Russell Investments' approach

Russell Investments uses a multi-asset approach to investing, combining asset allocation, manager selection and dynamic portfolio management in its investment portfolios. Using this approach as a framework for mutual fund construction, we research, monitor, hire and terminate (subject to Fund Board approval) money managers from around the world and strategically allocate fund assets to them. We oversee all investment advisory services to the funds and manage assets not allocated to money managers.

The Fund

The U.S. Small Cap Equity Fund includes managers that invest using many different investment styles, from looking for companies they believe have rapidly growing earnings to ones that may be undervalued. The managers in the Fund employ a variety of processes to arrive at an investment decision. There are quantitative managers as well as those that focus on a fundamental investment process. Some employ bottom-up security selection processes while others employ a top-down macro-economic evaluation process. The managers are blended together to create a Fund that Russell Investments believes takes advantage of the strengths of each process. In addition to the managers’ strategies, Russell Investments manages a portion of the Fund’s assets internally to seek to further enhance and diversify the Fund’s investment strategies.

Russell Investments believes takes advantage of the strengths of each process. In addition to the managers’ strategies, Russell Investments manages a portion of the Fund’s assets internally to seek to further enhance and diversify the Fund’s investment strategies. The U.S. Small Cap Equity Fund’s benchmark is the Russell 2000® Index.

Russell Investments portfolio managers

Megan Roach, CFA, is a Senior Portfolio Manager with primary responsibility for Russell Investments’ U.S. equity funds. Prior to assuming portfolio management responsibilities, Megan served on the small cap manager research team from 2005 to 2015, including acting as head of research for the asset class since 2013. Megan holds a BA in finance and an MBA in investment management. Megan has been with Russell Investments since 2004.

The portfolio manager’s role

The portfolio manager is responsible for identifying and selecting the strategies and money managers included in the Fund and determining the weight for each assignment. The portfolio manager manages the Fund on a daily basis to help keep it on track, constantly monitoring risk and return expectations at the total fund level and making changes when deemed appropriate and/or necessary. Multiple resources from across the firm are used to help determine what is believed to be the best combination of managers and strategies. Manager research and capital markets research are just some of the tools at the portfolio manager’s disposal to help identify opportunities and manage risk.

Target allocation of fund assets

The percentages below represent the target allocation of the Fund’s assets to each money manager’s strategy and Russell Investment Management, LLC’s (“RIM”) strategy as of 6/10/19. This does not include liquidity reserves managed directly by RIM, which may constitute 5% or more of fund assets at any given time. RIM may change a Fund’s asset allocation at any time, including not allocating Fund assets to one or more money manager strategies.

<table>
<thead>
<tr>
<th>FIRM NAME</th>
<th>TARGET ALLOCATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ancora Advisors, LLC*</td>
<td>15%</td>
</tr>
<tr>
<td>Boston Partners Global Investors, Inc.*</td>
<td>17%</td>
</tr>
<tr>
<td>Calamos Advisors LLC**</td>
<td>11%</td>
</tr>
<tr>
<td>Calamos Capital Management, LLC*</td>
<td>15%</td>
</tr>
<tr>
<td>DePrince, Race &amp; Zollo, Inc.*</td>
<td>0%</td>
</tr>
<tr>
<td>Falcon Point Capital, LLC*</td>
<td>12%</td>
</tr>
<tr>
<td>Jacobs Levy Equity Management, Inc.</td>
<td>15%</td>
</tr>
<tr>
<td>Penn Capital Management Company, Inc.*</td>
<td>0%</td>
</tr>
<tr>
<td>Russell Investment Management, LLC (RIM)**</td>
<td>15%</td>
</tr>
</tbody>
</table>

*Indicated managers are non-discretionary managers. RIM manages these portions of the Fund’s assets based upon model portfolios provided by the managers.

**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 managers to fully reflect Russell Investments’ strategic and dynamic views with integrated liquidity and risk management.

