

**CONSTELLATION  
CAPITAL  
MANAGEMENT**

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**Launch of**

**HomeGlobal™**

**Method**

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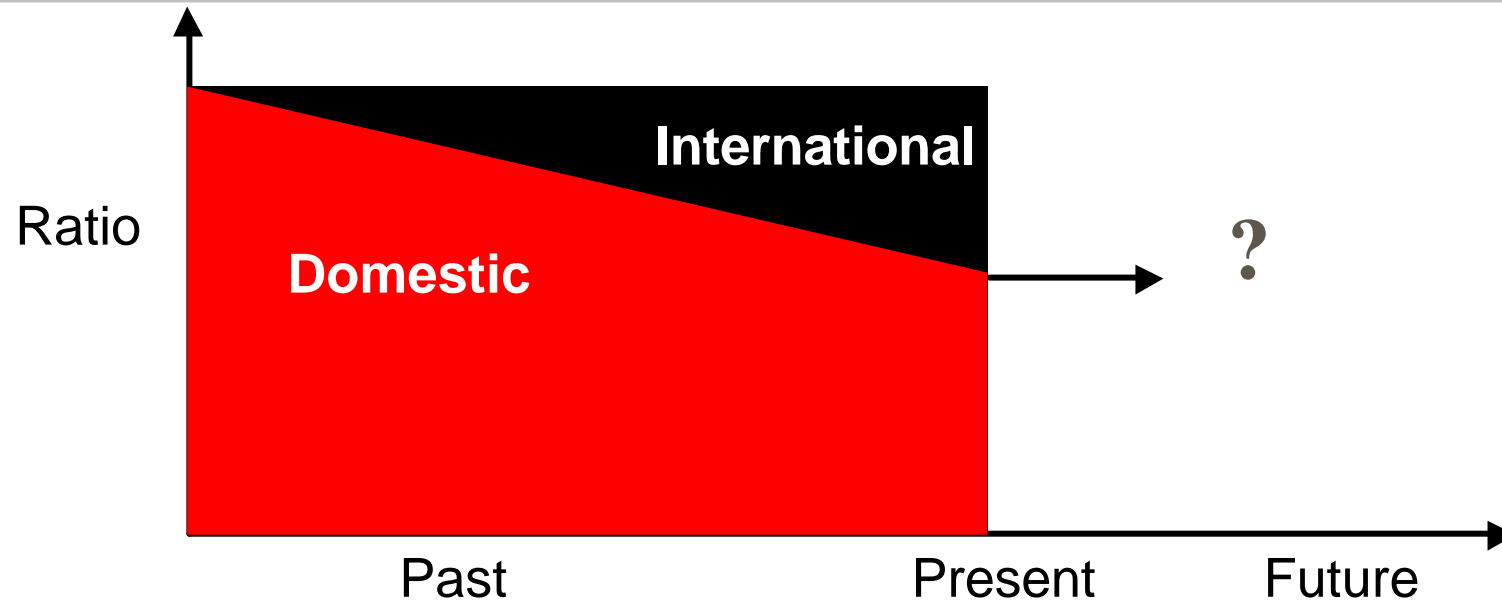
™ – "HomeGlobal" is a trademark of Constellation Capital Management Ltd

# Agenda

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- History & Current equity investment approach
- Current alternative solutions
- Constellation **HomeGlobal**<sup>TM</sup> method
- Implementation
- FTSE/CONSTELLATION

# History & where now



**Relaxation:**  
international  
investing

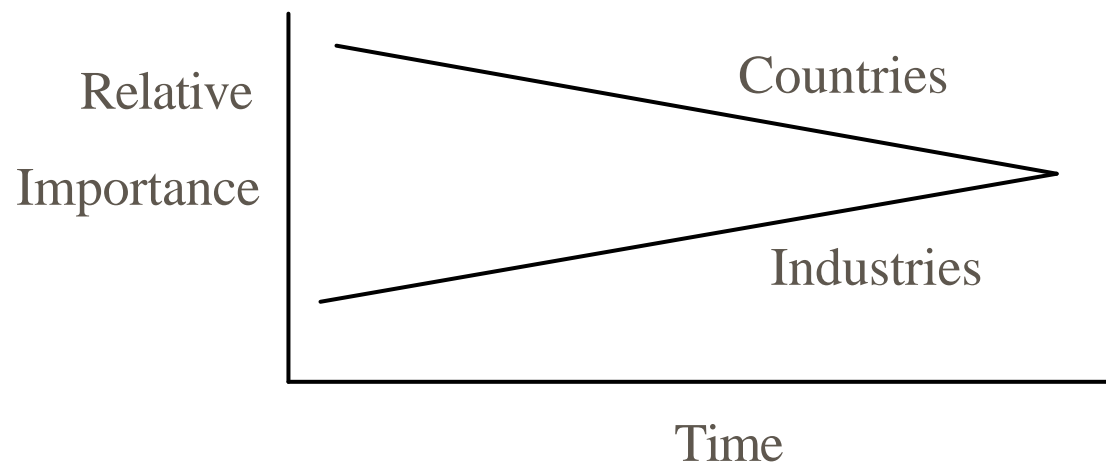
**International offers:**  
- diversification  
- opportunities  
**but** home country bias  
remains

