

# **Russell Investments Global Bond Fund**

ARSN 140 625 074

## **Annual report**

**For the year ended 30 June 2018**

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## Annual report

### For the year ended 30 June 2018

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## Directors' report

The directors of Russell Investment Management Ltd (ABN 53 068 338 974 AFSL No. 247185), the Responsible Entity of Russell Investments Global Bond Fund, present their report together with the financial statements of Russell Investments Global Bond Fund (the "Fund"), for the year ended 30 June 2018.

### Principal activities

The Fund invests predominantly in debt securities issued by supranationals, international governments, quasi-governments, agencies and corporates as well as structured credit securities including mortgage and asset backed securities. The Fund may also be exposed to low grade or unrated debt securities, emerging markets and currency to a limited extent. Derivatives may be used to obtain or reduce exposure to securities and markets, to implement investment strategies and to manage risk. Foreign currency exposure are largely hedged back to New Zealand Dollars.

The Fund utilises a Multi Style, Multi Manager investment approach which combines the individual strengths of multiple investment managers.

The Fund did not have any employees during the year.

There were no significant changes in the nature of the Fund's activities during the year or since the end of the year and up to the date of this report.

### Directors

The following persons held office as directors of Russell Investment Management Ltd during the year or since the end of the year and up to the date of this report:

Peter Gunning  
 Jodie Hampshire (appointed, effective 3 July 2018)  
 Symon Parish  
 Glenn Smith (resigned, effective 29 June 2018)  
 Kenneth Willman  
 Bronwyn Yates

### Review and results of operations

During the year, the Fund continued to invest in accordance with its investment objective and investment strategy as set out in the offer documents of the Fund and in accordance with the provisions of the Fund's Constitution.

#### Results

The performance of the Fund, as represented by the results of its operations, was as follows:

|   | Year ended      |                 |
|---|-----------------|-----------------|
|   | 30 June<br>2018 | 30 June<br>2017 |
| Operating profit/(loss) before finance costs attributable to unitholders (\$'000) | <u>(40,247)</u> | <u>47,971</u>   |
| <i>Distributions</i>  |                 |                 |
| Distributions paid and payable (\$'000)   | <u>-</u>        | <u>125,473</u>  |
| Distribution (Cents per unit - CPU)   | <u>-</u>        | <u>6.93</u>     |

### Distribution

Distributions of income generally occur quarterly with a final annual distribution as at 30 June each year. Realised capital gains are distributed only at 30 June each year. A detailed summary of the Distributions to unitholders for the year can be found in note 12 of the financial statements.

## **Directors' report (continued)**

### **Options**

There were no options over interests in the Fund at any time during the year.

### **Significant changes in state of affairs**

The Responsible Entity has elected for the Attribution Managed Investment Trust ("AMIT") rules to apply to the Fund, from 1 July 2017. The new rules are intended to reduce complexity, increase certainty and reduce compliance costs for MITs and their investors.

In the opinion of the directors, there were no other significant changes in the state of affairs of the Fund that occurred during the financial year.

### **Matters subsequent to the end of the financial year**

No matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect:

- (i) the operations of the Fund in future financial years, or
- (ii) the results of those operations in future financial years, or
- (iii) the state of affairs of the Fund in future financial years.

### **Likely developments and expected results of operations**

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the offer documents of the Fund and in accordance with the provisions of the Fund's Constitution.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Further information on likely developments in the operations of the Fund and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Fund.

### **Indemnity and insurance of officers and auditors**

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to either the officers of Russell Investment Management Ltd or the auditors of the Fund. So long as the officers of Russell Investment Management Ltd act in accordance with the Fund's Constitution and the Law, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund. The auditors of the Fund are in no way indemnified out of the assets of the Fund.

### **Fees paid to and interests held in the Fund by the Responsible Entity or its associates**

Fees paid to the Responsible Entity and its associates out of Fund property during the year are disclosed in note 17 of the financial statements.

No fees were paid out of Fund property to the directors of the Responsible Entity during the year.

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the financial year are disclosed in note 17 of the financial statements.

### **Interests in the Fund**

The movement in units on issue in the Fund during the year is disclosed in note 11 of the financial statements.

The value of the Fund's assets and liabilities is disclosed in the Statement of financial position and derived using the basis set out in note 2 of the financial statements.

## Directors' report (continued)

### Environmental regulation

The operations of the Fund are not subject to any particular or significant environmental regulations under Commonwealth, State or Territory law.

### Rounding of amounts to the nearest thousand dollars

The Fund is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission (ASIC) relating to the "rounding off" of amounts in the Directors' report. Amounts in the Directors' report have been rounded to the nearest thousand dollars in accordance with that ASIC Corporations Instrument, unless otherwise indicated. Due to rounding, rounded components presented throughout the financial statements may not add up precisely to the rounded sum.

### Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

This report is made in accordance with a resolution of the directors.



Director

Sydney  
25 September 2018



## Auditor's Independence Declaration

As lead auditor for the audit of Russell Investments Global Bond Fund for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in blue ink, appearing to read 'Joe Sheeran', with a long horizontal flourish extending to the right.

Joe Sheeran  
Partner  
PricewaterhouseCoopers

Sydney  
25 September 2018

## Statement of comprehensive income

|   | Notes | Year ended                |                           |
|---|-------|---------------------------|---------------------------|
|   |       | 30 June<br>2018<br>\$'000 | 30 June<br>2017<br>\$'000 |
| <b>Investment income</b>  |       |                           |                           |
| Interest income from financial assets not held at fair value through profit or loss   | 16    | 6,254                     | 3,418                     |
| Distributions income  |       | 190                       | 79                        |
| Net gains/(losses) on financial instruments held at fair value through profit or loss | 6     | (11,443)                  | 54,392                    |
| Other operating income  |       | -                         | 2,109                     |
| <b>Total investment income/(loss)</b>   |       | <b>(4,999)</b>            | <b>59,998</b>             |
| <b>Expenses</b>   |       |                           |                           |
| Management fees   | 17    | 15,149                    | 10,112                    |
| Responsible Entity's fees   | 17    | 315                       | 205                       |
| Custody fees  |       | 861                       | 472                       |
| Auditor's remuneration  | 15    | 31                        | 30                        |
| Transaction costs   |       | 734                       | 653                       |
| Other operating expenses  |       | 18,158                    | 555                       |
| <b>Total operating expenses</b>   |       | <b>35,248</b>             | <b>12,027</b>             |
| <b>Operating profit/(loss) for the year</b>   |       | <b>(40,247)</b>           | <b>47,971</b>             |
| Distributions to unitholders  | 12    | -                         | (125,473)                 |
| (Increase)/decrease in net assets attributable to unitholders                         | 11    | -                         | 77,502                    |
| <b>Profit/(loss) for the year</b>   |       | <b>(40,247)</b>           | <b>-</b>                  |
| Other comprehensive income  |       | -                         | -                         |
| <b>Total comprehensive income for the year</b>  |       | <b>(40,247)</b>           | <b>-</b>                  |

The above Statement of comprehensive income should be read in conjunction with the accompanying notes.

## Statement of financial position

|   | Notes | As at                     |                           |
|---|-------|---------------------------|---------------------------|
|   |       | 30 June<br>2018<br>\$'000 | 30 June<br>2017<br>\$'000 |
| <b>Assets</b>   |       |                           |                           |
| Cash and cash equivalents   | 13    | 146,948                   | 176,677                   |
| Deposits held with brokers for margin   |       | 68,012                    | 37,221                    |
| Receivables   |       | 15,047                    | 12,134                    |
| Due from brokers - receivable for securities sold   |       | 147,718                   | 145,132                   |
| Financial assets held at fair value through profit or loss                                | 7     | <u>2,584,479</u>          | <u>2,105,027</u>          |
| <b>Total assets</b>   |       | <u>2,962,204</u>          | <u>2,476,191</u>          |
| <b>Liabilities</b>  |       |                           |                           |
| Payables  |       | 1,747                     | 1,802                     |
| Payable for margin accounts   |       | 4,746                     | 28,045                    |
| Distributions payable to unitholders  | 12    | -                         | 4                         |
| Due to brokers - payable for securities purchased   |       | 406,080                   | 276,796                   |
| Financial liabilities held at fair value through profit or loss                           | 8     | <u>86,741</u>             | <u>24,752</u>             |
| <b>Total liabilities (30 June 2017: excluding net assets attributable to unitholders)</b> |       | <u>499,314</u>            | <u>331,399</u>            |
| <b>Net assets attributable to unitholders - equity*</b>                                   | 11    | <u>2,462,890</u>          | -                         |
| <b>Net assets attributable to unitholders - liability*</b>                                | 11    | -                         | <u>2,144,792</u>          |

\* Net assets attributable to unit holders are classified as equity for the year ended 30 June 2018 and as a financial liability for the year ended 30 June 2017. Refer to Note 1 for further detail.

*The above Statement of financial position should be read in conjunction with the accompanying notes.*



**Statement of changes in equity**

|  | Note | Year ended                |                           |
|--|------|---------------------------|---------------------------|
|  |      | 30 June<br>2018<br>\$'000 | 30 June<br>2017<br>\$'000 |
| <b>Total equity at the beginning of the financial year</b> |      | -                         | -                         |
| Reclassification due to AMIT tax regime implementation*    | 11   | 2,144,792                 | -                         |
| <b>Comprehensive income for the year</b>                   |      |                           |                           |
| Profit/(loss) for the year                                 |      | (40,247)                  | -                         |
| Other comprehensive income                                 |      | -                         | -                         |
| <b>Total comprehensive income for the year</b>             |      | <u>(40,247)</u>           | <u>-</u>                  |
| <b>Transactions with unitholders</b>                       |      |                           |                           |
| Applications   |      | 523,796                   | -                         |
| Redemptions  |      | (165,451)                 | -                         |
| Reinvestment of distributions                              |      | -                         | -                         |
| Distributions paid and payable                             |      | -                         | -                         |
| <b>Total transactions with unitholders</b>                 |      | <u>358,345</u>            | <u>-</u>                  |
| <b>Total equity at the end of the financial year*</b>      |      | <u>2,462,890</u>          | <u>-</u>                  |

\* Effective from 1 July 2017, the Fund's units have been reclassified from financial liability to equity. Refer Note 1 for further detail. As a result, equity transactions, including distributions have been disclosed in the above statement for the year ended 30 June 2018.

