



# SOVEREIGN

Product Brochure

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## Key Features

### Redefining Investment

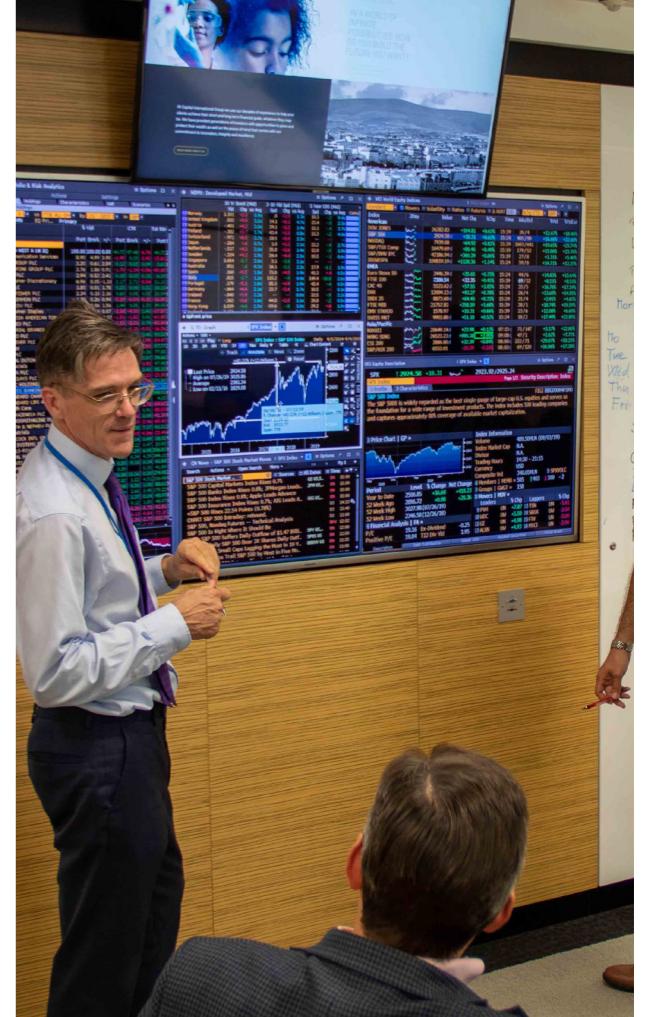
Investment excellence depends on qualities that tend to be constant over time; accuracy and rigour of analysis, strength of conviction, tenacity in terms of sticking to one's beliefs (even if short term market movements question these) and the boldness and correctness of one's positions in relation to these beliefs.

Getting the above right will determine investment outcomes and long term investment performance. Not getting them right may lead to dissatisfaction and the failure to realise long term investment goals.

Capital International Limited ("CIL") is a subsidiary of Capital International Group ("CIG"), that provides discretionary investment management services through its Investment Team. We aim to excel in terms of the accuracy of our analysis, conviction, tenacity, and boldness in terms of tactical positioning.

### Accuracy of analysis

Successful investing depends on a proper understanding of the companies and securities that one invests in, and being able to make reasonably accurate forecasts about how they may fare in the future. We pride ourselves on producing in-depth, knowledgeable and insightful research, which form the bedrock of our investment analysis. While we cross check this against third party research, we are careful not to be overdependent on other peoples' research, and are wary of conflicts of interest. We may not always be right in our analysis, but if we are not we rigorously question our original assumptions and revisit positions and recommendations.



### Conviction

While we are nimble and open to shorter term trading opportunities, we consider ourselves to be long term in our thinking. This involves having conviction, in particular about the long term prospects of our investments.

The great American investor, Warren Buffet, once said: 'Buy stocks where the earnings are virtually certain to be higher in five, ten or 20 years' time.' We would highlight the words 'virtually certain' in the quotation. All stocks have prospects, but the question is whether the stock's valuation reflects where those prospects are likely to be five or ten years down the road. Will the company's earnings stagnate over the next five years, or will they be substantially higher than they are now? If those earnings are virtually certain to be higher, this will override other matters like sentiment, the structure of



interest rates, political developments and so forth. All CEOs have a story to tell, and will no doubt be industrious and well-intentioned in terms of developing their plans for the companies they run. But the companies, or the industries they are in, may not have the capacity to live up to those ambitions.

Ultimately earnings growth determines share prices. Companies that are able to grow their earnings consistently over time will, despite periodic bouts of volatility, see their share prices rise in the long term. It sounds simple, and in a sense is, but often investors can be distracted by other issues (market timing, listening too much to others, paying too much attention to short term movements, and so on).

