



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. Sterling Equity has substantially outperformed the broader Australian share market.

Key features 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.

Founder Nicolas West holds Bachelor of Science and Masters of Commerce (Finance) (Honours) degrees from The University of Melbourne and is a CFA charterholder. He has more than 15 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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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
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
 - 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.

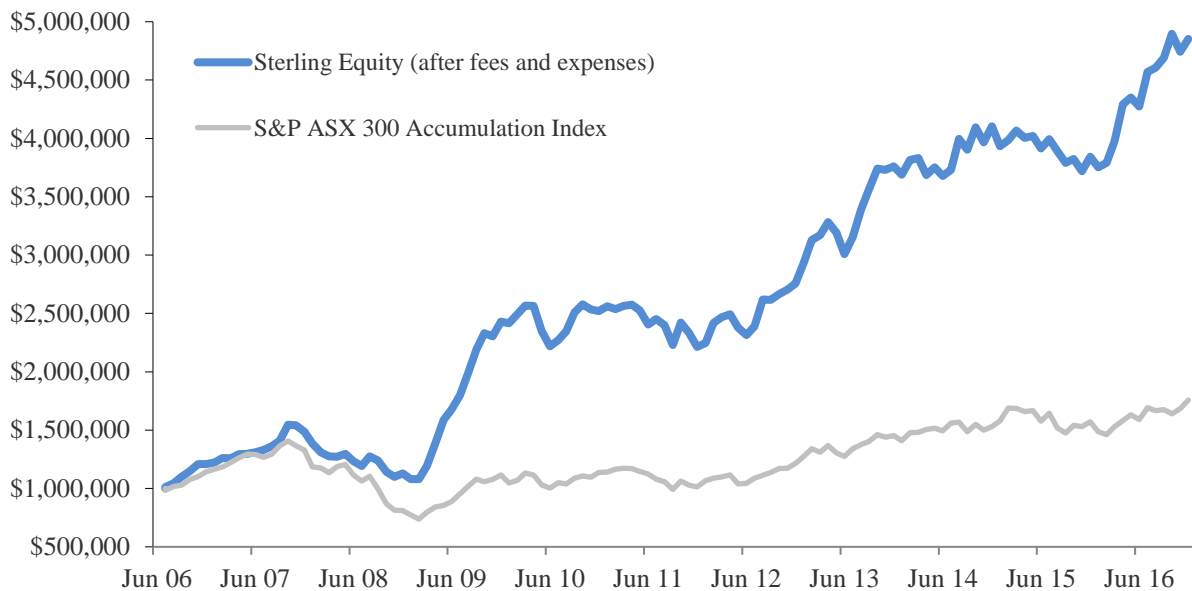
Period		Sterling Equity net returns ¹ (%)	S&P ASX 300 Acc. Index (%)	Relative Performance (%)
Year to	30 June 2007	31.0	29.2	1.8
Year to	30 June 2008	-5.9	-13.7	7.8
Year to	30 June 2009	36.1	-20.3	56.5
Year to	30 June 2010	32.2	13.1	19.2
Year to	30 June 2011	8.4	11.9	-3.5
Year to	30 June 2012	-3.7	-7.0	3.3
Year to	30 June 2013	29.9	21.9	8.0
Year to	30 June 2014	22.2	17.3	5.0
Year to	30 June 2015	6.4	5.6	0.8
Year to	30 June 2016	9.2	0.9	8.3
Half Year to	31 Dec 2016	13.6	10.4	3.1
Annualised Performance		16.2	5.5	10.7
Cumulative Performance		385	76	309

¹ Performance is reported after fees but before taxes. Past performance is not a reliable indicator of future performance.



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



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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