

Fund Update

For the quarter ended 30 September 2016

Russell Investment Funds

Russell Investments Hedged Global Shares Fund

This fund update was first made publicly available on: 26 October 2016

What is the purpose of this update?

This document tells you how the Russell Investments Hedged Global Shares Fund has performed and what fees were charged. The document will help you to compare the fund with other funds. Implemented Investment Solutions Limited prepared this update in accordance with the Financial Markets Conduct Act 2013. This information is not audited and may be updated.

Description of this fund

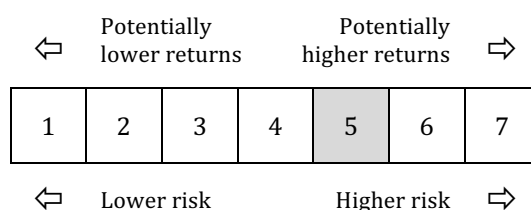
Objective: to provide a total return, before costs and tax, higher than the Russell Global Large Cap NZ Hedged – Net Index over the long term (3 years plus).

Strategy: the underlying investment exposure is predominantly to a broad range of international shares listed on stock exchanges in developed markets as well as emerging international markets. Derivatives may be used to obtain or reduce exposure to securities and markets, to implement investment strategies and to manage risk. The Fund targets a position of being fully hedged back to New Zealand Dollars. Due to active currency management by the underlying managers, there will generally be some foreign currency exposure.

| | |
|---------------------------|-----------------|
| Total value of the fund | \$NZ 60,776,897 |
| The date the fund started | 24 July 2012 |

What are the risks of investing?

Risk indicator for the Russell Investments Hedged Global Shares Fund.¹



The risk indicator is rated from 1 (low) to 7 (high). The rating reflects how much the value of the fund's assets goes up and down. A higher risk generally means higher potential returns over time, but more ups and downs along the way.

To help you clarify your own attitude to risk, you can seek financial advice or work out your risk profile at www.sorted.org.nz.

Note that even the lowest category does not mean a risk-free investment, and there are other risks that are not captured by this rating.

This risk indicator is not a guarantee of a fund's future performance. The risk indicator is based on a combination of actual and market index returns data for 5 years to 30 September 2016. While risk indicators are usually relatively stable, they do shift from time to time. The risk indicator will continue to be updated in future fund updates.

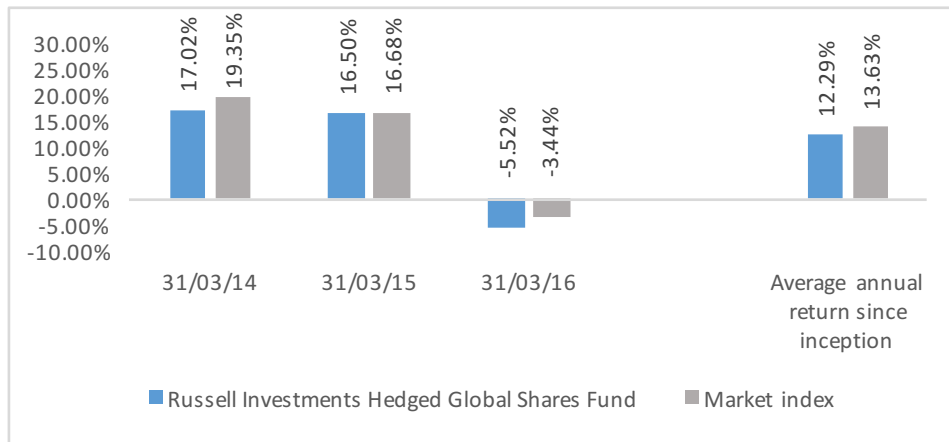
See the product disclosure statement (PDS) for more information about the risks associated with investing in this fund

How has the fund performed?

| | Past year ² |
|--|------------------------|
| Annual return (after deductions for charges and tax) | 9.03% |
| Annual return (after deductions for charges but before tax) | 10.12% |
| Market index annual return (reflects no deduction for charges and tax) | 12.28% |

The market index return is the Russell Global Large Cap NZ Hedged – Net Index return. Additional information about the market index is available on the offer register at www.business.govt.nz/disclose.

Annual Return Graph³



This shows the return after fund charges and tax for each year ending 31 March since the fund started. The last bar shows the average annual return since the fund started, up to 30 September 2016.

