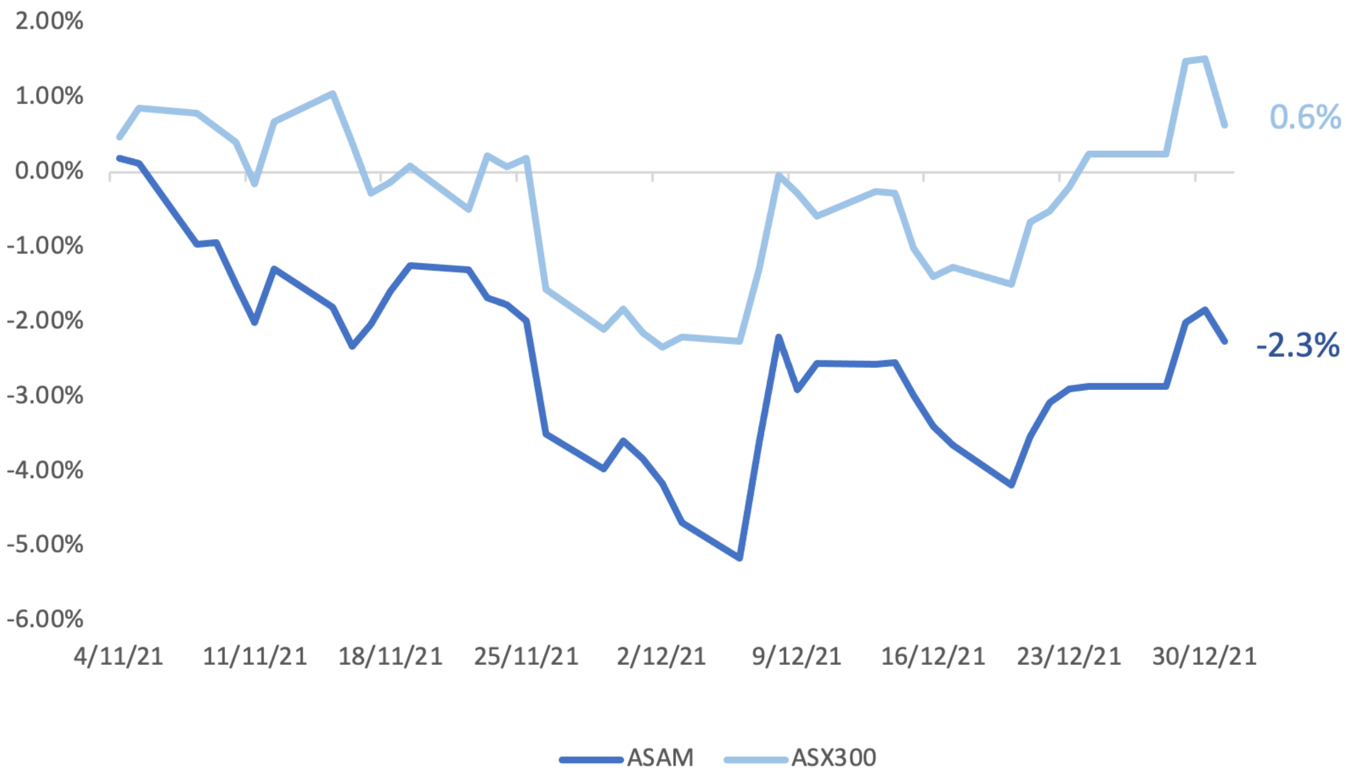
Q2 Report FY22

ASAM

LONG-ONLY AUSTRALIAN EQUITIES FUND

Q2 REPORT FY22



Portfolio Performance

	November	December	Q2FY22
ASAM	-3.59%	1.63%	-2.25%
ASX300	-1.83%	2.84%	0.63%
Outperformance	-1.76%	-1.21%	-2.88%

