

Russell Investments Portfolio Series – Conservative

ARSN 099 584 639

Annual report

For the year ended 30 June 2020

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Directors' report

The directors of Russell Investment Management Ltd (ABN 53 068 338 974 AFSL No. 247185), the responsible entity of Russell Investments Portfolio Series – Conservative (the "Fund"), present their report together with the financial statements of the Fund, for the year ended 30 June 2020.

Principal activities

The Fund typically invests in a mix of growth and defensive investments as set out in the Fund's offer documents and in accordance with the provisions of the Fund's constitution.

The Fund did not have any employees during the year.

There were no significant changes in the nature of the Fund's activities during the year or since the end of the year and up to the date of this report.

Directors

The following persons held office as directors of Russell Investment Management Ltd during the year or since the end of the year and up to the date of this report:

Peter Gunning
 Jodie Hampshire
 Symon Parish
 Bronwyn Yates
 Richard Smirl

Review and results of operations

Beginning in January 2020, the global financial markets have experienced and may continue to experience significant volatility resulting from the spread of a novel coronavirus known as COVID-19. The outbreak of COVID-19 has resulted in travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand and general market uncertainty. The effects of COVID-19 and the resulting market impact have and may continue to adversely affect the global economy, the economies of certain nations and individual issuers, all of which may adversely impact the Fund's investments and performance.

Results

The performance of the Fund, as represented by the results of its operations, was as follows:

| | Year ended | |
|---|-----------------|-----------------|
| | 30 June 2020 | 30 June 2019 |
| Operating profit/(loss) before finance costs attributable to unitholders (\$'000) | <u>(298)</u> | <u>2,872</u> |
| <i>Distributions - Class A</i> | | |
| Distributions paid and payable (\$'000) | <u>2,356</u> | <u>1,458</u> |
| Distribution (Cents per unit - CPU) | <u>5.62</u> | <u>2.96</u> |
| <i>Distributions - Class B</i> | | |
| Distributions paid and payable (\$'000) | <u>36</u> | <u>65</u> |
| Distribution (Cents per unit - CPU) | <u>0.88</u> | <u>1.34</u> |

Distribution

Distributions of income generally occur quarterly with a final annual distribution as at 30 June each year. Realised capital gains are distributed only at 30 June each year. A detailed summary of distributions to unitholders for the year can be found in note 12 of the financial statements.

Directors' report (continued)

Options

There were no options over interests in the Fund at any time during the year.

Significant changes in state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Fund that occurred during the financial year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect:

- (i) the operations of the Fund in future financial years, or
- (ii) the results of those operations in future financial years, or
- (iii) the state of affairs of the Fund in future financial years.

Likely developments and expected results of operations

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the offer documents of the Fund and in accordance with the provisions of the Fund's constitution.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Further information on likely developments in the operations of the Fund and the expected results of those operations have not been included in this report because the responsible entity believes it would be likely to result in unreasonable prejudice to the Fund.

Indemnity and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to either the officers of Russell Investment Management Ltd or the auditors of the Fund. So long as the officers of Russell Investment Management Ltd act in accordance with the Fund's constitution and the Law, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund. The auditors of the Fund are in no way indemnified out of the assets of the Fund.

Fees paid to and interests held in the Fund by the responsible entity or its associates

Fees paid to the responsible entity and its associates out of Fund property during the year are disclosed in note 16 of the financial statements.

No fees were paid out of Fund property to the directors of the responsible entity during the year.

The number of interests in the Fund held by the responsible entity or its associates as at the end of the financial year are disclosed in note 16 of the financial statements.

Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in note 11 of the financial statements.

The value of the Fund's assets and liabilities is disclosed in the statement of financial position and derived using the basis set out in note 2 of the financial statements.

Environmental regulation

The operations of the Fund are not subject to any particular or significant environmental regulations under Commonwealth, State or Territory law.

Directors' report (continued)

Rounding of amounts to the nearest thousand dollars

The Fund is an entity of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* issued by the Australian Securities and Investments Commission (ASIC) relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded to the nearest thousand dollars in accordance with that ASIC Corporations Instrument, unless otherwise indicated. Due to rounding, rounded components presented throughout the financial statements may not add up precisely to the rounded sum.

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

This report is made in accordance with a resolution of the directors.

A handwritten signature in blue ink that reads "Pete" followed by a period.

Director

Sydney
22 September 2020



Auditor's Independence Declaration

As lead auditor for the audit of Russell Investments Portfolio Series – Conservative for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in blue ink, appearing to read 'Joe Sheeran', with a long horizontal flourish extending to the right.

Joe Sheeran
Partner
PricewaterhouseCoopers

Sydney
22 September 2020

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Statement of comprehensive income

| | Notes | Year ended | |
|--|-------|---------------------------|---------------------------|
| | | 30 June 2020 \$'000 | 30 June 2019 \$'000 |
| Investment income | | | |
| Interest income from financial assets at amortised cost | | 2 | 2 |
| Distribution income | | 2,236 | 2,127 |
| Net gains/(losses) on financial instruments at fair value through profit or loss | 6 | (2,146) | 1,174 |
| Net foreign exchange gains/(losses) | | 6 | 30 |
| Other operating income | | 43 | 62 |
| Total investment income/(loss) | | <u>141</u> | <u>3,395</u> |
| Expenses | | | |
| Management fees | 16 | 367 | 450 |
| Responsible entity's fees | 16 | 7 | 8 |
| Custody fees | | 22 | 21 |
| Auditor's remuneration | 15 | 19 | 18 |
| Transaction costs | | 17 | 26 |
| Other operating expenses | | 7 | - |
| Total operating expenses | | <u>439</u> | <u>523</u> |
| Operating profit/(loss) for the year | | <u>(298)</u> | <u>2,872</u> |
| Finance costs attributable to unitholders | | | |
| Distributions to unitholders | 12 | (2,392) | (1,523) |
| (Increase)/decrease in net assets attributable to unitholders | 11 | 2,690 | (1,349) |
| Profit/(loss) for the year | | - | - |
| Other comprehensive income for the year | | - | - |
| Total comprehensive income for the year | | <u>-</u> | <u>-</u> |

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of financial position

| | | As at | |
|---|-------|-----------------|-----------------|
| | | 30 June 2020 | 30 June 2019 |
| | Notes | \$'000 | \$'000 |
| Assets | | | |
| Cash and cash equivalents | 13 | 247 | 768 |
| Deposits held with brokers for margin | | 248 | 248 |
| Receivables | | 102 | 163 |
| Due from brokers - receivable for securities sold | | 280 | 416 |
| Financial assets at fair value through profit or loss | 7 | <u>44,565</u> | <u>53,858</u> |
| Total assets | | <u>45,442</u> | <u>55,453</u> |
| Liabilities | | | |
| Payables | | 33 | 43 |
| Payable for margin accounts | | - | 1 |
| Distributions payable | 12 | 1,919 | 1,259 |
| Due to brokers - payable for securities purchased | | 42 | 58 |
| Financial liabilities at fair value through profit or loss | 8 | <u>39</u> | <u>13</u> |
| Total liabilities (excluding net assets attributable to unitholders) | | <u>2,033</u> | <u>1,374</u> |
| Net assets attributable to unitholders - liability | 11 | <u>43,409</u> | <u>54,079</u> |

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of changes in equity

| | Year ended | |
|--|---------------------------|---------------------------|
| | 30 June 2020 \$'000 | 30 June 2019 \$'000 |
| Total equity at the beginning of the financial year | - | - |
| Profit/(loss) for the year | - | - |
| Other comprehensive income | - | - |
| Total comprehensive income | - | - |
| Transactions with owners in their capacity as owners | - | - |
| Total equity at the end of the financial year | - | - |

Under Australian Accounting Standards, net assets attributable to unitholders are classified as a liability rather than equity. As a result there was no equity at the start or end of the year.

