WE ARE MULTI-ASSET

Russell Investments

ACTIVE AND PASSIVE INVESTING

Why we believe the smart money takes a total-portfolio approach.

Active and Passive:

THE CASE FOR BOTH

WHEN IT COMES TO ACHIEVING OUTCOMES, THERE IS NO PURELY PASSIVE APPROACH.

WE'RE ALL ACTIVE INVESTORS.

We all make choices, saying yes to some exposures and strategies and no to others. That's why, at Russell Investments, we believe in active AND passive investing. Decades of asset allocation expertise help us objectively recognize there are appropriate situations, market cycles, and circumstances for both.

We also believe savvy investors take advantage of the wide-and-deep toolkit that multi-asset investing provides. And we believe the best plan is not to follow trends, but to focus on proven, research-based strategies that give investors the highest likelihood of reaching their outcomes.

THE UNSEEN VALUE OF Active Management

Active management is more than just stock picking in a single asset class. Active management utilizes all the tools available to achieve an outcome for investors. Investors who choose to miss out on active management run the risk of missing out on the many benefits that can come with it.

ASSET ALLOCATION

Active management includes vital allocation decisions that can have far greater impacts than just the cost of fees. The fee difference between active and passive is often small enough to be measured in basis points. Meanwhile, studies suggest that more than 90 percent[1] of the variation in investor's return is determined by asset allocation. But these days, with so many relatively new ways to achieve specific factor or sector exposures, how do you know what to choose? Bank loans, REITs, infrastructure, low vol, momentum, emerging markets? When do you lean in? When do you lean out? What combination of asset classes is most likely to deliver the return you need at the risk you can live with? An asset-allocated, actively-managed investment approach can help.

DYNAMIC MANAGEMENT

Active management looks forward, while passive investing, by its very nature of tracking with the market, tends to follow what worked. Think back on the past 12 months. Are you confident passive investing takes advantage of some of the rapid market swings that hit investors? Dynamic active management can be used to help avoid downside risk in chosen asset allocations. And the smoother ride that active management works to create can help to keep investors from exiting the market at the worst possible time.

PRECISE FACTOR EXPOSURES

Every investor has a unique situation. Some require a defensive position, aimed at reducing downside risk. Others want growth amplified, whether in their home country large-cap equity exposure or in varied market sectors. And we believe that the more varied or less covered the asset type, the less likely that sector has the maturity and predictability to merit a long-term passive allocation. At Russell Investments, we hand-select active managers around the world—with research-proven expertise in local, specialized market sectors, including emerging markets, alternatives, infrastructure, and more.

AFTER-TAX RETURNS

It's not what an investor earns. It's what they keep. Actively managing to reduce tax burdens is an under-appreciated way active managers can help to provide value. Unlike index-based passive investing, active management can use an expanded toolkit to actively seek to maximize after-tax returns. This includes active loss harvesting—potentially increasing the absolute return an investor sees. Passive means passive, not just in regards to investing, but it may be passive in regards to taxes as well. Active, by its very nature, strives to do better.

IT'S NOT WHAT AN INVESTOR EARNS. IT'S WHAT THEY KEEP.

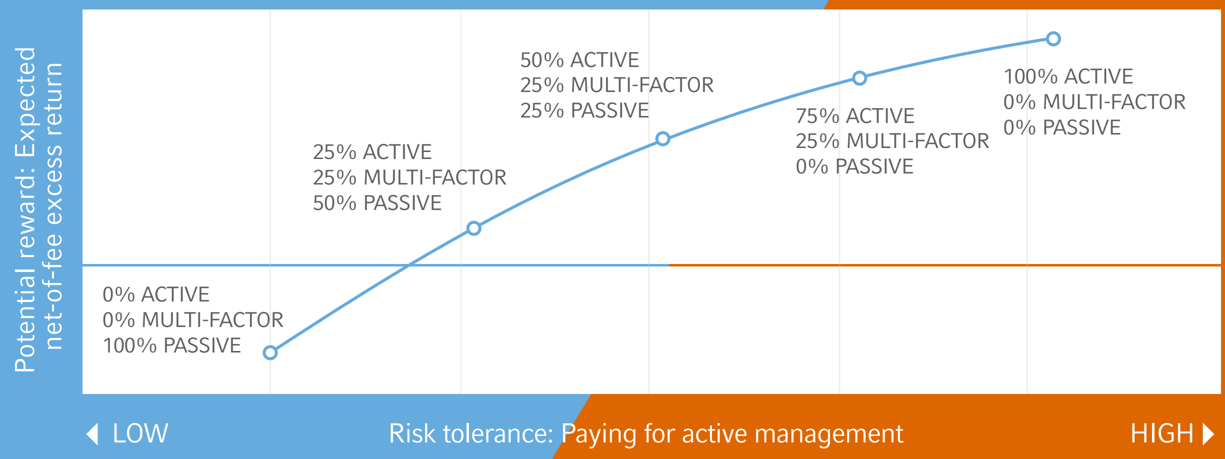
[1] Source: http://www.wsj.com/articles/americas-largest-pension-fund-a-7-5-annual-return-is-no-longer-realistic-14817217192

