

INVESTMENT STEWARDSHIP REPORT

2022



EMBRACE THE POSS/BLE®

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A letter from our President and Chief Investment Officer

I am proud to present our latest Investment Stewardship Report, which underscores our unwavering dedication to enhancing the financial security of our clients in an ever-changing global landscape. The year 2022 witnessed numerous challenges, from Russia's invasion of Ukraine and the ongoing impact of climate change to the persisting COVID-19 pandemic, supply chain disruptions, and rising inflation. In response to these hurdles, our expertise in stewardship and sustainable investing has become more crucial than ever.

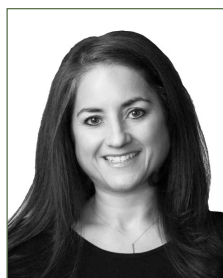
At our firm, we prioritise the integration of financially material ESG considerations into our investment decision-making processes as one of many components, confident that this impact-focused approach best serves the interests of our clients. Over a decade ago, we laid the groundwork for our responsible investing beliefs and practices, but our approach has evolved to encompass enhanced ESG solutions, climate risk management, and stewardship with a persistent focus on creating a framework built for client-led solutions.

Our innovative solutions - which include Article 8-designated products under the EU's Sustainable Finance Disclosure Regulation (SFDR), listed and unlisted infrastructure ESG strategies, sustainable model strategies launched in Australia, and bespoke ESG client mandates - exemplify our commitment to a client-focused approach. These solutions evidence our ability to tailor portfolios that align with investor goals, circumstances, and preferences, ensuring superior investment outcomes.

As we navigate an uncertain regulatory environment and adapt to shifting disclosure and labelling regimes, our firm is well-prepared to meet these challenges, but that is just the beginning. Our solutions are developed and managed by cross-functional teams of experts from quantitative research, portfolio management, implementation, client services, and legal and compliance. This collaborative approach drives transparency in our processes, objectives, and reporting. These experts diligently maintain clear ESG policies, employ common standards and frameworks, engage in active ownership, and cooperate with stakeholders. We recognise the importance of measuring exposures, impact, and progress in achieving client objectives, and consistently evaluate and incorporate new data sets.

Our commitment to ESG investment principles is integral to our pursuit of investment excellence and client success. In 2022, our risk and investment teams responded swiftly and effectively to increased volatility and liquidity risks following the invasion of Ukraine, while our sustainable investing and stewardship experts adapted existing practices to the new global environment. We firmly believe that our investment stewardship approach, which seamlessly integrates sustainability considerations into investment decision making, will remain vital in delivering superior investment outcomes for our clients.

In this context, we are pleased to share our inaugural Responsible Investing Report. This report has been elaborated by the range of ESG experts embedded throughout our organisation and reviewed and approved by me as our President and Chief Investment Officer, as well as the Board of our UK entities. We hope it will be informative to you, and we welcome your feedback and questions.



Kate El-Hillow

President and Chief Investment Officer, Russell Investments



2022 milestones and highlights

Interim target to manage **25%** of our global AUM in line with net zero standards by 2030

Launch of the unlisted infrastructure **ESG strategy**

12 flagship EMEA strategies across equities and fixed income evolved to "Light Green / Article 8" status under SFDR with **\$6.01bn in AUM**

25% increase in the number of associates focused on ESG

UK Stewardship Code Signatory

365 proposals referred to the Active Ownership committee for a vote in 2022

9,949 meetings and **101,293** proposals voted in 2022

Engagement activity breakdown
Environmental 45%
Social 19%
Governance 25%

Sustainable model strategies launched in Australia

TCFD enabled data, tools and capabilities to produce TCFD aligned reporting

6% votes against proxy adviser

411 engagements with 189 issuers

Up to **20 hours** of on-demand training on specific ESG matters

Participated in **5** industry-wide consultations in 2022

13% votes against management

\$34.88bn global assets in ESG approach



What comes next – looking ahead

As committed stewards of our clients' capital, we continue to advance our responsible investing capabilities; integrating and evolving best practices to respond to changing market conditions. Our strategies are developed by experienced practitioners, in alignment with our larger purpose of improving financial security for clients:

Climate risk management

Climate risk management is a developing area in financial markets. We are committed to working in collaboration with other leading industry participants to formulate best practice principles and frameworks. Our enhancements over the next year will include leveraging our partnership with a specialist climate risk provider, integration of additional climate risk metrics into our investment practices, and further collaboration with industry peers. We will continue to provide training to our associates to build familiarity with new and complex systems. Similarly, we recognise that asset-owner clients are eager for more education on climate risk. Looking forward, we will continue to provide outreach and consulting services to help our clients move up the learning curve.

ESG Integration

We have put meaningful resources into improving the data and analytics available to our portfolio managers who seek monitor and manage ESG risks. Among our achievements: streamlining the transmission of ideas and information from portfolio management to active ownership and using improved data and scenarios on climate risk to enhance our asset allocation capabilities. We expect the use of data and the development of analytical tools to continue in 2023.

Our work to strengthen responsible investing practices in fixed income, real assets, private markets, and alternatives also remains a priority. In these non-equity asset classes, while we await standardisation of reporting, our initial due diligence and monitoring compensate for absent and inconsistent data, and across all asset classes our methods of constructing multi-manager ESG portfolios will continue to adapt to client needs and regulatory expectations.

Active ownership

In 2022, we materially increased both the number and quality of our engagements and collaborations in pursuit of engagement outcomes. We also successfully launched an internal information sharing platform that connects our sustainable risk practices with our manager oversight and active ownership efforts. Going forward, we look to deepen our collaborative engagement relationships with investor groups and our sub-adviser partners. We expect that increased internal and external communication will further the success of our engagement objectives, including those which support our clients' net zero goals. We have begun tracking the outcomes targeted by our engagement work, and we will evolve our reporting to highlight this progress.

Transparency and reporting

The improvement of portfolio viewing capabilities and data quality continues to be a critical area of development from a stewardship perspective. Our Enterprise Risk Management System ('ERMS') risk engine is now in use across all our portfolios, enabling total solution analysis for clients, supporting crosscutting multi-lens risk analysis which encompasses multi-asset combinations. We will continue to enhance this dataset and analytic competence to improve client reporting across the board including, but not limited to, ESG metrics and objectives.

While ESG data and metrics have improved considerably in recent years, we believe that gaps still exist. Continued enhancements will contribute to helping clients further understand our stewardship efforts, as well as the risks and opportunities within their mandates.

Solutions

Similarly, evolving and developing new investment solutions is fundamental to addressing our clients' ESG needs. We leverage innovation and industry leading insight to set total portfolio-level direction that aligns to targeted outcomes.

We will continue to monitor the rapidly changing regulatory environment in the EU and beyond, providing choice for clients through both "light" and "dark" green sustainable solutions. This will be supported through expanding our list of recommended ESG products within our sustainable research universe, advancing our market-leading overlay capabilities, and moving beyond carbon-focused metrics to include forward-looking sustainability projections. Increasing our ability to customise and deliver tailored ESG outcomes for clients remains a critical objective, and our global solutions platform is being built with that in mind.

Training and development

To stay at the forefront of sustainable investing, Russell Investments has provided training and development on ESG matters to both our clients and internal associates.

We have made ESG training available to our clients through webinars, conferences, and whitepapers, enabling them to understand the significance of ESG factors in investment decisions. We have also greatly enhanced the internal training provided to our associates. We have developed a comprehensive ESG curriculum that covers foundational ESG principles, analysis, and integration into investment processes. We are fully committed to continuous enhancements and updates of our training. We believe that by providing comprehensive ESG training to both clients and associates, we can continue to meet the changing needs of our clients, enhance our investment processes, and maintain our position as a leader in the investment industry.



1. Russell Investments – Who we are

- ✓ UK Stewardship Code – Principle 1
- ✓ Japan Principles for Responsible Institutional Investors – Principle 1
- ✓ The New Zealand Stewardship Code– Principle 1

1.1 Our purpose

Russell Investments is a global investment firm founded in 1936. Today, it is headquartered in Seattle with operations in the EMEA, North America and Asia-Pacific regions. Russell Investments provides investment management, advisory and implementation (execution) services. As of December 31, 2022, we had over 1,300 associates supporting this delivery and global assets under management (AUM) of USD 276.5bn. Our business is built on the partnerships we develop with our clients, helping them achieve their objectives.

Our organisation's purpose is to improve financial security for people. We seek to bring an unrivalled investment toolkit to bear on our clients' biggest challenges, always with client interests and preferences at the fore. Russell Investments' priority for addressing our clients' most pressing financial challenges is achieved through open architecture outcome-oriented solutions and embedding efficient risk management techniques. This focus drives our business growth and rapid innovation, and it is built on our combination of market-leading capabilities:



Manager Research



Portfolio Implementation



Asset Allocation



Total Solutions Management



Portfolio Construction

Since 1980, the primary business has served institutional and retail clients around the world. Russell Investments works with clients of all sizes, from individuals to smaller organisations to large governmental entities, who desire bespoke solutions and business plans that call for continued focus, investment growth, and innovation.

1.2 Culture

At Russell Investments, our culture is built on a commitment to a foundational set of beliefs and practices. These provide a rich combination of real-world guidance and an overarching ethic within which we conduct our business. These are captured in the following four pillars:

1. Corporate values: Russell Investments' people and values are the foundation of our company and the reason for our long-term success.
2. Sustainable work practices: Our mission is to identify and reduce our impact on the environment by ensuring that our day-to-day procedures are carried out in the most sustainable manner.
3. Diversity, equity and inclusion: We believe that diversity, equity, and inclusion in the workplace drives better performance. Diversity is integral to our long-term growth.
4. Community involvement: We are committed to supporting the communities in which we live and work.

1.3 Values

Our core corporate values are summarised below:



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 rigor.

These values, which are aligned with our purpose, emphasise putting our clients' interests first while nurturing a high integrity, people-oriented culture of innovation, all driving our stewardship practices. Full details of our corporate values can be found [here](#).

Sustainable work practices and community involvement have been central to our corporate practices from the company's inception. We believe that the effective management of diverse ideas and perspectives brings richness to our culture and increases our ability to provide innovative solutions to our clients, while adding value for our shareholders and community. Our efforts to promote diversity, equity and inclusion are detailed in section 7.2 and our corporate social responsibility report, found [here](#).

We recognise that staying committed to our purpose requires not only a strong culture but also disciplined and reinforcing processes focused on oversight and accountability. We provide a detailed description of the governance processes that are currently in place to deliver on this purpose as part of section 3.

1.4 Investment philosophy

Russell Investments' open architecture investment approach was developed during the 1960s, 1970s, and 1980s out of a recognition that the investment management industry lacked a robust standard of stewardship for both institutional and individual investors. As a pioneer of the investment consulting industry, we sought to bring objectivity and fiduciary responsibility to every aspect of building and managing an investment program. As the manager of the first multi-manager funds, our objective was to bring resources, focus and a client-centric view to some of the most important questions investors face - the informed selection and oversight of sub-advisers, cost-and risk-aware portfolio implementation, and the creation of truly outcome-oriented investment solutions.

This approach has significantly risen in popularity over the years. We believe that open architecture investing is an effective approach when done with appropriate care as it enables independent oversight, drives innovation in stewardship practices, enforces greater transparency and accountability among investment managers and service providers, and facilitates the appropriate and consistent incorporation of ESG considerations in every aspect of investment decision making.

Russell Investments has established a set of investment beliefs to provide a transparent and objective framework that facilitates an effective internal decision-making process and guides the delivery of all our investment solutions.

1. **Outcome-orientated investing** – Investment decisions are more impactful when they directly serve the achievement of client objectives, respect for client preferences, and consideration of client circumstances.
2. **Open architecture** – Independent consideration, informed diversification and intelligent implementation of the right asset classes, best investment strategies, and appropriate risk levels give investors the highest chance of success. The ability to identify skill-based and differentiated processes is a critical edge.
3. **Investment discipline** – Investors require rigorous decision-making paradigms, excellent analytical capabilities, and an ability to think and act independently to deliver superior outcomes.
4. **Effective risk management** – Real-time measurement and management of risk must be integrated into the management of portfolios and solutions to ensure well-informed decision-making.
5. **Dynamic portfolio management** – The ability to adapt to changing market conditions is critical to investment success.

6. **Specialisation leads to investment decisions at the point of greatest insight** – Informed and objective assessment of investment excellence is foundational to the success of open architecture, both in selecting sub-advisers and in evaluating and enhancing internal capabilities.
7. **Independent review and control support a strong investment process** – The best investment processes incorporate objective analysis and feedback to identify opportunities to improve.
8. **Responsible investment** – Russell Investments believes ESG factors can have a material impact on investment outcomes.

1.5 Our responsible investing framework

Responsible investing is at the heart of our investment beliefs. As a global investment solutions provider, we believe that investing responsibly can help to deliver attractive investment returns and meet client objectives in the long term. To this end, we execute an integrated responsible investing practice across the firm. This practice is founded on the following set of four core beliefs, codified in 2015:

Exhibit 1: Responsible investing beliefs



Source: Russell Investments, for illustrative purposes only.

Drawing on the core responsible investing beliefs outlined above, Russell Investments has developed formal policies on responsible investing, climate change risk and sustainability risks, which are regularly reviewed to ensure they develop in accordance with market best practice, as described in the "Reviewing Policies and Processes" section of this report. These policies are the foundation of our efforts to efficiently integrate ESG considerations into our investment manager evaluation process, our portfolio management, our advisory services, and when implementing proprietary solutions as desired by clients. Further information regarding how we integrate stewardship and investments can be found in section 4.

1.6 Our history of innovation

At Russell Investments, our service and product set has evolved over time in response to the most pressing threats to our clients' financial security. We have built our business on the strength of a series of innovative products and services aimed at helping institutional and individual investors invest intelligently through an open architecture investment approach. These have promoted better functioning in financial markets by raising standards around the quality and transparency of investment management, as well as the development of powerful tools for investors everywhere.

This began half a century ago, in response to the difficulty pension plan sponsors had in monitoring and evaluating performance, Russell Investments promoted the 'Deitz' method for calculating time-weighted returns, invented by Peter Deitz, the company's first Director of Research. Following on from that success, we pioneered the practice of vetting and evaluating active asset managers on behalf of our clients - the manager research practice that has been our most well-known capability for decades. As we introduced manager research to various markets in Europe and Asia, we were able to establish and spread a de facto global standard of investment excellence by evaluating their investment product according to common criteria and analytical tools. As major clients around the world used our recommendations to determine allocations, this contributed to significant improvements in quality standards and investment practices in the industry.

In evaluating active asset managers, we detected gaps in the available benchmarks in the marketplace. This led to industry-leading efforts to develop styles, style indexing, smart beta and, ultimately, factors. Our innovations in style indexing have established practices, such as transparent selection, float-adjusted capitalisation weighting and comprehensive market coverage, which have been subsequently adopted across index providers. This work was foundational to establishing factors and styles as fundamental to understanding market-wide risk and return.

In addition to these contributions, we were early adopters of global investing and multi-asset portfolios as methods to balance risks and capture market opportunities. Our experience of managing multi-manager portfolios led to new approaches to tackling trading inefficiencies associated with the use of multiple sub-advisers. These retained the benefit of using multiple best-in-class managers while lowering risk and cost and enabling substantial customisation. These innovations have given Russell Investments a birds-eye view into the needs of our clients and consistently reinforced our commitment to improving financial outcomes on their behalf.

We have found many opportunities to protect investors against avoidable cost and implementation slippage. We introduced commission recapture, followed by transition management and the development of the T-standard - a proprietary measure to transparently show the success of a manager transition and its costs. As we continue to innovate our trading practices, we have been asked by our clients and industry partners to engage with regulatory bodies to ensure that the business of investing can carry on with fewer roadblocks and detours, while also assuring appropriate incentive structures and good outcomes for asset owners.

Our innovation in the space of responsible investing has been no less impactful to supporting our clients' outcomes. Our manager research analysts began evaluating active money managers on ESG integration in 2014, and we began researching decarbonisation data and quantitative methods in 2015, enabling the launch of our first low carbon funds in 2017. We continue to evolve our understanding of climate risk, most notably through the use of climate models and scenario analysis, now facilitated by our partnership with the climate model provider Planetrics.

These examples, which are core to our investment approach and services to clients, address clear and present financial risks and have driven improvements in the function of the financial system overall. We hold that our culture, responsible investing beliefs, policies, and practices enable effective processes which serve the best interests of our valued clients, who are described in the section below.



Case study – Our total portfolio focus

As ESG investing has become more complex, Russell Investments' approach has evolved to address those complications for institutional investors. To do this, we prioritise the total-portfolio view within a multi-manager framework. While a decade ago a climate-aware portfolio may have revolved around divesting from fossil fuels, our approach today is much more nuanced.

Outcome

The question, "What is my exposure to fossil fuels?" was comparatively straightforward to measure and deliver. In contrast, today's solutions may include manager strategies that deliver exposures such as:

- Reduced carbon intensity of the portfolio (emissions per unit of revenue)
- High carbon intensity but with increased investments in green technology or better alignment to the EU taxonomy
- High exposure to energy companies but with focus on engaging with companies to set science-based targets. This makes metrics like exposure to fossil fuels high today, but the approach has the advantage of promoting real world progress by engaging with high impact companies

Each of these strategies are "climate-aware" but capturing what has been achieved at a total portfolio is now a more complicated task. Through Russell Investments' unique multi-manager, open architecture platform, we can provide both transparency across the total portfolio, as well as the capability to manage exposures. Our portfolio managers assist clients to take advantage of this evolution in approaches, while still maintaining a focus on outcomes at the total portfolio level.



2. Russell Investments – Who we serve

- ✓ UK Stewardship Code - Principles 4, 5, 6
- ✓ Japan Principles for Responsible Institutional Investors - Principle 6
- ✓ The New Zealand Stewardship Code - Principle 8, 9

2.1 Our clients and assets under management

Russell Investments' focus is on solving our clients' problems, and in doing so we proactively seek their views on stewardship and responsible investing. We take account of our clients' needs through formal surveys as well as more informal feedback at client meetings.

The investment time horizon is a crucial consideration that plays into both the optimal investment solution and the approach to stewardship. The majority of our clients' assets are invested to meet long term objectives. These clients include defined benefit pension schemes, individual retirement savings plans, and insurance company assets, but even within broad groups of clients, the time horizon may vary. For example, for defined benefit clients, the investment time horizon can range from around 10 years for more mature schemes to 30 years or more for younger schemes open to future accrual.

However, our stewardship efforts cover both our retail and institutional client base, as well as all asset classes. For each client, we seek to understand their overarching objectives, attitude to risk, limitations (i.e., liquidity requirements) and time horizon. Our investment process is designed to tailor our products, solutions and stewardship activities accordingly. This point is addressed further in section 2.4 below.

Details of our global client base are provided in the charts below.

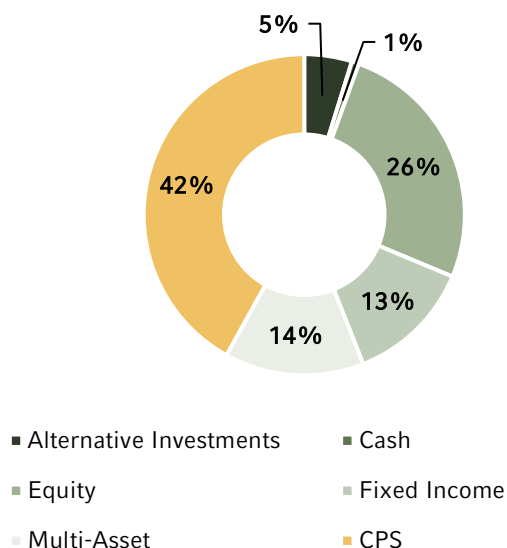
Exhibit 2: Assets under management split by retail vs institutional



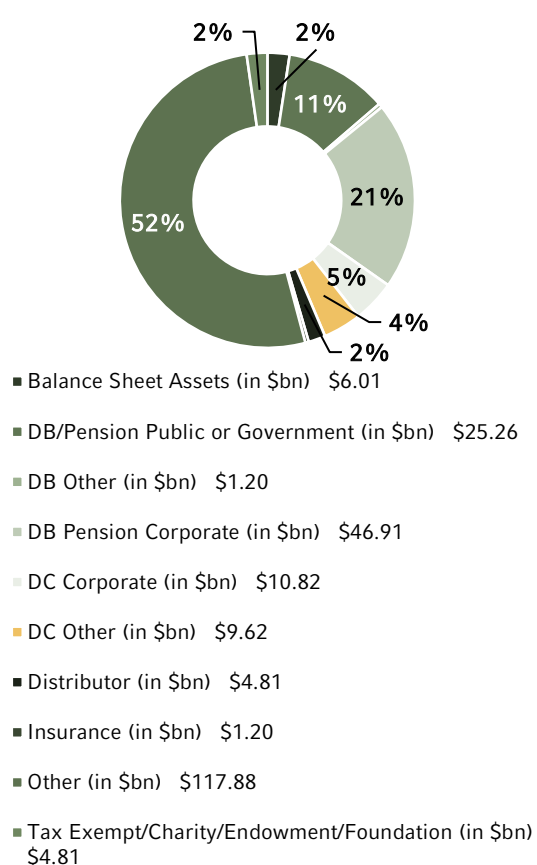
Source: Russell Investments, data as at December 31, 2022. AUM subject to exchange rate conversions and rounding to the nearest \$.

Exhibit 3: Institutional assets breakdown by client type and asset class

Global: Institutional breakdown by asset class



Global: Institutional breakdown by client type

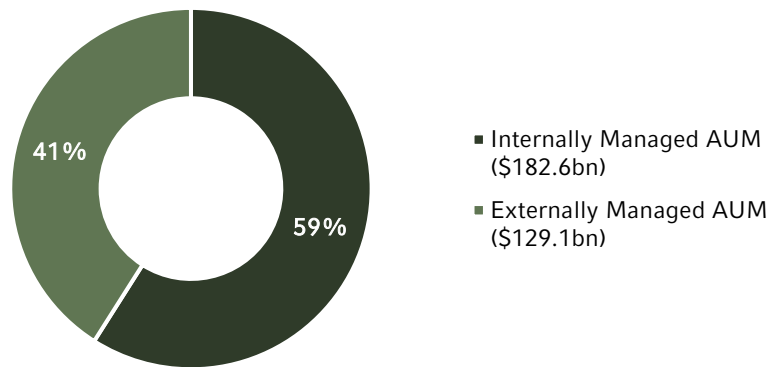


Source: Russell Investments, data as at December 31, 2022. AUM subject to exchange rate conversions and rounding to the nearest USD.

Exhibit 4: Assets under management split by geographies – AUM and number of Clients

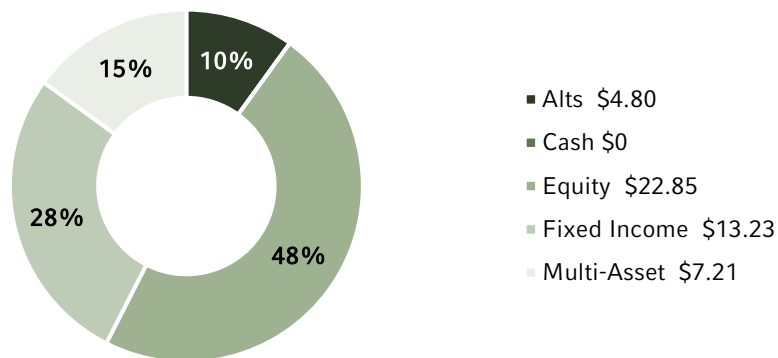
REGION	CLIENT COUNTS	AUM (IN \$BN)	BY AUM	BY CLIENT COUNT
US	132	139.75	51%	36%
Canada	31	7.97	3%	8%
EMEA	79	87.66	32%	22%
Australia & New Zealand	90	22.61	8%	25%
Japan	30	13.30	5%	8%
Asia Ex Japan	5	4.96	2%	1%
Cash Collateral	-	1.94	-	-
Total AUM	367	278.24	100%	100%

Exhibit 5: Assets under management split by internally and externally managed¹



Source: Russell Investments, data as at December 31, 2022. AUM subject to exchange rate conversions and rounding to the nearest USD.

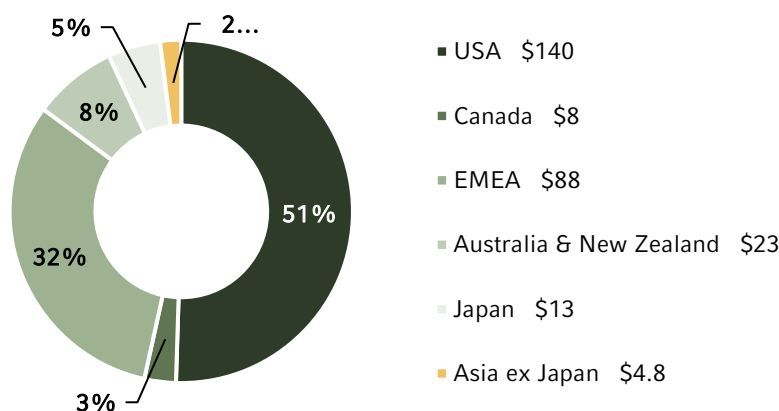
Exhibit 6: Retail assets broken down by asset class (\$bn)



Source: Russell Investments, data as at December 31, 2022. AUM subject to exchange rate conversions and rounding to the nearest USD.

¹ Externally managed assets relate to assets managed by third party investment managers. Internally managed assets related to assets managed in house including that of overlay services mandates.

Exhibit 7: Assets under management split by geographies (\$bn)



Source: Russell Investments, data as at December 31, 2022. AUM subject to exchange rate conversions and rounding to the nearest \$.

2.2 Client communications

Once a client is onboarded, we ensure their assets are managed in line with their goals and expectations through ongoing due diligence updates and regular update meetings. In our experience, interest in stewardship and active ownership matters is growing, and we have made various training sessions available to our client base. Our process for client reporting combines information and knowledge from three separate groups.

- Our globally integrated Investment Division (ID), which has a vast array of core data and analytics used for investment decision making, process monitoring, and regulatory body reporting.
- Business groups servicing our clients in each region who understand specific client reporting needs.
- Our localised compliance and legal teams review client specific reporting before it is released to ensure each report is fair, accurate and in line with local regulatory disclosure requirements.

In practice, applicable data and analytics used by the investment division in its day-to-day decision making is made available to our business teams servicing clients. Depending on the area of reporting, senior members of our ID work closely with our client service teams and clients directly, to help determine the scope, frequency, detail, and format of reporting for each client and how to efficiently pull that together from our core data set. Information is scrutinised at multiple levels by senior members of the ID, including the Investment Practice and Analytics (IP&A) team, client service teams and by local compliance teams, before reports go to clients in specific regions.

Institutional client communication

We want our clients, at all times, to be well informed about the assets under our stewardship. We meet with our institutional client base on a regular basis (quarterly in most cases) and seek to ensure their views are incorporated into our investment and stewardship policy (where appropriate). This policy is updated as and when there is a change to the investment strategy. In addition, we provide our institutional client base with the following sets of reports/statements:



Training

We provide our client base with both ad hoc and scheduled training. Ad hoc training typically takes place at trustee meetings, whereas scheduled training takes place in the form of in-person seminars or webinar sessions. Further details are provided below.



Quarterly performance reports

Bespoke client reports are produced on a quarterly basis and report on the performance of the assets, liabilities and funding level. They also provide details of asset class allocation and performance attribution. In addition, these reports provide details of portfolio positioning and the rationale for any changes that have been made or are planned. Our reports include key ESG metrics (where relevant) – including ESG risk scores and carbon footprint – and we have recently enhanced these to provide clients with a breakdown over time, showing how their portfolios are evolving moving forward.

Equity level ESG report

We offer a detailed ESG report for all equity allocations which sets out the ESG risk score and carbon footprint. Additionally, it provides a distribution of ESG risk scores and details of the highest and lowest ESG scores. Fixed income metrics are also available, and we are developing systems to make these more readily accessible.

Active ownership report

We produce an annual report that showcases in detail our commitment to active ownership, our approach, annual proxy voting statistics and observed trends. We also provide engagement statistics and case studies as well as details of our industry collaborations. In the past this has been produced as a separate report but will now be embedded in our Responsible Investing Report.

Stewardship policies and procedures

All policies and procedures with regard to stewardship are available to our clients on our webpage. These are updated on an annual basis as further detailed in section 7.4.

Annual Implementation Statement

We have worked with our UK institutional client base to produce an implementation statement. This is produced on an annual basis and coincides with the scheme's reporting year-end. This statement reports on how the scheme has complied with the policies and objectives set out in the Statement of Investment Principles.

Retail client communication

Communication with our end-retail customer base differs from the above. Information about our stewardship practices, such as manager and investment research processes and ESG integration and operational proficiency, is made available during the RFP and due diligence review. Once onboarded, the following pieces of information are also available to clients:



Training

We provide informational literature on our website and at periodic events we host to ensure our clients are well informed regarding our investment products, their performance and how they have been affected, or may be affected, by market influences. We also provide training and literature in relation to broader investment outcomes associated with our products; this includes ESG impact.



Fund factsheets

Fund factsheets containing key information about the fund, including performance objective, benchmark, portfolio statistics breakdown (country weighting, volatility, etc.), are made publicly available on our website and via third-party data warehouses (e.g., Financial Express and Morningstar).

Key Investor Information Document (KIID)

In Europe, KIID documents are made available for all funds on our website and via third-party data warehouses and all appointed sub-distributors. The KIID details the fund's objective and investment policy, risk-reward profile, applicable charges and past performance data.

Prospectus

The fund prospectus which contains all fundamental information about the fund, its structure, any management restrictions and a list of available share classes, is made available to all investors and potential investors on our website, third-party data providers and all appointed sub-distributors.

Active ownership report

We produce an annual report that showcases in detail our commitment to active ownership, our approach, annual proxy voting statistics and observed trends. We also provide engagement statistics and case studies as well as details of our industry collaborations. In the past this has been produced as a separate report but will now be embedded in our Responsible Investing Report.

Monthly and quarterly performance reports

In addition to the above-mentioned fund documentation, live performance data is also made available by a number of third parties, including Morningstar and Financial Express. We provide further information around fund management and current holdings to supplement this publicly available data. Clients with significant assets under management may also request bespoke reporting, which we would provide on a monthly or quarterly basis.

2.3 Client training and development

As outlined above, we provide a range of training and development opportunities to our client base to ensure our clients are kept abreast of key industry developments. Our annual training schedule is informed through feedback received through client surveys, as well as topics chosen by our in-house experts. We also provide timely insights and thought leadership content through our blog and regular LinkedIn updates.

In 2022, we hosted a range of webinars, some of which are highlighted below:

Digital summit (EMEA)

At this half-day online event, sessions on the following topics impacting investors included:

- Post-pandemic society changes and the impact on financial security – one-year on, featuring external guest and social futurist Thimon de Jong.
- Our Global Market Outlook for 2022.
- Building a climate focused portfolio, featuring Rt Hon Amber Rudd, former UK Secretary of State for Work and Pensions.

In-person summit (EMEA)

At this full day event, our team were joined by industry professionals for a mix of presentations and panel sessions covering:

- Sustainable investing - integration to impact.
- The changing ecosystem of defined benefit pensions.
- The impact of the LDI crisis.
- How to manage factor exposures efficiently.
- How private market assets can help portfolios in a higher rate environment.
- There is no Planet B, by Prof. Mike Berners-Lee, Sustainability Expert and Best-Selling Author.

Unlisted infrastructure: A refuge in the storm? (EMEA)

With surging inflation and volatility in markets, many investors are turning to infrastructure to help protect their portfolios. But with a growing universe and wide dispersion of returns, how best to navigate the range of options available?

In this webinar, Michael Steingold, Director of Private Markets at Russell Investments discussed:

- How the asset class can fit into investor portfolios.
- The unique challenges faced by infrastructure investors and how to navigate these.
- Where the team currently sees value around the world.

What you need to know - global trends and evolving best practices in ESG investing (New Zealand)

New Zealand investors have been keen adopters of responsible investment practices, but in a rapidly evolving landscape, what should local asset owners, fund managers and advisers be thinking about now?

In this webinar, members of our Global ESG Strategy team discussed:

- Global trends in responsible investing and what this means for local investors.
- Incorporating ESG in manager research and active ownership.
- Current focus areas of ESG research at Russell Investments.

