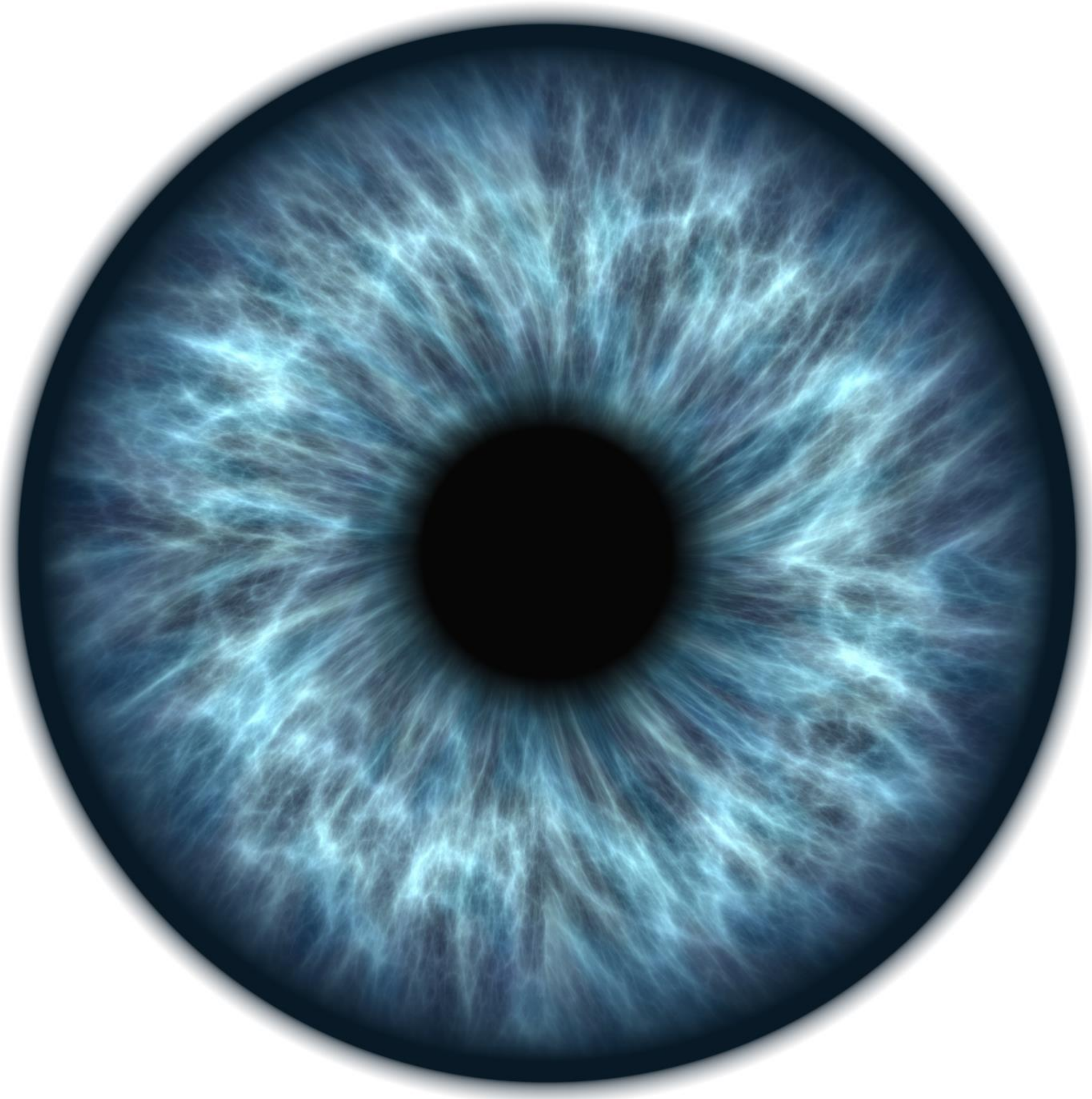
Active ownership

Russell Investments

Proxy and Engagement Report 2018



russellinvestments.com/ca

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Introduction

At Russell Investments, we believe that being an active owner is an important component of our investment responsibilities. Through active ownership, we can better understand both the risk factors and potential return associated with ownership of a company. Good stewardship practices are best implemented not only through proxy voting activities, but by being an engaged shareholder. Our objective, through our active ownership activities, is to provide an integrated and inclusive approach to promote changes that protect and enhance shareholder value and shareholder rights.

As a part of our commitment to responsible investing, we have been voting at shareholder meetings for over 20 years, evolving our voting policies and practices alongside various developments in regulations and principles. We became a signatory to the United Nations Principles of Responsible Investment (PRI) in 2009 and have followed the UK Stewardship Code since its introduction in 2010.

As PRI signatories, we place specific importance on integrating environmental, social, and governance (ESG) issues into both our overarching investment process and specifically in our active ownership approach towards protecting shareholder value and rights. We place high importance on corporate governance best practices and the appropriate measures of risk mitigation and seek to gather additional information regarding these topics from both investee companies and the sub-advisors we hire within our funds. As a responsible investor, we believe that it is our responsibility to monitor the effectiveness of company management, exerting influence through the exercise of proxy voting and engagement activities.

This report captures our progress in developing and implementing our active ownership activities, demonstrating our commitment to the PRI and the UK Stewardship Code.

We welcome feedback on this publication. If you have additional questions, please contact your Russell Investments representative or write directly to:
proxymailbox@russellinvestments.com

Note: Unless otherwise stated, the source of all data in this document is Russell Investments.

Updates

An essential part of commitment to responsible investing is our support of industry bodies that foster the adoption of industry best practices in this evolving area of our industry.

PRI

Russell Investments has completed the Principles of Responsible Investment (PRI) survey every year since 2012. In this survey, we are asked to provide information regarding our firm's strategy and governance practices for implementing the six Principles of Responsible Investment. The Principles are a set of global best practices that aim to provide a framework for integrating ESG issues into financial analysis, investment decision-making and ownership practices. We remain actively involved with the UN supported PRI, attending the PRI conferences, as well as global seminars and discussions on topics of mutual interest. We are committed to incorporating each of these Principles into our processes and strive to better our assessments each year.

The PRI 6 Principles

- **Principle 1:** We will incorporate ESG issues into investment analysis and decision-making processes.
- **Principle 2:** We will be active owners and incorporate ESG issues into our ownership policies and practices.
- **Principle 3:** We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- **Principle 4:** We will promote acceptance and implementation of the Principles within the investment industry.
- **Principle 5:** We will work together to enhance our effectiveness in implementing the Principles.
- **Principle 6:** We will each report on our activities and progress towards implementing the Principles.

