The University of Queensland Business School

THE UNIVERSITY OF QUEENSLAND
AUSTRALIA
CREATE CHANGE

Student Managed Investment Fund May 2022 Update

May 2022 Fund Update

Dollar values are in AUD unless stated otherwise.

Introducing Summit Capital

May marks the beginning of Summit Capital's tenure as portfolio managers and as such we would like to thank the previous team, BC Capital, who did a tremendous job of managing the portfolio over the last 12 months as well as providing their guidance during the handover process. These thanks extend to Saphira Rekker, Khoa Hoang and Ronhong Huang for their continued involvement in organising and running the SMIF challenge. They have been incredibly supportive and open to our input to improve engagement among the broader SMIF community, around which discussions have already begun regarding implementation.

Summit Capital is committed to the SMIF investment philosophy, and we aim to maintain a selective watchlist of sustainably profitable companies with diversified revenue streams, investing in those that have potential to capitalise on emerging trends and support long term organic growth. ESG considerations are also at the forefront of our investment decisions ensuring that any additions have appropriate sustainability policies across the materiality, governance, and disclosure bases.

We look forward to implementing this strategy and contributing to the ongoing success of the portfolio. Given the current macroeconomic climate we aim to put the portfolio in a strong position for growth beyond our tenure.

Catching up…

The markets have not been without the last fund update published in October 2021. This period has been characterised by investors coming to terms with the end of near-zero interest rates and strong profit margins which are being tested by what is now non-transitory inflation. The ever-resilient Australian economy has been able to weather these concerns, with comparatively disciplined monetary policy and a strong performance in the commodities and energy sectors.

We expect that the following period will continue to be characterised by central banks' battle with inflation. As we understand it, markets are currently assuming that inflation will subdue itself over the coming years as geopolitical and COVID-19/supply chain issues resolve themselves and central banks begin tightening their monetary policies. The performance of equities will likely follow the evolution of this narrative strongly, and it is in our belief that such a market is ripe with opportunity.

Corresponding with this belief, the portfolio has increased its cash position. While we do not believe that it is possible to accurately time the market, we have seen certain stocks (of greatest conviction being DDH1) become cheap. We continue to investigate the markets for such opportunities and will not hesitate to purchase a strong business that we believe to have margin of safety reflected in its current price.

Markets are departing from their optimistic growth narratives built off the back of ultra-cheap capital and extrapolated near-term earnings trends. This has compressed valuations and punished poor risk-management and most importantly reminded us to uphold the SMIF philosophy of choosing proven, sustainable and dominant businesses.

Since inception, the SMIF's overarching objective is to preserve capital. Despite this, the fund has exhibited greater volatility than All Ordinaries benchmark and has also paid materially less in dividends. Over the last 6 months, it has underperformed the benchmark, achieving returns of -6.85% versus the All Ordinaries which gained 0.25%. We are concerned with this result and are actively looking for areas of improvement in the portfolio in order to better preserve capital in this uncertain market.

Fund Update

May proved to be a muted month for returns in the global equity markets and as a result, the All-Ordinaries index has performed poorly with losses of -3.13%. By comparison the portfolio has underperformed by a further 3.37% seeing returns of -6.50%.

While lower than in most other advanced economies, investor confidence has taken a hit given the higher-than-expected inflation figures and uncertainty surrounding when inflation will peak. A number of factors have been putting upward pressure on prices, namely ongoing supply chain disruptions as a result of the war in Ukraine and the recent floods, as well as China's strict COVID-19 policy and the tight domestic labour market. Specifically, real estate and tech stocks saw the largest declines of -8.9% and -8.7% respectively, closely followed by consumer staples at -6.7%.

The portfolio's top performers: Codan Ltd (ASX:CDA), IPH Ltd (ASX: IPH) and Qube Holdings Ltd (ASX: QUB) which were among only 8 holdings to generate positive returns of 10.83%, 3.95% and 3.38% respectively were overshadowed by poor performances from Johns Lyng Group (ASX: JLG), PWR Holdings Ltd (ASX: PWH), and Dusk Group (ASX: DSK) with returns of -32.92%, -23.82% and -21.96% respectively.

