The University of Queensland Business School

Student Managed Investment Fund October 2023 Update

October 2023 Fund Update

Dollar values are in AUD unless stated otherwise.

Summary

The SMIF was down -3.83% for the month of October, underperforming the benchmark by 3 basis points (ASX: XAO -3.80%). The sharp sell-off during October was led by IGO Limited (ASX: IGO -22.49%), PWR Holdings (ASX: PWH -9.38%) and Brambles (ASX: BXB -8.64%). However, Australian gold producer, Northern Star, (ASX: NST +14.05%) stood out delivering strong performance. NST's strong performance coincides with increasing gold prices as mounting concerns about the war in the Middle East drove investors towards safe assets.

Market Update

October presented a poor ASX performance in line with recent months, finishing down 3.7%. The conflict in Gaza caused an uncertainty-driven global sell-off in equities, and a subsequent demand surge for oil and LNG assets. Moreover, strong economic indicators in the US and Australia have reinforced central bank's hawkish attitude, as either the current tight financial conditions will curb inflationary pressures over the long-term, or further rate hikes will become necessary.

In October 10-year US Treasury yields breached 5% for the first time since 2007, causing an Australian gain of 44bps to 4.92%. WTI Crude retreated 4.78% from September's peak to a marginally lower October-peak of 89.37. Oil prices held at high levels due to continued surging demand amidst the voluntary output cuts of OPEC+ members Saudi Arabia and Russia, who respectively reduced production by 1m and 0.3m bpd.

Quarterly inflation in Australia posted a 1.2% q/q gain, largely driven by higher oil, rental, and insurance costs. Further, housing loans and the volume of new commitments each rose by 2.2%. Seemingly contrary to the above indicators of firm activity, the unemployment rate fell to 3.6%; however, this drop was driven by a declining participation rate and does not indicate a slowing of activity. The presence of sticky inflation and relatively strong activity reinforces the validity of the central bank's stance of 'higher for longer' where either the tight yield conditions dampen activity, or future hikes become necessary.

Reflective of the poor overall performance seen in the ASX.XAO, 10 of the 11 ASX200 sectors were in the red. The broader market picture of global tension and high rates places this performance into context, where Utilities was an outlying performer, with a gain of 1.7%. Yet IT, health care, industrials, and real estate exemplified the market-wide poor performance of equities, with falls of 7.6%, 7.2%, 6.4%, and 6.1% respectively. A 1.8% fall for the AUD against the USD has marginally improved returns for investments in unhedged foreign markets. At home, earnings outlooks and the outcome of the Gaza conflict are the key events that markets will look forward to.

Sector Update: Communication Services

SMIF	Benchmark
1.11%	**-2.80%**

The ASX Communication Services sector (XTJ:ASX) saw strong growth in the first half of October, growing 3% to a high of 1525.10 on the 12th of October. It later saw a sharp decline, closing the month at 1443.00. The sector saw a decline in performance, resonating with the ASX as a whole as a result of recent macroeconomic trends. REA group, one of the sector's leaders, experienced a 6.58% decline in share price over the month of October. SMIF's investments in the sector, Spark New Zealand (ASX: SPK) and Car Group Limited (ASX: CAR), outperformed the sector's benchmark return by a significant margin. The latter experienced a 0.61% decline over the month, still outperforming the benchmark due to its resilient earnings growth. SMIF's investments in the communication services sector were well positioned to resist decline like the whole sector, producing a positive return of 1.11%.

Sector Update: Consumer Discretionary

SMIF	Benchmark
-8.70%	-4.55%

The consumer discretionary sector faced challenges in October, experiencing negative returns, particularly with SMIF showing an additional 4.15% underperformance against the benchmark.
Micheal Hill (MHJ.ASX) saw another month of negative returns along with PWR having negative returns after a slight increase in September. The figures released by the Australian Bureau of Statistics (ABS) highlight a divergence in consumer spending habits. Essential categories like food, cafes, restaurants, and takeaway saw substantial year-on-year increases, indicating consistent consumer spending on necessities. However, discretionary categories such as clothing, footwear, accessories, and household goods experienced declines, reflecting a clear impact on non-essential spending.

