

# 5 questions for 2019

Investing for success



2019 is expected to be an interesting year for fiduciaries. With complex challenges like Fed tightening, mounting political gridlock, rising trade tensions, and creeping recession risks on the horizon, the markets may get rocky. If one thing is certain in a volatile, late-cycle market environment, it's that even when an investment service or solution has worked well in the past, it pays to be proactive, not complacent, going forward.

Here are five strategic questions you should address now to retain control and position yourself for investing success in 2019.



## 1. Do I know the outcomes I need to achieve in this late-stage market cycle?

As the markets move into a late-cycle phase and prepare to shift, you and your team should take a closer look at your desired outcomes. As a fiduciary, you'll need to make sure that your team is aligned on how your investment program is positioned to help you achieve those outcomes—before the markets take a turn for the worse. This will mean different things for different types of organizations and stakeholders. For example, fiduciaries managing endowed or operating pool assets should confirm that their investment program can still deliver on their short-term spending commitments, while balancing their organization's long-term stability needs. Contrast that with the needs of retirement plan sponsors, who should be focused on maintaining the funded status of their pension plan and / or ensuring that their participants don't panic in the short term and derail their savings objectives during a time of potential market upheaval.

Regardless of the type of organization or asset pool you are managing, your investment program is a key component of your organization's success. Aligning your team on major decisions, before a significant shift in the markets happens, will help you maintain focus on the outcomes that will position you for investing success. To help determine your desired outcomes and ensure your investment program can meet your organization's needs, our specialist teams have put together [handbooks for non-profit and healthcare organizations, and for defined benefit and defined contribution plan sponsors](#).

*Aligning your team on major decisions, before a significant shift in the markets happens, will help you maintain focus on the outcomes that will position you for investing success.*



## 2.

### How will interest rate volatility—and shifting capital markets—impact my outcomes?

You should keep your portfolio aligned with your desired long-term outcomes—but don't get bogged down in short-term market gyrations. Instead, you and your provider are going to have to focus on the fundamentals behind the U.S. economy, as well as what's driving equity and bond markets. With one interest rate hike anticipated this year, fiduciaries are wise to consider the impact of rising interest rates on pension plan liabilities, cost of debt, and returns on long-term investments.

This especially matters for fiduciaries managing retirement plans. For example, if your pension plan is underfunded, rising rates can help improve funded status; even though asset values—particularly of fixed income instruments—tend to fall in a rising rate environment, liability values tend to fall faster. However, interest rates need to meet or exceed the cost of capital for funded status to improve. What's more, the cost of debt issuance may rise, increasing the overall cost of borrowing for capital projects or merger and acquisition activities. Interest rate changes could also affect the duration of your liability instruments, when you should buy them, and when you should cash them in. They won't change the total glide path, but they may affect the appropriate timing of the purchase.

Rising interest rates will also affect defined contribution plans in a big way, impacting not only fixed income assets, but the rest of the portfolio as well. Sponsors should provide participants with access to well-diversified portfolios that pursue investments beyond passive fixed income (e.g., high yield or emerging market debt) and in other asset classes, such as real assets. And, with the expected total return on U.S. equities anticipated to be subdued over the next decade—at a historic low of 2% per year—sponsors with target date funds should consider the potential implications for their glide paths and income replacement rates.

At the end of the day, no matter your organization type, you should reassess your strategic asset allocation to make sure it remains aligned with your desired outcomes. Consider asking your provider to review their long- and short-term capital markets forecasts and how those may impact your portfolio. While it may not be necessary to revamp your long-term strategic asset allocation across your asset pools, you may want to consider a short-term tactical adjustment or to add a measure of downside volatility management. If you're looking for additional insights into the impact that rising interest rates—and the broader capital markets—will have on your portfolio in 2019, see our investment strategist team's [2019 Global Market Outlook](#).

**Reassess your strategic asset allocation to make sure it remains aligned with your desired outcomes.**



## 3.

### Are there changes I can make to better manage my investment program?

Are you taking a dynamic and holistic approach to managing your investment program? If not, it's time to reconsider your portfolio design. With low equity returns projected for the foreseeable future, your ability to nimbly capitalize on fleeting market opportunities is critical to reaping incremental returns. At Russell Investments, we not only have state-of-the-art, in-house trading capabilities and a unique open-architecture approach to portfolio construction and management—we also offer an additional layer of oversight on top of the underlying managers we invest in. Said another way, we scour the globe for the best independent money managers, then incorporate their underlying products into our portfolios, and finally, manage those exposures dynamically. This additional layer of oversight is designed to allow us to capture short-term market opportunities and to identify problems before they arise, which helps us ensure tight total portfolio management.

