Russell Investments

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January 2018

Dear client,

There's nothing more important to us than you, our clients. With that in mind, I wanted to share with you how we worked to serve you in 2017, and how we're looking forward, on your behalf, in 2018.

It remains uncertain how long the strong markets of 2017 will continue. Our optimism remains in 2018, but we recognise that our role is two-fold: to harvest returns and prepare for corrections by judiciously managing risk. In 2017, our multi-asset portfolios delivered strong nominal results (see below), due in large part to buoyant equity markets and synchronised global economic growth. Fuelled by mostly easy monetary policy, optimism for a pro-growth agenda in the U.S., and continued strong corporate earnings, global equities—as measured by the MSCI World Index—rose 20.1% in USD terms.

Risks and rewards

Our multi-asset portfolios were generally rewarded for several decisions in 2017:

- Careful stock and manager selection;
- Overweight conviction in non-U.S. and emerging-markets equities;
- Exposure to the momentum factor;
- Shorter maturities than the Barclays Global Aggregate indices in our fixed income portfolios;
- Overweights to high-yield, local currency emerging-market debt, and non-agency mortgages.

Operating with greater conviction

Within our own walls, we've put significant effort into increasing the precision of our positions. This precision is only possible with direct investing on our part, so with few exceptions we now directly and strategically control 15-20% of the overall portfolio.

Positioning strategies are customised exposures created and directly managed by Russell Investments to better achieve return and risk objectives in a total portfolio. Our portfolio managers have ultimate responsibility for the total portfolio and use positioning strategies to help meet investment goals. Typically used in conjunction with third-party active managers, positioning strategies allow our portfolio managers to better reflect our strategic and dynamic insights in a precise and flexible manner.

In 2017, our investment process—focused on cycle, value and sentiment—led us to maintain pro-cyclical positioning in our funds in equity and fixed income. In fixed income, expecting that continued economic growth would lead to stable credit spreads if not actual spread tightening, we maintained an overweight to credit sectors which helped propel the funds to benchmark-beating performance. It should be noted that as credit spreads narrowed, we began to trim our overweights, particularly in the second half of the year. In equity strategies, our exposure to the momentum factor and an overweight to the emerging markets and pro-cyclical sectors led to broadly positive results.

Manager consolidation

Our convictions on broad portfolio positioning take the form of what we call our strategic beliefs. We've been rewarded for overweighting many of these beliefs, including factors such as momentum and quality in equities and the credit risk premium in bonds. We've sharpened our saw in terms of modelling around the timing of these factors as well and have made strong moves. This modelling should allow us to continue to be dynamic, which we believe will be incredibly important in the low return environment going forward given the fact that both the bull market and the economic cycle will be entering their tenth years in 2018.

At the same time, we've worked to decrease the number of subadvisors in any one fund. We've empowered our portfolio managers with a broad toolkit of instruments to fine tune the portfolio. Their direct control has allowed our subadvisor selection to become more concentrated on our strongest areas of conviction and to focus them on selecting underlying managers with what we believe to be truly best-of-breed security selection skill.

Innovation proof points

We believe an investor cannot afford to ignore any investment strategy that may offer incremental return, take on risks they do not expect to get paid for, or disregard implementation efficiency. Therefore, in 2017 we expanded our Fund range to offer a wider range of solutions across the risk spectrum.

In June, we launched our Multi-Asset Credit (MAC) strategy in Europe, based on a portfolio we've successfully managed in a segregated client mandate. Our MAC strategy targets a higher return with modestly higher risk than our Unconstrained Bond Fund (UBF) strategies. Our global UBF strategies has made a healthy start since launch in September 2016, addressing investors' needs for consistent returns over shorter time horizons with moderate risk. We see these two strategies as part of a spectrum of multi-asset solutions, with MAGS as the highest-risk, highest-reward part of our offer.

This year we have further developed our commitment to environmental, social and governance (ESG) issues, supporting our ESG knowledge specialists and Sustainability Council. ESG is embedded in every analyst's research assessment and every investment product we manage. This year, our global research team surveyed a broad cross section of equity and fixed-income managers on their approach to ESG. This enabled the research team to embed ESG metrics into our ratings of investment managers. And it helped us earn the highest possible UNPRI rating.

Multi-asset

In EMEA, the Russell Investments Multi-Asset Growth Strategy (MAGS) continued to achieve a smooth growth path, demonstrating resilience in a difficult market environment while still contributing to the upside. Since inception, MAGS has achieved 72% of the equity market upside with 60% of the volatility and beaten or performed in line with its RPI+4% target over all term-periods.

