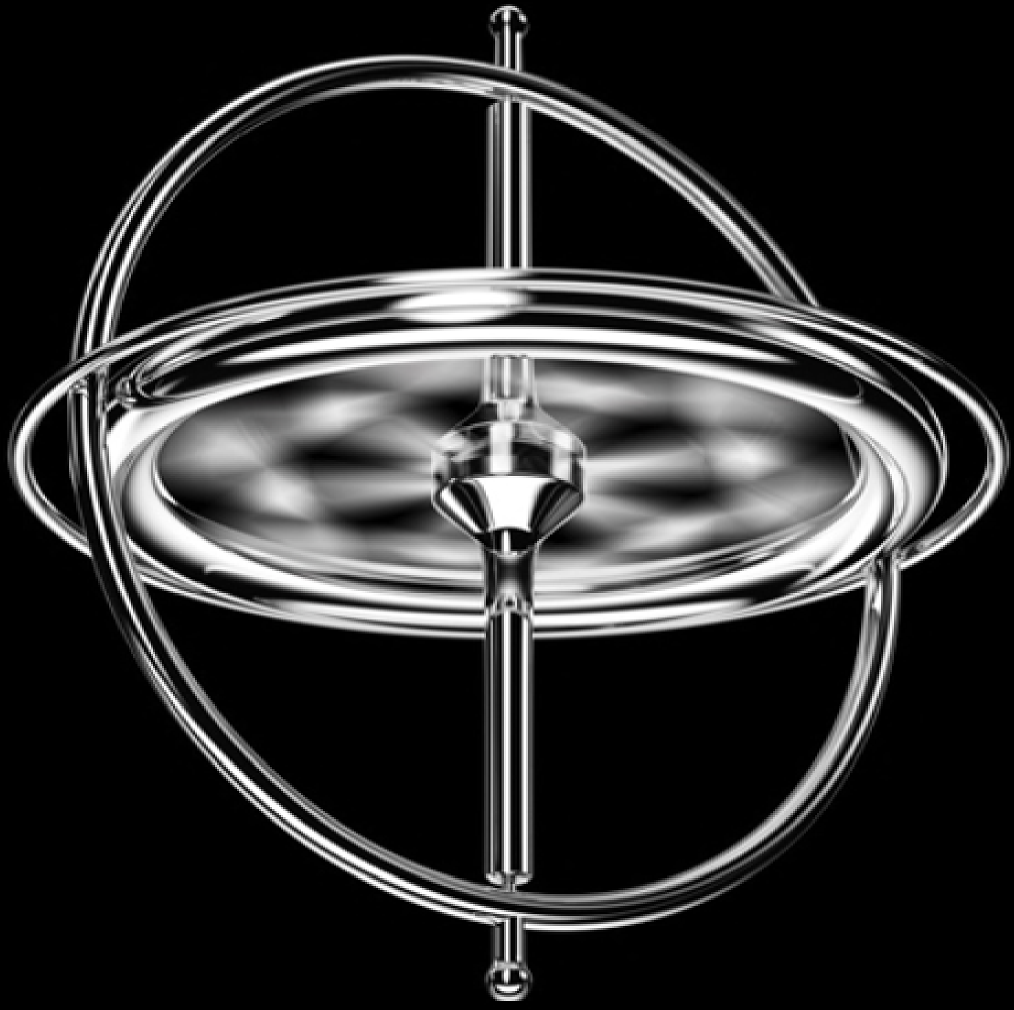
MAGS

Dynamic Real Return Series
Quarterly Fund Review: Q1 2019

Multi-Asset Growth Strategy (MAGS)

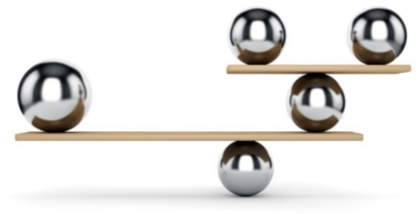


April 2019

Key Investment Themes

March quarter 2019

Fed becomes more balanced



In early January, Fed Chair Jerome Powell strongly indicated a pause in the Fed tightening cycle. Several other central banks across the developed and emerging world followed the Fed's pivot with pauses or rate cuts.

Some green shoots emerge

The Q1 rebound in financial markets helped fuel a rise in consumer confidence across the developed world. China is increasingly delivering stimulus as trade talks take a more positive tone.

Bond market sends a warning

The US (10yr-3mth) yield curve inverted in late March. This is a very important late cycle risk indicator which has historically preceded US recessions by about one year. Eyes will be on the duration and magnitude of the inversion and bank lending.

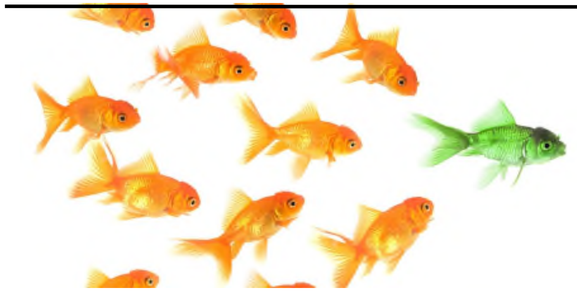
Shares bounce sharply

Equities markets rallied strongly in Q1 to recover from the 2018 year-end sell-off. Across regions, U.S. equities led the way helped by the Fed pause. European markets closely followed while UK and Asian markets lagged. Valuations remain expensive in many markets.

