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Russell Investments

Fund Profile

An in-depth look at Russell Investments' Sector Funds

Russell Investments Tax Effective Global Shares Fund

The Fund uses Russell Investments' in-house emulation capabilities to leverage the investment insights from multiple active managers and incorporates a range of strategies aimed at enhancing after-tax outcomes for investors.

The Fund aims to outperform the benchmark on an after-tax basis over the longer term by investing in a diversified portfolio of developed and emerging markets shares.

- Sanders Capital
- Fiera Capital
- Numeric
- Morgan Stanley
- Russell Investments
- RWC Asset Advisors
- J O Hambro Capital Management
- Nissay Asset Management
- Oaktree Capital

Fund design

To create a diversified active approach to global shares focused on after-tax outcomes, Russell Investments first researched the world to identify a list of high conviction equity managers. We then analysed these managers to examine the relative inherent tax-effectiveness of each manager's investment process. The managers selected for the Fund are capable of generating excess returns through strategies that have a long-term investment horizon with relatively low portfolio turnover – which means they are naturally tax efficient.

Consistent with our multi-style approach, we select managers with a diverse range of investment strategies and approaches to ensure the Fund can provide consistency during various market environments.

Russell Investments then implements this through a centralised portfolio management (CPM) approach that's designed to further improve the Fund's after-tax performance, as a reduction in portfolio turnover lowers the frequency of disposals of investments and therefore transaction costs. With CPM, Russell Investments gathers the stock selection insights of the Fund's selected managers and manages the shares portfolio in a single account. The CPM approach means that capital gains are realised at the total fund level, unlike a traditional approach where gains are realised by each individual manager within their own account, without regard to the activities of the other managers in the Fund.

We supplement this with specific tax lot selection and security holding period management to mitigate inefficient after-tax outcomes.

"Russell Investments blends the insights of multiple active managers and strategies with a focus on investors' after-tax outcomes."

JON EGGINS
SENIOR PORTFOLIO MANAGER
RUSSELL INVESTMENTS

Quick Overview

Inception: *October 2014*

Benchmark: *After-tax series[1] off MSCI ACWI Index - Net*

AUM (AUD): *$1.58 billion (as at 30/09/2020)*

Recommended timeframe: *At least 7 years*

Russell Investments Tax Effective Global Shares Fund

The former generally involves selecting share "lots" sold with a higher cost basis to maximise the level of assets invested. The latter involves monitoring when assets have been held for more than a year and may qualify for the statutory capital gains tax discount concession.

The Fund also claims franking (imputation) credits and withholding tax credits on securities where available.

About the benchmark

GBST produces the after-tax series based off the Russell Global Large Cap Net Index by taking into account the impact of capital gains tax, franking credits (where available) and adjusting for the Fund's actual cash flows[2]. Two after-tax series are calculated – one using the 15% tax applicable for superannuation investors, and one using the highest marginal tax rate of 47% applicable for individual investors - representing the possible range of Fund investors.

Responsible investing

Russell Investments recognises the importance of responsible investing and environmental, social and governance issues for our clients. To reflect this, the Fund does not knowingly invest directly in companies which a) produce components that are key and dedicated to the production of anti-personnel mines and/or cluster munitions; b) manufacture tobacco products or; c) are involved, either directly or indirectly, in the production of the core nuclear weapon system, or components/ services of the core nuclear weapon system, that are considered tailor-made and essential for the lethal use of the weapon.

Current Fund structure

The Fund has exposure[3] to the following managers' insights and strategies:

Fiera Capital
Quality Growth: Global

Fiera Capital looks for best of breed companies with superior growth potential at attractive valuations. It seeks businesses with stable earnings, high return on equity and strong balance sheets. It takes a long-term investment horizon and resulting portfolios tend to have lower turnover.

Numeric Investors
Quantitative: Global core, global low volatility

Numeric is a leading, global quantitative investment manager. Their global core strategy's combination of value and momentum factors means it's particularly focused on capturing value opportunities at an early stage of mean reversion. Their investment process focuses on bottom-up fundamentals and uses a diversified set of models which seek to exploit known and lesser-known anomalies. The manager's global low-volatility strategy leverages the insights from the global core strategy and includes alpha models to avoid historical biases found in more generic low-volatility processes. It uses multiple risk model approaches in its risk management/optimisation process to deliver a portfolio with low-beta, low-volatility characteristics. The portfolio manager's ability to blend the two strategies means they can adjust the strategies' weightings in response to changing market conditions and/or the Fund's other exposures.

J O Hambro Capital Management
UK equity dynamic

J O Hambro Capital Management takes a market oriented, high yield approach to investing in the UK market. They look to identify underappreciated quality assets by taking a contrarian view, exploiting share price cyclicality in the restructuring, recovery and undervalued growth space. Fundamental analysis and a margin of safety is important to the manager.

Russell Investments
Positioning Strategies: Global

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. Russell Investments' portfolio managers have ultimate responsibility for the total portfolio and use positioning strategies to help meet investment goals.

RWC Asset Advisors (RWC)
Opportunistic theme-driven: Emerging Markets

RWC's strategy in the Fund focuses on long-term capital appreciation through a concentrated portfolio of its highest conviction positions in emerging market stocks. This is achieved by combining top-down thematic and bottom-up fundamental inputs, enabling the RWC investment team to select the themes, countries, sectors and companies with the strongest return prospects. RWC's portfolio is comprised of a combination of core positions that are consistent with longer-term themes and shorter-term opportunistic trading positions.

Sanders Capital
Thematic Value: Global

Sanders Capital is a boutique firm established by veteran value investor Lew Sanders. The firm pursues a thematic approach to value investing, focusing on companies that are fundamentally mispriced on a normalised earnings basis. Sanders employs an all-country approach, including emerging markets, and portfolios have a large-cap orientation. Sanders' investment approach is low turnover.

Morgan Stanley Investment Management
Growth: Global

Morgan Stanley Investment Management is a global asset manager who uses a high-conviction investment approach to develop concentrated, best-idea portfolios that target specific growth and quality characteristics. The manager's portfolios also have significant style risk, meaning performance has the potential to be volatile, and an additional focus on sustainability.

Nissay Asset Management
Japan Equity

Nissay Asset Management, which has a quality and mid-cap bias, is a highly-rated Japanese equities specialist. The manager's contrarian value strategy uses intensive bottom-up fundamental analysis to identify 30-35 of their best stock ideas.

Oaktree Capital
Emerging markets

Oaktree Capital is an emerging markets specialist. The manager uses an opportunistic, fundamental-driven investment process to identify securities which are undervalued relative to growth expectations. As a result, their strategy is not wedded to any one investment style but instead driven by in-depth fundamental research.

1 After-tax returns calculated by GBST

2 The following assumptions are used in calculating the after-tax series:

(i) Pre-liquidation basis – the benchmark and the Fund are assumed as going concerns and investors in the Fund are expected to be long-term investors. Thus, returns are reported on a pre-liquidation basis.

(ii) First In First Out (FIFO) tax lot methodology – this is the default tax lot methodology for many managed funds in Australia.

(iii) Starting cost base – in order to ensure fair comparison of the Fund against its benchmark since inception, the starting cost base for the benchmark is set to match the Fund's average starting cost base.

3 Russell Investments' portfolio managers may apply overlay tools to actively manage total Fund risk exposures from time to time to take advantage of market opportunities and avoid risks.

For more information, please contact your Russell Investments representative:

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