Russell Quarterly Economic and Market Review

Sentiment driven market whip-sawed by policy uncertainty

Third quarter 2011

Important information and disclosures

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.

Non-U.S. markets entail different risks than those typically associated with U.S. markets, including currency fluctuations, political and economic instability, accounting changes, and foreign taxation. Securities may be less liquid and more volatile. If applicable, please see a Prospectus for further detail.

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 U.S. and longer-established non-U.S. markets. If applicable, please see the Prospectus for further detail.

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 sub-prime mortgages. Investment in non-U.S. and emerging market securities is subject to the risk of currency fluctuations and to economic and political risks associated with such foreign countries.

Real Assets such as real estate, commodities and infrastructure are volatile investments on their own and should form only a small portion of a diversified portfolio to aid in diversification and as a potential hedge against inflation. Real Assets may not be suitable for all investors.

Small capitalization (small cap) investments involve stocks of companies with smaller levels of market capitalization (generally less than $2 billion) than larger company stocks (large cap). Small cap investments are subject to considerable price fluctuations and are more volatile than large company stocks. Investors should consider the additional risks involved in small cap investments.

Large capitalization (large cap) investments involve stocks of companies generally having a market capitalization between $10 billion and $200 billion. The value of securities will rise and fall in response to the activities of the company that issued them, general market conditions and/or economic conditions.

Although stocks have historically outperformed bonds, they also have historically been more volatile. Investors should carefully consider their ability to invest during volatile periods in the market.

An Investment Grade is a system of gradation for measuring the relative investment qualities of bonds by the usage of rating symbols, which range from the highest investment quality (least investment risk) to the lowest investment quality (greatest investment risk.)

Gross domestic product (GDP) refers to the market value of all final goods and services produced within a country in a given period. It is often considered an indicator of a country's standard of living.

Russell Investment Group, is a Washington, USA corporation, which operates through subsidiaries worldwide, including Russell Investments and is a subsidiary of The Northwestern Mutual Life Insurance Company

Russell Financial Services, Inc., member FINRA, part of Russell Investments.

First Used: October 2011

RFS 11-6745

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No Bank Guarantee

Russell Investments

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Russell viewpoint:

Continued conviction in a weak recovery

PROBABILITY ≈ 5%

Strong take off (5%)

- Non-inflationary growth prospects soar
- Equity market takes off and bond yields rise fast

PROBABILITY ≈ 65%

Recession avoided following Q2 stumble and weak Q3

- Square-root-shaped recovery
- Inflation stays benign
- Equity valuations rise modestly after market fears abate

Bond markets sell off in Q4 as recession fears abate

PROBABILITY ≈ 30%

Recession (25%)

- Bonds positive; risky assets very negative; most likely trigger would be a financial crisis in Europe

Stagnation (5%)

- Disappointing growth (<1.5%) in Q4 after a weak Q3
- Negative equity market environment; could trigger Quantitative Easing by the Fed

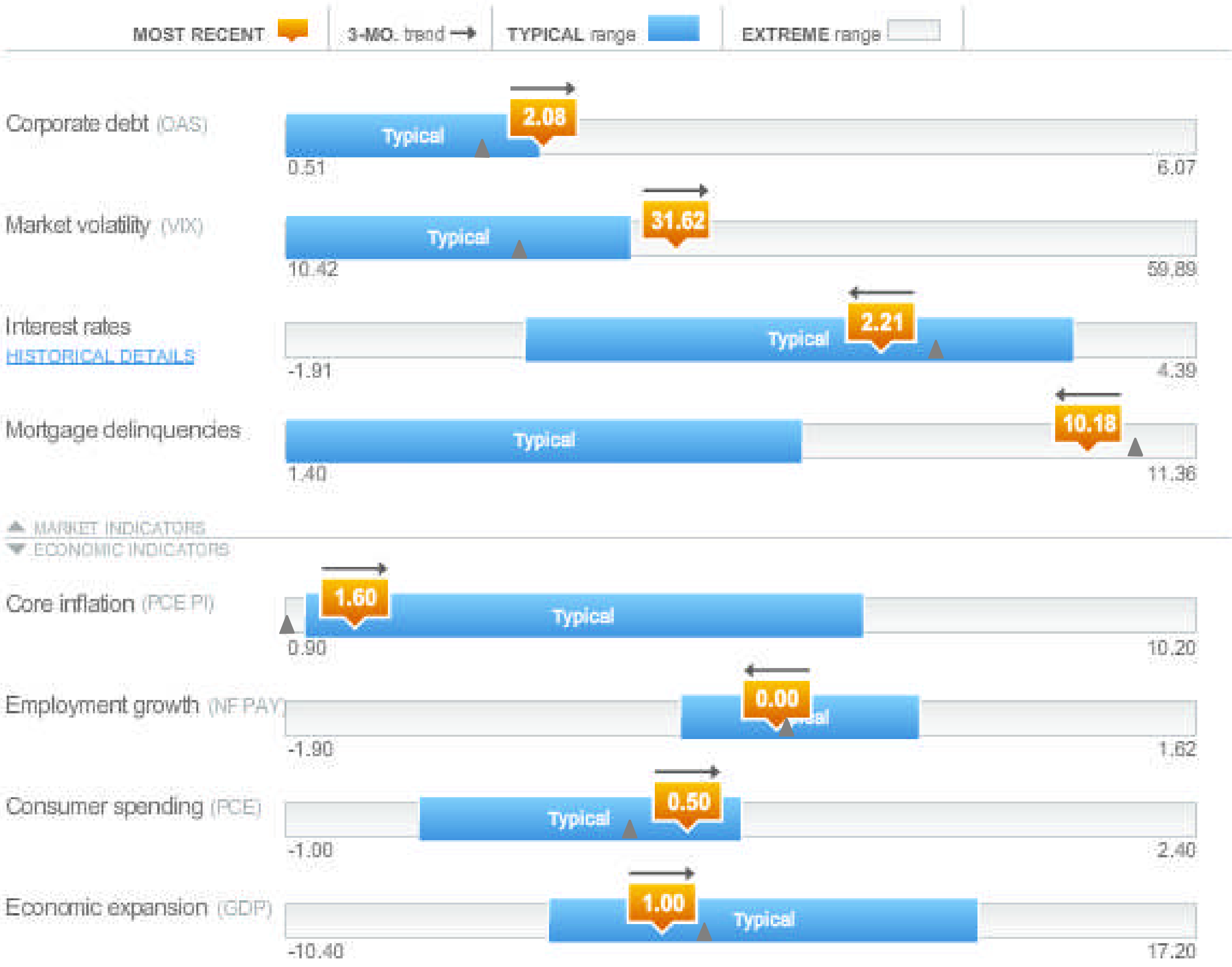
There is no guarantee that any stated expectations will occur.
Forecasting or other forward-looking information is inherently uncertain and may be incorrect.
These views are subject to change at any time without notice based upon market or other conditions and are current as of 10/1/2011.

