Russell Investments Master Trust – Annual Member Meeting 2021

Broadcast: Thursday 10th February 2022

Answers to all member questions received prior to and during the event (excluding questions of a personal nature, in which instances we have contacted the member directly).

Q1. If there is a major shock in the global equities and market such as major shocks in the Chinese property market, how do fund managers react?
A1. Each shock is different and therefore the reaction of fund managers is different. Equally, the reaction will vary from fund manager to fund manager. A couple of examples as to how we have reacted to provide context. Chinese Property Market Shock: we viewed this as contained within the Chinese system and therefore limited risk of contagion to global share markets. Over time, the extent to which the crisis impacts China's GDP growth and demand from the rest of the world will emerge - but this is likely to be stock by stock and therefore active fund management will be key rather than a full hit to global markets. 2022 to date: we view this a s a standard market correction, no reason for concern, and a repricing of expensive stocks. We view it more as a potential buying opportunity. We have rebalanced our fund so far but will look for more signs of panic from investors before moving overweight. Covid Crash: Our approach is the same as most significant crashes - to hold firm to your strategic asset allocation (as this if correctly defined has the acceptable level of risk you are willing to face). Then increase exposure on the other side (equities, high yield debt) and benefit from the rebound. Rebounds tend to be very quick and so trying to time the market by exiting and re-entering can be very hard. It is also a 2-leg decision - getting out and then getting back in. Often when you look at individual investors they will exit when the pain gets too much and then miss the beginning of the recovery and end up worse off. This is why the Design part of our process is key and having faith that it is designed effectively and holding the course
Q2. How is Russell performing to the top rated super funds & why?
A2. The options are considered by Russell and TRM against multiple benchmarks i.e. Objectives, Peers, and industry benchmarks. All of these feed into the assessment as to how the options are performing. In all of that, we focus on the long-term whilst paying attention and querying/understanding/inspecting periods of poor (or disappointing) performance, enabling informed decisions to be taken. The performance of our default investment option, GoalTracker, in the 2020/21 financial year returned 24.5% for members aged 50 and under – being among the best returns in the market. And as mentioned previously, the aim with the creation of this option, is to maximise investment returns and reduce the investment risk as members near retirement age. Over the last few years performance in some options against some peers has lagged. This has been for a number of reasons which TRM are aware of and have been discussed extensively and is one of the reasons that we designed GoalTracker to be smarter in the way it approaches risk and return. As noted in the formal Q&A and by Jim the principal reason has been underperformance of the underlying equity strategies in view of being underweight the US and expensive tech or growth names. This was at odds of some of the top performing funds over the last few years who are overweight such factors. This positioning has been constantly debated and paid off handsomely in Q4 2020/Q1 2021 and again now in Q1 2022. As the historical periods are offset by new positive periods, we anticipate upward momentum relative to peers especially as we anticipate they will have equal and opposite negative performance.
Q3. Does Russell sit in the top quartile for super fund returns over the last 5 years ? If not where does it sit in comparison ie. where does it rank? If not, what is the board doing so it can become a top quartile performer?
A3. The subject of investment returns and performance relative to other funds was addressed in the Chair's Update during the meeting, along with the Investment Q&A section. This included an explanation of our relative performance to peers and our approach to positioning the fund for future success. We included further details to a similar question during the meeting - please see Question 2 above.

