The University of Queensland Business School

The University of Queensland Australia

CREATE CHANGE

Student Managed Investment Fund July 2021 Update

THE UNIVERSITY OF QUEENSLAND AUSTRALIA

CREATE CHANGE

June 2021 Fund Update

Fund Update

Markets continued to rally amidst further uncertainty surrounding eastern coast lockdowns. The portfolio returned 2.6% during the month of July, amounting to an outperformance of 1.56% when compared to the All-Ordinaries Accumulation Index return of 1.04%.

As the Delta strain continues to grip Sydney and the surrounding suburbs it might come as a surprise to hear that the fund's outperformance was supported majorly by Sydney Airport (ASX:SYD) which rallied as the result of a $22 Billion takeover offer which was subsequently rejected. For the second month in a row we saw strong performance come from both Resmed (ASX:RMD) and Johns Lyng Group (ASX:JLG) after some strategic acquisitions. Appen (ASX:APX) was the fund's biggest detractor for the month and is a position we continue to monitor closely, August will be an important month for Appen as they prepare for a results release on the 26th of August.

Market Update

Central Bank Asset Purchasing Adjustments

The Reverse Bank of New Zealand (RBNZ) are one of the first countries relative to Australia to start cutting their quantitative easing program. The RBNZ announced on July 14th that they will start reducing asset purchasing and could potentially see rate hikes as early as August. The reserve bank decided to keep the cash rate at 0.25%, but it has started to halt bond buying from July 23rd. The committee agreed that the major downside risks of high unemployment have receded, with unemployment at 4% for the June Quarter.

This news has come in accordance with other developed-world central banks that have started to normalize economic policies. Canada has further scaled back its asset purchasing, and countries like Korea and America have hinted at bringing forward interest rate hikes and quantitative easing cuts. There was a sharp rise in the Kiwi dollar, with it jumping from 93c – 94c AUD after the news was announced.

The RBA announced their quantitative easing program on July 5th, stating that they would scale back bond purchases down from $5 billion a week to $4 billion a week. But due to the sudden lockdowns forcing 11 million people in Sydney and Melbourne into their homes, RBA Governor Philip Lowe has shifted the program to a more flexible outlook, adjusting the weekly bond buying depending on the economic circumstances. The RBA has another board meeting on August 3rd to decide on the long-term outlook of the QE program.

China Cuts Reserve Requirement Ratio

China, who for many investors has been seen as the guiding light for economic recovery post the pandemic has announced cuts to the equity reserve requirement ratio for most banks. This will result in close to 1 trillion Yuan being released into the economy. Investors with a keen eye on inflation would have paid close attention to the statement made by the POBC which sighted the cut is necessary to help support those small to medium sized enterprises most effected by rising prices.

We anticipate if APRA where to follow suite that Australian banks may be more enticed to use this easing of requirements to purchase back stock. All major Australian banks have piled up billions of dollars in excess capital because of the excess regulatory requirements brought upon during the height of the Covid-19 pandemic, along with the cautious approach of keeping back provisions for bad debts that did not eventuate. We saw both ANZ and NAB announce this month their intention to conduct off market share buy backs and believe this is just a small taste of things to come. Both CBA and WBC have substantial capital that can be returned, with WBC having close to $4 billion in franking credits.

Position Updates

Sydney Airport (ASX:SYD)

Possibly the biggest news during July was Sydney Airport's $22.26 billion takeover offer by a consortium of investors involving IFM investors, QSuper and Global Infrastructure Partners. At the time, including debt, a completed offer would have been the largest-ever acquisition in the country. The offer represented a 42% premium to the trading price, which at face value looks enticing, however it must be worth noting that this offer barely took the valuation in-line with its pre-covid trading levels, and was subsequently rejected by the board. The offer demonstrates the strong demand for mature assets with defensive cash flows in an uncertain macro environment and a period of high volatility. It is also a particularly attractive asset for Superfunds, who can carry the asset at book value, rather than having to mark the asset's book value on their balance sheet to its market value, should the asset be privatised. Sydney Airport's share price rallied upon receiving the offer, with the position returning 34.89% to the fund throughout July.