The Australian Retailers Association (ARA) CEO, Paul Zahra, emphasized the persistent focus on essential items due to a cost-of-living crisis. Shoppers are prioritizing spending on necessities while tightening budgets, leading to increased demand for value options like quick-service restaurants. The continuous negative growth in household goods spending over ten consecutive months signifies the challenges faced by retailers in this sector. Moreover, the anticipation surrounding November's retail trade results is heightened due to the impact of Black Friday sales, expected to break records this year. The impending decision by the Reserve Bank of Australia on interest rates will likely influence the final weeks of Christmas spending, adding to the uncertainty in the market.

Sector Update: Consumer Staples

SMIF	Benchmark
-2.06%	**-3.75%**

The SMIF consumer staple investments outperformed the benchmark by 1.69% across October. After peaking at a price of 12,400 (11^{th} October), the consumer staples sector of the ASX (XSJ:ASX) declined by 4.69% across the remainder of the month. The poor performance of this sector, particularly within supermarket giants Woolworths and Coles, comes as a result of inflationary pressures. Despite facing high input costs, Coles and Woolworths priority of appealing to value-driven and tightened consumer budgets has created a squeeze on their profit margins and a loss of investor confidence.

SMIF's consumer staple stock investments in Elders Ltd (ELD:ASX) fell at the beginning of the month to a year low of $5.51. Despite experiencing a 7.6% incline across the remainder of the month after announcing their acquisition of Eureka! Group, a leading business for agricultural chemicals and other agricultural products, the company mirrored the poor performance of the consumer staple sector.

The first half of October saw WES:ASX continue the elevated September share prices, despite falling by 4.22% by the 27^{th} of October as supply of WES shares was increased through their Dividend Investment Plan. However, the release of the 2023 AGM results at the end of the month saw a sharp incline in the share price, growth that is expected to continue into November. WES significantly outperformed XSJ:ASX across the month due to its conglomerate nature: the large range of strong performing businesses in other sectors, such as consumer discretionary, compensated for any that suffered. Thus, SMIF is well positioned against current negative trends in the consumer staples sector.

Sector Update: Financials

SMIF	Benchmark
-2.71%	-3.98%

The financials sector was another casualty to the poor international and domestic macroeconomic and geopolitical narrative of October.

It was a quiet month for earnings announcements across the sector. CBA hosted their AGM which did not present any meaningful new information to investors.

The SMIF's outperformance relative to the sector index can largely be attributed to not holding any of the big 4 banks. Moving forward we are mindful of the SMIF's overweight holding of Macquarie, and we do aim to diversify our exposure more prudently across the financials sector.

Sector Update: Healthcare

SMIF	Benchmark
-6.95%	-6.35%

The fund's healthcare investments performed poorly throughout October, with an excess return of -0.6%. From its initial level, the XHJ:ASX peaked on the 11th of October at 37,860, before falling 6.35% over the month to a value of 34.75. The poor performance of the index, and the fund's holdings, was broadly driven by the immediate efficacy of emerging pipeline products, especially Novo Nordisk's weight-loss drug Ozempic. GLP-1 drugs such as Ozempic could have poor consequences for providers of cardiovascular, transplant, immune disorder, pathology, and sleep disorder treatments. Consequently, as SMIF's holdings sit predominantly in these sectors, the underperformance relative to the benchmark becomes predictable in hindsight. The strong trial results of Ozempic prompted sell-offs in Resmed Inc, Sonic Healthcare, CSL Limited, which experienced a fall of 1%, 0.5%, and 4.6% respectively. Furthermore, Integral Diagnostics featured a price fall of 7.7%, as its debt level of three times its earnings – amidst missed earnings targets – creates uncertainty for the company's future in the current high-rate environment.

Sector Update: Industrials

SMIF	Benchmark
-7.31%	-6.52%

The industrials sector on the ASX 200 experienced a challenging performance in October, reflecting a total return of -6.52%, and presenting significant volatility throughout the month. The industrials ASX ticker (XNJ:ASX) reached its monthly peak on October 2nd, at 6509.30, albeit still showcasing a steep decline from previous months. The sector concluded October at an unprecedented all-time low in three years, at 6109.50.