*The above Statement of changes in equity should be read in conjunction with the accompanying notes.*

## Statement of cash flows

|   | Notes | Year ended                |                           |
|---|-------|---------------------------|---------------------------|
|   |       | 30 June<br>2018<br>\$'000 | 30 June<br>2017<br>\$'000 |
| <b>Cash flows from operating activities</b>   |       |                           |                           |
| Proceeds related to financial instruments held at fair value through profit or loss |       | 5,459,661                 | 3,534,606                 |
| Payments related to financial instruments held at fair value through profit or loss |       | (5,756,938)               | (4,208,553)               |
| Distributions received  |       | 204                       | 66                        |
| Interest received/(paid)  |       | (2,459)                   | 196                       |
| Amount received from/(paid to) brokers for margin                                   |       | (54,090)                  | (16,419)                  |
| Proceeds from receivables   |       | 32                        | 3,390                     |
| Management fees paid  |       | (14,994)                  | (9,658)                   |
| Responsible Entity fees paid  |       | (312)                     | (197)                     |
| Payment of other expenses   |       | (19,806)                  | (1,900)                   |
| <b>Net cash inflow/(outflow) from operating activities</b>                          | 14(a) | <u>(388,702)</u>          | <u>(698,469)</u>          |
| <b>Cash flows from financing activities</b>   |       |                           |                           |
| Proceeds from applications by unitholders   |       | 524,619                   | 1,032,424                 |
| Payments for redemptions by unitholders   |       | (164,995)                 | (300,126)                 |
| Distributions paid  |       | (4)                       | (5,086)                   |
| <b>Net cash inflow/(outflow) from financing activities</b>                          |       | <u>359,620</u>            | <u>727,212</u>            |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                         |       | <b>(29,082)</b>           | 28,743                    |
| Cash and cash equivalents at the beginning of the year                              |       | 176,677                   | 148,824                   |
| Effects of foreign currency exchange rate changes on cash and cash equivalents      |       | (647)                     | (890)                     |
| <b>Cash and cash equivalents at the end of the year</b>                             | 13    | <u>146,948</u>            | <u>176,677</u>            |
| Non-cash financing activities   | 14(b) |                           |                           |

The above Statement of cash flows should be read in conjunction with the accompanying notes.

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## 1 General information

These financial statements cover Russell Investments Global Bond Fund (the “Fund”) as an individual entity. The Fund was constituted on 2 December 2009. The Fund will terminate on 3 December 2039 unless terminated earlier in accordance with the provisions of the Fund’s Constitution.

The Responsible Entity of the Fund is Russell Investment Management Ltd (the “Responsible Entity”). The Responsible Entity’s registered office is Level 29, 135 King Street, Sydney, NSW 2000. The financial statements are presented in the Australian currency.

The Fund invests predominantly in debt securities issued by supranationals, international governments, quasi-governments, agencies and corporates as well as structured credit securities including mortgage and asset backed securities. The Fund may also be exposed to low grade or unrated debt securities, emerging markets and currency to a limited extent. Derivatives may be used to obtain or reduce exposure to securities and markets, to implement investment strategies and to manage risk. Foreign currency exposure are largely hedged back to New Zealand Dollars.

On 5 May 2016, a new tax regime applying to Managed Investment Trusts (“MITs”) was established under the Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016. The Attribution Managed Investment Trust (“AMIT”) regime allows MITs that meet certain requirements to make an irrevocable choice to be an AMIT. In order to allow the Fund to elect into the AMIT tax regime, the Fund’s Constitution has been amended and the other conditions to adopt the AMIT tax regime have been met effective 1 July 2017. The Responsible Entity is therefore no longer contractually obligated to pay distributions. Consequently the units in the Fund have been re-classified from a financial liability to equity on 1 July 2017, see Note 11 for further information.

The financial statements were authorised for issue by the directors of the Responsible Entity on 25 September 2018. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all year presented, unless otherwise stated in the following text.

### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001* in Australia. The Fund is a for-profit fund for the purpose of preparing the financial statements.

The financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The Statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are expected to be recovered or settled within twelve months, except for investments in financial assets and liabilities and net assets attributable to unitholders.

The Fund manages financial assets at fair value through profit or loss based on the economic circumstances at any given point in time, as well as to meet any liquidity requirements. As such, it is expected that a portion of the portfolio will be realised within 12 months, however, an estimate of that amount cannot be determined as at reporting date.

In the case of net assets attributable to unit holders, the units are redeemable on demand at the unit holder’s option. However, holders of these instruments typically retain them for the medium to long term. As such, the amount expected to be settled within 12 months cannot be reliably determined.

### *Compliance with International Financial Reporting Standards*

The financial statements of the Fund also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

## 2 Summary of significant accounting policies (continued)

### (a) Basis of preparation (continued)

*New and amended standards adopted by the Fund*

There are no new standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2017 that have a material impact on the Fund.

### (b) Financial instruments

#### (i) Classification

The Fund's investments are classified as at fair value through profit or loss, which comprise:

- Financial instruments held for trading

Derivative financial instruments such as futures, options, foreign currency contracts and swaps are included under this classification. The Fund does not designate as hedges in a hedging relationship.

- Financial instruments designated at fair value through profit or loss upon initial recognition

These include financial assets and financial liabilities that are not held for trading purposes and which may be sold.

These are investments in unit trusts and interest rate securities.

Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the Responsible Entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

#### (ii) Recognition/derecognition

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

#### (iii) Measurement

*Financial assets and liabilities held at fair value through profit or loss*

At initial recognition, the Fund measures a financial asset at its fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the Statement of comprehensive income.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the Statement of comprehensive income within net gains/(losses) on financial instruments held at fair value through profit or loss in the period in which they arise. This also includes dividend expense on short sales of securities, which have been classified at fair value through profit or loss.

The fair value of financial assets and liabilities traded in active markets is subsequently based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market prices used for both financial assets and financial liabilities were last traded prices.

The fair value of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. Accordingly, there may be a difference between the fair value at initial recognition and amounts determined using a valuation technique. If such a difference exists, the Fund recognised the difference in the Statement of comprehensive income to reflect a change in factors, including time, that market participants would consider in setting a price.

## 2 Summary of significant accounting policies (continued)

### (b) Financial instruments (continued)

#### (iii) Measurement (continued)

Further details on how the fair values of financial instruments are determined are disclosed in note 5.

#### (iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### (c) Net assets attributable to unit holders

Units are redeemable at the unitholders' option, however, applications and redemptions may be suspended by the Responsible Entity if it is in the best interests of the unitholders.

The units can be put back to the Fund at any time for cash based on the redemption price, which is equal to a proportionate share of the Fund's net asset value attributable to the unitholders.

The units are carried at the redemption amount that is payable at balance sheet date if the holder exercises the right to put the unit back to the Fund. This amount represents the expected cash flows on redemption of these units.

Units are classified as equity when they satisfy the following criteria under *AASB 132 Financial Instruments: Presentation*:

- the puttable financial instrument entitles the holder to a pro-rata share of net assets in the event of the Fund's liquidation
- the puttable financial instrument is in the class of instruments that is subordinate to all other classes of instruments and class features are identical
- the puttable financial instrument does not include any contractual obligations to deliver cash or another financial asset, or to exchange financial instruments with another entity under potentially unfavourable conditions to the Fund, and it is not a contract settled in the Fund's own equity instruments; and
- the total expected cash flows attributable to the puttable financial instrument over the life are based substantially on the profit or loss.

As at 30 June 2017, net assets attributable to unit holders are classified as a financial liability. Effective from 1 July 2017, the Fund's units have been reclassified from financial liability to equity as they satisfied all the above criteria.

### (d) Cash and cash equivalents

For the purpose of presentation in the Statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts. Bank overdrafts, if any, are shown within borrowings in the Statement of financial position.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Fund's main income generating activity.

### (e) Deposits held with broker for margin

Margin accounts comprise cash held as collateral for derivative transactions. The cash is held by the broker and is only available to meet margin calls.

## 2 Summary of significant accounting policies (continued)

### (f) Investment income

Interest income is recognised in the Statement of comprehensive income for all financial instruments that are not held at fair value through profit or loss using the effective interest method. Interest income on assets held at fair value through profit or loss is included in the net gains/(losses) on financial instruments. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 2(b).

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

In the event that the Fund currently incurs withholding tax imposed by certain countries on investment income, such income is recorded gross of withholding tax in the Statement of comprehensive income as distribution income.

Trust distributions are recognised on an entitlements basis as at the date the unit value is quoted ex-distribution.

### (g) Expenses

All expenses, including Responsible Entity's fees, management fees and custodian fees, are recognised in the Statement of comprehensive income on an accruals basis. The Responsible Entity is entitled under the Fund's Constitution to be reimbursed for certain expenses incurred in administering the Fund.

### (h) Income tax

Under current legislation, the Fund is not subject to income tax provided it attributes the entirety of its taxable income to its unit holders.

### (i) Distribution to unitholders

Distributions are payable as set out in the Fund's product disclosure statement. Such distributions are determined by the responsible entity of the Fund. Distributable income includes capital gains arising from the disposal of financial assets and liabilities. Unrealised gains and losses on financial assets and liabilities that are recognised as income are transferred to net assets attributable to unitholders and are not assessable and distributable until realised. Capital losses are not distributed to unitholders but are retained to be offset against any realised capital gains.

### (j) Increase/(decrease) in net assets attributable to unitholders

Income not distributed is included in net assets attributable to unitholders.

### (k) Foreign currency translation

#### (i) Functional and presentation currency

Items included in the Fund's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Australian Dollar, which reflects the currency of the economy in which the Fund competes for funds and is regulated. The Australian Dollar is also the Fund's presentation currency.

