

# Principles of internal governance and asset stewardship



## Introduction

Russell Investments is a premier investment solutions partner, dedicated to improving people's financial security.

With more than 80 years of experience, Russell Investments offers investment solutions in 31 countries and manages A\$409.4 billion in assets (as of 31 March 2019).

We specialise in multi-asset solutions, scouring the globe for investment strategies, managers and asset classes to deliver to its clients around the world.

This document provides information on our organisational and investment approach, internal governance and asset stewardship in accordance with the Financial Services Council Standard 23.

## Organisational and investment approach

### 1. Our ownership, management and governance structure

Russell Investment Management Ltd (RIML) is an Australian-owned entity and is part of the Russell Investments global group of companies. Russell Investments' ownership is composed of a majority stake held by funds managed by TA Associates with minority stakes held by funds managed by Reverence Capital Partners and Russell Investments' management. RIML is a Responsible Entity of numerous managed investment schemes in Australia as well as providing investment management, implementation and consulting services to clients.

At Russell Investments, our people are dedicated to exceeding our clients' expectations. Within Australia, Russell Investments has a Chief Executive who is supported by a senior management team covering all aspects of our business. The senior management team in Australia report to their relevant business unit heads on the Global Executive Team of Russell Investments.

Investment personnel - covering Equities, Multi-asset, and Fixed Income - report to the Australasian CIO. The Senior Portfolio Managers globally, including the Australasian CIO, report into the Head of Portfolio Management, part of the global Managing Director Team. The Global CIO is the direct report for the Managing Director Heads, comprising the Heads of Research, Implementation, Alternative Investments, Proprietary Strategies, Portfolio Management, and Strategy.

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Our management structure is designed to provide clear pathways from each region to connect Russell Investments at our global level. It allows for efficiency in delivering a global strategy that is adaptive to each region around the world.

## 2. Our investment approach

Russell Investments' approach brings the world's leading managers and strategies together—in a diversified, adaptive and efficient portfolio—aimed at achieving our clients' goals.

As a starting point, we focus on the real goals of investors and then build portfolios for them with the appropriate content and strategies.

In doing this, we draw on the following:

- **Our evidence-driven approach**

We believe smart decisions are grounded in timely research and insights, so we inspect and analyse key factors affecting our clients' desired outcomes and seek to create and adjust strategies to help them attain these.

- **A unique combination of core capabilities**

To create multi-asset solutions, we draw from capabilities created and integrated in response to investors' needs through our offering of **capital markets insights, manager research, asset allocation, portfolio implementation and factor exposures.**

- **An open-architecture approach**

We believe an effective multi-asset portfolio is built from some of the best global strategies. We don't try to do everything in-house, rather we put our efforts into researching independent money managers from around the world – with the goal of finding top performers – then combining those manager products into the strategies within our portfolios.

- **Efficient portfolio management**

Multi-asset portfolios are complicated by their very nature. More moving parts requires greater expertise in the trading activities of portfolio management. We focus on keeping our clients' portfolios hard at work.

## 3. Our purpose and values

Russell Investments' primary purpose is to improve people's financial security.

We are an asset management firm with a consultative, client-centric core. We are unwavering in our fiduciary purpose and intellectual objectivity. Our focus is on identifying and solving our clients' needs with industry-leading after-fee, risk-adjusted solutions. We deliver results to clients through a combination of direct management and unparalleled best-of-breed investment manager access.

**We have four core values that underpin our approach, as follows:**

- We behave with non-negotiable integrity.
- We value our people and are dedicated to fostering a meritocracy. Our pillars are inclusivity, humanity, fairness, hard work, creativity, teamwork, fun, and humility.
- We play to win by exceeding client expectations and executing with a sense of urgency and purpose.
- We are passionate investors who embrace intellectual curiosity and rigour.

## 4. Managing client assets and conflicts of interest

Processes are in place for ensuring our clients' assets are managed in accordance with their investment objectives and strategies. As part of the client on-boarding process, documentation is prepared of investment objective/strategy and any investment restrictions imposed by the client.

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Russell Investments has processes to ensure that client/fund portfolios are monitored for compliance with investment guidelines and positioning expectations having regard to the relevant portfolio objectives. Also, for portfolios out of compliance with guidelines, appropriate actions are taken within the relevant thresholds and guidelines approved by the pertinent governance structure.

Russell Investments has gone to great lengths to create an environment and system of controls to help identify and manage any actual and potential conflicts of interest.

