

Russell Investments Global Fixed Interest Fund

Report and Update

30 November 2017

Fund commentary

The performance in this fact sheet is gross of fees and tax. Investors should also refer to the quarterly Fund Update, which is available on iisolutions.co.nz and business.govt.nz/disclose.

The Russell Investments Global Fixed Interest Fund returned 0.35% for the month of November 2017, ahead of the benchmark by 0.13%.

The Fund outperformed the benchmark for the month. Within the active currency space, overweights to the Mexican peso, UK sterling and euro added value over the period. The underweights to the Swiss franc and South Korean won, moderated further outperformance. In sectors, an overweight to investment-grade financials was positive. Within rates positioning an overweight in Australia and New Zealand generated gains, however these were offset by an overweight in Brazil and an underweight in France.

Manager commentary

The **Russell Positioning Strategy** outperformed the benchmark over the period. In currencies, meaningful gains were generated through underweight Norwegian krone and overweight UK sterling and euro, whilst performance on the rates side was driven by the overweight in Australia.

PIMCO finished behind the benchmark in November. Sector positioning was positive for the period, as overweights to investment-grade financials and agency mortgages added gains. These gains were offset by rates and currency positioning. In active currency positioning, the underweight to the South Korean won pulled back gains from overweight Mexican peso and Japanese yen. In rates, the underweight in France and overweight in Brazil detracted.

Market commentary

Global bond markets returned 0.22% for the month of November 2017, as measured by the Bloomberg Barclays Global Aggregate Index hedged to the NZ dollar.

Heated debate over a near-term US tax deal and slow progress for German Chancellor Angela Merkel to form a coalition, slightly overshadowed economic data in both regions which was broadly robust. Meanwhile the Bank of England (BoE) raised rates for the first time in more than ten years. Over the period, commodity prices stabilised whilst a weakening US dollar lifted a basket of currencies.

In the US, the latest non-farm payrolls figure fell just below estimates however the unemployment rate ticked lower to 4.1%. Third quarter GDP growth was revised up to 3.3% QoQ from the initial 3.0% print. The Fed kept interest rates unchanged for now but left the door open for a December rate hike, citing "solid" economic growth despite hurricane-related disruptions. In Washington President Trump said that he was going to "give the American people a huge tax cut for Christmas." However there have been concerns about whether a deal could be finalized by end of year. Over the period, the benchmark 10-year Treasury yield moved upwards by a single basis point (bps) to 2.42%. In the UK, Brexit negotiations continued, whilst the BoE raised interest rates by 25 bps to 0.5% - citing "domestic inflationary pressures" and "persistent weakness in productivity growth" as the main reasons for the hike. In Germany, increased pressure on the Social Democratic Party by German president Frank-Walter Steinmeier, has increased the chances for Chancellor Angela Merkel to form a stable coalition government without having to conduct another election. Japan's annualised third quarter GDP growth was stronger-than-expected (1.4% vs 1.3% exp.), with growth mainly driven by an uptick in exports.

In emerging market debt (EMD), local currency EMD gained 1.7% on the back of a weaker US dollar. Hard currency EMD lost 0.3%, whilst corporate EMD was flat over the period.

US corporate high yield spreads widened by 6 bps to 344, whilst European high yield spreads widened by 39 bps to 271. In corporate bond market news, November saw a strong \$107 billion in new investment grade paper from issuers such as Oracle and Apple.

Ongoing US political debate over corporate tax rates weighed on the greenback over the month - lifting a basket of currencies. Chief amongst them were the Argentine peso, South African rand and the Malaysian ringgit. The Argentine peso found strength after the country's Treasury (Ministerio de Hacienda) announced a tax and labour reform plan which was well received. The South African rand was lifted after Moody's maintained the country's credit rating. A downgrade would have eliminated South Africa's debt from major

indices. The worst performers were the Turkish lira, Chilean peso and the Norwegian krone. The Turkish lira spiraled downwards due to tensions with the US and renewed fears about the central bank's ability to fight inflation. The Chilean peso also weakened, tracking a decline in prices of copper, the country's main export.

The following information provides the investment and exposures within the underlying investment portfolio. Please note that this information is indicative only and is provided for general information purposes. Due to availability, some of the below information is reported with a delay of one month.

