

# Russell Investments – live webinar series

June 2020

## Building better portfolios – insights and advice

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**The webinar will begin shortly**



# Andrew Pease and Erik Ristuben:

## Longer-term implication of COVID-19

### Five themes

#### 1. Low interest rates for longer

- > Central banks will be cautious, lots of spare capacity = low inflation

#### 2. Less globalisation

- > Supply chains unwound, food security, medical supply security

#### 3. More government debt & more government

- > Government support of industry, rising inequality, higher taxes

#### 4. Higher inflation, eventually

- > Globalisation was disinflationary, its reversal will be inflationary

#### 5. Pressure on profit margins

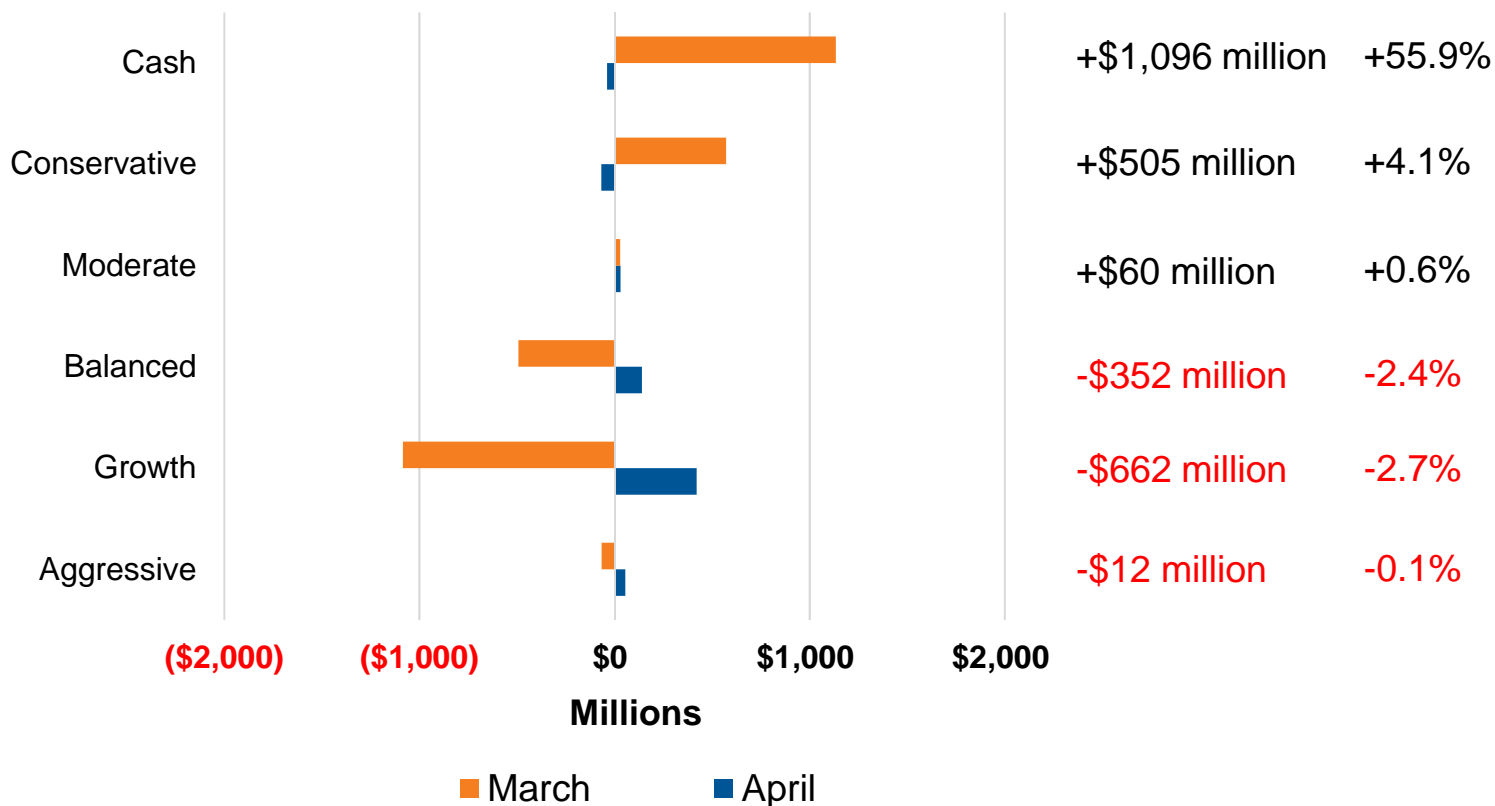
- > Slower trend growth, just-in-case replaces just-in-time, higher taxes

