

Frank Russell Investment Management Company
909 A Street
Tacoma, Washington 98402-5120

May 21, 2004

U.S. Securities and Exchange Commission
Attention: Jonathan G. Katz, Secretary
450 Fifth Street, N.W.
Washington, D.C. 20549-0609

Re: File No. S7-12-04; Disclosure Regarding Portfolio Managers of Registered Management Investment Companies (Release Nos. 33-8396, 34-49398, IC-26383)

Ladies and Gentlemen:

Frank Russell Investment Management Company (“FRIMCo”), a wholly-owned subsidiary of Frank Russell Company (“Russell”), is an investment adviser registered with the Securities and Exchange Commission (the “Commission”) under the Investment Advisers Act of 1940. FRIMCo is the principal investment adviser of each of Frank Russell Investment Company (“FRIC”) and Russell Investment Funds (“RIF,” and together with FRIC, the “Investment Companies”). The Investment Companies are open-end management investment companies registered as such under the Investment Company Act of 1940, as amended (the “1940 Act”). Each of the Investment Companies is a manager of managers fund operating pursuant to a 1995 manager of managers exemptive order¹ (the “Russell Order”). The Russell Order superseded previous manager of managers orders issued to FRIC in 1981 and to RIF in 1988.²

FRIMCo is pleased to have this opportunity to comment upon the proposed amendments to Form N-1A, Form N-2, Form N-3 and Form N-CSR (the “Proposed Amendments”) set forth in the above-captioned Release (the “Proposing Release”).

I. Summary of Comments

The Investment Companies are currently operating under a no action letter³ (the “No Action Letter”) in which the Commission staff stated what it believed would be sufficient disclosure under Item 5(c) (now Item 5(a)(2)) of Form N-1A. FRIMCo requests that: (1) the Commission

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1. SEC Release Nos. IC 22108 (June 2, 1995) (notice) and IC 21169 (June 28, 1995) (order).
 2. SEC Release Nos. IC 11944 (Sept. 21, 1981) (notice) and 11986 (Oct. 14, 1981) (FRIC) and SEC Release Nos. IC 16309 (March 9, 1988) (notice) and 16351 (April 7, 1988) (order) (RIF).
 3. Frank Russell Investment Management Company, SEC No Action Letter (pub. avail. Aug. 30, 1993).

clarify in the adopting release that the Investment Companies (and similar manager of managers funds) are entitled to continue to rely upon the No Action Letter; or (2) the Commission revise the Proposed Amendments to incorporate the provisions of the No Action Letter.

II. Information Regarding Russell

Russell is a U.S.-based global investment management firm. Russell was founded in 1936 and has been providing comprehensive asset management consulting services for over 30 years to institutional investors, principally large corporate employee benefit plans. Russell is itself an independently operating subsidiary of The Northwestern Mutual Life Insurance Company, a mutual life insurance corporation founded in 1857 and headquartered in Milwaukee, Wisconsin. Russell's investment consulting practice features a disciplined investment advisory process that guides the investment of more than \$1.6 trillion for many of the world's largest institutional investors. Russell has been a pioneer in the employment of a manager of managers structure for its funds.

Since launching its investment management business in 1981, Russell, through its subsidiaries, has created and currently manages over 150 separate manager of managers portfolios and separate accounts distributed to investors located in the United States, Canada, Australia, Japan, Singapore, and South Africa, as well as in several countries throughout Europe and the Middle East. Within its manager of managers portfolios and separate accounts, Russell creates a complementary blending of many of the world's most talented investment managers. These portfolios and accounts currently have aggregate investment assets of approximately \$90 billion.

Russell has developed the manager of managers investment proposition into a sophisticated approach that delivers investment programs for its clients. The manager of managers concept pioneered by Russell over 25 years ago has been imitated by many. Russell believes that its competitive advantage is its continuous and in-depth investment manager research and extensive knowledge of financial markets worldwide. Russell's reputation for independence and objective analysis and advice depends in large part upon its ability to understand and evaluate the capabilities, performance, processes and practices of these investment managers.

