

Quarterly Funds Review

An update on Russell Funds

Market commentary for quarter ending 31 March 2009

2009 started badly with the global recession in full force accompanied by weak economic. In the US, unemployment went from 6.8% to 8.5%, its highest level since 1992. The US automakers GM and Chrysler continued to make the headlines as bankruptcy loomed for the giant car firms. In addition, Japan published an extraordinary Q4 GDP of -12%. The global government policy response continued to be sweeping and unprecedented with the US fiscal deficit reaching 12% of GDP.

US equities declined by 10.5% over the quarter in US dollar terms as fears continued over the depth of the recession. However, there was a noticeable turning point in the last three weeks of March 2009 with the markets rebounding after the January and February losses with a strong rally in the financial sector. This was a result of major financial institutions releasing more upbeat profit statements in the first few months of the year and retail sales and new home sales data proving unexpectedly strong.

Global bonds hedged to the NZ dollar rose 0.7% over the quarter. There was mounting optimism that the worst of the financial crisis was over, with signs of an improvement in credit markets – with the notable exception of financials.

The NZ equity market performed relatively well over the quarter declining only 4.1%. NZ Refining was the star performer returning 27.3% following an 11% lift in net profit. The Reserve Bank of NZ cut the official cash rate (OCR) to 3%, down from the high of 8.25% in July 2008. (N.B. On 30 April 2009, a further rate cut of 0.50% was announced bringing the OCR down to 2.5%)

INSIDE YOU'LL FIND

- Russell Global Equity Strategies Fund NZ\$ Hedged
- Russell Global Opportunities Fund
- Russell International Shares Fund
- Russell World Equity Strategies Fund NZ\$ Hedged
- Russell Global Real Estate Securities Fund NZ\$ Hedged
- Russell Global Bond Fund NZ\$ Hedged
- Russell World Bond Fund NZ\$ Hedged

CURRENCY COMMENT

The NZ dollar declined against most currencies in the first half of the quarter but recovered in the second half. Volatility was especially pronounced in the USD/NZD cross rate which dropped from 0.58c to 0.49c and then back to 0.57c by quarter end.

Investment Performance to 31 March 2009

Russell fund	3 months (%)	1 year (%)	3 years (% pa)	Since inception (% pa)	Inception date
Russell Global Equity Strategies NZ\$ hedged	-8.2%	-38.0%	-7.1%	-1.9%	31 JAN 05
Russell Global Opportunities	-6.4%	-19.4%	-10.4%	1.3%	31 Dec 04
Russell International Shares	-8.8%	-22.8%	-13.0%	1.2%	31 Dec 97
Russell World Equity Strategies NZ\$ hedged	-9.1%	-37.2%	-13.4%	0.9%	31 Oct 98
Russell Global Real Estate Securities NZ\$ hedged	-21.6%	-54.6%	-21.8%	-16.8%	31 Dec 05
Russell Global Bond Fund NZ\$ hedged	1.4%	3.3%	5.7%	9.4%	30 Sep 94
Russell World Bond NZ\$ hedged	0.8%	5.2%	5.6%	6.4%	31 Oct 98

* The returns shown above are gross of ongoing fees and charges and assume reinvestment of distributions

FUND/MANAGER CHANGES

Global Equity Strategies Fund: This is the last quarter for SSGA who will be replaced by Vanguard in April 2009.

CONTACT DETAILS

Tel. 0800 357 666 or 09 357 6633 or visit www.russell.co.nz

If you would like to add your colleagues on our newsletter recipient list, please email: jerobert@russell.com

Fund Inception:
31 January 2005

Total Fund Assets:
NZ\$197.36m



Fund Objective

- » The fund aims to provide consistent above average returns by outperforming its benchmark of the MSCI World Net Dividend Reinvested Accumulation NZ\$ Hedged Index.
- » This fund is 100% hedged to New Zealand dollars.