This mosaic depicts, at a specific point in time, the approximate relative weighting of the managers and strategies within the Fund plotted on the basis of cap size and style against Fund benchmark (▲). Positions on this mosaic change over time as allocations and holdings change. The circle size represents the relative size of each allocation in the Fund.
## U.S. Small Cap Equity Fund
### Managers and Strategies Summary

<table>
<thead>
<tr>
<th>NAME</th>
<th>ALLOCATION</th>
<th>INVESTMENT FOCUS</th>
<th>ROLE</th>
<th>DETAILS OF ROLE IN THE FUND</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ancora Advisors</td>
<td>15%</td>
<td>Invests in micro and small cap special situations such as corporate restructuring and spinoffs, under-followed companies, and franchise stocks selling at temporary discounts.</td>
<td>Market-oriented</td>
<td>Ancora is opportunistic in seeking companies that are in special situations. The strategy focuses on market inefficiencies that the firm believes to be persistent and potentially lucrative within the U.S. small cap space.</td>
</tr>
<tr>
<td>Boston Partners</td>
<td>17%</td>
<td>Boston Partners invests in small and microcap companies selling at attractive valuations with near-term revenue-based catalysts.</td>
<td>Value</td>
<td>Boston Partners pursues small and microcap companies on the cusp of positive change at attractive valuations. The team seeks to exploit market anomalies through identifying what is believed to be under-appreciated companies and has the ability to mitigate opportunity cost by successfully identifying timely revenue-based Catalysts and managing position sizes accordingly.</td>
</tr>
<tr>
<td>Calamos Investments</td>
<td>11%</td>
<td>Calamos seeks to identify companies it expects will have high earnings and revenue growth in the near term, experience positive earnings surprises and revisions, and experience positive market sentiment (momentum).</td>
<td>Growth</td>
<td>Calamos brings dedicated earnings momentum and growth exposure to the fund. Russell Investments believes this investment philosophy and process is particularly powerful in the U.S. small cap market and will provide an appropriate complement to the existing manager line-up.</td>
</tr>
<tr>
<td>Copeland Investment Management</td>
<td>15%</td>
<td>Invests in small cap companies with a history of strong dividend growth.</td>
<td>Market-oriented</td>
<td>Russell Investments believes dividend growth strategies can be effective in the U.S. small cap market, and that Copeland is especially skilled at identifying which companies are more likely to sustain their historical dividend growth.</td>
</tr>
<tr>
<td>DRZ</td>
<td>0%</td>
<td>Invests in small cap companies with above-average dividend yield that have a catalyst for near term improvement.</td>
<td>Value</td>
<td>DRZ is a yield-focused value manager that has a strong track record of skillfully rotating the portfolio in response to evolving valuation opportunities.</td>
</tr>
<tr>
<td>Falcon Point Capital LLC</td>
<td>12%</td>
<td>Invests in small cap companies likely to sustain above average earnings growth that are trading at relatively attractive valuations.</td>
<td>Growth</td>
<td>The lead portfolio manager, Michael Thomas, is an energetic money manager, and Russell Investments views his passion and focus on gaining unique insights as sources of competitive advantage. Falcon Point is also more valuation sensitive than many growth managers.</td>
</tr>
<tr>
<td>Jacobs Levy Equity Management</td>
<td>15%</td>
<td>Invests in small cap companies that are forecast to outperform based on the firm’s proprietary, multidimensional quantitative investment approach.</td>
<td>Market-oriented</td>
<td>Jacobs Levy has a strong commitment to ongoing research and innovation, which is motivated by the team’s belief that continual process enhancement is critical for long-term success.</td>
</tr>
<tr>
<td>NAME</td>
<td>ALLOCATION</td>
<td>INVESTMENT FOCUS</td>
<td>ROLE</td>
<td>DETAILS OF ROLE IN THE FUND</td>
</tr>
<tr>
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</tr>
<tr>
<td>PENN CAPITAL</td>
<td>0%</td>
<td>Focuses on micro and small cap companies where the firm's credit analysis shows as an early indication of improving fundamental trends.</td>
<td>Market-oriented</td>
<td>Penn seeks to exploit inefficiencies between the equity and debt markets that are often ignored by traditional equity investors. This can allow Penn to identify attractive companies before equity market participants.</td>
</tr>
<tr>
<td>Russell Investment Management, LLC (“RIM”)</td>
<td>15%</td>
<td>Directly manages an active, model-based positioning strategy to manage the Fund’s overall exposures to seek to maintain the Fund’s preferred positioning.</td>
<td>Positioning strategy</td>
<td>RIM oversees all investment advisory services to the Fund and manages assets not allocated to money managers. This includes the Fund’s positioning strategy, which helps the Fund to achieve its desired risk/return profile. RIM also manages the Fund’s liquidity reserves, which may constitute 5% or more of Fund assets at any given time (not included in the percentage cited on the left).</td>
</tr>
</tbody>
</table>
Firm background
Ancora Advisors, LLC is an employee owned investment advisory firm. Ancora offers comprehensive investment solutions for institutions and individuals in the areas of fixed income, equities, global asset allocation, alternative investments and retirement plans.

