

Russell Australian Select Corp Bd ETF RCB

**Morningstar Analyst
Rating
Negative**

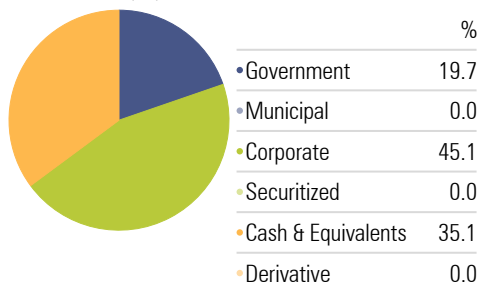
Morningstar Category
Australia Fund Bonds - Australia

Category Index
Bloomberg AusBond Composite 0+Y TR AUD

Prospectus Benchmark
DBIQ 0-4yr Inv Grade Aus Corp AUD

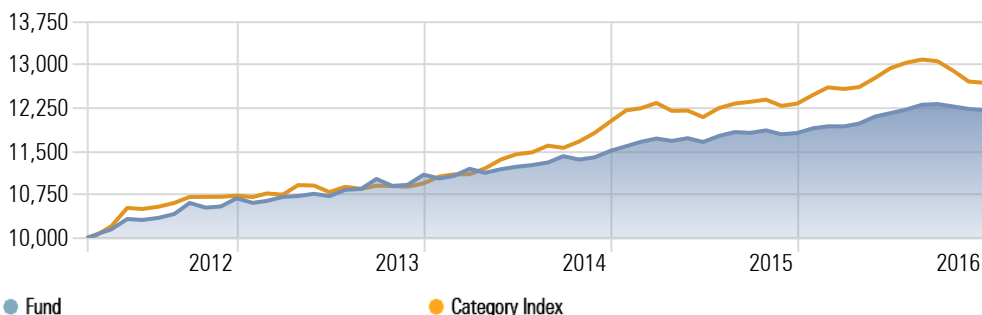
Fixed Income Asset Allocation

Portfolio Date: 30/11/2016



Performance

Time Period: 14/03/2012 to 31/12/2016



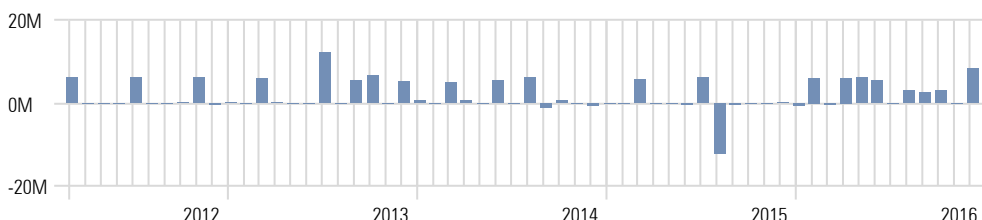
Snapshot

Inception Date	13/03/2012
Max Management Fee	0.28
Assets (millions)	118
Avg Dly Vol (3 Mo)	11,520
12 Month Yield %	3.45
Portfolio Date	11/01/2017
Distribution Freq	Quarterly
ETN	No
Replication Method	Physical-Full
Fund Lgl Structure	Open Ended Investment Company

Annual Returns %

	2012	2013	2014	2015	2016	YTD
Russell Australian Select Corp Bd ETF	—	3.83	3.71	2.70	3.34	—
Bloomberg AusBond Composite 0+Y TR AUD	7.70	1.99	9.81	2.59	2.92	—

Monthly Fund Flows (millions)



12 Month Yield (Trailing Distributions/Price)

Time Period: 01/03/2013 to 31/12/2016



Risk/Return Analysis (3 Years)

	ETF	Cat Index
Standard Deviation %	1.75	2.87
Arithmetic Mean %	0.27	0.42
Sharpe Ratio	0.54	0.96
R-Squared	23.22	—
Beta	0.30	—
Alpha %	0.14	—
Treynor Ratio	3.19	—
Sortino Ratio	0.81	1.53
Return Date (Mo-End)		31/12/2016

