

# Capital Partners

LIFE CONVERSATIONS. WEALTH SOLUTIONS.

## Investment Philosophy



# Our Investment Philosophy

*When you work with Capital Partners, we will take a planning-led approach to your investments. Your advisory team will guide you through creating a detailed financial plan, selecting the right asset allocation and investment strategy for your circumstances.*

As certified fiduciaries we are legally and ethically bound to act in your best interests. We have no ownership or financial ties to investment products, so our interests are always aligned to yours.

We are committed to delivering personalised portfolios for every client. Your portfolio will be tied to your unique goals, with investment allocations that give you a high probability of achieving what you need.

We care about the fees and tax you pay, and our portfolios are designed to be low cost and tax effective.

*We care about the fees and tax you pay, and our portfolios are designed to be low cost and tax effective.*





# Our Investment Beliefs

*Our investment philosophy has been evolving since 1999, and while our portfolio implementation changes and improves, our core beliefs are unchanged.*

*These beliefs underpin our fiduciary approach to investing.*



## Our Beliefs

We believe in long-term investing.

We do not speculate.

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We believe an investment in shares is an investment  
in human ingenuity.

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We believe risk and return are related.

There is no free lunch.

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We believe in good portfolio (and behavioural)  
hygiene.

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# 01

## **We believe in long-term investing. We do not speculate.**

The most successful long-term investors are continuously acting on a plan. We focus on long-term value creation and never speculate with our clients' money, nor do we try to forecast the future. Our investment decisions are based on evidence, using academic research as our foundation.

# 02

## **We believe an investment in shares is an investment in human ingenuity.**

A primary objective of any company is to create value for its shareholders. Good companies consistently do this. While companies will come and go, humans will continue to innovate, and companies will continue to capture this value for shareholders.

The reward for backing human endeavour is the return from the share market, which has on average been around 10% per annum, going as far back as 1926. No other asset class has produced the same level of long-term return, and there is no reason to believe that this will not continue in the future.



# 03

## **We believe risk and return are related. There is no free lunch.**

To achieve a return greater than inflation, investors must have their capital exposed to some financial risk. Temporary declines in a diversified share portfolio are common.

All share market investors must be able to tolerate downward market swings of 15% during a year – and a decline of at least twice that, one year in five. For share market investors these temporary declines are the price paid to capture the long term returns on offer.

We believe a diversified portfolio is the best way to manage volatility, and every financial plan we design has a margin for safety to see your portfolio through times of uncertainty. When you diversify your portfolio (across asset classes, markets, sectors and countries), *you may not make a killing, but you will not get killed.*

# 04

## **We believe in good portfolio (and behavioural) hygiene.**

Good portfolio hygiene includes keeping investment costs, trading activity and taxes low. Once established, every portfolio should be closely monitored and rebalanced on a regular basis to maintain the intended risk budget, without trying to time entry and exit to markets.

We believe sound investor behaviour is essential to harvest the compounding investment returns available, and we work closely with our clients to ensure this during times of uncertainty.

# Our Approach is Systematic and Evidence Based.

*Your investment philosophy should provide you with investment guardrails, and an anchor in times of uncertainty. Our investment approach is systematic, and evidence based, leveraging Nobel Prize-winning academic research. It provides a reliable framework for long term investment.*

Our systematic investment portfolios:

- Are diversified across companies, market sectors and countries – our portfolios are typically invested in more than 6,000 different securities;
- Do not rely on the skill of an individual investment manager or adviser to pick ‘winners’;
- Provide returns in line with the broader market, but over time should out-perform the market; and
- Are implemented very efficiently to minimise management and transaction costs.

While each client portfolio is individually designed and managed, the underlying principles remain consistent for all clients.

