

SUMMIT 2019



Lessons from the global financial crisis



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Agenda

- > Global financial crisis
- > Impact of the crisis
- > Lessons to be learned
 - > Be prepared
 - > Be patient
 - > Be disciplined
- > Questions

Flashback

Global financial crisis



Flashback

Global financial crisis

Dow slide deepens as shadow of bear market hovers over battered stock market

Adam Shell, USA TODAY Published 6:01 a.m. ET Dec. 21, 2018 | Updated 10:33 a.m. ET Dec. 22, 2018

A Stock Market Crash Is Coming – and This Chart Shows Why

By David Zeiler, Associate Editor, Money Morning • @DavidGZeiler • December 17, 2018

Stocks on track for worst December since the Great Depression

By Paul R. La Monica and Christine Romans, CNN Business
Updated 2257 GMT (0657 HKT) December 18, 2018

Stocks book their worst year since the financial crisis and worst December since the Great Depression

Jonathan Garber Dec. 31, 2018, 08:30 AM

Flashback

The Global financial crisis (in one slide)

- > Early 2000s: Rapidly rising house prices (US)
- > 2005-07: House prices start to fall, foreclosures rise
- > 2007: First signs of problems in the mortgage lending markets
- > 2008: Problems spread to the banking sector

Flashback

Financial firms collapse

**BEAR
STEARNS**

Goldman
Sachs

AIG

Bank of America



Merrill Lynch
Wealth Management

LEHMAN BROTHERS

 **Washington Mutual**

Morgan
Stanley



IndymacBankSM



FannieMae

FreddieMac

Flashback

Financial firms collapse

First ranking secured
debentures



Flashback

Financial firms collapse



Flashback

One defining moment



Flashback

Financial markets reaction

5.25%



Fed funds rate

0%

Flashback

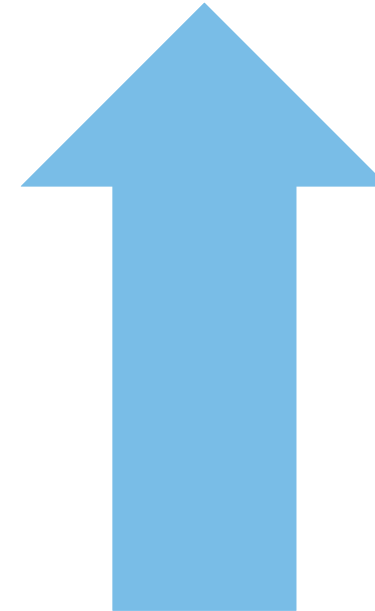
Financial markets reaction

Global shares



50%

Global bonds



20%

Flashback

Financial markets reaction

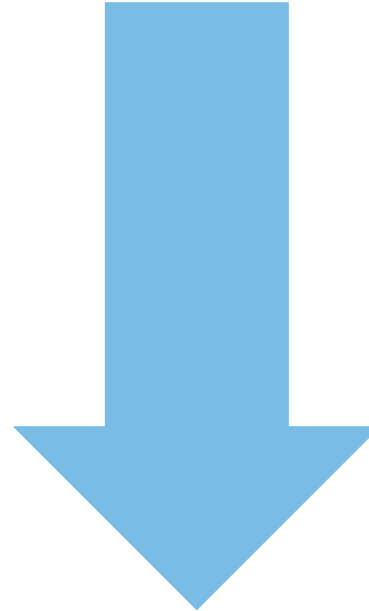
Official Cash Rate

8.25%



2.50%

NZ shares



40%

Aus shares



50%

Impact

KiwiSaver performance for 12 months to 31/3/2009

Balanced Funds

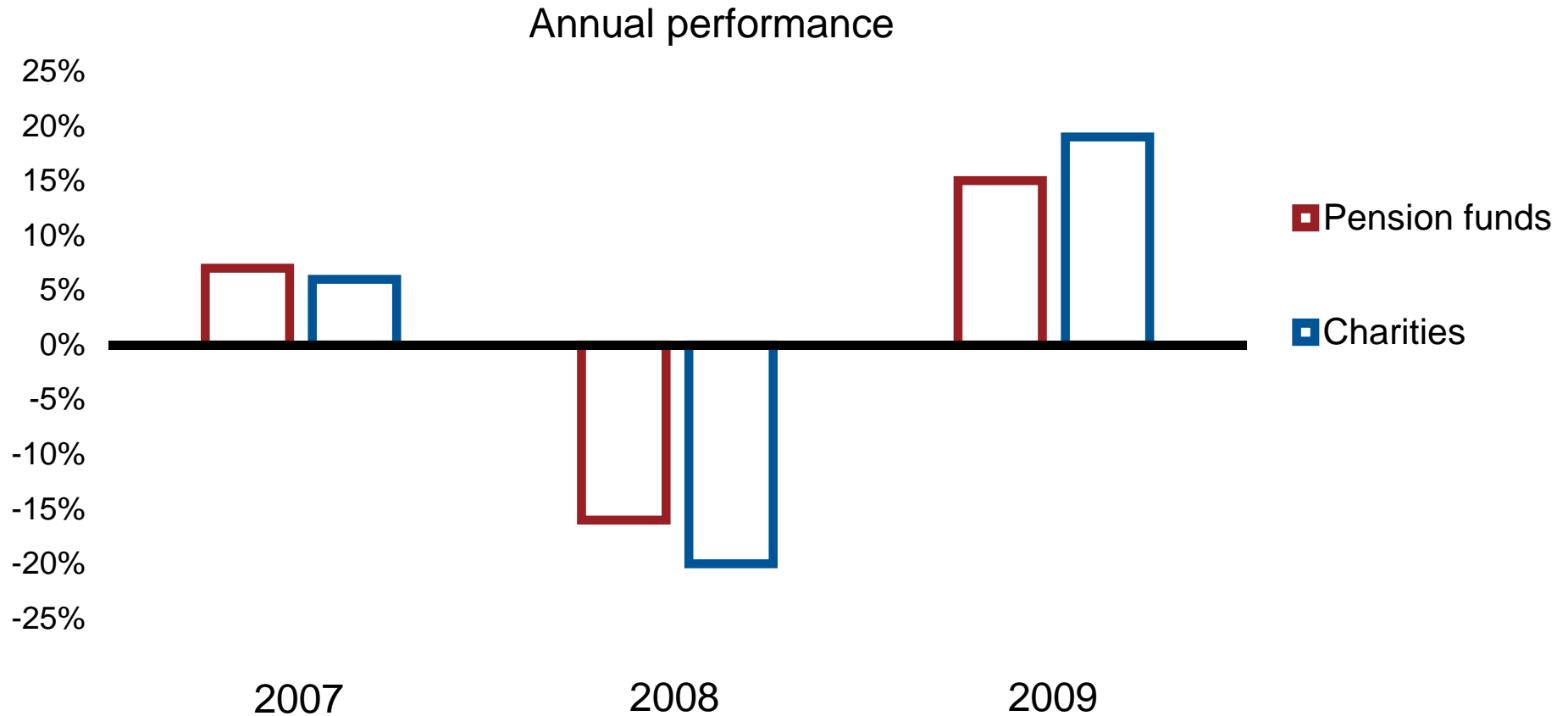
Scheme	Return
AMP	-9.8%
ANZ	-15.9%
ASB	-17.6%
Mercer	-20.8%
Westpac	-10.1%

