



# Sterling Equity

## **About**

Founded in 2006, Sterling Equity applies a timeless strategy of taking long term investment positions in attractively priced, high quality ASX listed companies.

Since inception, Sterling Equity has earned 18.1% pa net of fees, substantially outperforming the broader Australian share market, which has returned 5.1% pa over the same period.<sup>1</sup>

Key features of Sterling Equity include:

- a disciplined, value oriented approach to investment selection
- an exceptional investment track record
- 100% owned by management, who are strongly aligned through co-investment

## **Management**

Sterling Equity is 100% owned by management and operates a single investment strategy for all clients, including staff, who are strongly aligned through co-investment.

Nicolas West (Director) founded Sterling Equity in 2006. He holds Bachelor of Science and Masters of Commerce (Finance) (Honours) degrees from The University of Melbourne and is a CFA charterholder. He has over 14 years of professional experience with listed equity investments and previously worked at Lion Capital as a portfolio manager.

Sterling Equity employs research analysts, review committees and works with an external custodian.

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<sup>1</sup> Sterling Equity's return is reported after fees and costs, but is before taxes. The Australian share market, as measured by the S&P ASX 300 Accumulation Index, is reported before fees and taxes. Past performance is not a reliable indicator of future performance.



# Sterling Equity

## Investment Philosophy

### Investment Selection Principles

Sterling Equity seeks long term positions in high quality companies that it can buy at attractive prices.

When making an investment, we aim to:

1. preserve the value of capital; and
2. maximise the quality and magnitude of our portfolio's underlying business earnings.

### Investment Process

Sterling Equity prefers to invest in companies with the following characteristics:

1. Businesses that **we can understand and monitor** without being overly reliant on management.
2. A **competitive position** that is likely to sustain strong returns on invested capital. We analyse:
  - why a company's customers do business with it and why they are prepared to pay its prices;
  - the likely direction of sales volume and prices, the level of industry competition and the availability of substitute products; and
  - the relationships a company has with its suppliers, its cost structure and the barriers a competitor would face if it tried to enter the market.
3. A **strong management team and board** with a track record of paying dividends and/or successfully deploying capital. Management must be trustworthy, competent and motivated to create shareholder wealth.
4. **Relatively predictable earnings and an ability to at least maintain profits in most economic environments.** We prefer businesses with little exposure to commodity prices, economic cycles and exchange rates.
5. **Conservatively geared.**

### Portfolio Management

Sterling Equity maintains the perspective of a long term business owner and considers its portfolio as a collection of companies, rather than a collection of stocks.

The portfolio is managed with a view to maximising both the quality and magnitude of sustainable underlying business earnings. We focus on the portfolio's underlying return on invested capital, profit margin, gearing and earnings yield – these qualities are key drivers of shareholder value.



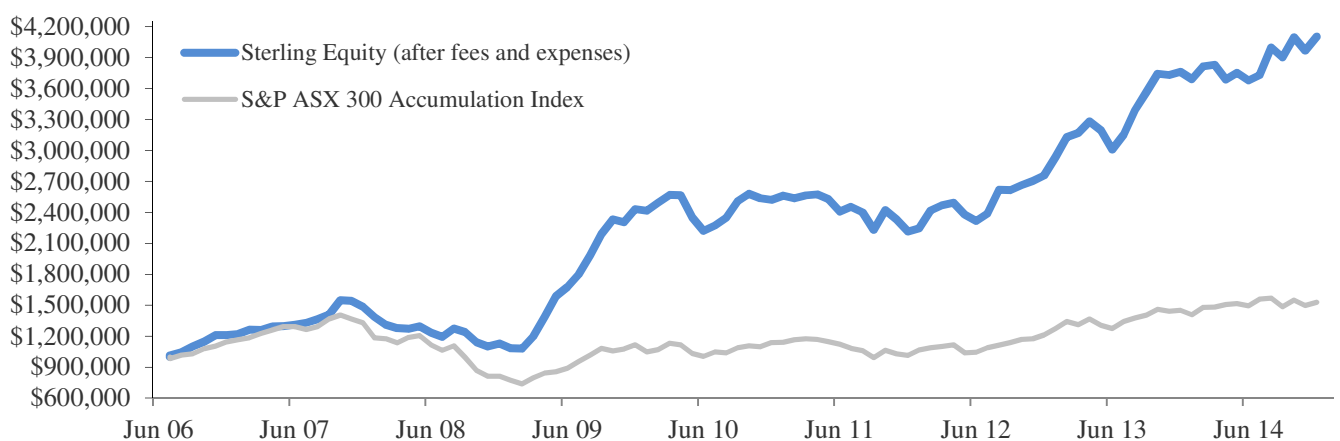
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## Performance

Sterling Equity's returns since inception are presented in the table below.

Period		Sterling Equity returns after fees <sup>2</sup>	S&P ASX 300 Acc. Index	Relative Performance
Year to	30 Jun 2007	31.0%	29.2%	1.8%
Year to	30 Jun 2008	-5.9%	-13.7%	7.8%
Year to	30 June 2009	36.1%	-20.3%	56.5%
Year to	30 June 2010	32.2%	13.1%	19.2%
Year to	30 June 2011	8.4%	11.9%	-3.5%
Year to	30 June 2012	-3.7%	-7.0%	3.3%
Year to	30 June 2013	29.9%	21.9%	8.0%
Year to	30 June 2014	22.2%	17.3%	5.0%
Half Year to	31 Dec 2014	11.5%	2.4%	9.2%
<b>Average Performance</b>		<b>18.1% pa</b>	<b>5.1% pa</b>	<b>12.9% pa</b>
<b>Cumulative Performance</b>		<b>310%</b>	<b>53%</b>	<b>257%</b>

The graph below presents Sterling Equity performance, net of fees and expenses, assuming an initial investment of \$1,000,000.



<sup>2</sup> Sterling Equity's return is reported after fees and costs, but is before taxes. The Australian share market, as measured by the S&P ASX 300 Accumulation Index, is reported before fees and taxes. Past performance is not a reliable indicator of future performance.



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## **Message for Prospective Investors**

When evaluating investment managers, we believe that three qualities are essential:

1. a logical investment process that is capable of delivering sustainable returns;
2. a robust track record of investment performance; and
3. strong alignment of interests between the manager and investors through co-ownership of investments.

Sterling Equity works to develop these qualities.

Please contact us for further information.

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