QUARTERLY FUND REVIEW

Multi-Asset Growth Strategy (MAGS)
Real Return Series

Q4 2020

Key Investment Themes

‘The Old Normal’: Vaccine prospects spur optimism over the global economic recovery

EARLY-CYCLE RECOVERY BOOSTED BY VACCINE ANNOUNCEMENTS

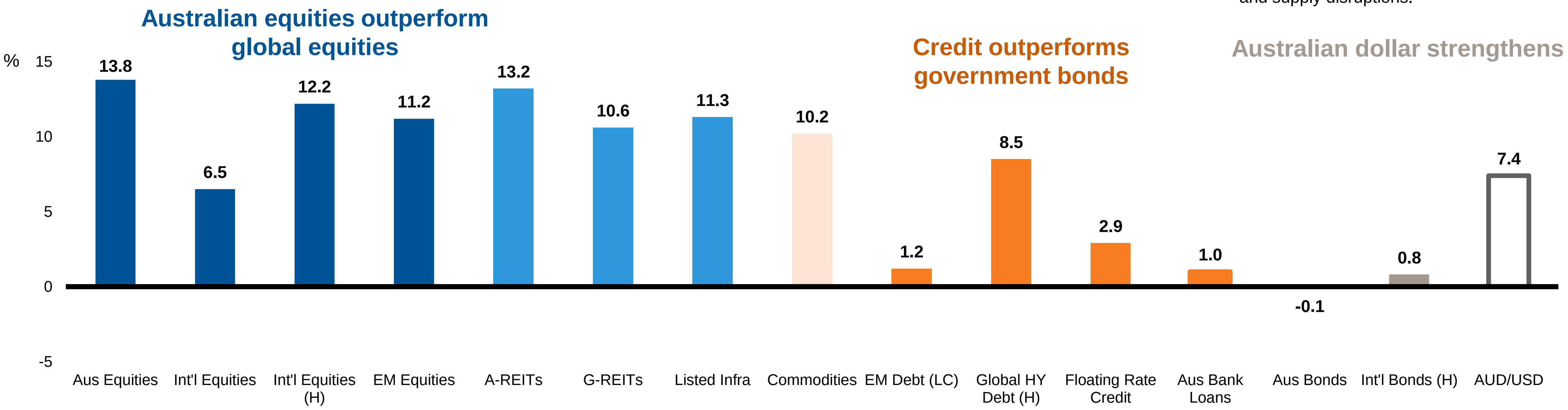
Equity markets react positively to vaccine announcements as the global economic recovery continues. Value and cyclical stocks outperform. EM equities benefit from accelerating economic activity in Asia. Australian equities outperform, driven by easing lockdown measures and hopes on broader reopening.

BIDEN CLAIMS US ELECTION VICTORY, CENTRAL BANKS REMAIN DOVISH

Democratic nominee Joe Biden defeats incumbent Donald Trump in a bitterly contested US presidential election. Global central banks commit to further ultra-accommodative action, extending monetary policy support through quantitative easing programs.

US DOLLAR SELL-OFF DEEPENS, COMMODITIES JUMP

EM assets are supported by the greenback’s decline. Commodities rally, driven by broadly higher prices across energy, metals, and agricultural sub-sectors. The Australian dollar continues to appreciate against other major currencies, with iron ore prices surging further from rising Chinese demand and supply disruptions.



Source: Confluence, Bloomberg, Russell Investments. As at 31 December 2020. Returns are gross of fees.

Market outlook

The Old Normal

"We have a positive medium-term outlook for economies and corporate earnings. We're in the early post-recession recovery phase of the cycle, which implies an extended period of low inflation, low-interest rate growth that favours equities over bonds."

Economic views

EARLY-CYCLE RECOVERY

Once a vaccine is widely available and lockdowns have been eased, we believe that normal early-cycle recovery dynamics should resume, with a rotation toward relatively cheaper value and non-U.S. stocks that are likely to benefit from a return to more normal economic activity.

