting results by the overweight holdings PWR (ASX: PWH +18.10%) and Johns Lyng Groups (ASX: JLG: +21.36%). The monthly result was hampered by significant losses to ResMed (ASX RMD - 24.00%), which continues to suffer as the market attempts to price the long-term impacts of the structural change occurring in the weight loss drug sub-sector.

Market Update

The ASX 200 finished down 7 basis points in August, a disappointing defeat after the index experienced a near 3% climb in July. The Consumer Discretionary sector (XDJ) outperformed the other 10 sectors with a rise of 5.74%, while the Utilities sector (XUJ) lagged, closing out down 3.9%.

Consumer discretionary spending was undoubtedly buoyed by warmer weather, AfterPay Day and activities surrounding the FIFA Women's World Cup. This resulted in stronger-than-expected retail sales data released for July (+0.5% MoM), prompting investors to question whether the RBA had future rate hikes planned to tame persistent inflation.

Investors priced in a rate pause by the RBA for the month of August due to the contradictory data, which came to fruition in the RBA's monthly meeting.

Disappointing data from China worsened the economic outlook for Australia's largest exporter, weakening the AUD to 10-month lows, at less than 0.64USD. The weakness in the local currency was accentuated by the yield rally in the US, further increasing the interest rate differential across the curve.

August - Best and Worst Contributors

PWH.ASX	1.17%
JLG.ASX	0.94%
CAR.ASX	0.57%
APA.ASX	-0.30%
CLW.ASX	-0.35%
RMD.ASX	-0.80%

Position Updates

Elders Ltd (ASX: ELD -11.66%)

August saw ELD declare a significant decline of \$15 million in expected earnings in FY24 compared to previously announced predictions. This is largely spurred by further weaknesses in cattle and sheep prices, which began to dive in early 2022, a result of the highly cyclical nature of the agriculture industry rather than the general operational abilities of ELD.

It has been a tough year for investors, suffering share price declines of 55% off the back of compressed margins and dampened demand for exports due to the majority of G20 nations pulling back expenditures in the face of macroeconomic headwinds.

ResMed Inc (ASX: RMD -24.00%)

The disappointing share price performance of Resmed through August and September has largely been driven by a missed earnings target and rising concerns over long-term competitive sustainability.

On August 8, 2023, Resmed released quarterly results that displayed a revenue growth figure of 18%, falling short of the 21% expectation. The poor result is partially explained by the gross margin contraction of 80 basis points over the period to 55.8%, largely caused by higher component and manufacturing costs brought about by soaring rates and inflation.

Further, concerns have escalated that the highly effective GLP-1 diabetes and obesity

medicines such as Ozempic could reduce the demand for ResMed's obstructive sleep apnoea (OSA) CPAP devices and thus its future competitive position. Yet, the OSA addressable market, less those with obesity and diabetes, of 485 million people is in excess of RMD's current customer base of 160 million; implying a continuation of market share growth and a justified share price recovery in the near future.

August - Best and Worst Performance

JLG.ASX	21.36%
PWH.ASX	18.10%
CAR.ASX	15.61%
ELD.ASX	-11.66%
CLW.ASX	-13.87%
RMD.ASX	-24.00%

PWR Holdings Limited (ASX: PWH +18.10%)

On August 17th 2023, PWH reported strong results for FY23; revenue increased by 17.1% and EBITDA increased by 9.2%, largely in line with expectations. PWH's NPAT of \$21.8m was driven by strong revenue growth across key markets, in particular emerging technologies revenue grew by 13.9% and now represents 18.7% of the company's revenue. This business area's growth has been primarily driven by PWH's Aerospace and Defence business which saw a strong boost of 48% over the financial year. Some negatives included normalised EBITDA margin down 6.8% because of rising labour costs and ROE down 270 basis points to 24.6%.

PWH's diversified revenue streams across several segments including motorsports, automotive OEM, automotive aftermarket, and aerospace and defence, ensure the company is well-positioned to withstand a high-interest rate market. Further, with the increased adoption of EVs, PWH and their battery cooling technology are strategically positioned to deliver on the growing demand for efficient and reliable EVs.

