HARSH REALITY

4 tax hazards you'll need to overcome in 2021

With the new administration in Washington D.C., there will be much discussion around possible tax increases and changes to the tax code. But even without any changes, we know that taxes can be a serious headwind to investment returns. Given the historic government stimulus packages pumped into the pandemic-hit economy, it seems unlikely that taxes are going down. Taxes matter and can be managed.

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:

1 Significant capital gain distributions happen in up or down markets. Notice how the average capital gain distribution is never 0%.

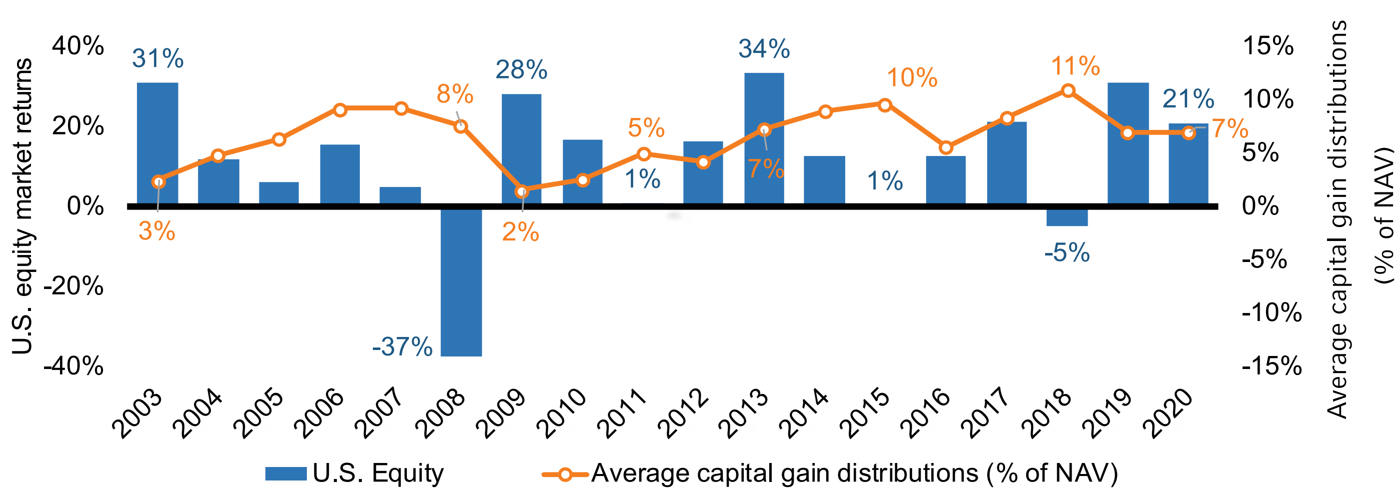
Key facts

- The Global Financial Crisis in 2008 created losses for many funds that helped keep distributions fairly low in the first few years following the crisis.
- However, the average distributions have increased over the last several years to the range of 6%–11% since 2013, as more funds have been distributing gains due to strong market returns coming out of 2008.

Why you should care?

- The average capital gain distributions have not been directly tied to market returns. Some of the largest distributions occurred in years with flat or even negative market returns (2008, 2011, 2015 and 2018).

U.S. equity market returns & capital gains distributions / 2003–2020



U.S. equity: Russell 3000® Index. U.S. equity funds: Morningstar broad category 'US Equity' which includes mutual funds and ETFs (and multiple share classes) with at least 70% of assets in U.S. stocks. Calendar Year Cap Gain Distributions / Year-End NAV. For years 2003 through 2013, used oldest share class. 2014 forward includes all share classes. 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.

2 Tax-loss harvesting is critically important, but it takes time and is often only done at year-end.

Key facts

- Looking at the S&P 500® Index, the average annual pullback (peak-to-trough) over last 25 years ending December 31, 2020 was -15.6% meaning that—on average—each year saw a pullback of -15.6% during the year. These pullbacks create **opportunities to tax-loss harvest every year.**
- But U.S. equity markets still finished in positive territory in 20 of these 25 years.
- The problem? Investors often look to tax-loss harvest at year-end. Note that over the last 71 years, market returns suggest November and December are the two of three best-performing months of the year, making them the least attractive months to look for loss harvesting opportunities.

Why you should care?

- It's important to actively manage for taxes throughout the course of the year and market cycle to help ensure steps are taken to improve after-tax returns when volatility enters the marketplace. It should not be an end of year exercise.
- Moreover, in addition to loss harvesting, there are more active tax-managed strategies available to mitigate the tax drag in investment portfolios. These also can be implemented through the entire year.

U.S. equity: Months with UP and DOWN markets / 1950–2020

	# of UP Years	# of DOWN Years	Avg. Monthly Return (S&P 500)
January	43	26	1.17%
February	39	32	0.07%
March	47	24	1.06%
April	51	20	1.69%
May	42	29	0.36%
June	40	31	0.19%
July	41	30	1.19%
August	41	30	0.14%
September	34	37	-0.40%
October	42	29	0.83%
November	50	21	1.83%
December	54	17	1.59%

Best 3 UP market months

Worst 3 DOWN market months

Source: Factset, Morningstar Direct.
As of 12/31/2020. U.S. Equity: S&P 500® Index.
For months from January 1950 through January 1988, used price returns. February 1099 forward, used total returns.
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.

3 Tax rate changes are in the news. The new administration included changes on taxation of capital gains and dividends as part of their 2020 campaign messaging.

