8 December 2023

Portfolio Change Alert – Australian Equity component

Portfolio Changes

Fund	Change
CHANGE	
Sonic Health Care SHL	BUY
BHP Group	INCREASE
Woodside Energy Group WDS	INCREASE
Santos STO	SELL

Purchase of Sonic Healthcare (ASX: SHL)

Across the Australian Equity component of investor portfolios, we have bought Sonic Healthcare (ASX: SHL). Sonic Healthcare is a multinational provider of pathology & radiology services.

Sonic is a leading global pathology lab operator. It is the largest player in Australia, Germany, the UK and Switzerland, and is the third largest in the US. It is also the second largest radiology provider in Australia, with over 120 radiology centres.

We are attracted to Sonic for the following reasons:

- An extremely well-run business – retention of high calibre medical talent and long term shareholder returns have been driven by having Doctors and Medical Professionals running the business, combined with sound financial management.
- Sonic has a strong market position globally in an industry with high barriers to entry.
- Excess cash on the balance sheet allows for further acquisitions and potential buybacks.
- The business has defensive pathology and radiology revenues and is the leader in premium anatomical pathology tests for specialists.

Sonic has three key levers for value creation that we would like to highlight:

- The rollout of digital infrastructure, including AI technology will help drive efficiencies across the business. Sonic is also focused on rolling out it's AI businesses, Franklin & Harrison AI, and its new digital pathology platform from the pathology watch acquisition across its digital infrastructure internally. This digital

infrastructure and AI technology has the potential to be sold globally in countries where Sonic does not operate.

- Sonic prefers to operate in specialist and hospital markets for pathology. The Medical Leadership Culture strengthens relationships with other medical professionals and this is a key competitive advantage for Sonic.

- The surge in covid-19 testing has left the business with a strong balance sheet that has excess cash. This can be deployed for acquisitions or to increase shareholder returns from additional dividends and buybacks.

We have funded the purchase of Sonic via the sale of Santos. Whilst we still see value in Santos, we believe on a risk adjusted basis, Sonic is relatively more attractive.
Australian Equity Sleeve Weighting Change Breakdown:

- SHL: +2.50%
- BHP: +1.00%
- WDS: +0.50%
- STO: -4.00%

Please note the remaining funds from the sale of Santos were used to add back to our commodities exposure via BHP and WDS. We also view these exposures as relatively more attractive given the higher project execution risk Santos is facing as its Barossa Gas Project's Environmental Plan (EP) is judged in the federal court.

You will be able to see this change in your portfolio, if you have any questions, please contact our office on 03 9908 3390.