Income Portfolios

Update – 4th Quarter 2025

Russell Investments' Income Portfolios are managed with the goal of producing responsible income and outperforming a blended benchmark.

Quarterly summary

Asset class	Impact	Commentary
Equities	+	Markets faced multiple crosscurrents in 2025, but sustained risk-on sentiment supported a broad "everything rally," marking the first year since the pandemic in which all major asset classes delivered positive returns. The first half of the year was dominated by trade concerns as the U.S. raised tariff rates to levels not seen since the 1930s. Developed market equities fell in early April but ultimately shrugged off the impact and ended the year with returns of over 15%. Emerging markets were the top-performing equity market in 2025, and artificial Intelligence (AI) remained the dominant theme driving US equity markets. Canada's main stock index- the S&P/TSX Composite - posted one of its best annual performances in over a decade, with nearly 32% total gain in 2025, primarily driven by the heavyweight financials, materials and precious metals sectors. In Q4, the overweight to Emerging Markets contributed positively as its strong technology exposure – notably China, Taiwan, and Korea – saw gains tied to AI momentum, as demand for semiconductors and cloud/AI services remained robust. The region also benefitted as easing global financial conditions improved investor sentiment and capital flows, while attractive valuations and relatively resilient earnings also encouraged investors to rotate into emerging markets amid late-cycle concerns in developed economies. The style tilts to value stocks posted strong positive returns during the quarter as value names outperformed growth stocks amid continued inflation uncertainty and a focus on earnings durability for near-term profitability and dividends. In addition, stronger commodity prices and improving bank earnings supported value stocks, while growth valuations faced greater scrutiny after early-year rallies.
Real assets	○	**Listed Infrastructure ended the quarter with positive returns on the back of ongoing macroeconomic uncertainty and** concerns around elevated valuations in high-growth technology and AI-related sectors. **The asset class, however, lagged the broader equity market. Transport infrastructure and utilities were among the top performing sectors, with gas and electric utilities benefitting from AI-driven data centers demand**. The rate-sensitive global listed property market underperformed global equities, driven by the weakness in North America region due to rising bond yields and cautious rate cut expectations.
Fixed income	-	The U.S. Federal Reserve cut the interest rate by 25 basis points toward the end of 2025, bringing the policy range to 3.50–3.75%. This was widely anticipated and reflected expectations for slower rate tightening amid softer labor market conditions and moderating inflation pressures. However, the Bank of Canada held its policy rate steady at 2.25% through late Q4 after cuts earlier in the year. The fund's positioning towards the longer end of the Canadian yield curve was a drag on performance as yields rose during the quarter. The credit underweight was also a detractor as yield spreads remained relatively tight over the period in investment grade and high yield credit.

Performance drivers

Asset allocation	Conservative Income		Diversified Monthly Income		Income Essentials	
	Q4	Q3	Q4	Q3	Q4	Q3
Fixed Income	**73.3%**	**74.6%**	**37.6%**	**38.4%**	**57.5%**	**58.7%**
Government Bonds	34.2%	38.5%	17.3%	19.2%	27.3%	30.3%
Investment Grade Credit	21.9%	21.0%	9.6%	9.5%	15.9%	15.7%
Inflation Linked Bonds	0.6%	0.6%	0.3%	0.3%	0.5%	0.5%
High Yield Credit	3.5%	3.5%	2.5%	2.5%	3.1%	3.1%
Convertible Bonds	2.7%	2.8%	1.9%	1.9%	2.3%	2.4%
Emerging Markets Bonds	1.3%	1.4%	1.4%	1.4%	1.3%	1.4%
Securitized Credit	9.1%	6.8%	4.6%	3.7%	7.0%	5.4%
Equities	**17.9%**	**17.2%**	**53.8%**	**53.0%**	**33.9%**	**33.5%**
Canadian Equities	7.2%	6.8%	11.3%	11.0%	6.5%	6.0%
U.S. Equities	6.7%	6.6%	26.5%	26.3%	16.9%	17.0%
EMEA Equities	1.8%	1.7%	7.9%	7.6%	4.7%	4.6%
Asia & Pacific Equities	0.9%	0.9%	3.5%	3.6%	2.1%	2.2%
Emerging Markets Equities	1.3%	1.3%	4.5%	4.4%	3.7%	3.7%
Real Assets	**2.4%**	**2.5%**	**4.8%**	**4.5%**	**3.6%**	**3.2%**
Listed Infrastructure	1.0%	1.0%	2.0%	2.0%	1.0%	1.0%
Listed Real Estate	1.4%	1.5%	2.8%	2.5%	2.6%	2.2%
Commodities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cash & Other	**6.4%**	**5.7%**	**3.9%**	**4.1%**	**5.1%**	**4.6%**

Source: Russell Investments. Data as of December 31, 2025. May not add to 100% due to rounding.

