FRONTIER
ADVISORS

# Frontier Advisors

## Investment philosophy. What do we believe?

# Frontier Advisors – what we do

Frontier's focus is the provision of investment and related advice and research. This, along with our commitment to independence, defines what we do.

We are dedicated to being innovative and delivering market leading professional services to institutional investors looking for a long-term competitive edge. We work as a team in partnership with our Clients, pioneering creative business and investment solutions. Our values of professionalism, trust, quality and integrity are embedded in all facets of what we do and remain constant within an evolving economic, political, social and legislative landscape.

### What we believe

We believe risk isn't about fear, it is about opportunity. We believe in being fearless, so we tell our Clients like it is, and show them how it could be. We believe we can learn by looking back, but we grow by looking forward.

Investment return is the sum of all risk, opportunity, expertise and costs.

Having the best managers and products is important, but we believe asset allocation is the key determinant of long-term returns.

All assets and asset classes have a price to buy and a price to sell and we believe downside protection is as important as capturing upside gains.

We believe medium-term risks and opportunities should be managed dynamically to achieve a smoother return path and to provide cumulative, incremental value.

We have a firm belief in the importance of meeting investment managers face to face, and on their home turf.

We use our Global Investment Research Alliance partners to inform our views on local suppliers and help define the opportunity set – but then we see for ourselves and form our own judgements.

Our understanding of global offerings and markets is garnered first-hand, supported by the global reach of our GIRA partners.

All ideas, managers and investments must justify their place in a portfolio across risk, return and cost dimensions. Research adds value, drives innovation and confirms investment strategies.

We use both quantitative tools and qualitative views to inform our research and advice and to add value for our Clients, and ultimately for fund members.

And of course, implementation matters.

 

# Investment beliefs


 

# Investment beliefs

### Investment philosophy and governance structures need to be clear and well supported

A clearly prepared, well-supported investment philosophy can help investors stay on track against a long-term goal, especially when short-term events conspire against the investor.

The right governance structure supporting the investment decision-making process is an important component of the overall investment approach.

We believe there needs to be a clear set of guidelines that set out, amongst other things, how decisions will be made, who is responsible for them, any and all delegations and how success will be measured. We also believe there ought to be a clear delineation of duties at all times.

### Objectives dictate strategy and clarity is a must-have

We believe that an investor's objectives are the critical first step in understanding what the investor wants to achieve and in making sure all stakeholders are aware of what needs to be achieved.

Objectives are influenced by many things such as on-going income needs versus capital gains, cash flows, membership and sponsor requirements and behaviour, and so on. Each of these, and any other relevant issues, needs to be taken into account and used to determine the investment objectives.

Once set, the investment objectives dictate the strategy, the key component of the portfolio's risk and return outcomes. Both are critically important and clarity around each of them is paramount.

### The portfolio matters the most

We focus on how investments fit together at the portfolio level.

We only introduce new ideas if they improve the risk-adjusted return (either by reducing risk or increasing return).

All ideas "fight" for a place in the portfolio and every asset or investment should be for sale at the right price.

We make sure positions are taken that are material enough to add value (impact) but not so large that they dominate the portfolio.

A well-diversified portfolio is the first defence against unexpected volatility and risks. Other defensive strategies are considered as needed. We generally develop well diversified portfolios for clients with a range of asset classes and investment managers used for implementation.

### Research is critical

Research adds value, drives innovation and confirms investment strategies. This is a strongly skill-based activity and warrants specific attention and focus.

We regularly look at new ideas to identify new opportunities and dismiss fads.

### Dynamic Asset Allocation is a valuable source of risk mitigation and return enhancement in the medium term

We believe that markets move in cycles and that an active or dynamic approach to asset allocation can add value over time. This Dynamic Asset Allocation (DAA) process is a flexible approach to the identification of risks in markets as well as return opportunities.

DAA can be particularly useful in managing the portfolio during times of market weakness.

We consider all tools available to investors in managing downside risk including derivatives as the main source of tail risk protection where this is a key objective; adopting a value bias in equities portfolios, which typically (but not always) outperforms in tougher markets; including benchmark unaware managers in equities portfolios, who focus more on absolute returns than relative returns, as well as yield based unlisted investments.

Asset allocation in general accounts for the bulk of any investment portfolio's return and risk profile and should be given commensurate attention.

