

Student Managed Investment Fund January 2024 Update



January 2024 Fund Update

Dollar values are in AUD unless stated otherwise.

Summary

The SMIF outperformed the index by +2.43%, rising +2.02% over January (vs ASX: XAO -0.41% m/m). Consumer staples, tech and healthcare names led the fund's outperformance. On the other hand, holdings in materials returned -5.86% MoM.

Market Update

The month marked mixed signals for the market despite positive growth, largely attributed to the RBA's cautious stance towards stickier-than-expected inflation data and a mixed start to global earnings season. In particular, growth was driven by the tech sector (+7.30% MoM), following positive earnings results and company commentary on FY24 outlooks.

January saw the 10-year Treasury US yields initially dip to a low of 3.6% before finishing the month at 3.99%. Short end moves were observed following a mixed Jan FOMC meeting in which the committee remained hesitant to guide to near-term interest rate cuts. The S&P500 gained 4.2% over Jan, also largely driven by positive tech-driven sentiment.

Position Updates

Elders (ASX: ELD) +19.26%

The notable upturn is due to the recognition of the company's positive FY23 results. The company further reports significant improvements in soil moisture profiles across summer cropping regions. Forecasts from the National Oceanic and Atmospheric Administration (NOAA) indicate a shift towards an ENSO-neutral period between April and June, further enhancing the prospects for Elders. Further, livestock prices have firmed, and volumes continue to demonstrate high YOY gains in both cattle and sheep markets.

In the aftermath of the company's underwhelming earnings report for the 2022-23 financial year, characterised by a substantial drop in the stock price, the recent resurgence is promising. With Elder's FY23 report solidifying a 14.9% five-year

historical ROE, the resilience and profitability of Elders is suggestive of robust future growth.

Data#3 (ASX: DTL) +15.88%

Data#3 continues to benefit from broader digitalisation tailwinds, up 15.88% off the back of a late earnings upgrade before its 1H FY24 result.

The announcement guided to increased profit before tax, expected to be between \$30m-\$31m (FY23: \$24.6m), up from previous guidance of \$27-\$29m. The company's performance continues to be underpinned by its market position, unrivalled vendor relationships and large customer base. Digital transformation remains a primary driver in Australia's economic future and we draw confidence in Data#3's experienced management team's ability to sustainably deliver earnings growth in the long-term (10-Yr EPS CAGR: 19%).

Perenti (ASX: PRN) -21.63%

PRN shares were introduced into the portfolio from PRN acquiring DDH1 in late Q3 FY24. PRN share price has sharply declined 21.63% from December as investors worry about contract losses as nickel miners pare output and halt investments. Specifically, PRN's subsidiary Barminco has had its clients IGO and Panormaic's both close their Nickel mines (Cosmo and Savannah respectively) as they struggle to against the falling price of Nickel which has almost halved from about \$US30,000 last January to \$US16,000 this year (London Metals Exchange). The cause of this has been a dramatic over-supply of Indonesian Nickel Exports backed by strong Chinese investment, that is expected to grow from 50% to 70% of the worlds Nickel supply.

Despite the challenging conditions in the nickel industry, the sharp drop in PRN's valuation appears excessive. The contract losses translate to an annual EBITA impact of A\$10-15 million. We assert that PRN's operations are strategically diversified across its subsidiaries, and the market reaction seems disproportionate. PRN's FY24 earning guidance, forecasting underlying EBIT(A) growth to \$310-\$325 million and a reduction in leverage to 0.7x-0.8x, is encouraging. This outlook is supported by the accretive acquisition of DDH1

and the successful extension of contracts with key clients, such as Gold Fields, AngloGold Ashanti, and Roxgold, amounting to \$420 million.

SMIF recognizes PRN's potential to diversify operations by country, asset class, and subsidiaries. Nonetheless, greater evaluation of PRN as a long-term constituent of the SMIF portfolio is to be conducted.

IGO (ASX: IGO) -16.46%

Lithium miners remain at rock-bottom. With slowing EV sales growth, a flooding of supply and a slowing Chinese economy, the commodity's price has tumbled over the course of a year. In January, lithium spodumene fetched ~US\$850/tonne, down from US\$6,400 a year earlier. The story is largely the same for IGO's bigger Nickel segment; the flooding of the market with Indonesian-produced 'dirty nickel' has collapsed pricing, compounded by soft demand. The ~US\$30,000/Mt highs of Jan-23 seem distant when greeted by ~\$16,000/Mt Jan-24 lows.

As for IGO-specific news in January, the company reported both a lithium business update & Dec-23 quarterly results on the 29th and 31st respectively. Key takeaways of the former were a downgraded production guidance, from 1.4-1.5Mtpa to 1.3-1.4Mtpa, on expectations that sales for the second half will be approximately 20% lower than production as inventories build. From the latter, the lithium business saw a QoQ revenue & EBITDA drop of 43% and increased cash costs, up 36% QoQ. As for its Nickel arm, its Nova and Forrestania projects saw 27% and 30% decreases in revenue, as well as 36% and 99% decreases in underlying EBITDA respectively.

Whilst commodity price volatility is to be expected, this significant unpredictability in long-term business drivers is out of keeping with SMIF investment objectives and a review of IGO's place in the portfolio is underway.