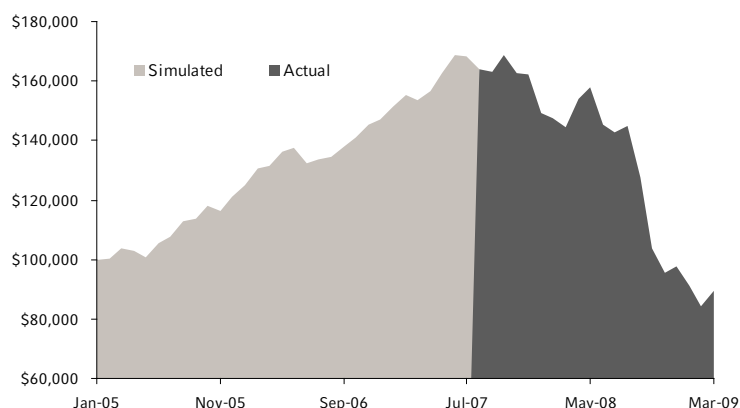
Fund Comment

The Fund outperformed the benchmark. Global investor sentiment improved significantly over the quarter leading to a global market rally in March. Strong stock selection within the troubled financials sector drove positive performance, as did an overweight allocation to cyclical sectors such as Consumer Discretionary and IT. The Fund's underweight exposure to Metals & Mining stocks, including BHP Billiton and United States Steel Corp, offset some of the outperformance.

Top 10 Holdings

1. JPMorgan Chase & Co	6. WellPoint Inc
2. Intel Corp	7. Exxon Mobile Corp
3. Nestle S.A.	8. America Movil SAB de CV
4. Roche Holding AG	9. Bank of New York Mellon Cor
5. Apple Inc	10. Nintendo Co Ltd

Growth of \$100,000 as at 31 March 2009



Investment Performance to 31 March 2009

Gross returns in NZ\$	Fund	Benchmark
Quarter	-8.24%	-14.77%
1 Year	-37.95%	-40.29%
2 years pa	-23.32%	-25.08%
3 years pa	-7.08%	-6.75%
Since inception pa	-1.93%	-4.17%

Manager	Weight	Style	Comment
SSGA	30.0%	Quantitative (Global)	SSGA lagged the benchmark slightly this quarter with performance of the various components of the model varying widely. Growth and Sentiment models were very strong in the first half of the quarter before turning negative and the Value model started on the back foot but delivered very strong positive results in March. This is the last quarter for this manager who will be replaced by Vanguard in April 2009.
Arrowstreet	14.0%	Market Orientated Value Biased (Global)	The manager benefited from stock selection in Europe ex UK, as well as a significant underweight allocation to Financials. This was offset by negative company positioning in Japan and the UK. An underweight allocation to the US and an overweight to Japan detracted from unhedged returns as the AUD depreciated relative to the USD and appreciated relative to the Yen.
Axiom	7.0%	Aggressive Growth (Global)	Axiom outperformed due to strong stock selection, especially among financial stocks in the US and emerging markets. A considerable overweight to emerging markets also added value as a growth tailwind helped developing economies. Holdings in Brazilian commodities and Israeli pharmaceutical companies were particularly beneficial to performance.
Harris	10.5%	Value (Global)	Harris outperformed strongly in March due to an overweight allocation to the Financials sector and strong stock selection within it. The manager also correctly picked stocks within the Technology sector.
MFS	21.0%	Market Orientated GARP (Global)	MFS outperformed largely owing to strong stock selection in Japan, US and the UK. In the US, positioning in the Financials sector added value, particularly the zero allocation to Wells Fargo and Bancorp. Some of this value was offset by overweight exposures to troubled European insurers, namely AXA in France and Swiss Reinsurance.
T.Rowe Price International	17.5%	Fundamental Growth (Global)	The manager has been well positioned through its part defensive, part early cyclical growth exposure. An overweight allocation to emerging markets also added value. T. Rowe Price ended the quarter as the best performer within the Fund.

Global Opportunities Fund

Fund Inception:
31 December 2004

Total Fund Assets:
NZ\$1.11bn



Fund Objective

- » The fund seeks to significantly outperform the MSCI World Net Dividends Reinvested Accumulation Index over the long-term.
- » To provide investors with access to specialist international equity managers.

