The University of Queensland Business School

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Student Managed Investment Fund September 2023 Update

September 2023 Fund Update

The current financial landscape exhibits enduring robustness in the labour sector, with the ripples of monetary policies yet to touch the shores of unemployment rates, steadfast at 3.5% in June, marking a dip of 40 basis points post the inaugural RBA rate increase. However, forward-looking barometers such as job vacancies and enterprise assessments suggest a possible deceleration in employment growth on the horizon. As the labour market's undeterred vigour could potentially fan the flames of inflation, coupled with surging population metrics and a constricted rental sphere, prudence towards the much-anticipated 'soft landing' is warranted. The upcoming months will be pivotal in deciphering the true magnitude of these policy-induced reverberations, especially concerning consumer-affiliated entities within the SMIF catalogue.

Dollar values are in AUD unless stated otherwise.

Summary

The SMIF was down -3.10% for the month of September, which represents an underperformance relative to the benchmark of 0.28% (ASX: XAO -2.82%). The sharp sell-off during September was led by Elders (ASX: ELD -10.25%), Northern Star (ASX: NST -10.87%) and James Hardie Industries (ASX: JHX -12.34%). Very few holdings remained unscathed throughout September, however, insurance giant QBE (ASX: QBE +4.87%) continued to impress and take advantage of the insurance industry's favourable pricing trajectory.

Market Update

September did not provide the ASX 200 with any respite from the poor performance in August, finishing the month down 2.82%. 10 of 11 sectors finished in the red, with energy being the lone outperformer, driven by increasing oil prices.

Continued supply restrictions on oil from OPEC+ producers caused oil prices to surge (+7.74% MoM at September peak), igniting concerns of further inflationary pressures. A minor decline in the jobless rate in September (-0.1% MoM) showed a persistent labour market. Amid concerns that the RBA would need to hike rates further to combat inflation, markets responded with broad selloffs in the equity market. Moreover, an overall 'high for longer' sentiment in the market regarding the RBA's monetary policy has been adopted and is likely to remain for the medium-long term future.

Continued uncertainty within the economy regarding Australia's monetary policy is likely to continue affecting markets. Further data releases should be monitored closely, with emphasis on the tight labour market and oil prices.

Position Updates

Charter Hall Long WALE REIT (ASX: CLW -7.20%)

CLW's share price through September was symptomatic of its performance over the last 12 months. Clearly suffering from intensified debt pressures and heightened input costs, EPS fell below zero to $-0.17, whilst an ICR of 2.51x compared to the REIT median of 3.18x only builds on concerns moving forward.

Whilst CLW's assets boast 99.9% occupancy, the company's inability to reduce balance sheet gearing to target levels poorly positions them to navigate the RBA's "higher for longer" monetary policy stance. Shareholders are expected to continue to suffer through FY24 unless macroeconomic headwinds ease significantly, with an anticipated dividend of 26 cents per share, following distributions of 28 cents and 30.5 cents paid in FY23 and FY22, respectively.

September - Best and Worst Contributors	
PWH.ASX	0.18%
QBE.ASX	0.18%
JLG.ASX	0.12%
RUL.ASX	-0.41%
MQG.ASX	-0.42%

JHX.ASX	-0.46%

APA Group (ASX: APA -7.68%)

APA Group's -7.68% return over September has been driven by the share purchase plan involved with the acquisition of Alinta Energy Pilbara. Alinta Energy Pilbara has contracted gas and solar power generation, gas and electricity transmission, and battery energy storage systems assets, as well as extensive development projects across Western Australia. To complete the acquisition APA raised equity at a discounted price of $8.50 in a placement and SPP. Placement shares are already issued and trading, dragging the share price of APA down as arbitrageurs take advantage of the offered 2% discount to the 5-day VWAP at the closing date of September 15th.

The acquisition price of ~$1.8bn will be funded by a $675m placement, $75m SPP, and $993m debt raise. Already a highly leveraged business, with a 0.86 D/EV, the additional debt required by the acquisition, in combination with a harsh interest rate environment, may be contributing to investor concerns and a falling share price. Yet, with APA management expecting the Alinta deal to be cash flow accretive with a project IRR greater than its cost of capital, APA's stock may currently be priced at an attractive discount.

Johns Lyng Group (ASX: JLG +2.71%)

On August 29th, 2023, JLG reported outstanding growth resulting in a record financial performance for FY23. The building services group's revenue increased 43.2% to $1,281.3m, EBITDA increased 42.9% to $119.4m, and NPAT increased 64.3% to $62.8m from FY22. The company's growth was driven predominantly by a strong performance from their core Insurance Building and Restoration Services division. Overall, the market reacted positively to these strong results.