Growth Funds

Scheme	Return
AMP	-17.4%
ANZ	-20.5%
ASB	-24.1%
Mercer	-24.3%
Westpac	-14.0%

Impact

Not-for-profits sector under pressure



Source: charityfinancials.com



Impact

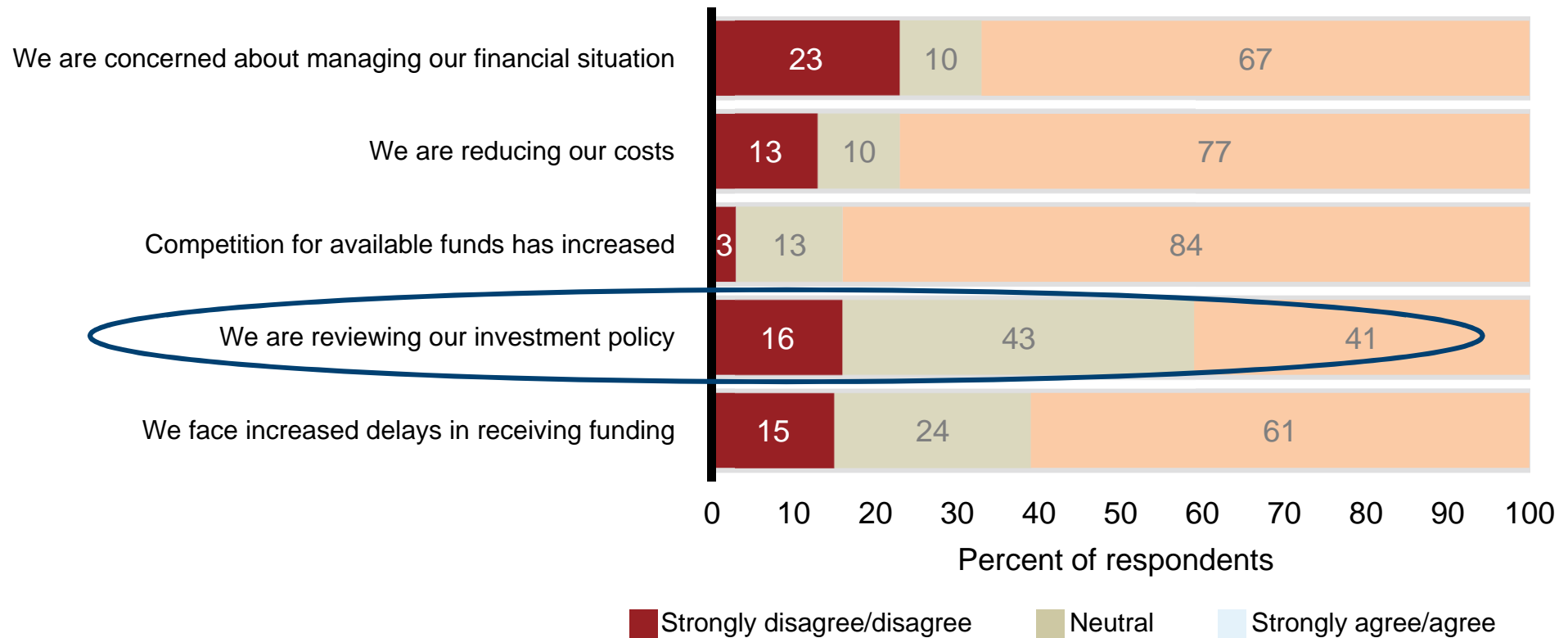
Not-for-profits sector under pressure

- > Greater demands
- > Low (negative) investment returns
- > Pressure on granting, and.....
- > Pressure on capital base
- > Trustees had to react
 - > Cut spending
 - > Erode capital

Impact

Not-for-profits sector under pressure

Action taken during economic downturns



Source: Centre for Corporate Public Affairs, survey of NFP organisations 2009. N=70



Lessons to be learned

1. Be prepared
2. Be patient
3. Be disciplined



Lessons to be learned

1. Be prepared

- > Governance
- > Have a firm set of beliefs
- > Know your portfolio
- > Plan your spending

1. Be prepared

Governance

- > Clearly articulated SIPO is essential
- > Identify
 - > who recommends,
 - > who decides, and
 - > who implements & oversees each decision
- > Align objectives with organisation's goals

1. Be prepared

Have a firm set of beliefs

- > The importance of the asset allocation decision
- > Relationship between risk and return
- > The benefits of diversification
- > Tactical asset allocation
- > Illiquidity premium

1. Be prepared

Know your portfolio

- > Scenario analysis
 - > How would the portfolio perform if interest rates rose sharply?
 - > Would a significant slowdown in China impact the portfolio?
 - > What would be the impact of a 30% fall in equities?
- > Asset class roles
 - > Equities
 - > Bonds
 - > Alternatives



1. Be prepared

Plan your spending

- > What is your spending policy
- > Will grants continue if portfolio is down 5%, 10%, 20%?
- > Are you prepared to draw on capital to maintain spending?



