TAX-SMART INVESTING

ESSENTIAL GUIDEBOOK FOR INVESTORS

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

WELCOME TO TAX-SMART INVESTING: ESSENTIAL GUIDEBOOK FOR INVESTORS.

This guide has been created to help you understand how taxes impact your investments. Whether you're new to investing or experienced, it's designed to empower you with the knowledge you need to make informed decisions.

From unravelling how investments are taxed to exploring tax-smart strategies like tax-loss harvesting, we want this guide to be your go-to resource.

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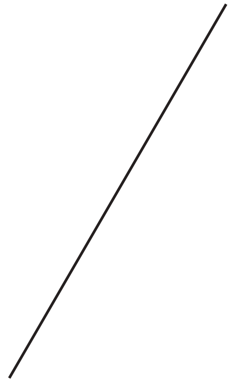


Insights into Investment Taxation: Understanding What Gets Taxed

SECTION 1

UNDERSTANDING THE DIFFERENCES:

Taxable vs. Tax-Deferred Accounts

The first step to understanding how taxes impact your investments is to know what gets taxed. If you are like many investors, you probably hold both taxable and tax-deferred accounts. Each has their pros and cons, but it's important for you to understand how they work and how you can use them in combination to help you meet your financial goals.

Taxable accounts, such as individual investing accounts, provide a lot of flexibility and liquidity; but as the name suggests, they are subject to being taxed. They are where you would likely put your excess savings, such as large influxes of cash from major events. These include events such as the sale of real estate or a small business, inheritances and insurance benefits received, as well as equity payouts or deferred compensation you may have received from your employer. Long-term and estate planning is often more easily done with these types of accounts and assets. But remember, you are likely to pay taxes on any income or capital gains they generate.

Tax-deferred accounts, such as IRAs and 401Ks, have widely known benefits. But while these accounts allow you to defer taxes while you are in your working years, they can have some drawbacks later: forced distributions in retirement, less favorable tax bills while in your retirement years, and limited long-term and estate/legacy planning benefits.

You don't have to choose one or the other. In combination they provide a lot of benefits, flexibility, and can help you plan for your retirement or legacy.

The chart below lists the key differences:

COMPARISON BETWEEN TAXABLE ACCOUNTS AND TAX-DEFERRED ACCOUNTS

	TAXABLE ACCOUNTS	TAX-DEFERRED ACCOUNTS
Examples	Brokerage & Trading Account, Savings Account, Money Market, CDs	Roth IRA, Traditional IRA, 401(k), 403(b), HSA, 529 College Savings
Tax Treatment	Subject to taxes annually	Can grow tax-deferred until a later date.
Sources of Assets	Large liquidation and monetization events; excess income; taxable savings for retirement No contribution limits	Paycheck contribution Contribution limits apply
Pre-Retirement Penalties	N/A	Early withdrawals often incur penalties
Tax on Withdrawals	Gains taxed at capital gains rates	Withdrawals on retirement assets often taxed as income
Flexibility	High flexibility in contributions and withdrawals	Tax-deferred accounts have specific rules and limitations
Long-Term Goals	Suited for short, medium, and long-term goals as well as estate planning	Ideal for specific types of planning (i.e., college savings, supplemental retirement income); mostly not suitable for estate planning
Estate Planning	Significant estate planning benefits; tax cost can be reduced to zero	Limited estate planning options; liquidation forced within a tight timeframe upon transfer; tax cost can be substantial.
Tax Advantages	Potential for preferential capital gains rates	Tax-free growth during savings stage
Liquidity	High liquidity, easy access to funds	Limited liquidity; restrictions on withdrawals
Suitability	Versatile for various financial goals and long-term planning	Best for very specific savings and/or retirement goals

YOUR SIGNIFICANT TAXABLE EVENTS

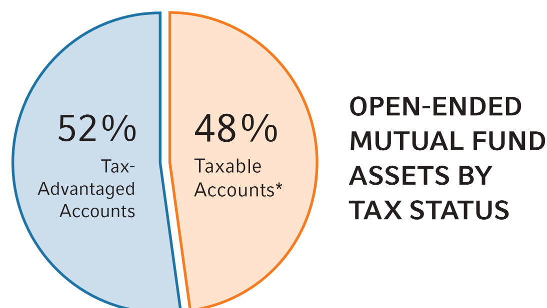
Several events that could happen in your life can trigger substantial taxes. The table below lists the top seven sources of taxable assets.

1	**The sale of real estate or other assets** The sale of a house generally results in a sizable capital gain from the price paid many years ago. Even after the primary home deduction, usually the sale of a long-time residence results in a sizable cash event.
2	**Sale of a business** Regardless of the type of business, or whether it's been sold to employees or to another company, the sale of a business is still an asset sale. That means it gets taxed as a capital gain in most cases.
3	**Proceeds from stock grants and deferred compensation plans** Stock grants and other forms of equity participation may result in a sizable tax bill.
4	**Inheritance** An inheritance could result in a large tax bill unless properly managed.
5	**Insurance payouts** Insurance payouts are typically tax free.
6	**Trust accounts** Trusts that aren't pass-through entities—meaning trusts that have their own tax identification number and file their own tax return—have a unique tax situation. Once taxable income exceeds $15,200, these trusts are most often taxed at the highest tax level possible. Today that rate is 37%, in addition to the 3.8% net investment income tax (NIIT), for a total top marginal tax rate of 40.8%*
7	**Current taxable assets with an unwanted tax bill** Many investors get into investment products/solutions that are highly *tax-inefficient*. After-tax returns are a primary consideration in taxable accounts. Investors should strongly consider transitioning these assets into solutions that are tax-managed.

** Source: Internal Revenue Service*

DID YOU KNOW?

Nearly half of the $22 trillion invested in open-ended mutual funds in the U.S. is in taxable accounts. Many investors use the same strategies in both types of accounts, but strategies that work well tax-wise in one may not in the other. Ignoring the tax impact on your taxable investments could cost you.

