

INVESTMENT
STEWARDSHIP
REPORT

2023



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A letter from our President and Chief Investment Officer

Last year was yet another chapter in the ongoing narrative that the 2020s will be a historic decade defined by inflation, global conflict, climate events, market volatility and uncertainty. The trajectory of 2024 is set to follow suit, with pivotal elections involving half the world's population.

While disruption brings its own set of challenges, it also paves the way for innovation and shifts in the investment landscape. Artificial intelligence, once a sci-fi notion, now revolutionises our decision-making processes. The advent of remote work and digital economies has transformed business models, sparking unparalleled innovation and growth.

At Russell Investments, we've navigated 88 years of profound change. We don't just recognise change - we anticipate it, aligning our strategies with our clients' evolving aspirations. Our commitment to informed decision-making, which incorporates new sources of information and data, is driven by our belief that responsible investing and good stewardship are integral to achieving our clients' aspirations. This dedication serves a singular goal: enhancing investment outcomes.

Given our scale and multi-manager platform, we have a differentiated dataset that can help drive the solutions our clients are looking for across themes such as climate and sustainability. As a signatory to the principles for responsible investing since 2009, our investment approach has been informed by thoughtful consideration of sustainability-related risks and opportunities rooted in financial materiality and fiduciary duty. This approach is supported by a robust stewardship strategy and an integrated active ownership programme. As the world considers how to transition to a more sustainable economy, we believe this is more important than ever.

At COP28, global leaders reaffirmed their commitment to urgent climate action, highlighting the imperative of collaboration and innovation to mitigate the effects of climate change with an agreement signalling the "beginning of the end" of the fossil fuel era. We firmly believe that by enhancing our climate investing capabilities, we can better manage our risks, uncover new investment opportunities, and enhance the resilience of our portfolios. In order to meet client goals and expectations, we persistently refine our practices, expand our toolkit, and enhance our reporting capabilities. For example, in 2023 we refined our process for evaluating private markets managers, launched a Net Zero Dashboard to support funds which have net zero targets, and expanded the metrics available on our portfolio management platform.

Our innovation is equally evident in our solutions design. In 2023, we launched bespoke active equity strategy consisting of a diversified set of best-in-class managers that stand to gain from and contribute to the transition economy. Additionally, we have introduced a newly launched global unlisted infrastructure fund, which invests in assets providing essential services to enable, sustain or enhance economic activity and standards of living, producing quantifiable sustainable outcomes.

More details on our responsible investing practices and client-centred approach are contained in this 2023 report. This report has been elaborated by the range of responsible investing experts embedded throughout our organisation and reviewed and approved by me, as President and Chief Investment Officer, as well as the Board of our UK entities. We welcome your feedback and questions.

