



MONTHLY PERFORMANCE REPORT

GLOBAL FIXED INTEREST FUND – NOVEMBER 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

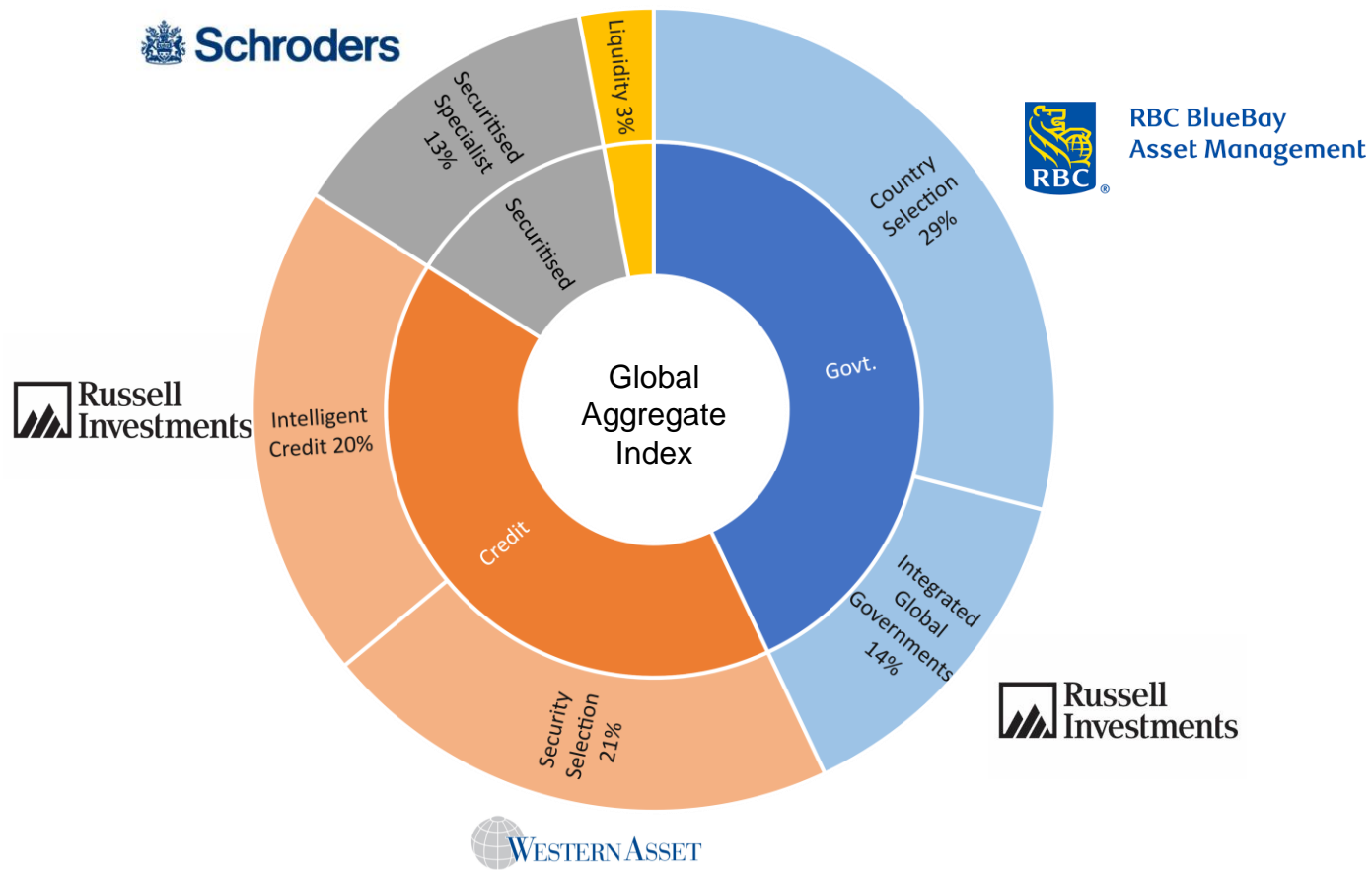
Fund structure	Portfolio Investment Entity
Benchmark	Bloomberg Global Aggregate Index (\$NZ Hedged)
Launch date	21 December 2011
Fund size	\$513.1M
Strategy size	\$1.13B
Portfolio Manager	Gerard Fitzpatrick, CFA
Target tracking error	1.75% p.a. (gross)
Target alpha	1% p.a. over market cycle
Buy / Sell Spreads	0.15% / 0.15%

Source: Russell Investments. All data as at 30 November 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 30 November 2023. Underlying managers subject to change.

