

# Large Cap Mix

## Money Manager Overview

### Russell's investment approach

Russell uses a multi-asset, multi-style and multi-manager approach to construct and manage its investment portfolios. Assets are typically managed by multiple investment management firms that Russell researches and hires, monitors and terminates on an ongoing basis.

### The mix

Russell chooses managers that use many different investment styles, from ones that have highly concentrated composites that often result in meaningful sector and stock positions to those that are seeking exposure to companies with market leadership that are generating strong or improving cash flow. For example, one manager's investment process seeks to identify companies it believes to be undervalued that exhibit stable or improving financial trends. An additional layer of account management is applied by a distinct overlay portfolio manager to provide coordination across multiple manager portfolios, seek to reduce trading costs and improve tax efficiency, and automatically rebalance the portfolios. The mix's benchmark is the Russell 1000® Index.

### Money manager mosaic (as of July 2011)



This mosaic depicts, at a specific point in time, the approximate relative weighting of managers within the mix plotted on the basis of cap size and style against fund benchmark (▲). Manager positions on this mosaic change over time as their allocations and holdings change. The circle size represents the relative size of each manager's assignment in the mix.



### Russell portfolio manager

Robert Kuharic

### The Russell portfolio manager's role

The Russell portfolio manager is responsible for selecting the managers included in the mix and determining the appropriate weight for each manager's assignment. There may be a number of reasons why a manager is added to or removed from a mix, including a change in control at a money management firm, the opportunity to select a manager Russell believes offers an investment proposition that would improve the excess return potential of the mix, or the departure of a key individual at a money management firm.

While the portfolio manager makes the decision to change the manager line-up, that decision must be validated through an internal Russell governance process to ensure all key considerations are addressed by the portfolio manager.

### Target allocation of assets:

#### Growth

- 20% DSM Capital Partners LLC
- 30% Winslow Capital Management, Inc.

#### Value

- 30% Armstrong Shaw Associates, Inc.
- 20% Palisades Investment Partners, LLC

The above represents the breakout of the mix assets that are allocated to money managers.

**Firm background:**

DSM Capital Partners, a Delaware LLC, was founded by Daniel Strickberger and Stephen Memishian in 2001. DSM is an SEC registered investment advisor offering separately managed accounts, as well as certain pooled investment vehicles to individuals and institutional investors.

**Headquarters:** Mount Kisko, NY

**Founded:** 2001

**Lead managers:** Daniel Strickberger and Stephen Memishian

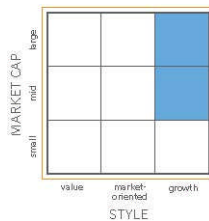
**Asset Class:** U.S. Equity

**Investment style:** Growth

**Manager's benchmark:** Russell 1000® Growth Index

**Number of holdings:** 25 - 35

**Capitalization level:** Mid to large cap



**Investment sub-style:**

Earnings momentum

**Manager profile:**

DSM Capital Partners LLC (DSM) was added to the Large Cap Mix in 2007. Dan Strickberger and Stephen Memishian lead this growth manager assignment at DSM. The firm conducts a bottom-up fundamental research process. DSM believes in strong new idea flow, an emphasis on growth, profitability, and cash flow, and a disciplined approach to valuation.

The firm seeks to add value through building a focused portfolio of unique business franchises where management strategies for growth and improving fundamentals are expected to increase intrinsic business value, which the manager believes will increase investment return.

**Investment process:**

DSM seeks to purchase high quality securities that it believes are trading at a discount but exhibit solid and/or improving revenues, profitability and cash flows. The firm believes that, while these companies have fallen out of favor with growth investors, the companies are candidates to outperform.

The firm runs a concentrated growth portfolio of the highest confidence 25 to 35 securities that they research. Their investment process focuses on finding companies ti believes have the potential for solid revenue growth combined with high returns on assets. The characteristics of the portfolio holdings and portfolio candidates include high forecast earnings growth combined with attractive valuations. The combination of the robust research process with the firm's valuation discipline keeps the portfolio invested in the investment team's highest expected return stocks.

