

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

Russell Smaller Companies Class

JUNE 30, 2011

This annual management report of fund performance contains financial highlights but does not contain the complete audited annual financial statements of the Class. You may also obtain an additional copy of the annual management report of fund performance and the annual financial statements by visiting our website or SEDAR's website at www.sedar.com. You can request a copy of the Class's proxy voting policies and procedures, proxy voting record or quarterly portfolio disclosure at no cost by: calling 1-888-509-1792; visiting our website at www.russell.com/ca; or writing to us at: Russell Investments Canada Limited, 100 King Street West, 1 First Canadian Place, Suite 5900, Toronto, Ontario M5X 1E4.

This report may contain forward-looking statements about the Class, its strategy, expected performance and condition. Forward-looking statements are statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects", "anticipates", "plans", "believes", "estimates" or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future Fund action, is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risk, uncertainties and assumptions about the Class and economic factors. Forward-looking statements are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied in any forward-looking statements made by the Class. Any number of important factors could contribute to these digressions, including, but not limited to, general economic, political and market factors, interest and foreign exchange rates, capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.

We stress the above-mentioned list is not exhaustive. We encourage you to consider these and other factors carefully before making any investment decisions and we urge you to avoid placing undue reliance on forward-looking statements. Further, you should be aware of the fact that the Class has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise.

Russell Smaller Companies Class

Annual management report of fund performance

Investment objective and strategies

The Class's investment objective is to provide income and long-term capital appreciation primarily through exposure to equity securities of Canadian issuers, and to a lesser extent foreign issuers, with a smaller market capitalization.

To achieve this objective, the Class invests in units of the Russell Smaller Companies Pool (the "Underlying Fund").

The Class's investment in the Underlying Fund provides access to diversification that allocates among asset classes, investment styles and sub-advisers.

The current benchmark of the Class, against which its performance is compared, is the S&P/TSX SmallCap Index ("Benchmark"). Each sub-adviser may have a different sub-adviser benchmark allocated to it in respect of the assets of the Underlying Fund managed by that sub-adviser that better reflects the investment style or market segment of that sub-adviser.

Results of operations

For the reporting period beginning October 25, 2010 and ending June 30, 2011, the Russell Smaller Companies Class (the Class) returned 4.98%*, while its Benchmark, the S&P/TSX SmallCap Index, returned 6.87%.

From the Class's inception on October 25, 2010 to the end of the reporting period on June 30, 2011, the Class's net assets increased by \$2.9 million, as a result of a \$0.1 million loss relating to investment holdings and net subscriptions of \$3.0 million.

Equity market performance was varied but positive for the reporting period. Healthy gains were posted during the second half of 2010 as confidence in the global economic recovery strengthened and investors favoured riskier assets. However, the first half of 2011 presented some unique challenges for capital markets. Investor confidence in the global economic recovery was put to the test as a confluence of events, ranging from geopolitical unrest in North Africa and the Middle East, supply shocks from the Japanese earthquake and its subsequent nuclear disaster, weaker-than-expected economic data from the United States and a further deterioration in the Euro zone's sovereign debt crisis, led to a general sell-off of higher risk securities. During May and June, commodity prices lost much of their gains from the first quarter; most notable was the price of oil, which fell to USD\$95 per barrel from a high of USD\$113 per barrel. Fears of slowing global growth and economic uncertainty negatively affected cyclical or economy-sensitive stocks (those that tend to do well when there is an expectation for the economy to improve) along with commodity-related securities and markets, such as Canada. In this environment, the Underlying Fund struggled as investors favoured less risky investments.

For the reporting period, the Underlying Fund's overall sector positioning relative to the Benchmark was largely ineffective. The Underlying Fund's underweight to the Utilities and Financial Services sectors, and adverse stock selection within these sectors, were the largest detractors to performance. In addition, the overweight to the Healthcare and Industrials sectors were negative. However, security selection within these sectors was beneficial for performance. Also on the positive side, the overweight to the Materials sector and stock selection within this sector added to performance. While the overweight to the Information Technology sector added value, this was offset by poor stock selection within the sector.

