

RUSSELL INVESTMENTS

# Investment Update

“Classic Plus” Balanced Portfolio  
May 2021

# Contents

---

## The cycle of market emotions

Over the lifetime of an investment you will experience a range of different emotions. Investment success over the long term depends on you working with your adviser to ensure this emotional journey does not lead to decisions that could derail your investment journey. This section illustrates that cycle in terms of historical periods.

## Market outlook

This section looks at the current economic environment and what factors are driving markets. We also describe how we have recently adapted our multi-asset portfolios to adapt to this environment.

## Model portfolio fact sheet

This section describes the model portfolio/s you are invested in, the makeup of the portfolio in terms of multi-manager investment funds, and the performance of the portfolio over time.

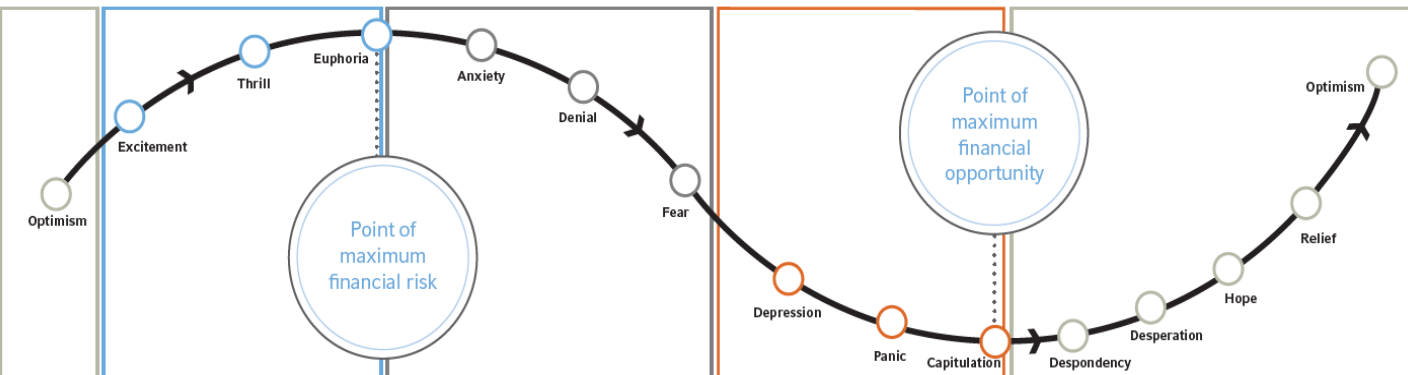
## Capacity for loss guide

We'd like you to have a clear picture of the returns you may experience in this investment, so this section illustrates the typical returns your investment portfolio may generate over the coming years as well as a transparent look at what performance the portfolio has delivered over 12-month periods, since inception.

## Model portfolio performance

A look at cumulative returns across the ten model portfolio range allows you to see the relationship between increasing risk and the resultant returns in rising markets (such as 2012) as well as more challenging times (such as 2011).