*Investment implications: Developed over emerging, domestic rather than global*

# Behavioural challenges

## Asset flows driven by behavioural bias

March and April monthly flows in KiwiSaver (\$ millions)



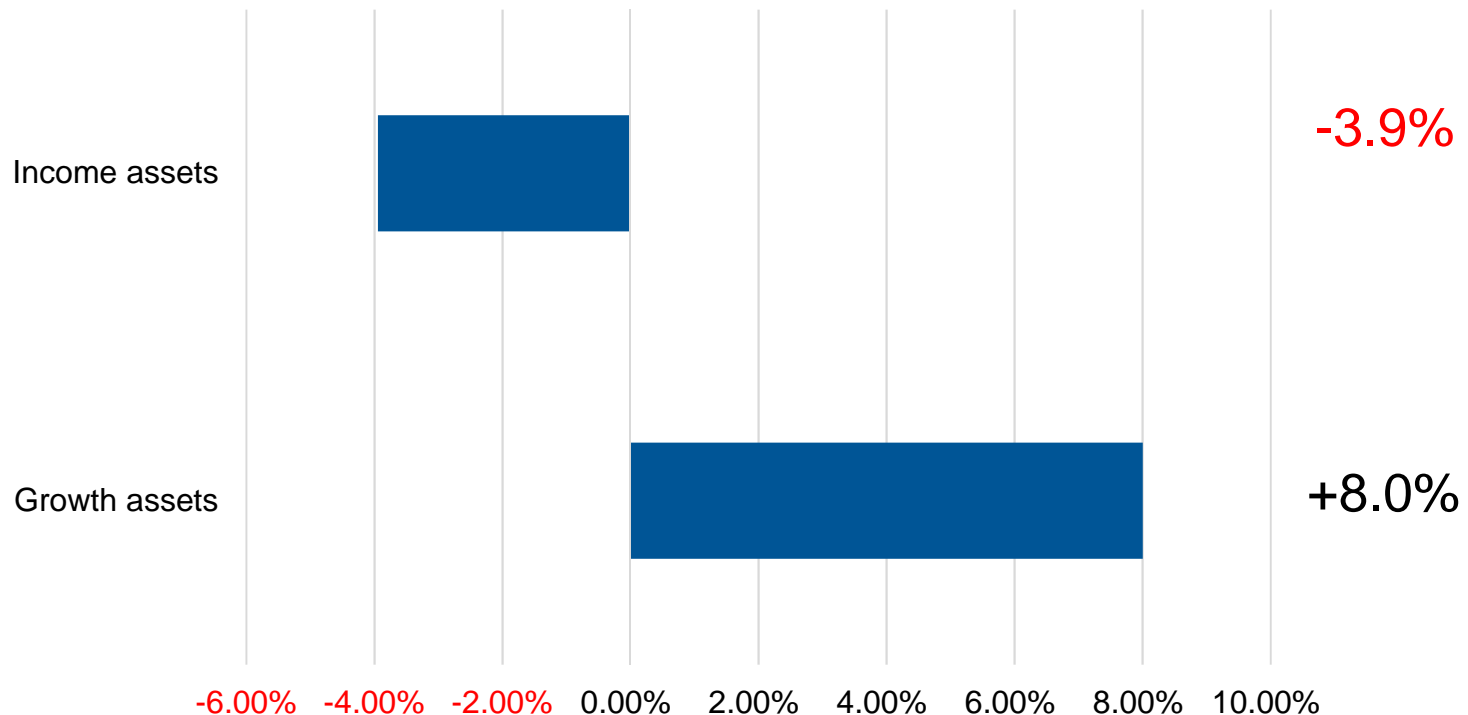
Source: Morningstar Direct

Percentages are calculated using the asset flow of the month as a proportion of the beginning of the month AUM.

