

## United Sector Leaders International Equities Fund – Manager Profile

# LSV Asset Management

International equities

December 2009

*LSV*  
Asset Management

### At a glance

**Date of appointment:**

15 February 2007

**Parent company:**

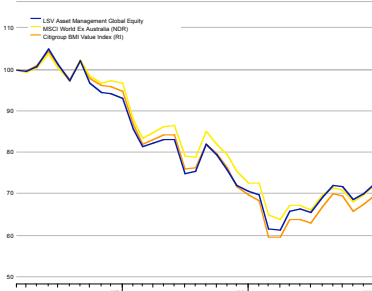
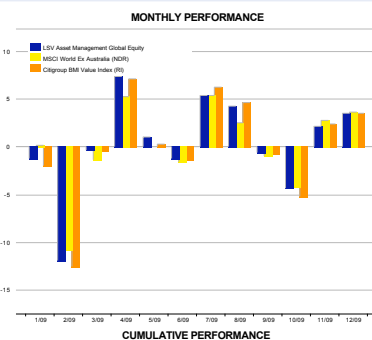
LSV Asset Management

**Style:**

Value

**Funds allocated to manager:**

AUD \$153.4m as at 30 December 2009



### Company overview

LSV Asset Management is a quantitative value equity manager providing active management for institutional investors through the application of proprietary models. LSV has academic roots and was named after its founding partners who are well known for their work in behavioral finance. LSV was established in 1994 and is headquartered in Chicago, Illinois.

### Investment Style

The fundamental premise on which the company's investment philosophy is based is that superior long-term results can be achieved by systematically exploiting the judgmental biases and behavioral weaknesses that influence the decisions of many investors. These include: the tendency to extrapolate the past too far into the future, wrongly equating a good company with a good investment irrespective of price, ignoring statistical evidence and developing a "mindset" about a company.

The Global Value Equity strategy's primary emphasis is the use of quantitative techniques to select individual securities in what would be considered a bottom-up approach. A risk control discipline limits the over or under-exposure of the portfolio to industry concentrations. Value factors and security selection dominate sector/industry factors as explanators of performance. The competitive strength of this strategy is that it avoids introducing to the process any judgmental biases and behavioral weaknesses that often influence investment decisions.

### Stock selection and portfolio construction

The portfolio decision making process is strictly quantitative and driven by (1) a proprietary model which ranks securities based on fundamental measures of value and indicators of near-term appreciation potential and, (2) a risk control process that controls for residual benchmark risk while maximizing the expected return of the portfolio. The objective of the model is to pick undervalued stocks with high near-term appreciation potential. Stocks are ranked simultaneously on an array of variables in order to arrive at an overall expected return ranking for each stock in the universe.

cont.

The model contains three principal blocks of variables. The first block of variables contains traditional value measures such as dividend yield, cash flow-to-price ratio and the book-to-market ratio. We use several measures in this block and no single measure dominates the ranking process. The second block of variables is also used to assess whether a security is undervalued. This block consists of past performance measures that measure changes in the stock price, earnings, etc. over the previous 5 years. Stocks are ranked highly if their 5-year performance has been poor.

The third block of variables is used to assess the near-term appreciation and growth potential of a stock. Since undervalued stocks can remain undervalued for a long time and get even cheaper, LSV use this third block to determine whether the market is beginning to change its assessment of an undervalued stock in a positive direction. In this block, LSV look at short-term movements in stock price, earnings, and analyst forecasts to assess near-term appreciation potential.

A universe of approximately 25,000 equity securities is screened for market capitalization and liquidity constraints which yields an investable universe of approximately 3,500 securities. These securities are ranked by LSV's proprietary quantitative model driven by a security's fundamental measures of value, past performance and indicators of near-term potential. The top rated stocks in each country are ranked by expected return and then optimized for risk control purposes. LSV is country neutral with country weights kept relative to the benchmark. The optimization is constrained by specific industry and company limitations to achieve diversification. The resulting portfolio contains between 175 – 200 stocks.

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