

Student Managed Investment Fund August 2024 Update



August 2024 Fund Update

Dollar values are in AUD unless stated otherwise.

Fund Update

In August, the SMIF fund delivered a return of -1.06%, underperforming the benchmark All Ordinaries Accumulation Index, which saw a marginal decline of -0.04%. This resulted in an alpha of -1.02%. The fund's underperformance was primarily driven by disappointing earnings results from key holdings, compounded by weak returns across several sectors.

Notable detractors included Johns Lyng Group (ASX: JLG), which fell 35.95% due to missed revenue targets and declining catastrophe-related income. Similarly, PWR Holdings (ASX: PWH) declined 23.19%, driven by earnings results that missed market expectations and fuelled concerns about its capital-intensive growth strategy, detracting 0.69% from overall returns. Other underperformers included QBE Insurance Group (ASX: QBE) (-11.22%) and Spark New Zealand (ASX: SPK) (-15.27%).

In contrast, strong contributions came from Brambles Limited (ASX: BXB) (17.16%), which added 0.53% to the fund following robust earnings driven by large gains in operational efficiency and a share buy-back boosting investor confidence. Investor confidence in ResMed Inc (ASX: RMD) (10.19%) also rebounded after a strong earnings report.

Despite a challenging month, the fund's long-term returns remain strong, with an annualized return of 8.73% since inception, outperforming the benchmark's 6.35%. The fund continues to focus on strategic stock selection and sector allocation to navigate ongoing market volatility.

Market Update

In August, the ASX 200 gained 0.5%, underperforming global benchmarks such as the S&P 500 (2.3%) and MSCI World ex-Australia Index (2.5%). The reporting season delivered mixed results. While Banks, IT, Retailers and Contractor results were better than expected, FY25 earnings were revised down slightly given cautious outlook statements. This was predominantly driven by downgrades in Utilities, Healthcare, Materials and Energy. Subsequently, the ASX200 12-month-forward earnings revisions were -1.2%.

The RBA has kept rates steady at 4.35%, emphasizing that inflationary pressures remained a concern. Employment data shows that wage growth is slowing, and retail trade remains subdued, reflecting low consumer confidence. Overseas, US inflation has fallen to 2.9%, causing markets to price in approximately 7 rate cuts by the Fed over the next year starting in September.

The ASX's P/E ratio of 17.4x represents a 16% premium over the long-term average of 15.0x. Namely, the most expensive sectors in August were IT (91.2x), Health Care (30.6x) and Communication Services (26.1x). Hence, the ASX200 needs earnings upgrades to justify current levels.

Positions Update

Brambles Limited (ASX: BXB 17.16%)

Brambles Limited impressive performance can be attributed to the release of its FY24 results in August. Namely, an 18% increase in underlying profit to US\$1.26b saw the stock surge by 9% in a single day. These gains were largely caused by material asset and supply chain efficiency improvements, which led to a decrease of US\$580m in capital expenditure. Furthermore, a price realisation to recover the cost-to-serve saw sales revenue increase by 7% despite sales volume remaining relatively stagnant. BXB expects continuing sales growth between 4-6% in FY25, driven by further efficiency improvements and new growth in existing markets. BXB's confidence in its financial position was supported by an increase in the future dividend payout ratio to 50-70%, and a US\$500m share buy back in FY25, boosting investor confidence. Overall, this meant BXB contributed 0.53% to the fund, the highest in the portfolio.

ResMed Inc (ASX: RMD 10.19%)

ResMed Inc benefited from a strong Q4 FY24 earnings report, where they met expectations with a 9% year-over-year increase in revenue, while their profit margins outperformed expectations. This was predominantly driven by strong growth in their high margin sleeping masks, despite device sales underperforming elsewhere. ResMed's share price has also recovered from June when pharmaceutical giant Eli Lilly said that its tirzepatide weight-loss treatment reduced obstructive sleep apnoea severity in trial patients. ResMed chief executive Mick Farrell dissipated investor fears, claiming RMD will "meet or beat" high single-digit devices growth in every quarter of 2025. Farrell also clarified that weight loss patients were actually 10.7% more likely to turn to a ResMed or equivalent therapy as more patients enter the market. He also remained optimistic that ResMed can penetrate the under-served markets in China and Latin America with the use of wearable technology to more easily diagnose customers. This strong future outlook and investor confidence has meant ResMed contributed 0.26% to the portfolio in August.