Research is central to Russell's investment process. Russell employs more than 75 investment professionals who are engaged in researching investment managers. In addition, Russell employs over 60 portfolio managers and analysts who are responsible for the daily management of Russell's manager of managers portfolios and separate accounts.

Russell's manager of managers investment process involves, but is not based solely on, careful review of performance data against a universe of subadviser investment products based on asset class and investment style through the use of proprietary research and computer models. In addition to these performance analytic tools, Russell also conducts thousands of face-to-face meetings with investment managers each year in order to personally scrutinize each manager's knowledge and investment process. This helps eliminate less skilled managers who show nominal good performance and often identifies new highly-skilled managers before they are

well-known. Russell focuses on the people managing the money — not just the performance those managers have generated in the past or the output from a computerized analysis of their style purity and additional investment return relative to an appropriate benchmark. Among the human factors considered are the skill and background of the investment team, the investment team's cohesion and longevity and the alignment of the investment team's incentives with the investor/client. This face-to-face research, coupled with sophisticated technology for analyzing the components of an investment manager's performance, is the basis for Russell's approach to manager of managers investing.

During 2003, Russell's analysts researched over 2,700 investment management firms worldwide, conducting 2,395 evaluation sessions. These evaluation sessions took place on site in 18 countries: Australia, Belgium, Bermuda, Canada, Denmark, France, Germany, Hong Kong, Ireland, Japan, Netherlands, New Zealand, Singapore, South Africa, Sweden, Switzerland, United Kingdom and the United States. Russell's analysts monitored more than 6,600 separate investment "products" offered by those firms and continuously monitored and researched over 2,300 of those products. Of these products, only 530 earned Russell's primary "buy" rating, and only 119 of those products rated "buy" by Russell were incorporated into Russell's manager of managers portfolios and separate accounts.

III. Information Regarding the Investment Companies

As of December 31, 2003, the Investment Companies comprise shareholder investment assets of over \$19.7 billion and approximately 200,000 shareholders of record, not including investors who hold shares through omnibus accounts or variable insurance separate accounts.

Each of the Investment Companies is a series fund with each series operating as a manager of managers fund pursuant to the Russell Order. The Investment Companies' manager of managers investment methodology is designed to enable investors to achieve multiple levels of diversification within a single investment portfolio. Each series (a "Fund") of the Investment Companies represents a particular asset class (*e.g.*, US equity, fixed income, international equity, etc.). Investors are encouraged to apportion their investment assets among multiple Funds using an asset allocation strategy. Each Fund is diversified by dividing the Fund into strategically allocated portions (each such portion, a "Segment"), each of which is earmarked to be invested pursuant to a particular investment style within the Fund's asset class (such as a market-oriented, growth, or value style for US equity securities). The assets of each Segment are assigned to one or more subadvisers that specialize in the applicable investment style. Each subadviser to the Funds is registered under the Investment Advisers Act of 1940.

FRIMCo develops the investment program for each Fund and recommends the subadvisers for each Fund to the Board of Trustees (the "Board") of the applicable Investment Company. The applicable Board formally approves the engagement of each subadviser. FRIMCo allocates Fund assets among the subadvisers, oversees the subadvisers and evaluates their performance results. The Funds' subadvisers select the individual portfolio securities for the Segment assigned to them. FRIMCo also exercises investment discretion over the portion of each Fund's assets not

allocated to the subadvisers and selects the individual portfolio securities for that portion of each Fund's assets and for each Fund's cash reserves. FRIMCo may also directly manage portions of a Fund during periods of transition from one subadviser to another. For its services, FRIMCo receives an advisory fee from the Funds, a portion of which it transmits to each subadviser, as agent of the Funds, and the balance of which it retains as compensation.

