Russell Investments

Annual Financial Report

Russell International Shares Fund

For the year ending 30 June 2011

Russell Investment Management Ltd ABN 53 068 338 974 AFSL 247185

Russell International Shares Fund

ARSN 092 808 261

Consolidated financial statements For the year ended 30 June 2011

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For the year ended
30 June 2011

Contents

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 statements of Russell International Shares Fund ("the Fund") and its controlled entity (collectively, "the consolidated entity") for the year ended 30 June 2011.

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 consolidated entity did not have any employees during the year.

There were no significant changes in the nature of the consolidated entity'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 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 and parent entity, as represented by the results of their operations, was as follows:

	Consolidated		Parent	
	30 June 2011	30 June 2010	**30 June 2011**	30 June 2010
Operating profit/(loss) before finance costs attributable to unitholders ($'000)	**90,363**	241,909	**90,363**	241,909
Distribution paid and payable to unitholders of the parent entity ($'000)	**19,014**	67,393	**19,014**	67,393
Distributions - Class A				
Distribution paid and payable ($'000)			**2,863**	13,441
Distribution (cents per unit)			**0.30**	1.82
Distributions - Class B				
Distribution paid and payable ($'000)			-	2
Distribution (cents per unit)			-	0.06
Distributions - Class C				
Distribution paid and payable ($'000)			**22**	434
Distribution (cents per unit)			**0.11**	1.77
Distributions - Class D				
Distribution paid and payable ($'000)			**16,129**	53,516
Distribution (cents per unit)			**0.94**	2.46

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:

	Consolidated & Parent Year ended 30 June 2011 $'000	Consolidated & Parent Year ended 30 June 2010 $'000
Net assets for unit pricing purposes	**1,995,780**	2,102,330
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	**(1,974)**	(1,898)
Effect of classification of net assets attributable to unitholders as liabilities	**(1,993,806)**	(2,100,432)
Net assets under Australian Accounting Standards (parent and consolidated)	**-**	-

Distribution

Distributions of income generally occur quarterly 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 Distribution to unitholders for the year can be found in note 8

Options

There were no options over interests in the consolidated entity 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 consolidated entity that occurred during the financial year under review.

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 consolidated entity in future financial years, or
(ii) the results of those operations in future financial years, or
(iii) the state of affairs of the consolidated entity in future financial years.

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.

Further information on likely developments in the operations of the consolidated entity 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 consolidated entity.

Directors' Report (continued)

Indemnification and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the consolidated entity in regards to insurance cover provided to either the officers of Russell Investment Management Ltd or the auditors of the consolidated entity. 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 consolidated entity against losses incurred while acting on behalf of the consolidated entity. The auditors of the consolidated entity are in no way indemnified out of the assets of the consolidated entity.

Fees paid to and interests held in the consolidated entity by the Responsible Entity or its associates

Fees paid to the Responsible Entity and its associates out of consolidated entity property during the year are disclosed in note 15 of the financial statements.

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

The number of interests in the consolidated entity held by the Responsible Entity or its associates as at the end of the financial year are disclosed in note 15 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 consolidated entity's assets and liabilities is disclosed on the consolidated statements of financial position and derived using the basis set out in note 2 of the financial statements.

Environmental regulation

The operations of the consolidated entity 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 consolidated entity 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.

Presentation of Fund and consolidated financial statements

The consolidated entity is an entity that has applied Class Order 10/654.Entities taking advantage of the relief that is provided by the Class Order are not required to present the summary parent entity information otherwise required by regulation 2M.3.01. Application of the Class Order means the Fund and consolidated entity has retained the separate financial statements for the Fund and presented them in the same financial report as the consolidated financial statements.

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 5.

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

Director

Sydney
23 September 2011

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Auditor's independence declaration

As lead auditor for the audit of Russell International Shares Fund and its controlled entities for the year ended 30 June 2011, 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 audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Russell International Shares Fund and the entity it controlled during the year.

TJO Peel

TJO Peel
Partner
PricewaterhouseCoopers

Sydney
23 September 2011

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Consolidated statements of comprehensive income

	Notes	Consolidated Year ended 30 June 2011 $'000	Consolidated Year ended 30 June 2010 $'000	Parent Year ended 30 June 2011 $'000	Parent Year ended 30 June 2010 $'000
Investment income					
Interest income		**418**	3,250	**391**	3,189
Dividend and distribution income		**45,800**	58,817	**44,191**	58,964
Net gains/(losses) on financial instruments held at fair value through profit or loss	6	**57,867**	190,827	**58,322**	190,410
Write-back of accruals		**-**	3,865	**-**	3,865
Other operating income		**1,873**	1,886	**1,873**	1,886
Total net investment income		**105,958**	258,645	**104,777**	258,314
Expenses					
Management fees	15	**5,845**	4,923	**5,845**	4,923
Responsible entity's fees	15	**580**	831	**580**	831
Custody fees		**574**	299	**530**	277
Auditor's remuneration	5	**108**	124	**106**	121
Transaction costs		**3,538**	2,778	**3,284**	2,641
Dividend withholding tax expense		**4,022**	6,816	**3,433**	6,666
Other operating expenses	4	**928**	965	**636**	946
Total operating expenses		**15,595**	16,736	**14,414**	16,405
Operating profit		**90,363**	241,909	**90,363**	241,909
Finance costs attributable to unitholders					
Distributions to unitholders of the parent entity	8	**(19,014)**	(67,393)	**(19,014)**	(67,393)
(Increase)/decrease in net assets attributable to unitholders of the parent entity	7	**(71,349)**	(174,516)	**(71,349)**	(174,516)
Profit/(loss) for the year		**-**	-	**-**	-
Other comprehensive income		**-**	-	**-**	-
Total comprehensive income		**-**	-	**-**	-

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

Consolidated statements of financial position

	Notes	Consolidated As at 30 June 2011 $'000	Consolidated As at 30 June 2010 $'000	Parent As at 30 June 2011 $'000	Parent As at 30 June 2010 $'000
Assets					
Cash and cash equivalents	9	**40,417**	68,551	**39,460**	67,752
Deposits held with brokers for margin		**10,795**	17,120	**10,428**	16,701
Receivables		**9,963**	10,485	**12,635**	11,822
Due from brokers - receivable for securities sold		**7,668**	57,447	**7,668**	57,445
Investment in cash collateral trust	12	**41,694**	114,929	**40,613**	114,929
Financial assets held at fair value through profit or loss	10	**1,949,207**	2,035,063	**1,947,717**	2,034,611
Total assets		**2,059,744**	2,303,595	**2,058,521**	2,303,260
Liabilities					
Payables		**1,666**	1,821	**1,604**	1,806
Due to brokers - payable for securities purchased		**3,810**	3,609	**3,810**	3,609
Contractual obligation to repay cash collateral		**41,694**	114,929	**40,613**	114,929
Distributions payable to unitholders of the parent entity	8	**17,085**	64,603	**17,085**	64,603
Financial liabilities held at fair value through profit or loss	11	**1,683**	18,201	**1,603**	17,881
Total liabilities (excluding net assets attributable to unitholders)		**65,938**	203,163	**64,715**	202,828
Net assets attributable to unitholders - liability	7	**1,993,806**	2,100,432	**1,993,806**	2,100,432

