

Market Review

JANUARY 2011

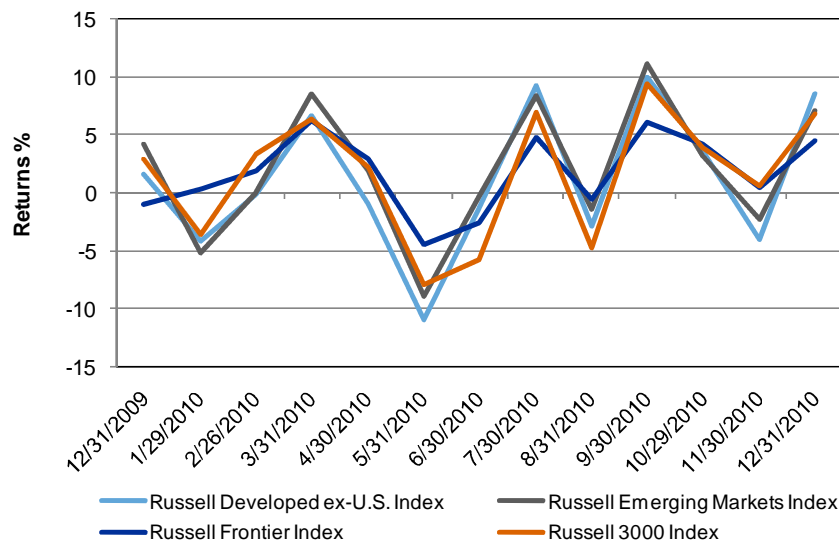
2010 Market Review

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The year in review

The year 2010 was characterized by mixed economic signals and global concerns over sovereign debt in Europe, rising deficits in the U.S. and adverse market reactions to political crises, as seen in Asia following North Korea's military posturing. Little consistency was seen in month-over-month returns in the broad markets measured by the Russell 3000[®] Index, Russell Developed ex-U.S. Index, Russell Emerging Markets Index and Russell Frontier[™] Index, shown in Figure 1. A year's worth of mixed returns left the broad markets showing only shallow gains through November. However, the up-swing in December, seen in the 12-month returns in Table 1, brought markets slightly higher than historical average annual returns by year end. This paper provides an analysis of 2010 performance over different market regions, capitalization sizes and style components with comparisons to historical annual returns.

Figure 1 / 2010 monthly performance of major equity market indexes



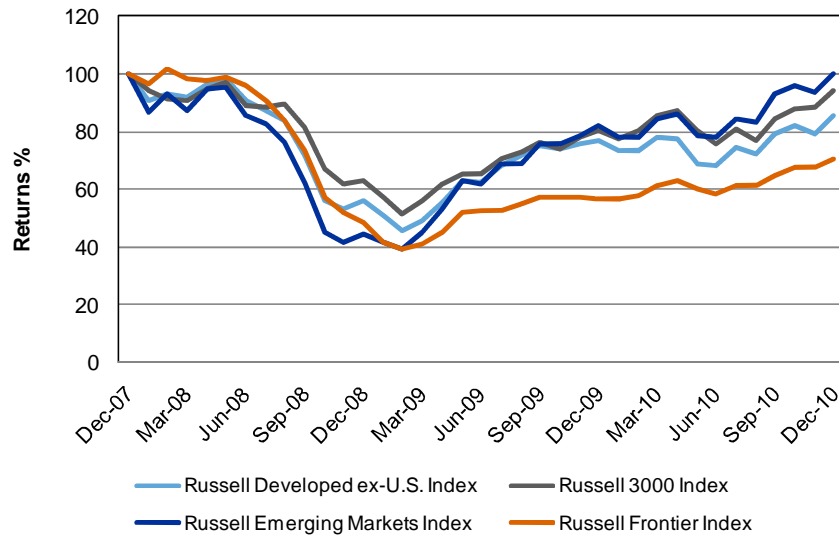
Indexes are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Unless otherwise indicated, all of the data noted below is as of December 31 of the relevant year as indicated in the tables.