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of cash flows

| | | Year ended | |
|--|-------|-----------------|-----------------|
| | | 30 June 2020 | 30 June 2019 |
| | Notes | \$'000 | \$'000 |
| Cash flows from operating activities | | | |
| Proceeds related to financial instruments at fair value through profit or loss | | 19,102 | 31,492 |
| Payments related to financial instruments at fair value through profit or loss | | (9,542) | (19,739) |
| Net foreign exchange gains/(losses) | | 10 | 27 |
| Distributions received | | 58 | 25 |
| Interest received/(paid) | | 3 | 2 |
| Amount received from/(paid to) brokers for margin | | (1) | 598 |
| Proceeds from receivables | | 9 | 15 |
| Management fees paid | | (373) | (456) |
| Responsible entity's fees paid | | (8) | (8) |
| Payment of other expenses | | (65) | (89) |
| Net cash inflow/(outflow) from operating activities | 14(a) | 9,193 | 11,867 |
| Cash flows from financing activities | | | |
| Proceeds from applications by unitholders | | 3,973 | 2,879 |
| Payments for redemptions by unitholders | | (12,078) | (15,975) |
| Distributions paid | | (1,605) | (1,674) |
| Net cash inflow/(outflow) from financing activities | | (9,710) | (14,770) |
| Net increase/(decrease) in cash and cash equivalents | | (517) | (2,903) |
| Cash and cash equivalents at the beginning of the year | | 768 | 3,668 |
| Effects of foreign currency exchange rate changes on cash and cash equivalents | | (4) | 3 |
| Cash and cash equivalents at the end of the year | 13 | 247 | 768 |
| Non-cash financing activities | 14(b) | | |

The above statement of cash flows should be read in conjunction with the accompanying notes.

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1 General information

The financial statements cover Russell Investments Portfolio Series – Conservative (the “Fund”) as an individual entity. The Fund was constituted on 17 April 2002. The Fund will terminate on 16 April 2082 unless terminated earlier in accordance with the provisions of the Fund’s constitution.

The responsible entity of the Fund is Russell Investment Management Ltd (the “responsible entity”). The responsible entity’s registered office is Level 1, 60 Martin Place, Sydney, NSW 2000. The financial statements are presented in the Australian currency.

The Fund typically invests in a mix of growth and defensive investments as set out in the Fund’s offer documents and in accordance with the provisions of the Fund’s constitution.

The financial statements were authorised for issue by the directors of the responsible entity on 22 September 2020. The directors of the responsible entity have the power to amend and reissue the financial statements.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all year presented, unless otherwise stated in the following text.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001* in Australia. The Fund is a for-profit fund for the purpose of preparing the financial statements.

The financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are expected to be recovered or settled within twelve months, except for investments in financial assets and liabilities and net assets attributable to unitholders.

The Fund manages financial assets at fair value through profit or loss based on the economic circumstances at any given point in time, as well as to meet any liquidity requirements. As such, it is expected that a portion of the portfolio will be realised within twelve months, however, an estimate of that amount cannot be determined as at reporting date.

Compliance with International Financial Reporting Standards (IFRS)

The financial statements of the Fund also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

New and amended accounting standards adopted by the Fund

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2019 that have a material impact on the amounts recognised in the prior periods or will affect the current or future periods.

New accounting standards, amendments and interpretations effective after 1 July 2020 and have not been early adopted

A number of new accounting standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2020, and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Fund.

2 Summary of significant accounting policies (continued)

(b) Financial assets and liabilities at fair value through profit or loss

(i) Classification

Assets

The Fund classifies its investments based on its business model for managing those financial assets and the contractual cash flow characteristics. The Fund's portfolio of financial assets is managed and performance is evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the responsible entity to evaluate the information about these financial assets on a fair value basis together with other related financial information.

For equity securities and derivatives, the contractual cash flows of these instruments do not represent solely payments of principal and interest. Consequently, these investments are measured at fair value through profit or loss.

For debt securities, the contractual cash flows are solely payments of principal and interest, however they are neither held for collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, the debt securities are measured at fair value through profit or loss.

Liabilities

Derivative contracts that have a negative fair value are presented as financial liabilities at fair value through profit or loss.

(ii) Recognition and derecognition

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Fund measures financial assets and financial liabilities at fair value. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in the statement of comprehensive income.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the financial assets or financial liabilities at fair value through profit or loss category are presented in the statement of comprehensive income within 'net gains/(losses) on financial instruments at fair value through profit or loss' in the period in which they arise.

For further details on how the fair values of financial instruments are determined see note 5 to the financial statements.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Refer to note 4 to the financial statements for further information.

(c) Net assets attributable to unitholders

Units are redeemable at the unitholders' option, however, applications and redemptions may be suspended by the responsible entity if it is in the best interests of the unitholders.

The units can be put back to the Fund at any time for cash or in specie based on the redemption price, which is equal to a proportionate share of the Fund's net asset value attributable to the unitholders.

2 Summary of significant accounting policies (continued)

(c) Net assets attributable to unitholders (continued)

The units are carried at the redemption amount that is payable at balance sheet date if the holder exercises the right to put the unit back to the Fund. This amount represents the expected cash flows on redemption of these units.

Under AASB 132 *Financial instruments: Presentation*, puttable financial instruments are classified as equity where certain strict criteria are met. The Fund classifies the net assets attributable to unit holders as liabilities as they do not satisfy all the criteria.

(d) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Fund's main income generating activity.

(e) Deposits held with broker for margin

Margin accounts comprise cash held as collateral for derivative transactions. The cash is held by the broker and is only available to meet margin calls. It is not included as a component of cash and cash equivalents.

(f) Investment income

Interest income from financial assets at amortised cost is recognised on a time-proportionate basis using the effective interest method and includes interest from cash and cash equivalents.

Dividend and distribution income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income within distribution income when the Fund's right to receive payments is established.

Other changes in fair value for such instruments are recorded in accordance with the policies described in note 2(b) to the financial statements.

(g) Expenses

All expenses, including responsible entity's fees, management fees and custodian fees, are recognised in the statement of comprehensive income on an accruals basis. The responsible entity is entitled under the Fund's constitution to be reimbursed for certain expenses incurred in administering the Fund.

(h) Income tax

Under current legislation, the Fund is not subject to income tax provided it attributes the entirety of its taxable income to its unitholders.

In the event that the Fund incurs withholding taxes imposed by certain countries on investment income and capital gains, such income or gains are recorded gross of withholding taxes in the statement of comprehensive income. Withholding taxes are included in the statement of comprehensive income within other operating expenses.

(i) Distributions to unitholders

Distributions are payable as set out in the Fund's product disclosure statement and/or Fund's constitution. Such distributions are recognised as payable when they are determined by the responsible entity of the Fund.

