

UQ Business School Student Managed Investment Fund (SMIF) Portfolio Case Competition Semester 2, 2019

Competition overview

In 2018 the University approved the allocation of \$200,000 to the UQ Business School Student Managed Investment Fund. This money was fully invested on two dates in November and December 2018 and has generated a return of 18% as at 12 July 2019 with the portfolio having a value of approximately \$236,000. Further transactions were executed on the 17th July 2019.

SMIF in semester 2 will be centred on a portfolio management case competition where teams will compete to be appointed portfolio managers (PMs) for a half year period. It is important to note that this competition will *replace* the prior SMIF model of analyst teams and portfolio managers.

In the new competition model, students form their own teams and will be required to produce a comprehensive portfolio solution for SMIF with recommended additions to and sales from the existing portfolio. The solution will need to comply with specified portfolio guidelines and constraints. The winning team will have their portfolio solution implemented and will be appointed portfolio managers for a half year period before handing over to the next team of portfolio managers in around April 2020. During that period the PMs will be able to make further changes to the portfolio with Investment Committee approval.

It is anticipated that there will be a semi-final of the competition judged by UQ Business School academic staff and/or other suitable individuals followed by a final which will be judged by a panel which includes one or more industry professionals. A cash award of \$3,500 will be paid to the winning team in two instalments, the first \$1,500 upon winning the competition and the second \$2,000 at the end of the period of appointment as PMs. The runner-up team will receive \$1,000 and the third-place team will receive \$500.

Benefits of participation

There are a range of potential benefits for students who participate in this competition including:

- Development of skills related to teamwork, task planning and organisation, report preparation, and giving effective presentations;
- Experiential learning – putting into practice concepts and theory from areas such as valuation, portfolio management, risk management and corporate finance;
- Enhancing employability and employment opportunities – employers are increasingly looking to employ students with demonstrated experience and skills developed in extra-curricular activities. This activity will provide some students with direct access to potential employers;
- Experience managing real money – the winning team will have direct management of a portfolio of more than \$235,000 for a period of half a year and be members of the SMIF investment committee;
- Cash award – the three finalists will receive a cash award for their achievement.

Who is eligible for the competition?

The competition will be open to all UQ students. However, each team of 4 to 6 students will need to have at least two students who are currently enrolled in a UQ Business School program (e.g. Bachelor of Commerce, Bachelor of Advanced Finance and Economics, Master of Commerce - but not limited to these). Further, each team must have at least 4 students who will still be enrolled in their current UQ program in April 2020.

If you want to be involved in the competition please email:

To: finance_seca@business.uq.edu.au

Subject: SMIF Registration

Email content: Please register me on the SMIF Blackboard. My student number is -----

You can form your own team or use Blackboard to help you form a team with other interested students.

You must be registered on Blackboard in a team of at least 4 students by 4pm Friday 16th August. You will find a link 'Competition Team Registration' under 'Portfolio Management Case Competition Sem 2 2019' on the SMIF Blackboard site.

Duties of the winning team

Please note that the winning team will be appointed PMs for a half year period and must be available to perform duties associated with the role during that period. The final cash award payment will only be made upon satisfactory completion of these duties. These duties include:

- Monitoring and managing the portfolio;
- Attending and actively participating in Investment Committee meetings;
- Promoting the SMIF and assisting with next semester's case competition;
- Preparing and presenting a report to the SMIF Advisory Board at the completion of their term as PMs. The report will detail the performance of the portfolio during the PMs tenure.

The amount of time that the PM team will spend on these activities will depend largely on their investment philosophy and process, so it is not possible in advance to state the time commitment required.

What is the task?

Historical transactions for the SMIF portfolio can be found on page 8 of this document. You will need to use the information to reconstruct the current portfolio (and you may wish to use the Bloomberg portfolio tool to do this).

Essentially, the task of each team is to formulate a set of Buy/Hold/Sell recommendations and associated transactions for the Fund.

Of course you will need to have a sound rationale for the changes to the portfolio that you are proposing. Typically this will be expressed in the form of an Investment philosophy and strategy.

Here are some examples of real world investment manager philosophies and strategies:

(Note: the following two managers have managed money for UQ)

<https://www.hyperion.com.au/our-approach-to-investing/>

<https://dnrcapital.com.au/about-us/investment-philosophy/>

<https://www.iml.com.au/about-us/investment-philosophy>

<https://solariswealth.com.au/about-solaris/investment-process/#>

<https://www.pmcapital.com.au/why-pm-capital/your-benefits/investment-philosophy>
<https://carncapital.com/investment/>

Your team should clearly articulate a sound investment philosophy, strategy and process in your presentation.

