

# Fund Profile

An in-depth look at  
Russell Investments' Sector Funds

## Russell Investments International Bond Fund – \$A Hedged

The Russell Investments International Bond Fund - \$A Hedged provides diversified exposure to international bond markets through a broad portfolio of foreign currency fixed income securities hedged into Australian dollars.

### The Russell Investments approach

The Russell Investments International Bond Fund – \$A Hedged (the Fund) is designed to be an ideal vehicle for an investor's core exposure to international bond markets. Russell Investments employs a multi-style, multi-manager approach, combining duration, country, credit and currency strategies within a well-defined risk framework to create a broadly diversified solution.

### Fund objectives

The Fund aims to provide a total return, before costs and tax, higher than the Fund's benchmark over the medium term by providing exposure to a diversified portfolio of predominantly fixed income securities denominated in foreign currencies and largely hedged into Australian dollars.

### Investment strategy

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. Derivatives may be used to obtain or reduce exposure to securities and markets, to implement investment strategies and to manage risk. Foreign currency exposures are largely hedged back to Australian dollars, apart from those foreign currency exposures which are utilised to generate excess returns from active currency management

### Current structure

To implement the investment strategy, the Fund employs multiple, specialist managers as well as Russell Investments positioning strategies that enable us to embed our

### Fund breakdown



- Western
- Russell Investments
- Schroders
- BlueBay



“The Fund blends our best manager and positioning strategy ideas in a complementary fashion to create a diversified core fixed income solution.”

**GERARD FITZPATRICK**  
SENIOR PORTFOLIO MANAGER  
RUSSELL INVESTMENTS

## Quick overview

**Inception:** 31 December 1997

**Benchmark:** Bloomberg Global Aggregate Index (\$A Hedged)

**AUM (AUD):** \$905.25 million (as at 31/03/2022)

**Minimum Investment Timeframe:** 3 Years

# Russell Investments International Bond Fund – \$A Hedged

strategic factor biases in the portfolio. By combining more specialised investment managers with Russell Investments positioning strategies, we are able to position the portfolio with the optimal balance of manager alpha and strategic factor exposures while also giving the portfolio manager greater control over how the Fund is managed.

## Western Asset Management

Based in Pasadena, California, Western employs a long-term fundamental value approach to credit. The manager's investment strategy combines top-down fundamental macroeconomic research with bottom-up inputs from specialised sector analysts to generate sector views. Duration and yield curve management is considered a secondary alpha source which is used to complement and diversify the portfolio's credit positioning.

## Schroders

New York-based Schroders specialises in securitised strategies and represents Russell Investments' pure play investment in US residential mortgage credit. Schroders's experienced and talented structured products team has exceptional strength in security selection. The strategy is led by Michelle Russell-Dowe, one of the most informed mortgage investors in the market.

## BlueBay

BlueBay emphasises bottom-up government and sovereign research with a focus on valuation and technical factors. The team has demonstrated skill in country selection, employing deep fundamental analysis with a robust relative value framework. The mandate allows for focus on excess return generation from rates, curve, country

and foreign exchange management in the global government bond space. The investment style is nimble and tactical and may tend to have a shorter investment horizon. The strategy is managed from London and draws on additional investment resources from BlueBay's US operations.

## Russell Investments

Positioning strategies are customised exposures created and directly managed by Russell Investments to better achieve return and/or risk objectives in a total portfolio. Typically used in conjunction with third-party active managers, positioning strategies allow our portfolio managers to better reflect our strategic and dynamic insights in a precise and flexible manner.

The **Russell Investments Intelligent Credit strategy** provides the portfolio with exposure to the credit value factor. Our research has shown that value, size, quality and momentum are all factors with efficacy. However, the factor to have made the greatest contribution to traditional active portfolios is the credit value factor. Like other value factors, the credit value factor seeks to benefit from investor behaviours that cause an asset to become mispriced relative to its intrinsic value. There is evidence that an asset's intrinsic value can be systematically observed using quantitative methods that allow for a more efficient comparison of default probabilities across sectors. We partner with Moody's CreditEdge, an established quantitative credit platform, to determine the default probability and intrinsic value of each bond we select. Importantly, these types of value strategies tend to outperform during periods when the

credit risk premium is under stress. This will further diversify the Fund's potential sources of excess returns.