## 2 Summary of significant accounting policies (continued)

### (k) Foreign currency translation (continued)

#### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of comprehensive income in other operating income.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined. Translation differences on assets and liabilities carried at fair value are reported in the Statement of comprehensive income on a net basis within net gains/(losses) on financial instruments held at fair value through profit or loss.

The Fund does not isolate that portion of gains or losses on securities and derivative financial instruments that are measured at fair value through profit or loss and which are due to changes in foreign exchange rates from those that are due to changes in the market price of securities. Such fluctuations are included with the net gains or losses on financial instruments at fair value through profit or loss.

### (l) Due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the year. Trades are recorded on trade date, and for equities normally settled within three business days. A provision for impairment of amounts due from brokers is established when there is objective evidence that the Fund will not be able to collect all amounts due from the relevant broker. Indicators that the amount due from brokers is impaired include significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation and default in payments.

### (m) Receivables

Receivables may include amounts for interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each reporting period from the time of last payment in accordance with the policy set out in note 2(f) above. Amounts are generally received within 30 days of being recorded as receivables.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the Statement of comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Statement of comprehensive income.

### (n) Payables

Payables include liabilities and accrued expenses owing by the Fund which are unpaid as at the end of the reporting period.

The distribution amount payable to unitholders as at the end of each reporting period is recognised separately in the Statement of financial position when unitholders are presently entitled to the distributable income under the Fund's Constitution.



## 2 Summary of significant accounting policies (continued)

### (o) Applications and redemptions

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are recorded gross of any exit fees payable after the cancellation of units redeemed.

### (p) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as custodial services and investment management fees have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) at a rate of at least 55% or 75%; hence investment management fees, custodial fees and other expenses have been recognised in the Statement of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the Statement of financial position. Cash flows relating to GST are included in the Statement of cash flows on a gross basis.

### (q) Use of estimates

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For the majority of the Fund's financial instruments, quoted market prices are readily available. However, certain financial instruments, for example over-the-counter derivatives or unquoted securities, are fair valued using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel of the Responsible Entity, independent of the area that created them.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

For certain other financial instruments, including amounts due from/to brokers and payables, the carrying amounts approximate fair value due to the short-term nature of these financial instruments.

### (r) Rounding of amounts

The Fund is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission (ASIC) relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest thousand dollars in accordance with that ASIC Corporations Instrument, unless otherwise indicated. Due to rounding, rounded components presented throughout the financial statements may not add up precisely to the rounded sum.

### (s) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting period and have not been early adopted by the Fund. The directors' assessment of the impact of these new standards (to the extent relevant to the Fund) and interpretations is set out below:

#### (i) AASB 9 *Financial Instruments* (and applicable amendments), (effective from 1 July 2018)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. It has now also introduced revised rules around hedge accounting and impairment. The standard is not applicable until 1 July 2018 but is available for early adoption.

The directors do not expect this to have a significant impact on the recognition and measurement of the Fund's financial instruments as they are carried at fair value through profit or loss.

## 2 Summary of significant accounting policies (continued)

### (s) New accounting standards and interpretations (continued)

The derecognition rules have not been changed from the previous requirements, and the Fund does not apply hedge accounting.

#### (ii) AASB 15 *Revenue from Contracts with Customers*, (effective from 1 July 2018)

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The Fund's main source of income are interest, dividends and gains on financial instruments held at fair value. All of these are outside the scope of the new revenue standard. As consequence, the directors do not expect the adoption of the new revenue recognition rules to have a significant impact on the Fund's accounting policies or the amounts recognised in the financial statements.

There are no other standards that are not yet effective and that are expected to have a material impact on the Fund in the current or future reporting periods and on foreseeable future transactions.

### (t) Comparative revisions

Comparative information has been revised where appropriate to enhance comparability. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

## 3 Financial risk management

The Fund's activities expose it to a variety of financial risks: market risk (including price risk, foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The Fund's overall risk management process focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Fund's financial performance. The Fund combines managers with varied investment styles to achieve returns in a broad range of market conditions and to manage exposure to risk through diversification.

The Fund's multi-manager process differentiates it from single-manager fund companies. As a manager of managers, the Fund delegates some of the management of its funds to external Investment Managers. The risk management process operates at a number of levels. In addition to monitoring investment activity and exposure at the point of execution by an Investment Manager, Russell Investment Management Ltd oversees and monitors the overall level of risk in the Fund.

### (a) Market risk

#### (i) Price risk

The majority of the Fund's directly held financial assets and liabilities are interest bearing securities. These have exposure primarily to interest rate movement and credit risk. The sensitivities on these instruments are reflected as component of interest rate risk, which are further explained and analysed in note 3(b).

The Fund's investments in derivative instruments can be subject to market price risk arising from uncertainties about future prices of the instruments. Except for securities sold short, written options, and other derivatives, the maximum risk resulting from financial instruments is determined by fair value of the financial instruments. Possible losses from securities sold short, written options and other derivatives can be unlimited.

The Fund's Portfolio Manager monitors their portfolio holdings and reviews the Fund's characteristics on a regular basis.

Where financial instruments are denominated in currencies other than the Australian Dollar, the price in the future will also fluctuate because of changes in foreign exchange rates. Paragraph (ii) below sets out how this component of price risk is managed and measured.

### 3 Financial risk management (continued)

#### (a) Market risk (continued)

##### (ii) Foreign exchange risk

The Fund holds assets denominated in currencies other than the Australian Dollar, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in other currencies will fluctuate due to changes in exchange rates.

The Fund may utilise financial instruments to hedge against fluctuations in the relative values of their portfolio positions in addition to making active currency selections.

The Fund delegates some of the foreign exchange risk management to external Investment Managers. In addition, Russell Investment Management Ltd also oversees and monitors the foreign exchange risk of the Fund.

The table below summarises the Fund's exposure by currency over 10% net asset value of the Fund.

| <b>30 June 2018</b>  | <b>EUR<br/>A\$'000</b> | <b>USD<br/>A\$'000</b> | <b>All other<br/>foreign<br/>currencies<br/>A\$'000</b> |
|--|------------------------|------------------------|---|
| Cash and cash equivalents  | 7,233                  | 37,279                 | 97,285  |
| Deposits held with broker for margin   | (1,146)                | 65,537                 | 8,088   |
| Receivables  | 2,694                  | 6,576                  | 5,083   |
| Due from brokers - receivable from securities sold   | 10,565                 | 136,548                | 605   |
| Financial assets held at fair value through profit or loss   | 358,080                | 1,556,247              | 634,442   |
| Payable for margin accounts  | (372)                  | (3,744)                | (630)   |
| Payables   | (6)                    | (10)                   | 444   |
| Due to brokers - payable from securities purchased   | (3,374)                | (401,225)              | (1,481)   |
| Financial liabilities held at fair value through profit or loss                                    | <u>(3,243)</u>         | <u>(13,049)</u>        | <u>(70,405)</u>   |
|  | <b>370,431</b>         | <b>1,384,159</b>       | <b>673,431</b>  |
| Net increase/(decrease) in exposure from foreign currency contracts<br>(sell)/buy foreign currency | <b>(410,509)</b>       | <b>(1,083,670)</b>     | <b>1,537,567</b>  |
| Currency futures inflow/(outflow)  | -                      | (6,598)                | 6,598   |
| Currency options inflow/(outflow)  | <u>-</u>               | <u>(19,219)</u>        | <u>27,919</u>   |
|  | <b>(40,078)</b>        | <b>274,672</b>         | <b>2,245,515</b>  |

### 3 Financial risk management (continued)

#### (a) Market risk (continued)

##### (ii) Foreign exchange risk (continued)

| 30 June 2017   | EUR<br>A\$'000 | USD<br>A\$'000   | All other<br>foreign<br>currencies<br>A\$'000 |
|--|----------------|------------------|---|
| Cash and cash equivalents  | 1,678          | 84,324           | 90,954  |
| Deposits held with broker for margin   | (909)          | 25,042           | 11,829  |
| Receivables  | 2,635          | 3,857            | 4,107   |
| Due from brokers - receivable from securities sold   | 2,939          | 139,747          | 2,445   |
| Financial assets held at fair value through profit or loss   | 329,286        | 1,129,304        | 601,517                                       |
| Payable for margin accounts  | (30)           | (26,108)         | (1,907)                                       |
| Payables   | (18)           | (64)             | (168)   |
| Due to brokers - payable from securities purchased   | (5,630)        | (267,884)        | (3,282)                                       |
| Financial liabilities held at fair value through profit or loss                                    | <u>(2,957)</u> | <u>(6,461)</u>   | <u>(12,775)</u>                               |
|  | <u>326,994</u> | <u>1,081,757</u> | <u>692,720</u>                                |
| Net increase/(decrease) in exposure from foreign currency contracts<br>(sell)/buy foreign currency | (321,109)      | (922,533)        | 1,333,241                                     |
| Currency futures inflow/(outflow)  | -              | 5,600            | (5,600)                                       |
| Currency options inflow/(outflow)  | <u>-</u>       | <u>336,305</u>   | <u>(336,305)</u>                              |
|  | <u>5,885</u>   | <u>501,129</u>   | <u>1,684,056</u>                              |

The table on page 22 summarises the sensitivities of the Fund's monetary assets and liabilities to foreign exchange risk. The analysis is based on the assumption that the Australian Dollar weakened/strengthened by 10% (2017: 11%) against other currencies to which the Fund is significantly exposed. The impact arises mainly from exposure to accounts denominated in US Dollars or Euro (2017: US Dollars or Euro).

The Fund's foreign exchange exposure on investment in unit trusts, equities is embedded in the price risk as presented on page 22 and therefore these investments are not included in the foreign exchange risk sensitivity analysis.

##### (iii) Cash flow and fair value interest rate risk

The majority of the Fund's financial assets and liabilities are non-interest bearing or have a very short time to maturity. As a result, the Fund is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash and cash equivalents are invested at short term market interest rates.

