

Annual Financial Report

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# Russell Cash Collateral Fund

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For the year ending 30 June 2011

**Russell Cash Collateral Fund**  
**Financial statements**  
**For the year ended**  
**30 June 2011**

# Russell Cash Collateral Fund

## Financial statements

### For the year ended

### 30 June 2011

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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 Cash Collateral Fund, present their report together with the financial statements of Russell Cash Collateral Fund (the "Fund"), for the year ended 30 June 2011.

### Principal activities

The Fund invests in assets such as cash deposits, bank bills, floating rate notes and other cash equivalent products as set out in the Fund's offer documents and in accordance with the provisions of the Fund's Constitution.

The Fund did not have any employees during the year.

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

### Directors

The following persons held office as directors of Russell Investment Management Ltd during the year or since the end of the 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 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:

	Year ended	
	30 June 2011	30 June 2010
Operating profit/(loss) before finance costs attributable to unitholders (\$'000)	24,080	24,834
Distribution paid and payable (\$'000)	22,550	19,356
<i>Distributions</i>		
Distribution (cents per unit)	5.20	4.02

## Directors' report (continued)

The key differences between net assets for unit pricing purposes and net assets as reported in the financial statements prepared under Australian Accounting Standards have been outlined below:

	Year ended	
	30 June 2011 \$'000	30 June 2010 \$'000
Net assets for unit pricing purposes	551,702	555,000
Difference between net market value (for unit pricing) and fair value (for financial statements) of financial assets held at fair value through profit or loss	(294)	(443)
Effect of classification of net assets attributable to unitholders as liabilities	<u>(551,408)</u>	<u>(554,557)</u>
Net assets under Australian Accounting Standards	<u>-</u>	<u>-</u>

### Distribution

Distributions of income generally occur monthly with a final annual distribution as at 30 June each year. Realised capital gains are distributed only at 30 June each year. A detailed summary of the Distributions to unitholders for the year can be found in note 8 of the financial statements.

### Options

There were no options over interests in the Fund at any time during the year.

### 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 year.

### Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may significantly affect:

- (i) the operations of the Fund in future financial years, or
- (ii) the results of those operations in future financial years, or
- (iii) the state of affairs of the Fund in future financial years.

### Likely developments and expected results of operations

The Fund will continue to be managed in accordance with the investment objective and strategy 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.

Further information on likely developments in the operations of the Fund and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Fund.

## Directors' report (continued)

### Indemnification and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to either the officers of Russell Investment Management Ltd or the auditors of the Fund. So long as the officers of Russell Investment Management Ltd act in accordance with the Fund's Constitution and the Law, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund. The auditors of the Fund are in no way indemnified out of the assets of the Fund.

### Fees paid to and interests held in the Fund by the Responsible Entity or its associates

Fees paid to the Responsible Entity and its associates out of Fund property during the year are disclosed in note 11 of the financial statements.

No fees were paid out of Fund property to the directors of the Responsible Entity during the year.

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the financial year are disclosed in note 11 of the financial statements.

### Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in note 7 of the financial statements.

The value of the Fund's assets and liabilities is disclosed in the statement of financial position and derived using the basis set out in note 2 of the financial statements.


### Environmental regulation

The operations of the Fund are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

### Rounding of amounts to the nearest thousand dollars

The Fund is an entity of the kind referred to in Class Order 98/0100 (as amended) issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

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

  
Director

Sydney  
23 September 2011

## Statement of comprehensive income

		Year ended	
		30 June	30 June
	Notes	2011	2010
		\$'000	\$'000
<b>Investment income</b>			
Interest income from financial assets not held at fair value through profit or loss	4	21,611	20,377
Net gains/(losses) on financial instruments held at fair value through profit or loss	6	2,972	4,894
Other operating income		-	147
<b>Total net investment income/(loss)</b>		<u>24,583</u>	<u>25,418</u>
<b>Expenses</b>			
Management fees	11	315	369
Custody fees		135	135
Auditor's remuneration	5	26	18
Other operating expenses		<u>27</u>	<u>62</u>
<b>Total operating expenses</b>		<u>503</u>	<u>584</u>
<b>Operating profit/(loss)</b>		<u>24,080</u>	<u>24,834</u>
<b>Finance costs attributable to unitholders</b>			
Distributions to unitholders	8	(22,550)	(19,356)
(Increase)/decrease in net assets attributable to unitholders		<u>(1,530)</u>	<u>(5,478)</u>
<b>Profit/(loss) for the year</b>		-	-
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<u>-</u>	<u>-</u>

