

# Taxes are HARD...

Tax-season essentials for individual investors



FIRST NAME LAST NAME

Associate Title

Thursday, March 17, 2022

**“The hardest thing to understand  
in the world is income tax.”**

— Albert Einstein



# Taxes are hard

Total word count of well-known documents



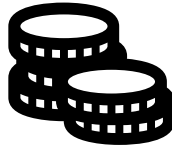
GETTYSBURG ADDRESS

272



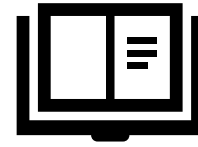
DECLARATION OF INDEPENDENCE

1,458



TAX LAW 1913

11,400



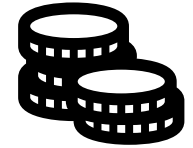
BIBLE

783,000



ENTIRE SERIES OF HARRY POTTER

1,084,170



TAX LAW TODAY

3,000,000

Please see Appendix for source information.

# Agenda



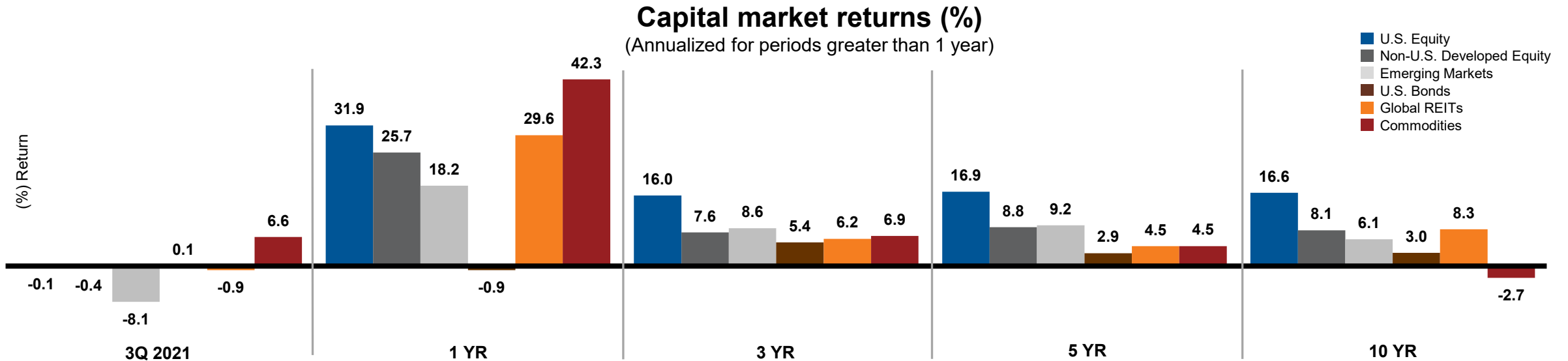
1. Market year in review
2. Who feels the tax pinch from Uncle Sam?
3. How your investments impact the Form 1040
4. Trying to minimize investment taxes
5. Steps for today to be tax-smart

# Capital markets



# Capital markets

Periods ending September 30, 2021



**U.S. equity:** (Russell 3000® Index) U.S. stock index which includes the 3,000 largest U.S. stocks as measured by market capitalization

**Non-U.S. developed equity:** (MSCI EAFE Index) International market index that includes Western Europe, Japan, Australia

**Emerging markets:** (MSCI Emerging Markets Index) Emerging markets index that includes S. Korea, Brazil, Russia, India and China

**U.S. bonds:** (Bloomberg U.S. Aggregate Bond Index) Broad index for U.S. Fixed Income market

**Global REITs:** (FTSE EPRA/NAREIT Developed Index) Index for global publicly traded real estate securities

**Commodities:** (Bloomberg Commodity Index Total Return) Broad index of common commodities

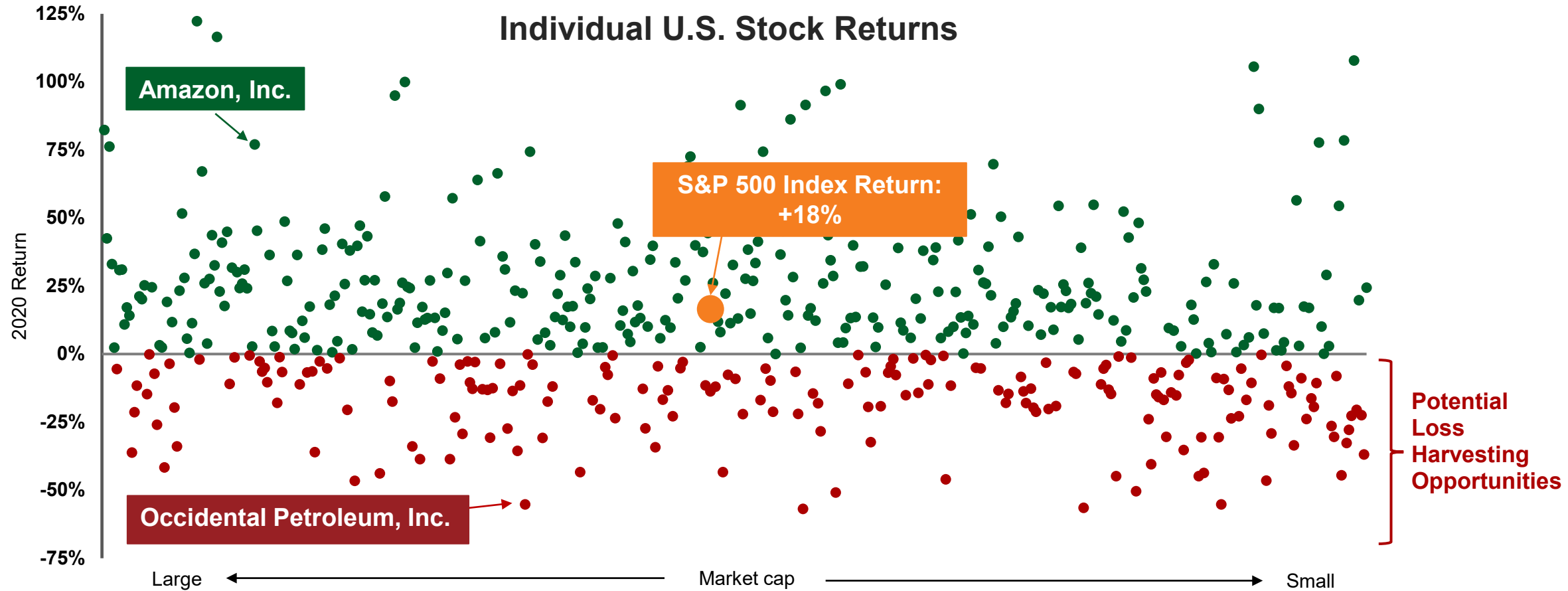
**CAPITAL MARKETS 3Q 2021:**

- **U.S. equity** down slightly on global growth concerns, despite positive earnings news early in the quarter
- **Non-U.S. developed equity** down slightly as the global recovery slowed and inflation concerns increased late in the quarter
- **Emerging markets** down, driven by a sell-off in China and concerns over government regulation
- **U.S. bonds** up slightly, yields essentially unchanged from 2Q and the Federal Reserve indicated asset purchases could soon slow
- **Global REITs** down slightly after strong first half of the year
- **Commodities** up on higher energy prices; natural gas was the top performer and silver was the worst performer for 3Q

