November 10, 2012

Skip, Mike and Karli:

I wanted to provide some additional information on Russell's proposal for FELRA following our meeting earlier this week in your office in Washington D.C.

Since FELRA will have two funds with differing objectives and expected investing horizons, we offer allocations specific to each fund. We labeled the first, Legacy Fund and the second, New Fund. The investment vehicles that we propose for use by each fund are similar. However, the allocations to Return Seeking assets and to Hedging assets differ for each of the two funds. For example, the Legacy Fund, with its shorter expected investing horizon and perceived lower risk tolerance, has an initial allocation of 60% to Return Seeking assets and 40% to Hedging assets. We expect that, over time, the Return Seeking assets allocation will decrease and the Hedging assets allocation will increase in this fund depending on the actual investment experience and benefits paid from the fund. Russell will work with FELRA on a continuing basis to determine appropriate allocations to the two broad allocation categories. **The Management Fee for the Legacy Fund is 44.5 bps**.

The initial allocation for the New Fund is 75% Return Seeking assets and 25% Hedging assets. This fund's longer investing horizon and expected differing demographic characteristics suggest that it can assume more investment risk in anticipation of increased expected returns. Should that not be the case, we would alter our allocation guidance to the Trustees. Given our current recommended allocation, our quoted **Management Fee for the New Fund is 49.5 bps.**

During our meeting, you asked if there were other ways in which Russell benefited financially from a client's investment in Russell's funds. Russell Trust Company receives compensation from its management of the collateral in the securities lending program. Russell Trust Company has a securities lending program whereby each participating Fund can loan securities with a value up one-third of its total assets, with the client receiving the proceeds. The Fund receives cash (U.S. currency), U.S. Government or U.S. Government agency obligations as collateral against the loaned securities. Russell Trust Company manages all of the collateral received from the loaned securities, and receives an investment management fee of 7 basis points based on the value of the total net assets of the collateral only. Russell is NOT compensated for any other services. After some internal discussions it was determined that neither transition management nor FX would incur a separate charge.

Thank you for the opportunity to participate in your search for a suitable partner for the management of the funds under FELRA's care. Should you have additional questions or information needs, please let me know.

Kind regards,

Mike Reardon

# FELRA

## Legacy Fund and New Fund Allocations

Mike Auger, Regional Director, Americas Institutional

Mike Reardon, Regional Director, Consultant Relations

Gary Stentz, CFA Outsourcing Portfolio Manager

NOVEMBER 2012

# Important information

- Unless otherwise noted, the funds presented here are investment funds of the Russell Trust Company Commingled Employee Benefit Funds Trust. They are not funds of Russell Investment Company, nor mutual funds registered under the Investment Company Act of 1940.
- **An investment in the Russell Institutional Funds, LLC involves certain risks and considerations that prospective investors should evaluate before making a decision to invest. The information provided in this material is for the exclusive use of the recipient for the sole purpose of evaluating the Russell Institutional Funds, LLC private placement. The material may not be reproduced, provided or disclosed to others or used for any other purpose without prior written authorization. No investment may be made in any fund unless the investor has reviewed the Private Placement Memorandum ("PPM") and the PPM Supplement with respect to the particular fund(s) under consideration. Prospective investors should read all of the materials carefully before investing, and are advised to consult with their own legal, tax and financial advisers as to the consequences of an investment in any fund.**
- **Russell Institutional Funds, LLC (RIFL) funds are not mutual funds, but are funds of the Russell Institutional Funds, LLC, they are private placements.**
- The Russell Long Credit Fixed Income Fund is an investment fund of the Russell Trust Company Commingled Employee Benefit Funds Trust Russell Liability-Driven Investment Solutions; It is not a fund of Russell Investment Company, nor mutual funds registered under the Investment Company Act of 1940.
- Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns.
- Diversification does not assure a profit and does not protect against loss in declining markets.
- Liability Driven Investment (LDI) strategies contain certain risks that prospective investors should evaluate and understand prior to making a decision to invest. These risks may include, but are not limited to; interest rate risk, counter party risk, liquidity risk and leverage risk. Interest rate risk is the possibility of a reduction in the value of a security, especially a bond or swap, resulting from a rise in interest rates. Counter party risk is the risk that either the principal or an unrecognized gain is not paid by the counter party of a security or swap. Liquidity risk is the risk that a security or swap cannot be purchased or sold at the time and amount desired. Leverage is deliberately used by the fund to create a highly interest rate sensitive portfolio. Leverage risk means that the portfolio will lose more in the event of rising interest rates than it would otherwise with a portfolio of physical bonds with similar characteristics.
- Bond investors should carefully consider risks such as interest rate, credit, repurchase and reverse repurchase transaction risks. Greater risk, such as increased volatility, limited liquidity, prepayment, non-payment and increased default risk, is inherent in portfolios that invest in high yield ("junk") bonds or mortgage backed securities, especially mortgage backed securities with exposure to sub-prime mortgages.
- Investments that are allocated across multiple types of securities may be exposed to a variety of risks based on the asset classes, investment styles, market sectors and size of companies preferred by the advisors. Investors should consider how the combined risks impact their total investment portfolio and understand that different risks can lead to varying financial consequences, including loss of principal.
- Russell Investments is the owner of the trademarks, service marks, and copyrights related to its respective indexes. Investments in products based on the Russell indexes may not provide the exact performance of the index due to implementation strategies, expenses and fees applicable to the investment product.
- The Barclays-Russell LDI Index Series, calculated by Barclays Capital Inc. (Barclays and the Frank Russell Company (Russell, provides the liability driven investment methodology implemented in the selection criteria of the Barclays-Russell LDI Index Series without regard to any person. All rights in the Barclays-Russell LDI Index Series vest in Barclays and Russell. Any funds, products or other securities or investment vehicles using or based on the Barclays-Russell LDI Index Series are not sponsored, endorsed, or promoted by Barclays or Russell. NEITHER BARCLAYS NOR RUSSELL NOR THEIR AFFILIATES NOR THEIR LICENSORS SHALL BE LIABLE (INCLUDING IN NEGLIGENCE) FOR ANY LOSS ARISING OUT OF USE OF OR RELIANCE ON THE BARCLAYS-RUSSELL LDI INDEX SERIES BY ANY PERSON.

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- Date of first use: November 2012 USI-15137-11-13

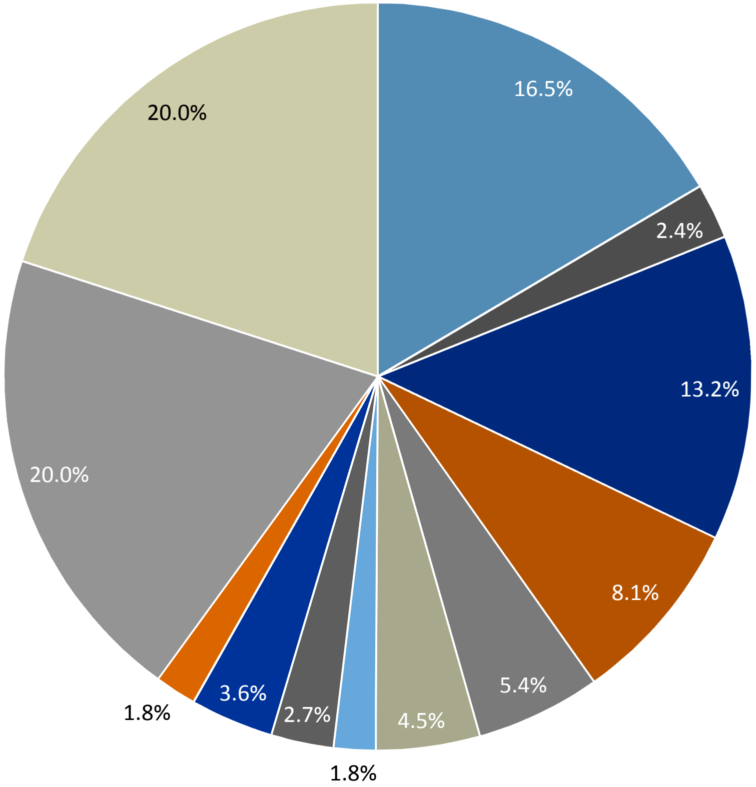
# FELRA Legacy

## Achieving diversification using Russell's multi-asset approach to investing

| Return Seeking Portfolio: | 60% |
|---|---|
| RTC Multi-Asset Core Fund[1,2] | 60% |
| *U.S. Large Cap Equity* | *17%* |
| *Small Cap* | *2%* |
| *Global Equity ex-U.S.* | *13%* |
| *Global Equity* | *8%* |
| *Emerging Markets* | *5%* |
| *Commodities* | *5%* |
| *Infrastructure* | *2%* |
| *Global Real Estate* | *3%* |
| *Fixed Income* | *4%* |
| *Liquidity Reserve* | *2%* |

