



# Russell Multi-Asset

## SEMINARIO TECNICO - Mefop

Oltre il benchmark: come innovare le strategie degli investitori previdenziali

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Client Portfolio Manager  
Russell Investments, EMEA

*Roma, 10 Dicembre 2015*

# Extend your team with Russell Investments

Access a unique combination of inter-linked, multi-asset capabilities



**TOP DUE DILIGENCE  
IN MANAGER RESEARCH**  
**2014 FUNDFIRE SURVEY**

Top Due Diligence in Manager  
Research – 2014 FundFire Survey

**EUROPEAN  
INNOVATION  
AWARDS  
2014 WINNER**  
STRATEGY & TACTICS  
Manager Selection

STRATEGY & TACTICS  
Manager Selection 2014  
aiCIO European Innovation  
Awards Winner

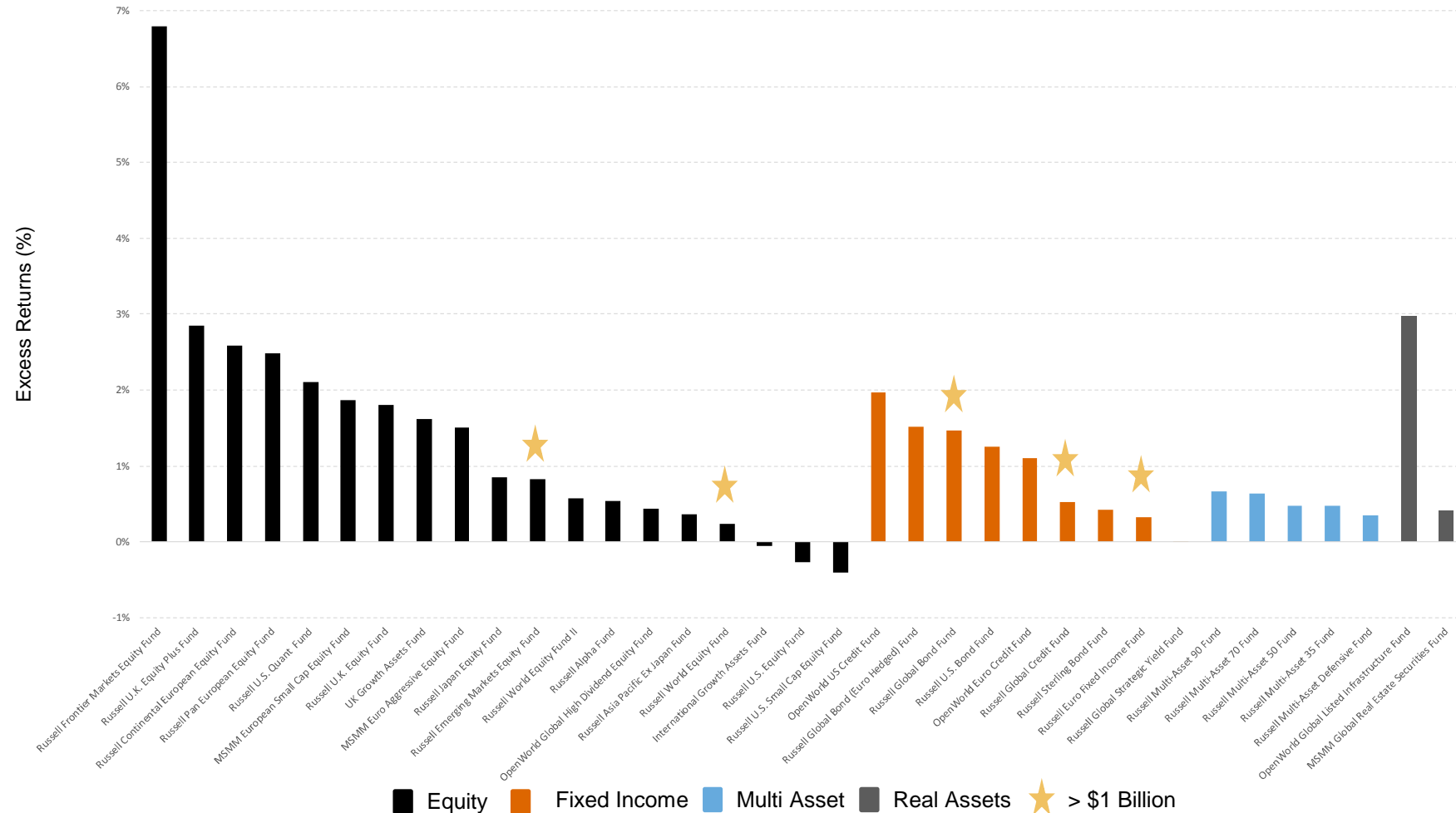
**2011-2014**  
**Pensions & Investments**  
**LARGEST OUTSOURCER**  
RANKED BY WORLDWIDE ASSETS  
**RUSSELL INVESTMENTS**

Largest Institutional Investment  
Outsourcer 2011–2014  
Pensions & Investments

Source: Russell Investments. As of March 31, 2015 unless otherwise stated; Assets under advice as at Dec 31, 2014.

# 5 year gross excess returns

91% of EMEA funds and 93% of AUM outperformed as of 30<sup>th</sup> November 2015



Source: Russell Investments calculations based on Confluence. Data as at 30<sup>th</sup> November 2015

Gross of fees stated in USD. Calculations do not include discretionary mandates

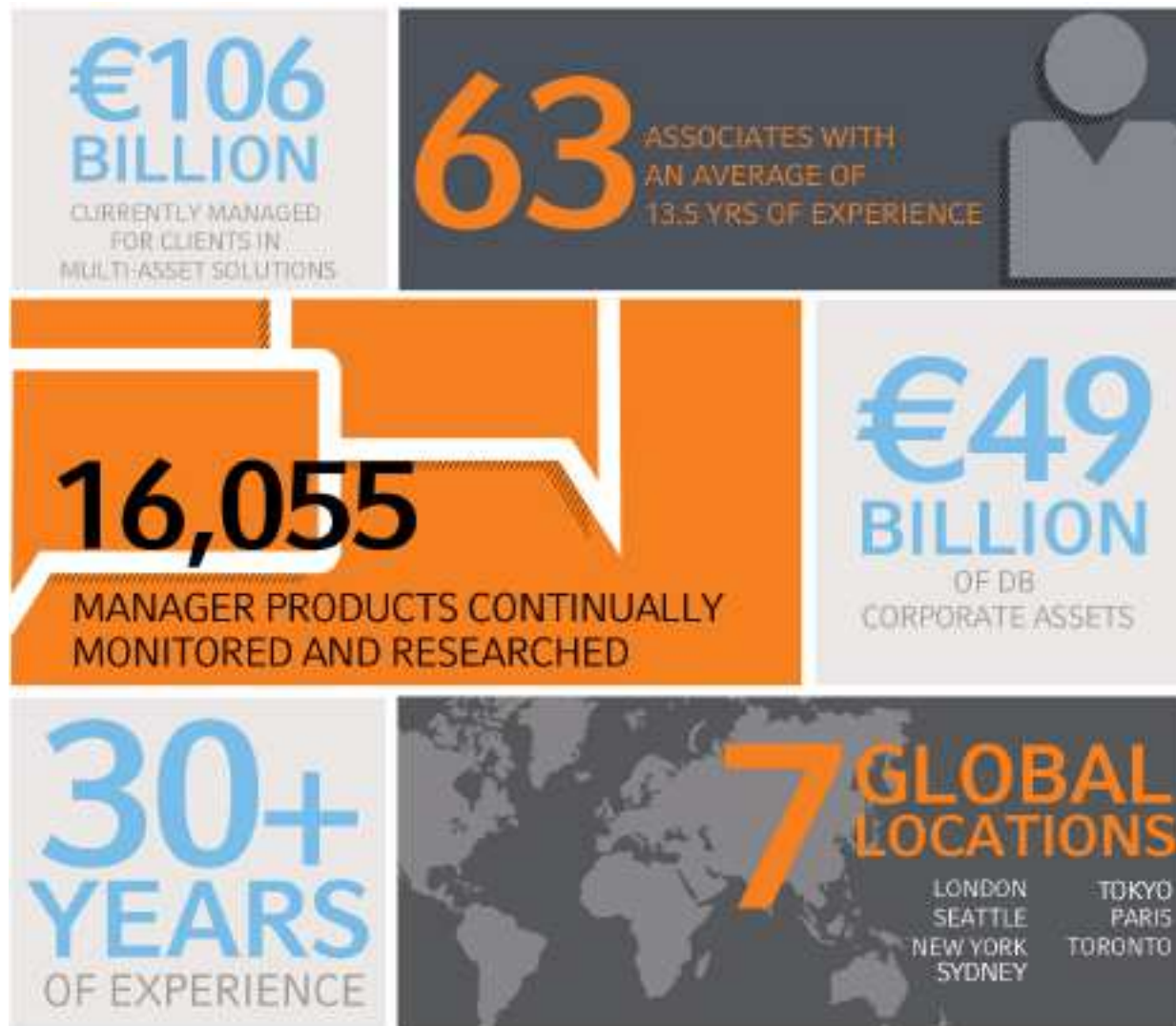
Non-benchmarked funds excluded; RIF MAGS EUR, RIF MAGS GBP, UK IFA Real, UK IFA Defensive, RIC LDGF, RIC 3 GBP Cash, RIC UKIL, RIC Euro Cash

# Limits and Investments Criteria

D.M. 166/2014, Art. 3

- › Artt. 1, 2 (...);
- › “Art. 3. Nella gestione delle loro disponibilita’ i fondi pensione osservano i seguenti criteri:
  - › ottimizzazione della **combinazione redditivita’-rischio del portafoglio** nel suo complesso attraverso la scelta degli strumenti migliori per qualita’, liquidabilita’, rendimento e livello di rischio, in coerenza con la politica di investimento adottata;
  - › adeguata **diversificazione del portafoglio** finalizzata a contenere la concentrazione del rischio e la dipendenza del risultato della gestione da determinati emittenti. Gruppi di imprese, settori di attivita’ e aree geografiche;
  - › **Efficiente gestione finalizzata a ottimizzare i risultati**, contenendo i costi di transazione, di gestione e di funzionamento in rapporto alla dimensione ed alla complessita’ e caratteristiche del portafoglio.”
- › Our aim today is to ascertain, together with you, whether Russell’s approach to Multi Asset is in line with the spirit and the letter of the law.

