

For professional clients only



Australian Equities, Core

An active and disciplined approach
to the management of Australian shares.

The Australian Equities, Core strategies seek to create wealth for investors by taking an active and disciplined approach to managing investments in the domestic share market.

The Australian Equities, Core team at Colonial First State Global Asset Management employs a sensible and transparent investment process which has been unchanged for more than 20 years.

The business has been built on people with sound judgement and who have experience working through multiple business cycles over the years. The process has no persistent style bias and seeks to add value regardless of market cycles or themes.





Overview

Performance over multiple investment market cycles has proven the effectiveness of the Australian Equities, Core investment process. It is our belief that steady, consistent outperformance will result in top quartile performance over time. Our focus is on the delivery of a strong information ratio over the long term.

We do not seek to avoid risk, but rather to understand the relationship between risk and reward and to manage this trade-off appropriately. As a 'core' style manager, our ability to add value to investors through all market conditions is paramount – we aim to deliver consistent, risk-adjusted returns to our investors irrespective of prevailing market conditions.

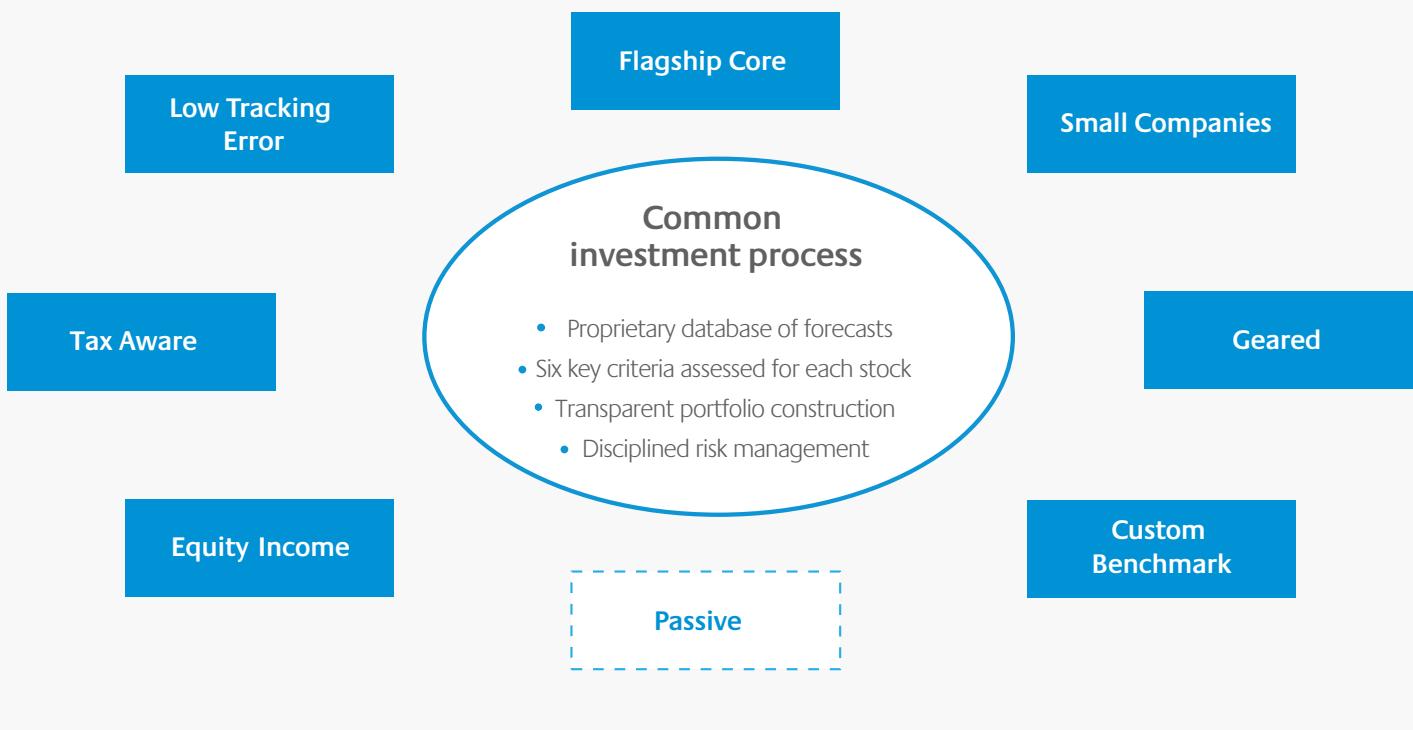
We want to build long-term partnerships with our investors and understand it is important for managers to be able to accommodate inflows as superannuation funds grow. None of the Australian Equities, Core strategies currently have any capacity constraints and we are able to accommodate additional fund flows over time.

