The University of Queensland Business School

The University of Queensland Australia

CREATE CHANGE

Student Managed Investment Fund March 2020 Update

March 2020 Fund Update

Fund Review

The portfolio returned -15.3% for the month ending March 31st, compared with the benchmark All Ordinaries Accumulation Index return of -20.9%, providing an overall outperformance of 5.6% for the month. The top performing investment for the month was Chorus (ASX: CNU) returning 3.4%. The worst performer for the month was Origin Energy (ASX:ORG), returning -37.5%. The significant fall of the portfolio in March relative to previous months was driven by the continued global spread of COVID-19, affecting real economic demand.

Chorus surged in early March to an all-time high of $7.36, before retreating to finish up 3.4% in one of the worst trading months in ASX history. Investors across the globe flew to safe-haven assets in the wake of the COVID-19 crisis, seeking comfort in the fact that Chorus' operating model, as the main NZ provider of internet and broadband services, would be strengthened in the work-from-home, self-isolation model enforced by the NZ government. The company has reaffirmed this belief, maintaining full year EBITDA guidance and suspending any non-essential CAPEX requirements, indicating they are fully capable of supporting increased utilisation of the network. The portfolio managers believe Chorus, as our spotlight stock, is the epitome of our defensive, high-quality focussed strategy, given its resilient consumer base, growing demand for core services in times of crisis, and enjoys a significant competitive advantage as the owner of a monopoly fibre network asset.

Throughout March sectors across the board were jolted with volatility grasping global equity markets. Financials, industrials, energy and consumer discretionary were some of the worst hit sectors due to fear from both COVID – 19 and the rising oil tensions between Russia and Saudi Arabia. Within the Student Managed Investment Fund, exposure to James Hardie (JHX), Sydney Airport (SYD), Qube (QUB) and Origin (ORG) resulted in significant declines. These aggressive sell downs were a result of a 'risk-off' mentally forcing stock prices to crumble as investors preferred to hold cash. Further, many ASX listed companies were served with downgrades and price target reductions from analysts as banks aim to weigh in what the effects from the pandemic mean for both business's bottom line and financial viability.

Stock Spotlight (ASX:WOW)

Despite the sharp decline in price over February as a result of the ASX mass sell-off, we are beginning to see signs of a recovery in share price for WOW. Amidst the closure of non-essential services ordered by the government in response to the COVID-19 pandemic, Woolworths' core business of selling groceries to the Australian public remains unperturbed, if not a beneficiary of such measures. Talks of pandemics aside, the group recorded a 33% increase in EBIT from the PCP in their half-yearly results released in February, higher levels of inventory turnover in their continuing operations, strong momentum in online sales as a result of continued investment into the online delivery platform (with overall sales growing by 4.8%).

For the short term, COVID-19 induced panic-buying has resulted in astronomical demand for Australian supermarket products such as toilet paper, flour, pantry staples and cleaning products. This has caused immense pressure on all supermarkets' supply and logistics agreements. In its ASX update, Woolworths ensured investors that they were supporting suppliers with reduced payables periods, supported by a faster inventory turnover. Furthermore, relaxations on delivery hours to supermarkets in some states has allowed smoother functioning of logistics. This heightened demand for staple goods will last further into the medium term, long after the spike in panic buying. This holds so long as the perception of scarcity remains tangible amongst consumers, who consequently decide to keep their pantries well-stocked.

For the medium term, in addition to the additional incentives to stock up on essential items, the closure of restaurants, bars and pubs to dine-in customers will result in a considerable shift in preferences towards home-cooked food, and packaged liquor. Whilst these preferences may weaken when restrictions are lifted, the reality of heightened unemployment and low business activity will likely have flow-on effects to the restaurant sector. Whilst Woolworths has declined to comment on its expectations for future sales as a result of COVID-19, reports from Evans and Partners have indicated a 50% migration in hospitality sales, could increase the supermarket industry's sales by 4.0%.

Market Update

The Australian All Ordinaries Index delivered a return of -20.9% over March as fear took hold of financial markets around the world with government induced shutdowns of large parts of the economy across most of the western world to halt the spread of COVID-19. These large economic shutdowns were also complemented with widespread fiscal and monetary stimulus in many developed economies, with the Australian Commonwealth Government announcing a fiscal package worth $130 billion. Most experts are now forecasting shutdowns of approximately 3 months in most countries and a rise in the attitude of government stimulus to the tune of "whatever it takes".

The SMIF portfolio managers (PMs) attitude to how the fund should be positioned going forward has not changed from a month ago, however there are some things we would like to specifically point out about the current market situation.

It is clear that the headlines going forward are unlikely to be pleasant and will most likely involve severe job losses, strains on public health systems, business defaults and supply-chain disruptions. It is worth noting that the data coming out in early April is encouraging and shows that most country "curves" (that is the curve of cumulative confirmed cases of COVID-19 within a country) are flattening to a degree, showing that widespread lockdowns are working in containing the virus.

It is very important for people to realise that although the economic impacts of the virus are obvious, this is first and foremost a health crisis, and there is no amount of fiscal or monetary stimulus that can make a health crisis disappear. This means that it is unlikely that the economic impacts of this virus will recede until a medical treatment is developed. This also means that the economic impacts of the virus could be much longer than what anyone is currently forecasting. What does this mean for portfolio positions? Investments into conservatively financed, well-managed companies with some defensive business aspect will likely outperform others and the PMs are confident that the portfolio is comprised of businesses containing most, if not all of these characteristics.