| Liability Hedging Portfolio: | 40% |
|---|---|
| RTC Long Credit Fixed Income Fund[1] | 20% |
| RTC Multi-Manager Bond Fund[1] | 20% |

**FELRA Legacy Recommendation**



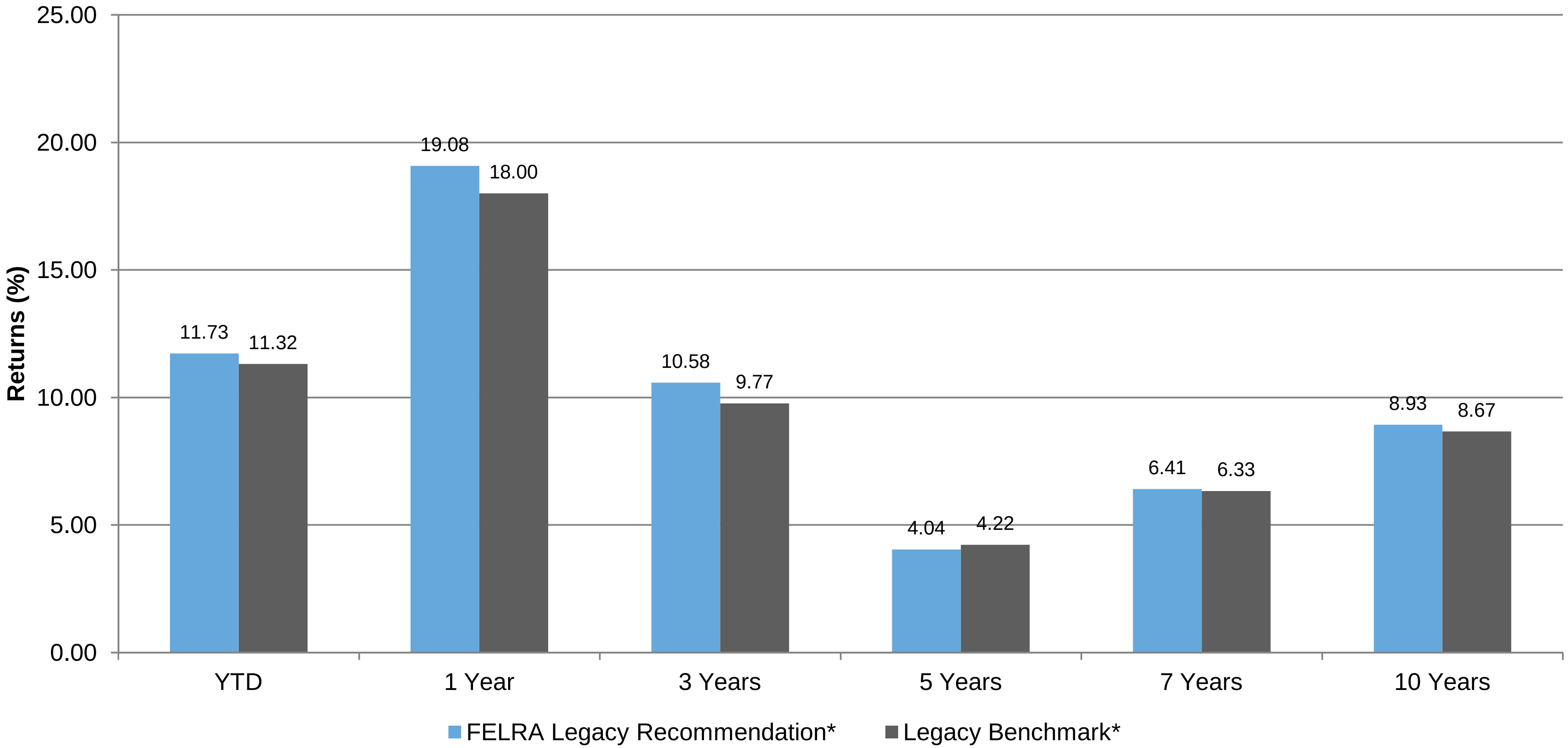

- [1]Please see page 14 for important information regarding the funds shown above.
- [2] The RTC Multi-Asset Core Fund is a dynamic, diversified portfolio designed to capture market opportunities. The allocation above is current as of September 5, 2012. Current data may differ.
- Russell Trust Company (RTC) funds are collective or commingled trusts for which RTC serves as trustee. They are not mutual funds.
- The RIFL funds listed are funds of the Russell Institutional Funds, LLC (RIFL); they are private placements. They are not mutual funds.



Russell Investments

# Russell Composite performance – FELRA Legacy

## Annualized returns as of September 30, 2012




- * Please see page 3 for details regarding the FELRA Legacy allocation and page 14 for details regarding the Legacy Benchmark allocation.
- Returns for periods greater than 1 year are annualized.
- Performance is shown gross of fees. Fees will reduce the overall performance of the funds.
- Past performance is not indicative of future results. Indexes/benchmarks are unmanaged and cannot be invested in directly.
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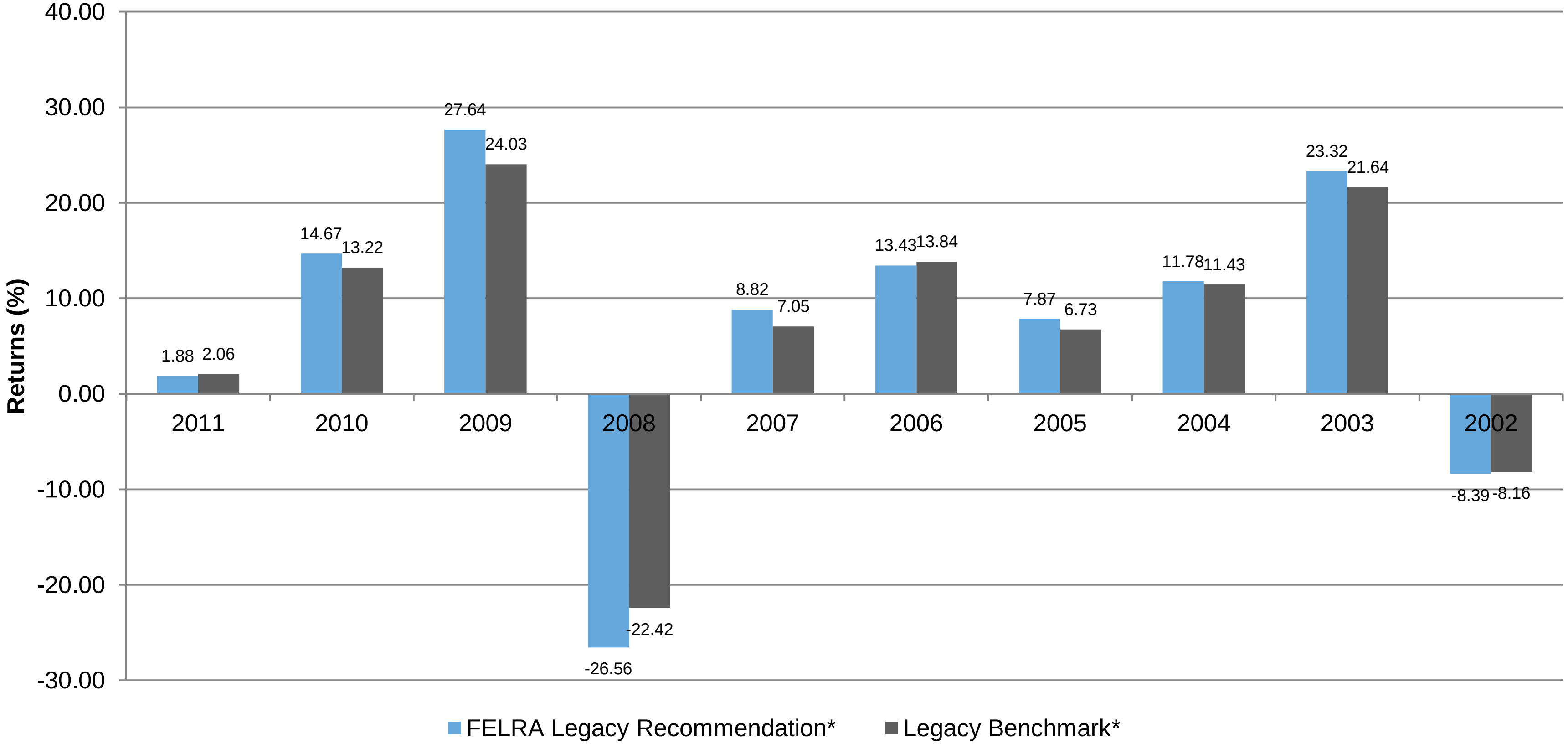
# Russell Composite performance – FELRA Legacy

