

US Small Cap Equity Fund

Performance Review

	One Month %	Three Months %	Year to Date %	One ¹ Year %	Three Years %	Five Years %	Ten Years %	Since ² Inception %
RIC US Small Cap Equity Fund (US\$ Net of Class A Fees)	-9.4	-7.8	-19.2	-22.0	-0.2	6.2	7.1	6.3 ³
RIC US Small Cap Equity Fund (US\$ Net of Class B Fees)	-9.4	-7.9	-19.5	-22.5	-0.8	5.52	N/A	5.0
RIC US Small Cap Equity Fund (US\$ Gross of Fees)	-9.3	-7.6	-18.5	-21.2	0.8	7.3	8.4	7.6
RIC Russell 2500 Index (US\$ Net) ⁴	-10.0	-6.8	-14.6	-18.3	0.5	7.7	8.6	7.1
Morningstar Median Manager (US\$) ⁵	-11.3	-10.1	-19.2	-23.8	-1.0	5.7	6.2	5.1
Fund Size US\$227 million								

¹ Returns greater than one year are annualised.

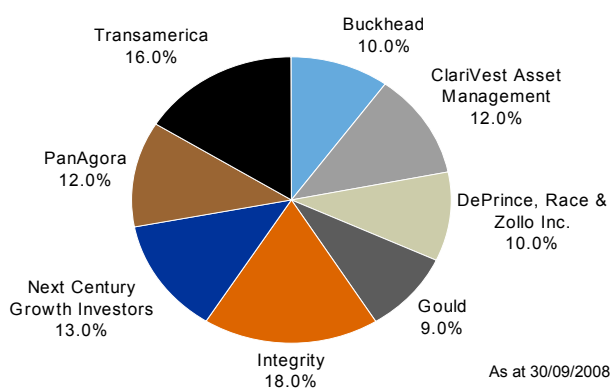
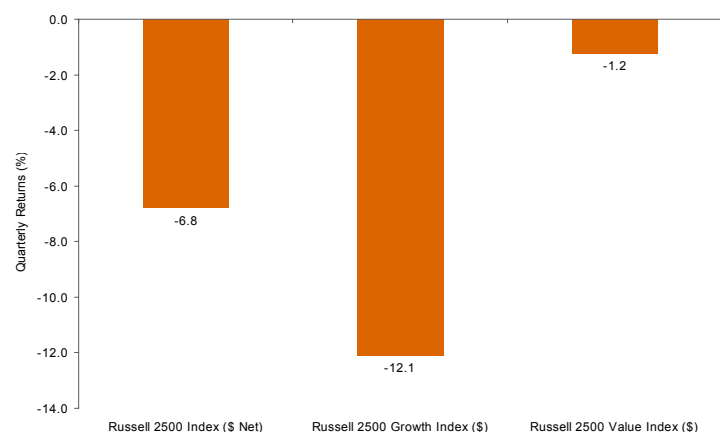
² Inception date 16/06/1997. Performance is measured from 01/07/1997. In order to make peer relevant and total return benchmark relative performance comparisons, performance is calculated from the first full month following inception.

³ Inception date Class B 19/08/03

⁴ Net of non-resident withholding tax.

⁵ Morningstar Offshore & International Median Universe: Smaller Cos North America

Fund Highlights and Portfolio Management Activity



- The Russell 2500 Index declined 6.8% during the quarter, with value outperforming growth stocks. Following oil-sector related volatility in July and August, September's market performance defined the third quarter as global markets suffered historic losses. A steep decline mid-September, the greatest since the 9/11 terrorist attacks. The collapse of Lehman Brothers and Bank of America's purchase of Merrill Lynch caused an anxious cascade of sell offs. The Fed's rescue of AIG and its announcement of a rescue package restored some investor confidence. However, US Congress rejected the initial Bill prompting another decline towards the end of the month. Investors moved defensively towards the consumer staples sector while cyclical sectors such as technology performed poorly.
- The Fund underperformed as unprecedented market conditions affected stock selection in financial services and technology. Going into the quarter most of our managers were confident that small-cap banks would experience the same liquidity issues familiar to larger-cap banks. This created difficult conditions as managers for the most part were significantly underweight the strong-performing financial services sector.
- The growth managers, which had led outperformance in the second quarter, detracted the most. Gould and Next Century held a significant overweight to the oil sectors, the weakest in the Russell 2500 Index during the quarter. Gould, the worst-performing manager, looks for companies with strong fundamentals and technical attributes and sees substantial opportunities in the sector, particularly in terms of earnings revisions. Meanwhile, Next Century sees long-term potential for underlying growth in coal and mining stocks. For both these managers, the stocks that they typically invest in, underperformed.

