



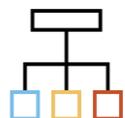
MONTHLY PERFORMANCE REPORT

GLOBAL FIXED INTEREST FUND – OCTOBER 2023

EMBRACE
THE POSS/IBLE®

Russell Investments Global Fixed Interest Fund

Ideal vehicle for core exposure to international bond markets



Truly global fixed income exposure

Our multi-style, multi-manager approach, complemented with internal systematic strategies, combines duration, country, credit, and currency strategies within a well-defined risk framework to provide a broadly diversified solution.



Multiple sources of return

Including both directional (designed to capitalise on the anticipated path of credit, interest rate and currency markets, including sector rotation) and nondirectional (security/issue selection) active strategies



Future focused

As part of our Net Zero commitment, the fund aims to reduce the carbon footprint of the corporate debt portion of the fund by 20% relative to the benchmark



Proven track record

Strategy used by NZ investors since 2005, with strong long-term results

Investment objective

To provide a total return, before costs and tax, higher than the Bloomberg Global Aggregate Index – New Zealand dollar Hedged over the long term (3yrs plus).

Key facts

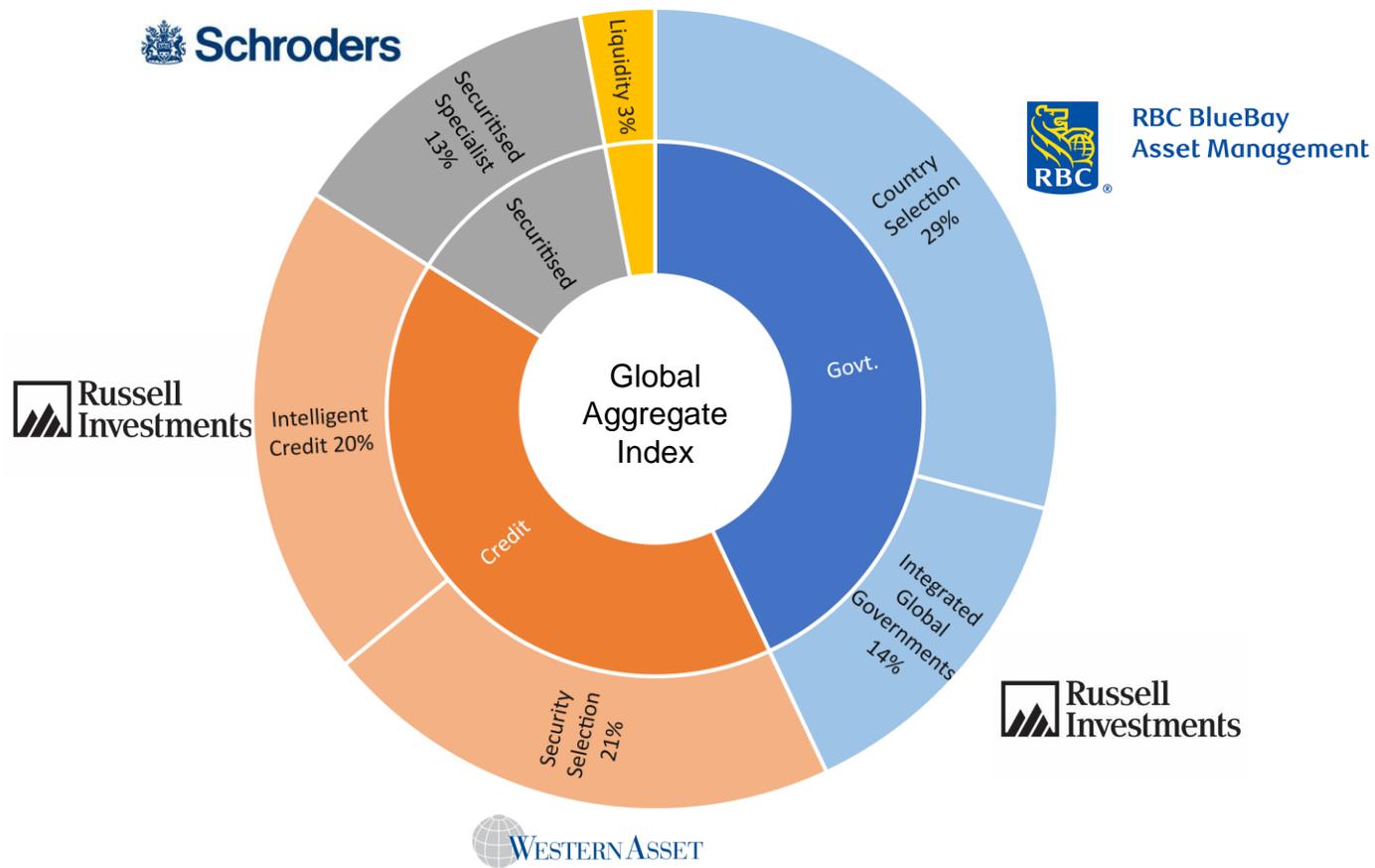
Fund structure	Portfolio Investment Entity
Benchmark	Bloomberg Global Aggregate Index (\$NZ Hedged)
Launch date	21 December 2011
Fund size	\$493.9M
Strategy size	\$1.13B
Portfolio Manager	Gerard Fitzpatrick, CFA
Target tracking error	1.75% p.a. (gross)
Target alpha	1% p.a. over market cycle
Buy / Sell Spreads	0.15% / 0.15%