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

Consolidated statements of changes in equity

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

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statements of cash flows

	Notes	Consolidated Year ended 30 June 2011 $'000	Consolidated Year ended 30 June 2010 $'000	Parent Year ended 30 June 2011 $'000	Parent Year ended 30 June 2010 $'000
Cash flows from operating activities					
Proceeds from sale of financial instruments held at fair value through profit or loss		**2,621,786**	4,021,368	**2,405,458**	3,955,639
Purchase of financial instruments held at fair value through profit or loss		**(2,753,264)**	(3,235,597)	**(2,532,121)**	(3,166,027)
Dividends and distributions received		**45,743**	58,552	**40,722**	57,189
Interest received		**418**	3,250	**391**	3,189
Other income received		**1,688**	1,463	**1,688**	1,459
Management and Responsibility Entity's fees paid		**(6,325)**	(5,625)	**(6,325)**	(5,625)
Payment of other expenses		**(8,345)**	(10,626)	**(8,291)**	(10,308)
Net cash inflow/(outflow) from operating activities	16(a)	**(98,299)**	832,785	**(98,478)**	835,516
Cash flows from financing activities					
Proceeds from applications by unitholders		**567,964**	1,074,023	**567,964**	1,074,023
Payments for redemptions by unitholders		**(493,468)**	(2,056,806)	**(493,468)**	(2,056,806)
Distributions paid		**(2,964)**	-	**(2,964)**	-
Net cash inflow/(outflow) from financing activities		**71,532**	(982,783)	**71,532**	(982,783)
Net increase/(decrease) in cash and cash equivalents		**(26,767)**	(149,998)	**(26,946)**	(147,267)
Cash and cash equivalents at the beginning of the year		**68,551**	216,479	**67,752**	212,965
Effects of foreign currency exchange rate changes on cash and cash equivalents		**(1,367)**	2,070	**(1,346)**	2,054
Cash and cash equivalents at the end of the year	9	**40,417**	68,551	**39,460**	67,752
Non-cash financing activities	16(b)				

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

Notes to the financial statements

1 General information

These consolidated financial statements include separate financial statements for Russell International Shares Fund ("the Fund") as an individual entity and the consolidated entity consisting of Russell International Shares Fund and its controlled entity, Russell International Shares Tracker Fund for financial statements for the year ended 30 June 2011. 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.

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 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 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 consolidated financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001* in Australia.

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

The consolidated statements of financial position are 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 consolidated financial statements of the Fund and the separate financial statements of the consolidated entity also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Russell International Shares Fund ("the parent entity") as at 30 June 2011 and the results of all subsidiaries for the year then ended. Russell International Shares Fund and its subsidiaries together are referred to in this financial report as the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the consolidated entity controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

2 Summary of significant accounting policies (continued)

(b) Principles of consolidation (continued)

The purchase method of accounting is used to account for obtaining control of subsidiaries by the consolidated entity.

All transactions (including gains and losses) and balances between entities in the consolidated group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

Non-controlling interests in the results and net assets of subsidiaries are shown separately in the consolidated statements of comprehensive income and consolidated statements of financial position respectively.

Investments in subsidiaries are accounted for at fair value through profit or loss.

(c) Financial instruments

(i) Classification

The consolidated entity's investments are categorised as at fair value through profit or loss, which comprise:

- Financial instruments held for trading

Derivative financial instruments such as futures and foreign currency contracts are included under this classification. The consolidated entity 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 listed equities and unlisted unit trusts.

Financial assets 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

The consolidated entity 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 consolidated entity 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 consolidated entity 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 consolidated entity is the current bid price and the quoted market price for financial liabilities is the current asking price.

2 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

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 consolidated entity 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 consolidated statements 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.

(d) Investments in subsidiaries

Investments in subsidiaries are measured in accordance with note 2(b).

(e) Net assets attributable to unitholders

Units are redeemable at the unitholders' option and are classified as financial liabilities due to mandatory distributions. The units can be put back to the consolidated entity 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 consolidated entity.

(f) Cash and cash equivalents

For the purpose of presentation in the consolidated statements 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 consolidated statements 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 consolidated entity's main income generating activity.

(g) Investment income

Interest income is recognised in the consolidated statements of comprehensive income for all financial instruments that are not held at fair value through profit or loss using the effective interest method.

Dividend income is recognised on the ex-dividend date with any related foreign withholding tax recorded as an expense. The consolidated entity currently incurs withholding tax imposed by certain countries on investment income. Such income is recorded gross of withholding tax in profit or loss.

Trust distributions are recognised on an entitlements basis.

Distribution from unlisted unit trusts are recognised as at the date the unit value is quoted ex-distribution.

2 Summary of significant accounting policies (continued)

(h) Expenses

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

(i) Income tax

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

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 consolidated entity is not subject to capital gains tax.

Realised capital losses are not distributed to unitholders but are retained in the consolidated entity 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 consolidated entity currently incurs withholding tax imposed by certain countries on investment income. Such income is recorded gross of withholding tax in the profit or loss.

(j) Distributions

In accordance with the Fund's Constitution, the Fund fully distributes its distributable (taxable) 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 generally payable at the end of September, December, March and June each year.

(k) 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.

(l) Foreign currency translation

(i) Functional and presentation currency

Items included in the consolidated entity'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 consolidated entity competes for funds and is regulated. The Australian dollar is also the consolidated entity's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

The consolidated entity does not isolate that portion of gains or losses on securities and derivative financial instruments that are measured at fair value through profit or loss and which is due to changes in foreign exchange rates from that which is due to changes in the market price of securities. Such fluctuations are included with the net gains or losses on financial instruments at fair value through profit or loss.

2 Summary of significant accounting policies (continued)

(m) 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 consolidated entity 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.

(n) Receivables

Receivables may include amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each reporting period from the time of last payment in accordance with the policy set out in note 2(g) 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 consolidated entity 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.

(o) Payables

Payables include liabilities and accrued expenses owing by the consolidated entity 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 consolidated statements of financial position when unitholders are presently entitled to the distributable income under the Fund's Constitution.

(p) Applications and redemptions

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

(q) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the consolidated entity by third parties such as custodial services and investment management fees have been passed onto the consolidated entity. The consolidated entity 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 consolidated statements of financial position. Cash flows relating to GST are included in the consolidated statements of cash flows on a gross basis.

2 Summary of significant accounting policies (continued)

(r) Use of estimates

The consolidated entity 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 consolidated entity'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.

(s) 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 consolidated entity) 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 consolidated entity has not yet decided when to adopt AASB 9. Management does not expect this will have a significant impact on the consolidated entity's financial statements as the consolidated entity 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 consolidated entity will apply the amended standard from 1 July 2011. The amendment will not have any effect on the consolidated entity's financial statements.

(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 2010-6Disclosures 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 consolidated entity's disclosures. The consolidated entity intends to apply the amendment from 1 July 2011.

2 Summary of significant accounting policies (continued)

(s) New accounting standards and interpretations (continued)

(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 / 1January 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 consolidated entity does not expect that any adjustments will be necessary as the result of applying the revised rules.

(t) Rounding of amounts

The consolidated entity 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.

(u) Deposits held with broker for margin

Deposits held with broker for margin comprise cash held as collateral for derivative transactions. The cash is held by the broker and is only available to meet consolidated entity's margin calls.

(v) Presentation of Fund and consolidated financial statements

The consolidated entity is an entity that has applied Class Order 10/654. Entities taking advantage of the relief that is provided by the Class Order are not required to present the summary parent entity information otherwise required by regulation 2M.3.01. Application of the Class Order means the Fund and consolidated entity has retained the separate financial statements for the Fund and presented them in the same financial report as the consolidated financial statements.

3 Financial risk management

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

The consolidated entity's multi-manager process differentiates it from single-manager fund companies. The consolidated entity 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 a Fund.

(a) Market risk

(i) Price Risk

The consolidated entity is exposed to equity securities and derivative securities price risk. This arises from investments held by the consolidated entity for which prices in the future are uncertain. Where non-monetary 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. They are classified on the balance sheet as at fair value through profit or loss. All securities investments present a risk of loss of capital. Except for equities sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

3 Financial risk management (continued)

(a) Market risk (continued)

(i) Price Risk (continued)

The Russell Portfolio Manager moderates this risk by diversifying the management of its assets by allocating them between one or more Investment Managers. The consolidated entity's Investment Managers monitor their portfolio holdings on a daily basis. The Russell Portfolio Manager will monitor each funds characteristics in detail with the Investment Managers at least quarterly. The Russell Portfolio Manager also reviews the consolidated entity's portfolio characteristics in its entirety such as country allocations, capitalisation, industry sector weights, price/book levels, currency exposure, and quality exposure and other key risk measures.

