

# **Russell Balanced Fund**

ARSN 094 799 345

## **Interim Report**

**For the half-year ended 31 December 2010**

# Russell Balanced Fund

ARSN 094 799 345

## Interim Report

### For the half-year ended 31 December 2010

#### Contents

	Page
Directors' Report	2
Auditor's Independence Declaration	4
Statement of comprehensive income	5
Statement of financial position	6
Statement of changes in equity	7
Statement of cash flows	8
Notes to the financial statements	9
Directors' declaration	13
Independent auditor's review report to the unitholders of Russell Balanced Fund	14

## Directors' Report

The directors of Russell Investment Management Ltd (ABN 53 068 338 974 AFSL No. 247185), the Responsible Entity of Russell Balanced Fund, present their report together with the financial report of Russell Balanced Fund ("the Fund") for the half-year ended 31 December 2010.

### Principal activities

The Fund typically invests according to a mix between growth and defensive investments as set out in the Fund's offer documents and in accordance with the provisions of the Fund's Constitution.

The Fund utilises a Multi Asset, Multi Style, Multi Manager investment approach which combines the individual strengths of multiple investment managers.

The Fund did not have any employees during the half-year.

There were no significant changes in the nature of the Fund's activities during the half-year.

### Directors

The following persons held office as directors of Russell Investment Management Ltd during the half-year or since the end of the half-year and up to the date of this report:

Alan N Schoenheimer  
Glenn T Smith  
Symon J Parish  
Christopher A Corneil  
Kenneth W Willman

### Review and results of operations

During the half-year, the Fund continued to invest in accordance with its investment objective and investment strategy as set out in the offer documents of the Fund and in accordance with the provisions of the Fund's Constitution.

#### Results

The performance of the Fund, as represented by the results of its operations, was as follows:

	Half-year ended	
	31 December 2010	31 December 2009
Operating profit/(loss) before finance costs attributable to unitholders (\$'000)	93,776	129,237
Distribution paid and payable (\$'000)	9,578	2,721
<i>Distributions - Class A</i>		
Distribution (cents per unit)	0.71	0.29
<i>Distributions - Class C</i>		
Distribution (cents per unit)	0.62	0.19

## Directors' Report (continued)

### Significant changes in state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Fund that occurred during the financial half-year under review.

### Likely developments and expected results of operations

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the offer documents of the Fund and in accordance with the provisions of the Fund's Constitution.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

### Rounding of amounts to the nearest thousand dollars

The Fund is an entity of the kind referred to in Class Order 98/100 (as amended) issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

### Auditor's independence declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

This report is made in accordance with a resolution of the directors.



Director

Sydney  
10 March 2011



## Auditor's Independence Declaration

As lead auditor for the review of Russell Balanced Fund for the half year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Russell Balanced Fund during the period.

*TJO Peel*

TJO Peel  
Partner  
PricewaterhouseCoopers

Sydney  
10 March 2011

**Statement of comprehensive income**

		Half-year ended	
		31 December 2010	31 December 2009
	Notes	\$'000	\$'000
<b>Investment income</b>			
Interest income from financial assets not held at fair value through profit or loss		105	153
Distribution income		14,113	6,012
Net gains/(losses) on financial instruments held at fair value through profit or loss		<u>84,151</u>	<u>126,515</u>
<b>Total net investment income/(loss)</b>		<u><b>98,369</b></u>	<u><b>132,680</b></u>
<b>Expenses</b>			
Management fees		4,352	3,303
Custody fees		57	42
Auditor's remuneration		15	19
Other operating expenses		<u>169</u>	<u>79</u>
<b>Total operating expenses</b>		<u><b>4,593</b></u>	<u><b>3,443</b></u>
<b>Operating profit/(loss) for the half-year</b>		<u><b>93,776</b></u>	<u><b>129,237</b></u>
<b>Finance costs attributable to unitholders</b>			
Distributions to unitholders	3	(9,578)	(2,721)
(Increase)/decrease in net assets attributable to unitholders	2	<u>(84,198)</u>	<u>(126,516)</u>
<b>Profit/(loss) for the half-year</b>		<u><b>-</b></u>	<u><b>-</b></u>
Other comprehensive income for the half-year		<u>-</u>	<u>-</u>
<b>Total comprehensive income for the half-year</b>		<u><b>-</b></u>	<u><b>-</b></u>