**Headquarters**: Cleveland, OH  
**Founded**: 2003  
**Lead manager**: Dan Thelen, CFA

Manager profile
Ancora Advisors, LLC (Ancora) was added to the U.S. Small Cap Equity Fund in 2014. Dan Thelen is the portfolio manager leading this small cap strategy. He is based in Ancora’s Birmingham, MI office.

What this manager brings to the Fund
Ancora is opportunistic in seeking companies that are in special situations such as corporate restructuring and spinoffs, companies emerging from bankruptcy, under-followed companies, and franchise stocks selling at temporary discounts.

Investment process
Ancora’s strategy focuses on market inefficiencies that the firm believes to be persistent and potentially lucrative within the U.S. small capitalization space. Ancora attempts to take advantage of short-term stock price dislocations that may arise through periods when market trading volumes are thin (e.g. around holidays). In evaluating these special situations, Ancora screens on key growth and profitability factors including returns on capital, long-term demonstrated growth rates and cash flow returns on equity. The investment team further screens based on each company’s valuation relative to its industry.

Ancora reviews the holdings periodically on a bottom-up basis to ensure they are consistent with Ancora’s view of the economy on a top-down basis. During the research and due diligence process, the portfolio manager and the analysts will talk with company management, customers and suppliers to better understand the company’s prospects.

Russell Investments’ manager analysis
Dan Thelen has 15+ years’ experience as a micro-mid cap investor and Russell Investments believes the environment at Ancora provides him with an unencumbered opportunity to focus on generating excess returns. Thelen is, in Russell Investments’ view, among the top tier of investors in terms of passion, focus on performance and continuous process improvement. Dan’s focus on special situations and intense performance orientation stood out to Russell Investments immediately during the first research meeting in 2013 and this drove Russell Investments’ prioritization to become one of the first institutional investors in his strategy in 2014.

Given Ancora’s focus on special situations rather than a defined growth or value-oriented substyle, the most favorable market environments are expected to be those not dominated by extreme factor payoffs, for example, when value or growth stocks dramatically outperform or underperform the broader market. Russell Investments expects that periods dominated by extreme factor payoffs may be unfavorable for Ancora. Overall, the portfolio’s factor exposures tend to be moderate, leading to security selection accounting for the greatest portion of excess returns over a market cycle.
Boston Partners Global Investors, Inc.

Firm background
Boston Partners Global Investors, Inc. is an SEC-registered investment adviser consisting of three investment divisions: Boston Partners, Weiss, Peck & Greer, and Redwood, each offering distinctive investment capabilities.

Headquarters: Boston, MA
Founded: 1995
Lead manager: Richard Shuster, CFA

Manager profile
Boston Partners Global Investors, Inc. (Boston Partners) was added to the U.S. Small Cap Equity Fund in 2015. Richard Shuster is the senior portfolio manager who is backed by a skilled investment team whose members have worked together since 1999.