We have a *Conflicts of Interest Policy* which complies with regulatory requirements and outlines the steps that associates must follow when dealing with issues in which potential conflicts of interest exist or could be perceived to exist. These include, but are not limited to, how such conflicts are identified, managed (and/or avoided), recorded, and where necessary, disclosed to clients. This adherence is required by all associates as set out in the Russell Investments *Global Code of Conduct and regional Code of Ethics*.

In addition to our *Conflicts of Interest Policy*, our business integrity is maintained through a combination of the following elements which help to ensure that conflicts are managed:

- Firm Culture – Russell Investments requires its employees maintain high ethical standards. We believe an organisation’s integrity is the sum of the integrity of each of the individuals it employs.
- Organisational Structure – Russell Investments maintains an organisational structure with reporting lines that are conducive to the management of potential conflicts of interest.
- Compensation Practices – Russell Investments ensures its compensation practices align the interests of Russell Investments associates with those of its clients.
- Information Systems – Appropriate information barriers (i.e. firewalls) exist among Russell Investments’ business units to ensure confidential client and business information is secure and not used for unauthorised purposes.

## Internal governance

### 5. Ethical conduct and professional practice

Russell Investments has a *Global Code of Conduct and regional Code of Ethics* (collectively “the Code”) that applies to everyone that works for Russell Investments. The Code is designed to support our value statements, protect the interests of our clients, and reinforce our reputation for non-negotiable integrity by avoiding even the appearance of impropriety in the conduct of our business.

The Code summarises the values and standards of conduct which Russell Investments believes are critical to our continued success and addresses the following topics:

- Conflicts of interest
- Gifts and entertainment
- Personal trading
- Privacy and data security
- Confidentiality
- Insider trading
- Outside business affiliations
- Anti-Money Laundering
- Anti-Bribery

All Russell Investments associates are required to attest to compliance with the Code on commencement of employment and thereafter on an annual basis.

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## 6. Personal trading

As noted above, the Code governs personal trading by Russell Investments associates.

Russell Investments uses an external system to manage personal trading compliance by associates.

Associates must generally comply with certain rules in relation to personal trading, as outlined below. The purpose of these policy requirements is to ensure that personal trading is conducted appropriately and to minimise legal, regulatory and reputational risks:

- Reporting and maintaining details of their personal securities accounts in the external system, both initially as a new starter and annually on an ongoing basis, to ensure transparency.
- Applying for pre-clearance of trades and submitting broker confirmations post trading.
- A 60-day limitation on purchases and sales of securities.
- Prohibition on insider trading and front running.

## 7. Management of conflicts of interest and our clients' interests

For an explanation of Russell Investments' approach to conflicts management, see section 5 above.

Russell Investments' policy is to treat all Russell Investments clients equitably (regardless of whether they are internal or external). A key measure to ensure this outcome is through Russell Investments' application of policies and procedures in a uniform way to all clients.

It is our policy to earn business based on the quality of our products and services and to select and manage its service providers on the same basis. We do not provide or solicit gifts, entertainment or other items of value for the purpose of unduly influencing the recipient's judgment. This policy applies to gifts, entertainment, events and charitable contributions.

Russell Investments is subject to various regulatory and industry organisations that have policies and rules that need to be considered when giving or receiving gifts and entertainment. We are also aware that many of our clients and prospects have their own strict policies on the giving and receiving of gifts, entertainment and other contributions. Our gift and entertainment policies and relevant reporting and approval procedures are set out in the Code.

## 8. Risk Management and Compliance

Russell Investments' *Risk Management Framework* is governed by our Global Risk Management organisational unit which, consistent with best practices and regulatory requirements, sits independently from both manufacturing and go-to-market functions.

The Chief Risk Officer leads the team and there are 4 large functional groups; Investment risk, Credit risk, Operational risk and Internal audit/Operational due diligence.

The Compliance function operates alongside Risk Management and also reports globally, through to the General Chief Compliance and Regulatory Officer and ultimately the Chief Operating Officer.

The Compliance function provides advice, training and education regarding financial services regulation to business units and senior management and monitors and reviews business activities with respect to such regulation. The Compliance function protects and promotes Russell Investments' reputation for non-negotiable integrity while partnering with our business units to exceed client expectations and ensure regulatory obligations are met through appropriate compliance programs. Compliance coordinates with Legal, Risk, Internal Audit and other groups as appropriate to ensure that potential compliance risks and liabilities are identified, escalated and appropriately addressed.

