

Russell Research

Investment Manager Outlook

Date: June 2009

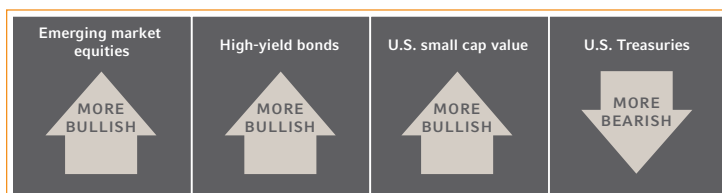
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Synopsis: Russell's quarterly survey of managers and their
views of the market.

Summary of key findings

Key trends / June 2009 Investment Manager Survey*



*Compared to survey results from 03/09 Investment Manager Outlook Poll

Manager bullishness this quarter was at an all-time high within the history of the Investment Manager Outlook (IMO). But that optimism must be taken in context of just how bad the previous quarter was.

On the strongly positive side, six of 13 asset classes and eight of 12 sectors ranked as first or second all-time IMO highs for bullishness. Among asset classes, all classes ranked near 50% bullishness or higher, except for real estate, cash and U.S. Treasuries.

Managers were asked how long they thought it would take for the credit markets to cease being a hindrance to a market recovery. As a sign of their still cautious sentiment, more than 66% of responses projected that the credit market recovery process would still take from six months to one year.

Bullishness on equities increased across the board, with the exception of midcap and large cap growth, where bullishness trended slightly downward, but still remained above 50%. In a long-term trend reversal, small cap growth moved up seven percentage points and passed large cap growth. And small cap value increased by one of the largest margins of all asset classes—15 percentage points. Midcap and large cap value followed this lead, as they increased by 10 and eight percentage points, respectively.

High yield and corporate bonds were both well over 60% in bullish ratings, showing a continued positive vote. Both categories only moved slightly from the previous quarter.

The “safety” classes of U.S. Treasuries and cash both saw big negative moves, with cash being seen half as bullish as the previous quarter and Treasuries bullish rating dropping below 9%.

Tech stocks, materials and processing, and energy sectors all rose above 60% in bullishness, with technology reaching above a 75% bullish rating. While the automotive sector still remains predominantly bearish, its positive sentiment improved dramatically to an all-time IMO high.

Managers are back on the offensive, as equities are in favor and defensive classes and sectors are seen as less promising. But context is key. While the majority of managers see short-term gains as likely, the longer term picture remains much more uncertain. And even if most managers expect recovery, they also expect plenty of bumps along the way. ■

- › Manager bullishness this quarter was at an all-time high.
- › Context of the previous bearish quarter must be considered.
- › Six of 13 asset classes and eight of 12 sectors ranked as first or second all-time IMO highs for bullishness.
- › More than 66% of responses projected credit market recovery would take from six months to one year.
- › Bullishness on equities increased across the board, with the exception of midcap and large cap growth.
- › Small cap value increased by one of the largest margins of all asset classes.
- › High yield and corporate bonds were both well over 60% in bullish ratings.
- › U.S. Treasuries and cash both saw big negative moves.
- › Technology reached above a 75% bullish rating.

About the Investment Manager Outlook

Russell Investments builds its products by researching, selecting and combining best-of-breed investment managers around the world. Because of these efforts, we are consistently recognized as the world's leading researcher of investment managers. Point of fact: Our analysts hold more than 5,000 research meetings each year with investment managers. The cumulative knowledge we gain from this unparalleled access to senior-level investment decision makers serves as the foundation for all of our products and services.

Each quarter, Russell surveys a sample of these decision-makers to collect their top-line opinions about market direction, sectors and styles to watch, and economic trends that could impact investment strategy. This Investment Manager Outlook is the latest result. ■

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Risk gets rewarded. Managers move from defense to offense in a big way.

By Mark Eibel, director, Investment Management and Research—
Client Investment Strategies

To keep it simple, the trend since March 9 has been, “anything but cash and treasuries.” After all, surveyed managers rang in as bullish on nearly every other asset class and sector, with six of 13 asset classes and eight of 12 sectors ranked as first or second all-time Investment Manager Outlook highs.

All that supposed optimism needs to be taken in context of the previous quarter’s IMO, the results of which were collected within a week of the market’s March 9 bottom. Those previous results showed managers to be much more cautious and signaled that they did not know a market bottom was close at hand. **Now the question is whether or not this newfound bullishness is more than just a pendulum swing.**

Between these last two IMOs, the risk switch seems to have gone from full off to full on, with no in-between. With few exceptions, managers seem to have made a strong rotation from defense to offense since then. Cash, U.S. Treasuries and the healthcare sector—traditionally defensive strategies—all were seen as significantly less bullish by surveyed managers than three months ago. In their place, managers turned to high yield and corporate bonds and equities of nearly every style and sector. They indicated that they liked it all.

That offensive move and the positive sentiment of managers is still balanced by a healthy sense of wait-and-see.

“Risk-taking is returning, but it is likely to have fits and starts. Unless something happens to call into question the integrity of the financial system again, we have seen the lows.”

Michael Corelli, portfolio manager, Oppenheimer Capital.