What this manager brings to the Fund
Boston Partners pursues small and micro-cap companies on the cusp of positive change at attractive valuations. The team seeks to exploit market anomalies through identifying what is believed to be under-appreciated companies. Russell Investments believes Boston Partners has the ability to mitigate opportunity cost by successfully identifying timely revenue-based catalysts and managing position sizes accordingly.

Investment process
Boston Partners focuses on finding undervalued, quality companies in value sectors. Boston Partners believes that hands-on, proprietary fundamental research can uncover undervalued companies in value sectors to seek to achieve long-term returns. The team meets with 600+ companies each year to fully understand their business strategy, the strength of leadership, and the company's products, markets and customers.

Boston Partners seeks companies that are experiencing above-average and increasing levels of return on invested capital as well as those that are priced below normalized historical valuations. The team prefers to identify timely revenue-based catalysts but will invest early given conviction in long term prospects, valuation, and potential for downside protection. Idea generation is strong with a significant number of new ideas coming from company meetings and the team's existing network of industry contacts.

Russell Investments' manager analysis
Russell Investments believes two key drivers of Boston Partners’ success include the lead manager, Richard Shuster, who Russell Investments believes to be an experienced and talented small and micro-cap investor. The team has cultivated an autonomous and performance-oriented culture that Russell Investments finds appealing.

Boston Partners’ strategy is a deep value approach to picking small and micro-cap securities. This tends to have a contrarian flavor so market environments that favor higher momentum and growth stocks will tend to be a challenge for this manager. Boston Partners is expected to perform better in market environments that favor value stocks.
Firm background

Calamos Advisors is a registered investment adviser offering a broad mix of investment strategies, including the Milwaukee-based Timpani team which is focused exclusively on small to midcap growth investing.

Headquarters: Naperville, IL
Founded: 1977
Lead manager: Brandon Nelson

Manager profile

Calamos Advisors LLC (Calamos) was added to the U.S. Small Cap Equity Fund in 2016. Co-founder of the predecessor firm Timpani Capital Management LLC, Brandon Nelson, leads the strategy used in the Fund.

What this manager brings to the Fund

Calamos brings dedicated earnings momentum and growth exposure to the Fund. Russell Investments believes this investment philosophy and process is particularly powerful in the U.S. small cap market and will provide an appropriate complement to the existing manager line-up.

Investment process

Calamos seeks to identify companies it expects will have high earnings and revenue growth in the near term, experience positive earnings surprises and revisions, and experience positive market sentiment (momentum). The team seeks to take advantage of the behavioral inefficiencies created from overreactions by investors to changes in earnings. The process favors stocks with positive revisions to earnings, sales, and operating margins, and strong cash flow and limited debt to fund growth.

Brandon and his team have displayed a high level of awareness regarding risk management and position sizing, which Russell Investments believes will benefit the fund in the form of strong index-relative returns over a market cycle.

Russell Investments’ manager analysis

Brandon Nelson managed a similar product at previous firms before founding Timpani in 2008, which was acquired by Calamos in 2019. Russell Investments has followed Brandon since 2005. Brandon is supported by two research analysts. The team dynamics within the Timpani team are very collegial, and the entire team is committed to the investment philosophy and process which is exclusively focused on small to midcap growth investing. Russell Investments views these attributes as highly conducive to investment team stability and a clear alignment of long-term performance incentives between the investment professionals and clients.

Russell Investments believes Calamos provides reliable earnings momentum exposure and its strategy is expected to benefit from environments rewarding high relative strength and forecasted growth. Calamos will likely struggle in markets led by dividend yield.
Firm background
Copeland Capital Management, LLC is a boutique investment management firm specializing in dividend growth investing. The firm manages portfolios for high net worth individuals and many types of institutions, including corporate pension plans, educational and religious endowments, charitable foundations, health care institutions, and municipalities.

