Queen’s Student Managed Fund

Annual Report 2015/16

Queen's University Belfast

MANAGEMENT SCHOOL


JPM 60.15
MCD 94.16
MRK 59.64
DELL

INTRODUCTION BY DR BARRY QUINN


Dr Barry Quinn

The year 2016 has been an extraordinary time for the Queen's Student Managed Fund (QSMF) and crystallised a turbulent journey from humble beginnings in the Trading Room in 2013. Anthony Doran, a then MSc Finance, shared with me a novel proposal about allowing students to manage a portfolio in their own time to help develop their portfolio analytical skills for the graduate market. The QSMF paper fund was born with 42 Queen's Management School (QMS) students keenly interested in portfolio management and the prize of a top level investment management graduate position. Using the state of the art Trading Room in QMS, the goal was to bridge the gap between the abstract theories of capital markets and the imperfect, friction filled landscape within which industry professionals operate.

Back then we saw the unique potential of this extracurricular activity to supercharge employability through bespoke experiential learning and exciting industry engagement opportunities. The structure of the QSMF could provide students with an autonomous hierarchy that developed professionalism and those all important soft communication skills that core academic teaching can struggle to provide. A key goal was to inspire and develop sophistication in financial knowledge and provide a secure environment for students to practice real world corporate social responsibility (CSR) in managing money.

Fast forward three years and QSMF has matured into a real money fund with student members from all degrees and level across the Queen's campus. The first tranche of philanthropic seed capital arrived just in time for one of the highest periods of uncertainty for UK equities but not many graduates will have on their CV experience "managed a real money portfolio through Brexit".

The future of QSMF also seems in excellent health going in to the 2016-17 academic year. Fund performance has been positive and a further tranche of philanthropic capital will propel the fund to one of the largest in the UK and Ireland. The introduction of a marketing team, lead by a Chief Marketing Officer (CMO), will drive forward the QSMF profile. A student-led crowdfunding project will tap into the goodwill of recent graduate to add further capital to the fund. Finally, the QSMF foundation will be established promoting student CSR through charitable giving opportunities.

Christopher Hayes

CEO

MSc Risk and Investment Management

MESSAGE FROM THE CEO

To be part of the Queen's Student Managed Fund (QSMF) in its first year using real money was a such an appealing and amazing opportunity, not only for me but for the student population in general – Queen's is one of only a handful of UK and Irish universities to offer students participation in a real money fund. To be given the role of CEO was an honour which provided me with an experience that goes far beyond anything else that I have achieved within my academic life.

The work of all students during my term, was exemplary, and so too was their passion to learn. From first year analysts, to more senior students on the committee there was an abundance of knowledge and opinions that were vital in determining the final portfolio. The success of the Fund is how it pushes students to delve into their academic studies to implement them in a practical scenario. Special thanks must be extended to those behind the scenes on the oversight committee for establishing the Fund and providing the student committee guidance and support.

I will remember my time as CEO of the fund fondly as it provided a unique insight into the financial world and honed my management skills. The Fund is of great benefit to the learning and development of students and I hope that it will continue to go from strength to strength in the future.

TO PROGRESS AND LEAD INVEST IN THE FUTURE

MESSAGE FROM A SECTOR HEAD

Joanna Singleton
Healthcare Sector Head
3rd year MSci Mathematics

I have been a member of the QSMF for two years, beginning initially as an analyst with little knowledge of the tasks involved. I chose to be an analyst within the Healthcare sector because of an interest in pharmaceutical companies. As an analyst, I learnt how to analyse companies, compile research reports and recognise key drivers within the sector. The knowledge I gleaned enabled me to then progress to the position of sector head the following year. This first-hand experience, coupled with the opportunity to work with Bloomberg and attain the Bloomberg Market Concepts (BMC) certification, has been extremely valuable for my personal development.

As well as technical skills, the Fund provides the perfect environment to hone so called 'soft skills'. My position of sector head made me directly responsible of a team of four analysts, for which organisational and managerial skills were key. The Fund is also a great way to develop presentation skills which are required when pitching investment ideas to the student executive committee. In my experience, the QSMF is something that really engages the interest of potential employers. I believe it helped differentiate me from other applicants and ultimately assisted me in securing a summer internship at a bank in London. In addition to its clear professional benefits, it has proved to be a great way to meet other students and is something that I would recommend to anyone interested in pursuing a career in finance.

MESSAGE FROM AN ANALYST

Lucas Batchelor
Industrials Sector Team
1st year BSc Economics with Finance

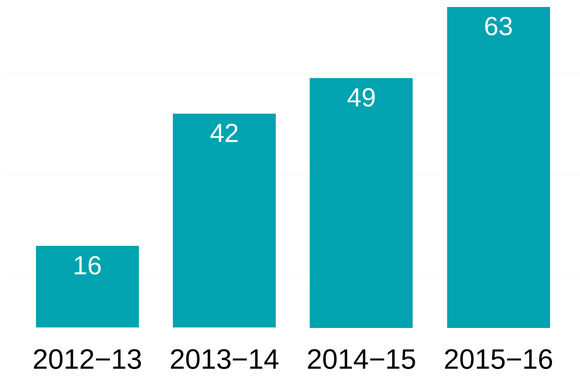
As a first year, my previous experience and understanding of financial markets was limited. Now, a year later, I feel comfortable discussing the intricacies of many companies within my specialists sector, as well as discussing global market movements and considering a range of risks that a company may be exposed to. You're thrown in at the deep end, which of course is a steep learning curve, but there's a wide range of support and information sources to utilise ranging from the sector heads to the Bloomberg online learning tools.

For prospective students for the Fund, I cannot stress enough how important it is to ask as many questions as possible no matter how unintelligent you feel they are. If you do, you'll hit the ground running and you'll always be stewarded through your own learning by your fellow students and the oversight committee. You'll be amazed by what you can do in such a short space of time.

After researching a number of companies in my sector, I chose to present a company for investment that I believed was relatively well protected against risk with a share price that I considered to be substantially underválued by my own analysis. I was asked to pitch my chosen company to the student committee, a number of lecturers and an industry professional. I enjoyed being able to show everyone the work that I had done throughout the year and I was commended for having carried out high quality, thorough research on the company. I found the feedback very useful and I hope to build on my experiences next year.

QSMF ORGANISATIONAL STRUCTURE

Membership has continued to grow year on year since QSMF inception. The fund is structured to maximise the learning experience of students at different stages of their education at Queen's. The Fund is hierarchical with the student executive committee overseeing the sector heads, who each lead a team of analysts. All tiers of the organisational structure are geared towards mentoring and stewarding fellow students through their financial analysis, as well as other vocational and industry relevant skills ranging from presentations to important management skills. This process is supported by a oversight committee, comprised of academic staff and industry professionals, who provide advice and guidance.



QSMF Membership

FUND GOALS

The Fund aims to secure long term, sustainable returns through prudent stock selection. Analysts seek to identify relatively undervalued stocks with long term growth strategies, supported by strong fundamentals to achieve active returns.

CHANGES TO THE FUND

The main change to the fund this year is that it is now a real money fund. After securing £10,000 from our donors, we have added a new dynamic to the fund making it more engaging and industry-relevant for our students. The fund this year has solely invested in UK equities (FTSE 350), although our options for asset allocation may broaden over the coming years. The real money aspect meant students had to consider carefully the timing of their initial investment and how this would affect their capital in a time of high market volatility. Students experienced increased pressure as they exercised their fiduciary responsibility. We also introduced the Bloomberg Market Concepts (BMC) qualification as a requirement and part of a channel for students to secure 'Degree Plus'. These developments and focus on student's vocational development was rewarded by a Queen's teaching award for "Excellence in teaching in a team" to the fund's oversight committee.

