

30 September 2022

Dear Investor

RUSSELL INVESTMENTS FUNDS

Changes effective from 30 September 2022

We have made changes to the investment strategies of the Russell Investments International Bond Fund - \$A Hedged and the Russell Investments Emerging Markets Fund. The changes relate to ESG considerations and are described below.

Investment strategies:

Russell Investments International Bond Fund - \$A Hedged

Investment strategy[^]:

The Fund invests predominantly in debt securities issued by supranationals, international governments, quasi-governments, agencies and corporates as well as structured credit securities including mortgage and asset backed securities. The Fund may also be exposed to low grade or unrated debt securities, emerging markets and currency to a limited extent. The Fund promotes a reduction in carbon footprint exposure, mainly by excluding companies identified as having a relatively high exposure to carbon-intensive thermal coal activities. The Fund also invests in corporations which follow good governance practices by international standards, including company responsibility, company management and the severity of impacts on stakeholders and/or the environment. Derivatives may be used to obtain or reduce exposure to securities and markets, to implement investment strategies and to manage risk. Foreign currency exposures are largely hedged back to Australian dollars, apart from those foreign currency exposures which are utilised to generate excess returns from active currency management.

[^] For further information on how the Fund promotes a reduction in carbon footprint exposure and good governance practices – refer to the *ESG considerations* section below.

Russell Investments Emerging Markets Fund

Investment strategy[^]:

The Fund is predominantly exposed to shares listed on stock exchanges in emerging markets. The Fund may also have exposure to shares listed on stock exchanges in countries which are considered 'frontier' or 'pre-emerging' and to shares listed on developed markets' stock exchanges where the issuer of the security derives a material proportion of its revenue from the emerging markets. The underlying fund seeks to reduce its carbon footprint exposure compared to the Benchmark. The underlying fund will invest in corporations which follow good governance practices by international standards, including company responsibility, company management and the severity of impacts on stakeholders and/or the environment.

[^] The Fund is a feeder fund which gains exposure to these assets by investing substantially all of its assets in the Russell Investments Emerging Markets Equity Fund, which is managed by a related party of RIM and domiciled in Ireland. For further information on how Russell Investments reduces carbon footprint exposure and its good governance practices for the Fund refer to the *ESG considerations* section below.

ESG considerations:

All Funds

Russell Investments' policy is to, where relevant, integrate responsible investing into our investment manager evaluation and our portfolio management processes.

Russell Investments employs a disaggregated ranking system in its manager research process. It incorporates factors that we believe impact third party investment managers' ability to generate returns for our clients. We have an environmental, social and governance rank (ESG), which considers labour standards and environmental considerations. This rank is incorporated into our:

1. manager evaluation process to determine whether the investment manager appropriately assesses the risk and return impacts of ESG issues on individual portfolio holdings and the overall portfolio construction process; and
2. overall view of the investment manager.

Russell Investments also seeks to identify and assess financially-material sustainability risks on an ongoing basis within portfolios. Potential risks are identified using available metrics and in communication with third party investment managers. If a potential sustainability risk is identified, one or more of the following actions may be taken:

1. Review of the drivers or sub-components of any metrics behind the highlighted risk;
2. In-depth discussion with the third party investment manager supporting the holding; or
3. Consider active ownership engagement options.

Russell Investments may identify securities held by a Fund from time-to-time that do not meet its investment criteria. Unless otherwise specified for the Fund, when Russell Investments becomes aware that such securities are held by the Fund, it will divest those securities within 60 days.

In the case of the Russell Investments Emerging Markets Fund, which is a feeder fund into the Russell Investments Emerging Markets Equity Fund managed by a related party of RIM and domiciled in Ireland, divestment of securities held by the underlying fund that do not meet investment criteria will be undertaken by the underlying fund in accordance with the underlying fund's rules and requirements.

For additional information, refer to <https://russellinvestments.com/au/about-us/responsible-investing>.

Russell Investments International Bond Fund - \$A Hedged

The Russell Investments International Bond Fund - \$A Hedged promotes a reduction in "Carbon Emissions". This is primarily achieved by excluding investments in all "Prohibited Coal Companies". These companies have been identified by Russell Investments as having a relatively high exposure to carbon-intensive activities.

