

# Lifestyle Investing

*Russell's LifePoints Funds – available in two series: Target Portfolio Funds and Target Date Funds – are primarily geared towards investors planning their retirement. The Target Date Series is designed for investors who prefer to base their investment decision on their expected retirement date and the Target Portfolio Series is aimed at those investors who want to base their decision on risk tolerance.*

## Q: What's your investment philosophy?

**A:** This is one of five, balanced fund-of-funds that we offer as part of the Russell LifePoints Target Portfolio Series. It's our third largest fund with approximately \$1.4 billion in assets under management. With an allocation of 80/20 equities to fixed income, it is geared toward investors either with a longer time horizon and/or with a slightly higher tolerance for risk.

Russell constructs almost all of its individual funds using long-term forecasts. We generally don't have funds created for the short-term or market-timing as most of our clients are looking to fund retirement or other long-term financial goals. Our studies indicate that long-term strategies provide better rewards than short term ones.

What we do in the case of the LifePoints Funds is to combine individual Russell multi-manager funds in order to provide access to the combined performance of these funds. Each one has a different risk profile depending on the strategy chosen. This approach may provide greater possibility for both decreased risk and potential growth over the long term.

The Equity Growth Strategy Fund is made up of six underlying funds, including two non-US funds that represent about 29% of the overall fund.

One of the differences between our peers and us is that we consider real estate to be a separate asset class. In the optimization tools we use to assess these funds, real estate always comes up as a great diversifier for both the equity and bond funds. Many managers just put it into the US equity category.

The portfolio construction on the fund-of-fund level reflects Russell's knowledge of the underlying investment managers. Although our process strives to be style-neutral, the fund ends up with tilts and biases in one direction or another due to the aggregate positioning from the underlying managers. There are times when managers of different styles will all go in the same direction for different reasons.

## Q: How would you handle such a convergence? Would you interfere to avoid the overlap?

**A:** We'd pretty much let it go. Actually, our capital markets research team has determined that when you have a growth manager and a value manager

### FUND FACTS

Symbol	REAX
Website	www.russell.com
Address	Russell Investment Group 909 A St 11th Floor Tacoma, WA 98402
Tel. No.	253-572-9500
Inception	3/4/2003

### PORTFOLIO

Total Net Assets *	\$184.1
Avg Mkt Cap (\$ Weighted) *	\$24,198
Average Price/Earnings Ratio	16.65
Average Price/Book Ratio	2.69

### INVESTMENT INFORMATION

New Investment	Open
Min Initial Investment	N/A
Min Subsequent Investment	N/A
Min Initial IRA Investment	N/A

### RISK (AGAINST S&P 500 - 3 YEARS)

Alpha	3.33
Beta	1.11
R-Squared	0.90
Ann Std Deviation	9.08
Sharpe Ratio	1.33

### RETURNS VS. MSCI ALL COUNTRY WORLD INDEX

	REAX	Index
1 Year (Cum.)	12.85%	15.14%
3 Year (Ann.)	16.20%	18.01%
5 Year (Ann.)	N/A	11.37%

### RETURNS VS. S&P 500 INDEX

	REAX	Index
1 Year (Cum.)	12.85%	10.79%
3 Year (Ann.)	16.20%	12.30%
5 Year (Ann.)	N/A	6.97%

### FEES AND EXPENSES

Max Sales Charge - Front**	5.75%
Max Sales Charge - Deferred	1.00%
Max Redemption Fee	0.00%
Total Expense Ratio	1.34%

### PORTFOLIO MANAGER

Jill F Johnson	5/31/2004
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\* millions \*\* for amount less than \$50,000

Data through: 9/30/2006

Source: Company Documents; Lipper



buying the same securities for different reasons and with different perspectives, then it's usually a strong buy. There's something going on that's making that company attractive and we wouldn't try to undo that.

There are times, however, when we would try to undo an individual fund bias that comes up. For example, in the non-US fund, all the managers viewed the Japanese banking sector negatively for a while. The portfolio manager at Russell was not comfortable with the strong underweight to that sector so our trading group created a plug reflecting that sector at the weight the manager requested.

