Responsible Ownership: 2016 Proxy and Engagement Report

June 2017

INTRODUCTION

We at Russell Investments believe active ownership is not just an obligation – it is part of the value creation process. Enhancing and protecting shareholder value as well as minority shareholder rights is key, whether through the proxy voting process, engaging directly with the companies we invest with, or collaborating with other industry leaders.

All active ownership activities are based on two cornerstones:

- **Protect and/or enhance shareholder value**
- **Protect and/or enhance minority shareholder rights**

We are pleased to present Russell Investments' 2016 Proxy and Engagement Report. 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 (UNPRI) in 2009 and have followed the UK Stewardship Code since its introduction in 2010.

As a responsible investor, we believe that it is our responsibility to monitor the effectiveness of company management, exerting influence on corporate governance, social, and environmental practices through the exercise of Proxy Voting rights and engagement activities. Because governance issues tend to have a strong impact on overall shareholder value, a large portion of our engagement activities are on executive compensation, shareholder rights, and board strategy issues. We believe that taking an active interest in these issues is ultimately in the best interests of our clients.

This report provides a summary of our progress in developing and delivering our proxy voting and engagement activities. This work reflects our commitment to the principles of the UNPRI and the Stewardship Code. Specifically, this report provides insights into our ownership record on important shareholder issues, as well as case studies of some of our engagement activities.

We welcome feedback on this publication. Please contact your usual Russell Investments representative, or write directly to: proxymailbox@russellinvestments.com.

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UPDATES

UNPRI

Russell Investments remains actively involved with the UNPRI, attending the PRI conferences as well as attending global seminars and discussions on topics of mutual interest. Russell Investments has completed the UNPRI survey each year since we became a signatory in 2012, continuously seeking to improve our approaches to active ownership.

The Strategy and Governance* module discloses our approach to both responsible investment and the incorporation of ESG issues into asset allocation.

Strategy and Governance

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

Listed Equity - Active Ownership

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

The overall Listed Equity – Active Ownership (LEA) module seeks to assess our processes and procedures regarding both proxy and engagement activities. The LEA module is segmented in two sections; proxy voting and individual engagements.

Listed Equity - Proxy Voting

	Communication	Process	Outputs & Outcomes
Russell Investments	★★★	★★	★★★
Signatory Median	0 Stars	0 Stars	★★

The evaluation of our proxy voting activities is based on 4 core areas:

- Informing companies of vote decision
- Percentage of votes cast
- Disclosure of approach to public
- Disclosure of approach to clients

Listed Equity - Individual Engagements

	Communication	Internal Processes	General Processes	Outputs and Outcomes
Russell Investments	★★	★★★	★★	★½
Signatory Median	★	★★★	★★★	★★

In the engagement section, we are evaluated based on 6 core elements associated with engagement:

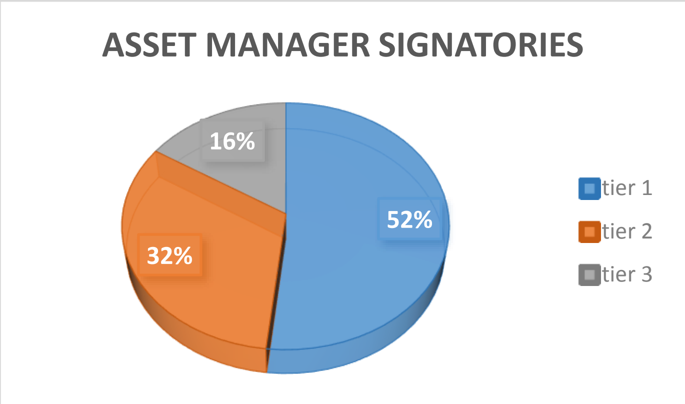
- Policy coverage
- Identifying and prioritizing engagement activities
- Objectives for engagement activities
- Quantity, Intensity and involvement of engagements
- Disclosure to public
- Disclosure to clients