Private Equity International Responsible Investment Forum: What responsible investment means for Japanese investors (Japan)

In this panel session hosted by Russell Investments, invited managers examined:

- How are ESG trends reshaping Japanese investor preferences and affecting their dialogue with fund managers and internal decision making?
- Major priorities and considerations when integrating ESG into investments, from asset allocation to portfolio monitoring.
- How do institutional investors think the priorities will change in the next five years?

How to unwind concentrated stock positions with direct indexing? (U.S.)

In this webinar, our experts discussed a systematic approach to repositioning concentrated stock positions in a custom, tax-efficient manner by using separately managed accounts, covering:

- The risks and challenges of concentrated stock positions.
- A detailed case study of a tax-efficient personalised portfolio transition to direct indexed strategies.
- How we work with advisers to develop a custom transition plan and implement ongoing tax-management.

Global Market Outlook

Quarterly updates sharing our strategists' market expectations throughout 2022.

Reconnect adviser conference (Canada)

At this 2-day event, discussions focused on markets, regulatory updates, and product innovation, including tackling inflation with real assets, understanding client focused reforms and know your product, and the intergenerational wealth transfer.

Japan Stewardship Initiative asset owner online seminar (Japan)

Russell Investments Executive Consultant delivered a keynote address on 'ESG investment approach for asset owners' and joined a panel session on 'ESG Investment Practices and Challenges'.

2.4 Taking account of client preferences

- ✓ UK Stewardship Code - Principle 6, 7
- ✓ Japan Principles for Responsible Institutional Investors - Principle 6
- ✓ The New Zealand Stewardship Code - Principle 3

We pursue integration of stewardship and investment through a process that ensures all key allocation decisions aim to support client objectives, while incorporating an understanding of ESG risks and other factors over relevant time horizons. Every solution starts with an understanding and incorporation of client preferences, and our approach to stewardship and responsible investing is globally consistent, integrated and applied across funds and asset classes. All else equal, clients with the same objectives will be provided with the same investment solution based on our best global investment ideas and insights. However, in creating solutions for a diverse client base, all else is often not equal.

To ensure solutions are optimally engineered to meet clients' objectives, we apply a three-step investment approach referred to as Design, Construct, Manage (DCM). Our responsible investing beliefs and practices infuse and inform each of these three steps through the building blocks of our strategic asset allocation, market and manager research, portfolio management and active ownership capabilities.

Design

Central to the 'Design' step of our investment process is taking client preferences into consideration. We work with investors to establish clear objectives and to fully understand their preferences, constraints, and circumstances. We use this shared knowledge to develop an investment roadmap, or strategic asset allocation (SAA). This SAA is built around not only required investment returns, but also time horizons, risk appetite, fee sensitivity, liquidity requirements and other critical conditioning factors that determine the most appropriate mix of asset classes and return drivers.

Time horizon, for example, may have a substantial impact on the mix of assets selected and their allocations, particularly allocations to illiquid assets or return sources whose payoff may be seen as most reliable over a longer time-period (but less so over shorter horizons). Our forecasting engine supports this by providing a framework to create an array of scenarios which extend decades into the future and help model asset combinations and the liabilities they seek to meet. In 2022, we laid the groundwork to incorporate climate change risk into our strategic planning assumptions based on various climate paths.



Case study – Integration of climate risk into capital market assumptions

Climate change is increasingly impacting many aspects of human life, including the global economy. This has led policy makers, regulators, and investors to consider the potential risks that climate change poses to economies and the financial system. As a result, there has been a growing demand for climate scenario analysis from clients and regulators. This demand is likely to continue with the implementation of climate risk regulations like the TCFD recommendations.

Russell Investments' methodology for modelling long-term asset class returns assumes that key economic and financial variables will revert over time to their long-run trend or reach some sort of "equilibrium" level. This is a standard approach in the production of capital market assumptions (CMAs).

However, incorporating climate change into these long-run assumptions is a complex task. It requires the probabilities around which climate scenario will play out in the future and how it will impact long-term economic and equilibrium levels.

Russell Investments has partnered with an external specialist climate risk provider to enhance our climate modelling toolkit. We will continue to produce baseline CMAs that use historical long-run economic and financial data (referred to as "climate-agnostic CMAs"), and then "shocking" the CMAs based on different climate scenarios and their potential economic and financial impact (referred to as "climate-adjusted CMAs"). This enables us to compare the potential portfolio impact of different climate scenarios across asset classes and exposures.

Outcome

We have used our climate-adjusted CMAs to support clients who want to further understand the impact of various climate scenarios on their asset allocation decision. In addition, this enhancement to our toolkit has supported client's completing climate related disclosure requirements in accordance with the Task Force on Climate-Related Financial Disclosures (TCFD).

Construct

In the 'Construct' step of our process, we seek to find and utilise investible strategies that capture the desired SAA exposures, while adding excess return through superior active management. We believe that best-in-class investment managers can identify idiosyncratic mispricing of individual securities and possess the ability to outperform the market through their selection skill and dynamism. We maintain world-class teams of manager due diligence analysts dedicated to identifying and recommending investment managers with an established edge in their area of focus.

In our open architecture approach, our manager research due diligence teams rigorously pit the best strategies against each other in our efforts to find the very best. ESG considerations are an integrated component of that process across asset classes and geographies. Russell Investments' portfolio managers select their active managers from among those ranked highly by our manager research teams, using the ESG ranks alongside other key assessment criteria, while staying mindful of profile and exposure data including ESG risk and carbon footprint metrics.

Manage

The objective of the 'Manage' step of the process is to keep the solution on track for success by adapting to changing market environments, effective risk management and attention to efficient implementation. We believe that the 'fear and greed' cycle allows for a robust, process-driven, dynamic management approach, to both add incremental return and to manage risk more effectively over the course of a market cycle. We dynamically manage portfolios with this process by including both quantitative and qualitative analysis of material risks. When this analysis creates a high conviction short term view, we are able to take tactical positions. This is most common when markets have moved to extremes of fear or greed.

Like market, credit, and other risks, portfolio managers seek to identify, assess, and manage financially-material sustainability risks on an ongoing basis within portfolios. Potential risks are identified using available metrics, proprietary scoring, manager reporting, and in communication with sub-advisers. As one means of addressing these risks, our portfolio managers work hand-in-hand with our active ownership team to ensure alignment with our proxy voting and engagement activity. We share more details on these practices in the section on "ESG Integration".

2.5 Climate aware solutions

Carbon managed portfolios

While our process is cognisant of material climate-related risks and opportunities across all our funds, Russell Investments has a history of collaborating with clients to build mandates that explicitly target climate-related outcomes such as carbon emissions, fossil fuel reserves, and renewable energy exposure.

We first launched our low carbon strategy in 2015, with a focus on reducing exposure to high carbon emitters and companies with large volumes of fossil fuel reserves. As of December 31, 2022, we had approximately \$10.8bn USD in carbon-managed strategies. Our products are built with proprietary carbon metrics and other ESG-related data, and currently we measure carbon footprint using Scope 1 and 2 emissions and data from MSCI. These strategies are often built with a specific carbon reduction target such as a 25% or 50% reduction in weighted average carbon intensity (referred to as "WACI") or exposure to fossil fuel reserves.



Case study – ESG Enhancements to existing solutions

Through feedback received over the course of 2021, we recognised that a growing number of our clients were expressing a preference for their assets to be managed to more demanding ESG standards. This covered 12 Russell Investments products across both equity & fixed income with AUM totalling \$7.2bn.

In response to this increase in demand, we established an ESG Product Strategy group tasked with defining an approach to evolve our existing solutions. This group consists of ESG experts within our investment division, solutions, and go-to-market functions. Among other actions, this group conducted quantitative analysis to ascertain the impact on return and risk of making changes to our existing offering and ultimately recommended a proposal to our Global Product Committee.

The proposal focused on three key areas: 20% carbon footprint reduction through a decarbonisation overlay strategy, coal exclusions through prohibiting companies which derive more than 10% of their revenue from coal, and good governance practices through UNGC (United Nations Global Compact) alignment.

Outcome

After prioritising the fund evolution in order of client preferences, the ESG Product Strategy group began a phased approach of these enhancements over the course of 2022. The strategies were extensively tested, and the proposed enhancements forecast to have a low long-term impact on the economics of the funds. By the end of 2022, we are pleased to say that Phase 1 and Phase 2 of these ESG enhancements had been completed.

Target setting

In 2021, Russell Investments signed up to the Net Zero Asset Manager Commitment initiative (NZAMi) to support the goal of net zero GHG emissions by 2050. As part of this commitment, we work in partnership with interested clients to develop a roadmap for portfolio alignment. So far, our activity has focused on:

- performing due diligence on target setting methodologies,
- continuously raising knowledge across teams through regular climate training,
- building new capabilities for tracking progress against climate targets, and critically,
- defining our approach for determining whether portfolios are aligned to a net zero by 2050 objective.

We released our interim net zero targets in the second quarter of 2021. Below we provide an outline of the learnings so far.

Update on our approach to net zero target setting

While the concept of net zero by 2050 is relatively clear (i.e., global greenhouse gases emitted should be less than greenhouses gases captured or removed from the atmosphere by the year 2050), it is less clear what this means for investment portfolios.

Useful frameworks from industry bodies can be leveraged for aligning a portfolio with net zero ambition, but approaches vary considerably. As a starting point, we researched several methodologies, with a focus on the NZAMi “approved” target setting methodologies: SBTi for Financial Institutions, the Net Zero Asset Owner Target Setting Protocol, and the Paris Aligned Investor Initiative’s Net Zero Investment Framework (NZIF).

A consistent theme across alignment frameworks is the need for multiple levels of targets. In particular, there is growing recognition that achieving an overall portfolio carbon reduction or temperature score alone is not sufficient. Instead, most frameworks propose a combination of an overall portfolio target, for example a carbon reduction or temperature alignment, in addition to increasing the percent of the portfolio’s assets that can be considered aligned. Engagement also has an important role, as a mechanism to encourage decarbonisation of the largest emitters in the portfolio rather than simply divesting from them. This is because decarbonisation of the largest emitters will be critical to achieving the global goal of net zero. Finally, increasing investments in climate solutions is also consistently noted as an important consideration, and potentially another explicit target to be set.

For our own targets, we primarily leverage the PAII Net Zero Investment Framework (NZIF), supplemented with our own insights. After reviewing a range of approaches, we found the NZIF to be reasonably constructed and sufficiently adaptable to our use case which covers many investment styles, geographies, and asset classes. As noted above, this framework will include multiple levels of targets. The bottom-up asset alignment measures what percent of securities in the portfolio are aligned, aligning, committed to aligning, or not aligned. To date, we have completed a mapping of open data sources such as Climate Action 100+ Benchmark, Transition Pathway Initiative, and the Science Based Target Initiative, as well as our proprietary data providers.

Over time, portfolios on a net zero trajectory need to increase the percentage of the portfolio in the higher ambition buckets (aligned, aligning). We will also set targets to engage with companies in material sectors who represent significant sources of GHGs and are lagging on these assessments.

The next type of target, the top-down portfolio level reference, acts as an accountability mechanism for ensuring that the decarbonisation of the portfolio is consistent with a science-based net zero pathway. Portfolio-level carbon emissions must decrease over time relative to a base year. For example, global absolute GHG emissions need to decrease by approximately 6.7% per year between now and 2030 to be on one of the commonly cited net zero pathways, and this is a common starting reference for a portfolio decarbonisation objective over time. Global emissions need to decrease by approximately 50% by 2030 relative to a 2019 baseline to be aligned to a limited or no overshoot pathway in the IPCC Special Report on 1.5 degrees, and this serves as another common reference point.

While these reference points serve as our guides, there is nuance around the selection of carbon metrics and accounting for sector and regional exposures of a portfolio, given the economy will decarbonise at different rates. In a diversified global portfolio, this may not be critical since the portfolio exposures largely align with the global market on average. However, in an emerging markets fund, or a concentrated infrastructure fund, sectoral or regional decarbonisation considerations can be more meaningful.

Finally, the Net Zero Investment Framework highlights the critical need for increasing investment in climate solutions. These investment opportunities can be identified and targeted via the EU taxonomy criteria although there may be a rationale for using less stringent definitions of climate solutions as well. We have already acquired EU taxonomy data and have begun exploring the use of EU taxonomy data in our processes, but note this is still a relatively new area and one that will require more investigation before robust target setting is possible.

2.6 Addressing client needs in practice

We recognise the importance of regular communication and engagement with clients to understand their goals, objectives, preferences, and any constraints they may have expressed in their portfolios. We also understand that our clients' needs could change over time, and as a result we use various methods to gather feedback from clients, such as client satisfaction surveys, periodic reviews, and ongoing discussions. Whilst our approach does vary slightly from region to region, our methods are summarised below.

Ongoing dialogue

We believe that the best way to understand our clients' needs is through clear and constant dialogue. This stems from an understanding that each of our clients are different and have unique needs. Therefore, having an open dialogue with each of them ensures that we are aligned on what they are trying to achieve. This form of engagement typically takes place at quarterly meetings and intra-quarterly as needed. This allows us to have detailed discussions of their goals, objectives, preferences and any constraints they may wish to have expressed in their portfolios. In certain jurisdictions, we measure the effectiveness of the relationship through the use of key performance indicators (KPIs), such as:

- Client satisfaction: We ask for performance review feedback from our clients throughout our relationships.
- Client retention: We place a strong focus on the tenure of our clients.
- Investment performance: Clear articulation and setting of investment objectives based on both our understanding of, and our discussions with, clients.
- Bespoke KPIs: We often work with our clients to agree bespoke KPIs around other value-adding services that are of importance (e.g., number of face-to-face meetings).

Client satisfaction survey

We also conduct annual client satisfaction surveys where we engage our clients to provide feedback against the objectives they have set for us. This serves as a useful formal summary of quarterly discussions, and allows for additional comments to be added, which have fed into both our recent product and reporting enhancements. For illustrative purposes, an example graphic of client survey results from our EMEA-based team has been included in Exhibit 8 below.

Exhibit 8: Example client feedback results

Investment objective	Weight	Trustee score (1-3)	Questions	Trustee comments
Provide quantitative investment objectives, guidelines and funding level triggers	30%	3	What do you think Russell Investments is doing well?	"Russell have always provided clear and precise updates for our scheme and I am very happy to continue to work with them that's why we re engaged them when we changed from Aon." "Provide the Trustees with ongoing guidance and advice regarding their investment strategy. They collaborate very well with the Scheme Actuary too." "Great clear communication."
Maintenance of Statement of Investment Principles	15%	3		
Provide high standards of ongoing reporting	25%	3	Is there anything you think Russell Investments could improve going forward?	All responses said no.
Provide high quality relationship management and Trustee engagement	30%	3	Is there any other feedback you'd like to provide?	"All Team members compliment the Trustee Board very well. We all have a clear vision and Russell Investments are acutely aware of this regarding the Scheme's goal to ultimately buy-out."
Total Score	100%			

Third party survey

We conduct periodic third-party client satisfaction surveys to ensure that we are exceeding our clients' expectations and provide an option for clients to submit anonymous feedback and input on how they would like us to evolve our solutions to meet their changing needs. The most recent survey was conducted in 2019 and the next is planned for 2023.

Through the feedback mentioned above, as well as the ongoing internal review of our practices, we have identified the following requirements/areas of improvement. We provide details of the actions we have taken below.

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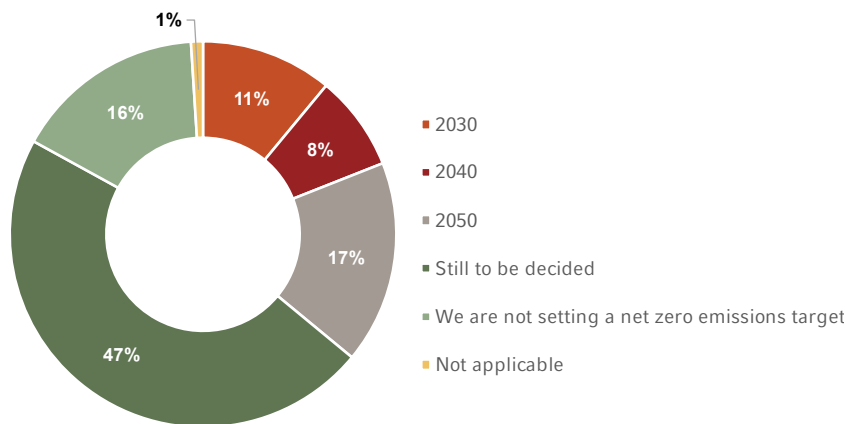


Case study – Bi-annual UK defined benefits market insights study

Over the course of 2022, we established a bi-annual UK Defined Benefits Market Insights Study. This was based on responses from 76 UK defined benefit schemes, responsible for in excess of \$120bn of assets under management, many of whom represent scheme chief executives, CIOs, trustees & pensions managers from our client base.

The intention of this study was to understand the key priorities and concerns facing stakeholders, including Stewardship. As part of this, over two-thirds (68%) indicated they were either 'likely' or 'very likely' to increase their focus on climate change related issues in the next twelve months, and as shown in Exhibit X below, over one-third of respondents have already a net zero target of 2050 or earlier.

Exhibit 9: Respondents' targets to reach net zero



Source: Russell Investments, November 2022.

Outcome

This was the first part in a bi-annual series, designed to allow us to gather feedback and trends from both our client base and wider market, including how our focus on stewardship can help them to reach their goals.



Case study – Granular ESG reporting

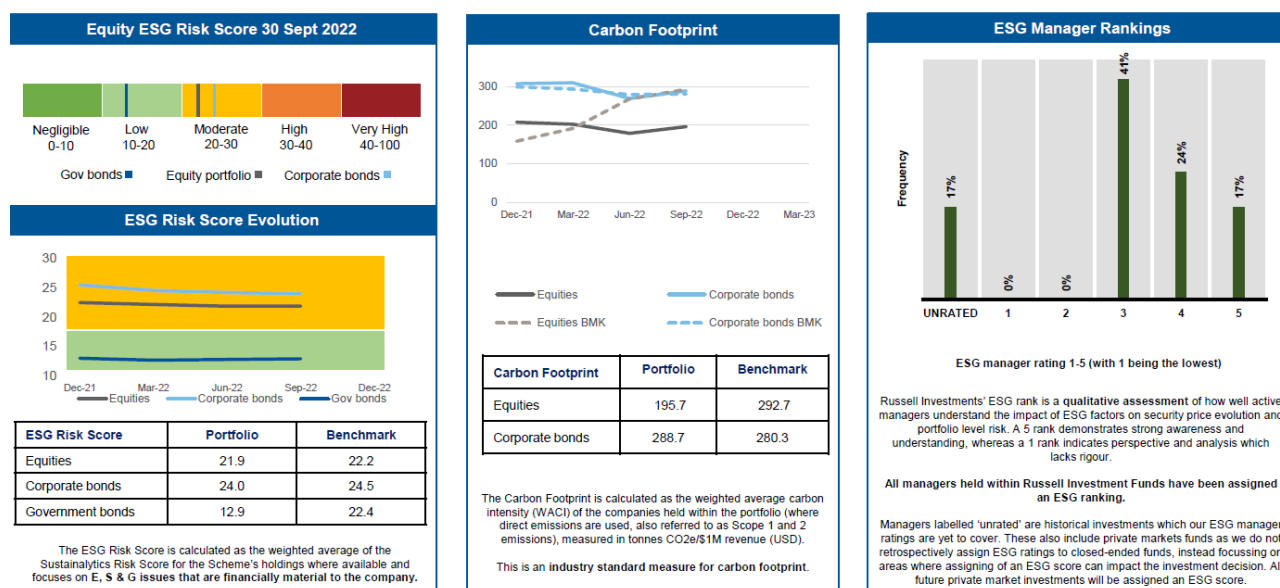
Through regular dialogue with our client base, and after reviewing the results and comments from the annual client review against the objectives they had set us, it became apparent that they were keen for a more concise, illustrative quarterly report, with the ability to track key ESG metrics through time incorporated into their quarterly updates.

Following a development period over 2021, we rolled out a number of iterations of our ESG reports across our client base in 2022, first for feedback with clients, before finalisation later in the year.

Outcome

Test reports received positive feedback, on the granular detail about the equity level ESG scores and carbon footprint of the mandate through time and versus benchmark. Furthermore, the illustrative format of these graphics (as shown below in Exhibit 10) improves accessibility, enabling clients to easily track the progression of the portfolio versus the objectives which they have set us.

Exhibit 10: Evolution of quarterly client reporting



Source: Russell Investments. Sustainalytics as at September 30, 2022.



Case study – Multi asset evolution in APAC

Through regular dialogue with one of our large, retail financial planning clients, for which we manage significant AUM in multi-asset portfolios, we identified that there was demand from their clientele for a multi-asset product that had specific ESG investment objectives.

We worked with the client on a consultative basis, to understand what specific ESG factors were deemed to be of most importance to their end clients. This iterative approach was imperative to designing an investment portfolio that had these objectives specifically laid out. Part of the project was to ensure there was detailed reporting across the entire portfolio, which would enable the client to track, monitor and illustrate both the investment and ESG outcomes of the portfolio.

Outcome

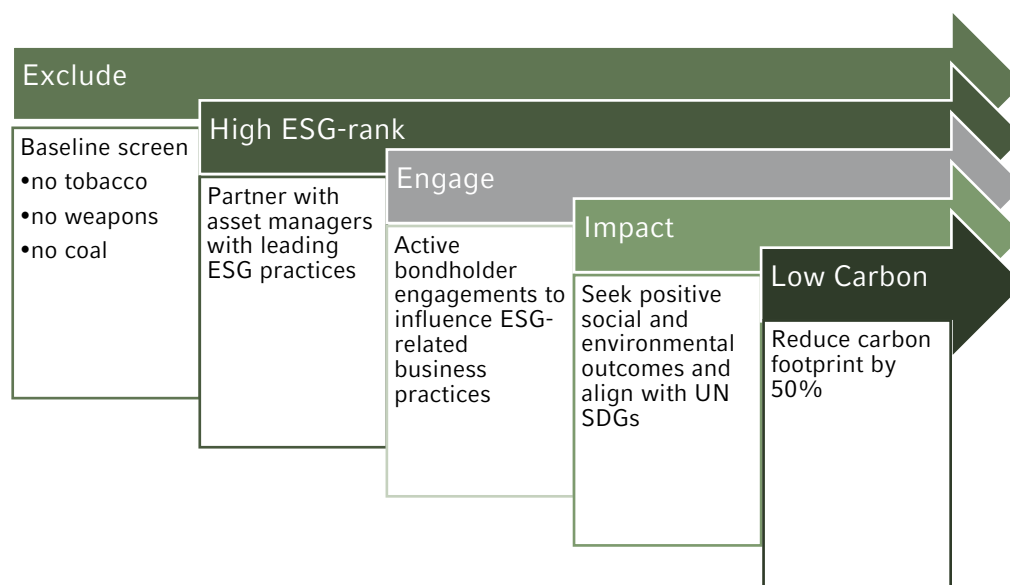
We launched two multi-asset portfolios, across two risk profiles, enabling their clientele to invest in a product that was aligned to their ESG beliefs and the wider market. We put in place reporting to track against the investment objectives, including risk and return, as well as the ESG objectives.



Case study – Development of solutions to meet US institutional client need

One feedback item we received from clients was a desire to increase the integration of ESG risk awareness within their core fixed income portfolios as a complement to the sustainability strategy already available for their equity portfolios.

In response, we launched the Russell Investments Institutional Funds (RIIFL) Sustainable Bond Fund, thereby providing an option for clients looking to further integrate ESG characteristics at the total portfolio level. The RIIFL Sustainable Bond Fund is a multi-strategy approach that pursues impact and broad-based sustainable strategies that integrate the consideration of ESG risk factors during the security selection process. The following graphic illustrates the strategy:



Outcome

The new strategy allows us to meet the needs of clients looking for a sustainable bond solution.



Case study – Development of ESG models to meet the needs of our US retail clients

One example of how we have taken the views of retail-end customers into account is our work to have a dedicated set of ESG Models running and positioned on partner platforms. One of our largest distribution partners is a firm that requires a “three-year track record” before consideration of placement.

For this reason, and to meet the demand of retail-end customers, we started the work in 2022 to establish an ESG Model performance track record, which was launched in August 2022.

Outcome

We plan to start discussions with this client once we get past the one-year mark, with the hope of approval and placement on the platform at the three-year mark, or sooner.



3. Governance of stewardship

- ✓ UK Stewardship Code – Principle 2
- ✓ Japan Principles for Responsible Institutional Investors - Principle 7
- ✓ The New Zealand Stewardship Code - Principle 1

Our governance bodies and supporting processes ensure alignment of our activities with our clients' best interests and effective stewardship across all our investments, at every level of our organisation. Our corporate and investment bodies recognise that stewardship is central to investment management, and this has been the main organic driver of our evolution as good stewards of our clients' investments with us. Below, we provide details of our global and EMEA governance structures and resources, and how they contribute to a consistent emphasis on high standards of fiduciary duties.

3.1 Global governance structure

At Russell Investments, we have a robust global governance structure headed by a Board of Directors and an Executive Committee (EC). Leadership on stewardship starts at the top of the organisation and is expressed through the empowerment of a number of global committees to establish practices and oversee their faithful execution. These committees ensure compliance with global investment, risk, and stewardship standards across all regions, as well as being responsible for introducing continuous enhancements to our approach, in line with our best thinking and industry practice.

Exhibit 11: Global governance committees



Source: Russell Investments, for illustrative purposes only.

The EC is the most senior management group at Russell Investments and is responsible for determining the company's business strategy and overseeing its implementation. Overall direction and emphasis on stewardship is set by the EC as part of investment strategy and corporate management. In recent years, the EC has strongly supported increased focus and resourcing of stewardship activities.

The Global Risk Management Committee (GRMC) plays a critical role in our risk management and stewardship practices. It provides an independent global authority over major areas of risk and control essential for effective management of the company.

The GRMC, acting in its oversight capacity, is authorised and directed to review and evaluate investment, credit, and operational risks. It provides guidance to the business units for the proper identification, assessment, monitoring, and mitigation of these risks. It is authorised by the EC, and its responsibilities relate to all legal entities and businesses operated by Russell Investments, worldwide. Global oversight by the committee for risk management practices is supported by regional risk management sub-committees in each of Russell Investments' current business regions. Further information on how Russell Investments identifies and responds to market-wide and systemic risks is explained under section 2.

Board oversight of climate risk

Russell Investments' Board of Directors has ultimate responsibility for the strategic priority, corporate governance, and long-term stewardship of the firm. Climate-related risks and opportunities have been identified as a strategic priority for the business, and as a result, significant consideration has been put towards establishing the appropriate governance frameworks to identify, assess and manage these risks and opportunities.

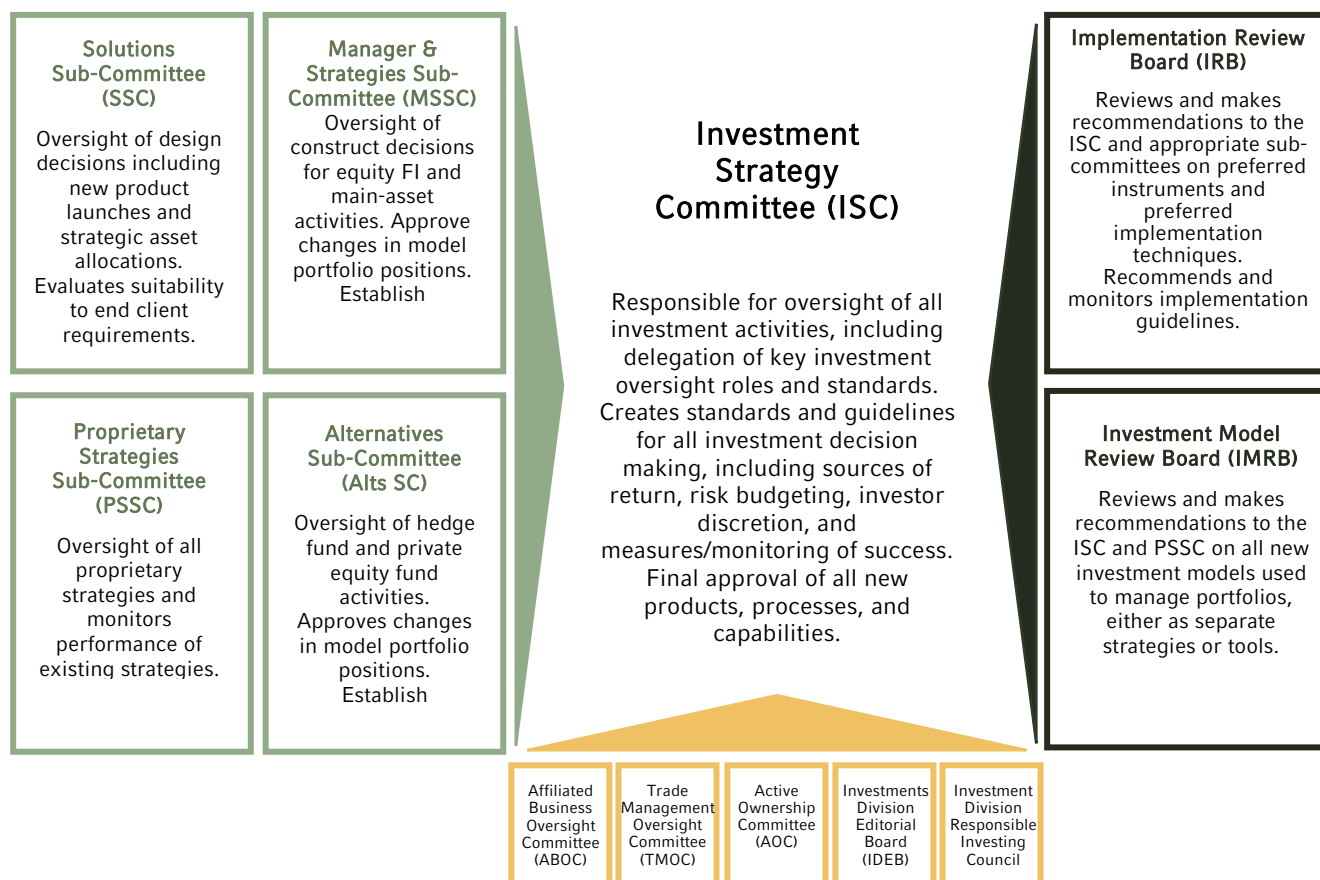
The firm's TCFD report is tabled annually at the Audit and Risk Committee meeting. This provides the Board with an opportunity to further deepen their understanding of the firms' exposure to climate risk. The Group Board, through the Executive Committee (EC) and Audit and Risk Committee, has delegated oversight of the risks associated with climate change to the Chief Administrative Officer, the Investment Strategy Committee and Global Risk Management Committee.

3.2 Investment governance structure

The Investment Division (ID) is responsible for undertaking all investment activities for clients. The ID is governed by the Investment Strategy Committee (ISC), which is authorised by the EC to oversee investment activities, review investment performance, and establish investment policy and strategy. The ISC is responsible for processes and standards of stewardship practice, with a focus on active ownership and creating long-term value through appropriate decision making around allocations and risk management. As regulatory standards and industry practices evolve, the ISC seeks to continually update investment processes, including stewardship practices.

The ISC's members comprise the Global Chief Investment Officer, who serves as the Chairperson, and senior ID and risk professionals. The ISC delegates to numerous sub-committees to review and recommend proposals to create new investment products, launch new funds and hire/terminate investment managers.

Exhibit 12: Investment strategy committee



Source: Russell Investments, for illustrative purposes only.

The groups reporting to the ISC have written charters outlining their documentation requirements, such as records of approvals, decisions, and oversight activities. Each of these groups has delegated responsibilities from the ISC, relating to the faithful execution of stewardship responsibilities and the continuous development of investment practices for the management of client assets. Whether those duties relate to ensuring sound investment decisions on behalf of clients, verifying the rigor and appropriateness of investment analysis, or guarding against potential risks or conflicts, they all feed into the broader mission of improving financial security for people.

Our governance process features performance measurement, with much focus placed on metrics that assign accountability and reflect the outcomes our clients seek. We formally review these metrics and outcomes with the accountable parties on an annual cycle (and informally more frequently), and we continually revisit mandates, objectives, and performance metrics for their alignment with the mission of each group.