# The cycle of market emotions



	EXCITEMENT	THRILL	EUPHORIA	ANXIETY	DENIAL	FEAR	DEPRESSION	PANIC	CAPITULATION	DESPONDENCY	DESPERATION	HOPE	RELIEF	OPTIMISM
Market Cycle 1	30%	Nov 1971 – Dec 1972 <ul style="list-style-type: none"> <li>Inflationary pressures. Productivity improvements</li> <li>Rapid corporate earnings growth</li> <li>Introduction of paperless technology</li> </ul>		-15%	Jan 1973 – Jan 1974 <ul style="list-style-type: none"> <li>OPEC Oil crisis – crude oil prices tripled. Inflation</li> <li>Credit squeeze</li> <li>Property company failures</li> </ul>		-24%	Feb 1974 – Nov 1974 <ul style="list-style-type: none"> <li>Global recession</li> <li>Extended bear market</li> </ul>		39%	Dec 1974 – Jun 1975 <ul style="list-style-type: none"> <li>Stock market recovery despite recession</li> </ul>			
Market Cycle 2	136%	Aug 1984 – Aug 1987 <ul style="list-style-type: none"> <li>Credit boom</li> <li>Strong world economic growth</li> </ul>		-2%	Sep 1987 <ul style="list-style-type: none"> <li>Irrational shareholder sentiment</li> <li>Peak of overinflated stock values vs historical PEs</li> </ul>		-28%	Oct 1987 – Nov 1987 <ul style="list-style-type: none"> <li>1987 Global stock market crash</li> </ul>		64%	Dec 1987 – Dec 1989 <ul style="list-style-type: none"> <li>Stock market recovery as value hunters sought to buy quality stocks cheaply</li> </ul>			
Market Cycle 3	99%	Apr 1997 – Sep 2000 <ul style="list-style-type: none"> <li>Tech boom. Investor exuberance</li> <li>Emergence of 'new economy' sectors</li> </ul>		-28%	Oct 2000 – Sep 2001 <ul style="list-style-type: none"> <li>Tech bubble burst</li> <li>September 11 terrorist attack</li> </ul>		-22%	Mar 2002 – Feb 2003 <ul style="list-style-type: none"> <li>Reduced global economic growth forecasts</li> <li>Extended bear market</li> <li>Corporate accounting scandals</li> </ul>		52%	Mar 2003 – May 2005 <ul style="list-style-type: none"> <li>Geopolitical uncertainty</li> <li>Refocus on world economic fundamentals</li> <li>Boom in resources in response to industrialisation of China</li> </ul>			
Market Cycle 4	28%	Jun 2005 – Jul 2007 <ul style="list-style-type: none"> <li>UK house prices hit highs</li> <li>Credit boom</li> <li>Higher interest rates</li> </ul>		-17%	Aug 2007 – Sep 2008 <ul style="list-style-type: none"> <li>Credit crunch. Sub-prime mortgage crisis. Collateralised debt obligation (CDO) failures</li> <li>Lehman Brothers declares bankruptcy</li> </ul>		-37%	Oct 2008 – Feb 2009 <ul style="list-style-type: none"> <li>Global financial crisis</li> <li>European and U.S. recessions. Negative real GDP reported for major developed countries in Q4 2008</li> </ul>		225%	Mar 2009 – Dec 2015 <ul style="list-style-type: none"> <li>Global stock market recovery</li> <li>Deleveraging, slow economic growth</li> </ul>			
Market Cycle 5	+55%	Jan 2015 – Dec 2019 <ul style="list-style-type: none"> <li>Return to full employment in U.S.</li> <li>Optimism rises with U.S. tax cuts</li> <li>Trade war creates volatility in 2018</li> <li>2019 Fed rate cuts extend the cycle</li> </ul>		+5%	Jan 2020 <ul style="list-style-type: none"> <li>Reports of a virus outbreak in Wuhan, China</li> <li>Small number of cases reported in Europe and North America by the end of January 2020</li> </ul>		-35%	Feb 2020 – Mar 2020 <ul style="list-style-type: none"> <li>COVID-19 pandemic market crash</li> </ul>		+73%	Mar 2020 – Dec 2020 <ul style="list-style-type: none"> <li>Rebound despite lockdowns</li> <li>Tech surges on working from home shift</li> <li>Vaccine hopes</li> </ul>			

Latest month end data as at 31 December 2020. Illustration purposes only.  
 Market cycle returns calculated using Ibbotson U.S. Equity Total Return Index from 1971–1978 and Russell 3000® Index from 1979–2020.  
 Any past performance is not necessarily a guide to future performance. Indexes are unmanaged and cannot be invested in directly.

