

Investment

# TOWER'S MULTI-MANAGER INVESTMENT APPROACH

Adviser guide

HOW YOU + YOUR  
CLIENTS BENEFIT

**At TOWER, we believe our multi-manager investment approach is key to delivering specialist products and services to clients who want a proven investment solution that provides consistent returns with lower risk over the long term.**

The investment manager that TOWER has appointed for our multi-manager investment product range is Russell Investment Management Ltd (Russell). Russell is the world's largest manager-of-managers as rated by Cerulli Associates, and is Australia's only "highly recommended" multi-manager as rated by independent researcher Lonsec (2005 2006 & 2007).

This guide explains how the multi-manager investment approach works and how it provides real benefits to your clients.

**About multi-manager**

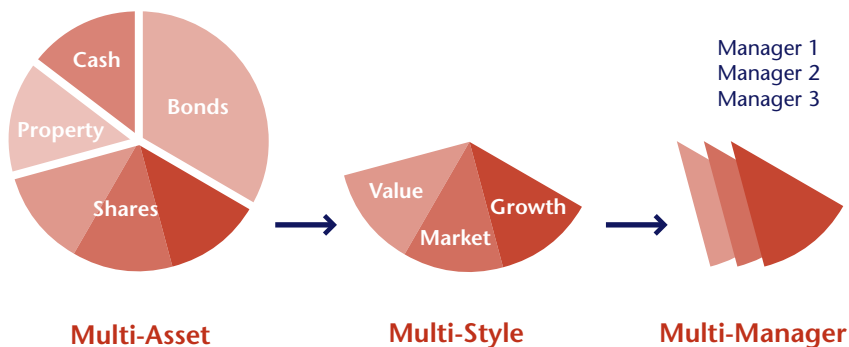
Investing in a single asset class investment is risky when you consider no one asset class consistently outperforms on a regular basis. As the number one global manager-of-managers, Russell developed and launched the multi-manager concept more than 20 years ago in Australia. Their disciplined, diversified approach builds investment portfolios that are designed to manage risk across three levels of diversification:

- Multi-Asset
- Multi-Style
- Multi-Manager

This means volatility is smoothed out over the long term and your clients are provided with more consistent returns regardless of which asset class, style or manager is in favour with the market.

**Three levels of diversification**

- Each investment portfolio is diversified across multiple asset classes;
- Each asset class includes multiple investment styles; and
- Multiple managers are used



**1. Multi-Asset: the first level of diversification**

Different asset classes have different risk and return characteristics. A successful investment portfolio should combine asset classes in such a way that meets your client's objectives and their need for stability.

**Why managing market risk is so important**

Your clients cannot avoid risk. Risk is at the heart of investing. However, how you can guide your clients to manage risk is the key to their investment strategy. Multi-manager investing aims to provide clients with attractive returns with below average risk. Too often, clients can focus on last year's best performers when they make their investment decisions. If returns were strong the year before, they expect the coming year to produce similar results. Unfortunately, on a year-by-year basis, the financial markets are volatile and the past is not a reliable indicator of future returns.

One of the elements of the Russell multi-manager strategy is to identify and eliminate as many unrewarded risks as possible. Unrewarded risks are those that, on average, have either a zero or negative payoff over time. Russell's investment philosophy is based on 30 years of analysing what has, and has not been, a reliable source of excess returns over the long term.

**The Challenge**

Russell seek managers that skilfully take the risks that most reliably offer potential rewards, while avoiding risks that merely add volatility.

By developing a more efficient way to structure an investment portfolio, it is possible to manage risk without giving up returns.

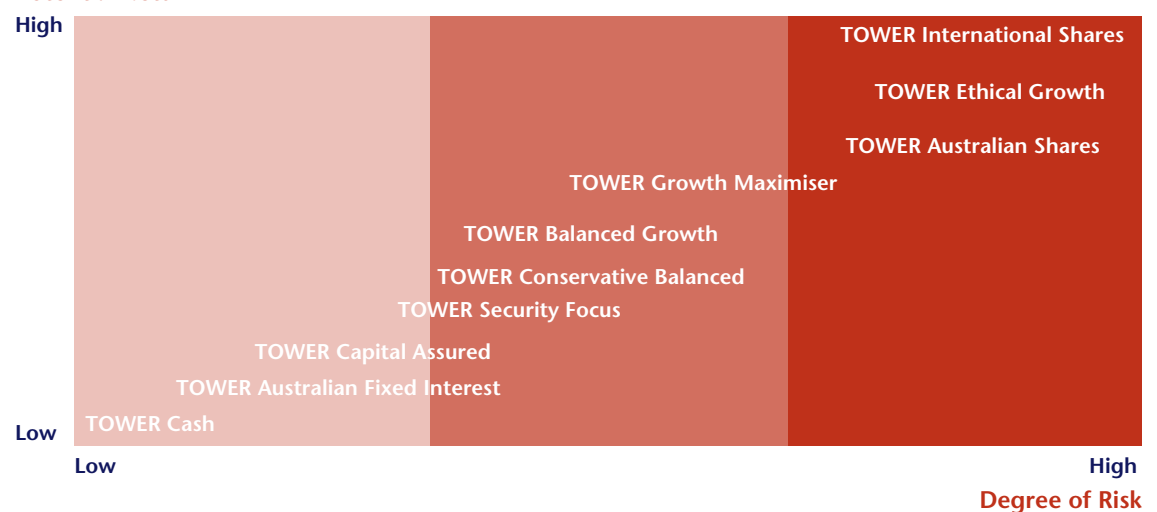
### The relationship between investment risk and return

