

FOCUS



Quarterly Fund Review

Q2 2018 : Multi-Asset Growth Strategy (MAGS)



Key Investment Themes

June quarter 2018

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US decouples from rest



Synchronised growth decoupled while the Fed signalled another 1 to 2 rate hikes in the second half.

Trade tensions ramp up



US tariff threats and counter-threats were a feature of the quarter, adding to volatility.

Geopolitical risk returns



North Korea, Italian politics and Brexit developments returned to view as sources of tail risk.

Emerging markets sell-off



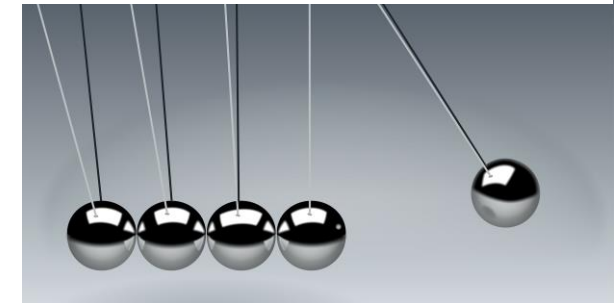
Latam currencies, hard currency debt and Asian equities were hit hard by trade tensions and US\$ strength.

Big Dollar strength



US dollar strength underpinned by rising interest differentials and relative economic outperformance.

Equities bounce a little



Developed markets rebounded strongly in April before losing steam by quarter end.

Strategy

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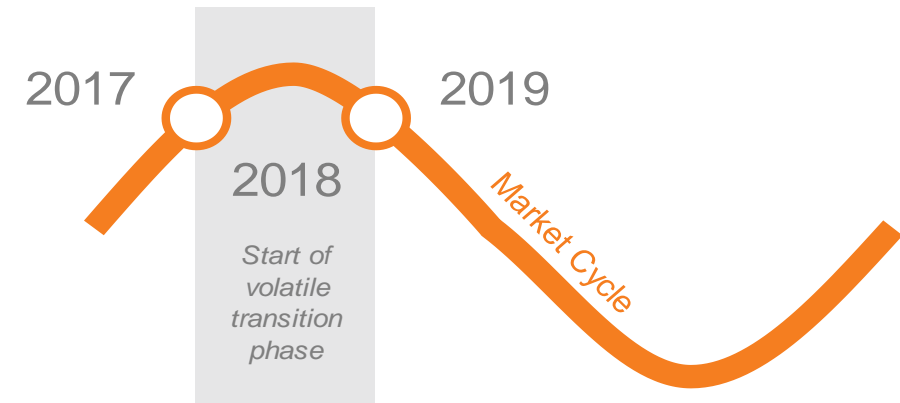
MAGS investment strategy is focused on our central 'navigating the turn' scenario

We believe we are in the midst of a late-cycle market where sentiment gyrates between near term positives and larger fundamental negatives that will ultimately usher in a lower return environment over the medium term. Over the next 12 months, our proprietary CVS dynamic positioning process shows that risk is skewed to the downside. This drives the current defensive bias of the MAGS Fund, though dynamic activity continues to manage growth allocations in line with shorter-term market movements.

Our approach to the 'key questions'

- > **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 (eg. earnings momentum, accommodative policy, synchronised global growth) conflict with increasing fundamental headwinds (eg. 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 maintain a defensive bias to address the larger fundamental risks, but tactically nimble to both add risk at oversold levels, and de-risk again at overbought levels in line with our CVS process signals.

The 'big picture' view



Key watch points for Q3

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

Dynamic Real Return Series

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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

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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.

