TAX SEASON ESSENTIALS FOR MAXIMIZING AFTER-TAX WEALTH

Russell Investments

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Taxes are one of the few things in life that are certain. Almost all of us will face an annual tax bill on April 15. But there are steps you can take now to make your next one as small as possible.

We understand the universal desire to minimize tax payments, especially in relation to investments, as it can significantly impact an investor's overall wealth.

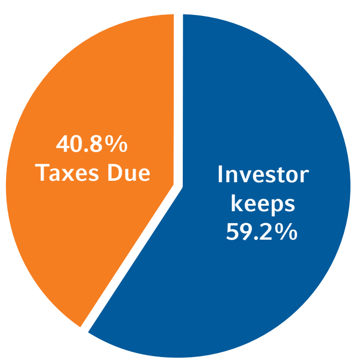
Since 1985, when Russell Investments introduced the first tax-aware fund, our commitment has been to navigate the complexities of investment taxes. Over the years, we've expanded our offerings to provide a comprehensive range of solutions and strategies with the goal of helping investors minimize the tax burden on their investments. Here, we share tips and tactics designed to assist you in exploring ways to potentially maximize your after-tax wealth.

DID YOU KNOW THAT NOT ALL INVESTMENTS ARE TAXED THE SAME?

TIP:
Where your returns come from matters.

WORST

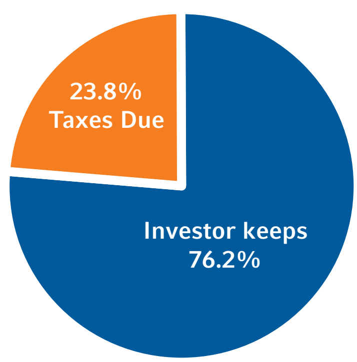
Top Tax Rate
40.8%*



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

BETTER

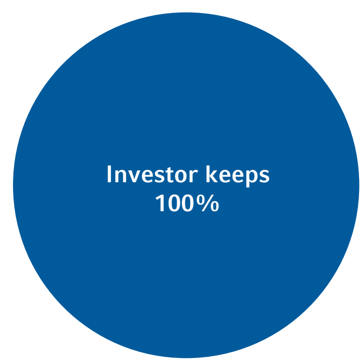
Top Tax Rate
23.8%*



- Qualified dividends
- Long-term capital gains

BEST

Top Tax Rate
0.0%



- Municipal bond interest**
- Unrealized capital appreciation

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.

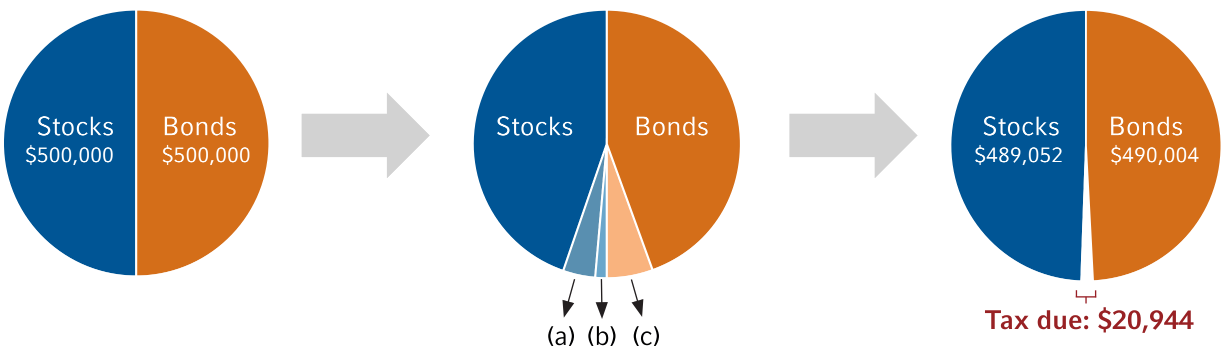
**Generally for municipal bonds, only interest from bonds issued within the state is exempt from that state’s income taxes. Municipal bond interest income may impact taxation of Social Security benefits.

TACTIC:
Talk to your financial professional and/or tax accountant to ensure there is a thoughtful approach around asset location and investment styles with the aim of reducing the potential tax bite.

DID YOU KNOW THAT YOU COULD PAY INVESTMENT TAXES, EVEN IF YOU JUST BOUGHT THE FUND OR REINVESTED THE DISTRIBUTIONS?