Rate sensitives benefit

The combination of a risk-on equity environment and lower treasury yields benefited rate sensitive asset classes. Listed REITs was one of the top performing assets during the quarter and listed infrastructure performed well also benefiting from a bounce in oil prices.

Growth stocks lead again



With markets reversing course in Q1, growth and value stocks were no exception. Growth stocks outperformed during the rally after lagging during Q4-18. This reversal is similar to mid-2018 where U.S. equities, growth and tech shares led the way, extending already elevated valuations.

Source: Pixabay and picswe images

Strategy

2019 Global Market Outlook: Q2 Update

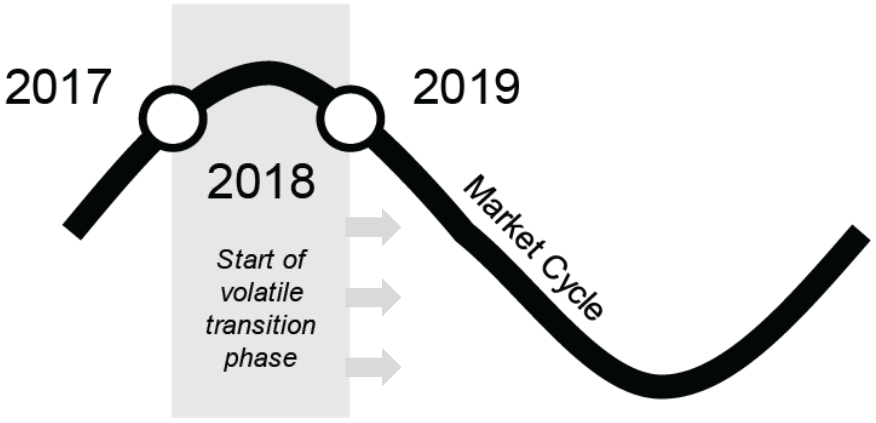
OUTLOOK: *Global central banks have turned dovish, China stimulus is stronger than expected and trade-war tensions are easing. The cycle is becoming slightly more supportive for equities, but we believe it's late in the game and upside potential is limited.*

POSITIONING: *We maintain a defensive bias to address the larger late-cycle fundamental risks, while employing a tactically dynamic approach to adjust the degree of defensiveness as momentum swings occur during the volatile turning phase. Diversifying into additional sources of return across and within asset classes.*

Key asset class preferences for 2019

- **US equities:** Underweight preference mostly driven by expensive valuation. Cycle signals are broadly neutral but likely to come under downward pressure in second half of 2019. The potential tactical bounce from oversold levels early in the year has materialised, though size and speed of v-shaped reversal has further embedded the issue of extended market valuations as growth slows.
- **Non-U.S. equities:** More positive outside U.S. as valuation is reasonable in Japan and Europe. Cycle should be a modest tailwind, though Brexit uncertainty remains a source of significant volatility.
- **Emerging market equities:** Valuations are more attractive than developed equities, but the threat of trade wars, China slowing and further U.S. dollar strength drives our preference to hold at a neutral allocation, unless value improves further to better justify the risks.
- **Bonds:** Prefer valuation of US Treasuries to those of Germany, Japan and UK. Cycle is a headwind for all bond markets as inflation pressures gradually build and central banks grapple with how/if to unwind accommodative settings.
- **Real assets:** Real Estate Investment Trusts (REITs) are slightly cheap, while Global Listed Infrastructure (GLI) and Commodities are around fair value. Commodities to benefit as late-cycle inflation pressures build.

2019: Markets adjust from 'late-late' cycle to 'end' cycle



Key watch points for Q2 2019

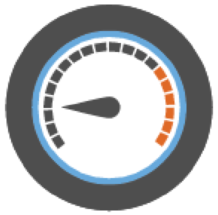
- Trade war escalation & breadth
- UK politics / Brexit
- US earnings revisions/guidance
- Fed policy & yield curve
- Wage & inflation data
- US Dollar & Emerging Mkts

Dynamic Real Return Series

Key features of our approach to generating real outcomes

OUTCOME FOCUSED

Growth-style real return objective with half the volatility of the share market.



DYNAMIC MANAGEMENT

Large, systematic adjustments of market exposures. Embedding a return skew for tighter risk control.

DOWNSIDE LIMITATION

Greater focus on cost-effective downside limitation strategies.

REAL DIVERSIFICATION

Broader range of non-traditional return sources to provide real diversification.

Objectives

Russell Investments Dynamic Real Return Series

Russell Investments Dynamic Real Return Series:	Return Objective	Volatility Objective	Drawdown Risk Focus	Income Focus
Multi-Asset Growth Strategy Plus Fund (MAGS+)	Inflation + 5%	% ASX Vol 2/3	High	Low
Multi-Asset Growth Strategy Fund (MAGS)	Inflation + 4%	% ASX Vol 1/2	High	Medium
Multi-Asset Income Strategy Fund (MAIS)	Inflation+ 2%	% ASX Vol 1/3	High	High

Focus on real outcomes

Our dynamic real return funds cover a range of objectives, to suit investors needing a specific real return, with a smoother journey along the way.

