

University of Western Ontario



Emerging Markets Discussion

Joint Pension Board

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JUNE 7, 2012

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

Investments in emerging or developing markets involve exposure to economic structures that are generally less diverse and mature, and to political systems which can be expected to have less stability than those of more developed countries. Securities may be less liquid and more volatile than US and longer-established non-US markets.

Non-US markets entail different risks than those typically associated with US markets, including currency fluctuations, political and economic instability, accounting changes, and foreign taxation. Securities may be less liquid and more volatile.

Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results.

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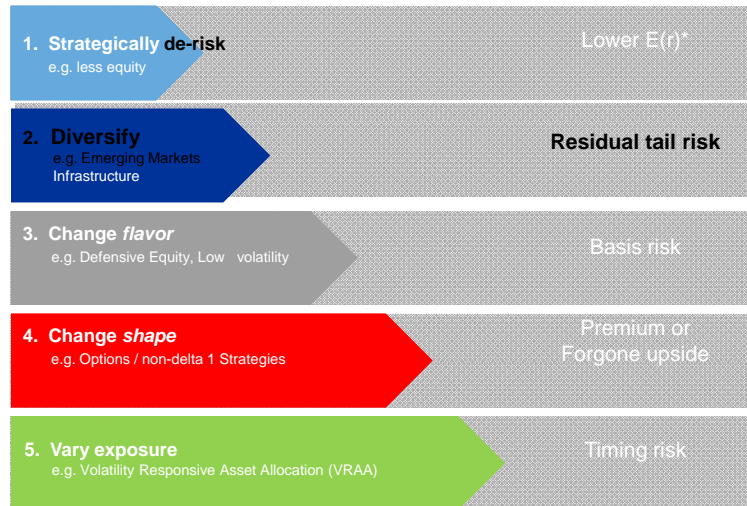
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First used: June 2010

USI-7194-06-11

Strategies for managing volatility

Primary Cost



Please remember that all investments carry some level of risk. Although steps can be taken to help reduce risk it cannot be completely removed.
*E(r) = Expected Return

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Case for Emerging Markets

Pros

- › Important part of the world economy
- › Market capitalization as percent of world GDP is low, but growing
- › Likely flow of investment may grow opportunity and liquidity
- › Potential for growth is higher than in established markets
- › Diversifier to developed equity markets
- › Potential for higher returns

Cons

- › Increases portfolio risk
- › Short term volatility
- › Low liquidity
- › High transaction costs
- › High investment fees
- › Increasing correlations with developed markets
- › Inconsistent legal & regulatory framework (enforceability)
- › Transparency

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The facts on emerging markets

- › Emerging markets equities represent 13% of the global equity universe as of March 31, 2010¹
- › Emerging markets countries produce around 20% of the world's goods and services²
- › Global growth in emerging countries is forecasted to be over 6% in 2010-11 while developed countries are expected to expand by only 2.5%²
- › Financial flows and capital investment from advanced countries to many emerging economies have rebounded sharply from the financial crisis of 2008-09²
- › As a group, emerging economies public debt ratios are only about 30% to 40% of GDP and given high growth rates, local governments can afford to maintain an expansionary fiscal stance²
- › Emerging markets countries represent an attractive return differentiating opportunity from developed markets

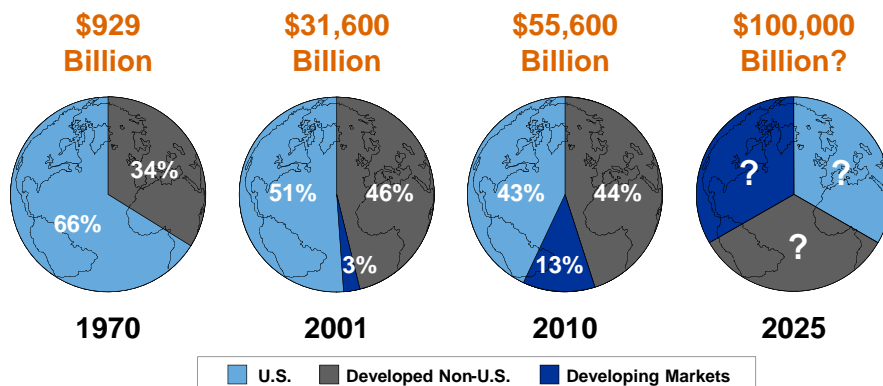
1. MSCI All Country World Index
 2. IMF World Economic Outlook, April 2010
 Indexes are unmanaged and cannot be invested in directly. Information is based on historical data and is not indicative of future results.

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Global equity markets

Emerging Markets Represent a Growing Slice of the Pie



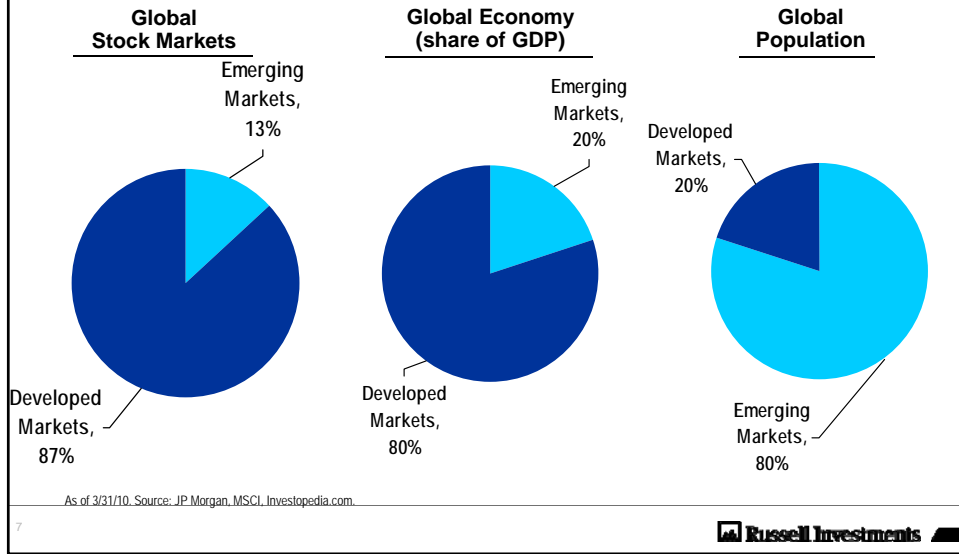
Source: MSCI, Russell Indexes

As of March 2010
 Source: MSCI ACW Index net, Russell Investments

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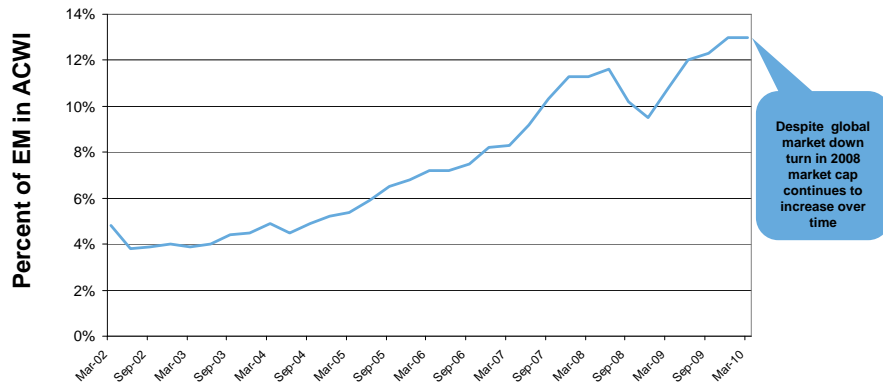


