

Fund Profile

An in-depth look at Russell Sector Funds

November 2010

Russell International Shares Fund

The Russell International Shares Fund employs broad diversification with a Multi-Style, Multi-Manager approach. This aims to capture sources of alpha while avoiding unnecessary risk at the total fund level and providing exposure to the international equities market.

For investors wishing to hedge their currency exposure to international shares, the Russell International Shares Fund - \$A Hedged is open for investment. This Fund uses currency hedging to hedge currency exposure back to Australian dollars.

The Russell approach









The Russell International Shares Fund (the Fund) employs a multi-style, multi-manager approach. It is broadly diversified and provides an ideal vehicle for an investor's core exposure to international sharesmarkets.

Fund objective

To aim to provide a total return, before costs and tax, higher than the the Fund's benchmark over the long term by providing exposure to a diversified portfolio of predominantly international shares.

Fund breakdown



Barrow Hanley Mewhinney	
Columbus Circle	
ICAP (US)	
Marsico	
MFS	
Pzena	
Sanders	
Snow	

"The Fund currently employs multiple managers. Their allocations reflect the managers' structural roles and our confidence in their alpha-generating capability."

Matt Beardsley

PORTFOLIO MANAGER
RUSSELL INVESTMENTS

Quick overview

Inception: January 1998

Benchmark: MSCI World Net Accumulation Index (AUD)*

AUM (AUD): \$2,001.64 million (as at 31/10/2010)

* As from 31 December 2010, the benchmark will change to the Russell Developed Large Cap – Net.

For more information: NSW/ACT/QLD/NT: 02 9229 5111; VIC/TAS/SA/WA: 03 9270 8111



Russell International Shares Fund

Fund design

Multiple managers and strategies are employed to capture sources of alpha.

In constructing the Fund, we seek to emphasise those return sources that provide the most reliable means of excess return while controlling risks we believe are uncompensated over

“We have evolved the structure of the Fund to incorporate managers pursuing pure global strategies”

the long term. Based on our capital markets research, we believe that stock selection is the most reliable alpha source and, therefore, emphasise this factor of return over country selection, sector biases, style tilts and capitalisation.

In addition to alpha generating strategies, the Fund employs a range of strategies designed to improve implementation efficiency. These include cash equitisation, regular rebalancing and the Russell Tracker Strategy. Share price index futures are used to equitise any cash holdings. The Tracker Strategy seeks to leverage the security selection capabilities of selected managers by utilising a centrally managed portfolio that closely tracks the aggregated return series of those selected managers. This strategy separates investment insights from implementation, focusing on low turnover with minimal dilution of active managers' stock exposures and positions.

Country and sector strategy

Patterns of managers' excess return variability have shown that country allocation has historically been the greatest source of benchmark relative risk. In recent years, as a result of globalisation, country has become less important as a source of risk, while global sector risk has

become more important. At the same time, investment managers have increasingly sought to develop investment processes that were more effective across borders.

“The Fund currently employs multiple managers running a combination of US, Non-US and global assignments”

Responding to these changes in market risk structure and managers' investment processes, we have evolved the structure of the Fund to incorporate managers pursuing pure global strategies. These managers generally complement the US and Non-US managers in the Fund, by bringing a broader perspective, greater flexibility of style and more latitude to invest in countries that are outside the benchmark. Consequently, the Fund exhibits slightly higher country risk than historically, although risk levels on all dimensions such as country, sector and capitalisation, remain low when compared to peers.

Manager strategy

In addition to managing the Fund's country and sector bets, multiple managers and strategies are employed to reduce scenario risk. The strategies are in the form of multiple investment styles (e.g. growth, core and value).

At the total Fund level, our goal is to reduce dependency on a particular economic scenario by creating an aggregate portfolio of managers that provide opportunities to outperform in different environments.

The Fund uses managers that stay within a well-defined universe of stocks with specific characteristics, as well as those that are more 'nomadic' in nature, rotating across markets and market segments based on their perceived

alpha potential. In the US segment, each of the managers run their portfolios against US style benchmarks so that they are complementary in risk and style terms. While style is less well-defined within the universe of Non-US and global equity managers, we have nevertheless tried to use managers that are distinctive in terms of philosophy in order to achieve process diversification throughout the structure.

Russell International Shares Fund

Current structure

The Fund currently employs multiple managers running a combination of US, Non-US and global assignments. Within each group, the managers are diversified by style. The allocations to individual managers reflect each one's structural role and importance as well as our confidence in their alpha-generating capability. There is no particular number of targeted managers. The actual number reflects the availability of high quality strategies that we have identified through our research while trying to achieve a high degree of diversification among