Every ISC sub-committee is responsible for embedding good stewardship practices into its governance and decision-making processes. For example, the Manager and Strategies Sub-Committee ensures that proposed portfolio structures are well-constructed to meet investment targets within risk guidelines. As part of that oversight, the committee must confirm that sub-advisers have sufficient ESG capabilities embedded in their overall evaluation and will consider available metrics on ESG factors when approving portfolio structures.

Within the ID, our Active Ownership Committee manages a globally consistent and rigorous approach to proxy voting and engagement activities. The Active Ownership Team oversees our proxy voting policies, procedures, guidelines and voting decisions, whilst continuing to develop our processes to meet evolving client needs and expectations. The Active Ownership Committee is made up of tenured and experienced Russell Investments professionals from a variety of roles, including portfolio management, manager research and investment strategy. All proxy voting and engagement activities are advised by a member of Russell Investments’ legal team.

Within the Active Ownership Committee, our Guideline Sub-Committee meets regularly to review and propose adjustments that ensure our guidelines are aligned with current best practices, and dedicated personnel direct and coordinate our engagements with public companies, our sub-advisers and other market participants. This organisational structure, and the diverse set of participating investment professionals, keep our active ownership function integrated within our investment process.

Exhibit 13: Active Ownership Committee structure



*Responsibilities: Chair: Oversight of all processes and procedures of the committee and its sub-committees. Voting members: Comprised of senior investment professionals charged with voting on policy/procedural changes and proxy proposals. Legal representative: Oversees all developments and actions of the committee and its sub-committees.

Source: Russell Investments. For illustrative purposes only.

3.3 Responsible investing governance structure

We favour an integrated approach to responsible investing and have ESG experts embedded throughout our organisation. Our ESG teams and initiatives are led by two executive sponsors, demonstrating Russell Investments' commitment from the top - our Global CIO Kate El-Hillow and Global Head of Distribution Charlie Shaffer. Two ESG councils report to these executives, namely the Go-to-Market Responsible Investing Council (GTMRIC) and the Investment Division Responsible Investing Council (IDRIC)

GTM Responsible Investing Council (GTMRIC)

Russell Investments' GTMRIC is responsible for guiding our investment deliverables and Go-To-Market (GTM) activity on responsible investing and is also charged with ensuring we deliver the best possible responsible investing solutions and outcomes to our clients globally.

The council consists of representatives from across the business including the investment division as well as product, marketing, legal and client-facing teams. Jihan Diolosa, Head of Global ESG Strategy, chairs this council.

Exhibit 14: GTM RIC structure



ID Responsible Investing Council (IDRIC)

Russell Investments' (IDRIC) is the principal body of responsible investing experts at Russell Investments. The Council is responsible for devising and leading the Investment Division's (ID) response to a broad set of challenges and requirements emanating from our clients, our business strategy, and a changing regulatory environment - typically prioritised and delivered to the ID via the firm-wide GTMRIC. The IDRIC, which reports to the ISC, guides the ID's responsible investment practice across our investment process.

This group ensures that the data, infrastructure, and processes are in place to support effective active ownership and an integrated approach to incorporating ESG factors and risks into investment decision making. These responsible investing experts from across our research and portfolio management teams are empowered to propose improvements in stewardship and investment practice, to be approved by the ISC. The council is co-chaired by Kris Nelson, Head of ESG Investment Management, and Emily Steinbarth, Head of ESG Research and Development.

Exhibit 15: IDRIC structure





Case study – Governance enhancement

During 2022, in response to rising requirements across our business, we took action to increase the resources and senior management focused on responsible investing. New and evolving client preferences, changing regulatory regimes and increased personalisation are driving demand for new products and approaches. Following a review of our responsible investing governance structure we found room for enhancements to governance structures throughout our organisation.

We have made multiple enhancements to improve accountability, most notably:

1. The creation of three full time ESG positions:
 - a. **Head of Global ESG Strategy:** This position serves to drive a more global and integrated Go-To-Market ESG effort.
 - b. **Head of ESG Investment Management:** This position is focused on ESG investment process development and oversight.
 - c. **Head of ESG Research and Development:** This position is focused on bringing our quantitative research skills to bear on the most pressing ESG investment and product challenges.
2. We have also formalised the Executive Committee oversight of our global ESG efforts. As described in our governance structure (in section 3.3), our ESG teams and initiatives will be led by two executive sponsors, demonstrating Russell Investments' commitment from the top—our Global CIO Kate El-Hillow and Global Head of Distribution Charlie Shaffer.

Outcome

These enhancements which were introduced in Q4 2022 build on the domain structure that we introduced in 2021. We believe that these enhancements demonstrate our firm-wide commitment to responsible investing and will strengthen our ability to meet client-led requirements in this area.

3.4 Resourcing stewardship

The ID is organised around three core strengths: research, portfolio management, and implementation services. Some of the key investment functions most central to stewardship practices include:

- **Manager Research Analysts** – Specialists responsible for gaining a thorough understanding of the universe of investable managers and products and for making recommendations which they believe offer our clients the best opportunities.
- **Portfolio Managers** – Professionals tasked with the strategic asset allocation, manager and strategy selection and daily portfolio monitoring of Russell Investments' strategies.
- **Portfolio Analysts** – These professionals work closely with our portfolio managers and provide them with the necessary analytical tools and research reports to aid their decision making.
- **Implementation Portfolio Managers** – These specialists execute the investment decisions of the portfolio managers, ensuring the timeliness and efficiency of any changes.
- **Research and Development** – This team is responsible for research of the capital markets and creation of forecasts and investment strategies that identify and capture key sources of return. Additionally, the team enables the development of supporting technologies and tools to effectively deliver our investment insights to clients. Our R&D professionals have the quantitative capabilities to apply the tools of data science and advanced computing to a wide range of investment challenges.
- **Asset Allocation & Investment Solutions** – Members of this group lead our efforts in asset allocation issues, including all forecasting and modelling. They also participate in research of institutional matters, such as reviewing and understanding the implications of pending legislation, or the role of potential new asset classes, such as portable alpha and overlay strategies and evaluation of less traditional asset classes.
- **Active Ownership:** The dedicated professionals on our Active Ownership Team enable our proxy voting policies, procedures, guidelines and voting decisions. This team also leads our engagement process with participation from a wider group of investment professionals.

- **Service Providers:** The extent to which service providers are used and the service they provide from a stewardship perspective is covered in Section 4.4 of this report.

The collective efforts of these functions help to create and maintain solutions that are not only tailored to pursue our clients' return objectives, but also reflect our best thinking in terms of manager research and projected market behaviour. This division of roles and responsibilities is designed to create clear ownership of key decisions matched with appropriate expertise and experience. We value specialisation and clear accountability in these roles, even as we seek to effectively guide all investment professionals' activities to collectively contribute to clients' total portfolios. The table below provides details of our current total headcount of investment professionals. We believe that this is an effective combination of subject matter experts and qualifications for meeting our stewardship requirements.

Exhibit 16: Total number of investment professionals

	TOTAL NUMBER OF INVESTMENT PROFESSIONALS	NUMBER OF INVESTMENT PROFESSIONALS WITH CFAS	NUMBER OF INVESTMENT PROFESSIONALS WITH PHDS	AVERAGE RUSSELL INVESTMENTS YEARS' TENURE	AVERAGE INDUSTRY YEARS' EXPERIENCE
Total Investment Professionals	320	155	9	11.1	17.7

Source: Russell Investments, data as at December 31, 2022.

Associates are encouraged to pursue educational opportunities to develop skills and meet their career goals. Russell Investments' associate development program holds managers accountable for working with their direct reports to create a development plan with the goal of growing existing and developing new skill sets. Furthermore, we encourage participation in continuing education opportunities, such as the Chartered Financial Analyst program, to enhance knowledge through job-related areas of study, or pursuing licenses and professional designations applicable to their positions. To further encourage associates, a generous tuition reimbursement program for qualified programs and areas of study is in place.

Specific to responsible investing, both broad and role-specific training is required for key investment professionals, ensuring an appropriate understanding of ESG concepts and topics as they seek to deliver strong investment outcomes and stewardship to clients. In addition, client-facing teams have continual access to regular training on capital markets, investment strategy, asset class behaviour, and portfolio management innovations.

3.5 Alignment of incentives to integrate stewardship

As a global organisation, we have made the consideration of ESG and effective stewardship across all investment decisions a key objective. Senior portfolio managers are compensated based upon a combination of factors which encompass their success in delivering desired investment outcomes to clients, while effectively contributing to investment processes and providing suitable levels of stewardship of client assets. Within that overarching evaluation framework, portfolio managers are required to consider ESG factors and stewardship in evaluating and selecting sub-advisers, as well as evaluating ESG risks and exposures at the total portfolio level and pursuing engagement opportunities. Portfolio managers' effective incorporation of these factors is explicitly measured, included in annual assessments, and linked to compensation.

In addition to senior portfolio managers, all associates with specific responsibilities for ESG, stewardship and climate change have annual performance goals aligned with the success of the integration of these topics. These goals include evolving our responsible investing and stewardship practices to be in line with global standards; collaborating with leading industry bodies to advance industry frameworks; driving our engagement practices; and research and development. All these items are aimed at delivering robust stewardship practices to meet our clients' objectives. Success in meeting these specific stewardship and ESG-related performance goals is linked to remuneration.



4. ESG Integration and Responsible Investing

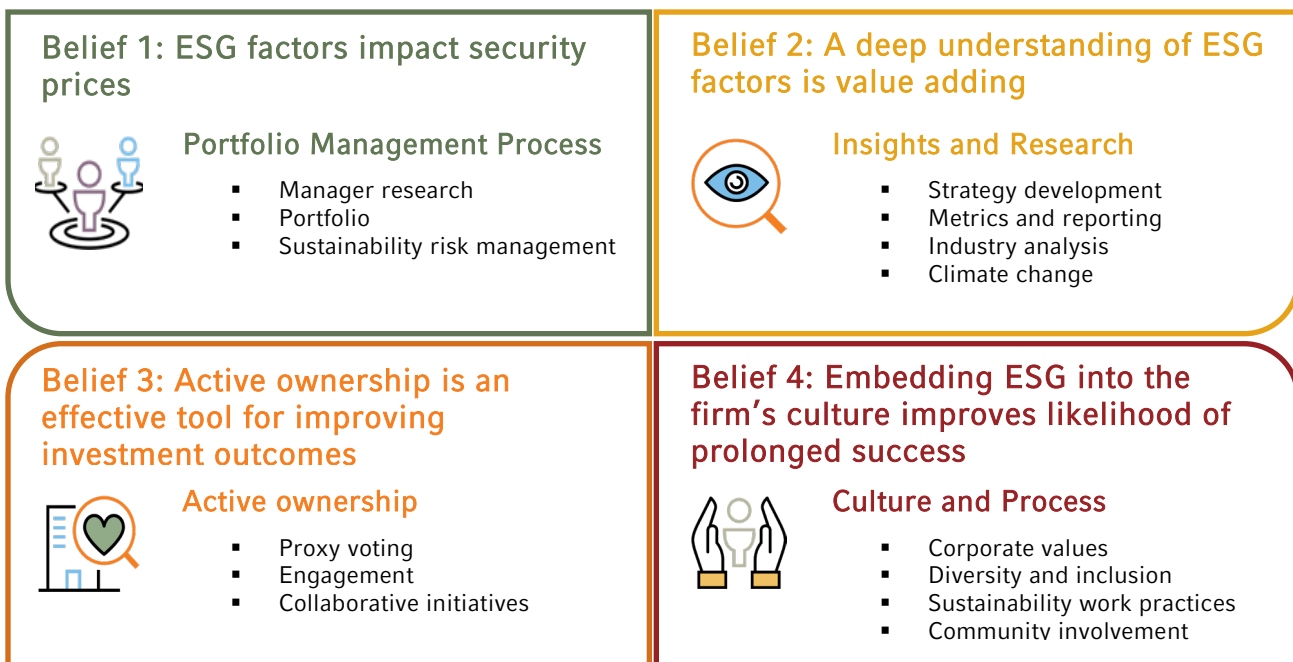
- ✓ UK Stewardship Code – Principle 2, 7
- ✓ Japan Principles for Responsible Institutional Investors - Principle 7
- ✓ The New Zealand Stewardship Code - Principle 3

4.1 Our integrated approach to stewardship and investment

As a function of our integrated approach, members of the investment division are trained to integrate ESG considerations and stewardship into our standard investment practice at all stages of our investment process. Subject matter experts are embedded within our research, risk, analytics, quantitative and portfolio management teams, and work in close coordination with dedicated active ownership personnel. Our professionals understand the ways in which sustainability issues manifest in the financial performance of various investments across asset classes, and their aim is to identify and act on material, financial risks and opportunities.

Below, we describe how our responsible investing beliefs and policies, detailed in section 1, translate into practice within our key investment capabilities.

Exhibit 17: Responsible Investing beliefs into practice



Source: Russell Investments, for illustrative purposes only.

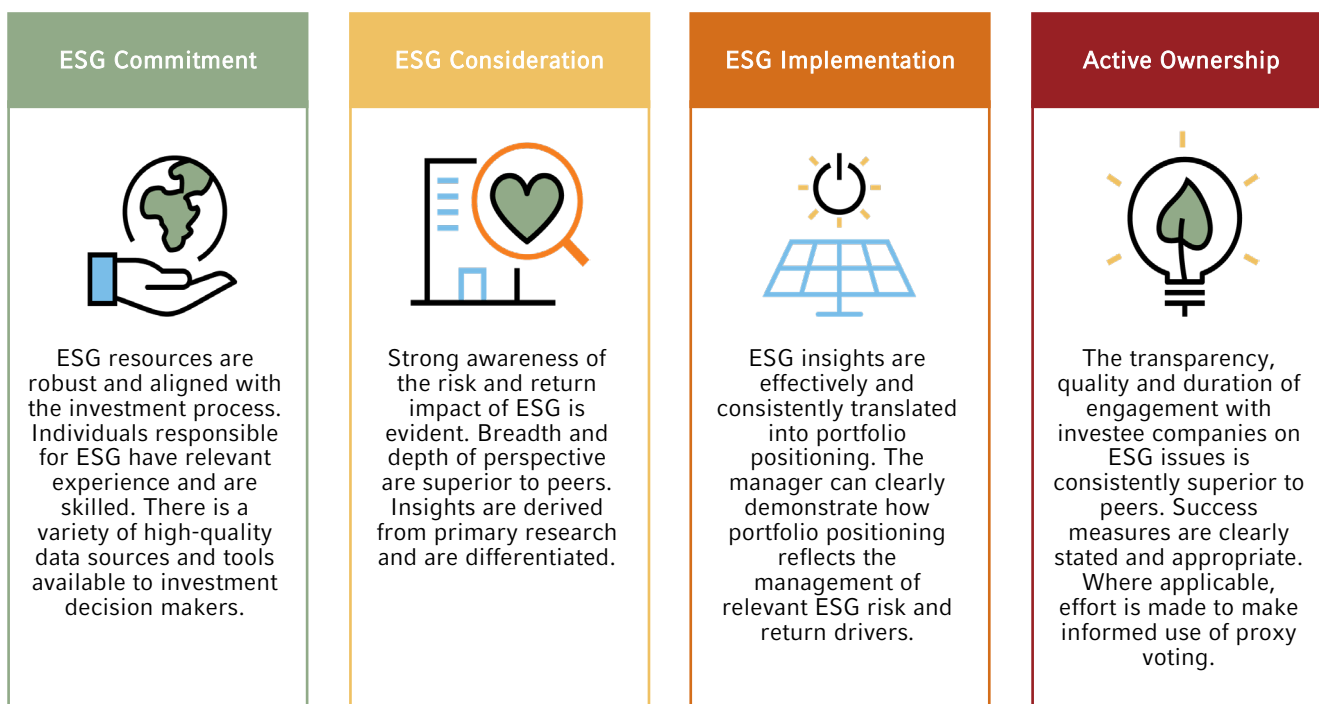
Belief 1 – ESG factors impact security prices

Portfolio Management Process

Responsible investing is integrated throughout our investment process, including our manager research, portfolio management and portfolio construction activities. We believe that ESG considerations should sit alongside traditional assessments as a part of the overall strategy evaluation. Since 2014, our manager research analysts have evaluated how effectively investment managers incorporate ESG considerations into their investment process as a standard component of our diligence across all asset classes. Analysts leverage both quantitative and qualitative information in conducting each review, drawing on external data and research from providers including Sustainalytics and MSCI. Equity research analysts can view Sustainalytics' and MSCI ESG data for each sub-adviser strategy we monitor via a proprietary ESG report. Our analysts also utilise information gathered from our annual ESG survey, which assesses the state of ESG integration in investment processes by broadly polling active equity, fixed income, and private markets managers. We are continually evaluating and working to incorporate additional data sets for all asset classes.

Our ESG-related due diligence covers a wide set of sub-advisers' stewardship activities, as described under the four sub-categories in Exhibit 18 below. The ESG sub-rank, which is shared with clients alongside our other sub-ranks, ranges from one to five, with a ranking of three consistent with a peer group average.

Exhibit 18: ESG sub scores



Source: Russell Investments, for illustrative purposes only.

Greater visibility into the drivers of the ESG rank has prompted greater understanding of how ESG factors influence a manager's potential outcomes and has offered improved transparency to portfolio managers and clients. While analysts assign an ESG rank to all high interest and recommended strategies, and it is just one of several areas of due diligence, the drivers behind a manager's ESG approach are naturally of particular importance to those strategies which aim to deliver explicit sustainable objectives. Russell Investments' research analysts maintain ESG sub-ranks on nearly 1,400 strategies across all asset classes and geographies.

Analysts record their analysis and conclusions, including ranks, in our global proprietary database, RADAR (Russell Investments Analysis, Data, and Ranks). Further details about RADAR and the way we hold managers accountable through due diligence are provided under section 4.4.



Case study – Manager due diligence of ESG and Sustainable products

Russell Investments' manager research analysts have reviewed more than 300 products which target an explicit ESG or sustainable objective. Consistent with our traditional investment universes, less than 10% of these strategies have earned a positive formal rank from our research analysts. Our portfolio managers and clients can leverage these recommendations and research when constructing multi-manager portfolios with ESG or sustainable goals.

Outcome

Leveraging the research analysts' efforts, in 2022 Russell Investments developed an active, ESG-focused global equity line-up for a Japanese client. The fund included a set of managers which earned high-conviction ratings for their return potential but also the highest scores for ESG integration. Moreover, the combination of managers allowed for a diversity of philosophies and exposures, including one which focused on investing in companies with high alignment to the United Nations' Sustainable Development Goals (SDGs) and a value manager which applies a high scrutiny ESG lens to invest in best-in-class and improving companies. This solution, and others like it, are enabled by our breadth of ESG coverage and the experience of our manager research team.

Russell Investments' portfolio managers select active managers from among those ranked highly by our manager research teams. The Investment Strategy Committee and its delegate committees confirm that sub-advisers selected by portfolio managers for client solutions have sufficient and appropriate ESG capabilities for each fund assignment. Through close collaboration and clear documentation, we ensure that sustainable mandates employ managers with strong ESG integration.



Case study – Mandate conversion to enhance Global Credit Fund sustainability characteristics

ESG integration in the fixed income market is rapidly evolving, and our open architecture platform allows us to partner with leading asset managers who can identify ESG-related risk and return opportunities and offer the most compelling solutions. In the fixed income space, our manager research team had identified attractive sustainable/ESG-labelled strategies, but we specifically sought to enhance our fund line-up with greater attention to climate risk.

Outcome

After conducting numerous due diligence meetings, we concluded that the climate credit strategy which was managed by one of our incumbent global credit sub-advisers in the European-domiciled global credit fund was an effective and credible offering. Therefore, we decided to convert the existing mandate to the climate credit one.

After the conversion, the overall tracking error at the fund level remained largely unchanged, but the fund benefitted from more emphasis on the energy transition and a lower carbon footprint.

Portfolio managers manage sustainability risks in our investment solutions through our quarterly and annual manager review process and through implementing proprietary solutions. Through a process we call 'Enhanced Oversight' (EO), portfolio management teams assess sustainability risks in funds and explain how those risks are being monitored and managed. EO is designed to provide sufficiently granular insights into fund/portfolio exposures - without adopting a 'checklist' approach that would fail to recognise the breadth, complexity, and relevance of sustainability issues. EO focuses on broad ESG themes as well as specific securities identified from:

- Our own quantitative analysis, where we monitor the highest and most material sustainability risks at the total-portfolio level
- Sub-adviser insights, whom we explicitly direct to highlight financially-material sustainability issues
- Other third-party sources including those who provide company and thematic ESG research

Quantitative analysis is used to identify securities with higher material sustainability risks where data is available and robust, particularly in equities where our primary data sets include Sustainalytics' Risk Rating, Carbon Footprint and Russell Investments' Material ESG Score. Russell Investments' proprietary Material ESG Score is designed to highlight sustainability issues that are relevant and specific to a particular company and its industry. In calculating this score, we utilise Sustainalytics, SASB's Materiality Map, corporate governance scores, environmental data from multiple providers and an emphasis on forward-looking information where available.

While EO was first developed and deployed as a tool for sustainably focused equity funds, in 2022 we worked to adapt and extend its application across all asset classes and portfolios. Our fixed income portfolio managers rely on key metrics by issuer (when available) and on risks highlighted by our sub-advisers, while our Private Markets Teams source proprietary ESG reporting and data directly from our sub-advisers. Materials can include our completed ESG DDQ (Due Diligence questionnaire), the sub-adviser's ESG policy and any other ESG reporting, such as the Institutional Limited Partners Association (ILPA) or Data Convergence Project templates. If ESG risks are identified, our private markets portfolio managers encourage improved ESG practices and/or reporting.



Case study – Enhanced Oversight + Active Ownership + Application Development = ENACT

In 2022, Russell Investments released an internal platform called ENACT which was built to improve the sharing of ESG-related insights. The name ENACT was drawn from the combination of two of our critical responsible investing practices: Enhanced Oversight and Active Ownership.

Outcome

ENACT allows investment team members to record and access the ESG-related insights that are gathered during sub-adviser oversight and from engagement activity. Critically, ENACT maps an issuer's securities across funds, enabling coordination between fixed income and equity experts, and it serves as a timeline and progress marker for our engagement objectives. We believe that setting and tracking explicit engagement objectives is key to an effective program, but we know from our annual ESG Survey that a minority of asset managers are currently doing so. Russell Investments is pleased to be operating according to best practices in this area.

For each Russell Investments managed fund or segregated portfolio, enhanced oversight may result in the following actions for certain holdings, with consideration of the impact of risks at the total portfolio level:

- Reviewing of metrics and the research behind the metrics
- Discussion with the sub-adviser supporting the holding
- Discussion with the Active Ownership team to consider engagement options

Given that we have built proprietary ESG models and undertake our own ESG research, we are not wholly reliant on third-party providers. We subscribe to a wide variety of data sets from the different providers outlined above, which provide raw performance data, drawing on analysis of the data and materials produced by our sub-advisers to inform our models and research. Further information on the processes in place to ensure service providers support integration of stewardship and investments is provided under section 4.4.

Belief 2 - A deep understanding of ESG factors is value adding

Insight and Research

We tailor our research to evolve our understanding of sustainability risks and opportunities, and this is reflected in our strategy development, metrics, and reporting. The research agenda is tailored to address challenges faced by clients as well as an ongoing commitment to enhance our proprietary ESG strategies. For example, we refined off-the-shelf ESG scores built for a wide range of uses, to focus on financially material ESG issues for use in our proprietary ESG strategy. While managing low carbon strategies, we found that several unintended consequences such as reduced exposure to renewable energy and overall increase in ESG-related risk were prevalent among simplistic approaches to carbon reduction, so we researched and implemented enhancements that better aligned with our clients' objectives including the introduction of a green energy ratio. As our clients faced regulatory pressure to introduce climate scenario analysis, we performed detailed due diligence on a dozen climate risk model providers, and onboarded our preferred provider to enable clients across our platform to meet this emerging obligation.



Case study – Climbing the curve on climate scenario analysis

As pressure to incorporate climate risk into the financial system intensifies, one tool that is emerging is climate scenario analysis. Amidst a backdrop of growing voluntary adoption of the TCFD Recommendations, several jurisdictions have introduced mandatory climate risk reporting obligations aligned to the TCFD. We observe a mix of voluntary and mandatory climate risk reporting requirements among our client base with one clear commonality: performing and reporting on climate scenario analysis remains a challenge. Why? This new field involves taking the established but complex field of integrated assessment models (or models of how the climate and economy interact) and combining them with asset pricing models.

It quickly became clear that our clients needed help, and to meet their obligations, they needed help swiftly. We set out to find providers who had developed well thought-out solutions. There was no lack of options. We surveyed a dozen providers and performed in-depth due diligence on nearly half.

Outcome

Ultimately, we selected Planetrics as our preferred provider. Selecting a climate risk model provider was just a first step, however. From there, we worked closely with them to understand the nuances of how climate shocks are translating into estimated impacts on asset prices.

We also need to put these models to work in ways that are meaningful for our clients and their end stakeholders. This involves developing curated reporting packages, understanding the interaction between variables in the real world – such as interest rates or carbon emissions – and changes in the model outputs. Finally, we work with clients to understand how their funding status may be impacted by various climate scenarios.

Belief 3 - Active ownership is an effective tool for improving investment outcomes

Active Ownership

As part of our stewardship activities, we aim to engage with companies on overall business strategy, capital allocation, and environmental, social and governance practices while encouraging appropriate levels of risk mitigation in line with our engagement policy. In addition, we promote transparency to support informed decision making and well-functioning financial markets by engaging specifically on ESG disclosures. While a number of criteria guide our selection of engagement opportunities, our evaluation of a company's sustainable risks is couched in its industry context, through the use of peer-relative metrics and qualitative comparisons.

Additional information regarding our proxy voting and engagement actions during 2022, as well as our plans to further strengthen Russell Investments' active ownership function going forward, are detailed in the Active Ownership segment, section 5 below.

Belief 4 - Embedding ESG into the firm's culture improves likelihood of prolonged success

Culture and Processes

At Russell Investments, our culture is built on a commitment to a foundational set of beliefs and practices which provide a rich combination of real-world guidance and an over-arching ethic within which we conduct our business. We believe that the effective integration of diverse ideas and perspectives brings richness to our culture and increases our ability to provide innovative solutions to our clients, while adding value to our shareholders and community. Please refer to section 1 to learn more about our purpose and values.

4.2 Our Risk Management Program

- ✓ UK Stewardship Code – Principle 4
- ✓ Japan Principles for Responsible Institutional Investors - Principle 1
- ✓ The New Zealand Stewardship Code - Principle 3

In order to identify threats to financial security and manage them for the benefit of investors and the broader market, we have developed a robust, multi-layered approach to risk identification and response. This approach seeks to stay vigilant to all sorts of risks, both financial and non-financial, as well as formulate careful responses to threats that impact our business, our clients and the broader market and society.

Identifying and responding to systemic risks: Framework and key elements

At Russell Investments, we operate an independent risk management program through an organisational unit called Global Risk Management (GRM). Consistent with best practices and regulatory requirements, GRM is independent from both manufacturing and go-to-market functions.

GRM's basic framework is identify, measure, monitor and communicate, along with the supporting concepts of integration, insight and challenge. Important elements in GRM's risk framework include:

- **Risk matrix:** The purpose of this matrix is to identify and inventory key risks for each of Russell Investments' businesses, along with the drivers of these risks.
- **Risk measurement:** Multiple risk measurements are required in most instances to get a detailed 'read' on risks.
- **Five lines of defence:** Russell Investments has adopted a 'five lines of defence' protocol to reinforce each associate's role in the risk management process. These are (1) Board Oversight, (2) Executive Management, (3) Internal Audit, (4) Risk Management and Compliance and (5) Business Units. Each of these have established and reinforced responsibilities for the identification and management of risk.
- **Risk governance:** GRM has implemented a risk governance structure which has been integrated into other Russell Investments governance structures.
- **Risk appetite:** The idea of a risk appetite must be considered from multiple perspectives because some risks are borne by Russell Investments and others by its clients. Key dimensions of this are 'principal versus agency risk' and 'buy versus sell side exposures'.
- **Risk assessment:** GRM conducts formal assessments via its annual Enterprise Risk Assessment and targeted risk reviews. Informal assessments occur continuously. These assessments are used for multiple purposes such as escalation when appropriate, development of remediation plans and input to the annual audit plan.
- **Organisation and specialisation:** GRM's organisational arrangements includes three specialised risk teams: credit, investment/market, and operational risk. The Operational Risk Team is also responsible for the insurance program and business continuity. Functional teams are supported by several regional associates.

Key risk categories and response mechanisms

Different categories of risk require discrete tools and processes to identify, examine and respond to risks in the course of an evolving market and operating environment. The GRM function is organised around the management of Investment Risk, Credit Risk, and Operational Risk with appropriate tools, expertise, and attention applied to each, the details of which are explained below.

Investment risk

The Investment Risk Management (IRM) team measures and monitors market and liquidity risks. IRM operates a granular multi-asset enterprise risk system consisting of internally developed, as well as industry leading third-party, market risk models with IRM-developed proprietary components which extend and enhance the capabilities. Investment Risk is always modelled at the total portfolio level and not by individual asset classes.

The investment risk process is rooted in risk identification and measurement. Effective evaluation of investment risks involves assessment across three key dimensions (pillars):

1. **Market risk:** The risk of change in the market value of investments and/or level of earnings due to movements in market prices. Market risk calculations must consider changes in equity and commodity prices, interest rates, exchange rates, implied volatilities, and inflation.
2. **Exposure measurement:** Quantifying exposures across key investment risk dimensions (i.e., country, currency, asset type, GICS and credit rating) provides a non-model-based view into investment strategy. Investment risk arises when there is a mismatch between stated strategy and actual exposures taken.
3. **Liquidity risk:** Arises when assets cannot be readily converted into cash and/or without an onerous discount in value to meet liabilities or other cash needs. Two types of liquidity risks need to be considered:
 - a. **Market liquidity risk** is the potential adverse price impact due to illiquidity on a particular security.
 - b. **Funding liquidity risk** is the potential for adverse impacts due to portfolio dealing terms and/or redemption activity (behaviour) of an investor.



Case study – Taking action to manage exposure risk

In February 2022, Russia's invasion of Ukraine sent financials markets tumbling and energy prices soaring, and our risk and investment teams acted quickly to assess our direct and indirect exposures, leveraging our global trading platform and implementation capabilities to test market access and gather insights. While the typical approach to monitor exposures is based on securities' country exposure (e.g., country of risk), Russell Investments developed two additional methods to monitor exposures: a supervised approach and an unsupervised approach, both utilising Machine Learning (ML) techniques. While there were significant overlaps between securities identified by looking at country of risk and the ML approach, several additional positions were identified as having indirect Russian exposures – as it turned out - primarily due to the source of operating income.

Outcome

While direct exposures were limited, the broader implications for European and global political stability were of key concern. We established heightened communication and monitoring of our sub-advisers, who also acted quickly to respond to the risks. For our in-house direct investing strategies, we overrode the 'buy' signals of our models and looked for opportunities to prudently wind down existing holdings on volatility and liquidity concerns and in anticipation of sanctions. For holdings in sub-adviser portfolios, we blocked any new purchases and sought to trade out of positions as and when market conditions allowed. Deciding to exclude a company, industry group, or country based on outsized risk occurs only in highly exceptional and extreme cases, but in this instance, we expected the Russian markets would remain uninvestable with a complete inability to trade normally and fairly for the foreseeable future. We expected there would be outsized risks to the function of individual companies and the economy as a whole. We resolved that Russian- and Belarusian-domiciled securities would be excluded from the addressable opportunity set of our funds until conditions warrant re-evaluation.

Credit risk

Russell Investments' Credit Risk Management Team independently review issuers and counterparties and performs on-going monitoring of their financial strength. A Rating Committee assigns an internal credit rating to each issuer and counterparty.