Emerging Markets Currently Under-Represented



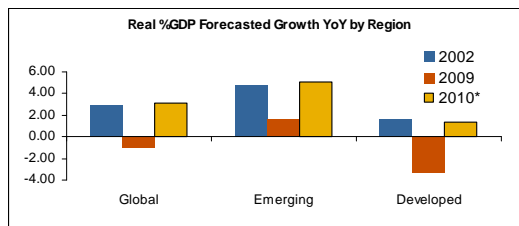
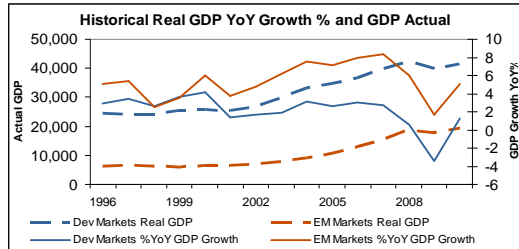
Emerging markets share of global markets has increased dramatically over the past 8 years

MSCI Emerging Markets Weight in MSCI All Country World Index
From March 2002 – March 2010



Source: MSCI
Indexes are unmanaged and cannot be invested in directly.

GDP growth continues to climb in emerging markets



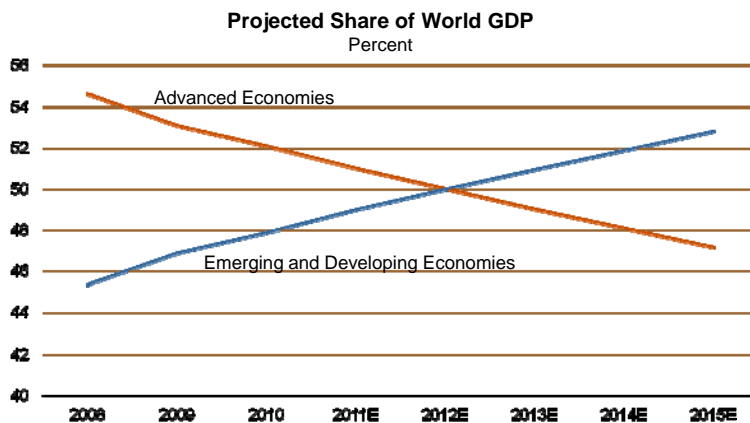
Source: IMF Database as of April 2010 *2010 forecasted GDP based on IMF April outlook.

Forecasting represents predictions of market prices and/or volume patterns utilizing varying analytical data. It is not representative of a projection of the stock market, or of any specific investment. There is no guarantee that any stated projections will occur.



- GDP growth expectations in emerging markets remain high.
- Emerging market GDP growth continues to rise and exceeds Developed nations.
- Over last ten years average GDP growth has been over 4% higher in emerging markets compared to developed nations.

According to IMF Estimates, Emerging Markets Will Account for Half of the Global Economy



Historical analysis and current estimates do not guarantee future results.

*As of 30 September 2011. GDP (gross domestic product) is the total market value of goods and services produced by a nation's economy during 2010. Developed markets consists of 27 countries: Australia, Austria, Belgium, Canada, Cyprus, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, UK and US. Emerging Markets consists of the other 147 countries covered by the IMF.

GDP statistics are at market exchange rates. Source: International Monetary Fund's International Finance Statistics and World Economic Outlook

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What is an Emerging Market?

No common universally accepted definition, generally a country with...

- › Relatively rapid economic growth (but not industrialized)
- › Low to moderate income per capita (<\$8,000 US per capita)
- › An immature equity market
 - › low market cap vs. GDP
- › Government that promotes growth through the private sector
- › Trend toward stable economic, financial, and political institutions
- › Ever-changing

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World Growth Cycle



Developed Markets

Australia	Canada	Germany	Japan	Spain
Austria	Denmark	Hong Kong	Luxembourg	Singapore
Netherlands	Finland	Ireland	Switzerland	Sweden
Belgium	France	Israel	New Zealand	United Kingdom
		Italy	Norway	United States

Emerging Markets

Argentina	Czech Republic	Jordan	Philippines	South Africa
Brazil	Egypt	Korea	Poland	Sri Lanka
Chile	Greece	Malaysia	Portugal	Taiwan
China	Hungary	Mexico	Peru	Thailand
Colombia	India	Morocco	Pakistan	Turkey
	Indonesia		Russia	Venezuela

Embryonic Markets

Bangladesh	Cyprus	Ivory Coast	Namibia	Saudi Arabia
Bahrain	Ecuador	Jamaica	Nepal	Trinidad & Tobago
Barbados	Fiji	Kenya	Nigeria	Tunisia
Bolivia	Ghana	Malawi	Oman	Uruguay
Botswana	Iceland	Mauritius	Papua New Guinea	Zambia
Costa Rica				Zimbabwe

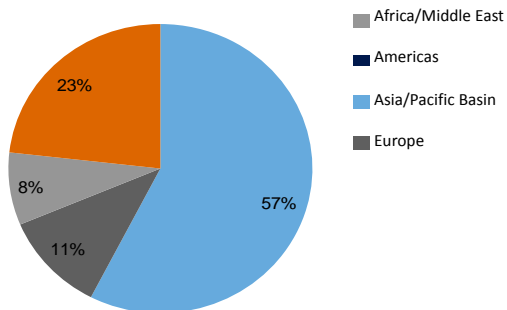
- q in 1776, the USA was an emerging market
- q in 1950, Japan was an emerging market

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Emerging Market Regional Allocation

As of December 31, 2011

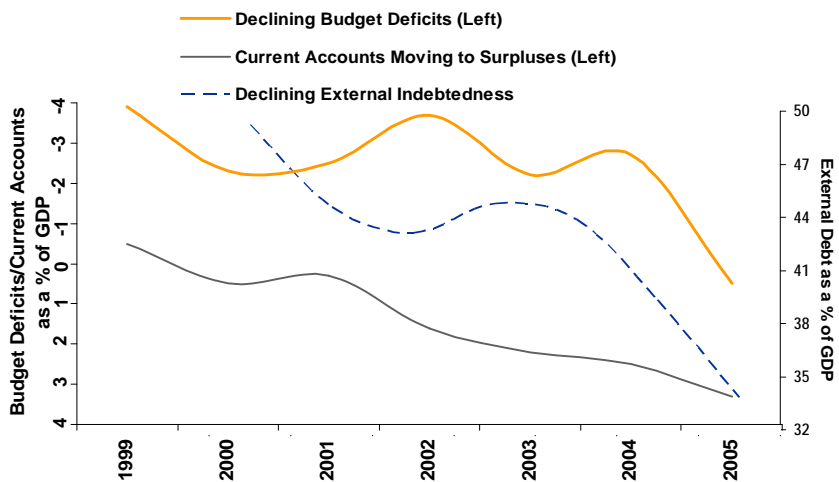


Source: Russell Emerging Markets Index

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Improving Emerging Market Fundamentals