Source: FTSE/Russell, Bloomberg Barclays, MSCI and FTSE NAREIT. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

# Performance averages mask wide range of returns

Calendar year 2020



Source: Russell Investments. Stocks represent companies in the S&P 500 Index on 12/31/2020. Russell Investments does not provide research on Amazon, Inc. & Occidental Petroleum, Inc., nor do we recommend individual securities. Past performance is not an indication of future opportunities/performance. Note that both Amazon and Occidental Petroleum are highlighted as representative companies for both securities with both positive/negative returns for calendar years.

# The taxman cometh . . .



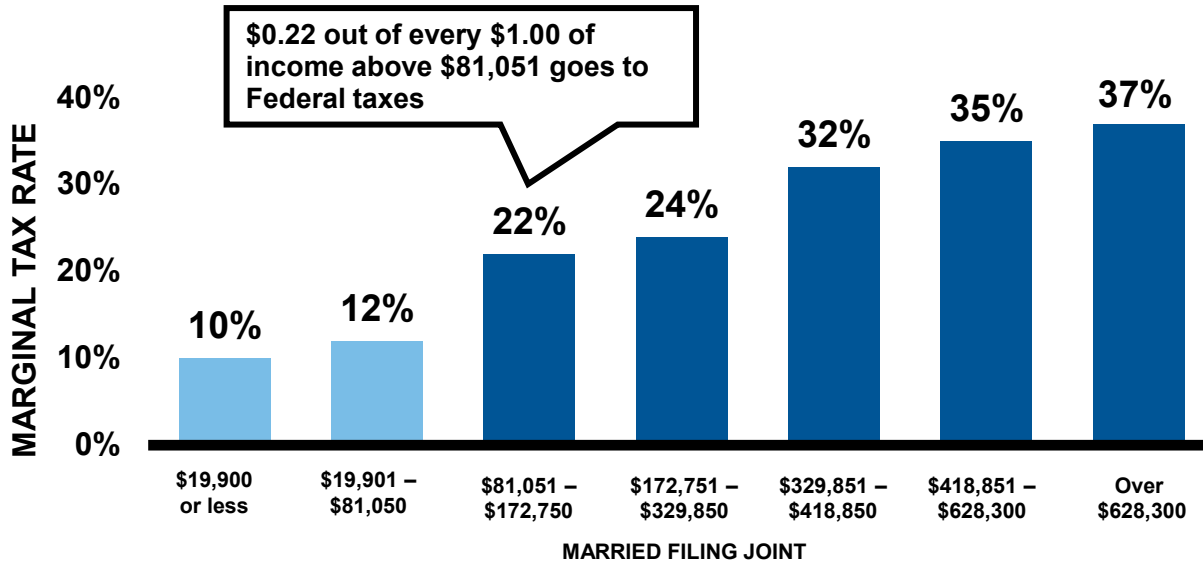


# Who feels the pinch of taxes?

## 2021 federal tax rates on income and capital gains

### Taxable Income

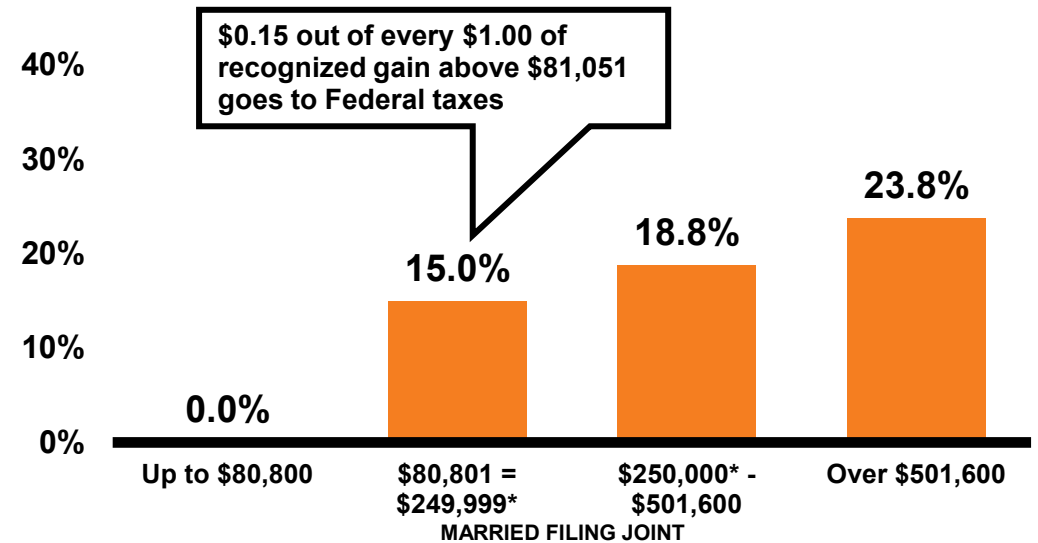
Wages, Interest Income, Short-Term Capital Gains, Non-Qualified Dividends, etc.