In 2017, MAGS GBP delivered performance of 8.1% in gross terms[1] - beating its RPI+4% target. This trend continues over longer-term periods: over the three-year period, we delivered performance of 6.7%, 7.3% over the 5-year period and 7.3% since inception[2].

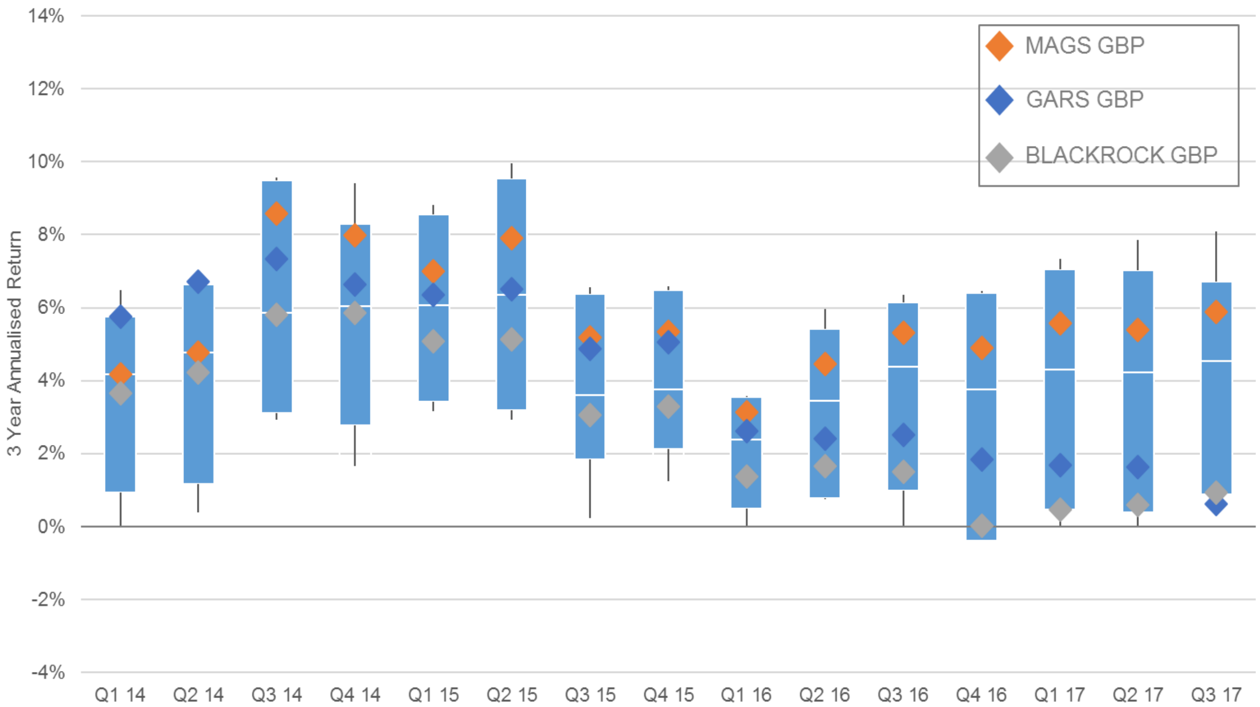
This performance is particularly compelling when compared against the wider peer-group. While generating these attractive relative returns against the current backdrop of recently strong market performance, this strategy is very much focused on also providing investors protection during the next major market risk-off event. Given that we see recessionary risks building throughout 2018 and early 2019 this risk management focus is growing in its importance.

[1] Source: Russell Investments / Confluence. Fund performance data, gross of fees. Data as at 31 December 2017.

[2] Source: Russell Investments / Confluence. Fund performance data, gross of fees. Data as at 31 December 2017. Target figures do not take into account any fees or charges on investment returns.

Multi-Asset Growth Strategy (Sterling)

Rolling 3-year quarterly peer performance – 30 September 2017



Source: Russell Investments/Bloomberg. Performance data is net of fees. In GBP. Data as of 30 September 2017. Inception 8 December 2009.

Past performance is not a guide to future performance. Peer group constituents vary over time.

Performance	One Year	Two Years	Three Years	Four Years	Five Years
Russell Investments Multi Asset Growth Strategy GBP (RIF plc) (£) Net of fees	7.0	7.7	5.6	5.4	6.3
TARGET RPI +4%	8.0	7.2	6.5	6.4	6.4

Source: Confluence. As of 31 December 2017.