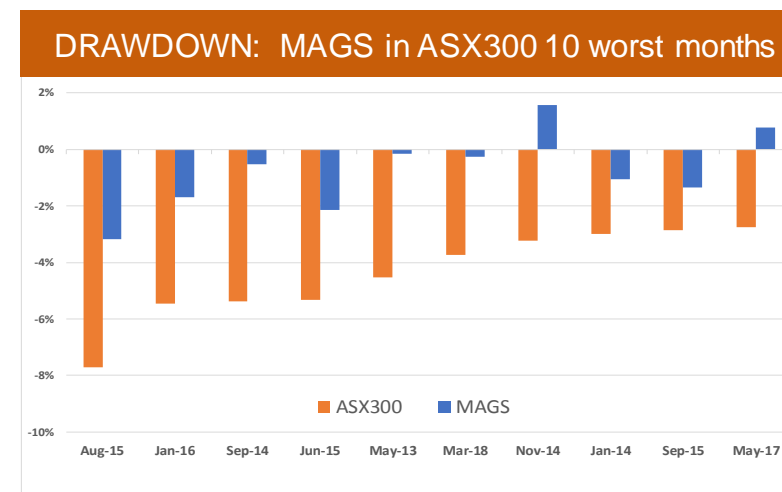
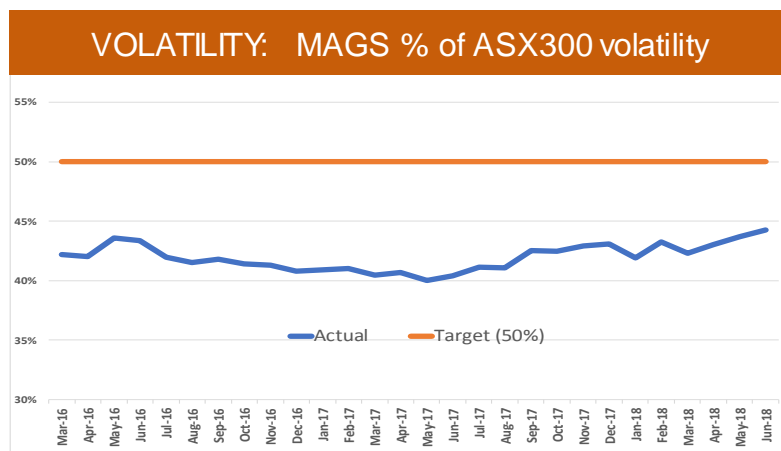
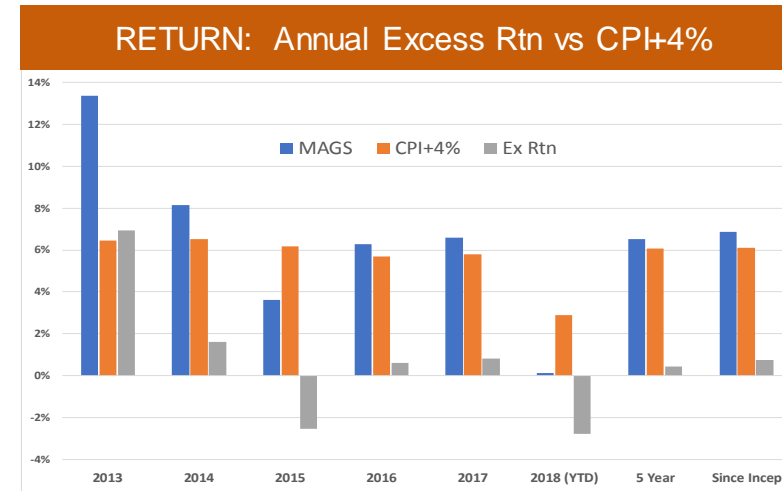
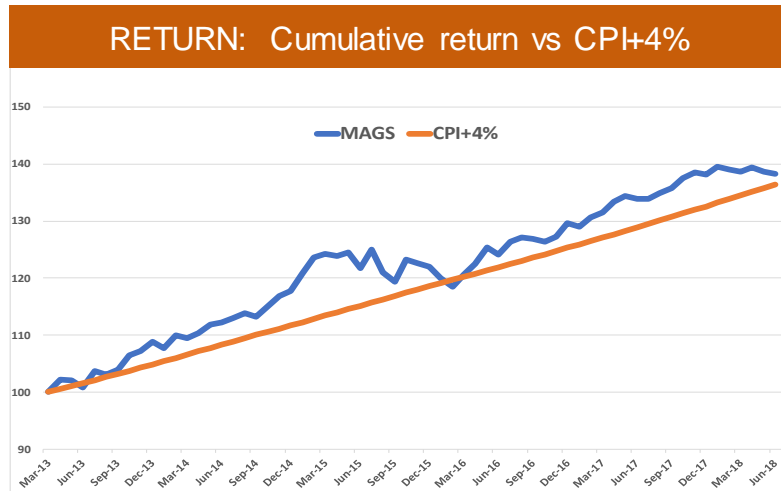
Dynamic risk management, wider allocation ranges, a focus on downside risk and a broad set of alternative return sources are the keys to success.

Return objectives shown are net of fees.