In doing this you must take into account a range of constraints which flow from the UQ Investment Policy: <https://ppl.app.uq.edu.au/content/investment-policy>

Key aspects of this Policy that are relevant to investments made by SMIF are:

- *“All investments must be within the Senate-approved Risk Appetite Statement and meet UQ’s ethical standards and values” (2.2.3). UQ values are articulated at: <https://www.uq.edu.au/about/mission-statement>*
- Long-term investment pool objectives (2.6)
 - *“To create a growing source of funds that can be used to support the objectives of UQ;*
 - *To provide long-term capital growth as well as a stable annual income stream in perpetuity;*
 - *To preserve the long-term purchasing power of the endowments;*
 - *To provide reasonable returns that are consistent with donor expectations; and*
 - *To minimise market risk by investing in a well-diversified portfolio across a number of industry sectors.”*
- Prohibited investments (2.9)
 - *“A derivative unless to hedge a prescribed risk under UQ’s foreign exchange or debt policies; and*
 - *An investment that does not align with UQ’s values and strategic direction unless otherwise approved by the Senate.”*

To ensure compliance with the UQ Investment Policy **the following constraints must be adhered to by all teams:**

1. All investments must comply with the SMIF ESG Policy (see page 7 of this document);
2. Investments are restricted to ASX listed securities but may not include any derivative; ETFs and LICs are permitted but it must be clear that the holdings of these Funds also comply with the SMIF ESG Policy. Listed debt securities are permitted.
3. The portfolio must comprise at least 25 securities, with a minimum of 1% and maximum of 10% in any single security. The largest 10 holdings may not comprise more than 50% of the portfolio. Maximum cash weight is 10%, minimum is 0%. You must account for brokerage (0.6% of transaction value or \$30 whichever is the greater plus 10% GST).
4. At least 60% of the value of the portfolio must be constituents of the S&P/ASX200 index and at least 90% must be constituents of the All Ordinaries Index. The Fund benchmark is the All Ordinaries Accumulation Index.
5. While there are no strict rules on sector weights, the portfolio is expected to be prudently diversified across the 11 GICS sectors.
6. A minimum of 40% of the existing portfolio (by dollar value) must be maintained in your proposed portfolio. That is, you will need to rollover 40% or more of the current portfolio and incorporate it in your proposed portfolio. The FAIR ETF should not be included in that 40% rollover.

What is the semester schedule?

Please note that all dates are subject to change. Any date changes will be posted on the SMIF Blackboard and emailed to registered students.

1. Report submission

Deadline for submission: 5pm Monday 2nd September 2019

It is important to note that company reporting season finishes at the end of August and a great deal of information is likely to be released to the market during this time.

Report submission requirements: see page 4.

Any team who wishes to participate in the competition must submit by the deadline the required 9-page report. Reports will be evaluated by UQ Business School academic staff (and/or current student Portfolio Managers) and up to 9 teams selected to participate in the semi-final. All teams will be advised of their success or otherwise by Monday 9th September.

Judging criteria: Team reports will be assessed on a number of criteria including:

- Adherence to specified Report requirements;
- Clarity and coherence of investment philosophy, strategy and process;
- Concordance of portfolio with stated investment philosophy, strategy and process;
- Thoroughness of research in stock spotlight;
- Strength of qualitative and quantitative analysis;
- Quality of report presentation and writing;

It is not anticipated that formal feedback will be provided to unsuccessful teams.

2. Semi-final presentations

The semi-final is expected to be held on Monday 16th September where up to 9 selected teams will make a 15 minute presentation + 5 minute Q&A. Judges will comprise UQ Business School academic staff and/or other suitable individuals. 3 teams will be selected for the final.

Deadline for submission of proposed presentation: 4pm Thursday 12th September 2019

Presentation requirements and judging criteria will be communicated directly to the teams selected for the semi-finals.

3. Final presentations

The Final will be held on Thursday 26th September where 3 selected teams will make a 20 minute presentation + 5-10 minute Q&A. Students will be making essentially the same presentation as in the semi-finals but will have more time to present and answer questions. Judges are expected to comprise a panel including at least one industry professional.