*Your investment philosophy  
should be your anchor in  
times of uncertainty.*

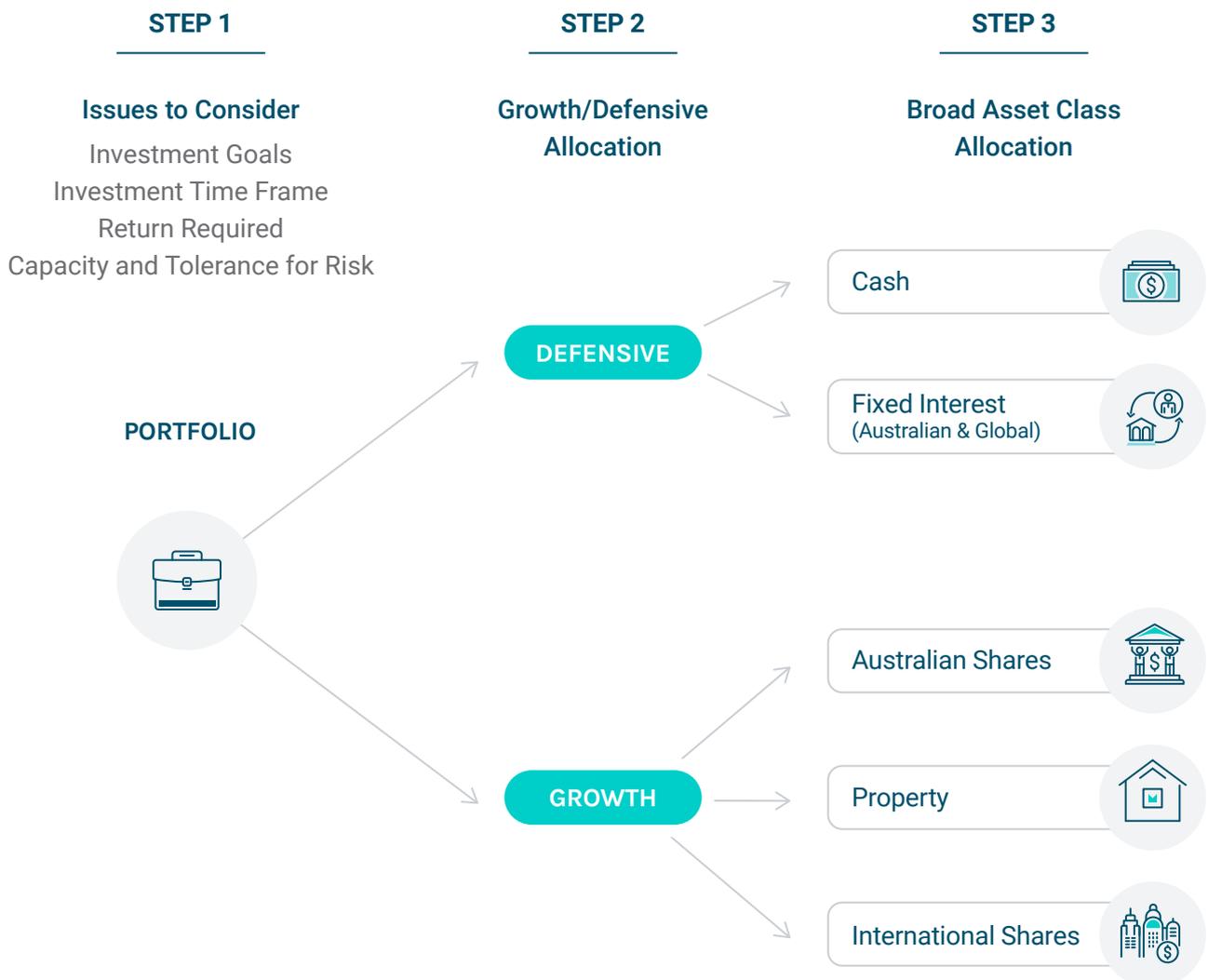
## Constructing Your Portfolio

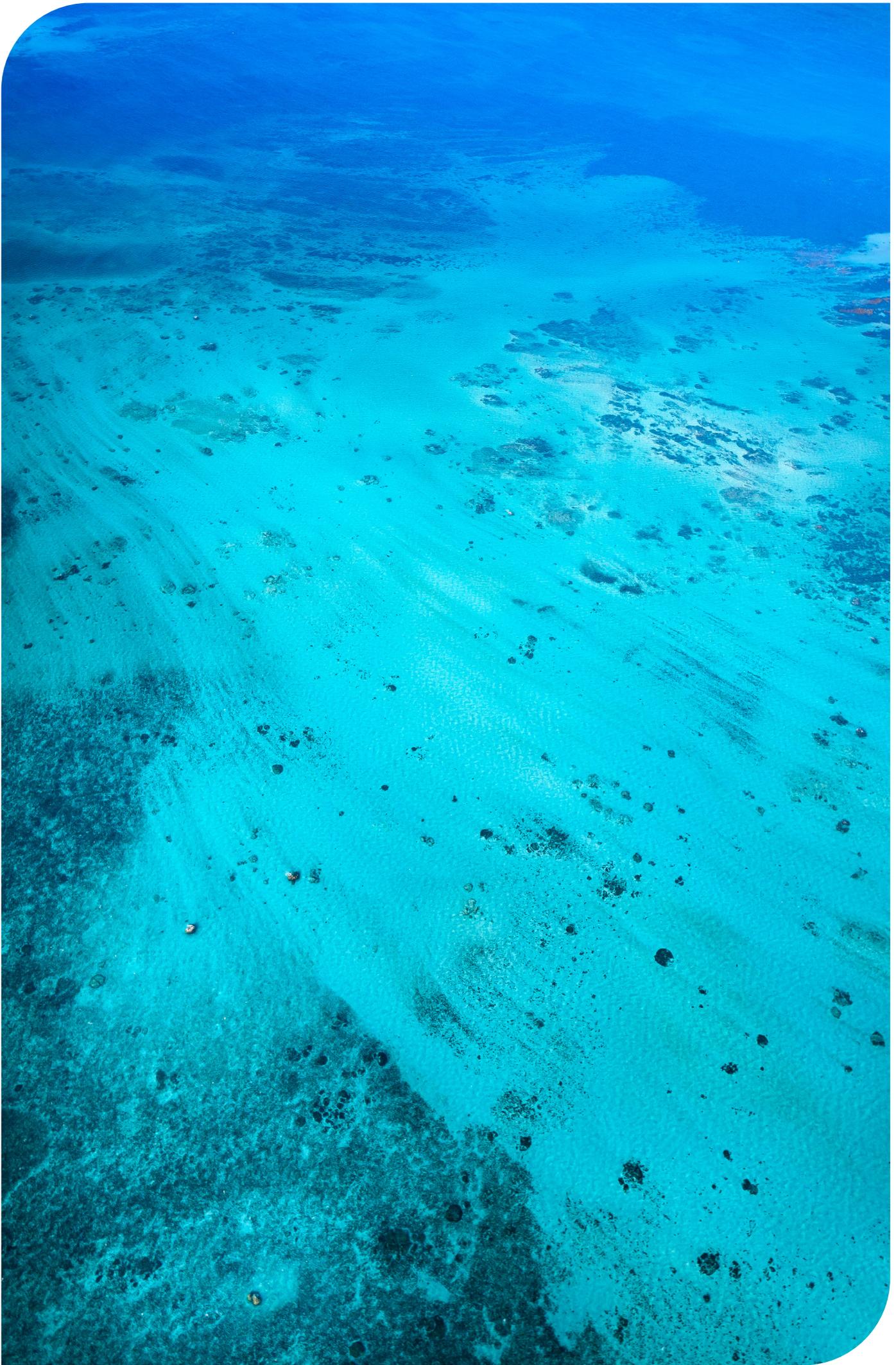
No portfolio is standard. No portfolio is set and forget. Every portfolio is matched to your goals, then individually designed and managed to give you the highest probability of success.

