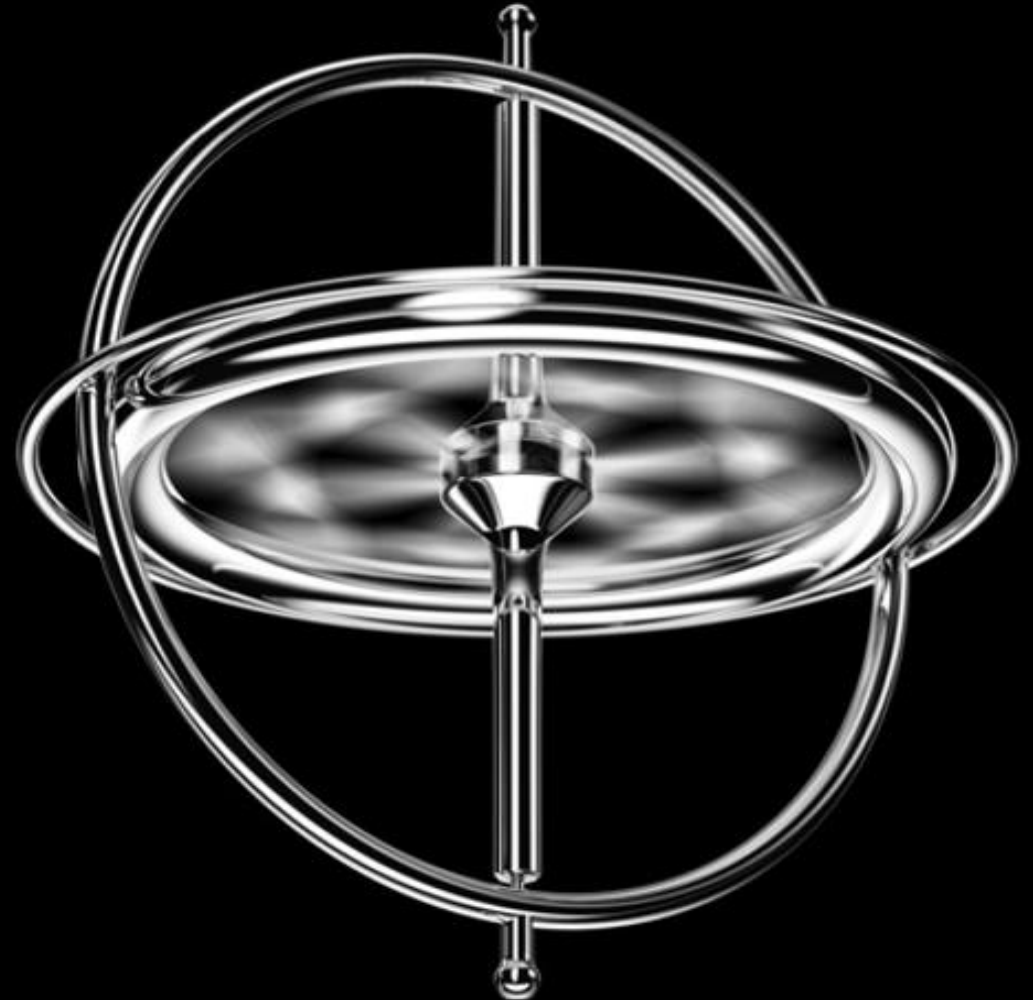


MAGS



Dynamic Real Return Series
Quarterly Fund Review: Q3 2018

Multi-Asset Growth Strategy (MAGS)



October 2018

Key Investment Themes

September quarter 2018

2

Trump applies max pressure



US-China trade relations continued to deteriorate. The US imposed new tariffs on \$200bn of Chinese imports, with potential for further escalation after China retaliated with its own tariff hike on US goods.

Fed raises the price of growth



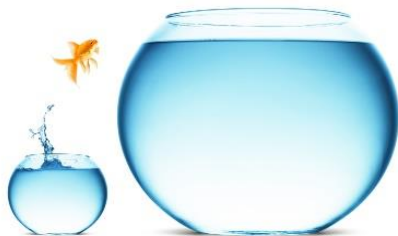
The Fed hiked its funds rate target by 0.25% to 2.25% (the highest level since April 2008). Upbeat comments on US economic performance by Fed officials raised expectations of further hikes in December and beyond.

Europe: Unrequited expectations



Despite above-trend growth, solid earnings and low inflation, European shares lagged in Q3. Italian political turmoil, Spanish bank exposure to Turkey, trade-war fears and Brexit uncertainty all impacted.

EM: Is value worth the risk?



Though the pace of falls slowed during Q3, emerging markets still underperformed in the face of escalating US-China tariffs, Fed hikes and US dollar strength.

The return of 'risk-on'



Global equity markets rallied as investor sentiment improved. Strong fundamentals continue to underpin gains in US shares. Developed bond market yields rose, with the US 10yr yield breaking above 3%.

US dollar takes a breather



After the rapid gains of April and May, the US dollar had a relatively subdued quarter. The US\$ index rose 0.7% in Q3 after the 5% surge of Q2. Dollar strength remains underpinned by Fed hikes and interest differentials.