# Market Outlook

---

## Market Review – May 2021

- The MSCI World Net Index decreased 1.2% in May (sterling terms). The continued rollout of Covid-19 vaccines helped expand the opening of the global economy. In turn, this drastically increased pressure on immediate labour availability in areas such as the service industries. At the same time, with economic activity shifting up a gear and commodity prices rising on the back of ever-improving demand, higher inflation fears worried investors globally. Major central banks, such as the US Federal Reserve (Fed), stepped in to allay inflation concerns with dovish statements, which in turn weakened the US dollar over the month. In contrast, it was a strong month for sterling which weighed on select equity market returns.
- In the US, non-farm payrolls increased by 266,000 in April, missing estimates for a rise of 978,000. The latest unemployment rate also ticked higher to 6.1%, albeit with a notable increase in the participation rate (61.7%). Meanwhile second estimates for first quarter GDP growth confirmed a robust 6.4% QoQ expansion. Additionally, core inflation surged to 3.0% YoY, the largest annual increase since January 1996. The latest US Fed Open Market Committee meeting minutes revealed that some members discussed adjusting monthly asset purchases if the economy “continued to make rapid progress to the committee’s goals”. However, the Fed reassured markets that the higher readings were “transitory” and that the data was “entirely consistent” with their models. The benchmark 10-year US treasury yield edged four basis points (bps) lower for the month to 1.59%. In the UK, sterling continued to strengthen in a period where the phased reopening of the economy continued. The Bank of England (BoE) unanimously kept its current monetary policy held and advised that the UK economy will grow by the most since World War Two this year (7.25%). Nevertheless, the BoE would “not get carried away” and only slowly tighten its monetary policy in order to sustain the economic recovery. The central bank did cut its weekly bond purchases but warned this “should not be interpreted as a change in the stance of monetary policy”. This comes as reports indicated that public sector net borrowing remained high at £31.7 billion in April, the second highest April borrowing since monthly records began in 1993. This level of borrowing is attributed to continued furlough support and other measures to stimulate the economy. The benchmark 10-year UK gilt decreased four bps (0.80%). European equities performed well. The European Commission upgraded its 2021 growth forecasts for the eurozone to 4.3% and to 4.4% for 2022. This is on the back of rising vaccination rates and the prospect of further easing of lockdowns across the region. The European Central Bank explained in its biannual financial stability review that whilst there is optimism over repair in financial and economic conditions, any omission in reducing the pandemic debt burden could create significant financial stability risks in the future. Towards the latter stages of the month, political volatility heightened as the European Union (EU) implemented new sanctions on Belarus in reaction to the country’s diversion of a Ryanair flight in order to arrest activist Roman Protasevich. The benchmark 10-year German bund yield increased by a single basis point to -0.19%.
- In Japan, the government extended states of emergency until at least June 20th in attempts to control the spread of coronavirus. Emerging Markets also edged lower in sterling terms. In China, the People’s Bank of China kept its rates unchanged at 3.85% (1 Year) and 4.65% (5 Year). Meanwhile, the World Health Organisation approved the emergency use of China’s Sinopharm vaccine. This will not only boost the Chinese healthcare sector, but also serve as a potential vaccine-toolkit relief for countries such as India and Brazil, which are struggling with a surge in new coronavirus cases. Brazil continued to rebound from a weak first quarter. The real strengthened as the central bank raised its interest rate by 75 basis points as expected (to 3.5%) and signalled future rate rises to combat inflation. However, investors were disappointed that leaders appeared to water down sweeping tax reforms.

# Market Outlook

---

## Strategist's Outlook

### Equities: Preference for non-U.S. equities

- We prefer non-US equities to US equities. The post-vaccine economic recovery should favour undervalued cyclical value stocks over expensive technology and growth stocks. Relative to the US, the rest of the world is overweight cyclical value stocks. We like the value in emerging markets (EM) equities. China's early exit from the lockdown and stimulus measures will likely benefit EM more broadly, as should the recovery in global demand and a weaker US dollar.

### Fixed income: Bonds universally expensive

- Government bonds are still expensive even after the recent selloff. Low inflation and dovish central banks should limit the rise in bond yields during the recovery. High yield and investment grade credit are slightly expensive on a spread basis but have an attractive post-vaccine cycle outlook. Bank loans and US dollar-denominated emerging markets debt, in our view, offer the best opportunities.

### Currencies: U.S. dollar should weaken during recovery

- The US dollar has been supported this year by the US stimulus and expectations for early Fed tightening. The dollar should weaken later in the year as investors unwind Fed tightening expectations. It should also weaken as the global economic recovery gets underway, given the dollar typically gains during global downturns and declines in the recovery phase. The main beneficiary is likely to be the euro, which is still undervalued. We also believe British sterling and the economically sensitive commodity currencies - the Australian dollar, New Zealand dollar and Canadian dollar - can still make further gains, although these currencies are no longer undervalued from a longer-term perspective.