With the prior approval of the applicable Board, FRIMCo enters into a subadvisory agreement with each selected subadviser. Each subadviser manages the Fund Segment assigned to it pursuant to its subadvisory agreement in accordance with the applicable Fund's objectives, policies, and restrictions and any additional investment guidelines dictated by FRIMCo. Within these requirements and guidelines, each subadviser has complete investment discretion over the selection of portfolio securities in its Segment and selects the portfolio securities for the Segment it manages. Although each subadviser's activities are subject to general oversight by the Boards and by the Funds' officers, none of the Boards, the officers of the Funds nor FRIMCo approves or evaluates the investment merits of any subadviser's individual security selections. A subadviser has no authority or control with respect to any Segment or Fund other than the Segment or Fund specified in that subadviser's subadvisory agreement.

Currently, FRIC and RIF have a total of 62 unaffiliated subadvisers managing the various Segments of their 27 Funds that are not "funds of funds" or money market funds managed by FRIMCo. FRIC also has six Funds that are "funds of funds" that invest in combinations of other FRIC Funds pursuant to allocations determined by FRIMCo and two Funds that are money market funds managed by FRIMCo.

IV. Advantages of Multi-Manager Investing

The Funds feature well-diversified mutual fund portfolios managed by carefully selecting and combining the investment products of different subadvisers and holding each of the subadvisers to strict investment style guidelines. FRIMCo combines these subadvisers with other subadvisers within the same asset class which, in FRIMCo's judgment, employ complementary investment styles. By combining investment styles that are intended to be complementary, the Funds are better able to reduce exposure to the risks associated with a particular investment style. FRIMCo continuously monitors and evaluates these subadvisers against their investment guidelines, against the Fund's investment objective, policies and restrictions and against a universe of the subadviser's objectively chosen peers (most of which have not been retained as subadvisers to the Funds). FRIMCo recommends to the Boards the replacement or termination of any subadviser when FRIMCo believes it is in the Fund shareholders' best interests to do so.

Russell, like other investment advisers, believes that investors should seek to hold diversified portfolios that reflect both their own individual investment time horizons and their ability to accept risk. Russell believes many investors can best accomplish this by strategically purchasing shares in one or more of the Funds, each of which has been structured to provide exposure to a specific asset class, and most of which employ a multi-style, multi-manager approach to achieve optimal diversification.

V. **Comments on the Proposed Amendments**

A. **The Proposed Amendments**

The Proposed Amendments would amend Item 5(a)(2) of Form N-1A to require a fund to identify in its prospectus each member of a committee, team, or other group of persons associated with the fund's investment adviser that is jointly and primarily responsible for the day-to-day management of the fund's portfolio. The Proposing Release states that the Commission believes that this enhanced disclosure regarding management team members could help investors better evaluate fund management in cases in which a fund is managed using a team approach. The Proposed Amendments would also add a new Item 15 to Form N-1A to require a fund to include disclosure in its statement of additional information regarding, among other items: other accounts managed by its portfolio managers, potential conflicts of interest, and policies and procedures to address conflicts; portfolio manager compensation structure; and securities ownership of portfolio managers.

B. **The No Action Letter**

As noted above, the Investment Companies currently operate under the No Action Letter. In the No Action Letter, the Commission staff stated, with respect to who is a "portfolio manager" of a manager of managers fund for purposes of Item 5(c) of Form N-1A (now Item 5(a)(2)):

[W]e believe that where a fund holds itself out as being managed by a manager of managers, (*i.e.*, holds itself out as being managed by more than one sub-adviser under the supervision of the adviser), and in fact, significant management functions are performed by the adviser, it may be appropriate to conclude that an individual (or individuals) employed by the adviser, rather than the sub-advisers, is (are) responsible for day-to-day management of the fund and should be named as the portfolio manager(s).
[footnote omitted]

The Commission staff stated that it believed it would be sufficient for FRIMCo to make Item 5(c) (now Item 5(a)(2)) disclosure regarding the following:

1. the FRIMCo employee(s) responsible for overseeing the subadvisers for those portfolios with more than one subadviser;
2. the individual(s) employed by the subadviser for portfolios managed by a single subadviser; and
3. the FRIMCo employees for portfolios managed only by FRIMCo.