The **Russell Investments Integrated Governments strategy** comprises the Fund's allocations to physical government bonds and rates and currency factor positioning strategies. The physical government bond allocation complements the country selection of our government specialist, BlueBay, and also helps balance the Fund's rates and currency factor positioning strategies. Moreover, it allows for bespoke physical allocations that are outside the scope of the rates and currency factor positioning strategies, such as local currency emerging markets debt and inflation-linked securities.

The rates factor positioning strategy uses value and carry factors to capture global real yields and term premiums as a return source. It aims to overweight those markets exhibiting higher real yields and steeper yield curves in order to earn the premiums generated by such biases. The strategy is designed to better align global interest rate risk in the Fund with our strategic beliefs and serves as another potential return source. It also enhances diversification due to its historically low correlation not only to credit excess returns, but also to currency factor returns and the excess returns of the Fund's active managers.

The currency factor positioning strategy uses a mix of carry, value and trend factor strategies and aims to access currency exposures in a more efficient and systematic way. Currencies have historically exhibited a lower correlation to many traditional types of fixed income investments, including interest rates and

credit, and therefore provide the Fund not only with another return source but diversification benefits as well.

Together with the Fund's **liquidity reserve**, the Russell Investments Integrated Governments strategy will facilitate more agile tactical management by enabling more explicit sector rotation and targeted physical allocations in preferred areas of the government bond market. These accounts will also enhance liquidity management and reduce excessive reliance on derivatives.

### Leverage and derivatives

No leverage is permitted, but derivatives might be used for efficient portfolio management purposes. These derivatives might include futures, forwards, options, swaps on interest rates, currencies or securities and credit default swaps.

### Sources of return

The Fund employs multiple active managers and positioning strategies. These include both directional (designed to capitalise on the anticipated path of credit, interest rate and currency markets, including sector rotation) and

non-directional (security/issue selection and systematic framework) active international fixed income strategies.

### Currency hedging

Currency hedging into AUD is undertaken by the managers and/or Russell Investments. However, investors should note that the Fund's managers are permitted to take active currency positions.

### Responsible investing

Russell Investments recognises the importance of responsible investing and environmental, social and governance issues for our clients. To reflect this, the Fund does not knowingly invest directly in companies which a) produce components that are key and dedicated to the production of anti-personnel mines and/or cluster munitions; b) manufacture tobacco products or; c) are involved, either directly or indirectly, in the production of the core nuclear weapon system, or components/services of the core nuclear weapon system, that are considered tailor-made and essential for the lethal use of the weapon.

COMMITTED TO  
RESPONSIBLE INVESTMENT

**A** PRI Rating  
2016-2020  
Assessment

**PRI** Principles for  
Responsible  
Investment

**Climate  
Action 100+**  
Global Investor Driven Business Transition

**CDP**  
DISCLOSURE INSIGHT ACTION

**IIGCC**  
The Institutional Investors  
Group on Climate Change

**TCFD** TASK FORCE ON  
CLIMATE-RELATED  
FINANCIAL  
DISCLOSURES

**riaa** Responsible Investment  
Association Australasia

**For more information, please contact your Russell Investments representative:**

NSW, QLD, ACT & NT: 02 9229 5111

VIC, SA, WA & TAS: 03 9270 8111

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Russell Investments became a signatory of the United Nations-Supported Principles for Responsible Investment (PRI) in 2009; the Carbon Disclosure Project's climate change program since 2010; and the Climate Action 100 in 2017. Russell Investments is also a member of the Institutional Investors Group on Climate Change (IIGCC) since 2015; and the Responsible Investment Association of Australasia. Russell Investments became a supporter for the Taskforce on Climate-Related Financial Disclosures (TCFD) in May 2019. Russell Investments has consecutively achieved an A+ rating for our strategy and governance approach from the PRI from 2016-2020. For further information visit <https://russellinvestments.com/au/about-us/responsible-investing>. This work is copyright 2022. Apart from any use permitted under the Copyright Act 1968, no part may be reproduced by any process, nor may any other exclusive right be exercised, without the permission of Russell Investment Management Ltd. Updated: April 2022 R\_PRO\_Fnd\_IntBond\_V1F\_2204