> “In today's competitive market, academic knowledge is rarely sufficient to achieve one's full potential. Student learning needs to complemented with authentic experience, practical application and commercial awareness. The real money QSMF provides these opportunities which is why I'm delighted to support it.”
>
> Dr Gary Kennedy
> QUB Alumni and QSMF Donor

INVESTMENT PROCESS

The Fund meet every Wednesday afternoon in the Trading Room. Sector teams each have a one hour slot, and the times allocated to each sector change each week to ensure students who have regular commitments have the opportunity to use the Bloomberg terminals to source data for their analysis. Depending on the number of companies in a sector and a sector head's own organisation style, sector teams either analyse all the companies in their sector or, especially if there are many companies, those deemed to most fit in with investment objectives.

An important aspect of the Fund is to exercise corporate social responsibility. In practice analysts must perform due diligence and consider the ethical aspects of potential investments. After the companies to be analysed are selected, sectors spend the following weeks applying the fundamental analysis skills they have learnt from their degree, from stewardship from the sector heads and oversight committee and with the different learning resources provided on how to value companies. By the middle of the term, sectors are expected to finalise on companies they would like to make a recommendation on, and each analyst is expected to write one report recommending either a 'Buy', 'Sell' or 'Hold'. Each analyst must produce a five page analyst report, of industry standard, on the company detailing:

- An overview of the company including a business overview and key highlights.
- An investment summary highlighting the pros and cons substantiating the recommendation.
- Industry overview and competitive positioning explaining why the company would represent a positive return relative to its peers.
- Financial analysis providing substantiated valuations with all assumptions to be scrutinised.
- Investment risks, specifically how they tie in with our investment horizon and prudent stock selection.
- Corporate governance and social responsibility to ensure that the company meets our ethical standards for investing.

The analyst reports are submitted at the end of week 10 of 12 in the semester. The sector heads then discuss with their analysts which two companies they would like to pitch for inclusion in the Fund and analysts decide whether to put themselves forward to pitch the companies themselves. There is a five day window for the student committee to read, mark and research further all of the analyst reports. Analysts are encouraged to seek further feedback and recommendations on their reports from the student committee.

INVESTMENT STYLE

As this was the first 'real money' year of the Fund, our stock selection was influenced by the EU referendum vote as well as the broader economic environment. Our final stock selection was completed early April, where a vote to remain seemed a foregone conclusion but our defensive investment style meant we still decided to be underweight financials and diversified across real estate, insurance, banks and financial services. We also considered how to hedge against a potential out vote by choosing a number of counter cyclical companies such as Randgold whose stock price is highly correlated with the price of gold. We also sought to invest in companies with a high proportion of their revenues being made in foreign currencies such as Diageo and Unilever in anticipation of a devalued GBP and the stability that comes with their respective staples. We continued to be overweight technology as our key, long term growth sector. Companies such as Glencore and Paysafe were relatively undervalued, and so we invested in these companies to help secure an active return for the Fund – considering both of these companies to be cheaper than their sector peers.

PITCHING EVENTS

The pitching event involves a 10 minute presentation on the analyst report followed by ten minutes of robust questioning by the student committee who will have researched the company in preparation. Students have the opportunity to have their pitches filmed to identify and improve upon their presentations skills. At the pitching event, the oversight committee and an industry professional are present to offer their own feedback on the presentation and the stock recommendation.

The student committee, after the pitching event, decide upon which companies to include in the Fund in line with an outlined investment strategy of achieving consistent long term, positive returns by optimally managing downside risk. In the Fund's 2015-16 year for example, a key tenet was to buy high dividend paying stocks that can evidence substantial dividend cover, even in times of turmoil. When the companies and their weightings have been chosen by the committee, it is fed back to the members where the choices can be challenged.

The compilation of the Fund was ultimately presented to a room of seasoned industry professionals at QSMF's launch at Davy's Belfast office who provided valuable feedback on the companies chosen. A team of 10 QSMF representatives, ranging from the student committee to analysts, presented the stock recommendations to over 30 experienced professionals within the asset management industry with challenges and debate encouraged.

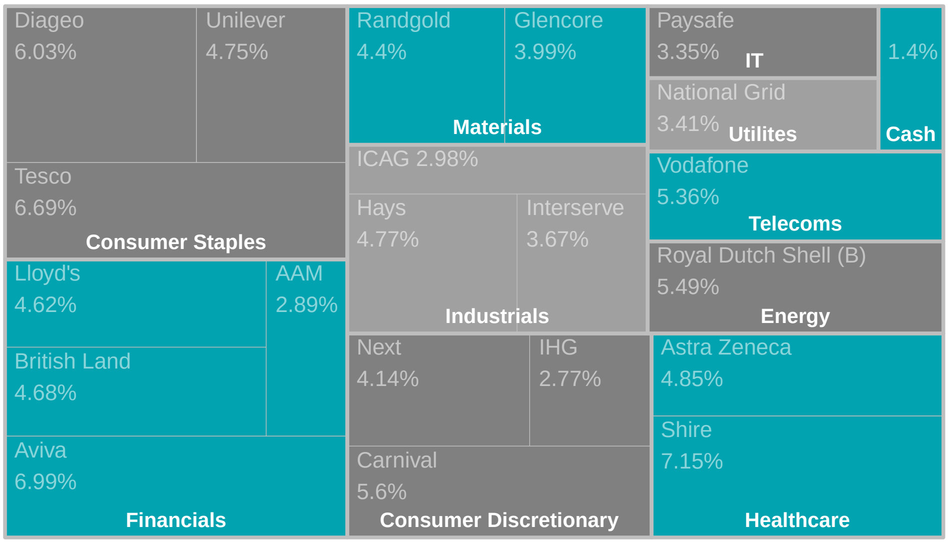
PORTFOLIO ANALYSIS

OVERVIEW OF SECTOR COMPOSITION

In accordance with Fund regulations, we assigned weightings contingent on the following rules:

- Each GICS sector could have a total fund weight investment of 15% or 1.5× the FTSE 350 GICS sector weighting.
- Every GICS sector must have a minimum of one investment.
- No individual stock could exceed an overall weighting in excess of 10% of the total capital invested.
- Minimum investment limit of £250 per company.

From examining our investment ethos and in line with the constraints that were placed on investment weightings the final portfolio composition was as illustrated.



The decision making process of sector composition was driven by both consideration of the strengths and performance of individual companies, as well as our house views of each sector. Key sector decisions at the time of investment for example were to be relatively underweight financials and energy with the looming EU referendum vote and the tumultuous start to the year for oil prices. On the flipside, we chose to be overweight in Healthcare because of our belief in the promise of our two holdings. The individual breakdown in each sector and the investment value for each firm was based upon the firms that we believed best fitted our investment thesis. It must be stressed that each company that was selected was done so through the merit of individual analysis. There was relatively small range between overall investments of all the companies in the final portfolio, with the top weighting going to Shire of 7.15% and the lowest weighting belonging to Intercontinental Hotels Group with 2.77%.