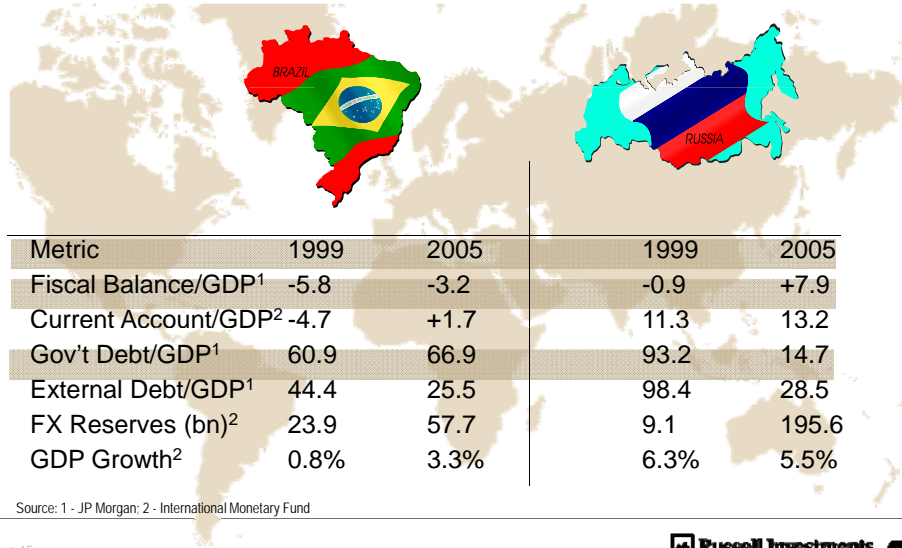


Source: JP Morgan
As of December 31, 2005, most recent data available. No forecasts can be guaranteed.

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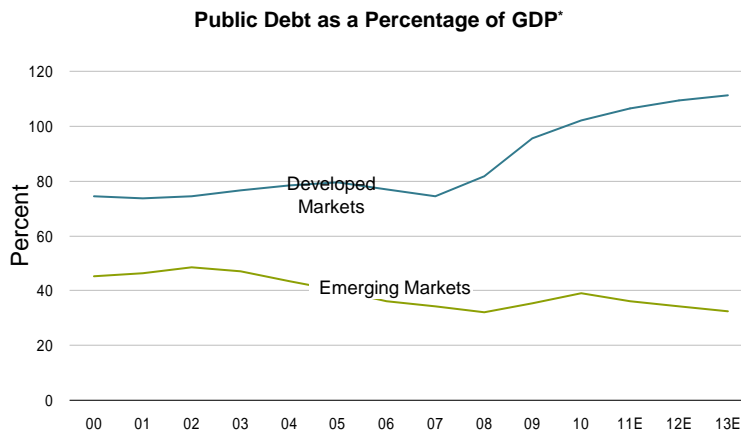
EM Sovereign Fundamentals



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and Better Debt Dynamics



Historical analysis and current estimates do not guarantee future results.

*As of 30 September 2011;

Developed markets consists of 27 countries: Australia, Austria, Belgium, Canada, Cyprus, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, UK and US. Emerging Markets consists of the other 147 countries covered by the IMF.

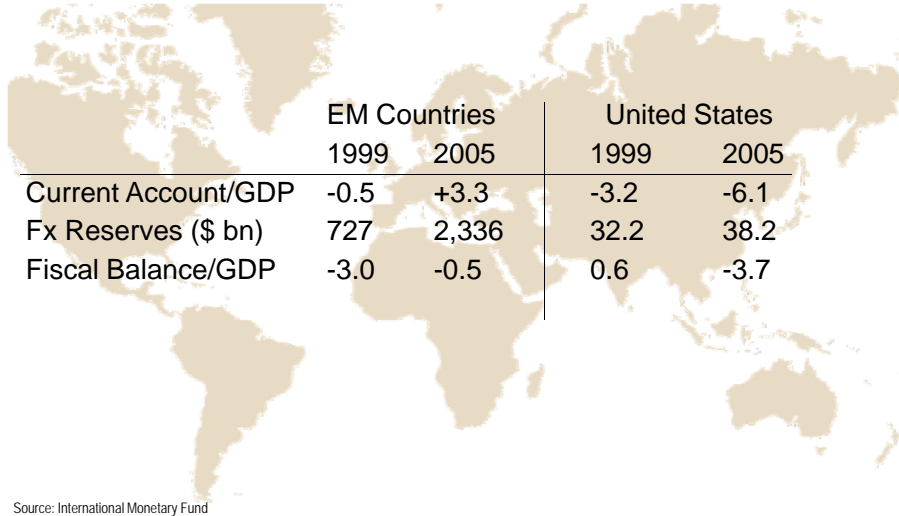
GDP statistics are at market exchange rates.

Source: International Monetary Fund's International Finance Statistics and World Economic Outlook

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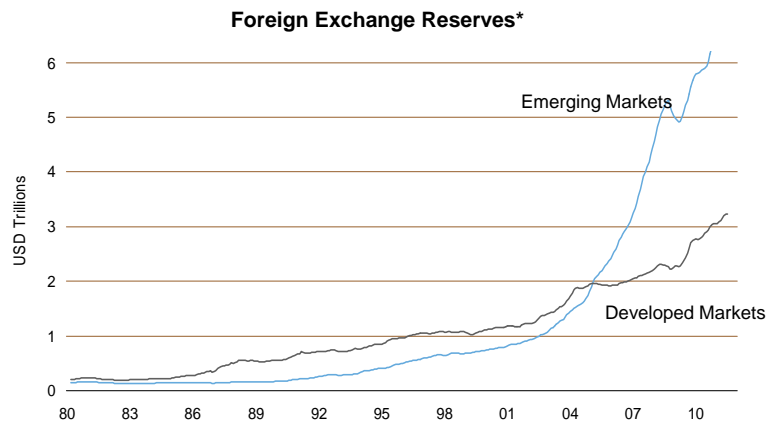
EM Sovereign Fundamentals vs. U.S.



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Today EM Hold Significant Currency Reserves...



Historical analysis does not guarantee future results.

*As of 31 August 2011; three-month moving average

Developed markets consists of 27 countries: Australia, Austria, Belgium, Canada, Cyprus, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, UK and US. Emerging Markets consists of the other 147 countries covered by the IMF.

