



## Mondrian Investment Partners Limited

- Manages **global shares** for MLC, since 2009
- Manages \$68 billion, across the company, at 30 June 2011.
- Based in London, UK
- Founded in 1990
- 20 years of stable, consistent leadership
- Entirely owned by staff

Mondrian uses the same valuation model and discount rate across all markets, currencies, industries and securities. This distinguishes Mondrian from many of its competitors who use different criteria in each market, and sector, and allows for a consistent basis of comparison within the firm's decision-making framework.

## Why MLC has chosen Mondrian?

MLC has chosen Mondrian because of their well resourced, stable, highly skilled and motivated investment team. They are a focussed team that is dedicated to their fundamental value-based investment process. Dividend yield plays an important part in Mondrian's valuation of a company. This dividend focus differentiates Mondrian from MLC's other 'value' investment managers.

Mondrian also seeks to explicitly preserve capital during protracted market declines, and produce performance that is less volatile than most other managers. Their MLC portfolio will typically hold around 90-100 shares and has a low expected turnover.



**Brendan Baker**  
Senior Portfolio Manager

## Philosophy on investing

Mondrian is a value-oriented defensive manager. They invest in securities in which rigorous dividend discount analysis identifies value in terms of the long-term flow of income. Dividend yield and future real growth play a central role in the decision making process; over time the dividend component is expected to be a meaningful portion of the expected total return. Their methodology is applied consistently to individual securities across all markets and industries.

## Investment process

Mondrian evaluates all prospective investments on the basis of their long-term real return potential. Analysts research shares in markets included in the MSCI All Countries World Index that have adequate investor protection and good repatriation procedures.

Starting with an initial list of more than 2,000 shares, Mondrian use screens to reduce the number to around 250 names. The screens include basic value characteristics such as price to book, price to cash



flow ratio, price to earnings ratio and yield. Other factors such as liquidity considerations also play a part in this process.

A more detailed fundamental analysis is carried out on this shorter list of shares, utilizing the Dividend Discount Model. The Dividend Discount Model is based on an evaluation of a company's future income stream, which is then discounted in real terms. The number of companies typically held is around 90 to 100.

Securities are analysed using a dividend discount model and shares which are mispriced relative to their value are candidates for buying or selling. After the analysts' in-depth, fundamental research has been reviewed by the committee, a share which is deemed to be suitable for inclusion may be bought. Mondrian follows a clear sell discipline for shares, markets and currencies. Sales are carried out when:

- price appreciation leads to significant overvaluation against a predetermined value level;
- a change in the fundamentals occurs, which adversely affects the previously appraised level; and/or
- more attractive alternative investments become available.

### **Stock selection**

Stock selection is the most important part of Mondrian's investment process. Mondrian uses the same dividend discount valuation model across all markets and industries. Shares which are significantly mispriced relative to the dividend discount valuation are purchase or sale candidates. Key to the security selection process is fundamental company analysis and a regular program of visiting current and prospective holdings. Meeting management representatives is an important part of the investment process. Mondrian uses forward-looking valuations and therefore the business plans and projections for a company's future are important. This forward-looking analysis has helped Mondrian in a number of instances to be ahead of the markets in identifying value.

### **Country selection**

Top-down country analysis is also used to structure Mondrian's share portfolios. Markets are assessed using the same dividend discount methodology applied to shares. Potential real returns are translated into a fund's underlying currency using purchasing power parity adjusted exchange rates. The resulting valuations, together with MLC's mandate objectives and shorter-term political and economic factors, are then assessed with the help of a computer based allocation program. This produces a list of attractive portfolios that bring together the best international value within guidelines set by MLC.

### **Currency selection**

Mondrian believes that in the medium to long term, currencies adjust to their purchasing power parity value. However, there are periods when they deviate from this underlying value and can do so for prolonged periods. Hedging of a currency allows Mondrian to gain exposure to attractive investment opportunities, while limiting downside risk from adverse exchange rate moves. Therefore, as a defensive measure to protect real returns and where guidelines allow for it, Mondrian will hedge a currency when its real exchange rate suggests that it is very overvalued. This approach is supplemented by a shorter-term assessment of the key identifiable factors which result in deviations from purchasing power parity. Mondrian is unusual within its peer group in its emphasis on the consistent application of purchasing power parity as the cornerstone of currency management. Mondrian's belief is that this is the most appropriate currency management methodology in an investment process geared at meeting liabilities which are themselves both long-term and real in nature.

### **Asset allocation**

If real return estimate comparisons are compelling, it is possible for share portfolios to contain a small allocation to cash and debt securities. This generally will not exceed 5-10%; in no case will it exceed 20%.



