

# Statement of Investment Policy and Objectives (SIPO)

## Russell Investment Funds

Effective date: 01/05/2017

This SIPO is available on the schemes register [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose)

## ***A. Description of the managed investment scheme***

The Russell Investment Funds (Scheme) is a managed investment scheme. The Scheme has on offer five single sector investment funds (Funds) which provide investors with exposure to:

- International equities
- International equities (hedged)
- Australasian equities<sup>1</sup>
- New Zealand fixed interest <sup>2</sup>
- International fixed interest

The Funds, or any underlying investment pools, are actively managed with one or more underlying specialist investment managers being appointed. The Funds may invest in direct securities (including derivatives) or through other managed investment schemes.

## ***B. Roles and responsibilities***

Implemented Investment Solutions Limited (IIS) is the licensed manager (Manager) of the Scheme. The Manager's key roles and responsibilities are:

- Preparation of disclosure material.
- Promotion and distribution of the Funds.
- Establishing, reviewing and maintaining this Statement of Investment Policy and Objectives.
- The ongoing management and oversight of the Funds. This includes appointing, managing and monitoring specialist providers for functions like:
  - Administration management, and
  - Investment management.
- Managing client relationships.
- Monitoring investment performance and outcomes.

Russell Investment Group Limited (Russell Investments) is the Scheme's investment manager and is responsible for making recommendations and decisions about what the Scheme invests in, in accordance with this Statement of Investment Policies and Objectives. The Scheme is invested in accordance with Russell Investments' manager-of-managers investment philosophy and process. Currently the Russell Investments NZ Fixed Interest and NZ Shares Funds invest directly in assets which are managed by specialist managers selected on the basis of Russell Investments' manager research. The Russell Investments Global Fixed Interest, Global Shares and Hedged Global Shares Funds currently invest in underlying offshore funds established and managed by an affiliate of Russell Investments. Russell Investments also participates in reviewing the Statement of Investment Policy and Objectives.

Key administration functions, being registry, fund accounting, and unit pricing, are currently outsourced to MMC Limited.

Public Trust, is the Scheme's custodian and supervisor. The supervisor is responsible for supervision of the Manager and the scheme, including:

- Acting on behalf of the Scheme's investors in relation to the Manager and any contravention of the Manager's issuer obligations;
- Supervising the performance by the Manager of its functions and the financial position of the Manager and the Scheme; and

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<sup>1</sup> Investment in Australian equities by the Russell Investments NZ Shares Fund is generally in companies that have a listing on the NZX.

<sup>2</sup> The Russell Investments NZ Fixed Interest Fund has the ability to invest in the Australian fixed income market either through Australian denominated debt securities or derivative instruments.

- Holding the Scheme's assets or ensuring that the assets are held in accordance with applicable legislative requirements.

### ***C. Investment philosophy***

The Manager's objective is to provide clients with access to world-class investment solutions, while endeavouring to make these easy to use and understand from an investor's perspective.

Russell Investments is the Investment Manager and investment adviser of the Funds. The Investment Manager believes that by skillfully selecting managers, active management (i.e. taking positions away from the passive exposure in a benchmark index) will add value over time.

The Russell Investment Funds are managed using Russell Investments' manager-of-managers investment philosophy and process, with one or more underlying specialist investment managers being appointed.

### ***D. Fund Investment Objectives and Strategies***

The objectives and strategies for the Funds are set out on the following pages:

## Russell Investments Global Shares Fund

### *Objectives*

The investment objective of the Fund is to provide a total return, before costs and tax, higher than the Russell Global Large Cap - Net Index over the long term (3 years plus).

The Fund's tracking error (annualised standard deviation of the difference between Fund and benchmark returns) is expected to be in the range of 3%-5%.

