Russell Investments

Russell Research

Market Outlook

Back from the brink

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Europe, Middle East and Africa

November 2008

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Executive summary

- September 2008 will likely go down in financial market history as one of the most important and remarkable months ever seen; we truly were – as we said in the title of our previous *Market Outlook* – poised on the precipice.
- Back from the brink is now the slogan of the moment, yet attention is turning to the ensuing global slowdown that the credit crunch has helped cause. This will negatively impact corporate earnings as well.
- Additional risks remain in the financial system, including ongoing dislocations associated with continuing deleveraging, large corporate and banking refinancing needs in 2009, and possible increases in credit downgrades and defaults.
- Nevertheless, we are becoming encouraged. We move our asset allocation in favour of equities. Valuations are attractive, and we know from history that the market rallies well before the worst of the business cycle is over.
- Japan in particular offers historic value, and so we maintain our preference for the Land of the Rising Sun. Elsewhere around the globe we are neutral.
- In Fixed Income, we have closed our overweight Cash position. We liked high grade credit last quarter; this quarter we raise our outlook to Strong Positive, and we maintain a Negative view on emerging market debt as technical selling could continue to weigh on the asset class.

November 2008

John Velis
Head of Capital Markets Research, EMEA

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Senior Capital Markets Analyst, EMEA

Market and economic overview

Back from the brink

Although our previous *Market Outlook* was entitled “Poised on the Precipice,” we had no idea how prescient we were. Granted, we did at the time judge that risks to markets – financial, economic, political, and behavioural – were sufficiently high to make us wary of taking a long position in either global bonds or global equities, but we had no idea how close to the precipice we would eventually get.

September came and the action was chaotic; the most incredible September in at least 60 years. The flood of names and media buzzwords were similarly dizzying: Fannie, Freddie, Lehman, AIG, Paulson, “Bailout package”, ABN AMRO, Iceland, TARP, RBS, Lloyds, Bradford and Bingley, Dexia/Fortis, Wachovia, WaMu, and on down the line. Although the chaos occurred only a month ago, in many ways it seems like ages. Due to the (often haphazard, but eventually effective) intervention of governments and central banks around the world, we were able to ease our way – or should we say, we were unceremoniously wrenched – back from the edge of the precipice of global financial chaos, and since then markets have begun to settle down, even if they remain somewhat volatile.

We will leave it to other commentators to explain in detail what happened in September which placed us on the precipice. Suffice it here to say that we were witnessing a near meltdown of the global financial system and the concurrent government efforts to avert outright collapse. But what comes now?

As figure 1 shows, the so-called “TED Spreads” are narrowing. These indicators reflect the willingness and ability of large banks to borrow from and lend to one another. They have been elevated since the beginning of the credit crunch over a year ago, but really rocketed higher during this past September, as fears in credit markets accumulated and worsened on a daily or even hourly basis, indicating historically severe strain. They are now narrowing, which is a sign that the near “death spiral” of the last few months has been arrested. We will continue to look for further narrowing of this important indicator as a sign that liquidity and solvency concerns are easing.

“TED Spreads” are now narrowing. We will continue to look for further narrowing of this important indicator as a sign that liquidity and solvency concerns are easing.

Figure 1: TED spreads are coming down

NOTES: TED Spread = 3M LIBOR USD minus 3M Generic US Bonds

SOURCE: Bloomberg as of 30-Oct-08

Just because that last great battle has been won, it doesn't mean that substantial damage hasn't been wrought to the financial markets and the real economy. To wit, the great global deleveraging that had been and is still ongoing will impact credit channels, and financial markets for months to come; the causal damage it has inflicted upon the real economy across the globe is only now starting to be felt. As we discuss later in this document, this quarter we decided to nudge our asset allocation towards a positive equity exposure relative to fixed income, yet we acknowledge that although the financial risks have receded and we are no longer poised on the precipice, the economic outlook is still quite bleak. Many if not most of the developed economies have been in recession for some time or are just entering the throes of one. The impact of this slowing is being felt around the world including emerging markets and developed Asia. More importantly for equities and corporate credit, corporate earnings will continue to be depressed for a while. Though it may seem counter-intuitive, we will explain below that this is precisely the kind of environment in which investors should think about going long (albeit in a carefully risk-controlled, well-diversified way, as always) certain risky asset classes.