Dynamic risk management, wider allocation ranges, a focus on downside risk and a broad set of alternative return sources are the keys to success.

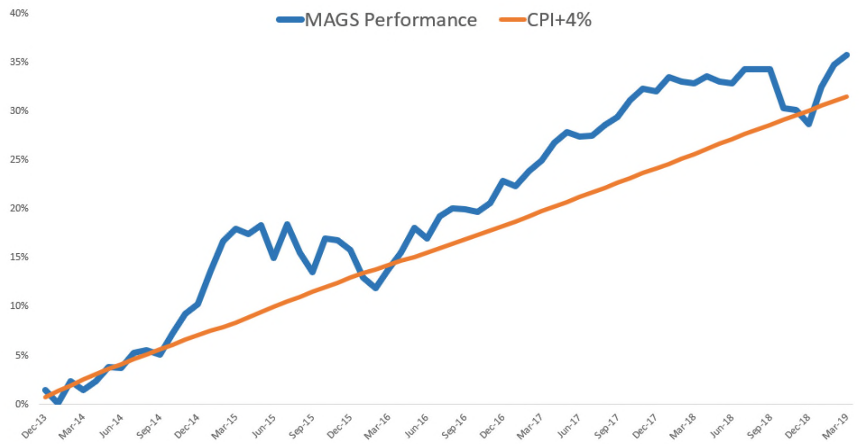
Return objectives shown are net of fees.

Source: Russell Investments

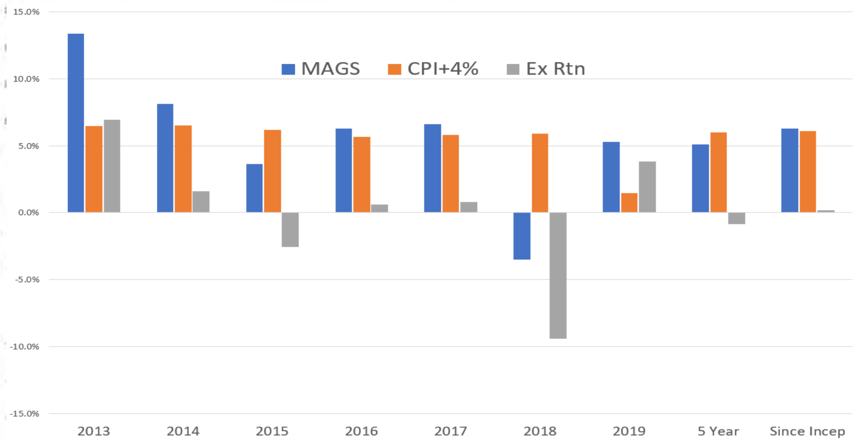
Outcomes

Q1-2019: MAGS performance was in-line with expectations and remains on-track to meet objectives