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

**Statement of financial position**

		As at	
	Notes	30 June 2011 \$'000	30 June 2010 \$'000
<b>Assets</b>			
Cash and cash equivalents	9	476,153	421,241
Receivables		2,180	1,366
Financial assets held at fair value through profit or loss	10	<u>77,817</u>	<u>134,054</u>
<b>Total assets</b>		<u>556,150</u>	<u>556,661</u>
<b>Liabilities</b>			
Payables		139	117
Distributions payable	8	<u>4,603</u>	<u>1,987</u>
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<u>4,742</u>	<u>2,104</u>
<b>Net assets attributable to unitholders - liability</b>	7	<u>551,408</u>	<u>554,557</u>
		<u>-</u>	<u>-</u>

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

**Statement of changes in equity**

	Year ended	
	30 June 2011 \$'000	30 June 2010 \$'000
<b>Total equity at the beginning of the financial year/period</b>	-	-
Profit/(loss) for the year	-	-
Other comprehensive income	-	-
Total comprehensive income	<u>-</u>	<u>-</u>
Transactions with owners in their capacity as owners	-	-
<b>Total equity at the end of the financial year/period</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 year.

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

## Statement of cash flows

		Year ended	
		30 June	30 June
		2011	2010
Notes		\$'000	\$'000
<b>Cash flows from operating activities</b>			
	Proceeds from sale of financial instruments held at fair value through profit or loss	2,748,838	3,377,841
	Purchase of financial instruments held at fair value through profit or loss	(2,679,136)	(3,303,568)
	Interest received	10,391	12,642
	Management and Responsible Entity's fees paid	(298)	(375)
	Payment of other expenses	(270)	(351)
12	<b>Net cash inflow/(outflow) from operating activities</b>	<u>79,525</u>	<u>86,189</u>
<b>Cash flows from financing activities</b>			
	Proceeds from applications by unitholders	3,105,318	3,842,588
	Payments for redemptions by unitholders	(3,109,997)	(3,938,013)
	Distributions paid	(19,934)	(19,063)
	<b>Net cash inflow/(outflow) from financing activities</b>	<u>(24,613)</u>	<u>(114,488)</u>
	<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>54,912</b>	<b>(28,299)</b>
	Cash and cash equivalents at the beginning of the year/period	421,241	449,538
	Effects of foreign currency exchange rate changes on cash and cash equivalents	-	2
9	<b>Cash and cash equivalents at the end of the year</b>	<u>476,153</u>	<u>421,241</u>

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

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## 1 General information

These financial statements cover Russell Cash Collateral Fund ("the Fund") as an individual entity. The Fund was constituted on 5 August 2008. The Fund will terminate on 30 November 2077 unless terminated earlier in accordance with the provisions of the Fund's Constitution.

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 statements are presented in the Australian currency.

The Fund invests in assets such as cash deposits, bank bills, floating rate notes and other cash equivalent products as set out in the Fund's offer documents and in accordance with the provisions of the Fund's Constitution.

The financial statements were authorised for issue by the directors on September 2011. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following text.

### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, and the Fund's Constitution.

The financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are expected to be recovered or settled within twelve months, except for investments in financial assets and net assets attributable to unitholders. The amount expected to be recovered or settled within twelve months after the end of each reporting period cannot be reliably determined.

#### *Compliance with International Financial Reporting Standards*

The financial statements of the Fund also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### (b) Financial instruments

#### (i) Classification

The Fund's investments are classified as at fair value through profit or loss. They comprise:

- Financial instruments held for trading

Derivative financial instruments such as futures, forward contracts, options and interest rate swaps are included under this classification. The Fund does not designate any derivatives as hedges in a hedging relationship.

- Financial instruments designated at fair value through profit or loss upon initial recognition

These include financial assets and financial liabilities that are not held for trading purposes and which may be sold.

These are investments in fixed interest securities.

Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the Responsible Entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

#### (ii) Recognition/derecognition

## 2 Summary of significant accounting policies (continued)

### (b) Financial instruments (continued)

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

#### (iii) Measurement

##### Financial assets and liabilities held at fair value through profit or loss

At initial recognition, the Fund measures a financial asset at its fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market price used for financial assets held by the Fund is the current bid price and the quoted market price for financial liabilities is the current asking price.

The fair value of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. Accordingly, there may be a difference between the fair value at initial recognition and amounts determined using a valuation technique. If such a difference exists, the Fund recognises the difference in profit or loss to reflect a change in factors, including time, that market participants would consider in setting a price.

Further details on how the fair values of financial instruments are determined are disclosed in note 3(e).