**Your ability to nimbly capitalize on fleeting market opportunities is critical to reaping incremental returns.**

---

With that in mind, you should discern whether your portfolio asset allocation strategy is built on individual asset classes (e.g., equities, bonds, or real assets) or broad asset roles (e.g., growth, return enhancement, or risk reduction). If the latter, consider the value-add of managing at the total portfolio level and selecting strategies based on the role each asset plays in the portfolio. Portfolios managed with a siloed approach, asset class by asset class, can create significant problems, as what's best for the piece is not always best for the whole. For example, near the end of every market cycle there is a search for yield. Bond managers naturally tend to gravitate towards high yield bonds, while equity managers tend to seek out growth opportunities among the rare companies that can organically grow as the economy slows down. Separately, each decision is logically sound—but the combination could prove deadly, as this moves the portfolio to a single scenario and concentrates risk into these risky investments rather allocating it evenly across the total portfolio. Thus, optimizing investments at the individual asset class level may happen at the expense of efficiencies across the total portfolio. Instead, managing from a holistic, roles-based perspective, and incorporating dynamic tilts, will better position your portfolio to achieve your desired investment outcomes.

For more information about why multi-asset investing is so critical in today's low-return environment, read our multi-asset expert's [insights](#).



**4.**

#### **Do I have a clear, high-level view of the risks that could derail my organization's goals?**

Similarly, your approach to risk management should not be carried out in a silo. Don't just focus on the impact of investment risks within your portfolio—you also need to think about how unmanaged risk can derail your broader organizational goals. For example, for non-profit organizations, volatility in the investment program can affect your ability to meet your spending goals in a given year. If this happens, assets that were earmarked for programs, grants, or other organizational growth initiatives may have to be supplemented by additional fundraising or even cut in the short term. That could negatively impact your organization's ability to fund your charitable interests.

With that in mind, all fiduciaries should consider tools to monitor and manage unwanted risk. For example, developing a broad enterprise risk management framework and taking the time to identify, prioritize, and rank key risk factors, such as shifting regulatory developments, is a valuable exercise. Managing your portfolio, without an understanding of how risks can impact the broader organization, is less than optimal and can lead to unintended consequences. If you and your provider aren't already looking at how to develop a holistic risk management framework, you can start now by reading our blog on [how we built our risk management system](#).

**Consider tools to monitor and manage unwanted risk.**



**5.**

#### **Do I really understand the services I'm paying for—and why?**

Do you have a clear picture of what you're paying for? Comparing fees can be confusing, as one provider's "all-in" fee may include everything—whereas another provider may feature some of those items up front in their "all-in" fee but charge additional expenses piecemeal throughout the year. Instead of reading into each fee individually, you should carefully evaluate fees in the context of *all* the services and decisions you are delegating to your provider. Things like level of discretion, types of strategies and investment vehicles, active management,

---

idiosyncratic reporting requirements, and other unique features such as environmental, social, and governance (ESG) screens, will all impact the total cost. The services you receive will vary by provider, so while comparing fees is important, finding the lowest price isn't as important as understanding what you're paying for, and why you're paying for it. Rather than limit yourself to a lower-priced package that only covers some of your needs, base your decision on *everything* that you want out of an outsourced relationship. This will help you find the right provider match for your organization. For more information on navigating the fees minefield, see our [fees guide](#).



*Finding the lowest price isn't as important as understanding what you're paying for, and why you're paying for it.*

As the markets move into a late-cycle phase and risks continue to build, you and your team should prepare for the impending market correction by aligning yourselves on your desired outcomes. By asking these five questions and reviewing your strategic decisions now, you can remain in control and own your investment success.

## About Russell Investments

Russell Investments is a global asset manager with a unique set of capabilities that we believe is essential to managing your total portfolio and to meeting your desired outcome. At Russell Investments, we stand with you, whether you're an institutional investor, a financial adviser, or an individual guided by an advisor's personalized advice. We believe the best way to reach your desired outcomes is with a multi-asset approach that combines: asset allocation, capital markets insights, factor exposures, manager research and portfolio implementation.

## For more information

Call Russell Investments at **800-426-8506** or visit [russellinvestments.com/institutional](https://russellinvestments.com/institutional)

## Important information

Nothing contained in this material is intended to constitute legal, tax, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

Russell Investments' ownership is composed of a majority stake held by funds managed by TA Associates with minority stakes held by funds managed by Reverence Capital Partners and Russell Investments' management.

Frank Russell Company is the owner of the Russell trademarks contained in this material and all trademark rights related to the Russell trademarks, which the members of the Russell Investments group of companies are permitted to use under license from Frank Russell Company. The members of the Russell Investments group of companies are not affiliated in any manner with Frank Russell Company or any entity operating under the "FTSE RUSSELL" brand.

Copyright © 2019. Russell Investments Group, LLC. All rights reserved. This material is proprietary and may not be reproduced, transferred, or distributed in any form without prior written permission from Russell Investments. It is delivered on an "as is" basis without warranty.

First used: January 2019

AI-27100-01-22