Assessing economic recovery

http://www.russell.com

- **Russell's Economic Indicators Dashboard charts several key indicators to help investors assess the current "health" of the economic and market trends**

- **Dashboard is updated on the 22nd of each month**



Current state as of August 31, 2011

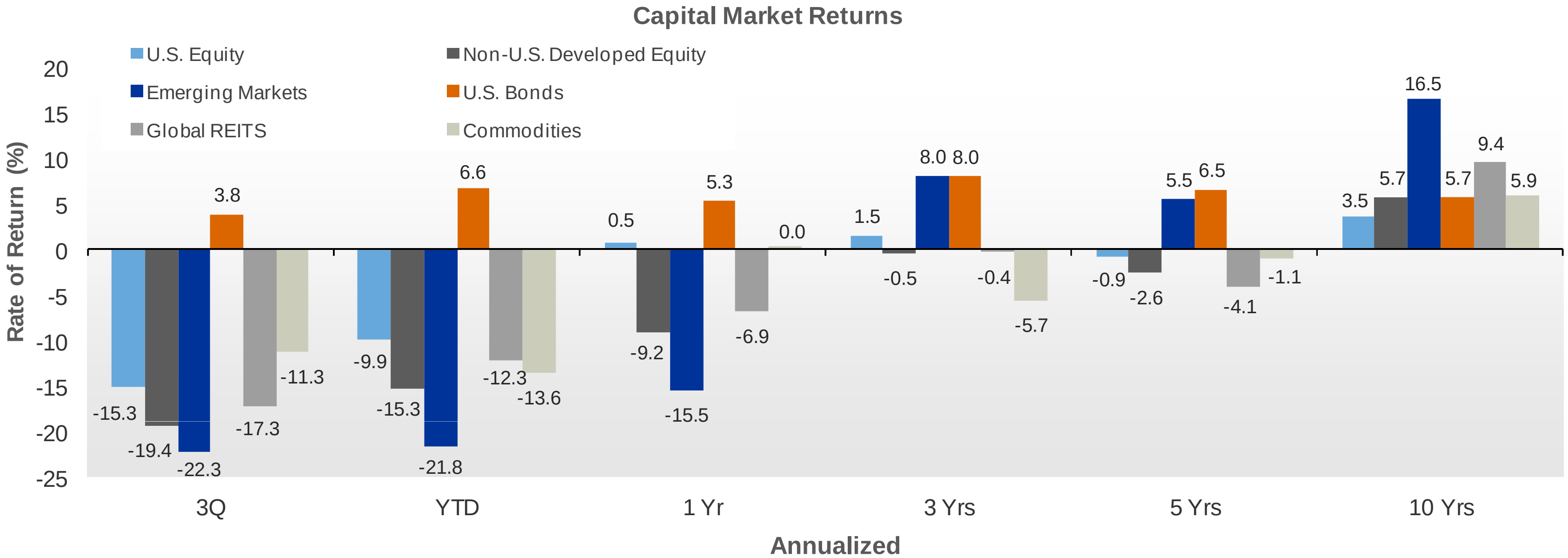
See appendix for category definitions

▲ Represent markers as of 8/31/2010

Russell Investments

Capital markets

Period ending September 30, 2011



U.S. Equity: (Russell 3000®) U.S. stock index which includes the 3,000 largest U.S. stocks as measured by market capitalization

Non-U.S. Developed Equity: (Russell Developed ex-U.S. Large Cap) International market index that includes Western Europe, Japan, Australia and Canada

Emerging Markets: (Russell Emerging Markets) Emerging markets index that includes S. Korea, Brazil, Russia, India, and China

U.S. Bonds: (BC Agg Bond) Broad index for U.S. Fixed Income market

Global REITs: (FTSE EPRA/NAREIT) Index for global publicly traded real estate securities

Commodities: (DJ UBS Comm) Broad index of common commodities

Capital Markets

- U.S. equity market down across all sectors and styles during quarter. U.S. is the only equity asset class positive for one-year.
- Developed non-U.S. equity struggles influenced by European concerns.
- Emerging markets have been short-term laggard, but long-term leader among equity classes.
- U.S. Bond markets benefit from falling rates to deliver strong quarter and YTD results.
- Global REITS have fared better than non-U.S. markets, but trailing U.S. equity returns.
- Concerns about slowing economic growth lead to second consecutive difficult quarter for commodities.