# Balanced Portfolio

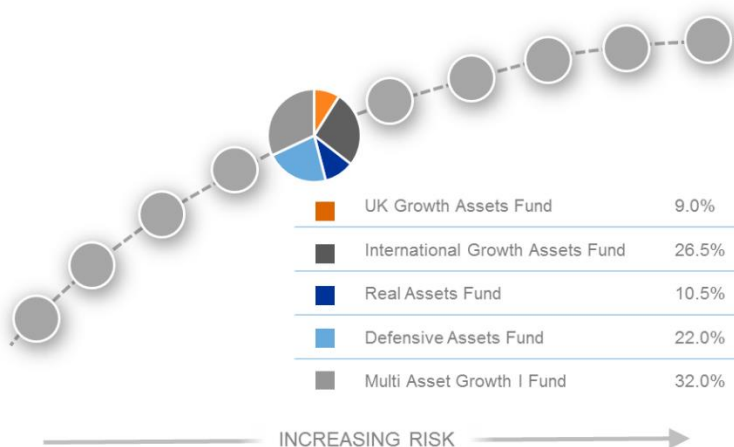
## Russell Investments Client Portfolio Manager

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.

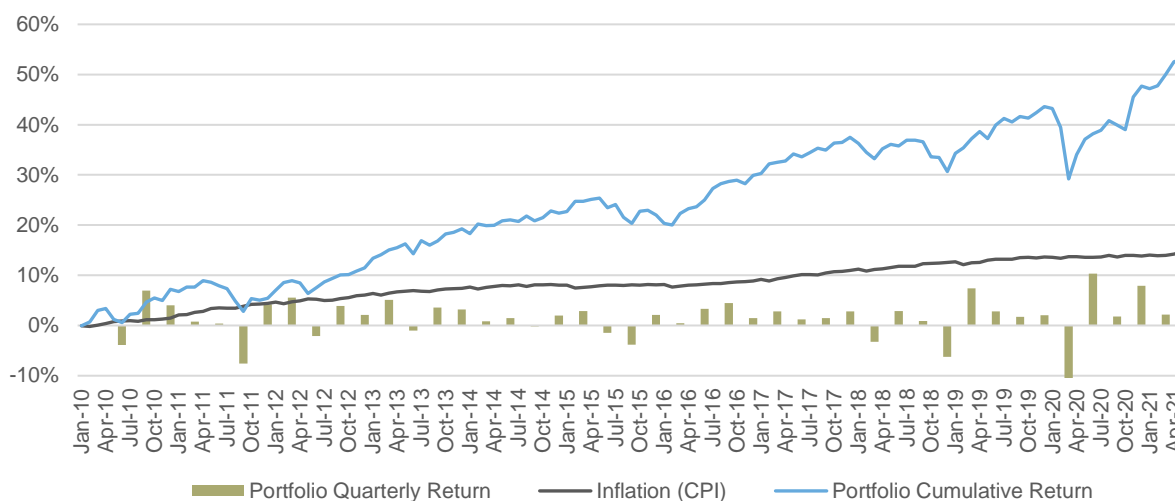
This careful blending emphasises return potential whilst attempting to manage risk and may help provide more consistent returns over the long term. This diversification means that your investment is working for you no matter what investment approach or style is in favour at any given time.

Russell Investments Balanced Portfolio aims to provide a balance between capital preservation and opportunities for growth by splitting allocation between defensive and more growth-orientated strategies. The greatest of these more aggressive allocations is to UK and global equities (41%), followed by investments in assets that traditionally exhibit a link to inflation. These include commodities, property and infrastructure; all of which can help to defend against inflationary pressures on a portfolio.

