



INTEGRITY

Integrating ESG factors



A natural evolution of Russell Investments' manager research

Our responsible investing practices are drawn from our beliefs and policy.¹ This paper focuses on our second belief: **We believe a deep understanding of how ESG factors impact security prices is value-adding to a skilful investment process.**

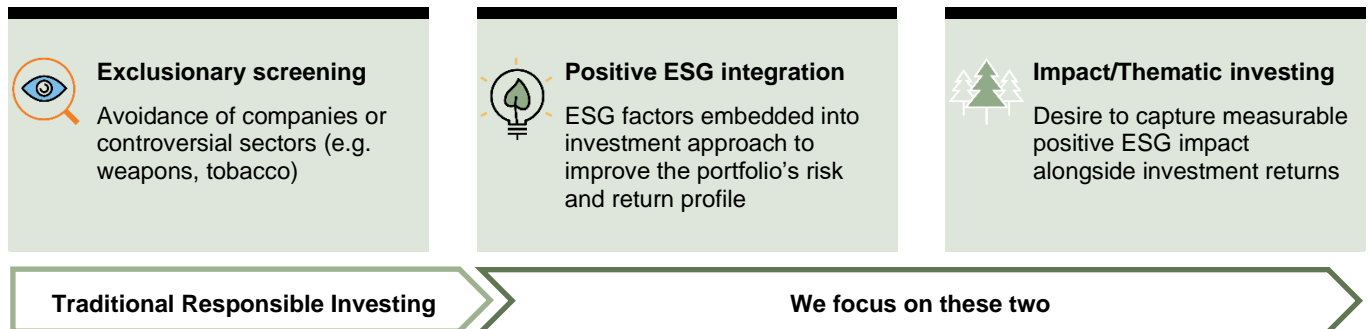
One way we incorporate environmental, social and governance (ESG) factors into our investment process is when **evaluating asset managers' investment strategies.**

ESG integration: From niche to mainstream

We believe ESG considerations should sit alongside traditional assessments as a part of the overall investment considerations for strategy evaluation, instead of stand-alone criteria. So, as a natural evolution of our manager research process, manager research analysts have assigned an ESG rank to individual strategies since 2014.

Amongst the manager universe, we have seen many asset managers treating ESG integration as a niche and a separate consideration in the past. However, we are starting to see much closer coordination of the firm-level ESG integration efforts to actual investment practice.

We segment ESG products into three categories.



While exclusionary practices are common, we distinguish them from ESG integration which is a broader topic applicable to all investment products. The focal points of our ESG manager research process are positive ESG integration and impact or thematic investing products.

¹ Learn more about our four beliefs by visiting the Russell Investments Responsible Investing webpage.

What is our ESG ranking system?

As part of our manager research evaluation process, we have a dedicated ESG rank that reflects the quality and competitive edge of asset managers' investment strategies. These ESG ranks are a qualitative assessment of how well active managers understand the impact of ESG factors on short and long-term security price evolution, portfolio level risk, and/or the return profile of the portfolio.



Manager demonstrates:

- **Strong** awareness of potential risk/returns of ESG issues on securities and portfolios
- **Strong understanding** of how portfolio positioning reflects management of ESG risks /contribute to value added
- **Superior breadth** of perspective and analysis on ESG issues vs peers

Manager demonstrates:

- **Adequate** awareness of potential risk/returns of ESG issues on securities and portfolios
- **Limited understanding** of how portfolio positioning reflects management of ESG risks/contribute to value added
- **Undifferentiated** perspective and analysis on ESG issues vs peers

Manager demonstrates:

- Meaningful **discrepancies** between target ESG guidelines and portfolio holdings
- Manager's perspective and analysis on ESG issues **lacks rigour**

Our ESG ranking process is integrated into our standard manager research and ranking process; it is not intended to qualify or disqualify any product on its own. Rather, it is intended to provide us with additional insight on each manager's product(s).² Our overall product rank still reflects our expectations of a strategy's potential for sustainable excess returns.

Depth of our ESG manager rank coverage

Our manager research team conducts multiple touch points with asset managers.

- In-depth manager due diligence meetings
- Annual ESG Manager Survey³
- Qualitative sources and third-party data and dedicated ESG meetings on an ad hoc basis

This combination of inputs gives our research analysts more comprehensive picture of whether the manager appropriately assesses the risk and return impacts of ESG issues on individual portfolio holdings and the overall portfolio construction process.

Breadth of our ESG manager rank coverage

ESG criteria have been an integral part of Russell Investments' manager research evaluation for several years. The breadth of our ESG coverage is reflected by our product coverage across over 1,200 products among 4- and 3-ranked strategies. Our globally-driven, proactive and continuous research efforts have enabled us to have views on ESG integration aspects of asset managers.⁴

² Our ESG ranks, like our overall ranks, apply to individual strategies and products rather than to firms.

³ 2019 ESG Survey: How are managers integrating ESG?

⁴ For more details, see full document - Russell Investments' Manager Research: Our integrated ESG capabilities, Yoshie Phillips, November 2018.

Conclusion

Integrating the level of ESG considerations into our manager investment process is a natural evolution of our investment practice. Unlike previous findings, we now see that many asset managers are more closely integrating their high-level policies and rhetoric with their investment practices. ESG factors are definitely becoming a standard part of security selection. The concept of ESG integration has rapidly evolved in the recent year into a mainstream practice.

About Russell Investments

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For more information

Call Russell Investments at **44 (0)20 7024 6000** or visit [russellinvestments.com](https://www.russellinvestments.com)

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