The *Risk Management Framework* is supported by an established governance framework and where necessary the Board of Directors for each entity is supported by sub-committees including investment committees, audit committees and risk and compliance committees. While the structure for risk accountability is decentralised across different entities, the Risk, Compliance and Internal Audit functions share a central role in setting policies and processes including those included in this framework.

Russell Investments operates a 5 lines of defence model. This roles and responsibilities are visually reflected in the diagram below:

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Boards
Executive Management
Internal Audit
Risk and Compliance
Business Units

## 9. Error Correction Policy

Russell Investments' *Risk Management Framework* is in place to support the proactive management of risk by providing accurate and consistent information for decision making and defining accountabilities.

It is Russell Investments' policy to identify, escalate, and resolve, within a timely manner, events that could potentially cause financial, reputational, or regulatory risk to Russell Investments, Russell Investments' funds, and/or its clients.

In the case of a trading error, Russell Investments has developed robust error escalation protocols for timely identification, remediation, review and oversight. Should an error cause a financial impact to a client, Russell Investments will work closely with the client to assist in obtaining reimbursement from the accountable party.

These protocols are contained within the Russell Investments Global Event Escalation Policy and Process together with the *Risk Management Framework*.

In the case of a fund unit pricing error, Russell Investments has a policy to which sets out how unit pricing errors are to be corrected and compensated. This policy is intended to be consistent with FSC Standard 17 *Incorrect Pricing of Scheme Units – Correction and Compensation*.

## 10. Brokerage and Commissions

Russell Investments delegates some portions of our investment functions to other investment managers, including a related party investment manager/broker. We have investment management agreements with all our investment managers, under which we require the investment managers to select brokers and dealers which they reasonably expect to obtain the best execution for the portfolio being managed, regardless of whether these trades are placed with brokers related to us or not. Russell Investments may receive commissions and other benefits (e.g. research) from brokers in respect of trades for a fund. These benefits may flow to the fund and to other funds managed by us.

Russell Investments may request that some or all of those investment managers execute a portion of their trading activity on behalf of the RIML Funds through the correspondent broker network of the Broker Administrator for the purpose of Russell Investments obtaining commissions or research, provided the research aids us in our investment decision-making process and benefits the Funds.

Russell Investments has a *Brokerage Arrangements Policy* that governs our alternative brokerage arrangements (Soft Commission and Commission Recapture Program). We will engage in soft commission arrangements with brokers only to the extent such arrangements are beneficial to our clients, in accordance with our fiduciary obligations to them and consistent with regulatory and FSC guidance. Reports on alternative brokerage arrangements are regularly provided to the RIML Board.

Russell Investments has a Soft Commission Committee which is responsible for the oversight of our use of soft commissions and reports to the RIML Board in this regard.

## 11. Equitable asset valuation and pricing

Asset valuation at Russell Investments is done in accordance with the principles outlined in the *Securities Valuation Policy*. The policy provides for securities to be market-valued or fair-valued on a timely basis. The policy is owned by the Securities Valuation Committee, who assess valuation considerations on a regular basis, and is responsible for administering and monitoring

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implementation of the policy. RIML adopts valuation and pricing practices that comply with FSC Standard 8 *Scheme Pricing* and FSC Standard 9 *Valuation of Scheme Assets*.

## 12. Best execution and trade allocation

Russell Investments has in place *Best Execution Policies* and *Procedures* which aim to achieve best execution for all clients regardless of the client and venue involved. This may mean trading with one or many of our counterparties. In addition, as an investment manager, we have a fiduciary obligation to ensure best execution for all clients.

Russell Investments seeks to achieve the best transaction terms available under the circumstances at the time of the trade. A full examination of best execution involves the qualitative and quantitative assessment of many factors beyond trade results including, but not limited to, client trading intentions, information leakage and operational / settlement efficiency.

Best execution is crucial to the investment outcomes of our portfolio management activities and we monitor counterparties on an ongoing basis for changes in their risk profile, for price quality and for operational effectiveness. Trade allocations are adjusted based on the results of these analyses.

It is the policy of Russell Investments that investment decisions shall be made consistent with the investment objectives, guidelines and restrictions of our clients. Furthermore, trades are to be allocated fairly and equitably among accounts participating in each transaction, taking into consideration the objectives, restrictions, investment strategy, asset allocations and benchmarks of each client.

