

# Global Markets Exploration

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## Exploring small cap markets in the Asia-Pacific region

Russell Investments is committed to identifying conditions and trends in global markets at a range of levels, such as region, country, style and sector. In this report, which is based on essential data in the U.S. dollar-based Russell Global Index, we strive to provide objective statistical and quantitative information to help inform your approach to global equity investing.

In this issue, we examine the Asia-Pacific region. Markets in China and other Asia-Pacific countries – especially large cap markets – have seen remarkable growth in the past decade. Recently, emerging countries, have gained interest as they are expected to drive further growth. Small cap markets, in particular, are drawing a great deal of attention. Although hidden behind large cap markets' tremendous growth over the last 10 years, small cap markets may have undiscovered growth potential. For investors considering the Asia-Pacific region, the opportunities in small cap may be more attractive than those in other markets. However, singling out potential future champion(s) from among the small cap markets in the Asia-Pacific region may be a challenging task. Small cap markets are perceived as less stable than large cap markets due to potentially less revenue and earnings growth.

### Overview of the results

- The Russell Global Index includes 3,087 small cap stocks and 13 countries from the Asia-Pacific region as of October 29, 2010. This report studies the characteristics of Asia-Pacific small cap markets by using the data of three subindexes:
  1. Russell Asia Pacific Small Cap Index (3,087 stocks);
  2. Russell Asia Pacific ex-Japan Small Cap Index (2,139 stocks); and
  3. Russell Asia ex-Japan Small Cap Index (1,883 stocks).
- With regard to the large cap and small cap ratios in each Asia-Pacific index region, small cap ratios in all three are higher than those in the global market.
- Compared with 10 years ago, three Asia-Pacific small cap markets increased in market capitalization more than the Russell Global Small Cap Index.
- Emerging markets' ratios in Asia-Pacific small cap markets are higher than those in the global small cap markets, and higher than large cap ratios in the three index regions.

- Looking at the market capitalization ranking of small cap markets in Asia-Pacific countries, the top 10 list has included the same country names for 10 years. China has seen significant growth, moving up from tenth to fourth place in the ranking.
- Of the three indexes, the Russell Asia Pacific ex-Japan Small Cap Index has realized the highest performance on a cumulative basis for the past 10 years. The two other indexes also indicate higher cumulative performance than the Russell Global Large Cap Index and the Russell Global Small Cap Index.
- When excess returns against the Russell Global Small Cap Index is measured on a rolling 12-month basis, all three indexes for Asia-Pacific small cap markets prove to be positive in many periods. Similarly, for large cap in the three indexes excess returns against large cap was positive in the majority of the periods.

### Asia-Pacific small cap markets in the Russell Global Index

#### Asia Pacific, Asia Pacific ex-Japan and Asia ex-Japan are the index regions to study

As of October 29, 2010, the Russell Global Index includes 13 countries in the Asia-Pacific region with a total of 3,087 constituent small cap stocks.

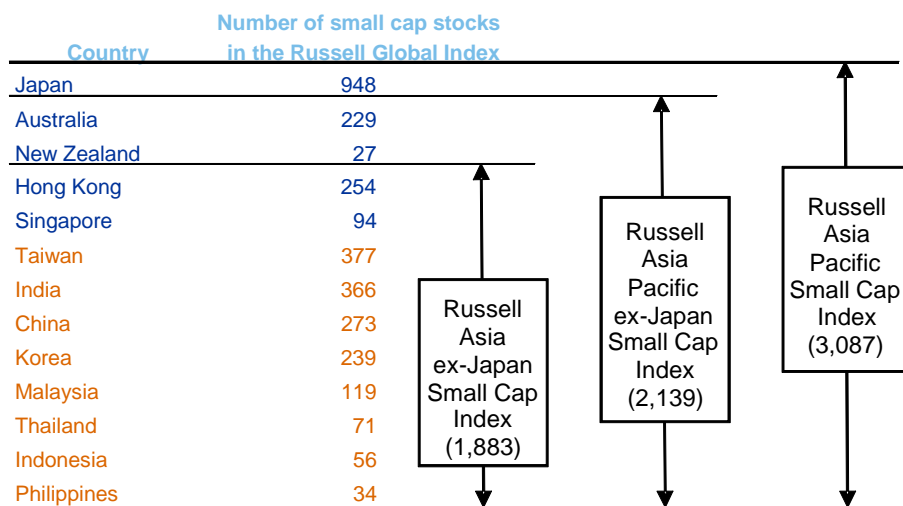
This report uses data of the subindexes of the three Asia-Pacific index regions: Russell Asia Pacific Small Cap Index (3,087 stocks), covering the entire Asia-Pacific region; Russell Asia Pacific ex-Japan Small Cap Index (2,139 stocks), covering the Asia-Pacific region except Japan; and Russell Asia ex-Japan Small Cap Index (1,883 stocks), excluding Oceania (that is, Australia and New Zealand). Please see Figure 1 below.