Since becoming portfolio managers, Summit Capital has made 3 additions to the portfolio that we believe will fare well as defensive assets in the current inflationary environment and are priced attractively due to their current share price pullback. These include: DDH Ltd (ASX: DDH) which is poised to benefit from the strength of commodities and a positive outlook for battery metals on the back of the accelerating decarbonisation trend, Bank of Queensland Ltd (ASX: BOQ) and Wesfarmers Ltd (ASX: WES) which has been one of been one of the most resilient businesses consisting of several highly diversified, market leading brands which has contributed to their long track record of profitability.

Equally, we have decided to exit some of our weaker positions. This includes ANZ Banking Group (ASX: ANZ) which has seen consistent underperformance relative to its peers. We see BOQ as a superior risk-adjusted investment in the financials sector and looking to capture better growth prospects after their acquisition of ME Bank. City Chic Collective Ltd (ASX: CCX) has declined 64.18% in the current calendar year and reduced exposure to the consumer discretionary sector is more desirable given the current inflationary environment. The funds positions in Bapcor Ltd (ASX: BAP) and Downer EDI Ltd (ASX: DOW) were sold due to poor recent cashflow performances and outlook as well as internal instability.

Market Update

Australian Economy

The Australian economy expanded by 0.8% in the March quarter of 2022 from resilient domestic consumption driven by higher household incomes and increased savings from the covid-19 pandemic. This was partially offset by a decline in private investment due to continual supply chain disruptions and a dive in net exports.

The slide in the housing market which saw home prices decline for the first time since late 2020 generated concerns that the falling value of homes will hit consumer sentiment and spending habits.

The labour market continued to tighten with the unemployment rate declining to below 4%.

Monetary Policy Decision

On May 3, the RBA decided to increase the cash rate for the first time in 11 years by 25 basis points to 35 basis points as they began withdrawing the monetary support provided during the pandemic. This move by the RBA was largely expected by the market given a labour shortages and rising inflation.

Despite this, there was considerable uncertainty surrounding supply side pressures and how they will be resolved, as well as the unpredictable developments in Ukraine. From a domestic standpoint, it remains to be seen how household spending will respond to a decline in the real wage, and the effect that a rate hike will have on households with high levels of debt. Australia is also yet to see how labour costs and prices react in such a tight labour market.

The 10-year bond yields rose in reaction to the hike and investors priced in the further anticipated hikes with yields rising to 3.34%. The contrast to US yields which fell to 2.84% on the back of weaker growth outlook was one of the reasons for the poor performance of the local equity market. Materials were the only sector to record a positive return over the month at 0.1% as a result of relatively steady commodity prices.

Commodities

Over the month, the price of Brent crude Oil was up to USD $123 per barrel in response to the EU bans on Russian Imports. While prices are expected to ease, they are still predicted to be 70% higher than the start of 2021. The war has also caused significant disruptions to agricultural supply chains, in particular wheat, as well as nitrogen gas which has sharply increased fertiliser prices and is expected to reduce crop yields.

Higher energy prices supported the price of base metals and other energy heavy commodities of which Australia has benefitted from recently with terms of trade reaching a peak in the first half of 2022. However, over the last month prices of nickel and aluminium and to a lesser extent zinc, lead and copper were down compared to April. Precious metals were relatively steady, but slightly less favoured due to higher yields. Gold prices ended marginally down from the previous month at USD $1,848/oz.

Position Updates

Uniti (ASX: UWL -0.40%)

The shareholders of Uniti Wireless Limited have accepted a $3.62 billion takeover offer from Brookfield's investment arm Morrison & Co. Shareholders will receive $5.00 per share (58.7% premium to closing price when the offer was extended). The competitive process for the telecommunications provider saw a contending joint bid by Macquarie and PSP, matched by Morrison & Co, of whom Uniti entered exclusive due diligence with. Currently, the share price is $4.95.

Brambles (ASX: BXB 3.13%)

Brambles entered talks with private equity firm CVC capital, with a potential 20 billion sale of the business, consisting of 17 billion debt and 3 billion equity components. However, negotiations were short-lived despite a strong rationale to generate value by divesting assets, and realise growth given its underperformance against the market over the last 2 years. The investor presentation expressed CVC's concerns of a poor market environment, while outlining Bramble's preference for a strategic player to support its transformation plan.

