Russell Investments Balanced Managed Account

Q2 2020 Performance Update

Dynamic and active managed accounts at an attractive cost.

The portfolio is a dynamic cost-effective multi-asset portfolio with approximately 70% growth assets and 30% defensive assets. The focus for this portfolio is to provide long-term returns and to manage investment risks over time.

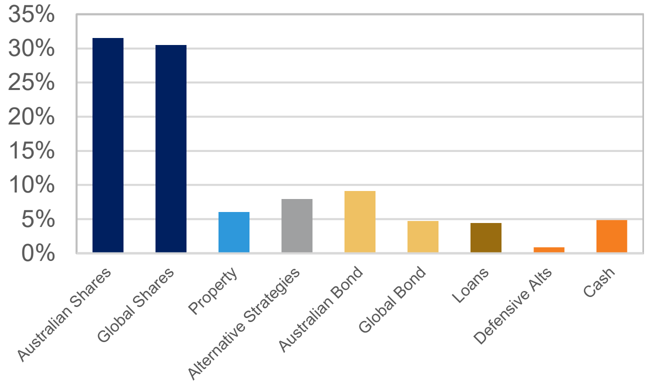
Main market highlights:

- Global shares and credit markets staged a strong rebound from the covid-19 virus crisis lows seen in Q1.
- The rally was fueled by large amounts of stimulus, low interest rates and easing of lockdowns in some countries.
- However, the real economic recovery is still expected to be protracted with corporate stress, consumer caution and risk of a second wave of the virus.

Main portfolio highlights:

- The portfolio posted a strong absolute return over the quarter and was broadly in line with its benchmark. The rebound in shares and corporate bond markets was very strong as investors looked beyond the current health concerns.
- The portfolio benefited from activity in the dynamic core fund. At the managed account level, the allocation to shares and corporate bonds increased by 4%.
- The above increase in allocations was strongly supported by the global portfolio management teams' view that markets had become extremely oversold and that stimulus would be supportive in the medium-term.

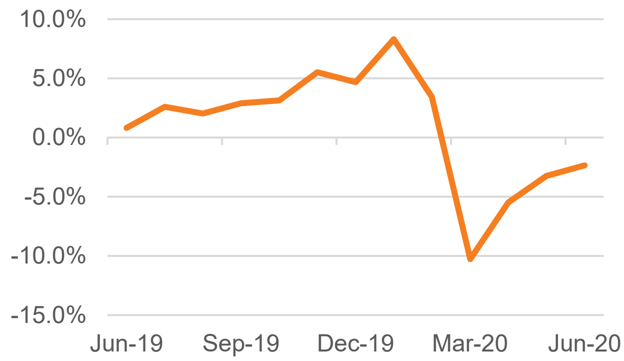
Portfolio positioning Asset allocation as at 30/6/20.



Asset allocation classification may differ depending on platforms.

> *"The portfolio benefited from activity in the dynamic core fund. At the managed account level, the allocation to shares and corporate bonds increased by 4%."*

Chart of long-term performance



Cumulative returns (monthly) as of 30/6/2020.
June 2019 return is a part month return from 17/06/19.

Long-term investing: positioning for 5 years and beyond

- **The portfolio has a long-term asset allocation of 71% to growth assets.** Valuations are fairly neutral for growth assets after the strong rebound this quarter.
- **Defensive assets such as fixed income and cash are 29% of the portfolio.** A tilt to credit further enhances the long-term return potential, but also increases the risk of losses. Government bonds are universally expensive.
- **Strategically, the portfolio has positions in cheaper and higher momentum securities as per our researched beliefs.** We prefer emerging market equities over developed market equities, with the US viewed as relatively expensive.

Dynamic positioning: managing positions over the next 12 to 18 months

- After recent additions to growth assets it is time to be patient. Valuations are no longer as compelling for growth assets after the recent market recovery.
- However, the cycle remains positive due to the stimulus injected by global central banks and governments, even though the risk of a second wave remains high. Furthermore, we expect higher market volatility heading into the US Presidential election in November.
- An underweight to government bonds remains as yields are very low as such we prefer investment grade credit in the short-term.

Active security selection:

- The direct Australian shares outperformed its large cap benchmark. Downer, Ampol and Xero were notable outperformers during the quarter. Downer and Ampol staged strong rebounds during the quarter as sentiment improved. Xero continues to perform well following a very strong 2019 as it benefits from greater demand for its accounting software.
- Active managers in Australian shares saw mixed performance. The standout was Vinva's Australian Long-short fund. The outperformance was attributed to a strong capture of improved sentiment conditions.
- Active managers in global shares saw negative benchmark relative performance due to underweights to US large cap tech stocks which drove the market. Defensively positioned underlying managers also detracted given the strength in the market in the quarter.
- Active managers in Australian and global fixed income benefited from credit strength and added good benchmark relative performance as credit spreads narrowed.