Table 1 / 2010 total return of broad market indexes

Index	2010 Return (%)
Russell Developed ex-U.S.	11.6
Russell 3000	16.9
Russell Emerging Markets	22.0
Russell Frontier	25.5

Figure 2 shows the growth of \$100 invested December 31, 2007 in the Russell 3000 Index, Russell Developed ex-U.S. Index, Russell Emerging Markets Index, and Russell Frontier Index and held through December 31, 2010. The graph illustrates how the moderate performance in 2010 affected the three-year growth within the broad market indexes; we observe mainly sideways movement through the first two quarters of the year before markets began to rise.

Figure 2 / Three-year cumulative returns to major equity markets, December 31, 2007-December 31, 2010



Emerging markets continued their upward trend¹, outperforming all other broad market segments. While all the major market segments finished in the black for 2010, the year was characterized by volatility and investor uncertainty. Economic and consumer indicators in the U.S. and around the world moved unpredictably from positive to negative outlooks throughout the year, frequently fueling double-dip recession fears. Investor restraint and oscillating risk appetite kept markets from fully recovering from the market downturn and reaching pre-2008 levels.

The top 15 performing countries within the Russell Global Index and Russell Frontier Index, listed in Table 2, are from a mix of regions (Asia Pacific, Europe, Americas). The top performers are mainly emerging and frontier countries, with only one developed nation, Sweden, making the list. Four of the countries (Sri Lanka, Argentina, Chile, and Indonesia) were also among the top 15 performers of 2009.

¹ Fjelstad, Mary and Sarah Orzell, "2008 Market Review." Russell Investments, January 2009.

Table 2 / The 15 top-performing countries in the combined Russell Global Index and Russell Frontier Index, ranked by 2010 returns²

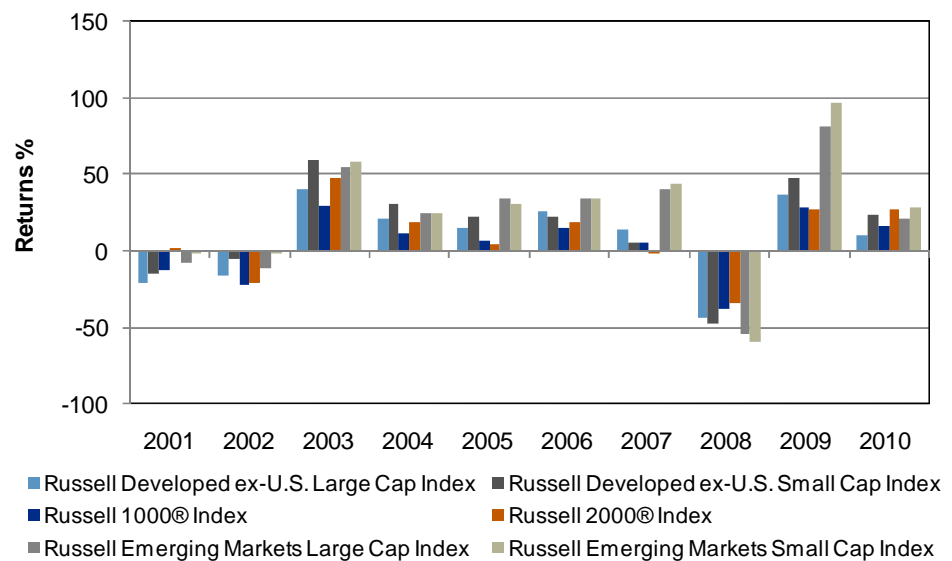
Country	Category	World Region	2010 Return (%)	2009 Return (%)
Bangladesh	Frontier	Asia Pacific	114.1	47.4
Sri Lanka	Frontier	Asia Pacific	88.6	170.0
Philippines	Emerging	Asia Pacific	77.0	67.1
Estonia	Frontier	Europe	70.0	34.8
Ukraine	Frontier	Europe	65.6	63.5
Thailand	Emerging	Asia Pacific	59.3	81.9
Peru	Emerging	Americas	59.0	76.1
Argentina	Frontier	Americas	58.5	89.6
Chile	Emerging	Americas	51.1	88.6
Colombia	Emerging	Americas	48.5	83.6
Indonesia	Emerging	Asia Pacific	43.1	129.2
Lithuania	Frontier	Europe	42.7	46.0
Malaysia	Emerging	Asia Pacific	40.8	51.5
Sweden	Developed	Europe	37.0	72.3
Kenya*	Frontier	Europe	36.3	5.4