- **Exposure monitoring:** Credit Risk Management applies a risk-based approach to monitoring credit exposures. Consistent with Russell Investments' five lines of defence, the business unit bears primary responsibility for monitoring and managing credit exposures.
- **Governance:** An approved list of counterparties and their corresponding internal ratings is maintained and updated as needed. The results of both the initial and periodic reviews are presented to the Rating Committee. Russell Investments' Credit Risk Management Committee (sub-committee) of Russell Investments' Global Risk Management Committee ratifies counterparties and issuers on Russell Investments' approved list.
- **Approved list:** Russell Investments portfolio managers and traders may only use issuers and counterparties on the approved list maintained by Credit Risk Management.

ESG criteria inform our credit evaluation. For example, our opinion on the fundamental strength of a counterparty reflects diversification of its business model and considers a company's ability to sustain itself in the advent of a severe shock due to environmental related issues. We also consider how well a company manages its relationships with its workforce, the society in which it operates, and its political environment. Lastly, in scoring a counter-party's management team, we consider the make-up of a counterparty's board, its strength, independence and its effectiveness of decision making and oversight, and we address any regulatory, tax or legal violations, among other disclosures. We score more favourably companies that are taking a proactive role when incorporating sustainable practices.

Operational Risk

Operational Risk Management (ORM) focuses on identifying, assessing, and monitoring operational risks.

Russell Investments operates a multi-element risk identification approach which operates on the premise that the recognition and measurement of risk needs to occur on both a proactive and reactive basis. Russell Investments' long-standing formal escalation protocol promotes timely communication to senior management, enabling changes (i.e., enhancements to controls) to be made when necessary. Russell Investments employs a disciplined event capture approach with results reported through the risk governance structure, and through other means including the monthly CEO risk dashboard. Ongoing monitoring, as well as targeted risk reviews and risk profiling, provide a basis for insights as to how risks are changing in response to market conditions and the evolution of strategy and portfolio composition.

- **Governance:** Russell Investments maintains an Operational Risk Committee which is a sub-committee of the Global Risk Management Committee. Chaired by the Director of Global Operational Risk, the Operational Risk Committee is responsible for the oversight of operational risks inherent in Russell Investments' global businesses and legal entities - including people, process, technology, vendor, regulatory and reputational risks. The Operational Risk Committee and Regional Risk Committees assist the Global Risk Management Committee in its oversight of Russell Investments' operational risk governance structure, operational risk management framework and policies, and operational risk tolerances and limits.
- **Event Escalation:** All events are required to be reported to risk, legal and senior management in accordance with the global event escalation policy. Depending on the severity and type of event, the escalation process could include compliance, regional Privacy Officer, the Chief Risk Officer, the Chief Legal Officer, other EC members, as well as the CEO, board members and LSEG Chief Risk Officer. Regulatory and compliance breaches are reported to the relevant regional compliance committee.
- **Business Continuity:** The Business Continuity (BC) staff works closely with stakeholders in each region and business unit to develop appropriate plans. Each business unit has representation in the form of BC Plan Coordinators, Plan Managers and Accountable Senior Executives. The Business Continuity group provides program status at regular intervals to several Risk Committees within the company, in addition to senior management. Business continuity applies a standard approach across all regions, pushing accountability for plan maintenance and exercising down to each business unit. For each business unit, the senior manager is considered the accountable executive from a BC perspective and is expected to review the plan annually after maintenance and exercising are complete. Additionally, they are required to attest as to the plan's ability to effectively guide the business unit in its recovery activities. Within each business unit is a BC Plan Manager/BC Plan Coordinator, who has tactical responsibilities to maintain the plan.

Enterprise risk assessment

On an annual basis, Russell Investments updates its Enterprise Risk Assessment, which includes a list of market-wide and systemic risks identified by Russell Investments' Global Risk Management Team. Each identified event is given a rating across two dimensions namely likelihood and severity. As of year-end 2022, the risks with the largest combined scores were:

- Illiquidity Risk
- Policy Exhaustion
- Pandemic
- Factor crowding investing
- Trade-and currency wars
- Technological advances
- Cold War 2.0
- Correlation shock
- Climate risk including transition risk and physical risk

Once risks/events are identified, steps are taken to evaluate whether these risks should be monitored and/or mitigated. Where required, this may include recommending new risk monitoring procedures or changes in portfolios to track or address the potential impact of the risk. As described under the segment titled 'Investment Risk' above, enhanced monitoring of Russian and Ukrainian exposures was implemented, accounting for both direct and indirect exposures in response to the Russian invasion. Also in 2022, the risk team took action based on the correlations between equity and fixed income price movement, as described below.



Case study – Analysis and action on correlation shocks

Correlation shocks can happen at different levels of granularity, including within-asset classes (e.g., February 2018), which impacts single-asset class volatility, to cross asset class correlations (e.g., March 2020), which affect multi-asset portfolios' volatility. Correlation shocks at all levels of granularity are important to monitor as they impact several aspects of portfolio management including the stock picking environment, risk of future volatility changes, risk of financial deleveraging, portfolio performance, and risk model performance.

Outcome

During 2022, the financial markets experienced a large cross-asset correlation shock with both fixed income and equity markets selling off. This resulted in larger active returns for funds that relied on diversification relative to what the risk models generally predicted. Increased monitoring was put in place to keep close watch on implied market wide deleveraging, and our risk models were updated to take into account scenarios with higher correlations between equity and fixed income.

Climate change is acknowledged as a risk that needs to be considered at the total portfolio/client level and, as such, will be implemented in Russell Investments' Enterprise Risk Management System. This implementation will include exposure information (e.g., carbon footprint) as well as climate scenario analytics capabilities. Further information in relation to our approach to tackling climate risk is provided in section 4.3.

Sustainability Risks Policy

Russell Investments' policy is to integrate sustainability risk management into our investment solutions by identifying, evaluating, and managing relevant risks in our investment manager review process, portfolio management and through implementing proprietary solutions. We believe **sustainability risks** are most relevant to investment outcomes when they exhibit **financial materiality**, and, like all investment risks, are incorporated by balancing **expected risk** with **expected reward**. In managing investment solutions, we consider financially-material sustainability risks in the context of expected rewards using a blend of inputs from sources including, but not limited to, investment managers, third-party data sources and Russell Investments' propriety analysis. Furthermore, we incorporate bespoke sustainability risk management and explicit controls based on clients' requirements for customised mandates. We also seek to collaborate with our advisory clients to consider, monitor and manage sustainability risk priorities in their portfolios.

Developing a deep understanding of portfolios' financially-material sustainability risks and how they are identified is an explicit objective for all Russell Investments' Portfolio Managers. Our process for ensuring this happens, called "Enhanced Oversight", is described in section 4.1. Portfolio managers leverage our standard sub-adviser review cycles, including annual due diligence, quarterly reviews and other meetings throughout the year, in this process. We also address sustainability risks throughout our investment practices, including our manager research rankings which explicitly assesses sub-advisers' ESG capabilities - and via investment committee governance, which is described in section 3.

4.3 Addressing market-wide and systemic risks: climate change

✓ UK Stewardship Code – Principle 7

The challenge

Russell Investments formally endorsed the Task Force on Climate-related Financial Disclosure (TCFD) in 2019 in recognition that climate change is a monumental challenge to the global economy and that asset managers have a critical role to play. Incorporating climate-related risks into the financial system is a crucial first step in pricing risk, and capital flows will be needed to meet global ambitions for energy transition.

Our vision

We are committed to driving progress. Through our stewardship programs, and as active investors, we promote the TCFD's recommendation for companies to provide effective climate-related disclosures that enable more informed financial decision making. We advocate for companies to have board-level oversight and governance of climate change impacts. We also hold ourselves accountable for providing transparency around our own investments and operations. In addition, we take seriously our role in partnering with clients to meet their climate objectives.

Progress to date

We have made considerable progress incorporating climate considerations into our business. In our TCFD Report, we outline the key climate-related risks and opportunities identified and assess them using metrics and scenario analysis in accordance with the recommendations of the TCFD. We share policies developed for formally and systematically addressing sustainability risks and describe the evolving practices by which we integrate climate awareness into our investment process. We believe active ownership is an important lever for delivering investment outcomes and is also one of the most effective tools at our disposal to effect change.

Progress to date has included enhancing processes for climate risk and opportunity identification, assessment, and management in the following ways:

- **Establishing appropriate governance** – Establishing governance around climate risks, including development of a climate change policy, addition of climate risk metrics to our risk management dashboard, and identification of individuals responsible for our climate response.
- **Extending quantitative research** – Expanding the depth of our quantitative risk assessment capabilities for transition and physical risk, including breakdown by channel through a partnership with a climate model specialist.
- **Policy development** – Enhancing the process through which climate risk is managed in portfolios, as detailed in our Sustainability Risk Policy. The key elements of this policy direct investment professionals to leverage data, sub-adviser insights and in-house expertise to identify and manage sustainability risks.
- **Active ownership** – Engaging with investee companies on the topic of climate change – with over 34% of our corporate engagements covering climate issues in 2022.
- **Solution development** – Managing carbon reduction portfolios, as we have done since first launching low carbon strategies in 2015, with a track record of enhancements to our approach as best practices and data evolve.

In recognition that tackling climate change requires global coordination, we emphasise collaborative action including:

- Aligning with other investors to encourage comparable disclosures and consistent regulatory frameworks, which is a necessary step to improving the availability and quality of data.
- Engaging collectively with systemically important emitters as a powerful tool for driving change. This includes our support for Climate Action 100+ and other collective engagement channels, as detailed in section 5.1 of this report.
- Sharing best practices across industry practitioners to facilitate information sharing and collective knowledge building. This includes collaborations with, and support for, the [Institutional Investors Group on Climate Change \(IIGCC\)](#) and the [Transition Pathway Initiative \(TPI\)](#), among others. These are described in section 6.3.

Identification of climate-related risks and opportunities

The first step in managing climate-related risks in investments is identifying them. There are many mechanisms through which climate-related factors impact security prices, but these risks can be broadly categorised as transition or physical risks. We recognise that different risks are likely to manifest over different time horizons and that they require different tools to assess, as outlined below.

Exhibit 19: Snapshot of the climate risk identification and assessment process

RISK OR OPPORTUNITY IDENTIFIED	DESCRIPTION	EXAMPLES OF ASSESSMENT TOOLS	MOST RELEVANT TIME HORIZON
Transition Risks & opportunities	Risks arising from shift to low carbon economy	Scenario analysis (esp. transition scenarios), metrics	Medium term
Changes in cost	Price on carbon, costs of abatement	Carbon footprint metrics	Short and medium term
Changes in demand	Demand destruction and creation arising from shifts in demand	Scenario analysis (esp. transition scenarios), metrics on green revenues or climate solutions, exposure to potentially stranded assets	Short and medium term
Physical Risks	Physical risks can be event driven (acute) or longer-term shifts (chronic) in climate patterns	Scenario analysis, (esp. hot house world scenarios)	Long term
Acute	Increased severity of extreme weather events	Scenario analysis (esp. hot house world scenarios), asset-level risk mapping	All but increasing severity long term
Chronic	Changes in weather patterns, rising temperatures, rising sea levels	Scenario analysis (esp. hot house world scenarios), estimated sensitivity to productivity impacts, heating/cooling days	Medium and long term

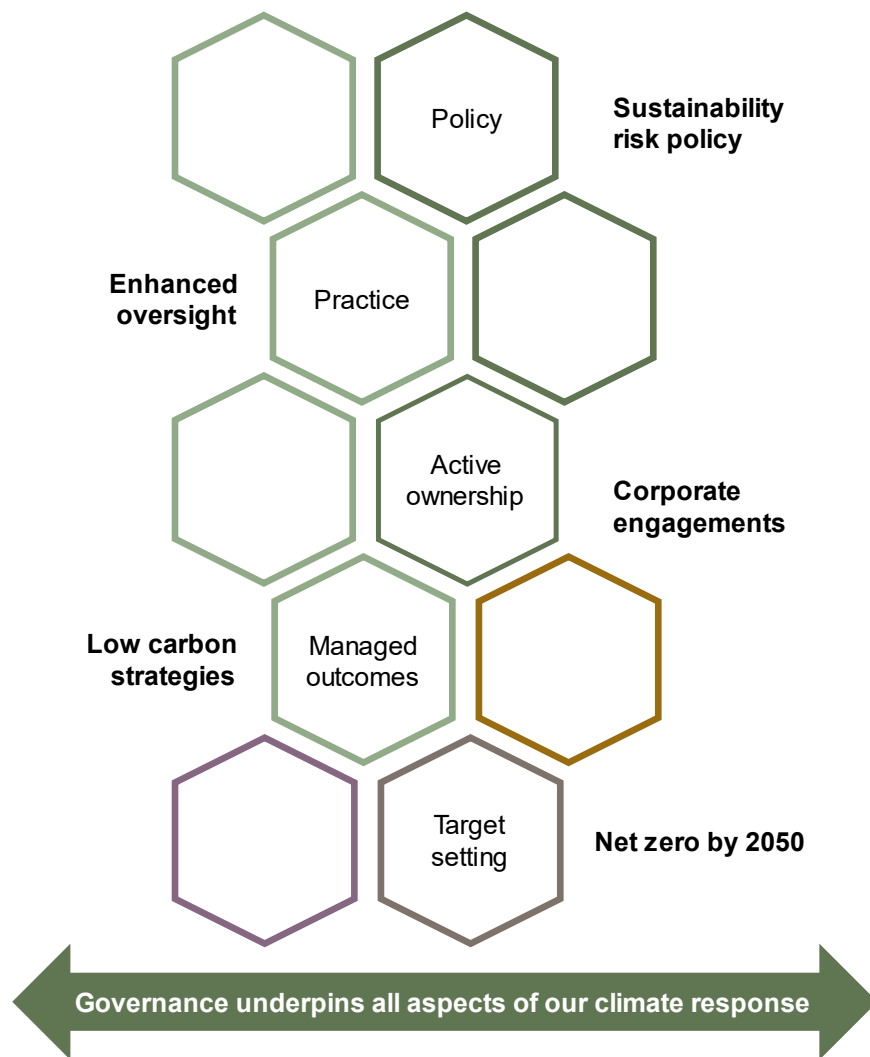
Climate risk is characterised by a longer time horizon than many traditionally managed risks. To make this more explicit, we refer to short-to-medium-term horizons, in the climate context, as a three-to-ten-year horizon, and a long-term horizon as the period out to 2050, although we note these are rough approximations only.

Assessment and management of climate-related risks and opportunities

On an annual basis we provide an assessment of our global portfolio against metrics and scenario analysis in accordance with the recommendations of the TCFD. Following identification and assessment of climate-related risks and opportunities, we turn to management. Portfolio managers are the first line of defence in managing portfolio risks, and management of climate risk is no different. We believe embedding deep expertise and awareness of sustainability risk within investment teams is key to fully integrating climate management into our process. This is formalised in our sustainability risk policy, as described elsewhere in this document. In addition to a formal policy, our climate risk management practices continue to evolve. This includes our enhanced oversight and active ownership programs, where climate-related considerations play a pivotal role. Supplementing these firm-wide practices, we continually enhance our approach to carbon-managed portfolios for a sub-set of clients and funds that want to build in more explicit climate-related outcomes. Finally, we set forward-looking net zero targets for a subset of our funds. Taken together, we adopt a multi-layered approach to managing climate issues including formal policies, practices, engagement and carbon managed portfolios and target setting.

Despite considerable progress, we know this is only the beginning of a long journey for our organisation and the global investment community at large when it comes to tackling climate risk in portfolios. Most immediate on our horizon is our commitment to the Net Zero Asset Managers' Initiative. Our commitment involves rapidly raising knowledge across teams, building new capabilities, and setting ambitious targets around what it means for our portfolios to be aligned to a net zero by 2050 objective, always with a client-first, fiduciary focus. We are also ramping up our coverage of active managers with a focus on climate considerations and sustainable strategies more broadly. We continue to seek out data sets that provide valuable insight into the climate exposures of our portfolios, taking advantage of exciting improvements in the climate data landscape.

Exhibit 20: A multi-layered approach to our climate response: key pillars



Source: Russell Investments.

Please refer to our annual TCFD report for additional details on how we identify, assess, and manage climate-related risks and opportunities.

4.4 Our Approach to Monitoring Service Providers

- ✓ UK Stewardship Code – Principle 2, 8
- ✓ Japan Principles for Responsible Institutional Investors - UK Stewardship Code – Principle 8
- ✓ The New Zealand Stewardship Code - UK Stewardship Code – Principle 4

Our multi-manager business strategy requires the oversight and monitoring of external asset managers that we employ in our investment portfolios. We also rely on third-party providers to support our active ownership practices. Furthermore, we count on a host of additional third-party vendors to ensure the overall efficiency of our core services for clients. A description of how we hold each of these three categories of service providers accountable is provided below.

External managers

Due diligence on external managers prior to their inclusion within our funds and portfolios is conducted at two levels by specialist teams that are independent of each other:

- Manager research analysts who sit within the Investment Division (ID) and evaluate and monitor from an investment perspective, and
- The Global Manager Oversight and Due Diligence (GMODD) group within the Global Risk Management (GRM) function, which is independent of the ID.

We believe that it is important from a risk and compliance perspective to separate the operational due diligence function, which reports up to our Chief Operating Officer, from the investment due diligence function, which reports up to our Global Chief Investment Officer. This separate, operational review is particularly pertinent within alternative and unlisted asset classes, such as hedge funds and private market investment strategies, where transparency is lower.

The combination of our investment research and our operational due diligence research on managers aims to achieve objectives and minimise negative surprises for our clients. We have had success in avoiding managers that have exposed investors to headline risks. A description of each type of research is provided below.

Manager research due diligence

Russell Investments has an experienced team of approximately 36 analysts engaged solely in the manager research process. Each year, our research analysts conduct approximately 2,000 research meetings and conference calls with investment managers. These evaluation sessions are our primary means of gathering information to arrive at an informed opinion about a manager's product(s). Our assessments, gained from multiple sessions over time, allow us to establish an overall opinion of the organisation and its investment strategies. Our analysts are responsible for pre-meeting analysis of the product (meeting preparation that includes a historical review of prior meetings and analysis of the strategy) and for conducting the research meetings. Analysts supplement these meetings with regular contact with managers in their universe, through phone calls, emails and less formal update meetings as required.

As part of our evaluation process, we conduct a qualitative and quantitative assessment. We score managers against a detailed framework that captures the key inputs to a robust investment process, and we undertake quantitative analysis of each strategy's performance patterns, attribution and outcomes. A sampling of the inputs can be described as the following:

Exhibit 21: A qualitative and quantitative evaluation

QUALITATIVE ASSESSMENT	
Organisation	Stability, ownership, and incentives
Team	Dynamics, diversity, and motivation
Experience	Skill and stability of personnel
Capital markets case	Conceptual basis for philosophy
Research	Depth and alignment
Decision making	Accountability and efficiency
Security Selection	Use of security-level characteristics
ESG	Insights, portfolio implementation, and active ownership
QUANTITATIVE METRICS	
Portfolio construction	Effects of portfolio turnover
Consistency with philosophy	Magnitude of risk assumed/tracking error
Stability through time	Sources of relative performance
Ability to manage sizeable accounts	Liquidity analysis
Absolute and risk-adjusted performance vs. broad manager universe	Style indexes

Source: Russell Investments. For illustrative purposes only.

In addition to the above factors, we have identified a variety of proprietary attributes of successful managers that are unique to given styles of management. Analysts are charged with making relative assessments of managers in their respective styles, to better discriminate among manager choices. The results of our Manager Research efforts are added to our global proprietary database, RADAR, which we believe is one of the largest and most comprehensive Manager tracking databases in the world. Developed in-house, RADAR is our primary repository for research reports generated on the products of investment managers globally and includes over 14,000 current manager products.

Global Manager Oversight and Due Diligence

The GMODD team's operational due diligence (ODD) review involves evaluating the business, compliance and operational risks and controls of third-party managers that may materially impact Russell Investments, our funds and clients. A thorough ODD review is based upon discussions with key principals and employees of the manager; observations of their business practices; and an appraisal of various documentation and representations disclosed by the manager. When conditions allow, an on-site meeting in the office is also optimal. The key areas analysed include:

- **Operational risks** – it is important to examine the manager's trade processes, from execution and counterparty oversight to settlement and reconciliation, along with guideline compliance, allocation policies, and cross trades. This area also includes an analysis of the manager's soft dollar and directed brokerage policies and its resolution process for trade and operational errors.
- **Business risks** – ODD reviews a firm's business structure and vendor oversight, strategic planning processes (including organisational growth) governance, management oversight and supervision, along with the firm's IT infrastructure and business continuity planning.
- **Compliance** – a review of this area considers the firm's compliance monitoring and reporting, personal trading policies, gifts and entertainments and conflict of interest policies, compliance with regulatory agencies, personal information security, and record retention.

ODD involves a different skill set to that which is needed for performing investment due diligence. We believe that it is best conducted by professionals with strong backgrounds in global regulations, trading, operations, and business risks. The outcome of an ODD review can have clear Red or Green flags - but may in practice sit in an Amber area. In formulating an opinion, the ODD reviewer will consider:

- **Consistency** – were all the documents and verbal assertions consistent with each other and all the relationship confirmations consistent with expectations?
- **Transparency** – did the manager provide documents in a timely way and allow access to the key people and systems during the on-site visit? Were the reviewers allowed an open dialogue with the firm's service providers and referees?
- **Firm infrastructure** – does the firm have a tight control environment with sufficient systems and knowledgeable support staff to support the products they are managing?
- **Manager reputation** – did all the background checks come back clean and with all references confirmed?

Absent clear Red flags, where an ODD review will recommend an investor to avoid allocating funds to a specific money manager, an investor may still decide to invest with a manager with some deficiencies. The value of the ODD report is that the investor is aware of these deficiencies and is able to monitor them and work with the money manager to increase their controls in the areas where specific weaknesses have been identified.

ODD is not a new concept. We have built a global team of analysts dedicated to conducting reviews of the risks outside of managers' investment capabilities. These analysts follow our Manager Compliance and Operations Review (Manager CORE) process, helping shape the way Russell Investments ranks money managers and the decisions for recommending, hiring, or terminating managers.

ODD can help investors to understand the additional risks to money managers' businesses beyond the investment risks, ensuring a more holistic assessment of managers' capabilities. ODD is not just a process to be followed when hiring a manager. It is often beneficial to review these risks on an ongoing basis, as a manager's business evolves.



Case study – A 2022 Operational Due Diligence review

In January 2022, the GMODD team reviewed an incumbent Hedge Fund manager, guided by its tested operational due diligence criteria. Where deficiencies are encountered with an incumbent manager, recommendations are provided as well as assistance to address the identified issues.

Outcome

The result of the January review was a “Monitor” rating, which means deficiencies were identified and work is required to improve the rating. The Monitor rating was attributable to the fact that the firm’s valuation policy permitted too much pricing discretion and its CIO & primary owner was a Valuation Committee member. Per GMODD’s recommendations, the manager revised its Valuation Policy and applicable procedures to align with industry common practices.

Specifically, the manager updated the Policy with detailed pricing rules and modified the CIO’s role to that of an advisor to the Valuation Committee.

Active ownership

In order to deliver effective stewardship, Russell Investments relies on third-party data providers, including Sustainalytics and proxy adviser Glass Lewis. The primary services we receive are detailed in the diagram below.

Exhibit 22: Details of service providers

SERVICE PROVIDER	SERVICE RENDERED	HOW THIS SERVICE CONTRIBUTES TO RI'S ACTIVE OWNERSHIP
Glass, Lewis & Co	Viewpoint Voting Platform	Allows Russell Investments to monitor a very high volume of voting activity and place manual votes when appropriate.
	Application of Custom Proxy Voting Guidelines	Glass Lewis applies a bespoke set of Proxy Voting Guidelines created and maintained by Russell Investments’ Active Ownership Committee.
	Resolution research and analysis	Russell Investments’ internal proxy analysts draw on Glass Lewis’ research and analysis as one of several resources when preparing a recommendation for the Active Ownership Committee on a referred item. For more information on referred items, please see Section 5.2.
Sustainalytics	Coordinate collaborative engagement partnership	Sustainalytics coordinates and leads engagement activities; Russell Investments participates in Sustainalytics’ Thematic engagements, please see Section 5.1.
	Company-level ESG ratings and analysis	Our investment professionals leverage Sustainalytics’ ESG risk ratings and analysis in our manager due diligence, in portfolio management and construction, and in our engagement practice.

Source: Russell Investments. For illustrative purposes only.

To ensure our process of delivering effective stewardship is of high standard, we regularly monitor and review the services of both Glass Lewis’ and Sustainalytics’.

For proxy voting, an annual service review is conducted to include statistics of the previous year’s vote activity and accuracy and timeliness from the Glass Lewis research team. Russell Investments tracks these statistics year-on-year to ensure consistent quality of service. Members of the Active Ownership Committee also hold an annual meeting with Glass Lewis, addressing any concerns or updates regarding the services they provide.

Russell Investments has partnered with Sustainalytics as an engagement service provider because their model allows for close oversight and integration with our internal active ownership and investment processes. Our Active Ownership Team, under the oversight of the Active Ownership Committee, is responsible for the selection and monitoring of engagement themes. The team communicates regularly with Sustainalytics on the positioning of these themes, target company selection and on progress and outcomes. Additionally, portfolio managers and wider members of the ID regularly participate in direct company engagements led by Sustainalytics.

Other third-party vendors

As a global organisation, Russell Investments has longstanding experience of integrating with various internationally recognised outsourcing vendors and partners, alongside our internal resources, to improve the overall efficiency of our core services for clients. We engage with providers across our operational, information technology and financial service lines, for some of our middle and back-office support services. We maintain continuous oversight of our providers via service level agreements, formal relationship meetings and evaluations that incorporate performance metrics.

We utilise third-party providers for middle-back-office services such as administration services for our pooled funds, custodian/depository services, portfolio accounting, and certain IT services. Three primary service providers we engage with are described below.

- **State Street** – We have a long history of working with State Street globally, since 1995 in EMEA. State Street provides all fund administration (including fund accounting), prospectus and regulatory guidelines monitoring, and custodian/depository services for Russell Investments.
- **SS&C Globe Ops** – SS&C Globe Ops provides portfolio accounting services, including daily reconciliations of cash and positions when comparing our current holdings with the custodians' data.
- **CGI** – As a proportion of IT support functions are outsourced, Russell Investments' dedicated global IT Applications and Infrastructure department works in conjunction with CGI to provide IT infrastructure, including IT support and security.

Russell Investments' vendor risk management framework utilises a combination of decentralised vendor management, centralised risk management, and focused sourcing and procurement. Key components to managing vendors include business unit ownership of vendor activities, sourcing and procurement assistance, and risk management oversight.

Within Russell Investments' business units, assigned resources provide primary selection, monitoring and oversight of key vendors, such as management of service levels and the identification and mitigation of service issues. These efforts are the 'first line of defence' to mitigate vendor risks and identify areas of service improvement. For example, Global Operations (Fund Services, Investment and Data Operations) works directly with key service vendors (custodians, trading counterparties, reporting providers, etc.) daily to manage fund and client investment activities. During the initial selection and onboarding process, the first line activities include consultation, as needed, with subject matter experts such as Legal, IT, Compliance and Operational Risk Management as part of Russell Investments' vendor due diligence process. Assigned vendor owners review and follow up on any relevant findings or issues noted in key vendor controls documentation such as SSAE 18/SOC 1 reports. Other activities include tasks such as vendor performance monitoring, continuous improvement reviews, event management and analysis, and quality assurance. Onsite visits (if required) are periodically performed with key vendors to review operations and to assess performance as necessary.

As a second line of defence, Global Risk Management operates a Third-Party Risk Management program that provides enterprise level oversight for the firm's designated critical vendors. Control activities facilitated in conjunction with first line business units include assessment of vendor SOC reports, IT posture via vendor security assessment questionnaires and vendor business continuity and vendor (4th party) oversight programs. The program also conducts ad-hoc targeted due diligence in response to specific widespread events, such as cybersecurity events impacting a large number of firms or geopolitical events that potentially impact service providers. Governance of the program is directed by the Operational Risk Committee with assistance from other committees depending on the type of vendor and risks involved.



Case study – Example of an unnamed vendor review in 2022

Our review of a critical vendor in 2022 found their SOC report was deemed "Not Qualified" by the vendor's independent external auditor. The independent auditor stated that the controls related to the control objectives within the report were not suitably designed nor implemented to provide a reasonable assurance that computer systems are backed up to storage media and that procedures are employed to maintain the integrity of the storage media. RI Global Finance, Global Risk Management, and Global IT ("RI review team") reviewed relevant documentation and requested the vendor provide insight into what efforts are underway to improve the control environment.

Outcome

The vendor indicated they established a team to specifically address issues resulting from the control failures and published a separate, more detailed remediation update. The RI review team found the documents to be comprehensive and the vendor's response to be appropriate, so no immediate actions were required. However, as the remediation is still ongoing, RI will review in detail the vendor's implementation of these changes and future control reports to validate the improvements in the next review cycle.

Global Sourcing and Procurement

In 2022, following a review of systems that would allow us to analyse vendor spend data alongside metrics on diversity, our Global Sourcing and Procurement team implemented a product from Supplier.io, called Supplier Explorer. The tool identifies supplier diversity metrics within our existing spend data and allows us to search for other diverse suppliers as well. The tool has helped establish a baseline for reporting and transparency. We have also become a member of the Financial Services Roundtable for Supplier Diversity. This membership will allow us to obtain benchmarking and learn best practices that are specific to our industry. We continue to evaluate additional memberships with groups that certify, develop, and connect Minority Business Enterprises (MBEs) with major corporations and public agencies.



5. Active Ownership

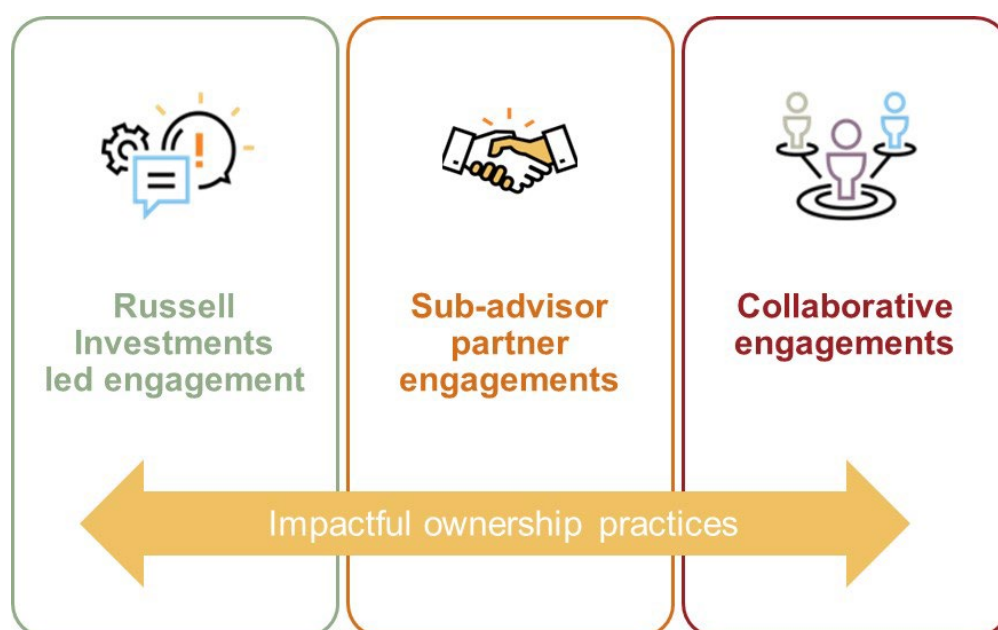
- ✓ UK Stewardship Code – Principle 9
- ✓ Japan Principles for Responsible Institutional Investors - Principle 1, 3, 4
- ✓ The New Zealand Stewardship Code - Principle 2, 4

5.1 Our Engagement Approach

The exercise of active ownership is an important part of our investment responsibilities and decision-making process. As part of our stewardship activities, we aim to engage with companies on overall business strategy, capital allocation and ESG practices, while encouraging appropriate levels of risk mitigation. Furthermore, through ongoing dialogue, we can better understand both the risk factors and potential return associated with the ownership of a company. Through our engagement activities, we aim to promote changes by encouraging good practices on material issues that may protect and enhance long-term sustainable value creation and shareholder rights, and ultimately benefit our clients as the beneficiaries of our investments.

Our business model and service capabilities enable a multi-channel approach to stewardship, meaning that we engage directly with issuers, engage through and with our sub-adviser partners, and join collaborative engagement efforts with third-party market participants. Further information can be found in our [engagement policy](#).

