

ACTIVE TAX-MANAGED INVESTING: TAX-LOSS HARVESTING YEAR-ROUND



One of the basic tenets of investing is to buy low and sell high. But sometimes selling low is a smart choice.

When it comes to tax-efficient investing, it can be appropriate to divest of certain stocks as they and/or markets decline, in a process known as **tax-loss harvesting**. Tax-loss harvesting is when you book losses in a portfolio with the aim of reducing the taxes payable on current or future realized capital gains.

Every year, mutual funds (both active and passive) add up their realized gains and losses for the fund's fiscal year (typically Nov. 1-Oct. 31). If the realized gains are greater than the losses, the fund is required to distribute each investor's pro-rata share of those gains. Taxable investors receive Form 1099s in January for the preceding year detailing how much tax is due in mid-April.

It's important to remember that there is often little correlation between how the market performs and the size of the average capital gain distribution. Over the last 20 years, average capital gains distributions of U.S. equity mutual funds and ETFs have been ranging from 2% to 12%¹—including years when market returns were negative.

The value of stocks that trade in the market fluctuate somewhat randomly over short periods of time, while ideally trending upwards over the long run. During these random fluctuations, selling a position that drops below its cost basis creates a loss that can be carried forward. After selling, if the stock is replaced and the overall composition of the portfolio isn't significantly changed, harvesting these losses can help reduce capital gain tax liabilities.

Those capital losses that are carried forward are tax assets. Opportunistically increasing these assets makes sense for most long-term investors.

Market pullback in 2022—the up side of down

[Russell Investments' active tax-managed approach](#) to investing is a multi-step process aimed at decreasing the yearly taxation and long-term tax drag of capital gains or dividends in taxable portfolios. Our approach takes advantage of short-term market fluctuations throughout the year to create those tax assets in our funds.

Let's look at what happened in 2022. U.S. large cap equities (represented by the S&P 500 index) fell -18% with drops of -4.6% in Q1, -16.1% in Q2, and -4.9% in Q3. This volatility presented an attractive tax-loss harvesting opportunity. The chart on the following page shows the estimated capital gain/loss since the start of the year in our Tax-Managed U.S. Large Cap Fund—Class S as a percentage of the per-share price.

[FORM 1099-DIV REVIEW GUIDE](#)

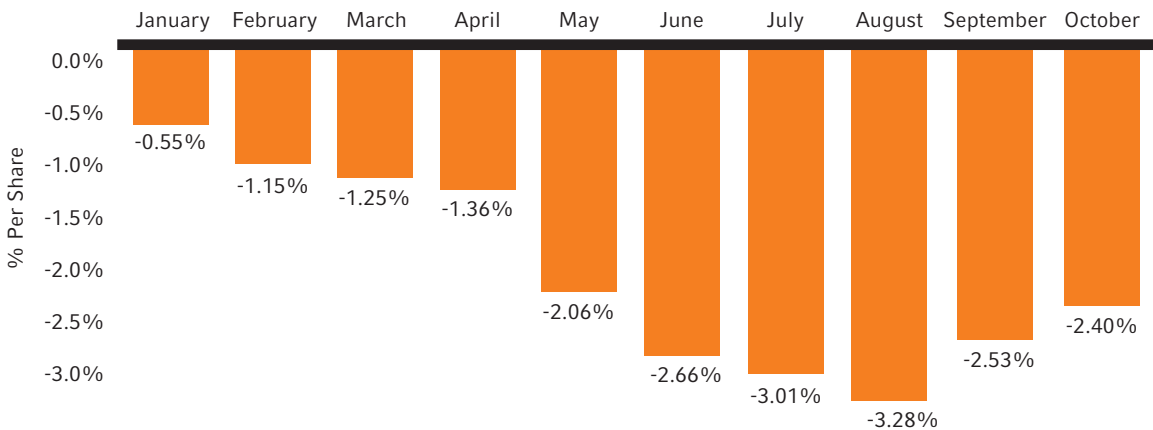
Have you carefully reviewed Form 1099s from previous year?

Use this guide to find out what a forensic review can do for investment taxes.