Strategy

3

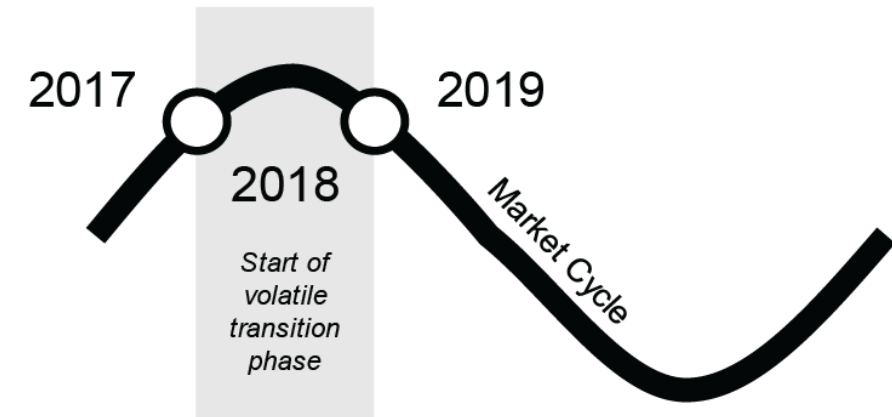
MAGS investment strategy is focused on our central 'navigating the turn' scenario

The US Federal Reserve is settling into a quarterly tightening routine that could see US monetary policy move into 'restrictive' territory over the next year. We remain alert to risks from trade war escalation, while keeping an eye on the yield curve for a US recession warning, with the current US recession 'window' from late 2019 through to the second half of 2020. This means US recession risk is both far enough away to view short term sell-offs as tactical 'buy' opportunities, but significant enough in the context of a late-cycle, tech-driven market to warrant caution and defensiveness via use of options.

Strategically defensive, tactically dynamic

- **Where are we?** 2018 exhibits behaviours typical of a late-cycle, momentum-driven, expensive equity market, characterised by heightened volatility.
- **What's driving volatility?** Near term supportive factors (e.g.. earnings momentum, accommodative policy, synchronised global growth) conflict with increasing fundamental headwinds (e.g.. valuations, yield curve, rising rates).
- **What are we doing?** With US recession risks rising (though not yet fully priced in) for 2019/20 and markets typically looking 6-12 months ahead, investment strategy centres on navigating the turn in the market cycle.
- **How are we doing it?** We remain strategically defensive to address the larger fundamental risks, but tactically dynamic to adjust growth allocations if/as momentum swings occur during the volatile turning phase.

The 'Big Picture': Late-cycle volatile transition phase



Key watch points for Q4

- Trade war escalation
- UK politics / Brexit
- US earnings season
- Fed hikes & yield curve
- Wage & inflation data
- US Dollar & Emerging Mkts

Dynamic Real Return Series

4

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

5

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.

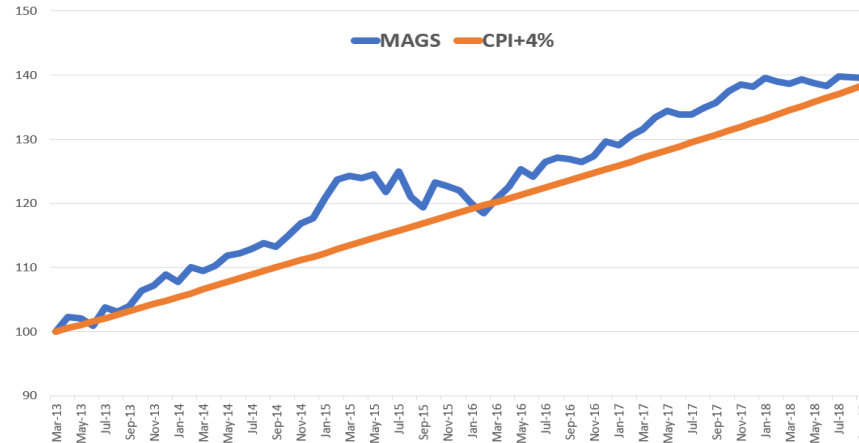
Source: Russell Investments

Outcomes

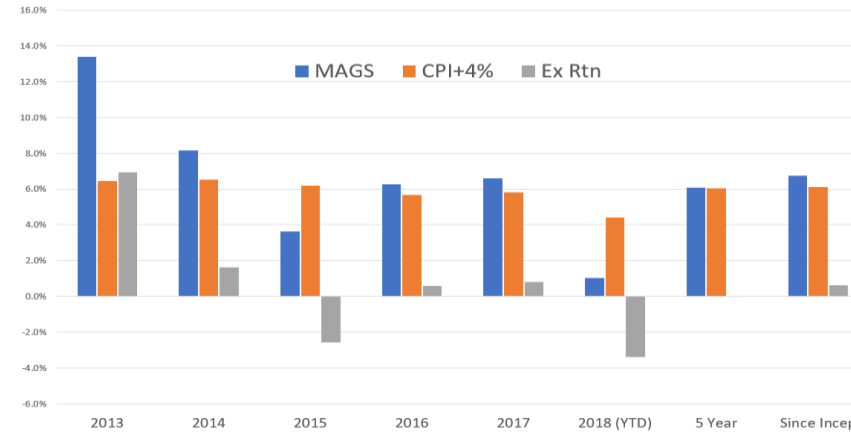
6

Q3-2018: MAGS remains on track against overall return, volatility and drawdown objectives

