Russell Investment Group

Monthly Fund Commentary December 2005

Russell Canadian Equity Fund

FUND PERFORMANCE (%) Period Ending December 31, 2005

	Latest Month	Latest 3 Months	Year to Date	Annualized One Year	Annualized Two Years	Annualized Three Years	Annualized Four Years	Annualized Five Years	Annualized Ten Years	Annualized Inception to Date	Inception Date
Russell Canadian Equity Fund	**4.5**	**2.9**	**25.9**	**25.9**	**20.7**	**21.5**	**11.7**	**8.0**	**13.3**	**14.0**	Nov./92
S&P/TSX Capped Composite Index (Linked)*	4.4	2.9	24.1	24.1	19.2	21.7	12.1	7.6	12.7	13.1	
S&P/TSX Composite Index	4.4	2.9	24.1	24.1	19.2	21.7	12.1	6.6	11.0	11.8	
MSCI Canada Growth Index[3]	6.3	1.1	28.1	28.1	18.5	20.5	11.8	-1.9	7.8	8.8	
MSCI Canada Value Index[3]	2.6	4.8	23.2	23.2	20.7	23.6	11.9	10.5	12.2	12.7	

*S&P/TSX Capped Composite Index, as a benchmark for the Russell Canadian Equity Fund, was adopted on May 31, 2000. Historical performance prior to the capped index inception is linked to the S&P/TSX Composite Index.

Market Environment

- The S&P/TSX Composite Index enjoyed a broad-based rally in December, advancing 4.4% on positive returns from all 10 industry groups. Resource stocks again led the market, with both the Materials and Energy sectors returning over 7%.
- Concerns that potential weakness in the US might force foreign central banks to diversify their reserves away from US dollar investments sent the price of gold soaring to a 13-year high of over US$540/oz. Seven of the top-ten performing stocks in the TSX Composite Index for the month of December were gold stocks.
- Oil prices moved back to the US$60/bbl level after having retreated to about $57 in November. Natural gas prices spiked to over US$14/Million BTU, a more than 100% increase in little over seven months.
- Outside resources, the best performing group was Information Technology. The December recovery from the November low, however, proved short-lived, with heavyweights Research in Motion and Nortel both surrendering their gains in early 2006.
- For the quarter, the S&P/TSX Composite Index gained 2.9%, bringing its full-year result to 24.1%. Fourth-quarter returns were led by Materials (+9.9%), Financials (+7.8%), and Utilities (+5.6%). The Energy sector gave back some ground in the last three months of the year, declining 2.1%. For the year, however, Energy advanced 61.3%. While oil prices softened from the post Hurricane Katrina high of $70 US a barrel reached in the fall, oil prices still managed to gain over 40% in 2005.

Fund Performance

- The Russell Canadian Equity Fund returned 25.9% for the year, exceeding its benchmark while performing in line with its benchmark in the fourth quarter. In the quarter, the Fund benefited from favourable stock selection in the Telecommunications Services, Consumer Staples and Industrials sectors. An additional area of strength came from Information Technology, where the Fund's exposure to March Networks (+74.2%) and underweights in Nortel Networks (-6.8%) and Cognos (-9.8%) were advantageous.
- The market's best-performing sector, Materials, advanced 9.9% during the quarter. Resource stocks, primarily gold related shares, drove performance. Teck Cominco (+19.8%), the Fund's largest overweight, along with HudBay Minerals (+75.8%) were solid contributors.
- Picton Mahoney was the strongest performing manager during the quarter. Their Materials selections, including overweights in First Quantum Minerals (+23.1%), Gammon Lake Resources (+45.2%), and HudBay Minerals contributed to performance. Underweights in Imperial Oil (-13.7%), Loblaw Cos. (-19.0%), and overweights in Teck Cominco, Gildan Activewear (+12.8%), and March Networks also added value.
- Greystone outperformed during the period, due in part to overweights in Cameco Corp. (+19.1%) and Precision Drilling Trust (+14.5%), and an underweight in BCE Inc. (-11.4%). Greystone's solid fourth-quarter results capped a strong year as the Fund's best-performing manager of 2005.