Headquarters: Conshohocken, PA
Founded: 2005
Lead manager: Mark Giovanniello, CFA

Manager profile
Copeland Capital Management, LLC (Copeland) was added to the U.S. Small Cap Equity Fund in 2013. Mark Giovanniello is the firm’s CIO and is the key decision-maker, backed by a robust investment team.

What this manager brings to the Fund
Russell Investments believes dividend growth strategies can be effective in the U.S. small cap market, and that Copeland is especially skilled at identifying which companies are more likely to sustain their historical dividend growth.

Investment process
Copeland’s strategy generally invests in domestic companies with market capitalizations between $250 million and $2 billion that have historical track records of consistent dividend growth. Dividend growth is more important to the strategy than the absolute level of dividends.

Copeland believes that a company’s dividend growth rate is a significant driver of its total return. Strategy holdings are selected using a proprietary multi-factor quantitative model. The model seeks companies with a history of consistent dividend increases and financial stability that Copeland believes will continue. The highest-ranking names are then evaluated through a fundamental research process.

The investment process is collaborative and typically includes every member of the investment team. Each analyst has specific sector coverage responsibility. The team meets on a daily basis to discuss current holdings in the portfolio, pertinent macro-economic and geopolitical news, and trading recommendations, if any. Every team member provides input in determining the names that are included in the portfolio. The portfolio manager, Mark Giovanniello, has the final decision in determining names for inclusion as well as portfolio weights.

Asset class: U.S. equity
Number of holdings: 40-45
Capitalization level: Small cap
Sub-style: Consistent dividend growth

Russell Investments’ manager analysis
Copeland was founded in 2005 with a focus on U.S. large cap securities, but the hiring of Mark Giovanniello and launch of the firm’s small to midcap strategies in 2009 catapulted those strategies to flagship status at the firm, which prompted Russell Investments to begin researching them in 2012. Russell Investments values Copeland’s 100% employee owned status as well as the uniqueness of its investment philosophy relative to small cap peers.

Copeland is expected to outperform when high dividend growth, higher quality factors (such as return on equity), and stocks with lower earnings variability and price volatility are rewarded. Copeland is expected to underperform in aggressive stock market rallies led by higher risk and volatility market segments.
DePrince, Race & Zollo, Inc.

Firm background
DePrince, Race & Zollo, Inc. is an employee owned, boutique institutional asset management firm. The firm provides services to investment companies, pension and profit-sharing plans, pooled investment vehicles, corporations, foundations, endowments, hospitals, healthcare companies, public funds, unions, and Taft-Hartley plans.

Headquarters: Winter Park, FL
Founded: 1995
Lead manager: Greg Ramsby

Manager profile
DePrince, Race & Zollo, Inc. (DRZ) was added to the U.S. Small Cap Equity Fund in 2008. Greg Ramsby is the portfolio manager with a talented team of analysts supporting him.

What this manager brings to the Fund
DRZ is a yield focused value manager that has a strong track record of skillfully rotating the portfolio in response to evolving valuation opportunities.

Investment process
DRZ believes that a valuation-sensitive approach to dividend yield investing can provide downside protection and reduces total portfolio volatility. The firm also believes that dividend yield provides the most reliable valuation measure and offers concrete evidence of real earnings. DRZ’s investment philosophy is based on the belief that undervalued stocks with an above-average dividend yield and the existence of an imminent fundamental catalyst provide the opportunity for total returns with reduced volatility.

This bottom-up process strives to identify companies with strong balance sheets where fundamentals are expected to improve. Sector and industry weights are a residual of the stock selection process, and the portfolio is expected to have significant sector deviations from the benchmark. DRZ will also rotate the portfolio through the market cycle in response to changing valuation and catalyst signals. DRZ does not necessarily seek the highest dividend yield stocks but is focused on identifying the best investment opportunities within the dividend paying universe of U.S. small cap companies.

