

Delight in a land of disappointment

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Russell Investments

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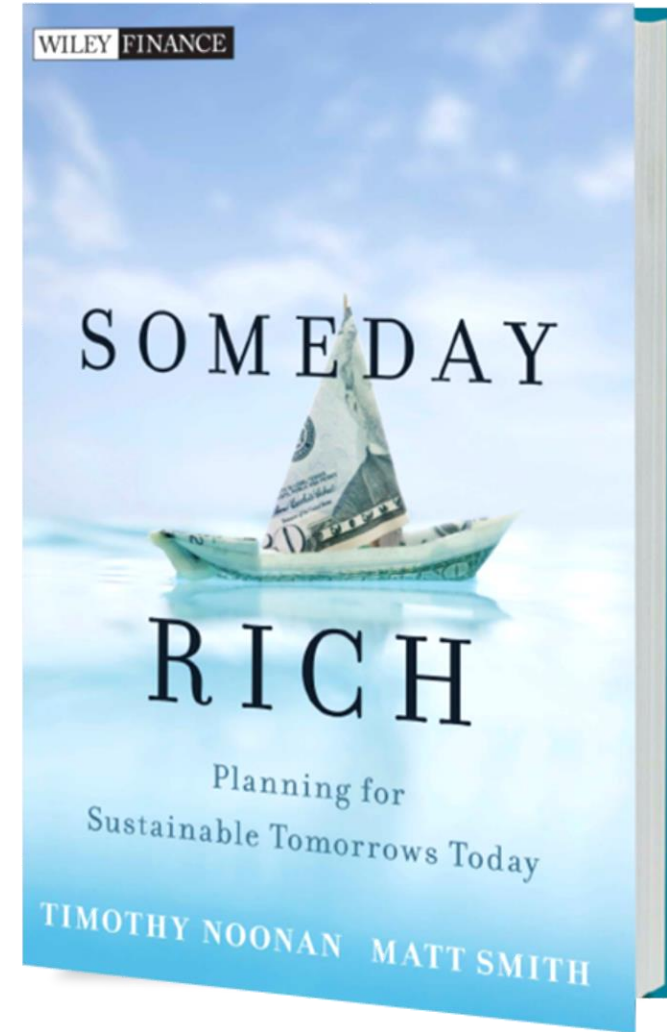
INST-2016-10-12-0689 (EXP 10-2017)

