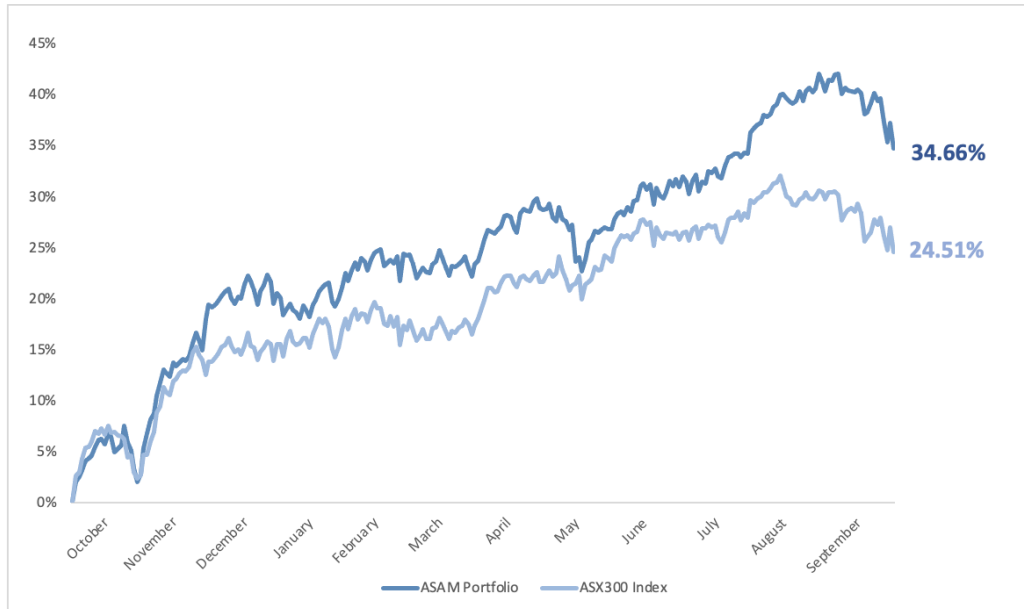




# ASAM Long-Only Australian Equities Fund

## Q1 Report | FY22



### Portfolio Performance

	Jul	Aug	Sep	Q1 FY22	1-year
<b>ASAM</b>	2.53%	5.06%	-4.49%	2.89%	34.66%
<b>ASX300</b>	1.74%	1.94%	-4.52%	-0.98%	24.51%
<b>Outperformance</b>	<b>0.79%</b>	<b>3.12%</b>	<b>0.03%</b>	<b>3.87%</b>	<b>10.15%</b>

### Q1 FY22 Fund Overview

Over the first quarter of the 2021-22 financial year, the ASAM portfolio returned a combined growth rate of 2.89%, outperforming the benchmark return of -0.98%. This brings ASAM's 1-year (since 1 Oct 2020) performance to 34.66%, which represents an outperformance of 10.15% against the ASX300 benchmark return of 24.51%.

As at September 30<sup>th</sup>, the portfolio held 16 long positions. The fund's largest position was Macquarie Group Ltd (ASX:MQG), at

10.72% of total portfolio value, while its smallest position was Endeavour Group Limited, at 0.79%, following its demerger from Woolworths Group Limited.

ASAM's strongest performing holding during the quarter was Macquarie Telecom Group Ltd (ASX:MAQ), returning 48.05% since 1<sup>st</sup> July 2021. The fund's worst performing holding was BHP Group Ltd (ASX:BHP), which returned -23.8% in the quarter



### Portfolio Characteristics

1 October 2020 – 30 September 2021	ASAM	ASX300
Number of Holdings	16	300
Alpha	1.13%	-
Beta	0.81	1.00
Information Ratio	1.25	-
Sharpe Ratio	2.73	1.97
Standard Deviation	12.7%	12.4%

Performance metrics estimated through regression analysis of daily returns of the ASAM portfolio relative to the ASX300 Index