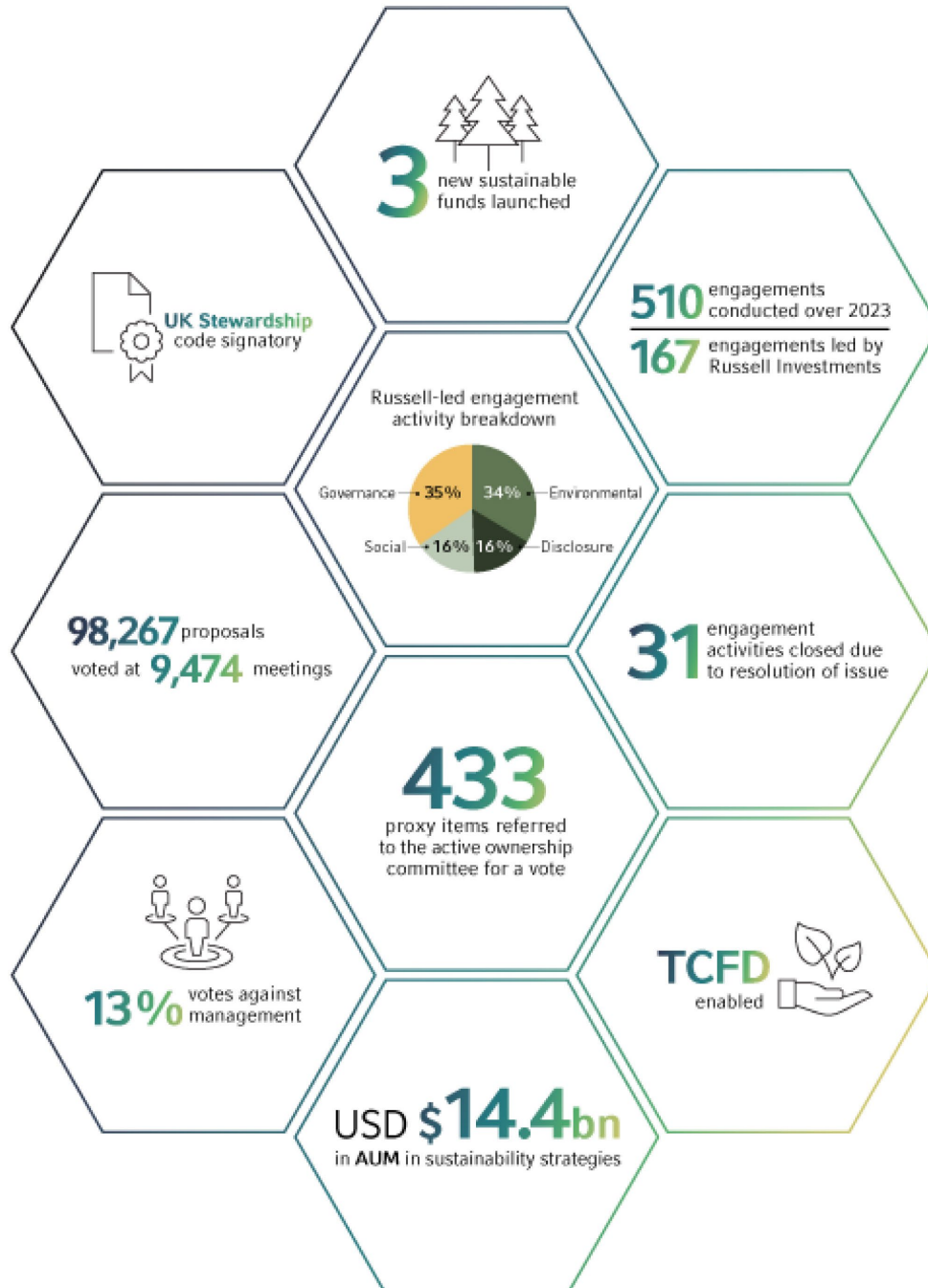


Kate El-Hillow

President and Chief Investment Officer, Russell Inv



2023 milestones and highlights



Data as at 31 December 2023.



What comes next – looking ahead

As committed stewards of our clients' capital, we continue to advance our responsible investing capabilities; integrating and evolving best practices to respond to changing market conditions. Our strategies are developed by experienced practitioners in alignment with our larger purpose of improving financial security for clients. The key pillars of our approach include:

Sustainable solutions

Evolving and developing new investment solutions is fundamental to our focus on meeting our clients' needs. We leverage innovation and industry leading insight to set total portfolio-level direction that aligns to targeted financial and sustainable outcomes.

In 2023, we launched bespoke and commingled strategies, targeting both listed and private markets, with a range of sustainable and carbon-related goals, and we have laid the groundwork for additional solutions in 2024. Our sustainable multi-manager solutions will continue to leverage our market-leading overlay capabilities, while moving beyond carbon-focused metrics to include forward-looking sustainability projections. In addition, we developed our sustainable transition stock universe and have begun work on evolving our decarbonisation strategies to meet the rapidly evolving needs of our clients and the broader industry. These efforts support our global solutions platform and underpin our ability to customise and deliver tailored outcomes for clients.

ESG Integration

We have put meaningful resources into improving the data and analytics available to our portfolio managers who seek to monitor and manage material long-term risks. Among our achievements: streamlining the transmission of ideas and information from portfolio management to active ownership and using improved data and scenarios on climate risk to enhance our asset allocation capabilities. We expect the use of data and the development of analytical tools to continue in 2024.

To deliver planned multi-manager funds with sustainable objectives, our analysts continue to expand our list of recommended products within our sustainable manager research universe. While investment opportunities remain narrow, we are closely monitoring emerging themes such as natural capital efficiency and biodiversity.

Our work to strengthen responsible investing practices in fixed income, real assets, private markets, and alternatives also remains a priority. In 2023, we focused on strengthening our approach to sustainability risk management and active ownership in fixed income while in private markets we capture the benefit of heightened ESG-related due diligence. In 2024, we will continue to push for greater transparency and disclosures from our managers, particularly with regard to sustainability risks and stewardship activity.

Climate risk management

Climate risk management remains an evolving area in financial markets. We are committed to working in collaboration with other leading industry participants to formulate best practice principles and frameworks. In 2024, we will continue to leverage our partnership with a specialist climate risk provider, adding incremental climate risk metrics into our investment practice and extending our collaboration with industry peers. In addition, we intend to expand our climate risk research to cover additional asset classes. We will continue to provide training to our associates to keep them abreast of complex and emerging concepts and systems related to climate risk management. Similarly, we will maintain outreach, consulting services, and education on climate risk for our clients.

