THE FOUR A'S OF PREPARING FOR CAPITAL GAINS SEASON

The last quarter of year is when most mutual funds post their estimates for capital gains distributions and related taxable events. This frequently leads to conversations with clients about the potential impact of taxes on their portfolios.

How can you prepare for that? We believe advisors can take action to help manage "tax drag". Think of these four A's:

FOUR A'S OF PREPARING FOR CAPITAL GAINS SEASON

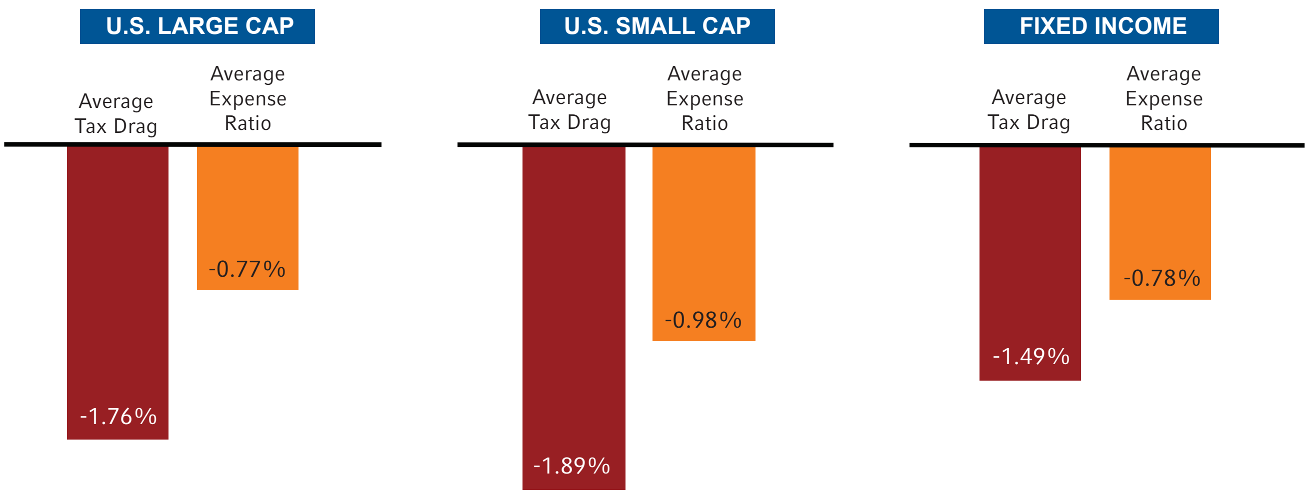
Awareness → Assessment → Action → Advocacy

1. Awareness

How big of a problem is tax drag? Looking at data across broad fund universes (active mutual funds, index funds and ETFs) reveals that the return lost to taxes (tax drag) is typically higher than the average net expense ratio. Another way to think of these lost returns is that they have been subjected to a *Government Expense Ratio*. **Awareness** of the size of the tax drag can open your eyes to its pervasiveness across your clients' accounts. Without being adequately aware of tax drag, you may miss out on helping existing clients with taxable assets and—more importantly—prospects with taxable assets as you extend your service offering.