UK STEWARDSHIP CODE

The UK Stewardship Code, which is overseen by the Financial Reporting Council, requests signatories to provide statements of their adherence to their six principles. The purpose of the Code is to ensure institutions are employing stewardship best practices. Given our unique structure, we are able to implement our stewardship responsibilities in a unique fashion by:

- Engaging internally through our proxy and engagement process
- Providing oversight and monitoring of external asset managers that we employ in our investment portfolios

In 2016, the FRC altered their assessment approach by applying a tiering system to the Stewardship Code Statements. To demonstrate the level of commitment to the Stewardship Code Principles, a three-tier model (for asset managers) was implemented. Those signatories not meeting standards, and remaining as tier three for over six months, will be removed as signatories from the Stewardship Code. Russell Investments was categorized as a tier 1 signatory - proven to meet the quality and transparency requirements of the Code.



As of 2016, Russell Investments was one of 258 signatories to have completed the framework. Just under 52% of the 170 asset managers received tier 1 status (as of January 2017), nearly 16% falling under tier 3.

If you would like to receive a copy of Russell Investments' completed framework, please visit the Russell Investments Responsible Investment site or contact your Russell Investments representative.

JAPAN STEWARDSHIP CODE

Japan's Stewardship Code was established by the Financial Services Agency of Japan (FSA) in 2014, modeled on the existing UK Stewardship Code. The Code is closely aligned with UNPRI's second principle on active ownership and the incorporation of environmental, social and governance 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. Russell Investments is one of 214 signatories of the Japanese Stewardship Code, as of May 2016.

OUR APPROACH

PROXY VOTING

Russell Investments is an active shareholder, believing that shareholders have a responsibility to monitor company management and exert their influence through the exercise of voting rights. As such, we vote on the vast majority of issues raised at company meetings. The few situations in which we do not vote are a result of restrictions placed on trading of voted securities (share blocking), and other voting impediments such as power of attorney requirements and/or delivery of late proxy materials.

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

Russell Investments' actions as active owners are set on two cornerstones:

- **Protect and enhance minority shareholder rights**
- **Protect and enhance shareholder value**

Russell Investments' Proxy Voting Committee establishes and oversees our proxy voting policies, procedures, guidelines, and voting decisions. An external service provider, Glass Lewis, serves as Russell Investments' proxy administrator and is responsible for performing certain research services and proxy voting execution services subject to ongoing supervision by the proxy coordinator and oversight by the Committee. The proxy administrator conducts appropriate research with respect to each matter presented for a vote, evaluates each matter under the Russell Investments Proxy Voting Guidelines and takes action consistent with these Guidelines. When proxies present unique issues or topics not specifically set out in the Guidelines, the proxy administrator will refer the item to us with an explanation and a recommendation. The Proxy Committee uses this information, publicly available articles on the subject, and input from our sub-advisory investment managers to decide what action to take. Russell Investments retains final authority and fiduciary responsibility for proxy voting at all times.

ENGAGEMENT

As active owners, we find engagements to be a crucial aspect of ownership responsibilities and an important tool to aid in our proxy voting process. Russell Investments is uniquely positioned to utilize multiple levels of corporate engagement, via its sub advisory investment manager relationships as well as directly with companies in which we invest. Our goal, through our engagement efforts, is to seek additional information and/or analysis and communicate concerns/support. Our hope is to affect change to create a positive outcome in alignment with our active ownership cornerstones.

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. Because governance issues tend to have a strong impact on overall shareholder value, a large portion of our engagement activities are centered on executive compensation, shareholder rights, and board strategy issues. Several additional factors taken into consideration include the company's ESG scores (scores provided by a third party which evaluate a company's effectiveness in ESG issues) and our proportional ownership stake.

Although we consider all additional analysis and materials obtained from our engagements, we vote independently – maintaining the Russell Investments Guidelines as the overarching authority when casting our votes. Further details on our engagement activities can be found starting on page 8 in this report.