Japan accounts for about 30 percent of the small cap stocks of the Asia-Pacific region (948 stocks), followed by Taiwan (377 stocks), India (366 stocks), China (273 stocks), Hong Kong (254 stocks), Korea (239 stocks) and Australia (229 stocks).

For details of the constituent countries, please see the map in Figure 2.

**Figure 1 / As of October 29, 2010**

#### Number of constituent stocks in Asia-Pacific small cap markets



**Figure 2 / As of October 29, 2010**

**Asia-Pacific countries in the Russell Global Index**

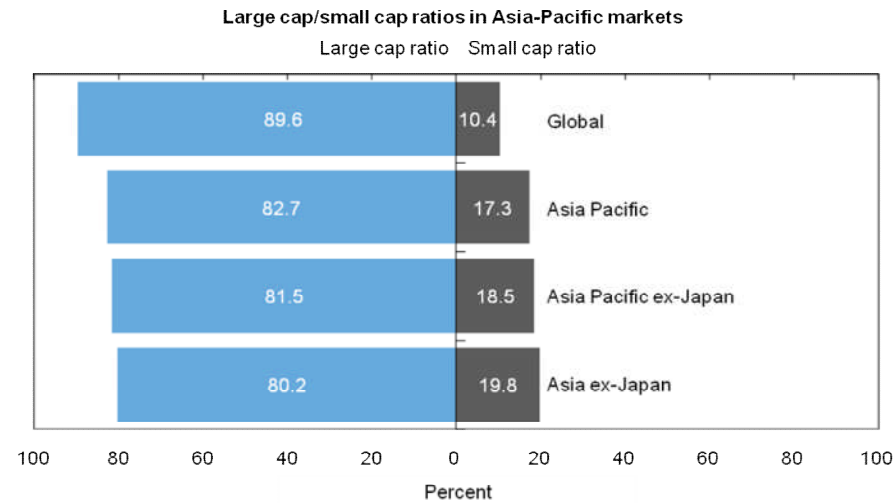


**Large cap/small cap ratios in Asia-Pacific markets**

**Asia-Pacific markets have higher small cap ratios than the global average**

Now let's look at the market capitalization ratios in large cap and small cap markets from each index region. See Figure 3 below. As of October 29, 2010, the small cap ratio in the global market was 10.4 percent, while that in the Asia Pacific market was 17.3 percent. The ratios in the Asia Pacific ex-Japan and Asia ex-Japan markets were 18.5 percent and 19.8 percent, respectively. In both index regions, small cap ratios were higher than those in the global market.

