

# Wellington Global Equity MPS Fund

## Manager Profile

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MANAGEMENT®

### Manager Overview

Wellington Management Australia Pty Ltd ('Wellington') is the investment manager of the Wellington Global Equity MPS Fund, and is part of the Wellington Management Group.<sup>1</sup>

Wellington Management is one of the world's largest independent investment management firms, serving as a trusted adviser to over 2,300 clients in more than 65 countries. The firm manages more than US\$1 trillion<sup>2</sup> for pensions, endowments and foundations, insurers, family offices, fund sponsors, global wealth managers, and other clients. Wellington aspires to provide excellent service to clients through a unique combination of independence enabled by its distinctive private partnership model, diverse perspectives through its unified, multi-asset investment platform, and relentless curiosity and intellectual rigor fostered by its enduring collaborative culture.

### Investment Philosophy and Style

The investment philosophy is based on the belief that investors can make sub-optimal decisions in the face of uncertainty and poor portfolio returns. Behavioural finance research highlights multiple tendencies that can cloud judgement, including the sunk-cost fallacy, loss aversion, anchoring, and recency bias. As a result, investors can be compelled to sell stocks well below their fundamental value when adverse data or unexpected events cause a crisis of confidence. Fear of being visibly wrong in a competitive market can lead managers to overemphasize recent information and expunge disappointing investments without regard to valuation. Wellington believe these dynamics provide the basis for asymmetric portfolio returns: solid operating companies, under near-term pressure, trading at discounted multiples.

### Investment Process

The investment approach is opportunistic and based on fundamental, bottom-up research focused on deeply discounted securities where upside potential is believed to be significant and where the market price is believed to reflect too high a probability for the downside scenario.

### Idea Generation

New ideas are sought in companies that other investors are actively overlooking, and the primary starting point is to monitor stocks with recent price underperformance. Within this cohort, the team seeks to identify companies with solid balance sheets and above-peer growth potential. Once an investment candidate is identified, the team aims to understand the issue(s) causing its relative draw down and identify any behaviour biases that may be contributing to excess concern among investors and escalating the stock's discount.

<sup>1</sup> Wellington Management Australia Pty Ltd, along with other subsidiaries of Wellington Management Group LLP, are referred to in this document as "Wellington Management Group".

## Analysis and Research

The subsequent analysis and research are aimed at understanding the risks, the upside potential, and the team's potential advantage in analysis. The focus is on understanding the downside narrative driving a stock's underperformance to determine if there are any negative pillars to the investment case that can be safely removed from the prevailing view. If any of the elements of the downside case can be eliminated, the probability of a positive outcome increases relative to consensus estimates, potentially revealing a viable path toward a higher valuation.

## Quantitative

The primary valuation framework involves determining a company's long-term normalized earnings power and relative P/E ratio based upon the team's assessment of its long-term earnings growth potential, cash flow, dividend yield, financial strength, and other qualitative characteristics. The goal of this part of the process is to develop a forward earnings and free cash flow model, and these normalized assumptions are used to set an appropriate price target for a company. The team also seeks to identify potential events that may force other investors to revisit their view on a company. This helps the team to establish an investment time frame for a company and provides specific milestones for the team to monitor its original investment thesis over time.

## Implementation and Decision

Attractive investment opportunities are compared to existing holdings in the portfolio using the team's FactSheet. In order to remain a viable investment candidate, a new company typically has above-average upside potential relative to existing positions in the portfolio in order to ensure that new investments increase the portfolio's overall upside potential. The final analysis for a new position often includes the team's view of what investors will want to see (i.e. what fundamental progress will motivate investors in the future), as this informs the team's view on the likelihood that more investors re-engage in the stock within a relatively reasonable timeframe.

Finally, Portfolio Manager David Palmer assesses the expected impact of adding a new position relative to the portfolio's existing active risks and concentrations to determine if a new candidate adds a potential new alpha driver or a diversifying risk exposure to the portfolio. At a minimum, this assessment helps David to better understand if the new risk profile is in line with his and the team's fundamental forward views.

Team analysts write a one to two page summary with their original thesis, expectations, and assumptions. It typically includes items to monitor, such as future milestones that could indicate if their thesis is on track or potentially eroding. This document then becomes a reference for assessing the actual progress of an investment going forward.

## Risk Management Considerations

Risk management is conducted at both the stock and portfolio level. At the stock level, potential risks are analysed as part of the team's fundamental research and considered when evaluating position sizes, with reference to a company's balance sheet, access to funding, future capital requirements, competitive threats, and environmental, social and governance factors. At the portfolio level, risk reports are used to highlight factor exposures over time, concentrations of active risk, and hidden correlations among holdings – which might not be immediately apparent. Increasingly, risk tools developed by Wellington Management's Investment Science Group are used to evaluate real-time risk exposures and to perform pre-trade analyses, allowing the team to evaluate prospective changes to factor and risk positioning from re-weighting existing holdings or adding new positions. Additionally, the team seeks to diversify positions over different time horizons. For example, the portfolio will generally hold a collection of stocks which the team believes a catalyst will force the market to reassess their valuations within six months, another collection which require 6 – 18 months, and another collection of good companies with less-defined horizons but with very compelling valuations and positive risk/reward profiles. The Global Opportunistic Value team leverages the firm's ESG analysis and insights as inputs that can potentially add new insights into company-specific risks. The team believes that an improving trend on ESG scores can correlate with higher market valuation over the long term. Equally important, to the extent that an ESG issue is contributing to negative sentiment and a discounted valuation, it is critical to understand the issue and have an informed view of the company's ability to improve and mitigate the concern, or to better communicate to the market why the prevailing sentiment is overdone.



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Advance Asset Management Limited ABN 98 002 538 329 AFSL 240902 ('Advance') is the responsible entity for the Wellington Global Equity MPS Fund ARSN 625 871 007 ('Fund'). A Product Disclosure Statement or other disclosure document ('PDS') is available for the Fund and can be obtained by calling 1800 819 935 or by visiting [bt.com.au/MPS](http://bt.com.au/MPS). The Financial Services Guide ('FSG') for WFSL and Advance can be obtained via [www.bt.com.au](http://www.bt.com.au) or [www.advance.com.au](http://www.advance.com.au) (as applicable). Any retail client should obtain and consider the PDS for the Fund and the FSG before deciding whether to acquire, continue to hold or dispose of units in the Fund. For the Target Market Determination for this product please refer to [www.bt.com.au/tmd](http://www.bt.com.au/tmd).

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Advance has appointed Wellington Management Australia Pty Ltd ABN 19 167 091 090 AFSL No. 462912 as the investment manager ('Manager') for the Fund. The Manager has consented to the statements pertaining to it in this document, in the form and context in which they appear and has not withdrawn its consent as at the date this document was published.

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Information current as of 16 December 2022.