

Russell International Shares Fund

ARSN 092 808 261

Consolidated Interim Report

For the half-year ended 31 December 2010

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Directors' Report

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

Principal activities

The consolidated entity invests predominantly in a broad range of international shares listed on stock exchanges in developed international markets 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 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 consolidated entity'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 consolidated entity 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 consolidated entity, 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)	73,521	339,604
Distributions to unitholders of the parent entity (\$'000)	-	1,535
<i>Distributions - Class D</i>		
Distribution (cents per unit)	-	0.05

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 consolidated entity that occurred during the financial half-year under review.

Likely developments and expected results of operations

The consolidated entity 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 consolidated entity's operations will be affected by a number of factors, including the performance of investment markets in which the consolidated entity 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 consolidated entity 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 International Shares 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 International Shares Fund and the entity it controlled during the period.

A handwritten signature in blue ink that reads 'TJO Peel'.

TJO Peel
Partner
PricewaterhouseCoopers

Sydney
10 March 2011

Consolidated statement of comprehensive income

	Half-year ended	
	31 December 2010	31 December 2009
Notes	\$'000	\$'000
Investment income		
Interest income from financial assets not held at fair value through profit or loss	414	1,993
Dividend and distribution income	17,305	25,093
Net gains/(losses) on financial instruments held at fair value through profit or loss	61,341	314,933
Write-back of accruals	-	1,555
Other operating income	1,007	3,282
Total net investment income/(loss)	80,067	346,856
Expenses		
Responsible Entity's fees	293	413
Management fees	2,820	1,987
Custody fees	544	299
Auditor's remuneration	52	47
Transaction costs	1,296	1,575
Withholding taxes on foreign dividends	1,119	2,420
Other operating expenses	422	511
Total operating expenses	6,546	7,252
Operating profit/(loss) for the half-year	73,521	339,604
Finance costs attributable to unitholders		
Distributions to unitholders of the parent entity	3	-
(Increase)/decrease in net assets attributable to unitholders of the parent entity	2	-
	(73,521)	(338,069)
Profit/(loss) for the half-year	-	-
Other comprehensive income for the half-year	-	-
Total comprehensive income for the half-year	-	-

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

Consolidated statement of financial position

		As at	
		31 December	30 June
	Notes	2010	2010
		\$'000	\$'000
Assets			
Cash and cash equivalents		44,498	68,551
Deposits held with brokers for margin		8,828	17,120
Receivables		8,105	10,485
Due from brokers - receivable for securities sold		3,483	57,447
Investment in cash collateral trust	6	62,037	114,929
Financial assets held at fair value through profit or loss	4	<u>1,880,477</u>	<u>2,035,063</u>
Total assets		<u>2,007,428</u>	<u>2,303,595</u>
Liabilities			
Payables		1,534	1,821
Due to brokers - payable for securities purchased		2,988	3,609
Contractual obligation to repay cash collateral	6	62,037	114,929
Distributions payable to the unitholders of parent entity	3	-	64,603
Financial liabilities held at fair value through profit or loss	5	<u>3,882</u>	<u>18,201</u>
Total liabilities (excluding net assets attributable to unitholders of the parent entity)		<u>70,441</u>	<u>203,163</u>
Net assets attributable to unitholders of the parent entity - liability	2	<u>1,936,987</u>	<u>2,100,432</u>

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

Consolidated statement of changes in equity

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

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 consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

	Half-year ended	
	31 December 2010 \$'000	31 December 2009 \$'000
Cash flows from operating activities		
Proceeds from sale of financial instruments held at fair value through profit or loss	2,057,068	1,871,132
Purchase of financial instruments held at fair value through profit or loss	(1,790,968)	(1,750,115)
Dividends and distributions received	19,384	27,488
Interest received	414	1,992
Other income received	822	841
Management and Responsible Entity's fees paid	(3,637)	(1,864)
Payment of other expenses	(3,200)	(5,365)
Net cash inflow/(outflow) from operating activities	279,883	144,109
Cash flows from financing activities		
Proceeds from applications by unitholders	228,903	821,078
Payments for redemptions by unitholders	(527,509)	(965,377)
Distributions paid	(2,963)	-
Net cash inflow/(outflow) from financing activities	(301,569)	(144,299)
Net increase/(decrease) in cash and cash equivalents	(21,686)	(190)
Cash and cash equivalents at the beginning of the half-year	68,551	216,479
Effects of foreign currency exchange rate changes on cash and cash equivalents	(2,367)	1,054
Cash and cash equivalents at the end of the half-year	44,498	217,343

