

# 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

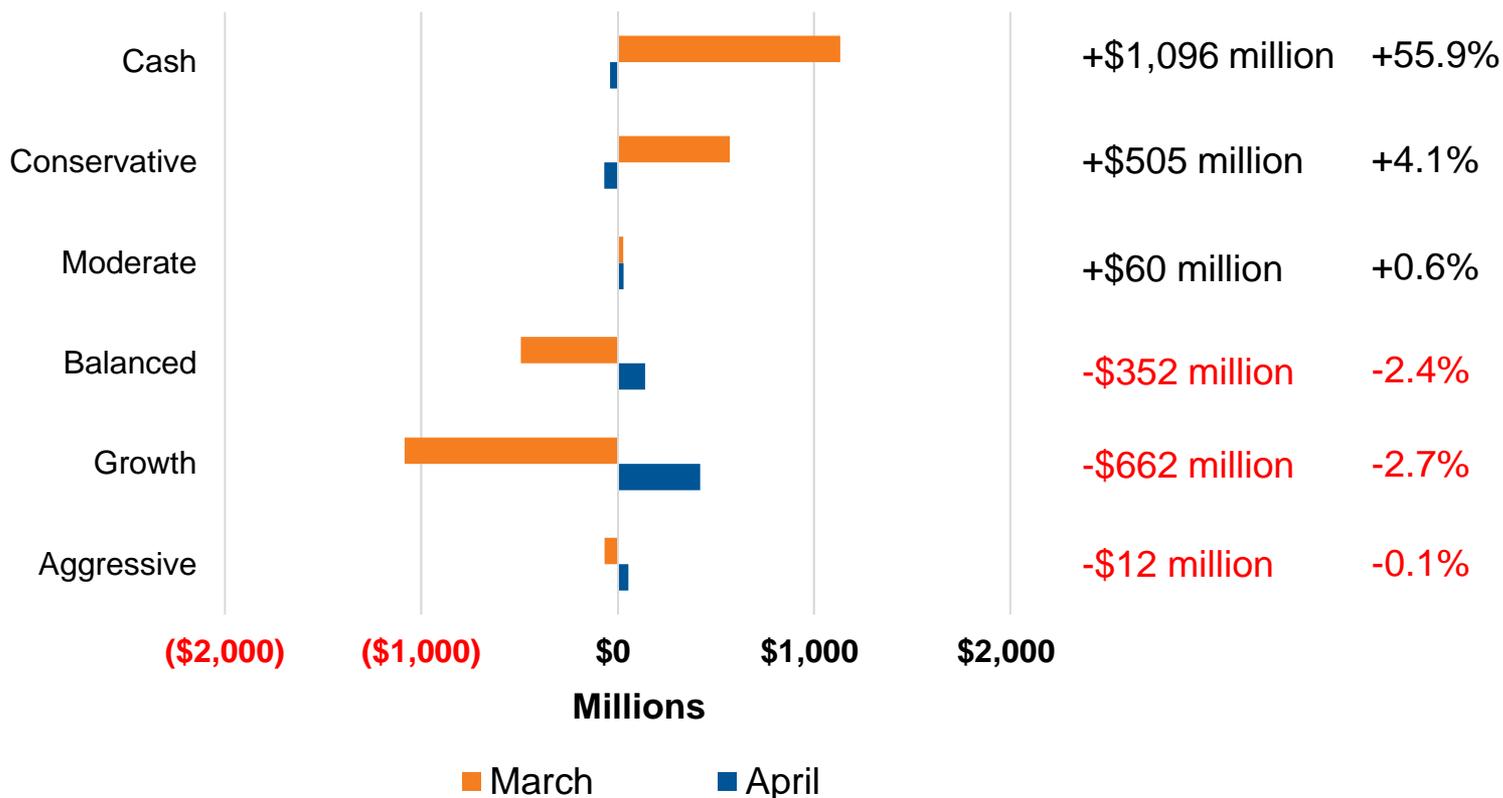
> Slower trend growth, just-in-case replaces just-in-time, higher taxes

*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)



