

# Russell Investments Global Shares Fund

Report and update

31 March 2018

## 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 [www.iisolutions.co.nz](http://www.iisolutions.co.nz) and [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose).

The Russell Investments Global Share Fund narrowly outperformed the benchmark, returning -2.30% in the first quarter 2018, outperforming the benchmark by 0.07%.

Stock selection in Asia Pacific ex Japan contributed positively to performance over the period. This included underweight holdings in Australian banks such as Westpac, Commonwealth Bank of Australia and ANZ; all of which were negatively impacted by a royal commission into the country's finance industry. Stock selection within emerging markets, also added value, particularly our holdings in Taiwan Semiconductor Manufacturing and Brazil's Petroleo Brasileiro SA. In the financials sector the fund gained from overweight holdings in select names like MSCI, Inc., Moody's Corp. and XL Group. Stock selection within the materials space and an underweight exposure to energy added further value. An overweight exposure and poor stock selection in Japan detracted from returns. This included an overweight holding in LIXIL Group as well as ex-benchmark exposures to Tsukui Corp. and Kureha Corp. However, at the stock level, the underweight holdings in US names Amazon.com and Netflix that detracted the most from performance.

### Manager Commentary

**Wellington** was the best-performing manager for the quarter. They benefitted from overweight exposures to small cap, growth and momentum names and strong stock selection in the US. At the sector level, an overweight exposure to information technology and underweight exposures to both telecommunication services and consumer staples contributed positively to overall performance.

Japanese shares specialist, **Tiburon Partners**, underperformed its benchmark over the quarter, driven by a combination of poor stock selection and underweight exposures to the market's two best-performing sectors; namely utilities and healthcare.

### Market Commentary

Global equity markets returned -2.37% for the first quarter 2018, as measured by the Russell Global Large Cap Net Index.

The quarter began positively as investors responded well to some encouraging US earnings results. This was further evidence economic activity globally is gathering momentum and the general optimism surrounding the broader global growth outlook. However, sharemarkets dropped sharply in early February as US bond yields shot to a four-year high following the release of stronger-than-expected wages data; the surprising outcome sparking fears the Federal Reserve (Fed) may accelerate its rate hike agenda. Accentuating the decline was a rapid unwinding of 'short volatility' trades as volatility spiked sharply higher in the wake of the release. Short volatility trades increased as investors speculated volatility would sink even lower this year, so when it spiked we saw the inevitable scramble to exit positions. Stocks slightly recovered toward the end of February as investors bet the selloff was nothing more than an overdue correction. This optimism proved to be short-lived due to concerns the momentum in global growth may be slowing, news 13 Russian nationals had been indicted for allegedly interfering in the 2016 US presidential election, and speculation the European Central Bank may soon begin unwinding its ultra-easy monetary policy. Sharemarkets were also impacted late by Donald Trump's sacking of his Secretary of State, Rex Tillerson, the resignation of his chief economic advisor, Gary Cohn, and the threat of a potential US-China trade war after Trump slapped around USD50 billion in tariffs on Chinese imports.

At the country level, sharemarkets in the US, Europe, the UK, Japan and China were all lower for the quarter, with US stocks in particular falling to their lowest level since November last year.

In terms of sectors, telecommunication services was the worst performer over the period, followed by consumer staples, materials and property trusts. Energy and industrials were also weaker while information technology was the only sector to record a gain for the quarter.

Emerging markets outperformed their developed peers over the period; the sector benefiting in part from better-than-expected Chinese growth, stronger commodity prices and further US dollar (USD) weakness.

In the currency space, the USD continued to struggle after US Treasury Secretary, Steven Mnuchin, said he would welcome a weaker dollar. The Japanese yen, Norwegian krone and British pound all rose against the USD; the latter in particular benefiting from some positive developments on the Brexit front and speculation the Bank of England may soon raise interest rates.

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 only.

