

## BALANCED EQUITY MANAGEMENT

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Balanced Equity commenced investing for institutional clients in 1988 which makes it one of the earliest boutiques in Australia.

### Balanced Equity Management

- Manages **Australian shares** for MLC, since 2004
- Manages \$8 billion, across the company, as at 30 September 2008
- Origins dating back to 1988
- Based in Melbourne, Australia.
- Majority of company equity is held by staff.

### Why has MLC chosen Balanced Equity?

Balanced Equity manages a high conviction, large cap, value oriented portfolio for MLC. They have extensive experience as a team and individually. As a relatively small firm, Balanced Equity has pragmatically resolved to focus on doing a small number of things exceptionally well eg. they concentrate their research on the largest 50 stocks,.



**Andrew Sisson**  
Managing Director & Manager  
Financials

### Philosophy on investing

Balanced Equity's research focuses on evaluating the assets and liabilities of each company on a going-concern basis. Stocks are assessed on a case-by-case basis with Balanced Equity focussing on the value of each of the divisions of a company and its investments to arrive at a total valuation of a company, which is then compared to the market's pricing of the company i.e. a market relative valuation approach. Judgement is applied to decide how this comparison of relative value translates into individual stock weightings.

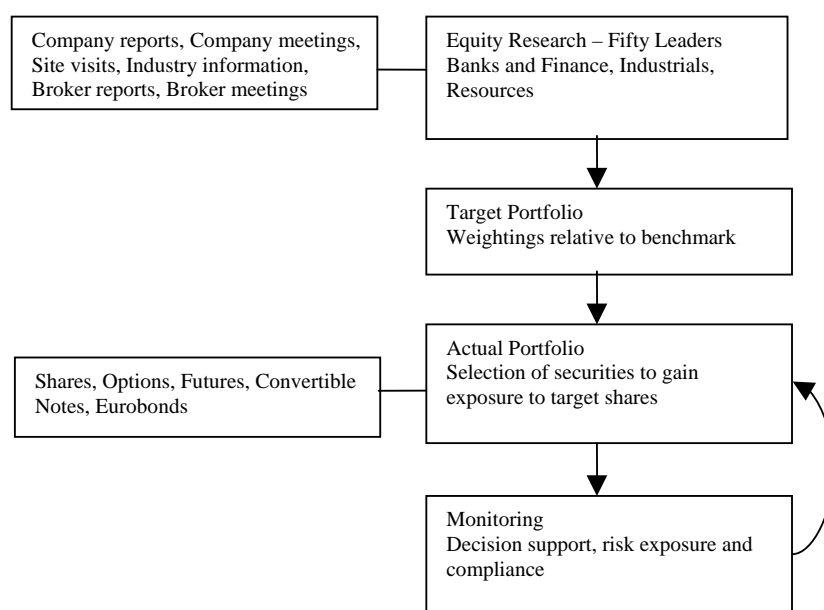
Balanced Equity adopts a conservative approach when forecasting growth rates and profitability, such as a preference to focus on a company's sustainable earnings (adjusted for one-offs) and margins. This is the driver of their bias to invest in companies which they believe are undervalued by the market. Portfolio decisions are based on Balanced Equity's in-house research and insights, not broker opinions.

### Investment process

Based on their valuation of companies compared to the market's pricing, Balanced Equity set a target index relative weighting for each stock in the S&P/ASX 50 Index with overweight positions reflecting Balanced Equity's belief that the market is pricing a company below its longer-term value. Portfolio decisions are driven by "bottom-up" valuation considerations, rather than attempting to achieve particular size or sector exposures. Constraints are applied to restrict any sectoral bias.

The MLC portfolio managed by Balanced Equity is a more aggressive version of their 50 Leaders focused product and is therefore well aligned with MLC's preference for high conviction, tax effective portfolios.

## Investment Process Diagram



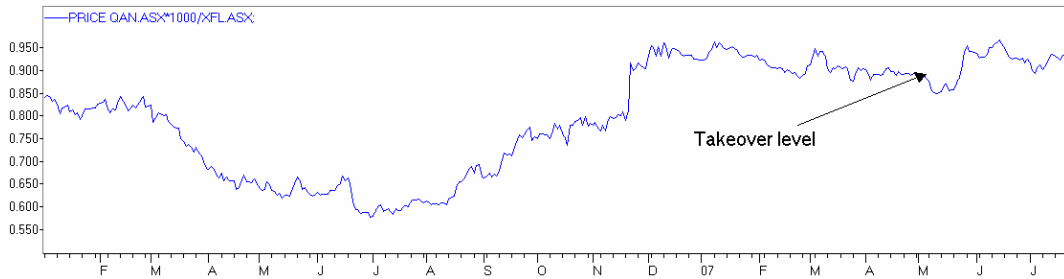
## Investment people

Balanced Equity has a small but experienced team of Australian equities specialists. The investment team comprises seven analysts and a dealer who, unlike other firms that attempt to cover a broad range of stocks, focus their attention on researching large companies concentrating on those in the 50 Leaders index. The core of the investment team includes Andrew Sisson, founder of Balanced Equity, and Steven Fahey. They have worked together at Balanced Equity since 1990 and have extensive Australian equities experience. Andrew McGann joined the company in 2002.

Name	Qualifications	Industry Experience	Years with Balanced Equity
Andrew Sisson	B. Sc. (Melb 1973)	34	20
Steven Fahey	B. Ec. (Monash 1984)	23	17
Andrew McGann	B Chem. Eng (UQ 1986), MBA (Melb 1991)	16	6

## Stock story

Balanced Equity is a value manager, assessing each company's value relative to the others. When the Qantas share price fell in the first half of 2006 in response to a higher oil price, Balanced Equity increased its holding. On 22 November 2006 Qantas announced it had been approached by Macquarie Bank and Texas Pacific Group, and on 14 December the Qantas board recommended acceptance of a takeover bid from a consortium headed by those parties. However over the following months the attractiveness of the bid diminished as the company's fundamentals improved and the value of alternative investments rose. Balanced Equity decided the bid was not sufficiently attractive to accept on behalf of its clients.



When the bid closed on 4 May 2007, the level of acceptances was below 50% and the bid lapsed. There had been widespread predictions of a substantial fall in the share price, and while there was some initial weakness, it then moved to a higher level than would have been received had the takeover succeeded.

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