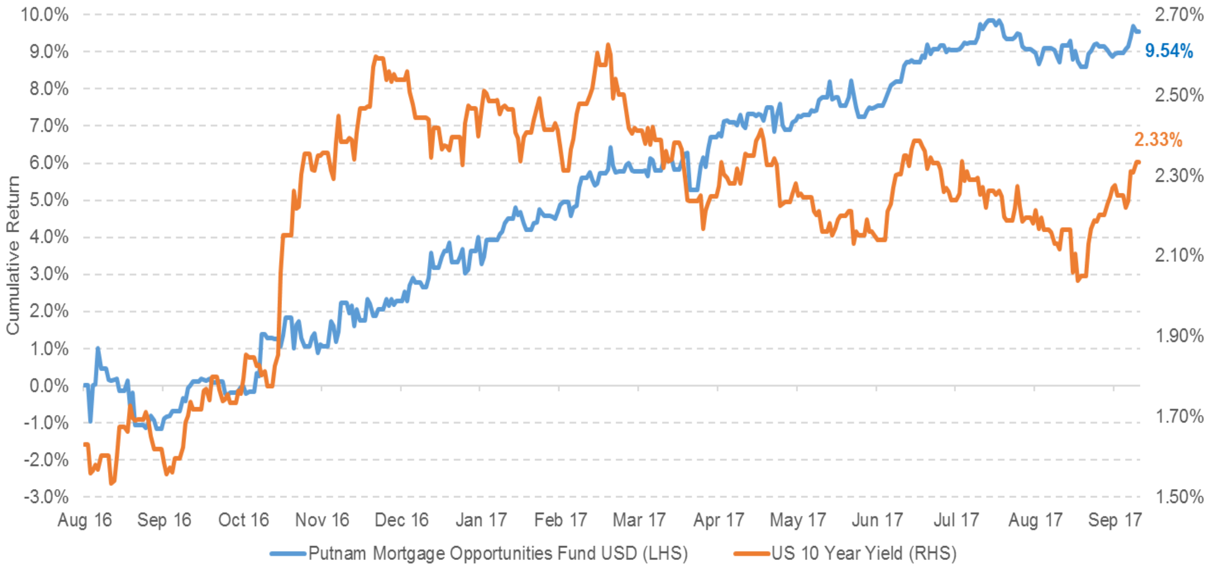
Dynamic portfolio management

Ahead of the French election, we sold European credit to reduce our exposure to peripheral and European duration. We became less positive on the return outlook for the asset class and we thought the time was appropriate to start banking some profits after a solid run. Following the UK election, we took the opportunity to alter the hedging with UK sterling at discounted levels.

Within the risk-bearing, fixed-income sub asset class, our strategists flagged local emerging-market debt (EMD) as attractive on Value and Sentiment metrics. Following a very strong rally in High Yield, EMD offers an interesting alternative. We have built out our Local EMD exposure since end of August of 2016, taking advantage of short term corrections.

Best-of-breed managers and strategies in every asset class

In August 2016, we added a new mortgage prepayment risk strategy, managed by U.S. mortgage specialists Putnam, across our Multi-Asset Growth Strategy range. The strategy allowed us to benefit from rising interest rates, whilst also having a positive carry. Its strong diversifying characteristics proved especially valuable in 2017 after the surprise Trump win and subsequent increase in U.S. rates. Notably, the strategy has continued to outperform despite a recent sideways move in yields.



Source: Russell Investments and Bloomberg, as at 30 September 2017

In our US Americas Institutional Multi-Asset portfolios, we recently added Boston Partners as a dedicated U.S. small cap manager, designed to help capture small cap dynamic value. By pursuing small companies on the cusp of positive change at attractive valuations, Boston Partners seeks to exploit market anomalies through both traditional value investments and special situations. Within this subset of companies, Boston Partners is focused on buying the most timely ideas (i.e. those expected to post increased pricing power or unit growth), but will invest early given conviction in long-term prospects, valuation and downside protection.

Downside protection. The U.S. equity market is highly valued but remains buoyed by business cycle and positive sentiment factors. We maintain some U.S. equity exposure, but managed the downside risk through a succession of options structures. Pricing in the options market, together with active management of strategies, has allowed us to fund these structures at a discount. These have all been implemented via our in-house implementation business, allowing us to trade the underlying derivatives expertly and at minimal cost.

Looking forward

Our bull market is aging and we remain firm in our belief of the cyclicality of investing. Our focus for 2018 is on helping our clients and investors get the returns and performance they require, while still responsibly preparing against a potential market correction and managing to a level of risk that is prudent and within expectations. Because investing should not just be about the returns you are looking for. It should also be about the manner those returns are achieved.

For additional information on our current market views, our 2018 Annual Market Outlook is now available here:
https://russellinvestments.com/-/media/files/us/insights/corporate/2018-global-outlook-first-quarter-update.pdf?la=en

We are committed to our fiduciary role and remain vigilant on your behalf.

Sincerely,

Jeffrey Hussey

Jeff Hussey
Global Chief Investment Officer

Important Information