Source: Russell Investments. All data as at 31 October 2023, and denominated in NZD unless otherwise stated. Strategy size refers to the PIE, AUT and Irish UCITs versions of the fund.

Fund Summary

Manager line up

Strategic Manager Allocations



Meet the Portfolio Manager



Gerard Fitzpatrick serves as the Head of Fixed Income Portfolio Management for Russell Investments. He is directly responsible for managing Fixed Income funds based in EMEA and ultimately responsible for the performance of all of Russell Investments' Fixed Income funds globally.

Fund Details

Issuer	FundRock NZ Limited
Custodian / Supervisor	Public Trust
Dividend Distribution	Semi-annually
Approx. Holdings	500
Management Fee	0.47%
Est. In-Fund Costs	0.12%
Total Annual Fund Charge (incl. GST)	0.59%

Source: Russell Investments. All data as at 31 October 2023. Underlying managers subject to change.

Fund Performance

Period ending 31 October 2023

Trailing performance

	1 month	3 months	Year-to-date	1 year	3 years	5 years	10 years	Since inception
Global Fixed Interest Fund (gross)	-0.71%	-3.10%	-0.77%	0.65%	-4.18%	0.56%	3.02%	3.94%
Global Fixed Interest Fund (net)	-0.76%	-3.24%	-1.26%	0.06%	-4.81%	-0.14%	2.26%	3.16%
Bloomberg Global Aggregate Bond Index NZD Hedged	-0.75%	-2.60%	0.11%	1.24%	-4.18%	0.14%	2.52%	3.06%
<i>Difference (gross)</i>	<i>0.04%</i>	<i>-0.50%</i>	<i>-0.88%</i>	<i>-0.59%</i>	<i>0.00%</i>	<i>0.42%</i>	<i>0.50%</i>	<i>0.88%</i>

Calendar year performance

	2016	2017	2018	2019	2020	2021	2022	2023 YTD
Global Fixed Interest Fund (gross)	6.83%	5.43%	1.87%	7.94%	8.43%	-1.06%	-12.03%	-0.77%
Global Fixed Interest Fund (net)	6.00%	4.61%	1.08%	7.11%	7.60%	-1.82%	-12.55%	-1.26%
Bloomberg Global Aggregate Bond Index NZD Hedged	5.82%	4.02%	1.82%	7.48%	5.41%	-1.23%	-11.75%	0.11%
<i>Difference (gross)</i>	<i>1.01%</i>	<i>1.41%</i>	<i>0.05%</i>	<i>0.46%</i>	<i>3.02%</i>	<i>0.17%</i>	<i>-0.28%</i>	<i>-0.88%</i>