Does not include 3.8% Net Investment Income Tax for unearned income for MAGI\* > \$250k (MFJ)

### Capital Gains

Long Term Capital Gains / Qualified Dividends



Includes 3.8% Net Investment Income Tax applied to MAGI\* > \$250k (MFJ)

**You don't need to be in the top bracket to benefit from tax-managed investing.  
And don't forget impact of state income taxes – where applicable.**

Source: Internal Revenue Service  
MAGI: Modified Adjusted Gross Income

# Not all investment return is the same to Uncle Sam

Where your return comes from matters after-tax

**BEST**

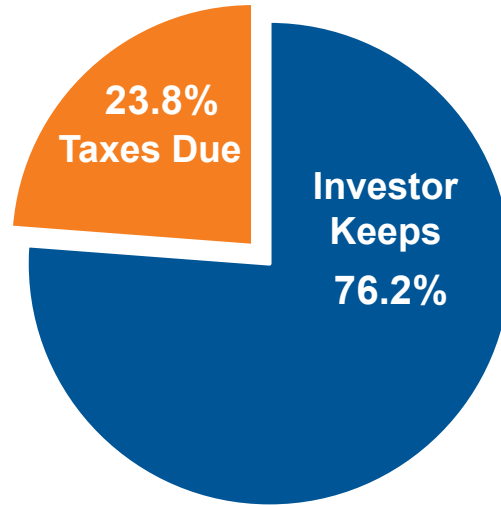
Top Tax Rate  
0.0%



- Municipal bond interest\*\*
- Unrealized capital appreciation

**BETTER**

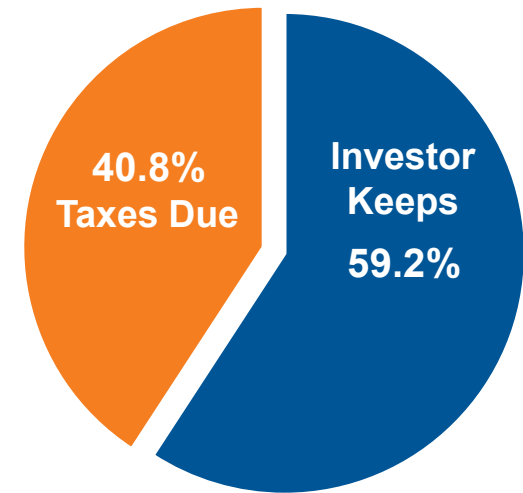
Top Tax Rate  
23.8%\*



- Qualified dividends
- Long-term capital gains

**WORST**

Top Tax Rate  
40.8%\*



- Non-qualified dividends
- Short-term capital gains
- Interest income

Applies to federal taxes only. Source: Internal Revenue Service. Tax rates as reported by Internal Revenue Service as 2021.

\*Assumes addition of 3.8% Net Investment Income Tax to tax rate

\*\*Generally for municipal bonds, only interest from bonds issued within the state is exempt from that state's income taxes. Municipal bond interest income may impact taxation of Social Security benefits.

# The taxman cometh . . . for distributions

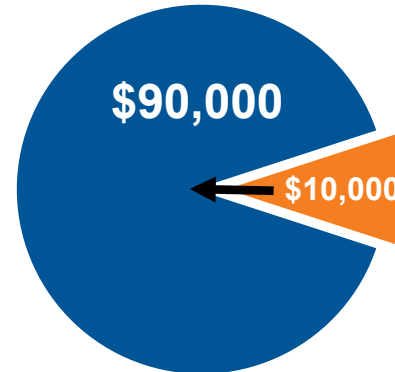


# How distributions are taxed – even if you don't sell

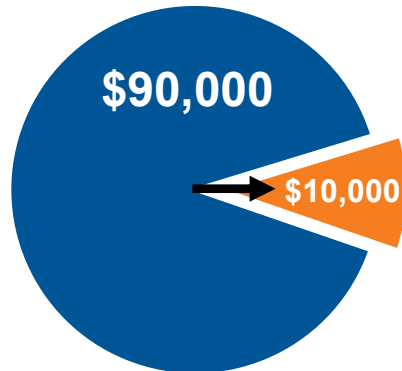
Connecting distributions to after-tax wealth



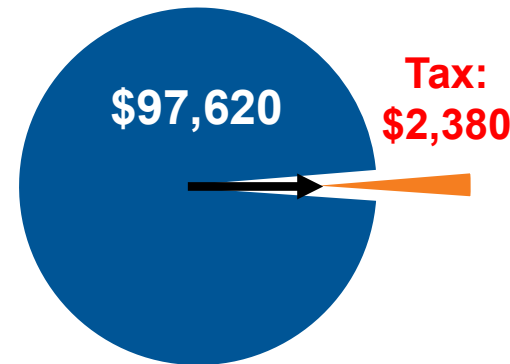
1. You have \$100,000 in a mutual fund



3. You reinvest that \$10,000 distribution back into fund. Value still = \$100,000



2. Fund declares a 10% capital gain distribution (\$10,000)



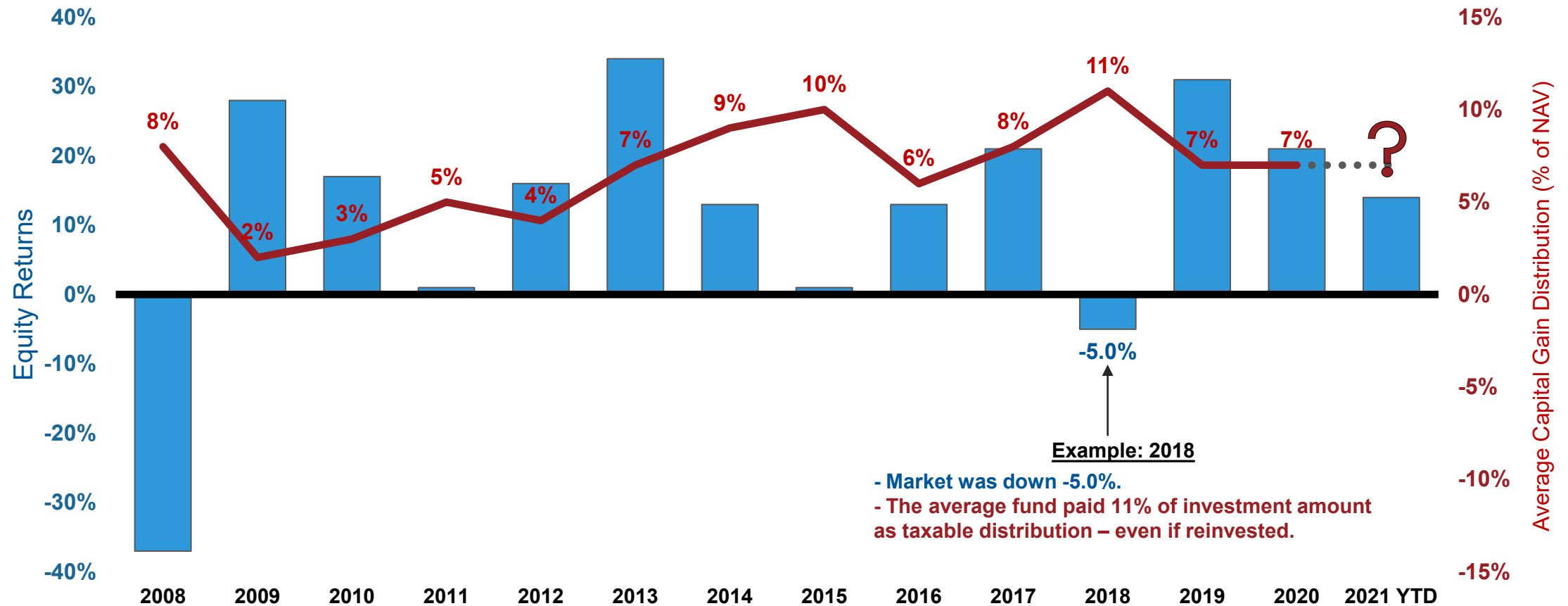
4. Ouch! You owe tax on \$10,000 distribution and will send the IRS \$2,380. Your after-tax value = **\$97,620** and you lost **2.4%** of your wealth.