*The above statement of comprehensive income should be read in conjunction with the accompanying notes.*

**Statement of financial position**

	As at	
	31 December	30 June
	2010	2010
	\$'000	\$'000
<b>Assets</b>		
Cash and cash equivalents	2,644	10,200
Receivables	9,475	33,731
Financial assets held at fair value through profit or loss	4 <u>1,148,476</u>	<u>1,079,650</u>
<b>Total assets</b>	<u>1,160,595</u>	<u>1,123,581</u>
<b>Liabilities</b>		
Payables	837	795
Due to brokers - payable for securities purchased	-	5,734
Distributions payable	3 <u>6,787</u>	<u>31,243</u>
<b>Total liabilities (excluding net assets attributable to unitholders)</b>	<u>7,624</u>	<u>37,772</u>
<b>Net assets attributable to unitholders - liability</b>	2 <u>1,152,971</u>	<u>1,085,809</u>

*The above statement of financial position should be read in conjunction with the accompanying notes.*

**Statement of changes in equity**

	Half-year ended	
	31 December 2010 \$'000	31 December 2009 \$'000
<b>Total equity at the beginning of the financial half-year</b>	-	-
Total comprehensive income for the half-year	-	-
Transactions with unitholders in their capacity as equity holders	-	-
<b>Total equity at the end of the financial half-year</b>	<u>-</u>	<u>-</u>

Under Australian Accounting Standards, net assets attributable to unitholders are classified as a liability rather than equity. As a result there was no equity at the start or end of the half-year.

*The above statement of changes in equity should be read in conjunction with the accompanying notes.*

**Statement of cash flows**

	Half-year ended	
	31 December 2010 \$'000	31 December 2009 \$'000
<b>Cash flows from operating activities</b>		
Proceeds from sale of financial instruments held at fair value through profit or loss	337,419	197,539
Purchase of financial instruments held at fair value through profit or loss	(288,914)	(257,848)
Interest received	105	153
Management fees paid	(4,719)	(2,672)
Payment of other expenses	(377)	(85)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>43,514</b>	<b>(62,913)</b>
<b>Cash flows from financing activities</b>		
Proceeds from applications by unitholders	99,101	138,832
Payments for redemptions by unitholders	(126,310)	(70,429)
Distributions paid	(23,861)	(5,397)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>(51,070)</b>	<b>63,006</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(7,556)</b>	<b>93</b>
Cash and cash equivalents at the beginning of the half-year	10,200	4,479
<b>Cash and cash equivalents at the end of the half-year</b>	<b>2,644</b>	<b>4,572</b>

*The above statement of cash flows should be read in conjunction with the accompanying notes.*

**Contents of the notes to the financial statements**

	Page
1 Basis of preparation of the half-year report	10
2 Net assets attributable to unitholders	10
3 Distributions to unitholders	11
4 Financial assets held at fair value through profit or loss	11
5 Events occurring after the reporting period	12
6 Contingent assets and liabilities and commitments	12

## 1 Basis of preparation of the half-year report

This general purpose financial report for the interim half-year ended 31 December 2010 has been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standard AASB 134 *Interim Financial Reporting*.

This interim financial report covers Russell Balanced Fund ("the Fund") as an individual entity. The Fund was constituted on 17 October 2000 and will terminate on 16 October 2080 unless terminated earlier in accordance with the provisions of the Fund's Constitution.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2010 and any public announcements made in respect of Russell Balanced Fund during the interim reporting period.

The Responsible Entity of the Fund is Russell Investment Management Ltd ("the Responsible Entity"). The Responsible Entity's registered office is Level 29, 135 King Street, Sydney, NSW 2000. The financial report is presented in Australian dollars.

The Fund typically invests according to a mix between growth and defensive investments as set out in the Fund's offer documents and in accordance with the provisions of the Fund's Constitution.