Q4. Are your fees and monthly charges too high in comparison to Industry Super Fund Fees like Australian Super? Why didn't I see Russell Super in the top 10 performing Superannuation companies last year? Can you please explain why?	
A4. Responding to the first question - Reviews of fees are undertaken annually. There was a large fee reduction implemented on 1 October 2020 and now another planned for pension members in June this year. While the Trustee aims to have competitive fees for its offering to date, as explained during the Chair's Update in the meeting, we have not aimed to be in the cheapest 10 funds, or to match our fees directly to a fund like Australian Super. Responding to the second question - As detailed in the response to **Question 2** above, our investment options are considered against multiple benchmarks which feed into the assessment as to how the options are performing. The performance of our default investment option, GoalTracker, achieved returns among the best in the market. Over the last few years performance in some options against some peers has lagged. As noted in the formal Q&A and by Jim O'Connor, the principal reason has been underperformance of the underlying equity strategies in view of being underweight the US and expensive tech or growth names. As the historical periods are offset by new positive periods, we anticipate upward momentum relative to peers especially as we anticipate they will have equal and opposite negative performance.	
Q5. Other Superannuation funds (e.g QSuper, Hostplus) have a self-invest option. Why does Russell not offer a self-invest option?	
A5. Over the years, we have considered the development of this type of investment platform which is generally offered as an alternative to Self-Managed Super Funds (SMSFs), but due to the significant development costs and a low level of interest from members to date, we have directed our efforts to other areas including improving member services and the GoalTracker program. We do want to make sure that any significant investment we make provides a benefit to all members. Should there be a significant increase in interest by members for this type of investment platform, we would of course consider it in future.	
We had a few questions asking for our view of likely returns and share market performance over the next year or two. **Q6. Investment performance and returns for next twelve months** **Q7. What is the most likely prediction for share market performance in the short term [2 years]?** **Q8. Where do you see the market going for the next 12 months?**	
A6-8. We are already over 6 months into this financial year and performance to December was strong. However, the market correction in January 2022 has negated the majority of those gains. Looking forward we expect that growth assets will outperform defensive assets as the local and global economies continue to emerge after the pandemic. Working against this are central banks increasing rates (depressing traditional growth stock valuations) and current lofty valuations. As such we would anticipate a recovery from the poor start to the year but will not expect returns similar to prior years (i.e. post-Covid). Looking a little further forward and based on where we see central banks and base rates moving over the next couple of years, we would anticipate growth assets continuing to outperform defensive assets. Again, as we emerge from the impacts and effects of the pandemic, towards the end of the timeframe indicated would be where closer attention needs to be paid to where rates are, how economies have recovered and whether or when recessionary concerns may start to rise.	
Q9. The average annual return on high growth/balance growth is between 7-8%, it is below the top 20 super funds, why?	
A9. Over the last 10 years the High Growth option has returned nearly 11%pa and the Balanced Growth option nearly 9%pa. Irrespective, as I noted earlier, we strive to offer fund returns in the top 20 or top ten funds and continue to focus our attention on improving peer relative returns (along with meeting the stated objectives and passing the Your Future, Your Super benchmarking test). We expect strong peer relative returns going forward as we emerge from the pandemic and look to return to more positive peer relative rankings as we maintained prior to the last 3 years or so.	
Q10. Can we make sustainable / green investments	
A10. As we touched on in the Investment Q&A segment, we recognise that some members consider sustainable, green or socially responsible approaches an important part of their investment selection process, for which we have our two 'Responsible Investing' options. In our investment menu, you are able to choose the	

Responsible Investing Australian Shares Option and the Responsible Investing Global Shares Option. These options apply a combination of exclusions and tilts to reduce exposure to certain industries and companies in order to reduce things like the carbon footprint.

Q11. Are you looking at groupings like balanced growth or high growth with the share component selected from the responsible investment share funds (ESG)?

A11. Yes. We are currently considering the potential addition of a diversified ‘sustainable’ or 'responsible investing' option to the menu. As yet there has been no final decision made and therefore no timeline for when an option like this may be available. Feedback as to whether this is an option that members would value would be much appreciated.

Q12. To what extent does Russell Investments take into account ethical issues in making investment decisions?

A12. As covered in the Investment Q&A presentation we have a core belief that ethical or ESG factors i.e. Environmental (which includes the impacts of climate change), Social and Governance factors can impact security prices, and we see it not as a niche part of our business, but as a critical part of identifying managers with skill in adding value, particularly for our members. Our beliefs are integrated into all the RIMT’s options. All our active managers are researched and ranked on their ESG capabilities from ESG commitment and ESG consideration to actual implementation and active ownership. Therefore ESG is integrated into how we build our funds and manage investments on your behalf.

Q13. Are we avoiding fossil fuel investments? (investing ethically) It is important to me that we support the planet.

A13. In similar response to the above questions, in the Investment Q&A section of the meeting we discussed how Russell incorporates ESG (Environmental, Social and Governance) factors into decision making around identifying managers, including our research and ranking process, and ESG is integrated into how we build funds and manage investments on your behalf. Members wanting to take things further can consider the 'responsible investing' options available on the investment menu that seek to reduce the carbon footprint. The broader diversified options do not take a stance on responsible investing. The current regulations and the 'Your Future Your Super' performance test are not supportive of taking a responsible investing approach.