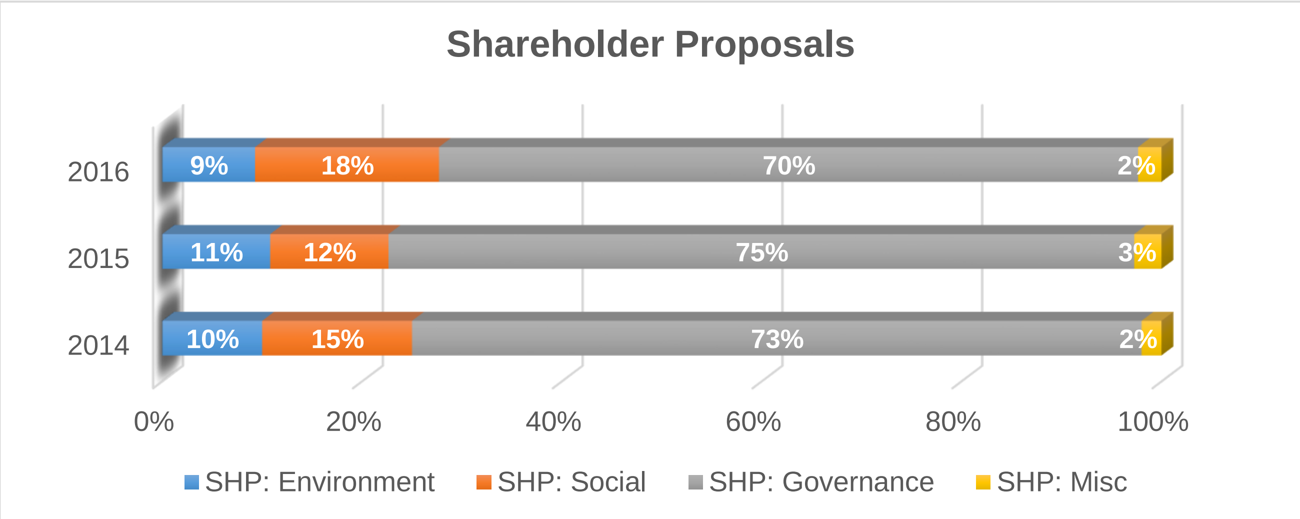
2016 PROXY SEASON REVIEW AND STATISTICS

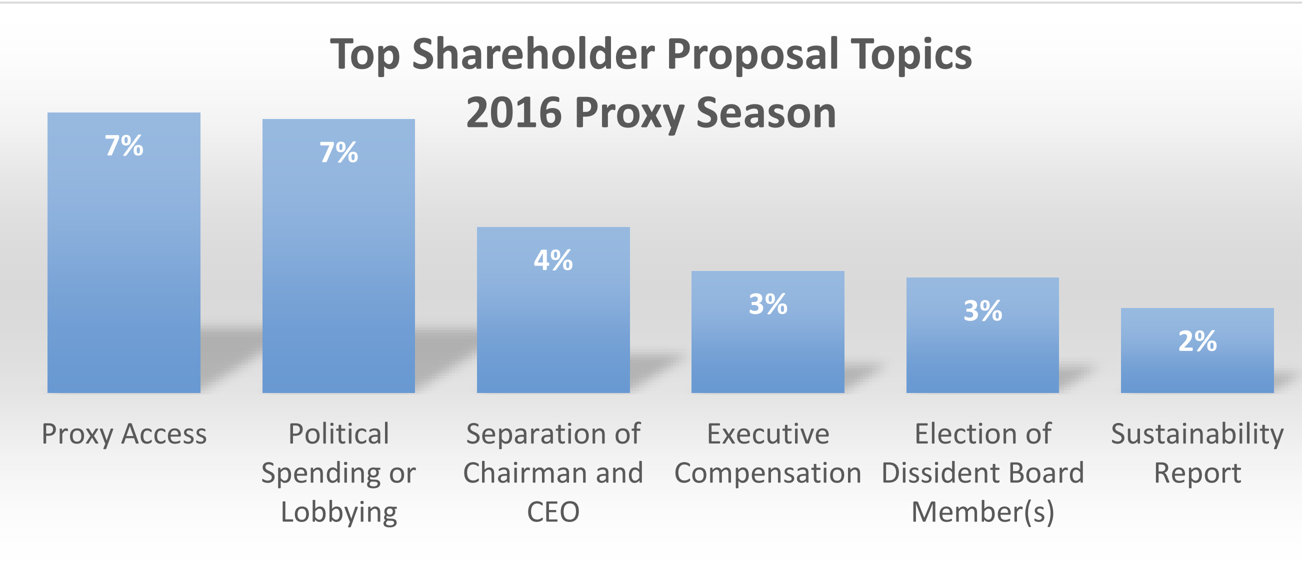
Russell Investments had voted at 9,394 meetings during the 2016 proxy season, leading to a total of 89,225 items voted. We take a thoughtful approach to our voting decisions, including all analysis and information up through the meeting date, which led to our votes against Glass Lewis at roughly 4% and our votes against Management at around 14%.