# The power of a disciplined process

## Sticking to the plan

End of March rebalancing of a select institutional client.

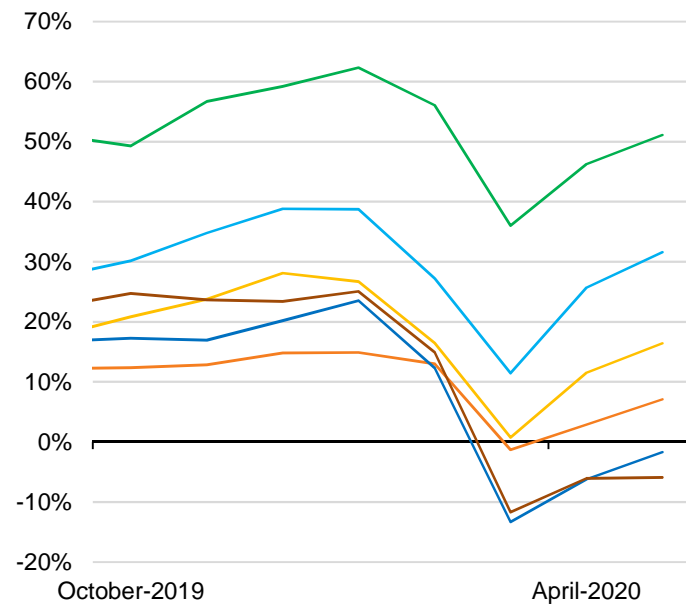
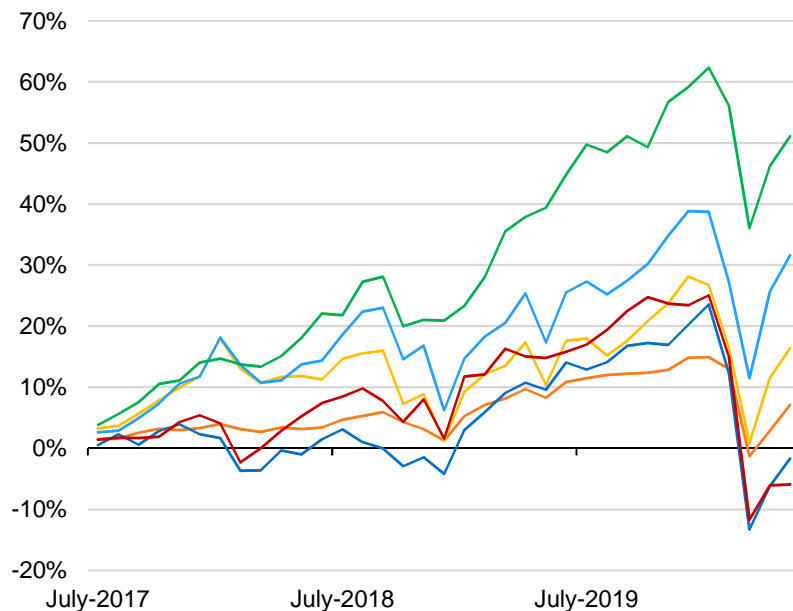


Source: Russell Investments.

Percentages are calculated using the asset flow of the rebalancing amount as a proportion of the beginning AUM.