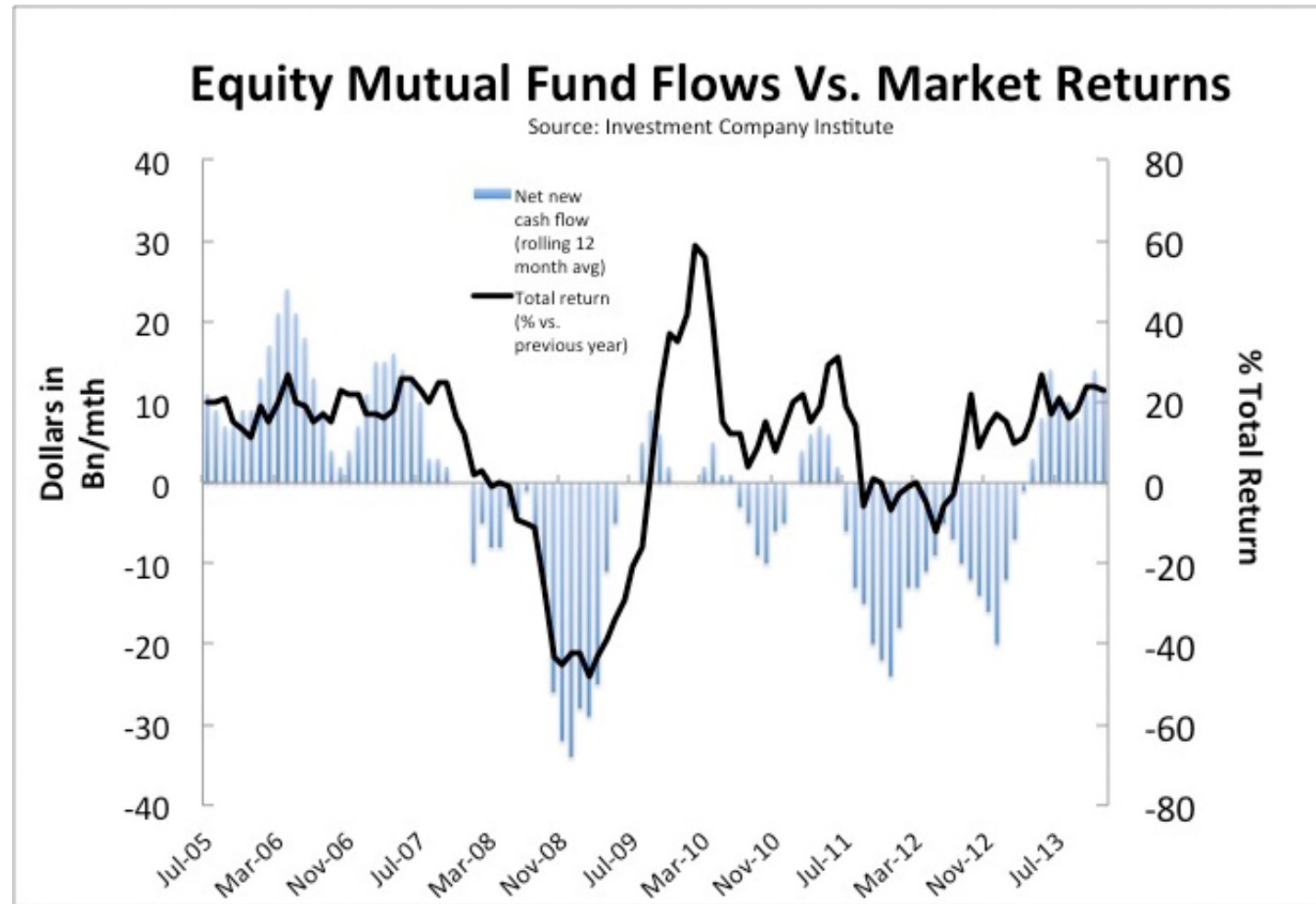
Lessons to be learned

2. Be patient

- > Don't sell at the bottom
- > Focus on the long term

2. Be patient

Don't sell at the bottom



2. Be patient

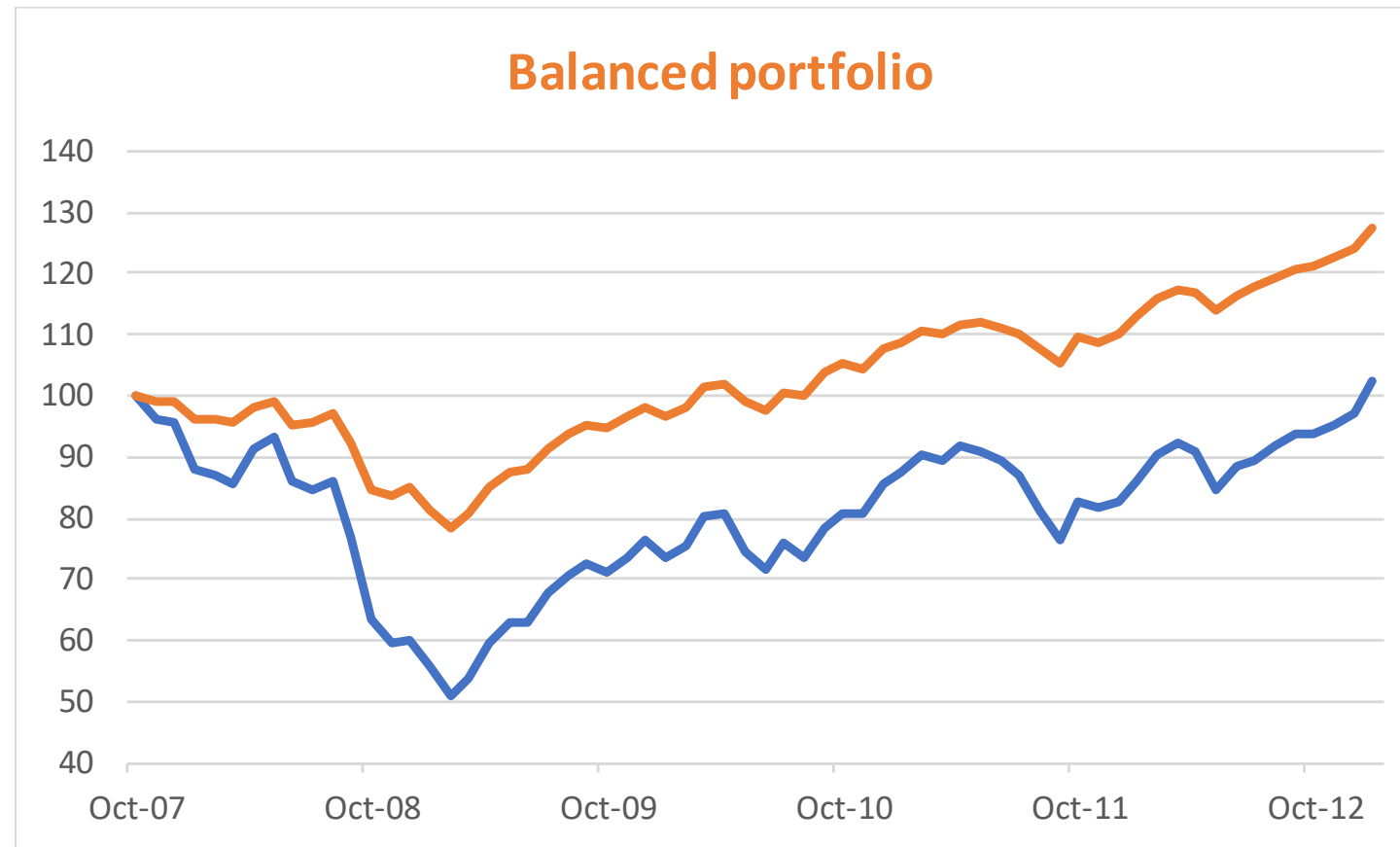
Don't sell at the bottom



Source: MSCI

2. Be patient