Annualized return lost to taxes versus fund fees

Three years ending September 2023



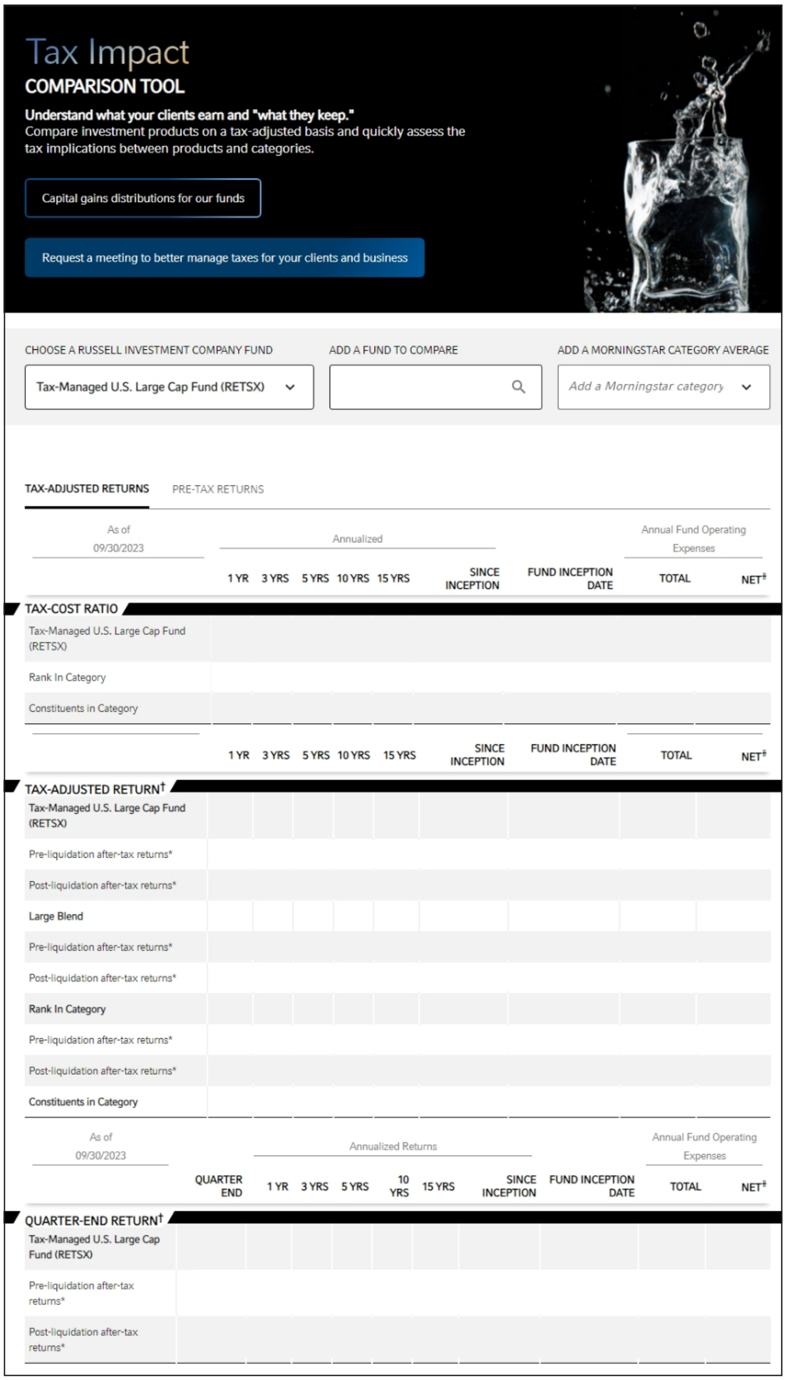
TAX IMPACT IS OFTEN LARGER THAN EXPENSE RATIO

Source: Morningstar. U.S. Large Cap: Morningstar U.S. Large Blend Universes average, U.S. Small Cap: Morningstar U.S. Small Blend Universes average, Fixed Income: Morningstar Taxable Bond Universes average. Tax Drag: Morningstar Tax Cost Ratio.

2. Assessment

History may not repeat itself, but when it comes to investment returns lost to taxes, it sure is indicative of past tax efficiency.

Reviewing specific tax drag and after-tax return by product really helps in the **Assessment**. Our [Tax Impact Comparison Tool], which uses Morningstar data, is a great way to assess the impact taxes have on investment returns to help make informed decisions for taxable accounts. This tool shows the amount of return lost to taxes (tax-cost ratio), after-tax return, pre-tax return and fund's percentile rank within a peer universe.



TAX IMPACT COMPARISON TOOL

Understand what your clients earn and what they keep.

Compare investment products on a tax-adjusted basis and quickly assess the tax implications between products and categories.

