

# Student Managed Investment Fund January 2021 Update



# January 2021 Fund Update

## Fund Update

The portfolio returned -0.3% during the month of January. When compared to the benchmark All Ordinaries Accumulation Index return of 0.3%. This represents a total underperformance of 0.6%.

This month saw significant volatility in global markets with optimism surrounding companies that have shown long-term declines in their core operations which has been accelerated by the effects of the COVID-19 pandemic. In Australia, continued small COVID outbreaks stemming from the UK virus strain resulted in strict lockdowns in Brisbane and Perth which has created uncertainty surrounding the expected recovery.

Top performers in the portfolio for the month included Breville Group Limited (ASX:BRG), Chorus (ASX: CNU) and Codan (ASX: CDA) which returned 13.5%, 7.2% and 7.2% respectively. The poorest performers were Cooper Energy Limited (ASX: COE), Sydney Airport Limited (ASX: SYD) and Appen Limited (ASX: APX) which returned -16.7%, -10.8% and -9.6% respectively.

## Market Update

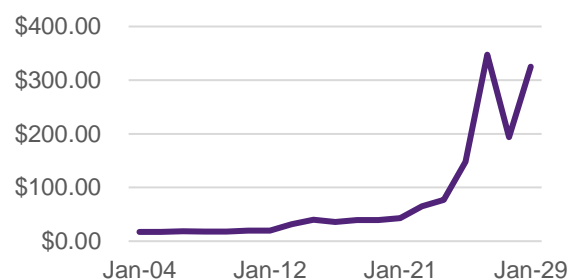
The Australian All Ordinaries delivered a 0.3% return despite falling 3.3% in the final week of January. In U.S markets, the S&P500 and Dow Jones Industrial Index fell 1.1% and 2.0% respectively whereas the NASDAQ Composite Index rose 1.4% stemming from favourable earnings reports by mega-cap stocks.

Globally, many of the December themes were present in markets with further fiscal and monetary stimulus promised which enabled investors to overlook continued virus induced lockdowns. As such, defensive, risk-free assets such as government bonds slipped in the opening weeks of January before a wave of increased volatility saw risky positions sold in favour of stability. In the US, Joe Biden and the Democratic party completed the blue sweep after winning the two Georgia runoff elections further increasing expectations of a \$1.9 trillion stimulus package.

## GameStop and Retail Investor Mania

January was a tumultuous month for markets. At the forefront was Gamestop (NYSE: GME) and the emergence of retail investors as key players in financial markets. As a fanatical frenzy took over the globe, instigated by Redditors and the infamous Wall Street Bets, many so called "meme stocks" that had been in steady decline throughout COVID such as Gamestop (GME), AMC Entertainment Holdings (AMC) and Blackberry (BB) saw meteoric rises. Retail investors had identified an opportunity to profit from the heavily shorted stocks and attempted to enact a short position to push up prices. This succeeded to some degree leading to billions of losses for hedge funds such as Melvin Capital before online brokers began limiting purchases of the stocks which effectively ended the buying spree. The result of these events saw declines in index values across the globe as funds pulled away from the market fearing excessive volatility. Other heavily shorted ASX stocks such as Treasury Wine Estates (ASX: TWE) and The a2 Milk Company (ASX: A2M) also saw rises in the falling markets as shorts were covered out of fear of retail retribution.

January Price Chart of GME



Source: Yahoo Finance

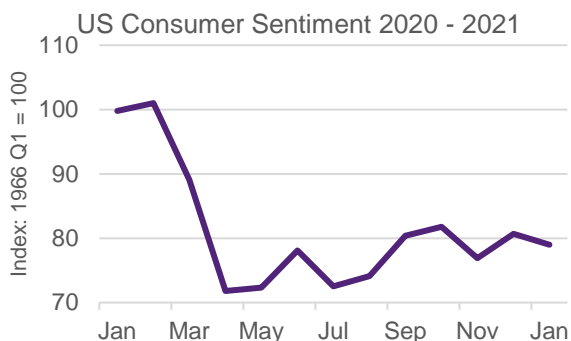
## Macroeconomic Conditions

Throughout the start of 2021, Europe and the US economic recovery stagnated with only China seeing a substantial boost in GDP and other economic indicators.