Denial is not a river



Source: Hiroko Masuike/The New York Times. Aug 18, 2016

Definitions

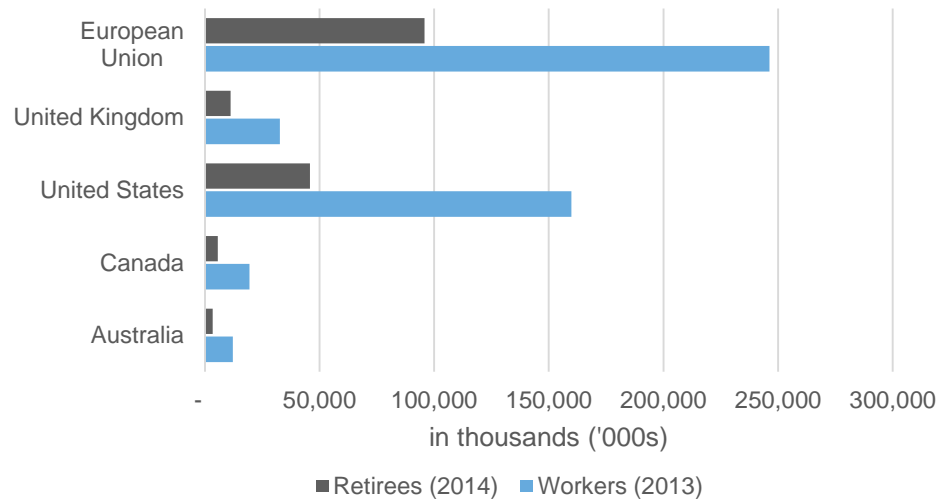


Source: <http://biq.com.mx/velocidad-de-escape/>

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Demographics

Retirees and Workers, by country sorted by highest ratio of retirees to workers

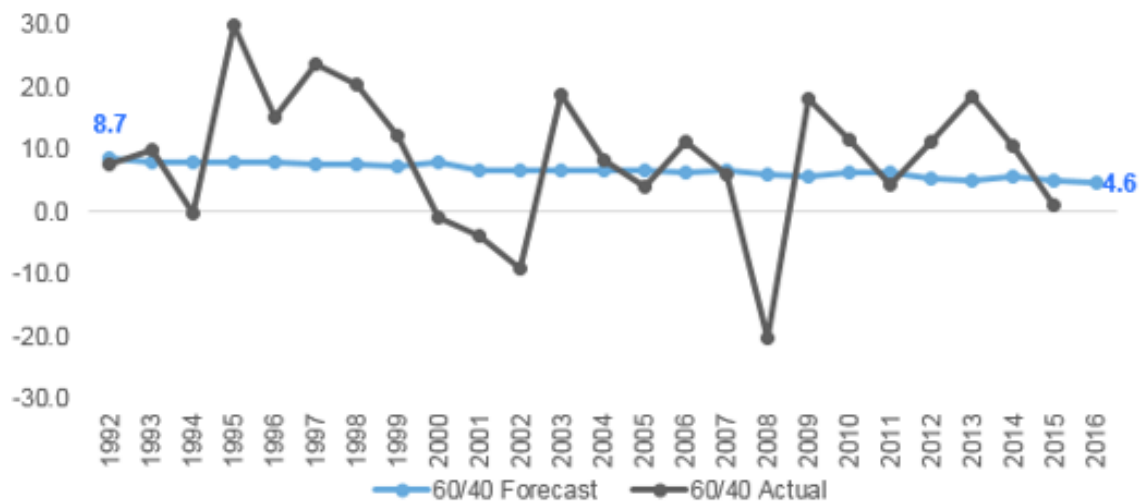


Source: World Bank World Databank, databank.worldbank.org, pulled Sept. 19, 2016. Retirees is defined as the Population, age 65 and above, as of 2014 estimates. Workers is defined as the Total Labor Force as of 2013 estimates. Total Labor Force is defined as residents age 15 and above who are economically active, according to definition by International Labour Organization.

