

# A RISK-BASED APPROACH: TRANSITION MANAGEMENT SERVICES



## Transition disclosure document – EMEA

Established in 1936, today Russell Investments (“we”, “our”) provides investment services and asset management to institutional and individual investors worldwide. Russell Investments gave birth to its transition management service in the early 80s in response to the investment needs of our own investment business – i.e. to manage the risks and costs of transitions within our own multi-manager structure.

Our approach to transition management was developed based on investment management principles and objectives. We believe this founding principle naturally aligns Russell Investments objectives with our clients’ objectives. To this end, Russell Investments employs a pure-agency, multi-venue trading approach which has neither principal trading facilities nor interest in any exchange or trading venue. Our trade execution platform was designed with two goals: facilitating best-execution and eliminating hidden costs, risks and conflicts often associated with other business models. As a pure agent, Russell Investments is an advocate of transparency, disclosure and competition focused on improving portfolio performance.

Russell Investments’ performance measurement and reporting is also based on investment management principles. Russell Investments led the industry in the creation of a performance benchmark for transitions (the T Standard) and more recently has worked to establish a standardised industry performance database. Russell Investments was an original T Charter adopter and a proponent of the principles underlying the T Charter, which we have also imbedded into our transition process.

Russell Investments began offering transition management to third-party clients in 1991. In the time since we’ve witnessed wide adoption of transition management by institutional asset owners. While our trading capabilities and techniques have evolved over the last 40 years, our basic philosophy of focusing on investment management objectives, and our transparent, pure-agency business model have remained unchanged.

This disclosure document provides information regarding Russell Investments’ Transition Management service. Specifically, it covers:

- Contracting Method / Business Model
- Execution Method
- Remuneration
- The Russell Investments Team
- Conflicts of Interest

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## Contracting method / Business model

Russell Investments has structured its transition management business to operate as an investment manager. Consequently, clients generally contract with the FCA authorised UK firm Russell Investments Implementation Services Limited (RIISL) in its capacity as an investment manager. At the client's option, we have the ability to also contract as a broker. Regardless of the type of contract, Russell Investments uses the same trading approach, holds itself to the same fiduciary standard of care and provides the same level of compensation transparency. Our legal approach and business model are reflected in our contracts, as well as our internal governance and controls, all as described in more detail below.

## Execution method


Russell Investments always acts as a pure agent when executing trades for clients, never as counterparty to a trade. When executing trades, Russell Investments follows a best execution policy which is made available to clients.

We refer to our approach as "pure" agency because we do not operate principal accounts or trade with affiliates who are acting in a principal capacity, nor do we engage transactions where Russell Investments represents both sides of a trade, except where prices are determined with reference to external, verifiable market prices. While not a legal term of art, we believe the term "pure" agent distinguishes our practices from other firms who claim to act as "agent" while engaging in transactions such as those described above. Importantly, our agency approach spans all asset types that are traded including, but not limited to, equities, fixed income, foreign exchange and derivatives.

## Remuneration

As noted above and in Russell Investments' trading practices we disclose all fees and take no other compensation from transition activities. The only form of remuneration is through fully disclosed, pre-agreed commissions on assets traded or a project management/asset management fee. At all times, these fees are negotiated and fully disclosed within our contract.

It is important to know that these fees include all dealing charges. Russell Investments Implementation Services, LLC (RIIS LLC) collects commissions on securities traded (equities, fixed income and/or spot currency trades) and from this commission we pay all event management, execution and clearing costs. We do not receive any additional revenue associated with the trading from any execution venues.



*EMEA team having a combined transition management experience of over 63 years, at an average of 12.7 years.*

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## The Russell Investments team

Russell Investments has a global transition management capability, including teams based in Seattle (global headquarters), London and Sydney. Russell Investments employs over 80 investment professionals focused on transition management and related functions. Globally, the transition management team includes 18 transition specialists (5 of whom are based in London) with a combined industry experience of 361 years (an average of ~20 years), with tenure at Russell Investments extending up to 30 years (average Russell Investments tenure 14.1 years). The combined transition management experience is ~221 years (an average of 12.3 years) with the EMEA team having a combined transition management experience of 63 years, at an average of 12.7 years.

Our transition management team forms part of the wider implementation services team. The services provided by this global team include exposure management (such as policy implementation, currency hedging, cash equitisation, downside protection strategies etc.), specialty asset management (transition management and interim asset management) and execution management (such as agency equity and fixed income execution services, commission recapture and agency foreign exchange):

