UPDATE – 4TH QUARTER 2022

MULTI-ASSET GROWTH STRATEGY

Russell Investments

Introduction

It was a year of dismal records for global financial markets. 2022 marked the worst year for stocks since 2008 and the worst year for bonds in decades, and it was the first time in half a century that both asset classes posted an annual decline.

Russia's invasion of Ukraine, record levels of inflation, a faster-than-expected path for monetary policy tightening and an anticipated economic slowdown negatively impacted investor confidence throughout the year.

Both the S&P 500 Index and the MSCI World Index lost 12% (in Canadian dollar terms), while the S&P/TSX Composite Index slipped only 5.8% as it was supported by higher commodity prices. The Bloomberg Canada Aggregate Index fell an eye-popping 11.3% by the end of 2022, an unusual result for the fixed-income index.

These losses came despite gains in the fourth quarter that were driven by incipient signs of a change in some trends. Inflation appears to have peaked and pressures may be stabilizing. In turn, the U.S. Federal Reserve, which pushed its benchmark interest rate to 4.5% from 0.25% over the course of the year, seems near the end of its hiking cycle. Supply chain blockages are starting to ease, and China is beginning to relax some of its Covid-related restrictions.

Still, the outlook for 2023 remains uncertain. The Russia/Ukraine conflict is ongoing and poses a significant impact on global food supply, which could reverberate throughout the developing world and may spark political unrest.

As covid cases rise, the speed of China's reopening will challenge its economy over the shorter term. Ultimately, policy support of households and the nation's struggling property sector will be key.

Global economic growth is likely to be dampened by the high interest rates, with the U.S. and Europe projected to go through mild to moderate recessions. The length and severity of those expected economic downturns is in turn dependent on central bank policy and whether inflation pressures ease.

That puts the onus on central banks to navigate the turmoil. They all face the challenge of reining in inflation without tipping their economies into recession. But all eyes will be on the U.S. Federal Reserve (Fed). The U.S. job market remains resiliant while other parts of the economy slow. Even with some components of core inflation beginning to moderate (gasoline prices, significantly), wage inflation remains a concern. By the end of the third quarter, the Fed had raised rates by 75 basis points on three separate occasions, the most aggressive sustained policy move since the 1980s. And it is likely to remain hawkish for the foreseeable future. Indeed, Fed Chairman Jerome Powell noted at the Jackson Hole Symposium in August that monetary policy will remain restrictive for some time.

The sharp increase in interest rates has also bolstered the U.S. dollar, which reached its strongest point in 40 years during the fourth quarter. It has also benefited from its "flight to safety" appeal during market volatility. This is a negative for its trade partners and a significant headwind for global economic activity. For Canada, the largest U.S. trade partner, the implications are many, including adding pressure on the Canadian consumer as the price of imported goods climb.

While recession risks could continue to support the USD over the short-term, the U.S. dollar could fall off its perch once inflation pressures subside sufficiently for the Fed to signal a pause in its rate hikes. The euro, yen and British sterling are now significantly under-valued on a long-term basis but they should be poised to rebound when the USD starts to weaken. The same is likely true of the Canadian dollar. And once the greenback does begin to weaken, emerging markets in particular should benefit.

Our strategists believe non-U.S. developed markets will likely perform better in 2023 than U.S. equities, even though both are now more attractive than they were at the beginning of the year. Valuations have also improved on government bonds, although Japanese bonds are still expensive due to its central bank's policy of defending a 25 basis-point limit. Yields have risen sharply in most markets.

Due to its relatively larger exposure to commodities, the Canadian equity market held up better than most in 2022. The S&P/TSX Composite Index gained 6% in the fourth quarter and was one of the world's relative outperformers for the year as a whole. However, cyclical stocks are also more vulnerable to a sell-off driven by a slowing economy so the market could struggle to repeat its outperformance in 2023. Meanwhile, the business cycle outlook is negative with a potential recession on the horizon, the Bank of Canada committed to driving inflation down to its 2% target, and a housing market weakened by higher interest rates.

