





Russell Investments' Income Portfolios are managed with the goal of producing responsible income and outperforming a blended benchmark.

UPDATE – 4TH QUARTER 2023

FUND ATTRIBUTION

ASSET CLASS	IMPACT*	COMMENTARY
 EQUITIES: Conservative Income	–	The overall impact of equity exposure relative to its benchmark was negative in the period. Style positioning detracted from performance driven by value and quality factors. This was partially offset by the positive performance of low volatility and growth stocks.
 EQUITIES: Diversified Monthly Income and Income Essentials	–	An underweight to equities detracted from performance as global equities rallied in the period. The underweight to U.S. equities negatively impacted returns as expectations that interest rate cuts may be on the horizon boosted the performance of U.S. stocks. Style positioning was also unrewarded this quarter.
 REAL ASSETS	–	Listed real assets had mixed performance in the quarter. Driven by the industrial sector, Infrastructure outperformed its benchmark. This was slightly offset by Real Estate's underperformance relative to the benchmark. Unfavorable security selection within the U.S., namely within the industrial, residential, health care, and storage sectors, negatively impacted performance. The overweight and stock selection among U.S. Technology Real Estate Investment Trusts (REITs) further detracted.
 FIXED INCOME	+	Interest rates continue to be the main driver of performance. Yields fell and bonds rallied over the quarter amid growing optimism that the battle against inflation was successful and anticipation of upcoming reductions in interest rates. The tactical overweight to core bonds was rewarded as bond prices rose in the period. High yield bonds outperformed investment grade bonds driven by an increasing belief among investors that the Federal Reserve (the Fed) will successfully ensure a "soft landing" for the U.S. economy and implement interest rate cuts in the first half of 2024. The underweight to high yield bonds partially offset this positive performance.

Source: Russell Investments, as at 12/31/2023. For illustrative purposes only. *Did the asset class go up or down.

ASSET ALLOCATION

	Conservative Income		Diversified Monthly Income		Income Essentials	
	Q4	Q3	Q4	Q3	Q4	Q3
FIXED INCOME	73.6%	72.8%	42.5%	41.9%	62.4%	62.3%
■ Government Bonds	35.8%	36.0%	19.7%	21.0%	29.8%	30.6%
■ Investment Grade Credit	19.4%	20.5%	10.7%	11.5%	16.1%	17.2%
■ Inflation Linked Bonds	1.4%	0.5%	1.2%	0.3%	1.4%	0.4%
■ High Yield Credit	5.5%	4.9%	3.4%	2.5%	5.1%	4.4%
■ Convertible Bonds	2.5%	2.5%	2.0%	2.0%	2.1%	2.1%
■ Emerging Markets Bonds	4.0%	3.1%	2.6%	1.8%	3.7%	2.9%
■ Securitized Credit	4.8%	5.3%	2.8%	2.8%	4.2%	4.6%
EQUITIES	15.6%	16.0%	43.3%	44.0%	25.6%	25.3%
■ Canadian Equities	5.2%	5.0%	11.7%	10.7%	7.6%	7.4%
■ U.S. Equities	4.9%	5.4%	16.0%	16.6%	8.4%	8.1%
■ EMEA Equities	2.0%	2.0%	7.9%	8.6%	4.7%	4.7%
■ Asia & Pacific Equities	1.0%	1.1%	3.6%	4.0%	2.2%	2.3%
■ Emerging Markets Equities	2.6%	2.6%	4.1%	4.0%	2.7%	2.7%
REAL ASSETS	5.5%	5.4%	8.3%	8.7%	6.1%	6.4%
■ Listed Infrastructure	2.5%	2.4%	4.0%	3.9%	3.0%	2.9%
■ Listed Real Estate	3.0%	3.0%	4.4%	4.8%	3.1%	3.5%
■ Commodities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CASH & OTHER	5.4%	5.7%	5.9%	5.4%	5.9%	6.0%

Source: Russell Investments. Data as of December 31, 2023. May not add to 100% due to rounding.

