

Fund facts

Inception date

February 2013

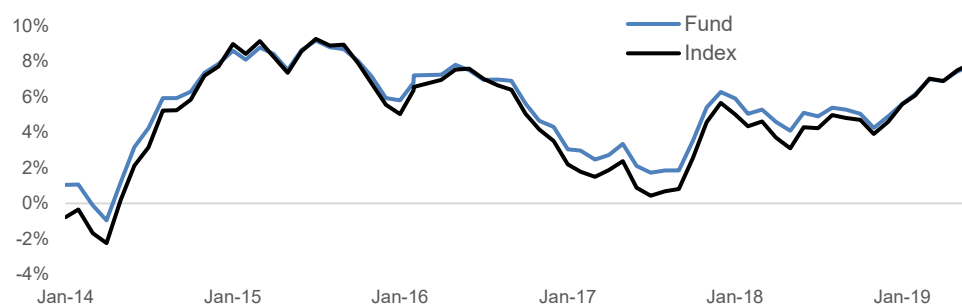
Benchmark

Bloomberg NZ Bond
composite index

Currency

NZD

Rolling 1-year performance history



Performance review

Period ending 30/06/2019	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Since inception % p.a.
Gross fund performance	0.8	1.9	7.8	5.0	6.2	5.3
Benchmark return*	0.9	1.8	7.9	4.3	5.8	4.7
Excess return	-0.1	0.1	-0.1	0.6	1.4	0.6

*As at 28 Jun 19 the index changed to Bloomberg NZ Bond composite index. From December 2014 through to June 2019 the benchmark was 75:25 weighted average of the S&P/NZX NZ Government Stock Index and S&P/NZX A-Grade Corporate Index. Prior to December 2014 the benchmark was the S&P/NZX NZ Government Stock Index.

Fund commentary

The Russell Investments New Zealand Fixed Interest Fund returned 1.9% in the June quarter, outperforming the benchmark by 0.1%.

Rising bond prices contributed to strong mark-to-market capital gains over the period, with the Fund's gross return well above the running yield on the underlying securities. Much of the Fund's benchmark-relative gains can be attributed to our overweight exposure to corporate bonds, which performed well for the quarter. Narrowly offsetting this was our interest rates positioning, as we hadn't anticipated the ongoing decline in interest rates that we saw over the period.

The Fund remains underweight government debt and overweight credit; notably financials, asset-backed securities and utilities. Importantly, the majority of the Fund's holdings are rated AA or better.

We believe that while the global economy remains soft, the likelihood is that central banks will cut interest rates, suggesting that long-term bond yields will fall further. However, we feel this scenario has already been priced in to market rates, leaving open the possibility of an opposite move. This could happen if we see economies recover and trade tensions ease. On balance, with bond valuations at high levels, we question whether the recent trend can continue for much longer.

During the period, we made some notable changes to the Fund's structure. Specifically, we added Western Asset Management Company (WAMCo) to the Fund's manager line up and changed the Fund's benchmark.

WAMCo is a highly-rated investment manager who currently manage money in both the Russell Investments Australian Bond Fund and the Russell Investments Australian Bond Income Fund. Their global macro investment approach focuses more on medium-term outcomes and will provide the Fund scope to invest in a wider range of NZD-denominated securities; most notably NZD euro medium-term notes.

By introducing WAMCo and moving to a multi-manager fund structure, not only do we greatly increase the Fund's level of diversification, we also expose investors to a wider range of investment views and ideas. Investors also gain access to Russell Investments' significant expertise in areas such as manager research, portfolio implementation and capital markets insights.

With respect to the Fund's benchmark, we changed this to the Bloomberg NZ Bond Composite Index. The Fund's previous benchmark comprised the S&P/NZX NZ Government Stock Index (75%) and the S&P/NZX A-Grade Corporate Index (25%).

In the past, domestic fixed interest managers have used either a government index or a blended benchmark comprising two sub-indices. However, since late last year, there's been a general shift away from these types of benchmarks in favour of the Bloomberg NZ Bond Composite Index. It is our belief that the new benchmark should provide a true reflection of the universe of investible securities, and a better measure of manager skill.

These fund changes took effect on 28 June 2019.

Russell Investments NZ Fixed Interest Fund

The following information provides the investment and exposures within the underlying investment portfolio. Please note that this information is indicative only and is provided for general purposes only.

Portfolio information

	Fund	Benchmark
Duration	4.1	5.2
Yield	2.0%	1.5%
Average quality/rating	AA-	AA
Number of issuers	41	19

Credit ratings

	Fund %	Benchmark %
AAA	7.3	0.3
AA Govt	40.3	51.9
AA other	36.9	43.9
A	10.9	3.9
BBB	2.6	0.0
NR	1.9	0.0

Top 10 issuers

	Fund %	Index %
New Zealand Government	40.3	51.8
Cash	6.6	8.6
New Zealand local Government	4.5	0.3
Kiwibank	4.4	0.0
F&P Finance	3.8	2.3
ANZ Bank New Zealand	3.5	2.3
Bank New Zealand	2.8	1.7
Commonwealth Bank of Australia	2.0	0.0
Motor Trade Finance Ltd	1.9	0.0
Dunedin City Treasury Ltd	1.8	1.2

Investment performance and positions

The following information provides investment performance and positions within the underlying portfolio. Please note that this information is indicative only and is provided for general information purposes only.

The performance in this fact sheet is gross of fees and tax. Investors should also refer to the quarterly Fund Update, which is available on www.iisolutions.co.nz and www.business.govt.nz/disclose.

Important information

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