2 Summary of significant accounting policies (continued)

(j) Increase/(decrease) in net assets attributable to unitholders

Income not distributed is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognised in the statement of comprehensive income as finance costs.

(k) Foreign currency translation

(i) Functional and presentation currency

Items included in the Fund's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Australian Dollar, which reflects the currency of the economy in which the Fund competes for funds and is regulated. The Australian Dollar is also the Fund's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income in net foreign exchange gains/(losses).

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined. Translation differences on assets and liabilities carried at fair value are reported in the statement of comprehensive income on a net basis within net gains/(losses) on financial instruments at fair value through profit or loss.

The Fund does not isolate that portion of gains or losses on securities and derivative financial instruments that are measured at fair value through profit or loss and which are due to changes in foreign exchange rates from those that are due to changes in the market price of securities. Such fluctuations are included with the net gains or losses on financial instruments at fair value through profit or loss.

(l) Balances due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the year. The due from brokers balance is held for collection and consequently measured at amortised cost.

(m) Receivables

Receivables may include amounts for accrued interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each reporting period from the time of last payment in accordance with the policy set out in note 2(f) above. Amounts are generally received within 30 days of being recorded as receivables.

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Fund shall measure the loss allowance on receivables at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

2 Summary of significant accounting policies (continued)

(m) Receivables (continued)

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

(n) Payables

Payables include liabilities and accrued expenses owing by the Fund which are unpaid as at the end of the reporting period.

(o) Applications and redemptions

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are recorded gross of any exit fees payable after the cancellation of units redeemed.

(p) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as custodial services and investment management fees have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) at a rate of at least 55% or 75%; hence investment management fees, custodial fees and other expenses have been recognised in the statement of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the statement of financial position. Cash flows relating to GST are included in the statement of cash flows on a gross basis.

(q) Use of estimates

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For financial instruments which are quoted, market prices are adopted in their valuation. However, certain financial instruments are fair valued using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel of the responsible entity, independent of the area that created them.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

For more information on credit risk and how fair value is calculated see note 3 and note 5 to the financial statements.

(r) Rounding of amounts

The Fund is an entity of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* issued by the Australian Securities and Investments Commission (ASIC) relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest thousand dollars in accordance with that ASIC Corporations Instrument, unless otherwise indicated. Due to rounding, rounded components presented throughout the financial statements may not add up precisely to the rounded sum.

3 Financial risk management

The Fund's activities expose it to a variety of financial risks: market risk (including price risk, foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The Fund's overall risk management process focuses on ensuring compliance with the Fund's product disclosure statement. It also seeks to maximise the returns derived for the level of risk to which the Fund is exposed and seeks to minimise potential adverse effects on the Fund's financial performance. The Fund's policy allows it to use derivative financial instruments to both moderate and create certain risk exposures.

All securities investments present a risk of loss of capital. The maximum loss of capital on investments is limited to the fair value of those positions. The maximum loss of capital on long futures and forward currency contracts is limited to the notional contract values of those positions.

The management of these risks is carried out by the investment manager under policies approved by the Board of Directors of Russell Investment Management Ltd. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, the use of derivative financial instruments and non-derivative financial instruments and the investment of excess liquidity.

The Fund invests in Russell Investments Sector Funds, Russell Investments Overseas Funds and externally managed funds with varied investment styles to achieve returns in a broad range of market conditions and to manage exposure to risk through diversification.

The risk management process operates at a number of levels. Russell Investment Management Ltd determines and monitors the Fund's asset allocations based on the Fund's guidelines and objectives.

The financial risk disclosure below has been prepared on the basis of the Fund's direct investment and not on a look-through basis. The Fund uses different methods to measure different types of risk to which it is exposed. These methods are explained below.

(a) Market risk

(i) Price risk

The Fund is exposed to price risk. The Fund invests in Russell Investments Sector Funds, Russell Investments Overseas Funds and externally managed funds. These underlying funds are exposed to market risk arising from uncertainties about future prices of the instruments held by the respective funds. The Fund also invests into derivatives which are exposed to market risk resulting from the changes in future prices of the derivative instruments.

Where the Fund invests into Russell Investments Sector and Overseas Funds, these underlying funds also moderate price risk by diversifying the management of its assets by allocating them between one or more investment managers. Russell Investment Management Ltd reviews the underlying funds' characteristics and the allocation of each Russell Investments Sector and Overseas Funds. Quantitative tools, asset allocation research, and regional, style and asset class exposure analysis are utilised to construct an efficient portfolio of funds that attempt to meet the Fund's guidelines and objectives.

Russell Investment Management Ltd mitigates price risk through diversification and a careful selection of securities and other financial instruments within specified limits set by the Board. Russell Investment Management Ltd will monitor the Fund's characteristics in detail by reviewing the Fund's portfolio characteristics in its entirety such as country allocations, capitalisation, industry sector weights, price/book levels, currency exposure, and quality exposure and other key risk measures.

The table on page 19 summarises the impact of an increase/decrease on the Fund's net assets attributable to unitholders at 30 June 2020. The analysis is based on the assumptions that the underlying investments increased/decreased by 3% (2019: 3%) with all other variables held constant. The impact mainly arises from the possible change in the fair value of listed equities, unlisted unit trusts and equity derivatives.

3 Financial risk management (continued)

(a) Market risk (continued)

(i) Price risk (continued)

The Fund also manages its exposure to price risk by analysing the investment portfolio by sound risk compliant measures. The table below is a summary of the significant concentrations within the portfolio.

| | 30 June 2020 Fund's portfolio % |
|-----------------------------|--|
| Fixed Income | |
| Government Related | 8.31 |
| Governments (Nominal) | 12.68 |
| High Yield | 5.93 |
| Investment Grade | 19.52 |
| Securitized | 10.06 |
| Other | 9.49 |
| Equity | |
| Australia & New Zealand | 15.34 |
| United States | 6.23 |
| Other | 9.57 |
| Cash | |
| Cash | 7.95 |
| Cash Offset for Derivatives | (6.30) |
| Other | 0.60 |
| Other | 0.62 |
| Total | 100.00 |

Significant concentration risk is being disclosed for the first time in the 30 June 2020 financial statements. As a result comparative information is unavailable.

(ii) Foreign exchange risk

The Fund holds both monetary and non-monetary assets denominated in Australian Dollar. The foreign exchange risk relating to non-monetary assets and liabilities is a component of price risk. Therefore, the Fund is not directly subject to significant risk due to fluctuations in the prevailing levels of foreign exchange rates.

(iii) Cash flow and fair value interest rate risk

The majority of the Fund's assets are units in the underlying funds which do not bear interest nor have a maturity date. Therefore, the Fund is not directly subject to significant risk due to fluctuations in the prevailing levels of market interest rates.

There is an indirect exposure resulting from the underlying investments in funds which invest in debt securities. Such indirect risks are a component of price risk outlined in 3(a)(i) and not disclosed in the following table. As the Fund holds small amounts of cash or cash equivalents it is not subject to large amounts of interest rate risk.