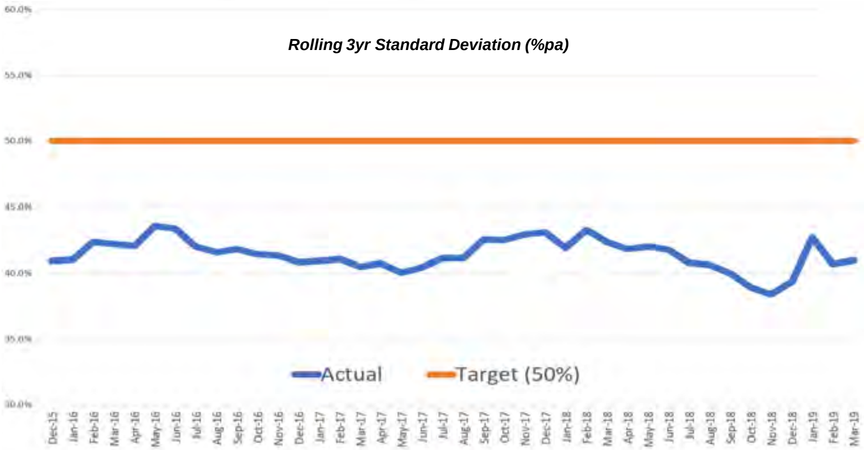
RETURN: Cumulative return vs CPI+4%



RETURN: Annual Excess Return vs CPI+4%



VOLATILITY: MAGS % of ASX300 volatility



DRAWDOWN: MAGS during 10 worst months in ASX300

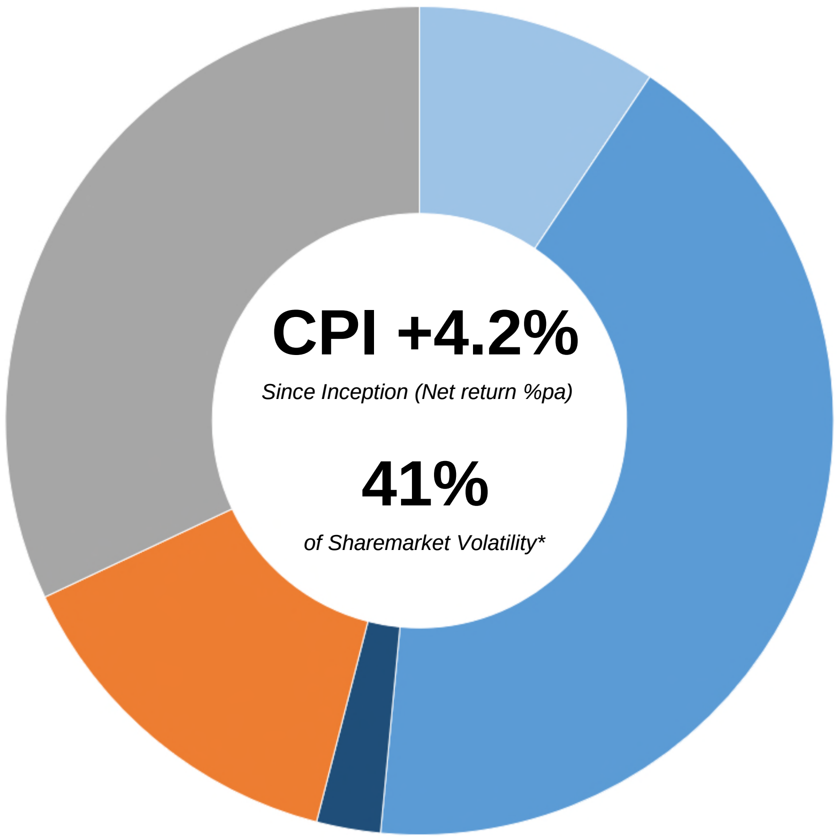
Source: Russell Investments, Bloomberg. Figures shown are for the Russell Investments MAGS Fund, Class A net A$ terms. As at 31 Dec 2018. Past performance is no guarantee of future performance.

Asset allocation

MAGS currently holds a 52% growth / 48% defensive asset allocation.

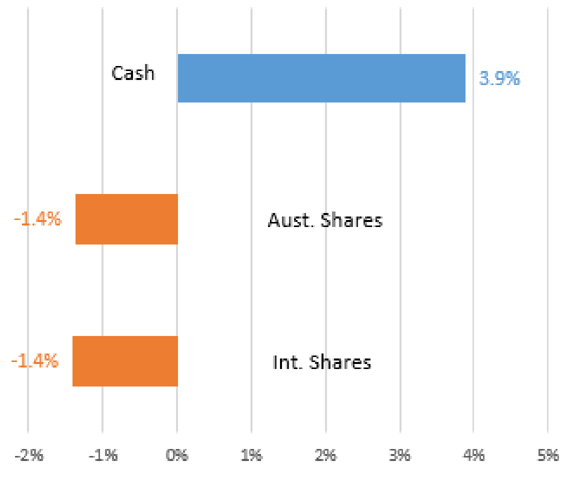
Asset allocation (31 March 2019)

GROWTH	**Australian Shares**	**6.2%**
	Russell Investments Aust Factor Exposure Fund	7.0%
	Vinva Aust Equitised Long/Short Fund	6.8%
	Futures (ASX200)	-7.6%
	International Shares	**32.0%**
	Russell Investments Global Opportunities Fund	8.8%
	Russell Investments Global Opportunities Fund - A$H	17.1%
	Vinva Asia-Pacific Equity Long/Short Fund	1.0%
	Futures - Emerging Markets	2.1%
	Futures - EAFE	-0.8%
	Futures - Japan	-1.0%
	Futures - USA	4.8%
	Property	**1.5%**
	Russell Investments International Prop Sec. Fund	1.5%
	Alternatives	**12.2%**
	Amundi Absolute Volatility World Equities Fund (AUD)	2.0%
	Commodity Futures (Strategic)	1.9%
	Russell Investments EM Debt Local	6.3%
	Russell Investments Multi-Strategy Volatility Premia Fund	0.4%
	Russell Investments Global High Yield Fund - A$H	1.3%
	Russell Investments Global Listed Infrastructure Fund - A$H	0.2%
DEFENSIVE	**Fixed Income & Cash**	**48.1%**
	Perpetual High Grade Treasury Fund	12.4%
	Russell Investments Aust Cash Enhanced Fund	4.8%
	Metrics Credit Div Aust Senior Loan Fund	4.7%
	Russell Investments Floating Rate Fund - A$H	5.9%
	Russell Investments Aust Bond Fund	10.5%
	Russell Investments International Bond Fund - A$H	5.4%
	Russell Investments Global Bond Fund - A$ Dur Hedged	4.5%



Key allocation shifts (Q1-19)