# Market movement

## Asset class returns 2017– 2020



Global High Yield (ICE BofA Dv Mkts HY Constnd TR HNZD)

US Equities (S&P 500 NR USD)

Global Infrastructure (S&P Global Infrastructure Hdg NR NZD)

Global Equities (MSCI ACWI NR USD)

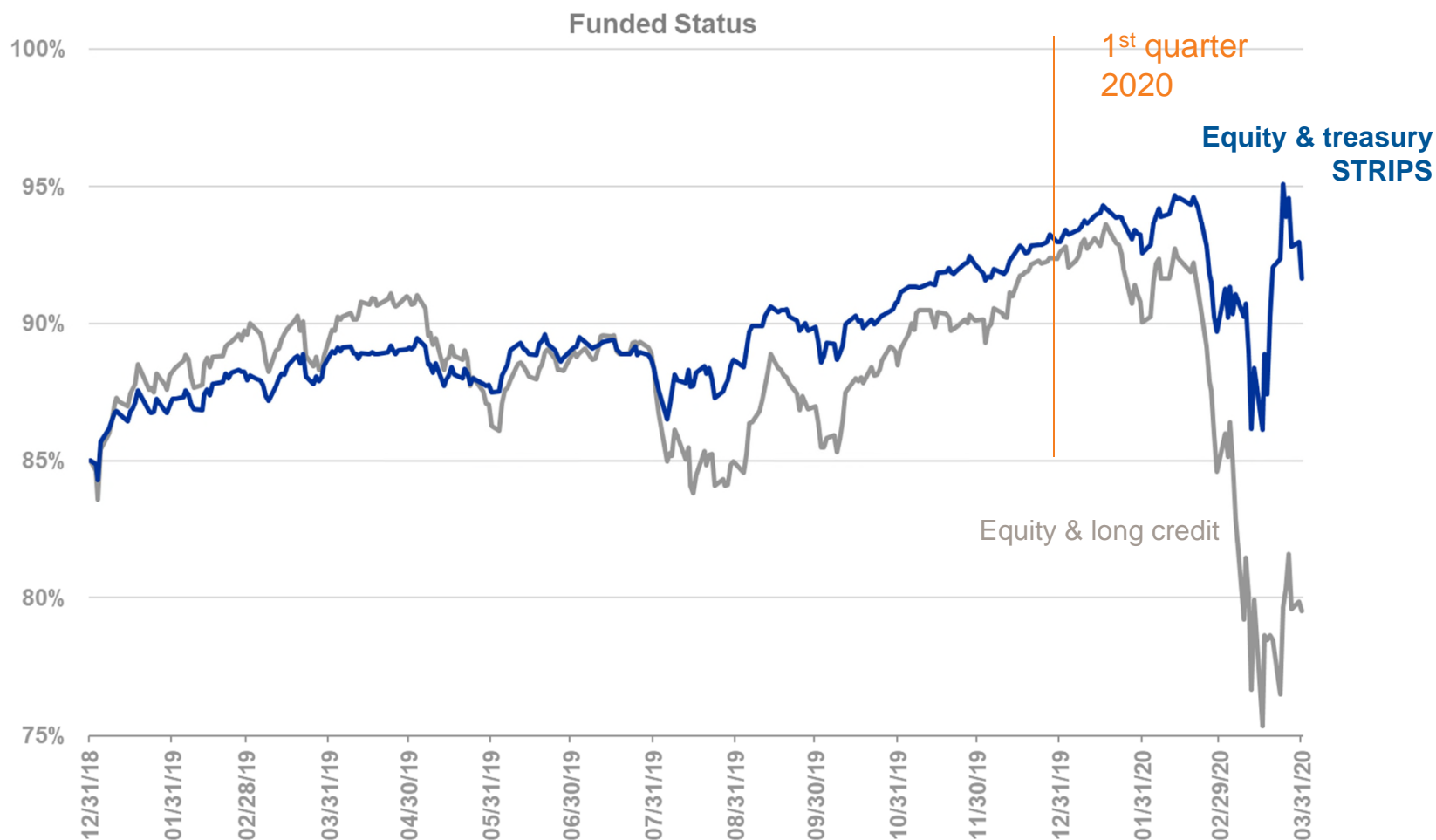
NZ Equities (S&P/NZX 50 with Imputation TR NZD)

