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## Russell Investments China Equity Fund

*The most comprehensive way to  
capture opportunities in China*



## Fund objective

The Fund aims to achieve long term capital appreciation by investing in the shares of companies located in China. Investments include shares listed in the Chinese domestic market (A-shares) as well as offshore (including H-shares). Employing a multi-strategy investment approach, the Fund is broadly diversified across sectors, investment styles and individual stocks.

The Fund is actively managed with reference to the MSCI China All Shares Index (USD) - Net Returns (the "Index"). The Fund's performance will be measured against the Index which it seeks to outperform by 3% over the medium to long term. We use a disciplined investment process to design, construct and manage the

Fund. It is designed based on our strategic beliefs for this asset class, derived from our experience and research. The Fund combines third party, specialist managers with factor strategies and overlays. The exposures are managed dynamically, leveraging local insights, to manage risk and capture opportunities in the market.

## Why Chinese equities?

China currently ranks as the second largest economy in the world (according to nominal GDP), as Chinese companies enjoy higher fundamental growth rates relative to most global markets. Importantly, MSCI announced the partial inclusion of China's domestic equity market in their Emerging Market index. The inclusion of A-shares should enhance returns and the diversification profile of emerging market portfolios. We believe that investors can benefit from a local presence to exploit the range of regulatory, social and economic factors that influence the Chinese market.

Given global investors' relatively limited knowledge of onshore Chinese companies, employing specialist managers to provide exposure can be an effective investment strategy. However, global investors often underestimate the challenge of selecting best-in-class local asset management firms. These managers often have little experience with foreign institutional clients, and less defined investment processes.

Russell Investments has had an established onshore investment presence since 2011, providing on the ground market knowledge and a proven track record of researching and identifying the best local asset managers. This capability is unique among global investment managers, enabling us to select and combine complementary strategies in the most efficient way to exploit the breadth of opportunity on offer.

## Fund facts



Senior Portfolio Manager  
Kathrine Husvaeg

<b>Fund Objective:</b>	Long term growth
<b>Share class; dealing currency:</b>	Multiple share classes available; base currency class USD
<b>Dealing frequency; Cut off:</b>	Daily; 2.00pm GMT cut-off
<b>Domicile; Category:</b>	Ireland; UCITS
<b>ISIN; Bloomberg code:</b>	Class A; USD; IE00BF5LKK26; RIC2EQA ID
<b>Fund launch date:</b>	24 July 2012

# Russell Investments China Equity Fund

The Fund offers a simple solution to the many challenges facing investors wanting to gain exposure to Chinese equities. However, it is not simply enough to hire good managers. You also need to combine them effectively and manage the mix actively through time. Dynamic management helps smooth the performance ride. Successful investors must consider the nuanced environment in China, where the trade-off between risk and reward are not as apparent. We approach the task from first principles as described below.

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## WELL-FOUNDED STRATEGIC BELIEFS

There are certain factor exposures which over the course of a market cycle will deliver higher returns than the broad market. In Chinese equity markets, the efficacy of various factors differs across the opportunity set but generally quality and growth have tended to have a long term pay-off.



## BEST-IN-CLASS MANAGERS

An open-architecture approach is employed and uses best-in-class investment manager strategies from China focused teams. This provides investors access to a truly unconstrained breadth of niche specialist managers.



## FACTOR STRATEGIES

We incorporate customised factor exposures directly managed and adjusted by Russell Investments. This allows our portfolio managers to express our strategic and dynamic insights in an active manner at total portfolio level.



## DYNAMIC MANAGEMENT TO EXPLOIT MARKET INEFFICIENCIES

We leverage the insights both of Russell Investments' team of strategists and those of the managers that we employ, together with external research sources and our own tactical factor views, in order to take advantage of market opportunities. Understanding and exploiting the unique behavioural bias of China's domestic investors is key input to this part of the process.



## TIMELY AND EFFECTIVE IMPLEMENTATION

Russell Investments' Implementation Services team employs sophisticated techniques to transition between managers and strategies, minimise trading costs and manage liquidity in order to ensure that our investment insights are captured efficiently.



