Active & Passive investing

Most people divide investing into two main types: **Active** and **Passive.**

- **Active** investing requires human judgement and discretion in selecting which securities to buy.
- **Passive** investing involves the replication or tracking of an index or broad market benchmark such as the FTSE 100.

You may assume that Active and Passive are the only two ways to approach investing, but there are many different strategies that sit somewhere in between. These are explained in more detail opposite.

Active investing requires human judgement in an attempt to out-perform the market.

Passive investing tries to replicate the performance of an index.

Active and Passive are not binary – there are many strategies in between.

We believe that both Active and Passive strategies have an important role to play.

St James's Place

Passive

Also known as index or beta investing, this simply tracks an index and replicates it.

Smart Beta

A strategy that uses academically evidenced factors to try to outperform an index. Factors are characteristics of businesses that are shown to influence investment return. With Smart Beta these factors remain relatively static over time.

Active Quantitative

A strategy that uses big data alongside complex models (created and tested by researchers) to help a fund manager make informed decisions. These models usually rely on factors which are continuously enhanced as new data becomes available.

Diversified Active

The process of combining a number of active fund managers who have different strategies for selecting and managing stocks.

Concentrated Active

An approach whereby a single fund manager makes individual decisions on a small number of hand-picked stocks, with the aim of delivering exceptional results.

Active & Passive spectrum

There are several strategies that sit somewhere between Active and Passive investing. Our aim is to combine the benefits of all approaches while minimising risks and opportunities for failure. The chart below shows the characteristics of each approach.

<table>
<tr><th></th><th>Passive</th><th>Smart Beta</th><th>Active Quantitative</th><th>Diversified Active</th><th>Concentrated Active</th></tr>
<tr><td>Diversification</td><td>Highly diversified</td><td colspan="2">Highly diversified but targeted</td><td colspan="2">Hand-picked portfolios</td></tr>
<tr><td>Selectivity</td><td>No selectivity</td><td colspan="2">Technology-driven selectivity</td><td colspan="2">Human judgement</td></tr>
<tr><td>Performance</td><td>Market-level performance</td><td colspan="2">Potential for moderate out-performance</td><td>Potential for higher returns</td><td>Potential for exceptional returns</td></tr>
<tr><td>Risk of deviation</td><td colspan="2">Low risk of performance deviating from index</td><td colspan="2">Higher risk of performance deviating from index</td><td>Very high risk of performance deviating from index</td></tr>
<tr><td>Fees</td><td>Very low fees</td><td colspan="2">Low fees</td><td>Average fees</td><td>Higher-than-average fees</td></tr>
<tr><td>Responsible investing (RI)</td><td colspan="3">RI considerations implemented through tilts and broad company engagement.</td><td colspan="2">RI considerations implemented through fundamental research and more focused company engagement.</td></tr>
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The value of an investment with St. James's Place will be directly linked to the performance of the fund selected and may fall as well as rise. You may get back less than the amount invested.

An investment in equities does not provide the security of capital associated with a deposit account with a bank, as the value and income may fall as well as rise.