Underlying Manager Allocations (31/03/2018)		
Manager	Current weight	Target weight
Man Numeric	15.1%	15.0%
Janus (Perkins)	12.9%	12.0%
Wellington	8.3%	8.0%
Sanders Capital	14.2%	16.0%
Russell Investments Positioning Strategies	15.4%	12.5%
J O Hambro Capital	4.6%	6.0%
Tiburon Partners	6.1%	7.0%
RWC Partners	5.1%	6.0%
Fiera Capital	18.3%	17.5%

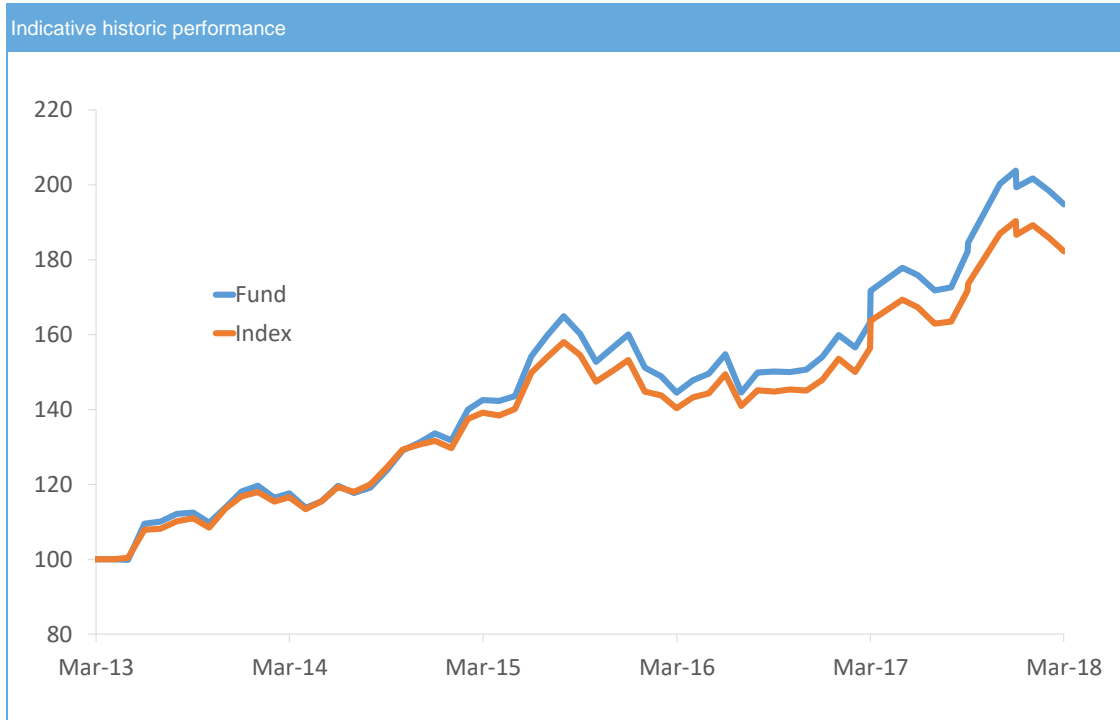
Sector Allocations (31/03/2018)		
Sector	Fund	Index
Financials	19.0%	18.7%
Information Technology	19.1%	18.3%
Consumer Discretionary	11.8%	12.2%
Health Care	11.5%	10.6%
Consumer Staples	9.8%	8.3%
Industrials	11.9%	11.3%
Energy	6.7%	6.1%
Materials	5.0%	5.4%
Telecommunication Services	2.2%	2.8%
Utilities	1.6%	2.9%
Real Estate	1.3%	3.5%

Regional Allocations (31/03/2018)		
Region	Fund	Index
North America	46.7%	56.0%
EMEA ex UK	18.1%	15.2%
Japan	10.9%	5.8%
UK	6.4%	7.9%
Emerging markets	15.0%	11.4%
Asia Pacific ex Japan	2.9%	3.8%

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Returns to 31 March 2018					
	Month	Quarter	1 Year	3 Years p.a.	5 Years p.a.
Fund	-1.82%	-2.30%	13.43%	11.03%	14.26%
Index	-1.92%	-2.37%	11.32%	9.60%	12.75%

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

The benchmark for the Russell Investments Global Opportunities Fund was the MSCI World Net Index until 31 December 2010, and thereafter the Russell Global Large Cap Net Index.

Past performance is not necessarily indicative of future performance.

Performance figures above may differ slightly from the periodic returns found on Russell Investments Performance Review.

#### Disclaimer

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