## 13. Remuneration policy

Our success as a company depends on our ability to successfully engage talent through a combination of career opportunities, a productive work environment and competitive compensation. Our compensation programs are intended to attract, retain and motivate associates who can utilise their knowledge, expertise, business acumen and leadership skills to serve our clients effectively.

Additionally, our compensation programs aim to:

- Link a meaningful portion of associates' total compensation to Russell Investments' financial and operational performance, as well as the associate's individual performance;
- Control fixed costs by ensuring that compensation expense varies with profitability, and supports the firm's financial strength;

The firm's incentive compensation programs are also intended to support Russell's business strategy, long term interests and values, and to incentivise behaviours which are within the firm's targeted levels of risk.

Russell has a "Total Compensation Philosophy", which means that the firm takes all elements of an associate's compensation into account in determining and communicating their overall remuneration package. Total compensation consists of the following key elements:

- Base Salary
- Incentive Compensation
- Commission Payments
- Retirement and Other Benefits

## 14. Whistleblowing

Russell Investments has a confidential Ethics Hotline for associates (and other eligible whistleblowers) to report any actual or suspected instances of unethical or illegal conduct, auditing matters or violations of company policies on the part of another associate, contractor or vendor. Every effort is made to ensure confidentiality while still allowing matters to be properly investigated and resolved. Retaliation against an individual who in good faith reports any actual or suspected violation is strictly prohibited.

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The Ethics Hotline is available 24 hours a day, every day, including holidays. Calls may be made on an anonymous basis if desired.

## 15. Training and development

Russell Investments ensures that it hires suitably qualified and experienced people and provides them with appropriate ongoing professional development and training. Russell Investments actively encourages training and further educational studies for associates. All staff undertake formal annual objectives setting followed by semi-annual performance review with their manager. An important aspect of these processes is to identify any specific or general professional development and training needs for the individual. Russell Investments also encourages the professional development of staff via supporting their attendance at conferences, seminars.

Russell Investments also has a *Compliance Training Policy* that details mandatory training requirements for associates.

## 16. Complaints and dispute resolution.

Russell Investments has a *Policy and Procedure for Complaints Handling* that adheres to the guiding principles outlined in ASIC Regulatory Guide 165 – *Licensing: Internal and external dispute resolution* and the Australian Standard AS ISO 10002-2006 *Customer Satisfaction – Guidelines for complaints handling in organisations*.

We are committed to promoting customer satisfaction by encouraging feedback from customers, including complaints. We view complaints as a useful tool for receiving feedback and giving us the opportunity to improve and maintain confidence in our products and services.

Russell Investments is committed to resolving complaints received and recognises the rights of complainants to have their complaint dealt with fairly, effectively and efficiently.

Russell Investments is also a member of an external dispute resolution scheme, which investors can contact if we have not resolved an issue to their satisfaction. The scheme we are currently a member of is the Australian Financial Complaints Authority.

## Asset stewardship

### 17. Monitoring of company performance

Whether through the proxy voting process (see section 20 below), engaging directly with companies, or collaborating with other industry leaders, Russell Investments is actively working to increase shareholder value as we support and foster positive change. We publish annually a Proxy and Engagement Report which is provided to clients to demonstrate our active ownership activity.

Being an engaged shareholder is an important component of Russell Investments' active ownership responsibilities. Russell Investments is uniquely positioned to utilise multiple levels of corporate engagement. This includes engaging with the investment managers that sub-advise our portfolios to obtain multiple opinions on a security, as well as engaging directly with management teams of companies we own. Our investment managers have, in many cases, intimate knowledge of the companies that they invest in and multiple direct engagements with these companies on a host of issues, Environmental, Social and Governance factors included. They actively pursue change that generates value creation and/or risk mitigation.

### 18. Company engagement

In addition to leveraging the manager relationships, as mentioned above, Russell Investments directly engages with companies on a host of topics via our Corporate Engagement Committee. While this has been an ongoing component of Russell Investments' active ownership activity, as part of becoming a UNPRI signatory in 2009 Russell Investments has built a more explicit and organised engagement effort. Russell Investments is committed to its active ownership responsibilities and views it as a primary component of being a responsible investor.

Russell Investments believes that it is our responsibility to monitor the effectiveness of company management, exerting influence on environmental, social, and governance practices through the

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exercise of our proxy voting rights and shareholder engagement activities. Because governance issues tend to have a strong impact on overall shareholder value, a large portion of our engagement activities are centred on alignment of management with shareholders, executive compensation, and shareholder rights. We believe that taking an active interest in these issues is ultimately in the best interests of our clients.