**Figure 3 / As of October 29, 2010**



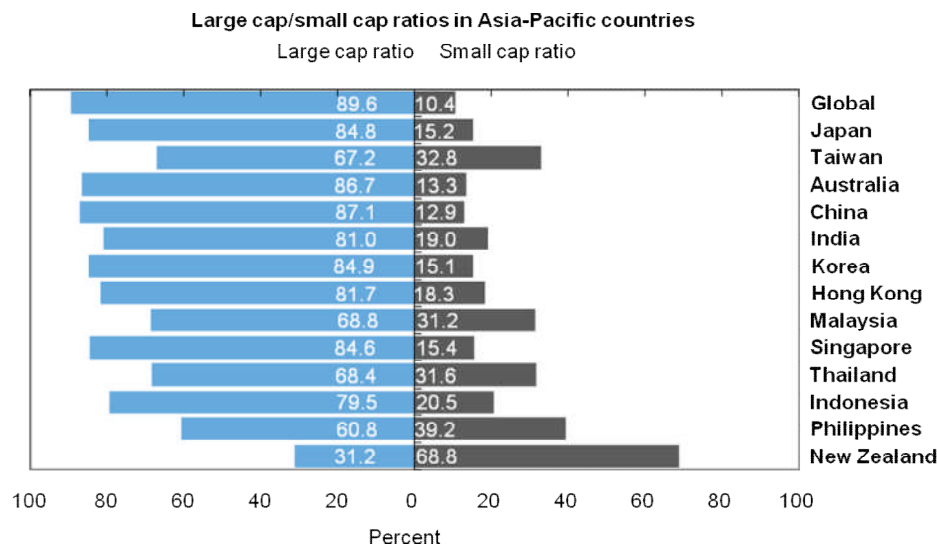
Source: Russell Indexes

## Large cap/small cap ratios in Asia-Pacific countries

### Every constituent country has a higher small cap ratio than the global average

Which country is raising the small cap ratio of the Asia-Pacific region? Figure 4 shows details of the large cap and small cap ratios for individual countries. Countries with more than 10 constituent stocks are listed in descending order according to the total market capitalization of all cap markets. The initial observation of this graph is that the small cap ratio of each country in the Asia-Pacific region is higher than the global average small cap ratio. New Zealand has the highest small cap ratio, which accounts for more than two-thirds of its total market capitalization. New Zealand is followed by the Philippines, Taiwan, Thailand and Malaysia, all of which have small cap ratios between 30 and 40 percent. Although there is much variance among countries, those with smaller market capitalizations tend to have higher small cap ratios.

Figure 4 / As of October 29, 2010



Source: Russell Indexes

## Market capitalizations and weights of Asia-Pacific markets

### More growth seen in small cap markets in the Asia-Pacific region than in any other

Here, let's look at the Asia-Pacific small cap markets' portion of the global market. See Table 1 and the column for October 29, 2010. Of the Global all cap market, the Global small cap market accounts for 10.4 percent of which 3.8 percent is the Asia Pacific small cap market. From this we can conclude that the Asia Pacific small cap market accounts for more than a third of the Global small cap market. The Asia Pacific ex-Japan small cap market, which excludes Japan, is 2.6 percent, and the Asia ex-Japan small cap market, which excludes Australia and New Zealand, is 2.1 percent.<sup>1</sup>

<sup>1</sup> In the Russell Global Index, each security's shares are adjusted to include only those available for public investment — referred to as "free float" shares. The purpose of float adjustment is to exclude from index weights the capitalization that is not available for purchase and that is not part of the global investing opportunity set. For instance, class A shares in China, for which only a limited investment opportunity is provided by the Qualified Foreign Institutional Investor system, are excluded by the float-adjustment procedure.

The far right column of Table 1 shows float-adjusted market caps as of October 29, 2010 in multiples of those of 10 years ago. Though not as much as large cap markets which exclude Japan, small cap markets in the Asia-Pacific region saw high growth. While the Global small cap market grew 1.69-fold, the Asia-Pacific small cap market excluding Japan more than doubled, which means that the Asia-Pacific small cap market achieved a higher growth rate than any other area.

