Russell Investments

Pillar 3 Disclosures
2018

Russell Investments UK Lower-Tier Holdco Limited

Russell Investments Systems Limited

- Russell Investments Limited
- Russell Investments Implementation Services Limited
- Russell Investments France
- On-Line Partnership Group Limited

(collectively “Russell Investments”)

Contents

1. Background

The disclosure requirements under 'Pillar 3' (as defined by the 'Basel II' Framework issued by the Basel Committee on Banking Supervision) were implemented in the European Union (EU) as part of the Capital Requirements Directive (CRD) which was approved in 2006.

Pillar 3 is applicable to firms in scope of the Directive within the European Union. Within the UK, the Directive is implemented by both the Prudential Regulatory Authority (PRA) and Financial Conduct Authority (FCA) via the General Prudential Sourcebook (GENPRU) and the Prudential Sourcebook for financial institutions i.e. Banks, Building Societies and Investment Firms (BIPRU).

The detailed requirements are set out in chapter 11 of BIPRU sourcebook in the FCA Handbook.

The CRD framework consists of three Pillars:

- Pillar 1 sets out the minimum capital requirements for credit, market and operational risk;
- Pillar 2 requires firms in scope and their respective regulators to determine whether additional capital should be held by a firm to cover its risks identified which are surplus to Pillar 1 requirements; and
- Pillar 3 requires a firm to disclose certain details relating to risks identified, capital retention and the firm's risk management approach.

This document contains the Pillar 3 disclosures required by BIPRU 11 in respect of Russell Investments Systems Limited ("RISL") and therefore seeks to meet the Pillar 3 disclosure requirement.

Please note that the following disclosure has not been audited and does not constitute and should not be recognised as any form of financial statement which can be relied upon as presenting the financial circumstance of RISL or any associated legal entities, registered within the UK or otherwise.

BIPRU 11 prescribes that a firm (Russell Investments) may omit a number of the required disclosures if this information could be regarded as proprietary, confidential in nature or immaterial. Proprietary information is that which, if shared, would undermine Russell Investments' competitive position within the marketplace and information is considered confidential where there are obligations binding Russell Investments to confidentiality with its stakeholders e.g. investors, vendors and counterparties etc. The level of materiality is essentially based on the principle that its omission or misstatement could influence the assessment or decision of an end user relying on that information for the purpose of making decisions of an economic nature.

The disclosure will be reviewed on an annual basis and in instances where the organisation has experienced significant change (internally and externally), the disclosure will be reviewed more frequently. Disclosures will be published as soon as practically possible after the review and update of the Russell Investments ICAAP (Internal Capital Adequacy Assessment Process) documentation.

2. Group Structure and Classification

Russell Investments comprises: (1) RISL, a wholly owned subsidiary of Russell Investments UK Lower-Tier Holdco Limited ("RIULHL"), a United Kingdom company. RIULHL is wholly owned by Russell Investments Group Limited, a Cayman Islands company, which is wholly owned by private equity firms TA Associates and Reverence Capital Partners in the United States of America and (2) RISL's wholly owned subsidiaries.

Following is a description of the business and regulatory status of RISL and each of its subsidiaries:

- Russell Investments Systems Limited (RISL) – RISL is a UK holding company and is unregulated. It provides corporate support (Research, Finance, Legal, Compliance, Risk Management, Internal

Audit, IT and other corporate support) and equipment (both purchased and rented) to its subsidiaries. RISL does not itself engage in any regulated activities.