# Introduction to Russell multi-asset



**TOP DUE DILIGENCE  
IN MANAGER RESEARCH  
2014 FUNDFIRE SURVEY**

Top Due Diligence in Manager  
Research - 2014 FundFire Survey

**EUROPEAN  
INNOVATION  
AWARDS  
2014 WINNER**  
STRATEGY & TACTICS  
Manager Selection

STRATEGY & TACTICS  
Manager Selection 2014 aiCIO  
European Innovation Awards  
Winner

**2011-2014  
Pensions & Investments  
LARGEST OUTSOURCER  
RANKED BY WORLDWIDE ASSETS  
RUSSELL INVESTMENTS**

Largest Institutional  
Investment Outsourcer 2011-2014  
Pensions & Investments

# Moving from objectives to repeatable outcomes

Translate objectives  
into a strategic  
allocation

Access exposures through a  
combination of third party managers  
and positioning strategies

Dynamically adjust to changing  
circumstances, markets, and third  
party managers



Design



Construct



Manage



ESTABLISH  
OBJECTIVES



OUR  
FORECASTS



STRATEGIC  
BELIEFS



MANAGER  
RESEARCH



POSITIONING  
STRATEGIES



FORWARD  
LOOKING  
MARKET  
VIEWS



PORTFOLIO  
ANALYTICS



INTEGRATED  
TRADING

# Defining outcome-oriented SAA

Example: EUR inflation +4% liquid portfolio

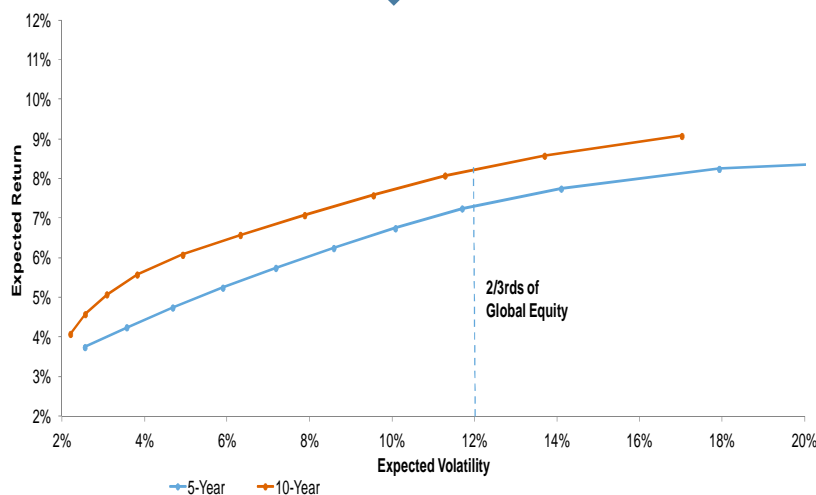


GOALS AND  
CONSTRAINTS

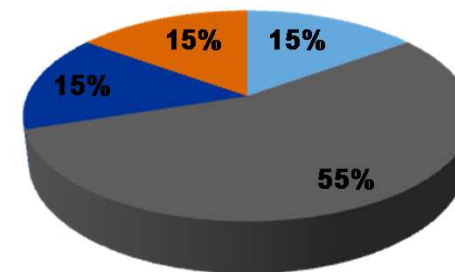


OUR  
FORECASTS

Efficient frontier based on 5 and 10-  
year capital markets assumptions



OUTCOME  
ORIENTED  
SAA



■ Fixed Income ■ Equity ■ Absolute Return ■ Real Assets

**Target Return:**  
EUR Inflation +  
4% over full  
market cycle

**Target Volatility:**  
2/3<sup>rd</sup> of Global  
Equity volatility

**Liquidity:** daily

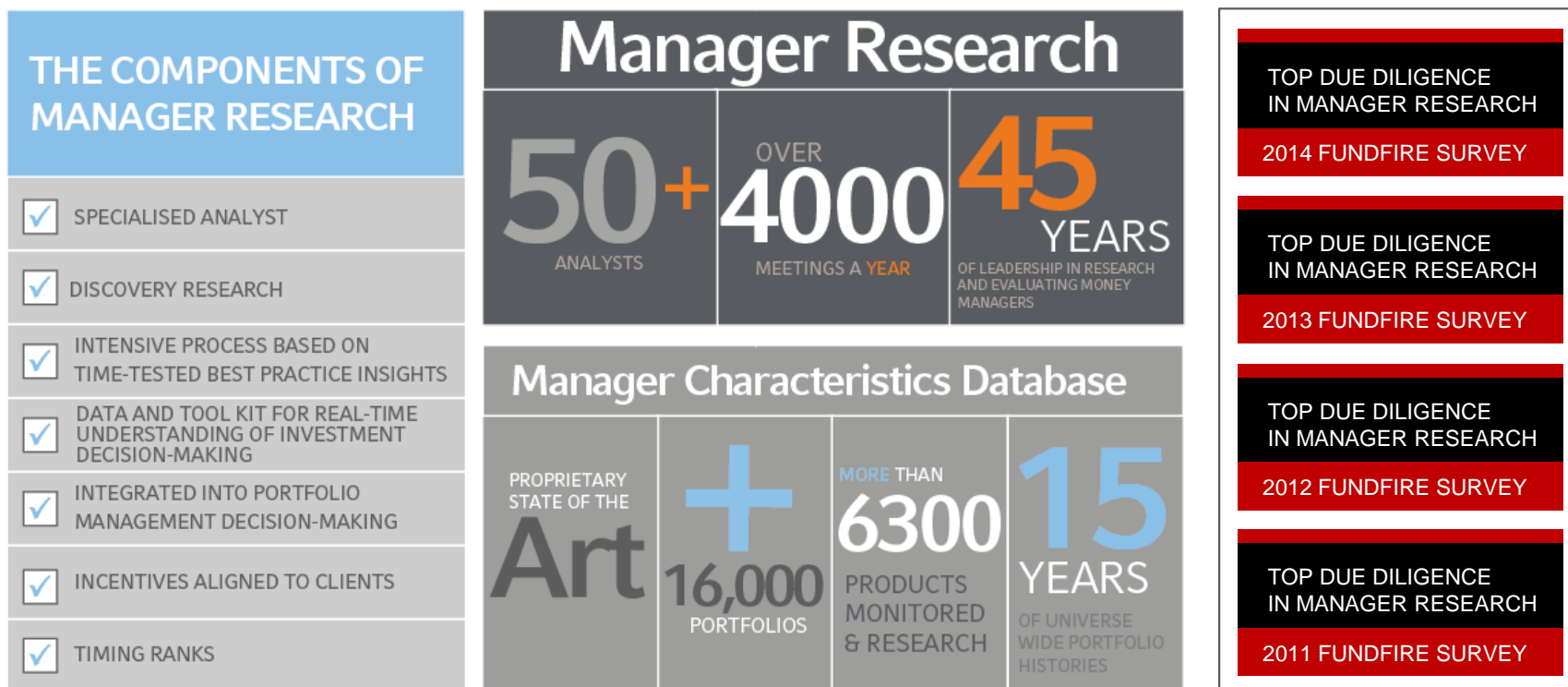
**Peer-relative  
considerations:**  
none

	5-Year	10-Year
Expected Return	7.1%	8.1%
Target	7.2%	7.6%
Expected Volatility	13.4%	13.5%

Russell's Regional Asset Allocation Committee, 12/05/2014. Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions.

# Investment ideas.

Best in class manager selection.



