Russell Investments Global Fixed Interest Fund

Report and Update

30 June 2016

Fund commentary

The Russell Investments Global Fixed Interest Fund returned 3.13% for the quarter, outperforming its benchmark by 0.19%.

Performance was driven largely by the Fund's active currency positioning. Key contributors were an underweight to the UK sterling and overweights to the Japanese yen and the Brazilian real. These positions benefited from the sterling's decline in value following the surprise June 23rd 'Brexit' result, while investors viewed the Brazilian central bank's inflation targeting positively.

Sector positioning was also positive over the period, notably through overweights to high yield, emerging market debt and non-agency residential mortgage-backed securities. Rates positioning detracted from performance, as underweights to Japan, France and the UK offset the gains generated from overweights to the US and Brazil.

Manager commentary

Russell Positioning Strategy was the strongest-performer for the quarter. This strategy focuses on currency factors (value, trend, and carry) and provides Russell Investments with greater flexibility in managing risk and allocating to alpha sources. All currency factors contributed positively, with trend (underweight to the sterling and overweight to the yen) standing out relative to carry and value (both have an overweight to the NZ dollar).

Colchester, the Fund's rates and currency specialist, underperformed the benchmark during the quarter. In rates, overweight positions to Brazil, New Zealand and Australia added value. However, underweights to the UK, Japan and France detracted, as their respective yields rallied. In currency, overweights to the Mexican peso and the Polish zloty, offset gains generated through an overweight to the Brazilian real and an underweight to the Australian dollar.

Market commentary

Global bond markets returned 2.94% in the June quarter, as measured by the Barclays Global Aggregate Bond index hedged to the NZ dollar.

A general risk-off market sentiment characterised much of the period, driven by more dovish stances by the G4 central banks. Moreover, the run up to UK's referendum caused significant market concerns and the resultant surprise 'Brexit' vote on June 23rd, threw worldwide markets into turmoil and pushed investor demand firmly into 'safe-haven' assets. Stabilising oil prices aided the high yield market and also added some momentum to developing currencies.

In the US, mixed economic data (poor jobs report, an upward revision of GDP growth and below target inflation) along with market uncertainties led to the US Federal Reserve becoming more cautious about raising interest rates for the rest of the year. As a result, the US 10-year Treasury yield fell by 0.30% to 1.47%. Market attention became increasingly fixated on the UK as the quarter progressed towards the date of the referendum. The sterling plunged to a 31-year low (against the US dollar) once the referendum result became known. In response, the Bank of England pledged US$345 billion of new stimulus. In Europe, the European Central Bank kept rates unchanged and also started to expand its easing initiative, which made corporate debt eligible for inclusion in its bond-buying purchase programme.

In Japan, the continuous rise of the yen proved to be a concern, particularly for exporters. Prime Minister, Shinzo Abe, delayed the planned sales tax increase and is now forced to consider deployment of additional stimulus after the 'Brexit' fallout. Inflows into emerging market debt funds increased over the quarter, as it served as an escape valve for market volatility.

In currency markets, the US dollar strengthened slightly over the period, driven by Fed rhetoric and market concerns. The Brazilian real was the strongest performer as investors viewed the Brazilian central bank's inflation targeting positively. On the other hand, sterling devalued to levels last seen in 1985, after the surprise 'Brexit' result.

The following information provides the investment and exposures within the underlying investment portfolio. Please note that this information is indicative only. Due to availability some of the below information is reported with a delay of one month.

