



# Fund Profile

An in-depth look at Russell Investments' sector funds

## Russell Investments Australian Opportunities Fund

The Russell Investments Australian Opportunities Fund provides investors with exposure to a diversified portfolio of Australian shares. A range of alternative and higher risk strategies are employed which are not normally available to many investors.

### Fund design

The Russell Investments Australian Opportunities Fund (the Fund) seeks to significantly outperform its benchmark before costs and tax over the long term. To achieve these objectives, multiple managers and strategies are employed to reduce "scenario risk". These multiple strategies are in the form of multiple investment styles (e.g. growth, value and style neutral). Managers within the Fund specialise in a diverse range of alternative and higher risk strategies and select products including active extension, small capitalisation, absolute return and concentrated portfolios not normally available to many investors.

### Strategies

Strategies employed by managers in this Fund differ from more traditional Australian equities products, including:

**Concentrated:** Concentrated portfolios have relatively large holdings of a small number of stocks. Holdings are typically concentrated in a manager's highest conviction ideas

having the highest expected return, often with little or no regard for the benchmark's industry and stock weights. Concentrated strategies are at risk of significant short term underperformance, with underperformance of a single stock potentially having a large impact on portfolio performance. However, in the long term, they are more likely to benefit from the exclusion of lower conviction stocks included in traditional portfolios as much for risk control as for their return expectations.

**Benchmark independent:** Benchmark independent portfolios are constructed with little regard for benchmark weights. A traditional manager is often required to hold significant weights in the largest stocks, purely for purposes of risk control and regardless of return expectations for that industry or stock. Rather, stock weights in benchmark independent portfolios are often chosen to take into account the manager's confidence or return expectations, but are rarely held merely because they represent a large part of the benchmark.

### Fund breakdown



- Allan Gray
- Ausbil
- Platypus
- L1 Capital
- Russell Investments
- Vinva
- Firetrail Investments
- Liquidity Reserve



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## Quick Overview

**Inception:** 31 May 2004

**Benchmark:** S&P/ASX 300 Accumulation Index

**AUM (AUD):** \$1.87 billion (as at 31/03/2022)

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In the short term, portfolios may significantly underperform the benchmark as there may be little or no exposure to the small number of stocks which dominate the benchmark return. However, in the long term, they benefit from focusing on the stocks with higher return expectations without needing to hold a core of stocks for risk control.

**Active extension:** Active extension products differ from traditional products in their ability to “short” stocks. When traditional managers dislike a stock, they just don’t buy it. An active extension manager takes this a step further, by borrowing and selling stocks they dislike in the expectation that they can buy stocks back to return to the lender at a lower price in the future (or using derivatives to achieve a similar outcome). This allows them to take more advantage of negative opinions than traditional managers, although it introduces the risk of having to buy the stock back at a higher price if in fact the price increases.

**“The Fund is designed to reduce risk through multiple layers of diversification”**

**Small companies:** These strategies focus on listed companies with smaller market capitalisations, generally those outside the top 100 on the Australian Securities Exchange. Return expectations for smaller companies can be much higher.

Often, significant value can be found in smaller companies relative to their large company counterparts because levels of broker research and information access are much lower. Also, growth rates for small but rapidly expanding companies could be significantly higher than for larger companies which tend to have much more mature businesses.

However, risks are also higher for small companies, with companies often more reliant on the success or failure of just one or two products. In many cases, corporate governance standards and information access are arguably lower for small companies than larger corporations.

## Reducing risk through diversification

Individually, these strategies tend to have higher levels of risk and lower benchmark sensitivity than more traditional products. The Fund is designed to reduce risk through multiple layers of diversification.

An important driver of success is to amplify those return sources we believe provide the most reliable means of alpha generation, while controlling risks we believe are uncompensated over the long term. In the case of Australian shares, we believe that stock selection provides the most reliable alpha and therefore emphasise this source of return. Stock selection is the key source of alpha for all managers and strategies in the Fund.

The key source of risk diversification within the Fund is the use of multiple managers and multiple strategies.

No particular number of managers or strategies is targeted; the current number provides good strategy diversification and coverage of the market.

The Fund invests predominantly in shares or unit trusts listed on the Australian Securities Exchange. Share Price Index futures are used to equitise cash holdings.

Due to the nature of this Fund, it is recommended for investors with a long investment time horizon who are willing to accept significant volatility in returns.

## Ausbil Investment Management Style neutral, 130/30

Ausbil employs a top down, bottom up investment approach. The manager’s broad investment philosophy is that active management of portfolios facilitates consistent and risk-controlled outperformance.

Rather than focusing just on growth or value investing, Ausbil’s investment approach enables them to exploit the inefficiencies across the entire market, at all stages of the cycle and across all market conditions. This includes the ability to short sell.

## Allan Gray Deep value

Allan Gray (Australia) is a boutique firm established in 2004. Allan Gray aims to add value by identifying the real underlying value of a company and then looking for opportunities to invest where stock prices deviate from this real value. Allan Gray takes a contrarian value approach to selecting companies.

In Russell Investments’ opinion, Allan Gray’s experience in assessing the risk-return trade off for each company gives it a comparative advantage in this investment style relative to other managers.

## Platypus Asset Management Aggressive growth

Platypus is a growth style manager who uses a combination of top-down macroeconomic and bottom-up company analysis to construct a concentrated portfolio of 25 to 35 stocks that exhibits high growth and momentum characteristics. Portfolios are constructed without regard for a benchmark and the risk and return characteristics of the individual stocks are responsible for positioning within the portfolio; rather than any benchmark-relative positioning.

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## L1 Capital Opportunistic, high conviction

L1 Capital (L1) is a style neutral boutique manager that focuses on bottom-up stock selection, using a proprietary investment framework to identify undervalued stocks that have strong management, attractive industry structure and favourable operating trends.

L1's research is skewed towards understanding the catalysts and drivers of short-term share price changes to identify trading opportunities. Consequently, L1 has an intensive company visitation schedule which is strongly complemented by an extensive network of industry contacts.

## Russell Investments Positioning strategies

Positioning strategies are customised exposures created and directly managed by Russell Investments to better achieve return and/or risk objectives in a total portfolio. Usually used in conjunction with third-party active managers, positioning strategies allow our portfolio managers to fully reflect our strategic and dynamic insights in a precise and flexible manner.

*"An important driver of success is to amplify those return sources we believe provide the most reliable means of alpha generation, while controlling risks... over the long term."*

Russell Investments' portfolio managers have ultimate responsibility for the total portfolio and use positioning strategies to help meet investment goals. This Fund includes a positioning strategy comprised of a factor portfolio that will enable the portfolio manager to manage the fund's exposures more dynamically.

## Vinva Quantitative, 130/30

Vinva has a quantitative approach to investing. They take advantage of alpha opportunities identified by the research process and use technology to implement these opportunities into portfolios in a highly disciplined and efficient way. Vinva expects to deliver alpha consistently through different market cycles, and structures the portfolio so that there are no significant sector or style biases on average through time.

## Firetrail Investments Opportunistic, high conviction

Firetrail uses a high-conviction, unconstrained investment strategy with a focus on bottom-up stock selection. The manager's portfolio is largely driven by idiosyncratic stock positions.

## Liquidity reserve

The Fund's liquidity reserve comprises cash awaiting investment or held to meet redemption requests or to pay expenses. The Fund typically exposes all or a portion of its cash to the performance of appropriate markets by purchasing equity securities and/or derivatives, which typically include index futures contracts. The Fund invests any remaining cash in an unregistered cash management fund advised by Russell Investment Management Ltd.

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RESPONSIBLE INVESTMENT



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