3 Financial risk management (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value interest rate risk (continued)

The table below summarises the Fund's exposure to interest rate risks, excluding any exposure to interest rate futures. It includes the Fund's assets and liabilities at fair values, categorised by the earlier of contractual re-pricing or maturity dates.

| | Floating interest rate \$'000 | Fixed interest rate \$'000 | Non-interest bearing \$'000 | Total \$'000 |
|--|-------------------------------------|----------------------------------|-----------------------------------|-----------------|
| 30 June 2020 | | | | |
| Assets | | | | |
| Cash and cash equivalents | 247 | - | - | 247 |
| Deposits held with brokers for margin | 248 | - | - | 248 |
| Receivables | - | - | 102 | 102 |
| Due from brokers - receivable for securities sold | - | - | 280 | 280 |
| Financial assets at fair value through profit or loss | - | - | 44,565 | 44,565 |
| Liabilities | | | | |
| Payables | - | - | (33) | (33) |
| Distributions payable | - | - | (1,919) | (1,919) |
| Due to brokers - payable for securities purchased | - | - | (42) | (42) |
| Financial liabilities at fair value through profit or loss | - | (3) | (36) | (39) |
| Net increase/(decrease) in exposure from | | | | |
| Interest rate futures (notional principal) | 400 | (400) | - | - |
| Net exposure | 895 | (403) | 42,917 | 43,409 |
| 30 June 2019 | | | | |
| Assets | | | | |
| Cash and cash equivalents | 768 | - | - | 768 |
| Deposits held with brokers for margin | 248 | - | - | 248 |
| Receivables | - | - | 163 | 163 |
| Due from brokers - receivable for securities sold | - | - | 416 | 416 |
| Financial assets at fair value through profit or loss | - | - | 53,858 | 53,858 |
| Liabilities | | | | |
| Payable for margin accounts | (1) | - | - | (1) |
| Payables | - | - | (43) | (43) |
| Distributions payable | - | - | (1,259) | (1,259) |
| Due to brokers - payable for securities purchased | - | - | (58) | (58) |
| Financial liabilities at fair value through profit or loss | - | - | (13) | (13) |
| Net exposure | 1,015 | - | 53,064 | 54,079 |

An analysis of financial liabilities by maturities is provided in paragraph (d) on page 20.

3 Financial risk management (continued)

(b) Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit and net assets attributable to unitholders to price risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical correlation of the Fund's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

| | Price risk Impact on operating profit/net assets attributable to unitholders | |
|---------------------|---|--------------|
| | -3% | +3% |
| | \$'000 | \$'000 |
| 30 June 2020 | (1,295) | 1,295 |
| 30 June 2019 | (1,590) | 1,590 |

The sensitivity factors for 30 June 2019 were +/-3% for price risk.

Some limitations of the sensitivity analysis above are:

1. The models are based on historical data and cannot take account of the fact that future market movements, correlations between markets and levels of market liquidity in conditions of market stress may bear no relation to historical patterns;
2. The market risk information is a relative estimate of risk rather than a precise and accurate number;
3. The market information represents a hypothetical outcome and is not intended to be predictive; and future market conditions could vary significantly from those experienced in the past.

(c) Credit risk

The Fund is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when they fall due, causing a financial loss to the Fund. Credit risk arises from cash and cash equivalents, deposits with banks and other financial institutions, receivables and amounts due from brokers. None of the assets are impaired nor past due but not impaired.

The Fund does not have material direct exposure to credit risk as it invests in underlying funds. These underlying funds are exposed to credit risk from counterparties with whom they trade and will also bear the risk of settlement default. The underlying funds' credit risk concentration arises from investments in debt securities, broker balances and derivative instruments, in addition to cash balances held at the custodian. The underlying funds minimise concentrations of credit risk by undertaking transactions with an approved counterparties, investing primarily in investments on recognised and reputable exchanges. Periodic monitoring is performed on the external managers by Russell Investments to ensure compliance with investment management agreements.

The Fund's direct credit risk arises from bank balances which are held by the Fund's custodian, State Street Australia Limited and State Street Bank and Trust Company. At the balance date the exposure to credit risk for cash and cash equivalents and amounts due from brokers is considered low as all counterparties of the Fund have a rating of investment grade or higher (as determined by external credit rating agencies). The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets.

Clearing and depository operations for the Fund's security transactions are mainly concentrated with one counterparty, namely State Street Australia Limited. Periodic monitoring is performed on the custodian by Russell Investments to ensure compliance with custodial agreements.

3 Financial risk management (continued)

(c) Credit risk (continued)

At 30 June 2020, State Street Australia Limited had a credit rating of Aa1 (2019: Aa1). At 30 June 2020, substantially all cash and investments are held in custody by State Street Australia Limited or through a sub-custodian.

(d) Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous. The Fund is exposed to daily cash redemptions of redeemable units which Russell Investments manage by ensuring that, each underlying fund's investment managers comply with investment management agreements which directs the amount of illiquid assets held in each fund. In addition, Russell Investment Management Ltd monitors the Fund's liquidity position on a daily basis.

Generally the underlying funds' assets are composed of actively traded and highly liquid securities. However, these funds may restrict redemptions in the event of liquidity concerns or volatile markets. In such event, the Fund may also restrict redemptions on a temporary basis in line with the provisions of the Fund's offering documents to manage liquidity risk. The Fund did not restrict or reject any redemptions in the 2019/2020 financial year.

(i) Maturities of non-derivative financial liabilities

The table below analyses the Fund's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts in the table are contractual undiscounted cash flows. Units are redeemed on demand at the unitholder's option. However, the board of the responsible entity does not envisage that the contractual maturity disclosed in the table below will be representative of the actual cash outflows, as holders of these instruments typically retain them for the medium to long term.

| At 30 June 2020 | Less than 1 month \$'000 | 1-6 months \$'000 | 6-12 months \$'000 | Over 12 months \$'000 | No stated maturity \$'000 |
|---|--------------------------------|-------------------------|--------------------------|-----------------------------|---------------------------------|
| Payables | 33 | - | - | - | - |
| Distributions payable | 1,919 | - | - | - | - |
| Due to brokers - payable for securities purchased | 42 | - | - | - | - |
| Net assets attributable to unitholders | <u>43,409</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Undiscounted contractual cash flows | <u>45,403</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

| At 30 June 2019 | Less than 1 month \$'000 | 1-6 months \$'000 | 6-12 months \$'000 | Over 12 months \$'000 | No stated maturity \$'000 |
|---|--------------------------------|-------------------------|--------------------------|-----------------------------|---------------------------------|
| Payable for margin accounts | 1 | - | - | - | - |
| Payables | 43 | - | - | - | - |
| Distributions payable | 1,259 | - | - | - | - |
| Due to brokers - payable for securities purchased | 58 | - | - | - | - |
| Net assets attributable to unitholders | <u>54,079</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Undiscounted contractual cash flows | <u>55,440</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

3 Financial risk management (continued)

(d) Liquidity risk (continued)

(ii) Maturities of net settled derivative financial instruments

The table below analyses the Fund's net settled derivative financial instruments in a loss position for which the contractual maturities are considered to be essential to an understanding of the timing of cash flows based on the Fund's investment strategy.

| | Less than 1 month \$'000 | 1-6 months \$'000 | 6-12 months \$'000 | Over 12 months \$'000 |
|---|--------------------------------|-------------------------|--------------------------|-----------------------------|
| At 30 June 2020 | | | | |
| Net settled derivatives | | | | |
| Australian exchange traded options | - | 3 | - | - |
| International exchange traded options | - | 24 | - | - |
| Australian interest rate futures | - | 3 | - | - |
| International share price index futures | - | 9 | - | - |
| | | | | |
| | Less than 1 month \$'000 | 1-6 months \$'000 | 6-12 months \$'000 | Over 12 months \$'000 |
| At 30 June 2019 | | | | |
| Net settled derivatives | | | | |
| Australian share price index futures | - | 13 | - | - |

All derivative financial instruments entered into by the Fund are settled on a net basis.