#### (iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### (c) Net assets attributable to unitholders

Units are redeemable at the unitholders' option and are classified as financial liabilities as the Fund is required to distribute its taxable income. The units can be put back to the Fund at any time for cash based on the redemption price. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the reporting period if unitholders exercised their right to redeem units in the Fund.

### (d) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts, if any, are shown within borrowings in the statement of financial position.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Fund's main income generating activity.

## 2 Summary of significant accounting policies (continued)

### (e) Investment income

Interest income is recognised in the statement of comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

### (f) Expenses

All expenses, including Responsible Entity's fees, management fees and custodian fees, are recognised in the statement of comprehensive income on an accruals basis. The Responsible Entity is entitled under the Fund's Constitution, to be reimbursed for certain expenses incurred in administering the Fund.

### (g) Income tax

Under current legislation, the Fund is not subject to income tax as unitholders are presently entitled to the income of the Fund.

Financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed so that the Fund is not subject to capital gains tax.

Realised capital losses are not distributed to unitholders but are retained in the Fund to be offset against any realised capital gains. If realised capital gains exceed realised capital losses, the excess is distributed to unitholders.

The benefit of imputation credits and foreign tax paid are passed on to unitholders.

In the event, that the Fund incurs withholding tax imposed by certain countries on investment income, this income is recorded gross of withholding tax in the statement of comprehensive income.

### (h) Distributions

In accordance with the Fund's Constitution, the Fund distributes income adjusted for amounts determined by the Responsible Entity, to unitholders by cash or reinvestment. The distributions are recognised in profit or loss as finance costs attributable to unitholders.

The distributions are payable on monthly basis each year.

### (i) Increase/decrease in net assets attributable to unitholders

Income not distributed is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognised in profit or loss as finance costs.

## 2 Summary of significant accounting policies (continued)

### (j) Foreign currency translation

#### *Functional and presentation currency*

Items included in the Fund's financial statements are measured using the currency of the primary economic environment in which it operates ("the functional currency"). This is the Australian dollar, which reflects the currency of the economy in which the Fund competes for funds and is regulated. The Australian dollar is also the Fund's presentation currency.

### (k) Due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the year. Trades are recorded on trade date, and for equities normally settled within three business days. A provision for impairment of amounts due from brokers is established when there is objective evidence that the Fund will not be able to collect all amounts due from the relevant broker. Indicators that the amount due from brokers is impaired include significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation and default in payments.

### (l) Receivables

Receivables may include amounts for dividends and interest. Dividends are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment in accordance with the policy set out in note 2(e) above. Amounts are generally received within 30 days of being recorded as receivables.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

### (m) Payables

Payables include liabilities and accrued expenses owing by the Fund which are unpaid as at the end of the reporting period.

The distribution amount payable to unitholders as at the end of each reporting period is recognised separately in the statement of financial position when unitholders are presently entitled to the distributable income under the Fund's Constitution.

### (n) Applications and redemptions

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are recorded gross of any exit fees payable after the cancellation of units redeemed.

## 2 Summary of significant accounting policies (continued)

### (o) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as custodial services and investment management fees have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) at a rate of 75%; hence investment management fees, custodial fees and other expenses have been recognised in profit or loss net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the statement of financial position. Cash flows relating to GST are included in the statement of cash flows on a gross basis.

### (p) Use of estimates

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For the majority of the Fund's financial instruments, quoted market prices are readily available. However, certain financial instruments, for example over-the-counter derivatives or unquoted securities, are fair valued using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel of the Responsible Entity, independent of the area that created them.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

For certain other financial instruments, including amounts due from/to brokers and payables, the carrying amounts approximate fair value due to the short-term nature of these financial instruments.

### (q) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The directors' assessment of the impact of these new standards (to the extent relevant to the Fund) and interpretations is set out below:

(i) *AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013)*

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption.

AASB 9 permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not traded.

The Fund has not yet decided when to adopt AASB 9. Management does not expect this will have a significant impact on the Fund's financial statements as the Fund does not hold any available-for-sale investments.

(ii) *Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011)*

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Fund will apply the amended standard from 1 July 2011. The amendment will not have any effect on the Fund's financial statements.

## 2 Summary of significant accounting policies (continued)

### (q) New accounting standards and interpretations (continued)

(iii) *AASB 2010-6 Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets (effective for annual reporting periods beginning on or after 1 July 2011)*

In November 2010, the AASB issued AASB 2010-6 *Disclosures on Transfers of Financial Assets* which amends AASB 1 First-time Adoption of Australian Accounting and AASB 7 Financial Instruments: Disclosures to introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. The amendments will not have any impact on the Fund's disclosures. The Fund intends to apply the amendment from 1 July 2011.