WHAT'S THE RIGHT MIX OF
Active and Passive?

There's no disputing that passive strategies typically have lower fees and have done a good job of beating below-average active managers. But that doesn't necessarily make them more cost effective or more successful, relative to intelligently diversified multi-asset solutions. The intention of active management is to outperform a passive benchmark. At Russell Investments, we believe that potential for outperformance and risk reduction can often help to pay off over the long-term. But there's no one right way to invest for everyone. Each investor has a unique set of goals, real-world constraints and risk preferences.

When we talk about risk preference, investors often think about the mix of stocks and bonds in a portfolio and ratios like 60/40 or 70/30. But another preference may be just as important: the risk preference that embraces the potential for active management over-performance, even when that over-performance is not guaranteed. Savvy investors recognize the importance of long-term investing. And we believe, over the long term, that active and passive management within a multi-asset portfolio will demonstrate value versus a passive-only portfolio. Not many offer this, but you'll find that Russell Investments is a firm who specializes in finding and combining best-of-breed managers and dynamically manages multi-asset exposures that suit many investors' goals, constraints and preferences regarding risk. High conviction active investing can improve returns. But different investors have differing levels of willingness to take on the interim cost and variability required to reap those benefits. We can build portfolios with those tolerances in mind.

FINDING THE RIGHT MIX OF ACTIVE AND PASSIVE



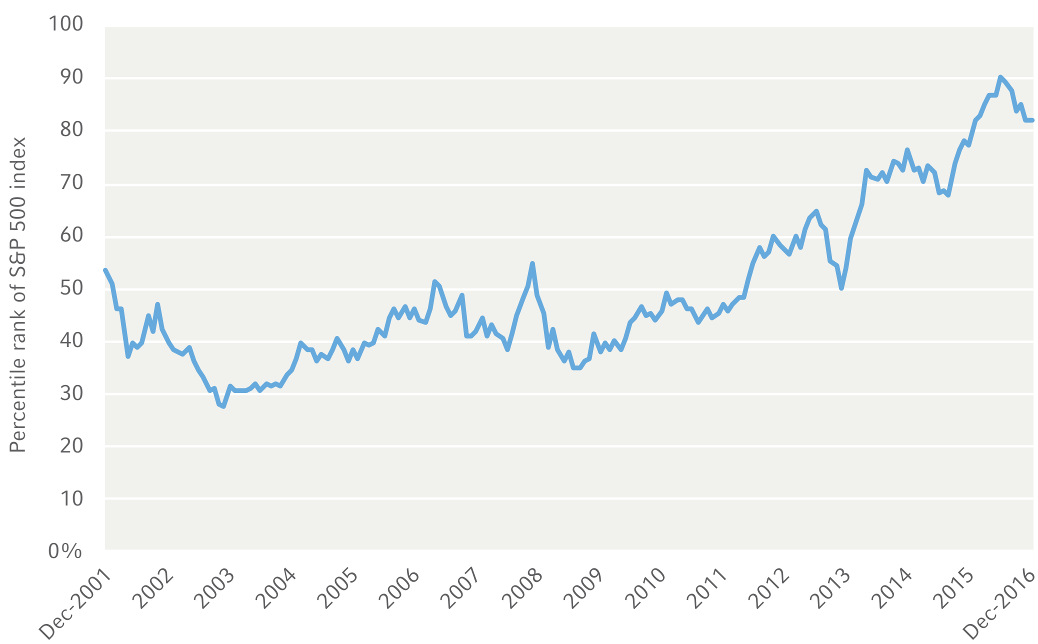
For investors with a low tolerance for periods of active management underperformance, more passive exposure might make sense for them, even if that approach eliminates the possibility of outperforming passive benchmarks. For investors who believe in active outperformance, more active management might be the best approach. Of course, many investors will find their place somewhere along the spectrum. For illustration purposes only.