Prior to implementing the investment recommendations for client portfolios, your advisory team will determine the most appropriate risk budget for you. This considers the risk needed to achieve the targeted return, along with your capacity to tolerate risk.

This informs how much of your portfolio should be allocated to growth assets (shares and property), and how much to defensive assets (cash, term deposits and bonds).

The steps we take to build your portfolio are shown in the diagram below, noting that the higher the proportion allocated to growth assets, the higher the expected return commensurate with higher investment volatility.





# Investments in Growth Assets

Our share market portfolios target four dimensions of return across all global markets. By targeting specific premia, we increase the probability of capturing the returns available.

1. The **market premium**: Gaining market exposure at low cost and with tax efficiency;
2. The **size premium**: Smaller companies have higher growth potential and higher expected return;
3. The **value premium**: Companies with lower relative price and are less expensive, have higher expected return; and
4. The **profitability premium**: Companies with profit momentum have a higher expected return.



1

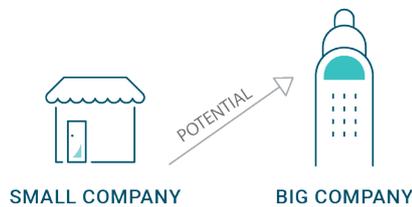
**WHERE TO START?**

Invest in a wide range of companies and you can expect to get a higher return than a bank account.



2

**ADD SMALL COMPANIES**

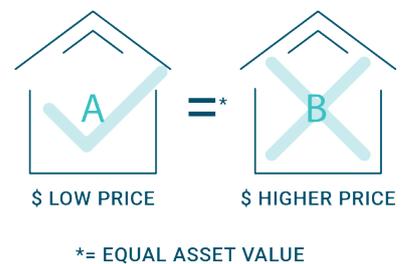


Smaller companies have a greater growth potential than large companies, so include a weighting towards the small companies.

3

**ADD MORE VALUE...**

Companies with a low share price relative to the value of all their assets are likely to outperform those with similar asset values and higher price shares. So include more of the low price companies.



4

**FOCUS ON PROFIT**



Companies that have been profitable in the past are more likely to be profitable in the future, so include more of the profitable companies.

## Investments in Defensive Assets

A proportion of your investment portfolio may be invested in defensive assets like cash, term deposits and bonds. These assets have greater capital security, meaning that the value of the investments remain relatively stable.

To achieve returns better than cash and term deposits, yet with greater security and liquidity, the largest part of your defensive allocation will be invested in a diversified portfolio of bonds.

We build this part of your portfolio to be reliable and hold its value as your 'store of wealth' to fund commitments in times when the share market is down.

You should be aware that bond investments can have negative returns in some market circumstances.

*We build this part of your portfolio to be reliable and hold its value as your 'store of wealth'.*

## Portfolio Maintenance

Once established, every portfolio needs to be managed and maintained to maximise its return potential. Portfolio rebalancing ensures that the risk and return characteristics intended are maintained and ensures the benefits of diversification are not eroded over time.

If a diversified portfolio is not rebalanced (i.e. if the investor were to only buy and hold), the higher-returning asset classes gradually earn themselves higher portfolio weights, and lower-returning asset become proportionally smaller. This may lead to portfolio risk-return characteristics that are not consistent with your needs.

Our Investment Committee oversees the selection and monitoring of our preferred investments. If an investment is deemed to be no longer suitable, the investment committee will identify a suitable replacement.

## Unlisted Investments

Unlisted assets like private equity, private debt, and property syndications have become increasingly popular in Australia. While these asset classes may be appropriate for some investors, they do not meet the liquidity requirements we expect for our clients. For this reason, we do not include these illiquid investments in our client portfolios.

## Sustainable Investing

We offer a range of sustainable investing options that suit investors who have a preference to target fossil fuel and pollution reduction and other socially responsible themes. If you have this preference, your Adviser will take this into account when designing your portfolio.