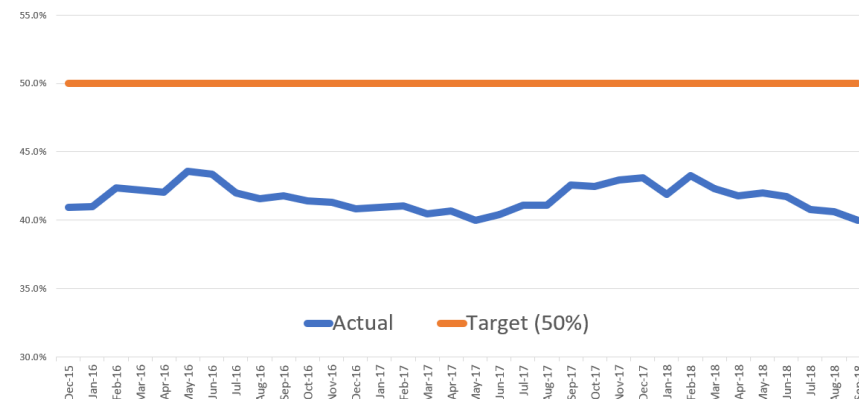
RETURN: Cumulative return vs CPI+4%



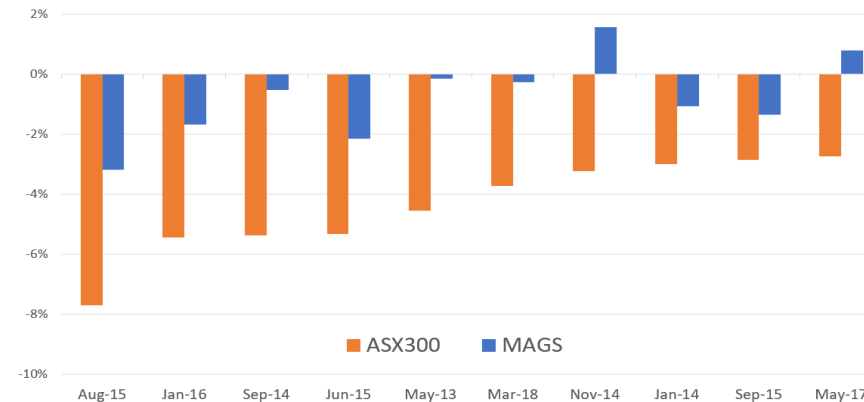
RETURN: Annual Excess Return vs CPI+4%



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 30 Sep 2018. Past performance is no guarantee of future performance.

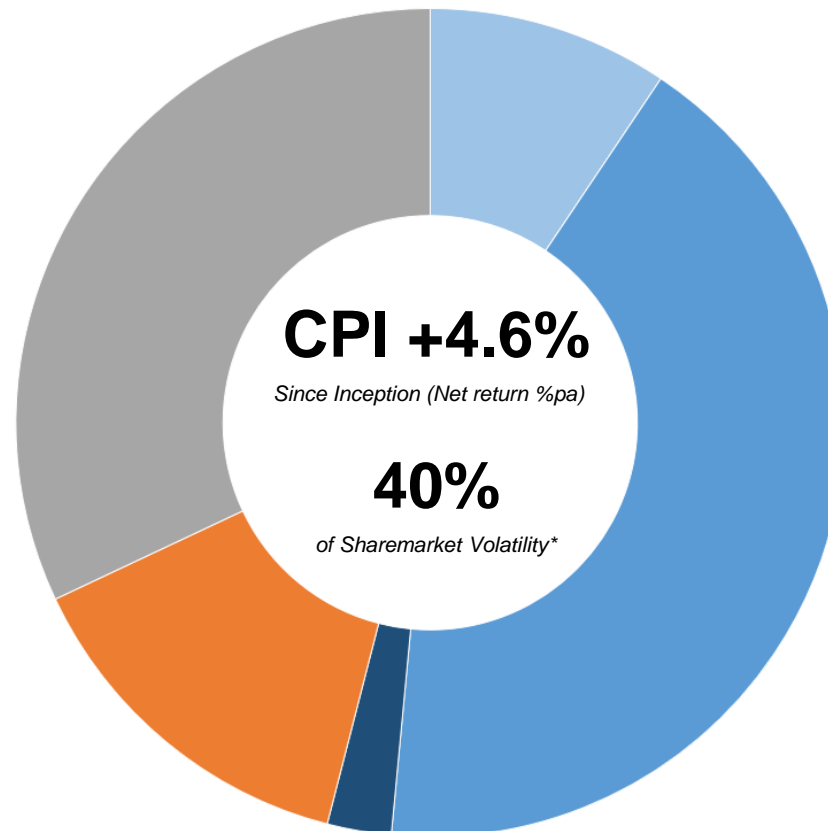
Asset allocation

7

MAGS currently holds a 68% growth / 32% defensive asset allocation. Heightened market volatility during Q3 provided good opportunities to add tactically to shares (via options) in August and September.