### 3 Financial risk management (continued)

#### (a) Market risk (continued)

##### (iii) Cash flow and fair value interest rate risk (continued)

The table below summarises the Fund's exposure to interest rate risks, excluding any exposure to interest rate futures. It includes the Fund's assets and liabilities at fair values, categorised by the earlier of contractual re-pricing or maturity dates.

| 30 June 2018  | Floating<br>interest rate<br>\$'000 | Fixed interest<br>rate<br>\$'000 | Non-interest<br>bearing<br>\$'000 | Total<br>\$'000  |
|---|-------------------------------------|----------------------------------|-----------------------------------|------------------|
| <b>Assets</b>   |                                     |                                  |                                   |                  |
| Cash and cash equivalents                                       | 146,948                             | -                                | -                                 | 146,948          |
| Deposits held with brokers for margin                           | 68,012                              | -                                | -                                 | 68,012           |
| Receivables   | -                                   | -                                | 15,047                            | 15,047           |
| Due from brokers - receivable for securities sold               | -                                   | -                                | 147,718                           | 147,718          |
| Financial assets held at fair value through profit or loss      | 697,747                             | 1,847,137                        | 39,595                            | 2,584,479        |
| <b>Liabilities</b>  |                                     |                                  |                                   |                  |
| Payable for margin accounts                                     | (4,746)                             | -                                | -                                 | (4,746)          |
| Payables  | -                                   | -                                | (1,747)                           | (1,747)          |
| Due to brokers - payable for securities purchased               | -                                   | -                                | (406,080)                         | (406,080)        |
| Financial liabilities held at fair value through profit or loss | (899)                               | (2,723)                          | (83,119)                          | (86,741)         |
| <b>Net increase/(decrease) in exposure from</b>                 |                                     |                                  |                                   |                  |
| Interest rate futures (notional principal)                      | (324,011)                           | 324,011                          | -                                 | -                |
| Interest rate swap (notional principal)                         | 160,994                             | (160,994)                        | -                                 | -                |
| Net exposure  | <u>744,045</u>                      | <u>2,007,431</u>                 | <u>(288,586)</u>                  | <u>2,462,890</u> |

### 3 Financial risk management (continued)

#### (a) Market risk (continued)

(iii) Cash flow and fair value interest rate risk (continued)

| 30 June 2017  | Floating<br>interest rate<br>\$'000 | Fixed interest<br>rate<br>\$'000 | Non-interest<br>bearing<br>\$'000 | Total<br>\$'000 |
|---|-------------------------------------|----------------------------------|-----------------------------------|-----------------|
| <b>Assets</b>   |                                     |                                  |                                   |                 |
| Cash and cash equivalents                                       | 176,677                             | -                                | -                                 | 176,677         |
| Deposits held with brokers for margin                           | 37,221                              | -                                | -                                 | 37,221          |
| Receivables   | -                                   | -                                | 12,134                            | 12,134          |
| Due from brokers - receivable for securities sold               | -                                   | -                                | 145,132                           | 145,132         |
| Financial assets held at fair value through profit or loss      | 551,153                             | 1,499,989                        | 53,885                            | 2,105,027       |
| <b>Liabilities</b>  |                                     |                                  |                                   |                 |
| Payable for margin accounts                                     | (28,045)                            | -                                | -                                 | (28,045)        |
| Distributions payable   | -                                   | -                                | (4)                               | (4)             |
| Payables  | -                                   | -                                | (1,802)                           | (1,802)         |
| Due to brokers - payable for securities purchased               | -                                   | -                                | (276,796)                         | (276,796)       |
| Financial liabilities held at fair value through profit or loss | (784)                               | (5,616)                          | (18,352)                          | (24,752)        |
| <b>Net increase/(decrease) in exposure from</b>                 |                                     |                                  |                                   |                 |
| Interest rate futures (notional principal)                      | (1,204,299)                         | 1,204,299                        | -                                 | -               |
| Interest rate swap (notional principal)                         | 158,659                             | (158,659)                        | -                                 | -               |
| Net exposure  | (309,418)                           | 2,540,013                        | (85,803)                          | 2,144,792       |

An analysis of financial liabilities by maturities is provided in paragraph (d) on page 23.

The table below summarises the impact of an increase/decrease of interest rates on the Fund's operating profit and net assets attributable to unitholders through changes in fair value or changes in future cash flows. The analysis is based on the assumption that interest rates changed by +/-273 basis points (2017: +/-135 basis points) from the year end rates with all other variables held constant. The impact mainly arises from changes in the fair value of interest rate securities.

#### (b) Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit and net assets attributable to unitholders to interest rate risk and foreign exchange risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates, modified duration, historical correlation of the Fund's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

### 3 Financial risk management (continued)

#### (b) Summarised sensitivity analysis (continued)

|              | Interest rate risk  |         | Foreign exchange risk   |        |        |         |
|--------------|---|---------|---|--------|--------|---------|
|              | Impact on operating profit/Net assets attributable to unitholders |         | Impact on operating profit/Net assets attributable to unitholders |        |        |         |
|              | -273bps   | +273bps | -10%  | +10%   | -10%   | +10%    |
|              |   |         | USD   | USD    | EUR    | EUR     |
|              | \$'000  | \$'000  | \$'000  | \$'000 | \$'000 | \$'000  |
| 30 June 2018 | (339,017)   | 339,017 | (28,786)  | 28,786 | 4,200  | (4,200) |
| 30 June 2017 | (140,976)   | 140,976 | (52,969)  | 52,969 | (622)  | 622     |

The sensitivity factors for 30 June 2017 were +/-135 bps for interest rate risk and +/-11% for foreign exchange risk.

Some limitations of the sensitivity analysis above are:

1. The models are based on historical data and cannot take account of the fact that future market price movements, correlations between markets and levels of market liquidity in conditions of market stress may bear no relation to historical patterns;
2. The market price risk information is a relative estimate of risk rather than a precise and accurate number;
3. The market price information represents a hypothetical outcome and is not intended to be predictive; and future market conditions could vary significantly from those experienced in the past.

#### (c) Credit risk

The Fund is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when they fall due.

Credit risk primarily arises from investments in debt securities and from trading derivative products. Other credit risk arises from cash and cash equivalents, deposits with banks and other financial institutions and amounts due from brokers. None of these assets are impaired nor past due but not impaired. At the end of the reporting period the exposure to credit risk for cash and cash equivalents, deposits with banks and amounts due from brokers is considered low as all counterparties of the Fund have a rating of Investment Grade or higher (as determined by external credit rating agencies).

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets. An analysis of debt securities by rating is set out in the table below.

|                                   | As at        |              |
|-----------------------------------|--------------|--------------|
|                                   | 30 June 2018 | 30 June 2017 |
|                                   | \$'000       | \$'000       |
| <b>Australian debt securities</b> |              |              |
| <b>Ratings</b>                    |              |              |
| AAA                               | 25,566       | 35,557       |
| AA                                | -            | 3,808        |
| A                                 | 499          | 1,988        |
| BBB                               | 2,297        | 1,923        |
| Total                             | 28,362       | 43,276       |

### 3 Financial risk management (continued)

#### (c) Credit risk (continued)

|                                      | As at                     |                           |
|--------------------------------------|---------------------------|---------------------------|
|                                      | 30 June<br>2018<br>\$'000 | 30 June<br>2017<br>\$'000 |
| <b>International debt securities</b> |                           |                           |
| <b>Ratings</b>                       |                           |                           |
| AAA                                  | 630,267                   | 509,742                   |
| AA                                   | 281,704                   | 251,597                   |
| A                                    | 655,246                   | 453,840                   |
| BBB                                  | 323,519                   | 300,433                   |
| BB                                   | 116,372                   | 123,210                   |
| B                                    | 59,391                    | 47,511                    |
| CCC                                  | 55,478                    | 51,959                    |
| CC                                   | 9,585                     | 704                       |
| C                                    | 3,799                     | -                         |
| D                                    | 4,196                     | 8,929                     |
| NR                                   | 363,236                   | 253,959                   |
| Total                                | <u>2,502,793</u>          | <u>2,001,884</u>          |

All transactions in debt securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

The clearing and depository operations for the Fund's security transactions are mainly concentrated with one counterparty, namely State Street Australia Limited. At 30 June 2018, State Street Australia Limited had a credit rating of Aa1 (2017: AA1). At 30 June 2018, substantially all cash and investments are held in custody by State Street Australia Limited.

#### (d) Liquidity risk

The Fund is exposed to daily cash redemptions of redeemable units. In addition, the Fund may restrict redemptions on a temporary basis as detailed in the Product Disclosure Statement. It therefore primarily holds investments that are traded in an active market and can be readily disposed.

Generally, the Fund's assets are comprised of actively traded and highly liquid securities. The liquidity risks associated with the need to satisfy unitholders' requests for redemptions are mitigated by maintaining a pool of cash to satisfy usual levels of demand. The Fund also invests in derivative contracts traded over the counter, which are not traded in an organised market and may be illiquid. As a result, the Fund may not be able to quickly liquidate its investments in these instruments at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as deterioration in the creditworthiness of any particular issuer or counterparty. The Fund delegates some of liquidity risk management to external Investment Managers where they monitor their liquidity positions on a daily basis. In addition, Russell Investment Management Ltd and underlying investment manager monitors the Fund's liquidity position on a daily basis. Refer to note 5 for the type of financial instruments held by the Fund.