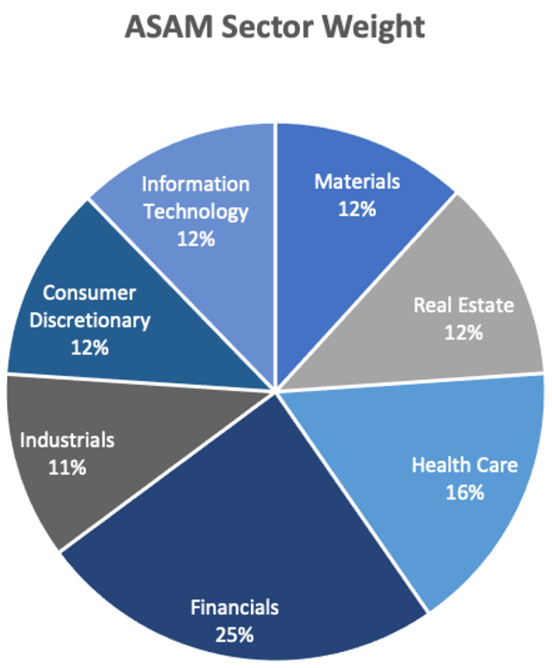
Note: The above figures are estimated numbers sourced by ASAM.

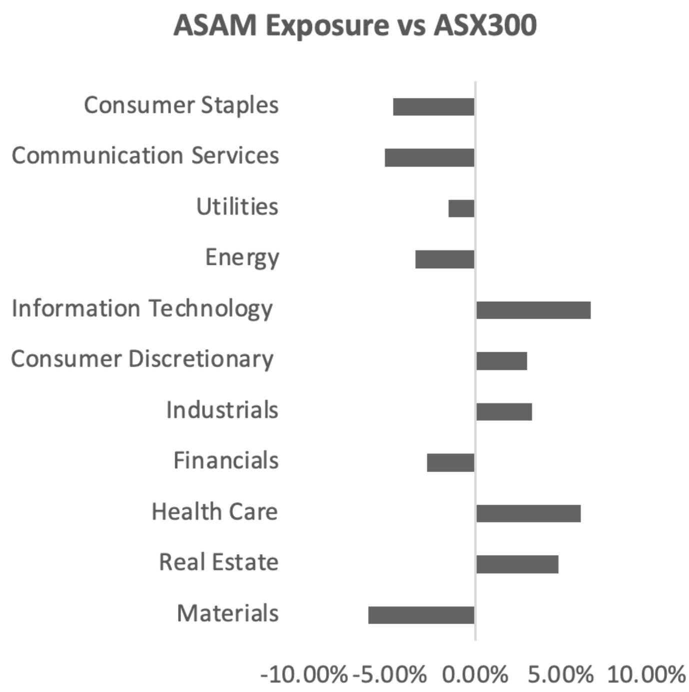
Q2 FY22 Fund Overview

The second quarter of the 2021-22 financial year was an incredibly exciting transition period for ASAM as the fund moved to live trading, which marked a significant milestone of the ASAM. The portfolio reduced long positions from 15 to 8 with the largest position being CSL (ASX: CSL), at 8.67% of the total portfolio value, while its smallest position was Reliance Worldwide Corporation (ASX: RWC), at 5.91% of the total portfolio value.

The whole portfolio returned a combined growth rate of -2.25% against the benchmark return of 0.63%, which represented a -2.88% underperformance.

Our strongest performing holding during the quarter was BHP (ASX: BHP), which returned 15.5% over the quarter. Our worst performing stock this quarter was Tyro Payments (ASX: TYR), which returned -17.1% over the quarter.





Portfolio Performance

3 November 2021 – 31 December 2021	ASAM	ASX300
Number of holdings	6	300
Alpha	-5.1%	-
Beta	0.95	1.00
Information Ratio	-4.15	-
Sharpe Ratio	-2.10	0.37
Standard Deviation	1.19%	1.04%

Note: The above figures are estimated numbers sourced by ASAM.

Portfolio Commentary

In calculating risk characteristics for our portfolio, we calculated the metrics over the period the ASAM portfolio began live trading ending 31st December 2021. A regression of these returns generated estimates for alpha and beta.

Over this short period when the portfolio was live, the ASAM portfolio delivered disappointing results, underperforming the benchmark across all measures. We observed a Sharpe ratio of -2.1 which was a function of our portfolio vastly underperforming. Moreover, our portfolio has been observed to take on more risk given its slightly higher standard deviation of daily returns over the period. The negative information ratio has been a function of our portfolio returning -2.3% over the period, compared to a slight gain in the benchmark of 0.6%.

Overall, the portfolio has returned disappointing results over the short period we began live trading, however, we believe these results will only be temporary and that over the long run, the quality companies we hold will prevail.