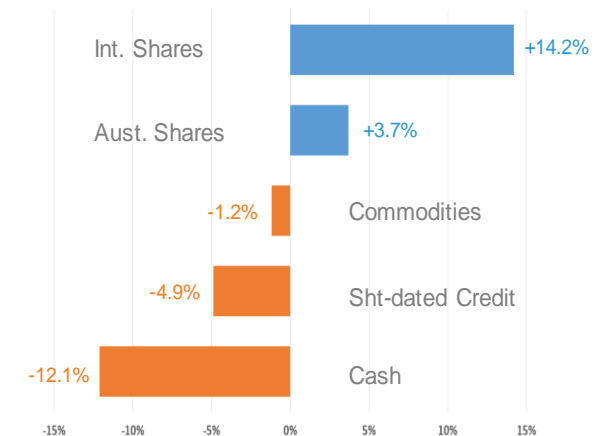
Asset allocation (30 September 2018)

GROWTH	Australian Shares		9.4%
	Russell Investments Aust Factor Exposure Fund		6.8%
	Vinva Aust Equitised Long/Short Fund		6.6%
	Options (ASX200)		5.2%
	Futures (ASX200)		-9.2%
	International Shares		42.4%
	Russell Investments Global Opportunities Fund		14.0%
	Russell Investments Global Opportunities Fund - A\$H		12.4%
	Vinva Asia-Pacific Equity Long/Short Fund		1.0%
	Futures - Emerging Markets		3.8%
DEFENSIVE	Futures - USA		-1.0%
	Options - USA		12.1%
	Property		2.5%
	Russell Investments International Prop Sec. Fund		2.5%
	Alternatives		14%
	Commodity Futures (Strategic)		3.6%
	Russell Investments EM Debt Local		7.4%
	Russell Investments Multi-Strategy Volatility Premia Fund		0.6%
	Russell Investments Global High Yield Fund - A\$H		1.3%
	Russell Investments Global Listed Infrastructure Fund - A\$H		1.2%
	Fixed Income & Cash		31.8%
	Perpetual High Grade Treasury Fund		12.1%
	Russell Investments Aust Cash Enhanced Fund		-12.4%
	Metrics Credit Div Aust Senior Loan Fund		4.5%
	Russell Investments Floating Rate Fund - A\$H		7.8%
	Russell Investments Aust Bond Fund		9.9%
	Russell Investments International Bond Fund - A\$H		5.2%
	Russell Investments Global Bond Fund - A\$ Dur Hedged		4.6%



Key allocation shifts (Q3-18)

Total shares allocation was increased (mainly via call options) on weakness during the quarter (+18%). Funded from Cash & Short-dated credit.

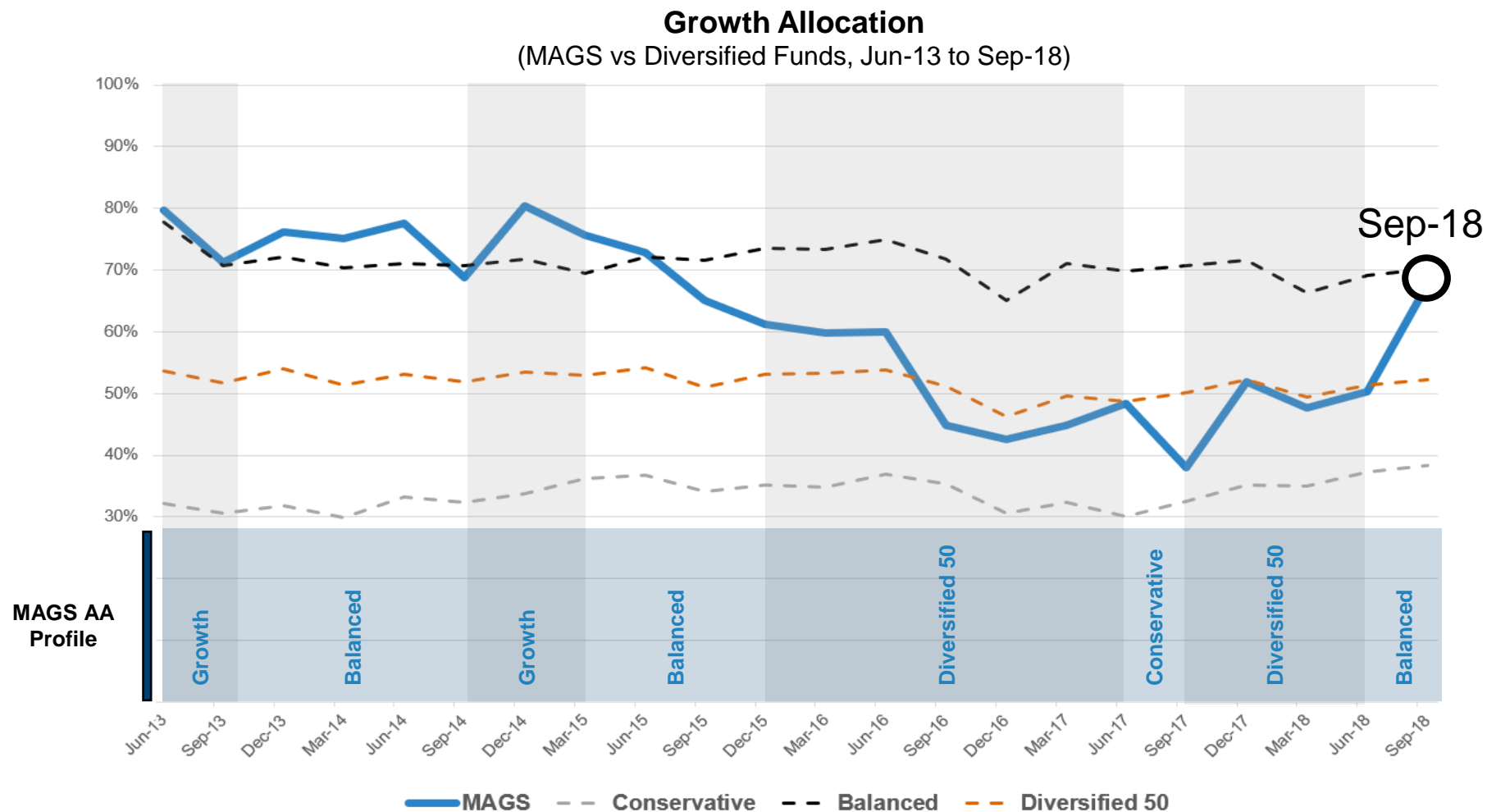


Source: Russell Investments. Figures shown are for Russell Investments MAGS Fund, Class A, net A\$ terms. As at 30 Sep 2018. Past performance is no guarantee of future performance.

