

16 April 2009

Dear Investor

Russell Funds Distributions for the Quarter Ended 31 March 2009

In this letter, we wanted to outline the process by which the income of the Russell funds is distributed and to identify some of the challenges in distributing income for the March 2009 quarter.

The following funds have distributed income during the March 2009 quarter:

Fund Name
Russell Australian Cash Fund
Russell Australian Cash Enhanced Fund
Russell Inflation Linked Bond Fund
Russell International Shares Tracker Fund
Russell Global Opportunities Fund
Russell Australian Select Holdings Fund
Russell Conservative Fund
Russell Diversified 50 Fund

Adverse market conditions have resulted in a number of Russell funds not being able to distribute income for this quarter. Detailed below is an explanation of the distribution process and the impact of increased currency hedging costs for those funds with non-AUD assets.

Distribution Calculation

The distribution process for most funds occurs on a quarterly cycle. Distributions include income, net of expenses and revenue losses. Net capital gains are not distributed until the end of the financial year.

Annually each June, the final distributions for each fund are calculated. This calculation incorporates net income and any net capital gains. If a net capital loss position is derived, the loss will be quarantined within the fund and used to offset any future capital gains.

Exposure to currency hedging

The sharp depreciation in the Australian dollar against its peers, including the US dollar (particularly during the second half of 2008 which saw the \$A fall from near parity against the US dollar to around US \$0.70 cents), resulted in realised foreign exchange revenue losses in various affected Russell Funds. It is important to remember that these revenue losses are fully offset by the increase in value of non-AUD securities being hedged. However, with each roll of a forward contract during the decline of the Australian dollar, realised revenue losses arose. These revenue losses further decreased the level of income available within the affected Russell Sector Funds for distribution.

The Russell Sector Funds that had an exposure to currency hedging included the Russell International Property Securities Fund - \$A Hedged, Russell International Bond Fund - \$A Hedged, Russell International Shares Fund - \$A Hedged, Russell Global Opportunities Fund - \$A Hedged and Russell Australian Bond Fund. The Russell Australian Bond Fund holds an exposure to \$A hedged global credit of approximately the size of the fund benchmark, the UBS Australian Composite Bond Index, in which global issuers comprise up to 30% of the index. The Russell Diversified Funds' distributable income was also affected to the extent of their relative asset allocation to these Russell Sector Funds.

The Russell Australian Shares Fund was not able to distribute this quarter. The Fund holds derivatives contracts (i.e. futures and options) via the underlying manager mandates. Distribution income was impacted by the increased costs associated with closing these derivatives contracts on expiry as the value of the Australian equity market continued to decline since its high in November 2007.

Investment Performance of Russell Funds

Importantly, the total return of all Russell funds is not impacted by the distribution position of each fund. As the non-AUD assets appreciated against the value of the Australian dollar, this positively contributes to the total return of the fund.

Should you have any queries on any of these issues, please either contact your financial adviser or Russell direct on 1 800 458 272.

Yours sincerely



Patricia Curtin
Managing Director, Retail