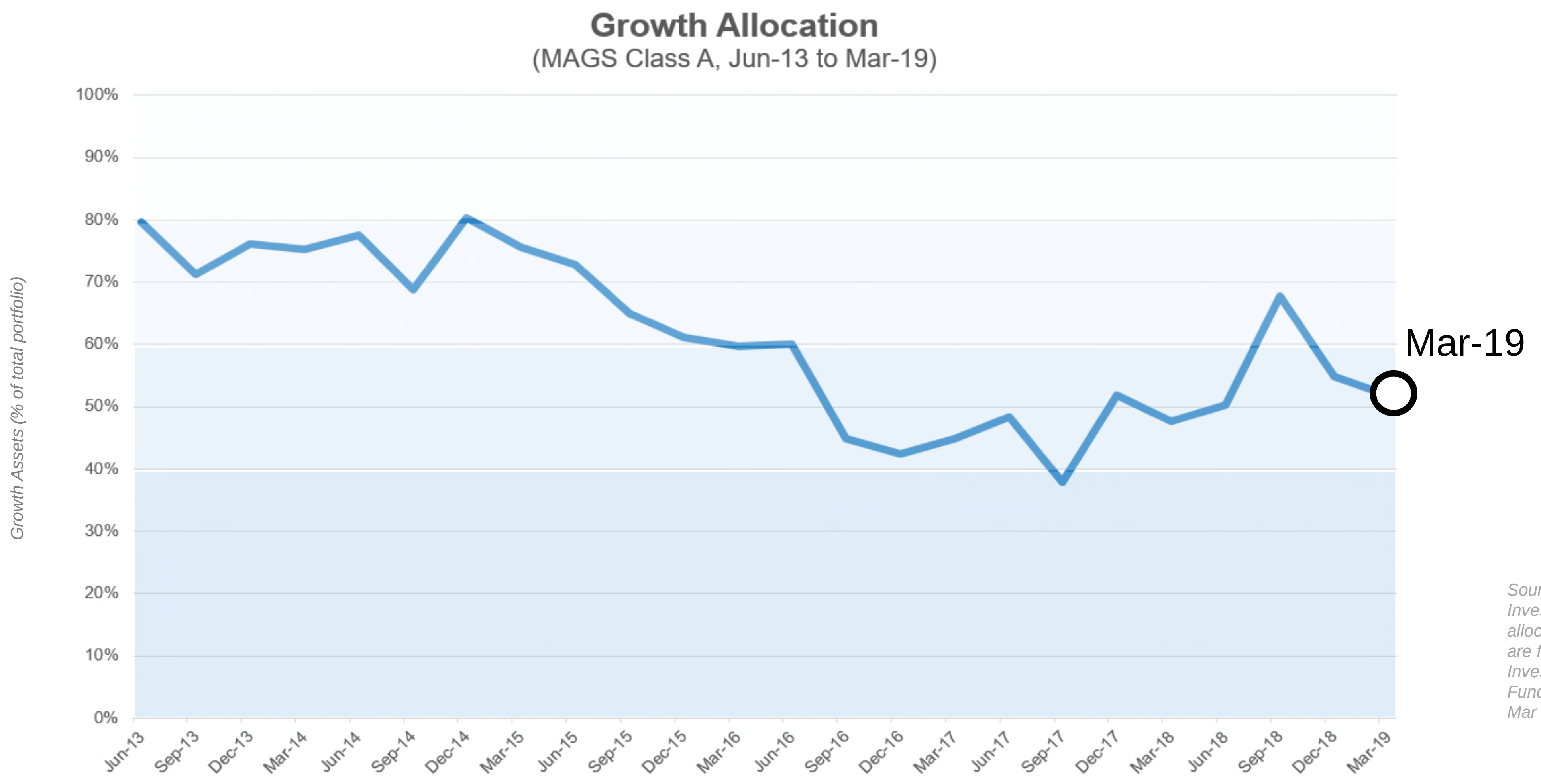
Total shares allocation was reduced during the quarter (-2.8%). Net effective cash position was increased in line with this reduction in equities exposure (+3.9%)



Source: Russell Investments. Figures shown are for Russell Investments MAGS Fund, Class A, net A$ terms. As at 31 Mar 2019. Past performance is no guarantee of future performance.

Asset allocation profile

MAGS growth asset allocation was reduced further to 52% during Q1 as markets rebounded sharply from near-term oversold levels

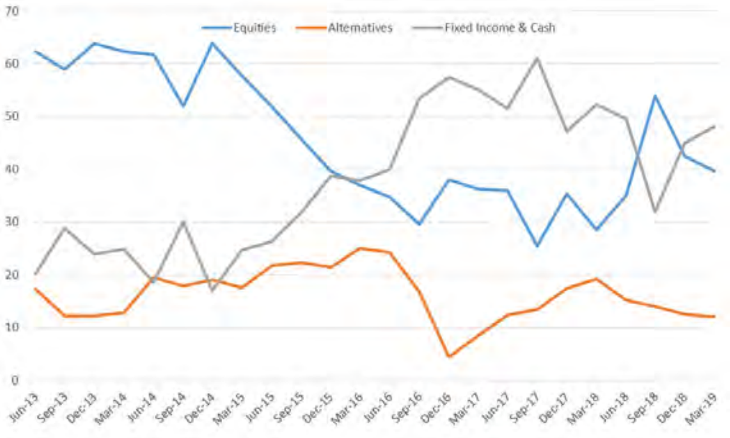


Source: Russell Investments.. Growth allocation figures shown are for the Russell Investments MAGS Fund, Class A as at 31 Mar 2019..

