

Russell Alternative Investment Funds plc
78 Sir John Rogerson's Quay
Dublin 2, Ireland

20 October 2010

Dear Shareholder,

Russell Alternative Investment Funds plc – The Alternative Strategies Fund (the “Fund”)

1. Introduction

- 1.1 This letter contains information for shareholders regarding decisions made at a series of meetings of the Fund's board of directors (the “Board”) held in September and October 2010. As you are aware, in March 2008 the Board resolved to wind down and close the Fund. Since this time, Russell Capital Inc. (the “Investment Manager”) has been seeking to sell the underlying positions where possible and during this time the Fund has returned US\$1.2 billion, or approximately 71% of the Fund's 31 July 2008 NAV, to shareholders.
- 1.2 On the basis of the recommendation of the Investment Manager, the diminished size of the Fund's portfolio and the various factors set out in paragraphs 2.2 and 4.1 of this letter, the Board has concluded that a portfolio sale of the Fund's remaining assets would be the optimal way to realise the Fund's remaining value. Following an extensive process a preferred third party purchaser has been selected (the “Bidder”), the identity of whom cannot be disclosed at present. The Bidder has expressed a desire to purchase the Fund's remaining assets as described in more detail below. If this sale concludes, a final NAV will be calculated (taking into account the net proceeds of sale) and the remaining Designated Investment Class shares in the Fund will be redeemed in full in cash (“Option A”).
- 1.3 Following the Board's decision to seek to achieve a portfolio sale, the valuation methodology for calculating the Fund's indicative NAV calculations has been changed so as to reflect the estimated secondary market value of the Fund's assets. This change in valuation methodology is consistent with accounting principles and is typical where a secondary sale of assets is expected to occur. As a result of this change the Fund's indicative NAV as at 31 August 2010 has been reduced by 78.3% compared to the Fund's indicative NAV as at 31 July 2010.
- 1.4 As a possible alternative to receiving 100% cash redemption proceeds, the Board recommended that consideration be given to providing another option (“Option B”) for those shareholders who wish to receive less cash at the closing but retain exposure to the Fund's remaining assets (in a vehicle not managed by Russell Investments). In order that Option B can be better evaluated, the Board is requesting an indication of interest from those shareholders who may be interested in participating in the Option B structure. More information about Option B is set out in Appendix A and an expression of interest form is attached as Appendix B.

2. Executive Summary

- 2.1 Following the return of approximately US\$1.2 billion to shareholders since March 2008, the Fund's portfolio is now extremely concentrated with 6 remaining hedge fund positions. More detail about these assets is set out in Appendix C. As noted in the April and July 2010 shareholder circulars, Russell Investments has been evaluating various proposals to sell the Fund's assets, together with the assets of Russell Alternative Strategies Fund II plc (“ASF II”), Russell Global Directional

*Directors: J. Beveridge (U.K.); J. Finn (U.S. & U.K.); M. Hunt (Irish & U.K.);
V. Leverett (U.S.); P. McNaughton; W. Roberts (U.K.); D. Shubotham*

Registered in Ireland: Company Registration No. 340022; Registered Office as above.

Strategies Fund plc ("DSF") and Russell Diversified Alternatives Fund, US Benefit Plans, Ltd ("RDAF"), in a portfolio sale (the "Portfolio Sale").