PORTFOLIO PERFORMANCE

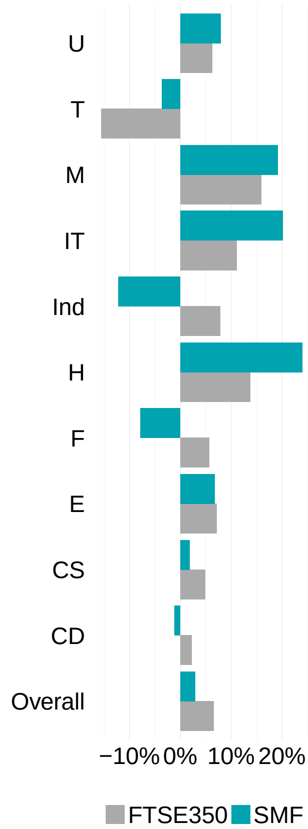
It can be noted that overall the Fund has performed below the FTSE 350 index, which was our benchmark index. The Fund has a defensive orientation with firms with steady growth prioritised over riskier 'growth' stocks. It is important to note how the line charts of the FTSE 350 vs QSMF appear very similar with the market beta being lower that 1 offering some explanation to the slightly reduced return.

When broken down in terms of how each sector performed the results are even with five out of ten outperforming the market. A number of unforeseen circumstances had significant impacts on certain sectors, such as industrials and consumer staples. In our portfolio construction we considered how our holdings would perform through different macro events with certain stocks, such as Randgold, positioned as natural hedges to reduce some potential short term pain with big up and coming events such as the EU referendum vote and the monetary policy limbo seen across developed economies.

The key determinant of how the Fund performed relative to the benchmark was our companies' exposure to post-Brexit volatility. Our house view of a remain vote, at the time of investment, drove our poor performance in Financials, Industrials and Consumer Staples. Our companies outperformed their sectors where our assessment of promising businesses such as Paysafe and undervalued, stressed companies such as Glencore fulfilled our investment hypotheses. Our search for rigid high market-cap, dividend paying stocks in a market that we considered to be relatively expensive also proved successful overall with our Healthcare, Utilities and Telecommunications picks outperforming their sectors. By choosing high market-cap companies, we were broadening our economic exposure to beyond the UK and the devaluation of sterling has propelled revenues in Q3 2016.

Fund Performance	
Abs Return	2.89%
Ret vs Bmk	-3.62%
Vol	16.98%
Div Yld	2.40%
AWMC (£Bn)	40.87

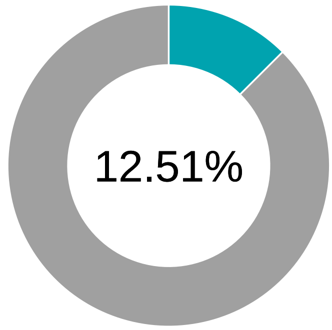
GICS Sector Returns



CONSUMER DISCRETIONARY

Carnival has looked to implement innovative plans to expand their markets such as the idea of *voluntourism*. Their inventive plans coupled with the low oil price has produced large margins that have been reflected in recent share price performance, although the stock has stagnated in recent months. Another potential appeal to Carnival and their low oil price advantages is that we were provided with a natural hedge when considered alongside our investment in Royal Dutch Shell in the energy sector. Carnival was chosen as we really believed in its prospects as a business and even with valuation inputs very much on the safe side, we still arrived at a target price of £67.92, representing a 94% upside on our initial investment. If Carnival achieve a sizeable proportion of their revenue growth forecasts outlined in their annual report the company will prove to be a very profitable investment.

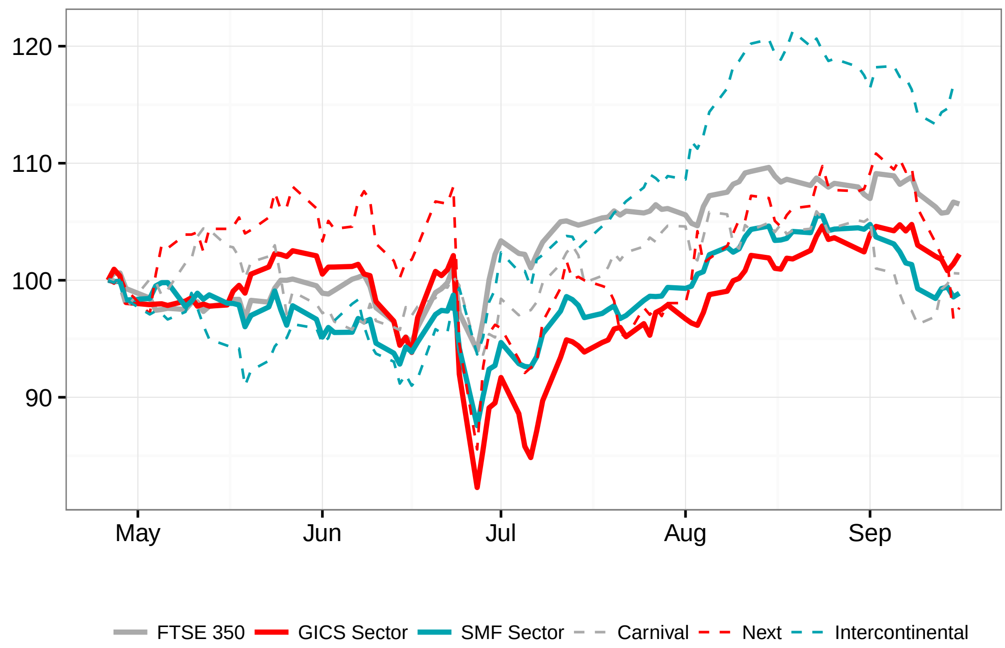
Next and IHG were chosen as well established, stable companies trading at value prices. Next has seen a decline arising from the long term trend of falling shopper footfall in the UK but our analysis of shopping trends and other indicators helped feed into our growth forecasts for valuations and Next at its price in April presented worthwhile potential upside. IHG has performed well over the period and its stock split in May was well received by the markets, relatively speaking. With household hotel brands stretching the price range, IHG has created a 'moat' in the hotels industry where competitors will really struggle to eat away at their return/regular business.



KEY EVENTS

- Carnival has declared a quarterly dividend of $0.35 per share and announced Helen Deeble will join the board of directors.
- Next full price sales in the second quarter climbed 0.3% compared to same quarter of 2015.
- Intercontinental Hotels hit by dollar but retains bullish outlook.

	Abs Ret	Ret vs Bmk	Cor	Beta	Vol
Sector	-1.11%	-3.34%	0.742	0.727	21.24%
Carnival	0.57%	-1.66%	0.365	0.563	22.40%
Next	-2.34%	-4.57%	0.872	0.237	38.28%
IHG	16.79%	14.56%	0.405	0.948	34.04%

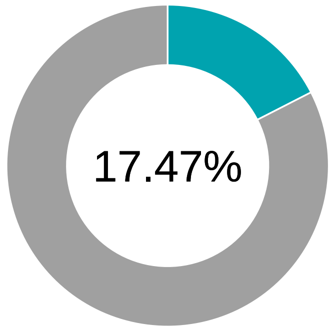


CONSUMER STAPLES

In a time of economic instability our intentions were to source global powerhouse companies that offered a defensive nature to our portfolio. With respectively low market beta's for each of the three companies and impressive financial ratios in accordance with market rivals the three firms seemed an ideal fit for our investment thesis. Our decision proved fruitful on two of the three stocks, with Tesco facing a significant loss due to European operations and Brexit.