TIP:
Keep an eye on the size and frequency of income and capital gains distributions from your investments and be aware of the distribution declaration date.

You have $1 million stock and bond portfolio.	Your portfolio received 7.9% capital gains, 1.3% dividends and 4.9% interest income.*	Your after-tax value = $979,056 2.1% lost to taxes



(a) 7.9% Capital gains: $39,500.................Federal tax due: $9,401 (tax rate: 23.8%†)
(b) 1.3% Dividends: $6,500........................Federal tax due: $1,547 (tax rate: 23.8%†)
(c) 4.9% Interest income: $24,500.............Federal tax due: $9,996 (tax rate: 40.8%†)

Total federal tax due: $20,944

For illustrative purposes only. *Using 2024 average capital gains distribution % of Morningstar broad category 'US Equity' which includes mutual funds and ETFs. The dividend yield is represented by the yield on the S&P 500® Index and interest is based on the yield of the Bloomberg U.S. Aggregate Bond Index as of 12/31/2024.

† Based on maximum tax rates for Married Filing Jointly, including 3.8% Net Investment Income Tax. Assumes long term capital gain.

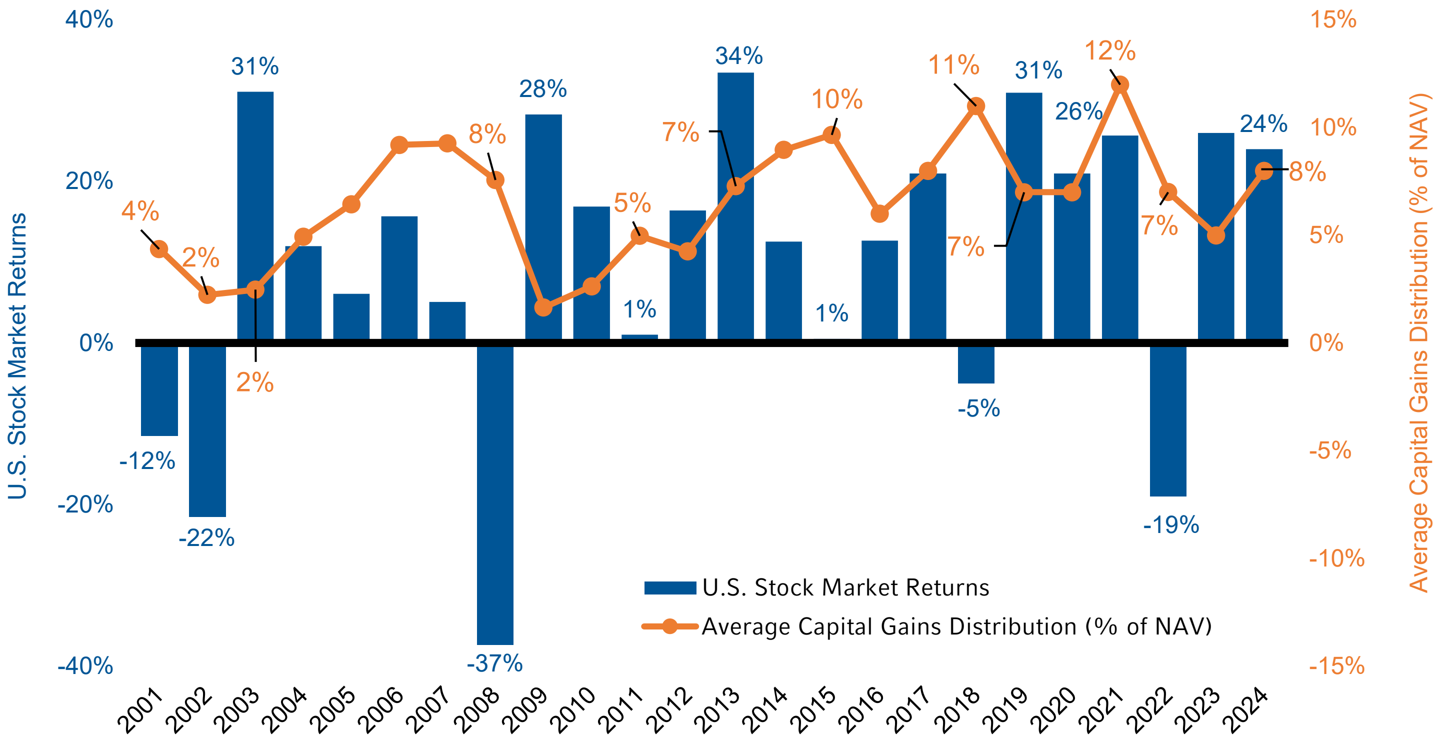
TACTIC:

Work with your financial professional and/or tax accountant to understand the amount and frequency of your income and capital gains distributions.

