UPDATE

Russell Investments Diversified Monthly Income

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
FIXED INCOME	+	Holding a lower interest rate sensitivity than benchmark was beneficial as yields rose sharply. This was partially offset by credit spreads moving wider, but the move in yields was significant and duration positioning was more impactful.
REAL ASSETS	+	Energy and utilities were the best-performing sectors during the quarter which meant good returns from infrastructure which was overweight against benchmark. This benefit was partially offset by real estate holdings which suffered in the rising interest rate environment.
EQUITIES	–	Higher weights in emerging markets and small cap were the main detractors when comparing equity performance relative to benchmark as these sectors saw weaker returns and underlying funds underperformed against those sector benchmarks. An overweight to Candian equity was beneficial given the strong local market returns.

Source: Russell Investments, as at 3/31/2022. Performance Key: ++/– positive or negative impact > 10 bps; +/- positive or negative impact 2.5 to 10 bps; Flat < 2.5 bps, relative to the fund's benchmark.

Russell Investments Diversified Monthly Income

Fixed Income Characteristics	
Yield to maturity[1]	3.67%
Yield to worst[2]	3.65%
Effective duration[3]	6.71 years

ASSET ALLOCATION	Q1	Q4
FIXED INCOME	**37.8%**	**38.7%**
Government Bonds	15.1%	14.5%
Investment Grade Credit	11.6%	10.9%
Inflation Linked Bonds	0.1%	0.1%
High Yield Credit	4.5%	4.5%
Convertible Bonds	1.4%	1.3%
Emerging Markets Bonds	1.2%	1.2%
Securitized Credit	4.0%	6.1%
EQUITIES	**48.3%**	**48.9%**
Canadian Equities	11.3%	11.5%
U.S. Equities	18.8%	18.6%
EMEA Equities	9.6%	10.4%
Asia & Pacific Equities	4.6%	4.4%
Emerging Markets Equities	4.0%	4.0%
REAL ASSETS	**9.2%**	**9.1%**
Listed Infrastructure	4.1%	4.0%
Listed Real Estate	5.1%	5.0%
Commodities	0.0%	0.0%
CASH & OTHER	**4.6%**	**3.4%**

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

Fund positioning and outlook

FUND UPDATES

The portfolio holds a duration underweight relative to benchmark but as yields rose sharply in the recent quarter the relative duration underweight was being 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 as well as shifting some allocation out of unconstrained fixed income and into core bonds.

POSITIONING AND OUTLOOK

As a result of significant inflation and rising commodity prices along with the corresponding response from central banks, the cycle outlook has been downgraded. Although above-trend growth is still expected, the significant market moves in rates, equity and commodities along with the conflict in Ukraine have meaningfully increased the uncertainly around the outlook. Risk assets staged a recovery recently, but with the forecast more uncertain the portfolio has looked to reduce its market beta*.

Fixed income markets have priced very aggressive levels of interest rate hikes from central banks. Given the high levels of debt in the economy it seems unlikely that central banks can meet or moreso exceed these targets set out by market pricing. This could imply the rise in yields may be nearing its peak. The rise in short-term rates has also caused yield curve inversions which have always preceded slowdowns in economic growth, further clouding the picture of central bank action. The likely direction of the portfolio going forward is to continue to move duration positioning towards neutral. In credit, the portfolio has refrained from increasing exposure as spreads were rising and moved into a valuation range that would historically be attractive. Sub-advisers have noted that with the recent rally in spreads and the subdued outlook they are likely to be reducing credit exposure instead.