* Kenya is part of the Europe Middle East Africa (EMEA) Region (Europe World Region).

Global small cap versus large

Small cap companies outperformed large cap companies across the broad developed and emerging markets. The Russell Emerging Markets Small Cap Index beat out all other market segments with the largest gain (28.5%). Figure 3 displays the annual returns of the small cap and large cap indexes within the U.S., developed ex-U.S. and emerging markets. Market returns were subdued in 2010 compared to 2009, but in line with pre-recession levels (2003-2007), as shown in Figure 3.

Figure 3 / Annual returns to global cap tiers, 2001-2010



² Only countries with at least five securities and membership in the Russell Global Index or Russell Frontier Index as of 1/1/2010 are eligible for inclusion in the above table.

Style

Within the style segments of the global markets, growth companies led the way in 2009 and continued to lead the market recovery in 2010. Figures 4 and 5 display 10 years of annual returns within the growth and value segments of large and small cap indexes within the U.S., developed ex-U.S. and emerging markets. Within large cap global markets, as in previous years, growth companies continued to outperform value companies. Small cap growth companies within the U.S. and developed ex-U.S. markets, like their large cap counterparts, outperformed small cap value companies. However, value companies edged out growth companies by 5.3% within the emerging small cap markets.

Figure 4 / Annual performance of large cap style, 2001-2010

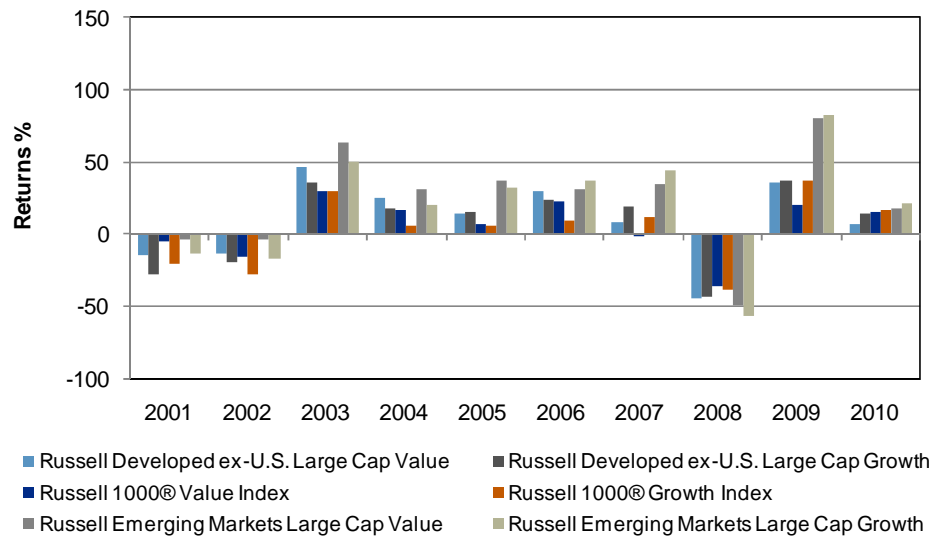
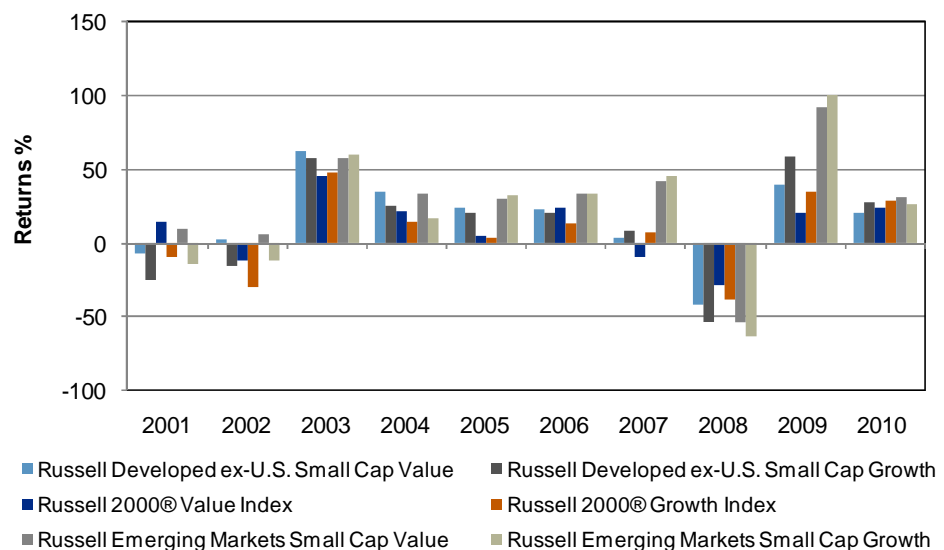


