UPDATE – 3RD QUARTER 2023

RUSSELL INVESTMENTS DIVERSIFIED MONTHLY INCOME

Russell Investments

Introduction

Financial markets lost ground in the third quarter amid an uncertain economic outlook, sticky inflation, rising oil prices and soaring bond yields.

Economic signals globally are mixed and the potential for mild recessions to hit Canada, the U.S. and Europe next year remains strong China's economy is struggling with its property and consumer sectors underperforming and government stimulus has so far been only slightly effective. Japan is bucking the trend with an accommodative monetary policy and healthy growth prospects. Australia is another bright spot, where even as the economy slows, recession risks are lower, given that the Reserve Bank of Australia's monetary policy is less restrictive.

Despite the specter of a global economic slowdown, central banks globally are standing firm on interest rates as they remain focused on wrestling inflation lower.

The U.S. Federal Reserve (Fed) has indicated that it would likely cut interest rates more slowly in 2024 and 2025 than markets have priced in. Wage pressures, high oil prices, and a still-strong U.S. economy indicate that wrestling inflation back to the Fed's 2% target may take a while. As a result, markets have priced in a "higher for longer" outlook on interest rates, which in turn put upward pressure on yields during the third quarter.

The Bank of Canada has a more delicate balancing act, as high household debt means any increase in interest rates could weaken consumer spending which could in turn reverberate throughout the economy. Gross Domestic Product (GDP) has fallen twice in the past three quarters, and the outlook is for continued weakness, with a recession likely in the next 12-18 months. Moreover, high immigration has helped support the economy over the past year, but GDP per capita has been steadily declining. Still, inflation remains above target and while the central bank has paused its rate hikes for now, further hikes can't be ruled out.

Even with sagging demand from China, oil prices strengthened in the third quarter following announcements by Saudi Arabia and Russia that they would extend production cuts to the end of the year. This in turn has raised fears that inflation may prove more stubborn, adding to the argument that interest rates may stay higher for longer.

The Russell 1000 Index slipped 0.7% in Canadian dollar (CAD) terms in the quarter, and the MSCI World Index lost 1.36% in CAD terms. The S&P/TSX Composite Index retreated 2.2% as the poor economic outlook and rising yields trumped the strength in oil and gold prices. Meanwhile, the Bloomberg Canada Aggregate Index fell 3.8%.

In a potential harbinger of a change in market leadership, the U.S. technology sector weakened towards the end of the third quarter. This was partly due to a two-day selloff of Apple's shares that wiped away almost US$200 billion from its market capitalization which followed news that the Chinese government staff will impose further restrictions on iPhone use among its employees. Meanwhile, Taiwan chipmaker TSMC lowered its revenue forecast, further dampening sentiment in the sector.

Overall, we have a neutral outlook on equities although valuations are more attractive in non-U.S. markets. We see limited upside with recession risks on the horizon.

We have a positive outlook on government bonds and believe they have the potential to rally once investors are convinced that inflation has peaked, economies are slowing and central banks will no longer raise rates.

Real assets appear attractive compared to global equities, and once rates stabilize, REITs should benefit. Commodities are unlikely to significantly strengthen in the face of a subdued Chinese economy, But geopolitics may keep volatility elevated.

The U.S. dollar is vulnerable to any change in the outlook for rate cuts. It strengthened in the third quarter on expectations of a soft landing and interest rates remaining higher for longer but could weaken if the economy slows faster than expected and the Fed eases policy.

Market Outlook

BUSINESS CYCLE Outlook for the global economy	VALUATION Current asset prices	SENTIMENT Investor behaviour
—	—	○
NEGATIVE	**NEGATIVE**	**NEUTRAL**
The possibility of a mild recession over the next 12 months keeps us cautious on the business cycle outlook. Central banks seen standing pat until inflation moves closer to target or economies deteriorate.	Equity valuations unattractive globally, with the U.S. most expensive. But bond valuations are favorable, and attractive yields offer decent income.	Equities drifting to oversold conditions but not enough to turn positive yet. Signs of a soft landing could help turn the tide unless poor corporate earnings raise recession risks.