Asset allocation profile

8

MAGS asset allocation profile increased from 'Diversified 50' to 'Balanced' during Q3



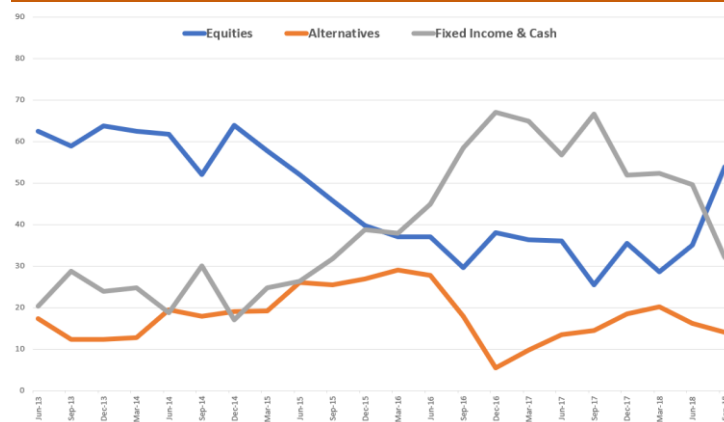
Source: Russell Investments.. Growth allocation figures shown are for the Russell Investments MAGS, Conservative, Diversified 50 and Balanced Funds, Class A as at 30 Sep 2018..

Dynamic management

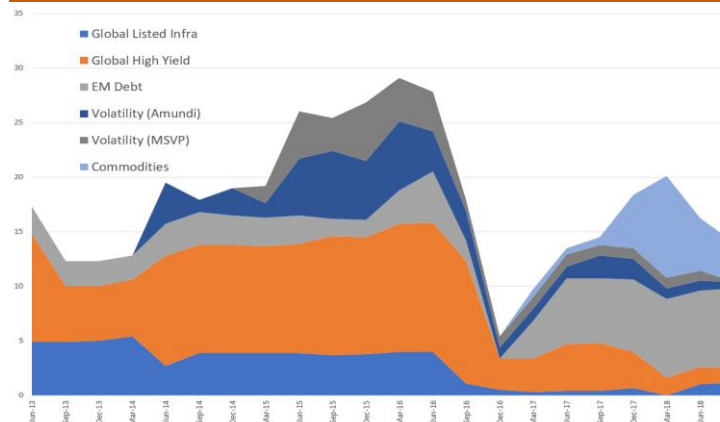
9

Global shares allocation increased significantly during Q3 as market corrected, mainly implemented via US equity call options. Net cash position was reduced in line. Commodities trimmed further.

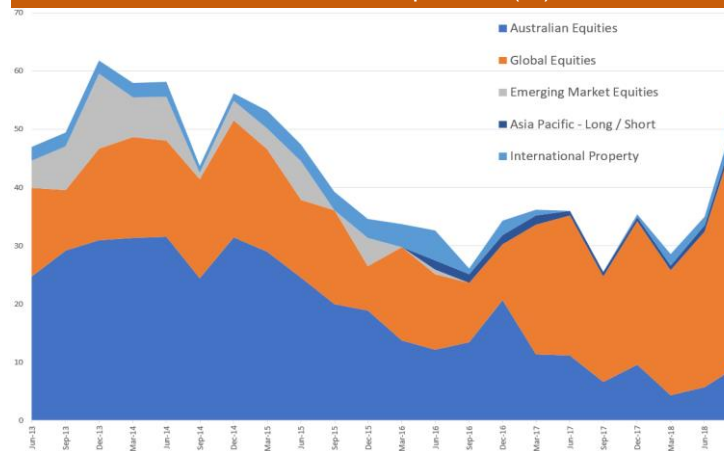
ASSET ALLOCATION: Asset Classes (%)



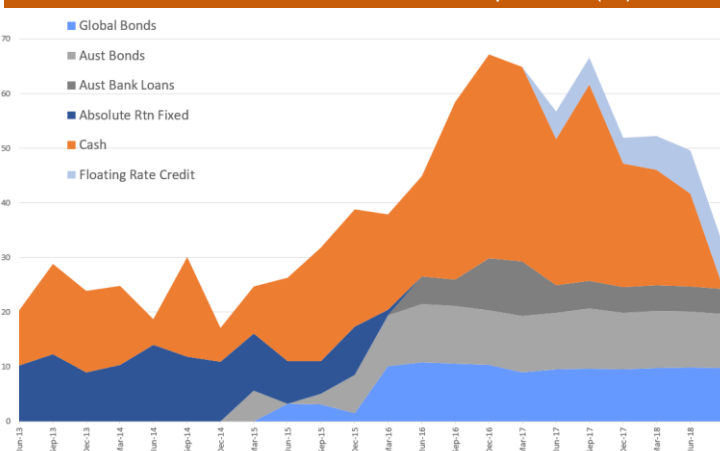
ALTERNATIVES: Composition (%)



