MULTI-MANAGEMENT

Investment Solutions
With Confidence

WHAT IS MULTI-MANAGEMENT?

Multi-management is an investment philosophy that has as its objective the optimal blending of the best skills and styles of more than one fund manager. The multi-manager does not manage assets, but rather the fund managers responsible for buying and selling securities.

Why only diversify between asset classes (e.g. equities, property, bonds and cash) and not between fund managers?

- Multi-manager investing is an investment approach that combines multiple single fund managers in a multi-manager portfolio
- The multi-management theory is based on the premise that not all single fund managers can outperform consistently in all market and economic environments
- Diversifying a portfolio across different single fund managers allows the investor to diversify manager risk without sacrificing return
- It is a simple investment approach aimed at delivering consistent superior risk-adjusted returns

MULTI-MANAGER	SINGLE MANAGER
Researches single fund managers	Researches **shares/securities**
Selects and blends single fund managers portfolios **in a multi-manager portfolio**	**Selects and combines shares/securities** in a portfolio
Picks the best of what each manager does and **combines them**	**Investors assume the selected single manager is consistently good at everything**
Aims to **outperform in MOST market and economic cycles**	Generally has an investment **philosophy or style that outperforms in certain market and economic cycles**

WHY CAN'T INVESTORS ADEQUATELY CHOOSE SINGLE FUND MANAGERS?

The investment environment is constantly changing. The number of service providers, fund managers and investment products keeps changing and the products offered are increasingly complicated. With a multi-manager, expert investment professionals monitor the fund managers and conduct daily detailed analysis of portfolios, products and the fund-management industry.

Various studies show most investors choose fund managers based on past performance, which is usually their only yardstick and gives a false sense of comfort, often to their detriment. A track record provides no guarantees of future performance. A multi-manager goes beyond historical performance measurement, utilising proven expertise and qualitative and quantitative methodologies to select and blend the best fund managers for optimal future investment performance. Qualitative analysis entails researching and understanding the drivers of fund-managers' performance, understanding their processes and skills. Quantitative analysis involves statistics and the consideration of various mathematically derived models to test the fund manager's performance versus its benchmark, risk inherent in its strategy, whether it has stayed true to its philosophy and how it should be blended with other complementary managers to ensure the investment objective is best achieved.

WHY IS DIVERSIFICATION SO IMPORTANT?

Fund managers have different philosophies, hence different styles of managing portfolios. By investing in a portfolio that provides diversification across different fund managers, an investor is in effect getting exposure to the different market cycles. As stock markets move between these cycles, different investment styles excel at different times. For example, when the market is in a Value cycle, fund managers with a Value style are better positioned to outperform than those with a Growth style. Diversification can be equated to ensuring not all your eggs are in one basket, thus decreasing risk and, specifically, minimising manager-selection risk. History has shown that over any 12-month period, manager returns in the same unit trust category can be widely dispersed and the difference between the best and the worst manager could reach as much as 30% over any discrete calendar year. The multi-management investment strategy ensures adequate overall portfolio diversification.

MULTI-MANAGEMENT (MM) vs UNIT TRUST FUND OF FUNDS

FEATURE	MULTI-MANAGER FUND	UNIT TRUST FUND OF FUNDS
Fund selection	Generally, selects on the basis of a **well-defined manager universe, research and selection process**	Generally, selects from **existing off-the shelf unit trusts in a unit trust category**
Fund availability	Utilises **segregated mandates** that have been set exclusively for the MM and aren't available to other investors	Utilises **unit trusts** available to all investors
Performance fees	**The MM sets the underlying managers' performance fees**	**Subject to the underlying managers' standard performance fees**
Charging basis	Charges on **all-in cost** that includes underlying managers' fees	**Layers a fund of fund fee over and above the underlying managers' fees**
Switching	**No out-of-the-market exposure** when switching underlying managers	Switching underlying managers **can cause market drag**

WHAT ELSE DOES A MULTI-MANAGER PROVIDE?

In addition to selecting fund managers and combining them in optimal portfolios, multi-management also provides an invaluable investment administration service. Stringent data validation is conducted to ensure accuracy of portfolio valuation, and checks are done to ensure errors potentially costly to the investor do not occur. Some errors that can occur are:

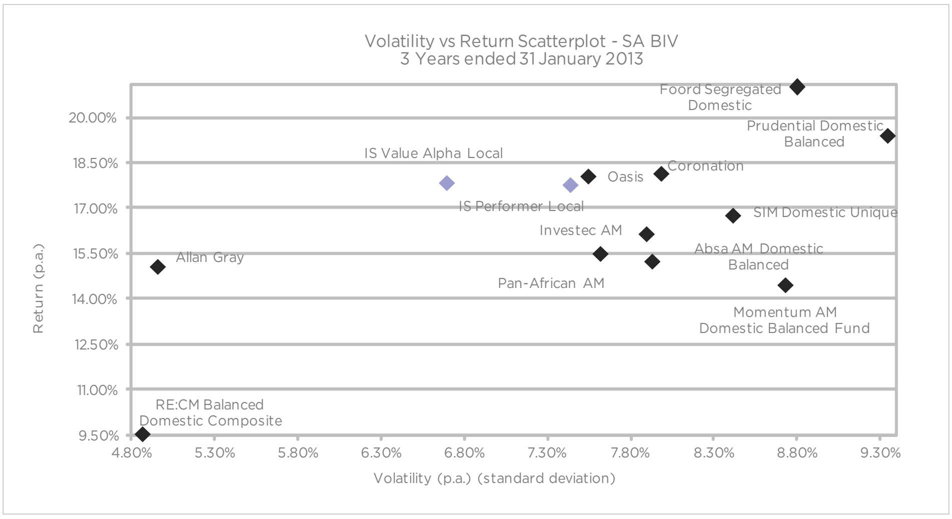
- Late/non-payment of interest
- Shares incorrectly loaded
- Deviations from mandate
- Non-timeous investment of cash flows
- Calculation errors
- Incorrect fees levied
- Not following up on corporate actions and ensuring dividends are paid.

MULTI-MANAGER FUNDS: WORTH IT?

- Limited, sustainable manager outperformance opportunities exist (+/- 1 to 2% p.a.)
- Therefore, need to control costs to avoid erosion of outperformance
- By coming to the leading multi-manager in terms of expertise and size of assets under management, clients benefit from the multi-manager's ability to manage down fees:
  - Economies of scale/capacity enables the negotiation of competitive management and performance fees with fund managers
  - Segregated mandates are used
  - Administrative services can be provided at low cost
  - The multi-management product is thus priced competitively, despite the additional multi-manager cost

CONCLUSION

VOLATILITY - RETURN SCATTER PLOT - 3 YEARS ENDING 31 JANUARY 2013



The use of a multi-manager enables investors to achieve the investment objective at lower risk and without sacrificing return.