



## Contango Asset Management Ltd

- Manages Australian shares for MLC, since 2001
- Manages \$2 billion, across the company, as at 31 March 2010
- Origins dating back to 1998
- Based in Melbourne
- 50% owned by investment/management staff

Analysing the global economy helps Contango to understand the outlook for the Australian economy and to identify the best Australian companies to invest in.

## Why has MLC chosen Contango?

MLC use Contango because of their long-term proven implementation of the business cycle approach and the calibre and experience of the investment team. Contango selects the sectors and stocks that are expected to outperform based on business cycle, industry, and fundamental company analysis. Contango may hold a broad range of stocks, anywhere between 40-60 stocks depending on the stage of the business cycle.



**Stephen Babidge**  
CIO, Portfolio  
Manager/Analyst

## Philosophy on investing

Contango's investment philosophy is based on the successful 'business cycle' approach to funds management developed and used by its senior executives over many years.

The 'business cycle' approach is premised on the belief that macro-economic factors (such as economic growth) influence the relative performance of both industries and stocks. The approach requires, as a first step in investment decisions and portfolio management, a close monitor of the level, direction and rate of change of a wide range of economic variables in order to determine the outlook for the sharemarket and to determine the industries that will outperform or underperform the market. This analysis occurs before the process of in-depth stock research and selection begins.

## Investment process

The decision making structure at Contango is flat and promotes collective ownership of portfolio decisions. While Stephen Babidge has overall responsibility for the investment team, investment decisions are made on a team basis with each of the nine investment managers providing input and insights. This is an attractive feature of the investment process practiced at Contango as the considerable experience of each team member is harnessed.

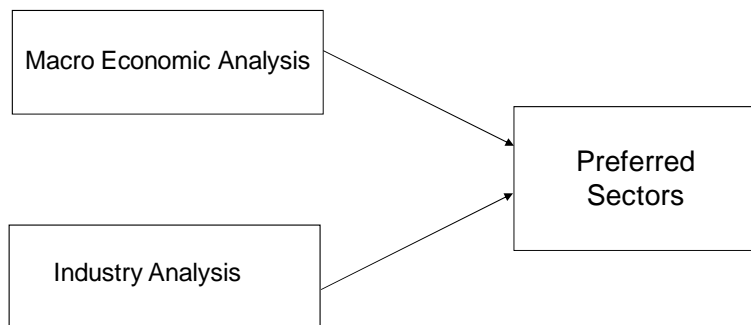
A review of the macroeconomic factors, including the outlook for high growth areas like China, is held on a monthly basis. This analysis provides input to the monthly strategy meetings which determine the sector biases of the portfolio. Weekly equity meetings are held to review stock selection.

The process is designed to deliver high returns with a target outperformance of 3.5% per annum and a tracking error of between 1.5% to 4% to the S&P/ASX 300 Accumulation Index.

During periods of strong growth, the portfolio will have a growth bias while at other times it will have a more defensive (value) profile. Contango selects its best ideas for the high conviction portfolio that it manages for MLC.

In addition to internally generated insights, Contango uses a number of external sources of economic data and analysis. Regulatory factors, industry life cycle and competitive forces are also analysed to determine structural trends at the industry level. In combination these factors determine active sector positions along with stock research.

### Top Down Analysis



### Stock Selection

Having identified the sectors/industries that offer the most potential, Contango's analysts then review the full range of stocks paying particular attention to companies in the preferred sectors.

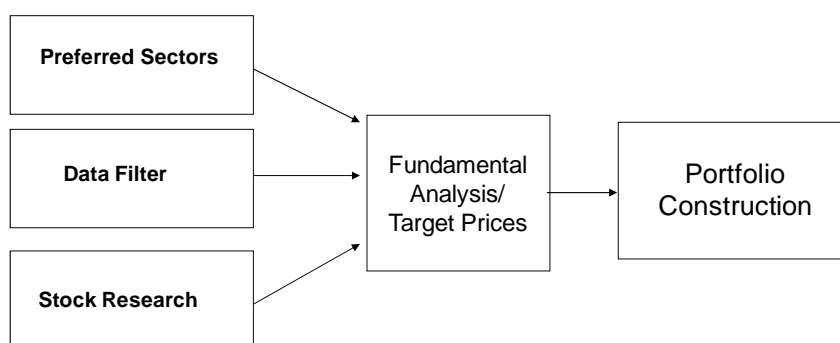
Contango's stock analysis includes company visits, meetings with management, and a thorough analysis of business strategy and operational capabilities.

