



Russell Research

Market Outlook

The Great Unwind

John Velis, Head of Capital Markets Research

Europe, Middle East and Africa

January 2009

Contents

1. Executive summary
2. Market and economic outlook
3. Equities
4. Fixed income
5. Market attractiveness ratings
6. Ratings sheet explanations

Executive summary

- In this issue of Market Outlook we discuss the difference between a “normal” cyclical downturn and a more drastic and rarer de-leveraging process. We contend that we are currently experiencing the latter.
- De-leveraging is a painful process that occurs after a long period of rising asset values and credit creation has run its course. This is analogous to what we witnessed in the 1930s and in Japan in the 1990s. The ultimate resolution of this process will not be reached until the underlying and so far dubiously valued assets involved find a price. That valuation process will take place either in the market or via government intervention but, in either case, further government participation in the process is likely to result.
- Nevertheless, we reiterate our view that equities will outperform the broad fixed income asset class on a twelve-month view. We expect that by summer, public policy around the world will have become clearer and will be gaining traction. Equally we anticipate that the larger part of the bad news on the economy and corporate earnings will have been digested, culminating in a sustainable rise in asset values.
- We argue that just because asset class returns were highly correlated in 2008 and almost all risky assets declined in value, it does not follow that diversification “did not work”. Almost any reasonably well diversified portfolio would have outperformed any narrowly invested one during the year and since we cannot be sure which asset classes will rebound first and/or most strongly, holding a well diversified portfolio on the way out of the downturn is likely the most sensible course of action also.
- We maintain our preference for Japanese equities primarily based on valuation and the Japanese market’s high beta relative to the global stock market. We add the US to our list of attractive equity markets believing that just as the US led the way into the crisis, it is likely to lead the way out and any global market rebound that we foresee will be catalysed by a recovery in the US.
- Investment grade credit remains strongly favoured by the Market Outlook Committee. Even assuming Great Depression-type defaults and downgrades and lower than average recovery values, current spreads more than compensate investors. We add a less enthusiastic but still positive view on High Yield credit, based on the same sort of argument although we acknowledge that it is a riskier play.

January 2009

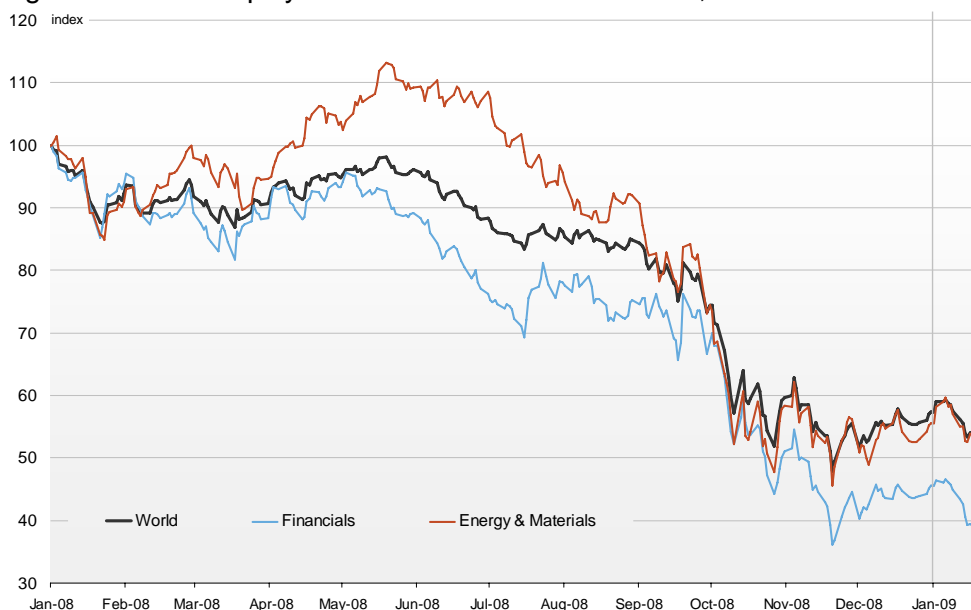


John Velis
Head of Capital
Markets Research,
EMEA

Market and economic outlook

In our last *Market Outlook* we began to advise an overweight in equities after a long period of neutrality between stocks and fixed income. Since the publication of the Q4 2008 Market Outlook and our pro-equity stance, equity markets have been relatively stable (save the last few weeks which we discuss further below) though they have not out-performed versus bonds. Part of this is due to the continued strength of government bond markets through the end of last year, generated by a flight to high quality, liquid investments on the part of exhausted and demoralised investors. Part of this was also due to continued weakness in three important sectors: energy, materials and financials, all of which have been bedevilled by problems particular to each sector but also by the fall-out of the general crisis through which we have all been living. Materials and energy prices have collapsed and this is reflected in the equity prices of firms operating in these sectors. Weakening global growth, itself an outcome of the credit crisis, has in turn brought financial shares down 54% over the course of 2008¹. Despite less than satisfactory results so far in our long equity position, we remain steadfast in our belief that over a twelve-month horizon, equities will be measurably higher than they are now. We present our rationale for this stance in the following pages.

