Queen's Student Managed Fund

Annual Report 2016/17

QUEEN'S UNIVERSITY BELFAST | MANAGEMENT SCHOOL


Tottenham Court Road
8
LT247

INTRODUCTION BY DR BARRY QUINN

Dr Barry Quinn
Oversight Committee

The authentic Queen's Student Managed Fund (QSMF) learning experience is now five years old. Having successfully navigated those early years of *sleepless nights*, *teething* problems, and constant *nurturing*, I and the oversight committee are now beaming with pride as the QSMF takes on the *big school* world of real money investing. The *elementary school* of the virtual fund has been left behind, and we now oversee a student led investment environment which has aspirations to mimic the renowned philanthropic Global Fund within an academic setting.

In the academic year ending 2017, the Queen's Student Managed Fund has surpassed all expectations. The QSMF's core paradigms of employability, experiential learning, peer knowledge transfer, professionalism, and responsible investing have been crystallised through real money investment decisions based on philanthropic donations. Leading by example, the Student Executive Commitment has hard wired depth and sophistication in financial knowledge through daily peer learning briefings. In 18 months since the inception of the real money fund, the QSMF students have exhibited deft skill in navigating the geopolitical uncertainty propagated by rising populism to achieve an outstanding positive return. This is testament to their sophisticated understanding of risk and investment management, professionalised through the core learning activities in the FinTrU Trading Room.

We are also excited to see the expansion of the Fund beyond the management school to include scholars of law, psychology, and the STEM subjects. While primarily extra curricular, the partial integration into masters programmes has helped students take advantage of their investment knowledge and passion to improve academic performance. This positive feedback loop helps to contextualise investment research in abstract finance theory, illuminating real world frictions, and encouraging students to think critically about what they are studying.

Finally, the Fund's unbridled success has brought the long-term goal of becoming the first completely philanthropic Student Managed Fund much closer. With Fund performance to date adding approximately 17% to capital we are fast tracking towards a critical mass necessary for the establishment of a QSMF foundation; a student-focused charity arm which will allow the SMF team to make a tangible difference to worthy student causes. This will make the Fund the first fully philanthropic student led investment portfolio in the academic landscape.

In closing, I would like to thank those who have provided invaluable support since the QSMF took those early steps. Colleagues in the Management School have provided unflinching support and guidance in the face of challenging compliance hurdles. Our philanthropic donors and corporate sponsors who provided the capital and expertise to develop the core paradigms. Most importantly, a huge thanks and congratulations must go to the students who collectively should take immense pride in the continuing success of the QSMF.

Moh Musa
CEO
MSc Quantitative Finance

MESSAGE FROM THE CEO

Following a successful first year of the real money Fund, I am delighted to report that we have built upon those successes this academic year and furthered the objective of providing students with a valuable and relevant learning experience. Employers have continued to commend the concept of the Fund and we have been rewarded with new and continuing partnerships.

The student committee set out this year to deepen the real-world experience. We introduced a structured learning experience, spanning quantitative and qualitative analysis, following a CFA equity research format. To complement the tools for analysing specific companies we produced a morning briefing, five days a week, ensuring our members were informed about markets and market drivers. The quantity and quality of returning members were rewarded with 'senior analyst' status, creating a position to aide sector heads and ensuring the best possible support for new members. We renewed our commitment to providing members with tangible industry qualifications with the Bloomberg Market Concepts (BMC) requisite. Due to the popularity of the Fund and to ensure students of all abilities were facilitated, our two-stage stock pitching process was extended to guarantee the opportunity to pitch at varying levels for all students, including our annual pitching event hosted by Davy. Engagement activities such as a weekly quiz and a 'Graph of the week' were introduced, as well as a wide ranging resource pool which included anything from our lecture slides to recommended videos and valuation models.

The efforts from all our members this year resulted in a series of successes. The Queen's University Belfast 'CFA Research Challenge' team, lead by Fund COO Jamie Mackenzie, won the Irish competition, reaching the European final in Prague for their equity research skills. The Fund successfully pitched a series of new investments, including three ETFs, in line with our now broader investment universe. The quality of the analysis and the efforts of our members culminated in an outstanding 7.4% active return year-to-date, putting the Fund in the top 20% of UK long-only equity fund managers.

I could not be prouder of how the Fund has evolved this year and I am confident that it will only move from success to success. With the unremitting support from academic staff at Queen's and the Fund's sponsors, Queen's University Belfast continues to produce students ready to excel in industry and add real value for prospective employers.

MESSAGE FROM A QSMF ALUMNI

Ben Banerji
Portfolio Analyst
Davy Group
QSMF CRO 2015/6

I was a part of QSMF from the initial investment of real money into the market. The work of the supervisory committee to secure funding and structure the Fund so that the students are entrusted with investing is incredibly important both to the students involved and ultimately employers that look at members as potential candidates in the future. The responsibility of managing real money emphasises the importance of diligence across all levels of the Fund and the understanding of risk & return is given a tangible gauge that a paper fund could never offer.

Beyond the direct benefits that come with the learning and application of tools and techniques used in the investment world, QSMF opened-up significant opportunities to members of the Fund and developed soft skills that students wouldn't necessarily get from their studies. Being able to stand up and address a Q&A session from a room of investment professionals at the SMF annual stock pitch is an invaluable experience especially when it came to interview processes.

Ultimately the Fund was a key part of me securing my role at the Fund's major sponsor, Davy. It afforded me both the skillset and exposure to help me attain a front office role in Industry.

MESSAGE FROM A SECTOR HEAD

Jordan McDowell
Sector Head
(Consumer Discretionary)
MSc Finance

Having been an analyst within the consumer discretionary sector in 2015/16 academic year, I gained a wealth of experience in not only researching and analysing a security, but also in working in an investment fund environment. My decision to be an analyst in the consumer discretionary sector was based on the sector's inherent link with macroeconomic performance, providing an opportunity for me to utilise the knowledge and enthusiasm I had gained from my studies in Economics. As an analyst, I learned how to effectively research and analyse a company in order to construct a detailed research report.

Following my experience as an analyst, I felt that I was equipped to become sector head of the consumer discretionary team. This was a role that presented new challenges, as there were 31 analysts under my leadership, many of whom were new to researching and analysing equities. This shows the diversity of the QSMF as it was a fantastic opportunity for me to develop my leadership and collaborative skills, as well as allowing me to continue developing my technical skills, as I carried out my own research.

I believe the QSMF offers a unique opportunity in that students can not only use and build on their technical and interpersonal skills, but also with opportunities to apply their findings at pitching events. In searching for postgraduate employment, I found that the QSMF was of great interest to potential employers and ultimately set me apart from other applicants; I would highly recommend getting involved to anyone wishing to pursue a career in finance.

Ralph Heward-Mills
BSc Aerospace Engineering
(2nd year)

MESSAGE FROM AN ANALYST

Coming from an engineering background, I was somewhat apprehensive the first time I walked down to the finance building for QSMF. I thought that doing a degree from a different faculty would mean I'd not have the knowledge or skills required to make any meaningful contribution to the Fund. However I couldn't have been more wrong; a year later I have experience researching a financial company for an analyst's report, experience pitching the findings of that report to industry and the Bloomberg Market Concepts qualification to put on my CV. The way the Fund is organised means that throughout the first semester you will be guided through a series of lectures, giving you the theoretical starting point to create a useful document for the Fund as an analyst in the second semester. The Sector Heads and Fund Executives are a very knowledgeable and friendly group of people who were happy to help me, and they will be more than happy to do the same for you.