UPDATES AND OUTLOOK

FUND UPDATES –

Conservative Income

An annual Strategic Asset Allocation review was completed in the period. Additionally, the Russell Investments Global Unconstrained Bond Pool merged into the Russell Investments Global Credit Pool on December 1st, 2023. The review and merger resulted in minor changes to the overall asset allocation of the portfolio. A small allocation to the Inflation Linked Bond fund was added to the portfolio as an additional lever to help diversify risk and sources of return across an increased number of potential economic scenarios. The strategic allocation to Global Equity was decreased as the outlook for global equities is for weaker growth in the coming year and convictions around maintaining the strategic equity overweight were lower. Further, with recession odds remaining elevated and equity valuations looking expensive, the portfolio modestly trimmed risk. Given yields are much higher than we've seen in over a decade combined with the expectation of rate cuts in 2024, fixed income allocations remain attractive to achieve the objective.

Diversified Monthly

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Income Essentials

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POSITIONING AND OUTLOOK –

Conservative Income

The portfolio continues to run a beta* above 1 due to expectations that rate cuts are likely in 2024. Following the pandemic, substantial cash reserves were compiled by businesses and individuals as a safeguard against the tightening monetary policy of central banks. However, these protective measures are now showing signs of weakening. The likely depletion of households' surplus savings, coupled with the rise in interest rates that hampers new borrowing, is poised to trigger refinancing challenges. Slowing job growth and evidence of disinflation indicate that the economy is starting to cool. Market expectations that the Fed is pivoting to a dovish stance has risen but the debate whether a "soft landing" is possible continues.

The fund is tactically underweight high-risk fixed income and overweight core bonds. This reduction of credit exposures in the fund is due primarily to the recessionary outlook. At current yield levels, the potential upside to bonds is quite high if a recession, even a mild one, was to occur.

Diversified Monthly Income and Income Essentials

The portfolio continues to run a beta slightly less than 1 as we believe recession risks persists in 2024 (though the possibility exists that it may be avoided). Following the pandemic, substantial cash reserves were compiled by businesses and individuals as a safeguard against the tightening monetary policy of central banks. However, these protective measures are now showing signs of weakening. The likely depletion of households' surplus savings, coupled with the rise in interest rates that hampers new borrowing, is poised to trigger refinancing challenges. Slowing job growth and evidence of disinflation indicate that the economy is starting to cool. Market expectations that the Fed is pivoting to a dovish stance has risen but the debate whether a "soft landing" is possible continues.

The reduced beta results from both tactical positions relative to strategic allocations, and the positioning of the underlying pools held by the fund. The fund is tactically underweight high-risk fixed income and overweight core bonds. This reduction of credit exposures in the fund is due primarily to the recessionary outlook. At current yield levels, the potential upside to bonds is quite high if a recession, even a mild one, was to occur. From an equity perspective, a strategic overweight to real assets provides the fund with the diversification benefits, defensiveness, stable income and inflation protection required as we navigate uncertain economic and market environments.

*Beta is a measure of the volatility of a security or portfolio compared to the market as a whole. A beta value equal to 1.0 indicates that its price activity is strongly correlated with the market; a beta value lower or higher than 1.0 indicates its relative correlation to the market's movements.

SUB-ADVISER CHANGES

No changes in the period.

PERFORMANCE

Performance (%) as of December 31, 2023

	3 mo	YTD	1 yr.	3 yr.	5 yr.	10 yr.	Since inception
Conservative Income (Series F)	7.39	7.12	7.12	-0.45	2.20	2.80	3.13
Diversified Monthly Income (Series F)	7.23	9.87	9.87	2.54	4.76	4.97	5.14
Income Essentials (Series F)	7.28	8.05	8.05	0.62	3.11	3.55	4.21

Performance is annualized except for periods of less than one year. Source: Russell Investments / Confluence. Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results.

FUND CODES (FRC)

Conservative Income

	Trust	Class
B (front load)	034	4100
B-5	041	4118
F (fee based)	037	4104
F-5	038	4115
O	431	1301

Diversified Monthly Income

	Trust	Class
B (front load)	N/A	2079
B-5	550	2069
B-7	701	2066
F (fee based)	N/A	2084
F-5	555	2064
F-7	777	2065
O	704	5006
O-7	804	2085

Income Essentials

	Trust	Class
B (front load)	811	2029
B-5	855	2044
B-6	856	2047
B-7	857	2050
F (fee based)	830	2040
F-5	845	2041
F-6	846	2042
F-7	847	2043
O	878	5005
O-7	978	7005

For additional Series fund codes, visit russellinvestments.com/ca/fundcodes

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