Important: This does not tell you how the fund will perform in the future.

Returns in this update are after tax at the highest prescribed investor rate (PIR) of tax for an individual New Zealand resident. Your tax may be lower.

What fees are investors charged?

Investors in the Russell Investments Hedged Global Shares Fund are charged fund charges. In the year to 31 March 2016 these were:

| | % of net asset value |
|---|----------------------|
| Total fund charges | 1.56% |
| Which are made up of - | |
| Total manager and administration charges | 1.56% |
| Including - | |
| Manager's basic fee (including GST) | 1.32% |
| Other management and administration charges (including GST) | 0.24% |

The 'other management and administration charges' include fees and costs charged in underlying funds. The amount of fees and costs charged in underlying funds has been estimated. See the Notes at the end of this fund update for more information about this estimate.⁴

Investors may also be charged individual action fees for specific actions or decisions (for example, for withdrawing from or switching funds). See the PDS for the Russell Investment

Funds on the offer register at www.business.govt.nz/disclose for more information about those fees.

Example of how this applies to an investor

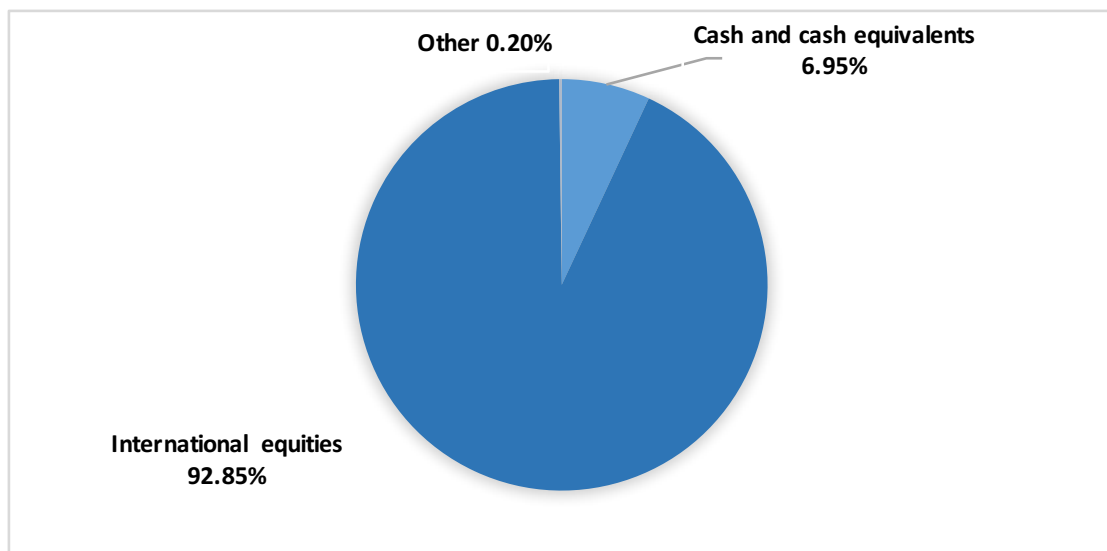
Small differences in fees and charges can have a big impact on your investment over the long term.

Anthony had \$10,000 in the fund at the start of the year and did not make any further contributions. At the end of the year, Anthony incurred a loss after fund charges were deducted of -\$457 (that is -4.57% of his initial \$10,000). This gives Anthony a total loss after tax of -\$552 for the year.