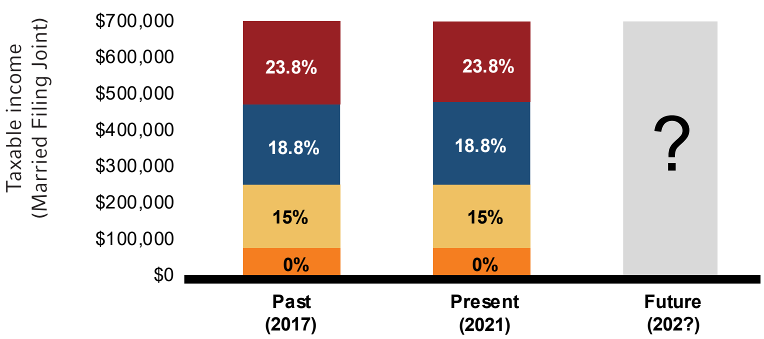
Key facts

- Note that the Tax Cut and Jobs Act (TCJA) effective in 2018 did not change the tax rates for long-term capital gains and qualified dividends. **These rates were not lowered**.
- President Biden campaigned on increasing these rates for higher income taxpayers.
- The **when, if,** and **how much** are still to be determined.

Why you should care?

- Investing strategies that are tax-smart around capital gains and dividends can make material differences in after-tax outcomes.
- These tax rates are likely **not going down**, so understanding their impact on current portfolios is key. Any increase or change only makes tax-smart investing that much more important.

Tax rates for long-term capital gains / qualified dividend



3.8% Net Investment Income Tax (NIIT) applies to Modified Adjusted Gross Income over $250,000. Max tax rate is 23.8% (Max Long-Term Cap Gain Tax 20% + NIIT 3.8%).

4 There are massive $3.5 trillion (and growing) stimulus packages. How are we going to pay for this?

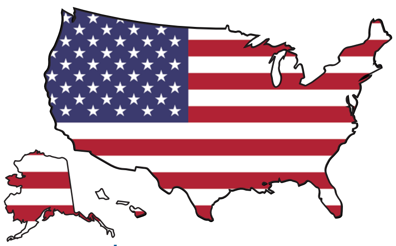
Key facts

- 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. The Biden Administration will be adding to these historic totals.
- 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)



$3.5 trillion

$9.9 trillion

Global Total: ~$13,400,000,000,000

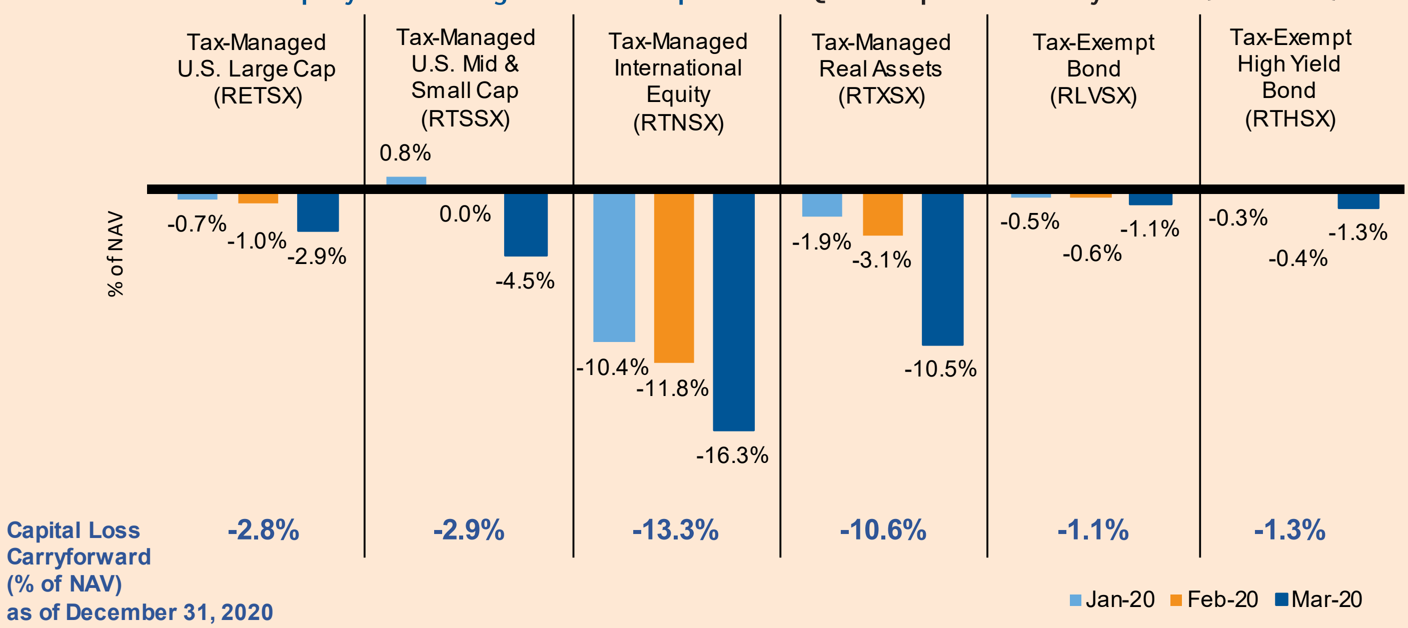
Source: IMF Annual Report 2020

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 returns, 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)



How to take action today

Being tax-smart is a year-long endeavor.

The future might not hold the same opportunities as to what is available right now. Understand the 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 professional and/or tax accountant how to understand you may benefit from a tax-managed approach to your investments.

Ask your financial professional 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.

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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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