Russell Investments’ manager analysis
Russell Investments has been researching lead portfolio manager Greg Ramsby since 1996 when he was an analyst supporting firm founder John Race (the R in DRZ, now co-CEO) on the small cap strategy. Russell Investments views Greg’ Ramsby's ability to adapt the portfolio to prevailing macroeconomic and market environments favorably and believes the firm has grown its micro and small cap asset to, but not beyond, a sustainable level to maintain that flexibility. Russell Investments has had a longstanding relationship with DRZ in both its small and large cap products since 2002.

DRZ is generally expected to perform best in yield-oriented market environments where higher than average dividend yield trends exist in the market. DRZ will likely face headwinds in speculative markets when yield is not rewarded.
Falcon Point Capital, LLC

Firm background
Falcon Point Capital, LLC is an employee-owned investment management firm. The firm provides services to high net worth individuals, pension and profit-sharing plans, other pooled investment vehicles, endowments, foundations, institutions, and trusts.

- **Headquarters:** San Francisco, CA
- **Founded:** 1986
- **Lead manager:** Michael Thomas

Manager profile
Falcon Point Capital, LLC (Falcon Point) was added to the U.S. Small Cap Equity Fund in 2011. Michael Thomas is the portfolio manager who is backed by a robust investment team. Michael Thomas is also an analyst and is integral to both the sourcing of ideas as well as portfolio construction.

What this manager brings to the Fund
Falcon Point is considered to be more valuation sensitive than many growth managers. Michael Thomas is an energetic money manager, and Russell Investments views his passion and focus on gaining unique insights as sources of competitive advantage.

Investment process
Falcon Point employs a growth at a reasonable price strategy. The decision-making process relies primarily on proprietary research conducted directly with the senior management of prospective investments. Detailed in-house models are prepared on each company. Regular conversations with management, customers, suppliers and Wall Street analysts are conducted to confirm expectations and clarify new developments.

Falcon Point focuses on bottom-up research. The firm’s investment team attempts to identify small companies before they attract significant Wall Street attention or large institutional ownership. This is intended to allow the fund to benefit from investments in smaller companies during peak periods of internal growth and from the expanding price-earnings ratios that often result from ensuing market recognition. Falcon Point attempts to add value by investing in companies it believes are likely to sustain above average earnings growth over a two to three-year time horizon, and which are selling at attractive valuations. The portfolio seeks to include companies with recurring revenue streams as well as rapidly growing companies with potential to sustain earnings growth.

Russell Investments’ manager analysis
Russell Investments began researching Falcon Point in 2007. The firm has built a strong track record in small cap investing strategies over the past 10+ years. Russell Investments values the perspective afforded to Mike Thomas and the investment team through its management of fixed income, long-only and long-short portfolios.

The firm’s longer-term investment horizon may lead to a greater tolerance for short term earnings disappointments compared to growth-oriented peers. Russell Investments expects this strategy to perform best when the small cap market is rewarding consistently growing companies trading at moderate valuations. Speculative markets that are led by the highest growth and valuation market segments can provide headwinds for this strategy.
Jacobs Levy Equity Management, Inc.

Firm background
Jacobs Levy Equity Management, Inc. is an independent quantitative equity manager focused exclusively on U.S. equity portfolios.

Headquarters: Florham Park, NJ
Founded: 1986
Lead managers: Bruce Jacobs, Ph.D. and Ken Levy, CFA

Manager profile
Jacobs Levy Equity Management, Inc. (Jacobs Levy) was added to the U.S. Small Cap Equity Fund in 1995. Bruce Jacobs, Ph.D., and Ken Levy, CFA, have responsibility for the firm’s investment process. They are supported by a team of highly experienced research professionals who are continually pursuing areas of potential enhancement to the process.

What this manager brings to the Fund
Jacobs Levy has a strong commitment to ongoing research and innovation, which is motivated by the team’s belief that continual process enhancement is critical for long-term success.

Investment process
Jacobs Levy uses a proprietary multidimensional investment approach to evaluate a broad universe of U.S. equities, including the stocks in the Fund’s benchmark. The process also considers each security’s contribution to overall portfolio diversification. 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.

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 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.

