

# Understanding risk and return

## INVESTOR GUIDE

### KNOW YOUR RISK PROFILE


Risk is a fundamental part of investing and the key to your investment strategy. It is important to understand the relationship between the investment options you choose and the degree of risk each investment option holds.

Generally, there is a trade-off between risk and return, so that to achieve a high level of return, investors must be prepared to take on a higher level of risk in their investment portfolio.

#### Degrees of risk

There are two broad groups of asset classes. Growth assets include shares and property and are regarded as long-term investments (usually for a period of 5+ years or more). Defensive assets, also known as income assets, include cash and fixed interest and tend to be more suitable for short to medium-term investment timeframes.

A common way of thinking about risk is how much the price of the investment is likely to go up and down from day-to-day or week-to-week – that is, the ‘volatility’. The table below shows risk-return profiles matched against asset classes and the degree of risk involved for each profile.

Risk return profile	Description	Asset Group	Asset class	Degree of risk
High	This profile is appropriate for investors prepared to take on a higher level of risk to pursue higher potential returns. This style of investment option has a higher exposure to growth assets and is expected to deliver a return above inflation plus potential for greater high long-term wealth accumulation over the long-term.	Growth	Shares	High risk and high potential return  Low risk and low potential return
High to moderate	This profile is appropriate for investors who are willing to accept a higher than average volatility of returns in order to achieve higher than average capital growth. This style of investment option has a higher exposure to growth assets than defensive assets and is therefore expected to deliver a reasonable return above inflation plus the potential for moderate to high wealth accumulation over the long-term.		Property	
Moderate	This profile is appropriate for investors with a preference for a balance of growth and defensive assets. This type of investment option is expected to deliver a reasonable return above inflation and have moderate long-term wealth accumulation potential with a medium to long-term investment time horizon.		Fixed interest	
Low to Moderate	This profile is appropriate for investors seeking to protect their accumulated wealth and generate some income, who are only prepared to accept a relatively low level of volatility. This type of investment option is invested in both defensive and growth assets with a greater exposure to defensive assets. This type of investment option is designed to generate income return and have the potential for some long-term wealth accumulation over a medium-term investment time horizon.	Defensive	Cash	
Low	This profile is appropriate for investors who want lower risk levels and are willing to accept lower returns in order to preserve their capital (ie your original investment value). This style of investment option would primarily invest in defensive assets with a short to medium-term investment time horizon.			

Graph prepared by Russell Investment Management Ltd from data sourced from ASX; Bloomberg; RBA.

**Make sure your investment strategy matches your level of comfort with risk and your investment horizon.**

## Consider your investment timeframe

When choosing your investment options, you should select an investment option to match your level of comfort with investment risk and your investment time horizon. Your investment time horizon is basically how much time you have before you'll need access your investment dollars. For example, if you are a long way from retirement, an investment strategy with growth and high growth investment options may be more suitable than if you were close to retirement where more conservative investment options may be appropriate.

The multi-sector, multi-manager approach pioneered by TOWER's multi-manager, Russell Investment Management Limited, offers a range of funds that can provide an optimised mix of growth and defensive assets, suitable for most risk profiles shown above. Of course, your individual needs and objectives need to be considered. We suggest you contact your Financial Adviser to discuss your financial goals and what level of risk suits you best.



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