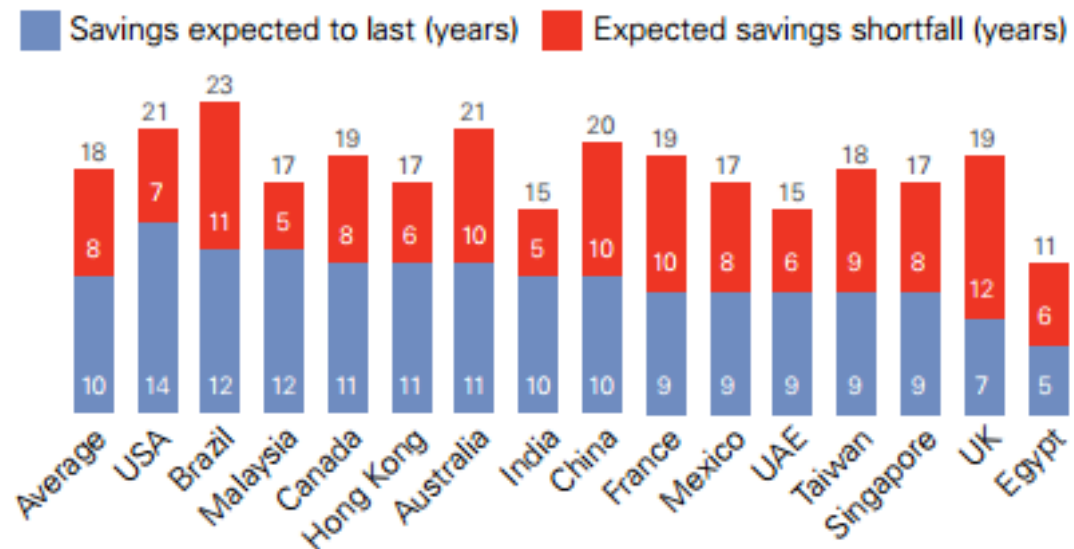


Slow growth > try harder

Actual return experience was anything but steady
60% stocks, 40% bonds



Expected retirement funding shortfall



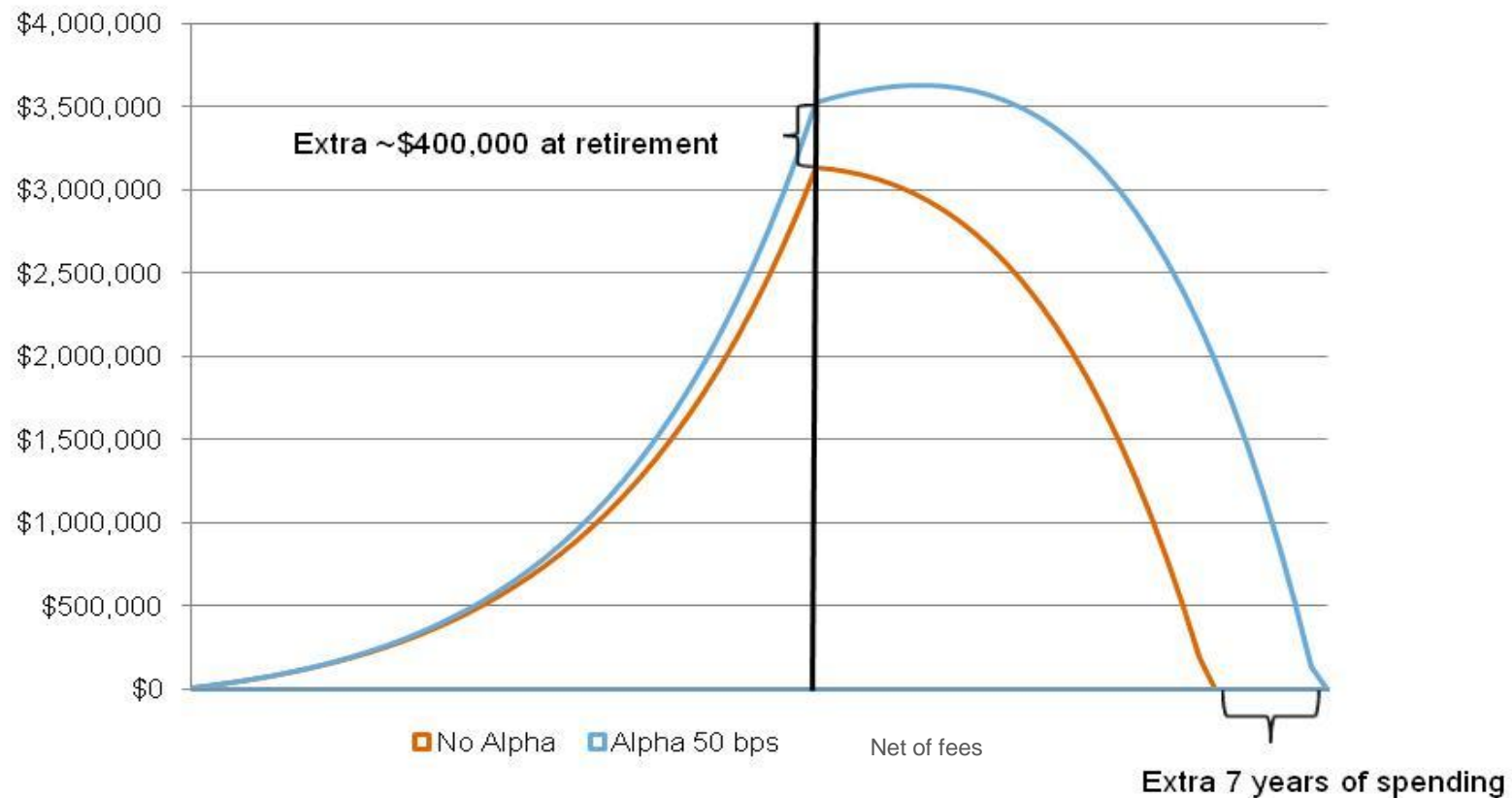
Left chart –Source: Federal Reserve Bank of Philadelphia, Survey of Professional Forecasters & Russell. Data as of January 2014. The 60/40 Forecast returns on this chart are the expectations that the Federal Reserve Bank of Philadelphia, Survey of Professional Forecasters had during the time period noted on the chart above. These are 10 year forward looking forecasts. Historical data is not indicative of future results. 60/40 = 60% equity, 40% bond portfolio. Equity returns were calculated using the S&P 500 Index, bonds were calculated using the U.S. Treasury 10 year bond. Forecasting represents predictions of market prices and/or volume patterns utilizing varying analytical data. It is not representative of a projection of the stock market, or of any specific investment. <https://www.philadelphiafed.org/research-and-data/real-time-center/survey-of-professional-forecasters/data-files>.