(iv) *Amendments to AASB 2010-4 Further amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective for annual reporting periods beginning on or after 1 July 2010 / 1 January 2011)*

In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The Fund does not expect that any adjustments will be necessary as the result of applying the revised rules.

### (r) Rounding of amounts

The Fund is an entity of the kind referred to in Class Order 98/0100 (as amended), issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

### (s) Deposits held with broker for margin

Margin accounts comprise cash held as collateral for derivative transactions. The cash is held by the broker and is only available to meet margin calls.

## 3 Financial risk management

The Fund's activities expose it to a variety of financial risks: market risk (including price risk, foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The Fund's overall risk management process focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Fund's financial performance. The Fund combines managers with varied investment styles to achieve returns in a broad range of market conditions and to manage exposure to risk through diversification.

The Fund's multi-manager process differentiates it from single-manager fund companies. The Fund delegates some of the management of its funds to external Investment Managers. The risk management process operates at a number of levels. In addition to monitoring investment activity and exposure at the point of execution by an Investment Manager, the Russell Portfolio Manager oversees and monitors the overall level of risk in the Fund.

### (a) Market risk

#### (i) Price Risk

The majority of the Fund's directly held financial assets and liabilities are fixed interest securities. These have exposure primarily to interest rate movement rather than price risk. As a result, there are little to no sensitivities to price risk. An analysis of interest rate risk is provided in paragraph (iii) below.

The Fund's investments in derivative instruments and unlisted unit trusts can be subject to market price risk arising from uncertainties about future prices of the instruments. Except for securities sold short, written options, and other derivatives, maximum risk resulting from financial instruments is determined by fair value of the financial instruments. Possible losses from securities sold short, written options and other derivatives can be unlimited.

### 3 Financial risk management (continued)

#### (a) Market risk (continued)

##### (i) Price Risk (continued)

Where financial instruments are denominated in currencies other than the Australian dollar, the price in the future will also fluctuate because of changes in foreign exchange rates. Paragraph (ii) below sets out how this component of price risk is managed and measured.

##### (ii) Foreign exchange risk

The majority of the Fund's assets are fixed interest securities denominated in Australian Dollars. Therefore, the Fund is not subject to significant amounts of risk due to fluctuations in the prevailing levels of foreign exchange rates.

##### (iii) Cash flow and fair value interest rate risk

The Fund is exposed to cash flow interest rate risk on financial instruments with variable interest rates. Financial instruments at fixed rates expose the Fund to fair value interest rate risk.

The Fund's interest bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis.

The Fund is indirectly invested in cash deposits, bank bills, floating rate notes and other cash equivalent products denominated in Australian Dollars. Derivatives may be employed for hedging and efficient portfolio management purposes.

The table below summarises the Fund's exposure to interest rate risks, excluding any exposure to interest rate futures. It includes the Fund's assets and liabilities at fair values, categorised by the earlier of contractual re pricing or maturity dates.

30 June 2011	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
<b>Assets</b>				
Cash and cash equivalents	118,342	357,811	-	476,153
Receivables	-	-	2,180	2,180
Financial assets held at fair value through profit or loss	-	77,817	-	77,817
<b>Liabilities</b>				
Payables	-	-	(139)	(139)
Distribution payable	-	-	(4,603)	(4,603)
Net exposure	<u>118,342</u>	<u>435,628</u>	<u>(2,562)</u>	<u>551,408</u>

### 3 Financial risk management (continued)

#### (a) Market risk (continued)

##### (iii) Cash flow and fair value interest rate risk (continued)

	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
30 June 2010				
<b>Assets</b>				
Cash and cash equivalents	120,053	301,188	-	421,241
Receivables	-	-	1,366	1,366
Financial assets held at fair value through profit or loss	-	134,054	-	134,054
<b>Liabilities</b>				
Payables	-	-	(117)	(117)
Distribution payable	-	-	(1,987)	(1,987)
<b>Net exposure</b>	<u>120,053</u>	<u>435,242</u>	<u>(738)</u>	<u>554,557</u>

The table below summarises the impact of an increase/decrease of interest rates on the Fund's operating profit and net assets attributable to unitholders through changes in fair value or changes in future cash flows. The analysis is based on the assumption that interest rates changed by +/- 260 basis points (2010: +/- 250 basis points) from the year end rates with all other variables held constant. The impact mainly arises from changes in the fair value of debt securities.