Fund Commentary:

The Fund matched the benchmark over the month. Yields climbed, with the 10-year US Treasury yield rising above 5.0% for the first time in 16 years. Rates positioning was negative on aggregate. Overweights to US Treasuries (1-year T-bills) and 10-year Australian rates detracted. This was partly offset by an underweight to Japanese rates. Within currencies, an overweight to the US dollar and underweights to the Colombian peso, Mexican peso and Canadian dollar were effective. In credit, an overweight to US high yield detracted while an underweight to US investment grade credit was helpful. In hard currency emerging market debt, overweight exposure to Europe was detrimental. Lastly, an underweight to US securitised credit contributed positively.

Source: Russell Investments. All data as at 31 October 2023.

Portfolio Overview

Period ending 30 September 2023

Top 10 Issuers (Fund)

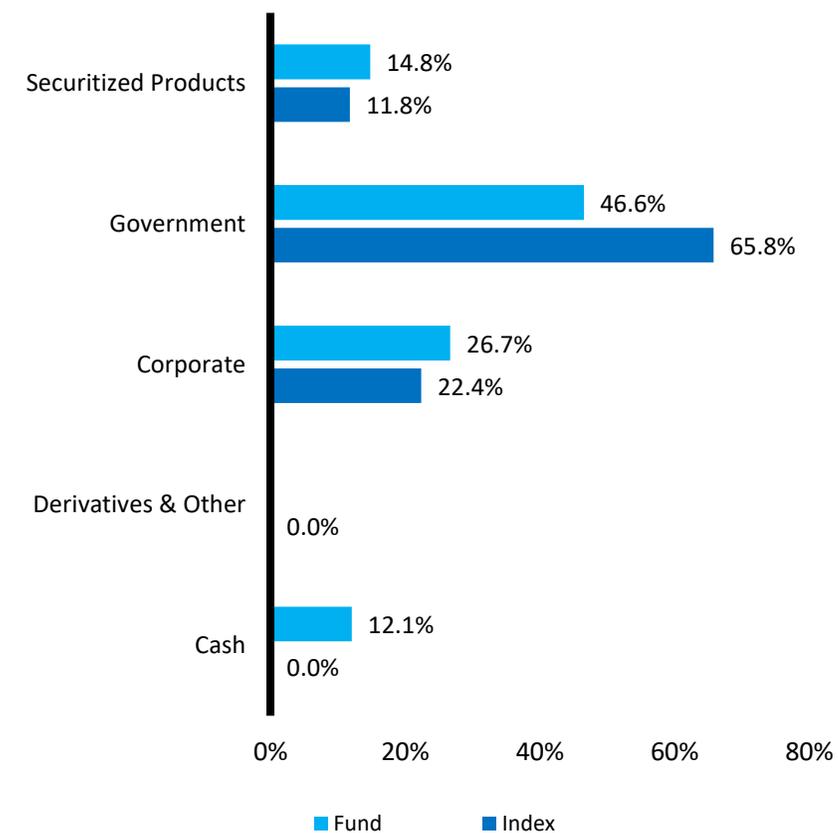
Issuers	Fund	Index
United States of America	14.91%	16.83%
Japan	7.76%	10.69%
Bundesrepublik Deutschland	3.57%	2.30%
Government National Mortgage Association 2	2.31%	2.40%
European Union	2.09%	0.59%
Estados Unidos Mexicanos	2.03%	0.48%
U.K. of Great Britain and Northern Ireland	1.87%	2.87%
Romania	1.79%	0.17%
Canada	1.21%	0.91%
Reino de Espana	1.18%	1.73%

Portfolio characteristics (Fund vs. Index)

	Fund	Index
Effective Duration	6.94	6.41
Yield to Maturity	6.07%	3.61%
Yield to Worst	6.06%	3.60%
Average Credit Rating	AA	AA
Average Life	9.65	8.51
Number of Issuers	402	3,899

Source: Russell Investments, Bloomberg as of 30 September 2023.

