



NEWS RELEASE

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MULTI-MANAGERS LOOK FOR OPTIMAL DIVERSIFICATION

Recent market events provide a lesson in the value active multi-managers can add by allocating capital efficiently among asset classes and managers.

That's the view of Melville du Plessis, Risk Manager at Novare Investments. "Most multi- and single managers were criticised for their cautious positioning and aversion to resources counters in the first half of 2008. They under-performed as a result of this positioning, but in the second half unprecedented volatility saw the resources sector hit particularly hard. Managers who stuck to their guns were rewarded accordingly and this shows in the performance tables."

The art and science of successful multi-management lies in the consistent and efficient allocation of capital amongst a large universe of asset classes, managers and investment styles.

Du Plessis explained that the investment process starts with setting objectives and long-term strategic asset allocation, the latter being the most important determinant of performance. Research and scientific modelling are intended to produce the optimal blend of asset classes to deliver on the required risk and return targets.

Manager selection is the next step, with varied mandates for equities, bonds and other asset classes. Because relative manager performance rotates along the ranking tables, the multi-manager adds value by identifying managers who will consistently deliver top quartile performance over the medium to longer term, and by combining these to provide the required risk-adjusted returns.

"However, in selecting managers, quantitative factors alone are insufficient. In fact, it is the qualitative assessment of an experienced manager and his or her team that determines whether philosophy, process and skills will deliver superior results over time," said du Plessis.

Based on the outcome of manager research, one of the most important functions of the multi-manager is blending managers optimally to construct an efficient portfolio.

Du Plessis noted that: "Various methods are used to slice and dice the positions in each manager's portfolio to determine commonality. This is because identifying the risks inherent

in a portfolio presents a better understanding of the manager's relative contribution to the characteristics of the combined portfolio.”

The evaluation process results in the continuous balancing of a set of managers while steering away from over-diversification, which is the enemy of out-performance.

Tactical asset allocation is another area where a multi-manager can add significant value. While the long-term strategic asset allocation of a portfolio has medium- to long-term focus, tactical asset allocation focuses on the short- to medium-term tilt of the portfolio toward preferred investment segments.

A multi-manager allocates capital actively by over- and under-weighting the various asset classes relative to the long-term strategic benchmarks, with the views expressed being a result of extensive fundamental and market research.

“It's been said that diversification is the only free lunch in investment management. A well structured multi-manager portfolio should be insulated against underperformance in a specific area due to the benefits of the other building blocks within the portfolio,” said du Plessis.