Johns Lyng Group (ASX:JLG)

Johns Lyng Group continues their growth from the month of June with an announcement in the beginning in July of three acquisitions that strengthens their position in the Strata Market. The first wholly acquired company, *Change Strata Management* (CSM), manages high-end buildings in Sydney, with 2,974 lots across 75 strata schemes. *Structure Building Management (SBM)* and *Shift Facilities Management,* who together holds management contracts with 58 Sydney Buildings, are now 100% acquired. The three acquisitions came at a total cost of $8 million and are expected to be immediately earnings accretive. Bright & Duggan, subsidiary of JLG, has thus consolidated its leading position in the strata and building management sector. In the end of july, Johns Lyng group also acquired a 60% controlling equity interest in Steamatic Australia. Their company-owned locations and network of franchises is expected to considerably increase JLG's capacity to serve incremental businesses as usal (BaU) work and capability to respond to Catastrophic (CAT) events nationally. During July, the stock price rose from $4.95 to $5.70, providing a 15.15% return to the fund.

QUBE (ASX:QUB)

On the 5th of July, QUBE entered into a binding agreement with LOGOS Property Group (LOGOS) for the sale of 100% of its interest in the warehousing and property components of the Moorebank Logistics Park project (MLP Property Assets), for $1.67 billion.

Rio Tinto (ASX:RIO)

Rio Tinto has recently committed US$2.4B in investments towards the construction and subsequent operation of a lithium mine based in Serbia, with production of up to 58,000 tons in battery-grade lithium carbonate from 2026. The mine is forecasted to have a useful life of 40 years, with 2.3 million tons of lithium carbonate forecasted to be mine in total. This is part of Rio Tinto's lithium production project pipeline, which includes another lithium demonstration plant based a Boron mine site in California, that extracts high grade lithium from waste rock. This is all reflective of Rio Tinto's strategy of further diversifying its commodity base away from coal and iron ore, and towards lithium which is increasingly demanded in a world transitioning towards full electrification. Furthermore, such efforts will place Rio Tinto as one of the top 10 producers of lithium in the future.

Portfolio Management Team

Name	*Current Enrolment and Contact*
Chris Gilmore	Bachelor of Advanced Finance & Economics c.gilmore@uqconnect.edu.au
Noah Goldring	Bachelor of Commerce / Bachelor of Economics n.goldring@uqconnect.edu.au
Celine Moeller	Bachelor of Commerce c.moeller@uconnect.edu.au
Josh Pettman	Bachelor of Commerce / Bachelor of Economics j.pettman@uqconnect.edu.au
Joshua Rheinberger	Bachelor of Mathematics / Bachelor of Economics j.rheinberger@uqconnect.edu.au
Wisley Lau	Bachelor of Commerce / Bachelor of Economics w.lau@uqconnect.edu.au

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Performance:

	1 Month	3 Months	6 Months	1 Year	Inception p.a.	Inception*
SMIF	2.60%	7.93%	15.18%	20.77%	15.36%	47.06%
All Ordinaries Accumulation Index	1.04%	5.12%	11.55%	26.51%	10.98%	32.45%
Alpha	1.56%	2.81%	3.64%	-5.74%	4.38%	14.61%

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 31st July	Return*
MQG	Macquarie Group Limited	6.6%		$19,456	23.5%
RMD	ResMed Inc	4.4%		$13,075	77.3%
PWH	PWR Holdings Limited	4.1%		$12,080	93.7%
BHP	BHP Group	4.1%	▲5	$12,035	66.7%
JHX	James Hardie Industries	3.9%	▼1	$11,524	69.6%
SHL	Sonic Healthcare Limited	3.9%	▲2	$11,486	82.4%
CBA	Commonwealth Bank of Australia	3.8%		$11,061	42.3%
ANZ	Australia and New Zealand Banking Group Limited	3.8%	▼3	$11,056	41.9%
CCX	City Chic Collective Limited	3.7%	▼3	$10,915	122.4%
JLG	Johns Lyng Group Limited	3.7%	▲2	$10,802	141.4%
CWY	Cleanaway Waste Management Limited	3.4%	▼1	$9,975	13.4%
SYD	Sydney Airport Limited	3.4%	▲10	$9,973	-1.2%
BXB	Brambles	3.4%	▼2	$9,923	8.3%
CLW	Charter Hall	3.2%	▲1	$9,545	3.1%
CSL	CSL Limited	3.2%	▼2	$9,534	28.0%
RIO	Rio Tinto Group	3.2%		$9,473	48.3%
INA	Ingenia Communities Group	3.0%	▼3	$8,783	55.0%
APA	APA Group	2.9%		$8,634	-16.0%
CNU	Chorus Limited	2.8%	▼2	$8,139	5.9%
WOW	Woolworths Group Limited	2.7%		$7,907	3.5%
NST	Northern Star Resources Limited	2.6%	▲2	$7,685	115.9%
CAR	carsales.com Ltd	2.6%	▲4	$7,636	-2.4%
SUN	Suncorp	2.6%	▲2	$7,616	11.2%
IDX	Integral Diagnostics Limited	2.5%		$7,494	56.5%
QUB	Qube Holdings Limited	2.5%	▼6	$7,344	13.3%
CDA	Codan Limited	2.4%	▼5	$7,014	36.7%
ELD	Elders	2.1%		$6,203	-7.7%
BAP	Bapcor Limited	2.0%		$5,777	15.1%
IPH	IPH Limited	1.9%	▲1	$5,626	7.7%
DOW	Downer EDI Limited	1.8%	▼1	$5,317	7.9%
APX	Appen Limited	1.2%		$3,419	-35.2%
EDV	Endeavour Group Limited	0.5%		$1,353	
	Cash and Dividends Receivable	2.1%		$6,255	
		TOTAL		$294,117	