In China, a rise in industrial production of 7.3% and exports growth of 18.1% year-on-year has pointed to a resurgence in demand both internally and externally. This resulted in GDP growth for the fourth calendar quarter continuing to rise resulting in a 6.5% real GDP year-on-year increase. This momentum is also expected to translate into a corporate earnings recovery.

In the UK, conditions worsened with the Flash Composite Purchasing Managers Index falling significantly. The Flash Composite PMI is an economic indicator which derives a score based on surveying private companies. A score above 50 indicates an expansion of demand from the previous month and vice versa for below 50. This fall from 50.4 to 40.6 was prompted by continued lockdowns of increasing severity as the new virus mutation saw spikes in cases and hospitalizations. However, recovery in the coming months appears promising as more than 13% of the population has already been vaccinated, well ahead of Europe that has an average of 3%.

The US has seen mixed results in terms of economic recovery. Unlike the UK, the US flash-purchasing PMI fell 2.4 points to 57.5 but remains optimistic. The value of property also continued to rise finishing the month up 9.1% from the previous year. On the other hand, labour markets continued to struggle with employment falling for the first time since April with consumer confidence also finishing well below the previous year at 79. Despite this, improved prospects for expedited stimulus led to increased US Treasury yields indicating near-term growth prospects.



Source: University of Michigan

Ultimately, with most major governments committed to supporting the economy and ensuring a swift roll out of vaccines, global recovery is well underway; however, January demonstrated that

COVID can still deliver significant disruptions to relief efforts and thus stringent measures should be maintained for the foreseeable future.

## Position Updates

### Cleanaway Waste Management Limited (ASX: CWY)

Cleanaway Waste Management is the leading integrated waste management and recycling provider in Australia. Its primary operations include the collection, treatment and recovery of solid and liquid waste for commercial, health and industrial segments. Cleanaway was introduced into the SMIF portfolio in October as Plutus began their tenure.

The month of January saw the resignation of Cleanaway CEO Vik Bansal who was instrumental in turning around the company's underperforming operations in 2015. In September 2020, Cleanaway was plagued by bullying and harassment claims where Insiders cited Bansal's emphasis on performance had fostered a toxic workplace culture which had resulted in a high turnover of senior management and staff. These corporate governance issues were addressed by Plutus in their initial presentation which noted that Cleanaway's board of directors had taken appropriate action by cutting Bansal's short-term compensation by 25% and reducing his long-term incentives by \$2.3 million. Currently, an independent investigation into the company by federal government workplace health and safety is on-going. Bansal will be replaced by current chairman Mark Chellow until a permanent replacement is found and retiring CFO Brendan Gill will stay on as COO to assist with the transitional period.

As a result of his resignation, the Cleanaway share price dropped 5.5% for the month. This negative reaction occurred as Cleanaway's growth has historically been driven by acquisitions in which Bansal has played an essential role in realising synergies and effectively integrating businesses into the Cleanaway ecosystem to drive margin growth. In particular, Bansal oversaw the acquisitions of industrial waste services company Toxfree and the distressed SKM recycling assets throughout his tenure which have diversified

Cleanaway's operations and bolstered its presence in the Australian market.

Despite his departure, Plutus believes Cleanaway still possesses a wide economic moat and its existing infrastructure base gives it a unique advantage to capitalise on the circular waste economy. In our view, this capital base will allow Cleanaway to continue to effectively compete for tenders and renew contracts with its existing client base. We believe these long-term municipal contracts with city councils and commercial companies will provide recurring cash flow streams which will allow the company to continue to execute on its core Footprint 2025 strategy.