Monetary authorities have plenty of room to aggressively lower interest rates; as the action of last week proves they have and likely will continue to do so.

We present our argument for this shift in our global asset class allocation in the next section. Here we merely point out that history suggests that, even in the darkest of bear markets, equities recover before the worst has passed; (recall the forward-looking discounting mechanism that the asset class embodies). While it is undeniable that we are in a gloomy period at the moment, we expect that the market will eventually see through it to the recovery that is sure to come. Typically when the stock market decides that a cyclical bottom will be inevitable, even if it is a few months (or even a few quarters) down the road, they tend to rebound sharply and quickly.

That having been said, we would be remiss not to point out that the next recovery will probably take a while to arrive, and when it does, it is likely to be muted and characterised by significant risks. The great deleveraging, still ongoing, will take some time to achieve its eventual end point. This process will crimp lending, impair banks and squeeze economic growth (and with it corporate earnings). On the agenda for 2009 is significant refinancing of large swathes of bank and corporate debt which must be rolled over in a heavily credit-constrained environment. It is quite frankly unrealistic to expect that these risks will not manifest themselves and represent intermediate setbacks to the markets.

The huge amount of money that will have to be spent (and raised somewhere) by governments comes at no small cost. Central banks and central governments have taken huge quantities of private sector risks onto public sector balance sheets, to the tune of several trillion dollars, by some estimates. Fiscal policy in demographically challenged countries will be affected for some years, if not longer.

Nevertheless, a silver lining behind the cloud of global economic slowdown does exist. Three months ago, we were talking about inflationary pressures due to high energy and materials prices and the central banks' inability to lower rates (which would have helped ease some of the strain in credit markets) in the face of these pressures. Since then, the story has completely reversed. We are now witnessing declining inflationary expectations, giving monetary authorities plenty of room to aggressively lower interest rates such as the recent historic action from the Bank of England and less aggressive rate cut from the European Central Bank.

Going long, within reason

In our last *Market Outlook*, we maintained a formal stance of "neutral" between global fixed income and global equities. As alluded to above, we judged the risks in the macro economy, the financial markets, and the banking sector to be significant enough to keep us from making any large asset allocation shifts. In the present issue of the *Market Outlook*, we shift, admittedly cautiously, to a positive stance on equities. We do this knowing full well that the risks about which we remind readers are not to be ignored or dismissed. Yet, we are confident that on a one-year view, some time during 2009, equities will begin to look past the current murkiness and investors will recognize the significant long-term value of the asset class.

We make this recommendation with a significant health warning: while we have come a long way since September, risky assets are by no means out of the woods entirely. Given the significant uncertainty that is still likely to unfold, it is quite possible that any rise in the markets could be followed by a set-back or two. In the short (three months or so) term, the markets are likely to move in fits and starts as they wrestle with the depth and breadth of the potential negatives still on the agenda.

We think the chances of investors staying out of a market that is set to rise represent a great risk.

Yet at the same time, we wish to suggest to readers the following paradigm as described by figure 2. Being "long" a market that is rising is obviously a profitable position, and is what we strive to do when making tactical asset allocation decisions.

