

Russell Market Research

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# Investment Manager Outlook

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## DATE

September 2011

## AUTHOR

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## COUNTRY

United States

## SYNOPSIS

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

## WHAT IS RUSSELL'S INVESTMENT MANAGER OUTLOOK?

Russell's Investment Manager Outlook is an ongoing, quarterly survey intended to generate a meaningful snapshot of investment manager sentiment. For the current installment of the survey, Russell collected the opinions of senior-level investment decision makers at equity investment management firms, as well as at fixed-income investment management firms. For this iteration, 102 managers participated in the survey.

## WHY IS IT IMPORTANT?

By providing insights into investment managers' market perspectives and opinions, Russell's Investment Manager Outlook helps advisors and investors better understand the direction of the markets and key investment trends.

# Summary of key findings and Russell's perspective

## SUMMARY OF KEY FINDINGS

The majority of managers surveyed say they do not believe the United States is entering a double-dip recession. Additionally, managers indicate increased optimism for emerging markets equities and for the technology sector.

- › A significant majority, 79 percent of managers, say they do not believe the United States is entering a double-dip recession. Most cited strong corporate balance sheets and high corporate profit levels as the main reason for their belief. Despite this optimism, 62 percent of those managers who rejected the double-dip recession theory do believe U.S. economic growth will remain slow for the next several years. Other economic indicators frequently cited by managers as support for their opinions that the United States will avoid a double-dip recession include the U.S. Federal Reserve's long-term, low interest-rate policy, declining oil prices and U.S. dollar weakness.
- › On the other hand, 11 percent of managers believe the United States is entering a double-dip recession and another 10 percent believe the country has already entered a double-dip recession. Of those managers, 95 percent cited a jobs recovery as the critical element required to help the country recover. The next most cited elements by these managers are improving consumer confidence and consumer consumption, resolution of political/policy issues with respect to U.S. debt, successful resolution of the European debt crisis and a U.S. housing market recovery.
- › Bullish sentiment regarding emerging markets equities gained considerable ground in the September survey. Optimism for the asset class rose 15 percentage points from the June 2011 survey, when 59 percent were bullish, to the September survey, now 74 percent bullish. Emerging markets lead the bullish sentiment asset-class list, followed closely by U.S. large cap growth (73 percent bullish) and U.S. large cap value (63 percent bullish).

## Key trends / September 2011 Investment Manager Survey\*



\* Compared to results from the June 2011 Russell Investment Manager Outlook survey.

# Summary of key findings and Russell's perspective

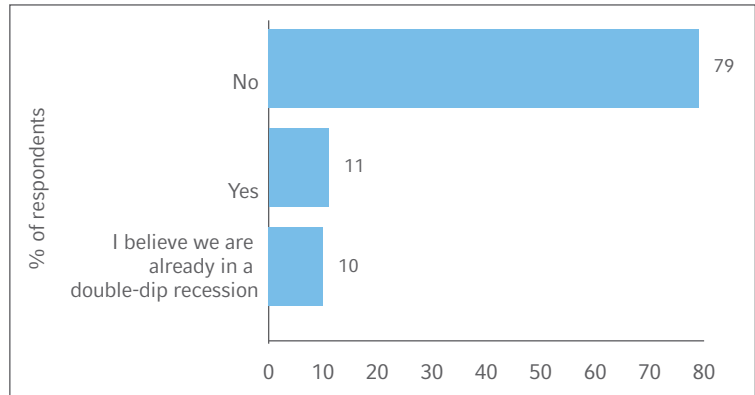
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- › Non-U.S. developed markets equities lost ground during the September survey, with bullish sentiment dropping from 53 percent in June to 45 percent in September, an eight (8) percentage point downward shift.
- › Managers remain bearish regarding U.S. corporate bonds and U.S. Treasuries. However, the level of bearish sentiment decreased for both sectors in September. Bearish sentiment for U.S. corporate bonds stood at 41 percent in September versus 57 percent in June, a 16 percentage point shift. Bearish sentiment for U.S. Treasuries is 74 percent, according to the September survey, versus 82 percent in June, an eight (8) percentage point change.

