

Annual Report of the Independent Review Committee of

The Sovereign Portfolios (the “Funds”)

September 12, 2008

IRC annual report to: Securityholders in the Russell Group of Funds (the “Funds”) as listed at the end of this report.

Dear Investor,

In accordance with **National Instrument 81-107 *Independent Review Committee for Investment Funds*** (“NI 81-107”), the Manager established on May 1, 2007, an Independent Review Committee (the “IRC”) for the Funds. The IRC is composed of four individuals, each of whom is independent of the Funds, the Manager and its affiliates.

The IRC was effective as of November 1, 2007. The IRC has adopted a written charter that includes its mandate, responsibilities and functions, and the policies and procedures it will follow when performing its functions.

In respect of any Conflict of Interest Matter (COIM) referred to us, we have sought to ensure that the Manager’s proposed course of action represents a fair and reasonable result for the relevant Funds.

We are now pleased to publish our first annual report for the Securityholders, to describe the IRC and its activities for the period from November 1, 2007 to June 30, 2008 (the “Reporting Period”). Next year’s report will cover a full financial year.

Mandate of the IRC

In accordance with NI 81-107, the mandate of the IRC is to consider and provide recommendations to the Manager on conflicts of interest to which the Manager is subject when managing the Funds. The Manager is required under NI 81-107 to identify conflicts of interest inherent in its management of the Funds, and request input from the IRC on how it manages those conflicts of interest.

The Manager must refer its proposed course of action in respect of any such conflict of interest matters to the IRC for its review. Certain matters require the IRC’s prior approval, but in most cases the IRC will provide a recommendation to the Manager as to whether or not, in the opinion of the IRC, the Manager’s proposed action provides a fair and reasonable result for the Funds. For recurring conflict of interest matters, the IRC can provide the Manager with Standing Instructions (“SIs”), which enable the Manager to proceed with certain matters without having to refer them to the Committee each time for approval, providing the Manager undertakes them in accordance with the SIs.

Composition of the IRC

The current members of the IRC, and their principal occupations, are as follows:

<i>Name and municipality of residence</i>	<i>Principal Occupation</i>	<i>Term of Office</i>
Stanley M. Beck, QC, Toronto, Ontario - Chair	President, Granville Arbitrations Ltd., Independent Director, former Chair of the Ontario Securities Commission	Three years from May 1, 2007
Eamonn B.P. McConnell, Toronto, Ontario	Consultant, former Managing Director of Deutsche Bank, Europe and Asia	Three years from May 1, 2008
Lawrence A. Ward, FCA Toronto, Ontario	Consultant, retired partner PricewaterhouseCoopers, LLP	Two years from May 1, 2007
W. William Woods, Toronto, Ontario	Consultant, Lawyer, Independent Director, former CEO of the Bermuda Stock Exchange	Two years from May 1, 2007

There have been no changes to the IRC composition since these members were first appointed by the Manager on May 1, 2007.

Compensation and Indemnification

The initial compensation of the IRC was set by the Manager. The IRC reviews its compensation giving consideration to the following:

1. the best interests of the Funds;
2. that each Fund must pay its reasonable allocation of the compensation of the IRC from the assets of the Fund;
3. that compensation paid to the IRC by each Fund should fairly and reasonably reflect the general and specific benefits accruing to the Fund;
4. the number, nature and complexity of the Funds for which the IRC acts; and
5. the nature and extent of the workload of each member of the IRC.

Members' Fees

In aggregate the IRC members were paid \$78,000, plus applicable taxes, for the fiscal year ending June 30, 2008. The IRC has engaged Independent Review Inc. to run the IRC and provide an independent secretariat service to the IRC.

Indemnities Granted

The Funds and the Manager have provided each IRC Member with a contractual indemnity to the fullest extent permitted by NI 81-107. No indemnities were paid to the IRC Members by the Funds or the Manager during the Reporting Period.

Disclosure of IRC Members' Holdings

As at June 30, 2008, the IRC Members did not beneficially own, directly or indirectly:

- any units in any of the Funds;
- any interests in the Manager ; or
- any interests in a company or person that provides services to the Manager or any Fund.

