FUND BROCHURE

Frontier Markets Equity Fund

Explore the next generation of opportunities in equity investing
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Introduction

With the spectacular performance of Brazilian, Russian, Indian and Chinese (BRIC) and other emerging markets over the past decade and their increasing prominence within portfolios, investors may want to explore the next generation of opportunities in equity investing — one that offers the potential for higher returns as well as long term diversification benefits. We believe that an allocation to frontier equity markets can enhance an emerging markets portfolio.

Emerging markets continue to progress along a path of development, and as both economies and capital markets mature the breadth and depth of investment opportunities continue to grow. Sophisticated long-term investors have likely long since been invested in mainstream emerging markets and allocations to the asset class have generally grown significantly over the last decade. For those investors comfortable with the risks associated with emerging markets and who have the flexibility to accommodate a less liquid allocation within their portfolio, considering Frontier Markets makes sense.

An increasing number of Frontier Markets have reached a stage of their development that provides investors with the opportunity to participate in strong structural growth in a market environment where skilled investors can exploit greater inefficiencies. The continuing development and interest in these markets, together with the potential of new equity offerings and increased market depth and liquidity, have led to further manager participation and product growth. Investors increasingly view this new sub-asset class as a natural extension to their dedicated emerging markets portfolios.

In their market structure, volatility and cross-country correlations, Frontier Markets demonstrate similar characteristics to core emerging markets ten years ago. Country factors continue to be highly influential and a manager’s country allocation and security selection skills are equally critical. High return spreads in frontier market countries, along with greater potential inefficiencies of these markets, can leave a lot of room for active managers to add value by exploiting their specific knowledge and skills in this asset class.

However capacity is constrained and the supply of talented investment managers relatively thin in this asset class. We believe there is a clear early-mover advantage, particularly in securing capacity with “best of breed” managers in these new and exciting markets. Russell is well positioned to capture these opportunities for its clients.
Why invest in Frontier Markets?

As emerging markets have grown, investors’ portfolios have evolved, becoming larger cap and more concentrated in the larger markets, in part driven by the equity market development across the BRIC economic powerhouses. An allocation to Frontier Markets provides our clients access to a greater breadth of market opportunities, extending an emerging market portfolio to markets in their earlier stage of development. These developing economies represent a vast store of untapped economic potential that represents a compelling long-term investment opportunity.

HIGH AND SUSTAINABLE GROWTH AND CORPORATE PROFITABILITY:
Frontier Markets consist of a diverse set of countries at early, but different, stages of economic and capital market development. Most exhibit the potential for strong economic growth representing a significant premium over developed markets and many more mature emerging markets. Strong demographics, structural growth trends, the emergence of the Frontier consumer and high barriers to entry all provide great opportunities for businesses to achieve high and sustainable levels of corporate profitability, even within the more volatile economic environments.

POTENTIAL FOR HIGH EXCESS RETURNS:
Managers with specific skills in these markets have a strong opportunity to generate high returns. Sell-side analyst coverage in many of these areas is low at best, more often still at a development stage. Managers dedicating resources to fundamental research towards these areas can potentially have a significant informational advantage, particularly those that have lengthy experience investing in emerging markets.

FRONTIER MARKETS HAVE A LOWER CORRELATION WITH DEVELOPED MARKETS:
Many established emerging markets have become highly correlated with developed markets. Frontier Markets, on the other hand, have a different investor base which is driven more by local investors and there is currently little penetration by global, institutional investors. Although many of the Frontier Markets are commodities-rich, the stock markets are generally dominated by companies generating returns from local development and economic growth.

ATTRACTIVE VALUATIONS:
Frontier Markets continue to be broadly overlooked by institutional investors and many securities, with strong fundamentals in attractive market segments, are trading at significant discounts to comparable stocks in the more mainstream emerging markets. Clearly this can change, and given the strong fundamentals exhibited by the asset class we expect through time that it will. However, for sophisticated institutional investors with a long time horizon we believe today represents an attractive entry point into these markets, particularly relative to more developed equity markets.
Average Estimated GDP Growth 2013-2017


Frontier Markets Relative Valuation: Discount to Emerging Markets

Source: FactSet, Russell Investments; as at 30.06.2012. Aggregated multiples calculated as arithmetic mean of sector constituents, excluding extreme observations (outside one standard deviation from the mean). Based on Russell Sector Classification, the chart shows only the main sectors.
Why invest with Russell?

Russell’s objective is to provide high levels of excess return on a sustainable basis over the long term. This is achieved through the selection and combination of external managers with complementary investment approaches and proven expertise, and through active portfolio management and efficient implementation.