Contango's analysts use these inputs to assist them in preparing forecasts of future earnings.

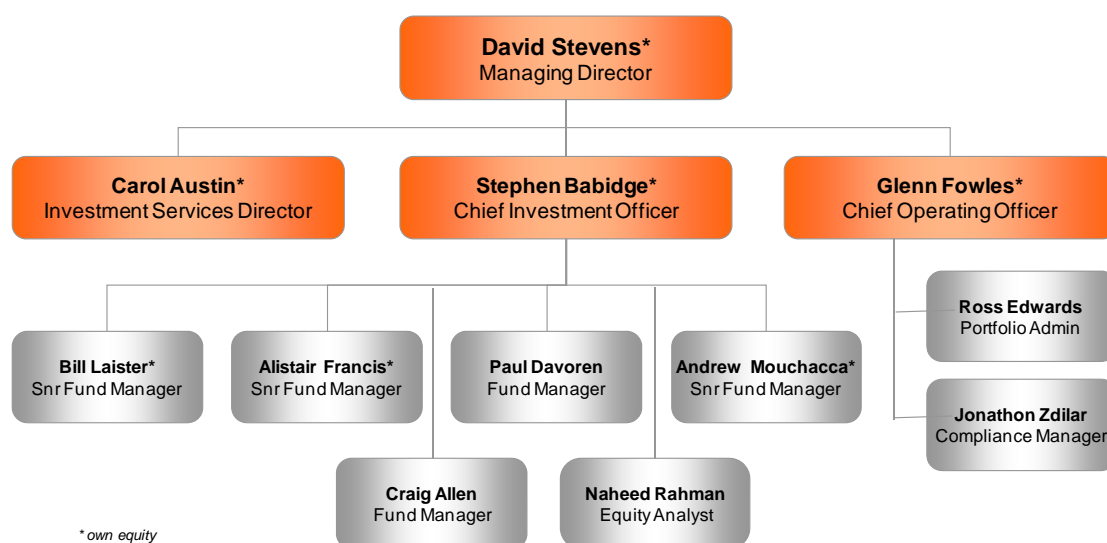
Valuations play an important part in determining Contango's views on individual stocks. They review valuations relative to the market, and relative to a stock's history, taking account of the stage of the cycle.

The various strands of Contango's research are brought together to form price targets and expected total return estimates. The price targets take account of expected changes in earnings as well as forecasts of re-ratings/de-ratings and dividend payments. Price targets/expected return estimates provide Contango with a consistent basis for assessing the relative attractiveness of all stocks while taking account of the macroeconomic outlook.

### Stock Selection



## Investment people



### David Stevens, B Ec

David has worked in the investment industry for 30 years. His roles have included Investment Analyst, Portfolio Manager, Senior Portfolio Manager, Investment Director, Chief Investment Officer, Chief Executive Officer and Managing Director.

He has been licensed as an Investment Manager in Australia, the United Kingdom and the United States.

Prior to launching Contango with Stephen Babidge, David was Chief Investment Officer from 1990 and Chief Executive Officer from 1992 of HSBC Asset Management. During his tenure as Chief Executive Officer, funds under management grew from \$700 million to in excess of \$6.3 billion. Previously, David had also worked with Australian Eagle Insurance Co, Wardley Marine International Investment and Hudson Conway Limited.

With Stephen Babidge, David has been pivotal in the creation of the 'business cycle' investment approach that Contango intends to use as the manager of the investment portfolio of the Company.

