



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 16.8% pa net of fees, substantially outperforming the broader Australian share market, which has returned 2.5% pa over the same period.¹

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 12 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.

¹ 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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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.



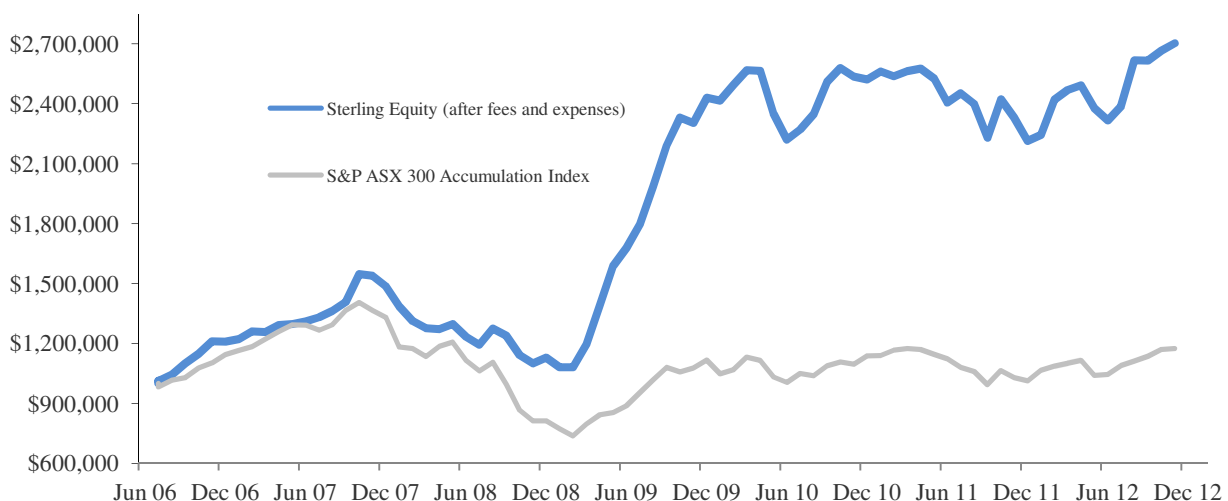
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Performance

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

Period		Sterling Equity returns after fees ²	S&P ASX 300 Acc. Index	Relative Performance
Year to	30 Jun 2007	31.0%	29.2%	1.8%
Year to	30 Jun 2008	-5.8%	-12.7%	6.9%
Year to	30 June 2009	36.2%	-19.3%	55.5%
Year to	30 June 2010	32.2%	13.1%	19.1%
Year to	30 June 2011	8.4%	11.9%	-3.5%
Year to	30 June 2012	-3.7%	-7.0%	3.3%
5 Months to	30 November 2012	16.7%	12.4%	4.4%
Average Performance		16.8% pa	2.5% pa	14.2% pa
Cumulative Performance		170%	17%	153%

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



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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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