- Year-end capital gains distributions are all-or-nothing. If you own the fund on the record day, you get the distribution (and tax-bill)…if you don't own it on that day, you don't get the distribution.
- Ask yourself, "Do you need the income or are you reinvesting these distributions?"
  - » Consider pointing the reinvestment to a more tax-smart approach.
  - » And remember, capital gains distributions can happen even when a fund has a negative return for the year.
    - › How? If the fund has faced selling pressure from other investors or the fund changed its investment approach – it may have to pay out realized gains to shareholders.
    - › In fact, often it's hard to determine when a fund may pay out larger or smaller taxable distributions. The chart on the next page tells the story.

The chart below shows the average mutual fund distribution expressed as a percentage of a fund's Net Asset Value (NAV), compared to the U.S. stock market calendar-year returns going back to 2001. The average capital gains distribution has never been 0%. Whether the market is up or down, mutual funds are required to payout 98.2% of net realized capital gains back to shareholders within their fiscal year. In fact, some of the largest distributions occurred in years with flat or even negative market returns (for example 2008, 2015 and 2018).

U.S. equity market returns & average capital gains distribution since 2001



EXAMPLE: 2008

Market was down -37%.

The average fund paid 8% of investment amount as taxable distribution – even if reinvested.

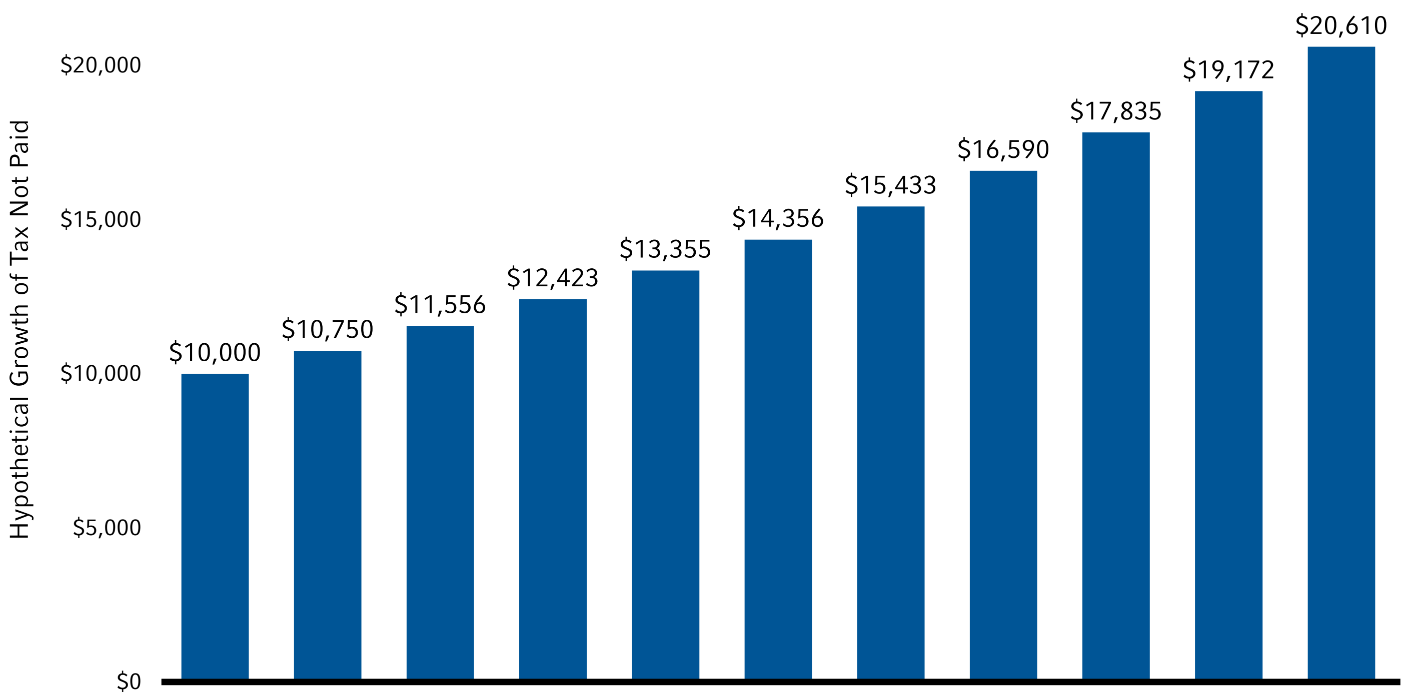
Source: Morningstar Direct. U.S. stock market represented by Russell 3000® Index. Indexes are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