Underlying Manager Allocations (30/06/16)

Manager	Current weight	Target weight
Colchester	20.3%	24.0%
Loomis Sayles	17.5%	17.0%
PIMCO	18.0%	17.0%
Insight	15.5%	15.0%
BlueBay	8.7%	10.0%
Brookfield	12.6%	10.0%
Russell Positioning Strategies	7.4%	7.0%

Fund Characteristics (31/05/16)

	Fund	Index
Effective Duration	6.4 years	6.7 years
Average Quality/Rating (S&P)	A	AA-

Sector Allocations (31/05/16)

Sector	Fund	Index
Government & Cash	41.3%	51.9%
Government Related	5.7%	10.2%
Corporate Securities – Investment Grade	15.9%	17.1%
Asset Backed Securities	2.9%	0.2%
Residential Mortgage Backed Securities	15.0%	11.5%
Commercial Mortgage Backed Securities	2.8%	0.4%
Corporate – High Yield	3.1%	0.0%
Emerging Market Debt	12.4%	5.8%
Covered Bonds	0.9%	2.9%

Credit Ratings (31/05/16)

	Fund	Index
AAA & Cash	38.0%	39.7%
AA	9.2%	16.6%
A	18.4%	27.9%
BBB	18.6%	15.8%
BB	5.4%	0.0%
B	2.8%	0.0%
CCC & Below	4.8%	0.0%
Not rated	2.8%	0.0%

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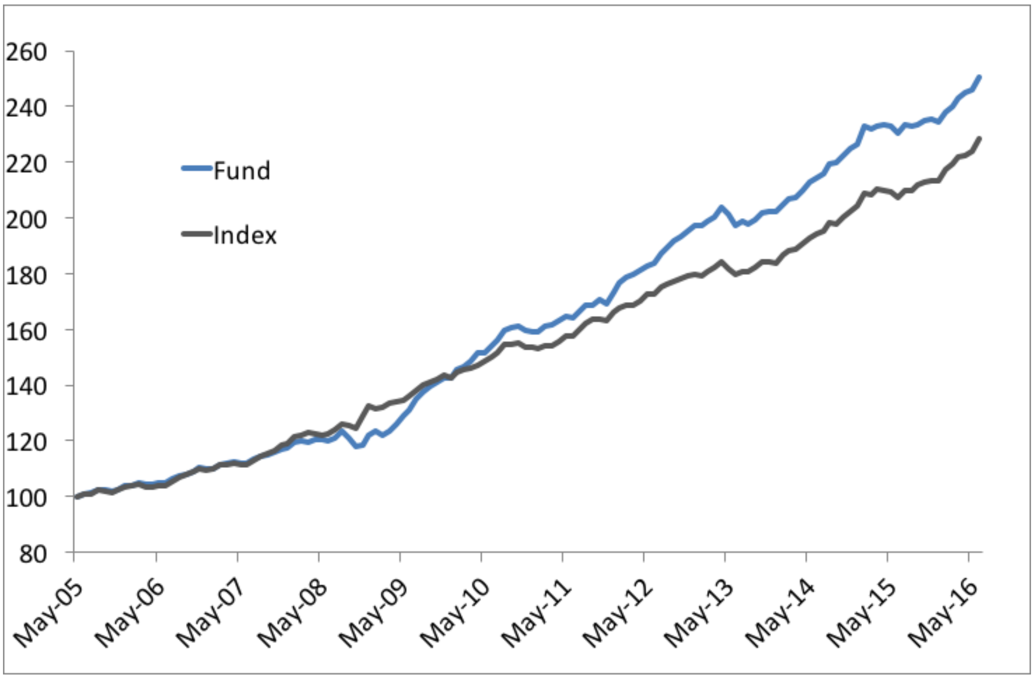
Indicative historic performance to 30 June 2016



Returns to 30 June 2016						
	Month	Quarter	1 Year	2 Years p.a.	3 Years p.a.	4 Years p.a.
Fund	2.01%	3.13%	8.72%	8.19%	8.28%	8.04%
Index	1.99%	2.94%	10.05%	8.44%	8.30%	7.22%

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 Barclays Global Aggregate Index New Zealand Dollar Hedged. All index information contained in this document is with regards to this index.

The inception date for the Russell Investments Global Fixed Interest Fund is December 2011. Prior to this date, performance is the Russell Global Bond Fund Class B.