

Student Managed Investment Fund October 2021 Update



October 2021 Fund Update

Fund Update

The All-Ordinaries index returned to a positive number this month, returning 0.12% for the month of October. The SMIF however underperformed and only saw a negative 0.33% return.

The end of October brought to a close BC Capital's first 6 months in charge. Throughout this period, the SMIF has performed strongly, outperforming the All-Ords by 7.21%.

Continued strong performance from some of SMIFs top holdings (ASX:MQG) and (ASX:PWH) was not enough to negate the negative performance that a number of positions felt throughout the month. One such stock was (ASX:CDA) which has dropped significantly since it topped out in June.

Further to this, the fund held a significant portion of the portfolio in cash throughout this month after our participation in both the CBA and WOW buy backs.

As students were made aware this month, the SMIF challenge is currently going through a change. This change will provide more students with the opportunity to gain professional experience through SMIF. Educational workshops, held by the current portfolio managers will allow a greater cohort of students to improve on their professional skills and gain some experience closely tied to funds management. We are excited about this change and look forward to providing more opportunities to students.

Market Update

3-Year Yield on the Rise

The RBA has already begun reducing its purchases of the April-24 expiry bond. As a result, they have loosened their control on the yield curve, in particular their attempts to peg the 3-year end of the curve at the RBA cash rate have failed.

The month of October saw the 3-yield increase rapidly, resulting in the previously steep yield curve now looking slightly flatter.

This has investors eagerly awaiting the November RBA board meeting. Companies with high duration cash flows are particularly exposed to movements in the yield curve, and as a result we have tended to stay away from these types of companies.

Australia's Economy

October's PMI numbers suggest that the Australian economy is again expanding after a slowdown was seen in the prior three months due to sustained eastern coast lockdowns.

Whilst the broader economy was expanding, the employment numbers published in October suggested that the news was not all good. October's numbers saw unemployment increase to 5.2%, a figure worse than many economists predicted. As a result, the Australian dollar fell to a month low of 73.17 US cents.

Japan's New Reign

Similar to the situation in Australia, many other APEC countries returned to expansionary economic numbers. One of which was Japan, who this month also had the confirmed news that Fumio Kishida would be taking over from Yoshihide Suga, who announced in September he would not be seeking re-election. Suga leaves the position after being elected only a year earlier. Suga led the country through the Covid-19 pandemic and Tokyo Olympics, taking over from Shinzo Abe who had a focus on increasing Japan's money supply and boosting government spending, coining the term 'Abenomics'.

The appointment of Kishida has many investors optimistic of a large fiscal stimulus package, something not seen under the Suga reign. We are currently looking at Australian companies who generate a portion of revenue in Japan to see if there is an opportunity for us to capitalise on this fiscal policy. With a large portion of our portfolio held in cash we are eager to seek out opportunities to have this cash invested.

Position Updates

Commonwealth Bank of Australia (ASX:CBA)

Last month we noted our eagerness to participate in the CBA buy back. The results from the buy-back were as anticipated, with a final price of \$88.62, with the Capital Component of the buy-back Price being \$21.66 and the fully franked Dividend Component of the buy-back Price being \$66.96, providing a significant uplift for tax-exempt investors.

Woolworths Group Limited (ASX:WOW)

Similar to the CBA buy-back, the SMIF also participated in the WOW buy-back program. The WOW buy-back was completed with a final price of \$34.46. Comprised of a \$4.31 Capital Component and \$30.15 of a fully franked dividend.

Unlike the CBA buy-back which we were not subject to scale backs, we were scaled back in the WOW buy-back and still hold a very small position.

Macquarie Group Limited (ASX:MQG)

Macquarie remains the SMIF's largest holding and has continued to impress throughout October. Macquarie reported a better-than-expected net profit of \$2.04 billion for the six months ended September 30, more than double the \$985 million in the year-earlier period affected by the pandemic.

Along with the doubling of profits, Macquarie also announced a \$1.5B capital raising to support their markets and private equity divisions. "The reason we're out raising money is because we are seeing opportunities where the risk-adjusted returns are good," chief executive Shemara Wikramanayake said.

Macquarie also announced a deal to purchase US investment advisory Central Park Group, and recently announced a plan to purchase AMP's global equity and fixed income business. Many other financial companies, such as CBA have elected to return capital, Macquarie has chosen to raise capital in hopes of funding some high risk adjusted returns

Cash Holding

With the fund participating in both the CBA and WOW buy-back programs we have increased our cash holding to a strong 10.2%. We are eager to deploy this cash and are currently conducting due diligence on multiple investments in the consumer discretionary, communication services and information technology. We are aiming to deploy cash into businesses with strong cash flows who's margins will remain stable in a high inflation world.