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

Sector Breakdown:

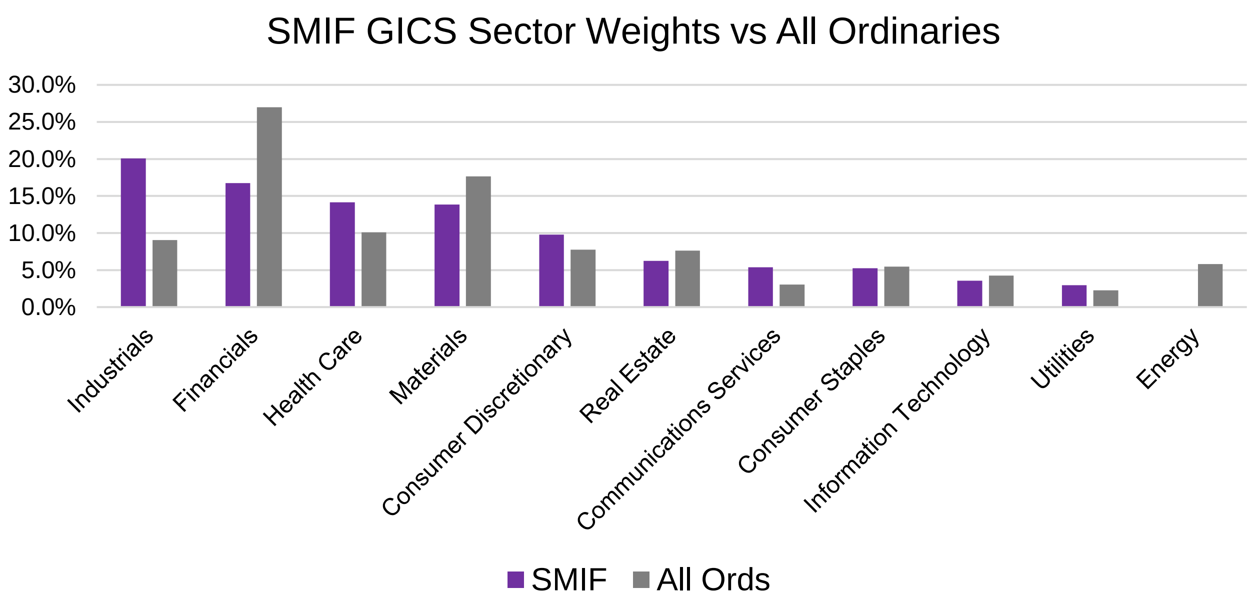
	% Weight	Change in rank*
Industrials	20.05%	
Financials	16.72%	
Health Care	14.14%	
Materials	13.84%	
Consumer Discretionary	9.78%	
Real Estate	6.23%	
Communications Services	5.36%	▲1
Consumer Staples	5.26%	▼1
Information Technology	3.55%	
Utilities	2.94%	
Energy	0.00%	

*Since last update

Contributors to Returns (Basis Points)

Top 5 Contributors (Bps)	
SYD	90.0
RMD	42.4
JLG	39.7
BHP	38.6
CAR	25.8

Top 5 Detractors (Bps)	
APX	-23.5
QUB	-21.9
INA	-18.5
CDA	-17.0
CWY	-13.7



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.