MHJ (ASX: MHJ) -3.84%

Jewellery retailer Michael Hill (ASX: MHJ) delivered a weak performance in January, down 3.84%. With interest rates high, consumer's disposable income has become constrained, and we have seen consumers reduce spending in certain areas, particularly non-essential items such as jewellery. This has presented difficult trading conditions for jewellery retailers, and this was

highlighted in MHJ's January trading update. FY24H1 EBIT is anticipated to be in the range of \$30m to \$33m, this is down approximately 45% from FY23H1's record EBIT. Further, for the half, MHJ's group sales were up 4.1% on LY, however these sales were still negative to record FY23H1. The company also noted that margins are under pressure and expected to be down from FY23H1's 65.2% to 61%-62% because of "higher input costs for gold and diamonds, and more aggressive retail trading conditions." Ultimately, MHJ's January FY24H1 trading update was not supportive to share price.

MHJ noted that the company has taken direct actions to reduce operating costs, including the exist of several senior management roles. Emily Bird, MHJ's General Counsel and Joint Company Secretary resigned from her role on the 4th of January 2024. We value MHJ's management to date which has done a commendable job at guiding the retail company through the pandemic and the subsequent tough operating environment. However, we recognise that the investment thesis under which Michael Hill was added to the portfolio has not eventuated, and we are accordingly evaluating its holding moving forward.

Performance Summary: January 2024

Code	Name	Value (AUD)	Weighting	Contribution	Total Return %
MQG	Macquarie Group Ltd	23,615.80	7.30%	0.27%	3.71%
PWH	Pwr Holdings Limited	17,221.60	5.33%	0.38%	7.07%
RUL	Rpmglobal Hldgs Ltd	15,541.20	4.81%	0.14%	2.86%
JHX	James Hardie Indust	14,668.92	4.54%	0.14%	3.04%
JLG	Johns Lyng Group	12,904.95	3.99%	0.45%	11.27%
BXB	Brambles Limited	12,502.56	3.87%	0.30%	7.65%
CAR	Car Group Limited	11,520.49	3.56%	0.21%	6.01%
BHP	Bhp Group Limited	10,635.75	3.29%	-0.20%	-6.23%
WES	Wesfarmers Limited	10,586.94	3.27%	0.06%	1.98%
RMD	Resmed Inc	10,570.40	3.27%	0.48%	14.78%
QBE	Qbe Insurance Group	10,270.80	3.18%	0.22%	7.02%
CWY	Cleanaway Waste Ltd	10,210.20	3.16%	-0.11%	-3.35%
CSL	Csl Limited	9,956.10	3.08%	0.16%	5.25%
NST	Northern Star	9,888.80	3.06%	-0.11%	-3.66%
SUN	Suncorp Group Ltd	9,365.40	2.90%	0.07%	2.45%
SHL	Sonic Healthcare	9,189.74	2.84%	-0.01%	-0.19%
SPK	Spark New Zealand	9,074.78	2.81%	0.08%	2.70%
DTL	Data#3 Limited	9,056.28	2.80%	0.44%	15.88%
PRN	Perenti Limited	8,432.81	2.61%	-0.56%	-21.63%
QUB	Qube Holdings Ltd	8,249.20	2.55%	0.03%	1.23%
APA	Apa Group	7,691.94	2.38%	-0.01%	-0.59%
CLW	Chtr H Lwr	7,275.00	2.25%	-0.01%	-0.27%
INA	Ingenia Group	6,796.16	2.10%	0.01%	0.67%

MHJ	Michael Hill Int	6,563.94	2.03%	-0.16%	-7.73%
ELD	Elders Limited	4,921.04	1.52%	0.29%	19.26%
RIO	Rio Tinto Limited	4,785.12	1.48%	-0.03%	-2.02%
IPH	Iph Limited	4,781.30	1.48%	0.10%	6.86%
IGO	Igo Limited	3,182.76	0.98%	-0.16%	-16.46%
IDX	Integral Diagnostics	2,785.58	0.86%	0.03%	3.41%
WDS	Woodside Energy	1,296.40	0.40%	0.02%	4.35%
CASH	CASH	39,762.89	12.30%		0.00%
		323,304.85			2.02%

Top 5 Contributors

Ticker	Contribution
RMD	0.48%
JLG	0.45%
DTL	0.44%
PWH	0.38%
BXB	0.30%

Bottom 5 Contributors

Ticker	Contribution
PRN	-0.56%
BHP	-0.20%
IGO	-0.16%
MHJ	-0.16%
NST	-0.11%

Top 5 Performers

Ticker	Performance
ELD	19.26%
DTL	15.88%
RMD	14.78%
JLG	11.27%
BXB	7.65%

Bottom 5 Performers

Ticker	Performance
PRN	-21.63%
IGO	-16.46%
MHJ	-7.73%
BHP	-6.23%
NST	-3.66%

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

Portfolio Analysts

<i>Name</i>	<i>Current Enrolment</i>
Bernardo Lohmann	Bachelor of Advanced Finance & Economics
Caitlyn Blade	Bachelor of Advanced Finance & Economics
Holly O'Flaherty	Bachelor of Advanced Finance & Economics
Kate Rebello	Bachelor of Advanced Finance & Economics
Max Townson	Bachelor of Computer Science
Shaun Andersen	Bachelor of Advanced Finance & Economics
Mitchell Smyth	Bachelor of Advanced Finance & Economics
Raghav Chawla	Bachelor of Advanced Finance & Economics

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.