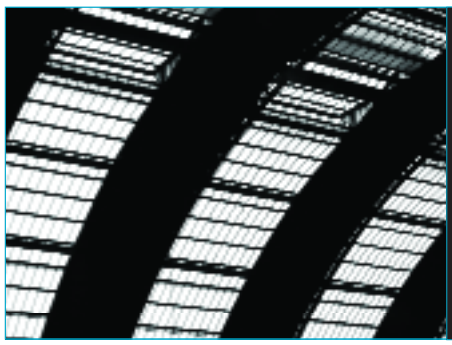

Russell Global Opportunities Fund

Russell taps into its mammoth research machine and strong track record in multi-management to lead the pack in global investing, writes MICHELLE BALTAZAR.


ANNETTE VLISMAS

Global investing has come of age. What investors want, investors get. From high tech hedging strategies to pure alpha BRIC funds, there's a plethora of choice for those who want to invest overseas.

What gets tricky though is where do you start? The market is awash with global funds that use different, but equally effective, ways to tap into international equities.

Making the decision a bit more complicated is the sub-prime contagion. An average fund manager can easily do well in a bull market but it takes a special one to ride through a bear phase.

Against that backdrop, the Russell Global Opportunities fund stands out as the fund well-placed to find the best-of-breed managers in the world and screen out the weak. Using a three-pronged investment strategy, the fund is structured to spot the best investment opportunities regardless of the economic cycle.

Pedigree in multi-management

Russell started using multi-management in 1980, back when the style was little known. Fast forward to 2008 and the group has honed their skills to a fine art. Over 28 years, it has compiled a warehouse of research on just about every fund manager worth their salt.

To date, the group is the largest multi-manager in the world using its own brand of multi-management to guide more than $1 trillion of funds for clients in 47 countries. Globally, Russell manages $260 billion on behalf of large institutions as well as individual investors. The group's drawcard: they can assure their clients they do all the work required to find the best-of-breed. Of the 8000-plus fund products that the group monitors, only 40 make the cut.

Why go through all that trouble when you can capture the risk/return of world markets by investing in index funds? Annette Vlismas, Russell's client portfolio manager, says while there is a place for indexed investing in a diversified portfolio, financial planners are more likely to achieve their client's retirement savings goal through alpha-seeking fund managers.

"The portfolios of today are looking for a higher return objective and the only way you can get to a higher return objective is that you have to start using active strategy. You have to take active risk to do that," she says.

Vlismas adds that the commonly held view that you diversify away your returns by using multi-managers is not true. "The risk of diversifying away active manager's skill is an anomaly because the research process can split the skilled managers from the unskilled. It is important to remember that, unlike risk, excess returns [or alpha] from active strategies cannot be diversified away and that as long as we continue to add strategies that are unique and successful, we will increase our ability to add to returns with lower risk."

The right mix of alpha

Russell Global ups the ante by making sure its underlying fund managers provide a complimentary mix of alpha. Looking at what's under the bonnet, there are five managers: Arrowstreet Capital (25 per cent), MFS (30 per cent), T. Rowe Price (25 per cent), Axiom (10 per cent) and Harris Associates (10 per cent).

Each of these managers serves a different purpose. Arrowstreet uses a quant approach to exploit behavioural and other market inefficiencies. MFS invests in high quality companies. Axiom focuses on stocks with strong earnings momentum. T. Rowe Price spots high-growth stocks. Harris Associates invests in undervalued shares.

In plain speak, each of the five managers can be compared to the five different food groups – each with their own nutrients to make up a balanced diet, or in this case, a balanced, well-oiled investment fund.

Vlismas explains that Russell goes as far as breaking down the investment processes used by each manager to create alpha. For example, the returns could come from the fund manager able to make the right decision based on their judgment of a company's earnings or valuation. The group likes to call it a fund manager's "habitat".

Asked why there are only five managers within the fund, Vlismas says it demonstrates that there are five distinctly different strategies discovered in the manager research process. New strategies will be included if they help deliver something new to the fund.

"We don't want them to be asset gatherers. We want them to stay relatively small and have a single focus in generating alpha. One reason we would consider taking a fund manager out is if they start drifting away [from their investment strategy and alpha sources]."

Sector focus is king

Vlismas says there's a new rulebook in global investing. Gone are the days when the regional focus reigned over a sector-based approach. The smart money is not on buying a stock because it's the best in the country or a region, but because it stacks up very well in its sector, wherever it is in the world.

Using cars as an example, Vlismas explains. "In the old days when we invested on regional lines, you'd have a US equity manager perhaps having a view on Ford versus GM. You'd have the Japanese equity manager having a view on Toyota or some other Japanese car company."

"But now, with a global market for consumer goods, Toyota and Ford both compete in the US market. An investor is going to benefit most from investing in the most successful global car company, rather than being guided by its domicile".

"Globalisation has that effect on the way car companies and businesses operate. So one of the big drivers of today's international investing is globalisation. That is, in terms of the way companies operate."

In short, while globalisation is not new, Russell has turned the business theme into an investment theme, by picking the best stocks within sectors. Vlismas backs this up by pointing out a report that shows since 1998, stock performance has been driven more and more by sector influences rather than country-specific events.

Proof in the pudding

Multi-managers have evolved in lockstep with how businesses and fund managers behave. But do these changes and the mountainous research affect the bottom-line? In Russell's case, the answer is yes. Only this month, both Lonsec and S&P have given Russell's multi-manager funds a "highly recommended" and "four star rating" respectively. Not a small feat when there are many global managers competing in the same space.

The fund also stacks up when compared to similar funds. Its annualised return from December '04 to '07 is a total return of 10.5 per cent, with an excess return and a tracking error of 1.7 per cent.

By contrast, one other global manager returned a total 8.0 per cent, with an excess return of -0.7 per cent and a tracking error of 2.3 per cent. Another fund manager achieved a similar total return of 10 per cent, an excess return of 1.36 percent but on a higher tracking error of 6.8 per cent.

What's next? Vlismas says two ways the fund will continue to deliver is by first, closely monitoring the use of risk across the countries surveyed and second, getting a tactical exposure to emerging markets. The fund has the legroom to make meaningful allocations to emerging markets.

"That's another point of differentiation. We are not a fund that purely concentrates on developing markets," says Vlismas.

The key is that Russell allots serious money on talent spotting. "We spend millions of dollars a year on research whether it's capital markets research or manager research. So we've got on-the-ground facility to look at those insights and to come up with our investment ideas." ■

Diversified sources of alpha