

## BALANCED EQUITY MANAGEMENT

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### Balanced Equity Management

- Managing **Australian shares** for MLC, since 2004
- Managed \$10 billion as at 30 June 2011
- Established in 1988
- Based in Melbourne, Australia.
- All of the company equity is held by staff and directors.

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

### Why has MLC chosen Balanced Equity?

Balanced Equity manages three separate large cap, value oriented portfolios for MLC. The investment professionals at Balanced Equity have extensive experience individually and as a team. As a relatively small firm, Balanced Equity has pragmatically resolved to focus on doing a small number of things exceptionally well eg. it concentrates its research mainly on the largest 50 stocks.

### 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 operating 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.

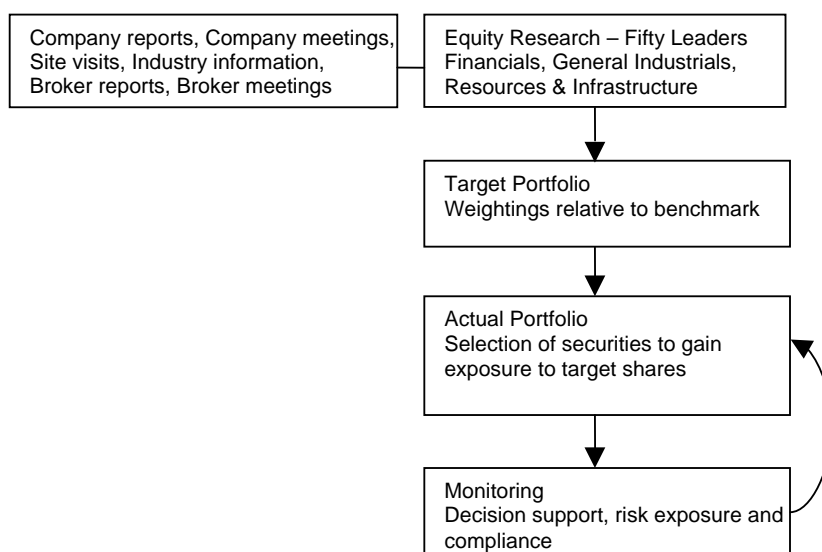
Balanced Equity adopts a conservative approach when forecasting growth rates and profitability, such as its preference to focus on a company's sustainable earnings (adjusted for one-offs) and margins. This is the driver of its bias to invest in companies which it believes are undervalued by the market.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

### Investment process

Based on its valuation of companies compared to the market's pricing, Balanced Equity sets a target index relative weighting for each stock in the benchmark 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 investment style of Balanced Equity is well aligned with MLC's preference for high conviction, tax effective portfolios.

## Investment Process Diagram



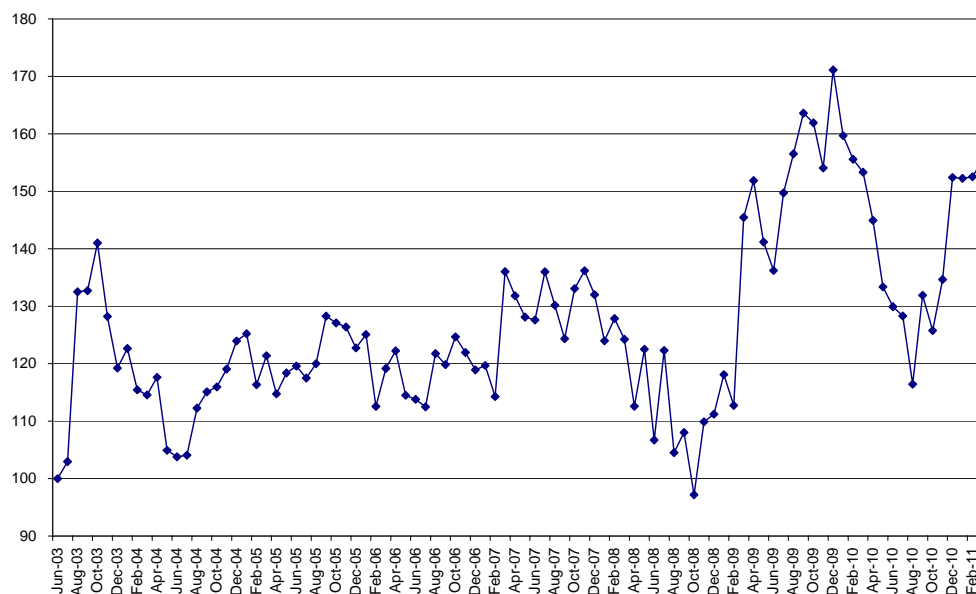
## Investment people

Balanced Equity has a small but experienced team of Australian equities specialists. The investment team comprises eight 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 mainly on those in the 50 Leaders index. The core of the investment team includes Andrew Sisson, founder of Balanced Equity, Steven Fahey and Andrew McGann. They have worked together at Balanced Equity for many years and have extensive Australian equities experience.

			
<b>Name</b>	Andrew Sisson <i>B.Sc, SA Fin, FAICD</i> Managing Director Financials – Lead Analyst / Investment Manager	Steven Fahey <i>B.Ec, F Fin</i> Deputy Managing Director General Industrials – Lead Analyst / Investment Manager	Andrew McGann <i>B.Eng (Hons), MBA</i> Resources & Infrastructure – Lead Analyst / Investment Manager
<b>Qualifications</b>	B. Sc. (Melb 1973)	B. Ec. (Monash 1984) Grad. Dip. Applied Finance & Investment (SIA 1987)	B Chem. Eng (UQ 1986), MBA (Melb 1991)
<b>Industry Experience</b>	37	26	19
<b>Years with Balanced Equity</b>	22	20	8

## Stock story - LLC

LLC/Trusts [in the top 50]



During the 1990's Balanced Equity was not attracted to Lend Lease as it believed the share price was inflated relative to the underlying value. Lend Lease's past successes caused investors to have over optimistic expectations of its potential to create future value. From 2002, after a significant fall in the share price since the end of 2000, Balanced Equity took the view that Lend Lease was no longer expensive. This was particularly so compared to the stocks in the Property Trust sector. As a result Balanced Equity built a large exposure to Lend Lease (reaching over 11% at its peak) in large part by being very underweight in the Property Trusts. Although Lend Lease has not performed strongly relative to the broader market (given the performance of banks and resource shares) it has materially out-performed the Property Trust sector as seen in the above chart. As at 3 March 2011, Balanced Equity held 9.25% of Lend Lease.

***This stock may no longer be included in Balanced Equity's portfolio as their view may have changed since this document was prepared.***

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