Taken together, the responses of managers seemed to say that recovery is not only likely, but probably underway. **But buckle up and hold on, because it still could be a bumpy ride.**

Credit markets: The unfinished story

Three months ago, managers who were surveyed said that an **improvement in the credit markets was the single most important factor for a market recovery.** In this quarter’s survey, managers were asked how long they thought it would take for the credit markets to stop being a negative drag. **An overwhelming 67% of responders said that process would still take from six months to a year to play out.**



The following asset classes and sectors recorded IMO all-time high or second-highest all-time levels for bullishness.

ALL TIME HIGHS

- › High yield bond
- › Emerging market equities
- › Small cap growth
- › Other energy
- › Integrated oils
- › Materials & processing
- › Autos and transportation

SECOND HIGHEST ALL TIME STATUS

- › Corporate bonds
- › Small cap value
- › Large cap value
- › Technology
- › Financial services
- › Consumer discretionary & services
- › Producer durables

Risk gets rewarded. Managers move from defense to offense in a big way. (continued)

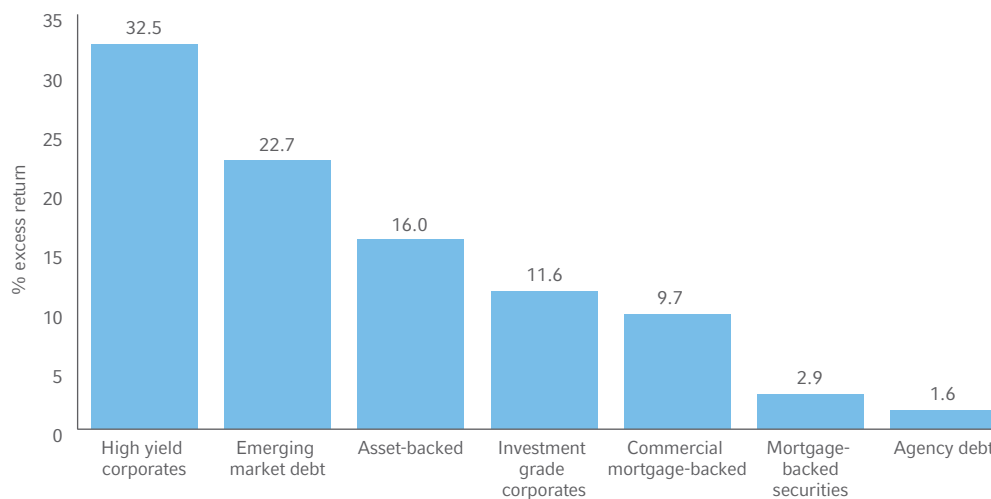
Russell sees these responses as a healthy pessimism by predominantly risk-friendly managers. Improvements have clearly been made in the credit market, but the story is still not over.

We can track the credit market improvement by looking at the sentiments of surveyed managers over the last 12 months. From the second quarter of 2008 to the first quarter of 2009, the bullish score of high yield bonds nearly doubled, from 32% to 61%. Bullishness increased this quarter as well, but only by about five percentage points, to 66%. Managers were bullish on corporate bonds and high yield and have been rewarded for that stance so far this quarter. They still like high yield and corporate bonds in a big way. But their “six months to a year” response and the leveling off of the bullishness trend shows that almost no one believes the credit markets are fully out of the woods.

Risk gets rewarded in fixed income:

Emerging markets debt & high yield corporates lead fixed income rally in start of 2009.

YTD 6/4/2009 % excess return sector performance (relative to comparable duration U.S. Treasury securities)



Please refer to page 17 for fixed income sector definitions.

Source: Barclays Capital

*Indexes are unmanaged and cannot be invested in directly. Index return information is provided by vendors and although deemed reliable is not guaranteed by Russell Investments or its affiliates.

Let it ride

Taking a hint from high yield bonds, **managers seem to be saying that whatever performed well in the last three months is likely to perform for the rest of the year.** Russell believes that while the cost of the March collapse has come back out of the price of stocks during the last quarter, real recovery to pre-recession status has not yet been priced in.

Risk gets rewarded. Managers move from defense to offense in a big way. (continued)

Here's a little context. A year prior to the current IMO, on May 30, 2008, the Russell 1000® closed at 768.28. On January 2 of this year, the Russell 1000 closed at 503.14. The Russell 1000 had a March 9 low of 367.55. By June 15, the Russell 1000 was hovering back around 516. In other words, we've only recovered back to the beginning of 2009.

Russell agrees. **There's still plenty of room for market prices to increase, particularly in equities but the road those increases will take will likely be a rough one.**

Fairly valued?

That isn't to say the market will recover all the way to previous record highs any time soon. From the December 2008 IMO to the March 2009 IMO, the percentage of surveyed managers who believed the market to be undervalued dropped from 72% to 57%. That undervalued number has dropped again this last quarter to 38%. In contrast, 44% of managers believe the market to be fairly valued right now.

Russell believes these drops of the undervalued statistic happened because of two simple reasons: The first drop, from December 2008 to March 2009, was because managers assumed the market could still go down. The most recent drop, from the March 2009 IMO to its current state, is because the market has gone up, which validates how undervalued it probably was.

