2024 ANNUAL MANAGER ESG SURVEY

RISING COMMITMENTS, DATA HURDLES, AND NET ZERO GROWTH

RUSSELL INVESTMENTS RESEARCH

Contents

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Executive summary

ESG (environmental, social, and governance) developments have progressed rapidly over the past decade. While the initial industry focus was on understanding *what* ESG is, attention has now shifted to the challenge of *how* to implement it effectively. Today, there is recognition of ESG's critical importance, along with the opportunities and challenges it presents – insights which are highlighted in our 10th Manager ESG Survey. The findings of this survey reveals commitment among asset managers to responsible investment practices despite political pushback in the U.S. Following the trend from previous years, the number of managers reporting that ESG considerations do not affect their investment decisions has continued to fall, while commitments to reporting frameworks and initiatives have continued to rise. The survey results indicate that ESG has reached a new level of maturity and appears to have established itself as a significant and enduring force in the investment landscape.

Russell Investments' 2024 Manager ESG Survey provides valuable insights into the evolving landscape of ESG practices within the investment management industry. Featuring responses from 221 participants across various asset classes and global markets, the survey reveals important trends and developments in ESG integration, net zero strategies, stewardship efforts, and other critical areas.

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Senior Analyst,
ESG and Active Ownership

Key findings

The 2024 survey responses are largely aligned with last year's, reflecting a continuation of industry trends that acknowledge the importance of environmental, social, and governance issues in sound investing:

- **97% of firms now embrace ESG factors in investments**

  A massive leap in ESG integration as firms prioritize sustainability.

- **Specialised ESG teams are on the rise**

  69% of firms now rely on dedicated ESG professionals to drive sustainability efforts.

- **Data quality overtakes performance as top ESG challenge**

  Firms shift focus to improving ESG data for better integration.

- **Governance leads as the top concern globally for engagement with issuers.**

  37% of firms rank governance highest, followed closely by climate change and disclosures.

- **Resilient ESG commitments amid U.S. political complexity**

  Global investment in responsible practices holds strong, backed by the United Nations-supported Principles for Responsible Investment (PRI) and the Task Force on Climate-Related Financial Disclosures (TCFD).

- **Net Zero Asset Managers Initiative (NZAMI) participation climbs to over 30%**

  The initiative has seen a sharp rise in signatories since 2021.

- **Climate risk takes priority in ESG strategies**

  Environmental concerns dominate, with diversity still a secondary focus.

- **Carbon reporting takes center stage in ESG**

  Firms increase transparency and accountability on carbon emissions.

- **Third-party stewardship participation climbs 10%**

  Firms, led by the UK and Australia/New Zealand, deepen their stewardship commitments.

- **Diversity data still lacking in ownership roles**

  Fewer than 10% of firms have 50% or greater ownership by women and/or minorities, with many still withholding data, signaling a significant transparency gap.

About the survey

In 2024, Russell Investments conducted our 10th annual ESG Survey, polling asset managers across equity, fixed income, real assets, and private markets globally. The findings here objectively reflect the views of those managers. The survey digs deep into industry ESG and responsible investing approaches, revealing how managers integrate these considerations into their investment strategies. As new data sources, standards, and challenges emerge, we have refined our questions to stay ahead of the developments in this field.

As in the past, this year's survey covers a wide range of topics:

- Sustainability commitments
- Net zero target setting and fund management
- Resourcing of ESG roles
- ESG integration
- Challenges to integrating ESG information
- ESG reporting
- Product trends
- Active ownership
- Diversity data

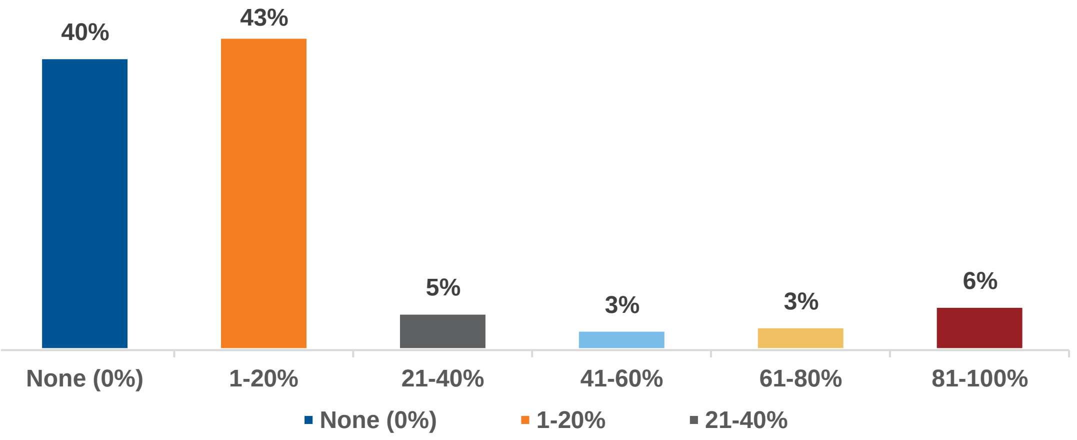
Survey participants

We have solicited a broad set of responses to capture a global view. This year's participant data once again highlights a diverse cross-section of the industry, with respondents spanning different asset sizes, regions, and investment strategies.

- 221 respondents with over $20 trillion in assets under management (AUM).
- 33% of respondents have an AUM >$100 billion while 14% have an AUM of <$500 billion; the firms range from the very small to the very large.
- Respondents are globally distributed, with the majority from the U.S. (53%), followed by the United Kingdom (15%), and Australia/New Zealand (10%).

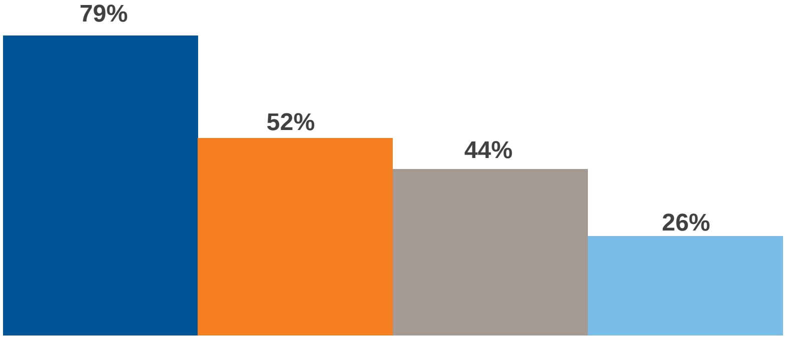
A notable number of firms reported that none of their AUM is currently managed through strategies specifically defined as sustainable investing, while many firms are currently managing less than 20% of their AUM through these strategies. This diverse range of adoption levels highlights the potential for continued growth and innovation in sustainable investing.

Exhibit 1: Proportion of AUM managed via sustainable investing/ESG offerings as of December 31, 2023



Most respondents provide equity strategies (79%) and just over half offer fixed income strategies (52%). Additionally, 44% deal in private markets, and 26% in real assets. While most figures align with 2023, the rise in managers offering private markets may impact data availability and specifics for this asset class

Exhibit 2: Respondents' asset class offerings



Note: *Managers may be counted in more than one category as per their asset class offerings.*

■ Equity ■ Fixed Income ■ Private Markets ■ Listed Real Assets

Manager snapshot – What does a standard manager look like?

- 53% of managers are based in the U.S.
- 79% offer equity solutions; 52% provide fixed income options.
- 38% manage less than $30 billion in assets.
- 39% employ fewer than 100 people.
- 77% have only 0-5% of staff dedicated to ESG roles.
- ESG commitments: 87% are PRI signatories, 59% follow TCFD, 37% report to CDP, 32% support Climate Action 100+, 30% have joined the Net Zero Asset Managers Initiative.
- Carbon metrics are widely reported for equities and corporate credit. Sovereign bond carbon reporting is uncommon—fewer than one-third of credit managers report this.
- Growing sustainability teams, adding staff in ESG and related roles.
- Reliance on multiple ESG data providers—MSCI leads in terms of market share, followed by Bloomberg ESG and Sustainalytics.
- Engage with companies for qualitative ESG insights but still rely heavily on company reports.
- ESG-driven investment decisions are primarily made to reduce risk.
- Reported ESG metrics include carbon emissions, voting, and engagement; ESG scores are provided, but other metrics are rare.
- Climate risk and environmental issues are seen as clients' top ESG priorities.

