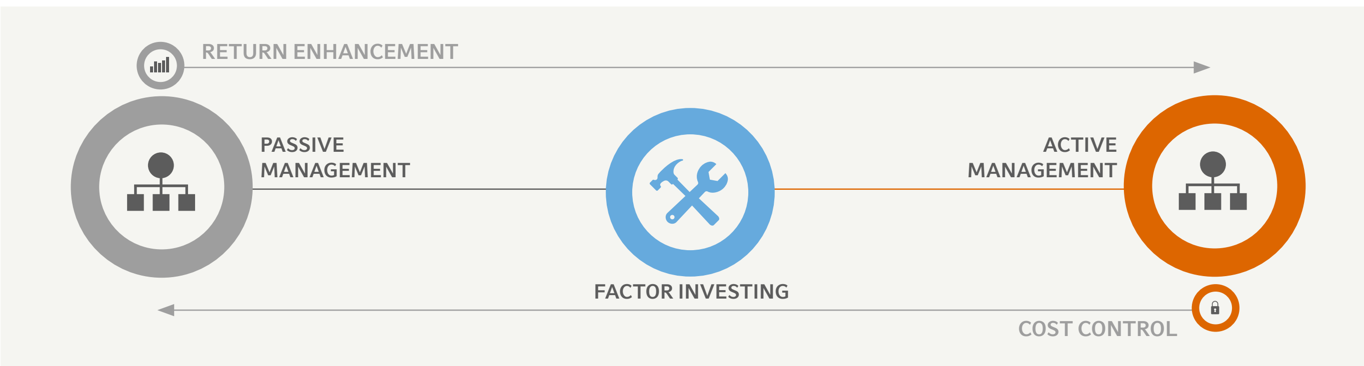
Multifactor investing

A complement to active or passive strategies designed to harness incremental returns, while seeking to manage risk and costs

The quest for generating incremental returns while managing portfolio risk can be challenging. In response, many investors are seeking additional, cost-effective investment approaches to complement their active or passive allocations. Factor investing is one such approach that has gained attention in recent years.



Factors are the underlying characteristics that drive returns of stocks, bonds and other assets. For instance, Value, Momentum, Quality and Low Volatility are four common equity factors that have the potential to deliver excess returns over the broad market. Factor investing targets exposure to these factors to help maximize a portfolio's return and manage its risk.

Active investment managers have for decades used strategies to target factors, such as specializing in value or momentum equities. Technological and research developments now allow managers to provide more precise exposure to factors in a portfolio, harnessing these powerful tools to help meet client objectives.

Value investment strategies involve identifying companies that are trading at a discount to fair value of the broader market.

Quality investment strategies focus on identifying companies that deliver sustainable returns to shareholders. Typically characterized by high profitability, low leverage and low earnings volatility.

Momentum investment strategies focus on identifying those stocks with strong performance, with the expectation that the strong performance will continue.

Low-Volatility based investment strategies focus on identifying companies that have more stable return patterns than the broader market.

And...

Growth investment strategies focus on stocks that exhibit higher historical and forecasted growth rates, as measured by fundamental measures such as earnings and sales, relative to the broader market.

Size investment strategies focus on stocks with a lower market capitalization.

Our factor investing approach

At Russell Investments, we understand factor investing – it's been one of our core capabilities for more than 40 years. We believe there are three key components to a successful multifactor strategy: 1) Identifying and understanding multiple factors 2) Thoughtful portfolio construction and 3) Dynamically managing factor exposures.

