

Russell Investments Emerging Markets Fund

Report and update

31 December 2017

Fund Commentary

The Russell Investments Emerging Markets Fund returned 7.96% for the December 2017 quarter, underperforming the benchmark by 1.49%.

Contributing to the underperformance over the quarter was an underweight to the best performing markets i.e., South Africa, Korea and India. An overweight to the weak-performing Brazil market also detracted. However, effective stock picking within China and off-benchmark exposure to Vietnam mitigated additional underperformance.

Manager Commentary

RWC Partners returned some of its strong inception-to-date outperformance this period. An underweight to and negative stock selection within South Africa and Korea – the strongest-performing EM countries this quarter – weighed on relative returns. Off-benchmark exposure to Saudi Arabia also detracted. However, strong stock selection among deep value small caps and stocks with high momentum remained rewarded, particularly within the materials and processing sector and financials. An underweight to Taiwan and zero-weight to Mexico also mitigated additional underperformance.

Oaktree underperformed in a period where the manager's current tilt towards value and large caps did not suit the market environment. Negative stock selection within China and Taiwan detracted. An overweight to Brazil in a quarter where the market declined was also unrewarded. However, stock selection was strong within Russia, and included exposure to Sberbank; the stock surged after reporting record profit in the third quarter.

Market Commentary

Emerging markets returned 9.45% for the quarter, as measured by the Russell Investments Emerging Markets Index in NZ dollar terms.

South Africa was the standout performer this period. The market surged 21.4% in reaction to political developments. At the ANC party's December elective conference, President Zuma was replaced as party leader by Deputy President Cyril Ramaphosa. However, Zuma confirmed he would remain South African President until the 2019 elections. The rand strengthened over the period, boosted as credit rating agency Moody's maintained the country's Baa3 investment-grade rating. India also surged.

Korea (13.1%) benefited from improved sentiment. Despite geo-political tensions, third-quarter GDP growth was healthy at 1.5% QoQ (3.8% YoY), driven by robust global demand, an increase in government spending and a large rise in the minimum wage. The market was further buoyed by news that Korea and China agreed to normalise relations after a six-month fallout over the installation of a US anti-missile system. Meanwhile, the central bank raised rates for the first time in six years to 1.5% from 1.25% as inflation remained steady.

China (7.1%) lagged the broader index return. President Xi cemented his power within the ruling Communist Party at the 19th Annual Congress, as the party set out its latest five-year plan. In economic data, third quarter GDP growth was in-line with expectations at 6.8% YoY, ahead of the government's 6.5% target.

In Taiwan (5.3%), export growth remained healthy while the manufacturing PMI improved to 56.3 in November, the highest since April 2011. In Turkey (4.6%), ongoing diplomatic tensions between the country and the US, driven by tit-for-tat visa restrictions, weighed on sentiment and the value of the lira. Russia ended a weak year with a 2.6% increase. The central bank cut interest rates more than expected to 7.75%, its sixth cut of 2017. Mexico (-8.4%) was the worst-performing country. The country continued to suffer from peso weakness driven by strained discussions on the future of the North American Free Trade Agreement (NAFTA). Brazil (-2.4%) suffered from weakness in the real. Investors appeared disappointed the much-anticipated pension reform bill was watered down and delayed until February. President Temer was unable to generate enough Congressional support following a narrow survival in a fresh vote on corruption allegations.

The health care (19.9%) sector was the standout performer this period. This followed a weak third quarter. The energy sector (8.8%) extended its positive end to the year. The materials & processing (8.5%) and consumer discretionary (8.4%) sectors also performed well. The financial services (6.9%), producer durables (5.4%) and utilities (2.9%) sectors all underperformed.

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. Due to availability some of the below information is reported with a delay of one month.