A caveat on interpretation

The demographics of our respondents indicate that we continue to capture a wide range of industry perspectives. Notably, the response rate for the 2024 survey increased by 31% compared to the previous year, enhancing the robustness of our findings. However, the challenge of survey fatigue remains, as asset managers, are increasingly inundated with ESG-focused questionnaires. To maintain clarity, responses from firms operating across multiple geographies have been consolidated under the manager’s primary country or region of domicile.

Survey results

Sustainability commitments

Key findings

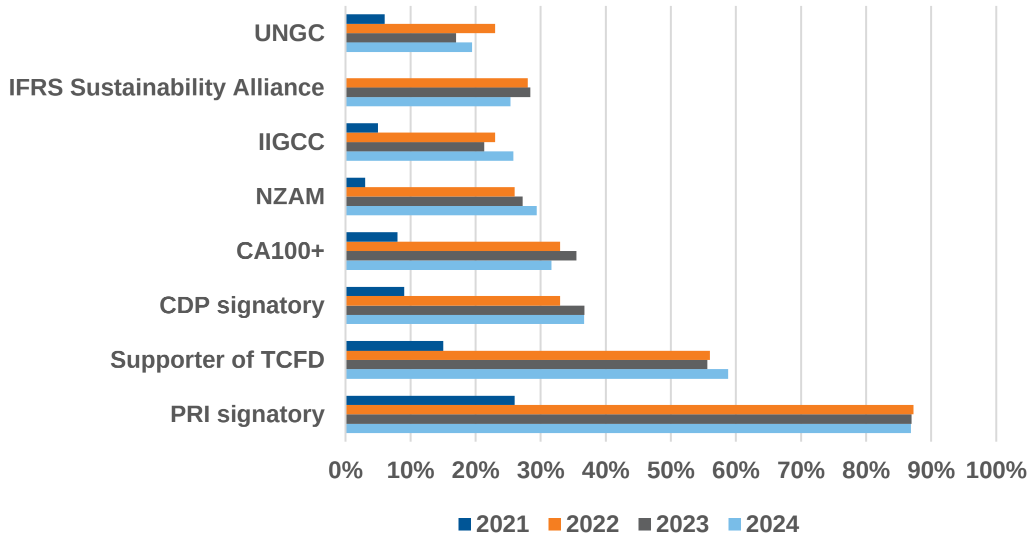
- **Despite political pushback on ESG-related investment practices in parts of the U.S., commitments to responsible investing are holding strong, with solid backing for PRI and TCFD.**
- **As collaborations like Net Zero Asset Managers Initiative and IIGCC grow, investors are expanding into broader sustainability efforts, keeping global momentum alive.**

Despite the backlash against environmental, social, and governance (ESG) investment practices and initiatives in parts of the United States, overall commitments to responsible investment and sustainability collaborations remain robust. Support for initiatives like the Principles for Responsible Investment (PRI) and the Task Force on Climate-related Financial Disclosures (TCFD) continue to be strong, signalling an ongoing industry dedication to integrating sustainability into financial decision-making.

The Institutional Investors Group on Climate Change (IIGCC) and the Carbon Disclosure Project (CDP) are seeing steady growth, reflecting a broad and sustained interest in addressing climate risks and opportunities. Membership in the Net Zero Asset Managers Initiative also grew to 30% of respondents. While responses from Climate Action 100+ (CA 100+) have seen a dip, this can largely be attributed to a few high-profile departures announced over the past year.

Respondents also indicated their participation in other sustainability initiatives, including the Global Impact Investing Network (GIIN), Nature Action 100, and the Principles for Impact Management. This highlights a diversification in the avenues for responsible investment, with expanding interest in frameworks that address a wider range of sustainability issues, such as biodiversity and social impact. These trends suggest that while ESG may face opposition in certain regions, the broader global momentum toward sustainable and impact-driven investment strategies remains strong.

Exhibit 3: Firm engagement with sustainability-related organisations and initiatives (2021-2024)



Russell Investments' view

While ESG-related investment practices face headwinds in certain political and market environments, data shows that the global investment community continues to embrace responsible investment frameworks. We expect that as the conversation around sustainability evolves, some markets will sharpen their focus on the financial impact and opportunities of ESG issues while others will seek out impact-driven outcomes, broadening their scope from climate change to include biodiversity, social equality, and governance issues.

Net zero target setting and management

Key findings

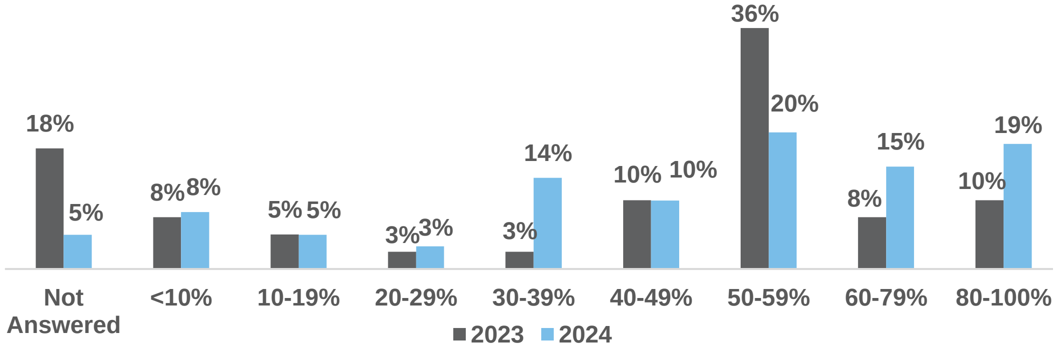
- Signatories to the Net Zero Asset Managers Initiative surged from 9% in 2021 to over 30% by 2024, with a growing trend toward standardised and custom net zero frameworks.
- The number of managers indicating they will become signatories in the next 12 months fell from 6% last year to 3% this year, suggesting slowed momentum.
- Currently, 47% of Net Zero-committed managers align 29% or less of their AUM with net zero goals, but 64% expect to exceed 40% alignment by 2030.
- Increased transparency is evident with a higher set of responses choosing 2030 targets, alongside a rising focus on real estate, infrastructure, and private equity in net zero strategies.

Commitment to the Net Zero Asset Managers Initiative has surged, with signatories growing from 9% in 2021 to over 30% by 2024. However, the number of managers indicating their intention to become signatories in the next 12 months fell from 6% last year to 3% this year, suggesting slowed momentum. The Paris Aligned Investment Initiative's Net Zero Investment Framework (NZIF) continues to be the most widely used tool. While reliance on unspecified or varied frameworks has decreased, signalling a shift toward more standardised approaches to net zero commitments, 12% of managers in 2024 selected a new answer option—"proprietary or combination" frameworks. This points to a trend of customised approaches for setting net zero targets.

We asked participants about the percentage of global AUM managed in line with net zero goals at year-end 2023: 47% of respondents manage 29% or less of their assets according to net zero goals, while just 35% manage more than 40% of assets aligned with these targets. However, this is expected to change significantly, given that 64% of managers anticipate having over 40% of their AUM committed to net zero by 2030.

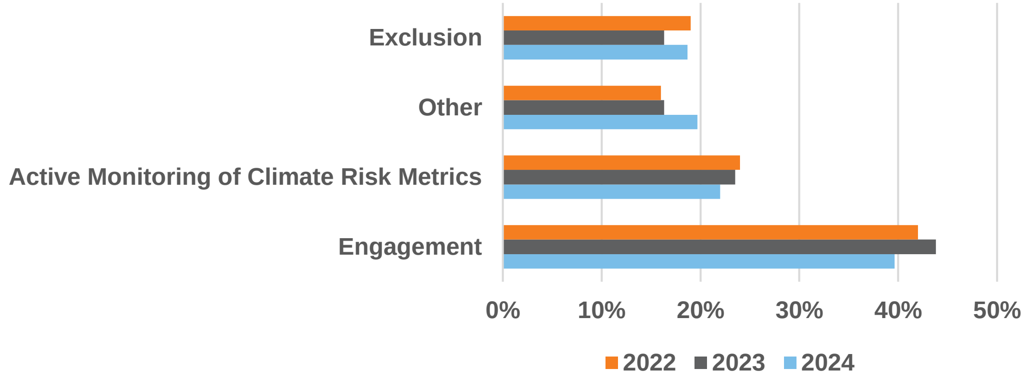
As shown in the graph below, there has been a sharp drop in the percentage of managers not providing an answer regarding the AUM percentage with 2030 interim net zero targets. This is a positive sign of increased transparency, with managers feeling more comfortable sharing data. The data also indicates a shift toward managing a higher percentage of AUM under net zero targets, reflecting more ambitious interim goals. Regarding asset classes, listed equity and corporate debt remain the primary focus for net zero alignment. However, there is a noticeable rise in targets for real estate and infrastructure, along with growing interest in private equity and other asset classes.