4 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The gross and net positions of financial assets and liabilities that have been offset in the statement of financial position are disclosed in the first three columns of the tables below.

| Financial assets | Effects of offsetting on the statement of financial position | | | Related amounts not offset | | |
|--------------------------------------|--|--|--|--|-------------------------------|----------------------|
| | Gross amounts of financial assets \$'000 | Gross amounts set off in the statement of financial position \$'000 | Net amount of financial assets presented in the statement of financial position \$'000 | Amounts subject to master netting arrangements \$'000 | Collateral received \$'000 | Net amount \$'000 |
| 30 June 2020 | | | | | | |
| Derivative financial instruments (i) | 76 | - | 76 | (30) | - | 46 |
| Total | 76 | - | 76 | (30) | - | 46 |
| 30 June 2019 | | | | | | |
| Derivative financial instruments (i) | 23 | - | 23 | (13) | - | 10 |
| Total | 23 | - | 23 | (13) | - | 10 |
| Financial liabilities | Effects of offsetting on the statement of financial position | | | Related amounts not offset | | |
| | Gross amounts of financial liabilities \$'000 | Gross amounts set off in the statement of financial position \$'000 | Net amount of financial liabilities presented in the statement of financial position \$'000 | Amounts subject to master netting arrangements \$'000 | Collateral pledged \$'000 | Net amount \$'000 |
| 30 June 2020 | | | | | | |
| Derivative financial instruments (i) | 39 | - | 39 | (30) | - | 9 |
| Total | 39 | - | 39 | (30) | - | 9 |
| 30 June 2019 | | | | | | |
| Derivative financial instruments (i) | 13 | - | 13 | (13) | - | - |
| Total | 13 | - | 13 | (13) | - | - |

4 Offsetting financial assets and financial liabilities (continued)

(i) Master netting arrangement – not currently enforceable

Agreements with derivative counterparties are based on the ISDA Master Agreement. Under the terms of these arrangements, only where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Fund does not presently have a legally enforceable right of set-off, these amounts have not been offset in the statement of financial position, but have been presented separately in the above table.

5 Fair value measurement

The Fund measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Financial assets / liabilities at fair value through profit or loss (FVTPL) (see note 7 and note 8)
- Derivative financial instruments (see note 9)

The Fund has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level of the following fair value hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

(i) Fair value in an active market (level 1)

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs.

The Fund values its investments in accordance with the accounting policies set out in note 2. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

The quoted market prices used for both financial assets and financial liabilities were last traded prices.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

(ii) Valuation techniques used to derive level 2 and level 3 fair value

The fair value of financial assets and liabilities that are not exchange-traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions.

For other pricing models, inputs are based on market data at the end of the reporting period. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

5 Fair value measurement (continued)

(ii) Valuation techniques used to derive level 2 and level 3 fair value (continued)

The fair value of derivatives that are not exchange traded is estimated at the amount that the Fund would receive or pay to terminate the contract at the end of the reporting period taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined as a net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date.

Investments in other unlisted unit trusts are recorded at the redemption value per unit as reported by the investment managers of such funds.

Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty and valuation techniques employed may not fully reflect all factors relevant to the positions the Fund holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including liquidity risk and counterparty risk.

Recognised fair value measurements

The following table presents the Fund's assets and liabilities measured and recognised at fair value as at 30 June 2020 and 30 June 2019.

| | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|---|-------------------|-------------------|-------------------|-----------------|
| As at 30 June 2020 | | | | |
| Financial assets | | | | |
| Financial assets at fair value through profit or loss: | | | | |
| Derivatives | 76 | - | - | 76 |
| Unit trusts | - | 44,489 | - | 44,489 |
| Total | 76 | 44,489 | - | 44,565 |
| Financial liabilities | | | | |
| Financial liabilities at fair value through profit or loss: | | | | |
| Derivatives | 39 | - | - | 39 |
| Total | 39 | - | - | 39 |
| | | | | |
| | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
| As at 30 June 2019 | | | | |
| Financial assets | | | | |
| Financial assets at fair value through profit or loss: | | | | |
| Derivatives | 23 | - | - | 23 |
| Unit trusts | - | 53,835 | - | 53,835 |
| Total | 23 | 53,835 | - | 53,858 |
| Financial liabilities | | | | |
| Financial liabilities at fair value through profit or loss: | | | | |
| Derivatives | 13 | - | - | 13 |
| Total | 13 | - | - | 13 |

5 Fair value measurement (continued)

Recognised fair value measurements (continued)

The Fund's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

(i) Transfers between levels

There were no transfers between levels for the year ended 30 June 2020 and year ended 30 June 2019. There were also no changes made to any of the valuation techniques applied as of 30 June 2019.

(ii) Fair value measurements using significant unobservable inputs (level 3)

The Fund did not hold any financial instruments with fair value measurements using significant unobservable inputs during the year ended 30 June 2020 or year ended 30 June 2019.

(iii) Valuation processes

Portfolio reviews are undertaken regularly by management to identify securities that potentially may not be actively traded or have stale security pricing. This process identifies securities which possibly could be regarded as being level 3 securities.

Further analysis, should it be required, is undertaken to determine the accounting significance of the identification. For certain security types, in selecting the most appropriate valuation model, management performs back testing and considers actual market transactions. Changes in allocation to or from level 3 are analysed at the end of each reporting period.

(iv) Fair values of other financial instruments

The Fund has assets and liabilities carried at amortised cost. Due to their short-term nature, their carrying values are a reasonable approximation of fair value.

6 Net gains/(losses) on financial instruments at fair value through profit or loss

Net gains/(losses) recognised in relation to financial assets and financial liabilities at fair value through profit or loss:

| | Year ended | |
|--|---------------------------|---------------------------|
| | 30 June 2020 \$'000 | 30 June 2019 \$'000 |
| Financial assets | | |
| Net realised gain/(loss) on financial assets at fair value through profit or loss | 572 | (23) |
| Net unrealised gain/(loss) on financial assets at fair value through profit or loss | <u>(2,769)</u> | <u>1,144</u> |
| Net gains/(losses) on financial assets at fair value through profit or loss | <u>(2,197)</u> | <u>1,121</u> |
| Financial liabilities | | |
| Net realised gain/(loss) on financial liabilities at fair value through profit or loss | (1) | (103) |
| Net unrealised gain/(loss) on financial liabilities at fair value through profit or loss | <u>52</u> | <u>156</u> |
| Net gains/(losses) on financial liabilities at fair value through profit or loss | <u>51</u> | <u>53</u> |
| Total net gains/(losses) on financial instruments at fair value through profit or loss | <u>(2,146)</u> | <u>1,174</u> |

