UPDATE – 4TH QUARTER 2022

RUSSELL INVESTMENTS DIVERSIFIED MONTHLY INCOME

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	+	Equity positioning was additive during the quarter as stock selection was the main driver. Style exposure didn't have a significant impact, with modest positive performance from value being offset by other style exposures.
REAL ASSETS	+/–	The real estate overweight was slightly negative but was offset by outperformance from some sectors within listed infrastructure. The net impact of the increased real assets holdings was minimal.
FIXED INCOME	–	Holding a lower weight in high yield (as a risk reducing position) was the largest detractor to the portfolio as high yield spreads rallied during the period and the high levels of income were also beneficial. Rates positioning was a slight positive contributor as lower weights to Japanese and European bonds added value.

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

Russell Investments Diversified Monthly Income

ASSET ALLOCATION	Q4	Q3
FIXED INCOME	**40.4%**	**40.4%**
Government Bonds	18.6%	17.2%
Investment Grade Credit	11.5%	11.4%
Inflation Linked Bonds	0.2%	0.2%
High Yield Credit	2.9%	3.4%
Convertible Bonds	1.8%	1.5%
Emerging Markets Bonds	1.7%	1.7%
Securitized Credit	3.8%	4.9%
EQUITIES	**46.7%**	**47.5%**
Canadian Equities	11.7%	11.5%
U.S. Equities	18.0%	18.3%
EMEA Equities	8.8%	9.3%
Asia & Pacific Equities	4.3%	4.5%
Emerging Markets Equities	4.0%	3.8%
REAL ASSETS	**8.9%**	**9.0%**
Listed Infrastructure	4.0%	4.0%
Listed Real Estate	4.9%	5.0%
Commodities	0.0%	0.0%
CASH & OTHER	**4.0%**	**3.1%**

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

FIXED INCOME CHARACTERISTICS	
Yield to maturity[1]	5.38%
Yield to worst[2]	5.37%
Effective duration[3]	6.38 years

FUND UPDATES – As equity markets rallied into the middle of the quarter the portfolio reduced exposure to international equity and moved into money markets. This brought portfolios below their strategic target in equity. Portfolio betas were already below benchmark because of a tactical reduction in high yield and underlying equity positions, but with a worsening negative view around risk markets, the rally was an opportunity to further reduce risk.

International equity saw the strongest rally into the quarter while also having potentially the most precarious outlook. Uncertainty remains around the war in Ukraine and energy supplies which along with a hawkish ECB could hurt the European economy.

POSITIONING AND OUTLOOK – The portfolio continues to run at a beta less than 1 over continually increasing recession probabilities, largely a result of high inflation pressures and higher interest rates. This reduced beta comes from both tactical positions relative to strategic allocations and the positioning of the underlying pools held by the Fund. Tactically, the Fund is underweight high risk fixed income to hold a higher weight to core. This is both to reduce credit exposure while also increasing duration, which sits roughly neutral to benchmark. Yields look attractive, especially if the economy does hit a recession, which resulted in removing the duration underweight from early in the year. On the equity side, a strategic overweight to real assets and value have helped to reduce market sensitivity, as did the recent reductions in moving some equity holdings to cash.

Going forward the outlook remains like that of the prior quarter end. The full impact of higher interest rates on the economy has yet to be felt and central banks are likely to maintain their restrictive policy for some time to come as inflation remains very high, albeit coming off its peak a bit faster than consensus estimates. This is expected to result in weaker growth and a high probability of recession, which historically leads to weaker corporate earnings. With this view, the portfolio will maintain its defensive posture as this scenario would keep risk assets under pressure to start the new year.