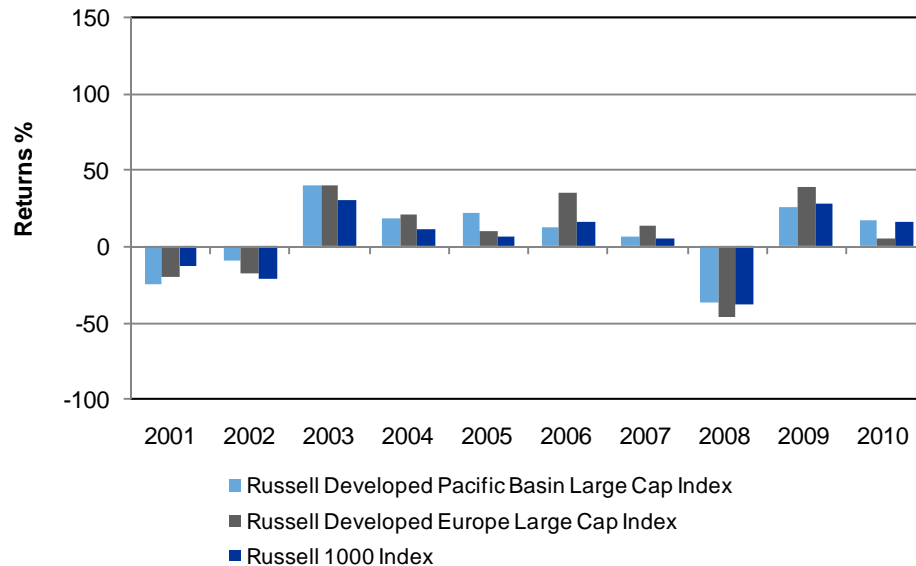
Figure 5 / Annual performance of small cap style, 2001-2010