Wesfarmers LTD (ASX: WES +11.46%)

On August 25th, WES released their FY23 results. The market reacted positively after the company reported strong results, a NPAT of \$2,465 million, a 4.8% increase on the prior year.. Wesfarmers' financial results were underpinned by strong divisional earnings growth of 12.9% for the year, as the Group's operating businesses continued to respond well to trading and market conditions. Due to the strong full-year result, Wesfarmers will pay a final dividend of \$1.03 per share, making the total annual fully franked ordinary dividends \$1.91 per share, up 6.1% from the previous year.

The Group's major divisions excelled this year, with Bunnings reporting steady earnings and Kmart Group and WesCEF showing strong earnings growth. Bunnings' revenue rose by 4.4% to \$18,539 million, and earnings increased by 1.2% to \$2,230 million, due to sales growth in both consumer and commercial customer segments despite weather challenges and consumer caution in big-ticket purchases.

Kmart Group achieved a record earnings increase of 52.3% to \$769 million, driven by growth across all categories, a strong performance in pricing strategies, and the normalisation of trading conditions due to easing COVID-19 restrictions, while Chemicals, Energy, and Fertilisers saw a 23.9% earnings increase to \$669 million due to favourable global ammonia prices and strong operations.

Officeworks' earnings grew by 10.5% to \$200 million, Industrial and Safety earnings increased 8.7% to \$100 million and Wesfarmers Health earnings reached \$45 million, whilst Catch reported a \$163 million loss, influenced by changing customer demand and elevated costs.

Wesfarmers prioritizes long-term value and strengthening investments. The lithium business will start production in 2024, and Kmart sales may benefit from higher inflation and interest rates as consumers seek value. The retail businesses are well-positioned to meet customer needs, attract new clients, and grow market share with strong value and everyday product offerings.

Performance Summary: August 2023

Ticker	Name	Value	Weighting	Total Return	Contribution
MQG	Macquarie Group Ltd	22,013.72	7.65%	1.44%	0.11%
PWH	Pwr Holdings Limited	17,847.84	6.20%	18.10%	1.12%
RUL	Rpmglobal Hldgs Ltd	14,202.93	4.93%	0.92%	0.05%
DDH	Ddh Drill	13,150.72	4.57%	-5.38%	-0.25%
BXB	Brambles Limited	12,784.38	4.44%	6.40%	0.28%
JLG	Johns Lyng Group	12,165.90	4.23%	21.36%	0.90%
JHX	James Hardie Indust	11,725.56	4.07%	7.01%	0.29%
CWY	Cleanaway Waste Ltd	10,288.74	3.57%	-5.07%	-0.18%
BHP	Bhp Group Limited	10,091.25	3.51%	-2.52%	-0.09%
CAR	Car Group Limited	10,030.26	3.48%	15.61%	0.54%
WES	Wesfarmers Limited	9,804.34	3.41%	11.46%	0.39%
QBE	Qbe Insurance Group	9,707.04	3.37%	-4.08%	-0.14%
SHL	Sonic Healthcare	9,229.92	3.21%	-8.51%	-0.27%
RMD	Resmed Inc	9,227.38	3.21%	-24.00%	-0.77%
CSL	Csl Limited	9,026.49	3.14%	1.87%	0.06%
SUN	Suncorp Group Ltd	8,995.80	3.13%	-1.51%	-0.05%
NST	Northern Star	8,956.32	3.11%	3.48%	0.11%
SPK	Spark New Zealand	8,578.79	2.98%	-2.51%	-0.07%
APA	Apa Group	8,144.94	2.83%	-10.10%	-0.29%
QUB	Qube Holdings Ltd	7,721.05	2.68%	4.42%	0.12%
MHJ	Michael Hill Int	7,271.43	2.53%	0.54%	0.01%
CLW	Chtr H Lwr	6,867.60	2.39%	-13.87%	-0.33%
DTL	Data#3 Limited	6,861.66	2.38%	-1.33%	-0.03%
INA	Ingenia Group	6,325.89	2.20%	3.63%	0.08%
IGO	Igo Limited	5,860.32	2.04%	0.87%	0.02%
IPH	Iph Limited	5,325.74	1.85%	-0.87%	-0.02%
IDX	Integral Diagnostics	4,227.86	1.47%	0.33%	0.00%
RIO	Rio Tinto Limited	4,064.40	1.41%	-0.38%	-0.01%
ELD	Elders Limited	3,529.12	1.23%	-11.66%	-0.14%
WDS	Woodside Energy	1,480.80	0.51%	2.12%	0.01%
CASH	CASH	12,355.93	4.29%	0.00%	0.00%
Total Return		287,864.12			1.47%