**Russell's manager analysis:**

Russell believes that Dan Strickberger and Steve Memishian, the firm's two portfolio managers and co-founders, are thoughtful and experienced investors who complement each other well. The portfolio they run is quite concentrated, and often has considerable sector and industry deviations relative to its benchmark. In addition, the portfolio is confidence weighted into the investment team's highest expected return companies. As a result, the portfolio is expected to have high tracking error (the amount by which the performance of the portfolio differs from the benchmark) and in many cases, stock specific influence can drive the portfolio's return.

DSM will likely perform best when the market is led by medium capitalization stocks of companies that have high expected earnings growth and may have relatively high earnings variability. It will likely struggle when larger capitalization stocks with moderate, more stable earnings growth perform best.

# Winslow Capital Management, Inc.

**Firm background:**

Winslow Capital Management, Inc. was founded in 1992, and acquired by Nuveen Asset Management in 2008. Winslow is recognized for its large cap growth investment expertise, and specializes in managing portfolios for institutions and high net worth investors.

**Headquarters:** Minneapolis, MN

**Founded:** 1992

**Lead manager:** Clark Winslow

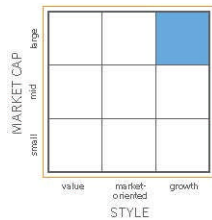
**Asset Class:** U.S. Equity

**Investment style:** Growth

**Manager's benchmark:** Russell 1000® Growth Index

**Number of holdings:** 50 - 70

**Capitalization level:** Large cap



**Investment sub-style:**

Earnings momentum

**Manager profile:**

Russell hired Winslow Capital Management, Inc. (Winslow) in 2007 to fill the core large cap growth mandate in the Large Cap, Large Cap Growth and Broad Cap manager mixes. Clark Winslow leads this growth manager assignment at Winslow. The firm conducts a bottom-up fundamental research process. Winslow believes that investing in companies with above-average earnings growth potential provides the best opportunity for achieving outperforming portfolio returns over the long term. Its focus is on companies it believes can deliver attractive future annual earnings growth, with rising return on invested capital and positive cash flow.

**Investment process:**

Winslow seeks to design portfolios that consistently outperform the Russell 1000® Growth Index over time. Its bottom-up investment process is fundamentally driven, with an underlying valuation discipline that is important to stock selection. It seeks to identify what it believes to be the best companies with more than \$3 billion in market capitalization.

The firm's growth equity universe is created through a quantitative screen of the Russell 1000® Growth Index to narrow the list of potential stocks to approximately 300 companies. It then qualitatively assesses and identifies purchase candidates from these remaining 300 stocks. This qualitative assessment narrows the list to approximately 100 companies that meet its definition of high-quality growth. The firm then conducts an active research review of these remaining 100 stocks, applying valuation disciplines as part of the analysis. The firm is willing to consider stocks of companies that are experiencing long-term sustainable earnings growth, cyclical growth at the right part of the cycle, and rapid growth in newer industries. The end result is a carefully constructed portfolio of approximately 50 to 70 stocks.

**Russell's manager analysis:**

Russell considers Winslow to be a high confidence manager. Russell believes that the investment team at Winslow is insightful, motivated and experienced. As a team, they have a strong analytical background and complementary philosophical orientations. The firm seeks to identify companies that are in earlier stages of growth as well as avoid and/or sell stocks with declining growth rates. In addition, Winslow has a fairly strict valuation discipline that assists in recycling the portfolio into those companies that have the highest expected return potential.

Russell considers Winslow to be a core growth manager with a portfolio that tends to be more broadly diversified across sectors and industries relative to the other growth managers in the Russell Separate Account mixes. Russell believes this manager will perform best in broadly rising markets that are not narrowly focused within the largest capitalization tier. They may struggle in market environments in which risk-aversiveness dominates and defensive stocks lead.

# Armstrong Shaw Associates, Inc.

July 2011

**Firm background:**

Armstrong Shaw is a registered investment advisor. They have been providing large cap equity management to institutions and individuals for more than 25 years.

**Headquarters:** New Canaan, CT

**Founded:** 1984

**Lead managers:** Jeffrey M. Shaw

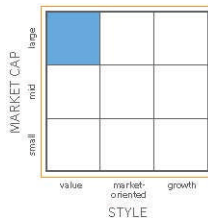
**Asset Class:** U.S. Equities

**Investment style:** Value

**Manager's benchmark:** Russell 1000® Value Index

**Number of holdings:** 30 - 40

**Capitalization level:** Large cap



**Investment sub-style:**

Relative value

**Manager profile:**

Armstrong Shaw Associates Inc. (Armstrong Shaw) was added to the Large Cap Mix in 2007. Russell has been following this manager since 2003 and has also used it in other assignments within Russell's fund complexes. Jeffrey M. Shaw leads this large cap value manager assignment at Armstrong Shaw.