Whilst an increase in weather events such as storms or flooding can boost JLG's core earnings, the company is also expanding into other adjacent areas; JLG completed six acquisitions over FY23, and a further three takeovers have been completed since June 30. These acquisitions have allowed the company to grow in the strata management market and smoke alarm market, which provides the opportunity for more cross-selling and defensive growth opportunities. For FY24, JLG forecasts 18.5% growth in BaU revenue and 20.1% BaU EBITDA.

Carsales.com LTD (ASX: CAR -1.41%%)

Carsales share price reached a historical high of $29.96 on the 14th September, one month after the release of the FY23 Results, and days following Carsales' majority owned businesses investor presentations (Trader Interactive and Webmotors). The FY23 Results boasted 18% proforma revenue growth, 19% proforma EBITDA growth and margin expansion to 53%. The positive financial performance is attributed to large operational growth and efficiency, including 2.2 million vehicles online, 48,000 subscribed dealers, 18 billion page views and an 8% faster time to sell. Global market share has grown 5% since FY15 (increasing to 9%). Trader Interactive - 51% owned by Carsales - had a 16% yearly growth in revenue, whilst Webmotors – 70% owned by Carsales - national expansion drove an increase in audience and gained traction for new initiatives.

Net debt and leverage ratio increase reflects incremental debt drawn down as part the 51% acquisition of Trader Interactive, which was completed in Sep-22. Due to the strong year, Carsales are able to continue to draw down debt safely, without threatening their coverage ratio and overall financial stability. This positive outlook is furthered due to Trader Interactive's strong financial outcomes (positive revenue and EBITDA growth). Thus, based on their small leverage ratio, the large net debt poses little risk to investors and future outlook.

September - Best and Worst Performance	
QBE.ASX	4.87%
PWH.ASX	2.74%
JLG.ASX	2.71%

ELD.ASX	-10.25%
NST.ASX	-10.87%
JHX.ASX	-12.34%

QBE Insurance Group (ASX: QBE 4.87%)

The only significant price sensitive announcement by QBE over September was the appointment of the temporary North American segment head as the permanent QBE North America CEO. The appointment did not lead to any meaningful market reaction.

QBE's strong month relative to the broader market can largely be attributed to share price reversal following the poor reception of their HY23 August results (-4.08% for August). HY23 NPAT was 10% below consensus largely due to higher-than-expected catastrophe claims (QBE guidance ~US$535m vs actual ~$US735m).

Ultimately, the earnings miss does not change our perspective on QBE. We view the business as well placed to take advantage of favourable pricing trends and take advantage of the higher yields on their investment portfolios. Additionally, we see the increased CAT claims as an indicator that premium growth has further to go. Also, the price reversal seen in September combined with their trading discount (P / FY24 E 11x) only reaffirms their upside.

James Hardie Industries (ASX: JHX -12.34%)

Although JHX had a weak performance in September, there were no significant announcements affecting the company's stock price.

JHX's poor month can be attributed to broader macro conditions; while Australia's housing market experienced a 0.8% rise in September 2023, the pace of growth slowed. For a company reliant on a thriving housing market, this slowing housing market activity may lead to concerns about reduced demand for construction materials. Further, data releases for September revealed that the CPI for August recorded an annual increase of 5.2%, compared to 4.9% the previous month. This marks the first rise in four months, undoing the recent efforts to reduce inflation. This continued, high-inflationary environment reduces JHX's ability to pass costs on to consumers.

Despite JHX's September performance we believe the global building materials company is well-protected against market uncertainties due to its robust balance sheet, substantial competitive advantage, and a commitment to innovative solutions.