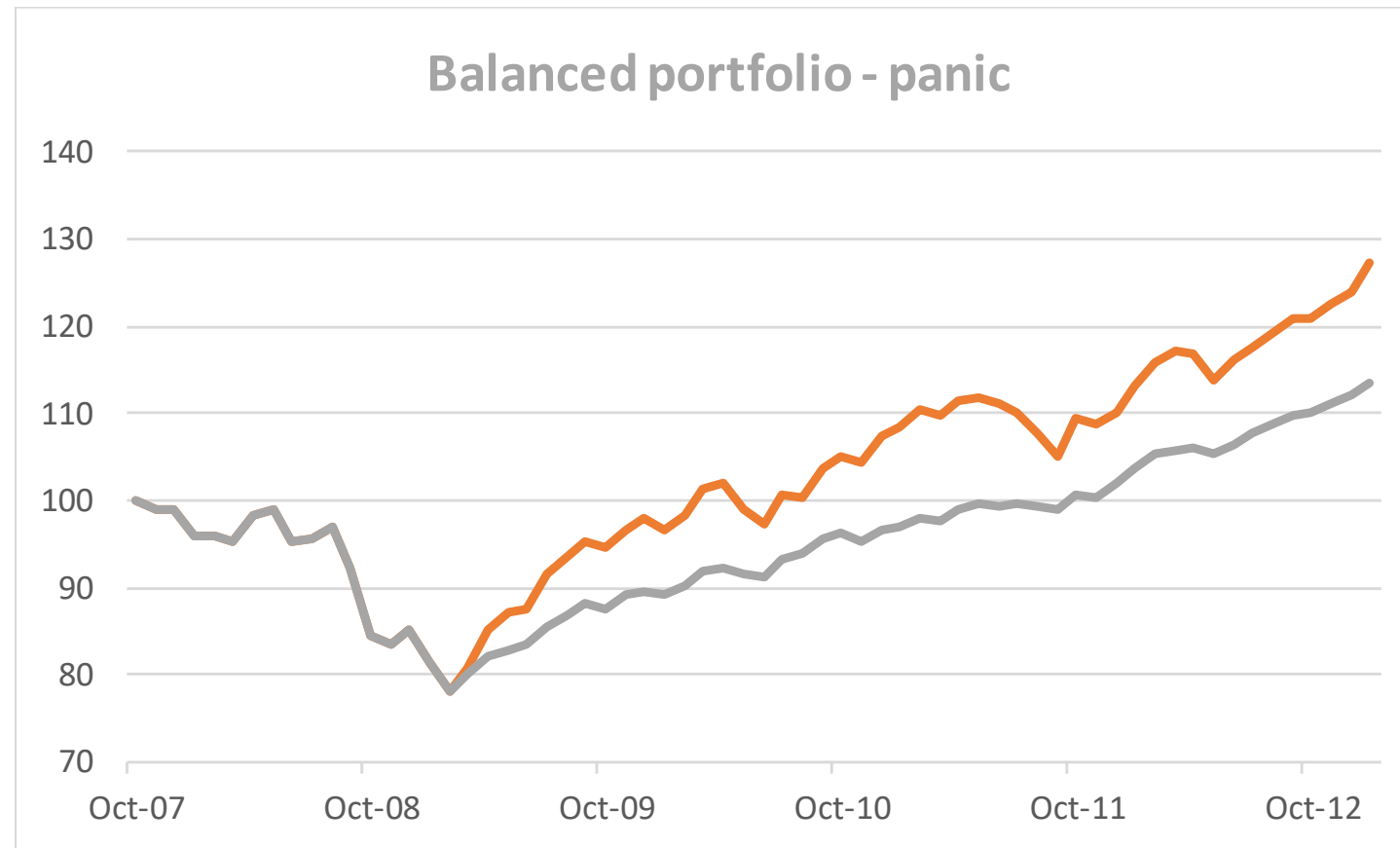
Don't sell at the bottom



Source: FTSE/MSCI

2. Be patient

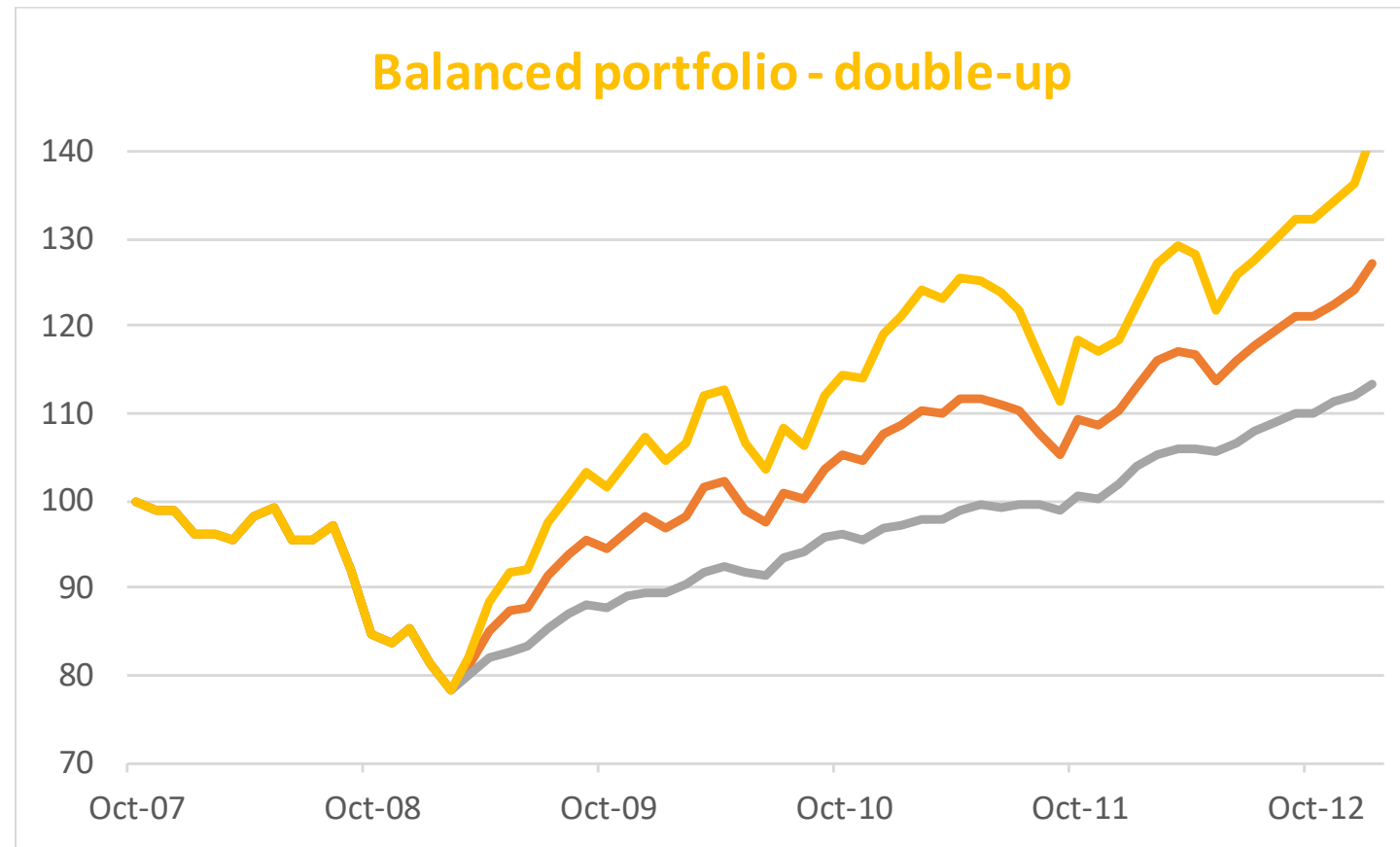
Don't sell at the bottom



Source: FTSE/MSCI

2. Be patient

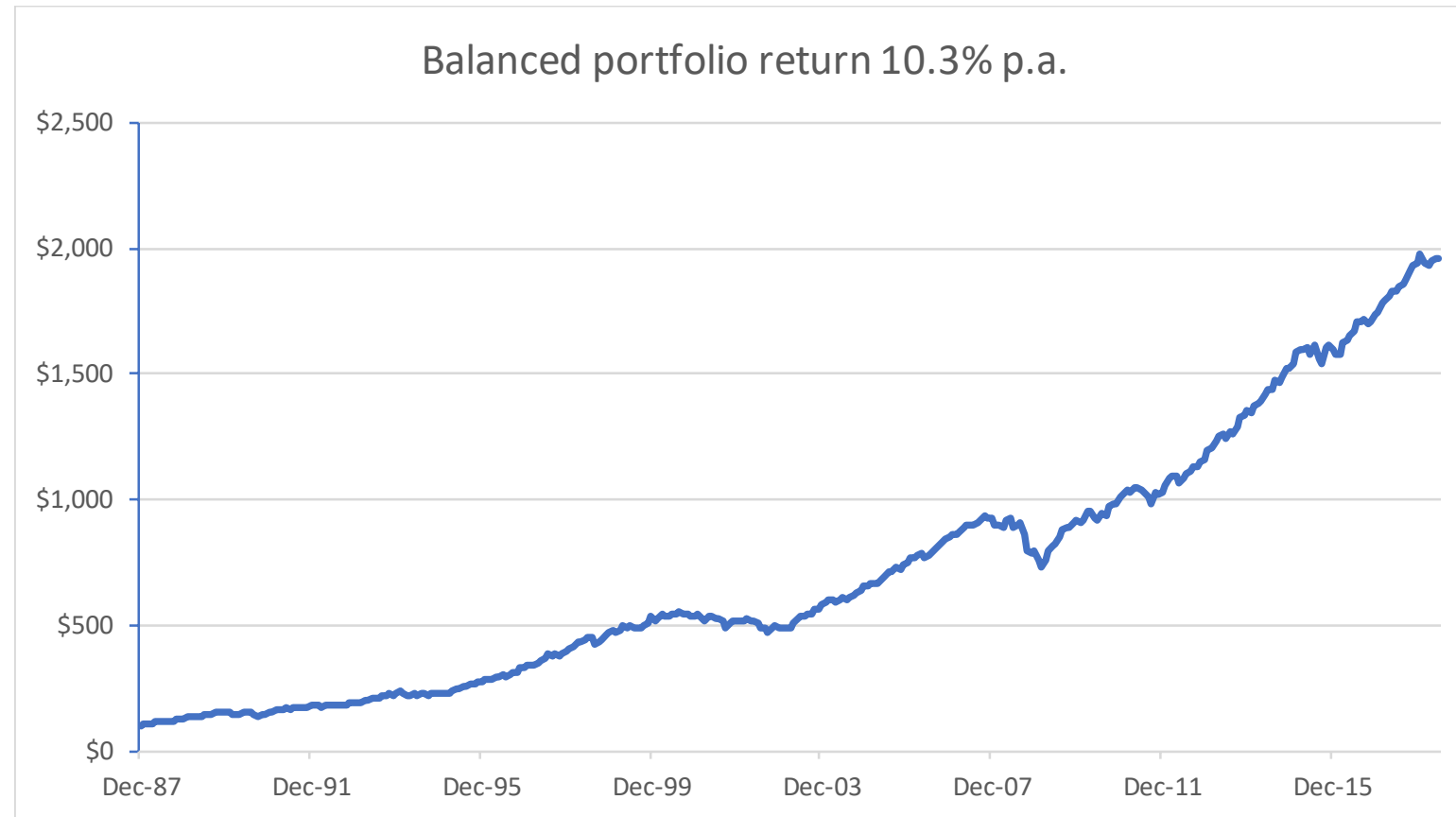
Don't sell at the bottom