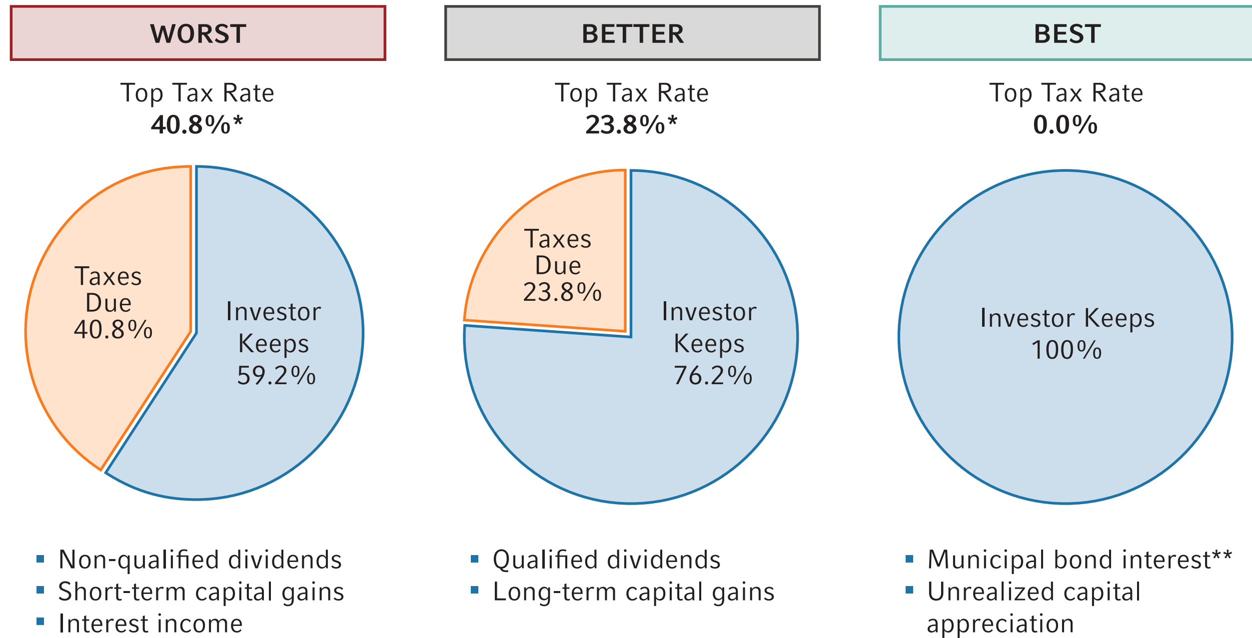


OPEN-ENDED MUTUAL FUND ASSETS BY TAX STATUS

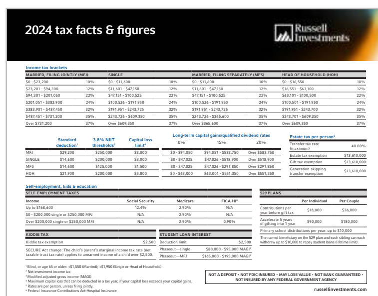
Source: 2023 ICI Factbook. Including taxable non-household accounts, taxable household accounts, and tax-exempt funds.

NOT ALL INVESTMENT INCOME IS EQUAL IN THE PRESENCE OF TAXES

The next step to understanding investment taxes is to know what type of income you will receive from your investments and how that income is taxed. Most investments generate distributions: these include capital gains, dividends, and interest income. Each receives a different tax treatment as the graph below demonstrates. When you strategically select investments based on their tax implications, you can optimize your after-tax returns and enhance your portfolio's overall performance.



*Applies to federal taxes only. Source: Internal Revenue Service. Tax rates as reported by Internal Revenue Service in 2023. *Assumes addition of 3.8% Net Investment Income Tax. **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.*



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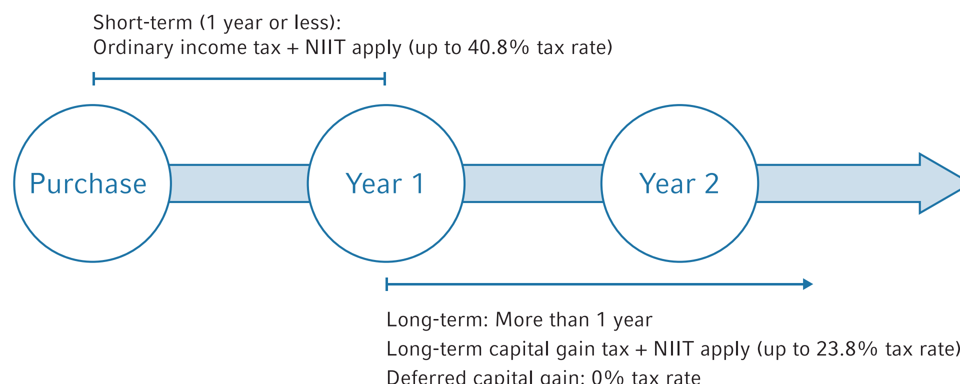
CAPITAL GAINS

As noted earlier, long-term capital gains are usually subject to a lower tax rate than short-term capital gains. To qualify as "long-term", you need to retain your investment for more than one year. If you sell a security within a year of the initial purchase, it will be taxed at the same rate as ordinary income.

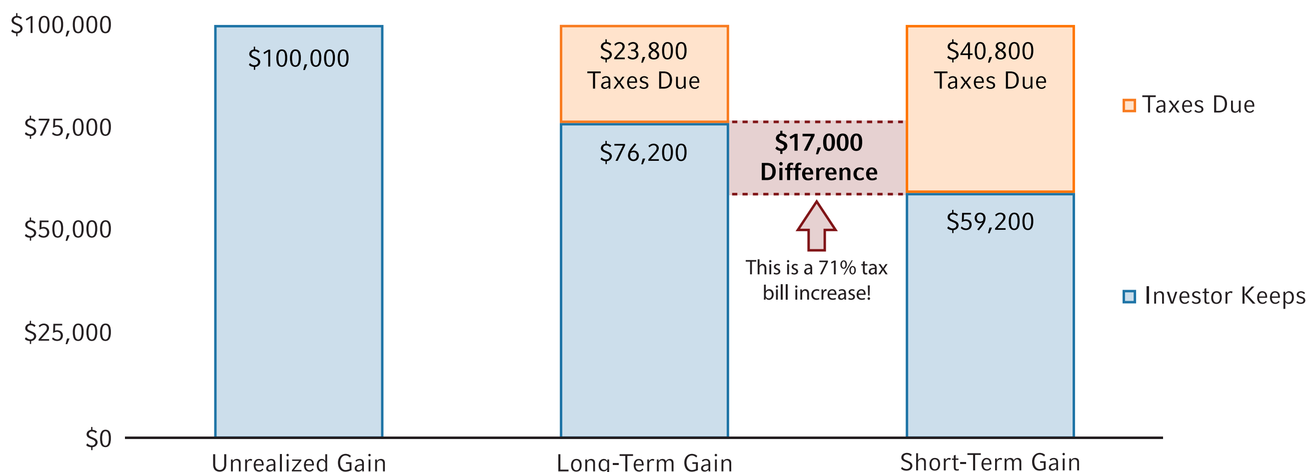
CAPITAL GAINS TAX AND HOLDING PERIOD



For instance, if you are in the highest Federal income tax bracket of 40.8%, you might benefit from the 23.8% tax rate on securities held for longer than a year. The difference in tax bills could be over 70% more! It pays to be long-term focused. Also remember, both long-term and short-term gains are subject to the 3.8% Net Investment Income Tax (NIIT).

