



Student Managed Investment Fund December 2019 Update



December 2019 Fund Update

Fund Review

The portfolio returned -0.80% for the month ended 31 December 2019, compared with the benchmark All Ordinaries Accumulation Index return of -1.90%. There were some significant developments in the portfolio with top performers Northern Star Resources (ASX: NST) (+17.9%), Nick Scali (ASX: NCK) (+9.5%) and Chorus (ASX: CNU) (+4.8%). The worst performers for the month were Appen (ASX: APX) (-8.3%) and Woolworths (ASX: WOW) (-9.1%).

NST announced in mid-December it had acquired a 50% stake in the Kalgoorlie Consolidated Mine Company, for US\$800 million, partnering with JV participant Saracen Minerals. NST is expected to fund the acquisition with a combination of debt and equity finance, and the investment is expected to add between 120-140,000 ounces of production per year. We remain invested in NST, given the role of gold as a safe haven for capital and as an equity hedge, alongside the promising outlook for the company's FY21.

NCK, and other retail stocks, were boosted off the back of the RBA's decision to hold interest rates at 0.75%, with investors forecasting higher than expected spending over the holiday period. Given the delicate nature of consumer spending in Australia, we will continue to monitor NCK trading conditions closely and act if appropriate.

Chorus performed strongly following the successful placement of €700m worth of debt finance. Investors responded positively to this capital raising, with a clear focus that the capital raised will assist Chorus in expanding its next-generation fibre network technology into rural areas of NZ. We see Chorus providing significant returns over the long-term, due to its sole ownership of the network, favorable regulatory environment and increasing demand for data services in NZ.

Appen fell -8.3% in December in the absence of any negative catalysts. We believe investors engaged in profit-taking after the company's earnings upgrade in November, and the subsequent rise in share price. We continue to support the underlying economics of the company and believe in the competitive advantage of the revolutionary open-source machine learning products.

Woolworths fell (-9.1%) during December from an all-time high of \$39.77. Negative sentiment arose after news of a class action leaked against the company, a result of the wage underpayment scandal of A\$300m uncovered in November. Over the next month, we will consider the regulatory and governance frameworks that Woolworths initiates in addressing the underpayment issues. Despite this, management has been very successful in growing sales over the last year despite strong retail headwinds, and this is a tribute to the strong economics of the business and successful online sales campaigns, as evidenced within Q1 trading results.

Stock Spotlight

Breville Group Limited BRG:ASX

Breville is an Australian domestic appliance manufacturer, developing consumer products for distribution in the Australian, UK/EU and North American marketplaces. The most significant partnership is with Nestle's Nespresso™, to manufacture and develop modular coffee machines.

The fund is currently in the process of increasing its position in Breville Group. After establishing a holding in October 2019, the shares have delivered a return of 17.02% from an initial buy-in price of \$14.92. This return can be attributed to positive price momentum in response to a strong AGM, and additional equity investments by board members, aligning shareholder and management interests. Moreover, CEO Jim Clayton in his tenure has delivered impressive performance on the back of a successful global expansion strategy. In FY19, revenue growth increased by 17%, supported by strong performances in the European marketplace.

The portfolio managers see further growth opportunities for Breville in FY20 after the AGM presentation. This was a result of various catalysts, including product entrances into France and Italy, new innovation and efficiencies from their coffee machine division, and the continued expansion of the companies sous vide technology.

Market Update

Australian Equities markets were weaker in December relative to that of a month ago, with the All Ordinaries falling -1.90%. Markets suffered on the back of a weaker AUD and falls among the real estate and infrastructure sectors.

This does not mar the strong gains the Australian market has generated over the past year, with the ASX200 up 25%. Uncertainties about the US-China trade war, Brexit and an economic slowdown have been quashed by extremely low interest rates channelling more funds into the markets. However, flowing on from this, stems a key concern for markets going into 2020: aggressive “growth” investments funded by cheap debt catalysing panicked investor sell-downs.

On a macroeconomic front, the RBA does not meet over December, and accordingly, the cash rate remained at 0.75%.

We wish all of you a happy holidays and new year.

Quantitative Data:

Holdings:

Ticker/ Company Name	Portfolio Weight	Position 31 st December	Return*
FAIR Betashares Australian Sustainability Leaders ETF	19.0%	\$ 45,221	26.9%
MQG Macquarie Group Limited	6.9%	\$ 16,404	11.7%
RMD ResMed Inc.	5.2%	\$ 2,352	14.2%
CNU Chorus Limited	4.6%	\$ 10,996	16.7%
APA APA Group	4.2%	\$ 10,057	0.2%
MICH Magellan Infrastructure Fund	4.0%	\$ 9,623	1.5%
SCP Shopping Centres Australasia Property Group	4.1%	\$ 9,545	0.6%
RIO Rio Tinto Group	3.8%	\$ 9,136	11.9%
QUB Qube Holdings Limited	3.5%	\$ 8,274	31.1%
SHL Sonic Healthcare Limited	3.5%	\$ 8,251	35.7%
BHP BHP Group	3.3%	\$ 7,784	34.3%
WOW Woolworths Group Limited	3.1%	\$ 7,377	-3.1%
WBC Westpac Banking Corporation	2.9%	\$ 6,784	-12.3%
NST Northern Star Resources Limited	2.6%	\$ 6,085	37.9%
CSL CSL Limited	2.6%	\$ 6,067	51.6%
TGR Tassal Group Limited	2.5%	\$ 5,928	3.8%
JHX James Hardie Industries plc	2.4%	\$ 5,797	12.4%
APX Appen Limited	2.4%	\$ 5,682	59.6%
NCK Nick Scali Limited	2.3%	\$ 5,475	37.4%

Portfolio Management Team

<i>Student</i>	<i>Current Enrolment</i>
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)

SYD	Sydney Airport Limited	2.0%	\$ 4,763	6.2%
ORG	Origin Energy Limited	1.9%	\$ 4,631	7.8%
BAP	Bapcor Limited	1.9%	\$ 4,531	-9.4%
RWC	Reliance Worldwide Corporation Limited	1.6%	\$ 3,854	-13.1%
BRG	Breville Group Limited	1.2%	\$ 2,724	17.0%
	Cash and Dividends Receivable	8.5%	\$ 20,491	
	TOTAL		\$ 237,832	

*Return is price change since purchase

Performance:

	1 month	3 months	6 months	2019 CY	Inception (Nov 2018)
SMIF	-0.8%	2.7%	4.2%	23.6%	18.9%
All Ordinaries Accumulation Index	-1.9%	0.8%	3.6%	24.1%	22.7%

Key Portfolio Metrics:

Metric	
P/E	21.3
P/B	2.6
ROE	12.9

Market Capitalisation Breakdown:

	Number of Stocks	% Weight
S&P/ASX1-100	15	49.8%
S&P/ASX101-200	6	16.7%
S&P/ASX201-300	1	2.3%
S&P/ASX301-500	0	0.0%
ex-All Ordinaries	1	4.1%

Sector Breakdown:

	% Weight
Materials	12.1%
Healthcare	11.2%
Financials	9.8%
Industrials	7.1%
Consumer Staples	5.6%
Consumer Discretionary	5.4%
Communication Services	4.6%
Utilities	4.2%
Real Estate	4.0%
Information Technology	2.4%
Energy	2.0%

Note: Metrics above are exclusive of FAIR ETF

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.