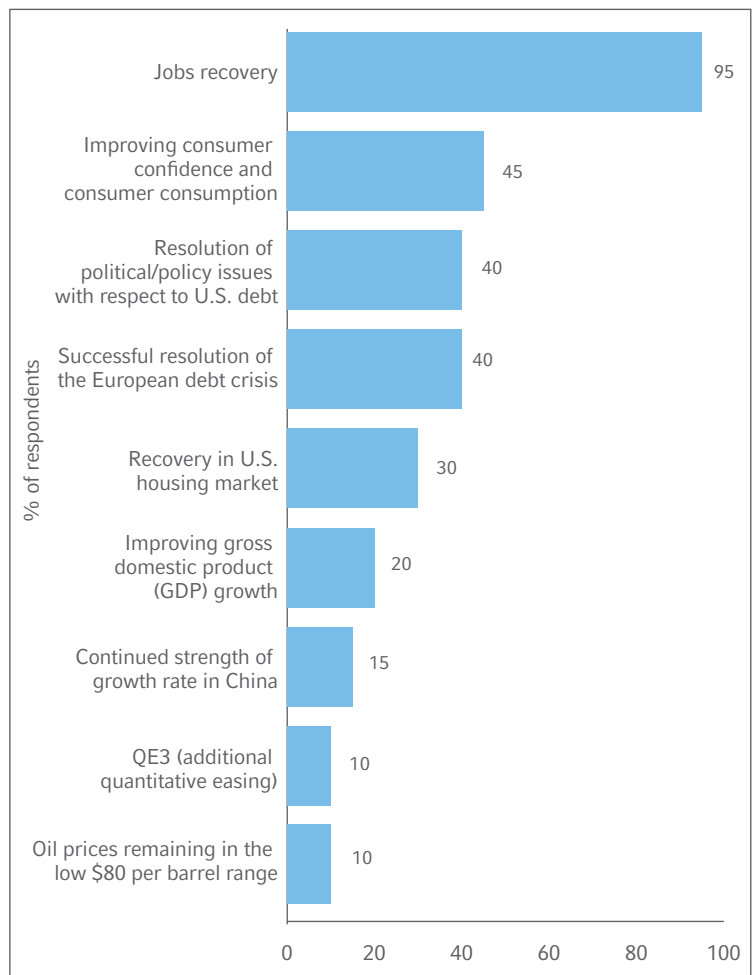
## RUSSELL'S PERSPECTIVE ON KEY FINDINGS

- › Russell agrees with the 79 percent majority of surveyed managers who believe the United States will avoid a double-dip recession. Strong corporate balance sheets and high corporate profits should ensure that the United States avoids a new recession. However, Russell also believes, along with the majority of the managers surveyed, that we will see a slow-growth trend for the next several years, as well as ongoing market volatility. Additionally, the uncertainty around resolution of the European debt issue has caused market volatility to spike, and we believe it is currently the dominant issue and greatest threat to systematic stability.
- › Of particular note to Russell is the significant divergence in viewpoint between professional money managers, as evidenced by survey responses, and individual investors. The majority of professional money managers are not reading market volatility as a warning sign of an impending economic meltdown. Instead, many are treating volatility as a buying opportunity. Russell believes the nervousness and extreme risk aversion displayed by

Do you believe the U.S. economy is entering a double-dip recession?



(IF YES/ALREADY IN...) What will it take to avoid/lead the United States out of a double-dip recession?  
(Please choose top three priorities)



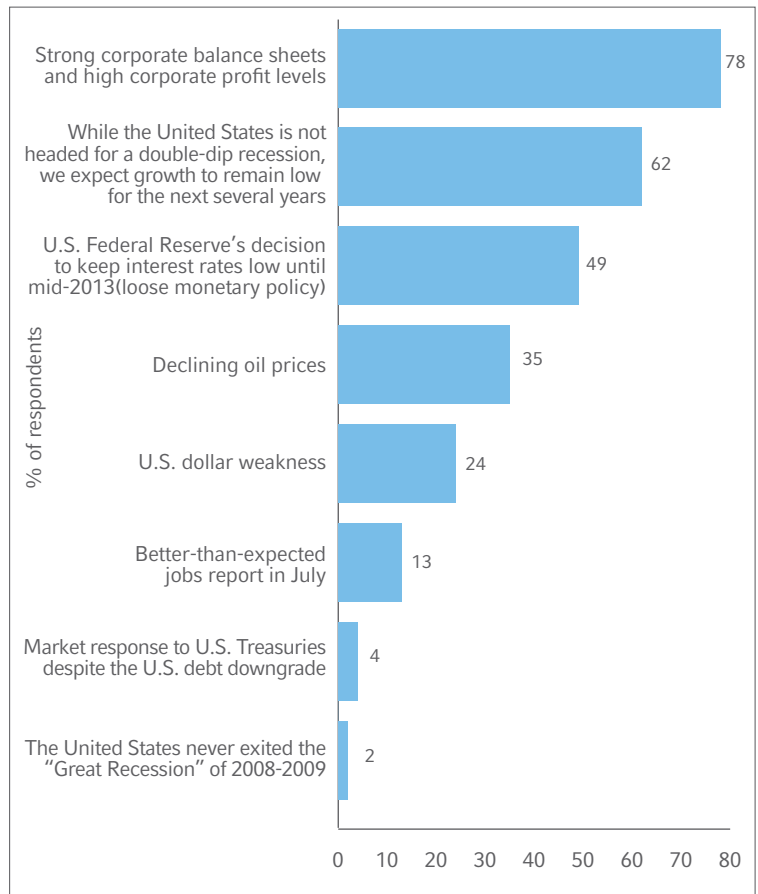
# Summary of key findings and Russell’s perspective

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average investors is an emotional response to ongoing market volatility, rather than a rational response to underlying company fundamentals.