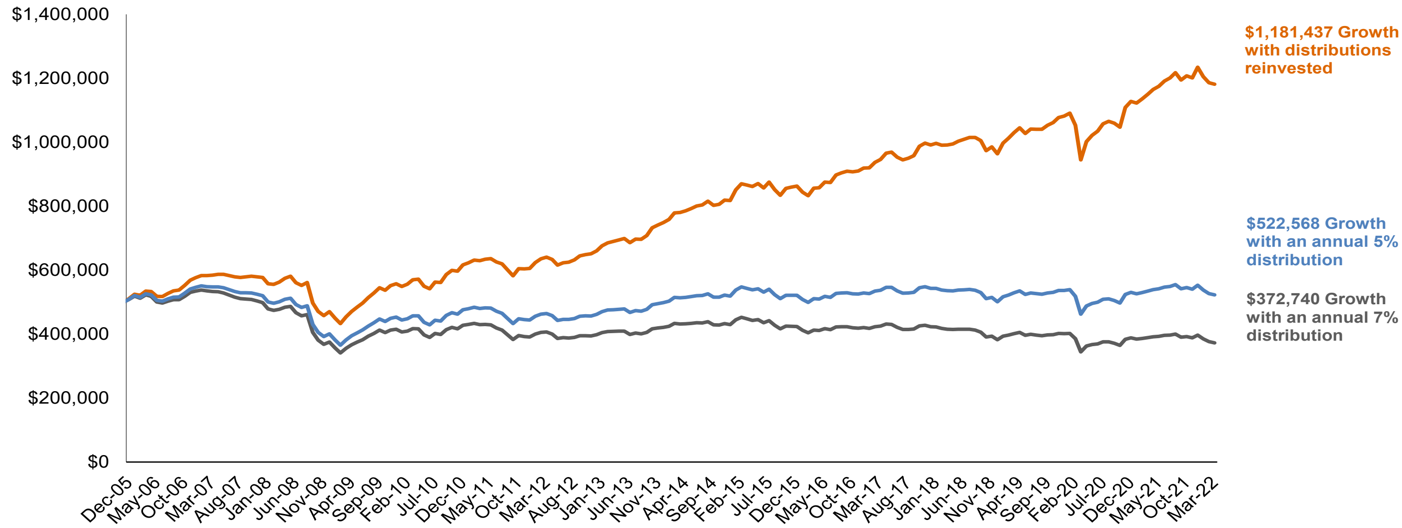
Source: Russell Investments, as at 3/31/2022. Indexes are unmanaged and cannot be invested in directly. Any security commentary is specific to its impact on the fund performance and is not a recommendation to purchase or sell any security. Past performance is not indicative of future results.

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 March 31, 2022

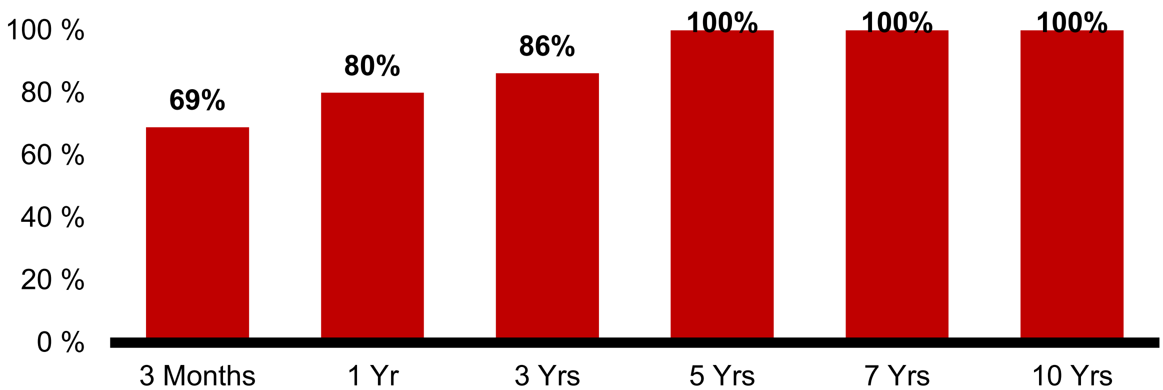


Annual withdrawal amounts

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
5% option	$27,336	$26,023	$20,049	$22,653	$23,811	$22,224	$23,086	$24,941	$25,949	$26,086	$26,440	$27,141	$25,066	$26,833	$26,530	$6,914	$408,617
7% option	$37,444	$34,902	$26,269	$29,094	$29,953	$27,367	$27,861	$29,506	$30,093	$29,648	$29,432	$29,604	$26,768	$28,099	$27.177	$6,941	$488,649

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



	3Mo	1Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs
Avg. Returns	1.4%	5.8%	5.4%	6.1%	6.3%	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 March 31, 2022

	3 mo	1 yr	3 yr	5 yr	10 yr	Since inception
Russell Investments Diversified Monthly Income (F-7)	-4.29	2.71	4.68	4.54	6.31	5.52
Benchmark	-4.64	4.25	6.92	6.44	7.68	N/A

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

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