The University of Queensland Business School

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Student Managed Investment Fund June 2020 Update

June 2020 Fund Update

Fund Review

Over the month of June, the Student Managed Investment Fund performed broadly in line with the market with a return of 2.30% relative to the All Ordinaries Accumulation Index return of 2.34%. Top contributors to the fund's performance included ResMed Inc. (ASX:RMD), Appen (ASX:APX), and Sonic Healthcare (ASX:SHL) which returned 16.1%, 10.1%, and 8.0% respectively. The fund's largest losses were in Northern Star Resources (ASX:NST), Cooper Energy (ASX:COE), and Shopping Centres Australasia (ASX:SCP) which returned -9.7%, -9.6%, and -6.8%, respectively.

Throughout the month of June, COVID-19 remained at the forefront of investors' minds. For the first week and a half, the risk-on attitude of the market saw the fund underperform significantly against the benchmark, given our low exposure to financials and energy. However, rising COVID-19 cases around the world combined with economic uncertainty saw investor sentiment shift quickly in the second week of June, whereby once again, the fund's defensive properties were able to dampen the significant selling pressure experienced in the broader market.

The fund's positions in sectors such as healthcare and consumer staples were able to perform particularly well, such as Resmed, Sonic Healthcare, and Woolworths Group. Resmed's share price in particular, was able to surge to record highs, driven by robust demand for ventilators and masks as COVID-19 cases continued to rise globally. Production of critical care products has increased consistently since March whilst demand for their cloud-based remote monitoring software has also been strong. Sonic Healthcare was also able to stage a rally, with trading results in May and June substantially above expectations as its laboratories in Australia, the USA, and Europe benefited from increased testing of COVID-19 patients. However, base revenues from routine testing continues to be depressed for the company.

As signs of a second wave continued to remind investors of the reality of the pandemic throughout the month, cyclical sectors including retail landlords, energy, and travel stocks experienced significant volatilities. Within the Student Managed Investment Fund, Sydney Airport (ASX:SYD), Shopping Centres Australasia, and Cooper Energy all experienced significant declines in their share price as uncertainty increased.

Despite the pandemic, the UQ Student Managed Investment Fund community were fortunate to be able to continue engaging with different fund managers through videoconferences, including Tim Serjeant from Eley Griffiths Group, Ben Rundle from NAOS Asset Management, Caroline Mullin from Merlon Capital, and Andrew Mitchell from Ophir Asset Management. We are thankful for their continued support and for their incredible feedback and insight. Furthermore, Zion was fortunate enough to speak to company management in the form of Scott Didier and Adrian Gleeson from Johns Lyng Group (ASX:JLG).

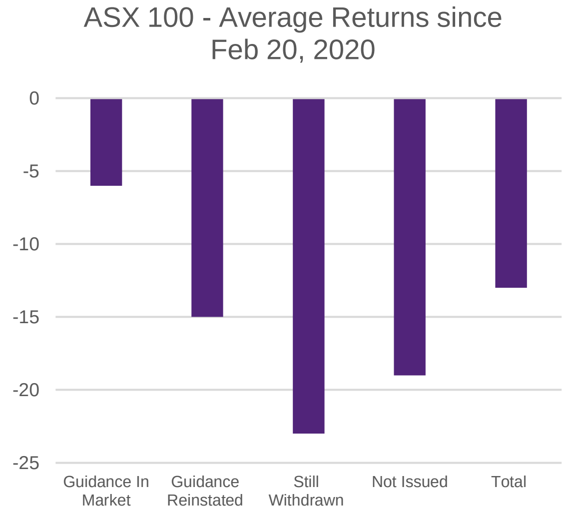
Market Update

The Australian All Ordinaries Accumulation Index delivered a positive return of 2.3% in the month of June, down on the strong returns of April (9.5%) and May (7.9%) as momentum behind the re-opening trade stumbled. Technology companies were among the best performers in June (6% return) as Afterpay Limited, WiseTech Global Limited and Appen Limited rallied on the back of positive earnings updates, demonstrating their resilience in the current climate. The Australian dollar continued to rally, reaching 0.69 AUD/USD, appreciating 26% from the March lows.

