

Russell Global Bond Fund

Report and update

31 March 2016

Fund commentary

The Russell Global Bond Fund returned 1.41% for the month, outperforming its benchmark by 0.42%. Over the quarter, the Fund returned 3.83%, slightly underperforming its benchmark by 0.07%.

During the quarter, active currency positioning contributed positively to performance, notably through overweights to the Japanese yen, Malaysian ringgit and Brazilian real. Country positioning detracted from performance. Gains from positions in Brazil, New Zealand and Australia were offset by positions in France, US and the UK. Overweights to non-agency residential mortgage-backed securities and agency-backed securities detracted as investor sentiment declined.

Manager commentary

Colchester was the strongest-performing manager for the quarter. The key contributor was currency positioning. Stabilising commodity prices benefited its overweight positions in Malaysian ringgit, Norwegian krone and Brazilian real. Country positions detracted from performance. Underweights to Japan and UK offset gains from overweights to Brazil, New Zealand and Malaysia.

Brookfield, the fund's non-agency residential mortgage-backed securities specialist, underperformed the benchmark over the period. This sector, in particular, struggled given the volatile market and cautious investor sentiment.

Market commentary

Global bond markets returned 0.99% for the month, and 3.90% for the quarter, as measured by the Barclays Global Aggregate Bond NZ dollar hedged index.

The quarter can be characterised by two halves. In the first half, slowing growth in China coupled with ongoing commodity price swings (especially in oil) induced significant market volatility, reducing investor sentiment. This firmly shifted demand towards "safe-haven" assets such as sovereign bonds. However, more accommodative central bank policies along with the stabilisation of oil prices in the second half of the quarter improved investor sentiment.

In the US, the 10-year Treasury benchmark rallied to 1.77%, even though GDP growth during the fourth quarter of 2015 was revised further upwards to 1.40%. Federal Reserve Chair, Janet Yellen, signalled that although economic forecasts remain largely positive, this situation is being overshadowed by "global economic and financial developments", posing a risk to growth. As a result, the earlier forecast of four interest rate hikes has been revised to two for this year. In Europe, President Draghi delivered on his promise to do "whatever it takes" by introducing a raft of new accommodative stimulus measure to boost euro zone inflation and encourage new credit provision. The ECB reduced its main refinancing rate to 0.0% and increased quantitative easing to €80 billion a month.

In currency markets, the US dollar weakened as the quarter progressed. The Brazilian real was the top performer, with investors becoming confident that the country can grind itself out of a political crisis. UK sterling and the Argentinean peso were the largest underperformers, with the former falling largely on Brexit concerns and the latter falling as a result of President Mauricio Macri's removal of currency controls.

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. Due to availability some of the below information is reported with a delay of one month.

Underlying Manager Allocations (31/03/16)

Manager	Current weight	Target weight
Colchester	22.8%	24.0%
Loomis Sayles	16.9%	17.0%
PIMCO	17.3%	17.0%
Insight	15.0%	15.0%
BlueBay	9.7%	10.0%
Brookfield	11.5%	10.0%
Russell Positioning Strategies	6.8%	7.0%

Fund Characteristics (29/02/16)

	Fund	Index
Effective Duration	6.4 years	6.5 years
Average Quality/Rating (S&P)	A-	A+

Sector Allocations (29/02/16)

Sector	Fund	Index
Government & Cash	38.0%	52.2%
Government Related	5.3%	10.2%
Corporate Securities – Investment Grade	14.7%	16.6%
Asset Backed Securities	6.2%	0.0%
Residential Mortgage Backed Securities	15.5%	14.7%
Commercial Mortgage Backed Securities	3.0%	0.5%
Corporate – High Yield	3.5%	0.1%
Emerging Market Debt	13.8%	5.7%

Credit Ratings (29/02/16)

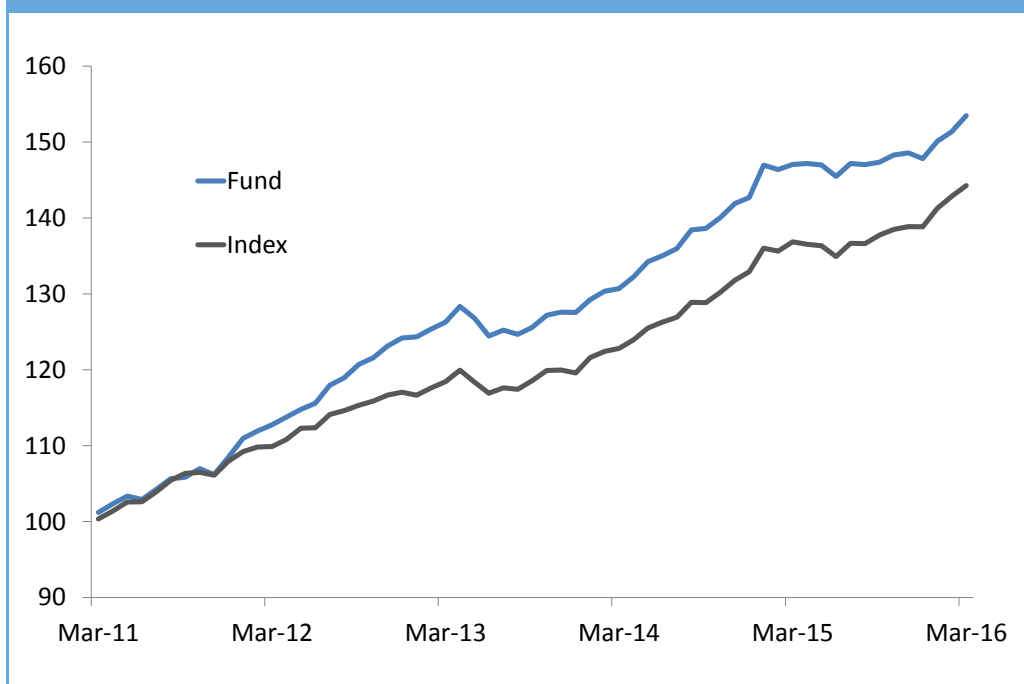
	Fund	Index
AAA & Cash	36.7%	41.4%
AA	9.9%	16.3%
A	17.3%	26.3%
BBB	20.5%	15.9%
BB	5.6%	0.1%
B	2.1%	0.0%
CCC & Below	5.0%	0.0%
Not rated	2.9%	0.0%

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Indicative historic performance



Returns to 31 March 2016

	Month	Quarter	1 Year	2 Years p.a.	3 Years p.a.	4 years p.a.
Fund	1.41%	3.83%	4.35%	8.37%	6.73%	7.94%
Index	0.99%	3.90%	5.40%	8.38%	6.80%	7.03%

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

The benchmark for the Russell Global Bond Fund is the Barclays Global Aggregate Index New Zealand dollar hedged. All index information contained in this document is with regards to this index.

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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