**Current/future issues:**  
- Stock-industry concentrations  
- Impact of globalisation  
- How much international?

# Globalisation

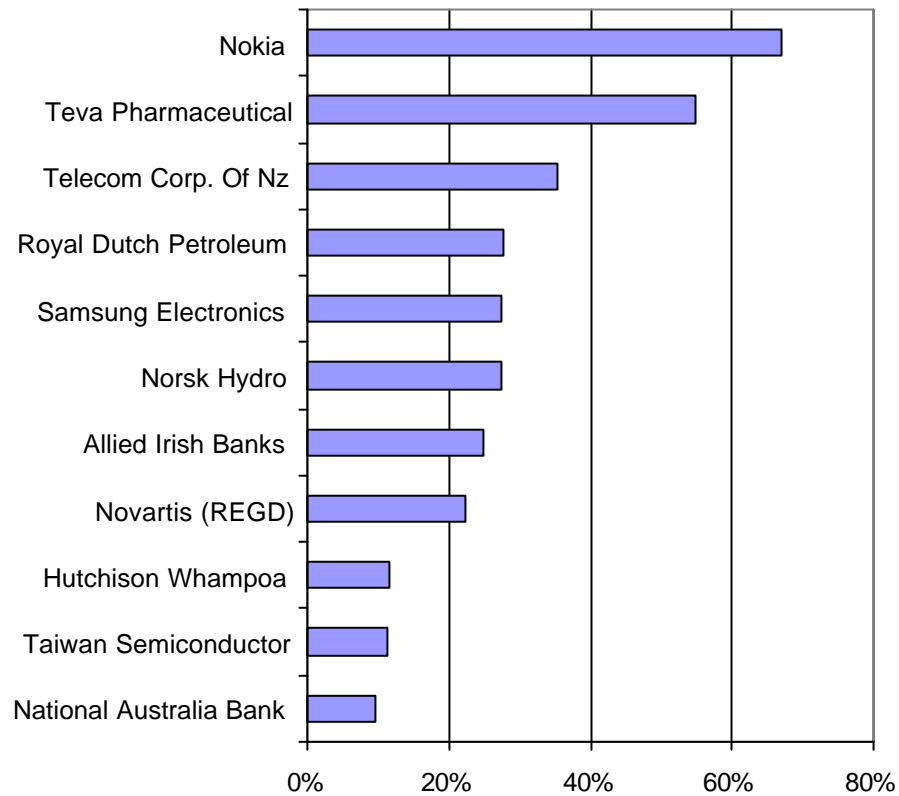
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- Globalisation:
  - reduces relative importance of country
  - increases relative importance of industries