The table on page 22 summarises the impact of an increase/decrease of Russell Developed Large Cap - Net Index, which is the consolidated entity's target benchmark, on the consolidated entity's net assets attributable to unitholders at 30 June 2011. The analysis is based on the assumptions that the index increased/decreased by 9% (2010 – 8%) with all other variables held constant and that the fair value of the consolidated entity's portfolio of equity securities and derivatives moved according to the historical correlation with the index. The impact mainly arises from the possible change in the fair value of listed equities, unlisted unit trusts and equity derivatives.

(ii) Foreign exchange risk

The consolidated entity holds assets denominated in currencies other than the Australian Dollars, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in other currencies will fluctuate due to changes in exchange rates. The consolidated entity may utilise financial instruments to hedge against fluctuations in the relative values of their portfolio positions in addition to making active currency selections.

The consolidated entity delegates some of the foreign exchange risk management to external Investment Managers. In addition, the Russell Portfolio Manager also oversees and monitors the foreign exchange risk of the consolidated entity.

The table below summarises the consolidated entity's assets and liabilities, monetary and non-monetary, which are denominated in a currency other than the Australian dollar.

	30 June 2011		30 June 2010	
	US Dollars	**Euro**	US Dollars	Euro
Consolidated	**A$'000**	**A$'000**	A$'000	A$'000
Cash and cash equivalents	**38,826**	**288**	57,264	1,148
Deposits held with broker for margin	**8,092**	**(551)**	16,776	1,290
Receivables	**2,056**	**415**	2,438	605
Due from brokers - receivable for securities sold	**253**	**6,492**	36,830	9,290
Investment in cash collateral trust	**41,041**	**-**	114,767	-
Financial assets held at fair value through profit or loss	**993,885**	**339,090**	1,032,376	342,324
Payables	**(257)**	**(3)**	(223)	(3)
Due to brokers - payable for securities purchased	**(1,466)**	**-**	(1,626)	-
Contractual obligation to repay cash collateral	**(1,157)**	**(24,035)**	(109,088)	(1,872)
Financial liabilities held at fair value through profit or loss	**(1,054)**	**(182)**	(6,642)	(1,329)
	1,080,219	**321,514**	1,142,872	351,453
Net increase/(decrease) in exposure from foreign currency contracts - (sell)/buy foreign currency	**(4,663)**	**17,916**	(29,766)	410
	1,075,556	**339,430**	1,113,106	351,863

3 Financial risk management (continued)

(a) Market risk (continued)

(ii) Foreign exchange risk (continued)

Parent	30 June 2011 US Dollars A$'000	30 June 2011 Euro A$'000	30 June 2010 US Dollars A$'000	30 June 2010 Euro A$'000
Cash and cash equivalents	**38,567**	**137**	56,801	1,124
Deposit held with broker for margin	**8,058**	**(575)**	16,777	1,242
Receivables	**1,753**	**364**	2,381	581
Due from brokers - receivable for securities sold	**253**	**6,492**	36,831	9,290
Investment in cash collateral trust	**39,960**	**-**	114,767	-
Financial assets held at fair value through profit or loss	**836,313**	**286,671**	1,001,063	331,447
Payables	**(216)**	**(3)**	(219)	(2)
Due to brokers - payable for securities purchased	**(1,466)**	**-**	(1,626)	-
Contractual obligation to repay cash collateral	**(76)**	**(24,035)**	(109,088)	(1,872)
Financial liabilities held at fair value through profit or loss	**(1,015)**	**(167)**	(6,553)	(1,321)
	922,131	**268,884**	1,111,134	340,489
Net increase/(decrease) in exposure from foreign currency contracts - (sell)/buy foreign currency	**(6,314)**	**17,352**	(32,267)	(287)
	915,817	**286,236**	1,078,867	340,202

(iii) Cash flow and fair value interest rate risk

The majority of the consolidated entity's financial assets and liabilities are non-interest bearing or have a very short time to maturity. As a result, the consolidated entity is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash and cash equivalents are invested at short-term market interest rates.

The table below summarises the consolidated entity's exposure to interest rate risks. It includes the consolidated entity's assets and liabilities at fair values, categorised by the earlier of contractual repricing or maturity dates.

3 Financial risk management (continued)

(a) Market risk (continued)

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

Consolidated **30 June 2011**	**Floating interest rate $'000**	**Fixed interest rate $'000**	**Non-interest bearing $'000**	**Total $'000**
Assets				
Cash and cash equivalents	**40,417**	-	-	**40,417**
Deposits held with brokers for margin	**10,795**	-	-	**10,795**
Receivables	-	-	**9,963**	**9,963**
Due from brokers - receivable for securities sold	-	-	**7,668**	**7,668**
Investment in Cash Collateral Trust	-	-	**41,694**	**41,694**
Financial assets held at fair value through profit or loss	-	-	**1,949,207**	**1,949,207**
Liabilities				
Payables	-	-	**(1,666)**	**(1,666)**
Due to brokers - payable for securities purchased	-	-	**(3,810)**	**(3,810)**
Contractual obligation to repay cash collateral	-	-	**(41,694)**	**(41,694)**
Distributions payable to unitholders of the parent entity	-	-	**(17,085)**	**(17,085)**
Financial liabilities held at fair value through profit or loss	-	-	**(1,683)**	**(1,683)**
Net exposure	**51,212**	-	**1,942,594**	**1,993,806**

Consolidated 30 June 2010	Floating interest rate $'000	Fixed interest rate $'000	Non-interest bearing $'000	Total $'000
Assets				
Cash and cash equivalents	68,551	-	-	68,551
Deposits held with brokers for margin	17,120	-	-	17,120
Receivables	-	-	10,485	10,485
Due from brokers - receivable for securities sold	-	-	57,447	57,447
Investment in Cash Collateral Trust	-	-	114,929	114,929
Financial assets held at fair value through profit or loss	-	-	2,035,063	2,035,063
Liabilities				
Payables	-	-	(1,821)	(1,821)
Due to brokers - payable for securities purchased	-	-	(3,609)	(3,609)
Contractual obligation to repay cash collateral	-	-	(114,929)	(114,929)
Distributions payable to unitholders of the parent entity	-	-	(64,603)	(64,603)
Financial liabilities held at fair value through profit or loss	-	-	(18,201)	(18,201)
Net exposure	85,671	-	2,014,761	2,100,432

3 Financial risk management (continued)

(a) Market risk (continued)

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

Parent **30 June 2011**	**Floating interest rate** **$'000**	**Fixed interest rate** **$'000**	**Non-interest bearing** **$'000**	**Total** **$'000**
Assets				
Cash and cash equivalents	**39,460**	-	-	**39,460**
Deposits held with brokers for margin	**10,428**	-	-	**10,428**
Receivables	-	-	**12,635**	**12,635**
Due from brokers - receivable for securities sold	-	-	**7,668**	**7,668**
Investment in Cash Collateral Trust	-	-	**40,613**	**40,613**
Financial assets held at fair value through profit or loss	-	-	**1,947,717**	**1,947,717**
Liabilities				
Payables	-	-	**(1,604)**	**(1,604)**
Due to brokers - payable for securities purchased	-	-	**(3,810)**	**(3,810)**
Contractual obligation to repay cash collateral	-	-	**(40,613)**	**(40,613)**
Distributions payable	-	-	**(17,085)**	**(17,085)**
Financial liabilities held at fair value through profit or loss	-	-	**(1,603)**	**(1,603)**
Net exposure	**49,888**	-	**1,943,918**	**1,993,806**

Parent 30 June 2010	Floating interest rate $'000	Fixed interest rate $'000	Non-interest bearing $'000	Total $'000
Assets				
Cash and cash equivalents	67,752	-	-	67,752
Deposits held with brokers for margin	16,701	-	-	16,701
Receivables	-	-	11,822	11,822
Due from brokers - receivable for securities sold	-	-	57,445	57,445
Investment in Cash Collateral Trust	-	-	114,929	114,929
Financial assets held at fair value through profit or loss	-	-	2,034,611	2,034,611
Liabilities				
Payables	-	-	(1,806)	(1,806)
Due to brokers - payable for securities purchased	-	-	(3,609)	(3,609)
Contractual obligation to repay cash collateral	-	-	(114,929)	(114,929)
Distribution payable	-	-	(64,603)	(64,603)
Financial liabilities held at fair value through profit or loss	-	-	(17,881)	(17,881)
Net exposure	84,453	-	2,015,979	2,100,432

An analysis of financial liabilities by maturities is provided in paragraph (d) below.