We are incorporating monitoring of outcomes into our practice and by 2020 will be tracking outcomes, with the potential to escalate these if they are unsatisfactory.

## 19. Approach to Environmental, Social and Governance (ESG) factors

Russell Investments has a firm commitment to responsible investments which is integrated across our business. Our policy is to incorporate responsible investing in our investment manager evaluation process, our portfolio management, our advisory services, and through implementing proprietary solutions as desired by clients. We have a formal *Responsible Investment Policy* as well as a document outlining our *ESG Beliefs and Practices*.

As a United Nations Principles of Responsible Investing Signatory since 2009, Russell Investments recognises the importance of ESG issues to our clients and is committed to a continual capability enhancement in partnership with our clients and other industry organisations.

Russell Investments incorporates responsible investing in its funds via a ranking system in the manager research process. Our analysts conduct ESG-related due diligence on our managers' investment processes including the firm's UNPRI signatory status, the existence of an ESG investment policy, the extent of policy implementation, the depth of dedicated ESG resources, and the strength of ESG-related product offerings. They then assign a proprietary, peer-relative ESG disaggregated-rank which is then incorporated into our overall view of the investment manager.

Russell Investments' portfolio managers select their active managers from among those ranked highly by our manager research teams. Our favoured portfolio implementation is to select our preferred portfolio managers, and, where appropriate, work with them to achieve responsible investing goals. For portfolios, where responsible investing is explicitly targeted, portfolio managers will work closely with manager research, quantitative research and subject matter experts to ensure the achievement of these targets.

## 20. Proxy voting

Russell Investments has an approach to proxy voting that complies with FSC Standard 13 *Voting Policy, Voting Record and Disclosure* and is set out in the Russell Investments *Proxy Voting Guidelines and Policies* which can be accessed on our website at <https://russellinvestments.com/au/about-us/responsible-investing>. These Policies are designed to ensure that proxy voting decisions are made in accordance with the best interests of clients.

We have built a robust proxy voting and governance process over the last 30 years geared to engagement on issues related to ESG factors. The Proxy Committee and Proxy Voting Guideline Subcommittee meet regularly to ensure that our Proxy Voting Guidelines are aligned with current best practices regarding voting on ESG issues.

We believe that exercising voting rights is an essential part of the value creation process. It is also necessary for ensuring strong corporate governance and protecting shareholder value. Striving to enhance and protect shareholder value, as well as minority shareholder rights, is of critical importance. Through our proxy voting process, we are actively working to increase shareholder value as we initiate positive change.

Russell Investments believes that shareholders have a responsibility to monitor company management and exert their influence through the exercise of voting rights. We vote the vast majority of issues raised at company meetings, the exceptions being where there are restrictions placed on trading of voted securities (share blocking), impediments such as power of attorney requirements, and late receipt of proxy materials.

## 21. Collaborative engagement and policy advocacy

Russell Investments sponsors and supports numerous initiatives and participates in multiple working groups in pursuit of our beliefs, policies and practices as well as our clients' ESG-related investment goals.

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This enables us to advocate for policy positions and initiatives in line with our beliefs and those of our clients.

These include:

- **The Financial Services Council**
- **UNPRI**
- **Institutional Investors Group on Climate Change (IIGCC)** – Russell Investments recently presented carbon footprinting methodologies for an IIGCC-specified portfolio with two other ESG data providers.
- **Shareholder Association for Research and Education (Share)** -- Survey participant.
- **Sustainable Accounting Standards Board** -- Ongoing participation.
- **Fund Executives Association Limited** -- Major sponsor of FEAL's annual conference, actively contributing to the agenda and content. We provide two speakers and committee involvement.
- **Taskforce for Climate-related Financial Disclosure (TCFD)**—signatory

## 22. Client engagement, education and communication

Russell Investments publicly discloses information on our website regarding aspects of our approach to asset stewardship, including corporate governance, responsible investing, corporate responsibility and proxy voting. More information can be accessed here:

<https://russellinvestments.com/au/about-us/corporate-responsibility>

Included on our webpage are voting disclosures with search capabilities by fund or security which are updated annually. Internally, we report all active ownership activity on a quarterly basis to our Proxy Committee. Our activities and research are then published in our Proxy and engagement report and posted to our responsible investment page on an annual basis. In addition to providing this report, we provide active ownership information to our clients as requested.

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