### 3 Financial risk management (continued)

#### (d) Liquidity risk (continued)

##### (i) Maturities of non-derivative financial liabilities

The table below analyses the Fund's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts in the table are contractual undiscounted cash flows.

|   | Less than 1<br>month<br>\$'000 | 1-6<br>months<br>\$'000 | 6-12<br>months<br>\$'000 | Over 12<br>months<br>\$'000 | No stated<br>maturity<br>\$'000 |
|---|--------------------------------|-------------------------|--------------------------|-----------------------------|---------------------------------|
| <b>At 30 June 2018</b>                            |                                |                         |                          |                             |                                 |
| Payable for margin accounts                       | 4,746                          | -                       | -                        | -                           | -                               |
| Payables  | 1,747                          | -                       | -                        | -                           | -                               |
| Due to brokers - payable for securities purchased | <u>406,080</u>                 | -                       | -                        | -                           | -                               |
| Undiscounted contractual cash flows               | <u>412,573</u>                 | -                       | -                        | -                           | -                               |
|   |                                |                         |                          |                             |                                 |
|   | Less than 1<br>month<br>\$'000 | 1-6<br>months<br>\$'000 | 6-12<br>months<br>\$'000 | Over 12<br>months<br>\$'000 | No stated<br>maturity<br>\$'000 |
| <b>At 30 June 2017</b>                            |                                |                         |                          |                             |                                 |
| Payable for margin accounts                       | 28,045                         | -                       | -                        | -                           | -                               |
| Payables  | 1,802                          | -                       | -                        | -                           | -                               |
| Due to brokers - payable for securities purchased | 276,796                        | -                       | -                        | -                           | -                               |
| Distributions payable                             | 4                              | -                       | -                        | -                           | -                               |
| Net assets attributable to unitholders            | <u>2,144,792</u>               | -                       | -                        | -                           | -                               |
| Undiscounted contractual cash flows               | <u>2,451,439</u>               | -                       | -                        | -                           | -                               |

### 3 Financial risk management (continued)

#### (d) Liquidity risk (continued)

##### (ii) Maturities of net settled derivative financial instruments

The table below analyses the Fund's net settled derivative financial instruments in a loss position for which the contractual maturities are considered to be essential to an understanding of the timing of cash flows based on the Fund's investment strategy.

|                                     | Less than 1<br>month<br>\$'000 | 1-6<br>months<br>\$'000 | 6-12<br>months<br>\$'000 | Over 12<br>months<br>\$'000 |
|-------------------------------------|--------------------------------|-------------------------|--------------------------|-----------------------------|
| <b>At 30 June 2018</b>              |                                |                         |                          |                             |
| Net settled derivatives             |                                |                         |                          |                             |
| Currency options                    | 184                            | 216                     | -                        | -                           |
| Options - futures                   | 51                             | -                       | -                        | -                           |
| Swaptions                           | -                              | 16                      | -                        | 368                         |
| CDS options                         | 372                            | 140                     | -                        | -                           |
| International interest rate futures | -                              | 2,265                   | 38                       | 10                          |
| Currency futures                    | -                              | 9,855                   | -                        | -                           |
| Foreign currency contracts          | 57,857                         | 11,675                  | -                        | -                           |
| Credit default swaps                | -                              | -                       | 3                        | 2,377                       |
| Interest rate swaps                 | -                              | -                       | 117                      | 1,192                       |
| Index swaps                         | -                              | -                       | -                        | 5                           |
|                                     |                                |                         |                          |                             |
|                                     | Less than 1<br>month<br>\$'000 | 1-6<br>months<br>\$'000 | 6-12<br>months<br>\$'000 | Over 12<br>months<br>\$'000 |
| <b>At 30 June 2017</b>              |                                |                         |                          |                             |
| Net settled derivatives             |                                |                         |                          |                             |
| Currency options                    | -                              | 36                      | -                        | -                           |
| Options - futures                   | -                              | -                       | 6                        | -                           |
| Swaptions                           | -                              | -                       | -                        | 10                          |
| CDS options                         | -                              | 26                      | -                        | -                           |
| Australian interest rate futures    | -                              | 2,561                   | -                        | -                           |
| International interest rate futures | -                              | 3,046                   | -                        | 369                         |
| Currency futures                    | -                              | 199                     | -                        | -                           |
| Foreign currency contracts          | 8,665                          | 5,030                   | 2,270                    | 55                          |
| Credit default swaps                | -                              | -                       | -                        | 2,019                       |
| Interest rate swaps                 | -                              | -                       | -                        | 424                         |
| Inflation swaps                     | -                              | -                       | -                        | 36                          |

All derivative financial instruments entered into by the Fund are settled on a net basis.

#### 4 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The gross and net positions of financial assets and liabilities that have been offset in the Statement of financial position are disclosed in the first three columns of the tables below.

| Financial assets                     | Effects of offsetting on the Statement of financial position |  |  | Related amount not offset                                |                               |                      |
|--------------------------------------|--|--|--|--|-------------------------------|----------------------|
|                                      | Gross amounts of financial assets<br>\$'000                  | Gross amounts set off in the Statement of financial position<br>\$'000 | Net amount of financial assets presented in the Statement of financial position<br>\$'000      | Amounts subject to master netting arrangements<br>\$'000 | Collateral received<br>\$'000 | Net amount<br>\$'000 |
| <b>30 June 2018</b>                  |  |  |  |  |                               |                      |
| Derivative financial instruments (i) | <u>342,824</u>   | <u>(313,422)</u>   | <u>29,402</u>  | <u>(20,083)</u>  | <u>(1,603)</u>                | <u>7,716</u>         |
| Total                                | <u>342,824</u>   | <u>(313,422)</u>   | <u>29,402</u>  | <u>(20,083)</u>  | <u>(1,603)</u>                | <u>7,716</u>         |
| <b>30 June 2017</b>                  |  |  |  |  |                               |                      |
| Derivative financial instruments (i) | <u>175,076</u>   | <u>(124,997)</u>   | <u>50,079</u>  | <u>(17,464)</u>  | <u>(8,809)</u>                | <u>23,806</u>        |
| Total                                | <u>175,076</u>   | <u>(124,997)</u>   | <u>50,079</u>  | <u>(17,464)</u>  | <u>(8,809)</u>                | <u>23,806</u>        |
| Financial Liabilities                | Effects of offsetting on the Statement of financial position |  |  | Related amounts not offset                               |                               |                      |
|                                      | Gross amounts of financial liabilities<br>\$'000             | Gross amounts set off in the Statement of financial position<br>\$'000 | Net amount of financial liabilities presented in the Statement of financial position<br>\$'000 | Amounts subject to master netting arrangements<br>\$'000 | Collateral pledged<br>\$'000  | Net amount<br>\$'000 |
| <b>30 June 2018</b>                  |  |  |  |  |                               |                      |
| Derivative financial instruments (i) | <u>400,163</u>   | <u>(313,422)</u>   | <u>86,741</u>  | <u>(20,083)</u>  | <u>(14,799)</u>               | <u>51,859</u>        |
| Total                                | <u>400,163</u>   | <u>(313,422)</u>   | <u>86,741</u>  | <u>(20,083)</u>  | <u>(14,799)</u>               | <u>51,859</u>        |
| <b>30 June 2017</b>                  |  |  |  |  |                               |                      |
| Derivative financial instruments (i) | <u>149,749</u>   | <u>(124,997)</u>   | <u>24,752</u>  | <u>(17,464)</u>  | <u>(3,701)</u>                | <u>3,587</u>         |
| Total                                | <u>149,749</u>   | <u>(124,997)</u>   | <u>24,752</u>  | <u>(17,464)</u>  | <u>(3,701)</u>                | <u>3,587</u>         |

## 4 Offsetting financial assets and financial liabilities (continued)

### (i) Master netting arrangement – not currently enforceable

Agreements with derivative counterparties are based on the ISDA Master Agreement. Under the terms of these arrangements, only where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Fund does not presently have a legally enforceable right of set-off, these amounts have not been offset in the Statement of financial position, but have been presented separately in the above table.

## 5 Fair value measurement

The Fund measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Financial assets / liabilities designated at fair value through profit or loss (FVTPL) (see note 7 and note 8)
- Financial assets / liabilities held for trading (see note 7 and note 8)
- Derivative financial instruments (see note 9)

The Fund has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

AASB 13 requires disclosure of fair value measurements by level of the following fair value hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

### (i) Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs.

The Fund values its investments in accordance with the accounting policies set out in note 2. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

The quoted market prices used for both financial assets and financial liabilities were last traded prices.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

### (ii) Valuation techniques used to derive level 2 and level 3 fair value

The fair value of financial assets and liabilities that are not exchange-traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions.

For other pricing models, inputs are based on market data at the end of the reporting period. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

## 5 Fair value measurement (continued)

### (ii) Valuation techniques used to derive level 2 and level 3 fair value (continued)

The fair value of derivatives that are not exchange traded is estimated at the amount that the Fund would receive or pay to terminate the contract at the end of the reporting period taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined as a net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date.

Investments in other unlisted unit trusts are recorded at the redemption value per unit as reported by the investment managers of such funds.

Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty and valuation techniques employed may not fully reflect all factors relevant to the positions the Fund holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including liquidity risk and counterparty risk.

### Recognised fair value measurements

The following table presents the Fund's assets and liabilities measured and recognised at fair value as at 30 June 2018 and 30 June 2017.

| As at 30 June 2018   | Level 1<br>\$'000 | Level 2<br>\$'000 | Level 3<br>\$'000 | Total<br>\$'000  |
|--|-------------------|-------------------|-------------------|------------------|
| <b>Financial assets</b>  |                   |                   |                   |                  |
| Financial assets held for trading:   |                   |                   |                   |                  |
| Derivatives  | 8,269             | 21,133            | -                 | 29,402           |
| Financial assets designated at fair value through profit or loss at inception: |                   |                   |                   |                  |
| Unit trusts  | -                 | 20,944            | -                 | 20,944           |
| Debt securities  | -                 | 2,530,438         | 717               | 2,531,155        |
| Repurchase agreement   | -                 | 2,978             | -                 | 2,978            |
| <b>Total</b>   | <u>8,269</u>      | <u>2,575,493</u>  | <u>717</u>        | <u>2,584,479</u> |
| <b>Financial liabilities</b>   |                   |                   |                   |                  |
| Financial liabilities held for trading:  |                   |                   |                   |                  |
| Derivatives  | <u>12,219</u>     | <u>74,522</u>     | -                 | <u>86,741</u>    |
| <b>Total</b>   | <u>12,219</u>     | <u>74,522</u>     | -                 | <u>86,741</u>    |

## 5 Fair value measurement (continued)

### Recognised fair value measurements (continued)

| As at 30 June 2017   | Level 1<br>\$'000 | Level 2<br>\$'000 | Level 3<br>\$'000 | Total<br>\$'000  |
|--|-------------------|-------------------|-------------------|------------------|
| <b>Financial assets</b>  |                   |                   |                   |                  |
| Financial assets held for trading:   |                   |                   |                   |                  |
| Derivatives  | 4,703             | 45,376            | -                 | 50,079           |
| Financial assets designated at fair value through profit or loss at inception: |                   |                   |                   |                  |
| Unit trusts  | -                 | 9,788             | -                 | 9,788            |
| Debt securities  | -                 | 2,043,787         | 1,373             | 2,045,160        |
| <b>Total</b>   | <u>4,703</u>      | <u>2,098,951</u>  | <u>1,373</u>      | <u>2,105,027</u> |
| <b>Financial liabilities</b>   |                   |                   |                   |                  |
| Financial liabilities held for trading:  |                   |                   |                   |                  |
| Derivatives  | 6,181             | 18,571            | -                 | 24,752           |
| <b>Total</b>   | <u>6,181</u>      | <u>18,571</u>     | <u>-</u>          | <u>24,752</u>    |

The Fund's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

#### (i) Transfers between levels

There have been no transfer between levels for the year ended 30 June 2018.