- › While managers are still more bearish than bullish regarding U.S. corporate bonds, the 16 percentage point increase in bullish sentiment, now at 33 percent for the asset class, is worth noting. Russell believes this may reflect an increased desire for an investment option that is less volatile than equities but still provides a sufficient return level, which cannot be achieved with U.S. Treasuries at current yields.
- › Russell continues to believe that emerging markets equities provide good growth potential and attractive diversification opportunities for investors. The latest survey results also reflect manager optimism for the asset class. While the growth outlook for U.S. markets and developed markets has weakened, emerging markets, with their growing middle class and increasing ability to spend, offers an opportunity for investors.

(IF NO...) What economic indicators do you feel support that the United States is not headed into a double-dip recession?  
 (Please choose top three priorities)



# Valuation of the U.S. equity market

## SUMMARY OF FINDINGS

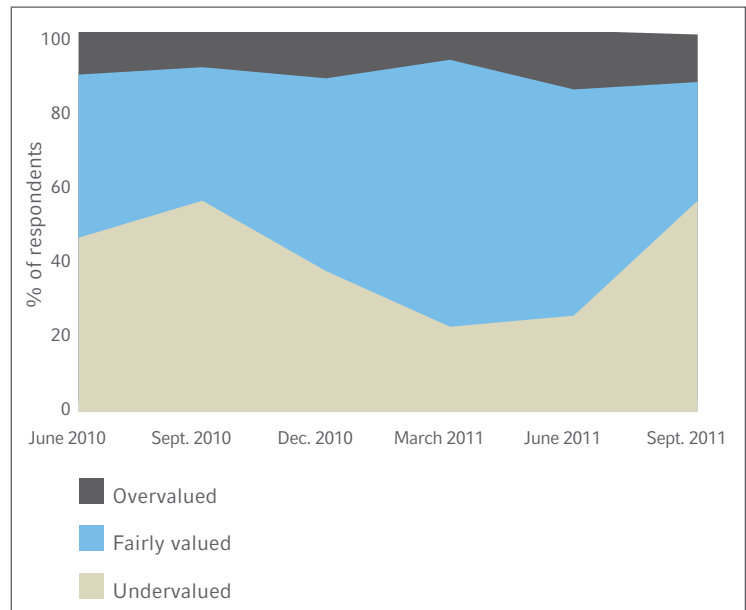
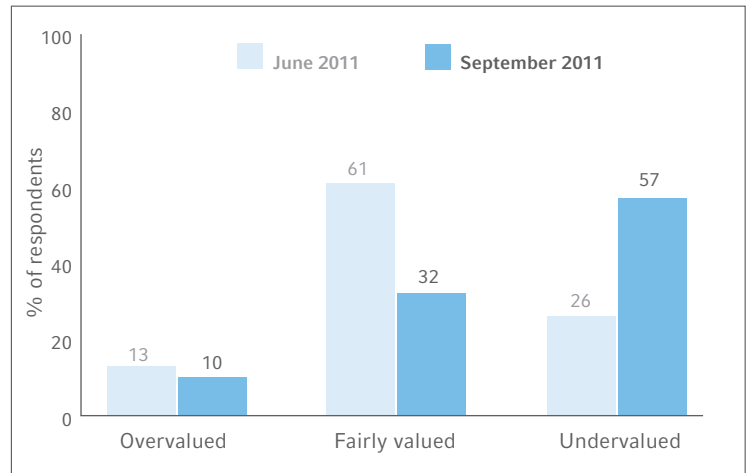
Survey respondents indicated a strong sense that the U.S. equity market is undervalued, which was a dramatic change from the June 2011 IMO survey results. Fifty-seven (57) percent of managers now see the U.S. equity market as undervalued, which is up more than double from June, when just 26 percent said the U.S. equity market was undervalued. In the September survey, 32 percent of respondents believe the market is fairly valued, which represents a significant drop from June results, when 61 percent said the market was fairly valued. Finally, 10 percent currently believe the market is overvalued, which represents only a small change from June, when 13 percent said the market was overvalued.