Source: Russell Investments. As of September 30, 2023.

Fund Performance Attribution

ASSET CLASS		IMPACT*	COMMENTARY
	EQUITIES	–	An underweight equity positioning was rewarded as global equities declined during the quarter. The underweight to global and international equities had a positive impact as global markets lagged US equities. Style positioning was additive with value as the primary driver of outperformance while small cap exposure detracted. Overall, regional exposures were positive driven by an overweight to Japan and emerging markets.
	REAL ASSETS	–	Listed real assets continue to struggle in this elevated rate environment and was one of the worst performing asset classes this quarter. Both real estate and infrastructure posted negative returns in the period, therefore the strategic overweight relative to benchmark was a detractor.
	FIXED INCOME	–	Interest rates continue to be the main driver of underperformance as yields rose during the period. The tactical overweight to core bonds was unrewarded as bond prices declined in the quarter. Holding a lower weight in high yield as a risk reducing position detracted over the period. High yield bonds outperformed investment grade bonds due to tightening credit spreads and were less sensitive to changes in treasury yields than investment grade bonds. This negative impact was partially offset as the strategic overweight to IG credit added value during the period.

Source: Russell Investments, as at 9/30/2023. For illustrative purposes only.
*Did the asset class go up or down.

Russell Investments Diversified Monthly Income

ASSET ALLOCATION	Q3	Q2
FIXED INCOME	**41.9%**	**41.0%**
Government Bonds	21.0%	21.1%
Investment Grade Credit	11.5%	10.9%
Inflation Linked Bonds	0.3%	0.2%
High Yield Credit	2.5%	2.5%
Convertible Bonds	2.0%	1.9%
Emerging Markets Bonds	1.8%	1.7%
Securitized Credit	2.8%	2.7%
EQUITIES	**44.0%**	**43.4%**
Canadian Equities	10.7%	10.6%
U.S. Equities	16.6%	15.9%
EMEA Equities	8.6%	8.7%
Asia & Pacific Equities	4.0%	4.0%
Emerging Markets Equities	4.0%	4.3%
REAL ASSETS	**8.7%**	**8.7%**
Listed Infrastructure	3.9%	4.0%
Listed Real Estate	4.8%	4.8%
Commodities	0.0%	0.0%
CASH & OTHER	**5.4%**	**6.9%**

Source: Russell Investments. Data as of September 30, 2023.
May not add to 100% due to rounding.

FIXED INCOME CHARACTERISTICS	
Yield to maturity[1]	6.86%
Yield to worst[2]	6.86%
Effective duration[3]	6.44 years

FUND UPDATES – There were no changes to the tactical targets during the quarter. Overall, the fund remains defensively positioned with an underweight to equity and high yield fixed income to hold a higher weight to core fixed income and some money market.

The portfolio's active duration increased throughout the period and remains attractive at current levels given the recessionary outlook. Within equities, the portfolio betas* declined slightly as the underlying pools are positioned more conservatively due to persistent inflation and slowing global economic growth.

POSITIONING AND OUTLOOK – The portfolio continues to run a beta less than 1 as a recession remains the most likely outcome, though the timing has been pushed further out into 2024. Though lagging and concurrent indicators point to continued economic strength, leading indicators point to a global economy at a risk of a slowdown or recession in 2024. The manufacturing sector, which has been contracting for several months, shows some signs of improvement, but it is not enough to indicate a new inventory cycle. Market expectations of earnings growth for the next year are optimistic but do not reflect the risks of a recession.

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 was to occur, which would put downward pressure on rates. From an equity perspective, a strategic overweight to real assets provides the fund with diversification benefits, defensiveness, stable income and inflation protection required as we navigate uncertain economic and market environments.