The virus fear that has spooked markets has plunged equity prices considerably from what was before a very expensive market. The PMs are of the position that many equities are now attractively priced and offer considerable upside over the long-term. Although the current PMs have not made any more purchases since early March, we believe now is the time to add considerable positions to the fund. Some readers may say that it is too early to begin purchasing with the situation likely to get worse before it gets better. This is a reasonable concern, however trying to predict market bottoms is a fool's game, and it is time in the market, as opposed to timing the market, that delivers returns over the long run.

Monetary Policy Update

The RBA has taken unprecedented measures in response to the COVID-19 pandemic. Over the course of March they:

1. Reduced the cash rate to .25%
2. Targeted 3-year government bond yields at .25% also
3. Implemented a term funding facility for ADI with support for SME
4. Are now remunerating exchange settlement balances at 10 basis points rather than 0.

This is the first time the RBA has attempted to influence the yield curve over the long-term. In other countries this has had unpredictable consequences and there are fears that it may lead to the rise of so called "zombie companies", companies that will not be able to operate should interest rates ever return to normal. It is not obvious that this will happen in the Australian context.

These are fundamentally different circumstances to what occurred after the GFC. The economy is not suffering primarily from a contagion within credit markets. However, liquidity is still required. Measures targeting SME are also an interesting strategy from the RBA, and like that of the Bank of England. It is the view of the fund that at most this package of measures will likely facilitate the much larger impact that fiscal policy will have during this crisis. With some firms noting that the job-keeper payment represents a marginally larger potential source of stimulus over the Job Seeker payment. They, however, note that the net increase for most workers will be only $400 a fortnight.

Portfolio Management Team

Student	*Current Enrolment*
Xavier Clark	Bachelor of Commerce & Economics
Elyse Dwyer	Bachelor of Advanced Finance & Economics
Zach Hayward	Bachelor of Advanced Finance & Economics
Patrick Jaffe	Bachelor of Advanced Finance & Economics
Callum McFaul	Bachelor of Advanced Finance & Economics
Jordi Montaner	Bachelor of Advanced Finance & Economics

Quantitative Data:

Holdings:

Ticker	Company Name	Portfolio Weight	Position 31st March	Return*
CNU	Chorus Limited	10.3%	$20,603	21.8%
RMD	ResMed Inc.	8.5%	$16,887	21.6%
FAIR	Betashares Australian Sustainability Leaders ETF	8.2%	$16,327	15.9%
MQG	Macquarie Group Limited	6.1%	$12,176	-29.7%
BRG	Breville Group Limited	5.1%	$10,178	-6.0%
APA	APA Group	4.7%	$9,295	-7.5%
APX	Appen Limited	4.5%	$8,919	12.7%
NST	Northern Star Resources Limited	4.3%	$8,497	2.8%
SCP	Shopping Centres Australasia Property Group	4.1%	$8,115	-14.3%
MICH	Magellan Infrastructure Fund	3.9%	$7,839	-16.0%
RIO	Rio Tinto Group	3.9%	$7,695	-2.1%
WOW	Woolworths Group Limited	3.6%	$7,160	-5.0%
SHL	Sonic Healthcare Limited	3.5%	$6,982	16.3%
CSL	CSL Limited	3.3%	$6,526	62.5%
SYD	Sydney Airport Limited	3.0%	$5,975	-33.5%
BHP	BHP Group	2.9%	$5,796	5.2%
JHX	James Hardie Industries plc	2.9%	$5,704	-28.3%
QUB	Qube Holdings Limited	2.7%	$5,407	-12.8%
TGR	Tassal Group Limited	2.5%	$4,987	-10.4%
WBC	Westpac Banking Corporation	2.3%	$4,620	-18.0%
ORG	Origin Energy Limited	1.9%	$3,714	-44.5%
BAP	Bapcor Limited	1.5%	$2,895	-41.2%
NCK	Nick Scali Limited	1.3%	$2,670	-24.6%
	Cash and Dividends Receivable	5.2%	$10,414	
		TOTAL	$199,391	

Performance:

	1 month	3 months	6 months	12 months	Inception (Nov 2018)
SMIF	-15.3%	-16.2%	-13.9%	-8.5%	-0.3%
All Ordinaries Accumulation Index	-20.9%	-23.9%	-23.4%	-15.0%	-6.6%
Margin	+5.6%	+7.7%	+9.5%	+6.5%	+6.3%

Key Portfolio Metrics:

Metric	
P/E	22.9
P/B	3.2
ROE	13.2

Market Capitalisation Breakdown:

	Number of Stocks	% Weight
ASX1-100	14	53.4%
ASX101-200	6	27.9%
ASX201-300	1	1.3%
ASX301-500	0	0.0%
ex-All Ordinaries1		12.1%

Sector Breakdown:

	% Weight
Healthcare	15.3%
Materials	13.9%
Communication Services	10.3%
Financials	8.4%
Consumer Discretionary	7.9%
Consumer Staples	6.1%
Industrials	5.7%
Utilities	4.7%
Information Technology	4.5%
Real Estate	4.1%
Energy	1.9%

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.