GOVERNMENT DEBT

The most notable damage from the pandemic has been the rise in government debt. However, it's unlikely that governments will start to trim deficits through tax hikes and lower spending anytime soon.

U.S. GROWTH FORECAST

In the U.S., the post-vaccine recovery period will lead to real GDP growth in excess of 5% in 2021.

EUROPEAN OUTPERFORMANCE

Europe's exposure to financials and cyclically sensitive sectors gives it potential to outperform in the post-vaccine phase of the recovery, when economic activity picks up and yield curves steepen.

LIMITED RISE IN TREASURY YIELDS

Major central banks have made it clear that they will wait until after inflation rises before raising rates. A slow-acting Fed should limit the rise in the 10-year U.S. Treasury yield to between 1.1% to 1.4% – compared to its current level of 0.85% in early December.

Asset class views

Equities: Preference for non-U.S. equities

We prefer non-U.S. equities to U.S. equities. The post-vaccine economic recovery should favour undervalued cyclical value stocks over expensive technology and growth stocks. Relative to the U.S., the rest of the world is overweight cyclical value stocks.

We like the value in emerging markets (EM) equities. China's early exit from the lockdown and stimulus measures will likely benefit EM more broadly, as should the recovery in global demand and a weaker U.S. dollar.

Fixed income: Bonds universally expensive

We see government bonds as universally expensive. Low inflation and dovish central banks should limit the rise in bond yields during the recovery. U.S. inflation-linked bonds offer good value with break-even inflation rates well below the Fed's targeted rate of inflation. High-yield and investment-grade credit are slightly expensive on a spread basis, but they have an attractive post-vaccine cycle outlook.

Currencies: U.S. dollar likely to weaken during recovery

The U.S. dollar should weaken amid the global economic recovery, given its counter-cyclical behaviour. The dollar typically gains during global downturns and declines in the recovery phase. The main beneficiaries should be the economically sensitive *commodity currencies* - the Australian dollar, the New Zealand dollar and the Canadian dollar. The euro and British sterling are undervalued, and we expect that both currencies will be boosted by the post-vaccine recovery.

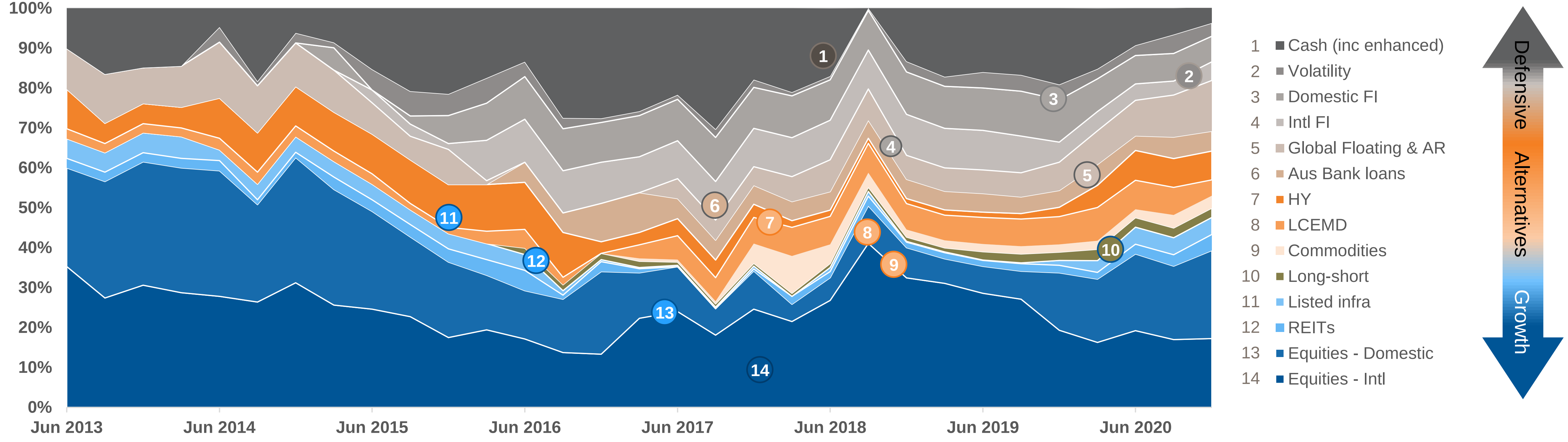
Please visit:

russellinvestments.com/au

to read the complete 2021 Global Market Outlook.