In the 2018 PRI Assessment, Russell Investments scored A or A+ on all assessment modules, consistently higher than the median score of all respondents. Tables 1, 2 and 3 detail the results of the PRI Assessment Report.

Table 1. Strategy and Governance

	2014	2015	2016	2017	2018
Russell Investments	A	A	A+	A+	A+
Signatory Median	N/A	B	B	A	A

Table 2. Listed Equity – Active Ownership

	2014	2015	2016	2017	2018
Russell Investments	B	C	A	A+	A
Signatory Median	N/A	B	B	B	B

Table 3. Summary Scorecard

AUM	MODULE NAME	YOUR SCORE	YOUR SCORE	MEDIAN SCORE
	01. Strategy & Governance	A+		A
Indirect – Manager Selection, Application & Monitoring				
10-50%	02. Listed Equity	A		B
<10%	03. Fixed Income – SSA[1]	A		C
<10%	04. Fixed Income – Corporate Financial	A		C
<10%	05. Fixed Income – Corporate Non-Financial	A		C
<10%	06. Fixed Income – Securitized	A		C
<10%	07. Private Equity	A		C
<10%	08. Property	A		C
<10%	09. Infrastructure	A		C
Direct & Active Ownership Modules				
10-50%	10. Listed Equity – Incorporation	A+		B
10-50%	11. Listed Equity – Active Ownership	A		B
<10%	12. Fixed Income – SSA	Not reported		
<10%	13. Fixed Income – Corporate Financial	Not reported		
<10%	14. Fixed Income – Corporate Non-Financial	Not reported		
<10%	15. Fixed Income – Securitized	Not reported		

If you would like additional information regarding our PRI disclosures, please refer to the full Transparency and Assessment report published on the PRI website(unpri.org) as well as the Russell Investments' website (russellinvestments.com/about-us/responsible-investing).

[1] SSA refers to an asset class including Supranational, Sovereigns, Government agencies and Sub-nationals.

UK Stewardship Code

As part of our commitment to ensuring that we follow stewardship best practices, Russell Investments is a signatory to the UK Stewardship Code. Like the PRI, the Code provides a set of guiding principles for the standards of good stewardship. Given our unique structure, we implement our stewardship responsibilities in a differentiated fashion by:

- Providing oversight and monitoring of external asset managers that we employ in our investment portfolios
- Providing oversight of companies held within our portfolios through corporate engagement and proxy voting

In 2016, the Financial Reporting Council (FRC) altered their assessment approach by applying a three-tier system to the Stewardship Code Statements for asset managers. This three-tier system is intended to demonstrate the level of commitment by an asset manager to the Stewardship Code principles (tier one being the highest level of commitment). In 2017, Russell Investments was categorized as a tier one signatory – meaning that we were proven to meet the quality and transparency requirements of the Code. Our tier one UK Stewardship code status, in conjunction with our high scores on the PRI, exemplify the level of importance we place on governance best practices and appropriate disclosure.

If you would like to receive a copy of Russell Investments' completed framework, please visit the website (russellinvestments.com/about us/responsible investing) or contact your Russell Investments' representative.

Japan Stewardship Code

Modeled after the existing UK Stewardship Code, Japan's Stewardship Code was established by the Financial Services Agency of Japan (FSA) in 2014. The Code is closely aligned with UNPRI's second principle on active ownership and the incorporation of ESG issues into ownership policies and practices. It calls on shareholders to disclose how they vote at annual general meetings and to engage more actively with company management, with the goal of promoting sustainable growth of companies through investment and dialogue.

Beginning in early 2017, the FSA decided to reform some principles within the Code. One of the most significant changes made was to encourage increased transparency – seeking to bring investors greater insights into the potential weaknesses in corporate governance practices. The revision also encourages engagement to improve and foster corporate value and sustainable growth. We expect these changes will lead to increased willingness on the part of Japanese corporations to engage with investors.

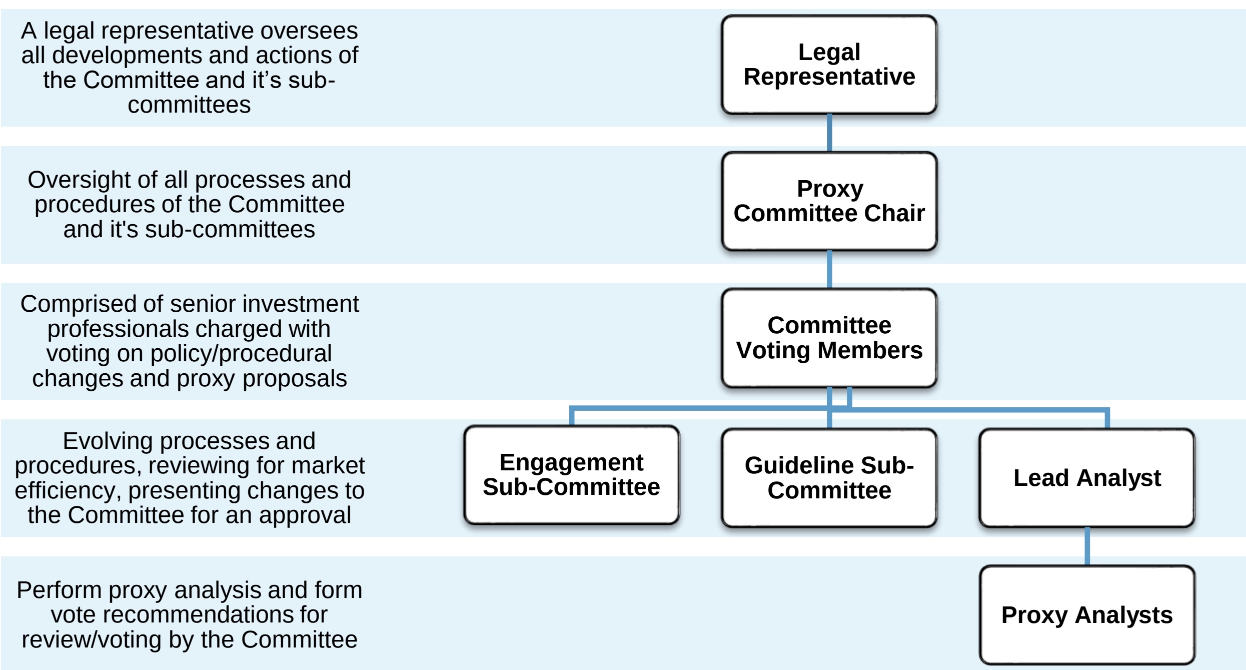
Our approach

Proxy voting

Russell Investments believes that exercising voting rights is an essential part of the value creation process. We also believe that it is our responsibility to monitor the effectiveness of company management, ensuring strong corporate governance, protecting shareholder value and shareholder rights.