7 Financial assets at fair value through profit or loss

| | As at | |
|--|---|---|
| | 30 June 2020 Fair value \$'000 | 30 June 2019 Fair value \$'000 |
| Financial assets at fair value through profit or loss | | |
| Derivatives | 76 | 23 |
| Unit trusts | <u>44,489</u> | <u>53,835</u> |
| Total financial assets at fair value through profit or loss | <u>44,565</u> | <u>53,858</u> |
| Comprising: | | |
| Derivatives | | |
| Australian exchange traded options | 25 | - |
| International exchange traded options | 47 | - |
| Australian share price index futures | 1 | - |
| International share price index futures | <u>3</u> | <u>23</u> |
| Total derivatives | <u>76</u> | <u>23</u> |
| Unit trusts | | |
| Unit trusts | <u>44,489</u> | <u>53,835</u> |
| Total unit trusts | <u>44,489</u> | <u>53,835</u> |
| Total financial assets at fair value through profit or loss | <u>44,565</u> | <u>53,858</u> |

An overview of the risk exposures and fair value measurements relating to financial assets at fair value through profit or loss is included in note 3 and note 5 to the financial statements.

8 Financial liabilities at fair value through profit or loss

| | As at | |
|---|----------------------|----------------------|
| | 30 June 2020 | 30 June 2019 |
| | Fair value \$'000 | Fair value \$'000 |
| Financial liabilities at fair value through profit or loss | | |
| Derivatives | 39 | 13 |
| Total financial liabilities at fair value through profit or loss | 39 | 13 |
| Comprising: | | |
| Derivatives | | |
| Australian share price index futures | - | 13 |
| International share price index futures | 9 | - |
| Australian interest rate futures | 3 | - |
| Australian exchange traded options | 3 | - |
| International exchange traded options | 24 | - |
| Total derivatives | 39 | 13 |
| Total financial liabilities at fair value through profit or loss | 39 | 13 |

An overview of the risk exposures and fair value measurements relating to financial liabilities at fair value through profit or loss is included in note 3 and note 5 to the financial statements.

9 Derivative financial instruments

In the normal course of business the Fund enters into transactions in various derivative financial instruments which have certain risks. A derivative is a financial instrument or other contract which is settled at a future date and whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating, credit index or other variable.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

Derivative transactions include many different instruments, such as forwards, futures, options and swaps. Derivatives are considered to be part of the investment process and the use of derivatives is an essential part of the Fund's portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- hedging to protect an asset or liability of the Fund against a fluctuation in market values or to reduce volatility;
- a substitution for trading of physical securities; and
- adjusting asset exposures within the parameters set in the investment strategy, and adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

9 Derivative financial instruments (continued)

The Fund holds the following derivative instruments:

(a) Futures

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralized by cash or marketable securities. Changes in futures contracts' values are usually settled net daily with the exchange. Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates at a future date at a specified price, established in an organised financial market.

(b) Options

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future securities price risk. The Fund is exposed to credit risk on purchased options to the extent of their carrying amount, which is their fair value.

The Fund's derivative financial instruments at year end are detailed below. In the table below, derivative contract notionals have been presented on a gross basis. For more information on the net exposure of these derivatives see note 3 to the financial statements.

As at 30 June 2020

| | Contract/ notional \$'000 | Fair Values | |
|---|---------------------------------|-------------|-------------|
| | | Assets | Liabilities |
| | | \$'000 | \$'000 |
| Australian exchange traded options | 1,671 | 25 | 3 |
| International exchange traded options | 3,155 | 47 | 24 |
| Australian interest rate futures | 400 | - | 3 |
| Australian share price index futures | 442 | 1 | - |
| International share price index futures | 1,807 | 3 | 9 |
| | <u>7,475</u> | <u>76</u> | <u>39</u> |

As at 30 June 2019

| | Contract/ notional \$'000 | Fair Values | |
|---|---------------------------------|-------------|-------------|
| | | Assets | Liabilities |
| | | \$'000 | \$'000 |
| Australian share price index futures | 1,135 | - | 13 |
| International share price index futures | 1,537 | 23 | - |
| | <u>2,672</u> | <u>23</u> | <u>13</u> |

An overview of the risk exposures and fair value measurements relating to derivatives is included in note 3 and note 5 to the financial statements.

10 Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, and the relevant activities are directed by means of contractual arrangements.

10 Structured entities (continued)

The Fund considers investment in all funds to be structured entities. The Fund invests in related and unrelated managed funds for the purpose of capital appreciation and or earning investment income.

An interest in a structured entity is any form of contractual or non-contractual involvement which creates variability in returns arising from the performance of the entity for the Fund. Such interests include holdings of units in unit trusts.

The exposure to investments in unrelated investment funds are disclosed in the following table:

| Name | Fair value of investment | | Interest held | |
|--|--------------------------|-----------|---------------|------|
| | 2020 | 2019 | 2020 | 2019 |
| | \$ | \$ | % | % |
| Amundi Funds Absolute Volatility World Equities | 5,639 | 1,206,180 | - | 0.16 |
| Vanguard Australian Property Securities Index Fund | 911,463 | - | 0.03 | - |
| Vanguard Global Infrastructure Index Fund (Hedged) | 134,013 | - | 0.03 | - |
| Vanguard International Property Securities Index Fund (Hedged) | 2,021,554 | 2,028,685 | 0.15 | 0.11 |

The exposure to investments in related investment funds are summarised in note 16.

The Fund has exposures to structured entities through its trading activities. The Fund typically has no other involvement with the structured entity other than the securities it holds as part of trading activities and its maximum exposure to loss is restricted to the carrying value of the asset.

Exposure to trading assets are managed in accordance with financial risk management practices as set out in note 3, which includes an indication of changes in risk measures compared to prior year.

11 Net assets attributable to unitholders

Movements in the number of units and net assets attributable to unitholders during the year were as follows:

| | Year ended | | | |
|---|------------|----------|----------|----------|
| | 30 June | 30 June | 30 June | 30 June |
| | 2020 | 2019 | 2020 | 2019 |
| | No.'000 | No.'000 | \$'000 | \$'000 |
| Class A | | | | |
| Opening balance | 48,823 | 59,934 | 49,375 | 59,212 |
| Applications | 3,809 | 2,801 | 3,888 | 2,793 |
| Redemptions | (11,046) | (13,979) | (11,200) | (13,934) |
| Units issued upon reinvestment of distributions | 116 | 67 | 111 | 68 |
| Increase/(decrease) in net assets attributable to unitholders | - | - | (2,577) | 1,236 |
| Closing balance | 41,702 | 48,823 | 39,597 | 49,375 |

11 Net assets attributable to unitholders (continued)

| | Year ended | | | |
|---|----------------------------|----------------------------|---------------------------|---------------------------|
| | 30 June 2020 No.'000 | 30 June 2019 No.'000 | 30 June 2020 \$'000 | 30 June 2019 \$'000 |
| Class B | | | | |
| Opening balance | 4,840 | 6,712 | 4,704 | 6,360 |
| Applications | 81 | 94 | 80 | 91 |
| Redemptions | (903) | (1,999) | (875) | (1,892) |
| Units issued upon reinvestment of distributions | 17 | 33 | 16 | 32 |
| Increase/(decrease) in net assets attributable to unitholders | - | - | (113) | 113 |
| Closing balance | <u>4,035</u> | <u>4,840</u> | <u>3,812</u> | <u>4,704</u> |
| Total net assets attributable to unitholders - liability | <u>45,737</u> | <u>53,663</u> | <u>43,409</u> | <u>54,079</u> |

As stipulated within the Fund's constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund.