Fund Comment

The Fund outperformed with stock selection in US equities adding value, particularly the overweight allocations to Apple, Inc. and Amazon.com. Both companies benefited from strong balance sheets, solid growth prospects and the ability to capture market share from suffering competitors. The Fund's longstanding underweight to the Financials sector and strong stock selection within it also added value. An overweight allocation to emerging markets also added value as the region's equities rebounded following December quarter falls.

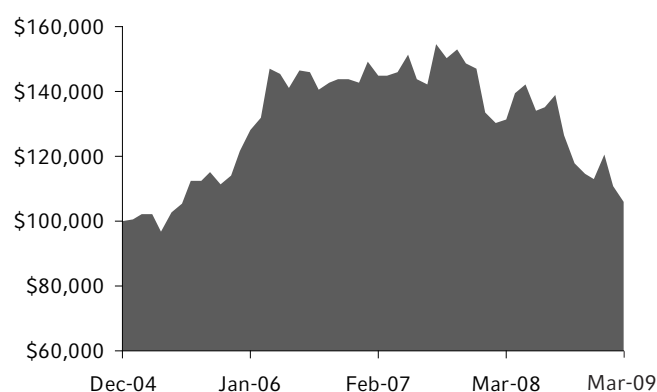
Investment Performance to 31 March 2009

Gross returns in NZ\$	Fund	Benchmark
Quarter	-6.37%	-9.82%
1 Year	-19.43%	-20.91%
2 years pa	-14.61%	-16.58%
3 years pa	-10.35%	-11.77%
4 years pa	0.88%	-1.39%
Since inception pa	1.33%	-1.27%

Top 10 Holdings

1. JPMorgan Chase & Co	6. Nestle SA
2. Intel Corp.	7. Nintendo Co
3. Roche Holding AG	8. Apple Inc
4. Wellpoint Inc	9. Bank of New York Mellon Corp
5. America Movil SAB de CV	10. Nike Inc

Growth of \$100,000 as at 31 March 2009



Manager	Weight	Style	Comment
Arrowstreet	20.0%	Market Orientated Value Biased (Global)	The manager benefited from stock selection in Europe ex UK, as well as a significant underweight allocation to Financials. This was offset by negative company positioning in Japan and the UK. An underweight allocation to the US and an overweight to Japan detracted from unhedged returns as the AUD depreciated relative to the USD and appreciated relative to the Yen.
Axiom	10.0%	Aggressive Growth (Global)	Axiom outperformed due to strong stock selection, especially among financial stocks in the US and emerging markets. A considerable overweight to emerging markets also added value as a growth tailwind helped developing economies. Holdings in Brazilian commodities and Israeli pharmaceutical companies were particularly beneficial to performance.
Harris	15.0%	Value (Global)	Harris outperformed strongly in March due to an overweight allocation to the Financials sector and strong stock selection within it. The manager also correctly picked stocks within the Technology sector.
MFS	30.0%	Market Orientated GARP (Global)	MFS outperformed largely owing to strong stock selection in Japan, US and the UK. In the US, positioning in the Financials sector added value, particularly the zero allocation to Wells Fargo and Bancorp. Some of this value was offset by overweight exposures to troubled European insurers, namely AXA in France and Swiss Reinsurance.
T.Rowe Price International	25.0%	Fundamental Growth (Global)	The manager has been well positioned through its part defensive, part early cyclical growth exposure. An overweight allocation to emerging markets also added value. T. Rowe Price ended the quarter as the best performer within the Fund.

International Shares Fund

Fund Inception:
31 December 1997

Total Fund Assets:
NZ\$3.26bn



Fund Objective

- » The fund seeks to significantly outperform the MSCI World Net Dividend Reinvested Accumulation Index, over the long-term.
- » To provide investors exposure to a diversified portfolio of international shares.

Fund Comment

The Fund outperformed with stock selection in US equities the main contributor. An overweight allocation to emerging markets added value, particularly the exposure to Brazil (11.0% in local currency terms). At the sector level, performance benefited from an overweight to the Technology sector which outperformed the broader market. Investors were drawn to its compelling growth prospects and the typically strong balance sheets of IT companies. Stock selection among Financial stocks also contributed positively.

