

# **Annual Report of the Independent Review Committee of**

## **The Russell Investments Funds**

September 6, 2017

### **IRC Annual Report to Securityholders of the Russell Investments Pools, Russell Investments Classes, Russell Investments Portfolios, Russell Investments Class Portfolios, Russell Investments Multi-Asset Solutions and Russell Investments Multi-Asset Class Solutions**

Dear Securityholder,

The Russell Investments Funds Independent Review Committee (the “IRC”) is pleased to publish its annual report to the Securityholders of the funds named on pages 4 and 5 of this Report (the “Funds”), describing the IRC and its activities during the fiscal year ended June 30, 2017 (the “Reporting Period”).

In accordance with National Instrument 81-107 *Independent Review Committee for Investment Funds* (the “Instrument” or “NI 81-107”), the mandate of the IRC is to consider and provide recommendations to Russell Investments Canada Limited (the “Manager”) on conflict of interest matters which the Manager may face when managing the Funds. The Manager is required under the Instrument to identify potential conflicts of interest inherent in its management of the Funds, develop written policies and procedures guiding its management of those conflicts, and request input from the IRC on those written policies and procedures.

When a conflict of interest matter arises, the Manager must refer its proposed course of action in respect of any such conflict to the IRC for its review. While certain matters require the IRC’s prior approval, in most cases the IRC will provide a recommendation to the Manager as to whether or not, in the opinion of the IRC, the Manager’s proposed action provides a fair and reasonable result for the Funds. For recurring conflict of interest matters, the IRC can provide the Manager with Standing Instructions (“SIs”) that enable the Manager to proceed with certain matters without having to refer them to the IRC each time for approval, providing the Manager deals with the conflict(s) in accordance with the SIs.

The IRC is empowered to represent the best interest of the Funds in any matter where the Manager has referred a conflict of interest matter to the IRC. In those cases, it has sought to ensure that the Manager’s proposed course of action represents a fair and reasonable result for the Funds.

## **Composition of the IRC**

The current members of the IRC, and their principal occupations, are as follows:

<b><i>Name and municipality of residence</i></b>	<b><i>Principal Occupation</i></b>	<b><i>Term of Office</i></b>
W. William Woods, (Chair) Toronto, Ontario	Consultant, Lawyer, Independent Director, former CEO of the Bermuda Stock Exchange	Initial Appointment: April 19, 2007.  New Appointment: Re-appointment for a period of two years with effect from June 1, 2016 until May 31, 2018.
Eamonn B. P. McConnell, Toronto, Ontario	Consultant, Managing Director Kensington Capital Partners	Initial Appointment: April 19, 2007.  Re-appointment for a period of one year with effect from June 1, 2017 until May 31, 2018
Lawrence A. Ward, Toronto, Ontario	Consultant, retired partner PricewaterhouseCoopers, LLP	Initial Appointment: April 19, 2007.  Re-appointment for a period of two years with effect from June 1, 2017 until May 31, 2019.

Eamonn McConnell's term was renewed on February 8, 2017 for a period of one-year effective June 1, 2017. The re-appointment extended Mr. McConnell's total years of service beyond the 6-year term limit set out in the Instrument. However, the Manager has provided its consent to and agreement with the re-appointment beyond the 6-year term limit in accordance with the provisions of the Instrument.

Lawrence Ward's term was renewed on February 8, 2017 for a period of two years effective June 1, 2017. The re-appointment extended Mr. Ward's total years of service beyond the 6-year term limit set out in the Instrument. However, the Manager has provided its consent to and agreement with the re-appointment beyond the 6-year term limit in accordance with the provisions of the Instrument.

There were no other changes in the composition of the IRC during the Reporting Period.

## **Compensation and Indemnification**

### **Members' Fees**

The aggregate compensation paid by all of the Funds, as well as the funds listed in Appendix "A", to the IRC Members was \$60,000 plus applicable taxes, during the Reporting Period. This amount is allocated amongst all the Funds in a manner considered by the IRC and the Manager to be fair and reasonable to each of the Funds. The IRC reviewed comparable benchmarks and has determined not to make any changes in the members' compensation at this time.

### **Indemnities Granted**

The Funds and the Manager have provided each IRC Member with a contractual indemnity to the fullest extent permitted by NI 81-107. No indemnities were paid to the IRC Members by the Funds or the Manager during the Reporting Period.

## Disclosure of IRC Members' Holdings

As at June 30, 2017, the IRC Members did not beneficially own, directly or indirectly:

- any units in any of the Funds;
- any interests in the Manager; or
- any interests in a company or person that provides services to the Manager or any Fund.