### Stephen Babidge, B A (Acc), F Fin, CA

Stephen has worked in the funds management, investment banking and chartered accounting fields for over 25 years. His roles have included Audit Supervisor, Manager - Corporate Services, Senior Investment Manager, Head of Equities, Chief Investment Officer and Executive Director.

Stephen is a member of both the Institute of Chartered Accountants and the Securities Institute of Australia.

Prior to launching Contango with David Stevens in 1998, Stephen had been Head of Equities from 1990 and the Chief Investment Officer from 1995 at HSBC Asset Management. Previously, Stephen had worked with Coopers & Lybrand in Adelaide and ANZ Capital Markets in Melbourne.

As is the case with David Stevens, Stephen has also been pivotal in the creation of the 'business cycle' investment approach that Contango has successfully used to date and will be implementing on behalf of the Company.

### Carol Austin, B Sc, B Ec(Hons)

Carol has worked in the investment industry for over 25 years. Her roles have included Research Economist, Chief Economist, Director - Corporate Affairs, General Manager - Business Development.

Prior to joining Contango, Carol worked with Rothschild Australia Asset Management, Commonwealth Funds Management, BHP and the Reserve Bank of Australia.

Carol has extensive experience in economic analysis and forecasting.

**William Laister, B Ec**

William has worked in the investment industry for over 25 years. His roles have included Resources Analyst, Head of Trading, Investment Manager, Senior Investment Manager - Resources and Head of Australasian Equities.

Prior to joining Contango, William was Head of Australasian Equities for HSBC Asset Management. Previously William worked with the stockbroking firms, Wilson and Co and Morgan Stockbroking, in Brisbane.

William has been involved in resources analysis, portfolio construction and management throughout his career. He travels regularly throughout Australia reviewing greenfields sites, mining operations and growth opportunities for companies, especially energy, base metal, gold and precious metals companies listed on the Australian stockmarket.

**Andrew Mouchacca, Ph.D, F Fin**

Andrew has worked in the investment industry for 10 years. He has worked as a Research Analyst/ Database Manager and is currently an analyst/portfolio manager with responsibilities in the energy, utilities and capital goods sectors. He also specialises in small industrial companies.

Andrew has been involved in developing Contango's proprietary quantitative stock selection model and several portfolio management tools. These models and techniques are used in the management of portfolios and assist in the selection and valuation of market securities and portfolio construction.

Prior to joining Contango, Andrew was with the research house, MINTEL Australia.

**Alistair Francis, B Ec, CA, F Fin**

Alistair has worked in the investment industry for over 20 years. His roles have included Audit Accountant, Senior Audit Accountant, Senior Tax Accountant, Project Accountant, Investment Manager and Senior Investment Manager.

Prior to joining Contango, he was an Investment Manager with HSBC Asset Management. Prior to that, Alistair worked with Potter Warburg in Melbourne and Credit Lyonnais Rouse Limited in London.

**Paul Davoren, B Sc (Hons), F Fin**

Paul has 14 years experience in the finance and resource sectors. Paul started his career as a geologist, principally engaged in Diamond Exploration. He moved into a business analyst role with Ashton Mining researching, analysing and evaluating gold and diamond projects and acquisitions.

Paul has worked with Merrill Lynch and Deutsche Bank stock broking as an equity analyst. Paul has strong analytical and modelling skills as well as several years business experience in resource companies.

Paul completed a Bachelor of Science Degree with Honours at Monash University, majoring in the Geological Sciences. He also has completed a Graduate Diploma in Applied Finance and Investment at the Securities Institute of Australia.

**Craig Allen, B com, B Sc**

Craig completed a double degree in Commerce and Science at the University of Melbourne specialising in Finance and Computer Science. Prior to joining Contango, Craig's work history included working for ObjectMastery a financial software firm and Goldman Sachs JBWere.

Craig has responsibilities for equities in the Real Estate sector, maintaining and developing the proprietary quantitative systems and undertaking quantitative research as required by the investment team.

**Naheed Rahman, B Com, B IS**

Naheed has completed a double degree in Commerce and Information Systems at the University of Melbourne specialising in Economics and Finance. Prior to joining Contango, Naheed was a Portfolio Analyst at Warakirri Asset Management, involved in fund manager research and the dealing of securities.