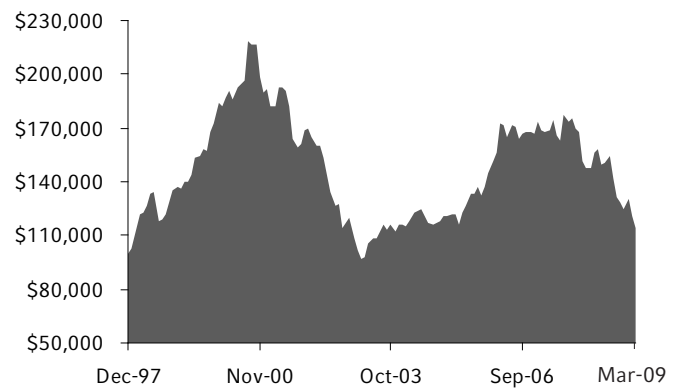
Investment Performance to 31 March 2009

Gross returns in NZ\$	Fund	Benchmark
Quarter	-8.79%	-9.82%
1 Year	-22.83%	-20.91%
3 years pa	-12.98%	-11.77%
5 years pa	-0.74%	-0.48%
Since inception pa	1.18%	0.39%

Top 10 Holdings

1. JPMorgan Chase & Co	6. QUALCOMM Inc
2. Hewlett-Packard	7. International Business Machines Corp
3. Roche Holding	8. CVS Caremark Corp
4. Nestle SA	9. Pepsico Inc
5. BP PLC	10. Monsanto Co

Growth of \$100,000 as at 31 March 2009



Manager	Weight	Style	Comment
Marsico	16.0%	Growth (Global)	The manager's overweight allocation to the Financials sector, including Wells Fargo, JP Morgan and US Bancorp, resulted in considerable underperformance in January. The subsequent move to an underweight exposure to the sector was ill-timed as Financial stocks rallied in March.
Bernstein	15.0%	Value (Non-US)	Strong stock selection among Financials and Japanese companies led Bernstein to outperform. The manager's persistent positioning in these areas paid off after detracting value last quarter. Within Financials, overweights to Deutsche Bank and Credit Suisse contributed positively.
ICAP	18.0%	Value (US)	ICAP outperformed the MSCI US Index owing to its 'bar-bell' strategy of overweighting the defensive Healthcare and Consumer Staples sectors, and the cyclical Technology and Consumer Discretionary segments. This positioning paid off during the early quarter downturn and the subsequent March rally. At the stock level, overweights to Schering Plough and Wyeth added value as the companies soared on takeover news.
ClariVest	24.0%	Core value (global)	ClariVest's considerable underweight allocation to European equities contributed positively as the MSCI Europe Index fell 11.5% in local currency terms. The manager's stock selection in Japan and North America detracted value, resulting in modest outperformance overall.
MFS	15.0%	Market Oriented GARP (non US)	Strong stock selection among companies in Japan, UK and the Netherlands contributed to MFS's outperformance. The overweight to emerging markets also added value. At the sector level, outperformance was concentrated within Technology and Healthcare. The manager's underweight to Japan also added to unhedged returns as the Yen depreciated by 7.8% relative to the AUD.
Turner	12.0%	Growth (US)	The manager recorded significant outperformance of the MSCI US Index. A considerable overweight to the Technology sector added value, as did a below-benchmark exposure to the ailing Financials. Stock selection among Energy and Consumer Discretionary stocks also contributed positively.

Fund Inception:
31 October 1998

Total Fund Assets:
NZ\$124.43m



Fund Objective

- » The fund seeks to consistently provide above average returns of the composite index of 20% NZX50 Index and 67.5% MSCI World Net Dividends Reinvested Accumulation Index (hedged to NZ\$) and 12.5% FTSE EPRA/NAREIT Global Real Estate Index (Net) NZ\$ Hedged.
- » International investments are hedged to the New Zealand dollar.