# Investment beliefs

### Identify, accept and manage risk

Risk is the other side of the return coin, and under normal circumstances, investors need to take risk to earn returns.

The balancing act between seeking good returns, and not taking too much risk to do so, is delicate. We aim to ensure that clients understand how risk can manifest itself in the portfolio and the possible range of outcomes under a range of scenarios.

Seeing risk as an opportunity to make money for our clients in a balanced way is part of our mindset.

Risks come in various forms and should be defined broadly, from generic investment risks, risks within asset classes and threads of risks in the portfolio, to the risks associated with unwarranted complexity in portfolios.

Some risks can be more evident than others.

Understanding where hidden risks lie, and determining how they will be managed if they manifest themselves, is important.

Scenario and stress testing can be a valuable tool in understanding how a portfolio might behave under specific circumstances. Worst case scenarios should be reviewed from time to time.

### Environmental, Social and Governance Risks and Opportunities

Risk and opportunities come in various forms and need to be identified, assessed and managed. ESG risks and opportunities are a specific subset and are worthy of separate review.

We believe the identification and management of ESG risks and opportunities can assist investors to achieve their long-term goals.

### Active management can add value

While asset allocation is the primary driver of risk and return, appropriately designed active management can add incremental value to portfolios and assist in changing the pattern of returns relative to the neutral asset allocation.

We acknowledge that value added from active management can vary through time and can be market dependent.

### Judgement-based decision making supported by quantitative analysis

Our views are primarily judgement-driven, but strongly supported in most cases by quantitative analysis. We do not use quantitative findings to dictate outcomes without a common sense overlay.

### Alignment of interest is critical

Investing with, and alongside, like-minded and appropriately aligned investors makes for much more sustainable and productive relationships. Outsourcing, such as using external funds managers, creates agency risk and alignment of interest with those entities is critical to protecting our clients' interests.

### Net returns matter the most

Taxes, fees and other costs all count against returns. We understand that investors need to pay to play – but we make sure that our clients only pay what they need to, to get the best outcome. We don't make fees the driver of a decision, unless cost is the only way to distinguish among providers.

We recommend the adoption of appropriate fee principles and guidelines to assist with the assessment of the net return proposition.

# Consulting beliefs


 

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### We work hard to understand clients' goals

Clients are all different – each is treated according to their own needs and our advice is tailored accordingly based on core Frontier values and research.

Always provide advice in the client's best interest – be frank and fearless.

### We help clients make decisions with impact

We aim to spend time on issues commensurate with the expected contribution to the bottom line (e.g. don't talk about cash flow every month, but rather focus on the bigger picture).

### We focus on finding a competitive advantage in various ways

We help clients find solutions to their challenges using every tool available to us. We remember the good and the bad decisions, and we aim to learn from them all.

### We are patient and willing to take a long-term view

We aim to be patient investors, and to give investments time, if warranted, to be successful.

We look for opportunities in periods of market weakness.

### Complexity is not necessarily a good thing

The investment world is full of complex opportunities and issues. Some of them make good investments but typically not because they are complex. There is nothing wrong with a largely straightforward investment approach that minimises complexity unless the upside warrants it.

### If we don't understand it, or our clients don't understand it, we don't recommend it

Investors are faced with difficult decisions all the time, and good, thoughtful advice can go a long way in assisting them make these decisions. But it is important for any investor to understand the investment prior to making it, and if we don't understand it or our clients don't understand it, then we don't recommend it to them.

### We recognise the impact of behavioural finance on decision making and have strategies to mitigate it

We now clearly know that the behaviour of individuals and groups can have meaningful impacts on decisions due to what is termed "behavioural finance". We have strategies in place to recognise the impact of these characteristics and either exploit them in others or be wary of them in ourselves.


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About Frontier Advisors: Frontier Advisors is one of Australia's leading asset consultants. We offer a wide range of services and solutions to some of the nation's largest institutional investors including superannuation funds, government/sovereign wealth funds and universities. Our services range from asset allocation and portfolio configuration advice, through to fund manager research and rating, investment auditing and assurance, quantitative modelling and analysis, and general investment consulting advice. With around $200 billion in funds under advice we have been providing investment advice to clients since 1994. Our advice is fully independent of product, manager, or broker conflicts which means our focus is firmly on tailoring optimal solutions and opportunities for our clients. At Frontier, we're on your side.