Russell Canadian Fixed Income Fund

FUND PERFORMANCE (%) Period Ending December 31, 2005

	Latest Month	Latest 3 Months	Year to Date	Annualized One Year	Annualized Two Years	Annualized Three Years	Annualized Four Years	Annualized Five Years	Annualized Ten Years	Annualized Inception to Date	Inception Date
Russell Canadian Fixed Income Fund	**0.8**	**0.8**	**6.6**	**6.6**	**6.9**	**6.9**	**7.7**	**7.7**	**7.7**	**8.3**	Nov./92
RBC CM Cdn. Bond Market Index	0.8	0.7	6.5	6.5	6.8	6.7	7.2	7.4	7.7	8.2	
SC Universe Bond Index	0.8	0.7	6.5	6.5	6.8	6.8	7.3	7.4	7.7	8.2	

Market Environment

- Canada's economy continues to rank among the most stable in the world. According to a Statistics Canada report, the unemployment rate fell to a 31-year low of 6.4% in November (before inching up to 6.5% in December) and real Gross Domestic Product continued to show underlying strength, rising 0.2% in October.
- Although the most recent Consumer Price Index report suggests that inflation remains essentially benign, the Bank of Canada raised its overnight target rate from 3.00% to 3.25% in its last meeting before the end of 2005.
- The RBC CM Canadian Bond Market Index returned 0.7% in the fourth quarter, with most of the gains occurring in the month of December. For the year, bonds were up 6.5%, which is impressive given the negative outlook most bond market participants had at the beginning of 2005.
- The US Federal Reserve continued along its path of higher short-term interest rates, hiking rates 25 basis points on two separate occasions during the quarter. However, at its last policy meeting on December 13, 2005, the Fed indicated that it may be nearing the end of its monetary tightening cycle.

Fund Performance

- The Russell Canadian Fixed Income Fund returned 0.8% during the quarter, outperforming its benchmark. The Fund returned 6.6% for the year, with all three managers outperforming their respective benchmarks.
- Canso was the Fund's top-performing manager for the second quarter in a row. Canso benefited from expert issue selection and its exposure to long-term maturity corporate bonds. Canso was also the best performing manager for the year.
- Beutel Goodman, the Fund's yield curve specialist, also performed well during the quarter, with their strategy capitalizing on the flattening yield curve.
- PIMCO's performance was slightly ahead of the benchmark during the quarter. While PIMCO's non-Canadian bond exposure was a detractor to performance, their longer-than benchmark duration strategy was a positive factor.

Russell US Equity Fund

FUND PERFORMANCE (%) Period Ending December 31, 2005

	Latest Month	Latest 3 Months	Year to Date	Annualized One Year	Annualized Two Years	Annualized Three Years	Annualized Four Years	Annualized Five Years	Annualized Ten Years	Annualized Inception to Date	Inception Date
Russell US Equity Fund	**0.2**	**2.2**	**4.7**	**4.7**	**3.7**	**4.7**	**-3.1**	**-4.4**	**5.6**	**7.8**	Apr./94
S&P 500 Index	0.0	2.8	2.3	2.3	2.6	3.4	-3.9	-4.4	7.4	9.5	
Russell 1000® Index	0.1	2.8	3.6	3.6	3.5	4.4	-3.1	-3.9	7.6	9.7	
Russell 1000® Growth Index	-0.4	3.7	2.6	2.6	0.6	2.4	-6.4	-8.3	5.1	7.7	
Russell 1000® Value Index	0.6	1.9	4.4	4.4	6.2	6.2	0.1	0.1	9.2	10.9	

