

# Russell Investments NZ 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 [iisolutions.co.nz](http://iisolutions.co.nz) and [business.govt.nz/disclose](http://business.govt.nz/disclose).

The Russell Investments NZ Fixed Interest Fund returned 0.79% in May, outperforming the benchmark by 0.16%.

The Fund's credit positioning contributed the most to performance over the period, driven largely by the additional yield we received from our holdings. The Fund is overweight credit and our holdings tend to have a higher yield than those securities in the index. During the month, we took the opportunity to add to our financials exposure as we believe pricing in this sector has become more appealing. We also maintained our positive view on asset-backed securities, which in our opinion remain well priced at present. Duration positioning also added value in May. We were slightly long duration over the period; positioning that benefited from a combination of lower bond yields and expectations the RBNZ is unlikely to raise interest rates any time soon.

Meanwhile, neither the Fund's inflation-indexed bond nor relative value positions had any material impact on overall returns during the month.

Moving forward, the Fund remains underweight government debt and overweight credit; most notably financials and utilities. Importantly, the majority of the Fund's credit holdings are rated AA or better.

The Fund's cash position at month end was 2.6%.

## Market commentary

The New Zealand bond market made reasonable gains in May, returning 0.63%.

Domestic bond yields were lower (prices higher) over the period as investors sought the asset class's traditionally defensive characteristics in the face of heightened geopolitical uncertainty. Much of this uncertainty stemmed from fresh political risks in Italy and Spain, and concerns the two countries' problems could have implications for the wider euro-zone. Investors also had to contend with Donald Trump's decision to quit an international deal with Iran aimed at preventing the country from acquiring nuclear weapons, and a continuation of US-China trade tensions.

Closer to home, business confidence has remained fairly weak ever since last year's election. The initial fall wasn't altogether surprising given the conservative leanings amongst the business community and the fact that there's always some policy uncertainty associated with a change in government. However, there are other factors at play, including a stalling in the housing market and a pullback in construction activity. Elsewhere, activity is looking more resilient, with the terms of trade providing solid revenue for our exporters and unemployment at its lowest level since 2008.

In terms of central bank activity, the Reserve Bank of New Zealand (RBNZ) left the official cash rate on hold at 1.75% in May and reaffirmed it's likely to stay at this level until late next year given only modest inflation pressures at present.

Meanwhile, corporate bonds held up reasonably well in May, despite the more challenging backdrop and a pick-up in supply.

*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.*

Portfolio Information (31/05/2018)		
	Fund	Index
Duration	4.2	4.4
Yield	2.7%	2.4%
Average Quality/Rating	AA	AA
Number of issuers	40	17

Top 10 Issuers (31/05/2018)		
	Fund	Index
New Zealand Government	45.8%	75.0%
New Zealand Local Government	6.4%	8.2%
Westpac New Zealand	4.2%	3.2%
ANZ Bank New Zealand	3.9%	2.3%
Fonterra Co-operative Group	3.2%	0.9%
Kommunalbanken AS	3.1%	0.0%
ASB Bank	2.9%	1.4%
Bank of New Zealand	2.8%	2.9%
Kiwibank	2.6%	0.3%
F&P Finance	2.6%	0.0%