MAGS asset allocation over time

Balancing return and downside risk objectives



Systematic de-risking from early to late-cycle

Opportunistic growth assets increase in extension of market cycle

Conservative positioning in drawdown phase

Increase in growth assets & extended FI in recovery phase

Russell Investments Multi-Asset Growth Strategy Fund

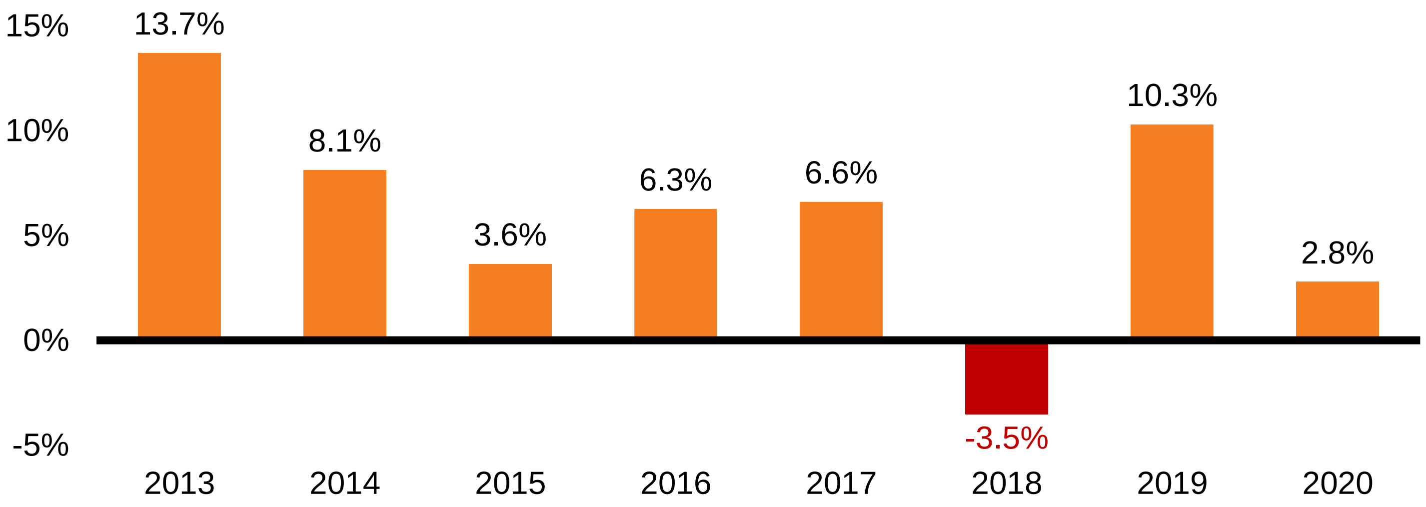
MAGS total return of 6.2%* for Q4 2020

- **Asset allocation**: Largest driver of total returns –> equities. Positive contributions from credit: global HY debt and floating rate.
- **Dynamic**: Increased Aus equities & REITs exposure. Reduced EM debt exposure. Added credit via unconstrained bond fund.
- **Stock selection**: Positive excess returns from RAFEF and GOF.