Over the last 30 years, we have built robust proxy voting policies, processes and guidelines (all of which can be found on our website (russellinvestments.com/about us/responsible investing). The Russell Investments' Proxy Committee (the "Committee") establishes and oversees our proxy voting policies, procedures, guidelines, and voting decisions, and it continues to adapt our processes to meet evolving client needs and expectations. Within the Committee, our Guideline sub-committee meets regularly to review and propose adjustments that ensure our guidelines are aligned with current best practices. And, our Engagement Sub-Committee directs and monitors our engagements with public companies, our sub-advisors, and other market participants. The committee is made up of Russell Investments' professionals from a variety of roles including portfolio management, manager research, and investment strategy. Additionally, a Russell Investments legal representative is highly involved in all proxy voting developments and activities.

Russell Investments recognizes the importance of environmental, social and corporate governance issues; they not only affect our clients' investments and financial security. They affect our business and communities in which we live and work.



An external service provider, Glass Lewis, serves as Russell Investments' proxy administrator. They provide research and proxy voting execution services, subject to ongoing supervision by our internal proxy coordinator and oversight by the Committee. Glass Lewis conducts research regarding each proposal presented for a vote, then evaluates each matter using our guidelines and takes action consistent with these guidelines. When ballots present unique issues or topics not specifically set out in the guidelines, the proposal(s) are referred to the Committee for a vote.

Engagement

We believe that an integrated approach to active ownership is the best way to achieve desired investment outcomes, and engagement is an important part of our investment responsibilities. Our objective is to promote changes that protect and enhance shareholder value and shareholder rights. We find that corporate engagement is the first step to affecting positive change, since it allows us to address outstanding issues directly with companies.

However, because of our multi-faceted approach to investment management, we leverage a broad set of relationships to exert influence and enable multiple levels of engagement. Our relationships and activities extend across three groups: engagement with and through sub-advisors, collaborative engagements with market participants, and of course direct corporate engagements. These connections also provide information sharing and serve as an important feedback loop into our active ownership processes.

Direct Corporate Engagements

We engage with the intent to improve corporate governance practices as well as bring ESG risk awareness to management. Maintaining positive, long-term relationships allows us to enhance shareholder value and rights

Investment Partner Dialogue

Given our unique position as multi-asset managers, we leverage our relationships with our sub-advisors to provide a more informed and integrated approach to active ownership

Collaborative Engagements with Market Participants

These broader engagement activities allow us to understand changes in view points and market trends, leading to a deepened understanding of the drivers of shareholder value and rights

We place high importance on corporate governance best practices and the appropriate measures of risk mitigation, seeking to gather additional information regarding these topics from both investee companies and the sub-advisors we hire within our funds. In our engagements, we have a consistent approach, with a clear direction for each discussion. This integrated process allows us to have a more comprehensive understanding of the impacts of the proposals upon which the Committee is asked to vote. When deciding to engage with a company, we make a concerted effort to focus on the issues that we believe will have the most impact on shareholder value and rights.

When choosing among engagement opportunities, we take into account ESG analysis from Sustainalytics (our third-party vendor for ESG metrics), past and current proxy items, and Russell Investments' ownership levels.

Sustainalytics reports

- Companies with low ESG scores – generally below 50
- High Controversies and risks listed in the report

Proxy ballot

- Voting against management proposal
- Controversial issues or contentious shareholder proposals

Ownership levels

- We attempt to engage with companies in which we hold a meaningful and impactful weight, typically defined as ownership above 1.5% of shares outstanding.

Engagement focus areas

To facilitate more meaningful engagements in areas with the potential to impact shareholder value, we organize our engagement efforts among five specific categories: compensation, independence/accountability, diversity, sustainability, and shareholder outreach. However, we continually review and adapt these focus areas to address emerging investment risks and opportunities and to respond to our clients' needs. More information on this approach can be found on our website (russellinvestment.com/about us/responsible investing).

Compensation

We believe that aligning executive compensation with corporate performance is in shareholder best interests. This is a frequent topic of engagement for companies with poor compensation structure, or a pay-for-performance disconnect. Votes may be withheld from directors who serve on compensation committees where the company has maintained poor compensation practices.

Independence / accountability

The board of directors is the focal point of corporate governance – directors represent the shareholders and are charged with safeguarding investors' interests. Shareholder interests are best represented by an independent, accountable, responsive, and diverse board of directors. If the board, by our valuation, has not made significant progress towards implementing strategies to address shareholder concerns we will consider voting against board members.

Diversity

There is increased recognition that a diverse team leads to greater successes than a non-diverse team, with benefits including better task performance and greater organizational stability. With that in mind, we focus our engagement efforts in this area on increased awareness of the impact of diversity on firms' investment performance and culture. Proposals requesting an increase in gender or racial minority representation are individually reviewed and voted on a case-by-case basis.

Sustainability

Since there is the potential for both significant financial and reputational risks resulting from a company's sustainability practices, it is important that companies provide adequate disclosure regarding the steps being taken to mitigate these risks to their shareholders. We encourage the appropriate disclosure on ESG issues, identifying areas in which a company is lacking or lags peers. We generally support proposals for companies to increase disclosures, each voted on a case-by-case basis.

Shareholder Outreach

We strongly believe that companies should make themselves available for discussion with shareholders and remain responsive to concerns expressed within the market. In our view, before a shareholder proposal is put on the ballot. We look to recognize the efforts companies have made to address investor/proponent concerns, gain a deeper understanding of the barriers companies face in their efforts to meet investor demands, and to demonstrate our support of this corporate governance best practice.

Unsupported shareholder proposals where we believe the concept may add to shareholder value but are overly prescriptive and/or poorly drafted are reviewed by our engagement team. In these cases, our integrated engagement efforts can encourage positive change. Although we consider all additional analysis and materials obtained from our engagements, we always vote independently – maintaining the Russell Investments proxy voting guidelines as the overarching authority.

