

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 exposure to a diversified portfolio of foreign currency fixed income securities hedged into Australian dollars. It seeks to provide a total return, before costs and tax, higher than its benchmark (Bloomberg Barclays Global Aggregate Bond AUD Hedged Index) over a market cycle.

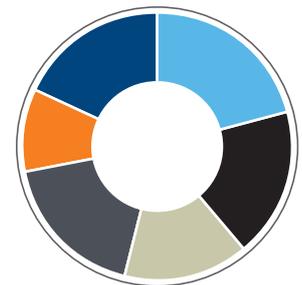
Investment strategy

The Fund invests predominantly in debt securities issued by supranationals, international governments, quasi-governmental 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 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 managers and strategies with complementary, active investment styles.

Fund breakdown



- Colchester
- Voya
- Russell Investments
- Insight
- 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 Barclays Global Aggregate Index (\$A Hedged)

AUM (AUD): \$1.07 billion (as at 30/09/2020)

Minimum Investment Timeframe: 3 Years

Russell Investments International Bond Fund – \$A Hedged

Colchester

Colchester, based in London, is a highly specialised manager that we expect to provide a significant source of diversification and excess return due to its non-directional investment approach involving interest rate forecasting and macro analysis to identify real yield and currency opportunities. Colchester's investors have economist and supranational bank backgrounds that have keen insight into rate markets and central bank policy.

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.

Voya

US-based Voya Investment Management possesses best-in-class securitised resources, which is unique amongst its global bond peer group. The manager also provides additional, diversified sources of excess return; most notably mortgage derivatives, non-correlated interest rates and a quantitative foreign exchange model. Other sources of return include a risk mitigation overlay within interest rates and foreign exchange, as well as an active asset allocation component which rotates between credit, emerging markets debt and securitized and government assets.

Insight

Insight is a London-based manager that has broad strength across developed and emerging government bonds, securitised and corporate credit, and active currency strategies. The team has demonstrated skill actively allocating risk across and within the subsectors of these areas, offering a flexible and diversified global macro sector rotation strategy. The manager employs a 'units of risk' framework that allocates active risk and blends strategic with tactical and momentum views in a controlled fashion.

BlueBay

BlueBay emphasises bottom-up sovereign and corporate credit research with a focus on valuation and technical factors. The team has demonstrated skill in country selection, employing deep fundamental analysis with robust relative value framework. The portfolio is co-managed by the heads of government rates and corporate credit, who jointly determine risk allocation and where best opportunities lie. 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 **currency positioning strategy** in the Russell Investments International Bond Fund – \$A Hedged, blends value, trend, and carry currency factors within a systematic framework to generate excess return. It contributes toward downside risk management, as our research shows this strategy to be negatively correlated with credit-based alpha drivers.

The **rates positioning strategy** incorporates a **rates – value factor strategy** and a **rates – carry factor strategy**.

The rates – value factor strategy measures the real yield of six major countries using the 10-year government bond yield minus one-year forward inflation expectation, while the rates – carry factor strategy measures the carry using the 10-year government bond yield adjusted by the funding interest rate. Countries are then ranked from highest to lowest based on these two different measures, with each strategy overweighting up to three countries with the highest adjusted yields and underweighting up to three countries with the lowest adjusted yields. Both factor strategies are implemented via government bond futures. The performance of both strategies is determined by the relative performance of 10-year bond futures in the countries where the strategy is long versus the countries where the strategy is short.

The Fund's rates positioning strategy serves as another potential source of return, while at the same time improving overall fund diversification given its historically low correlation not only to credit excess returns but also to currency factor returns and the excess returns of the Fund's managers.

Fund liquidity is improved as these strategies overlay a portfolio of high quality, short-dated governments and corporates.

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.

For more information, please contact your Russell Investments representative:

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