

UQ Business School Student Managed Investment Fund (SMIF) Portfolio Case Challenge 2023

Challenge overview

In 2018 the University approved the allocation of \$200,000 to the UQ Business School Student Managed Investment Fund. This money was initially invested on two dates in November and December 2018.

Since semester 2, 2019, student teams have managed the fund for periods following the SMIF Portfolio Case Challenges:

Sep 2019 to Apr 2020: Team Hadrian

May 2020 to Sep 2020: Team Zion Capital

Oct 2020 to Apr 2021: Team Plutus

May 2021 to Apr 2022: Team BC Capital

May 2022 to April 2023: Team Summit Capital

The current value of the portfolio is approximately \$280,722 (December 2022).

We are happy to run the Challenge once again this year. An exciting news is that the competition is sponsored by One Fifteen Capital with a **prize money of \$10,000** for the winning team.

For the challenge, students form their own teams and will be required to produce a comprehensive portfolio solution for SMIF with recommended additions to, and sales, from the existing portfolio. The solution will need to comply with specified portfolio guidelines and constraints.

The winning team will have their portfolio solution implemented and will be appointed portfolio managers (PM) for one-year period before handing over to the next team of portfolio managers in around May 2024. During that period the PMs will be able to make further changes to the portfolio with Investment Committee approval.

The PM team has responsibility to recruit their team of equity analysts. The analyst team can provide stock notes and analysis support to the PMs for consideration. The PM team will also undertake additional analysis for the final portfolio decisions.

The semi-final of the challenge is judged by UQ Business School academic staff and/or other suitable individuals followed. The final will be judged by a panel of industry professionals.

Workshops

In preparation for the challenge, the Sponsor One Fifteen Capital has kindly agreed to provide a workshop on investing. Dates to be announced.

Additionally, our current PMs will provide workshops on skills that are essential to the challenge. The topics include:

- How to value a stock?
- How to pitch a stock?
- How to assess the climate risk of a portfolio?

Key dates

Wednesday 8th March (5pm) - Information session (location and zoom link to be announced)

Tuesday 8th – 24th March – *Workshops (various dates to be announced)*

Friday 24th March (5pm) - Team registration deadline (on Blackboard)

Friday 21st April (5pm) - Report submission (on Blackboard)

Friday 28th April – Semi-final line-up published

(Around) 8th to 12th May (in person) - Semi-final presentation

(Around) 8th to 12th May (in person) - Final

Benefits of participation

There are a wide range of potential benefits for students who participate in this challenge including:

- Industry insights and sponsorship prize (\$10,000) from One Fifteen Capital;
- Development of skills related to teamwork, task planning and organisation, report preparation, and giving effective presentations;
- Experiential learning – putting into practice concepts and theory from areas such as valuation, portfolio management, risk management and corporate finance;
- Attain and develop knowledge on Sustainable Investing, an area that has seen tremendous growth in the last few years.
- Enhancing employability and employment opportunities – employers are increasingly looking to employ students with demonstrated experience and skills developed in extra-curricular activities. This activity will provide some students with direct access to potential employers. **A number of past students have reported that involvement in SMIF has significantly assisted them with obtaining employment, in the investment management industry, before or after graduation;**
- Experience managing real money – the winning team will have direct management of a portfolio of a real portfolio for a period of half a year and be members of the SMIF investment committee. This may also include meetings with listed company executives, investment analysts and portfolio managers.

Who is eligible for the challenge?

The challenge will be open to all UQ students. However, each team of 4 or 5 students¹ will need to have at least two students who are currently enrolled in a UQ Business School program (e.g. Bachelor of Commerce, Bachelor of Advanced Finance and Economics, Master of Commerce - but not limited to these). Further, each team must have 4-5 students who will still be enrolled in their current UQ program in June 2024.

If you want to be involved in the challenge, please join the SMIF Blackboard via the following link:

https://learn.uq.edu.au/webapps/login/?new_loc=/webapps/blackboard/execute/enrollCourse?course_id= 143084_1%26context=COURSE

If you have any issues, please send an email to smif@business.uq.edu.au (Dr Ronghong Huang/Dr Khoa Hoang).

