

Income Dividend Distributions

Why do they vary from period to period and fund to fund?

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Investors often rely on income dividend distributions from mutual funds to satisfy their income needs. Market trends may significantly affect the level of income delivered by funds – whether they are fixed income or equity funds. For example, in a low interest rate environment, it is more likely for fixed income funds to have lower income dividend distributions. This article aims to provide investors with the rationale behind the factors that impact income dividend distributions.

Factors impacting dividend distributions

While a fund's strategy generally provides insight into the magnitude of potential dividend distributions (e.g., fixed income funds generally seek to deliver greater income distributions than equity funds), a number of factors make dividend distributions variable from period to period and fund to fund. Those factors are not guaranteed to stay constant for any fund. Further, funds have no ability to estimate cumulative effects of these factors on the rate of future income distributions in any period. The main factors impacting dividend distributions include:

- **A requirement for a mutual fund to distribute 98% of income received** from underlying securities in order to avoid an excise tax. Funds do not intend to “smooth out” their income distributions, and they distribute all the income they have received in a given period.
- **Changing portfolio holdings** that have different income distribution rates and policies over time.
- **Difference in frequency of income distributions** between the underlying portfolio holdings and income distributions by the fund.
- **Currency exchange rates**, which can significantly impact the actual dividends paid for funds with non-U.S. exposure. Any gains or losses as a result of currency exposure are treated as income, rather than capital gains. In addition, aside from any realized gains or losses from currency for non-U.S. securities, the funds are required to mark-to-market currency in the portfolio at the end of each year, meaning the funds realize any currency gains or losses at the end of the fiscal year.

In other words, if a fund has a dividend from a non-U.S. security, that dividend can be completely wiped out by the settlement of another transaction that has a negative currency impact. Simply bringing that cash dividend payment back into U.S. dollars could negate the actual dividend itself due to the fluctuations in exchange rates.

Or conversely, there may have been no dividends paid by any of the underlying securities all year, but a dividend will be declared at the end of the fiscal year through the process of marking to market any currency holding or currency exposure through portfolio holdings in the fund. Therefore, it is not possible to make accurate income distribution estimates because of the nature of currency fluctuations.

- **Tax adjustments**, which are made in the funds until the final 1099-DIV or 1099-INT statements are produced. Therefore, shareholders should not base their tax planning on

the Dividend Announcement or the Capital Gain Estimates. Rather, they should refer to form 1099-DIV or 1099-INT.

- **December income distributions.** Unlike other period income distributions that are based on actual income distributions received during the period, the last income distribution of the year in mid-December includes tax adjustments, as well as an estimate of how much income would be received by the fund in the remainder of the month. It also incorporates any adjustments made during the audit of the fund financials. Therefore, it is unpredictable and may vary significantly.
- **Income distributions for the first period of the calendar year.** Because the mid-December income distributions are based on estimates, any deviation of the estimates from the actual income distributions received by the fund in December after the fund made its last income distribution is accounted for in the fund's income distribution for the first period of the following calendar year. Therefore, the first income distribution of the year is likely to be more variable than others.
- **Share class differences.** When a fund calculates the amount of income distribution in each period, the income received from underlying securities during that period and allocated pro rata to all classes is reduced by the amount of class-level expenses accrued during that period. Therefore, the share classes with higher expense ratios (e.g., Class C Shares) pay lower income distributions than the classes with lower expense ratios (e.g., Class S Shares). In periods when a share class with lower expense ratios has a relatively small distribution, the share class with higher expense ratios may not have any distribution if expenses paid exceed income received by the fund.

What to expect relative to Russell's funds

When looking to Russell Funds as a source of income, advisors should remember that none of the Russell Funds aim to deliver a constant level of income dividend distributions. The Funds have various investment objectives that they often seek to achieve through both income and capital appreciation. Please note that income dividend distributions can be uneven and vary period to period.

Below are some details about how the factors that impact dividend distributions, which are discussed above, apply to Russell's Funds and LifePoints® Funds.

