

A fresh perspective on timeless principles



Time, diversity, balance. You've heard it before – they're the three principles of sound investment.

We may not have invented them but, perhaps more so than most fund managers, we live and breathe them. Whilst we have our distinctive way of doing things, these three timeless principles have guided our approach to investing for over three generations.

If you're looking to achieve superior investment results from global equities over the long term, read on.

How far is your horizon?

The concept of time is crucial to the way we think and do things at Capital. Our investment horizon is much further than the industry norm – instead of asking “where will this stock be in six months?” we ask “where will this company be in five years?”

We've been around since 1931, long enough to witness quite a few bull runs and meltdowns, so our approach to investing has passed the test of time over and over, in all kinds of market conditions.

Respect for the workings of time is at the heart of our culture – Capital's investment philosophy is based on finding promising securities and holding onto them for as long as it takes to realise their potential.

Our commitment to long-term results is perhaps best illustrated by our remuneration policy: Capital's analysts and portfolio managers are primarily measured and rewarded on four- and eight-year rolling returns. This allows them to look beyond the market's daily gyrations and focus on analysing critical far-reaching trends.

Careers at Capital span the long term, too: our portfolio managers have an average of 26 years of investment experience, whilst our analysts have clocked up an average of 15 years in the industry. The wealth of knowledge and experience they bring to Capital gives us a significant advantage.

Short-term results often obscure true potential. So maybe the last quarter didn't look good, but if you know the company well and you have faith in their management, you can see beyond current figures.

That kind of conviction is only possible if you've been following the company for many years.

Diverse or just scattered?

Conventional wisdom holds that diversity is achieved by simply spreading your assets across different regions and sectors. Capital's approach to diversity is a little more elaborate.

When investment ideas are subjected to scrutiny at Capital's analyst meetings, tough questions often lead to impassioned exchanges as the pros and cons are thoroughly dissected. It's not for the faint-hearted, but the divergence of opinions tends to produce just what we want – great ideas.

Capital International's analysts and portfolio managers are located in 11 global research offices, but they share information and views with each other. Unexpected developments around the world are explored, often producing unexpected insights.

For instance, one analyst's thoughts on an explosion of an oil rig in the Gulf of Mexico can trigger another's reassessment of reinsurance companies in Switzerland.

At the core of Capital's way of achieving diversity is our unique Multiple Portfolio Manager System. It deliberately blends a variety of investment professionals with different skills, personalities and views. Each has a mandate to invest in companies that, based on rigorous research, have the best potential.

The net result is getting the best of both worlds. You get a high conviction portfolio and yet, because it represents different people and perspectives, you get a truly diverse fund that delivers lower volatility and more consistent results over time.

At Capital, diversity is a function of combining different ideas, perspectives and styles within one fund.

Putting together a selection of highest conviction ideas from around the world helps produce consistently superior investment results over time.

What's your idea of balance?

Mention balance and most people think asset allocation. Yet, to us, that's only half the story. We think of it in terms of balancing different individuals, skills and opinions in order to arrive at well-balanced investment decisions.

Capital's investment process creates balance between two seemingly contradictory forces – teamwork and independence. Our analysts and portfolio managers share their views and enhance one another's depth of understanding, but ultimately they act on individual conviction. Consensus is not imposed at Capital: it tends to kill off controversial ideas, which are often the best.

Capital's Multiple Portfolio Manager System divides a fund's assets into manageable portions; these are assigned

to individual portfolio managers and analysts who manage their portions independently. The system avoids the pitfalls of a single manager, where there's a risk of going too far in one direction, or that of a committee system, where compromise tends to be the order of the day.

The concept of balance without compromise is pursued in many different ways in a single fund – we may pair a portfolio manager focused on deep value opportunities with another who is more growth-orientated. Or we may put together a manager who excels in bull markets with one who is better in bear markets, giving each the upper hand depending on prevailing conditions. The ultimate aim is to get undiluted balance – 100/100 rather than 50/50.

We don't just see flickering numbers that track the changing fortunes of stocks around the world. We see investors in our funds, real people who entrust their assets into our care.

That's why we'll never stray from our pursuit of balance, an essential component of Capital's investment philosophy.

If you're interested in reaping the benefits of time, diversity and balance, contact Pinnacle Investment Management, Capital's distribution partners in Australia.

Please call 1300 010 311 to learn how Capital can help your clients achieve superior returns over the long term.

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