Source: Russell, Barclays Capital, Dow Jones, and FTSE NAREIT
Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

What worked and what didn't in 3Q2011

What worked

- **Equities**
  - Utilities -4%
  - Consumer Staples -5%
  - Japan -5%
- **Fixed Income**
  - U.S. Treasuries +6%
  - Municipal Bonds +4%
- **Real Assets**
  - Livestock +6% / Precious Metals +2%

What didn't work

- **Equities**
  - Small Cap -22%
  - Energy, Financial Services, Producer Durables -21%
  - Greece -44%, Italy & Germany -31%
- **Fixed Income**
  - Global High Yield -8%
  - Emerging Market Debt -3%
- **Real Assets**
  - Industrial Metals -23% / Energy -16%
  - REITs Europe -23%

Index Legend

Utilities – Russell 3000® U.S. Utilities; U.S. Consumer Staples – Russell 3000® Consumer Staples Sector; Japan – Russell Global Index; U.S. Treasuries – Barclays Capital Treasury Index; Municipal Bonds – Barclays Capital Municipal Bond Index; Livestock – DJ UBS Livestock Sub-Index; Precious Metals – DJ UBS Gold Sub-Index; Small Cap – Russell 2000 U.S. Small Cap Index; Energy – Russell 3000® Energy Sector; U.S. Financial Services– Russell 3000® Financial Services Sector; Producer Durables – Russell 3000® Producer Durables Index; Greece – Russell Greece Index; Germany – Russell Germany Index; Global High Yield – Barclays Capital Global High Yield Index; Global Emerging Market Debt – Barclays Capital Emerging Markets Index; Listed Infrastructure Energy – S&P Global Infrastructure Energy Sub-index; REIT's Europe – FTSE/EPRA NAREIT Developed Europe Sector

The Euro debt crisis continues

The dominant issue and the greatest threat

- European governments are *deferring* decisions (and they aren't alone!)
- The market is getting *impatient*
- Investors want decisive *action*; a *plan* to contain crisis

Until policymakers come to a permanent solution, expect:

- Extreme market volatility
- Trading on speculation and rumor
- **SENTIMENT** will drive the market

There is no guarantee that the stated outcomes will be met

Spotlight on the Eurozone

Possible outcomes from Russell's Strategists

Possibility #1

- Band-aid solutions
- Markets range-trade, extreme volatility, continued threat of crisis

Possibility #2

- Greece defaults
- Contagion is prevented
- Global markets recover sharply

Probability

- Greece defaults
- Dramatic, short-term global volatility, then steady recovery

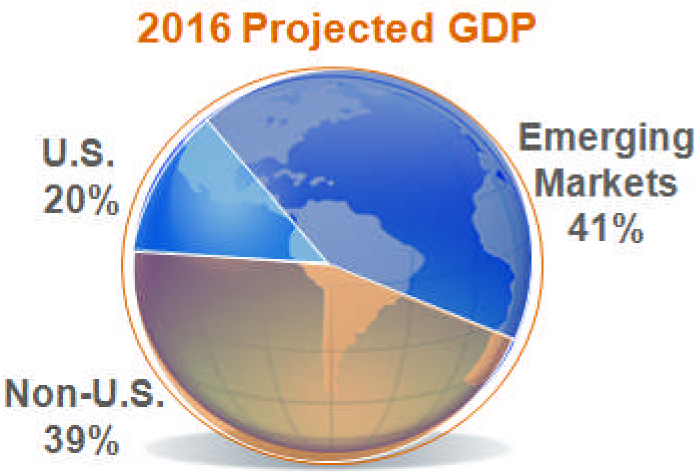
Possibility #3

- Greece defaults
- Extensive & extended global market impact. Europe would likely head into a recession that could potentially lead to a global recession

Forecasting is not an exact science and can be wrong. Our predictions are subject to change without notice, there is no guarantee that the stated outcomes will be met.