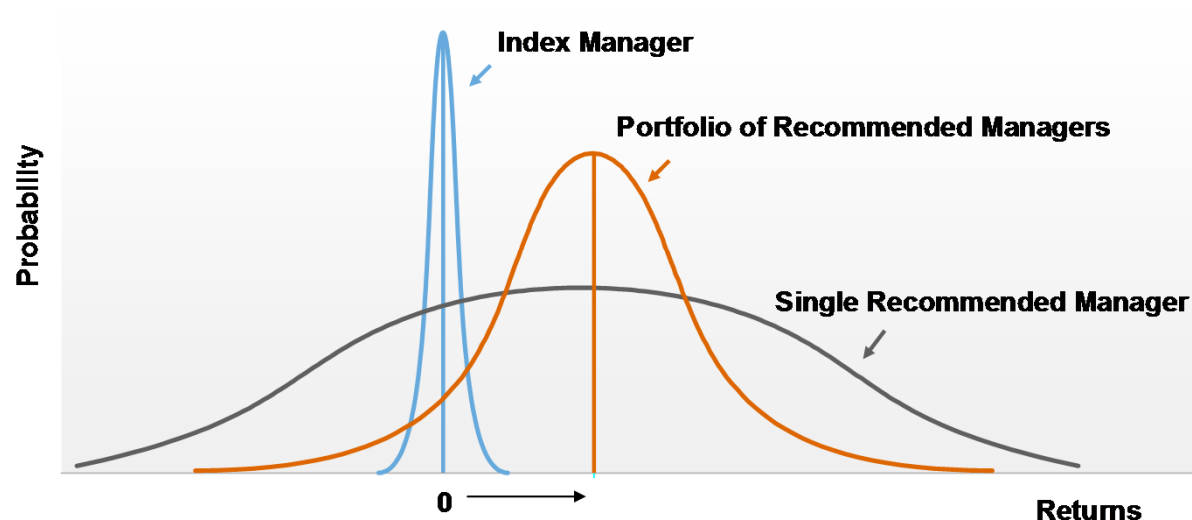


# More managers for reliable outperformance

## Combining uncorrelated managers



Distribution of returns relative to benchmark

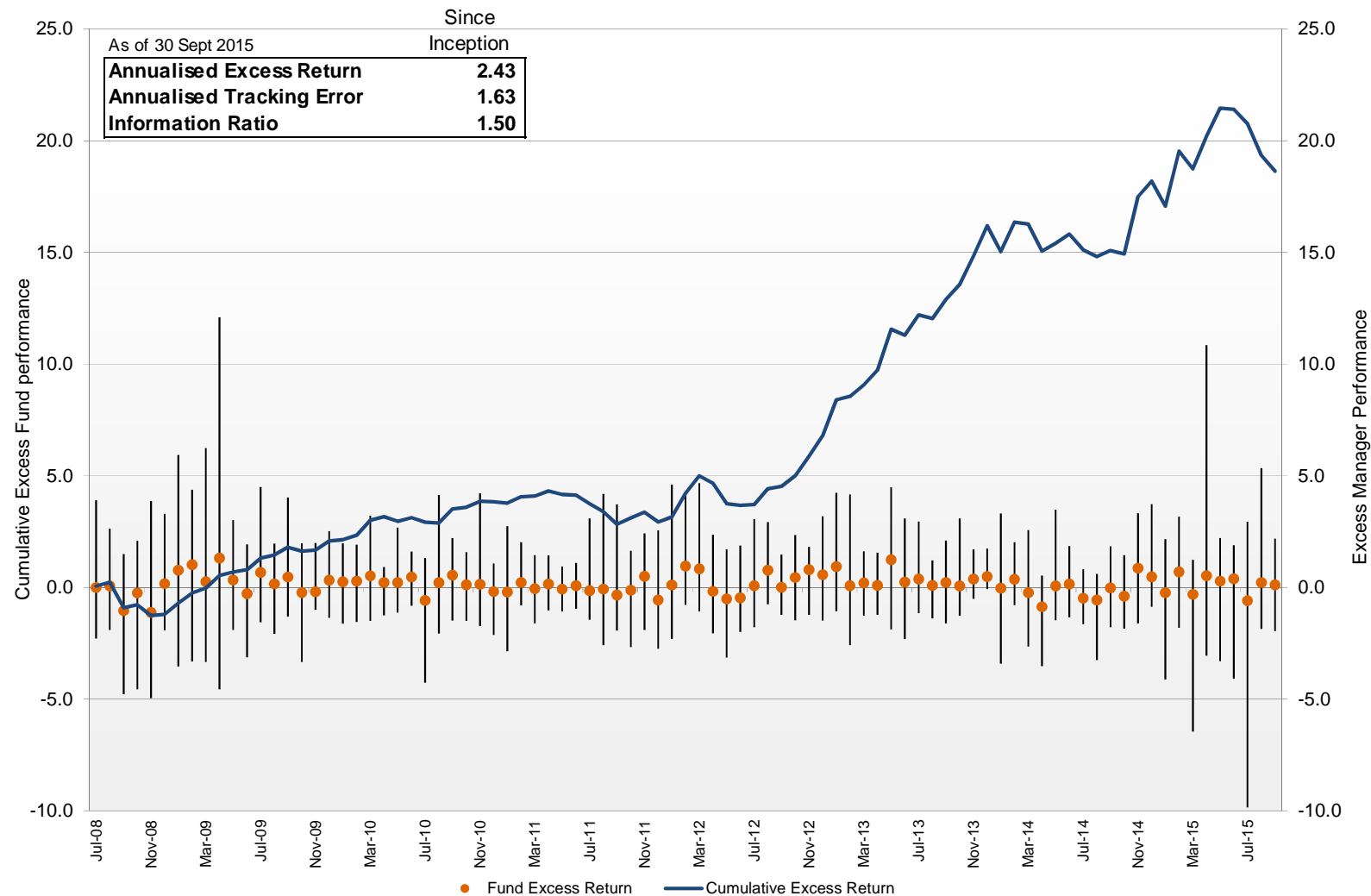


Source: Russell Investments. For illustrative purposes only.

- › Make the conservative assumption that all **Hire “4” ranked active managers** collectively produce gross **alpha of 2% p.a.**
- › A single Hire “4” ranked active manager may also produce gross alpha of 2% p.a.
- › However, having multiple managers increases the reliability with which you achieve this 2% p.a.
- › **Correlations of < 1 lead to improved risk adjusted returns** (information ratio)

# Manager of managers in action

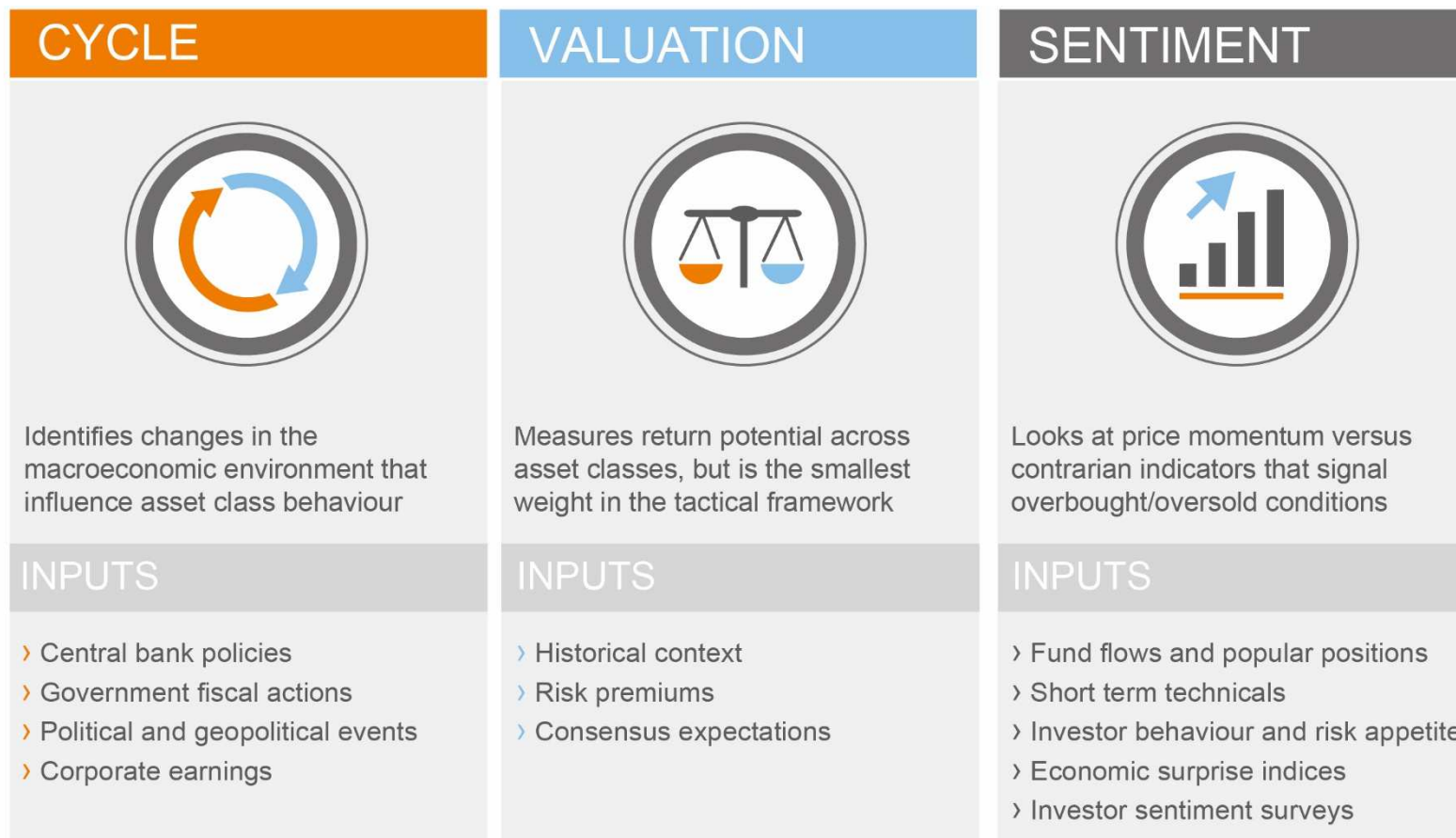
## The power of “alpha” compounding



Source: BBH, JP Morgan, Russell Investments. As at 30 September 2015. BBUKRF Global Developed ex China Fund, Since inception date 19 June 2007. Performance gross of fees. Individual lines represent dispersion in returns between best and worst managers.

# A dynamic investment process.

Three building blocks and three time horizons.



# Investment Division Team Structure

**Jeff Hussey, CFA**  
Global Chief Investment Officer

**Christophe Caspar, CFA**  
CIO, Multi-Asset Solutions

## Portfolio management

### US / CANADA

Rob Balkema, CFA  
Leah Fuhlbrugge, CFA  
Doug Gordon  
John Greves, CFA  
Reid Hellekson, CFA  
Venkat Kopanathi  
Brian Meath, CFA  
Michael Pasley  
Mike Ruff, CFA  
Mark Schilder  
Brandon Siler, CFA

### Brian Yadao

Hirotaaka Yoshida

### ASIA PACIFIC

Daniel Choo, CFA  
Michinori Kanokogi, CFA  
Hiroyuki Nakagawa  
Alistair Martyres, CFA  
Thomas McDonald, CFA  
Andrew Sneddon, CFA

### EUROPE

Alexandre Attal  
Igor Bosnjak  
Alexandra Chuchu  
Sara Danese  
Iheshan Faasee  
Luca Gianelle  
Rob Hall  
Neil Jenkins, CFA  
Martin Kessler  
Emma Kirby

### Ioannis Logothetis

Mayank Markanday, CFA  
Rory McPherson, CFA  
David Millen  
Rajaen Jeyapalan  
William Pearce  
David Vickers, CFA  
Stanislava Vrabcheva, CFA  
Monika Woloszczuk  
Alain Zeitouni

## Asset allocation & portfolio strategy

Adam Goff, CFA, MD, Asset Allocation & Portfolio Strategy

### ASSET ALLOCATION

Peter Ballantyne  
Mirko Cardinale, PhD  
Yuan-An Fan, PhD  
Li He, PhD  
Steve Murray, PhD, CFA  
Sam Pittman, PhD

### STRATEGISTS

Graham Harman  
Kara Ng  
Andrew Pease  
Abraham Robison  
Wouter Sturkenboom, CFA

### CAP MKTS RESEARCH

Jee Young Lee, PhD  
Jordan McCall  
Leola Ross, PhD, CFA  
Vivek Sondhi, PhD  
Pei Yuan Song