Morningstar Take

By Tim Wong, CFA 20/01/2016

Russell Australian Select Corporate Bond RCB is a low-cost portfolio of investment-grade Australian companies, though this highly concentrated investment offers little compensation for its risks. This exchange-traded fund tracks the DBIQ 0-4 year Investment Grade Australian Corporate Bond Index, aiming to build a relatively liquid and high-credit-quality portfolio of short- to intermediate-duration debt instruments. This is a worthy goal, and an index change on 1 December 2014 widened the scope of investments—it previously was only ever exposed to the four major banks. However, this portfolio remains very concentrated. In November 2015, RCB was roughly equally weighted to the four major Australian banks and Telstra. It is difficult to see how RCB adequately represents the Australian credit market (comprising more than 200 issues), and its ceiling of 10 securities greatly limits diversity either way. Compounding matters is the ETF's lowly yield to maturity. It was 3.1% in November 2015. This is marginally above the yield offered by alternatives such as BetaShares Australian High Interest Cash AAA and below some retail deposit accounts, suggesting little reward for the additional credit and liquidity risk taken. Fluctuating credit spreads are the main risk, while unexpected left-tail events (such as what happened to Volkswagen in 2015) to any of RCB's holdings would sting given the compact portfolio, though these occasions are rare. Ownership uncertainty hasn't been ideal. The London Stock Exchange Group acquired Russell in December 2014 and kept the index business, but it is selling Russell's asset management business (which manages this ETF). In October 2015, TA Associates emerged with a purchase scheduled for mid-2016 subject to relevant approvals. Elsewhere, RCB's 0.28% fee is reasonable and materially cheaper than most credit-oriented vehicles. Russell Corporate Bond's cost and simplicity are undeniable, but we're underwhelmed by its prospective reward for risk.

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Fundamental View

The Australian fixed-interest market, as represented by the Bloomberg AusBond Composite Index (formerly known as the UBS Composite Bond Index), comprises investment-grade Australian dollar debt of governments, government agencies, and corporations. This index is dominated by securities issued by the Australian government, states, and territories (known as semi-government issuance) and supranational organisations (bodies that span multiple countries, such as the Asian Development Bank). As at 30 September 2015, Australian Government debt comprised 45% of this index, semi-governments 26%, and supranationals 15%.

Credit comprises the remaining portion of this index. Financials (notably banks, but also diversified financials and real estate trusts) are the major players in the Australian credit market. This subset comprised about 9% of the total index at 30 September 2015, compared with just 2% combined for other corporate issuers. Within financials, the value of issuance is a roughly even split between Australian and overseas-domiciled financial institutions.

The dominant position of financials within the Australian credit market raises natural questions about its potential lack of diversity. A disruption in wholesale funding markets would seem particularly problematic (though perhaps less of a concern compared with previous years as banks recapitalised). And the leaning towards Australian institutions suggests that the country's property prices and financial conditions are particularly critical for the sector's health overall. These are valid considerations, though it's worth noting that the Bloomberg AusBond Credit Index 0+ Years contained more than 200 investable securities (albeit including financials). And while banks are undoubtedly significant, it is a stretch to describe this single industry (and only Australian banks at that) as representative of the total credit market.

Investing in credit carries the risk of credit spreads fluctuating and issuer default in the worst-case scenario. Credit spreads represent the premium paid for taking some level of default risk over a risk-free security, namely government bonds. Spreads can vary for several reasons but typically are related to factors affecting investor risk appetite, such as expectations of future economic growth, and the liquidity environment. Issuer-specific factors can also play a role, such as a company's financial risk profile changing as a result of a major deterioration or improvement in its balance sheet or perhaps on an upcoming corporate action or equity recapitalisation. Changing spreads are incorporated in the marked-to-market value of a corporate bond.

Fund Credit Quality

	ETF	Cat Avg
AAA %	0.00	50.03
AA %	79.96	23.94
A %	20.04	13.81
BBB %	0.00	10.59
BB %	0.00	1.10
B %	0.00	0.09
Below B %	0.00	0.01
Not Rated %	0.00	0.43

Cat Avg Date: Latest available. ETF Credit Quality Date: 31/03/2015

Current Fixed Income Sub Sector Breakdown

	ETF	Cat Avg
Coupon 0-1 %	0.00	1.37
Coupon 1-2 %	0.00	2.98
Coupon 2-3 %	0.00	16.22
Coupon 3-4 %	22.19	18.08
Coupon 4-5 %	18.54	20.76
Coupon 5-6 %	0.00	31.78
Coupon 6-7 %	0.00	2.85
Coupon 7-8 %	25.05	1.80
Coupon 8-9 %	0.00	0.32
Coupon 9-10 %	0.00	0.06
Coupon 10-11 %	0.00	0.00
Coupon 11-12 %	0.00	0.00
Coupon 12-15 %	0.00	0.15
Coupon 15+ %	0.00	0.00

