Russell Investments

Rex House
10 Regent Street
London SW1Y 4PE

tel +44 (0) 20 7024 6000
fax +44 (0) 20 7024 6001
http://russellinvestments.com

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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 recognize 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 synchronized global economic growth. Fueled 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.

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 & 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 ICVC Multi-Asset Growth Strategy III (MAGS III) continued to achieve a smooth growth path, demonstrating resilience in a difficult market environment while still contributing to the upside.

In 2017, MAGS III delivered performance of 10.1% in gross terms1. This trend continues over longer-term periods: over the three-year period, we delivered performance of 7.2%, 7.7% over the 5-year period and 7.6% since inception2.

[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.

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.

Performance	One Year	Two Years	Three Years	Four Years	Five Years
Russell Investments ICVC Multi Asset Growth Strategy III GBP (£) Net of fees	8.9	8.5	7.2	7.3	7.7

Source: Confluence. As of 31 December 2017.

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,

Jeff Hussey
Chief Investment Officer

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