### *Investment Strategy*

#### *Benchmark index*

- Russell Global Large Cap - Net Index

#### *Benchmark asset allocation*

- 100% international equities

#### *Asset allocation ranges:*

- 95%-100% international equities via the Russell Global Opportunities Fund
- 0%-5% cash and cash equivalents<sup>3</sup>

#### *Appointed investment manager:*

- Russell Investments

#### *Investment Manager strategy:*

- Russell Investments selects/advises on underlying funds and/or appoints/advises on investment managers.
- The Fund invests in the Russell Global Opportunities Fund (an Australian registered managed investment scheme).\*

#### *Permitted investments:*

- Global equity instruments
- Cash and cash equivalents
- Derivative instruments including currency hedging instruments.
- Managed investment schemes

#### *Rebalancing policy:*

- As a single-sector fund, there is no need for a rebalancing policy.

#### *Currency hedging policy:*

- The Fund is normally not hedged to the New Zealand dollar.

#### *Other*

- The Fund can borrow up to 20% of the aggregate value of its investments but only for the purposes of providing short-term liquidity (i.e. to temporarily fund redemptions or pay expenses).

\* Details of the Russell Global Opportunities Fund's underlying specialist managers and portfolio configuration can be obtained by contacting the Manager.

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<sup>3</sup> Accrued fund expenses and other fund liabilities are not deducted from cash and cash equivalents for this range. Excludes any cash held by the Russell Global Opportunities Fund.

## Russell Investments Hedged Global Shares Fund

### *Objectives*

The investment objective of the Fund is to provide a total return, before costs and tax, higher than the Russell Global Large Cap NZ Hedged – Net Index over the long term (3 years plus).

The Fund's tracking error (annualised standard deviation of the difference between Fund and benchmark returns) is expected to be in the range of 3%-5%.

### *Investment Strategy*

#### *Benchmark index*

- Russell Global Large Cap NZ Hedged - Net Index

#### *Benchmark asset allocation*

- 100% international equities hedged to the New Zealand dollar

#### *Asset allocation ranges:*

- 95%-100% international equities hedged to the New Zealand dollar via the Russell Global Opportunities Fund – \$NZ Hedged
- 0%-5% cash and cash equivalents<sup>4</sup>

#### *Appointed investment manager:*

- Russell Investments

#### *Investment Manager strategy:*

- Russell Investments selects/advises on appropriate funds and/or appoints/advises on investment managers.
- The Fund invests in the Russell Global Opportunities Fund – \$NZ Hedged (an Australian registered managed investment scheme).\*

#### *Permitted investments:*

- Global equity instruments
- Cash and cash equivalents
- Derivative instruments including currency hedging instruments
- Managed investment schemes

#### *Rebalancing policy:*

- As a single-sector fund, there is no need for a rebalancing policy.

#### *Currency hedging policy:*

- The Fund targets a position of being fully hedged back to New Zealand dollars. Due to active management by the underlying managers, there will generally be some foreign currency exposure.

#### *Other*

- The Fund can borrow up to 20% of the aggregate value of its investments but only for the purposes of providing short-term liquidity (i.e. to temporarily fund redemptions or pay expenses).

\* Details of the Russell Global Opportunities Fund – \$NZ Hedged's underlying specialist managers and portfolio configuration can be obtained by contacting the Manager.

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<sup>4</sup> Accrued fund expenses and other fund liabilities are not deducted from cash and cash equivalents for this range. Excludes any cash held by the Russell Global Opportunities Fund - \$NZ Hedged.

## Russell Investments NZ Shares Fund

### *Objectives*

The investment objective of the Fund is to provide a total return, before costs and tax, higher than the S&P/NZX 50 Index (gross and including imputation credits) ('benchmark') over the long term (3 years plus).

The Fund's tracking error (annualised standard deviation of the difference between Fund and benchmark returns) is expected to be in the range of 3%-5%.

