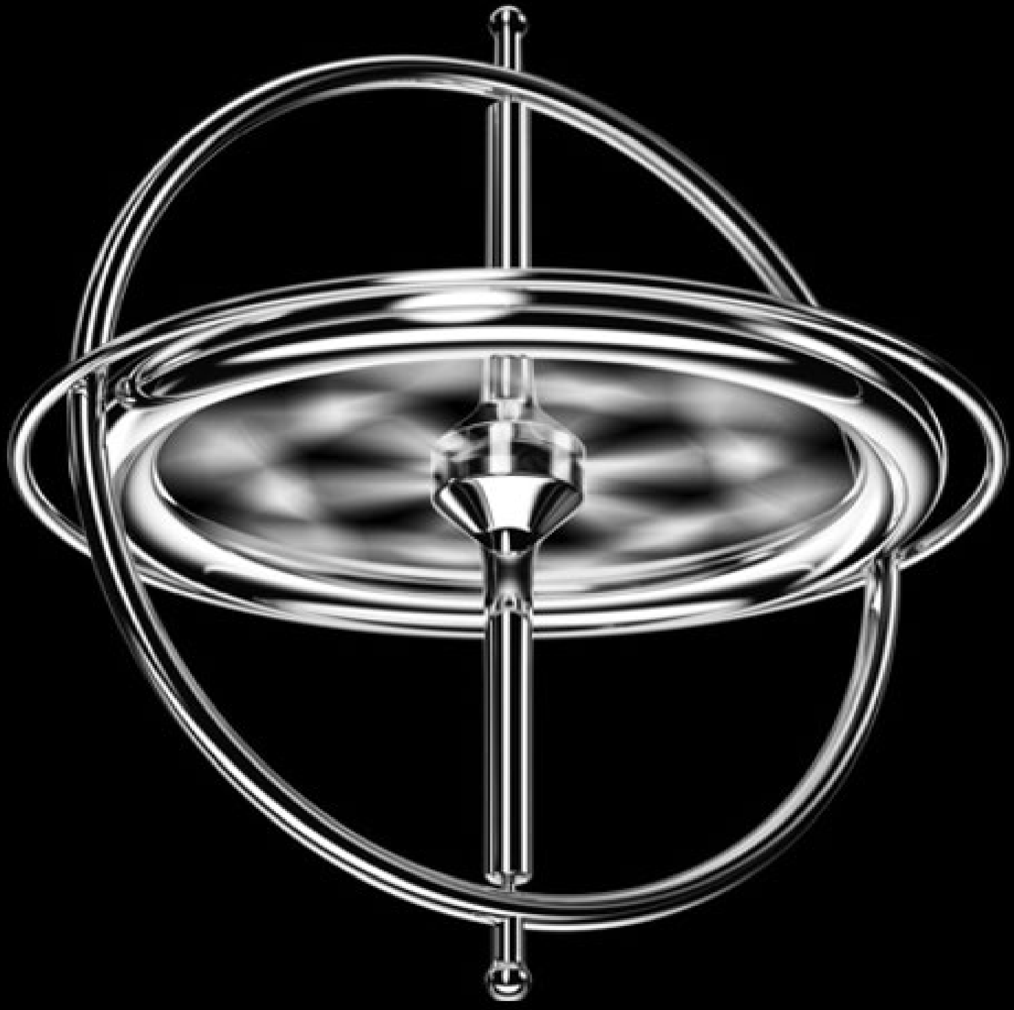
MAGS

Russell Investments



Dynamic Real Return Series

Quarterly Fund Review: Q4 2018

Multi-Asset Growth Strategy (MAGS)

January 2019

Key Investment Themes

December quarter 2018

Global economy cools off

The slowing global growth cycle through 2018 was largely a non-US story. However, by the end of Q4 a marked slowing in US activity data was also evident. Growth and trade issues led to a sharp fall in business optimism.

Investors run for cover

US shares suffered their worst December since 1931, leaving few places to hide in a broad-based growth asset sell off in Q4. Diversification paid off as bonds gained from safe haven flows.

Tech stock short-circuit

While mega-cap tech stocks dominated equity market performance during the first three quarters of 2018, the Q4 downdraft in tech drove a significant change in market leadership. Non-US shares, value and EM debt outperformed.

Fed about to hit pause?

The Fed delivered its ninth tightening for the expansion in December. However, comments from Fed Chair Jerome Powell strongly suggested a Fed pause could be imminent in early 2019. Markets downgraded expectations for the number of rate hikes in 2019.

Commodity markets tumble

West Texas crude oil prices dropped 38% over the course of the fourth quarter. Weaker than anticipated demand conditions and a ramp-up in Saudi production over the second half of 2018 conspired to create an oversupply problem in the market

Politics, politics, politics!

U.S. midterm elections, resolution of the new NAFTA deal and an end to the Italian budget impasse, all served as market tailwinds. However, any sentiment boost was overwhelmed by Sino-US trade war rhetoric, the U.S. government shutdown and increasing Brexit turmoil.