Q14. How heavily invested in the residential real estate sector shares and/or property markets/funds and what does this future look like as a percentage of focus?

A14. The investments in property in the diversified funds (listed or unlisted) are predominantly commercial investments with small allocations to residential property. This is not expected to change significantly going forward.

Q15. In this day and age of digital models and tools, how much of Russell's investment strategy and actions in regards to member's assets are dependent on human decisions and how much are automated?

A15. All investment decisions are made using a combination of quantitative and qualitative analysis. The final decisions are ultimately made and approved by people regardless of the level of contribution the quantitative models or qualitative views provided to the process.

Q16. All the statistics shared so far are all up to June 2021. Are there any statistics after June 2021?

A16. In the Investment Q&A presentation we did include some commentary around market performance to the end of 2021, in that a similar pattern of strong Australian and Global Shares returns, along with other growth markets, continuing to push on further for the period, while Fixed Income (and Cash) remained flat.

Q17. If a "Defensive" Investment Choice dropped 3.7% in the January downturn, how much did a "High Risk" Investment Choice drop?

A17. The monthly return for the High Growth option in January was -3.7% whereas the Defensive Option returned -1.3%. January saw a jump in bond yields, which usually results in a fall in bond prices. The rising yields caused 'defensive' assets and equities to fall. Therefore, it was a bad month for both defensive and growth assets. However, as can be seen the defensive option provided better returns than higher growth options for that very short time period.

Q18. Do you think it's plausible whatsoever that interest rates will rise above 5% here in Australia within the next 48 months? And if so, do you foresee significant damage to the housing industry from extremely overextended mortgagees?
A18. Our expectation is that base rates will rise over the next 48 months but not by the amount that would see base rates at 5%. Currently base rates are 0.1% and the market is expecting rates to increase to around 2% in 48 months.
There were a few similar questions relating to future interest rate rises. **Q19. Lot of talk re Interest rate rises. What is your view re when this may occur and what expected impact on our funds?** **Q20. What is your prognosis (eg: best guess) for Australian interest rates thru end of 2025 (best/worst case) as well as the Aussie dollar vs. USD at the end of the same time period**
A19-20. Currently base rates are at 0.1% and the market is expecting rates to increase to 2% in 48 months time. This amount of movement is already priced into the market. As such it is not so much whether rates rise but whether they rise by the amount priced in by the market OR whether they over or undershoot. If expectations are overshot (i.e. rates rise by more than expected) then bonds will underperform. If rates don't rise by as much as expected then (all things being equal) bonds will outperform. The following blog on the topic will add further colour. https://russellinvestments.com/au/blog/rates-rises-bond-returns The exchange rate at the moment is close to fair value. As a rule, as far away as 2025 the expectation would also be fair value.
Q21. What is Russell Investments policy on cryptocurrency investment?
A21. We currently have no exposure to cryptocurrency in any of our funds. In brief, we view cryptocurrencies today as a speculative investment in the adoption of cryptocurrency, rather than a functioning currency. The article linked below will provide further details on our understanding and stance. https://russellinvestments.com/au/blog/cryptocurrency-and-investor-portfolios-is-an-allocation-warranted
Q22. What is your opinion on occasional rumours that Super income may be taxed in the future?
A22. There have been rumours of Government changes to the taxation of superannuation benefits almost since 2007 when most benefit payments for individuals over 60, including income streams payments, were made tax free. We can’t rule out the possibility of future tax changes. However, we note that the Government introduced the transfer balance cap in 2017 which restricted the amount of superannuation that can be transferred to an income stream. The transfer balance cap was intended to crack down on individuals that were receiving excessive tax benefits from superannuation income streams. That removes one motivation for the Government to tax income stream payments.
Q23. We received a question relating to the termination of life insurance policies, particularly for members aged over 50.
A23. The Trustee does not cancel any insurance policies simply because a member is over 50. However, there are legislative requirements including the ‘Protecting Your Super’ legislation that we must comply with, and this includes the cancelling of insurance policies where your account has been inactive for a period of 16 months. We may also cancel insurance if you do not have a sufficient balance to pay for premiums. We will write to you before we cancel any insurance, so it is important that your contact details are up to date. There are also age-based limits on insurance cover imposed by insurers – eg. at age 65 or 70 – where there is no insurance cover provided beyond those ages.
Q24. How are the IT funds invested in the online portal ? 8 times out of 10 attempts are riddled with issues & unsuccessful log ins let alone being of assistance to members? **Q25. Your internet offerings are relatively poor compared to others. But if I focus specifically - why is every web response so slow. Does anyone in your Australian office use it, potentially the worlds worst response times. I am sure this is using US based servers, why?**
A24-25. This is an area where we will look for continuous improvement and appreciate any feedback to help identify areas requiring attention. One of our Trustee committees is also focused on ensuring issues are promptly addressed and services are provided as expected. In response to some of these questions, our web and phone App are both based and managed in Australia, so any issues being experienced are not related to the geographic location of servers. Specifically regarding the web response and app loading times, we continue