Underlying Manager Allocations (31/12/2017)

Manager	Current weight	Target weight
AllianceBernstein	17.2%	17.0%
Man Numeric	18.1%	16.0%
Oaktree Capital	14.0%	15.0%
Genesis	9.2%	14.0%
Harding Loevner	14.5%	14.0%
Somerset capital	9.3%	10.0%
RWC Partners	8.4%	9.0%
Westwood	4.8%	5.0%
Russell Investments	4.5%	0.0%

Sector Allocations (31/12/2017)

Sector	Fund	Index
Financial Services	29.7%	25.9%
Technology	20.7%	24.1%
Consumer Discretionary	12.5%	11.6%
Consumer Staples	8.0%	6.4%
Materials & Processing	9.0%	8.6%
Energy	7.9%	7.3%
Utilities	3.9%	6.5%
Producer Durables	5.9%	6.0%
Health Care	2.4%	3.6%

Regional Allocations (31/12/2017)

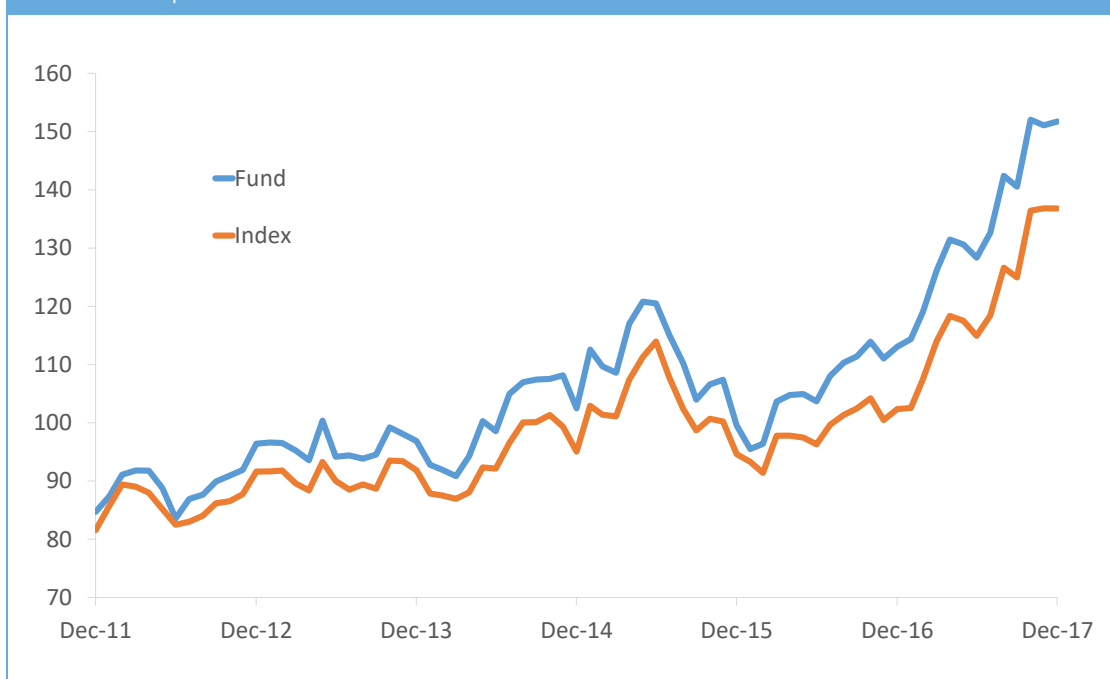
Region	Fund	Index
China	28.4%	26.8%
South Korea	13.9%	14.8%
Taiwan	7.8%	12.0%
India	7.5%	10.3%
Brazil	8.6%	6.6%
South Africa	5.2%	6.8%
Russia	4.5%	3.3%
Mexico	3.1%	3.1%
Turkey	2.9%	1.1%
Others	18.0%	15.3%

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Indicative historic performance



Returns to 31 December 2017

	Month	Quarter	1 Year	3 Years p.a.	5 Years p.a.	7 Years p.a.
Fund	0.43%	7.96%	34.20%	13.97%	9.50%	5.86%
Index	-0.02%	9.45%	33.65%	12.90%	8.35%	4.42%

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

The benchmark for the Russell Investments Emerging Markets Fund was the MSCI Emerging Markets Free Index until December 2008, the MSCI Emerging Markets Net Index until December 2010 and the Russell Investments Emerging Markets Net Index thereafter.

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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