Figure 1: Global Equity Markets and Selected Sectors, 2008



NOTES: Russell Global (developed), Price, USD, GICS sectors, 31 December 2007=100

SOURCE: Russell Calculations, Bloomberg data correct as of 19 January 2009. Past Performance is not necessarily a guide to the future.

A frequently asked question is whether or not the current crisis is akin to the Great Depression or perhaps 1990s Japan. We dismiss the notion that we are facing 10 “lost” years. However we are beginning to favour the interpretation that what we are currently living through is something quite different to a run-of-the-mill cyclical downturn. What we are experiencing is a great de-leveraging. This is something very different to a typical business cycle downturn which is comparatively milder and happens more frequently.

A long period of apparent stability and abundant credit leads to a seemingly inexorable rise in asset prices. In retrospect, we might all recognise that the values which asset prices (like houses or equities) attained were well above “normal” or

We dismiss the notion that we are facing 10 “lost” years. However we are beginning to favour the interpretation that what we are currently living through is something quite different than a run-of-the-mill cyclical downturn.

¹ Russell Global Indexes, USD

“fair” and the leverage which helped to lead to the run-up in these prices was unsustainable. But for as long as this run-up continues, all seems well. These richly valued asset prices are used as collateral to obtain additional credit, itself issued to fund consumption and corporate investment, growth of financial companies’ balance sheets and inflate net worth. While asset price values remain high, traditional leverage measures look sustainable – perhaps even modest.

Yet at some point, the level of asset prices is ultimately unsustainable. As these prices fall, it renders bank balance sheets less healthy while simultaneously increasing the overall debt burden and servicing costs which borrowers face. Banks then restrain lending, exacerbating the burden on these borrowers. As credit becomes less freely available, and consumers’ and corporations’ debt burdens demand ever increasing share of income, spending and investment fall and the real economy slows markedly. Central banks cut interest rates; on one hand this is intended to provide some relief (in the form of lower financing costs) to the banks and the indebted consumers and firms, and on the other hand, to stimulate the economy.

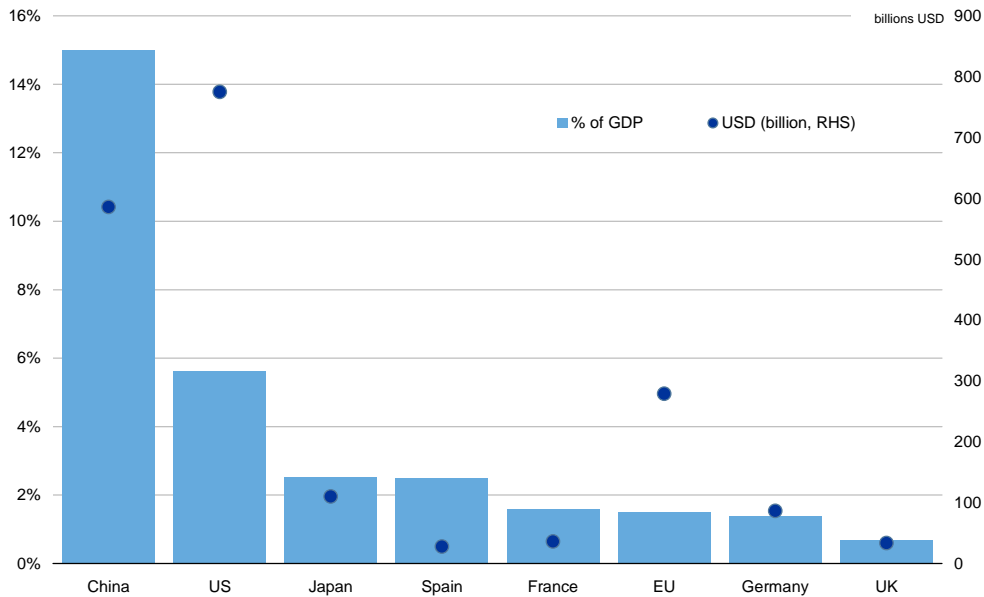
Yet in such a credit constrained environment, with borrowers no longer willing or able to take on additional debt and banks not making credit available, monetary policy has little effect. Asset price declines accelerate, further exacerbating the above problems; this “feedback loop” or “vicious circle” results in a collapse in growth much more pronounced than that which is seen in a traditional cyclical downturn.

