

Investment management styles



Investment management approach

The purpose of this guide is to provide you with a snapshot of the variety of investment management styles applied across the various investment options available to you. You may wish to consider these styles if you have just started investing, wish to review your current investment portfolio or thinking about making a change to your investment strategy.

You may be familiar with the term 'diversifying' your portfolio. This helps to reduce the volatility of your investment returns by spreading it amongst different asset classes, investment managers and management styles. No one type of security, asset class, investment strategy or investment manager will necessarily provide the best performance over all time periods. The focus of this guide is to help explain the principles of diversifying your investment strategy **across** investment styles, as well as understanding what **investment management styles** are available to you. If you would like to learn more about the various ways you can spread your investment risk read through the *Diversification* strategy guide.

Diversification across investment styles

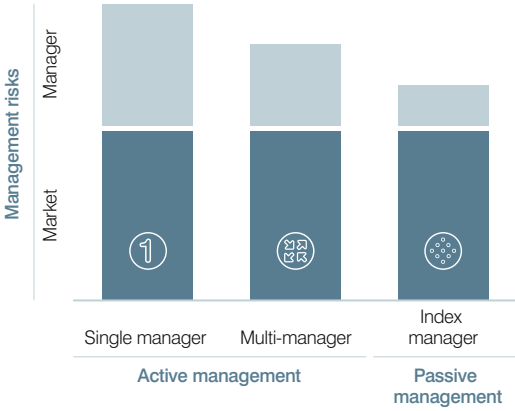
The performance of various investment managers will differ according to the economic environment. This is because their 'investment styles' may differ, that is, the way they arrive at their investment decision. For example, some managers may employ a 'top down'¹ style, others a 'bottom up'² approach. Some investment managers will perform best under one set of circumstances, while another manager will outperform under another set of conditions. More details about the various investment management styles available to you are outlined on page 4.

Within any one asset class, it may be worth considering investing with a number of investment managers with *complementary styles* (that is, different styles). This may provide greater consistency of performance over time, under varying market conditions, than could be expected from a single investment manager.

- 1 **Top down** – a form of stock or security analysis which focuses more on forecasting broad macro economic trends and the effect on the market rather than forecast returns for individual companies (opposite of bottom up).
- 2 **Bottom up** – a form of stock or security analysis which focuses more on forecasting returns for individual companies rather than the economy as a whole (opposite of top down).

Investment management styles

Illustration of the various investment management approaches



You can blend your investment strategy across different management styles. Blending aims to provide less volatile returns throughout the market cycle so that investment objectives can be consistently achieved.

Through your employer sponsored superannuation arrangement with Plum, you have the opportunity to choose the investment options with two different management philosophies, including:



Index management – passive

Indexing is a passive investment management approach. This means that the manager aims only to match the performance of the index it is tracking. An index is a collection of stocks such as the Standard & Poors 500 (S&P 500). The manager tracks the index by holding all (or close to all) of the stocks in the index. This gives broad diversification and lower costs through a longer-term buy and hold approach to securities.

Index management has very low manager risk. Manager risk is the risk that a manager will underperform the index or market that they measure themselves against. An example of an investment manager using an index management or passive approach is Vanguard Investments Australia Ltd (Vanguard).

Investment management styles continued



Active management

Active managers attempt to exceed the performance of the market in a specified timeframe. They do this by buying and selling securities based on research, market forecasts and their own judgement and experience. This is a frequent buy and sell approach to investing which, in addition to the cost associated with research, makes active managers generally more expensive than index managers. Managers review investments regularly to try to benefit from movements in the market or from growth in individual stocks. There are two types of managers who use active management – multi-managers and single managers.



Multi-managers – MLC

Multi-managers do not invest in securities directly themselves. Instead, they utilise the skills of different specialist investment managers to make the investment decisions. They are a 'manager of managers'. They may sometimes use active management or use both active and index management styles together, as they choose managers that have complementary styles. Multi-managers have relatively low manager risk.



Single managers

Single managers make their investment decisions in-house and invest directly in securities themselves. Single managers have different philosophies or styles which they use when they make investment decisions. Two of the more common styles are summarised below.

Value

Value managers are price orientated. This means that they are most interested in getting a company's stock for a good price. They may purchase stocks of companies that are currently out of favour with the market, believing the stock is good value for the price. They generally price stocks based on historical data.

Growth

Growth managers are earnings orientated. This means these managers are primarily interested in a company's earnings. They focus on investing in companies they expect to exhibit high levels of profitability and growth in shareholder earnings greater than their industry peers. Growth managers tend to be concerned with future performance and will most likely invest in companies that have a good earnings outlook. They generally price stocks based on forward-looking data.

Investment terms

Along with the various investment management approaches you may also like to learn more about some of the more commonly used investment terms and fund options outlined below.