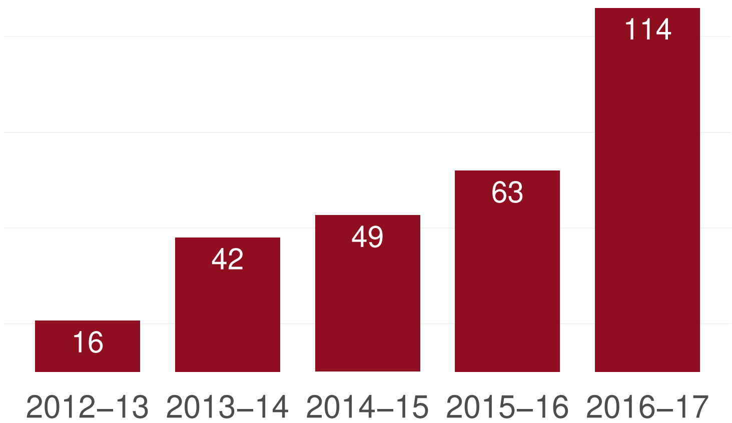
Creating an analyst's report was a lot of work, but made extremely manageable by the guidance always available and the long period of time in which to do it. At no time did I feel that the workload caused strain on my regular course work, which of course took precedence. As a result of the effort I now have an excellent example of work to show to employers, more certainty as to what a career in finance would mean, as well as a much firmer grasp of how markets operate. The opportunity to gain familiarity with a new field has been invaluable, and if you are someone interested in finance without necessarily doing a course in the area I would highly recommend taking part in the Fund for this reason.

TO PROGRESS AND LEAD INVEST IN THE FUTURE

QSMF ORGANISATIONAL STRUCTURE

Membership has continued to grow year on year since QSMF inception, now comprising 114 members who successfully reached the second term. 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. Due to the further increase in popularity of the Fund, we created two further sector head positions in Industrials and Consumer Discretionary, given the number of companies within those sectors and therefore the proportional analyst allocation to those sectors. To help support sector heads, we created a senior analyst role for those with previous experience in the Fund.

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 an oversight committee, comprised of academic staff and industry professionals, who act as a non-executive board.



QSMF Membership

> The SMF was a hugely enjoyable and rewarding society. It welcomed people studying any course, putting on masterclasses and help sessions ultimately enabling members with zero finance background to submit an industry style analyst report. It also gave members the opportunity to interact with industry professionals. With the coming changes in the Irish energy market, employers came to the QSMF as one of the first places to recruit. This provided an opportunity to speak with managers before any interview process. I subsequently got a job in an energy trading role and I feel being a member of the SMF was instrumental in securing this.

Michael Lawson
Analyst (Materials Sector)
MSc Computational Finance and Trading

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.

Membership helps students develop their technical and soft skills, increasing their employability especially in areas such as investment management, capital markets, research and trading.

CHANGES TO THE FUND

Significant changes were made this year to account for the Fund's growth in size and further develop the professional environment. Our assets under management grew by £15,000 thanks to kind donations from our philanthropic donors. Including capital gains, this amounts to approximately £28,000 of assets under management[1].

We released a daily morning briefing email, highlighting key global issues affecting financial markets. This helped our analysts understand what drives asset prices deepening their contextual understanding of global themes to inform their investment ideas. The addition of a Macro sector, headed up by joint Industrials sector head Aaron Doyle, also made us more relevant to a wider range of students, and allowed us to take a more top down approach, identifying key trends, sectors and geographies we were interested in. A portion of the Fund is now able to be passively invested in exchange traded funds, allowing us to take a position in relation to global trends and hedge our portfolio more effectively.

We implemented a structured teaching plan to educate our analysts, many of whom studied outside of the Management School and counted this as their first experience analysing companies. Each week the student committee would run a lecture-working with analysts through a section of the CFA Institute's Equity Research Report Essentials. Resources from sessions was uploaded to our new resource pool so it could be referenced by analysts and students. We also gave every analyst the opportunity to present, giving them valuable experience in how to communicate their ideas succinctly and handle challenging questions on their suggestions.

Given The Fund's goals and outward looking nature, a 'Chief Marketing Officer' role was introduced with the objective of developing the funds profile in industry and across the academic landscape. A definitive and succinct brand and message was developed to ensure that The Fund could maximise its outreach and communicate its values and objectives. This role was quintessential in progressing the Fund to the next stage in professionalism and enabling the committee to garner recognition further afield.

INVESTMENT PROCESS

The Fund meet every Wednesday afternoon in the FinTrU 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 following a screening process to align best with our investment objectives.

An important aspect of the Fund is to exercise responsible investing based on environmental, social and corporate governance factors. In practice analysts must perform due diligence and consider the ethical aspects of potential investments, with certain sub-sectors such as arms or tobacco stocks completely excluded. Sector teams spend the following weeks applying the fundamental analysis skills they have learnt from their degree and QSMF lectures. With the assistance of their sector heads and student committee and the different learning resources provided on how to value companies, they begin building their investment proposal. By week 7 of the second semester, 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 responsible investing and with solid management who will create value for us.

The analyst reports are submitted at the end of week 9 of 12 in the semester. The sector heads then discuss with their analysts which two to three 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.

An important aspect of the risk management process is the Oversight Committee's weekly analysis of potential losses based on absolute and relative loss limits to the portfolio. These loss limits allow for effective management of the downside portfolio losses in the event of extreme risk events.

INVESTMENT STYLE

This was the second 'real money' year of the Fund, with the key broader influences on our stock selection being the Brexit process and the Trump administration. These important factors had to be taken into account as part of our macro view. We underwent a fund rebalance during the first semester in order to reallocate capital among our existing holdings derived from current expectations and risk management. We reconsidered the investment cases for all of our holdings by working with students from MSc Finance, MSc Quantitative Finance, and MSc Risk and Investment Management. Each student produced a detailed 10 page analyst report on our holdings as part of their continuous assessment. The following semester constituted the period for taking into account analyst recommendations and adding new positions to our portfolio, once students had completed our equity research lecture-workshop series.

The ability to invest in global ETFs this year allowed us to further diversify our holdings across a range of markets and execute broader global views. With this, we increased our exposure to emerging markets, such as Pakistan. Our decision to retain overseas exposure was so avoid over-reliance on an uncertain UK market.

MACRO OVERVIEW/RISK CONSIDERATIONS

The last year has been dominated by major political elections across the Eurozone, seeing a revival of the far right, as well as the US presidential elections. These geopolitical risks gave rise to much uncertainty within the markets with regards to the election outcomes and the subsequent government actions. As a Fund we retain a cautious UK outlook, especially following our experience in the aftermath of the UK's decision to leave the EU and how that manifested itself in the QSMF portfolio risk. Article 50 has now been triggered, officially kick-starting the UK's exit from the European Union. However, as full details of the extent of Brexit and its effects will have on the UK listed companies and the broader economy, we have sought to construct our portfolio such that our holdings revenue base is global.

We have also considered how the tapering of quantitative easing programmes globally may affect our portfolios and have again avoided stocks which we consider to have speculative valuations, in case of a large market correction. Prior to our rebalance at the beginning of February, the Fund was unintentionally overweight in USD. We sought to diversify the FX positions with the goal of being neutral, mitigating the associated risk and following a house view of an expensive dollar. This was implemented by investing in companies with EUR exposure or operate on a global scale. Companies such as IPF and Worldpay provide access to these overseas markets and a broad range of currencies. Unilever and Diageo gain further exposure to the Euro, and a range of international currencies, in an attempt to diversify away from the pound.

The Fund has not taken a directional view with oil, due to complex factors involving the supply and demand boost that comes with Trump and his 'America first' campaign to make America energy self-sufficient and the resurgence of shale oil, mitigating against efforts by OPEC to cut supply. Further uncertainty around how the oil market will react to the IPO of Saudi Aramco, and the IMF forecast of $55 a barrel for 2017 reinforced our decision to avoid any directional play.