Product suite

Our flagship Australian Equities, Core product is complemented by a range of other strategies that can be used as part of a diversified Australian equity portfolio. These products are targeted at different groups of investors, but all utilise the same underlying investment process. The Australian Equities, Core team is also recognised as a leader in tax-aware investing and manages a number of portfolios for clients seeking to maximise their after-tax returns.

We also manage Geared, Low Tracking Error and Small Companies portfolios for a range of investors and have an established track record of successfully managing investments against customised benchmarks.

The Australian Equities, Core team also manages an indexed Australian equities strategy, which provides investors with low cost exposure to the domestic share market. We adopt an intelligent implementation approach to passive portfolio management, which can generate value add for our clients with very low tracking error outcomes.



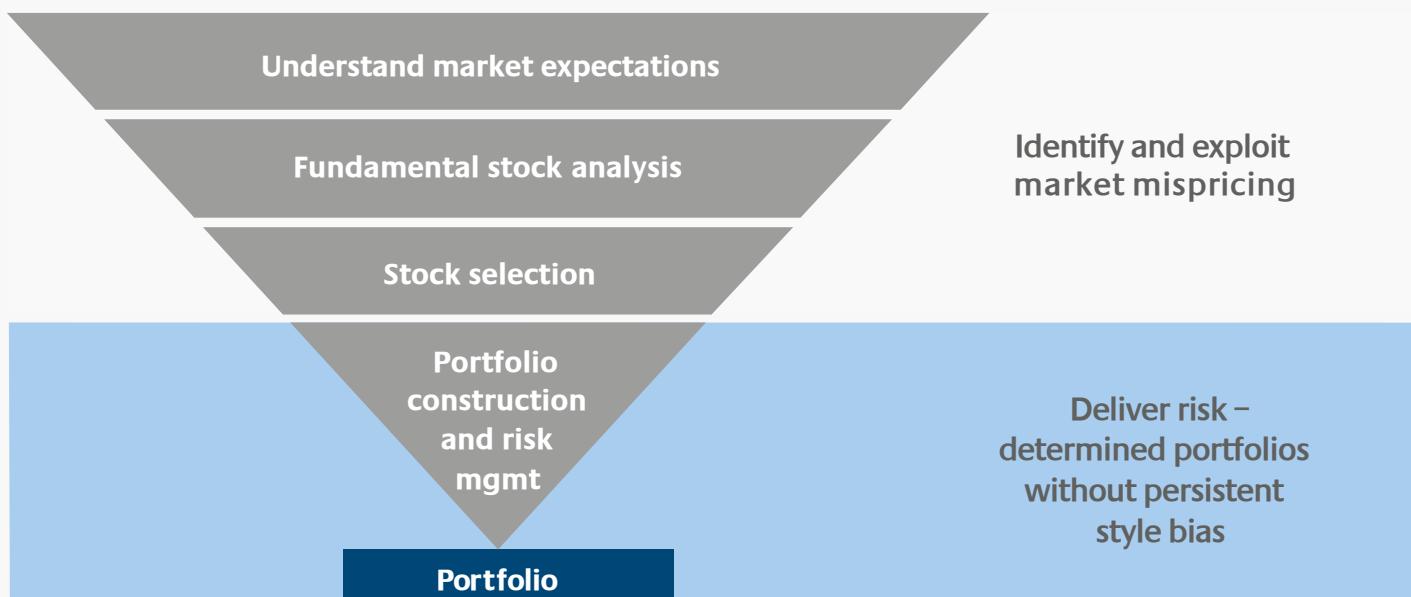
Our approach to investing

The pursuit of companies that have been mispriced by the market is the cornerstone of our entire process. We look to identify the key drivers of the share price of each company by completing fundamental, bottom-up stock research.

We adopt a full coverage approach to investing, ensuring the entire market is examined for potential investment opportunities. We believe our long-term outperformance results from understanding market expectations and applying the results of our detailed analysis against these expectations to identify mispriced investment opportunities.