### *Investment Strategy*

#### *Benchmark index*

- S&P/NZX 50 Index (gross and including imputation credits)

#### *Benchmark asset allocation*

- 100% Australasian equities

#### *Asset allocation ranges:*

- 90%-100% Australasian equities
- 0%-10% cash and cash equivalents<sup>5</sup>

#### *Appointed investment manager:*

- Russell Investments

#### *Investment Manager strategy:*

- Russell Investments selects/advises on underlying funds and/or appoints/advises on sub-investment managers. \*

#### *Permitted investments:*

- Australasian equities
- Cash and cash equivalents
- Derivative instruments including currency hedging instruments
- Managed investment schemes

#### *Rebalancing policy:*

- As a single-sector fund, there is no need for a rebalancing policy.

#### *Currency hedging policy:*

- Where the Fund holds Australian equities, the resulting Australian dollar exposure may be hedged to the New Zealand dollar.

#### *Other*

- The Fund can borrow up to 20% of the aggregate value of its investments but only for the purposes of providing short-term liquidity (i.e. to temporarily fund redemptions or pay expenses).
- Underwriting or sub-underwriting is permitted.

\* Details of the Fund's underlying specialist managers and portfolio configuration can be obtained by contacting the Manager.

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<sup>5</sup> Accrued fund expenses and other fund liabilities are not deducted from cash and cash equivalents for this range.

## Russell Investments NZ Fixed Interest Fund

### *Objectives*

The investment objective of the Fund is to provide a total return, before costs and tax, higher than a composite comprising 75% of the S&P/NZX NZ Government Stock Index and 25% of the S&P/NZX A Grade Corporate Bond Index over the long term (3 years plus).

The Fund's tracking error (annualised standard deviation of the difference between Fund and benchmark returns) is expected to be in the range of 1.0%-2.0%.

### *Investment Strategy*

#### *Benchmark index*

- A composite index comprising 75% of the S&P/NZX NZ Government Stock Index and 25% of the S&P/NZX A Grade Corporate Bond Index

#### *Benchmark asset allocation*

- 100% New Zealand fixed interest
- 0% International fixed interest\*

\*Investment in international fixed interest is restricted to the Australian fixed income market either through Australian denominated debt securities or derivative instruments.

#### *Asset allocation ranges:*

- 80%-100% New Zealand fixed interest and cash and cash equivalents
- 0%-20% International fixed interest and cash and cash equivalents
- 0%-20% currency hedging instruments

#### *Appointed investment manager:*

- Russell Investments

#### *Investment Manager strategy:*

- Russell Investments selects/advises on underlying funds and/or appoints/advises on investment managers.\*\*

#### *Permitted investments:*

- NZ fixed interest
- International fixed interest
- Cash and cash equivalents
- Derivative instruments including currency hedging instruments
- Managed investment schemes

#### *Rebalancing policy:*

- As a single-sector fund, there is no need for a rebalancing policy.

#### *Currency hedging policy:*

- Australian dollar currency exposure is largely hedged back to the New Zealand dollar.

#### *Other*

- The Fund can borrow up to 20% of the aggregate value of its investments but only for the purposes of providing short-term liquidity (i.e. to temporarily fund redemptions or pay expenses).

\*\* Details of the Fund's underlying specialist manager(s) and portfolio configuration can be obtained by contacting the Manager.

## Russell Investments Global Fixed Interest Fund

### *Objectives*

The investment objective of the Fund is to provide a total return, before costs and tax, higher than the Bloomberg Barclays Global Aggregate Index – New Zealand dollar hedged over the long term (3 years plus).

The Fund's tracking error (annualised standard deviation of the difference between Fund and benchmark returns) is expected to be in the range of 1.0%-2.5%.

### *Investment Strategy*

#### *Benchmark index*

- Bloomberg Barclays Global Aggregate Index Hedged to NZ Dollars

#### *Benchmark asset allocation*

- 100% International fixed interest

#### *Asset allocation ranges:*

- 95%-100% Russell Global Bond Fund
- 0%-5% cash and cash equivalents<sup>6</sup>

#### *Appointed investment manager:*

- Russell Investments

#### *Investment Manager strategy:*

- Russell Investments selects/advises on underlying funds and/or appoints/advises on investment managers.
- The Fund invests in the Russell Global Bond Fund (an Australian registered managed investment scheme).\*

#### *Permitted investments:*

- International fixed interest
- Cash and cash equivalents
- Derivative instruments including currency hedging instruments
- Managed investment schemes

#### *Rebalancing policy:*

- As a single-sector fund, there is no need for a rebalancing policy.

