

**NOTICE TO SHAREHOLDERS
RUSSELL INVESTMENT COMPANY**

January 26, 2012

Russell U.S. Small Cap Equity Fund

The Russell U.S. Small Cap Equity Fund (the "Fund") allocates most of its assets among multiple Money Managers. Russell Investment Management Company ("RIMCo"), as the Fund's advisor, may change the allocation of the Fund's assets among Money Managers at any time. An exemptive order from the Securities and Exchange Commission ("SEC") permits RIMCo to hire a Money Manager at any time, subject to the approval of the Fund's Board of Trustees (the "Board") without a shareholder vote. Pursuant to the terms of the exemptive order, the Fund is required to notify its shareholders within 60 days of when a new Money Manager begins providing services to the Fund.

Change of Money Manager

On December 6, 2011, the Board of Russell Investment Company ("RIC") authorized the signing of portfolio management contracts to engage EAM Investors, LLC ("EAM"), Falcon Point Capital, LLC ("Falcon Point"), Huber Capital Management LLC ("Huber") and PENN Capital Management Company, Inc. ("PENN"), respectively, to manage the investment and reinvestment of a portion of the assets of the Fund assigned to them by RIMCo. On that same date, RIC's Board also authorized the termination of a similar portfolio management contract with Tygh Capital Management, Inc. ("Tygh"). On December 6, 2011, the portfolio management contract with Tygh was terminated.

Portfolio Management Contract

Effective December 6, 2011, RIMCo, as fiduciary for RIC, entered into new portfolio management contracts with EAM, Falcon Point, Huber and PENN, respectively. These contracts will continue until April 30, 2013. Thereafter, the contracts will continue in effect for successive annual periods if its continuance has been specifically approved at least annually by RIC's Board, including the affirmative vote of a majority of the Trustees who are not parties to the contract, or "interested persons" (as defined in the Investment Company Act of 1940) of any such party, cast in person at a meeting called for the purpose of considering such approval. The contract is automatically terminated if assigned. Each contract may be terminated without payment of any penalty by RIMCo or RIC immediately upon written notice to EAM, Falcon Point, Huber or PENN and by EAM, Falcon Point, Huber or PENN upon 30 days' written notice to RIMCo.

Board Approval of Portfolio Management Contract

In evaluating the portfolio management contracts with EAM, Falcon Point, Huber and PENN, the Board considered that the Fund, in employing a manager-of-managers method of investment, operates in a manner that is distinctly different from most other investment companies. In the case of most other investment companies, an advisory fee is paid by the investment company to its adviser which in turn, employs and compensates individual portfolio managers to make specific securities selections consistent with the adviser's style and investment philosophy. In the case of the Fund, an advisory fee is paid by the Fund to RIMCo which in turn compensates the Money Manager firms hired to make specific securities selections.

The Board considered that RIMCo (rather than any Money Manager) is responsible under the investment advisory agreement for determining, implementing and maintaining the investment program for the Fund. Assets of the Fund generally have been allocated among the multiple Money Managers.

RIMCo is responsible for selecting, subject to Board approval, Money Managers for the Fund and for actively managing allocations and reallocations of assets among the Money Managers. The Board has been advised that RIMCo's goal is to construct and manage diversified portfolios in a risk aware manner. Each Money Manager for the Fund in effect performs the function of an individual portfolio manager who is responsible for selecting portfolio securities for the portion of the Fund assigned to it by RIMCo (each, a "segment") in accordance with the Fund's applicable investment objective, policies and restrictions, any constraints placed by RIMCo upon their selection of portfolio securities and the Money Manager's specified role in the Fund. RIMCo is responsible for communicating performance expectations to each Money Manager; supervising compliance by each Money Manager with the Fund's investment objective and policies; authorizing Money Managers to engage in certain investment strategies for the Fund; and recommending annually to the Board whether portfolio management contracts should be renewed, modified or terminated. In addition to its annual recommendation as to the renewal, modification or termination of portfolio management contracts, RIMCo is responsible for recommending to the Board the additions of new Money Managers or replacements of existing Money Managers at any time when, based on RIMCo's research and ongoing review and

analysis, such actions are appropriate. RIMCo may impose specific investment constraints from time to time for each Money Manager intended to capitalize on the strengths of that Money Manager or to coordinate the investment activities of Money Managers for the Fund in a complementary manner. Therefore, RIMCo's selection of Money Managers is made not only on the basis of performance considerations but anticipated compatibility with other Money Managers in the Fund. In light of the foregoing, the overall performance of the Fund over appropriate periods reflects, in great part, the performance of RIMCo in designing the Fund's investment program, structuring the Fund, selecting an effective Money Manager with a particular investment style or sub-style for a segment that is complementary to the styles of the Money Managers of other Fund segments, and allocating assets among the Money Managers in a manner designed to achieve the objectives of the Fund.

The Board considered that the prospectus for the Fund and other public disclosures emphasize to investors RIMCo's role as the principal investment manager for the Fund, rather than the investment selection role of the Fund's Money Managers, and describe the manner in which the Fund operates so that investors may take that information into account when deciding to purchase shares of the Fund.