### Tenacity

'In the short term the market is a voting machine. In the long term it is a weighing machine.' (Warren Buffet)

Without wishing to be overdependent on insights gleaned from great investors, not dead yet! the 'Sage of Omaha' is highlighting something important here.

Whatever happens to be popular at the time – the fads currently fashionable - can drive stock prices in the near term. However, in the long term it is generation of value in terms of increased revenues and profits that will drive share prices

and shareholder returns. The investors need to be tenacious in terms of sticking to those original convictions and not be swept aside or distracted by shorter term trends or fashions.

In recent years much has been written about the behavioural problems that come with investing and 'overconfidence' is one of these perceived psychological flaws. One can be overconfident in terms of sticking to one's beliefs in spite of all the evidence. At the same time one can be overconfident in the sense of not sticking to one's beliefs, and changing one's mind too often.

Benjamin Graham, once said: 'The stock market provides the investor with opportunities to buy wisely when share prices fall a lot, and sell wisely when share prices rise a lot. At other times, the investor would do well to ignore the stock market entirely.' It is important not to get sucked into over-activity and to avoid the dangers of over-optimism and overtrading, which tend not to be productive.

### Boldness

The British investor, Anthony Bolton, said of his early experiences of investing: 'I quickly realised that if one wanted to outperform one needed to do something different to other investors.' Successful active (as opposed to passive) investing depends on high conviction and high active positioning relative to benchmarks. This requires a certain amount of boldness (not to

be confused with recklessness, or speculation), and represents a different approach to 'closet benchmarking', or 'benchmark hugging'.

Finally, we add a couple of other observations:

### Stewards of wealth

We are always conscious that we are stewards of client wealth. This involves being aware of the fact that while stocks are always volatile, they can be particularly risky (in terms of permanent loss of value) at times of overvaluation, or where the companies are dependent on business models that are unlikely to work in the long term. It is important to minimise one's exposure to what may turn out to be permanent diminutions in value. As Buffet put it, 'The first rule of investment is: Never Lose Money. The second rule of investment is, Don't Forget Rule One.'

### Process versus Outcome

All investment management companies need an investment process, but too often this can become a substitute for independent or original thinking, and in many cases it can get in the way of what is best for the client (investment committees have well-known behavioural biases, and can be bureaucratic and overreactive, with a tendency to 'frame' decision making, and only take decisions within formal channels. At CIG, we believe that clients' investment interests and the provision of the best return should drive activity, rather than the Committee's process. Client 'outcome' is more important than 'process'. We look to avoid inertia, investment by numbers, groupthink and lack of clear decision making.

### Discretionary Managed Service

Sovereign discretionary portfolios are managed by the investment professionals at Capital International Limited ("Investment Team") under a discretionary investment management agreement. The Investment Team have an excellent performance track record spanning

over twenty years, which is available on our website or upon request.

### Suitability & Risk Profiling

We offer a wide range of defined risk- return profiles enabling clients and their advisers to match their specific investment requirements with precision and clarity. We conduct the risk profiling to assist with life-style and financial planning, so that the appropriate Sovereign Portfolio can be selected and adjusted as required. This is performed by an advanced modelling tool we have developed. We always go to great lengths to ensure that investment portfolios are suitable for clients.

### Availability

The minimum initial investment is GBP 500,000, or currency equivalent, although lower amounts can be considered. Sovereign Portfolios have no exit penalties or lock-in periods.

### Flexibility

Sovereign Portfolios are ideal for clients wishing to make regular contributions or withdrawals, and the flexibility of investing at regular intervals allows clients and their advisers to create a portfolio that reflects their long term investment requirements. Investment profiles can also be selected to facilitate pension scheme withdrawal schedules through a regular withdrawal facility.

### Service & Reporting

We report to clients on a quarterly basis, but offer online access to portfolios at all times. Reporting is transparent and comprehensive, will access to our investment managers is available at all times.

### Competitive Cost, High Value

We set our management fees at competitive levels that enable us to achieve the management quality we believe is essential.