Unilever highlights included sales growth of 4.7% with volume up 1.8% in the first quarter. For the first half of the year underlying sales growth was also up 4.7%, ahead of our markets, with volume up 2.2%, sales increased by 5.4% at constant exchange rates and decreased by (2.6)% at current exchange rates. Against their current negative outlook on the global economy their CEO, Paul Polman, stated their aims were to "continue to drive agility and cost discipline, implementing the key initiatives announced at the end of last year: net revenue management, zero based budgeting and 'Connected 4 Growth' which is the next stage in our organisational transformation."

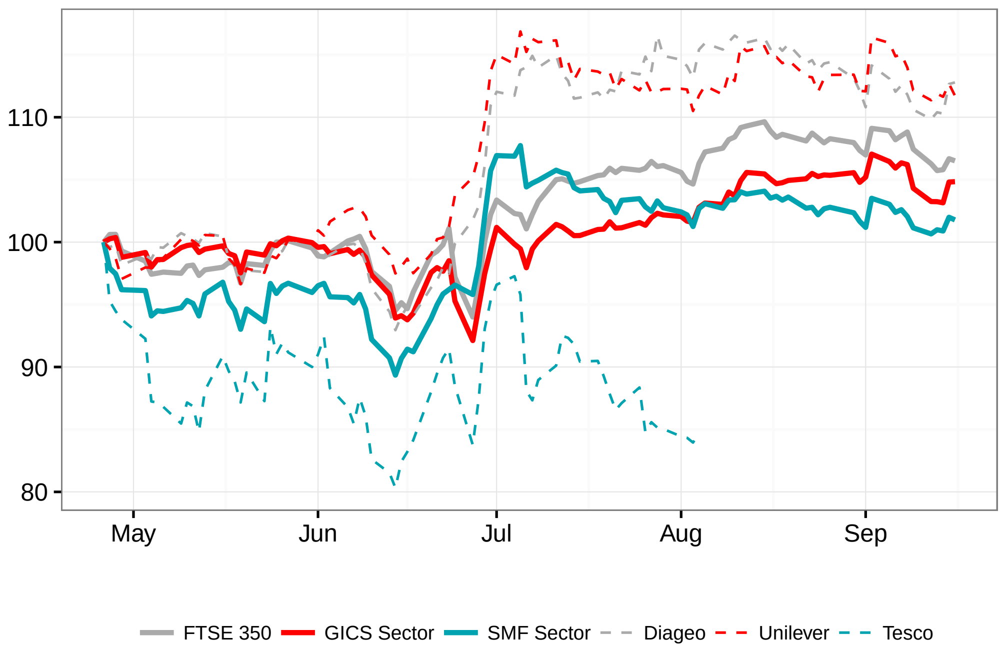
In July, Diageo posted its preliminary results for the year to 30 June and reported an improvement in organic results with volume growth of 1.3%, net sales growth of 2.8% to £10.485bn, and operating profit growth of 3.5% to £3.008bn.



KEY EVENTS

- Unilever agrees deal to buy Dollar Shave Club for an undisclosed sum.
- Unilever announce second quarter results on 26th July 2016.
- Tesco holding sold on 5th August 2016 due to loss threshold in accordance with SMF compliance rules.
- Diageo produce strong preliminary results to 30th June 2016.

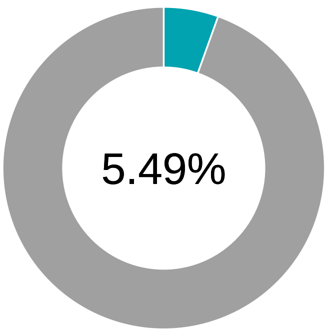
	Abs Ret	Ret vs Bmk	Cor	Beta	Vol
Sector	1.78%	-3.06%	0.680	0.828	18.55%
Diageo	12.79%	7.95%	0.768	0.910	18.43%
Unilever	11.72%	6.88%	0.698	0.869	17.83%
Tesco	-15.21%	-18.00%	0.306	0.180	37.96%



ENERGY

The energy sector offered a unique challenge in choosing between companies inherently linked to world oil prices, and those trying to produce alternatives. Ideally with the ethics of the Fund we were directed towards a number of renewable energy firms however we could not find a firm that offered the same 'value' as Shell. A truly worldwide company that appeared to be trading at a discount due to increased diversification plans through divestitures and acquisitions across the supply chain provided RDS with increased security against the oil bear market. The strong dividend figures, in excess of 7% at the time of investment and still beyond a healthy 5.5% yield also offered stability that was unrivalled across the sector. The ultimate investment decision came to be between Royal Dutch Shell and BP but, given we were analysing the companies in Q1 2016, we choose balance sheet orientated relative valuation metrics. The focus in Q1 2016 for big oil, rather than earnings, was the effectiveness of their strategic cancellations of high cost projects. We opted for a focus on price-to-book to assess the strengths of Royal Dutch Shell's ability, relative to BP, to weather the 15 year low oil prices. We sought to identify the likelihood of the companies needing to cancel projects, given their net book value, and therefore hurt their medium term profitability, but relative to their respective prices. Coupled with BP's negative earnings and a target price of £24.30 (37% upside), we considered Royal Dutch Shell to be the better investment in line with our investment objective.

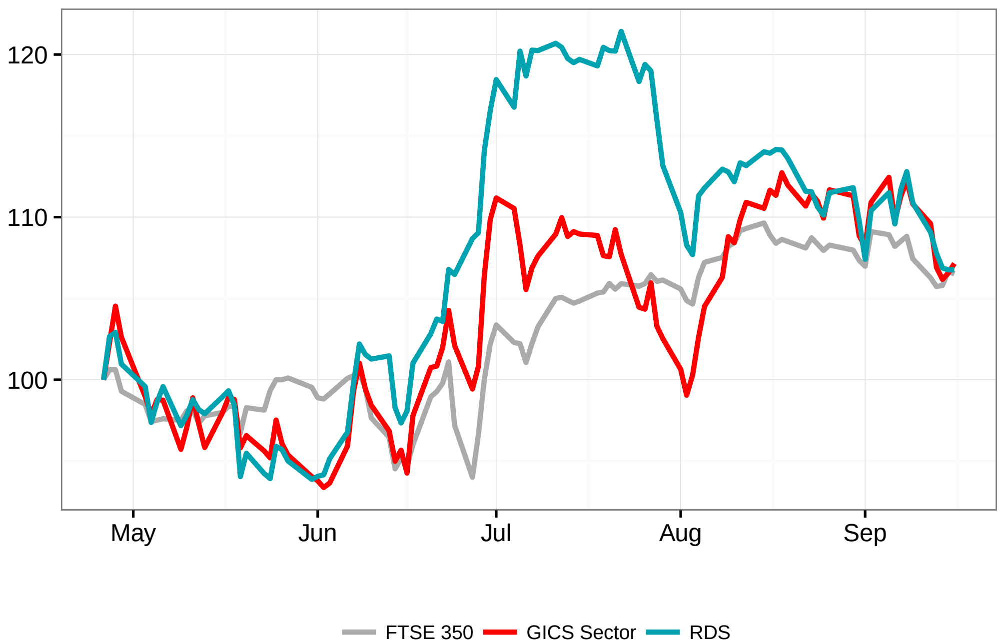
Shell's Q2 profits dropped 72% due to lower oil prices and narrower refining margins, though the dividend was held steady despite a significant 94% fall in earnings. Failing to match the strong performance of rival BP, Shell posted earnings attributable to shareholders of just $0.2bn compared to $3.4bn for the same quarter a year ago. Despite the decline from July's announcement, RDS has still produced an overall absolute performance in excess of 6.5% and we believe is in a great position to bounce back from what RBC capital analysts describe as a "bear-market" trap.



