UPDATE

Russell Investments

Multi-Asset Income Strategy

1st Quarter 2022

Introduction

It was a bumpy start to the year in global financial markets as war broke out between Russia and Ukraine, jolting investor confidence and causing the price of key commodities such as oil and wheat to spike higher. That in turn further added to inflationary pressures and raised expectations that central banks will tighten faster and further than previously forecast. Meanwhile, new variants of the COVID-19 virus continued to force lockdowns in certain regions, although most countries eased restrictions toward the end of the quarter.

The conflict between Russia and the Ukraine overshadowed all other events in the quarter and will likely continue to dampen investor sentiment for the foreseeable future. It's likely to aggravate the issues already battering consumers globally – rising prices of energy and food, and disrupted supply chains. Over the longer-term, there is a risk of a new cold war between Russia and the West, increased military spending and a further blow to globalization. For Europe, the war will likely accelerate its move away from dependence on Russian oil and natural gas toward sustainable energy sources.

As well, the Russia-Ukraine crisis is expected to deal a double-whammy to the global economy. Not only could it fuel much higher inflation, but it's also likely to dent global economic growth, with Europe poised to take the largest hit due to its geographic proximity and dependence on Russian energy. While still above recent trend, 2022 GDP (gross domestic product) growth forecasts have been lowered to 3.0% for the U.S., 2.5% for Europe, and 3.5% for the U.K. Canada stands to benefit from the war as a major exporter of oil, wheat and potash – the commodities most impacted – but that will be offset by the corresponding inflationary pressure on consumers. Still, our forecast for Canada's GDP growth remains unchanged at 3.8% for this year.

While higher oil prices are grabbing the headlines and are a major contributor to inflation in the developed world, rising food prices are another significant risk. Russia and Ukraine supply around a quarter of the world's wheat exports, much of which goes to emerging markets in the Middle East and Africa. Food prices are an issue for inflation but are also a risk for political stability in many emerging economies.

Another issue weighing on markets in the quarter – and likely to continue throughout the year -- is the prospect of tighter monetary policy by the world's major central banks. Indeed, the U.S. Federal Reserve (Fed) and the Bank of Canada raised interest rates in the first quarter, and both are expected to continue hiking their benchmark rates throughout the year. This could dampen consumer spending, a major driver of economic growth in both countries. The risk is great in Canada, where household debt levels are at record highs. The Bank of England has also raised rates this year and the European Central Bank announced it would end its asset-repurchase program earlier than expected, although it left rates unchanged.

The Fed's new hawkish stance and the geopolitical uncertainty in Europe has buoyed the U.S. dollar this year. Its safe-haven status has pushed it above what we see as fair value against the Canadian dollar, although there is a case for U.S. dollar weakness in the second half of the year if Russia retreats from Ukraine and the Fed softens its stance as inflation pressures lessen. Any potential weakening of the U.S. currency could help the performance of non-U.S. markets and offset some of the headwinds facing emerging markets.

Hopes for a diplomatic solution to the Ukraine crisis did boost investor sentiment at moments throughout the quarter, as did a pledge by the Organization of Petroleum Exporting Countries (OPEC) to boost oil production. But most global equity markets ended the period sharply lower. The Canadian benchmark index was a notable outperformer, however, gaining 3.8% in the quarter.

Even with the pullback in the first months of the year, our cycle, value and sentiment investment decision-making process finds U.S. equities to be expensive, while Europe is only marginally expensive. The U.K. and emerging markets are more fairly valued. Canadian equities are poised to benefit from the high weighting of the energy and materials sectors in the benchmark index, and our outlook for Canadian equities is positive. We continue to prefer Canadian equities over the U.S.

The business cycle is positive as pandemic-related restrictions on travel and other activities are lifted, so this is likely to support global equities over bonds. We also believe cyclical and value stocks will benefit from higher long-term interest rates and the slowing but ongoing economic recovery. This is more favorable for Canada and Europe than the U.S., which is dominated by high-growth technology stocks.

Russia's invasion of Ukraine has been condemned by most developed countries and led to a wave of far-reaching sanctions that are expected to pummel the economy. The Russian rouble tumbled briefly, and many global index providers have reclassified Russian stocks as "uninvestable." The U.S., U.K. and Australia banned imports of Russian oil. Numerous businesses have shuttered operations in Russia. However, China has failed to condemn Russia's actions and that could potentially further weaken U.S. relations with the country, which is already fragile due to ongoing trade conflicts.