Apa Group (ASX: APA -0.96%)

APA Group is actively looking for ways to generate value for its investors, including potential acquisition targets. In its most recent investor presentation, APA highlighted visionary roles in electricity transmission, renewables, hydrogen and gas infrastructure. Over the last couple of months, APA has found the auctions for strategic targets such as AusNet and green energy such as Tilt renewables difficult to secure. Early rumours suggest APA Group is setting sights on wind farm owner and developer CWP Renewables and transmission cable owner Basslink. In addition to potential targets, APA is currently short listed to build NSW's first renewable energy zone, a significant contract right.

Johns Lyng Group (ASX: JLG -32.92%)

John Lyng Group experienced significant decline in its share price largely attributed to concerns around insider selling. Didier (CEO) and Barber (COO) both sold 1 million shares each, translating to $12 million, to "manage their personal asset portfolio". Summit believes the correction is attributed to recent market events rather than insider selling, as the sale represents a small part of their holdings. Furthermore, JLG reconfirmed its FY22 guidance of 802.4 million sales revenues, up from $481.8 million, and FY22 EBITDA of $78.7 million up from $42.7 million. JLG was confirmed as the managing contractor of the $142 million Australian and NSW Government program which provides property assessment and demolition provides free structural assessment of eligible flood affected properties

Dusk Group (ASX: DSK -21.96%)

With increasing interest rates and a weaking economic environment, consumer confidence which has been resilient due to household savings in Australia is likely to fall. Accordingly, investors have repositioned their investments away from consumer discretionary, to more robust sectors in response to possible fears of an economic downturn, reflected by the large decrease in share price.

Portfolio Management Team

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Sarah Alzaher	Bachelor of Advanced Finance & Economics sarah.alzaher@uqconnect.edu.au
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Performance:

	1 Month	3 Months	6 Months	1 Year	Inception p.a.*
SMIF	-6.50%	-1.40%	-6.85%	-2.38%	9.83%
All Ordinaries Accumulation Index	-3.13%	2.72%	0.25%	4.73%	11.09%
Alpha	-3.37%	-4.12%	-7.10%	-7.11%	-1.26%

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

* Return since fund inception on 19 November 2018.

SMIF Portfolio Holdings:

Ticker	Company Name	Portfolio Weight	**	Position 31st May	Return*
MQG	Macquarie Group Ltd	8.15%		$23,062	27.8%
PWH	PWR Holdings Limited	4.53%		$12,805	105.4%
DDH	DDH1 Drilling	4.23%		$11,955	1.3%
CWY	Cleanaway Waste Ltd	4.16%	▲4	$11,781	33.9%
JLG	Johns Lyng Group	4.01%	▼2	$11,351	153.6%
UWL	Uniti Group Ltd	4.01%	▲5	$11,336	20.4%
SYD	Sydney Airport Limited	3.94%	▲3	$11,135	21.8%
RMD	Resmed Inc	3.73%	▼3	$10,563	-24.2%
SHL	Sonic Healthcare Limited	3.72%	▼2	$10,521	67.1%
APA	APA Group	3.64%	▲8	$10,310	0.4%
BOQ	Bank Of Queensland.	3.57%		$10,108	-0.3%
BHP	BHP Group Limited	3.55%	▲4	$10,037	18.5%
CLW	Charter Hall	3.37%		$9,545	3.1%
BXB	Brambles Limited	3.28%	▲5	$9,292	-25.4%
JHX	James Hardie Industries	3.21%	▼1	$9,097	-35.3%
CNU	Chorus Limited	3.20%	▼1	$9,046	-47.3%
CSL	CSL Limited	3.17%	▼5	$8,970	20.4%
WES	Wesfarmers Limited	3.04%		$8,589	0.6%
RIO	Rio Tinto Limited	2.87%	▲6	$8,126	-0.7%
QUB	Qube Holdings Ltd	2.72%	▲1	$7,696	18.7%