Deadline for submission of proposed presentation: 4pm Thursday 19th September 2019

Presentation requirements and judging criteria will be the same as for the semi-finals.

Report submission requirements

By 5pm Monday 2nd September 2019 submit your 9-page (A4) report as a PDF on the SMIF Blackboard ('Team Report' link under 'Portfolio Management Case Competition Sem 2 2019') with the following contents:

Page 1: Team Name and contact details (email address, phone number); for each team member – family name; first name; gender; student number; enrolled program; expected graduation semester.

Page 2: Investment Philosophy and Strategy. An investment philosophy is a set of core beliefs or principles. An investment strategy is how that philosophy is put into practice. For example a 'deep value' investment philosophy may be based on a core belief that markets are not always efficient and the greatest deviations from efficiency can occur with poorly performing companies. In this case the investment strategy may centre on identifying these poorly performing companies, perhaps by looking at companies that are currently receiving very bad press (e.g. AMP) or where the share price has performed very poorly over the last six to 12 months or that look very cheap on various metrics such as P/E ratio.

There are many alternative investment philosophies, and teams are free to adopt a philosophy that suits their beliefs about markets. However, teams are advised not to go outside mainstream investment philosophies adopted by professional investment managers – for example, teams are advised not to adopt a philosophy based principally on technical analysis.

Page 3: Investment Process. The investment process describes how the investment strategy is implemented. For example, the deep value investment philosophy and strategy described above may be under-pinned by the following process: The investment universe is all ASX listed equities with a market capitalisation of more than \$50m; Market software (e.g. Bloomberg, DatAnalysis Premium) is used to screen for all companies with a trailing P/E ratio of less than 10 or have a one year return of -40% or worse etc; Qualitative analysis is then undertaken to understand the underlying driver/s of the low current valuation or poor share price performance; Purchase decisions are based on an assessment of the future prospects for the business rather than formal valuation models; Initial stock weights are based on the assessed level of risk. Etc.

Page 4: Stock Spotlight – overview one of your proposed Buy stocks. You need to present a compelling one-page case for this purchase. You can put anything you like on this page but it could include for example: some basic data (e.g. share price, market capitalisation, revenue, P/E ratio etc); what the company does; the investment thesis; valuation and expected return; key risks.

Page 5: Buys – list proposed purchases for the portfolio including: Company name; ASX code; share price; market capitalisation; dollar value to be purchased; portfolio weight; 1 year forward total expected return; ESG compliance. Disclose the name/s of any team members that have a direct personal interest in any of these companies.

Page 6: Sells and Holds - list proposed sales and holds for the portfolio including: Company name; ASX code; share price; market capitalisation; number of shares to be sold (zero if Hold); portfolio weight; 1 year forward total expected return (if a Hold). Provide a concise rationale for the decision to sell and hold this group of stocks. Disclose the name/s of any team members that have a direct personal interest in any of these companies.

Page 7: Current Portfolio Metrics – Table with the following columns in descending order of portfolio weight: Company name; ASX code; GICS Sector; S&P/ASX 200 (Y if member, blank if not); All Ordinaries (Y if member, blank if not); market capitalisation; enterprise value; 1 year historical return; annualised standard deviation of prior 12 month returns; beta; current portfolio weight %; current portfolio dollar holding; trailing 12 month revenue; trailing 12 month EBIT; EBIT margin; ROE; ROA; Net interest cover; trailing 12 month P/E; trailing 12 month EV/EBIT; trailing 12 month dividend yield; current P/B.

At the bottom of the following columns provide the median value for the portfolio: 1 year historical return; annualised standard deviation of prior 12 month returns; beta; current portfolio

weight %; EBIT margin; ROE; ROA; Net interest cover; trailing 12 month P/E; trailing 12 month EV/EBIT; trailing 12 month dividend yield; current P/B.

Page 8: Proposed Portfolio Metrics – Table with the following columns in descending order of portfolio weight: Company name; ASX code; GICS Sector; S&P/ASX 200 (Y if member, blank if not); All Ordinaries (Y if member, blank if not); market capitalisation; enterprise value; 1 year forward total expected return; annualised standard deviation of prior 12 month returns; beta; proposed portfolio weight %; proposed portfolio dollar holding; trailing 12 month revenue; trailing 12 month EBIT; EBIT margin; ROE; ROA; Net interest cover; trailing 12 month P/E; trailing 12 month EV/EBIT; trailing 12 month dividend yield; current P/B.