## Tax Management

We aim to minimise the tax impact of portfolio management. We prefer managers with tax-aware portfolio strategies. We keep portfolio turnover to a minimum wherever possible and avoid unnecessary trading.

Maintaining your portfolio will result in some trading activity and this will result in a capital gains tax liability. This is a necessary trade off to achieve good portfolio hygiene.

*We aim to minimise the tax impact of portfolio management through smart strategies and low turnover.*



## Currency Management

We aim to maintain and grow the value of your investments in Australian dollar values.

When investments are made overseas, your portfolio will be exposed to other currencies. In the short term, the impact on portfolios of volatile currency movements can be significant.

For Australian investors, our policy is to have one-half of your global developed markets exposure in share markets hedged to Australian dollars, and the remaining half unhedged.

All overseas exposures in bond investments will be fully hedged to the Australian dollar to ensure that currency fluctuation does not impact the value of your defensive investments.

## Individually Managed Accounts

Your adviser may offer you access to our Individually Managed Account (IMA) service. This service will be offered if it is in your best interests.

The IMA service enables us to manage your investments in accordance with a pre-agreed investment program, agreed between you and your adviser. By providing us with limited discretion, we can manage your portfolio quickly and efficiently and move your portfolio to a better position where investment changes are required.

Without the IMA service, it takes time to communicate our recommendations to you and seek your approval on each investment decision. This can lead to delays in entering new investment opportunities or exiting investments which can adversely impact your portfolio returns.

The alternative to using an IMA service is that we would need to contact you and obtain your instructions every time a change to your investments is needed.



## Investment Management Partners

We outsource the security selection and trading of your portfolio to trusted investment management partners whose investment philosophy aligns closely to ours. These investment managers have portfolio operations and trading desks covering all global time zones. The Capital Partners Investment Committee monitors the activities and the performance of these managers closely.

## Portfolio Models

The table below provides data for six portfolios that have been constructed to reflect the historical market returns from different market risk profiles. Each portfolio increases in share market allocation in 10% increments, from 50% invested in shares, up to 100%.

The performance data is historical and is based on index data, sourced from Dimensional Fund Advisors (DFA) and Morningstar Australia. The data provides insight into how portfolios of differing share market exposure have performed in the past but should not be used as an indicator of future returns.