to address some technical issues users have raised - these were affecting mainly the mobile App. There were changes implemented in late 2021 that improved page load times, particularly at login to just a few seconds. The Member Centre and App both complete complex calculations at login to project your retirement income and how you're tracking towards any goals you have told us about. It's a live snapshot and not just stored data as many other websites provide, so that accounts for some of the time taken to load these screens. We are also continuing to address the known technical issues with the login process where some members are being required to login twice. This appears to be specific to certain web browsers including Chrome, Safari and Microsoft Edge. We are working on fixing the issue and will also take another look at response times based on these questions.

Q26. Can you provide more information around retirement and how the pension fund works?

A26. You heard from Paul Basso at Link Advice during the meeting, and they can offer personal advice over the phone for both members in retirement and those approaching retirement, often at no cost to you. You can also access a no cost meeting with a Retirement Consultant to provide information on how to make the most of super savings, both now and during retirement, including detailed information on how our pension fund works. In general, unless you instruct us otherwise, when you retire your super will stay in your accumulation account, which is where you've been adding to your super. Once you reach your preservation age and have retired from work, you have the option to move your super into an account-based pension paying you a regular income to fund your lifestyle in retirement. This can have a number of tax benefits vs leaving it in an accumulation super account or putting it into a bank account. For example, investment earnings are tax free and there's no tax on your pension payments if you're over 60. Another benefit is that your money stays invested in an investment option/s of your choosing, so your savings can keep working for you over the course of your retirement. The Russell Investments Master Trust account-based pension is called iQ Retirement. It is similar to your super account now; in that you have flexibility on how your money is invested and you have online access to your account and our other member services. The difference obviously is that through iQ Retirement you can pay yourself a regular income from your super savings and access lump sum withdrawals. For members over preservation age but still working, iQ Retirement can also be used as part of a transition to retirement strategy, where you can reduce your working hours or increase your super savings without affecting day-to-day income.

Q27. How to booster superannuation in last 5-10 years before retirement?

A27. That's a common question we receive, and the answer really depends on your personal circumstances. It's one of the reasons we introduced our Retire Ready meetings, and while the Retirement Consultant can't advise you on your personal circumstances, they can give you information on the options that are available to you. You can get in touch with us to arrange a meeting with our consultants. In general, there's a few things you can consider to help boost your super savings: Firstly, making additional contributions are an option to boost your super, and include both before and after-tax contributions; Before-tax contributions are also known as concessional contributions, and include salary sacrifice and employer super contributions. After-tax contributions are also known as non-concessional contributions, these are super contributions made by you from your own money either as one-off or ongoing payments. There are limits on how much you can contribute to their super account each year, so that's something you'll need to be aware of. For some people, a Transition to Retirement or TTR strategy may be appropriate. Once you reach your preservation age this strategy becomes available and in its simplest form, is putting money (Salary Sacrificing) into super in a tax effective manner and taking money from the Transition to Retirement account to ensure your take home pay is not affected by contributing more to super. There is a number of requirements to make this strategy compliant and individual results will vary, but we're happy to put you in touch with Link Advice to advise you on your circumstances. Another option is considering where your super savings are invested. Being in an investment option that suits your circumstances and goals can make a significant difference to your super savings. There are currently 23 investment options for you to choose from and you can mix of any of those. This is something we can also help out with by putting you in touch with an expert to advise you based on your circumstances.

