Russell Investments

RUSSELL INVESTMENTS

Investment Update

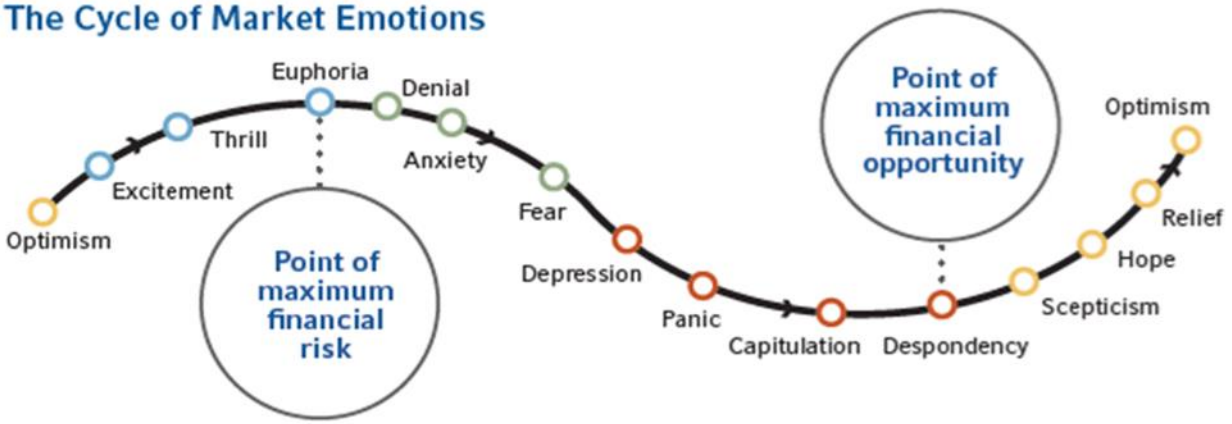
“Classic” Adventurous Portfolio

May 2024

Russell Investments may trade a portion of the Fund’s assets based on a model portfolio provided by the investment advisor. By employing this emulated portfolio approach, the Fund leverages off the implementation capabilities of Russel Investments in order to manage the funds in an efficient manner.

Contents

The Cycle of Market Emotions



	EXCITEMENT THRILL EUPHORIA		DENIAL ANXIETY FEAR		DEPRESSION PANIC CAPITULATION		DESPONDENCY SKEPTICISM HOPE RELIEF OPTIMISM	
Market Cycle 1	30%	**NOV 1971-DEC 1972** • Inflationary pressures. Productivity improvements • Rapid corporate earnings growth • Introduction of paperless technology	-15%	**JAN 1973-JAN 1974** • OPEC Oil crisis – crude oil prices tripled. Inflation • Credit squeeze • Property company failures	-24%	**FEB 1974-NOV 1974** • Global recession • Extended bear market	39%	**DEC 1974-JUN 1975** • Stock market recovery despite recession
Market Cycle 2	136%	**AUG 1984-AUG 1987** • Credit boom • Strong world economic growth	-2%	**SEP 1987** • Irrational shareholder sentiment • Peak of overinflated stock values vs historical PEs	-28%	**OCT 1987-NOV 1987** • 1987 Global stock market crash	64%	**DEC 1987-DEC 1989** • Stock market recovery as value hunters sought to buy quality stocks cheaply
Market Cycle 3	99%	**APR 1997-SEP 2000** • Tech boom. Investor exuberance • Emergence of 'new economy' sectors	-28%	**OCT 2000-SEP 2001** • Tech bubble burst • September 11 terrorist attacks	-22%	**MAR 2002-FEB 2003** • Reduced global economic growth forecasts • Extended bear market • Corporate accounting scandals	52%	**MAR 2003-MAY 2005** • Geopolitical uncertainty • Refocus on world economic fundamentals • Boom in resources in response to industrialisation of China
Market Cycle 4	28%	**JUN 2005-JUL 2007** • UK house prices hit highs • Credit boom • Higher interest rates	-17%	**AUG 2007-SEP 2008** • Credit crunch. Sub-prime mortgage crisis • Collateralised debt obligation (CDO) failures • Lehman Brothers declares bankruptcy	-37%	**OCT 2008-FEB 2009** • Global financial crisis • European and U.S. recessions • Negative real GDP reported for major developed countries in Q4 2008	224%	**MAR 2009-DEC 2014** • Global stock market recovery • Deleveraging, slow economic growth
Market Cycle 5	79%	**JAN 2015-FEB 2020** • Return to full employment in U.S. • Optimism rises with U.S. tax cuts • Trade war creates volatility in 2018 • 2019 Fed rate cuts extend the cycle • Virus originating in China is identified as COVID-19	-13%	**Late Feb 2020** • COVID-19 virus spreads worldwide • Global stock markets fell in late Feb 2020 due to a significant rise in the number of COVID-19 cases outside of mainland China	-14%	**MAR 2020** • COVID-19 is classified as a global pandemic • Travel and commerce begin to be restricted worldwide as COVID-19 pandemic eventually forces most of the world population into quarantine • CARES Act was signed into U.S. law, sending Economic Impact Payments to qualifying U.S. citizens	63%	**APR 2020 - MAR 2021** • Global economic recovery begins • Supportive central bank policies • Global COVID-19 vaccine rollout
Market Cycle 6	18%	**APR 2021 – DEC 2021** • Effective COVID-19 vaccine announced and rolled out globally • Central banks maintain maximum levels of stimulus • Lockdown support from governments continue • Lockdowns begin to be eased	-21%	**JAN 2022 - JUN 2022** • Federal Reserve begins interest rate hiking regime • Inflation hits 40-year highs	-4%	**JUL 2022 - SEP 2022** • Job market remains strong as unemployment is near all-time lows • Inflation starts to decline from its June 2022 peak	35%	**OCT 2022 - DEC 2023** • Magnificent 7* drove markets for most of 2023 • The Federal Reserve has likely finished lifting rates due to slowing jobs growth and declining inflation • Labour markets need to soften further to put the final nail in the coffin of an inflation overshoot • Recession risks and macro uncertainty remain elevated, while markets are priced in anticipation of a "soft landing"