Source: FTSE/MSCI

2. Be patient

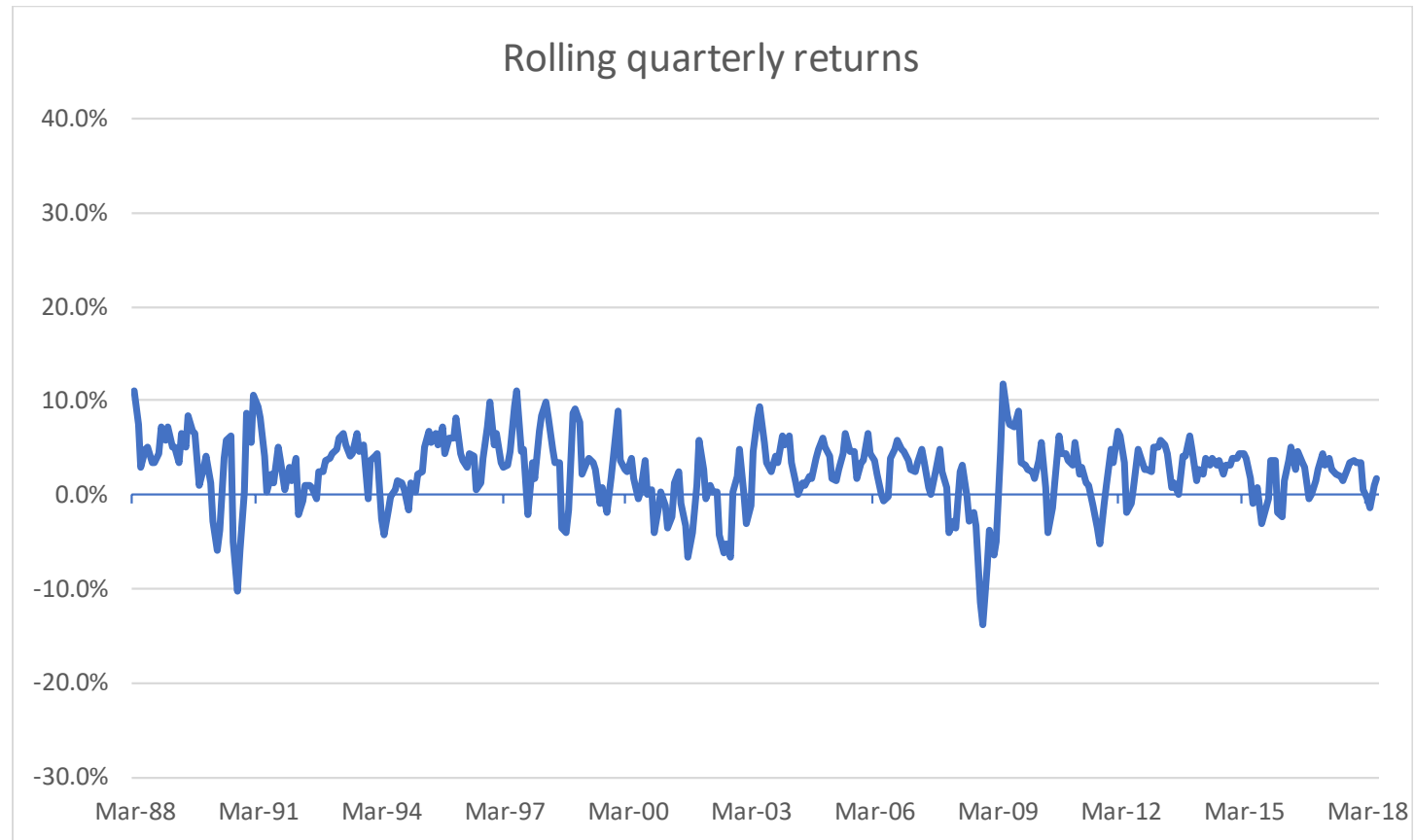
Focus on the long term



Source: FTSE/MSCI

2. Be patient

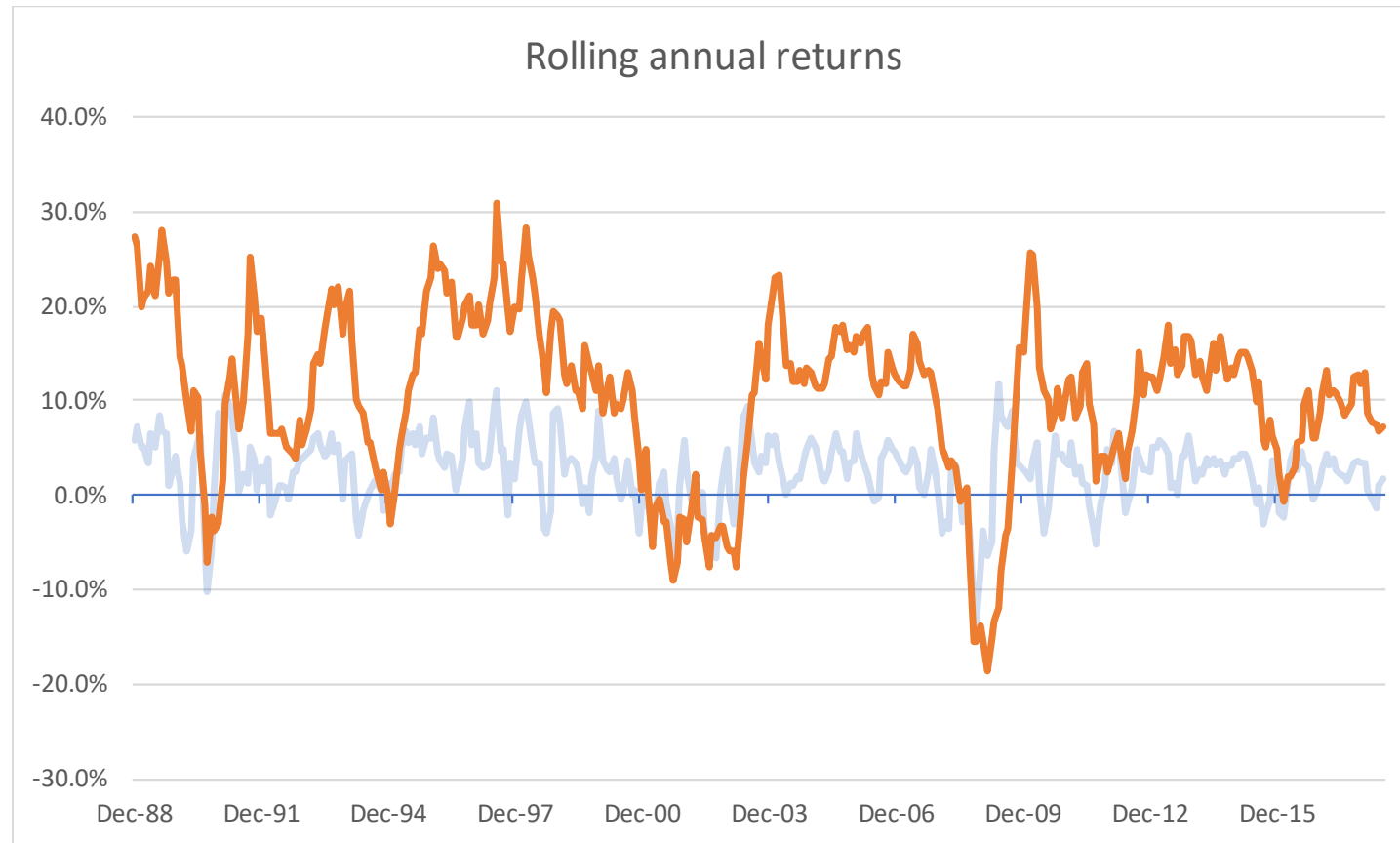
Focus on the long term



Source: FTSE/MSCI

2. Be patient

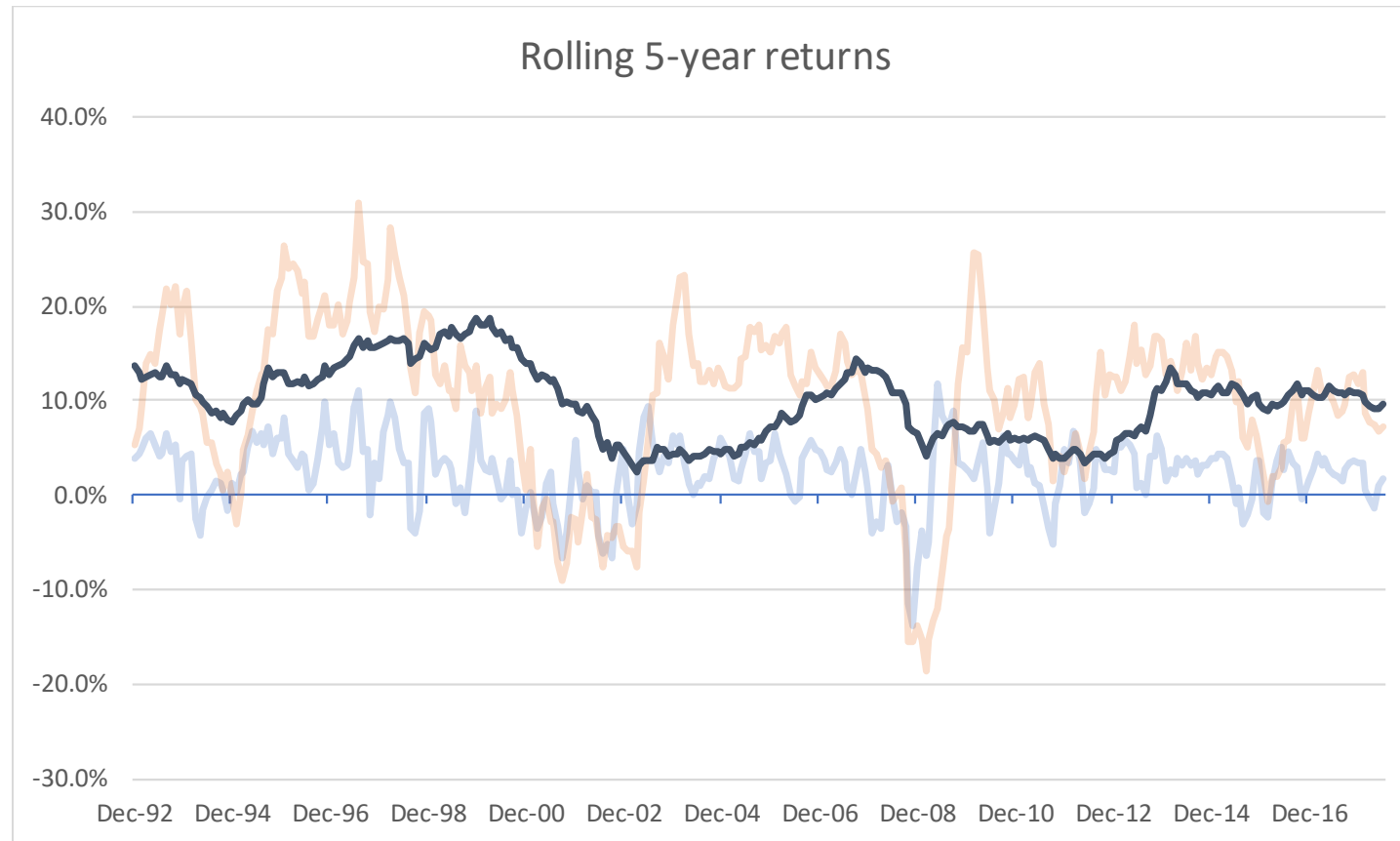
Focus on the long term