Quarter	Total Meetings	Total Agenda Items	Total Items with Votes Against Management	Total Items with Votes Against Provider	Total Shareholder Proposals	Total Shareholder Proposals with Votes FOR
Q1	1,263	10,119	1,385	613	118	26
Q2	5,827	62,500	8,542	2,188	904	289
Q3	1,082	8,671	1,283	256	54	17
Q4	1,222	7,935	1,167	420	72	3
Total	**9,394**	**89,225**	**12,377**	**3,477**	**1,148**	**335**

SHAREHOLDER PROPOSALS

Shareholder activism continues into the 2016 Proxy Season, which (according to our proxy provider[1]) led to increased disclosures, engagement and attention to board composition. In 2016 we saw an increase in shareholder proposals regarding social issues, accounting for approximately 18% of all shareholder proposals - up over 6% when compared to 2015. Governance issues consistently remains the focal point of shareholder interest.



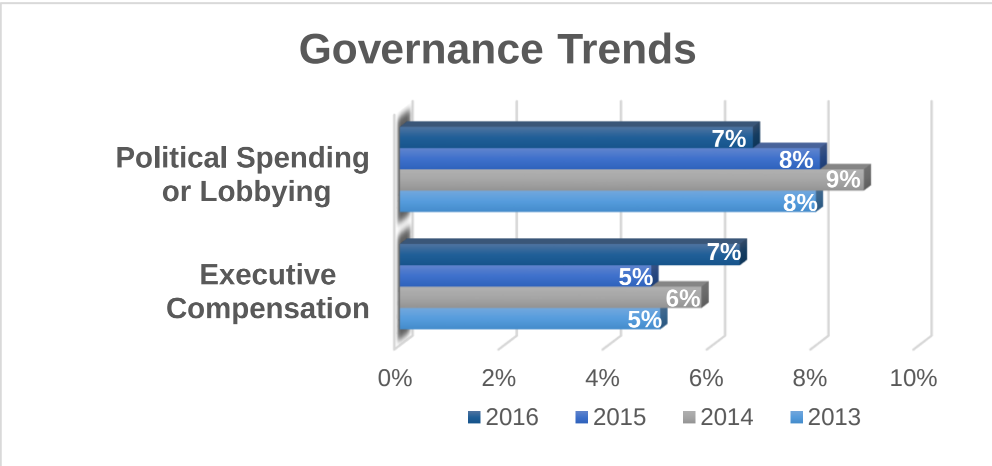


PROXY ACCESS

Proxy Access remained the top shareholder proposal topic for the Russell Investments voting season, followed closely by political spending and lobbying. In 2013, we adopted a standard that allowed shareholders to place nominees on the management proxy ballot, limited to shareholders who have collectively held at least 3% voting power of a company's securities continuously for at least 3 years. Although not mandatory, Russell Investments amended the Proxy Voting Guidelines to capture this view of best practice. Industry voting preference for such proposals, paired with industry engagement efforts, has led this proxy access rule to become an industry standard (many companies proactively adopted this into their bylaws[1]). Due to this shift on proxy access views, we saw an increase of dissident board member proposals, representing 3% of all shareholder proposals.