For illustrative purposes only. Latest month end data as at 31 January 2024.

Source: Russell Investments. Market cycle returns calculated using Ibbotson U.S. Equity Total Return Index from 1971–1978 and Russell 3000® Index from 1979–2024. Any past performance is not necessarily a guide to future performance. Past performance does not predict future returns. Indexes are unmanaged and cannot be invested in directly.

Market Outlook

Market Review – May 2024

- Global equities and fixed income markets rose in May. Several major indices rose to new record highs on renewed optimism over potential interest rate cuts following encouraging news on inflation. Europe outperformed other markets as investors were comforted by signs of stabilisation in the region's economy. Oil prices and copper prices fell, while gold recorded new highs. The US dollar weakened against most currencies as declining inflation bolstered expectations of interest rate cuts by the Federal Reserve (Fed). The Fed and the Bank of England (BoE) kept interest rates unchanged at their policy meetings; however, both are expected to make an initial rate cut by autumn.
- US equities outperformed all other markets except Europe. Technology stocks, notably Apple and Nvidia, led the gains, helping to push the S&P 500 to fresh new highs. News of weakening inflation (see chart) and flat retail sales boosted hopes of two rate cuts by the Fed this year. However, robust purchasing managers' index (PMI) data, including services PMI reaching a one-year high, and a hawkish tone from the minutes of the latest Fed rate-setting meeting, pushed expectations for interest rate cuts out later in the year. The benchmark 10-year US Treasury yield fell 18 basis points (bps) to 4.50%.
- UK equities underperformed markets in Europe and the US but outperformed Japan, Asia and emerging markets. The FTSE 100 hit new all-time highs as investors were encouraged by reports the economy exited last year's mild recession. Inflation in the country fell to 2.3% YoY in April from March's 3.2%, but was above the 2.1% forecast. The benchmark 10-year gilt yield fell 3 bps 4.32%. European equities outperformed all other markets, buoyed by solid corporate results, signs of a strengthening economy, and expectations of imminent interest rate cuts, which pushed indices to new highs. Initial estimates showed that the eurozone economy expanded in the first quarter (see chart), helped by a recovery in Germany. Although flash estimates showed eurozone inflation rose to 2.6% YoY in May, up from 2.4% in April, the first increase in five months, expectations for a rate cut in the summer remained intact. The German 10-year bund yield rose, increasing by 8 bps to 2.66%. Japanese equities lagged, as disappointing earnings updates from large corporations such as Sony Group, Nintendo, Rakuten and Toyota weighed on sentiment.
- Emerging markets (EM) underperformed all other markets. Egypt was the best performer. Argentina and the Czech Republic fared well while Chinese equities also delivered positive returns. Investor sentiment in the country was buoyed by new measures to support the property sector, imports and exports returning to growth and stronger industrial production.