Active ownership

In 2024, our current three-year active ownership strategy cycle will conclude. We aim to review the results achieved by our programme and update our approach to better align with market trends, client objectives, and ambitions. As part of this review, we will closely examine our collaborative efforts and policy advocacy activities to amplify the impact of our active ownership efforts. Additionally, in 2024, we will start our active participation in Nature Action 100, aiming to contribute to the transition towards a more sustainable and resilient global economy.

Transparency and reporting

As reported in last year's submission, our Enterprise Risk Management System ('ERMS') risk engine is now in use across all our portfolios, enabling total solution analysis for clients, supporting crosscutting multi-lens risk analysis which encompasses multi-asset combinations. We will continue to enhance this dataset and analytic competence to improve client reporting across the board including, but not limited to, ESG metrics and objectives. We can report that enhancing client transparency is well underway with more expected over the course of 2024.

While ESG data and metrics have improved considerably in recent years, we believe that gaps still exist. Continued enhancements will contribute to helping clients further understand our stewardship efforts, as well as the risks and opportunities within their mandates.

Training and development

To stay at the forefront of sustainable investing, Russell Investments has provided training and development on ESG matters to both clients and internal associates.

We have made training available to our clients through webinars, conferences, and whitepapers, enabling them to understand the significance of ESG factors in investment decisions. We have also greatly enhanced the internal training provided to our associates. We have developed a comprehensive ESG curriculum that covers foundational ESG principles, analysis, and integration into investment processes. We are fully committed to continuous enhancements and updates of our training. We believe that by providing comprehensive education to both clients and associates, we can continue to meet the changing needs of our clients, enhance our investment processes, and maintain our position as a leader in the investment industry.



1. Russell Investments – Who we are

- ✓ UK Stewardship Code – Principle 1
- ✓ Japan Principles for Responsible Institutional Investors – Principle 1
- ✓ The New Zealand Stewardship Code – Principle 1



1.1 Our purpose

Russell Investments is a global investment firm founded in 1936. Today, it is headquartered in Seattle, USA, with operations in the EMEA, North America and Asia-Pacific regions. Russell Investments provides investment management, advisory and implementation (execution) services. As of 31 December 2023, we had over 1,300 associates supporting this delivery and global assets under management (AUM) of \$297.6bn USD. Our business is built on the partnerships we develop with our clients, helping them achieve their objectives.

Our organisation’s purpose is to improve financial security for people. We seek to bring an unrivalled investment toolkit to bear on our clients’ biggest challenges, always with client interests and preferences at the fore. Russell Investments’ priority for addressing our clients’ most pressing financial challenges is achieved through open architecture outcome-oriented solutions and embedding efficient risk management techniques. This focus drives our business growth and rapid innovation, and it is built on our combination of market-leading capabilities:



Manager Research



Portfolio Implementation



Asset Allocation



Total Solutions Management



Portfolio Construction

Since 1980, the primary business has served institutional and retail clients around the world. Russell Investments works with clients of all sizes, from individuals to smaller organisations to large governmental entities, who desire bespoke solutions and business plans that call for continued focus, investment growth, and innovation.

1.2 Culture

At Russell Investments, our culture is built on a commitment to a foundational set of beliefs and practices. These provide a rich combination of real-world guidance and an overarching ethic within which we conduct our business. These are captured in the following four pillars:

1. Corporate values: Russell Investments' people and values are the foundation of our company and the reason for our long-term success.
2. Sustainable work practices: Our mission is to identify and reduce our impact on the environment by ensuring that our day-to-day procedures are carried out in the most sustainable manner.
3. Diversity, equity, and inclusion: We believe that diversity, equity, and inclusion in the workplace drives better performance. Diversity is integral to our long-term growth.
4. Community involvement: We are committed to supporting the communities in which we live and work.

1.3 Values

Our core corporate values are summarised below:



We behave with non-negotiable integrity.



We value our people and are dedicated to fostering a meritocracy. Our pillars are inclusivity, humanity, fairness, hard work, creativity, teamwork, fun and humility.



We play to win by exceeding client expectations and executing with a sense of urgency and purpose.



We are passionate investors who embrace intellectual curiosity and rigor.

These values, which are aligned with our purpose, emphasise putting our clients' interests first while nurturing a high integrity, people-oriented culture of innovation, all driving our stewardship practices.

Sustainable work practices and community involvement have been central to our corporate practices from the company's inception. We believe that the effective management of diverse ideas and perspectives brings richness to our culture and increases our ability to provide innovative solutions to our clients, while adding value for our shareholders and community. Our efforts to promote diversity, equity and inclusion are detailed in section 7.2.

We recognise that staying committed to our purpose requires not only a strong culture but also disciplined and reinforcing processes focused on oversight and accountability. We provide a detailed description of the governance processes that are currently in place to deliver on this purpose as part of section 3.