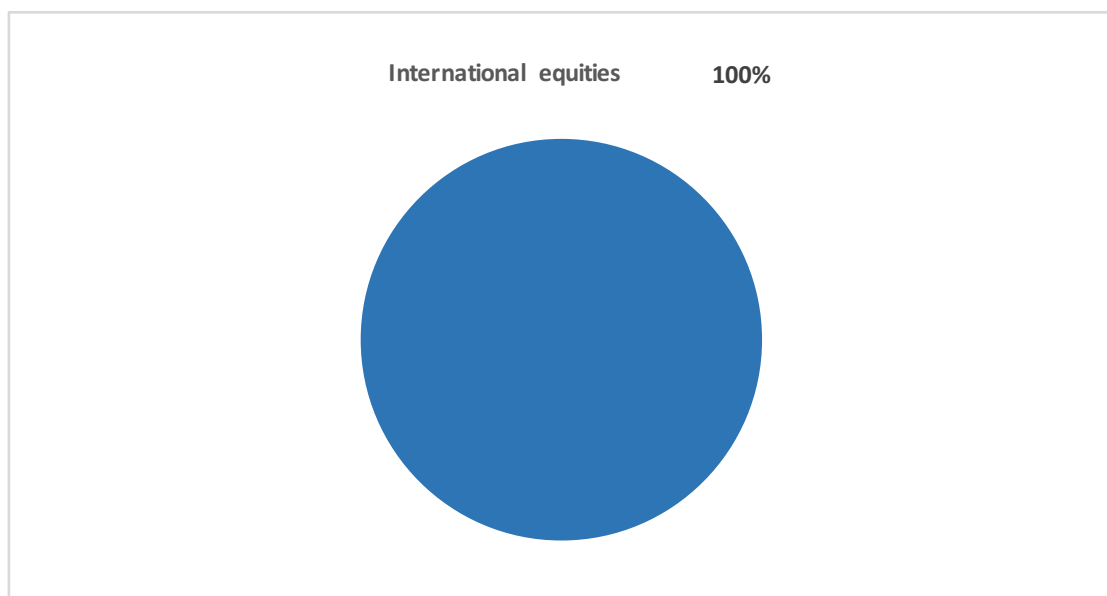
What does the fund invest in?

This shows the types of assets that the fund invests in.

Actual investment mix



Target investment mix



Top 10 investments

| | Name | % of Fund net assets | Type | Country | Credit Rating (if applicable) |
|----|---|----------------------|---------------------------|---------|-------------------------------|
| 1 | New Zealand Dollar Cash Deposit (State Street Bank & Trust) | 3.14% | Cash and cash equivalents | AU | AA- |
| 2 | Johnson & Johnson | 1.21% | International equities | US | |
| 3 | Microsoft Corp. | 1.00% | International equities | US | |
| 4 | Citigroup Inc. | 0.98% | International equities | US | |
| 5 | Pfizer Inc. | 0.95% | International equities | US | |
| 6 | Samsung Electronics Co., Ltd. | 0.92% | International equities | KR | |
| 7 | US Dollar Cash Deposit (State Street Bank & Trust) | 0.91% | Cash and cash equivalents | AU | AA- |
| 8 | US Dollar Forward 16/10/06 | 0.89% | Other | US | |
| 9 | Roche Holding Ag-Genusschein | 0.86% | International equities | CH | |
| 10 | BP plc. | 0.83% | International equities | UK | |

The top 10 investments make up 11.69% of the net asset value of the fund.

Key personnel

This shows the directors and employees who have the most influence on the investment decisions of the fund.

| Name | Current position | Time in current position | Previous or other current position | Time in previous or other current position |
|----------------------|--|--------------------------|--|--|
| Anthony Edmonds | Managing Director | 5 years 11 months | Financial Services Consultant | 1 year 2 months |
| Andrew Brockway | Investment & Product Manager | 5 years 5 months | Financial Services Consultant | 10 months |
| Alister Van der Maas | Director | 5 years 2 months | Managing Director, Russell Investments | 5 years 5 months |
| Graeme Allen | Portfolio Manager, Investment Division EMEA, Russell Investments | 1 years 7 months | Head of UK & Europe Equity Research, Russell Investments | 5 years 11 months |

Further information

You can also obtain this information, the PDS for the Russell Investment Funds, and some additional information from the offer register at www.business.govt.nz/disclose.

Notes

¹ A combination of actual Fund returns and market index returns have been used to determine the risk indicator as the Fund has not been operating for the required five years. The risk indicator may therefore provide a less reliable indicator of the Fund's future volatility. Market index returns have been used for the period to 31 July 2012.

² These returns are for the year to 30 September 2016.

³ The bar chart shows fund returns after deducting fees and tax. Tax is deducted at the highest Prescribed Investor Rate of 28%. However, the market index returns are shown before deducting fees and tax.

⁴ We have taken the underlying fund's fees and costs data from the underlying fund's financial statements which are for the year to 30 June 2016. In this fund update, we have estimated the underlying fund's fees and costs for the year to 31 March 2016 on the assumption they will be the same as that disclosed in those financial statements.