A PERFECT STORM?

4 ugly truths investors need to know before capital gains season arrives

As investors head into latter part of 2020, they face both market and economic uncertainty from the impacts of the COVID-19 pandemic.

What's one of the best ways to deal with this uncertainty?

Focus on the things you can control—and taxes on investment portfolios remain a certainty.

We at Russell Investments believe that tax-managed investing should play an increasingly important role in investors’ portfolios. Now may be a good time to take advantage of market events and transition to tax-managed investing. Here’s why:

Tactical reasons to consider making a change NOW

1. Many mutual funds may report sizable capital gain distributions this year driven by historic outflows.

- Net outflows from mutual funds/ETFs were a record high in March 2020, totaling -$336 billion, more than 2x the largest monthly outflow on record.
- Many fund managers needed to sell securities to raise cash to meet investor withdrawals.

Why you should care?
- This unproductive portfolio turnover may create sizable capital gain distributions.
- Where the market ends this year is unknown, but don’t let investment taxes add insult to possible injury (negative to flat returns and a painful taxable distribution).


* Russell 3000® Index. Sources: Morningstar Direct, Russell Index
Data shown is historical and not an indicator of future results. Indexes are not managed and may not be invested in directly.
A majority of mutual funds show a lower Net Asset Value (NAV) today than three years prior.

- The first half of 2020 was one of the most volatile periods in stock market history putting many investments in a different light regarding their gain/loss status.
- Investors may be surprised by the impact that reinvesting dividends/capital gains and average market returns have on their adjusted cost basis.
- Accordingly, 52% of U.S. equity mutual funds and 66% of international developed equity mutual funds have a NAV lower at the end of September than the three years prior.

Why you should care?
- Tax-loss harvesting today may be a good time to realize losses that can be used to offset gains in other areas of their financial plan (i.e. Roth conversions, strong performers, etc.).
- Transitioning to a tax-managed solution now may well be at a lower switching cost than investors realize.

### % of mutual funds with a lower NAV than 3 years prior / As of September 30, 2020

<table>
<thead>
<tr>
<th>U.S. Equity</th>
<th>Value</th>
<th>Blend</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large cap</td>
<td>84%</td>
<td>30%</td>
<td>12%</td>
</tr>
<tr>
<td>Mid cap</td>
<td>95%</td>
<td>66%</td>
<td>23%</td>
</tr>
<tr>
<td>Small cap</td>
<td>98%</td>
<td>96%</td>
<td>40%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>International Developed Equity</th>
<th>Value</th>
<th>Blend</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large cap</td>
<td>98%</td>
<td>84%</td>
<td>14%</td>
</tr>
<tr>
<td>Small &amp; mid cap combined</td>
<td>87%</td>
<td>93%</td>
<td>39%</td>
</tr>
</tbody>
</table>

Data as of 9/30/2020. Source: Morningstar Direct

### Structural reasons to consider making a change for long-term after-tax wealth

Sunsetting of the Tax Cut and Jobs Act (TCJA) after 2025 with likely reversion to higher tax rates requires thoughtful tax planning now.

- Most of the individual tax provisions from the TCJA will expire after 2025—including the reduction of individual income tax rates.
- And election uncertainty keeps the near-term path of tax rates in question.

Why you should care?
- Absent government action, most taxpayers may well see a tax increase as a result. Thoughtful investment decisions should take this uncertainty into account.

### Top tax rates for income and capital gains / 1916-2019

Source: https://www.taxpolicycenter.org/statistics
*Rates do not include 3.8% tax for net investment income
There are massive $2.6 trillion (and growing) stimulus packages. How are we going to pay for this?

- Starting with the $2 trillion Coronavirus Aid, Relief and Economic Security (CARES) Act, the federal government is spending historic sums of money to battle the economic fallout from COVID-19.
  - That’s roughly 60% of all federal government expenditure in 2019.
- This spending is putting unprecedented pressure on federal budgets and the need for tax revenue.
  - At the least, tax rates are not likely to go down in the future.

Why you should care?

- 41% of government revenues come from individual taxpayers—the largest percentage of any source.
  - There will be increased pressure on individuals to pay these bills.

Unprecedented global stimulus package / Committed capital (USD)

![Image of the United States and the world with numbers indicating stimulus committed capital.]  
$2,684 billion + $7,812 billion  
Global Total: ~$10,500,000,000,000  
Stimulus reported as of 7/2/2020, IMF, World Bank

How we can help you prepare today

Russell Investments actively manages taxes throughout the year within each of our tax-managed & tax-exempt funds seeking to maximize after-tax returns.

- Our trading desk is ready 24 hours a day to systematically implement tax-loss harvesting strategies—whenever the opportunity presents itself.
- Our tax-managed funds were able to materially improve their tax standing throughout the volatile 1Q2020 through opportunistic active tax-loss harvesting.
- To help maximize after-tax return, we are able to use realized losses to carry forward into future periods. These capital loss carryforwards can be used to offset future realized gains to improve after-tax returns.

Russell Investment Company’s tax-managed & tax-exempt funds / 1Q2020 Capital Loss Carryforward (% of NAV)

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>Jan-20</th>
<th>Feb-20</th>
<th>Mar-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax-Managed U.S. Large Cap</td>
<td>-0.7%</td>
<td>-1.0%</td>
<td>-2.9%</td>
</tr>
<tr>
<td>(RETSX)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax-Managed U.S. Mid &amp; Small Cap</td>
<td>0.0%</td>
<td>-4.5%</td>
<td>-10.4%</td>
</tr>
<tr>
<td>(RTSSX)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax-Managed Intl’l Equity</td>
<td>-10.4%</td>
<td>-11.8%</td>
<td>-16.3%</td>
</tr>
<tr>
<td>(RTNSX)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax-Managed Real Assets</td>
<td>-1.9%</td>
<td>-3.1%</td>
<td>-10.5%</td>
</tr>
<tr>
<td>(RTXSX)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax-Exempt Bond</td>
<td>-0.5%</td>
<td>-1.1%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>(RLVSX)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax-Exempt High Yield Bond</td>
<td>-0.6%</td>
<td>-0.4%</td>
<td>-1.3%</td>
</tr>
<tr>
<td>(RTHSX)</td>
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</tbody>
</table>

Capital Loss Carryforward (% of NAV) as of September 30, 2020

-3.1%  -5.3%  -15.9%  -13.3%  -1.2%  -1.6%
How to take action today

Year-end will be here before you know it.

The future might not hold the same opportunities as to what is available right now. Take advantage of this current market opportunity to help minimize the tax impact on your portfolio now. Here’s how:

- Pull the information on your mutual fund holdings, including purchase Net Asset Value (NAV) and current NAV, sort by unrealized gains/losses.
- Close to zero means minimal cost to switch. A negative number means you’re harvesting a loss for your portfolio—a tax asset.
- Consult with your financial advisor and/or tax accountant how to understand you may benefit from a tax-managed approach to your investments.

Ask your financial advisor and/or tax accountant to learn more.

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 of visiting russellinvestments.com. Please read a prospectus carefully before investing.

russellinvestments.com

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.

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.

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.

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