### FORECASTING

Sergiy Dubynskiy, PhD  
Jie Li  
Patrick Rowland, PhD

### INVESTMENTS

Bindu Sutaria

Wouter Sturkenboom, CFA

Quantitative Analytics

US / CANADA  
John Sacks, CFA

EUROPE / UK  
Bin Thang, CFA  
Bin Wang, CFA

EUROPE / UK  
Stephen Hunt

# Multi-Asset approach

Using all the strategies and tool available to achieve investor's outcome



## MULTI-ASSET

A global approach to better control the risks



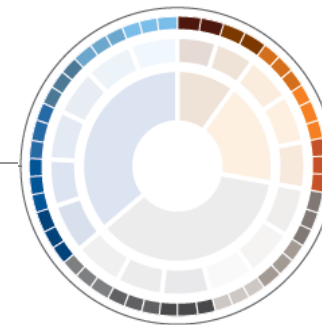
## MULTI-STYLES

More regularity in changing markets



## MULTI-MANAGER

Specialist manager for every strategy



Set to deliver an optimal risk-return profile, a truly diversified portfolio, a cost efficient solution as requested by **Art. 3 D.M. 166 / 2014**

# Russell Multi-Asset Growth Strategy (MAGS)



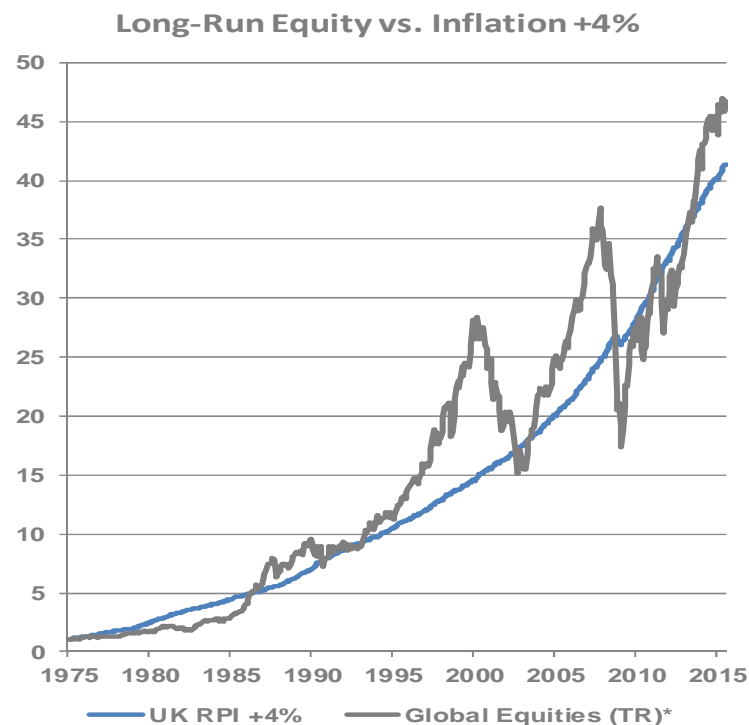
Reaching investors desired outcome at a level of risk they can commit to

# Multi-asset growth portfolios

## Long-term target and guidelines



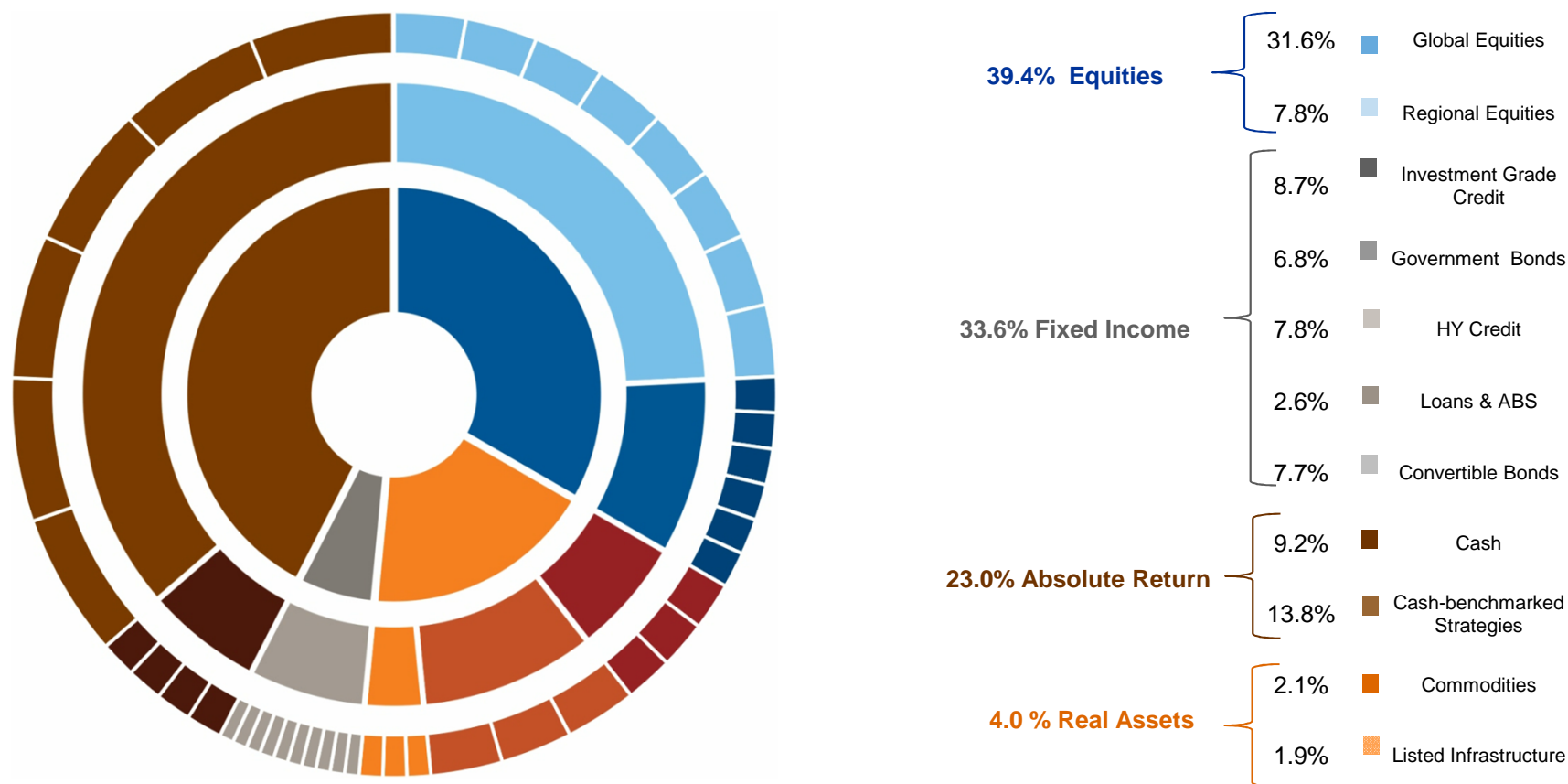
- › An efficient, diversified portfolio, designed to maximise long-term absolute returns by targeting inflation plus 4%.
- › Achieve the return from global equity markets *over a full market cycle* with up to two thirds the volatility of equities.
- › Actively managed asset allocation and management of risk as market conditions vary.
- › Good participation in rising markets, resilience in falling markets.



Asset Class	Min	Max
Equity	30%	70%
Real Asset	0%	10%
Fixed Income	10%	40%
Absolute Return	10%	25%
FX Exposure	Global portfolio EUR Hdg, max FX exposure 50%	

# Multi-Asset Growth Strategy

## Asset Class Breakdown – 31<sup>st</sup> October 2015





YOUR SUCCESS: TAKE A TOTAL PORTFOLIO APPROACH

# Managing your growth assets.

Access to a diversified portfolio of managers

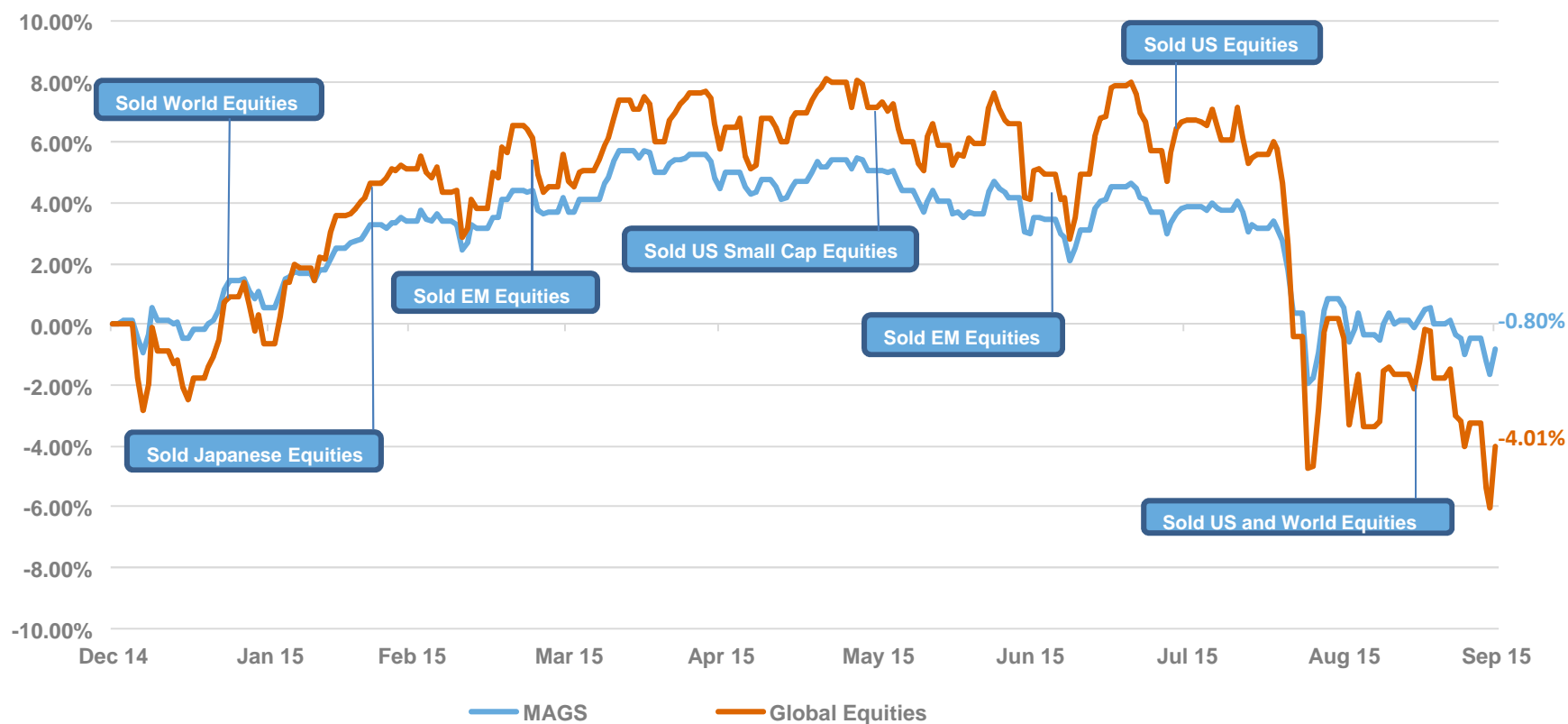
SKILL	CREDIT		EQUITIES			REAL ASSETS
Cash	Investment Grade Credits	High Yield & EMD	Regional Equities	Global Equities	Emerging Equities	Commodities
Cash-Benchmarked Strategies						
Macro Currency Group	Logan Circle	DDJ	Russell Custom Minimum Volatility Portfolio	Harris	Alliance Bernstein	Core Commodity Management
Brandywine	Kempen	Logan Circle	Metropole	MFS	Genesis	Listed Infrastructure
Bluebay		PIMCO	Russell Custom Quality Income Portfolio	Sanders	Harding Loevner	
Avoca Capital		Convertible Bonds	Russell LargeCap Defensive Portfolio	Oaktree	Somerset	RARE
Amundi		Blue Bay	Aberdeen	Numeric	Westwood	
Lazard			Blackrock	Delaware		
H <sub>2</sub> O			Amhem			
Pioneer			Sparx			
Royal London						
Westwood						
Russell Multi-Strategy Volatility Portfolio						

