Fund update

U.S. Small Cap Equity Fund (RIC)

Russell Investments

Effective December 19, 2018, we've introduced a new investment strategy to the U.S. Small Cap Equity Fund (RIC) with the capacity to short stocks in a limited measure. This strategy is being implemented through a mandate change to one of our third-party managers, Jacobs Levy.

Change rationale

Russell Investments recognizes that investors need excellent implementation in all asset class segments of their portfolio to seek to generate returns.

To that end, we want to ensure our funds have the necessary investment components and flexibility to outperform their benchmarks. Accordingly, we are augmenting an existing strategy in the Russell Investment Company, LLC (RIC) U.S. Small Cap Equity Fund with the capability to short stocks in a limited measure. This strategy will be implemented by the Fund's quantitative manager, Jacobs Levy, and we have adjusted their mandate to reflect this.

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Fund change details

Mandate change

- Jacobs Levy Equity Management, Inc. ("Jacobs Levy")

What are the details of the changes?

Russell Investments has updated the mandate with Jacobs Levy from its long only, small cap equity strategy to its limited long/short, small cap strategy.

In this limited long/short strategy, the traditional long-only constraint on portfolio positions is modestly relaxed. Jacobs Levy is permitted to short sell stocks (up to 30% of their portfolio's notional value) that they believe are likely to underperform in the future. The proceeds of those short sales are then invested in a range of high confidence long positions (i.e. the third-party manager's best ideas), collectively accounting for approximately 30% of the net portfolio value. The dynamic tradeoff between potential future losers and winners allows investors to benefit from insights on both sides and ultimately enhance return potential.

This technique of selling positions short to potentially generate additional return is commonly used by quantitative money managers and has been widely adopted by institutional investors. Short positions are well diversified and subject to strict position controls designed to reduce the risk of losses to the Fund that arise from appreciation of the short securities.

What will the impact be on the Fund?

We expect this enhancement to open a new source of potential excess return to the Fund. As with any investment strategy there is risk of loss, however, the nature of short selling risk to investors in the Fund is not fundamentally different than it would be for any investment strategy employed by a Fund. We expect overall volatility for the Fund to remain largely unchanged.

As part of this change, the net expense ratio of the U.S. Small Cap Equity Fund has increased by 16 bps for all share classes due to expenses related to short sales that include dividend and interest expenses. The expense ratio of the Fund will be evaluated and updated as needed as part of the RIC annual prospectus update in March 2019. While the expense ratio has increased, we expect the limited long/short strategy of Jacobs Levy to add value to the Fund.

The primary factors impacting these expenses related to short sales are volume of short sales, whether the securities held short paid dividends or interest while held short, and prevailing interest rates.

When a stock is shorted, it is first borrowed from an investor or broker, then sold on the open market to a second investor. Investors who sell stocks short typically believe the price of the stock will fall and hope to buy the stock back at the lower price and make a profit, and then return it to the lender. If the borrowed stock pays a dividend, the short seller is responsible for paying the dividend to the person or brokerage who made the loan, and the amount of the dividend is accounted for as a dividend expense. Interest expense on securities sold short is the amount paid to the lender of the security for making the loan (similar to interest charged by a bank on a monetary loan). While the fund is obligated to record the dividend expense and interest as an expense from an accounting perspective, these charges are similar to transaction charges for buying and selling securities.

RUSSELL INVESTMENTS RESEARCH VIEW – JACOBS LEVY EQUITY MANAGEMENT, INC.

Location:	Florham Park, NY
Founded:	1986
Lead managers:	Bruce Jacobs, PhD and Ken Levy, CFA
Strategy:	Small cap equity – market-oriented, limited long/short

Jacobs Levy provides defensive exposure based on intensive modeling, financial research and behavioral theory, and quantitative and statistical methods to identify and benefit from market inefficiencies. The process seeks to disentangle reliable predictors of future stock price behavior and then build portfolios that will benefit from the future outperformance of those factors. The ability to short up to 30% of the portfolio with the 130/30 strategy permits more meaningful security underweights in the strategy. This is expected to add value relative to a long-only assignment.