POLITICAL SPENDING OR LOBBYING

Political spending or lobbying has been a top shareholder proposal for several years. In 2016, the general support for such proposals was extremely low[1] and consistent with that of Russell Investments. In the Glass Lewis US and Canada 2016 Season Review, it was noted that a shift of proponents occurred from socially and environmentally progressive investor groups to conservative investors[1]. Although we generally support proposals with requests for improved disclosure around a company's political contributions, we ultimately seek those well drafted proposals that address a company's lag from peers or areas of risk that may improve overall shareholder value. Of the top proponents behind the political spending or lobbying proposals was the National Center for Public Policy Research (NCPPR), a conservative communications and research foundation. Studies from Glass Lewis show that 8 of the 9 proposals submitted by the NCCPR received less than 3% shareholder support, due to nuances in the supporting statements[1].



YEAR OVER YEAR ANALYSIS:

Executive Compensation and Political Spending Issues continue to be the top proposals put forth by shareholders.

DIRECTOR ELECTIONS AND EXECUTIVE COMPENSATION

UNITED STATES AND CANADA

Given that we have seen strong support for proxy access by laws, it is no surprise that we have seen a significant increase in election of directors (up nearly 30% since 2015). Total support for election of director proposals remains consistent year over year at over 82% of votes for. Our Proxy Voting Guidelines hold strict views on governance structure, promoting the following mechanisms: independence, accountability, responsiveness and competence. As we place high importance on good governance practices, we saw approximately 50% of all votes against management represented by election of director proposals.

At Russell Investments, we strongly promote a link between pay and performance, utilizing multiple metrics to determine performance measurements. Based on our proxy provider data, around 50% of companies with meetings during the 2016 proxy season granted one-time awards, costing shareholders more than $4 billion[1]. "Sign-on awards are the largest component of these one-time grants, with retention awards close behind"[1]. See our engagement section for our case study with a US healthcare company in which we held an engagement regarding retention awards. While we understand the necessity to provide competitive compensation packages, we strongly believe that the remuneration policies should be structured in correlation with company performance.

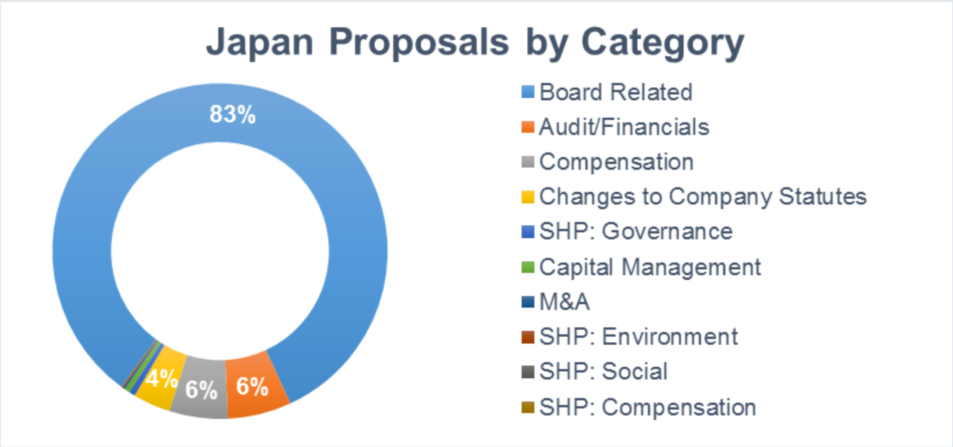
EUROPE

As anticipated last proxy season, proposals relating to double voting were absent from the 2016 shareholder proxy items in France. France introduced the Florange Act in 2014 which affected the 2015 AGM season – dominated by the issue of double voting rights. The law states that double voting rights are automatically granted to all shareholders with shares held in the same account for two years beginning March 2016 unless the company proactively opted out of this requirement.