1.4 Investment philosophy

Russell Investments' open architecture investment approach was developed in the 1960s out of a recognition that the investment management industry lacked a robust standard of accountability for both institutional and individual investors. As a pioneer of the investment consulting industry, we sought to bring objectivity and fiduciary responsibility to every aspect of building and managing an investment programme. As the architect of the first multi-manager funds, our objective was to bring resources, focus and a client-centric view to some of the most important questions investors face - the informed selection and oversight of sub-advisers, cost-and risk-aware portfolio implementation, and the creation of truly outcome-oriented investment solutions.

Multi-manager investing has risen in popularity over the years but not all follow the same approach. We believe that open architecture investing is optimally effective when done with appropriate care as it enables independent oversight, drives innovation in stewardship practices, enforces greater transparency and accountability among investment managers and service providers, and facilitates the appropriate incorporation of ESG considerations in investment decision making.

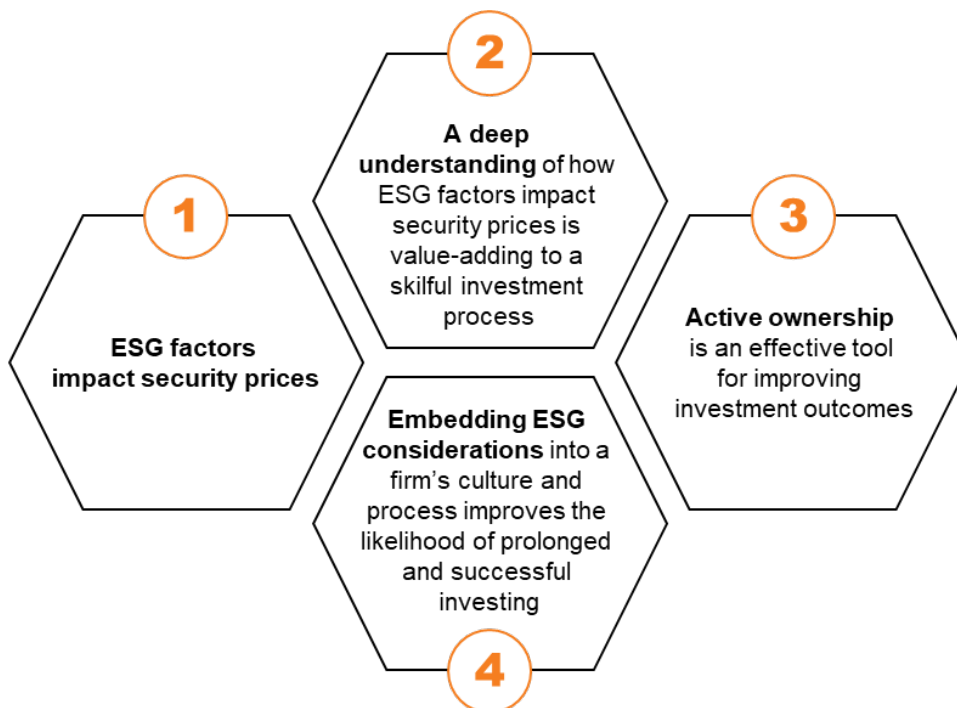
Russell Investments has established a set of investment beliefs to provide a transparent and objective framework that facilitates an effective internal decision-making process and guides the delivery of all our investment solutions.

1. **Outcome-orientated investing** – Investment decisions are more impactful when they directly serve the achievement of client objectives, respect for client preferences, and consideration of client circumstances.
2. **Open architecture** – Independent consideration, informed diversification and intelligent implementation of the right asset classes, best investment strategies, and appropriate risk levels give investors the highest chance of success. The ability to identify skill-based and differentiated processes is a critical edge.
3. **Investment discipline** – Investors require rigorous decision-making paradigms, excellent analytical capabilities, and an ability to think and act independently to deliver superior outcomes.
4. **Effective risk management** – Real-time measurement and management of risk must be integrated into the management of portfolios and solutions to ensure well-informed decision-making.
5. **Dynamic portfolio management** – The ability to adapt to changing market conditions is critical to investment success.
6. **Specialisation leads to investment decisions at the point of greatest insight** – Informed and objective assessment of investment excellence is foundational to the success of open architecture, both in selecting sub-advisers and in evaluating and enhancing internal capabilities.
7. **Independent review and control support a strong investment process** – The best investment processes incorporate objective analysis and feedback to identify opportunities to improve.
8. **Responsible investment** – Russell Investments believes ESG factors can have a material impact on investment outcomes.

1.5 Our responsible investing framework

Responsible investing is at the heart of our investment beliefs. As a global investment solutions provider, we believe that investing responsibly can help to deliver attractive investment returns and meet client objectives in the long term. To this end, we execute an integrated responsible investing practice across the firm. This practice is founded on the following set of four core beliefs, codified in 2015:

Exhibit 1: Responsible investing beliefs



Source: Russell Investments, for illustrative purposes only.