PITCHING EVENTS

With the aim of ensuring the student learning experience is as inclusive as possible, we had two separate pitching events. The first, in front of the student committee, was for stocks to be included in the Fund. The second, at the flagship 'Annual Davy Pitching Event', where the investments chosen for inclusion in the Fund were pitched in front of a room of industry professionals. A panel of three senior Davy staff, Alan Werlau (Head of Investment Advisory), Gavin Graham (Director – Financial Planning) and Ben Banerji (Portfolio Analyst & Ex-QSMF CRO), then provided feedback on the investment cases with a Q&A session, with debate and critique encouraged. The event, hosted by Davy Group in their Belfast office, was attended by QSMF members, QUB staff and philanthropic donors to the Fund.

After the pitching event, the Student Executive Committee decided 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.

PORTFOLIO ANALYSIS

The FTSE 350 weightings were used as a guide in our portfolio construction. Being overweight or underweight in any given sector may not reflect whether we hold a bullish or bearish view of that sector. We invested only in companies where we see long-term value and where investments are in line with the long-term investment strategy of the Fund.

In our portfolio construction we consulted mean-variance analysis, using 3-year historical data. The market portfolio was used as a guideline in managing the risk profile of our portfolio whilst maximising returns.

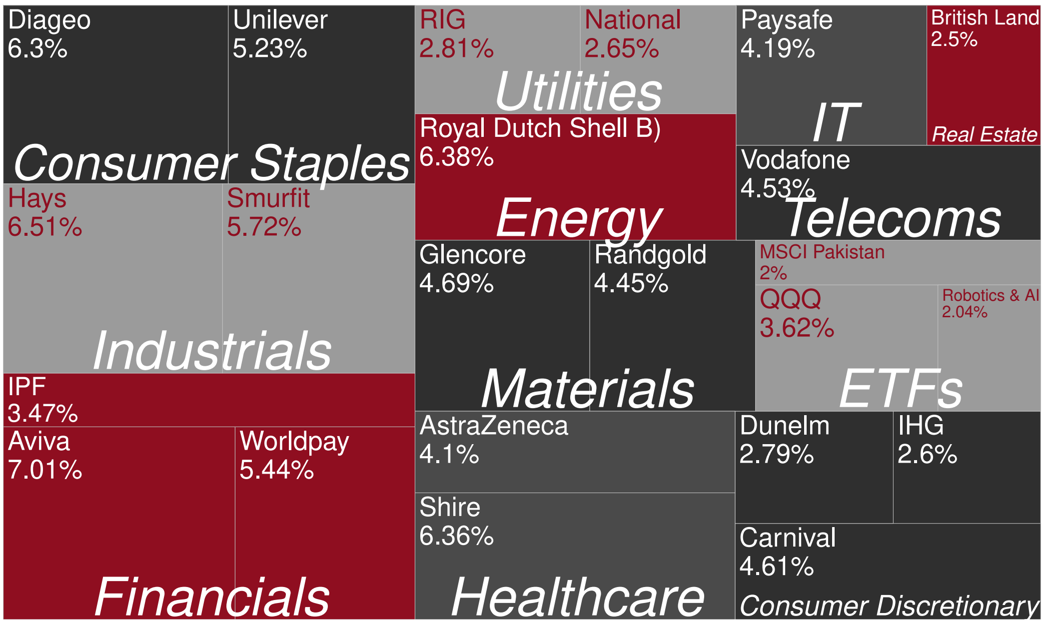
A primary aim of our portfolio construction was to diversify our holdings, both in terms of currency exposure and the markets we are exposed to. By investing in companies with European operations we were able to increase our Euro exposure and, subsequently reduce our overweight position in USD. ETFs provided us with more risk averse access to global markets. This enabled us to avail of potential returns from markets which we previously did not have exposure to.

OVERVIEW OF SECTOR COMPOSITION

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

- 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.



PORTFOLIO PERFORMANCE

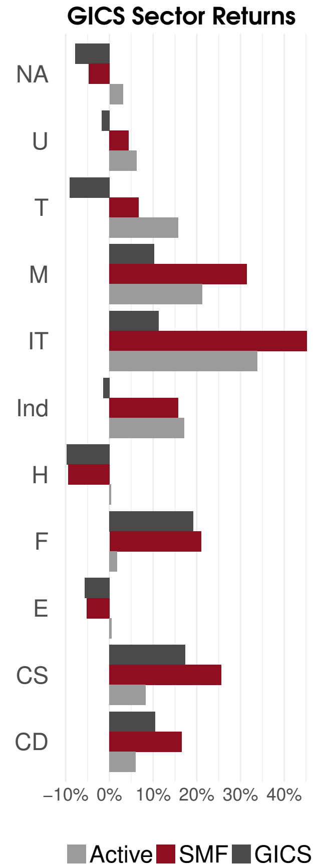
The fallout from the UK's decision on June 23rd 2016 did not bear many fruits for the QSMF portfolio. Specifically positioned to capitalise on stocks trading at a discount due to a house view of an 'in vote', Q2 and Q3 2016 culminated in a negative active return of 8%. Losses were crystallised with sales of IAG, Lloyds and Tesco. The Fund is happy to report that the performance since the rebalance has been outstanding, recouping those losses with an active return of 7.4% YTD. This performance, with an investment process which allows for one rebalance and one opportunity to place new investments per year, has put us in the top 20% of UK long only equity fund managers, according to Morningstar reporting[2]. Our active return has narrowed to just -0.3% since the Fund's inception.

This success can be attributed to a number of our goals and hypotheses materialising. From a portfolio construction perspective, our goal of reducing our average weighted market cap by finding smaller, inefficiently priced listed companies has been successful. Our decision to broaden our currency exposure, at the peak of the dollar, towards Euro denominated revenues has also boosted our performance specifically due to our higher weightings in Diageo and Unilever. Our portfolio level decisions have not only helped manage our risk, but have increased performance.

At a company specific level, our increased allocation to Glencore has performed well. We have also enjoyed benefits from takeover bids launched on three of our holdings: Unilever, Worldpay and Paysafe. We believe this validates our assessment that these companies were undervalued and were happy to see our thinking aligns with some of the world's top investors, from Warren Buffet and Kraft Keinz with Unilever, to JP Morgan and Vantiv with Worldpay.

Almost all of our new investments, made in June, have vastly outperformed their benchmarks. Our entrance into world of ETFs have proved fruitful with high performing ETFs in QQQ and our Robotics & AI ETF.

Fund Performance	From Inception	YTD
Abs Return	17.6%	11.8%
Ret vs Bmk	-0.3%	7.4%
Vol	32.9%	27.9%
Div Yld	1.96%	0.75%
AWMC (Bn GBP)	40.9	40.7



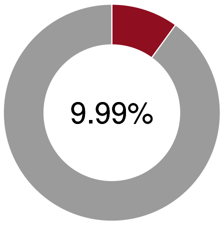
CONSUMER DISCRETIONARY

With Brexit looming and UK consumer confidence dropping to -12 in July, the lowest in 12 months, there has been notable underperformance across the industry due to its sensitivity to the cyclicality of the economy. Therefore, we aim to hold investments in large global diversified companies less dependent on the UK to ensure performance remains stable in these times of elevated uncertainty.

