

Russell Investments Global Fixed Interest 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 Fixed Interest Fund returned 0.03% for May 2018, underperforming the benchmark by 0.36%.

Credit performance was modestly positive as the overweights to corporate high yield and investment-grade financials, pulled back the gains added through underweights to government-related and investment-grade industrials. Non-agency performance remained robust. Active currency positioning was positive through underweights to the Hungarian forint and euro, but this was offset by overweights to the British pound, Mexican peso and Polish zloty. Rates positioning was negative through the overweight in Brazil and underweights in the UK and Germany.

Market commentary

Global fixed interest markets returned 0.39% for May 2018, as measured by the Bloomberg Barclays Global Aggregate Index hedged to the NZ dollar.

US president Donald Trump pulled out of a deal with Iran and potential talks with North Korea, whilst in Europe, political developments in Spain and Italy kept investors on edge. Meanwhile, central banks in the developed world held on to their respective monetary policies. Over the period, the US dollar strengthened and oil prices declined – notably towards the latter stages of the month.

In the US, the latest non-farm payrolls figure (164,000 April) came in slightly weaker than expected, but the unemployment rate declined to 3.9% - the lowest level since 2000. Meanwhile, a second estimate for first quarter GDP growth was revised downwards to 2.2% QoQ. Furthermore, retail sales (4.7% YoY) came in softer whilst inflation surged to 2.5%. The Federal Reserve (Fed) kept rates at 1.75%, but hinted that this could be hiked in June. The Fed also explained that it would be comfortable with inflation hovering above its target rate of 2.0% for a short while, in order to allow the economy to grow further. In political developments, Trump pulled out of the Iran nuclear deal and cancelled the North Korea nuclear summit. The benchmark 10-year Treasury yield fell 10 basis points (bps) to 2.85%. In the UK Prime Minister Theresa May was dealt a setback as a proposed "customs partnership" with the EU was rejected by her Brexit cabinet. Both the UK (-18 bps to 1.32%) and German (-21 bps to 0.38%) benchmark 10-year yields flattened over the period.

In emerging market debt (EMD), a stronger US dollar continued to detract from performance.

Political volatility led to the notable widening of credit and high yield spreads. Global investment-grade (IG) credit spreads widened by 13 basis points to 111, led by EU IG (+25 bps to 103) and US IG (+7 bps to 109). US corporate high yield spreads widened by 24 bps to 362, whilst European high yield spreads widened by a stark 75 bps to 368. In corporate bond market news, new issuance picked up this month with one notable deal coming from pharma company GlaxoSmithKline, who brought \$6.0 billion to the markets.

The greenback rose on the back of a higher rates environment. This in turn weighed on a basket of currencies. Some currencies managed to find strength however, such as the Israeli shekel, Swiss franc and Japanese yen. The Israeli shekel has been gaining strength on the back of a strong and fast-growing economy. Some of the weaker performers were the Argentine peso, Turkish lira, Mexican peso and Brazil real. The backdrop of poor economic conditions led to the Argentine peso to plummet, prompting the Argentine central bank to raise interest rates to 40% to stem the fall.

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 (31/05/2018)

Manager	Current weight	Target weight
Colchester	21.0%	21.0%
PIMCO	18.0%	18.0%
Insight	17.5%	18.0%
BlueBay	17.5%	18.0%
Schroders	10.8%	10.0%
Russell Investments Positioning Strategies	15.2%	15.0%

Fund characteristics (30/04/2018)

	Fund	Index
Effective Duration	6.3	6.9
Average Quality/Rating	A+	AA

Sector allocations (30/04/2018)

Sector	Fund	Index
Government & Cash	40.0%	51.4%
Government Related	5.0%	9.6%
Corporate Securities - Investment Grade	19.1%	17.9%
Asset Backed Securities	4.8%	0.3%
Residential Mortgage Backed Securities	15.8%	11.2%
Commercial Mortgage Backed Securities	1.3%	0.8%
Corporate - High Yield	1.9%	0.0%
Emerging Market Debt	11.3%	6.1%
Covered Bonds	0.9%	2.8%

Credit ratings (30/04/2018)

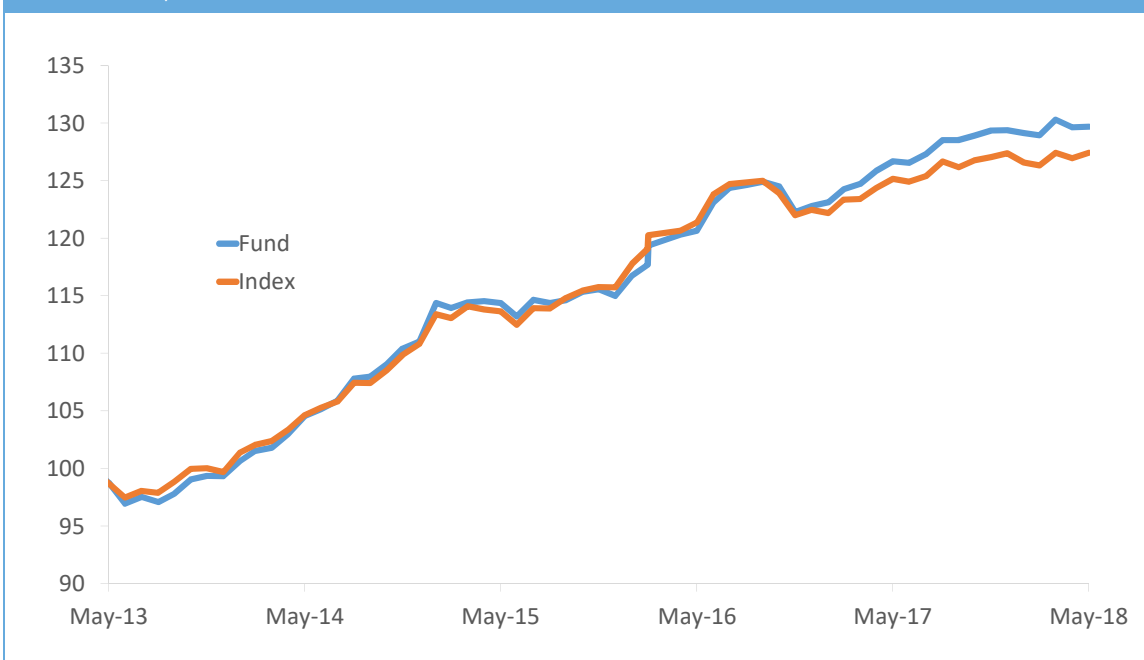
	Fund	Index
AAA & Cash	34.0%	39.1%
AA	11.0%	16.3%
A	26.5%	29.4%
BBB	12.3%	15.2%
BB	5.9%	0.0%
B	2.7%	0.0%
CCC & Below	3.1%	0.0%
Not Rated	4.5%	0.0%

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Indicative historic performance



Returns to 31 May 2018

	Month	Quarter	1 year	3 years p.a.	4 years p.a.	5 years p.a.
Fund	0.03%	0.59%	2.36%	4.28%	5.53%	5.60%
Index	0.39%	0.87%	1.81%	3.89%	5.05%	5.25%

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

The benchmark for the Russell Investments Global Fixed Interest Fund is the Bloomberg Barclays Global Aggregate Index New Zealand dollar hedged. All index information contained in this document is with regards to this index.

Past performance is not necessarily indicative of future performance.

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