Drawing on the core responsible investing beliefs outlined above, Russell Investments has developed formal policies on responsible investing, climate change risk and sustainability risks, which are regularly reviewed to ensure they develop in accordance with market best practice, as described in the “Reviewing Policies and Processes” section of this report. These policies are the foundation of our efforts to efficiently integrate ESG considerations into our investment manager evaluation process, our portfolio management, our advisory services, and when implementing proprietary solutions as desired by clients. Further information regarding how we integrate stewardship and investments can be found in section 4.

1.6 Our history of innovation

At Russell Investments, our service and product set has evolved over time in response to the most pressing threats to our clients’ financial security. We have built our business on the strength of a series of innovative products and services aimed at helping institutional and individual investors invest intelligently through an open architecture investment approach. These have promoted better functioning in financial markets by raising standards around the quality and transparency of investment management, as well as the development of powerful tools for investors everywhere.

This began more than half a century ago, in response to the difficulty pension plan sponsors had in monitoring and evaluating performance, Russell Investments promoted the ‘Deitz’ method for calculating time-weighted returns, invented by Peter Deitz, the company’s first Director of Research. Following on from that success, we pioneered the practice of vetting and evaluating active asset managers on behalf of our clients - the manager research practice that has been our most well-known capability for decades. As we introduced manager research to various markets in Europe and Asia, we were able to establish and spread a de facto global standard of investment excellence by evaluating their investment product according to common criteria and analytical tools. As major clients around the world used our recommendations to determine allocations, this contributed to significant improvements in quality standards and in investment practices across the industry.

When evaluating active asset managers, we detected gaps in the available benchmarks in the marketplace. This led to industry-leading efforts to develop styles, style indexing, smart beta and, ultimately, factors. Our innovations in style indexing have established practices, such as transparent selection, float-adjusted capitalisation weighting and comprehensive market coverage, which have been subsequently adopted across index providers. This work was foundational to establishing factors and styles as fundamental to understanding market-wide risk and return.

In addition to these contributions, we were early adopters of global investing and multi-asset portfolios as methods to balance risks and capture market opportunities. Our experience of managing multi-manager portfolios led to new approaches to tackling trading inefficiencies associated with the use of multiple sub-advisers. These innovations retained the benefit of using multiple best-in-class managers while lowering risk and cost and enabling substantial customisation. Our solutions have given Russell Investments a birds-eye view into the needs of our clients and consistently reinforced our commitment to improving financial outcomes on their behalf.

We have found many opportunities to protect investors against avoidable cost and implementation slippage. We introduced commission recapture in the early 1990s, followed by transition management and the development of the T-standard - a proprietary measure to transparently show the success of a manager transition and its costs. As we continue to innovate our trading practices, we have been asked by our clients and industry partners to engage with regulatory bodies to ensure that the business of investing can carry on with fewer roadblocks and detours, while also assuring appropriate incentive structures and good outcomes for asset owners.

Our innovation in the space of responsible investing has been no less impactful to supporting our clients’ outcomes. Our manager research analysts began evaluating active money managers on ESG integration in 2014, followed by researching decarbonisation data and quantitative methods in 2015, enabling the launch of our first low carbon funds in 2017. We continue to evolve our understanding of climate risk, most notably through the use of climate models and scenario analysis, now facilitated by our partnership with the climate model provider Planetrics.

These examples, which are core to our investment approach and services to clients, address clear and present financial risks and have driven improvements in the function of the financial system overall. We hope that our culture, responsible investing beliefs, policies, and practices enable effective processes which serve the best interests of our valued clients, who are described in the section below.



2. Russell Investments – Who we serve

- ✓ UK Stewardship Code - Principles 4, 5, 6
- ✓ Japan Principles for Responsible Institutional Investors - Principle 6
- ✓ The New Zealand Stewardship Code – Principle 8, 9



2.1 Our clients and assets under management

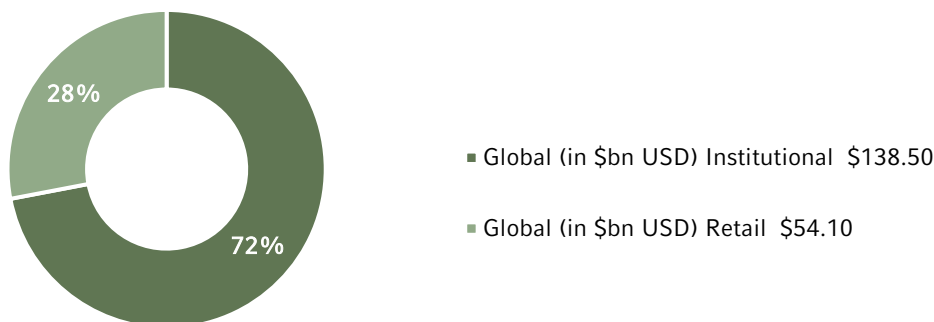
Russell Investments’ focus is on solving our clients’ problems, and in doing so we proactively seek their views on stewardship and responsible investing. We take account of our clients’ needs through formal surveys as well as more informal feedback at client meetings.