Fund Comment

The Fund ended the March quarter ahead of the benchmark. Amid the continuing global credit crisis, underweight allocations to commercial banks and REITs within the troubled Financials sector was a key driver of outperformance. Strong stock selection in the Industrials sector also returned positive value, with an underweight exposure to General Electric and an overweight position in Wellington Drive Technologies among the top contributors. Detracting from returns were below benchmark allocations to Materials and Energy, in particular underweight positions in BHP Billiton and Rio Tinto.

Investment Performance to 31 March 2009

Gross returns in NZ\$	Fund	Benchmark
Quarter	-9.12%	-10.86%
1 Year	-37.20%	-37.51%
3 years pa	-13.38%	-13.14%
5 years pa	-1.87%	-2.02%
Since inception pa	0.88%	0.01%

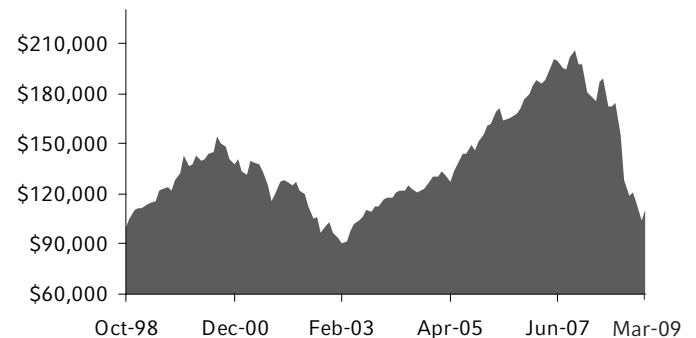
Top 10 New Zealand Holdings

1. Telecom	6. Auckland International Airport
2. Fletcher Building	7. Sky Network Television
3. Contact Energy	8. Westpac Banking Corp
4. Fisher & Paykel Healthcare	9. Guinness Peat Group
5. Sky City Entertainment	10. Warehouse Group

Top 10 International Holdings

1. JPMorgan Chase & Co	6. Nestle SA
2. Intel Corp.	7. Nintendo Co
3. Roche Holding AG	8. Apple Inc
4. Wellpoint Inc	9. Bank of New York Mellon Corp
5. America Movil SAB de CV	10. Nike Inc

Growth of \$100,000 as at 31 March 2009



Asset Class	Weight	Comment
NZ Equities	20.0%	Alliance outperformed the benchmark. Strong stock selection in the Materials and Industrials sector added value, with an underweight exposure to Nuplex and overweight allocation to Wellington Drive Technologies among the top contributors. Excess returns were offset slightly by an underweight exposure to the defensive Telecommunication Services sector, in particular Telecom Corp of NZ.
Global Equities	67.5%	The Fund outperformed the benchmark. Global investor sentiment improved significantly over the quarter, leading to a global market rally in March. Strong stock selection within the troubled Financials sector drove positive performance, as did an overweight allocation to cyclical sectors such as Consumer Discretionary and IT. The Fund's underweight exposure to Metals & Mining stocks including BHP Billiton and United States Steel Corp, offset some of the outperformance. Please refer to the Global Equity Strategies Fund for manager comments.
Global REIT	12.5%	The Global Real Estate Securities Fund outperformed the benchmark. An overweight allocation to the Specialty sector enhanced performance, as did an underweight exposure to Diversified real estate. Favourable stock selection in North America also contributed to outperformance, especially an overweight position in the US based Digital Realty Trust. Poor stock selections in the Residential and Industrial sectors were both negative contributors. Please refer to the Global Real Estate Strategies Fund for manager comments.

Global Real Estate Securities Fund

NZ\$ Hedged

Fund Inception:
31 December 2005

Total Fund Assets:
NZ\$404.17m



Fund Objective

- » The fund seeks to outperform its benchmark the FTSE EPRA/NAREIT Global Real Estate Index NZ\$ Hedged.
- » The fund aims to provide exposure to a diversified portfolio of international real estate securities.