Market Outlook

BUSINESS CYCLE Outlook for the global economy	VALUATION Current asset prices	SENTIMENT Investor behaviour
+	—	○
POSITIVE	NEGATIVE	NEUTRAL
Global economic recovery jolted by war in Ukraine. Europe will bear the brunt of the pain. U.S. economy likely to be only slightly dented, China growth likely to depend on stimulus. Canada to benefit from commodity gains.	The U.S. is expensive, UK and emerging markets at fair value, Europe less expensive after recent market declines. US bonds now fairly valued after sell-off; Japanese, German and UK bonds still expensive.	War in Ukraine, new Omicron variants, ongoing supply chain issues, surging inflation and start of tighter monetary policy is dampening investor sentiment. However, our contrarian indicators collectively are not indicating a market panic.

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

Fund Performance Attribution

ASSET CLASS	IMPACT*	COMMENTARY
EQUITIES	-	The conflict in Ukraine and the prospect of higher interest rates weighed on equity returns globally, with Canadian stocks being one of the lone exceptions. Technology stocks were more impacted which allowed the value factor to outperform.
COMMODITIES	+	The war in Ukraine caused significant supply concerns across the broad commodity complex and a surge in prices. The separate allocation to gold also performed well during the risk-off environment.
CORE FIXED INCOME	-	Headline inflation figures came in higher and central banks began to discuss tightening which sent market rates sharply higher. Credit also sold off as the risk-off environment that hurt equities hurt corporate bonds as well.
REAL ASSETS	-	Global Infrastructure was another of the few positive equity returns to be found during the quarter as energy and utilities did well. However, the drawdown in Real Estate was in line with global equities and offset those gains.

Source: Russell Investments, as at 03/31/2022. For illustrative purposes only.
*Relative to long-term return goal.

Multi-Asset Income Strategy

Goal:
Income

Long-Term Return Target:
Consumer Price Index (CPI) + 2.5%

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

ASSET ALLOCATION	Q1	Q4
FIXED INCOME	**59.8%**	**61.0%**
Government Bonds	19.2%	19.7%
Investment Grade Credit	18.5%	18.4%
Inflation Linked Bonds	4.0%	4.0%
High Yield Credit	5.1%	4.4%
Convertible Bonds	6.7%	6.6%
Emerging Markets Bonds	1.6%	1.5%
Securitized Credit	4.6%	6.8%
EQUITIES	**20.7%**	**21.8%**
Canadian Equities	3.2%	3.2%
U.S. Equities	7.7%	7.9%
EMEA Equities	5.2%	5.8%
Asia & Pacific Equities	2.6%	2.5%
Emerging Markets Equities	2.1%	2.3%
REAL ASSETS	**14.5%**	**13.8%**
Listed Infrastructure	3.1%	3.0%
Listed Real Estate	4.6%	4.6%
Commodities	6.8%	6.2%
CASH & OTHER	**5.0%**	**3.4%**

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

POSITIONING CHANGES – The portfolio holds a reduced duration relative to benchmark but as yields rose sharply the relative duration underweight was reduced. Yields no longer look abnormally low and markets have potentially fully priced the amount of tightening central banks can do. Also, partially because of the move higher in interest rates and the flattening of the yield curve, there are increased concerns around economic growth. This would warrant higher duration levels in order to hedge against potential further drawdowns in risk assets. This was done by increasing the duration levels of the underlying pools.

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:

CAD HEDGE^ – Higher commodity prices and hawkish central bank expectations led the Canadian dollar higher during the quarter. The dollar (CAD) still looks potentially cheap based on current commodity prices.

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 lowered and spreads moved wider. However, some protection is still in place as potential further widening in spreads is possible.

^ 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.