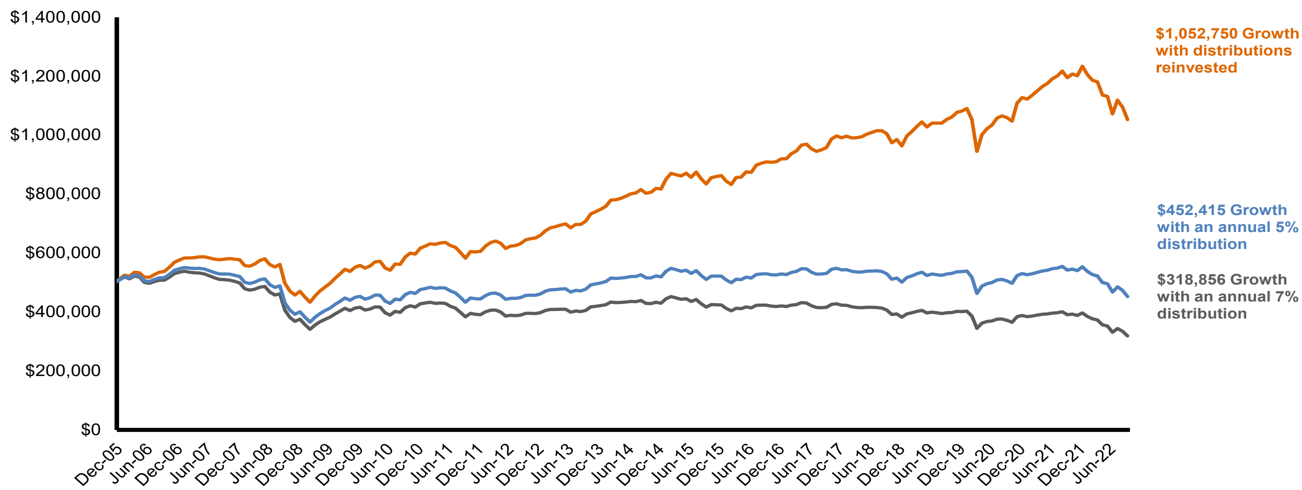
Source: Russell Investments, as at 12/31/2022. Indexes are unmanaged and cannot be invested in directly. Any security commentary is specific to its impact on the fund performance and is not a recommendation to purchase or sell any security. Past performance is not indicative of future results.

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 December 31, 2022

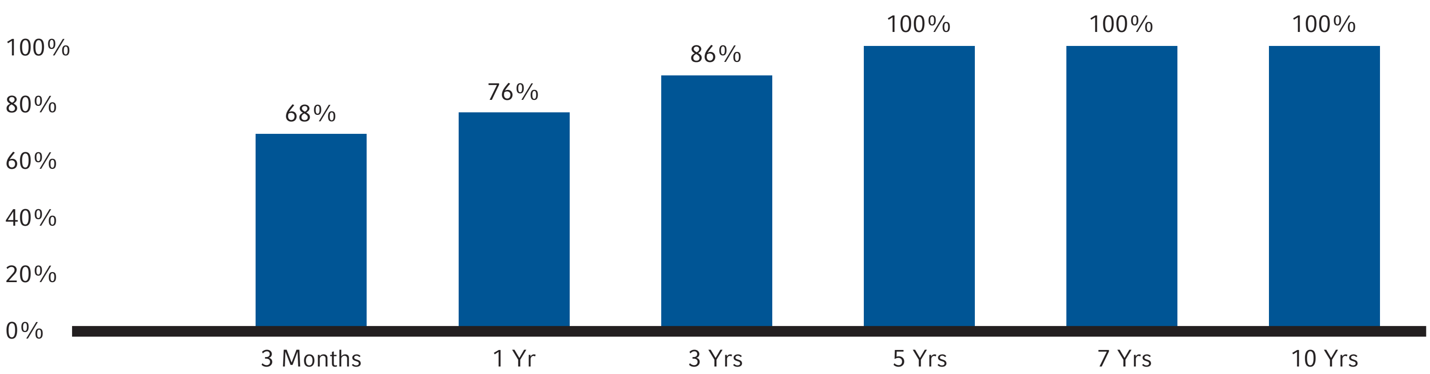


Annual withdrawal amounts

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
5% option	$22,224	$23,086	$24,941	$25,949	$26,086	$26,440	$27,141	$25,066	$26,833	$26,530	$20,743	$422,446
7% option	$27,367	$27,861	$29,506	$30,093	$29,648	$29,432	$29,604	$26,768	$28,099	$27,177	$20,824	$502,532

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	1.2%	5.2%	5.2%	5.9%	6.1%	6.2%

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

Performance (%) as of December 31, 2022

	3 mo	1 yr	3 yr	5 yr	10 yr	Since inception
Russell Investments Diversified Monthly Income (F-7)	5.11	-10.36	0.76	2.22	5.29	4.87
Benchmark	4.90	-10.60	2.36	4.06	6.57	6.81

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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