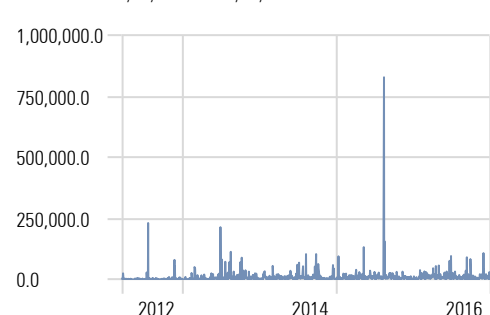
Market Performance Statistics

Time Period: 01/04/2012 to 31/12/2016

	ETF	Cat Index
Up Capture Ratio %	67.68	100.00
Down Capture Ratio %	27.16	100.00
Max Drawdown %	-1.10	-3.08
Max Gain %	22.51	30.38
Best Month %	1.84	3.10
Worst Month %	-1.10	-1.44

Daily Volume

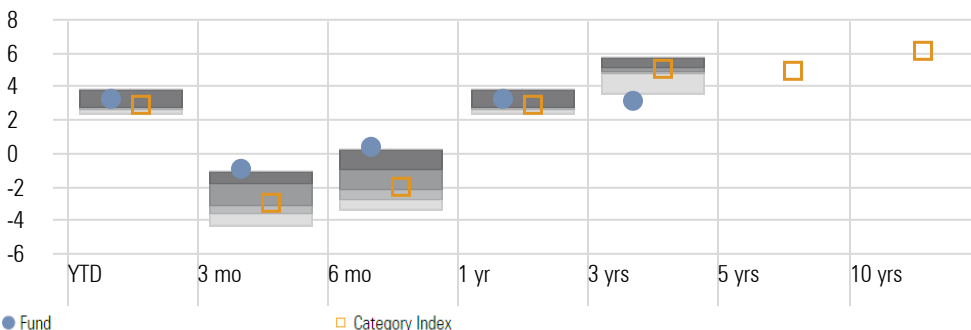
Time Period: 20/03/2012 to 31/12/2016



Trailing Returns Relative to Peer Group %

Peer Group (5-95%): Exchange Traded Funds - Australia - Bonds - Australia

■ Top Quartile ■ 2nd Quartile ■ 3rd Quartile ■ Bottom Quartile



	YTD	3 mo	6 mo	1 yr	3 yrs	5 yrs	10 yrs
Russell Australian Select Corp Bd ETF	3.34	-0.87	0.42	3.34	3.25	—	—
Bloomberg AusBond Composite 0+Y TR AUD	2.92	-2.86	-1.96	2.92	5.05	4.95	6.17

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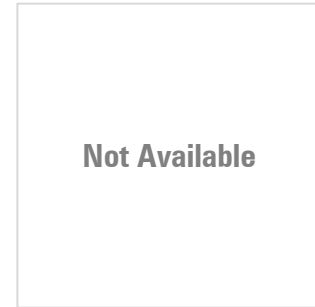
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Portfolio Construction

Russell Australian Select Corporate Bond gains exposure to investment-grade Australian corporate debt by tracking the DBIQ 0-4 year Investment Grade Australian Corporate Bond Index. Russell changed the index construction rules on 1 December 2014 to widen RCB's portfolio diversity. This index uses three criteria to define its universe--the ultimate parent is domiciled in Australia, the company or its parent is ASX-listed or has a class of ASX-listed shares, and the principal outstanding of its debt exceeds AUD 100 million. Eligible fixed-income securities require a term to maturity of between one to four years. Companies passing these criteria are sorted by debt issuance size. Investable issuers need to fall within the largest 75% of this group, aimed at ensuring liquidity and more-consistent bond pricing. Up to 10 securities can be held. If fewer than 10 securities are eligible, then another issue from the four major banks can be added. DBIQ weights these securities equally at each quarterly reconstitution to create the index. Before the December 2014 index change when Telstra became eligible, RCB had only ever had exposure to the four major Australian banks. RCB pays income distributions quarterly. Russell is the exclusive user of this index managed by Deutsche Bank. Investors can use RCB as a Supporting Player within a broader fixed-interest allocation, as it will be affected by changing spreads that typically fluctuate in line with expected economic growth.