Even if you recently purchased the investment and own on the distribution declaration date, you “get” to pay the tax

For illustrative purposes only. Assumes long term capital gain tax rate of 23.8%.

# Recent capital gain distribution trend is not your friend

## U.S. equity market returns & capital gains distributions



2021 YTD: Jan – Sep 2021 Source: Morningstar

U.S. Stocks: Russell 3000® Index. U.S. equity funds: Morningstar broad category 'US Equity' which includes mutual funds and ETFs (and multiple share classes).

% = Calendar Year Cap Gain Distributions / Year-End NAV. For years 2001 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.

# How do these distributions impact actual tax return?



# Let's walk through an "average" distribution scenario

Understanding Joe and Joan's tax hit from their mutual fund investments



## Joe & Joan Taxpayer

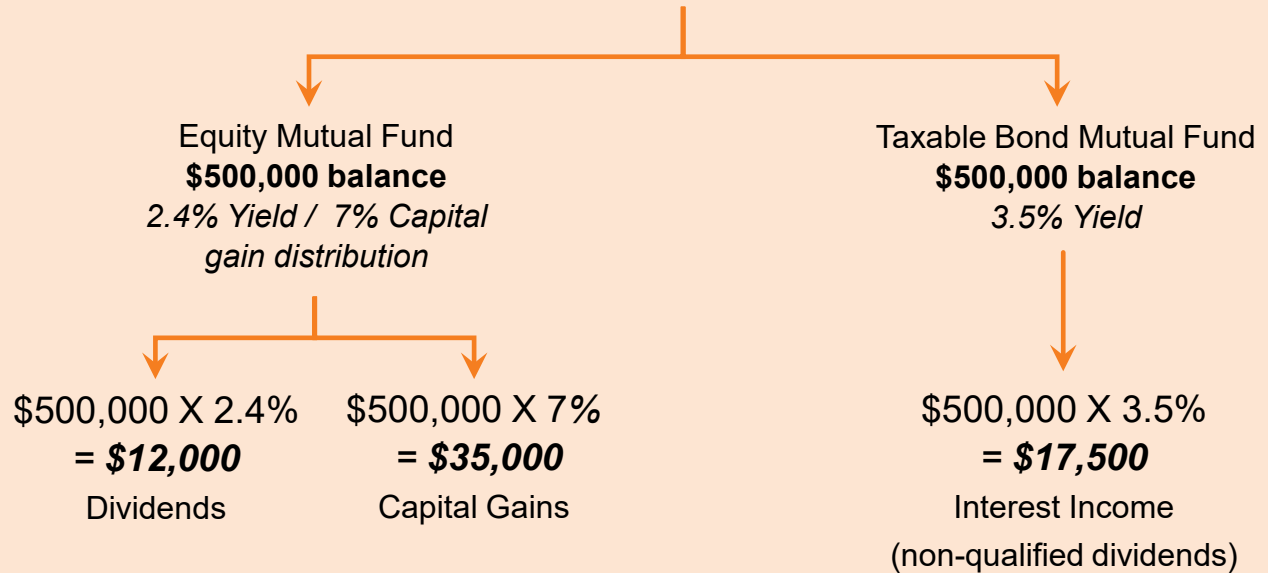
(filing status Married Filing Jointly)

Household Taxable Income:  
**\$400,000**

1. Marginal Tax Rate  
on unearned income:  
 $32\% + 3.8\%$  (NIIT\*) = **35.8%**

2. Long Term Capital  
Gain/Qualified  
Dividend Tax Rate:  
 $(15\% + 3.8\%$  (NIIT\*)) = **18.8%**

Investments:  
**\$1,000,000**



A hypothetical illustration.  
\*Net Investment Income Tax

Their 1099-DIV shows you the pieces of the puzzle

# Detailed review of an investor's Form 1099-DIV

Uncovering potential opportunities for improving your after-tax wealth



## The Case of Joe & Joan Taxpayer

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1a Total ordinary dividends	OMB No. 1545-0110	<b>Dividends and Distributions</b>
Mutual Fund Company		\$ 29,500	2021	
		1b Qualified dividends	Form 1099-DIV	
PAYER'S TIN		2a Total capital gain distr.	2b Unrecap. Sec. 1250 gain	<b>Copy B For Recipient</b>
RECIPIENT'S TIN		\$ 35,000	\$	
RECIPIENT'S name		2c Section 1202 gain	2d Collectibles (28%) gain	
Joe & Joan Taxpayer		\$	\$	
Street address (including apt. no.)		2e Section 897 ordinary dividends	2f Section 897 capital gain	
City or town, state or province, country, and ZIP or foreign postal code		\$	\$	
FATCA filing requirement		3 Nondividend distributions	4 Federal income tax withheld	
<input type="checkbox"/>		\$	\$	
Account number (see instructions)		5 Section 199A dividends	6 Investment expenses	
		\$	\$	
		7 Foreign tax paid	8 Foreign country or U.S. possession	
		\$		
		9 Cash liquidation distributions	10 Noncash liquidation distributions	
		\$	\$	
		11 Exempt-interest dividends	12 Specified private activity bond interest dividends	
		\$	\$	
		13 State	14 State identification no.	
		\$	\$	
			15 State tax withheld	
			\$	

Form 1099-DIV (keep for your records) www.irs.gov/Form1099DIV Department of the Treasury - Internal Revenue Service

**Box 1a: Total Ordinary Dividends:**  
 Dividend from mutual fund: \$12,000  
 Interest income from mutual fund: \$17,500  
 Total Ordinary Dividends: \$29,500

**Box 1b: Qualified Dividends\*\***  
 $\$12,000 \times 18.8\% = \$2,256$  in federal taxes

**Box 1a – Box 1b = Non-Qualified Dividends\***  
 $\$29,500 - \$12,000 = \$17,500$   
 $\$17,500 \times 35.8\% = \$6,265$  in federal taxes

**Box 2a: Total Capital Gain Distribution**  
 $\$35,000 \times 18.8\% = \$6,580$  in federal taxes

**Box 11: Exempt-Interest Dividends**  
 Interest income from municipal bond funds. Generally, tax-free at the federal level.