Right chart - Source: “Life after work” study by HSBC, J.P. Morgan Asset management. Figures represent the expected portion of retirement spending that will not be covered by retirement savings based on survey data. Guide to the Markets – UK. Data as at 31 December 2015.

Closing gaps

Low fees don't always lead to better outcomes

The impact of 0.50% per year of additional return on retirement income



> 40-year career

- > Save 10% of initial \$100,000 salary with 3% annual cost of living adjustment (COLA)
- > 7% assumed return, 7.5% with alpha

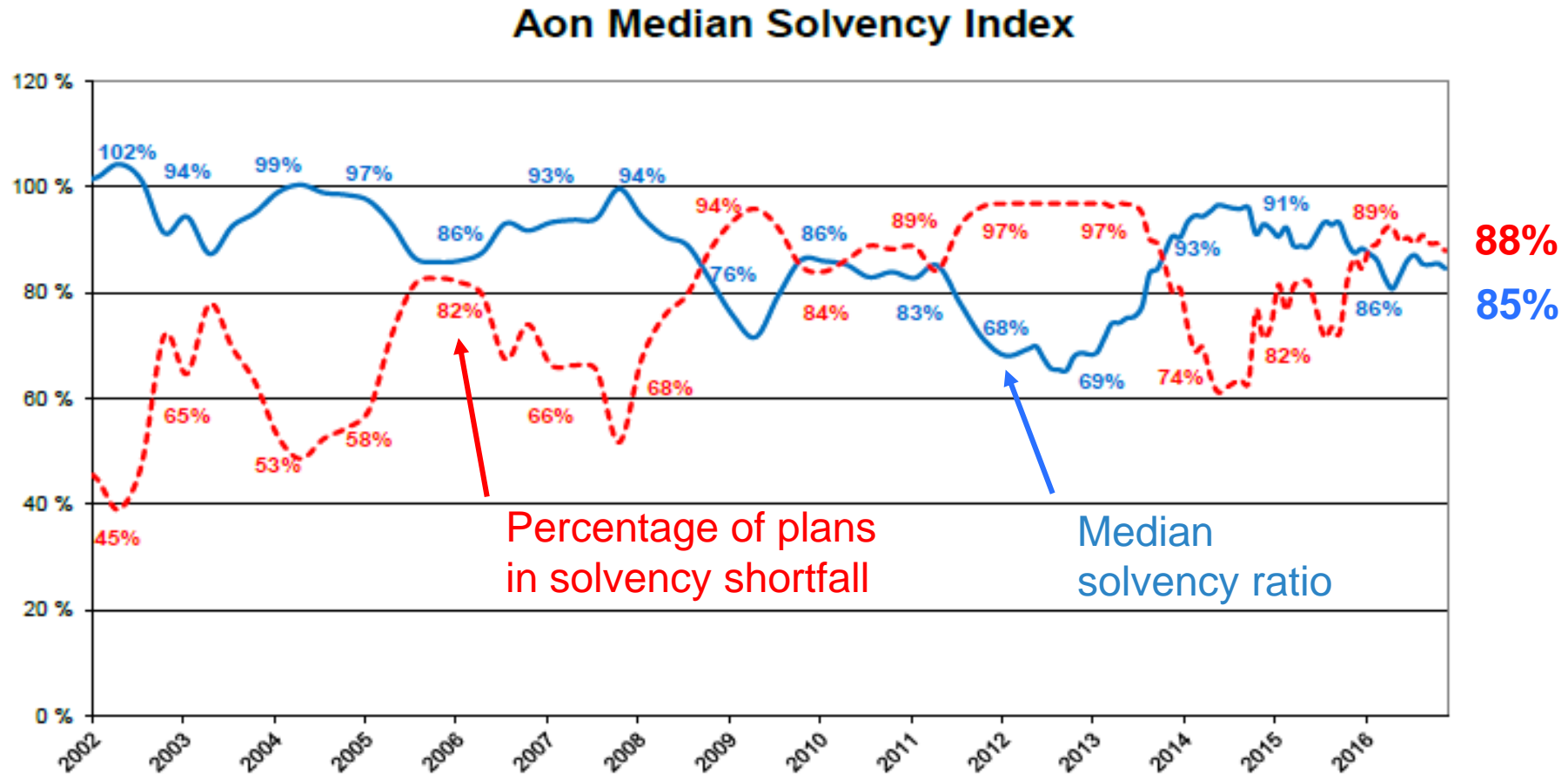
> Retirement

- > Real withdrawals of 50% of final salary
- > 5% assumed return, 5.5% with alpha

Source: Russell Investments. Hypothetical example based on the assumptions noted above. It is provided for illustrative purposes only and is not meant to represent any actual investment. Vertical line is at retirement (40 years of savings)