The chart below illustrates how significantly the duration of holding investments affects their tax implications. It's important to understand and strategically manage capital gains taxes to maximize investment returns.

CAPITAL GAINS TAX IMPACT COMPARISON BASED ON HOLDING PERIOD $100,000 CAPITAL GAIN



For illustrative purposes only. Based on maximum tax rates for Married Filing Jointly, including 3.8% Net Investment Income Tax.

DIVIDENDS

Some waves are bigger than others

Qualified vs. Non-Qualified Dividends: What You Need to Know:

Dividend income falls into two categories: qualified and non-qualified. Understanding their differences is vital for effective tax planning.

Qualified Dividends: Most dividends from common equity holdings enjoy lower tax rates than ordinary income (the long-term capital gains tax rate applies). Knowing which dividends qualify for these lower rates is key.

Non-Qualified Dividends: Dividends that come from other holdings which are often characterized as "partnerships" and "trusts" are taxed differently—in most cases the individual's ordinary income tax rate applies.

Understanding the type of dividends you receive can be a game-changer in managing your tax obligations.

QUALIFIED DIVIDENDS*	NON-QUALIFIED DIVIDENDS
Taxed as Long-Term Capital Gains	**Taxed as Ordinary Income**

• US Common Equity Dividends
• Foreign Equity Dividends (Country has qualifying tax treaty)
	• Trust income (i.e., REITs)
	• Partnership income (i.e., MLPs)
	• BDCs (Business Development Corporations)
	• Money Market Fund Dividends
	• From a Mutual Fund (Found on the 1099 From)
	  • Short-Term Capital Gains
	  • Taxable Bond Interest
	• Foreign Company Dividends (w/o qualifying tax treaty)
	• PFICs (Passive Foreign Investment Companies)

** Must meet additional IRS rules i.e., Minimum 60 day holding period*

INTEREST INCOME

Only Tax-Exempt Interest is…Tax Exempt

A significant amount of your interest income could be disappearing in the form of taxes. Choose wisely. Interest income, whether from taxable bonds or time deposits, is typically taxed as ordinary income. While current yields might look enticing, it's essential to assess available options carefully.

Certificates of Deposit (CDs) and Money Market Funds can be popular choices when financial markets are volatile. But are they the right choice? First of all, they are short-term time deposits; not investments. Secondly, it's important to consider the impact of taxes and inflation on these instruments. While a CD offering 5% might seem appealing, the "real" yield may be quite a bit lower. Take a look at the chart below to see how inflation and taxes can erode returns from these fixed interest investments. That yield doesn't look as juicy once those factors are priced in.

What's a better after-tax option? Consider Tax-Free Municipal Bonds: These can be an attractive alternative for many investors as they offer income generation with minimal tax implications.

Understanding how interest income affects your overall tax liability is vital for making informed financial decisions.

WHAT IS THE REAL RETURN OF A 5% CD?

ASSUMPTIONS

5% CD rate

Top Fed Income Tax Rate*

2% Inflation

0.96%

-1.04%

ASSUMPTIONS

5% CD rate

Top Fed Income Tax Rate*

4% Inflation

For illustrative purposes only. Certificates of deposit (CDs) offer a fixed rate of return, and the interest and principal on CDs will generally be insured by the FDIC up to $250,000.

**Based on maximum tax rate of 40.8% for Married Filing Jointly, including 3.8% Net Investment Income Tax.*

NAVIGATING STATE-SPECIFIC TAX IMPLICATIONS

Let's Not Ignore the Impact of State Taxes

When planning your investment strategy, make sure to take into account how the state you live in taxes investment income.

Key Points:

- State tax laws vary and can affect your tax liability, especially for individuals in high-tax states or those earning income across multiple states.
- States may have separate gift, estate, and inheritance taxes, potentially adding to federal tax obligations.
- Planning for state taxes is crucial if you are considering relocating in retirement. While a move might reduce income taxes, other taxes in the new state could create unexpected burden.
- State tax laws interact in complex ways, making planning challenging. We recommend consulting a local tax advisor for detailed state tax planning.

DID YOU KNOW?

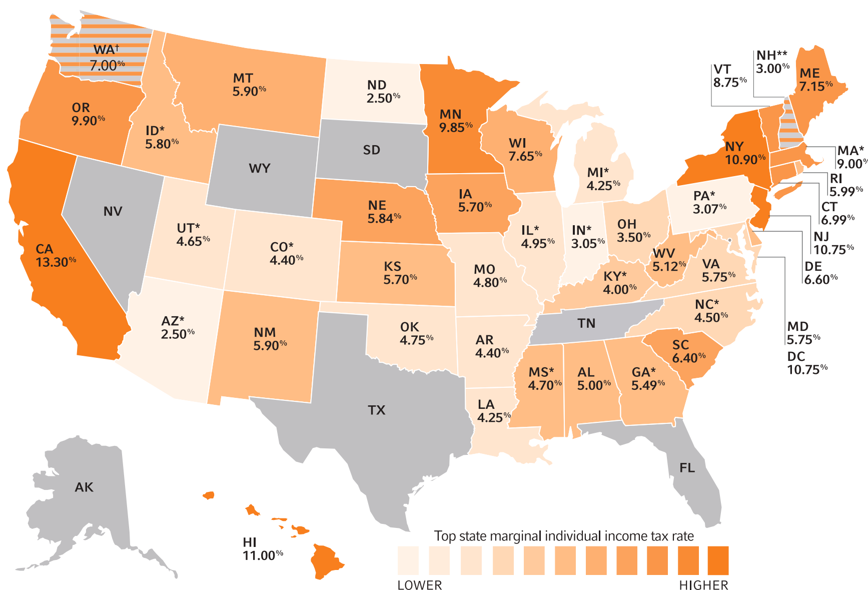
Seven States with No Income Tax

- Alaska
- Florida
- Nevada
- South Dakota
- Tennessee
- Texas
- Wyoming

States with Limited Taxation

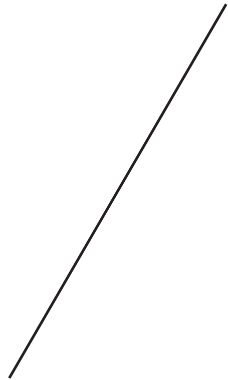
- New Hampshire: only taxes interest and dividend income
- Washington: only taxes capital gains income