We continue to hold InterContinental Hotels Group (IHG) which has moved away from the traditional hotel industry business model by selling off managed hotels to franchise partners. By franchising out almost all of their hotels, IHG collects revenues from the hotels without tying up capital in actually owning the properties. Given our house view of tapering QE globally, we consider it to be a good time to the sell down real estate assets and shore up the balance sheet, allowing for increased cap-ex to fulfil IHG's growth plans. The company is of course heavily reliant on business and leisure travel so is highly exposed to any slowdown in global growth. However, its geographic expansion, particularly in China which represents one of our target emerging markets, as well as its existing US footprint, adding to our USD exposure, gives IHG a strong presence in two attractive markets outside of the UK. Recent performance is promising with 2017 first half operating profits rising 7% and the interim dividend rising 10%.

Another stock remaining in our portfolio is the world's largest cruise ship operator, Carnival. Geographically diverse, Carnival owns over 10 different brands and 100 ships in an expanding market which reflects ageing populations and an increase in the leisure-seeking middle classes of Asia. There are promising signs of future expansion with 22 new ships to be delivered before 2022.

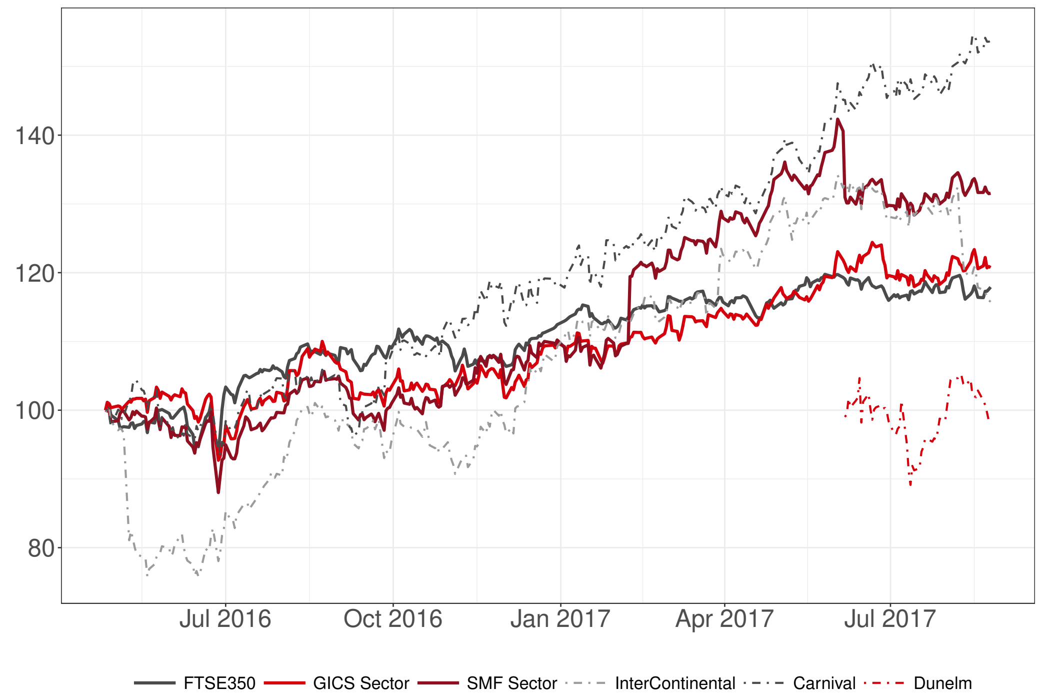
Home furnishings retailer income stock Dunelm represents our newest addition to the sector. With the FTSE 100 nearly at all time high it is difficult to find bargains like we found with Dunelm which offers excellent value for money and a high dividend yield. Earnings are expected to rise 14% which results in a price-to-earnings growth ratio at around 1.0 while last year's dividend yield of 4.2% was covered 1.8 times by profits. Dunelm also has solid growth prospects with both store expansion and a renewed focus on online sales. Despite falling consumer confidence hitting the sector, we are optimistic that Dunelm may benefit from offering an affordable alternative to comparable businesses such as Debenhams or Next.



KEY EVENTS

- IHG added 10,540 rooms in the first half of 2017, with particular growth in Holiday Inn Express, which added 45 hotels.
- Carnival's total dividend grew by 23% in the last financial year to $1.35 and the company have announced their 2017 Q3 dividend pay-out of $0.40.
- In August, Carnival released its 2017 sustainability report as part of the launch of its new dedicated sustainability website.
- Dunelm paid out 25.1p in ordinary dividends last year and threw in an additional 31.5p special payout at year-end thanks to surplus cash balances, constituting an 8.1% dividend yield.

	Abs Return		Rtn vs Bmk				
	1Y	YTD	1Y	YTD	Cor	Beta	Vol
Sector	21.9%	16.6%	10.2%	6.03%			18.4%
Carnival	47.7%	30.5%	36.0%	20.0%	0.551	0.844	17.3%
Dunelm		-1.4%		-1.1%	0.329	0.619	17.3%
IHG	17.0%	4.6%	5.3%	-5.89%	0.582	0.987	18.8%

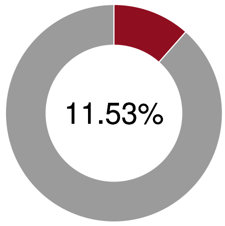


CONSUMER STAPLES

As uncertainty strikes with the UK moving towards its eventual exit from the EU, defensive stocks in the consumer staples sector bring stability and steady growth to our portfolio. UK consumer spending is under severe pressure with the weakened sterling and CPI inflation hitting a four-year high of 2.9% in May, significantly below wage growth. However, our companies in this sector produce goods that consumers buy regardless of the economic conditions. Therefore, our two trusted well-known investments in consumer staples provide a relative safe haven and their international earnings footprints extend well beyond the UK and the EU. Both of these investments have also increased our Euro exposure, as well as other global currencies.

Our investment in Unilever, which has a world-class portfolio of the most coveted brand names around the world from Dove to Ben and Jerry's, fits in perfectly with our investment objective of long-term value creation and certainly holds the old adage of a 'firm with a moat'. In February, Unilever rejected a bid from Kraft Heinz which vindicated and confirmed our view that Unilever was undervalued. Unilever's share price has remained above the Kraft bid level at an all-time high underlining the market's expectations and CEO Paul Polmon believes the group is now in a position to 'go faster and further'. Unilever has a geographic reach, now bringing more than half its sales from developing markets we seek exposure to such as Brazil, China and South Africa. First-half results for 2017 suggest the company is still firmly on course with underlying sales up 3%, EPS up 14% and the dividend to be increased by 12% this year.

Drinks manufacturer Diageo, our second holding in the sector, is another reliable, high quality defensive business, with renowned, demand inelastic brands. In line with Unilever, the demand for premium alcoholic beverages from the emerging markets is the future growth driver as disposable incomes in these markets increase. Diageo represents another stock to hold for the long-term with its excellent track record of dividend growth, increasing its pay-out by 7.8% over the last five years, brand portfolio and industry leading profitability metrics.



KEY EVENTS

- Diageo has appointed Anne Nosko as director of culture and entertainment, media and futures in Europe to fuel growth in the 'growing discipline'.
- Unilever's spreads business, which owns brands such as Flora, will be sold and analysts have valued this at about €6bn-7bn.
- Unilever has agreed to buy back the bulk of its Dutch preference shares and to launch a public offer for the rest, valuing them at 450 million euros, as it seeks to simplify its capital structure.
- Kraft-Heinz unsuccessful bid for Unilever and its information signal resulted in a 20% uplift which has remained, despite the bid being rejected.