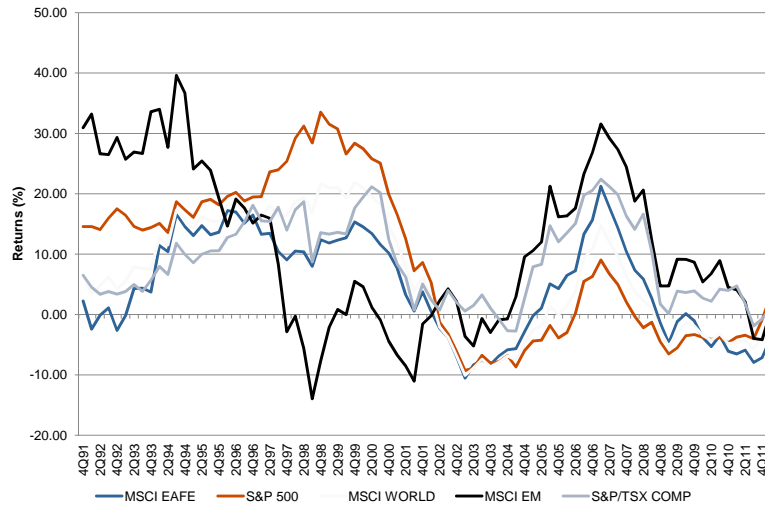
GDP statistics are at market exchange rates.

Source: International Monetary Fund's International Finance Statistics and World Economic Outlook

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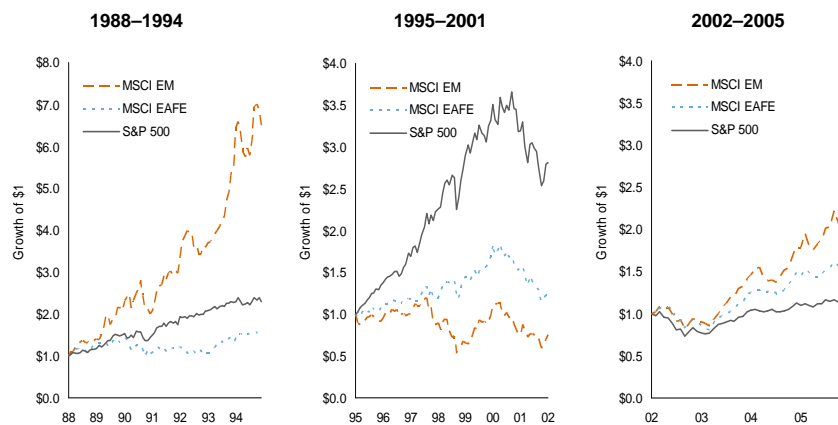
Equity Return Comparison (Cdn. \$) 4-Year Annualized Rolling Returns



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Emerging Markets Perform Differently than Developed



Source: MSCI, Standard & Poor's and Bernstein Value Equities

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Equity Return Correlations & Risk

Some Diversification / High Risk

Correlation of Quarterly Returns (CAD)

1991 - 2011

	Russell Dev ex-				
	S&P 500	NA LC*	Russell Dev LC*	S&P/TSX COMP	Russell EM*
S&P 500	1.00				
Russell Dev ex-NA LC*	0.78	1.00			
Russell Dev LC*	0.94	0.94	1.00		
S&P/TSX COMP	0.69	0.74	0.78	1.00	
Russell EM*	0.54	0.59	0.59	0.68	1.00

Historical Standard Deviation

1991 - 2011	14.09	15.64	14.22	16.91	25.43
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*Russell Indexes linked with corresponding MSCI Index March 1991 to June 1996.

Russell Developed ex-North America Large Cap to MSCI EAFE

Russell Developed Large Cap to MSCI World

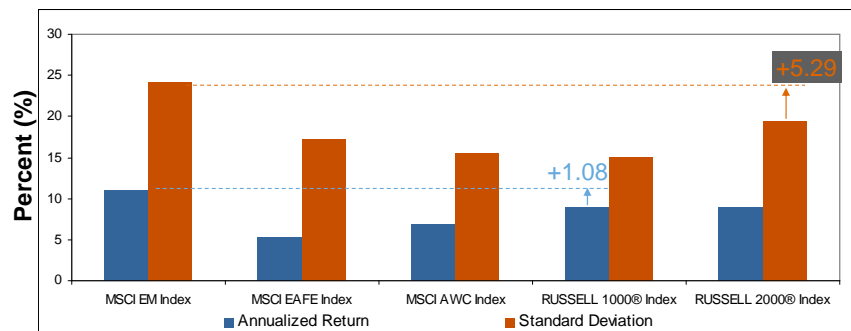
Russell Emerging Markets to MSCI Emerging Markets

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Emerging markets risk vs. return

20-Year Annualized Absolute Return & Volatility



Emerging markets equities are inherently risky; longer investment horizons are necessary to meet return expectations

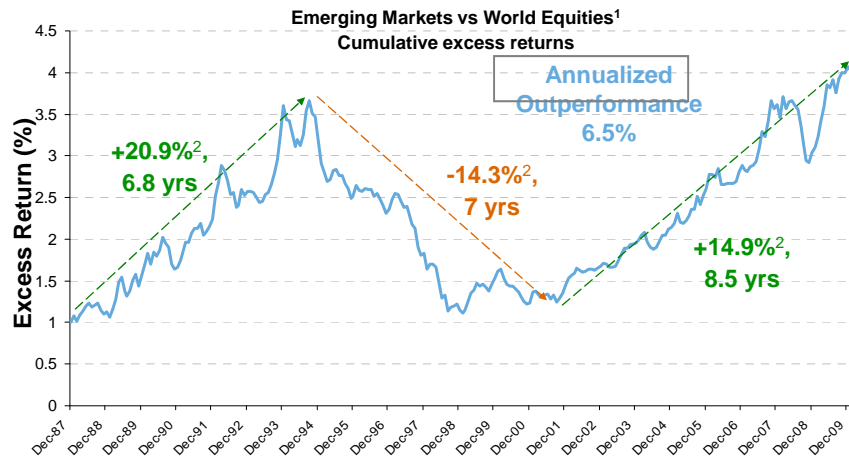
As of March 31, 2010

Past performance is not indicative of future results. Index performance is not indicative of the performance of any specific investment. Indexes are not managed and may not be invested in directly.

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While long-term returns are compelling,
volatility is an issue



1. MSCI Emerging Markets Net Index vs MSCI All Country World Index Net
2. Returns are annualized

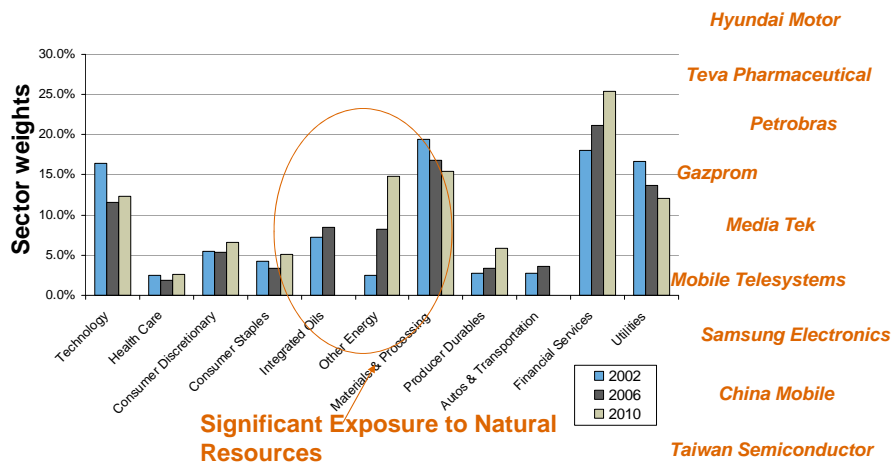
Data from December 31, 1987 through March 31, 2010. Source, MSCI, Russell

Past performance is not indicative of future results. Index performance is not indicative of the performance of any specific investment. Indexes are not managed and may not be invested in directly.