The decline in shares of industrial companies was particularly pronounced following the release of robust inflation data and evidence of absorption deceleration in mid-October, triggering concerns regarding the potential impact of rising interest rates on demand and corporate spending. Moreover, while industrial companies have historically weathered economic headwinds, the current landscape reveals that several associated companies have experienced decelerated sales velocity, plateauing growth, and an expansion in capitalisation rates throughout the year. The industrials sector in SMIF lagged due to substantial holdings in Brambles Ltd and PWR Holdings, which both faced crucial declines of 8.64% in October respectively.

Sector Update: Information Technology

SMIF	Benchmark
-3.39%	-6.82%

In Information Technology, the SMIF outperformed the benchmark by 3.43% during October. This largely owes to resilience from fund holdings, and comparative underperformance from fund exclusions.

Nonetheless, the IT sector was an unsurprising loser to ongoing bear ‘higher-for-longer’ & geopolitical narratives, due to investors’ preference of risk-averse assets.

Recent SMIF addition Data#3, ASX:DTL (+1.74% in Oct), has shown resilience to current macroeconomic trends, being customer-dense in defensive sectors and fundamentally different from most tech companies as a solutions provider. We look to the company’s positive FY24 outlook and a capable management team for confidence.

Outside of the portfolio, industry heavyweight Megaport (ASX:MP1) updated the market on its 1Q24 performance. Down ~17% on the day, investors’ hopes of a further FY24 guidance upgrade, in addition to that announced with FY23 results, look exaggerated in hindsight. The company announced strong YoY EBITDA growth (+27% vs pcp) and, importantly, positive net cash flow of $5.6m (+143% vs pcp) for the quarter. We believe that, coming off of its August ~$12.50 highs, the company’s turnaround presents room for upside.

Sector Update: Materials

SMIF	Benchmark
0.12%	-0.29%

While it rallied to a 3-week high in the first half of the month, the Materials sector of the ASX (XMJ:ASX) ended up closing out October down 0.29%. However, with SMIF underweighting the Materials sector, and a strong performance (+14.05%) from Northern Star, SMIF outperformed the benchmark generating 0.12% return in the Materials sector for the month. In the first two weeks,

SMIF	Benchmark
-0.72%	1.37%

October saw rising base metal prices and rebounding iron ore prices, up 3.9%, triggered by news of new Chinese government stimulus, the world's largest iron ore importer. However, this rally did not last, as iron ore prices fell again causing a reversal in the previous gains seen in the Materials sector. Gold prices similarly experienced tailwinds, albeit these were sustained through to month-end. Gold posted a record-high monthly finish above US2,000/oz as investors fled to safe-haven assets amidst the increased geopolitical tensions between Israel and Palestine on the back of the events of October 7. This propped up Northern Star's share price, acting as a buoy for SMIF's Materials sector overall return. Finally, lower-than-expected PMI data from China caused investors to question future demand for commodities. Mining and other materials-facing companies suffered as a result, sealing the fate of the ASX's Materials sector for October.

Sector Update: Real Estate

SMIF	Benchmark
-6.38%	-6.12%

SMIF’s portfolio of stocks in the real estate sector failed to buck the dire trends exhibited by the benchmark, delivering excess returns of –0.26% on the month. This is largely off the back of “higher-for-longer" sentiments conveyed by RBA governor Michele Bullock, reducing the popularity of REITs amongst income-oriented investors due to the impact of rates on housing prices and thus REIT net asset values. Increased debt costs also limit the growth of REITs in terms of acquisitions and development projects, dampening cash flow accretion and external growth with rising interest rates. As such, SMIF’s real estate stock investments in Charter Hall Long WALE REIT (ASX: CLW) and Ingenia Communities Group (ASX: INA) experienced declines of 6.67% and 6.21% in October, respectively. With many analyst forecasts suggesting the November rate rise to be the last of its kind in the near future, said stocks will look to rebound in the coming months.