SUN	Suncorp Group Ltd	2.65%	▲1	$7,491	9.4%
ELD	Elders Limited	2.59%	▲5	$7,316	8.9%
CAR	Carsales.Com Ltd.	2.53%	▼5	$7,155	-8.5%
NST	Northern Star Resources Limited	2.38%	▼1	$6,730	-19.9%
INA	Ingenia Communities Group	2.20%	▼1	$6,235	10.1%
DSK	Dusk Group	2.07%	▼6	$5,871	-36.6%
IPH	IPH Ltd	1.95%	▼1	$5,514	5.6%
IDX	Integral Diagnostics Ltd	1.76%	▼4	$4,991	4.3%
CDA	Codan Limited	1.17%		$3,320	-35.3%
WOW	Woolworths Group Ltd	0.23%		$658	-91.4%
CASH	Cash and Dividends Receivable	4.37%		$12,356	
		TOTAL		$282,962	

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

** Weight changes are as of the last update in February

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Sector Breakdown:

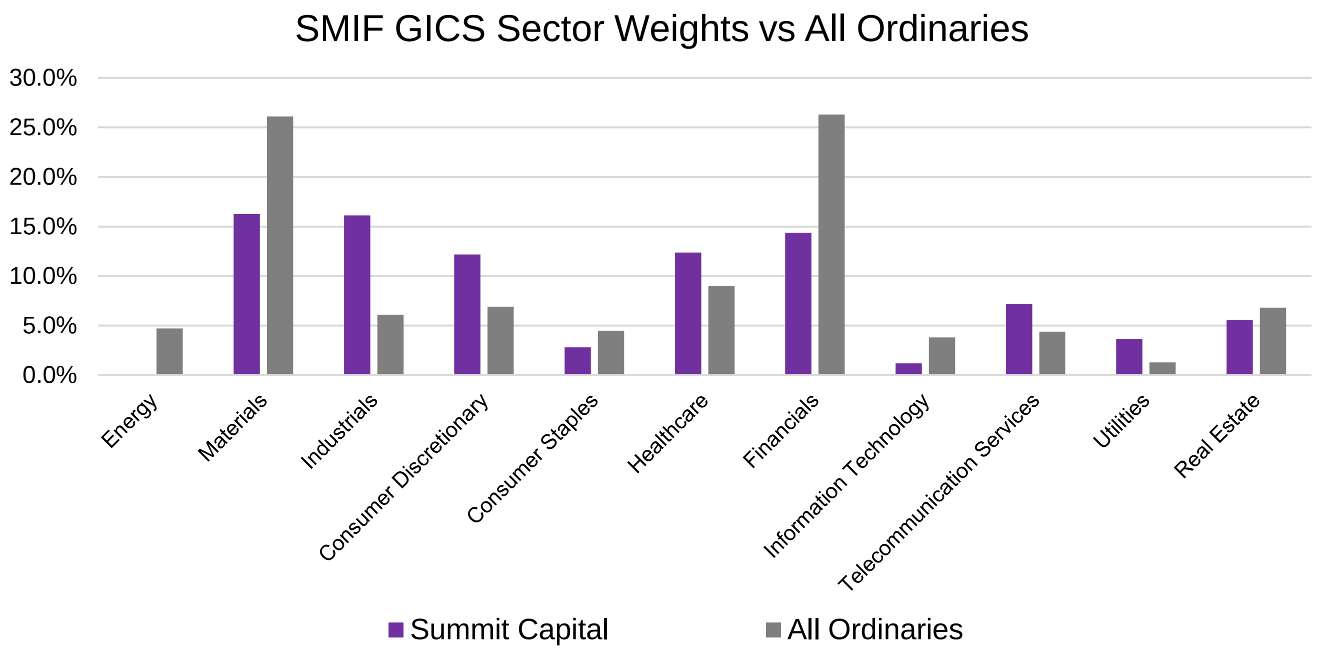
	% Weight	Change in rank*
Energy	0.00%	
Materials	16.24%	▼4
Industrials	16.13%	▲1
Consumer Discretionary	12.16%	▲3
Consumer Staples	2.82%	▼1
Healthcare	12.39%	
Financials	14.37%	
Information Technology	1.17%	▲1
Telecommunication Services	7.20%	
Utilities	3.64%	
Real Estate	5.58%	

*Since last update (February)

Contributors to Returns (%)

Top 5 Contributors (%)	
CDA	10.83
IPH	3.95
QU	3.38
BXB	3.13
RIO	1.44

Top 5 Detractors (%)	
JLG	-32.92
PWH	-23.82
DSK	-21.96
INA	-12.37
JHX	-12.08



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.