Source: Pixabay images

Strategy

2019 Global Market Outlook: The late-late cycle show

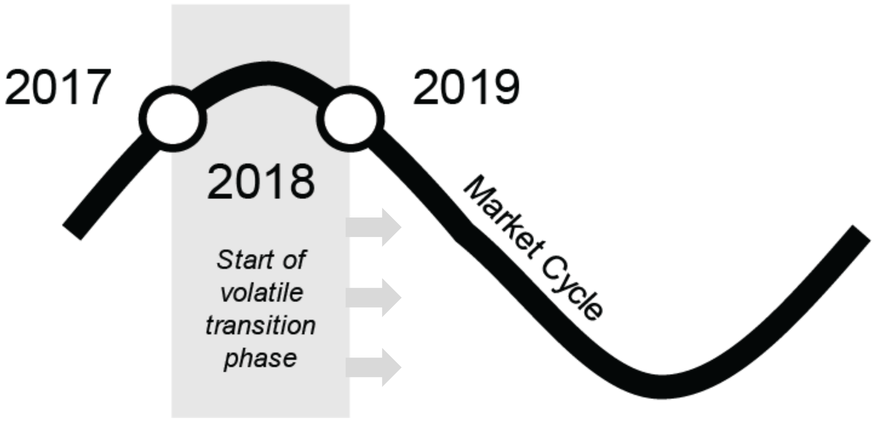
Outlook: *U.S. Federal Reserve policy deliberations, trade wars, China uncertainty, Italy and Brexit imply 2018's volatility should continue in 2019. The U.S. recession danger zone is 2020, which gives equity markets scope for a degree of upside in the context of a wide-ranging, volatile transition phase. Ultimately ushering in a sustained low return investment environment over the next few years.*

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:

- **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. Scope for tactical bounce from oversold levels early in the year.
- **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, GLI to benefit from European focus, while rising yields are generally a headwind to REITs.

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



Key watch points for Q1 2019

- Trade war escalation
- 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.

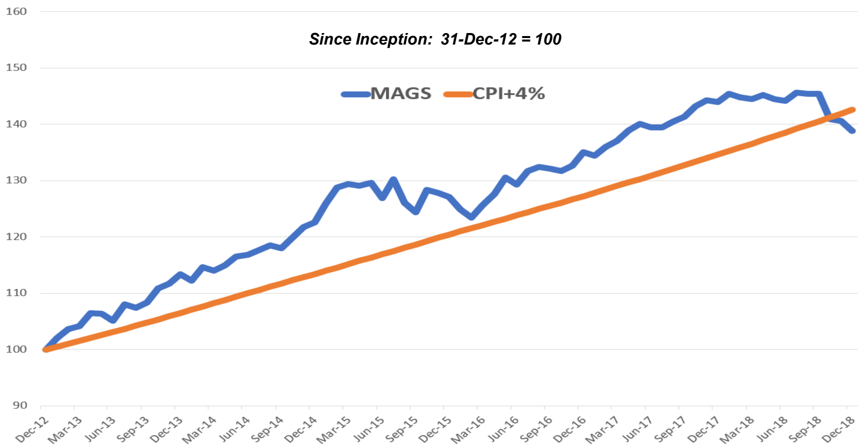
Return objectives shown are net of fees.

Source: Russell Investments

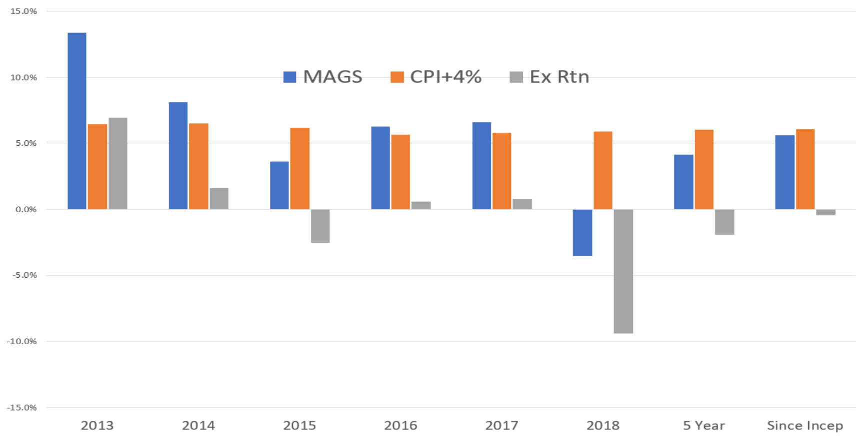
Outcomes

Q4-2018: MAGS performance was in-line with expectations and remains on-track to meet objectives

