

Tyndall Australian Shares



Role in Portfolio:

Core

Risks:

- **Concentrated portfolio increases stock-specific risks**
- **Flexible value approach means strategy not pure value play**
- **Corporate change brings a touch of uncertainty**

Morningstar Analyst:
Julian Robertson

Morningstar Take

Tyndall Investment Management announced in November 2010 that it was to be acquired by Nikko Asset Management. This doesn't alter our favourable view of Tyndall's comprehensive and concentrated approach to Australian shares investing, especially as the equity holding remains unchanged. The avid focus on fundamentals and heavily-experienced team inspire confidence. Led by the respected and insightful Bob Van Munster, Tyndall's core investment team has been together for a reassuringly long time with limited staff turnover at the senior level, although the departure in 2010 of Head of Research Roger Collison was a disappointment. However, other features of the team set-up impress, among them the fact that 20.0 percent of portfolio management responsibilities fall on Brad Potter, the open portfolio construction forum involves all team members, and the bonus structure is aligned largely with results. This promotes a healthy degree of peer review, focuses individuals on delivering value to the overall portfolio, and prepares the ground for succession. The process is prudent and detailed, starting from the bottom up, and uses a number of metrics such as discounted cashflow to identify stocks with intrinsic value and of sound financial health. These are then ranked on expected internal rates of return (IRR) over three years. The comparative angle is designed to avoid the classic 'value trap' into which valuation-focused managers can fall, and helped steer the strategy through 2008 and 2009, beating the market on each occasion. Buying stocks with high IRRs and sound balance sheets does mitigate risk to some extent, but this caution is offset by the high-conviction portfolio of 20 - 35 stocks. Along with this heightened stock-specific risk the shop isn't afraid to dabble in companies down the market-cap, a tactic that can work both ways, but which certainly elevates risks. Tyndall's thorough approach to stock selection and the enduring team give us more than enough confidence that the house can manage the risks and deliver over a full market cycle.

Strategy/Process

Tyndall runs a compact portfolio of Australian shares characterised by a high level of conviction. The strategy has since mid-2007 been run by dual Portfolio Managers Bob Van Munster and Brad Potter. Tyndall's Comparative Value Analysis process leads to bottom-up research looking at a firm over the medium term. A key outcome of this research is stock rankings on the basis of a range of valuation criteria. This process subjects companies to a series of value and quality factors, including price/earnings, dividend yield, enterprise value/EBITDA, operating accruals, and analysis of a company's probability of failure. Companies must also pass a liquidity screen, limiting small-cap exposure, although Tyndall is comfortable about investing in mid-caps, which means that the portfolio can at times have a pronounced mid-cap bias. Tyndall then undertakes in-depth fundamental research on approximately 120 stocks, taking into consideration a company's competitive position as well as industry dynamics. The shop uses detailed discounted cashflow models generally going out four to eight years, comparative price/earnings ratios, and stock ranking that uses an internal rate of return based on three-year share price and dividend forecasts. The portfolio consists of those stocks which display the highest internal rate of return, together with an overlay provided by the portfolio managers. The outcome is a concentrated 20 – 35-name portfolio with little resemblance to the index, and 40.0 - 70.0 percent annual turnover.

Flagship Fund: Australian Share W Portfolio

Investment Style 30 Nov 2010

Value	Blend	Growth	Large	Mid	Small	Pr/Pros	Ern Rto	12.69
█	█	█	█	█	█	Price/Book <td>Rto</td> <td>1.87</td>	Rto	1.87
█	█	█	█	█	█	Price/Cf <td>Rto</td> <td>5.77</td>	Rto	5.77
█	█	█	█	█	█	Lt Ern <td>Growth</td> <td>12.08</td>	Growth	12.08
█	█	█	█	█	█	Mkt Cap <td>(\$Mil)</td> <td>19,121</td>	(\$Mil)	19,121
█	█	█	█	█	█	Dividend <td>Yld %</td> <td>3.85</td>	Yld %	3.85

Stock Sectors 30 Nov 2010

	%
Information Economy	10.98
Software	0.00
Hardware	0.00
Media	7.49
Telecommunications	3.50
Service Economy	39.58
Healthcare Services	4.74
Consumer Services	1.62
Business Services	2.06
Financial Services	31.15
Manufacturing Economy	49.44
Consumer Goods	5.47
Industrial Materials	33.55
Energy	6.71
Utilities	3.71

Top 10 Stock Holdings 30 Nov 2010

	%
BHP Billiton Limited	14.86
Rio Tinto Limited	7.32
ANZ Banking Group Ltd	7.04
National Australia Bank Limited	5.55
Westpac Banking Corp	5.08
News Corporation	4.02
Commonwealth Bank of Australia	3.97
Oil Search Limited	3.72
Telstra Corporation Ltd	3.42
Amcort Limited	3.36

