# Russell Investments Global Shares Hedged Fund

Report and update 31 May 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 and www.business.govt.nz/disclose.

The Russell Investments Global Shares Hedged Fund returned 0.31% for May 2018, underperforming the benchmark by 0.71%.

There was no single driver of underperformance at the broader fund level in May, but rather a number of positions that were subject to short-term headwinds. The Fund's value exposure detracted from returns. This was perhaps best characterised by the spread in performance we saw between growth stocks, for example, information technology (5.7%) and value stocks, for example, financials (-2.8%). Also detracting from returns was the underweights to US equities and the US dollar (USD). We still believe other developed markets represent better value at this point and our signals continue to support this positioning. The Fund's overweight to Continental Europe also negatively impacted performance; the region significantly underperforming its peers. This was amid concerns that renewed political risks in Italy and Spain could spread to the wider euro-zone. While we remain mindful of these near-term political risks, we nonetheless maintain an upbeat view on the health of European economies. In contrast, the Fund benefited from positive stock selection by some of our specialist managers. Tiburon, who specialise in Japanese equities, benefited in part from overweight holdings in Broadleaf and Murata Manufacturing. Wellington's growth bias was also positive for the month, driven by the manager's overweight to technology names.

## Manager commentary

**Wellington** was the best-performing manager for the month, benefiting from their growth bias; most notably a significant overweight exposure to the information technology sector. This included an ex-benchmark holding in Trade Desk, as well as overweight exposures to Facebook and Alibaba. A large underweight to financials also added value. In contrast, the manager's overweight to emerging ma rkets negatively impacted on overall returns in May.

**Russell Investments' active positioning strategy** underperformed in May. The strategy's value tilt was the main driver of underperformance, as value struggled in the prevailing market environment. Also detracting from returns was an underweight to large cap stocks, as well as overweights to financials and Continental Europe; most notably Italy and France.

## Market commentary

Global share markets returned 1.02% for May 2018, as measured by the Russell Global Large Cap Net Index hedged to the NZ dollar.

Contributing to the gains were positive earnings updates from Walt Disney, Macy's and Apple. Expectations of further tepid inflation data will see the US Federal Reserve maintain a gradual approach to raising interest rates and stronger commodity prices; though oil was a notable exception. Sentiment was further boosted by some encouraging Chinese economic data and speculation that neither the European Central Bank nor the Bank of Japan are in any hurry to speed up the withdrawal of their fiscal stimulus. Limiting the advance were a series of geopolitical risks, beginning with Donald Trump's decision to quit an international deal with Iran aimed at preventing the country from acquiring nuclear weapons. We also saw Trump cancel his planned summit with North Korea's Kim Jong-un, a continuation of US-China trade tensions and fresh political uncertainty in Italy and Spain. Stocks were also impacted by softer-than-expected Japanese growth data; the world's third-biggest economy contracting 0.2% in the first quarter and ending a run of eight consecutive quarters of expansion.

At the country level, stocks in the US, China and the UK were all higher in May; the latter even hitting a record high midway through the period. In contrast, European and Japanese share markets were both weaker for the month.

Emerging markets significantly underperformed their developed counterparts over the period amid heightened geopolitical risks, rising interest rates in Indonesia, Turkey and Argentina, and a stronger USD. Further encouraging Chinese economic data and falling US interest rates did help to limit the losses. Greece, Malta and Brazil posted the biggest declines for the month while China and Russia were among the best performers.

In terms of sectors, information technology posted the biggest gains for the month, followed by energy, materials and industrials. In contrast, telecommunication services and financials were among the worst performers for the month; the latter in particular impacted by renewed political uncertainty in Europe.

In the currency space, the USD made further gains in May, benefiting in part from another round of encouraging US earnings updates and general optimism regarding the country's growth prospects. Turkey's lira, Brazil's real and Argentina's peso were among the worst performers against the USD over the period; the latter falling as economic conditions in the country continued to deteriorate. Currencies that performed well against the USD in May included the Israeli shekel, the Swiss franc and the Japanese yen.