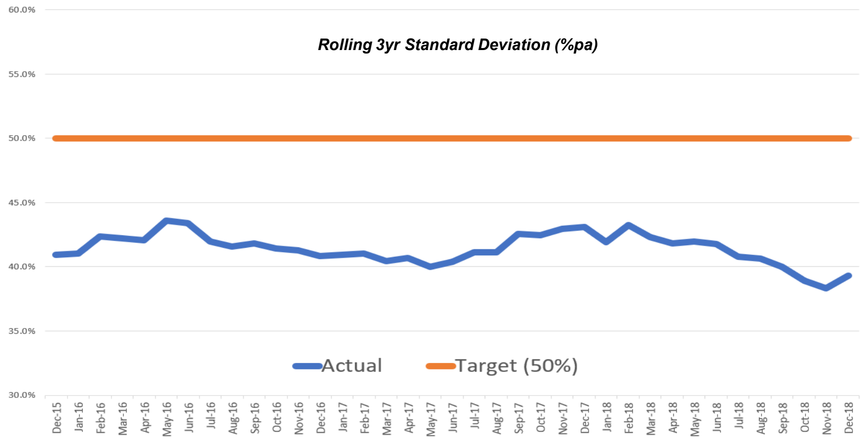
RETURN: Cumulative return vs CPI+4%



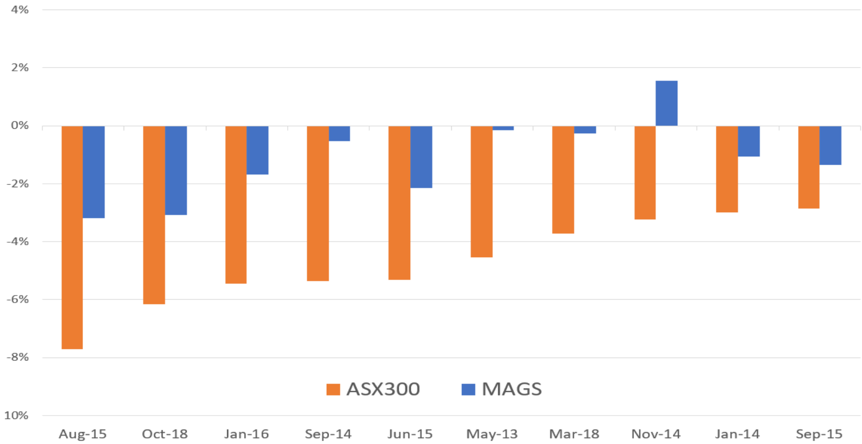
RETURN: Annual Excess Return vs CPI+4%



VOLATILITY: MAGS % of ASX300 volatility



DRAWDOWN: MAGS during 10 worst months in ASX300



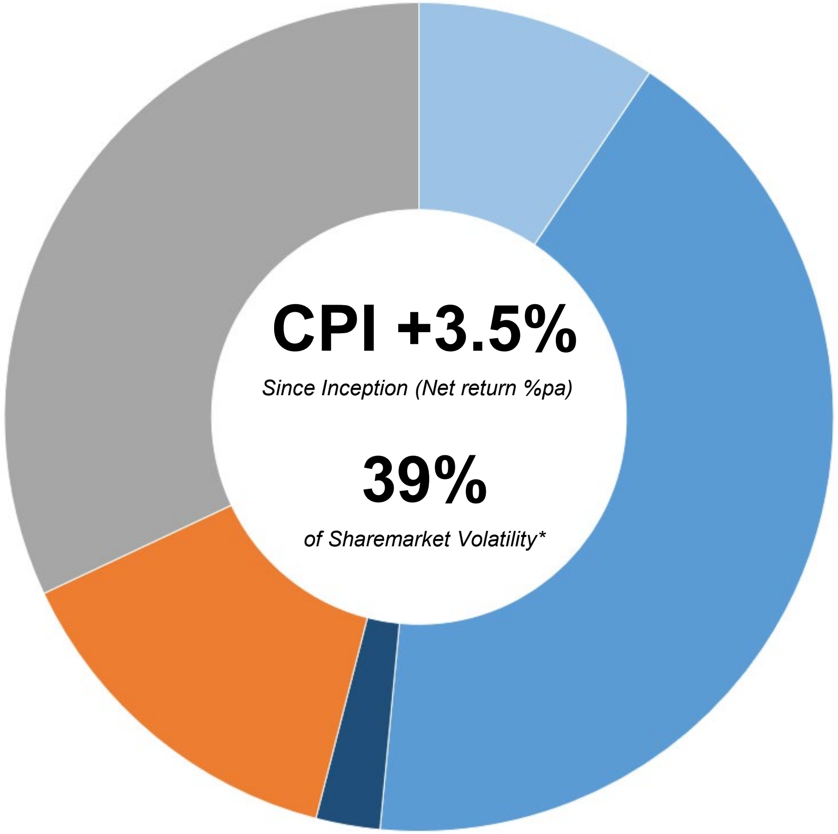
Source: Russell Investments, Bloomberg. Figures shown are for the Russell Investments MAGS Fund, Class A net A$ terms. As at 31 Dec 2018. Past performance is no guarantee of future performance.

Asset allocation

MAGS currently holds a 55% growth / 45% defensive asset allocation. Equities exposure was significantly reduced (cash exposure increased) to manage risk during the sharp sell-off.