Chart: Changes in asset allocation since 31 Mar 2020 – deployed cash into growth assets

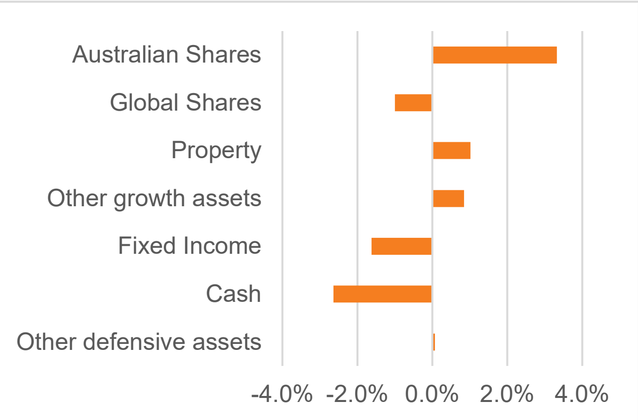
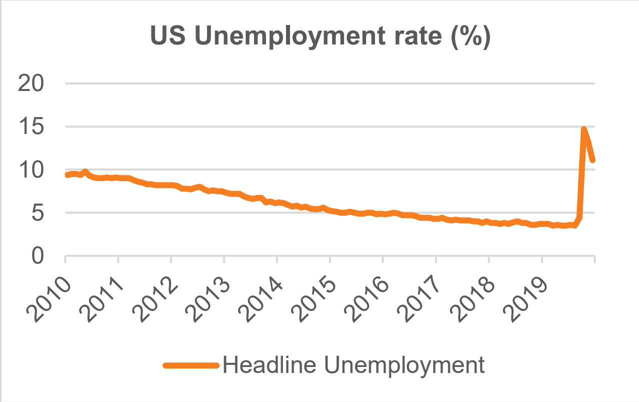


Chart: US unemployment rate is not as high as initially feared



Source: Refinitiv Datastream

Direct Shares (As percentage weight of latest Australian equity model)

CSL	**13.0%**
COMMONWEALTH BANK.	9.4%
BHP GROUP	8.4%
WESTPAC BANKING CORP	5.6%
TRANSURBAN GROUP	4.9%
WOOLWORTHS GROUP	4.8%
ANZ BANKING GROUP	4.5%
NATIONAL AUST. BANK	4.3%
TELSTRA CORP	4.3%
WESFARMERS	3.9%
RIO TINTO LIMITED	3.7%
WOODSIDE PETROLEUM	2.8%
GOODMAN GROUP	2.7%
MACQUARIE GROUP	2.2%
FORTESCUE METALS GROUP	2.1%
NEWCREST MINING	2.0%
XERO LIMITED	2.0%
DEXUS	1.9%
AGL ENERGY	1.9%
COLES GROUP	1.8%
CALTEX AUSTRALIA	1.8%
DOWNER EDI	1.6%
QBE INSURANCE GROUP	1.6%
THE A2 MILK CO	1.5%
ARISTOCRAT LEISURE	1.5%
LEND LEASE GROUP	1.5%
SONIC HEALTHCARE	1.5%
MAGELLAN FINANCIAL	1.5%
STOCKLAND	1.5%

Asset Holdings

DIRECT AUSTRALIAN SHARES	24.9%
VANGUARD ALL-WORLD EX-U.S. SHARES INDEX ETF (VEU)	10.5%
VANGUARD U.S. TOTAL MARKET SHARES INDEX ETF (VTS)	12.3%
VANGUARD FTSE EMERGING MARKETS SHARES ETF (VGE)	1.0%
VANGUARD AUSTRALIAN PROPERTY SECURITIES INDEX ETF (VAP)	5.2%
RUSSELL INVESTMENTS AUSTRALIAN GOVERNMENT BOND ETF (RGB)	2.9%
RUSSELL INVESTMENTS AUSTRALIAN SEMI-GOVERNMENT BOND ETF (RSM)	2.7%
RUSSELL INVESTMENTS AUSTRALIAN SELECT CORPORATE BOND ETF (RCB)	1.1%
VANGUARD GLOBAL AGGREGATE BOND INDEX (HEDGED) ETF (VBND)	3.3%
CASH	1.7%
RUSSELL INVESTMENTS MULTI-ASSET GROWTH STRATEGY FUND - CLASS A	34.4%

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