#### (b) Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit and net assets attributable to unitholders to interest rate risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates, historical correlation of the Fund's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

	Interest rate risk Impact on operating profit/Net assets attributable to unitholders	
	-260 bps (2010: -250 bps) \$'000	+260 bps (2010: +250 bps) \$'000
30 June 2011	(1,440)	1,440
30 June 2010	(13,882)	13,882

### 3 Financial risk management (continued)

#### (b) Summarised sensitivity analysis (continued)

Some limitations of the sensitivity analysis above are:

1. The models are based on historical data and cannot take account of the fact that future market price movements, correlations between markets and levels of market liquidity in conditions of market stress may bear no relation to historical patterns;
2. The market risk information is a relative estimate of risk rather than a precise and accurate number;
3. The market price information represents a hypothetical outcome and is not intended to be predictive; and future market conditions could vary significantly from those experienced in the past.

#### (c) Credit risk

The Fund is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when they fall due.

Credit risk primarily arises from investments in debt securities and from trading derivative products. Other credit risk arises from cash and cash equivalents, deposits with banks and other financial institutions and amounts due from brokers. None of these assets are impaired nor past due but not impaired. At the end of the reporting period the exposure to credit risk for cash and cash equivalents, deposits with banks and amounts due from brokers is considered low as all counterparties of the Fund have a rating of Investment Grade A- or higher (as determined by external credit rating agencies).

The Fund invests in debt securities which have an investment grade as rated by a well known rating agency. For unrated assets a rating is assigned using an approach that is consistent with rating agencies. While the Fund predominantly invests in investment grade securities, the Fund may also invest in non investment grade fixed interest securities and emerging market debt.

In addition, OTC financial derivative contracts have an exposure to counterparty risk such that the counterparty may become insolvent or otherwise incapable of meeting its obligations under a derivative contract. This includes the legal risk arising from a contract being unenforceable. Collateral may be pledged, generally by way of cash or cash equivalents, and held by the counterparty for open futures contracts, options and swap contracts.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets. An analysis of debt securities by rating is set out in the table below.

	As at	
	30 June 2011 \$'000	30 June 2010 \$'000
<b>Australian fixed interest securities</b>		
<b>Rating</b>		
AAA to AAA-	47,243	70,480
AA+ to AA-	7,472	18,765
A+ to A-	4,754	24,522
BBB+ to BBB-	14,965	16,412
BB+ to BB-	-	5
Total	<u>74,434</u>	<u>130,184</u>

### 3 Financial risk management (continued)

#### (c) Credit risk (continued)

	As at	
	30 June 2011 \$'000	30 June 2010 \$'000
<b>International fixed interest securities</b>		
<b>Rating</b>		
AAA to AAA-	2,585	3,111
BBB+ to BBB-	<u>798</u>	<u>759</u>
<b>Total</b>	<u><b>3,383</b></u>	<u><b>3,870</b></u>

All transactions in debt securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

#### (d) Liquidity risk

The Fund is exposed to daily cash redemptions of redeemable units. The liquidity risks associated with the need to satisfy shareholders' requests for redemptions are primarily mitigated by maintaining a pool of cash to satisfy usual levels of demand. In addition, the Fund may restrict redemptions on a temporary basis as detailed in the Product Disclosure Statement.

The Fund primarily holds investments that are traded in an active market and can be readily disposed. However it may invest in derivative contracts and fixed income securities that traded over the counter or secondary markets. These markets may be illiquid and as a result, the Fund may not be able to quickly liquidate its investments in these instruments at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as deterioration in the creditworthiness of any particular issuer or counterparty.

The Fund delegates some of liquidity risk management to external Investment Managers where they monitor their liquidity positions on a daily basis. In addition, the Russell Portfolio Manager also oversees and monitors the fund's liquidity risk and portfolio characteristics in details with the external manager at least quarterly.

The table below analyses the Fund's financial liabilities excluding gross settled derivative financial liabilities into relevant maturity groupings based on the remaining period to the earliest possible contractual maturity date at the year end date. The amounts in the table are contractual undiscounted cash flows.

	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	Over 12 months \$'000	No stated maturity \$'000
<b>At 30 June 2011</b>					
Payables	-	139	-	-	-
Distribution payables	4,603	-	-	-	-
Net assets attributable to unitholders	<u>551,408</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Undiscounted contractual cash flows	<u><b>556,011</b></u>	<u><b>139</b></u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>At 30 June 2010</b>					
Payables	-	117	-	-	-
Distribution payables	1,987	-	-	-	-
Net assets attributable to unitholders	<u>554,557</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Undiscounted contractual cash flows	<u><b>556,544</b></u>	<u><b>117</b></u>	<u>-</u>	<u>-</u>	<u>-</u>

### 3 Financial risk management (continued)

#### (e) Fair value estimation

The carrying amounts of all the Fund's financial assets and financial liabilities at the end of each reporting period approximated their fair values as all financial assets and liabilities not fair valued are short-term in nature.