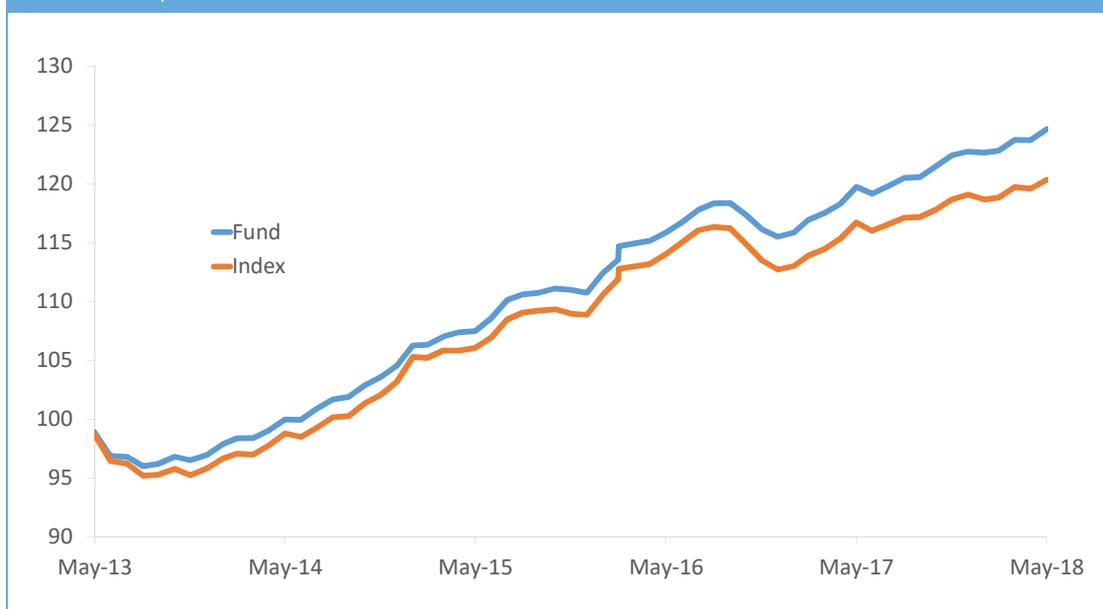
Credit Ratings (31/05/2018)		
	Fund	Index
AAA	8.5%	0.3%
AA Govt	45.8%	75.0%
AA Other	26.5%	20.9%
A	13.3%	3.8%
BBB	4.4%	0.0%
NR	1.5%	0.0%

# Russell Investments NZ Fixed Interest Fund

Report and update

31 May 2018

## Indicative historic performance



## Returns to 31 May 2018

	Month	Quarter	1 year	3 years p.a.	5 years p.a.
Fund	0.75%	1.48%	4.09%	5.06%	4.75%
Index*	0.63%	1.28%	3.10%	4.31%	4.07%

\*As at 1 December 2014, the benchmark is 75:25 weighted average of the S&P/NZX NZ Government Stock Index and S&P/NZX A-Grade Corporate Index. Prior to this date the benchmark was the S&P/NZX NZ Government Stock Index

## Disclaimer

This Report and Update is provided by Implemented Investment Solutions Limited (IIS) in good faith and is designed as a summary to accompany the Product Disclosure Statement for the Russell Investment Funds (which is available from IIS and on [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose)). The information contained in this Report and Update is not an offer of units in the Fund or a proposal or an invitation to make an offer to sell, or a recommendation to subscribe for or purchase, any units in the Fund. Any person wishing to apply for units in the Fund must complete the application form attached to the current Product Disclosure Statement. The information and any opinions in this Report and Update are based on sources IIS believes are reliable and accurate. IIS, its directors, officers and employees make no representations or warranties of any kind as to the accuracy or completeness of the information contained in this fact sheet and disclaim liability for any loss, damage, cost or expense that may arise from any reliance on the information or any opinions, conclusions or recommendations contained in it, whether that loss or damage is caused by any fault or negligence on the part of IIS, or otherwise, except for any statutory liability which cannot be excluded. All opinions reflect IIS' judgment on the date of this Report and Update and are subject to change without notice. This disclaimer extends to any entity that may distribute this publication and in which IIS or its related companies have an interest. The information in this Report and Update is not intended to be financial advice for the purposes of the Financial Advisers Act 2008. In particular, in preparing this document, IIS did not take into account the investment objectives, financial situation and particular needs of any particular person. Professional investment advice from an appropriately qualified adviser should be taken before making any investment. Past performance is not necessarily indicative of future performance, unit prices may go down as well as up and an investor in the fund may not recover the full amount of capital that they invest. This disclaimer must accompany any information regarding IIS or its products. No part of this document may be reproduced without the permission of IIS. IIS is the manager of the Fund and will receive management fees as set out in the Product Disclosure Statement.