HOW HIGH ARE INCOME TAX RATES IN YOUR STATE?
TOP MARGINAL STATE INDIVIDUAL INCOME TAX RATES (AS OF JANUARY 1, 2024)



*Note: Map shows top marginal rates: the maximum statutory rate in each state. This map does not show effective marginal rates, which would include the effects of phase-outs of various tax preferences. Local income taxes are not included. *State has a flat income tax. **State only taxes interest and dividend income. †State only taxes capital gains income. Source: Tax Foundation; state tax statutes, forms and instructions; Bloomberg Tax.*

SECTION 2



The Impact of Taxes on Your Investment Portfolio: Why it Matters

UNDERSTANDING THE TAX IMPACT ON YOUR PORTFOLIO

Maximizing After-Tax Wealth:

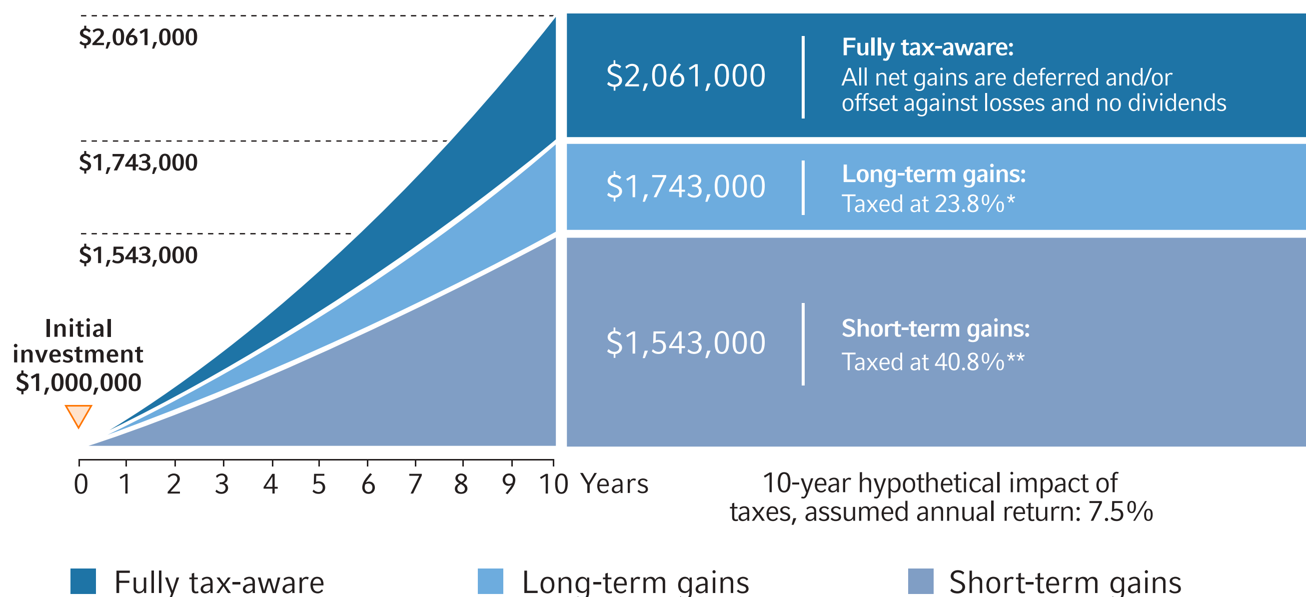
Understanding the tax impact on your portfolios is critical. Let's illustrate the significance of taxes using a hypothetical scenario:

Let's say you invested $1,000,000 for 10 years and received an average return of 7.5% annually. In a fully tax-aware or tax-deferred strategy, where gains are deferred or minimized through tax management, this investment could have grown to $2,061,000 by the end of the period. However, if you had paid the 23.8% tax on your long-term gains, the ending value would only be around $1,743,000. Now, let's look at what would have happened if you had realized short-term gains, which are taxed at the top marginal rate of 40.8%. That would leave you with only $1,543,000.

The Importance of Tax Efficiency:

These examples highlight how taxes can significantly affect your investment outcomes. Strategic tax planning is key for investors aiming to maximize wealth over the long term.

HYPOTHETICAL IMPACT OF TAXES ON GROWTH OF $1,000,000 OVER 10 YEARS



** Long-term cap gain rate of 20% + 3.8% net investment income tax (NIIT) ** 40.8% tax rate: Top marginal rate of 37% + 3.8% NIIT.*

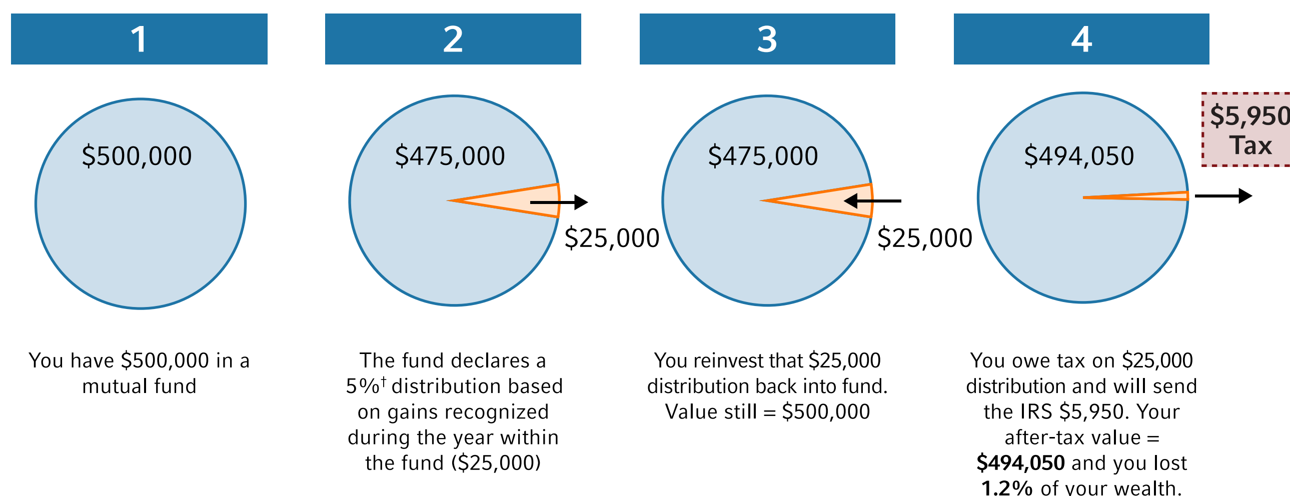
This example does not reflect the deduction of state income taxes. If it had, returns would have been lower. This is a hypothetical illustration and not meant to represent an actual investment strategy. Taxes may be due at some point in the future and tax rates may be different when they are.