The financial report was authorised for issue by the directors on March 2011. The directors of the Responsible Entity have the power to amend and reissue the financial report.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

## 2 Net assets attributable to unitholders

Movements in number of units and net assets attributable to unitholders during the half-year were as follows:

	Half-year / year ended			
	31 December 2010 No. '000	30 June 2010 No. '000	31 December 2010 \$'000	30 June 2010 \$'000
<b>Class A</b>				
Opening balance	1,015,073	656,646	770,448	458,457
Applications	78,961	491,915	62,906	401,662
Redemptions	(116,064)	(143,960)	(92,145)	(116,520)
Units issued upon reinvestment of distributions	11,827	10,472	9,037	8,159
Increase/(decrease) in net assets attributable to unitholders	-	-	59,216	18,690
Closing balance	989,797	1,015,073	809,462	770,448
<b>Class C</b>				
Opening balance	393,117	360,281	315,361	265,136
Applications	42,917	118,945	36,195	99,402
Redemptions	(40,388)	(86,830)	(34,165)	(72,096)
Units issued upon reinvestment of distributions	1,402	721	1,136	612
Increase/(decrease) in net assets attributable to unitholders	-	-	24,982	22,307
Closing balance	397,048	393,117	343,509	315,361
Total net assets attributable to unitholders - liability	1,386,845	1,408,190	1,152,971	1,085,809

## 2 Net assets attributable to unitholders (continued)

As stipulated within the Fund's Constitution, each unit represents a right to an individual unit in the Fund and does not extend to a right to the underlying assets of the Fund.

There are two separate classes of units. Each unit within the same class has the same rights as all other units within that class. Except for different management fee rates, the two different classes have the same preferences and restrictions.

## 3 Distributions to unitholders

The distributions were paid/payable as follows:

	Half-year ended			
	31 December 2010 \$'000	31 December 2010 CPU	31 December 2009 \$'000	31 December 2009 CPU
<b>Class A</b>				
Distributions paid	2,127	0.21	661	0.10
Distributions payable	<u>5,004</u>	<u>0.50</u>	<u>1,362</u>	<u>0.19</u>
	<u>7,131</u>	<u>0.71</u>	<u>2,023</u>	<u>0.29</u>
<b>Class C</b>				
Distributions paid	664	0.17	176	0.05
Distribution payable	<u>1,783</u>	<u>0.45</u>	<u>522</u>	<u>0.14</u>
	<u>2,447</u>	<u>0.62</u>	<u>698</u>	<u>0.19</u>
<b>Total distributions</b>	<u>9,578</u>		<u>2,721</u>	

## 4 Financial assets held at fair value through profit or loss

	As at	
	31 December 2010 Fair value \$'000	30 June 2010 Fair value \$'000
<b>Designated at fair value through profit or loss</b>		
Unlisted unit trusts	<u>1,148,476</u>	<u>1,079,650</u>
Total designated as at fair value through profit or loss	<u>1,148,476</u>	<u>1,079,650</u>
<b>Total financial assets held at fair value through profit or loss</b>	<u>1,148,476</u>	<u>1,079,650</u>
<b>Comprising:</b>		
<b>Unlisted unit trusts</b>		
Units in Australian trusts	1,148,325	1,078,568
Units in International trusts	<u>151</u>	<u>1,082</u>
Total unlisted unit trusts	<u>1,148,476</u>	<u>1,079,650</u>
<b>Total financial assets held at fair value through profit or loss</b>	<u>1,148,476</u>	<u>1,079,650</u>

## **5 Events occurring after the reporting period**

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Fund disclosed in the statement of financial position as at 31 December 2010 or on the results and cash flows of the Fund for the half-year ended on that date.

## **6 Contingent assets and liabilities and commitments**

There are no outstanding contingent assets, liabilities or commitments as at 31 December 2010 and 30 June 2010.

## Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial report and notes set out on pages 5 to 12 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Fund's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



Director

Sydney  
10 March 2011



## **Independent auditor's review report to the unitholders of Russell Balanced Fund**

### **Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Russell Balanced Fund (the "Fund"), which comprises the financial position as at 31 December 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Russell Balanced Fund.

#### *Directors' responsibility for the half-year financial report*

The directors of Russell Investment Management Ltd (the Responsibility Entity) are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

#### *Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Russell Balanced Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

---

**PricewaterhouseCoopers, ABN 52 780 433 757**

Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171

DX 77 Sydney, Australia

T +61 2 8266 0000, F +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.



## **Independent auditor's review report to the unitholders of Russell Balanced Fund (continued)**

### *Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Russell Balanced Fund is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

*TJO Peel*

TJO Peel  
Partner

Sydney  
10 March 2011