At the fund-of-fund level, we generally don't put plugs in, but we do constantly reassess the aggregate biases. We have strategic reviews once a year and we have ongoing oversight and research. During the strategic reviews, we take all the funds and run them through the programs we have. We have access to the same asset allocation tools and analysts that we use for our institutional clients. For the RIC mutual funds, we can leverage those same programs and resources to make sure that we have the best allocations amongst the underlying retail funds.

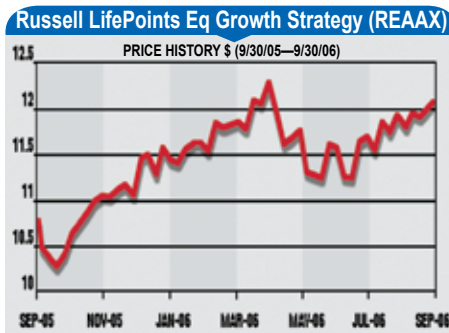
If there are new Russell products or asset classes on the market, we'll analyze these or their market proxies if we want to explore adding a new type of investment. Then, together with the underlying asset class team, we'll analyze whether or not we should create a fund for the fund-of-funds. Then, in discussions with the business units, they'll decide if they might have an additional market for that type of investment. We work closely with both the underlying fund portfolio manager teams and with our capital markets research team that does asset liability and asset allocation studies.

Our research process, which focuses on researching the money managers themselves not individual stocks, is entirely bottom-up with our manager re-

search analysts around the world kicking the tires and meeting almost everybody involved in the investment process. They provide ranks on the managers, such as hire, retain, or terminate. The Russell portfolio managers assess those rankings and then do their own analysis to determine the best mix of managers for the fund's construction, and the best allocations amongst them. The goal is to create a fund that has exposure to all the different investment styles and sub-styles and then to highlight security selection.

**Q: What is the significance of the name 'LifePoints' for investors? Why is the fund family named LifePoints?**

**A:** The LifePoints family of funds fall into the broad category of lifecycle or lifestyle funds. In general, to us, LifePoints means a lifestyle type of fund with the two different categories underneath. At different points in your life, you'll



want a certain allocation or risk profile. Under the LifePoints category, we have the Target Portfolio and Target Date Funds, the latter being the newer funds and both being rapidly growing product categories.

The Target Date Funds allow you to pick the date at which you expect to retire, and the respective fund automatically reallocates among the asset classes, starting more aggressively and getting more conservative as the time goes by. These funds are for folks who are not inclined to be that actively involved in their investment decisions. They want to make one decision and set it for the

rest of their working career. At different points in time, the Target Date Funds will match up with the same allocation for the Target Portfolio LifePoints Funds but are geared for a different investor profile.

The Target Portfolio Funds are for investors more involved in their retirement decisions, so depending on the risk level and the time horizon they're comfortable with, they'll pick out the best LifePoints Target Portfolio Fund for their needs.

**Q: What are the major differences with your peers in the way you manage money, in addition to the real estate classification?**

**A:** Another difference is that we don't allow cash to be held in the fund both at the underlying fund and at the fund-of-funds level. This goes along with our philosophy and is related to the investment profile of our investors. They choose an allocation, so they want to be in that risk profile. Holding cash would dramatically change the risk profile and the return expectations.

We have managers in the underlying funds that believe that cash is part of their investment process, so they are allowed to hold it, but at the fund level we'll take all that cash and sweep it into a program, usually of futures, that will replicate whatever the asset class is. We also hold no cash at the fund-of-fund level. So we remain fully invested all the time. This may hurt the funds in a down market, but over the long run, our research shows markets go up more than they go down. If you're not in the market at the time when you get that initial turnaround, then you're giving up a lot of return.

We have automatic rebalancing but we also have a program that incorporates cash flows to the allocations that are most out of alignment on a daily basis. As cash flows come in or out, they'll be put in or taken away from the funds that are the furthest away from their target.

By doing that daily cash flow allocation, we rarely need to do full rebalancing on the monthly rebalancing date. We basically try in every way to keep the risk and return profiles constant.