Developed markets

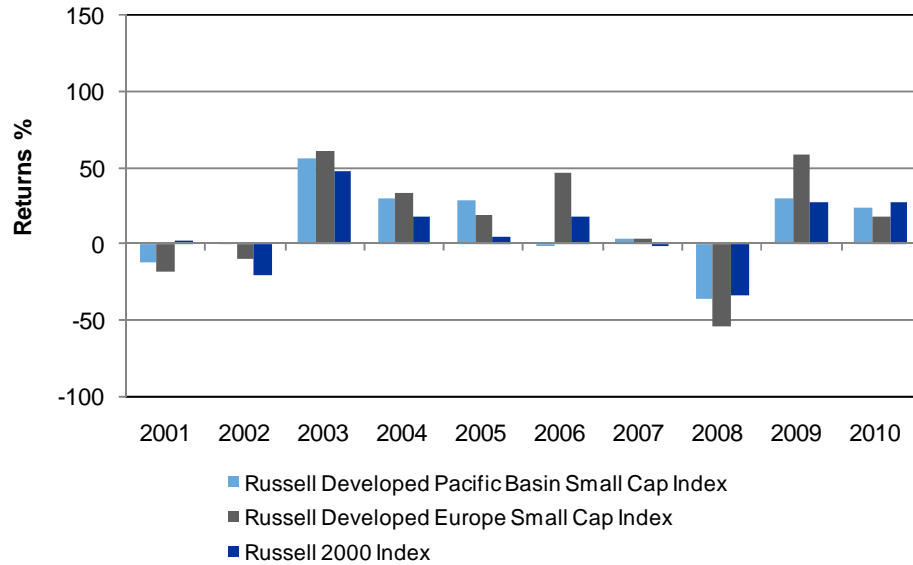
The developed large cap markets experienced mixed performance in 2010. The large cap Pacific Basin and U.S. markets experienced gains of 16.7% and 16.1%, respectively. The scaled-back returns – in comparison to 2009, when markets experienced a bounce-back from 2008 losses – were due to fluctuating confidence in global markets; however, returns reached positive levels for the year in the fourth quarter, after the U.S. Federal Reserve issued a second quantitative easing package and GDP and earnings rose in the U.S. The large cap Europe region, represented in Figure 6 by the Russell Developed Europe Large Cap Index, experienced declines in 2010 as much of the year was spent addressing sovereign debt concerns within the Eurozone. Emergency loan packages from the European Central Bank and IMF to Greece and Ireland alleviated some concerns. Adding to the weight the sovereign debt crisis had placed on markets were the austerity plans that went hand in hand with the bailouts. In addition, non-bailout-seeking European countries also implemented austerity plans in an attempt to stabilize their debt, dampening investor's hope for near-term prosperity among companies within these countries. Though much damage was sustained in the European markets, recovery to positive returns within 2010 was possible, due to a December market surge.

Figure 6 / Annual performance of developed large cap markets, 2001-2010



Developed small cap markets performed positively across all regions but still suffered from the same ailments as afflicted the large cap markets. Figure 7, below, illustrates these gains within 2010 with 10 years of annual returns for the small cap segments of the Russell Developed Pacific Basin Index, Russell Developed Europe Index and the Russell 2000 Index.

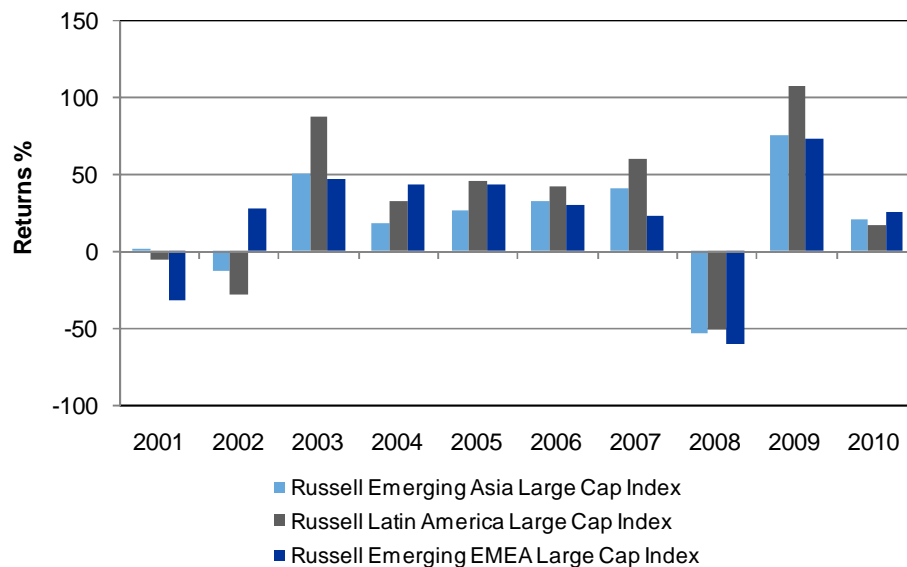
Figure 7 / Annual performance of developed small cap markets, 2001-2010