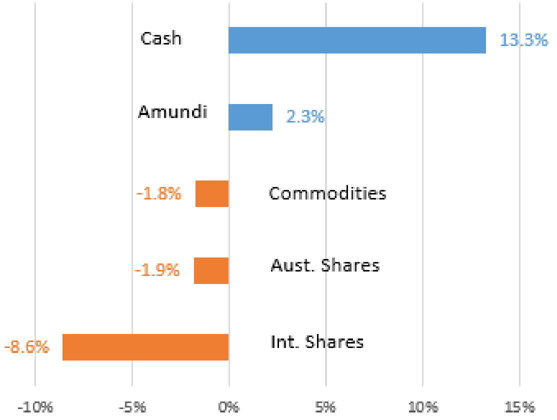
Asset allocation (31 December 2018)

GROWTH	**Australian Shares**	**7.6%**
	Russell Investments Aust Factor Exposure Fund	6.7%
	Vinva Aust Equitised Long/Short Fund	6.4%
	Options (ASX200)	0.6%
	Futures (ASX200)	-6.2%
	International Shares	**33.5%**
	Russell Investments Global Opportunities Fund	8.3%
	Russell Investments Global Opportunities Fund - A$H	16.0%
	Vinva Asia-Pacific Equity Long/Short Fund	1.1%
	Futures - Emerging Markets	3.7%
	Futures - Japan	-1.0%
	Futures - USA	5.4%
	Property	**1.4%**
	Russell Investments International Prop Sec. Fund	1.4%
	Alternatives	**12.5%**
	Amundi Absolute Volatility World Equities Fund (AUD)	2.3%
	Commodity Futures (Strategic)	1.9%
	Russell Investments EM Debt Local	6.5%
	Russell Investments Multi-Strategy Volatility Premia F	0.4%
	Russell Investments Global High Yield Fund - A$H	1.3%
	Russell Investments Global Listed Infrastructure Fund	0.2%
DEFENSIVE	**Fixed Income & Cash**	**45.0%**
	Perpetual High Grade Treasury Fund	12.8%
	Russell Investments Aust Cash Enhanced Fund	0.4%
	Metrics Credit Div Aust Senior Loan Fund	4.8%
	Russell Investments Floating Rate Fund - A$H	6.0%
	Russell Investments Aust Bond Fund	10.6%
	Russell Investments International Bond Fund - A$H	5.5%
	Russell Investments Global Bond Fund - A$ Dur Hedg	4.7%



Key allocation shifts (Q4-18)

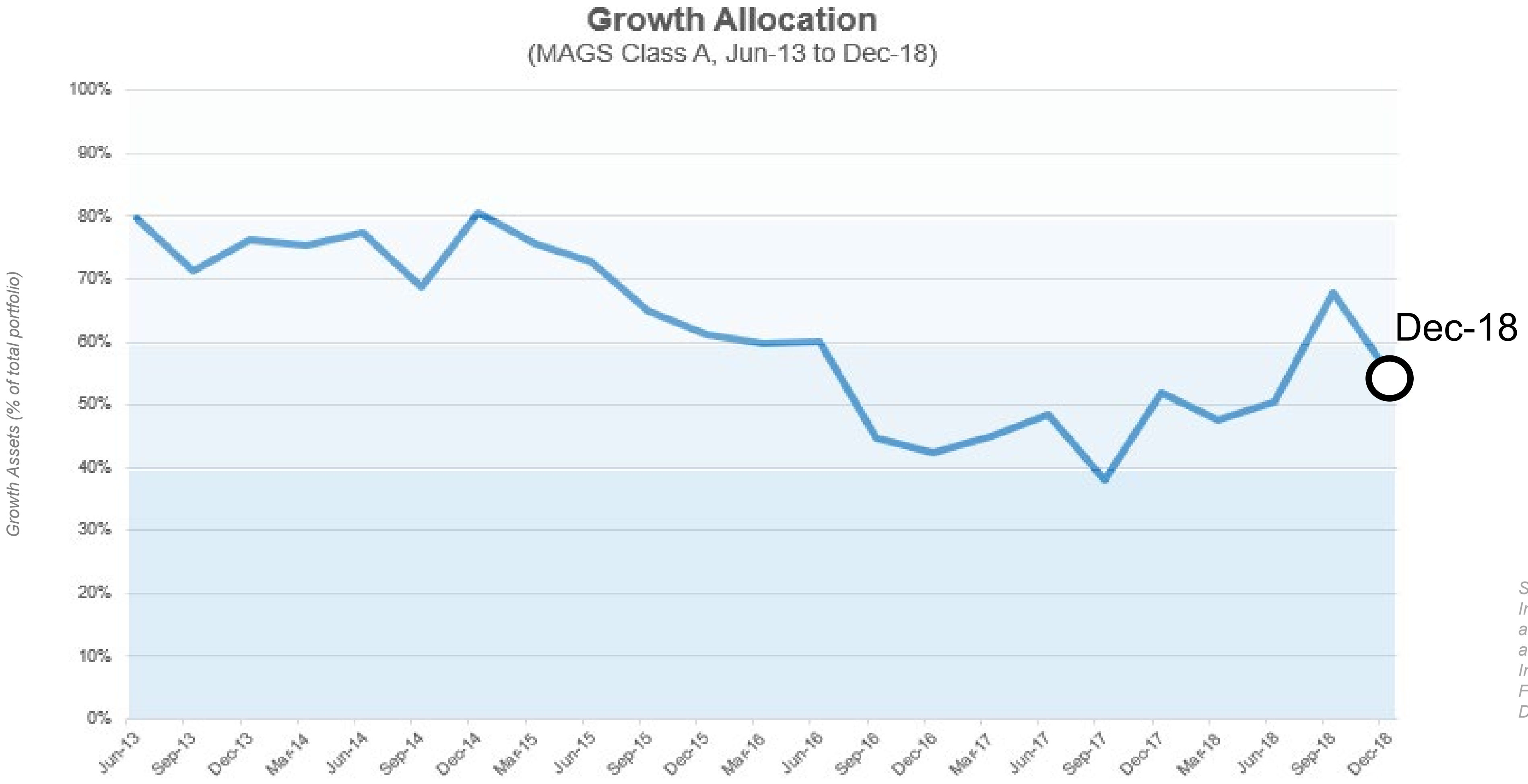
Total shares allocation was reduced (call options expiry) during the quarter (-11%). Cash position increased in line with options unwind & Amundi volatility strategy was added.