Russell Investments

U.S. centric investing is a thing of the past



- Non-U.S. equity is 57% of global opportunity
- Largest investable markets

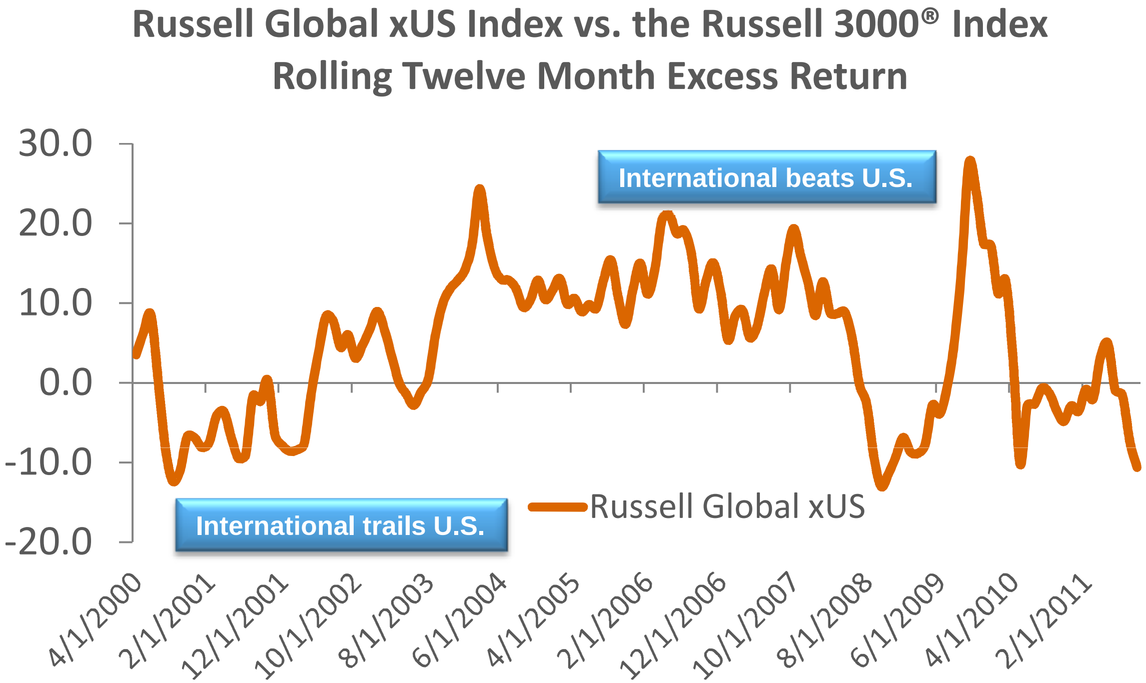
Australia	United Kingdom
France	Japan
Switzerland	Canada

- 40%+ of U.S. company revenue generated overseas
- Economic growth projections higher outside the U.S.
  - U.S. ~ 2%
  - Emerging Markets ~ 6%
  - Global ~ 4%

Sources: Russell Investment Group's Global Equity Index, Aug 2011, the International Monetary Fund 's World Economic Outlook, Sep 2011, Standard and Poor's Global Sales Report, July 2011
International securities can involve risks relating to political and economic instability or regulatory conditions and currency fluctuation. Investments in emerging or developing markets involve exposure to economic structures that are generally less diverse and mature, and to political systems which have less stability than those of more developed countries.

Ebbs and flows of international investing

Rotating market leadership



- Global equity leadership changes frequently
- Reversals can occur quickly and dramatically
- International equity returns have been higher than U.S. returns with higher volatility since 1970
- Diversifying across markets to potentially capitalize on market swings

Excess Rolling Returns

- Useful for understanding the behavior of returns over multiple time periods. For example, 1 year rolling time periods calculated monthly over a decade allows us to view 121 observations as opposed to looking at a single end date.
- Demonstrates patterns or longer term trends in the return data
- This rolling excess return stream is comparing the twelve month period return of non-US equity relative to U.S. equity. For each rolling twelve month period the comparison *ROLLS* forward by adding the next month to the one-year window while dropping off the first month.

The charts covers rolling periods including January 2000 through September 2011.

Source: Russell Investment Group
Indexes are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance and are not indicative of any specific investment.

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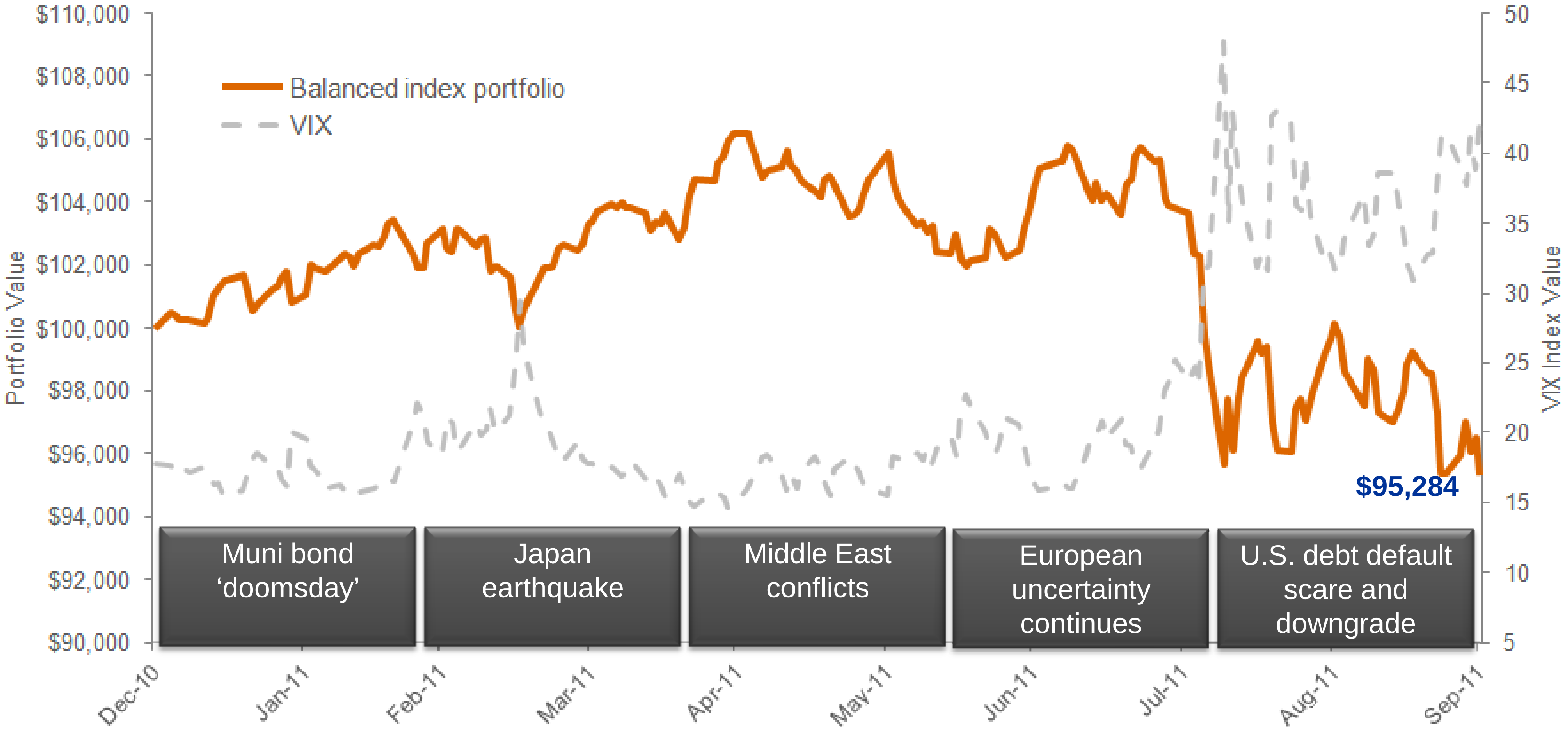
Effectiveness of U.S. policy options