## Calendar year returns




- * Please see page 3 for details regarding the FELRA Legacy allocation and page 14 for details regarding the Legacy Benchmark allocation.
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# FELRA Legacy Recommended Portfolio

## Return/risk projections as of June 30, 2012

| | | Market Related (Beta)* | | Active Management (Alpha)** | | Total | |
|---|---|---|---|---|---|---|---|
| | FELRA Legacy | Asset Class | Passive | Active Excess Returns | | | |
| Asset Class | Weight (%) | Return (%) | Risk (%) | Alpha (%) | Active Risk (%) | Return (%) | Risk (%) |
| **Return Seeking Portfolio:** | | | | | | | |
| **Multi-Asset Core** | | | | | | | |
| **Russell Multi-Asset Core Fund** | 60.0 | 6.9 | 15.5 | 1.5 | 3.0 | 8.4 | 15.8 |
| **Total Return Seeking Portfolio** | 60.0 | | | | | | |
| **Liability Hedging Portfolio:** | | | | | | | |
| **Aggregate Bonds** | | | | | | | |
| **Russell Multi-Manager Bond Fund** | 20.0 | 3.4 | 3.8 | 0.6 | 1.2 | 4.0 | 4.0 |
| **Long Credit Fixed Income** | | | | | | | |
| **Russell Long Credit Fixed Income Fund** | 20.0 | 3.8 | 3.9 | 0.5 | 1.4 | 4.2 | 4.1 |
| **Total Liability Hedging Portfolio** | 40.0 | | | | | | |
| **Total Portfolio** | **100.0** | **5.6** | **9.8** | **1.1** | **1.9** | **6.7** | **9.9** |

- *Assumptions are based on Russell's 20 year capital market assumptions as of June 30, 2012. The assumptions are listed on page 13. Please note all information shown is based on assumptions. Expected returns employ proprietary projections of the returns of each asset class. We estimate the performance of an asset class or strategy by analyzing current economic and market conditions and historical market trends. It is likely that actual returns will vary considerably from these assumptions, even for a number of years. References to future returns for either asset allocation strategies or asset classes are not promises or even estimates of actual returns a client portfolio may achieve. The assumptions do not take fees into consideration and all returns are assumed gross of fees. Asset classes are broad general categories which may or may not correspond well to specific products. Additional information regarding Russell basis for these assumptions is available upon request. Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The views and strategies described may not be suitable for all investors.
- **Fund targets are excess return and risk goals developed by Russell Investments Strategy and Research management to help measure our skill in managing managers and the general success of your funds against their stated objectives. Targets for multi-manager funds are based on targets received from underlying managers, historical data and Russell's qualitative assessment of the prospects for managers in a multi-manager portfolio and various other factors. We believe our methodology is reasonable for its purpose, but targets are not intended to predict the performance of Russell funds and we expect that actual performance will vary considerably. Fund targets may be changed by Russell at any time and without notice. Additional information regarding Russell's basis for fund targets is available on request.
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- The RIFL funds listed are funds of the Russell Institutional Funds, LLC (RIFL); they are private placements. They are not mutual funds.

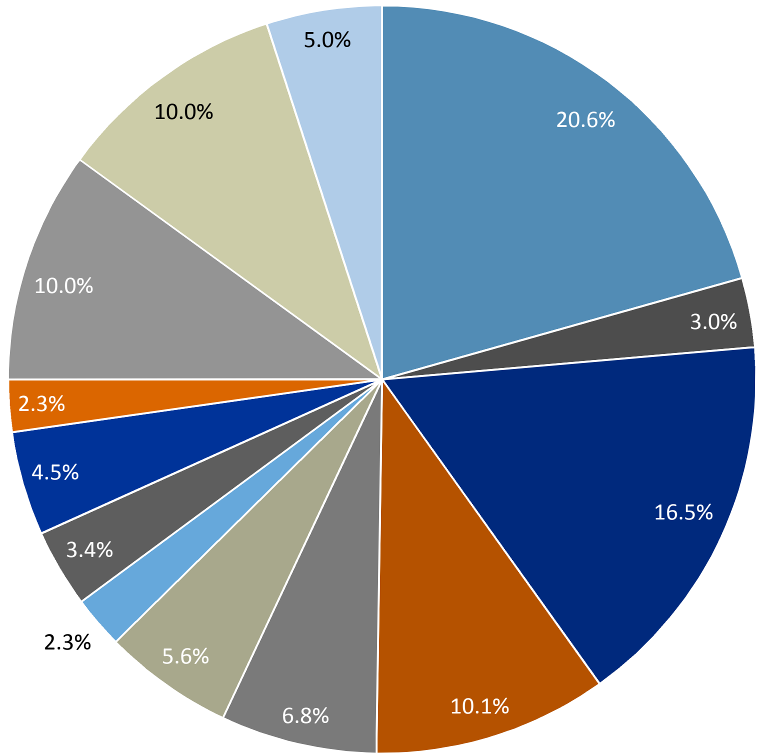
# FELRA New Allocation

## Achieving diversification using Russell's multi-asset approach to investing

| **Return Seeking Portfolio:** | 75% |
|---|---|
| RTC Multi-Asset Core Fund[1,2] | 75% |
| *U.S. Large Cap Equity* | *21%* |
| *Small Cap* | *3%* |
| *Global Equity ex-U.S.* | *17%* |
| *Global Equity* | *10%* |
| *Emerging Markets* | *7%* |
| *Commodities* | *6%* |
| *Infrastructure* | *2%* |
| *Global Real Estate* | *3%* |
| *Fixed Income* | *5%* |
| *Liquidity Reserve* | *2%* |

| **Liability Hedging Portfolio:** | 25% |
|---|---|
| RTC Long Credit Fixed Income Fund[1] | 10% |
| RTC Multi-Manager Bond Fund[1] | 10% |
| RIFL High Yield Bond Fund[1] | 5% |