Market Outlook

BUSINESS CYCLE Outlook for the global economy	VALUATION Current asset prices	SENTIMENT Investor behaviour
—	○	+
NEGATIVE	NEUTRAL	POSITIVE
Recessions in the U.S. and Eurozone seem inevitable as the aggressive rate hikes from central banks restrain economic activity and energy prices remain high. Canada also facing recession risk as rates rise and the housing market weakens.	The U.S. is slightly expensive while other regions remain close to fair value. Bonds are now attractive although Japanese bonds still somewhat expensive.	Recession concerns weigh on market psychology which could spark contrarian interest.

Source: Russell Investments. As of December 31, 2022.

Fund Performance Attribution

ASSET CLASS	IMPACT*	COMMENTARY
EQUITIES	+	While risk markets struggled into the holiday season, a strong relief rally through the first part of the quarter provided investors with some much-appreciated positive returns in equity markets for the first time all year. The rally was led by international markets which had been the biggest laggards at the end of Q3.
REAL ASSETS	+	Infrastructure led the way in the real assets category – energy stocks held up well despite the decline in oil prices. Utilities also fared okay as interest rate pressures abated. The same applied to real estate which benefitted from lower rates – of note, it remains one of the weakest performers year-to-date however.
COMMODITIES	+	Commodities managed a small absolute return as gains from precious metals and agriculture offset declines across all the components of the energy sector.
FIXED INCOME	+	Bond yields were modestly higher over the period, but tighter credit spreads combined with the higher levels of income offset the higher yields for small positive returns across core fixed income. High yield and credit oriented fixed income produced stronger gains.

Source: Russell Investments, as at 12/31/2022. For illustrative purposes only. *Did the asset class go up or down.

Multi-Asset Growth Strategy

Goal:
Growth

Long-Term Return Target:
Consumer Price Index (CPI) + 5%

There is no guarantee the stated goals and objectives will be met.

ASSET ALLOCATION	Q4	Q3
FIXED INCOME	**27.1%**	**28.3%**
Government Bonds	5.9%	5.9%
Investment Grade Credit	2.8%	2.7%
Inflation Linked Bonds	1.8%	2.0%
High Yield Credit	2.9%	2.4%
Convertible Bonds	8.3%	7.6%
Emerging Markets Bonds	2.1%	1.8%
Securitized Credit	3.3%	5.8%
EQUITIES	**51.1%**	**50.4%**
Canadian Equities	4.9%	5.4%
U.S. Equities	21.2%	20.6%
EMEA Equities	13.4%	12.7%
Asia & Pacific Equities	6.7%	6.6%
Emerging Markets Equities	4.9%	5.2%
REAL ASSETS	**19.1%**	**18.6%**
Listed Infrastructure	4.8%	4.8%
Listed Real Estate	6.7%	6.9%
Commodities	7.6%	6.9%
CASH & OTHER	**2.6%**	**2.7%**

Source: Russell Investments. Data as of December 31, 2022.
May not add to 100% due to rounding.

POSITIONING CHANGES – Portfolio targets were unchanged during the quarter. The portfolio's defensive positionings, which include being underweight equity and high yield credit to hold cash and gold exposure, remain the preferred allocations. The economy and the consumer continue to digest the meaningful rate increases of 2022. A recession for 2023 seems the most likely outcome. Portfolio adjustments were made through the positioning strategies as discussed below.

RUSSELL INVESTMENTS POSITIONING STRATEGIES – The weighting of this allocation will remain constant at 2%, but the underlying strategies will vary. At the end of the quarter, the strategies within the allocation were the following:

• Option Collar – With the 4,100 SPX puts well in the money as they approached November expiry, the proceeds were used to roll into new options expiring in January with a new strike of 3,600. As noted, the outlook remains uncertain so the portfolio continues to hold extra protection on top of the defensive tactical positions.

• CAD HEDGE^ – Concerns around more weakness in the Canadian economy relative to the U.S. led to weakness in the CAD, hurting these positions.

• HIGH YIELD CREDIT DEFAULT SWAPS*– The protection against the high yield exposure in the core fixed income portfolio was reduced as high yield positions were reduced and spreads moved wider. However, some protection is still in place as the weaker growth outlook could lead to further widening in spreads.

