

Russell Conservative Fund

ARSN 094 799 578

Interim report

For the half-year ended 31 December 2015

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This interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2015 and any public announcements made in respect of Russell Conservative Fund during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

This interim report covers Russell Conservative Fund as an individual entity.

The Responsible Entity of the Russell Conservative Fund is Russell Investment Management Ltd (ABN 53 068 338 974) (AFSL 247185).

The Responsible Entity's registered office is:
Level 29, 135 King Street,
Sydney, NSW 2000.

Directors' report

The directors of Russell Investment Management Ltd (ABN 53 068 338 974 AFSL No. 247185), the Responsible Entity of Russell Conservative Fund, present their report together with the financial statements of Russell Conservative Fund (the "Fund"), for the half-year ended 31 December 2015.

Principal activities

The Fund typically invests according to a mix between 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 utilises a Multi Style, Multi Manager investment approach which combines the individual strengths of multiple investment managers.

The Fund did not have any employees during the half-year.

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

Directors

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

Peter J Gunning
 Symon J Parish
 Alan N Schoenheimer
 Glenn T Smith
 Kenneth W Willman
 Bronwyn J Yates

Review and results of operations

During the half-year, the Fund continued to invest in accordance with its investment objective and investment strategy as set out in the offer documents of the Fund and in accordance with the provisions of the Fund's Constitution.

Results

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

	Half-year ended	
	31 December 2015	31 December 2014
Operating profit/(loss) before finance costs attributable to unitholders (\$'000)	<u>2,347</u>	<u>22,937</u>
<i>Distributions - Class A</i>		
Distributions paid and payable (\$'000)	<u>2,936</u>	<u>1,931</u>
Distribution (cents per unit - CPU)	<u>0.39</u>	<u>0.48</u>
<i>Distributions - Class C</i>		
Distributions paid and payable (\$'000)	<u>202</u>	<u>237</u>
Distribution (cents per unit - CPU)	<u>0.34</u>	<u>0.40</u>

Directors' report (continued)

Significant changes in state of affairs

London Stock Exchange Group ("LSEG") announced on 8 October 2015 that it has agreed the proposed sale of the Investment management business of Russell Investments to TA Associates, subject to customary closing adjustment, regulatory and other required approvals. Reverence Capital Partners partnered with TA Associates and will make a significant minority investment.

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

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.

Rounding of amounts to the nearest thousand dollars

The Fund is an entity of the kind referred to in Class Order 98/100 (as amended) issued by the Australian Securities and Investments Commission (ASIC) relating to the "rounding off" of amounts in the directors' report and financial statements. Amounts in the directors' report and financial statements have been rounded to the nearest thousand dollars in accordance with that Class Order, 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 4.

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



Director

Sydney
9 March 2016



Auditor's Independence Declaration

As lead auditor for the review of Russell Conservative Fund for the half-year ended 31 December 2015, 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in black ink, appearing to read 'Darren Ross'.

Darren Ross
Partner
PricewaterhouseCoopers

Sydney
9 March 2016

Statement of comprehensive income

		Half-year ended	
		31 December 2015	31 December 2014
	Notes	\$'000	\$'000
Investment income			
Interest income from financial assets not held at fair value through profit or loss		117	75
Distributions income		7,374	8,692
Net gains/(losses) on financial instruments held at fair value through profit or loss		(3,370)	15,543
Other operating income		887	516
Total investment income/(loss)		5,008	24,826
Expenses			
Management fees		2,475	1,774
Responsible Entity's fees		52	37
Custody fees		59	29
Auditor's remuneration		5	8
Transaction costs		53	28
Other operating expenses		17	13
Total operating expenses		2,661	1,889
Operating profit/(loss) for the half-year		2,347	22,937
Finance costs attributable to unitholders			
Distributions to unitholders	6	(3,138)	(2,168)
(Increase)/decrease in net assets attributable to unitholders	5	791	(20,769)
Profit/(loss) for the half-year		-	-
Other comprehensive income for the half-year		-	-
Total comprehensive income for the half-year		-	-

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

Statement of financial position

		As at	
	Notes	31 December 2015 \$'000	30 June 2015 \$'000
Assets			
Cash and cash equivalents		4,886	6,927
Deposits held with brokers for margin		4,175	4,092
Receivables		1,004	1,178
Financial assets held at fair value through profit or loss	3	<u>760,032</u>	<u>762,100</u>
Total assets		<u>770,097</u>	<u>774,297</u>
Liabilities			
Payables		609	1,146
Distributions payable to unitholders	6	-	14,884
Due to brokers - payable for securities purchased		3	-
Financial liabilities held at fair value through profit or loss	4	<u>65</u>	<u>1,098</u>
Total liabilities (excluding net assets attributable to unitholders)		<u>677</u>	<u>17,128</u>
Net assets attributable to unitholders - liability	5	<u>769,420</u>	<u>757,169</u>