3 Financial risk management (continued)

(b) Summarised sensitivity analysis

The following table summarises the sensitivity of the consolidated entity's operating profit and net assets attributable to unitholders to price 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 correlation of the consolidated entity'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 consolidated entity invests. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

	Price risk Impact on operating profit/Net assets attributable to unitholders	
Consolidated	-9 % (2010: -8%) $'000	+9 % (2010: +8%) $'000
30 June 2011	**(175,077)**	**175,077**
30 June 2010	(149,986)	149,986

	Price risk Impact on operating profit/Net assets attributable to unitholders	
Parent	-9 % (2010: -8%) $'000	+9 % (2010: +8%) $'000
30 June 2011	**(174,955)**	**174,955**
30 June 2010	(162,152)	162,152

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.

3 Financial risk management (continued)

(c) Credit risk

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

The consolidated entity's main credit risk concentrations arise from trading equity and financial derivative instruments. 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.

All transactions in listed 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.

All securities, cash at bank balances and bank overdrafts are held by the Custodian and Trustee through its affiliate, State Street Bank and Trust Company or through a sub-custodian. At the balance date 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 consolidated entity have a rating of Investment Grade or higher (as determined by external credit rating agencies). Periodic monitoring and an annual credit review are performed on the custodian by a credit research team. This review may include as appropriate an assessment of the custodian's liquidity position, income streams, asset quality and credit ratings.

There were no significant concentrations of credit risk to counterparties as at 30 June 2011 or 30 June 2010.

(d) Liquidity risk

The consolidated entity is exposed to daily cash withdrawals of redeemable units. In addition, the Fund may restrict withdrawals on a temporary basis as detailed in the Product Disclosure Statement. It therefore primarily holds investments that are traded in an active market and can be readily disposed.

Generally, the consolidated entity's assets are comprised of actively traded and highly liquid securities. The liquidity risks associated with the need to satisfy shareholders' requests for withdrawals are mitigated by maintaining a pool of cash to satisfy usual levels of demand. The consolidated entity also invests in derivative contracts traded over the counter, which are not traded in an organised market and may be illiquid. As a result, the consolidated entity 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 consolidated entity 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.

3 Financial risk management (continued)

(d) Liquidity risk (continued)

The table below analyses the consolidated entity'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 year end date. The amounts in the table are contractual undiscounted cash flows.

Consolidated	Less than 1 month $'000	1-6 months $'000	6-12 months $'000	Over 12 months $'000	No stated maturity $'000
At 30 June 2011					
Payables	-	1,666	-	-	-
Due to brokers - payable for securities purchased	3,810	-	-	-	-
Contractual obligation to repay cash collateral	-	-	-	-	41,694
Distributions payable	17,085	-	-	-	-
Net assets attributable to unitholders	1,993,806	-	-	-	-
Undiscounted contractual cash flows	2,014,701	1,666	-	-	41,694
At 30 June 2010					
Payables	-	1,821	-	-	-
Due to brokers - payable for securities purchased	3,609	-	-	-	-
Contractual obligation to repay cash collateral	-	-	-	-	114,929
Distributions payable	64,603	-	-	-	-
Net assets attributable to unitholders	2,100,432	-	-	-	-
Undiscounted contractual cash flows	2,168,644	1,821	-	-	114,929

Parent	Less than 1 month $'000	1-6 months $'000	6-12 months $'000	Over 12 months $'000	No stated maturity $'000
At 30 June 2011					
Payables	-	1,604	-	-	-
Due to brokers - payable for securities purchased	3,810	-	-	-	-
Contractual obligation to repay cash collateral	-	-	-	-	40,613
Distributions payable	17,085	-	-	-	-
Net assets attributable to unitholders	1,993,806	-	-	-	-
Undiscounted contractual cash flows	2,014,701	1,604	-	-	40,613
At 30 June 2010					
Payables	-	1,806	-	-	-
Due to brokers - payable for securities purchased	3,609	-	-	-	-
Contractual obligation to repay cash collateral	-	-	-	-	114,929
Distributions payable	64,603	-	-	-	-
Net assets attributable to unitholders	2,100,432	-	-	-	-
Undiscounted contractual cash flows	2,168,644	1,806	-	-	114,929

3 Financial risk management (continued)

(d) Liquidity risk (continued)

The table below analyses the consolidated entity's net settled derivative financial instruments in a loss position for which the contractual maturities are considered to be essential to an understanding of the timing of cash flows based on the consolidated entity's investment strategy.

Consolidated	Less than 1 month $'000	1-6 months $'000	6-12 months $'000	Over 12 months $'000
At 30 June 2011				
Net settled derivatives				
International Share Price Index futures	-	**37**	-	-
Foreign currency forward contracts	-	**1,610**	-	-
Foreign currency spot contracts	**36**	-	-	-
At 30 June 2010				
Net settled derivatives				
International Share Price Index futures	78	7,388	-	-
Foreign currency forward contracts	-	9,185	-	-
Foreign currency spot contracts	-	1,550	-	-

Parent	Less than 1 month $'000	1-6 months $'000	6-12 months $'000	Over 12 months $'000
At 30 June 2011				
Net settled derivatives				
International Share Price Index futures	-	**37**	-	-
Foreign currency forward contracts	-	**1,530**	-	-
Foreign currency spot contracts	**36**	-	-	-
At 30 June 2010				
Net settled derivatives				
International Share Price Index futures	78	7,181	-	-
Foreign currency forward contracts	-	9,072	-	-
Foreign currency spot contracts	-	1,550	-	-

(e) Fair value estimation

The carrying amounts of all the consolidated entity'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.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

3 Financial risk management (continued)

(e) Fair value estimation (continued)

As a result of events in global markets in the past year and comparative period, liquidity in some investment markets decreased significantly. As a result, the volume of trading in some of the investments held by the consolidated entity decreased significantly, and accordingly the valuation of those investments is subject to a greater uncertainty and requires greater judgement than would be the case in normal investment market conditions.

(ii) Fair value in an inactive or unquoted market

For other pricing models, inputs are based on market data at the balance sheet date. 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 consolidated entity would receive or pay to terminate the contract at the balance sheet date 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 consolidated entity 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.

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.

3 Financial risk management (continued)

(f) Fair value hierarchy (continued)

The table below sets out the consolidated entity'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.