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

Asset allocation profile

MAGS growth asset allocation was reduced to 55% during Q4 as ‘risk-off’ returned with a vengeance

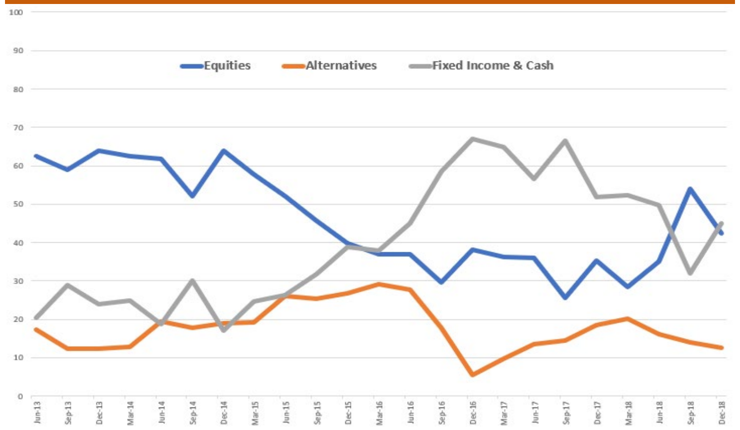


Source: Russell Investments.. Growth allocation figures shown are for the Russell Investments MAGS Fund, Class A as at 31 Dec 2018..

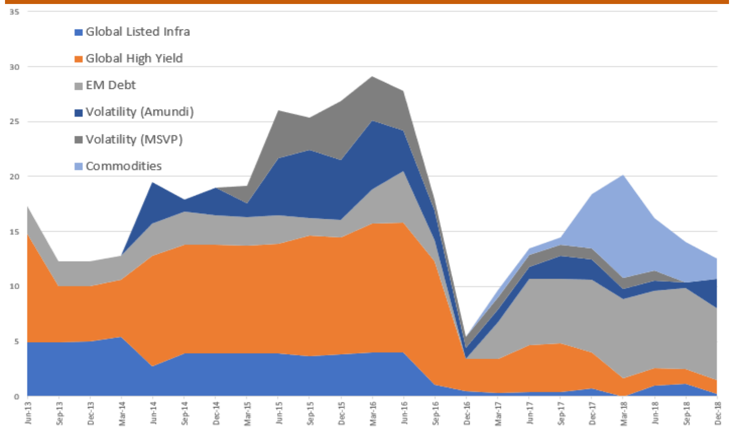
Dynamic management

Q4-2018: Breakdown of portfolio asset class exposures and currency hedging

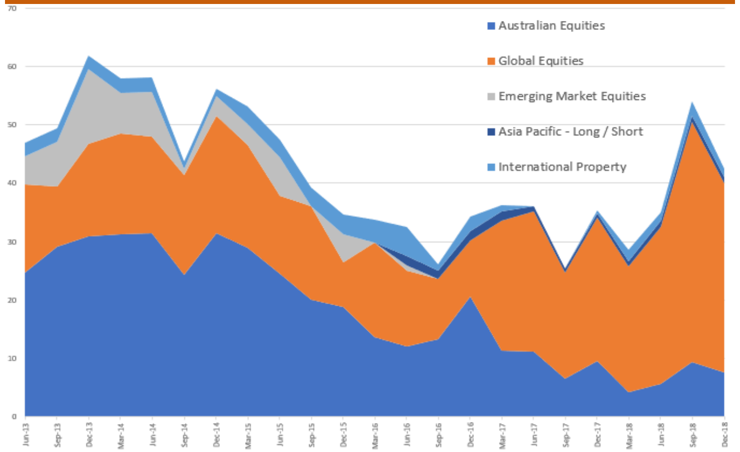
ASSET ALLOCATION: Asset Classes (%)