Period returns

Period	Fund Net Return (%)
3M	6.23
1Y	2.78
3Y	3.02
5Y	4.37
Since Inception	5.87

Calendar year returns

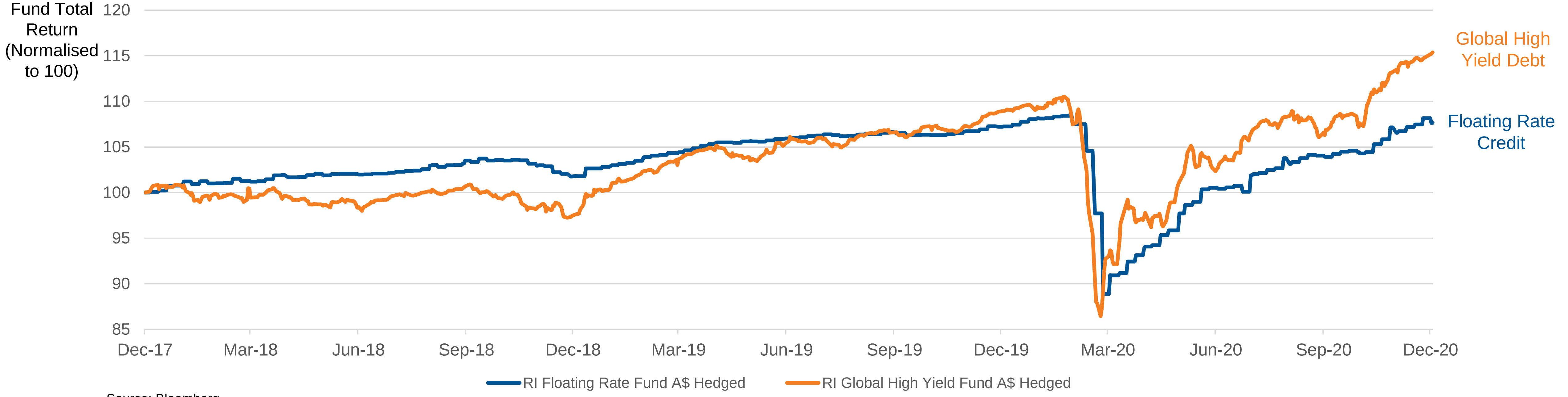


As at 31 December 2020. Inception date is 11/12/2012.
* Net return.
Source: Russell Investments, Lonsec

Global credit rallies in Q4

High Yield Debt outperforms, Floating Rate Credit positive

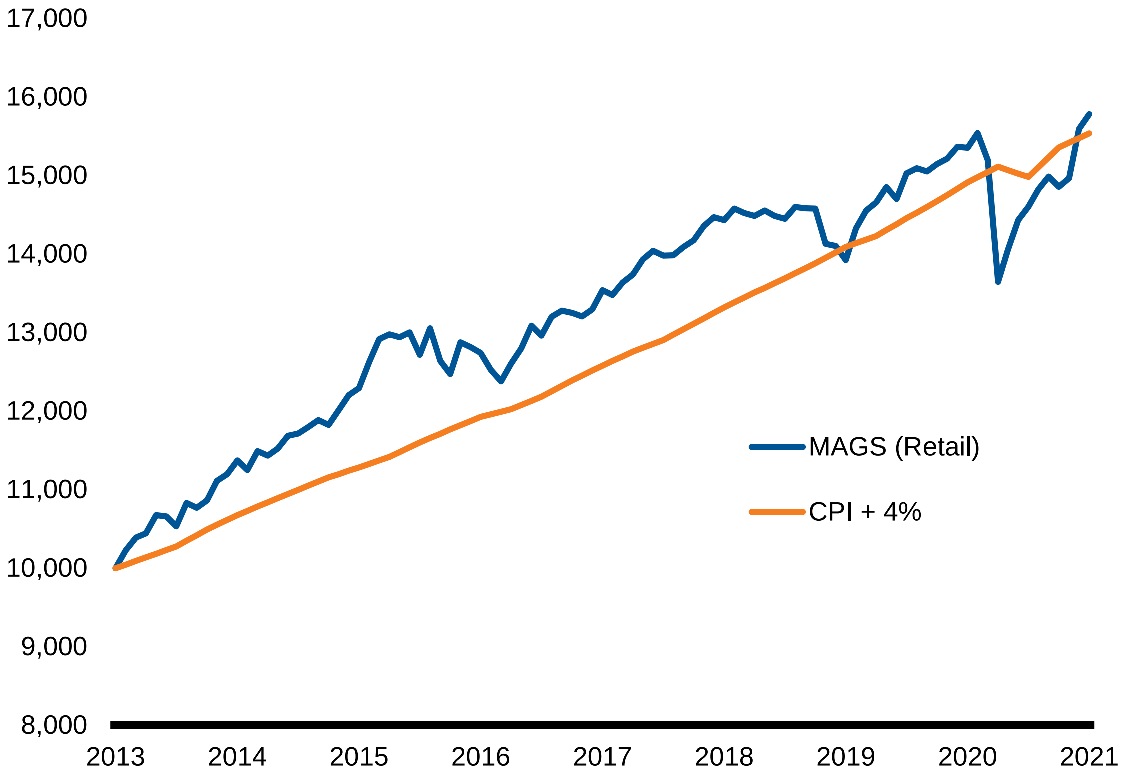
- Credit continues to be driven by economic recovery, broad policy stimulus and optimistic investor sentiment
- Current views:
  - Neutral on HY debt: default activity expected to remain elevated, support from economic recovery and central bank policy
  - Positive on loans: Yield and overall valuations remain attractive, recovery rates superior to HY debt
  - Positive on securitised credit: Improving fundamentals, cheaper valuation offers attractive return in recovery scenario