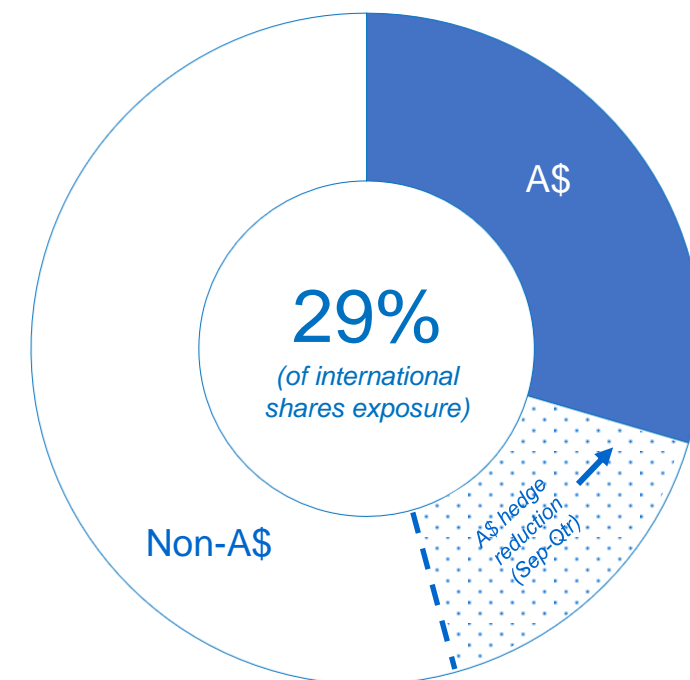
EQUITIES: Composition (%)



FIXED INCOME & CASH: Composition (%)



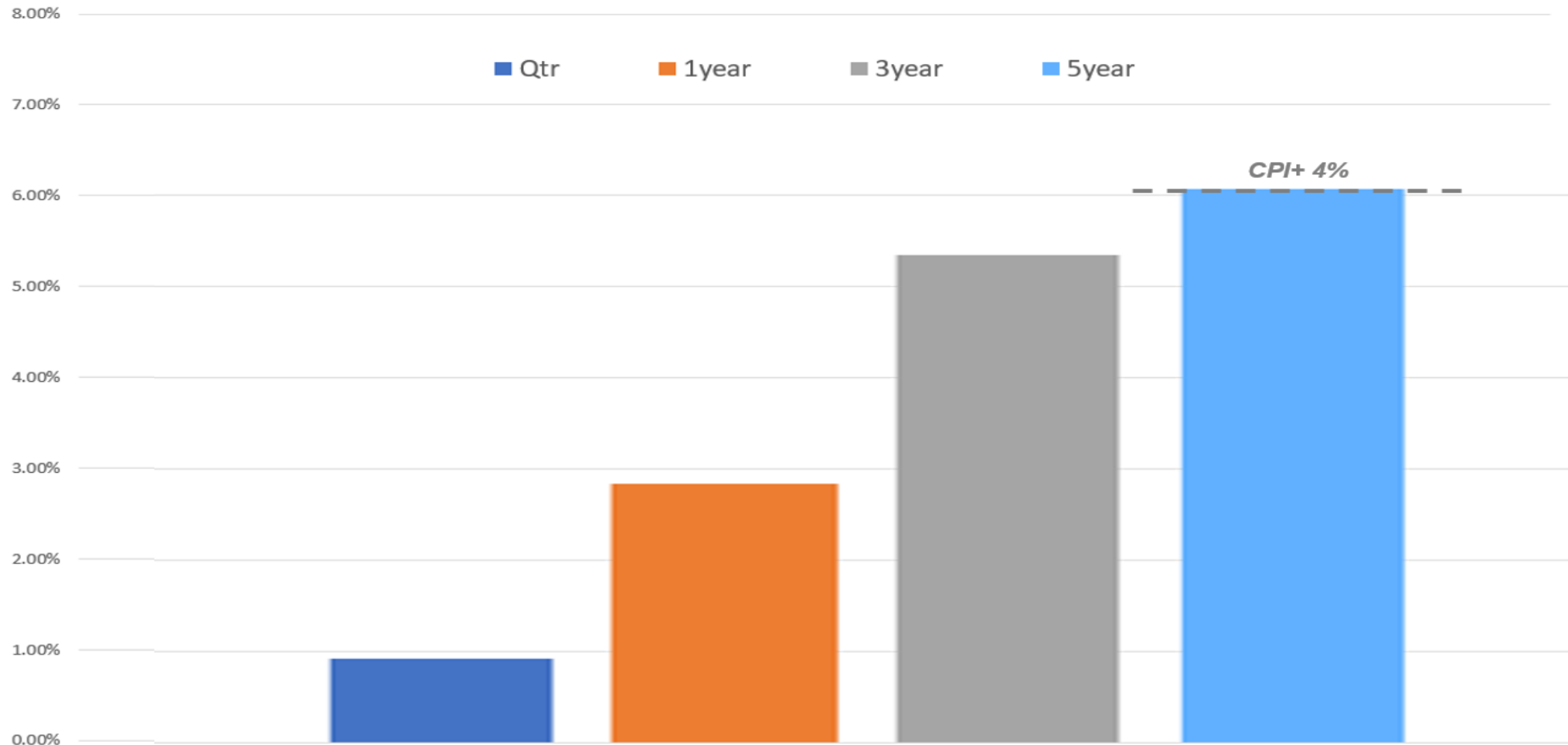
A\$ hedging was reduced through Q3



Source: Russell Investments. Figures shown are for the Russell Investments MAGS Fund, Class A net A\$ terms. As at 30 Sep 2018. Past performance is no guarantee of future performance.