KEY EVENTS

- Shell profits slump, miss forecasts by $1bn.
- Iraqi officials have come to agreements with Shell, amongst others, to restart investing in oil field developments that are expected to increase crude production next year (Reuters).

	Abs Ret	Ret vs Bmk	Cor	Beta	Vol
RDS	6.76%	-0.39%	0.835	0.697	24.91%

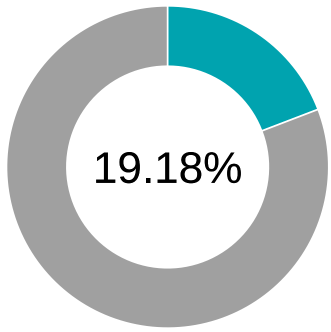


FINANCIALS

A crucial concept under consideration when examining the financial sector was the necessity to diversify. With such a large portion of the FTSE 350 being made up of financial companies it made sense for the Fund to have a significant investment, albeit underweight. Each firm offered impressive financial analysis, with Lloyd's in particular noted as the bank most equipped to weather the Brexit storm and a commitment to their dividend. Aberdeen appeared at a discount due to recent struggles and British Land looked promising against its peers. Aviva's successful acquisition and synergy of Friend's Life showed promise and, utilising a combination of their combined forecasted earnings, we arrived at a target price of £5.93 (34% upside). Our assessment of the robustness of Aviva's balance sheet relative to its peers was again to use price-to-book with Aviva's ratio of 1.0 against Standard Life's 1.5 helping us choose Aviva over what we considered to be the second strongest life company in the FTSE.

Aberdeen Asset Management, for the nine months ended 30 June, assets under management came in at £301.4bn compared to £292.8bn at 31 March. The company said it experienced net outflows of £8.9bn during the quarter, but this was offset by £17.5bn of asset appreciation.

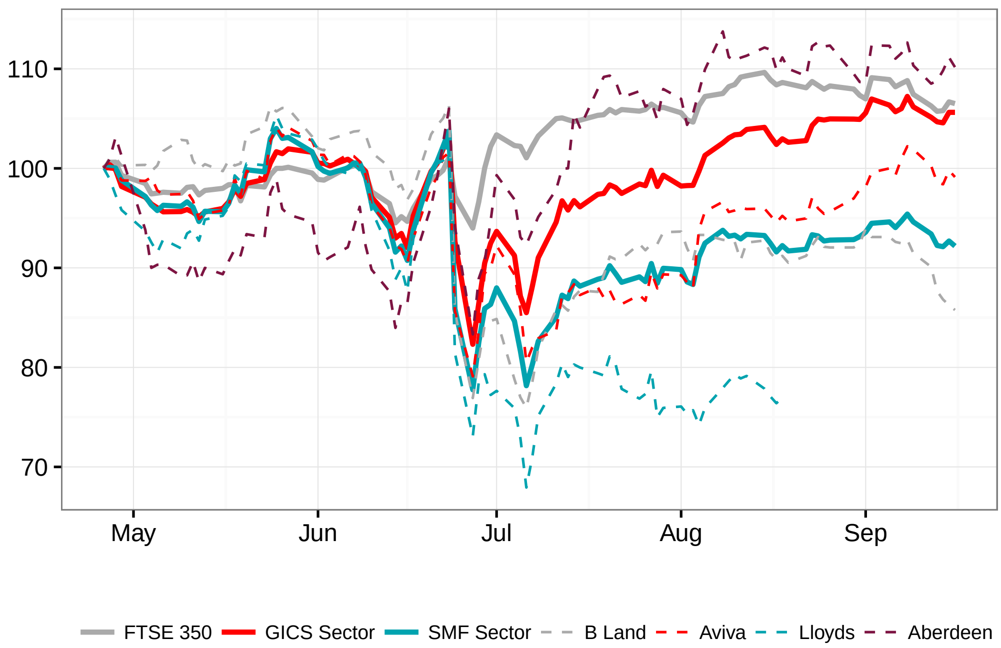
British Land appeared at risk as UK commercial real estate values were set to fall further, analysts at Citi said, but they believed the falls would only be a 'correction' - mostly cyclical in nature - and should be looked upon as a trading opportunity. Nonetheless, they admitted the risk of a more severe property crisis existed.



KEY EVENTS

- Lloyd's sold 18th August due to breach of loss threshold.
- Aberdeen Asset Management reported a rise in third-quarter assets under management.
- Aviva suspend their property fund for 6-8 months from August.

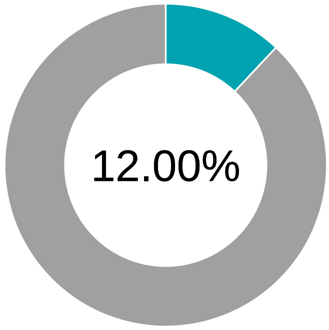
	Abs Ret	Ret vs Bmk	Cor	Beta	Vol
Sector	-7.81%	-13.44%	0.547	-0.247	41.73%
Lloyd's	-23.04%	-26.01%	0.359	-0.629	53.31%
Aberdeen	10.17%	4.54%	0.725	0.945	46.01%
Aviva	-0.87%	-6.50%	0.693	-0.046	42.02%
B. Land	-14.23%	-19.85%	0.324	-0.438	44.42%



HEALTHCARE

Healthcare we again looked to dividend paying companies with a proven recent track record and an effective management. We also looked to the strengths of their respective drug pipelines and took a view on the likelihood of the suggested returns from those drugs being realised. With that all in consideration, Shire and AstraZeneca presented the most promising prospects against others in the sector with detailed strategies on how to develop and grow business lines that was not there with other major competitors.

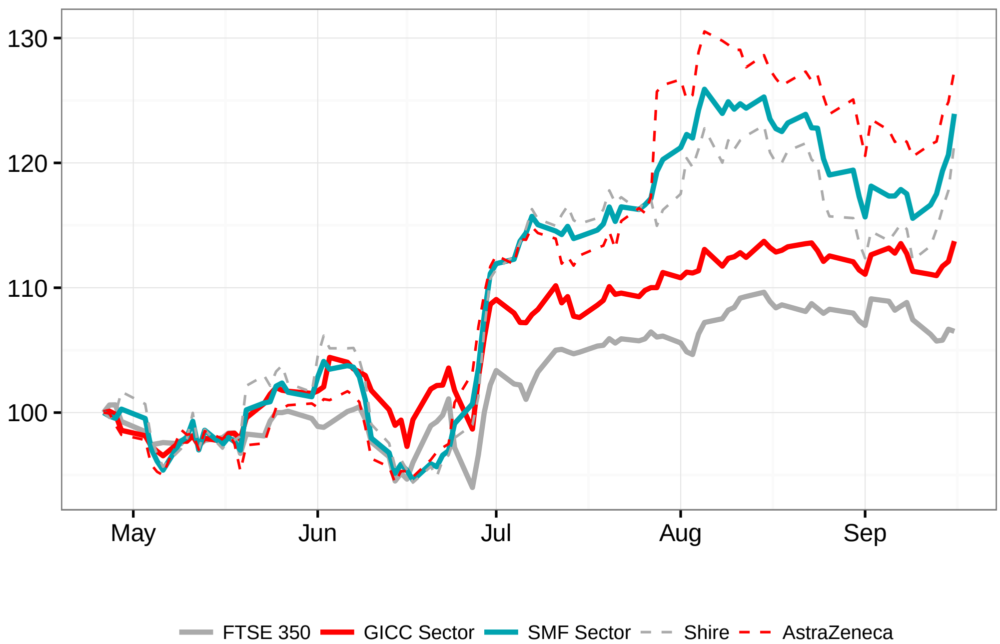
Being overweight in Healthcare, specifically pharmaceuticals, was one of our key defensive positions and they have performed well in the post-Brexit period. Their lack of correlation with macroeconomic events and increased competitiveness of their products due to the fall in sterling have been big positives but we are conscious now of the long-term challenge to the UK's life sciences industry and the expected fall in inward investment.



