

# Student Managed Investment Fund July 2024 Update



## July 2024 Fund Update

*Dollar values are in AUD unless stated otherwise.*

### Fund Update

During July 2024 the SMIF achieved a return of 2.69%. This performance represents a 1.14% underperformance compared to the benchmark ASX All-Ordinaries Index (ASX: XAO), which recorded a return of 3.83% during the same period. Despite geopolitical tensions, soft inflation figures fuelled optimism about future Reserve Bank rate cuts, spurring positive movement within the Australian equity market.

The most significant contributors to the portfolio's return were James Hardie Industries, Wesfarmers, PWR Holdings, Resmed CDI and Michael Hill International, with respective monthly returns of 15.58%, 12.99%, 8.38%, 11.65%, and 26.67%. The Consumer Staples and Consumer Discretionary sectors performed strongest in July, suggesting a potential resurgence in consumer confidence, with returns of 14.00% and 11.37% respectively. The portfolio's largest sectors, Materials, Industrials, and Financials also posted solid returns. The only underperforming sectors were Energy, Utilities, and IT, impacted by the performances of Woodside Energy (-2.16%), APA Group (-1.00%), and RPM Global Holdings (-4.18%) respectively. However, these sectors collectively represent only 13.35% of the portfolio, mitigating the impact of their losses.

Rate cut expectations have been driving activity within global markets, with the US Federal Reserve expected to cut rates before year-end; Australia is expected to follow suit in the first half of 2025, with 10-year bond yields falling 20bp to 4.12%. High interest rates have allowed banks to strengthen their capital position and drive growth within the Australian market, whilst economic weakness in China and softening commodity pricing has dampened growth within the materials sector.

### Market Update

During July 2024, the Australian economy showed signs of strength, although was overshadowed by inflation. Although GDP growth has continued to slow during early 2024, consumption is expected to drive growth in the latter half of the year. Retail sales increased by 0.6%, far above the 0.2% forecasted. This corresponds with an estimated increase consumer sentiment of ~2.8%, even though levels are still below neutral. Stronger consumer spending was highlighted in the performance of the Consumer Discretionary and Consumer Staples sectors, which showed robustness during July. The inflation numbers released in late July highlighted 0.8% trimmed mean inflation compared to the market expectation of 1%, all but eliminating the possibility of any near-term rate hike.

Trade surplus in goods widened to 6.0Bn in July, driven by an appreciation in agricultural exports. The value of rural goods has increased 14% over the past 2 months, compensating for weakened demand for Australian mining output. Geopolitical uncertainty in the Middle East, alongside the Russia-Ukraine war have continually contributed to commodity volatility, causing widespread impacts in the sector. Consequently, Australia's "Big 3" resource exports (Mineral Fuels, Coal, and Iron Ore) declined 0.4% in July. Declining imports of intermediate goods have also contributed to the widening trade balance in July.

Although the Australian economy is expected to strengthen in the coming months, there remains significant uncertainty in global markets. The Chinese economy has continued its slowdown across industrial production and consumer demand, raising questions around future export demand. The withdrawal of US President Joe Biden from his presidential campaign has also fuelled the “Trump Trade”, as markets begin to price in the impacts a second Trump presidency could have on markets. Proposed tariffs could significantly reshape trade dynamics, impacting core drivers of the Australian economy.

## Positions Update

### Wesfarmers (ASX: WES 12.99%)

Wesfarmers’ positive performance is reflective of the overall strengthening of the Consumer Discretionary sector in July, benefitting from renewed consumer confidence in the economy. Wesfarmers’ valuation is increasingly being driven by its subsidiary, Kmart, and more specifically its Anko brand. The offering of low-cost retail has continually appealed to consumers grappling with increased cost of living pressures, allowing the brand to pursue international opportunities in the US and Canada, alongside 10 stores in the Philippines. Moreover, the board appointment of former Virtus Health CEO and managing director Kate Munnings has increased confidence in the health offerings of the conglomerate. Wesfarmers hopes to grow their share of the estimated \$60Bn market by leveraging its subsidiaries such as Priceline, Clear Skincare, and InstantScripts.