Outcomes

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MAGS remains on track against overall return, volatility and drawdown objectives



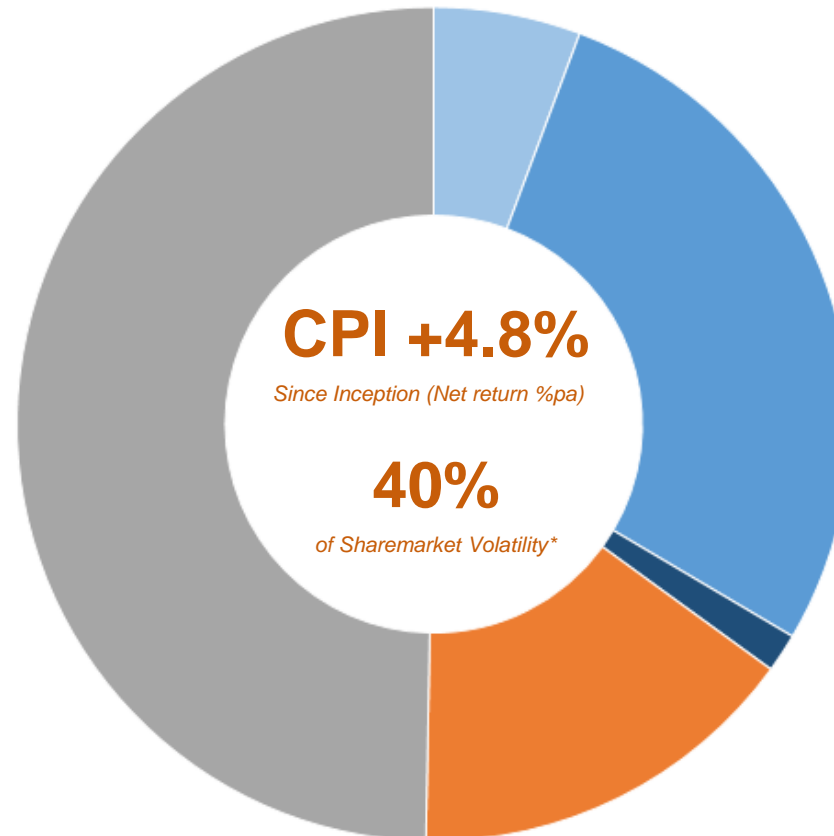
Asset allocation

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MAGS currently holds a 50% growth / 50% defensive asset allocation. The degree of defensiveness has been reduced since Sep-17 when the portfolio was 62% defensive.

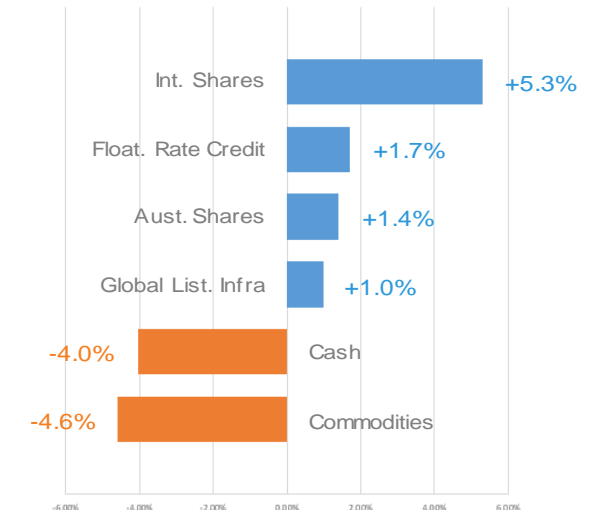
Asset allocation (30 June 2018)

Growth	Australian Shares	5.7%
	Russell Investments Australian Factor Exposure Fund	2.4%
	Vinva Australian Equitised Long/Short	6.8%
	Options (ASX200)	4.2%
	Futures (ASX200)	-7.7%
	International Shares	27.8%
	Russell Investments Global Opportunities Fund	7.6%
	Russell Investments Global Opportunities Fund – A\$ Hedged	12.8%
	Vinva Asia-Pacific Equity Long/Short Fund	1.1%
	Futures – Basket (Strategic)	5.3%
Defensive	Futures – Emerging Markets	0.7%
	Futures – USA	0.4%
	Property	1.5%
	Russell Investments Int'l Property Securities Fund	1.5%
	Alternatives	15.3%
	Commodity Futures (Strategic)	4.8%
	Russell Investments Emerging Market Debt (Local) Fund	7.0%
	Russell Investments Multi-Strategy Volatility Premia Fund	0.9%
	Russell Investments Global High Yield Fund – A\$ Hedged	1.6%
	Russell Investments Global List. Infrastruct. Fund – A\$ Hedged	1.0%
	Fixed Income & Cash	49.7%
	Perpetual High Grade Treasury Fund	17.0%
	Metrics Credit Div. Aust. Senior Loan Fund	4.6%
	Russell Investments Floating Rate Fund – A\$ Hedged	8.0%
	Russell Investments Australian Bond Fund	10.1%
	Russell Investments Int'l Bond Fund – A\$ Hedged	5.3%
	Russell Investments Global Bond Fund – A\$ Dur. Hedged	4.7%



Key allocation shifts (Q2)

Total growth allocation was increased marginally during the quarter (+3%).