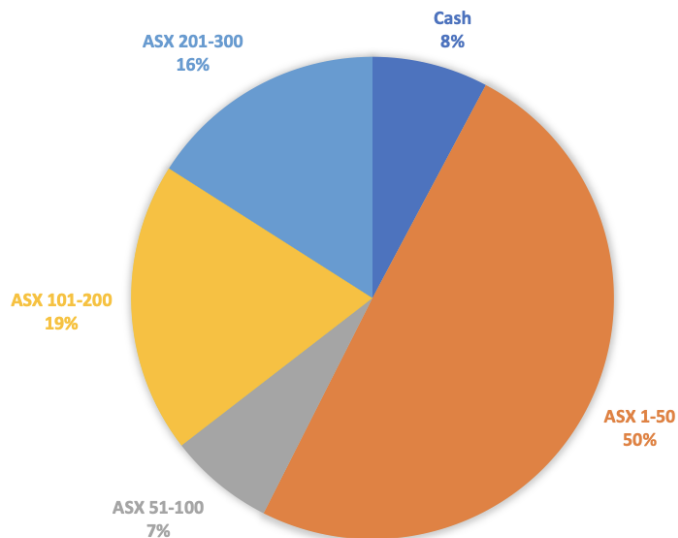
### Portfolio Commentary

In calculating risk characteristics for our portfolio, excess daily returns for the year ended 30 September 2021 were used. A regression of these returns generated estimates for alpha and beta.

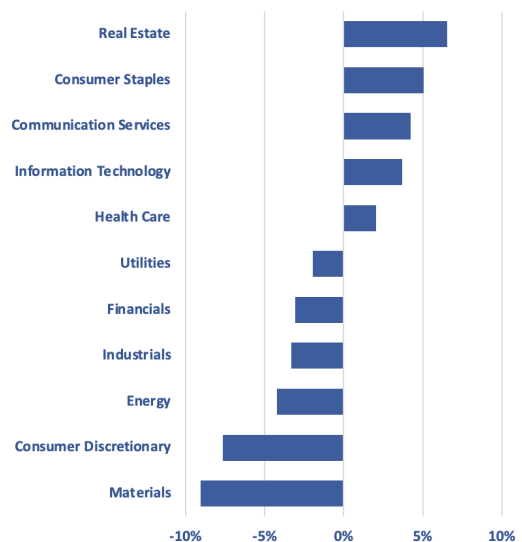
A key positive for the year was the higher Sharpe ratio of the ASAM portfolio, relative to the ASX300 benchmark. This suggests that ASAM delivered higher excess returns per unit of risk, where risk is measured using the standard deviation of returns.

Over the year, ASAM also delivered an information ratio of 1.25. This suggests that the portfolio was able to consistently generate excess, risk-adjusted returns against the ASX 300. Alpha, a measure of the active excess return of an investment relative to a benchmark, was 1.13% for the year ended 30 June 2021. An alpha greater than zero indicates that the ASAM portfolio generated excess returns after adjusting for exposure to market risk.

### Portfolio Market Capitalisation Exposure



### Sector Active Exposure vs ASX 300





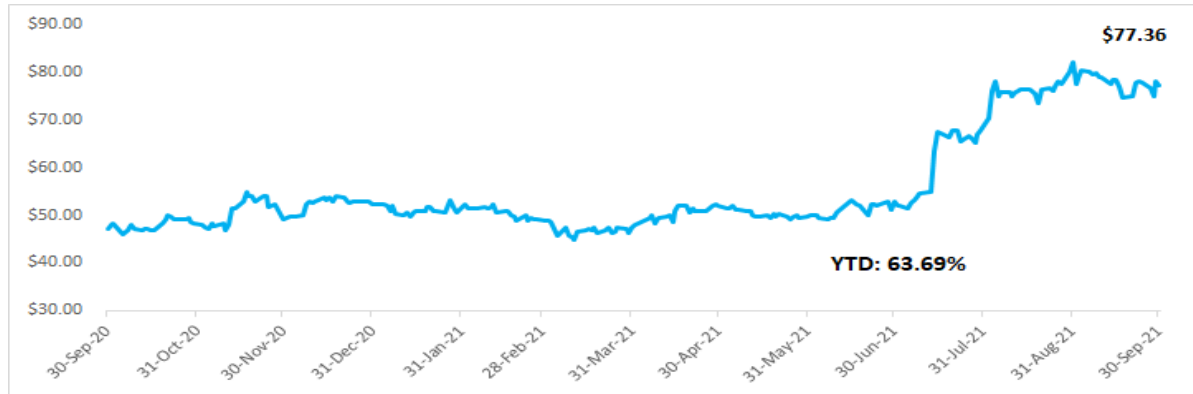
**ASAM Portfolio as at 30 September 2021**