**Table 1 / As of October 29, 2010**

<b>Market caps and weights of Asia-Pacific markets in the Russell Global Index</b>					
<b>Market</b>	<b>October 2010</b>		<b>October 2000</b>		<b>(A)/(B)</b>
	<b>Market cap (million USD) (A)</b>	<b>Weight (%)</b>	<b>Market cap (million USD) (B)</b>	<b>Weight (%)</b>	
Global All Cap	31,957	100.0	23,740	100.0	1.35
Global Large Cap	28,626	89.6	21,770	91.7	1.31
Asia Pacific Large Cap	5,795	18.1	2,315	9.8	2.50
Asia Pacific ex-Japan Large Cap	3,667	11.5	582	2.5	6.30
Asia ex-Japan Large Cap	2,739	8.6	418	1.8	6.55
Global Small Cap	3,331	10.4	1,970	8.3	1.69
Asia Pacific Small Cap	1,213	3.8	395	1.7	3.07
Asia Pacific ex-Japan Small Cap	833	2.6	218	0.9	3.82
Asia ex-Japan Small Cap	677	2.1	177	0.7	3.82

Source: Russell Indexes

### Developed/emerging countries' ratios in small cap and large cap markets

#### Emerging countries' ratios in Asia-Pacific small cap markets are higher than those of Global small cap and Global large cap markets

First, let's confirm the emerging countries' ratios in the Asia-Pacific small cap markets. Please see Table 2. The emerging countries' ratio in the Global small cap market of October 2010 is 24.0 percent, while that in the Asia Pacific small cap market is 46.6 percent; the ratio of emerging countries in the Asia-Pacific region is relatively high. The constituent emerging countries in the Asia Pacific ex-Japan small cap market are the same as the Asia Pacific small cap market. However, if Japan is excluded, the emerging countries' ratio exceeds two-thirds. With the Asia ex-Japan small cap market, developed countries contain Hong Kong and Singapore only, which account for only 16.6 percent. In the Asia-Pacific region, emerging countries play leading roles.

Both global and Asia-Pacific regions show a tendency for emerging countries' ratios to be higher in small cap markets than in large cap markets; but in the Asia-Pacific region, the difference is slightly smaller. In the Asia ex-Japan region, there is only 3.2 points difference.

**Table 2 / As of October 29, 2010**

<b>Developed/emerging countries' ratios in small cap and large cap markets (%)</b>					
<b>Market</b>	<b>Small cap</b>		<b>Large cap</b>		<b>(A)-(B)</b>
	<b>Developed</b>	<b>Emerging (A)</b>	<b>Developed</b>	<b>Emerging (B)</b>	
Global	76.0	24.0	86.3	13.7	10.3
Asia Pacific	53.4	46.6	62.1	37.9	8.6
Asia Pacific ex-Japan	32.2	67.8	40.1	59.9	7.9
Asia ex-Japan	16.6	83.4	19.8	80.2	3.2

Source: Russell Indexes

## Developed/emerging countries' ratios compared with 10 years ago

**Not much has changed in emerging countries' ratios in Asia-Pacific small cap markets from 10 years ago.**

Table 3 shows developed/emerging countries' ratios in the Asia-Pacific small cap markets compared with 10 years ago.

The emerging countries' ratio in the Global small cap market is up 11.3 points, from 12.7 percent to 24.0 percent, but in the Asia-Pacific region, the differences in growth between developed and emerging small cap markets were not as great.

**Table 3 / As of October 29, 2010**

Developed/emerging countries' ratios in Asia-Pacific small cap markets (%)					
Small cap market	October 2010		October 2000		(A)-(B)
	Developed	Emerging (A)	Developed	Emerging (B)	
Global	76.0	24.0	87.3	12.7	11.3
Asia Pacific	53.4	46.6	63.7	36.3	10.3
Asia Pacific ex-Japan	32.2	67.8	34.1	65.9	1.9
Asia ex-Japan	16.6	83.4	18.8	81.2	2.2

Source: Russell Indexes

## Top 10 Asia-Pacific countries in small cap markets

**The top 10 countries in small cap markets remain the same, with China growing fast**

Table 4 lists the top 10 constituent countries of Asia-Pacific small cap markets as of October 2010. Note that the table is not structured to list developed countries in higher positions and emerging countries in lower positions. Japan is ranked first, Australia third, Hong Kong seventh and Singapore ninth (and New Zealand is outside the top 10). Three of the top 5 countries are emerging countries - Taiwan is second, China fourth and India fifth.