ESG dedicated experts

Because Russell Investments believes that ESG issues have the potential to impact investment opportunities and risks, we have established ESG-dedicated resource groups that are fully integrated across our company and with our investment and ownership processes. Each ESG resource group includes representatives from a variety of asset classes and regions, allowing us to adapt to market and client requirements.

Responsible Investment – Executive sponsor

Responsible Investment Committee

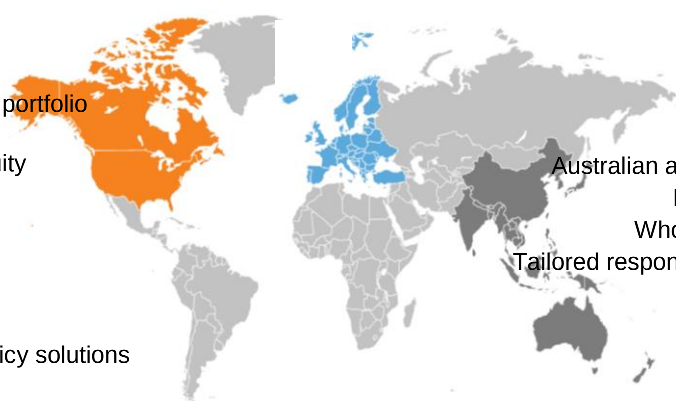
Enhance Russell Investments' ability to meet investment and market demands of responsible investment

ESG Knowledge Specialist Team (EKS Team)

Tasked with ensuring appropriate levels of focus and knowledge are applied in incorporating ESG issues in the overall manager evaluation process.

While we have a team of designated ESG Knowledge Specialists, ESG reviews and evaluations are integrated as part of our manager due diligence process. Our entire team of tenured and experienced manager research analysts have a consist framework with which evaluate the sub-advisors' quality of insights, level of dedicated resources, active ownership policies, and the repeatability of ESG review processes. The research analysts' findings are formally recorded and incorporated into manager selection and performance monitoring at the manager and fund level.

Worldwide practices



Americas

$7.1b AUM

Canadian actively managed ESG portfolio
Selective exclusions
U.S. mutual fund Sustainable Equity

Europe

$35.6b AUM

Wholesale exclusions
Low carbon fund
Tailored responsible investing policy solutions
UK stewardship code MiFII

Asia Pacific

$6.2b AUM

Japan Stewardship code
Australian asset owners stewardship code
Launched first low carbon fund
Wholesale exclusions by investors
Tailored responsible investing policy solutions

Data as of December 31, 2018, shown in USD.

Proxy voting statistics

2018 Global proxy annual review and statistics

93,670	9,873	3,519	11,847
Proposals voted	Meetings voted	Votes against provider	Votes against management

	MEETINGS	AGENDA ITEMS	VOTES AGAINST MANAGEMENT	VOTES AGAINST PROVIDER	SHAREHOLDER PROPOSALS
Q1	1317	10260	14%	7%	1%
Q2	6165	66621	12%	3%	1%
Q3	1120	8750	15%	4%	0.4%
Q4	1271	8039	13%	4%	1%
TOTAL 2018	9873	93670	13%	4%	1%

Global Voting Statistics

Russell Investments' Proxy Voting Guidelines were contrary to Glass Lewis recommendations approximately 3.76% of voted proposals. Our stringent views on corporate governance practices led to nearly 13% of votes against management.

► U.S. and Canada vote statistics

2,045	366	511
Votes against management	Votes against provider	Shareholder proposals

Election of directors and executive compensation continue to be our top issues voted against management. In 2018, votes regarding election of directors represented 54% of votes against management (consistent with 2017, during which we voted against 55%). Poor remuneration policies, independence issues and low meeting attendance continued to be the top reasons for voting against directors. We maintain strict policies regarding proper company oversight and seek to hold directors accountable for poor governance practices.

Votes against Glass Lewis were primarily regarding election of directors and advisory votes on executive compensation at 31% and 16%, respectively. Where Glass Lewis may have voted for such proposals, allowing companies the additional time to adjust processes and align with market practice, we believe voting against will demonstrate our concerns of the policy and indicate to management changes are necessary.

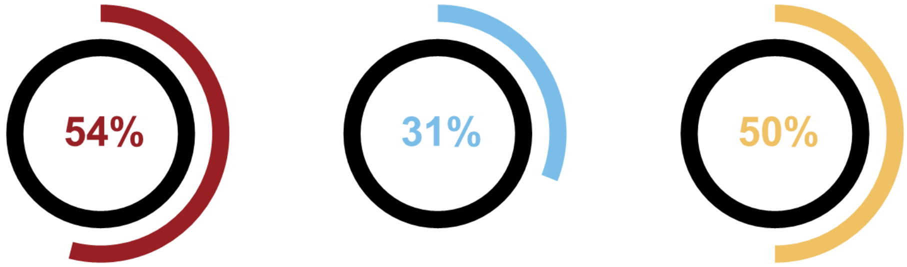
Energy companies have been receiving increased scrutiny around various risks posed in relation to fossil-fuels, gas and other "unclean energy" sources. Acknowledgement of these concerns is growing amongst energy companies as many voluntarily produce risk reporting. This shift in reporting allows for our proxy team to better identify outliers and those lagging behind peers. Nearly 2% of our shareholders were regarding climate risk/reporting.

Exhibit 1: U.S. and Canada vote statistics (%)

54% of our votes against management were regarding election of directors.

31% of our votes against Glass Lewis were regarding election of directors.