Exhibit 23: Impactful ownership practices



Source: Russell Investments, for illustrative purposes only.

As a leading investment solutions partner with multi-asset and multi-manager capabilities, we leverage a broad set of relationships, including our sub-adviser partners, to exert influence and enable multiple levels of engagement. These relationships extend across and through sub-advisers, standards setters, proxy and engagement service providers, other market participants and of course, corporate issuers. These connections also provide information sharing and serve as an important feedback loop into our active ownership processes.

Russell Investments-led Engagements

A strong stewardship program includes pursuing activities which offer the highest return or risk mitigation opportunities. To this end, Russell Investments' Active Ownership strategy is focused on material issues under the general categories of ESG. While we recognise that a broad set of issues are worthy of shareholder attention, we believe that identifying a select set of engagement priorities supports accountability and successful outcomes.

Internally led, direct company engagements are initiated by two key methods:

- Intentional selection of portfolio companies identified as high ESG risk through various data resources. Further described in the engagement selection criteria below.
- From our proxy voting activity – Instances where we have voted against management may lead to a follow-up engagement. Some of these votes are determined by our custom guidelines; others are referred to the Active Ownership Committee for special review. The proxy voting section below provides additional information on referred items and the manual voting process.

Sub-adviser Partner Engagements

Given our position as a multi-asset manager-of-managers, we leverage our relationships with our sub-advisers to provide an informed and integrated approach to active ownership. Sub-advisers are hired to play targeted, value-enhancing roles in our portfolios. Day-to-day they are routinely in close contact with our investee companies, so it is natural that their insights and recommendations regularly contribute to our engagement and voting processes.

We consider our sub-adviser relationships to be a strategically important element of our stewardship program. Whenever possible, our portfolio managers solicit input from our sub-adviser partners in the selection of our engagement priorities. Discussions with our sub-advisers can validate the benefit of an engagement and inform our approach. Through consultation with our sub-adviser partners, we determine whether joint outreach or separate but aligned efforts are more likely to be effective. Opportunities highlighted by our sub-advisers might result in partnered engagement efforts, in Russell Investments-led engagements with sub-adviser input, or in reinforcement of engagement efforts that are already underway.

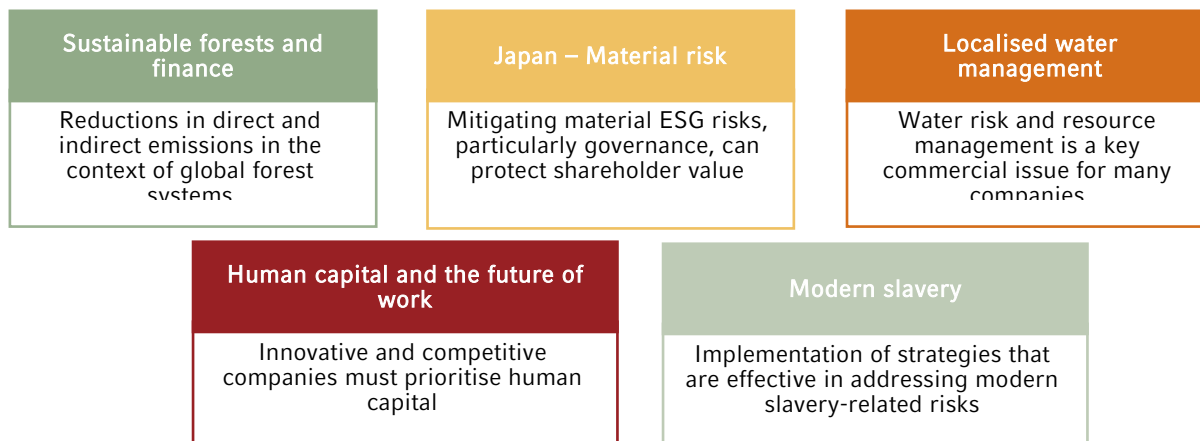
Collaborative Engagements

- ✓ UK Stewardship Code – Principle 10
- ✓ Japan Principles for Responsible Institutional Investors - Principle 3, 4
- ✓ The New Zealand Stewardship Code - Principle 4, 7

Since early 2020, Russell Investments has leveraged a partnership with Sustainalytics for thematic and collaborative engagements. Sustainalytics' engagement programs enable participants to build relationships with a selected set of issuers to encourage action on specific issues in ways that promote long-term value. Russell Investments has selected themes that align with our engagement focus areas as defined in the engagement selection section below, in areas where Sustainalytics' expertise and access increases the likelihood of success. Across all five themes selected, our investment professionals participate directly in calls with the targeted companies.

Russell Investments' collaboration with Sustainalytics has materially broadened our scope of engagements. Sustainalytics thematic engagement programs are designed to run a three-year timeline with the purpose of influencing companies to proactively manage specific ESG risks and opportunities.

Exhibit 24: Thematic engagement through Sustainalytics in 2022



Source: Russell Investments, for illustrative purposes only.

Climate Action 100+

Climate Action 100+ is an investor initiative launched in 2017 to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. As members of the Climate Action 100+ initiative since early 2020, and in line with our Net Zero commitment, Russell Investments has engaged with a selected number of companies on climate transition to support the initiative's goal. To this end, during 2022 we have actively contributed to the working group in the respect of the companies we engage with. Furthermore, we supported the majority of proxy voting resolutions flagged by the initiative, which is a clear expression of preference on issues directly related to the initiative's goals.



Case study – Leading a Climate Action 100+ Engagement

Engagement Channel	Collaborative Engagement
Country of Incorporation	United Kingdom
Market Cap	USD 6.82bn
Sector	Utilities

In 2021, Russell Investments joined the collaborative engagement via CA100+ as a Lead Investor for a UK-based Oil and Gas Distribution Company which is classified as a top 100 emitter, i.e., one of the 100 largest emitting companies globally.

As co-lead of the engagement, we have had regular dialogue with the company as it considered how to improve their approach to climate change. Moreover, we sought updates on the company's public policy activities and lobbying alignment disclosure.

Outcome

We have found the company to be very constructive and open to engagement on climate change risk. The alignment of the climate transition plan to 1.5 degrees C is challenging to assess due to the different activities of the business and the varying decarbonisation trajectories of these activities under decarbonisation scenarios. Russell Investments will continue to work with the company via the CA100+ initiative and collaborative engagement process.

Engagement Selection

At Russell Investments, we hold thousands of securities on behalf of our clients. Our engagements are conducted to ensure broad consideration and consistent application of our processes across geographies, sectors and market cap. However, given the breadth of our investment operations and clients' interests, we leverage data and research to focus our efforts on

the highest return or risk mitigation opportunities. The time horizons of these engagements are aligned with our clients' requirements as detailed earlier in this report.

Russell Investments considers the following criteria when selecting targets for engagement:

- Russell Investments' ownership stake, as percent of shares outstanding and/or weight of fund exposure;
- Proxy voting history and management responsiveness to shareholder concerns;
- ESG analysis performed in-house and by third-party vendors of ESG metrics focusing on sub-industry peer comparison and ESG-related controversies;
- Research and analysis from Glass Lewis, our proxy voting administrator;
- Any history of previous engagement activity; and
- Opportunities highlighted by our sub-advisers.

Engagement targets are finalised using the input and insights of our portfolio management teams and approved by Russell Investments' Investment Strategy Committee.

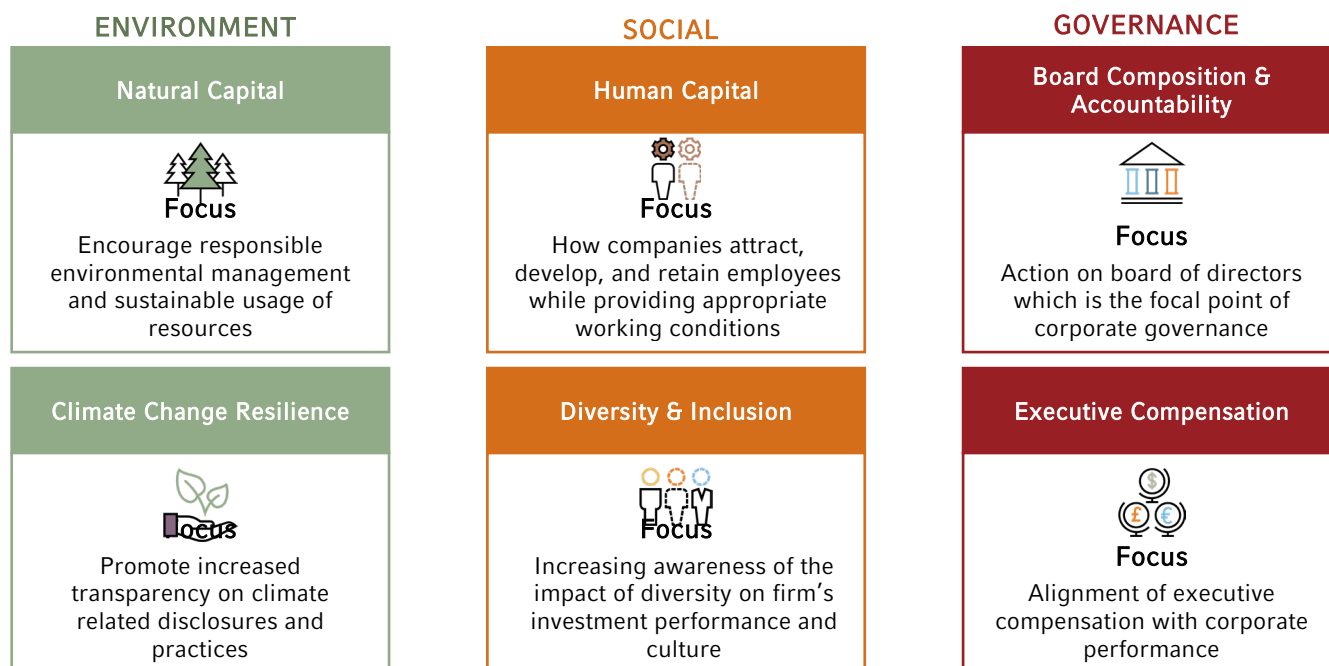
Engagement Focus Areas

In addition to the criteria outlined above, we centre our engagement activities around six focus areas, listed below. These have been chosen in consideration of:

1. Our business purpose of addressing our clients' most pressing financial challenges,
2. Clients' expectations collected from the surveys and communication described in below,
3. Our proxy voting and engagement practices through time,
4. Our corporate values and purpose, and
5. Our responsible investing beliefs.

Our engagement focus areas are monitored and updated as required to address regulatory developments, emerging investment risk and opportunities, as well as clients' requests and needs. More information on this approach can be found in our engagement policy.

Exhibit 25: Engagement focus areas



Source: Russell Investments, for illustrative purposes only.



Case study – Supporting early stage ESG disclosures for small-cap companies

Engagement Channel	Russell Investments-led
Country of Incorporation	United States
Market Cap	USD 282m
Sector	Industrials

Following up from dialogue in 2021, Russell Investments engaged with a small-cap logistics company based in the United States. The engagement aimed to gather investor feedback on the company's ESG roadmap - the plan of action approved by the board to start assessing ESG metrics and publicly disclosing how the company has addressed material ESG risks and opportunities.

Outcome

The company had made marked progress since initial engagement as it gained board approval to make ESG a strategic priority for the company, including material risks and opportunities in the business's strategy, planning, and reporting going forward.

Russell Investments will continue to encourage a strategic approach to ESG integration with the company as it works to disclose its first ESG report and build an ESG response.

These focus areas are underpinned by two overarching principles: overall ESG disclosure and compliance with the United Nations Global Compact principles.

ESG disclosure

Russell Investments encourages companies to publicise how they are addressing key ESG issues relevant to their business practices in a timely manner. To this end, we promote the publication of an integrated or standalone sustainability report on an annual basis, which provides information in line with peers and industry good practices.

For most small market capitalisation and emerging market equity holdings, we expect ESG disclosure to be the main engagement topic. We recognise that these companies have a disadvantage compared to their larger or developed market peers due to resource constraints and the financial burden that comes with measuring and disclosing ESG risks. Our advocacy for small cap and emerging market holdings therefore often starts with improving ESG disclosures.

United Nations Global Compact

Established in 1999, the United Nations Global Compact (UNGC) is a voluntary framework that has ten principles built around human rights, labour standards, the environment, and anticorruption. These principles promote the integration of sustainable business practices and challenge companies to become more open and transparent about their strategies, policies, and procedures pertinent to sustainability issues.

Since the framework's inception, over 15,000 companies and 3,000 non-business signatories based in over 160 countries have become signatories to the UNGC, growing into the largest corporate sustainability initiative in the world.

To ensure that companies meet a minimum standard for good governance practices, we check whether a company has breached global 'norms', as represented by the UN Global Compact Principles. If a company is identified as being in breach of one of the principles of the UNGC, we consider the company a high-priority engagement target with the purpose of understanding why a breach has been flagged, to promote improvements in governance practices, and to ultimately assess whether the company exhibits good governance.



Case study – Monitoring compliance with the UN Global Compact

Engagement Channel	Russell Investments-led
Country of Incorporation	Brazil
Market Cap	USD 80.17bn
Sector	Materials

Russell Investments aims to ensure companies exhibit good governance practices in line with the UN Global Compact Principles. Towards this goal, we engaged with a Brazilian metals and mining company which produces iron ore and nickel. The company was flagged in breach of two UNGC principles around the environment and human rights.

Outcome

In response to the events which resulted in the UNGC principles violations, the company has restructured its risk management processes to include stringent checks and balances. It has further undergone a process of cultural transformation to change how they look at safety and security risks for their employees and the communities in which they operate.

Although the company has made clear improvements from a governance perspective, we remain concerned due to the reactive nature of the company's response to the negative events, particularly with regards to health and safety. As such, we will continue to engage with the company and monitor progress on remediation and due-diligence improvements.

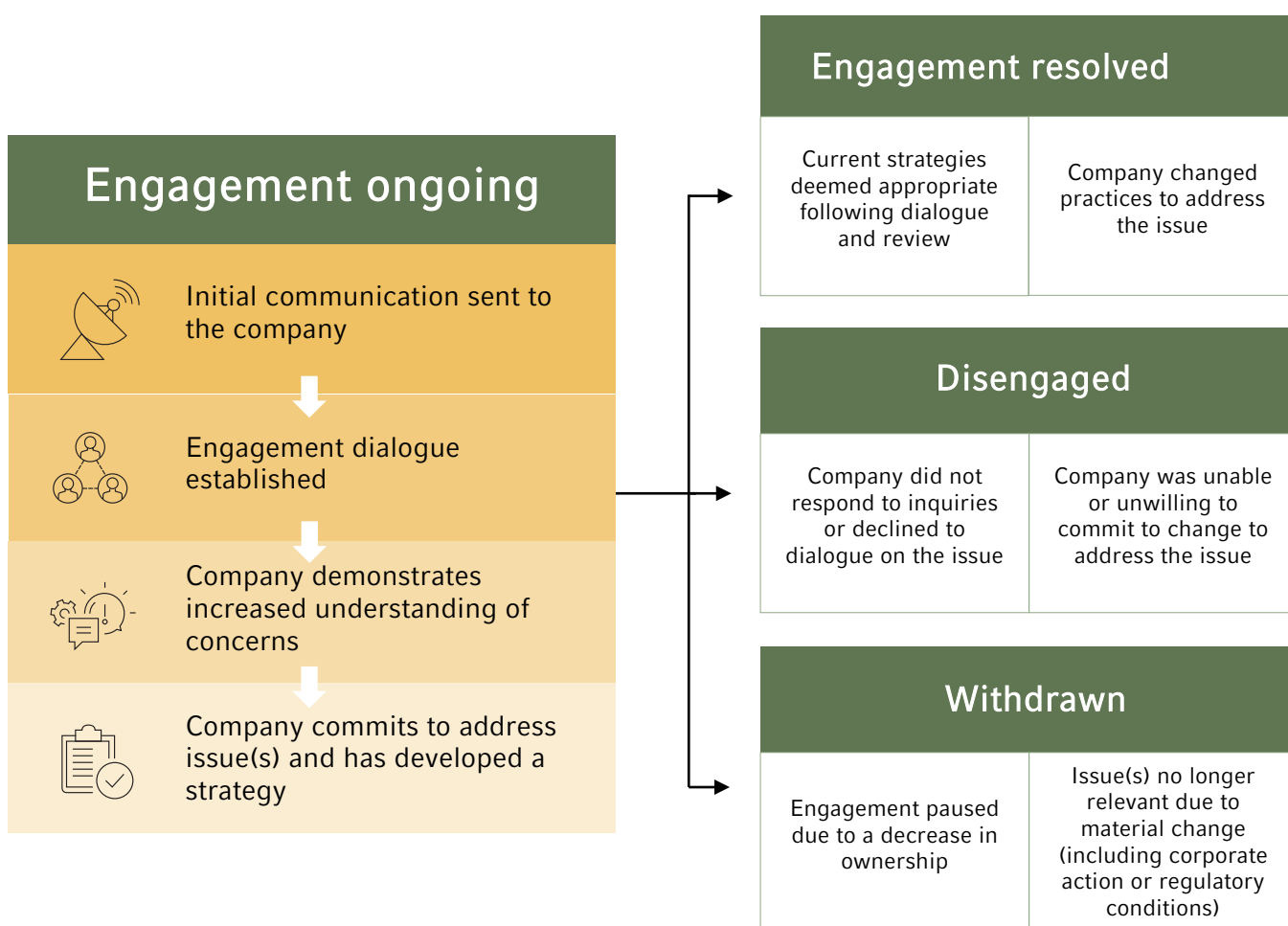
Engagement Tracking and Escalation

- ✓ UK Stewardship Code – Principle 11
- ✓ Japan Principles for Responsible Institutional Investors - Principle 3, 4
- ✓ The New Zealand Stewardship Code - Principle 4, 7

Tracking

Our Active Ownership Team, in coordination with the relevant portfolio management team, is responsible for monitoring and recording the status of company progress of each engagement action, including the relevant focus area and the aim of each outreach. Engagements are 'on-going' as long as we believe progress can be made. Ongoing activities include early-stage conversations that result in raised awareness, as well as companies that have moved toward implementation of a revised strategy. While we do not subscribe to an explicit time frame for escalating or closing our internally-led engagements, we expect and plan for most issues to be resolved over a three-year period.

Exhibit 26: Tracking engagement process



Source: Russell Investments, for illustrative purposes only.

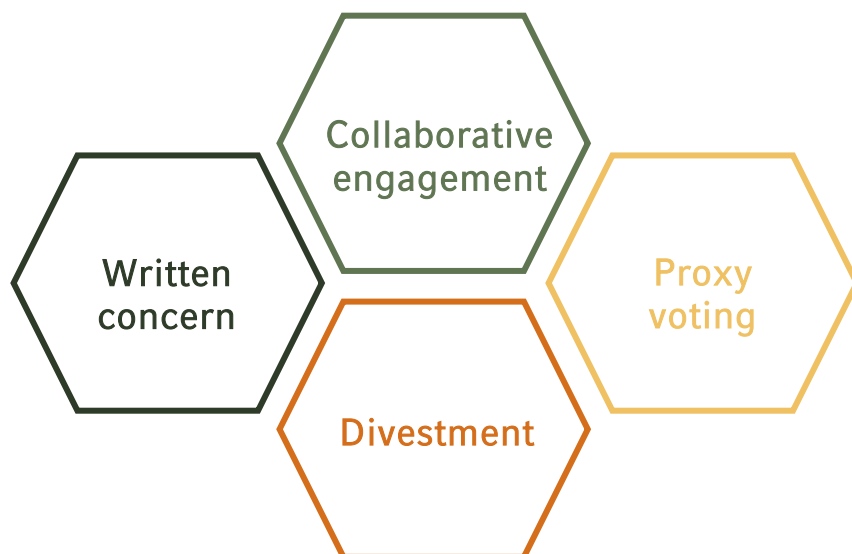
Engagements and outcomes are reviewed at least annually, and members of the Active Ownership Team are charged with recommending whether an engagement should be escalated, finalised, or closed - typically in consultation with relevant AOC members or investment colleagues. When a company repeatedly fails to respond to our outreach and/or does not advance along a path toward implementation, the Active Ownership Team may decide to recommend escalation to the AOC.

Escalation

We believe that engagement is usually the most effective tool for changing corporate behaviour, and our role as a manager-of-managers means we rely on our sub-advisers to make security-level investment decisions. As a result, divestment is not a frequently used escalation strategy. However, we communicate with our sub-advisers when companies we engage with refuse to change or are not moving quickly enough to operate sustainably.

Our escalation strategies, shown below, are assessed on a case-by-case basis and do not follow a particular order. We believe that achieving a positive outcome is more important than executing a linear path.

Exhibit 27: Escalation strategies



Source: Russell Investments, for illustrative purposes only.



Case study – Collaborative escalation through Climate Action 100+

Engagement Channel	Collaborative Engagement
Country of Incorporation	United States
Market Cap	USD 15 bn
Sector	Food Products

In 2022, Russell Investments joined a CA100+ collaborative engagement with a US-based agriculture firm. The company's activities present climate-related risks to investor portfolios, and it has significant opportunities to drive the net zero transition outside of emissions. As a participant in the collaborative engagement, Russell Investments had the opportunity to contribute and listen to the dialogue with the company.

After several years of engagement dialogue through the CA100+ approach, the company has routinely failed to adequately respond to requests for action by the CA100+ engagement initiative. In conversation, neither board directors nor company executives could provide tangible answers as to how the company monitors climate risks, sets climate-related targets, or what challenges the company faces in adapting to climate risks. The lack of progress year-over-year was particularly evident when set against the framework developed by the members of Climate Action 100+.

Outcome

In response, the lead investors of the collaborative engagement have filed a shareholder proposal for the 2023 Annual General Meeting formally requesting the Company take action on climate preparedness. Russell Investments provided support in drafting the shareholder proposal. Specifically, we highlighted the risks not just from the company's business activities but to the company itself.

We expect the Company to increase transparency in its climate change reporting and provide shareholders with more detail on how it will meet the requirements for a net zero emissions by 2050 aligned with the Paris Agreement.



Case study – Using our proxy voting power to reinforce engagement

Engagement Channel	Sub-adviser partnership
Country of Incorporation	United States
Market Cap	USD 21.65bn
Sector	Consumer Staples

In 2022, Russell Investments escalated engagement action via proxy voting for a US-based global packaged food company. The company has a dual class share structure where the Class B shares hold ten-times the voting power of the Class A shares

At the 2021 Annual General Meeting (AGM), most Class A holders voted in support of a proposal requesting the company adopt a one-to-one share structure. In response to the company's inaction from the 2021 AGM, Russell Investments engaged with the Company alongside our sub-adviser partner ahead of the 2022 AGM.

Outcome

During dialogue, the company reinforced that it would be unwilling to change the share structure of the company. Russell Investments escalated the engagement to an adverse vote against the Chair of the Governance and Nomination Committees.

Russell Investments believes that divergence from a 'one-share, one-vote' standard, which gives certain shareholders power or control disproportionate to their economic interests, should be avoided; or in the event of the existence of such classes, they should be disclosed and explained, and sunset mechanisms should be put into place. As such, we will continue to convey our preference and vote our proxy accordingly.

Engagement Across Asset Classes

Fixed Income

The fixed term and contractual nature of bond investments afford bondholders a finite number of engagement opportunities to make explicit impact with individual issuers. In most instances, these opportunities are often very brief in duration, occur before an investment decision must be made, are not open to all parties, and are offered at the discretion of the issuer's willingness to engage. However, repeat and frequent bond issuers have a greater incentive to listen to bondholders.

Russell Investments typically focuses on evaluating and hiring managers with strong awareness and capabilities to engage on ESG issues and then allows the managers to engage with issuers on our behalf. Our sub-adviser due diligence framework incorporates an assessment of the level and quality of ESG integration and active ownership across all asset classes, including fixed income. Consideration given in this process includes, but is not limited to:

- How managers prioritise engagement activities;
- How engagement objectives are set;
- Who is involved in the engagement activities;
- How the progress is monitored;
- How engagement activity success is measured; and
- Publication of product or asset class specific sustainability reports.

Bondholder engagement has become a key information source in assessing ESG-related risk and return opportunities in the marketplace, and our sub-advisers are actively utilising their engagement activities to obtain greater insight of the underlying companies or entities, as well as improving their transparency and influence on business practices. Based on our monitoring activities, our sub-advisers increasingly exercising proactive engagement in the context of materiality and industry and company-specific risks, but the frequency and nature of the conversations can vary depending on the credit quality of the issuer.

Investment-grade corporate bond issuers are, by definition, companies with higher credit ratings resulting from healthier financial conditions. Such companies are often large in size, listed on the stock market, and employ dedicated investor relations personnel to address investor concerns. Therefore, the transparency of the investment-grade bond issuers tends to be greater than that of the below-investment-grade bond issuers. As such, although we have seen a substantial expansion of engagement efforts among below investment-grade bond managers (such as high-yield managers), engagement activities are more established among sub-advisers with investment-grade corporate bond mandates.

Depending on market conditions, high-yield issuers potentially have a greater incentive to listen to potential investors' needs, as their ability to access capital markets is less certain than that of investment-grade companies. There are also more private companies in the high-yield market than in the investment-grade corporate market, and private companies often lack transparency, such as visibility into the composition of board members. While our high-yield managers were already communicating with the management of underlying companies and their stakeholders, this dialogue is shifting to include broader ESG-related questions. Our high-yield managers also focus on increasing transparency and influencing corporate behaviours, to improve the long-term enterprise value of the company. At the same time, our sub-advisers are increasingly focusing on their engagement activities around climate risk.



Case study – Engagement driving a portfolio addition

Engagement Channel	Sub-adviser partner
Country of Incorporation	United States
Market Cap	USD 122.53 bn
Sector	Consumer Discretionary

The company with the objective of gauging how the company was performing across a multitude of factors, including its ESG risks, and to hear about future plans. The company shared important ESG initiatives, including business model resilience to environmental factors, GHG emissions targets, employee engagement goals, and diversity and inclusion efforts.

During the engagement call, our sub-adviser discussed with the company's key ESG initiatives:

- Reduction of Scope 1 and Scope 2 emissions by 42% and plans to incorporate a Scope 3 emissions reduction target.
- Plans underway to introduce sourcing and transparency goals for forestry product purchases going forward.

Plans to issue a report on pay equity across gender and ethnic groups in the coming months.

Outcome

The positive tailwinds around the company's environmental business model resilience and DEI engagement added to investor conviction in the company's credit story. The company was added to the portfolio via primary market issuance in 2022.



Case study – Position Reduced Over Climate Risks Concerns

Engagement Channel	Sub-adviser partner
Country of Incorporation	United States
Market Cap	USD 55.20bn
Sector	Energy

The company aims to reduce the GHG emissions of its operations and its products to net zero by 2040 and 2050, respectively. These are ambitious goals which have been validated by external bodies as 'on track' in line with Paris Accord pathways. However, our sub-adviser remained concerned about the company's ability to realise near and medium-term reductions in line with the stated intent, and they did not see a clear or realistic path to the company's goal of net zero.

Outcome

After extensive analysis and discussion of engagement insight, our sub-adviser decided to downgrade their assessment of the company's alignment with Sustainable Development Goals (SDGs) and reduce exposure. The following reasons were the sub-adviser's main causes for revision:

- The company produces a slight majority of crude oil relative to gas, which they regard as a fuel with the least compatibility in the energy transition as a 'bridge fuel'.
- The company's actions contrast with larger peers that are diversifying into renewables and storage as part of strategy and capital allocation.
- Unlike peers, the company has chosen to focus on Scope 1 and 2 goals using quantities of emissions reduced in 2022-2024 and to 2032, rather than intensity or absolute goals.
- Since 2019, disclosures obfuscate elevated emissions intensity relative to peers.

At the time of writing, the sub-adviser's score remained unchanged, though it may be reconsidered if the company sufficiently demonstrates success in their current strategy, or if they change the strategy or operational goals.

Private Markets

Over the past decade the level of sophistication of private market funds has increased significantly. In this context, and as a private market investor, Russell Investments recognises that active ownership, combined with the ability to ensure strong execution in individual portfolio companies, is increasingly important to realising value.

Private Markets is a diverse asset class that includes a wide range of different strategies such as venture capital, growth equity, and buyouts, as well as indirect strategies such as fund of funds and secondaries. Different sub-asset classes and funds will have different exposures to ESG-related risks and opportunities. Therefore, a 'one-size-fits-all' approach to active ownership is rarely deployed consistently across an entire portfolio, or even throughout the life cycle of a particular asset.

To overcome the challenges associated with this asset class, and to ensure we execute on fulfilling our duties as an active owner, we employ the following mechanisms for active ownership in private markets:

- **Good Governance:** Governance is crucial in this asset class because it is very difficult to adjust the terms of ownership after the initial investment. Hence, governance practices and requests are discussed upfront, while thinking about the long-term relationship with the manager.
- **Limited Partner Advisory Committee ('LPAC') seats:** Where possible, we try to gain LPAC seats to provide additional transparency, and for smaller investments we aim for 'observer status'. Private markets can be very opaque; these interactions enhance the transparency we receive for our investors.
- **Voting:** We actively participate on voting items. Adjustments to documentation that require LPAC or investor approval can occur regularly due to, for example, new investors or adjustments to Key Person provisions.

Engagement and Monitoring: Given that data in this market is not readily available, insights gained through regular engagement with managers and other investors is the best source to improve transparency. Using side letters to require and encourage disclosure and reporting on ESG issues is another important tool used in this process.



Case study – Real Estate Manager Engagement

Engagement Type Fund life extension – Investor
Country of Incorporation United Kingdom
Subasset Real Estate

Our sub-adviser was seeking to exit the last investment holding in a fund. After a deal with a potential purchaser fell through, the sub-adviser worked to secure interest from another prospective buyer, while submitting a proposal to extend the term of the Fund. The extension required the consent of investors representing at least 75% of total commitments, and its main objective was to allow for the orderly realisation of the final asset in the Fund.

Outcome

We voted in favour of the extension and stayed in regular contact with the manager to have full visibility on the potential impact on returns or further extension requirements until the property was successfully sold in March 2022.



Case study – Private Equity Secondaries Manager Engagement

Engagement Type Adjustment of Key Person with Fund Documentation – LPAC member
Country of Incorporation United Kingdom
Subasset Secondaries – European lower middle market

Our sub-adviser manager was seeking Limited Partner Advisory Committee approval to replace one Key Executive with another within the Fund's Limited Partnership Agreement. The Key Executive had departed recently due to personal reasons.

Outcome

As a Limited Partner Advisory Committee (LPAC) member, we were asked to review this proposal. We discussed with the manager the key skills and experience of the new executive to determine whether they were to a comparable level of the departing Key Executive, to ensure strong management and stable return prospects. As the calibre of the new incoming Key Executive was to a comparable quality we voted in favour of this proposal, and they were subsequently appointed.

Engagement Activity in 2022

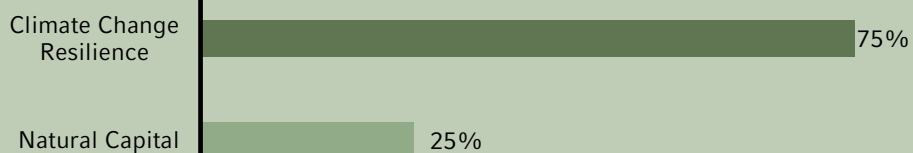
At Russell Investments, engagements are dialogue undertaken to understand, influence and/or improve business practices and disclosures. As a result of our active ownership development and efforts, during the reporting year we held 411 engagements with 189 different equity issuers.



