

# **Russell Investments Australian Select Corporate Bond ETF**

ARSN 154 588 477

## **Interim report**

### **For the half-year ended 31 December 2019**

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This interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made in respect of Russell Investments Australian Select Corporate Bond ETF during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

This interim report covers Russell Investments Australian Select Corporate Bond ETF as an individual entity.

The responsible entity of the Russell Investments Australian Select Corporate Bond ETF is Russell Investment Management Ltd

(ABN 53 068 338 974) (AFSL 247185).

The responsible entity's registered office is:

Level 29, 135 King Street,  
Sydney, NSW 2000.

## Directors' report

The directors of Russell Investment Management Ltd (ABN 53 068 338 974 AFSL No. 247185), the responsible entity of Russell Investments Australian Select Corporate Bond ETF (the "Fund"), present their report together with the financial statements of the Fund, for the half-year ended 31 December 2019.

### Principal activities

The Fund seeks to track the performance of the DBIQ 0-4 year Investment Grade Australian Corporate Bond Index (the "Index") by investing predominantly in Australian Corporate Fixed Income Securities. The Index filters the largest and most liquid Corporate Fixed income securities and weights them equally upon reconstitution. Derivatives may also be used to a limited extent to obtain or reduce exposure to such securities.

The Fund did not have any employees during the half-year.

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

### Directors

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

Peter Gunning  
 Jodie Hampshire  
 Symon Parish  
 Bronwyn Yates  
 Richard Smirl

### Review and results of operations

During the half-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.

The Fund generally invests in the securities comprising the Index in proportion to their relative weightings and aims to achieve investment returns (before costs and tax), that closely correspond to the performance of the Index.

#### Results

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

	<b>Half-year ended</b>	
	<b>31 December 2019</b>	31 December 2018
Operating profit/(loss) before finance costs attributable to unitholders (\$'000)	<u>2,138</u>	<u>3,555</u>
<i>Distributions</i>		
Distributions paid and payable (\$'000)	<u>2,123</u>	<u>2,661</u>
Distribution (Cents per unit - CPU)	<u>18.95</u>	<u>29.25</u>

The performance above is primarily driven by the performance of the Index which this Fund tracks resulting in the increase of 0.98% comprising distributions paid and payable and changes in the post distribution unit price for the half-year ended 31 December 2019.

The movement in the assets and liabilities in the statement of financial position corresponds with the units issued and redeemed during the half-year as reflected in note 4 and the performance of the Fund during the half-year.

## Directors' report (continued)

### Significant changes in state of affairs

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

### 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.

The Fund's investment objective and strategy remains unchanged which is to track the performance of the Index (before fees and costs). Accordingly the future returns of the Fund are dependent on the performance of the Index.

### 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 and financial statements. Amounts in the Directors' report and 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.

### 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 4.

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



Director

Sydney  
10 March 2020



## *Auditor's Independence Declaration*

As lead auditor for the review of Russell Investments Australian Select Corporate Bond ETF for the half-year ended 31 December 2019, 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 review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

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  
10 March 2020

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**PricewaterhouseCoopers, ABN 52 780 433 757**  
*One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001*  
*T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au*  
*Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124*  
*T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au*

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## Statement of comprehensive income

	Half-year ended	
	31 December 2019 \$'000	31 December 2018 \$'000
<b>Investment income</b>		
Net gains/(losses) on financial instruments at fair value through profit or loss	2,465	3,760
Other operating income	13	25
<b>Total investment income/(loss)</b>	<b>2,478</b>	<b>3,785</b>
<b>Expenses</b>		
Management costs	340	230
<b>Total operating expenses</b>	<b>340</b>	<b>230</b>
<b>Profit/(loss) for the half-year</b>	<b>2,138</b>	<b>3,555</b>
Other comprehensive income	-	-
<b>Total comprehensive income for the half-year</b>	<b>2,138</b>	<b>3,555</b>

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

## Statement of financial position

		As at	
		31 December 2019	30 June 2019
	Notes	\$'000	\$'000
<b>Assets</b>			
Cash and cash equivalents		100	60
Receivables		2,031	1,762
Financial assets at fair value through profit or loss	3	<u>230,920</u>	<u>219,158</u>
<b>Total assets</b>		<u><b>233,051</b></u>	<u><b>220,980</b></u>
<b>Liabilities</b>			
Payables		263	224
Distributions payable to unitholders	5	<u>983</u>	<u>4,599</u>
<b>Total liabilities</b>		<u><b>1,246</b></u>	<u><b>4,823</b></u>
<b>Net assets attributable to unitholders - equity</b>	4	<u><b>231,805</b></u>	<u><b>216,157</b></u>

