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Russell Global Survey on Alternative Investing: institutional investors entering the next phase in alternative investments

Survey respondents expect to increase their asset allocation to alternative investments over the next two to three years from 14% to 19% of their total investment portfolio

LONDON, June 21, 2010 – Institutional investors across the world expect to re-commit to alternative investments despite the market stresses experienced during 2008 and 2009, according to the ninth global survey on alternative investing released today by Russell Investments.

The **Russell Investments 2010 Global Survey on Alternative Investing** found institutional investors expecting (on average) an increase of over a third (from 14% to 19%) in their allocation to alternatives over the next two to three years. Real estate, private equity and hedge funds remain the preferred alternative types, although commodities and infrastructure are expected to make meaningful gains, albeit from their current low allocations.

The survey also found that institutional investors have raised the bar in specific areas such as liquidity and transparency. A striking 84% of respondents have made (or plan to make) changes in their risk management approach, and nearly two-thirds are increasing the sophistication of their internal decision making and governance processes. At the same time, their awareness of the role alternative investments play in portfolio diversification and risk management has increased.

"Survey participants confirmed that alternative investing has survived the global financial crisis of 2008 and early 2009 and is poised for recovery, re-evaluation and increased allocations in the coming years. Alternatives have gained a solid reputation as portfolio-diversifiers and risk-mitigators, and they are expected to gain momentum even if the current global recovery were to falter," said Janine Baldrige, head of global consulting and advisory services. "The Russell Investments 2010 Global Survey on Alternative Investing provides a valuable window into the practices and attitudes of institutional investors around the world at a pivotal time in the evolution of alternative investments."

Since 1992, Russell has surveyed large tax-exempt institutions (public and corporate pension funds, endowments and foundations generally with assets of \$1 billion or more) in North America, Europe, Japan and Australia to gauge their participation in and expectations for core alternative investing strategies. The high-level, global results, which were based this year on responses from and interviews with 119 organizations worldwide, are published in the comprehensive report, which presents data by investment category and includes detailed analysis regarding investment strategies, investment types and expectations for new investments over the next two years.

Headline global findings:

- Allocations to **private equity** declined in 2009 due to the strong rebound in publicly traded equities but are expected to rebound in 2012. Survey respondents in North America expect the current share of private equity in their total portfolios, currently averaging 4.3%, to increase to 6.8% in 2012. Expectations for 2012 are not as robust in either Europe (3.7% share expected) or Japan (2.5%). In Australia, private equity allocations were reported at 3.5% for 2009, with little increase expected in 2012.
- Overall, survey respondents expect to increase the proportion of their portfolios committed to **hedge funds** to 5.7% in 2012, up from 4.2% in 2009. Previous surveys had average allocations to hedge funds in the 7-8% range in North America and Europe and as high as 9-10% in Japan/Asia. Crisis-related disenchantment with hedge funds was greatest in Europe, and allocations there may not return to peak levels for some time.
- For 2009, **real estate**'s share of the total investment portfolio for institutional investors responding to the Russell survey stood at 4.0% in North America, 4.9% in Europe and 2.7% in Japan. Respondents are expecting valuation-driven increases by 2012 in each of these regions.
- Institutional investors indicate that the market volatility of the last two years has not altered their **fundamental philosophy on alternatives**, but these same survey respondents do appear to be modifying their approach. The survey found 58% of respondents agreed that their philosophies/strategies had not changed as a result of the financial crisis, versus 28% who disagreed. Yet, 44% said that they already - or soon will - differentiate alternative investments by liquidity risk.
- More telling, 84% of surveyed firms have made or plan to make changes to their **governance and risk management approach**. In regard to alternatives, 44% said they are increasing the depth and frequency of reporting, and 39% indicated they are providing more active education and briefings to boards or senior management.
- Among the 84% of firms who plan to make changes in their risk management approach, over one-third said they are increasing proprietary research on asset class or asset allocation strategies, or on specialized investments. Additionally, 21% are increasing the frequency of depth of risk reporting; 17% are relying more on risk-budgeting; and 15% are implementing risk management systems.
- "Institutional investors responding to the Russell survey indicated that the events of the past two years have brought risk management and governance concerns into sharper focus," said Julia Cormier, director, alternative investments. "They are doing more of what was working and also taking new steps to fill in the gaps. According to the survey, many institutional investors have adopted risk management systems that provide risk attribution by source. Still more have increased the frequency and depth of risk reporting to investment committees and management."

About Russell Investments

Founded in 1936, Russell Investments is a global financial services firm that serves institutional investors, financial advisers and individuals in more than 40 countries. Over the course of its history, Russell's innovations have come to define many of the practices that are standard in the investment world today, and have earned the company a reputation for excellence and leadership.

Through a unique combination of wide-ranging and interlinked businesses, Russell delivers financial products, services and advice. A pioneer, Russell began its strategic pension fund consulting business in 1969 and today is trusted by many well-known worldwide institutions for investment advice. The firm has \$179 billion in assets under management (as of 31 March 2010) in its mutual funds, retirement products, and institutional funds, and is well recognized for its depth of research and quality of manager selection. Russell offers a comprehensive range of implementation services that helps institutional clients maximise their assets. The Russell Indexes calculate over 50,000 benchmarks daily covering 65 countries and more than 10,000 securities.

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