Market Environment

- Despite relatively positive economic news on GDP growth, inflation and employment, the US market struggled in December, with the Russell 1000 Index returning only 0.1%. The Energy sector partially recovered from the November sell-off and added just over 4%, followed by slim positive results from Health Care and Materials.
- Emerging concern over future economic growth was the prime drag on the market. The worries were triggered by a flattening and eventual inversion of the yield curve during the month. A fairly good predictor of past recessions, investors saw this as a reason for caution.
- Another concern for the market was the year-end rally in gold. Often such moves in gold prices are associated with expectations of US dollar weakness and inflation. Given the 14%+ appreciation of the US dollar in 2005 vs. the Yen and the Euro, substantial US deficits and the potential for narrower spreads between US, Japanese and European interest rates in 2006, the gold rally had some credibility.
- The Energy sector saw significant merger and acquisition activity. ConocoPhillips launched a takeover bid for natural gas producer Burlington Resources. In the power segment, FPL Group and Constellation Energy Group announced a merger that will create the largest US power company. There were also several pending deals involving natural gas pipeline companies.
- For the quarter, sector leadership showed a marked reversal from first nine month trends. The market favoured consumer and financial stocks that were buoyed by continuing strong spending in a post-Katrina world and by quiescent inflation and falling natural gas prices. Previous winners, energy and utilities, gave back ground. Although growth stocks were ahead of value in the quarter, much of this was attributable to weakness in energy stocks.

Fund Performance

- The Russell US Equity Fund posted a 2.2% gain in the fourth quarter. Overweighting the best-performing sector, Materials and Processing, along with exposure in steel manufacturer Nucor Corp. (+14.9%) and out-of-index stock Syngenta AG (+19.4) were beneficial to performance. The Fund's underweight to the poorly performing Utilities sector, along with no exposure to cable operator Comcast Corp. (-11.2%), were other positive contributors in the quarter. Adverse selection across a few sectors, along with the Fund's energy exposure combined to detract from performance.
- Large-cap growth manager Turner Investment Partners outperformed its benchmark through stock selection in sectors such as Autos and Transportation, Consumer Discretionary and Consumer Staples. Turner's key selections included Burlington Northern Santa Fe (+19.6%), Google (+31.9%), Yahoo! (+16.5%), and Whole Foods Market (+16.1%). Other key decisions included overweights in Apple Computer (+35.0%), Marvell Technology Group (+22.4%) and the decision to avoid Dell (-11.9%) entirely.
- During the quarter, two out of the Fund's three value managers outperformed. Schneider added value through its sector positioning, and benefited from having zero exposure in the struggling Integrated Oils sector. The top performing value manager during the quarter was MFS as both sector positioning and stock selection were contributing factors to their results. Areas of strength included exposure to stocks such as Accenture (+15.5%), Deere & Co. (+12.7%), and Northrop Grumman (+11.8%).

Russell Overseas Equity Fund

FUND PERFORMANCE (%) Period Ending December 31, 2005

	Latest Month	Latest 3 Months	Year to Date	Annualized One Year	Annualized Two Years	Annualized Three Years	Annualized Four Years	Annualized Five Years	Annualized Ten Years	Annualized Inception to Date	Inception Date
Russell Overseas Equity Fund	**4.4**	**4.5**	**10.5**	**10.5**	**9.9**	**10.2**	**3.0**	**-1.0**	**6.2**	**7.0**	Dec./88
MSCI EAFE Index (linked)3,4	4.6	4.8	10.8	10.8	11.3	12.2	4.2	-0.3	4.5	16.2	
MSCI EAFE Growth Index (linked)3,4	5.3	5.0	10.5	10.5	9.3	9.0	1.9	-2.8	2.0	3.0	
MSCI EAFE Value Index (linked)3,4	4.0	4.5	11.0	11.0	13.4	15.4	6.4	2.2	6.9	7.7	