## Recommendations and Approvals

**February 7, 2017:** The Manager provided the IRC with a memo outlining its recommendation and request for the IRC to approve a change to the Investment Objective of the Russell Investments Fixed Income Class (the "Fund"). In short, the change to the Investment Objective of the Fund was to account for changes in the *Income Tax Act* (Canada), which eliminated the use of forwards for converting or treating income on account of capital ("Character Conversion Transaction"). The forward(s) being used by the Fund at the time expired on April 13, 2017 and could not be extended beyond this date for Character Conversion Transactions. As the Manager desired to maintain assets within the Fund, there was a potential conflict with the Manager proposing that the Fund continue with different investment objectives rather than the Fund being terminated. The new investment objectives would be the same or similar "to provide a return comparable to an effective diversification against equities. To achieve this investment objective, the Fund will invest in, or obtain exposure to, principally fixed income securities of Canadian and non-Canadian issuers." The Manager believed that based on the proposed new investment objectives, following the Objective Change the Fund could continue to invest in, or obtain exposure to, principally fixed income securities of Canadian and non-Canadian issuers, either directly or by investing in other mutual funds in compliance with the requirements of National Instrument 81-102 *Investment Funds*. The securityholders would need to approve the Objective Change. After reasonable inquiry, and based upon the information provided in the memo and during the meeting the IRC unanimously **RESOLVED** that the Manager's proposed course of action to change the investment objectives of the Russell Investments Fixed Income Class achieved a fair and reasonable result for the Securityholders of the Fund.

The IRC did not provide any other decisions or approvals during the Reporting Period.

## Standing Instructions Approved

The IRC has approved and grouped standing instructions into SI No. 1, SI No. 2, SI No. 3 and SI No. 4, which constitute a written approval or decision from the IRC that permit the Manager to proceed with the specific actions set out in the SIs on an ongoing basis, without having to refer the conflict of interest matter or its proposed action to the IRC, provided that the Manager complies with the terms and conditions of the SI. In each case, the SIs required the Manager to comply with its related policy and procedures and to report periodically to the IRC.

**Standing Instruction No. 1: Conflicts of Interest Policies and Procedures** deals with a number of conflict of interest matters, including:

1. Fees and Expenses
2. Trade Allocations
3. Fair Valuation
4. Pricing Errors and Other Errors
5. Soft Dollars
6. Capacity Issues
7. Proxy Voting
8. Outsourcing to Third-Parties
9. Selecting or Changing Sub-advisers
10. Personal Trading/ Gifts

11. Benchmark Indices
12. A Fund Proposes to Invest in Another Mutual Fund
13. Services Provided by Related Parties

During the reporting period, the Manager relied on SI No. 1.

**Standing Instruction No. 2: Related Party Issues: Inter Fund Trades (“SI No. 2”)**

During the Reporting Period, the Manager relied on SI No. 2.

**Standing Instruction No. 3: Related Party Issues: Fund Purchase of Securities Underwritten by the Manager or an Entity Related to the Manager (“SI No. 3”)**

During the Reporting Period, the Manager relied on SI No. 3.

**Standing Instruction No. 4: Related Party Issues: A Fund Purchases Securities (Whether Debt or Equity) Issued By a Company Related to the Manager or an Entity Related to the Manager (“SI No. 4”)**

During the Reporting Period, the Manager did not rely on SI No. 4.

**Funds Covered by this Report**

All of the funds covered by this report have a year-end of June 30. They are:

**Russell Investments Pools:**

Russell Investments Focused US Equity Pool  
Russell Investments Short Term Income Pool  
Russell Investments Focused Canadian Equity Pool  
Russell Investments Global High Income Bond Pool  
Russell Investments Canadian Equity Pool  
Russell Investments Fixed Income Pool  
Russell Investments US Equity Pool  
Russell Investments Overseas Equity Pool  
Russell Investments Emerging Markets Equity Pool  
Russell Investments Global Equity Pool  
Russell Investments Money Market Pool  
Russell Investments Canadian Dividend Pool  
Russell Investments Global Smaller Companies Pool  
Russell Investments Global Infrastructure Pool  
Russell Investments Global Unconstrained Bond Pool  
Russell Investments Real Assets  
Russell Investments Global Real Estate Pool  
Russell Investments Multi-Factor International Equity Pool  
Russell Investments Focused Global Equity Pool  
Russell Investments ESG Global Equity Fund

**Russell Investments Classes:**

Russell Investments Canadian Dividend Class  
Russell Investments Canadian Equity Class  
Russell Investments Emerging Markets Equity Class  
Russell Investments Global Equity Class

Russell Investments Fixed Income Class  
Russell Investments Money Market Class  
Russell Investments Overseas Equity Class  
Russell Investments Global High Income Bond Class  
Russell Investments US Equity Class  
Russell Investments Global Infrastructure Class  
Russell Investments Global Smaller Companies Class  
Russell Investments Global Unconstrained Bond Class  
Russell Investments Short Term Income Class  
Russell Investments Focused US Equity Class  
Russell Investments Focused Canadian Equity Class  
Russell Investments Focused Global Equity Class