A NEW DIMENSION of Diversification

We all know that investing is inherently risky. Plain and simple, diversification aims to manage risk. Most savvy investors and advisors—who know just how important a diversified portfolio is—would never go all fixed income, or all value stocks, or put all their money in a single company. That's because they know that markets are cyclical. What is winning today could lose tomorrow. Diversification can help protect against such big losses.

In the same way investors diversify across exposures, they may need to diversify across investment approaches as well to help mitigate risk and optimize opportunity. Because, like most aspects of investing approaches, passive results are also cyclical. Sometimes it wins. But as the chart below shows, many times, under many market conditions, active management has outperformed. Always including active management as a key part of a portfolio can help to capture those outperformance opportunities and avoid the downside risk that comes with an undiversified approach.

S&P 500 INDEX – ROLLING 5-YEAR RETURN RANK VS. MORNINGSTAR U.S. LARGE CAP BLEND UNIVERSE



Indexes are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

The above chart shows the cyclicality of active and passive ebbs and flows in the U.S. market. When the blue line is below the 50th percentile, the S&P 500® is performing below the average active manager. Note that, on this chart, peaks in passive management performance tend to be followed by severe drops. As always, investors should be wary of "buying high."

THE LOW-RETURN Imperative

Along with most other forecasters, our team at Russell Investments forecasts a low-return investing environment for the foreseeable future.[2] Despite those projections, many investors still base their retirement savings plans on a return from their portfolio of around seven percent.[3] But our forecasting team projects that a 60/40 passive portfolio built from 60% MSCI World Index and 40% Barclay's Aggregate Bond Index will likely yield only 4.8% annual return over the next ten years. If investors go passive to save on fees, but fail to reach their desired investment outcomes because of such a low return, who wins?

So how can investors get to that often required seven percent return rate in such an environment? Not easily. Investors will need to work harder for outperformance. We believe their likelihood of success might increase through three key sources:

NET-OF-FEE ALPHA FROM ACTIVE MANAGEMENT

Passive, by its nature, will underperform the market—because it tracks the market, but then includes fees. It cannot beat the market. And any exposure to the market includes exposure to risk. Active management, while it also inherently includes risk and fees, provides the potential for outperformance.

TARGETED FACTOR EXPOSURES

Delivering on investor outcomes in a low-return environment requires access to more exposures, not less. But we believe gaining access to precise exposures at the right time requires skill. And we believe that these niche market segments—such as alts, emerging markets, and commodities, among others—lend themselves to providing potential opportunity when gauged through the lens of highly specialized active managers.

DYNAMIC ASSET ALLOCATION

Constantly managing exposures and allocations requires a deep understanding of global markets and cycles, but it also requires 24/7 focused commitment. As a top tier broker*, Russell Investments is specifically positioned to help.

CONSTANTLY MANAGING EXPOSURES AND ALLOCATIONS REQUIRES… 24/7 FOCUSED COMMITMENT.

[2] Source: https://russellinvestments.com/-/media/files/us/insights/corporate/2017-gmo-annual-report.pdf

[3] Source: http://www.wsj.com/articles/americas-largest-pension-fund-a-7-5-annual-return-is-no-longer-realistic-1481721719

* Russell Investments placed among the top ten brokers in all trading by global brokers. Rankings are based on best-performing brokers as measured by the difference in cost/savings against the universe of Elkins/McSherry, a State Street company. The Elkins/McSherry universe is based on the top 50 brokers in each category by U.S. dollar volume. This is a quarterly ranking based on the previous four-quarters as of June 30, 2016.

What's needed to make Active Management win?

We've all heard the statistics: At certain points in the market cycle, the S&P beats some percentage of active managers.

Is it possible to access the managers that the S&P doesn't beat?

At Russell Investments, researching active managers is a core part of our business. For more than four decades, we've been investing in manager research, with the clear goal of finding and combining best-of-breed active managers for our clients. We're consistently recognized as a global authority in this approach. Less than 5% of researched money managers receive an assignment in a Russell Investments fund.