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

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1 Basis of preparation of the half-year report

This general purpose consolidated 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 consolidated financial report includes the consolidated entity consisting of Russell International Shares Fund and its controlled entity, Russell International Shares Tracker Fund for financial statements for the half-year ended 31 December 2010. The Fund was constituted on 1 December 1997. The Fund will terminate on 30 November 2077 unless terminated earlier in accordance with the provisions of the Fund's Constitution.

This interim consolidated financial report does not include all the notes of the type normally included in an annual consolidated financial report. Accordingly, this report is to be read in conjunction with the annual consolidated financial report for the year ended 30 June 2010 and any public announcements made in respect of Russell International Shares 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 consolidated financial report is presented in Australian dollars.

The consolidated entity invests predominantly in a broad range of international shares listed on stock exchanges in developed international markets as set out in the Fund's offer documents and in accordance with the provisions of the Fund's Constitution.

The consolidated financial statements were 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 of the parent entity

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

	31 December 2010 No. '000	Half-year / year ended		30 June 2010 No. '000
		30 June 2010 No. '000	31 December 2010 No. '000	
Class A				
Opening balance	739,486	465,370	536,786	328,268
Applications	73,396	485,054	53,793	369,022
Redemptions	(58,281)	(210,938)	(42,741)	(163,817)
Units issued upon reinvestment of distributions	15,145	-	10,912	-
Increase/(decrease) in net assets attributable to unitholders	-	-	18,332	3,313
Closing balance	<u>769,746</u>	<u>739,486</u>	<u>577,082</u>	<u>536,786</u>
Class B				
Opening balance	2,932	11,312	1,927	7,307
Applications	226	2,802	156	1,944
Redemptions	(785)	(11,182)	(544)	(7,839)
Units issued upon reinvestment of distributions	2	-	2	-
Increase/(decrease) in net assets attributable to unitholders	-	-	50	515
Closing balance	<u>2,375</u>	<u>2,932</u>	<u>1,591</u>	<u>1,927</u>

2 Net assets attributable to unitholders of the parent entity (continued)

	31 December		Half-year / year ended	
	2010	30 June	31 December	30 June
	No. '000	No. '000	\$'000	\$'000
Class C				
Opening balance	24,542	21,080	14,867	12,419
Applications	3,142	6,570	1,949	4,226
Redemptions	(2,895)	(3,108)	(1,787)	(1,983)
Increase/(decrease) in net assets attributable to unitholders	-	-	475	205
Closing balance	<u>24,789</u>	<u>24,542</u>	<u>15,504</u>	<u>14,867</u>
Class D				
Opening balance	2,146,227	3,645,864	1,546,852	2,541,563
Applications	236,710	920,504	173,005	698,665
Redemptions	(657,847)	(2,446,264)	(482,437)	(1,882,425)
Units issued upon reinvestment of distributions	70,122	26,123	50,726	18,566
Increase/(decrease) in net assets attributable to unitholders	-	-	54,664	170,483
Closing balance	<u>1,795,212</u>	<u>2,146,227</u>	<u>1,342,810</u>	<u>1,546,852</u>
Total net assets attributable to unitholders of the parent entity - liability	<u>2,592,122</u>	<u>2,913,187</u>	<u>1,936,987</u>	<u>2,100,432</u>

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 four 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 four different classes have the same preferences and restrictions.

3 Distributions to unitholders of the parent entity

The distributions were paid/payable as follows:

	31 December		Half-year ended	
	2010	31 December	31 December	31 December
	\$'000	2010	2009	2009
		CPU	\$'000	CPU
Class D				
Distributions paid	-	-	-	-
Distributions payable	-	-	1,535	0.05
	-	-	<u>1,535</u>	<u>0.05</u>
Total distributions	-	-	<u>1,535</u>	

No distribution was paid for Class A, B and C for the half-year ended 31 December 2010 and 31 December 2009.