You must be registered on Blackboard in a team of 4-5 students by Friday 24th March, 5pm. Sign up for a group (team) on SMIF Blackboard under the section 'Portfolio Management Case Challenge Sem 1 2023'. You will find a link to sign-up sheets there under the heading 'SMIF Challenge group'.

Duties of the winning team

Please note that the winning team will be appointed PMs for one-year period and must be available to perform duties associated with the role during that period. These duties include:

- Monitoring and managing the portfolio;
- Recruitment of equity analysts;

¹ While the preferred number of students in a team is 4 or 5, the Challenge will accept teams of 6 students. Anecdotal experience in the Challenge task is that team effectiveness is improved when teams have fewer than 6 members.

- Working with equity analysts on issues related to the portfolio;
- Attending and actively participating in Investment Committee meetings;
- Facilitating workshops with industry guests for the SMIF community;
- Promoting the SMIF and assisting with next year's case challenge;
- Preparing monthly fund updates and presenting a report to the SMIF Advisory Board at the completion of their term as PMs. The report will detail the performance of the portfolio during the PMs tenure.

The amount of time that the PM team will spend on these activities will depend largely on their investment process, so it is not possible in advance to state the time commitment required.

What is the task?

The SMIF portfolio as at close of trade on the 28th February 2023 will be released as soon as it is available.

The core task of each team is to formulate a set of Buy/Hold/Sell recommendations and associated transactions for the Fund. The Fund has a fixed investment philosophy and strategy as set out below:

SMIF Investment Philosophy

The Fund's investment philosophy draws on several decades of academic theory and research that asserts and generally finds that the market is, over the long-term, efficient and asset prices closely reflect underlying value. While there is ongoing debate as to whether academic evidence of higher (or lower) than expected portfolio returns are the product of risk premia or behavioural factors, it is well established that investment professionals, are on average at least, unable to outperform the market.

However, we also understand that investment professionals are an important mechanism for maintaining market efficiency, as they search for and seek to take advantage of perceived mispricing. Accordingly, the portfolio managers of SMIF are not discouraged from pursuit of mispricing but are encouraged to make use of a range of valuation tools including discounted cash flow (DCF) analysis to quantify the opportunity.

We expect that the long-term returns of the Fund will be driven by broader equity market returns and we wish to minimise exposure to non-systematic risk by holding a diversified portfolio. This is consistent with the UQ Investment Policy.

The SMIF will be gradually developing a strong sustainable investment policy. The Fund desires to be a responsible investor and requires the PMs to incorporate environmental, social and governance issues into investment analysis and decision-making processes. In practical terms this means that all material ESG issues associated with a Fund investment will be identified, assessed and found to meet UQ's ethical standards and values. Details of which issues are particularly considered and how are progressed by the PM team every term and ought to be documented. A key consideration that particularly must be considered is climate risk. This will be covered in one of the workshops in preparation for the challenge.

SMIF Investment Strategy

The SMIF investment philosophy is implemented by requiring the portfolio of ASX listed equities to be diversified prudently across the eleven GICS sectors. A range of portfolio constraints are also specified to ensure proper diversification and no material exposure to non-systematic risk factors.

SMIF has a preference for investments that have a track record of profitability, positive operating cash flow, and low industry-adjusted balance sheet gearing. Investee companies should be ones whose revenue and profits are expected to grow over the medium to long term without the need for substantial additional shareholder capital. Investee companies have a track record of fairly and respectfully dealing with stakeholders including shareholders and customers. We value the strength of the management team.

SMIF has developed an ESG policy to ensure it meets its responsibilities as responsible investors.

