Russell Global Opportunities Fund - $NZ Hedged

Report and update

30 June 2016

Fund commentary

The Russell Global Opportunities Fund $NZ Hedged returned 1.11% for the quarter, underperforming its benchmark by 0.56%.

Stock selection was the main driver of underperformance over the period, particularly within Continental Europe. This included overweight holdings in financials heavyweights such as BNP Paribas, Credit Suisse Group and Barclays; all of which sold off sharply in the wake of the Brexit vote. Other European names to weigh on performance were overweight holdings in Delphi Automotive and French carmaker Renault. An underweight exposure to the energy space was also a significant detractor from returns, as the sector gained on the back of higher oil prices.

In contrast, the Fund benefited from its strong stock selection within emerging markets, including overweight holdings in South Korea's Samsung Electronics and Brazil's Petroleo Brasileiro SA. Other stocks to add value over the quarter were US names St. Jude Medical, Range Resources and Medtronic.

Manager commentary

Wellington's growth/momentum strategy was the best-performer for the quarter, benefiting from very strong stock selection in North America. This included overweight holdings in Amazon, Zillow Group and Bristol-Myers Squibb Company. An overweight exposure to Israel's Mobileye N.V. also added value.

Market-oriented/value manager, **Numeric**, underperformed over the quarter. Poor stock selection drove the manager's underperformance, particularly within the energy, information technology and consumer discretionary sectors. At the stock level, overweight holdings in US names such as Valero Energy, Apple and Xerox Corp. were the biggest detractors.

Market commentary

Global equity markets returned 1.67% in the June quarter, as measured by the Russell Global Large Cap Net Index hedged to the NZ dollar.

Share markets performed well through April and May, benefiting from a stabilisation in Chinese economic data, stronger eurozone growth, and a broad rally in commodity prices (oil in particular showed signs the market may finally be rebalancing). Sentiment was further boosted by the news that Greece had reached a new agreement with its creditors, as well as increasing speculation the US economy is strong enough to withstand higher interest rates. The mood turned more cautious in June as volatility spiked in the lead up to the Brexit vote. The decision to leave the European Union (EU) contributed to a heavy sell-off globally as investors tried to determine the impact Britain's departure will have on the global economy. However, the sell-off proved to be relatively short-lived, with most developed markets recouping their post-Brexit losses as bargain hunters stepped in and as investors bet that central banks will do more to support growth.

Emerging markets were also stronger for the quarter, narrowly outperforming their developed peers over the period. Developing markets were driven largely by the same factors as their major peers, though the sector also benefited from expectations that the uncertainty surrounding Britain's exit from the EU will force the US Federal Reserve to delay raising interest rates until later this year. At the country level, Peru and Brazil were among the strongest performers for the quarter while Poland, Greece and Turkey were all sharply lower.

In terms of sectors, energy posted the biggest gains after oil prices jumped 26.1% over the period. Defensive sectors such as healthcare, utilities and consumer staples were also stronger while consumer discretionary was the only sector to record a loss for the quarter.

In the currency space, the US dollar was slightly higher over the period. The Brazilian real was the strongest performer after investors reacted positively to the decision by the country's central bank to move toward inflation targeting. The Japanese yen was also stronger as investors favoured the currency's safe-haven characteristics, particularly toward the end of the period. In contrast, the British pound fell to its lowest level in more than 30 years in the wake of the Brexit vote.

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.

Underlying Manager Allocations (30/06/16)

Manager	Current weight	Target weight
MFS	21.2%	20.0%
Numeric	22.3%	22.5%
Harris	10.3%	12.0%
Wellington	12.0%	13.0%
Sanders Capital	20.6%	20.0%
Russell Positioning Strategies	8.1%	7.5%
Russell Emerging Markets (CPM)	5.5%	5.0%

Sector Allocations (30/06/16)

Sector	Fund	Index
Financials	19.9%	20.2%
Health Care	17.4%	12.0%
Consumer Discretionary	15.5%	12.1%
Information Technology	15.1%	14.4%
Industrials	10.3%	10.9%
Consumer Staples	10.2%	10.7%
Materials	4.2%	5.0%
Energy	4.2%	6.9%
Telecommunication Services	2.2%	4.1%
Utilities	1.0%	3.7%

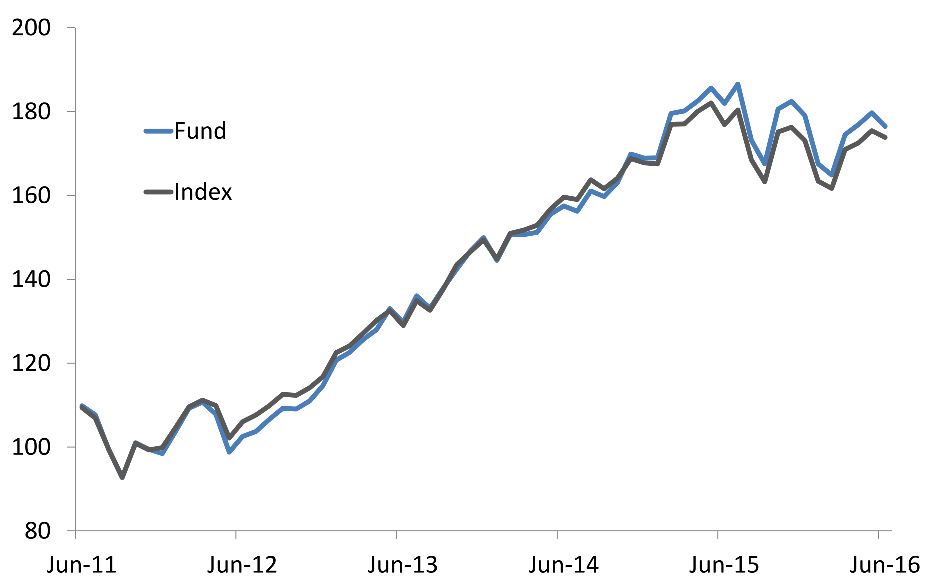
Regional Allocations (30/06/16)

Region	Fund	Index
North America	56.7%	57.7%
EMEA ex UK	18.6%	14.9%
Emerging markets	10.3%	9.9%
UK	6.5%	6.4%
Japan	4.4%	7.1%
Asia Pacific ex Japan	3.5%	4.0%

Russell Investments

Russell Global Opportunities Fund - $NZ Hedged

Indicative historic performance



Returns to 30 June 2016

	Month	Quarter	1 Year	3 Years p.a.	5 Years p.a.	10 Years p.a.
Fund	-1.80%	1.11%	-3.02%	10.80%	9.94%	6.25%
Index	-0.92%	1.67%	-1.75%	10.45%	9.70%	5.95%

All performance unless otherwise stated is reported on a gross of tax and fees basis.

The benchmark for the Russell Global Opportunities Fund $NZ Hedged was the MSCI World Net Index NZD Hedged until 31 December 2010, and thereafter the Russell Global Large Cap Net Index NZD Hedged.

Past performance is not necessarily indicative of future performance.

Performance figures above may differ slightly from the periodic returns found on Russell Performance Reviews.

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