Exhibit 4: % AUM with 2030 interim net zero targets – Year-over-year comparison



Managing climate risk continues to require a multifaceted approach. When we asked respondents about how they handle climate risk across their portfolios, the responses showed little variation from previous years. Engagement remains the most common strategy, while exclusions play a smaller, yet significant role.

Exhibit 5: Approaches to climate risk management across portfolios (2022-2024)



Russell Investments' view

In 2024, data shows that net zero commitments remain strong in most parts of the globe, with continued support for established frameworks like NZIF. Although a minority of respondents currently manage a large portion of their assets in line with net zero goals, a significant shift is expected, with a majority anticipating higher levels of net-zero-managed AUM in 2030. The rise in tailored "proprietary or combination" frameworks indicates an evolving approach to net zero targets, and a marked increase in transparency around targets reflects growing confidence among managers.

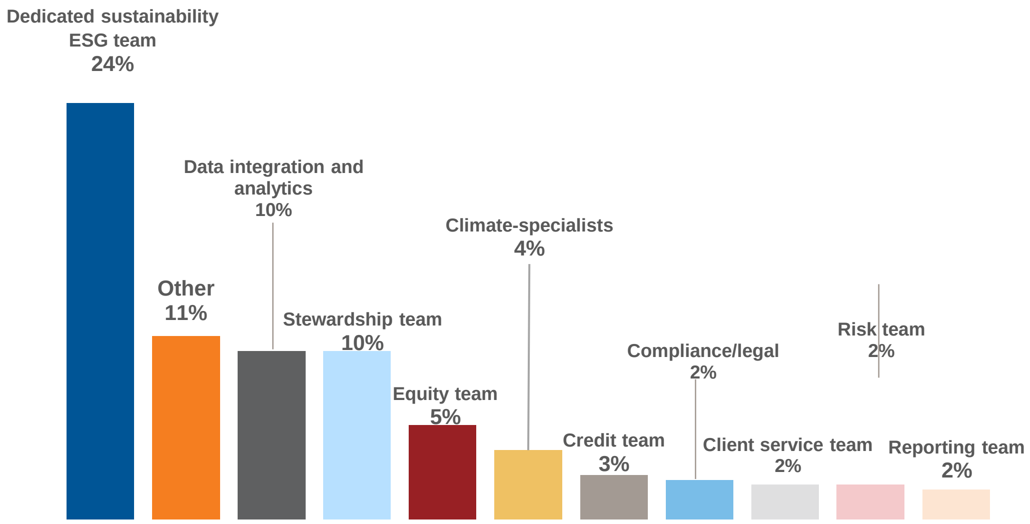
Resourcing of ESG roles

Key findings

- In 2024, 75% of firms hired dedicated ESG personnel, underscoring a continued emphasis on specialised teams and cross-departmental integration for better sustainability performance.
- The share of firms with dedicated ESG professionals rose to 69%, with a shift toward specialised ESG departments and emerging roles in data integration, analytics, and climate expertise.

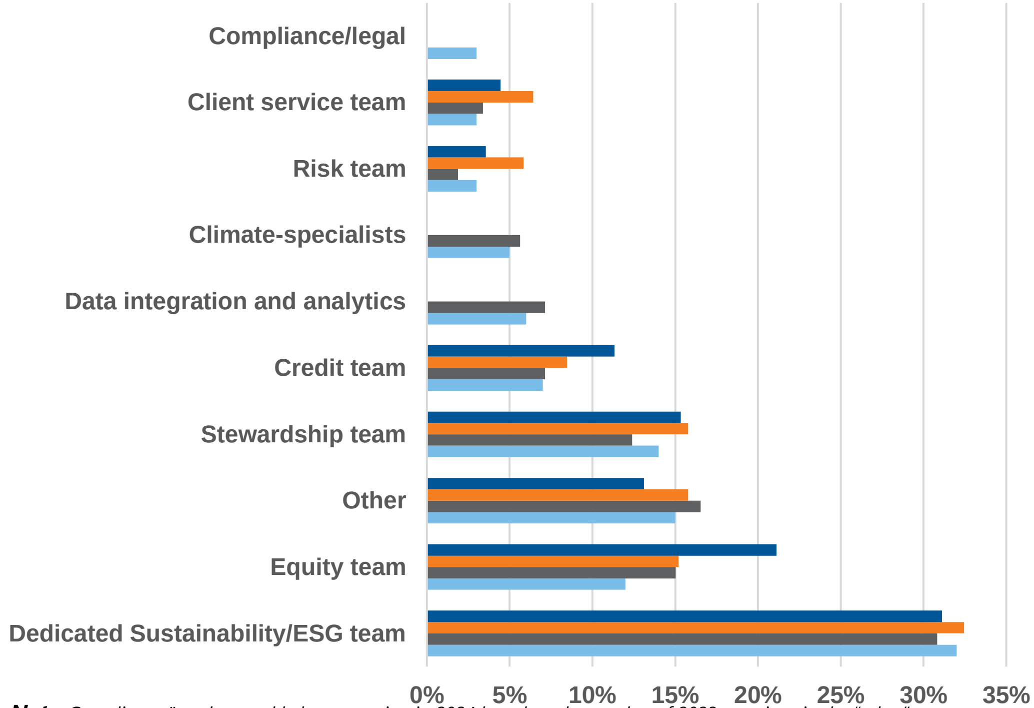
In 2024, 75% of participants reported hiring dedicated ESG personnel, continuing a trend from 2023 and emphasising the growing focus on enhancing ESG performance, compliance, and reporting. Comments from the "other" category reveal a shift toward creating specialised teams, integrating ESG across departments, and collaborating with external experts for strategic improvements.

Exhibit 6: Areas where dedicated ESG resources were added in the past year



Looking at the primary departments housing dedicated ESG resources, the proportion of firms with dedicated ESG professionals has steadily risen to 69%, with a clear shift towards establishing specialised ESG departments rather than integrating ESG within equity teams. Furthermore, new categories like data integration, analytics, and climate specialists have emerged, reflecting the evolving landscape of ESG focus areas. Meanwhile, roles within risk, client service, and compliance/legal teams continue to be integral to overall ESG resource distribution. We added an option to select "compliance/legal" in 2024 based on 2023 write-in answers.

Exhibit 7: Primary departments housing dedicated ESG resources (2021-2024)



***Note**: Compliance/Legal was added as an option in 2024 based on the number of 2023 mentions in the "other" category*

Russell Investments' view

Continuing a trend from previous years, survey results show that firms are ramping up ESG teams, emphasising specialised roles and cross-departmental integration for better performance and compliance. The shift to dedicated ESG departments and new roles in data and climate expertise appears to indicate a deepening commitment to robust ESG strategies. Additions in compliance/legal reflect continued regulatory scrutiny and greenwashing worries. Even as some firms hold back on expanding resources, the overall trend toward strategic allocation and enhanced capabilities is clear.

ESG integration

Key findings

- Firms are increasingly relying on tailored, internally produced ESG metrics alongside top providers like MSCI and Bloomberg.
- The importance of ESG considerations in investment decisions has skyrocketed, with only 3% of firms now ignoring ESG factors, down from 22% in 2022.

Direct company engagement and formal disclosures remain key sources of qualitative ESG information for managers. In 2024, firms also continue to rely heavily on top ESG providers like MSCI and Bloomberg, but there is a growing preference for tailored, internally produced metrics. Notably, a significant number of respondents have developed their own proprietary ratings, while also tapping into external services for proxy voting and industry insights.

