



Northcape Pty Ltd

- Manages **Australian shares** for MLC, since 2005
- Manages over \$7 billion, across the company, as at 30 June 2011
- Based in Sydney, Australia.
- Entirely owned by investment team

Why has MLC chosen Northcape?

MLC appointed Northcape due to their experienced investment team and tendency to favour quality companies. Northcape conducts independent in-depth research to identify companies with superior growth qualities. The use of four portfolio managers provides robust discussion and peer review of potential investment opportunities. Northcape holds approximately 30-40 stocks in a high conviction portfolio.

Philosophy on investing

Northcape has a clearly defined investment philosophy of purchasing quality companies that are capable of long term wealth creation at relatively attractive valuations. These companies are identified through rigorous understanding of their underlying business and assessment of their key decision makers over a long period of time. Hence research is at the core of Northcape's investment philosophy. In order to achieve such understanding Northcape's team believes in spending significant time "out of the office" analysing businesses, management teams and the competitive landscape.

Northcape believes that to maximise investment performance, experienced practitioners should have the freedom to use their talents and make investment decisions unencumbered by a consensus driven environment that can stifle outcomes.

Investment process

The key elements of Northcape's investment process include:

- Active, bottom-up stock selection by 4 experienced investment practitioners and supported by a further 7 experienced analysts;
- Attaining a thorough understanding of a company's underlying businesses;
- Focus on buying stocks with higher than average growth and profitability that the market has mis-priced; and,
- A concentrated 30-40 stock portfolio.

The team adopts a multiple portfolio manager investment approach, where each portfolio manager also engages in the researching of stocks. Each team member is allocated primary research responsibility for stocks on a market sector basis. Their research is then pooled and debated by the whole team with a view to selecting the stocks that have sufficient quality and wealth creation potential to justify inclusion on an approved list of stocks. The four portfolio managers then construct their own high conviction portfolio containing no more than 20-25 stocks, with stock selection limited to those that are on the teams' combined approved list. The final part of the portfolio construction process is to aggregate these individual portfolios, resulting in a final portfolio that contains the teams' 30-40 highest conviction ideas.

Investment people

Team Structure

Northcape has nine investment professionals engaged in detailed company research, four of whom also undertake the portfolio management. Northcape's structure has a number of advantages over traditional organisation structures:

- **Accountability:** The performance of each portfolio manager is known. Consequently, there is total transparency of every member's performance and total accountability for that performance.
- **Better knowledge translation:** Portfolio managers are able to make their own stock choices. This avoids the problem experienced within more traditional consensus based decision models where decision makers must discard some members' opinions and experience in order to reach a portfolio decision. In the multi-portfolio manager process, all accumulated experience and knowledge is reflected in the total portfolio, in proportion to the proven skill of the portfolio manager concerned.
- **Faster execution:** Once a stock is accepted onto the Approved List, portfolio managers are free, within the limits of the client mandate, to buy (building a position) or sell (making room for other strategies) that stock. No prior approval is necessary. The only constraint applied is that other team members are to be informed of the trade before it occurs, enabling crossing opportunities to be maximized.
- **Less market impact:** As portfolio management responsibility is split amongst the four members of the team, the potential size of market orders is commensurately smaller.
- **Streamlined decision process:** Avoidance of committee-based decision making prevents the dilution of research insights, enhances the speed of execution and captures the conviction of analysts.

Stock Responsibilities

Research responsibilities are allocated on a market sector basis:

- Craig McCourtie: media, building materials
- Rob Inglis: gaming, food & beverage, REITS, packaging
- Steve Gliddon: energy, transport
- Rob McWilliams: healthcare
- Richard Maynier: banks, wealth managers
- John Whiteman: small caps
- Cameron Luu: steel, oil & gas
- Mike Cowin: small caps
- Kelli Meagher: retail, small caps
- Craig Campbell: metals & mining
- Paul Parsons: diversified financials, insurance, toll roads

Portfolio Managers

Rob McWilliams

Rob is an equal owner, Portfolio Manager, Analyst and foundation member of Northcape's investment team (February 2005). Rob has over 40 years of industry experience. He has a number of tertiary qualifications from Rhodes, Witwatersrand and Capetown Universities in South Africa.

Craig McCourtie

Craig is an equal owner, Portfolio Manager, Analyst and foundation member of Northcape's investment team (February 2005). Craig has over 22 years of industry experience. Craig graduated from the University of Newcastle in 1986 with a Bachelor of Commerce and is a Fellow of the Financial Services Institute of Australasia.

Steve Gliddon

Steve is an equal owner, Portfolio Manager, Analyst and foundation member of Northcape's investment team (February 2005). Steve has over 22 years of industry experience. Steve graduated from the University of NSW in 1985 with a Bachelor of Commerce Degree.

Rob Inglis

Rob is an equal owner, Portfolio Manager, Analyst and foundation member of Northcape's investment team (February 2005). Rob has over 30 years of industry experience. He graduated from the University of Tasmania in 1979 with a Bachelor of Commerce and is a Fellow of the Financial Services Institute of Australia.

Stock story – Origin Energy

Origin Energy recently announced a \$2.3b rights issue to fund further growth in its integrated energy business. The proceeds from the issue will retire a bridge debt facility associated with the recent acquisition of retail assets and generation rights in the NSW power sector. The deal, which was materially earnings per share and value accretive, made Origin the largest retailer by customer numbers in Australia and delivers attendant scale advantages. It also provides a captive customer base as they add to their generation portfolio in the medium term.

The other large deal in the pipeline is the expected commitment to an export LNG facility in Gladstone in conjunction with its joint venture partner, Conoco Phillips. The j.v. recently announced a non-binding offtake agreement with Sinopec and is trying to finalise offtake agreements with other parties in the next few months. The market is very sceptical about this project getting off the ground and attributes virtually no value to the assets, despite Origin selling half of the business to Conoco for more than \$6b a couple of years ago.

Origin is a large part of the Northcape portfolio. It has delivered significant outperformance of the market over more than a decade. The management team has demonstrated a considered and long term approach to building its Australian energy portfolio. The company retains superior, low risk medium term growth prospects, which we do not think are reflected in the current share price. It also looms as a major beneficiary from the introduction of a carbon tax in Australia. We will take up our full entitlement to the current rights issue.

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

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