Hillsdale Investment Management Inc. was the best performing sub-adviser in the Underlying Fund for the reporting period. Hillsdale's active and disciplined approach to investing based on fundamental equity research and quantitative analysis, and its proficiency at capitalizing on current trends and identifying attractive stocks, was rewarded with robust excess returns relative to the Benchmark during the reporting period. Both sector positioning and stock selection were positive with the majority of outperformance coming from strong stock selection, most notably in the Materials and Energy sectors, and specifically from overweight positions in precious metals and minerals stocks and oil and

gas equipment and services shares. Tempering Hillsdale's performance was stock selection within the Information Technology and Financials sectors, where overweight positions to communications equipment shares were the largest detractor to performance.

Goodman & Company, Investment Counsel Ltd. focuses on finding quality companies that possess strong long-term earnings growth prospects and robust fundamentals. Relative to the Benchmark, during the initial part of the reporting period, Goodman outperformed as confidence in the global economic recovery strengthened, but lagged during the second half of the reporting period as risk aversion returned. Ineffective security selection was the primary driver to Goodman's performance. Stock selection within the Materials and Utilities sectors was particularly unfavourable with the overweight to Hana Mining Ltd., Eastern Platinum Ltd. and the shares of independent power producers and energy traders among the top detractors. Mitigating performance was favourable security selection within the Healthcare and Industrials sectors and the overweight to the Information Technology sector.

Risk

The overall risks of the Class are described in the prospectus. During the reporting period, there have been no changes to the Class that have materially affected the Class's risk profile. The Class's risk profile and the suitability of the investment remain as disclosed in the prospectus.

However, effective June 29, 2011 and as described in the Class's prospectus, the Russell Funds adopted a fund risk rating methodology recommended by the Investment Funds Institute of Canada (IFIC) to ensure consistency with the requirements of new National Instrument 81-101F3 "Mutual Fund Prospectus Disclosure - Contents of Fund Facts Document." Accordingly, the risk rating for the Class was changed from "above average" to "medium to high" to match with IFIC's risk rating methodology and terminology.

Recent developments

International Financial Reporting Standards (IFRS) will replace Canadian Generally Accepted Accounting Principles (GAAP) for publicly accountable enterprises, which includes investment funds and other reporting issuers. On January 12, 2011, the Canadian Accounting Standards Board (ASB) made a decision to extend the deferral of IFRS adoption by investment companies for an additional year to January 1, 2013, which results in a two-year deferral for the adoption of IFRS compared with other publicly accountable entities. In preparation for meeting IFRS requirements, the Manager has taken the following steps:

- Established a working group to identify key differences between Canadian GAAP and IFRS, and to coordinate the transition to IFRS
- Identified areas where changes in disclosure will be required under IFRS standards
- Evaluated current information technology and reporting systems for IFRS readiness
- Assessed the likely effects on business activity and operational areas, such as internal controls, staffing and training requirements

Based on the current evaluation of the differences between Canadian GAAP and IFRS, the adoption of IFRS is expected to have no effect on the calculation of net assets or net asset value. IFRS is expected to affect the overall presentation of financial statements and result in additional disclosure in the accompanying notes. However, the Manager's current assessment of the effect of IFRS may change if new standards are issued or if the interpretations of current standards are revised.

* Based on the performance of Series B shares net of all fees and expenses paid by the Class. The return for Series E and Series F shares were 5.50% and 5.98% respectively. The returns of the Series of shares may differ as a result of varying fees and expenses. Please refer to the Series Description & Management Fees section for more details.

Russell Smaller Companies Class

Annual management report of fund performance

Related party transactions

Manager, Portfolio Manager and Principal Distributor

The Fund is managed by Russell. Russell is a wholly owned subsidiary of Frank Russell Company ("FRC").

