

Russell Investments NZ Shares 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 at www.iisolutions.co.nz and www.business.govt.nz/disclose.

The Russell Investments NZ Shares Fund returned 2.76% in May, outperforming the benchmark by 0.15%.

Contributing to the Fund's outperformance were ex-benchmark holdings in Vista Group and Serko, as well as an overweight exposure to Contact Energy. Contact Energy in particular rose as the outlook for listed electricity stocks turned decidedly bullish in the wake of Transpower's Energy Futures paper. In its paper, Transpower said it expects electricity demand to more than double by 2050, in part because of stronger population and economic growth. Also adding value were overweight holdings in Spark New Zealand, Summerset Group and Mainfreight; the latter gaining as investors reacted positively to the company's latest earnings update. In contrast, our overweight holding in a2 Milk Company detracted the most from returns in May; the stock falling sharply following a disappointing earnings update. Other positions that weighed on performance were an underweight exposure to Ryman Healthcare, not holding Synlait Milk and an ex-benchmark exposure to Pacific Edge.

Market commentary

The New Zealand share market made good gains in May with the S&P/NZX 50 Index returning 2.61% for the month. Contributing to the gains were positive earnings updates from Mainfreight and Fisher & Paykel Healthcare. MSCI index changes and the Reserve Bank of New Zealand (RBNZ)'s decision to leave the official cash rate unchanged at 1.75% also contributed. Sentiment was further boosted by some encouraging Chinese economic data, stronger commodity prices and expectations further tepid inflation data in the US will see the Federal Reserve maintain a gradual approach to raising interest rates. Stocks also benefited from speculation neither the European Central Bank nor the Bank of Japan are in any hurry to speed up the withdrawal of their respective fiscal stimulus, and a broadly positive lead from major overseas markets; though Europe was a notable exception.

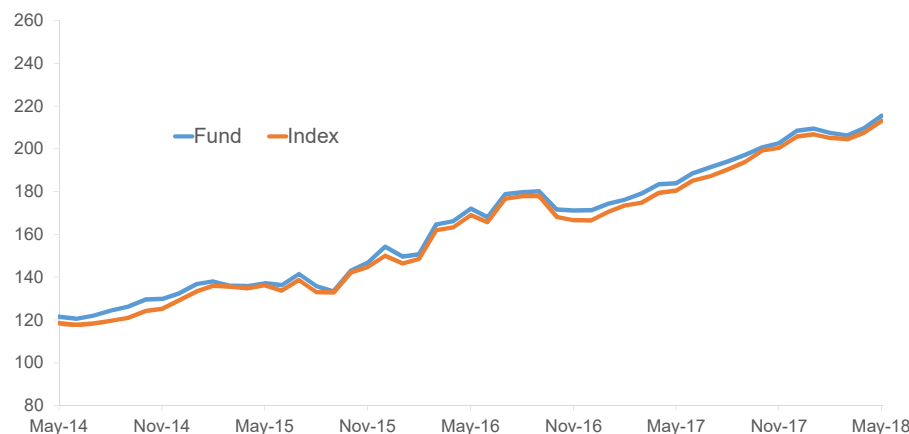
Limiting the local market's advance were a series of geopolitical risks, including Donald Trump's decision to quit an international deal with Iran aimed at preventing the country from acquiring nuclear weapons, fresh political uncertainty in Italy and Spain, and ongoing trade tensions between the US and China.

At the stock level, Serko (20.2%), Vista Group (16.7%) and Synlait Milk (12.5%) were amongst the best performers in May, while the likes of Comvita (-16.5%), Pacific Edge (-17.6%) and a2 Milk Company (-10.5%) all struggled over the period.

Moving forward, we expect volatility to continue this year as investors contend with US policy agenda, potential further US rate hikes, potential normalisation of monetary policy outside the US and ever-present geopolitical risks. Overall, we expect global growth to remain modestly positive through 2018, with downside risks of further market selloffs as markets continue to adjust to potentially higher levels of interest rates and changes to monetary and fiscal policy, especially in the US.

Investment performance and positions

The following information provides investment performance and positions within the underlying portfolio. Please note that this information is indicative only and is provided for general information purposes only.



From 1 July 2016 this is S&P/NZX 50 Index (gross and including imputation credits). Prior to 30 June 2016 this was the Russell New Zealand Domestic Index including imputation credits (previously known as the Russell NZ Tradable Gross Index). Prior to 1 December 2014 the benchmark was the NZX50 Index including imputation credits.

Returns to 31 May 2018 (% gross of tax and fees)

	Month	Quarter	1 Year	3 Years p.a.	5 Years p.a.
Fund	2.76%	3.83%	17.15%	16.23%	16.10%
Index*	2.61%	3.84%	18.09%	16.04%	15.86%

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