

Russell Investments NZ Fixed Interest Fund

Report and Update

30 June 2016

Fund Commentary

The Russell Investments NZ Fixed Interest Fund returned 0.73% in June, against the benchmark (being a 75:25 weighted average of the S&P/NZX NZ Government Stock Index and the S&P/NZX A-Grade Corporate Index), which returned 0.87%.

Market Commentary

In performance terms, with a return of 0.87% (as measured by the a 75:25 weighted average of the S&P/NZX NZ Government Stock Index and the S&P/NZX A-Grade Corporate Index) the New Zealand bond market trailed global bond markets in June, which returned a staggering 1.99% (as measured by the Barclays Global Aggregate Index hedged to the New Zealand dollar).

The main event in fixed interest markets was the surprise win by the Brexit campaign in the United Kingdom's EU membership referendum. This is first and foremost a British political and economic crisis. However, it has wider global implications through policy uncertainty. The biggest concern for markets is that the Brexit vote may be the first of a wave of populist policies that sweep across Europe and the United States, threatening global trade and traditional geopolitical ties. Within fixed interest, credit markets have been affected by this more cautious environment. The market has also factored in more monetary stimulus, with interest rates expected to stay lower for longer.

In the week prior to the Brexit vote, market nerves eased and bond yields rose. At this time the NZ Dollar was also rising notably, with the Trade-Weighted Index up sharply since the Monetary Policy Statement on 11 June. Harbour felt the case for rate cuts was rising, based on comments the Reserve Bank had made about the sensitivity of currency movements to the inflation outlook, so decided to sharply reduce the size of the portfolio's short duration position. They implemented this strategy in the run up to the Brexit vote, before the possibility of a 'leave' vote grew. This proved beneficial meaning the portfolio managed to avoid what might have been a weaker performance (relative to the benchmark) over the month.

Investment Performance and Positions

As shown, the performance of the Fund is ahead of the benchmark for all periods to 30 June 2016.

Returns to 31 June 2016 (% gross of tax and fees)					
	Month	3 Months	1 Year	2 Years	3 Years
Fund	0.73%	1.74%	7.49%	8.06%	6.41%
Index*	0.87%	1.98%	7.58%	8.07%	6.05%

*As at 1 December 2014 the benchmark is 75:25 weighted average of the S&P/NZX NZ Government Stock Index and S&P/NZX A-Grade Corporate Index. Prior to this date the benchmark was the S&P/NZX NZ Government Stock Index.



Portfolio Information		
	Fund	Index*
Duration	3.98 years	4.21 years
Yield	2.60%	2.35%
Average Quality/Rating	AA	AA-
Number of issuers	37	15

Credit rating		
	Fund	Index*
AAA	4.8%	1.3%
AA+ - Government	47.5%	75.0%
AA to A-	42.0%	23.7%
BBB	4.7%	-
Non-rated	1.0%	-
Total	100.0%	-

Top 10 Issuers		
	Fund	Index*
NZ Government	45.7%	75.0%
NZLGF	6.2%	7.1%
ASB	5.6%	2.1%
Cash	2.0%	0.0%
Westpac	5.1%	1.8%
Kiwibank	3.1%	0.2%
BNZ	3.9%	3.6%
Rabobank	2.3%	1.8%
Queensland Treasury	2.1%	0.0%
ANZ	3.0%	2.5%

* 75% S&P/NZX NZ Government Stock Index, 25% S&P/NZX A-Grade Corporate Bond Index

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