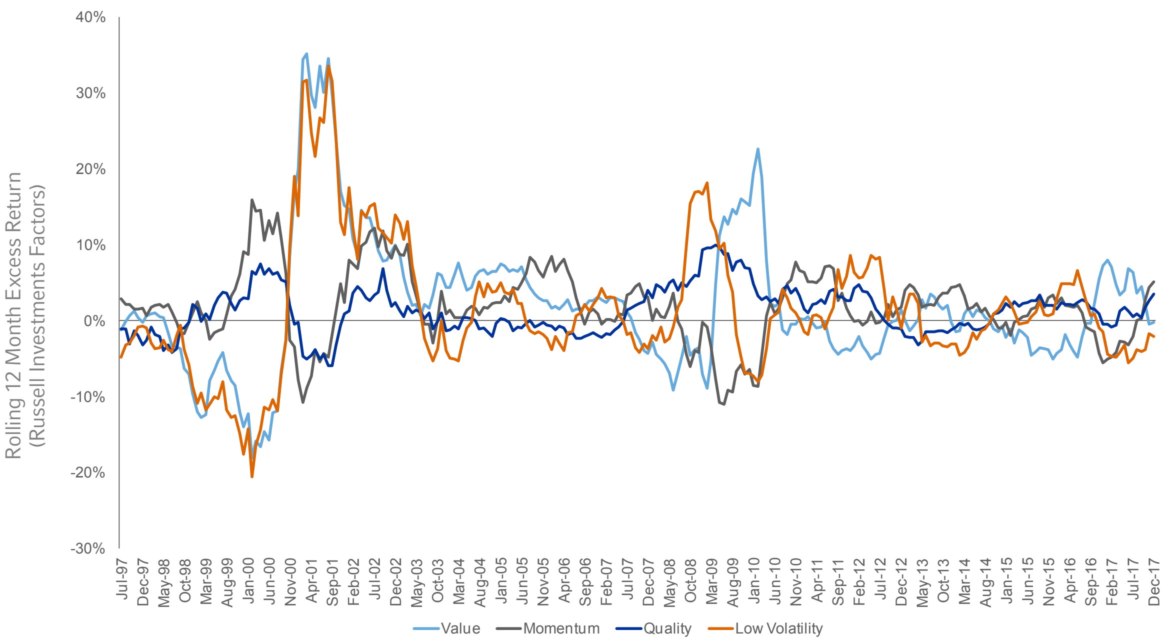
1 MULTIPLE FACTORS

Early adopters of factor investing focused on portfolios targeting a single factor to target the potential excess returns from a desired factor exposure. However, factors can be volatile and have highly cyclical performance relative to the broad market. Although each individual factor's excess returns are expected to be positive in the long run, they are not consistently positive over shorter time horizons and fall in and out of favor at different times throughout the market cycle. The chart below illustrates the historical excess returns for each underlying factor.

Combining multiple factors in a single portfolio may help provide more consistent performance over time, especially given that the performance cycles of the most common factors have not historically coincided with each other — when one factor is underperforming, another factor may be outperforming.

Combining multiple factors: Long-term efficacy, diversifying performance patterns

1-YEAR ROLLING EXCESS RETURN VS. RUSSELL GLOBAL LARGE CAP INDEX



Source: Russell Investments. Based on monthly data from August 1996 – December 2017. Each of these lines represent a model of the historical performance pattern of each factor (Value, Momentum, Quality, and Low Volatility). When the line is at 10%, then the respective factor would have outperformed the Russell Global Large Cap Index by 10% over the last 12 months. The intention of the chart is to show the historical performance pattern of each factor varies over time and does not represent the historical performance of an actual Russell Investments product. Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results.

2 THOUGHTFUL PORTFOLIO CONSTRUCTION

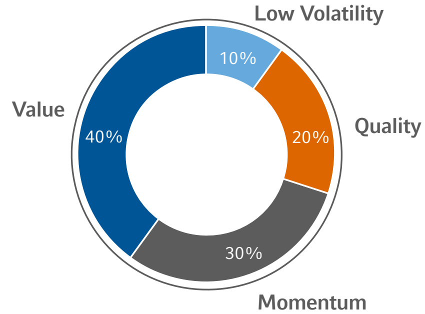
Combining multiple factors within a portfolio requires careful consideration — just as diversifying across various asset classes does — so that the components complement each other. A simplistic multifactor portfolio would equally weight each factor. However, our research shows that optimizing risk-adjusted returns requires an understanding of each factor's behavior under different economic regimes. For example,

- The **Value** factor has tended to start performing well at market bottoms.
- The **Momentum** factor has typically started performing well at or near market peaks.
- The **Quality** factor has been the most stable in terms of returns, though it tends to perform better during recessions.
- The **Low Volatility** factor has demonstrated the strongest counter-cyclical pattern.

In **Russell Investment Company Multifactor Equity Funds**, we use this insight to thoughtfully construct the portfolio's strategic factor weights: 40% **Value**, 30% **Momentum**, 20% **Quality** and 10% **Low Volatility**. These become the starting point for our Portfolio Managers to dynamically manage our multifactor portfolios.

Strategic factor weights

RUSSELL INVESTMENT COMPANY MULTIFACTOR EQUITY FUNDS



Actual weights may vary from the strategic allocation depending on the market environment.