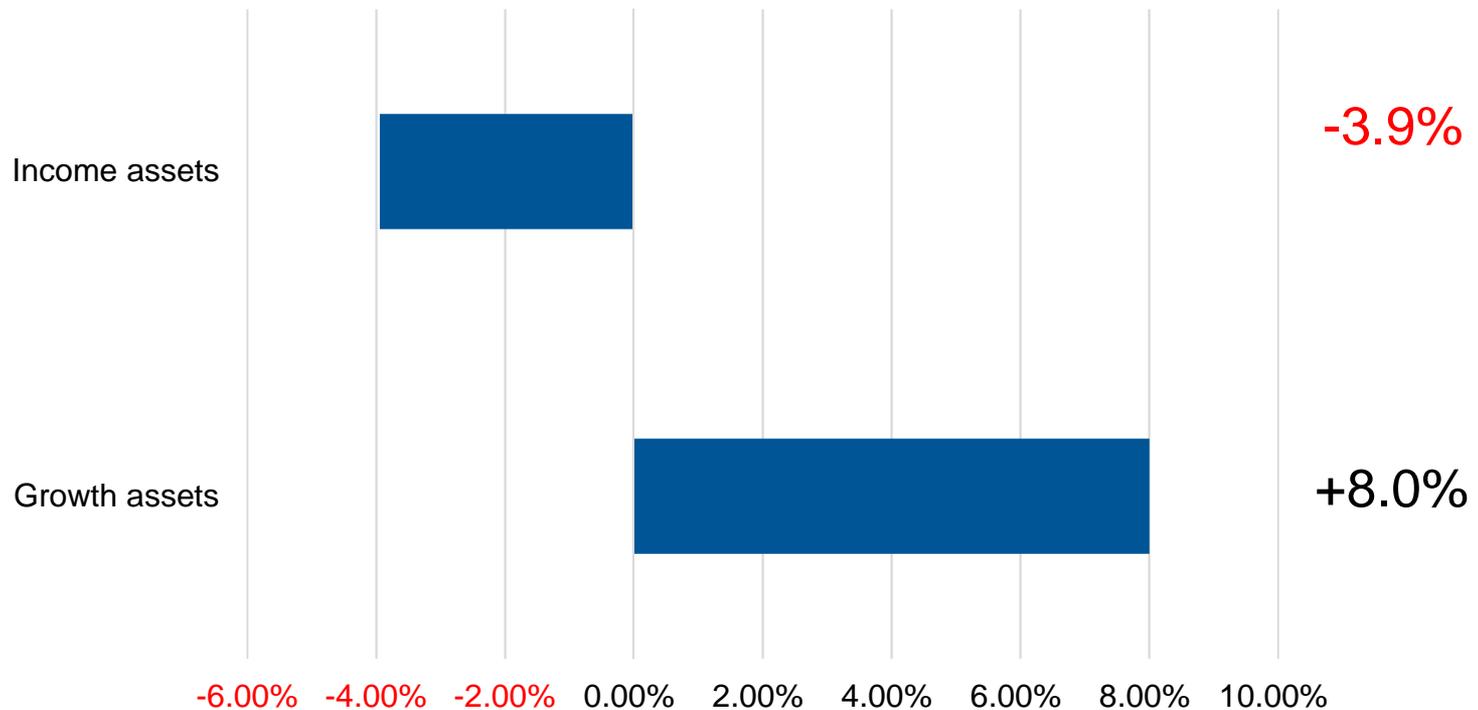
Source: Morningstar Direct

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.

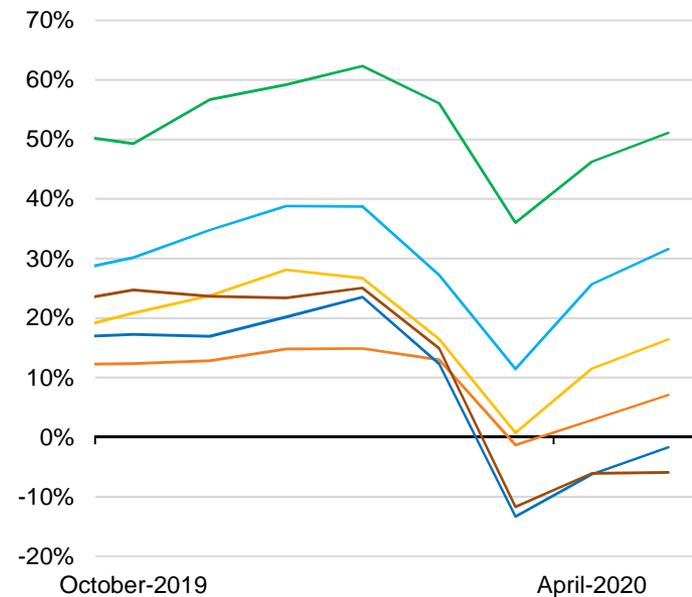
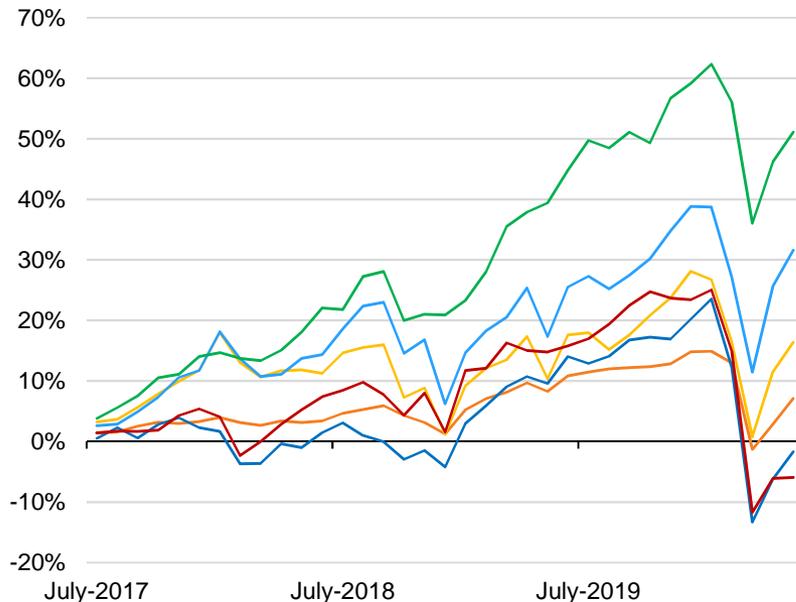