ASAM Portfolio as of 31 December 2021

	Weighting	Sector	Q1 Return	Q1 Return Contribution
BHP Group Ltd	6.19%	Materials	15.47%	0.96%
Centuria Industrial REIT	6.40%	Real Estate	14.48%	0.93%
CSL Limited	8.67%	Health Care	-6.47%	-0.56%
National Australia Bank Ltd.	6.02%	Financials	0.91%	0.05%
Perpetual Limited	6.87%	Financials	-3.98%	-0.27%
Reliance Worldwide Corporation Ltd	5.91%	Industrials	2.12%	0.13%
Temple & Webster Group Ltd	6.16%	Consumer Discretionary	-12.09%	-0.75%
Tyro Payments Ltd	6.45%	Information Technology	-17.10%	-1.10%
Cash	47.34%	-	-	-

Note: The above figures are estimated numbers sourced by ASAM.

Position Commentary

Following the hawkish commentary from the US Fed and an elevated inflationary environment causing market volatility, ASAM will look towards exiting holdings in Temple Webster (ASX. TPW) and Tyro (ASX.TYR).

Temple Webster (ASX:TPW)

TPW is a leading pure-play e-commerce retailer specialising in home and furniture. It has relied upon a diverse product range and technological platform as comparative advantages to gain market share over brick-and-mortar (B&M) storefronts.

Performance

Temple Webster's market update in February 2022 reported a 45.7% increase in revenue from 1HFY21 to 1HFY22 and a 5.1% increase in EBITDA. While these signs suggest strong performance for the company, NPAT dropped by 40.2% driven by increased operating, non-operating, depreciation, and amortisation expenses. This has concerned some investors who believe the company will continue to report losses until the end of 2022.

The decline in NPAT reflects the group's reinvestment strategy where operating leverage is being invested into key areas to build strategic moats around the core business while investing into the new growth horizons such as B2B and Home Improvement.

Share price

Rationale

TPW was included in the ASAM Portfolio in November 2021 on the basis, Australia's e-commerce penetration lags other developed countries and TPW was best positioned technologically to take advantage of the e-commerce transition with a market-leading storefront and diverse product range

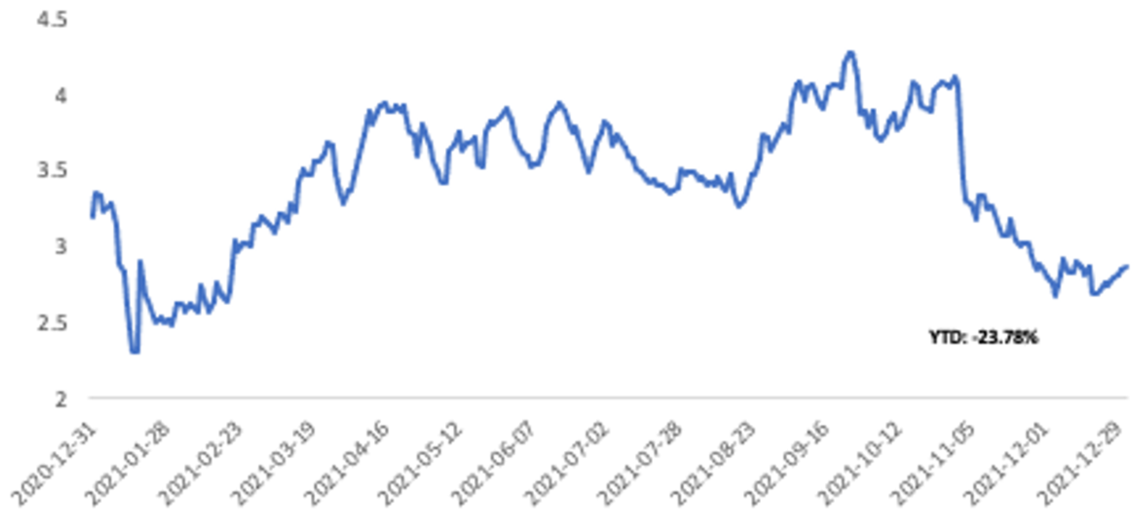
Although the Investment Committee holds conviction in the investment thesis, market conditions have fundamentally shifted adversely against the TPW position. A combination of supply-chain headwinds and a rising interest rate environment challenges the TPW valuation. While increased market volatility partially accounts for the pullback in valuation, TPW trades at a significant market premium relative to similar domestic omnichannel competitor Adair's (ASX.ADH). Justification for TPW to trade at a market premium is increasingly challenged by current market conditions. The Fed is set to increase its cash rate in March 2022 and the Investment Committee believes the flat yield curve (US 10yr – 1.78%) will steepen in the following weeks as the market begins to price in the hawkish shift in monetary policy. Although a broad pullback in valuations is inevitable, the decline for Technology and high growth companies will be outsized.