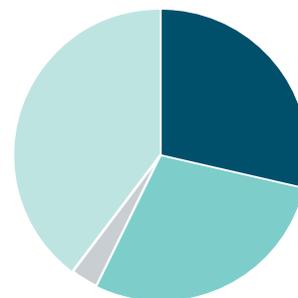
# Portfolio Models



Market 50



Market 60

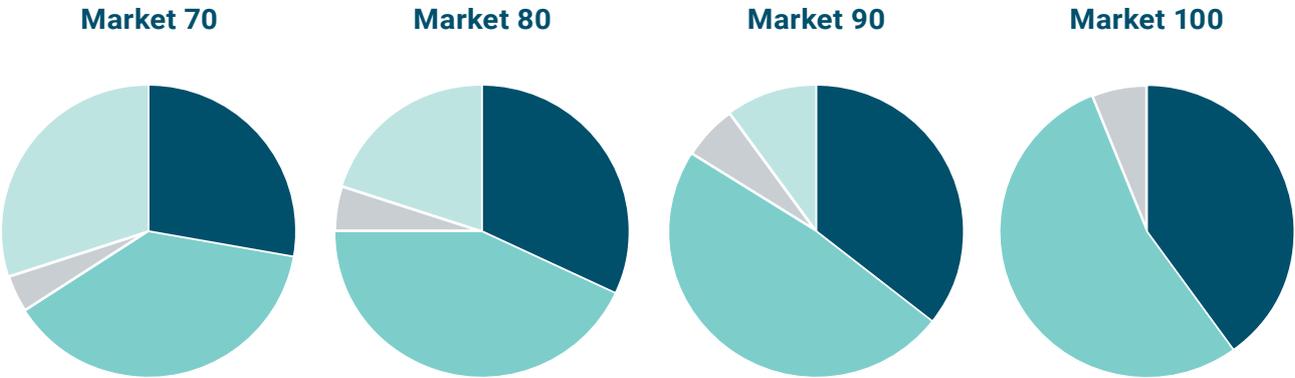


	Market 50	Market 60
<b>Australian</b>	<b>23%</b>	<b>29%</b>
<b>International</b>	<b>27%</b>	<b>28%</b>
<b>Emerging Markets</b>	<b>0%</b>	<b>3%</b>
<b>Fixed Interest</b>	<b>50%</b>	<b>40%</b>

Minimum Long-term Objective	CPI + 2.5%	CPI + 3%
Average annual return	7.48%	7.81%
Average annual standard deviation	5.99%	7.16%
Best 12-month return	23.54%	27.38%
Worst 12-month return	-15.35%	-20.21%
Best 3-year return	15.76%	17.07%
Worst 3-year return	-1.53%	-3.13%
Number of positive quarters	106 out of 142	105 out of 142
Number of positive quarters (%)	74.65%	73.94%
Number of negative quarters	36 out of 142	37 out of 142
Number of negative quarters (%)	25.35%	26.06%

Source: DFA Returns Program & Morningstar, January 1990 to December 2024. Analysis: Capital Partners Consulting Pty Ltd.

Data is historical based on index data. Historical returns cannot be used to forecast future returns. We use index data so that we can have data going back over 30 years. You should note these returns do not include any investment management fees or taxes which would be incurred when implementing a similar portfolio. The data uses several indexes with the same asset allocation weightings as our recommended portfolios. The asset class weightings are as per the percentages listed above (for example, the 70 Growth portfolio includes a 28% weighting to the relevant Australian Equities index). The indexes used are as follows: Australian Equities = S&P/ASX 300 Index (Total Return). International Equities = a combination (50% in each)



<b>28%</b>	<b>32%</b>	<b>36%</b>	<b>40%</b>
<b>38%</b>	<b>43%</b>	<b>48%</b>	<b>54%</b>
<b>4%</b>	<b>5%</b>	<b>6%</b>	<b>6%</b>
<b>30%</b>	<b>20%</b>	<b>10%</b>	<b>0%</b>

CPI + 3.5%	CPI + 4%	CPI + 4.25%	CPI + 4.5%
8.28%	8.59%	8.74%	8.87%
8.44%	9.66%	10.78%	11.90%
30.69%	34.07%	36.66%	39.32%
-24.29%	-28.54%	-32.25%	-35.73%
18.54%	20.56%	22.40%	24.22%
-5.28%	-7.14%	-8.84%	-10.76%
105 out of 142			
73.94%	73.94%	73.94%	73.24%
37 out of 142	37 out of 142	37 out of 142	38 out of 142
26.06%	26.06%	26.06%	26.76%

of MSCI World ex Australia Index (net div., AUD) and MSCI World ex Australia Index (net div., hedged to AUD). Emerging Markets = from 01/01/1990 to 31/12/1998, MSCI Emerging Markets Index (gross div), then MSCI Emerging Markets Index (net div., AUD) from 31/12/1998 onwards when it first became available. Fixed Interest = a combination of Bloomberg Global Aggregate Bond Index (hedged to AUD), FTSE World Government Bond Index 1-3 Years (Hedged to AUD), and FTSE World Government Bond Index 1-5 Years (Hedged to AUD). The split of fixed interest funds changes between portfolios, with lower growth allocation portfolios having a larger weighting to shorter-term fixed interest, and higher growth allocation portfolios having a higher weighting to longer-term fixed interest.

# Capital Partners

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ADVISERS

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Disclaimer: This information is of a general nature only and may not be relevant to your particular circumstances. The circumstances of each investor are different and you should seek advice from a financial adviser who can consider if the strategies and products are right for you.