The Proposing Release does not discuss the No Action Letter or the application of the Proposed Amendments to manager of managers funds.

C. The Continuing Validity of the No Action Letter

FRIMCo believes that the continuing validity of the No Action Letter should be affirmed in connection with the adoption of the Proposed Amendments. Accordingly, FRIMCo requests that: (1) the Commission clarify in the adopting release that the Investment Companies (and similar manager of managers funds) are entitled to continue to rely upon the No Action Letter; or (2) the Commission revise the Proposed Amendments to incorporate the provisions of the No Action Letter.

In the No Action Letter, the Commission staff concluded that it may be appropriate to conclude that one or more individuals employed by the adviser of a manager of managers fund, rather than the personnel of the sub-advisers of such a fund, are responsible for day-to-day management of the fund's portfolio and should therefore be named as the fund's portfolio managers for purposes of current Item 5(a)(2) of Form N-1A. FRIMCo believes that the Proposed Amendments should not affect the view expressed by the Commission staff in the No Action Letter. In addition, FRIMCo believes that this view expressed by the Commission staff leads to the conclusion that such adviser personnel are the only portfolio managers for whom such a manager of managers fund would be required to make statement of additional information ("SAI") disclosure under Item 15 of the Proposed Amendments (regarding, *e.g.*, other accounts managed, portfolio manager compensation structure, and securities ownership).

As discussed in the inquiry letter dated May 6, 1993 submitted by FRIC in connection with the No Action Letter, the Investment Companies' manager of managers structure results in the Investment Companies' shareholders being substantially uninterested in detailed information about subadviser personnel. The Funds are sold on the basis of FRIMCo's overall capabilities in researching, selecting and monitoring a number of subadvisers within the same Fund, and where necessary or appropriate, replacing existing subadvisers with others better suited to the task. When a shareholder decides to invest in a Fund, he or she has made a decision to rely upon FRIMCo's expertise to evaluate, select and monitor the subadvisers, including changes in key subadviser personnel, and to retain or terminate each subadviser as necessary.

Given the structure of manager of managers funds and the expectations of investors in such funds, FRIMCo does not believe that the purposes of the Proposed Amendments would be served by reversing the interpretation of "portfolio manager" in the No Action Letter and requiring the proposed prospectus and SAI disclosure with respect to subadvisory personnel. Furthermore, there are more than 100 subadvisory personnel associated with the Funds, and viewing them as portfolio managers for purposes of the Proposed Amendments would lead to: (1) very lengthy disclosure (which would tend to obscure disclosure which is important to shareholders); and (2) significant costs related to the need to update such disclosure with each change in subadvisory personnel (including the costs of printing and mailing supplements to prospectuses). (For your reference, we have attached as Exhibit A a letter dated May 28, 1993 that was submitted in connection with the No Action Letter that presents data regarding the frequency of changes in subadvisers.) These significant costs would adversely affect the performance of the Funds without providing an offsetting benefit to Fund shareholders.

To avoid any uncertainty regarding the application of the Proposed Amendments to manager of managers funds such as the Investment Companies, FRIMCo requests that (1) the Commission clarify in the adopting release that the Investment Companies (and similar manager of managers funds) are entitled to continue to rely upon the No Action Letter; or (2) the Commission revise the Proposed Amendments to incorporate the provisions of the No Action Letter.

* * *

Please call the undersigned at 253-591-3473 if you have any questions regarding this comment letter.