KEY EVENTS

- Shire successfully acquired Baxalta in June for $32bn.
- AstraZeneca interim dividend yielding 1.4% paid out on 12th September.
- Both companies have benefited from a weak pound.

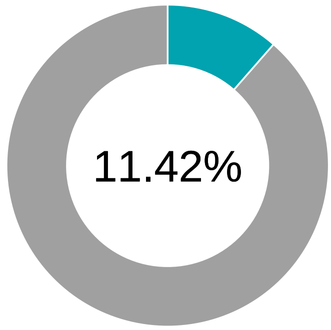
	Abs Ret	Ret vs Bmk	Cor	Beta	Vol
Sector	23.93%	10.20%	0.963	0.939	20.27%
Shire	21.57%	7.84%	0.946	0.920	23.75%
AstraZen	27.41%	13.68%	0.956	0.934	22.76%



INDUSTRIALS

With the industrials sector we sought to avoid the big manufacturers due to the risks that the volatility of commodities posed. We instead opted for the service based industrials which we discerned performed in line with the UK economy as a whole. The exception, Interserve, was a company we identified as cheap in relation to the intrinsic value we arrived at and an innovative business model we had high hopes for.

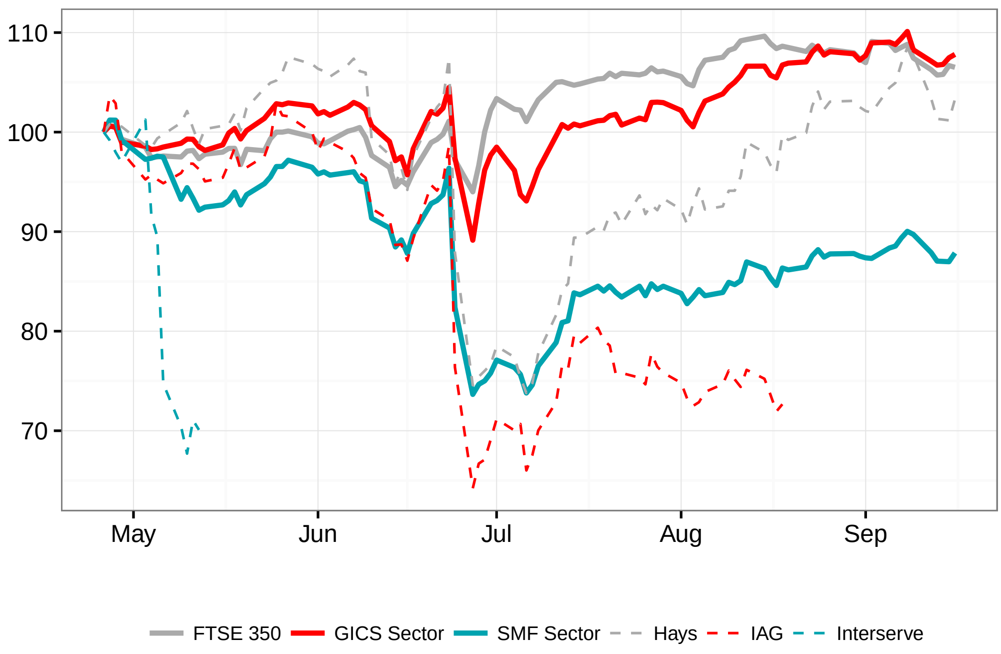
Hays has continued largely to track the UK economy and we remain optimistic in our view of the post-Brexit economic environment. IAG however had already issued profit warnings and indicated poor performance which was compounded by the leave vote. We came to the conclusion that the resulting loss attributed to our portfolio was too high and that we would prefer to increase our cash holdings to maintain flexibility in this ever moving post-Brexit landscape. Interserve's sunk cost from the Glasgow plant mishandling took the company far beyond our compliance loss level but also made us rethink our faith in Interserve's management – we decided the company was no longer aligned with our original investment hypothesis.



KEY EVENTS

- An 'exceptional charge' revealed in May by Interserve lead to a 32% share price drop, breaching our set compliance loss levels and therefore all our holdings were sold.
- Earnings downgrades and a €148m foreign exchange hit post-Brexit resulted in IAG attributing too high a loss for the Fund and was also sold in mid-August.
- Hays reported an 11% increase in pre-tax profits at 2016 H1 end but also warned post-Brexit uncertainty has driven business away from permanent hiring to temporary hiring which represent lower net fee income (NFI).

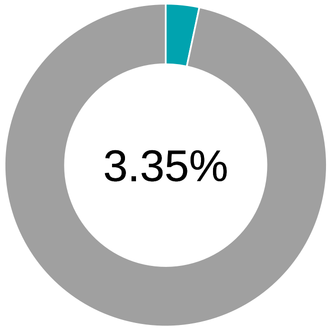
	Abs Ret	Ret vs Bmk	Cor	Beta	Vol
Sector	-12.14%	-19.94%	0.219	-0.371	35.53%
Hays	3.30%	-4.51%	0.640	0.017	48.55%
IAG	-27.34%	-34.08%	0.163	-0.600	55.30%
Interserve	-33.67%	-35.64%	0.313	-0.318	62.63%



INFORMATION TECHNOLOGY

IT was a sector where we specifically looked to growth stocks, although maintained our requirements for sensible valuations. Paysafe stood out amongst the growth companies in the sector for having a significantly lower PE than the other popular stocks such as Just Eat and its direct competitor Worldpay. An area that we looked into specific detail was Paysafe's growth plans, given the company's size we saw a key risk being overexpansion but found that their expansion plans were sensible and realistic. The result has been for Paysafe to significantly outperform the sector and surprisingly, for a company of its size, has been relatively stable in terms of stock price which has re-affirmed that the company fits in line with our defensive, low volatility preferences.

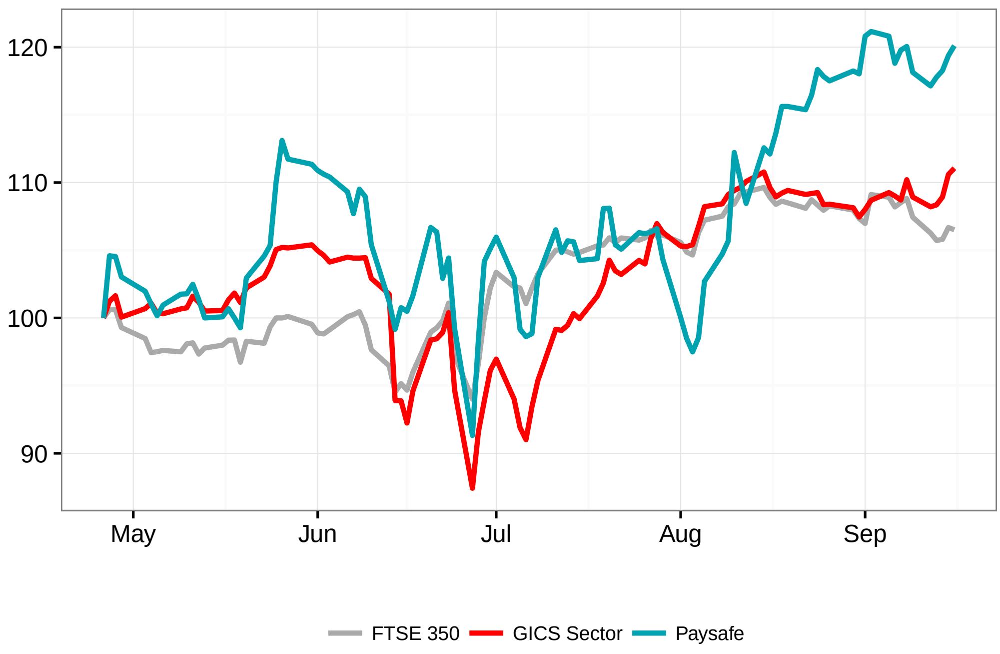
Looking forward, Paysafe's product offerings following their acquisition of Skrill in 2015 have been received well by the markets and have showcased a competent management who have been quick to embrace the new structure in adding shareholder value.



