

Student Managed Investment Fund June 2021 Update



June 2021 Fund Update

Fund Update

The portfolio returned 3.83% during the month of June, amounting to an outperformance of 1.25% when compared to the All-Ordinaries Accumulation Index return of 2.58%.

Despite some shaky news from the US Federal Open Market Committee (FOMC) meeting, markets continued to rise. The All-Ords reached an all-time high of 7,655.90 on the 16th of June, and in a similar fashion the SMIF closed out the month at an all-time high.

The funds outperformance was due to a broad rally across a number of the fund's positions, with 7 of the holdings gaining 10% throughout the month. The rally was led by Resmed (ASX:RMD) and Johns Lyng Group (ASX:JLG), who both gained over 20% in the month, followed by CCX, IPH, PWH, SHL and INA, who all gained over 10%. These gains were partially offset by our position in Northern Star Resources (ASX:NST), which fell 16% throughout the month.

Market Update

G7 Summit June Meeting

The G7 Summit is an informal grouping of the seven leaders of the world's advanced economies – who account for approximately 40% of global GDP. In 2021, the first topic of discussion was an increase in the amount of COVID-19 vaccine doses being delivered to the developing world over the next year. The G7 leaders pledged to deliver an additional 870 million doses, on top of the already promised 250 million doses.

The leaders have committed to offering developing nations \$2.8 billion to help them switch to cleaner fuels, in addition to phasing out coal-fired power generation within their respective countries, all aiming to honour their commitment of net zero emission by 2050. This is a positive undertaking which will protect our planet by limiting the rise in global temperatures. Another notable point is that leaders signed up to levy a minimum 15% corporate tax rate, in order to dissuade

multinational companies from shifting profits to low tax havens.

FOMC Meeting & Potential Interest Rate Worries

The US Federal Open Market Committee minutes were released from their June meeting, with suggestions that the tightening of monetary policy could happen earlier than previously expected. The Fed had talks of tapering off asset purchasing due to the quick economic recovery from Covid, which has brought up CPI to 0.9% for June MoM, leading to higher inflation risk. With current bond purchases at \$80 billion in Treasuries and \$40 billion in mortgage-backed securities, there have been discussions on a strategy to scale back the purchases of these assets.

With asset tapering set to eventually decrease, the cash rate is also under scrutiny. The US Federal Reserve has been keeping rates between 0% and 0.25% to facilitate aggregate demand from Covid and the current vaccine rollout. With targeted plans to hike interest rates by 2023, discussions were made to push this forward to 2022, with strong agreement among the committee. Although, this was not decided on, a 5-basis point increase in the cash rate was approved in the meeting.

This trend of talks of earlier interest rate hikes and monetary tapering has followed suit for Australia, with the Commonwealth Bank of Australia signalling their expectation of interest rate rises in November 2022, compared to the Reserve Bank's target of increasing interest rates in 2024. Several talks across several national economies have followed suit and from several quarterly report releasing's, countries are set to start their asset tapering within the coming months.

Oil on the Rise

Oil prices have been having a superb run, with Brent crude up by 43% year-to-date at \$73.59 per barrel, which is projected to top up at \$80 per barrel in the second half of 2021. The recent surge in prices is a direct result of intentional supply constraints, due to internal disagreements within

OPEC regarding oil production plans in early July. However, this has been resolved, with oil production slated to increase by 400,000 extra barrels on a daily basis starting from August. This gradual boost in supply is still insufficient to match the strong demand for oil. Even as global economics continue to gradually re-open up, and vaccination campaigns are well underway in most countries, the International Energy Agency has forecasted a 1.5M barrel per day shortfall in the second half of 2021. This is reflective of the attitudes of OPEC, who fear that an oversupply of oil will drive oil prices in the red again, reminiscent of the effects of OPEC's all out price war with Russia last year.

Iron Ore Prices Surge amid Demand Decrease

Iron ore continues to be on a bull run, thanks in large part to recent Chinese stimulus measures alongside softening supply amongst the Australian iron ore miners. Despite continued deteriorating trade relations between Australia and China (note the effect of 175.6% in tariffs have led to Australian wine exports to China totalling \$13M in the first 6 months of 2021, relative to \$490M in the year earlier), this hasn't affected other core Australian exports, mainly iron ore. China's unsatiated demand for iron ore has been reflected in record iron ore shipments to China, rising by \$1.1B to \$14.8B in June. Such demand for iron ore and other commodities has also been boosted by China's Central Bank recent liquidity injection of \$206B, as a means to prop up the economic rebound which is faltering. Furthermore, Australian heavyweight miners such as BHP and Rio Tinto, and global competitor Vale have all forecasted softening iron ore supply. In Rio Tinto's case, this is in part due to delays in the commissioning of Rio Tinto's new iron ore mines, in the backdrop of skilled labour shortages and heavy rains.