Sector Update: Utilities

The utilities sector was not caught up in the broader market decline due to revelations in the takeover of sector heavyweight (ORG 48%

share of ASX:XUJ) Origin Energy (ASX: ORG).

ORG performed strongly in the early stages of the month following ACCC's decision to grant authorisation for Brookfield and EIG to pursue the proposed acquisition. ORG's strong month and exclusion from the SMIF explains the (+3.98% MoM) underperformance relative to the benchmark.

Inside the portfolio, APA Group (ASX: APA) had a quiet month (-0.72% MoM), but on a positive note, management reconfirmed FY24 distribution guidance ($0.56) during their AGM.

Position Updates

Northern Star (ASX: NST) +14.05%

Now the second-largest gold-miner on the ASX, Northern Star rose on its Sep-23 quarterly update to the market, as well as broader industry tailwinds. The company is well-positioned to deliver on its FY24 guidance of 1,600-1,750koz gold sold at an AISC of A$1,730-1,790/oz and reported a record quarter for the Thunderbox mill. Likewise, KCGM, Yandal and Pogo are meeting 5-yr growth pathway targets set in FY22. In addition, the company is on budget for its FY24 A$1,150-1,250m growth capital target & its A$150m exploration budget. With $1,195m of cash and bullion & $2,200m in liquidity, the company will continue its $300m on-market share buy-back program.

The company's performance update comes amidst ongoing gold price rises, due to central bank buying streaks in a time of inflationary pressures and economic uncertainty.

Rio Tinto (ASX: RIO) +4.61%

Rio Tinto's 3Q23 update was positively received by the market, with an upgrade in iron ore forecasts from its Pilbara operations in FY24. The project's shipment projections increased from 323m tonnes to 338m tonnes. In addition, management is optimistic about the project's Gudai-Darri greenfield mine, which it hopes will reach 50m tonnes per year in FY24. Furthermore, the Oyu Tolgoi copper, Kitimat aluminium and Kennecott copper projects all saw positive production updates. The company continues to make progress towards a 'future-proof' materials portfolio, aiming to balance current performance in evolving market conditions with valuable long-term growth & shareholder returns. Multiple Q3 agreements and FY23 moves to date evidence a tangible strategic shift towards 'electric-materials'.

The recent decision to de-weight the company's portfolio allocation was largely ESG-focussed, and in our belief, remains sensible when considering core SMIF objectives (poor profiling in our E, S & G scores remain). Positive performance amidst market uncertainty justifies a hold of the current de-weighted position.

Spark (ASX: SPK) +3.17%

Spark had no significant price-sensitive announcements in October, instead likely buoyed by its ongoing $350m on-market buyback program. After a poorly received FY23 result (-7% over the proceeding fortnight), Spark has since climbed 5% as at October's end, signalling a possible market correction. The result saw the company announce adjusted revenue, EBITDAI and NPAT growth of +5.1%, +3.7% and +5.6% respectively. In addition, investors saw an 8% dividend increase to 27c (5.7% yield) and a 12.9% growth to $489m in free cash flow.

We remain confident in Spark's ability to capitalise on diverse growth opportunities within its broadband, cloud and datacentre revenue streams. We look to management's demonstration of this (#2 vs international peers in 5-yr TSR) and sensible capital allocation to current endeavours as evidence of this. The company remains one of only six on the ASX200 trading on a single-digit P/E and expected to grow earnings in FY24.

IGO Limited (ASX: IGO) -22.49%

IGO's disappointing performance over October was led by falling lithium prices, and a disappointing first quarter update. On the 30th of October, the mining and exploration company posted record underlying free cash flow up 39% to $530 million, sales revenue up 3% to $248 million, cash up 4% to $804 million, and the company received a record quarterly dividend of $578 million from its Tianqi Lithium joint venture. Notably however, underlying EBITDA was down 42% to $362 million. Additionally, IGO reported “difficult operating conditions” which led to a 25% reduction in nickel production. These disappointing results paired with management’s warning that the December quarter could be tough due to volatility in the lithium market led to a large sell-off.