Source: Confluence, Bloomberg. All data as at 31st May, 2024. All returns are in GBP terms.

Market Outlook

Strategist's Outlook

- The **equity market** outlook is constrained by expensive valuation multiples, optimistic industry consensus earnings growth expectations, and overbought sentiment. We previously preferred Quality equities – profitable companies with strong balance sheets – however that overweight was neutralised in February following a stretch of strong performance for these stocks.
- Our portfolio strategies are neutral across major equity regions. **Non-US developed equities** still trade at a steep discount to US equities but there is significant uncertainty around the ability for these markets to deliver differentiated earnings. **Chinese equities** have sharply underperformed in recent years. The market is very cheap, with the index trading at book value and many companies trading in-line with the value of the cash on their balance sheet. Our proprietary measure of market psychology shows extreme pessimism towards Chinese equities, which is a positive signal for the market outlook. However, China faces numerous structural challenges, weak consumer confidence, and has thus far only delivered a measured policy response to support its economy and markets. We are neutral to slightly overweight China across our equity portfolio strategies with the latter largely driven by where our underlying money managers are finding the best value in emerging markets.
- **Government bonds** provide attractive value for investors as yields still trade well in excess of expected inflation. Markets are not currently putting much weight on the possibility of adverse economic scenarios. Therefore, if developed market economies slow or slip into recession, we expect central banks to cut interest rates more aggressively than what is currently priced into forward curves. **US Treasuries** are a preferred overweight exposure where our fixed income strategy team sees particularly good value in the five-year point of the yield curve. They also see potential for the curve to re-steepen if more aggressive rate cuts are delivered in the next few years. Our favourable outlook for government bonds still extends across most major developed sovereign markets, including Canada, Germany, Australia and the UK. The only notable outlier is Japan, where yields are depressed and out-of-synch with the rest of the world.
- **US high yield** and US **investment grade** spreads are very tight into an environment of elevated economic uncertainty, leading us to dampen our normal strategic overweight to corporate credit.
- The prospect of developed market central banks cutting interest rates in 2024 should be a major tailwind for **real estate**. Real Estate Investment Trust (REIT) valuations continue to look attractive. Given the significant uncertainty surrounding the macro-outlook, we think the defensive nature of **infrastructure** investments make them a useful lever for portfolio diversification – cushioning the portfolio in a market downturn, while not giving up significant upside potential should a soft landing come to pass. **Oil** prices might remain rangebound as the tug-of-war between softer growth and supply constraints from the OPEC+ group of oil-producing countries continue. **Gold**, which is trading at near record highs, appears overvalued relative to current real yields. While gold prices may soften later this year, several factors – elevated recession risks, the potential for lower real interest rates, heightened geopolitical tensions, and structural support from central bank purchases – still create a favourable cyclical environment for gold that could mitigate the extent of price declines.
- The **US dollar** is expensive which suggests potential for the greenback to decline over the medium-term. However, the potential for a global recession in 2024 could result in further upside for the dollar in the short term as investors flock to the relative safety of US assets. We believe these two-sided risks warrant a neutral stance.

Adventurous Portfolio

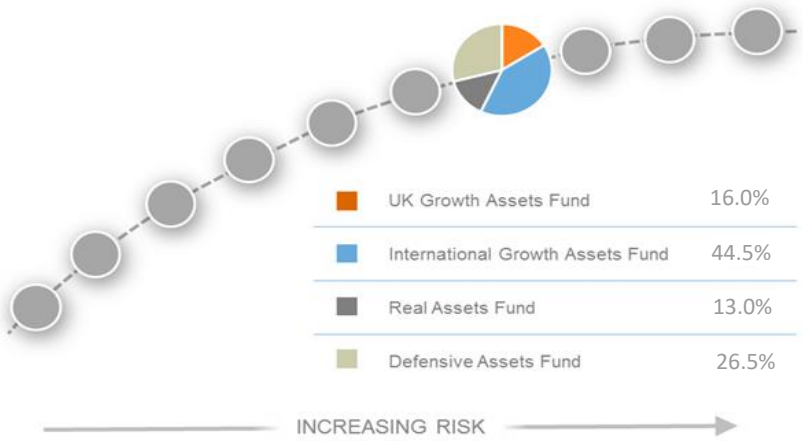
Russell Investments Client Portfolio Manager

Using a multi-asset approach, our Model Portfolios are globally diversified. Each one provides exposure to a mix of shares, bonds and alternative investments delivered by a variety of underlying money managers and investment styles.