At the bottom of the following columns provide the median value for the portfolio: 1 year forward total expected return; annualised standard deviation of prior 12 month returns; beta; proposed portfolio weight %; EBIT margin; ROE; ROA; Net interest cover; trailing 12 month P/E; trailing 12 month EV/EBIT; trailing 12 month dividend yield; current P/B.

Page 9. Portfolio Constraints – certification that all Buys comply with SMIF ESG Policy; Number of securities in portfolio; weight of smallest holding in portfolio; weight of largest holding in portfolio; total weight of largest 10 holding in portfolio; total weight of holdings with are members of S&P/ASX200 index; total weight of holdings with are members of All Ordinaries index; For each of the 11 GICS Sectors – portfolio weight; S&P/ASX200 weight; difference.

Note:

(a) failure to comply strictly with these requirements will mean that your team cannot proceed to the semi-final of the competition;

(b) data (e.g. share price) should be as at close of business on 30th August 2019;

(c) financial data should be expressed in \$m;

(d) the written content of the report should be the original work of the team and should not be taken verbatim from any other source. Turnitin will be used to check for originality.

Useful resources

The **Bloomberg lab** is located on level 1 of the Colin Clark building. You can use the Bloomberg terminals here to gather a great deal of data and information about potential investments for the portfolio. You can access this lab during weekday University hours and will need to setup an account.

Capital IQ also provides a wealth of financial data about listed companies which you can access from any device. Please sign up for a login using your @student.uq.edu.au email address at: <https://www.capitaliq.com/ciqdotnet/login.aspx>

Click on 'New User' to register.

DatAnalysis Premium provides access to Australian and New Zealand listed company information. You can access this through the UQ library:

<http://datanalysis.morningstar.com.au.ezproxy.library.uq.edu.au/>

If you have any questions,...

You can contact any of the following UQ Business School academic staff:

Dr Clive Gaunt – c.gaunt@business.uq.edu.au

Dr Min Zhu – m.zhu@business.uq.edu.au

Dr Lily Nguyen - lily.nguyen@business.uq.edu.au

Mr Adam Best (current student PM) – a.best@uq.net.au

Mr Rohan Newman (current student PM) – r.newman@uq.net.au

UQ Business School
Student Managed Investment Fund (SMIF)
Environmental, Social and Governance (ESG) Investment Policy
July 2019

The University of Queensland does not currently have a stated policy on ESG in relation to its investments. However, there are a number of documents relevant to this issue. First, the UQ Investment Policy (<https://ppl.app.uq.edu.au/content/investment-policy>) states that '*All investments must be within the Senate-approved Risk Appetite Statement and meet UQ's ethical standards and values.*' (2.2.3). Second, in October 2016 the UQ Chancellor, Mr Peter N Varghese AO, wrote to a group who had asked the University Senate to divest fossil fuel investments (<https://www.uq.edu.au/news/article/2016/10/chancellors-letter-fossil-free-uq>). In that letter the Chancellor identified Dalton Nicol Reid and Hyperion as investment managers appointed by the University and that these managers had committed to the United Nations-supported Principles for Responsible Investment (PRI) Initiative which comprise:

- Incorporate ESG issues into investment analysis and decision-making processes;
- Be an active owner and incorporate ESG issues into ownership policies and practices;
- Seek appropriate disclosure on ESG issues by the entities in which the Fund Managers invest;
- Promote acceptance and implementation of the Principles within the investment industry;
- Work together to enhance our effectiveness in implementing the Principles; and
- Report on activities and progress towards implementing the Principles.

Dalton Nicol Reid incorporate a negative screen which specifically excludes investing in companies involved in gaming, pornography, armaments and tobacco. They also seek to include companies with low ESG risk.

The UQ SMIF will adopt the following ESG Policy:

- The Fund supports the United Nations Principles for Responsible Investment (PRI);
- The Fund will incorporate Environmental, Social and governance issues into investment analysis and decision-making processes. In practical terms this means that all material ESG issues associated with a Fund investment will be identified, assessed and found to meet UQ's ethical standards and values.
- The Fund will not invest in any company that generates revenue principally from gambling, pornography, armaments or tobacco.