There is a basic relationship between risk and return. Generally the investment options with the potential to earn higher returns carry a greater risk. Identifying your clients' risk profile is important as it gives guidance as to how much risk they are willing to accept in return for gains. This is heavily influenced by their age and life cycle (ie. whether they want to supplement an income or save for retirement). A description of each risk-return profile is detailed below:

Risk-return profile	Description
<b>Defensive</b>	This profile is appropriate for investors who want a lower risk level and are willing to accept lower returns in order to preserve their capital (ie. their original investment). This style of investment option would primarily invest in defensive assets with a short to medium term investment horizon.
<b>Conservative</b>	This profile is appropriate for investors seeking to protect their accumulated wealth and generate some income, but 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 has an expectation to generate an income-oriented return and have low long term wealth accumulation potential with a medium term investment horizon.
<b>Moderate</b>	This profile is appropriate for investors wanting a balance of growth and defensive assets. These investment options are expected to deliver a reasonable return above inflation and have moderate long term wealth accumulation potential with a medium to long term investment horizon.
<b>Growth</b>	This profile is appropriate for investors who are willing to accept higher volatility of returns in order to achieve higher capital growth. These investment options have a higher exposure to growth assets and are therefore expected to deliver a reasonable return above inflation and have moderate to high long term wealth accumulation potential with a long term investment horizon.
<b>High-Growth</b>	This profile is appropriate for investors prepared to take on a higher level of risk to pursue higher potential returns. These investment options have a higher exposure to growth assets and are expected to deliver a return above inflation and have high long term wealth accumulation potential with a long term investment horizon.

The following graph illustrates the relationship between risk and return for each of the TOWER investment options.

### Potential Return



*FACT: Diversifying among asset classes is the most prudent approach to managing risk.*

## 2. Multi-Style: the second level of diversification

There are several investment **styles** used by investment managers in the market. These methods can be generally categorised into one of several broad investment styles, such as **Growth, Value, Core and Neutral**.

### Growth style

When employing the growth investment style, the investment manager will look for companies whose earnings are expected to grow faster than the market average.

### Value style

Value investment managers try to find 'undervalued' companies. Mostly value managers will buy shares that are out of favour or undervalued by the market as they believe the share price will eventually increase.

### Core style

Core investment managers invest in a highly controlled fashion that whilst still active, seeks to consistently achieve relatively moderate returns above the benchmark when compared to other approaches. A core portfolio does not typically have a bias towards growth or value styles and may be an appropriate complement to more aggressive managers within a multi-manager portfolio.

### Neutral style

Style neutral investment managers display no bias toward any particular investment style such as value as opposed to growth, or large caps as opposed to medium or small cap stocks.

### Mixing styles

It is possible to use a mixture of active investment styles. For example, Growth at a Reasonable Price (GARP) is a popular style that uses a combination of both value and growth investing and the stocks sought after when using this style are mid-range in terms of pricing and their growth aspects.

Styles continually move in and out of favour with the market. The cycles are hard to predict, because they don't rotate with any pattern. If you invest in just one style, you can incur a lot of unnecessary risk.

Russell's in-depth knowledge of styles means they can construct investment portfolios that include managers with complementary styles. When clients invest in a TOWER multi-manager investment option, their investment is automatically diversified into several styles. This blending of styles can help manage risk and provide more consistent returns. Style diversification helps investors feel more comfortable in adopting, and sticking to, a long-term investment strategy.

*FACT: Investment styles move in and out of favour with the market.*

## 3. Multi-Manager: the third level of diversification

Russell believes manager selection is the key to the investment process it follows. Some of the best investment managers worldwide, not just in Australia, are available to your clients through Russell. These investment managers are analysed thoroughly and continually. Russell's objective is to select the good managers and rule out those with inconsistent strategies and styles.

### Russell takes a non-heroic approach to investing:

Russell continually monitors the managers in its portfolios, because there is no assurance that managers selected will perform as they have in the past.

### How does Russell find consistent, above-average managers?

From the world's available investment products, Russell monitors about 8,000, paring this down to about 4,600 of primary interest that meet various stringent screening requirements. From this group, about 200 are selected to become part of Russell investment manager products.

Russell undertakes both qualitative and quantitative research to form opinions of managers. This includes research of:

- Investment staff
- Organisational environment
- Security selection
- Research
- Sell decision
- Portfolio construction
- Implementation

*FACT: Even the best investment managers do not stay on top for extended periods of time.*

**The benefits of TOWER's Multi-Manager approach**

Multi-manager investing is a complex process that combines global research, careful selection and blending of managers, asset allocation, performance monitoring and efficient portfolio implementation. TOWER's partnership with Russell – the global leader in multi-managing investing – means TOWER investors have access to:

- a reputable and highly rated investment manager. Russell's investment management quality has been recognised and validated by industry's top independent experts such as Lonsec, Global Investor, Plan Sponsor and more.
- the world's best investment ideas built-in to their portfolio. Russell's exacting research devotes extensive global resources to selecting and monitoring many of the world's best investment managers.
- exposure to more asset classes and innovative strategies. Investors may (depending on the product they are invested in) be able to gain exposure to alternative investment opportunities such as global listed property and hedge funds to keep them ahead of the rest of the market.
- a consistent investment performance track record. Russell's disciplined and detailed investment process strives to achieve consistent, above average long term returns while intelligently controlling risk.

**TOWER's multi-manager approach strives to deliver quality investment solutions and proven investment expertise so your clients can achieve their investment goals.**

**Need more information?**

If you would like more information about TOWER's multi-manager investment approach we'd love to hear from you. Simply contact your TOWER Regional Adviser Marketing Manager or email the TOWER Distribution team at [TOWERInvestment.Distribution@toweraustralia.com.au](mailto:TOWERInvestment.Distribution@toweraustralia.com.au)