Closing gaps

Measuring the financial health of DB plans

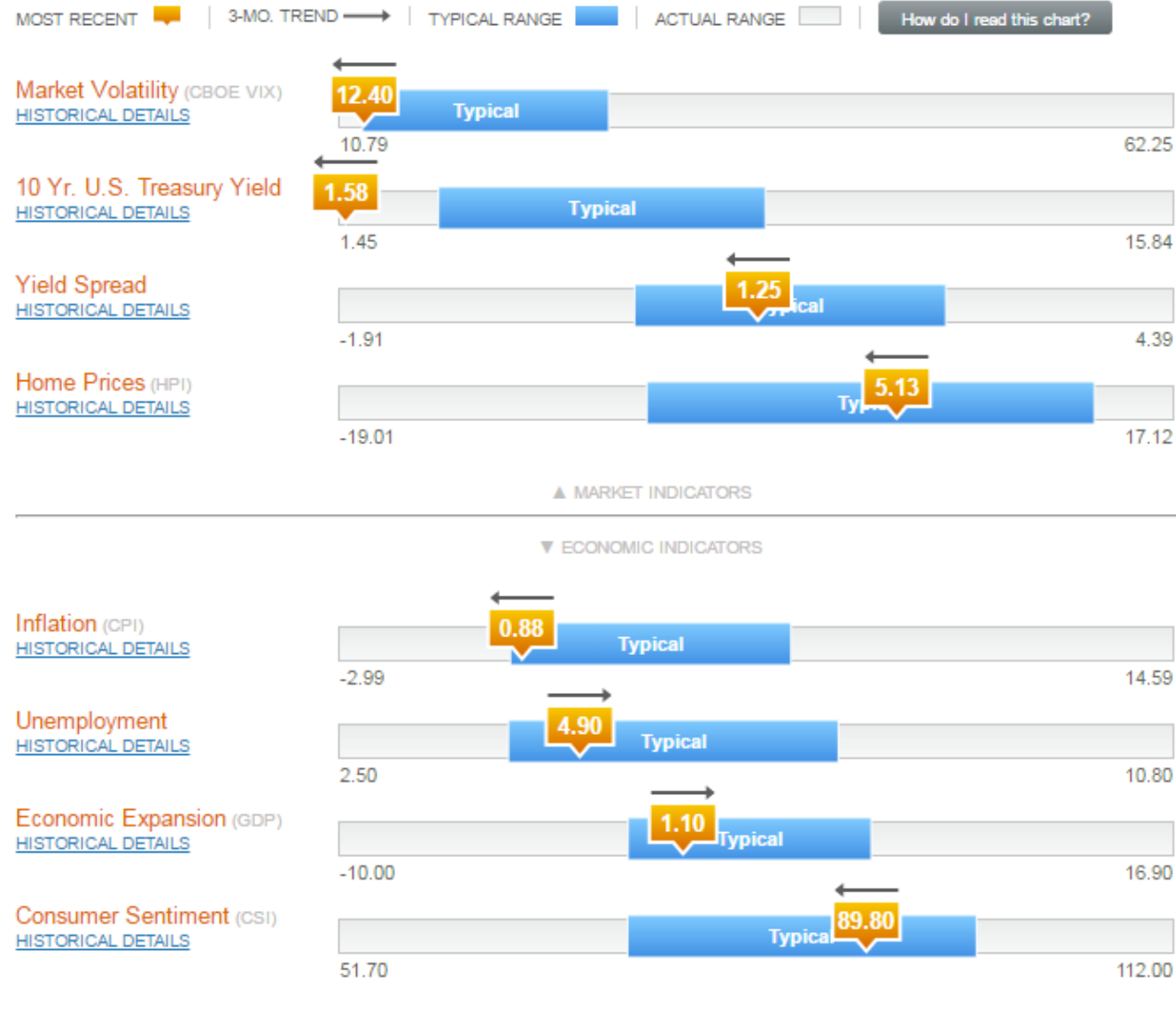


Source: Aon Hewitt, "Canadian pension health declines modestly in third quarter as more volatility lies ahead" published 29 September 2016.

