

Student Managed Investment Fund September 2022 Update



September 2022 Fund Update

Dollar values are in AUD unless stated otherwise.

Fund Update

September proved one of the most difficult months for equity markets thus far, heavily influenced by imported global macroeconomic uncertainty in addition to Australia's own macroeconomic outlook.

Globally, markets saw the Federal Reserve raise interest rates by 75 bps, in response to inflation being higher than expected with continued reiteration of a 2% inflation target. In the UK, politically driven government policies namely energy subsidies and tax cuts juxtaposed the Bank of England's plan to dial back inflation. As a result, the pound reached an all-time low against the USD. Moving across the globe, Russia saw Putin mobilise 300,000 reserves while threatening to use nuclear weapons. Finally, global recession fears continue to mount in line with interest rate hikes, demonstrated by various indicators such as the brief yield curve inversion between US 2 – year and 10 – year bonds. This was reflected by the -9.16% return of the S&P 500.

Domestically, Australia saw little change to the macroeconomic environment with the RBA continuing to maintain its position on inflation peaking later in the year and maintains a positive outlook despite recession fears. The tight labour market will be instrumental in determining how inflation unravels later this year, with firms facing upwards pressure on costs that are ultimately passed onto consumers.

In addition to the macroeconomic factors, the fund's poor performance of -6.18% marginally outperformed the benchmark by 0.54%. This was underpinned by lower-than-expected earnings performance. Many companies in the portfolio posted lower real profitability relative to analyst benchmarks and market consensus. Furthermore, September saw companies dialling back prospective revenue and profitability forecast on the back of global events and tight labour markets.

The fund saw minimal upside with ResMed Inc (RMD: ASX), BHP Group Ltd (BHP: ASX), Elders Ltd (ELD: ASX) and Northern Star (NST: ASX), being the only four holdings providing positive

returns of 5.29%, 3.86%, 2.33% and 1.45% respectively. The remaining portfolio saw negative returns, attributed largely the poor earnings performance of Codan Ltd (CDA: ASX), Carsales Ltd (CAR: ASX), Macquarie Group Ltd (MQG: ASX) and APA Group (APA: ASX) with returns of -22.12%, -15.22%, -13.83% and -13.53% respectively. From a sector perspective, all saw negative returns with materials performing the best at -2.3% followed by energy at -3.8%. The largest declines were seen in the real estate and utilities sectors with returns of -13.8% and -13.6% respectively.

Although SMIF's lower weighting in the financial sector relative to the benchmark index has translated to a slight outperformance, we expect the portfolio to continue to experience turbulence per the macroeconomic conditions. We remain adhered to the SMIF philosophy and retain companies with solid business models and stable financials.

Market Update

Australian Economy

The continued uncertainty surrounding households remains, with consumer confidence having fallen as house prices declined by a further 1.4% and mortgage payments grow larger. However, the impact of recent rate rises on mortgage repayments has not been fully realised yet and working in the other direction is the current labour market. With a very high level of job vacancies, unemployment looks to remain how and may potentially fall in the coming months

On the business front, conditions remain strong, with business confidence rising by 4pts over the September quarter and growing levels of capital expenditure. However, as capacity utilisation climbed to 86.3%, a majority of firms have reported the availability of labour as a constraint on output, with around half also noting the availability of materials as a constraint. Wage pressures are also of concern for many businesses, which has continued to weigh down on confidence. These pressures are largely being passed down to the

consumer, reflected in overall product prices growing by 1.4% over the September quarter.

Monetary Policy Decision

Moving into the spring season, RBA's September monetary policy decision resulted in a commensurate cash rate hike of 50bps compared to last month, bringing the current cash rate target to 2.35 %.

Similar to last month, the RBA is continuing its commitment to anchoring inflation expectations, whilst keeping the economy afloat amidst global recession fears. There is still the prevalence of uncertainty globally, given the deterioration of worldwide economic growth from high inflation, tighter monetary policies, the Russia-Ukraine invasion, as well as other concerns surrounding COVID-19 and China.

The RBA expects CPI inflation to increase over the months following September peaking later into the year before declining towards the 2-3% band. We expect that the RBA is going to continue raising the cash rate target in the coming updates. However, to what extent can they continue raising these rates? We believe recession fears and the inflationary environment from countries overseas (such as the UK) could soften the RBA's hawkish policy in the coming months.