### The Balanced Portfolio within our Model Portfolio Range



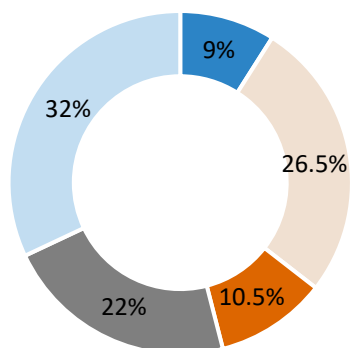
### Inception to Date Cumulative Return



Source: Russell Investments, net returns in GBP from 01/02/2010 to 31/05/2021. Any past performance figures is not a guide to future performance.

# Capacity for Loss

## Balanced Model Portfolio

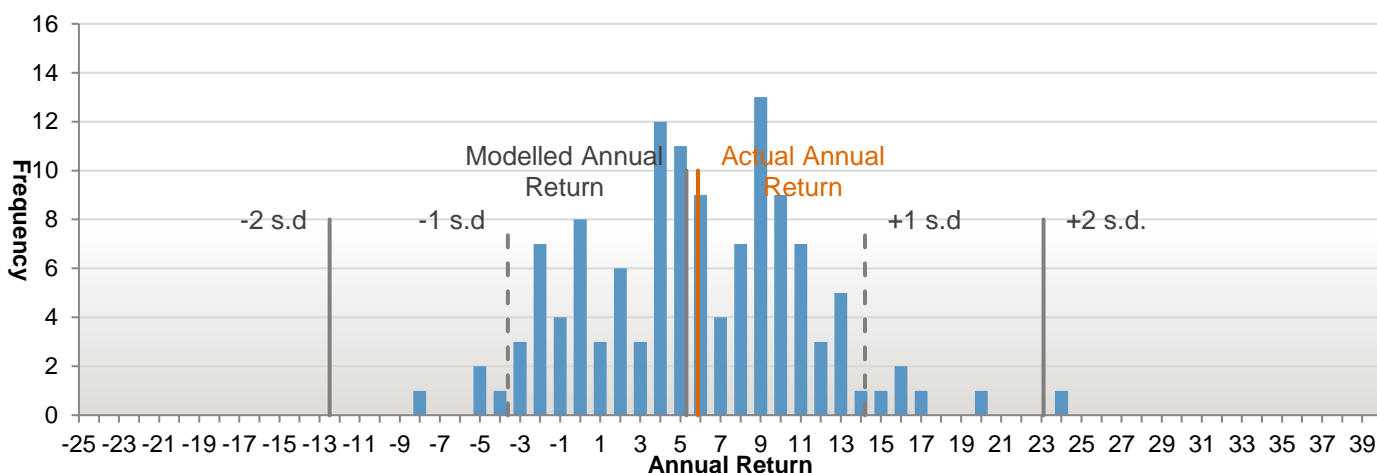


- UK Growth Assets
- International Growth Assets
- Real Assets
- Defensive Assets
- Multi Asset Growth I

Russell Risk Score	5 / 10	Projected Annual Return (%)	5.3
DT Risk Score	5 / 10	Since Inception Annual Return (%)	5.9
Max 12-month Return (%)	23.7	Projected Annual Volatility (%)	8.9
Min 12-month Return (%)	-8.4	Since Inception Annual Volatility (%)	7.0

## 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 31/05/2021. Any past performance figures is not a guide to future performance.

# Model Portfolio Performance

## Performance data as at 31 May 2021

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

Portfolio Name	Cumulative Performance (%)						PA (%)	Discrete Performance (%)				
	1 Month	3 Months	1 Year	3 Years	5 Years	Since launch*		31/03/21-31/03/20	31/03/20-31/03/19	31/03/19-31/03/18	31/03/18-31/03/17	31/03/17-31/03/16
Secure	0.3	1.9	5.8	11.1	18.6	2.8	10.1	-2.2	2.6	0.9	6.3	
Cautious	0.3	2.7	8.4	12.7	23.0	3.5	13.3	-3.8	3.1	1.1	7.8	
Conservative	0.4	3.5	11.3	14.5	28.1	4.3	17.0	-5.5	3.6	1.4	9.5	
Moderate	0.4	4.3	14.2	16.2	33.1	5.1	20.6	-7.2	4.0	1.7	11.3	
Balanced	0.5	5.0	16.7	17.9	37.9	5.9	23.7	-8.4	4.4	2.1	12.7	
Progressive	0.5	5.7	19.4	19.7	43.2	6.6	27.2	-9.8	4.8	2.5	14.3	
Adventurous	0.6	6.4	22.3	21.6	48.8	7.4	30.8	-11.1	5.3	3.0	15.9	
Growth	0.7	7.1	25.3	23.7	55.1	8.2	34.7	-12.4	5.7	3.5	17.6	
Aggressive	0.8	7.8	28.4	25.7	61.4	9.0	38.6	-13.7	6.1	4.1	19.3	
Aggressive Plus	0.9	8.6	31.1	27.1	66.1	9.7	41.9	-15.1	6.6	4.4	20.8	

