The University of Queensland Business School

Student Managed Investment Fund September 2021 Update

September 2021 Fund Update

Fund Update

Markets remained hesitant of the east coast lockdowns throughout September with cases still on the rise in Victoria and New South Wales. As a result, both the fund and the funds benchmark where down for the month, 0.43% and 2.47% down respectively.

The 2.05% outperformance was largely driven by our largest holding Macquarie Group (MQG:ASX) who's share price increased by over 9% throughout the month. Whilst at the other end of the spectrum, miners continued to be hurt by falling commodity prices, with the exception of coal.

Market Update

Evergrande

Evergrande has recently averted default (for now), having made a $US83M coupon payment for a US dollar bond interest payment. This is on the back of numerous upcoming interest payments it has to make, with its debts totalling $300B. While numerous media style outlets have been sensationalizing this as the next "Lehman Brothers" crisis, a couple of points should be noticed.

Firstly, the Evergrande situation is unlikely to be a full-blown systematic event, due to the Chinese government's lack of appetite for complete disorder. Building upon that, unlike the GFC crisis that revolved around bank inflated assets and CDO's, Evergrande is fundamentally a property developer. Its ownership of both developed and undeveloped property/land essentially serves as collateral, and in the event should Evergrande collapse, there will at least be certainty when it comes to the liquidation and valuation of remaining assets.

Lastly, unlike the US government bank bailouts subsequent to the collapse of Lehman Brothers during the GFC, as guided by the notion of "too big to fail" despite banks committing various regulatory breaches, the Chinese government (ironically) has demonstrated a willingness to enforce regulatory policy and a hard-line approach – we've seen this with the anti-monopoly measures taken against Alibaba and other major e-commerce businesses. Parallels can be drawn to the property market, whereby we can assume that excessively-leveraged property developers will be allowed to fall with the government containing the spill over effects.

Coal on the Rise

Coal has experienced an extraordinary rise, whereby as of October 2021 it is trading at US$230/ton compared to the US$50 range in the previous year. The rise has been attributed to soaring demand from major economies in the likes of China, Indonesia and Russia. Despite the constant push towards renewable energy sources (and proliferation of pro-ESG investments be it ETF's to funds), we are still seeing major developed economies struggling with baseload power.

In the case of the UK, it has been championing the closure of its coal plants by 2024 with wind power replacing it. However, what we've seen is that due to low wind and the driest conditions experienced in 70 years, the UK energy titan SSE has produced 32% less power than expected between April to September from its wind and hydro assets. This has resulted in lower baseload power available in the UK, in turn forcing the UK government to look to its existing coal/gas assets to make up for the lack in baseload power. Given that coal purchases are usually done through long-term purchase agreements, the UK (and perhaps other) governments urgency has led it to purchase coal at spot prices, propelling spot prices to where it is right now.

While renewables sources of energy are the way of the future, failure to plan for increased amounts of renewables and reduce reliance on fossil fuel energy sources can hurt consumer pockets and access to energy. Nuclear energy is another possible avenue for investment. With this in mind, we are also looking into uranium as a potential long-term investment and may incorporate companies exposed to uranium into our portfolio should we identify a good opportunity.

Position Updates

Commonwealth Bank of Australia (ASX:CBA)

As we signalled in last month's report, we are keeping an eye on companies who are participating in share buyback programs. Due to our tax status, participation in the CBA buy back is very advantageous to us and we are currently reviewing the benefits of us participating in this buyback.

Even with participation, the fund can repurchase CBA shares and will take this into consideration as well should we participate.

Woolworths Group Limited (ASX:WOW)

Similar to CBA, WOW has also announced a buyback program. Our exposure to WOW has already been reduced due to the recent EDV merger, in which we sold our EDV shares. WOW is also one of our only consumer staples holdings, however, this is a sector we are currently overweight in.

With both the CBA and WOW buy back, we expect there to be some significant scale back as we anticipate most tax exempt investors will participate heavily in both these buy backs.

Brambles Group Limited (ASX:BXB)

Brambles was one of the funds poorest performers for the month after a results presentation that left some investors slightly disappointed.

Brambles is an investment that we remain very confident in. The overall business and business position is something that excites us and is aligned with our views on where we should be allocating capital in an inflationary world. With inflation comes cost/pricing pressure on companies, which ultimately leads to reduced margins. As a result, we have decided to allocate some capital to companies who have a strong market share and strong pricing power, so when cost inflation picks up, these costs can be passed through to consumers through increased prices, rather than hurting the companies' margins.

Brambles is a company that fits this mould to a tee. Brambles is Australia's largest reusable pallet company and holds ~45% of the global market share for reusable pallets. They are a cost leader, and their customers have relatively low bargaining power due to a lack of substitutes.

Brambles is also one of Australia's first companies to achieve absolute net-zero emissions. They have been a global leader for sustainability and climate action since 2015, having established multiple sustainability targets and meeting these along the way. They are currently doing trials with reusable plastic pallets which are better for the environment than the standard wooden pallet, and along with this, they are more durable, reducing the capex associated with replacement of pallets.

Lumber prices continue to reduce around the globe as supply chain tensions reduce. We believe many investors are acting too cautious with Brambles and as a result their share price has significantly lagged the All-Ords.