Don’t forget, at the core of this process is declining asset values. The eventual work-out of these non-performing assets must be undertaken. This is a long, difficult, politically hazardous process, and one in which traditional analysis may not be useful.

The next and most obvious questions are “how do we get out of this spiral?” and “what is the end game?” We are slowly arriving at the answers. Since de-leveraging episodes are rare and few-and-far between, the policy prescription is not readily apparent. (This adds to market uncertainty and weaker asset prices.) At the moment, we are getting there; admittedly in fits and starts and with the public relations pitfalls and policy mistakes which always result from the process of trial-and-error in the halls of government as different initiatives are proposed. The underlying assets at the heart of the crisis are impossible to price via traditional markets. Hence, banks – the ultimate owners of these assets – are continuing to “discover” new losses on their books. This is where governments must step in, albeit gingerly at first, giving cash to keep firms solvent in return for more direct oversight. Governments will then begin taking assets off the banks’ books entirely in return for controlling stakes in those businesses. And will try to price these assets. Prices will be low and in some cases zero. But eventually, as happened in the US in the early 1990s during the savings and loan crisis or in Sweden in 1992-93 during their own banking crisis, government must assume the burden of pricing and disposing of the assets at the heart of the crisis.

In the meantime, while private demand has collapsed, it falls to governments to step into the breach. In pure (or as some critics called it “crass”) Keynesian fashion, deficit spending is used as a tool to place a floor on falling prices and in current parlance “stimulate” demand in the place of the beleaguered private sector. Figure 2 shows the levels of commitments to public spending by major economies around the world. This fiscal expansion is not without long-term costs but in the short term is often seen as a necessary evil, preventing outright economic and social collapse. The exact details of the biggest stimulus package of them all – that of the newly-installed Obama administration in the US – remain to be seen, but we can presume it will be huge, expensive and unfortunately lacking in any guarantee of positive results. As these events unfold, our commentary will attempt to keep up and should our investment conclusions be altered as a result, we will keep readers up to date.

Figure 2: 2009 Proposed Fiscal Commitments by major Economies (Provisional)



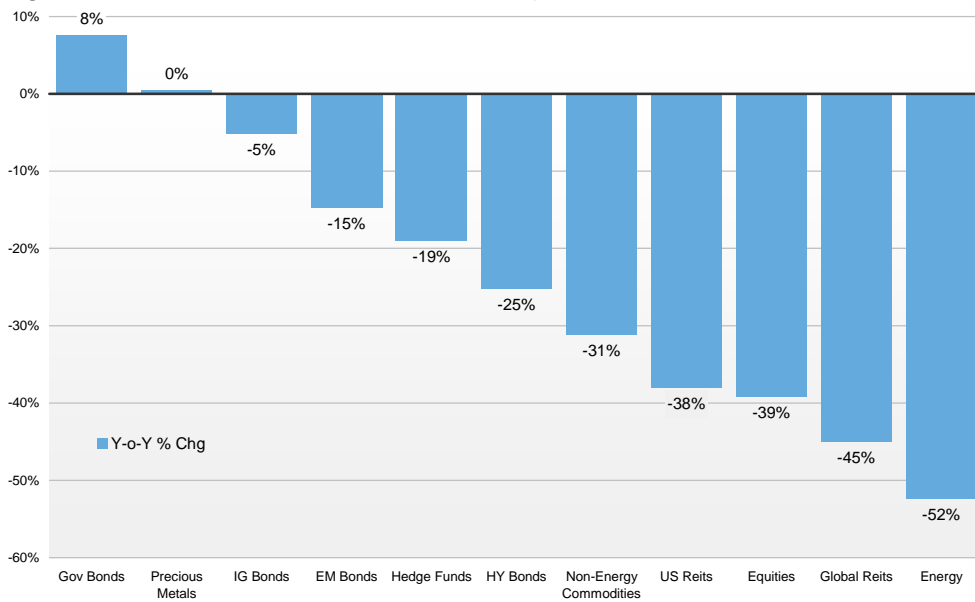
NOTES: selected fiscal policy measures announced by Governments since January 2008, figures indicative, not complete. Latest available GDP figures at December 2008 exchange rates. US figures of USD775bn proposed, EU figure (EUR200bn, 1.5%) proposed, Italy and Spain based on estimates. SOURCE: The Economist, Reuters, Bloomberg.