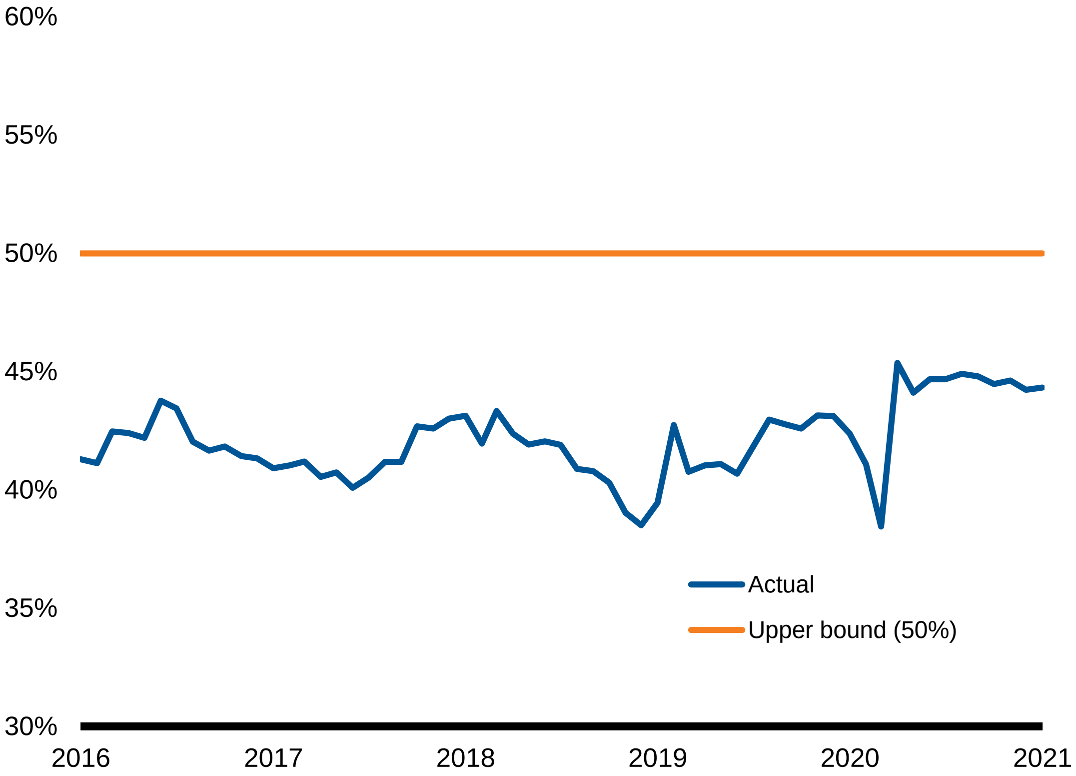
Source: Bloomberg.