**Investment process:**

Armstrong Shaw's fundamental research focuses on evaluating the quality of a company's management and its ability to generate cash flow. The firm's bottom-up, fundamental investment process seeks to invest in companies that it believes are selling below their intrinsic value. Intrinsic value is defined as Armstrong Shaw's estimate of what a company would be worth if a knowledgeable buyer acquired it. The firm also looks for catalysts that may help drive stock price performance. These catalysts include: earnings shortfalls, legislative change, industry events, spin-offs, restructurings, and management changes. The firm's investable universe is stocks with a market capitalization of \$2.2 billion or greater.

The emphasis on high quality in Armstrong Shaw's investment process has historically resulted in low turnover, making the firm's investment approach inherently tax-efficient.

**Russell's manager analysis:**

Russell has high confidence in Armstrong Shaw. Jeffrey Shaw is an insightful investor and capable leader of the investment team.

Armstrong Shaw is expected to perform well in markets that favor stocks with high return on equity and strong cash flow. Markets led by commodity-oriented stocks or the financial services sector, or more extreme defensive environments, will be most challenging for the firm, as portfolios tend to be consistently underweight in these areas.

# Large Cap Mix

# Palisades Investment Partners, LLC

July 2011

## Firm background:

For more than ten years, the Palisades investment team has managed portfolios for corporate, public, and Taft-Hartley institutional accounts, as well as mutual fund strategies and other sub-advisory relationships.

**Headquarters:** Santa Monica, CA

**Founded:** 2003

**Lead manager:** Quinn Stills

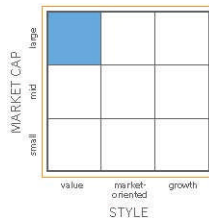
**Asset Class:** U.S. Equity

**Investment style:** Value

**Manager's benchmark:** Russell 1000® Value Index

**Number of holdings:** 20 - 30

**Capitalization level:** Large cap



## Investment sub-style:

Relative value

## Manager profile:

Palisades Investment Partners, LCC (Palisades) was added to the Large Cap Mix in 2007. Quinn Stills leads this large cap value manager assignment at Palisades. Palisades' philosophical approach is to identify what it believes to be current and potential turnarounds, and to invest in them for the long term. This is intended to result in low turnover, lengthy holding periods, and consistent investment performance.

## Investment process:

Palisades' investment team uses a bottom-up investment process to identify companies it believes to be undervalued with solid, long-term fundamental strength and improving short-term fundamentals. Through in-depth fundamental research, the firm searches for companies with overall positive earnings revisions in aggregate. They seek turnarounds, restructurings, and successful yet inexpensive companies with sustainable positive earnings revisions.

The most important aspect of Palisades' approach is a focus on the analysis of each company's financial statements. The goal is to select companies that will ultimately possess rising earnings estimates, improving accounts receivable balances, improving inventory trends, rising cash flow, and a low valuation at the time of purchase.

## Russell's manager analysis:

Russell has a strong opinion of the portfolio management team at Palisades. Quinn Stills and Peter Lopez possess a significant amount of experience using a "forensic accounting" approach to value investing. Russell believes they are particularly good at financial statement analysis, especially as it relates to a company's balance sheet.

Palisades should perform best in markets favoring value companies, as well as periods valuing improving fundamentals with above average earnings variability. Defensive markets are likely to be difficult, as are markets that favor commodity-oriented stocks.

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The separate account mix managers are current as of 7/1/11. Russell has the right to employ or terminate a manager at any time and without prior notification, as is consistent with its role as investment manager of the mixes. The managers shown may not be the current managers in the mix.

This document will be updated annually. If a manager change is made during a year, a manager specific page will be added or removed.

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The Russell 1000® Growth Index measures the performance of those Russell 1000® Index securities with higher price-to-book ratios and higher forecasted growth values, representative of U.S. Securities exhibiting growth characteristics.

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