UQ Investment Policy

The SMIF philosophy and strategy has been formulated to be consistent with a range of constraints which flow from the UQ Investment Policy: <https://ppl.app.uq.edu.au/content/investment-policy>

Key aspects of this Policy that are relevant to investments made by SMIF are:

- *“All investments must be within the Senate-approved Risk Appetite Statement and meet UQ’s ethical standards and values”* (2.2.3). UQ values are articulated at: <https://www.uq.edu.au/about/mission-statement>
- Long-term investment pool objectives (2.6)
 - *“To create a growing source of funds that can be used to support the objectives of UQ;*
 - *To provide long-term capital growth as well as a stable annual income stream in perpetuity;*
 - *To preserve the long-term purchasing power of the endowments;*
 - *To provide reasonable returns that are consistent with donor expectations; and*
 - *To minimise market risk by investing in a well-diversified portfolio across a number of industry sectors.”*
- Prohibited investments (2.9)
 - *“A derivative unless to hedge a prescribed risk under UQ’s foreign exchange or debt policies; and*
 - *An investment that does not align with UQ’s values and strategic direction unless otherwise approved by the Senate.”*

While the Fund investment philosophy and strategy is set, as above, your team must determine the process which you will use to implement this philosophy and strategy. You should clearly articulate this process in your presentation.

To ensure compliance with the UQ Investment Policy **the following constraints must be adhered to by all teams:**

1. All investments must comply with the SMIF ESG Policy (see page 9 of this document);
2. Investments are restricted to ASX listed securities (which own operating businesses) and may not include any derivative, Exchange Traded Fund or Listed Investment Company.
3. The portfolio must comprise at **least 25 securities, with a minimum of 1% and maximum of 10% in any single security. The largest 10 holdings may not comprise more than 50% of the portfolio.** Maximum cash weight is 10%, minimum is 0%.
4. At least 50% of the value of the portfolio must be constituents of the S&P/ASX200 index and at least 90% must be constituents of the All Ordinaries Index. The Fund benchmark is the All Ordinaries Accumulation Index.
5. While there are no strict rules on sector weights, the portfolio is expected to be prudently diversified across the 11 GICS sectors.
6. A minimum of 60% of the existing portfolio (by dollar value) must be maintained in your proposed portfolio.

What is the semester schedule?

Please note that all dates are subject to change. Any date changes will be posted on the SMIF Blackboard and emailed to registered students.

1. Team registration

Deadline: Friday 24th March 2023

You must be registered as part of a team on Blackboard by this date/time.

See ‘SMIF Challenge group (team) sign up’ (within ‘Portfolio Management Case Challenge Sem 1 2023’) on SMIF Blackboard.

2. Report submission

Deadline for submission: Friday 21st April 2023, 5pm

It is important to note that company reporting season finishes at the end of February and a great deal of information via the ASX is likely to be released to the market during this time.

Report submission requirements: see page 6.

Any team who wishes to participate in the challenge must submit by the deadline the required 20-page report. Reports will be evaluated by UQ Business School academic staff (and/or current Portfolio Managers) and a select number of teams will be invited to participate in the semi-final. All teams will be advised of their success or otherwise by 28th April.

Judging criteria: Team reports will be assessed on a number of criteria including:

- Adherence to specified Report requirements;
- Clarity and coherence of investment process;
- Concordance of portfolio with Fund investment philosophy, strategy and Team process;
- Strength of qualitative and quantitative analysis;
- Quality of report presentation and writing;
- Thoroughness of research in stock spotlight.

It is not anticipated that formal feedback will be provided to unsuccessful teams.

2. Semi-final presentations

The semi-final is expected to be held on or around the 8th to 12th May 2023 where a select number of teams will present a 20 minute presentation including Q&A. Judges will comprise UQ Business School academic staff and/or other suitable individuals. 3 teams will then be selected for the final.

Deadline for submission of proposed presentation: 5th May 2023

Presentation requirements and judging criteria will be communicated directly to the teams selected for the semi-finals.

3. Final presentations

The Final will be held on or around the 8th to 12th May 2023 where 3 selected teams will make a 30 minute presentation including Q&A. Students will be making essentially the same presentation as in the semi-finals but will have more time to answer questions. Judges are expected to comprise a panel including industry professionals.