## RUSSELL'S PERSPECTIVE

- › Russell attributes this significant shift in manager sentiment toward market undervaluation as partly a product of timing and partly the result of divergent thinking, as compared to individual investors. Managers completed the survey shortly after the U.S. equity market fell dramatically in early August due to the U.S. debt downgrade, the ongoing European sovereign crisis and a variety of other mixed economic indicators. As a result, immediately after this dramatic market drop, a majority of managers likely found significant buying opportunities. Additionally, Russell believes this strong undervaluation sentiment indicates that professional money managers do not anticipate any immediate economic disasters but attribute market volatility to widespread investor nervousness.
- › An additional 32 percent of managers believe the U.S. equity market is fairly valued, which Russell believes is also consistent with managers' recognition that market turbulence is more an emotional response than it is a reaction to actual economic threats. The 10 percent of managers expressing overvalued sentiment is an insignificant change from June results, when 13 percent of managers felt the U.S. equity market was overvalued.

## Russell's Investment Manager Outlook

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



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

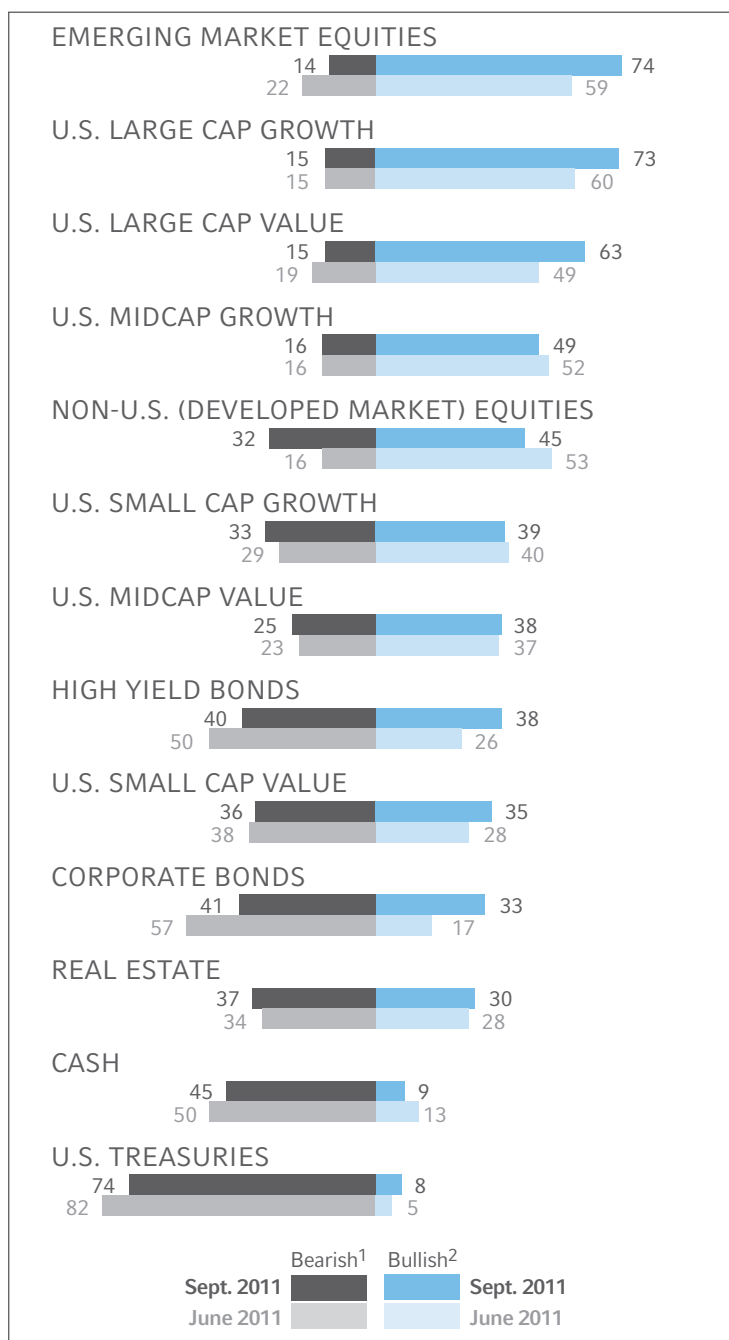
# Expectations by asset class

## SUMMARY OF FINDINGS

Manager bullishness for U.S. asset classes mostly increased during September, with sentiment regarding large-cap stocks, small-cap stocks and fixed-income either gaining ground or remaining constant. On the international front, bullish sentiment for-U.S. developed markets equities fell in September, but it rose significantly for emerging markets.