Emerging markets

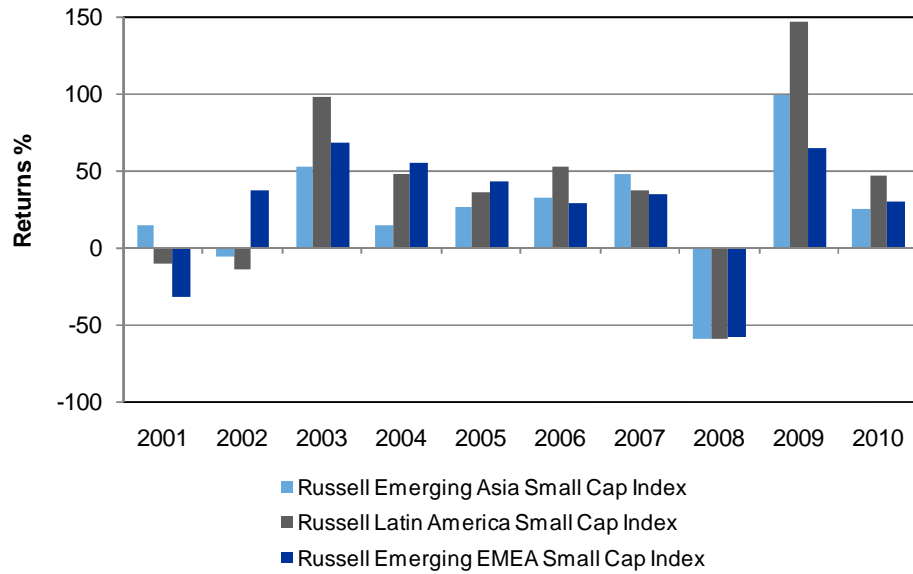
As in 2009, emerging markets continued to outperform developed markets, although annual returns did not reach average pre-crisis (2004-2007) levels. Figure 8 displays annual returns for the large cap segments of Russell Emerging Asia Index, Russell Latin America Index and Russell Emerging EMEA Index. Emerging Asia saw large GDP growth, with soaring exports in the Philippines, Indonesia and Thailand early in the year, driving markets up in the region. Continuing expansion in China and India provided a driving force for the small countries within emerging Asia that export natural resources to support the larger countries' growing demand.

Figure 8 / Annual performance of emerging large cap markets, 2001-2010



In addition to smaller Asia countries benefitting from China's and India's growth, many Latin America small cap companies also benefitted from demand for natural resources. Figure 9 displays annual returns for the small cap segments of Russell Emerging Asia Index, Russell Latin America Index and Russell Emerging EMEA Index. As seen in Figure 9 below, small cap Latin America led the emerging small cap markets, as it did in 2009.