While the long-term outlook for TPW remains strong, the short-medium term shift in market conditions imposes a significant risk to the ASAM Portfolio.

Tyro Payments (ASX:TYR)

TYR provides Australian businesses with EFTPOS payment solutions and banking products. It is the largest EFTPOS provider to businesses outside the Big 4 banks.

Share price



Performance

For the half-year ended 31 December 2021, Tyro's transaction values were up 30.6% on the prior comparative period (pcp) driven by the addition of Bendigo merchants acquired under the alliance and strong organic growth in the final quarter of the half. Total revenue was up 29.9% to $149.2 million with payments revenue up 35.6% to $146.0 million. The increase in payments revenue was driven by the growth in transaction value and a 50.4% increase in terminal rental income. Total gross profit on a normalised basis was up 11.3%.

Despite the strong increase in revenue, the Group generated normalised EBITDA of $2.8 million, down 67.2% from the pcp. The decrease in EBITDA reflects the 23.8% increase in normalised operating expenses driven by increased employee costs and headcount, and increased use of contractors during the period. On a net loss basis, Tyro realised a normalised loss before tax of $11.2 million and a statutory loss before tax of $18.1million.

Rationale

TYR was included in the ASAM Portfolio in November 2021 due to long-term drivers which have since failed to materialise. The critical Bendigo Bank alliance promoted transaction value growth at 25% but challenged profit margins at 14.2% in FY21. From weekly transaction updates, growth has remained robust despite the slow-down in economic activity following the omicron outbreak.

- December FY22 – 35% YoY
- January – 14 January 22 – 37% YoY

Distinct from payments rival EML payments which incurred regulatory issues in Ireland, TYR is yet to explore global expansion opportunities. On a multiples basis, TYR is valued in line with peers at 3.4x EV/Revenue.

The Australian payments sector is highly competitive and led by the Big 4 banks. With the emergence of the Square-Afterpay merger, the Investment Committee has adopted the view that the long-term outlook for TYR is increasingly challenged. Square provides retailers with a flexible and low upfront cost payments solution whilst also offering loan products through its platform for American merchants. As market conditions trend towards a rising rate environment management has remained committed to growth and an outlook for group profitability is unclear.

Given the omicron outbreak has dampened economic trading activity, the risk of TYR underperformance weighs excessively on the ASAM Portfolio in the near term.

Inflation

In December 2021 US headline inflation surged to 7 % and core inflation at 5.5%. With the US Fed policy adopting a hawkish tone since November 2021 the market has priced in 4 rate rises in 2022. The shift in sentiment has not been reflected by the RBA as the Australian economy transitions out of COVID-19 lockdowns. Although the Australian CPI figure at 3.5% is above target, wages growth in September 2021 remained subdued at 2.2%. We anticipate an uplift in both CPI and Wages Growth to continue in early-2022 as economic activity increases, and the labour market tightens. Considering these market developments, the ASAM Portfolio will adopt a defensive position in anticipation of market volatility originating from uncertain interest rate expectations by Central Banks.

Valuations in high-growth technology and consumer discretionary are increasingly challenged by high-interest rate expectations. With the US Fed due to end its Quantitative Easing policy and increase interest in March the ASAM Portfolio will transition to a conservative posture. It is now clear inflation is no longer transitory and the wage-price spiral is a real tailwind for inflation to remain higher for longer. It is therefore necessary to consider investments in companies that can pass on higher input costs or benefit from increased raw material prices. Between 1947-2021, sector-specific outperformance can be achieved with Coal providing 2.5% and Oil and 2.0% real monthly returns. In contrast, this inflationary dynamic may challenge Tyro Payments and Temple & Webster as higher discount rates suppress valuations for both companies.

Calvin Ching

Chief Operating Officer
coo@australianstudentsam.org

Elvis Cheng

Investment Committee

Alicia Sun

Portfolio Manager

Victor Lam

Portfolio Manager

Entity Name: Australian Students Asset Management as trustee of the Student Impact Investment Fund
ABN: 46972966178
Website: australianstudentsam.org