Source: Russell Investments.

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)

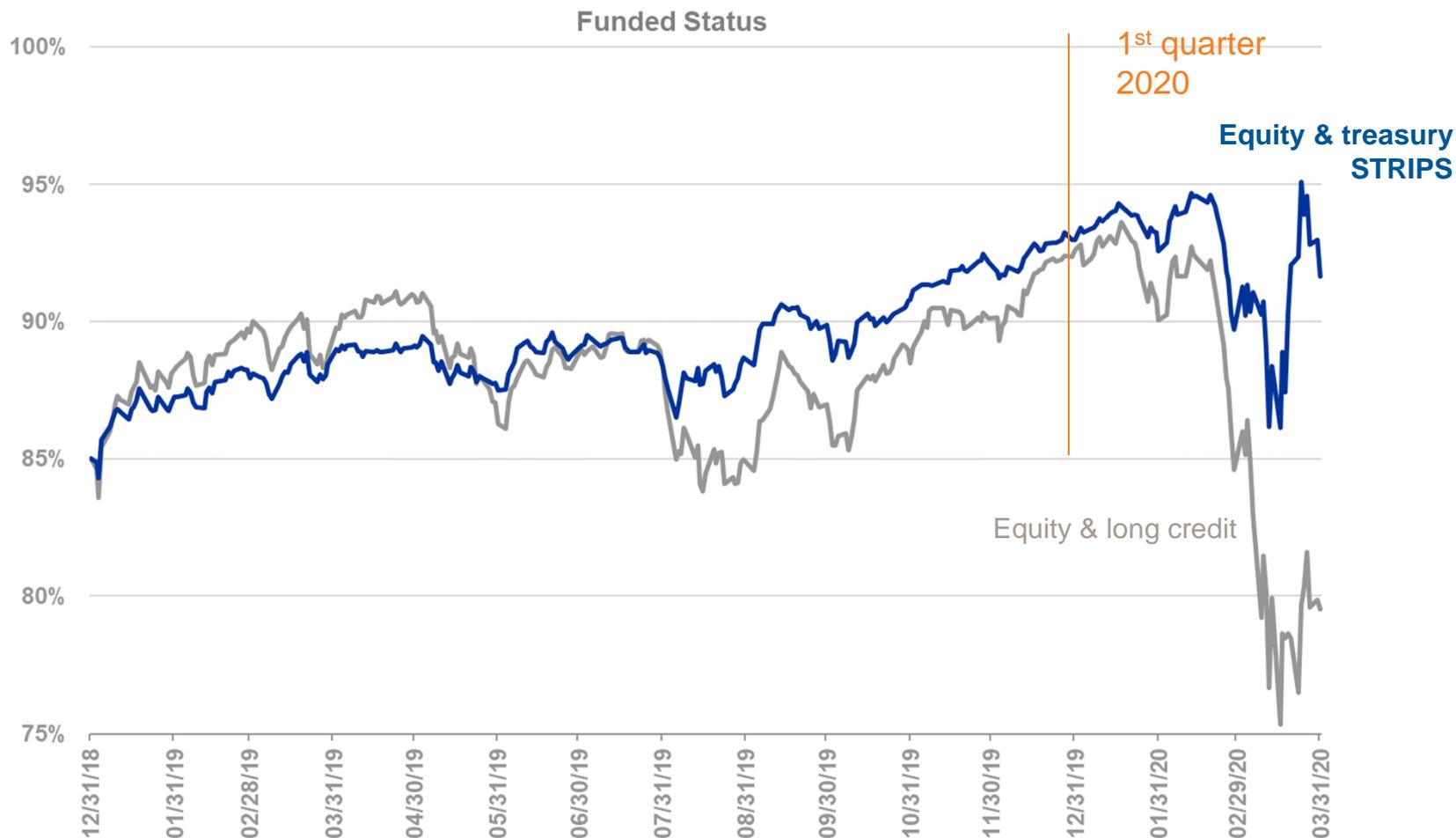
NZ Equities (S&P/NZX 50 with Imputation TR NZD)