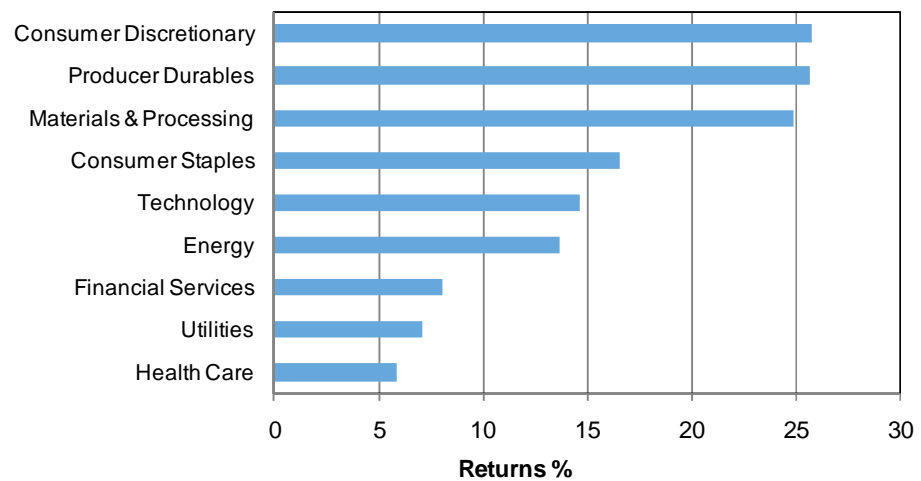
Figure 9 / Annual performance of emerging small cap markets, 2001-2010



Sector

The return of consumer spending to the global economy propelled the Consumer Discretionary sector to the top-performing position in the Russell Global Index, as seen in Figure 10, which displays the one-year sector returns of the Russell Global Index for 2010. The final days of the holiday season in December saw consumer spending in the U.S. reach December 2007 levels, driving markets up with increased investor confidence in the recovery despite continuing high unemployment³. Every sector within the Russell Global Index had positive performance in 2010; however, Consumer Discretionary (25.7%), Producer Durables (25.7%) and Materials & Processing (24.9%) outperformed all other sectors as economic engines around the world started up again.

Figure 10 / 2010 performance of Russell Global Index sectors

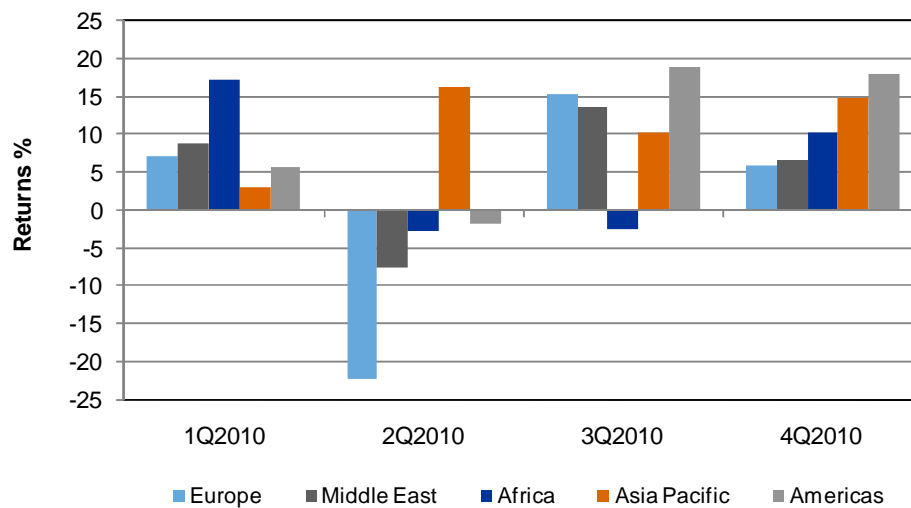


³ Clifford, Stephanie. "Retail Sales Rebound, Beating Forecasts," New York Times, December 27, 2010. http://www.nytimes.com/2010/12/28/business/28shop.html?_r=1&scp=1&sq=consumer%20spending,%20december&st=cse
http://www.nytimes.com/2010/12/28/business/28shop.html?_r=1&scp=1&sq=consumer%20spending,%20december&st=cse

Frontier markets⁴

The frontier markets regions performed much the same as the emerging markets regions did. Many of the countries within the Russell Frontier Index provide natural resources to growing emerging economies, and their market performance rose and fell with the performance of the more developed countries' markets. However, frontier Europe was unable to escape the Eurozone crisis, which extended from the developed and emerging countries into the peripheral frontier countries, suppressing returns for the year. Figure 11 shows the quarterly returns of the regions within the Russell Frontier Index during 2010.