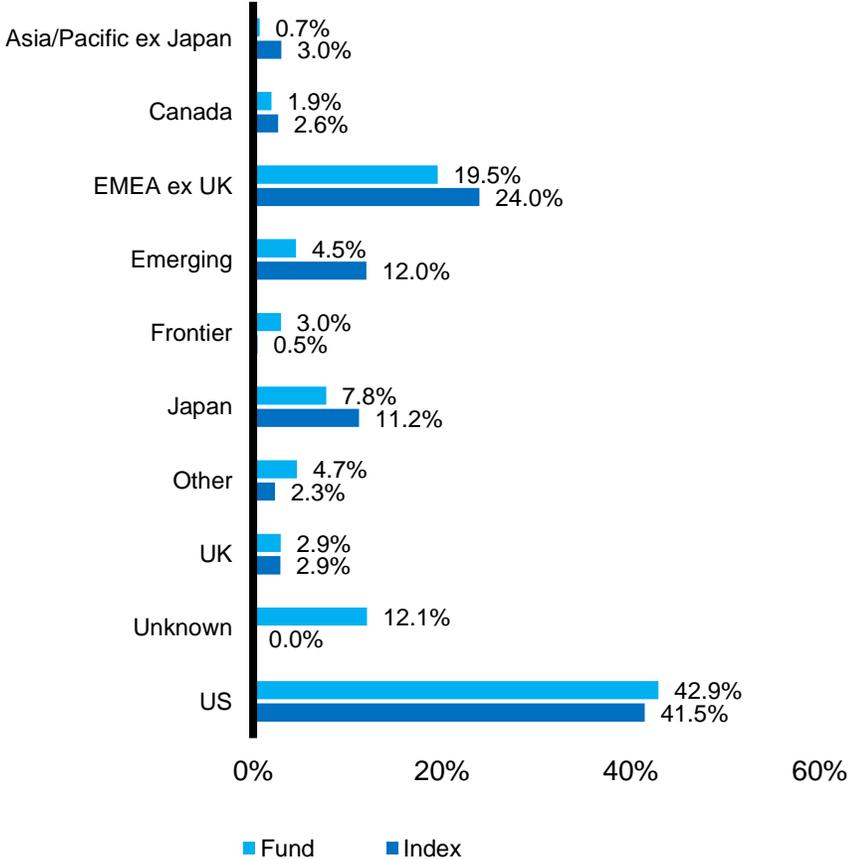
Sector Weights (Fund vs. Index)



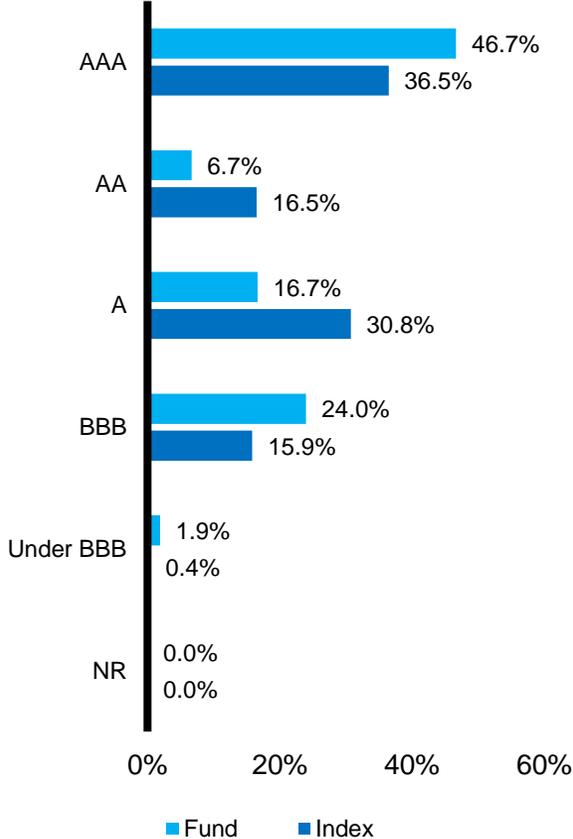
Portfolio Overview (cont.)