- Emerging markets equities (74 percent bullish) edged out U.S. large cap growth as the asset class leader in the September survey. Bullish sentiment toward emerging markets is up 15 percentage points over the June survey.
- Non-U.S. developed markets equities took a bit of a tumble, at 45 percent bullish, the asset class is down eight (8) percentage points over June results. As compared to third quarter 2010, the asset class is down seven (7) percentage points.
- U.S. large cap growth was again among the bullish-sentiment leaders, at just one (1) percentage point below emerging markets equities in the September 2011 survey. Seventy-three (73) percent of managers are bullish on U.S. large cap growth, which is up 13 percentage points over June results. U.S. large cap value (63 percent) also gained ground in September, up 14 percentage points over June results.
- Bullishness for U.S. small cap growth (39 percent bullish) and U.S. midcap value (38 percent bullish) were essentially unchanged from June, down one (1) percentage point and up one (1) percentage point, respectively. Bullishness for U.S. small cap value rose during September to 35 percent, which is up seven (7) percentage points over June results.

## Manager expectations by asset class



Note:

<sup>1</sup> Bearish = percent of managers responding with 1–3 on a scale of 1–7.

<sup>2</sup> Bullish = percent of managers responding with 5–7 on a scale of 1–7.

Scores for neutral (4) are not included.

# Expectations by asset class

(CONTINUED)

› A significant majority of managers remain bearish regarding U.S. Treasuries. However, negative sentiment has decreased somewhat since last quarter, with 74 percent of managers currently bearish, as compared to 82 percent of managers in the June survey. Managers have been bearish regarding this asset class for several quarters. While 41 percent of managers remain bearish regarding corporate bonds, sentiment shifted upward 16 percentage points in September, with 33 percent of managers now bullish on the asset class, as compared to just 17 percent in June.

## RUSSELL'S PERSPECTIVE

› While increased manager optimism surrounding emerging markets equities is an indicator of manager confidence in continued growth within the asset class, it may also be an indicator of increasing concern about growth prospects for non-U.S. developed countries and for the United States. These concerns are due, in part, to the ongoing impact of the sovereign debt crisis and the slow-growth prospects for the U.S. economy, in addition to unease with respect to U.S. debt-ceiling issues and governmental wrangling over policy. While emerging markets is a volatile asset class, managers have generally maintained a bullish sentiment for the asset for some time.

› Despite some level of caution, managers still put U.S. large cap growth equities near the

top of the bullish-sentiment list, followed by U.S. large cap value. While bullish sentiment for both U.S. large cap growth and U.S. large cap value jumped significantly in September, 13 percentage points and 14 percentage points respectively, bullishness for growth outpaced value by 10 percentage points. Many managers are favoring growth over value, for a variety of reasons, including somewhat higher momentum for growth stocks, as well as the opportunity to buy attractive future growth prospects selling at low current valuations.

- › During September 2011, manager sentiment dropped for non-U.S. developed market equities. Russell believes this is consistent with ongoing market concerns regarding the impact of ongoing sovereign debt issues and other European government policy decisions.
- › The 16 percentage point increase in bullish sentiment for U.S. corporate bonds, now at 33 percent, is, Russell believes, a vote of confidence for the strength of U.S. corporations, which have exhibited strong balance sheets and strong quarterly earnings. The increased optimism for corporate bonds is also partly due to the incredibly low yields for U.S. Treasuries coupled with the volatility of equities. Given this environment, Russell believes corporate bonds are looking more attractive—potentially filling a need for more stable returns with less relative volatility.