Portfolio Management Team

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Performance:

	1 Month	3 Months	6 Months	1 Year	Inception p.a.	Inception*
SMIF	-0.33%	3.75%	11.98%	23.84%	15.39%	52.58%
All Ordinaries Accumulation Index	0.12%	-0.33%	4.78%	24.96%	9.87%	32.02%
Alpha	-0.45%	4.08%	7.21%	-1.12%	5.52%	20.56%

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 31 st October	Return*
MQG	Macquarie Group Limited	8.0%		\$24,531	55.7%
PWH	PWR Holdings Limited	5.1%		\$15,557	149.5%
RMD	ResMed Inc	4.4%		\$13,456	82.5%
JHX	James Hardie Industries	4.3%	▲1	\$13,016	91.6%
CCX	City Chic Collective Limited	4.1%	▼1	\$12,652	157.8%
JLG	Johns Lyng Group Limited	4.0%	▲1	\$12,299	174.8%
SHL	Sonic Healthcare Limited	3.8%	▼1	\$11,489	82.4%
ANZ	Australia and New Zealand Banking Group Limited	3.7%	▲1	\$11,228	44.1%
CWY	Cleanaway Waste Management Limited	3.4%	▲1	\$10,524	19.6%
SYD	Sydney Airport Limited	3.4%	▲1	\$10,459	3.7%
CSL	CSL Limited	3.2%	▲2	\$9,916	33.1%
INA	Ingenia Communities Group	3.2%		\$9,876	74.3%
CLW	Charter Hall	3.1%	▲1	\$9,428	1.9%
CAR	carsales.com Ltd	2.8%	▲3	\$8,606	10.0%
BXB	Brambles	2.8%		\$8,574	-6.4%
CNU	Chorus Limited	2.8%		\$8,446	9.9%
BHP	BHP Group	2.7%	▲1	\$8,231	14.0%
QUB	Qube Holdings Limited	2.6%	▲1	\$7,998	23.4%
SUN	Suncorp	2.5%	▲1	\$7,735	13.0%
APA	APA Group	2.4%	▲2	\$7,429	-27.7%
NST	Northern Star Resources Limited	2.3%	▲7	\$6,948	95.2%
IDX	Integral Diagnostics Limited	2.2%	▲2	\$6,646	38.8%
ELD	Elders	2.2%	▲2	\$6,592	-1.9%
RIO	Rio Tinto Group	2.1%	▼1	\$6,411	0.4%
DOW	Downer EDI Limited	2.1%	▲1	\$6,344	28.8%
IPH	IPH Limited	2.0%	▲1	\$5,975	14.4%
BAP	Bapcor Limited	1.8%	▲2	\$5,629	12.1%
CDA	Codan Limited	1.4%	▲2	\$4,181	-18.5%
APX	Appen Limited	1.1%	▲2	\$3,236	-38.7%
WOW	Woolworths Group Limited	0.2%	▼9	\$724	
	Cash and Dividends Receivable	10.2%		\$31,022	
		TOTAL		\$305,156	

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

Sector Breakdown:

	% Weight	Change in rank*
Industrials	20.37%	
Financials	14.25%	
Health Care	13.60%	
Materials	11.34%	
Consumer Discretionary	11.09%	
Real Estate	6.33%	
Communications Services	5.59%	
Utilities	2.40%	▲1
Information Technology	2.43%	
Consumer Staples	2.43%	▼2
Energy	0.00%	

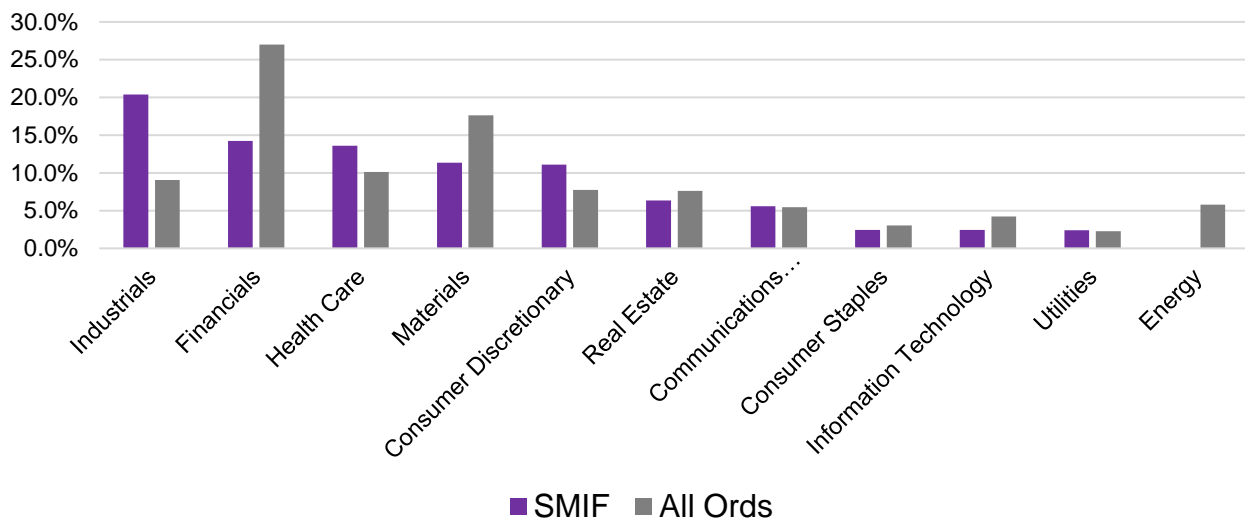
*Since last update

Contributors to Returns (Basis Points)

Top 5 Contributors (Bps)	
MQG	64.3
PWH	34.0
JLG	22.4
NST	18.2
APX	17.7

Top 5 Detractors (Bps)	
CDA	-37.1
RIO	-23.0
CCX	-20.8
BXB	-20.4
SUN	-18.2

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.