Performance versus objectives

Growth of $10,000 over time



Actual volatility versus target (3-year rolling)



Source: Lonsec iRate, Russell Investments

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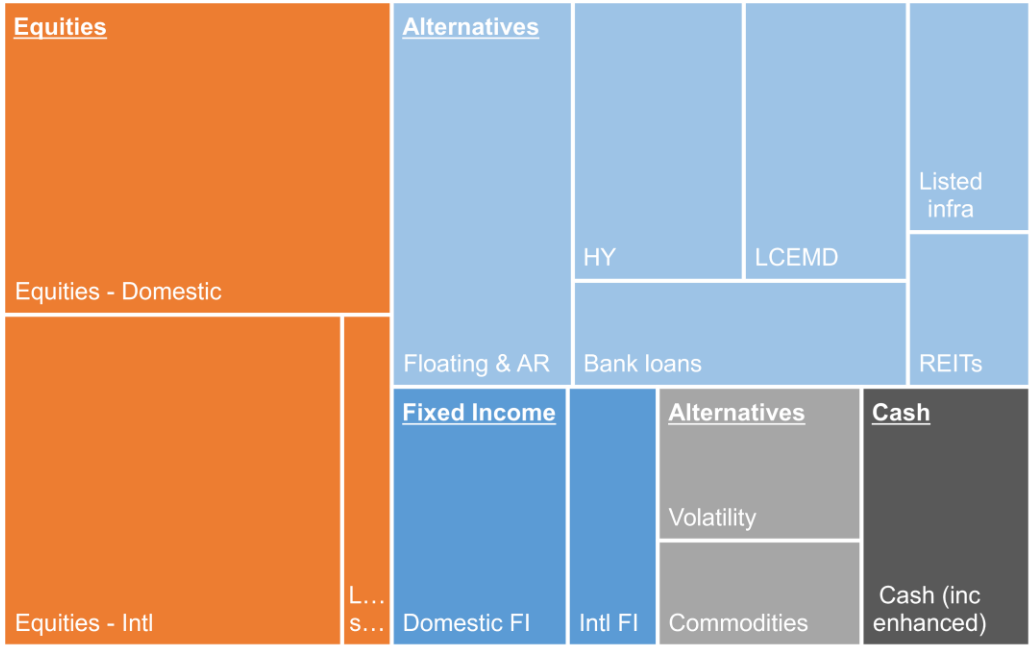
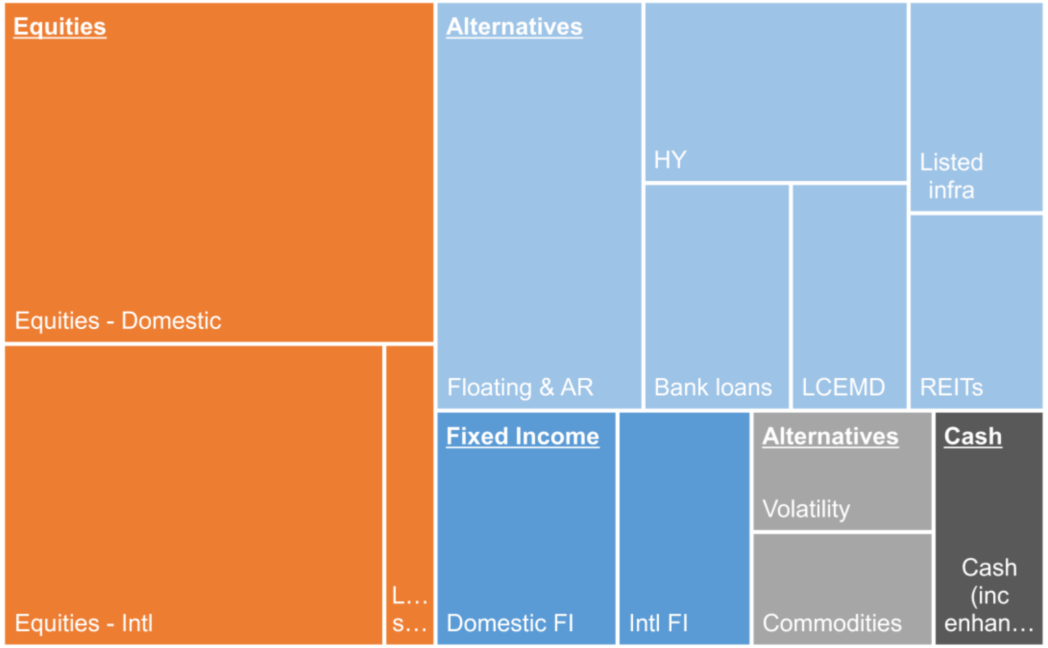
Asset allocation snapshot