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

Common indices	Cumulative Performance (%)						PA (%)	Discrete Performance (%)				
	1 Month	3 Months	1 Year	3 Years	5 Years	Since launch*		31/03/21-31/03/20	31/03/20-31/03/19	31/03/19-31/03/18	31/03/18-31/03/17	31/03/17-31/03/16
Cash												
Bank of England Base	0.0	0.0	0.1	1.4	2.1	0.5	0.1	0.7	0.7	0.4	0.3	
UK Gilts												
ICE BofAML UK Gilts All Stocks	0.4	1.0	-7.5	8.0	15.9	4.8	-5.6	10.0	3.7	0.5	6.6	
UK equities												
FTSE All Share	1.1	9.6	23.1	5.9	40.5	7.5	26.7	-18.5	6.4	1.2	22.0	
Global equities												
MSCI World Net GBP Hedged	1.0	9.6	35.8	42.5	81.8	11.1	49.4	-11.2	5.4	8.8	16.6	
Property												
FTSE EPRA/NAREIT Global Developed	-0.9	9.6	18.2	13.5	34.2	9.5	21.0	-20.1	21.9	-8.0	16.0	
Commodities												
Bloomberg Commodity	0.1	7.1	27.2	-0.5	17.9	-1.3	21.4	-18.4	2.0	-7.6	25.0	

Source: Russell Investments as at 31/05/2021 (% 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 and 5 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](mailto:ukadviser.support@russellinvestments.com)

**IMPORTANT INFORMATION:**

For financial advisers to use with their clients.

Unless otherwise specified, Russell Investments is the source of all data. All information contained in this material is current at the time of issue and, to the best of our knowledge, accurate. Any opinion expressed is that of Russell Investments, is not a statement of fact, is subject to change and does not constitute investment advice.

Your clients must consult the prospectus and Key Investor Information Document (KIID) before deciding whether to invest.

Please note that the value of investment and the income derived from them may go down as well as up and an investor may not receive back the amount originally invested.

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.

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 Russell Investments in order to manage the funds in an efficient manner.

FP Russell Investments ICVC (the "Company") is an investment company with variable capital incorporated in England and Wales under registered number IC000708 and authorised by the Financial Conduct Authority with effect from 22 October 2008. FundRock Partners Limited (formerly Fund Partners Limited) is the Authorised Corporate Director (the "ACD") of the FP Russell Investments ICVC and is authorised and regulated by the FCA. Registered office: 52-54 Gracechurch Street, London EC3V 0EH

Russell Investments Limited has been appointed as the investment manager and distributor in respect of the Company. Applications for shares in the Company are subject to the terms and conditions set out in the Prospectus, Key Investor Information Document (KIID), Supplementary Information Document (SID), instrument of incorporation and latest annual and half-yearly long reports of the Company. Investors and potential investors must read the KIID and are also advised to read the remaining documents (and in particular the risk warnings) before making an investment in the Company. Copies are available free of charge on request from the ACD and Russell Investments Limited.

This document is issued by Russell Investments Limited, a company incorporated in England and Wales under registered number 02086230 and with its registered office at: Rex House, 10 Regent Street, London SW1Y 4PE. Telephone 44 (0)20 7024 6000. Authorised and regulated by the Financial Conduct Authority, 12 Endeavour Square, London E20 1JN.

PRI-00594-21-01-2022