Fund Performance

Period ending 30 November 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)	3.63%	0.67%	2.83%	1.88%	-3.47%	1.23%	3.36%	4.22%
Global Fixed Interest Fund (net)	3.58%	0.52%	2.27%	1.28%	-4.10%	0.52%	2.60%	3.45%
Bloomberg Global Aggregate Bond Index NZD Hedged	3.26%	0.73%	3.37%	2.13%	-3.32%	0.70%	2.85%	3.32%
<i>Difference (gross)</i>	<i>0.37%</i>	<i>-0.06%</i>	<i>-0.54%</i>	<i>-0.25%</i>	<i>-0.15%</i>	<i>0.53%</i>	<i>0.51%</i>	<i>0.90%</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%	2.83%
Global Fixed Interest Fund (net)	6.00%	4.61%	1.08%	7.11%	7.60%	-1.82%	-12.55%	2.27%
Bloomberg Global Aggregate Bond Index NZD Hedged	5.82%	4.02%	1.82%	7.48%	5.41%	-1.23%	-11.75%	3.37%
<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>-0.54%</i>

Fund Commentary:

The Russell Investments Global Fixed Interest Fund (NZD hedged) outperformed the benchmark in November. Interest rates positioning contributed positively to performance (in aggregate) over the period, including overweights to US two-, 10- and 15-year Treasuries. Overweights to Australian, New Zealand and Mexican government debt also added value. Partly offsetting this was an underweight to Japanese government bonds. Credit positioning added further value in November. In contrast, active currency positioning detracted from overall performance, driven in part by short Swiss franc, euro and British pounds positions. However, the Fund did benefit from a short US dollar position.

Source: Russell Investments. All data as at 30 November 2023.

Portfolio Overview

Period ending 31 October 2023

Top 10 Issuers (Fund)

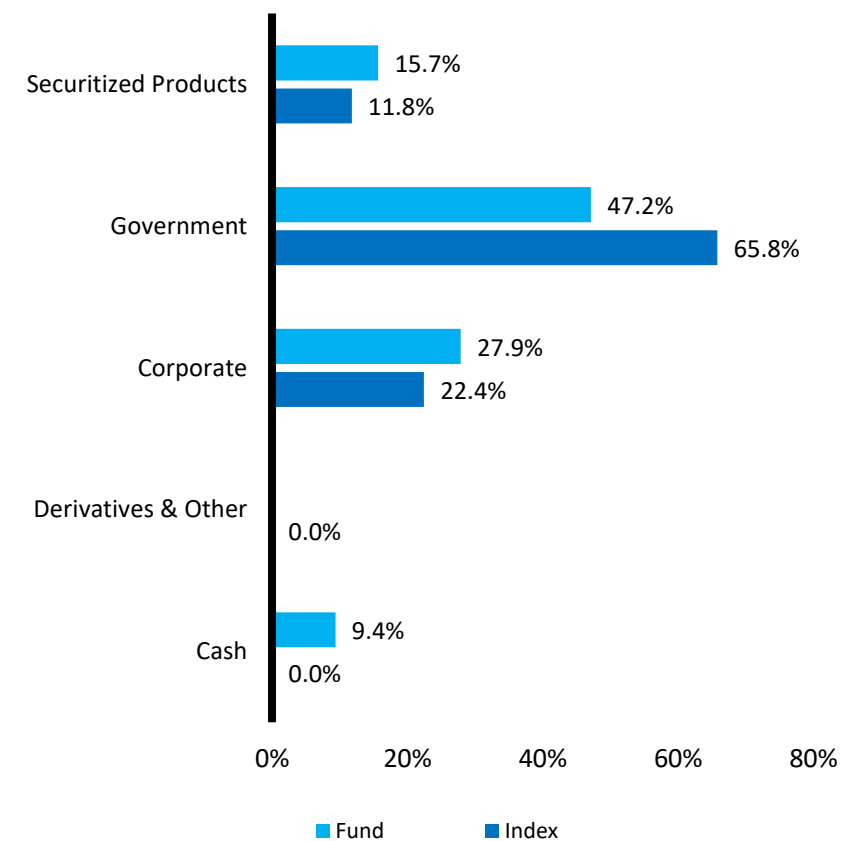
Issuers	Fund	Index
United States of America	13.20%	17.06%
Japan	9.62%	10.35%
Bundesrepublik Deutschland	3.48%	2.30%
Estados Unidos Mexicanos	2.42%	0.45%
Government National Mortgage Association 2	2.38%	2.41%
U.K. of Great Britain and Northern Ireland	1.93%	2.77%
Romania	1.87%	0.18%
European Union	1.54%	0.60%
Freddie Mac	1.42%	0.60%
Reino de Espana	1.24%	1.74%