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in profit or loss.

##### (i) Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

##### (ii) Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions.

For other pricing models, inputs are based on market data at the end of the reporting period. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

The fair value of derivatives that are not exchange traded is estimated at the amount that the Fund would receive or pay to terminate the contract at the end of the reporting period taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined as a net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date. The fair value of an option contract is determined by applying the Black Scholes option valuation model.

#### (f) Fair value hierarchy

The Fund classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

### 3 Financial risk management (continued)

#### (f) Fair value hierarchy (continued)

The determination of what constitutes 'observable' requires significant judgement by the Responsible Entity. The Responsible Entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The table below sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2011 and 30 June 2010.

As at 30 June 2011	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets</b>				
Financial assets designated at fair value through profit or loss at inception:				
Fixed income securities	-	77,817	-	77,817
<b>Total</b>	-	77,817	-	77,817

As at 30 June 2010	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets</b>				
Financial assets designated at fair value through profit or loss at inception:				
Fixed income securities	-	134,054	-	134,054
<b>Total</b>	-	134,054	-	134,054

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities, exchange traded derivatives, government treasury bills and certain sovereign obligations.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include, investment-grade corporate bonds and certain sovereign obligations, certain listed equities and over-the-counter derivatives. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded. Level 3 instruments include corporate debt securities and certain unlisted unit trusts. As observable prices are not available for these securities, the Responsible Entity has used valuation techniques to derive fair value.

### 4 Interest income

	Year ended	
	30 June 2011 \$'000	30 June 2010 \$'000
Cash and cash equivalents	4,594	5,698
Fixed income securities	17,017	14,679
	<u>21,611</u>	<u>20,377</u>

## 5 Auditor's remuneration

During the year the following fees were paid or payable for services provided by the auditor of the Fund:

	Year ended	
	30 June 2011 \$	30 June 2010 \$
<b>PricewaterhouseCoopers Australian firm</b>		
<i>Audit and other assurance services</i>		
Audit and review of financial statements	<u>12,625</u>	<u>17,634</u>
Total remuneration for audit services	<u>12,625</u>	<u>17,634</u>
<i>Taxation services</i>		
Tax compliance services	<u>13,315</u>	<u>-</u>
Total remuneration for taxation services	<u>13,315</u>	<u>-</u>
Total remuneration of PricewaterhouseCoopers	<u>25,940</u>	<u>17,634</u>

## 6 Net gains/(losses) on financial instruments held at fair value through profit or loss

Net gains/(losses) recognised in relation to financial assets and financial liabilities held at fair value through profit or loss:

	Year ended	
	30 June 2011 \$'000	30 June 2010 \$'000
<b>Financial assets</b>		
Net gain/(loss) on financial assets held for trading	-	16
Net gain/(loss) on financial assets designated at fair value through profit or loss	<u>2,972</u>	<u>4,966</u>
Net gains/(losses) on financial assets held at fair value through profit or loss	<u>2,972</u>	<u>4,982</u>
<b>Financial liabilities</b>		
Net gain/(loss) on financial liabilities held for trading	-	(88)
Net gains/(losses) on financial liabilities held at fair value through profit or loss	<u>-</u>	<u>(88)</u>
Total net gains/(losses) on financial instruments held at fair value through profit or loss	<u>2,972</u>	<u>4,894</u>

## 7 Net assets attributable to unitholders

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

	Year ended			
	30 June 2011 No. '000	30 June 2010 No. '000	30 June 2011 \$'000	30 June 2010 \$'000
Opening balance	555,541	639,226	554,557	631,230
Applications	3,090,926	3,860,784	3,105,318	3,842,588
Redemptions	(3,096,820)	(3,944,469)	(3,109,997)	(3,924,739)
Increase/(decrease) in net assets attributable to unitholders	<u>-</u>	<u>-</u>	<u>1,530</u>	<u>5,478</u>
Closing balance	<u>549,647</u>	<u>555,541</u>	<u>551,408</u>	<u>554,557</u>

As stipulated within the Fund's Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

### Capital risk management

The Fund considers its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders. The Fund monitors the level of daily applications and redemptions relative to the liquid assets in the Fund.