Quarterly Manager Performance

Manager	Approach / Process	*Manager Performance	Russell Analysis
Buckhead	Value	--	The manager underperformed its benchmark despite outperforming the Fund benchmark. Novatel Wireless, a technology name was the main detractor. The wireless broadband access equipment provider revised its second and third-quarter profits below market expectations.

Quarterly Manager Performance (continued)

Manager	Approach / Process	*Manager Performance	Russell Analysis
ClariVest	Market - Oriented	--	The quant manager underperformed due mainly to an underweight to regional banks. Additionally, stock selection in materials and processing and health care was detrimental.
DePrince, Race & Zollo Inc.	Value	++	The value manager focuses on low valuations and dividend yielding stocks, which were rewarded this quarter. An example of this was packaging and building-products maker Temple Inland. The company reported beat analyst expectations and the stock rose during the quarter.
Gould	Growth	--	Gould looks for companies with strong fundamentals and technical attributes, which generally results in a high-momentum portfolio. In this market environment, its investment process has led to a substantial overweight in the oil-related sectors, which underperformed during the quarter due to a declining oil price.
Integrity	Value	++	Outperformance was mainly attributable to positive stock selection in materials & processing and health care.
Next Century Growth Investors	Growth	--	Underperformance came mainly from negative stock selection in technology and other energy. The manager is overweight this sector, particularly software, as it sees potential in subscription models and believes that the sector's performance can be counter-cyclical. A number of positions in other energy were affected by the declining oil price during the month.
PanAgora	Market - Oriented	--	The quant manager underperformed during the quarter as an overweight to the other energy sector was the main detractor. Stock selection in materials & processing was also negative.
Transamerica	Growth	++	Transamerica tends to focus on companies with high forecasted earnings growth and has rotated away from cyclical sectors. The manager has historically maintained an underweight to the other energy sector as it believed the oil price would decline and this was the main contributor to outperformance. Stock selection financial services was also beneficial.

Sector Analysis

Sector Exposure	Sector Weights %		Quarterly Sector Returns
	Fund	Benchmark	
Autos and Transportation	4.6	4.0	-8.5
Consumer Discretionary	18.1	16.1	-4.5
Consumer Staples	2.8	2.6	6.1
Financial Services	19.7	22.5	10.5
Health Care	13.5	13.0	4.0
Integrated Oils	0.2	0.1	-39.9
Materials and Processing	7.5	9.4	-16.3
Other	0.9	0.6	-18.2
Other Energy	6.4	6.1	-40.6
Producer Durables	7.7	8.4	-10.0
Technology	14.3	10.4	-11.2
Utilities	4.5	6.7	-5.8

Top Ten Holdings

Company Name	Country	Sector	Fund %	Benchmark %
Strayer Education, Inc.	United States	Consumer Discretionary	1.5	0.1
FTI Consulting, Inc.	United States	Consumer Discretionary	0.8	0.2
Texas Capital Bancshares Inc.	United States	Financial Services	0.8	0.0
Macrovision Solutions Corp.	United States	Technology	0.8	0.1
Illumina, Inc.	United States	Health Care	0.8	0.2
Peets Coffee and Tea	United States	Consumer Staples	0.7	0.0
Neustar Inc.	United States	Technology	0.6	0.1
F5 Networks, Inc.	United States	Technology	0.6	0.1
Polypore International Inc.	United States	Materials and Processing	0.6	0.0
Quality Systems Inc.	United States	Health Care	0.6	0.0

Portfolio Profile Characteristics

Profile Characteristics	Fund	Benchmark
Sector Deviation	7.81	0.00
Market Value Weighted Nlog	-0.07	0.00
Valuation Characteristics:		
Price/Earnings (excl negative earnings)	18.16	16.88
Dividend Yield (%)	1.20	1.53
Price/Book	2.11	1.96
EPS Growth (1 Year Forecast)	17.71	11.66

	One Year		Three Years		Five Years	
	Fund	Average Manager	Fund	Average Manager	Fund	Average Manager
Tracking Error	4.3	8.5	3.6	6.7	3.1	6.5

* Manager Attribution Key	Relative Performance vs Fund Benchmark	Manager	Manager's Benchmark
++	>1.0%	Buckhead	Russell 2500 Value Index
+	0.3% to 1.0%	ClariVest Asset Management	Russell 2500 Index
Flat	-0.3% to 0.3%	DePrince, Race & Zollo	Russell 2500 Value Index
-	-1.0% to -0.3%	Gould	Russell 2500 Growth Index
--	<-1.0%	Integrity	Russell 2500 Value Index
		Next Century Growth Investors	Russell 2500 Growth Index
		PanAgora	Russell 2500 Index
		Transamerica	Russell 2500 Growth Index

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 © 2008 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.

All performance data is sourced from Russell Investments, BNY Mellon, Bloomberg and FactSet. Data as at 30/10/08. Past performance is not necessarily a guide to future performance.

Datasource - © 2008 Morningstar, Inc All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.