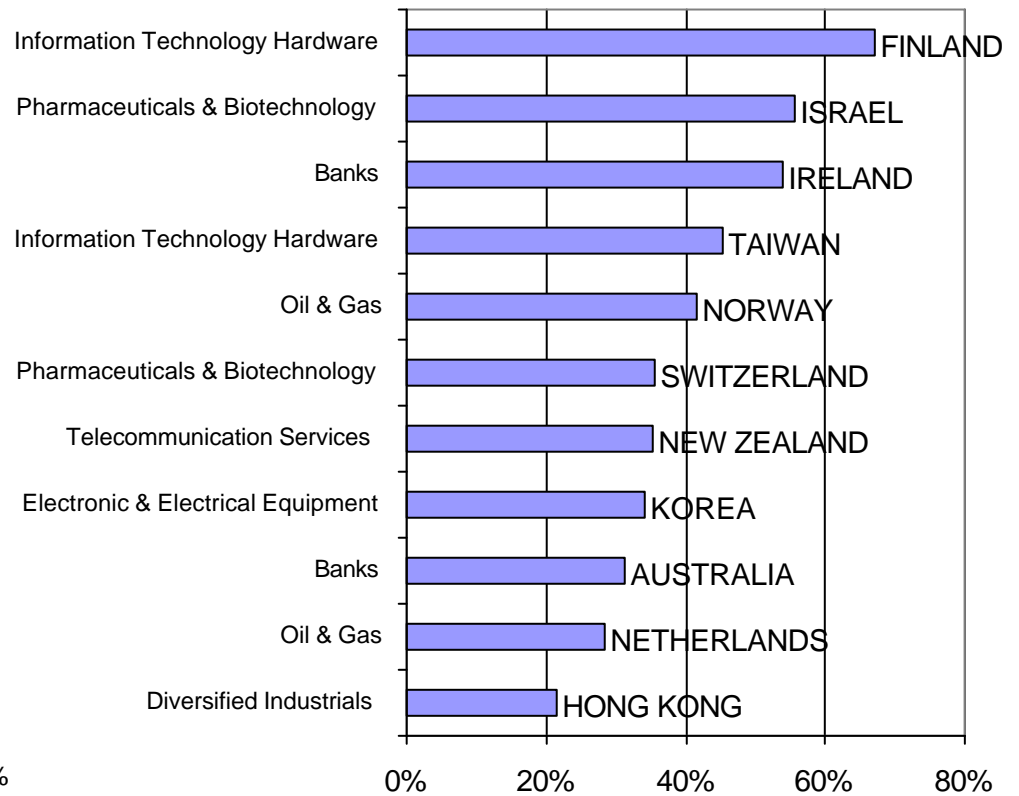


# Stock & Industry Concentration

**Domestic Stock Concentrations**



**Domestic Sector Concentrations**



Source: FTSE Global Index June 2003, Constellation

# Summary of Current Approach

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- Delivers some diversification benefits,  
  
but
- Does not respond to globalisation
- Does not address stock and industry imbalances
- Does not address size of home country bias

# Alternatives

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- Multinational-local country paradigm, e.g.
  - FTSE Multinational + FTSE Local Indexes
- One world paradigm – A world of global sectors
  - Managed by global managers (regional/**sector**/**stock**) or specialist managers (regional fixed weights/**sector** fixed weights).
- A new global investment paradigm:  
**HomeGlobal**<sup>TM</sup> method.
  - Applicable in all countries/regions
  - Patent & trademark applications
  - Strategic alliance with FTSE

# CONSTELLATION Solution

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- New and relevant country specific global benchmarks

## **Australia HomeGlobal<sup>TM</sup> Index**

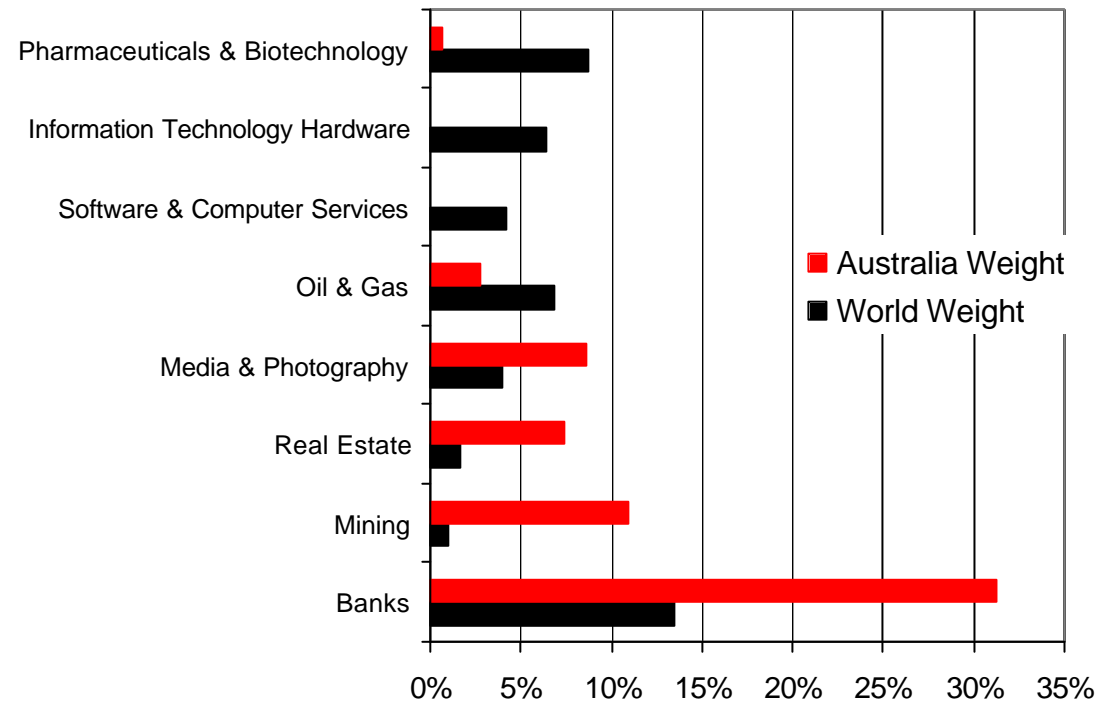
“Weigh globally – invest locally”

- Provides relevant home bias
- Resolves home country stock/industry concentration
- Responds to globalisation