Russell provides or arranges for the provision of all general management and administrative services required by the Class in its day-to-day operations, including providing or arranging for the provision of investment advice, as well as bookkeeping, record-keeping and other administrative services for the Class.

Russell is the portfolio manager of the Class (the "Portfolio Manager"). Russell has entered into sub-adviser agreements with FRC and Russell Implementation Services Inc. ("RIS"), an affiliate, to provide services to the Class.

Russell also serves as distributor of the Fund and has exclusive rights to distribute and arrange for the distribution of shares of the Class on a continuous basis in all provinces and territories in Canada in which shares of the Class are qualified for sale.

Russell receives a monthly management fee, based on the average net asset value of each series of shares of the Class, calculated daily and payable monthly.

Series description

The Class offers the following series of shares: Series B, E, F.

Series B shares have an annual management fee. The dealer is paid a trailer fee out of this management fee. Series E shares have a lower management fee. The dealer is paid a trailer fee out of this management fee.

Series F shares are sold only to investors enrolled in a fee-for-service or wrap program. These shares have a reduced management fee and do not pay trailer fees to the dealer. Instead, each investor negotiates a separate, ongoing fee that is paid directly to their dealer.

Management fees

The annual management fee paid by the Class is a percentage of the average daily net asset value of each series exclusive of any applicable taxes and operating expenses. The percentage is set out below:

Series B	Series E	Series F
2.00%	1.70%	1.00%

From these management fees, Russell pays other service providers, including distributors and sub-advisers. The major services expressed as a percentage are set out below.

	Percentage of management fees
Trailing and sales commissions	26%
Portfolio Manager expenses & other fees	74%

Financial highlights

The following tables show selected key financial information about the Class and are intended to help you understand the Class's financial performance for the period from October 25, 2010 to June 30, 2011.

The Class's net assets per share⁽¹⁾

Series B	2011*
Net Assets, beginning of period	\$ 10.00
Increase (decrease) from operations	
Total revenue	\$ 0.10
Total expenses	\$ (0.17)
Realized gains (losses) for the period	\$ -
Unrealized gains (losses) for the period	\$ (0.39)
Total increase (decrease) from operations⁽²⁾	\$ (0.46)
Distributions	
From income (excluding dividends)	\$ -
From dividends	\$ -
From capital gains	\$ -
Return of capital	\$ -
Total annual distributions⁽³⁾	\$ -
Net Assets at end of the period	\$ 10.50

Series E	2011*
Net Assets, beginning of period	\$ 10.00
Increase (decrease) from operations	
Total revenue	\$ -
Total expenses	\$ (0.14)
Realized gains (losses) for the period	\$ -
Unrealized gains (losses) for the period	\$ (0.97)
Total increase (decrease) from operations⁽²⁾	\$ (1.11)
Distributions	
From income (excluding dividends)	\$ -
From dividends	\$ -
From capital gains	\$ -
Return of capital	\$ -
Total annual distributions⁽³⁾	\$ -
Net Assets at end of the period	\$ 10.55

Series F	2011*
Net Assets, beginning of period	\$ 10.00
Increase (decrease) from operations	
Total revenue	\$ 0.01
Total expenses	\$ (0.06)
Realized gains (losses) for the period	\$ 0.01
Unrealized gains (losses) for the period	\$ (1.18)
Total increase (decrease) from operations⁽²⁾	\$ (1.22)
Distributions	
From income (excluding dividends)	\$ -
From dividends	\$ -
From capital gains	\$ -
Return of capital	\$ -
Total annual distributions⁽³⁾	\$ -
Net Assets at end of the period	\$ 10.60

* From October 25, 2010 to June 30, 2011

- (1) This information is derived from the Class's audited annual financial statements.
- (2) Net assets and distributions are based on the actual number of shares outstanding at the relevant time. The increase/ decrease from operations is based on the weighted average number of shares outstanding over the financial period.
- (3) Distributions were reinvested in additional shares of the Class, unless the investor requested payment in cash.