The following table presents the transfers between levels for the year ended 30 June 2017:

| 30 June 2017    | Level 1<br>\$'000 | Level 2<br>\$'000 | Level 3<br>\$'000 |
|-----------------|-------------------|-------------------|-------------------|
| Debt securities | -                 | 1,100             | (1,100)           |

#### (ii) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the movement in level 3 instruments for the year ended 30 June 2018:

| As at 30 June 2018   | Debt securities<br>\$'000 |
|--|---------------------------|
| Opening balance  | 1,373                     |
| Purchases  | -                         |
| Sales  | (676)                     |
| Transfers  | -                         |
| Gains and losses recognised in statement of comprehensive income   | 20                        |
| Closing balance  | <u>717</u>                |
| Total gains or losses for the year included in the Statement of comprehensive income for financial assets and liabilities at the end of the year | <u>31</u>                 |

## 5 Fair value measurement (continued)

(ii) Fair value measurements using significant unobservable inputs (level 3) (continued)

The following table presents the movement in level 3 instruments for the year ended 30 June 2017:

|  | Debt<br>securities<br>\$'000 |
|--|------------------------------|
| As at 30 June 2017   |                              |
| Opening balance  | 3,061                        |
| Purchases  | 3,499                        |
| Sales  | (5,340)                      |
| Transfers  | (1,100)                      |
| Gains and losses recognised in statement of comprehensive income   | <u>1,253</u>                 |
| Closing balance  | <u>1,373</u>                 |
| Total gains or losses for the year included in the Statement of comprehensive income for financial assets and liabilities at the end of the year | <u>1,098</u>                 |

(iii) Valuation processes

Portfolio reviews are undertaken regularly by management to identify securities that potentially may not be actively traded or have stale security pricing. This process identifies securities which possibly could be regarded as being level 3 securities.

Further analysis, should it be required, is undertaken to determine the accounting significance of the identification. For certain security types, in selecting the most appropriate valuation model, management performs back testing and considers actual market transactions. Changes in allocation to or from level 3 are analysed at the end of each reporting period.

(iv) Fair values of other financial instruments

The Fund did not hold any financial instruments which were not measured at fair value in the Statement of financial position. Due to their short-term nature, the carrying amounts of receivables and payables are assumed to approximate their fair value.

## 6 Net gains/(losses) on financial instruments held at fair value through profit or loss

Net gains/(losses) recognised in relation to financial assets and financial liabilities held at fair value through profit or loss:

|   | Year ended                |                           |
|---|---------------------------|---------------------------|
|   | 30 June<br>2018<br>\$'000 | 30 June<br>2017<br>\$'000 |
| <b>Financial assets</b>   |                           |                           |
| Net gain/(loss) on financial assets held for trading  | (7,435)                   | 130,005                   |
| Net gain/(loss) on financial assets designated at fair value through profit or loss         | <u>145,594</u>            | <u>(24,087)</u>           |
| Net gains/(losses) on financial assets held at fair value through profit or loss            | <u>138,159</u>            | <u>105,918</u>            |
| <b>Financial liabilities</b>  |                           |                           |
| Net gain/(loss) on financial liabilities held for trading                                   | (149,602)                 | (51,295)                  |
| Net gain/(loss) on financial liabilities designated at fair value through profit or loss    | <u>-</u>                  | <u>(231)</u>              |
| Net gains/(losses) on financial liabilities held at fair value through profit or loss       | <u>(149,602)</u>          | <u>(51,526)</u>           |
| Total net gains/(losses) on financial instruments held at fair value through profit or loss | <u>(11,443)</u>           | <u>54,392</u>             |

## 7 Financial assets held at fair value through profit or loss

|   | As at                                   |   |
|---|---|---|
|   | 30 June<br>2018<br>Fair value<br>\$'000 | 30 June<br>2017<br>Fair value<br>\$'000 |
| <b>Held for trading</b>   |   |   |
| Derivatives   | 29,402                                  | 50,079                                  |
| Total held for trading  | <u>29,402</u>                           | <u>50,079</u>                           |
| <b>Designated at fair value through profit or loss</b>                  |   |   |
| Unit trusts   | 20,944                                  | 9,788                                   |
| Debt securities   | 2,531,155                               | 2,045,160                               |
| Repurchase agreements   | 2,978                                   | -                                       |
| Total designated at fair value through profit or loss                   | <u>2,555,077</u>                        | <u>2,054,948</u>                        |
| <b>Total financial assets held at fair value through profit or loss</b> | <u>2,584,479</u>                        | <u>2,105,027</u>                        |
| <b>Comprising:</b>  |   |   |
| <b>Derivatives</b>  |   |   |
| Currency options  | 6                                       | 82                                      |
| Swaptions   | 253                                     | 102                                     |
| Inflation-zero-floor options  | 112                                     | 14                                      |
| Option - others   | -                                       | 13                                      |
| Australian interest rate futures  | 2,045                                   | -                                       |
| International interest rate futures                                     | 6,113                                   | 3,472                                   |
| Currency futures  | 111                                     | 1,218                                   |
| Foreign currency contracts  | 17,572                                  | 41,540                                  |
| Credit default swaps  | 597                                     | 1,113                                   |
| Interest rate swaps   | 2,593                                   | 2,510                                   |
| Index swaps   | -                                       | 15                                      |
| Total derivatives   | <u>29,402</u>                           | <u>50,079</u>                           |
| <b>Unit trusts</b>  |   |   |
| Unit trusts   | <u>20,944</u>                           | <u>9,788</u>                            |
| Total unit trusts   | <u>20,944</u>                           | <u>9,788</u>                            |
| <b>Debt securities</b>  |   |   |
| Government securities   | 1,201,081                               | 977,521                                 |
| Corporate bonds   | 736,994                                 | 613,145                                 |
| Mortgage backed securities  | 525,394                                 | 398,960                                 |
| Asset backed securities   | 67,686                                  | 55,534                                  |
| Total debt securities   | <u>2,531,155</u>                        | <u>2,045,160</u>                        |
| <b>Total financial assets held at fair value through profit or loss</b> | <u>2,584,479</u>                        | <u>2,105,027</u>                        |

An overview of the risk exposures and fair value measurements relating to financial assets held at fair value through profit or loss is included in note 3 and note 5 to the financial statements.

Financial assets held at fair value through profit or loss include securities amount of \$1,060,562 (30 June 2017: \$111,888) held as collateral with counter party financial institutions for derivative transactions purposes. Under the terms of agreement the counter parties has the ability to sell the securities to recover its dues.



## 8 Financial liabilities held at fair value through profit or loss

|  | As at                |                      |
|--|----------------------|----------------------|
|  | 30 June<br>2018      | 30 June<br>2017      |
|  | Fair value<br>\$'000 | Fair value<br>\$'000 |
| <b>Held for trading</b>  |                      |                      |
| Derivatives  | <u>86,741</u>        | <u>24,752</u>        |
| Total held for trading   | <u>86,741</u>        | <u>24,752</u>        |
| <b>Total financial liabilities held at fair value through profit or loss</b> | <u>86,741</u>        | <u>24,752</u>        |
| <b>Comprising:</b>   |                      |                      |
| <b>Derivatives</b>   |                      |                      |
| Australian interest rate futures   | -                    | 2,561                |
| International interest rate futures  | 2,313                | 3,415                |
| Currency options   | 400                  | 36                   |
| Options - others   | 51                   | 6                    |
| Swaptions  | 384                  | 10                   |
| Inflation-zero-floor options   | 512                  | 26                   |
| Currency futures   | 9,855                | 199                  |
| Foreign currency contracts   | 69,532               | 16,020               |
| Credit default swaps   | 2,380                | 2,019                |
| Interest rate swaps  | 1,309                | 424                  |
| Swaps - liability - inflation  | -                    | 36                   |
| Index swaps  | 5                    | -                    |
| Total derivatives  | <u>86,741</u>        | <u>24,752</u>        |
| <b>Total financial liabilities held at fair value through profit or loss</b> | <u>86,741</u>        | <u>24,752</u>        |

An overview of the risk exposures and fair value measurements relating to financial liabilities held at fair value through profit or loss is included in note 3 and note 5 to the financial statements.

## 9 Derivative financial instruments

In the normal course of business the Fund enters into transactions in various derivative financial instruments which have certain risks. A derivative is a financial instrument or other contract which is settled at a future date and whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating, credit index or other variable.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

Derivative transactions include many different instruments, such as forwards, futures, options and swaps. Derivatives are considered to be part of the investment process and the use of derivatives is an essential part of the Fund's portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- hedging to protect an asset or liability of the Fund against a fluctuation in market values or to reduce volatility;
- a substitution for trading of physical securities; and
- adjusting asset exposures within the parameters set in the investment strategy, and adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

## 9 Derivative financial instruments (continued)

The Fund holds the following derivative instruments:

### (a) Futures

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralized by cash or marketable securities. Changes in futures contracts' values are usually settled net daily with the exchange. Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates at a future date at a specified price, established in an organised financial market.

### (b) Options

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future securities price risk. The Fund is exposed to credit risk on purchased options to the extent of their carrying amount, which is their fair value.