Performance

All funds in the dynamic real return series delivered positive returns in Q3. Achievement of CPI+ return objectives remains on track for MAGS

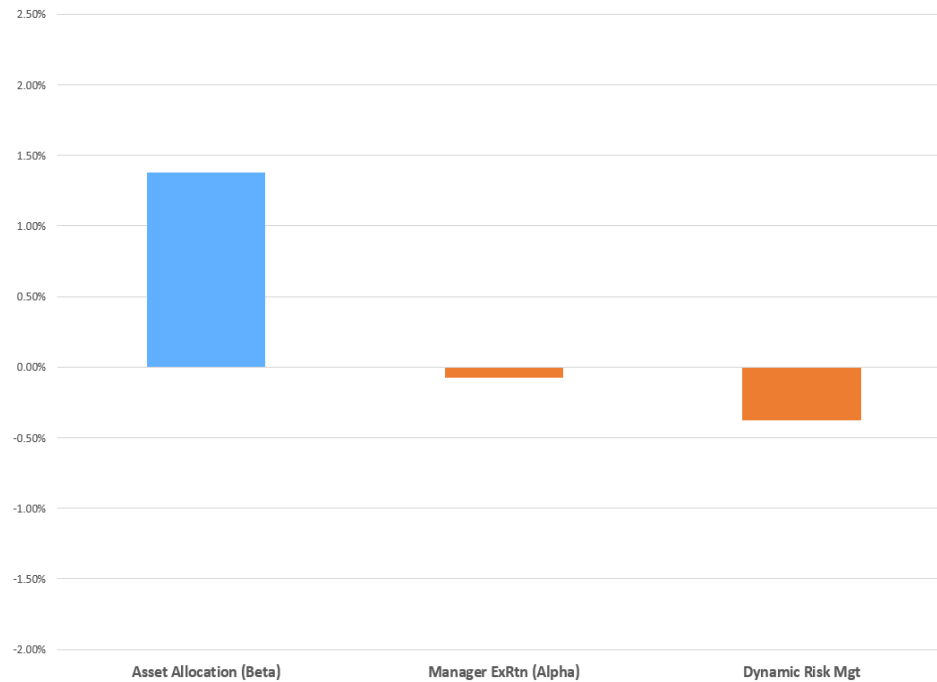


Source: Russell Investments. Returns shown for Russell Investments, MAGS Fund Class A, net terms as at 30 Sep 2018. Past performance is not a reliable indicator of future performance.

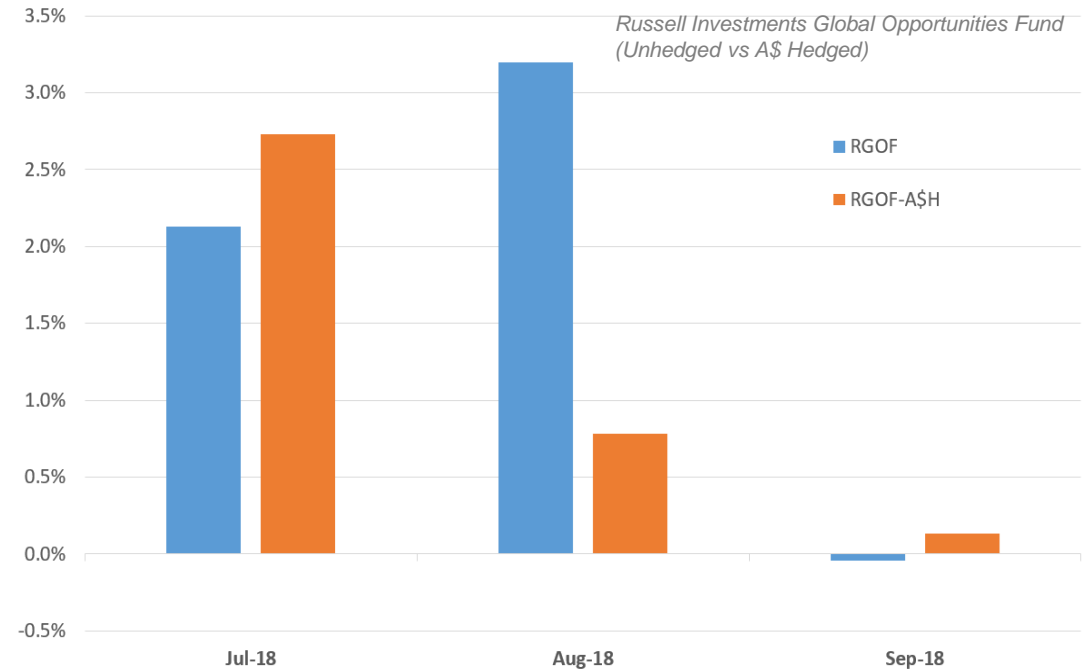
Return drivers

MAGS ended the quarter up 0.92%. Asset allocation was the primary driver of return, underpinned by strong global equities components, especially on an unhedged basis.