Russell Smaller Companies Class

Annual management report of fund performance

Ratios and supplemental data

Series B	2011*
Total net asset value (000's) ⁽¹⁾	\$ 755
Number of shares outstanding ⁽¹⁾	71,872
Management expense ratio ⁽²⁾	2.40%
Management expense ratio before waivers or absorptions	4.11%
Trading expense ratio (%) ⁽³⁾	0.72%
Portfolio turnover rate (%) ⁽⁴⁾	7.01%
Net asset value per share	\$ 10.50

Series E	2011*
Total net asset value (000's) ⁽¹⁾	\$ 149
Number of shares outstanding ⁽¹⁾	14,097
Management expense ratio ⁽²⁾	2.08%
Management expense ratio before waivers or absorptions	3.78%
Trading expense ratio (%) ⁽³⁾	0.72%
Portfolio turnover rate (%) ⁽⁴⁾	7.01%
Net asset value per share	\$ 10.55

Series F	2011*
Total net asset value (000's) ⁽¹⁾	\$ 2,034
Number of shares outstanding ⁽¹⁾	191,968
Management expense ratio ⁽²⁾	1.29%
Management expense ratio before waivers or absorptions	2.99%
Trading expense ratio (%) ⁽³⁾	0.72%
Portfolio turnover rate (%) ⁽⁴⁾	7.01%
Net asset value per share	\$ 10.60

* From October 25, 2010 to June 30, 2011

- (1) The information is provided as at June 30 of the year shown.
- (2) Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) including expenses indirectly incurred as a result of the Class's investment in the Underlying Fund(s), for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.
- (3) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period. The calculation of the trading expense ratio requires an investment fund that invests in securities of other investment funds to calculate the trading expense ratio by including commissions and other portfolio transaction costs that are attributable to its investment in each of the underlying investment funds.
- (4) The Class's portfolio turnover rate indicates how actively the Class's portfolio adviser manages its investments. A portfolio turnover rate of 100% is equivalent to the Class buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

Past performance

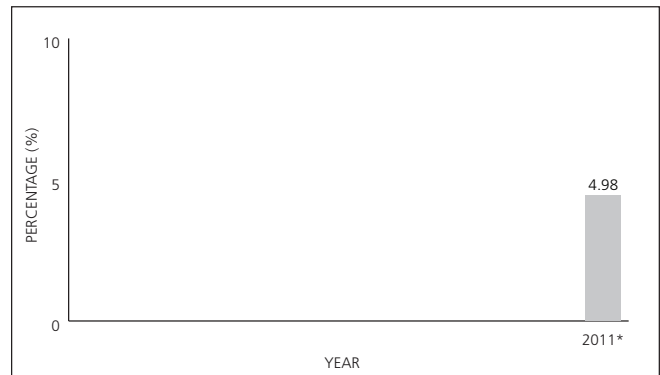
The past performance shows historical performance information for each series of shares of the Class. This information is provided to show past performance only and is not necessarily indicative of what may happen in the future.

The past performance information assumes that all distributions were re-invested in additional shares of the same series of the Class. The past performance information does not take into account sales, redemption, optional fees, income taxes or fees paid directly to Russell or your investment adviser that would have reduced returns or performance. Even if your distributions are reinvested you may have to pay tax on those distributions. Please consult your tax adviser.

Year-by-year returns

The following charts show the annual performance of each series of shares for the period ended June 30. The start date used in this Past Performance section is the date the series were first made available to the public, whereas, the start date disclosed in the Financial Highlights section, is the formation date.