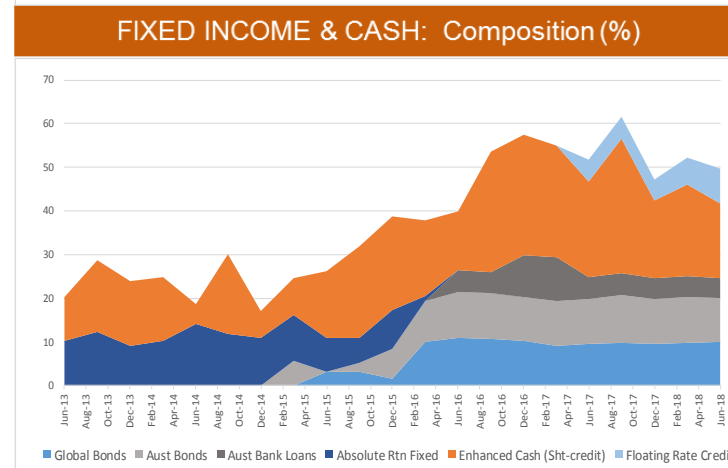
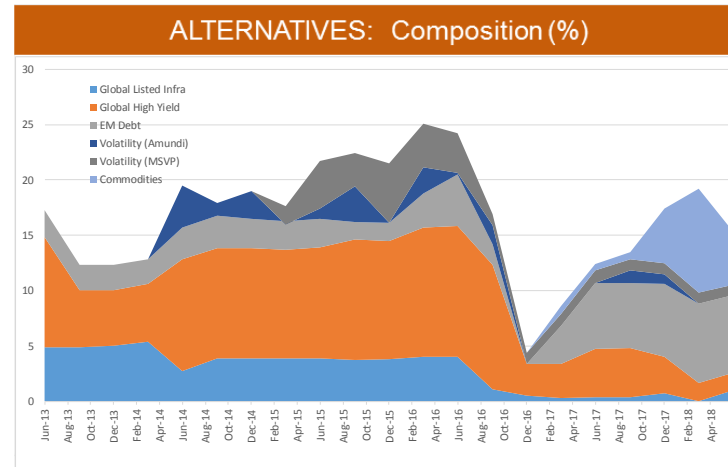
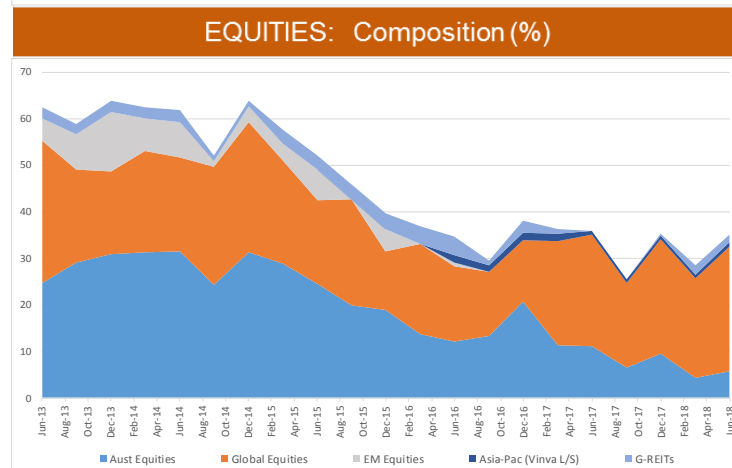
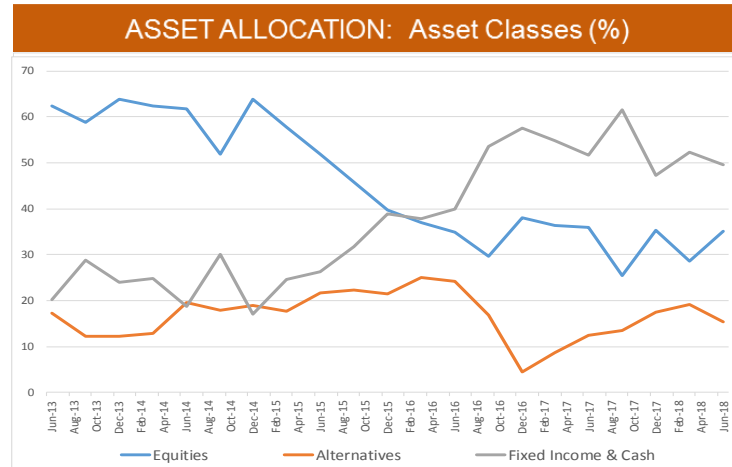