Not a Deposit • Not FDIC Insured •
May Lose Value • Not Bank Guaranteed •
Not Insured by any Federal
Government Agency

¹ Morningstar broad U.S. equity fund category

Harvesting losses—creating tax assets in 2022 / Tax-Managed U.S. Large Cap Fund
(Class S) Fiscal year-to-date capital gain/loss activities (percent per share as of 12/15/2022)

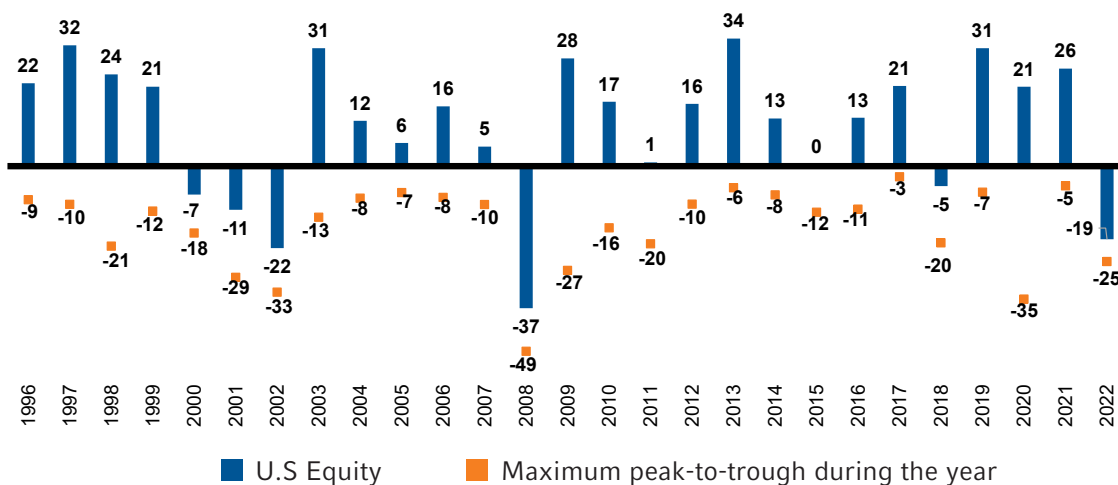


It may seem counterintuitive that the loss increased in every month—even when the S&P 500 Index delivered positive returns in months such as March and May. That’s because no matter what the broad market does, there are ALWAYS some stocks that go down while others go up.

Market pullbacks create opportunities to tax-loss harvesting—EVERY YEAR

Just look at the chart below. Even in years in which U.S. equities posted robust calendar-year gains—2019 being the most recent example—there were intra-year declines that provided an opportunity to harvest losses. Years with significant volatility such as 2020 may seem to provide the best opportunities but we all know the markets don’t go up in a straight line. With our active tax-managed approach, we are constantly on the alert for appropriate tax-loss harvesting opportunities throughout the year.

Calendar-year U.S. equity return and intra-year declines

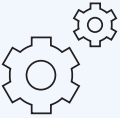


U.S. Equity: Russell 3000® Index. Data as of December 31, 2022. Source: Morningstar. Returns calculated with dividends included. Maximum peak-to-trough represents the return difference between the peak and trough during the calendar year. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

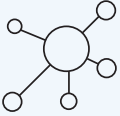
Russell Investments' active tax-managed investing—beyond tax-loss harvesting

Beyond tax-loss harvesting, our active approach to managing taxes utilizes a variety of different strategies. In fact, the Tax-Managed U.S. Large Cap Equity Fund was created in 1996 and since then we've expanded and refined our capabilities. We've also launched tax-managed funds that invest in U.S. mid and small cap equities as well as international equities. Most recently, we brought our tax-managed process to alternatives with the launch of our Tax-Managed Real Assets Fund, which provides exposure to diversifiers such as real estate, infrastructure and natural resources.


Here are the principles we implement in our tax-managed funds:



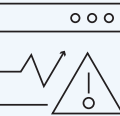
ACTIVE MANAGEMENT
We leverage our decades of rigorous manager research to select active money managers skilled in stock selection.




CENTRALIZED TRADING AND IMPLEMENTATION
We aggregate multiple managers and centralize implementation in a single fund to better coordinate trading activities, and create greater efficiencies.



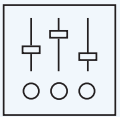
TAX-LOSS HARVESTING
With our 24-hour trading capability, we systematically seek opportunities to harvest losses to offset taxable gains.




MINIMIZE WASH SALES
The benefits of tax-loss harvesting can be negated when sold securities are repurchased within 30 days. Our total portfolio approach can help ensure we conform to the Wash Sale Rule.



TAX-SMART TURNOVER—REFRESHING TAX LOTS
We carefully evaluate the tax lots and engage in thoughtful, tax-smart turnover strategies to avoid portfolio lock-up.