Average capital gains distribution: Morningstar broad category 'US Equity' which includes mutual funds and ETFs (and multiple share classes). For years 2001 through 2020, % = calendar year capital gains distribution ÷ year-end NAV. For years 2021 through 2024, % = capital gains distribution ÷ respective pre-distribution NAV. For years 2001 through 2013, used oldest share class. 2014 forward includes all share classes.

DID YOU KNOW THAT THE FEWER TAXES PAID ON YOUR INVESTMENTS MEANS THAT MONEY CAN CONTINUE TO GROW THROUGH THE POWER OF COMPOUNDING?

TIP:
Every year that you don’t face a large tax bill means more of your money stays invested in the markets. And that gives it the potential to grow year after year. Assume you are able to keep $10,000 more in your account in Year 1 by being tax smart. If you assume an average return of 7.5% per year, note the growth of the accumulated taxes not paid over 10 years. That's the power of compounding. Deferring recognition of gains can lead to improved after-tax outcomes.

Growth of Tax Not Paid Earning 7.5% Per Year



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

TACTIC:
Ask your financial professional and/or tax accountant what you can do to reduce the tax bill on your investments. Of course, a tax-smart advisor will have several strategies and access to tax-managed solutions that could help you keep more of your money invested.

DID YOU KNOW THAT MOST MUTUAL FUNDS ARE NOT CREATED WITH AFTER-TAX RETURNS IN MIND?

TIP:
A fund that is tax-managed opens the toolkit of trading and investment strategies aimed at reducing the tax drag and maximizing after-tax returns.

Russell Investments' active tax-management approach—Seven principles

Active management	We research and select best-of-breed active money manager, accessing skilled stock selection through a rigorous vetting process
Centralized trading & implementation	We aggregate multiple managers and centralize within a single tax-managed fund to better coordinate trading activities and create greater efficiencies.
Tax loss harvesting (full year focus)	We utilize a 24-hour trading desk staffed by veteran traders across the stock spectrum to systematically target loss positions and offset taxable gains.
Wash sale minimization	We reduce the potential for negation of tax loss harvesting benefits through a total portfolio approach that seeks to avoid repurchase to stocks within 30 days.
Tax-smart turnover	We carefully evaluate the tax lots of tax-managed mutual funds and separate accounts and engage in thoughtful turnover strategies to minimize continuous tax loss harvesting and avoid portfolio lock-up.
Holding period management	We manage assets by carefully monitoring holding periods in order to ensure the differing tax rates on capital gains are considered.
Fund yield management	We strategically seek to reduce dividends to defer taxes, while carefully considering desired portfolio exposures.

TACTIC:
Ensure your financial professional and/or tax accountant has a full-year focus on tax management and works with a partner who does too. Thoughtful due diligence and selection of tax-managed investment offerings can greatly improve after-tax outcomes. Look for tax-managed solutions that take the opportunity to tax-loss harvest throughout the year, that manage a fund's yield and that manage holding periods, to name just a few available strategies. These are some of the strategies that most mutual funds do not consider given their pre-tax focus. Your advisor can run a comparison analysis to see which solution works best for you.

Here are some steps you and your advisor can consider before the end of the year:

1. Review last two years of Form 1040 to better understand impact/ source of investment taxes

2. Do you know your possible loss/ gain situation heading into year-end? Market volatility may offer the chance to switch to a tax-managed approach with little or no tax impact.

3. Do you know your marginal and average tax rates? Don't forget state taxes. Any circumstances that might cause these to materially change?

4. Do you know when your investments distribute gains? Year-end? Mid-year?

5. Do you have out-of-favor investments and have been reluctant to sell because of the possible tax hit?

6. Make sure your advisor considers all of your investment accounts to see the full picture and does a complete analysis.

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.

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 report.

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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.

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).

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

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

The Morningstar categories are as reported by Morningstar and have not been modified.

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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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