# Expectations by sector

## SUMMARY OF FINDINGS

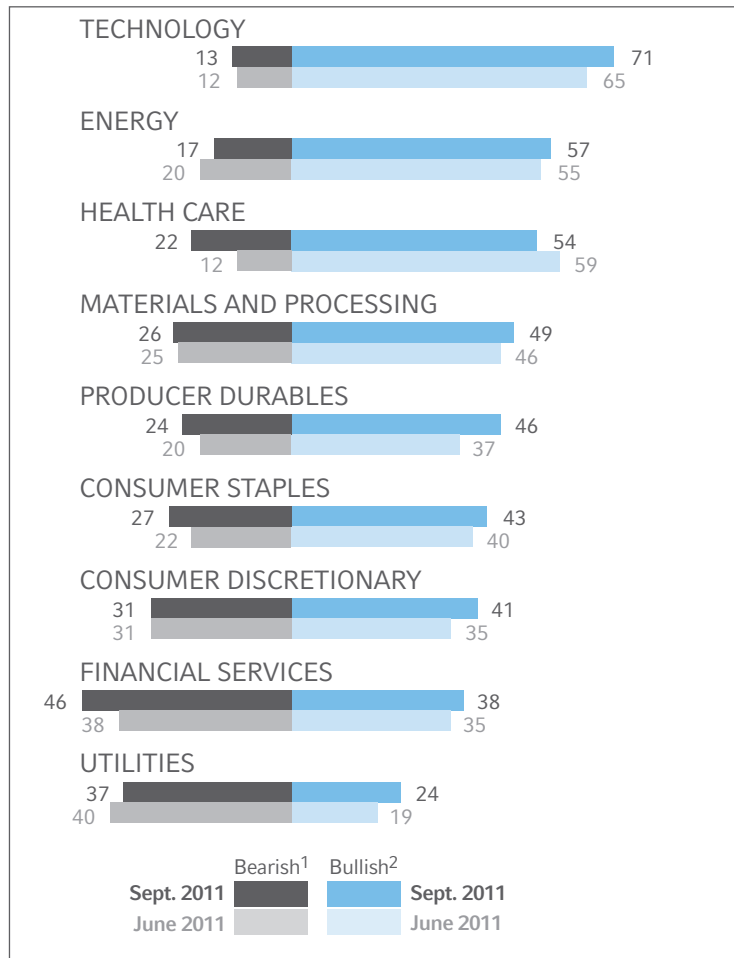
Technology again led the bullish-sentiment sector list in the September 2011 survey. Bullish sentiment also increased for producer durables, consumer discretionary and utilities.

- › The technology sector has been a consistent favorite for several quarters and bullish sentiment (71 percent) increased in September, up six (6) percentage points over June results, but up just two (2) percentage points from third quarter 2010. This sentiment has been consistently strong for an extended period, with the sector holding the top position for the past 11 iterations of the IMO.
- › Bullishness regarding the producer durables sector increased nine (9) percentage points in September, to 46 percent, as compared to 37 percent in June.
- › Bullish sentiment regarding the utilities sector also increased in September. Twenty-four (24) percent of managers were bullish on the sector, as compared to just 19 percent in June, a five (5) percentage point increase.
- › Bearish sentiment regarding the financial services sector increased eight (8) percentage points, from 38 percent in June 2011 to 46 percent in September 2011. Thirty-eight (38) percent of managers are bullish on the sector, an increase of three (3) percentage points over June results.

## RUSSELL'S PERSPECTIVE

- › Managers have consistently favored the technology sector, which Russell believes is a sentiment based largely on the balance-sheet strength of these companies, as well as on anticipated business and consumer demand. The increase in bullishness in September appears to be consistent with managers' overall expectation that a double-dip recession is not a significant threat to the U.S. economy, which is an opinion Russell shares.

## Manager expectations by sector



Note:

<sup>1</sup> Bearish = percent of managers responding with 1–3 on a scale of 1–7.

<sup>2</sup> Bullish = percent of managers responding with 5–7 on a scale of 1–7.

Scores for neutral (4) are not included.

# Expectations by sector

(CONTINUED)

- › Russell believes the jump in bullish sentiment regarding the producer durables sector, up nine (9) percentage points in September versus June, is the result of optimism for the sector due to ongoing growth in emerging markets, a big user of many of the industries found in the producer durables sector, including heavy machinery. Additionally, the producer durables sector tends to perform well later in an economic cycle and is more influenced by corporate spending rather than consumer spending.
- › Russell believes increased bearishness for the financial services sector continues to reflect the uncertainty surrounding the sector, particularly due to the changing regulatory environment for financial companies. Additionally, there has been increased scrutiny on some banks during the last few months with further inquiries into loan losses and mortgage delinquencies, and the continued potential for significant layoffs at some large financial institutions. As an interesting side-note, both bullishness AND bearishness for financials ticked up in this survey. This may indicate a manager differentiation between stronger and weaker companies within the sector.
- › Increased bullishness for the consumer discretionary sector, which jumped six (6) percentage points in September, is a bit of a surprise from a strictly U.S.-centric perspective because U.S. consumer confidence remains low and a jobs recovery continues to be elusive. However, Russell believes optimism for this sector is largely driven by growing demand and increased discretionary income and spending by emerging markets consumers.

# Asset class and sector performance

Index performance for the period ending August 2011.

