

Student Managed Investment Fund April 2020 Update



April 2020 Fund Update

Fund Review

The portfolio returned 7.9% for the month ending April 30th, compared with the benchmark All Ordinaries Accumulation Index return of 9.5%, providing an overall underperformance of 1.6% for the month. The top performing investments for the month included Appen (ASX: APX), Nick Scali (ASX:NCK) and Origin Energy (ASX:ORG) returning 37.6%, 31.2% and 27% respectively. The top decliners were ResMed (ASX:RMD), Shopping Centres Australia (ASX:SCP) and Westpac (ASX:WBC) returning -5.2%, -1.8% and -1.3% respectively. The slight underperformance of the SMIF fund was driven by the defensive nature of the portfolio in one of the best trading months in ASX history.

Appen performed strongly over the month as it reaffirmed profit guidance to be unchanged and in the range of \$125-\$130m EBITDA for the 2020 year. Given the company's healthy balance sheet and cash resources in excess of \$100m, we expect Appen to continue to perform in the long term. Nick Scali also rebounded as the company released guidance detailing cost-cutting measures and store closures until Friday 1st of May, where they will continue to operate and receive revenue from distribution centres and online sales. Origin Energy recovered some of its losses in March, as the company advised shareholders of the security of its energy supply operations, and reaffirmed full year EBITDA guidance of \$1.4 - \$1.5b.

Rebounding from the lows of March 23rd, the portfolio has seen moderate growth. The falls in Resmed, SCP and Westpac are typical of the current market sentiment being extremely volatile, as daily changes continue to swing quite aggressively, translating to somewhat skewed data off the back of an extensive rally throughout April. More specifically, Resmed has seen small declines off the back of trading at near at all-time highs. Westpac has moved sideways, impacted by uncertainty in financial conditions and an upcoming earnings report. Lastly, SCP continues to pose a question for investors and asset managers alike as to whether commercial Real Estate will experience

a fundamental shift due to the work from home experiment and offices globally questioning whether working from home will continue post COVID19.

Portfolio Tenure Review

As Team Hadrian ends the six-month tenure as student portfolio managers, we reflect on some of the strongest buys and sell-offs which have contributed to our alpha generation of 9.1% under tenure, and has moved the portfolio from underperformance to outperformance since inception. Our portfolio has not been as aggressively hit by the sell-downs in February and March as the All Ordinaries, which we attribute to our focus in October on constructing a defensive portfolio of quality businesses with strong economic moats.

BUYS

Our spotlight stock Chorus (ASX:CNU) has performed exceptionally well since its purchase in October, returning 22%. Chorus owns the majority of New Zealand's Ultra-fast Broadband Networks with Fibre to the Premise and copper lines. Chorus has a strong competitive position as a near-monopoly which is regulated by the New Zealand Commerce Commission. Following their final stages of capex rollout with their fibre networks, we anticipated a material increase in cashflow which has been realized and further enhanced by the favorable pricing regulation decision in November, which will allow greater cash flows to flow through to shareholders. Chorus has weathered the COVID-19 crisis well, with a strong balance sheet and resilient, predictable cashflows.

Despite the large sell-off in March, ResMed has rebounded following a strong performance since our purchase in October. ResMed is a manufacturer of CPAP and APAP devices that treat sleep apnea and other disorders and is benefiting from previously under-diagnosed market where new diagnoses are providing significant revenue growth. To further grow value, ResMed have adopted a "data-driven" strategy that sees them

implementing new functionalities to their products such as remote monitoring intelligence, which increases patient compliance and allows healthcare professionals to better evaluate the effectiveness of their treatment strategy. ResMed has responded well to the COVID-19 outbreak, and has escalated its manufacturing of ventilators, which are in dire shortages around the epicenters of the virus outbreak. We truly believe ResMed still has a runway of significant growth potential and we hope to see it as a holding in the portfolio for time to come.