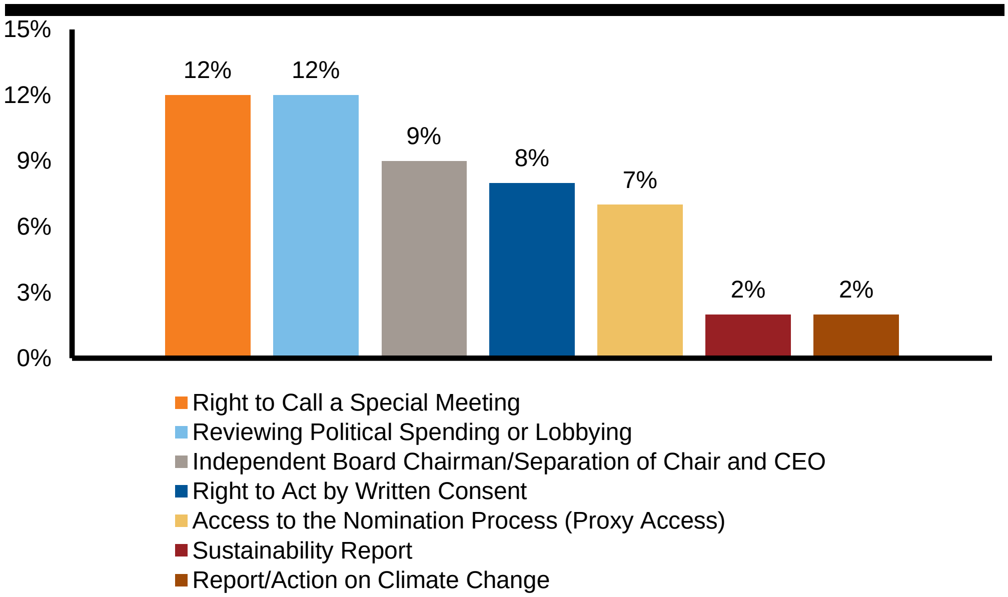
Voted for over 50% of shareholder proposals.



U.S. and Canada shareholder proposals

For Russell Investments, 2018 proxy season was focused on shareholder rights resolutions. Collectively, proposals regarding the right to call a special meeting, right to act by written consent and proxy access represented 27% of the total shareholder proposals voted - a substantial increase from 16% in 2017. Being that protecting and enhancing shareholder rights is a main pillar of our active ownership principles, it comes as no surprise that we supported 94% of special meeting shareholder proposals. According to our proxy provider (Glass Lewis), total special meeting proposals more than doubled from 2017[2]. These numbers are despite companies ratifying their special meeting bylaws in order to petition the SEC to exclude such proposals. No-action relief was granted to companies whose circumstances aligned with those described in the shareholder request.

U.S. & Canada Shareholder Proposals (as a % of total shareholders proposals)



[2] Glass Lewis 2017 Season Review: United States and Canada

Sustainability and climate change risk continue to be a concern for shareholders, yet Glass Lewis reported a decrease in support of climate change resolutions by approximately 8% from 2017[3]. As companies recognize the growing importance of transparency around environmental and social factors, many are looking to report according to the Task Force on Climate-related Financial Disclosure (TCFD). Given this voluntary movement of increased disclosure, our evaluation of climate change proposals focused on whether the company provides sufficient information or if the company lagged peers. Our support of sustainability reports in 2018 was 90%, while our support of climate change resolutions was 60%.

Our support of sustainability reports in 2018 was 90%, while our support of climate change resolutions was 60%.

Europe vote statistics

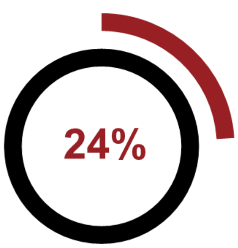
2,519	1,242	131
Votes against management	Votes against provider	Shareholder proposals

Our votes against Glass Lewis were primarily due to our differing guidelines of general meeting notice period requirements. During 2018, Russell Investments guidelines stated we vote against proposals that shorten the general meeting notice period. During our end-of-year guideline review process, our proxy team researched corporate best practices in various markets leading to a change of voting policies. In 2019 we will be voting for the shortening of general meeting notice periods that are set to a 14-day period unless Glass Lewis recommends a vote against, in which case we will vote on a case-by-case basis.

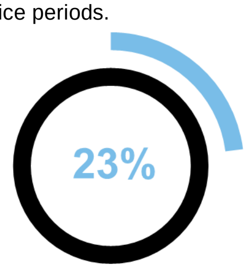
During our end-of-year guideline review process, our proxy team researched corporate best practices in various markets leading to a change of voting policies. In 2019 we will be voting for the shortening of general meeting notice periods that are set to a 14-day period.

Exhibit 2: Europe vote statistics (%)

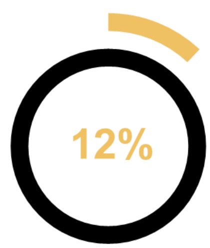
24% of our votes against management were regarding election of directors.



23% of our votes against Glass Lewis were regarding reducing general meeting notice periods.



Voted for approximately 12% of shareholder proposals.

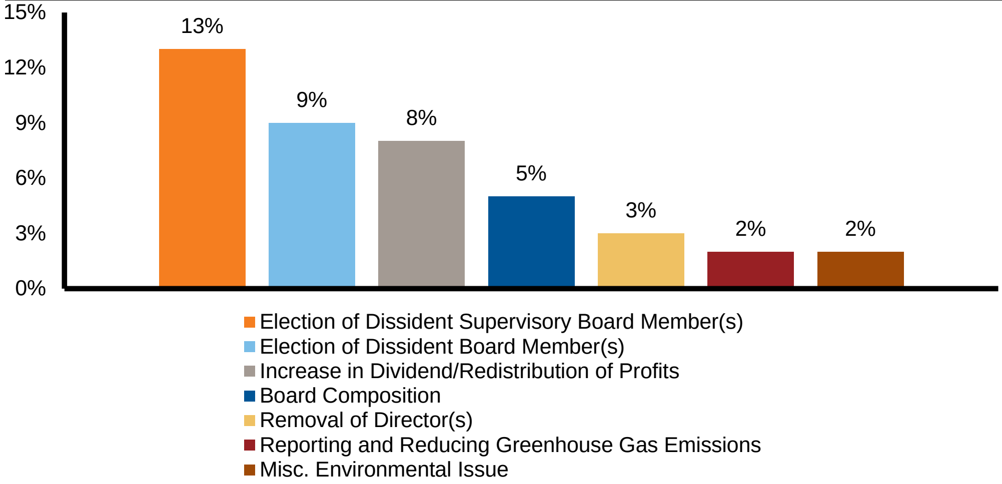


Europe shareholder proposals

Russell Investments maintains stringent views on appropriate corporate governance and, in the case of contested meetings, evaluate board members according to company performance comparable to peers, management track record and responsiveness, as well as proposed objectives and goals. That being said, we voted against approximately 72% of dissident nominees due to poor drafting, lack of information and the inability of proponents to convey how the nominee would improve company targets and goals.