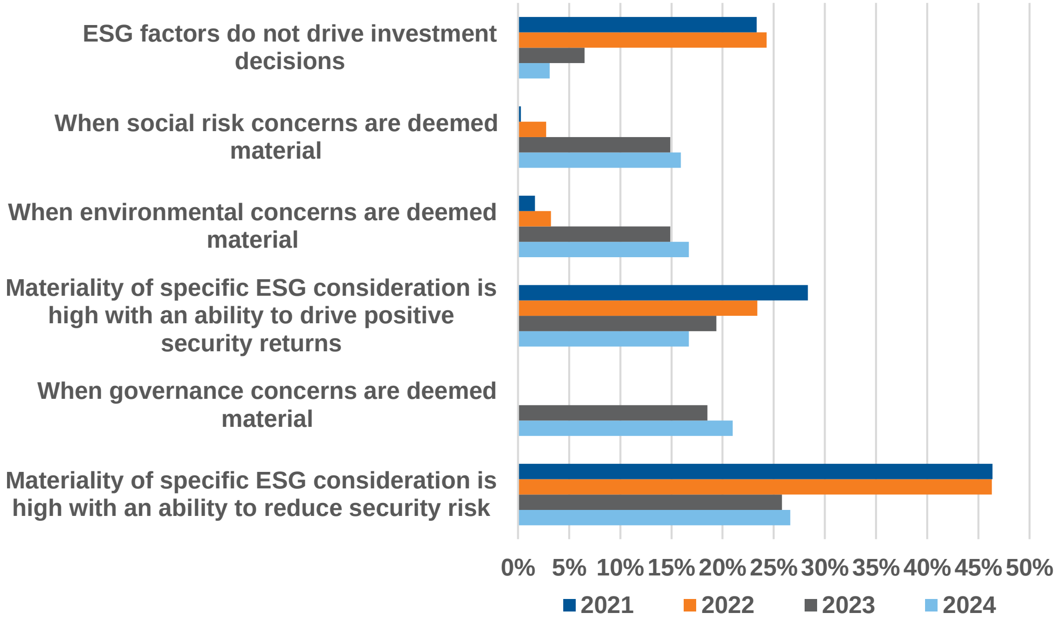
Exhibit 8: Primary sources of qualitative ESG information: Utilisation across firms

The importance of ESG considerations in investment decisions has surged dramatically, with only 3% of firms now disregarding ESG factors, a significant drop from 22% in 2022.

Governance, environmental, and social concerns received near equal weighting among our respondents. Risk reduction modestly outpolled the ability to drive positive security returns, highlighting that firms are increasingly recognising the need to mitigate potential risks associated with ESG issues.

Summarising the views across all answers, it's clear that ESG factors are playing a more critical role in decision-making processes and are now integral to assessing investment opportunities.

Exhibit 9: When do ESG inputs or issues most often impact your firm's investment decisions?



> ***Russell Investments' view***
>
> *Survey findings show that firms are not only leaning on top ESG providers but also developing customised, proprietary ratings. This growing preference for tailored metrics alongside traditional sources reflects a deeper integration of ESG considerations into investment strategies. The dramatic decline in firms ignoring ESG factors appears to be another indicator of change.*

Challenges to integrating ESG information

Key findings

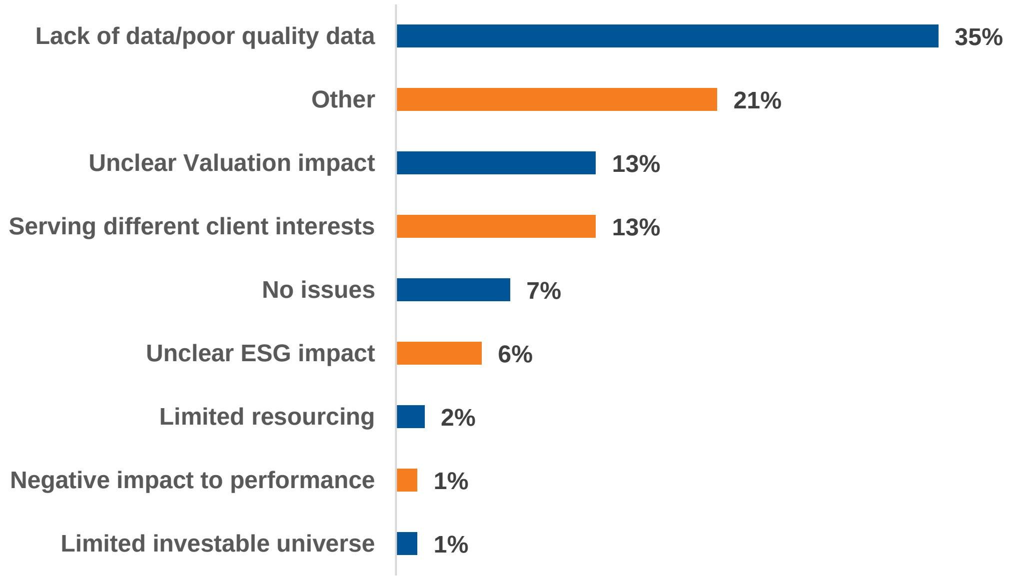
- "Lack of data/poor quality data" emerged as the top ESG integration challenge, replacing past concerns of performance impact and limited investable universe.
- Climate risk and environmental issues are paramount across asset classes, with increased emphasis in the U.S. Diversity and inclusion is gaining traction in some regions but remains a lower priority overall.
- ESG-integrated products are popular, yet a significant number of firms still report "not applicable," suggesting gaps in offering or tracking these products.

When asked about the main challenges in integrating ESG information into investment decisions, “Lack of data/poor quality data” emerged as the top hurdle. This new answer choice quickly rose to prominence. Other key obstacles included unclear valuation impact and catering to diverse client interests.

Interestingly, concerns like “negative impact to performance” and “limited investable universe,” which once drew mid-single-digit responses, are no longer seen as major issues.

A considerable number chose "other", and the comments highlight a broad array of challenges spanning data quality, stakeholder diversity, regulatory frameworks, operational integration, and cultural considerations in effectively incorporating ESG-related information into investment practices. Addressing these challenges will require concerted efforts across the industry to improve data transparency, standardisation, and regulatory alignment.

Exhibit 10: Primary challenges in incorporating ESG information into investment decisions

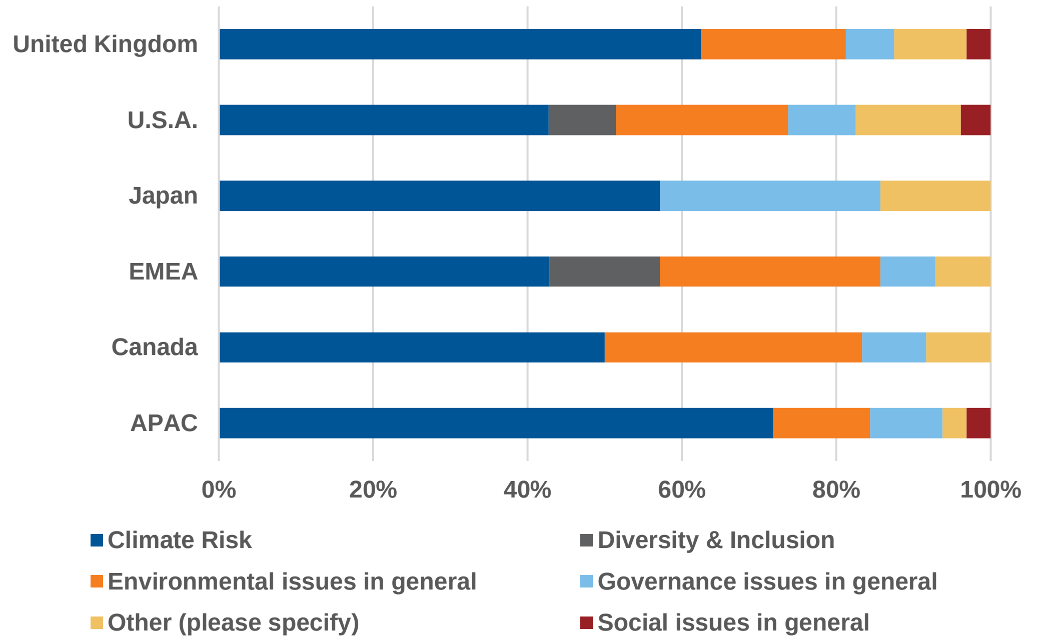


We asked respondents about their clients' top ESG concerns. While views varied by region and asset class, climate risks and environmental issues led across the board, highlighting a global priority on climate-related challenges. In the U.S. - where these areas can be considered more contentious - climate risks and environmental concerns increased to 65% of responses in 2024, up from 54% last year. The rise in U.S. concern over climate risks and environmental issues may be driven by increasing extreme weather events, evolving regulations, and growing investor education.

Social issues remain a lower priority for respondents. Diversity and inclusion is a standout concern in the U.S., and for the first time, EMEA managers also cited it as a key issue. However, it remains absent in APAC, Canada, and Japan, highlighting regional disparities. Governance issues continue to be a major focus in Japan and are moderately represented across other regions.

Looking at the different responses across asset classes (not shown), climate risk and environmental concerns dominate across all asset classes, with climate risk taking the lead, especially in equities and fixed income. Interestingly, governance issues, reported for the first time in 2024, are gaining attention in equities and fixed income. However, none of the listed real asset managers flagged governance as a concern. Beyond that, clear trends are difficult to discern. Diversity and inclusion shows some attention, particularly in equities and private markets, though its presence is minimal in fixed income and nearly absent in listed real assets. Meanwhile, social issues in general are the least reported across all asset classes, indicating they are not a major focus for clients at present.