At a meeting held on December 6, 2011, the Board received a proposal from RIMCo to approve new portfolio management contracts between RIMCo and EAM, Falcon Point, Huber and PENN, respectively. The Trustees approved the terms of the proposed portfolio management contracts with EAM, Falcon Point, Huber and PENN, respectively, based substantially upon RIMCo's recommendation to hire each Money Manager at the proposed fee rate; any significant business relationships between the Money Managers and RIMCo or Russell Financial Services, Inc., the Fund's underwriter; RIMCo's explanation as to the lack of relevance of profitability to the evaluation of portfolio management contracts with money managers because the willingness of Money Managers to serve in such capacity depends upon arm's-length negotiations with RIMCo; RIMCo's awareness of the fees charged by the Money Managers to other clients; and RIMCo's belief that the proposed investment advisory fees would be reasonable in light of the anticipated quality of investment advisory services to be rendered. The Trustees considered information provided by RIMCo that based on Fund assets of approximately \$1.5 billion (as of the third quarter of 2011) the proposed change would increase by approximately \$128,000 the fees RIMCo pays to the Money Managers of the Fund. The Trustees also considered their findings at their April 19, 2011 meeting as to the reasonableness of the aggregate investment advisory fees paid by the Fund, and the fact that the aggregate investment advisory fees paid by the Fund would not increase as a result of the implementation of the proposed Money Manager changes because the Money Managers' investment advisory fees are paid by RIMCo. A more extensive discussion of the Board's findings at their April 19, 2011 meeting is available in the Fund's annual report for the period ended October 31, 2011, a copy of which is available free of charge by calling 1-800-787-7354.

Compensation

Under its advisory agreement with RIC, RIMCo receives an advisory fee from the Fund for its services. From its advisory fee, RIMCo, as agent for RIC, pays all Fund Money Managers for their investment selection services. The remainder of the fee is retained by RIMCo as compensation for its services and to pay expenses. Quarterly, each Fund Money Manager, including EAM, Falcon Point, Huber and PENN, is paid a pro rata portion of its annual fee, based on the monthly average of all the assets allocated to it. The annual rate of the advisory fees payable to RIMCo as a percentage of the average daily net assets of the Fund is 0.70% (estimated to be \$10,823,389 based on an assumed average asset level of \$1,546,198,436 for the twelve months ended October 31, 2011, RIC's fiscal year end). Prior to the changes described herein, the aggregate annual advisory fee payable to the Fund's Money Managers was approximately 0.39% (estimated to be \$6,030,174 based on the same asset level). Giving effect to the changes described in this notice, the aggregate annual advisory fee payable to the Fund's Money Managers would have been approximately 0.40% (estimated to have been \$6,184,794 based on the same asset level).

For the most recently completed fiscal year, the Fund paid no aggregate commissions to brokers affiliated with EAM, Falcon Point, Huber or PENN.

The Money Managers may use brokerage commissions to pay for soft dollar research services. Any such use will be in accordance with Section 28(e) of the Securities Exchange Act of 1934.

Similar Investment Advisory Relationships

Huber acts as investment adviser to other registered U.S. investment companies with investment objectives similar to those of the Fund. The names of and approximate assets under management for these funds are as follows:

Huber

Name

Assets as of December 31, 2011

Huber Capital Small Cap Value Fund

\$17 million

EAM, Falcon Point and PENN do not act as investment advisor to any other registered U.S. investment companies with investment objectives similar to those of the Fund.

Related Information

EAM Investors, LLC, 2533 South Coast Highway 101, Suite 240, Cardiff By The Sea, CA 92007, is owned by its employee/members, who own 51% of its voting securities, and CR Financial Holdings, Inc., which owns 49% of its voting securities. Byron Roth owns 81% of CR Financial Holdings, Inc.

Falcon Point Capital, LLC, Two Embarcadero Center, Suite 1300, San Francisco, CA 94111, is 100% employee owned and is controlled by James Bitzer and Michael Mahoney.

Huber Capital Management LLC, 10940 Wilshire Blvd., Suite 925, Los Angeles, CA 90024-3915, is owned and controlled by Joe Huber.

PENN Capital Management Company, Inc., Three Crescent Drive, Suite 400, Philadelphia, PA 19112, is 100% employee owned. PENN's controlling shareholders are Richard Hocker and Marcia Hocker.

Russell Investment Management Company, 1301 Second Avenue, 18th Floor, Seattle, WA 98101, provides or oversees the provision of all investment advisory and portfolio management services for the Fund.

Russell Financial Services, Inc., 1301 Second Avenue, 18th Floor, Seattle, WA 98101, a wholly-owned subsidiary of RIMCo, is the principal distributor of Fund shares.

Additional Information

If you have any questions about the changes described in this notice or if you wish to obtain a copy of the Fund's annual or semiannual reports to shareholders at no charge, please contact your Russell authorized financial intermediary or RIC, at 1301 Second Avenue, 18th Floor, Seattle, WA 98101 or 1-800-787-7354.