Principles of active tax management in investment portfolios

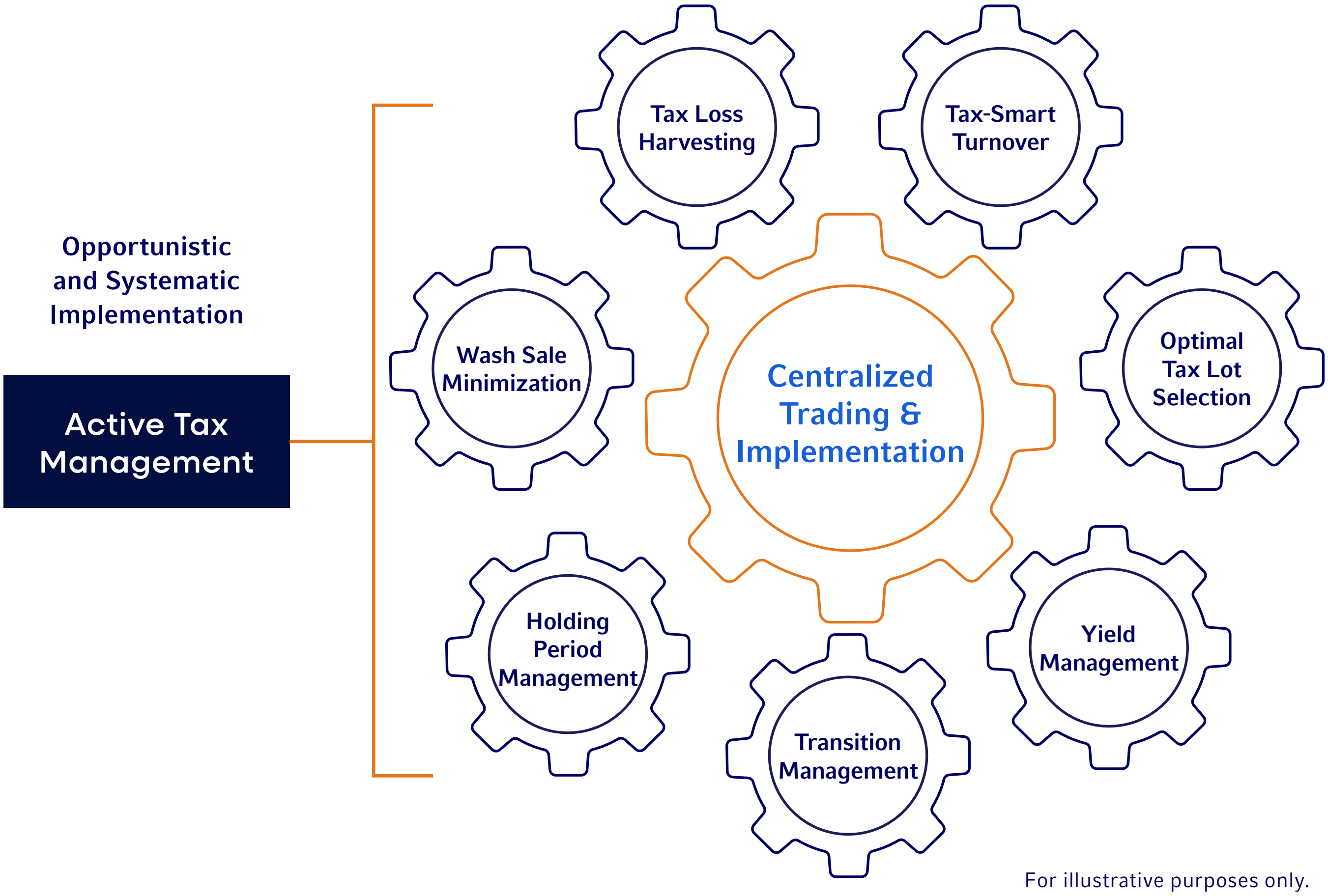
How russell investments manages taxes

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 our active tax management approach designed to strategically identify and address tax inefficiencies to maximize 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



For illustrative purposes only.