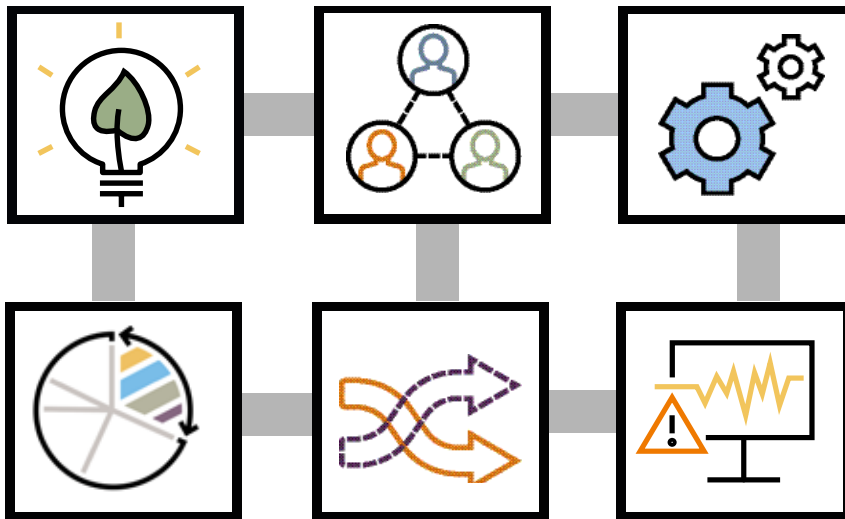
## MANAGEMENT OF TOTAL PORTFOLIO RISK

Bespoke tools allow us to understand, evaluate and manage exposures within the Fund, ensuring the Fund is aligned with our preferred positioning. Full transparency at underlying manager level allows Russell Investments to control the total Fund's positioning at all times, making sure there are no unintended positions.

## Product profile

The Fund is much more than a selection of managers. Rather, it represents a total outsourced solution to Chinese equity management. It integrates our capital markets insights, risk management capabilities and implementation skills.

This is combined with our dynamic management of investment strategies; the monitoring, hiring and firing of third-party managers as well as the access to our proprietary factor portfolios.



- Strategic beliefs
- Best-in-class managers
- Smart beta factor strategies
- Dynamic management
- Effective implementation
- Management of total portfolio risk

## Combining the strategies

Since its inception, the Fund has employed specialist managers, selected for their highly-differentiated insight in to this unique market and for their ability to deliver excess returns. Russell Investments' thorough onshore research and selection of multiple, diverse managers creates portfolios with superior sector,

factor, security selection and style diversification. As at the 31 December 2019, the Fund held three managers (the weights shown are strategic weights for this Fund) and an overlay strategy designed to manage total fund risk and provide defensive exposure.

INVESTMENT STRATEGY	INVESTMENT FOCUS	MANDATE	TARGET WEIGHT
Quality	All China	<b>Manager A</b> <i>Pan China manager investing in quality companies trading at reasonable valuations</i>	35%
Growth	Onshore China	<b>Manager B</b> <i>Mid and small cap biased, growth focused China A-share manager</i>	30%
Small size	Offshore China	<b>Manager C</b> <i>Pragmatic China H-share manager seeking to identify mispriced opportunities</i>	20%
Large cap	All China	<b>Russell Investments</b> <i>Positioning strategy providing defensive, large cap value exposure across Pan China</i>	15%
<b>Total exposure</b>			<b>100</b>

Russell Investments may trade a portion of the Fund's assets based on a model portfolio provided by the investment adviser. 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.

**Targets figures do not take into account any fees or charges on investment returns.**

## Key benefits

**China expertise and focus:** Selects a team of specialist managers and customised strategies to work for you.

**Access to experts:** Uses a best-in-class approach to identify the leading specialist thirdparty managers in each style segment that has been tested over multiple decades. Through our intensive research process the best specialists are identified and we gain valuable insights into the success of different Chinese market equity strategies. Russell Investments' on the ground experience and relationships allow us to identify and select niche specialist capabilities and customise strategies to complement the portfolio.