There are two separate classes of units. Each unit within the same class has the same rights as all other units within that class. Except for different management fee rates, the two different classes have the same preferences and restrictions. Refer to note 16 for the applicable management fee rates.

Capital risk management

The Fund considers its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders.

Daily applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets on a daily basis by the responsible entity. Under the terms of the Fund's constitution, the responsible entity has the discretion to reject an application for units and to defer or adjust a redemption of units if the exercise of such discretion is in the best interests of unitholders.

12 Distributions to unitholders

The distributions for the year were as follows:

| | Year ended | | | |
|---|---------------------------|------------------------|---------------------------|------------------------|
| | 30 June 2020 \$'000 | 30 June 2020 CPU | 30 June 2019 \$'000 | 30 June 2019 CPU |
| Class A | | | | |
| Distributions for the year | <u>2,356</u> | <u>5.62</u> | <u>1,458</u> | <u>2.96</u> |
| Class B | | | | |
| Distributions for the year | <u>36</u> | <u>0.88</u> | <u>65</u> | <u>1.34</u> |
| Total distributions for the year | <u>2,392</u> | | <u>1,523</u> | |

At 30 June 2020, the above distributions for class A and class B include distribution payable amount of \$1,899,397 (2019: \$1,226,378) and \$19,502 (2019: \$32,605) respectively.

13 Cash and cash equivalents

| | As at | |
|--------------|---------------------------|---------------------------|
| | 30 June 2020 \$'000 | 30 June 2019 \$'000 |
| Cash at bank | <u>247</u> | <u>768</u> |
| | <u>247</u> | <u>768</u> |

14 Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

| | Year ended | |
|--|---------------------------|---------------------------|
| | 30 June 2020 \$'000 | 30 June 2019 \$'000 |
| (a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities | | |
| Increase/(decrease) in net assets attributable to unitholders | (2,690) | 1,349 |
| Distributions to unitholders | 2,392 | 1,523 |
| Purchase of financial instruments at fair value through profit or loss | (9,542) | (19,739) |
| Proceeds from sale of financial instruments at fair value through profit or loss | 19,102 | 31,492 |
| Net (gains)/losses on financial instruments at fair value through profit or loss | 2,146 | (1,174) |
| Distribution income reinvested | (2,193) | (2,118) |
| Net change in receivables | 56 | 50 |
| Net change in payables | (7) | (30) |
| Amount received from/(paid to) brokers for margin accounts | (1) | 598 |
| Management fee rebate reinvestment | (74) | (81) |
| Effects of foreign currency exchange rate changes on cash and cash equivalents | 4 | (3) |
| Net cash inflow/(outflow) from operating activities | 9,193 | 11,867 |
| (b) Non-cash financing activities | | |
| During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan | 127 | 100 |

As described in note 2(j), income not distributed is included in net assets attributable to unitholders. The change in this amount each period (as reported in (a) above) represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable.

15 Auditor's remuneration

During the year the following fees were paid or payable for services provided by the auditor of the Fund:

| | Year ended | |
|---|-----------------------|-----------------------|
| | 30 June 2020 \$ | 30 June 2019 \$ |
| PricewaterhouseCoopers Australian firm | | |
| <i>Audit and other assurance services</i> | | |
| Audit of financial statements and compliance plan audit | 7,593 | 7,594 |
| Total remuneration for audit and other assurance services | 7,593 | 7,594 |
| <i>Taxation services</i> | | |
| Tax compliance services | 10,930 | 9,922 |
| Total remuneration for taxation services | 10,930 | 9,922 |
| Total remuneration of PricewaterhouseCoopers | 18,523 | 17,516 |

16 Related party transactions

Responsible entity

Russell Investment Management Ltd (ABN 53 068 338 974), the responsible entity and manager of the Fund, is a wholly owned subsidiary of Russell Investment Group Pty Ltd (Australia).

The responsible entity is engaged in the business of providing investment management and administrative services on behalf of the Fund. It has appointed State Street Australia Limited to perform custody and certain administrative functions such as unit registry reporting and valuation services. To implement the multi-asset, multi-style, multi-manager diversification technique in relation to the Fund, the responsible entity will: (i) engage and, where necessary, replace the investment managers for the Fund; (ii) allocate assets among investment managers within the Fund; and (iii) monitor each investment manager's overall investment performance. For services rendered, the Fund pays the responsible entity a fee as discussed below.

The responsible entity retains the right under the terms of its agreements with the investment managers to direct them, subject to a requirement of best execution, to execute transactions that enable it to purchase brokerage and research services that assist in the provision of investment services to the responsible entity and are in the best interests of the unitholders. In addition, the investment managers may elect to purchase research services for their own benefit, subject to the best execution requirement. Brokerage and research services include (1) fundamental market research including performance characteristics of asset classes, investment styles, and allocation strategies; (2) advice either directly or indirectly through publications or writings as to the value of securities, the advisability of investing in, purchasing or selling securities and the availability of securities or of purchasers or sellers of securities; (3) analysis and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy and the performance of accounts; and (4) effecting securities transactions and performing functions incidental thereto (such as clearance and settlement) or that are required in connection therewith.

The responsible entity has received the following goods and services from brokers and dealers generally over the period of these accounts:

- written and oral research reports from brokers or dealers;
- computer based financial analytical systems, together with their associated software and servicing support; and
- statistical analysis relating to markets, companies, industries, business and economic factors, market trends and portfolio strategies.

Brokerage commissions

The Fund may effect portfolio transactions through an affiliate of the responsible entity, when an investment manager determines that a Fund will receive competitive execution, price, and commissions. No commissions were retained by affiliates of the responsible entity for the year ended 30 June 2020 (2019: \$Nil).

Key management personnel

(a) Directors

Key management personnel includes persons who were directors of Russell Investment Management Ltd at any time during the financial year as follows:

Peter Gunning
Jodie Hampshire
Symon Parish
Bronwyn Yates
Richard Smirl

16 Related party transactions (continued)

Key management personnel (continued)

(b) Other key management personnel

There were no other persons with responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly during the financial year.

Key management personnel unitholdings

No key management personnel of the responsible entity held units in the Fund as at 30 June 2020 (2019: Nil).

Key management personnel compensation

Key management personnel are paid by Russell Investment Management Ltd. Payments made from the Fund to Russell Investment Management Ltd do not include any amounts directly attributable to the compensation of key management personnel.

Key management personnel loan disclosures

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

Other transactions within the Fund

Apart from those details disclosed in this note, no key management personnel have entered into any transaction with the Fund since the end of the previous financial year and there were no material balance involving directors' interests outstanding at year end.

Responsible entity's/manager's fees and other transactions

Under the terms of the Fund's Constitution, the responsible entity is entitled to receive management fees and responsible entity's fees, calculated by reference to the average daily net assets (excluding net assets attributable to unitholders) of the Fund as follows:

Russell Investments Portfolio Series – Conservative - Class A - Management fee 0.607% (2019: 0.607%) per annum.

