

# Russell Short Duration Bond Fund

## Money Manager Overview

August 2011

### 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 money management firms that Russell researches and hires (subject to Fund Board approval), monitors and terminates on an ongoing basis.

### The fund

The Russell Short Duration Bond Fund's managers focus on the shorter end of the yield curve, which results in an overall lower level of interest rate sensitivity (ie., duration) versus intermediate or longer duration fixed income funds. In addition, this fund has quality and sector restrictions which are designed to manage risk while at the same time allow the fund to achieve a competitive yield. The underlying 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 (as compared to the equity market) and the proliferation of new types of securities requires a deep understanding of this complex market. Russell can augment money managers' mandates to allow those with the right capabilities to purchase new kinds of instruments. This can add value to the fund. Similarly, Russell can adjust managers' guidelines and restrictions should conditions warrant it. The fund's benchmark is the BoAML US Treasuries 1-3 Year Index<sup>1</sup>.

### Money manager skill set (as of May 2011)

Manager	Interest rate timing (duration/yield)	Mortgage-backed Securities	Corporate Bonds	High Yield Bonds	Emerging Market Debt	Currency
PIMCo	●	●			●	●
Logan Circle			●	●		

See skill set definitions on page 4.

<sup>1</sup> On 9/25/09, Bank of America announced the rebranding of its unified family of indices under the "BofA Merrill Lynch Indices" name. The rebranding changes the name of the index from "Merrill Lynch" to "BofA Merrill Lynch."



### Russell portfolio manager

Kevin Lo

### 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

60% Pacific Investment Management Company, LLC

### Sector Rotation

40% Logan Circle Partners, L.P.

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 Short Duration Bond Fund Manager Profile

## Pacific Investment Management Company, LLC

August 2011

**Firm background:**

Pacific Investment Management Company, LLC was founded in 1971 as a subsidiary of Pacific Life Insurance Company. In 2000, PIMCO was acquired by Allianz SE.

**Headquarters:** Newport Beach, CA

**Founded:** 1971

**Lead manager:** Bill Gross

**Asset Class:** Core fixed income

**Focus\*:** Mortgage-backed and asset-backed securities, interest rate timing, sector rotation and corporate debt.

**Range of holdings:** 300-600

\*See definitions on page 4

**Manager profile:**

Russell has been following Pacific Investment Management Company, LLC (PIMCO) for more than 20 years. The firm was added to the Russell Short Duration Bond Fund in 2000. PIMCO is a top-down, macro-economic manager whose investment process is driven by longer-term factors and includes a global perspective. Within this framework, PIMCO identifies what it believes to be relative-value opportunities through a bottom-up process. This combination of top-down, long-term investment horizon and bottom-up security selection is intended to complement the approach of the other manager in the fund.

Bill Gross, the lead manager for this assignment, is well known as an insightful and discerning manager with an in-depth understanding of the markets and the variety of securities available in the fixed income space.

**Investment process:**

PIMCO invests globally, assessing both developed and developing markets. This exposes the fund to non-U.S. fixed income securities. At times its investment themes will result in investment in both investment grade and non-investment grade corporate exposure. PIMCO invests in securitized products such as mortgage-backed and asset-backed securities as well as derivatives (for example, futures, swaps, options).

PIMCO aims to produce low volatility returns and minimal credit risk without sacrificing liquidity. In order to do so, PIMCO may utilize tactical duration and yield curve exposure, a key part of its investment process. Compared to a longer duration assignment, its shorter duration portfolio will have a nominally lower allocation to the investment grade corporate sector and a higher allocation to shorter duration, high quality, consumer-related asset-backed securities such as those backed by credit card and automobile loans. PIMCO is also likely to have relatively higher allocations to agency debt.

**Russell's manager analysis:**

PIMCO brings a global perspective to its investment process, evaluating securities in both developed and developing markets. When markets reward investors focused on macro-economic trends, PIMCO should outperform.

PIMCO should perform well when its macro-economic forecasts are accurate, or when the market at large embraces a view for which PIMCO has already positioned portfolios. Investment outcomes will be affected by management of interest rates, which includes duration and positioning along the yield curve. Sector allocation will also be an important factor in this market.