Period ending 30 September 2023

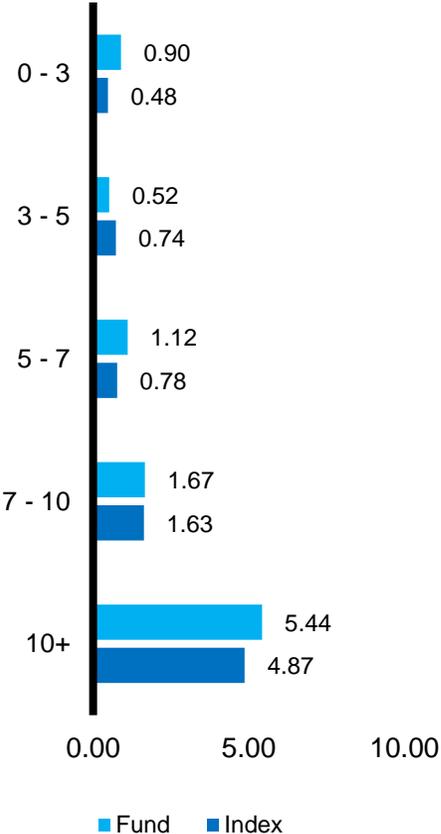
Country Weights



Credit Rating Allocation



Weighted Average Life (Yrs)



Source: Russell Investments, Bloomberg as of 30 September 2023. Net of fees assume highest possible fee and includes estimated in-fund-costs. Past performance is no guarantee of future results. Other and Unknown includes Cash/ Cash Equivalents and Derivatives.

Manager and Strategy Performance

Manager Performance Commentary

BlueBay underperformed the benchmark over the month. An overweight to US Treasuries, notably 1-year T-bills, as well as 5-year and 10-year issues was detrimental to performance. However, an underweight to rates in Japan, notably 10-year issues, was rewarded. Exposure to German bunds, UK gilts, rates in New Zealand and South Africa were also helpful. In hard currency emerging market debt an overweight to both high yield and investment grade credit in Europe detracted.

Schroders outperformed the negative benchmark return over the month. The underweight to US securitised passthrough was a key contributor this period. Overweight exposure to non-agency commercial mortgage-backed securities and an underweight to agency commercial mortgage-backed securities were also helpful. However, overweight exposure to collateralised loan obligations detracted, limiting further gains.

Credit specialist **Western Asset Management Company** outperformed the benchmark. Overweight exposure to European and UK high yield industrials contributed positively. However, overweights to US high yield financials and industrials were detrimental. An overweight to European high yield utilities was also ineffective. In hard currency emerging market debt, gains were modest with underweights to investment grade credit in Europe and the Middle East helping, however this was offset by underweights to investment grade credit in Asia and Latin America, which detracted.

Russell Investments Intelligent Credit strategy outperformed the benchmark in the period. Overweight exposure to European and UK high yield industrials was effective. Exposure to US investment grade credit also contributed positively, comprising an overweight financials and underweight industrials. However, an overweight to US high yield financials and industrials detracted. In hard currency emerging market debt, underweights to investment grade credit in Latin America and the Middle East were positive, adding to gains.

Russell Investments Integrated Governments strategy underperformed over the month. An overweight to US Treasuries was detrimental to performance, notably 15- and 30-year issues, although an overweight to 1-year T-bills was helpful. Overweight allocations to rates in Canada, UK gilts and German bunds were also unrewarded. Currency positioning was flat on aggregate. Trend was the best-performing factor mainly due to a short position in the Japanese yen. Carry was also positive due to positions in the Japanese yen and Swedish krona although a short position in the New Zealand dollar detracted. Value was negative due to exposure to the yen and Swedish krona although positioning in the Canadian dollar helped.

Portfolio Positioning & Changes

In Q3 we closed the tactical overweight to duration in the DFI model portfolio. The strategic overweight of +0.4 years remains in place. There is an overweight to the UK and UK rates where the economy looks to be weaker. Credit risk remains below strategic levels, with a tactical underweight in place reflecting caution at this stage in the cycle, where we expect spreads to widen as lagged effects from rate hikes feed into markets.