**FELRA New Recommendation**




- [1]Please see page 14 for important information regarding the funds shown above.
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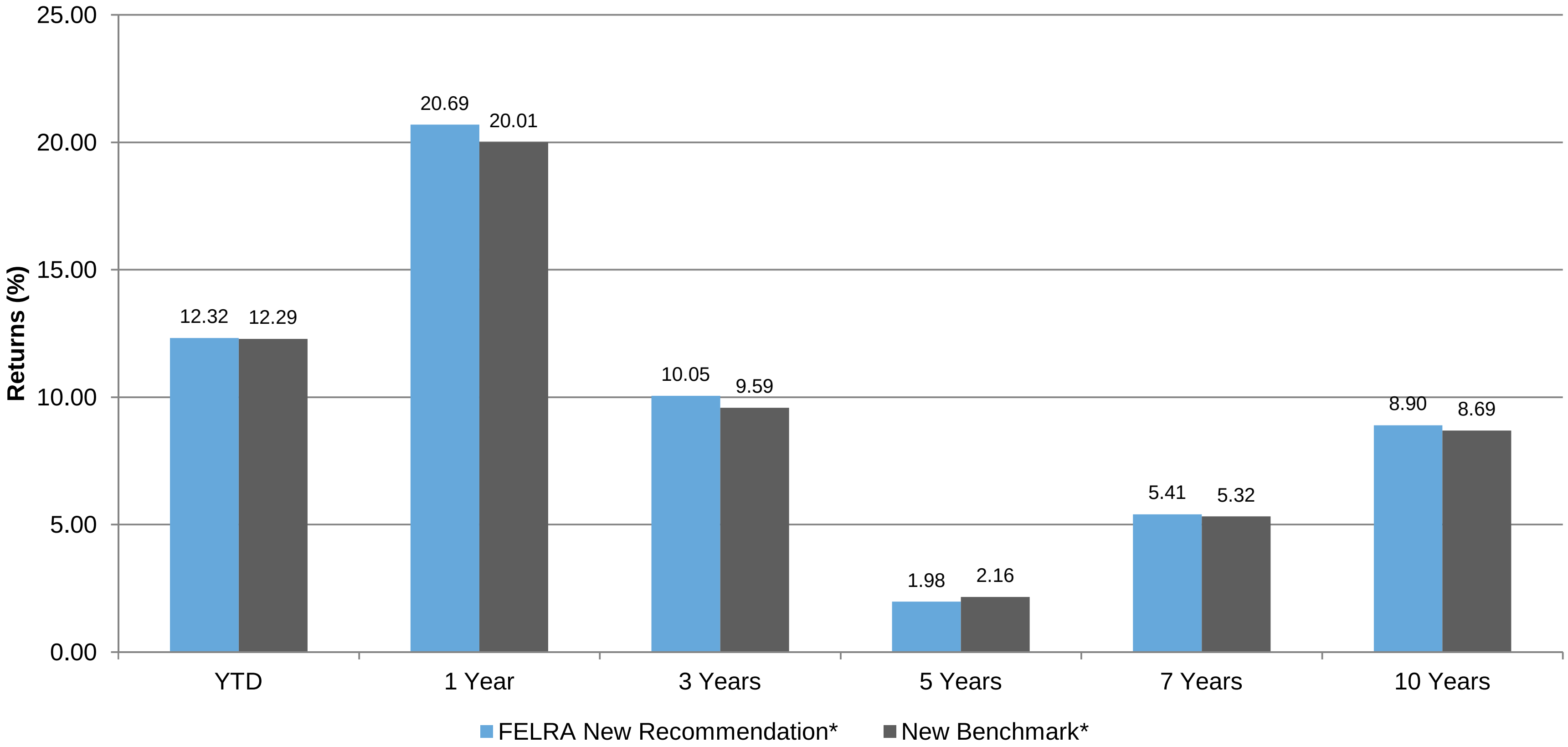
# Russell Composite performance – FELRA New

## Annualized returns as of September 30, 2012




- * Please see page 3 for details regarding the FELRA New allocation and page 14 for details regarding the New Benchmark allocation.
- Returns for periods greater than 1 year are annualized.
- Performance is shown gross of fees. Fees will reduce the overall performance of the funds.
- Past performance is not indicative of future results. Indexes/benchmarks are unmanaged and cannot be invested in directly.
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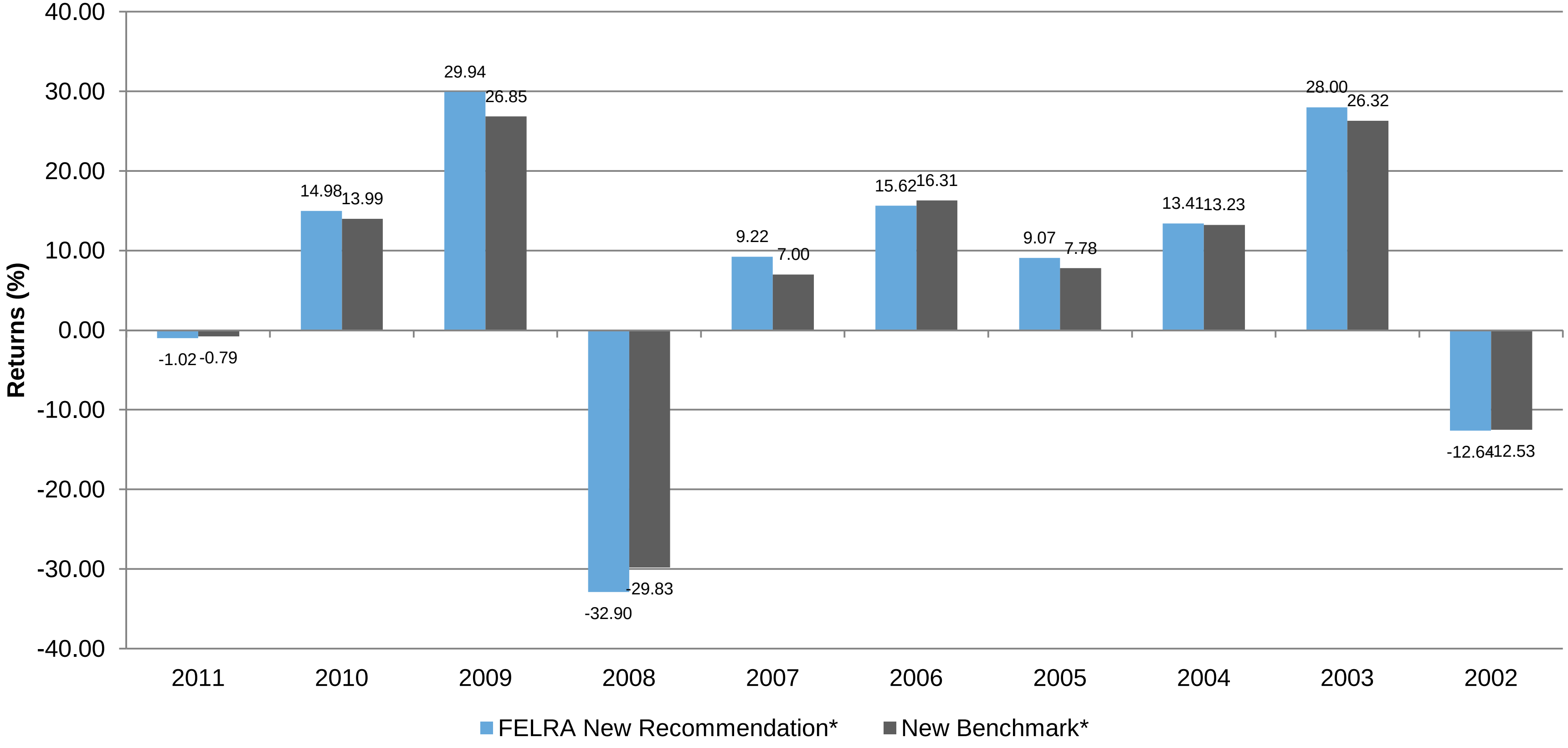
# Russell Composite performance – FELRA New

