

## **Hyperion's Mission, Values and Beliefs**

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### **Hyperion's Mission**

Hyperion Asset Management Limited's mission is to sustainably<sup>1</sup> grow clients' wealth over the long term. We aim to achieve this by investing in businesses that have superior and sustainable economics.

The trust that we have built with our clients and other stakeholders since our establishment in 1996 is the key reason that Hyperion still exists in the ultra-competitive and globalised funds management industry. A track record of long-term alpha (excess returns above a relevant benchmark) over rolling five-year periods is rare and valuable. It provides objective and verifiable evidence to third parties that we have a philosophy, process and structure that exploits inefficiencies in equity markets. We believe it also provides clients and other key stakeholders the confidence that we can continue to add value longer-term.

We view risk as a permanent loss of capital at the portfolio level, not the volatility of market-based returns. We believe traditional metrics such as beta, Sharpe ratio and tracking error have limited inherent value in assessing the risk, quality and structural growth embedded in a portfolio of stocks.

Permanent loss of capital is where the underlying intrinsic value of the portfolio suffers a permanent decline that is so material that it is unlikely to be recovered in real terms. We do not believe a large decline in the market value of the portfolio during an economic or market crisis is a fundamental risk, provided the long-term intrinsic value of the portfolio remains intact and the share prices and the market value of the portfolio are likely to recover. We believe you cannot predict short-term share prices consistently, but you can take advantage of these share price movements by comparing them to the long-term intrinsic value of the related business.

We seek to sustainably grow client wealth over the long term by only investing in businesses that have high quality attributes, including strong and resilient value propositions, competitive advantages, innovative and creative cultures, and large addressable markets. These elements, together with our proprietary portfolio management system that sets stock weights based on risk adjusted long-term forecast returns, aim to help grow clients' wealth over the long term. Our portfolios comprise a group of well selected stocks that have both the quality attributes we seek and trade at a significant discount to their estimated long-term intrinsic values.

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<sup>1</sup> By 'sustainably', we mean that we only invest in businesses that we believe have high quality attributes, including strong and resilient value propositions, competitive advantages which we consider can be maintained beyond the short term, innovative cultures and large addressable markets. These elements, together with our proprietary portfolio management system that sets stock weights based on risk adjusted long-term forecast returns, aim to help grow clients' wealth over the long term. While environmental sustainability is one of a number of relevant considerations that forms part of the investment analysis which we undertake, this is not the context in which we use the term "sustainably" here.

We believe our portfolios comprise businesses that are robust, resilient and have significant long-term structural growth. We aim for the long-term earnings growth of our portfolios to be not only higher on average than their relevant benchmarks, but also more resilient to economic shocks. Potential customers become more discerning in difficult economic conditions, and in turn they drive accelerated market share shifts towards better value products during these periods.

In difficult economic and market circumstances, clients tend to be more focused on wealth protection. It is during these challenging periods that it becomes more obvious who has taken extra fundamental risk, because higher risk businesses tend to suffer more in depressed economic circumstances.

**“Only when the tide goes out do you discover who’s been swimming naked.” Warren Buffett**

Over long time periods, we expect our portfolios to produce total returns after fees that are above the returns of the relevant equity benchmarks. All our key investment strategies, including the Australian Broad Cap, the Australian ASX 300, the Australian Small Cap, and the Global VSG (Value of Structural Growth), have achieved alpha after fees since their inception.

We have successfully achieved long-term attractive returns through varied economic and market cycles. This includes both the generally strong economic conditions from 1996 up until the GFC in 2008 and in the more difficult economic conditions since, such as the onset of COVID-19.

Economic sustainability and “long-termism” are core to our philosophy. We are long-term business owners that aim to buy the highest quality companies in the relevant investable universe. We do not buy stocks with a particular exit strategy in mind. When we buy a listed business, we ideally want to own it over the long term and hope to benefit from growth that can be sustained in its positive free cash flows.

Over time, the businesses in our portfolios tend to grow their sales at double digit rates. This strong underlying structural growth also results in double-digit earnings per share (**EPS**) growth for our portfolios over extended time periods. Share prices tend to follow the long-term earnings trajectory of a security. Alpha accrues as the EPS growth at the portfolio level exceeds the EPS growth of the benchmark.

The businesses in our portfolios typically can grow their underlying revenue organically even when the overall economy is stagnant or shrinking. These businesses generally have addressable markets that are much larger than their current revenues, and they also have attractive products and services that many potential customers have not purchased. Thus, the raw underlying demand for the company’s products or services generally is much larger than the current ability of the business to supply that product or service.

