

Russell Survey: Managers Believe Bulls are Raring to Charge into 2007

Tacoma, WA — December 20, 2006 — Money managers are bullish on U.S. stocks for 2007, with many believing the market to be undervalued and the technology sector primed for growth, according to the latest *Investment Manager Outlook*, Russell Investment Group's quarterly survey of investment managers.

The most resounding message from this quarter's poll is the bullishness for U.S. stocks in 2007. Nearly one-third of the surveyed investment managers believe that U.S. stocks will rise at least 10 percent next year, well ahead of the average 8.4 percent growth that U.S. stocks have shown for the past 10 years, as measured by the broad-market Russell 3000® Index. In addition, 37 percent of those polled believe the market is undervalued, the highest percentage ever recorded on this measure in the life of the survey.

"To hear investment managers tell it, Wall Street will belong to the bulls in 2007," said Randy Lert, chief portfolio strategist, Russell Investment Group. "Investment managers appear to be expecting a prolonged period of flat to lower interest rates that, in turn, could introduce a period of sustainable economic growth."

Technology is now the favored sector, ousting health care, which had claimed top spot in the rankings ever since the survey was first taken in June 2004. Manager bullishness for technology increased 11 percentage points this quarter to 67 percent, while health care dropped six percentage points from last quarter to 59 percent. The growing support for technology reflects valuation developments and a renewed emphasis on growth, while the drop for health care could represent concerns over the political agenda of a newly elected Democratic Congress.

"Managers have put the technology crash in perspective and are now recognizing that valuations for the technology sector are significantly lower when compared to the broader market," said Lert. "The Russell 3000 Index technology sector returned 9.1 percent during the third quarter, and managers believe that the strong run may continue. Managers are hoping that the broader investment emphasis will indeed swing to growth, and technology is expected to do well in the wake of this move."

Russell's Investment Manager Outlook is intended to generate a meaningful snapshot of investment manager sentiment each quarter. For the current installment of the survey, Russell collected the opinions of senior-level investment decision-makers at U.S. large and small-cap equity investment managers, as well as U.S. fixed-income investment managers. More than 85 managers participated in this survey.

Additional findings from the Investment Manager Outlook include:

Switch from value to growth appears to be underway

Support for U.S. large-cap growth surged nearly 20 percentage points to 77 percent this quarter, which brought it to almost the highest level in the history of the survey. The surveyed managers have long been waiting for the markets to follow their own search for quality, and recent market returns support the notion that the switch in leadership from value to growth appears to be under way.

"Managers believe that 2007 will see a slowing economy, decelerating earnings, and increasing credit risks. In other words, all roads may lead to large-cap growth," said Lert. "Large U.S. multinational companies could have the best of both the domestic and international worlds next year — benefiting from slower, but sustained, growth in the U.S. and capitalizing on a falling dollar that will make U.S. exports more competitive in overseas markets."

Manager bullishness crosses borders

Underscoring the positive forecast for next year, more than a third (37 percent) of the managers surveyed believe the market to be undervalued, up from 25 percent the first quarter of 2006. This manager optimism runs on the heels of the strong rally that characterized the second half of 2006.

The bullishness found in this quarter's survey was not limited just to the U.S., as managers voiced their opinion that the rest of the world is likely to experience solid economic growth. In fact, managers were more bullish on non-U.S. (developed market) equities and emerging markets than any U.S. asset class except for large-cap growth. Sixty-one percent of managers were bullish on non-U.S. (developed market) equities and 54 percent bullish on emerging markets. Enthusiasm for emerging markets jumped 17 percentage points from last quarter.

U.S. bonds battle static domestic interest rates and potentially rising European rates

The manager outlook on a range of fixed-income investments suffered the deepest drop from last quarter's already low levels. Bullishness for U.S. Treasuries fell to 20 percent this quarter from 36 percent last quarter, and corporate bonds dipped to 13 percent from 23 percent over the same time.

"Managers believe the Fed's interest rates will remain nearly fixed whereas European banks are more likely to raise rates," said Lert. "In this scenario, global money is likely to flow out of the dollar and into European currencies in a search for higher yields, causing U.S. bonds to remain static or even to fall in value."

About Investment Manager Outlook

Prior to the end of each quarter, Russell polls a sample of investment managers to collect their top-line opinions about their outlook for the direction of the markets, sectors and asset classes to watch, and trends on the horizon that could impact investment strategy. In addition to the quantitative results, the Investment Manager Outlook provides qualitative analysis and commentary from one of Russell's senior investment strategists. Detailed results and analysis from the Investment Manager Outlook are available on Russell.com/IMO. For Index data, please visit www.russell.com.

Russell conducted the current Investment Manager Outlook between November 27 and December 5, 2006.

The manager research that Russell conducts for investment purposes is done entirely independent of the Investment Manager Outlook, and responses to the survey are on a purely voluntary basis.

About Russell

Russell Investment Group, a global leader in multi-manager investing, provides investment products and services in more than 44 countries. Russell manages more than \$180 billion in assets as of September 30, 2006, and advises clients worldwide representing more than \$2.4 trillion.

Founded in 1936, Russell is a subsidiary of Northwestern Mutual and is headquartered in Tacoma, Wash., with additional offices in New York, Toronto, London, Paris, Sydney, Singapore, Auckland and Tokyo.

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Index returns represent past performance and should not be viewed as a representation of future performance of any investment or the stock market.

Large capitalization (large cap) growth stocks are securities which fall into the Russell Top 200® Index. This index consists of the top 200 securities in the Russell 1000® Index, as ranked by total market capitalization. This "Blue Chip" large capitalization index represents approximately 35% of the Russell 1000® total market capitalization. As of the latest reconstitution, the average market capitalization was approximately \$48.0 billion; the median market capitalization was approximately \$27.2 billion. The index had a total market capitalization range of approximately \$368.5 billion to \$14.9 billion. Growth stocks tend to exhibit higher price-to-book and price-earnings ratio, lower dividend yields and higher forecasted growth levels.

Value investments focus on stocks of income-producing companies whose price is low relative to one or more valuation factors, such as earnings or book value. Such investments are subject to risks that their intrinsic values may never be realized by the market, or, such stock may turn out not to have been undervalued. Investors should carefully consider the additional risks

involved in value investments.

Growth investments focus on stocks of companies whose earnings/profitability are accelerating in the short term or have grown consistently over the long term. Such investments may provide minimal dividends which could otherwise cushion stock prices in a market decline. Stock value may rise and fall significantly based, in part, on investors' perceptions of the company, rather than on fundamental analysis of the stocks. Investors should carefully consider the additional risks involved in growth investments.

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Bond investors should carefully consider risks such as interest rate risk, credit risk, securities lending, repurchase and reverse repurchase transaction risk. Greater risk is inherent in portfolios that invest primarily in high yield bonds. They are subject to additional risks, such as limited liquidity and increased volatility.

Technology companies primarily serve the electronics and computer industries or that manufacture products based on the latest applied science.

Health care companies are involved in medical services or health care including biotechnology research and production, drugs and pharmaceuticals, and health care facilities and services.

Russell 3000® Index measures the performance of the 3,000 largest U.S. securities based on total market capitalization.

Russell 3000® Technology Index is a benchmark of the Russell 3000® Index including only technology sector securities.

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