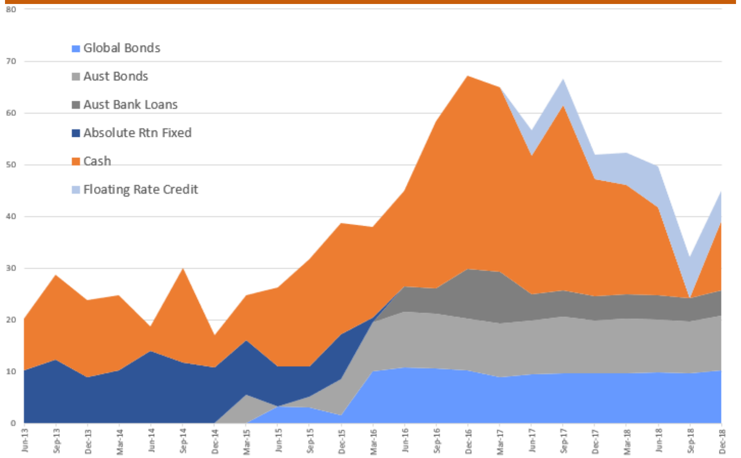
ALTERNATIVES: Composition (%)



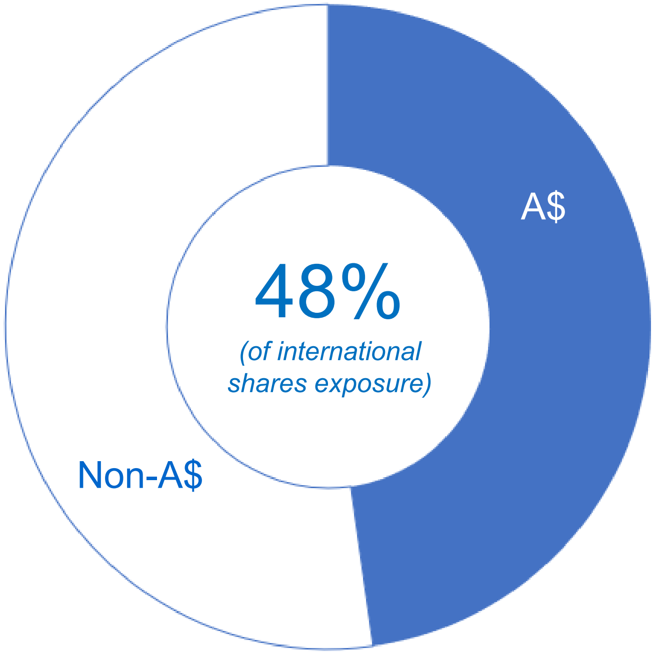
EQUITIES: Composition (%)



FIXED INCOME & CASH: Composition (%)