Source: Russell Investments. Figures shown are for Russell Investments MAGS Fund, Class A, net A\$ terms. As at 30 June 2018. Past performance is no guarantee of future performance.

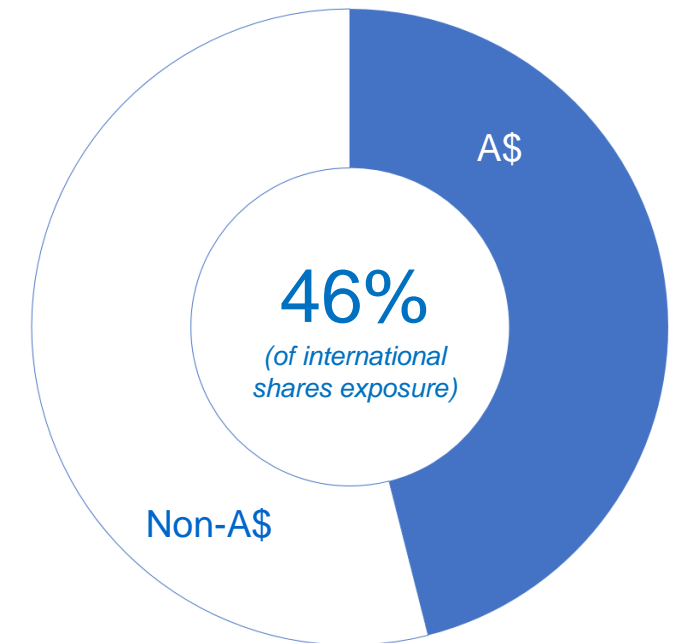
Dynamic management

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International shares allocation increased during Q2 to cover market bounce, floating rate credit increased in line with duration underweight, commodities trimmed as oil price spiked.



A\$ Hedge Ratio



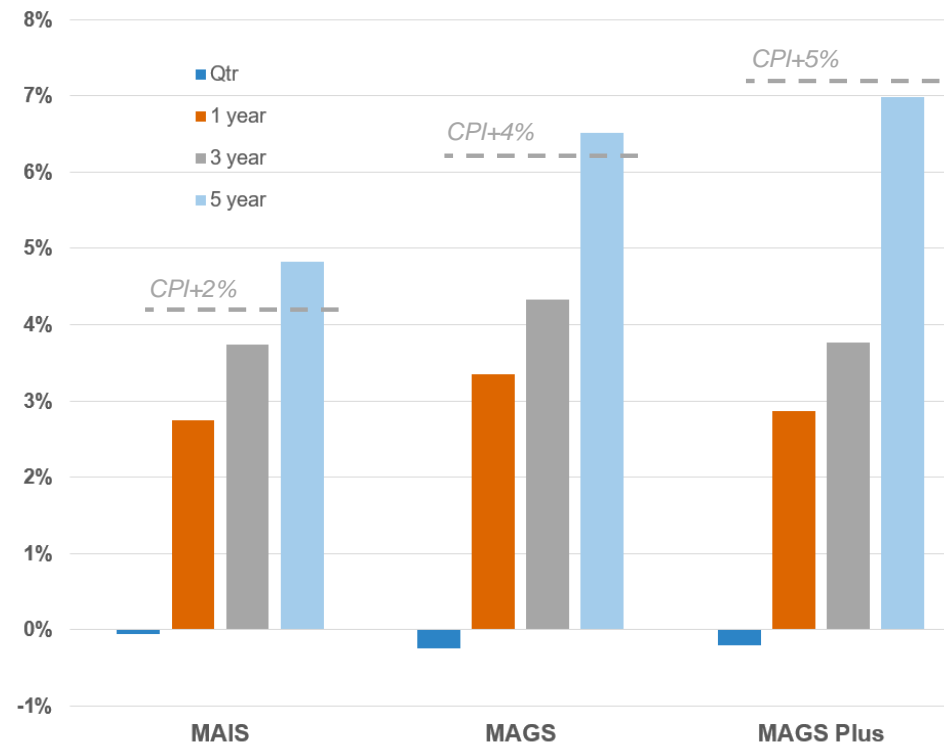
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Performance