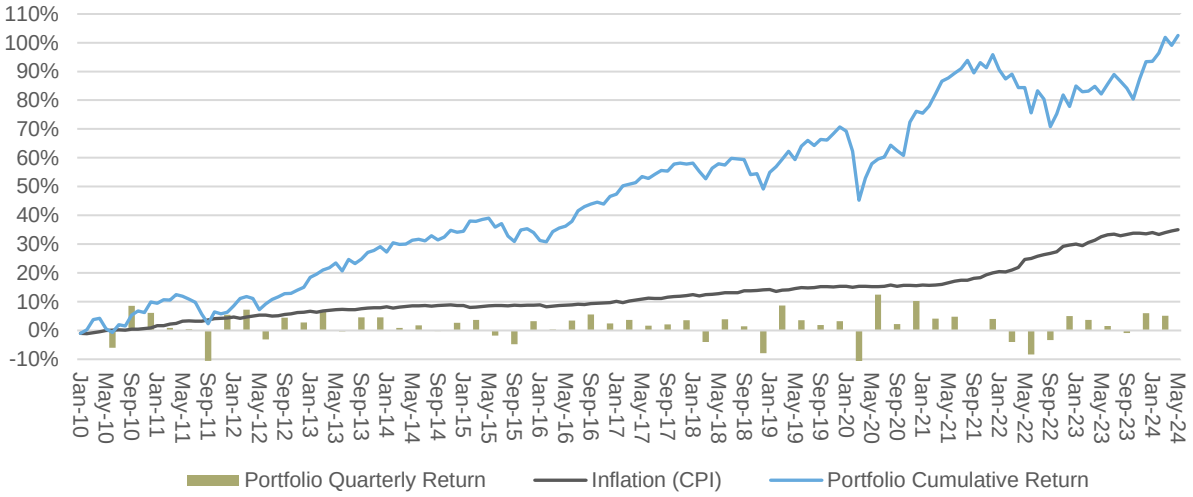
This careful blending emphasises return potential whilst attempting to manage risk and may help provide more consistent returns over the long term. This diversification means that your investment is working for you no matter what investment approach or style is in favour at any given time.

Designed to achieve greater returns by investing more heavily in growth-orientated assets and strategies, the Russell Investments Adventurous Portfolio is invested predominantly in global equities which comprise 57% of the total portfolio. Strategies seeking to keep pace with inflation also feature significantly. These types of strategies involve investing in assets that have a demonstrable link to inflation; commodities, property and infrastructure are all represented here and can help to defend the portfolio against inflationary pressures. 29% of the portfolio is allocated to defensive strategies and assets in order to lower overall portfolio volatility and provide a 'cushion' effect in the event of a falling market. This portfolio is better suited to investors with greater appetites for risk and longer investment time horizons.

The Adventurous Portfolio within our Model Portfolio Range



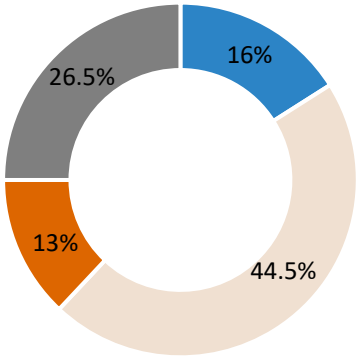
Inception to Date Cumulative Return



Source: Russell Investments, net returns in GBP from 01/02/2010 to 31/05/2024. Any past performance figures is not a guide to future performance.

