UPDATE

Russell Investments Income Essentials

2nd Quarter 2021

Introduction

Rising vaccination rates and the reopening of some economic sectors created a wave of optimism in the second quarter, boosting financial markets globally. With the lifting of many restrictions, consumer behavior has begun to normalize – dining at restaurants, travelling and partaking in recreational activities. The soaring consumer demand has sped up the rate of economic recovery but has also raised fears of accelerating inflation.

The world's largest economies are expected to continue reopening previously shuttered sectors over the second half of the year, setting the stage for ongoing strong growth. Indeed, the economic picture remained relatively healthy. First quarter U.S. gross domestic product (GDP) was just short of consensus, driven mainly by personal consumption. Employment and productivity are slowly improving, corporate balance sheets are healthy and the savings rates in many countries has mushroomed.

During the quarter, the U.S. federal government unveiled the "American Jobs Plan", which is expected to boost infrastructure spending but also contained proposals for corporate tax increases. Still, robust earnings reports, most beating expectations, were supportive. Meanwhile, the U.S. Purchasing Manager Index for the second quarter was strong, and the U.S. Conference Board measure of consumer confidence came in at the strongest level since before the pandemic.

While these factors are likely to create inflationary pressures, we believe the U.S. Federal Reserve (the Fed) will closely watch wage growth and long-term inflation expectations to determine when higher rates are necessary.

While Canadian economic growth remained hampered in the first half of the year because of varying levels of lockdowns across the country, the rapid pace of vaccinations bodes well for the second half of the year. And the Canadian dollar has benefited from rising commodity prices, especially for oil. Oil prices have risen on expectations of stronger economic activity and amid a lack of agreement by the world's major oil producers to increase supply.

Although more contagious COVID-19 variants appear to be multiplying, the vaccines seem to be effective against those as well, reducing fears of another wave of lockdowns. Still, there is ongoing worry about the reluctance of some populations to be vaccinated, which could allow those variants to spread. The distribution of the vaccines throughout the underdeveloped world remains spotty, contributing to bottlenecks in the manufacturing supply chain. However, the sense of relief and positivity overall is expected to continue supporting financial markets.

These factors give us a strong preference for equities over bonds for at least the next 12 months, despite expensive valuations. We are also more positive on value-oriented equity names over the growth names that benefited from the pandemic circumstances – such as technology stocks – and therefore we believe non-U.S. equities will outperform the more growth-oriented U.S. market.

Additionally, we expect the US dollar to continue weakening as the global economy revives amid the increasing likelihood of the Fed tightening its monetary policies. That should also boost the performance of non-U.S. markets over the U.S.

In geopolitics, the relationship between the world's biggest economies remains fraught with tension. The U.S. has prohibited several Chinese companies from obtaining U.S. technology without federal approval and barred U.S. investors from taking a financial interest in Chinese companies suspected of having ties to the country's defense sector. A rebuke by the U.S. to China over human trafficking sparked a heated response.

Market Outlook

BUSINESS CYCLE Outlook for the global economy	VALUATION Current asset prices	SENTIMENT Investor behaviour
+	–	○
POSITIVE	NEGATIVE	NEUTRAL
Global economies continue to rebound as restrictions lifted. Although inflation concerns rising, central banks remain vigilant.	**Global equities are expensive, especially the U.S. Slightly better value in Emerging markets, Canadian and U.K. equities.**	**Momentum supported by increased vaccination rates and remove lifting of restrictions but caution warranted as market technicals nearing overbought levels.**

Source: Russell Investments. As of June 30, 2021.

Fund Performance Attribution

ASSET CLASS	IMPACT	COMMENTARY
FIXED INCOME	+	Despite having lower interest rate sensitivity than benchmark while yields were falling, Fixed Income components added value over the benchmark as the increased credit positioning was beneficial.
REAL ASSETS	–	Listed real assets posted strong returns against their underlying benchmarks, but the overweight to benchmark was a negative as the asset class lagged traditional equity markets and the rally in growth.
EQUITIES	–	After a strong run from value names, growth names staged a comeback as yields were falling. This caused underperformance from the value tilt in our portfolios.