Four stage investment process

All Australian Equities, Core portfolios utilise the same four-stage investment process. This provides a clear and consistent framework in which all potential investment opportunities are evaluated.



Stage 1: Understand market expectations

It is important to understand the market's expectations for individual stocks before commencing any fundamental analysis of our own.

We consider a range of market views on valuation, earnings forecasts and other financial indicators. Expectations can vary considerably around consensus, particularly for stocks which are not well covered by the sell-side analyst community. In our interactions with brokers we seek to understand the reasons behind these dispersions and clarify the differences in any assumptions used.

“The team travels extensively. We believe we can gain greater insights on the road, completing fundamental, bottom-up research via a program of company visits. Regular contact with companies leads to valuable assessments of current business conditions and management capabilities.”

Matthew Reynolds
Head of Australian Equities, Core



Stage 2: Fundamental stock analysis

Fundamental research and analysis are recognised as core components of the Australian Equities, Core investment process. As such, we have a commitment to a broadly sourced and efficient research effort.

Analysts are required to maintain a financial and valuation model of each company under coverage. This model is used to improve our understanding of the financial drivers of each stock and to assess the sensitivities around key assumptions.

This research enables us to assess and test the market's expectations for each stock at thematic, industry and company levels to help identify mis-priced investment opportunities.

Due to our scale, our analysts have high quality and frequent access to senior company management and to key participants in unlisted areas of the economy. This leads to superior assessments of industry and company outlook and management strength.

We believe that all factors affecting company performance can be distilled into six key criteria and this provides the framework for our internal research effort. Each company is evaluated against these six key investment selection criteria.

Management

We consider factors such as whether management has a clear and achievable strategy and whether the company has a competitive advantage due to the skill of its management team.

Industry

Our research includes analysis of the industry in which the company participates, as well as analysis of the company's competitors to assess its relative standing within that industry.

Financials

Companies' financial positions are assessed against competitors and other comparable companies. Examples of factors we consider include cash flow, margins, gearing levels, interest cover, dividend yield and tax rates.

Valuation

Analysts assess fair value for each security by triangulating a number of valuation techniques, including P/E, EBIT and EBITDA, PEG, yield, premium/discount to NTA, enterprise value and NPV.

Sustainability

An assessment of companies' commitment to sustainability, the integration of governance policies in the organisation and the adoption of appropriate disclosure practices provides an additional view of management quality.

Market Factors

To assess the appropriate timing of buy/sell decisions, we consider liquidity, anticipated investment flows, index weighting or representation changes, corporate actions and anticipated changes in a company's share register.

It is important to note that our assessment of a company's 'sustainability' is not an ethical screen. We do not exclude stocks based on ethical or other criteria unless in accordance with specific client directives. Rather, by engaging on Environmental, Social and Governance (ESG) issues with the companies in which we invest, we believe we are able to identify potential risks and opportunities in companies, determine which of those risks are material, and what is being done to manage them.

We believe there is a correlation between companies with good governance practices and strong, sustainable shareholder returns. Consequently, we seek to positively influence companies towards ESG best-practice for the ultimate benefit of our investors.

Why Australian Equities, Core

Four main points to differentiate our investment style and set us apart from our competitors:

1) Proven investment process

A robust and repeatable investment process which has consistently delivered in both up and down markets over the past 15+ years.

2) Risk focused

A disciplined approach to risk management.

3) Experienced team

A well-established, well-resourced Australian equities team with experience through all market cycles.