Capacity for Loss

Adventurous Model Portfolio

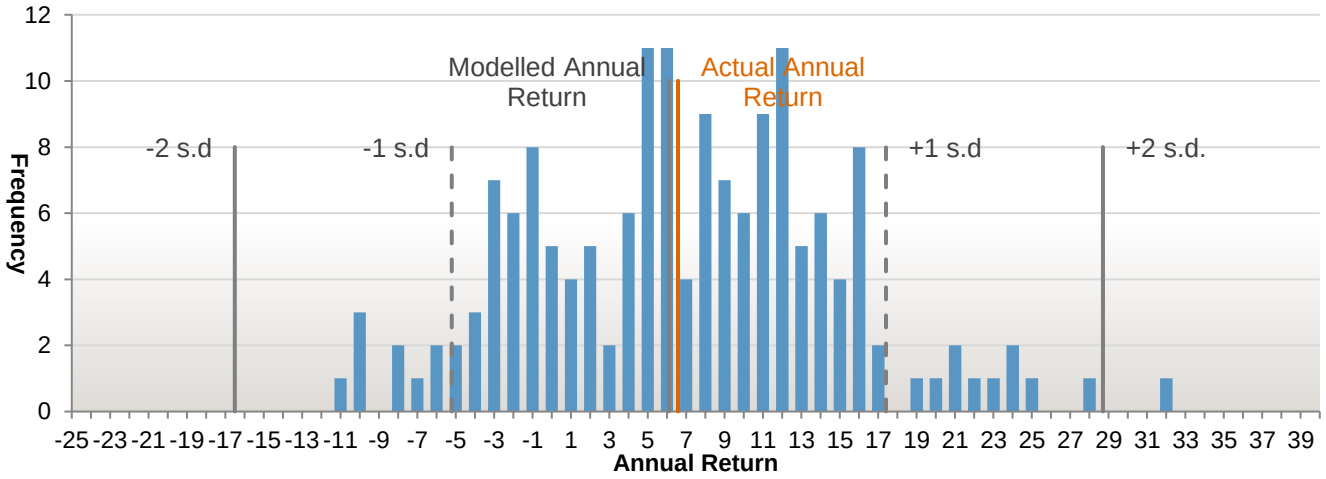


- UK Growth Assets
- International Growth Assets
- Real Assets
- Defensive Assets

Russell Risk Score	7 / 10	Projected Annual Return (%)	6.1
DT Risk Score	6 / 10	Since Inception Annual Return (%)	6.6
Max 12-month Return (%)	31.9	Projected Annual Volatility (%)	11.3
Min 12-month Return (%)	-11.7	Since Inception Annual Volatility (%)	9.2

Historic Returns

The number of times a portfolio has experienced a given return (horizontal axis) in any 12-month period since launch. Standard deviation is applied to the annual rate of return of an investment to measure the investment's volatility, it is a statistical measurement that illustrates historical volatility. For example, a volatile stock has a high standard deviation, while the deviation of a stable stock is lower. A large dispersion indicates how much the return on the fund is deviating from the expected normal returns.



Source: Russell Investments, net returns in GBP from 01/02/2010 to 31/05/2024. Any past performance figures is not a guide to future performance.

Model Portfolio Performance

Performance data as at 31 May 2024

This table shows the performance of all ten Russell Investments Model Portfolios for different periods.

Portfolio Name	Cumulative Performance (%)						PA (%)
	1 Month	3 Months	1 Year	3 Years	5 Years	10 Years	Since launch*
Secure	1.1	1.1	6.0	-4.5	4.2	14.0	1.9
Cautious	1.2	1.4	7.2	-2.4	8.7	22.2	2.6
Conservative	1.4	1.9	8.3	-0.2	13.2	31.2	3.5
Moderate	1.5	2.3	9.6	2.0	18.0	40.6	4.3
Balanced	1.7	2.8	11.0	4.7	24.0	52.0	5.1
Progressive	1.8	3.1	12.0	6.7	28.2	61.2	5.8
Adventurous	2.0	3.7	13.4	9.3	33.3	72.0	6.6
Growth	2.1	3.9	14.4	11.4	38.0	83.2	7.3
Aggressive	2.3	4.5	15.7	14.1	43.1	95.6	8.1
Aggressive Plus	2.5	4.8	16.8	16.2	47.8	106.7	8.7

Discrete Performance (%)										
31/05/24-31/05/23	31/05/23-31/05/22	31/05/22-31/05/21	31/05/21-31/05/20	31/05/20-31/05/19	31/05/19-31/05/18	31/05/18-31/05/17	31/05/17-31/05/16	31/05/16-31/05/15	31/05/15-31/05/14	31/05/14-31/05/13
6.0	-3.9	-6.3	6.4	2.5	2.5	-3.6	-2.7	-2.0	-1.3	-0.3
7.2	-3.5	-5.6	8.9	2.2	2.3	1.2	0.6	0.0	-1.1	-1.5
8.3	-3.2	-4.7	11.6	1.6	2.1	2.1	9.1	-1.8	3.8	2.1
9.6	-2.7	-4.3	14.3	1.2	1.9	2.9	10.8	-2.0	4.7	3.7
11.0	-2.2	-3.6	17.7	0.6	1.7	3.6	12.6	-2.2	5.6	4.9
12.0	-2.0	-2.7	20.1	0.0	1.4	4.4	14.4	-2.5	6.5	6.1
13.4	-1.6	-2.0	23.2	-1.1	1.1	5.2	16.2	-2.7	7.4	7.2
14.4	-1.4	-1.3	25.7	-1.5	0.9	6.0	18.1	-3.0	8.4	8.5
15.7	-1.1	-0.3	28.9	-2.7	0.7	6.8	20.0	-3.2	9.4	9.7
16.8	-0.7	0.2	31.5	-3.2	0.4	7.4	21.7	-3.3	10.2	10.7