- **Core Transition Team - Portfolio Management:** Russell Investments designates at least one portfolio manager to be individually accountable for each transition, including developing and managing a customised transition strategy, serving as a single point of contact for the client before, during and after the transition, and ensuring the smooth coordination of all internal and external parties. In addition, one or more secondary portfolio managers will be assigned to each event to provide support to the lead portfolio manager, depending on the complexity of the event.
- **Core Transition Team - Quantitative Research:** Quantitative analysts assist the portfolio manager in developing transition strategies designed to minimise implementation shortfall which defines the total performance impact of the transition. They also work with the Russell Investments technology team to develop new applications and enhancements to Russell Investments' proprietary analytical platform.
- **Core Transition Team - Trading:** Although you will contract with the
- FCA authorised UK entity, RIISL, all trading is executed through its affiliate, Russell Investments Implementation Services, LLC. (RIIS), which is a US-based SEC Registered investment adviser and broker-dealer, member FINRA, SIPC. All trading functions are centralised in Seattle. However, RIIS traders work closely with and take instructions from the portfolio managers in London to refine and implement the transition strategies. They source liquidity from numerous venues (including but not limited to: direct exchange access, crossing networks, dark liquidity pools, broker desks) to ensure best execution, execute the daily transactions and work with our investment operations team to ensure all trade settlement activity runs smoothly.
- **Support Team - Currency Management:** The foreign currency trading team assists the portfolio manager in developing currency strategies suitable for the transition event. They subsequently oversee all aspects of the currency transactions associated with the transition.
- **Support Team - Derivatives Management:** A team of derivatives specialists works with the portfolio manager to help develop hedging and securitisation strategies for transitions which require the use of derivatives to achieve desired exposures.

In addition, there are a vast number of Russell Investments associates that support the transition team as and when needed. They include our global investment operations team, running a 'follow-the-sun' model, which ensure that settlements occur in a timely manner and corporate actions are addressed. Additional support groups include legal, risk, compliance, technology, senior management and sales / client service.



*Our pure-agency, multi-venue trading model, T-standard performance reporting and transparency in remuneration all serve to keep our service objectives aligned with those of our clients.*

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## Conflicts of interest

As noted above, Russell Investments' business model and trading approach operate on investment management principles, including fiduciary obligations to act in each client's best interests and to identify and manage conflicts of interest. Our pure-agency, multi-venue trading model, T-standard performance reporting and transparency in remuneration all serve to keep our service objectives aligned with those of our clients. We believe this approach enables our clients to evaluate us objectively and positions them to avoid many of the conflicts of interest inherent in the transition management industry.

That said, Russell Investments regularly reviews, evaluates and manages actual, potential and perceived conflicts of interest in our business. The entities involved with the transition assignment as set forth in our contracts are subject to regulatory oversight. As such, we have defined conflict policies that are provided to regulators on request and made available to clients. Details of conflicts of interest which are specific to transition management and how they are managed are outlined below:

### Improper use or disclosure of information

A potential for conflicts arises where Russell Investments' Transition Team has access to information which would be useful in the context of Russell Investments' asset management business. Examples include acting in advance of public disclosures or taking advantage of information about underlying money managers. The risk of this kind of conflict is limited as a result of Russell Investments' structure. Where Russell Investments does carry out asset management activity, for the vast majority of the portfolios stock picking is the responsibility of delegated third-party money managers. In this framework, Russell Investments portfolio managers are unable to act upon any knowledge of trading activity being executed on behalf of transition and implementation clients.

Further, Russell Investments' trading desk only deals on an agency basis and not as principal. All transition trades initiated by the transition team use program numbers to anonymise information received by the traders. Portfolio managers in the asset management business do not have access to trades carried out by the transition team.

### Crossing of trades between transition clients (including transitions for Russell Investments funds)

Where a cross between transition clients is deemed appropriate, the trade will be executed at an observable market mid-point price to ensure no preference is given to either client. The mid-point price is based on (an) independent pricing source(s) and records are maintained in order to provide clients with this information post event.

### Managing transitions for Russell Investments funds, separately managed accounts as well as for third party clients

There may be the perception that Russell Investments might provide preferable treatment to one client or a certain client type over another. However, to assure that all

clients and accounts are treated equally, Russell Investments has implemented several policies and procedures:

- Russell Investments' Order Placing and Order Execution policies govern all trading and are applied and enforced regardless of client type.
- RIIS also applies a consistent trade order aggregation and allocation policy. When identical securities are traded simultaneously for different clients, if terms and conditions are the same, orders are aggregated, and allocations made pro-rata to ensure all clients are treated equally. When the trade direction is opposite, crossing only occurs if both clients benefit equally. Again, this policy applies to all clients.
- Each transition event is assigned a dedicated transition portfolio manager, who is in charge of coordinating with all parties involved during the transition. Whether the event is for an internal or external client, the portfolio manager will use the same methodology and systems for developing and implementing a transition strategy. The goal of minimising implementation shortfall and managing risk remains the same. Therefore, nothing in the investment process changes based on the client being internal or external.