Russell Investments’ manager analysis
Russell Investments has been following Jacobs Levy since 1989. Jacobs Levy has a strong commitment to ongoing research and innovation, which is motivated by the team’s belief that continual process enhancement is critical for long-term success.

Based on Russell Investments’ analysis, Jacobs Levy’s strategy is expected to perform best when stocks with low valuations, stable earnings, and strong balance sheets outperform. The strategy is expected to underperform when the market is not rewarding valuation or measures of fundamental improvement.

Asset class: U.S. equity
Number of holdings: 300 or more
Capitalization level: Small cap
Sub-style: Market-oriented, 130/30 limited long/short strategy
Firm background

Penn Capital Management Company, Inc. is an independent, employee owned, institutionally focused investment management firm.

Headquarters: Philadelphia, PA
Founded: 1987
Lead manager: Eric Green, CFA

Manager profile

Penn Capital Management Company, Inc. (Penn) was added to the U.S. Small Cap Equity Fund in 2011. The small cap strategy used in this fund is led by Eric Green, who also serves as director of research for the firm.

What this manager brings to the Fund

Russell Investments believes Penn’s credit research expertise enables it to view a company from a unique perspective. Penn seeks to exploit inefficiencies between the equity and debt markets that are often ignored by traditional equity investors. This may allow Penn to identify attractive companies before equity market participants.

Investment process

Penn manages a customized blend of its small cap and microcap strategies for this Fund. For more than 20 years, Penn has maintained an integrated credit and equity research process. The firm believes that, at both a micro and macro level, credit markets can act as an early indication for trends in the equity markets. It believes that credit cycles typically drive economic cycles, and bond prices tend to lead equity prices.

The firm believes that its credit research expertise provides an advantage in the early identification of small, undiscovered companies. These companies with improving business fundamentals are expected to pay down debt, refinance at more favorable rates, or buy back company shares. Penn also identifies companies with strong balance sheets and a conservative cash flow profile.

Russell Investments believes that Penn’s efforts to identify multiple catalysts driving a company’s future earnings growth and prospective price appreciation potential differentiates it from peers. The focus on capital structure driven opportunities and the crossover of ideas from the high yield credit market are distinguishing elements of Penn’s process.

Asset class: U.S. equity
Number of holdings: 60-100
Capitalization level: Micro and small
Sub-style: Total capital structure

Russell Investments’ manager analysis

Russell Investments has been researching Penn’s equity strategies since 2007. Penn employs a large team of portfolio managers and analysts who focus on analysis of each company’s complete capital structure for potential investment in the debt and/or equity securities of each company. Russell Investments finds the firm’s competitive culture and broad employee ownership to be notable advantages versus peers of a similar size.

With a broad mix of both growth and value stocks, combined with an emphasis on multiple catalysts, Penn’s strategy has the potential to perform well in a variety of market environments. A period of a prolonged capital market crisis where companies are unable to refinance or borrow may prove challenging for Penn’s investment process, as will general equity market sell offs where higher volatility securities are out of favor.
Firm background
Russell Investment Management, LLC (RIM) is the advisor to Russell Investment Company (RIC) Funds. 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. Russell Investments provides asset management and investment services to institutional and individual investors around the world.

Headquarters: Seattle, WA
Founded: Russell Investments, founded in 1936

Role: Positioning strategy
Asset class: U.S. equity
Number of holdings: 100-500
Capitalization level: Small cap

RIM oversees all investment advisory services to the fund and manages assets not allocated to managers.

Manager and strategy oversight
Russell Investments portfolio managers have ultimate responsibility for ensuring fund outcomes are consistent with fund objectives. The portfolio managers and analysts track the effectiveness of every money manager and strategy in the Fund. Occasionally, adjustments may be necessary due to reasons such as a change in control at a money manager, the opportunity to select another manager or strategy the portfolio managers believe offers an investment proposition that would help improve the Fund, or changes in market dynamics.

Any significant fund changes must be validated through an internal governance process to ensure all key considerations were addressed by the portfolio managers. Money manager changes are also subject to approval by the Fund’s Board of Trustees.