Q3 2020



Q4 2020



> **Australian equities** allocation increased by 4%, **REITs** allocation increased by 1%

> **Absolute return credit** increased by 3%, **local currency EM debt** reduced by 3%

> **Long volatility strategy (Amundi)** reduced by 1%, **Cash** reduced by 3%

> Upside participation through US and Aus equities options rolled forward, 2021 expiries

Portfolio look through

As at 31 December 2020

Underlying funds

Equities	Russell Investments Global Opportunities Fund - A$H	12.9%
Equities	Russell Investments Global Opportunities Fund	10.9%
Equities	Russell Investments Aust Factor Exposure Fund	5.7%
Equities	Vinva Aust Equitised Long/Short Fund	8.5%
Equities	Russell Investments Aust Opportunities Fund	5.8%
Equities	Futures & Options	-6.5%
Equities	Futures & Options (ASX 200)	2.1%
Alts - equities	Russell Investments International Prop Sec. Fund - A$H	3.0%
Alts - equities	Vanguard Australia Property Securities Index Fund	1.0%
Alts - equities	Russell Investments Global Listed Infrastructure Fund - A$H	4.3%
Alts - equities	Vinva Equity Market Neutral Fund	2.3%
Alts - commodities	Commodity Futures	3.1%
Alts - FI	Russell Investments EM Debt Local	4.0%
Alts - FI	Russell Investments Global High Yield Fund - A$H	7.2%
Alts - FI	Russell Investments Floating Rate Fund - A$H	10.1%
Alts - FI	Metrics Credit Div Aust Senior Loan Fund	5.0%
Alts - FI	Russell Investments Unconstrained Bond Fund - A$H	2.6%
Fixed Income	Russell Investments Aust Bond Fund	3.4%
Fixed Income	Vanguard Aust Inflation Linked Bond Index Fund	2.9%
Fixed Income	Russell Investments International Bond Fund - A$H	3.0%
Fixed Income	Futures	1.6%
Alts - volatility	Amundi Absolute Volatility World Equities Fund (AUD)	3.3%
Cash & enhanced	Other Cash (liquidity reserve & synthetic cash)	3.8%