*Russell Investments has implemented several policies and procedures to ensure that all clients (be they internal or external) are treated equally*

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## Choice of execution venue(s)

- Where Russell Investments is compensated via commissions (see remuneration section), the commissions the client pays Russell Investments include both our remuneration as well as the cost of execution. As with any business model that generates revenue from commission payments, a potential conflict of interest exists whereby an investment manager may choose the lowest cost venue(s). In response to this potential conflict:
- Russell Investments is evaluated by its clients on a performance basis and therefore accountable for best execution. Additionally, Russell Investments monitors all of its execution venues and retains documented evidence of this. Further, Russell Investments formally evaluates the efficacy of all trading venues at least bi-annually and also retains an independent third-party Transaction Cost Analysis (TCA) provider to evaluate the effectiveness of our execution.
- In today's markets execution-only costs have become very similar for most securities across different venues, and as such the conflict has, to a large degree, abated.
- If we find that a particular venue's execution is poor, we cease trading with that venue regardless of the cost. Russell Investments aligns pay away costs with venues across different countries to create as much consistency as possible.
- If, for any reason, a client is not comfortable with a commission-based remuneration structure, they can always choose to remunerate Russell Investments via an investment management fee. Commissions to cover execution costs would still be payable, but Russell Investments would only be remunerated from the investment management fee, not the commissions.

## Use of affiliates during a transition

When affiliated companies are used to provide services to each other, a potential conflict of interest may exist. Russell Investments has structured our execution capabilities into a centralised trading function that is leveraged by all regional entities. For transition management, Russell Investments manages transitions through the regional business units, delegating trading to the centralised business unit, RIIS. To assure that this relationship does not result in situations where clients may be disadvantaged in any way, we have created a governance structure that includes several oversight committees:

- **Affiliated Business Oversight Committee (ABOC):** this group governs the use of affiliates and assures that these affiliates are providing services that are commensurate with the same cost and performance levels as could be achieved by an external provider
- **Trade Management Oversight Committee (TMOC):** this committee reviews the execution quality achieved across all trading to assure that processes and procedures in place produce appropriate results

Specifically in EMEA, use of affiliates is only permitted under MiFID II if in the client's best interest. Russell Investments' ABOC ensures that RIIS trading does not advantage any one client over another. Moreover, with regard to both external and internal clients, Russell Investments engages third-party Transaction Cost Analysis (TCA) providers to evaluate Russell Investments' execution results. For internal events, quarterly execution quality reports from the TCA providers are available for Fund boards review. Finally, the fund portfolio management teams have discretion not to engage the Russell Investments transition team for a transition, if that better serves a Fund interests.



*A strong governance process exists at the senior management level to ensure not only the quality of the affiliated services, but that clients are not disadvantaged.*



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## Compensation on brokerage commission created during a transition

In general, Russell Investments is compensated on the brokerage commission created during a transition. As such, a conflict may exist where Russell Investments would be incentivised to maximise trading to increase revenue. However, Russell Investments does not choose the securities that are traded in the course of a transition. Trading is driven by the difference between the existing holdings in the account(s) where we assume oversight and the securities selected by the new manager(s). The key area to review in such a case is the securities that are retained (which are not traded) and making sure that these “in-kinds” (common securities between legacy and target portfolios) are maximised.

Russell Investments ensures that any in-kinds are transferred and not traded, as trading would create unnecessary expense and risk to the client. If any in-kinds were needlessly traded we would view this as an ‘error’ and the client would be made whole, assuming there was a loss as a direct result of the additional trading. Russell Investments performs pre-transition analysis which estimates the levels of retentions and a final analysis prior to an event with latest information. This is then compared with the ‘actual’ results after an event is completed and any discrepancy would be investigated and visible to the client.

In addition, Russell Investments can provide both the client and their agents with full disclosure into the trading data and details involved in the transition, including time-stamped execution data. Using this data, one can compare buy and sell transactions to ensure that Russell Investments did not inflate the amount traded by limiting the retained securities. In the rare case where the same security is bought and sold during a transition, Russell Investments will disclose this to the client prior to execution.

## No direct commission to Russell Investments on futures trading in a transition

Russell Investments trades derivatives as an investment manager and introducing broker. As such, Russell Investments does not collect additional commissions on futures trades over and above those charged by the futures broker. At times, this has been perceived as a potential conflict in that Russell Investments might not recommend a strategy that includes trading futures because there is no direct remuneration from this activity.

The decision whether to use futures or not in a transition is an investment decision and one that is reviewed for relevance for every transition. These strategies are reviewed with the client and receive peer review before any such strategy is implemented.

When pricing the commission rates on securities that will be traded, Russell Investments takes into account all of the instruments and asset types we intend to trade in order to achieve the best result for our clients.

## Important information

### For professional clients only.

Unless otherwise specified, Russell Investments is the source of all data. All information contained in this material is current at the time of issue and, to the best of our knowledge, accurate. Any opinion expressed is that of Russell Investments, is not a statement of fact, is subject to change and does not constitute investment advice.

**The value of your investments may fluctuate. Results achieved in the past do not offer any guarantee for the future. Past performance does not predict future returns.**

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M-03468 EXP: 26-Feb-2026 EMEA-2525 TV1954