Underlying Manager Allocations (30/11/2017)		
Manager	Current weight	Target weight
Colchester	21.2%	21.0%
PIMCO	17.5%	18.0%
Insight	17.9%	18.0%
BlueBay	17.4%	18.0%
Schroders	10.9%	10.0%
Russell Investments Positioning Strategies	15.0%	15.0%

Fund Characteristics (31/10/2017)		
	Fund	Index
Effective Duration	6.3	6.8
Average Quality/Rating	A+	AA

Sector Allocations (31/10/2017)		
Sector	Fund	Index
Government & Cash	39.7%	50.9%
Government Related	5.0%	9.7%
Corporate Securities - Investment Grade	17.9%	18.3%
Asset Backed Securities	3.7%	0.3%
Residential Mortgage Backed Securities	16.9%	11.5%
Commercial Mortgage Backed Securities	1.3%	0.8%
Corporate - High Yield	2.6%	0.0%
Emerging Market Debt	12.0%	5.9%
Covered Bonds	1.0%	2.7%

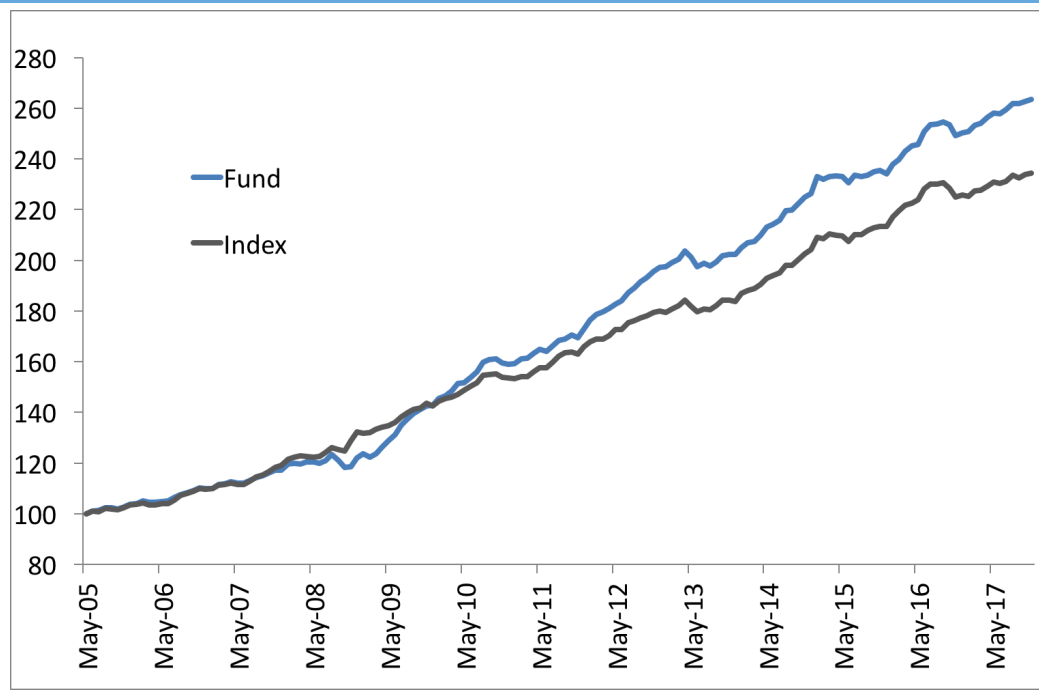
Credit Ratings (31/10/2017)		
	Fund	Index
AAA & Cash	36.8%	39.8%
AA	10.5%	16.3%
A	23.0%	26.5%
BBB	15.2%	17.3%
BB	6.3%	0.0%
B	2.8%	0.0%
CCC & Below	3.4%	0.0%
Not Rated	2.0%	0.0%

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Indicative historic performance



Returns to 30 November 2017

	Month	Quarter	1 Year	2 Years p.a.	3 Years p.a.	4 Years p.a.
Fund	0.35%	0.66%	5.80%	5.80%	5.42%	6.82%
Index	0.22%	0.31%	4.14%	4.76%	4.97%	6.16%

All performance unless otherwise stated is reported on a gross of tax and fees basis.

The benchmark for the Russell Investments Global Fixed Interest Fund is the Bloomberg Barclays Global Aggregate Index New Zealand dollar hedged. All index information contained in this document is with regards to this index.

Past performance is not necessarily indicative of future performance.

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