In overseas markets, the S&P 500 delivered a positive return of 2.1% in the month of June, again driven by continued strength in the FAANG+ collective. Meanwhile, the S&P500 equal weight index was flat for the month of June, demonstrating the weakness in non-technology stocks as the US continues to stumble in its reopening.

Heading into July, the SMIF team believes there are two key risks that markets will face.

Domestically, the Australian market could face an increase in the number of trading updates for companies that withdrew guidance in March. As seen in the table below, companies that have kept guidance withdrawn have significantly lagged the market.



Source: Macquarie Group Research

Given EPS consensus estimate dispersions are at all-time highs, we believe there could be heightened volatility across markets if a string of poor earnings updates from companies that have been quiet since March are released to the markets.

Secondly, at an international level, consumer and government responses to second waves are key to market movements in July. Mobility data in the U.S. and Australia appears to be fading on the back of heightened case numbers. Federal level politicians have the ability call for reopening's however consumers have grown risk averse to the pandemic and will ultimately forgo a night at a local cinema and restaurant for Netflix and Uber Eats. If the trajectory for reopening's continues to worsen, we expect a migration up in layoffs from medium-sized companies to larger ones, accelerating reputational and operational air cover for large public companies to right-size.

Over the coming month and reporting season, the team will continue to assess risks to the portfolio. Zion Capital remain confident in the long-term competitive advantages of the companies being resilient to COVID-19 and observant of any material structural changes to the industries in which they operate as the COVID-19 crisis plays out. The long-term philosophy is at the core of the team's strategy with reporting season more than likely to reflect negative short-term impacts.

Stock Spotlight

Integral Diagnostics Limited (ASX:IDX)

Integral Diagnostics Limited (IDX) is an Australian healthcare company providing imaging services to GP's, medical specialists and referrers across Australia and New Zealand. The combined group, now the third largest radiology provider in Australia, provides services through a network of clinics including hospital sites. IDX has delivered 3-year revenue and EBITDA CAGR's of 12.6% and 16.1% respectively.

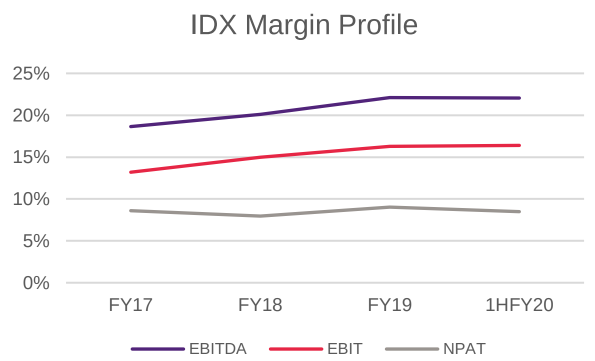
Through its' five key markets across Australia and New Zealand, IDX's underlying strategy is to organically solidify a strong market position through business integration and margin expansion in addition to seeking strategic and bolt-on acquisition opportunities. This optionality is enhanced by management's strong track record of delivering on synergies. In addition to the integration of Imaging Queensland late last year, IDX announced on June 10 an acquisition of a New Zealand based business, Ascot Radiology, who contracts 22 of Auckland's leading diagnostic specialists for A$47.7 million. Management has indicated the acquisition will be EPS accretive in year one, providing the business with cost and revenue synergy benefits.

Zion values IDX's increased exposure to higher modality service offerings such as PET and MRI, which benefits margins (22.2% EBITDA margin 1H20). The company also maintains a loyal radiologist base who are shareholders of the business providing earnings stability. This will be aided by price indexation underwriting volumes and the revenue line over the longer term.

A recent market update on COVID-19 business impacts highlighted in April during peak restriction period revenue declined by between 24-50% across business units. As restrictions were eased in May, IDX saw revenue improvements to declines between 5-16%. June patient revenue has been continuing to gradually improve in most sites.

The Zion Capital team had the opportunity to meet in early July with Dr. Ian Kadish. Appointed Managing Director and CEO of IDX in May 2017, Ian provided valuable insights to the team about his visions for the company moving forward.