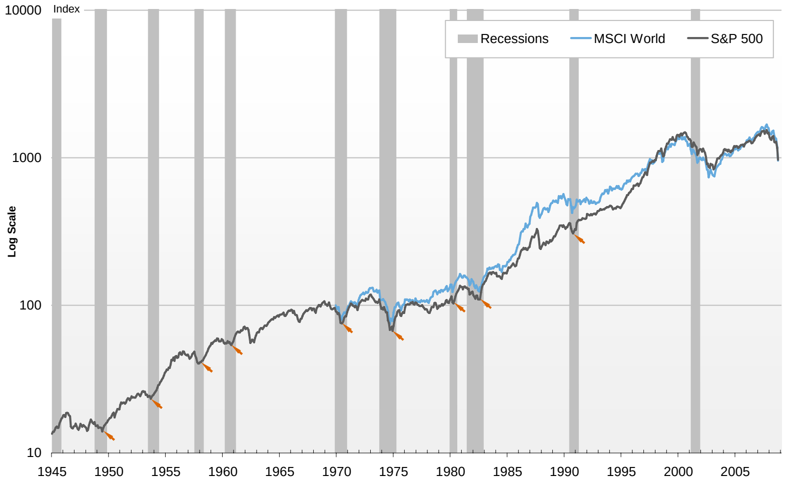
Being short (or out of) a market that is falling, is also good. However, investors – especially at turning points in financial markets – are always at risk of making one of two types of errors. A "Type I" error is being invested in a market that goes down. Indeed, for most of this year we have been of the opinion that there was a greater chance of investors making this type of mistake. A "Type II" error, on the other hand, is when an investor is short (or out of) a rising market. As of this writing, we think the chances of this type of error occurring are greater.

Figure 2: Better long than short

		Market	
		Falling	**Rising**
Portfolio Position	**Short**	**Good**	**Type II Error**
	Long	**Type I Error**	**Good**

History proves the following point. At the end of a market downturn (of whatever length and magnitude) the ensuing upswing in markets is often quick and sudden. Furthermore, as figure 3 shows, at the end of proper bear markets (defined as a sustained market downturn of 20% or more) the subsequent rebound in equities is exceptionally strong. We judge at the moment that investors would be well-advised to avoid a Type II error, and would be sensible to extend a bit further up the risk curve and take on some equity risk so as to avoid being left out of a quick upturn when it happens. It may be next week, next month or next quarter, but our quantitative models and our qualitative assessment suggest that it will almost certainly occur sometime in 2009. Nevertheless, we reiterate the health warning mentioned above: it is very possible that the equity market recovery we see over the next several months and quarters will not be the one-way traffic that historical patterns have displayed.

Figure 3: Re-acceleration usually occurs mid-recession



NOTES: S&P500 and MSCI World (price, USD), logarithmic scale, US Recessions are determined by NBER Business Cycle Dating Committee.

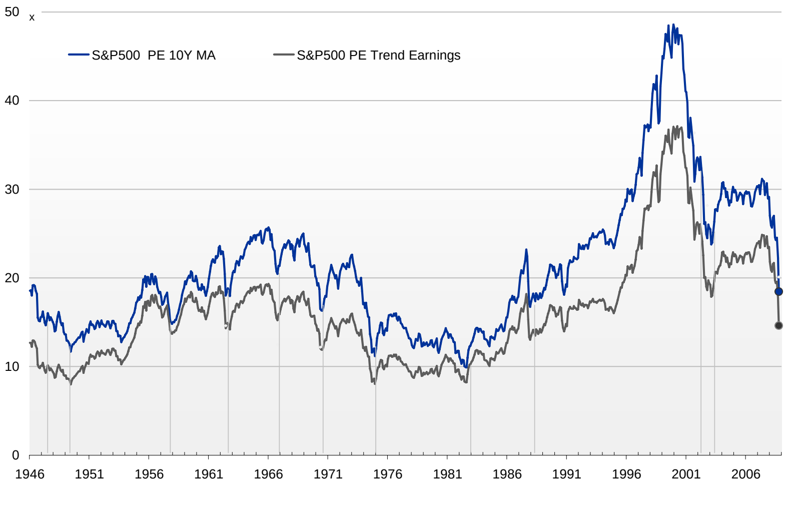
SOURCE: Factset, Robert Shiller's website for S&P500 through 2007, Bloomberg subsequent, National Bureau of Economic Research, as of 31-Oct-08

Historically, markets reaccelerate well before the underlying gloomy period in the economy is actually past its worst. Certain valuation indicators suggest that the equity market is cheaper than it has been in nearly 15 years.

Valuations are certainly more attractive than they have been for some time. (see figure 4). Two of our proprietary price-earnings ratios for the US, both of which we adjust for the cyclical behaviour in earnings, are more attractive now than they have been for approximately fifteen years – well before the bull-run of the 1990s.