Performance Summary: September

Ticker	Name	Value ($)	Weighting	Total Return	Contribution
MQG	Macquarie Group Ltd	20,798.52	7.55%	-5.52%	-0.42%
PWH	Pwr Holdings Limited	18,128.00	6.58%	2.74%	0.18%
RUL	Rpmglobal Hldgs Ltd	12,951.00	4.70%	-8.81%	-0.41%
DDH	Ddh Drill	12,552.96	4.56%	-1.36%	-0.06%
JLG	Johns Lyng Group	12,374.35	4.49%	2.71%	0.12%
BXB	Brambles Limited	12,229.28	4.44%	-2.67%	-0.12%
JHX	James Hardie Indust	10,279.08	3.73%	-12.34%	-0.46%
QBE	Qbe Insurance Group	10,180.08	3.69%	4.87%	0.18%
BHP	Bhp Group Limited	9,956.25	3.61%	2.65%	0.10%
CAR	Car Group Limited	9,751.06	3.54%	-1.41%	-0.05%
WES	Wesfarmers Limited	9,620.52	3.49%	-1.87%	-0.07%
CWY	Cleanaway Waste Ltd	9,542.61	3.46%	-6.32%	-0.22%
SUN	Suncorp Group Ltd	9,220.20	3.35%	2.49%	0.08%
SHL	Sonic Healthcare	8,552.60	3.10%	-4.58%	-0.14%
RMD	Resmed Inc	8,543.20	3.10%	-7.41%	-0.23%
CSL	Csl Limited	8,276.40	3.00%	-7.54%	-0.23%
SPK	Spark New Zealand	8,211.39	2.98%	-1.16%	-0.03%
NST	Northern Star	7,865.92	2.85%	-10.87%	-0.31%
APA	Apa Group	7,519.80	2.73%	-7.68%	-0.21%
QUB	Qube Holdings Ltd	7,218.05	2.62%	-4.49%	-0.12%
MHJ	Michael Hill Int	6,996.29	2.54%	0.00%	0.00%
DTL	Data#3 Limited	6,556.08	2.38%	-2.16%	-0.05%
INA	Ingenia Group	6,371.40	2.31%	0.72%	0.02%
CLW	Chtr H Lwr	6,246.80	2.27%	-7.20%	-0.16%
IGO	Igo Limited	5,329.86	1.93%	-2.89%	-0.06%
IPH	Iph Limited	5,165.20	1.87%	-3.01%	-0.06%
RIO	Rio Tinto Limited	4,087.80	1.48%	0.58%	0.01%
IDX	Integral Diagnostics	4,058.18	1.47%	-4.01%	-0.06%
ELD	Elders Limited	3,167.44	1.15%	-10.25%	-0.12%
WDS	Woodside Energy	1,459.60	0.53%	-1.43%	-0.01%
CASH	CASH	12,355.93	4.48%	0.00%	0.00%
Total		**$275,565.85**	**100%**	**-3.10%**	

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:

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

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

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

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

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

Whereby the total excess returns can be calculated as follows:

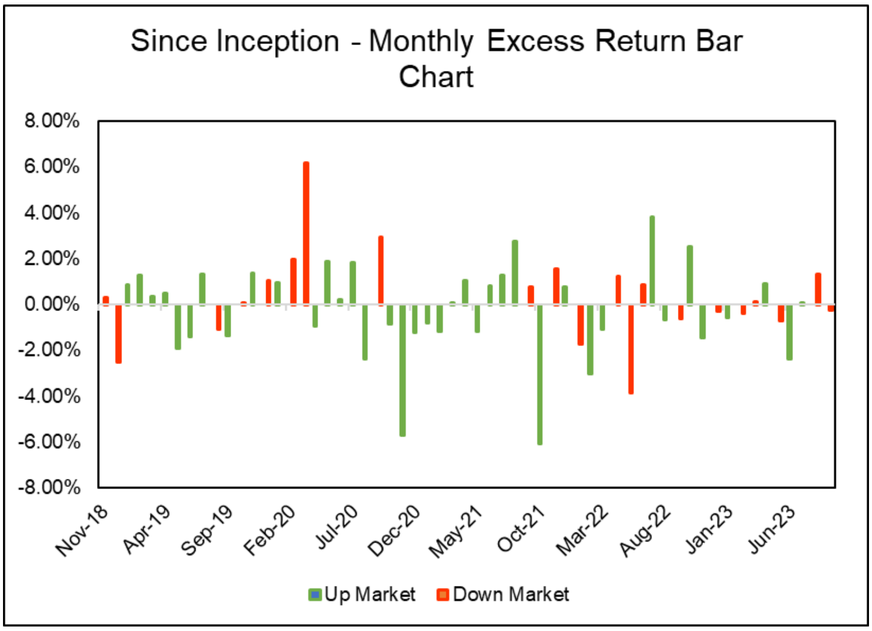
$$Excess\ Return = r_p - r_b = Allocation + Selection + Interaction$$