Market Environment

- International markets performed well in December, led by a nearly 10% advance for the Japanese stock market. In local currency terms, this brought the 2005 return for the Japanese market year to just over 40%, by far the best performing major market in the world. Signs that the decade-old struggle with deflation may be over attracted not only foreign buyers but the long-absent domestic investors as well. Sales of domestic Japanese mutual funds grew over 30% in 2005 and Internet-based trading by individuals has exploded in popularity.
- Signs of improving economic conditions in Europe also translated into consistently good returns across the region in December. Early in the month the European Central Bank raised it benchmark lending rate for the first time since 2000 citing inflation concerns. In Germany, a measure of business confidence hit a 5-year high and the German market advanced just over 4%, primarily on strength in industrial stocks.
- The Nordic countries were the better performing European markets in December followed by 4-7% returns for markets in Portugal, Greece and Italy. The UK equity market had a return of just under 3% for December, which helped move it back into positive territory for the quarter.
- For the quarter, Japan strongly led the overseas developed markets, on the strength of the improving real estate prices, and newly re-elected Prime Minister Koizumi's promise of economic reforms. The Netherlands and Switzerland were Europe's top markets in the fourth quarter as a result of strength among its Financials, Health Care and Technology stocks. Germany also outperformed the region, helped by positive outlooks within its financial and industrial sectors. But Europe overall was held back by the weakness in the U.K. due to a reversal in sentiment towards energy stocks.

Fund Performance

- The Russell Overseas Equity Fund returned 4.5% in the quarter. The Fund performed well in the Telecommunications (the quarter's worst-performing sector) and Utilities sectors, where it was underweight poorly performing stocks such as Vodafone Group (-15.5%), Telecom Italia (-10.5%), and Enel (-6.3%), and instead held German utility RWE AG (+11.9%).
- However, overweighting the weak performing Energy sector and overweights in Financials and Consumer Staples stocks such as Foster's Group (-7.5%) and Numico (-5.2%) negatively affected performance.
- Wellington added value during the quarter as its significant tilt towards Technology and move away from Telecoms drove results. Wellington particularly benefited from underweights in most of the larger Telecoms, such as Vodafone Group and France Telecom (-13.5%). Fidelity also added value with similar sector tilts and robust selection in Financials, where they were overweight SBI Holdings (+62.5%) and Daiwa Securities Group (+45.7%).
- The Boston Company performed well, relative to its benchmark. The Boston Company made favourable stock selections in areas such as Industrials, where they were overweight Nippon Express (+24.1%) and Minebea (+29.9%).
- Mondrian and Arrowstreet both trailed their benchmarks during the quarter. Mondrian's unfavourable stock selections in Health Care and Consumers Staples were detractors. Meanwhile, Arrowstreet lagged as a result of unfavourable stock selection in Financials.

Russell Global Equity Fund

FUND PERFORMANCE (%) Period Ending December 31, 2005

				Annualized							
	Latest Month	Latest 3 Months	Year to Date	One Year	Two Years	Three Years	Four Years	Five Years	Ten Years	Inception to Date	Inception Date
Russell Global Equity Fund	**2.8**	**4.4**	**--**	**--**	**--**	**--**	**--**	**--**	**--**	**6.6**	May/05
MSCI World Ex Canada Index[3,5]	2.1	3.8	--	--	--	--	--	--	--	4.5	

Market Environment

- The favourable global economic backdrop and improvements in the euro zone and Japan provided a big boost to global stock markets in 2005. The MSCI World ex Canada Index rose 3.8% in the fourth quarter to end the year up 6.7%. However currency fluctuations obscured the true strength in non-U.S. stocks: MSCI World gained 4.5% and 16.3% in local currencies for the fourth quarter and year, respectively. The widening differential between U.S. and overseas interest rates strengthened the dollar relative to most of the world's major currencies in the year, casting aside concerns of the escalating U.S. trade deficit.
- In the US, the fourth quarter of 2005 ended with nearly all economic indicators pointing in a positive direction. This made a nice ending to a quarter that began by having to pick up the pieces from hurricanes Katrina and Rita. The MSCI US Index gained 3.1% and 3.1% over the fourth quarter and year respectively in Canadian dollar terms.
- As in the third quarter, Japanese stocks performed strongly, ending the year at five-year highs. The MSCI Japan Index rose 12.6% and 22.5% in the fourth quarter and full year respectively. Though deflation remains a concern and third quarter GDP was revised down from 1.7% to 1.0%, much of the fourth quarter's indicators were positive.
- Across the world, the Netherlands and Switzerland were Europe's top performing markets in the quarter due to strength among financials, health care and technology stocks. Germany also outperformed the region, helped by positive outlooks within its financial and industrial sectors. However Europe overall was held back by the weakness in the U.K. where a reversal in sentiment towards energy stocks held back the region's largest market. A large concentration in telecoms, primarily Vodafone, also worked against the U.K. This sector was the region's hardest hit in 2005 as companies took on lower margin, higher risk ventures to win market share in the very competitive environment. The MSCI Europe Index rose 2.7% for the quarter and 7.2%for the year. Despite signs of improvement, the euro-zone's economic recovery remains fragile; even so, the European Central Bank raised interest rates in December for the first time in five years on concerns of rising inflation.