Ultimately, October’s performance does not change our view on IGO. We believe the company’s diversified exposure to critical forward-facing metals will allow them to take advantage of the global transition to clean energy materials.

Performance Summary: October

Code	Name	Value (A$)	Weighting	Total Return	Contribution
MQG	Macquarie Group Ltd	19,961.52	7.57%	-2.45%	-0.19%
PWH	Pwr Holdings Limited	16,183.36	6.14%	-9.83%	-0.60%
DDH	Ddh Drill	12,552.96	4.76%	0.00%	0.00%
RUL	Rpmglobal Hldgs Ltd	12,432.96	4.72%	-3.03%	-0.14%
JLG	Johns Lyng Group	11,559.50	4.38%	-6.73%	-0.29%
BXB	Brambles Limited	11,195.94	4.25%	-8.64%	-0.37%
QBE	Qbe Insurance Group	10,108.80	3.83%	-1.76%	-0.07%
BHP	Bhp Group Limited	10,012.50	3.80%	1.76%	0.07%
JHX	James Hardie Indust	9,850.68	3.74%	-4.00%	-0.15%
CAR	Car Group Limited	9,642.87	3.66%	-0.61%	-0.02%
WES	Wesfarmers Limited	9,194.64	3.49%	-4.05%	-0.14%
SUN	Suncorp Group Ltd	8,830.80	3.35%	-4.36%	-0.15%
CWY	Cleanaway Waste Ltd	8,796.48	3.34%	-7.05%	-0.24%
NST	Northern Star	8,790.88	3.33%	14.05%	0.47%
SPK	Spark New Zealand	8,358.35	3.17%	3.17%	0.10%
SHL	Sonic Healthcare	8,251.25	3.13%	-3.39%	-0.11%
RMD	Resmed Inc	7,887.98	2.99%	-9.59%	-0.29%
CSL	Csl Limited	7,667.55	2.91%	-7.81%	-0.23%
APA	Apa Group	7,465.44	2.83%	-0.72%	-0.02%
QUB	Qube Holdings Ltd	6,689.90	2.54%	-6.34%	-0.16%
MHJ	Michael Hill Int	6,446.02	2.44%	-5.75%	-0.14%
DTL	Data#3 Limited	6,269.02	2.38%	-4.11%	-0.10%
INA	Ingenia Group	5,916.30	2.24%	-6.25%	-0.14%

CLW	Chtr H Lwr	5,858.80	2.22%	-6.50%	-0.14%
IPH	Iph Limited	4,760.36	1.81%	-7.34%	-0.13%
RIO	Rio Tinto Limited	4,232.88	1.61%	4.61%	0.07%
IGO	Igo Limited	4,003.71	1.52%	-22.49%	-0.34%
IDX	Integral Diagnostics	3,775.38	1.43%	-6.97%	-0.10%
ELD	Elders Limited	3,249.64	1.23%	4.04%	0.05%
WDS	Woodside Energy	1,370.40	0.52%	-6.62%	-0.03%
CASH	CASH	12,355.93	4.69%	0.00%	0.00%
TOTAL		**263,672.80**			**-3.83%**

Top 5 Performers

Name	Total Return
Northern Star	14.05%
Rio Tinto Limited	4.61%
Elders Limited	4.04%
Spark New Zealand	3.17%
Bhp Group Limited	1.76%

Bottom 5 Performers

Name	Total Return
Igo Limited	-22.49%
Pwr Holdings Limited	-9.83%
Resmed Inc	-9.59%
Brambles Limited	-8.64%
Csl Limited	-7.81%

Bottom 5 Contributors

Name	Contribution
Pwr Holdings Limited	-0.60%
Brambles Limited	-0.37%
Igo Limited	-0.34%
Johns Lyng Group	-0.29%
Resmed Inc	-0.29%

Top 5 Contributors

Name	Contribution
Northern Star	0.47%
Spark New Zealand	0.10%
Rio Tinto Limited	0.07%
Bhp Group Limited	0.07%
Elders Limited	0.05%

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.