Position Updates

Woolworths (ASX:WOW) / Endeavour (ASX:EDV)

Woolworths has demerged Endeavour Group, its hotels, pubs, liquor and gaming arm, with shares in

the new entity beginning trading on 24th June, under the ticker EDV. The fund received 1 Endeavour Group share for every 1 Woolworths share it owned at the time of the demerger. Analysing the demerger, Woolworths reduces their exposure to its hotel's subsidiary, which has been affected by Covid quite substantially. Furthermore, they have demerged from pubs, liquor and gaming which are all demerit goods, which in turn increases their ESG rating as they are not facilitating negative externality goods and services anymore.

Commonwealth Bank of Australia (ASX:CBA)

On 21st June 2021, The Commonwealth Bank of Australia (CBA), sold its Australian general insurance business (Commisure General Insurance) to the Holland Group (Hollard), and establish an exclusive 15-year strategic alliance with Hollard for the distribution of home and motor vehicle insurance products.

Bapcor Limited (ASX:BAP)

Bapcor have recently released their five-year strategy target for June. This update comprised of target increases, expansion in Asia, revised strategies for supply chain and technology as well as an updated commitment to ESG.

BAP's updated targets are related to increasing their network footprint by opening 10-12 new retail stores p.a. through their subsidiaries such as Autobarn and Autopro. They are also pushing towards increasing their supply chain efficiency through distribution centre consolidation in both Victoria and Queensland. Their Asian expansion included increasing Asian country subsidiary wholesalers in Singapore, Malaysia, Australia, South Korea, Thailand and Hong Kong. This June update provides a good outlook for the company and remains a strong conviction in our portfolio.

Brambles Limited (ASX:BXB)

In line with our investment thesis of investing in carbon conscientious companies, we are satisfied to see some of our holding's progress with their carbon neutral action plans. On the 23rd June 2021, Brambles announced that it has become carbon neutral across all of its own operations. This means that the company's net CO2 emissions have been brought down to zero across its scope 1 and scope

2 greenhouse gas protocol (GSG). This is a good step towards completing its 2025 sustainability targets, which were set out in September 2020, and also involve becoming forest positive, achieving zero waste, and using 30% recycled or upcycled materials for its new plastic products. Furthermore, Brambles has taken the initiative to invest in carbon negative ventures such as reforestation projects to ensure that their autonomous emissions are negated.

Portfolio Management Team

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Performance:

	1 Month	3 Months	6 Months	1 Year	Inception p.a.	Inception*
SMIF	3.83%	10.34%	11.88%	20.69%	14.77%	43.33%
All Ordinaries Accumulation Index	2.58%	8.28%	10.91%	26.61%	10.99%	31.31%
Alpha	1.25%	2.06%	0.97%	-5.92%	3.78%	12.02%

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

*Total return since fund inception on 19 November 2018.

SMIF Portfolio Holdings:

Ticker	Company Name	Portfolio Weight		Position 30th May	Return*
MQG	Macquarie Group Limited	6.8%		\$19,397	23.1%
RMD	ResMed Inc	4.1%	▲7	\$11,859	60.8%
PWH	PWR Holdings Limited	4.1%	▲4	\$11,684	87.4%
JHX	James Hardie Industries	4.0%	▲1	\$11,408	67.9%
ANZ	Australia and New Zealand Banking Group Limited	3.9%	▼3	\$11,232	44.1%
CCX	City Chic Collective Limited	3.9%	▲4	\$11,222	128.7%
CBA	Commonwealth Bank of Australia	3.9%	▼4	\$11,086	42.7%
SHL	Sonic Healthcare Limited	3.8%		\$11,021	75.0%
BHP	BHP Group	3.8%	▼3	\$10,928	51.4%
CWY	Cleanaway Waste Management Limited	3.6%	▼6	\$10,367	17.8%
BXB	Brambles Limited	3.4%	▲2	\$9,770	6.7%
JLG	Johns Lyng Group Limited	3.4%	▲8	\$9,665	116.0%
CSL	CSL Limited	3.3%	▼2	\$9,411	26.4%
INA	Ingenia Communities Group	3.2%	▲3	\$9,314	64.4%
CLW	Charter Hall Long WALE REIT	3.2%	▼3	\$9,215	-0.4%
RIO	Rio Tinto Group	3.1%	▼1	\$8,991	40.8%
CNU	Chorus Limited	2.9%	▲2	\$8,278	7.7%
APA	APA Group	2.8%		\$8,063	-21.5%
QUB	Qube Holdings Limited	2.8%	▲3	\$7,973	23.0%
WOW	Woolworths Group Limited	2.7%	▼4	\$7,779	1.8%
CDA	Codan Limited	2.6%		\$7,500	46.2%
SYD	Sydney Airport Limited	2.6%	▲1	\$7,394	-26.7%
NST	Northern Star Resources Limited	2.6%	▼9	\$7,355	106.6%
IDX	Integral Diagnostics Limited	2.6%	▲1	\$7,353	53.6%
SUN	Suncorp	2.6%	▼1	\$7,333	7.1%
CAR	carsales.com Ltd	2.4%		\$6,896	-11.8%
ELD	Elders	2.2%		\$6,329	-5.8%
BAP	Bapcor Limited	2.1%		\$6,018	19.9%
DOW	Downer EDI Limited	2.0%		\$5,629	14.3%
IPH	IPH Limited	1.9%		\$5,444	4.2%
APX	Appen Limited	1.4%		\$4,094	-22.4%
EDV	Endeavour Group Limited	0.4%		\$1,283	
	Cash and Dividends Receivable	1.9%		\$5,370	
		TOTAL		\$286,661	

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

Sector Breakdown:

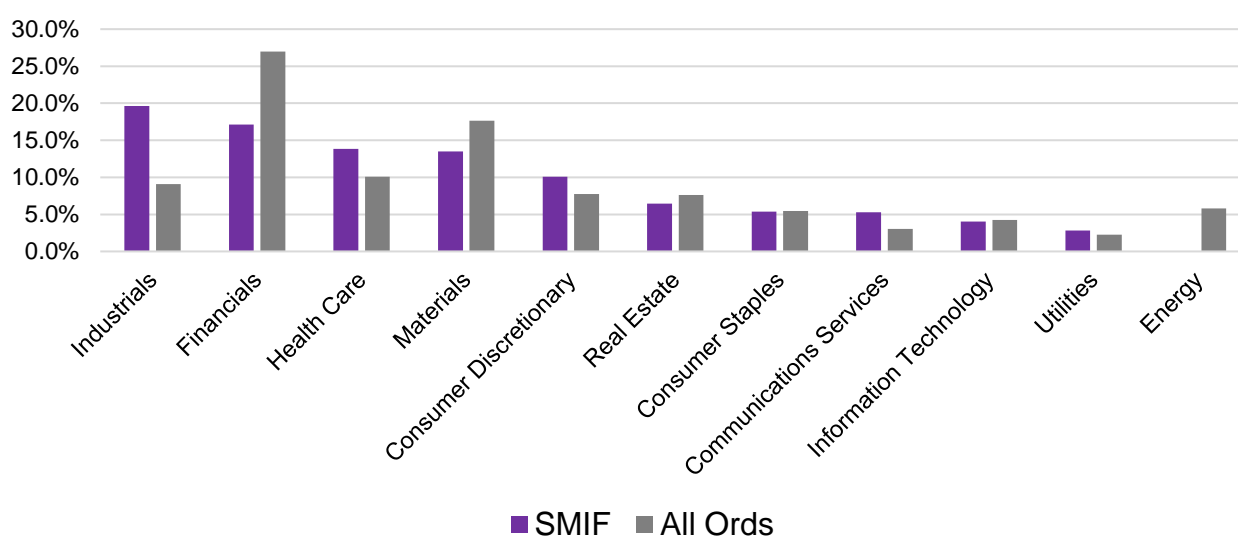
	% Weight	Change in rank*
Industrials	19.62%	
Financials	17.11%	
Health Care	13.83%	▲1
Materials	13.49%	▼1
Consumer Discretionary	10.09%	
Real Estate	6.46%	
Consumer Staples	5.37%	▲1
Communications Services	5.29%	▼1
Information Technology	4.04%	
Utilities	2.81%	
Energy	0.00%	

*Since last update

Contributors to Returns (Basis Points)

Top 5 Contributors (Bps)	
RMD	74.1
JLG	59.7
CCX	59.2
PWH	41.8
SHL	37.5

Top 5 Detractors (Bps)	
NST	-52.3
WOW	-25.8
CWY	-17.1
APA	-10.8
CDA	-9.6

SMIF GICS Sector Weights vs All Ordinaries

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.