We believe “*good things happen to good businesses,*” such that the intrinsic value of the best listed businesses should be able to grow at double-digit rates over the long term. Through innovation, long-termism and R&D, these businesses have significant embedded positive optionality in their long-term future free cash flows. Thus, not only do we aim to purchase businesses at prices significantly below their intrinsic values, but we expect these intrinsic values to increase over time.

## Hyperion's Values and Beliefs

Our core belief is that portfolios managed in a disciplined manner in accordance with Hyperion's investment process and philosophy will produce attractive investment returns over the long term.

Our six core values are summarised as follows:

### 1. We are Hardworking and Research Driven, not Marketing Driven

Our organisational culture is hardworking, and research driven and investment led. We are not a marketing or sales-based business. Our primary focus is long-term stewardship of our clients' wealth, not salesmanship.

We are an alpha seeking rather than an asset gathering organisation. Most of our current funds under management (**FUM**) is from investment returns including substantial long-term alpha, with client contributions representing a minority of FUM.

We believe in growing our FUM primarily through investing capital, not gathering assets. Our staff are heavily invested in Hyperion's products so that both the staff and clients benefit from any alpha generation over time. The Lead Portfolio Managers' financial incentives are primarily based on rolling five-year alpha and above.

### 2. Our Decision-Making Framework is Evidence, Merit and First Principles-Based

Fundamental research and understanding are central to how we invest. We invest based on knowledge and evidence. We do not speculate on short-term share price directions or chase short-term momentum. This relates to our mission and to our long-term investment approach as business owners. We complete a standardised detailed research report and financial model for every stock in our universe. Most stocks do not possess the characteristics we are seeking, and we remain disciplined not to deviate from our process. In every investment decision we make, we try to be rational, objective and employ relevant evidence.

### 3. We Think Long Term; Share Price Declines do not Drive our Behaviour or Decision Making

We think and invest using a long-term framework and process. Our investment process and proprietary portfolio management system are designed with the aim of generating attractive returns over the long term. It is difficult to overstate the importance of a long-term framework for decision making. Our portfolio turnover levels are low. Our stock name turnover is typically around 10%, meaning on average we will hold a stock for 10 years. We also expect our staff to take a long-term view regarding how they act, make decisions, and direct their energies within the business.

We believe that short-termism is pervasive across the active funds management industry. Hyperion fights this short-termism in many ways, including our mission, values, beliefs, our structured investment process, the way the investment team is structured, and the way the business is managed. Everything we do has a focus on the long term and the economic sustainability of the value that we create for our clients and other stakeholders. Our investment

team members are always expected to take a long-term view when guiding their decision making and behaviour. This is reflected in our remuneration model, with the key element being potential equity ownership for key long-term contributors.

#### 4. We are Alpha Focused

We know Hyperion only exists because clients believe that we can generate future excess investment returns over the long term. It is long-term alpha that we seek to achieve for clients, not short-term alpha through trading activity. *“No Long-term Alpha, No Hyperion.”*

#### 5. We see Ourselves as Business Owners, not Share Traders

We invest in listed equities with a long-term business owner mind-set. We do not seek to make short-term trading-based profits. When we buy a stock, we are hopeful that we will end up holding that business in the portfolio for decades. We do not buy stocks with a view to an exit plan or some catalyst to realise a short-term profit. We believe this an important point of difference where many market participants say they are long-term investors but have high portfolio turnover and a trading-based mindset and culture.

#### 6. We are Generalists who Place the Collective First

We focus on the collective group of stakeholders and place clients and the firm first and ourselves as individuals second. A group should be able to out-perform an individual, but only if the collective functions well as a team.

### Conclusion

Hyperion’s values are centred around our belief in the inherent worth of investing our clients’ capital with the mindset of long-term business owners. We are not interested in investing in most listed businesses, because we believe these businesses have poor long-term economics. We believe in investing exclusively in the highest quality, modern businesses within our relevant investable universe. These high-quality businesses have structural growth and superior economics. We believe that high quality, structural growth companies are typically undervalued by markets and that creating a portfolio of these businesses will result in attractive returns over the long term. Our investment process includes our standardised research template (report), standardised financial model, and proprietary portfolio management system. We believe if we execute this process well as an investment team, we have the framework to create portfolios that seek to grow our clients’ wealth over the long term.

Meaningful long-term alpha generation (after fees) is incredibly rare and is thus valuable to our clients. Hyperion has demonstrated an ability to generate long-term alpha since its establishment in 1996. Provided clients and other stakeholders believe that the portfolios Hyperion creates have the attributes that produce economically sustainable, attractive long-term returns, then Hyperion will continue to exist and thrive.

**Mark Arnold (CIO) and Jason Orthman (Deputy CIO)**

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