Conflict of Interest Matters Reviewed

The IRC is not aware of any instance in which the Manager acted in a Conflict of Interest Matter referred to the IRC for which the IRC did not give a positive recommendation during the Reporting Period.

The IRC is not aware of any instance in which the Manager acted in a Conflict of Interest Matter but did not meet a condition imposed by the IRC in its recommendation or approval during the Reporting Period.

Standing instructions Approved

Effective November 1, 2007, the IRC approved SIs, which constitute written approval or recommendation from the IRC that permit the Manager to proceed with the specific action(s) set out in the SI on an ongoing basis, without having to refer the Conflict of Interest Matter or its proposed action to the IRC, provided that the Manager complies with the terms and conditions of the SI. There have been no further Standing Instructions adopted since that date.

These SIs provide approvals or recommendations from the IRC with respect to the following matters:

1. Fees and Expenses
2. Trade Allocations
3. Portfolio Pricing Issues
4. Pricing Errors and Other Errors
5. Soft Dollars
6. Capacity Issues
7. Proxy Voting
8. Outsourcing to Third-Parties
9. Personal Trading/Gifts
10. Benchmark Indices
11. Investing in Securities of a Related Issuer
12. Investing in Securities of an Issuer when the PM is an officer or director of that Issuer
13. Trading as Principal
14. Trading Between Funds
15. Affiliated Underwriting – Russell
16. Services Provided by Related Parties
17. Using Sub-advisors
18. Principal Trading and Cross Trading with an Affiliate
19. Investing in an issuer if there are interlocking partners, directors or officers
20. Purchasing Securities of an Issuer Related to a Sub-advisor

In each case, the SI requires the Manager to comply with its related policy and procedures and to report periodically to the IRC.

Funds served by the IRC

Russell Canadian Equity Pool
Russell US Equity Pool
Russell Overseas Equity Pool
Russell Global Equity Pool
Russell Emerging Markets Equity Pool
Russell Fixed Income Pool
Russell Core Plus Fixed Income Pool
Russell Money Market Pool
Russell Retirement Essentials Portfolio
Sovereign Diversified Monthly Income Portfolio

This report is available on the Manager's website at <http://www.russell.com/ca> or you may request a copy, at no cost to you, by contacting the Russell Funds at (416)-362-8411 or 1-888-509-1792 or email the Russell Funds at canada@russell.com. This document and other information about the Russell Funds are available on www.sedar.com.

Yours truly,

A handwritten signature in black ink that reads "Stanley M Beck". The signature is fluid and cursive, with a large initial "S" and "M".

Stanley M Beck, QC, Chair

Schedule of IRC Members who sit on IRCs for other Fund Families

Eamonn McConnell serves as a member of the Independent Review Committees for the following funds:

Investment funds that are reporting issuers managed by Integra Capital Limited;
Certain investment funds that are reporting issuers managed by Northwest & Ethical Investments L.P.;
The Goodwood Capital Fund;
Investment funds that are reporting issuers managed by Gencap Funds LP
Investment funds that are reporting issuers managed by Sprott Asset Management Inc.; and
Investment funds that are reporting issuers managed by Webb Asset Management Canada Inc.

Lawrence A. Ward serves as a member of the Independent Review Committees for the following funds:

The Acker Finley Canada Focus Fund;
Certain investment funds that are reporting issuers managed by Northwest & Ethical Investments L.P.;
The Goodwood Capital Fund; and
Investment funds that are reporting issuers managed by Sprott Asset Management Inc.

W. William Woods serves as a member of the Independent Review Committees for the following funds:

Investment funds that are reporting issuers managed by Integra Capital Limited;
The Acker Finley Canada Focus Fund;
The Goodwood Capital Fund;
Investment funds that are reporting issuers managed by Sprott Asset Management Inc.;
Investment funds that are reporting issuers managed by The International Scholarship Foundation;
Investment funds that are reporting issuers managed by Gencap Funds LP
The Bayshore Floating Rate Senior Loan Fund; and
Investment funds that are reporting issuers managed by Webb Asset Management Canada Inc.