	Abs Return		Rtn vs Bmk				
	1Y	YTD	1Y	YTD	Cor	Beta	Vol
Sector	19.7%	17.0%	15.1%	10.1%			15.4%
Diageo	19.7%	22.6%	15.2%	15.7%	0.665	0.714	16.1%
Unilever	26.9%	37.9%	22.3%	31.0%	0.579	0.803	22.8%

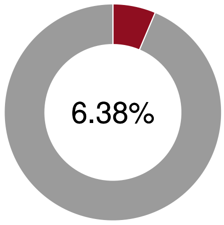
ENERGY

Royal Dutch Shell represents our only investment within the Energy industry. Despite flat returns this year, a strong dividend and potential upside to oil prices mean we still find this an attractive investment. Margins did improve significantly this year as OPEC agreements stabilised oil prices around the $50 mark and the cost cutting regime took effect. This slight recovery in prices has once again been tapered by a resurgence in shale production, keeping oil prices trading between $40-$60 per barrel.

The company has also made a move into electricity. With the Fund looking to invest sustainably this is very attractive to us. Large infrastructure investment in both China and the US may also see this industry pick up additional demand. It has been a tough couple of years for the energy industry due to low oil prices, with cost cutting a key theme, despite this however, we have not found an energy company offering the same value as Royal Dutch Shell.

Relying primarily on dollar revenues; RDS presents a natural Brexit hedge and is in line with our house views on currency. It is one of our key dollar exposures. Increased spending by the Trump regime could have varying effects, increased demand through infrastructure projects but also increased shale production through his 'America First' doctrine.

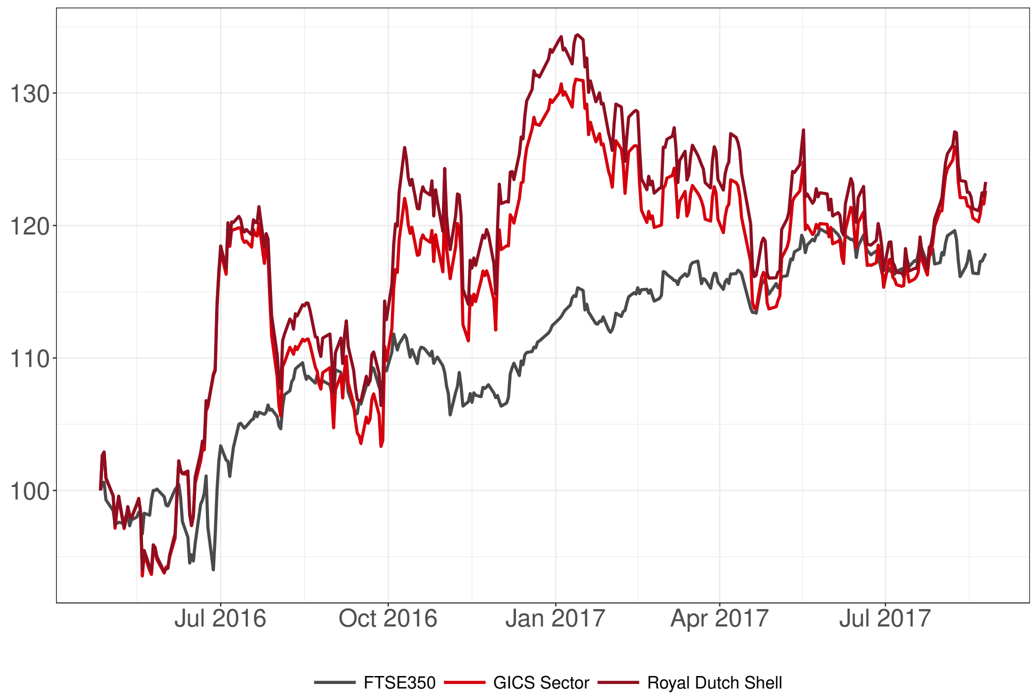
We will continue to monitor this sector for opportunities but for now stay underweight in relation to our benchmark due to the risk attributed with holding a single stock in the sector.



KEY EVENTS

- July – Partial oil price recovery and heavy cost cutting sees RDS treble earnings in the second quarter.
- OPEC production increases in May, buoyed by Nigeria and Libya who were exempt from a supply cut agreement in January.
- In January, OPEC producers agree a deal to curb oil supply (extended in May).

	Abs Return		Rtn vs Bmk				
	1Y	YTD	1Y	YTD	Cor	Beta	Vol
RDS	12.0%	-8.0%	-2.0%	-14.9%	0.709	1.242	21.0%



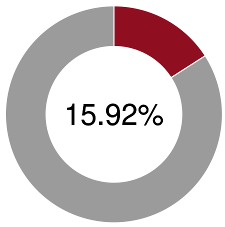
FINANCIALS

This year has seen better fortunes for UK listed financials. Post Brexit growth estimates were mainly revised upwards and investment spending has not dropped off as much as expected. Rising inflation is likely to see The Bank of England move on interest rates, currently its base rate sits at a historical low of 0.25%. This should see net interest margins increase across banks and allow asset managers to add more value again in active management as asset bubbles decline, increasing fees.

Aviva has been the one mainstay in our financials sector. Regulation such as Solvency II and MiFID II as well as historically low bond yields globally have hampered its investment activities. Its investment arm also does not have a sizeable ETF business so it has not benefitted from the move to passive investing. However, results have been strong with operational profit increasing 11%, the company also decided to raise its dividend by 13%. Its general insurance business continues to grow and recent acquisitions have further increased its global presence, which should help hedge against a possible UK economic decline post Brexit.

We have chosen not to invest in any banks, a subsector for which Brexit could have a large effect depending on the outcome. Instead our new investments in the sector come in the form of two innovative companies, IPF and Worldpay. Worldpay is a leader in payment processing, as we move towards a cashless society we can only see revenues continuing to grow. One concern was increased competition from services such as Apple Pay but on closer investigation many of the new entrants sit at a different point in the payment chain from Worldpay. Worldpay has since been acquired by Vantiv, and a result we have made a very quick profit.

IPF provide loans to customers in number of countries outside of the UK, mainly in Eastern Europe, Spain, Mexico and Australia. This was another good way to hedge our UK specific exposure. We see many of these countries as potential high growth areas despite of course being fundamentally risky. IPF provides a great way for us to gain from this potential growth being directly linked to consumer expenditure. Following what we assessed to be an overreaction to a ruling regarding potential backdated taxes as far back as 2008, IPF experienced a large drop in its share price, in the months preceding our choice to invest. Our hypothesis has been fulfilled and in the 10 weeks following our investment, IPF has achieved an 18.6% return.



KEY EVENTS

- In January, IPF saw shares fall roughly 10% upon a ruling from the Polish authorities which sees them liable for tax bills on operations as far back as 2008.
- In July, Aviva sold loss making business Friends Provident for £340m.
- In August, Aviva raised its dividend 13% after strong mid-year financials including a 11% rise in operating profit.

	Abs Return		Rtn vs Bmk				
	1Y	YTD	1Y	YTD	Cor	Beta	Vol
Sector	28.8%	9.1%	-3.7%	2.2%			23.3%
Aviva	25.6%	6.3%	-6.9%	-0.6%	0.728	1.308	17.7%
Worldpay	0.0%	36.3%		29.1%	0.346	0.792	36.3%
IPF	0.0%	18.6%		11.4%	0.343	1.173	18.2%

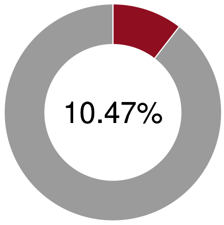
HEALTHCARE

Within the Healthcare sector we have retained our holdings in Shire and Astrazeneca.

As one of the largest pharmaceutical companies within the FTSE 350 by market capital, Astrazeneca provides steady returns through its high dividend. Whilst its share price suffered a recent hit due to a setback in one of its cancer drug trials, the drug did prove promising in further trials with further upcoming drugs in development. Astrazeneca is focused on offloading non-core drug assets to raise funds for priority drugs within its pipeline. Following this strategy, a recent $400m deal with pharma company Takeda was made, with plans to co-develop a drug for Parkinson's disease.