Zion initiated a position in IDX mid-May and currently holds a 2.3% weighting in the portfolio, providing a return of 15.7% as at the end of June.



Source: Company Reporting

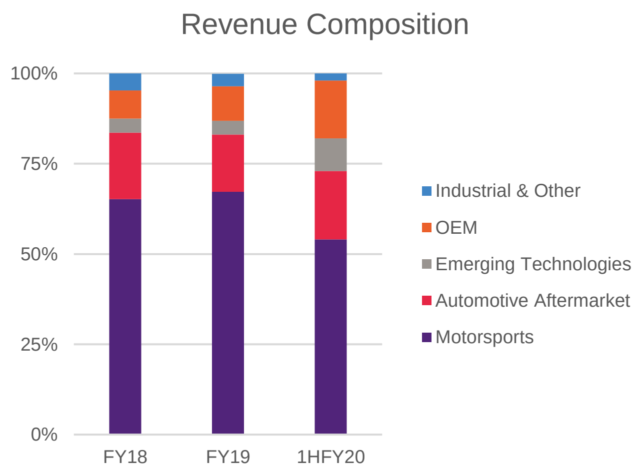
PWR Holdings Limited (ASX:PWH)

PWR Holdings Limited (PWH) is an Australian founded, leading provider of power cooling solutions for motorsports, automotive OEM and aftermarket, emerging technologies and industrial applications. PWR designs and manufactures bespoke products for clients including radiators, intercoolers, engine and transmission oil coolers, heat exchange core and heat exchanges as well as a variety of other accessories. Established in 1998, PWR Performance Products continues to be a founder-led business.

The company design and produce cooling solutions to Formula 1, NASCAR, V8 Supercars and World Rally Championship teams. With the recommencement of Formula 1 races in the Austrian GP and NASCAR races across the U.S., as well as engine development and production being exempt from the newly introduced F1 Budget Cap, Zion Capital remain confident in the position. PWR provided a COVID-19 market update in May notifying investors of continued resilience despite the disruption due to race and order cancellations in Europe.

The company continued to operate through the COVID-19 shutdown, qualifying for the Australian Government Job Keeper wage subsidy; this support adding to the loan received by the US Small Business Administration for PWR Holdings' U.S. Subsidiary, C&R Racing based in Indianapolis. With positive prospects ahead for Formula 1 racing, NASCAR and other motorsports championships, PWR also provided confirmation of the company's commitment to much of its planned CAPEX investment in new emerging technologies – particularly the capability expansions into Vacuum Brazing, MicroMatrix cooler production and additive manufacturing.

Zion Capital view PWR Holdings Limited to be undervalued by the market. The exposure to OEM and emerging technologies provides attractive opportunities and applications for the company. Over the month, PWH-AU returned 3.5%, providing a return of 18.7% to the fund since purchase in May. The company maintains strong margins and revenue growth, a strong balance sheet and working capital position as well as beneficial exposure to the depreciation of the AUD.



Source: Company Reporting

Portfolio Management Team

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Quantitative Data:

SMIF Portfolio Holdings:

Ticker	Company Name	Portfolio Weight		Position 30th June	Return*
RMD	ResMed Inc.	6.6%	▲3	$15,560	35.3%
MQG	Macquarie Group Limited	6.2%		$14,706	-6.6%
CNU	Chorus Limited	6.0%	▼2	$14,171	26.3%
BRG	Breville Group Limited	5.8%	▼1	$13,724	25.9%
NST	Northern Star Resources Limited	4.5%		$10,782	28.4%
APX	Appen Limited	4.3%	▲1	$10,210	93.6%
APA	APA Group	4.2%	▼1	$10,084	-1.8%
CSL	CSL Limited	4.0%	▲1	$9,471	27.3%
BHP	BHP Group	4.0%	▼1	$9,456	11.7%
RIO	Rio Tinto Group	3.8%		$8,914	8.9%
SHL	Sonic Healthcare Limited	3.7%	▲1	$8,733	38.8%
JHX	James Hardie Industries plc	3.6%	▲1	$8,476	6.0%
MICH	Magellan Infrastructure Fund	3.5%	▼2	$8,278	-12.8%
WOW	Woolworths Group Limited	3.2%		$7,605	-0.4%
PWH	PWR Holdings Limited	3.1%		$7,400	18.7%
QUB	Qube Holdings Limited	3.1%		$7,319	13.0%
INA	Ingenia Communities Group	2.9%		$6,811	20.3%
SYD	Sydney Airport Limited	2.6%	▲1	$6,061	-33.7%
CCX	City Chic Collective Limited	2.5%	▲1	$5,928	20.8%
SCP	Shopping Centres Australasia Property Group	2.5%	▼2	$5,875	-20.3%
IDX	Integral Diagnostics Limited	2.3%	▲2	$5,515	15.2%
IPH	IPH Limited	2.2%		$5,207	-0.3%
SSM	Service Stream Limited	2.2%	▼2	$5,159	-10.5%
WBC	Westpac Banking Corporation	2.1%	▲1	$5,026	-35.4%
JLG	Johns Lyng Group Limited	1.9%	▲1	$4,453	-0.4%
COE	Cooper Energy Limited	1.9%	▼2	$4,444	-9.0%
BAP	Bapcor Limited	1.8%		$4,177	-16.8%
	Cash and Dividends Receivable	5.9%		$13,972	
		TOTAL		**$237,517**	

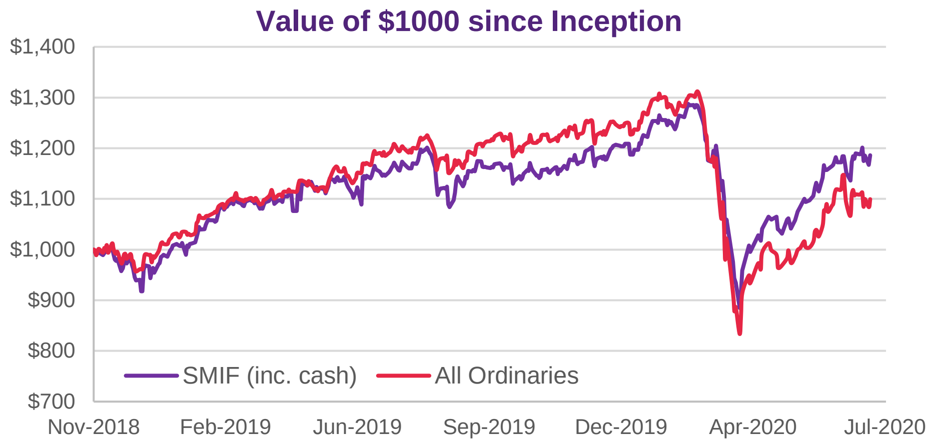
*Total return on each position since purchase, net of fees, excluding dividends

Source: Company Reports

Performance:

	1 month	3 months	6 months	12 months	Inception (Nov 2018)*
SMIF	2.3%	19.1%	-0.1%	3.5%	18.8%
All Ordinaries Accumulation Index	2.3%	17.8%	-10.4%	-7.2%	9.9%
Alpha	-0.0%	1.4%	10.3%	10.7%	8.8%

*Total return since fund inception on 19 November 2018. Performance figures of the UQ SMIF Fund and the All Ordinaries Accumulation Index rounded to one decimal place.



Key Portfolio Metrics:

Metric	
Trailing P/E	27.5x
P/B	3.8x
ROE	16.5%

Market Capitalisation Breakdown:

	Number of Stocks	% Weight
ASX1-100	13	53.7%
ASX101-200	9	27.2%
ASX201-300	0	0.0%
ASX301-500	5	13.3 %
Cash and Dividends Receivable		5.9%

Sector Breakdown:

	% Weight	Change in Rank*
Healthcare	17.6%	▲1
Materials	16.8%	▼1
Consumer Discretionary	14.0%	-
Industrials	12.6%	-
Financials	12.5%	-
Communication Services	6.3%	-
Real Estate	5.7%	-
Information Technology	4.6%	▲1
Utilities	4.5%	▼1
Consumer Staples	3.4%	-
Energy	2.0%	-

*Since last update

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.