The Russell Investments International Bond Fund - \$A Hedged has a "Carbon Footprint" reduction target of at least 20% in respect of the "Corporate Debt" portion of its investments. The Carbon Footprint reduction target will primarily be met by excluding the Prohibited Coal Companies from investment. If, however, following the application of the exclusions policy, the Russell Investments International Bond Fund - \$A Hedged has not met its Carbon Footprint reduction target, Russell Investments will evaluate the Carbon Footprint of all remaining investments of the Russell Investments International Bond Fund - \$A Hedged and will take measures to ensure that its holdings are adjusted to sufficiently reduce its Carbon Footprint in order to meet its Carbon Footprint reduction target.

The Russell Investments International Bond Fund - \$A Hedged does not currently have Carbon Emissions reduction targets in respect of its non-Corporate Debt investments, due to

the low Carbon Emissions data coverage rates available for these investments. If Russell Investments becomes satisfied that sufficiently reliable Carbon Emissions data is available for any other portion of the Russell Investments International Bond Fund - \$A Hedged investments, the carbon reduction targets may be revised to incorporate the Carbon Emissions resulting from these investments.

For the purposes of implementing the carbon exposure reduction strategy and evaluating the carbon exposure of an investee company, the Russell Investments International Bond Fund - \$A Hedged will utilise third-party Carbon Footprint data sourced from independent vendors, as well as publicly available information, which may include company reports.

Russell Investments Emerging Markets Fund

The Russell Investments Emerging Markets Fund is a feeder fund which gains exposure to assets in accordance with its investment strategy by investing substantially all of its assets in the Russell Investments Emerging Markets Equity Fund, which is managed by a related party of RIM and domiciled in Ireland.

The Russell Investments Emerging Markets Equity Fund applies a “Decarbonisation Overlay Strategy”, which is a Russell Investments proprietary quantitative overlay strategy forming part of the investment policy of the Russell Investments Emerging Markets Equity Fund. The Decarbonisation Overlay Strategy uses quantitative data relating to “Carbon Footprint” and involves an assessment of the involvement in the extraction of coal of each constituent of the Benchmark to enable Russell Investments to evaluate the carbon exposure of a particular constituent of the Benchmark. Following the selection of the equity securities by Russell Investments, in accordance with the investment policy of the Russell Investments Emerging Markets Equity Fund, the Decarbonisation Overlay Strategy is applied to identify those securities that will allow the Russell Investments Emerging Markets Equity Fund to reduce its carbon exposure compared to the Benchmark.

Using the Decarbonisation Overlay Strategy, Russell Investments will seek to reduce the Russell Investments Emerging Markets Equity Fund’s exposure to companies which engage in carbon-intensive activities or which have a significant Carbon Footprint. The Decarbonisation Overlay Strategy uses a systematic optimisation strategy to: (i) exclude all “Prohibited Coal Companies” (which are prohibited from being held by the Russell Investments Emerging Markets Equity Fund); (ii) evaluate the carbon exposure of investee companies; and (iii) adjust the holdings of the Russell Investments Emerging Markets Equity Fund to reduce its aggregate carbon exposure relative to the Benchmark.

The carbon exposure of a company (referred to in (ii) above) is evaluated using third-party Carbon Footprint data, as well as data relating to the involvement of the company in the extraction of coal. Based on this evaluation, the Decarbonisation Overlay Strategy adjusts the holdings of the Russell Investments Emerging Markets Equity Fund to reduce its aggregate carbon exposure relative to the Benchmark. At a minimum, the portfolio of the Russell Investments Emerging Markets Equity Fund will have no less than a 20 per cent lower aggregate Carbon Footprint compared to the Benchmark.

The Decarbonisation Overlay Strategy is binding and significantly integrated into the analysis undertaken by Russell Investments when making investment decisions in respect of the Russell Investments Emerging Markets Equity Fund. Russell Investments will use the Decarbonisation Overlay Strategy to assess, measure and monitor the carbon exposure of the Russell Investments Emerging Markets Equity Fund, to ensure its investment objectives are achieved.

For the purposes of the Decarbonisation Overlay Strategy, Russell Investments will utilise data sourced from independent vendors, as well as publicly available information, which may include company reports.

United Nations Global Compact Principles

Both the Russell Investments Emerging Markets Equity Fund and Russell Investments International Bond Fund - \$A Hedged will invest in corporations which follow good governance practices by international standards.