**Russell Investments Portfolios:**

Russell Investments Diversified Monthly Income  
Russell Investments Income Essentials

**Russell Investments Class Portfolios:**

Russell Investments Conservative Income Class  
Russell Investments Diversified Monthly Income Class  
Russell Investments Income Essentials Class  
Russell Investments Balanced Class  
Russell Investments Balanced Growth Class  
Russell Investments Long-Term Growth Class

**Russell Investments Multi-Asset Solutions:**

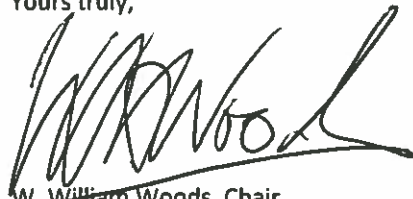
Multi-Asset Growth & Income Strategy (formerly Multi-Asset Growth & Income)  
Multi-Asset Equity Completion

**Russell Investments Multi-Asset Class Solutions:**

Multi-Asset Growth & Income Strategy Class (formerly Multi-Asset Growth & Income Class)  
Multi-Asset Growth Strategy Class  
Multi-Asset Fixed Income Class  
Multi-Asset Income Strategy Class

This report is available on the Manager's website at <http://www.russellinvestments.com/ca> or you may request a copy, at no cost to you, by contacting the Manager at (416)-362-8411 or 1-888-509-1792 or email the Manager at [canada@russellinvestments.com](mailto:canada@russellinvestments.com). This document and other information about the Funds are available on [www.sedar.com](http://www.sedar.com).

Yours truly,



W. William Woods, Chair

## **Appendix “A”**

### **Funds with a December 31 Year-End**

#### **Russell Investments Group of Funds:**

Russell Investments Canadian Equity Fund  
Russell Investments Canadian Fixed Income Fund  
Russell Investments US Equity Fund  
Russell Investments Overseas Equity Fund  
Russell Investments Global Equity Fund  
Russell Investments Canadian Cash Fund  
Russell Investments Inflation Linked Bond Fund

#### **Russell Investment Portfolios:**

Russell Investments Balanced Growth  
Russell Investments Balanced  
Russell investments Long-Term Growth  
Russell Investments Conservative Income

#### **Russell Investments Multi Asset Solutions:**

Multi-Asset Fixed Income  
Multi-Asset Growth Strategy  
Multi-Asset Income Strategy

## Schedule of IRC Members who sit on IRCs for other Fund Families

### **W. William Woods serves as a member of the Independent Review Committees for the following funds:**

Investment funds that are reporting issuers managed by Educators Financial Group Inc. (*Appointed January 1, 2017*);  
Investment funds that are reporting issuers managed by Goodwood Inc.;  
Investment funds that are reporting issuers managed by Integra Capital Limited;  
Investment funds that are reporting issuers managed by Knowledge First Financial Inc. (*ceased being a member May 31, 2017*);  
Investment Funds that are reporting issuers managed by NEI Investments;  
Investment funds that are reporting issuers managed by Next Edge Capital Corp.;  
Investment funds that are reporting issuers managed by Onex Credit Partners, LLC.;  
Investment funds that are reporting issuers managed by Picton Mahoney Asset Management Inc.;  
Investment funds that are reporting issuers managed by Questrade Financial Group Inc.  
Investment funds that are reporting issuers managed by Sprott Asset Management LP; and  
Investment funds that are reporting issuers managed by SPR & Co. LP.

### **Eamonn McConnell serves as a member of the Independent Review Committees for the following funds:**

Investment funds that are reporting issuers managed by Goodwood Inc.  
Investment funds that are reporting issuers managed by Integra Capital Limited;  
Investment funds that are reporting issuers managed by Next Edge Capital Corp.  
Investment funds that are reporting issuers managed by Onex Credit Partners, LLC  
Investment funds that are reporting issuers managed by Sprott Asset Management LP; and  
Investment funds that are reporting issuers managed by SPR & Co. LP.

### **Lawrence A. Ward serves as a member of the Independent Review Committees for the following funds:**

Investment funds that are reporting issuers managed by Goodwood Inc.;  
Investment funds that are reporting issuers managed by Picton Mahoney Asset Management;  
Investment Funds that are reporting issuers managed by NEI Investments;  
Investment funds that are reporting issuers managed by Sprott Asset Management LP.;  
Investment funds that are reporting issuers managed by SPR & Co. LP; and  
Investment funds that are reporting issuers managed by Vertex One Management Inc.