Shire has emerged from a period of prolific M&A, most recently with its acquisition of Baxalta in mid 2016. Its focus is now on integrating its businesses to achieve its goal of becoming the leader of rare diseases. Shire has experienced a smooth integration of Baxalta, with a faster delivery of the synergies from this acquisition leading to a better than expected performance during Q2. However Shire's share price has received a hit lately amid investor concerns about whether the debt-financed Baxalta takeover will prove successful. Shire, however, continues to reduce costs and is streamlining operations. Through both R&D and acquisitions, it has built a strong pipeline, positioning itself well in this competitive market.

Despite a reversal in the sector, following the Trump administration's failure to enact its health care reforms and a weakening dollar, we continue to believe in the fundamentals of both companies.



KEY EVENTS

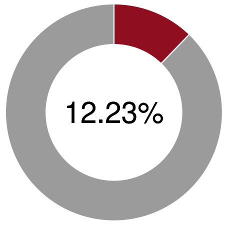
- Shire submits European approval for dry eye treatment which would be the first of its kind in Europe.
- Talks of a possible IPO of Shire's neuroscience division.
- AstraZeneca and Merck & Co. Inc. entered a global strategic oncology collaboration to share development and commercialisation of AstraZeneca's Lynparza for multiple cancer types.

	Abs Return		Rtn vs Bmk				
	1Y	YTD	1Y	YTD	Cor	Beta	Vol
Sector	-15.4%	1.8%	1.5%	-5.1%			21.6%
Shire	-23.2%	-20.9%	-6.3%	-27.8%	0.485	0.907	26.0%
AstraZen	-9.9%	1.7%	6.9%	-5.2%	0.543	0.813	26.7%

INDUSTRIALS

Fund analysts in this sector produced strong reports in favour of increasing our holding is Hays due to promising performance in the recruitment sector despite the recruiters mentioning 'jitters' after a 'marked step-down' in UK hiring following the UK's vote to leave the EU. Hays (Britain's biggest recruiter by market capitalisation) presented a better investment prospect when compared to rival Page Group, after carefully analysing underlying fundamentals, running multi-factor macroeconomic scenario analysis and a discounted cash flow analysis of both companies.

After liquidating our IAG position last year, the sector analysts sought to add another company to this sector in order to bring our weightings more in line with that of our benchmark, whilst not solely increasing our stake in Hays. Smurfit Kappa presented a great opportunity to diversify this sector's holdings. SKG has shown strong growth in expanding markets, presented a sustainable business model with strong fundamentals, and a DCF projection showing potential 20% upside. There has been a significant rebound in the packaging industry fuelled by increasing e-commerce, with online retailing accounting for just 3% of the packaging market, but contributes around 20% of the growth. Disregarding e-commerce, demand in Europe is growing steadily at approximately 2% annually, with strong demand in the food and drink markets (accounting for around 60% of European packaging use). Initial concerns regarding expected margins being hit with Brexit-related turbulence and rising raw material costs were quickly dismissed by shifting their focus towards more value added products, cost reductions and well-judged acquisitions.



KEY EVENTS

- Hays pre-tax profits jumped 18% to £204.6m year ending June 30th, with net fee income growing 6% to £954.6m.
- With strong results, Hays issued a special dividend worth 4.25p per share, and bumped up its full-year dividend by 11% to 3.22p per share.
- Smurfit Kappa was promoted to the FTSE100 at the beginning of 2017 (replacing Travis Perkins) having acheived a market value of £4.25bn. This should increase liquidity and promote trading of Smurfit Kappa stock.
- Smurfit Kappa has increased net income by 84.2% since 2014 with analysts confident of further growth in the coming years.

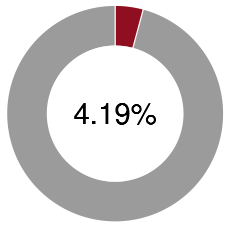
	Abs Return		Rtn vs Bmk				
	1Y	YTD	1Y	YTD	Cor	Beta	Vol
Sector	34.4%	12.3%	32.3%	5.4%			23.9%
Hays	32.2%	13.9%	30.1%	7.0%	0.516	1.049	21.3%
Smurfit	0.0%	7.5%	0.0%	16.9%	0.432	0.782	13.8%

INFORMATION TECHNOLOGY

Paysafe has been a strong performer for the Fund in the past year, and after updated analysis, the Fund decided to increase its holding in the company.

The company came under scrutiny October last year when Spotlight Research (a short seller) released 2 reports highlighting its exposure to China and alleging links to Turkish gambling sites. The Isle of Man based company does rely on the online gambling industry for 45% of its business, but has been looking to increase its presence in the US through inorganic growth (such as the recent acquisition of Merchants Online). The Fund's Executive Committee reviewed these reports and concluded they lacked sufficient evidence to sway our position and outlook towards Paysafe (despite causing the share price to tumble 28% in 3 weeks). After increasing our holding in Paysafe, the markets appeared to catch up in that this large fall reversed. Following part of the recovery, they received a £3bn takeover bid from CVC and Blackstone (the private equity duo), which was unanimously recommended by the board, as well as Paysafe's largest shareholder, Old Mutual Global Investors.

Paysafe's revenues are split 47% payment processing, 31% digital wallets and 22% cash solutions, turning over $1bn of total revenue in 2016. This produced a net profit of $142m and earnings per share of $0.28.



KEY EVENTS

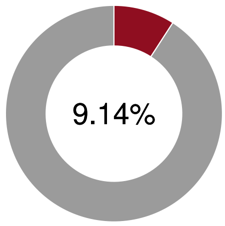
- The £3bn takeover bid values to company at 14 times EBITDA, and a 13% share price premium of the all-time high.
- After the markets settled from Spotlight Research's reports, the share price of Paysafe rebounded over 70%, showing why knee-jerk reactions can be dangerous and profited from in the market if played carefully.

	Abs Return		Rtn vs Bmk				
	1Y	YTD	1Y	YTD	Cor	Beta	Vol
Paysafe	33.4%	54.9%	19.4%	55.7%	0.438	1.044	31.0%

MATERIALS

After gold hit 5 year lows at the start of 2016, the price per ounce has since recovered over 25%, 10% since the start of 2017. Unsurprisingly, Randgold Resources' stock has followed much the same pattern. Randgold recently announced a 52% increase in second quarter profits, with EPS of $0.89, beating analyst forecasts of $0.72. With the recent recovery of gold prices, CEO Mark Bristow took the opportunity to sell down a portion of his stake in the company, bringing his current stake to 0.82%. We foresaw strong recovery in the mining sector with global appetite growing and so increased our weightings accordingly during our February rebalance.