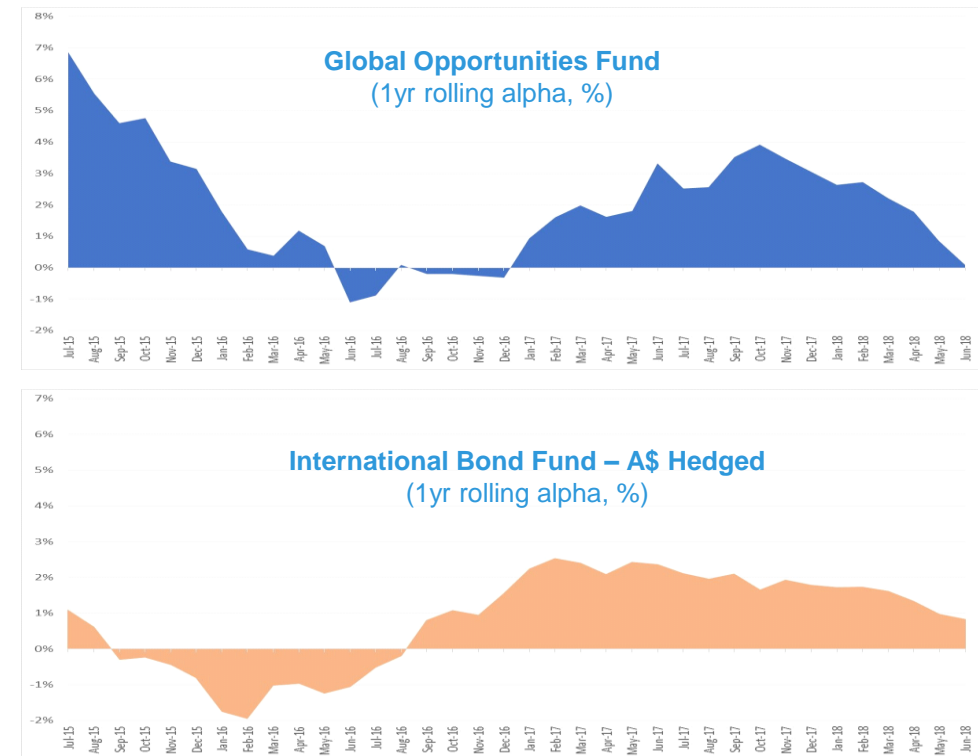
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All funds in the dynamic real return series delivered slight falls in the June quarter. Softening of excess returns from global shares and bonds detracted. Achievement of CPI+ return objectives remains on track.

Dynamic Real Return Series (versus 5 year CPI+ objectives)



Global sector alpha slows after recent strength



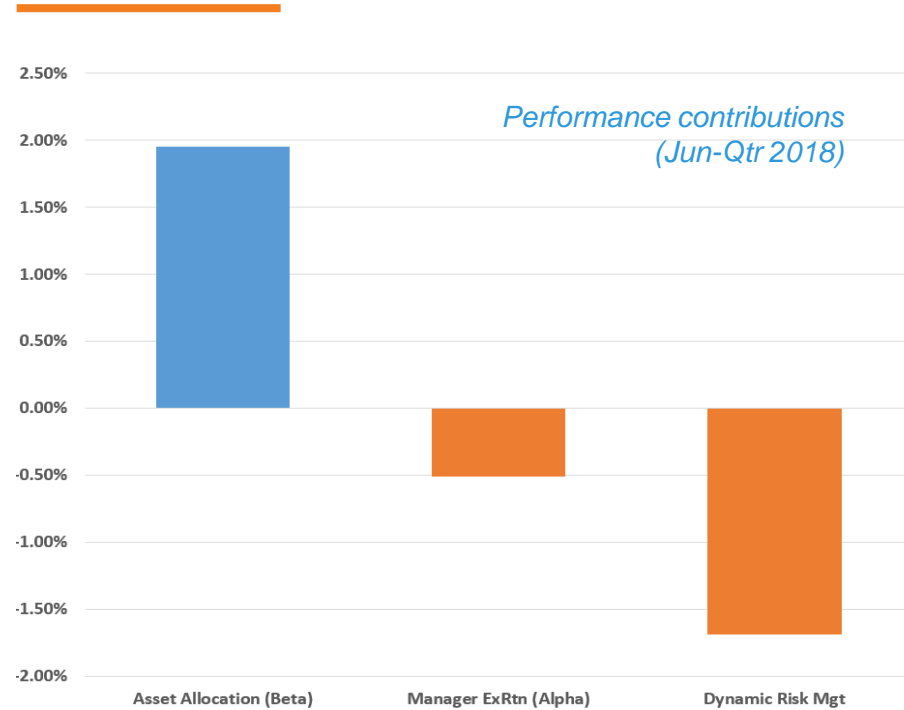
Source: Russell Investments. Returns shown for Russell Investments MAIS Fund, MAGS Fund and MAGS Plus Fund are Class A, net terms as at 30 June 2018. Global sector alpha is shown for Russell Investments Global Opportunities Fund and Russell Investments International Bond Fund - A\$ Hedged and calculated as return in excess of fund benchmarks (gross A\$ terms as appropriate for component parts of multi-asset funds). Past performance is not a reliable indicator of future performance.

