QUARTERLY UPDATE

# Managed Portfolios - Core

Market and portfolio update for the September quarter 2025

Russell Investments

## Macroeconomic views and asset allocation positioning

| Topic | Market highlights | Portfolio positioning |
|---|---|---|
| **Emerging markets perform strongly on optimism around Chinese tech** | ○ Emerging market equities posted strong gains through the September quarter, fueled by renewed optimism in China's technology and consumer sectors. Beijing's targeted stimulus measures — including easier credit conditions, support for the property market, and incentives for innovation — helped lift confidence after a sluggish first half. Major Chinese tech names surged as investors anticipated better earnings momentum and regulatory stability, while broader Asian markets benefited from stronger regional trade flows and improved risk appetite. The result was a broad-based rally that saw emerging markets outpace developed peers for the quarter. | ○ The portfolios exposure to emerging markets added to the positive returns during the quarter. The portfolios have exposure to emerging market equities via both the passive exposure through the Vanguard FTSE Emerging Markets Shares ETF, and active exposure through the dynamic real return core of the portfolios (MAIS, MAGS, and MAGS Plus).<br>○ Active emerging market managers, Oaktree and RWS Asset Advisors (held within MAIS, MAGS and MAGS Plus) generated very strong outperformance during the quarter, driven by overweight positions to China, with stocks including Alibaba and Contemporary Amperex Technology Co., Ltd. (CATL), a Chinese battery manufacturer.<br>○ Looking forward, we retain a modest overweight to emerging market equities. Whilst returns have been strong, valuations are still attractive on a relative basis, and a weakening US dollar may continue to provide a tailwind. |
| **Labour market concerns bring Fed cuts back to the table, whilst the RBA stays on hold** | ○ Global markets continued to move higher in Q3 as a softening U.S. labour market reignited expectation of Federal Reserve rate cuts. Over the quarter, the Fed delivered two rate cuts, lowering its target federal funds rate from 4.25% – 4.50% to 3.75% – 4.00%, as weaker employment growth and moderating wage pressures reduced inflationary risks.<br>○ In contrast, the Reserve Bank of Australia (RBA) held steady through Q3, keeping the official cash rate at 3.85%, citing persistent services inflation, household balance-sheet pressures, and a still-resilient domestic economy. The divergence in central bank paths helped drive yield compression in the U.S. and support risk assets globally, while lending currency directionality and reinforcing spread-based positioning across fixed income and equity markets. | ○ During the quarter, we decreased our exposure to fixed income, predominantly US, as bonds appreciated (yields fell), and they reached our fair value estimates. We made this positioning change via the real return dynamic core (MAIS, MAGS and MAGS Plus), and added to cash.<br>○ In addition, we incrementally increased our exposure to emerging market bonds, again via the real return dynamic core, for reasons similar to the above as to why we retain a modest overweight to emerging market equities.<br>○ More broadly, our positioning remains close to our long-term strategic asset allocations, with a modest overweight to equities and underweight to credit. Our contrarian sentiment indicator is not yet showing unsustainably high levels of optimism (overbought conditions) in the market, and as such, we believe the rally may continue. |