# Multi-Asset Growth Strategy

Dynamic Portfolio Management: Reducing our equity exposure



## MAGS vs. Global Hedged Equities



- Equity weight at 1<sup>st</sup> January 2015: **51.3%**
- Equity weight at 30<sup>th</sup> September 2015: **40.1%**
- The significantly lower equity weighting benefited the fund when equities fell

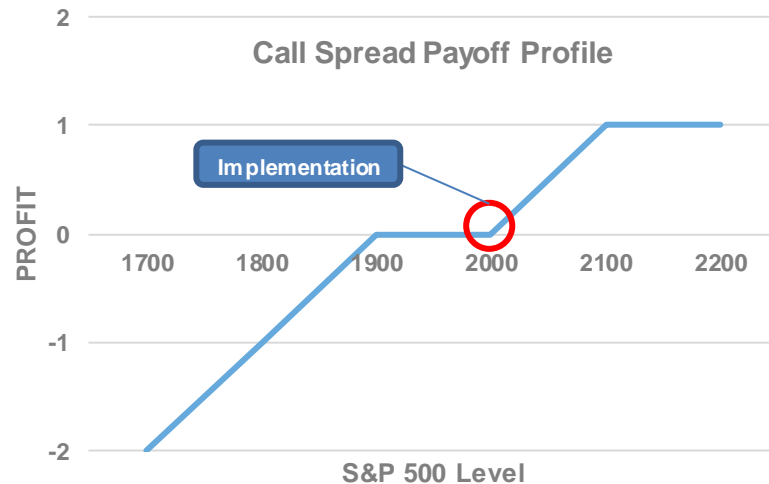
# Investments and transaction allowed

D.M. 166/2014, Art. 4

- › 1. (...), 2. (...), 3. (...),
- › 4. *I derivati possono essere stipulati esclusivamente per finalita' di riduzione del rischio di investimento o di efficiente gestione (...). L'utilizzo di derivati e' adeguatamente motivato dal fondo pensione in relazione alle proprie caratteristiche dimensionali, alla politica di investimento adottata e alle esigenze degli aderenti e dei beneficiari delle prestazioni pensionistiche.*

# Multi-Asset Growth Strategy

## Dynamic Portfolio Management: Equity replacement with an S&P 500 Call Spread



### Structure of the Equity replacement trade

- Sold 5% of US S&P 500 Futures
- Bought an S&P 500 at the money call – Strike at 2000
- Shorted an S&P 500 out of the money put – Strike at 1900
- Shorted an S&P 500 out of the money call – Strike 2100

### ➤ Summary

- Our long call on the S&P 500 gives us exposure above 2000
- Should the S&P 500 go above the 2100 level, our short call caps our exposure
- Should the S&P 500 go below 1900, the short put exposes us to the downside from this level

### ➤ Rationale

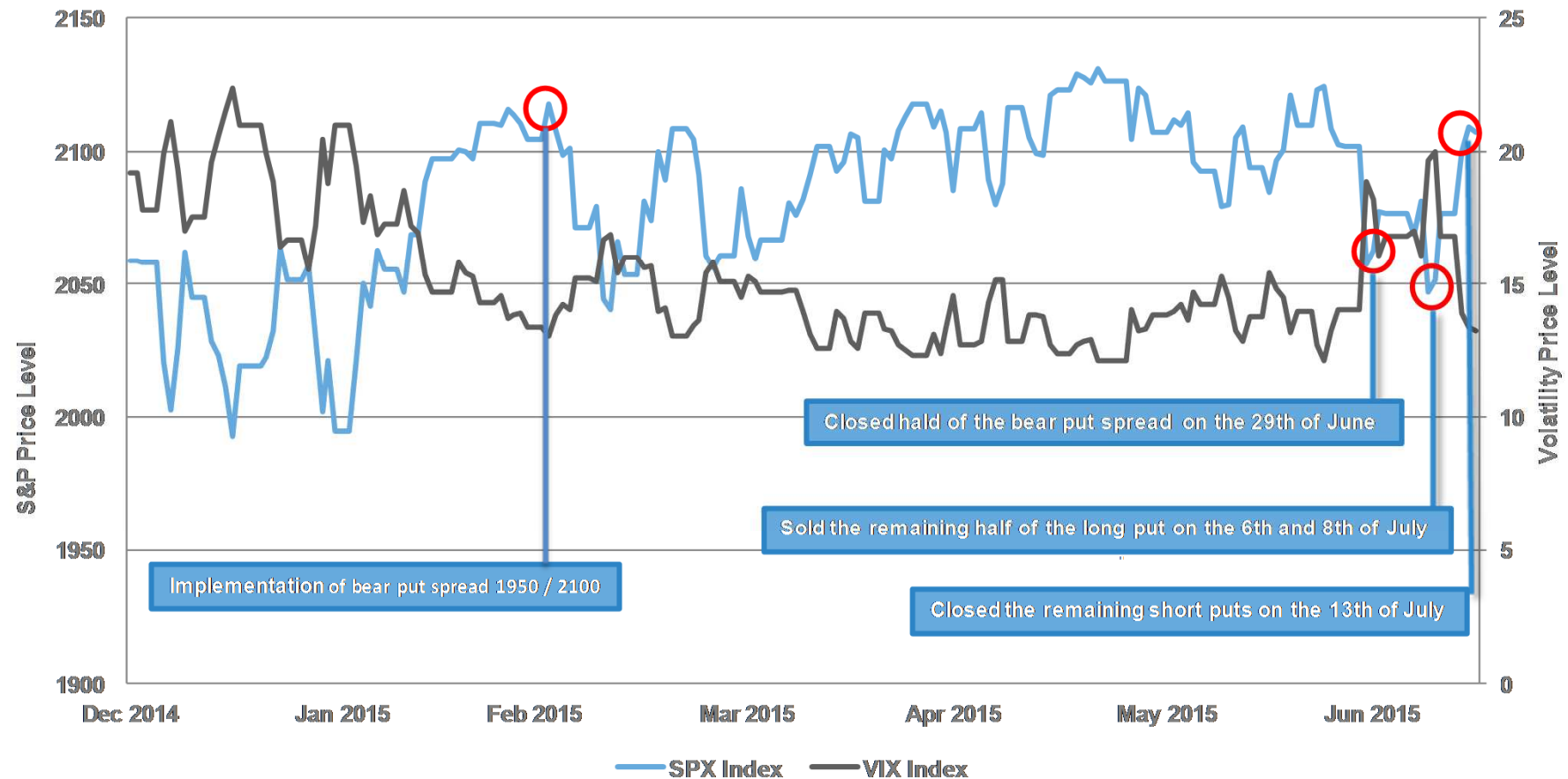
- This strategy allows us to capture the upside of the market to the tune of 5% (previous highs)
- Mitigates the risk if the market falls back down to near previous lows
- Due to high levels of skew, this strategy was cashless when implemented

### ➤ Dynamic portfolio management

- Taking advantage of a dip in the market, we bought back half of the 2100 short call on 28<sup>th</sup> September.