Source: Russell Investments as at 31/05/2024 (% change, GBP). Performance figures for the Russell Investments Model Portfolios are calculated using the performance of the underlying FP Russell Investments ICVC funds (C class shares) during the same period. The performance of the Model Portfolios is calculated using the current portfolio weightings of each fund as shown in the brochure "Helping you achieve outcomes that matter" dated June 2017. The since launch date (31/01/2010) is the date that we launched the Russell Investments Model Portfolios. 3, 5 and 10 year figures are cumulative, since inception annualised. All performance quoted net of C share class fees. Performance figures are calculated assuming a quarterly rebalance. Any past performance figures are not necessarily a guide to future performance.

Model Portfolio Performance

Performance data as at 31 May 2024

This table shows the performance of some common asset classes for different periods.

Common indices	Cumulative Performance (%)						PA (%)
	1 Month	3 Months	1 Year	3 Years	5 Years	10 Years	Since launch*
Cash Bank of England	0.4	1.3	5.2	8.6	9.3	12.0	0.9
UK Gilts ICE BofA UK Gilts All Stocks	0.8	-0.5	2.9	-23.1	-20.3	3.7	1.9
Global Credit Bloomberg Global Agg Credit GBP	1.3	0.6	4.5	-8.5	-0.1	16.4	2.8
UK equities FTSE All Share	2.4	9.9	15.4	25.5	37.3	77.6	7.6
Global equities MSCI ACWI GBP Hedged	4.1	4.2	25.0	25.1	79.0	145.5	10.4
Emerging Markets MSCI Emerging Markets Index Net	-1.1	2.8	9.4	-7.9	17.9	71.4	5.0
Property FTSE EPRA/NAREIT Global Developed	1.7	-0.1	4.5	-3.1	-3.2	62.8	7.2

Discrete Performance (%)										
31/05/24-31/05/23	31/05/23-31/05/22	31/05/22-31/05/21	31/05/21-31/05/20	31/05/20-31/05/19	31/05/19-31/05/18	31/05/18-31/05/17	31/05/17-31/05/16	31/05/16-31/05/15	31/05/15-31/05/14	31/05/14-31/05/13
5.2	2.9	0.3	0.1	0.6	0.7	0.4	0.3	0.5	0.5	0.5
2.9	-15.7	-11.3	-7.5	12.1	4.2	0.5	6.8	5.6	10.2	0.5
4.5	-2.8	-9.9	3.3	5.7	5.2	-0.4	3.6	3.1	4.2	4.4
15.4	0.4	8.3	23.1	-11.2	-3.2	6.5	24.5	-6.3	7.5	8.9
25.0	1.9	-1.7	35.8	5.3	-0.4	9.4	16.6	-4.7	13.3	17.1
9.4	-6.9	-9.6	31.3	-2.5	-3.6	10.6	43.6	-13.6	9.9	-5.8
4.5	-14.0	7.8	18.2	-15.5	13.5	1.8	16.2	8.4	15.5	-1.4

Source: Russell Investments as at 31/05/2024 (% change, GBP). Performance figures for the Russell Investments Model Portfolios are calculated using the performance of the underlying FP Russell Investments ICVC funds (C class shares) during the same period. The performance of the Model Portfolios is calculated using the current portfolio weightings of each fund as shown in the brochure "Helping you achieve outcomes that matter" dated June 2017. The since launch date (31/01/2010) is the date that we launched the Russell Investments Model Portfolios. 3, 5 and 10 year figures are cumulative, since inception annualised. All performance quoted net of C share class fees. Performance figures are calculated assuming a quarterly rebalance. Any past performance figures are not necessarily a guide to future performance.

FOR MORE INFORMATION:

Call Russell Investments at +44(0)207 024 6601 or email ukadviser.support@russellinvestments.com

IMPORTANT INFORMATION:

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Any data on past performance, modeling or back-testing contained herein is no indication as to future performance. No representation is made as to the reasonableness of the assumptions made within or the accuracy or completeness of any modeling or back-testing.

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