Fund Comment

The Fund outperformed other global real estate securities as all of the managers outperformed their respective indices. Invesco was the best-performing manager, benefiting from its aggressive active positions in the retail and speciality sectors; although it underperformed the Fund's benchmark due to its focus on the struggling US market. Meanwhile, AEW and Perennial's positive performance was driven by strong stock selection across a range of sectors. Russell made provision to reflect likely losses within the securities lending program employed by Russell Funds. This is as a result of market conditions adversely affecting the investment of cash collateral which forms part of the securities lending program. This provision had a negative impact of 1.6% on performance during the quarter.

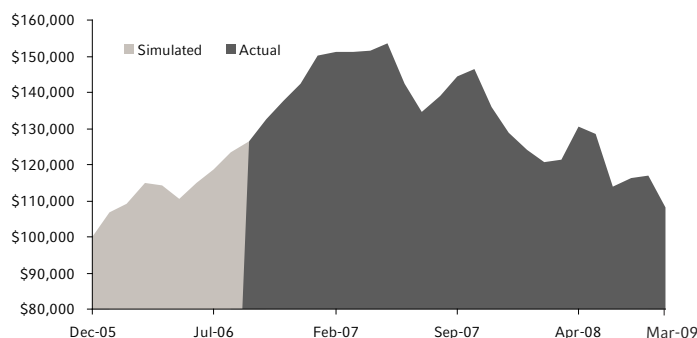
Investment Performance to 31 March 2009

Gross returns in NZ\$	Fund	Benchmark
Quarter	-21.60%	-21.78%
1 Year	-54.62%	-55.43%
2 years pa	-39.67%	-40.03%
3 years pa	-21.75%	-21.81%
Since inception pa	-16.79%	-16.81%

Top 10 Holdings

1. Sun Hung Kai Properties Ltd	Hong Kong
2. Unibail- Rodamco	France
3. Westfield Group Australia	Australia
4. Mitsubishi Estate Co Ltd	Japan
5. Mitsui Fudosan Co Ltd	Japan
6. Simon Property Group Inc	US
7. Digital Realty Trust Inc	US
8. Public Storage Inc	US
9. Hongkong Land Holdings Ltd	Hong Kong
10. Hang Lung Properties Ltd	Hong Kong

Growth of \$100,000 as at 31 March 2009



Manager	Weight	Style	Comment
AEW	30.0%	Global	AEW's outperformance came from strong stock selection in the US, Australian and the UK markets. Performance was further boosted by the manager's cash position due to the continuing declining market.
Invesco	19.5%	North America	Invesco outperformed its own benchmark but struggled relative to the Fund's benchmark due to the underperformance of the US market. Invesco's outperformance was driven by its overweight exposure to particular stocks; for example, its three largest active positions, two retail and a specialty stock, were the top contributors to its performance over the quarter. Furthermore, the manager's defensive positioning – an overweight to health care and underweight to lodging/resorts – helped boost performance.
Morgan Stanley	30.5%	Global ex North America	Despite declining the least in absolute terms, and outperforming its benchmark, Morgan Stanley trailed its peers in relative terms. The manager's disciplined security selection in Australia - it holds only five (underweight) positions in the troubled market - was the main driver of the outperformance. An underweight to Japanese REITs (which lagged relative to non-REITs) also had a positive impact.
Perennial	20.0%	Global	Perennial's strong performance was supported by solid stock selection across the majority of property sectors in the US. An underweight to developer companies in Japan, which have recently been lagging, further contributed to the manager's outperformance.

Global Bond Fund NZ\$ Hedged



Fund Inception:
30 September 1994



Total Fund Assets:
NZ\$2.73bn

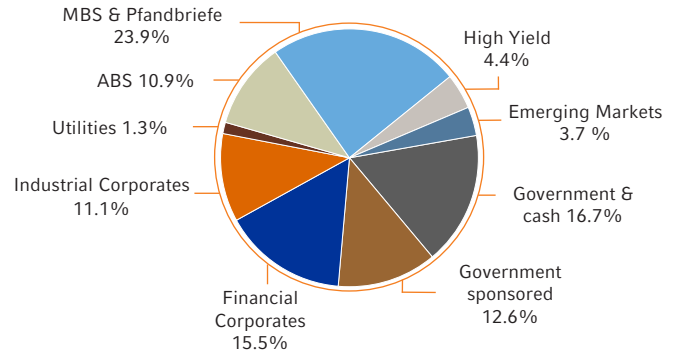
Fund Objective

- » The fund seeks to outperform its benchmark the Barclays Capital Global Aggregate Index NZ\$ Hedged.
- » The fund aims to provide exposure to a diversified portfolio of global fixed income securities hedged to New Zealand dollars.