### Resmed CDI (ASX: RMD 8.38 %)

Resmed delivered strong growth in July, primarily a recovery from the 13.5% decline in late June. Concerns have been raised over the widespread adoption of GLP-1 weight loss drugs, and the potential impacts on sleep apnoea. Results from an Eli Lilly trial indicated up to 51.5% of GLP-1 patients would be “diseased resolved”, which could significantly threaten demand for Resmed’s CPAP treatments. Upon further analysis, many investors believed fears were overblown, as CPAP remains the “strongly preferred” standard of care by physicians. Resmed themselves have compiled customer data, concluding that GLP-1 patients are just as likely to remain on CPAP, indicating these treatments are most effective in conjunction with each other. Moreover, opportunities for market growth remain significant, due to the approximated one billion individuals who suffer from sleep apnoea, many unaware of their condition. Resmed’s 85% market share, and historically strong EPS and return on equity figures further alleviated investor concerns, allowing for recovery in such a volatile period for the company. The link between GLP-1 drugs and CPAP necessity is likely to be further explored and will continue to be a catalyst for movement in the short term.

### Michael Hill International (ASX: MJH 26.67 %)

Off the back of a profit downgrade, and subsequent 34% decline in May, Michael Hill has shown strong recovery in July. As a luxury goods provider, Michael Hill has been susceptible to significant volatility in consumption, as household disposable income has dwindled; however, the FY24 trading update released mid-July exceeded weak analyst expectations since the last trading update in May. EBIT and group sales growth exceeded expectations, at \$15MM and 6% respectively. Investors were also drawn to improvements in the underlying business model, with higher product margins and digital sales growth contributing to better long-term outlooks for the brand. Nonetheless, FY24 is expected to yield disappointing results for the brand, as market conditions have been unfavourable for sustaining a luxury goods company.

### RPM Global Holdings (ASX: RUL -4.18%)

RPM Global Holdings showed lacklustre performance during July, down 4.18% over the month. Most significantly, a trading update released 2 July 2024 was the catalyst for a 12.64% drop during intraday trading as profitability forecasts softened. FY24 gross revenue is expected at ~\$113MM, with an EBITDA of ~\$19MM, representing 15% and 23% YTD increases respectively; however, these figures represented a significant deviation from previous management forecasts, causing the sell-off. RPM rectified these revenue declines as increased preference for subscription-based contracts, which would provide more stable long-term cash flows. RPM also stated: “The lower than forecasted profitability is due to reduced perpetual license sales and the timing of subscription licenses signed during the second half of FY2024.” Other figures released in this report were positive, with an expected 9.2% increase in total contracted value, and 83% decrease in maintenance costs over the year. These continued strong fundamentals allowed for significant recovery during the remainder of July.

### Integral Diagnostics (ASX: IDX -7.12%)

July movements in Integral Diagnostics’ share price can be attributed to the proposed merger with their smaller rival, Capitol Health, which would nearly double the size of the company. The implied price of 32.64c per Capitol Health share represented a significant premium, alongside tough M&A market conditions. These factors spooked some smaller investors, who were not convinced on the company’s strategy. Combined, these two companies would have recorded \$651MM in revenue during FY23, with Integral Diagnostics expecting \$10MM in annual savings due to synergies between the businesses. Pending court, regulatory, and Capitol shareholder approval, the proposed Q4 2024 completion could mark a new chapter for Integral Diagnostics, expanding their employee base, geographical reach, and long-term earnings growth, benefitting the company in the long run.