Exhibit 11: Clients' top ESG concerns by region



Russell Investments' view

The findings indicate that integration of ESG into investments faces significant challenges, primarily due to data quality issues and the complexities of valuation and client preferences. Meanwhile, concerns about a limited investable universe and negative performance impact have largely faded. Climate risk and environmental concerns are universally prioritised, with notable regional differences in the focus on social and governance issues. Addressing these challenges requires industry-wide improvements in data transparency, standardisation, and regulatory alignment.

ESG reporting

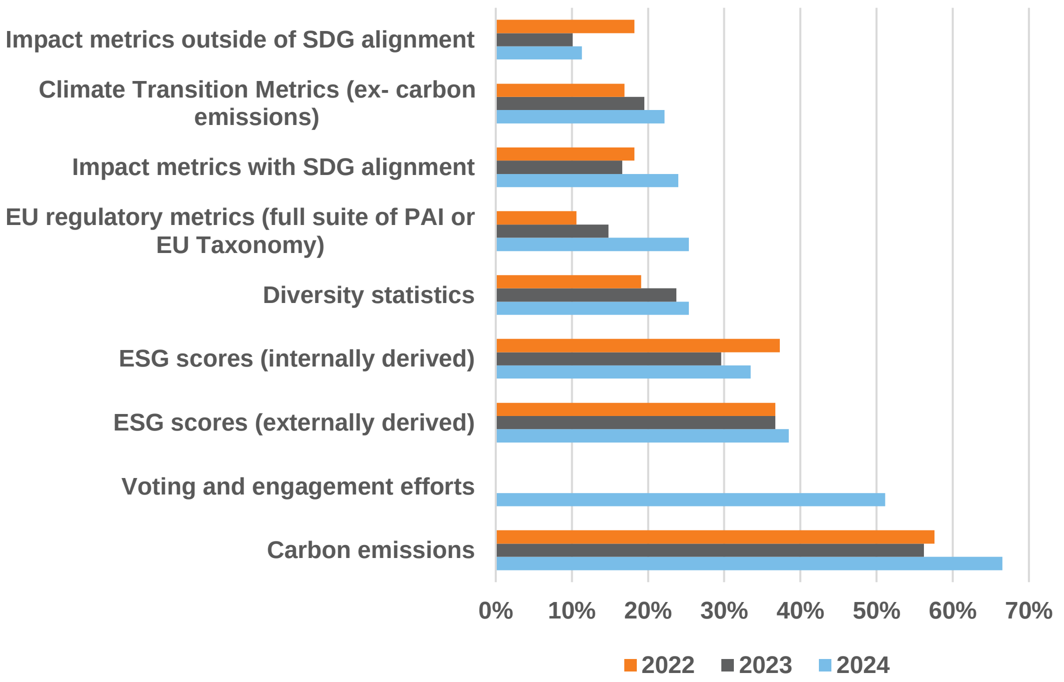
Key findings

- ESG reporting practices have seen a slight increase, with many firms now providing comprehensive reporting for both ESG-labeled and non-ESG-labeled strategies, reflecting a broad commitment to ESG transparency.
- Reporting on carbon emissions has surged, demonstrating rising emphasis on climate-related metrics and the industry's commitment to tracking and addressing carbon footprints.
- Voting and engagement efforts have become a key reporting category, reflecting the growing importance of shareholder engagement and active ownership.

There has been a slight increase in ESG reporting practices since 2023, indicating that the industry's approach to ESG-specific reporting remains steady. A substantial majority of firms (67%) now provide ESG-specific reporting for both ESG-labeled and non-ESG-labeled strategies, reflecting a broad commitment to ESG integration across their portfolios. Meanwhile, 12% of firms report exclusively on ESG-labeled strategies, indicating that while these firms prioritise dedicated ESG products, their overall reporting is more narrowly focused.

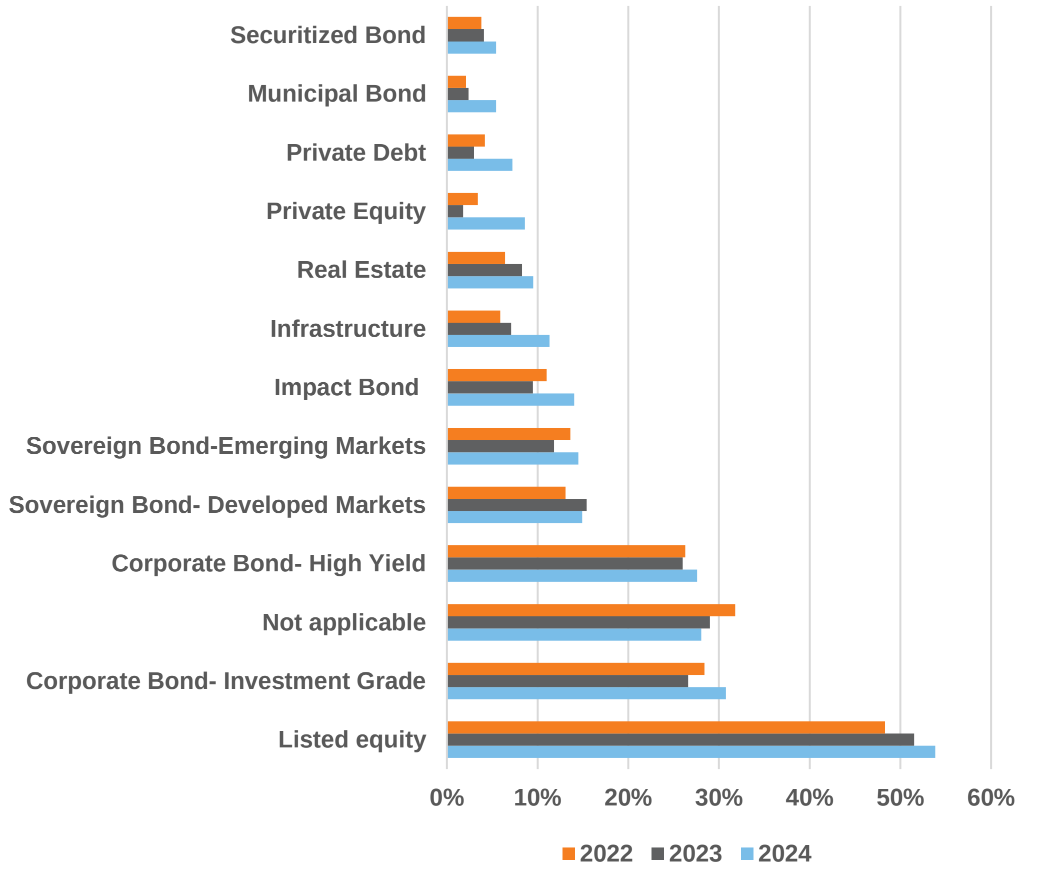
For the first time, in 2024, voting and engagement efforts have been included as a reporting category. With 51% of firms reporting these metrics, it has quickly become the second most common ESG measure. This reflects a growing recognition of the importance of shareholder engagement and active ownership. Interestingly, 40% of the respondents offering equity strategies do not report on their voting and engagement efforts.

Exhibit 12: Commonly reported ESG metrics (2022-2024)



Reporting on carbon emissions has surged to 67% in 2024, up from 56% in 2023. This notable increase highlights the growing emphasis on climate-related metrics, underscoring the industry's commitment to addressing climate change and tracking carbon footprints.
Carbon intensity reporting is also moving beyond traditional asset classes like equities and corporate bonds to include a wider range of investment types, which reflects a growing commitment to transparency and sustainability across a diverse array of investments. This expanded coverage signals a broader recognition of the importance of understanding and managing carbon footprints in all areas of investment.

Exhibit 13: Asset class coverage of portfolio carbon intensity reporting (2022-2024)



Russell Investments' view

The increase in ESG reporting practices and the expanded focus on carbon emissions and voting/engagement metrics appear to reflect the continued shift toward greater transparency and accountability. The growing commitment to understanding and managing carbon footprints across diverse asset classes, along with rising client demand and tightening regulations, signals a strong and evolving sustainable investment landscape.

Product trends

Key findings

- In 2024, 60% of firms regularly discuss ESG topics in management meetings, up from 50% in 2023, signalling broad acceptance of the materiality of ESG issues.
- Governance remains the top ESG focus, with 37% of firms ranking it highest, followed by climate change (19%) and ESG disclosures (19%).
- 65% of firms now participate in third-party stewardship initiatives, a 10% increase from 2023, with the UK and Australia/New Zealand leading the charge.
- In 2024, 19% of firms adopt a mix of bespoke and standard voting policies, reflecting a shift toward more nuanced and flexible voting strategies to address complex ESG issues.

