

Fund Profile

An in-depth look at Russell Sector Funds

August 2011

Russell After-Tax Australian Shares Fund (for Superannuation Investors)

The Fund uses Russell's in-house emulation capabilities to leverage the investment insights from multiple managers and incorporates a range of strategies aimed at enhancing after-tax returns specifically for superannuation investors.

The Fund's performance is reported after-tax as well as on a pre-tax basis to provide visibility to superannuation investors of after-tax outcomes at the managed fund level.

Fund design

The Fund aims to provide superannuation investors with exposure to a diversified portfolio of Australian equities. It seeks to provide a return before costs higher than the Fund's benchmark on both a pre-tax and after-tax basis over the long term.

To achieve these objectives, the Fund is structured to capture alpha-seeking investment insights from multiple managers and is implemented as a centrally managed portfolio. The underlying managers each have unique investment styles and processes which reduces 'Scenario risk'.

In addition, the Fund holds an investment bias to above average franked dividend payments and employs strategies with a focus on enhancing after-tax returns.










Fund design - implementation

The Fund is implemented to maximise equity returns. This is achieved by:

- a) Operating a centrally managed portfolio that is constructed to closely track the aggregated return series of the underlying managers.

Fund breakdown



Arnhem	
BEM	
Perennial Value	
Karara	
Orion	
AMP Capital Investors	
Dimensional	
Select Holdings	
Enhanced Insights	

"The Fund focuses on enhancing overall returns on an after-tax basis as relevant to superannuation investors."

Scott Bennett
PORTFOLIO MANAGER AUSTRALASIA
RUSSELL INVESTMENTS



Quick Overview

Inception: February 2011

Benchmark: FTSE ASFA Australia 200 Superannuation Index

Recommended timeframe: At least 5 years

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b) Applying investment strategies to this portfolio in order to enhance after-tax returns. These include:

- » Turnover management
- » Tax effective off-market share buy-backs
- » Preservation of franking credits
- » Capital gains tax optimisation

The focus of these strategies will not be on tax minimisation but, rather, on enhancing overall returns on an after-tax basis as relevant to superannuation investors.

Current Fund structure

The Fund has exposure to the following managers' insights:

Arnhem

Growth: sustainable growth

Arnhem's investment style can be characterised as having a bias towards industries and companies with above average, long-term growth prospects. Its industry approach to investment is based on the belief that superior long-term share performance is driven by above-average, sustainable earnings growth.

AMP

Style Neutral (Quantitative)

AMP Capital's Active Quant approach applies an active investment style that targets pricing anomalies across a large number of stocks using a highly disciplined investment process. These pricing anomalies are drawn from the Value and Momentum styles, two of the most robust and enduring families of empirical irregularities. A number of factors are combined to capture the Value and Momentum characteristics of stocks and, in turn, to produce the best predictor of future share price performance.

The power of the process is its ability to find pricing anomalies across a large number of stocks. The result is an investment process that tries to capture the best of quant investing – high breadth, consistency and discipline – with a significantly improved risk perspective using a 'fundamental' approach.

Dimensional

Value: deep value (small cap)

The manager seeks to add value by employing an investment process that focuses on capturing the value risk premium in a way that minimises turnover, manages market frictions, harnesses the effects of momentum and recognises the impact of liquidity seekers.

“The focus of these strategies will not be on tax minimisation but, rather, on enhancing overall returns on an after-tax basis as relevant to superannuation investors”

About the benchmark

The calculation of the FTSE ASFA Australia 200 Superannuation Index takes into account:

- » Franking credits attached to dividend distribution
- » Franking credits attached to off-market buy-backs
- » The tax treatment on the capital gains attached to off-market buy-backs

Balanced Equity Management

Value: large cap

BEM has a bottom up, large capitalisation approach to equity investment. Portfolios are constructed exclusively from the universe of 50 Leader companies, providing the Fund with a consistent exposure to large companies. This focus on such a small list of stocks enables BEM to undertake a level of company analysis that is more detailed and intensive than its peers. BEM builds its company valuations based on the appraised value of individual operating divisions. A distinguishing feature of BEM's approach is its rigorous risk analysis and valuation techniques, and the sophisticated use of derivative securities to efficiently implement its investment strategy.

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Karara Capital **Style neutral**

Karara aims to identify investment opportunities that are underappreciated by the market and incorrectly priced using a combination of fundamental bottom-up stock selection with an appreciation of top-down macro-economic influences. Karara's portfolio will generally be style neutral, however over the course of a market cycle the portfolio may experience some style rotation.

The firm's analysis comprises an assessment of the financial and operational outlook for each company, paying particular attention to those factors that the firm believes are important in determining the prospects for a company's economic earnings and intrinsic value.

Orion Asset Management **Growth: valuation sensitive**

Orion's investment process is fundamentally driven with a focus on identifying companies with mispriced long-term earnings growth prospects. The overriding philosophy is to identify profitable growth (where margins are higher than cost of capital) that the market is undervaluing relative to other companies. Orion runs high conviction

portfolios and targets a higher level of excess return than most other managers in the market. The manager remains disciplined about capacity constraints, making it nimble across all capitalisation segments.

Perennial Value Management **Income: value**

Perennial is a traditional stock picker, with a focus on fundamental assessments of future earnings and dividends based on internal company research. The portfolio will predominantly consist of quality large cap Australian companies with a high yield that meet their valuation criteria.

Two model driven strategies are included in the centrally managed portfolio:

i. Russell Select Holdings Strategy

This innovative strategy developed by Russell Investments aims to amplify the Fund's alpha potential by accentuating the stock picking skills of our managers. Russell research has demonstrated that commonly held overweight stocks outperform uniquely held overweights.

The Select Holdings strategy is designed to capitalise on this insight by concentrating exposure on a small number of commonly overweighted securities.

ii. Russell Enhanced Insights Strategy

Enhanced Insights is a variation of the Select Holdings strategy, providing investors with exposure to a deeper and less concentrated list of the best ideas of our top managers.