Global Perspective

Global inflation pressures are starting to subside with food and energy prices beginning to moderate. Brent oil has decreased by 30% since June and the global Food and Agriculture Organisation food price index has fallen to its lowest point since the start of the war in Ukraine. Global supply chains are also beginning to recover as demand slows.

The trade-off between growth and inflation is becoming more apparent as financial conditions begin to tighten and the probability of inducing recession rises. Global PMIs for manufacturing fell below 50 over the last month which provided a glimpse into a possible contraction to come.

Drama in the UK

UK investors pulled a record 2.4bn pounds from equity funds over September, which made it the worst month in the already worst year on record for equity funds. This highlighted the lack of confidence in Britain this year which was

exacerbated by the "mini budget" released during the month. This included unfunded tax costs, gilt yields soaring and the pound plunging in value with USD buying over 0.9 pound. The UK governments fiscal stimulus impacted global markets as it generated a sense of crisis. The BoEs intervention by restarting quantitative easing has helped calm the gilt market, however, came as a surprise to the market given inflation figures are approaching 10% y/y. If QE is sustained too long may continue to sustain inflationary pressures which would necessitate even higher rate hikes in the future.

Position Updates

APA Group (ASX: APA -13.53%)

APA Group's share price fell significantly over the month of September on the back of former CEO Rob Wheals leaving the company and CFO Adam Watson stepping into the acting CEO role while the company looks for a replacement. The change in CEO coincides with the company's recent shift in focus away from US expansion to its existing domestic operations.

Moreover, APA has also emerged as the leading bidder for bankrupt electricity interconnector, Basslink, which connects the electricity grids of Victoria and Tasmania. This comes almost 18 months after APA first expressed interest in acquiring the company, however the deal had been put on hold while APA unsuccessfully pursued AusNet. APA, having already spent \$587.4 million buying Basslink's bank debt, will tip in the new money to help settle the company's accounts with the state of Tasmania, Hydro Tasmania, and other creditors.

BHP Group Ltd (ASX: BHP 3.86%)

As of late, BHP's share price has experienced high levels of volatility, in accordance with the movements in commodity prices. Its recent outperformance of the market throughout the month of September has been primarily driven by the company's exposure to coal, which rose in price. Despite the backdrop of uncertain economic conditions, investors are confident that coal prices will remain high and translate into earnings for BHP. Additionally, iron ore prices rose towards the end of the month on the back of an uptick in Chinese steel manufacturing.

Northern Star Resources (ASX: NST -1.45%)

As a mining company solely focussed on gold, Northern Star's unhedged operations make its share price heavily determined by the performance of gold. However, with the gold price falling throughout most of September, NST's share price remained buoyant as it was supported by the commencement of a share buyback. The share buyback of \$300 million, is helping to stabilise its price for now, though it may be subject to further changes in interest rates and the impact on gold.

Codan (ASX: CDA -22.12%)

Codan's significant share price drop has been due to a variety of factors, in conjunction with the broader sell-off in the tech sector. With rising interest rates, and the continued prevalence of inflationary cost pressures globally, Codan has experienced a softening in the demand for their metal detecting goods, a large component of their business at about 51%.

Additionally, the rising interest rate environment may also place pressure on Codan's balance sheet, despite their healthy interest coverage ratios and Debt/Equity ratio. It should be noted that there has been no fundamental change to the business that could warrant such a significant drop. We believe there may be some irrationality involved with this market reaction.

Elders Limited (ASX: ELD 2.33%)

Whilst investors await Elders' full year results, concerns over the significant increases in the cost of fuel, fertilisers, and other key inputs continue. However, with a strong market position, it is expected that Elders will pass on these costs to farmers.

Additionally, whilst the price of grain has been put under negative global pressure, prices are still relatively high and are expected to remain at such levels. Australian agricultural exports have also benefitted from a depreciation of the Aussie dollar, though this is being counteracted by higher input prices. The current outlook for livestock prices, notably sheep and cattle remain strong.

Ingenia Group (ASX: INA -12.68%)

Ingenia has experienced yet another month of negative returns, nearly double compared to last month. According the FY22 Annual report,

Ingenia's operating cash flows were down by 17%, as a consequence of lower tourism earnings, as well as reduced settlements from COVID-19 and poor weather conditions earlier in the year.