A$ exposure increased as a risk-on hedge

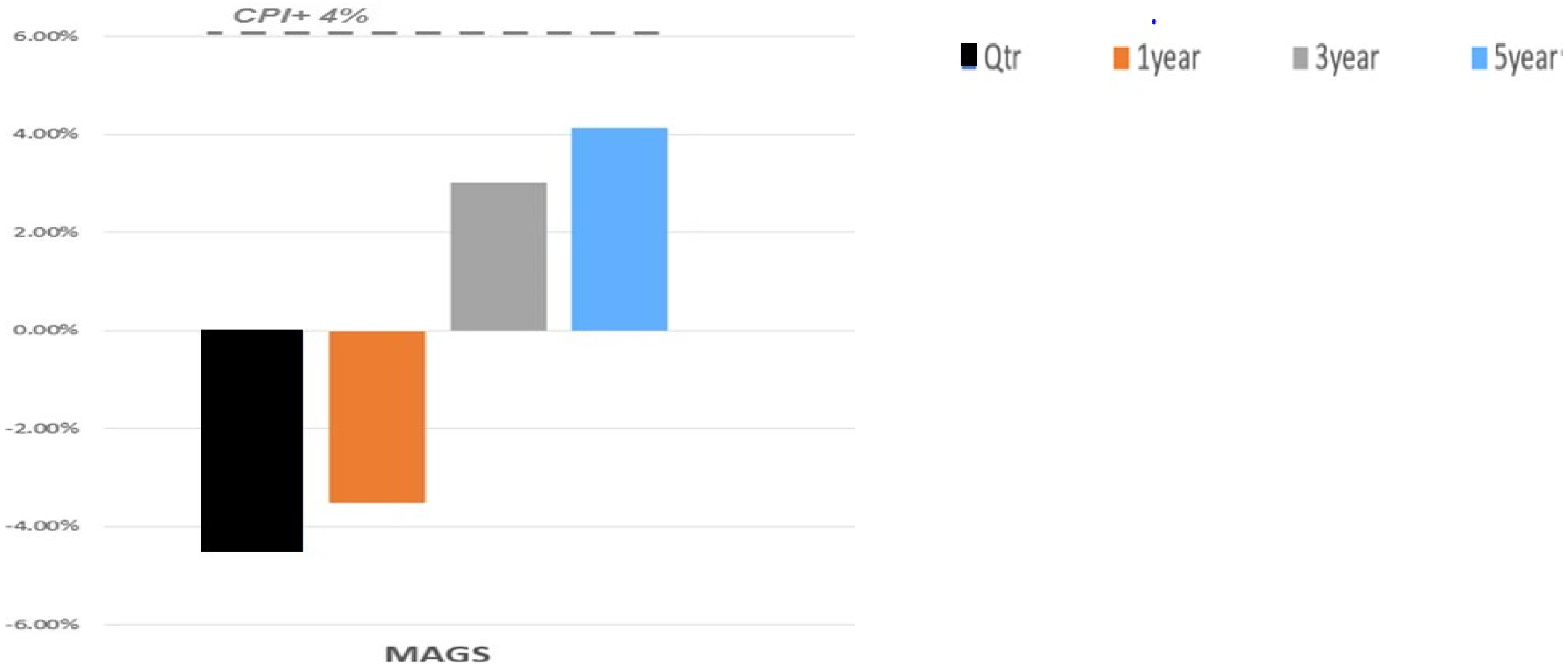


Source: Russell Investments. Figures shown are for the Russell Investments MAGS Fund, Class A net A$ terms. As at 31 Dec 2018. Past performance is no guarantee of future performance.

Performance

The sharp sell-off in Q4 saw all funds in the dynamic real return series deliver negative returns for the quarter and year. Longer term performance measures for MAGS have moved below CPI+ return objectives.

This late-cycle fluctuation in return is consistent with expectations, as market falls keep total returns below the pace of inflation before the next early-cycle phase commences, and portfolios increase growth allocations once again.

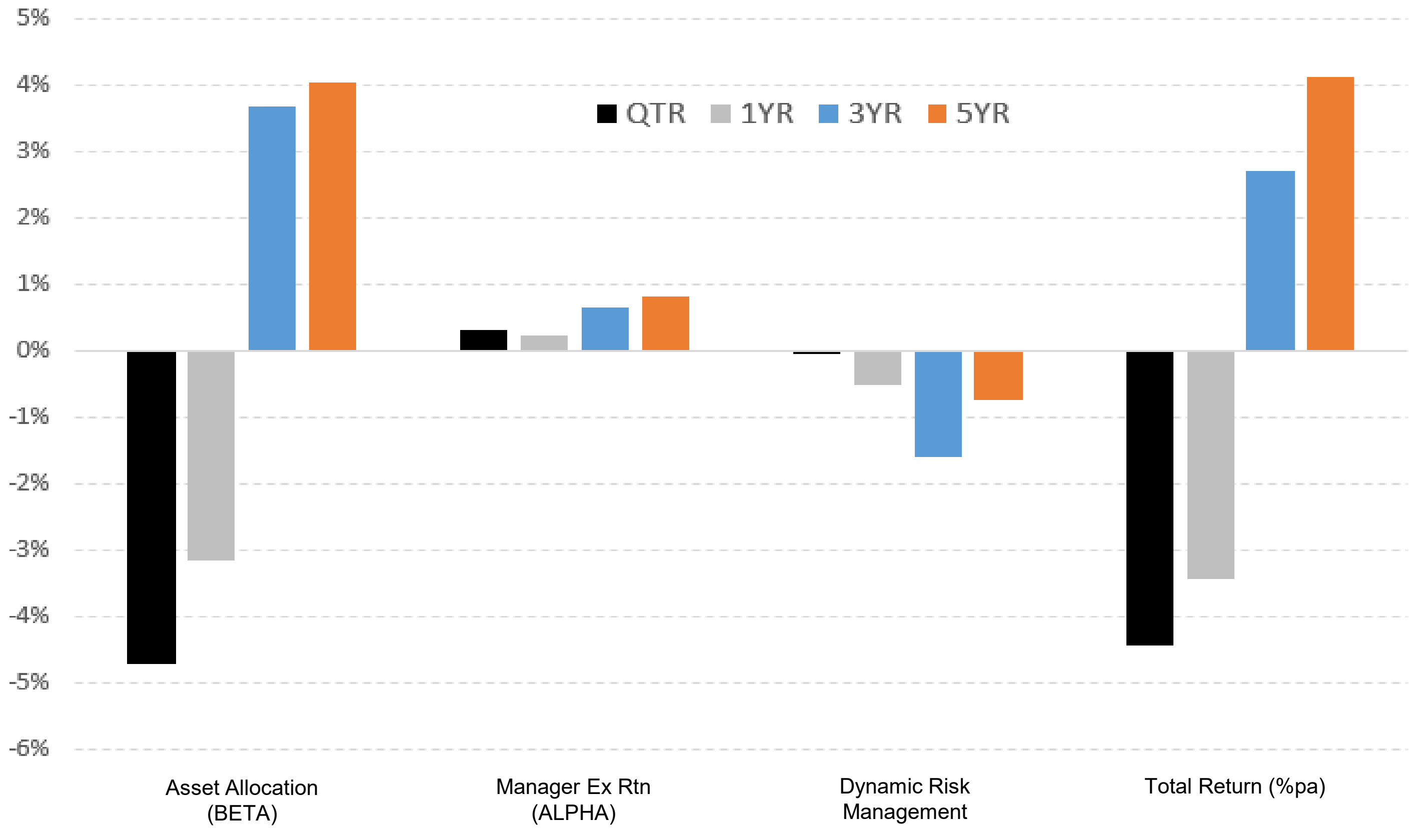


Note: CPI+ objectives shown are for 5 years (%pa)

Source: Russell Investments. Returns shown for Russell Investments, MAGS Fund are Class A, net terms as at 31 Dec 2018.. Past performance is not a reliable indicator of future performance.