Return drivers

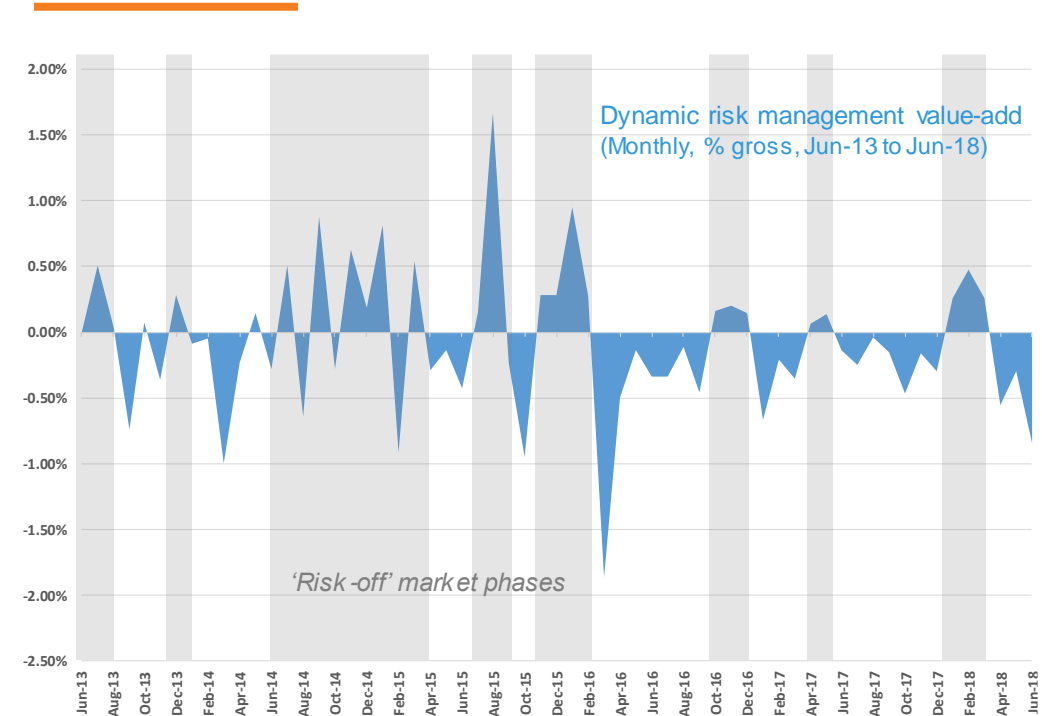
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MAGS ended the quarter down 0.25%. Asset allocation return was offset by reversal in previous manager alpha and hedging gains as share markets rebounded in Q2.