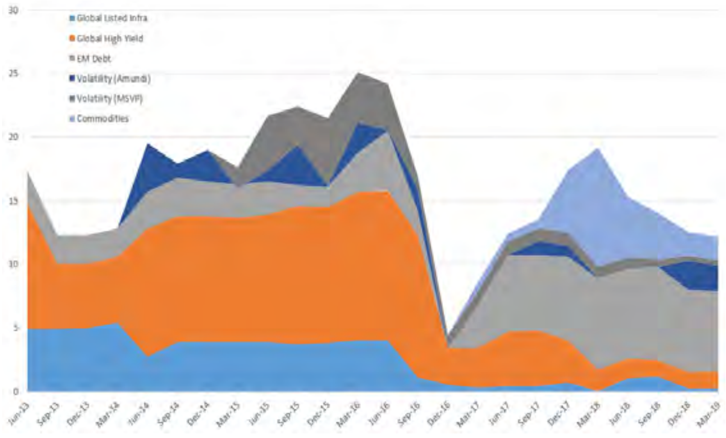
Dynamic management

Q1-2019: Breakdown of portfolio asset class exposures and currency hedging

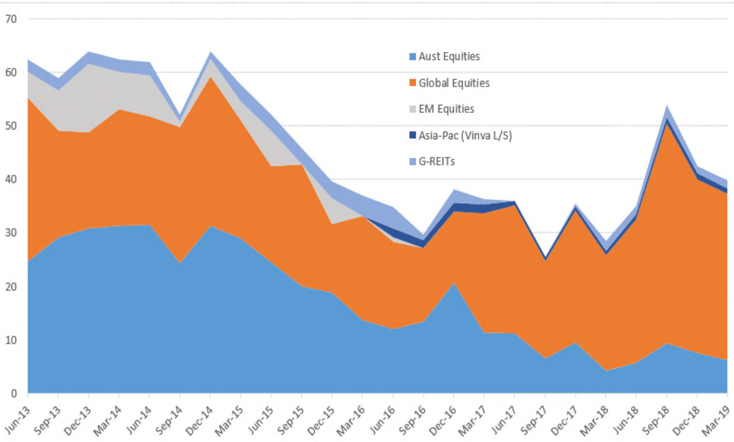
ASSET ALLOCATION: Asset Classes (%)



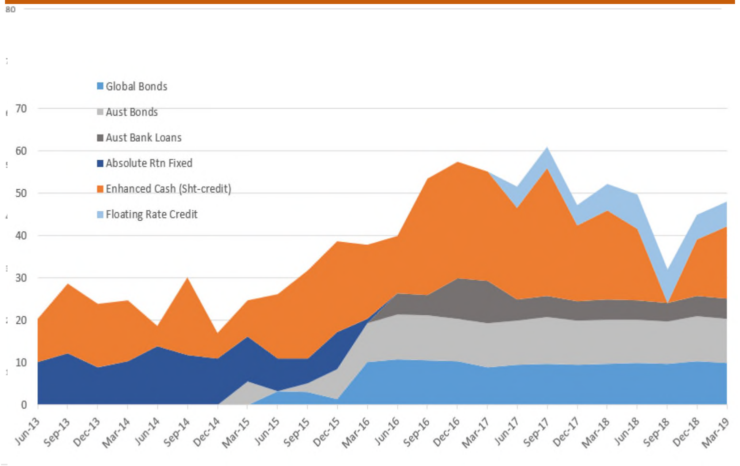
ALTERNATIVES: Composition (%)



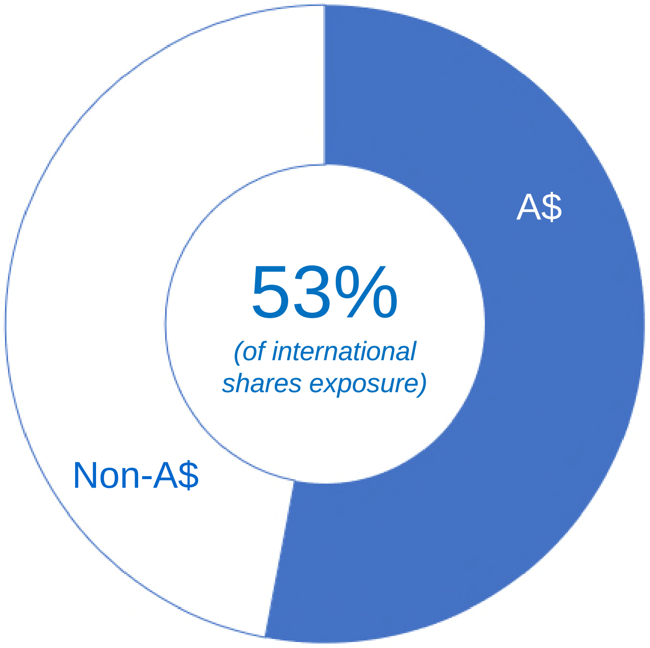
EQUITIES: Composition (%)



FIXED INCOME & CASH: Composition (%)