Russell Investments utilises the services of a highly reputable third-party data provider to identify corporations which are aligned to the United Nations Global Compact Principles (“UNGC Principles”) and are therefore deemed by Russell Investments as having good governance practices. This identification process includes a holistic assessment of core metrics for measuring good governance, including company responsibility, company management and the severity of impacts on stakeholders and/or the environment. Russell Investments’ default position, as regards the selection of investments, is that the Russell Investments Emerging Markets Equity Fund and Russell Investments International Bond Fund - \$A Hedged will not invest in corporations that are identified as breaching any of the UNGC Principles.

In cases where a corporation is deemed to have breached a UNGC Principle, Russell Investments may elect to initiate an engagement and review process in respect of the relevant corporation’s governance practices. Under this process, Russell Investments will engage with the relevant corporation to understand why a breach of the UNGC Principles has been identified and to promote improvements in the governance practices within the corporation, if deemed necessary. Following this engagement process, Russell Investments may make a determination that the relevant corporation exhibits good governance practices, despite the initial assessment of the corporation, and can therefore form part of the portfolio of the Russell Investments Emerging Markets Equity Fund and Russell Investments International Bond Fund - \$A Hedged.

If a corporation held by the Russell Investments Emerging Markets Equity Fund or Russell Investments International Bond Fund - \$A Hedged is identified as having breached a UNGC Principle following the initial assessment described above, the Russell Investments Emerging Markets Equity Fund or Russell Investments International Bond Fund - \$A Hedged (as the case requires) may continue to hold securities of the corporation, provided that the engagement and review process has been initiated and only until such time as it has been completed. If the relevant corporation refuses to actively engage with Russell Investments or if at the end of the review period the corporation has not demonstrated sufficient good governance practices, Russell Investments (or its appointed money managers) will divest of its holdings in the corporation.

Russell Investments has in place a robust governance process around decisions that are made following each engagement and review process outlined above, with each determination being overseen and managed by the Russell Investments Global Exclusions Committee.

Certain exclusions

Russell Investments recognises the importance of responsible investing and environmental, social and governance issues for our clients. Russell Investments also has processes in place designed to ensure that the Funds listed below do not invest directly in companies which:

1. produce components that are key and dedicated to the production of anti-personnel mines and/or cluster munitions;
 2. manufacture tobacco products; or
 3. are involved, either directly or indirectly, in the production of the core nuclear weapon system, or components/services of the core nuclear weapon system, that are considered tailor-made and essential for the lethal use of the weapon.
- Russell Investments International Shares Fund;
 - Russell Investments International Shares Fund - \$A Hedged;

- Russell Investments Global Opportunities Fund;
- Russell Investments Global Opportunities Fund - \$A Hedged;
- Russell Investments International Bond Fund - \$A Hedged; and
- Russell Investments Tax Effective Global Shares Fund.

The Russell Investments Emerging Markets Equity Fund excludes companies involved in the production of components that are key and dedicated to the production of anti-personnel mines and cluster munitions, or that manufacture tobacco products.

In this section “ESG considerations”, the investment processes described above apply to the Diversified Funds, to the extent that they invest in the Funds described in this section.

Terms:

“Decarbonisation Overlay Strategy” means the proprietary quantitative overlay strategy used by Russell Investments, as the principal money manager of the Russell Investments Emerging Markets Equity Fund, in order to identify those securities that will allow the Russell Investments Emerging Markets Equity Fund to reduce its carbon exposure compared to the Benchmark.

“Carbon Footprint” means Carbon Emissions in metric tons of carbon dioxide equivalent (CO₂-e), divided by company revenue (USD).

“Carbon Emissions” means:

- Scope 1 (direct emissions): activities owned or controlled by an organisation that releases carbon emissions straight into the atmosphere; and
- Scope 2 (energy consumption): carbon emissions being released into the atmosphere associated with consumption of purchased electricity, heat, steam and cooling. These are a consequence of a company’s activity, but which occur at sources the company does not own or control.

“Prohibited Coal Companies” means companies which derive more than 10 per cent of their revenue from coal power generation or thermal coal production, except for companies which either: (i) derive at least 10% of their power generation from renewable energy sources; or (ii) have made a public commitment to divest from their coal-related activities or reach zero emissions by 2050, provided that any such companies derive less than 25 per cent of their revenue from coal power generation or thermal coal production.

“Corporate Debt” means investment grade corporate debt and high yield corporate debt.

“non-Corporate Debt” means debt securities issued by supnationals, international governments, quasi-governments and agencies.

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