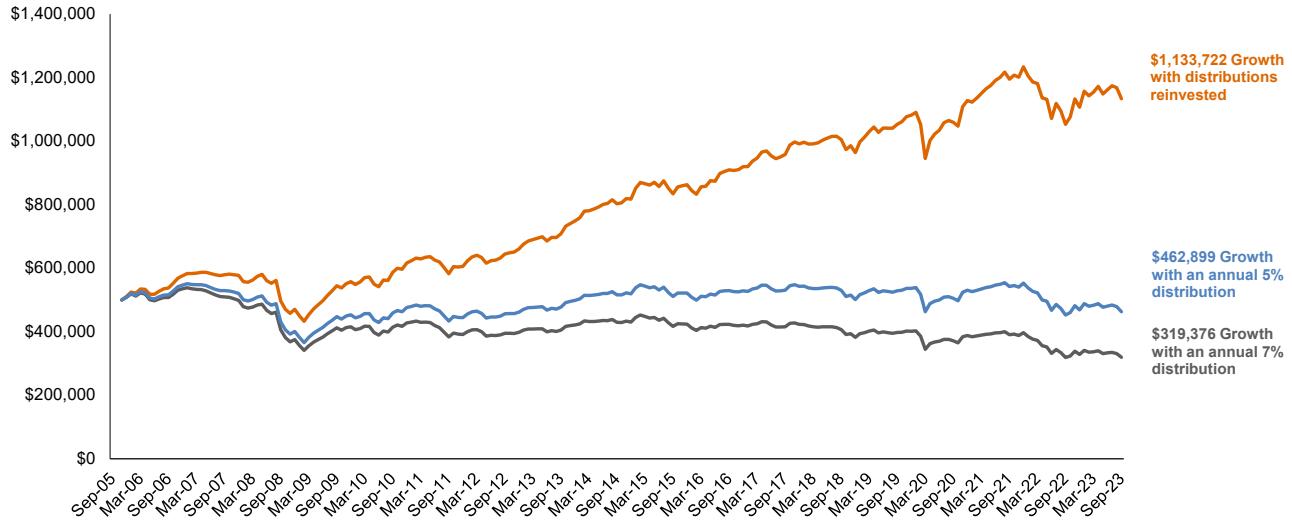
Source: Russell Investments, as at 30/09/2023. Indexes are unmanaged and cannot be invested in directly. Any security commentary is specific to its impact on the fund performance and is not a recommendation to purchase or sell any security. Past performance is not indicative of future results.

1. Yield to Maturity is the expected rate of return on a bond if it is held until maturity based on its current market price. It is not a measure of historical yield or the income received by an investor. Investment management fees, expenses and taxes are not included.
2. Yield to Worst is the lowest potential yield that can be received on a bond without the issuer actually defaulting. The metric is used to evaluate the worst case scenario for yield to help investors manage risks and ensure that specific income requirements will still be met.
3. Effective Duration is the number of years required to recover the true cost of a bond from its purchase date and is a means to measure how sensitive the bond is to a change in interest rates.

* 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.

Russell Investments Diversified Monthly Income (Series F-7)