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%)**

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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%)**

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



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

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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

	<b>Purpose</b>	<b>Survive</b>	<b>Thrive</b>
<b>Vision</b>	Achieve desired outcome with acceptable “cost”	Eliminate “fatal” tail risk	Draw from a distribution skewed in your favour
<b>How</b>	Diversified exposure to risks we expect to be paid for	Appropriate AA for your time horizon	Scale complexity of portfolio with resources
<b>Who</b>	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?

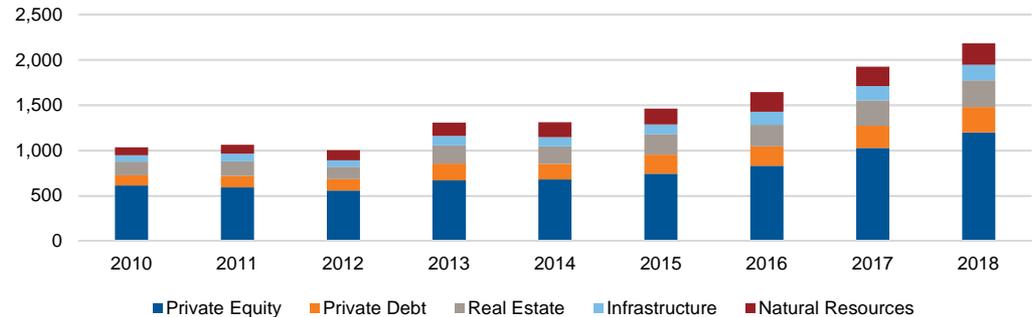
### WHY?

Strong fundraising  
Slowing investment  
activity

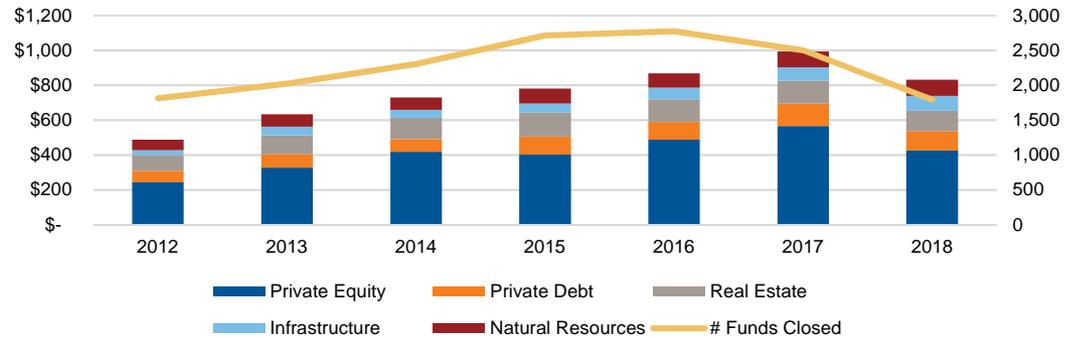
### WHERE?