# Multi-Asset Growth Strategy

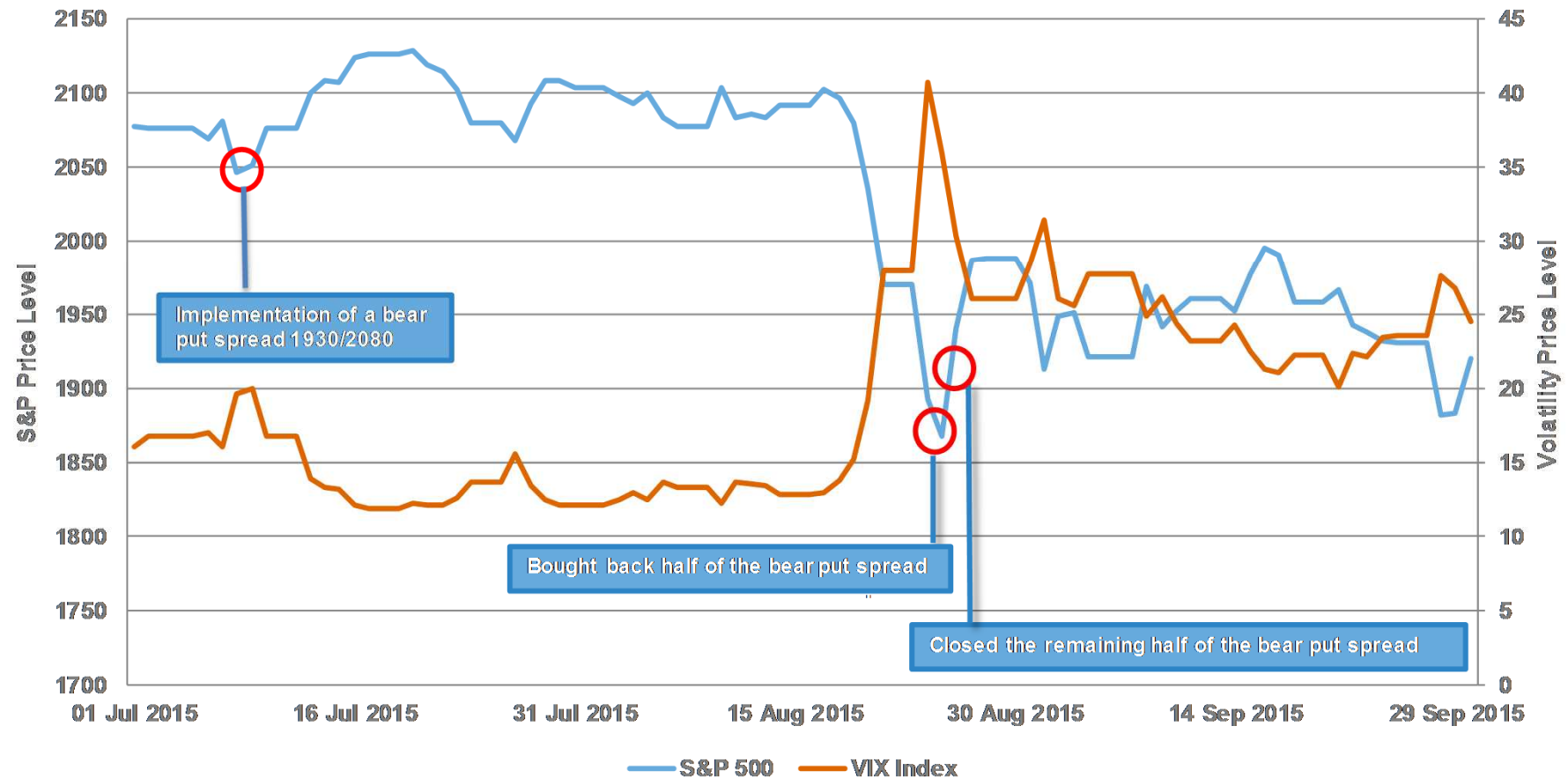
## Protection – SPX Bear Put Spread



- Bought protection in February after a strong rally in the US markets
- We took advantage of volatile markets towards the end of June to exit the position making a profit

# Multi-Asset Growth Strategy

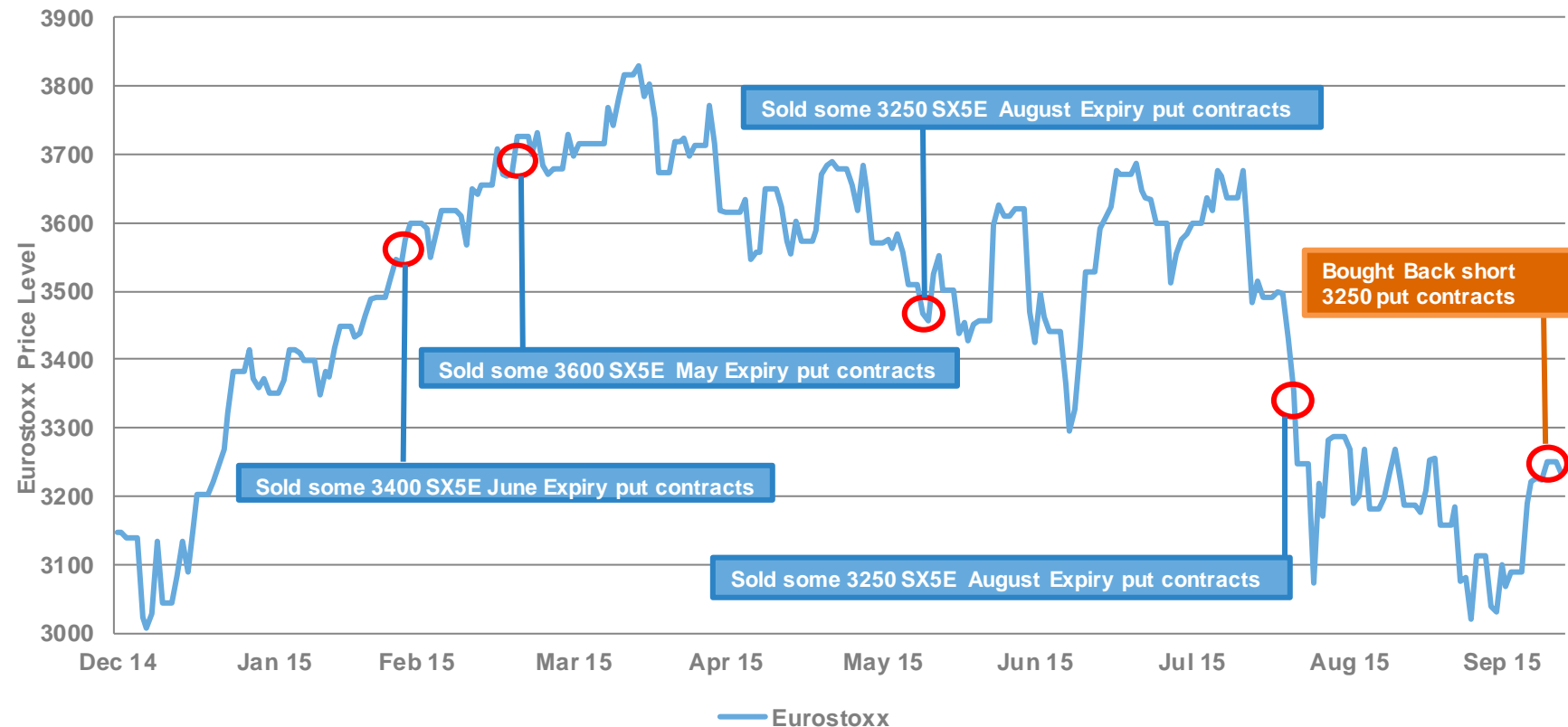
## Protection: S&P 500 Bear Put Spread



- Exited the bear put spread after a sharp equity decline and a spike in volatility

# Multi-Asset Growth Strategy

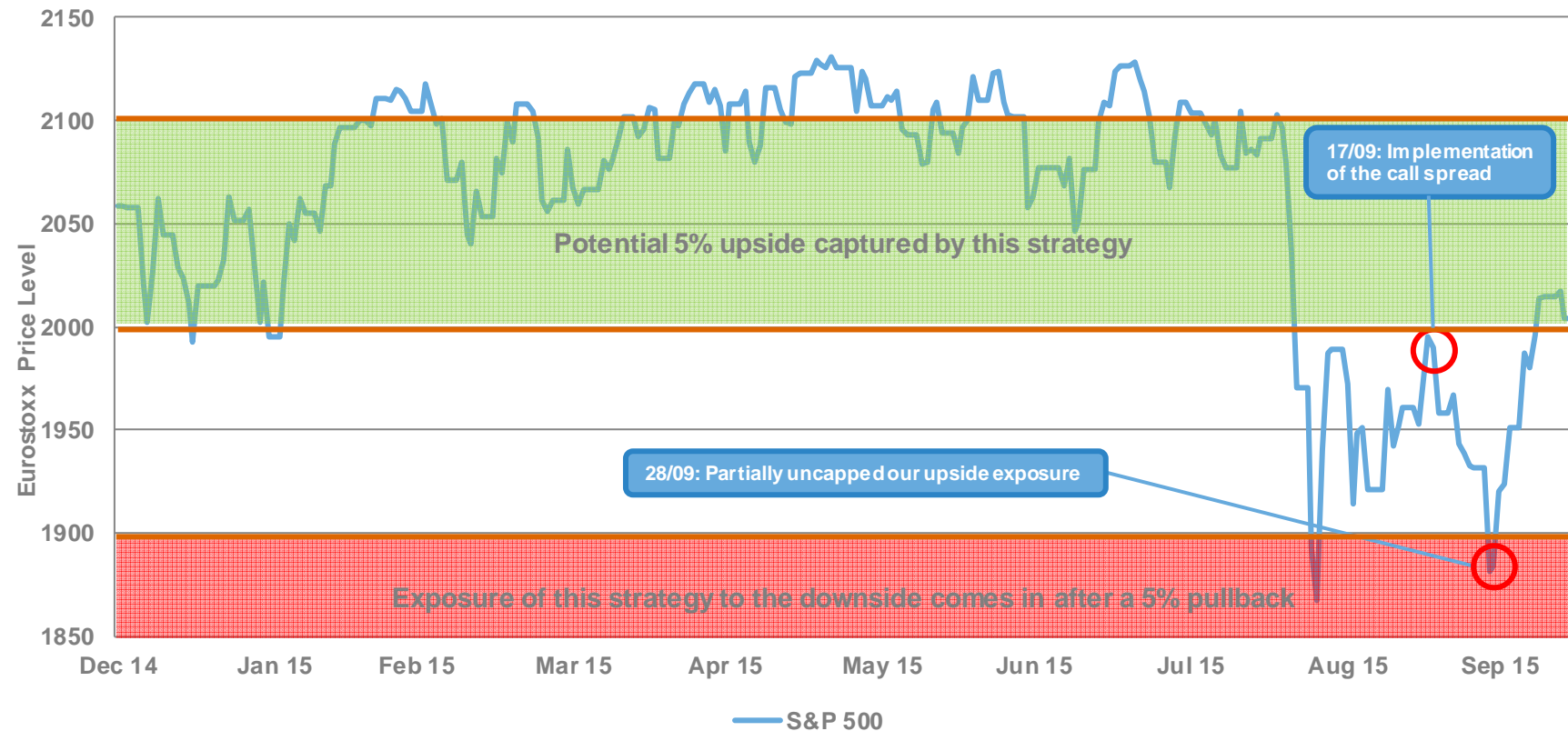
## Dynamic Portfolio Management: Eurostoxx Short Puts