Stimulating the U.S. economy

What is the Fed's intent?	• Lower long-term interest rate • Lower mortgage rates	• To encourage Americans to borrow, invest, buy or refinance
What is the 9-month Operation Twist? (October 2011 - June 2012)	• Fed sells $400B worth of short-term Treasuries	• Fed buys $400B worth of long-term Treasuries
Russell's opinion on Fed actions:	•Expected impact is weak – 10-year treasury yield might go down by 20bp for a brief time •More policy action is not out of the question (think Quantitative Easing 3)	

Russell Investments

Diversification may help those who can't forecast the future



Given the turmoil year to date, a diversified index portfolio has held up better (-4.7% vs. -11.0% for U.S. equity) than investors may have expected

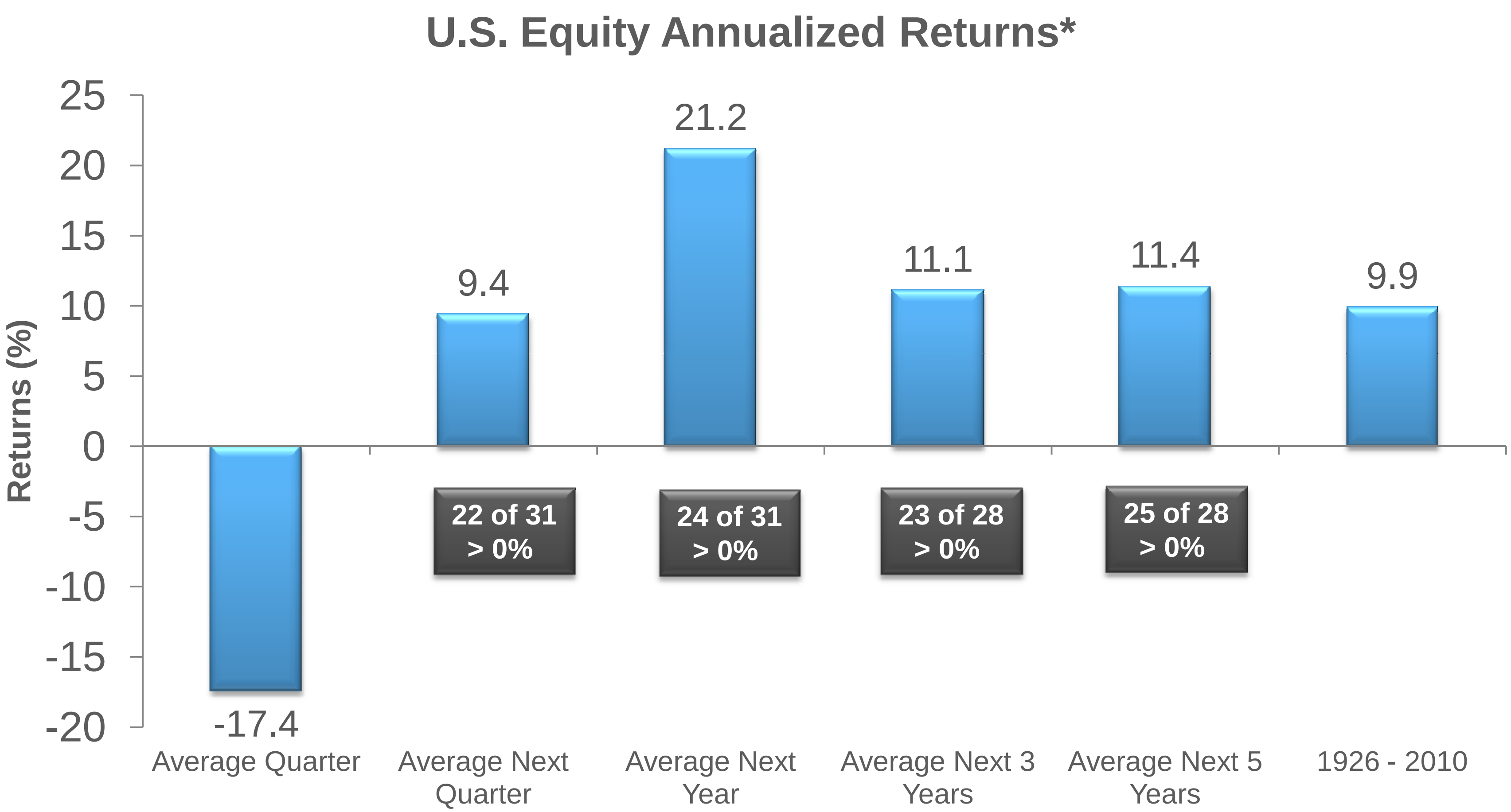
Diversification and strategic asset allocation do not assure profit or protect against loss in declining markets.

