

Take Note

CONTINENTAL EUROPEAN EQUITY FUND (RIC)– MANAGER ADDITION

Recently we replaced Thames River with Invesco Perpetual.

Reasons for the changes

The manager change was made to increase the fund's exposure to managers in which we have higher conviction and to those with more aggressive portfolios. We believe that the changes in the team and process have reduced the performance potential for the Thames River product in this asset class. On the other hand, our manager research analysts have a high conviction in Invesco's Europe ex-UK equity product which is an aggressive 'best ideas' offering. The new manager complements the other managers in the fund through its opportunistic approach to investing.

Further details on Invesco Perpetual

Owned by Amvescap, Invesco Perpetual is one of the largest investment managers in the UK. The company was formed by the merger of Invesco and Perpetual in December 2000 following the acquisition of the two companies by Amvescap. The four-strong European team is based in Henley-on-Thames, UK. Russell has a long track record of researching Invesco and when it merged with Perpetual we increased our level of research on Perpetual. We have researched the ex-Perpetual European product for the past 18 months and this is the first time we have used the product in our funds after it achieved Russell's highest research rank in February 2006.

Invesco's European equity team believes that investors' behavioural biases repeatedly lead to short-term market inefficiencies. By exploiting these market inefficiencies through careful fundamental analysis and a strong emphasis on valuation Invesco should be able to deliver consistent long-term out-performance under most market conditions. The degree of flexibility and pragmatism exhibited in Invesco's approach distinguishes it from the other managers within the Fund.

Invesco's Jeff Taylor will manage Russell's mandate and our favourable view of the product is primarily based upon him. Taylor heads Invesco's experienced European equity team and has 20 years experience covering the asset class. He has spent time on both the sell- and buy-sides of the industry. The former experience has honed his skills in leveraging company research contacts and using local brokers, based on the Continent, for the provision of timely and detailed company analysis. The latter experience, gained at Invesco managing assets for a largely retail investor base, has made him a highly performance-driven and pragmatic investor. He is very close to the market and uses his experience to marry macroeconomic views with bottom-up insights and to identify market anomalies by assessing where consensus lies on individual stock opportunities.

During Russell's research of this product, Jeff has demonstrated that he will be opportunistic and pragmatic in his decision-making and has exhibited good short-term tactical awareness. He is well supported by an experienced team, all members of which have generalist roles and broad market perspective. In our opinion, the team offers a healthy decision-making dynamic in which ideas are generated and appropriately evaluated.

The team adopts a flexible, and sometimes contrarian, approach to stock selection. There are two stages to Invesco's security selection process – idea generation and analysis and valuation. Ideas can be sourced from

either bottom-up or top-down analysis and both internal and external sources. Idea generation primarily focuses on companies with a market capitalisation of £1 billion or above. Once stock ideas have been identified, detailed research is undertaken on key drivers of the business going forward. Specific valuation metrics, such as Price/Earnings ratio, Earnings Growth/Momentum, and Dividend Yield, are then selected for each stock on the basis of their relevance.

The aim of the process is to identify cheap, quality stocks with positive share price catalysts. As a result, Taylor's typical portfolio will exhibit fundamentally strong companies, where growth prospects have not been priced in by the market and where internal business or external industry dynamics will provide a near-term positive improvement in the company's outlook.

Impact on the Fund

The Fund's characteristics are not expected to change significantly as a result of this manager addition, although tracking error will rise moderately.

Changes to manager weights in the Continental European Equity Fund (RIC)

Manager	Mandate	Previous Fund Weight (%)	New Fund Weight (%)
AXA	Quantitative stock selection, value bias	15	15
Bernstein	Value-oriented stock selection	20	20
Capital International	Growth-at-a-reasonable price	15	15
BlackRock	Market-oriented with a growth bias	15	20
Nordea	Thematic stock selection, growth bias	15	15
Thames River	Earnings revisions focus	20	-
Invesco	Pragmatic stock selection, mix of quality, growth and valuation perspectives	-	15

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