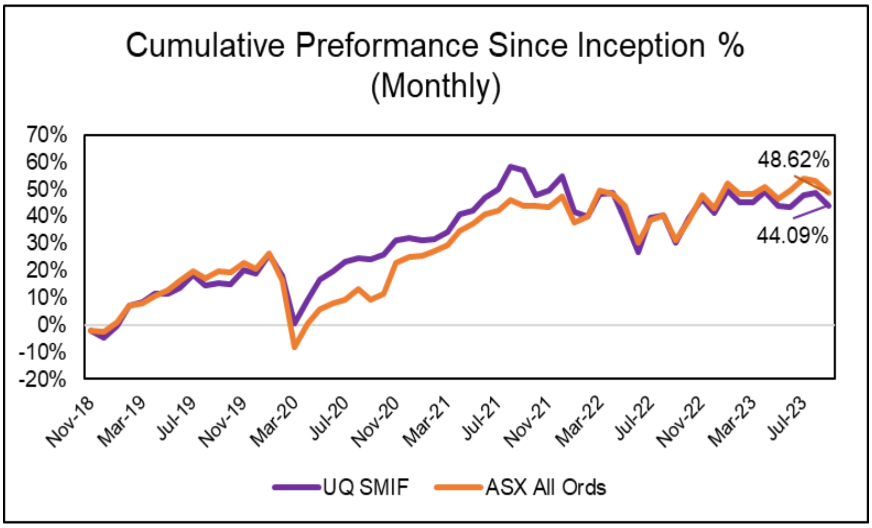
While performance attribution does assist in explaining excess returns, we appreciate the measurement does not acknowledge the different risk factors that the SMIF is exposed to compared to the benchmark. Specifically, isolating alpha through Fama French risk factors would be the purest explanation of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

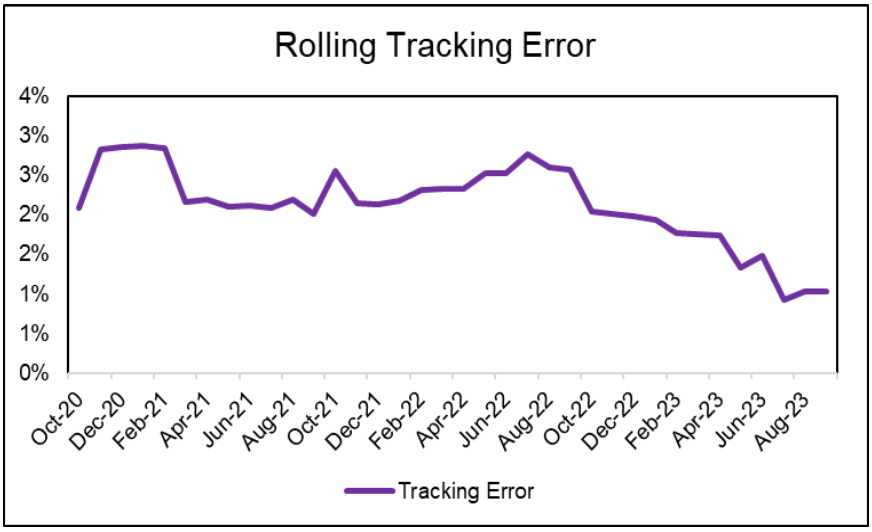
**Note* - Any difference in total portfolio or benchmark return is due to difference in calculation methodology. For performance analysis, total portfolio and benchmark return is the sum of the weighted return contribution per sector. Portfolio weights are scaled to exclude cash.*

Performance Attribution - September 2023							
Sector	**Portfolio Weight**	**Benchmark Weight**	**Portfolio Return**	**Benchmark Return**	**Allocation (1)**	**Selection (2)**	**Interaction (3)**
Energy	0.55%	5.90%	-1.43%	1.32%	-0.26%	-0.16%	0.15%
Basic Materials	19.02%	24.40%	-4.32%	-3.66%	0.01%	-0.16%	0.04%
Industrials	17.68%	7.60%	-2.31%	-3.79%	-0.03%	0.11%	0.15%
Consumer Discretionary	9.55%	7.10%	1.98%	-3.82%	-0.01%	0.41%	0.14%
Consumer Staples	4.86%	4.30%	-3.95%	-2.22%	0.01%	-0.07%	-0.01%
Healthcare	11.18%	8.60%	-6.16%	-6.89%	-0.09%	0.06%	0.02%
Financial Services	15.27%	26.70%	-1.05%	-1.70%	-0.21%	0.17%	-0.07%
Technology	7.41%	3.20%	-6.58%	-8.01%	-0.19%	0.05%	0.06%
Communication Services	6.82%	4.70%	-1.30%	-4.00%	-0.01%	0.13%	0.06%
Utilities	2.86%	1.40%	-7.68%	-2.92%	0.01%	-0.07%	-0.07%
Real Estate	4.79%	6.10%	-3.20%	-8.72%	0.07%	0.34%	-0.07%
Total	100.00%	100.00%	-3.04%	-3.53%	-0.70%	0.81%	0.39%
Summary			Excess Return: 0.50%		(1) + (2) + (3) = 0.50%		

Further Performance Reporting







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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.