Consolidated **As at 30 June 2011**	**Level 1** **$'000**	**Level 2** **$'000**	**Level 3** **$'000**	**Total** **$'000**
Financial assets				
Investment in cash collateral trust	-	**41,694**	-	**41,694**
Financial assets held for trading:				
Derivatives	**3,351**	**555**	-	**3,906**
Financial assets designated at fair value through profit or loss at inception:				
Equity securities	**1,856,235**	-	-	**1,856,235**
Equity securities on loan	**39,998**	-	-	**39,998**
Unlisted unit trusts	-	**49,068**	-	**49,068**
Total	**1,899,584**	**91,317**	-	**1,990,901**
Financial liabilities				
Financial liabilities held for trading:				
Derivatives	**37**	**1,646**	-	**1,683**
Total	**37**	**1,646**	-	**1,683**

As at 30 June 2010	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Investment in cash collateral trust	-	114,929	-	114,929
Financial assets held for trading:				
Derivatives	-	7,718	-	7,718
Financial assets designated at fair value through profit or loss at inception:				
Equity securities	1,873,764	983	79	1,874,826
Equity securities on loan	110,796	-	-	110,796
Unlisted unit trusts	-	41,723	-	41,723
Total	1,984,560	165,353	79	2,149,992
Financial liabilities				
Financial liabilities held for trading:				
Derivatives	7,466	10,735	-	18,201
Total	7,466	10,735	-	18,201

3 Financial risk management (continued)

(f) Fair value hierarchy (continued)

Parent **As at 30 June 2011**	**Level 1** **$'000**	**Level 2** **$'000**	**Level 3** **$'000**	**Total** **$'000**
Financial assets				
Investment in cash collateral trust	-	40,613	-	40,613
Financial assets held for trading:	-	-	-	-
Derivatives	3,249	524	-	3,773
Financial assets designated at fair value through profit or loss at inception:				
Equity securities	1,559,693	-	-	1,559,693
Equity securities on loan	38,950	-	-	38,950
Unlisted unit trusts	-	345,301	-	345,301
Total	1,601,892	386,438	-	1,988,330
Financial liabilities				
Financial liabilities held for trading:				
Derivatives	37	1,566	-	1,603
Total	37	1,566	-	1,603

As at 30 June 2010	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Investment in cash collateral trust	-	114,929	-	114,929
Financial assets held for trading:				
Derivatives	-	7,713	-	7,713
Financial assets designated at fair value through profit or loss at inception:				
Equity securities	1,813,152	983	79	1,814,214
Equity securities on loan	110,796	-	-	110,796
Unlisted unit trusts	-	101,888	-	101,888
Total	1,923,948	225,513	79	2,149,540
Financial liabilities				
Financial liabilities held for trading:				
Derivatives	7,259	10,622	-	17,881
Total	7,259	10,622	-	17,881

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

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, 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 certain unlisted unit trusts. As observable prices are not available for these securities, the Responsible Entity has used valuation techniques to derive fair value.

3 Financial risk management (continued)

(f) Fair value hierarchy (continued)

(i) Transfers between levels

The following table presents the transfers between levels for the year ended 30 June 2011.

Consolidated **As at 30 June 2011**	**Level 1** **$'000**	**Level 2** **$'000**	**Level 3** **$'000**
Transfers between levels 1 and 2:			
Investment in cash collateral trust	-	-	-
Derivatives	-	-	-
Equity securities	-	-	-
Equity securities on loan	-	-	-
Unlisted unit trusts	-	-	-
Transfers between levels 2 and 3:			
Investment in cash collateral trust	-	-	-
Derivatives	-	-	-
Equity securities	-	-	-
Equity securities on loan	-	-	-
Unlisted unit trusts	-	-	-
Transfers between levels 1 and 3:			
Investment in cash collateral trust	-	-	-
Derivatives	-	-	-
Equity securities	-	-	-
Equity securities on loan	-	-	-
Unlisted unit trusts	-	-	-

Parent **As at 30 June 2011**	**Level 1** **$'000**	**Level 2** **$'000**	**Level 3** **$'000**
Transfers between levels 1 and 2:			
Investment in cash collateral trust	-	-	-
Derivatives	-	-	-
Equity securities	-	-	-
Equity securities on loan	-	-	-
Unlisted unit trusts	-	-	-
Transfers between levels 2 and 3:			
Investment in cash collateral trust	-	-	-
Derivatives	-	-	-
Equity securities	-	-	-
Equity securities on loan	-	-	-
Unlisted unit trusts	-	-	-
Transfers between levels 1 and 3:			
Investment in cash collateral trust	-	-	-
Derivatives	-	-	-
Equity securities	-	-	-
Equity securities on loan	-	-	-
Unlisted unit trusts	-	-	-

3 Financial risk management (continued)

(f) Fair value hierarchy (continued)

(ii) Movement in level 3 instruments

The following table presents the movement in level 3 instruments for the year ended 30 June 2011 by class of financial instrument.

Consolidated **As at 30 June 2011**	**Equity securities $'000**
Opening balance	**79**
Purchases	**-**
Sales	**(74)**
Transfers into level 3	**-**
Gains and losses recognised in profit and loss	**(5)**
Closing balance	**-**
Total gains or losses for the year included in the consolidated statements of comprehensive income for financial assets and liabilities held at the end of the year	**-**

As at 30 June 2010	Equity securities $'000
Opening balance	-
Purchases	74
Sales	(1)
Transfers into level 3	-
Gains and losses recognised in profit and loss	6
Closing balance	79
Total gains or losses for the year included in the consolidated statements of comprehensive income for financial assets and liabilities held at the end of the year	-

3 Financial risk management (continued)

(f) Fair value hierarchy (continued)

Parent **As at 30 June 2011**	**Equity securities $'000**
Opening balance	**79**
Purchases	**-**
Sales	**(74)**
Transfers into level 3	**-**
Gains and losses recognised in profit and loss	**(5)**
Closing balance	**-**
Total gains or losses for the year included in the consolidated statements of comprehensive income for financial assets and liabilities held at the end of the year	**-**

As at 30 June 2010	Equity securities $'000
Opening balance	-
Purchases	74
Sales	(1)
Transfers into level 3	-
Gains and losses recognised in profit and loss	6
Closing balance	79
Total gains or losses for the year included in the consolidated statements of comprehensive income for financial assets and liabilities held at the end of the year	-

4 Other operating expenses

	Consolidated Year ended		**Parent Year ended**	
	30 June 2011 $'000	30 June 2010 $'000	**30 June 2011 $'000**	30 June 2010 $'000
Broker commission expense - futures	**104**	182	**100**	180
GST expenses	**-**	26	**-**	26
Other expenses	**824**	757	**536**	740
	928	965	**636**	946

5 Auditor's remuneration

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

	Consolidated Year ended 30 June 2011 $	Consolidated Year ended 30 June 2010 $	Parent Year ended 30 June 2011 $	Parent Year ended 30 June 2010 $
PricewaterhouseCoopers Australian firm				
Audit and other assurance services				
Audit and review of financial statements	**83,255**	85,353	**81,226**	83,505
Total remuneration for audit services	**83,255**	85,353	**81,226**	83,505
Taxation services				
Tax compliance services	**24,977**	38,451	**24,410**	37,303
Total remuneration for taxation services	**24,977**	38,451	**24,410**	37,303
Total remuneration of PricewaterhouseCoopers	**108,232**	123,804	**105,636**	120,808

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:

	Consolidated Year ended 30 June 2011 $'000	Consolidated Year ended 30 June 2010 $'000	Parent Year ended 30 June 2011 $'000	Parent Year ended 30 June 2010 $'000
Financial assets				
Net gain/(loss) on financial assets held for trading	**80,295**	110,837	**79,419**	109,373
Net gain/(loss) on financial assets designated at fair value through profit or loss	**36,177**	179,184	**37,086**	178,787
Net gains/(losses) on financial assets held at fair value through profit or loss	**116,472**	290,021	**116,505**	288,160
Financial liabilities				
Net gain/(loss) on financial liabilities held for trading	**(58,699)**	(99,123)	**(58,277)**	(97,679)
Net gain/(loss) on financial liabilities designated at fair value through profit or loss	**94**	(71)	**94**	(71)
Net gains/(losses) on financial liabilities held at fair value through profit or loss	**(58,605)**	(99,194)	**(58,183)**	(97,750)
Total net gains/(losses) on financial instruments held at fair value through profit or loss	**57,867**	190,827	**58,322**	190,410