4 Financial assets held at fair value through profit or loss

	As at	
	31 December 2010	30 June 2010
	Fair value \$'000	Fair value \$'000
Held for trading		
Derivatives	3,937	7,718
Total held for trading	<u>3,937</u>	<u>7,718</u>
Designated at fair value through profit or loss		
Equity securities	1,764,138	1,874,826
Equity securities on loan	59,647	110,796
Unlisted unit trusts	52,755	41,723
Total designated as at fair value through profit or loss	<u>1,876,540</u>	<u>2,027,345</u>
Total financial assets held at fair value through profit or loss	<u>1,880,477</u>	<u>2,035,063</u>
Comprising:		
Derivatives		
Foreign currency forward contracts	2,312	7,715
Foreign currency spot contracts	1	3
International share price index futures	1,624	-
Total derivatives	<u>3,937</u>	<u>7,718</u>
Equity securities		
Australian equity securities	4,422	11,694
International equity securities	1,759,716	1,863,132
Total equity securities	<u>1,764,138</u>	<u>1,874,826</u>
Equity securities on loan		
Australian equity securities	-	152
International equity securities	59,647	110,644
Total equity securities on loan	<u>59,647</u>	<u>110,796</u>
Unlisted unit trusts		
Units in Australian trusts	52,755	41,723
Total unlisted unit trusts	<u>52,755</u>	<u>41,723</u>
Total financial assets held at fair value through profit or loss	<u>1,880,477</u>	<u>2,035,063</u>

5 Financial liabilities held at fair value through profit or loss

	As at	
	31 December 2010 Fair value \$'000	30 June 2010 Fair value \$'000
Held for trading		
Derivatives	3,882	18,201
Total held for trading	3,882	18,201
Total financial liabilities held at fair value through profit or loss	3,882	18,201
Comprising:		
Derivatives		
International share price index futures	424	7,466
Foreign currency forward contracts	3,456	9,185
Foreign currency spot contracts	2	1,550
Total derivatives	3,882	18,201
Total financial liabilities held at fair value through profit or loss	3,882	18,201

6 Securities lending

The Fund has entered into securities lending arrangements with State Street Bank and Trust Company under which legal title to some of the Fund's assets may be transferred to another entity. The securities are loaned by State Street Bank and Trust Company, as agent of the Responsible Entity, to certain brokers and other financial institutions (the "Borrowers"). The Borrowers provide cash, securities, or letters of credit as collateral against loans in an amount between 102% and 105% of the fair value of the loaned securities. At the balance date the cash collateral provided by the Borrowers is invested in the cash collateral funds.

Risks and Indemnification

The risks and benefits of ownership of the loaned assets remain with the Fund. Consistent with the accounting policy for recognition and de-recognition of financial instruments, assets that have been loaned have not been derecognised (i.e. treated as having been sold). These financial instruments have been separately classified as loaned equity securities.

State Street Bank and Trust Company, as lending agent, indemnifies the Fund for replacement of any loaned securities (or, in certain circumstances, return of equivalent cash value) due to a Borrower default on a security loan. The Fund is also exposed to the benefits or losses of the investments in the cash collateral funds and consequently recognises as an asset the contractual right to the cash collateral funds.

7 Investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary as referred to in Note 1. The subsidiary is related party of the parent entity.

Name of entity	Country of domicile	Fair value of ownership interest		Equity holding **	
		31 December 2010	30 June 2010	31 December 2010	30 June 2010
		\$'000	\$'000	%	%
Russell International Shares Tracker Fund	Australia	298,344	64,322	100.00	100.00

** The proportion of ownership interest is equal to the proportion of voting power held.

8 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 consolidated entity disclosed in the consolidated statement of financial position as at 31 December 2010 or on the results and cash flows of the consolidated entity for the half-year ended on that date.

9 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 statements and notes set out on pages 5 to 14 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 and the consolidated entity's financial position as at 31 December 2010 and of their performance for the half-year ended on that date.
- (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 International Shares Fund

Report on the Half-Year Financial Report

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

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 International Shares 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.

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Independent auditor's review report to the unitholders of Russell International Shares 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 International Shares Fund is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated 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