- 2.2 Following extensive consideration, the Investment Manager has recommended that the Fund should sell its remaining assets in a Portfolio Sale as soon as practicable. This recommendation was made in the context of the Board's objective of closing the Fund which was set in March 2008. Relevant factors which were taken into account when making this recommendation were: shareholder feedback; the continued deterioration of asset quality; increasing uncertainty as to valuation and future cash flows from the remaining assets; and the limited pool of available purchasers for assets such as the Fund's assets. The Board accepted this recommendation at a Board meeting held on 14 September 2010 believing that a prompt Portfolio Sale is in shareholders' best interests.
- 2.3 A number of potential purchasers have carried out extensive due diligence on the Fund's assets and have provided indicative bids on the Fund's remaining assets to the Investment Manager. The Investment Manager and the Fund have engaged an independent adviser, Park Hill Group LLC ("Park Hill"), a member of the Blackstone group of companies, to assist the Investment Manager with the sale process, including evaluating bidders and the indicative bids received. Further information regarding Park Hill is set out at Appendix D.
- 2.4 On 4 October 2010 the Board, on the recommendation of the Investment Manager and with the support of Park Hill, resolved that Russell Investments should proceed to the next stage of negotiation with the Bidder. The Board, on the advice of the Investment Manager and Park Hill, believes that the Bidder's indicative bid represents a fair market price for the Fund's assets, and that the Bidder is a credible counterparty to enter into this transaction. Russell and Bidder are now working to finalise confirmatory due diligence and the negotiation of the final transaction documents needed to achieve the sale.
- 2.5 As a result of the Board's 14 September decision to sell the Fund's assets as soon as practicable, Russell Investments' Alternative Investments Pricing Committee (the "Pricing Committee") has determined, in accordance with relevant accounting principles, that it is no longer appropriate to continue to value the Fund's assets using the current fair value valuation methodology but instead, to switch to a value calculated based on secondary market value. This change in valuation policy has resulted in a write down of the Fund's NAV as at 31 August 2010 by 78.3% compared to the 31 July 2010 NAV or a reduction in total NAV from US\$157,551,953 to US\$34,122,304.
- 2.6 The indicative NAV for 31 August 2010 will be the last such NAV calculated until the Portfolio Sale closes. Shareholders should also note that there will be no further redemptions of Designated Investment Class shares and consequently no further payments of cash proceeds until the Portfolio Sale closes. When the proceeds of the Portfolio Sale are received, the Board intends that there will be one final Dealing Day on which all remaining Designated Investment Class shares are redeemed in full. This is currently expected to take place by year end 2010 or in the first quarter of 2011. We will be in contact should this timetable change.
- 2.7 As a result of the Portfolio Sale and the change in the Fund's valuation methodology, the Fund requires additional time to complete its 2010 audited financial statements. The Fund has therefore applied to the Irish financial regulatory authority for an additional two months to file the Fund's audited financial statements.

If this extra time is granted this will result in a delay of up to two months (from 31 October 2010 until 31 December 2010) before the statements are sent to shareholders.

Action Required

Option A

- 2.8 There is no action required by shareholders who wish to receive 100% of redemption proceeds in cash and who wish to have no further exposure to the Fund's assets (Option A).

Option B

- 2.9 Shareholders who may wish to consider receiving redemption proceeds in the form of a reduced amount of cash upfront plus ongoing exposure to the Fund's remaining assets should refer to Appendix A for additional information about Option B. The precise terms of Option B, including the way that the ongoing exposure will be structured, cannot be determined until the Bidder has a better understanding of the number, domicile and requirements of shareholders who may be interested in Option B. Therefore please note the 5 November 2010 deadline for notifying Russell Investments of your interest in considering investing in Option B by returning the indication of interest form attached as Appendix B. Russell Investments will then contact you to discuss your requirements. Returning the expression of interest form will not commit you to Option B should it be offered in due course. However, due to the time that will be required to structure and assess the viability of offering Option B, only those shareholders who have returned an expression of interest form by 5 November 2010 will participate in further discussions about Option B and will be eligible to participate in Option B should it be offered by the Bidder. Shareholders should be aware that Option B is offered at Bidder's sole discretion and that shareholders electing to participate in the agreed structure must represent at least 10% of the Fund's NAV for the Bidder to consider providing Option B.