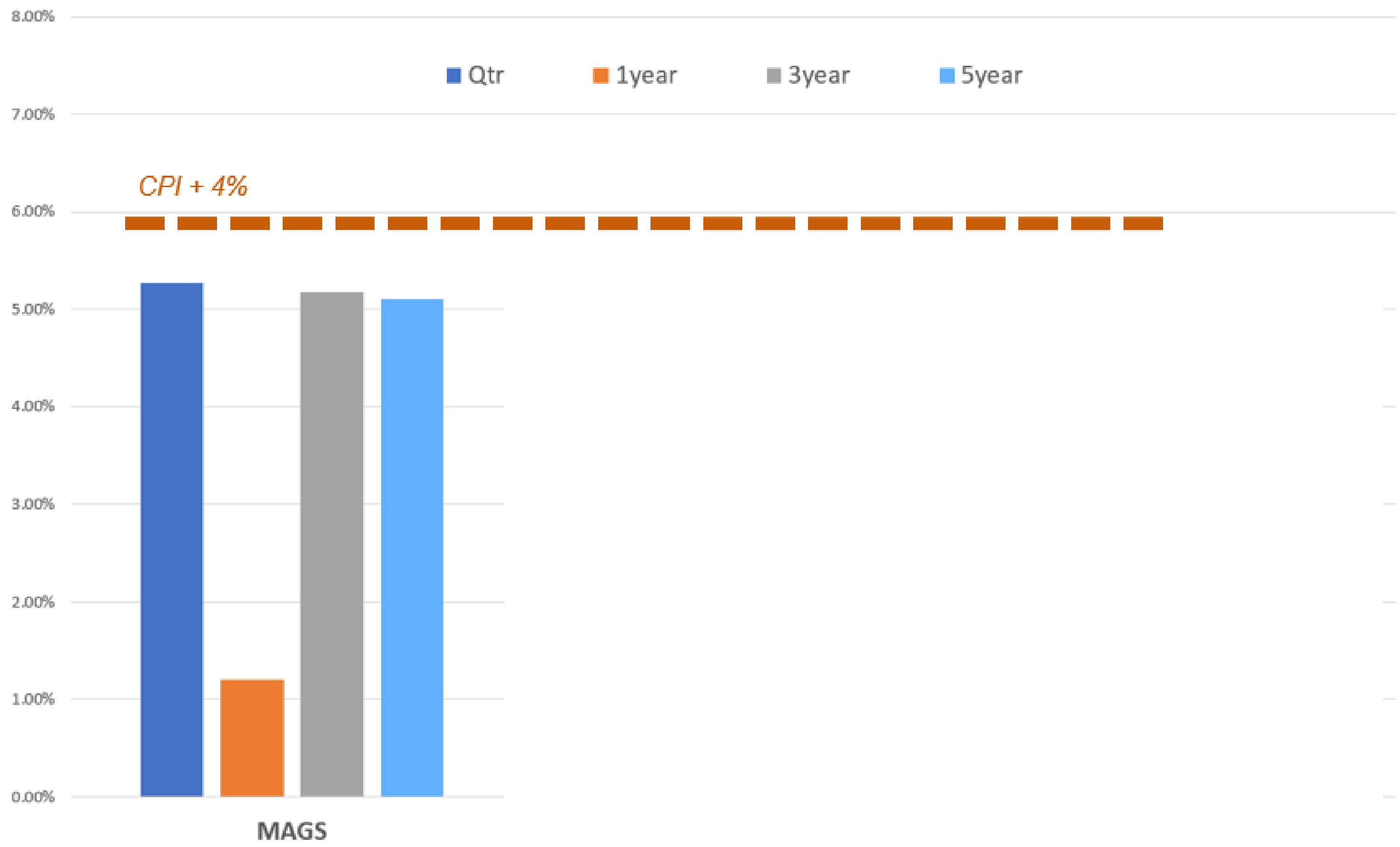
A$ hedge ratio (International Equities)



Source: Russell Investments. Figures shown are for the Russell Investments MAGS Fund, Class A net A$ terms. As at 31 Mar 2019. Past performance is no guarantee of future performance.

Performance

The sharp equity market reversal in Q1 saw all funds in the dynamic real return series return to positive total returns across all time periods. Though MAGS and MAGS plus total returns are lagging 5-year CPI plus objectives as market volatility increases, and our process moves to systematically de-risk though the late cycle transition phase.