Fund Performance

- The Russell Global Equity Fund returned 4.4% in the quarter, exceeding the MSCI World ex-Canada Index's return of 3.8%. The Fund was slightly underweight in the Financials sector, which was the best performing group in the MSCI World ex-Canada Index during the quarter. However the Fund's managers still added value by overweighting Daiwa Securities Group (+45.7%) and Sumitomo Trust & Banking (+24.7%). In the underperforming Energy sector, the Fund was underweight Exxon Mobil (-10.6%) and overweight Schlumberger (+16.1%). Additional areas of strength resulted from stock selection in the Utilities and Health Care sectors. An underweight in Pfizer (-5.2%) and overweight in Teva Pharmaceuticals (+29.7%) particularly added value.
- Two of the Fund's three managers outperformed the index in the quarter. MFS performed slightly better than the index due to an underweight in the Energy sector. MFS added value through underexposure to the larger energy stock such as Exxon Mobil and Chevron (-11.0%). The selection of positive stocks such as Asahi Glass (+24.2%), Reckitt Benckiser (+8.6%) and Nitto Denko (+39.0%) also helped performance.
- Altrinsic marginally trailed its benchmark, due primarily to an underweight in the strong-performing Technology sector.

LifePoints® Portfolios

FUND PERFORMANCE (%) Period December 31, 2005

	Latest Month	Latest 3 Months	Year to Date	Annualized One Year	Annualized Two Years	Annualized Three Years	Annualized Four Years	Annualized Five Years	Annualized Ten Years[1]	Annualized Since Apr-94[1]	Inception Date of Portfolio
Long-Term Growth Portfolio	**3.2**	**2.7**	**16.6**	**16.6**	**13.9**	**14.6**	**7.8**	**5.2**	**10.2**	**10.3**	Jan./98
Long-Term Growth Portfolio Benchmark[2]	*3.0*	*2.8*	*15.2*	*15.2*	*13.1*	*14.6*	*7.7*	*4.8*	*10.0*	*10.0*	
Balanced Growth Portfolio	**2.4**	**2.3**	**12.7**	**12.7**	**11.1**	**11.7**	**7.0**	**5.1**	**9.4**	**9.7**	Jan./98
Balanced Growth Portfolio Benchmark[2]	*2.3*	*2.3*	*11.7*	*11.7*	*10.6*	*11.6*	*6.8*	*4.8*	*9.1*	*9.4*	
Balanced Income Portfolio	**1.6**	**1.7**	**9.6**	**9.6**	**8.9**	**9.2**	**6.9**	**6.0**	**9.0**	**9.4**	Jan./98
Balanced Income Portfolio Benchmark[2]	*1.6*	*1.7*	*9.1*	*9.1*	*8.7*	*9.3*	*6.7*	*5.7*	*8.4*	*8.9*	
All Equity Portfolio	**3.2**	**3.3**	**14.5**	**14.5**	**12.2**	**- -**	**- -**	**- -**	**- -**	**15.2**	Jun./03
All Equity Portfolio Benchmark[2]	*3.0*	*3.5*	*13.3*	*13.3*	*11.7*	*- -*	*- -*	*- -*	*- -*	*15.4*	

Unit Valuation

UNIT PRICE (Cdn $)

Russell Canadian Equity Fund	**235.1543**
Russell Canadian Fixed Income Fund	**116.0333**
Russell US Equity Fund	**105.1991**
Russell Overseas Equity Fund	**106.8780**
Russell Global Equity Fund	**106.6820**
Long-Term Growth Portfolio	**128.9971**
Balanced Growth Portfolio	**111.6582**
Balanced Income Portfolio	**109.3569**
All Equity Portfolio	**102.5801**

Returns are for illustration only and are not indicative of future performance. The indicated rates of returns are historical annual compounded total returns (except as indicated below) including changes in unit values and reinvestment of all distributions. They exclude management fees, and any sale, redemption, distribution or optional charges payable directly by any security holder. For months in which distributions occur, returns are calculated on an intra-period basis, and are geometrically linked.