SELLS

At the beginning of our tenure as portfolio managers we also implemented several sell-downs to better pivot the portfolio to be consistent with our investing philosophy and the late-cycle state of the economy. We believe some of these decisions have insulated us from the worst of the market sell-offs as a result of COVID-19. The first notable decision we made was to divest from the financial services sector with a heavy focus on the big four banks. Our sell-down on the position Westpac was driven by our belief that the issue of poor governance among these banks (brought to light by the Royal Commission) had not sufficiently resolved itself for us to restore faith into the business. Furthermore, we saw the current fixture of low interest rates compressing margins as a threat to the core earnings of Westpac. We saw a reduced amount of retained earnings as a source of potential risk in the form of reduced dividend or dilutory capital raisings, if Westpac may suddenly not meet minimum Tier I/II capital requirements. We have seen this occurrence in the sector as a result of the COVID-19 crisis increasing the amount of non-performing loans, with NAB agreeing to raise equity capital upon releasing its half-yearly results last week.

Other divestments have mitigated our downside from weak commodities demand and OPEC tensions causing oversupply in crude oil markets. These include divestments from mining and exploration companies such as Oil Search (ASX:OSH), Independence Group (ASX:IGO), Senex Energy (ASX:SXY) and South 32 (S32.ASX). Furthermore, having terminated our position in Webjet (ASX:WEB) in October due to concerns about economic moat, we insulated ourselves from the fallout that has decimated much

of the tourism and aviation. This concern was also consistent with our full sell down of the Treasury Wine Estates (ASX:TWE) position.

Market Update

The Australian All Ordinaries Index delivered a return of 9.5% over April as global markets recovered from the torrential selloffs ignited during March due to the coronavirus pandemic. In regards to the COVID-19 pandemic, there were encouraging signs in April from the slowdown of the virus in Australia, with only 7 new cases emerging on April 30th and the ACT announcing that they were the first state to be free of all known cases.

There are similar signs of the virus slowing in large parts of Europe, with Spain starting to ease social distancing restrictions from what were among the heaviest in the world.

The situation in the United States is quite different, with over 65,000 deaths and 1 million cases since the beginning of March and no signs that this will be getting better anytime soon. The natural decentralisation of different parts of the United States makes halting the spread of the virus different, with some states staying open for business and others going into full lockdown.

What does the current situation mean for the SMIF portfolio? Firstly, as has been mentioned throughout this report, some of the portfolio positions delivered substantial returns over April and this speaks to the importance of remaining invested throughout market cycles. Obviously staying invested means risking capital loss during market downturns, however not being invested means investors risk missing out on the inevitable market rally and the previous month is a perfect example of this situation.

Secondly, there have been a large number of capital raisings announced and/or completed by Australian listed companies throughout April along with big four banks slashing profit guidance and dividends to firm up capital requirements. Businesses in the SMIF portfolio that have announced such raisings include Bapcor and SCA Property Group. These businesses will have seen significant downturns in activity due to the crisis and it is important that the capital is used by management to make sure the business comes out

of this crisis stronger. How portfolio positions are decided in regards to capital raisings going forward will

Finally, there is no telling how long this virus may continue to linger over the global economy. While many people throughout the world are arguing about the need to re-open the economy against the need to protect public health, it is largely the job of the investor to ignore this debate. Investors (not speculators) must be prepared for a variety of different situations before committing to a long-term investment and this will never change. Once COVID-19 is designated to historical textbooks there will be no shortages of challenges for society to deal with, however human society is capable of extraordinary achievements and the PMs remain forever optimistic that wise investment decisions will lead to sustainable capital creation over time.

Monetary Policy Update

The RBA has this month maintained its target rate at 0.25% and reaffirmed its position that it will not increase rates until the unemployment rate has come back to a level consistent with full employment. Additionally, they would like to see inflation within the target band. However, it is the view of the fund, that the slack in the oil market makes this unlikely to be an imminent prospect.