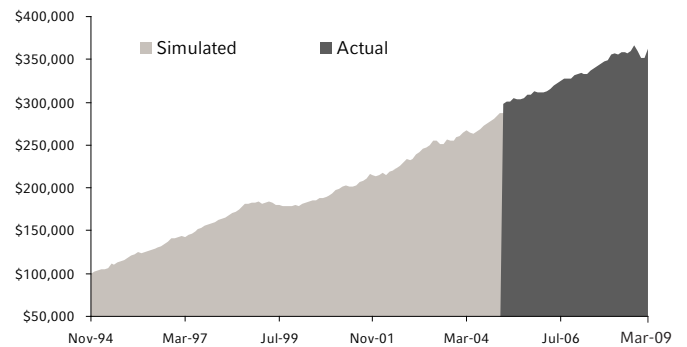
Fund Comment

The Fund outperformed, with the majority of managers delivering returns in excess of the benchmark. Loomis led the way as credit conditions began improving. PIMCO also outperformed as US government intervention helped shore up the asset-backed securities (ABS) and agency mortgage-backed securities (MBS) markets.

Top 10 Holdings



Growth of \$100,000 as at 31 March 2009



Investment Performance to 31 March 2009

Gross returns in NZ\$	Fund	Benchmark
Quarter	1.36%	0.74%
1 Year	3.23%	8.61%
5 years pa	6.62%	8.11%
10 years pa	7.21%	8.15%
Since inception pa	9.39%	9.88%

Manager	Weight	Style	Comment
Colchester Global Investors	15.0%	Macro Value (Global)	Colchester underperformed over the quarter. Duration detracted, particularly the underweight US duration position. Currency was a positive over the quarter, with an underweight to the weakening Japanese yen proving beneficial.
Drake	15.0%	Core Plus (Global)	Drake was the worst performing manager for the quarter, posting a negative relative return. This was primarily due to the negative contribution from its large overweight to non-agency CMOs and its overweight to financial corporates. Offsetting some of these losses were positive contributions from its overweight duration position to the euro bond market and from its curve steepener in Europe.
PIMCO	35.0%	Sector specialist (Global)	PIMCO outperformed over the quarter, as positive contributions came from its US curve steepener - which benefited as the longer end of the curve rose - and an overweight to agency MBS, which was supported by the US government's significant commitment to buy such assets. Overweights to non-agency MBS and to financial corporates detracted.
Loomis	35.0%	Security selection (Global)	Loomis was the best-performing manager after most spread sectors made a strong comeback in the first quarter of 2009. Overweights to high yield and industrials were the main positives, while the financials overweight detracted.

World Bond Fund NZ\$ Hedged



Fund Inception:
31 October 1998

Total Fund Assets:
NZ\$120.25m



Fund Objective

- » The fund aims to provide consistent above average returns by outperforming its benchmark - a composite of 80% Barclays Capital Aggregate NZ\$ Hedged Index and 20% NZX Government Bond Index.
- » International investments are hedged to the \$NZ to reduce volatility caused by fluctuations in overseas currencies.

Fund Comment

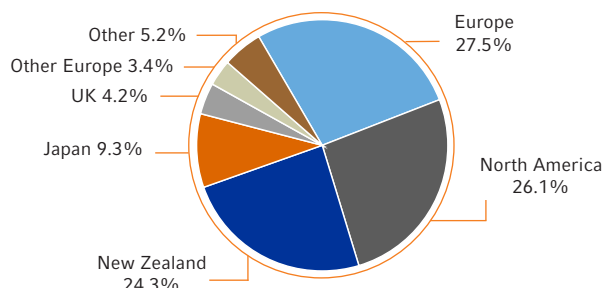
The Fund outperformed the benchmark for the March quarter. The positive returns of the international segment were partly offset by the significant underperformance of NZ bonds.

