Mellon Capital Management Corporation

Fund manager profile

Company overview

Mellon Capital Management Corporation (Mellon Capital) was founded in 1983 by originators of value-based tactical asset allocation and index fund management. As a wholly-owned subsidiary of The Bank of New York Mellon Corporation, Mellon Capital enjoys the benefits of a well-capitalised parent company with a strong balance sheet.

Mellon Capital provides global multi-asset solutions with investment capabilities ranging from indexing to alternatives and the infrastructure and skill to transact in all liquid asset classes and securities.

Investment philosophy and style

Mellon Capital believes indexing is not a passive endeavour. The following are critical to efficient portfolio management.

- Detailed knowledge of benchmark construction rules
- Absolute accuracy of benchmark and portfolio composition
- Extensive data on index constituents
- Systems designed for identifying portfolio mis-weights
- Information on security liquidity and expected trading cost

One distinguishing character of Mellon Capital's indexing management is the commitment to preserving value for clients, which is achieved by:

- implementing trades strategically
- seeking the most economically attractive decision for corporate actions
- minimising unexposed cash and accruals.

Investment process

Mellon Capital has extensive experience in tracking equity indexes across a wide range of market capitalisations, styles, sectors and regions in the developed and emerging economies.

When feasible, portfolio managers use full replication to construct the portfolio, holding each security in the index in its proportionate weight. This method limits the need for rebalancing and can substantially reduce transaction costs relative to other indexing methods.

Rebalancing is undertaken when the portfolio characteristics deviate materially from the index tracked. Trading decisions are based on the security/sector biases, fund guidelines, and the projected cash position.

Mellon Capital believes risk management is critical to delivering top tier indexing solutions, and it's integrated into the portfolio management process. Portfolio weights and tracking error are closely monitored.

Investment team

At Mellon Capital, investment strategies are process driven, not manager driven. The equity indexing portfolio management team is dedicated to managing the firm's equity index portfolios within the context of a quantitative indexing process. Portfolio managers are primarily responsible for monitoring portfolio compositions and developing trade lists. All portfolio transactions and resulting portfolio characteristics are reviewed by senior managers.

The portfolio management team is headed by Karen Wong, Managing Director, Equity Index Strategies. Additionally, trades for the portfolios are executed by Mellon Capital's experienced trading desk.

Reason Advance selected Mellon Capital

Mellon Capital uses a disciplined and structured process to fully replicate the index's allocation to securities and sector weights, thereby minimising risk. Mellon Capital's global equity index strategy is fully hedged back into Australian dollars.* This is achieved through the use of highly-liquid currency forward contracts and ensures the strategy's returns are not influenced by movements in overseas currency exchange rates. The currency hedge is then reset at regular intervals to adjust for market movements or cashflows and ensures a fully-hedged position at all times.

* The Advance International Shares Index Fund tracks the performance of the MSCI World ex-Australia Index (hedged in A$).

Contact Centre: 1800 819 935 | Adviser Services: 1300 361 864 | advance.com.au

AD11311B-0212rr