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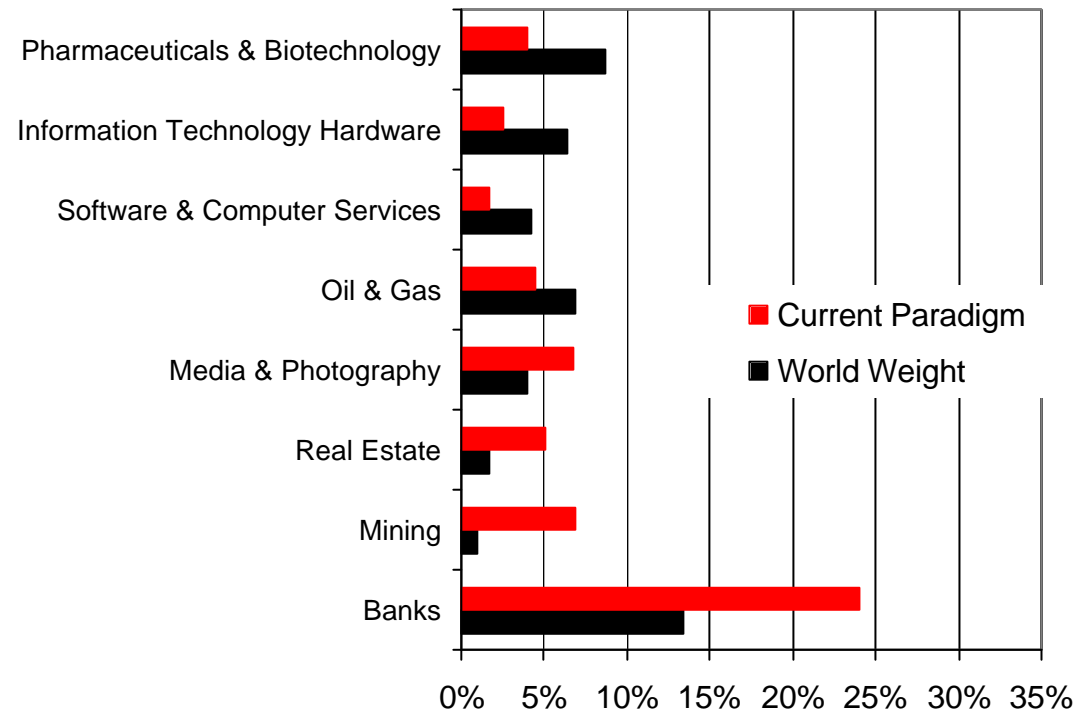
TM – “HomeGlobal” is a trademark of Constellation Capital Management Ltd

# Industry Group Imbalances



Source: FTSE Global Equity Index, June 2003

# Current Paradigm Imbalances



Source: FTSE Global Index, Mercer, Constellation  
 \* Current paradigm invests 60% domestically and 40% internationally

# HomeGlobal™ Method: Resolves Imbalances

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- Consider exposure to each industry from domestic listed companies
- **Is it Adequate?**
  - If yes, invest domestically in that industry
  - Otherwise invest shortfall internationally
  - Australia has very adequate exposure to Banks and Mining  
So why double up by investing internationally in these industries?
  - Australia has “inadequate” exposure in Pharmaceuticals & Biotechnology  
Invest internationally to obtain required exposure

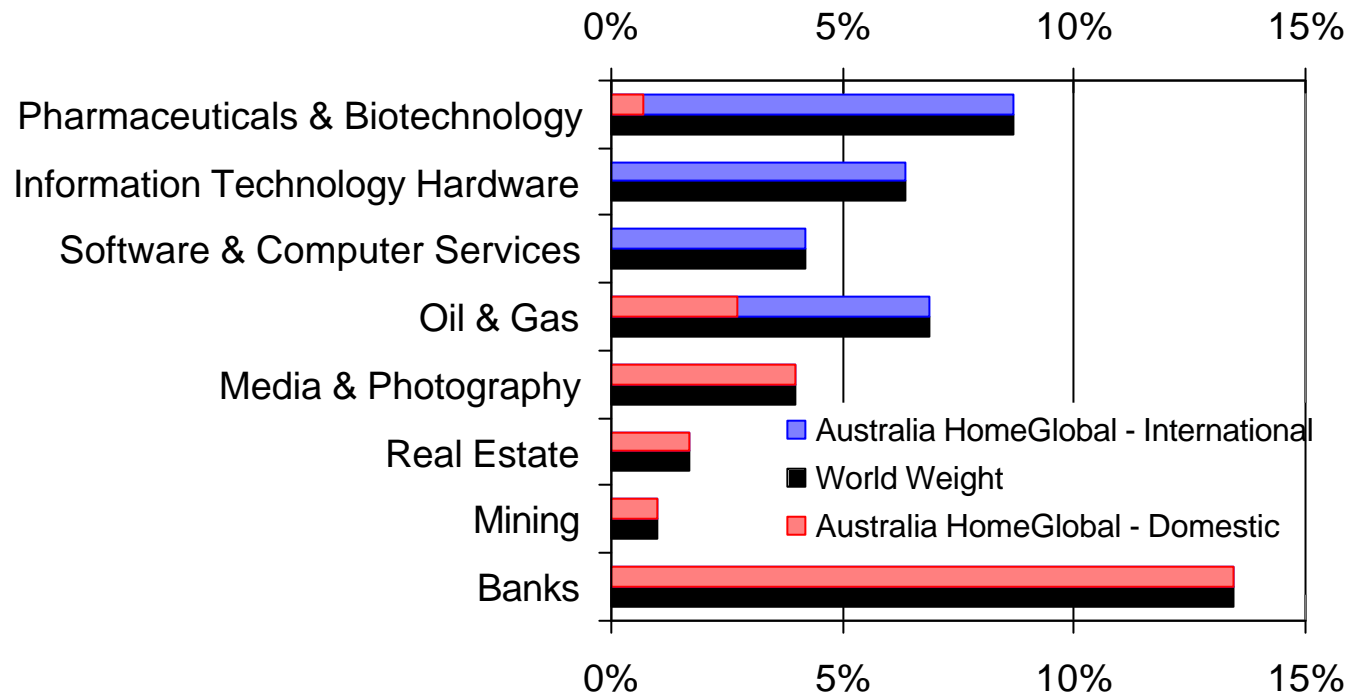
# HomeGlobal™ Method: Resolves Home Bias