Presentation requirements and judging criteria will be the same as for the semi-finals.

Report submission requirements

By 5pm 21st April 2023, submit your report as a PDF on the SMIF Blackboard ('Team Report' link under 'Portfolio Management Case Challenge Sem 1 2023'). Your report should contain two parts. The first part contains your investment process and portfolio allocations. The second part contains your detailed analysis on the stock on the list provided by One Fifteen Capital.

Part I: Investment Process and Portfolio Analysis (10 pages)

Page 1: Team Name and contact details (email address, phone number); for each team member – family name; first name; student number; enrolled UQ program (e.g. Bachelor of Commerce); expected graduation semester (e.g. Semester 2, 2024).

Page 2: Investment Process. The investment process describes how the Fund's investment philosophy and strategy is implemented.

Pages 3-4: Macroeconomic and Industry analysis. The analysis should provide your critical assessment of the current portfolio in the current and expected future market environments.

Page 5: List of all proposed transactions broken into two groups: Buys; Sells. The list should include the following columns: Company Name; ASX Code; GICS Sector; S&P/ASX 200 (Y if member, blank if not); All Ordinaries (Y if member, blank if not); Market Capitalisation (\$m); P/E ratio (trailing); Dividend yield (trailing); Current portfolio weight %; Weight % to be bought or sold; Proposed portfolio weight %;

Page 6: Largest 3 Buys. For each of the largest (by portfolio weight) five purchases provide a one paragraph thesis for the purchase.

Page 7: Largest 3 Sells. For each of the largest (by portfolio weight) five sales provide a one paragraph rationale for the sale.

Page 8: Proposed portfolio listing. Table in descending order of portfolio weight (include cash as a line in this table). Company Name; ASX Code; GICS Sector; S&P/ASX 200 (Y if member, blank if not); All Ordinaries (Y if member, blank if not); Market capitalisation (\$m); P/E ratio (trailing); Dividend yield (trailing); Portfolio weight %; At the foot of the Market capitalisation provide a median value for that column. At the foot of the P/E ratio and Dividend yield columns provide a portfolio weighted average for that column.

Page 9: Portfolio ESG. Identify and discuss any ESG issues with proposed portfolio purchases. Certify that all proposed purchases comply with the SMIF ESG Policy, and include a climate risk assessment. Here, you can also propose what types of sustainable investment strategies you propose the SMIF adopts going forward.

Page 10: Portfolio Constraints. Number of securities in portfolio; weight of smallest holding in portfolio; weight of largest holding in portfolio; total weight of largest 10 holding in portfolio; cash weight; total weight of holdings with are members of S&P/ASX200 index; total weight of holdings with are members of All Ordinaries index; For each of the 11 GICS Sectors – portfolio weight; % of existing portfolio rolled-over into proposed portfolio.

Part II: Stock Spotlight (10 pages)

You will receive a list of proposed stocks from One Fifteen Capital. The list will be made available during the industry workshop provided by One Fifteen Capital. You need to pick up one of the firms and conduct an in-depth equity report.

The format of the equity report is not fixed. However, at a minimum, the equity report should include business description, industry analysis, investment thesis, financial analysis, valuation, and investment risks. The best report will provide insights into the business that is beyond the information contained in the annual reports. You are also required to submit the supporting valuation spreadsheet to Blackboard ('Valuation spreadsheet' link under 'Portfolio Management Case Challenge Sem 2 2023').

Note:

- (a) failure to comply strictly with these requirements will mean that your team cannot proceed to the semi-final of the challenge;
- (b) data (e.g. share price) should be as at close of business on 31st March 2023;
- (c) financial data should be expressed in \$m;
- (d) the written content of the report should be the original work of the team and should not be taken verbatim from any other source. Turnitin will be used to check for originality.

Useful resources

The **Bloomberg lab** is located on level 1 of the Colin Clark building. You can use the Bloomberg terminals here to gather a great deal of data and information about potential investments for the portfolio (including carbon emissions). You can access this lab during weekday University hours and will need to setup an account.