[1]The "Since Inception" and "10 Year" performance for the Long-Term Growth, Balanced Growth, and Balanced Income Portfolios are a combination of historical performance (from January 1998 when the Portfolios were launched) and modelled performance (from 1994 when the underlying funds were launched) which is calculated by using the performance of the underlying funds. The Portfolios may vary from their target investment in the underlying funds by plus or minus 2.5% due to market fluctuations but the modelled performance calculation assumes that the target mix was maintained at the original mix, throughout the modelling period. Note that the historical portion of the rate of return is not representative of future performance because re-imbursement of fund expenses in the month of February 1998 exceeded actual expenses for that month. The modelled portion of the return does not take into account operating expenses of the Portfolios, but does include the operating expenses of the underlying funds. The operating expenses of the Portfolios have been on average 12 bps. per annum. With the elimination of the Foreign Property Rule, the All Equity RSP Portfolio was merged with the All Equity Portfolio effective September 19, 2005. The All Equity Portfolio performance shown is a combination of the returns of the All Equity Portfolio as of its inception date and the All Equity RSP Portfolio from June 20, 2003 to September 19, 2005. The All Equity Portfolio benchmark has been linked to the historical benchmark returns of the All Equity RSP Portfolio.

[2]The Portfolios Benchmarks are calculated monthly and are geometrically linked for the time periods shown. The benchmark indexes of the underlying Russell Group of Funds are used in the same proportion as the target mix of the Portfolios. The Long-Term Growth Portfolio Benchmark is a blended index of 50% S&P/TSX Capped Composite Index, 20% RBC CM Canadian Bond Market Index, 30% MSCI World Ex-Canada Index; the Balanced Growth Portfolio Benchmark is a blended index of 30% S&P/TSX Capped Composite Index, 40% RBC CM Canadian Bond Market Index, 30% MSCI World Ex-Canada Index; the Balanced Income Portfolio Benchmark is a blended index of 15% S&P/TSX Capped Composite Index, 65% RBC CM Canadian Bond Market Index, 20% MSCI World Ex-Canada Index; and the All Equity Portfolio Benchmark is a blended index of 40% S&P/TSX Capped Composite Index, 60% MSCI World Ex-Canada Index.

MSCI World Ex-Canada Index, as a benchmark for the foreign component of the Portfolios, was adopted on May 13, 2005 replacing the combined returned of the Russell 1000® Index and the MSCI EAFE Index. Historical returns prior to the World Ex-Canada inception are linked to a combined return of the Russell 1000® Index and the MSCI EAFE Index.

For further information regarding benchmark changes, please contact us at canada@russell.com.

[3]Source: MSCI. The MSCI information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used to create any financial instruments or products or any indices. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use it may make or permit to be made of this information. Neither MSCI, any of its affiliates or any other person involved in or related to compiling, computing or creating the MSCI information (collectively, the "MSCI Parties") makes any express or implied warranties or representations with respect to such information or the results to be obtained by the use thereof, and the MSCI Parties hereby expressly disclaim all warranties (including, without limitation, all warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential or any other damages (including, without limitation, lost profits) even if notified of, or if it might otherwise have anticipated, the possibility of such damages.

[4] MSCI EAFE Index calculated with net dividends invested daily as of March 31, 2005. Historical performance is linked to the MSCI EAFE Index calculated with gross dividends reinvested daily.

[5] MSCI World Ex-Canada Index (a custom index calculated by MSCI) is calculated with net dividends invested daily as of March 31, 2005. Historical performance is linked to the MSCI World ex-Canada Index calculated with gross dividends reinvested daily.

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