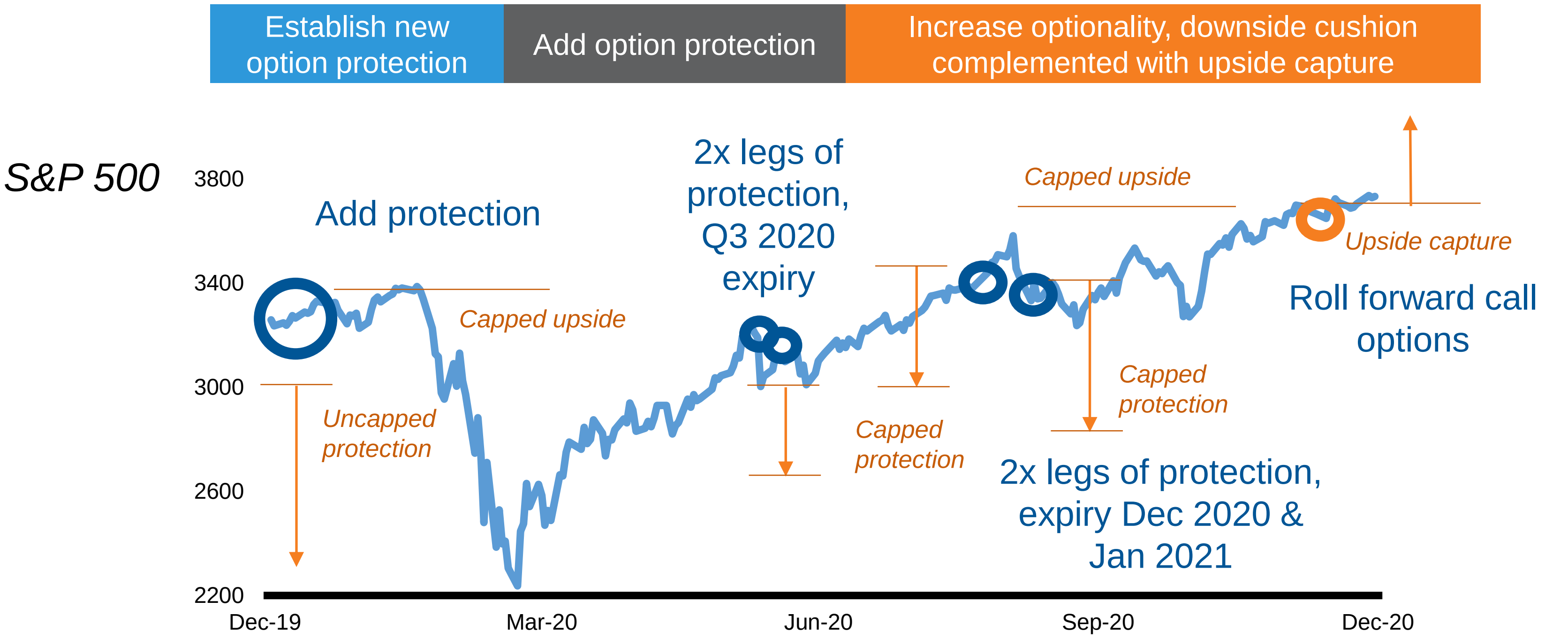
Top 10 equity holdings*

AUSTRALIA	INTERNATIONAL
BHP	Taiwan Semiconductor
CBA	Samsung Electronics
CSL	Alphabet
NAB	Microsoft
ANZ	Apple
Westpac	Alibaba
Newcrest Mining	UnitedHealth
Rio Tinto	Roche
Telstra	Johnson & Johnson
Wesfarmers	Tencent

* Excludes Long-Short fund. Source: Russell Investments, Factset as at 31 December 2020. In order to manage a fund/portfolio to its investment objectives, Russell Investments retains the discretion to change the underlying investments at any time, without notice to investors. Please refer to the relevant Product Disclosure Statement for more information.

Example: Dynamic risk management

Skewing the return profile during heightened uncertainty



Establish new downside cushion

- Re-establish US protection (Sep 2020 expiry), capped out at 2750
- Equity replacement (Sell futures / Buy calls)
- Sell additional futures to benefit from market fall

1H 2020

Increase optionality by complementing downside cushion with upside capture

- Equity replacement (Sell futures / Buy calls), upside participation via call options
- US equity put option protection (Jan 2020 expiry) at 3300 strike
- Roll Aus & US equity call options, 2021 expiries

2H 2020

Use of options strategies

Options give investors the flexibility to shape the portfolio's return profile, including building protection.

Cost is reduced via buying out-of-the-money options and low implied volatility at entry.

<u>Current material options positions</u>

US equity options:

- SPX 3775 calls, June expiry (5% notional)

Aus equity options:

- ASX 6400 calls, June expiry (2% notional)

Total portfolio optionality at 12% notional.

Source: Russell Investments, Bloomberg.
S&P 500 price index, as at 31 December 2020.

We are here to help

Meet the Russell Investments team

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