Return drivers

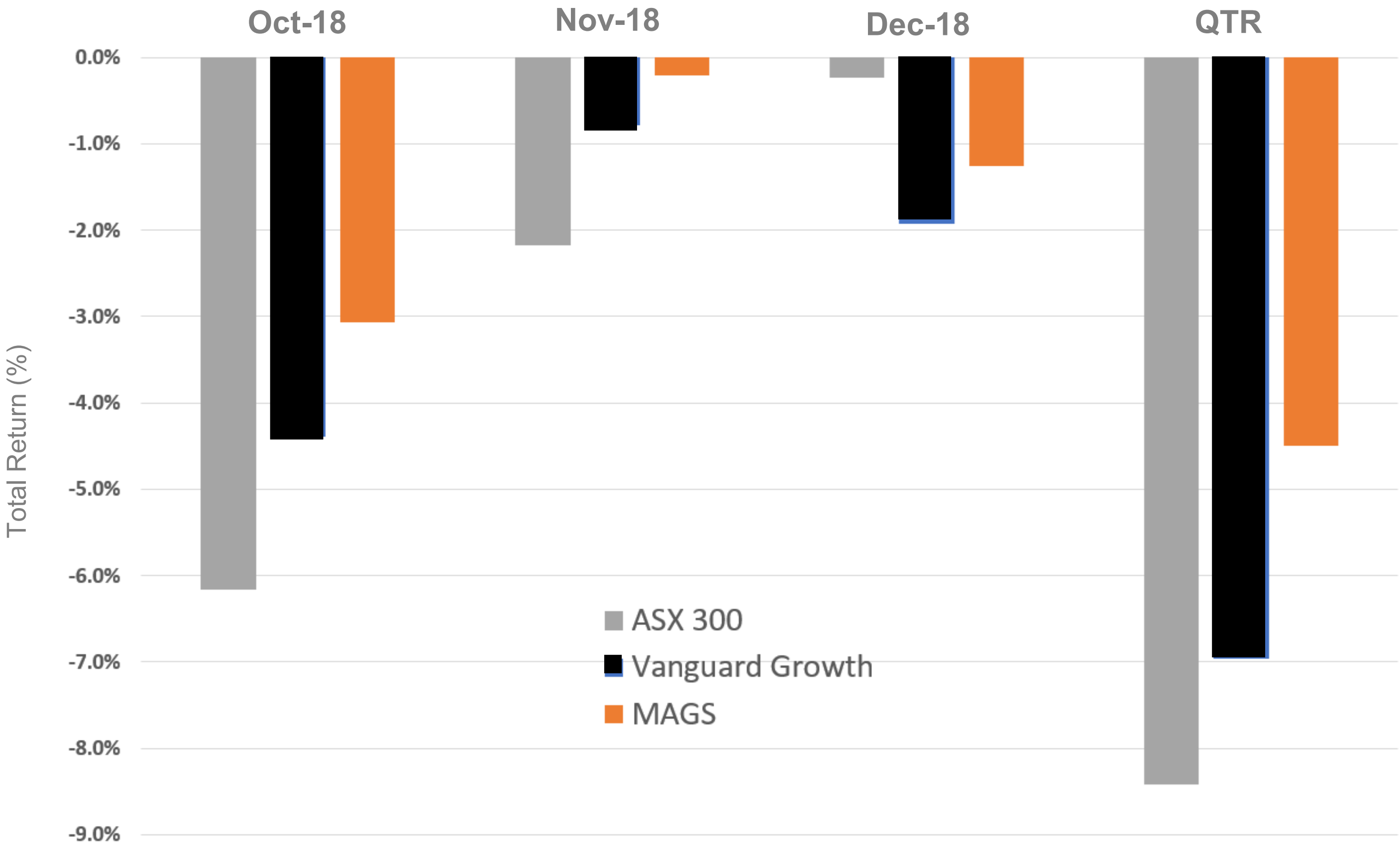
MAGS ended the quarter down 4.2%. Asset allocation (market exposure) was the primary detractor during the Q4 sell-off, while the combination of manager excess returns and dynamic risk management delivered a small positive contribution over the quarter.



Source: Russell Investments. Russell Investments MAGS Fund (Class A, net A$). As at 31 Dec 2018. Past performance is no guarantee of future performance.

Downside risk comparison

MAGS experienced significantly less drawdown during the December quarter than the Australian sharemarket or passive 70/30 fund.



Source: Morningstar, Bloomberg, Russell Investments. Russell Investments MAGS Fund (Class A, net A$). Vanguard Wholesale Growth Index Fund (Net A$). S&P/ASX300 Total Return Index (Gross, A$). Monthly data, Oct-18 to Dec-18 inclusive. 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