7 Net assets attributable to unitholders

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

	Consolidated & Parent Year ended			
	30 June 2011 No. '000	30 June 2010 No. '000	**30 June 2011 $'000**	30 June 2010 $'000
Class A				
Opening balance	**739,486**	465,370	**536,786**	328,268
Applications	**363,587**	485,054	**273,887**	369,022
Redemptions	**(173,446)**	(210,938)	**(129,816)**	(163,817)
Units issued upon reinvestment of distributions	**15,144**	-	**10,912**	-
Increase/(decrease) in net assets attributable to unitholders	**-**	-	**17,764**	3,313
Closing balance	**944,771**	739,486	**709,533**	536,786
Class B				
Opening balance	**2,932**	11,312	**1,927**	7,307
Applications	**289**	2,802	**202**	1,944
Redemptions	**(1,097)**	(11,182)	**(771)**	(7,839)
Units issued upon reinvestment of distributions	**2**	-	**2**	-
Increase/(decrease) in net assets attributable to unitholders	**-**	-	**59**	515
Closing balance	**2,126**	2,932	**1,419**	1,927
Class C				
Opening balance	**24,542**	21,080	**14,867**	12,419
Applications	**6,916**	6,570	**4,375**	4,226
Redemptions	**(11,226)**	(3,108)	**(7,076)**	(1,983)
Increase/(decrease) in net assets attributable to unitholders	**-**	-	**540**	205
Closing balance	**20,232**	24,542	**12,706**	14,867
Class D				
Opening balance	**2,146,227**	3,645,864	**1,546,852**	2,541,563
Applications	**386,890**	920,504	**289,499**	698,665
Redemptions	**(905,443)**	(2,446,264)	**(671,844)**	(1,882,425)
Units issued upon reinvestment of distributions	**72,587**	26,123	**52,655**	18,566
Increase/(decrease) in net assets attributable to unitholders	**-**	-	**52,986**	170,483
Closing balance	**1,700,261**	2,146,227	**1,270,148**	1,546,852
Net assets attributable to unitholders - liability	**2,667,390**	2,913,187	**1,993,806**	2,100,432

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 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.

7 Net assets attributable to unitholders (continued)

Capital risk management

The Fund manages 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 withdrawals relative to the liquid assets in the Fund.

8 Distribution to unitholders of the parent entity

The distributions for the year were as follows:

	Parent Year ended			
	30 June 2011 $'000	**30 June 2011 CPU**	30 June 2010 $'000	30 June 2010 CPU
Class A				
Distribution payable	2,863	0.30	13,441	1.82
	2,863	0.30	13,441	1.82
Class B				
Distribution payable	-	-	2	0.06
	-	-	2	0.06
Class C				
Distributions payable	22	0.11	434	1.77
	22	0.11	434	1.77
Class D				
Distribution paid	1,929	0.11	2,790	0.09
Distribution payable	14,200	0.83	50,726	2.37
	16,129	0.94	53,516	2.46
Total distributions	19,014		67,393	

9 Cash and cash equivalents

	Consolidated As at		Parent As at	
	30 June 2011 $'000	30 June 2010 $'000	**30 June 2011 $'000**	30 June 2010 $'000
Cash at bank	40,417	68,551	39,460	67,752
	40,417	68,551	39,460	67,752

10 Financial assets held at fair value through profit or loss

	Consolidated As at		Parent As at	
	30 June 2011 Fair value $'000	30 June 2010 Fair value $'000	**30 June 2011 Fair value $'000**	30 June 2010 Fair value $'000
Held for trading				
Derivatives (note 13)	**3,906**	7,718	**3,773**	7,713
Total held for trading	**3,906**	7,718	**3,773**	7,713
Designated at fair value through profit or loss				
Equity securities	**1,856,235**	1,874,826	**1,559,693**	1,814,214
Equity securities on loan	**39,998**	110,796	**38,950**	110,796
Unlisted unit trusts	**49,068**	41,723	**345,301**	101,888
Total designated at fair value through profit or loss	**1,945,301**	2,027,345	**1,943,944**	2,026,898
Total financial assets held at fair value through profit or loss	**1,949,207**	2,035,063	**1,947,717**	2,034,611
Comprising:				
Derivatives				
Foreign currency forward contracts	**530**	7,715	**499**	7,710
Foreign currency spot contracts	**25**	3	**25**	3
International share price index futures	**3,351**	-	**3,249**	-
Total derivatives	**3,906**	7,718	**3,773**	7,713
Equity securities				
Australian equity securities	**3,048**	11,694	**2,491**	11,311
International equity securities	**1,853,187**	1,863,132	**1,557,202**	1,802,903
Total equity securities	**1,856,235**	1,874,826	**1,559,693**	1,814,214
Equity securities on loan				
Australian equity securities	**632**	152	**632**	152
International equity securities	**39,366**	110,644	**38,318**	110,644
Total equity securities on loan	**39,998**	110,796	**38,950**	110,796
Unlisted unit trusts				
Units in Australian equity trusts	**49,068**	41,723	**345,301**	101,888
Total unlisted unit trusts	**49,068**	41,723	**345,301**	101,888
Total financial assets held at fair value through profit or loss	**1,949,207**	2,035,063	**1,947,717**	2,034,611

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

11 Financial liabilities held at fair value through profit or loss

	Consolidated As at		Parent As at	
	30 June 2011 Fair value $'000	30 June 2010 Fair value $'000	**30 June 2011 Fair value $'000**	30 June 2010 Fair value $'000
Held for trading				
Derivatives (note 13)	**1,683**	18,201	**1,603**	17,881
Total held for trading	**1,683**	18,201	**1,603**	17,881
Total financial liabilities held at fair value through profit or loss	**1,683**	18,201	**1,603**	17,881
Comprising:				
Derivatives				
International share price index futures	**37**	7,466	**37**	7,259
Foreign currency forward contracts	**1,610**	9,185	**1,530**	9,072
Foreign currency spot contracts	**36**	1,550	**36**	1,550
Total derivatives	**1,683**	18,201	**1,603**	17,881
Total financial liabilities held at fair value through profit or loss	**1,683**	18,201	**1,603**	17,881

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

12 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 note 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.

13 Derivative financial instruments

In the normal course of business the consolidated entity enters into transactions in various derivative financial instruments which have certain risks. A derivative is a financial instrument or other contract which is settled at a future date and whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

Derivative transactions include many different instruments, such as forwards, futures and options. Derivatives are considered to be part of the investment process and the use of derivatives is an essential part of the consolidated entity's portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- hedging to protect an asset or liability of the consolidated entity against a fluctuation in market values or to reduce volatility
- a substitution for trading of physical securities
- adjusting asset exposures within the parameters set in the investment strategy, and adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

While derivatives are used for trading purposes, they are not used to gear (leverage) a portfolio. Gearing a portfolio would occur if the level of exposure to the markets exceeds the underlying value of the consolidated entity.

The consolidated entity holds the following derivative instruments:

(a) Futures

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralised by cash or marketable securities. Changes in futures contracts' values are usually settled net daily with the exchange. Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates at a future date at a specified price, established in an organised financial market.

(b) Foreign currency forward contracts

Foreign currency forward contracts are primarily used by the consolidated entity to hedge against foreign currency exchange rate risks on its non-Australian dollar denominated trading securities. The Fund agrees to receive or deliver a fixed quantity of foreign currency for an agreed upon price on an agreed future date. Foreign currency forward contracts are valued at the prevailing bid price at the reporting date. The consolidated entity recognises a gain or loss equal to the change in fair value at the reporting date.