Investment management
RIM manages a portion of the Fund’s assets internally to seek to precisely manage the Fund’s exposures and achieve the desired risk/return profile for the Fund. During the portfolio construction and management process, portfolio managers may identify an investment need and seek to address that need with a positioning strategy.

Positioning strategies are customized portfolios directly managed by RIM for use within the total portfolio. Portfolio managers use positioning strategies to seek excess return and manage portfolio risks by targeting specific exposures. These strategies are used in conjunction with allocations to third-party active managers to fully reflect Russell Investments’ strategic and dynamic insights with integrated liquidity and risk management.

The positioning strategy used in this Fund is a dedicated portion of the Fund assets that can be rebalanced as needed by the portfolio manager to keep the total portfolio aligned with Russell Investments’ strategic beliefs (e.g. value, momentum, quality and volatility) as well as the Fund’s preferred positioning. This allows the portfolio manager to express Russell Investments’ views across multiple factor and industry exposures simultaneously while regularly adapting to changing markets and manager portfolios.

Managing the liquidity reserve
Every Russell Investment Company mutual fund maintains cash reserves, which is cash awaiting investment or held to meet redemption requests or to pay expenses. This Fund typically exposes all or a portion of its cash to the performance of appropriate markets by purchasing equity securities and/or derivatives (also known as “equitization”), which typically includes index futures contracts. The Fund invests any remaining cash in an unregistered cash management fund advised by RIM.
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 or by visiting russellinvestments.com. Please read a prospectus carefully before investing.

Money managers listed are current as of June 10, 2019. Subject to the Fund's Board approval, Russell has the right to engage or terminate a money manager at any time and without a shareholder vote, based on an exemplar order from the Securities and Exchange Commission. Russell Investment Management, LLC ("RIM") may change a Fund's asset allocation at any time, including not allocating Fund assets to one or more money manager strategies. Although all of the Fund's money managers are listed, RIM may not have allocated assets to the strategies employed by one or more of these money managers. Investments in the Funds are not deposits with or other liabilities of any of the money managers and are subject to investment risk, including loss of income and principal invested and possible delays in payment of redemption proceeds. The money managers do not guarantee the performance of any Fund or any particular rate of return.

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.

This document will be updated annually. If a manager change is made during a year, a manager specific page will be added or removed.

Small capitalization (small cap) investments generally involve stocks of companies with a market capitalization based on the Russell 2000® Index. Investments in small cap, micro cap, and companies with capitalization smaller than the Russell 2000® Index are subject to the risks of investing in securities of large and medium capitalization companies. Investments in smaller capitalization companies may involve greater risks as, generally, the smaller the company size, the greater these risks. In addition, micro capitalization companies and companies with capitalization smaller than the Russell 2000® Index may be newly formed with more limited track records and less publicly available information.

Market-oriented investments are generally subject to risks similar to that of both growth and value style investing.

Growth investments focus on stocks of companies whose earnings/profitability are accelerating in the short term or have grown consistently over the long term. Such investments may provide minimal dividends which could otherwise cushion stock prices in a market decline. Stock value may rise and fall significantly based, in part, on investors' perceptions of the company, rather than on fundamental analysis of the stocks. Investors should carefully consider the additional risks involved in growth investments.

Value investments focus on stocks of income-producing companies whose price is low relative to one or more valuation factors, such as earnings or book value. Such investments are subject to risks that their intrinsic values may never be realized by the market, or, such stock may turn out not to have been undervalued. Investors should carefully consider the additional risks involved in value investments.

In a limited long/short strategy, although the Fund 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. The Fund will realize a gain if the security declines in price between those dates. The making of short sales exposes the Fund to the risk of liability for the market value of the security that is sold (the amount of which liability increases as the market value of the underlying security increases), in addition to the costs associated with establishing, maintaining and closing out the short position.

Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns.

Diversification and strategic asset allocation do not assure profit or protect against loss in declining markets.

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