Asset allocation drives positive total return during Q3



Global equities sector funds provide strong total returns in Q3



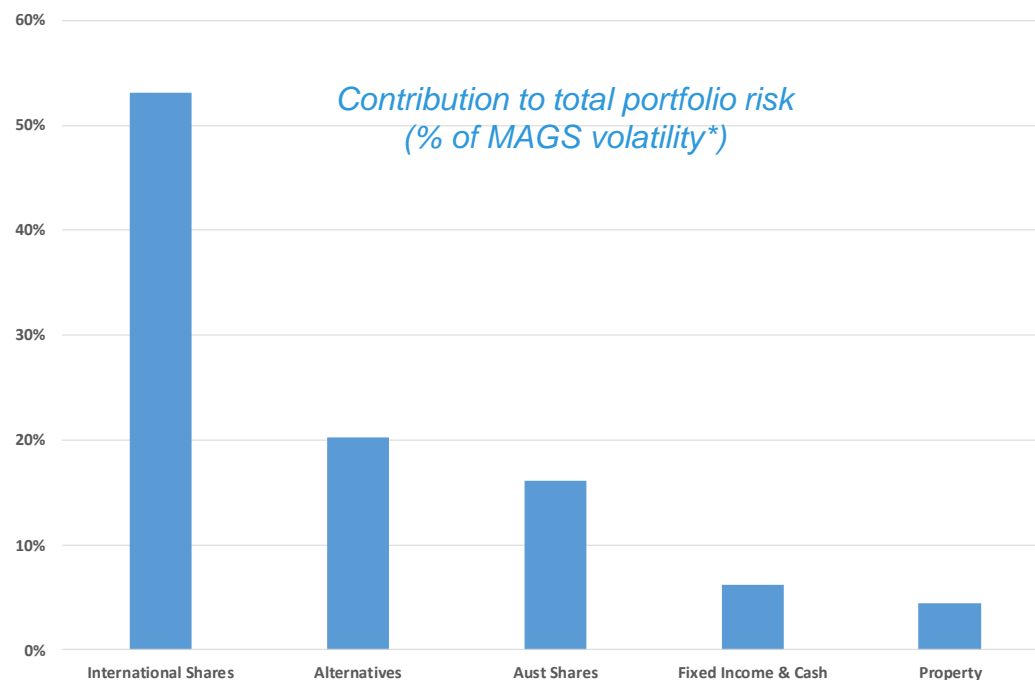
Source: Russell Investments. Russell Investments MAGS Fund (Class A, net A\$). As at 30 Sep 2018. Global equities sector fund performance is total return of Russell Investments Global Opportunities Fund (A\$ versus A\$ Hedged), Class D components, A\$ gross terms. Past performance is no guarantee of future performance.

Risk drivers

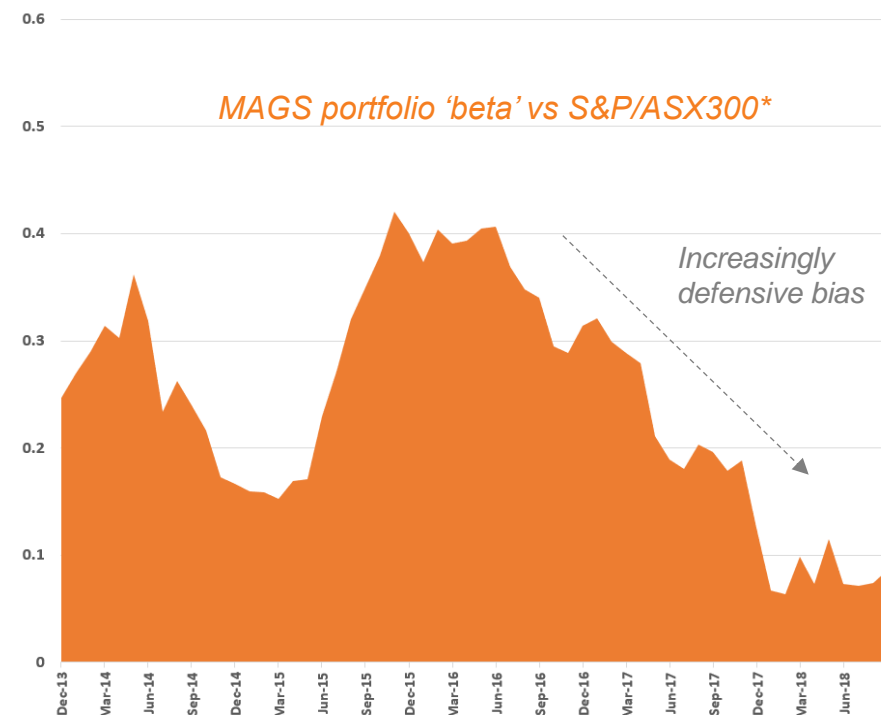
12

Market sensitivity of MAGS rose slightly in recent quarters as international equities added, but near lows in keeping with 'navigating the turn' central scenario.

International shares the main source of volatility



MAGS market sensitivity remains near lows



Source: Bloomberg, Russell Investments. Russell Investments MAGS Fund (Class A, net A\$).

* Contribution to total portfolio risk expressed as asset class % contribution to total MAGS portfolio standard deviation (Jan-13 to Sep-18). MAGS portfolio beta is rolling 1 year beta vs S&P/ASX300 total return index (Jan-13 to Sep-18). Past performance is no guarantee of future performance.

Benefits

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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.



Sophisticated

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



Focused

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



Dynamic

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



Tailored

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



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?

14



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 architecture 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

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Important information and disclosures

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