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# IM Russell ICVC Defensive Assets Fund

## Performance Review<sup>1</sup>(this annual summary relates to the period 31 January 2010 to 31 January 2011)

	One Month %	Three Months %	One Year %
IM Russell ICVC Defensive Assets Fund (Class C Fees)	-0.6	-1.6	3.0
Bank of England Base Rate	0.0	0.1	0.5

Source: Russell/Confluence, in UK sterling terms, net of fees, Data as at 31/01/2011

<sup>1</sup> These funds are priced at 7:00am each morning where as the benchmark is priced at close of business each day. For benchmark comparable analytical purposes therefore the NAV have been artificially moved to the previous working day.

### Annual Fund Comment

2010 was the first year since 2005 that commodities, stocks, bonds and the dollar all gained as the economic recovery proved increasingly resilient. Nonetheless, this was another volatile period, with sentiment fluctuating sharply as concerns about economic data and sovereign debt ebbed and flowed.

The Fund gained 3.0% over the 12 months to the end of January 2011, outperforming its benchmark, the Bank of England Base Rate, by 2.5% in what was a favourable environment for low short-term and long-term interest rates. Each of the Fund's underlying components finished ahead of their respective benchmarks, led by our Global Bond managers. For the large part, the latter enjoyed a very positive year, with outperformance derived from diverse sources including sector positioning (the preference for credit assets as investors sought greater risk and higher yield for much of the year), security selection and interest rate positioning. The latter was of particular value during the occasional but sharp bouts of risk aversion that punctuated the year, emphasising the benefits of a multi-manager portfolio, and the Fund's flexibility and inherent diversity.

First-quarter returns were positive in relative terms, with most of the underlying allocations adding value. The global bond allocation was supported by its active overweight to credit as risk aversion declined and default risk receded. The second quarter was also positive, again driven by the global bond allocation despite a sell-off in the broader credit market. The Fund then built upon its strong since inception numbers with another quarter of outperformance, with the Fund's global bond, sterling bond and cash managers all outperforming their relevant benchmarks in aggregate. The former continued their robust run as recovery accelerated and investors chased the greater yields available further down the rating scale. Fourth-quarter returns were less positive, as evidence of a broader recovery put an end to the US Treasury rally and weighed on returns. The period was a challenging one for the asset markets that typically make up cautious portfolios in the UK, most notably long-dated bonds.

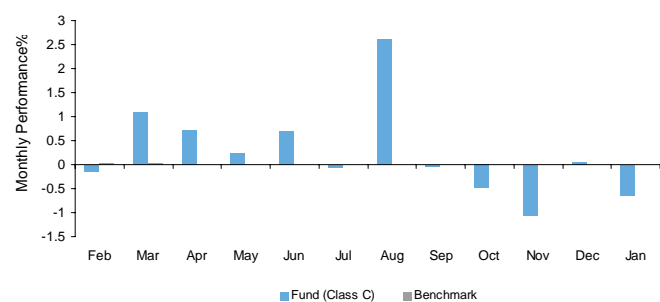


**Portfolio Manager:**  
James Ind

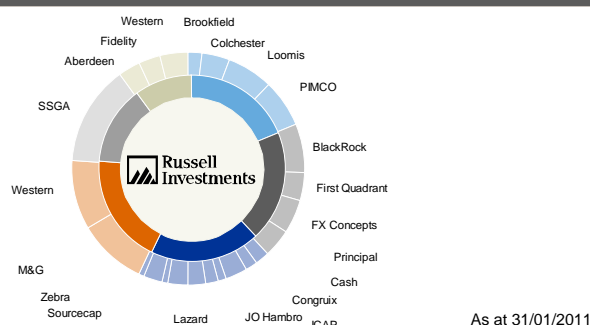
<b>Benchmark</b>	Bank of England Base Rate
<b>Fees: Class A, B, C</b>	1.35%, 0.85%, 0.60%
<b>AUM</b>	£41.0m
<b>Launch Date</b>	12th January 2010
<b>SEDOL: A Class acc.</b>	B4L3HZ9

**12-month Yield** **1.99%**  
The yield calculation is the distribution rates for the rolling year divided by the current price (data as at 31/01/11). This is presented as a percentage and recalculated daily as the price changes.