## Calendar year returns




- * Please see page 3 for details regarding the FELRA New allocation and page 14 for details regarding the New Benchmark allocation.
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# FELRA New Recommended Portfolio

## Return/risk projections as of June 30, 2012

| Asset Class | FELRA New Weight (%) | Market Related (Beta)* Asset Class Return (%) | Passive Risk (%) | Active Management (Alpha)** Active Excess Returns Alpha (%) | Active Risk (%) | Total Return (%) | Risk (%) |
|---|---|---|---|---|---|---|---|
| **Return Seeking Portfolio:** | | | | | | | |
| **Multi-Asset Core** | | | | | | | |
| Russell Multi-Asset Core Fund | 75.0 | 6.9 | 15.5 | 1.5 | 3.0 | 8.4 | 15.8 |
| **Total Return Seeking Portfolio** | 75.0 | | | | | | |
| **Liability Hedging Portfolio:** | | | | | | | |
| **Aggregate Bonds** | | | | | | | |
| Russell Multi-Manager Bond Fund | 10.0 | 3.4 | 3.8 | 0.6 | 1.2 | 4.0 | 4.0 |
| **Long Credit Fixed Income** | | | | | | | |
| Russell Long Credit Fixed Income Fund | 10.0 | 3.8 | 3.9 | 0.5 | 1.4 | 4.2 | 4.1 |
| **Global High Yield Bonds** | | | | | | | |
| RIFL High Yield Bond Fund | 5.0 | 6.0 | 14.5 | 0.8 | 2.0 | 6.8 | 14.6 |
| **Total Liability Hedging Portfolio** | 25.0 | | | | | | |
| **Total Portfolio** | **100.0** | **6.2** | **12.1** | **1.3** | **2.3** | **7.4** | **12.3** |

- *Assumptions are based on Russell's 20 year capital market assumptions as of June 30, 2012. The assumptions are listed on page 13. Please note all information shown is based on assumptions. Expected returns employ proprietary projections of the returns of each asset class. We estimate the performance of an asset class or strategy by analyzing current economic and market conditions and historical market trends. It is likely that actual returns will vary considerably from these assumptions, even for a number of years. References to future returns for either asset allocation strategies or asset classes are not promises or even estimates of actual returns a client portfolio may achieve. The assumptions do not take fees into consideration and all returns are assumed gross of fees. Asset classes are broad general categories which may or may not correspond well to specific products. Additional information regarding Russell basis for these assumptions is available upon request. Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The views and strategies described may not be suitable for all investors.
- **Fund targets are excess return and risk goals developed by Russell Investments Strategy and Research management to help measure our skill in managing managers and the general success of your funds against their stated objectives. Targets for multi-manager funds are based on targets received from underlying managers, historical data and Russell's qualitative assessment of the prospects for managers in a multi-manager portfolio and various other factors. We believe our methodology is reasonable for its purpose, but targets are not intended to predict the performance of Russell funds and we expect that actual performance will vary considerably. Fund targets may be changed by Russell at any time and without notice. Additional information regarding Russell's basis for fund targets is available on request.
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# Strategic planning assumptions

## Through June 2012

| | | Equity | | | | | Private - Unlisted | | | | Fixed Income | | | | | | | | | | | Marketable Real Assets | | | | Other | Economic |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | US Equity | Developed ex North America Equity | Emerging Markets Equity | Global Equity | Global Equity ex US | Global Private Equity | US Real Estate | Global Real Estate | Global Infrastructure | Long Govt | Govt | Long Credit Fixed | Credit Fixed | Long G/C Fixed | Agg Fixed | Global HY H | EM Debt | TIPS | Cash | LIBOR | Global Commodities | US Listed Real Estate | Global Listed Real Estate | Global Listed Infrastructure | NonDir. Hedge Fund | Inflation |
| 5 Yr Arithmetic | Return | 5.8% | 5.7% | 6.8% | 5.9% | 5.9% | 7.5% | 4.9% | 4.9% | 4.4% | -0.2% | 0.5% | 1.1% | 1.8% | 0.5% | 1.2% | 4.1% | 2.2% | 1.4% | 1.1% | 1.3% | 3.1% | 5.3% | 5.4% | 4.3% | 1.9% | 2.1% |
| 5 Year | Volatility | 18.7% | 19.9% | 26.2% | 18.2% | 19.9% | 13.6% | 12.5% | 10.2% | 8.4% | 5.8% | 2.6% | 6.1% | 3.7% | 5.8% | 2.5% | 15.7% | 12.0% | 3.0% | 0.9% | 0.9% | 15.2% | 25.0% | 20.2% | 16.4% | 4.0% | 1.1% |
| 10 Yr Arithmetic | Return | 6.6% | 6.6% | 7.7% | 6.7% | 6.8% | 8.3% | 5.6% | 5.6% | 5.1% | 2.1% | 2.2% | 3.2% | 3.3% | 2.7% | 2.8% | 5.5% | 3.9% | 2.4% | 2.1% | 2.3% | 4.0% | 6.2% | 6.2% | 5.3% | 2.8% | 2.6% |
| 10 Year | Volatility | 18.5% | 19.8% | 26.4% | 18.2% | 19.9% | 18.5% | 14.5% | 11.9% | 9.7% | 4.5% | 2.2% | 4.8% | 3.1% | 4.5% | 2.2% | 15.1% | 11.3% | 3.6% | 2.7% | 2.8% | 15.5% | 25.2% | 20.3% | 16.5% | 4.7% | 3.1% |
| 20 Yr Arithmetic | Return | 7.5% | 7.4% | 8.5% | 7.6% | 7.7% | 9.2% | 6.1% | 6.1% | 5.6% | 2.8% | 2.9% | 3.8% | 3.9% | 3.4% | 3.4% | 6.0% | 4.4% | 3.3% | 3.0% | 3.1% | 4.9% | 7.1% | 7.1% | 6.1% | 3.7% | 2.9% |
| 20 Year | Volatility | 19.1% | 20.2% | 26.8% | 18.7% | 20.3% | 22.4% | 16.1% | 13.4% | 11.2% | 3.5% | 3.6% | 3.9% | 4.1% | 3.5% | 3.8% | 14.5% | 10.8% | 5.9% | 5.8% | 5.8% | 16.6% | 25.8% | 20.7% | 17.5% | 6.8% | 6.5% |