From Table 4, we can see that country constituency within the top 10 has not changed significantly from 10 years ago. However, the ranking order has changed; Korea, which was in fourth place 10 years ago, is in sixth place in October 2010, after China and India. Growth in China has been particularly remarkable; it was in tenth place 10 years ago, but has moved up to fourth position; its market cap has increased 21-fold.

**Table 4 / As of October 29, 2010**

Top 10 Asia-Pacific countries in small cap markets					
Small cap market	October 2010		October 2000		(A)/(B)
	Rank	Market cap (million USD) (A)	Rank	Market cap (million USD) (B)	
Japan	1	380.2	1	177.1	2.15
Taiwan	2	180.9	2	56.0	3.23
Australia	3	141.4	3	37.8	3.74
China	4	104.1	10	4.8	21.52
India	5	88.2	5	22.2	3.97
Korea	6	87.3	4	26.3	3.32
Hong Kong	7	72.3	7	19.4	3.72
Malaysia	8	40.2	6	19.9	2.02
Singapore	9	39.7	8	13.8	2.87
Thailand	10	25.6	9	8.7	2.94

Source: Russell Indexes

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## Rankings of country returns in small cap over 12 months

### Country rankings have changed frequently

Here, we will examine the past performances of Asia-Pacific small cap markets. Table 5 shows the rankings of returns in small cap in 12 countries. Global large cap countries and Global small cap countries are ranked in lower positions in almost all the periods, which show that a number of countries had higher returns than the overall global index. However, the ranking order of such countries has changed frequently. Singling out potential future champion(s) from among the small cap markets in the Asia-Pacific region may prove to be a difficult task.<sup>2</sup>

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<sup>2</sup> Large Cap and Small Cap will occasionally be expressed as LC and SC, respectively, hereafter.