[3] Glass Lewis 2018 Season Review: United States and Canada

Europe Shareholder Proposals (as a % of total shareholder proposals)



Australia vote statistics

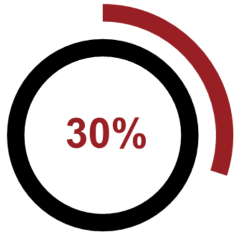
185	58	42
Votes against management	Votes against provider	Shareholder proposals

Shareholder interests are best represented by an independent, accountable, responsive, and diverse board of directors. Election of directors were voted against largely due to poor management oversight, over-commitment and independence issues. Independence is necessary to ensure that the board is able to effectively set company strategy and scrutinize company practices. Company directors must also be accountable to shareholders and companies should institute policies which promote this accountability.

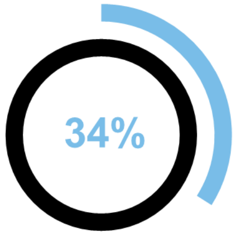
Our votes against Glass Lewis were primarily due to our differing guidelines of stock option grants. During 2018, Russell Investments voting guidelines stated we vote against proposals if options granted under the company's share option program fully vest in less than three years from grant period, or greater than 50% of options vest within 2 years of the grant. During our end-of-year guideline review process, our proxy team researched corporate best practices in various markets leading to new voting policies to allow these terms.

Exhibit 3: Australia vote statistics (%)

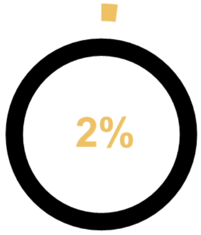
30% of our votes against management were regarding election of directors.



34% of our votes against Glass Lewis were regarding stock option grants.



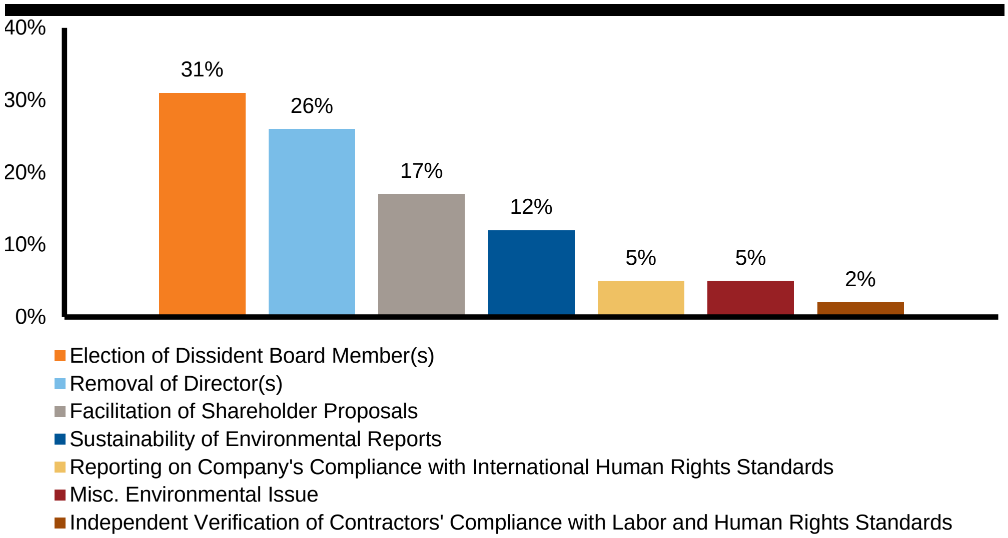
Voted for 2% of shareholder proposals.



Australian shareholder proposals

Shareholder proposals in Australia jumped from 26 to 42 from 2017 to 2018. The majority of these shareholder proposals sought to remove or elect board members, and we continue to see sustainability and environmental proposals being put to a vote. Over 57% of the shareholder proposals we voted against were due to insufficient support detailing targets and how the incumbent board would be in the best interest of shareholders.

Australia Shareholder Proposals (as a % of total shareholder proposals)



▶Japan vote statistics

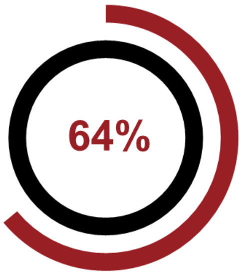
1,810	122	113
Votes against management	Votes against provider	Shareholder proposals

Due to the continued issue of independence on boards in Japan, approximately 64% of our votes against management reflected votes against directors. During our 2018 review of our voting guidelines, we updated our requirements of independence to align with Glass Lewis' evaluation of minimum standards of one-third combined independence (on a two-tier board structure).

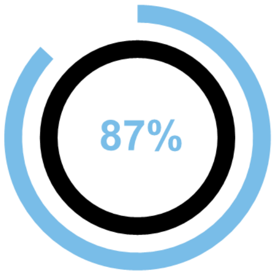
Nearly 87% of our votes against Glass Lewis were due to key differences in the approach to stock option plans (a stark contrast to the 9% in 2017). To protect shareholder best interests, we believe shareholders must have the right to vote on compensation policies, therefore we vote against proposals allowing a company discretionary authority to grant options to themselves.

Exhibit 4: Japan vote statistics (%)

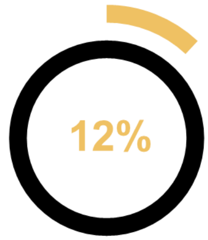
64% of our votes against management were regarding election of directors.



87% of our votes against Glass Lewis were regarding stock option plans.



Voted for approximately 12% of shareholder proposals.

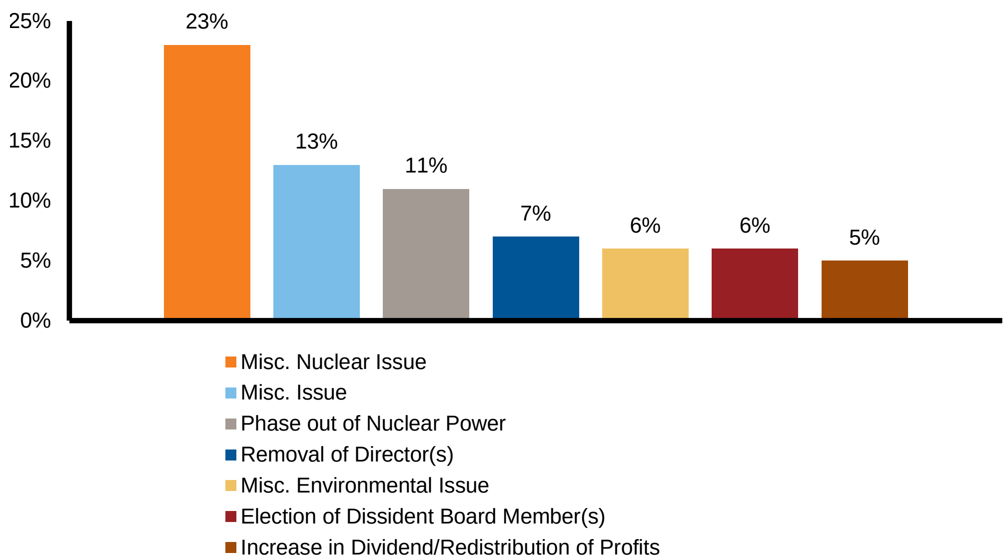


> *Approximately 34% of Japanese shareholder proposals were regarding nuclear issues and risks. While we did not support these proposals, we did support approximately 83% of shareholder proposals for improved disclosure.*