Another question we are often asked about is diversification. All asset classes save government bonds posted dismal negative performance last year. Given that almost universal return pattern, some have suggested that diversification “didn’t work”. We strenuously refute this premise. Figure 3 shows that a very eclectic collection of asset classes, with the unique exception of government bonds, all did poorly. Essentially there was nowhere to run, nowhere to hide in 2008. Yes, precious metals did produce positive returns in 2008 alongside government bonds, but the lion’s share of that performance was achieved in the first three months of the year. After a final burst of strength in the early summer, the asset class has followed the rest of the market down.

It is a mathematical fact that in periods of high volatility correlations tend to increase. This is the case even for asset classes that are fundamentally different from one another. So while it is true that any traditionally diversified portfolio would have been down on the year, it would have in all likelihood done better than portfolios with asymmetrically “big” bets in one or a few asset classes. Think of the foundations and other non-profit organisations who managed to achieve a brief run of stratospheric returns by investing mainly in hedge funds or property. Perhaps now they wish their asset allocation had been more spread out. Furthermore, when markets eventually do rebound, we would be fooling ourselves to think we could identify which asset class will do best and in what order they will rebound. Hence being “out” of investments which do eventually do very well would be risking a major error indeed.

All asset classes save government bonds posted dismal negative performance last year. Given that almost universal return pattern, some have suggested that diversification “didn’t work.” We strenuously refute this premise.

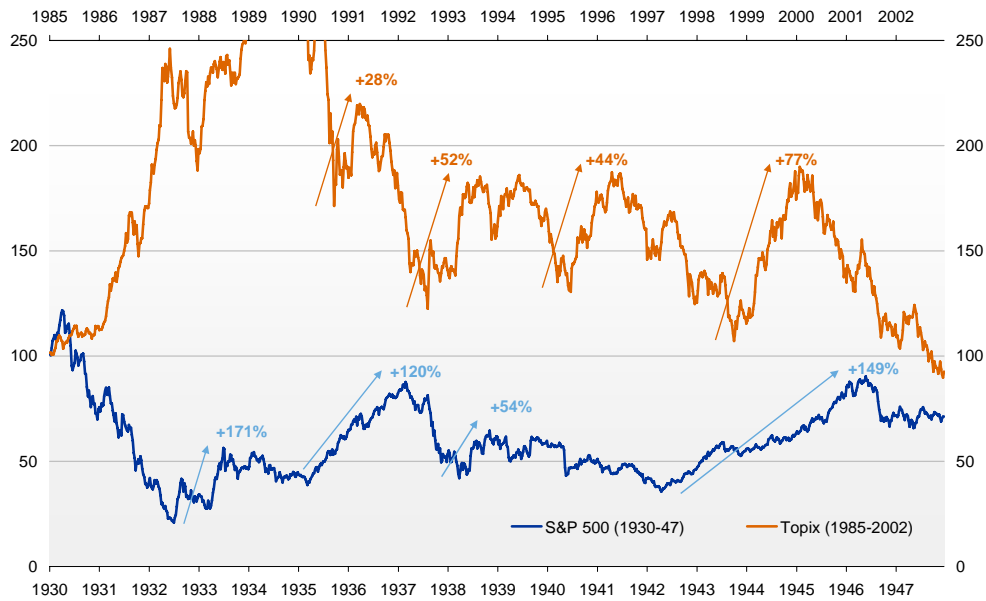
Figure 3: Selected Asset Classes - 2008 performance



NOTES: **Hedge Funds:** The CS/Tremont Hedge Fund Index is an asset-weighted hedge fund index derived from the TASS database of more than 5000 funds (until end of Nov-08) **Equities:** MSCI AC World, local, TR **Gov Bonds:** BarCap Global 7-10 TR USD **IG Bonds:** BarCap Global Agg Corporates Hgd USD TR **HY Bonds:** BarCap Global High Yield Hgd USD TR **EM Bonds:** BarCap Global Emerging Markets Hgd USD TR **Global Reits:** S&P Global REIT Index TR **US Reits:** MSCI US Reit TR **Precious Metals:** S&P GSCI Precious Metals TR **Energy:** S&P GSCI Energy **Non-Energy Commodities:** S&P GSCI Non-Energy TR
 SOURCE: Bloomberg correct as of 31 December 2008

Markets and economies, while obviously closely related are not perfectly synchronised. We fully expect the economic news over the next quarter – or indeed half year – to continue its dismal drone. Furthermore, given the murky policy end game (as of this writing) and the real risk of more bad news in key financial and industrial sectors waiting to surprise us, risky asset markets might very well have another set-back or two in the short term. Even our quantitative models suggest trouble ahead over a circa three month term. Nevertheless, we know that equities and spreads are forward looking and we expect the roots of a sustained rally to emerge around mid-year. We would be very surprised indeed to find ourselves a year from now looking back at another negative outcome. In the Great Depression in the US and the “lost” decade of Japan for example, markets had quite a few strong rallies, even as the economies remained moribund.