**Table 5 / As of October 29, 2010**

**Ranking of 12-month country returns**

Nov 2000 Oct 2001	Nov 2001 Oct 2002	Nov 2002 Oct 2003	Nov 2003 Oct 2004	Nov 2004 Oct 2005	Nov 2005 Oct 2006	Nov 2006 Oct 2007	Nov 2007 Oct 2008	Nov 2008 Oct 2009	Nov 2009 Oct 2010
New Zealand SC 17.3	Thailand SC 41.4	India SC 120.1	Australia SC 37.8	Pakistan SC 87.7	Indonesia SC 64.8	China SC 113.0	Japan SC -35.3	Indonesia SC 113.5	Philippines SC 143.5
Australia SC 8.0	New Zealand SC 40.2	Thailand SC 91.1	Indonesia SC 33.9	Korea SC 70.3	China SC 63.9	Korea SC 89.3	Global LC -43.5	China SC 112.2	Thailand SC 80.7
China SC 4.4	Taiwan SC 35.7	China SC 82.6	New Zealand SC 31.4	India SC 47.0	Philippines SC 54.9	Indonesia SC 88.8	New Zealand SC -45.8	Hong Kong SC 112.1	Indonesia SC 51.5
Korea SC 3.6	Malaysia SC 24.4	Indonesia SC 80.9	India SC 28.3	Indonesia SC 32.1	India SC 54.1	India SC 86.8	Global SC -49.7	Thailand SC 106.5	India SC 43.8
Thailand SC -7.6	Singapore SC 11.9	Hong Kong SC 71.6	Korea SC 25.1	Japan SC 29.3	Pakistan SC 43.7	Malaysia SC 78.4	Malaysia SC -50.8	India SC 101.1	Malaysia SC 37.1
Hong Kong SC -10.2	Australia SC 11.4	Australia SC 65.2	Pakistan SC 23.1	Singapore SC 24.8	Korea SC 43.4	Philippines SC 63.4	Thailand SC -54.5	Singapore SC 85.7	Singapore SC 33.3
Japan SC -11.9	India SC 9.6	New Zealand SC 57.3	Singapore SC 19.4	Australia SC 21.0	Singapore SC 42.6	Hong Kong SC 60.6	Taiwan SC -56.9	Australia SC 83.4	China SC 29.9
Singapore SC -12.7	Indonesia SC 4.5	Japan SC 50.3	Global SC 17.2	Global SC 20.9	Australia SC 35.9	Australia SC 58.5	Philippines SC -59.4	Taiwan SC 77.1	Hong Kong SC 28.8
Malaysia SC -13.5	Philippines SC 2.4	Global SC 48.9	Japan SC 15.8	Philippines SC 19.9	Taiwan SC 27.7	Singapore SC 57.1	Pakistan SC -59.7	Korea SC 77.0	Taiwan SC 27.8
Indonesia SC -13.7	Korea SC 0.4	Singapore SC 47.7	Global LC 14.0	Global LC 15.2	Hong Kong SC 25.8	Taiwan SC 45.8	Indonesia SC -62.7	Philippines SC 68.1	Australia SC 26.6
Global SC -16.6	Global SC -4.6	Taiwan SC 30.3	Philippines SC 12.6	New Zealand SC 12.1	Global SC 25.3	Global SC 27.2	Singapore SC -62.9	Global SC 37.2	Global SC 23.5
Global LC -25.8	Global LC -13.9	Global LC 26.2	Hong Kong SC 12.1	Hong Kong SC 6.1	Global LC 22.6	Global LC 24.9	Australia SC -64.2	Global LC 24.3	Global LC 15.4

Source: Russell Indexes

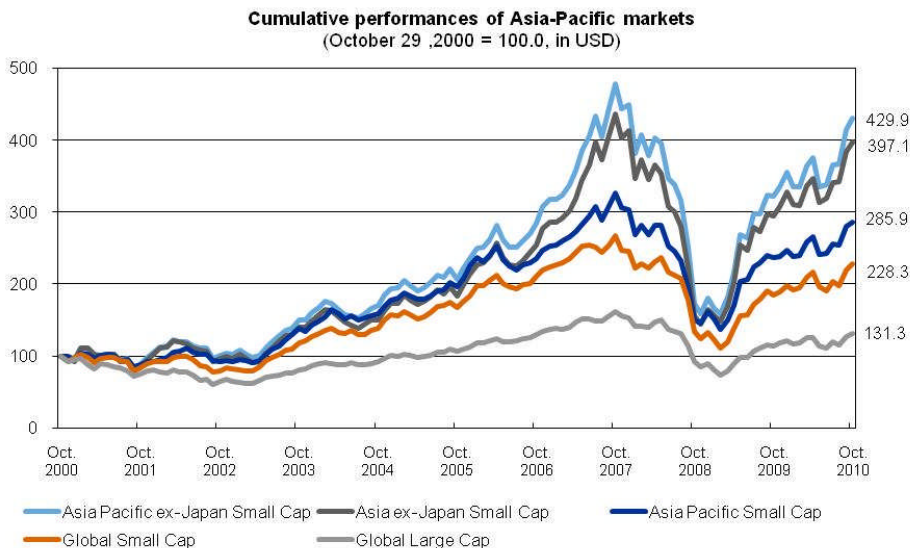
## Ten-year performances of Asia-Pacific small cap markets

### The Russell Asia Pacific ex-Japan Small Cap Index has shown the highest cumulative performance over the past 10 years

Now we'll look at the performance of indexes by region, instead of by individual countries. First, let's examine cumulative performance over the past 10 years, as shown in Figure 5. In this figure, each index value at the end of October 2000 is considered to be 100.0, to show changes through the end of this October (2010). Asia-Pacific small cap markets experienced high returns which outperformed the Russell Global Large Cap Index and the Russell Global Small Cap Index in the mid-2000s. Afterward, all markets suffered significant drops due to the economic downturn sparked by the subprime loan crisis and the Lehman Brothers collapse. However, on a recovery, the Russell Asia Pacific Small Cap Indexes achieved performance that surpassed the Russell Global Large Cap Index and the Russell Global Small Cap Index again.