Even though we expect corporate earnings around the world to continue to disappoint into early 2009, once again, we appeal to the forward-looking nature of equity markets. At these valuations, even with a few (or more) quarters of weak earnings data ahead of us, we judge the market to be attractive.

Figure 4: Valuations have become attractive

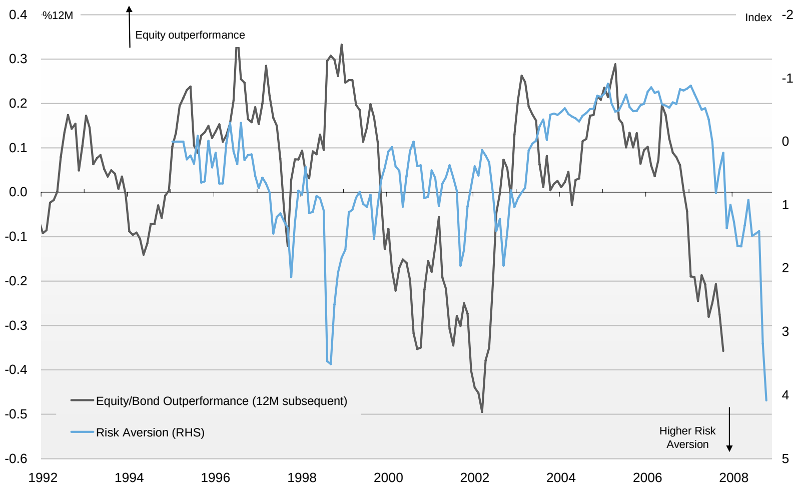


NOTES: S&P 500 P/E, monthly, vertical lines indicate P/E ratio at the end of bear markets since 1945, shown are P/E based on a 120-month average of trailing EPS and P/E based on trend EPS, interpolated as monthly CGR - end points are Jan-45 and Sep-08.

SOURCE: Russell Calculations, Shiller Database until Jan-08, Bloomberg subsequent as of 31-Oct-08

Traditional “contrarian” or “capitulation” indicators also are beckoning investors into the market. One of our favourites is a proprietary risk aversion indicator, shown in figure 5. This combines a number of real-time financial market indicators to get a sense as to whether or not investors are actively seeking risk or shunning it. At the moment, it is showing that risk aversion is as great as it has ever been. As the figure demonstrates, over the subsequent twelve months, severe risk aversion often gives way to equities outperforming bonds.

Figure 5: Risk aversion vs. equity performance



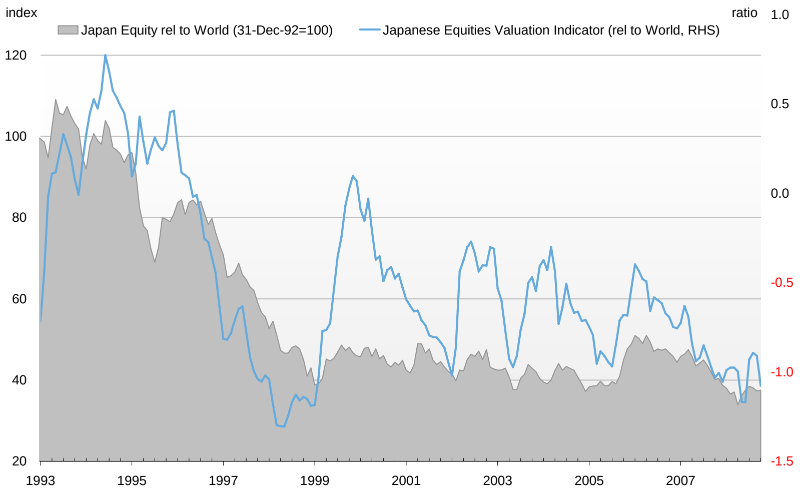
NOTES: Equity (MSCI World) outperformance over Bonds (SBBIG/Lehman Global Agg Index) over 12 monts, Risk Aversion a composite of US 2Y SWAP spreads over USGG2Y, Lehman HY vs IG spreads, Defensive vs cyclical sector performance, 3M fwd Fed Fund futures contracts, Moodys BBB - US Gov 10 year spreads, TED Spread USD 3M LIBOR, VDAX & VIX

SOURCE: Russell Calculations, Bloomberg as of 31-Oct-08

In our calls for the current quarter, we upgrade investment grade corporate bonds to "strong positive", but we stay with our negative view on emerging market debt.