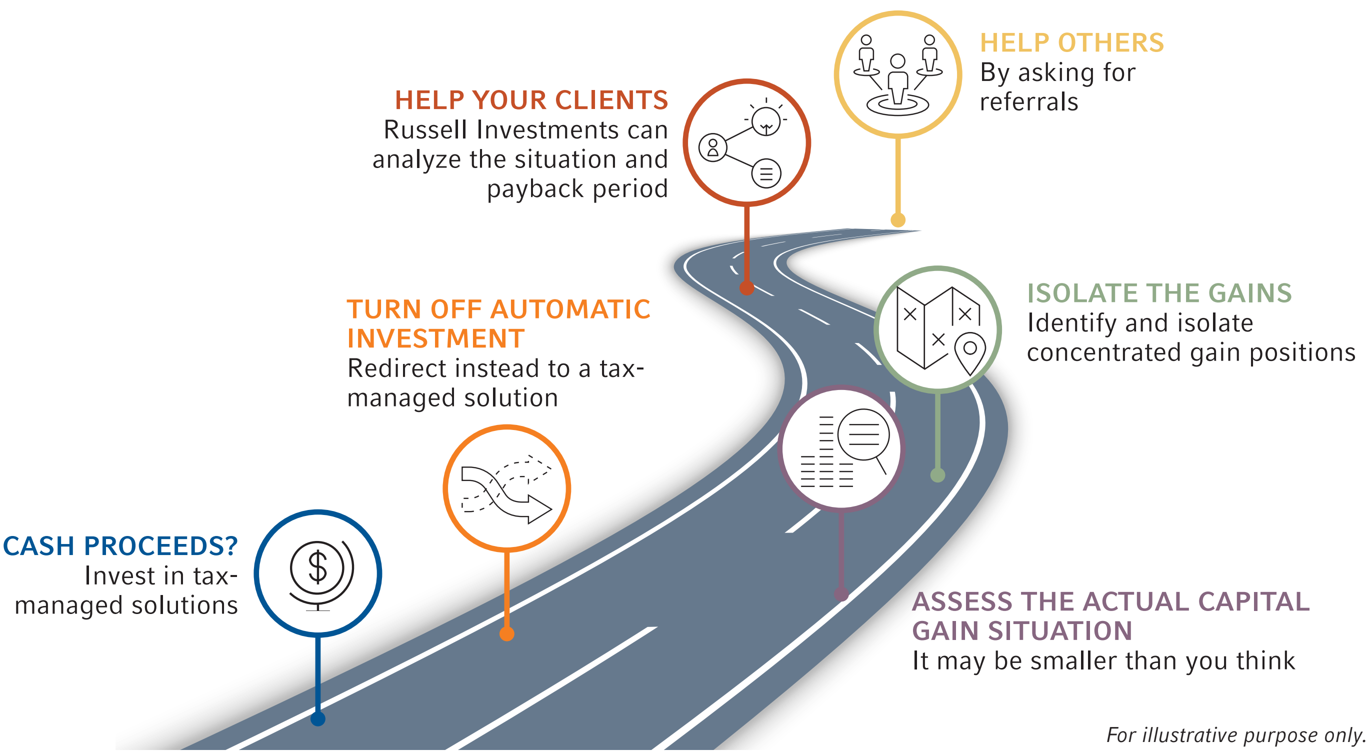
3. Action

Once you have the awareness and accurate assessment of tax drag across your portfolios, it is time to take **Action**. Consider the following client scenarios:

- **Cash or new money to invest?**
  With proper awareness and assessment, you should understand the after-tax return and tax drag on different investment options and be well-positioned to make informed choices on the best tax-smart offerings.
- **Invested in a security or fund that is tax-inefficient or in which the client has lost conviction?**
  Russell Investments can help you conduct a break-even analysis to understand the possible tax impact of selling the holding and the potential return improvement of transitioning to a more tax-efficient alternative. The analysis can also help you make an informed decision about whether executing the transition over time or "ripping off the band-aid" may make more sense. And if you are concerned about possible future tax rate increases, this analysis may help those considering pulling gains forward for today's known tax rates.

At least, consider turning off the automatic reinvestment of capital gains, dividends, and income **for current investments that are not tax-efficient**. No reason to put new money into the same tax-inferior alternative.

A roadmap for transitioning to tax-managed investing



For illustrative purpose only.

4. Advocacy

In our annual Value of an Advisor Study, helping clients reduce the impact of taxes is one of the greatest value-adds advisors may bring to the client relationship. Tell your clients what you are doing to improve after-tax outcomes.

Be your own **Advocate** with clients and prospects by helping them understand how you work to improve their after-tax investment outcomes. Be sure to avoid using jargon, like "basis points" and "percentage returns." Talk about dollars and cents when showing clients the difference between tax-smart and tax-agnostic investment options. That will resonate much more clearly with them. Your efforts to protect their investments from the impact of taxes have the potential to go a long way toward strengthening the relationship. Advocate for the great work you do on their behalf.

THE BOTTOM LINE

While taxes may be complicated and confusing, they are important. But you don't need to be an expert in taxes to address the problem they create for your clients' portfolios.

An active tax-managed investing approach can potentially lead to a better after-tax outcome. Tax drag is not only a burden that weighs on returns over time, but also an indicator that portfolios are not deploying proper solutions. Russell Investments can help shine the light on both the problem as well as the solution.

For more information

Contact your dedicated Russell Investments' regional team at **800-787-7354** or service@russellinvestments.com

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.

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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.

Tax Drag reflects the arithmetic average of Morningstar Tax Cost Ratio. Tax-cost ratio is defined as Morningstar's Tax Cost Ratio, which measures how much a fund's annualized return is reduced by the taxes investors pay on distributions. Investors then must pay taxes on distributions during the year they were received. Like an expense ratio, the tax cost ratio is a measure of how one factor can negatively impact performance. For example, if a fund had a 2% tax cost ratio for the three-year time period, it means that on average each year, investors in that fund lost 2% of their assets to taxes. If the fund had a three-year annualized pre-tax return of 10%, an investor in the fund took home about 8% on an after-tax basis. (Because the returns are compounded, the after-tax return is actually 7.8%.)

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Morningstar Categories included:

U.S. Large Blend: 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. Small Blend: Favor U.S. firms at the smaller end of the market-capitalization range. Some aim town 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.

Taxable Bond: Includes US Fund Long Government, US Fund Intermediate Government, US Fund Short Government, US Fund Inflation-Protected Bond, US Fund Long-Term Bond, US Fund Intermediate-Term Bond, US Fund Short-Term Bond, US Fund Ultrashort Bond, US Fund Bank Loan, US Fund Stable Value, US Fund Corporate Bond, US Fund Preferred Stock, US Fund High-Yield Bond, US Fund Multisector Bond, US Fund World Bond, US Fund Emerging Markets Bond, US Fund Emerging-Markets Local-Currency Bond, US Fund Nontraditional Bond.

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