Year-by-year returns – Series B



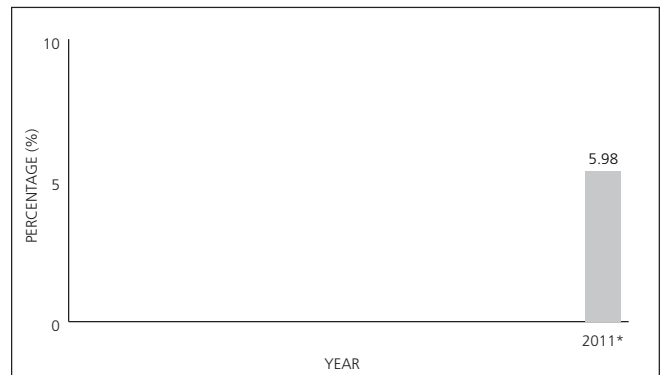
*From October 29, 2010 to June 30, 2011 (not annualized)

Year-by-year returns – Series E



*From October 29, 2010 to June 30, 2011 (not annualized)

Year-by-year returns – Series F



*From October 29, 2010 to June 30, 2011 (not annualized)

Russell Smaller Companies Class

Annual management report of fund performance

Annual compound returns

The tables show the historical annual compound total returns of the shares of the Class compared to the S&P/TSX SmallCap Index ("Benchmark").

Period ending June 30, 2011

Annual Compound Returns	Since October 29, 2010
Series B shares ⁽¹⁾	4.98%
Series E shares ⁽¹⁾	5.50%
Series F shares ⁽¹⁾	5.98%
S&P/TSX SmallCap Index ⁽²⁾	6.87%

(1) Net of all fees and expenses paid by the Class.

(2) The S&P/TSX SmallCap Index provides investors with a broad and representative benchmark for small caps in Canada and is comprised of securities between C\$ 100 million and C\$ 1.5 billion in market capitalization for Canadian based, Toronto Stock Exchange listed companies. Source: TSX © Copyright 2011 TSX Inc. All Rights Reserved.

Performance commentary

For the period ended June 30, 2011 the Class returned 4.98% (Series B), while the Benchmark returned 6.87%. A discussion of the relative performance of the Class as compared to the Benchmark is contained in the Management Report of Fund Performance under Results of Operations.

The Benchmark is a composition of securities. It is not possible to invest directly in the Benchmark and the Benchmark does not have embedded expenses, fees or taxes. Any investment in securities requires the payment of fees and or expenses.

Summary of investment portfolio

Top 25 holdings*

As at June 30, 2011

	Percentage of net asset value of the Class
Labrador Iron Royalty Corp.	2.7%
Augusta Resource Corp	2.3%
Wi-Lan Inc	2.0%
Perseus Mining Limited	1.8%
Savanna Energy Services Corp	1.7%
Alterra Power Corp	1.7%
Neo Material Technologies Inc	1.6%
Cequence Energy Limited	1.6%
Paramount Resources Ltd	1.6%
Cga Mining Ltd	1.6%
Oridion System II	1.5%
Descartes Sys Group Inc	1.5%
Cervus Equipment Corp	1.5%
Absolute Software Corp	1.4%
Canaccord Financial Inc	1.4%
Mag Silver Corp	1.4%
Ruggedcom Inc	1.4%
Canfor Corpor	1.3%
Alamos Gold Inc	1.3%
Richelieu Hardware Ltd	1.3%
Phx Energy Services Corp	1.2%
Karnalyte Resources Inc	1.2%
Major Drilling Group Intl Inc	1.2%
Contrans Group Inc	1.2%
Dundee Corpor	1.1%

Net Asset Value (thousands of dollars)

\$2,932

Note: The summary of investment portfolio may change due to ongoing portfolio transactions of the Underlying Fund. This list will be updated within 60 days of each quarter end and is available on our website-www.russell.com/ca. The prospectus and other information about the Underlying Fund is available at www.russell.com/ca or at www.sedar.com.

Sector weights*

As at June 30, 2011

	Percentage of net asset value of the Class
Materials	35.5%
Energy	20.4%
Information Technology	15.2%
Industrials	8.4%
Financials	8.2%
Consumer Discretionary	5.1%
Utilities	3.1%
Health Care	2.9%
Telecommunications Services	1.1%

*These are the portfolio holdings and sector weights of the Russell Smaller Companies Pool, the Underlying Fund. The Class is exposed to these portfolio holdings and sector weights as a result of investing substantially all of its assets in units of the Underlying Fund.

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