Source: Russell Investments, as at 6/30/2021. 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 Income Essentials

Fixed Income Characteristics	
Yield to maturity[1]	2.33%
Yield to worst[2]	2.24%
Effective duration[3]	5.39 years

ASSET ALLOCATION	Q2	Q1
FIXED INCOME	**58.3%**	**58.9%**
Government Bonds	22.2%	22.4%
Investment Grade Credit	17.2%	17.1%
Inflation Linked Bonds	0.5%	0.6%
High Yield Credit	5.7%	5.9%
Convertible Bonds	1.3%	1.1%
Emerging Markets Bonds	1.2%	1.2%
Securitized Credit	10.2%	10.6%
EQUITIES	**26.2%**	**26.1%**
Canadian Equities	7.9%	7.6%
U.S. Equities	6.6%	7.1%
EMEA Equities	6.2%	6.0%
Asia & Pacific Equities	2.8%	2.9%
Emerging Markets Equities	2.6%	2.5%
REAL ASSETS	**9.3%**	**9.5%**
Listed Infrastructure	4.9%	5.1%
Listed Real Estate	4.4%	4.5%
Commodities	0.0%	0.0%
CASH & OTHER	**6.2%**	**5.4%**

Source: Russell Investments. Data as at June 30, 2021.
May not add to 100% due to rounding.

Fund positioning and outlook

ENTERING THE QUARTER

Russell Investments Income Essentials (the Fund) continued to hold a slight underweight to high-risk assets relative to strategic targets. Against benchmark however, the portfolio showed a higher beta* as a result of underlying equity holdings being tilted towards value and a credit overweight within fixed income. The portfolio was underweight short-term income, global high yield, U.S. and global equity and overweight unconstrained fixed income, Canadian equity, overseas equity and cash.

DURING THE QUARTER

The Fund remains underweight U.S. equity where valuations look more expensive relative to global counterparts. Underlying equity positions continue to be biased towards value stocks as they look cheaper than other style factors and we expect to see continued improvement in earnings. However, after a period of strong outperformance, value stocks underperformed in the quarter relative to growth names which hurt portfolio performance.

The Fund also maintains a sizeable overweight to corporate credit which combined with the equity positions gives the portfolio a beta* above benchmark. This was a positive in the quarter as credit spreads tightened further and provided a higher yield. The portfolio also had a lower duration relative to benchmark, which was a detriment.

OUTLOOK

Market valuations are expensive but continue to be supported by fiscal and monetary measures around the globe, while the progression of vaccine distribution helps spur economic recovery. As a result, we expect strong economic growth in Canada, the U.S. and Europe. While rising inflation has become a concern, we believe the surge in inflation is mostly transitory, and that the major central banks, led by the Fed, are still two years from raising interest rates. We expect that long-term interest rates have modest upside over the next few months as global growth continues to improve.

Source: Russell Investments, as at 6/30/2021.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

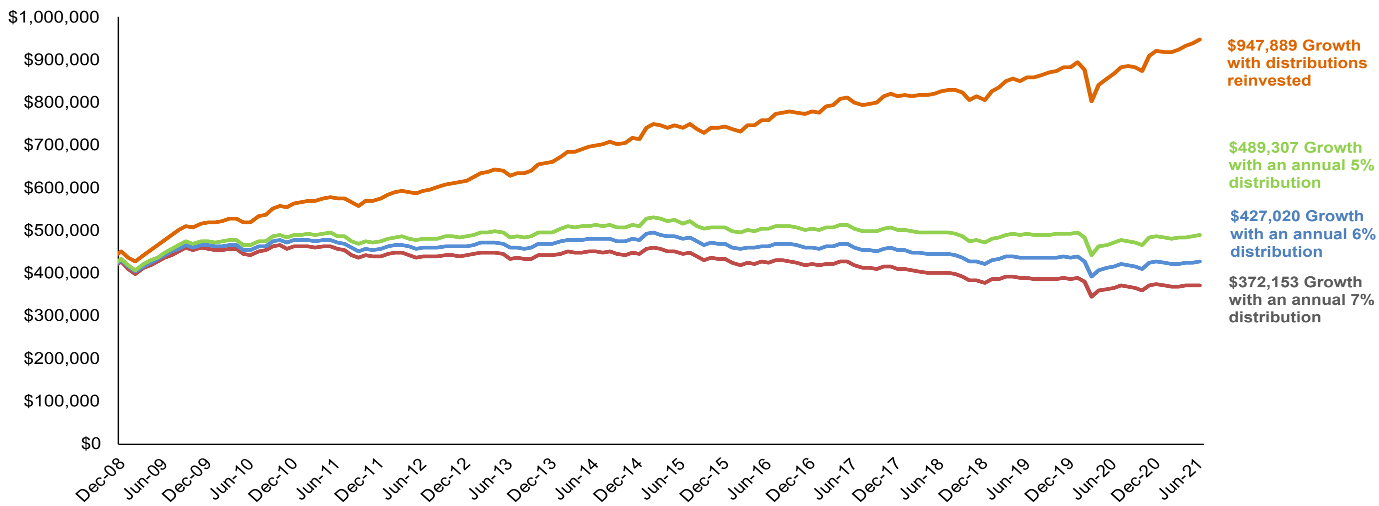
2 Yield to Worst is the lowest potential yield that can be received on a bond without the issuer actually defaulting. The metric is used to evaluate the worst case scenario for yield to help investors manage risks and ensure that specific income requirements will still be met