Frank Russell Investment Management Company

By: /s/ Karl J. Ege

Karl J. Ege
General Counsel and Secretary

Exhibit A

Frank Russell Investment Management Company
P.O. Box 1591
Tacoma, Washington 98401
TELEPHONE(206) 627-7001

May 28, 1993

VIA FACSIMILE AND OVERNIGHT COURIER

Martha H. Platt
Senior Attorney
Division of Investment Management
Securities and Exchange Commission
Mail Stop 10-6
450 Fifth Street
Washington, D.C. 20549

Re: Frank Russell Investment Company
File No. 33-71299

Dear Ms. Platt:

Thank you for your timely response to Frank Russell Investment Management Company's no-action letter request dated May 6, 1993. During our telephone conversation on May 14, 1993 you requested further clarification and information on the four issues outlined below:

1. **No-Action Letter, Page 6, Proposed Solution, (ii):** Clarification of the number of Frank Russell Investment Management Company ("FRIMCo") employees responsible for each of the 22 Frank Russell Investment Company ("FRIC") portfolios.
2. **External Fee Fund Prospectus, The Money Managers:** Clarification of the frequency of reallocation of a fund's assets among money managers and the frequency of the termination of money managers.
3. **No-Action Letter, Page 5, Impact on the Fund:** Detail of the number of money managers terminated and hired within the last four years for each of the 22 FRIC portfolios.
4. **External Fee Fund Prospectus, The Money Managers:** Reconciliation of the following statement in the prospectus: "each money manager has complete discretion to purchase and sell portfolio securities for its segment of a fund within the fund's investment objectives, restrictions and policies, and the more specific strategies developed by Frank Russell

Company and Management Company” with the final sentence on page 6 of the no-action letter which reads “This disclosure will permit potential investors to access the background experience of those persons who set portfolio investment strategies and who guide and direct portfolio managers to assure compliance with a portfolio’s investment objectives, policies and restrictions.”

Clarification of Number of FRIMCo Employees Responsible For Each of the FRIC Portfolios

There are five FRIMCo employees responsible for the review of the 22 FRIC portfolios. Each of these five employees has responsibilities which relate to each of the 22 portfolios.

Clarification of the Frequency of Reallocation of a Fund’s Assets Among Portfolio Managers

FRIMCo is currently in the process of documenting the reallocation of assets among Portfolio Managers for each of the 22 FRIC portfolios for the period 1992-1993. Rather than delay your receipt of the other information you requested I will forward this information to your attention as soon as it is available. I expect the documentation to be complete early next week.

Detail of the Number of Portfolio Managers Terminated and Hired Within the Last Four Years for Each of the FRIC⁴ Portfolios

<u>Portfolio</u>	<u>Year</u>	<u>Number of Managers Terminated</u>	<u>Number of Managers Hired</u>
Equity I	1989	0	0
Equity I	1990	3	2
Equity I	1991	3	4
Equity I	1992	1	1
Equity II	1989	1	1
Equity II	1990	2	2
Equity II	1991	0	0
Equity II	1992	0	0
Equity III	1989	0	0
Equity III	1990	1	0
Equity III	1991	0	0
Equity III	1992	0	0

4. Detail for money markets portfolio is not included since Release 33-698 (April 6, 1993) does not require disclosure about individual managers of money market funds; detail for Emerging Markets, Fixed Income III and Multistrategy Bond portfolios is not included because portfolios commenced operation in November 1992.

<u>Portfolio</u>	<u>Year</u>	<u>Number of Managers Terminated</u>	<u>Number of Managers Hired</u>
Equity Q	1989	1	1
Equity Q	1990	0	0
Equity Q	1991	0	0
Equity Q	1992	0	0
International	1989	0	0
International	1990	0	1
International	1991	0	0
International	1992	0	0
Fixed Income I	1989	3	3
Fixed Income I	1990	0	0
Fixed Income I	1991	0	0
Fixed Income I	1992	1	0
Fixed Income II	1989	0	0
Fixed Income II	1990	0	0
Fixed Income II	1991	0	0
Fixed Income II	1992	2	4
Diversified Equity	1989	0	0
Diversified Equity	1990	3	2
Diversified Equity	1991	3	4
Diversified Equity	1992	1	1
Special Growth	1989	1	1
Special Growth	1990	2	2
Special Growth	1991	0	0
Special Growth	1992	0	0
Equity Income	1989	0	0
Equity Income	1990	1	0
Equity Income	1991	0	0
Equity Income	1992	0	0
Quantitative Equity	1989	1	1
Quantitative Equity	1990	0	0
Quantitative Equity	1991	0	0