A hypothetical illustration.

\*Any non-qualified dividends would have been taxed as short-term capital gains at 35.8%.



# Adding it up

Connecting the 1099 to after-tax wealth



Joe & Joan's December 31 portfolio statement value:	<b>\$1,000,000</b>
After paying taxes on April 15, they owe Uncle Sam:	<b><u>-\$15,101</u></b>
Including this tax hit, their after-tax value:	<b>\$984,899</b>
Percent of investment value lost to taxes:	<b>-1.5%</b>

***And this assumes no active trading during the year.***

A hypothetical illustration.

\*Any non-qualified dividends would have been taxed as short-term capital gains at 35.8%.

# Ultimately, everything comes through the Form 1040

Look for clues on how to improve after-tax outcomes

**Form 1040** Department of the Treasury—Internal Revenue Service (99) **2020** U.S. Individual Income Tax Return OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

**Filing Status**  Single  Married filing jointly  Married filing separately (MFS)  Head of household (HOH)  Qualifying widow(er) (QW)  
 Check only one box. If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QW box, enter the child's name if the qualifying person is a child but not your dependent.

Your first name and middle initial: \_\_\_\_\_ Last name: \_\_\_\_\_ Your social security number: \_\_\_\_\_  
 If joint return, spouse's first name and middle initial: \_\_\_\_\_ Last name: \_\_\_\_\_ Spouse's social security number: \_\_\_\_\_

Home address (number and street). If you have a P.O. box, see instructions. Apt. no. \_\_\_\_\_  
 City, town, or post office. If you have a foreign address, also complete spaces below. State: \_\_\_\_\_ ZIP code: \_\_\_\_\_  
 Foreign country name: \_\_\_\_\_ Foreign province/state/county: \_\_\_\_\_ Foreign postal code: \_\_\_\_\_

At any time during 2020, did you receive, sell, send, exchange, or otherwise acquire any financial interest in any virtual currency?  Yes  No

**Standard Deduction** Someone can claim:  You as a dependent  Your spouse as a dependent  
 Spouse itemizes on a separate return or you were a dual-status alien

**Age/Blindness** You:  Were born before January 2, 1956  Are blind Spouse:  Was born before January 2, 1956  Is blind

**Dependents** (see instructions):

(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) <input checked="" type="checkbox"/> if qualifies for (see instructions):	Child tax credit	Credit for other dependents

**1** Wages, salaries, tips, etc. Attach Form(s) W-2 **1**

**2a** Tax-exempt interest **2a** \_\_\_\_\_ **2b** Taxable interest **2b** \_\_\_\_\_  
**3a** Qualified dividends **3a** \_\_\_\_\_ **3b** Ordinary dividends **3b** \_\_\_\_\_  
**4a** IRA distributions **4a** \_\_\_\_\_ **4b** Taxable amount **4b** \_\_\_\_\_  
**5a** Pensions and annuities **5a** \_\_\_\_\_ **5b** Taxable amount **5b** \_\_\_\_\_  
**6a** Social security benefits **6a** \_\_\_\_\_ **6b** Taxable amount **6b** \_\_\_\_\_

**7** Capital gain or (loss). Attach Schedule D if required. If not required, check here  **7**

**8** Other income from Schedule 1, line 9 **8**

**9** Add lines 1, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your **total income** **9**

**10** Adjustments to income:

a	10a	b	10b	c	10c
From Schedule 1, line 22		Charitable contributions if you take the standard deduction. See instructions		Add lines 10a and 10b. These are your <b>total adjustments to income</b>	
				Subtract line 10c from line 9. This is your <b>adjusted gross income</b>	

**11** Subtract line 10c from line 9. This is your **adjusted gross income** **11**

**12** Standard deduction or itemized deductions (from Schedule A) **12**

**13** Qualified business income deduction. Attach Form 8995 or Form 8995-A **13**

**14** Add lines 12 and 13 **14**

**15** Taxable income. Subtract line 14 from line 11. If zero or less, enter -0- **15**

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2020)

## Line 2a and 2b: Tax-exempt and Taxable interest:

- Do you need income or total return?
- Do municipal bonds makes sense given your marginal tax rate?

## Line 3a and 3b: Dividends:

- Do the nonqualified dividends appear too high?
- Are the dividends being reinvested or spent as income?

## Line 4a and 4b: IRA Distributions

- Are Required Minimum Distributions (RMDs) being reinvested? If so, where?

## Line 7: Capital Gain or (loss)

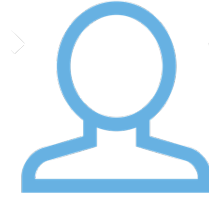
- See Schedule D
- Do cap gain distributions seem high for asset amount?
- Do you see unproductive turnover (buys/sells)?

# Comparing two different investors

Which scenario would you prefer?



Joe and Joan Taxpayer



Tax-Managed Investor

Year End Balance	\$500,000	\$500,000
Capital Gain Distribution	7.0%	0.0%
1099	\$35,000	\$0
Assumed Tax Rate*	30%	30%
Tax Due	<b>\$10,500</b>	<b>\$0</b>