We do also note the proposed ACCC investigation into the Australian waste management sector on the back of a \$2.5 billion buyout proposal for ASX-listed rival Bingo Industries (ASX: BIN) and \$18.1 billion takeover bid for competitor Suez by French waste giant Veolia.

## Materials Sector Update

As the commercial and residential property markets are forecasted to recover from the COVID-19 vaccine rollout, iron ore prices continue to rise from global demand, and governments highlighting their commitment to sustainable automotive alternatives, the materials sector has evolved into the fulcrum upon which global change will be pivoted. This is indeed the case when one considers the colossal expansion that residential markets will undergo to facilitate the population explosion that will take place before 2050, the need for green energy alternatives, and the accelerated demand for consumer electronics and electric vehicles. With Australia being a treasure trove of vital materials (such as uranium, iron, gold, lead, aluminium, zinc and lithium) that may uphold the development of global property markets and the 'electric revolution', it is an ideal time for the Australian materials sector to expand, grow and emerge as a serious global player. One industry heavyweight that will surely benefit from industry changes and global demand is BHP (ASX: BHP).

## BHP Group (ASX: BHP)

BHP is well poised to capitalise on the next resources supercycle, as predicted by JP Morgan. With the Iron ore industry booming, and the upsurge in 'new energy' and electric vehicles,

Australia's biggest miner is primed to capitalise on social trends and evolution in demand for the metals and minerals that will power the future. Additionally, in line with the goal of reducing the emission output of 'big miners', BHP have invested in more start-ups designed to reduce the carbon footprint of steel production. These goals of helping to move to a cleaner, greener future come amidst newfound demand for coal, buoyed by a 6.5% increase in Chinese GDP. While China has seen a 6% increase in construction and industry, the biggest increase was the service sector in the last quarter of 2020, which saw a 6.7% increase quarter-on-quarter. With restaurants and shops recovering from the pandemic, Chinese electricity regulators will be eager to ensure that they have sufficient reserves to cater to its immense population. As such, thermal coal, metallurgical coal, iron, gold, silver, nickel, lithium, and aluminium will all serve as revenue catalysts and profit drivers in the coming years.

From a managerial perspective, BHP continues to have a long-term vision on what the minerals sector will look like. Mike Henry, BHP's CEO, remains committed to embracing a future of sustainable resources and smaller investments into coal, oil and gas. Henry insists that a decarbonised world will increase demand for BHP's range of commodities and services, and this is true when one considers the infrastructure and systems to be built to support such a large-scale energy transition. Overall, Plutus believes BHP is in a prime position to provide the resources required to facilitate this transition which will provide a long-term earnings stream for the business.

## Portfolio Management Team

<i>Name</i>	<i>Current Enrolment and Contact</i>
Campbell Depper	Bachelor of Commerce and Bachelor of Science <a href="mailto:c.depper@uq.net.au">c.depper@uq.net.au</a>
Joshua Leung	Bachelor of Advanced Finance & Economics <a href="mailto:josh.leung@uq.net.au">josh.leung@uq.net.au</a>
Denham Loos	Bachelor of Advanced Finance & Economics <a href="mailto:d.loos@uq.net.au">d.loos@uq.net.au</a>
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Benjamin Snell	Bachelor of Commerce and Bachelor of Economics <a href="mailto:b.snell@uq.net.au">b.snell@uq.net.au</a>
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**Quantitative Data:**
**SMIF Portfolio Holdings:**