Portfolio Management Team

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Performance:

	1 Month	3 Months	6 Months	1 Year	Inception p.a.	Inception*
SMIF	-0.43%	6.80%	17.84%	26.00%	16.02%	53.08%
All Ordinaries Accumulation Index	-2.47%	0.59%	8.73%	26.96%	10.13%	31.86%
Alpha	2.05%	6.21%	9.11%	-0.96%	5.89%	21.22%

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 September	Return*
MQG	Macquarie Group Limited	7.4%		$22,568	31.2%
PWH	PWR Holdings Limited	4.7%	▲1	$14,519	97.3%
RMD	ResMed Inc	4.4%	▼1	$13,485	124.7%
CCX	City Chic Collective Limited	4.3%	▲1	$13,286	96.8%
JHX	James Hardie Industries	4.1%	▼1	$12,668	155.8%
SHL	Sonic Healthcare Limited	3.8%		$11,669	97.8%
JLG	Johns Lyng Group Limited	3.8%	▲2	$11,616	43.0%
CBA	Commonwealth Bank of Australia	3.8%	▼1	$11,581	42.6%
ANZ	Australia and New Zealand Banking Group Limited	3.7%	▼1	$11,232	146.4%
CWY	Cleanaway Waste Management Limited	3.5%		$10,839	18.3%
SYD	Sydney Airport Limited	3.4%	▲3	$10,522	12.9%
INA	Ingenia Communities Group	3.3%	▲4	$10,073	38.2%
CSL	CSL Limited	3.2%	▼1	$9,682	42.1%
CLW	Charter Hall	3.1%	▲1	$9,584	0.9%
BXB	Brambles	3.0%	▼4	$9,198	9.8%
CNU	Chorus Limited	2.9%	▲1	$8,934	72.2%
CAR	carsales.com Ltd	2.9%	▲1	$8,844	22.4%
BHP	BHP Group	2.8%	▼5	$8,462	12.0%
QUB	Qube Holdings Limited	2.7%	▲4	$8,300	11.5%
SUN	Suncorp	2.7%	▲1	$8,290	-19.0%
WOW	Woolworths Group Limited	2.6%	▼2	$8,027	20.3%
APA	APA Group	2.6%	▼2	$7,900	24.6%
RIO	Rio Tinto Group	2.3%	▼1	$7,113	22.6%
IDX	Integral Diagnostics Limited	2.3%	▲4	$6,957	106.2%
ELD	Elders	2.2%		$6,702	-0.4%
DOW	Downer EDI Limited	2.1%	▲1	$6,505	25.6%
IPH	IPH Limited	2.1%	▼1	$6,443	33.1%
NST	Northern Star Resources Limited	2.1%	▼4	$6,392	36.5%
BAP	Bapcor Limited	1.8%	▲1	$5,360	22.0%
CDA	Codan Limited	1.7%	▼1	$5,312	2.2%
APX	Appen Limited	0.9%		$2,697	-38.8%
	Cash and Dividends Receivable	3.7%		$11,397	
		TOTAL		$306,155	

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

Sector Breakdown:

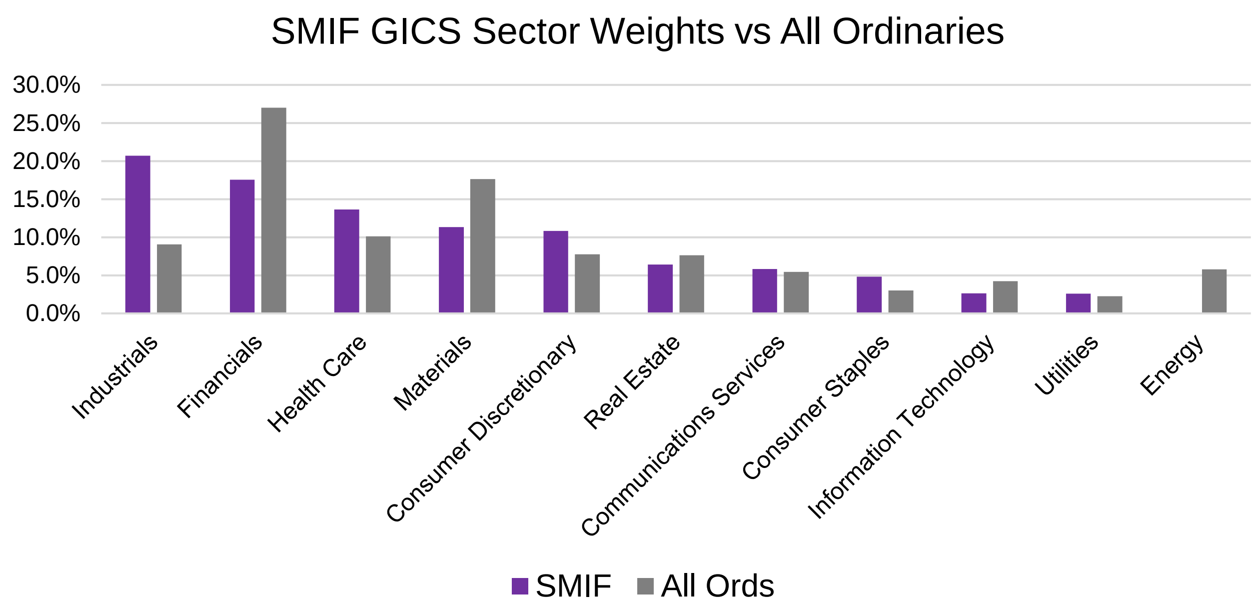
	% Weight	Change in rank*
Industrials	20.72%	
Financials	17.53%	
Health Care	13.65%	
Materials	11.31%	
Consumer Discretionary	10.83%	
Real Estate	6.42%	
Communications Services	5.81%	
Consumer Staples	4.81%	
Information Technology	2.62%	
Utilities	2.58%	
Energy	0.00%	

*Since last update

Contributors to Returns (Basis Points)

Top 5 Contributors (Bps)	
MQG	61.8
CCX	24.0
JLG	19.2
PWH	16.7
CBA	15.3

Top 5 Detractors (Bps)	
CDA	-30.8
NST	-30.9
RMD	-34.8
BXB	-37.4
BHP	-58.8



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.