Environmental

45%

Our engagements related to environmental topics:



Social

19%

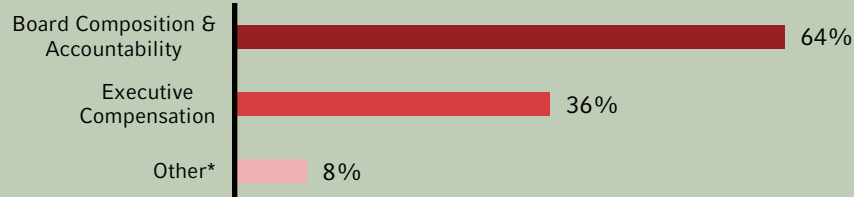
Our engagements related to social topics:



Governance

25%

Our engagements related to governance topics:



* Identifies topics outside our engagement focus areas (capital allocation, related party transactions, and share capital structure)



ESG Disclosure

9%

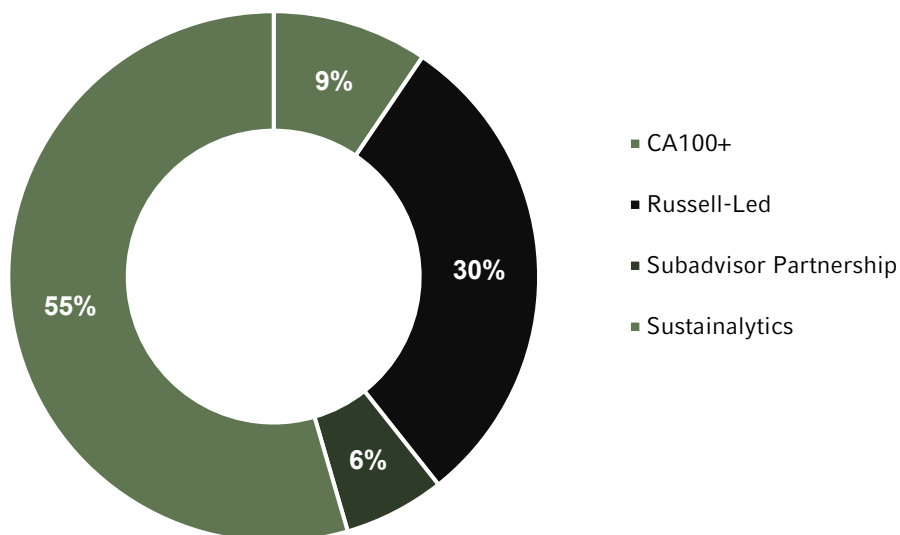
UNGC

3%

Engagement by Avenue

Russell Investments occupies a privileged position in terms of industry influence and reach, and this creates multiple avenues for engagement. Over half of our engagements have been conducted through partnership with Sustainalytics, while one third of the engagement activities in 2022 were proactively identified and led by Russell Investments. During the reporting year we have materially increased our activity with Climate Action 100+ compared to previous years.

Exhibit 28: Engagement channels



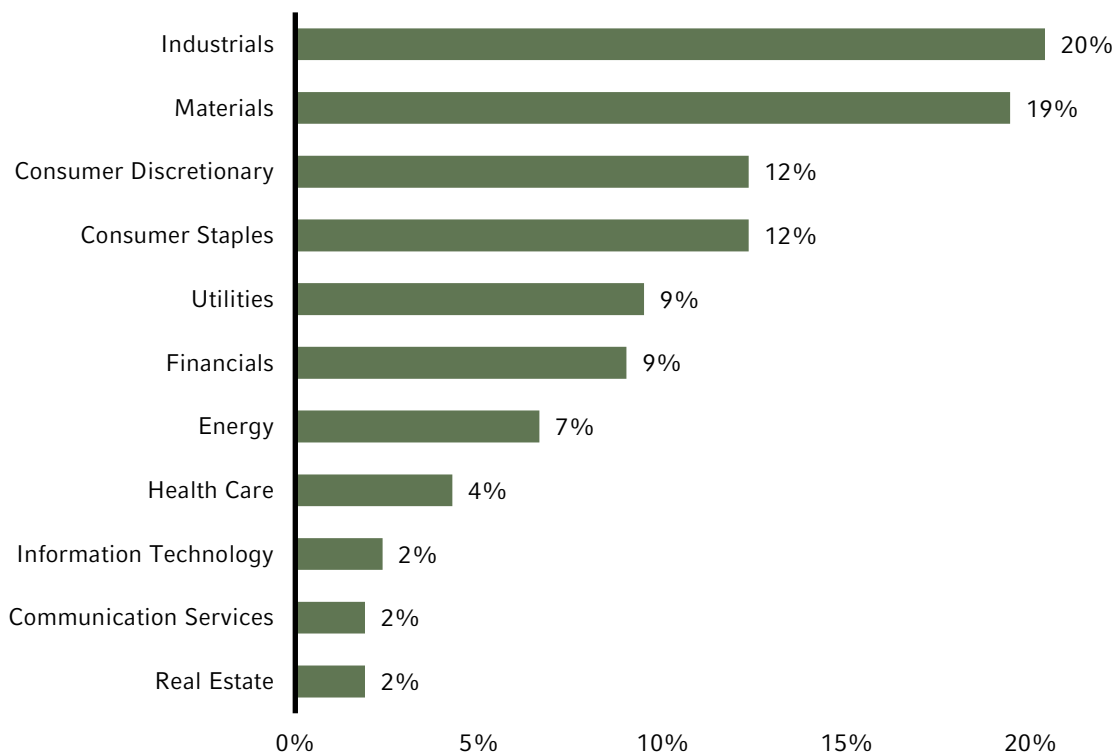
Source: Russell Investments, data as at December 31, 2022.

Engagements by Sector

At Russell Investments we recognise the importance of materiality, and we seek to evaluate how companies are managing ESG factors that also impact financial performance. For this reason, we support the Sustainability Accounting Standards Board ('SASB') standards as a fundamental way for companies to communicate financially material sustainability information to investors in an industry-specific and comparable way. In the same manner, we use SASB standards to identify sector-specific priority issues for corporate engagement.

In line with the breadth of our engagement strategy, during 2022 we engaged with companies across 72 different sub-industries. Almost one quarter of the engagements conducted over the reporting period were with companies in the industrial sector followed closely by the material sector.

Exhibit 29: Percentage of engagement by sector

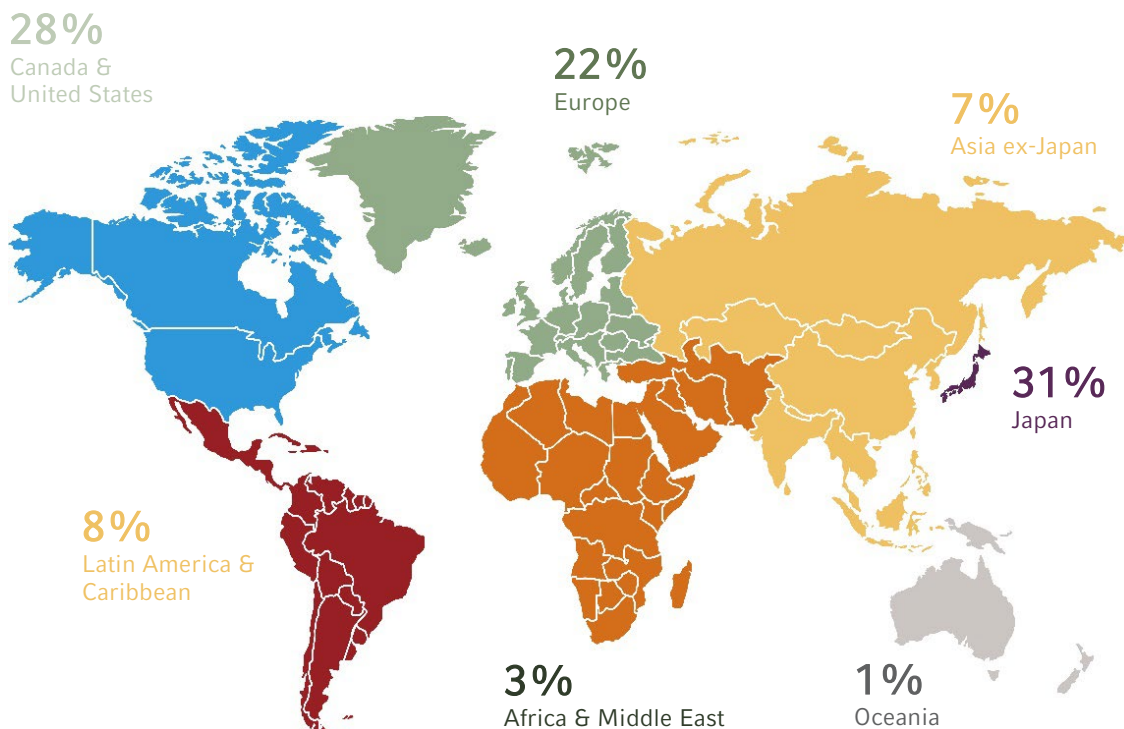


Source: Russell Investments, data as at December 31, 2022.

Engagement by Region

Because we are a global firm, our active ownership strategy has wide geographic reach. In the last two years, through our partnership with Sustainalytics, we increased our engagement activity with companies in emerging and other markets where we had limited activity in the past, particularly the Japanese market. Across all our engagement channels in 2022, we held engagements with companies in 33 different markets, across seven main geographic regions:

Exhibit 30: Engagement distribution by region



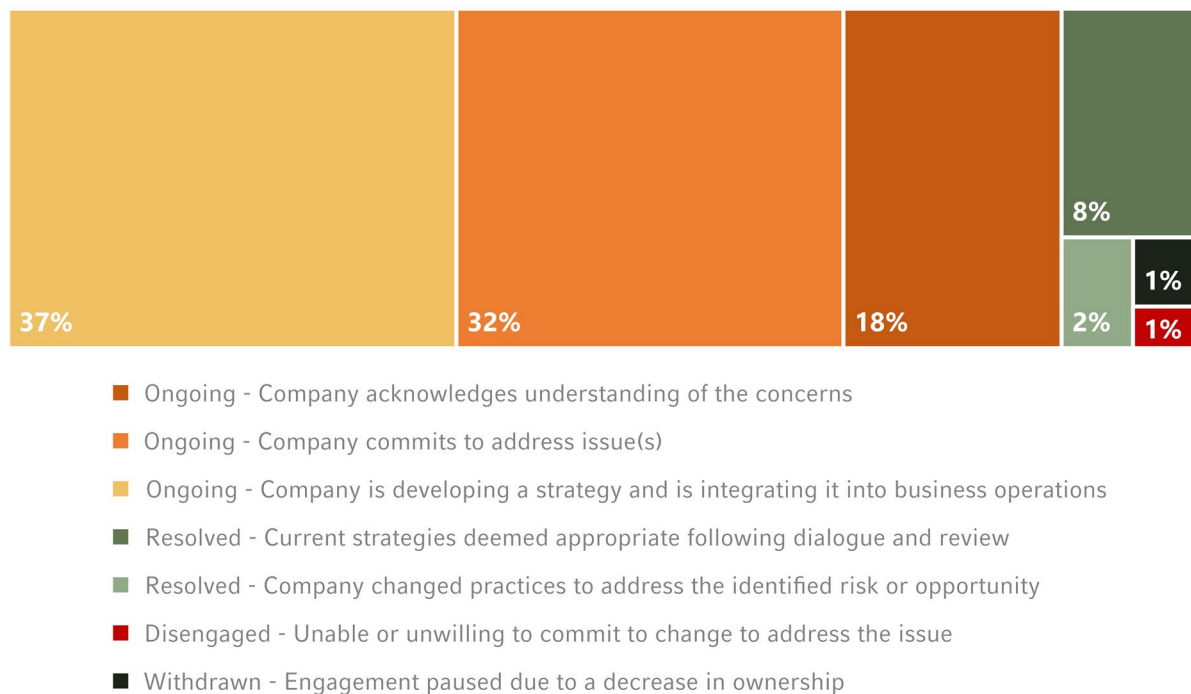
Source: Russell Investments, data as at December 31, 2022.

Engagement Outcomes

A crucial part of Russell Investments’ engagement process and a key part of our stewardship responsibilities is tracking the progress of corporate action and measuring the impact of our engagement activities.

In 2022 while reviewing the status of on-going engagement activity, we determined that 10% of the companies we engaged with resolved the issue(s) raised positively. Furthermore, over two thirds of these companies with objectives that remain on-going have shown a clear appreciation of the concerns we raised and have committed to address the issue or are already developing a strategy to do so. We believe our efforts and oversight are a contributing factor to many of these positive developments. We note that only a small proportion of the ongoing engagements have been closed due to an unsatisfactory response from the company.

Exhibit 31: Breakdown of engagement outcomes



Source: Russell Investments, data as at December 31, 2022.

Activity across our focus areas

Climate change resilience

Russell Investments recognises that climate change is one of the defining global challenges of our time and a material investment issue that crosses regions and industries. Our policy is to research, measure, report and consider climate change risk and opportunities as an integral part of our investing practice, our active ownership, and our business operations to mitigate the impact of the climate change-related risks.

Russell Investments has been an official supporter of the TCFD since 2019, and we promote its recommendation that companies provide effective climate-related disclosures to enable more informed financial decision making. In addition, we advocate for companies to have board-level oversight and governance of climate change impacts. Finally, Russell Investments expects companies to explain how they have incorporated climate-related issues into their business, strategy, and financial planning – including the disclosure of key metrics and risk management processes.



Case study – Strengthening the strategic approach to Climate Change

Engagement Channel	Russell Investments-led
Country of Incorporation	Japan
Market Cap	USD 2.08
Sector	Materials

In 2022, Russell Investments followed-up with a Japanese cement company on its climate change resilience program. Following engagement in 2021, the company was working to improve environmental reporting. Russell Investments continued the conversation as the company integrates material climate impacts into business operations.

The company has made progress in its strategic approach and implementation on climate change initiatives.

- **GHG reduction targets:** The company aligned its public commitments to reduce GHG emissions with the Paris Agreement.
- **Industry alignment:** It is working with the Science Based Target Initiative to publish industry-wide guidance for the cement sector.
- **Capital planning:** The company has released a plan showing how its strategic approach to climate change is integrated in its business planning.

Outcome

Russell Investments plans to continue engaging with the company as it further realises commercial benefits from its climate change resilience strategies. Engagement will focus on understanding its path to industry leadership and gaining market share as it explores opportunities from its integrated climate-aware strategy.

Natural capital management

Measuring and valuing natural capital can enable companies to better manage the natural resources that contribute to economic development and growth. Better understanding of the mechanisms that link ecological systems to human wellbeing is required to assess both the value of benefits from natural resource systems, as well as the expenditure required to maintain those benefits. Russell Investments believes that companies should display an understanding of their environmental resource use across their businesses and demonstrate responsible environmental management aimed at maintaining the long-term availability and usage of assets. We expect companies to implement sound and sustainable environmental practices across their operations and supply chains to protect against material and reputational risks which can arise from the mismanagement of natural capital. Initiatives and policies that avoid and/or reduce deforestation are an area of focus for Russell Investments. We advocate for disclosure as a starting point. In addition, for companies with material biodiversity exposure, and/or those which operate in natural resource-constrained regions, we seek policies on restoration, preservation, and efforts to control any soil and water contamination.



Case study – Encouraging the development of biodiversity reporting

Engagement Channel	Russell Investments-led
Country of Incorporation	Australia
Market Cap	USD 1.46bn
Sector	Materials

Russell Investments engaged for the first time with an Australia-based agricultural chemicals company on its natural capital management practices with the aim to have the company disclose metrics and targets showcasing risk assessment and mitigation.

Due to its industry, biodiversity presents dual-materiality risks to the company, both in how it develops products and the impact its products have on biodiversity. The company is in the early stages of measuring biodiversity impact across its business value chain and at the time of engagement was unable to provide metrics or targets specific to biodiversity impacts.

Outcome

In its product line, the company has worked to develop fertilisers and seed products which limit the impact on nature both in production and usage. However, these products are more expensive than less sustainable alternatives, and the company is finding the market limited.

Russell Investments will continue to engage with the company as it measures its biodiversity impacts and works to successfully commercialise its environmentally-conscious products.

Human capital management

Human capital management is a critical component in company performance. It determines how companies attract, develop, and retain employees while providing working conditions that stimulate greater employee engagement. Human capital is material across all companies; hence we expect companies to provide meaningful and comparable disclosure in this area. Moreover, research shows that the relationship between diversity on executive teams and the likelihood of financial outperformance has strengthened over time². The most diverse companies are now more likely than ever to outperform less diverse peers on profitability.

While human capital is perpetually important, the Covid-19 pandemic has greatly increased global stakeholder interest in human capital. An increasingly tight labour market has led to a greater focus on employee recruitment, retention, and inclusion. Furthermore, societal emphasis on gender, racial and ethnic equity continues to grow; we address this as a separate focus area given its significance.



Case study – Improving Human Capital Management Reporting

Engagement Channel	Russell Investments-led
Country of Incorporation	United States
Market Cap	USD 70.26bn
Sector	Information Technology

Russell Investments engaged with a ride sharing company with the aim to improve the company's reporting and available data around its human capital management policies and practices. While the public reporting supplied by the company included key human capital metrics, the data was several years out of date with no indication of being updated.

The company has faced several human capital related controversies in previous years which has increased demand by shareholders for a constructive response and transparency including data measurement, target setting, and policy implementation.

Outcome

During engagement, the company committed to publish updated human capital metrics in reporting later in the year. The company was unable to confirm whether the data to be published would be in line with peers both in scope and in time span.

After reviewing the new disclosures, we noticed that whilst the details of information provided has improved, we were not fully satisfied with the level of transparency provided by the company. Russell Investments therefore considers this engagement ongoing as the company works to further strengthen its human capital management disclosures to align with peers and provide shareholders the requested transparency to assess risks.

² "Diversity wins: How inclusion matters". (2020, May 19). *McKinsey & Company*. Available here: <https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters#>

Diversity, equity, and inclusion

There is ample evidence, and it is globally accepted by way of empirical research, that diversity is aligned with good governance and that it helps to create long-term shareholder value. Russell Investments promotes diversity as a valuable tool to enable high-performing teams and strong business outcomes, and we advocate for greater diversity disclosure. This includes basic workforce statistics, ethnic and cultural diversity, and details on policies. Russell Investments sees lack of disclosure as a barrier to investors who want to assess a company’s culture and also a deterrent for the wider workforce and potential employees of a company who want to understand an employer’s approach to equity and inclusion. Workers want to know their efforts will be recognised and fairly rewarded. Companies should demonstrate how they are recruiting, promoting, protecting, and retaining a diverse workforce.



Case study – Japanese Board Diversity and Executive DEI

Engagement Channel	Russell Investments-led
Country of Incorporation	Japan
Market Cap	USD 0.174bn
Sector	Real Estate

We have established a dialogue with a Japanese real-estate development company via multiple channels – both through our sub-adviser partner and directly with the company.

Within executive management, the company maintained a ratio that is 30% female, which is above peers. Responding to shareholder feedback, the company realised it was lacking in board level gender diversity but wanted to caution that finding a director to fit their needs would take time. The company shared it was looking for an additional board member with a complementary skill set who would also add diversity.

Outcome

Through our on-going dialogue, the company confirmed it found and hired an interim female board director who will be joining in 2023. Having positively resolved this objective, Russell Investments will continue to engage with the company on other ESG issues outside DEI.

Board composition and accountability

The board of directors is the focal point of corporate governance. Directors represent the shareholders, and they are charged with safeguarding investors' interests. The board should promote the long-term best interests of the company by acting on an informed basis, with good faith, care and loyalty. This helps to ensure the effectiveness of the directors in promoting successful companies, thereby generating sustainable value creation for investors while having regard to other stakeholders.

At Russell Investments, we expect companies to have foundational governance structures that promote accountability, responsibility, transparency, responsiveness, diversity, and independence from company management.



Case study – Ensuring appropriate governance structures are in place

Engagement Channel	Russell Investments-led
Country of Incorporation	United Kingdom
Market Cap	USD 593m
Sector	Oil & Gas Producers

Russell Investments engaged a United Kingdom-based independent oil and gas exploration and production company to ensure that the appropriate governance structure is in place to weather operational and financial challenges.

The company has gone through a significant refinancing process after its external auditor flagged a material uncertainty regarding the company's ability to continue as a going concern in 2020 accounts. During the last few years, the company has also changed their leadership significantly – including the Chief Executive Officer, Chair and Chief Financial Officer roles.

Outcome

Overall, we are satisfied with the explanation provided by the company on the refinancing process and the recruitment processes for the Chair and Chief Financial Officer. The company showed a strong board evaluation process and the key skills required for the candidate pool are clearly defined.

Whilst we do not retain significant concern from a governance perspective, the engagement remains open. We will follow up our conversations with the company during 2023 with a particular focus on the development of a strategy to eliminate flaring activities and improve biodiversity disclosure.

Executive compensation

Russell Investments believes executive compensation should align the interests of a companies' management with those of shareholders. Programs should offer clear and transparent disclosure, coupled with basic fairness in the use of shareholders' capital to retain and incentivise management. Inappropriate and poorly designed remuneration structures have been a contributing factor to excessive and imprudent risk taking by individuals. Hence, we regularly engage with companies to ensure that remuneration packages effectively align the interests of the executive directors, the workforce, and shareholders with the company's strategy and performance achieved.



Case study – Improving robustness on Executive compensation practices and disclosures

Engagement Channel	Sub-adviser partnership
Country of Incorporation	Luxembourg
Market Cap	USD 13.8bn
Sector	Pharmaceuticals

Russell Investments, in partnership with a sub-adviser, conducted two joint engagements with the Chair of the Nomination and Compensation committee of a Luxembourg-based Laboratory Equipment and Services company. The purpose was to discuss Russell Investment's vote against management on the remuneration proposal during the 2021 Annual General Meeting. The main objective was to encourage the company to improve disclosures on executive compensation as well as strengthen the design of the remuneration package.

Outcome

During our conversations we have found that the company has been proactively evolving their executive compensation package based on ESG rating agencies and proxy adviser research.

The company was open to review the concerns raised during the call, and they have committed to improve in several areas:

- Structure
- Transparency
- Performance compensation structure.

We will follow up with the company in 2023 to confirm whether improvements outlined above are aligned with our expectations and international good governance practices and disclosures.

5.2 Proxy Voting

- ✓ UK Stewardship Code – Principle 12
- ✓ Japan Principles for Responsible Institutional Investors - Principle 1, 5, 6
- ✓ The New Zealand Stewardship Code - Principle 2, 5

For 30 years, Russell Investments has executed a robust, global proxy voting program that is a foundation for our stewardship efforts. Russell Investments has documented Proxy Voting Policies and Procedures and maintains custom Proxy Voting Guidelines. Our Guidelines are a bespoke set of rules and policies, based on industry best practices and regulations that dictate how to vote on certain topics. Russell Investments' Guidelines are carefully drafted to result in votes that promote the best interest of our clients, and, at least annually, our Guidelines Sub-Committee reviews and updates them to remain aligned with shareholders' best interests. The Voting Guidelines address most proxy issues with detailed specificity; however, the Active Ownership Committee ("the Committee") recognises some issues require more scrutiny and a non-prescriptive approach. In those instances, the Guidelines refer the votes to the Committee for review.

An external service provider, Glass Lewis, serves as our proxy administrator and is responsible for aggregating proxy ballots received directly from Russell Investments' custodians and for applying our custom Guidelines when executing proxy votes. Russell Investments' internal proxy coordinator monitors our voting activity via Glass Lewis' online platform and directs any proposals that require case-by-case review to internal analysts, who in turn provide a recommendation to the Committee based on individual research and the research provided by the proxy administrator. The majority of proposals voted on by Russell Investments do not require case-by-case review – Glass Lewis applies our Guidelines directly. To ensure that Glass Lewis casts votes in accordance with our Guidelines, the Committee oversees an annual internal audit process to verify the accuracy of vote execution.

Our Proxy Voting Guidelines are available to review in their entirety on our Responsible Investing site russellinvestments.com.au/responsibleinvesting.

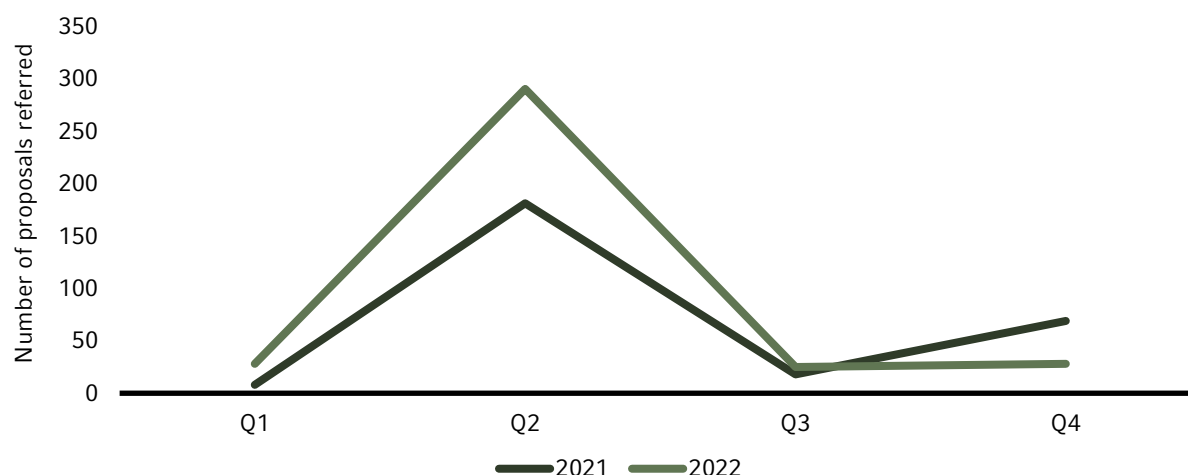
Impact of 2022 guidelines updates

As described above, the Guideline Sub-Committee's annual review of our Proxy Voting guidelines allows the Committee to remain abreast of regulatory updates and industry trends. Two amendments to the Proxy Voting Guidelines that were implemented for the 2022 proxy season made a considerable impact on our voting activity:

Environmental and Social Proposals

Russell Investments believes it is important for companies to effectively manage material environmental, social, and governance risks. To ensure close attention by the Committee, starting in 2021 all proposals relating to environmental and social practices and those requesting creation or improvement of ESG risk reporting were made subject to a case-by-case review by the Committee. In 2022, driven largely by the overall increase of environmental and social shareholder proposals at company Annual General Meetings (AGMs), almost 100 additional proposals were reviewed by the Committee year-over-year.

Exhibit 32: Number of referred proposal reviewed by the committee



Source: Russell Investments, data as at December 31, 2022.

“Say on Climate” provisions

Beginning with the 2021 proxy voting season and continuing in 2022, “say on climate” proposals came to the fore as a contentious topic. In these proposals, shareholders are asked to validate an issuer’s strategy for addressing a transition to a low-carbon economy. In response, Russell Investments directed Glass Lewis, via our Guidelines, to refer all such management proposals to the Committee for individual consideration. Given the relatively novel nature of these proposals, the Committee did not put any formal guidelines in place for “say on climate” votes in 2022, but instead used the knowledge gained from the individual assessment of the proposals to formulate some policies on “say on climate” for the 2023 proxy season and the future. These developments are described below.

Looking ahead: 2023 guidelines updates

For the 2023 proxy season and as per annual practice, the Committee refined our Guidelines to enhance Russell Investments’ consideration of various ESG topics, as well as increase the efficiency of the voting process.



Case study – Annual Proxy guidelines review

Russell Investments Active Ownership Committee reviewed and drafted updates to our Proxy Voting Guidelines in the fourth quarter of 2022.

Outcome

Alongside policy revisions, the Committee approved reformatting the guidelines document to summarise Russell Investments’ policies on certain proxy topics, establishing a high-level view of the issues, while specific vote direction is provided to Glass Lewis in a separate, detailed document. Our aim was to improve the transparency and efficiency of voting decisions.

The 2023 version of Russell Investments Proxy Voting Policy can be found [here](#).

The ESG landscape is constantly changing, and Russell Investments aims to keep pace with the regulatory environment. Beyond refining the guidelines concerning ESG shareholder proposals, the Committee ratified amendments for the 2023 proxy season, including but not limited to:

- **Time Commitment of Directors**
 - At the start of the 2021 proxy season, to discourage over boarding and promote proper director oversight, we tightened our guidelines to oppose the election of directors who serve on the boards of more than three publicly traded companies. This change led to a dramatic increase in votes against directors.
 - Following a review of the efficacy of the overboarding threshold, the Committee voted to amend the guideline again, so that our default stance is to oppose the election of a non-executive director who serves on the boards of more than four publicly traded companies. If the candidate is also an executive director of a publicly traded company, the number of board seats allowed (outside of the company for which the candidate serves as an executive director) is reduced to two. The Committee believes this change will better capture overboarding risks while reflecting the different time commitments expected from executive versus non-executive candidates.
- **“Say on Climate” Policy**
 - Management sponsored “Say on Climate” proposals emerged as a new channel for investor engagement in climate change during 2021. We believe these votes can drive better carbon disclosures, encourage more credible climate strategies and enhance shareholder engagement; however, we are also wary of supporting these resolutions, given that shareholders could approve plans with emission targets or strategies that prove inadequate in the future. Companies might then try to avoid updating those plans in future years by anchoring to the fact that they received shareholder approval.
 - At Russell Investments, we look to scrutinise thoroughly the implications of climate change for investing, to research robust and thoughtful solutions, and to provide our clients with the information they need. To this end, for companies with material exposure to climate risk stemming from their own operations, we expect companies to provide a level of transparency that allows investors to better understand how they may be impacted by climate-related risks and opportunities, and how they have embedded climate change into their strategy.
 - We evaluate management-sponsored votes on climate plans and reports on a case-by-case basis, and we may consider several factors, including but not limited to the governance of the vote, the materiality of climate risk to a company compared to its peers, and any information gained from our engagement activities and/or sub-adviser input.

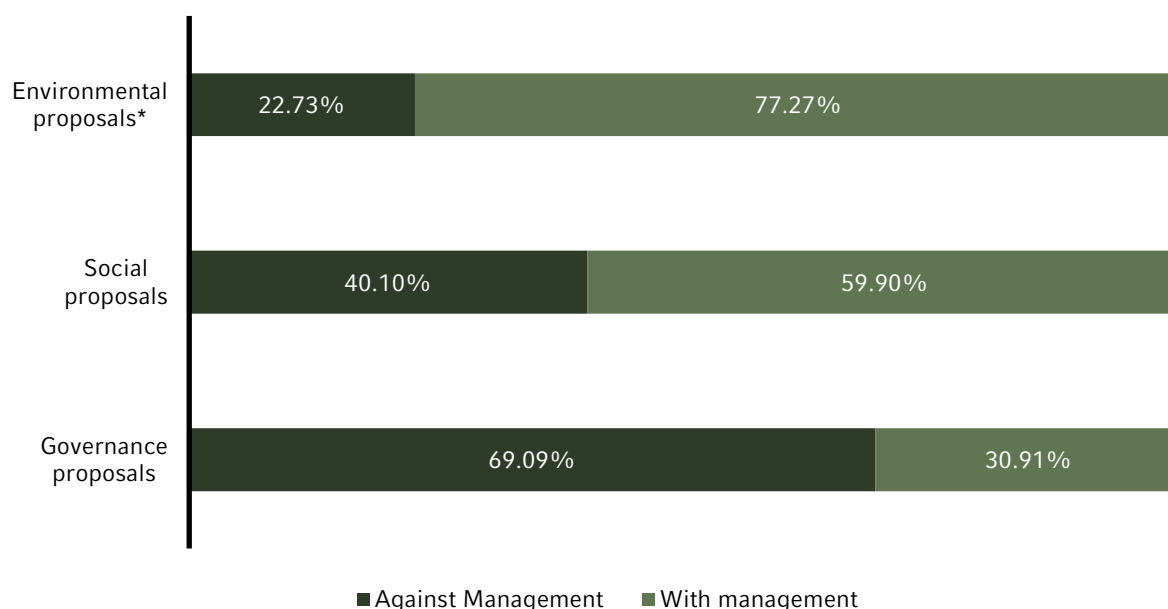
Referred Items

The Committee reviews those proposals that require more scrutiny and a non-prescriptive approach, and any proposals that are not specifically addressed in our guidelines. At Russell Investments we believe good stewardship requires careful consideration of each proposal on its individual merits. To this end, the Committee evaluates each proposal, considering the following factors:

- Research conducted by our internal proxy analyst,
- external research from our proxy administrator,
- external research from Sustainalytics,
- input from our sub-advisers on voting and engagement, and
- input from the Active Ownership Team when a Russell-led engagement has been previously conducted.