The investment time horizon is a crucial consideration that plays into both the optimal investment solution and the approach to stewardship. The majority of our clients’ assets are invested to meet long-term objectives. These clients include defined benefit pension schemes, individual retirement savings plans, and insurance company assets, but even within broad groups of clients, the time horizon may vary. For example, for defined benefit clients, the investment time horizon can range from around 10 years for more mature schemes to 30 years or more for younger schemes open to future accrual.

Our stewardship efforts cover both our retail and institutional client base, as well as all asset classes. For each client, we seek to understand their overarching objectives, attitude to risk, limitations (i.e., liquidity requirements) and time horizon. Our investment process is designed to tailor our products, solutions, and stewardship activities accordingly. This point is addressed further in section 2.4 below.

Details of our global client base are provided in the charts below.

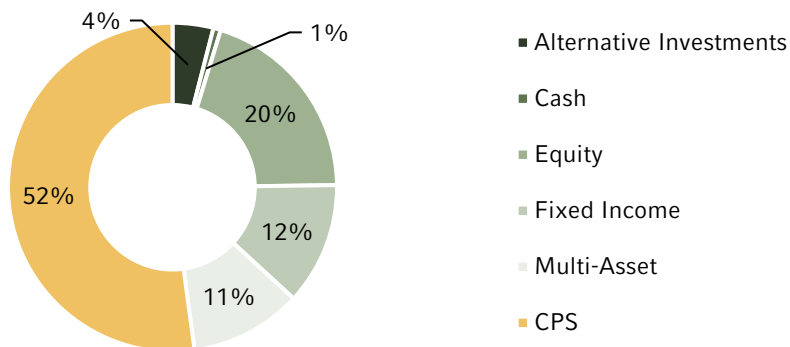
Exhibit 2: Assets under management split by retail vs institutional (\$USD)



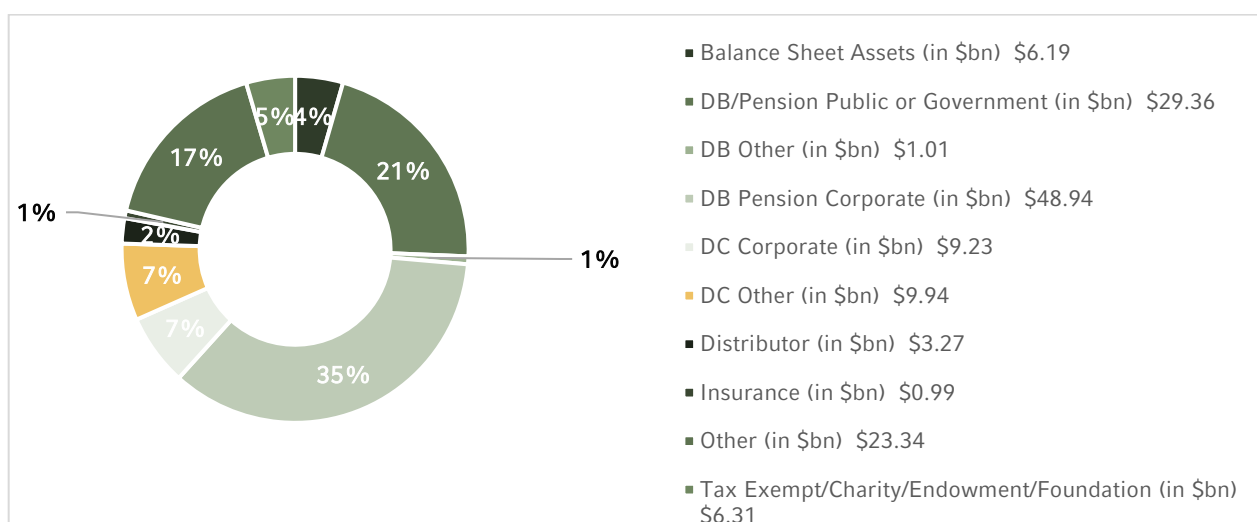
Source: Russell Investments, data as at 31 December, 2023. AUM subject to exchange rate conversions and rounding to the nearest \$USD.