**A weight lifted.  
It's not only about December 31<sup>st</sup>. April 15<sup>th</sup> is key.**

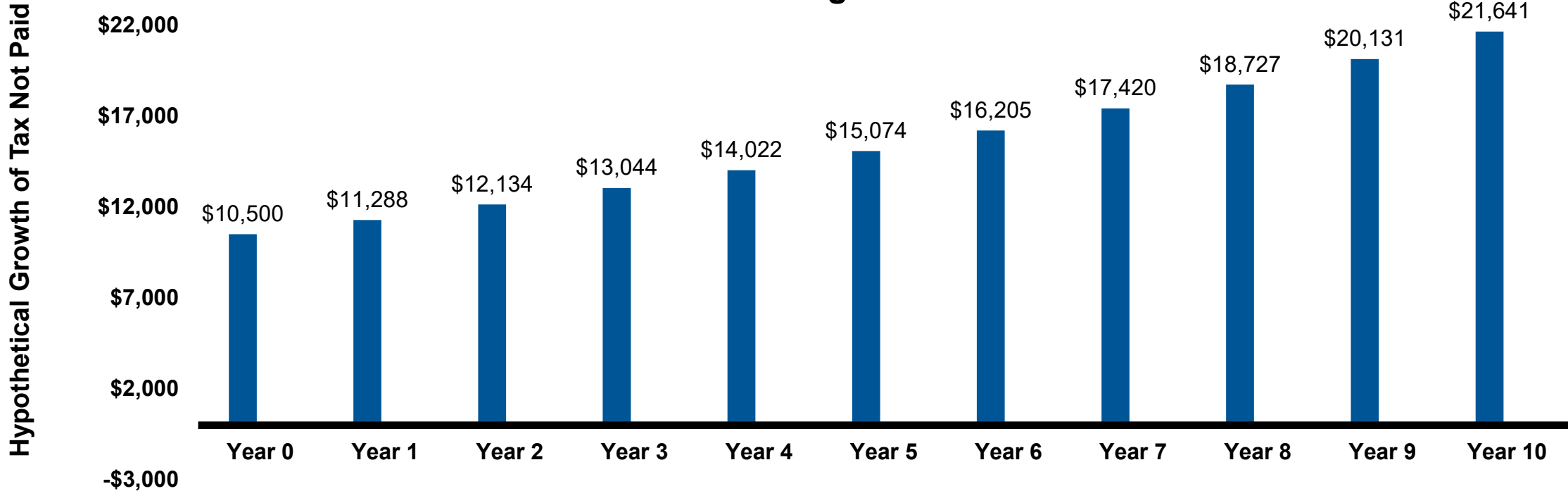
A Hypothetical Illustration

\*30%: Assumes 66% of tax = LTCG (23.8%) and 34% = STCG (40.8%).

# Hypothetical long-term impact of tax not paid

Tax-smart investing unleashes the power of compounding

## Growth of Tax Not Paid Earning 7.5% Per Year



**Staying invested may allow for assets to continue to grow and compound within the portfolio over time**

This is a hypothetical illustration and not meant to represent an actual investment strategy.

# How to get in front of excessive taxable distributions?



# The active approach

Opportunistic and systematic

IDEA  
GENERATION

ACTIVE MANAGEMENT

CENTRALIZED TRADING AND IMPLEMENTATION

TAX-MANAGED  
IMPLEMENTATION

TAX-LOSS  
HARVESTING  
(FULL-YEAR FOCUS)

TAX-SMART TURNOVER –  
REFRESHING TAX LOTS

MANAGE  
HOLDING PERIOD

MINIMIZE  
WASH SALES

MANAGE  
FUND'S YIELD

# Russell Investment Company Tax-Managed and Tax-Exempt Funds

Active in tax aware space since September 1985

FUND	Inception Date
Tax-Managed U.S. Large Cap Fund	Oct 1996
Tax-Managed U.S. Mid & Small Cap Fund	Nov 1999
Tax-Managed International Equity Fund	Jun 2015
Tax-Managed Real Assets Fund	Jun 2019
Tax-Exempt Bond Fund	Sep 1985
Tax-Exempt High Yield Bond Fund	Jun 2015

With a full-year focus on managing taxes, Russell Investment Funds have little to no taxable distributions

For comparison:  
2017: The Russell Investments Tax-Managed U.S. Large Cap Fund paid a capital gain distribution of 0.24% of net asset value / the average funds was 8.8%

## Annual Capital Gain Distributions (% of Net Asset Value)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Tax-Managed U.S. Large Cap Fund	0.00%	0.00%	0.00%	0.25%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	4.23%	0.00%	0.00%	0.24%	0.00%	0.00%	0.00%
Tax-Managed U.S. Mid & Small Cap Fund	0.00%	0.00%	0.00%	1.37%	8.00%	0.00%	0.00%	0.00%	0.00%	0.12%	7.56%	5.54%	0.52%	0.00%	0.55%	0.00%	0.00%	0.00%
Tax-Managed Int'l Equity Fund	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Tax-Managed Real Assets Fund	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.00%	0.00%
Tax-Exempt Bond Fund	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Tax-Exempt High Yield Bond Fund	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.08%	0.16%	0.00%	0.09%	0.00%	0.00%

Any distribution less than 1% of NAV = Green

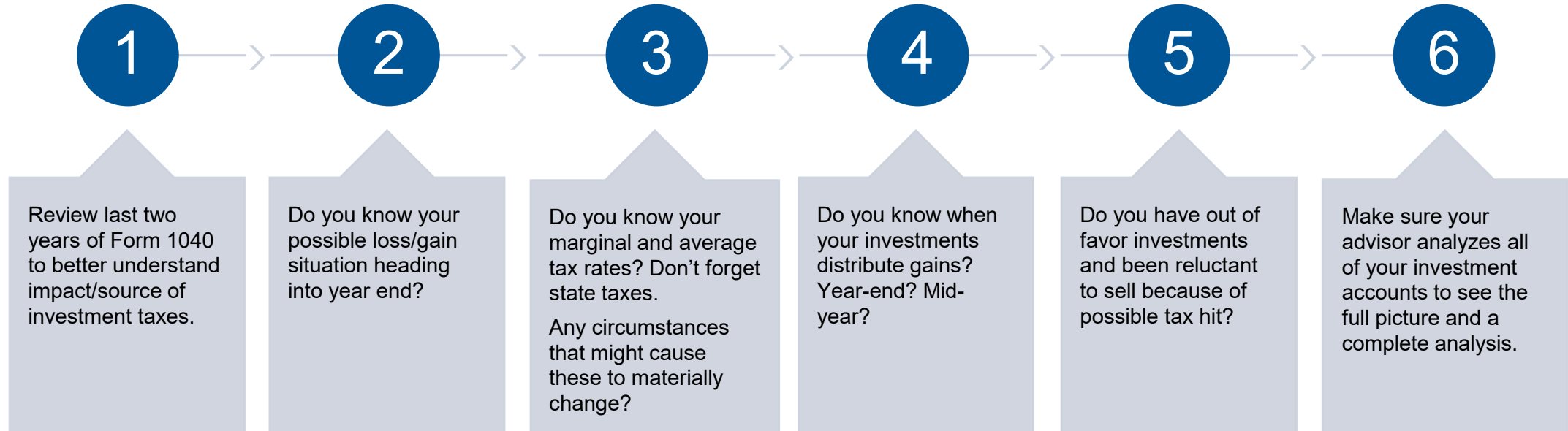
# How to be prepared for the long reach of taxes





# Steps to consider before year end

No one wants to pay more than required



**A thoughtful review and analysis may help to improve successful investment outcomes**



# Investments tax rates – will they be increasing?

If not, it won't be for a lack of trying

Income item	Proposed Direction
Top individual tax rate <sup>(1)</sup>	↑
Top long-term capital gains rate <sup>(2)</sup>	↑
Elimination of step-up in basis	✕
Estate tax threshold	↓
Surtax on high income individuals	↑
Taxing municipal bond interest	↔
SALT relief (deductibility of <u>S</u> tate <u>A</u> nd <u>L</u> ocal <u>T</u> axes)	?
Top corporate tax rate	↑

- Effective dates, thresholds, timing still TBD.
- All remain very fluid and uncertain.
- Could be later in the year or end of year before investors have clarity.