**Nimble:** Real-time management and powerful analytics help manage risk exposures, make for greater agility in a constantly changing environment, and create flexibility to respond to what's evolving in the marketplace.

**Targeted exposures:** Invests in customised segregated mandates identified through our research and understanding of the investment universe, rather than relying on off-the-shelf products, thereby taking full advantage of

each strategy's key strengths and retaining full control of the Fund's overall positioning.

**Integrated:** We employ a straightforward but powerful process-driven market strategy based on business cycle, market valuation and investor sentiment factors (Cycle, Value and Sentiment or CVS), together with a consistent and disciplined methodology to design, construct and manage portfolios (DCM). Our CVS and DCM approaches link the work of our portfolio management, research and strategy teams, providing them with a common language and analytical framework. This allows our teams to combine top-down and bottom-up research, to generate more penetrating insights and to maintain constant market awareness.

**Governance:** The Fund's performance includes extensive set-up of fund infrastructure and the cost of all manager and strategy changes. We take away the need for beauty parades, allowing investors to focus on more critical governance aspects. In addition, Russell Investments' Manager Oversight Team undertakes comprehensive, on-site due diligence reviews for all managers, thereby reducing operational risks.

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*Russell Investments integrates manager research, tactical asset allocation and factor exposures, capital markets insights and portfolio implementation to deliver an integrated and dynamic process, on a truly global basis.*

## Why Russell Investments?

### **30 years of manager research expertise:**

We provide access to evidence-based manager research, open-architecture selection and rigorous oversight to facilitate an objective approach to constructing an investors' solution.

### **Unique asset allocation and factor exposure capabilities:**

When designing a solution, investors benefit from our practical experience in building and guiding portfolios for some of the world's most demanding investors. We work to ensure that each portfolio adapts to evolving situations, has built-in risk management and is based on a reasonable cost structure.

### **Leading capital markets insights:**

The capital markets team continually evolve our asset allocation modelling and structure principles, to construct portfolios that better fit investors' return objectives and risk tolerance.

### **Award-winning portfolio implementation:**

Investors can generate more from their investments by minimising transaction and operating costs. We deliver award-winning, conflict free trading and exposure management. With over 120 specialists we cover all of the major capital market time zones. Our access to liquidity across all asset classes is adept at evolving with the changing market environment.

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*For more information:*

Call Russell Investments on +44 (0)20 7024 6000 or visit [russellinvestments.com](http://russellinvestments.com)

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## **IMPORTANT INFORMATION**

### **For Professional Clients Only**

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.

The value of investments and the income from them can fall as well as rise and is not guaranteed. You may not get back the amount originally invested. Any forecast, projection or target is indicative only and not guaranteed in any way.

Potential investors in emerging markets should be aware that investment in these markets can involve a higher degree of risk.

Please remember that all investments do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns.

The value of the Fund's assets may be affected by uncertainties such as international political developments, changes in government policies and other developments in laws and regulations. Furthermore, the legal infrastructure, accounting, auditing and reporting standards may not provide the degree of investor protection or transparency associated with investment in major securities markets.

The base currency of the Fund is denominated in USD, while its investments and any income it derives from such investments are denominated primarily in RMB. RMB is not a freely convertible currency and is subject to exchange controls and restrictions. As a result, investments in the Fund are exposed to foreign exchange transaction costs and fluctuations between USD and RMB. There can be no assurance that the RMB will not be subject to devaluation or revaluation.

The Fund intends to invest in China A-Shares through the RQFII quota of the Manager or via the Shenzhen-Hong Kong Stock Connect and Shanghai-Hong Kong Stock Connect ("Stock Connect") and may be subject to specific risks, including but not limited to, custodial risk, settlement risk, regulatory risk and risks associated with the Manager's RQFII status. In addition, both RQFII and Stock Connect are relatively new and there may be uncertainty in implementation and such policy and rules are subject to change. All these may adversely impact the Fund.

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