	Weightings	Sector	Q1 Return	Q1 Return Contribution
<b>Macquarie Group</b>	10.72%	Financials	14.20%	1.52%
<b>CSL</b>	9.05%	Health Care	1.89%	0.17%
<b>NAB</b>	7.68%	Financials	4.72%	0.36%
<b>Stockland</b>	7.08%	Real Estate	-5.86%	-0.41%
<b>Arena REIT No 1</b>	6.66%	Real Estate	16.48%	1.10%
<b>Wesfarmers</b>	6.12%	Consumer Staples	-6.67%	-0.41%
<b>Macquarie Telecom</b>	6.09%	Communication Services	48.05%	2.93%
<b>Resmed CDI</b>	5.49%	Health Care	11.53%	0.63%
<b>CSR Limited</b>	5.46%	Materials	-1.25%	-0.07%
<b>BHP Group</b>	5.29%	Materials	-23.58%	-1.25%
<b>Tyro Payments</b>	4.79%	Information Technology	0.80%	0.04%
<b>Perpetual</b>	4.63%	Financials	-6.64%	-0.31%
<b>Reliance Worldwide</b>	4.62%	Industrials	-1.38%	-0.06%
<b>Woolworths Group</b>	4.53%	Consumer Staples	3.17%	0.14%
<b>EML Payments</b>	3.22%	Information Technology	3.31%	0.11%
<b>Endeavour Group</b>	0.79%	Consumer staples	8.01%	0.06%
<b>Cash</b>	7.78%	-	-	-



## Position Commentary

### Macquarie Telecom Group (ASX:MAQ)



### Share Price

Over the past quarter, Macquarie Telecom was ASAM's top performer, returning 48.05% in Q1. MAQ's contributed return to the portfolio was 2.93%.

### Performance

Coming off impressive FY21 results, MAQ has announced plans to significantly expand capacity at its Macquarie Park Data Centre from 10MW to 50MW. Currently data centres consist of 7% of the Group's revenue however, it possesses the highest EBITDA margin with over 48% and contributed to 25% of total EBITDA. Revenues from this sector are expected to increase with the completion of phase 1 of the project in 2023.

The clear growth avenue remains in the expansion of its data centres in the upcoming years. The global scale of its data centres is expected to attract new investment into Australia from multinationals looking to expand in the Asia Pacific region.

In FY21, the telecom segment contributed to 47% of the Group's revenue, delivering

\$135.1m, a decrease of 3.2% compared to prior year. The performance is reflective of office occupancy during COVID lockdowns.

The Cloud Services and Government segment contributed \$131.5m in revenue, an increase of 21.3% compared to the prior year with increasing EBITDA margins. Currently, MAQ delivers its cyber security and cloud services to 42% of Federal Government Agencies.

### Outlook

MAQ intends to continue to have high levels of CAPEX in the near future which could affect short-term bottom-line profits. Despite increases in revenues, it is expected that this will be offset by depreciation and amortisation costs. Historically, MAQ have achieved a 16.1% return on their invested capital in the past 5 years. With the continued expansion of its data centres and cloud services business, MAQ could prove to be a highly successful hold in upcoming years if it can remain competitive with comparables.



## BHP Limited (ASX: BHP)



BHP Limited has performed poorly over this past quarter, posting a return of -23.58%, and thus making it the worst performing stock in ASAM's portfolio.

### Operational Performance

Petroleum production increased by 6% in Q1 compared to the previous quarter due to higher seasonal demand at Bass Strait and improved uptime at Atlantis.

Copper volumes achieved a growth of 3% due to the ongoing ramp up of production at Spence, following the first production at the Spence Growth Option in December 2020. Iron ore volumes increased by 9% due to the combination of record quarterly production at Mining Area C that resulted in increased volumes at Western Australia Iron Ore (WAIO), and improved supply chain reliability that has continued strong operational performance. Metallurgical coal achieved a growth of 23% as a result of higher volumes at Queensland Coal, reflecting a strong underlying operational performance that included record quarterly production at Goonyella and BMA, following significant wet weather impacts in the prior period. Energy coal volumes surged by 31% due to record wash plant performance and lower strip ratios that enabled higher volumes at NSWEC, and significant weather impacts in the prior period. Finally, Nickel attained a growth of 10% due to planned maintenance undertaken in the prior period.