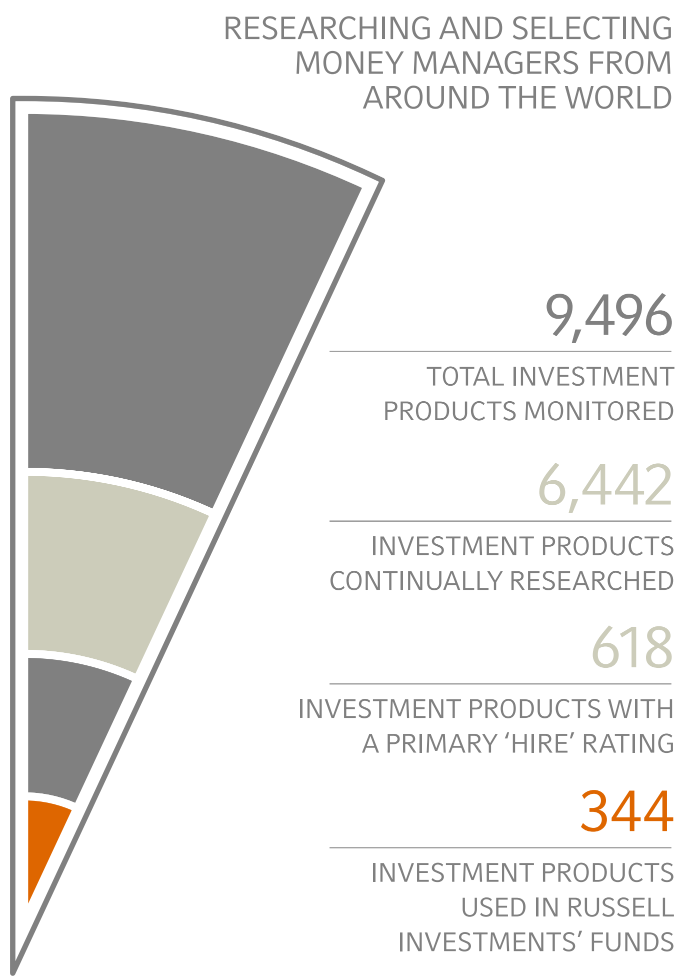
IT'S NOT EASY.

IT TAKES THOUSANDS OF HOURS OF QUANTITATIVE RESEARCH, FACE-TO-FACE MEETINGS, AND ONGOING MONITORING. BUT OUR PURPOSE—OF IMPROVING FINANCIAL SECURITY FOR PEOPLE—WELL, THAT PURPOSE MATTERS TO US.

WE BELIEVE IT'S WORTH A LITTLE HARD WORK.

KEY FACTS

As of the end of December 2016, Russell Investments analysts held more than 2100 meetings to evaluate investment manager products. Meetings were held in-person, phone and video conference including multiple meetings with the same manager.



*As of 12/31/2016. Please note that the numbers above include traditional products only, and not alternative products as shown in previous years and may not be a direct comparison with numbers provided in previous years

Disclosures

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.

Keep in mind that, like all investing, multi-asset investing does not assure a profit or protect against loss.

Investment in Global, International or Emerging markets may be significantly affected by political or economic conditions and regulatory requirements in a particular country. Investments in non-U.S. markets can involve risks of currency fluctuation, political and economic instability, different accounting standards and foreign taxation. Such securities may be less liquid and more volatile. Investments in emerging or developing markets involve exposure to economic structures that are generally less diverse and mature, and political systems with less stability than in more developed countries.

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The S&P 500, or the Standard & Poor's 500, is a stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ.

Source for MSCI data: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed or produced by MSCI.

The MSCI All Country World index is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International, and is comprised of stocks from both developed and emerging markets.

Bloomberg Barclays U.S. Aggregate Bond Index: An index, with income reinvested, generally representative of intermediate-term government bonds, investment grade corporate debt securities, and mortgage-backed securities. (specifically: Bloomberg Barclays Government/Corporate Bond Index, the Asset-Backed Securities Index, and the Mortgage-Backed Securities Index).

Morningstar category: Large-blend portfolios are fairly representative of the overall U.S. stock market in size, growth rates, and price. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large cap. The blend style is assigned to portfolios where neither growth nor value characteristics predominate. These portfolios tend to invest cross the spectrum of U.S. industries, and owing to their broad exposure, the portfolios' returns are often similar to those of the S&P 500® Index.

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