#### *Currency hedging policy:*

- The Fund targets a position of being fully hedged back to New Zealand dollars. Due to active management by the underlying managers, there will generally be some foreign currency exposure.

#### *Other*

- The Fund can borrow up to 20% of the aggregate value of its investments but only for the purposes of providing short-term liquidity (i.e. to temporarily fund redemptions or pay expenses).

\* Details of the Russell Global Bond Fund's underlying specialist managers and portfolio configuration can be obtained by contacting the Manager.

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<sup>6</sup> Accrued fund expenses and other fund liabilities are not deducted from cash and cash equivalents for this range. Excludes any cash held by the Russell Global Bond Fund.



## ***E. Investment Policies***

### **Taxation**

All Funds have elected to be Portfolio Investment Entities ('PIEs') and are therefore taxed under the PIE regime.

The taxation implications of an investment method, such as holding assets directly or investing in a managed investment scheme, are taken into account when determining the most appropriate approach for a particular fund. Note that taxation is not the sole consideration when choosing an investment method; other factors taken into account include cost and implementation feasibility.

### **Liquidity**

The liquidity risk of the Funds is assessed with reference to liquidity of the underlying assets and securities. The Manager then establishes an appropriate application and redemption frequency for the Fund concerned. All the Funds invest predominantly in liquid securities and hence have daily applications and redemptions. Market conditions can, however, change resulting in some assets becoming difficult to sell. Hence if a Fund were to experience liquidity problems the Manager may defer or suspend redemptions for a period of time.

### **Related-party transactions**

Related-party transactions, other than the type described below are prohibited.

Some of the Funds invest in other managed investment schemes. If these schemes are managed by related parties (for example where the Funds invest in a Russell Investments fund offshore), and are permitted under section 174 of the FMC Act 2013, they are permitted investments for the Funds. The Manager will report transactions in managed investment schemes managed by related parties to its Supervisor in accordance with section 173(2) of the FMC Act 2013.

### **Trade allocations and transactions**

The Russell Investments NZ Fixed Interest Fund and Russell Investments NZ Shares Fund invest directly in securities. The specialist investment managers have policies and procedures covering trade allocation and arms-length transactions.

The following funds invest in other managed investment schemes rather than trading directly in securities:

- Russell Investments Global Shares Fund,
- Russell Investments Hedged Global Shares Fund, and
- Russell Investments Global Fixed Interest Fund.

### **Other relevant policies**

Summaries of the key relevant policies are set out below.

#### *Unit Pricing and Unit Register Policy*

The purpose of this policy is to set out how IIS manages its unit pricing and unit register obligations, and the way in which IIS exercises its discretions authorised by the Trust Deed and the Funds' establishment documentation.

This policy also links to IIS's Outsourcing Policy reflecting that we outsource functions including registry, fund administration and unit pricing to third parties. In particular, the policy provides a guide to the areas we need to focus on when selecting, monitoring and undertaking ongoing due diligence on third party providers.

Within the bounds of what is reasonable and practical our goals are to:

- Have unit prices that reflect fair, realisable value of underlying assets and liabilities;
- Ensure equitable treatment of investors entering, exiting or remaining in a Fund.
- Have a consistent and objective process for determining unit prices.

- Comply with our governing documents, offer documents and the law.

The Unit Pricing and Registry Policy is available on the Disclose website [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose).

#### *Conflicts of Interest and Related Party Transactions Policy*

The Conflicts of Interest and Related Party Transaction Policy ('Policy') sets out the principles and procedures relating to the management of conflicts of interest within IIS. The Policy applies to all of IIS's directors, relevant officers, senior management and employees.