Capital IQ also provides a wealth of financial data about listed companies which you can access from any device. Please sign up for a login using your @student.uq.edu.au email address at: <https://www.capitaliq.com/ciqdotnet/login.aspx>

Click on 'New User' to register.

DatAnalysis Premium provides access to Australian and New Zealand listed company information. You can access this through the UQ library:

<http://datanalysis.morningstar.com.au.ezproxy.library.uq.edu.au/>

SMIF Blackboard: Material submitted by prior finalist teams are available on Blackboard. Also, videos of the three teams presenting to industry judges can be viewed at:

May 2020 Final

- Zion Capital (winner) presentation https://www.youtube.com/watch?v=_sT3-zecAcI
- Alpha Labs presentation <https://drive.google.com/open?id=1W4VPSwYbN5Pc2BveZ0tucLyDEXV1ciK1>
- Stonewater Capital presentation
https://www.youtube.com/watch?v=u9Hesd0gpWE&feature=youtu.be&fbclid=IwAR1rjCRJ2hm6ZfVjFTiZWuYugg5BBdRsjPpgS_ZeIMq0mcBg5ANxBPTNjkl

September 2019 Final

- Introduction and (winner) Hadrian presentation <https://youtu.be/DbIBaoVVZlk>
- Ripcurl presentation <https://youtu.be/W9GrkHfGXO0>
- Kern presentation <https://youtu.be/D3I5573mEEE>
- Judge's comments and Prize ceremony <https://youtu.be/Rbl2HkEDUCe>

Media Outlets

Livewire Markets: Commentary from Australian Fund Managers on current macroeconomic events and ASX stocks

The Business (iView): 15 minute weekday wrap-ups on current events in Australian business climate

Morningstar: Australian and Global Market Data updates.

If you have any questions...

You can contact any of the following UQ Business School academic staff:

Dr Khoa Hoang/ Dr Ronghong Huang at smif@business.uq.edu.au

UQ Business School

Student Managed Investment Fund (SMIF)

Environmental, Social and Governance (ESG) Investment Policy

February 2021

The University of Queensland does not currently have a stated policy on ESG in relation to its investments. However, there are two relevant documents in regards to the consideration of ESG factors into investment decision making.

First, [The UQ Investment Policy](#) states that *'All investments must be within the Senate-approved Risk Appetite Statement and meet UQ's ethical standards and values.'* (2.2.3). Ethical standards and values are not defined. The team ought to make reasonable assumptions on what the ethical standards and values of the university are, and reflect on their own.

Second, five years ago (October 2016) the request by [Fossil Free UQ for UQ to divest from fossil fuel investments was rejected](#). The letter by the Chancellor outlining the reasons for rejection identified that the investment managers appointed by the University, Dalton Nicol Reid and Hyperion, had committed to the United Nations-supported Principles for Responsible Investment (PRI) Initiative which comprise:

- Incorporate ESG issues into investment analysis and decision-making processes;
- Be an active owner and incorporate ESG issues into ownership policies and practices;
- Seek appropriate disclosure on ESG issues by the entities in which the Fund Managers invest;
- Promote acceptance and implementation of the Principles within the investment industry;
- Work together to enhance our effectiveness in implementing the Principles; and
- Report on activities and progress towards implementing the Principles.

As part of this, Dalton Nicol Reid incorporate a standard negative screen which specifically excludes investing in companies involved in gaming, pornography, armaments and tobacco. They also seek to include companies with low ESG risk. **the UQ SMIF will adopt the following ESG Policy:**

- The Fund supports the United Nations Principles for Responsible Investment (PRI);
- The Fund will incorporate Environmental, Social and governance issues into investment analysis and decision-making processes. In practical terms this means that all material ESG issues associated with a Fund investment will be identified, assessed and found to meet UQ's ethical standards and values.
- The Fund will not invest in any company that generates revenue principally from gambling, pornography, armaments or tobacco.