Johns Lyng Group (ASX: JLG -35.95%)

Johns Lyng Group Ltd (ASX: JLG) share price plummeted 32% following the release of its FY24 results in August. The company reported a 9.6% decrease in total revenue to \$1.16b, missing the guided revenue of \$1.2b. Adding to this, an 8.5% increase in EBITDA to \$129.6m also fell short of the anticipated \$136.4m. The downturn was primarily attributed to a 45% drop in catastrophe revenue, which fell to \$205.6m. In contrast, the insurance building and restoration services segment saw a 9% rise in revenue, reaching \$845.3m. JLG made a statement explaining the downturn in catastrophe revenue was caused by “several significant natural disasters in Australia” which have ongoing claims. The company also ended the month with a P/E of 22.4x compared with an industry average of 16.6x, leading to speculation of a further decline in share price. Despite these challenges, JLG remained optimistic regarding future growth, citing its expanding strata services segment through three bolt-on acquisitions including SSKB Strata – increasing its portfolio to over 145,000 lots under management across 4,800 schemes. Additionally, in the second half of FY24, Johns Lyng USA was appointed to Allstate's Emergency Response and Mitigation Panel, granting access to a potential 16 million policyholders.

Pwr Holdings Limited (ASX: PWH -23.19%)

Pwr Holdings Limited (ASX: PWH) shares fell by 12% in a single day following the release of its FY24 results. This was despite reporting record revenue and profit, where PWH achieved a 14% increase (YoY) in NPAT of \$24.8m. This growth was driven by strong demand across its key segments, including motorsport and emerging markets in advanced cooling technology. PWH faces limited competition in these sectors, where it supplies all 10 Formula 1 teams and many US defence contractors. In spite of this, PWR's fall in share price can be attributed to results falling short of market expectations. Namely, revenue missed consensus forecasts by 2.8%, while EPS underperformed by 7.8%. Thus, PWH's “invest now, collect later” approach has limited short term profitability. To ensure they can meet medium and long-term growth targets in aerospace and defence, they are expanding headcount, facility space, equipment and systems. Overall, PWR contributed -0.69% to the portfolio in August.

Performance Summary

Ticker	Name	Value	Weighting	Total Return	Contribution
MQG	Macquarie Group Ltd	26,015.20	4.80%	2.79%	0.13%
CSL	Csl Limited	25,750.50	4.75%	-1.01%	-0.05%
RUL	Rpmglobal Hldgs Ltd	23,743.50	4.38%	-3.27%	-0.14%
PWH	Pwr Holdings Limited	19,611.20	3.62%	-23.19%	-0.84%
IDX	Integral Diagnostics	15,139.91	2.79%	6.56%	0.18%
JHX	James Hardie Indust	13,776.84	2.54%	0.75%	0.02%
WES	Wesfarmers Limited	13,404.30	2.47%	-1.43%	-0.04%
BXB	Brambles Limited	13,288.24	2.45%	17.16%	0.42%
CAR	Car Group Limited	12,162.65	2.24%	8.64%	0.19%
RMD	Resmed Inc	11,761.38	2.17%	10.19%	0.22%
SUN	Suncorp Group Ltd	11,754.60	2.17%	2.74%	0.06%
QBE	Qbe Insurance Group	11,715.84	2.16%	-11.22%	-0.24%
JLG	Johns Lyng Group	11,294.20	2.08%	-35.95%	-0.75%
CWY	Cleanaway Waste Ltd	11,074.14	2.04%	2.13%	0.04%
PRN	Perenti Limited	10,864.35	2.00%	-1.43%	-0.03%
NST	Northern Star	10,588.16	1.95%	8.38%	0.16%
QUB	Qube Holdings Ltd	9,607.30	1.77%	1.05%	0.02%
BHP	Bhp Group Limited	9,517.50	1.76%	-3.62%	-0.06%
DTL	Data#3 Limited	8,167.32	1.51%	-12.70%	-0.19%
INA	Ingenia Group	7,964.25	1.47%	0.21%	0.00%
SHL	Sonic Healthcare	7,938.42	1.46%	0.07%	0.00%
SPK	Spark New Zealand	7,219.41	1.33%	-15.27%	-0.20%
APA	Apa Group	7,166.46	1.32%	-4.05%	-0.05%
CLW	Chtr H Lwr	6,906.40	1.27%	9.27%	0.12%
ELD	Elders Limited	5,216.96	0.96%	-3.36%	-0.03%
MHJ	Michael Hill Int	4,480.77	0.83%	-1.75%	-0.01%
IPH	Iph Limited	4,278.74	0.79%	4.31%	0.03%
RIO	Rio Tinto Limited	4,229.28	0.78%	-1.76%	-0.01%
IGO	Igo Limited	2,336.55	0.43%	0.00%	0.00%
WDS	Woodside Energy	1,104.00	0.20%	-7.12%	-0.01%
CASH	CASH	214,114.61	39.49%	0.00%	0.00%
Total		542,192.98	100.00%		-1.06%