Portfolio characteristics (Fund vs. Index)

	Fund	Index
Effective Duration	6.82	6.32
Yield to Maturity	6.05%	3.73%
Yield to Worst	6.04%	3.73%
Average Credit Rating	AA	AA
Average Life	9.95	8.44
Number of Issuers	401	3,896

Source: Russell Investments, Bloomberg as of 31 October 2023.

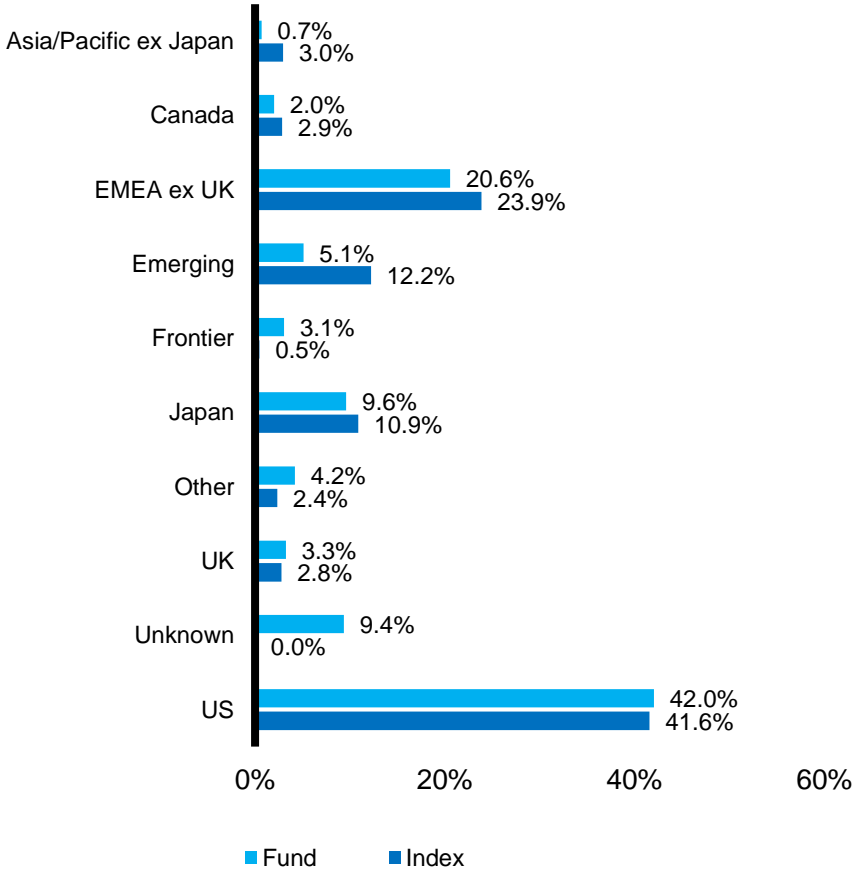
Sector Weights (Fund vs. Index)



