



Leading investment manager research

# Russell's due diligence and ongoing monitoring processes

MARCH 2009

We proactively assess manager risks on behalf of Russell fund investors.

Russell is dedicated to evaluating the business, operational and compliance risks and controls of current managers or those considered for Russell fund assignments. This process is supplemental to the already extensive portfolio research reviews of money managers.

Russell monitors approximately 240 different fund managers spanning more than 700 assignments globally, utilizing consistent standards and adherence to a comprehensive review process.

## RUSSELL REVIEWS KEY DOCUMENTATION FROM MANAGERS

First, we review a broad range of available documentation from each manager. These may include key documents, such as:

- Policies and procedures
- Codes of ethics
- Third-party reviews
- SAS 70 or AAF 01/06 reports
- Regulatory filings

## WE CONDUCT INITIAL ON-SITE INTERVIEWS OF INVESTMENT MANAGERS

Russell conducts in-depth on-site interviews with management firms who are being considered for assignments within the Russell funds, where Russell's investment management professionals have discretion to hire or terminate managers. In these interviews, we discuss the firm's people, policies and processes relative to the firm's business model and a range of topics to assess each manager's compliance and operational risks and controls.

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## WE ASSESS MANAGERS FOR RUSSELL FUND ASSIGNMENTS

Russell internally rates each management firm, considering insights and perspectives related to risk factors reviewed. This rating system helps Russell's portfolio managers consider additional factors as they complete their own manager assessments.

If a manager is hired for a Russell fund assignment, the manager's compliance and operational risks and controls are reassessed with each on-site review. If information is discovered which may have an affect on a manager's risk rating, Russell may reassess the manager at any time.

## RUSSELL CONDUCTS ONGOING DUE DILIGENCE

Based on risk ratings, we schedule ongoing reviews of Russell fund managers, visiting each one on-site at least every four years. Periodic internal, desktop reviews are also conducted to identify and assess material changes which may occur between on-site reviews. On-site reviews may be conducted more frequently based on risk ratings, internal reviews, responses to quarterly or annual questionnaires, or current events.

## WE MEET REGULARLY TO DISCUSS MONEY MANAGERS

Russell meets regularly to discuss managers, pre and post-review. Attendees at these meetings may include key Russell investment and compliance professionals such as portfolio managers, research analysts and relevant fund compliance officers. Additional Russell teams are involved in manager discussions, including portfolio implementation, portfolio trading and fund operations. During these discussions, oversight analysts gather pertinent information about each manager, including changes, issues, and concerns.

After each review is complete, the oversight analysts communicate their assessments with key investment and compliance professionals at Russell, highlighting the strengths and risks identified during the process.

## AREAS OF REVIEW

Topics reviewed by Russell may include, but are not limited to the following:

- Regulatory reporting
- Soft dollars and/or commission sharing arrangements
- Best execution
- Counterparty reviews
- Investment guideline monitoring
- Code of ethics and personal securities trading policies
- Conflicts of interest – Identification and monitoring
- Trade processing
- Trade allocation
- Trade error processes
- Business continuity and disaster recovery plans
- Information technology infrastructure and systems support
- Records management and information security
- Organizational growth and/or changes

- Manual processes
- Third-party reviews or audits
- Trade settlements and reconciliation
- Performance calculations and pricing

#### SUMMARY

Russell's due diligence and ongoing monitoring processes are one more method Russell uses to continue to strive to protect the interests of investors in Russell products.

#### For more information:

Call Russell at **800-787-7354**

#### Important information

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*Russell Investment Company (RIC) Fund objectives, risks, charges and expenses should be carefully considered before investing. A prospectus containing this and other important information can be obtained by calling (800) 787-7354 or visiting [www.russell.com](http://www.russell.com). Please read the prospectus carefully before investing.*

Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns.

Subject to the RIC Fund's Board approval, Russell has the right to engage or terminate a money manager at any time and without a shareholder vote, based on an exemptive order from the Securities and Exchange Commission. Please refer to the most recent prospectus which will contain the latest information.

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