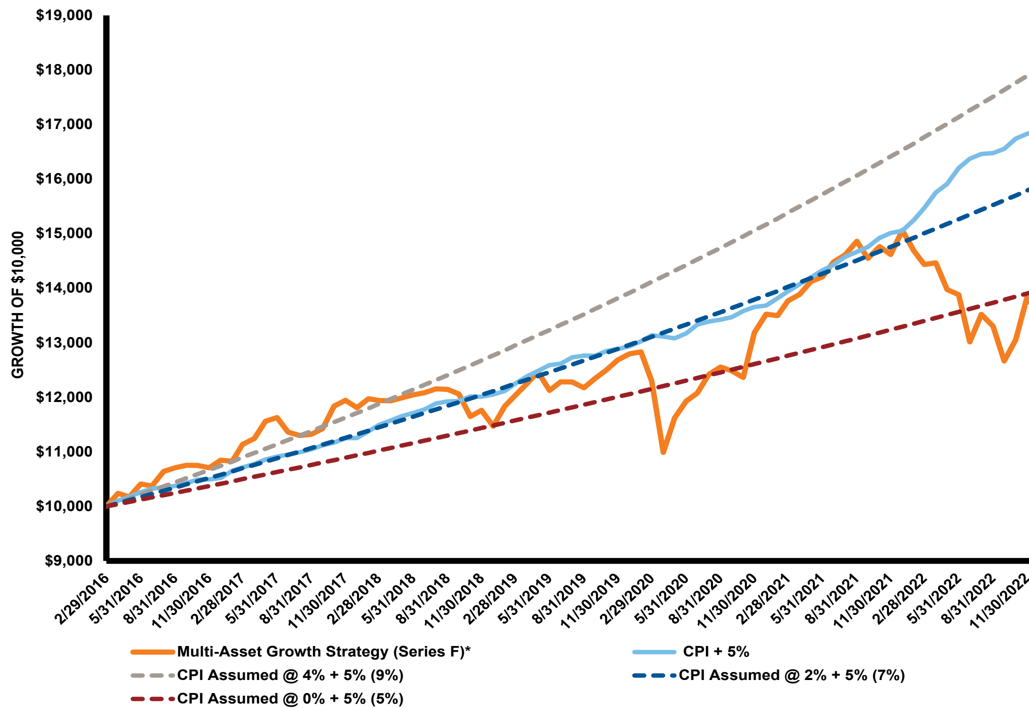
^ Using another financial instrument or strategy to offset the risk of any negative price movement.
* A type of insurance contract on fixed income securities that will compensate the buyer in the event of loan default.

SUB-ADVISER CHANGES

Early in the quarter the Fund completed a change of its emerging markets debt manager. Marathon Asset Management, L.P. (Marathon) was added with Edmond de Rothschild Asset Management being removed. Marathon's emerging market debt product is an actively managed beta strategy, in which the strategy mirrors characteristics of the hard currency emerging market debt index, while generating potential for excess return through superior security selection. The innovative portfolio construction combines close beta replication with elimination of unwanted risks by matching duration, country allocation, and average credit ratings. » In the short term income space Fiera Capital Corporation was removed as a sub-adviser. The change in sub-advisers is driven by the desire to improve the Fund's risk profile and ensure we have the highest possible conviction in our sub-advisers. As a result, we are consolidating the manager line up and removing Fiera Capital Corporation. » In small cap equity, Copeland Capital Management, LLC ("Copeland") was added while Ancora Advisors LLC ("Ancora") was removed. The weightings of the other sub-advisers in the small cap space were also adjusted. Given that the Fund's US manager lineup consists of Boston Partners (deep value) and Calamos (momentum growth), the need for low volatility and quality is elevated. Russell Investments therefore removed Ancora in favor of Copeland, as we believe Copeland will provide a more diverse set of exposures to complement the other two managers in the US lineup and maintain excess return potential over a full market cycle.