### Performance Chart (%)



### Fund Allocation



As at 31/01/2011

### Strategy Allocation

Asset Class <sup>1</sup>	Weight	Fund
Global Bonds	19.0%	Russell Investment Co. PLC The Global Bond Fund (£hedged)
Absolute Return	19.0%	Russell Investment Co. PLC IV Absolute Return Equity Fund
Cash PLUS	19.0%	Russell Investment Co. PLC III Active Currency Fund (£hedged)
Corporate Bonds	19.0%	Russell Investment Co. PLC Sterling Corporate Bond Fund
Cash	14.0%	Russell Investment Co. PLC Sterling Cash Fund
Sterling Bonds	10.0%	Russell Investment Co. PLC III Sterling Bond Fund

<sup>1</sup> Currency Forwards £/\$ and £/EUR will also be used as appropriate and implemented by Russell Investments.

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## Latest Fund Commentary as at 31/01/2011

Fund	Fund Benchmark	Mandate Inception	Russell Analysis
RIC IV Absolute Return Equity Fund	1 month LIBOR (GBP)	Q1 2010	AREF underperformed in a month where global equities advanced despite the emergence of a fresh set of geopolitical and macroeconomic risks, as economic data suggested that the global recovery was becoming more robust. Developed markets outperformed their emerging counterparts, led by Europe which rallied strongly as the debt crisis appeared to ease following a series of successful debt auctions on the region's periphery. The performance of the underlying managers was mixed, with the US managers making the largest contribution.
RICIII Active Currency Fund (£hedged)	3 Month LIBOR (USD)	Q1 2010	The Fund finished modestly ahead over the month, helped by its long exposures to the two best-performing major currencies over the period, the Swedish krona and the British pound. The former, the Fund's most sizeable long position, outperformed on Sweden's improved outlook, while the latter strengthened as the prospects of an interest rate rise increased. A short Japanese yen position was also of benefit after the latter sold off on lingering concerns over future growth prospects and negative demographic trends. Emerging market exposures were mixed, particularly in Europe where a short Czech koruna position offset the benefits of a short Turkish lira position and being long the Polish zloty.
RIC Global Bond Fund (£hedged)	Barclays Capital Global Aggregate	Q1 2010	The Fund outperformed in January, driven by a combination of successful security selection, sector allocation decisions and currency positioning. The former was most apparent among asset-backed securities, where Brookfield's security selection was particularly successful. Gains from sector positioning were derived through overweights to high yield debt, ABS and financials. Meanwhile, among currencies, the long Swedish krona position helped drive relative gains as the currency strengthened on Sweden's improved outlook. Colchester was the best-performing manager, driven by its interest rate and currency positioning.
RIC Sterling Bond Fund	Merrill Lynch Sterling Broad Market	Q1 2010	The Fund outperformed, continuing its strong run from the previous quarter, as each of the underlying managers delivered returns in excess of the benchmark. The Fund's sector positioning was again the key driver, notably through its overweights to subordinated financial debt and high yield in particular. The overall preference for credit assets over government issues also added value. Interest-rate positioning was also additive, but yield curve and currency positioning pared back gains somewhat.
RIC Sterling Corporate Bond Fund	Merrill Lynch All Stocks Non-Gilts 10+	Q1 2010	The Fund underperformed over the month, as both managers finished behind the benchmark. Western Asset Management's returns were more closely aligned to those of the benchmark, helped by its overweight to high yield debt and financials, although interest rate positioning weighed on returns. M&G's underperformance reflected its preference for higher quality assets as lower-rated credits outperformed.
RIC III Sterling Cash Fund	One week Sterling LIBID, average yield compounded weekly	Q1 2010	A two-speed global recovery was again evident in January. Activity has moderated less than expected in developed world economies, but growth remains subdued, while activity remained buoyant in many developing economies. In the UK, the Bank of England has come under increasing pressure to raise interest rates, with CPI inflation accelerating to 4% in January, far above the BoE's 2% target. This acceleration was driven by an increase in VAT from 17.5% to 20%, and by a surge in oil prices.

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