My challenge to you

Create more vivid connection between resources and well-being

Economic Indicators Dashboard

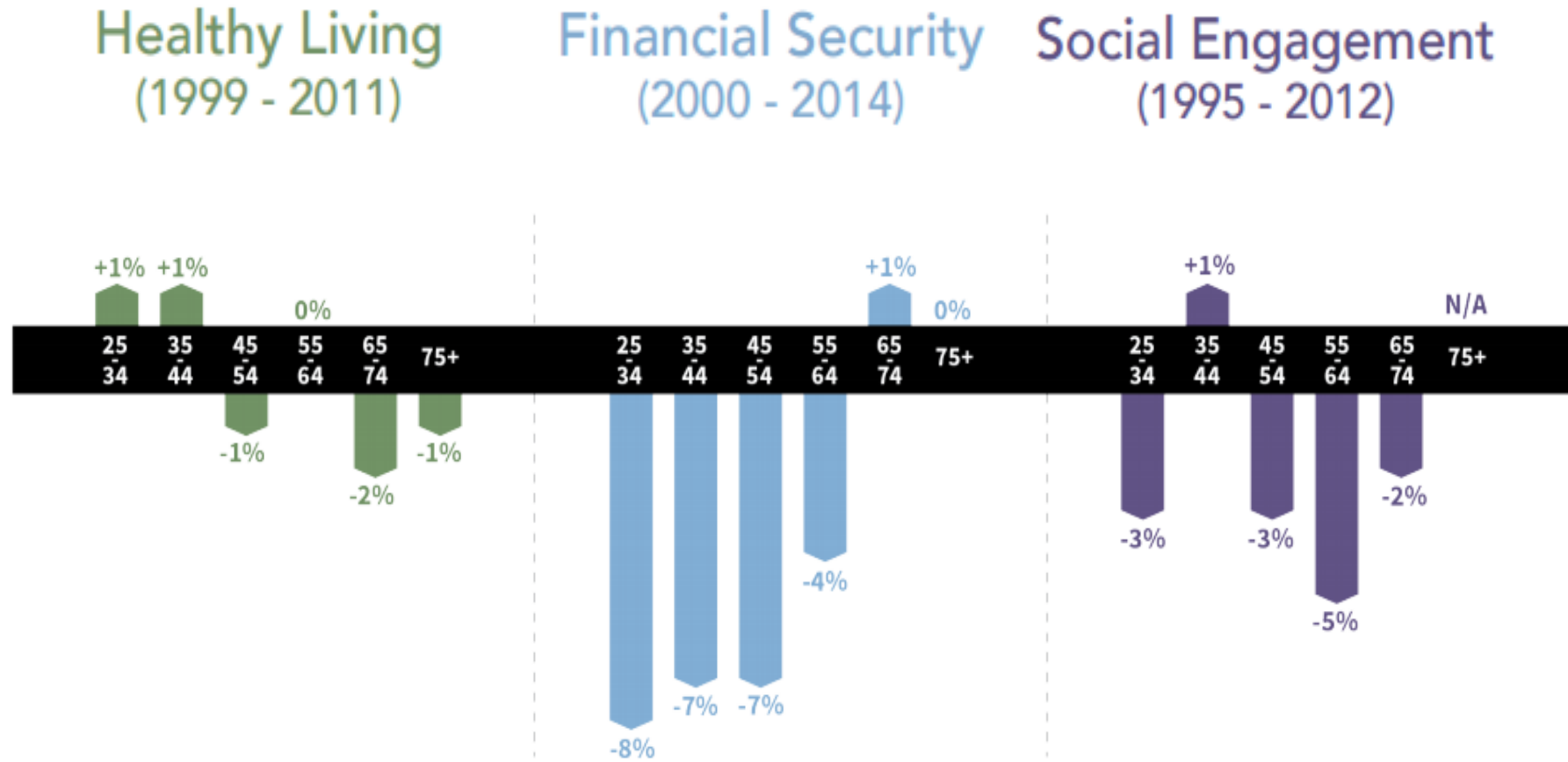


<http://www.russellinvestments.com>, current state as of 9/16/2016. **See appendix for category definitions.**

Russell's Economic Indicators Dashboard charts several key indicators to help investors assess economic and market trends.

Widen the lens

The Sightlines Project Dashboard



Source: Stanford Center on Longevity. "The Sightlines Project: Seeing our Way to Living Long, Living Well in 21st Century America". Published February 2016.
<http://longevity3.stanford.edu/the-sightlines-project/>

Bottom Line

What is a fiduciary?

Duty of expertise

Duty of undivided loyalty

SEE MORE

DO MORE / CLOSE GAPS

WIDEN THE LENS

*Expertise
Alignment
Accountability*

Appendix



Economic Indicators Dashboard definitions

› *Market Indicators*

› **HOME PRICES** – The S&P/Case-Shiller Home Price Index is a measurement of U.S. residential real estate prices, tracking changes in top 20 metropolitan regions. This indicator value represents the trailing year over year % change in the home prices index as of last month-end. Residential real estate represents a large portion of the US economy and the Home Price index helps us monitor the value of real estate.

› **MARKET VOLATILITY(VIX)** – CBOE VIX (Chicago Board Options Exchange Volatility Index) measures annualized implied volatility as conveyed by S&P 500 stock index option prices and is quoted in percentage points per annum. For instance, a VIX value of 15 represents an annualized implied volatility of 15% over the next 30 day period. The VIX measures implied volatility, which is a barometer of investor sentiment and market risk.

› **10 YR. U.S. TREASURY YIELD** – The yield on the 10 year U.S. Treasury note issued by the U.S. Government. It is important because it is seen as a benchmark for interest rate movements and borrowing costs in the economy.