Ticker	Company Name	Portfolio Weight		Position 31th January	Return*
MQG	Macquarie Group Limited	6.4%		\$16,294	3.5%
BRG	Breville Group Limited	4.7%	▲2	\$12,126	60.4%
BHP	BHP Group	4.5%	▲3	\$11,500	35.8%
JHX	James Hardie Industries plc	4.4%	▼2	\$11,331	41.7%
CNU	Chorus Limited	4.3%	▲1	\$10,987	43.0%
RIO	Rio Tinto Group	3.9%	▼1	\$10,038	22.7%
SHL	Sonic Healthcare Limited	3.9%	▲3	\$9,864	56.7%
RMD	ResMed Inc.	3.9%	▼1	\$9,854	33.7%
ANZ	Australia and New Zealand Banking Group Limited	3.7%	▲3	\$9,460	21.4%
CBA	Commonwealth Bank of Australia	3.6%	▲1	\$9,270	19.3%
CSL	CSL Limited	3.5%	▼3	\$8,967	20.5%
APA	APA Group	3.5%	▲1	\$8,870	-13.6%
CWY	Cleanaway Waste Management Limited	3.4%	▼4	\$8,718	-0.9%
WOW	Woolworths Group Limited	3.3%	▲1	\$8,335	9.2%
CCX	City Chic Collective Limited	3.1%	▼1	\$7,869	60.4%
INA	Ingenia Communities Group	3.0%	▲3	\$7,615	34.5%
PWH	PWR Holdings Limited	2.9%	▲2	\$7,416	19.0%
QUB	Qube Holdings Limited	2.8%	▲1	\$7,168	10.7%
CAR	carsales.com Ltd	2.7%	▲1	\$6,847	-12.5%
APX	Appen Limited	2.6%	▼2	\$6,721	27.4%
IDX	Integral Diagnostics Limited	2.5%	▲1	\$6,377	33.3%
SYD	Sydney Airport Limited	2.4%	▼1	\$6,115	-33.1%
JLG	Johns Lyng Group Limited	2.3%		\$5,856	30.9%
BAP	Bapcor Limited	2.1%	▲3	\$5,324	6.1%
SAR	Saracen Mineral Holdings Limited	2.1%	▲1	\$5,308	-12.7%
DOW	Downer EDI Limited	2.0%	▼1	\$5,196	5.5%
SSM	Service Stream Limited	2.0%		\$5,159	-10.5%
CDA	Codan Limited	2.0%		\$4,984	-2.9%
IPH	IPH Limited	1.7%	▲1	\$4,418	-15.4%
NST	Northern Star Resources Limited	1.7%	▲1	\$4,395	23.5%
COE	Cooper Energy Limited	1.5%	▼2	\$3,852	-21.1%
	Cash and Dividends Receivable	3.6%		\$255,346	-
	<b>TOTAL</b>			<b>\$9,787</b>	

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

**Performance:**

	1 month	3 months	6 months	12 months	Inception (Nov 2018)*
SMIF	-0.34%	4.09%	4.85%	1.83%	27.67%
All Ordinaries Accumulation Index	0.3%	12.43%	14.95%	-0.71%	27.57%
Alpha	-0.64%	-8.35%	-10.10%	2.53%	0.10%

Alpha may not equal SMIF return minus All Ordinaries return due to rounding.

\*Total return since fund inception on 19 November 2018.

**Value of \$1,000 since inception**

**Sector Breakdown:**

	% Weight	Change in rank*
Industrials	17.3%	-
Materials	17.3%	-
Health Care	14.2%	-
Financials	14.2%	-
Consumer Discretionary	7.2%	-
Communication Services	4.8%	-
Information Technology	3.6%	-
Utilities	3.4%	-
Consumer Staples	3.4%	-
Real Estate	3.1%	-
Energy	1.6%	-

\*Since last update

**Key Portfolio Metrics:**

	<b>SMIF</b>	<b>All Ords Acc.</b>
<b>Returns</b>		
Annualised return	11.8%	11.7%
<b>Risks</b>		
Annual volatility	20.3%	23.2%
Beta	0.92	1.00
Tracking error	9.3%	0.0%
<b>Risk/Return Trade Off</b>		
Sharpe ratio	0.36	0.31
Information ratio	0.07	0.00
Jensen's alpha	0.6%	0.0%
Treynor's measure	0.08	0.07
<b>Distribution of Returns</b>		
Capture ratio	89%	100%
Downside capture	92%	100%
Upside capture	81%	100%

**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.