SMIF Historical Transactions

Trade Date	Buy/Sell Code	Company Name	Quantity	Avg Price	Consideration	Brokerage (ex GST)	Net Amount
19/11/2018 B	AUB	AUB GROUP LTD FPO	499	12.12	6,046.58	36.28	6,086.49
19/11/2018 B	BXB	BRAMBLES LIMITED FPO	315	10.35	3,260.25	30.00	3,293.25
19/11/2018 B	CSL	CSL LIMITED FPO	22	183.60	4,039.20	30.00	4,072.20
19/11/2018 B	DLX	DULUXGROUP LIMITED FPO	699	7.15	4,995.40	30.00	5,028.40
19/11/2018 B	IGO	INDEPENDENCE GROUP FPO	826	4.15	3,427.90	30.00	3,460.90
19/11/2018 B	MQG	MACQUARIE GROUP LTD FPO	60	117.54	7,052.40	42.31	7,098.94
19/11/2018 B	ORA	ORORA LIMITED FPO	1,505	3.17	4,770.85	30.00	4,803.85
19/11/2018 B	OSH	OIL SEARCH LTD FPO 10T	916	7.44	6,815.04	40.89	6,860.02
19/11/2018 B	QBE	QBE INSURANCE GROUP FPO	320	11.39	3,644.80	30.00	3,677.80
19/11/2018 B	QUB	QUBE HOLDINGS LTD FPO	2,515	2.56	6,438.40	38.63	6,480.89
19/11/2018 B	REH	REECE LIMITED FPO	440	10.78	4,742.19	30.00	4,775.19
19/11/2018 B	RWC	RELIANCE WORLDWIDE FPO	954	4.75	4,531.50	30.00	4,564.50
19/11/2018 B	S32	SOUTH32 LIMITED FPO	1,259	3.33	4,186.18	30.00	4,219.18
19/11/2018 B	SHL	SONIC HEALTHCARE FPO	287	21.80	6,256.60	37.54	6,297.89
19/11/2018 B	SXY	SENEX ENERGY LIMITED FPO	6,886	0.42	2,857.69	30.00	2,890.69
19/11/2018 B	TGR	TASSAL GROUP LIMITED FPO	1,425	4.18	5,956.50	35.74	5,995.81
20/11/2018 B	NST	NORTHERN STAR RESOURCES	538	8.30	4,465.40	33.00	4,498.40
3/12/2018 B	APX	APPEN LIMITED FPO	253	14.12	3,572.36	30.00	3,605.36
3/12/2018 B	BHP	BHP BILLITON LIMITED FPO	200	31.45	6,290.00	37.74	6,331.51
3/12/2018 B	COE	COOPER ENERGY LTD FPO	8,579	0.43	3,688.97	30.00	3,721.97
3/12/2018 B	FAIR	BETAAUSUSTAINABILITY ETF UNITS	5,105	15.51	79,178.55	475.07	79,701.13
3/12/2018 B	NCK	NICK SCALI LIMITED FPO	790	5.37	4,242.30	30.00	4,275.30
3/12/2018 B	NEC	NINE ENTERTAINMENT FPO	1,932	1.77	3,409.98	30.00	3,442.98
3/12/2018 B	PLS	PILBARA MIN LTD FPO	5,381	0.87	4,668.02	30.00	4,701.02
3/12/2018 B	TWE	TREASURY WINE ESTATE FPO	344	14.65	5,039.60	30.24	5,072.86
3/12/2018 B	WEB	WEBJET LIMITED FPO	406	12.39	5,029.97	30.18	5,063.17
17/07/2019 S	FAIR	BETAAUSUSTAINABILITY ETF UNITS	410	18.00	7,380.00	44.28	7,331.29
17/07/2019 S	PLS	PILBARA MIN LTD FPO	5,381	0.50	2,663.60	30.00	2,630.60
17/07/2019 B	WBC	WESTPAC BANKING CORPORATION	542	27.64	14,980.88	89.89	15,079.76

Notes:

1. The portfolio was seeded with \$200,000 in early 2018 and there have be no additional contributions or withdrawals of capital since that time.
2. In determining the current cash position of the Fund you need to calculate any dividends received in cash as at 30th August 2019. Separately, you should record dividends receivable (based on dividend ex-date) but not yet paid as at 30th August 2019. While the University will be entitled to a refund of franking credits as a non-tax paying entity, these have not yet been received and should not be included in your cash balance.
3. Brokerage is paid at a rate of 0.6% of the transaction value or \$30 whichever the greater (plus 10% GST)