Global Real Estate (FTSE EPRA NAREIT Developed NR HNZD)

Source: Morningstar Direct

# For whom the bell tolls?

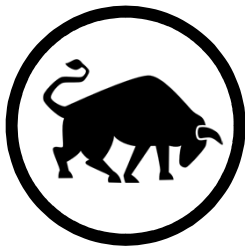
Funded status for 60% equity/40% fixed income portfolios



Representative US DB funded status (12 year liability duration). Assumes 85% funded status as at December 31, 2018. Equity represented by MSCI All Country World Index. Fixed income represented by Bloomberg Barclays U.S. Treasury STRIPS (25+ Years) Index, and U.S. Long Credit Index.

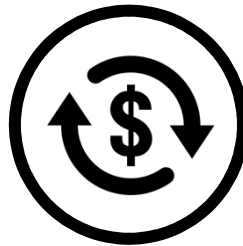
# Andrew Pease and Erik Ristuben:

## Scenarios



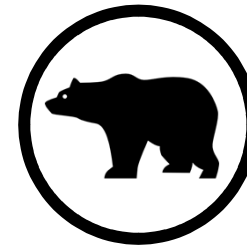
### **Bull (30%)**

Strong recovery as containment and policy backstops succeed in Q2. Sharp fundamental recovery in H2. Virus stays under control as lockdowns are eased.



### **Neutral (50%)**

Slow recovery. Corporate stress, consumer caution and job weakness create a sluggish recovery. Virus outbreaks delay full removal of lockdown measures.



### **Bear (20%)**

Containment measures continue into Q3 as virus persists or returns as lockdowns are eased. Full-blown credit crisis. Record corporate debt creates a GFC-like event.

Source: Russell Investments, for illustrative purposes only.

# Governance

Return seeking and risk management

	Purpose	Survive	Thrive
Vision	Achieve desired outcome with acceptable “cost”	Eliminate “fatal” tail risk	Draw from a distribution skewed in your favour
How	Diversified exposure to risks we expect to be paid for	Appropriate AA for your time horizon	Scale complexity of portfolio with resources
Who	Sponsoring entity (e.g. Company / Trust)	Trustee’s highest priority	Investment staff and strategic partners

# Vic Leverett:

## Alternative capital at record levels: Why? Where is it going?

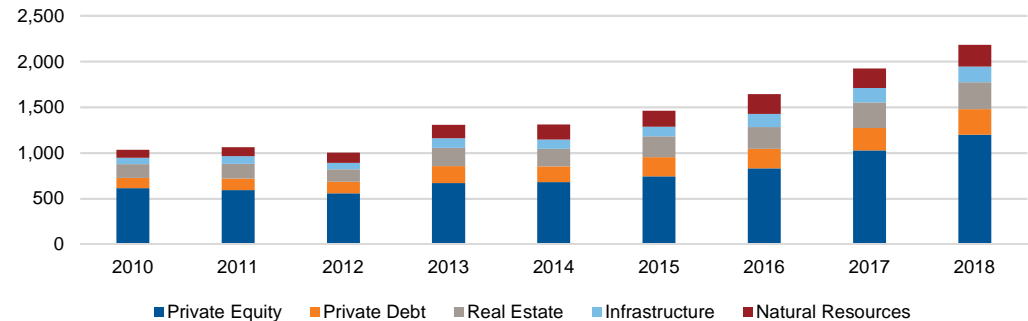
### WHY?