(1) Top marginal increase proposal from 37% to 39.6%

(2) Proposed Top Long-Term Capital Gains from 20.0% to 25.0%

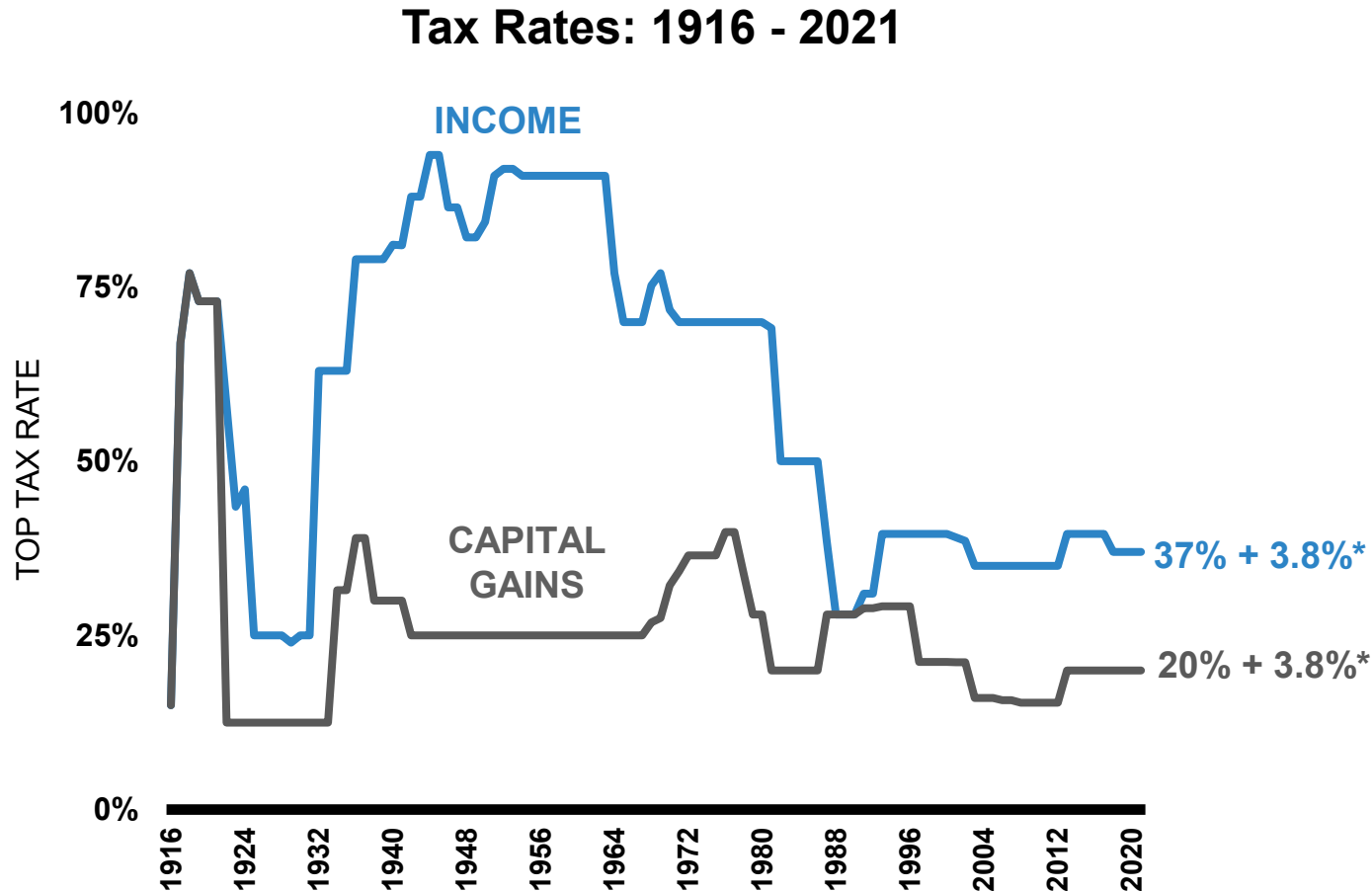
List not inclusive and subject to change.

<https://www.natlawreview.com/article/house-ways-and-means-committee-proposed-tax-changes-impacting-high-net-worth-and>

[https://www.wsj.com/articles/tax-loophole-greenwich-municipal-bonds-wealthy-surcharge-11632685080?mod=itp\\_wsj&ru=yahoo](https://www.wsj.com/articles/tax-loophole-greenwich-municipal-bonds-wealthy-surcharge-11632685080?mod=itp_wsj&ru=yahoo)

# Tax planning and investing in face of possible tax rate changes

Ever changing tax rates create planning opportunities



- Tax rate legislation may or may not pass in 2021
- Effective date for any increase TBD
- Regardless, parts of the TCJA will expire after 2025. Those rates will go up unless action is taken
  - Does not include capital gains which did not change

## Work with your advisor

- Understand what possible changes might mean to your financial plan
- Be tax-smart and understand total tax landscape

Source: <http://www.taxpolicycenter.org/taxfacts/displayafact.cfm?Docid=>  
\*3.8% represents Net Investment Income Tax

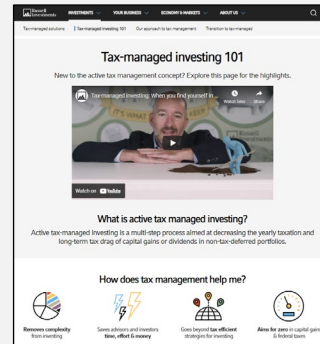
# Take action today!

Being tax-smart is a year-long endeavor.



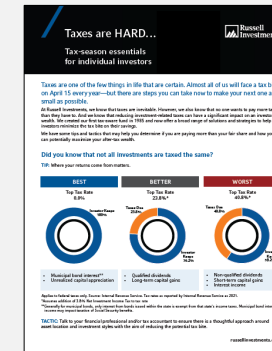
**Consult with your financial professional and/or tax accountant today.**

Russell Investments can partner with your financial professional to diagnose your portfolio and propose the steps you can take to potentially minimize your tax burden.