**Correlations**

| | Correlations | US Equity | Developed ex North America Equity | Emerging Markets Equity | Global Equity | Global Equity ex US | Global Private Equity | US Real Estate | Global Real Estate | Global Infrastructure | Long Govt | Govt | Long Credit Fixed | Credit Fixed | Long G/C Fixed | Agg Fixed | Global HY H | EM Debt | TIPS | Cash | LIBOR | Global Commodities | US Listed Real Estate | Global Listed Real Estate | Global Listed Infrastructure | NonDir. Hedge Fund | Inflation |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Equity | **US Equity** | 1.00 | | | | | | | | | | | | | | | | | | | | | | | | | |
| | **Developed ex North America Equity** | 0.74 | 1.00 | | | | | | | | | | | | | | | | | | | | | | | | |
| | **Emerging Markets Equity** | 0.67 | 0.70 | 1.00 | | | | | | | | | | | | | | | | | | | | | | | |
| | **Global Equity** | 0.93 | 0.92 | 0.82 | 1.00 | | | | | | | | | | | | | | | | | | | | | | |
| | **Global Equity ex US** | 0.78 | 0.97 | 0.86 | 0.95 | 1.00 | | | | | | | | | | | | | | | | | | | | | |
| Private - Unlisted | **Global Private Equity** | 0.81 | 0.82 | 0.74 | 0.89 | 0.86 | 1.00 | | | | | | | | | | | | | | | | | | | | |
| | **US Real Estate** | 0.52 | 0.46 | 0.37 | 0.52 | 0.46 | 0.50 | 1.00 | | | | | | | | | | | | | | | | | | | |
| | **Global Real Estate** | 0.61 | 0.71 | 0.55 | 0.71 | 0.71 | 0.69 | 0.86 | 1.00 | | | | | | | | | | | | | | | | | | |
| | **Global Infrastructure** | 0.55 | 0.53 | 0.51 | 0.59 | 0.57 | 0.56 | 0.52 | 0.61 | 1.00 | | | | | | | | | | | | | | | | | |
| Fixed Income | **Long Govt** | 0.03 | 0.04 | 0.05 | 0.04 | 0.04 | 0.06 | -0.04 | -0.02 | -0.03 | 1.00 | | | | | | | | | | | | | | | | |
| | **Govt** | 0.04 | 0.03 | 0.03 | 0.04 | 0.03 | 0.00 | 0.02 | 0.02 | 0.08 | 0.66 | 1.00 | | | | | | | | | | | | | | | |
| | **Long Credit Fixed** | 0.14 | 0.11 | 0.11 | 0.13 | 0.12 | 0.13 | 0.02 | 0.03 | 0.03 | 0.83 | 0.59 | 1.00 | | | | | | | | | | | | | | |
| | **Credit Fixed** | 0.19 | 0.13 | 0.11 | 0.17 | 0.14 | 0.13 | 0.11 | 0.10 | 0.14 | 0.43 | 0.67 | 0.63 | 1.00 | | | | | | | | | | | | | |
| | **Long G/C Fixed** | 0.09 | 0.08 | 0.09 | 0.10 | 0.09 | 0.11 | 0.00 | 0.01 | 0.00 | 0.94 | 0.65 | 0.97 | 0.57 | 1.00 | | | | | | | | | | | | |
| | **Agg Fixed** | 0.13 | 0.09 | 0.07 | 0.11 | 0.09 | 0.06 | 0.09 | 0.08 | 0.13 | 0.54 | 0.93 | 0.62 | 0.79 | 0.61 | 1.00 | | | | | | | | | | | |
| | **Global HY Hedged** | 0.31 | 0.28 | 0.23 | 0.31 | 0.28 | 0.29 | 0.22 | 0.23 | 0.23 | 0.08 | 0.13 | 0.29 | 0.38 | 0.20 | 0.27 | 1.00 | | | | | | | | | | |
| | **EM Debt** | 0.20 | 0.18 | 0.29 | 0.23 | 0.23 | 0.21 | 0.10 | 0.12 | 0.15 | 0.22 | 0.22 | 0.32 | 0.33 | 0.29 | 0.28 | 0.32 | 1.00 | | | | | | | | | |
| | **TIPS** | 0.05 | 0.03 | 0.01 | 0.04 | 0.03 | -0.01 | 0.09 | 0.08 | 0.10 | -0.13 | 0.12 | -0.10 | 0.08 | -0.12 | 0.16 | 0.01 | -0.01 | 1.00 | | | | | | | | |
| | **Cash** | 0.02 | 0.00 | -0.03 | 0.00 | -0.01 | -0.08 | 0.04 | 0.04 | 0.09 | -0.49 | 0.01 | -0.37 | 0.06 | -0.44 | 0.12 | 0.01 | -0.06 | 0.54 | 1.00 | | | | | | | |
| | **LIBOR** | 0.01 | 0.00 | -0.04 | 0.00 | -0.01 | -0.08 | 0.05 | 0.05 | 0.09 | -0.49 | 0.00 | -0.41 | 0.01 | -0.47 | 0.10 | -0.01 | -0.09 | 0.53 | 0.99 | 1.00 | | | | | | |
| Marketable Real Assets | **Global Commodities** | 0.30 | 0.34 | 0.37 | 0.37 | 0.38 | 0.32 | 0.32 | 0.37 | 0.50 | 0.00 | 0.05 | 0.03 | 0.08 | 0.02 | 0.08 | 0.14 | 0.13 | 0.08 | 0.07 | 0.06 | 1.00 | | | | | |
| | **US Listed Real Estate** | 0.60 | 0.53 | 0.44 | 0.60 | 0.54 | 0.54 | 0.87 | 0.75 | 0.56 | 0.01 | 0.03 | 0.08 | 0.14 | 0.05 | 0.10 | 0.27 | 0.13 | 0.06 | -0.01 | -0.01 | 0.36 | 1.00 | | | | |
| | **Global Listed Real Estate** | 0.74 | 0.78 | 0.66 | 0.82 | 0.80 | 0.73 | 0.76 | 0.86 | 0.64 | 0.04 | 0.04 | 0.11 | 0.14 | 0.08 | 0.10 | 0.29 | 0.17 | 0.05 | -0.03 | -0.03 | 0.43 | 0.89 | 1.00 | | | |
| | **Global Listed Infrastructure** | 0.64 | 0.61 | 0.59 | 0.68 | 0.65 | 0.60 | 0.55 | 0.61 | 0.87 | 0.03 | 0.07 | 0.10 | 0.16 | 0.08 | 0.13 | 0.27 | 0.18 | 0.08 | 0.01 | 0.00 | 0.57 | 0.64 | 0.73 | 1.00 | | |
| Other | **NonDir. Hedge Fund** | 0.47 | 0.46 | 0.45 | 0.51 | 0.49 | 0.41 | 0.25 | 0.34 | 0.37 | -0.23 | 0.00 | -0.13 | 0.11 | -0.18 | 0.10 | 0.19 | 0.12 | 0.27 | 0.55 | 0.55 | 0.46 | 0.27 | 0.37 | 0.38 | 1.00 | |
| Economic | **Inflation** | 0.03 | 0.01 | -0.02 | 0.01 | 0.00 | -0.04 | 0.07 | 0.06 | 0.09 | -0.31 | -0.03 | -0.25 | -0.01 | -0.29 | 0.04 | -0.02 | -0.05 | 0.86 | 0.66 | 0.66 | 0.06 | 0.03 | 0.01 | 0.05 | 0.32 | 1.00 |

**Yields**

| Yields | | Yield | Duration | Quality |
|---|---|---|---|---|
| | Long G/C Fixed | 4.3 | 14.5 | AA |
| | Agg Fixed | 4.2 | 5 | AA |
| | US Long Credit | 4.7 | 13.5 | A |
| | US TIPS | 0.8 | 5 | Govt |

- Correlation values shown are for the 10-year forecast horizon.
- Assumptions do not take fees into consideration and all returns are assumed gross of fees. Yields represent the level at a ten-year horizon. The information presented in this document is based on data from multiple sources: including Russell Investments, Barrie & Hibbert, Barclays Capital, Bloomberg, and Consensus Economics, Inc. The summary statistics presented in this document are not intended for use in mean-variance optimization. Please contact an associate in the Russell Forecasting and Simulation group to obtain the appropriate numbers.
- Please note all information shown is based on assumptions. Expected returns employ proprietary projections of the returns of each asset class. We estimate the performance of an asset class or strategy by analyzing current economic and market conditions and historical market trends. It is likely that actual returns will vary considerably from these assumptions, even for a number of years. References to future returns for either asset allocation strategies or asset classes are not promises or even estimates of actual returns a client portfolio may achieve. The assumptions do not take fees into consideration and all returns are assumed gross of fees. Asset classes are broad general categories which may or may not correspond well to specific products. For example, Russell's assumptions for hedge funds are based on non-directional hedge funds and may not reflect important characteristics of directional hedge funds or other products that may fit under the broad label "hedge funds." Additional information regarding Russell's basis for these assumptions is available upon request.