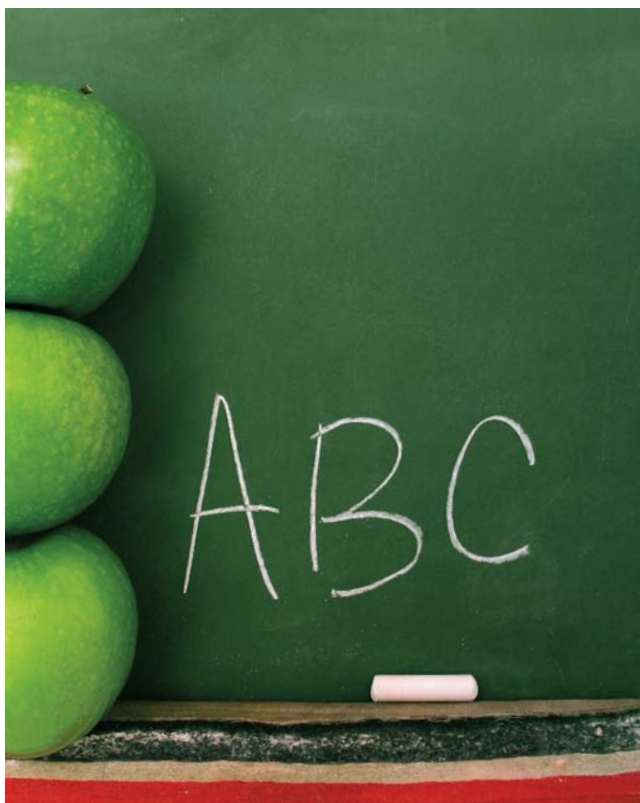
Core manager/style neutral: a term used to refer to a manager with no specific style bias. The manager would aim to produce competitive returns through periods characterised by value and growth style momentums.

Emerging markets fund: a type of fund that invests in countries that are considered to be in transitional phase between developing and developed, such as Russia, Brazil, China, India, South Korea and Thailand. These countries generally provide more volatile returns and, as such, represent higher risk to investors.

Ethical fund: an investment approach that takes into account considerations other than solely the financial return potential on particular investments. An ethical investment policy might include, for example, a decision to avoid certain industries (such as tobacco, alcohol, gambling or mining) or to positively favour investing in other industries seen as more sustainable or socially responsible.

Long-short fund: A fund that takes long (net bought) positions and short (net sold) positions in shares. Short selling is the practice of selling securities that the seller does not own, in the hope of repurchasing them later at a lower price. This is done in an attempt to profit from the expected decline in price of a security, such as a stock or a bond. This is in contrast to the ordinary investment practice, where an investor 'goes long' (purchases) a security in the hope the price will rise. Therefore a long/short fund uses the strategy of buying (going long) shares in one company and selling (going short) in another. A particular type of long-short fund is a 'market neutral fund', which has equally sized short and long positions, thus creating a situation in which the fund has no net exposure to the market.

Small cap: Small cap is short for small capitalisation. A small cap fund invests only in companies with a small market capitalisation. In the Australian sharemarket, this represents any stock listed outside the largest 100 shares on the stock exchange. International small companies are defined as having a market capitalisation of less than US\$2 billion.



Where to from here?



Helping you to get on track

To find out about your super and the principals of investing:

- speak to a Plum Member Services Consultant; and/or
- seek financial advice.



Thinking about your next steps, you may want to consider:

Taking a look at your investment strategy

Why not try the online *Asset allocator* tool which aims to provide you with the ability to 'mix and match' investment options to arrive at a sample asset allocation and investor profile? To take a look at this tool, visit the *Member* section of the Plum website – www.plum.com.au

Asset allocator

Investment Option	Asset Allocation
Path One	
Fixed Conservative	0
Fixed Moderate	0
Fixed Moderate	0
Fixed Aggressive	0
Fixed Aggressive	0
Path Two	
MJZ Cash Fund	0
MJZ Diversified Fixed Interest Fund	0
Vanguard Australian Shares Index Fund	0
MJZ Balanced Portfolio	0
Vanguard iShares Global Growth Portfolio	0
MJZ Growth Portfolio	0
Vanguard iShares Global High Growth Portfolio	0
Path Three	
SP iShares Global Fixed Interest Fund	0
SP iShares Global Fixed Income Fund	0
SP iShares Property Securities Fund	0
SP iShares Australian Equity Fund	0
SP iShares Australian Small Companies Fund	0
SP iShares Emerging Markets Fund	0
SP iShares Global Natural Resources Fund	0
MJZ Accelerated Growth Portfolio	0
Total	100
Remaining	0



Did you know...

As a member of the Plum Superannuation Fund you can access the services of financial advisers through *Momentum Financial Advice*. This service provides general advice over the phone – at no cost to you, in addition to personal face-to-face advice if you require more in-depth advice about your personal financial circumstances.

If you would like more information about *Momentum Financial Advice* or would like to access this service, contact a Plum Member Services Consultant on **1300 55 7586**.

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Contact us for more information

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www.plum.com.au or email us at **service@plum.com.au**, or



Speak with a Plum Member Services Consultant on **1300 55 7586**.

Important information

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