

Russell Tax Exempt Bond Fund

Money Manager Overview

November 2011

The fund

Russell uses a multi-asset, multi-style and multi-manager approach to the construction and management of its investment portfolios. Assets are managed by multiple money management firms that Russell researches and hires (subject to Fund Board approval), monitors and terminates on an ongoing basis.

The Russell Tax Exempt Bond Fund hires managers that are experts in municipal bonds. The fund seeks to provide federal tax-exempt current income consistent with the preservation of capital. The fund will invest, under normal circumstances, at least 80% of the value of its assets in investments, the income from which is exempt from federal income tax. The fund will invest primarily in high-quality securities of state and local government entities that provide interest income exempt of federal taxes. The managers in this Fund may evaluate investment opportunities based on a macro-economic framework (top-down) or a security specific framework (bottom-up).

Professional asset management is more important in less efficient markets, such as the fixed income market. There are significantly more securities to choose from and the proliferation of new securities requires a deep understanding of this complex market. Russell can expand each money manager's mandate to purchase those new securities, ensuring managers with the right expertise and best grasp of these trends are positioned to invest in these opportunities.

Money manager skill set (as of March 2011)

Manager	Municipal bonds and notes	Treasuries	Agencies	Corporate Bonds	Mortgage-backed securities	Asset-backed securities
Delaware	●	●	●	●	●	
Standish	●	●	●	●		●

See skill set definitions on page 4.



Russell portfolio manager

Keith Brakebill

The Russell portfolio manager's role

The Russell portfolio manager is responsible for identifying and selecting the money managers in the fund 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 the fund, including a change in control at a money manager, the opportunity to select a manager Russell believes offers an investment proposition that would improve the excess return potential of the fund, or the departure of a key individual at a money manager.

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 were addressed by the portfolio manager. Manager changes are also subject to approval by the fund's Board of Trustees.

Target allocation of assets: Fully Discretionary

- 50% Delaware Management Company (a series of Delaware Management Business Trust)
- 50% Standish Mellon Asset Management Company LLC

The above represents the fund assets that are allocated to money managers. The fund also maintains cash reserves, which is cash awaiting investment or held to meet redemption requests or pay expenses. The level of cash reserves may vary depending on market conditions.

Russell Tax Exempt Bond Fund Manager Profile

Delaware Management Company

August 2011

Firm background:

Delaware is a wholly-owned subsidiary of Macquarie Group. The firm provides world-class asset management services and solutions for institutions and individuals.

Headquarters: Philadelphia, PA

Founded: 1929

Lead manager: Joseph Baxter

Asset Class: Core fixed income

Focus*: Municipal securities

Range of holdings: 75 - 100

*See definitions on page 4

Manager profile:

Delaware Management Company (Delaware) was added to the Russell Tax Exempt Bond Fund in 2005.

Delaware's municipal bond team is led by Joe Baxter. The investment team consists of an experienced group of individuals looking to invest in relatively riskier, less followed segments of the market. The firm's investment philosophy is to maximize after-tax total returns. It believes this is best accomplished by maximizing interest income and emphasizing higher yielding securities.

Investment process:

Delaware focuses its security selection on lesser followed and lower-rated municipal bonds. The portfolio can contain up to 10% in below-investment grade municipals; although in general, they won't go higher than 5%. The ability to tactically invest in high yield municipal bonds will likely allow it to take advantage of inefficiencies in that market.

The firm employs historical spread and supply/demand analysis to develop a view of the relative attractiveness of the various municipal bond sectors. The firm also seeks opportunities in less common sectors such as student housing and acute care hospital issues. A dedicated credit analyst is used to identify value. The broad range of municipal sectors the firm is willing to invest in is believed to be an advantage to them relative to peers.

Russell's manager analysis:

Delaware brings to the fund a bottom-up, issuer specific evaluation approach. It seeks value in less common sectors and securities.

Russell expects this manager will do well when lower quality and longer maturity municipal securities do well. They will underperform when municipal markets are risk averse.

Russell Tax Exempt Bond Fund Manager Profile

Standish Mellon Asset Management Company LLC

November 2011

Firm background:

Standish Mellon Asset Management Company LLC is a wholly-owned subsidiary of The Bank of New York Mellon Corporation. Standish emphasizes fundamental research and quantitative models in attempt to outperform.

Headquarters: Boston, MA

Founded: 1933

Lead manager: Steve Harvey

Asset Class: Fixed income

Focus*: Focuses on municipal securities

Range of holdings: 75 - 100

*See definitions on page 4

Manager profile:

Russell added Standish Mellon Asset Management Company LLC (Standish) to the Russell Tax Exempt Bond Fund in 1998.

Standish is a dedicated fixed income manager that traces its roots back to 1933, when its predecessor firm, Standish Ayer & Wood, Inc., began managing fixed income portfolios for U.S. financial institutions, banks and insurance companies. Standish emphasizes a bottom-up security selection.

The firm's experienced staff is skilled in evaluating uniquely structured securities and their emphasis on revenue bond investments are targeted ways the firm attempts to add value over a municipal bond index in a tax-exempt portfolio. At the same time, the firm remains benchmark-aware and manages its active exposures with a thoughtful consideration of the attendant risks.

Investment process:

The firm seeks to outperform the benchmark on an after-tax basis on an absolute and risk-adjusted basis, in both rising and falling interest rate environments.

The firm uses fundamental and quantitative analyses to identify relative value among the various market sectors and geographical regions available for investment. Using this analysis of historical spreads of sectors (taxable and tax-exempt), and the fundamental view provided by the in-house credit analysts, the investment team selects individual securities that it believes will offer the greatest potential for strong risk-adjusted returns.

Russell's manager analysis:

Standish understands municipal securities with unique structural features, such as mortgage and pre-paid gas bonds, better than most municipal managers. The firm's analysis of securities can leverage the taxable credit resources within Standish when applicable. The firm's trading expertise and overall security analysis should help the firm add value through security selection.

Russell expects this manager will do well during less volatile or improving markets and underperform during weaker municipal markets.

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 by visiting www.russell.com. Please read the prospectus carefully before investing.

Manager skill sets definitions:

Municipal bonds and notes – Debt securities issued by a state, municipality, or county to finance its capital expenditures.

Treasuries – Also known as “government securities” treasuries are a debt obligation of a government and are backed by the government, so are considered low-risk.

Agencies -- A bond issued by a government agency that is not fully guaranteed in the same way as treasury and municipal bonds.

Mortgage-backed securities – Mortgage-backed securities are bonds backed by a pool of mortgages. Investors receive payments out of the interest and principal of the underlying mortgages.

Corporate Bonds – Corporate bonds are debt obligations issued by a corporation.

Asset-backed Securities – Consumer-related securities such as credit card and auto loans.

Money managers listed are current as of March 2011. Subject to the 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.

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

Bond investors should carefully consider risks such as interest rate, credit, repurchase and reverse repurchase transaction risks. Greater risk, such as increased volatility, limited liquidity, prepayment, non-payment and increased default risk, is inherent in portfolios that invest in high yield ("junk") bonds or mortgage-backed securities, especially mortgage-backed securities with exposure to subprime mortgages.

Non-U.S. markets and emerging or developing markets entail different risks than those typically associated with U.S. markets, including currency fluctuations, political and economic instability, accounting changes and foreign taxation. Non-U.S. securities may be less liquid and more volatile than the U.S., and emerging markets securities may be less liquid and more volatile than U.S. and longer-established non-U.S. markets.

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.

Diversification and strategic asset allocation do not assure profit or protect against loss in declining markets.

For more information on Russell Funds, contact your investment professional or plan administrator for assistance.

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