Naheed is responsible for maintaining and developing the equity database, running various risk analytics and stock research.

Naheed is currently enrolled in the Chartered Financial Analyst (CFA) program.

### **Glenn Fowles, BBS (Acc & Fin)**

Glenn has worked in the financial services industry since 1985. His roles at fund management organisations have included that of Company Accountant, Operations Manager, Financial Controller, Finance Director, Chief Operating Officer and Chief Executive Officer. Glenn has extensive experience in all aspects of investment administration, including investment accounting, custody, information systems, compliance and taxation.

At Contango, Glenn is responsible for operations, finance, company secretarial and compliance. In addition to being a Director, Glenn also fills the role of Company Secretary.

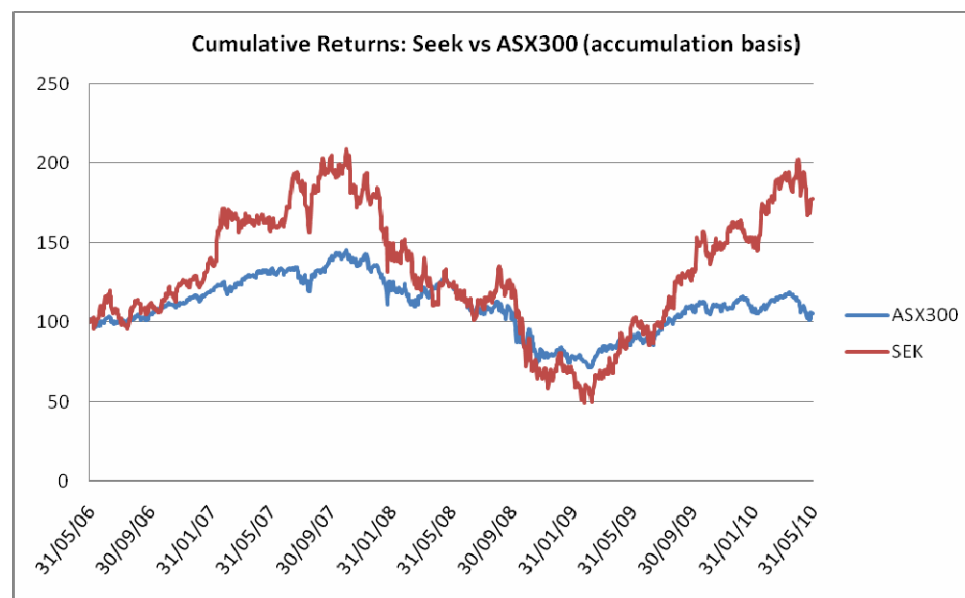
### **Stock story - SEEK**

Seek is Australia's leading online job classifieds company with a strong track record of delivering earnings growth since listing in April 2005. Driving the growth over the last several years has been the structural shift to online media from traditional print media. Spending on online advertising still only accounts for 50% of the total employment advertisement market while 75% of jobseekers prefer to search for a job online – this disconnect is expected to narrow over time.

In addition to benefitting from the structural shift to the online medium, Seek's dominant market position helps to facilitate growth in its share of the online market.

A further attraction to Seek at this point in the cycle is that it provides leverage to the improving domestic economy with the pick up in employment driving growth in job advertisement volumes.

In addition to online classified job advertisements, Seek operates a training and development business which has helped to diversify the company's earnings base. Seek has also invested in online job advertisement businesses in China, Malaysia, the Philippines and Brazil where online employment advertisement penetration is lower.



Contango first acquired Seek for the MLC portfolio in May 2006 and held the stock until concerns over the GFC caused them to sell down the holding. Contango bought back into the stock in 2009 as they became more confident about the recovery in the domestic economy.

Seek has grown its earnings by 27.6% per annum from FY2005 to FY2009 and Contango expects earnings growth to continue at +20% pa over the next several years as the company benefits from the structural shift to online advertising, captures further market share from competitors, and builds successful online businesses in offshore markets.

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

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