<u>Portfolio</u>	<u>Year</u>	<u>Number of Managers Terminated</u>	<u>Number of Managers Hired</u>
Quantitative Equity	1992	0	0
Int'l Securities	1989	0	0
Int'l Securities	1990	0	1
Int'l Securities	1991	0	0
Int'l Securities	1992	0	0
Diversified Bond	1989	3	3
Diversified Bond	1990	0	0
Diversified Bond	1991	0	0
Diversified Bond	1992	1	0
Volatility Constrained	1989	0	0
Volatility Constrained	1990	0	0
Volatility Constrained	1991	0	0
Volatility Constrained	1992	2	4
Real Estate Sec.	1989	0	1
Real Estate Sec.	1990	0	0
Real Estate Sec.	1991	0	0
Real Estate Sec.	1992	0	0
Limited Volatility	1989	0	0
Limited Volatility	1990	0	0
Limited Volatility	1991	0	0
Limited Volatility	1992	0	0

In addition, the ownership of at least 5 Portfolio Managers has changed during the last four years. In those instances in which the change in ownership constitutes an assignment of the sub-advisory agreement, the Portfolio Manager executes a new sub-advisory agreement and the Prospectuses are stickered to indicate the change. Ownership changes may be accompanied with changes in key personnel.

Clarification of the Role of FRIMCo Employees in Establishing Portfolio Strategies

The Prospectus disclosure under *The Money Managers* and the final sentence of the “Proposed Solution” paragraph of the no-action letter request are not conflicting. FRIMCo determines overall investment strategies and investment objectives, restrictions and policies for each Portfolio. As noted in *The Money Managers* section of the Prospectus, each Portfolio

Manager has complete discretion to purchase and sell portfolio securities *within* the Portfolio's investment objectives, restriction and policies. FRIMCo sets portfolio investment strategies and guides and directs managers in three distinct ways:

- a) FRIMCo recommends to the FRIC Board of Trustees any necessary changes to the investment objectives, policies and restrictions of each portfolio.
- b) FRIMCo monitors the performance of each portfolio, reviews the continued appropriateness of a Portfolio Manager's style, and reallocates assets among Portfolio Managers. For example, on limited occasions, FRIMCo may limit a Portfolio Manager's foreign country exposure when inappropriate for a portfolio's objective. Further, FRIMCo may terminate a Portfolio Manager because the manager's style is determined to be inappropriate for the portfolio's objective.
- c) FRIMCo monitors and evaluates Portfolio Managers both qualitatively and quantitatively to ensure the manager is satisfying expectations. Termination and replacement of Portfolio Managers is demonstrated in 3 above.

As a result of FRIMCo's involvement in portfolio strategies in these three ways it is the experience and background of FRIMCo employees that is most beneficial to investor education. FRIMCo's continual evaluation and monitoring of Portfolio Managers results in termination of Portfolio Managers and hiring of replacement managers when appropriate. Investors rely upon FRIMCo to change Portfolio Managers if a manager has a change in personnel which may impact performance. It is this expertise and experience which investors rely upon when choosing FRIC's unique investment style, not the experience of the individual Portfolio Manager's employees.

If you have any questions or desire further clarification regarding this letter, please do not hesitate to contact the undersigned at (206) 591-3537 or Thomas A. Early at (206) 596-2406.

Sincerely,

Deedra A. Smith
Staff Counsel

cc: Thomas S. Harman, Chief Counsel, Division of Investment Management
Karl J. Ege, Esq.
Thomas A. Early, Esq.