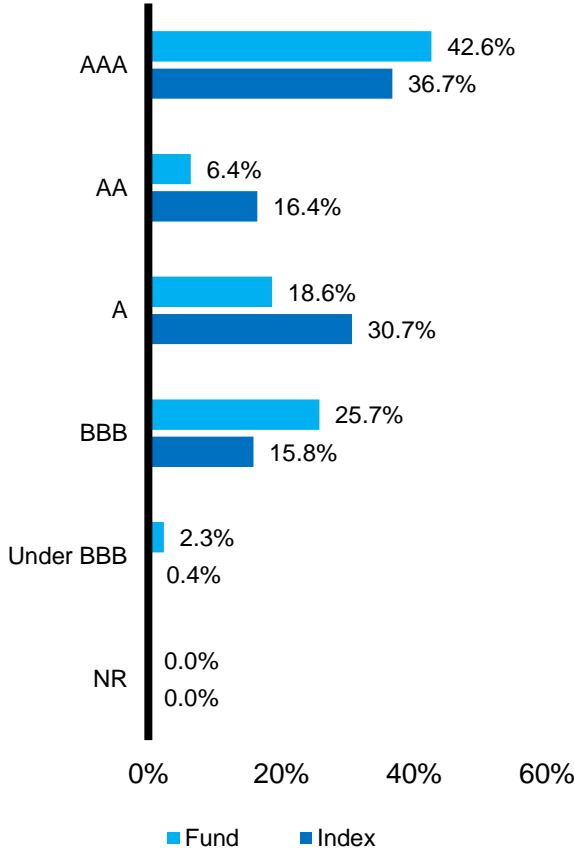
Portfolio Overview (cont.)

Period ending 31 October 2023

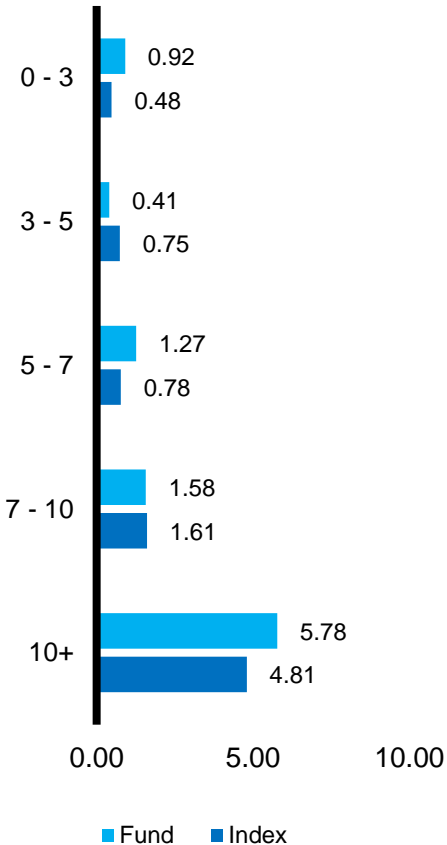
Country Weights



Credit Rating Allocation



Weighted Average Life (Yrs)



Source: Russell Investments, Bloomberg as of 31 October 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 was the best-performing strategy this month. An overweight to US Treasuries, notably 5- and 10-year issues contributed positively. Overweights to rates in New Zealand, South Africa, Mexico and German bunds were also beneficial. In contrast, underweights to rates in Canada, Japan, and UK gilts detracted from returns. In hard currency emerging market debt, overweights to both high yield and investment grade in Europe contributed positively. Exposure to Africa was also helpful.

Schroders underperformed the positive benchmark return in November. In contrast to October, the underweight to US securitised passthrough was a key detractor this month. Overweight exposure to non-agency commercial mortgage-backed securities was also detrimental. However, overweights to collateralised loan obligations and non-agency commercial mortgage obligations contributed positively, limiting further underperformance.

Credit specialist **Western Asset Management Company** was flat versus the benchmark. Overweight exposure to investment grade credit financials in the UK and Europe was rewarded. In the US an underweight to investment grade was ineffective but an overweight to high yield (financials, industrials) added to relative returns. In hard currency emerging market debt, underweights to investment grade credit in Europe and Asia were ineffective.

Russell Investments Intelligent Credit strategy finished behind the benchmark. In US credit overweights to high yield (financials, industrials) contributed positively but this was offset by an underweight to investment grade. Overweight exposure to European investment grade was helpful while an overweight to European high yield was ineffective. Positioning in UK credit was unrewarded with an overweight to high yield and an underweight to investment grade detracting. Within hard currency emerging market debt, an underweight to investment grade credit in Asia weighed while underweights to investment grade in the Middle East and Latin America, and an overweight to European investment grade were additive.