HOW DISTRIBUTIONS ARE TAXED—EVEN IF YOU DON'T SELL

Here's another important thing to know about capital gains taxes. You may have to pay them even if you only recently purchased a mutual fund or ETF and even if you reinvested the distributions received. Trading activity in funds occurs throughout the year, and all gains are summed up and netted against losses, then distributed, typically at the end of the year. These realized gains within a fund are subject to taxation. So even if you bought the fund in the last few weeks of the year and didn't participate in most of the gains, you would still pay taxes on them.

Additionally, it's crucial to note that capital gains distributions can occur even if a fund experiences a negative return for the year. Capital gains are generated from trading activity, whether the trades occur because the manager is fulfilling the investment process, or if the fund faces selling pressure from other investors or changes its investment approach. Realized gains are distributed to shareholder and are taxable.

It's important to closely monitor both the size and frequency of distributions from your investments.



You have $500,000 in a mutual fund

The fund declares a 5%† distribution based on gains recognized during the year within the fund ($25,000)

You reinvest that $25,000 distribution back into fund. Value still = $500,000

You owe tax on $25,000 distribution and will send the IRS $5,950. Your after-tax value = **$494,050** and you lost **1.2%** of your wealth.

For illustrative purposes only. Assumes long term capital gains tax rate of 23.8% (20% + 3.8% Net Investment Income Tax).

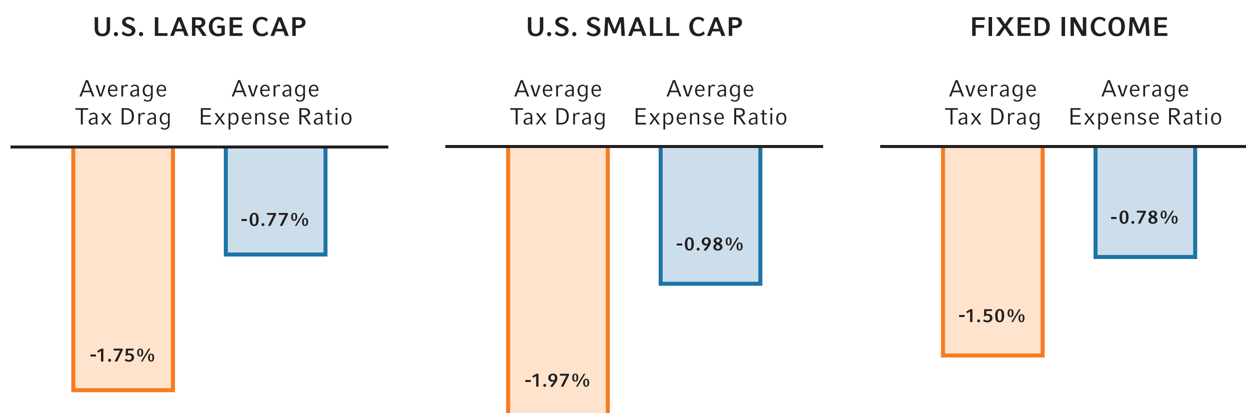
†Using 2023 average capital gains distribution % of Morningstar broad category 'US Equity' which includes mutual funds and ETFs.

ARE YOU COST SENSITIVE? REMEMBER, TAXES ARE ESSENTIALLY A HIDDEN FEE

When you think about your mutual funds, do you consider the fees you pay on them? Many investors look at expense ratios as a measure of the cost associated with their investments. But did you know that taxes can be a more substantial expense? The impact of taxes on investment returns is often underestimated, overshadowed by the attention given to fund expense ratios.

The chart illustrates a compelling comparison between the average tax "drag" and expense ratios across different asset classes. In all cases, the tax impact proves to be more significant than the expense ratio. When you prioritize tax efficiency in your investment strategy, you can potentially mitigate the impact of taxes, and that could help give you an improved overall after-tax outcome.