Updates and Outlook

Fund Updates:

Portfolios were rebalanced during the quarter to their target weights, largely closing drifts in fixed-income allocations and a slight underweight to equities. Overall positioning in growth assets (which includes equities and listed real assets) was moved to a modest overweight by increasing exposure to real estate from underweight to neutral. From a regional perspective, the portfolio's below-benchmark exposure to Canada was also reduced to neutral in mid-November, which proved beneficial as Canadian equities rallied further, driven by strength in resource sectors, improving bank earnings expectations, and supportive macro conditions during the quarter. Within Fixed Income, duration was actively managed to maintain the preferred positioning exposure.

Positioning and Outlook:

We believe that near-term cyclical risks for Canada may have decreased from their 2025 peak, amid a domestic economy that has proven somewhat more resilient than our expectations, and the positive spillovers from a strong U.S. economy. Nevertheless, with Canada's unemployment hovering near 7% (which is above the long-term equilibrium), we continue to believe that Canada's economy may face continued headwinds. In addition, the dynamic nature of CUSMA negotiations could potentially keep uncertainty somewhat elevated. We expect Canada's economy to be more prone to risks than that of the U.S. in the near-term.

However, we remain neutral on Canadian equities. Although both the TSX and S&P 500 are near their record highs, Canadian stocks are still trading at significant valuation discounts to U.S. stocks. In our view, this valuation tailwind for Canadian stocks, greatly offsets the macroeconomic headwinds.

Although overnight rates being at the lower end of the BoC's neutral rate estimate creates a high hurdle for further rate cuts, the lingering macroeconomic uncertainty and remaining fragility in the labor markets imply there might still be more room for rate cuts into 2026. Against this backdrop, we think Canadian government bonds are a key portfolio diversifier.

In the near-term, we expect the Canadian dollar might remain under pressure from the soft economy but will likely strengthen over the medium term against the U.S. dollar.

The portfolios are modestly underweight risk, primarily through positioning in the underlying equity funds, where managers have been underweight the most volatile names. Asset allocation tilts remain modest with an overweight to equities, neutral exposure to real assets and a slight underweight to fixed income allocation. Within global equities, the portfolios maintain regional preference to emerging markets. Within fixed income, the portfolio remains underweight high risk fixed income to hold a higher weight to core. This is both to reduce the overall credit exposure while also modestly increasing duration (or interest-rate sensitivity) vs. the benchmark.

Performance

Performance (%) as of December 31, 2025

	3 mo.	YTD	1	3	5	10	Since inception
Conservative Income (Series F)	0.33	5.76	5.76	6.69	2.27	3.05	3.60
Diversified Monthly Income (Series F)	1.10	11.45	11.45	11.33	6.25	5.87	5.81
Income Essentials (Series F)	0.52	8.07	8.07	8.36	3.71	4.02	4.68

Performance is annualized except for periods of less than one year. Source: Russell Investments / Confluence. Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results. Fund names above preceded by Russell Investments.

Fund Codes (FRC)

Conservative Income

	Trust	Class
B (front load)	034	4100
B-5	041	4118
F (fee based)	037	4104
F-5	038	4115
O	431	1301

Diversified Monthly Income

	Trust	Class
B (front load)	N/A	2079
B-5	550	2069
B-7	701	2066
F (fee based)	N/A	2084
F-5	555	2064
F-7	777	2065
O	704	5006
O-7	804	2085

Income Essentials

	Trust	Class
B (front load)	811	2029
B-5	855	2044
B-6	856	2047
B-7	857	2050
F (fee based)	830	2040
F-5	845	2041
F-6	846	2042
F-7	847	2043
O	878	5005
O-7	978	7005

For additional Series fund codes, visit russellinvestments.com/ca/fundcodes

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