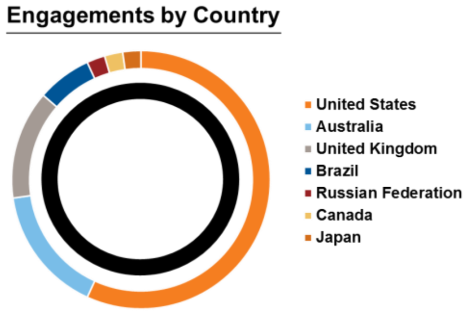
Japan shareholder proposals

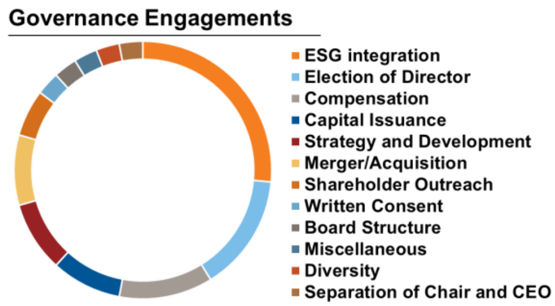
The Corporate Governance Code of Japan was revised to take into account cross-shareholdings also highlighting the need for independence and diversity among board members. As anticipated, there was an incredible upsurge of shareholder proposals from 5 in 2017 to 113 in 2018. Approximately 34% of Japanese shareholder proposals were regarding nuclear issues and risks. While we did not support these proposals, we did support approximately 83% of shareholder proposals for improved disclosure. In 2019, our proxy voting guidelines will place greater emphasis regarding cross-shareholdings and strengthen governance structures.

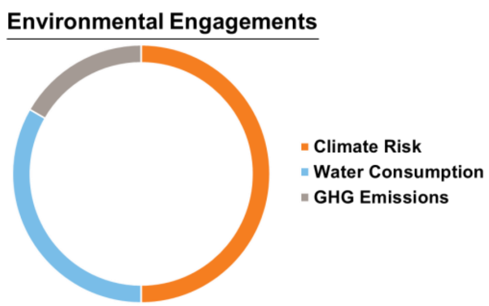
Japan Shareholder Proposals (as a % of total shareholder proposals)

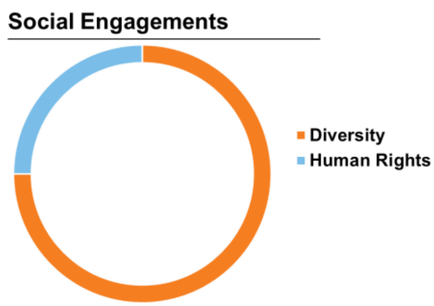


Engagement statistics









ESG integration

Our multi-faceted approach to investment management allows us to leverage our relationships with other investment managers. As a result, we are provided with a more holistic perspective on ESG risks. Over 20% of our engagements were discussions on ESG integration to understand companies' ESG risk awareness, processes and oversight of such risks.

Director accountability

Our increased focus on accountability has led to more and impactful discussions with companies. In 2018 we altered our approch to evaluating directors, choosing to vote against where (by our valuation) we deem members unresponsive to shareholder concerns. When presented with contested elections, we seek to engage with both company board members and dissident proponents and discuss goals/targets.

Diversity

We continued our message for improved diversity on company boards and management; diversity represented approximately 9% of our total engagements in 2018. When pursuing engagement opportunities, we evaluated the levels of representation in regard to gender, ethnicicty, nationality, and/or language ability. We understand improvements in this area take time to implement, therefore we prefer to maintain consistent dialogue with companies to evaluate progress.

> *Diversity represented approximately 9% of our total engagements in 2018.*

Climate risk

Companies are increasingly acknowledging the importance of disclosures surrounding climate risk, and many are voluntarily publishing reports. Many of our engagements are held with companies where we voted against shareholder proposals requesting climate risk reporting. Our discussions revolved around awareness, proper oversight and the importance of increased transparency/disclosure.

Case studies

► Case Study 1 – *Voting for impact – when boards remain unresponsive*

UK beverage company

In 2016, our proxy committee found issue with a UK beverage company's board structure. We leveraged our relationship with a partnered investment manager to gain insight on their engagement with the company's Chairman and Senior Independent Director. During this engagement the company provided assurance that there would be a commitment to develop local experience on the board in the upcoming year; we determined the gradual changes would be appropriate.

In 2017, the company received strong dissent regarding compensation practices and the chair of their nominations committee. Our engagement team monitored the company for the board's response and further developments on their commitments stated in 2016.

In 2018, our proxy team voted against both the chair of their Nominations Committee and the chair of their Remuneration Committee. We voted against both directors to demonstrate our disapproval of inaction on shareholder concerns.

In 2018, we held an engagement with the company to communicate the rationale behind our votes against multiple directors. The company was extremely receptive to our concerns and mentioned the inability to reach many other shareholders. Our engagement team expressed the importance of the shareholder outreach efforts the company was making. The company disclosed in a statement that future appointments will be made in line with their Board Diversity Policy, considering diversity, skills, knowledge, background, international and industry experience. In addition, the company established a voluntary target of 33% female representation on their board.

Outcome

Our engagement team will conduct ongoing monitoring of company performance and changes to board independence and diversity levels. Assessment of the company's responsiveness will take place during the 2019 AGM.

▶ Case Study 2 – *Continued engagement and positive relations lead to positive responses*

Japanese clothing manufacturer

Japanese companies continue to have issues with board independence. Our Portfolio Management Team was involved in discussing the following issues:

- Board members, including the CEO, did not own a material number of shares (poor alignment)
- No compensation committee was established to address this issue
- Company is net cash (in fact, cash = market cap), and there is no focus on generating returns on equity

Outcome

After our portfolio manager discussed issues with the company, there were improvements being made by the company. In addition to the sale of trophy real estate, the company is considering engaging a stock option consultant. We will be monitoring the company for progress on board independence as well as diversity.