That doesn't mean it's reached its peak. **We believe there is still room for the market to continue moving in a positive direction. But that move will likely happen in a very bumpy way, as we expect the markets to bounce around all summer.**

Prodding the bottom

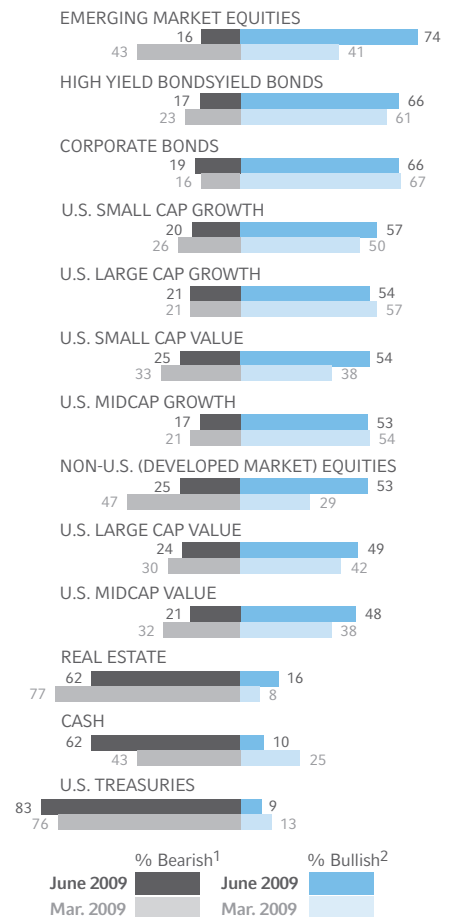
Dead cat bounce. Bull trap. Sucker rally. Whatever the term, **even the optimistic managers who responded to the survey appeared wary of a false recovery.** They're expecting months of bumps as investors test out the market to find out if we've reached the real bottom or not.

Washington: The unknown variable

"Amongst portfolio managers, the biggest fears seem to be of our government printing money, the drying up of treasury bond demand and an inability to control inflation on the flip side. The market detests uncertainty and no one knows what our government will do next."

*Dick Gould, president and chief investment officer,
Gould Investment Partners (Berwyn, PA).*

Manager expectations by asset class
(As of June 2009)



Note:

¹ Bearish = percent of managers responding with 1–3 on a scale of 1–7.

² Bullish = percent of managers responding with 5–7 on a scale of 1–7. Scores for neutral (4) are not included.

Rounding errors may occur. See detailed charts on the following pages.

Please refer to pages 13–15 for asset class definitions and page 17 for bearish & bullish definitions.

Risk gets rewarded.

Managers move from defense to offense in a big way. (continued)

This sentiment seems to be common among managers. The credit markets appear to be coming back and the private sector is less inclined to engage with Washington for assistance, precisely because of the fear of uncertainty. **The chance that the government may change the rules in the middle of the game is a risk few are inclined to take.**

“The most important dynamic in the global economy today is the collision of three realities: economic, financial and political. A sense of uncertainty pervades financial markets because the results of such a collision are very difficult to forecast.”

PIMCO

Market recovery to economic recovery

While lasting economic recovery is far from certain, a number of the survey trends show that the managers are pointing in that direction. Bullishness for the materials and processing sector nearly doubled, from 33% to 60%. Russell believes this is because managers see the economy as improving to a sustainable level. When the economy moves, people need materials.

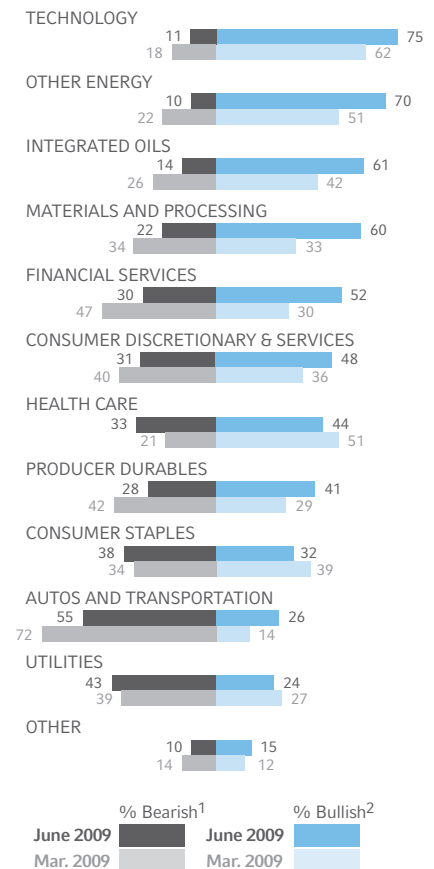
The energy sectors also took substantial jumps in manager bullishness. While this may be partially due to a weakening dollar, it also reflects an overall sentiment that our economy is likely to get better and create a higher and longer term demand for energy.

Consumer confidence is another key indicator of sustained economic recovery, but unemployment continues to be a drag on improvements in that area. **As of the end of May, U.S. unemployment was at 9.4%. If that number reaches 10%, Russell believes it could erode consumer confidence and have a noticeable negative impact on demand for goods and services.**

The financial sector has several different story lines—one of which is understanding manager sentiment toward this sector as a sign of greater recovery. Bullishness on financial services increased from the last IMO’s 30% to this quarter’s 52%, moving it from 8th place to 5th place. Russell believes the reason is simple: managers are confident banks are no longer at risk of going bankrupt.