BHP Chief Executive Officer Mike Henry commented that: "BHP safely delivered another year of excellent operational performance and its second consecutive financial year with zero fatalities at our operated assets. We set several production records and brought on four major projects safely, on schedule and on budget."

### Financials

BHP recorded earnings of US\$37.4 billion, an EBITDA margin of 64% (up 11%, free cash flow of US\$19.4 billion (up 140%) and a return of capital employed (ROCE) of 32.5% (up 15.6%).

### Performance

Despite BHP posting strong financial results, its share price fell by 23.58% over this quarter as a result of mixed reactions to their announced merger plans with Woodside Petroleum and the collapse of iron ore prices due to China's crackdown on steel production. BHP's merger announcement with Woodside Petroleum left investors with a negative outlook to BHP's growth opportunities as the divestment of their petroleum division meant the loss of high-margin oil & gas earnings and growth projects that represent 2/3 of BHP's total growth profile. Further, while the accelerating steel production cuts in China were an initial trigger for fall in BHP's share price, the magnitude of its threat intensified due to panic selling.



## ***Inflation***

One thing to be aware of over the next quarter is rising global inflation; it will likely have significant impacts on the macroeconomy and, in turn, ASAM's portfolio. Global food, energy, rent and materials prices have placed immense upward pressure on inflation statistics. Whilst food and energy prices may very well balance out in the near future, with strong housing markets feeding into rent prices in the near future, we believe a period of higher inflation is here to stay. Furthermore, inflationary expectations are likely to shift in the coming months to year. The impacts are widespread; inflation will eat into material input and wage costs for businesses. More importantly however, it reduces ASAM's real return. Having said this, commodities are often seen as an inflation hedge; following rising inflation, commodity prices tend to increase many multiples more. We will see whether this filters into our materials holdings in BHP Group and CSR Ltd, which could see strong upswings.

## ***Further Readings for You***

A small cap embedded in a multi-year growth opportunity – Macquarie Telecom

<https://www.livewiremarkets.com/wires/a-small-cap-embedded-in-a-multi-year-growth-opportunity>

Here's Why We Think BHP Group (ASX:BHP) Is Well Worth Watching – *Simply Wall St*

<https://simplywall.st/stocks/au/materials/asx-bhp/bhp-group-shares/news/heres-why-we-think-bhp-group-asxbhp-is-well-worth-watching>

BHP Group: Big moves and big dividends – Morgans

<https://www.morgans.com.au/Blog/2021/August/BHP-Group-Big-Moves-And-Big-Dividends>

**Calvin Ching**

Chief Operating Officer

coo@australianstudentsam.org

**Henry Munns**

Portfolio Analyst

**Peter Lee**

Portfolio Analyst

portfolio@australianstudentsam.org

**Joshua Xie**

Portfolio Analyst

## **DISCLAIMER**

This report is prepared and issued by Australian Students Asset Management Ltd ABN 46 972 966 178 ("ASAM") as trustee for the ASAM Long Only Australian Equities Fund ('the Fund'). The report (including any attachments or links to other websites) is intended solely for the named addressee and is confidential. Any use, disclosure, reproduction, distribution or copying of the information in this newsletter is unauthorised and strictly prohibited. The information contained in this report is of a general nature only and does not take into account the objectives, financial situation or needs of any particular person and is not to be taken as containing any investment advice or recommendation. Before making an investment decision to acquire shares you should consider, with or without the assistance of a financial or other professional adviser, whether an investment is appropriate in light of those matters. You should also obtain a copy of the Information Memorandum and consider the risks and disclosures of the Fund for your circumstances. Subject to law, neither the Fund nor ASAM, nor the directors, officers or employees of ASAM nor its associates, or any party named in the Information Memorandum gives any representation or warranty as to the reliability or accuracy of the information in this report, nor do they accept any responsibility for any loss to any person incurred as a result of reliance on the information in this report, including any negligent errors or omissions. Past Performance is not a reliable indicator of future performance. Past asset allocation and gearing levels may not be reliable indicators of future asset allocation and gearing levels.