▶ Case Study 3 – *Protecting voters' rights*

UK airline company

A UK airline company was flagged by a partnered investment manager because of the company's voting process and board accountability. The company solicited proxy votes from EU shareholders, while excluding these processes from non-EU shareholders. We leveraged the information we received from our sub-advisor's engagement with the company to understand non-EU shareholder [American depository receipts (ADR) shares] voting rights processes. Approximately 43% of issued share capital was represented by the ADR program, therefore we felt our votes would be highly impactful. Since shareholder rights is one of two pillars which we emphasize in our active ownership activities, we recalled and restricted securities listed in our securities lending program to maintain voting rights at the upcoming annual general meeting (AGM). From the increased pressure of Russell Investments and other ADR shareholders, the company was responsive in changing its proxy solicitation processes.

Outcome

Although we believe the company is making progress and remains accountable to shareholder concerns, at the company's 2018 AGM, we voted against three directors due to independence issues. In addition, we have found issues with the remuneration structure and disclosures for the past two years and chose to vote against. We will continue to monitor the company for board independence improvements.

► Case Study 4 – *Bringing awareness to ESG disclosures*

U.S. energy company

A U.S. energy company was placed on our engagement watch list due to low Sustainalytics scores. We sought to have a discussion with and to bring awareness to the company regarding climate risk and diversity. After a thorough review of company practices and our engagement, we recognize the company has been employing strong diversity policies and processes, but disclosure surrounding this area was lacking.

Outcome

After communicating the importance of having this information readily available to shareholders, we received assurance the company would make progress on disclosing diversity efforts. In addition, with the increased attention toward manufacturing risks associated with the natural gas and oil industry, the company is targeting increased transparency of their processes for 2019.

► Case Study 5 – *Addressing water consumption and its effect on a company's ESG metrics*

U.S. agricultural and real-estate company

The topics of water consumption and water scarcity are increasingly on the radar of our engagement committee. We utilized Sustainalytics reports to provide insight on company standings in relation to peers. A discussion with a U.S. agricultural company was pursued to discuss climate risk and their above-average water consumption.

The company shared their assessment of the entitlement and litigation risks associated with water usage, as well as the phases of associated costs. We determined that the company was positioned well, so we communicated the lack of disclosure was the main cause of the low ESG scoring. Our engagement team also relayed the pressure to include risks on greenhouse gas emissions in EU disclosures as it is becoming more frequent for small cap companies (although typically seen with large cap companies).

Outcome

Our engagement team will continue to monitor the company for improvements on disclosures.

► Case Study 6 – *Recalling and restricting securities to secure voting rights*

Canadian mining company

A sub-advisor expressed concern over the company's amendments to articles to complete an acquisition. Our sub-advisor had engaged with the company a few years prior regarding a similar proposal and was persistent in their efforts opposing it. Being that the change required 75% approval, we collaborated with our partnered investment manager by restricting and recalling all securities in our securities lending program to cast our votes against the resolution.

In our analysis of the company we also noted the lack of independence of one director as well as over-boarding of another. In addition to the outlined governance concerns, we noted several significant ESG risks (utilizing Sustainalytics reporting).

Outcome

We will be monitoring the company for accountability according to the vote results as well as pursuing engagements with the company regarding their risk rating.

► Case Study 7 – *Leveraging sub-advisor expertise*

Japan sub-advisor relationship building

As mentioned earlier in this report, Japan has a spotlight on board independence issues. With cross-shareholding structures remaining common in the Japanese market, we aim to reach a deeper understanding of a company's corporate practices by way of our sub-advisors. We place great emphasis on our partnered investment managers opinions and recommendations. Charted below are examples of outreach with our sub-advisors regarding governance concerns at certain companies. Our engagement team ultimately placed the companies on a watch list for future engagement activity. Our position is aligned with our proxy vendor, Glass Lewis, in that cross-shareholdings weaken corporate governance structures and are a risk to minority shareholder rights[4]. Gaining additional insights from our sub-advisors regarding these risks provides us a more thorough understanding of the effects on shareholder value.

COMPANY	PROPOSAL	INVESTMENT MANAGER RECOMMENDATION	RUSSEL INVESTMENTS VOTE
Appliance company	**Board of Directors**	**Against**	**Against 4 of the 9 up for election**
Appliance company	**Bonus**	**Against**	**Against due to pay for performance disconnect**
Electronics company	**Takeover defense plan**	**Against**	**Against as a poor governance practice, not in the best interest of shareholders**
Industrials company	**Election of directors**	**Against**	**Against 1 director due to poor independence. We did not vote against all directors due to their transition and IPO.**

[4] Glass Lewis 2017 Proxy Season Review: Japan

Outcome

Gaining additional insights from our sub-advisors regarding these risks provides us a more thorough understanding of the effects on shareholder value.

► Case Study 8 – *Unsupported but not significant shareholder resolutions*

Australian energy company

For two consecutive years, an Australian energy company received shareholder proposals regarding climate risk reporting and emissions reporting/targeting. Although we are generally proponents of increased transparency and recognize the potential negative impact of ESG risks, we ultimately seek to determine whether company resources are being used in a manner consistent with protecting and increasing shareholder value.

Our proxy committee manually reviewed these proposals, leading to a unanimous decision to vote against the proposals during the 2018 AGM. Heavy debate took place regarding the company's current level of disclosure as well as the board's oversight and the company's processes related to public policy advocacy and trade group memberships. We determined that the company was found to have adequate disclosure, slightly ahead of peers, supporting the determination that the resolution was not warranted.

However, since we voted against both climate risk and emissions reporting resolutions, engagement directly with the company to express the growing reputational risks in this area was pertinent.

Our engagement talking points promoted and affirmed the following:

- Shareholder outreach efforts – We noted that the company assisted proponents in meeting regulatory requirements with resolutions.
- Disclosure on industry associations – The company is considering increased disclosure options within its next sustainability report.
- Sustainalytics reported high water consumption for the company. We inquired whether the company was taking appropriate measures to mitigate this risk; the company detailed the significant effort to recycle water and the avoidance of water usage during production.

Outcome

We will be monitoring company for progress on its additional disclosure of public policy advocacy in next year's sustainability report.

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First used: April 2019

CORPCA-00155