Figure 4: Equity Market indexes in the US (1929-1948) and Japan (1985-2003)



NOTES: S&P 500, Price, USD, 3 January 2029=100; TOPIX, Price, JPY, 4 January 1985=100, weekly data.

SOURCE: Shiller database, Bloomberg. Past Performance is not necessarily a guide to the future.

A general discussion of the key drivers of the 2009 market and economic environment shows that the year will be fraught with difficulties, the resolution of which could lead to multiple outcomes. Despite the uncertainty and risks that lurk and allowing for the possibility of some ugly short term movements in the more immediate future, we still prefer equities to fixed income over a 12-month horizon. We emphasise the attractiveness of Japan and the US in particular and recommend reduced positions in Europe and Emerging Markets. In fixed income, we remain convinced that investment grade credit continues to be a buying opportunity not to be missed. Government bonds on the other hand tend to be expensive at the moment and subject to the eventual realisation that developed economies are spending unprecedented amounts of money. We struggle to see value in these instruments.

Equities

At the end of October 2008, when we altered our stance of neutrality between equities and bonds in favour of the former, we did so knowing that we were in the midst of a bear market, and that there were likely to be some set backs along the way until stock markets around the world eventually gained some traction. The events of the last three months and particularly the last few weeks have suggested that perhaps we advised a positive equity stance a little too early. Nevertheless, our quantitative indicators as well as our knowledge of market behaviour through history both point to the desirability of adding equity risk to portfolios now and the strong conviction that a year from now, we will be looking at markedly higher stock price levels.

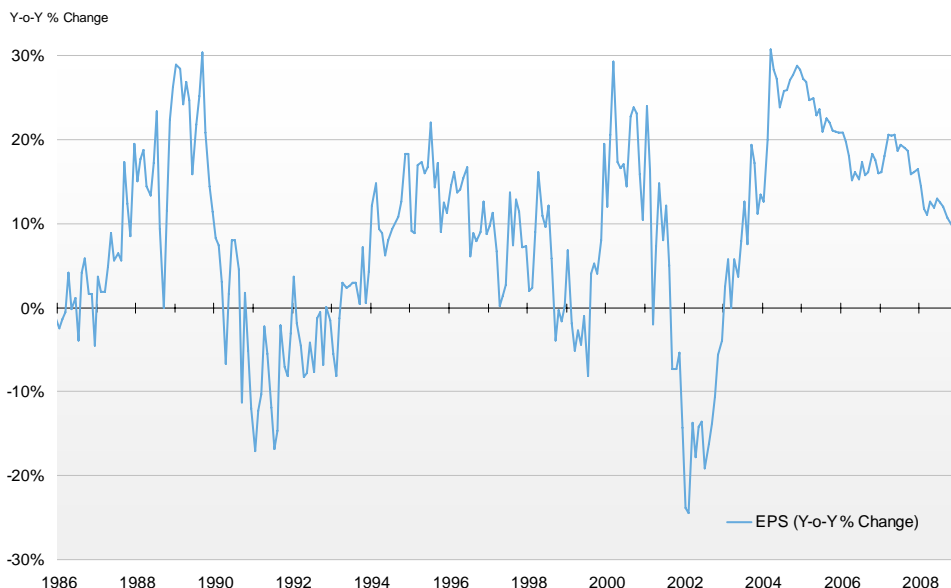
Indeed, a combination of uncertainty about just where the bottom for the financial sector is, continued bad news on the economic and corporate earnings fronts and lack of clarity around public policy make it incumbent upon us to warn readers that the next few months will be difficult ones, and perhaps negative in terms of performance. This is precisely when we think investors ought not to lose their nerve. We expect that by summer policy will be clear and possibly even beginning to have an effect, earnings news will have been thoroughly digested and the prospects of a late 2009 economic recovery will be evident. These are all catalysts for equities to begin pricing in a brighter scenario.

Yes, while earnings have fallen and analysts have got the message and begun to revise downward their forecasts for profits growth, we still think that in comparison to previous economic downturns, the nadir in EPS growth is yet to be reached. Figure 5 shows that if historic precedent is to be followed there is indeed more downside room.

Nevertheless, this last leg down has a marginal effect on long term valuation measures, and those (see our last Market Outlook) have reached levels typically seen at bear market bottoms in the past.

Our quantitative indicators as well as our knowledge of market behaviour through history lead us to believe with strong conviction that a year from now, we will be looking at markedly higher stock price levels.