3. Background

- 3.1 The Board resolved to close the Fund in March 2008 following significant shareholder redemptions. Redemptions were initially restricted and then suspended until 1 August 2008. On 1 August 2008 the Fund redeemed all shares and paid shareholders redemption proceeds in the form of cash plus the issue of Designated Investment Class Shares.¹ The Designated Investment Class Shares are non-voting and are not redeemable at the option of shareholders. The shares are redeemable in the absolute discretion of the Board which has exercised its discretion at least quarterly from August 2008, on a pro rata basis, as and when cash has been realised from the Fund's investments. The following table summarises the activities since July 2008:

¹ Shareholders received approximately 40% of 1 August 2008 redemption proceeds in cash (in respect of those assets which had been liquidated) and 60% in Designated Investment Class Shares (in respect of those assets that were illiquid or difficult to value).

NAV at 31 July 2008	US\$1,701,893,810	
Actual Cash Returned	(1,212,623,060)	~71.3%
Realised/Unrealised Losses	(455,148,446)	~26.7%
NAV as of 31 August 2010	US\$34,122,304	~2.0%

- 3.2 The Fund's remaining assets are now extremely concentrated, with 6 remaining hedge fund positions. Most of the assets held by these underlying funds are complex, highly illiquid and increasingly difficult to value. The Investment Manager has advised the Board that in its view, the outcome if the Fund continued to hold those assets is so uncertain that the better course of action, given the Board's overall objective to continue to liquidate the remaining assets and close the Fund, is for the Fund to sell those assets in a Portfolio Sale as soon as practicable rather than continue to hold them.

4. Portfolio Sale in Shareholders' Best Interests

- 4.1 The Board believes that a sale of the Fund's assets as soon as practicable is in the shareholders' best interests. In coming to this decision the following factors were among those taken into account:
- (a) The Board had decided to close the Fund in March 2008, not to keep it open indefinitely – and that approximately US\$1.2 billion or approx 71.3 % of the Fund's NAV had already been returned to shareholders since August 2008.
 - (b) The vast majority of the Fund's investments had already been liquidated. In March 2008 the Fund held 29 hedge fund investments. The Fund's remaining portfolio is now very concentrated and the 6 remaining hedge funds hold a number of assets which are complex, highly illiquid and increasingly difficult to value. As a result, the speed at which cash was being returned to shareholders as redemption proceeds had slowed considerably and was becoming more uncertain and difficult to predict.
 - (c) The Investment Manager, along with Park Hill, believes it will be harder to sell the Fund's remaining assets in 2011 (or later) than it is now and that based on information available today, a better price is likely to be achieved by aiming to execute a Portfolio Sale as soon as possible rather than delaying the sale.
 - (d) There have been increasing shareholder requests to be fully redeemed from the Fund as soon as possible. A number of shareholders had requested that the Fund be closed before their next audit date.
 - (e) The ongoing costs of keeping the Fund open (including legal fees, custody and administration fees and audit fees) were increasing as a percentage of NAV as the Fund reduced in size and were reducing cash available for the payment of redemption proceeds.
- 4.2 The Investment Manager has taken active steps to evaluate a sale of portfolio assets. A number of firms have carried out extensive due diligence on the Fund's assets before submitting indicative bids to the Investment Manager. The Investment Manager also engaged Park Hill to assist the Investment Manager and the Fund with the Portfolio Sale and in particular to provide:

- (a) an independent view on valuation and pricing;
 - (b) access to a wider universe of potential buyers (if required); and
 - (c) assistance with the structuring and execution of the Portfolio Sale.
- 4.3 The Fund and the Investment Manager have taken advice from Park Hill which has recommended the Bidder's proposal as representing a fair market value. The Board is of course mindful of the substantial discount to the indicative NAV at which a Portfolio Sale will take place. In light of the discounts reflected in the indicative bids, the Board and the Investment Manager reconsidered the proposed timing of the Portfolio Sale to determine if the sale price would be higher (and therefore the level of the discount reduced) if the sale took place at a later date. While it is possible that time could see an improvement in one or more of the underlying asset values, the Investment Manager's view, which is supported by Park Hill, is that the discount is more likely to increase the longer the Portfolio Sale is delayed. This view has been reached on the basis that the number of secondary buyers in this space is limited; those that have bid understand the complexities of the underlying assets; and the Investment Manager believes that if the current bids are rejected, the likelihood of additional bidders coming forward with higher bids and/or the current bidders increasing their bid is low.