3 DYNAMIC ACTIVE MANAGEMENT

Markets are not static and conditions are constantly evolving, causing the attractiveness of any one factor to vary. Therefore, our multifactor Portfolio Managers actively adjust individual factor weights, based on our manager research insights and strategists' capital market views on the business cycle, valuations and market sentiment. For example, the Portfolio Managers may increase the **Value** exposure near market bottoms as equities are seemingly set to rebound. Conversely, **Quality** may be emphasized in a weak or recessionary environment, as depicted in the chart below.

Dynamically managed factor exposures based on market cycle

+	Factor tends to perform well during that phase of the cycle
++	Factor tends to perform very well during that phase of the cycle
-	Factor tends to be challenged during that phase of the cycle
--	Factor tends to be very challenged during that phase of the cycle

	Downturn	Recession	Recovery	Boom
Portfolio shift	Balanced transition to defensive posture	Defensive transition to balanced posture	Balanced transition to risk strategies	Risk strategies transition to balanced posture

Market cycle

	Downturn	Recession	Recovery	Boom
Value	--	+/-	++	+/-
Momentum	--	+/-	+/-	++
Quality	+	++	--	+/-
Low Volatility	+	++	--	-
Growth	+	--	-	+
Size	--	+/-	++	+

For illustrative purposes only. Russell Investments (RI) does not believe in a return premium to the Growth factor through the entire cycle, so it is not included in our 'strategic factors' above. However, RI believes there are appropriate times to allocate to Growth within certain phases of the cycle as a valuable analogue to allocations to the Value factor. RI does not believe in a premium to smaller size, but does believe that active management, and factor exposures, are more powerful in smaller cap stocks.

FUND DETAILS	MULTIFACTOR U.S. EQUITY FUND	MULTIFACTOR INTERNATIONAL EQUITY FUND
Investment objective	To seek to provide long term capital growth.	To seek to provide long term capital growth.
Invests in	The Fund invests principally in common stocks of large and medium capitalization U.S. companies, but may also invest in small capitalization U.S. companies.	The Fund will invest principally in equity securities, including common stocks issued by companies economically tied to or located in developed market countries other than the U.S. The Fund may invest a portion of its assets in equity securities of companies that are economically tied to emerging market countries.
Benchmark	Russell 1000® Index	MSCI World ex USA Index Net
Expense ratios	Class S: Annual Total Expense Ratio: 0.60% Annual Net Expense Ratio: 0.60% Class M*: Annual Total Expense Ratio: 0.60% Annual Net Expense Ratio: 0.45%	Class S: Annual Total Expense Ratio: 0.73% Annual Net Expense Ratio: 0.69% Class M*: Annual Total Expense Ratio: 0.73% Annual Net Expense Ratio: 0.54%
Ticker symbols	Class S: RTDSX Class M*: RTDTX	Class S: RTISX Class M*: RTITX
Risks	The Funds utilize a variety of quantitative inputs and qualitative assessments in their management. If these are not predictive or are incorrect, the Funds may underperform. These Funds also utilize index-based strategies, which may cause their returns to be lower than if they employed a fundamental investment approach to security selection.	

* Effective September 15, 2017, Class T Shares were redesignated as Class M Shares.

To learn how multifactor investing can potentially benefit your portfolio, please consult your financial advisor or visit russellinvestments.com

IMPORTANT INFORMATION

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. Please read a prospectus carefully before investing.

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Mutual Fund investing involves risk, principal loss is possible.

The Russell 1000® Index measures the performance of the large cap segment of the U.S. equity universe, representing approximately 92% of the Russell 3000 Index.

The MSCI World ex USA Index Net captures large and mid cap representation across 22 of 23 Developed Markets countries, excluding the United States.

Small capitalization (small cap) investments generally involve stocks of companies with a market capitalization based on the Russell 2000® Index.

Small cap investments are subject to considerable price fluctuations and are more volatile than large company stocks. Investors should consider the additional risks involved in small cap investments.

Middle capitalization (mid cap) investments generally involve stocks of companies with a market capitalization based on the Russell MidCap Index. Mid cap investments are considered more volatile than large cap companies. Mid cap investments are often considered to offer more growth potential than larger caps (but less than small caps) and less risk than small caps (but more than large caps).

Non-U.S. markets and emerging or developing markets may entail different risks than those typically associated with U.S. markets, including currency fluctuations, political and economic instability, accounting changes, and foreign taxation. Non-U.S. securities may be less liquid and more volatile than the U.S. and emerging markets securities may be less liquid and more volatile than U.S. and longer-established non-U.S. markets.

Indexes are unmanaged and cannot be invested in directly.

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 Investment Company mutual funds are distributed by Russell Investments Financial Services, LLC, member FINRA, part of Russell Investments.

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