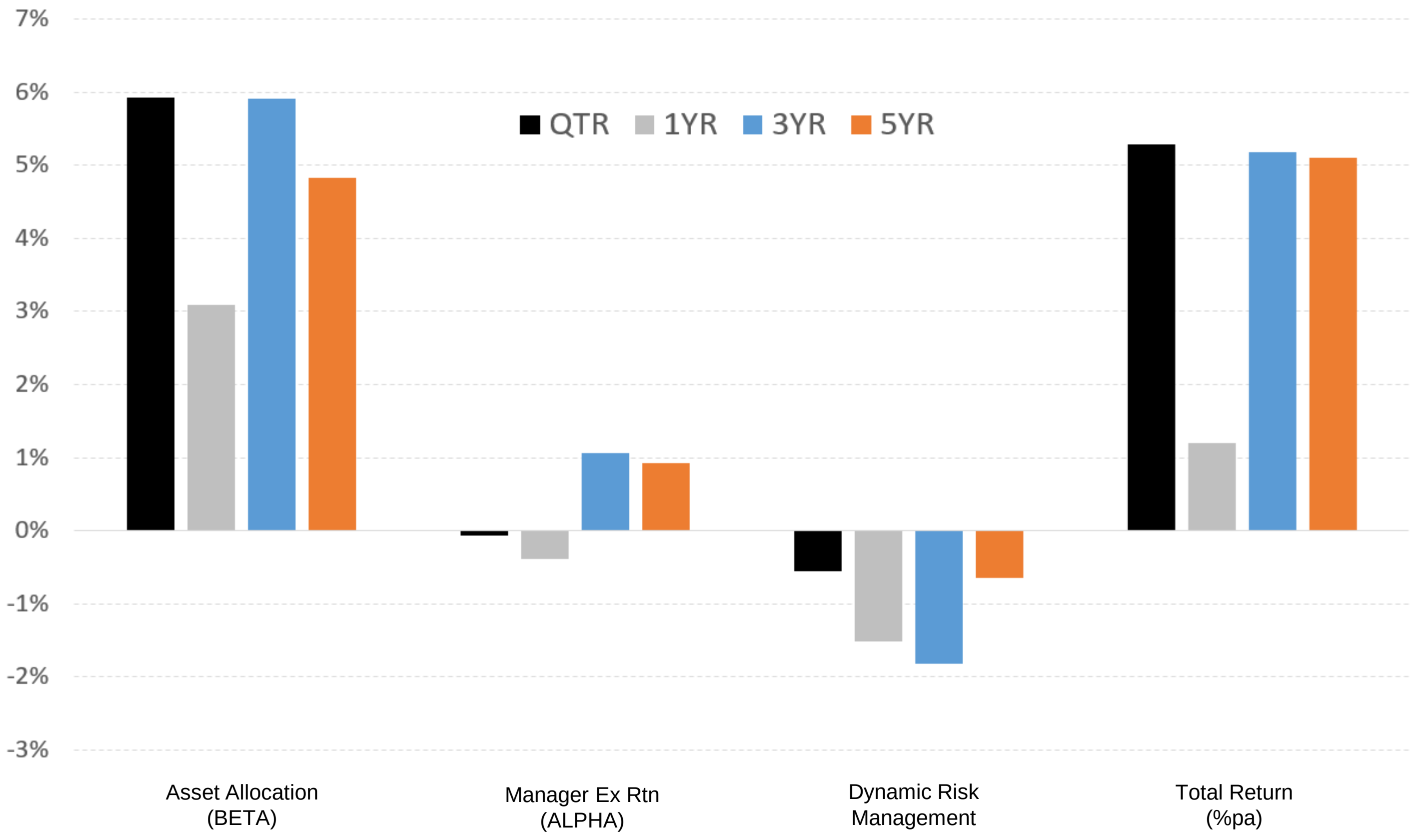


Note: CPI+ objectives shown are for 5 years (%pa)

Source: Russell Investments. Returns shown for Russell Investments MAIS Fund, MAGS Fund and MAGS Plus Fund are Class A, net terms as at 31 Mar 2019. Past performance is not a reliable indicator of future performance.

Return drivers

MAGS ended the quarter up 5.3%. Asset allocation (market exposure) was the primary driver during the Q1 market rebound, while the combination of manager excess returns and dynamic risk management delivered a small negative contribution over the quarter.



Source: Russell Investments. Russell Investments MAGS Fund (Class A, net A$). As at 31 Mar 2019. Past performance is no guarantee of future performance.

Benefits

Russell Investments Dynamic Real Return solutions are fit for the times

Why consider for your clients?

Timely

Helps investors address the ‘investment challenge’ caused by the lower return outlook.

Focused

Focus on growth-like returns with reduced downside participation and a smoother journey.

Tailored

Particularly suited to investors with inadequate diversification, sequencing risk issues or heightened downside sensitivity.

Sophisticated

Multiple levers to better manage drawdown risk: Dynamic management, Diversification, Downside limitation strategies.

Dynamic

Designed for larger asset allocation shifts to significantly adjust risk through the cycle.

Versatile

Use as a total solution or as a complementary solution to cost-effectively add dynamic management and downside limitation to an existing, less diversified, portfolio.

Why Russell Investments real return solutions?

STRONG HERITAGE IN MULTI ASSET INVESTING

- Extensive team of Multi asset investment professionals
- Leverages broader asset class teams
- Purpose built infrastructure around our multi asset proposition

ROBUST INVESTMENT PROCESS

- Incorporates a powerful transparent asset allocation strategy analysis based on Cycle, Valuation and Sentiment
- Has a clear focus on risk management
- Employs an open archtecture best of breed approach

STRONG TRACK - RECORD

- Consistently achieved objectives in real return solutions
- Very competitive performance since inception
- Strong risk adjusted returns

More Information

Russell Investments
Adviser & Intermediary Solutions Team

VIC/ACT

Tanya Hoshek
Senior Regional Manager
Russell Investments
thoshek@russellinvestments.com
(t) 03 9270 8138
(m) 0434 402 865

NSW

Terry Tyrrell
Regional Manager
Russell Investments
ttyrrell@russellinvestments.com
(t) 02 9229 5360
(m) 0419 264 276

QLD

Bruno Santos
Regional Manager
Russell Investments
bsantos@russellinvestments.com
(t) 07 3221 4666
(m) 0434 560 644

SA/VIC/TAS

Tim Reimers
Regional Manager
Russell Investments
treimers@russellinvestments.com
(t) 03 9270 8230
(m) 0426 826 336

NSW/WA

Allister Hoffenberg
Regional Manager
Russell Investments
ahoffenberg@russellinvestments.com
(t) 02 9229 5534
(m) 0402 373 970

Important information and disclosures

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