Morningstar Fixed Income Style Box™

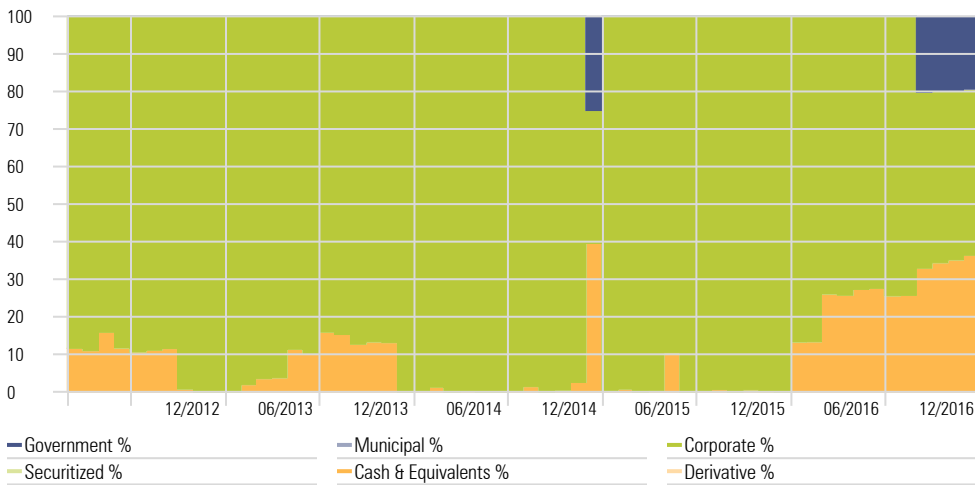


	ETF	Cat Avg		ETF	Cat Avg
Yield to Maturity %	3.05	2.28	% Asset in Top 10	67.58	49.81
12 Month Yield %	3.45	4.15	# of Holdings	13	527

Fixed Income Portfolio Statistics

	ETF	Cat Avg
Average Eff Duration	—	4.00
Average Eff Maturity	—	4.58
Average Coupon	5.28	4.41
Average Price	108.44	—
Average Credit Quality	—	A

Fixed Income Super Sector Breakdown History



Fixed Income Sub Sector Breakdown

	ETF	Cat Avg
Government %	0.00	31.34
Government Related %	10.53	46.23
Municipal Taxable %	0.00	8.89
Municipal Tax-Exempt %	0.00	0.00
Bank Loan %	0.00	0.00
Convertible %	0.00	0.02
Corporate Bond %	24.10	15.23
Preferred Stock %	0.00	0.04
Agency Mortgage-Backed %	0.00	0.01
Non-Agency Residential Mortgage-Backed %	0.00	2.20
Commercial Mortgage-Backed %	0.00	0.10
Covered Bond %	0.00	0.00
Asset-Backed %	0.00	0.14
Cash & Equivalents %	18.76	-28.25

Top 10 Holdings

Portfolio Date: 11/01/2017

	Maturity Date	Portfolio Weighting %
Aust & Nz Bk Grp 3.25%	03/06/2020	11.51
Westpac Bkg 3.25%	22/01/2020	11.47
Natl Australia Bk 3%	12/05/2021	10.19
Natl Australia Bk 4%	27/11/2019	10.07
Telstra Corp 7.75%	15/07/2020	9.79
Cmnwth Bk Of Aust 3.75%	18/10/2019	9.69
Westpac Bkg 7.25%	11/02/2020	9.24
Cmnwth Bk Of Aust 7.25%	05/02/2020	8.77
Telstra Corp 4.5%	13/11/2018	8.04
Aust & Nz Bk Grp 3.75%	25/07/2019	4.68

Bond Maturity Breakdown

	ETF	Cat Avg
1 to 3 Years %	28.40	12.00
3 to 5 Years %	37.38	31.03
5 to 7 Years %	0.00	21.14
7 to 10 Years %	0.00	16.67
10 to 15 Years %	0.00	6.00
15 to 20 Years %	0.00	1.76
20 to 30 Years %	0.00	3.20
30+ Years %	0.00	1.96