# Direct Australian equity portfolio (for managed portfolios with direct holdings)

| Topic | Commentary |
|---|---|
| **Overview** | ○ Equity markets generated strong positive returns in the September quarter. Global developed market equities (ex-Australia) generated a 7.6% total return in $A hedged terms, and emerging markets also generated strong returns, close to 10%, with China a large contributor up more than 20% over the period, buoyed by renewed policy stimulus, stabilisation efforts in the property sector, and positive momentum in technology and consumer names[1]. In Australia, equity markets were also positive, albeit underperforming global counterparts and generating low single digit returns. Australian small caps were a highlight though, up over 15% at the S&P/ASX Small Ordinaries index level[2] as easing inflation and hints of interest rate moderation boosted investor willingness to take risk, rotating into more attractively valued smaller companies. These gains were underpinned by moderating inflation trends, a gradual easing of interest rate expectations, and broadly resilient corporate earnings.<br>○ The direct Australian equity portfolio modestly outperformed the S&P / ASX 100 benchmark during the September quarter. An underweight to healthcare, which significantly underperformed during the quarter off the back of disappointing earnings and weak forward guidance, was a positive, as was an offsetting overweight to the consumer discretionary sector which performed well off the back of continuing resilient economic growth and retail sales leading to strong earnings. Materials stock selection was strongly positive, but real estate stock selection was a headwind. |
| **Financials** | ○ The financials sector generated a modestly positive absolute return during Q3 but underperformed the S&P/ASX 100 index, leading to a modest overweight position being a detractor. Within financials, however, a modest underweight to CBA added value relative to the benchmark, along with overweight's to both Bendigo & Adelaide Bank and ANZ Ltd. |
| **Healthcare** | ○ An underweight to the healthcare sector added value during the quarter, as healthcare companies underperformed off the back of weaker earnings announcements and forward guidance. CSL Ltd, for example, the largest healthcare stock in the sector and more than 4% of the S&P / ASX 100 index at time of writing, was down over 16% during the quarter, as a result of disappointing guidance and weaker growth outlook than the market expected. Whilst a modest overweight to CSL Ltd was a headwind, an overweight to Ansell Ltd (+6.1%) and an underweight to Telix Pharmaceuticals (-40.3%) added value. Ansell pleased the market with strong solid first half numbers, beating expectations, and Telix underperformed off the back of disappointing financial updates as well as drug regulatory update from the FDA. |
| **Materials** | ○ The materials sector was the highlight in terms of performance over the quarter, with the sector up close to 20%. Key commodities surged during the quarter. Iron ore prices strengthened on expectations of increased Chinese infrastructure spending and early signs of property-market stabilisation. Gold rallied as interest-rate expectations moderated, boosting demand for defensive hard assets. Copper and lithium prices also improved on global growth optimism and the ongoing transition toward green energy. This broad-based commodity recovery lifted both large, diversified miners and mid-cap resource developers across the Materials sector. An overweight to Evolution Mining (a gold and copper producer) added positive relative performance, with commodity prices rising over the quarter and improving investor sentiment with improving operational execution. Additionally, whilst the sector did well, James Hardie did poorly off the back of continuing weakness in earnings, citing a soft North America construction environment, along with significantly reduced investor sentiment after the AZEK acquisition was announced earlier in the year. Not holding this company added value. |
| **Information technology** | ○ Information technology underperformed during Q3, driven predominantly by idiosyncratic reasons relating to financial results from constituent companies. Whilst a modest underweight to the sector delivered positive relative performance, an overweight to Wisetech Global detracted; after reporting solid revenue and profit growth, it still fell short of investor expectations. |

Note: Past performance is not a reliable indicator of future performance.

[1] Source: Bloomberg
[2] Source: Bloomberg

# Dynamic real return core - MAIS (Conservative and Diversified 50 profiles), MAGS (Balanced profile), and MAGS+ (Growth profile)

MAIS, MAGS and MAGS+ invest across a diversified range of asset classes, including equities, fixed income, and alternatives, and uses a dynamic approach to asset allocation.

All three portfolios generated strong absolute returns in the September quarter. Global equities were the predominant drivers of performance over the period, with Australian equities also generating positive returns albeit underperforming global counterparts; The portfolios' defensive assets also delivered modestly positive returns, including global and Australian bonds and Australian floating rate debt, all of which also outperformed their benchmarks over the period.

The broadening out in the equity market returns provided a good back drop for active management, with the global opportunities fund outperforming the benchmark over the Q3 period. Although the US market delivered strong returns, value companies, the materials sector, as well as emerging markets, and smaller companies generated positive relative returns as well, meaning there were opportunities outside the US and mega-cap stocks for managers to exploit.

Australian hedge fund, Firetrail Absolute Return Fund, which provides a lowly correlated return source for the portfolios to traditional assets (held in MAGS and MAGS Plus) also generated strong absolute returns during the quarter.

In terms of overall positioning, we reduced the Funds exposure to global fixed income (mainly US fixed income) with a preference for cash, as attractiveness of duration (rate sensitivity) reduced, as bond prices appreciated. We also incrementally increased our emerging market bond exposure, where we think a weakening US dollar may continue to be a tailwind for emerging markets, many of which have lower fiscal deficits and debt to GDP compared to other developed markets as well. We also added some more options contracts within MAGS and MAGS+ to provide some downside protection should the US equity market sell off between now and December.

Moving forward, we believe the US can avoid a recession and that the probability of a recession has reduced, with our estimate sitting at 25% chance of a US recession looking forward; though market risks nonetheless remain elevated, and the weakening labour market is a watch point. The portfolios are positioned close to their long-term growth/defensive asset allocation splits. For now, we remain more cautious on riskier credit like high-yield debt, and are well placed to trim risk exposure if markets rally or increase risk exposure if markets sell off.

Note: Past performance is not a reliable indicator of future performance.