Elsewhere in equity-land, we see exceptional value in Japan. As figure 6 shows, valuations in Japan are historically low. Even during the "lost decade" of the 1990s, when relative valuations are this favourable for Japan, the market outperforms on a medium term basis. This is a high-conviction view.

Figure 6: Exceptional value in Japan



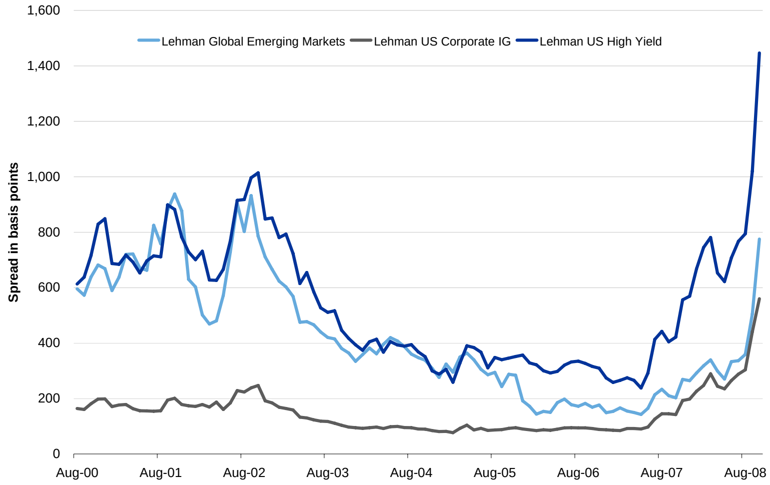
NOTES: Japanese Valuation Indicator (composite of PSales, P/B, PCFlow, EV to EBITDA, Div Yield, G-D P/E, all relative to World) lower=cheaper,

SOURCE: Russell Calculations, FactSet, Bloomberg as of 31-Oct-08

Fixed income

Looking at the other main asset class, "unprecedented" is the word most often used to characterise the current fixed income environment. For many credit asset classes, spreads have surpassed previous cycle highs by a considerable margin. The yield difference between investment grade corporate bonds and Treasuries, as measured by Lehman index data (shown in figure 7), recently reached a level that was about twice the spread peak seen during the previous recession in 2001-02. High Yield corporate spreads have also pushed past the 1000 basis point mark and the highs of the last bear cycle. Only hard-currency Emerging Market debt spreads remain below their 2002 peaks although they, too, have widened out precipitously in the last two months.

Figure 7: Credit spreads push to new highs



SOURCE: Lehman as of 31-Oct-08

The force of the sell-off took even seasoned investors by surprise. Several times during the course of the credit crisis market participants thought that policy-makers had succeeded in containing the risk of a systemic breakdown, notably by bailing out Bear Stearns in March and nationalising Freddie Mac and Fannie Mae in early September, but optimism turned out to be premature in both cases. The financial crisis that began more than a year ago culminated in the bankruptcy of Lehman Brothers in mid-September, followed by sclerosis in interbank money markets and frantically put-together bank rescue packages and co-ordinated rate cuts by the major central banks.

There is some evidence of forced selling irrespective of fundamental value against the background of exceptionally poor liquidity in corporate credit markets. While the cost of insuring against the default of financial institutions through the derivatives market has declined substantially since governments have offered guarantees and capital injections, cash bond spreads of the same banks remain near their highs. Other parts of the credit market point to the presence of dislocations. For example, tradable speculative-grade loans have been driven down in price and to spread levels equal to those of equivalent high yield bonds although the former are secured debt instruments and thus more senior in the chain of claimants in the case of bankruptcy. Often, these discrepancies are not arbitraged away because bank trading desks have had their risk budgets curtailed and many hedge funds were cut off from lending. Market players who in the past would have pounced to benefit from the dislocations we currently observe are now on the sidelines and many of them are in the process of deleveraging and trying to survive a wave of client redemption requests and the drought in funding.