› **YIELD SPREAD** – The spread between 3 month Treasury bill yields and 10 year Treasury note yields measures the market outlook for future interest rates. A normal or upward-sloping yield curve, can imply that investors expect the economy to grow and inflation to eat into asset returns. They thus demand a higher yield for long-term Treasuries. An inverted yield curve has often been an indicator of coming recessions, but not always. For example, reduced inflation expectations could cause the yield curve to flatten.

› *Economic Indicators*

› **CONSUMER SENTIMENT** – The University of Michigan Survey of Consumer Sentiment Index is an economic indicator which measures the degree of optimism that consumers feel about the overall state of the economy and their personal financial situation.

› **ECONOMIC EXPANSION (GDP)** – GDP (Gross Domestic Product) measures the total market value of a nation's output of goods and services during a specific time period. It is usually measured on a quarterly basis. Current GDP is based on the current prices of the period being measured. Nominal GDP growth refers to GDP growth in nominal prices (unadjusted for price changes). Real GDP growth refers to GDP growth adjusted for price changes. Calculating Real GDP growth allows economists to determine if production increased or decreased, regardless of changes in the purchasing power of the currency.

› **INFLATION** – The Consumer Price Index (CPI) NSA (non-seasonally adjusted) measures changes in the price level of a market basket of consumer goods and services purchased by households. This indicator value represents the trailing year over year % change in the CPI index as of last month-end.

› **UNEMPLOYMENT** – The Bureau of Labor Statistics measures employment and unemployment of all persons over the age of 15 using two different labor force surveys conducted by the United States Census Bureau (within the United States Department of Commerce) and the Bureau of Labor Statistics (within the United States Department of Labor) that gather employment statistics monthly. The data reported here is seasonally adjusted (SA) to account for seasonal gains in employment leading up to Christmas.

Thank you.