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Jacobs Levy's investment approach is based on the belief that the market is a complex system and that intensive modeling, combined with human insight and intuition, finance and behavioral theory, and quantitative and statistical methods, can be used to identify and benefit from market inefficiencies. A key component of this multidimensional approach is the proprietary process of "disentangling" return-predictor relationships. Disentangling evaluates market inefficiencies, stock attributes, and industry affiliations, simultaneously, in a unified framework, separating each potential source of return from the background noise created by other factors. Jacobs Levy believes that the resulting additive "pure" effects can provide more reliable predictions of future stock price behavior than the "naïve" effects from simple factors.

The firm's security evaluation process entails sophisticated modeling of large numbers of stocks and proprietary factors using financial statements, security analyst forecasts, corporate management signals, economic releases, and security prices. Jacobs Levy believes that modeling based on reasonable, intuitive relationships between both fundamental and behavioral factors and stock prices results in a multidimensional

security selection process that can offer deep analysis across a wide breadth of securities. The process is designed to be dynamic and forward-looking, which can help the process adjust to the equity market's changing environments and opportunities.

TARGET MANAGER WEIGHTS IN THE U.S. SMALL CAP EQUITY FUND (RIC)

The target manager weights have not changed as a result of the mandate change. The percentages below represent the target allocation of the Fund's assets to each money manager's strategy and Russell Investment Management, LLC's strategy. This does not include liquidity reserves managed directly by RIM, which may constitute 5% or more of Fund assets at any given time.

MANAGER	ROLE	FUND WEIGHTS (%)
Ancora Advisors, LLC	Market-oriented	8
Copeland Capital Management, LLC	Market-oriented	11
DePrince, Race & Zollo, Inc.	Value	11
Falcon Point Capital, LLC	Growth	12
Jacobs Levy Equity Management, Inc.	Market-oriented	15
PENN Capital Management Company, Inc.	Market-oriented	5
Boston Partners Global Investors, Inc.	Value	12
Timpani Capital Management LLC	Growth	11
Russell Investments	Positioning strategy[2]	15

[2] RIM manages this portion of the Fund's assets to effect the Fund's investment strategies and/or to actively manage the Fund's overall exposures to seek to achieve the desired risk/return profile for the Fund. Positioning strategies are used to seek excess return and manage portfolio risks by targeting specific exposures. These strategies are used in conjunction with allocations to third-party managers to fully reflect Russell Investments' strategic and dynamic views with integrated liquidity and risk management.

Fund objectives, risks, charges and expenses should be carefully considered before investing. A summary prospectus, if available, or a prospectus containing this and other important information can be obtained by calling (800) 787-7354 of visiting russellinvestments.com. Please read a prospectus carefully before investing.

The investment styles employed by a Fund's money managers may not be complementary. This concentration may be beneficial or detrimental to a Fund's performance depending upon the performance of those securities and the overall economic environment. The multi-manager approach could increase a Fund's portfolio turnover rates which may result in higher levels of realized capital gains or losses with respect to a Fund's portfolio securities, higher brokerage commissions and other transaction costs.

Consider how the combined risks of various asset classes impact your total investment portfolio and understand that different risks can lead to varying financial consequences, including loss of principal. Please see a prospectus for further details.

In a limited long/short strategy, a short sale will result in a loss if the price of the security sold short increases between the date of the short sale and the date on which the borrowed security must be returned. Although the Fund's potential for gain as a result of a short sale is limited to the price at which it sold the security short less the cost of borrowing the security, its potential for loss is theoretically unlimited because there is no limit to the cost of replacing the borrowed security.

Russell Investments' ownership is composed of a majority stake held by funds managed by TA Associates with minority stakes held by funds managed by Reverence Capital Partners and Russell Investments' management.

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