

# Take Note

## US EQUITY FUND (RIC and Russell US Equity Fund L.P.) – MANAGER CHANGES

### Changes to the Fund

In June 2006, we improved the Funds' structure by replacing BKF and Jacobs Levy Value with Institutional Capital Corporation (ICap) and Sound Shore Management. In addition, we trimmed the Turner mid-cap holding.

### Reasons for the changes

Organisational changes within BKF have led Russell to use the opportunity to make some exciting modifications to the structure of the Funds. In removing BKF from the Funds, Russell added two new Value oriented managers, providing a strong complement to the existing manager line-ups and in which we have great confidence in their abilities to add value. These managers also run more concentrated portfolios which should increase the stock specific risk inherent in the Fund and, we believe, improve their ability to generate excess returns consistent with the performance targets set.

Russell continues to believe that Jacobs Levy is an excellent manager and has the strong potential to add value. However, we believe that including ICAP and Sound Shore provides a better complement to the other managers within the structure and thereby enhance the overall Fund's excess return potential.

Turner's aggressive mid-cap exposure was trimmed back to partly counter the move to the more aggressive structure following the manager replacements. The move also enabled us to acknowledge relative valuation levels and lock in some of the significant gains which have been generated by the strategy over an almost four year market run on mid-cap Growth stocks.

### Who is ICAP and why do we like the manager?

Chicago based ICap is a large-cap market-oriented investor with a Value bias. The joint CIOs, Rob Lyon and Jerry Senser, are insightful investors and lead a team of experienced analysts that carry out fundamental analysis. One of the key elements which differentiates this manager from the other Value managers in the Funds is the top-down macro perspective provided by Rob and Jerry to complement the bottom-up decisions made by the team.

Another unique feature of this manager is the global perspective of the firm. The analysts compare US stocks with other stocks in similar industries globally to compare relative valuations before picking a stock. To exploit this manager strength, we allow the manager latitude to hold a small portion of non-US stocks.

This manager provides good diversification to the other Value managers in the Funds because its emphasis on relative valuation as one of the Value sub-styles. For example, it will compare valuations to historic and industry averages as opposed to just comparing different stocks at one point in time and focusing on the cheapest ones.

### Who is Sound Shore and why do we like the manager?

Connecticut-based Sound Shore is a large-cap Value manager that focuses on a contrarian style of picking stocks. In other words, it focuses on identifying stocks of good companies which are strongly, but in its mind temporarily, out of favour with the market. The firm has a bottom-up process – focusing purely on great stock

ideas – that does not take any view on the direction of the economy, unlike ICap. Sound Shore tends to be overweight mid-cap stocks and often the portfolio's sector bets can be meaningful.

Sound Shore's key strength is the intensive level of fundamental analysis. As well as scrutinising a multitude of data sources - such as income statements, balance sheets and cash flows - it meets with company management, competitors, buyers and suppliers. This thorough analysis provides high conviction in the manager's stock beliefs.

Sound Shore's focus on a broad set of valuation factors provides good diversification to the other Value managers in the Funds. Systematic's quant value screens concentrate on earnings surprise, which also allows it to add value in Growth friendly market environments. MFS focuses on high quality companies with high Return on Equity (ROE) and Dividend stocks, and ICap emphasises relative value.

### What is the expected impact on each Fund's characteristics?

The Funds' characteristics are not expected to change significantly, although its weighted average capitalisation is likely to increase marginally due to the reduction in its mid-cap component. The introduction of two more aggressive managers increases the volatility slightly, but this is countered by the reduction in allocation to the Turner mid-cap portfolio.

### Changes to manager weights

Manager	Mandate	Previous Fund Weight (%)	New Fund Weight (%)
Turner	Growth, large cap	19	15
Ark	Core Growth	13	12
Montag & Caldwell	Consistent Growth	11	13
Suffolk	Market Oriented with Growth bias	11	12
Systematic	Value	7	11
MFS	Value large-cap, quality	10	12
BKF	Market Oriented with Value bias	13	0
Jacobs Levy	Quantitative Value	11	0
Select Holdings	Market Oriented	5	5
ICAP	Relative Value large-cap	0	14
Sound Shore	Value large-cap	0	6

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