MANAGE HOLDING PERIOD
Tax rate on capital gains can differ depending on holding period. We understand this and make it integral in how we manage the assets.

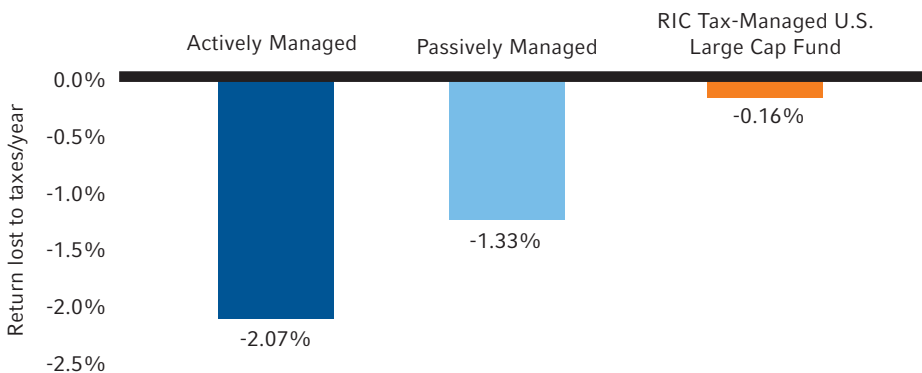


MANAGE A FUND'S YIELD
Managing yield isn't about eliminating yield. It's about understanding the tax rules and maximizing the amount you get to keep.

Combined, these strategies help reduce the “tax drag” on our active tax-managed funds. We define tax drag as the amount of return surrendered to taxes. This can often be a higher number than the stated expense ratio and is an additional fund expense for the benefit of Uncle Sam rather than for you.

Below you'll see the lower tax drag our Tax-Managed U.S. Large Cap Equity Fund—Class S has historically delivered relative to active and passive peers over the last three years. Compared to both actively managed and passively managed approaches, Russell Investments' tax-managed funds have successfully reduced tax drag over time and helped investors keep more of what they've earned.

Average annual tax drag / Tax-Managed U.S. Large Cap Fund (Class S) vs. peers
5 years ending December 31, 2022



Morningstar Categories included: US Large Blend. See appendix for methodology. Average of Morningstar's Tax Cost Ratio for universes as defined. Passive is defined as being an index fund as reported by Morningstar or part of an ETF Category.

CHOOSE A RUSSELL INVESTMENT COMPANY FUND ADD A FUND TO COMPARE ADD A MORNINGSTAR CATEGORY AVERAGE

Tax-Managed U.S. Large Cap Fund (RETSO) [Search] Add a Morningstar category

TAX-ADJUSTED RETURNS PRE-TAX RETURNS

FUND	Annualized				SINCE RECEPTION	FUND RECEPTION DATE	TOTAL	NET1
	1 YR	3 YRS	5 YRS	10 YRS				
Tax-Managed U.S. Large Cap Fund (RETSO)	0.20%	0.11%	0.16%	0.20%	0.20%	1/16/1994	0.87%	0.20%
Peer in Category	3	2	2	1	-	-	-	-
Constituents in Category	1348	1712	1108	888	682	-	-	-

TAX IMPACT COMPARISON TOOL

Check out the tax drag of current investments and compare to others.

Key takeaways



1

NO VOLATILITY IS TOO LITTLE

Taking advantage of any harvesting opportunity, even if it seems small, can potentially lead to better after-tax outcomes for investors. But it helps to have scale and the ability to keep trading costs low, which is why tax-loss harvesting is best accomplished through a tax-managed fund.



2

DON'T PASS UP A HARVESTING OPPORTUNITY JUST BECAUSE LOSSES ALREADY EXIST

As we showed, opportunities always exist, even in rising markets. Capital losses can be carried forward indefinitely until the amount is exhausted so these losses can be held until needed to help reduce a potential tax bill. Our active approach to tax management is always looking for opportunities to harvest losses.



3

OPPORTUNISTIC TAX-LOSS HARVESTING REQUIRES KEEPING A CLOSE EYE ON THE MARKETS

You never know when markets will provide the next opportunity to tax-loss harvest. Markets are unpredictable.

It's hard to find the time to monitor the market's daily activity and determine when to harvest losses. This is why an outsourced provider of tax management, with the scale, resources, and time to take advantage of market environments throughout the year, may be the best way to potentially keep more of your money in your pocket and not in Uncle Sam's.