## Sector/industry selection

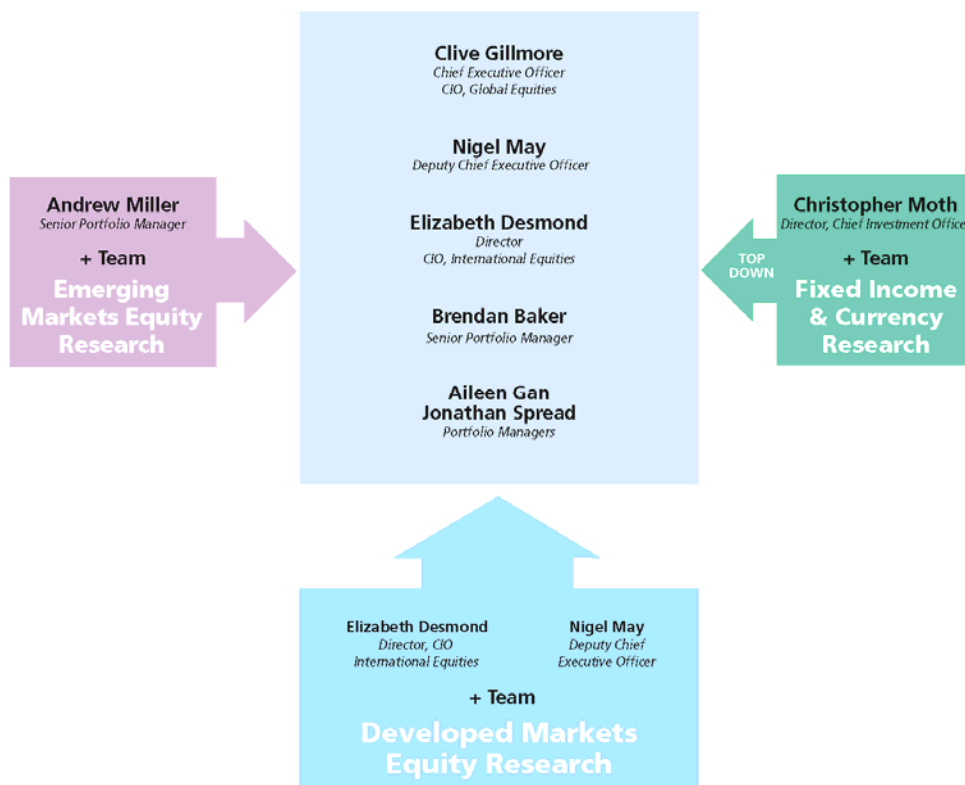
Mondrian's investment strategy is primarily driven by country and stock selection. The resultant sector/industry exposure in the portfolio is closely monitored to ensure prudent diversification and a degree of global consistency with their views relating to the limited number of global sector/industries.

## Decision making

The management of Mondrian's global equity investment products is led by the Global Equity Strategy Committee. The members of the committee are Clive Gillmore (Chief Executive Officer and Chief Investment Officer, Global Equities), Nigel May (Deputy Chief Executive Officer), Elizabeth Desmond (Chief Investment Officer, International Equities), Brendan Baker (Senior Portfolio Manager) and Jonathan Spread and Aileen Gan (Portfolio Managers). The Global Equity Strategy Committee meets every other week, but meetings can be held more frequently if required.

The Global Equity Strategy Committee decides asset allocation, stock weightings and currency hedging. If a buy or sell decision is made by the Committee, it is entered on to the stock list for implementation across all relevant global portfolios. In the absence of client-imposed restrictions, all client portfolios with the same benchmark are managed to minimize dispersion. As all investment decisions are made by the Global Equity Strategy Committee and communicated to all fund managers, individual portfolio managers have little discretion over portfolios.

## Investment people



# SECTOR RESEARCH FOCUS – DEVELOPED MARKETS

JANUARY 2011

MONDRIAN INVESTMENT PARTNERS

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## HEALTH CARE

Steven Dutaut  
James Francken

Russell Mackie  
Melissa Platt  
Andrew Porter

Alex Simcox  
Amice Tiernan

## INDUSTRIALS/MATERIALS

Brendan Baker  
Nigel Bliss  
Steven Dutaut

Richard Ginty  
Dinash Lakhani

Andrew Porter  
Alex Simcox  
Jonathan Spread

## CONSUMER

Amice Tiernan  
Brendan Baker

Aileen Gan  
Russell Mackie  
Melissa Platt

Andrew Porter  
Alex Simcox

## TECH/TELECOM

Nigel Bliss  
Steven Dutaut

Aileen Gan  
Richard Ginty

Bilgin Soylu  
Paul Thompson

## FINANCIALS

Aileen Gan  
Russell Mackie

Melissa Platt  
Bilgin Soylu  
Jonathan Spread

Paul Thompson  
Amice Tiernan

## ENERGY/UTILITIES

Nigel Bliss  
Steven Dutaut

James Francken  
Dinash Lakhani  
Kim Nguyen

Bilgin Soylu  
Jonathan Spread



## Stock story - Novartis

Novartis is one of the world's leading healthcare companies. It operates in four areas: branded pharmaceuticals (63% sales), generic pharmaceuticals (19% sales), vaccines & diagnostics (4% sales), and consumer health products (14% sales). In addition, Novartis has acquired a majority stake in Alcon, the world leader in eye care. Although Novartis paid what some judge to be a full price, the deal is attractive in Mondrian's view. Eye care is less vulnerable to either price-based (there is more self-pay) or generic competition.

Mondrian believes their long-term approach helps when valuing pharmaceutical firms with a long-term investment horizon for research and development of new drugs - it can take ten years to get a pill from the laboratory to the prescription counter. This analysis pointed to Novartis as being attractively priced. It has a number of positive attributes. The company's "healthcare conglomerate" model creates a natural hedge for some of the oft-cited concerns surrounding traditional pharmaceutical companies (such as research and development productivity, political risk, patent life and safety risk). The company has a significant drug and vaccine pipeline, which should support good future earnings growth. This is combined with relatively little patent expiry exposure until 2012, again supporting revenue growth. The company is in the process of a targeted cost-cutting programme which is expected to deliver margin enhancement over the coming years. Many pharmaceutical companies are under pressure from generic drug producers that are seeking to shorten the patent life of medicines by legal challenges. But Novartis is well poised to benefit from rising healthcare demand overall as a supplier of both patent and generic medicines.

The stock suffered in 2007 as a result of some quasi-exogenous factors (two "at risk" generics launches, one safety-related withdrawal and one major pipeline failure). Against these factors, the benign patent expiry profile and strong drug pipeline bode well for the mid- to long-term. Given strong free cash flow generation, Mondrian can hope that an improvement in fortunes will prompt dividend growth and/or sizeable share re-purchases.

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

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