The consolidated entity's derivative financial instruments at year-end are detailed below:

Consolidated
30 June 2011

		Fair Values	
	Contract/ notional $'000	Assets $'000	Liabilities $'000
International share price index futures	108,120	3,351	37
Foreign currency forward contracts	17,565	530	1,610
Foreign currency spot contracts	187,457	25	36
		3,906	1,683

13 Derivative financial instruments (continued)

Consolidated
30 June 2010

	Contract/ notional $'000	Fair Values Assets $'000	Liabilities $'000
International share price index futures	174,146	-	7,466
Foreign currency forward contracts	416,609	7,715	9,185
Foreign currency spot contracts	49,028	3	1,550
		7,718	18,201

Parent
30 June 2011

	Contract/ notional $'000	**Fair Values Assets $'000**	**Liabilities $'000**
International share price index futures	**105,080**	**3,249**	**37**
Foreign currency forward contracts	**9,768**	**499**	**1,530**
Foreign currency spot contracts	**187,457**	**25**	**36**
		3,773	**1,603**

Parent
30 June 2010

	Contract/ notional $'000	Fair Values Assets $'000	Liabilities $'000
International share price index futures	169,710	-	7,259
Foreign currency forward contracts	412,128	7,710	9,072
Foreign currency spot contracts	49,028	3	1,550
		7,713	17,881

An overview of the risk exposures relating to derivatives is included in note 3.

14 Investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in 2(b). Subsidiaries are recorded in the parent entity within financial assets held at fair value through profit or loss.

Name of entity	**Country of domicile**	**Fair value 2011 $'000**	Fair value 2010 $'000	**Equity holding ** 2011 %**	Equity holding 2010 %
Russell International Shares Tracker Fund	Australia	**298,250**	64,322	**100.00**	100.00

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

15 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.

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 consolidated entity may effect portfolio transactions through Russell Implementation Services, Inc., an affiliate of the Responsible Entity, when an investment manager determines that a consolidated entity will receive competitive execution, price, and commissions. Amounts retained by Russell Implementation Services Inc. for the year ended 30 June 2011 were $776,730 (2010: $1,126,652).

Additionally, the consolidated entity 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 consolidated entity, directly or indirectly during the financial year.

15 Related party transactions (continued)

Key management personnel unitholdings

The key management personnel of Russell Investment Management Ltd held units in the Fund as follows:

2011 | **As at**

Unitholder	Number of units held opening (Units)	Number of units held closing (Units)	Fair value of investment ($)	Interest held (%)	Number of units acquired (Units)	Number of units disposed (Units)	Distributions paid/payable by the Fund ($)
Alan N Schoenheimer and related parties	**314,735**	**321,160**	**241,195**	**0.01**	**6,425**	**-**	**973**

2010

Unitholder	Number of units held opening (Units)	Number of units held closing (Units)	Fair value of investment ($)	Interest held (%)	Number of units acquired (Units)	Number of units disposed (Units)	Distributions paid/payable by the Fund ($)
Alan N Schoenheimer and related parties	314,735	314,735	228,464	0.01	-	-	5,721

Key management personnel compensation

Key management personnel are paid by Russell Investment Management Ltd. Payments made from the consolidated entity 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 consolidated entity 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.

Other transactions within the consolidated entity

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

15 Related party transactions (continued)

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

Under the terms of the Fund's Constitution (as amended) for the Fund, the Responsible Entity is entitled to the aggregate of 0.04% per annum of that part of the total gross asset value up to and including $500,000,000, and 0.025% per annum of that part of the total gross asset value which is more than $500,000,000. The Responsible Entity fee is accrued daily and payable on a monthly basis. Responsible Entity fees are separately disclosed in the statement of comprehensive income.

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 International Shares Fund - Class A 0.95% (2010: 0.95%) per annum.

Russell International Shares Fund - Class B 1.95% (2010: 1.95%) per annum.

Russell International Shares Fund - Class C 1.15% (2010: 1.15%) per annum.

Russell International Shares Fund - Class D Nil (2010: Nil) 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:

	Parent Year ended	
	30 June 2011 $	30 June 2010 $
Management fees for the year paid by the Fund	**5,845,487**	4,922,843
Responsible Entity's fees for the year paid by the Fund	**579,736**	830,931
Aggregate amounts payable to the Manager at the end of the reporting period	**555,219**	458,266
Aggregate amounts payable to the Responsible Entity at the end of the reporting period	**147,691**	145,484

Related party 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:

15 Related party transactions (continued)

2011 Parent

Unitholder	Number of units held opening (Units)	Number of units held closing (Units)	Fair value of investment ($)	Interest held (%)	Number of units acquired (Units)	Number of units disposed (Units)	Distributions paid/ payable by the Fund ($)
BHP Billiton Option B	9,964,848	14,109,970	10,596,747	0.53	13,618,635	9,473,513	42,753
BHP Billiton Option C	154,448,464	285,785,872	214,628,415	10.71	134,373,946	3,036,538	865,931
BHP Billiton Option D	35,879,397	61,380,086	46,097,137	2.30	32,499,733	6,999,044	185,982
BHP Billiton Option E	13,122,450	13,767,199	10,339,322	0.52	4,953,827	4,309,078	41,715
BlueScope Steel Superannuation Fund (Option B)	4,485,016	5,456,805	4,098,122	0.20	7,046,356	6,074,567	16,534
BlueScope Steel Superannuation Fund (Option C)	83,898,777	81,522,124	61,224,035	3.06	8,792,023	11,168,676	247,012
BlueScope Steel Superannuation Fund (Option D)	21,681,505	19,414,477	14,580,491	0.73	12,835,226	15,102,254	58,826
Russell II Portfolio	44,213	611	456	-	1,446	45,048	6
Russell IV Portfolio	9,538,792	5,908,995	4,414,199	0.22	2,031,185	5,660,982	57,232
Russell VI Portfolio	9,054,173	5,399,805	4,033,819	0.20	304,509	3,958,877	51,895
Russell Balanced Blended Unit PST	14,021,930	10,654,630	7,959,332	0.40	3,375,776	6,743,076	100,019
Russell Balanced Fund	122,993,371	111,199,920	83,069,717	4.17	22,975,565	34,769,016	1,059,101
Russell Balanced Unit PST	210,133,807	201,212,511	150,311,855	7.54	37,907,666	46,828,962	1,908,062
Russell Balanced Opps Unit PST	41,379,114	54,370,293	40,616,260	2.04	39,155,540	26,164,361	507,140
Russell Balanced (Tax Exempt) Unit PST	8,731,905	4,325,637	3,231,382	0.16	443,943	4,850,211	42,103
Russell Conservative Fund	4,989,279	1,275,097	952,537	0.05	164,796	3,878,978	12,046
Russell Conservative Unit PST	5,315,319	-	-	-	173,663	5,488,982	-
Russell Conservative (Tax Exempt) Unit PST	380,154	-	-	-	191,494	571,648	117
Russell Diversified 50 Fund	35,111,167	24,637,763	18,405,157	0.92	1,797,141	12,270,545	232,764
Russell Diversified 50 Unit PST	6,454,093	1,551,378	1,158,927	0.06	625,821	5,528,536	14,948
Russell Diversified 50 (Tax Exempt) Unit PST	1,484,090	380,111	283,954	0.01	49,699	1,153,678	4,122
Russell Growth Fund	73,336,580	77,192,200	57,664,917	2.89	16,655,096	12,799,476	719,901
Russell Growth Unit PST	100,425,361	73,358,259	54,800,847	2.75	10,018,497	37,085,599	700,669
Russell Growth (Tax Exempt) Unit PST	1,733,773	939,641	701,941	0.04	149,958	944,090	8,897
Russell High Growth Fund	13,698,553	5,525,213	4,127,502	0.21	461,605	8,634,945	57,130
Russell High Growth Unit PST	8,833,489	6,588,720	4,921,974	0.25	299,160	2,543,929	63,280
Russell High Growth (Tax Exempt) Unit PST	500,916	188	140	-	16,370	517,098	5
Russell International Shares Fund - $A Hedged	918,130,135	566,148,226	422,929,915	21.22	185,832,621	537,814,530	5,365,189
Russell International Shares Unit PST	337,188,356	330,948,915	247,228,888	12.41	113,837,456	120,076,897	3,160,083
Russell International Shares (Tax Exempt) Unit PST	695,402	2,042,303	1,525,662	0.08	1,582,164	235,263	18,344
Total Risk Management	466,793	178,624	133,437	0.01	362,900	651,069	1,734