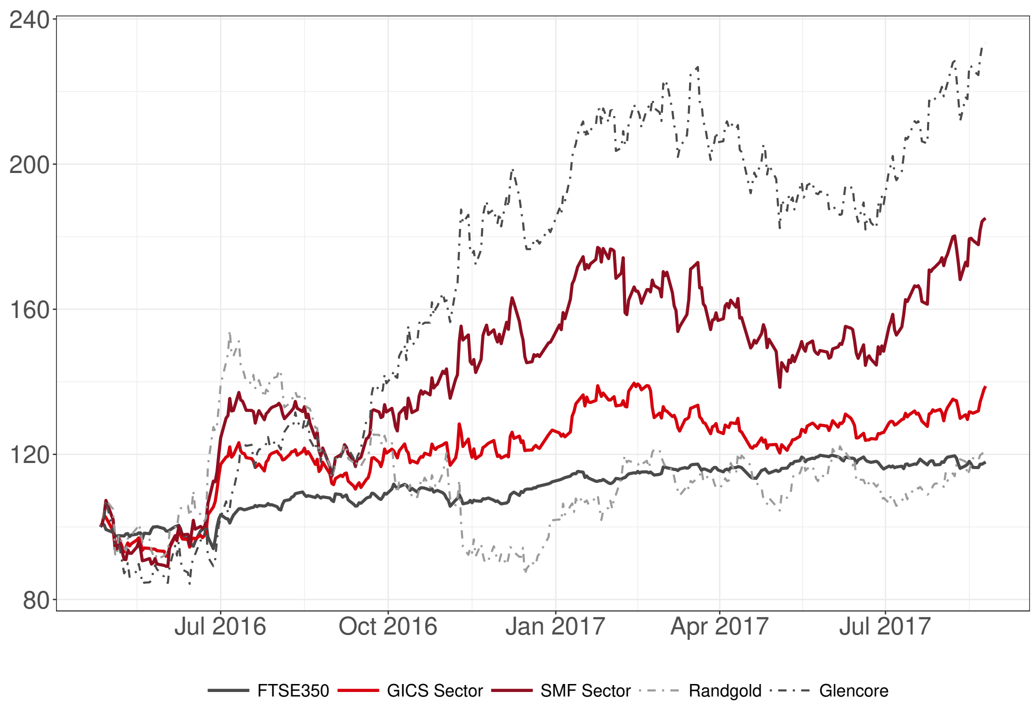
Our analysts also produced strong reports for Glencore, following their massive debt restructuring mentioned in the report last year. Glencore has retained its position as our 'Golden Goose', with the Fund buying when the stock was still out of favour, we focused instead on their fundamentals. This positive outlook for the company, coupled with the restoration of global demand for commodities, led us to increase our weighting in Glencore. EBITDA rose 70% in the six months to June (most recent figure), beating expectations from our analysts. Glencore has also turned around a negative EPS of $0.03 to positive $0.17, whilst shedding $1.6bn of net debt in the process. These figures show that Glencore has taken strict measures to turn its business around, following predictions from the fund's materials sector.



KEY EVENTS

- Copper has risen almost 18% this year, trading above $6,500 for the first time in two and a half years.
- Zinc (which is used to galvanise steel) has traded on average around $2,700, 30% higher than all of 2016.
- Cobalt (used mainly in the batteries of electric cars) has surged this year due to increased demand of electric vehicles, soaring 87% since the new year. As cobalt is difficult to gain exposure to (few ETFs hold it, with expensive rolling contracts). Glencore provides a great opportunity to capitalise on this shifting global trend.

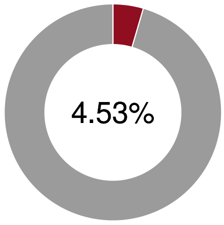
	Abs Return		Rtn vs Bmk				
	1Y	YTD	1Y	YTD	Cor	Beta	Vol
Sector	71.2%	19.6%	51.5%	12.7%			33.0%
Randgold	-0.7%	17.7%	-20.4%	10.7%	0.021	0.052	35.2%
Glencore	98.0%	24.3%	78.9%	17.4%	0.588	2.456	34.1%



TELECOMMUNICATIONS

In the telecommunications sector, we continue to hold Vodafone, a low volatility stock with generous dividend pay-outs. Vodafone has both defensive characteristics and growth potential. The company is geographically diverse with a significant presence in Europe, the Middle East, Africa and Asia Pacific; therefore it is exposed to many emerging markets that we target. Net profit is expected to grow by 5% in 2017 and a further 20% in 2018 so we are optimistic about future prospects of the company and our valuation metrics have all signalled Vodafone is undervalued relative to our assessment of its intrinsic value.

Vodafone's merger with Indian telecoms company Idea Cellular will significantly improve Vodafone's presence in India as it will create the country's largest telecoms operator. The merger is expected to be completed in 2018 and the combined company is committed to delivering the Indian government's 'Digital India' vision. Vodafone has also recently invested 2 billion euro into an ultrafast broadband network in Germany and there are talks with Openreach about a similar joint investment which will bring ultrafast fibre-optic broadband to the UK. Despite investor concerns about the sustainability of high dividend pay-outs, Vodafone announced in their recent annual report that they paid a final dividend of €10.03 per share for the year ended 31 March 2017 which is up 29% on the previous year. Given Vodafone's financial strength and diversity, both geographically and with product range, the chances of dividends being maintained or increased in future seem high implying that this dividend stock could be in our portfolio for the long-term.



KEY EVENTS

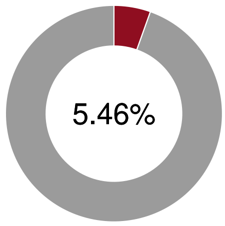
- Vodafone India has reached an agreement to merge with Idea Cellular, one of the country's leading mobile network operators.
- Vodafone is currently in talks with BT's network subsidiary Openreach about a joint investment in new ultrafast fibre-optic broadband for British cities.
- In July, Vodafone begun a three-year programme to devolve power from its Newbury headquarters to other parts of the UK, notable London and Manchester.

	Abs Return		Rtn vs Bmk				
	1Y	YTD	1Y	YTD	Cor	Beta	Vol
Vodafone	-5.3%	8.6%	11.1%	1.7%	0.723	0.945	16.1%

UTILITIES

Within the utilities sector we have diversified our holdings by investing in both renewable energy and traditional electric and gas, reflecting the changing landscape of the utility and energy sectors. The Renewables Infrastructure Group Ltd (TRIG), is a renewable investment trust, holding its main investments in wind and solar energy. The renewable energy sector is one which will experience growth as political pressures continue to direct investment into alternate energy sources. Quarters 2 and 3 of 2017 have fulfilled our expectations in the form of a resurgence of renewables, despite the Trump administration's stance, and we are confident this will translate into cashflow and net income growth for TRIG. We expect TRIG to experience steady growth, complemented by a 5.8% annual dividend yield. It's strong potential and forward looking business strategy is in accordance with the Fund's long-term value investment ideology.

National Grid's revenues are diversified in energy type across gas, water and electric, as well as geographically with operations in both the US and UK. It too is adapting to the rise of renewables, building interconnectors and installing rooftop solar in the U.S. Whilst experiencing a dip in share price in reaction to the sale of its natural gas distribution business, we believe it is a greater value and stable investment opportunity compared to its peers, being also a regulated monopoly. Risks arising from Brexit are, however, present with its ability to trade gas and electricity with Europe without tariffs important for its business.



KEY EVENTS

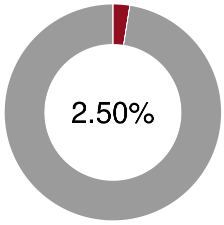
- TRIG acquires Garreg Lwyd Hill Wind Farm (May 2017) and Broxburn Energy Storage, a battery energy storage project (Aug 2017).
- National Grid completes sale of its 61% stake in its UK gas distribution business.

	Abs Return		Rtn vs Bmk				
	1Y	YTD	1Y	YTD	Cor	Beta	Vol
Sector	-8.4%	3.3%	0.2%	-3.60%			19.4%
N. Grid	-9.6%	3.1%	-1.0%	-3.78%	0.483	0.549	19.6%
RIG	0.0%	-3.1%	0.0%	4.4%	0.312	0.230	3.3%

REAL ESTATE

British Land hold retail, commercial and leisure property in London and across the UK. Its investment in London, in particular, is focused on areas where infrastructure is improving, driving regeneration and growth. Despite Brexit uncertainty, London should retain its status as a major financial and business centre with continued demand for commercial property. We expect this to be reinforced by the expected reduction in corporation tax to 17% by 2020. With six major projects expected to be completed this year, British Land should continue to grow whilst benefiting from 3 projects recently finished in late 2016.