TAX IMPACT SURPASSES EXPENSE RATIOS: UNVEILING THE COST REALITY



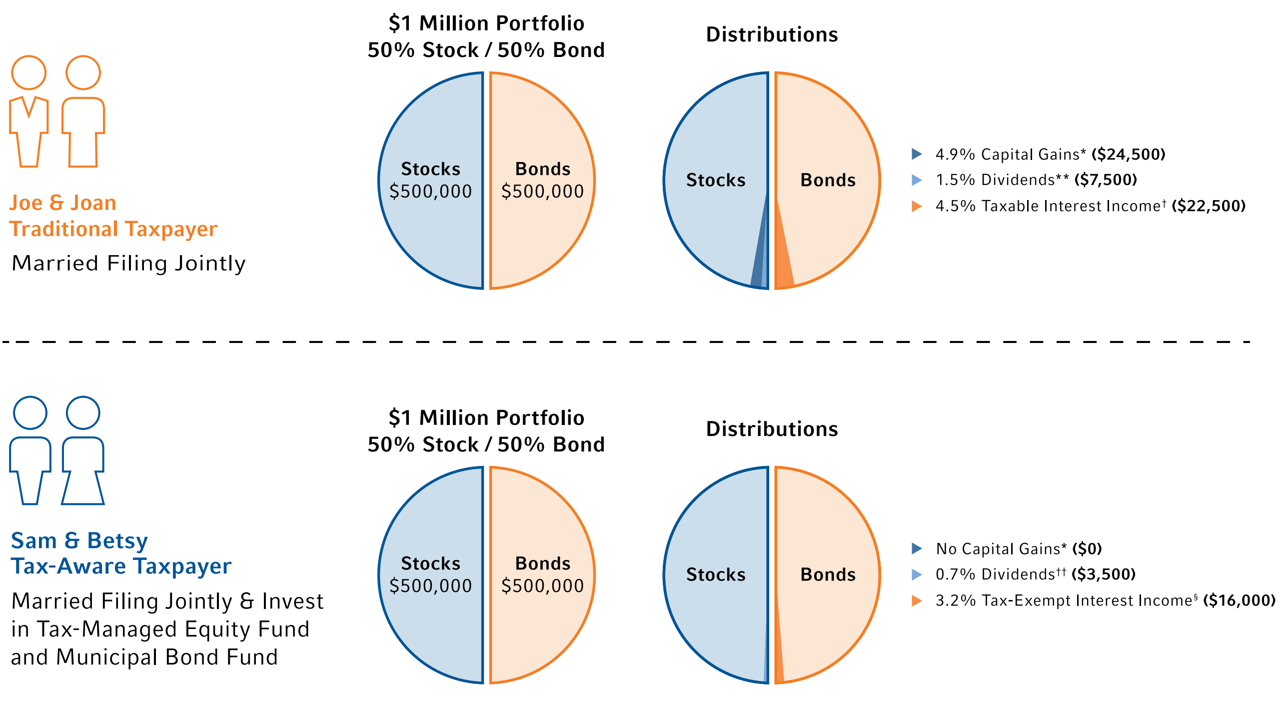
For three years ending December 2023. Source: Morningstar. U.S. Large Cap: Morningstar U.S. Large Blend category average, U.S. Small Cap: Morningstar U.S. Small Blend category average, Fixed Income: Morningstar Taxable Bond category average. Tax Drag: Morningstar Tax Cost Ratio. See appendix for methodology. Morningstar's tax cost ratio assumes the highest possible applicable tax rates, including the 3.8% net investment income tax. Many investors are not subject to the highest rates. Note that tax drag calculations only apply to taxable accounts.

A TALE OF TWO INVESTORS:

Who is Smarter About Taxes?

To better illustrate how taxes can impact investments, let's compare two case studies: one representing a traditional investor and the other a tax-smart investor. Traditional investors prioritize investment returns without a specific focus on tax efficiency. This type of approach often leads to a higher tax burden, hurting overall after-tax returns. Meanwhile, tax-smart investors adopt a strategic long-term approach, considering the tax implications of various investment decisions. By employing tax-managed investment strategies, tax-smart taxpayers aim to optimize their after-tax returns.

The comparison highlights the importance of considering the impact of taxes when you make an investment decision.

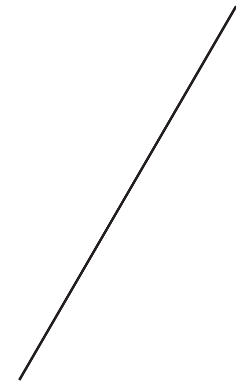


Joe & Joan Traditional Taxpayer		Sam & Betsy Tax-Aware Taxpayer
$1,000,000	**Year-end investment balance**	$1,000,000
	Federal tax due from:§§	
$5,831	Capital gains	$0
$1,785	Dividends	$833
$9,180	Interest income	$0
$16,796	**Total Federal tax**	**$833**
$983,204	**After-tax Value**	$999,167
-1.7%	**Percent of investment lost to taxes**	-0.1%

This is for illustrative purposes only and does not represent any actual investment strategy.

**4.9% capital gains distribution: Represents 2023 average capital gains distribution % of Morningstar broad category 'US Equity' which includes mutual funds and ETFs. **1.5% dividend yield: the yield on the S&P 500® Index as of 12/31/2023. †4.5% interest income: Represents the yield of the Bloomberg U.S. Aggregate Bond Index as of 12/31/2023. ††0.7% Yield: Represents 50% of the yield on the S&P 500® Index as of 12/31/2023. §3.2% Yield: Represents the yield of the Bloomberg U.S. Municipal Bond Index as of 12/31/2023. §§Based on maximum tax rates for Married Filing Jointly, including 3.8% Net Investment Income Tax. Assumes long-term capital gains.*

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.