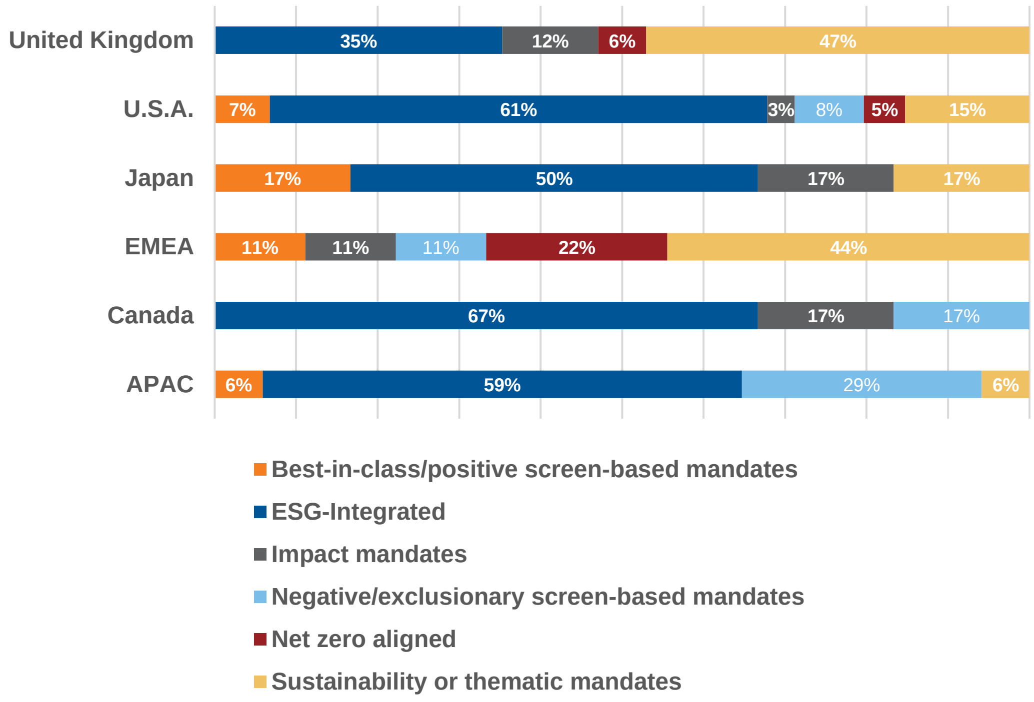
We asked firms which type of equity ESG products are seeing the most interest and/or asset growth over the past 12 months. And as in previous years, the data reveals a clear winner: ESG-integrated mandates are driving the most interest globally. In regions like EMEA (67%), Canada (67%), APAC (59%), and the U.S. (61%), ESG integration dominates, with up to 67% of respondents favouring these strategies.

However, regional differences emerge when looking at other mandates. Sustainability and thematic mandates are more prominent in EMEA (44%) and the United Kingdom (47%), reflecting a strong regional focus on targeted, theme-driven investments. These regions are prioritizing specific sustainability topics, such as climate change or social responsibility, over broader ESG integration.

Net-zero-aligned mandates are still a niche focus. They are beginning to emerge in EMEA (22%), but with limited interest in regions like the U.S. (5%), and the UK (6%), suggesting that while net-zero goals are important, they remain regional priorities.

Negative/exclusionary screen-based mandates show strong uptake in China (67%), signalling a preference for exclusionary practices, while Australia/New Zealand and continental Europe also lean toward this approach. On the other hand, the U.S. and U.K. are more focused on positive screening and integration.

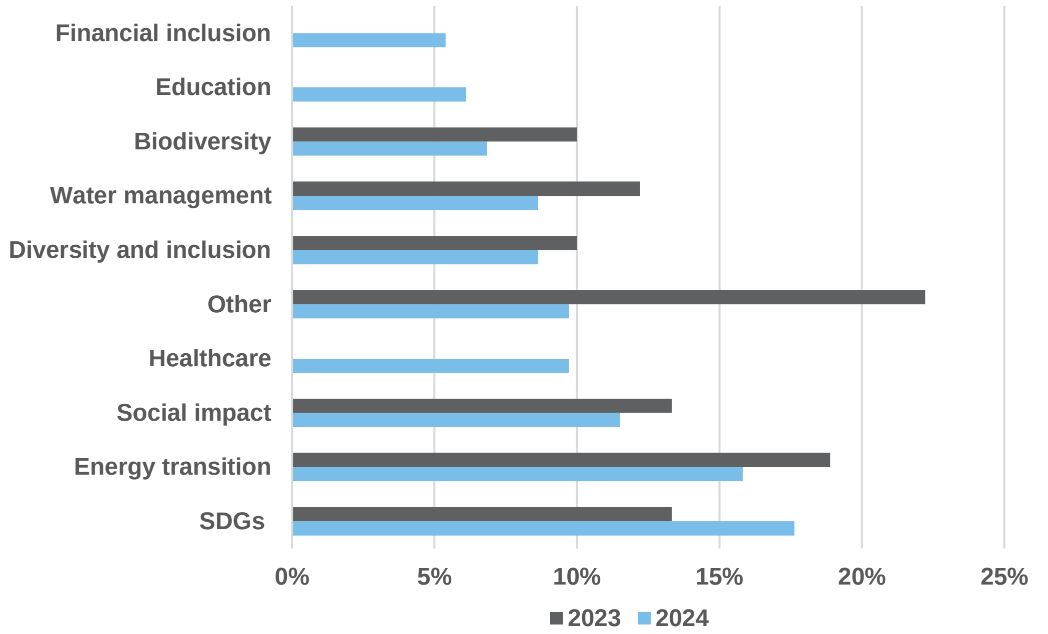
Exhibit 14: Growth in equity ESG strategies per type and geography



For the second year, we have asked for respondents to indicate which thematic impact strategy they offer. SDGs emerged as the highest priority, with 18% of respondents highlighting it as a focus area, up from 13% the previous year. Conversely, attention to the energy transition slightly declined, from 19% in 2023 to 16% in 2024, indicating a possible shift in priorities within environmental impact strategies or toward broader investment application.

While social impact remained relatively stable, decreasing slightly from 13% to 12%, the broad "other" category saw a sharp decline, dropping from 22% in 2023 to 10% in 2024. This change is likely due to the addition of new answer choices this year, including healthcare, education, and financial inclusion, which received 10%, 6%, and 5% of responses, respectively. Diversity and inclusion remains important, though its focus dropped slightly from 10% to 9%. Water management also saw a small decline, from 12% to 9%. Similarly, biodiversity decreased from 10% in 2023 to 7% in 2024, suggesting a shift in impact strategy priorities.

Exhibit 15: Focus areas of impact strategies



Russell Investments' view

Data indicates that the trend toward ESG integration will likely remain strong, especially as global regulatory pressures intensify. However, regional nuances are shaping the future of ESG investments. Europe continues to lead with a thematic and sustainability focus, while regions like the U.S. remains slower to adopt net-zero-aligned mandates. As firms strive to meet investor demand, we foresee a gradual but growing emphasis on net zero and sustainability themes, with regions like EMEA pioneering these shifts. Net zero mandates may eventually follow a similar path as ESG integration, but their widespread adoption appear likely a few years away.

Active ownership

Key findings

- In 2024, 60% of firms regularly discuss ESG topics in management meetings, up from 50% in 2023, signalling broad acceptance of the materiality of ESG issues.
- Governance remains the top ESG focus, with 37% of firms ranking it highest, followed by climate change (19%) and ESG disclosures (19%).
- 65% of firms now participate in third-party stewardship initiatives, a 10% increase from 2023, with the UK and Australia/New Zealand leading the charge.
- In 2024, 19% of firms adopt a mix of bespoke and standard voting policies, reflecting a shift toward more nuanced and flexible voting strategies to address complex ESG issues.