- We have tactically traded Eurostoxx in 2015 and sold short puts on 27/02/15, 20/03/15, 09/06/2015 and 21/08/2015
- We wanted to increase exposure to Europe based on our positive view of the asset class and potential upside
- The fund is 5.5% overweight Europe. Our strategy is to short puts on dips and retain the premium if the rally continues  
Three of our short puts expired out of the money and we kept the premium. We bought back the last one keeping 90% of the premium

# Multi-Asset Growth Strategy

## Dynamic Portfolio Management: Equity replacement with an S&P 500 Call Spread



- On 17<sup>th</sup> September, we made an **equity replacement trade** on the S&P 500 by selling futures and implementing a call spread with a 31<sup>st</sup> December 2015 expiry
- Our net exposure to the S&P 500 was reduced by a net **2%**

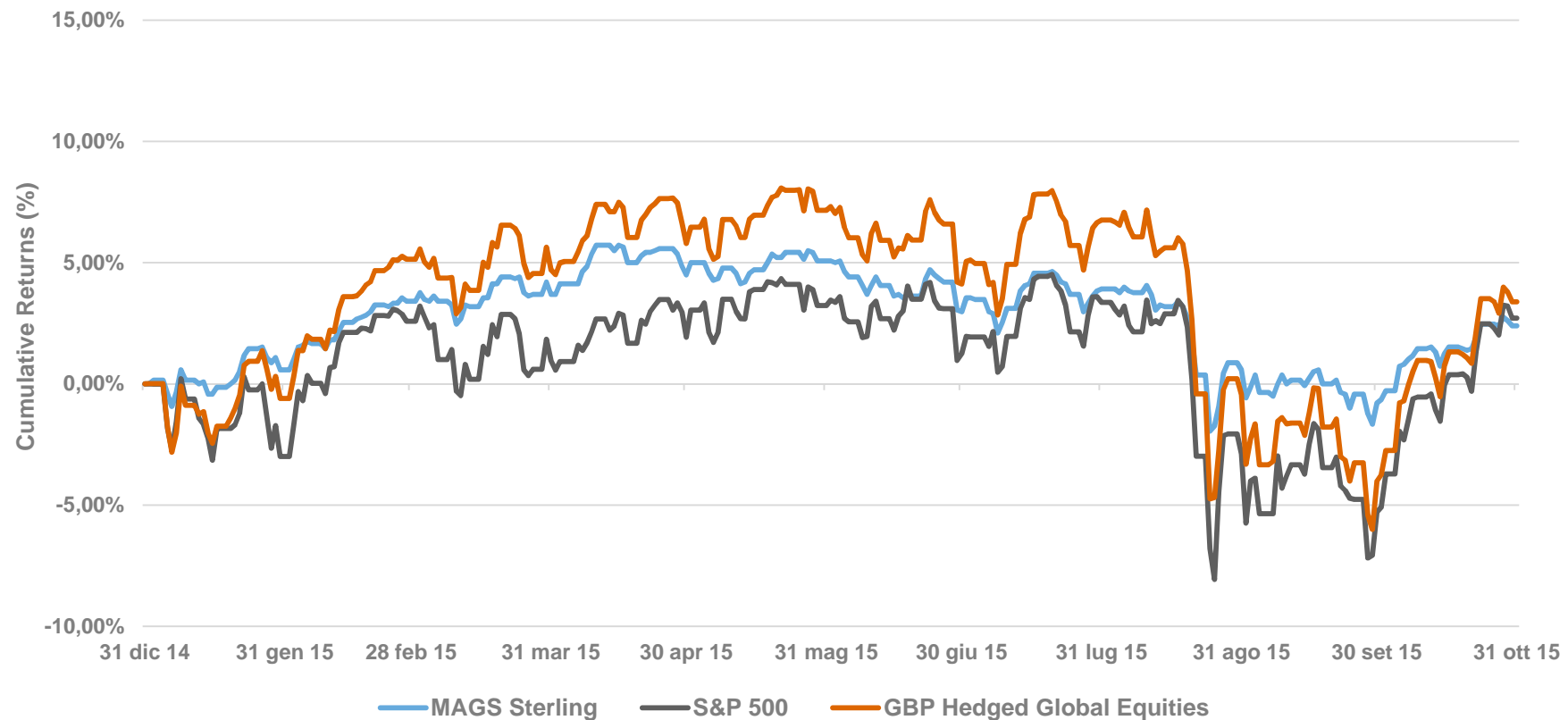


# Multi-Asset Growth Strategy

## Where we stand vs. Major Equity Indices



### MAGS vs. S&P and Global Hedged Equities

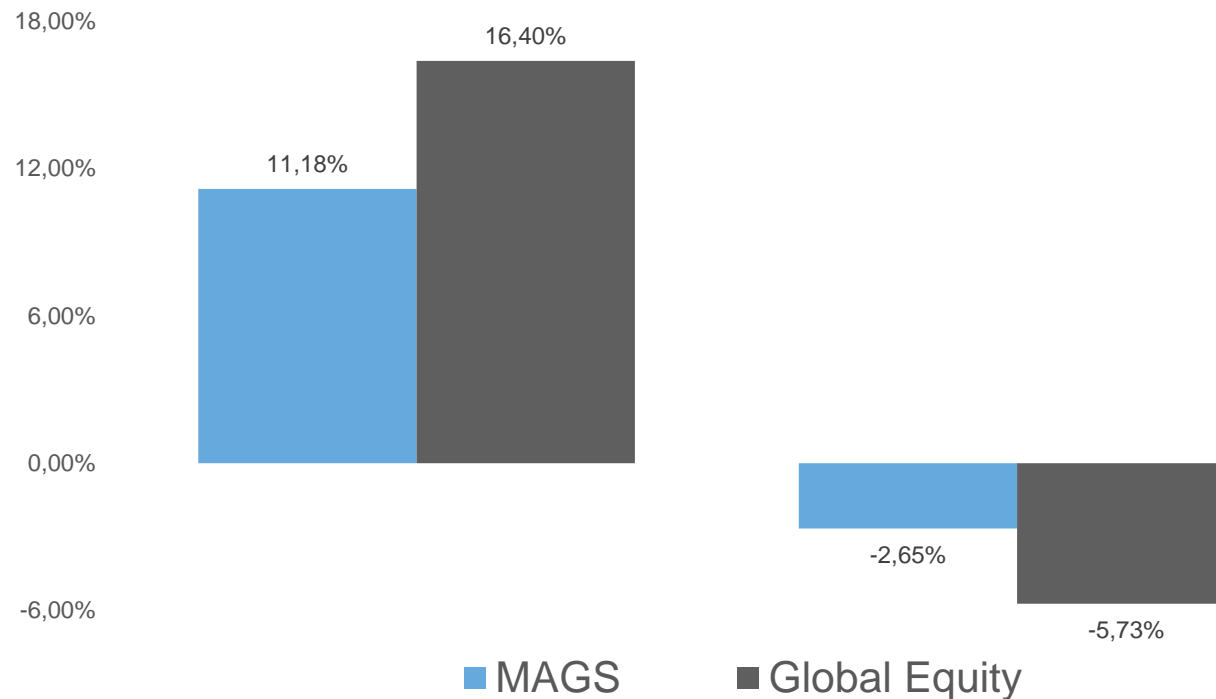


- › MAGS has been successful in achieving a **smooth growth path** and has shown **resilience in difficult market environments**

# Multi-Asset Growth Strategy Fund vs Global Equity



Average return during + and - years



**UPSIDE CAPTURE: 68,18%**  
**DOWNSIDE CAPTURE: 46,35%**

# Multi-Asset Growth Strategy

Achieving a resilient return profile – 31<sup>st</sup> October 2015



	1 M	3 M	YTD	1 Year	3 Years	Since Inception	Volatility (3 Years)	Volatility (Since Inception)
<b>MAGS Euro Fund</b>	3.9%	-1.1%	4.9%	6.3%	8.1%	8.2%	4.7%	6.6%
HICP + 4%	0.5%	0.6%	3.4%	3.9%	4.5%	5.7%		
Russell Global Equity Index	8,3%	-3.0%	6.2%	8.8%	14.7%	11.5%	8.7%	10.3%

- › The fund has shown **resilience versus Global Equities during market sell-off**
- › The fund has achieved **less than two-thirds of equity volatility** since inception

Source: Russell Investments / Confluence. Performance data, gross of fees. Inception 11 December 2009. Russell Global Equity Index comprises 50% Russell Global Large Cap Index Net and 50% Russell Global Large Cap Net (EUR-hedged). All HICP figures reflect a 1 month lag. Past performance is not a guide to future performance.