Balanced index portfolio represented by:40% Russell 3000® Index, 20% Russell Global ex-U.S. Index, and 40% Barclays Capital Aggregate Bond Index. Indexes are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

The CBOE VIX (Chicago Board Options Exchange Volatility Index) measures annualized implied volatility as conveyed by S&P 500 stock index option prices.

Rebounds after double digit negative quarters

U.S. equity markets have posted 31 such quarters since 1926



*Source: Ibbotson U.S. Equity series 1926 – 1978, Russell 3000 ® Index 1979-2010

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Russell Investments

Market observations & outlook

1 **Policy brinksmanship hammering risk assets**

Restructuring of troubled debt is inevitable. Governments continue to “kick the can” and the markets respond accordingly

2 **Flight to safety – anything but safe**

Perceived safe havens often not ideal for meeting long term financial goals

3 **Fundamental economic improvements underway, but too weak to dispel gloom**

We currently forecast a 70-75% chance of economic expansion with a 25% chance of recession

4 **Diversified Index portfolios have served investors well since low of March 2009 - this still holds true**

Fundamentals suggest attractive valuations, however sentiment could drive markets. Even with downward revisions, we continue to expect equities to appreciate from here

Forecasting is not an exact science and can be wrong. Our predictions are subject to change without notice.
Diversification does not assure a profit and does not protect against loss in declining markets.

As an investor, you have choices

FOLD

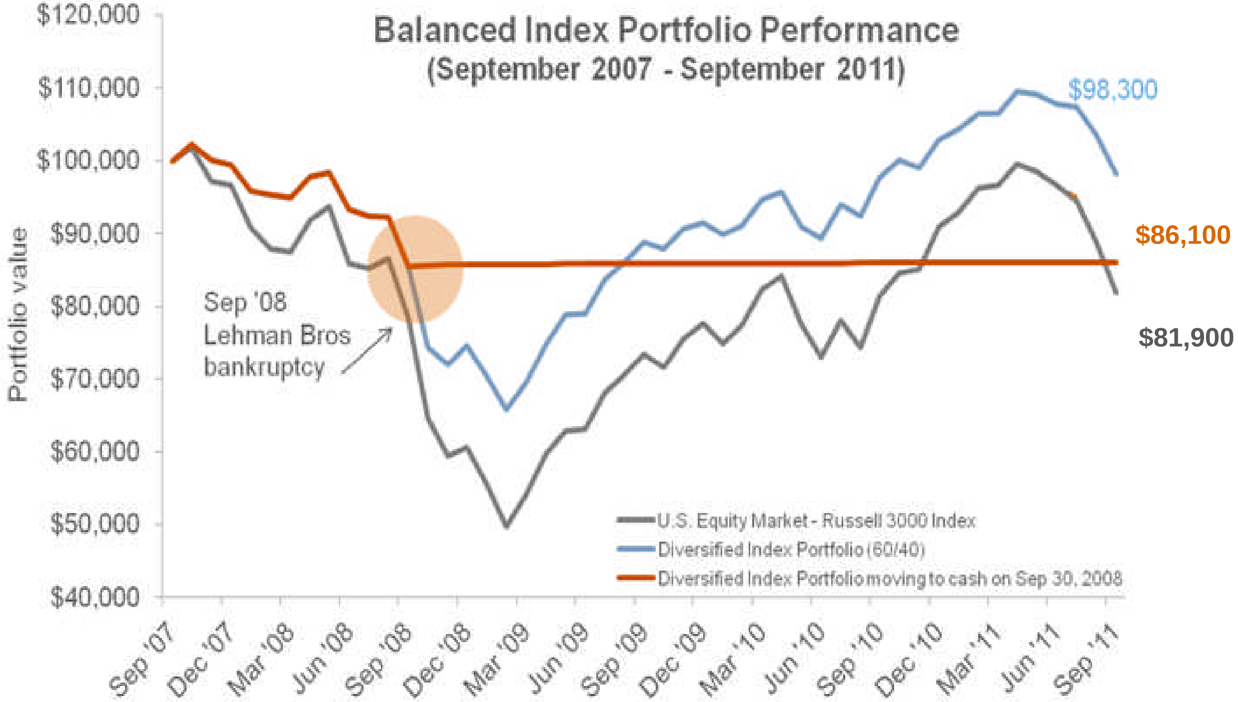
- Reduce risk exposure
- Understand challenges of timing re-entry
- If risk is too much: *bail*

DOUBLE DOWN

- Consider dollar cost averaging into your plan
- If risk is acceptable: take *long-term* view

HOLD

- Know your financial plan
- Have faith in the plan
- If risk is manageable: stay *diversified, talk to your advisor about how the market has affected your plan and make adjustments accordingly*



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

Indexes are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

Dollar Cost Averaging does not assure a profit or prevent a loss in declining markets, and you should consider your ability to continue investing during low price levels.