Asset Allocation 31 Oct 2010

	%
Domestic Equity	96.95
Int'l Equity	0.00
Listed Property	1.17
Unlisted Property	0.00
Mortgages	0.00
Dom Fixed Interest	0.00
Intl Fixed Interest	0.00
Cash	1.88
Other	0.00

Portfolio Stats

Mgr Bmark: S&P/ASX200
 Accumulation Index
 No. Stocks: 20 - 35
 Max Weight: Index +6.0%
 Min Weight: 1.0% or index
 -6.0%
 Expd Track Error %pa: 3.0 - 8.0
 Expd Turnover %pa: Moderate
 to high, between 40.0 - 70.0

People Stats

Lead Manager: Bob Van
 Munster
 Appointed: October 1999
 Years Experience: 35
 Team Size: 10
 Average Years Experience: 16
 Average Years Tenure: 9

Role in Portfolio

Core holding. Tyndall would be ideally paired with a large-cap growth manager, and investors should be aware of the strategy's mid-cap bias.

People

Tyndall has a well-resourced, stable, and experienced investment team led by Bob Van Munster, who's been at the shop since October 1999. Van Munster focuses on portfolio construction. The other key personnel involved in the process are Deputy Head of Equities Warwick Cumming, Portfolio Manager Malcolm Whitten, and Portfolio Manager Brad Potter. (Head of Research Roger Collison has left the firm.) In total, seven members undertake research, modelling, and valuation efforts. Two analysts cover the largest sectors, banks and resources. We think this is a sensible structure, and agree that this allows for greater peer review while avoiding sector myopia. Remuneration is based on a combination of the total performance of the portfolio, the team, and the individual. Eight team members have equity in the business, a measure we believe promotes stability.

Performance

Tyndall's performance has stacked up well against the index and rivals over the past 10 years, boosted by the double-digit excess returns in 2001 and 2002. The strategy beat the index four times in the seven subsequent calendar years, including 2008 and 2009. There's no apparent or obvious pattern to performance, although it can be somewhat lumpy, for example lagging the index quite significantly in 2006 and racing ahead in 2009. This is at least in part a reflection of the strategy's concentrated nature and corresponding stock-specific drivers. The year to 31 October 2010 proved another poor period, Tyndall lagging quite significantly. Primary Health Care, Lend Lease, and BlueScope Steel were among the principal detractors. Top contributors to performance included AXA Asia Pacific Holdings, Healthscope, and Orica.

Parent

Tyndall Investment Management announced in November 2010 that it was to be acquired from Suncorp-Metway by Nikko Asset Management. Nikko is a Japanese fund manager with approximately US\$120.0 billion in assets. The equities business, Tyndall Equities Australia Limited, is a 50/50 joint venture between senior staff and Tyndall Investment Management, and this arrangement remains unchanged. Tyndall had approximately A\$22.0 billion in assets at 31 October 2010, A\$4.50 billion in Australian equities assets.

Fees

The flagship Tyndall Australian Share Wholesale Portfolio has an 0.80 percent annual fee, which is cheaper than the peer average. The 1.99 percent expense ratio for retail investors, though, is slightly above the average.

Top 5 Funds by Net Assets

	Ticker	Net Assets (\$Mil)	Quartile Rank 3yr	Total Ret 3yr
Tyndall Australian Share Wholesale Portfolio	3987	1575.22	■	-5.74
Tyndall Australian Share Value Fund	269	86.56	■	-6.43
BT Tyndall Australian Share	16313	33.54	NAv	--
Tyndall Australian Share Portfolio	3986	23.70	■	-7.03
WealthSmart Pers Tyndall Aust Shares W Portfolio	12821	13.81	■	-3.07

Flagship Fund: Australian Share W Portfolio

Performance 30 Nov 2010 Fund Index

Growth of \$10,000 **\$9,254**



	1Yr	3Yr	5Yr	10Yr
Quartile Rank	■	■	■	■

Total Ret%	-1.44	-5.74	3.91	11.00
Income Ret%	2.57	4.18	8.08	7.04
Growth Ret%	-4.02	-9.92	-4.17	3.96

Index%	1.65	-7.01	4.20	7.80
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Index: S&P/ASX 200 Accum Index

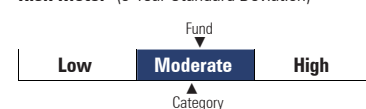
Category: Australia Large Value

Performance Analysis 3 Yrs to 30 November 2010

Value Add vs Manager Bmark%	1.27
Tracking Error	5.00
Information Ratio	0.25

MPT Statistics 30 Nov 2010

	3Yr%	5Yr%	10Yr%
Beta	1.00	0.99	0.97
Alpha	1.45	-0.24	3.14
R Squared	0.94	0.93	0.89
Sharpe Ratio	-0.67	-0.13	0.54

Risk Meter (3 Year Standard Deviation)

All figures and stats relate to the Flagship Fund, and all performance figures are shown as % per annum, net of fees.

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