

# Student Managed Investment Fund November 2019 Update



## November 2019 Fund Update

### Fund Review

The portfolio returned +4.0% for the month ended 31 November 2019, compared with the benchmark All Ordinaries Accumulation Index return of +3.1%.

November was a significant month for the SMIF fund, with key updates announced from our positions in Chorus (ASX:CNU) and James Hardie (ASX:JHX).

**Chorus** owns the fixed-line ultra-fast broadband (UFB) network in New Zealand, with primary operations involving the provision of broadband and phone services across fixed Fibre to the Premise (FTTP) and copper lines, of which the company owns 81% and 100% respectively. The company derives the majority of its revenue through the wholesale provision of access to their copper and fibre networks.

The New Zealand Commerce Commission recently announced the draft pricing methodologies for the newly constructed monopoly fibre network, which was positively received by both management and shareholders, contributing to a strong performance of (15%) for the month. In the future, we expect this pricing decision to result in more free cash flows for the company which management has advised will be allocated to shareholders in the form of dividends.

**James Hardie** recently announced an upgrade to their full year guidance, with Net Operating Profit After Tax (NOPAT) up 17% for the half year, driven mostly by improved margins and greater sales volumes of their fiber cement product in the US. Accordingly, this update resulted in a (15.5%) share price appreciation for the month.

Continuing with the materials sector, **Rio Tinto** (ASX:RIO) has seen significant upside over the course of November as a number of positive developments arose from the Oya Tolgoi Copper mine. This development

involved the completion of shaft 2, which will allow for significant productivity gains in the mine, as well as easing investor sentiment given the historical difficulty of the project.

In terms of the IT sector, **Appen** (ASX: APX) announced an upgrade to their full year EBITDA guidance in the range of \$96M - \$99M, as opposed to previous estimates of \$85M - \$90M. This was largely driven by increased revenue from existing customers and projects. Appen remains a key investment in our exposure to the IT sectors and we remain confident in their business operations.

As mentioned in our last update, our decision to reduce our exposure to **Westpac** in October was favourable in the wake of tougher business conditions and tightening margins. This month, CEO Brian Hartzler stepped down after allegations of money laundering came to light, with potential fines from AUSTRAC looking to be between 1-4 billion AUD. We will continue to monitor investor sentiment and remain prudently diversified across the various sectors.

### Market Update

November was a strong month for global equities, with the Australian All Ords (+3.1%) and US (S&P 500) (+3.4%) markets initially rising strongly off the back of optimistic trade war dialogue, before faltering slightly during the final week as negotiations once again turned bitter.

On a macroeconomic front there remain two material issues that concern the fund. The first is continued oscillation between the US and China trade relations with no end in sight, and the second is domestic consumer spending growth. With respect to the US-China trade war, uncertainty around whether a deal is likely to be negotiated continues to be a source of market volatility (despite promising job growth figures). This looks set to continue in the near future.

Consumption spending increased by around 0.1% over the September quarter. This has potentially negative implications for Australian economic growth given that this accounts for around 60% of GDP. While consumer confidence has improved since October, there is still evidence that spending may continue to stay low in the near future.

## RBA Policy and Review

The fund notes that during November the RBA left interest rates steady at 0.75%. The RBA has signaled that they will not raise interest rates for the foreseeable future as they see this as a requirement for reaching full employment and inflation within target. Currently the unemployment rate is 5.25% and the RBA expects this to decline to below 5% by 2021 with inflation at around 2% during 2020. The fund remains concerned about household debt levels and increasing pressure to unwind lending standards to increase the rate of credit approvals.

## Quantitative Data

### Performance:

|                | 1 month | 3 months | 6 months | Since Inception (Nov 2018) |
|----------------|---------|----------|----------|----------------------------|
| SMIF Portfolio | 4.0%    | 4.1%     | 7.1%     | 19.9%                      |
| All Ordinaries | +3.1%   | 4.8%     | 9.2%     | 25.1%                      |

### Key Portfolio Metrics (ex FAIR ETF):

| Metric |        |
|--------|--------|
| P/E    | 20.93x |
| P/B    | 2.57x  |
| ROE    | 19.76% |