The NZ Bond segment lagged the benchmark weakened by its credit exposures as continued deterioration in the economic environment forced swap and credit spreads to widen further.

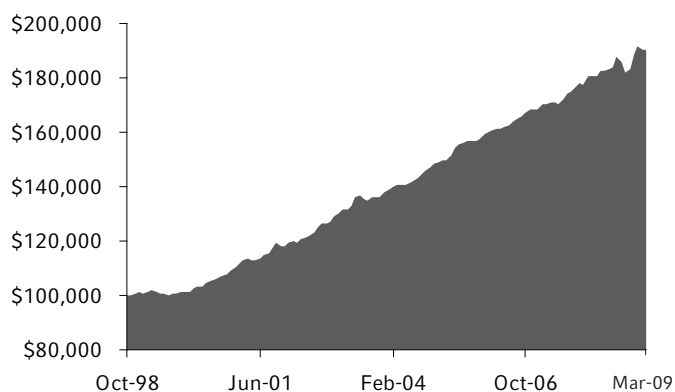
The international segment enjoyed a strong quarter with most of the managers outperforming the benchmark. Overweights to high yield debt, the Industrials sector and agency mortgage backed securities (MBS) were the main contributors to performance.

Investment Performance to 31 March 2009		
Gross returns in NZ\$	Fund	Benchmark
Quarter	0.84%	0.57%
1 Year	5.16%	9.39%
3 years pa	5.59%	8.10%
5 years pa	6.19%	7.37%
Since inception pa	6.37%	7.02%

Regional Allocations



Growth of \$100,000 as at 31 March 2009



Manager	Weight	Style	Comment
ING NZ	20.0%	Core Value (NZ)	ING lagged the benchmark in the first quarter with credit and swap exposures detracting significant value. A number of corporations issued bonds in the NZ market including AMP, Fonterra and Contact Energy, which added to illiquidity and widening in credit spreads in the secondary market. Further deterioration in the economic environment and increased risk of corporate defaults pushed credit spreads wider hurting the manager's performance. The Fund's long duration position added some value as yields decreased in January.
Colchester Global Investors	16.0%	Macro Value (Global)	Colchester was the worst-performing manager over the quarter. Duration detracted, particularly the underweight US duration position. Currency was a positive over the quarter, with an underweight to the weakening Japanese yen proving beneficial.
Drake	20.0%	Core Plus (Global)	Drake outperformed, primarily due to a strong contribution from its Asset Backed Securities (ABS). The most notable gains were made in its BBB-rated credit card holdings and in its AAA-rated sub-prime mortgage holdings.
PIMCO	20.0%	Sector specialist (Global)	PIMCO outperformed over the quarter, as positive contributions came from its US curve steepener - which benefited as the longer end of the curve rose - and an overweight to agency Mortgage Backed Securities (MBS), which was supported by the US government's significant commitment to buy such assets. Overweights to non-agency MBS and to financial corporates detracted.
Loomis	24.0%	Core (Global)	Loomis was the best-performing manager after most spread sectors made a strong comeback in the first quarter of 2009. Overweights to high yield and industrials were the main positives, while the financials overweight detracted.

The information contained in this publication was prepared by Russell Investment Group Ltd on the basis of information available at the time of preparation. This publication provides general information only and should not be relied upon in making an investment decision. Investors should seek professional advice which takes into account their personal circumstances before making an investment decision. Accordingly, Russell Investment Management Ltd and their directors will not be liable (to the maximum extent permitted by law) for any loss or damage arising as a result of reliance being placed on any of the information contained in this publication. Russell Investment Group Ltd, Russell Investment Management Ltd, any member of the Russell Group or their directors do not guarantee the investment of the returns on the investments in the Russell Funds Investment Programme. The Product Disclosure Statements or the Information Memorandum for the Russell Funds (as applicable) are available by contacting Russell Investment Group on 0800 357 666.

Copyright 2009 Russell Investment Group Ltd. All rights reserved.