## 8 Distribution to unitholders

The distributions for the year were as follows:

	Year ended			
	30 June 2011 \$'000	30 June 2011 CPU	30 June 2010 \$'000	30 June 2010 CPU
Distributions paid	17,947	4.36	17,369	3.66
Distribution payable	4,603	0.84	1,987	0.36
	<u>22,550</u>	<u>5.20</u>	<u>19,356</u>	<u>4.02</u>
Total distribution	<u>22,550</u>		<u>19,356</u>	

## 9 Cash and cash equivalents

	As at	
	30 June 2011 \$'000	30 June 2010 \$'000
Cash at bank	15,358	41,934
Deposits on call	460,795	379,307
	<u>476,153</u>	<u>421,241</u>

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

	As at	
	30 June 2011 Fair value \$'000	30 June 2010 Fair value \$'000
<b>Designated at fair value through profit or loss</b>		
Fixed interest securities	<u>77,817</u>	<u>134,054</u>
Total designated as at fair value through profit or loss	<u>77,817</u>	<u>134,054</u>
<b>Total financial assets held at fair value through profit or loss</b>	<u>77,817</u>	<u>134,054</u>
<b>Fixed interest securities</b>		
Australian Commonwealth	-	984
Corporate bonds	26,484	57,318
Mortgage backed securities	50,892	68,655
Asset backed securities	441	7,097
Total fixed interest securities	<u>77,817</u>	<u>134,054</u>
<b>Total financial assets held at fair value through profit or loss</b>	<u>77,817</u>	<u>134,054</u>

An overview of the risk exposures relating to financial assets held at fair value through profit or loss is included in note 3.

## 11 Related party transactions

### Responsible Entity

The Responsible Entity and manager of the Fund is Russell Investment Management Ltd (ABN 53 068 338 974), a wholly owned subsidiary of Russell Investment Group Pty Ltd (Australia) which is a wholly-owned subsidiary of Frank Russell Company (U.S.) ('Russell') which is a majority owned subsidiary of The Northwestern Mutual Life Insurance Company.

The Responsible Entity is engaged in the business of providing investment management and administrative services on behalf of the Fund. It has appointed State Street Australia Limited to perform custody and certain administrative functions such as unit registry reporting and valuation services. To implement the multi-style, multi-manager diversification technique in relation to the Fund, the Responsible Entity will: (i) engage and, where necessary, replace the investment managers for the Fund; (ii) allocate assets among investment managers within the Fund; and (iii) monitor each investment manager's overall investment performance. For services rendered, the Fund pays the Responsible Entity a fee as discussed as below.

The Responsible Entity retains the right under the terms of its agreements with the investment managers to direct them, subject to a requirement of best execution, to execute transactions that enable it to purchase brokerage and research services that assist in the provision of investment services to the Responsible Entity and are in the best interests of the unitholders. In addition, the investment managers may elect to purchase research services for their own benefit, subject to the best execution requirement. Brokerage and research services include (1) fundamental market research including performance characteristics of asset classes, investment styles, and allocation strategies; (2) advice either directly or indirectly through publications or writings as to the value of securities, the advisability of investing in, purchasing or selling securities and the availability of securities or of purchasers or sellers of securities, (3) analysis and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy and the performance of accounts; and (4) effecting securities transactions and performing functions incidental thereto (such as clearance and settlement) or that are required in connection therewith.

## 11 Related party transactions (continued)

The Responsible Entity has received the following goods and services from brokers and dealers generally over the period of these accounts:

- written and oral research reports from brokers or dealers;
- computer based financial analytical systems, together with their associated software and servicing support; and
- statistical analyses relating to markets, companies, industries, business and economic factors, market trends and portfolio strategies.

### Brokerage commissions

The Fund may effect portfolio transactions through Russell Implementation Services, Inc., an affiliate of the Responsible Entity, when an investment manager determines that a Fund will receive competitive execution, price, and commissions. No commissions were retained by Russell Implementation Services Inc. for the year ended 30 June 2011 (2010: Nil).

Additionally, the Fund paid brokerage commissions to non-affiliated brokers who provided brokerage and research services to the Responsible Entity.

### Key management personnel

#### (a) Directors

Key management personnel includes persons who were directors of Russell Investment Management Ltd at any time during the financial year as follows:

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

#### (b) Other key management personnel

There were no other persons with responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly during the financial year.

### Key management personnel unitholdings

No key management personnel of the Responsible Entity held units in the Fund as at 30 June 2011 (2010: Nil).

### Key management personnel compensation

Key management personnel are paid by Russell Investment Management Ltd. Payments made from the Fund to Russell Investment Management Ltd do not include any amounts directly attributable to the compensation of key management personnel.