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Sector allocations & emergence of global leaders



Source MSCI: 2010 data is as of March 31, 2010

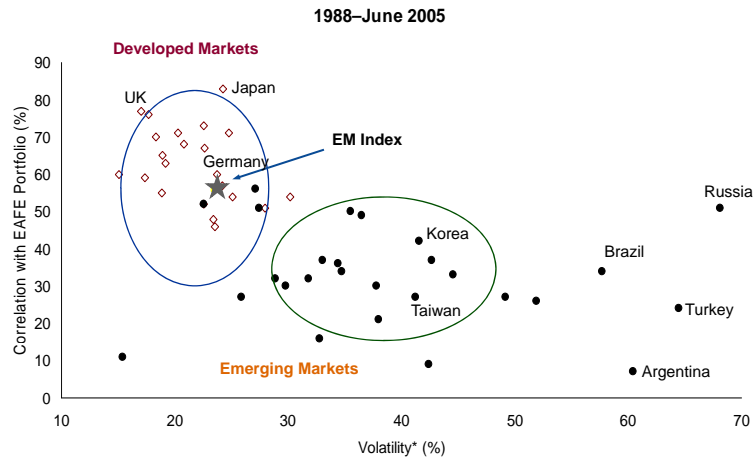
Any stock commentary is in reference to its affect on emerging market performance, it is not a recommendation to purchase or sell of any specific security.

Indexes are unmanaged and cannot be invested in directly. Data is historical and not indicative of future results.



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Emerging Markets Index Much Like Developed Market



*Annualized quarterly standard deviation based on performance in US dollars
Source: MSCI and Bernstein Value Equities

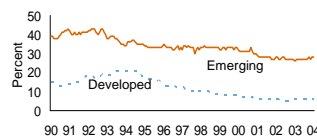
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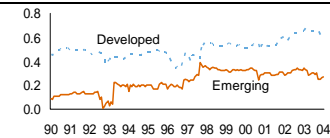
Country Risk: Still Important in Emerging Markets

- Compared to developed markets, country has remained an important source of risk in emerging markets
- While correlations among emerging market countries have risen, they remain lower than in developed markets
- And countries differ significantly in their interest rates, legal structures or capital flows

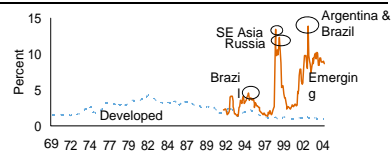
Percent of Single Stock Variance from Country Risk: Rolling 36 Months*



Average Correlation Between Countries: Rolling Three Years**



Standard Deviation of Government Bond Yields***



*Data through December 31, 2004
**Data through December 31, 2004; monthly unhedged total returns in US\$
***Data through December 31, 2004
Source: JPMorgan Chase, MSCI and Bernstein Value Equities

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Emerging Market Performance by Country

Canadian Dollar Returns

Canadian Dollar Return - December 31, 2011

	Annualized										
	1 Year	3 Years	5 Years	8 Years	9 Years	10 Years	11 Years	12 Years	15 Years	18 Years	
Russell Emerging Markets LC Index	-16.03	14.01	0.08	9.24	11.07	8.44	7.40	3.74	4.86	--	
RUS Brazil* Index	-18.12	19.90	7.29	18.99	24.54	16.81	13.70	12.22	11.86	14.00	
RUS Chile* Index	-20.39	22.22	8.32	12.77	16.62	12.95	12.23	10.37	8.86	8.70	
RUS China* Index	-18.85	6.84	-0.07	8.32	12.86	10.52	8.17	6.72	5.81	3.33	
RUS Colombia Index	-10.49	27.56	12.09	28.04	26.60	--	--	--	--	--	
RUS Egypt* Index	-43.96	-10.82	-12.47	15.68	16.78	15.51	9.22	3.64	--	--	
RUS India* Index	-36.02	6.86	-3.52	8.40	13.55	12.79	9.56	5.63	8.92	4.99	
RUS Indonesia Index	6.97	41.34	12.14	21.10	24.44	25.08	22.68	11.33	2.74	--	
RUS Malaysia Index	4.82	21.43	7.92	8.76	8.25	6.36	6.03	3.66	-4.92	--	
RUS Mexico* Index	-11.08	14.75	0.70	13.85	12.67	9.77	11.21	9.35	14.32	8.40	
RUS Morocco Index	-12.43	-4.65	2.67	14.17	16.06	14.70	11.95	9.33	10.77	--	
RUS Peru* Index	-11.59	25.85	15.56	18.34	20.99	21.41	20.57	14.81	10.19	--	
RUS Philippines* Index	5.42	35.89	11.64	18.98	19.60	14.60	11.31	4.89	-0.76	-0.54	
RUS South Africa* Index	-12.31	14.79	3.09	12.37	13.34	16.59	12.13	8.97	8.16	--	
RUS South Korea* Index	-8.77	16.44	-0.87	9.23	9.07	7.14	9.38	1.47	4.16	1.98	
RUS Taiwan Index	-20.27	14.04	-1.33	2.64	3.90	0.90	2.62	-2.70	-1.44	--	
RUS Thailand Index	-0.21	30.46	15.21	9.39	16.46	16.91	14.99	7.35	3.72	--	
RUS United Arab Emirates Index	-13.39	-2.65	-14.28	-1.63	--	--	--	--	--	--	

* Linked with corresponding MSCI country index for longer history

Brazil, Chile, Mexico, Philippines Mar 88-Jun 96
 China Mar 93-Jun 96
 Egypt Dec 97-Jun 02
 India Mar 94-Jun 96
 Peru Jun 94-Jun 96
 South Africa Jun 95-Jun 96
 South Korea Jun 88-Jun 96

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Emerging Market Performance By Country