Index	Asset class	Latest month	Ytd	Annualized total returns (%)			
				One year	Three year	Five year	Ten year
Russell 1000® Index	Large Cap	-5.8	-1.9	19.1	0.8	1.1	3.2
Russell 1000® Growth Index	Large Cap Growth	-5.3	0.2	24.0	3.1	3.7	2.7
Russell 1000® Value Index	Large Cap Value	-6.2	-4.0	14.4	-1.4	-1.6	3.4
Russell Midcap® Index	Mid Cap	-6.9	-3.0	21.3	2.9	3.0	7.2
Russell Midcap® Growth Index	Mid Cap Growth	-6.8	-1.7	25.6	3.8	4.3	5.9
Russell Midcap® Value Index	Mid Cap Value	-6.9	-4.2	17.5	2.0	1.4	7.5
Russell 2000® Index	Small Cap	-8.7	-6.5	22.2	0.8	1.5	5.8
Russell 2000® Growth Index	Small Cap Growth	-8.6	-4.6	27.5	2.1	3.6	4.9
Russell 2000® Value Index	Small Cap Value	-8.8	-8.5	16.9	-0.6	-0.6	6.5
Russell 3000® Index	Broad Cap	-6.0	-2.3	19.3	0.8	1.1	3.4
Russell Developed ex-U.S.	Non-US Equities	-8.4	-5.2	12.6	-1.1	0.2	6.6
Russell Emerging Markets	Emerging Markets	-9.0	-8.2	10.2	6.5	9.2	16.3
Barclays Capital U.S. Treasury Bond	U.S. Treasuries	2.8	7.0	4.2	6.1	6.6	5.5
Barclays Capital U.S. Aggregate Bond	Corporate Bonds	1.5	5.9	4.6	7.2	6.6	5.7
Barclays Capital U.S. Corp. High-Yield Bond	High-Yield Bonds	-4.0	1.9	8.4	12.0	8.1	8.4
FTSE NAREIT U.S. Real Estate	Real Estate	-5.1	4.8	17.8	2.5	-0.4	9.4
Citigroup 3-Month T-Bill	Cash	0.0	0.1	0.1	0.3	1.7	1.9

Index	Sector	Latest month	Ytd	One year	Three year	Five year	Ten year
Russell 3000® Index	Consumer Discretionary	-5.7	-0.1	26.1	7.8	4.6	3.9
	Consumer Staples	0.4	8.5	22.1	7.6	7.9	8.2
	Energy	-10.4	0.5	34.7	-1.8	5.1	10.0
	Financial Services	-8.3	-11.9	3.8	-9.0	-11.1	-1.7
	Health Care	-3.4	5.9	21.8	3.3	3.1	2.7
	Material Processing	-6.9	-5.2	22.7	-1.3	3.8	7.2
	Producer Durables	-7.1	-6.9	18.3	-1.5	0.7	3.3
	Technology	-6.7	-4.6	19.9	4.6	5.5	3.1
	Utilities	0.1	5.7	16.2	2.1	2.5	3.0

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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.

# Methodology and background about Russell

## Methodology

Russell Investments conducted the Investment Manager Outlook survey between August 23 and September 2, 2011. The survey was sent to a group of U.S. large cap 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, 102 survey responses were received. 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 serves clients in more than 35 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 over US\$155 billion in assets as of December 31, 2010. We work with more than 2,300 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 3,000 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 Seattle, 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](http://www.russell.com).

# Asset class definitions

## Large Cap

Large capitalization (large cap) investments involve stocks of companies generally having a market capitalization between \$10 and \$200 billion. The value of securities will rise and fall in response to the activities of the company that issued them, general market conditions and/or economic conditions.

## Small Cap

Small capitalization (small cap) investments involve stocks of companies with smaller levels of market capitalization (generally less than \$2 billion) than larger company stocks (large cap). Small cap investments are subject to considerable price fluctuations and are more volatile than large company stocks. Investors should consider the additional risks involved in small cap investments.

## Mid Cap

Mid capitalization (mid cap) investments involve stocks of companies generally having a market capitalization between \$2 billion and \$10 billion and considered more volatile than large cap companies. Mid cap investments are often considered to offer more growth potential than large caps (but less than small caps) and less risk than small caps (but more than large caps).

## Growth

Growth investments focus on stocks of companies whose earnings/profitability are accelerating in the short term or have grown consistently over the long term. Such investments may provide minimal dividends which could otherwise cushion stock prices in a market decline. Stock value may rise and fall significantly based, in part, on investors' perceptions of the company, rather than on fundamental analysis of the stocks. Investors should carefully consider the additional risks involved in growth investments.

## Value

Value investments focus on stocks of income-producing companies whose price is low relative to one or more valuation factors, such as earnings or book value. Such investments are subject to risks that their intrinsic values may never be realized by the market, or, such stock may turn out not to have been undervalued. Investors should carefully consider the additional risks involved in value investments.

## Bonds

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 subprime mortgages.

## Real Estate

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, tax laws and interest rates all present potential risks to real estate investments. Investments in non-U.S. markets can involve risks of currency fluctuation, political and economic instability, different accounting standards and foreign taxation.