Another difference between us and some of our peers is that we don't make tactical shifts into or out of funds, asset classes or securities. We hold very steady to the stated risk/return profile. If investors want to become more conservative or aggressive, then they would chose a different fund instead of getting it through the back door by having the fund make those changes.

**Q: How many managers do you have in the fund?**

**A:** Each fund is different. We'll take all the managers ranked 'hire' by our analysts, and put them together in different combinations to cover all the sectors and styles. Then we look for the ones that aren't correlated with each other in their historical return streams. Generally, we start with at least three managers in order to have an adequate multi-manager fund and we'd have 10 or 11 managers at maximum.

In the growth category, we wouldn't have 10 managers, as 10 would be at the total fund level, including both growth and value. In a particular style like growth, it is more likely to be about three or four managers.

**Q: So you have managers focused on large, small, or mid cap equities, managers with growth, value, or core bias, and you try to bring them all under one package based on your analysis. Is that correct?**

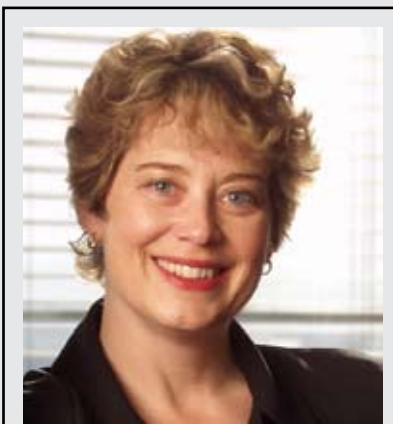
**A:** That's right. For example, we have managers like Turner Investment Partners and Montag & Caldwell, both in the large-cap growth equity category, but their sub-styles are very different. Montag is a consistent growth manager whereas Turner will wait until there's momentum. Their return patterns are very different and we combine managers

with such different approaches like this to smooth the return stream.

**Q: How do you handle risk control at the fund level?**

**A:** Each manager and sub-advisor in the underlying funds is given a set of guidelines. They are monitored by our implementation and trading group

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**JILL JOHNSON** is a senior investment officer and portfolio manager for Russell Investment Group. She manages Russell's mutual fund, commingled trust and select institutional client balanced funds.

Prior to joining Russell in 2000, Jill had her own consulting business in which she provided investment research and advice to French financial institutions and Seattle-based businesses. Between 1986 and 1988 Jill served as an institutional equity and equity derivatives broker/trader for JFA Buisson et Cie and for DLP James Capel. In 1988, she joined CDC Gestion (a Caisse des Dépôts et Consignations subsidiary) as a global equity fund manager.


Jill holds an M.A., International Business, from Monterey Institute of International Studies. She was the first American to be admitted as a member of SFAF (the French chartered financial analyst society) and is also a member of AIMR and the Seattle Society of Financial Analysts

and by the Russell portfolio manager to make sure that they are investing in a way that is consistent with their mandate and with their historical investment patterns.

At the fund-of-funds level, by monitoring the allocation rebalancing we make sure that we adhere to the target risk profile. Since we have a fairly well defined risk profile for these funds, we are also constantly looking at ways to add alpha, or excess return potential.

**Q: Who would be a typical investor in this fund?**

**A:** It depends on the share class, but the broadest one typically appeals to investors with \$10,000 to \$50,000. The fund provides individual investors a way to gain the benefit of managers who are sometimes only open to institutional clients or completely closed, but who still allow cash flows from the Russell fund-of-funds because of their contractual arrangements. We make this institutional style of management available to individuals, so they gain higher level of risk or volatility management that individuals might not get through a traditional mutual fund.

There are also Russell model strategies that mirror the allocations of the LifePoints Funds, and the advisor network generally uses them for larger clients. Instead of a single return line on a statement, for the Equity Growth Strategy Fund they'll get returns for all the underlying funds individually, so it's a different approach. The advisor has to deal with the rebalancing back to the target weights monthly or quarterly. For these strategies there's more involvement from the advisor and that appeals to larger investors. But their allocations are identical to the LifePoints Funds and are actually designed to mirror them. 

**Ticker**