Exhibit 3: Institutional assets breakdown by client type and asset class

Global: Institutional breakdown by asset class

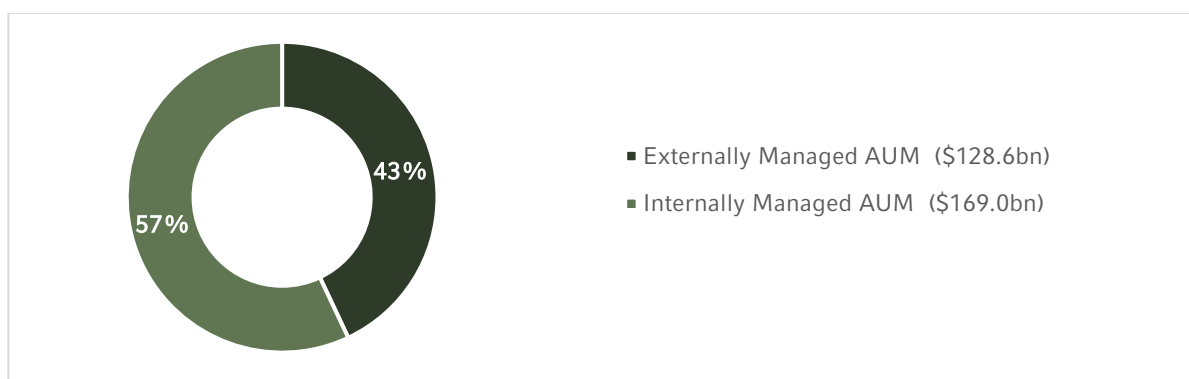


Global: Institutional breakdown by client type (\$USD bn)



Source: Russell Investments, data as at 31 December, 2023. AUM subject to exchange rate conversions and rounding to the nearest \$USD.

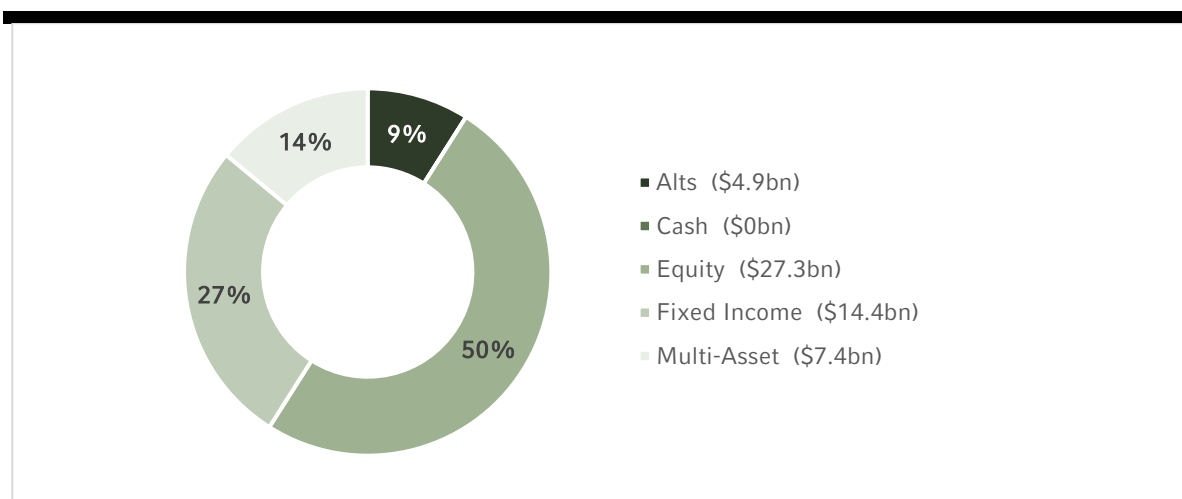
Exhibit 4: Assets under management split by internally and externally managed (\$USD bn) ¹



Source: Russell Investments, data as at 31 December, 2023. AUM subject to exchange rate conversions and rounding to the nearest \$USD.