Local Currency Returns

Local Currency Return - December 31, 2011

	Annualized										
	1 Year	3 Years	5 Years	8 Years	9 Years	10 Years	11 Years	12 Years	15 Years	18 Years	
Russell Emerging Markets LC Index	-18.06	21.57	2.79	12.54	16.63	13.43	11.26	6.85	6.95	--	
RUS Brazil* Index	-10.21	18.67	7.25	16.08	21.78	19.60	17.32	15.90	18.63	34.94	
RUS Chile* Index	-13.76	21.74	10.71	14.29	18.08	15.32	15.22	13.49	12.55	11.45	
RUS China* Index	-24.36	10.90	-1.69	7.84	14.96	12.48	9.31	7.43	5.95	3.24	
RUS Colombia Index	-11.81	29.45	11.84	26.10	27.27	--	--	--	--	--	
RUS Egypt* Index	-43.18	-2.01	-9.12	18.85	26.28	24.20	17.74	11.91	--	--	
RUS India* Index	-25.85	17.27	2.76	13.82	20.59	19.12	14.84	10.61	14.05	9.70	
RUS Indonesia Index	5.05	41.74	15.37	25.97	30.90	29.09	26.38	17.12	14.65	--	
RUS Malaysia Index	5.16	25.76	8.49	9.54	11.39	9.26	8.05	5.16	-1.54	--	
RUS Mexico* Index	-1.82	22.67	8.81	20.51	22.15	19.75	19.19	16.30	21.13	19.56	
RUS Morocco Index	-12.23	3.66	5.75	17.27	19.60	16.48	13.79	11.10	12.83	--	
RUS Peru* Index	-17.11	27.55	14.75	18.17	23.35	23.93	21.90	15.69	12.63	--	
RUS Philippines* Index	2.98	41.04	12.14	19.02	22.87	17.94	13.95	8.80	4.73	3.54	
RUS South Africa* Index	4.43	17.00	8.79	18.56	18.21	17.22	16.84	14.80	14.41	--	
RUS South Korea* Index	-9.64	20.52	6.26	12.06	14.15	10.61	12.35	4.66	8.46	5.54	
RUS Taiwan Index	-19.20	18.38	-0.14	4.24	7.43	4.02	5.46	-0.07	1.18	--	
RUS Thailand Index	1.92	34.66	15.15	9.53	18.12	18.22	15.72	8.97	7.27	--	
RUS United Arab Emirates Index	-15.48	3.81	-11.96	1.34	--	--	--	--	--	--	

* Linked with corresponding MSCI country index for longer history

Brazil, Chile, Mexico, Philippines, South Korea Mar 88-Jun 96
 China Mar 93-Jun 96
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 South Africa Jun 95-Jun 96

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The Investor's Emerging Dilemma

- › Expectations of future growth are alluring but markets remain volatile
- › Is it possible to reduce Emerging Markets volatility without sacrificing return potential?
- › Bernstein research suggests it may be through:
 - › Combining equities, bonds and currencies
 - › Taking an active, unconstrained and integrated approach to portfolio construction
 - › Leveraging a global research footprint

Equity Benchmark Volatility



Historical analysis does not guarantee future results.
 Through 31 December 2011
 Volatilities shown are calculated based on trailing 12-month standard deviations. Standard deviation is a statistical measure of risk that shows how aligned or at variance the returns of an asset, industry or fund are relative to their historical performance.
 Source: MSCI and AllianceBernstein

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Naively Combining EM Debt and Equity Would Have Produced Good Risk-adjusted Returns

Cumulative Emerging-Market Equity and Debt Returns



Past performance does not guarantee future results.
 Through 31 January 2012
 Equity is the MSCI EM index, debt represents J.P. Morgan EMBI Global index. Passive 50:50 represents an equally weighted combination of debt and equity indices.
 Source: J.P. Morgan, MSCI and AllianceBernstein

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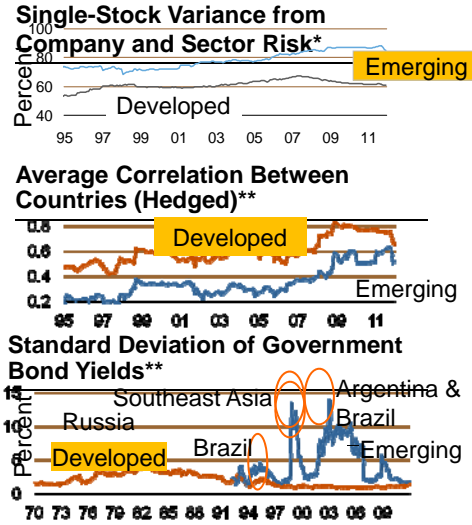


Company-specific factors are increasingly important in EM equities

- Comparing fundamentals are now more important than comparing countries

- Stock correlations are lower making EM better for stock picking

- For Fixed Income, country factors still matter more



Historical analysis and current forecasts do not guarantee future results

*Rolling three-year periods through 31 December 2011

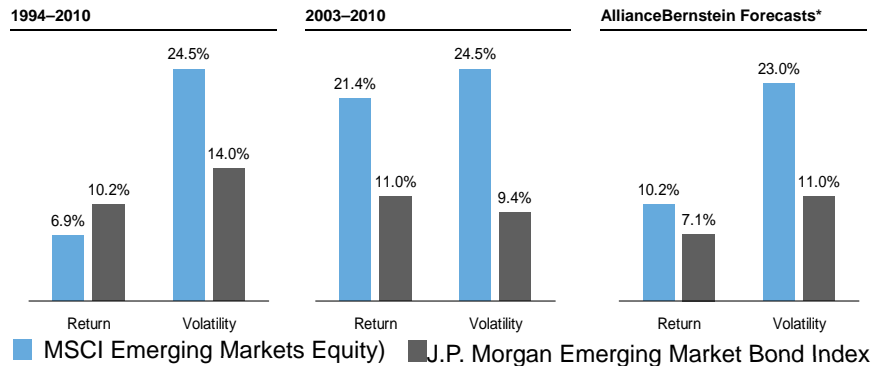
**Data through 31 December 2011

Source: JPMorgan Chase, MSCI and AllianceBernstein; see Disclosures and Important Information.

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What About the Next Decade?



- Since the bond index inception in 1994, bonds have delivered better returns with lower volatility

- More recently, there has been a huge return advantage to equities

- Our forecasts suggest that stocks may outperform bonds and are likely to remain volatile

Historical analysis and current forecasts do not guarantee future results. Past performance is not a guide to future performance.

As of 31 December 2010

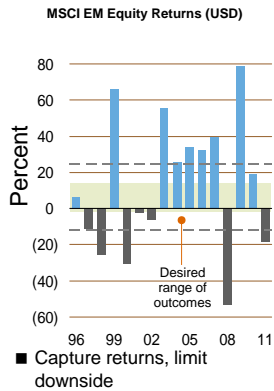
*For illustrative purposes only over the medium- to long-term (five–10 years); based on AllianceBernstein's proprietary Capital Markets Engine, a tool designed to forecast the long-term behavior of asset classes.

Source: J.P. Morgan, MSCI and AllianceBernstein

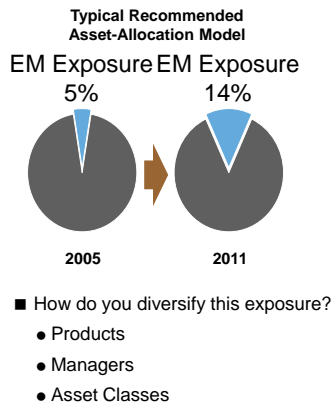
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Three Implementation Approaches

To Enter Emerging Markets*



To Diversify EM Equity Exposure



To De-Risk EM Exposure

- Multi-Asset strategies with a risk management tool aim to:
 - Participate in market rallies
 - De-risk during equity downturns
- And so deliver a better risk-adjusted return for investors

Historical analysis and current estimates do not guarantee future results.
*As of 31 December 2011. Yearly returns of MSCI Emerging Markets Index in USD.
Source: J.P. Morgan, MSCI and AllianceBernstein; see Notes on Simulation Results.