# Balancing Risk and Return

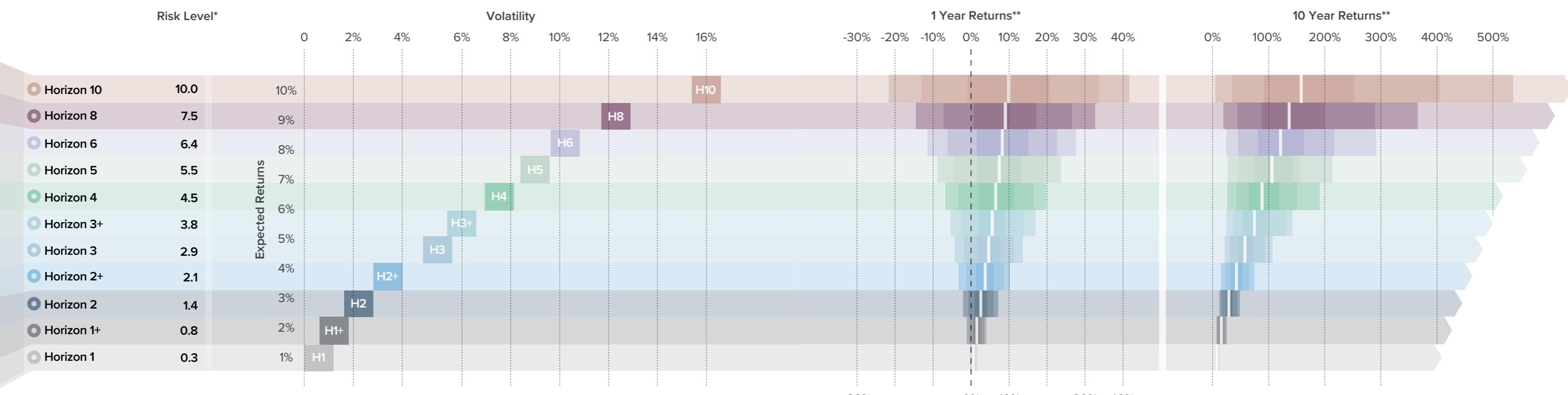
The optimal risk-return balance occurs where investment objectives and return requirements overlap with a client's risk tolerance.

To find this balance, we must consider two important rules of investment. Firstly, some risks

can be reduced or eliminated simply through diversification. Secondly, for a well-diversified portfolio, the net impact of risk tends to diminish with time and therefore it is important to consider carefully the investment time horizon for any portfolio.

We manage a number of clearly defined investment strategies, covering a wide spectrum of risk and return objectives, designed to achieve good levels of diversification and thereby maximise the expected returns achievable for a specific time horizon and risk level.

The following chart illustrates and compares the expected return distributions of these risk-return strategies over both the short term and over the longer term



\*Risk level compared to equity risk of 10.

\*\*White bars represent expected cumulative return over 1 year & 10 year investment periods.

## Risk Tolerance

Risk is unavoidable. Indeed holding cash deposits can be one of the riskiest strategies of all as over the longer term inflation will steadily erode its real value.

To assess risk tolerance, investors should consider a variety of factors including:

- Your capacity and willingness to accept short term volatility
- The risk of excess caution compromising longer term goals

- The risk and impact of extreme market events
- Your reliance on the portfolio to meet regular expenses or future liabilities
- Length of time the portfolio can be invested
- Your likely reaction to a sudden fall in markets
- Your return objectives
- Your knowledge and experience of investing

## Investment Objectives

Your investment requirements and objectives are unique and will change with time. We will help you define and regularly review your investment objectives including:

- The purpose of the portfolio
- Different investment phases/period that may apply
- Regular contributions or withdrawal requirements
- Any future capital requirements or liabilities
- Your investment time horizon
- Your return objectives
- Your risk-return appetite

# Investment Excellence

Our Sovereign portfolios use broad diversification to avoid the risk concentrations that can occur with some similar strategies.

## Updating Risk-Return Profiles

Our Horizon Risk-Return Profiles are crafted to target an optimal balance between risk and return over different time horizons. These may change over time and will be adjusted to remain compelling as the investment environment drags.

# About Capital International Group

At Capital International Group we use our decades of experience to help clients achieve their financial goals. We have provided generations of investors with opportunities to grow and protect their wealth as well as the peace of mind that comes with our commitment to innovation, integrity and excellence.

Capital International Group was founded in 1996 on a single-minded mission to provide the best possible service to private investors, independent advisors and wealth managers. For more than 20 years we have been unwavering in our commitment to that goal, investing in our business to support our clients in achieving their financial objectives.

With offices in the Isle of Man and in South Africa, we now manage and administer over \$3.5bn through a full suite of financial solutions.



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