Performance Attribution

UQ SMIF have initiated the reporting of performance attribution through the Brinson-Hood-Beebower Model. The aim of performance attribution reporting is to identify the sources of excess return of the portfolio against the benchmark in order to understand the consequences of our active investment decisions. To attribute performance, we consider three metrics; allocation, selection, and interaction. *Allocation* refers to the value a portfolio manager adds by having different sector weights in the portfolio than the sector weights in the benchmark:

$$Allocation = \sum_{i=1}^{i=n} (w_p^i - w_b^i) (r_b^i - r_b)$$

Selection identifies the value added by holding individual securities within the sector (i.e., outperforming the sector index):

$$Selection = \sum_{i=1}^{i=n} (r_p^i - r_b^i) (w_b^i)$$

Interaction refers to the effect resulting from combining allocation and selection effects:

$$Interaction = \sum_{i=1}^{i=n} (r_p^i - r_b^i) (w_p^i - w_b^i)$$

Whereby the total excess returns can be calculated as follows:

$$Excess Return = r_p - r_b = Allocation + Selection + Interaction$$

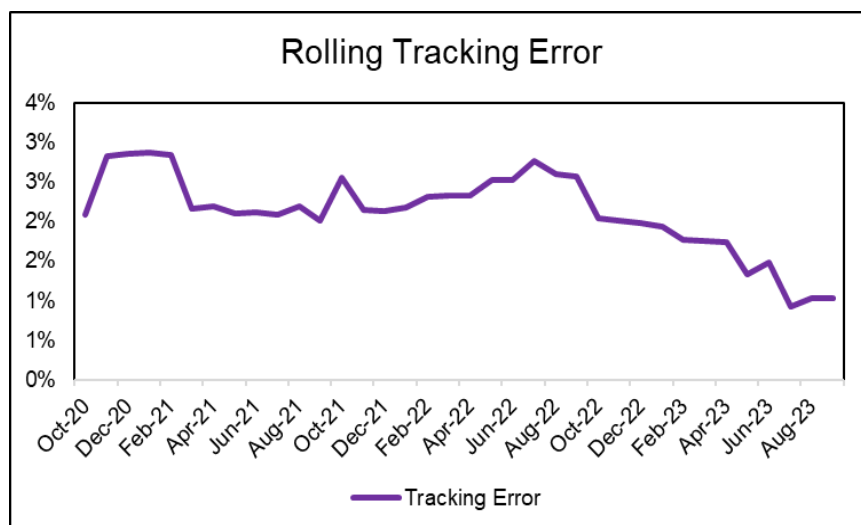
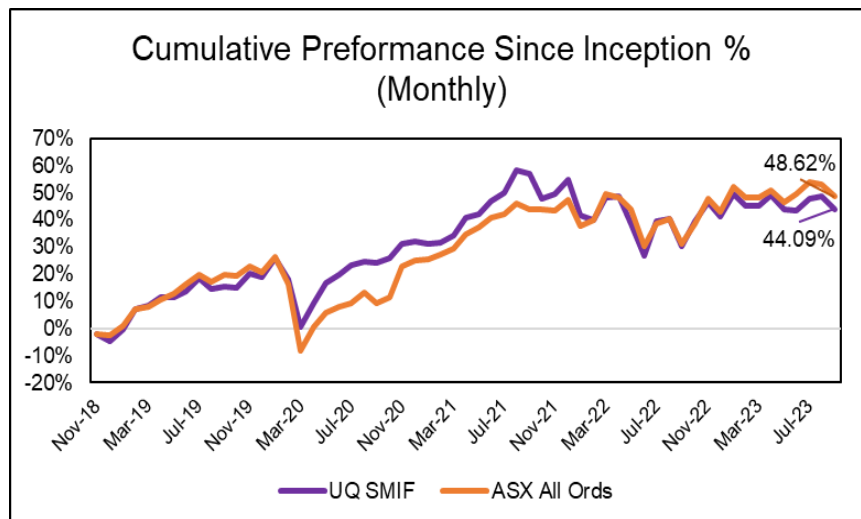
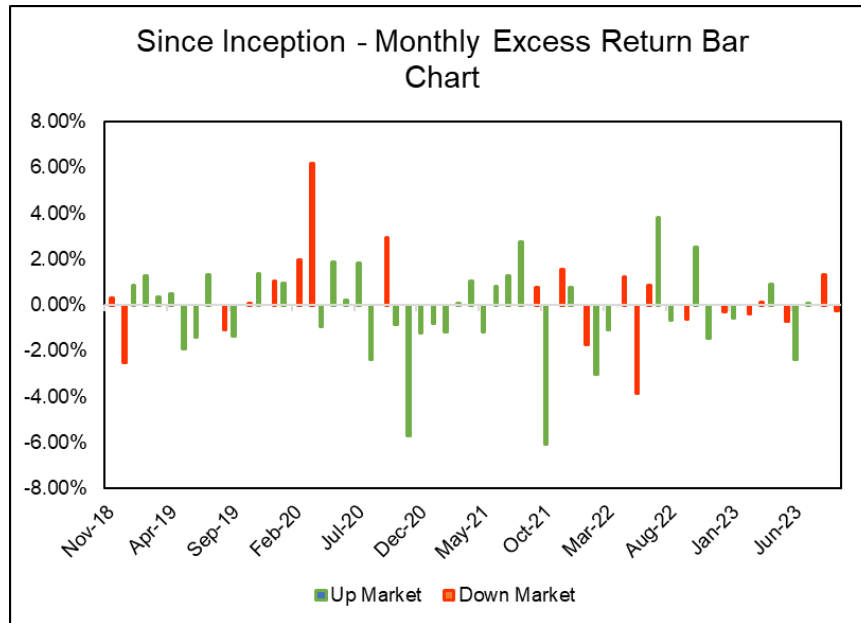
While performance attribution does assist in explaining excess returns, we appreciate the measurement does not acknowledge the different risk factors that the SMIF is exposed to compared to the benchmark. Specifically, isolating alpha through Fama French risk factors would be the purest explanation of the fund's risk-adjusted excess returns.