5. Impact of Portfolio Sale on valuations and audits

- 5.1 The Fund has voluntarily been issuing "indicative" NAVs since July 2008. The Pricing Committee meet on at least a monthly basis before the Fund's indicative NAV is struck to review the NAV information provided by each of the Fund's remaining investments. For all indicative NAVs up to and including 31 July 2010, the valuation methodology used was a fair value method, which was regularly discussed with the Fund's auditors. This involved accepting the NAV for all underlying funds who continued to issue them if the Investment Manager remained confident of the fund's valuation process. Where no NAV was available, or the Investment Manager was not confident of the fund's valuation process, the Pricing Committee would look to other sources of information available to the Investment Manager in order to calculate the fair value.
- 5.2 It is important to note that the fair value methodology did not seek to value the Fund's assets at the estimated price that could be received if they were sold in a near term secondary market transaction. A general "liquidity" discount was not applied to the Fund's assets as a whole. This is in accordance with accepted accounting practice.
- 5.3 In calculating the indicative NAV as at 31 August 2010, the Pricing Committee took into account the Board's decision on 14 September 2010 to pursue a portfolio sale as soon as practicable. In view of this, the Pricing Committee considered it appropriate to change the valuation method from fair value to an estimated secondary market pricing methodology. The indicative bids provided by those bidders who had undertaken due diligence, as well as the valuation information provided by Park Hill, gave the Pricing Committee a number of key pieces of information for calculating the indicative NAV. Such information was not available before the Fund made the decision to sell the portfolio as a whole. Once this course of action was formally approved by the Board, it became necessary to take this information into account when calculating the indicative 31 August 2010 NAV. The

result is that the indicative NAV as at 31 August 2010 is 78.3% lower than the indicative NAV as at 31 July 2010.

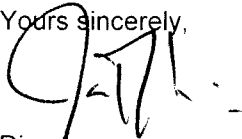
- 5.4 Since 2008 the Fund's audits have been increasingly complex. The Fund received a qualified audit opinion in 2009 due to the significant uncertainties relating to the valuation of the Company's investments. Russell Investments has been working with the Fund's auditors for some months on the Fund's 30 June 2010 audit. However, given the recent decisions regarding the Portfolio Sale and the change in the Fund's valuation methodology, the Fund has requested additional time from the Irish financial regulatory authority to ensure that the audit contains the most up to date valuation information.

6. Conclusion

The Board believes that a Portfolio Sale of the Fund's remaining assets is in shareholders' best interests. The Investment Manager is now working with the Bidder to conclude the Portfolio Sale as soon as practicable. Although completion of the Portfolio Sale cannot be guaranteed the Board is currently not aware of any impediment to its completion. Final redemption proceeds will be paid to shareholders in cash once the Portfolio Sale is concluded. For those shareholders who wish to discuss the possibility of receiving less cash upfront in return for an investment which offers continued exposure to the Fund's assets, please refer to Appendix A for more information about Option B.

Thank you for your continued patience and understanding over the past two years and in particular during this final phase of the Fund's closure process. Should you have any questions relating to the matters raised in this circular, please contact your local Russell Investments representative or contact Victor Leverett, Managing Director, Alternative Investments on +1 253 439 2509.

Yours sincerely,



Director

For and on behalf of

Russell Alternative Investment Funds plc

APPENDIX A

DETAILS OF OPTION B

Subject to shareholder demand, structuring considerations and any other matters it deems relevant, the Bidder may be prepared to offer shareholders ("Continuing Investors") who wish to retain exposure to the Fund's remaining assets ("Fund Assets"), an investment which offers the following indicative terms²:

- On a redemption of their Designated Investment Class Shares, Continuing Investors will receive some cash upfront plus participation in further proceeds from the Fund Assets as described below (the "Participation"). It should be noted that the amount of cash received under Option B would be approximately 45% less than under Option A.
- The Participation will provide exposure to the Fund Assets for a period of 5 years from the closing date of the Portfolio Sale. Provided Bidder makes an 80% gross return (the "Hurdle") on its investment in purchasing the Fund Assets, under the terms of the Participation, Continuing Investors will receive 30% of distributions over the Hurdle received by Bidder from the Fund Assets. **All fees connected to the Participation, including initial structuring fees and ongoing management fees will be borne solely by Continuing Investors and will reduce the return received by Continuing Investors.**
- The precise terms of the Participation, including structure, domicile, valuation, and regulatory status cannot be determined until the Bidder has a better understanding of the number, domicile and requirements of shareholders who may be interested in becoming Continuing Investors.
- Option B will be made available at the sole discretion of the Bidder. The Bidder has also indicated that shareholders representing at least 10% of the Fund's NAV must take up Option B in order for it to be viable. The Bidder may also, in its sole discretion, set an upper limit of shareholders who may become Continuing Investors.
- Neither the Fund nor the Investment Manager will have any involvement in the Participation or with the Fund Assets once the Portfolio Sale closes. Continuing Investors will no longer have any relationship of any kind with the Fund in respect of the Fund Assets. Instead, Continuing Investors will have a direct relationship with Bidder (or any affiliate or vehicle set up or established in relation to the Participation).

Accordingly, the precise terms of the Participation and its feasibility depend very much on shareholder demand. Therefore, if you are interested in discussing the terms upon which you

² The above terms are indicative only and will only be binding upon a final offer from Bidder (which Bidder reserves the right not to make) and acceptance by the shareholder. The final terms may differ materially from those set out above and are included in order for Russell Investments to determine if there is sufficient shareholder interest in an instrument issued by the Bidder or the Bidder's affiliates which has continued exposure to the Fund's assets.

may consider becoming a Continuing Investor, **please complete the form attached as Appendix B and return it by no later than 5 November 2010.**

Shareholders who do not indicate to Russell Investments by 5 November 2010 that they wish to consider becoming a Continuing Investor will receive their redemption proceeds on a final redemption of the Designated Investment Class shares in cash ("Option A"), and will have no continuing exposure to the Fund Assets.

Returning this Appendix B will not commit you to Option B should it be offered in due course. However, due to the time that will be required to structure and assess the viability of offering Option B, only those shareholders who have returned Appendix B by 5 November 2010 will participate in further discussions about Option B and will be eligible to participate in Option B should it be offered by the Bidder.

Important Notice:

Due to the different circumstances of each shareholder, neither the Board nor the Investment Manager are able to make any recommendation regarding Option B. If you are in any doubt about which option is appropriate, you should seek independent investment, legal or tax advice as appropriate.

APPENDIX B

EXPRESSION OF INTEREST IN OPTION B

I/We _____ of _____ as the registered holder of shares in Russell Alternative Investments Funds plc – The Alternative Strategies Fund (the “Fund”) have read the shareholder circular from the Fund dated 20 October 2010 and wish to discuss the possibility of electing Option B (as defined in the circular) and in particular the Participation more fully described in Appendix A to the circular).

I understand that neither the Board nor the Investment Manager is making any recommendation regarding Option B or the Participation and that any decision to invest in the Participation will be made by me/us only after taking my own investment, legal and tax advice as appropriate.

I understand that I am/we are returning this Appendix B in order to enter into further discussions about the possibility of the Bidder (as defined in the circular) structuring the Participation and that:

- I/we shall have no obligation to invest in the Participation; and
- the Bidder shall have no obligation to offer the Participation, which shall be offered at the Bidder’s sole discretion.

Signed: _____

Name in block capitals: _____

Account number: _____

Date: _____

Contact person: _____

(for Russell Investments to contact

to discuss Option B in more detail)

Telephone number: _____

Email address: _____

Important Notice:

If you are interested in Option B please return this completed Appendix B to the Fund's Administrator, for the attention of Niamh Synnott, State Street Fund Services (Ireland) Limited at 78 Sir John Rogerson's Quay, Dublin 2, Ireland to arrive not later than 5 November 2010. Copies can be sent by post, or by email to TA_Russell_ISG@statestreet.com or by facsimile to 00 353 1 5233706.