Underlying EPS also fell by 1% pcp, due to an increase in the weighted average securities on issue coming from the \$475m equity raising conducted in November 2021. However, this decrease in EPS is under the 1-2 cents provided by their guidance from July (0.3 cents).

Furthermore, as only 51% of Ingenia's interest rate risk is hedged, they are exposed to further interest rate hikes from the RBA, with the higher interest rates having potential to suppress their margins.

Carsales (ASX: CAR -15.22%)

With the culmination of inflationary pressures and rising interest rates, consumers are looking to adjust their spending behaviours, moving away from consumer discretionary businesses. This has translated to a softer demand for car sales, as people have lower discretionary income to spend on vehicles.

Furthermore, Carsales could be facing competitive pressures coming from other car retailers such as Tesla, who have seen success in online car sale portals similar to Carsales.

Macquarie Group (ASX: MQG -13.83%)

Being a diversified financial group, Macquarie has not benefitted as much as the big four from the interest rate hikes, as the big four are far slower to pass on the higher interest rates to their depositors than their borrowers, significantly boosting their NIM. The movements in the interest rates have actually weighed more on their asset management business.

Additionally, Macquarie has also reportedly lost a takeover bid for Suez Recycling and Recovery UK, as a consortium comprised of rival companies had exercised their right of first refusal on the bid. Macquarie's share price fell over 9% within the 4 days following this announcement.

On the contrary, Macquarie's Annual report indicated strong results in the commodities platforms, with stronger client activity registration in the foreign exchange, fixed income, and credit products. We expect Macquarie to be able to weather this downturn, especially given its strong business diversity and operations.

Performance:

	1 Month	3 Months	6 Months	1 Year	Inception p.a.*
SMIF	-6.18%	3.19%	-10.41%	-14.43%	7.26%
All Ordinaries Accumulation Index	-6.72%	0.47%	-12.50%	-3.86%	7.69%
Alpha	0.54%	2.72%	2.09%	-10.57%	-0.43%

Alpha may not equal SMIF return minus All Ordinaries return due to rounding. Returns also include any closed positions during the months analysed.

* Return since fund inception on 19 November 2018.

Sector Breakdown:

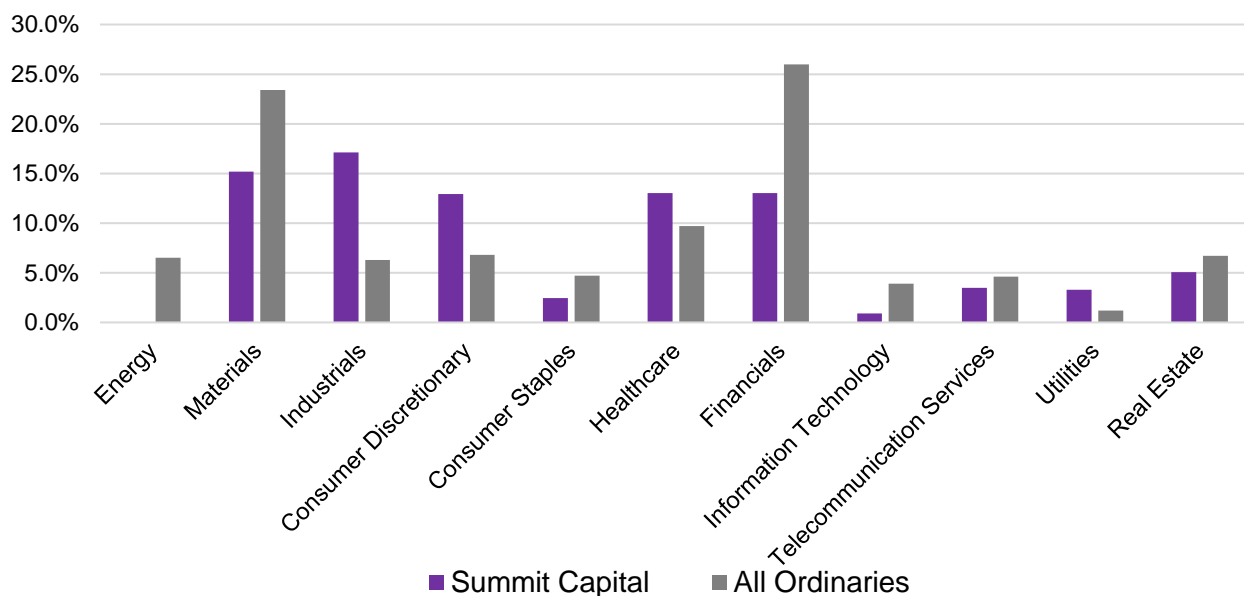
	% Weight	Change in rank
Energy	0	
Materials	15.18%	
Industrials	17.13%	
Consumer Discretionary	12.92%	▼2
Consumer Staples	2.46%	
Healthcare	13.03%	▲2
Financials	13.02%	
Information Technology	0.90%	
Telecommunication Services	3.49%	▲1
Utilities	3.30%	▼1
Real Estate	5.06%	