Assuming an investment for \$100 was made in each index 10 years ago, the outcome at the end of October 2010 would be \$131.3 for the Russell Global Large Cap Index and \$228.3 for the Russell Global Small Cap Index. Asia-Pacific small cap markets surpassed these outcomes. In particular, the outcome of the Russell Asia Pacific ex-Japan Small Cap Index at the end of October 2010 was \$429.9, the highest performance in Asia-Pacific markets.

Figure 5 / As of October 29, 2010



Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment

## Excess returns against Global Small Cap

### Asia-Pacific small cap markets outperformed global small cap markets in many periods

Figure 6 indicates the values of Asia-Pacific small cap market returns less the Russell Global Small Cap Index return over the past 10 years, using a rolling 12-month period. Over the past 10 years (10 periods), the Russell Global Small Cap Index was outperformed by the Russell Asia Pacific Small Cap Index in six periods, and the Russell Asia Pacific ex-Japan Small Cap Index and the Russell Asia ex-Japan Small Cap Index in seven periods. In

the last 5 years, the Russell Global Small Cap Index was surpassed by the Russell Asia Pacific ex-Japan Small Cap Index and the Russell Asia ex-Japan Small Cap Index in four periods.

**Figure 6 / As of October 29, 2010**



**Excess returns against the respective large cap markets**

**Small cap surpassed large cap in each region in the majority of the periods**

Figure 7 plots the values of each Asia-Pacific country's small cap return less respective large cap return. In the past 10 years, each large cap return was surpassed by small cap return in the Asia Pacific market and in the Asia ex-Japan market for eight periods, and in Asia Pacific ex-Japan market for seven periods. In the past five years, large cap return in the Asia Pacific market was surpassed by the small cap return for three periods, and in the Asia Pacific ex-Japan market and in Asia ex-Japan market for four periods.

**Figure 7 / As of October 29, 2010**



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## Long-term excess performances

### Relatively good performances with annual rates of return over the past five and 10 years

Let us summarize the Asia-Pacific small cap markets' performance in terms of annual rates of return over the past five and 10 years. Table 6 shows three kinds of excess returns, which are attributed to the Asia-Pacific small cap market less: 1) the Russell Global Large Cap Index, 2) the Russell Global Small Cap Index and 3) the Russell Asia Pacific Large Cap Index. Asia-Pacific small cap markets achieved higher returns than did the Russell Global Large Cap Index and the Russell Global Small Cap Index in each region in the last five and 10 years. Excess returns against the Russell Asia Pacific Large Cap Index in each region were positive but relatively small during the past five years. However, in terms of annual rates of return over the past 10 years, the return of small cap is somewhat higher than that of large cap in the Asia-Pacific region.

**Table 6 / As of October 29, 2010**

Long-term index excess performances (annualized average return, % in USD)		
	Past 5 years	Past 10 years
1) Asia Pacific Small Cap -- Global Large Cap		
Asia Pacific	3.4	8.3
Asia Pacific ex-Japan	11.4	12.9
Asia ex-Japan	12.4	12.0
2) Asia Pacific Small Cap -- Global Small Cap		
Asia Pacific	1.4	2.5
Asia Pacific ex-Japan	9.5	7.1
Asia ex-Japan	10.4	6.2
3) Asia Pacific Small Cap -- Asia Pacific Large Cap		
Asia Pacific	1.2	5.9
Asia Pacific ex-Japan	1.1	2.9
Asia ex-Japan	1.3	3.4