SECTION 3

Strategies for Tax-Efficient Investing: Taking Control of Your Tax Burden

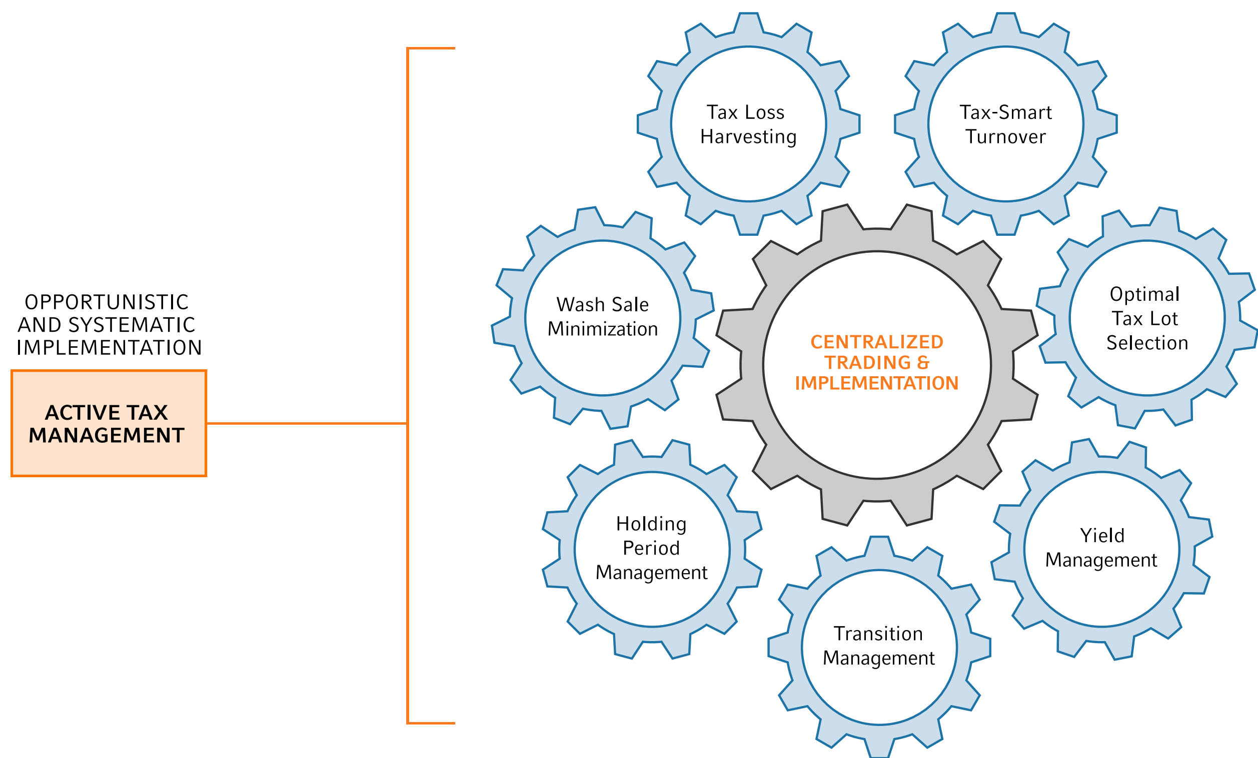
A BETTER "TAX" WAY FORWARD

Choosing the Right Board

So now that you know how your investments are taxed, what can you do about it? You can improve the tax efficiency of your portfolio and lower your overall tax cost by incorporating active tax-management approaches such as tax-loss harvesting and wash sales minimization. Investors can utilize products explicitly designed to integrate these approaches, aiming to minimize tax liabilities and maximize after-tax returns.

The chart below highlights key strategies that may help improve the tax efficiency of investment portfolios. It is crucial for investors to utilize these approaches for long-term financial success.

ESSENTIAL APPROACHES FOR TAX-MANAGED INVESTING



PRINCIPLES OF ACTIVE TAX MANAGEMENT IN INVESTMENT PORTFOLIOS

HOW RUSSELL INVESTMENTS MANAGES TAXES

Russell Investments

Dynamic investment strategies designed to maximize after-tax returns

When you invest what you earn, you want to keep as much of your return as you can. That's why, at Russell Investments we're never satisfied with good enough when it comes to managing taxes for your portfolio. We employ a truly active tax management approach that identifies and addresses tax inefficiencies strategically, maximizing after-tax returns. This approach is applied across our range of tax-managed investment solutions, including tax-managed mutual funds, multi-asset portfolios, and separately managed accounts. Tax-sensitive investors can select from these solutions based on their individual needs and preferences.

Explore the core principles guiding our efforts to reduce the impact of taxes on investment portfolios.

Total tax management in action—Implementing active tax management with a full year focus

Russell Investments / Principles of Active Tax Management in investment portfolios / 1

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EXPLORE FURTHER

Principles of active tax management in investment portfolios

TAX ASSET CREATION—SAVE MORE, KEEP MORE

Tax-Loss Harvesting Helps Reduce Current Tax Liabilities

Let’s be honest, it’s fun to watch investments go up! Investing for the long-term is a major form of wealth creation for investors. But just like driving down a busy road, winter weather patterns or a plane journey through a storm, there is volatility. And volatility creates opportunity for the tax-smart investor. This opportunity is through an activity called tax-loss harvesting. How?

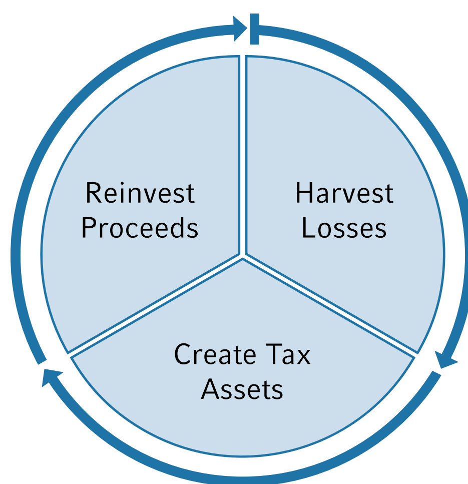
Security values fluctuate somewhat randomly over short periods of time, while ideally trending upwards over the long run. During these random fluctuations, selling a position that drops below its cost basis creates a loss that can be carried forward. This loss can be used to offset gains elsewhere or at another time. As long as the overall composition of the portfolio is materially unchanged, harvesting losses can improve after-tax performance.

To maximize the value tax-loss harvesting can create, you need to be both opportunistic and active in harvesting losses frequently.

THE MECHANISM OF TAX LOSS HARVESTING: KEEPING YOUR PORTFOLIO FULLY INVESTED

Reinvest Proceeds

- Reinvest the proceeds to maintain portfolio's exposures
- Be mindful of the “wash sale” rule



Harvest Losses

- Analyze portfolio holdings for declines in value
- Harvest losses to accumulate tax assets

Create Tax Assets

- Utilize these losses to offset the gains realized elsewhere in the portfolio
- Carry forward remaining losses indefinitely to offset future gains or tax liabilities