Figure 5: Global Equities, 12 month EPS growth, 1986-2008



NOTES: FactSet World Index, USD, monthly

SOURCE: FactSet, Russell Calculations as of 31 December 2008

We reiterate and maintain our preference for Japan within a global portfolio. Japan is trading at valuations not seen since at least the mid 1990s and is by far the cheapest developed market in the world, by both standard and our own proprietary measures. For further reasoning behind our preference for Japan, see the previous Market Outlook. In this edition we add the US as a region we favour. We believe that as the eventual recovery begins to be priced into markets the US will be seen as the economy closest to this turning point and the equity market most geared to the upturn. Japan will follow suit and attract those dollars and yen that have so far been locked into safe assets like bonds and cash.

Europe is in a mess. Divergent fiscal policies across the Eurozone, ambiguous and tentative policy remedies on the table and a typical twelve-to-eighteen month lag between European and US profits and economic cycles lead us to shun the region. Emerging Markets also appear risky to us. This was the last region to see significant earnings downgrades and now that this has happened, valuations are no longer sufficiently attractive relative to the rest of the world. Furthermore, some big economies in the asset class such as Russia and Argentina are exhibiting very worrying macroeconomic fundamentals and the risk of contagion, particularly in South America and Eastern Europe, makes us wary.

Fixed Income

Whoever said fixed income markets are boring? The commotion in credit markets has been keeping investors on their toes since mid-2007, but more recently even sovereign debt joined in the turmoil. Governments in advanced and developing nations alike have turned to exceptionally stimulative policies arguably at the expense of fiscal discipline. The experience of economic and financial cardiac arrest since the bankruptcy of Lehman Brothers in September has convinced all but the staunchest proponents of free-market economics that monetary and fiscal policy needs to do some heavy-lifting to prevent the globe from sliding into a 1930s style depression. The incoming administration in the US is proposing a new \$800bn stimulus package over two years to prop up slumping demand and this not long after the first half of a \$700bn bank bailout package failed to instil confidence in the viability of the nation's banks. In the UK, the Treasury is using a second round of bank equity injections and debt guarantees to coerce the part-nationalised financial sector into lending to companies and households. Even Germany has grudgingly toned down its resistance to deficit policies, passing its own €50bn parcel of stimulative measures.

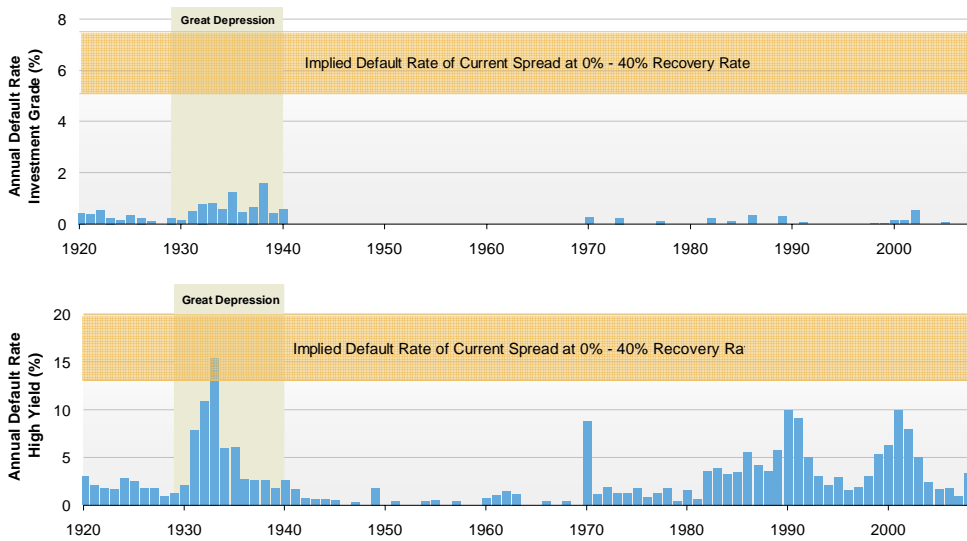
Financial markets reacted to the policy activism almost instantaneously. The credit default swaps of highly-rated government issuers such as the US and the UK, which were not even traded actively a few years ago, indicated that the repudiation of sovereign debt may be a real possibility as the last escape from a bout of fiscal profligacy. Within the Eurozone the spreads of lower-rated and less liquid government bonds relative to higher-rated issues, for example those of Greece and Italy over Bunds, reached levels not seen since the start of the monetary union, prompting talk of a break-up of the single currency area.

At the same time, tentative signs have emerged that the money and credit markets are stabilising. The TED spread, or difference between London interbank rates and Treasury bills of the same maturity, has tightened substantially and settled at levels that prevailed shortly before Lehman went under. After a rush to the exits by investors towards the end of last year, when the US High Yield spread spiked to nearly 2,000 basis points, credit markets have rallied strongly in the final two weeks of 2008.