The fund expects low interest rates to continue for the foreseeable future, and the RBA will likely have to continue its unconventional monetary policy which may also depress long-term and corporate yields for the foreseeable future. The ASX calculates a 60% probability that the cash rate will be lowered to 0% in May. This would represent a serious development in Australian monetary policy. Reaching zero lower bound means that the RBA will have to increasingly rely on unconventional measures which have yet to provide obvious results when they have been applied elsewhere. This represents an interesting challenge for future management of the fund.

Portfolio Management Team

Student

Xavier Clark
Elyse Dwyer
Zach Hayward
Patrick Jaffe
Callum McFaul
Jordi Montaner

Current Enrolment

Bachelor of Commerce & Economics
Bachelor of Advanced Finance & Economics
Bachelor of Advanced Finance & Economics
Bachelor of Advanced Finance & Economics
Bachelor of Advanced Finance & Economics
Bachelor of Advanced Finance & Economics

Quantitative Data:
Holdings:

Ticker	Company Name	Portfolio Weight	Position 30th April	Return*
CNU	Chorus Limited	9.6%	\$20,635	22.0%
FAIR	Betashares Australian Sustainability Leaders ETF	8.1%	\$17,469	17.4%
RMD	ResMed Inc.	7.4%	\$16,006	15.3%
MQG	Macquarie Group Limited	6.8%	\$14,578	-16.3%
APX	Appen Limited	5.4%	\$11,701	47.8%
BRG	Breville Group Limited	4.9%	\$10,589	-2.2%
NST	Northern Star Resources Limited	4.8%	\$10,322	24.5%
APA	APA Group	4.6%	\$9,894	-1.7%
MICH	Magellan Infrastructure Fund	3.8%	\$8,249	-11.7%
SCP	Shopping Centres Australasia Property Group	3.7%	\$7,972	-15.8%
RIO	Rio Tinto Group	3.7%	\$7,963	1.2%
SHL	Sonic Healthcare Limited	3.6%	\$7,804	29.3%
WOW	Woolworths Group Limited	3.4%	\$7,293	-3.3%
JHX	James Hardie Industries plc	3.2%	\$6,905	-13.3%
CSL	CSL Limited	3.2%	\$6,808	69.4%
SYD	Sydney Airport Limited	3.1%	\$6,735	-25.2%
BHP	BHP Group	3.0%	\$6,470	15.8%
QUB	Qube Holdings Limited	2.6%	\$5,558	-10.5%
TGR	Tassal Group Limited	2.5%	\$5,372	-4.0%
ORG	Origin Energy Limited	2.2%	\$4,715	-30.1%
WBC	Westpac Banking Corporation	2.1%	\$4,558	-18.4%
NCK	Nick Scali Limited	1.7%	\$3,674	-1.1%
BAP	Bapcor Limited	1.6%	\$3,498	-29.2%
	Cash and Dividends Receivable	4.8%	\$10,414	
	TOTAL		\$215,179	

Performance:

	1 month	3 months	6 months	12 months	Inception (Nov 2018)
SMIF	7.9%	-14.2%	-6.7%	-4.1%	7.6%
All Ordinaries Accumulation Index	9.5%	-20.4%	-15.7%	-9.2%	2.3%
Alpha	-1.6%	6.2%	9.1%	5.1%	5.3%

Key Portfolio Metrics:

Metric	
P/E	20.5
P/B	2.7
ROE	13.4

Market Capitalisation Breakdown:

	Number of Stocks	% Weight
ASX1-100	14	53.7%
ASX101-200	6	27.8%
ASX201-300	1	1.7%
ASX301-500	0	0.0%
ex-All Ordinaries	1	12.0%

Sector Breakdown:

	% Weight
Materials	14.71%
Healthcare	14.23%
Communication Services	9.59%
Financials	8.89%
Consumer Discretionary	8.25%
Consumer Staples	5.89%
Industrials	5.71%
Information Technology	5.44%
Utilities	4.60%
Real Estate	3.70%
Energy	2.19%

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.