Although Italy only accounted for just under 1% of the shareholder proposals we saw out of Europe, the issue of remuneration remains highly controversial. Being that "very high discretionary and one-off payments remain a concern in many Italian companies"[2], we engaged with an oil and gas company. Having overall support of the policy, we sought to engage regarding the increased disclosure on their short-term incentive performance and deferred monetary incentive targets. During this discussion, we communicated our support of their short term and long term incentive plans having multiple metrics that included clawback provisions.

JAPAN

Governance issues remain a key concern in the Japan market, the representation being 83% of total issues – which remains consistent with the 84% and 83% of 2015 and 2014, respectively. Glass Lewis research has stated the establishment of sub-committees has led to improved transparency regarding succession due to increase in independent directors[3].

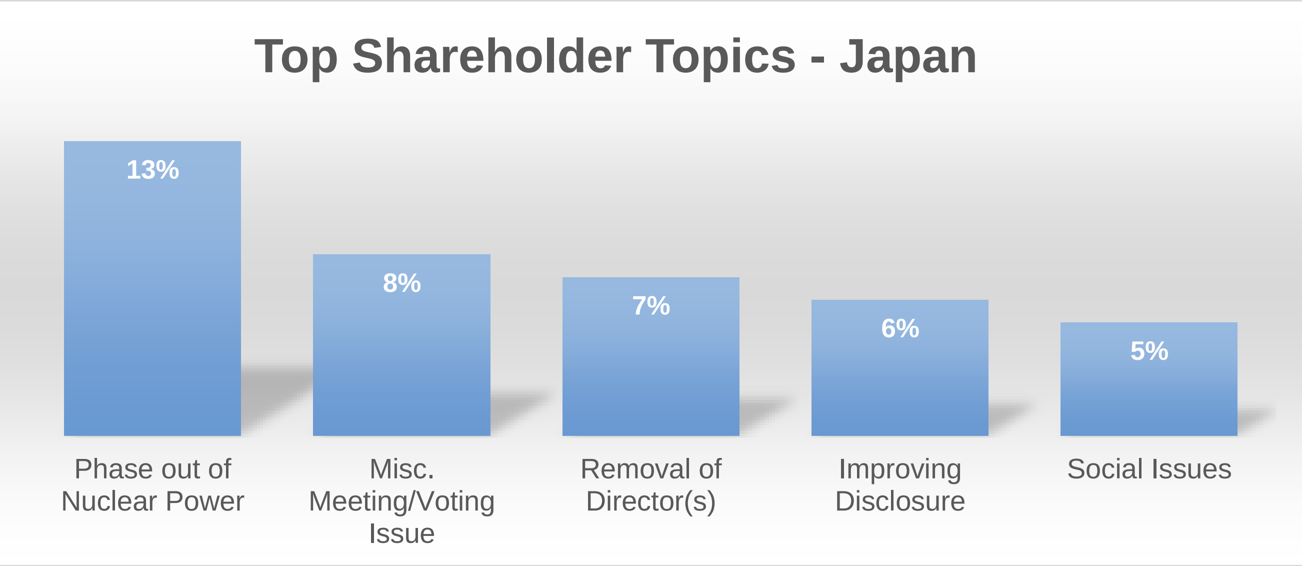


LOW SHAREHOLDER ACTIVISM:

Although shareholder activism remains consistently low in the past few years, board activity accounted for the majority of shareholder proposals.

In 2016, nearly 9% of the items put for the by shareholders related election of directors.

As expected, the 2015 regulatory and legislative changes (which increased Japan's corporate governance practices) caused a decrease in shareholder proposals regarding election of directors by nearly 31% from 2015 where we saw 16 proposals. Even with this decrease, removal of director proposals still comprised a high percentage of the overall shareholder items at 7%. This is believed to be largely in part due to conflicts among management and founding families[3].



