

## Future Generation: Insights from the Investment Committee

Caroline Gurney and John Coombe

Different investment styles | 29 April 2022

**CAROLINE GURNEY:** A lot of shareholders don't follow the markets as closely as you. Would you mind giving us a brief overview of exactly what the terms mean? And maybe we can start off with what are active managers? Everybody talks about active managers. What are they really and how does it compare to others out there?

**JOHN COOMBE:** An active manager is someone who does a lot of stock research and decides that they want to go into a company and they want to hold it for a period of time. And sometimes it can be as short as three months. Most times it's longer than two years, three years. Why do they want to hold it, because they've looked at the fundamentals of the company and they see it as really attractive over the longer-term. As we all know, if we watch the news each night there's an Index called the S&P ASX 300 Index. That's an Index of all the companies on the Australian Stock Exchange (ASX). When we talk about an active manager we're talking about someone who will look at that Index weight, say for a BHP (ASX: BHP), and decide I don't want to own it or I want to own double it or I want to own 2% more than the Index. We've got a real range of managers. Some of them don't even care about the Index, and others do look at the Index and take active weights.

**CAROLINE GURNEY:** John you talk about the different styles. Tell us exactly how you see the long only, the market neutral and the absolute bias style?

**JOHN COOMBE:** Let's start with absolute because it's the most difficult for people to understand. These people are trying to protect capital all the time, so their benchmark is cash. They're buying stocks, they're selling Index Futures or they're selling calls and puts on stocks, and basically they're trying to have a portfolio where they've got \$100 invested in companies they like, they've got \$100 in protection, so that their return is cash plus how they good they are at stock picking. That's an absolute return manager. Then we've got long only. All they do is look at that long part of the book, what companies do I really like? They don't take out any protection. And we measure them against the Index. So we measure them against the ASX 200 or 300.

CAROLINE GURNEY: Tell us the differences you see between growth and value?

JOHN COOMBE: Growth people like to buy earnings per share growth. Actually all investors, whether value or growth, want to buy earnings per share growth. The real issue is how much will I pay for it? A growth investor will look at the growth rate into the future and assume that earnings don't fade away over time with competition. And they're willing to pay more money for a dollar of those earnings into the future. Whereas a value guy looks at that, he fades the earnings into the future and says no, competition will come if they earn too much and so I only will pay a smaller amount. So you have the differences in styles really being about how much I'm willing to pay for that earnings of growth. A growth guy will pay more because they don't discount as much. A value guy discounts the cash flows a lot more.

CAROLINE GURNEY: Market neutral, because everybody always talk about shorts. How do you see that?

JOHN COOMBE: Well that's my absolute managers. You know, one hundred percent long, one hundred percent short, cash. They're a market neutral manager. There are variations on this as you know Caroline. There's the long short managers where they go maybe 130% long and then they sell 30% of stocks they don't like, and so they've got about 100% in the market. But they've really got exposure to 160% of the market.

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