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Why a separate allocation to emerging markets

- › Non US developed investment managers tend to view emerging markets as a tactical bet; clients should consider having a strategic policy weight
- › Non US developed investment managers emerging markets exposure tends to be concentrated and not diversified
- › Specialist emerging markets managers offer more diversified exposure across all portfolio elements such as:
 - › Country allocation
 - › Sector exposure
 - › Stock level bets
- › Easier for clients to adjust emerging markets exposure within the total plan portfolio as necessary

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Characteristics of Emerging Markets

- › Rules can be different
- › Concentrated markets
- › Different factors can influence returns
- › Distinctive features

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Emerging Market Exchanges Operate by Their Own Rules...



The Markets are not strictly regulated

- Curb side exchanges
- Settlement delays
- Dividend collection problems
- Insider trading/fraud?
- Transparency?
- Enforcement of property rights?

Source: Seattle Times, March 1995

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Emerging Markets Can be Very Concentrated

Five Largest Markets in BEMI Extended Index

	# of Stocks	% in Top 3 Names
Russia	54	45%
Brazil	104	24%
China	121	27%
S Korea	97	31%
Taiwan	66	38%

Source: 5 Largest Markets in Russell Emerging Market Large Cap Index Dec 31 2011

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Cash Flow Important Driver of Emerging Market Returns

Global Awareness 1: The Emerging Markets Boom



- Performance draws attention; creates demand
- Investors' awareness: Emerging markets as a piece of the asset allocation pie
- Russell's view: Understand the risks, emerging markets are not appropriate for everyone

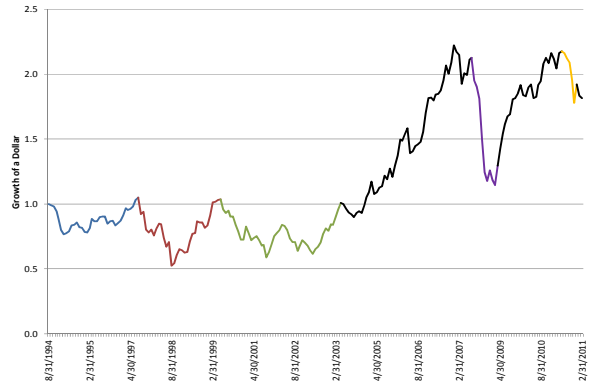
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Emerging Market Performance During Crisis Periods



Reason for Crisis	Total Period of Crisis	Months to Trough	Months to Recovery	Price Decline to Trough
Latin American Crisis	Sep 94 - Jun 97	5	28	24%
Asian Crisis	Jul 97 - Mar 00	13	19	49%
TMT Bubble	Mar 00 - Jan 04	18	28	43%
Global Financial Crisis	Jun 08 - Mar 09	8	1	46%
Debt Crisis	Apr 11 - Oct 11	8	1	18%

MSCI Emerging Markets Index (CAD)

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Emerging Markets Have Distinct Characteristics

Across market capitalization and industry exposures

Total Equity Profile

December 31, 2011

CANADIAN DOLLAR : CAD		Russell Emerging Markets Large Cap Composite		S&P/TSX Composite Index		S&P 500 - Total Return Index		Russell Developed ex-North America Large Cap Composite	
Size of Companies - #holdings/%equity	Large Capitalization (54.2 & Above)	25	23.3%	3	14.0%	47	49.3%	48	32.5%
	Medium/Large Cap. (19.7 - 54.2)	57	20.2%	17	34.5%	99	25.4%	120	26.7%
SSB BMI World	Medium Capitalization (8.0 - 19.7)	172	26.0%	28	21.4%	181	18.6%	242	20.6%
Break Points	Medium/Small Cap. (2.8 - 8.0)	385	22.8%	60	17.5%	153	6.3%	472	15.4%
	Small Capitalization (2.8 & Below)	269	6.8%	144	12.5%	19	0.4%	337	4.5%
	Unclassified	20	0.9%	1	0.1%	1	0.0%	6	0.4%
	Market Cap - \$-Wld Avg Nlog - \$ billion	100%	19.13	100%	14.69	100%	50.72	100%	26.10
Economic Sectors - #holdings/%equity	Technology	64	12.7%	6	1.3%	59	17.1%	68	4.6%
	Health Care	26	1.2%	4	1.4%	50	11.7%	66	9.3%
	Consumer Discretionary and Services	90	8.5%	18	3.5%	87	12.5%	190	10.8%
Sector Scheme	Consumer Staples	77	7.2%	12	2.8%	38	10.1%	78	10.7%
	Integrated Oils	0	0.0%	0	0.0%	0	0.0%	0	0.0%
	Other Energy	79	15.9%	63	26.4%	43	12.3%	70	9.6%
	Materials and Processing	143	13.3%	76	21.7%	33	3.9%	157	11.4%
	Producer Durables	114	5.4%	15	5.5%	61	11.0%	220	12.1%
	Autos and Transportation	0	0.0%	0	0.0%	0	0.0%	0	0.0%
	Financial Services	207	24.4%	42	30.0%	88	14.6%	277	21.6%
	Utilities	126	11.4%	17	7.5%	41	6.9%	99	9.9%
	Other	2	0.0%	0	0.0%	0	0.0%	0	0.0%

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Comments

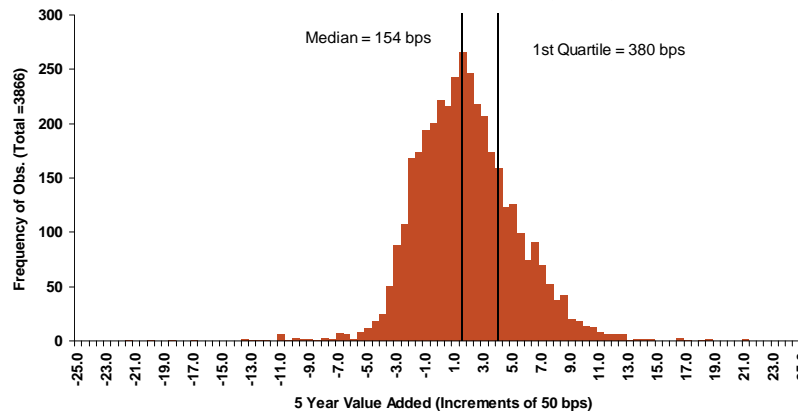
- › Passive product has been available since the early 1990's
- › Trading is expensive;
 - › Higher for index funds as frequent changes to index constituents and weights
- › Risks:
 - › Sovereign risk: such as the Asia currency crisis in June 1997
 - › Index reconstitution risk: includes events such as inclusion of countries, graduation of countries, changes in country weightings due to changes in foreign ownership policies or capital control or changes in index providers policies
- › Active managers can add value but:
 - › Active managers often take bets that can from time to time swamp other characteristics (e.g. regional bets versus style or cap);
 - › Volatility is high;
 - › Tracking error is reduced by using more than one manager.