[russellinvestments.com](https://www.russellinvestments.com)

Discover the benefits of active tax-managed investing



*Tax-season essentials for Individual Investors*

Download the summary of today's event



# Important information and disclosures

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

***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](http://russellinvestments.com). Please read a prospectus carefully before investing.***

## IMPORTANT RISK DISCLOSURES:

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.

Indices and benchmarks 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. Index return information is provided by vendors and although deemed reliable, is not guaranteed by Russell Investments or its affiliates. Due to timing of information, indices may be adjusted after the publication of this report.

**Global, International and Emerging markets** return may be significantly affected by political or economic conditions and regulatory requirements in a particular country. Investments in non-U.S. markets can involve risks of currency fluctuation, political and economic instability, different accounting standards and foreign taxation. Such securities may be less liquid and more volatile. Investments in emerging or developing markets involve exposure to economic structures that are generally less diverse and mature, and political systems with less stability than in more developed countries.

**Real Assets:** Investments in infrastructure-related companies have greater exposure to adverse economic, financial, regulatory, and political risks, including, governmental regulations. Global securities may be significantly affected by political or economic conditions and regulatory requirements in a particular country. Declines in the value of real estate, economic conditions, property taxes, tax laws and interest rates all present potential risks. Investments in international markets can involve risks of currency fluctuation, political and economic instability, different accounting standards, and foreign taxation.

**Commodities:** Commodities may have greater volatility than traditional securities. The value of commodities may be affected by changes in overall market movements, changes in interest rates or sectors affecting a particular industry or commodity, and international economic, political and regulatory developments.

**Bonds:** With fixed income securities, such as bonds, interest rates and bond prices tend to move in opposite directions. When interest rates fall, bond prices typically rise and conversely when interest rates rise, bond prices typically fall. When interest rates are at low levels there is risk that a sustained rise in interest rates may cause losses to the price of bonds. Bond investors should carefully consider these risks such as interest rate, credit, repurchase and reverse repurchase transaction risks. Greater risk, such as increased volatility, limited liquidity, prepayment, non-payment and increased default risk, is inherent in portfolios that invest in high yield ("junk") bonds or mortgage-backed securities, especially mortgage-backed securities with exposure to sub-prime mortgages. 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. When interest rates are at low levels there is risk that a sustained rise in interest rates may cause losses to the price of bonds.

**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 company stocks. Investors should consider the additional risks involved in small cap investments.

**Large capitalization (large cap) investments** involve stocks of companies generally having a market capitalization between \$10 billion and \$200 billion. The value of securities will rise and fall in response to the activities of the company that issued them, general market conditions and/or economic conditions.

Although stocks have historically outperformed bonds, they also have historically been more volatile. Investors should carefully consider their ability to invest during volatile periods in the market.

The **Tax-Managed Real Assets Fund** is a new fund. There can be no assurance that a new Fund will grow to an economically viable size, in which case the Fund may cease operations. In such an event, investors may be required to liquidate or transfer their investments at an opportune time.

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## INDEX DEFINITIONS:

**The 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.

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

# Important information and disclosures (cont'd)

**MSCI EAFE (Europe, Australasia, Far East) Index:** A free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

**MSCI Emerging Markets Index:** A float-adjusted market capitalization index that consists of indices in 24 emerging economies.

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**Bloomberg Barclays U.S. Aggregate Bond Index:** An index, with income reinvested, generally representative of intermediate-term government bonds, investment grade corporate debt securities, and mortgage-backed securities. (specifically: Barclays Government/Corporate Bond Index, the Asset-Backed Securities Index, and the Mortgage-Backed Securities Index).

**FTSE EPRA/NAREIT Developed Index:** A global market capitalization weighted index composed of listed real estate securities in the North American, European and Asian real estate markets.

**Bloomberg Commodity Index Total Return:** Composed of futures contracts on physical commodities. Unlike equities, which typically entitle the holder to a continuing stake in a corporation, commodity futures contracts normally specify a certain date for the delivery of the underlying physical commodity. In order to avoid the delivery process and maintain a long futures position, nearby contracts must be sold and contracts that have not yet reached the delivery period must be purchased. This process is known as "rolling" a futures position.

## MORNINGSTAR CATEGORY DEFINITIONS:

Morningstar Categories included: U.S. Equity: US Fund Large Blend, US Fund Large Value, US Fund Large Growth, US Fund Mid-Cap Blend, US Fund Mid-Cap Value, US Fund Mid-Cap Growth, US Fund Small Blend, US Fund Small Value, US Fund Small Growth

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**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.

**Large-growth portfolios** invest primarily in big U.S. companies that are projected to grow faster than other large-cap stocks. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields). Most of these portfolios focus on companies in rapidly expanding industries.

**Large-value portfolios** invest primarily in big U.S. companies that are less expensive or growing more slowly than other large-cap stocks. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

**Mid-Cap blend portfolios** invest in U.S. stocks of various sizes and styles, giving it a middle-of-the-road profile. Most shy away from high-priced growth stocks but aren't so price-conscious that they land in value territory. Stocks in the middle 20% of the capitalization of the U.S. equity market are defined as mid-cap. The blend style is assigned to portfolios where neither growth nor value characteristics predominate.

**Mid-Cap growth portfolios** invest in stocks of all sizes, thus leading to a mid-cap profile, but others focus on midsize companies. Mid-cap growth portfolios target U.S. firms that are projected to grow faster than other mid-cap stocks, therefore commanding relatively higher prices. Stocks in the middle 20% of the capitalization of the U.S. equity market are defined as mid-cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).

**Mid-Cap value portfolios** focus on medium-size companies while others land here because they own a mix of small-, mid-, and large-cap stocks. All look for U.S. stocks that are less expensive or growing more slowly than the market. Stocks in the middle 20% of the capitalization of the U.S. equity market are defined as mid-cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

**Small blend portfolios** favor U.S. firms at the smaller end of the market-capitalization range. Some aim to own an array of value and growth stocks

while others employ a discipline that leads to holdings with valuations and growth rates close to the small-cap averages. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small cap. The blend style is assigned to portfolios where neither growth nor value characteristics predominate.

**Small growth portfolios** focus on faster-growing companies whose shares are at the lower end of the market-capitalization range. These portfolios tend to favor companies in up-and-coming industries or young firms in their early growth stages. Because these businesses are fast-growing and often richly valued, their stocks tend to be volatile. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).

**Small value portfolios** invest in small U.S. companies with valuations and growth rates below other small-cap peers. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

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Date of first use: October 2021 RIFIS-24297