Industry Group	World Weight	Australia Weight	HomeGlobal Australia Allocation	HomeGlobal International Allocation
Banks	13.4%	31.2%	13.4%	0.0%
Mining	1.0%	10.9%	1.0%	0.0%
Real Estate	1.7%	7.4%	1.7%	0.0%
Media & Photography	4.0%	8.7%	4.0%	0.0%
Oil & Gas	6.9%	2.7%	2.7%	4.2%
Software & Computer Services	4.2%	0.0%	0.0%	4.2%
Information Technology Hardware	6.4%	0.0%	0.0%	6.4%
Pharmaceuticals & Biotechnology	8.7%	0.7%	0.7%	8.0%
<i>Sub Total: other Industry Groups</i>	<i>53.8%</i>	<i>38.4%</i>	<i>28.9%</i>	<i>24.9%</i>
		<b>Totals</b>	<b>52.4%</b>	<b>47.6%</b>

Source: FTSE Global Equity Index June 2003, Constellation

*Full table covering all FTSE industries in Appendix Australia HomeGlobal™ Index*

# HomeGlobal™ Method: Responds to Globalisation



Source: FTSE Global Equity Index June 2003, Constellation

“Weigh globally – invest locally” (where adequate)

# Stock Weight Changes

- Which stocks have the biggest increase/decrease from current 60/40 paradigm to HomeGlobal™ method

Stock	Country	Current Paradigm		HomeGlobal Weight	Change
		Weight			
Microsoft Corp	USA	0.6%		1.4%	0.9%
Telstra Corp	AUSTRALIA	1.1%		1.9%	0.8%
Pfizer	USA	0.6%		1.3%	0.7%
.....	.....	.....		.....	.....
Commonwealth Bank of Aust	AUSTRALIA	4.2%		3.0%	-1.2%
National Australia Bank	AUSTRALIA	5.8%		4.1%	-1.6%
BHP Billiton Ltd	AUSTRALIA	3.6%		0.6%	-3.1%

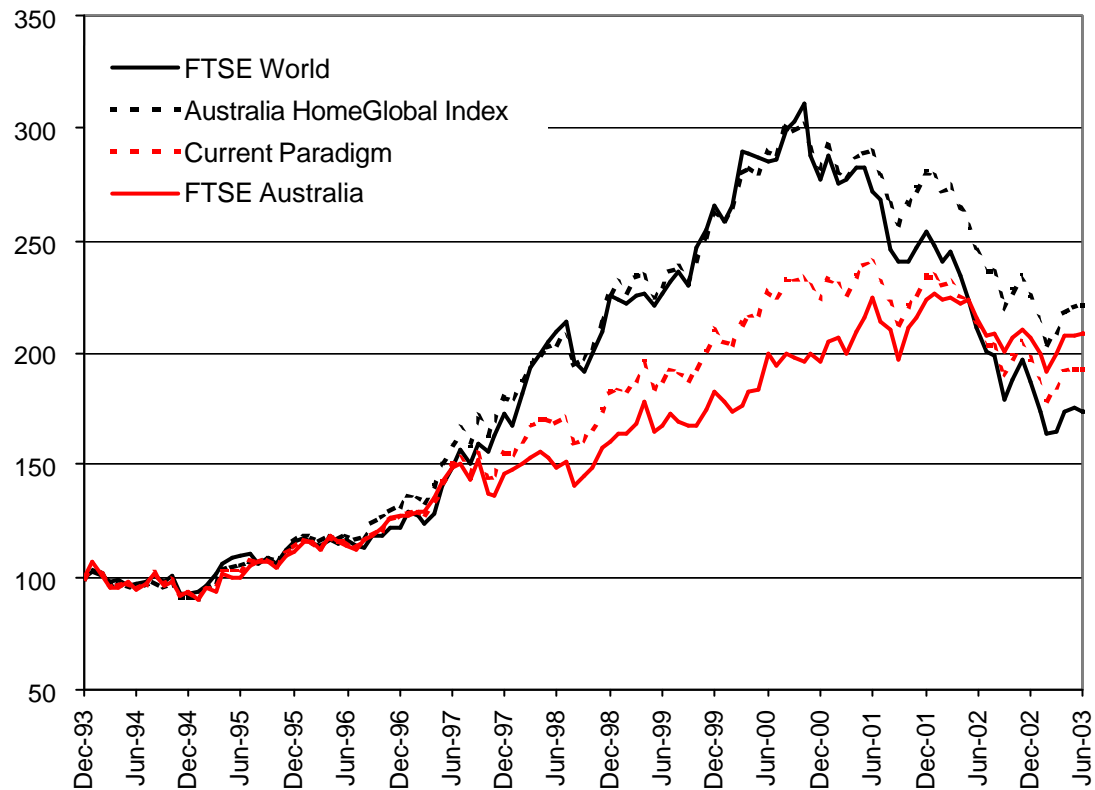
*Source: FTSE Global Index, Mercer, Constellation*