## Performance Summary

Ticker	Name	Value	Weighting	Total Return	Contribution
MQG	Macquarie Group Ltd	25,381.56	5.06%	2.50%	0.13%
RUL	Rpmglobal Hldgs Ltd	24,779.58	4.94%	-4.18%	-0.21%
PWH	Pwr Holdings Limited	18,095.04	3.61%	8.38%	0.30%
BXB	Brambles Limited	12,408.62	2.47%	7.09%	0.18%
CAR	Car Group Limited	12,302.25	2.45%	-1.13%	-0.03%
JHX	James Hardie Indust	11,919.60	2.38%	15.58%	0.37%
WES	Wesfarmers Limited	11,862.76	2.37%	12.99%	0.31%
SUN	Suncorp Group Ltd	11,490.60	2.29%	2.30%	0.05%
QBE	Qbe Insurance Group	11,268.72	2.25%	3.97%	0.09%
CWY	Cleanaway Waste Ltd	10,877.79	2.17%	1.81%	0.04%
JLG	Johns Lyng Group	10,801.50	2.15%	4.56%	0.10%
RMD	Resmed Inc	10,534.20	2.10%	11.65%	0.24%
PRN	Perenti Limited	10,347.00	2.06%	5.00%	0.10%
NST	Northern Star	9,776.00	1.95%	8.31%	0.16%
CSL	Csl Limited	9,741.93	1.94%	4.92%	0.10%
BHP	Bhp Group Limited	9,603.00	1.91%	-0.89%	-0.02%
QUB	Qube Holdings Ltd	9,179.75	1.83%	4.66%	0.09%
DTL	Data#3 Limited	7,750.62	1.55%	5.38%	0.08%
SHL	Sonic Healthcare	7,548.10	1.50%	5.17%	0.08%
INA	Ingenia Group	7,251.26	1.45%	9.83%	0.14%
APA	Apa Group	7,238.94	1.44%	-1.00%	-0.01%
SPK	Spark New Zealand	7,035.71	1.40%	2.61%	0.04%
CLW	Chtr H Lwr	6,305.00	1.26%	9.54%	0.12%
ELD	Elders Limited	4,471.68	0.89%	16.67%	0.15%
IPH	Iph Limited	4,376.46	0.87%	-2.23%	-0.02%
RIO	Rio Tinto Limited	4,284.00	0.85%	-1.28%	-0.01%
IDX	Integral Diagnostics	3,775.38	0.75%	-7.12%	-0.05%
MHJ	Michael Hill Int	3,537.45	0.71%	26.67%	0.19%
IGO	Igo Limited	2,374.44	0.47%	-1.60%	-0.01%
WDS	Woodside Energy	1,128.40	0.22%	-2.16%	0.00%
CASH	CASH	214,114.61	42.69%	0.00%	0.00%
<b>Total</b>		<b>501,561.95</b>	<b>100%</b>		<b>2.69%</b>

## Performance Overview

	1 Month	3 Months	6 Months	1 Year	Since Inception p.a.*
SMIF	2.69%	2.63%	4.52%	7.84%	9.38%
All Ordinaries Accumulation Index	3.83%	4.90%	5.14%	9.22%	6.46%
Alpha	-1.14%	-2.27%	-0.62%	-1.38%	2.92%

\* Return since fund inception on 19 November 2018

## Sector Breakdown

Sectors	% Weight	% Return
Materials	9.63%	6.23%
Financials	9.60%	2.79%
Industrials	9.50%	3.98%
IT	6.49%	-1.90%
Healthcare	6.30%	5.78%
Consumer Discretionary	4.31%	11.37%
Communication Services	3.86%	0.23%
Consumer Staples	3.26%	14.00%
Real Estate	2.70%	9.70%
Utilities	1.44%	-1.00%
Energy	0.22%	-2.16%
Cash	42.69%	0.00%
<b>Total</b>	<b>100%</b>	<b>2.69%</b>

## Contributors to Returns

Top 5 Contributors (%)	
JHX	0.37
WES	0.31
PWH	0.30
RMD	0.24
MHJ	0.19

Top 5 Detractors (%)	
RUL	-0.21
IDX	-0.05
CAR	-0.03
IPH	-0.02
BHP	-0.02

## Portfolio Management Team

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

## 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.