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

## Statement of changes in equity

	Notes	Half-year ended	
		31 December 2019 \$'000	31 December 2018 \$'000
<b>Total equity at the beginning of the financial half-year</b>		<b>216,157</b>	165,383
<b>Comprehensive income for the half-year</b>			
Profit/(loss) for the half-year		2,138	3,555
Other comprehensive income		-	-
<b>Total comprehensive income for the half-year</b>		<b>2,138</b>	<b>3,555</b>
<b>Transactions with unitholders</b>	4		
Applications		15,532	21,065
Redemptions		-	-
Reinvestment of distributions		101	42
Distributions paid and payable	5	(2,123)	(2,661)
<b>Total transactions with unitholders</b>		<b>13,510</b>	<b>18,446</b>
<b>Total equity at the end of the financial half-year</b>		<b>231,805</b>	<b>187,384</b>

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



## Statement of cash flows

	Half-year ended	
	31 December 2019	31 December 2018
	\$'000	\$'000
<b>Cash flows from operating activities</b>		
Proceeds related to financial instruments at fair value through profit or loss	81,231	83,940
Payments related to financial instruments at fair value through profit or loss	(90,150)	(102,277)
Interest received/(paid)	(666)	(334)
Proceeds from receivables	32	24
Management costs paid	(301)	(221)
<b>Net cash inflow/(outflow) from operating activities</b>	6(a) <u>(9,854)</u>	<u>(18,868)</u>
<b>Cash flows from financing activities</b>		
Proceeds from applications by unitholders	15,532	21,065
Distributions paid	(5,638)	(2,249)
<b>Net cash inflow/(outflow) from financing activities</b>	<u>9,894</u>	<u>18,816</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	40	(52)
Cash and cash equivalents at the beginning of the half-year	<u>60</u>	<u>419</u>
<b>Cash and cash equivalents at the end of the half-year</b>	<u>100</u>	<u>367</u>
Non-cash financing activities	6(b)	

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

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## 1 Basis of preparation of interim report

These condensed financial statements for the half-year ended 31 December 2019 has been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standard AASB 134 *Interim Financial Reporting*.

These interim financial statements cover Russell Investments Australian Select Corporate Bond ETF (the "Fund") as an individual entity. The Fund was constituted on 1 December 2011 and will terminate on 30 October 2091 unless terminated earlier in accordance with the provisions of the Fund's constitution.

These interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, these interim financial statements are to be read in conjunction with the annual financial report for the year ended 30 June 2019 and any public announcements made in respect of Russell Investments Australian Select Corporate Bond ETF during the interim reporting period.

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 interim financial statements are presented in Australian currency.

The Fund seeks to track the performance of the DBIQ 0-4 year Investment Grade Australian Corporate Bond Index (the "Index") by investing predominantly in Australian Corporate Fixed Income Securities. The Index filters the largest and most liquid Corporate Fixed income securities and weights them equally upon reconstitution. Derivatives may also be used to a limited extent to obtain or reduce exposure to such securities.

The Fund is organised into one main segment which operates solely in the business of investment management within Australia. The Fund operates in Australia and holds investments in Australia.

The nature of the Fund's operation is such that income and expenses are incurred in a manner which is not impacted by any form of seasonality.

The interim financial statements were authorised for issue by the directors on 10 March 2020. The directors of the responsible entity have the power to amend and reissue the interim financial statements.

### (a) Significant accounting policies

The accounting policies in these interim financial statements are the same as those applied in the Fund's financial statements for the year ended 30 June 2019.

## 2 Fair value measurement

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

- Financial assets at fair value through profit or loss (FVTPL) (see note 3)

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

*AASB 13 Fair Value Measurement* 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 (level 1)

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.

## 2 Fair value measurement (continued)

### (i) Fair value in an active market (level 1) (continued)

The Fund values its investments in accordance with the accounting policies set out in notes to the financial statements as at 30 June 2019. 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.

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.

### Recognised fair value measurements

The following table presents the Fund's assets and liabilities measured and recognised at fair value as at 31 December 2019 and 30 June 2019.

As at 31 December 2019	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets</b>				
Financial assets at fair value through profit or loss:				
Debt securities	-	230,920	-	230,920
<b>Total</b>	-	230,920	-	230,920

## 2 Fair value measurement (continued)

### Recognised fair value measurements (continued)

As at 30 June 2019	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets</b>				
Financial assets at fair value through profit or loss:				
Debt securities	-	219,158	-	219,158
<b>Total</b>	-	219,158	-	219,158

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 were no transfers between levels for the half-year ended 31 December 2019 and full-year ended 30 June 2019. There were also no changes made to any of the valuation techniques applied as of 30 June 2019.