Strong fundraising  
Slowing investment  
activity

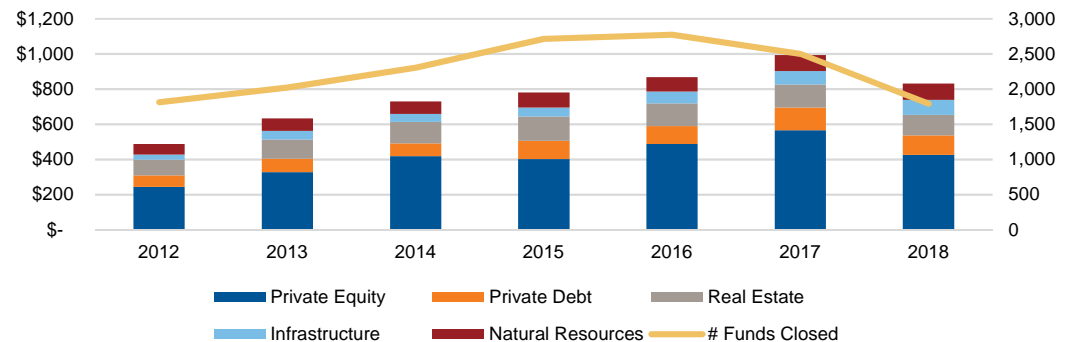
### WHERE?

Flows dominated by  
buyouts

Private Markets Dry Powder



Private Markets Fundraising



Source: Preqin as at 12/31/2018. For illustrative purposes only.

# Private markets

## Return requirements and market dynamics

### Return requirements

- Lower interest rates
- Tighter credit spreads
- Higher equity valuations

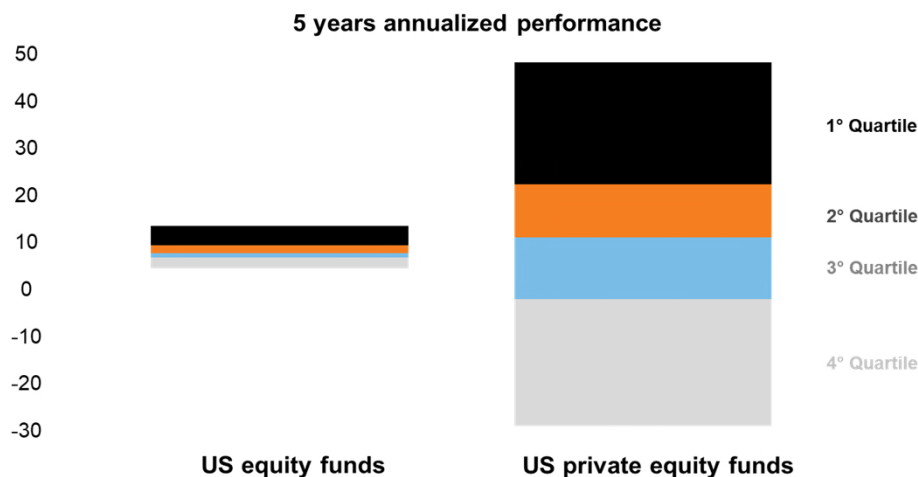


### Market dynamics

- Public listings shrinking
- Companies staying private longer
- Broader opportunity set



**Significant demand for private markets...**



**... but simply “allocating” to private markets is not sufficient**

Source: Russell Investments, McKinsey, Morningstar, Burgiss from 31/12/2013 to 31/12/2018. For illustrative purposes only.

# Leola Ross: Active/passive or something else?

## Portfolio construction implications

### What to do in the short term?

- >Manage expectations
- >Avoid unintended exposures
- >Set timelines and criteria

### What to do in the longer-term?

- >Review and test beliefs
  - Size?
  - Factor?
  - Multi-country?
- >Consider costs of
  - changing
  - choices