Source: Russell Investments, Bloomberg as of 31 October 2023. Past performance is no guarantee of future results. Performance against individual manager sector benchmarks.

Market Observations

The Bloomberg Global Aggregate Bond Index – NZDH was down 0.75% (NZD terms) in the month.

Rates: Early in the month, strong US nonfarm payroll figures, nearly double the market estimate, pushed 10-year Treasury yields close to 4.90%, a new 16-year high. However, bond yields fell amid a flight to safe-haven assets prompted by the conflict in the Middle East and comments from some Federal Reserve (Fed) policymakers that higher Treasury yields may have, in effect, tightened policy for the central bank. Notably, Dallas Fed President Lorie Logan, considered a hawkish policymaker, said there may be less of a need to raise rates due to sharply higher yields. Fed Chair Powell also said that higher long-term rates are doing some of the Fed's job for them. These comments followed the Fed's decision to keep rates unchanged at its September rate-setting meeting.

Meanwhile, inflation was higher than expected in September with the consumer price index (CPI) at 3.7% YoY, matching August's figure, just above the 3.6% forecast. However, core inflation was 4.1% versus 4.3% in August, the lowest for two years. Preliminary figures showed the economy grew more than expected in the third quarter, expanding at an annualised 4.9% versus the previous quarter's 2.1%, its fastest pace since the fourth quarter of 2021. This was largely due to strong consumer spending. Elsewhere, provisional manufacturing purchasing manager index (PMI) data improved in October to 50.0 from 49.8 in September, above the expected 49.5.

In the UK, inflation rose by 0.5% MoM in September, following a 0.3% rise in August; YoY inflation was unchanged at 6.7%. The MoM reading was in line with market estimates, while the annual figure was slightly above expectations of 6.6%. The higher-than-expected YoY figure triggered a sell-off in the gilts market with yields on 10-year gilts rising in the biggest daily move since July. Over the month, benchmark 10-year gilt yields rose seven bps to 4.51%. Meanwhile, the impact of persistent inflation and higher interest rates was highlighted in weaker consumer spending with retail sales volumes falling 0.9% MoM in September, far worse than the 0.4% increase in August and the -0.4% market forecast.

In Europe, the ECB left its benchmark deposit interest rate unchanged at 4.0% following 10 consecutive rate rises amid concerns over eurozone growth. This raised expectations that rates may have peaked in the region. Reflecting the weakness in the economy, flash PMI figures for October declined with the manufacturing PMI falling to 43.0 from 43.4, the services down to 47.8 from 48.7 and the composite lower at 46.5 from 47.2 in September.

Elsewhere, in Japan, the central bank announced a decision to allow yields on 10-year government bonds to rise above 1.0%, adjusting its yield curve control policy for the second time in three months. The bank said the 1.0% ceiling on 10-year yields would be "a reference", not a strict limit.

Credit: In contrast, to the rest of this year, investment grade credit outperformed high yield (HY) as the prospect of escalating conflict in the Middle East prompted a risk-off narrative, pressuring high yield credit markets. Both global and US investment grade spreads narrowed by seven bps to 120 and 112, respectively. European investment grade spreads tightened by a similar amount, six bps to 131. UK investment grade outperformed other markets with spreads narrowing by four bps to 132.

Currencies: The US dollar strengthened against most currencies over the month, including UK sterling, the Japanese yen, and commodity-sensitive currencies such as the Norwegian krone. In addition, the Israeli shekel weakened to levels not seen since 2015 due to the conflict in Gaza. The Turkish lira reached a record low after the central bank raised interest rates by 500 bps to 35%, the fifth consecutive increase.

Source: Russell Investments, Confluence, Bloomberg as of 31 October 2023. Past performance is no guarantee of future results. All returns are in US dollars, unless otherwise stated.