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

Statement of changes in equity

	Half-year ended	
	31 December 2015 \$'000	31 December 2014 \$'000
Total equity at the beginning of the financial half-year	-	-
Profit/(loss) for the half-year	-	-
Other comprehensive income for the half-year	-	-
Total comprehensive income for the half-year	-	-
Transactions with owners in their capacity as owners	-	-
Total equity at the end of the financial half-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 half-year.

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

Statement of cash flows

	Half-year ended	
	31 December 2015 \$'000	31 December 2014 \$'000
Cash flows from operating activities		
Proceeds related to financial instruments held at fair value through profit or loss	230,956	142,006
Payments related to financial instruments held at fair value through profit or loss	(226,207)	(413,231)
Interest received/(paid)	128	83
Amount received from/(paid to) brokers for margin	(83)	(2,640)
Proceeds from receivables	915	244
Management fees paid	(2,471)	(1,761)
Responsible Entity fees paid	(52)	(34)
Payment of other expenses	(108)	(68)
Net cash inflow/(outflow) from operating activities	3,078	(275,401)
Cash flows from financing activities		
Proceeds from applications by unitholders	78,374	334,980
Payments for redemptions by unitholders	(66,994)	(47,941)
Distributions paid	(16,499)	(9,830)
Net cash inflow/(outflow) from financing activities	(5,119)	277,209
Net increase/(decrease) in cash and cash equivalents	(2,041)	1,808
Cash and cash equivalents at the beginning of the half-year	6,927	4,963
Cash and cash equivalents at the end of the half-year	4,886	6,771

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

Contents of the notes to the financial statements

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1 Basis of preparation of interim report

These condensed financial statements for the half-year ended 31 December 2015 has been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standard AASB 134 *Interim Financial Reporting*.

These interim financial statements cover Russell Conservative Fund (the "Fund") as an individual entity. The Fund was constituted on 17 October 2000 and will terminate on 16 October 2080 unless terminated earlier in accordance with the provisions of the Fund's Constitution.

These interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, these interim financial statements are to be read in conjunction with the annual financial report for the year ended 30 June 2015 and any public announcements made in respect of Russell Conservative Fund during the interim reporting period.

The Responsible Entity of the Fund is Russell Investment Management Ltd (the "Responsible Entity"). The Responsible Entity's registered office is Level 29, 135 King Street, Sydney, NSW 2000. The interim financial statements are presented in Australian currency.

The Fund typically invests according to a mix between 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 nature of the Fund's operation is such that income and expenses are incurred in a manner which is not impacted by any form of seasonality.

These interim financial statements are prepared based upon an accrual concept which requires income and expenses to be recorded as earned or incurred and not as received or paid throughout the period.

The interim financial statements were authorised for issue by the directors on 9 March 2016. The directors of the Responsible Entity have the power to amend and reissue the interim financial statements.

(a) Significant accounting policies

The accounting policies in these interim financial statements are the same as those applied in the Fund's financial statements for the year ended 30 June 2015.

2 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 3 and note 4)
- Financial assets / liabilities held for trading (see note 3 and note 4)

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

AASB 13 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

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 notes to the financial statements as at 30 June 2015. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

2 Fair value measurement (continued)

(i) Fair value in an active market (continued)

The quoted market price used for financial assets held by the Fund is the current bid price; the quoted market price for financial liabilities is the current asking price. When the Fund holds derivatives with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies this bid or asking price to the net open position, as appropriate.

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.

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.

2 Fair value measurement (continued)

Recognised fair value measurements

The following table presents the Fund's assets and liabilities measured and recognised at fair value as at 31 December 2015 and 30 June 2015.

As at 31 December 2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Financial assets held for trading:				
Derivatives	1,253	-	-	1,253
Financial assets designated at fair value through profit or loss at inception:				
Unit trusts	-	758,779	-	758,779
Total	1,253	758,779	-	760,032
Financial liabilities				
Financial liabilities held for trading:				
Derivatives	28	37	-	65
Total	28	37	-	65
As at 30 June 2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Financial assets held for trading:				
Derivatives	704	58	-	762
Financial assets designated at fair value through profit or loss at inception:				
Unit trusts	-	761,338	-	761,338
Total	704	761,396	-	762,100
Financial liabilities				
Financial liabilities held for trading:				
Derivatives	895	203	-	1,098
Total	895	203	-	1,098

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 have been no transfer between levels for the half-year ended 31 December 2015. There were also no changes made to any of the valuation techniques applied as of 30 June 2015.