### What about other assets?

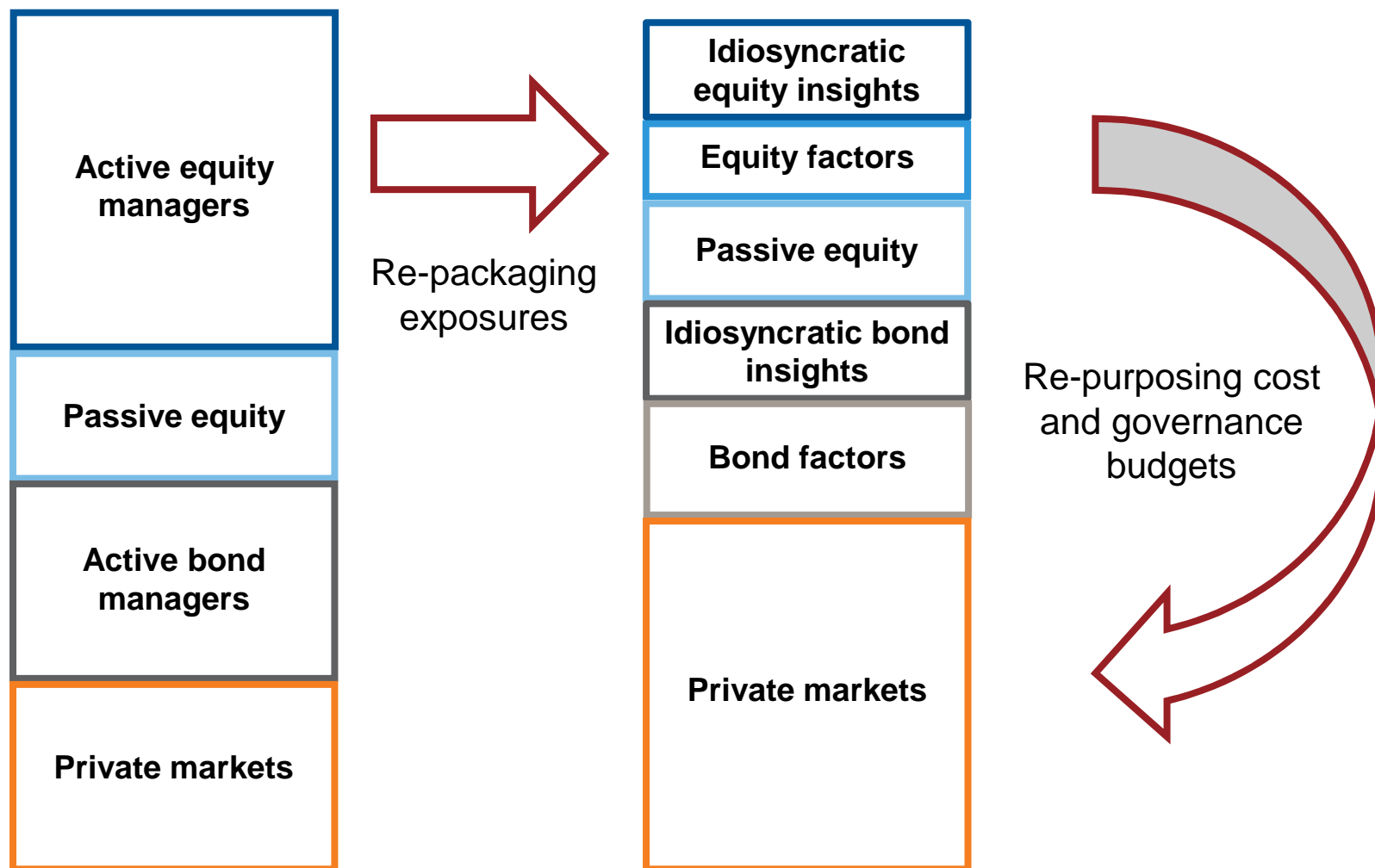
- >FI also struggled
  - Beta is not free
- >Alternatives
  - Real assets performed well
  - Private assets to boost returns
  - Hedge funds to limit downside

### What is Russell Investments doing?

- >Why it happened
  - Manager luck?
  - Market factors?
- >What's next
  - New numbers?
  - Tilt timing?

# Looking ahead

## Indications of the future of asset management



# Thank you.

Any questions?

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