Diversified Index Portfolio (60/40) is a mix of 35% Russell 3000® Index, 17% MSCI EAFE, 3% MSCI EM, 40% Barclays Capital Aggregate Bond Index, and 5% FTSE NAREIT Index.

Diversified portfolio moving to cash is the Diversified Index Portfolio (60/40) until September 30, 2008 and then 100% cash (Citigroup 3-month T-bill Index) through June 30, 2011.

Important information and disclosures

International/Global:
International/Global investing value may be significantly affected by political or economic conditions and regulatory requirements in a particular country. Investments in non-U.S. markets can involve risks of currency fluctuation, political and economic instability, different accounting standards and foreign taxation. Such securities may be less liquid and more volatile. Investments in emerging or developing markets involve exposure to economic structures that are generally less diverse and mature, and political systems with less stability than those in more developed countries.

Bonds:
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, nonpayment 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. Investment in non-U.S. and emerging market securities is subject to the risk of currency fluctuations and to economic and political risks associated with such foreign countries.

Real Estate:
Specific-sector investing such as real estate can be subject to different and greater risks than more diversified investments. Declines in the value of real estate, economic conditions, property taxes, tax laws and interest rates all present potential risks to real estate investments. Fund investments in non-U.S. markets can involve risks of currency fluctuation, political and economic instability, different accounting standards and foreign taxation

Commodities:
Exposure to the commodities markets may subject the fund to greater volatility than investments in traditional securities, particularly if the investments involve leverage. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates or sectors affecting a particular industry or commodity and international economic, political and regulatory developments. The use of leveraged commodity-linked derivatives creates an opportunity for increased return, but also creates the possibility for a greater loss.

Growth:
Growth investments focus on stocks of companies whose earnings/profitability are accelerating in the short-term or have grown consistently over the long-term. Such investments may provide minimal dividends which could otherwise cushion stock prices in a market decline. A stock's value may rise and fall significantly based, in part, on investors' perceptions of the company, rather than on fundamental analysis of the stocks. Investors should carefully consider the additional risks involved in growth investments.

Value:
Value investments focus on stocks of income-producing companies whose price is low relative to one or more valuation factors, such as earnings or book value. Such investments are subject to risks that the stocks' intrinsic values may never be realized by the market, or, that the stocks may turn out not to have been undervalued. Investors should carefully consider the additional risks involved in value investments.

Listed Infrastructure:
Investments in infrastructure-related companies have greater exposure to the potentially adverse economic, regulatory, political and other changes affecting such entities. Investment in infrastructure-related companies are subject to various risks including governmental regulations, high interest costs associated with capital construction programs, costs associated with compliance and changes in environmental regulation, economic slowdown and surplus capacity, competition from other providers of services and other factors. Investment in non-U.S. and emerging markets securities is subject to the risk of currency fluctuations and to economic and political risks associated with such foreign countries.

Index definitions

Barclays Capital Aggregate Bond Index: An index, with income reinvested, generally representative of intermediate-term government bonds, investment grade corporate debt securities, and mortgage-backed securities. (specifically: Barclays Capital Government/Corporate Bond Index, the Asset-Backed Securities Index, and the Mortgage-Backed Securities Index.)

Dow Jones UBS Commodity Index: Composed of futures contracts on physical commodities. Unlike equities, which typically entitle the holder to a continuing stake in a corporation, commodity futures contracts normally specify a certain date for the delivery of the underlying physical commodity. In order to avoid the delivery process and maintain a long futures position, nearby contracts must be sold and contracts that have not yet reached the delivery period must be purchased. This process is known as "rolling" a futures position.

Dow Jones UBS family of sub-indexes: Represents the major commodity sectors within the broad index: Energy (including petroleum and natural gas), Petroleum (including crude oil, heating oil and unleaded gasoline), Precious Metals, Industrial Metals, Grains, Livestock, Softs, Agriculture and ExEnergy. Also available are individual commodity sub-indexes on the 19 components currently included in the DJ-UBSCI℠, plus brent crude, cocoa, feeder cattle, gas oil, lead, orange juice, platinum, soybean meal and tin

FTSE NAREIT: An Index designed to present investors with a comprehensive family of REIT performance indexes that span the commercial real estate space across the U.S. economy, offering exposure to all investment and property sectors. In addition, the more narrowly focused property sector and sub-sector indexes provide the facility to concentrate commercial real estate exposure in more selected markets.

MSCI EAFE Index: An index representative of the securities markets of twenty developed market countries in Europe, Australasia, and the Far East.

MSCI EM Index: A free float-adjusted market capitalization index that is designed to measure equity market performance in emerging market country indices.