Russell Investments Portfolio Series – Conservative - Class B - Management fee 1.907% (2019: 1.907%) per annum.

The responsible entity's fee is 0.013% (2019: 0.013%) per annum of the average daily net assets (excluding net assets attributable to unitholders) for 2020. It is at the managers discretion to waive or rebate fees for specific wholesale investors as defined under section 761G of the *Corporations Act 2001*. The management fee rebates are disclosed as other operating income in the statement of comprehensive income.

Where monies are invested in other unlisted unit trust, including those managed by the Russell Investments group of companies, management fees charged in those funds are rebated to the Funds and the amount included in the management fee expense.

16 Related party transactions (continued)

Responsible entity's/manager's fees and other transactions (continued)

All related party transactions are conducted on normal commercial terms and conditions. The transactions during the year and amounts payable at year end between the Fund and the responsible entity were as follows:

| | 30 June 2020 | 30 June 2019 |
|--|-----------------|-----------------|
| | \$ | \$ |
| Management fees for the year paid by the Fund | 366,800 | 449,856 |
| Responsible entity's fees for the year paid by the Fund | 6,777 | 8,250 |
| Aggregate amounts payable to the manager at the end of the reporting period | 26,823 | 32,720 |
| Aggregate amounts payable to the responsible entity at the end of the reporting period | 514 | 620 |

Related party unitholdings

Parties related to the Fund (including Russell Investment Management Ltd, its affiliates and other schemes managed by, or under trusteeship of Russell Investment Management Ltd or its affiliates), held no units in the Fund.

Investments

The Fund held investments in the following schemes which are also managed by Russell Investment Management Ltd or its related parties:

| | Fair value of investments | | Interest held | | Distributions received/receivable | | Units acquired during the year | | Units disposed during the year | |
|--|---------------------------|-----------|---------------|------|-----------------------------------|--------|--------------------------------|-----------|--------------------------------|-----------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| | \$ | \$ | % | % | \$ | \$ | No. | No. | No. | No. |
| Russell Investments Australian Cash Fund | - | - | - | - | - | - | - | - | - | 330,714 |
| Russell Investments Emerging Market Debt Local Currency Fund | 293,844 | 1,430,726 | 0.01 | 0.02 | 25,713 | 69,680 | 52 | 96 | 1,217 | 1,042 |
| Russell Investments Global Listed Infrastructure Fund - Hedged | 591,785 | 531,682 | 0.21 | 0.17 | 11,617 | - | 152,412 | - | 38,614 | 173,049 |
| Russell Investments Global Opportunities Fund | 502,077 | 142,842 | 0.02 | - | 77,749 | 12,053 | 940,598 | 11,334 | 520,061 | 2,085,785 |
| Russell Investments Global Opportunities Fund - \$A Hedged | 786,559 | 2,246,365 | 0.06 | 0.16 | 8,621 | - | 539,742 | 3,167,206 | 2,665,615 | 904,124 |

16 Related party transactions (continued)

Investments (continued)

| | Fair value of investments | | Interest held | | Distributions received/receivable | | Units acquired during the year | | Units disposed during the year | |
|--|---------------------------|------------|---------------|-----------|-----------------------------------|------------|--------------------------------|-------------|--------------------------------|-------------|
| | 2020 \$ | 2019 \$ | 2020 % | 2019 % | 2020 \$ | 2019 \$ | 2020 No. | 2019 No. | 2020 No. | 2019 No. |
| Russell Investments Global Bond Fund | 2,905,924 | 2,816,501 | 0.01 | 0.01 | 37,395 | 77,998 | 7,313 | 9,361 | 5,761 | 15,757 |
| Russell Investments Australian Shares Core Fund (formerly known as Russell Investments Australian Shares Tracker Fund) | 3,806,074 | 4,713,526 | 0.26 | 0.32 | 172,209 | 597,363 | 238,962 | 810,527 | 620,009 | 6,962,434 |
| Russell Investments International Bond Fund - \$A Hedged | 5,220,197 | 7,302,214 | 0.47 | 0.52 | 572,191 | 116,600 | 762,841 | 108,144 | 2,392,767 | 1,538,232 |
| Russell Investments Australian Bond Fund | 9,541,795 | 13,080,289 | 0.70 | 0.73 | 730,088 | 604,554 | 981,703 | 573,892 | 3,998,754 | 5,182,858 |
| Russell Investments Australian Cash Enhanced Fund | 5,208,780 | 7,615,957 | 0.61 | 0.84 | 103,947 | 247,042 | 1,465,868 | 8,180,218 | 3,803,212 | 8,607,732 |
| Russell Investments Multi-Strategy Volatility Fund | - | - | - | - | - | - | - | 3 | - | 277 |
| Russell Investments Tax Effective Global Shares Fund | 1,803,328 | 1,715,955 | 0.11 | 0.08 | 158,186 | 79,119 | 245,533 | 41,049 | 151,931 | 244,658 |
| Russell Investments Global High Yield Fund | 2,316,706 | 951 | 0.01 | - | - | - | 1,483 | 1 | - | 234 |
| Russell Investments Multi-Asset Factor Exposure Fund | 2,330,757 | 2,677,742 | 0.19 | 0.22 | 63,979 | 178,901 | 654,095 | 157,719 | 833,878 | 683,848 |
| Russell Investments Multi-Asset Income Strategy Fund | 1,630,573 | 1,636,834 | 4.05 | 4.09 | 79,704 | 53,585 | 89,050 | 59,777 | - | - |
| Russell Investments Floating Rate Fund | 2,338,155 | 2,473,142 | 0.12 | 0.11 | 28,930 | 52,459 | 50 | 73 | - | 308 |
| Russell Investment Australian Factor Exposure Fund | 2,139,219 | 2,215,433 | 0.30 | 0.32 | 53,702 | 28,498 | 889,705 | 2,029,690 | 692,583 | - |

17 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Fund disclosed in the statement of financial position as at 30 June 2020 or on the results and cash flows of the Fund for the year ended on that date.

18 Contingent assets and liabilities and commitments

There were no outstanding contingent assets, liabilities or commitments as at 30 June 2020 and 30 June 2019.

Directors' declaration

In the opinion of the directors of the responsible entity:

- (a) the financial statements and notes set out on pages 6 to 37 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
 - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; and
- (c) Note 2(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the directors.

A handwritten signature in blue ink that reads "Pete". The signature is written in a cursive style with a large initial "P" and a period at the end.

Director

Sydney
22 September 2020



Independent auditor's report

To the unitholders of Russell Investments Portfolio Series – Conservative

Our opinion

In our opinion:

The accompanying financial report of Russell Investments Portfolio Series – Conservative (the Fund) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Fund's financial position as at 30 June 2020 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the statement of financial position as at 30 June 2020
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Fund in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other information

The directors of the Responsible Entity are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

PricewaterhouseCoopers, ABN 52 780 433 757

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In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors of the Responsible Entity for the financial report

The directors of the Responsible Entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors of the Responsible Entity determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors of the Responsible Entity are responsible for assessing the ability of the Fund to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Responsible Entity either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

A handwritten signature in blue ink, appearing to read 'PricewaterhouseCoopers', written in a cursive style.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Joe Sheeran', written in a cursive style.

Joe Sheeran
Partner

Sydney
22 September 2020