Source: FTSE/MSCI

2. Be patient

Focus on the long term



Source: FTSE/MSCI



Lessons to be learned

3. Be disciplined

- > Follow/trust the process
- > But be flexible
- > Look for opportunities



3. Be disciplined

Follow/trust the process...

- > Adhere to the SIPO
- > Roles and responsibilities



3. Be disciplined

...but be flexible

- > Being disciplined does not mean being static
- > Volatile markets create opportunities

Lessons to be learned

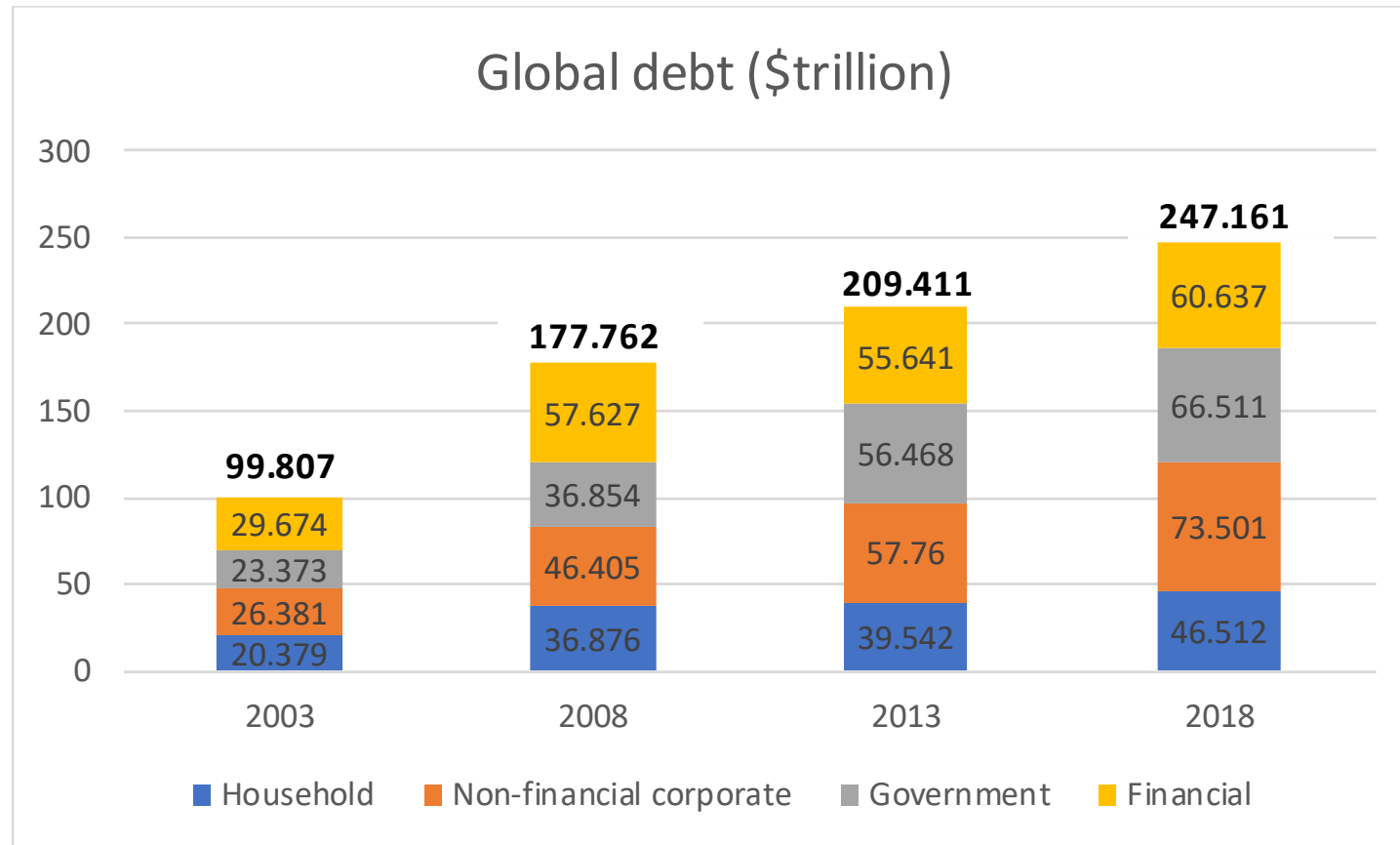
1. Be prepared
2. Be patient
3. Be disciplined

Lessons to be learned

“We will learn an enormous amount in a very short time, quite a bit in the medium term and absolutely nothing in the long term.”

Jeremy Grantham (GMO)

Lessons to be learned



Source: Institute of International Finance

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