### (c) Foreign currency contracts

Foreign currency contracts are primarily used by the Fund to hedge against foreign currency exchange rate risks on its non-Australian dollar denominated trading securities. The Fund agrees to receive or deliver a fixed quantity of foreign currency for an agreed upon price on an agreed future date. Foreign currency contracts are valued at the prevailing bid price at the end of each reporting period. The Fund recognises a gain or loss equal to the change in fair value at the end of each reporting period.

### (d) Swaps

An interest rate swap is an agreement between two parties to exchange their interest obligations (payments) or receipts at set intervals on a notional principal amount over an agreed time period.

The fair value of interest rate swaps is the estimated amount that the entity would receive or pay to terminate the swap at the end of the reporting period, taking into account current interest rates and the current creditworthiness of the swap counterparties.

An inflation swap is an agreement between two parties to exchange their inflation risk (payments) or receipts at set intervals on a notional principal amount over an agreed time period.

The fair value of inflation swaps is the estimated amount that the entity would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

A cross currency swap is an agreement between two parties to exchange interest payments denominated in two different currencies for an agreed period.

A credit default swap is an agreement whereby one counterparty pays a regular fee, usually expressed as a percentage of the notional principle, to another counterparty in return for security against default by underlying loan or asset.

Total return swap contracts involve a commitment by one party to pay interest to the other party in exchange for a payment to it from the other party based on the return of a reference asset (e.g., a security, basket of securities, or future contract), both based on notional amounts. To the extent the return of the reference asset exceeds or falls short of the interest payments, one party is entitled to receive a payment from or obligated to make a payment to the other party.

## 9 Derivative financial instruments (continued)

The Fund's derivative financial instruments at year end are detailed below:

| As at 30 June 2018                  | Contract/<br>notional<br>\$'000 | Fair Values   |               |
|-------------------------------------|---------------------------------|---------------|---------------|
|                                     |                                 | Assets        | Liabilities   |
|                                     |                                 | \$'000        | \$'000        |
| Currency options                    | 37,548                          | 6             | 400           |
| Options - others                    | 20,889                          | -             | 51            |
| Swaptions                           | 26,122                          | 253           | 384           |
| Inflation-zero-floor options        | 568,869                         | 112           | 512           |
| Australian interest rate futures    | 150,900                         | 2,045         | -             |
| International interest rate futures | 1,136,229                       | 6,113         | 2,313         |
| Currency futures                    | 381,370                         | 111           | 9,855         |
| Foreign currency contracts          | 2,122,863                       | 17,572        | 69,532        |
| Credit default swaps                | 142,717                         | 597           | 2,380         |
| Interest rate swaps                 | 546,282                         | 2,593         | 1,309         |
| Index swaps                         | 2,550                           | -             | 5             |
|                                     | <u>5,136,339</u>                | <u>29,402</u> | <u>86,741</u> |

| As at 30 June 2017                  | Contract/<br>notional<br>\$'000 | Fair Values   |               |
|-------------------------------------|---------------------------------|---------------|---------------|
|                                     |                                 | Assets        | Liabilities   |
|                                     |                                 | \$'000        | \$'000        |
| Currency options                    | 24,374                          | 82            | 36            |
| Options - others                    | 78,975                          | 13            | 6             |
| Swaptions                           | 48,059                          | 102           | 10            |
| Inflation-zero-floor options        | 33,582                          | 14            | 26            |
| Australian interest rate futures    | 167,500                         | -             | 2,561         |
| International interest rate futures | 1,335,783                       | 3,472         | 3,415         |
| Currency futures                    | 349,179                         | 1,218         | 199           |
| Foreign currency contracts          | 1,787,037                       | 41,540        | 16,020        |
| Credit default swaps                | 91,731                          | 1,113         | 2,019         |
| Interest rate swaps                 | 227,139                         | 2,510         | 424           |
| Inflation zero floor swaps          | 1,829                           | -             | 36            |
| Index swaps                         | 2,393                           | 15            | -             |
|                                     | <u>4,147,581</u>                | <u>50,079</u> | <u>24,752</u> |

An overview of the risk exposures and fair value measurements relating to derivatives is included in note 3 and note 5 to the financial statements.

As at the reporting date, the Fund hedged its transactions or positions by holding foreign currency contracts with a gross notional value of \$5,281,116,681 (2017: \$3,881,986,692) comprising of buy \$3,701,990,029 (2017: \$2,834,511,950) and sale \$1,579,126,652 (2017: \$1,047,474,742) resulting in net exposure of \$2,122,863,377 (2017: \$1,787,037,208).

As at the reporting date, the Fund hedged \$1,287,130,225 (2017: \$1,503,281,545) comprising of fixed interest rate \$804,824,059 (2017: \$951,492,213) and floating interest rate \$482,306,166 (2017: \$551,789,332) of its interest rate futures.

## 9 Derivative financial instruments (continued)

As at the reporting date, the Fund hedged \$546,282,614 (2017: \$227,139,263) comprising of fixed interest rate \$192,644,397 (2017: \$34,240,004) and floating interest rate \$353,638,217 (2017: \$192,899,259) of its interest rate swaps.

## 10 Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, and the relevant activities are directed by means of contractual arrangements.

The Fund considers investment in all funds to be structured entities. The Fund invests in related and unrelated managed funds for the purpose of capital appreciation and or earning investment income.

An interest in a structured entity is any form of contractual or non-contractual involvement which creates variability in returns arising from the performance of the entity for the Fund. Such interests include holdings of units in unit trusts.

The exposure to investments in unrelated investment funds are disclosed in the following table:

| Name  | Fair value of investment |           | Interest held |      |
|---|--------------------------|-----------|---------------|------|
|   | 2018                     | 2017      | 2018          | 2017 |
|   | \$                       | \$        | %             | %    |
| Natixis International Funds (Lux) I Loomis Sayles Emerging Debt and Currencies Fund R/D (USD) | -                        | 8,141,419 | -             | 0.23 |
| Insight Global Funds II PLC   | 20,771,153               | -         | 0.55          | -    |

The exposure to investments in related investment funds are summarised in note 17.

The Fund has exposures to structured entities through its trading activities. The Fund typically has no other involvement with the structured entity other than the securities it holds as part of trading activities and its maximum exposure to loss is restricted to the carrying value of the asset.

Exposure to trading assets are managed in accordance with financial risk management practices as set out in note 3, which includes an indication of changes in risk measures compared to prior year.

## 11 Net assets attributable to unitholders

Under AASB 132 *Financial Instruments: Presentation*, puttable financial instruments meet the definition of a financial liability to be classified as equity where certain strict criteria are met. The Fund shall classify a financial instrument as an equity instrument from the date when the instrument has all the features and meets the conditions.

Prior to 1 July 2017, the Fund classified its net assets attributable to unit holders as liabilities in accordance with AASB 132. From 1 July 2017, the Fund has elected into the AMIT tax regime. The Fund's Constitution has been amended and it no longer has a contractual obligation to pay distributions to unit holders. Therefore the net assets attributable to unit holders of the Fund meet the criteria set out under AASB 132 and are classified as equity from 1 July 2017 onwards.

As a result of the reclassification of net assets attributable to unit holders from liabilities to equity, the Fund's distributions are no longer classified as finance costs in the statement of comprehensive income, but rather as distributions paid in the statement of changes in equity.

## 11 Net assets attributable to unitholders (continued)

Movements in the number of units and net assets attributable to unitholders during the year were as follows:

|   | Year ended                 |                            |                           |                           |
|---|----------------------------|----------------------------|---------------------------|---------------------------|
|   | 30 June<br>2018<br>No.'000 | 30 June<br>2017<br>No.'000 | 30 June<br>2018<br>\$'000 | 30 June<br>2017<br>\$'000 |
| Opening balance*  | 1,966,063                  | 1,196,917                  | 2,144,792                 | 1,362,191                 |
| Applications  | 488,578                    | 916,306                    | 523,796                   | 1,033,048                 |
| Redemptions   | (152,171)                  | (261,871)                  | (165,451)                 | (298,357)                 |
| Units issued upon reinvestment of distributions               | -                          | 114,711                    | -                         | 125,412                   |
| Increase/(decrease) in net assets attributable to unitholders | -                          | -                          | -                         | (77,502)                  |
| Profit/(loss) for the year                                    | -                          | -                          | (40,247)                  | -                         |
| Closing balance*  | <u>2,302,470</u>           | <u>1,966,063</u>           | <u>2,462,890</u>          | <u>2,144,792</u>          |

\* Net assets attributable to unit holders are classified as equity for the year ended 30 June 2018 and as a financial liability for the year ended 30 June 2017. Refer to Note 1 for further details.

As stipulated within the Fund's Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund.

There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

### Capital risk management

The Fund considers its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability until 30 June 2017. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders.

Daily applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets on a daily basis by the Responsible Entity. Under the terms of the Fund's Constitution, the Responsible Entity has the discretion to reject an application for units and to defer or adjust a redemption of units if the exercise of such discretion is in the best interests of unitholders.

## 12 Distributions to unitholders

The distributions for the year were as follows:

|                                  | Year ended                |                        |                           |                        |
|----------------------------------|---------------------------|------------------------|---------------------------|------------------------|
|                                  | 30 June<br>2018<br>\$'000 | 30 June<br>2018<br>CPU | 30 June<br>2017<br>\$'000 | 30 June<br>2017<br>CPU |
| Total distributions for the year | -                         | -                      | 125,473                   | 6.93                   |

At 30 June 2018, the above distributions include a distribution payable amount of \$0 (2017: \$3,674).