### Key management personnel loan disclosures

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

## 11 Related party transactions (continued)

### Other transactions within the Fund

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Fund since the end of the previous financial year and there were no material contracts involving director's interests existing at year end.

### Responsible Entity's/manager's fees and other transactions

Under the terms of the Fund's Constitution, the Responsible Entity is entitled to receive management fees, calculated by reference to the average daily net assets (excluding net assets attributable to unitholders) of the Fund as follows:

Russell Cash Collateral Fund 0.07% (2010: 0.07%) per annum.

All related party transactions are conducted on normal commercial terms and conditions. The transactions during the year and amounts payable at year end between the Fund and the Responsible Entity were as follows:

	30 June 2011 \$	30 June 2010 \$
Management fees for the year paid by the Fund	314,544	369,129
Aggregate amounts payable to the Manager at the end of reporting period	48,264	31,639

### Related party schemes' unitholdings

Parties related to the Fund (including Russell Investment Management Ltd, its affiliates and other schemes managed by, or under trusteeship of Russell Investment Management Ltd or its affiliates), held units in the Fund as follows:

#### 2011

Unitholder	Number of units held opening (Units)	Number of units held closing (Units)	Fair value of investment (\$)	Interest held (%)	Number of units acquired (Units)	Number of units disposed (Units)	Distributions paid/payable by the Fund (\$)
State Street as lending agent for Russell funds	555,541,095	549,646,610	551,406,406	100.00	3,090,925,734	3,096,820,219	20,822,480

#### 2010

Unitholder	Number of units held opening (Units)	Number of units held closing (Units)	Fair value of investment (\$)	Interest held (%)	Number of units acquired (Units)	Number of units disposed (Units)	Distributions paid/payable by the Fund (\$)
State Street as lending agent for Russell funds	639,226,147	555,541,095	554,556,552	100.00	3,860,784,290	3,944,469,342	19,356,751

### Investments

The Fund did not hold any investments in Russell Investment Management Ltd or its related parties during the year.

## 12 Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

	Year ended	
	30 June 2011 \$'000	30 June 2010 \$'000
Profit/(loss) for the year/period	-	-
Increase/(decrease) in net assets attributable to unitholders	1,530	5,478
Distribution to unitholders	22,550	19,356
Purchase of financial instruments held at fair value through profit or loss	(2,679,136)	(3,303,568)
Proceeds from sale of financial instruments held at fair value through profit or loss	2,748,838	3,377,841
Net (gains)/losses on financial instruments held at fair value through profit or loss (exclude interest income from financial assets held fair value through profit or loss)	(2,972)	(4,894)
Market amortisation	(10,482)	(7,976)
Interest bought / sold	(12)	(69)
Net change in receivables	(814)	(41)
Net change in payables	23	62
<b>Net cash inflow/(outflow) from operating activities</b>	<b>79,525</b>	<b>86,189</b>

As described in note 2(i), income not distributed is included in net assets attributable to unitholders. The change in this amount each year represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable.

## 13 Events occurring after the reporting period

Since 30 June 2011, Australian and international investment markets have experienced a period of significant volatility, impacting on the valuation of the Fund's investment portfolio. As the investments are measured at their 30 June 2011 fair values in the financial report, this subsequent volatility in values are not reflected in the statement of comprehensive income or the balance sheet. However the volatility in value of investments have been reflected in the current unit price.

Other than the above, 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 30 June 2011 or on the results and cash flows of the Fund for the year ended on that date.

## 14 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2011 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 27 are in accordance with the Fund's Constitution, including:
  - (i) complying with Accounting Standards and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2011 and of its performance for the financial 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.
- (c) Note 2(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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



Director

Sydney  
27 September 2011



## **Independent auditor's report to the unitholders of Russell Cash Collateral Fund**

### ***Report on the financial report***

We have audited the accompanying financial report of Russell Cash Collateral Fund (the fund) which comprises the statement of financial position as at 30 June 2011, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

### ***Directors' responsibility for the financial report***

The directors of Russell Investment Management Limited (the responsible entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and for such internal control as the directors of the fund determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors of the responsible entity also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the responsible entity, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information attached to the financial report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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***Auditor's opinion***

In our opinion:

- (a) the financial report of Russell Cash Collateral Fund:
  - (i) gives a true and fair view of the fund's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - (ii) complies with Australian Accounting Standards (including the Australian Accounting Interpretations); and
- (b) the fund's financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

*TJO Peel*

TJO Peel  
Partner

Sydney  
23 September 2011