Amid the blow-out in spreads, our quantitative models have turned more positive on credit. They are showing the strongest buy signal for Investment Grade bonds ever and have switched from Negative to Neutral on EMD. High Yield Corporates remain within the Neutral range, but have marginally increased in attractiveness as well. Fundamentals for credit, i.e. financial conditions and macroeconomic developments, deteriorated further last quarter, but market prices appear to have moved much more quickly and discounted a depression-like scenario.

Despite the severe dislocations we see in credit markets – and the opportunities for excess returns that these create - we remain slightly wary of an ongoing de-leveraging by hedge funds and other market participants that are particularly vulnerable to the credit crunch. In our calls for the current quarter, we follow the models in upgrading Investment Grade Corporate Bonds to Strong Positive amid the co-ordinated effort of governments around the world to prop up financial institutions' debt, but we overrule the models in staying with our Negative view on EMD. Our caution is based on the aforementioned technical factors (especially hedge fund de-leveraging) and portfolio balance considerations – upgrading IG Corporates and Equities is as much risk as we can bear right now.

Inflation, rearing its head as recently as July, took a backseat to financial instability and concerns about the real economy. In fact, some observers are talking of deflation – asset price deflation and subsequently consumer price deflation – as a significant risk to the outlook. Commodity prices slumped when the severity of the risks to the financial system became apparent after the failure of Lehman, easing pressures on headline inflation rates in months to come. Due to the cyclical downward pressure on bond yields and the increased attractiveness of corporate credit, we have downgraded our view of Cash to Neutral from Positive. However, the measures taken by central banks and governments around the world to inject liquidity into the financial system and re-capitalise ailing, but systemically important banks could have averted the worst-case scenario. Looking into the future, central bankers and finance ministers are likely to keep policy stimulative after their experience of staring into the abyss, even as the economy recovers. Again, the most recent actions in the UK and Europe bear this out. The pipeline of fresh government bonds to finance capital injections and various stimulus programmes is full. New supply will spill into the bond markets over the coming quarters, which might prevent yields from falling too much in the short-term and cause them to rise in the longer-run.

Thoughts from the Russell investment team and managers

Japanese Valuations

As a cyclical market, Japan is currently being affected by the global economic slowdown, which is clearly seen in the sharp earnings falls being experienced by even

the best managed companies like Toyota. However, many value investors have identified Japan as currently offering an incredible opportunity. The market PER is at historically low levels (although the 'E' is subject to revision), and the PBR for the market – the most reliable indicator in previous downturns - is at levels last seen nearly forty years ago. In addition, the market dividend yield is now close to 3%, compared to long bond yields of 1.5%.

Ross McFarlane
Senior Portfolio Manager, Japanese Equities

Credit Preferences

The two largest sub-sectors within investment grade credit, MBS & Financials, currently have an improved positive fundamental outlook, supported by expected future positive government intervention. Current wide spread levels would require default rates to be significantly higher than historic default rates recorded and higher than where rating agencies and investment managers expect defaults to be, for an IG credit investor not to at least break even versus government bonds. This implies that forced selling beyond rationale levels now offers opportunities for investors to book excess earnings for several years ahead, if they are held to maturity.

Investment grade credit is considered more favourable to high yield credit, given that an expected recessionary environment poses more downside to high yield, given its anticipated default rate momentum is expected to further widen spreads in the short term, while in the longer term, the positive ratio of high quality spreads to expected losses is expected to be higher.

Gerard Fitzpatrick,
Senior Portfolio Manager, Global Fixed Income

Risk-Return Trade-off more favourable

Long-term investors should also not lose sight of the tremendous value opportunities no on offer. Yields on most risk-free assets are declining while the prospective returns for taking risk are rising. The widening gap between the yields offered by equities and bonds, and the historically high yield premiums on investment grade corporate debt securities suggest that taking risk is likely to be richly rewarded.