# Portfolio performance at 30 September 2025 (%)

| Russell Investments Managed Portfolios | 1 month (%) | 3 months (%) | 1 year (%) | 3 years (%, p.a.) | 5 years (%, p.a.) | Since inception (%, p.a.) |
|---|---|---|---|---|---|---|
| **Conservative** | 0.43 | 2.23 | 6.59 | 7.97 | 4.39 | 3.72 |
| **Diversified 50** | 0.54 | 3.41 | 8.97 | 10.90 | 7.21 | 5.89 |
| **Balanced** | 0.74 | 4.46 | 10.97 | 12.96 | 9.37 | 7.27 |
| **Growth** | 0.89 | 5.37 | 12.75 | 15.15 | 11.49 | 8.95 |
| **High Growth** | 0.82 | 5.93 | 13.28 | 16.96 | - | 13.52 |
| **Geared 120** | 0.84 | 6.53 | 14.50 | 19.15 | - | 16.68 |

This performance is net of management fees for both the Managed Portfolio and the underlying managers' fees and costs. It does not take into account any third-party platform fees charged to individual investors or transaction costs (including buy/sell spreads and brokerage fees). It assumes income is reinvested without any tax deduction. It is for Russell Investment Management Limited's preferred model portfolio of holdings. A holding in the preferred model portfolio may be restricted or replaced with another similar asset in the Managed Portfolio on different platforms if the preferred holding is not available. Different platforms may also charge different management fees for the Managed Portfolio. This can result in variances in performance of the Managed Portfolio between platforms. An individual investor's performance will differ, according to the investor's actual exposures to Managed Portfolio holdings and other factors (including transaction timing, transaction costs, actual underlying manager fees and costs and whether income is paid in cash). Platforms will have their own methodology for calculating performance, at both a platform level and an individual investor level. Past performance is not a reliable indicator of future performance. Please contact your platform for details of your performance or current holdings in the Managed Portfolio.

# Asset class allocations at 30 September 2025 (%)

| Asset class | Risk profile | | | | | |
|---|---|---|---|---|---|---|
| | Conservative | Diversified 50 | Balanced | Growth | High Growth | Geared 120 |
| **Growth assets** | 35.7 | 54.9 | 71.8 | 87.0 | 98.9 | 119.3 |
| Australian equity | 12.6 | 20.6 | 27.0 | 33.3 | 41.8 | 49.5 |
| Global equity | 16.0 | 25.8 | 34.2 | 42.3 | 47.3 | 57.7 |
| Australian property | 0.7 | 1.0 | 1.1 | 1.4 | 1.8 | 3.4 |
| Global property | 1.2 | 2.4 | 2.7 | 3.0 | 3.3 | 3.7 |
| Infrastructure | 2.7 | 2.7 | 2.5 | 4.7 | 4.7 | 4.9 |
| Growth alternatives | 1.3 | 1.3 | 3.7 | 1.5 | 0.0 | 0.0 |
| Extended credit | 1.2 | 1.1 | 0.5 | 0.7 | 0.0 | 0.0 |
| **Defensive assets** | 64.3 | 45.1 | 28.2 | 13.0 | 1.1 | 1.5 |
| Loans and absolute return credit | 3.1 | 3.1 | 2.4 | 1.8 | 0.0 | 0.0 |
| Australian fixed income | 24.0 | 16.5 | 9.6 | 4.5 | 0.0 | 0.0 |
| Global fixed income | 21.0 | 13.6 | 9.8 | 2.4 | 0.0 | 0.0 |
| Defensive alternatives | 0.3 | 0.3 | 1.0 | 0.2 | 0.0 | 0.0 |
| Short-term credit | 6.4 | 6.4 | 3.9 | 1.4 | 0.0 | 0.0 |
| Cash | 9.4 | 5.1 | 1.7 | 2.6 | 1.1 | 1.5 |

IMAP
MANAGED ACCOUNT AWARD WINNER
RESPONSIBLE INVESTING

IMAP
MANAGED ACCOUNT AWARD FINALIST
MULTI ASSET

Superior
SQM RESEARCH

# Where to next?

Meet the team
or visit russellinvestments.com.au

## About Russell Investments

Russell Investments is a leading global investment solutions partner providing a wide range of investment capabilities to institutional investors, financial intermediaries, and individual investors around the world. Since 1936, Russell Investments has been building a legacy of continuous innovation to deliver exceptional value to clients, working every day to improve people's financial security. Headquartered in Seattle, Washington, Russell Investments has offices worldwide, including: Dubai, London, Mumbai, New York, Paris, Shanghai, Sydney, Tokyo, and Toronto.