## 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.

## Non-U.S. (Developed Market) 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.

## U.S. Treasuries

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

## 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.

# Sector definitions

## Technology

Contains companies that serve the information technology, telecommunications technology and electronics industries. Companies developing and marketing internet software and/or providing internet services including online databases and interactive services, web address registration services, database construction and Web design services are found here. Also includes companies involved in entertainment software, including video games, and companies that produce machinery for making high-end electronics. E-commerce companies are not included in the technology sector.

## Health Care

Consists of companies that manufacture health care equipment and supplies or provide health care-related services such as lab services, in-home medical care and health care facilities. Also included are companies involved in research, development and production of pharmaceuticals and biotechnology.

## Consumer Discretionary

Contains companies that manufacture products and provide discretionary services directly to the consumer. Household durable goods, apparel, home electronic devices, leisure equipment and automotive are included. The services segment includes hotels, restaurants and other leisure facilities, media production services, consumer retailing and services, wholesalers, and importers/exporters. E-commerce companies are also included in the consumer discretionary sector.

## Consumer Staples

Consists of companies that provide products directly to the consumer that are typically considered nondiscretionary items on the basis of consumer purchasing habits. It includes manufacturers and distributors of food, beverages and tobacco as well as producers of non-durable household goods. It also includes food- and drug-retailing companies as well as agriculture, fishing, ranching and milling companies. Consumer Staples is said to be a less dynamic Sector and to remain static, while the rest tend to be more cyclical in nature.

## Energy

Contains energy-related businesses, such as oil companies involved in the exploration, production, servicing, drilling and refining processes, and companies primarily involved in the production and mining of coal and other fuels used in the generation of consumable energy. Gas extraction, distribution and pipeline companies classify into this Sector. The alternative energy Sub-Sector includes companies engaged in any aspect of the solar power, wind power, hydro power and biofuel industries.

## Materials and Processing

Consists of companies that extract or process raw materials, and companies that manufacture chemicals, construction materials, glass, paper, plastic, forest products and related packaging products. Metals and mineral miners, metal alloy producers, and metal fabricators are included.

## Producer Durables

Contains companies whose businesses are dominated by any of the following activities: Manufacturing and distribution of capital goods, including aerospace, industrial machinery and electrical equipment. Also included are companies that supply transportation services, such as shipping, trucking, railroads and railroad equipment. Other areas include office equipment and services to businesses. Commercial services are also included in this group as an input to the manufacturing and distribution of capital goods.

## Financial Services

Consists of companies involved in banking, mortgage finance, consumer finance, specialized finance, investment banking and brokerage, asset management and custody, corporate lending, insurance, financial investments and real estate, including REITs.

## Utilities

Contains companies in industries heavily affected by government regulation, such as electric, gas and water utilities. Also includes companies providing telephone services, as well as companies that operate as independent producers or distributors of power.

# Index definitions

**Russell 1000® Index** measures the performance of the 1,000 largest companies in the Russell 3000® Index, representative of the U.S. large capitalization securities market.

**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 Midcap® Index** measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000® Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership.

**Russell Midcap® Growth Index** measures the performance of the mid-cap growth segment of the U.S. equity universe. It includes those Russell Midcap Index companies with higher price-to-book ratios and higher forecasted growth values.

**Russell Midcap® Value Index** measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios and lower forecasted growth values.

**Russell 2000® Index** measures the performance of the 2,000 smallest companies in the Russell 3000® Index, representative of the U.S. small capitalization securities market.

**Russell 2000® Growth Index** measures the performance of those Russell 2000® Index securities with higher price-to-book ratios and higher forecasted growth values, representative of U.S. securities exhibiting growth characteristics.

**Russell 2000® Value Index** measures the performance of those Russell 2000® Index securities with lower price-to-book ratios and lower forecasted growth values, representative of U.S. securities exhibiting value characteristics.

**Russell 2500™ Index** measures the performance of the 2,500 smallest companies in the Russell 3000® Index, representative of the U.S. small to medium-small capitalization securities market.

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

**Russell Developed ex-U.S. Index** measures the performance of the largest investable securities in developed countries globally, based on market capitalization, excluding securities classified in the United States. The index covers 46% of the investable global market.

**Russell Emerging Markets Index** measures the performance of emerging market securities in the Russell Global Index, based on market capitalization. The index includes approximately 2,800 securities and covers 20% of the investable global market.

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

**Barclays Capital U.S. Aggregate Bond Index**  
An index, with income reinvested, generally representative of intermediate-term government bonds, investment grade corporate debt securities, and mortgage-backed securities.

**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.

**FTSE NAREIT Equity REITs Index** is 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.

**Citigroup 3-Month Treasury Bills** is an index, with income reinvested, generally representative of the average yield of three-month Treasury-Bills.

# General disclosures

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

<sup>1</sup> 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.

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