# Characteristics of new Benchmark

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- Supports local industry where exposure adequate
  - Relevant home country bias
  - Overcomes stock/industry dominance in local benchmark
  
- Robust to globalisation & changes in importance of industry vs countries
  - And to corporate transactions including IPO and cross border M&A
  
- **“Weigh globally - invest locally”**

# Simulated Portfolio Performance



Source: FTSE World Index, Mercer, Constellation

# Simulated Portfolio Performance

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<i>Dec 93 to Jun 03</i>	<b>Return * (pa)</b>	<b>Vol (pa)</b>
FTSE World	6.0%	13.6%
FTSE Australia HomeGlobal™ Index	8.7%	11.3%
Current Paradigm	7.2%	11.3%
FTSE Australia Index	8.1%	12.3%

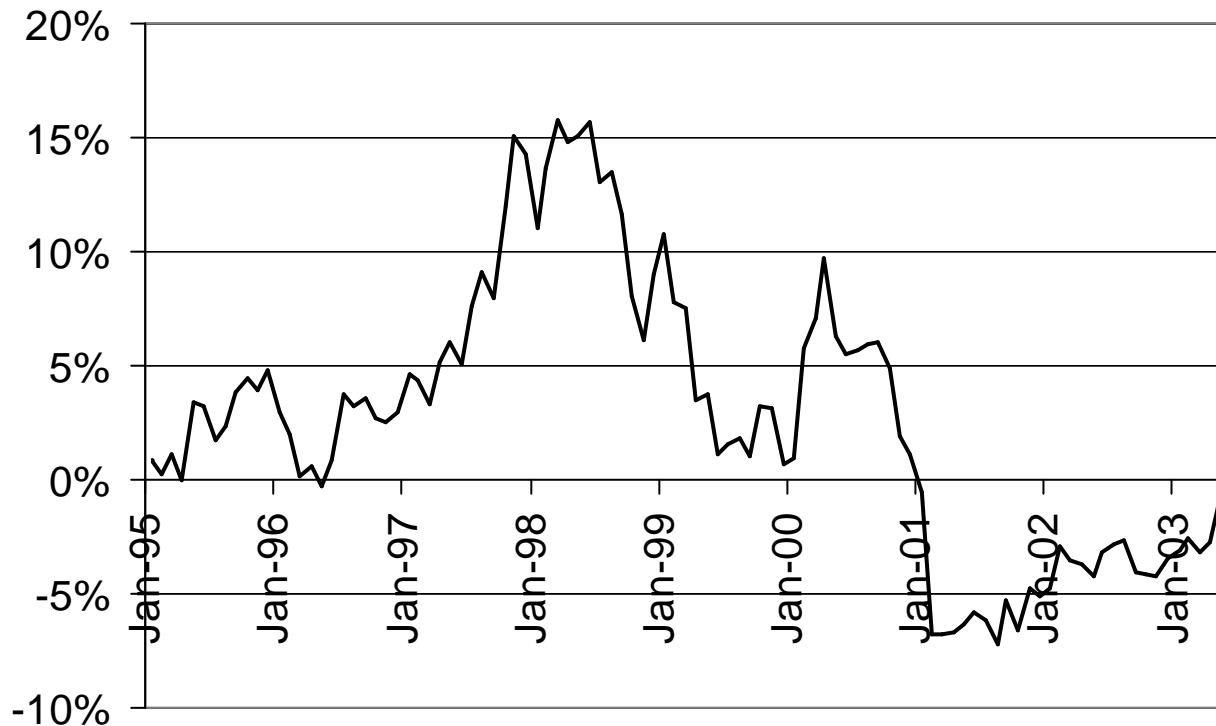
*Source: FTSE World Index, Mercer, Constellation*