Andrew Pease
Investment Strategist,
Asia-Pacific

Investment conclusions

Favouring equities

Last quarter, given the significant risks that we felt still abounded, we cautioned investors to avoid making any significant asset allocation tilts between stocks and bonds. While retrospect suggests that an outright preference for fixed income relative to equities would have been better, it was impossible to foresee the severity of the equity market sell-off. The mere possibility that it could have happened was in fact what made us reluctant to take a long position in stocks. On this note we take comfort that our advice (which included a short duration position and a preference for cash) was pretty good.

This time around, we are advocating a preference for equities over bonds. As we have explained in the preceding pages, while we acknowledge that the global economy could worsen over the next few quarters and there are still nontrivial financial risks lurking, we consider the worst behind us. We are also cognizant of history: we know that in the past, bear markets end before the economic gloom is entirely over, and when they rally, they do so quite strongly and abruptly. We do not want our readers to be left out of the market when this occurs.

Valuations are finally cheap enough for us to think the market is attractive, not only globally but particularly in Japan, which represents a historic valuation opportunity. Thus we advocate a long position in Japan, and a neutral one across the other regions. We acknowledge that this is an unbalanced portfolio; we have no offsetting negative equity regions. Thus we recommend that investors with truly global portfolios finance a long Japan position with proportional offsets elsewhere in their portfolios.

Within bonds, we have dropped our preference for low duration and cash instruments. Bonds are now fairly valued and government interventions have reduced risk across the credit curve. The flight to safety saw huge inflows into safe cash-like assets. As that eventually unwinds, we expect longer duration products and spreads to benefit.

The level of investment grade spreads is unprecedented, and we expect that barring further calamity, these spreads will narrow – perhaps slowly, but surely. Thus in credit we prefer investment grade, and finance such a position with short position in emerging market debt, which represent materially less value than high-grade credit.

Market ratings summary

GLOBAL ASSET ALLOCATION (1)		
Stocks vs. Bonds	For the first time, we are advocating a preference for equities relative to fixed income. Market moves of the last quarter have finally rendered equity markets cheap enough to be attractive, even as we expect the ongoing macroeconomy to remain weak; equities typically rally before the worst is over. Earnings expectations are finally being ratcheted down to realistic levels; this is a prerequisite for an equity market rally. Also, so-called short-term "capitulation" or "contrarian" indicators are at levels that are associated with future equity market strength. Within our fixed income allocation, we have also ended our preference for short duration (read: long cash) positions.	**Positive** **(Previous: Neutral)**
EQUITY (2)		
US	The economy continues to weaken, and banks continue to be under great stress. No reason to expect outperformance relative to the world.	**Neutral** **(Negative)**
UK	As in the US, the economy is already mired in recession. With a narrow market dominated by energy, banks and large retailers, the UK looks to perform in line with the rest of the world.	**Neutral** **(Neutral)**
Euro (ex-UK)	Another developed western economy that looks to be in recession without a lot to offer relative to the world; should perform in line with wider market. Earnings geared to export markets as global economy continues to weaken.	**Neutral** **(Negative)**
Japan	This market offers historic value and is the large developed market least affected by the credit crunch. Disappointing last quarter, but we still expect an eventual rally here.	**Positive** **(Positive)**
APAC (ex-Japan)	Uncertainty on commodity prices and the global outlook argues that we maintain a neutral outlook.	**Neutral** **(Negative)**
Emerging Markets	We downgrade GEMs to market-performance. High beta asset class could outperform in a strong global rally, but risks and uncertainties cloud the picture.	**Neutral** **(Positive)**
BONDS (3)		
Cash	Financial crisis will weigh on growth and dampen inflation over next few quarters. Bonds, in terms of duration and in terms of credit spreads, have become more attractive. Government bond supply is a concern.	**Neutral** **(Positive)**
US	The Fed is most advanced in terms of its easing cycle and the Treasury is committed to reflating the economy, even at the expense of a higher budget deficit. We remain negative.	**Negative** **(Negative)**
UK	The highest short-term rates among the G4 (and hence potential for the BoE to cut further), a rapidly deteriorating economy and housing market make the UK the most attractive government bond market, in our view.	**Positive** **(Positive)**
Euro	The ECB was in tightening mode in July, but reversed course as soon as the financial crisis deepened. The Eurozone's dependence on exports makes it vulnerable to the global slowdown, but recent wage agreements could keep inflation stubbornly elevated.	**Neutral** **(Neutral)**
Japan	Trading within a narrow range, supported by a relatively steep curve and a strong Yen, but with not much upside price potential either.	**Neutral** **(Neutral)**
CREDIT (4)		
Inv. Grade Corporates	IG spreads are twice their peak during the previous recession. Government guarantees on new bank debt should also support outstanding bonds. Rate cuts and liquidity measures should benefit IG first.	**Strong Positive** **(Positive)**
High Yield	Past their spread highs during the 2001/2002 bear market and pricing in defaults that have never been observed since Moody's started collecting data in early 1970's. While attractive on a longer-term horizon, we are waiting for hedge fund de-leveraging to abate before becoming positive.	**Neutral** **(Neutral)**
Emg. Mkt Debt	Models have turned towards neutral, but EMD is not as cheap as other credit asset classes. We are wary of further de-leveraging and leave Negative rating in place, but as with HY, an upgrade is quite likely over the next few quarters.	**Negative** **(Negative)**
CURRENCIES (5)		
EUR	Like many other currencies, the Euro slumped against the US Dollar on the start of a large interest rate cut cycle by the ECB and a repatriation of US investors' investments from abroad.	**No View**
GBP	Sterling fared as badly as the Euro. The housing downturn in the UK is gaining momentum and the Bank of England is likely to reduce interest rates sharply while the US Fed is nearer to the end of its cycle.	**No View**
JPY	The Japanese Yen was the only major currency not to suffer against the US-Dollar. Unwinding of carry trades and a flight to currencies with large current account surpluses supported the Yen.	**No View**