### Market Capitalisation Breakdown (ex FAIR ETF):

|                   | Number of Stocks | % Weight |
|-------------------|------------------|----------|
| S&P/ASX1-100      | 15               | 49.5%    |
| S&P/ASX101-200    | 6                | 16.8%    |
| S&P/ASX201-300    | 1                | 2.1%     |
| S&P/ASX301-500    | 0                | 0.0%     |
| ex-All Ordinaries | 1                | 4.0%     |

## Portfolio Management Team

| Student        | Degree  |
|----------------|---|
| Xavier Clark   | Bachelor of Commerce & Economics                |
| Elyse Dwyer    | Bachelor of Advanced Finance & Economics (BAFE) |
| Zach Hayward   | Bachelor of Advanced Finance & Economics (BAFE) |
| Patrick Jaffe  | Bachelor of Advanced Finance & Economics (BAFE) |
| Callum McFaul  | Bachelor of Advanced Finance & Economics (BAFE) |
| Jordi Montaner | Bachelor of Advanced Finance & Economics (BAFE) |

### Sector Breakdown (ex FAIR ETF):

|                        | % Weight |
|------------------------|----------|
| Materials              | 11.5%    |
| Healthcare             | 11.4%    |
| Financials             | 9.7%     |
| Industrials            | 7.3%     |
| Consumer Staples       | 6.0%     |
| Consumer Discretionary | 5.2%     |
| Communication Services | 4.4%     |
| Utilities              | 4.2%     |
| Real Estate            | 4.1%     |
| Information Technology | 2.6%     |
| Energy                 | 2.0%     |

## Holdings:

| Ticker/ Company Name                   | Position as of 31 November | Weight | Total Return |
|--|----------------------------|--------|--------------|
| FAIR Betaausust/ETF                    | \$ 46,620                  | 19.5%  | 30.6%        |
| MQG Macquarie Group Ltd Fpo            | \$ 16,427                  | 6.9%   | 13.9%        |
| RMD Resmed INC CDI 10:1                | \$ 2,509                   | 5.2%   | 15.9%        |
| CNU Chorus Limited FPO NZX             | \$ 10,490                  | 4.4%   | 11.3%        |
| APA Apa Group Stapled                  | \$ 9,966                   | 4.2%   | -2.7%        |
| SCP Sca Property Group Stapled         | \$ 9,724                   | 4.1%   | -0.4%        |
| MICH Mag Infra Fund Ch TMF Units       | \$ 9,535                   | 4.0%   | 0.6%         |
| RIO Rio Tinto Limited FPO              | \$ 8,817                   | 3.7%   | 8.0%         |
| SHL Sonic Healthcare Limited           | \$ 8,644                   | 3.6%   | 42.0%        |
| QUB Qube Holdings LTD                  | \$ 8,450                   | 3.5%   | 33.9%        |
| WOWWoolworths Group Ltd FPO            | \$ 8,111                   | 3.4%   | 6.5%         |
| BHP BHP Group LTD                      | \$ 7,646                   | 3.2%   | 32.2%        |
| WBC Westpac Banking Corp               | \$ 6,865                   | 2.9%   | -8.4%        |
| CSL CSL Limited                        | \$ 6,236                   | 2.6%   | 55.9%        |
| APX Appen Ltd                          | \$ 6,195                   | 2.6%   | 74.0%        |
| TGR Tassal Group Limited               | \$ 6,184                   | 2.6%   | 8.1%         |
| JHX James Hardie Indust CDI 1:1        | \$ 6,023                   | 2.5%   | 17.3%        |
| NST Northern Star Resources Ltd        | \$ 5,159                   | 2.2%   | 17.2%        |
| SYD Sydney Airport                     | \$ 5,049                   | 2.1%   | 10.1%        |
| NCK Nick Scali Limited                 | \$ 5,000                   | 2.1%   | 26.3%        |
| BAP Bapcor Limited FPO                 | \$ 4,835                   | 2.0%   | -3.3%        |
| ORG Origin Energy FPO                  | \$ 4,767                   | 2.0%   | 11.0%        |
| RWC Reliance Worldwide Corporation LTD | \$ 3,901                   | 1.6%   | -12.0%       |
| BRG Breville Group Ltd FPO             | \$ 2,678                   | 1.1%   | 15.1%        |
| Cash and dividends receivable:         | \$ 19,682                  |        | 8.2%         |
| <b>Total:</b>                          | <b>\$ 239,525</b>          |        |              |

## 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.

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