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Active Management Potential Value Added Five-Year Value-Added Return Distributions

**EM Equity Managers vs. MSCI Emerging Markets
5 Year Value Added Distribution 4Q92-4Q11**

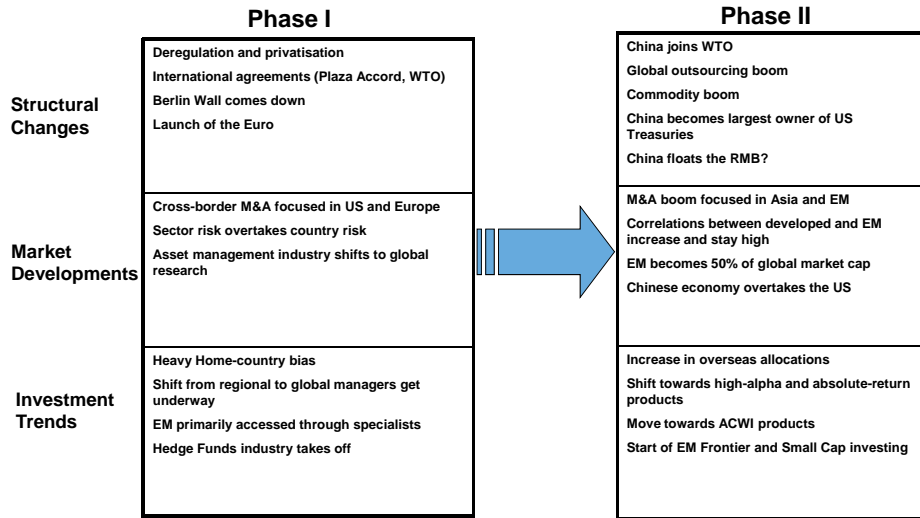


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Globalisation

The next phase?



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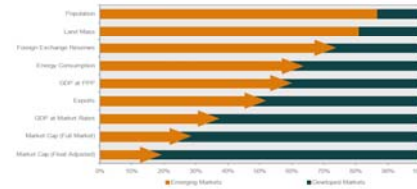


Globalization is increasing

The next phase: Emerging markets in ascendance

As of 31 December 2009

Emerging Economies As a Percent of Total World, 2008-2009



EM = 80% of world population, 75% of land mass, 66% of FX reserves, 50% of GDP... and just over 10% of world equity market capitalization.

	Share of Global Total								
	GDP (USD)			Mkt Cap			MSCI AC World		
	2010	2020	2030	2010	2020	2030	2010	2020	2030
EM	37%	49%	69%	31%	44%	55%	13%	19%	31%
DM	63%	51%	41%	69%	56%	45%	87%	81%	69%
USA	24%	20%	17%	32%	27%	23%	44%	42%	38%
China	9%	17%	23%	11%	20%	28%	2%	4%	13%
BRICS	18%	28%	36%	18%	30%	41%	6%	11%	22%
N-11	8%	9%	11%	5%	5%	6%	3%	4%	4%
World	100%	100%	100%	100%	100%	100%	100%	100%	100%

Note: Figures shown in feet 2010 USD. Source: World Federation of Exchanges, MSCI, Goldman Sachs Global, ECC Research

"The emerging markets represent an exciting new investment opportunity for pension plans...and offer diversification benefits to most portfolios"
- *the Emerging Markets and Strategic Asset Allocation, Russell Research 1990*

"The integration of developing countries into the world financials system is inevitable and proceeding at an elevated pace"
- *The Maturation of Emerging Market Finance, Russell Research. 1998*

Sources: T. Rowe Price, Merrill Lynch CIA World Factbook, IMF World Economic Outlook, MSCI

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Diversification benefits

Diversifying an investment portfolio with frontier markets

Correlations

	Frontier ex-GCC	World	U.S.A.	Europe	Emerging markets	China	Africa
Frontier ex-GCC	1.00	0.45	0.36	0.47	0.49	0.38	0.76
World	0.45	1.00	0.95	0.95	0.84	0.62	0.07
U.S.A.	0.36	0.95	1.00	0.83	0.73	0.52	0.04
Europe	0.47	0.95	0.83	1.00	0.83	0.60	0.08
Emerging markets	0.49	0.84	0.73	0.83	1.00	0.80	0.09
China	0.38	0.62	0.52	0.60	0.80	1.00	0.08
Africa	0.76	0.07	0.04	0.08	0.09	0.08	1.00

Data is based on weekly returns as of June 7, 2002-July 30, 2010.
Frontier markets ex-GCC: S&P Frontier Broad Market Index (ex-GCC)
World: MSCI World Index
U.S.A.: MSCI U.S.A. Index
Europe: MSCI Europe Index
Emerging markets: MSCI Emerging Markets Index
China: MSCI China Index
Africa: MSCI Africa Index

Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results.

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Observations

- › Emerging markets may make sense
 - › As a diversifier for total equities
 - › To participate in 13% of the world equity markets
 - › To capture added value of active management in emerging
 - › With exposure to multiple active managers and approaches
- › Emerging markets may not make sense
 - › If investment horizon is shorter than 7 years
 - › If decision-making body cannot withstand sustained negative annualized results
 - › If line item performance is heavily scrutinized frequently
 - › If there is sensitivity to an increased number of managers

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APPENDIX

The key benefits of a multi-manager approach in emerging markets

- › Captures the full breadth of opportunities
- › Increased portfolio diversification without return dilution
- › Reduced effect of capacity constraints
- › Diversification of organisational risk
- › Reduces cost and complexity of implementation
- › Manages the evolution of managers to reflect market opportunities

Emerging markets is a small percentage of client assets, but is more challenging than core asset classes

Comparison: China & India Background

	China	India
Area	9.6 million sq km	3.3 million sq km
Population	1.3 billion	1.1 billion
Median age	32.3 years	24.9 years
Population growth rate	.6%	1.4%
Life Expectancy	72.6 years	64.7 years
Literacy (read/write > age 15)	91%	59%
Government type	Communist state	federal republic
Divisions	23 provinces	28 states & 7 territories
Legal system	based on civil law system derived Soviets	Based on English common law
Political pressure	No substantial opposition but Falungong & China Democracy listed	Numerous religious or militant chauvinistic orgs

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Comparison: China & India Economics

	China	India
GDP (PPP)	\$8.1 trillion	\$3.7 trillion
GDP per capita	\$6,300 per annum	\$3,400 per annum
Labour force	791.4 million	496.4 million
Labour occupation:		
agriculture	49%	60%
industry	22%	17%
services	29%	23%
Unemployment	4.2% official, probably 20%	9.9% official
Below Poverty Line	10%	25%
Inflation	1.9%	4.6%
Investment	43.6% of GDP	24.8% of GDP
Revenues	\$392.1 billion	\$111.2 billion
Expenditures	\$424.3 billion	\$135.8 billion
Public debt	28.8% of GDP	82.0% of GDP

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Challenges

source: Bank Credit Analyst (BCA)

China

› 3 major challenges

- 1) Jobless growth - economies diminishing ability to generate new jobs will ensure unemployment is high even with 10% GDP growth;
- 2) Overly dependent on Natural Resources – poorly endowed with natural resources, the large scale of global manufacturing relocation into the country has greatly stressed the nation's ability to sustain its ever-expanding manufacturing base;
- 3) Efficiency vs Equality – China's pro-growth policies have put efficiency ahead of equality since the late 1970's, raising the gap between rich and poor, which is the breeding ground for social discontent and a possible root cause of major social upheaval.

India

› Highlights

- 1) Inflation may trend up and monetary policy may tighten;
- 2) Fiscal dynamics could deteriorate
- 3) Possible political uncertainty

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