Asset allocation return offset by reversal of hedging gains in Q2 bounce



Dynamic risk management adds in risk-off phases



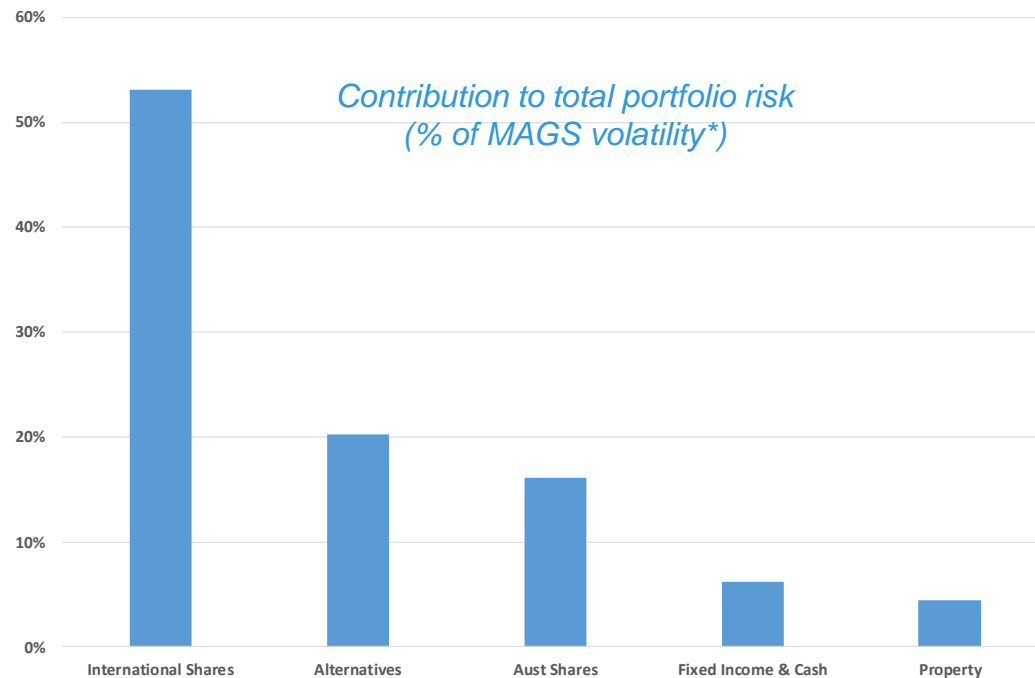
Source: Russell Investments. Russell Investments MAGS Fund (Class A, net A\$). As at 30 June 2018. Past performance is no guarantee of future performance.

Risk drivers

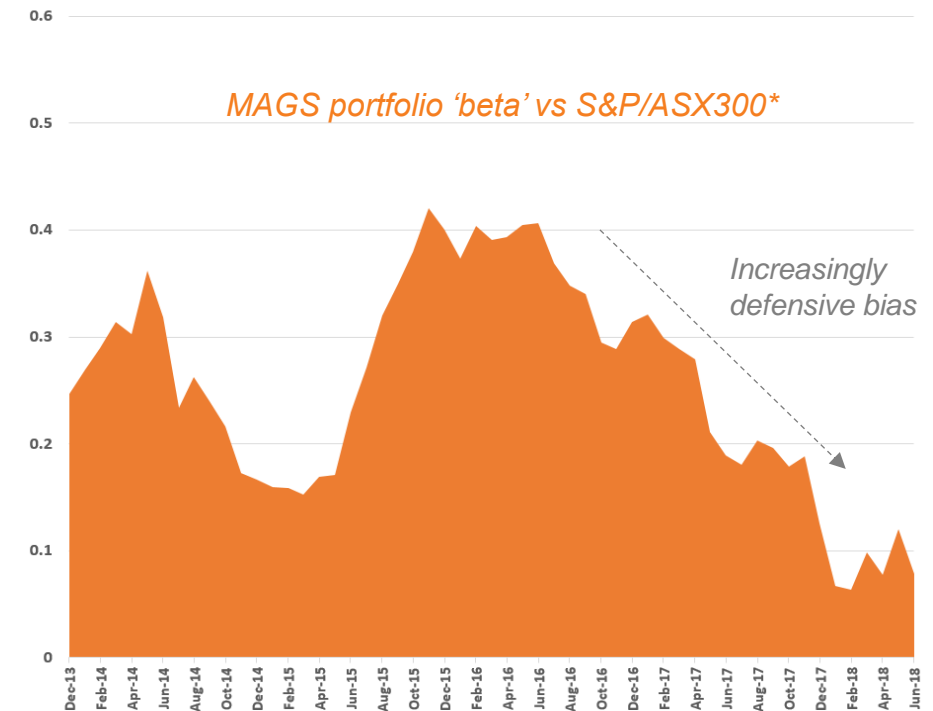
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Market sensitivity of MAGS rose slightly in recent quarters as international equities added, but near lows in keeping with 'navigating the turn' central scenario.

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 Jun-18). MAGS portfolio beta is rolling 1 year beta vs S&P/ASX300 total return index (Jan-13 to Jun-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?

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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

Important information and disclosures

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