**RUSSELL HAS EXTENSIVE EXPERIENCE AND UNIQUE PERSPECTIVE OF EMERGING MARKETS:**
Over 20 years of manager research and investment management experience in emerging markets provides a strong perspective of both market opportunities and risks, and firms and individuals investing in Frontier Markets. We know the managers and their processes. We network and identify potential manager capabilities. Russell’s reputation and market standing provides access and presents opportunities not readily available to all investors. Our research analysts are dedicated to and familiar with emerging and Frontier Markets; we have observed these markets develop, and as a result, have refined our process and adapted with markets through time. In addition, the investment risks associated with Frontier Markets are higher and Russell’s experience in assessing and managing risk in the emerging markets asset class is a key differentiator.

**MULTIPLE MANAGERS AND BROAD DIVERSIFIED EXPOSURE HELP MANAGE RISK:**
Frontier Markets are a higher risk area of investing, which increases the desirability of using multiple managers to manage risk and increase diversification. We use a combination of leading active managers with complementary investment approaches and specialist expertise. Further diversification is provided through exposure to approximately 40 countries and approximately 100-120 holdings. Boutique managers can provide some of the most attractive strategies in this asset class but can also present certain risks best managed through an actively managed, multi-manager portfolio.

**RUSSELL HAS A STRONG OPERATIONAL CAPABILITY FOR ACCOUNT REGISTRATION AND PORTFOLIO IMPLEMENTATION:**
An individual investor might need to set up separate accounts in 30 to 40 different countries; the Russell frontier market equity fund offers immediate access to the full breadth of investment opportunities across the asset class. Our knowledgeable and experienced implementation team also helps mitigate the higher transaction and other investment costs related to these markets.

**RUSSELL PROVIDES FULL TRANSPARENCY:**
Russell’s account structure and reporting allows for full visibility into investments across the markets in which we participate.
Investment Research

Russell’s experience in researching emerging markets managers for over 20 years provides a unique perspective and understanding to assess manager capabilities in this asset class. Capital markets insights developed through time are readily applicable to Frontier Markets which in many ways mirror the emerging markets early development path through the 1980s and 1990s. In many cases the portfolio managers now focused on Frontier Markets are not new to Russell and this helps build views and conviction on their strategies quickly. Russell’s profile and standing as a leading multi-manager in emerging markets also provides critical early access to many investment teams, sometimes even prior to them establishing a live product.

Russell’s dedicated emerging markets team has been researching managers in this asset class since 2006, managing a dedicated multi-manager fund since May 2009. Today we actively research and monitor a concentrated but growing universe of over 20 Frontier Markets managers, a subset of our broader Emerging Markets universe where we research more than 440 products.

We have established relationships with the manager community and a reputation for commitment to the market and a long term investing outlook. We believe this gives us a sustainable advantage in accessing the best manager talent focused on this asset class as it continues to develop.

Russell’s approach to portfolio management

Russell’s portfolio management process is a dynamic one focused on the total portfolio, ensuring we have exposure to the right blend of active strategies and an aggregate portfolio which is best positioned to take advantage of active opportunities in the asset class.

Managers are selected for inclusion on the basis of our research conviction in their excess return potential, the sustainability of their investment proposition and the complementary nature of their portfolio characteristics from the context of the total portfolio. In Frontier Markets, where we see strong opportunities for both effective country and stock selection, we have identified managers that have complementary approaches in assessing both top-down macro-driven themes and bottom-up company-focused research. We are also aware of the trade-off between market liquidity and potential inefficiencies in Frontier Markets and actively manage a “liquidity budget” across the underlying managers and at the aggregate portfolio level.

The multi-manager portfolio is structured and managed to ensure a level of diversity from a portfolio characteristics perspective. We are cognisant of any structural preferences within individual manager strategies and look to combine these in a complementary fashion.

Russell’s Approach to Portfolio Construction

<table>
<thead>
<tr>
<th>Manager</th>
<th>Strategic Fund Weight (%)</th>
<th>Growth</th>
<th>Number of Stocks</th>
<th>Valuation/Growth</th>
<th>Liquidity Profile</th>
<th>Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>First State</td>
<td>35</td>
<td>High</td>
<td>30 - 100</td>
<td>High sustainable EPS growth at reasonable valuations</td>
<td>Medium</td>
<td>Low/Medium</td>
</tr>
<tr>
<td>Everest Capital</td>
<td>20</td>
<td>Low</td>
<td>40 - 70</td>
<td>Low P/E, P/BV but variable dependent on macro themes</td>
<td>Medium/High</td>
<td>Medium</td>
</tr>
<tr>
<td>Frontier Markets</td>
<td>20</td>
<td>Low</td>
<td>50 - 80</td>
<td>Low PEG, PB and high ROE</td>
<td>Low</td>
<td>Low/Medium</td>
</tr>
<tr>
<td>Consilium</td>
<td>25</td>
<td>Low</td>
<td>25 - 60</td>
<td>Low P/E, P/BV, replacement, tangible equity for banks, PEG, PB</td>
<td>Low/Medium</td>
<td>Medium</td>
</tr>
</tbody>
</table>

For illustrative purposes only.