During 2022, 699 proposals were referred to Russell Investments' internal proxy analysts, either because our Guidelines dictated case-by-case review or because the proposal topic was not covered by the Guidelines. Of the referred proposals, 52% were evaluated and voted on by the Committee. The remainder of the referred proposals were of a technical nature, so our internal proxy analysts were able to make a vote decision based on careful application of existing proxy voting guidelines without additional input from the Committee. An overview of how the Committee has voted is provided on the graph below:

Exhibit 33: Russell Investments votes on referred items



*includes "say on climate" proposals

Source: Russell Investments, data as at December 31, 2022.

Voting Across Asset Classes

The right to exercise our votes through non-equity asset classes varies by the type of asset and even among individual investments. In all circumstances, we seek to achieve mutually beneficial outcomes while being consistent with our fiduciary duty of protecting our clients' interests. In cases where we can exercise our voting rights on environmental, corporate governance, and social matters, we ensure that the same process and policies are applied across geographies and instruments.

- For fixed income assets, the number of occasions when Russell Investments will be engaged in proxy voting will be very limited. In 2022, the bondholder votes that Russell Investments cast were all of a technical nature.
- As mentioned in the engagement section, we actively participate in voting items for private markets. Details and a case study can be found in section 5.

Stock Lending

As a fiduciary, Russell Investments maintains the voting rights for all holdings. We do not delegate voting to any of our sub-advisers, though we may reach out to a sub-adviser for additional information regarding specific proxy votes. Our proxy administrator, Glass Lewis, is responsible for managing the proxy ballots that Russell Investments receives based on our holdings, with all these ballots in turn monitored by Russell Investments' internal proxy coordinator using Glass Lewis' online Viewpoint platform. The proxy coordinator is responsible for ensuring all of Russell Investments' voting rights are exercised and conducts a quarterly review of accounts with voting rights against the accounts on record with Glass Lewis.

Our policy on securities lending, as it applies to proxy voting, ensures that we exercise voting rights on behalf of our clients. Glass Lewis currently produces a weekly report of shares with upcoming proxy votes that meet pre-determined criteria for potential restriction and/or recall. Russell Investments' policy requires a restrict/recall action for issuers that are either (1) undergoing M&A activity, or (2) issuers for which Russell Investments holds >2% of overall shares outstanding. Additionally, the Active Ownership Committee has discretion to restrict securities on a case-by-case basis. We restrict these securities (either 15 business days out from the record date, or as soon as we are notified, whichever comes first) from being loaned before their record date, recalling any loans as necessary. The restriction is lifted one business day after the record date.

Proxy Voting Activity in 2022

Proxy voting is a fundamental tool for listed equity, whereby shareholders are entitled to express support or concern with aspects of corporate governance, operations, or disclosures. As stewards of our clients' capital, we have an obligation to vote responsibly and hold companies to account on their behalf.

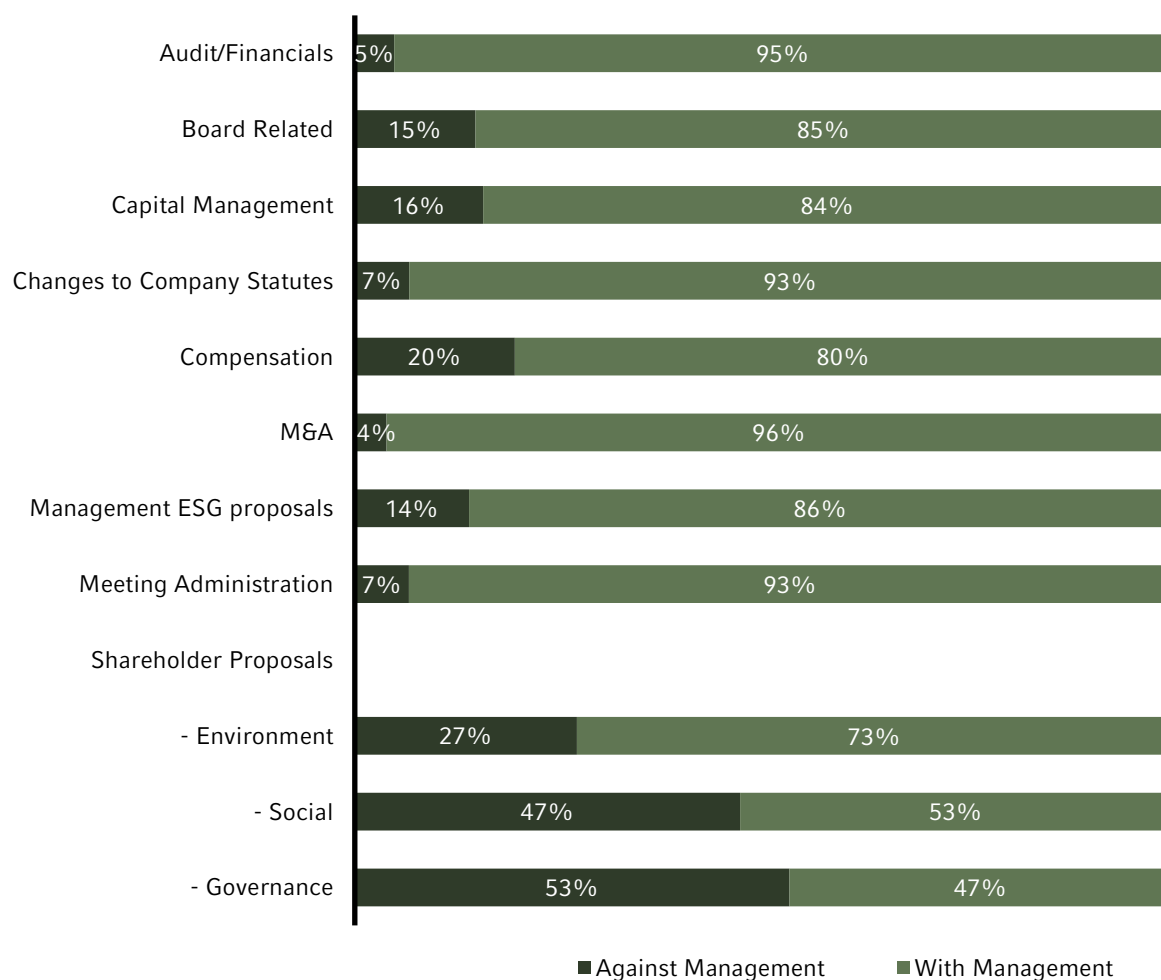
Russell Investments' proxy voting records are publicly available on our website [here](#). We do not publish vote rationales beyond those described in our custom Proxy Voting Guidelines.

Exhibit 34: 2022 proxy voting activity

9,949 Meetings voted	101,293 Proposals voted	1,214 Shareholder proposals	5,337 Votes against provider	12,821 Votes against management
95% Of eligible meetings	96% Of eligible proposals	1% Of total voting activity	6% Of proposals voted	13% Of proposals voted

Source: Russell Investments, data as at December 31, 2022.

Exhibit 35: Voting activity per topic

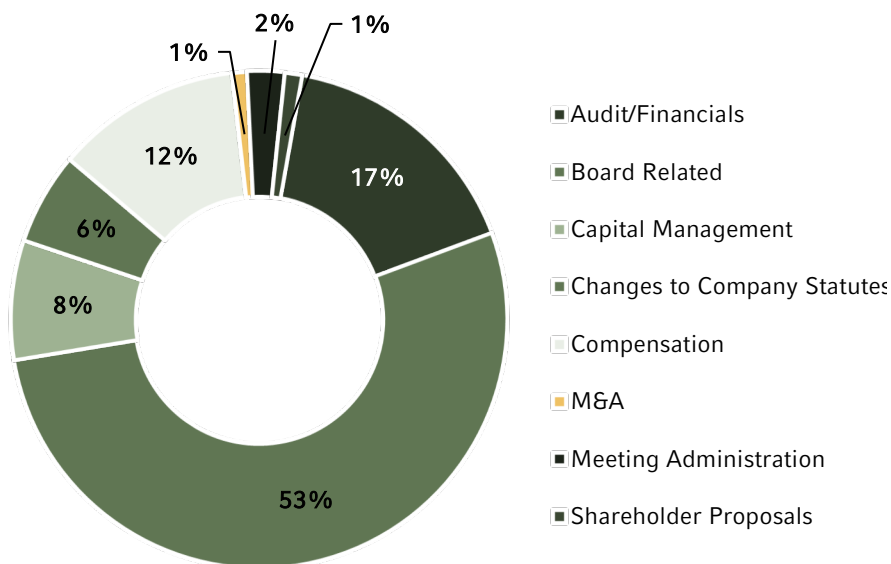


Source: Russell Investments, data as at December 31, 2022.

Proxy Season Overview

In 2022, Russell Investments voted on 101,293 individual proposals, representing 96% of proposals eligible, and on 9,949 individual meetings, representing 95% of meetings where Russell Investments was eligible to vote. As is usually the case, the majority of items voted on relate to governance issues, with the largest portion being board related. The small percentage of unvoted meetings were due to share blocking power of attorney markets (POAs) or operational barriers. Additionally, Russell Investments did not cast any proxy votes for Russian issuers that were subject to sanctions by any jurisdiction from March 3rd, 2022 onwards. Our proxy administrator suspended their engagement and research with these companies following the Russian invasion of Ukraine, and as a result, we were unable to cast informed voting decisions and reached a decision to suspend voting action for these entities.

Exhibit 36: Votes by issue

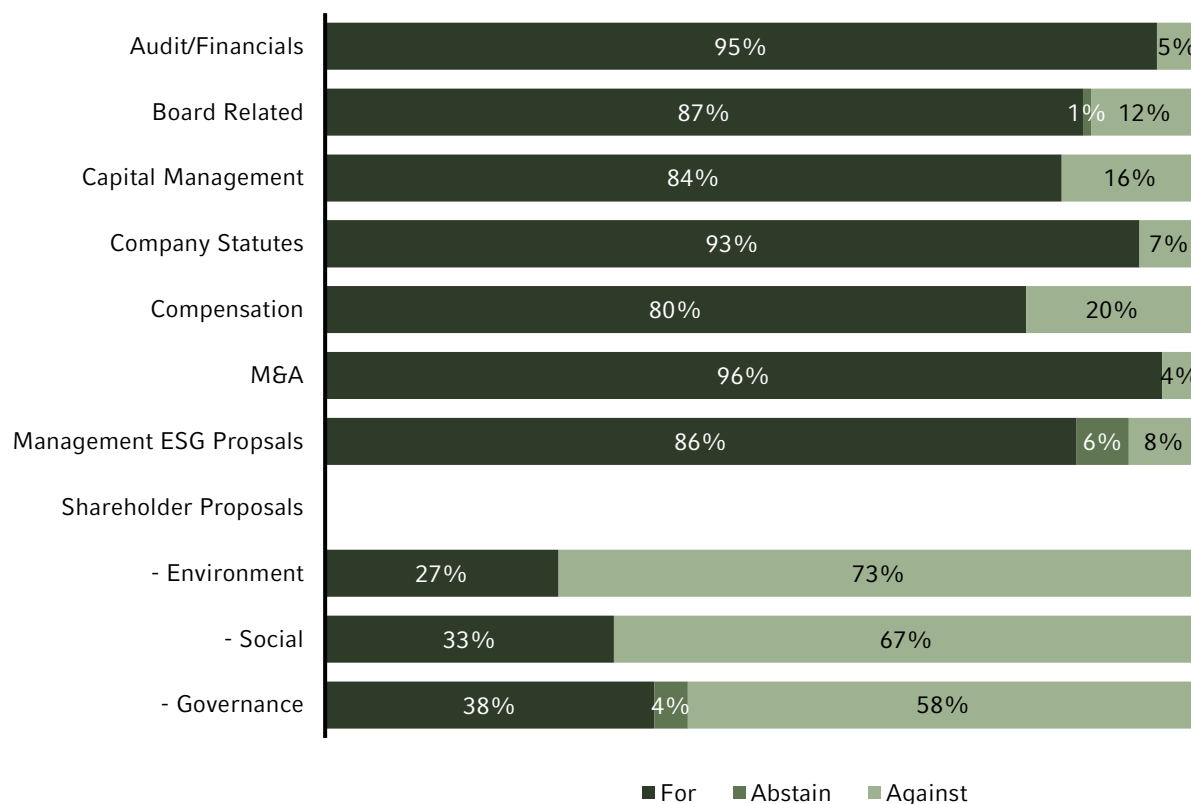


Source: Russell Investments, data as at December 31, 2022.

Russel Investments voted against management on 13% of proxy items and voted against Glass Lewis recommendations on 6% of proposals. Of the votes against management, 32% were also against Glass Lewis’ recommendation, which is reflective of the independence of Russell Investments’ guidelines and voting activity.

The largest portion of Russell Investments’ votes against—43% of votes against management—were against the election of Director candidates. This was driven largely by the over-boarding threshold Russell Investments adopted prior to the 2021 proxy season, and which has been amended going into the 2023 proxy voting season. We also frequently disagreed with management proposals concerning compensation, voting against approximately 20% of these proposals.

Exhibit 37: Russell Investments voting behaviour

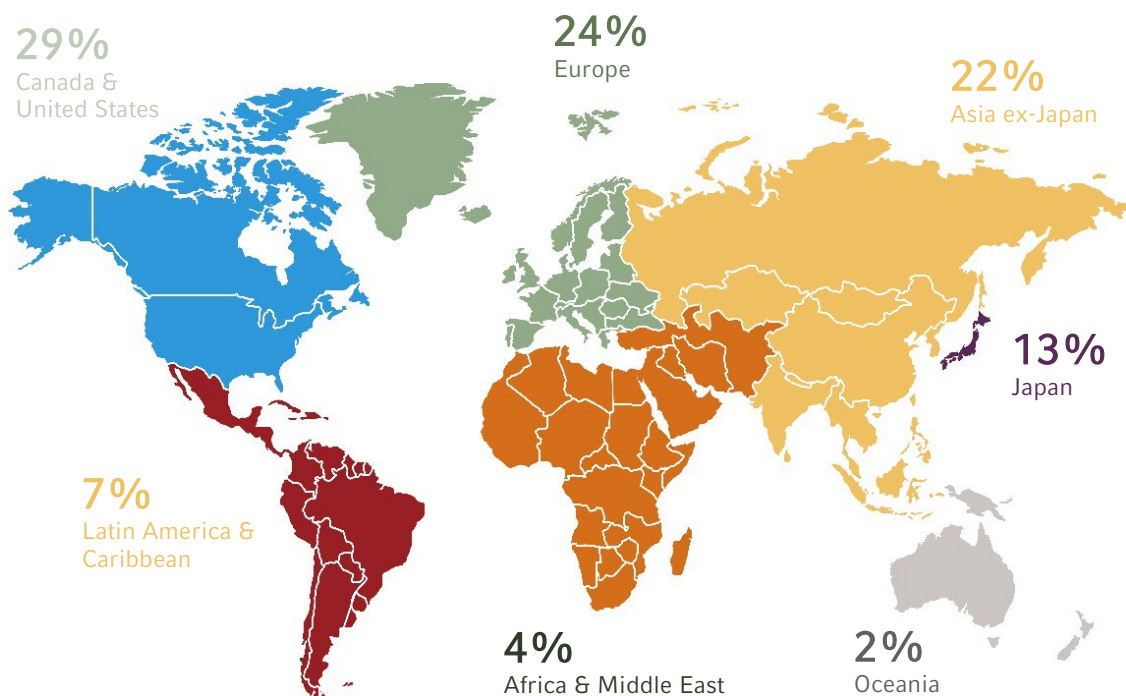


Source: Russell Investments, data as at December 31, 2022.

Proxy Voting by Region

Russell Investments applies a consistent proxy voting practice around the globe. We have exercised our votes across 88 different countries during 2022. Just over half of the proposals voted on applied to companies based in Europe and North America, with Asia-based companies (including Japan) accounting for over a third of the votes. Africa and the Middle East were the regions with the lowest voting activity registered.

Exhibit 38: Proxy voting distribution by region



Source: Russell Investments, data as at December 31, 2022.

Proxy Voting on Contentious Topics

Climate Change-Related Proposals

During 2022, our voting activity has been consistent with our commitment to the Net Zero Asset Managers Initiative, which supports the goal of net-zero greenhouse gas emissions by 2050 or sooner. In this regard, Russell Investments has voted on 203 climate-change related proposals, including “say on climate” and other management ESG proposals. Seven of these shareholder proposals - all brought forward at North American companies - were approved by shareholders over management’s objection. There were three climate-change related shareholder proposals approved by shareholders that also had the support of management, and all three were proposals flagged by Climate 100+ for review. In 2022, Russell Investments supported all resolutions flagged by Climate Action 100+ except one, which is highlighted in the case study below.



Case study – Voting against a climate-related shareholder proposal

Country of Incorporation	Canada
Market Cap	USD 30.1B
Sector	Energy
Management recommendation	Against
Russell Investments Vote	Against

As a Climate 100+ participant, Russell Investments monitors resolutions flagged by the initiative for consideration. One such proposal, which Russell Investments did not vote for, requested that the company cease all capital expenditures in exploration and development of new oil and gas fields. This proposal only received 1.5% shareholder support.

Outcome

Russell Investments’ Active Ownership Committee found that the proponent’s rationale was underdeveloped and did not address how adoption of this strategy would benefit shareholders. Furthermore, the company’s existing climate-related policies, including reduction targets for its Scope 1 and 2 emissions, information concerning its scenario analysis, and reporting in line with the recommendations of the Task Force for Climate-related Financial Disclosure (TCFD) appear to be sufficient at this point in the company’s climate transition journey.

Supplanting the judgment of the board in this case would have been inappropriate, and going forward, could restrict management’s ability to develop strategies to address the transition to a low-carbon economy in ways which would benefit shareholders.



Case study – Supporting adoption of targets to achieve net zero through voting

Country of Incorporation	United States
Market Cap	USD 210.8B
Sector	Consumer Staples
Management recommendation	Against
Russell Investments Vote	For

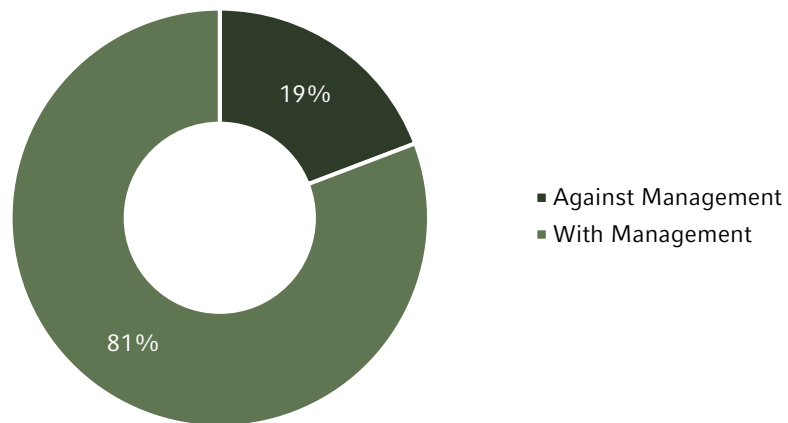
Russell Investments’ Active Ownership Committee reviewed a shareholder proposal which requested that the company adopt short-, medium-, and long-term science-based GHG emissions reduction targets, inclusive of its full value chain, in order to achieve net zero emissions by 2050 or sooner.

Outcome

In assessing the proposal, the Committee acknowledged that the company had made encouraging efforts to improve its climate approach year-over-year, but it continued to lag peers. Noting that the proposal was precatory, the Committee voted to support this proposal to encourage management to establish science-based Scope 1 and 2 emissions targets. Over 67% of shareholders voted for this proposal.

In line with our engagement focus areas, we have refreshed our voting guidelines regarding “Say on Climate” proposals. During the 2022 season, Russell Investments withheld support for managements’ climate transition plans at three companies and voted against the climate transition reports at two more companies, out of 47 such management proposals brought forward for an advisory vote.

Exhibit 39: Votes on climate change-related proposals



Source: Russell Investments, data as at December 31, 2022. Includes “Say on Climate” proposals.

Voting on Human Capital Management

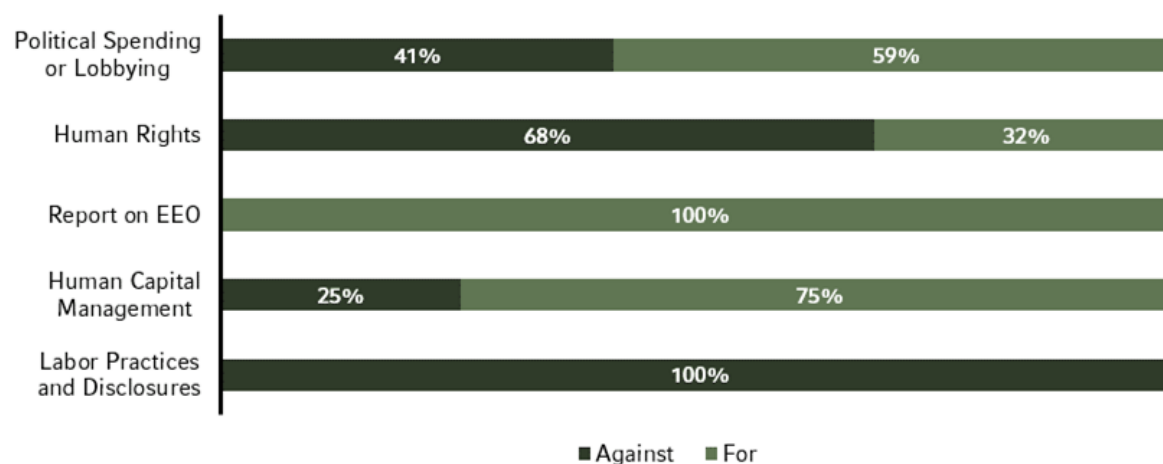
As part of our focus on human capital management, we will exercise our vote with companies that we identify as laggards, either by supporting a relevant shareholder proposal or holding directors accountable by voting against their election at the shareholder meeting.

At Russell Investments, when assessing human capital related shareholder proposals, we consider taking voting action under the following conditions:

- Current practices and/or disclosures are deemed to be inadequate.
- The proposal addresses a peer relative deficiency.
- The proposal does not duplicate existing practices.
- The board failed to provide commitment to address the proponent’s concerns.
- The topic is relevant to the company and sector in which it operates.
- If the proposal is overly prescriptive in detailing strategy/operational decisions, we may vote against.

During the last reporting year, as shown in the graphic below, we supported the majority of shareholder proposals related to human capital management.

Exhibit 40: Vote on human capital-related proposals



Source: Russell Investments, data as at December 31, 2022.



Case study – Voting on human-capital and reputational risks relating to workplace safety

Country of Incorporation	United States
Market Cap	USD 972.5B
Sector	Consumer Discretionary
Management recommendation	Against
Russell Investments Vote	For

Following significant media attention around workplace safety concerns at the company's warehouses, shareholders filed a proposal requesting an independent audit and report be conducted on working conditions and the treatment of employees.

Outcome

As a social issue, this proposal was referred to the Active Ownership Committee for further review, per our guidelines. The Committee voted to support this proposal, alongside over 43% of shareholders.

The company is assessed for multiple high-level controversies around its labour practices and working conditions. Further disclosing information and auditing of its practices would support risk reduction around its human capital management programs which are lacking.

Holding the Board Accountable Through Voting

Good governance is the starting point for sound management. Russell Investments' Proxy Voting Guidelines support governance structures that ensure management and board members maintain independence, objectivity, and act in the best interest of shareholders. We also emphasise the importance of shareholder rights. This is reflected in our voting support of all shareholder proposals that request:

- Right to Act by Written Consent
- Independent Board Chairman/Separation of Chair and CEO
- Eliminating Supermajority Provisions
- Declassification of the Board

Prior to the 2022 proxy season, Russell Investments' Active Ownership Committee codified our belief in the "one share, one vote" principle within our Guidelines. Russell Investments has supported this stance through direct corporate engagement, and where we have not been able to make satisfactory progress, we have escalated our approach to votes against management.



Case study – Withholding support from a director based on corporate engagement

Country of Incorporation	United States
Market Cap	USD 1.6B
Sector	Consumer Discretionary
Management recommendation	For
Russell Investments Vote	Withhold

Prior to the 2022 AGM for a "small cap" automotive repair company, Russell Investments' Active Ownership team conducted an engagement with the chair of the company's audit committee concerning a lack of action on shareholder preferences stated in the 2021 AGM, where over 85% of shareholders voted to approve a shareholder proposal on recapitalisation.

Outcome

Despite this clear result, the company had taken no action in response leading up to the 2022 AGM. The Active Ownership team established a dialogue and came away from the conversation believing that the company was actively not following governance best practices. In fact, the company appeared to be using outreach with investors as a stalling tactic to avoid establishing a plan to sunset the dual-share class structure.

Based on this outcome, Russell Investments voted to withhold our support from the chair of the audit committee and will continue to press the company for progress.



6. Policies, processes, and procedures supporting responsible investing

6.1 Conflicts of Interest Policy

- ✓ UK Stewardship Code – Principle 3
- ✓ Japan Principles for Responsible Institutional Investors Principle 2
- ✓ The New Zealand Stewardship Code - Principle 6

At Russell Investments, we maintain a governance framework that is designed to ensure a coordinated and consistent approach to the management of conflicts of interests across all regions in which we operate. Our culture, supported by the Global Code of Conduct, recognises the fiduciary duties that we owe to our clients, and promotes the ethos of ensuring client interests are put ahead of both the firm's interests and the personal interests of its associates. As a fiduciary, we are expected to eliminate or mitigate conflicts of interests and to make full disclosure of all material conflicts to our clients.

The Russell Investments Global Conflicts of Interest Policy provides guidance in identifying and handling actual and potential conflicts of interest in the operation of its business, and each region has a supplemental conflict of interest policy to meet specific jurisdictional requirements. Together, our global and local policies are in place to manage all potential or actual conflicts of interest in the best interests of our clients. Associates are required to comply with the Global Policy but also the requirements of any applicable local conflict of interest policy in their jurisdiction.

Our Global Conflicts of Interest Policy is the responsibility of the Global Chief Compliance Officer who administers it with the oversight of Russell Investments' Global Risk Management Committee. It is reviewed regularly with the latest review dated February 2023, with no material changes having been made to the policy.

Management of Conflicts

Russell Investments maintains a governance framework to ensure a coordinated and consistent approach to management of conflicts across all regions in which it operates.

The Russell Investments Global Conflicts of Interest Policy applies to all associates anywhere in the world, in connection with any activity related to Russell Investments or its business. Each associate is expected to avoid conflicts of interest where possible, and to play their part in identifying any conflicts of interest, enabling Russell Investments to take appropriate action to eliminate or mitigate the conflict and/or make appropriate disclosures to our clients.

The controls which Russell Investments has in place to manage each potential or actual conflict of interest include effective governance and stewardship; the segregation of duties; the creation of policies and procedures of information barriers; remuneration policies that remove direct conflicts of interest; or setting pre-determined individual approval limits, over which escalation and approval is required.

A number of global and regional committees have been established which play a key role in helping to ensure that the management of conflicts is embedded in business processes. Specifically, from a global perspective:

- The Global Risk Management Committee has been established to oversee Russell Investments' risk management framework including investment, credit and operational risk and it administers the Global Conflicts of Interest Policy.
- Affiliated Business Oversight Committee – oversees selection of affiliated entities for investment advisory, brokerage and other related services.
- Global Trade Management Oversight Committee – oversees and analyses trading arrangements and trade execution.

At a regional level, we have implemented local conflicts of interest policies and practices which are applicable to the requirements of the local jurisdiction and business, with oversight at a local level provided by the applicable management and governance bodies.

Where the organisational and administrative controls are deemed insufficient to effectively manage or prevent a potential or actual conflict of interest, or to ensure effective stewardship, the matter is escalated in accordance with the regional policies and procedures.

For example, for our EMEA businesses, a Conflicts of Interest Working Group has been established to assist in the management of potential conflicts with its membership comprised of associates from business line management and support functions such as Legal, Compliance, Risk and Operations. The working group considers and discusses all potential and actual conflicts of interest arising in relation to Russell Investments' business activities, whilst assessing the effective business management of those conflicts of interest. If it is not possible to manage a conflict of interest to a level of confidence that the risk of damage to a client's interests will be prevented, the Conflicts of Interest Working Group will identify the client disclosures that will subsequently be necessary. The Board of each EMEA Group Company is responsible for overseeing the implementation of arrangements to ensure effective stewardship and management of conflicts of interests, including review of the EMEA conflicts of interest policy. All situations identified as constituting a conflict of interest, or that may potentially give rise to a conflict of interest, are documented in the relevant conflict of interest maps, which detail the organisational and administrative controls in place to manage them.

Some common conflicts and controls which apply to Russell Investments Group are set out in the examples below:

Exhibit 41: Examples of conflicts and control procedures

CONFLICT	CONTROL PROCEDURES
<p>Employees might be able to benefit from awareness of confidential trading activity undertaken by Russell Investments (e.g., personal account dealing in a security that forms part of a transition event or is traded by the direct investing team (dealing ahead/ front-running).</p>	<p>The Global Code of Conduct requires each of the regions to develop policies, standards and limitations regarding the personal trading activity of its associates to minimise the potential conflicts of interest relating to personal account dealing. Through regional policies, each associate is required to trade in their personal investment accounts lawfully and in a manner which avoids actual or potential conflicts between the interests of the associate and the interests of Russell Investments in our clients. This includes an obligation to report certain accounts, holdings and transactions to regional compliance. In particular, associates are prohibited from trading, either personally or on behalf of others, on material, non-public information or communicating such information in violation of applicable law. They are also prohibited from purchasing or selling ahead of client orders.</p> <p>Any suspected instances of market abuse must be reported immediately to the regional Compliance team for investigation.</p>
<p>Employees could be induced to enter into contracts with third parties, to the detriment of a segregated or fiduciary management client, or funds (where Russell Investments acts as an Adviser/ Investment Manager or distributor).</p> <p>Employees might induce a client, distributor, money manager, or other service provider into doing business with Russell Investments where this is not in the best interest of other clients or funds.</p>	<p>Associates are strictly prohibited from offering, paying or accepting remuneration or consideration for the purpose of improperly influencing the actions of government officials, political parties, candidates for public offices or others. They are also required to exercise particular care when extending common business courtesies to public officials. Regional offices have specific practices relating to anti-bribery and corruption in alignment with local regulatory and statutory standards, but there is a global requirement for associates to promptly report any bribery or corruption concerns to their regional compliance department or legal department.</p>
<p>Poor product design could adversely affect end clients; or lead to problems with market integrity by enabling the firm to mitigate and/or dispose of its own risks or exposure to the underlying assets of the product where the firm already holds the underlying assets on own account.</p>	<p>Russell Investments operates comprehensive procedures relating to product governance. The Global Product Governance Committee is the top-level governing body for all product approvals and amendments, and it delegates some authority to local product committees on a regional basis. As part of the product governance process, the relevant product committee will consider potential conflicts for this specific issue, with all potential issues assessed as part of the product development and management processes.</p> <p>For both new and existing products, consideration is given to whether the product design or amendment / development introduces any new risks to customer best interests which may need to be mitigated or disclosed.</p>
<p>Russell Investments segregated, fiduciary management or other large clients investing in Russell Investments' funds ('target funds') may result in significant influence on the investment strategy of the target fund (i.e., so that the strategy is more aligned to the investing client(s) or in the case of proposed significant redemptions, making a change to the investment strategy to keep clients within the target fund).</p>	<p>The investment strategies of Russell Investments funds are overseen by the asset class sub-committees and the ISC. Additionally, the relevant regional governing body will review the investment strategy as applicable.</p> <p>The Russell Investments portfolio manager provides written details of the investment strategy proposal to the ISC to ensure, amongst other things, the fair treatment of all investors. All proposals regarding initial investments required approval of the ISC.</p>
<p>Financial incentivisation/reward of portfolio managers may lead to inappropriate investment risks being taken (relative to the investment objective and policies) to protect employee compensation.</p>	<p>Russell Investments has a Global Remuneration Policy that considers market intelligence on compensation to be an important data point in the determination of both overall and individual pay levels for all Russell Investments employees, including senior executives and associates in risk and control positions.</p> <p>A Global Compensation Council reviews and approves compensation opportunities for individuals based on their job responsibilities and market levels of pay for organisations of appropriate size, business segments, geography, complexity and profitability relative to Russell Investments.</p> <p>In addition to market levels of compensation, quantitative and qualitative assessments of Russell Investments' performance and individuals' contributions to that performance, including Russell Investments risk management, where applicable, are important determinants of incentive compensation outcomes.</p> <p>A global Sales Compensation Council (SCC) has been established to review and approve sales commission plans. The SCC comprises members of the global senior management team.</p> <p>In order to align incentives with clients, portfolio managers are compensated based on the performance of the portfolios managed, as well as on Russell Investments' profits.</p>

At Russell Investments, in regard to stewardship, we have specific conflicts of interest controls in respect of activities surrounding employee outside interests, our active ownership and our investment management practices. The following outlines the procedures for these areas:

Outside interests

Outside business interests or directorships can create conflicts of interest with an associate's obligations to Russell Investments, which could have an adverse effect on the ability to meet our obligations to our clients and our funds (where we act as adviser, investment manager, distributor or otherwise).