- Russell Investments Limited (RIL)[1] – RIL provides investment advice and discretionary investment services in the UK, Netherlands, Germany, Italy and other countries through branch offices. RIL also markets these services in the Middle East through a representative office in Dubai.
- Russell Investments Implementation Services Limited (RIISL)[2] – RIISL provides implementation services which include transition management and the execution of certain trading strategies.
- Russell Investments France (RIF)[3] – RIF provides investment advisory, discretionary investment and implementation services in France.
- On-Line Partnership Group Limited (OLPG) – OLPG is a UK holding company. It provides corporate support (Research, Finance, Legal, Compliance, Risk Management, Internal Audit, IT and other corporate support) and equipment (both purchased and rented) to On-Line Partnership Limited (OLPL), Whitechurch Network Limited (WNL) and In Partnership Financial Advisers Limited (IPFAL). OLPG is unregulated.
- On-Line Partnership Limited (OLPL)[4] – OLPL provides back office and Compliance services to Independent Financial Advisers (IFAs) in the UK.
- Whitechurch Network Limited (WNL)[5] – WNL provides back office and Compliance services to IFAs in the UK.
- In Partnership Financial Advisers Limited (IPFAL) – IPFAL provides back office and Compliance services to mortgage advisers in the UK.

Within this version of the Pillar 3 disclosure, the term "Russell Investments" refers to RISL and all subsidiaries, unless stated otherwise.

3. Governance Structure

Russell Investments has a corporate governance structure in place to ensure that oversight of risk, and relevant actions, are managed at the correct organisational level according to the level of risk and the impact of that risk occurring.

The Russell Investments Boards are responsible overall for the operation of their respective businesses and the management of relevant operational, investment, regulatory, reputational, financial and other risks.

To assist in the discharge of the Boards' responsibilities, each Board relies upon a number of committees which hold both global and regional remits. Each Board has approved Terms of Reference or Committee Charter for these and other committees that identify their respective composition, responsibilities, authorities and operating requirements, including escalation procedures within Russell Investments and up to the group level.[6]

In addition, the Chief Executive Officers of RISL, RIL, RIISL have established a European Executive Committee (EEC). The EEC comprises of the CEO and members of his/ her Senior Management team.

Together, the Board, Committees and EEC assist the Board in discharging its responsibilities.

In addition to the governance overview provided (above), the following information provides an insight into some of the committees and functions that make up and support the Russell Investments governance structure.

[1] FCA ref. 122282, BIPRU
[2] FCA ref. 415353, BIPRU
[3] AMF ref. GP-12000010
[4] FCA ref. 192638 (Exempt CAD)
[5] FCA ref. 190859 (Article 8 Exempt CAD)
[6] Other Board committees include the Product, Investment, Securities Valuation and Events Committees.

Global Committees

Global Risk Management Committee (GRMC)

The Global Risk Management Committee (GRMC) oversees Russell Investments' risk management practices. The GRMC was established by the Executive Committee (EC) to assist executive management in its oversight of (i) Russell Investments' risk governance structure, (ii) Russell Investments' risk management framework and policies regarding investment, credit and operational risks, and (iii) Russell Investments' risk tolerance and limits.

The GRMC, acting in its oversight capacity, is authorised and directed to review and evaluate investment, credit and operational risks as well as oversee risk management practices.

To assist the GRMC in undertaking its duty as per its Terms of Reference (ToR), the following three committees have been created to manage the three respective risk disciplines and report directly into the GRMC.

- *Investment Risk Committee (IRC)*
- *Credit Risk Committee (CRC)*
- *Operational Risk Committee (ORC)*

Investment Strategy Committee (ISC)

This committee is primarily responsible for the oversight of investment related activities at Russell Investments as well as reviewing investment performance and establishing investment policy and strategy. The committee is authorised by the Executive Committee and its responsibilities relate to all legal entities and businesses operated by Russell Investments worldwide.

Trade Management Oversight Committee (TMOC)

TMOC is a subcommittee of the ISC and is responsible for providing the framework for construction, review and evaluation of Russell Investments' trade management policies and procedures and for making recommendations, when appropriate, to senior management and the individual trading groups to improve trading practices. The subcommittee is responsible for reviewing best execution practices, transaction cost measurements and the broker ranking, review, selection and appointment process.

Regional Committees

European Executive Committee (EEC)

The EEC is responsible for the management of Russell Investments in the EMEA region, which includes all RISL activities. The EEC takes decisions at a strategic level covering Russell Investments' activities in the EMEA region, and therefore implicitly manages risks that affect the business at a strategic level. The EEC reports into the RISL Board as and when required.

EMEA Risk Management Committee (ERMC)

The EMEA (Europe, Middle East, and Africa) Risk Management Committee receives its mandate from the EMEA Chief Executive Officer (CEO), and the Global Risk Management Committee (GRMC) to assist executive management in its oversight of the risks of the EMEA businesses.

The ERMC, acting in its oversight capacity, is authorised and directed to review, evaluate, monitor, and oversee operational risks for the businesses managed by the London office 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 authorised to escalate investment and credit risks to the Investment Risk Committee (IRC) and the Credit Risk Committee (CRC). For items not covered by functional risk committees (i.e., Operational Risk Committee (ORC), IRC and CRC), the ERMC is authorised to report to the GRMC and the European Executive Committee (EEC). The ERMC is also authorised to report on all items covered by the committee itself to the RISL, RIL & RIISL Boards.

Event Analysis Group (EAG)

The Event Analysis Group (EAG) is responsible for reviewing "Events" that occur within Russell Investments or impact Russell Investments subsidiaries. A reportable Event is an unexpected occurrence (policy breach, process or technology failure, human error etc.) that has caused or has the potential to cause a variety of consequences which can impact the achievement of the business objectives. These consequences may be financial, operational, reputational or regulatory in nature and may impact Russell Investments, Russell Investments funds, and/ or clients.

Information on Events are reported to the ERMC and GRMC (amongst several other governance forums).

4. Material Risks

As part of Russell Investments' risk management exercise, a review was undertaken to determine the material risks to Russell Investments.

The following is an overview of those risks;

Operational Risk

Operational risks may arise from failures in: people (i.e. human errors); process (i.e. inadequate or failed internal controls); technology (i.e. systems failure). Operational errors can arise from either internal failures or an inability to respond effectively to an adverse external event.

Russell Investments' control environment is established to minimise the risk of operational errors occurring. Russell Investments also uses insurance to mitigate against the financial impact of extreme error events.

Russell Investments manages the risk of third party failure by implementing a vendor management program. This includes detailed Service Level Agreements (SLAs), regular and formal performance reviews.

Market Risk

Russell Investments does not engage in proprietary investment strategies or have a principal book, market making or non-agency trading. Balance sheet market risk is restricted to investments in collective investment schemes managed by Russell Investments or affiliated companies (principally Russell Investments Ireland Limited). These instances are typically limited in scale and infrequent, representing short term seeding for new investment products or contractual arrangements with clients.

The majority of Russell Investments' income derives from asset based fees; movements in market values will have a direct impact upon Russell Investments' fee income.

Credit Risk

Russell Investments' cash balances are maintained on deposit in an instant-access account with a global banking institution which currently has an AA- Fitch credit rating[7]. The banking institution's credit rating is subject to regular internal review. Other liquid assets are in the form of short term trade debtors (which are well diversified) and intercompany receivables. Russell Investments does not hold cash for investment purposes and its exposure to interest rate risk is not deemed as material.

[7] Source: HSBC website as at 01 May 2019.

Business Risk

Loss of Major Client and/ or Multiple Clients

The departure of multiple large clients could have a significant impact on company revenue, particularly if experienced in tandem with significant market downturn.

Clients are managed and monitored closely by dedicated client service teams with management information provided to Senior Management on a frequent basis to ensure resources are diverted to protect the firm's revenue position.

Liquidity Risk

Liquidity risk is the risk that RISL may be unable to meet its payment obligations as they fall due.

Russell Investments' liquidity needs are entirely separate from client liquidity requirements. All client money is held by custodians, which are appointed either by Russell Investments' funds or by the clients themselves (e.g. segregated account). Russell Investments has a liquidity risk management framework in place whereby the Finance department has the responsibility to ensure that the firm has sufficient liquid resources available to meet its liabilities as they fall due.

Russell Investments maintains liquid resources which are adequate with regards to quantity and quality, to ensure that its liabilities can be met as they fall due.

Risk Mitigation

The Russell Investments Board and Senior Management have determined that if any of the aforementioned risks were to materialise, they (the Board and Senior Management) would consider appropriate action to be taken as per each respective risk.

As Russell Investments' risk mitigation plans are deemed sensitive and proprietary, Russell Investments has opted to omit details pertaining to the Board's remedial actions within this disclosure.

5. Capital Adequacy

Russell Investments maintains sufficient capital to ensure that it has the resources to:

- Provide a sound basis for the continued operation of the business
- Meet cash flow requirements
- Provide a sufficient buffer in the event of unforeseen issues
- Allow the business to close itself down in an orderly approach if management decide to do so
- Ensure compliance with regulatory capital requirements at all times

The Pillar 1 capital requirement is determined as the higher of the fixed overhead requirement or sum of credit and market risk requirements.

The Pillar 2 capital requirement is determined where various risks are identified and assessed accordingly, allowing the firm to calculate and set aside appropriate capital to manage those risks identified.

Russell Investments' Pillar 2 risk capital requirement is currently greater than its Pillar 1 requirement. Subsequently, Russell Investments holds capital reserves which are sufficient to cover the Pillar 2 requirement. These capital requirements have been assessed as part of the Internal Capital Adequacy Assessment Process (ICAAP).

This exercise (i.e. the Pillar 2 calculation) was performed, taking into account all legal entities in scope i.e. owned by Russell Investments UK Lower-Tier Holdco Limited ("RIULHL") as at 31 December 2018.

The additional capital retained (i.e. the difference between the Pillar 1 and 2 calculation) is an amount deemed to be appropriate, should Russell Investments be required to manage any unforeseen risks which crystallise, resulting in a financial impact to Russell Investments. This provision ensures that Russell Investments would not require the option to draw on regulatory capital.

As demonstrated in the below table, Russell Investments holds sufficient capital, as at 31 December 2018, to satisfy the Pillar 2 requirement as calculated.

Capital Adequacy and Planning	(£000)
Pillar Type:	
Pillar 1 *(includes Fixed Overhead Requirement (FOR))*	18,623
Pillar 2 *(includes capital set aside for risks identified)*	21,749
Capital Surplus Analysis:	
Current Total Capital	38,758
Current Surplus	17,009

Russell Investments Tiered Capital Structure

RIULHL's consolidated capital resources as at 31 December 2018 are highlighted below. The capital position of RIULHL comprises of Tier 1 Capital only. RIULHL has no innovative Tier 1 instruments.

Capital Category (and Constituents)	(£000)
Core Tier 1 Capital:	
Called up Share Capital[8]	27,531
Share Premium Account[9]	-
Reserves	15,721
Sum Tier 1 Capital	**43,352**
Tier 2 Capital[10]	-
Tier 3 Capital[11]	-

6. Internal Capital Adequacy Assessment Process (ICAAP)

Ownership of the ICAAP

The ICAAP is ultimately the responsibility of the Board. The EMEA Risk Management Committee (ERMC), as the risk-related decision making body in EMEA, is responsible for the review and maintenance of the ICAAP. The Finance team provide financial information and notify Risk Management if there is a material change in Russell Investments' financial circumstance to facilitate ongoing scenario planning, analysis and testing. Compliance also assist in the preparation of the ICAAP by highlighting relevant changes to the regulatory environment.

Review and Challenge

During the development of the ICAAP, Risk Management has worked with Senior Management to assess and understand the risks that Russell Investments faces in each of its business areas.

Adoption and Use of the ICAAP

The process of developing, reviewing and signing off the ICAAP ensures that Senior Management are aware of the major risks that the business faces, and continues to identify mitigating actions that can be taken if needed.

[8] Share capital is the Allotted, called up and fully paid
[9] Not applicable to RIULHL
[10] Not applicable to RIULHL
[11] Not applicable to RIULHL

7. Remuneration

As per the Pillar 3 disclosure requirement, a firm is to disclose certain information with regards to compensation categories of staff whose professional activities have a material impact on the firm's risk profile.

For Russell Investments' remuneration disclosure, please refer to the "*Russell Investments' Remuneration Disclosure*" document which is available via the firm's following web address.