The Policy provides guidance on:

- What is meant by a conflict of interest.
- What constitutes a related party transaction.

The core Policy statement is:

*'As a licensed manager of Managed Investment Schemes, the Manager must act honestly and in the best interests of the Scheme participants. The Manager recognises that in order to satisfy this duty, it and its Staff members must put the interests of its customers ahead of those of itself or of the Staff members.'*

#### *Investment Management Policy*

This document sets out IIS's policies and procedures in relation to managing funds. It provides information on how funds are managed, including IIS's approach to ensuring appropriate steps are in place for selecting, allocating, and managing investments on behalf of clients. Key sections of the policy document are:

- Establishing funds
- Investment funds - factors to be in place or considered
- Manager selection – factors to be considered
- Implementation – steps for any manager appointed to the funds
- Reporting by appointed managers
- Liquidity
- Derivatives
- Securities Lending
- Trade allocation
- Associated companies
- Tax
- Fees and expenses
- Leverage
- Custody

#### ***F. Investment performance monitoring***

IIS monitors investment performance of the Funds on a monthly basis. Performance is measured and assessed on the following basis for 1, 3 and 5 year periods:

- Gross return
- Benchmark index return
- Performance relative to benchmark
- Annualised standard deviation of gross return
- Annualised standard deviation of benchmark index return
- Annualised tracking error

IIS reports performance to the IIS/Russell Investments Joint Governance Committee (JGC), and also to the IIS Investment Committee (sub-committee of the IIS board).

The JGC is established under the Unit Trust Promotion and Investment Management Agreement between IIS and Russell Investments. The JGC aims to meet at least quarterly. The JGC Charter

includes the function of overseeing investment performance of the Russell Investment Funds. "Investment performance of the Funds" is a standing agenda item for JGC meetings

### *G. SIPO monitoring and review*

The IIS Investment Committee is responsible for governance oversight of the SIPO.

The Manager's compliance processes include periodic policy reviews. SIPOs are reviewed six monthly by management and annually by the IIS Board. In addition, IIS management may initiate an ad hoc review, with examples of events that could lead to this being:

- A specialist investment group, like Russell Investments or one of the underlying managers, recommending changes to the SIPO.
- A change in roles and responsibilities
- A permanent change in risk and return characteristics of the relevant market.

SIPO reviews take into account the views of IIS and the Investment Manager and if required the views of external experts.

The Manager can make changes to the SIPO in accordance with the Trust Deed and the FMC Act. Before making changes to the SIPO, the Manager will consider if the changes are in the best interests of investors and consult with the Supervisor. Any changes to the SIPO require IIS Investment Committee approval, as well as written approval of the Supervisor. The Manager will give notice to fund investors before implementing any material SIPO changes.

The IIS Investment & Product Manager is responsible for monitoring adherence to the SIPO and reporting any breaches to the IIS Investment Committee and the Supervisor.

This SIPO was approved by the IIS Investment Committee on 1 May 2017 and takes effect on 1 May 2017.

## Glossary

**Benchmark index** means the financial index or indices against which a Fund's performance is measured

**Funds** means the investment funds offered within the Scheme, being the Russell Investments Global Shares Fund, the Russell Investments Hedged Global Shares Fund, the Russell Investments NZ Shares Fund, the Russell Investments NZ Fixed Interest Fund, and the Russell Investments Global Fixed Interest Fund

**IIS** means Implemented Investment Solutions Limited, the Manager of the Scheme

**Investment Manager** means Russell Investment Group Limited

**Manager** means IIS

**Russell Investments** means Russell Investment Group Limited

**Scheme** means the Russell Investment Funds, a managed investment scheme registered under the Financial Markets Conduct Act 2013 and which contains the Funds

**Supervisor** means the supervisor of the Scheme, which is Public Trust

**Tracking error** means the annualised standard deviation of the difference between the returns of the Fund and the benchmark against which its performance is measured

**Underlying fund** means any other investment fund into which a Fund invests