KEY EVENTS

- Paysafe's sales grew to $486.7m from $223m the previous year, pre-tax profits rose from $4.6m to $74.6m. Both reflect the acquisition of its rival Skrill in 2015, as well as organic growth.
- Paysafe have announced new products, adding diversity to the industries that currently form the majority of its business.
- Paysafe continues to post higher than industry average reported gross margins – Paysafe 54% whereas its foremost competitor, Worldpay, reports a gross margin of 22%.

	Abs Ret	Ret vs Bmk	Cor	Beta	Vol
Paysafe	20.11%	9.05%	0.754	0.667	38.10%

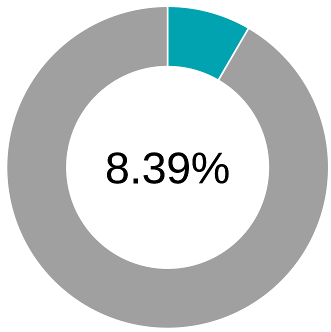


MATERIALS

The materials sector was considered as usual in terms of fundamentals but it played a key part in our overall portfolio strategy in the case of a leave vote on June 23rd. Both companies were considered for their non-GBP revenues and the low correlation their raw revenues would have with the British economy.

Glencore presented exactly the type of opportunity that we have sought to identify: an out of favour company trading at a huge discount. Our time of investment proved beneficial as it was when we had reached the stage where we confident that Glencore's restructuring of their balance sheet would help them avoid default. This coupled with such a large differential between market cap and book value assured us there was an upside to be attained if we were willing to endure a little potential pain in the short term. Glencore has been our most successful stock and the continued success of the debt restructuring assures us that they have adopted the kind of management of the balance sheet that the market will look favourably on and will support the company's long term success.

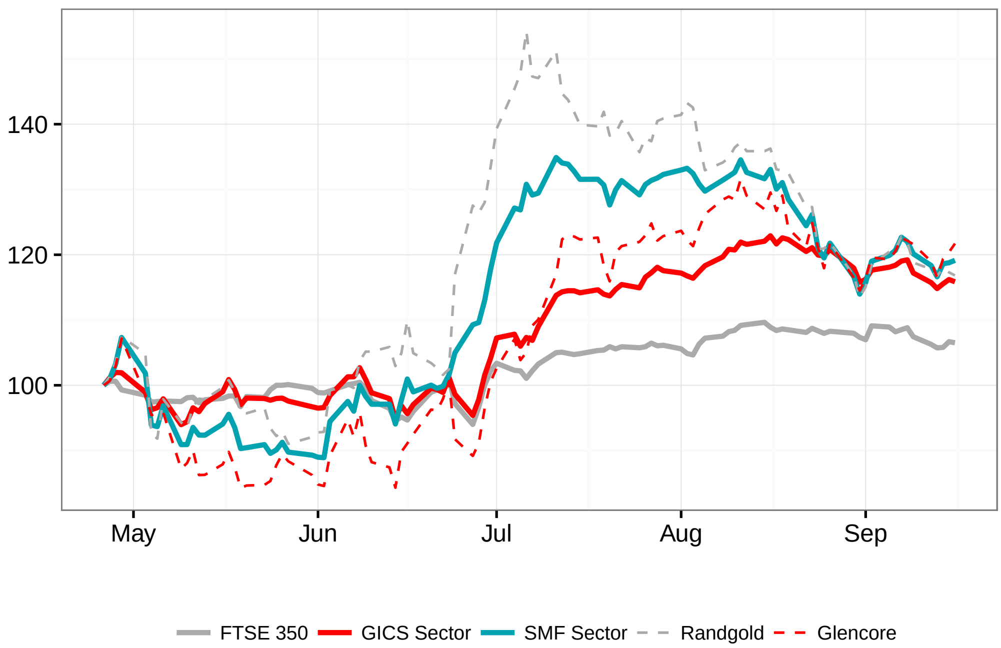
Randgold was chosen as we wanted to benefit from the natural hedge that is Gold without directly investing in the asset class. We ran econometric regression analysis between Randgold share price and Gold price, establishing a strong correlation. Our house view of future global economic turmoil and the subsequent increased demand for the commodity from both central banks and investors completed our assessment of its position as natural hedge in the Fund. Our valuations showed Randgold to be relatively cheap against the other miners at the time, many of whom showed no sign of producing earnings in the near future following the crash in commodity prices in late 2015. Randgold provided a lot of safety post-Brexit and mitigated against a significant proportion of the losses incurred in the financials and industrials sectors.



KEY EVENTS

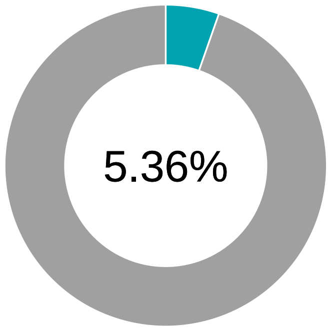
- Glencore's debt restructuring has outperformed market expectations and favourable market conditions resulting in superior relative to sector returns since our capital was invested.
- Randgold benefited from post-Brexit uncertainty but had production issues during Q2.
- UK miners have benefited from weaker GBP.

	Abs Ret	Ret vs Bmk	Cor	Beta	Vol
Sector	19.15%	3.29%	0.889	0.820	37.04%
Randgold	16.83%	0.96%	0.738	0.649	49.38%
Glencore	21.71%	5.85%	0.971	0.936	47.75%



