

Manager profile

Company overview

Wellington Management Company, LLP (Wellington Management) is a private partnership that traces its roots to the founding of the Wellington Fund in 1928. The firm is based in Boston, MA and has offices located across the US, and in Beijing, Frankfurt, Hong Kong, London, Singapore, Tokyo and Sydney.

Wellington Management serves as an investment adviser to more than 2,000 institutions located in over 50 countries. As at 30 June 2011, Wellington Management had US\$676 billion in client assets under management. It specialises in investments from global equities and fixed income to currencies and commodities.

Wellington Management describes itself as a globally integrated community of investment professionals with one mission: providing clients with superior investment results and outstanding service. It believes its most distinctive strength is its culture of open collaboration and respectful debate which enable its investors to broaden their perspectives and hone their decision-making. It is committed to independent research and continuous learning in our pursuit of the world's most compelling investment opportunities.

Investment philosophy and style

The Asia ex Japan approach is based on Wellington Management's core belief that share markets are not fully efficient and that intensive, proprietary fundamental analysis can lead to the discovery of mis-priced securities. In particular Wellington Management believes that franchise value is often under-appreciated. Macroeconomic information provides an important backdrop for research on companies, and can be a catalyst for idea generation, but is not a primary driver of investment decisions in the approach.

Investment process - Asian shares

The investment objective of Wellington Management's Asia ex Japan Portfolio is to provide long-term returns in excess of the MSCI All Country Asia ex Japan over a full market cycle by investing in equity securities across the capitalisation spectrum in developed and emerging Asian markets.

The investment approach is active and driven by fundamental company research. Country and sector analysis serve as an important backdrop to company research, though country and sector allocations are primarily driven by stock selection. Global linkages to Wellington Management's macroanalysts and global industry analysts play an important role in the team's research efforts. In particular, the team interacts regularly with the seven global industry

analysts and one macroanalyst located in Asia.

The research process involves extensive on-the-ground company visits, with over 1,000 one-on-one company visits conducted each year. The team conducts research and shares insights with the firm's global industry analysts, as well as interacting regularly with the global investment teams and macro, quantitative and technical analysts. Depending on the industry, inputs from the global industry analyst can play an important role in the assessment of industry attractiveness and the companies within the industry.

Wellington Management believes a differentiating characteristic of its approach is its focus on 'ecosystem analysis' — lateral research that includes meetings with the competitors, suppliers, customers, regulators, relevant government officials, and so on, that make up the ecosystem in which candidate companies operate. The breadth of Wellington Management's research is aimed at creating an advantage, such that Wellington Management understands the operations of a company and its intrinsic worth better, or in a differentiated way, than the broader market. The focus of its research is on identifying undervalued franchises and businesses that will be recognised as franchises in the future. Wellington Management believes franchise businesses generate sustainably higher ROEs than peers, leading to share price outperformance over time. Franchises in Asia tend to be earlier in their development phase than in other global markets, and as a result growth potential is often underappreciated. These underappreciated fundamentals and the geographic distance of 'the marginal investor' — global investors based in the US and Europe — create mis-pricings in the region, which Wellington

Management seeks to take advantage of in its approach.

The Asia Pacific ex Japan Team utilises its own proprietary valuation tool. All stocks under research by the team are assessed using this valuation tool. Companies are modeled looking out 3 to 5 years, and price targets are set for each stock. A number of valuation methodologies are incorporated into the analysis, including P/E, price to book, EV/EBITDA and DCF analysis, allowing the team to compare stocks across a number of metrics.

Detailed valuation analysis is undertaken for each company, seeking to identify mis-priced businesses trading at a discount to intrinsic value. Scenario analysis is incorporated into its valuation work to ensure it understands — and has priced — the range of likely outcomes. Wellington Management's company research horizon is long term in nature, typically modeling company returns 3 to 5 years out. Appreciation potential and its conviction in the investment case are the primary determinants of portfolio position sizes, and of buy and sell decisions. While fundamental valuation factors are of primary importance, the issue's liquidity is also considered in evaluating attractiveness and portfolio position size.

The investment approach is style-agnostic. Portfolios invest across the value-growth spectrum, driven solely by the identification of attractive businesses trading at discounts to intrinsic value. Portfolios are not constructed on a benchmark-relative basis, however the team is benchmark aware.

Reason Advance selected Wellington Management

Wellington Management's investment approach is active and driven by deep fundamental proprietary hands-on company research at the local level. We believe this is its competitive advantage in a relatively less efficient market such as Asia. Overall, the broad and in-depth research coverage allows Wellington Management to take a longer horizon and facilitates higher conviction in its stock picks which is an attractive blend with shorter term opportunistic approaches.

Contact Centre: 1800 819 935

Adviser Services: 1300 361 864

advance.com.au

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