London has experienced the largest post-Brexit fall in residential and commercial property prices but our decision to hold British Land is substantiated by our outlook for the medium to long term. The decision to leave the EU will of course reduce demand in London but we believe this to be overpriced at this stage in British Land's share price. The fundamentals remain that, in London, demand growth far outstrips supply and will continue to do so even if net migration to the city were to be a fraction of where it currently is. The share price overcorrection is contingent on the risk of London property price contagion, at the Fund we have taken a view that this is overestimated and that over our investment horizon house prices in London will continue to increase unless there is a policy change regarding house building of the proportion of the post-war period. We consider the likelihood of such a policy change to be negligible.



KEY EVENTS

- British Land sells its 50% stake in the London 'Cheesegrater' skyscraper for almost £600m.
- Has announced a plan to spend up to £300m in buying back its own shares (July 2017).

	Abs Return		Rtn vs Bmk				
	1Y	YTD	1Y	YTD	Cor	Beta	Vol
British Land	-8.7%	-3.9%	-1.8%	-10.8%	0.571	0.987	18.9%

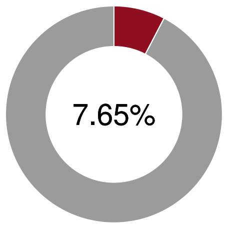
ETFS

Our rebalance in June included the addition of ETFs for the first time. This allowed us to get exposure to global stock markets, industries and specific geographies. We have used the MSCI World Total Return Index as a benchmark for our ETFs.[3]

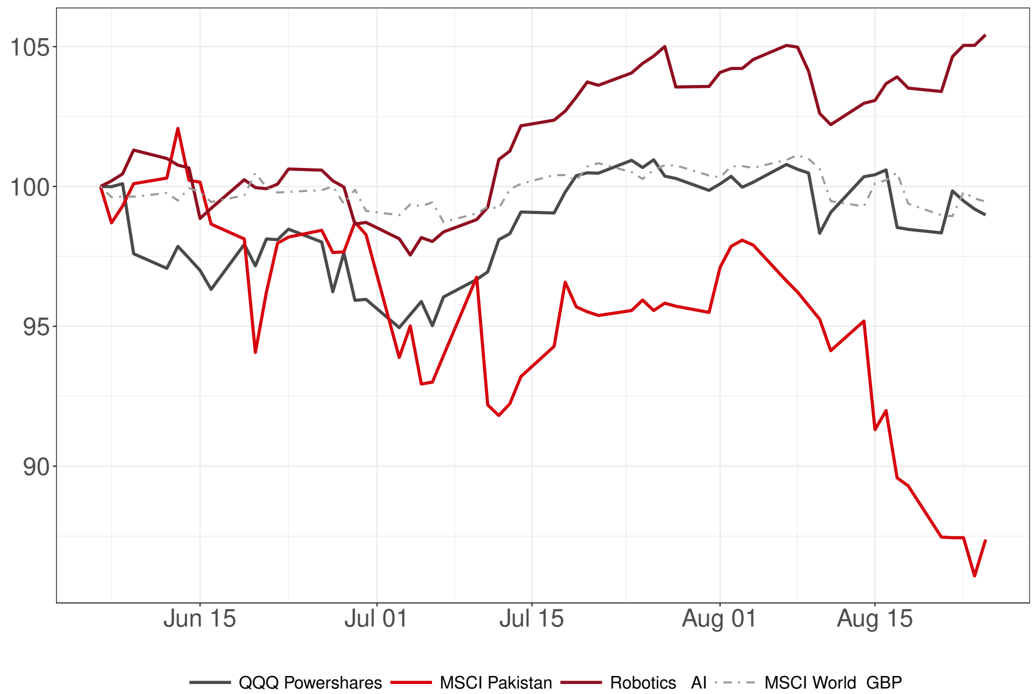
The emergence of China as a global power has seen its influence other economies grow exponentially. Their investment in Pakistan's economy, specifically in relation to the new silk road project saw our macro team advising we gain exposure to the Pakistani economy. We have achieved this through investing in the MSCI Pakistan ETF, which links to an index comprising the largest, most liquid stocks in Pakistan. In the time between our decision on the committee to buy the ETF and our trade being placed, Pakistan was upgraded from a frontier market to an emerging market, increasing liquidity and reiterating the global markets view on Pakistan's development as country. We understood the risks, however, when entering into this investment, with corruption and security risks rife in Pakistan. Only two weeks after our investment, Pakistan's prime minister, Nawaz Sharif, surprised markets when a supreme court decision forced his immediate resignation following revelations of alleged and likely corruption in the 'Panama Papers'. At this stage we still believe over the long term that the development of Pakistan's economy will express itself in its major financial index.

US markets have reached record highs this year, with the NASDAQ performing very well with a tech boom. We have invested in the QQQ Powershares ETF affording us exposure to this key industry. We fortunately timed our investment in a dip of the tech rally but our investment hypothesis is solely that of a long term focus. Silicon Valley continues to shape the world around us and the models for our economy arising from the area have unparalleled effect of securing the 'middle-man position' and gleaning value from almost all major industries. We believe they will continue to do this and sculpt the industries of tomorrow, justifying their valuations.

Continuing with the theme of the industry of tomorrow, we have invested in the Robotics & AI ETF. With many stock markets at all-time highs, significant capital growth may be difficult to obtain over the coming years so this was an attractive area. Bodies from the IMF to global investment banks consistently forecast a steep rise in automation and AI over the next few decades and we believe this is where considerable value for shareholders will lie. The ETF also affords us exposure to key industries in Japan, where many market leaders reside.



	Abs Return		Rtn vs Bmk		
	1Y	YTD	1Y	YTD	Vol
QQQ Powershares		7.9%		5.1%	8.0%
MSCI Pakistan		-20.8%		-23.0%	14.2%
Robotics & AI		11.3%		9.1%	5.1%



BEYOND THE FUND

The Fund's educational aspect was well demonstrated this year as a team of Queen's students won the Irish final of The CFA Research Challenge. All members were involved actively with the Fund including team captain COO Jamie Mackenzie and Josh Grefte, a mechanical engineering student and Sector Head of Real Estate.

Members of the committee engaged in a phone campaign to raise money for the Fund, encouraging donations of £800 from alumni. The money raised only goes to show the strength of the idea and objectives of the Fund.

The Fund collaborated with the Queen's University Trading and Investment Club on a number of industry speakers events this year, giving students the chance to hear from professionals and expand their network before starting their career in earnest. Companies that gave talks included Positive Equity and MooLa.

A prerequisite to full Fund membership was completion of the Bloomberg Market Concepts course. Not only did this improve students' technical skills and train them in using Bloomberg to analyse companies but it is a certification important to employers and CFA accredited.

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, launch and ongoing operations. 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

NOTES

[1]Accurate as an approximation of adjusted close prices and cash balances as of the 25th August 2017.

[2]Ranked 20th of 104 for the period 31/12/2016 to 25/08/2017 using the Morningstar Direct platform with criteria of Fund investment universe limited to UK long only equity.

[3]MSCI World is shown in GBP denomination as both 'MSCI Pakistan' and 'Robotics & AI' are GBP denominated ETFs, the QQQ Nasdaq tracker (USD denominated) does therefore include an unhedged uptick relative to the displayed benchmark. To avoid overestimating performance, the QSMF only uses this benchmark for assessing ETF performance and all fund-wide benchmarking remains against the FTSE 350 index.

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