*\* assuming index returns for all exposures*

- HomeGlobal™ method: Higher Return + Similar Risk

# Compare with Current Paradigm (1)

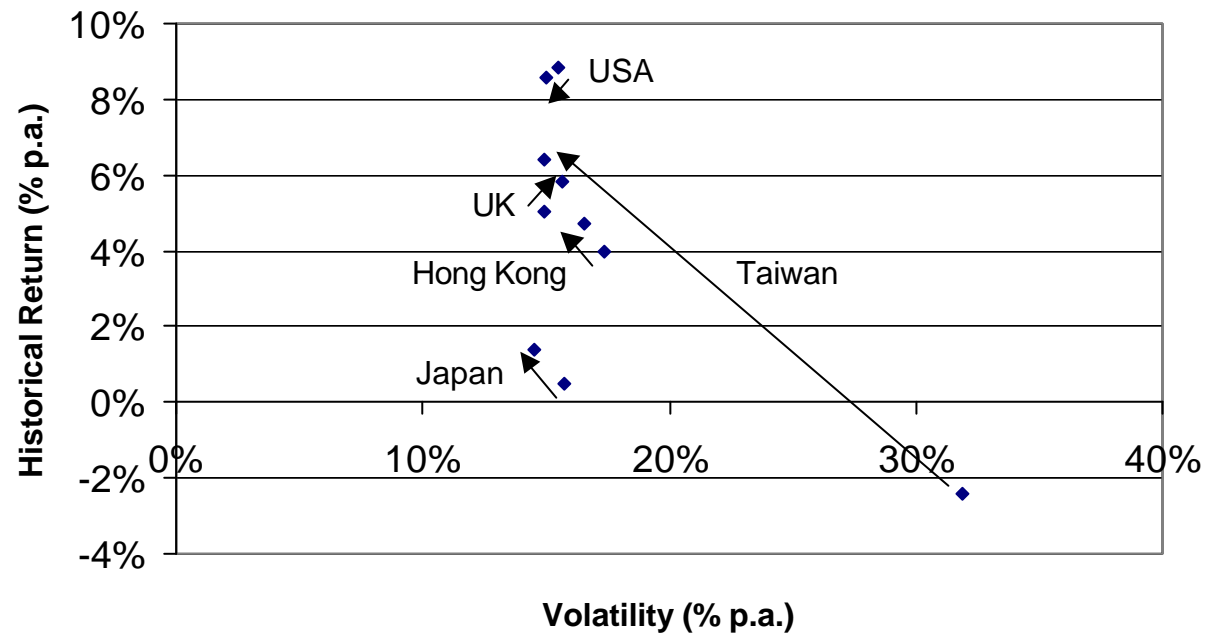
**Rolling 12 month difference FTSE Australia HomeGlobal(tm)  
Index less Current Paradigm**



Source: FTSE World Index, Mercer, Constellation

# Compare with Current Paradigm (2)

**HomeGlobal Performance vs Current Paradigm  
in various countries**



Source: FTSE World, Mercer, Watson Wyatt, Pension Funds Association, Constellation

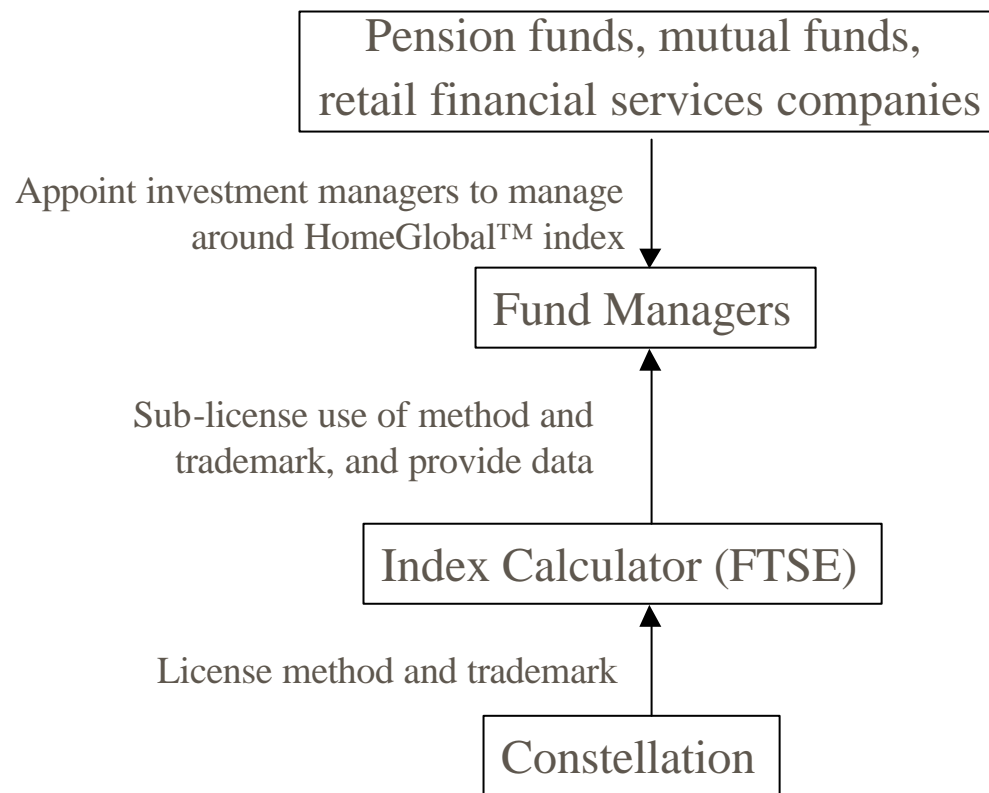
# Implementation for Typical Australian Fund (1)