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



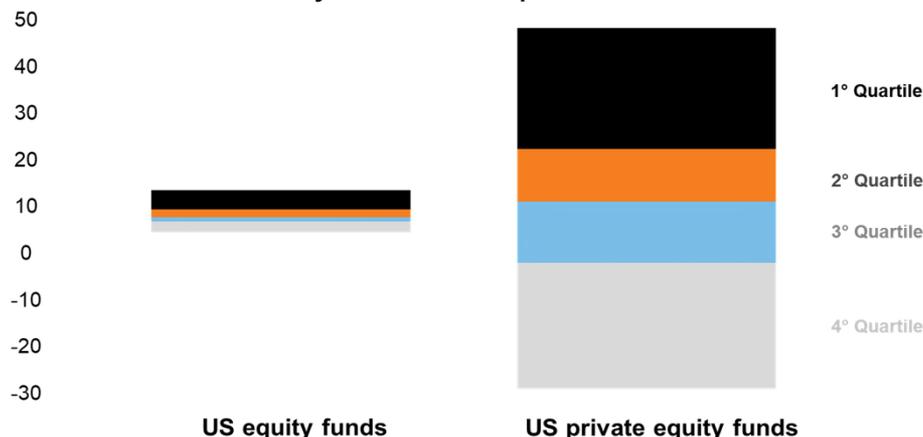
### Market dynamics

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



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

5 years annualized performance



**... 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?

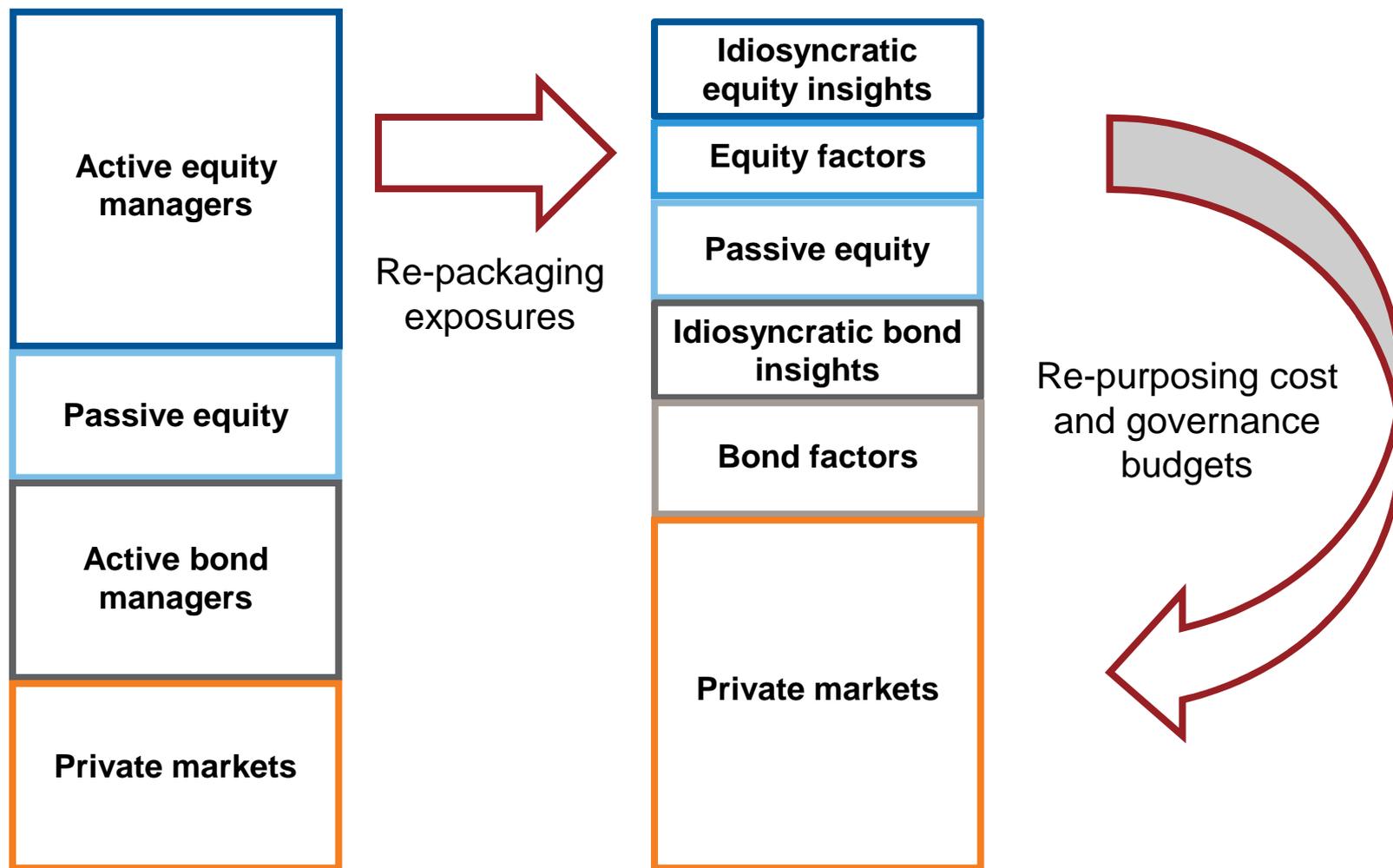
- > FI also struggled
  - Beta is not free
- > Alternatives
  - Real assets performed well
  - Private assets to boost returns
  - Hedge funds to limit downside

### 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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