CASE STUDIES

Voting Principles in Action

Below is an example of our Guidelines implemented based on our two main principles **(1) Protect and/or enhance shareholder wealth and (2) Protect and/or enhance minority shareholder rights**.

North American Oil Company:

Item	Proposal	Management Recommendation	Provider Recommendation	Vote Decision
3	Advisory Vote on Executive Compensation	For	For	Against
4	Shareholder Proposal Regarding Independent Board Chairman	Against	For	For
7	Shareholder Proposal Regarding Proxy Access	Against	For	For
11	Shareholder Proposal Regarding Climate Change Policy and Commitment	Against	Against	Against
12	Shareholder Proposal Regarding Climate Change Policy Risk	Against	For	For

- For Russell Investments, best governance practices include a link between pay and performance, separation of CEO and Chairman roles – as seen employed for items 3 and 4.
- As mentioned earlier in our report, proxy access remained a large issue with shareholders in 2016. Our support of such proposals allows shareholders to keep management accountable, promoting better governance practice– therefore, we voted for proposal 7.
- We believe a company can face significant financial and reputational hardship if it is negligent in ensuring that environmental and social standards and regulations are met, generally supporting proposals that seek to increase disclosure on such topics. Proposal 12 was submitted by proponent “Aiming for A”, requiring reporting on the impacts of climate change policies. We believe that management demonstrating their understanding of climate change risks supports long term shareholder value. In contrast to Item 12, we voted against Item 11. Shareholder proposals can often be well-intentioned but can suffer from weak drafting or overly politicized intentions. It is important in our analysis to consider whether the proposal directly assists in the creation of long term sustainable shareholder value.

Governance and Accountability

Typically, in the case of voting impediments such as Power of Attorneys, we abstain from voting. After an in-depth discussion with dissidents of the below proxy items surrounding the implications of the director elections, we took extra measures to place our votes.

German Car Manufacturer:

Item	Proposal	Management Recommendation	Provider Recommendation	Vote Cast
3.1 - 3.11	Ratification of Management Board Acts	For	Against	Against
3.12	Ratification of Management Board Acts	For	For	Against
4.01, 4.03 - 4.12, 4.14 - 4.27	Ratification of Supervisory Board Acts	For	Against	Against
4.02, 4.13	Ratification of Supervisory Board Acts	For	For	Against

- Due to controversial issues surrounding fraudulent practices of the company, we employed a strict analysis of all ballot items. Although our proxy provider recommended a vote for several of the company’s directors, we chose to vote against the entire board to convey clear opposition without room for misinterpretation.
- Vote restrictions were in place for this ballot, requiring shareholders to sign Power of Attorneys in order to vote. Our concern that poor management oversight contributed to the company’s fraudulent practices led us to complete the additional documentation.

Follow-up Engagement

We occasionally seek follow-up engagement discussions with companies in which we expressed concerns. In 2016, we held a voting season and post season review of a company's strategies and governance structure. This company is highly active in their engagement activity with shareholders and is responsive to investor concerns and recommendations.

North American Steel Company:

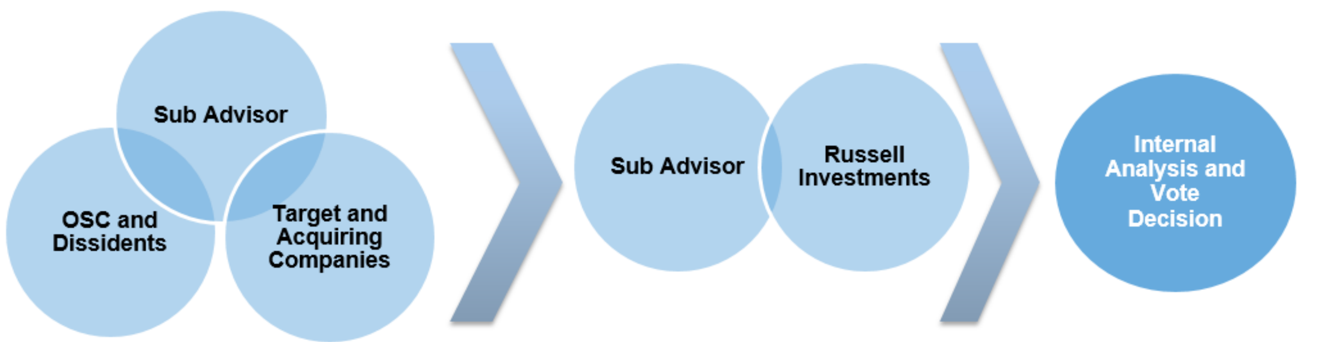
	Topic	Result
Voting Season	Separation of CEO	• Company taking our recommendation into consideration • Structure reviewed by the board annually for appropriateness
	Written Consent	• Due to a high quantity of engagement discussions with investors, the company proactively adopted proxy access by-laws
Post Season	Separation of CEO	• Stated our preference of separated CEO and Chairman roles
	ESG Performance Measurements	• Clarified the ESG targets affect the measurement of the compensation pool

Collaborative engagement

Canadian Entertainment Company (sub-advisor and company discussion):

Item	Proposal	Management Recommendation	Provider Recommendation	Vote Cast
01	Acquisition	For	For	Against

- A North American subadvisor was involved in collaborative engagement discussions with a dissident group and the OSC (Ontario Securities Commission) regarding issues and complains surrounding this company's acquisition proposal. In addition to this conference call, we held an engagement directly with the target company and acquirer company regarding the low proposal offer.
- Through our engagement with our sub-advisor we gathered the additional information and analysis that was procured from their discussions with management. With this and our proxy provider analysis, we conducted a more inclusive and integrated approach to our review of the terms of the merger.
- Based on the potential flaws in the valuation methodology, including the pricing in of all downside risk regarding royalty and activation fees, as well as the industry trends which appear to support the continuation of the company as a standalone entity, we voted against the proposal. Furthermore, communication indicated that the ongoing discussions with the board and OSC may lead to increased consideration for shareholders.



Sub Advisor Engagements

Input: Russell Investment Collaborative Engagement with Sub Advisor

Output: Vote Decision based on acquired information

ENGAGEMENTS BY TOPIC

Category	Engagement Type	Sub Category	2013	2014	2015	2016
Governance	Company	Executive Compensation	6	4	13	**13**
		Election of Director	1	2	7	**5**
		Separation of Chair and CEO	2	1	9	
		Amendments to Articles			8	**2**
		Right to Act by Written Consent		1	3	
		General Discussion			4	
		Board Structure	1			**1**
		Governance Structure	2			
		Separation of Board and Chair				**2**
		Merger/Acquisition		2		
		Share Issuance	1			
		Reincorporation			1	
		Political Contributions and Lobbying		1		
		Equity Compensation			1	
		Nominating Committee				
	Manager	Election of Director	3	11		**3**
		Corporate Structure	2	5		
		Merger/Acquisition	1	3		
		Amendments to Articles	1	1		**1**
		Merger and Acquisition				**3**
		Executive Compensation	1	1		**1**
		Capital Issuance Requests		1		
		Plan of Arrangement				**1**
		Restructuring/Capitalization				**1**
		Investment Policy	1			
		Board Structure				
	Shareholder	Election of Director				**2**
		Amendments to Articles	1			
	Client	Merger and Acquisition				**1**
Social	Company	Political Contributions and Lobbying			1	
		lobbying				**1**
		Board Performance Measures on ESG				**1**
	Shareholder	Board Structure	1			
Environment	Company	General Discussion		1	1	
		Sustainability				**2**
		Shareholder Proposals			1	
Grand Total			**24**	**34**	**49**	**40**

[1] Glass Lewis 2016 Season Review: United States and Canada
[2] Glass Lewis 2016 Season Review: Europe
[3] Glass Lewis 2016 Proxy Season Review: Japan

For more information:

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