**Note* - Any difference in total portfolio or benchmark return is due to difference in calculation methodology. For performance analysis, total portfolio and benchmark return is the sum of the weighted return contribution per sector. Portfolio weights are scaled to exclude cash.*

Performance Attribution - August 2023

Sector	Portfolio Weight	Benchmark Weight	Portfolio Return	Benchmark Return	Allocation (1)	Selection (2)	Interaction (3)
Energy	0.54%	5.03%	2.12%	-2.02%	0.03%	0.21%	-0.19%
Basic Materials	19.55%	26.56%	0.39%	-2.24%	0.06%	0.70%	-0.18%
Industrials	17.53%	7.56%	6.61%	-2.43%	-0.11%	0.68%	0.90%
Consumer Discretionary	9.12%	6.83%	13.02%	4.64%	0.14%	0.57%	0.19%
Consumer Staples	4.84%	3.72%	5.34%	-4.13%	-0.03%	0.35%	0.11%
Healthcare	11.51%	9.42%	-8.88%	-1.05%	0.01%	-0.74%	-0.16%
Financial Services	14.78%	25.42%	-0.53%	-1.65%	0.03%	0.28%	-0.12%
Technology	7.65%	2.98%	0.19%	-2.07%	-0.03%	0.07%	0.11%
Communication Services	6.75%	5.11%	7.26%	-1.95%	-0.01%	0.47%	0.15%
Utilities	2.96%	1.23%	-10.10%	-4.25%	-0.05%	-0.07%	-0.10%
Real Estate	4.79%	6.16%	-5.48%	1.68%	-0.04%	-0.44%	0.10%
Total	100.00%	100.00%	1.53%	-1.34%	-0.01%	2.08%	0.80%
Summary			Excess Return: 2.88%		(1) + (2) + (3) = 2.88%		

Further Performance Reporting



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.