Although corporate defaults are currently relatively low, we anticipate these increasing to at least the peaks seen during previous recessions and probably beyond. The severity of the recession and the state of the financial sector around the world strongly suggest so. However, our valuation models indicate that spreads have now discounted a 1930s depression scenario, which gives some downside protection to credit asset classes. In Figure 6, we show realised annual default rates against the default rates implied by today's spreads in Global Investment Grade and High Yield bonds for recovery rate assumptions of between 0% to 40%. For Investment Grade, current spreads are consistent with default rates between around 4.5% to 7%, and for High Yield with default rates of 13% to 19%. The credit losses implied by the current spreads are greater than those observed during the Great Depression, with the single exception of 1933 when High Yield defaults climbed to 15%. In other words, even if defaults were as bad as the ones experienced during the devastating 1930s, investors would be unlikely to fare worse than if they had invested their money in Treasuries. Only if future credit losses were even greater than implied defaults or investment grade bonds were downgraded to speculative status much faster than we know from historical experience, would that statement be invalidated.

Only if future credit losses were even greater than implied defaults or investment grade bonds were downgraded to speculative status much faster than we know from historical experience, would investors fare badly in credit from here on out.

Figure 6: Investment Grade and High Yield Credit - historical default rates and Current Spreads



SOURCE: Moody's, Barclays Capital, Russell Calculations as of 21 January 2009

We thus retain our “Strong Positive” view on Investment Grade Credit based on valuations and government support for the financial sector. For High Yield, we move from Neutral to Positive, following the quantitative models’ transition into optimistic terrain. Spreads hovering around 1,500 basis points and some easing in money markets outweigh the negative impact of tighter lending standards. We also lift our view on Emerging Market Debt to Neutral from Negative on a smaller-than-expected fallout from de-leveraging around the turn of the year.

The willingness of governments around the world to underwrite the financial sector and supplement this with expansionary fiscal policies appears to have enticed some investors back into riskier assets. The potential for a socialisation of banks’ losses (through debt guarantees and equity injections by the state) has shifted the risk decidedly towards governments as the ultimate lender-of-last-resort. Although government debt has been sought-after for cyclical reasons, strong disinflationary forces and extreme risk aversion, investors are increasingly concerned with the long-term consequences.

As the US has the largest external financing needs among the G4 economies and Treasuries have benefited most from the flight-to-liquidity witnessed over the last six months, we remain bearish on US government debt. This stance which is unchanged from the last Market Outlook has been wrong so far, with Treasuries strongly outperforming other government debt. The Federal Reserve hinted that they may want to look into buying Treasuries outright as a way to stimulate the US economy, but we think that foreign investors are likely to dispose of their Treasury holdings at artificially elevated prices if the US central bank chooses to pursue this policy. We rotate our Overweight from UK to European government bonds, as Germany and the ECB still seem to be the most likely contenders among the G4 to suppress the reflationary urge and talks of an end of the currency union are in our view exaggerated.