The greatest single marker for recovery of the U.S. economy is Gross Domestic Product. GDP is still decreasing, which is bad, but it’s decreasing more slowly, which is good. In the fourth quarter of 2008, GDP decreased 6.3%. In the first quarter of 2009, that number improved to -5.7%. As one of the forecasters of the June 10, 2009 Blue Chip Economic Indicators® survey, **Russell believes that GDP will further improve to -2.7% over the next quarter. If that happens, then real recovery may kick into gear in a substantial way.**

Manager expectations by sector (As of June 2009)



Note:

¹ Bearish = percent of managers responding with 1–3 on a scale of 1–7.

² Bullish = percent of managers responding with 5–7 on a scale of 1–7. Scores for neutral (4) are not included.

Rounding errors may occur. See detailed charts on the following pages.

Please refer to page 16 for sector definitions.

Risk gets rewarded. Managers move from defense to offense in a big way. (continued)

The final word

What if recovery doesn't happen? **If the economy doesn't show signs of recovery by the end of the year, Russell expects the market to move south again.**

Keep in mind that the market always sees less volume in the summer. Conventional wisdom says that we can't tell which summertime market trends are real until after Labor Day, when the markets return to higher volume levels.

"I think the doomsday scenario that plagued the market over the past year or so is well behind us and stocks will now begin to reflect improving economic conditions worldwide. The rally over the past three months seems only to reflect the removal of that doomsday scenario and is therefore totally warranted. Further market gains will occur as the economy bounces back in response to the unprecedented stimulus being applied by governments worldwide. The surprise in this market may be the strength in the rebound, as most anticipate only a lackluster recovery."

Richard Rosen, senior portfolio manager, MacKay Shields.

Russell believes that 2009 will see an improvement in the active management environment. If second quarter market performance and these IMO results are any indication, this scenario appears to be playing out. ■

Quick hits:

EMERGING MARKETS 74% bullish. Russell believes this high ranking is partially due to a resurgence in commodities prices, a weaker dollar and partially because China's fiscal recovery efforts are working.

HEALTHCARE 44% bullish, a drop of more than seven percentage points. Russell believes bearishness increased because healthcare is traditionally a defensive play. Many managers have made a rotation toward an offensive direction.

NON-U.S. (DEVELOPED MARKET) EQUITIES Bullishness increased from 29 to 53%. Russell believes much of this is due to a dollar play.

AUTOS 26% bullish, an increase from last quarter's 14% and an all-time high on the IMO. Russell believes this is likely because this sector couldn't do much worse. In addition, bankruptcy proceedings appear to be moving faster than expected.

TECHNOLOGY Russell believes the bullishness—75% in this IMO—is because tech is one of the major sectors where the U.S. is seen as having a competitive global advantage.

VALUE Value historically leads the way out of a recession.

What managers are saying

A sample of manager comments from the June 2009 Investment Manager Outlook.

“On the heels of one of the sharpest market rallies since 1933 has priced in that the risk of financial Armageddon is now off the table. We are now back to pricing in “normal” business cycle fundamentals. Muted economic growth foreshadows muted stock market returns, except for those rare companies that exhibit growth. Such companies could surprise by how rapid their respective valuation multiples increase, reflecting their status as exceptional growth companies.”

David A. Rolfe, chief investment officer,
Wedgewood Partners, Inc.

“Still not out of the woods. Some recovery in place but a long way to go for financial health.”

Russell Brooks, principal,
Shenandoah Asset Management

“Risk appetites will increase as we enter a period where they move from ‘quick, get out of the way’ to ‘we better get with this move.’”

Kevin J. Dachille, investment director,
OFI Institutional

“Lower home prices combined with continued job losses, stagnant wage growth and stock market losses are likely to have a longer-term impact on consumer sentiment and spending.”

Keith Davis, research analyst,
Farr, Miller & Washington, LLC

“I continue to believe that we are in a bottoming pattern until the markets see some clear signs of economic recovery, which will not happen until the end of 2009. **All market participants were looking for a quick cure to an illness that took years to develop.**”

Mike Forrester, chief operating officer and CCO,
Copper Rock Capital Partners

“Going forward, **the market will reward companies that have taken advantage of the recession** to strengthen their competitive position.”

George Mussalli, director, equities,
PanAgora Asset Management

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RESULTS

Valuation of the U.S. equity market

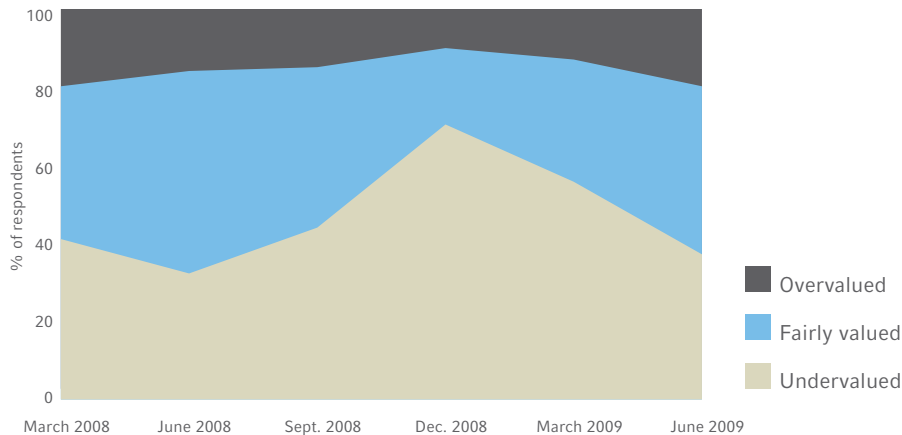
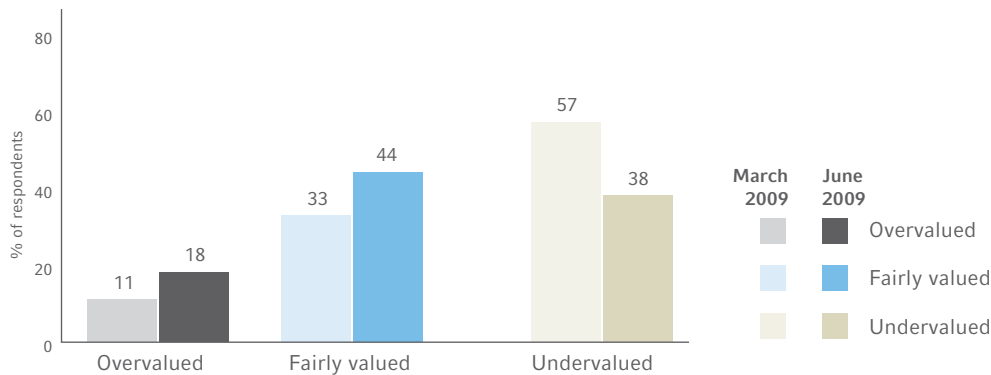
Question:

Which of these general valuation conditions best describes the current U.S. equity market?¹

Key findings:

- › Thirty-eight percent of managers believe U.S. equity markets to be undervalued, a significant decline from last quarter’s 57%, which declined from the previous quarter’s all-time high of 72%.
- › There was a corresponding increase in those who believe the U.S. equity markets are fairly valued (from 33% to 44%). Also, those believing markets are overvalued increased from 11% to 18%.
- › While a substantial number of managers still see the market as undervalued, these recent results are the first in four quarterly IMO’s where “fairly valued” responses scored higher than “undervalued.”

¹ U.S. equity market refers to the broad investable market as defined by the Russell 3000® Index. Indexes are unmanaged and cannot be invested into directly.



Note: Numbers may not add to 100 percent due to rounding.

RESULTS

How long until credit markets cease to hinder market recovery?

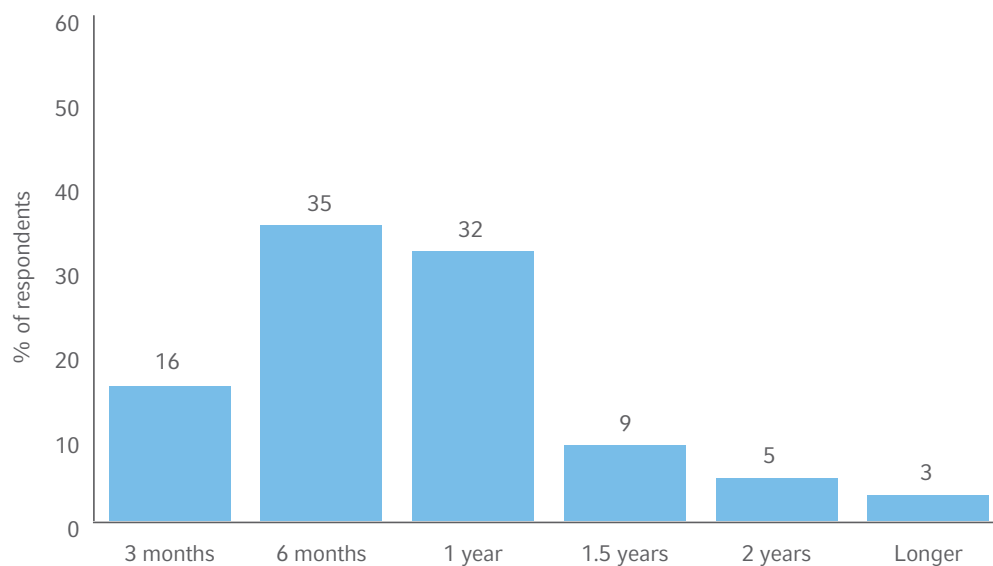
Last quarter, IMO survey respondents indicated that an improvement in the credit markets is the key economic indicator of a market recovery.

Question:

How long will it take for the credit markets to cease their hindrance to a market recovery?

Key findings:

- › Thirty-five percent of respondents indicated that credit markets would cease hindering recovery in six months, while 32% chose one year for this process to occur, combining for 67% of responses.
- › Only 17% of respondents thought the credit market process would take 1.5 years or longer, as opposed to 83% who thought it would take one year or less.



Methodology and background about Russell

Methodology

Russell Investments conducted the Investment Manager Outlook survey between May 27 and June 4, 2009. The survey was sent to a group of U.S. large and small cap equity and U.S. fixed income investment managers, researched by Russell. Having a financial relationship with Russell was not part of the criteria for being included in the survey. In total, 293 survey responses were received representing 193 investment management firms. On average, the companies that responded individually manage an estimated \$88.5 billion* in assets. The large majority of individual respondents to Investment Manager Outlook have senior-level investment decision responsibilities and are often portfolio managers or chief investment officers (CIOs). Other participants include investment strategists, research analysts, and others. The manager research that Russell conducts for investment purposes is independent of Investment Manager Outlook, and responses to the survey are voluntary.

About Russell Investments

Russell Investments provides asset management and investment services to institutional and individual investors. We offer mutual funds, indexes, alternative investments and implementation services such as transition management and trade execution. Russell has offices in most major financial centers and serve clients in more than 40 countries.

Russell is one of the world's most influential and trusted providers of investment services. A pioneer in multi-manager investing and the creator of the Russell Indexes, Russell manages approximately US\$136 billion in assets as of March 31, 2009. We work with more than 2,900

clients, ranging from small and mid-sized organizations to many of the world's largest and most sophisticated investors, responsible for hundreds of billions of dollars. Our innovative investment approach is made available to individuals through a network of strategic distribution alliances and independent investment advisors. Our clients include banks and insurance companies, investment advisors, defined benefit and defined contribution plans, endowments, foundations and sovereign wealth funds.

We seek to understand capital markets and identify investment managers we believe have exceptional capabilities. To achieve these goals, our analysts hold more than 5,000 research meetings each year with investment managers around the world. The cumulative knowledge we gain from this in-depth research serves as the foundation for all of our products and services.

Founded in 1936, Russell is headquartered in Tacoma, Washington. Russell is a subsidiary of Northwestern Mutual, and the company's executive management has a minority equity participation in the firm. More information about Russell's investment products and services is available at www.russell.com.

* Estimated assets under management is based on a majority of survey respondents. Data reported as of June 18, 2009 from Standard & Poor's.

Asset class and sector performance

Index performance for the period ending May 31, 2009.

Index	Asset class	Latest three months	Ytd	Annualized total returns (%)			
				One year	Three year	Five year	Ten year
Russell 1000® Index	Large Cap	26.4	4.1	-32.9	-8.2	-1.5	-1.3
Russell 1000® Growth Index	Large Cap Growth	25.3	10.3	-30.7	-5.9	-1.8	-3.6
Russell 1000® Value Index	Large Cap Value	27.6	-2.1	-35.3	-10.7	-1.5	0.2
Russell Midcap® Index	Mid Cap	31.4	9.6	-36.2	-9.3	0.4	3.5
Russell Midcap® Growth Index	Mid Cap Growth	31.6	16.1	-35.7	-8.2	-0.2	0.7
Russell Midcap® Value Index	Mid Cap Value	31.2	3.0	-36.8	-10.9	0.2	4.1
Russell 2000® Index	Small Cap	29.6	1.2	-31.8	-10.1	-1.2	2.7
Russell 2000® Growth Index	Small Cap Growth	30.2	7.9	-31.5	-8.8	-1.3	-0.7
Russell 2000® Value Index	Small Cap Value	28.9	-4.9	-32.2	-11.6	-1.2	5.4
Russell 3000® Index	Broad Cap	26.6	3.8	-32.9	-8.4	-1.5	-1.0
MSCI World Ex-U.S.	Non-U.S. Equities	36.0	10.9	-35.9	-6.7	4.0	2.5
MSCI Emerging Markets	Emerging Markets	56.3	38.1	-34.1	3.7	15.5	10.3
Barclays Capital U.S. Treasury Bond	U.S. Treasuries	-0.7	-4.1	7.5	7.6	5.6	6.1
Barclays Capital U.S. Aggregate Bond	Corporate Bonds	2.6	1.3	5.4	6.3	5.0	5.9
Barclays Capital U.S. Corp. High-Yield Bond	High-Yield Bonds	23.5	26.8	-7.8	1.0	4.0	4.4
FTSE NAREIT U.S. Real Estate	Real Estate	39.3	-8.8	-47.5	-15.5	-1.4	5.8
Citigroup 3-Month T-Bill	Cash	0.1	0.1	0.9	3.2	3.0	3.1

Index	Sector	Latest three months	Ytd	One year	Three year	Five year	Ten year
	Consumer Discretionary	27.6	7.4	-28.5	-9.3	-3.8	-2.5
	Consumer Staples	15.7	-0.7	-14.9	2.1	3.9	4.1
	Financial Services	49.0	-2.1	-43.7	-21.8	-10.0	-2.3
	Health Care	13.6	-1.4	-17.9	-3.2	-1.0	1.0
	Integrated Oils	9.0	-8.9	-29.9	4.1	12.1	8.6
	Material Processing	40.3	16.1	-40.8	-4.7	4.1	3.6
	Other	49.4	-7.3	-49.0	-19.0	-9.0	-3.9
	Other Energy	45.8	29.0	-48.7	-7.3	11.9	7.2
	Producer Durables	30.2	1.5	-40.4	-10.5	-0.6	2.1
	Technology	29.9	21.3	-27.2	-2.8	-0.7	-4.3
	Utilities	9.1	-5.5	-30.6	-3.5	3.7	-3.6

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Indexes and/or benchmarks are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

Russell equity sector returns are calculated by categorizing the securities that make up the Russell 3000® Index into discrete industry groupings and then computing the net return for each grouping.

Asset class definitions

Large cap growth

These securities are growth stocks which fall into the Russell Top 200[®] Index. This index includes the top 200 securities in the Russell 1000[®] Index, as ranked by total market capitalization. This “Blue Chip” large capitalization index represents approximately 37% of the value of the Russell 1000[®]. As of the June 27, 2008 reconstitution, the average market capitalization was approximately \$82.0 billion; the median market capitalization was approximately \$26.5 billion. Growth stocks tend to exhibit higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth levels.

Large cap value

These securities are value stocks which fall into the Russell Top 200[®] Index. This index includes the top 200 securities in the Russell 1000[®] Index, as ranked by total market capitalization. This “Blue Chip” large capitalization index represents approximately 33% of the value of the Russell 1000[®]. As of the June 27, 2008 reconstitution, the average market capitalization was \$119.5 billion; the median market capitalization was approximately \$25.0 billion. Value stocks tend to exhibit low price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth levels.

Mid cap growth

These securities are growth stocks which fall into the Russell Midcap[®] Index. This index includes the smallest 800 securities in the Russell 1000[®] Index, as ranked by total market capitalization. This index accurately captures the medium-sized universe of securities and represents approximately 16% of the value of the

Russell 1000[®]. As of the June 27, 2008 reconstitution, the average market capitalization was approximately \$8.3 billion; the median market capitalization was approximately \$3.5 billion. Growth stocks tend to exhibit higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth levels.

Mid cap value

These securities are value stocks which fall into the Russell Midcap[®] Index. This index includes the smallest 800 securities in the Russell 1000[®] Index, as ranked by total market capitalization. This index accurately captures the medium-sized universe of securities and represents approximately 15% of the value of the Russell 1000[®]. As of the June 27, 2008 reconstitution, the average market capitalization was approximately \$6.9 billion; the median market capitalization was approximately \$3.0 billion. Value stocks tend to exhibit low price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth levels.

Small cap growth

These securities are growth stocks which fall into the Russell 2000[®] Index. This index includes the smallest 2,000 securities in the Russell 3000[®] Index, representing approximately 4% of the value of the Russell 3000[®]. As of the June 27, 2008 reconstitution, the average market capitalization was approximately \$1.1 billion the median market capitalization was approximately \$373.3 million. Growth stocks tend to exhibit higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth levels.

Asset class definitions (continued)

Small cap value

These securities are value stocks which fall into the Russell 2000® Index. This index includes the smallest 2,000 securities in the Russell 3000® Index, representing approximately 4% of the value of the Russell 3000®. As of the June 27, 2008 reconstitution, the average market capitalization was approximately \$904 million; the median market capitalization was approximately \$374.9 million. Value stocks tend to exhibit low price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth levels.

Treasuries

Treasuries are debt obligations of the U.S. Treasury. Principal and interest payments are guaranteed by the U.S. Government.

Because default by the government is unlikely, the return on Treasury bonds is relatively low, and a high inflation rate can erase most of the gains by reducing the value of the principal and interest payments. There are three types of securities issued by the U.S. Treasury (bonds, bills, and notes), which are distinguished by the amount of time from the initial sale of the bond to maturity.

Please note, there is no guarantee the government will not default on a particular issue.

The Barclays Capital U.S. Treasury Bond Index covers public obligations of the U.S. Treasury with a remaining maturity of one year or more.

Corporate bonds

Corporate bonds are debt obligation issued by a corporation. Issues included in this classification are generally rated at least Baa by Moody's Investors Service or BBB by Standard & Poor's.

Bond investors should carefully consider risks such as interest rate, credit, repurchase and reverse repurchase transaction risks. Greater risk, such as increased volatility, limited liquidity, prepayment, non-payment and increased default risk, is inherent in portfolios that invest in high yield ("junk") bonds or mortgage backed securities, especially mortgage backed securities with exposure to sub-prime mortgages.

The Barclay Capital U.S. Aggregate Bond Index represents securities covering the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

Cash

Short-term investments typically involve instruments such as 90-day government Treasury Bills, high quality short-term notes and commercial paper issued by major financial institutions and blue chip companies. While highly liquid, cash generally has not kept pace with inflation.

Citigroup 3-Month T-Bill Index is an average of the last 3-month U.S. Treasury Bill issues (excluding the current month-end bill).

Non-U.S. developed market equities

Equities in non-U.S., developed markets.

Non-U.S. markets entail different risks than those typically associated with U.S. markets, including currency fluctuations, political and economic instability, accounting changes, and foreign taxation. Securities may be less liquid and more volatile.

Asset class definitions (continued)

The MSCI World Ex-U.S. IndexSM is a free float-adjusted market capitalization index that is designed to measure global developed market equity performance excluding the United States. As of June 2007 the index consisted of 22 developed market country indices.

High yield bonds

High Yield bonds are non-investment grade debt obligations. Issues included in this classification are generally rated Ba1 or lower by Moody's Investors Service or BB+ or lower by Standard & Poor's.

Bond investors should carefully consider risks such as interest rate, credit, repurchase and reverse repurchase transaction risks. Greater risk, such as increased volatility, limited liquidity, prepayment, non-payment and increased default risk, is inherent in portfolios that invest in high yield ("junk") bonds or mortgage backed securities, especially mortgage backed securities with exposure to sub-prime mortgages.

The Barclays Capital U.S. Corporate High-Yield Bond Index covers the universe of fixed rate, non-investment grade debt. Pay-in-kind (PIK) bonds, Eurobonds, and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, and 144-As are also included. The index includes both corporate and non-corporate sectors.

Real estate

Investment in real estate, usually through Real Estate Investment Trusts (REIT) or Real Estate Operating Companies (REOC), as well as open-end, pooled real estate funds.

Specific sector investing such as real estate can be subject to different and greater risks than more diversified investments. Declines in the value of real estate, economic conditions, property taxes and tax laws and interest rates all present potential risks to real estate investments.

FTSE NAREIT U.S. Real Estate: An index, with dividends reinvested, representative of tax-qualified REITs listed on the New York Stock Exchange, American Stock Exchange, and the NASDAQ National Market System.

Emerging market equities

Equities in non-U.S. emerging markets.

Investments in emerging or developing markets involve exposure to economic structures that are generally less diverse and mature, and to political systems which can be expected to have less stability than those of more developed countries. Securities may be less liquid and more volatile than U.S. and longer-established non-U.S. markets.

The MSCI Emerging Markets IndexSM is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of January 2009 the index consisted of 23 emerging market country indices.

Sector definitions

Technology

Primarily companies that serve the electronics and computer industries or that manufacture products based on the latest applied science.

Health care

Companies involved in medical services or health care including biotechnology research and production, drugs and pharmaceuticals, and health care facilities and services.

Consumer discretionary and services

Companies that manufacture products and provide discretionary services directly to the consumer. Some industries included in this sector are jewelry, watches and gemstones, advertising agencies, cosmetics and household furnishings.

Consumer staples

Primarily companies that provide products directly to the consumer that are typically considered non-discretionary items based on consumer purchasing habits. Because such companies typically offer products that are not dependent on cyclical economic conditions, their securities are frequently considered defensive or conservative.

Integrated oils

Included in this sector are domestic and international integrated oil companies involved in all parts of the exploration, production and refining process.

Other energy

Companies included in this sector are all energy related businesses other than those included in the integrated oils sector. Two distinct groups are: (1) gas distributors and gas pipelines and (2) other energy companies which include mining, producing, servicing, and drilling companies.

Materials and processing

This sector contains companies that extract or process raw materials. Some industries included in this sector are agriculture, fishing and ranching, building materials, forest products, and steel.

Producer durables

Companies that convert unfinished goods into finished durables used to manufacture other goods or provide services are contained in this sector. Some industries included are electrical equipment and components, industrial products, manufactured housing, and telecommunications equipment.

Autos and transportation

This sector includes what are traditionally known as transportation companies plus automobile-related companies. Some industries included in this sector are air transportation, auto and truck parts, tires and rubber and shipping.

Financial services

This sector consists of companies that provide financial services including banking, finance, life insurance, and securities brokerage, and services companies.

Utilities

Utility companies in industries heavily affected by government regulation. Electric companies, gas distributors and water utilities are some of the industries included in this sector.

Other

This category includes companies not identified as fitting into any one specific economic sector. These are sometimes referred to as multi-sector companies.

General disclosures

Performance quoted represents past performance and should not be viewed as a representation of future results.

¹ We define bearish as...on balance, an organization's or individual's predominant view based on a belief that general market conditions for the period in question will be negative, and relative valuations of securities in general will trend downward. This view should not be considered investment advice nor does it apply to any specific security.

² We define bullish as...on balance, an organization's or individual's predominant view based on a belief that overall market conditions for the period in question will be positive, and relative valuations of securities in general will trend upward. This view should not be considered investment advice nor does it apply to any specific security.

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Index definitions

Russell 1000® Growth Index: Measures the performance of those Russell 1000® Index securities with higher price-to-book ratios and higher forecasted growth values, representative of U.S. securities exhibiting growth characteristics.

Russell 1000® Value Index: Measures the performance of those Russell 1000® Index securities with lower price-to-book ratios and lower forecasted growth values, representative of U.S. securities exhibiting value characteristics.

Russell 3000® Index: Measures the performance of the 3,000 largest U.S. securities based on total market capitalization.

Fixed income sector definitions

HIGH YIELD

Bonds that are ranked lower by ratings agencies because they have a relatively higher chance of default and therefore generally offer a higher yield in return for the higher risk, higher volatility and higher risk of default than investment grade bonds.

EMERGING MARKET DEBT

Emerging market debt (EMD) may include obligations of governments and corporations in countries with emerging markets.

ASSET-BACKED SECURITIES

Consumer-related securities such as credit card and auto loans.

INVESTMENT GRADE CORPORATE BONDS

Corporate bonds are debt obligations issued by a corporation.

COMMERCIAL MORTGAGE-BACKED

Type of mortgage-backed security that is secured by the loan on a commercial property.

MORTGAGE-BACKED SECURITIES

Mortgage-backed securities are bonds backed by a pool of mortgages. Investors receive payments out of the interest and principal of the underlying mortgages.

AGENCY DEBT

A bond issued by a government agency but no fully guaranteed in the same way as U.S. Treasury bonds.

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