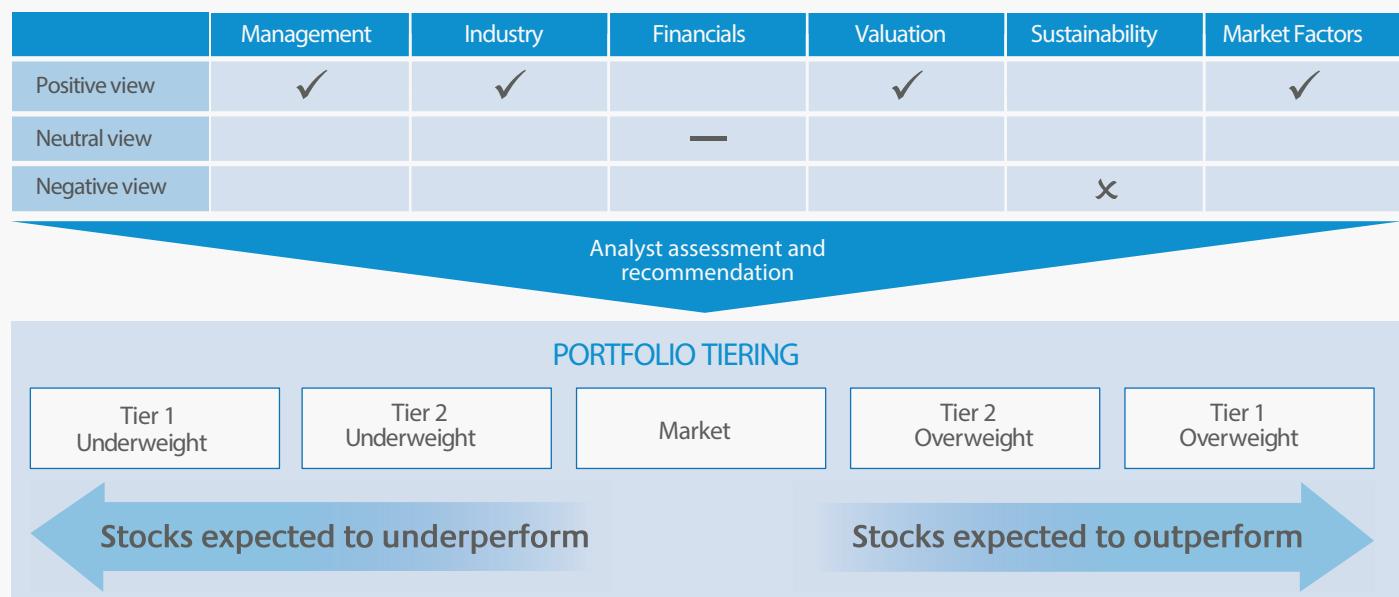
4) ESG

We seek to positively influence companies towards ESG best-practice for the ultimate benefit of our investors.

Stage 3: Stock selection

A consistent framework is used to enable the outputs of our stock analysis to filter through to stock selection and, in turn, portfolio construction.

For each company, the analyst summarises their view on whether the criteria is expected to have a positive, neutral or negative influence on the share price by applying a tick, dash or cross to each of the six criteria.



These six key investment criteria are not weighted or ranked as the relative importance of each can be stock and sector specific and variable over time.

As the final stage in the stock analysis process, analysts assess the number of ticks, dashes and crosses and make a recommendation on the company's weighting within our portfolios.

A 'Tier 1 Overweight' recommendation is the strongest positive recommendation and would imply that the analyst expects the stock to significantly outperform the broader market. At the other end of the scale, 'Tier 1 Underweight' recommendation would imply the stock is expected to significantly underperform peers.

The allocation of ticks, dashes and crosses and stock recommendations are subject to ongoing peer review and debate in order to monitor the investment idea, test conviction, and identify any unintended biases.

Stage 4: Portfolio construction and risk management

We believe that disciplined portfolio construction not only ensures superior risk management, but also enhances our stock selection skills.

The aim of our portfolio construction process is to align the risk/return profile of each stock and analyst recommendations with an appropriate active position within our portfolios. A 'tiering' system has been developed to deliver this alignment in a risk-aware, disciplined manner.