Ratings sheet

Explanations

Russell EMEA's Market Attractiveness Ratings are indicative of each asset class's relative attractiveness (and hence recommended weight in a representative portfolio) over a twelve-month investment horizon.

Market Attractiveness Ratings are decided upon by the Russell EMEA Market Outlook Committee, which is composed of senior Russell investment professionals in the EMEA region and globally. Inputs used by the TAA Committee consist of a combination of quantitative and qualitative inputs provided by Russell's Global Investment team.

For more information on methodology, definitions and investment implications, please contact your relationship manager.

NOTES

General: The Market Attractiveness Ratings on the previous page do not refer to a pre-specified model portfolio or specific investor portfolio, risk budget or investment guidelines.

(1) Global Asset Allocation refers to the recommended relative attractiveness of global equities and bonds.

(2) Equity relative ratings reflect relative attractiveness of each region's equity market within a global equity benchmark. All regional equity weightings are in local currency (i.e. USA in USD, Europe ex-UK in EUR, UK in GBP, Japan in JPY, APAC ex Japan in USD and Emerging Markets in USD) relative to a hedged global equity index.

(3) Bond relative ratings refer to relative regional duration weighting in a global bond portfolio.

(4) Market Attractiveness ratings for IG, High Yield, and Emerging Market Debt are relative to developed market long duration treasuries.

(5) At present Russell has no official currency views. Although we do maintain and monitor a range of models and indicators. Contact your client services representative to discuss currency hedging policies
Cash is considered a portion of a global fixed income benchmark, and its Market Attractiveness Rating reflects the Market Outlook Committee's overall duration view. For example, a positive (negative) Rating for cash implies an overall short (long) duration preference within fixed income, independent of currency considerations.

In this report, we introduced to you our new family of Russell Global Equity Indexes. As you may know, Russell's US Equity indexes have become the market leading institutional benchmark with over 58% of institutional US equity products based on the Russell family of indexes. Additionally, the Russell indexes are used as the basis for many investment products around the world such as index funds, ETFs, as well as options and future contracts. We introduced the US indexes in 1984 to create a more accurate and comprehensive system for evaluating the performance of investment managers. In 2007, based on market demand, Russell expanded its index offering globally to offer the same comprehensive measurement capabilities for equity markets around the world by specific market segment (large cap/small cap) or investment style (growth/value). Today, more that $US4.4 trillion in assets are benchmarked to the Russell Indexes.

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