(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 half-year ended 31 December 2015 or year ended 30 June 2015.

2 Fair value measurement (continued)

(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 did not hold any financial instruments which were not measured at fair value in the Statement of financial position. Due to their short-term nature, the carrying amounts of receivables and payables are assumed to approximate their fair value.

3 Financial assets held at fair value through profit or loss

	As at 31 December 2015 Fair value \$'000	30 June 2015 Fair value \$'000
Held for trading		
Derivatives	1,253	762
Total held for trading	1,253	762
Designated at fair value through profit or loss		
Unit trusts	758,779	761,338
Total designated at fair value through profit or loss	758,779	761,338
Total financial assets held at fair value through profit or loss	760,032	762,100
Comprising:		
Derivatives		
International equity/index options	515	-
Australian share price index futures	736	-
International share price index futures	2	704
Foreign currency contracts	-	58
Total derivatives	1,253	762
Unit trusts		
Units in Australian trusts	758,030	753,530
Units in international trusts	749	7,808
Total unit trusts	758,779	761,338
Total financial assets held at fair value through profit or loss	760,032	762,100

4 Financial liabilities held at fair value through profit or loss

	As at	
	31 December 2015 Fair value \$'000	30 June 2015 Fair value \$'000
Held for trading		
Derivatives	65	1,098
Total held for trading	65	1,098
Total financial liabilities held at fair value through profit or loss	65	1,098
Comprising:		
Derivatives		
Australian share price index futures	-	116
International share price index futures	22	895
International interest rate futures	6	-
Foreign currency contracts	37	87
Total derivatives	65	1,098
Total financial liabilities held at fair value through profit or loss	65	1,098

5 Net assets attributable to unitholders

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

	Half-year ended			
	31 December 2015 No.'000	31 December 2014 No.'000	31 December 2015 \$'000	31 December 2014 \$'000
Class A				
Opening balance	751,190	372,042	703,358	347,577
Applications	68,761	355,310	64,846	334,478
Redemptions	(60,750)	(40,048)	(57,021)	(37,987)
Units issued upon reinvestment of distributions	1,617	636	1,513	598
Increase/(decrease) in net assets attributable to unitholders	-	-	(728)	18,895
Closing balance	760,818	687,940	711,968	663,561
Class C				
Opening balance	53,430	61,767	53,811	61,785
Applications	12,973	2,985	13,101	3,032
Redemptions	(9,322)	(9,522)	(9,407)	(9,660)
Units issued upon reinvestment of distributions	10	17	10	17
Increase/(decrease) in net assets attributable to unitholders	-	-	(63)	1,874
Closing balance	57,091	55,247	57,452	57,048
Total net assets attributable to unitholders - liability	817,909	743,187	769,420	720,609

5 Net assets attributable to unitholders (continued)

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.

6 Distributions to unitholders

The distributions for the half-year were as follows:

	31 December 2015 \$'000	Half-year ended 31 December 2015 CPU	31 December 2014 \$'000	31 December 2014 CPU
Class A				
Distributions for the half-year	<u>2,936</u>	<u>0.39</u>	<u>1,931</u>	<u>0.48</u>
Class C				
Distributions for the half-year	<u>202</u>	<u>0.34</u>	<u>237</u>	<u>0.40</u>
Total distribution for the half-year	<u>3,138</u>		<u>2,168</u>	

At 31 December 2015, the above distributions for class A and class C includes a distribution payable amount of \$0 (2014: \$0) and \$0 (2014: \$0) respectively.

7 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 31 December 2015 or on the results and cash flows of the Fund for the half-year ended on that date.

8 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 31 December 2015 and 30 June 2015.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 5 to 15 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Fund's financial position as at 31 December 2015 and of its performance for the financial half-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.

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



Director

Sydney
9 March 2016



Independent auditor's review report to the members of Russell Conservative Fund

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Russell Conservative Fund (the registered scheme), which comprises the statement of financial position as at 31 December 2015, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of Russell Investment Management Ltd (the responsible entity) are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Russell Conservative Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Russell Conservative Fund is not in accordance with the *Corporations Act 2001* including:

- a) giving a true and fair view of the entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date;

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- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read "Darren Ross", with a horizontal line underneath.

Darren Ross
Partner

Sydney
9 March 2016