# Multi-Asset Growth Strategy

## Historical Peer-relative Performance – 31<sup>st</sup> October 2015



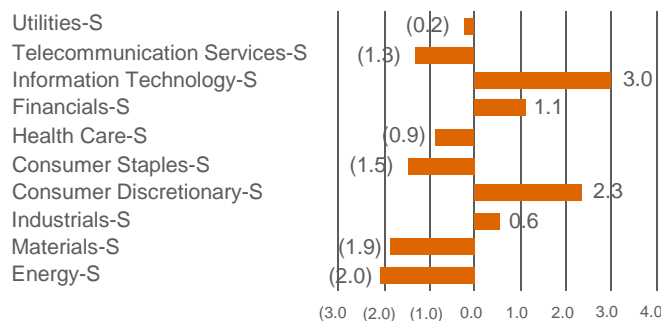
NAME	YTD	YTD Rank	1 Year	1 Year Rank	2 Year	2 Year Rank	3 Year	3 Year Rank	4 Year	4 Year Rank	5 Year	5 Year Rank	ITD	ITD Rank
RUSSELL MAGS	2.39%	6	4.35%	10	3.89%	7	6.36%	5	6.03%	4	5.08%	4	6.08%	3
BAILLIE GIFFORD	2.95%	3	4.36%	9	4.37%	4	5.50%	9	6.06%	3	5.79%	1	8.26%	1
RUFFER	1.60%	9	6.19%	2	3.41%	12	6.63%	3	5.49%	6	5.02%	5	5.65%	6
BARING	1.49%	12	6.05%	3	3.05%	14	4.98%	12	4.55%	12	4.65%	7	5.29%	7
SCHRODER	0.20%	21	3.28%	15	3.62%	10	7.36%	1	6.30%	2	4.88%	6	6.03%	4
STANDARD LIFE	3.53%	1	5.30%	5	5.71%	1	5.56%	8	5.90%	5	5.18%	3	6.10%	2
NEWTON	1.75%	7	3.37%	13	1.81%	19	3.31%	17	3.68%	13	3.39%	12	4.17%	12
FIDELITY	0.86%	15	5.22%	6	4.35%	5	5.82%	6	5.47%	8	4.40%	8	5.03%	9
M&G	1.57%	10	3.45%	12	3.80%	9	6.72%	2	6.32%	1	5.26%	2	5.71%	5
MOMENTUM	0.58%	18	1.36%	21	2.43%	16	4.47%	13	5.28%	9	4.32%	9	5.13%	8
BLACKROCK	0.42%	19	1.93%	18	3.48%	11	5.02%	11	4.84%	11	3.99%	11	4.82%	10
ABSOLUTE INSIGHT	-0.27%	22	1.94%	17	3.16%	13	4.40%	14	5.10%	10	4.10%	10	4.55%	11
TM FULCRUM	1.52%	11	3.30%	14	2.12%	17	6.40%	4	5.49%	7	3.03%	13	3.73%	13
PIMCO	2.71%	4	5.65%	4	5.36%	2	2.27%	19	2.23%	14	2.51%	14		
PYRFORD	0.65%	17	1.89%	19	1.06%	20	2.69%	18						
SCOTTISH WIDOWS	-1.30%	23	0.32%	22	2.69%	15	5.75%	7						
GMO	-2.78%	25	-1.99%	24	-0.73%	21	3.44%	16						
HENDERSON	0.35%	20	1.42%	20	1.84%	18	4.17%	15						
ABERDEEN	3.51%	2	6.47%	1	4.92%	3	5.16%	10						
THREADNEEDLE	2.71%	5	5.15%	7	4.20%	6								
SSGA	-2.04%	24	-0.93%	23										
INVESCO PERPETUAL	1.43%	13	4.12%	11										
L&G	0.92%	14	2.83%	16										
MERCER	0.70%	16												
ICVC Growth	1.62%	8	4.45%	8	3.86%	8								

YOUR SUCCESS: TAKE A TOTAL APPROACH

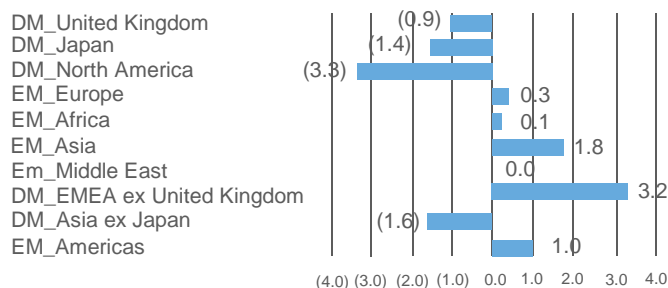
# Portfolio exposures.

Knowing all of your exposures all of the time.

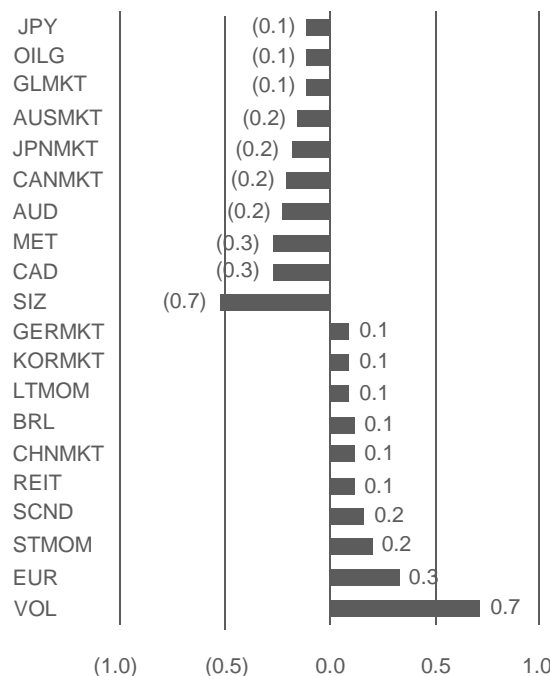
## Sector Exposure



## Region Exposure



## Top 10 Factor over an Under weights



**\$20+**  
Million a year  
invested on risk  
management and  
analytic systems

Set to share with the Pension Fund and the Custodian Bank all the relevant information to comply with art 5 D.M. 166 09/2014 and to fulfill COVIP reporting

# Possible set-up for an Italian Pension Scheme



Segregated account investing into **Russell's Funds of Mandates**, representing the different asset classes / strategies, and to a lower extent into **third party funds**

*It allows to have access to all performance drivers: **strategic asset allocation, management of managers, tactical asset allocation***



Segregated account investing into **securities selected by specialists** in each asset class **appointed by Russell**

*While both **strategic and tactical asset allocation** are **preserved**, it is **less diversified** than the previous set-up in terms of «alpha» generation. It needs the **sub-delegation arrangement***



Segregated account investing into **securities selected by Russell**

*It's the traditional model, «alpha» is limited, although volatile, to few asset classes. **Strategic and tactical asset allocation** are preserved.*

# Investment limits

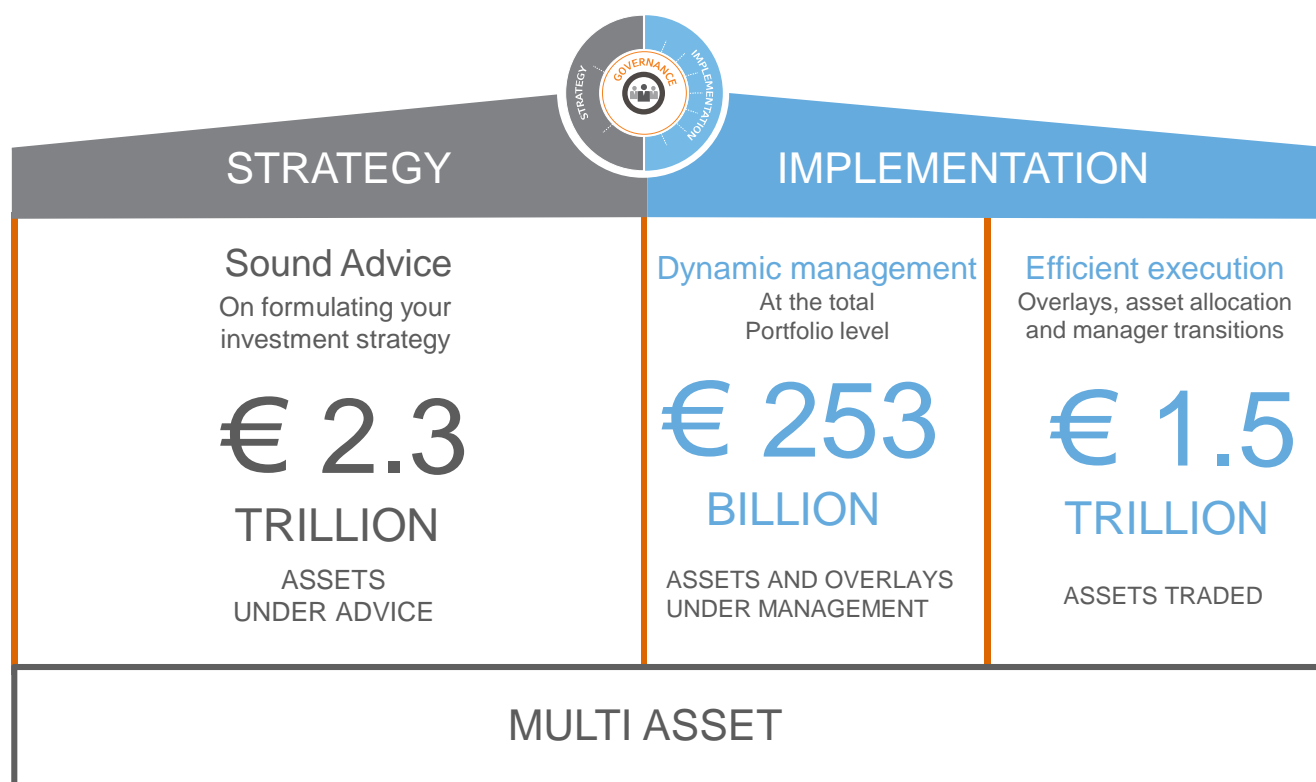
## D.M. 166/2014, Art. 5

- › Artt. 1, 2, 3 (...);
- › Art. 5. *L'investimento in OICR e' consentito a condizione che:*
  - › *Sia adeguatamente motivato dal fondo pensione in relazione alle proprie caratteristiche dimensionali e a quelle della politica di investimento che intende adottare e risponda a criteri di efficienza ed efficacia;*
  - › *La politica di investimento degli OICR sia compatibile con quella del fondo pensione;*
  - › *L'investimento in OICR non generi una concentrazione del rischio incompatibile con i parametri definiti dal fondo pensione (...);*
  - › *Il fondo pensione sia in grado di monitorare il rischio relativo a ciascun OICR al fine di garantire il rispetto dei principi e criteri stabiliti nel presente decreto per il portafoglio nel suo complesso;*
  - › *Non comporti oneri aggiuntivi rispetto a quelli previsti dal fondo pensione e comunicati agli aderenti.*
  - › (...)

WHY RUSSELL

# Uniquely positioned to help you succeed.

You benefit from our unrivalled experience and heritage across strategic advice and implementation.





Thank you.