Tax Loss Harvesting

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 a gain elsewhere or at another time. As long as the overall composition of the portfolio is materially unchanged, harvesting losses can improve after-tax performance.

Tax-Smart Turnover

Depending on an investor's individual situation, capital gains taxes are typically only paid when an investment is sold at a gain. High turnover strategies that lead to selling positions at a gain erode after-tax return. For example, if a position is sold for a 10% gain after one year, and a 20% tax is assessed on the gain, the return is reduced to 8%.

Wash Sale Minimization

If a security is sold for a loss, a potential tax benefit is obtained that can be used to offset a gain elsewhere. This potential tax benefit is negated if the same or a substantially identical position is purchased within 30 days of the sale date. Systematically avoiding wash sales is an important step to construct an efficient after-tax strategy. In a multi-manager portfolio, managers acting autonomously can easily generate wash sales.

Optimal Tax Lot Selection

When a partial sale of a position is made, the tax impact of selling shares purchased at different prices and dates needs to be evaluated. If there is an ability to sell lots with a higher cost basis, then gains can be deferred. By reducing immediate taxes, you can improve after-tax return. This assumes that future tax rates won't be higher. Of course, no one can predict what future rates could be.

Holding Period Management

Under current U.S. tax rules, selling investments held for less than one year may generate short-term gains which can significantly affect a tax bill. Short-term gains are taxed at the Federal level as ordinary income, which can be as high as 40.8% of the gain, after accounting for the 3.8% of Net Investment Income Tax (NIIT). Long-term gains for investors in the highest tax bracket are taxed at a maximum tax rate of 23.8% including the NIIT, if applicable. Generally speaking, tax-managed strategies should seek to avoid short-term gains, and even limit realizing long-term gains.

Source: Internal Revenue Service.

Yield Management

Dividends generate a potential tax liability in the year they are paid and can be taxed as ordinary income. These taxes reduce the principal to which investment returns accrue. Reducing dividends helps defer taxes paid, which promotes a larger principal amount with greater compounding potential. In managing dividend yield, desired portfolio exposures need to be considered.

Transition Management

Portfolio transitions, such as adjusting asset allocation, rebalancing, or changing investment strategies or money managers, demand meticulous attention to tax implications such as realizing capital gains. Employing tax-efficient transition management strategies such as tax-loss harvesting, optimizing asset location, and strategically timing transactions, can help reduce the tax impact on investment returns, ultimately enhancing long-term wealth accumulation for investors.

Centralized Trading & Implementation

When multiple money managers are combined in a single portfolio, there are opportunities to reduce turnover, defer gains and avoid wash sales by using an overlay portfolio manager who coordinates the trading activity across all managers. With total portfolio management (TPM), active manager positions are held in a single custody account, where the active manager security positions are implemented by the overlay manager. Considerable tax benefits can be derived using TPM:

- When any manager signals a sale, the sale can be transacted from the most beneficial tax lot considering all managers and all tax lots.
- When one manager is buying a position and another is selling the same position, the total transaction can be lessened because all or part of the buyer's purchase can be fulfilled by the seller, with potentially no actual transaction required in the portfolio.
- Wash sales that occur across managers can be managed. For example, if one manager sells a security at a loss and another manager requests purchase of the same security, the overlay manager can delay the purchase until the end of the wash sale period. Keep in mind this approach does not guarantee that wash sales will not occur from time to time.
- If a manager signals a sale of a short-term gain position that is nearing conversion to long-term status, the overlay manager can delay the sale.
- If a portfolio position drops significantly below its cost basis, some of the position can be sold to book a loss. If desired, the position can be added to after the wash sale period.

Transitioning between money managers requires careful planning, management, and trading techniques to minimize and lower the tax impact of the realization of net capital gains, and especially net short-term capital gains.

Talk to your financial professional and/or tax accountant to see what steps can be taken to potentially minimize your tax burden.

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

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 by visiting https://www.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.

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