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 Income Essentials (Series F)

Growth of $500,000 - Since inception to June 30, 2021

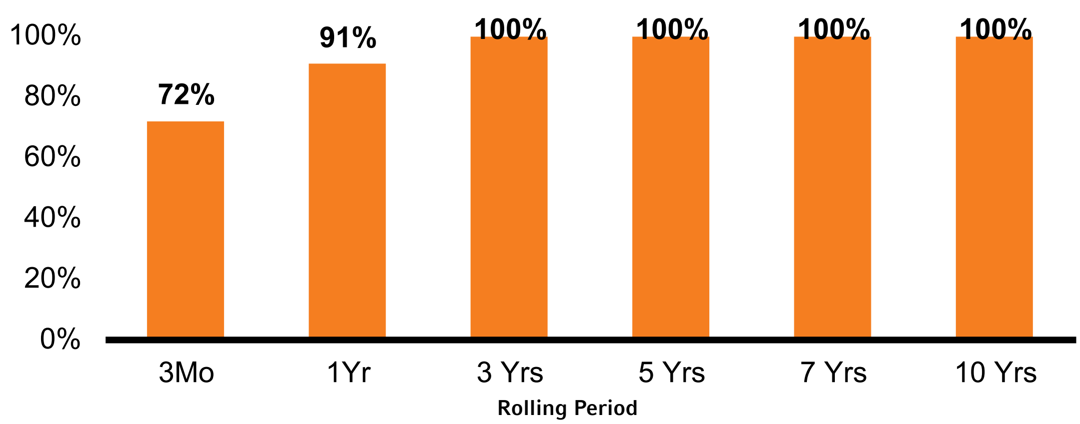


Annual withdrawal amounts

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
5% option	$21,674	$23,689	$24,500	$23,750	$24,339	$24,831	$25,535	$25,336	$25,158	$25,104	$23,547	$24,594	$12,188	$322,997
6% option	$25,796	$27,914	$28,576	$27,414	$27,811	$28,086	$28,594	$28,085	$27,600	$27,260	$25,301	$26,166	$12,829	$363,932
7% option	$29,847	$31,973	$32,396	$30,752	$30,880	$30,867	$31,109	$30,243	$29,412	$28,750	$26,400	$27,032	$13,112	$399,021

The above results show the growth of an initial investment of $500,000 made into the Russell Investments Income Essentials (Series F) on April 1, 2008 with all distributions reinvested and with 5%, 6% 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. 2008 is not a full calendar year, it represents a 9-month period beginning April 1. Performance is net of management fees and operating expenses. Series F 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 Income Essentials Positive



	3Mo	1Yr	3 Yrs	5 Yrs	7 Yrs	10 Yrs
Avg. Returns	1.2%	5.6%	5.5%	5.6%	5.6%	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: March 17, 2008

Russell Investments

Performance (%) as of June 30, 2021

	3 mo	1 yr	3 yr	5 yr	10 yr	Since inception
Russell Investments Income Essentials (Series F)	2.73	9.32	4.70	4.54	5.15	5.10
Benchmark	3.12	8.58	6.66	5.82	6.28	6.73

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 Income Essentials benchmark is currently a blended index of 8.5% S&P/TSX Capped Composite Index, 6% MSCI ACWI ex-Canada IMI Index Net,13% MSCI World ex Canada Index Net, 3% S&P Global Listed Infrastructure Index Net, 2.5% FTSE EPRA NAREIT Developed Real Estate Index Net, 9% Bloomberg Barclays Canadian Aggregate 1-5 Years Index CAD Hedged, 47% Bloomberg Barclays Canada Aggregate (CAD) Index, 4% ICE BofA Merrill Lynch Global High Yield Index, 4% ICE BofA Merrill Lynch Global High Yield Bond Index Hedged (CAD), 1.5% JP Morgan EMBI Global Diversified Index, 1.5% 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: March 17, 2008

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Date of first publication: July 2021

RETAIL-03191 [EXP-07-2022]