TELECOMMUNICATIONS

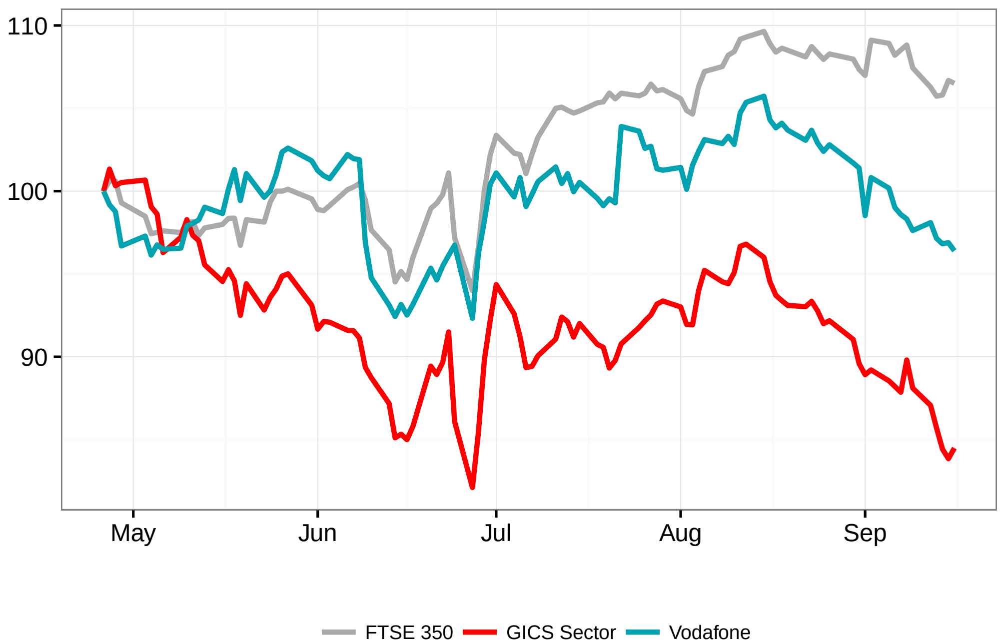
In the telecommunications sector we again sought low volatility, high yielding dividend stocks. Our valuation of Vodafone's stock implied a substantial upside and the company's strategy of achieving their growth forecasts, outlined in their corporate plan, through continuing to grow their Asia, Middle East and Asia Pacific portion of the business was simple and substantiated. We took a positive view on their fundamentals, specifically their dividend cover and capital expenditure. Comparison against peers showed Vodafone to be of similar financial strength to BT, although BT's ongoing competition issues arising from Openreach did not appear to us as an opportunity but rather too big a risk. Vodafone also presented an added advantage over BT with such a large proportion of its revenues in currencies other than GBP and therefore part of our currency hedge against a potential 'out' vote in the EU referendum. Smaller-cap companies in the sector were also analysed but did not present enough upside in our valuations and too high risk to deviate from our defensive investment style.



KEY EVENTS

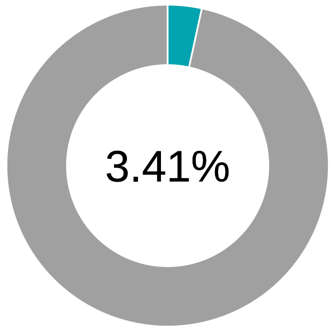
- Vodafone Q2 group revenue grew at 2.2%, beating analysts' expectations – driven by continued strong demand in Africa, Middle East and Asia Pacific.
- 7.77p dividend (3.5% yield) paid on June 9th.
- Vodafone outperformed its sector with continued concerns with BT and ongoing legal issues regarding Openreach and competition, as well as a poor quarter for TalkTalk.

	Abs Ret	Ret vs Bmk	Cor	Beta	Vol
Vodafone	-3.60%	11.91%	0.432	0.658	21.72%



UTILITIES

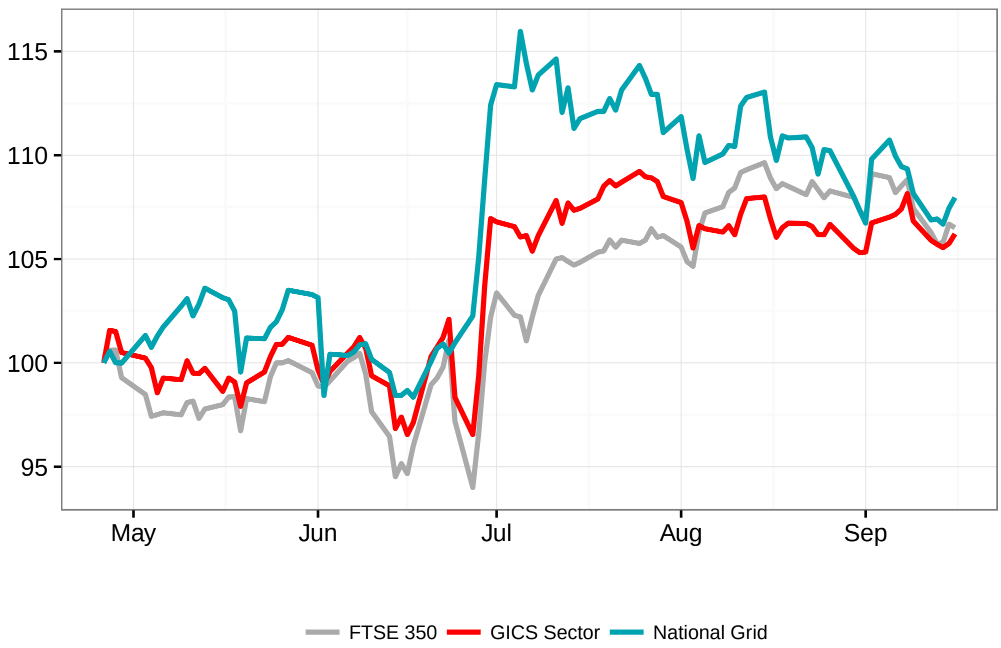
National Grid's high dividend yield, low volatility and easy to value assets and business lines were key reasons for inclusion in the Fund. The company's revenues are diversified across gas, water and electric, as well as across the UK and the US thus providing more safety than others in the FTSE 350 utilities sector. We prefer investing in companies we find easy to understand and value, and National Grid presented an acceptable and safe potential upside which fitted in well with our desire for safe, high dividend paying stocks. With energy prices at the time remaining volatile, we did not feel comfortable investing in its few competitors in the index, given their size and increased susceptibility to the volatile energy market.



KEY EVENTS

- National Grid has planned a majority disposal of its gas business valued at £11bn with proceeds expected to be returned to shareholders.
- 28.34p dividend (2.95% yield) paid on June 2nd.

	Abs Ret	Ret vs Bmk	Cor	Beta	Vol
N. Grid	7.96%	1.75%	0.931	0.790	19.22%



BEYOND THE FUND

As part of a drive from Queen's staff and students alike to expand the Fund, extend its reach and continue to teach industry relevant skills, as with any industry we have to raise philanthropic capital. Part of the Fund therefore includes a crowdfunding project where students of different levels in the Fund have come together to create a crowdfunding video for prospective investors. QSMF is also planning to launch a mail and phone campaign seeking financial support from Queen's alumni. In line with the ethos of the Fund, as it grows and becomes established, QSMF aims to donate a portion of future profits to a student-focused charity such as the Student Union's hardship fund.

The Fund is focused primarily with the student learning experience. Student members of the Fund regularly hear from guest speakers giving students a special insight into industry norms, how to secure roles in the speaker's line of work and provide students an opportunity to start building their own professional network.

Other initiatives are run throughout the year such as budget specials where students monitor the markets through the autumn and spring budgets to see how policies impact company share prices.

CONNECT

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ACKNOWLEDGEMENTS

QSMF would like to express their gratitude to all those who have supported the fund in various ways through its development and launch. Invaluable support has provided from within Queen's from the Management School, Student's Union, and Alumni Relations Office. In particular we wish to thank the individuals and corporate donors, many of whom wish to remain anonymous, whose generous donations have turned the long-planned, real-money fund into a reality.

Queen's Annual Fund

DISCLAIMER

The material in this presentation has been prepared by students of Queen's Student Managed Fund (QSMF) and provides background information on QSMF activities. The Fund is operated on the basis of philanthropic donations and has an educational focus. Information contained within should not be considered as advice or a recommendation to investors. Past performance is not a reliable indication of future performance.

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