Figure 11 / 2010 quarterly returns of regions within the Russell Frontier Index



Calculated using Russell Index data.

⁴ For further information about the new Russell Frontier Index see Orzell, Sarah, "Frontier markets join the allocation conversation." October 2010. Available at: <http://www.russell.com/indexes/documents/research/3Q2010-Market-Review-Frontier-markets-join-the-allocation-conversation.pdf>

Appendix

Asset Class	Category	Cap Tier	Style	Index
Europe Large Cap	Developed	Large	Broad	Russell Developed Europe Large Cap Index
Europe Small Cap	Developed	Small	Broad	Russell Developed Europe Small Cap Index
Global ex-U.S. All Cap	Developed	Broad	Broad	Russell Developed ex-U.S. Index
Global ex-U.S. Large Cap	Developed	Large	Broad	Russell Developed ex-U.S. Large Cap Index
Global ex-U.S. Large Cap Growth	Developed	Large	Growth	Russell Developed ex-U.S. Large Cap Growth Index
Global ex-U.S. Large Cap Value	Developed	Large	Value	Russell Developed ex-U.S. Large Cap Value Index
Global ex-U.S. Small Cap	Developed	Small	Broad	Russell Developed ex-U.S. Small Cap Index
Global ex-U.S. Small Cap Growth	Developed	Small	Growth	Russell Developed ex-U.S. Small Cap Growth Index
Global ex-U.S. Small Cap Value	Developed	Small	Value	Russell Developed ex-U.S. Small Cap Value Index
Pacific Basin Large Cap	Developed	Large	Broad	Russell Developed Pacific Basin Large Cap Index
Pacific Basin Small Cap	Developed	Small	Broad	Russell Developed Pacific Basin Small Cap Index
U.S. All Cap	Developed	Broad	Broad	Russell 3000 Index
U.S. Large Cap	Developed	Large	Broad	Russell 1000 Index
U.S. Large Cap	Developed	Large	Broad	Russell 1000 Index
U.S. Large Cap Growth	Developed	Large	Growth	Russell 1000 Growth Index
U.S. Large Cap Value	Developed	Large	Value	Russell 1000 Value Index
U.S. Small Cap	Developed	Small	Broad	Russell 2000 Index
U.S. Small Cap	Developed	Small	Broad	Russell 2000 Index
U.S. Small Cap Growth	Developed	Small	Growth	Russell 2000 Growth Index
U.S. Small Cap Value	Developed	Small	Value	Russell 2000 Value Index
Emerging Markets	Emerging	Broad	Broad	Russell Emerging Markets Index
Asia Large Cap	Emerging	Large	Broad	Russell Emerging Asia Large Cap Index
Asia Small Cap	Emerging	Small	Broad	Russell Emerging Asia Small Cap Index
EMEA Large Cap	Emerging	Large	Broad	Russell Emerging EMEA Large Cap Index
EMEA Small Cap	Emerging	Small	Broad	Russell Emerging EMEA Small Cap Index
Global Large Cap	Emerging	Large	Broad	Russell Emerging Markets Large Cap Index
Global Large Cap Growth	Emerging	Large	Growth	Russell Emerging Markets Large Cap Growth Index
Global Large Cap Value	Emerging	Large	Value	Russell Emerging Markets Large Cap Value Index
Global Small Cap	Emerging	Small	Broad	Russell Emerging Markets Small Cap Index
Global Small Cap Growth	Emerging	Small	Growth	Russell Emerging Markets Small Cap Growth Index
Global Small Cap Value	Emerging	Small	Value	Russell Emerging Markets Small Cap Value Index
Latin America Large Cap	Emerging	Large	Broad	Russell Latin America Large Cap Index
Latin America Small Cap	Emerging	Small	Broad	Russell Latin America Small Cap Index
Frontier Markets	Frontier	Broad	Broad	Russell Frontier Index



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