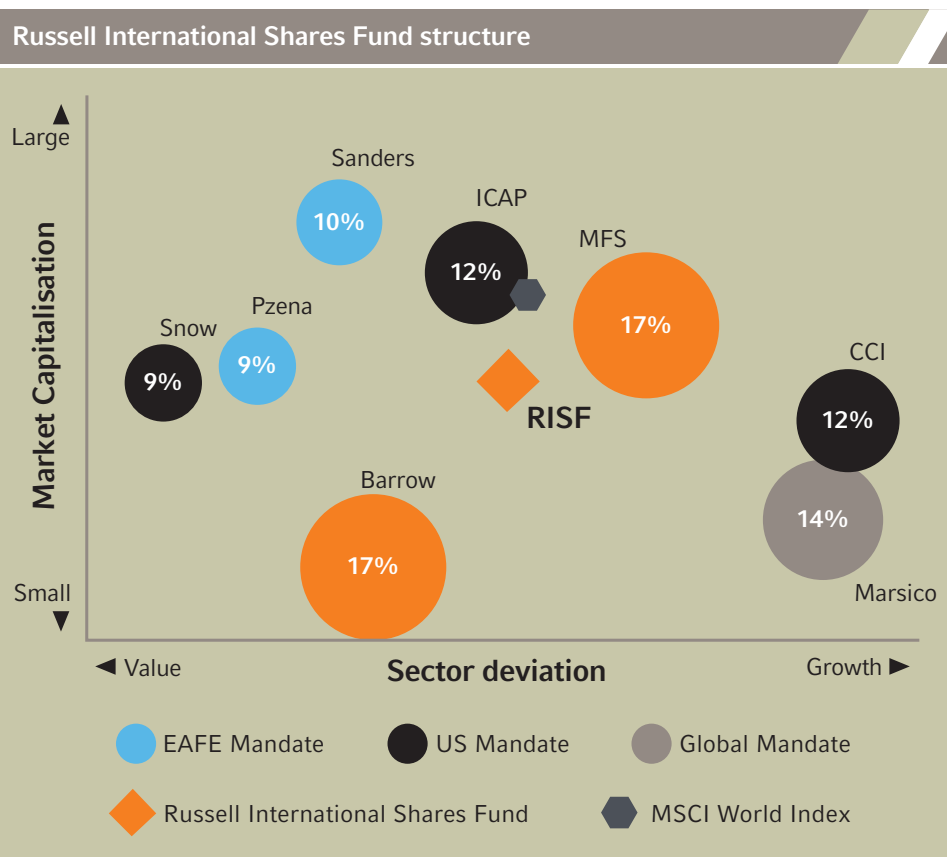
managers styles. In the future we will continue to evolve the structure to ensure that it represents our best ideas.

Currency hedging

Currency hedging in the Fund is limited. Each manager has guidelines such that the Fund overall will not be more than 10% hedged. We limit

hedging because currency exposure has been an important contributor to the diversification benefit of international investing, and the Fund's benchmark is not hedged. Consequently, in the absence of convincing evidence that managers can consistently add value from hedging, we limit this source of potential risk.

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Manager descriptions and strategies

MFS Institutional Advisors (MFS) Growth: valuation sensitive (non-US)

MFS's investment style is based on fundamental research and a flexible approach to growth-at-a-reasonable-price investing. There is a strong emphasis on 'quality' companies, which MFS defines as companies with sustainable, above-average returns on investment and positive free cash flow.

Institutional Capital Corporation (ICAP) Value: US

ICAP, based in Chicago, seeks to invest in underpriced securities with a clear catalyst for price appreciation. Focusing on seasoned large capitalisation companies, it screens and analyses stocks for value (relative to their own history, other stocks in the industry and the market as a whole) and improving earnings estimates, to identify stocks expected to gain in the next 12 to 18 months.

Russell International Shares Fund

Marsico Capital Management (Marsico)

Growth: global

Marsico employs an active growth style featuring rigorous bottom-up fundamental analysis within an informed macroeconomic framework. The integration of these two approaches results in a thematic growth style. A key strength of Marsico is its experienced, close-knit team of four portfolio managers and dedicated global industry analysts.

Columbus Circle Investors (CCI)

Growth: Momentum (US)

CCI searches for stocks that exhibit rapid growth over the short-term by focusing on momentum and earnings revisions characteristics at the early stages of development. This is combined with a top-down approach which determines the relative attractiveness of various segments of the market. One of the key strengths of CCI is its strong contacts with company management, suppliers, Wall Street analysts and the media. This gives the manager a competitive advantage when setting consensus expectations (i.e. the base line for measurement) of the key factors it considers such as industry dynamics.

Pzena Investment Management

(Pzena)

Value: market oriented (global)

Pzena is a value manager that seeks to buy companies that are trading at low price to normalised earnings, which current earnings are below historical averages. Through fundamental balance sheet and income statement analysis they build a concentrated final

portfolio of 40-50 stocks. Pzena is a firm with a strong research focus and significant experience and balance sheet expertise.

Snow Capital Management (Snow)

Value: Large cap (US)

The firm focuses on financially sound companies selling at relatively low valuations that are largely disliked by the sell-side analyst community. The firm also emphasizes financial quality and free cash flow with the view that this will enable a company to withstand near-term business pressures.

Barrow Hanley, Mewhinney & Strauss, LLC (Barrow Hanley)

Value: non-US

Barrow Hanley is a boutique investment firm that emphasises a bottom up, long-term, value-oriented approach to investing in non-US equities. The firm seeks to identify companies across the full capitalisation spectrum that are trading at a discount to intrinsic value, have an above average yield, are run by quality management, and are experiencing positive fundamental change. Barrow Hanley tends to hold a greater proportion of small capitalisation stocks, positioning the portfolio in a generally less efficient segment of the market and where active management skill is often more rewarded. The combination of valuation, momentum, and revision factors allows the manager to take advantage of a range of behavioural inefficiencies in the market.

Sanders Capital (Sanders)

Value: global

Sanders' primary focus is on investing in companies with depressed valuations due to transitory issues. They seek to identify stocks that are fundamentally mispriced on a normalised earnings basis. However they seek also to capture the return premium associated with factors that create anxiety among investors. Anxiety may stem from adverse macroeconomic conditions, unsettling industry specific issues or troubling developments unique to a company.

Sanders employs an all-capitalisation approach but tends to invest in larger capitalisation companies across all countries, including emerging markets..