

UQ Business School Student Managed Investment Fund (SMIF) Portfolio Case Challenge Semester 1, 2020

Challenge overview

In 2018 the University approved the allocation of \$200,000 to the UQ Business School Student Managed Investment Fund. This money was initially invested on two dates in November and December 2018. In semester 2, 2019 the inaugural SMIF Portfolio Case Challenge was held culminating in September 2019 with the appointment of Team Hadrian (comprising 6 undergraduate Business School students) being appointed portfolio managers to the Fund for the period through to April 2020.

A similar Challenge is being held in semester 1, 2020 to select the portfolio management team to replace Team Hadrian.

In this challenge, 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 (PMs) for approximately a half year period** before handing over to the next team of portfolio managers in around September 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 challenge 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.

Summary of key dates:

Information session – Tuesday 25 February 2020 (6.30pm in room 14-116)
Team registration deadline (on Blackboard) – 4pm 11 March
Report submission (on Blackboard) - 5pm 1st April
Semi-final – 5pm 23rd April (venue to be advised)
Final – 5.30 pm 30th April (venue to be advised)

Weekly drop-in help sessions 7-8pm Tuesdays March 3, 10, 17, 24, 31 in a room to be advised (come along to this session to find other students who wish to form a team and/or to get help or information about the challenge).

Benefits of participation

There are a range of potential benefits for students who participate in this challenge 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 a real portfolio for a period of half a year and be members of the SMIF investment committee;

Who is eligible for the challenge?

The challenge 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 September 2020.

If you want to be involved in the challenge or want to be added to SMIF Blackboard please email:

To: c.gaunt@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 Wednesday 11th March. You will find a link 'Challenge Team Registration' under 'Portfolio Management Case Challenge Sem 1 2020' 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. 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 challenge;
- 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?

The SMIF portfolio as at close of trade on the 18th February 2020 can be found on page 9.

The core 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)

Quality/Growth (Australian and Global Equities)
<https://www.hyperion.com.au/our-approach-to-investing/>

Quality (Australian Equities)

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

Quality/ Value (Australian Equities)

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

Style-Neutral (Australian Equities)

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

Value (Australian and Global Equities)

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

Value focused/Quality (Global Equities)

<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 (which own operating businesses) and may not include any derivative, Exchange Traded Fund or Listed Investment Company.
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%.
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 Wednesday 1st April 2020

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

Report submission requirements: see page 5.

Any team who wishes to participate in the challenge must submit by the deadline the required 10-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 13th April.

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 Thursday 23rd April 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 Tuesday 21st April 2020

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 30th April where 3 selected teams will make a 15 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 answer questions. Judges are expected to comprise a panel including industry professionals.

Deadline for submission of proposed presentation: 4pm Tuesday 28th April 2020

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

Report submission requirements

By 5pm Wednesday 1st April 2020 submit your 10-page (A4) report as a PDF on the SMIF Blackboard ('Team Report' link under 'Portfolio Management Case Challenge Sem 1 2020) with the following contents:

Page 1: Team Name and contact details (email address, phone number); for each team member – family name; first name; student number; enrolled UQ program (e.g. Bachelor of Commerce); expected graduation semester (e.g. Semester 2, 2021).

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: List of all proposed transactions broken into two groups: Buys; Sells. The list should include the following columns: 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 (\$m); P/E ratio (trailing); Dividend yield (trailing); Current portfolio weight %; Weight % to be bought or sold; Proposed portfolio weight %;

Page 6: Largest 5 Buys: For each of the largest (by portfolio weight) five purchases provide a one paragraph thesis for the purchase.

Page 7: Largest 5 Sells: For each of the largest (by portfolio weight) five sales provide a one paragraph rationale for the sale.

Page 8: Proposed portfolio listing. Table in descending order of portfolio weight (include cash as a line in this table). 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 (\$m); P/E ratio (trailing); Dividend yield (trailing); Portfolio weight %; At the foot of the Market capitalisation

provide a median value for that column. At the foot of the P/E ratio and Dividend yield columns provide a portfolio weighted average for that column.

Page 9: Portfolio ESG. Identify and discuss any ESG issues with proposed portfolio purchases. Certify that all proposed purchases comply with the SMIF ESG Policy.

Page 10. Portfolio Constraints. 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; cash weight; 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; % of existing portfolio rolled-over into proposed portfolio.

Note:

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

(b) data (e.g. share price) should be as at close of business on 27th March 2020;

(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/>

SMIF Blackboard: Material submitted by the three finalist teams are available on Blackboard. Also, videos of the three teams presenting to industry judges can be viewed at:

Introduction and Hadrian presentation <https://youtu.be/DbIBaoVVZIk>

Ripcurl presentation <https://youtu.be/W9GrkHfGXO0>

Kern presentation <https://youtu.be/D3I5573mEEE>

Judge's comments and Prize ceremony <https://youtu.be/RbI2HkEDUcE>

Media Outlets

Livewire Markets: Commentary from Australian Fund Managers on current macroeconomic events and ASX stocks

The Business (iView): 15 minute weekday wrap-ups on current events in Australian business climate

Morningstar: Australian and Global Market Data updates.

If you have any questions,...

You can contact any of the following current student portfolio managers:

Jordi Montaner: jmontaner99@gmail.com

Patrick Jaffe : p.s.jaffe@outlook.com

Callum McFaul: crmcfaul649@gmail.com

Xavier Clark : xavierclark2000@gmail.com

Zachary Hayward: z.hayward@uq.edu.au

Elyse Dwyer: elyse.dwyer@uqconnect.edu.au

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

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.

List of portfolio holdings, cash (including dividends receivable) on hand at close of trading 18 February

ASX Code	Company Name	No. shares	Share Price (18 Feb)	Total Value	%
FAIR	BetaShares Australian Sustainability Leaders ETF	2,155	19.37	41,742	16.2%
CNU	Chorus Limited	3,117	6.12	19,076	7.4%
MQG	Macquarie Group Limited	119	149.14	17,748	6.9%
RMD	ResMed Inc.	564	26.26	14,811	5.7%
SCP	Shopping Centres Australasia Property Group	3,575	3.16	11,297	4.4%
APA	APA Group	906	11.4	10,328	4.0%
MICH	Magellan Infrastructure Fund (Currency Hedged)	2,925	3.44	10,062	3.9%
SHL	Sonic Healthcare Limited	287	31.45	9,026	3.5%
SYD	Sydney Airport	1,069	8.39	8,969	3.5%
RIO	Rio Tinto Limited	91	98.31	8,946	3.5%
WOW	Woolworths Group Limited	204	43.52	8,878	3.4%
BRG	Breville Group Limited	378	23.11	8,736	3.4%
QUB	Qube Holdings Limited	2,515	3.36	8,450	3.3%
BHP	BHP Group Limited	200	38.78	7,756	3.0%
NST	Northern Star Resources Ltd	538	13.83	7,441	2.9%
CSL	CSL Limited	22	331.17	7,286	2.8%
WBC	Westpac Banking Corporation	280	25.75	7,210	2.8%
APX	Appen Limited	253	26.05	6,591	2.6%
ORG	Origin Energy Limited	848	7.76	6,580	2.6%
JHX	James Hardie Industries Plc	208	30.98	6,444	2.5%
NCK	Nick Scali Limited	790	7.89	6,233	2.4%
TGR	Tassal Group Limited	1,425	4.31	6,142	2.4%
BAP	Bapcor Limited	708	6.5	4,602	1.8%
RWC	Reliance Worldwide Corporation Limited	954	4.67	4,455	1.7%
	Total Cash			9,020	3.5%
	Total Portfolio Value			257,829	100.0%