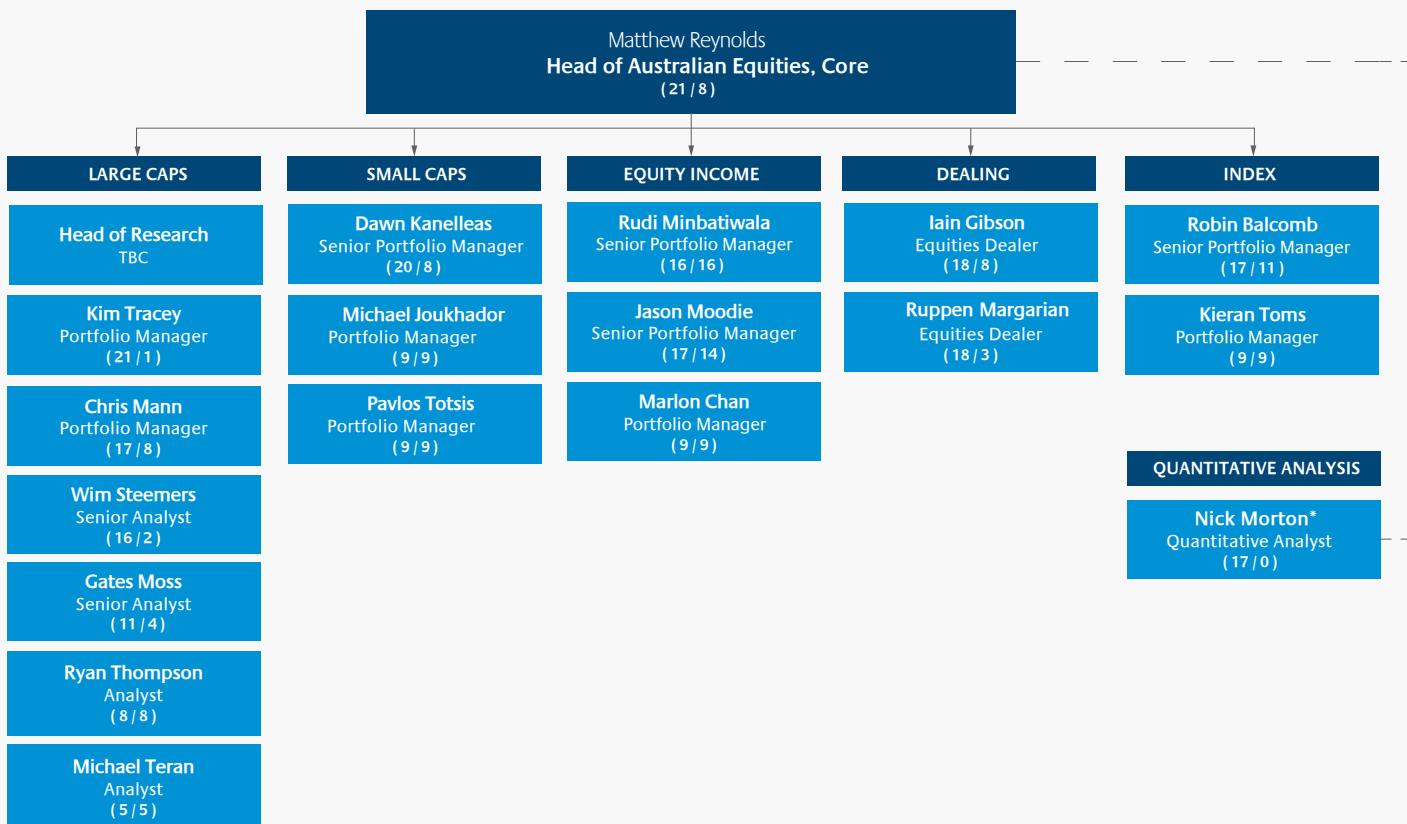
Each of the five 'tiers' detailed on the previous page imply an active position of varying magnitude in our portfolios. Each 'tier' has a targeted position relative to the benchmark and a permitted range around it, affording fund managers some discretion in the positions they take. For example, in the Wholesale Australian Share – Core Fund, the target scale of a 'Tier 2 Overweight' position is +2% (relative to a stock's index weight). Given the permitted range around this average, the actual scale of Tier 2 Overweight positions can vary between +1% and +3%.

Key data	Target active weight	Permitted active weight range
Tier 1 Overweight	+4%	+3% to +5%
Tier 2 Overweight	+2%	+1% to +3%
Market	0%	-1% to +1%
Tier 2 Underweight	-2%	-1% to -3%
Tier 1 Underweight	-4%	-3% to -5%

Importantly, the target active weighting for each 'tier', and the permitted range around it, can be modified in order to deliver a specified level of portfolio tracking error tailored to client requirements.

Australian Equities, Core team

Led by Matthew Reynolds, the team is highly experienced and has a mix of complementary skills. Investment ideas are rigorously debated by all team members at daily investment meetings and on an ad-hoc basis in our open plan office environment. Our incentive structures are directly aligned to the results we deliver to our investors. We believe this promotes commitment and intellectual engagement, aligning our interests and success with those of our clients.



(Years of industry experience / years with CFSGAM)

* Reporting to David Wong

Disclaimer

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