# Strategic planning assumptions

## Through September 2012

| | | Equity | | | | | Private - Unlisted | | | | Fixed Income | | | | | | | | | | | Marketable Real Assets | | | | Other | Economic |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | US Equity | Developed ex North America Equity | Emerging Markets Equity | Global Equity | Global Equity ex US | Global Private Equity | US Real Estate | Global Real Estate | Global Infrastructure | Long Govt | Govt | Long Credit Fixed | Credit Fixed | Long G/C Fixed | Agg Fixed | Global HY H | EM Debt | TIPS | Cash | LIBOR | Global Commodities | US Listed Real Estate | Global Listed Real Estate | Global Listed Infrastructure | NonDir. Hedge Fund | Inflation |
| 5 Yr Arithmetic | Return | 5.7% | 5.6% | 6.6% | 5.7% | 5.8% | 7.4% | 4.8% | 4.7% | 4.2% | -0.1% | 0.5% | 0.9% | 1.5% | 0.5% | 1.0% | 3.9% | 1.9% | 1.0% | 1.0% | 1.1% | 3.0% | 5.2% | 5.3% | 4.2% | 1.7% | 2.1% |
| 5 Year | Volatility | 18.6% | 20.0% | 26.1% | 18.2% | 19.9% | 13.5% | 12.5% | 9.9% | 8.3% | 5.3% | 2.5% | 5.7% | 3.4% | 5.3% | 2.3% | 14.2% | 10.9% | 3.6% | 0.8% | 0.9% | 15.6% | 25.0% | 20.4% | 16.4% | 4.0% | 1.6% |
| 10 Yr Arithmetic | Return | 6.5% | 6.4% | 7.6% | 6.6% | 6.7% | 8.2% | 5.5% | 5.4% | 4.9% | 2.3% | 2.2% | 3.2% | 3.2% | 2.8% | 2.7% | 5.2% | 3.7% | 1.9% | 2.0% | 2.1% | 3.9% | 6.2% | 6.2% | 5.1% | 2.7% | 2.6% |
| 10 Year | Volatility | 18.4% | 19.8% | 26.2% | 18.1% | 19.8% | 18.5% | 14.6% | 11.3% | 9.6% | 4.1% | 2.0% | 4.4% | 2.8% | 4.1% | 2.0% | 13.7% | 10.2% | 3.5% | 2.6% | 2.6% | 15.5% | 25.4% | 20.3% | 16.4% | 4.6% | 2.7% |
| 20 Yr Arithmetic | Return | 7.3% | 7.2% | 8.3% | 7.4% | 7.5% | 9.0% | 5.9% | 5.9% | 5.3% | 3.0% | 2.9% | 3.7% | 3.8% | 3.4% | 3.3% | 5.8% | 4.3% | 2.7% | 2.8% | 2.9% | 4.7% | 6.9% | 7.0% | 6.0% | 3.5% | 2.8% |
| 20 Year | Volatility | 18.7% | 19.9% | 26.4% | 18.4% | 20.0% | 22.2% | 16.0% | 12.7% | 10.8% | 2.9% | 3.2% | 3.4% | 3.6% | 3.0% | 3.3% | 13.2% | 9.8% | 4.7% | 5.0% | 5.1% | 16.2% | 25.9% | 20.7% | 17.1% | 6.2% | 5.0% |
| Correlations | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Equity | US Equity | 1.00 | | | | | | | | | | | | | | | | | | | | | | | | | |
| Equity | Developed ex North America Equity | 0.75 | 1.00 | | | | | | | | | | | | | | | | | | | | | | | | |
| Equity | Emerging Markets Equity | 0.67 | 0.70 | 1.00 | | | | | | | | | | | | | | | | | | | | | | | |
| Equity | Global Equity | 0.93 | 0.92 | 0.82 | 1.00 | | | | | | | | | | | | | | | | | | | | | | |
| Equity | Global Equity ex US | 0.78 | 0.97 | 0.86 | 0.95 | 1.00 | | | | | | | | | | | | | | | | | | | | | |
| Private - Unlisted | Global Private Equity | 0.82 | 0.83 | 0.74 | 0.89 | 0.86 | 1.00 | | | | | | | | | | | | | | | | | | | | |
| Private - Unlisted | US Real Estate | 0.51 | 0.43 | 0.36 | 0.50 | 0.44 | 0.49 | 1.00 | | | | | | | | | | | | | | | | | | | |
| Private - Unlisted | Global Real Estate | 0.64 | 0.73 | 0.58 | 0.74 | 0.73 | 0.72 | 0.82 | 1.00 | | | | | | | | | | | | | | | | | | |
| Private - Unlisted | Global Infrastructure | 0.54 | 0.50 | 0.48 | 0.57 | 0.53 | 0.53 | 0.51 | 0.58 | 1.00 | | | | | | | | | | | | | | | | | |
| Fixed Income | Long Govt | 0.06 | 0.08 | 0.09 | 0.08 | 0.08 | 0.08 | -0.03 | 0.00 | -0.04 | 1.00 | | | | | | | | | | | | | | | | |
| Fixed Income | Govt | 0.03 | 0.03 | 0.05 | 0.04 | 0.04 | -0.03 | 0.02 | 0.02 | 0.05 | 0.63 | 1.00 | | | | | | | | | | | | | | | |
| Fixed Income | Long Credit Fixed | 0.16 | 0.14 | 0.13 | 0.16 | 0.14 | 0.14 | 0.03 | 0.05 | 0.02 | 0.82 | 0.56 | 1.00 | | | | | | | | | | | | | | |
| Fixed Income | Credit Fixed | 0.17 | 0.12 | 0.12 | 0.16 | 0.13 | 0.10 | 0.11 | 0.11 | 0.12 | 0.43 | 0.68 | 0.62 | 1.00 | | | | | | | | | | | | | |
| Fixed Income | Long G/C Fixed | 0.12 | 0.12 | 0.12 | 0.13 | 0.13 | 0.12 | 0.01 | 0.03 | 0.00 | 0.94 | 0.62 | 0.97 | 0.57 | 1.00 | | | | | | | | | | | | |
| Fixed Income | Agg Fixed | 0.11 | 0.08 | 0.08 | 0.10 | 0.09 | 0.03 | 0.08 | 0.08 | 0.11 | 0.52 | 0.92 | 0.60 | 0.79 | 0.59 | 1.00 | | | | | | | | | | | |
| Fixed Income | Global HY Hedged | 0.27 | 0.25 | 0.21 | 0.27 | 0.25 | 0.25 | 0.22 | 0.23 | 0.21 | 0.09 | 0.13 | 0.30 | 0.38 | 0.23 | 0.28 | 1.00 | | | | | | | | | | |
| Fixed Income | EM Debt | 0.17 | 0.17 | 0.27 | 0.20 | 0.21 | 0.18 | 0.09 | 0.11 | 0.11 | 0.22 | 0.21 | 0.32 | 0.31 | 0.29 | 0.27 | 0.28 | 1.00 | | | | | | | | | |
| Fixed Income | TIPS | 0.05 | 0.03 | 0.02 | 0.04 | 0.03 | 0.02 | 0.05 | 0.04 | 0.06 | 0.19 | 0.21 | 0.15 | 0.13 | 0.18 | 0.22 | 0.04 | 0.04 | 1.00 | | | | | | | | |
| Fixed Income | Cash | -0.02 | -0.04 | -0.06 | -0.04 | -0.05 | -0.11 | 0.03 | 0.03 | 0.07 | -0.47 | -0.02 | -0.36 | 0.03 | -0.42 | 0.13 | 0.00 | -0.08 | 0.16 | 1.00 | | | | | | | |
| Fixed Income | LIBOR | -0.02 | -0.04 | -0.07 | -0.04 | -0.05 | -0.11 | 0.03 | 0.03 | 0.07 | -0.47 | -0.03 | -0.39 | -0.01 | -0.45 | 0.10 | -0.03 | -0.10 | 0.15 | 0.99 | 1.00 | | | | | | |
| Marketable Real Assets | Global Commodities | 0.29 | 0.31 | 0.36 | 0.35 | 0.36 | 0.30 | 0.33 | 0.38 | 0.50 | -0.05 | 0.02 | -0.02 | 0.07 | -0.04 | 0.06 | 0.13 | 0.09 | 0.06 | 0.10 | 0.10 | 1.00 | | | | | |
| Marketable Real Assets | US Listed Real Estate | 0.61 | 0.51 | 0.43 | 0.59 | 0.52 | 0.53 | 0.87 | 0.77 | 0.56 | 0.01 | 0.02 | 0.08 | 0.13 | 0.06 | 0.09 | 0.25 | 0.11 | 0.04 | -0.01 | -0.01 | 0.39 | 1.00 | | | | |
| Marketable Real Assets | Global Listed Real Estate | 0.75 | 0.78 | 0.66 | 0.82 | 0.79 | 0.73 | 0.75 | 0.90 | 0.62 | 0.06 | 0.04 | 0.12 | 0.14 | 0.10 | 0.10 | 0.26 | 0.15 | 0.04 | -0.04 | -0.04 | 0.43 | 0.88 | 1.00 | | | |
| Marketable Real Assets | Global Listed Infrastructure | 0.64 | 0.59 | 0.58 | 0.67 | 0.63 | 0.59 | 0.56 | 0.64 | 0.87 | 0.02 | 0.06 | 0.09 | 0.15 | 0.07 | 0.11 | 0.24 | 0.14 | 0.06 | 0.01 | 0.00 | 0.57 | 0.65 | 0.73 | 1.00 | | |
| Other | NonDir. Hedge Fund | 0.47 | 0.44 | 0.44 | 0.50 | 0.48 | 0.40 | 0.27 | 0.37 | 0.37 | -0.21 | -0.02 | -0.11 | 0.08 | -0.16 | 0.09 | 0.16 | 0.08 | 0.10 | 0.52 | 0.52 | 0.48 | 0.29 | 0.39 | 0.40 | 1.00 | |
| Economic | Inflation | 0.00 | -0.02 | -0.03 | -0.02 | -0.03 | -0.02 | 0.03 | 0.02 | 0.05 | -0.12 | -0.08 | -0.11 | -0.08 | -0.12 | -0.03 | -0.02 | -0.03 | 0.83 | 0.29 | 0.29 | 0.06 | 0.02 | 0.00 | 0.03 | 0.13 | 1.00 |