Performance Overview

	1 Month	3 Months	6 Months	1 Year	Since Inception p.a.*
SMIF	-1.06%	1.94%	1.61%	6.66%	8.73%
All Ordinaries Accumulation Index	-0.04%	4.34%	4.49%	10.76%	6.35%
Alpha	-1.02%	-2.40%	-2.88%	-4.10%	2.38%

* Return since fund inception on 19 November 2018.

Sector Breakdown

Sector	% Weight	% Return
Healthcare	11.18%	3.20%
Materials	9.46%	0.81%
Industrials	9.14%	-2.54%
Financials	9.13%	-0.54%
IT	5.89%	-5.69%
Consumer Discretionary	4.44%	-19.21%
Communication Services	3.57%	-0.27%
Consumer Staples	3.43%	-1.97%
Real Estate	2.74%	4.42%
Utilities	1.32%	-4.05%
Energy	0.20%	-7.12%
Cash	39.49%	0.00%
Total	100%	-1.06%

Contributors to Returns

Top 5 Contributors (%)

BXB	0.53
RMD	0.26
CAR	0.22
IDX	0.20
NST	0.19

Top 5 Detractors (%)

PWH	-0.69
JLG	-0.50
QBE	-0.23
SPK	-0.18
DTL	-0.18

Portfolio Management Team

<i>Name</i>	<i>Current Enrolment and Contact</i>
Angus Killen	Bachelor of Advanced Finance & Economics a.killen@student.uq.edu.au
Edward Cullen	Bachelor of Advanced Finance & Economics e.cullen1@student.uq.edu.au
Elissa Skinner	Bachelor of Advanced Finance & Economics e.skinner@student.uq.edu.au
Farah Adbel Aziz Ahmed	Bachelor of Advanced Finance & Economics f.abdelazizahmed@student.uq.edu.au
Gabriel Lohmann	Bachelor of Advanced Finance & Economics g.lohmann@student.uq.edu.au
Hamish Trim	Bachelor of Advanced Finance & Economics h.trim@student.uq.edu.au
Harley Crozier	Bachelor of Advanced Finance & Economics h.crozier@student.uq.edu.au
Holly O'Flaherty	Bachelor of Advanced Finance & Economics h.oflaherty@student.uq.edu.au
John Joyce	Bachelor of Advanced Finance & Economics john.joyce@student.uq.edu.au
Luca Tosoni	Bachelor of Advanced Finance & Economics l.tosoni@student.uq.edu.au
Macgregor Sargent	Bachelor of Advanced Finance & Economics m.sargent@student.uq.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.

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.