<b>Asset Class</b>	<b>Benchmark</b>	<b>% allocation</b>
Australian Equities	ASX300	Down
International Equities	MSCI ex Australia	Down
Global Equities	FTSE Australia HomeGlobal Index	Up
<b>Total Equities</b>		<b>No Change</b>

- Fund commits listed equity exposure to HomeGlobal method:
  - appoint managers to manage global equity exposure benchmarked to FTSE Australia HomeGlobal Index
  - OR
  - appoint managers to manage the domestic equities benchmarked to FTSE Australia HomeGlobal Index (Australia component)
  - appoint managers to manage international stocks benchmarked to FTSE Australia HomeGlobal Index (International component)

# Implementation for Typical Australian Fund (2)

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## Implementation for Typical Australian Fund (3)

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- No change to process to appoint investment managers
- Only your benchmark changes

# Benefits to Investors (1)

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- A solution to the home country benchmark industry imbalances
  - Provides relevant exposure to industry sectors not available domestically
- Captures trend of increased influence of global industries
  - Consistent with overall globalisation
  - Provide robustness when importance of countries & industries change
- For active investors
  - Use current research skills and investment styles
  - All that changes is the benchmark

# Benefits to Investors (2)

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- Avoids wasteful allocation of risk budget to industries already adequate in domestic market
  - Captures global growth industries
    - pharmaceutical and biotech, health, IT software
- and some old economy well established industries such as
- Mining, Oil & gas, banks, branded foods (Coca-Cola)
- Mitigates risk of political regulation of overseas investment programme

# Summary

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- Constellation’s HomeGlobal™ method:
  - addresses globalisation
  - provides a relevant home country bias
  - provides more relevant global equity exposure to stocks/industries
- More aligned to investor objectives

**“Weigh globally - invest locally”.**

# Appendix: Australia HomeGlobal™ Index

Industry	Market weights		HomeGlobal™ Weights	
	Global	Domestic	Domestic	International
Aerospace & Defence	1.1%	0.0%	0.0%	1.1%
Automobiles & Parts	2.2%	0.3%	0.3%	1.9%
Banks	13.4%	31.2%	13.4%	0.0%
Beverages	2.0%	3.1%	2.0%	0.0%
Construction & Building Materials	1.5%	3.2%	1.5%	0.0%
Chemicals	2.1%	0.8%	0.8%	1.3%
Diversified Industrials	2.7%	2.6%	2.6%	0.1%
Electronic & Electrical Equipment	2.4%	0.1%	0.1%	2.3%
Electricity	2.6%	0.2%	0.2%	2.3%
Engineering & Machinery	1.5%	0.3%	0.3%	1.3%
Food & Drug Retailers	1.2%	3.0%	1.2%	0.0%
Food Producers & Processors	2.2%	1.0%	1.0%	1.2%
Forestry & Paper	0.6%	0.5%	0.5%	0.1%
General Retailers	4.2%	2.4%	2.4%	1.8%
Household Goods & Textiles	1.3%	0.4%	0.4%	0.9%
Health	3.0%	1.6%	1.6%	1.4%
Investment Companies	0.4%	0.6%	0.4%	0.0%
Information Technology Hardware	6.4%	0.0%	0.0%	6.4%
Insurance	3.5%	2.2%	2.2%	1.3%
Life Assurance	1.0%	2.0%	1.0%	0.0%
Leisure, Entertainment & Hotels	1.4%	1.9%	1.4%	0.0%
Mining	1.0%	10.9%	1.0%	0.0%
Media & Photography	4.0%	8.7%	4.0%	0.0%
Oil & Gas	6.9%	2.7%	2.7%	4.2%
Personal Care & Household Products	1.7%	0.0%	0.0%	1.7%
Pharmaceuticals & Biotechnology	8.7%	0.7%	0.69%	8.01%
Real Estate	1.7%	7.4%	1.7%	0.0%
Software & Computer Services	4.2%	0.0%	0.0%	4.2%
Speciality & Other Finance	3.8%	1.9%	1.9%	1.9%
Steel & Other Materials	0.7%	1.0%	0.7%	0.0%
Support Services	1.9%	2.6%	1.9%	0.0%
Tobacco	0.9%	0.0%	0.0%	0.9%
Transport	1.5%	3.6%	1.5%	0.0%
Telecommunication Services	5.3%	1.9%	1.9%	3.4%
Utilities, Other	1.3%	1.2%	1.2%	0.1%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>52.4%</b>	<b>47.6%</b>

Source: FTSE Global Equity Index June 2003, Constellation