Contributors to Returns (%)

Top 5 Contributors (%)	
RMD	5.29%
BHP	3.86%
ELD	2.33%
NST	1.45%

Top 5 Detractors (%)	
CDA	-22.12%
CAR	-15.22%
MQG	-13.83%
APA	-13.53%
INA	-12.68%

SMIF GICS Sector Weights vs All Ordinaries



SMIF Portfolio Holdings:

Ticker	Company Name	Portfolio Weight		Position 30 th Sep	Capital Gains	Dividends	Return*
MQG	Macquarie Group Ltd	7.19%		\$18,940	5.8%	4.4%	9.8%
PWH	Pwr Holdings Ltd	5.30%		\$13,959	40.5%	3.8%	43.0%
RMD	Resmed Inc	4.65%	▲2	\$12,246	19.4%	1.1%	20.2%
JLG	Johns Lyng Group	4.52%	▼1	\$11,901	51.1%	3.2%	52.9%
DDH	DDH1 Drilling Ltd	4.20%	▼1	\$11,059	-6.3%	4.8%	-1.5%
CWY	Cleanaway Waste Ltd	4.04%		\$10,642	10.3%	2.7%	12.7%
BXB	Brambles Ltd	3.70%		\$9,744	4.6%	3.5%	8.1%
CSL	CSL Ltd	3.57%	▲3	\$9,406	7.6%	1.4%	8.8%
CNU	Chorus Ltd	3.49%		\$9,200	6.5%	5.4%	11.3%
SHL	Sonic Healthcare	3.33%		\$8,776	9.0%	4.9%	12.8%
BOQ	Bank Of Queensland	3.33%	▲1	\$8,762	-13.5%	0.0%	-13.5%
APA	APA Group	3.30%	▼4	\$8,689	-5.5%	4.8%	-0.2%
BHP	BHP Group Ltd	3.29%		\$8,667	5.4%	13.8%	17.9%
WES	Wesfarmers Ltd	2.95%	▲1	\$7,775	-8.9%	3.0%	-5.9%
JHX	James Hardie Industries	2.95%	▲1	\$7,772	5.1%	2.6%	7.4%
CLW	Charter Hall REIT	2.92%	▼2	\$7,702	-12.4%	6.7%	-5.4%
RIO	Rio Tinto Ltd	2.52%	▲3	\$6,631	1.3%	13.7%	14.7%
IPH	Iph Ltd	2.51%	▲3	\$6,624	10.5%	5.1%	15.0%
SUN	Suncorp Group Ltd	2.51%		\$6,620	-2.4%	8.6%	6.3%
CAR	Carsales.Com Ltd	2.49%	▼4	\$6,565	-8.6%	3.1%	-5.2%
ELD	Elders Ltd	2.46%	▲3	\$6,494	-2.4%	4.5%	2.1%
QUB	Qube Holdings Ltd	2.37%	▼4	\$6,237	-1.0%	3.4%	2.5%
NST	Northern Star Resources	2.23%	▲2	\$5,888	16.7%	4.9%	20.2%
DSK	Dusk Group	2.18%	▼2	\$5,753	-37.8%	9.1%	-28.7%
INA	Ingenia Group	2.14%	▼2	\$5,643	-0.2%	2.9%	2.7%
IDX	Integral Diagnostics	1.49%		\$3,917	-8.1%	4.1%	-3.6%
CDA	Codan Ltd	0.90%		\$2,359	-32.9%	3.2%	-28.3%
CASH	Cash and Dividends Receivable	13.49%		\$35,564			
	TOTAL			\$263,532			

*Total return on each position since purchase

** Uniti privatisation is accounted for in the Cash and Dividends Receivable

Portfolio Management Team

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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.