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

The Fund did not hold any financial instruments with fair value measurements using significant unobservable inputs during the half-year ended 31 December 2019 or year ended 30 June 2019.

#### (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 has assets and liabilities carried at amortised cost. Due to their short-term nature, their carrying values are a reasonable approximation of fair value.

### 3 Financial assets at fair value through profit or loss

	As at	
	31 December 2019	30 June 2019
	Fair value \$'000	Fair value \$'000
<b>Financial assets at fair value through profit or loss</b>		
Debt securities	<b>230,920</b>	219,158
<b>Total financial assets at fair value through profit or loss</b>	<b>230,920</b>	219,158
<b>Comprising:</b>		
<b>Debt securities</b>		
Corporate bonds	<b>230,920</b>	219,158
Total debt securities	<b>230,920</b>	219,158
<b>Total financial assets at fair value through profit or loss</b>	<b>230,920</b>	219,158

### 4 Net assets attributable to unitholders

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

	31 December 2019	31 December 2018	Half-year ended 31 December 2019	31 December 2018
	No.'000	No.'000	\$'000	\$'000
Opening balance	<b>10,527</b>	8,273	<b>216,157</b>	165,383
Applications	<b>750</b>	1,050	<b>15,532</b>	21,065
Units issued upon reinvestment of distributions	<b>5</b>	2	<b>101</b>	42
Distributions paid and payable	-	-	<b>(2,123)</b>	(2,661)
Profit/(loss) for the half-year	-	-	<b>2,138</b>	3,555
Closing balance	<b>11,282</b>	9,325	<b>231,805</b>	187,384

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.

## 5 Distributions to unitholders

The distributions for the half-year were as follows:

	Half-year ended			
	31 December 2019 \$'000	31 December 2019 CPU	31 December 2018 \$'000	31 December 2018 CPU
Total distributions for the half-year	<u>2,123</u>	<u>18.95</u>	<u>2,661</u>	<u>29.25</u>

At 31 December 2019, the above distributions include a distribution payable amount of \$983,020 (2018: \$1,366,952).

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

	Half-year ended	
	31 December 2019 \$'000	31 December 2018 \$'000
<b>(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities</b>		
Profit/(loss) for the half-year	2,138	3,555
Purchase of financial instruments at fair value through profit or loss	(90,150)	(102,277)
Proceeds from sale of financial instruments at fair value through profit or loss	81,231	83,940
Net (gains)/losses on financial instruments at fair value through profit or loss	(2,465)	(3,760)
Net interest bought/(sold)	(378)	(46)
Net change in receivables	(269)	(289)
Net change in payables	<u>39</u>	<u>9</u>
<b>Net cash inflow/(outflow) from operating activities</b>	<u>(9,854)</u>	<u>(18,868)</u>
<b>(b) Non-cash financing activities</b>		
During the half-year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan	101	42

## 7 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 31 December 2019 or on the results and cash flows of the Fund for the half-year ended on that date.

## 8 Contingent assets and liabilities and commitments

There were no outstanding contingent assets, liabilities or commitments as at 31 December 2019 and 30 June 2019.

## Directors' declaration

In the opinion of the directors of the responsible entity:

- (a) the financial statements and notes set out on pages 5 to 14 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Fund's financial position as at 31 December 2019 and of its performance for the financial half-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.

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



Director

Sydney  
10 March 2020





## **Independent auditor's review report to the unitholders of Russell Investments Australian Select Corporate Bond ETF**

### ***Report on the half-year financial report***

We have reviewed the accompanying half-year financial report of Russell Investments Australian Select Corporate Bond ETF (the Fund) which comprises the statement of financial position as at 31 December 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

### ***Directors of the Responsible Entity's responsibility for the half-year financial report***

The directors of the Responsible Entity of the Fund, are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

### ***Auditor's responsibility***

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Fund's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Russell Investments Australian Select Corporate Bond ETF, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### ***Independence***

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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**PricewaterhouseCoopers, ABN 52 780 433 757**

One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001  
T: +61 2 8266 0000, F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124  
T: +61 2 9659 2476, F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

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### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Russell Investments Australian Select Corporate Bond ETF is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Fund's financial position as at 31 December 2019 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A blue ink signature of a PricewaterhouseCoopers representative, written in a cursive style.

PricewaterhouseCoopers

A blue ink signature of Joe Sheeran, written in a cursive style.

Joe Sheeran  
Partner

Sydney  
10 March 2020