Market attractiveness ratings

GLOBAL ASSET ALLOCATION ⁽¹⁾		
Stocks vs. Bonds	<ul style="list-style-type: none"> While we concede that short term – at least through spring – will likely be difficult (indeed our short term forecasting models suggest further volatility and short term downside in equities), we are confident that one year from now, we will have witnessed a net recovery in risky assets globally, with equity prices above where they stand at the moment Equities are forward looking, and by this summer as stimulative fiscal and monetary traction is obtained, and negative corporate and financial news is fully recognized and digested, they should begin to discount an eventual end to the gloom 	Positive (Nov-08: Positive)
EQUITY		
US	<ul style="list-style-type: none"> Valuations are supportive, and the US is further along in the negative cycle than other countries; equity markets are forward looking and will eventually see through current weakness, especially as policy eventually gains traction 	Positive (Neutral)
UK	<ul style="list-style-type: none"> Policy in the UK is still evolving. Energy stocks likely to stay weak as oil prices reflect collapsing global demand. A narrow market with a low beta, the UK is not a place we favour big bets 	Neutral (Neutral)
Europe (ex-UK)	<ul style="list-style-type: none"> European earnings dependant on global trade. As demand stays weak and policy fragmented, Europe will lag the US 	Negative (Neutral)
Japan	<ul style="list-style-type: none"> Valuations still strongly supportive. Japan is likely to join the US as a geared play on an eventual H209 recovery 	Positive (Positive)
Asia Pacific (ex-Japan)	<ul style="list-style-type: none"> Commodity prices as well as global trade likely to stay weak for a while. Chinese authorities concentrating on domestic demand, not regional buoyancy 	Neutral (Neutral)
Emerging Markets	<ul style="list-style-type: none"> Emerging markets beginning to decouple from one another. Some major economies (Argentina, Russia) in precarious macro situation, and geared to developed economies. Valuations cheaper than before, but not at a discount. Negative earnings revisions starting to come in fast and furious 	Negative (Neutral)
BONDS		
Cash	<ul style="list-style-type: none"> Policy rates have been slashed by central banks around the world. Cash instruments' yields are at historic lows and thus not very attractive. But expected sovereign bond issuance keeps us cautious on duration bet 	Neutral (Neutral)
US	<ul style="list-style-type: none"> Massive fiscal expansion and low yields. Foreign investors could withdraw from the market. However, disinflationary forces are still at work; Federal Reserve may also begin outright Treasury purchases, which would be detrimental to our call 	Negative (Negative)
UK	<ul style="list-style-type: none"> Bank of England has taken conventional monetary policy almost as far as technically possible. We switch from Positive to Neutral after last quarter's rally. A second bank bailout, further fiscal stimulus and a weaker currency increase the risks for UK Gilts 	Neutral (Positive)
Euro	<ul style="list-style-type: none"> More cautious stance on fiscal policy in Eurozone and a steepening yield curve make region relatively attractive. However, widening spreads between different sovereign issuers within the euro zone may indicate future stress 	Positive (Neutral)
Japan	<ul style="list-style-type: none"> Still the lowest nominal yields and highest debt/GDP within the G4 argue against a more favourable view 	Neutral (Neutral)
CREDIT		
Inv. Grade Corporates	<ul style="list-style-type: none"> Compelling valuations still intact and the readiness of governments to underwrite the systemically important financial sector should particularly benefit Investment Grade Corporate Bonds 	Str Positive (Str Positive)
HY	<ul style="list-style-type: none"> Models have turned more favourable on HY on the back of elevated spreads and some signs of stabilisation in money markets. Tighter bank lending standards foreshadow much higher defaults, which prices have already discounted to a large degree 	Positive (Neutral)
EMD	<ul style="list-style-type: none"> De-leveraging has not affected EMD as seriously as expected and forward-looking indicators such as the real Fed Funds rate suggest a pick-up in risk appetite despite the rapidly worsening fundamentals in emerging market economies 	Neutral (Negative)
CURRENCIES ⁽²⁾		
EUR	<ul style="list-style-type: none"> The euro recovered some ground against the dollar since the last Market Outlook. While the ECB had to bite the bullet and shave interest rates just like the other G4 central banks, its balanced external trade position makes Euroland less vulnerable to a sharp devaluation 	No View
GBP	<ul style="list-style-type: none"> Sterling was engulfed in a mini-crisis following the continued deflation of the UK's housing market and precarious current account deficit 	No View
JPY	<ul style="list-style-type: none"> The Japanese Yen continued to be the defensive currency of choice, although the pace of appreciation slowed during the period under review. Government officials tried to talk the currency down after what they deemed could be an excessive strengthening 	No View

(1) Strong positive, positive, neutral, negative, and strong negative reflect Russell recommended weightings relative to indicative benchmark.

(2) All currency views reflect Russell's expectation about how the currency will perform relative to the US Dollar.

Ratings sheet explanations

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 Market Outlook 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 Investment Grade, 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.

(6) 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.

Disclaimers

This material does not constitute an offer or invitation to anyone in any jurisdiction to invest in any Russell product or use any Russell services where such offer or invitation is not lawful, or in which the person making such offer or invitation is not qualified to do so; or to anyone to whom it is unlawful to make such offer or invitation, and has not been prepared in connection with any such offer or invitation.

This material is not intended for distribution to retail clients. Unless otherwise specified, Russell is the source of all data. Unless otherwise specified, all information contained in this material is current at the time of issue and to the best of our knowledge all information presented is accurate, however this cannot be guaranteed. Any opinions expressed are those of Russell Investments Limited and not a statement of fact and they do not constitute investment advice and are subject to change.

The value of investments and the income from them can fall as well as rise and is not guaranteed. You may not get back the amount originally invested.

There is no guarantee that any target or projected figures will be met and this information is for illustrative purposes only. Any simulated figures and estimated figures are for illustrative purposes only. Any past performance figures are not necessarily a guide to future performance. Any reference to returns linked to currencies may increase or decrease as a result of currency fluctuations. Any references to tax treatments depend on the circumstances of the individual client and may be subject to change in the future.

Copyright © 2007 - 2009 Russell Investments Limited

Issued by Russell Investments Limited. Company No. 02086230. Registered in England and Wales with registered office at: Rex House, 10 Regent Street, London SW1Y 4PE. Telephone 020 7024 6000. Authorised and regulated by the Financial Services Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS.