Russell Investments

Risk Management Objectives

Russell Investments Ireland Limited ("RIIL")

(RIIL, the Adviser and its Affiliates are collectively "Russell Investments")

September 2021

Global Risk Management Program

Russell Investments operates an independent risk management program through an organizational unit called "Global Risk Management" or "GRM." Consistent with best practices and regulatory requirements, GRM is independent from both manufacturing and go-to-market functions.

Rationale

Key reasons for operating an independent enterprise risk management function include:

Required: Multiple regulatory regimes require, and all expect a robust independent risk management program.

Commercial Appeal: Clients increasingly expect a robust and independent risk management capability. Having this capability positions us to better retain existing clients and to more aggressively attract prospects. In addition, GRM's thought leadership and capabilities have been routinely leveraged for client purposes.

Enterprise & Aggregate Perspectives: An enterprise perspective is needed because risks are seldom isolated to one business unit of function. With its organizational positioning, sophisticated tools and experienced associates, GRM is uniquely positioned to provide a risk perspective for the enterprise as well as other meaningful aggregations. It is ultimately this "portfolio of risks" and their interaction with each other that is most relevant to the institution.

Objective Assessment: There are always innate conflicts which impede the objective identification and evaluation of risks. An independent and capable risk function helps mitigate these conflicts in both substance and appearance.

Specialization: Risk is a specialized and technical function which must be resourced and focused accordingly.

Protective Effects: An independent risk function and the materials generated as part of that process can diminish the adverse effects of "attacks" that inevitably befall organizations.

Enterprise Results: An effective enterprise risk management capability skews firm results in a positive direction by helping to avoid or mitigate risks as well as exploiting promising opportunities.

Basic Risk Framework

GRM's basic framework of "identify, measure, monitor and communicate" is outlined in diagram 1 along with the supporting concepts of "integration, insight and challenge." Other important elements in GRM's risk framework include:

Risk Measurement: Multiple risk measurements are required in most instances to get a proper "read" on risks.

Five Lines of Defense: Russell Investments has adopted a "five lines of defense" protocol to reinforce each associate's role in the risk management process. Diagram 2 outlines this protocol.

Risk Governance: GRM has implemented a risk governance structure which has been integrated into other Russell Investments governance structures. Diagram 3 shows the basic components of this structure.

Risk Appetite: The idea of a risk appetite must be considered from multiple perspectives because some risks are borne by Russell Investments and others by its clients. The key dimensions of our approach to risk appetites being principal versus agency risk and buy versus sell side exposures.

Risk Assessment: GRM conducts formal assessments via its annual Enterprise Risk Assessment and targeted risk reviews throughout the year, as necessary. Informal assessments occur continuously. These assessments are used for multiple purposes such as escalation when appropriate, development of remediation plans, and input into the annual audit plan.

Organization & Specialization: GRM's organization includes three specialized risk teams: credit, investment/market and operational risk. The Ops Risk team is also responsible for the insurance program and business continuity. The functional teams are supported by several regional associates.

Diagram 1: Risk Management Framework

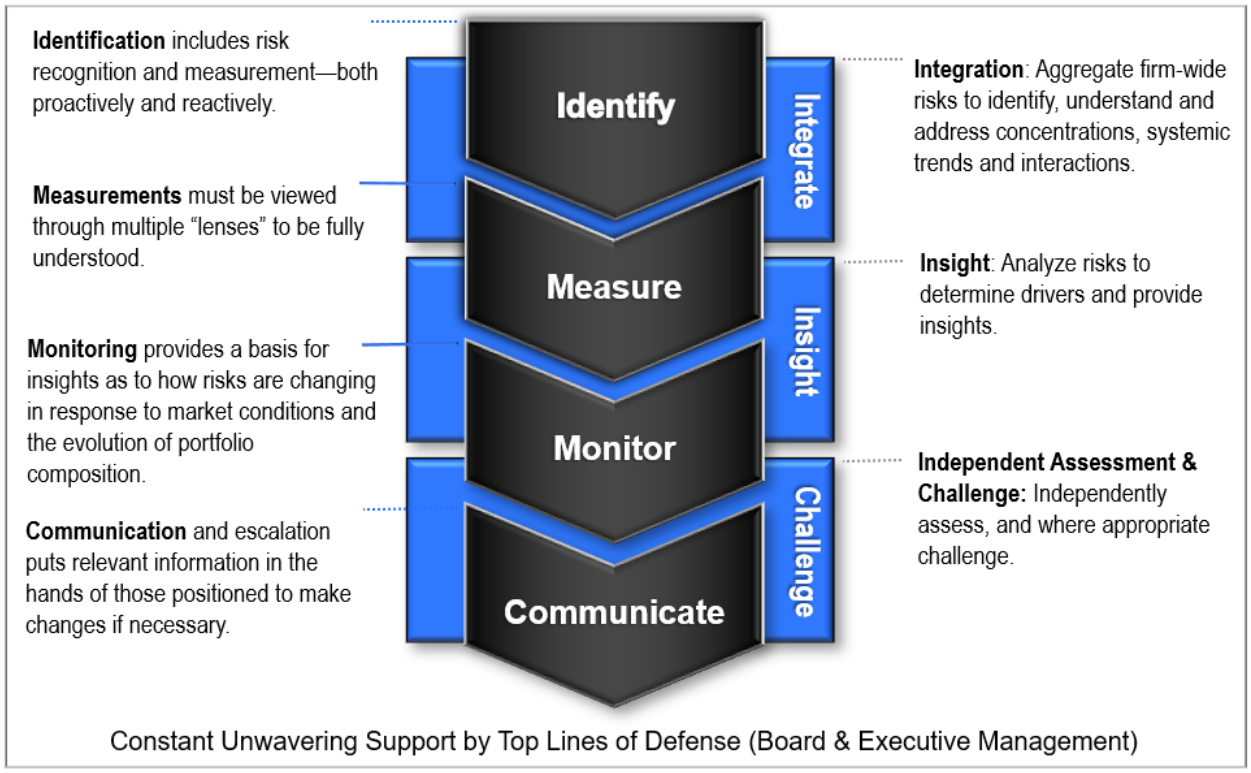


Diagram 2: Five Lines of Defense

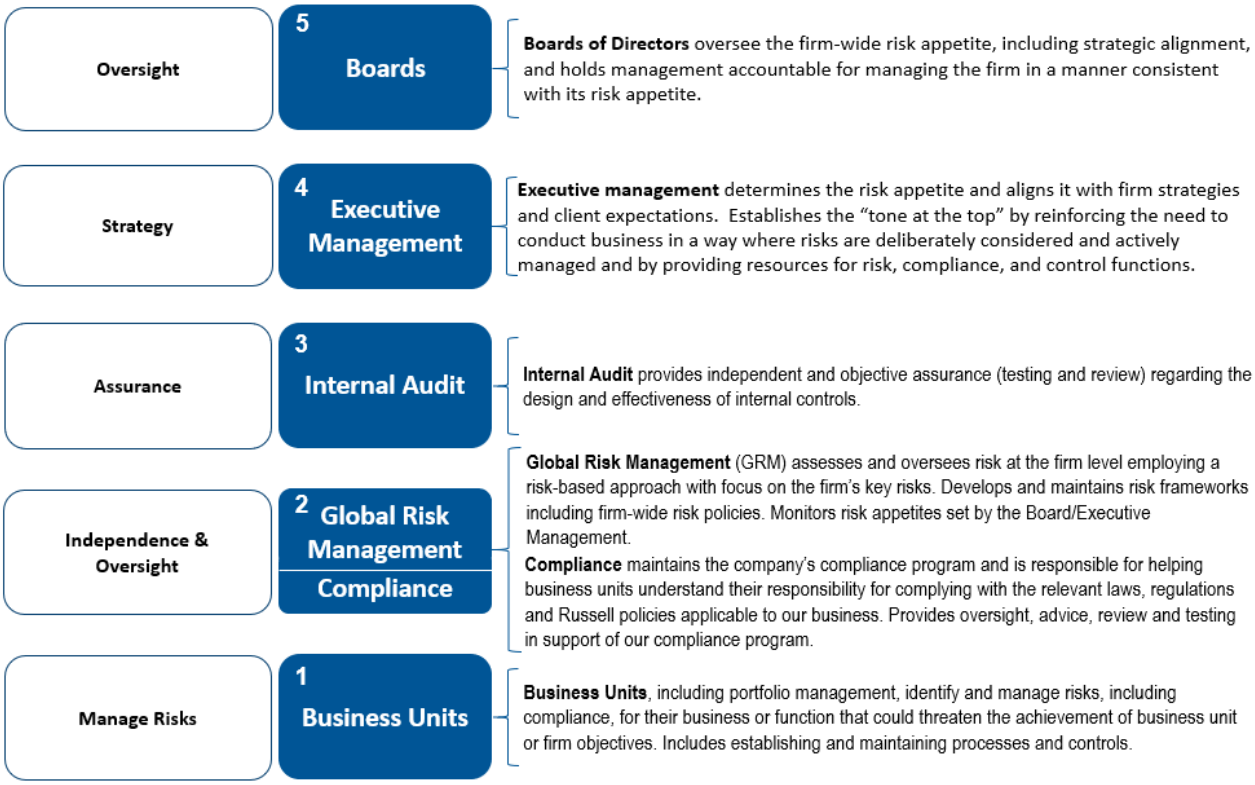


Diagram 3: Risk Governance

EMEA Risk Management Governance

Russell Investments operates an EMEA Risk Management Committee ("ERMC") which receives it mandate from the Global Risk Management Committee ("GRMC") to assist executive management in the oversight of the risks of the EMEA businesses including Russell Investments Ireland Limited ("RIIL"). The ERMC, acting in its oversight capacity, is authorized and directed to review, evaluate, monitor, and oversee operational risks for the businesses managed by the EMEA Region of Russell Investments, including the funds and management companies domiciled in Ireland. Although its primary focus is oversight of operational risk, the ERMC is also authorized to escalate investment and credit risks to the Investment Risk Committee ("IRC") and the Credit Risk Committee ("CRC"). The Board of Directors of RIIL has delegated risk management duties and responsibilities to the ERMC.

Credit Risk Management

The Credit Risk Management (CRM) team provides approvals, monitoring and oversight of credit risks. Russell Investments' Credit Risk Management team independently reviews issuers and counterparties and performs on-going monitoring of their financial strength. A Rating Committee assigns an internal credit rating to each issuer and counterparty. The benefit of this process to Russell Investments clients is two-fold:

- Russell Investments' traders and portfolio managers are able to dynamically assess issuer and counterparty creditworthiness without relying on external rating agencies which have sometimes been slow to react.
- Material changes in issuer or counterparty credit risk profiles are promptly identified and appropriate steps are taken to protect the exposure of Russell Investments and its clients.

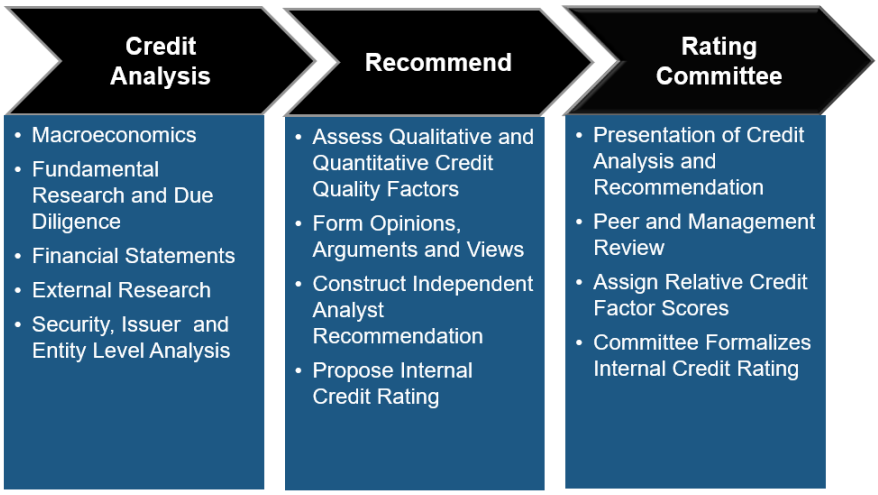
Credit Analysis Process

Russell Investments assigns a credit analyst to thoroughly analyze each counterparty. The analyst utilizes various sources of information (for example, financial statements, regulatory filings, market prices, rating agency reports, financial press and discussions with issuers and counterparties) in consideration of six specific credit quality factors:

- profitability
- asset quality
- liquidity
- quality of management / risk management
- capital adequacy
- future prospects

The Rating Committee scores each credit quality factor on a 1-to-10 scale and assigns an overall internal credit rating based on the recommendation of the assigned analyst. The following diagram summarizes the approval process:

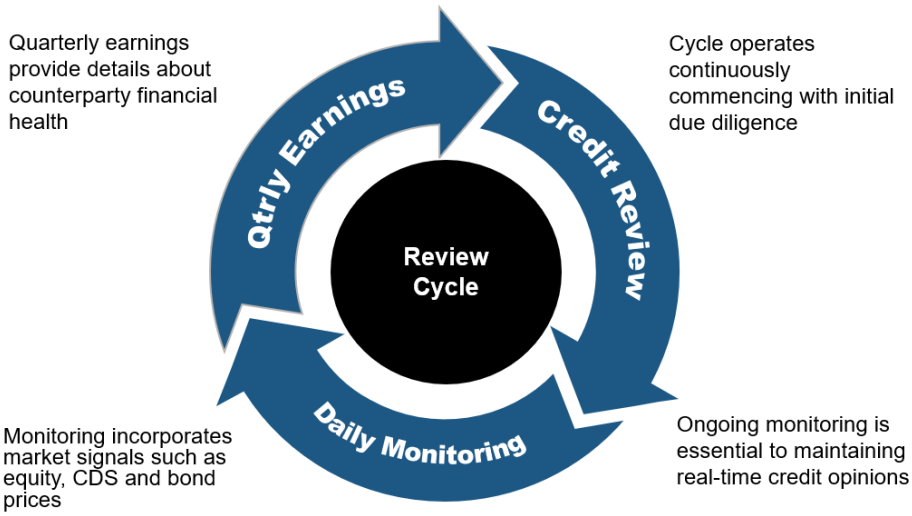
Diagram 4: Credit Rating Approval Process



Credit Risk Monitoring

Having completed an initial review and approval process, the analyst continues to evaluate the credit quality of the issuer and counterparty on an on-going basis periodically updating the credit quality factors noted previously. Daily credit monitoring involves assessment of major news sources and research articles. The analyst also consults the rating agencies for rating and outlook changes and other information. Quarterly analyses consist of evaluations of earnings releases and current financial statements. This on-going monitoring process is used to dynamically evaluate an issuer's or counterparty's creditworthiness, identify changes in financial stability and communicate revisions to Russell Investments' internal credit opinions as needed. The diagram below summarizes the monitoring cycle:

Diagram 5: Credit Monitoring Process



Approved List: Russell Investments portfolio managers and traders may only use issuers and counterparties on the Approved List maintained by Credit Risk Management.

Credit Risk Governance

An approved list of counterparties and their corresponding internal ratings is maintained and updated as needed. The results of both the initial and periodic reviews are presented to the Rating Committee. Russell Investments' Credit Risk Management Committee (sub-committee) of Russell Investments' Global Risk Management Committee ratifies counterparties and issuers on Russell Investments' Approved List.

Investment Risk Management

Investment Risk Management (IRM) is responsible for measuring and monitoring market and liquidity risks. IRM provides management with the leadership, advice and tools they need to identify and manage the risks that can impact the ability of the Firm to meet the investment objectives of its clients and funds. The Investment Risk Management team is independent of the Investment Division and as the 2nd line of defense, monitors and reports on individual portfolio and aggregate firmwide market and liquidity risks. IRM operates a granular multi-asset enterprise risk system consisting of RiskMetrics (an industry leading market risk model from MSCI) along with IRM-developed proprietary components.

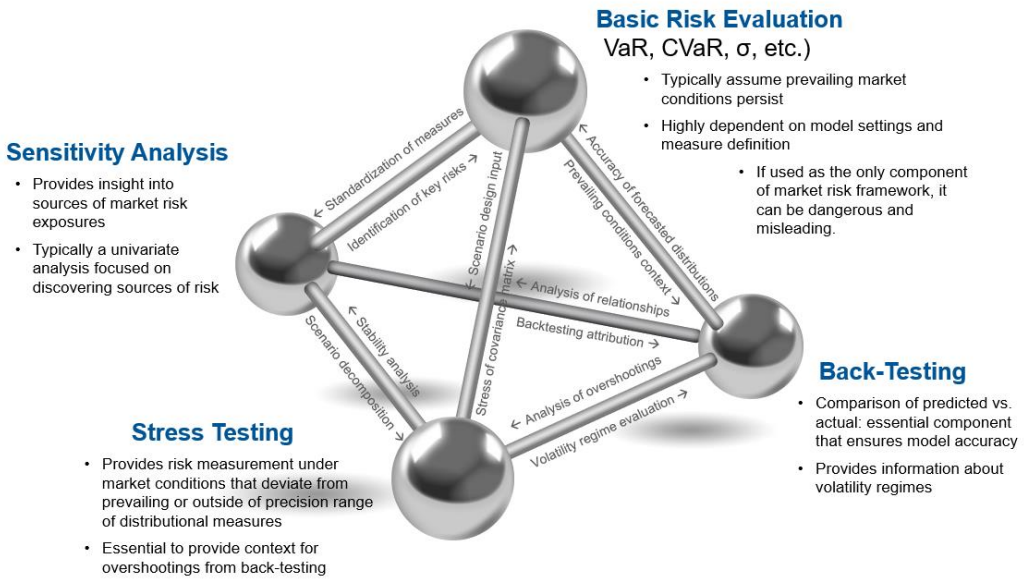
Investment Risk Process

The investment risk process is rooted in risk identification and measurement. Effective evaluation of investment risks involves assessment, monitoring and reporting across three key dimensions:

Market Risk: the risk of change in market value of investments and/or level of earnings due to movements in market prices. Market risk calculations must consider changes in equity and commodity prices, interest rates, exchange rates, implied volatilities and inflation. Due to continuous nature of financial markets, market risk calculations should be available daily. Our market risk management process considers four dimensions in the monitoring approach:

- Basic risk evaluation – based on profit and loss simulations or parametric approaches to estimating distribution of future outcomes. When possible, non-parametric approaches such as historical simulation is considered in addition to the Monte Carlo approach. A delta-normal approach should not be used on portfolios that contain non-linear instruments.
- Stress testing – provides insight into behavior under extreme conditions. Both regression-based approaches (aka predictive stress testing approach) as well as historical approaches are considered. This category also includes reverse stress testing.
- Sensitivity analysis – used to identify direct and indirect sources of market risk exposures.
- Back testing – an essential component of market risk framework used to continuously assess model accuracy.

Diagram 6: Market Risk Monitoring Approach



Exposure Measurement: Quantifying exposures across key investment risk dimensions (country, currency, asset type, GICS, credit rating, etc.) provides a non-model-based view into investment strategy. Investment risk arises when there is a mismatch between stated strategy and actual exposures taken.

Liquidity risk: Liquidity risk arises when assets cannot be readily converted into cash and/or without an onerous discount in value to meet liabilities or other cash needs. Two types of liquidity risk need to be considered and quantified:

- Market liquidity risk is the potential adverse price impact due to illiquidity on a particular security.
- Funding liquidity risk is the potential for adverse impacts due to portfolio dealing terms and/or redemption activity (behavior) of an investor.

Investment Risk Governance

Individual security or manager decisions can be made at the 1st line of defense by the portfolio manager within the processes and procedures defined for the strategy. Depending on the scale, scope or type of portfolio change, the portfolio decision may need to be reviewed and approved by the Investment Strategy Committee, require approval by a manager, or can be made directly by a portfolio manager.

The Global Risk Management Committee ("GRMC") established the Investment Risk Committee ("IRC") to oversee the investment risks that Russell undertakes on behalf of its clients and in its businesses. The IRC will assist the GRMC in its oversight of (i) Russell's investment risk governance structure, (ii) Russell's investment risk management framework and policies, and (iii) Russell's investment risk tolerances and limits.

Operational Risk Management

Operational Risk Management ("ORM") focuses on identifying, assessing and monitoring operational risks. ORM deploys multiple tools and methods to identify, assess and respond to operational risks. The operational risk framework is based on ISO 31000, an international risk standard.

Russell Investments operates a multi-element risk identification approach which operates on the premise that the recognition and measurement of risk needs to occur on both a proactive and reactive basis. Russell Investments' long-standing formal escalation protocol promotes timely communication to senior management, facilitating changes, for example, enhancements to controls, to be made where necessary. Russell Investments employs a disciplined event capture approach with results reported through the risk governance structure. A key focus of the event management program is helping assure management's remediation plans are directed to addressing root causes, rather than treating symptoms, to reduce the likelihood and impact of recurrence. Ongoing monitoring as well as targeted risk reviews and risk profiling provide a basis for insights as to how risks are changing in response to market conditions and evolution of strategy and portfolio composition.

Operational Risk Management is a foundational part of broader enterprise risk management framework and includes the following:

- Emphasis on the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
- Independent, Russell Investments-wide perspective on operational risk exposure across products and businesses.
- Multiple risk measurements, including loss event metrics, key risk indicators, scenarios, risk capital modeling, etc.
- Consideration of risk aggregation and correlation (e.g., vendor error can have financial, regulatory and reputational impacts).
- Emphasis on mitigation of known risks.
- Includes robust contingency planning (business continuity, exercises, insurance, etc.)
- Consistency with industry practice and regulator/client expectations/requirements.

Diagram 7: Operational Risk Management Process

Diagram 8: Operational Risk Management Functions

Event Management process by which Russell manages events that could cause a financial, reputational, or regulatory impact.

Business Continuity Management includes BC plans for each business unit and overall Incident Management Team plan.

Risk profiles identify risks of business activities.

Insurance coverage mitigates a range of risk exposures.

Change Management includes risk oversight for key change initiatives such as new products.

Event Escalation: All events are required to be reported to risk, legal, and senior management in accordance with our global event escalation policy. Depending on the severity and type of event, the escalation process could include Compliance, regional Privacy Officer, the Chief Risk Officer, the Chief Operating Officer, other executive committee members, and even the CEO, and our board. Regulatory and compliance breaches are reported to the relevant regional compliance committee.

SOC1: The Operational Risk team manages Russell Investments' annual SOC1 report and quarterly bridge letters. The SOC1 report scope includes investment advisory, management and implementation services for institutional clients and separately managed accounts. The regions in scope include Australia, New Zealand, Japan, US and UK.

Business Continuity Program: Russell Investments has developed a Global Business Continuity Program that encompasses the following major components: Business Continuity, IT Disaster Recovery, Incident Management/Crisis Management and Life/Safety and Facilities. Each of these components has its own methodology, plan, and communication path.

The Business Continuity component contains a plan for each key global or regional business unit. A business unit's business continuity plan documents key processes and covers emergency response, notification and work-around procedures in the event of a loss of internal or external resources such as technology/applications/data, location, staffing, and vendors. Each business unit validates its business continuity plan periodically through a combination of annual review, tabletop scenarios and integrated off site recovery exercises.

Russell Investments' IT disaster recovery plan addresses recovery of the infrastructure (data, hardware, applications and voice services) and executing the technology recovery plan. Various strategies are in place to meet variable recovery time objectives of critical business processes. The overall business continuity recovery strategy is based on the criticality of all business processes, with each business process ranked by its BIA Criticality Rating and Recovery Time Objective ("RTO"). RI backs up or replicates its electronic records based upon the RTO assigned to an application; this application RTO is determined by the most time-sensitive business process which depends on that application.

The Incident Management Plan documents how RI will respond to incidents in a coordinated and timely manner to address immediate needs and stabilization after event occurrence. The Incident Management Team and relevant business units are responsible for providing RI executive management with the information necessary to facilitate the company's overall business recovery. The Global Incident Management Team, along with key business unit representatives, meet at least annually to conduct a tabletop exercise, using a scenario based on realistic, relevant events.

Vendor Risk Management Program: Russell Investments' vendor risk management framework utilizes a combination of decentralized vendor management, centralized risk management and focused sourcing & procurement. Key components to managing vendors include business unit ownership of vendor activities, sourcing and procurement assistance, and risk management oversight.

Within Russell Investments' business units, dedicated resources provide daily monitoring and oversight of key vendors. In addition, Global Sourcing and Procurement (GSP) provides assistance to business units with identifying a solution set (including third-party options) and establishing the appropriate combination of services and pricing. These efforts are the "first line of defense" to mitigate vendor risks and identify areas of service improvement.

As a "second line of defense", Operational Risk Management leads an independent vendor oversight and risk management program to provide risk assessment, risk monitoring and oversight of critical vendors that Russell Investments prioritizes as strategically important partners. The vendor/third party service provider risk approach and program include vendor management governance and baselines standards that business units are expected to follow. The goal of the enhanced program is to identify vulnerabilities in Russell Investments' value chain where third-party errors or failures might negatively impact Russell Investments, our funds, or our clients.

Insurance Program: Russell Investments purchases commercial insurance around the globe as a hedge against operational risk and to meet various regulatory and business requirements. The following objectives form the basis of our approach:

Diagram 9: Insurance Program Objectives

Operational Risk Governance

Russell Investments maintains an Operational Risk Committee which is a subcommittee of the Global Risk Management Committee. Chaired by the Director of Global Operational Risk, the Operational Risk Committee is responsible for the oversight of operational risks inherent in Russell Investments' global businesses and legal entities, including people, process, technology, vendor, regulatory and reputational risks. The Operational Risk Committee and regional risk committees assist the Global Risk Management Committee in its oversight of Russell Investments' operational risk governance structure, operational risk management framework and policies, and operational risk tolerances and limits.