APPENDIX C

FUND'S REMAINING ASSETS

Summary

Based on its own analysis of underlying holdings and on discussions with Park Hill, it is the Investment Manager's opinion that the majority of the write-down to the Fund's NAV can be attributed to the limited value that the Bidder is willing to pay for the Fund's holdings in Laurus Offshore Fund, Ltd. ("Laurus") and SCFR Ltd. ("Sage Crest"). Prior to the write-down in the NAV, these two investments accounted for more than half of the NAV of the Fund.

Description of remaining assets

Laurus

This is an asset-based lending fund that has been in court-supervised liquidation in the Cayman Islands since late 2008. It has been reported in the media and in public securities filings that Laurus has a large stake in a bio-fuel company called PetroAlgae. PetroAlgae is one of many firms focusing on converting algae into biodiesel for general use. The company has never earned any revenue and so it continues to operate on a negative cash flow basis. PetroAlgae plans to raise a substantial amount of cash through a public equity offering, but it is unclear how much demand there is for this company. Should the equity offering be successful, and should the company be able to grow revenue, then there is the possibility that PetroAlgae will be of significant realisable value. On the other hand, it is also possible that the company may go bankrupt and be worth nothing. No money has been paid to equity holders in Laurus since the fund has been in liquidation.

Sage Crest

This is an asset-based lending fund in a distressed state that has a complicated corporate structure. Some affiliates of Sage Crest have been in bankruptcy for more than two years and much information about Sage Crest has been revealed in public court filings. For example, it is a matter of public record that Deutsche Bank ("DB") is the senior lender to the fund and that during the time in bankruptcy, no amount of the DB loan's principal has been repaid and no money has been paid to investors. DB and certain debtor entities have filed competing bankruptcy plans and it is unclear what the ultimate value will be for this investment. Professional fees related to the bankruptcy are high and they will continue to be high at least until the estate emerges from bankruptcy.

Other investments

The Fund's other investments include holdings in the following funds:

- Contrarian Capital Fund I Offshore Ltd;
- Quantek Opportunity Fund, Ltd;
- Varde Fund (Cayman) Ltd; and
- Tennenbaum Multi-Strategy SPV (Cayman).

Collectively, these funds own a wide range of assets with little in common except their illiquidity. Examples of investments held by these underlying funds are:

- Direct real estate holdings in Brazil, Germany and Mexico;

- Vintage commercial aircraft and associated leases; and
- Private equity.

Important Notice:

This is not intended to serve as comprehensive analysis and should not be solely relied upon when making decisions. Any participation in the Fund's remaining assets that may in due course be offered by the Bidder will be offered solely on the basis of such formal documentation as may be made available by the Bidder.

APPENDIX D

INFORMATION ABOUT PARK HILL

Park Hill is a leading global alternative asset placement agent and advisory firm. Park Hill is comprised of three practice groups: Private Equity, Hedge Funds and Secondary Advisory. Park Hill has 62 employees and seven offices located in New York, London, San Francisco, Chicago, Dallas, Hong Kong and Tokyo. Since inception, Park Hill has served as a placement agent to funds that raised in total in excess of \$89.9 billion of commitments for its private equity and hedge fund clients.

Park Hill's secondary advisory practice is focused on delivering solutions to clients seeking portfolio liquidity, unfunded commitment relief and investments in secondary interests. The practice is fully integrated with the broader Park Hill Group, leveraging a global network of relationships to deliver superior results across multiple asset classes. The professionals of the Park Hill Secondary Advisory team are highly experienced in coordinating negotiated sales, broad auctions and complex structured transactions. The team assists clients on all aspects of secondary transactions including end-to-end process management, buyer identification and segmentation, structuring, valuation, due diligence coordination, counterparty negotiation, and closing.