| Yields | | Yield | Duration | Quality |
|---|---|---|---|---|
| Yields | Long G/C Fixed | 4.1 | 15 | AA |
| | Agg Fixed | 4.0 | 5 | AA |
| | US Long Credit | 4.5 | 13.5 | A |
| | US TIPS | 0.3 | 5.5 | Govt |

Correlation values shown are for the 10-year forecast horizon.
Assumptions do not take fees into consideration and all returns are assumed gross of fees. Yields represent the level at a ten-year horizon.
The information presented in this document is based on data from multiple sources: including Russell Investments, Barrie & Hibbert, Barclays Capital, Bloomberg, and Consensus Economics, Inc. The summary statistics presented in this document are not intended for use in mean-variance optimization. Please contact an associate in the Russell Forecasting and Simulation group to obtain the appropriate numbers.
Please note all information shown is based on assumptions. Expected returns employ proprietary projections of the returns of each asset class.
We estimate the performance of an asset class or strategy by analyzing current economic and market conditions and historical market trends. It is likely that actual returns will vary considerably from these assumptions, even for a number of years. References to future returns for either asset allocation strategies or asset classes are not promises or even estimates of actual returns a client portfolio may achieve. The assumptions do not take fees into consideration and all returns are assumed gross of fees. Asset classes are broad general categories which may or may not correspond well to specific products. For example, Russell's assumptions for hedge funds are based on non-directional hedge funds and may not reflect important characteristics of directional hedge funds or other products that may fit under the broad label "hedge funds." Additional information regarding Russell's basis for these assumptions is available upon request.

# Endnotes

- **IMPORTANT INFORMATION REGARDING THE FUNDS USED IN FELRA Legacy Allocation AND THE FELRA New Allocation:**
- The Russell Multi-Asset Core Fund invests in underlying funds of the Commingled Employee Benefit Funds Trust and/or separate accounts managed by Russell Trust Company. The strategic allocations to the underlying funds and/or separate accounts may be changed by Russell Trust Company at any time in its sole discretion (prior allocations are available upon request). Please note that actual allocations over time may vary from the strategic allocations based on tactical allocation decisions made by the portfolio manager, which allow the weightings of each asset class to be changed to take advantage of potential opportunities as market and economic conditions change.

- Effective April 2, 2012 the Russell Global Equity Fund changed its name to the Russell Multi-Asset Core Fund and changes were made to the underlying allocations/investments. In addition, the Fund's primary benchmark changed from the Global Equity Composite Index to the Multi-Asset Core Composite Index. Historical performance of the Russell Multi-Asset Core Fund consists of the following: Russell Global Equity Fund, Inception – 7/29/11, Russell Global Equity Fund Class A - 7/30/11 – 3/31/12 (Russell Global Equity Fund Class A performance is net of a Trustee Fee of 95bps), Russell Multi-AssetCore Fund - 4/1/12 – present.

- The RTC Multi-Manager Bond Fund has an inception date of May 2003. For periods prior the RTC Fixed Income I Fund was used in the composite.

- The RTC Long Credit Fund has an inception date of November 2008. For periods prior the RTC Fixed Income I Fund was used in the composite.

- The RIFL High Yield Bond Fund has an inception date of May 2012. For periods prior the RTC Fixed Income I Fund was used in the composite.

- **IMPORTANT INFORMATION REGARDING THE FELRA Legacy Benchmark Allocation:**
- The Composite Benchmark – Option 1 currently consists of the following: 60% Multi-Asset Core Composite Benchmark, 20% Barclays U.S. Aggregate Bond Index and 20% Barclays Long Credit Index.

  Prior to November 2008 (inception date of the RTC Long Credit Fund) the Barclays Capital U.S. Aggregate Bond Index was used in the composite.

- **IMPORTANT INFORMATION REGARDING THE FELRA New Benchmark Allocation:**
- The Composite Benchmark – Option 2 currently consists of the following: 75% Multi-Asset Core Composite Benchmark, 10% Barclays U.S. Aggregate Bond Index,10% Barclays Long Credit Index and 5% BofAML Global High Yield 2% Constrained Index TR.

  Prior to May 2005 (inception date of the RIFL High Yield Bond Fund) the Barclays Capital U.S. Aggregate Bond Index was used in the composite.
- Prior to November 2008 (inception date of the RTC Long Credit Fund) the Barclays Capital U.S. Aggregate Bond Index was used in the composite.

- The Multi-Asset Core Composite Index is based on strategic allocations. Current primary benchmark components are: 75.0% Russell World Cap 50% Hedged Net Index, 3.0% Barclays U.S. 1-3 Month Treasury Bill Index, 7.0% Barclays U.S. Aggregate Bond Index, 7.5% FTSE EPRA/NAREIT Developed Real Estate Index (Net), 7.5% Dow Jones UBS Commodity Index. The benchmark is based on the Fund's strategic asset allocation. A tactical allocation decision will not affect the fund's benchmark.

Russell Investments