Russell Equity and Real Asset Funds

- **Variability due to changing portfolio holdings.** Over time, portfolio holdings change, and equity securities do not pay consistent income dividends.
- **The last distribution of the year in mid-December may vary from other quarterly distributions more significantly, and some equity funds only pay income dividend distributions annually.** For the funds with quarterly distributions, mid-December distributions reflect actual income received by a fund for the first 2½ months of the quarter plus an estimate for the remainder of the month of December. Also included in these distributions are tax adjustments and adjustments required as a result of the audit of financial statements, reflecting the full year of operations of a fund. Therefore, these adjustments may significantly increase or decrease the mid-December distributions relative to other quarterly distributions.
- **Russell Commodity Strategies Fund.** Due to tax rules and regulations, the gains realized by the Cayman subsidiary are distributed by the Fund as net investment income distributions. Therefore, this Fund's annual income dividend distribution can vary significantly from year to year and in some years be much greater than income distributions for equity, other real asset or fixed income funds.

Russell Fixed Income Funds

- **Variability due to changing portfolio holdings.** Over time, portfolio holdings change, and a fund may hold securities with different income payout rates.
- **The last distribution of the year in mid-December may vary from other monthly distributions more significantly, and the Russell Global Opportunistic Credit Fund pays income dividend distributions annually.** For the funds with monthly distributions, this distribution reflects actual income received by the fund for part of the month of December plus an estimate for the remainder of the month of December. Also included in these distributions are tax adjustments and adjustments required as a result of the audit of financial statements, reflecting the full year of operations of a fund. Therefore, these adjustments may significantly increase or decrease the mid-December distributions relative to other monthly distributions.
- **The distributions at the beginning of February may vary from other monthly distributions more significantly.** Since this is the first distribution of the calendar year, it includes any adjustments necessary to account for the difference between the estimated and actual income distributions received by the fund in the last part of December, after the mid-December distribution was paid. These adjustments contribute to variability of this period's distribution.

LifePoints Funds, Target Portfolio Series, and Target Date Series

- **Variability due to changing portfolio holdings.** The income dividend distributions of the underlying funds are the source of income dividend distributions received by the LifePoints Funds. The LifePoints Funds receive distributions from the underlying funds based on the number of underlying fund shares held by the LifePoints Fund. Therefore, underlying fund allocation changes may result in a change in income distribution rates.
- **Last distribution of the year in mid-December may vary from other quarter distributions more significantly. LifePoints Funds are scheduled to pay any income distributions quarterly.** For the funds with quarterly distributions. The mid-December distributions reflect actual income received by a fund for the first 2½ months of the quarter plus an estimate for the remainder of the month of December. Also included in these distributions are tax adjustments and adjustments required as a result of the audit of financial statements, reflecting the full year of operations of a fund. Therefore, these adjustments may significantly increase or decrease the mid-December distributions relative to other quarterly distributions.
- **The distributions at the beginning of April may vary from other quarter distributions more significantly.** Since this is the first distribution of the calendar year, it includes any adjustments necessary to account for the difference between the estimated and actual income distributions received by the fund in the last part of December, after the mid-December distribution was paid. These adjustments contribute to variability of this period's distribution.

Fund objectives, risks, charges and expenses should be carefully considered before investing. A prospectus containing this and other important information can be obtained by calling 800-787-7354 or by visiting www.russell.com. Please read the prospectus carefully before investing.

Please remember that all investments carry some level of risk, including the potential of principal invested. They do not typically grow at an even rate of return and may experience negative growth.

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Bond investors should carefully consider 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.

Exposure to the commodities markets may subject the Fund to greater volatility than investments in traditional securities, particularly if the investments involve leverage. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates or sectors affecting a particular industry or commodity and international economic, political and regulatory developments. The use of leveraged commodity-linked derivatives creates an opportunity for increased return, but also creates the possibility for a greater loss.

The LifePoints® Funds are a series of fund of funds which expose an investor to the risks of the underlying funds proportionate to their allocation. Investment in LifePoints Funds involves direct expenses of each fund and indirect expenses of the underlying funds, which together can be higher than those incurred when investing directly in an underlying fund.

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