15 Related party transactions (continued)

2010 Parent

Unitholder	Number of units held opening (Units)	Number of units held closing (Units)	Fair value of investment ($)	Interest held (%)	Number of units acquired (Units)	Number of units disposed (Units)	Distributions paid/ payable by the Fund ($)
BHP Billiton Option B	2,970,053	9,964,848	7,233,403	0.34	10,193,338	3,196,543	181,121
BHP Billiton Option C	53,261,609	154,448,464	112,112,893	5.30	101,186,855	-	2,807,255
BHP Billiton Option D	17,153,459	35,879,397	26,044,564	1.23	29,907,992	11,182,054	652,144
BHP Billiton Option E	14,252,225	13,122,450	9,525,481	0.45	3,185,212	4,314,987	238,514
BlueScope Steel Superannuation Fund (Option B)	2,680,123	4,485,016	3,255,637	0.15	8,230,377	6,425,484	81,520
BlueScope Steel Superannuation Fund (Option C)	52,066,219	83,898,777	60,901,445	2.88	98,479,351	66,646,793	1,524,944
BlueScope Steel Superannuation Fund (Option D)	13,674,494	21,681,505	15,738,429	0.74	33,999,015	25,992,004	394,083
Russell II Portfolio	933,884	44,213	31,866	-	533,942	1,423,613	1,368
Russell IV Portfolio	11,478,603	9,538,792	6,874,896	0.33	7,381,717	9,321,528	239,735
Russell VI Portfolio	7,642,831	9,054,173	6,525,616	0.31	8,958,955	7,547,613	226,868
Russell Balanced Blended Unit PST	15,624,740	14,021,930	10,106,029	0.48	11,224,026	12,826,836	351,897
Russell Balanced Fund	110,746,250	122,993,371	88,645,039	4.22	108,761,852	96,514,731	3,052,569
Russell Balanced Unit PST	268,171,064	210,133,807	151,449,786	7.21	138,094,490	196,131,747	5,235,527
Russell Balanced Opps Unit PST	5,452,163	41,379,114	29,823,178	1.42	40,838,114	4,911,164	981,852
Russell Balanced (Tax Exempt) Unit PST	8,264,902	8,731,905	6,293,348	0.30	7,414,222	6,947,219	217,635
Russell Conservative Fund	7,186,426	4,989,279	3,595,924	0.17	5,432,530	7,629,677	123,949
Russell Conservative Unit PST	13,485,615	5,315,319	3,830,911	0.18	4,496,552	12,666,848	133,841
Russell Conservative (Tax Exempt) Unit PST	581,272	380,154	273,988	0.01	424,678	625,796	9,241
Russell Diversified 50 Fund	29,473,093	35,111,167	25,305,679	1.21	33,323,596	27,685,522	869,948
Russell Diversified 50 Unit PST	8,583,265	6,454,093	4,651,660	0.22	468,686,032	6,816,033	161,777
Russell Diversified 50 (Tax Exempt) Unit PST	1,986,002	1,484,090	1,069,629	0.05	930,274	1,432,186	37,214
Russell Growth Fund	64,711,508	73,336,580	52,855,889	2.52	35,580,471	26,955,400	1,820,110
Russell Growth Unit PST	98,261,910	100,425,361	72,379,593	3.45	51,736,113	49,572,662	2,497,649
Russell Growth (Tax Exempt) Unit PST	1,047,227	1,733,773	1,249,583	0.06	1,559,148	872,603	42,793
Russell High Growth Fund	15,095,926	13,698,553	9,872,961	0.47	11,163,128	12,560,501	342,044
Russell High Growth Unit PST	10,344,771	8,833,489	6,366,562	0.30	6,231,511	7,742,793	221,695
Russell High Growth (Tax Exempt) Unit PST	138,830	500,916	361,025	0.02	649,325	287,239	12,387
Russell International Shares Fund - $A Hedged	2,257,092,763	918,130,135	661,724,137	31.51	266,917,767	1,605,880,395	23,005,348
Russell International Shares Unit PST	368,805,062	337,188,356	243,021,839	11.58	148,736,050	180,352,756	8,385,375
Russell International Shares (Tax Exempt) Unit PST	991,673	695,402	501,197	0.02	1,118,692	1,414,963	17,825
Total Risk Management	76,715	466,793	336,432	0.02	479,696	89,618	11,083

15 Related party transactions (continued)

Investments

The Fund held investments in the following schemes which are also managed by Russell Investment Management Ltd or its related parties:

	Fair value of investment		Interest held		Distributions received/receivable		Units acquired during the year		Units disposed during the year	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	$	$	**%**	%	**$**	$	**No.**	No.	**No.**	No.
Russell International Shares Tracker Fund (held by parent entity)	**298,250,175**	64,321,671	**100.00**	100.00	**4,015,635**	1,567,678	**278,199,458**	604,085	**-**	-
Russell Cash Sweep Fund	**47,050,868**	37,566,432	**12.05**	9.73	**2,634,010**	803,433	**738,616,449**	483,647,324	**729,132,012**	446,080,892

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

	Consolidated Year ended		Parent Year ended	
	30 June 2011 $'000	30 June 2010 $'000	**30 June 2011 $'000**	30 June 2010 $'000
(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities				
Profit/(loss) for the year	**-**	-	**-**	-
Increase/(decrease) in net assets attributable to unitholders	**71,349**	174,516	**71,349**	174,516
Distribution to unitholders	**19,014**	67,393	**19,014**	67,393
Proceeds from sale of financial instruments held at fair value through profit or loss	**2,621,786**	4,021,368	**2,405,458**	3,955,639
Purchase of financial instruments held at fair value through profit or loss	**(2,753,264)**	(3,235,597)	**(2,532,121)**	(3,166,027)
Net (gains)/losses on financial instruments held at fair value through profit or loss	**(57,867)**	(190,827)	**(58,322)**	(190,410)
Distributions income reinvested	**(766)**	(2,773)	**(2,841)**	(3,221)
Net change in receivables	**522**	2,084	**(813)**	1,019
Net change in payables	**(74,470)**	(31,470)	**(74,518)**	(31,484)
Cash collateral reinvested	**75,397**	28,091	**74,316**	28,091
Net cash inflow/(outflow) from operating activities	**(98,299)**	832,785	**(98,478)**	835,516
(b) Non-cash financing activities				
During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan	**63,568**	18,566	**63,568**	18,566
Redemption of units funded by an in specie transfer of assets	**316,039**	-	**316,039**	-

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

17 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 consolidated entity disclosed in the consolidated statements of financial position as at 30 June 2011 or on the results and cash flows of the consolidated entity for the year ended on that date.

18 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 consolidated financial statements and notes set out on pages 6 to 45 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 and the consolidated entity's financial position as at 30 June 2011 and of their 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
23 September 2011

Independent auditor's report to the unitholders of Russell International Shares Fund

Report on the financial report

We have audited the accompanying financial report of Russell International Shares Fund (the registered scheme), 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 for both Russell International Shares Fund and the Russell International Shares Fund Group (the consolidated entity). The consolidated entity comprises the registered scheme and the entities it controlled at the year's end or from time to time during the financial year.

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 the Corporations Act 2001 and for such internal control as the directors 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 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, 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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Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of Russell International Shares Fund is in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the registered scheme's and consolidated entity's financial position as at 30 June 2011 and of their performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) the consolidated financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 2.

PricewaterhouseCoopers

PricewaterhouseCoopers

TJO Peel

TJO Peel
Partner

Sydney
23 September 2011