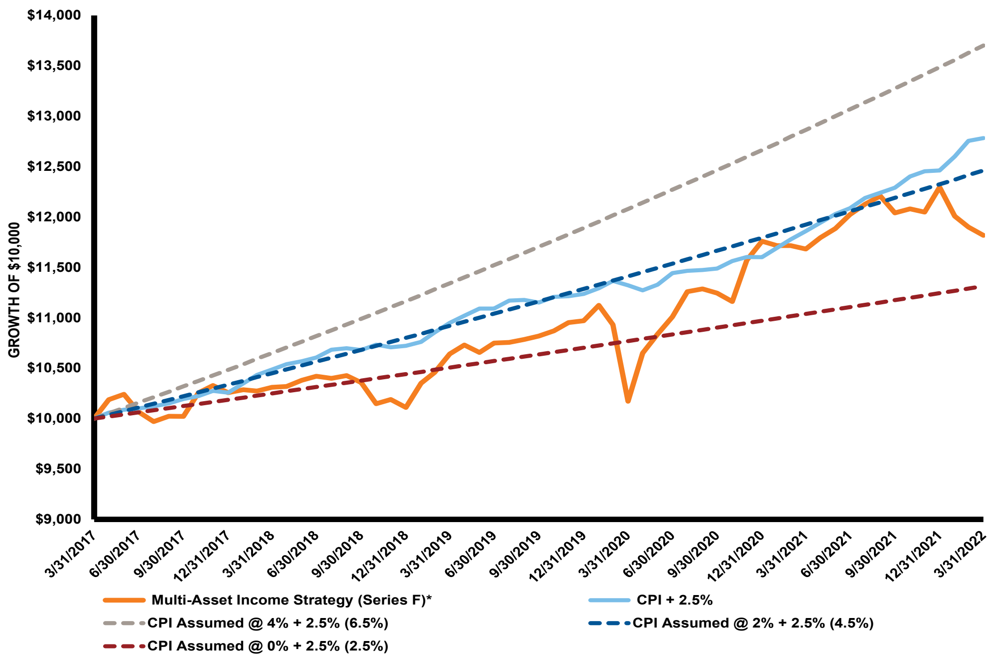
SUB-ADVISER CHANGES

There were no sub-adviser changes during the period.

Multi-Asset Income Strategy (MAIS)

(Series F)

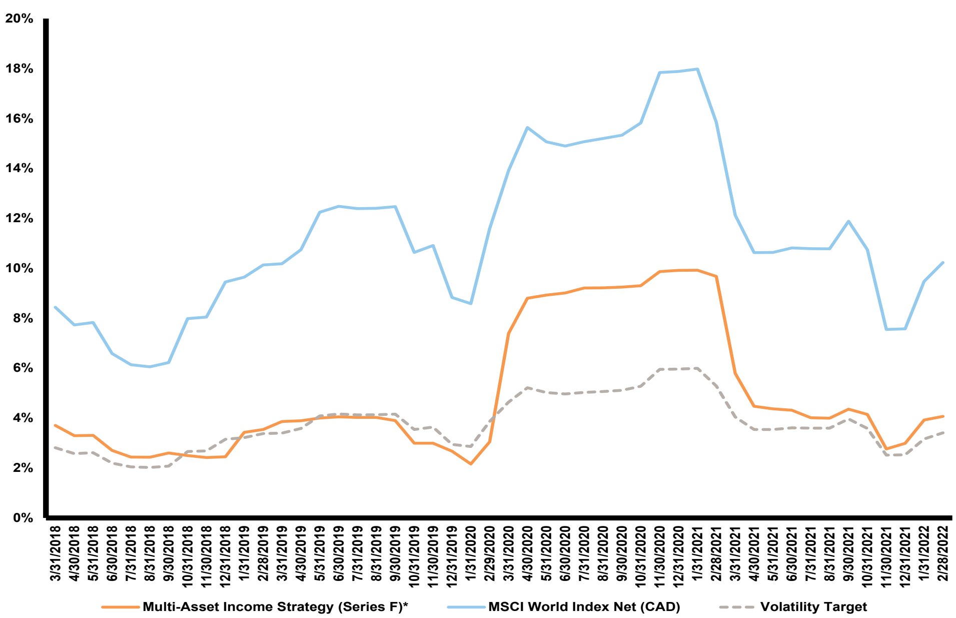
Performance net of fees



Source: Russell Investments. As of March 31, 2022. MAIS benchmark is 65% Bloomberg Canada Aggregate, 35% MSCI World Index. But as it is an absolute return oriented fund, its performance is being compared against its long-term return goal to exceed the level of inflation, or Consumer Price Index (CPI), plus 2.5%. The dotted lines show the potential target returns over the long term under different levels of inflation. The red line assumes no inflation (2.5% return target) and the grey line assumes inflation at 4% (6.5% return target). The dark blue line would be our most likely target level which assumes inflation at 2% and therefore the target return is 4.5%.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 March 31, 2022. MAIS benchmark is 65% Bloomberg Canadian Aggregate Index and 35% MSCI World Index. However, for purposes of this analysis, the MSCI World Index was used as a proxy for broad global equity to show the potential benefits of diversification. As a result, there may be differences between MAIS and MSCI World Index which include, but are not limited to, security holdings, geographic and sector allocations, and different asset classes which impact comparability. Thus, MAIS may experience periods when its performance differs materially from the index. The chart aims to illustrate how the volatility of MAIS is targeted to be one-third of the volatility of the broad market.

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.

Performance (%) as of March 31, 2022

	3 mo	1 yr	3 yr	5 yr	10 yr	Since inception
Multi-Asset Income Strategy (Series F)	-3.89	1.16	3.56	3.40	4.67	4.54
MAIS Long-Term Goal (CPI+2.5%)	2.57	7.79	5.30	5.15	5.85	5.34
Benchmark*	-6.58	0.26	4.64	4.78	5.67	5.26
MSCI World Index (Net)	-6.21	9.44	12.43	11.06	13.55	

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 Income Strategy benchmark for reporting purpose is a blended benchmark of 65% Bloomberg Canadian Aggregate Index and 35% MSCI World Index.
However, it is managed to its long-term return goal of the Consumer Price Index (CPI) plus 2.5%.

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

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