Engagement

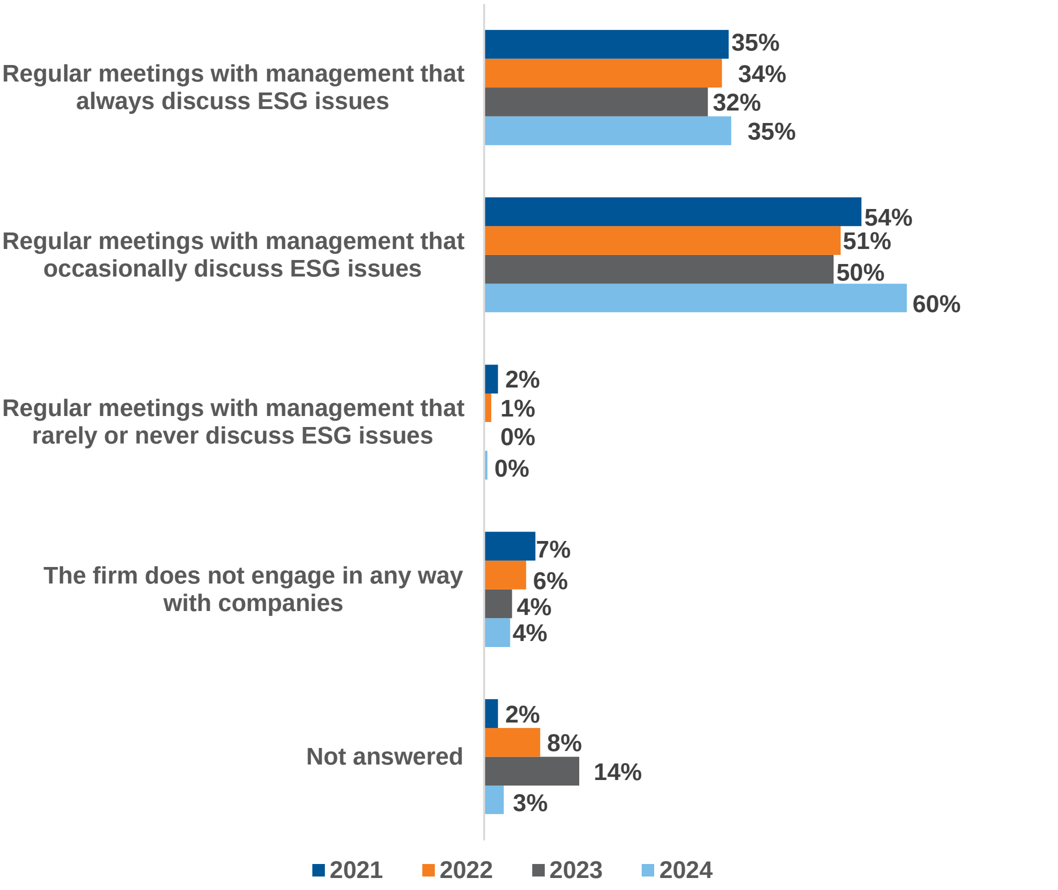
Engagement on ESG issues appear to be rising sharply. In 2024, 60% of firms said they regularly discuss ESG topics during management meetings, a significant jump from 50% last year. Additionally, 35% now ensure ESG issues are always on the agenda, up from 32% in 2023. Meanwhile, firms completely avoiding ESG discussions have plummeted from 14% to just 3%, flagging strong industry acceptance of the financial materiality of ESG issues.

Notably, while most firms now engage in ESG discussions, the intensity and frequency vary by region and respondent. In 2024, the majority of respondents from Japan and China reported having regular meetings with management that consistently prioritise ESG issues on the agenda.

When we asked respondents who conducts engagement activities, the data reveals a trend toward greater engagement specialisation, with dedicated stewardship teams taking a more prominent role and more non-senior investment professionals getting involved.

In 2024, we observed the continuation of a trend from previous years toward increased accountability and active management of engagement objectives, evidenced by more managers tracking and monitoring their activities and fewer being unresponsive or non-participative.

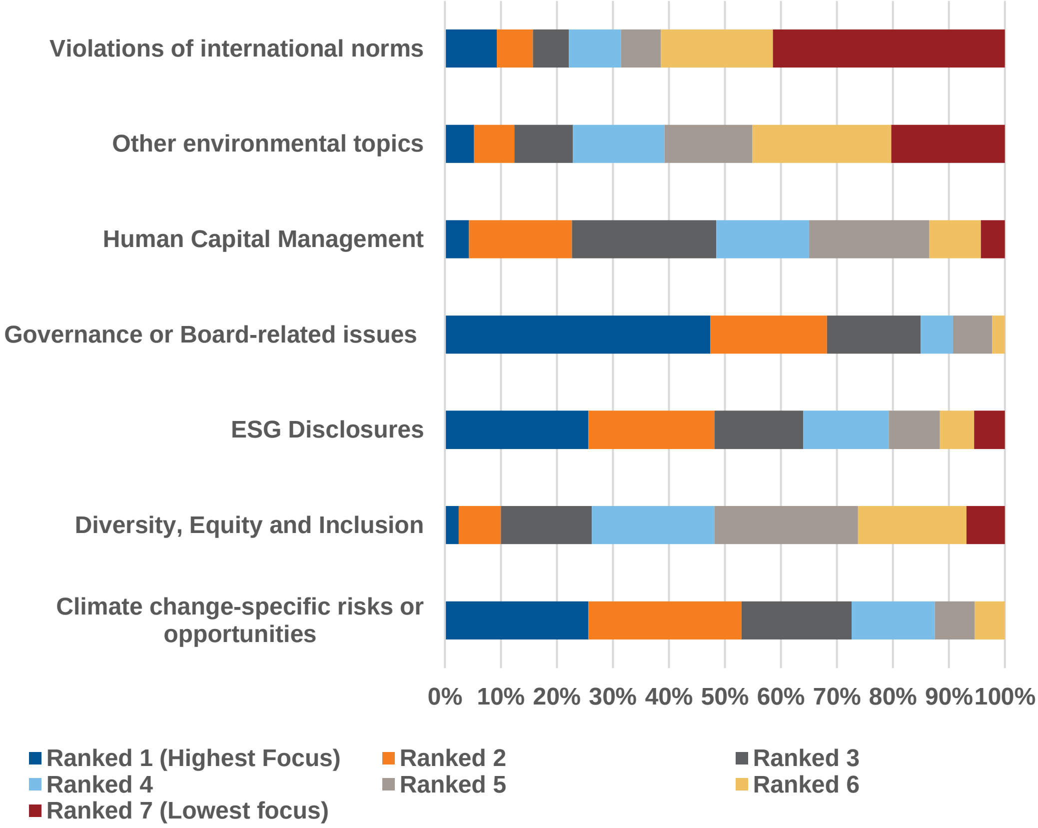
Exhibit 16: Engagement activities on ESG (2021-2024)



Top ESG priorities remain unchanged from 2023. Governance issues lead with 37% of firms ranking them highest, and another 16% placing them second. Climate change follows closely, with 19% making it their top focus and 25% their second. ESG disclosures also hold strong, with 19% citing it as their top priority and 17% as the second. This steady focus highlights the enduring importance of governance, climate, and transparency in ESG strategies.

Despite the negative press, collaborative engagement remains a crucial part of the stewardship activities, with 65% of respondents participating in third-party initiatives - a notable 10% increase from 2023. The UK (94%) and Australia/New Zealand (85%) lead in investor collaborations, while PRI and CA 100+ continue to be the most widely adopted third-party initiatives.

Exhibit 17: Focus areas of engagement activities on ESG issues: Ranked by priority



For the first time, we examined respondents' preferences for escalation strategies in their responsible investment practices. The findings reveal a clear inclination toward proxy voting and written communication as primary methods, with divestment also emerging as a significant strategy. Notably, 54% of respondents did not engage with policymakers this year, diverging from recommended best practices. This lack of policy engagement is typical of smaller firms and specialised boutiques, as larger institutions and niche firms are usually the ones that allocate resources to policy advocacy.

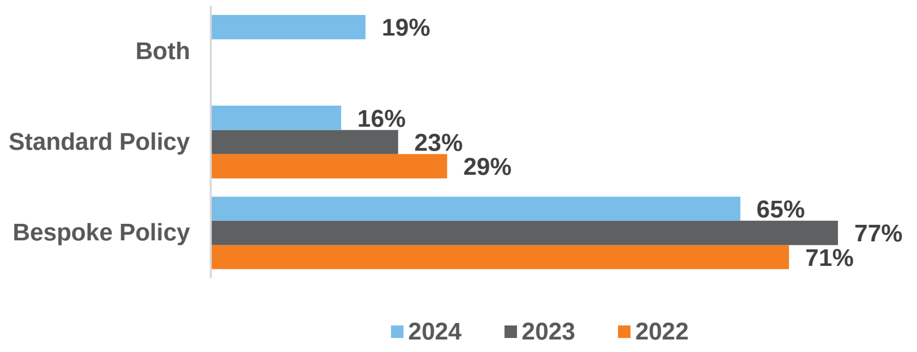
Proxy voting

For the first time, we have tracked the use of combined bespoke and standard policies in voting strategies, and the data reveals a clear trend toward blending both approaches. In previous years, firms predominantly relied on either bespoke or standard policies, with bespoke policies being the most popular. However, in 2024, we observe a shift: 19% of firms now adopt a combination of both bespoke and standard policies, marking a significant rise from prior years where this hybrid approach was not reported. This shift suggests that firms are seeking a more nuanced and tailored approach, blending the customisation of bespoke policies with the consistency and efficiency of standard policies. It reflects a growing recognition that a one-size-fits-all policy may no longer be sufficient for addressing the increasingly complex and varied ESG issues that arise in corporate governance.