Growth of $500,000 - Since inception to September 30, 2023

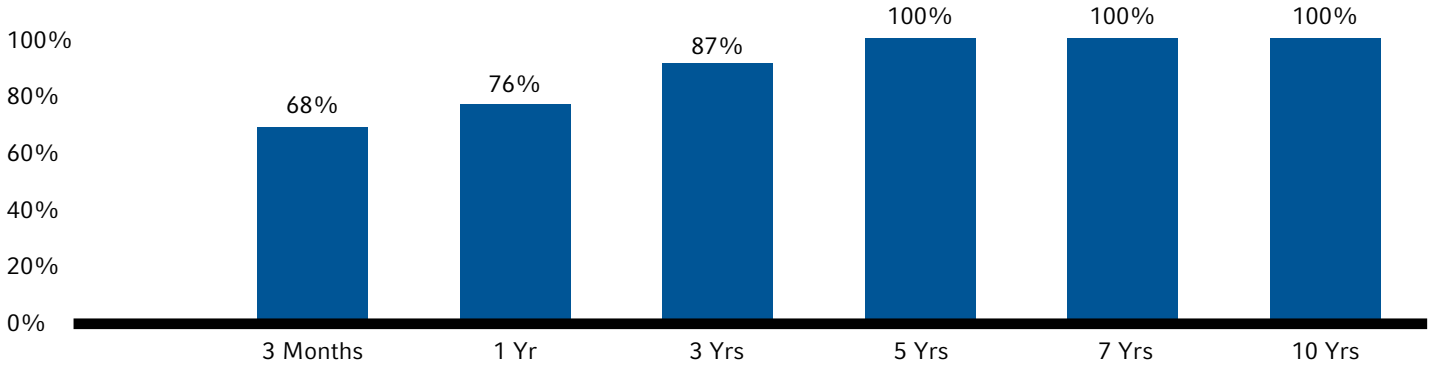


Annual withdrawal amounts

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
5% option	$23,086	$24,941	$25,949	$26,086	$26,440	$27,141	$25,066	$26,833	$26,530	$27,658	$17,572	$446,933
7% option	$27,861	$29,506	$30,093	$29,648	$29,432	$29,604	$26,768	$28,099	$27,177	$27,765	$17,230	$526,702

The above results show the growth of an initial investment of $500,000 made into the Russell Investments Diversified Monthly Income (Series F7) on December 1, 2005 with all distributions reinvested and with 5% and 7% annual withdrawals. Withdrawals are made on a monthly basis and are based on market values at the end of the previous year. All distributions paid out by the fund are assumed to be reinvested. The above results also show the amounts that would be withdrawn on a calendar year basis. 2005 is not a full calendar year, it represents December only. Performance is net of management fees and operating expenses. Series F7 is fee for service, and as such, does not include the fees paid by the investor to the dealer. Source: Russell Investments / Confluence.

% of Times Russell Investments Diversifed Monthly Income Positive



ROLLING PERIOD

	3Mo	1 Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs
Avg. Returns	1.3%	5.1%	5.1%	5.8%	6.1%	6.1%

Rolling periods refer to continuous return streams of the specified time periods going back to fund inception. For example, the 1-year bar represents all one-year period returns over the portfolio's history (August 31, 2018 to August 31, 2019 / July 31, 2018 to July 31, 2019 / June 30, 2018 to June 30, 2019, etc.). The average is the average of all 1-year period returns in history. Similar calculations were used for each time period shown. Inception date: November 1, 2005

Russell Investments

Performance (%) as of September 30, 2023

	3 mo	YTD	1 yr	3 yr	5 yr	10 yr	Since inception
Russell Investments Diversified Monthly Income (F-7)	-2.51	2.29	7.44	1.72	1.92	4.41	5.86
Benchmark	-1.98	3.97	9.07	2.86	4.30	6.24	6.76

All performance shown is for Series F. Series F is fee-for-service and as such, the performance shown does not include the fee paid by the investor to the dealer that would have reduced returns. Russell Investments Diversified Monthly Income (RIDMI) benchmark is currently a blended index of 15% S&P/TSX Capped Composite Index, 10% MSCI ACWI ex-Canada Index, 23% MSCI World ex Canada Index, 4% S&P Global Listed Infrastructure Index, 3.5% FTSE EPRA NAREIT Developed Real Estate Index, 2% Bloomberg Canadian Aggregate 1-5 Years Index CAD Hedged, 33% Bloomberg Canada Aggregate (CAD) Index, 3.5% ICE BofA Merrill Lynch Global High Yield Index, 3.5% ICE BofA Merrill Lynch Global High Yield Bond Index Heged (CAD), 1.25% JP Morgan EMBI Global Diversified Index and 1.25% JP Morgan EMBI Global Diversified Index Hedged (CAD). Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results.

Inception: November 1, 2005

Fund Codes (FRC)

	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

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

IMPORTANT INFORMATION

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of returns are the historical annual compounded total returns including changes in unit/share value and reinvestment of all dividends or distributions, and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

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