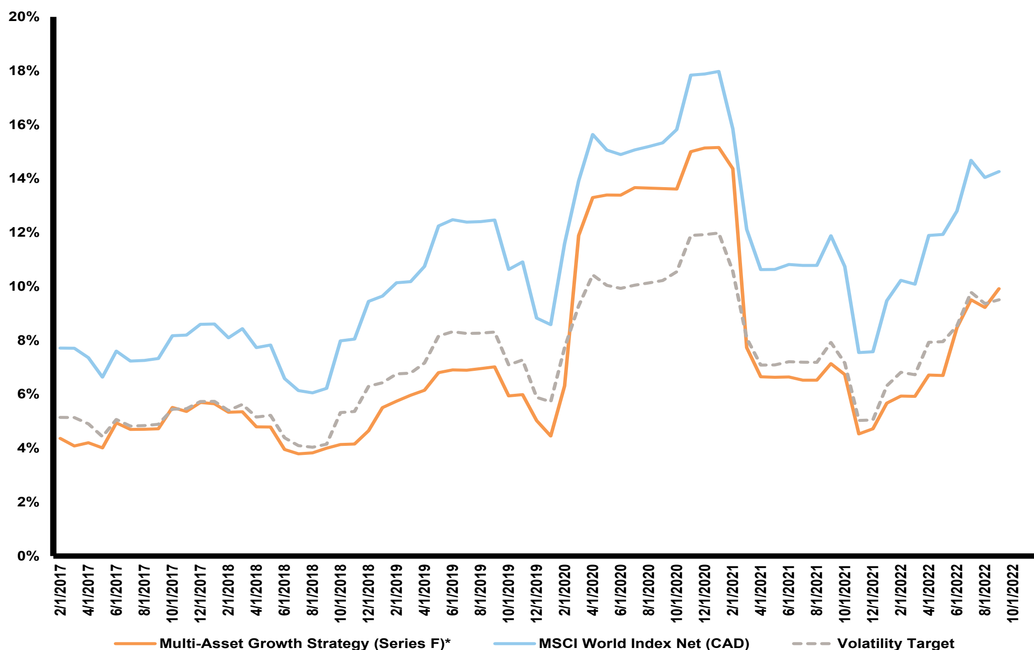
Multi-Asset Growth Strategy (MAGS)

Performance net of fees (Series F)



Source: Russell Investments. As of December 31, 2022. MAGS benchmark is MSCI World Index. But as it is an absolute return-oriented fund, its performance is being compared in the chart against its long-term return goal to exceed the level of inflation, or Consumer Price Index (CPI), plus 5%. The dotted lines show the potential target returns over the long term under different levels of inflation. The red line assumes no inflation (5% return target) and the grey line assumes inflation at 4% (9% return target). The dark blue line would be our most likely target level which assumes inflation is at 2% and therefore the target return is 7%. This is assumed to be the most likely outcome as 2% is the Bank of Canada's long-term inflation target.

Rolling 12-Month Volatility (Series F)



Source: Russell Investments, as of December 31, 2022. The chart aims to illustrate how the volatility of MAGS is targeted to be two-thirds the volatility of the broad market as defined by the MSCI World Index.

All Performance shown is for Series F. Series F is a wrap or fee-for-service program and as such, the performance shown does not include the advisory fee paid by the investor to the dealer that would have reduced returns. Other series of units of the fund are subject to higher management fees and/or expenses which result in lower returns for those series than cited above. Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results.

Volatility is measured by standard deviation. Standard Deviation is a statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution. The greater the degree of dispersion, the greater the risk.

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Performance (%) as of December 31, 2022

	3 mo	1 yr	3 yr	5 yr	10 yr	Since inception
Multi-Asset Growth Strategy (Series F)	6.95	-10.06	1.91	2.78	6.80	4.65
MAGS Long-Term Goal (CPI + 5%)	2.10	12.29	9.34	8.49	9.62	7.56
MSCI World Index (Net)	8.24	-12.19	6.49	7.81	12.26	7.67

Performance is annualized except for periods of less than one year. Inception: July 25, 2005. Source: Russell Investments/Confluence. Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results.

Multi-Asset Growth Strategy benchmark for reporting purposes is the MSCI World Index. However, it is managed to its long-term return goal of the Consumer Price Index (CPI) plus 5%.

To learn more about our multi-asset investment opportunities, please speak to your advisor or visit russellinvestments.com/ca

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Sub-advisers are current as of December 2022. Russell Investments has the right to engage or terminate a sub-adviser at any time.

Positioning strategies are customized exposures directly managed by Russell Investments for use within the total portfolio. Used in conjunction with third-party active managers, positioning strategies allow our portfolio managers to seek excess return and manage portfolio risk by giving them the ability to fully reflect our strategic and dynamic insights with integrated liquidity and risk management.

As with all mutual funds, investment in this mutual fund contains risks that may make it unsuitable for you, depending on your investment objectives and risk tolerance. If the fund does not perform as intended, you may experience a loss of part or all of your principal invested. Please read the prospectus of this fund for a detailed description of the risks involved in this investment.

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