Investing for 15 years

We have been investing in Frontier Markets through our core Emerging Markets funds for over fifteen years

3 years

We have been managing dedicated funds in Frontier Markets for over 3 years

+211m

Total frontier equity Assets under Management of +$211m (as at July 2012)

25 Global Managers

We actively cover 25 global frontier equity managers together with many regional frontier strategies

Award winning

Russell’s core emerging markets equity fund won 4 Lipper awards in 2012:

› Best fund in its class over 5 and 10 years: Gulf
› Best fund in its class over 5 years: Singapore
› Best fund in its class over 10 years: Spain

The Lipper Fund Awards program highlights funds that have excelled in delivering consistently strong risk-adjusted performance, relative to peers. Lipper designates award-winning funds in most individual classifications for the three-, five-, and ten-year periods.
Risk management

Investing in Frontier Markets is associated with a variety of risks, both investment and operations-related, generally more elevated than those associated with developed markets or, indeed, mainstream emerging markets. Russell fully recognises the importance of risk management and focuses on understanding each risk and how best to manage it, through a combination of internal or outsourced capabilities.

**RISK**

- **High degree of (country-specific) market volatility.** Individual frontier markets are associated with high levels of market volatility reflecting macro-economic volatility and high equity risk premiums.

- **High levels of macro-economic and political risk.** Frontier Markets generally have less diversified economies and political systems that can be neither stable nor fully democratic.

- **Weak corporate governance and capital markets regulation.** Corporate governance and capital markets standards are mixed across Frontier Markets, as they are across emerging markets in general. Nevertheless, the standards are improving standards, as countries and companies look to attract portfolio investors.

- **(Boutique) Manager-specific risk.** Manager-specific risks in frontier markets can be higher than emerging markets due to less diversified business models, “start-up” risk, less developed operational infrastructure and processes, key-man risk amongst others.

- **Low (and volatile) market liquidity.** Market liquidity is low across most frontier markets and, importantly, this can fluctuate and deteriorate quickly due to global or local market events or sentiment.

**MANAGEMENT**

- Cross-country correlations within this asset class continue to be much lower than in emerging and developed markets, providing an opportunity to manage volatility through a well diversified portfolio. The Fund deliberately targets a higher degree of country diversification than most indexes and single-manager strategies.

- Our underlying managers have responsibility for assessing the economic and political risks and how these affect the fundamentals of individual companies in this asset class. Identifying managers with experience and perspective of investing in markets at an early stage of development is a primary focus of our research process.

- Analysis of corporate governance standards and the broader merits of company management is embedded in the security selection processes of the managers we hire. Russell assesses the regulatory, trading and custody environment in each of the local frontier markets in which we invest through both our internal analysis and those of external experts.

- Every time a new manager is appointed to the Fund, a dedicated Money Manager Oversight team carries out a comprehensive, on-site operational and compliance review. This is independent of our manager research team, which is concerned with the investment proposition.

- Russell views liquidity risk as a primary risk in investing in frontier markets and places a high emphasis on establishing robust guidelines for each of our underlying managers. It is important to allow managers the flexibility to invest in the strongest opportunities but equally important to manage the overall liquidity of the fund.

For illustrative purposes only.
Managing risk through country diversification

RIF Frontier Fund - Country Diversification

Source: Factset, as of 21.08.2012.

Optimising liquidity through active portfolio management

RIF Frontier Fund - Liquidity

Source: Bloomberg, Factset, as of 30.06.2012, includes 3.55% cash holdings, securities for which data were not available are excluded from the chart.
Russell believes that its disciplined, active approach to investing in Frontier Markets will reward long-term investors with significant excess returns above that of the broad market. Russell’s rigorous manager selection process and active approach to portfolio management is anticipated to deliver more consistent excess returns than that of single-manager strategies. Since its inception in September 2010, the Fund outperformed its benchmark by 12.1% on a cumulative basis.

Source: Confluence, Russell Investments, in USD, gross of fees, as at 30.06.2012. Prior to October 2010, the data are for the US-based RTC Frontier Markets Equity Fund and the benchmark is S&P Frontier BMI ex-GCC Index. From October 2010 onwards, the data are for the RIF PLC Frontier Markets Equity Fund and the benchmark is Russell Frontier ex GCC Index Net TR. Over that period, the RTC and RIF funds have had the same structure in terms of the underlying managers. Inception of the RIF Fund: 28.09.2010.
IMPORTANT INFORMATION

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