Russell 1000Ê Index: Measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000® Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 92% of the U.S. market.

Russell 3000® Index: Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market.

Russell 3000® Defensive Index: Subset of top 3000 U.S. equities with companies that demonstrate less than average exposure to certain risk. (lower stock price volatility, higher quality balance sheets, stronger earnings profile)

Russell 3000® Dynamic Index: Subset of top 3000 U.S. equities with companies that demonstrate than average exposure to certain risks. (higher stock price volatility, lower quality balance sheets, uneven earnings profile)

Russell 3000® Financials: A sector within the Russell 3000 Index that consists of companies that provide financial services including banking, finance, life insurance, and securities brokerage, and services companies

Russell Developed ex-U.S. Large Cap index : offers investors access to the large-cap segment of the developed equity universe, excluding securities classified in the U.S., representing approximately 40% of the global equity market. This index includes the largest securities in the Russell Developed ex-U.S. Index.

Russell Emerging Markets index: index measures the performance of the largest investable securities in emerging countries globally, based on market capitalization. The index covers 21% of the investable global market.

Russell Global excluding U.S. Index: Index measures the performance of the world's largest investable securities, based on market capitalization, excluding securities in the Russell 3000®. The index includes approximately 7,000 securities and covers 61% of the investable global market.

The S&P Global Infrastructure Index: provides liquid and tradable exposure to 75 companies from around the world that represent the listed infrastructure universe. To create diversified exposure across the global listed infrastructure market, the index has balanced weights across three distinct infrastructure clusters: Utilities, Transportation and Energy.

U.S. Material & Processing: Within the R3000, those companies that extract or process raw materials, and companies that manufacture chemicals, construction materials, glass, paper, plastic, forest products and related packaging products. Metals and minerals miners, metal alloy producers, and metal fabricators are included.

U.S. Small Cap: Within the Russell 2000, small capitalization investments involve stocks of companies with smaller levels of market capitalization (generally less than $2 billion) than larger company stocks (large cap).

U.S. Small Cap Financials: sector within the Russell 2000 Index that consists of companies that provide financial services including banking, finance, life insurance, and securities brokerage, and services companies

U.S. Technology: Within the R3000, those companies that serve the information technology, telecommunications technology and electronics industries.

U.S. Utilities: Within the R3000, those companies in industries heavily affected by government regulation, such as electric, gas and water utilities. Also includes companies providing telephone services, as well as companies that operate as independent producers or distributors of power.

Economic recovery dashboard definitions

Market Indicators

CORPORATE DEBT (OAS) Option Adjusted Spread is a measurement tool for evaluating yield differences between similar-maturity fixed-income products with different embedded options. The OAS employed in the dashboard measures the difference between interest rates for similar-maturity investment-grade corporate bonds and treasury bonds and is viewed as a gauge of credit spreads.

MARKET VOLATILITY(VIX) - CBOE VIX (Chicago Board Options Exchange Volatility Index) measures annualized implied volatility as conveyed by S&P 500 stock index option prices and is quoted in percentage points per annum. For instance, a VIX value of 15 represents an annualized implied volatility of 15% over the next 30 day period. The VIX measures implied volatility, which is a barometer of investor sentiment and market risk.

INTEREST RATES - The spread between 3 month Treasury bill yields and 10 year Treasury note yields measures the market outlook for future interest rates. A normal or upward-sloping yield curve, can imply that investors expect the economy to grow and inflation to eat into asset returns. They thus demand a higher yield for long-term Treasuries. An inverted yield curve has often been an indicator of coming recessions, but not always. For example, reduced inflation expectations could cause the yield curve to flatten.

MORTGAGE DELINQUENCIES - Residential Mortgage Delinquencies measure delinquency percentages for residential real estate loans secured by one- to four-family properties. It includes home-equity lines of credit. Delinquent loans represent those loans that are past due 30 days or more and are still accruing interest, as well as loans in non-accrual status.

Economic Indicators

CORE INFLATION (PCE PI) - The core Personal Consumption Expenditures Price Index (PCE PI) measures the average price increase for American consumers on an annualized basis. It excludes food and energy prices, which tend to be volatile from month-to-month. It also allows for consumer substitution of more expensive goods for cheaper goods, which the Consumer Price Index (CPI) does not. It is the preferred lagging inflation measure of the Federal Reserve.

EMPLOYMENT GROWTH (NF PAY) - The NF PAY (Non-Farm Payroll) measures the number of jobs added or lost in the economy over the previous month, not including jobs related to the farming industry due to its seasonal hiring.

CONSUMER SPENDING (PCE) - PCE (Personal Consumption Expenditures) measures the value of goods and services purchased by individual consumers, families and the nonprofit institutions serving them. It consists mostly of new goods and services purchased by individuals from businesses. It excludes purchases of residential structures by individuals and buildings or equipment used by nonprofit institutions serving individuals.

ECONOMIC EXPANSION (GDP) - GDP (Gross Domestic Product) measures the total market value of a nation’s output of goods and services during a specific time period. It is usually measured on a quarterly basis. Current GDP is based on the current prices of the period being measured. Nominal GDP growth refers to GDP growth in nominal prices (unadjusted for price changes). Real GDP growth refers to GDP growth adjusted for price changes. Calculating Real GDP growth allows economists to determine if production increased or decreased, regardless of changes in the purchasing power of the currency.