All outside business interests or directorships of associates must be formally declared in accordance with the Russell Investments Global Code of Conduct. Associates must obtain prior approval from their supervisor and their regional compliance department for any outside business affiliation, employment, or acceptance of compensation from any other person or entity including (but not limited to), the acceptance of directorships, governorships or trusteeships, becoming an officer, director or partner or any business organisation, or receiving compensation from another organisation. Detailed guidance is embedded in the Global Code of Conduct, for consideration in terms of how to approach outside business activities in respect of both employees and independent contractors of the organisation.

All new associates must certify that they have read and understand the requirements in the Russell Investments Global Code of Conduct, which includes requirements in respect of outside business interests. Associates must complete an annual declaration to certify they have read, understand and continue to comply with the Global Code of Conduct.

Active ownership

The Russell Investments' Conflicts of Interest Policy does not specifically reference stewardship. However, the implementation of various processes to manage any potential conflicts of interest ensures that clients' interests are at the forefront in relation to stewardship. Our stewardship activities in relation to active ownership relate to proxy voting and corporate engagement, and we have processes to manage potential conflicts in both these areas:

1. Proxy voting conflict of interest procedures.

Where Russell Investments maintains the voting rights for underlying securities, it appoints a proxy administrator that acts within the guidelines set out in Russell Investments Proxy Voting Policy. Our proxy voting policies and procedures are designed to ensure that those proxy voting decisions; (i) are made in accordance with the best interests of clients; and (ii) enable the Active Ownership Committee to resolve any material conflicts of interest relating to voting and engagement. Further details on our Active Ownership Governance Structure can be found in the Governance of Stewardship section above.

Proxy Voting Guidelines are constructed to be aligned with international good practices and standards, and are applied to all votable proxy items, without exception, for issuers that currently have, or recently had, an existing relationship with Russell Investments, as either a client or vendor. Any votes that are not covered by the Guidelines, or any votes which require case-by-case review, are referred to the Active Ownership Committee for a review and vote. This process is further explained here.

For any votes referred to the Active Ownership Committee, potential conflicts of interest are mitigated by (i) the committee structure itself, which requires a quorum for a final vote, and (ii) all votes submitted by committee members requiring a certification attesting that the voting member has no knowledge of any potential conflicts of interest between the client, Russell Investments and its affiliates, as well as no personal material conflicts (such as personal stock ownership).

2. Corporate engagement conflict of interest procedures.

Structural separation – Russell Investments maintains a segregated reporting structure between active ownership and client facing employees. Consistent with this, only ID associates engage with and provide feedback to companies.

Transparent and consistent selection process – Russell Investments uses the same process to identify engagement targets across the board, without regard to any relationship with such parties.

Robust governance structure – The Active Ownership Team is required to seek approval from the firm's Investment Strategy Committee for all engagement targets identified, before taking any action (even in the case of those of a collaborative nature) to (i) ensure decisions are made in accordance with the best interests of clients; and (ii) enable the Active Ownership Committee to resolve any material conflicts of interest relating to voting and engagement.

2022 Investment Management

In most circumstances, Russell Investments acts as a manager of managers rather than investing directly in securities. We have identified the following potential conflicts in respect of this model and, as a result, have implemented appropriate controls to help mitigate these potential conflicts:

Exhibit 42: Examples of conflicts and control procedures

CONFLICT	CONTROL PROCEDURES
The inappropriate selection or retention of managers for commercial reasons. For example, appointing a money manager in return for AUM investment.	Our procedures for appointment retention and termination of managers follows a quantifiable process based on the ability of the money manager's product to contribute meaningfully towards the fund's/client's overall risk and return objective and is overseen by the entity-level and global committees.
Unfairly allocating high-ranked managers across certain clients or fund complexes, using up their spare capacity and inappropriately disadvantaging another client or fund complex.	The segregation of duties between the research analysts responsible for manager rankings and recommendations, and the go-to-market sales team, who might have commercial rather than investment reasons for selecting a manager.
Recommending frequent money manager changes to a client in order to increase revenue for Russell Investments.	Research Analysts receive no incentives to favour one manager over another. Such analysts are therefore not directly influenced by AUM inflows, distributor relationships, client relationships or commercial profit margins. Any changes made or recommended are done so based on clear procedures for appointment, as alluded to above.

Managers are required to manage their own conflicts of interest in accordance with the Russell Investments Conflicts of Interest Policy, or with the manager's own equivalent standard of policy. We monitor any material violations of these policies by the managers.

As part of the firm's ongoing due diligence process, managers' control environments are evaluated for their ability to mitigate conflicts of interest through ongoing employee training; use of monitoring processes and systems; their internal testing of controls; and their governance process to address conflicts identified.

Outcomes to Managing Conflicts in Practice

Below, we provide examples of how we have addressed actual or potential conflicts in 2022 in relation to stewardship.



Case study – Conflict of interest arising from receipt of information from third party consultants

Russell Investments was appointed to provide an independent review of investment advice offered by a client's consultant. This appointment could lead to a potential conflict; Russell Investments could misuse the confidential investment advice for the benefit of its other clients, for example through its stewardship and voting activity.

Russell Investments managed this potential conflict through setting up measures to ensure that only a limited set of associates were able to access the confidential information provided by the consultants and that there would be no information leak to other teams. Such measures included the use of a project name at all times, and encrypted client files to ensure that only a select number of associates were able to access the information.

Outcome

The regional Russell Investments Compliance function and Legal function reviewed this arrangement and determined that the information barriers were effectively implemented in relation to this mandate and that no misuse of information had arisen.



Case study – Information barriers to protect clients

The majority of Russell Investments' equity interests are owned by certain private equity funds which form part of Russell Investments' ownership structure. In order to ensure any potential conflicts of interest that may arise from these ownerships and circumstances are identified and properly managed, controls and measures have been put in place.

Russell Investments' Compliance function regularly monitors for potential conflicts of interest in the portfolio holdings of each private equity fund in the ownership structure, with processes in place for protecting the independence and objectivity of our research where this eventuality might occur. This includes a specific requirement that all portfolio holdings in the private equity funds ownership structure that are determined by Russell Investments Compliance to be a controlling affiliate of that company, are blocked from user view on the Russell Investments Research and Advisory Systems – with these safeguards being compliance-monitored throughout the year.

Outcome

Relevant companies are blocked from the user view on the Russell Investments Research and Advisory Systems based on this control measure.



Case study – Individual conflict controls

The majority of Russell Investments' equity interests are owned by certain private equity funds which form part of Russell Investments' ownership structure. Controls and measures have been put in place to ensure any potential conflicts of interest that may arise from these circumstances are identified and properly managed. .

Where conflicts of interest were to arise through a Russell Investments' Senior Manager having a conflicting interest in, or being appointed as a director of, an organisation within the portfolio holdings of, or controlled by, our private equity ownership structure, we have systems and controls in place to identify these circumstances and, where appropriate, will manage conflicts arising from these 'Control Affiliations'.

Outcome

Where control affiliations arise/exist, the Russell Investments Compliance function determines any potential portfolio holding entity conflicts. The Compliance function examines a number of factors -- including any trading relationships, business relationships, finance relationships, direct financial interest, operational synergies or shared profit incentives between the portfolio holding organisation and Russell Investments -- to determine if any conflicts of interest exist and need managing.

We recognise the risk of future conflicts of interest occurring in connection with any such identified portfolio holdings, and therefore subject them to ongoing, specific, and stringent safeguards.

6.2 Diversity and Inclusion

- ✓ UK Stewardship Code – Principle 2
- ✓ Japan Principles for Responsible Institutional Investors - Principle 1
- ✓ The New Zealand Stewardship Code - Principle 1

As a global company, we recognise the benefits of different sources of insight and knowledge. Valuing diversity gives us an advantage by pooling ideas and providing solutions from more than one point of view. Effective management of diverse perspectives enriches our culture and increases our ability to provide innovative solutions to our clients, while adding value to our shareholders and community.

Diversity is an integral part of our long-term growth strategy. Our ability to fulfil our purpose of improving financial security for people hinges on the quality of our workforce and our ability to provide appropriate solutions to a diverse group of clients. Our approach to Diversity and Inclusion spans our internal corporate diversity efforts, as well as those of third-party service providers. Details of our diversity efforts with regard to third party service providers are covered under section 4.3. Below, we provide an overview of our internal corporate efforts on this subject.

Internal Corporate Diversity and Inclusion efforts

At Russell Investments, we consider diversity through multiple lenses (e.g., gender, ethnicity, and sexual orientation). To advance our efforts we have established a Diversity and Inclusion (D&I) Council whose purpose is to increase diversity and inclusion among employees. The D&I Council's goals include, but are not limited to, the following:

- Demonstrating leadership commitment and accountability for attracting, developing, and retaining diverse talent
- Championing the advancement of diversity, equity, and inclusion, internally and in our communities
- Fostering a culture of inclusion
- Growing our diverse associate representation globally each year, with a particular focus on the following:
 - Doubling the number of organisations Russell Investments partners with to find diverse talent from 2020 to 2022.
 - Increasing the percentage of diverse applicants for open positions – beginning in the U.S. and expanding to other regions – in proportion to the number of open positions year-over-year from 2020 to 2023.

Our stated purpose is to create an inclusive work environment that is free from discrimination and harassment, emphasising our commitment to treating associates with respect. Equal opportunity extends to all employment aspects including hiring, promotions, transfers, terminations, training, working conditions, compensation, and benefits. Decisions pertaining to employment must not be discriminatory, based on any characteristic protected by law. Further information can be found in our CSR report.

Global Associate Resource Groups

These associate groups/committees (ARGs) are led by associates and are designed to increase engagement and understanding while contributing to a more inclusive workplace. ARGs also facilitate dialogue and learning about inclusion issues across Russell Investments. These groups provide leadership and development opportunities for associates and support minorities and/or women in the workplace.

- Women's/Gender Equality Associate Resource Group
- Black Associate Resource Group
- LGBT & Allies (LGBTQA) Associate Resource Group
- Multicultural Associate Resource Group
- Veteran's Associate Resource Group
- Career Enhancement Associate Resource Group

In addition, we have a Global Community Engagement Council, a Global Wellness Associate Resource Group, a newly formed Global Sustainability Work Practices Group, and regional Social Committees – all collaborating with our Diversity and Inclusion Associate Resource Groups on programming and initiatives.

2022 Activity

Through 2022, we have continued to stay connected and have furthered our Diversity and Inclusion efforts. Highlights from educational events hosted this year include the following:

- Girl Scouts Financial Education Program
- Real Talk About Racism and Discrimination Training
- Leading Edge in Client Services Panel Discussion (with Women leaders at Russell Investments)
- A Conversation on Trans* Identity and Allyship (with Pips Bunce of Credit Suisse)
- Ovarian and Breast Cancer Educational Event with the Rivkin Center
- Veteran's/Remembrance Day Event
- Black Associate ARG Networking Socials

In addition to the many events hosted by the ARG's, the following programs are also in place:

- Women in Sales Excellence (WISE): A program to provide mentorship and educational opportunities to women in sales.
- Global diversity mentorship program: An opportunity for diverse talent to reverse mentor senior executives.
- Training: All new hires are required to complete unconscious bias training. Russell Investments provides anti-harassment and discrimination training to associates every two years, and in several regions requires the training upon hire.
- Pay equality and disclosure: Russell Investments conducts a full compensation review each year, ensuring equal pay for equal work with a focus on gender and race/ethnicity diversity. Russell investments voluntarily participates in the UK Gender Pay Gap initiative, publishing results annually.
- Policies and performance goals: Russell Investments ensures its global and regional policies are inclusive and free from bias.
- Global volunteering program whereby volunteer hours are matched and associates are afforded two days off for volunteer activities of their choice per year
- Promoting diversity: The following incentives are in place globally to promote diversity:
 - Code of Ethics and Global Code of Conduct: Both Codes support overall ethical conduct and include statements on anti-harassment and anti-discrimination that must be adhered to across the firm.
 - Global Citizen Goals: These goals are assigned to all associates (manager and individual contributor versions), and our EC and year-end bonus compensation is dependent upon succeeding with these objectives.
 - Individual Contributor: Demonstrates good corporate citizenship by living Russell Investments' values and principles and contributing to our culture of compliance, meritocracy, inclusivity, and diversity.
 - Leadership: Serves as a role model for Russell Investments' leadership behaviours, values, and principles. Demonstrates good judgment with a focus on strengthening our culture of compliance, meritocracy, inclusivity, and diversity.

Further details of our efforts in this space can be found on our [website](#).

6.3 Policy Advocacy and Collaborations

- ✓ UK Stewardship Code – Principle 4, 10
- ✓ Japan Principles for Responsible Institutional Investors - Principle 1
- ✓ The New Zealand Stewardship Code - Principle 7

We actively collaborate in initiatives with industry participants, regulatory working group and other stakeholders to collectively deliver a well-functioning financial system. Over the course of 2022, we have contributed to with the activities of the following organisations:



Principles for Responsible Investment (PRI)

As a signatory to the PRI since 2009, Russell Investments has a long-standing relationship with the organisation and has completed PRI assessment annually. Russell Investments incorporates the PRI principles into our processes including through manager research, portfolio management, and proxy voting and engagement. Furthermore, we purposefully assess the initiatives and consultations driven by PRI, and we participate where relevant.



Institutional Investors Group on Climate Change (IIGCC)

We have been a member of IIGCC since 2015, actively collaborating and participating at industry events and seminars. We also contribute to consultations as and when there is an opportunity to do so.



Climate Action 100+

The role Russell Investment plays in this initiative is further explained under the engagement section [here](#).



Transition Pathway Initiative (TPI)

We leverage the independent research and data from TPI to facilitate information shareholder and collective knowledge building. Moreover, we have completed the mapping of this open source to set our own targets towards our net zero commitment.



Carbon Disclosure Project (CDP)

We use the global disclosure system provided by CDP as one of several sources that help us to manage environmental impact in our portfolios. We have also collaborated with CDP in engagement campaigns; for example, during 2022 we supported a campaign that targets 1,200 high impact companies on committing and setting a 1.5 degree-aligned, SBTi approved science-based emissions reduction target.



Task Force on Climate-related Financial Disclosures (TCFD)

We have embedded the TCFD framework in our stewardship activities and regularly engage with companies in this area. More details have been provided in the engagement section of this report.



The Net Zero Asset Managers initiative

In 2021, Russell Investments joined the Net Zero Asset Managers Initiative. Russell Investments has committed to work in partnership with its clients on goals consistent with an ambition to reach net-zero emissions by 2050 or sooner across all its assets under management. Further information can be found [here](#).



**Institutional Investing
Diversity Cooperative**

Institutional Investing Diversity Cooperative (IIDC)

IIDC members meet regularly to discuss key initiatives and specific action items that can encourage asset managers to offer more robust and comprehensive diversity data. We are actively involved in IIDC through regular meetings, ad-hoc sub-committee projects, and industry event speaking opportunities.



Investment Association (IA)

Collaborations in 2022 include attending multiple industry seminars and responding to the FCA proposed rules on sustainability.



Investment Company Institute (ICI)

We support the organisation to advocate on legislation, regulation and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services.



Securities Industry and Financial Markets Association (SIFMA)

Russell Investments supports SIFMA to advocate on legislation, regulation and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services.



Responsible Investment Association Australasia (RIAA)

We actively contribute to the RIAA to ensure capital is aligned with achieving a healthy society, environment and economy. Russell Investments has three of its Australian funds certified by RIAA. RIAA's Certification Symbol is recognised by investors and consumers across the region, providing confidence that a product or provider is delivering on its responsible investment promise and meeting the Australian and New Zealand standard for responsible investing.



Department of Labor (DOL)

In the United States, we have joined industry trade associations and worked directly with the Department of Labor to improve the language associated with how The Employee Retirement Income Security Act of 1974 (ERISA) plan sponsors consider financially-material factors related to ESG.



Case study – Collaborative consultations

Throughout 2022, Russell Investments provided input on a number of consultations for industry groups. These consultations happened in form of questionnaires, surveys, and working group meetings. They allowed Russell Investments to influence the direction of enhancements to collaborative programs and offer advice on the direction of industry bodies.

Outcome

Collaboration Group	Consultation
PRI	PRI in a Changing World signatory consultation
The Investor Agenda	Global Investor Statement
Climate Action 100+	Consultation on Strategy Renewal
CDP	SBT Engagement Campaign
Climate Action 100+	Consultation to Enhance Benchmark
IIGCC	Stewardship Alignment Questionnaire
IAST APAC	Campaign to Find, Fix, and Prevent Modern slavery
IIGCC	Net Zero Engagement Initiative

Thought Leadership

We provide a range of training and development opportunities for our client base to ensure that our clients are kept abreast of key industry developments, as outlined previously in this report. During 2022, Russell Investments published twenty-one [blog posts](#) relevant to ESG and responsible investing. These posts were written by investment professionals across various regions and teams, reflecting our broad range of services and diverse client base.

6.4 Reviewing Policies and Processes

- ✓ UK Stewardship Code – Principle 5
- ✓ Japan Principles for Responsible Institutional Investors - Principle 1
- ✓ The New Zealand Stewardship Code - Principle 2

Our policies cover all aspects of our investment and business practices, including our stewardship approach. Our Compliance and Legal teams continually review the regulatory landscape and add and refresh policies to ensure we are up to date with regulatory requirements. Furthermore, these reviews verify that our research aligns with best practice.

Our governance oversight combines formal and informal feedback loops. Metrics are generated on a range of ongoing practices; these metrics are calculated regularly for items that are subject to ongoing review such as performance assessment, portfolio risk exposures, compliance guideline reporting and productivity metrics.

In addition to regularly reviewed reports, ad hoc studies are conducted from time to time. These reports and studies encompass a broader set of data over a range of time periods and are typically focused on a particular aspect of our investment process that we are seeking to assess and improve. As an example, in 2022, we added enhancements to our manager research practice to better focus our assessment criteria on a range of Diversity, Equity and Inclusion factors that may or may not be present or effective in the managers we research. These enhancements were based on findings from a range of analytics and studies undertaken in 2021, at both a manager and industry level.

When undertaking analysis, we aim to use the same underlying data and metrics that inform our investment decision making and policy review process, as we use for client reporting and submissions to regulatory bodies. This alignment helps ensure that both our evaluation and reporting practices are fair and accurate.



Case study – A continuously evolving process

Our investment practice is continuously evolving, and this drives process and policy change. As part of this evolution, in 2022 we progressed work to further integrate sustainability risk oversight into our core investment process and update our Sustainability Risk policy and practice to reflect the enhancements made.

Outcome

This policy was first created and approved in 2020. It provides requirements and guidance for our investment professionals to follow when identifying, evaluating, and managing relevant sustainability risks in our investment manager review process, portfolio management, and through implementing proprietary solutions. In 2021 we updated our investment practices to bring us into line with the policy and also updated some of the policy guidance wording as part of the discovery process of implementing the policy. Further enhancements were made to the oversight process of sustainability risk management in 2022 with particular attention given to ongoing monitoring of our sub-advisers, selection of securities in portfolios that we manage directly, and updated goals for enhanced oversight at the total portfolio level. As a result, work has been identified and will be undertaken in 2023 to update the Sustainability Risk policy to reflect these enhancements.

Internal audit

In addition to continuous reviews and feedback loops, an independent Internal Audit (IA) team undertakes a rolling agenda of review on a range of key investment activities. The purpose of Russell Investments Group Internal Audit function is to provide independent and objective assurance and consulting services designed to improve the organisation's controls and operations. Internal Audit accomplishes this by providing risk-based and objective assurance, advice, and insight to enhance and protect organisational value. Internal Audit helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to test, evaluate and improve the effectiveness of governance, risk management and control processes.

The Russell Investments Group Internal Audit function utilises a risk-based approach in developing the annual audit plan. The audit universe of key processes is assessed to focus the audit plan on the areas of highest risk. Any issues identified by Internal Audit require management action plans (MAPs) and are tracked to resolution by Internal Audit. The status of open issues is regularly reported to relevant boards and audit committees. Internal Audit validates resolution to close issues identified.

The IA process involves a structured assessment of key processes and risks, including detailed testing of mitigating controls across the organisation. These audits are designed to assess if systems and procedures are effective, efficient and function as designed, thereby helping ensure:

- risks are appropriately identified and managed;
- quality and continuous improvement are fostered in the organisation's control process;
- significant financial, managerial, and operating information is prepared accurately and reliably; and
- resources are adequately protected.



7. Appendix: Stewardship Code Mappings

7.1 The UK Stewardship Code

PRINCIPLE	REQUIREMENTS	PAGES
Principle 1	Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.	
	Signatories should explain the purpose of the organisation and an outline of its culture, values, business model and strategy	6, 7
	Signatories should explain their investment beliefs, i.e., what factors they consider important for desired investment outcomes and why	8, 9
	Signatories should explain what actions they have taken to ensure their investment beliefs, strategy, and culture enable effective stewardship	4, 8-10
	Signatories should disclose how their purpose and investment beliefs have guided their stewardship, investment strategy and decision-making	4, 8-10
	Signatories should disclose an assessment of how effective they have been in serving the best interests of clients and beneficiaries.	8-10, 18, 21-25
Principle 2	Signatories' governance, resources and incentives support stewardship.	
	Signatories should explain how their governance structures and processes have enabled oversight and accountability for effective stewardship within their organisation and the rationale for their chosen approach.	26- 31
	Signatories should explain how they have appropriately resourced stewardship activities, including their chosen organisational and workforce structures	26-31
	Signatories should explain how they have appropriately resourced stewardship activities, including their seniority, experience, qualifications, training and diversity	30, 31, 88-91
	Signatories should explain how they have appropriately resourced stewardship activities, including their investment in systems, processes, research and analysis	30-36
	Signatories should explain how they have appropriately resourced stewardship activities, including the extent to which service providers were used and the services they provided	30-31, 46-48
	Signatories should explain how any performance management or reward programs have incentivised the workforce to integrate stewardship and investment decision-making	31
	Signatories should disclose how effective their chosen governance structures and processes have been in supporting stewardship; and Signatories should disclose how they may be improved	29-30
Principle 3	Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	
	Signatories should disclose their conflicts policy and how this has been applied to stewardship	94-95
	Signatories should explain how they have identified and managed any instances of actual or potential conflicts related to stewardship.	94
	Signatories should disclose examples of how they have addressed actual or potential conflicts	14-17, 21, 22
Principle 4	Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.	
	Signatories should explain how they have identified and responded to market-wide and systemic risk(s), as appropriate.	37- 43
	Signatories should explain how they have worked with other stakeholders to promote continued improvement of the functioning of financial markets.	19, 20, 92-94

Signatories should explain the role they played in any relevant industry initiatives in which they have participated, the extent of their contribution and an assessment of their effectiveness, with examples.	91-93
Signatories should explain how they have aligned their investments accordingly.	41-43
Signatories should disclose an assessment of their effectiveness in identifying and responding to market-wide and systemic risks and promoting well-functioning financial markets.	41-43
Principle 5	Signatories review their policies, assure their processes and assess the effectiveness of their activities.
Signatories should explain how they have reviewed their policies to ensure they enable effective stewardship	91-92
Signatories should explain what internal or external assurance they have received in relation to stewardship (undertaken directly or on their behalf) and the rationale for their chosen approach	92
Signatories should explain how they have ensured their stewardship reporting is fair, balanced and understandable	13-16, 20, 21
Signatories should explain how their review and assurance has led to the continuous improvement of stewardship policies and processes	92
Principle 6	Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.
Signatories should disclose the approximate breakdown of their client base, for example, institutional vs retail, and geographic distribution	11-13
Signatories should disclose the approximate breakdown of assets under management across asset classes and geographies	12-14
Signatories should disclose the length of the investment time horizon they have considered appropriate to deliver to the needs of clients and/or beneficiaries and why	11, 18
Signatories should explain how they have sought and received clients' views and the reason for their chosen approach	21, 22
Signatories should explain how assets have been managed in alignment with clients' stewardship and investment policies	18-21
Signatories should explain what they have communicated to clients about their stewardship and investment activities and outcomes to meet their needs, including the type of information provided, methods and frequency of communication to enable them to fulfil their stewardship reporting requirements.	14-17
Signatories should explain how they have evaluated the effectiveness of their chosen methods to understand the needs of clients and/or beneficiaries	22- 25
Signatories should explain how they have taken account of the views of clients and what actions they have taken as a result.	22- 25
Principle 7	Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues and climate change, to fulfil their responsibilities.
Signatories should disclose the issues they have prioritised for assessing investments, prior to holding, monitoring through holding and exiting. This should include ESG issues of importance to them.	32- 36
Signatories should explain how integration of stewardship and investment has differed for funds, asset classes and geographies	18-23
Signatories should explain how they have ensured tenders have included a requirement to integrate stewardship and investment, including material ESG issues	18- 25, 32- 36
Signatories should explain how they have ensured the design and award of mandates included requirements to integrate stewardship and investment to align with the investment time horizons of beneficiaries	18- 25, 32- 36
Signatories should explain the processes they have used to integrate stewardship and investment, including material ESG issues, to align with the investment time horizons of clients and/or beneficiaries	18- 25, 32- 36, 42
Signatories should explain the processes they have used to ensure service providers have received clear and actionable criteria to support integration of stewardship and investment, including material ESG issues	18- 25, 32- 36, 42
Signatories should explain how information gathered through stewardship has informed acquisition, monitoring and exit decisions, either directly or on their behalf, and with reference to how they have best served clients and/or beneficiaries	18- 25, 32- 36, 42
Principle 8	Signatories monitor and hold to account managers and/or service providers
Signatories should explain how they have monitored service providers to ensure services have been delivered to meet their needs.	43- 48
Signatories should explain how the services have been delivered to meet their needs	43- 48

Signatories should explain the action they have taken where signatories' expectations of their managers and/or service providers have not been met	43- 48
Principle 9	Signatories engage with issuers to maintain or enhance the value of assets
Signatories should explain how they have selected and prioritised engagement (for example, key issues and/or size of holding)	51-53
Signatories should explain how they have developed well-informed and precise objectives for engagement with examples	52-60, 66-71
Signatories should explain what methods of engagement and the extent to which they have been used	49, 50
Signatories should explain the reasons for their chosen approach, with reference to their disclosure under Context for Principle 1 and 6	49-53
Signatories should explain how engagement has differed for certain funds, assets, or geographies	57-64
Signatories should describe the outcomes of engagement that is ongoing or has concluded in the preceding 12 months, undertaken directly or by others on their behalf.	51- 59, 66-71
Principle 10	Signatories, where necessary, participate in collaborative engagement to influence issuers.
Signatories should disclose what collaborative engagements they have participated in and why, including those undertaken directly or by others on their behalf.	49, 50, 92-94
Signatories should describe the outcomes of collaborative engagement.	50, 54
Principle 11	Signatories, where necessary, escalate stewardship activities to influence issuers.
Signatories should explain how they have selected and prioritised issues, and developed well-informed objectives for escalation	55- 57
Signatories should explain when they have chosen to escalate their engagement, including the issue(s) and the reasons for their chosen approach, using examples	55- 57
Signatories should explain how escalation has differed for funds, assets or geographies	55- 57
Signatories should describe the outcomes of escalation either undertaken directly or by others on their behalf	55- 57
Principle 12	Signatories actively exercise their rights and responsibilities
Signatories should explain how they exercise their rights and responsibilities, and how their approach has differed for funds, assets or geographies	72- 75
For listed equity assets signatories should disclose their voting policy, including any house policies and the extent to which funds set their own policies	72- 75
For listed equity assets signatories should state the extent to which they use the default recommendations of proxy advisors	75
For listed equity assets signatories should report the extent to which clients may override a house policy	72- 75
For listed equity assets signatories should disclose their policy on allowing clients to direct voting in segregated and pooled accounts	72- 75
For listed equity assets, signatories should state what approach they have taken to stock lending, recalling lent stock for voting and how they seek to mitigate 'empty voting'	75
For listed equity assets, signatories should disclose the proportion of shares that were voted in the past year and why	75, 78
For listed equity assets, signatories should provide a link to their voting records, including votes withheld if applicable	75
For listed equity assets, signatories should explain their rationale for some or all voting decisions	80- 82
For listed equity assets, signatories should explain how they have monitored what shares and voting rights they have	72- 75
For fixed income assets, signatories should explain their approach to seeking amendments to terms and conditions in indentures or contracts	75
For listed equity assets, signatories should provide examples of the outcomes of resolutions they have voted on over the past 12 months	72, 73, 80-83
Signatories should explain how they exercise their rights and responsibilities, and how their approach has differed for funds, assets or geographies	72- 75

7.2 Japan Principles for Responsible Institutional Investors

PRINCIPLE	REQUIREMENTS	PAGES
Principle 1	Institutional investors should have a clear policy on how they fulfil their stewardship responsibilities and publicly disclose it.	14-17, 21, 22, 40, 49, 72, 89-92, 93, 95
Principle 2	Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.	84- 89
Principle 3	Institutional investors should monitor investee companies so that they can appropriately fulfil their stewardship responsibilities with an orientation toward the sustainable growth of the companies.	49-71
Principle 4	Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.	49-71
Principle 5	Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies	73-75
Principle 6	Institutional investors in principle should report periodically on how they fulfil their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.	10-25, 75
Principle 7	To contribute positively to the sustainable growth of investee companies, institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies.	26-36
Principle 8	Service providers for institutional investors should endeavour to contribute to the enhancement of the functions of the entire investment chain by appropriately providing services for institutional investors to fulfil their stewardship responsibilities.	43-48

7.3 The New Zealand Stewardship Code

PRINCIPLE	REQUIREMENTS	PAGES
Principle 1	Signatories will establish, and publicly articulate, how their investment philosophy, governance structures, and resourcing supports the goals of effective stewardship.	7-10, 26-36, 89, 90
Principle 2	Signatories will develop and implement measurable and effective stewardship policies.	14- 17, 21, 22, 40, 49, 73, 89-92
Principle 3	Signatories will incorporate material ESG matters into their investment decisions and stewardship practices.	18-26, 32-42
Principle 4	Signatories will engage regularly and effectively with underlying managers, issuers, and other key stakeholders	43-47, 49-71
Principle 5	Signatories will exercise voting rights in accordance with their investment mandate, and regularly and transparently disclose voting actions and outcomes.	72-73
Principle 6	Signatories will endeavour to avoid any conflict of interest that does not put the best interests of their clients and beneficiaries first and explain their approach to managing any conflicts of interest that arise.	84- 89
Principle 7	Signatories will work collaboratively to amplify investor influence on ESG matters with issuers, policy makers, index providers, standard setters, and other key stakeholders.	50, 51, 56, 92- 95
Principle 8	Signatories will regularly measure, and publicly report, on their actions taken to support stewardship, and demonstrate how these have contributed to the goals of effective stewardship.	11-27, 75
Principle 9	Signatories will invest to improve clients' and beneficiaries' awareness of stewardship, improve their internal capabilities, and provide resources to deliver impactful stewardship.	11-27

QUESTIONS?

Contact **Russell Investments Active Ownership**
visit russellinvestments.com.au/responsibleinvesting



ABOUT RUSSELL INVESTMENTS

Russell Investments is a leading global investment solutions partner providing a wide range of investment capabilities to institutional investors, financial intermediaries, and individual investors around the world. Since 1936, Russell Investments has been building a legacy of continuous innovation to deliver exceptional value to clients, working every day to improve people's financial security. Headquartered in Seattle, Washington, Russell Investments has offices worldwide, including New York, London, Sydney, Tokyo, Toronto and Shanghai.

IMPORTANT INFORMATION

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