8 December 2023

Portfolio Change Alert – Australian Equity component

Portfolio Changes

Fund	Change
CHANGE 1	
Elston Australian Emerging Leaders Fund	BUY
Lennox Australian Small Companies Fund	SELL
SGH ICE	SELL
CHANGE 2	
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.

Purchase of the Elston Australian Emerging Leaders Fund

Rationale for change

Over recent months, the movement higher in long-term bond yields has impacted growth assets, in small and mid-cap companies more so relative to large-cap peers. The recent volatility offers an opportunity for long-term investors to maintain an allocation to higher-growth companies in the mid to small-capitalisation parts of the market.

With Central Banks at or near peak interest rates, the impact of valuation compression due to higher rates is largely behind us. Moving forward the market environment is likely better suited to active managers who can invest in select high-quality companies with stronger fundamentals relative to the small companies' index.

Why we like the Elston Australian Emerging Leaders Fund

We are attracted to the strategy for the following reasons:

- The team operates a structured and disciplined investment process seeking only high-quality ideas from the small-cap universe (which has less analyst coverage relative to the larger companies).

- The strategy offers specific diversification benefits from style and is complementary to the direct Australian large cap portfolio which is focused on the S&P/ASX 100. There is also no overlap in holdings (for example holding the same security in both the large cap and small cap portfolios).

- The experienced portfolio management team now has a three-year track record, outperforming most peers and the Small Ords benchmark (as of 30/11/2023).

- The strategy has significant capacity relative to peers.

- The fee structure is attractive relative to the peer group while the close relationship between the Weinberg Group and Elston Asset Management has allowed for a foundation investor discount to be applied as well.

Fund	Management Fee	WG Client Discounted Management Fee	Performance Fee
Elston Australian Emerging Leaders	0.88%	0.66%	20.0%*
Lennox Aus Small Companies	1.10%	N/A	15.0%*
SGH ICE	1.18%	N/A	15.375%**

Source: Elston Asset Management, Lennox, SGH, as of 08/12/2023
*Performance Fee calculated on excess return above the ASX Small Ordinaries Acc Index
** Performance Fee calculated on excess return above the ASX 300 Acc index

We maintain the view that over the long term a concentrated portfolio of high-quality small-cap companies can deliver attractive returns. However, position sizing is key given the reduced liquidity and higher volatility of the small-cap universe.

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