Russell Investments Integrated Governments strategy outperformed the benchmark. An overweight to US Treasuries was effective, notably 15-year issues, although an overweight to 5-year issues detracted. Overweight allocations to rates in Canada, Australia, UK gilts and German bunds contributed positively. However, an underweight to rates in South Korea was unhelpful. Currency positioning was negative on aggregate. Trend was negative, the worst-performing factor, due to positions in the Japanese yen, euro and UK sterling. Carry was the best-performing factor, helped by long positions in the New Zealand dollar and UK sterling. Value was also positive, with effective contributions from positioning in the euro, Norwegian krone and Japanese yen.

Portfolio Positioning & Changes

In terms of overall positioning, the Fund maintains a strategic long duration exposure versus the benchmark, with overweights to both US Treasuries and UK gilts. However, we did tactically trim our US duration exposure to bring it more in line with our model positioning. Credit risk remains below strategic levels, with a tactical underweight in place. This tactical underweight reflects our view that credit spreads will widen as the lag effects of interest rate hikes feed into markets.

Source: Russell Investments, Bloomberg as of 30 November 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 up 3.3% (NZD terms) in the month.

Rates: Early in the month, non-farm payroll figures, a key metric for the Fed, showed a marked fall in October, virtually half September's figure. Together with a notable drop in inflation, expectations strengthened that the Fed will refrain from raising interest rates further, and start to cut rates by mid-2024. Bond markets rallied following comments from Fed chair Powell. Although he stressed that further rate rises were an option if economic conditions warranted it, there was no clear sign that the central bank was prepared to tighten further and the market took his comments as a signal that the rate-rising phase is over.

Moody's cut its outlook on the US's credit rating to 'negative' from 'stable' citing high debt servicing costs and "entrenched political polarization". However, the US kept its AAA rating. Meanwhile, inflation fell more than expected in October, down to 3.2% YoY, from 3.7% in September. This was the first decline in four months and below forecasts of 3.3%. Core inflation eased to 4.0% from 4.1%. In a sign of the impact higher interest rates have had on consumers, retail sales fell 0.1% MoM in October, the first fall in seven months. Treasury yields fell further later in the month on jobless claims that were higher than expected. Comments from central bank governor Christopher Waller, a notable hawk, that appeared to signal looser monetary policy ahead added to the downward trajectory in yields. Over the month the yield on 10-year Treasuries fell 60 basis points (bps) to 4.33%.

In the UK, gilts rallied after the BoE left interest rates at 5.25% with comments from governor Andrew Bailey that officials "should not keep monetary policy restrictive for excessively long". However, he also warned that "it is much too early to be thinking about rate cuts" in response to rising speculation that policy would be eased next year and that investors had been putting "too much weight" on inflation data. Inflation eased sharply in October to 4.6% YoY (0.0% MoM) from 6.7% (0.5%) in September, compared to market expectations of 4.7% (0.1%).

In Europe, sentiment was boosted by expectations that interest rates have peaked. The European Central Bank president, Christine Lagarde attempted to dampen speculation over future rate cuts, commenting that interest rates are unlikely to change over "the next couple of quarters", warning that inflation may reaccelerate in the months ahead. Eurozone inflation fell by 0.5% MoM (2.4% YoY) in November following a 0.1% (2.9%) increase in October, according to flash estimates. This was below market expectations of -0.2% (2.7%).

Elsewhere, in Japan the yield on 10-year government bonds climbed from over two-month lows on reports inflation rose to 3.0% in October, the highest since July. Earlier in the month the yield approached 1.0% as the Bank of Japan made further adjustments to its yield curve control policy, before tracking lower amid growing speculation the Fed will not raise rates further.




Credit: In a reversal of trend from October, high yield (HY) credit outperformed investment grade as investors became increasingly confident that US policymakers have managed to engineer a "soft landing" for the economy and reached the end of their rate-rising cycle. As a result, investor appetite for riskier assets increased as the market looked ahead to interest rate cuts as early as May next year. US HY outperformed European HY, with spreads narrowing by 67 bps to 370 whereas European HY spreads tightened by 47 bps to 426.

Currencies: The US dollar weakened against most currencies as investors rebalanced towards risk assets. The greenback lost most ground versus the New Zealand and Australian dollars, the South Korean won, Swedish krona and the Swiss franc. The decline accelerated following Christopher Waller's comments that indicated interest rates were unlikely to rise further and could be cut if inflation continued to moderate.

Source: Russell Investments, Confluence, Bloomberg as of 30 November 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 30 November 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 30 November 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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