*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 (31/05/2018)

| Manager | Current weight | Target weight |
|---|---|---|
| Man Numeric | 15.1% | 15.0% |
| Janus (Perkins) | 12.7% | 12.0% |
| Wellington | 8.6% | 8.0% |
| Sanders Capital | 14.0% | 16.0% |
| Russell Investments Positioning Strategies | 15.4% | 12.5% |
| J O Hambro Capital | 4.7% | 6.0% |
| Tiburon Partners | 6.1% | 7.0% |
| RWC Partners | 5.1% | 6.0% |
| Fiera Capital | 18.3% | 17.5% |

### Sector allocations (31/05/2018)

| Sector | Fund | Index |
|---|---|---|
| Financials | 18.6% | 17.9% |
| Information Technology | 20.0% | 19.0% |
| Consumer Discretionary | 12.3% | 12.3% |
| Health Care | 11.5% | 10.8% |
| Consumer Staples | 9.4% | 7.8% |
| Industrials | 11.7% | 11.2% |
| Energy | 7.2% | 6.6% |
| Materials | 4.9% | 5.5% |
| Telecommunication Services | 1.7% | 2.6% |
| Utilities | 1.5% | 2.9% |
| Real Estate | 1.3% | 3.5% |

### Regional allocations (31/05/2018)

| Region | Fund | Index |
|---|---|---|
| North America | 47.3% | 57.1% |
| EMEA ex UK | 17.1% | 14.5% |
| Japan | 11.0% | 5.9% |
| UK | 7.2% | 7.9% |
| Emerging markets | 14.5% | 10.8% |
| Asia Pacific ex Japan | 2.9% | 3.8% |

# Russell Investments Global Shares Hedged Fund

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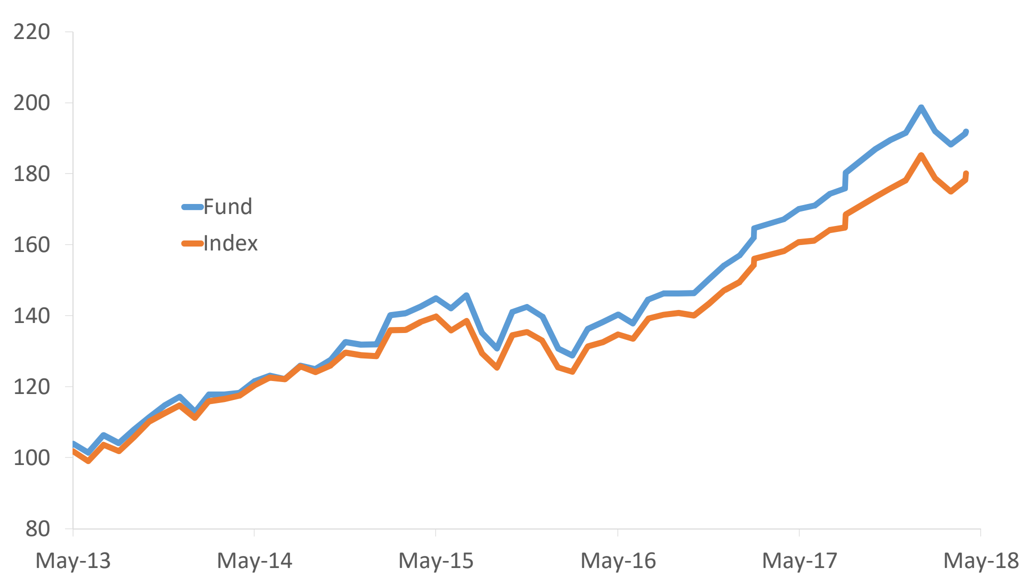
Indicative historic performance




Returns to 31 May 2018

| | Month | Quarter | 1 year | 3 years p.a. | 5 years p.a. |
|---|---|---|---|---|---|
| Fund | 0.31% | -0.01% | 12.88% | 9.82% | 13.05% |
| Index | 1.02% | 0.81% | 12.07% | 8.81% | 12.09% |

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

The benchmark for the Russell Investments Global Shares Hedged Fund is the Russell Global Large Cap Net Index NZD Hedged.

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.

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