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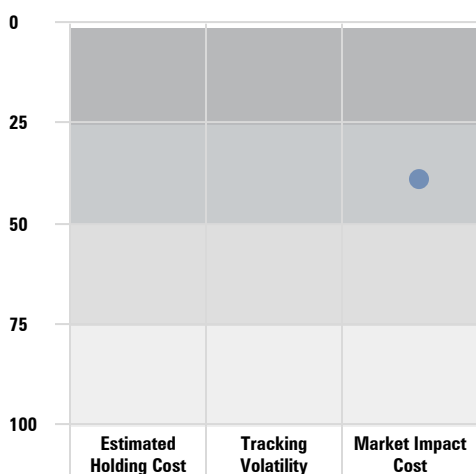
Fees

RCB costs 0.28%. This is marginally more expensive than rival fixed-interest ETFs, but RCB is the only vehicle that invests solely in corporate credit. Bid-ask spreads are towards the upper end of the bond ETF universe, given corporate bonds are less liquid than government bonds held by rivals.

Expenses

	ETF	Cat Avg
Max Management Fee	0.28	—
Prospectus Date	23/02/2012	—

Percentile Rank Relative to ETF Universe



Total Cost Analysis Data Points

Estimated Holding Cost %	—
Tracking Volatility %	—
Market Impact Cost %	0.19

Estimated Holding Cost is essentially the difference between the ETF return and the benchmark return and represents the realized cost of replicating the benchmark. Lower or even negative costs indicate that the ETF is doing a better job of matching its benchmark while minimizing costs.

Tracking Volatility measures the uncertainty with which an ETF tracks a benchmark. A higher tracking error indicates a wider confidence interval for expected performance around the benchmark. Lower numbers and ranks are better.

Market Impact Cost represents the liquidity of the ETF and is based on the average market price movement in percent caused by a \$100,000 trade in the ETF. Calculated as the residual volatility unexplained by movements in NAV and the previous day's premium or discount, scaled by average dollar volume traded. Lower numbers and ranks are better.

Alternatives

Russell Australian Select Corporate Bond is the only ETF listed in Australia that invests solely in corporate credit. Other fixed-income ETFs follow broader Australian bond market indexes or stick to government-issued debt. These ETFs include the iShares Composite Bond ETF IAF and Vanguard Australian Fixed Interest Index ETF VAF, which both track the Bloomberg AusBond Composite 0+ Year Index (formerly known as the UBS Composite Bond 0+ Index), Vanguard Australian Government Bond Index ETF VGB, which follows the Bloomberg AusBond Government 0+ Year Index, and Russell Australian Semi-Government Bond ETF RSM, which follows the DBIQ 0-5 Year Australian Semi-Government Bond Index. There are several managed funds that invest in Australian fixed-interest securities, though few share RCB's exclusive focus on Australian dollar paper issued by Australian companies. Investors may also gain Australian corporate-debt exposure through ASX-listed fixed-interest and hybrid securities, though it is important to be aware of and understand any embedded options and conditions specific to each security that may materially alter the expected size and timing of coupon interest payments as well as their liquidity.

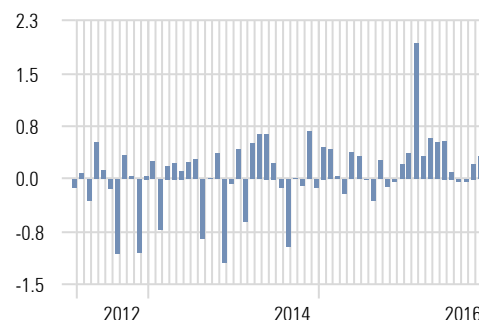
Russell offers RCB alongside its Australian Government Bond ETF (RGB) and Australian Semi-Government Bond ETF (RSM), allowing investors to select a particular type of fixed interest risk exposure.

Management

Longest Tenured Manager	Not Disclosed
Manager Tenure (Longest)	—
Manager Tenure (Average)	—
Exchange	AUSTRALIAN SECURITIES EXCHANGE LIMITED
Web Address	www.russell.com.au

Monthly Premium/Discount %

Time Period: 01/03/2012 to 31/12/2016



Research Report Disclosure Document

Currency

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Report Methodology

Performance

Performance data in this report is effective as at the last month-end, unless stated otherwise. Relative performance statistics (for example 'Up Capture Ratio') are calculated with respect to the relevant Category Index.

Portfolio Holdings

Portfolio holdings related data in this report is effective as at the month-end before last, unless stated otherwise.