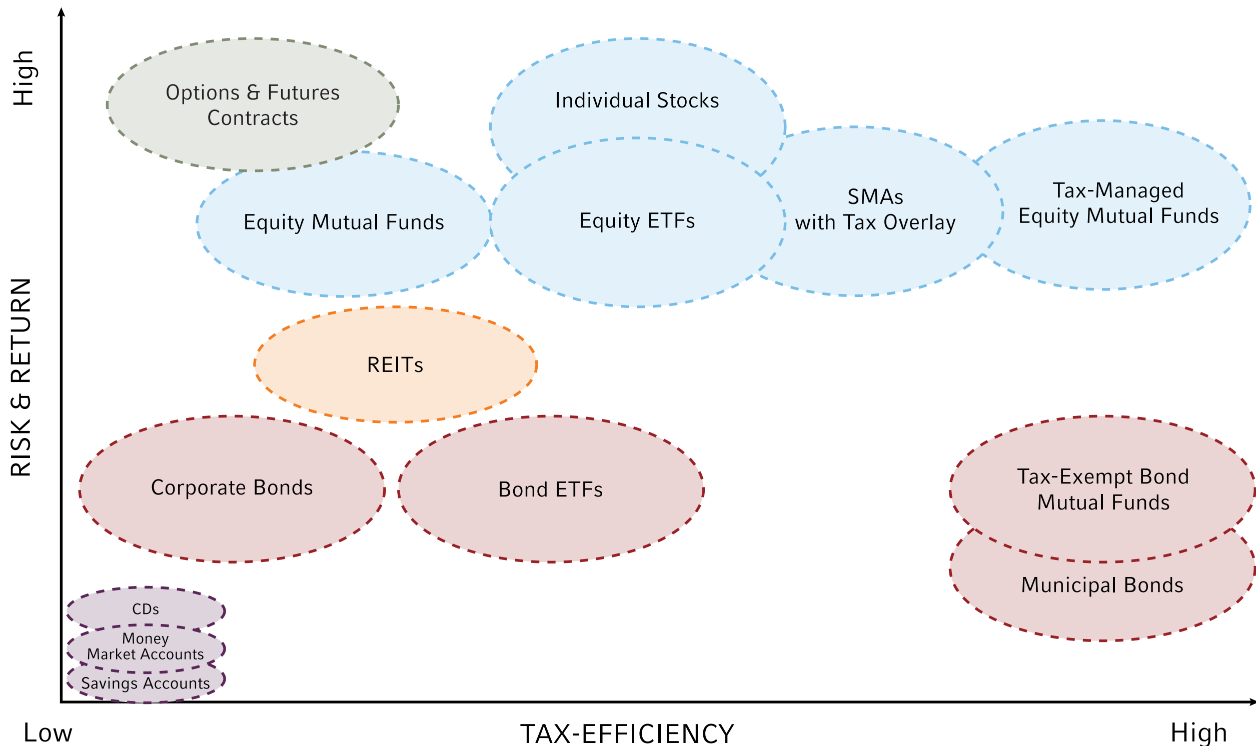
DID YOU KNOW?

Wash Sale Rule: Wash sale rule is a tax regulation that prevents investors from claiming a tax deduction on the sale of a security if they repurchase the same or substantially identical security within a short period, typically 30 days, before or after the sale. Understanding these rules helps avoid unintended tax consequences.

SEEKING TO MAXIMIZE RETURNS AND MINIMIZE TAXES:

A Deeper Dive

Different types of investments have varying tax implications. Below is a rundown of popular investment choices, comparing how tax efficient they are along with their risks and potential returns. Ultimately, deciding which option is best depends on your personal preferences, financial goals and the tax strategies each option offers. You should weigh these factors carefully and seek advice from a financial advisor if needed to ensure you choose investments that align with your individual situation.



This illustration is provided for informational purposes only and should not be considered as investment advice. Investors are strongly encouraged to consult with their financial advisor or tax professional before making any investment decisions. Investing involves risks, including the potential loss of principal, and investors should carefully consider their risk tolerance and investment objectives before making any decisions. Tax considerations are also important, and investors should be aware of the tax implications of their investment choices.

DECODING TAX FORMS TO IDENTIFY POTENTIAL OPPORTUNITIES FOR FUTURE TAX PLANNING

Every year, American taxpayers like you receive two documents in the mail during tax season. These forms provide valuable information about the taxes you are paying on your investments. Form 1099 lists the sources of your investment income, and Form 1040 serves as the comprehensive document for reporting all your income, including from investments, when filing your annual tax return. They may help you identify potential opportunities for future tax planning.

Here's how they work together to help you understand and report investment income on your tax return:

Form 1099:

Financial institutions, such as banks and investment firms, issue a Form 1099 to investors who receive distributions from their investments.

Details Included: The form provides details on the type and amount of income you received from your investments during the tax year. This may include ordinary dividends, qualified dividends, and capital gains distributions.

Taxable Income: Different types of income are taxed at varying rates, and Form 1099 helps you identify how much of your investment income is taxable and at what rate.

EXPLORE FURTHER

A Tale of Two Investors:
A Review of Their 1099 Tax Forms

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Form 1040:

Form 1040 is the standard individual income tax return form used by taxpayers to report their annual income and calculate their tax liability.

You use Form 1040 to report the investment income provided on Form 1099. Sections such as Schedule B are specifically dedicated to reporting interest and dividend income.

Form 1040 calculates your total taxable income, including income from investments. It takes into account various deductions and credits that may apply to your situation, arriving at your final tax liability or refund.

EXPLORE FURTHER

After-Tax Wealth Checkup:
Finding Clues in Your Form 1040

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ABOUT RUSSELL INVESTMENTS

Russell Investments is a leading global investment partner, providing tailored solutions and services to institutions and individuals through financial intermediaries. We are dedicated to improving people's financial security, leveraging over 85 years of client-centric heritage rooted in investment innovation

Our investment approach incorporates rigorous manager research to select some of the world's leading institutional investment managers and strategies, offering the best ideas of each manager within well-diversified investment solutions.

Since 1985, Russell Investments has continuously evolved its active tax-managed investment approach, helping tax-sensitive investors minimize tax burden and keep more of what they earn.

Visit **russellinvestments.com** to discover the potential benefits of tax-managed investing.

CHECK IN WITH THE PROS

This guide has tried to help you understand how investments are taxed, but given the complexity of the U.S. tax code, it's best to seek advice from professionals to ensure your investment strategy is structured to help you minimize your tax burden. Consult with a financial advisor or tax professional to develop a personalized tax-efficient investment strategy based on your financial goals and individual circumstances.

IMPORTANT INFORMATION AND DISCLOSURES

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 material.

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METHODOLOGY FOR TAX DRAG:

Includes 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 US Equity and Taxable Bond for equities and fixed income respectively.

MORNINGSTAR CATEGORY DEFINITIONS:

Morningstar Categories included: U.S. Large Cap: U.S. Fund Large Blend; U.S. Small Cap: U.S. Fund Small Blend; Fixed Income: U.S. Fund Taxable Bond. The Morningstar categories are as reported by Morningstar and have not been modified.

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U.S. Fund - 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.

U.S. Fund - Small Blend: 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.

U.S. Fund - Taxable Bond: A group of similar funds that invest primarily in fixed-income securities. Funds in the following categories are assigned to this broad asset class: Long-Term Government, Intermediate-Term Government, Short-Term Government, Long-Term Bond, Intermediate-Term Bond, Short-Term Bond, Ultrashort Bond, International Bond, High Yield Bond, Emerging Markets Bond and Multisector Bond.

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.

Bloomberg 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: Bloomberg Government/Corporate Bond Index, the Asset-Backed Securities Index, and the Mortgage-Backed Securities Index).

Bloomberg U.S. Municipal Bond Index: Covers the USD-denominated long term tax-exempt bond market.

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Date of first use: April 2024 RIFIS-25963

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