In 2024, the data shows strong voting participation, with most respondents casting votes on 97% to 100% of eligible resolutions, reflecting a high level of engagement. Dissent rates against management remain low to moderate, with approximately half reporting dissent levels between 0% and 10%, indicating general alignment with management proposals but some areas of disagreement.

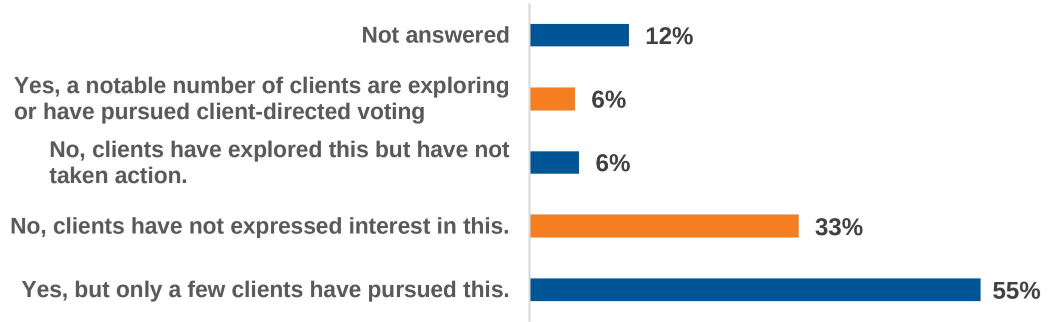
Most respondents follow proxy adviser recommendations, though a small group shows varying dissent, highlighting a more tailored approach to certain issues.

Exhibit 18: Type of proxy voting policies used (2022-2024)



The data shows that while interest in client-directed voting remains stable, there is a shift in how clients approach it. A few clients have actively pursued their own voting policies, but many have shown no interest or have only explored the option without taking action. Only a small portion of respondents noted a significant number of clients exploring or implementing client-directed voting. This suggests an indifference or hesitancy toward fully adopting these strategies.

Exhibit 19: Client adoption of directed voting



> ***Russell Investments' view***
>
> *The sharp rise in ESG engagement and the steady focus on governance, climate, and transparency indicate a maturing market commitment to sustainability. Specialized stewardship teams flag a deeper dedication to active ownership. However, the fact that over half of respondents are not engaging in policy advocacy highlights a critical area for growth for many managers.*
>
> *As global climate and governance pressures mount, Russell Investments anticipates firms will refine their active ownership strategies, combining bespoke and standardized voting policies for greater precision.*

Diversity data

Key findings

- Fewer than 10% of firms have 50% or greater ownership by women and/or minorities, with many still withholding data, signalling a significant transparency gap.
- While ownership and board diversity have improved compared to 2023, investment professional roles remain static, with fewer women and minorities in senior positions as roles progress.
- U.S. and UK firms lead in transparency, while firms in China and continental Europe remain hesitant, with 40% and 35% of firms, respectively, not disclosing diversity data.

At Russell Investments, we analyse diversity, equity, and inclusion (DEI) data from respondents to better understand our pipeline of products and managers and promote transparency in the industry. In our survey, diversity is broadly defined as the representation of women and minorities, without prescribing a specific interpretation of these terms.

We believe it is essential for managers to prioritise greater disclosure in this area. We encourage them to report on the representation of women and minorities among their owners, boards, senior leadership, and investment professionals. To facilitate consistent reporting, we recommend using standardised templates and platforms, such as the ILPA Diversity Questionnaire and eVestment. However, we recognise that data gaps continue to make comprehensive and conclusive analysis challenging.

Similar to data from previous years, findings show that fewer than 10% of firms have 50% or greater ownership by women and/or minorities. Meanwhile, a substantial portion of respondents (43%) continue to withhold ownership diversity data, but this figure will include some publicly traded firms

Most firms have higher levels of women and/or minority employee representation than that of investment professionals and senior investment professionals. In other words, our data continues to reflect the industry status: there are fewer women and/or minorities as a proportion of the total as roles progress in seniority from employee to investment professionals, and from investment professionals to senior investment professionals.

A comparison of 2024 and 2023 data reveals promising trends in diversity at the firm ownership and board membership levels, showing improvements. However, diversity across the industry remains relatively low. The data for investment professionals remains more static, suggesting that there is still work to be done to drive diversity deeper within the workforce

At Russell Investments, we use a set of four diversity criteria to identify potentially qualifying managers from a DEI perspective:

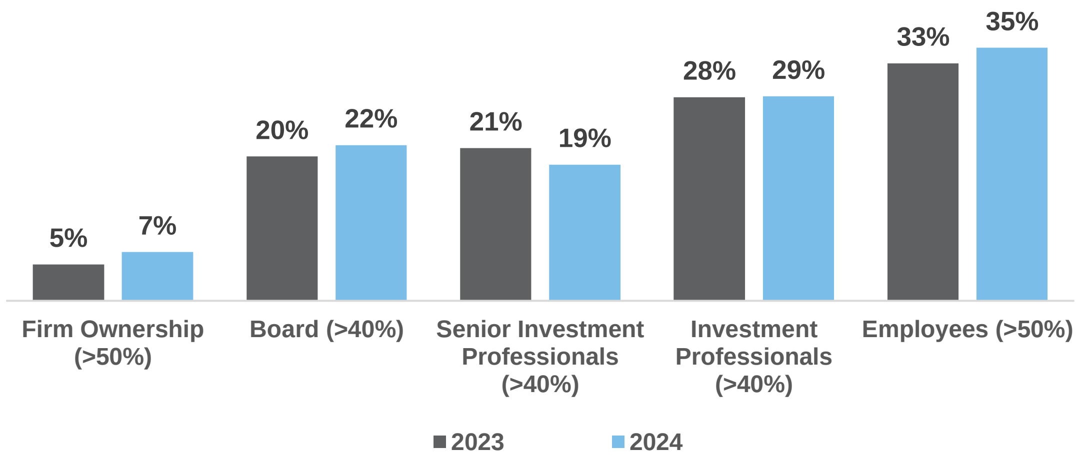
- Ownership: At least 50% of ownership must be women and/or racial minorities.
- Leadership: At least 40% of board members and 40% of senior investment professionals must be women and/or racial minorities
- Product: Portfolio managers are women and/or racial minorities.

In 2024, only 33% of the respondents met at least one diversity criteria. However, over the past four years, we've seen a substantial increase in the number of respondents who can clearly articulate how they implement DEI (diversity, equity, and inclusion) policies and programs. In fact, in 2024, 90% of the respondents have described their DEI policies. This is an encouraging and positive indicator of growing awareness and commitment to DEI within the industry.

As in previous surveys, firms offering equity strategies were the most transparent with diversity data, providing a response 50% of the time. Looking at the answer set by each asset class, firms that manage equities tended to indicate higher levels of diversity than the other asset classes, particularly in senior investor roles.

When examining the geographical distribution of diversity data transparency, U.S. firms have emerged as the most forthcoming, closely followed by those in the UK. In contrast, respondents from China and continental Europe have shown greater hesitancy in disclosing such information. Specifically, 40% of firms in China and 35% in continental Europe reported that they do not provide diversity data. This reluctance highlights a significant regional disparity in the level of transparency around diversity metrics, which may be driven by cultural differences, regulatory environments, or varying levels of emphasis on diversity initiatives. These variations highlight the challenges of achieving global consistency in diversity reporting.

Exhibit 20: Percentage of firms meeting gender and/or minority diversity threshold by position (2023-2024)



Russell Investments' view

At Russell Investments, we're encouraged by the rising focus on diversity, equity, and inclusion (DEI) across the investment industry. While ownership and board diversity are improving, the lack of women and minorities in senior investment roles persists. As transparency becomes a must, especially in regions like China and continental Europe where data is still limited, we anticipate a strong push toward global DEI standards. Looking ahead, we expect more firms to meet our diversity benchmarks, driven by regulatory demands and the growing call for accountability in the market.