

Russell Investments NZ Fixed Interest Fund

Report and Update

31 March 2016

Fund Commentary

The Russell Investments NZ Fixed Interest Fund returned 1.03% in March, against the benchmark (being a 75:25 weighted average of the S&P/NZX NZ Government Stock Index and the S&P/NZX A-Grade Corporate Index), which returned 0.78%. For the quarter, the fund returned 3.59%, in line with the benchmark return of 3.58%.

Falling bond yields drove a strong absolute return for the fund in March as the portfolio was positioned to benefit from the Reserve Bank's OCR cut on 10 March. Relative value trades, inflation-indexed bond exposure and overall security selection also added value in March.

Market Commentary

The New Zealand bond market was slightly behind the global bond market in March returning 0.81% (as measured by the S&P/NZX Government Stock Index), while the Barclays Global Aggregate Index hedged to the New Zealand dollar returned 0.99%. The S&P/NZX A-Grade Corporate Bond Index returned 0.70%.

Global bond markets performed well in March to finish off an excellent quarter for the asset class, despite more accommodative central bank policies and stabilising oil prices dampening the demand for safe haven assets. The US 10-year Treasury yield ended the period at 1.77%, down 50 basis points since the start of the year.

In New Zealand, 10-year government bond yields fell slightly in March, down 4 basis points to 2.91%. The most notable event in March came early in the month when the Reserve Bank of New Zealand surprised many the market, cutting the Official Cash Rate (OCR) by 25 basis points to 2.25% in attempts to drive inflation towards their target range.

Investment Performance and Positions

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

Returns to 31 March 2016 (% gross of tax and fees)					
	Month	3 Months	1 Year	2 Years	3 Years
Fund	1.03%	3.59%	7.20%	7.98%	5.22%
Index*	0.78%	3.58%	6.57%	7.85%	4.57%

*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.

Portfolio Information		
	Fund	Index*
Duration	3.90 years	4.12 years
Yield	2.65%	2.50%
Average Quality/Rating	AA	AA-
Number of issuers	33	16

Credit rating		
	Fund	Index*
AAA	5.1%	1.2%
AA	48.4%	75.0%
AA Other	41.1%	23.8%
BBB	4.3%	0.0%
Non-rated	1.1%	-
Total	100.0%	-

Top 10 Issuers		
	Fund	Index*
NZ Government	48.4%	75.0%
NZLGF	8.7%	7.1%
ASB	5.5%	1.8%
Cash	4.7%	0.0%
Kiwibank	2.9%	0.2%
BNZ	2.8%	3.5%
Rabobank	2.5%	1.9%
Queensland Treasury	2.2%	0.0%
Westpac	2.1%	2.0%
ANZ	1.9%	2.5%

* 75% S&P/NZX NZ Government Stock Index, 25% S&P/NZX A-Grade Corporate Bond Index

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