### 13 Cash and cash equivalents

|                  | As at                     |                           |
|------------------|---------------------------|---------------------------|
|                  | 30 June<br>2018<br>\$'000 | 30 June<br>2017<br>\$'000 |
| Cash at bank     | 127,843                   | 139,471                   |
| Cash equivalents | 19,105                    | 37,206                    |
|                  | <u>146,948</u>            | <u>148,050</u>            |

### 14 Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

|  | Year ended                |                           |
|--|---------------------------|---------------------------|
|  | 30 June<br>2018<br>\$'000 | 30 June<br>2017<br>\$'000 |
| <b>(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities</b>                                  |                           |                           |
| Profit/(loss) for the year   | (40,247)                  | -                         |
| Increase/(decrease) in net assets attributable to unitholders  | -                         | (77,502)                  |
| Distributions to unitholders   | -                         | 125,473                   |
| Purchase of financial instruments held at fair value through profit or loss  | (5,756,938)               | (4,208,553)               |
| Proceeds from sale of financial instruments held at fair value through profit or loss  | 5,459,661                 | 3,534,606                 |
| Net (gains)/losses on financial instruments held at fair value through profit or loss  | 11,443                    | (54,392)                  |
| Net interest bought/(sold)   | (4,931)                   | (19)                      |
| Net change in receivables  | (3,736)                   | (2,825)                   |
| Net change in payables   | (511)                     | 272                       |
| Amount received from/(paid to) brokers for margin accounts   | (54,090)                  | (16,419)                  |
| Effects of foreign currency exchange rate changes on cash and cash equivalents   | 647                       | 890                       |
| <b>Net cash inflow/(outflow) from operating activities</b>   | <u>(388,702)</u>          | <u>(698,469)</u>          |
| <b>(b) Non-cash financing activities</b>   |                           |                           |
| During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan | -                         | 125,412                   |

## 15 Auditor's remuneration

During the year the following fees were paid or payable for services provided by the auditor of the Fund:

|   | Year ended      |                 |
|---|-----------------|-----------------|
|   | 30 June<br>2018 | 30 June<br>2017 |
|   | \$              | \$              |
| <b>PricewaterhouseCoopers Australian firm</b>             |                 |                 |
| <i>Audit and other assurance services</i>                 |                 |                 |
| Audit of financial statement and compliance plan audit    | <u>20,147</u>   | 19,639          |
| Total remuneration for audit and other assurance services | <u>20,147</u>   | 19,639          |
| <i>Taxation services</i>                                  |                 |                 |
| Tax compliance services                                   | <u>11,346</u>   | 10,835          |
| Total remuneration for taxation services                  | <u>11,346</u>   | 10,835          |
| Total remuneration of PricewaterhouseCoopers              | <u>31,493</u>   | 30,474          |

## 16 Interest income from financial assets not held at fair value through profit or loss

|  | Year ended      |                 |
|--|-----------------|-----------------|
|  | 30 June<br>2018 | 30 June<br>2017 |
|  | \$'000          | \$'000          |
| Interest income other                          | 3,553           | 2,205           |
| Interest income from cash and cash equivalents | <u>2,701</u>    | 1,213           |
|  | <u>6,254</u>    | 3,418           |

## 17 Related party transactions

### Responsible Entity

Russell Investment Management Ltd (ABN 53 068 338 974), the responsible entity and manager of the Fund, is a wholly owned subsidiary of Russell Investment Group Pty Ltd (Australia) which is a wholly owned subsidiary within the Russell Investments Group of Companies with the parent entity of the Group owned by funds managed by TA Associates and Reverence Capital Partners, and also interests held by Russell Investments management.

The Responsible Entity is engaged in the business of providing investment management and administrative services on behalf of the Fund. It has appointed State Street Australia Limited to perform custody and certain administrative functions such as unit registry reporting and valuation services. To implement the multi-asset, multi-style, multi-manager diversification technique in relation to the Fund, the Responsible Entity will: (i) engage and, where necessary, replace the investment managers for the Fund; (ii) allocate assets among investment managers within the Fund; and (iii) monitor each investment manager's overall investment performance. For services rendered, the Fund pays the Responsible Entity a fee as discussed below.

The Responsible Entity retains the right under the terms of its agreements with the investment managers to direct them, subject to a requirement of best execution, to execute transactions that enable it to purchase brokerage and research services that assist in the provision of investment services to the Responsible Entity and are in the best interests of the unitholders. In addition, the investment managers may elect to purchase research services for their own benefit, subject to the best execution requirement. Brokerage and research services include (1) fundamental market research including

## 17 Related party transactions (continued)

### Responsible Entity (continued)

performance characteristics of asset classes, investment styles, and allocation strategies; (2) advice either directly or indirectly through publications or writings as to the value of securities, the advisability of investing in, purchasing or selling securities and the availability of securities or of purchasers or sellers of securities; (3) analysis and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy and the performance of accounts; and (4) effecting securities transactions and performing functions incidental thereto (such as clearance and settlement) or that are required in connection therewith.

The Responsible Entity has received the following goods and services from brokers and dealers generally over the period of these accounts:

- written and oral research reports from brokers or dealers;
- computer based financial analytical systems, together with their associated software and servicing support; and
- statistical analysis relating to markets, companies, industries, business and economic factors, market trends and portfolio strategies.

### Brokerage commissions

The Fund may effect portfolio transactions through an affiliate of the Responsible Entity, when an investment manager determines that a Fund will receive competitive execution, price, and commissions. Amounts retained by affiliates of the Responsible Entity for the year ended 30 June 2018 were \$136,166 (2017: \$Nil).

### Key management personnel

#### (a) Directors

Key management personnel includes persons who were directors of Russell Investment Management Ltd at any time during the financial year as follows:

Peter Gunning  
Jodie Hampshire (appointed, effective 3 July 2018)  
Symon Parish  
Glenn Smith (resigned, effective 29 June 2018)  
Kenneth Willman  
Bronwyn Yates

#### (b) Other key management personnel

There were no other persons with responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly during the financial year.

### Key management personnel unitholdings

No key management personnel of the Responsible Entity held units in the Fund as at 30 June 2018 (2017: Nil).

### Key management personnel compensation

Key management personnel are paid by Russell Investment Management Ltd. Payments made from the Fund to Russell Investment Management Ltd do not include any amounts directly attributable to the compensation of key management personnel.



## 17 Related party transactions (continued)

### Key management personnel loan disclosures

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

### Other transactions within the Fund

Apart from those details disclosed in this note, no key management personnel have entered into any transaction with the Fund since the end of the previous financial year and there were no material balance involving directors' interests outstanding at year end.

### Responsible Entity's/manager's fees and other transactions

Under the terms of the Fund's Constitution, the Responsible Entity is entitled to receive management fees and Responsible Entity's fees, calculated by reference to the average daily net assets (excluding net assets attributable to unitholders) of the Fund as follows:

Russell Investments Global Bond Fund - Class B - Management fee 0.637% (2017: 0.637%) per annum.

The Responsible Entity's fees is 0.013% (2017: 0.013%) per annum of the average daily net assets (excluding net assets attributable to unitholders) for 2018. It is at the Managers discretion to waive or rebate fees for specific wholesale investors as defined under section 761G of the *Corporations Act 2001*. The management fee rebates are disclosed as other operating income in the Statement of comprehensive income.

All related party transactions are conducted on normal commercial terms and conditions. The transactions during the year and amounts payable at year end between the Fund and the Responsible Entity were as follows:

|  | <b>30 June<br/>2018</b> | 30 June<br>2017 |
|--|-------------------------|-----------------|
|  | <b>\$</b>               | <b>\$</b>       |
| Management fees for the year paid by the Fund  | <b>15,148,701</b>       | 10,111,769      |
| Responsible Entity's fees for the year paid by the Fund                                | <b>314,670</b>          | 205,342         |
| Aggregate amounts payable to the Manager at the end of the reporting period            | <b>1,194,787</b>        | 1,040,235       |
| Aggregate amounts payable to the Responsible Entity at the end of the reporting period | <b>25,117</b>           | 21,963          |

### Related party unitholdings

Parties related to the Fund (including Russell Investment Management Ltd, its affiliates and other schemes managed by, or under trusteeship of Russell Investment Management Ltd or its affiliates), held no units in the Fund (2017: Nil).

## 17 Related party transactions (continued)

### Related party unitholdings (continued)

#### Investments

The Fund held investments in the following schemes which are also managed by Russell Investment Management Ltd or its related parties:

|                         | Fair value of investments |           | Interest held |      | Distributions received/receivable |        | Units acquired during the year |            | Units disposed during the year |            |
|-------------------------|---------------------------|-----------|---------------|------|-----------------------------------|--------|--------------------------------|------------|--------------------------------|------------|
|                         | 2018                      | 2017      | 2018          | 2017 | 2018                              | 2017   | 2018                           | 2017       | 2018                           | 2017       |
|                         | \$                        | \$        | %             | %    | \$                                | \$     | No.                            | No.        | No.                            | No.        |
| Russell Cash Sweep Fund | 172,992                   | 1,647,124 | 0.06          | 0.55 | 14,683                            | 78,321 | 15,783,053                     | 28,267,281 | 17,212,185                     | 27,393,924 |

## 18 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Fund disclosed in the Statement of financial position as at 30 June 2018 or on the results and cash flows of the Fund for the year ended on that date.

## 19 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2018 and 30 June 2017.

## Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 41 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
  - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; and
- (c) Note 2(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the directors.



Director

Sydney  
25 September 2018



## *Independent auditor's report*

To the unitholders of Russell Investments Global Bond Fund

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### *Our opinion*

In our opinion:

The accompanying financial report of Russell Investments Global Bond Fund (the Registered Scheme) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Registered Scheme's financial position as at 30 June 2018 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### ***What we have audited***

The financial report comprises:

- the statement of financial position as at 30 June 2018
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the Directors' declaration.

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### *Basis for opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### ***Independence***

We are independent of the Registered Scheme in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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**PricewaterhouseCoopers, ABN 52 780 433 757**

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### *Other information*

The Directors of the Responsible Entity are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2018, including the Directors' Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### *Responsibilities of the directors of the Responsible Entity for the financial report*

The directors of the Responsible Entity of the Registered Scheme are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors of the Responsible Entity determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors of the Responsible Entity are responsible for assessing the ability of the Registered Scheme to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Responsible Entity either intend to liquidate the Registered Scheme or to cease operations, or have no realistic alternative but to do so.

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### *Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.



A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

[http://www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf). This description forms part of our auditor's report.

A handwritten signature in blue ink, appearing to read 'PricewaterhouseCoopers', written in a cursive style.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Joe Sheeran', written in a cursive style.

Joe Sheeran  
Partner

Sydney  
25 September 2018