Russell Investments Global Fixed Interest Fund

Manager line up

Manager	Target Weight	Fixed Income Sector	Style/Strategy	Sleeve Characteristics
 RBC BlueBay Asset Management	29%	Government	Country Selection	<ul style="list-style-type: none"> Country selection, focusing on macroeconomic fundamentals
Headquarters: London, U.K.				
 Russell Investments	14%	Government	Integrated Global Governments	<ul style="list-style-type: none"> Will include the suite of security selection factors from the Currency and Rates Positioning Strategies This Rates strategy uses value and carry factors to capture global real yields and term premiums as a return source. Currency strategy uses a mix of carry, value and trend factor strategies and aims to access currency exposures in a more efficient and systematic way.
Headquarters: Seattle, U.S.				
 Schroders	13%	Securitised debt	Securitised specialist	<ul style="list-style-type: none"> Securitised specialist focusing on non-agency residential mortgages Focus on securitised sub-sector rotation as well as issuer and security selection
Headquarters: London, U.K.				

Source: Russell Investments, as at 31 October 2023. Any reference to specific money managers should not be taken as a recommendation. Money managers are subject to change. Indexes are unmanaged and cannot be invested in directly. For illustrative purposes only.

Russell Investments Global Fixed Interest Fund

Manager line up

Manager	Target Weight	Fixed Income Sector	Style	Manager Process Characteristics
 WESTERN ASSET Headquarters: California, U.S.	21%	Credit	Security Selection	<ul style="list-style-type: none"> Western employs a long-term fundamental value approach which will drive the majority of excess returns. Combines top-down fundamental macroeconomic views with bottom-up inputs from its specialised sector analysts to generate robust sector views. Duration and curve management is considered a secondary alpha source and is also used to complement and diversify credit positioning.
 Russell Investments Headquarters: Seattle, U.S.	20%	Credit	Intelligent Credit Strategy	<ul style="list-style-type: none"> Russell Investments strategy which seeks to exploit the credit value factor in which an asset may become mispriced relative to its intrinsic value. We partner with Moody's CreditEdge which is an established credit quantitative platform to calculate the default probability and intrinsic bond value This estimated default probability is converted into a fair value spread number, which allows us to identify bonds that are trading cheaply to intrinsic value.

Source: Russell Investments, as at 31 October 2023. Any reference to specific money managers should not be taken as a recommendation. Money managers are subject to change. Indexes are unmanaged and cannot be invested in directly. For illustrative purposes only.

Russell Investments fixed income team

Broad range of capabilities utilising best of multi-manager and low-cost systematic implementation



Global team manages c. NZ\$90B in fixed income strategies across range of sectors, regions and risk profiles



Russell Investments nominated six times since 2013 for Morningstar's NZ fixed interest fund manager category – winner in 2018 and 2021



Team manages c. \$1.9B for NZ clients across global, high yield and NZD strategies

Kate El-Hillow

Global Chief Investment Officer

Gerard Fitzpatrick, CFA, FRM, CAIA

Managing Director, Head of Fixed Income Portfolio Management

Adam Smears

Senior Director, Investment Research - Fixed Income

Albert Jalso, CFA

Senior Portfolio Manager, Fixed Income

Peter Dohnal, CFA

Portfolio Manager, Fixed Income

Clive Smith, CFA

Senior Portfolio Manager, ANZ Fixed Income

Strategic Beliefs



Term Risk Premium

We believe longer-term bonds will generate higher returns than comparable shorter-term bonds or cash. These higher returns result from expectations of future interest rates, liquidity preferences and practical constraints on borrowers and lenders.



Credit Risk Premium

We believe that bonds with credit risk will generate higher returns than those of comparable high-quality government securities over a market cycle.



Rates Factor Strategies

We believe that systematic long/short positions in interest rate markets can generate higher returns than cash. The sources of systematic return are carry and value; which respectively take into account inflation-adjusted yields and the steepness of the yield curve.



Currency Factor Strategies

We believe currencies can generate higher returns than cash using systematic strategies. The currency return sources are carry, value and trend.

For more information

Call Russell Investments at **+09 357 6633** or visit russellinvestments.co.nz

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