Q28. What plan is there to allow additional contributions into Super fund past 73 years age even though retired from full time work?
A28. The Government has proposed to scrap the work test as of 1 July this year. This will allow individuals aged between 67 and 74 years old to make concessional and non-concessional contributions to their super without having to meet the work test. Please note, this proposal is not yet law and we'll be monitoring progress of the legislation.
Q29. Now that many super funds are being compared more transparently when can we expect to see Russell in the top 10 for any of the categories. E.g performance, fees or insurance. Members rightly expect constant improvements and not excuses. I would like to see a plan of how you will be improving your services so that you are in the top 10 within 2-3 years?
A29. Independent ratings agency, The Heron Partnership, recently awarded Russell Investments Master Trust as a Top 10 Fund for both Insurance features and Investment features. Also, in late 2021 an external review of the services provided to members ranked Russell in the top 5 of 60 funds when it came to facilities and services it offered its members, including a 1st ranking for the MyTracker tools and calculators within GoalTracker. Along with the many innovation awards won for GoalTracker and its positive performance, for now, this provides us with acknowledgement that this area is a strength. As the Trustee, we undertake this regular independent benchmarking on our members offerings to gauge how we compare to peers, and also regularly review the investment strategy and performance through our Investment Committee. In addition to the benchmarking and our own reviews, as you mention, there are more tools available in the market today that help provide transparency to members on how their fund is performing. Reviews of fees are undertaken annually. There was a large fee reduction implemented on 1 October 2020 and now another planned for pension members in June this year. While the Trustee aims to have competitive fees for its offering to date, we have not aimed to be in the cheapest 10 funds.
Q30. Defined benefit - still not sure what it means?
A30. There are two types of super funds in Australia, and while most are now accumulation funds, there are still defined benefit funds around. In a defined benefit fund, the amount you receive at retirement is worked out by a formula instead of being based on investment returns. Typically, your benefit is calculated using the money put in by you and your employer, your average salary over the last few years before you retire, and the number of years you worked for your employer. That formula or calculation varies from fund to fund, and you'll need to refer to the Fund product documents for your particular situation. The difference with an accumulation fund is that your money grows or 'accumulates' over time. The value of your super depends on the money that you and your employers put in through contributions, and on the investment return generated by the fund after fees and costs. Again, if you'd like more information about your particular circumstances if you're in a defined benefit fund and some help or advice to work out what's best for you, just get in touch with our call centre team to get started.
Q31. What is ratio of net market value of assets to present value of liabilities in the Harwood Pensioner DB Plan?
A31. The actuarial investigation as at 30 June 2021 showed a ratio of assets to the present value of liabilities of 103.7%. We note that the plan is invested with a relatively low risk strategy and holds a bank guarantee in addition to those assets.
Q32. I thought that prudent investment was about being in the right place at the right time for the mutual benefit of everyone. How much has this actually been the case with the trustee?
A32. Our view is that prudent investment is more about acting in a manner that displays due care for the beneficiaries. Typically, under the often quoted 'prudent investor rule', when one person is given control over another's assets, they must make investment decisions that a person of reasonable intelligence, discretion, and prudence could be expected to make. Importantly, this means choosing investments that do not increase the risk of loss or 'protecting' the investments of the beneficiaries (our members). We consider that this means diversifying investments and to the extent possible providing as 'smooth a ride' as possible for members. This differs from trying to 'time the market' for every event, which by definition provides a more volatile journey.

Q33. Can you describe the underlying differences between investment options and how they have tracked over the last 5 years please?
A33. Returns across the various investment options are principally driven by the amount of risk being taken. The higher the risk profile of the option, the higher the expected return (but there is also a commensurate risk of negative returns). Over the last five years you will see that the higher risk options (High Growth) have outperformed the lower risk options (Defensive) which is by design. The Product Disclosure Statement and Target Market Determinations for each option illustrate the relative degrees of investment return and commensurate investment risk expected. Investment return is often defined by an objective return relative to inflation. Investment risk is defined by the time horizon for investment and the standard risk measure, which illustrates the number of expected negative annual returns in a 20 year period.