Russell Investment Company Tax-Managed Equity and Real Assets Funds

FUND NAME	TICKER			
	CLASS S	CLASS M	CLASS A	CLASS C
Tax-Managed U.S. Large Cap Fund	RETSX	RTMTX	RTLAX	RTLCX
Tax-Managed U.S. Mid & Small Cap Fund	RTSSX	RTOUX	RTSAX	RTSCX
Tax-Managed International Equity Fund	RTNSX	RTIUX	RTNAX	RTNCX
Tax-Managed Real Assets Fund	RTXSX	RTXMX	RTXAX	RTXCX

Talk to your financial professional and/or tax accountant to discover how active tax-managed investing can potentially help you minimize the tax impact on your investment and maximize after-tax wealth, or visit [russellinvestments.com](https://www.russellinvestments.com).

Appendix

Methodology for tax drag:

- Include all open-ended investment products – mutual funds/ETFs that are both active and passive. Tax Drag reflects the arithmetic average of Morningstar Tax Cost Ratio. Data includes all share classes and reflects Morningstar category of U.S. Equity.

Methodology for universe construction:

- Average of Morningstar's Tax Cost Ratio for universes as defined.
- Averages calculated on a given category. For example, average reflects the arithmetic average of the Morningstar Tax Cost Ratio for the universe/category as listed. Data includes all share classes.
- Large Cap/Small Cap determination based upon Morningstar Category.
- If fund is indicated by Morningstar as passive or an ETF, the fund is considered to be passively managed. Otherwise, the fund is considered to be actively managed.
- Tax Drag: Morningstar calculated Tax Cost Ratio.
- The Morningstar categories are as reported by Morningstar and have not been modified.
- Morningstar Categories included: US Fund Large Blend

The Morningstar categories are as reported by Morningstar and have not been modified. © 2023 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely.

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Morningstar Category Definitions:

Large Blend: 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 across 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.

Index Definitions:

S&P 500® Index: A free-float capitalization-weighted index published since 1957 of the prices of 500 large-cap common stocks actively traded in the United States. The stocks included in the S&P 500® are those of large publicly-held companies that trade on either of the two largest American stock market exchanges: the New York Stock Exchange and the NASDAQ.

Russell 3000® Index: Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

IMPORTANT RISK DISCLOSURES

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 visiting [russellinvestments.com](https://www.russellinvestments.com). Please read a prospectus carefully before investing.

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.

Income from funds managed for tax efficiency may be subject to an alternative minimum tax, and/or any applicable state and local taxes.

Non-U.S. markets, which may include developed, emerging, and frontier markets, 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 U.S. securities. The risks associated with non-U.S. securities may be amplified for emerging markets securities. Because frontier markets are among the smallest, least developed, least liquid, and most volatile of the emerging markets, investments in frontier markets are generally subject to a greater risk of loss than investments in developed or traditional emerging markets.

Small capitalization (small cap) investments involve stocks of companies with smaller levels of market capitalization (generally less than \$2 billion) than larger company stocks (large cap). Small cap investments are subject to considerable price fluctuations and are more volatile than large cap stocks. Investors should consider the additional risks involved in small cap investments.

Investments that are allocated across multiple types of securities may be exposed to a variety of risks based on the asset classes, investment styles, market sectors, and size of companies preferred by the investment managers. Investors should consider how the combined risks impact their total investment portfolio and understand that different risks can lead to varying financial consequences, including loss of principal.

Investments in infrastructure-related companies have greater exposure to the potential adverse economic, regulatory, political and other changes affecting such entities. Investment in infrastructure related companies are subject to various risks including governmental regulations, high interest costs associated with capital construction programs, costs associated with compliance and changes in environmental regulation, economic slowdown and surplus capacity, competition from other providers of services and other factors.

Investment in non-U.S. and emerging market securities is subject to the risk of currency fluctuations and to economic and political risks associated with such foreign countries.

Specific sector investing such as real estate can be subject to different and greater risks than more diversified investments. Declines in the value of real estate, economic conditions, property taxes, tax laws and interest rates all present potential risks to real estate investments. Fund investments in non-U.S. markets can involve risks of currency fluctuation, political and economic instability, different accounting standards and foreign taxation.

This data is for informational purposes only and does not constitute tax advice and should not be relied upon for tax planning. Please refer to Form 1099-DIV or 1099-INT, detailing for federal tax-reporting purposes the amount of the taxable and non-taxable portion of the distribution. You should contact your tax advisor and/or Financial Professional for guidance regarding this information.

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