Russell Investments Emerging Markets Fund

Report and update

31 March 2018

Fund commentary

The Russell Investments Emerging Markets Fund returned 0.82% for the March 2018 quarter, outperforming the benchmark by 0.98%.

The fund outperformed in a turbulent quarter for global equity markets. An underweight and stock selection in South Africa, and effective stock picking within China drove the outperformance. Postive country positioning was also beneficial. This included an overweight to the strong-performing Brazil market and overweight to Russia.

Manager commentary

Oaktree rebounded from a weak final quarter of 2017 as their tilt towards value suited the market environment. Unlike the previous quarter, stock selection within China and an overweight to Brazil in a period where its market surged higher was rewarded. Underweights and stock selection within India and South Africa were also key drivers. Positive country positioning elsewhere included an overweight to Russia and zero-weights to the Philippines and Poland. Meanwhile, healthy stock picking within higher beta segments of the market, particularly within the consumer discretionary, technology and energy sectors, underpinned excess returns.

Somerset's tilt towards quality did not suit the market environment this quarter. Country positioning was a key detractor. This was driven by the large overweight to India and the Philippines and large underweights to Taiwan and China. Negative stock selection within Brazil, particularly within the consumer discretionary sector, detracted from performance. In contrast, strong stock picking within South Africa, Hungary and Mexico mitigated further underperformance.

Market commentary

Emerging markets returned -0.16% for the quarter, as measured by the Russell Investments Emerging Markets Index in NZ dollar terms.

Brazil was the strongest-performing country, surging 12.4%. Sentiment was boosted by former President Luiz Inacio Lula da Silva's failed court appeal. The appeals court upheld the July 2017 conviction of corruption and extended his prison sentence. However, the long-awaited pension reform bill vote was postponed indefinitely after military intervention in Rio de Janeiro was required to restore public order. The delay in reform was a key reason behind Standard & Poor's decision to cut the country's sovereign debt rating to BB- from BB. Meanwhile, the central bank twice reduced its main Selic interest rate, ending at a new historic low of 6.5%.

Russia (9.4%) was boosted by Standard & Poor's decision to raise its sovereign credit rating to investment grade (BBB-) on the country's "commitment to conservative macroeconomic management". The economy grew 1.5% in 2017, the first annual growth since 2014. The central bank also twice lowered interest rates this period, down to 7.25%. Pakistan (11.4%), Egypt (10.9%) and Peru (10.3%) also performed well.

China outperformed marginally with a 1.8% climb. Most of this increase came in January, ahead of February's Lunar New Year national holiday and political tensions with the US later in the period. Economic data remained broadly healthy. The economy grew 6.9% for the whole of 2017, the fastest since 2015 and ahead of the government's 6.5% target.

Indonesia (-7.2%), Poland (-8.2%) and the Philippines (-11.6%) were the weakest-performing index constituents this quarter. India returned -7.0%. Numerous export stocks suffered from US President Trump's tariff proposals. Despite government relief measures on spectrum payments, telecommunication stocks slumped amid intense sector competition. Meanwhile, the financial sector suffered from fraud revelations. Korea declined 0.5% despite healthy March performance. A thawing in geopolitical tensions with North Korea helped boost sentiment, after North Korea leader Kim Jong Un symbolically met a South Korean delegation in Pyongyang.

South Africa fell 4.2%, primarily due to weak performance from energy stocks. The real estate sector also sold off on the ANC's new land reform bill. After much speculation, President Zuma resigned and ANC party leader Cyril Ramaphosa took over as expected. The rand rallied on the news. Mexico (0.9%) lagged the benchmark return despite the peso being one of the strongest-performing currencies against the US dollar this quarter.

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
Alliance Bernstein	17.4%	17.0%
Man Numeric	18.5%	16.0%
Oaktree Capital	14.4%	15.0%
Genesis	9.2%	14.0%
Harding Loevner	14.7%	14.0%
Somerset Capital	9.1%	10.0%
RWC Partners	8.3%	9.0%
Westwood	4.8%	5.0%
Russell Investments	3.6%	0.0%

Sector Allocations (31/03/2018)

Sector	Fund	Index
Financials	27.7%	24.1%
Information Technology	21.9%	27.7%
Consumer Discretionary	12.3%	9.5%
Consumer Staples	7.7%	6.5%
Materials	7.6%	7.2%
Energy	7.8%	7.3%
Industrials	6.0%	5.2%
Real Estate	3.0%	2.8%
Telecommunication Services	2.3%	4.5%
Health Care	2.3%	2.8%
Utilities	1.6%	2.4%

Regional Allocations (31/03/2018)

Region	Fund	Index
China	29.1%	29.9%
South Korea	13.6%	15.1%
Taiwan	7.7%	11.8%
India	6.4%	8.1%
Brazil	9.1%	7.5%
South Africa	5.8%	6.8%
Russia	5.2%	3.6%
Mexico	2.5%	2.9%
Turkey	2.8%	1.0%
Other	17.7%	13.4%

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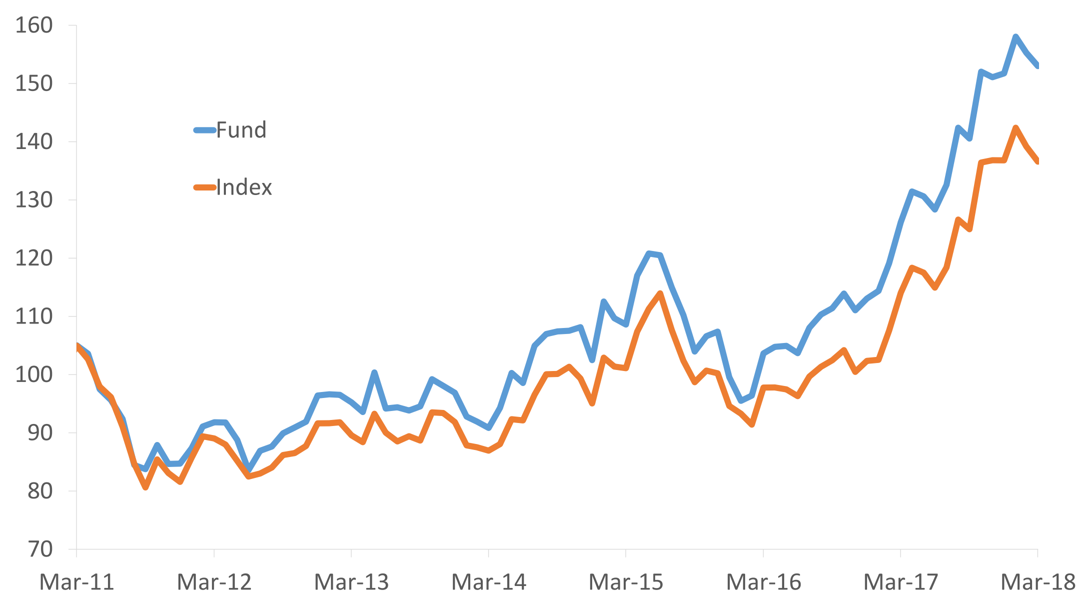
Indicative historic performance



Returns to 31 March 2018

	Month	Quarter	1 Year	3 Years p.a.	5 Years p.a.	7 Years p.a.	10 Years p.a.
Fund	-1.49%	0.82%	21.24%	12.10%	9.94%	5.52%	5.66%
Index	-1.88%	-0.16%	19.78%	10.55%	8.81%	3.83%	4.25%

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.