Source: Russell Indexes

## Regional Index data (As of October 29, 2010)

### Global market performances in the Russell Global Index

#### Return rankings by region and large/small cap (USD, in %)

October 2010		Last 3 months		Last 12 months		Last 60 months (annualized return)	
Region/Size	Return	Region/Size	Return	Region/Size	Return	Region/Size	Return
Global	3.7	Global	10.0	Global	16.3	Global	4.6
Emerging Markets LC	4.0	Emerging Markets LC	17.2	Emerging Markets LC	36.8	Emerging Markets LC	17.6
Developed Markets LC	3.7	Developed Markets SC	12.4	Developed Markets SC	24.7	Developed Markets SC	15.4
Developed Markets SC	3.0	Developed Markets LC	10.4	Developed Markets LC	19.8	Developed Markets LC	3.8
Emerging Markets SC	2.4	Emerging Markets SC	8.1	Emerging Markets SC	9.7	Emerging Markets SC	2.8
North America LC	4.4	North America LC	12.8	Emerging EMEA LC	25.9	Emerging EMEA LC	22.8
Emerging Asia LC	3.8	Emerging EMEA LC	12.2	North America LC	24.8	North America LC	15.9
Latin America LC	3.5	Developed PB LC	11.8	Emerging Asia LC	23.0	Emerging Asia LC	8.0
Emerging EMEA LC	3.4	Emerging Asia LC	11.3	Developed Europe LC	18.3	Developed PB LC	4.8
Developed PB LC	2.7	Developed Europe LC	8.5	Latin America LC	12.4	Developed Europe LC	2.6
Developed Europe LC	0.7	Latin America LC	4.7	Developed PB LC	9.9	Latin America LC	1.7

#### Return rankings by sector in Asia-Pacific small cap (USD, in %)

October 2010		Last 3 months		Last 12 months		Last 60 months (annualized return)	
Sector	Return	Sector	Return	Sector	Return	Sector	Return
Materials and Processing	4.4	Materials and Processing	17.7	Materials and Processing	30.0	Energy	18.8
Energy	4.3	Energy	16.5	Energy	27.1	Consumer Staples	13.3
Financial Services	2.6	Consumer Discretionary	13.2	Consumer Discretionary	22.3	Health Care	11.4
Producer Durables	2.3	Utilities	12.5	Consumer Staples	22.1	Materials and Processing	10.8
Utilities	2.2	Financial Services	11.9	Utilities	21.6	Utilities	10.6
Consumer Discretionary	1.3	Consumer Staples	10.9	Health Care	19.6	Consumer Discretionary	6.6
Consumer Staples	1.3	Producer Durables	10.6	Financial Services	18.6	Producer Durables	5.6
Health Care	0.8	Health Care	10.2	Producer Durables	18.4	Financial Services	5.4
Technology	0.7	Technology	4.7	Technology	12.4	Technology	1.7

#### Top/Bottom 5 countries in Asia-Pacific small cap markets (Countries with over 10 small cap stocks during the period, USD, in %)

October 2010		Last 3 months		Last 12 months		Last 60 months (annualized return)	
Country	Return	Country	Return	Country	Return	Country	Return
Philippines	9.1	Philippines	50.8	Philippines	143.5	Philippines	33.3
New Zealand	9.0	Indonesia	24.8	Thailand	80.7	Indonesia	30.3
China	5.7	Australia	24.7	Indonesia	51.5	Thailand	23.6
Indonesia	5.6	Thailand	24.5	India	43.8	China	22.8
Australia	4.5	China	19.7	Malaysia	37.1	India	22.4
Korea	3.4	Hong Kong	14.5	Taiwan	27.8	Korea	12.6
Hong Kong	2.8	Malaysia	13.8	Australia	26.6	Australia	12.3
Taiwan	1.9	Taiwan	12.8	Korea	23.9	Hong Kong	9.6
Thailand	0.5	Singapore	11.9	New Zealand	15.3	New Zealand	5.2
Japan	-30.8	Japan	1.0	Japan	1.1	Japan	-34.5

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