Russell Investments Multi-Asset Growth Strategy (GBP)

Commentary for the First Quarter 2021

Brian Meath, Thomas McDonald, Co-Portfolio Managers
Alexander Prowse, Manager, Investment Communications

Performance

Performance to period end Returns shown in GBP	QTD	YTD	1 year	2 years	3 years	4 years	5 years
Return gross of management fee Class A Roll Up	0.8	0.8	20.7	7.4	5.6	5.1	6.5
Return net of management fee Class A Roll Up	0.6	0.6	19.8	6.5	4.7	4.3	5.6
SONIA + 4.5%	1.1	1.1	4.6	5.5	5.9	6.4	6.6

Source: Russell Investments. Data as at March 31st, 2021. Past performance is not a guide to future performance. All returns greater than 1 year are annualized. The benchmark is SONIA +4.5%. Prior to 1 January 2020 the benchmark was RPI +4%.

The Fund recorded a positive return. The main contributors were:

- The Fund's exposure to global equities drove performance. This included positive alpha from active management.
- Exposure to high yield credit was positive in a period where spreads tightened further.
- Convertible bonds continued to add to performance.

Key detractors included:

- The Fund's defensive, diversifying asset classes weighed on returns this quarter.
- Sterling strengthened against the Japanese yen which did not suit the Fund's unhedged currency exposure.
- The allocation to US and Australian government bonds detracted as bond yields rose on increased inflation expectations.
- Gold also sold off this quarter, which did not suit the Fund's small exposure.

Market observations

Global equity markets recovered from a negative start to enjoy a positive quarter whereas global bonds sold-off. Sustained government and central bank support, alongside improved global growth prospects, engendered increased inflation expectations. Consequently, government bond curves steepened and yields climbed sharply higher. Stocks most closely tied to the economy, namely value and small capitalisation equities, largely outperformed their growth and large cap peers, respectively.

In the US, President Joe Biden's Democratic Party secured control of Congress and launched a $1.9 trillion fiscal stimulus plan. The Federal Reserve upgraded its economic forecasts but continued to predict record-low interest rates until at least the end of 2023. The benchmark 10-year US Treasury yield increased 83 basis points (bps) to 1.74%, ending the quarter at its highest yield since January 2020. In the UK, the Bank of England pushed back on negative interest rates and projected GDP would strongly recover in 2021 towards pre-Covid-19 levels. This came as the government revealed a "roadmap" out of the national lockdown and the coronavirus vaccine programme continued. This environment pushed the benchmark 10-year gilt yield up 65 basis points to 0.85%. The successful rollout of coronavirus vaccines in the US and UK was a contrast to other areas of the world, including the eurozone. The European Central Bank kept interest rates unchanged but pledged to increase the rate of bond purchases to tackle the rise in eurozone bond yields and support the euro area economic recovery. This boosted demand for peripheral European debt. Investors also indicated confidence in new Italian Prime Minister Mario Draghi. The benchmark German 10-year bund yield increased 28 bps to -0.29%.

Credit:

Global investment-grade credit spreads tightened by six bps to 88 over the quarter, helped by G7 finance ministers' commitment to maintaining accommodative fiscal support.

Currencies:

Sterling was among the best-performing currencies this quarter. The British pound rallied on the back of several reasons, namely positive post-Brexit alignment, a lead in the Covid-19 vaccine rollout, the unlikelihood of negative interest rates and broadly better economic growth forecasts.

More broadly, the US dollar strengthened over the quarter, weighing on a basket of currencies. The Taiwan dollar and Canadian dollar were among the best performing currencies against the greenback. The weakest currencies against US dollar were the Turkish lira, Argentinean peso and Brazilian real. In Turkey, circa 36 hours after raising interest rates in order to prop up the lira, Naci Agbal was dismissed as central bank governor after just four months in power. President Recep Erdogan's unexpected move sent the Turkish lira tumbling.

Source: Confluence, Bloomberg as at March 31st, 2021. GBP terms.

Portfolio positioning and changes

Ahead of the early-period sell-off, we purchased equity protection on the S&P 500 via put options. This position provides protection for 5% of the Fund against US equity market volatility until mid-July. This was partially financed by selling a S&P 500 put option with a lower strike price. We also took advantage of the increase in bond yields to increase the Fund's exposure to US 30-year Treasuries by 1%.

Following the US Senate runoff election victory for the Democrats in Georgia, we increased the Fund's exposure to Emerging Markets, reallocating from global equities. We anticipate Democrat control of US Congress under President Biden will benefit Emerging Markets through a potential de-escalation of the trade war with China.

At the beginning of March, after a dip in equity prices, we increased the Fund's exposure to global equities by 1%, reallocating from high yield credit. This area of the market has significantly rallied since March 2020 with spreads tightening considerably and has limited further upside going forward.

Overall, we have an optimistic view on a recovering economic cycle, supported by ongoing fiscal stimulus, a sustained reopening of economies and zero interest rates. However, we believe the market is potentially vulnerable to downside shocks due to persisting high equity valuations. For this reason, the portfolio continues to hold an elevated level of government bonds and defensive currency exposure relative to history, to serve as a counterweight during potential periods of market distress.

For more information

Call Russell Investments on **+44 (0)20 7024 6000** or visit **russellinvestments.com**

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