PIMCO will underperform when its macroeconomic forecast is materially inaccurate, either from a timing perspective or a fundamental perspective.

# Russell Short Duration Bond Fund Manager Profile

## Logan Circle Partners, L.P.

August 2010

### Firm background:

Logan Circle Partners, L.P. (Logan Circle) was founded in 2007 as a privately held partnership; in 2010 the firm was acquired by Fortress Investment Group. Logan Circle offers actively managed investment solutions across a broad spectrum of fixed income strategies that can be customized to meet clients' specific and unique objectives.

**Headquarters:** Philadelphia, PA

**Founded:** 2007

**Lead manager:** Andrew Kronschnabel

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**Asset Class:** Fixed income

**Focus\*:** Corporate bonds and high yield bonds

**Range of holdings:** 300-600

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\*See definitions on page 4

### Manager profile:

While Logan Circle Partners, L.P. (Logan Circle) is a relatively new firm (founded in 2007), the majority of its investment professionals have worked as a team for several years, first at Conseco and then at Delaware Investments. This investment team has been responsible for managing assets of the Russell Short Duration Bond Fund since 2002 (when the investment professionals were with another firm).

This small, nimble manager employs a decision making structure that is expected to allow it to add value via security selection. Russell views this manager as the more aggressive risk taking manager in the fund.

### Investment process:

Logan Circle believes the markets regularly misprice securities that are exposed to credit, prepayment and liquidity risks. To attempt to capitalize on these inefficiencies and provide investors with an opportunity for excess return, Logan Circle focuses on optimal security selection, emphasizes spread sectors, and constructs portfolios with attractive risk/reward characteristics.

Typically, this manager tends to focus on credit (both investment and non-investment grade) and mortgage-backed securities. However, in terms of sector allocation, Logan Circle generally allocates less to credit compared to a longer duration mandate. In addition, it also usually has a relatively higher allocation to high quality, short duration consumer-related securities such as those backed by credit card and automobile loans. While derivative usage and global investment are less important in its process, Logan Circle does have the capability to implement them in its strategies.

Interest rate and yield curve management exposures tend to be tactical and are usually not significant drivers of excess return. As such, Logan Circle tends to track close to the fund's benchmark in terms of duration. Given the short duration nature of this fund, Logan's portfolio will tend to have less interest rate sensitivity as compared to intermediate-term mandates.

### Russell's manager analysis:

Though the firm was founded in 2007, Russell has been covering the investment team since its earlier days at Delaware and Conseco. This small, nimble manager is expected to add value in the security selection process. Logan Circle brings to the fund a bottom-up, issuer specific evaluation approach, which is intended to complement the top-down, macro economic processes of the other manager in the fund. It attempts to find value in out-of-favor sectors and securities.

Russell expects this manager will do well when idiosyncratic risk is rewarded, while weaker performance should be expected of this manager when macro-economic themes drive market performance. Given the aggressiveness of this manager, it will also likely underperform when risk is not rewarded.

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](http://www.russell.com). Please read the prospectus carefully before investing.

**Manager skill sets definitions:**

*Interest rate timing (duration/yield)* – Interest rate timing anticipates the magnitude and direction of interest rates in both the U.S. and/or internationally.

*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.

*High yield* – Bonds that are ranked lower by ratings agencies because they have a relatively higher chance of default and therefore generally offer a higher yield in return for the higher risk, higher volatility and higher risk of default than investment grade bonds.

*Emerging Market Debt* – Emerging market debt (EMD) may include obligations of governments and corporations in countries with emerging markets.

*Currency* – Currency involves investing in foreign currencies with an expectation that the value of the currency will either rise or fall vs. the U.S. dollar.

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

*Sector Rotation* – moving money from one or more sectors to one or more other sectors.

Money managers listed are current as of 3/1/2011. 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. Investments in the Funds are not deposits with or other liabilities of any of the money managers and are subject to investment risk, including loss of income and principal invested and possible delays in payment of redemption proceeds. The money managers do not guarantee the performance of any Fund or any particular rate of return.

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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