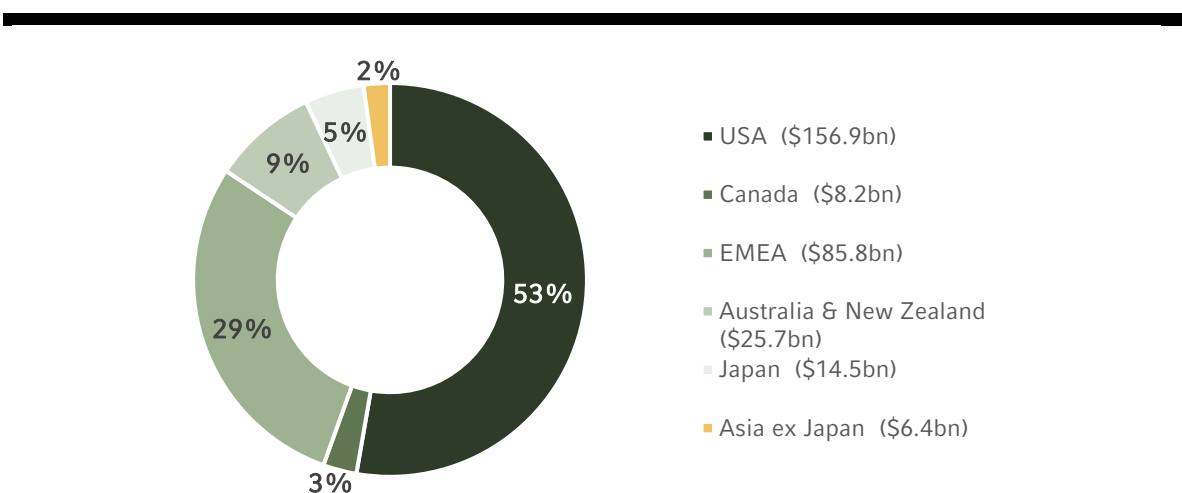
¹ Externally managed assets relate to assets managed by third party investment managers. Internally managed assets related to assets managed in house including that of overlay services mandates.

Exhibit 5: Retail assets broken down by asset class (\$USD bn)



Source: Russell Investments, data as at 31 December, 2023. AUM subject to exchange rate conversions and rounding to the nearest \$USD.

Exhibit 6: Assets under management split by geographies (\$USD bn)



Source: Russell Investments, data as at 31 December, 2023. AUM subject to exchange rate conversions and rounding to the nearest \$USD.

2.2 Client communications

Once a client is onboarded, we ensure their assets are managed in line with their goals and expectations through ongoing due diligence updates and regular update meetings. In our experience, interest in stewardship and active ownership matters is growing, and we have made various training sessions available to our client base. Our process for client reporting combines information and knowledge from three separate groups.

- Our globally integrated Investment Division (ID), which has a vast array of core data and analytics used for investment decision making, process monitoring, and regulatory body reporting.
- Business groups servicing our clients in each region who understand specific client reporting needs.
- Our localised compliance and legal teams review client specific reporting before it is released to ensure each report is fair, accurate and in line with local regulatory disclosure requirements.

In practice, applicable data and analytics used by the investment division in its day-to-day decision making is made available to our business teams servicing clients. Depending on the area of reporting, senior members of our ID work closely with our client service teams and clients directly, to help determine the scope, frequency, detail, and format of reporting for each client and how to efficiently pull that together from our core data set. Information is scrutinised at multiple levels by senior members of the ID, including the Investment Practice Team, client service teams and by local compliance teams, before reports go to clients in specific regions.

Institutional client communication

We want our clients, at all times, to be well informed about the assets under our stewardship. We meet with our institutional client base on a regular basis (quarterly in most cases) and where appropriate seek to incorporate their views into our investment and stewardship policy. In addition, we provide our institutional client base with the following sets of reports/statements:



Training

We provide our client base with both ad hoc and scheduled training. Ad hoc training typically takes place at trustee meetings, whereas scheduled training takes place in the form of in-person seminars or webinar sessions. Further details are provided below.



Quarterly performance reports

Bespoke client reports are produced on a quarterly basis and report on the performance of the assets, liabilities and funding level. They also provide details of asset class allocation and performance attribution. In addition, these reports provide details of portfolio positioning and the rationale for any changes that have been made or are planned. Our reports include key ESG metrics (where relevant) – including ESG risk scores and carbon footprint – and we have recently enhanced these to provide clients with a breakdown over time, showing how their portfolios are evolving moving forward.

Equity level ESG report

We offer a detailed ESG report for all equity allocations which sets out the ESG risk score and carbon footprint metrics. Additionally, it provides a distribution of ESG risk scores and details of the highest and lowest ESG scores. Fixed income metrics are also available, and we are developing systems to make these more readily accessible.

Active ownership disclosures

This annual Investment Stewardship Report provides an opportunity to showcase in detail our commitment to active ownership, our approach, annual proxy voting statistics and observed trends. This detail includes engagement statistics and case studies as well as details of our industry collaborations.

Stewardship policies and procedures

All policies and procedures with regard to stewardship are available to our clients on our webpage. These are updated on an annual basis as further detailed in section 7.4.

Annual implementation statement

We have worked with our UK institutional client base to produce an implementation statement. This is produced on an annual basis and coincides with the scheme's reporting year-end. This statement reports on how the scheme has complied with the policies and objectives set out in the Statement of Investment Principles.

Retail end-consumer communication

Communication with end-retail consumers of our products differs from the above. Information about our stewardship practices, such as manager and investment research processes and ESG integration and operational proficiency, is made available during the institutional clients and professional intermediaries RFP and due diligence reviews. Once onboarded, the following pieces of information are also available to our professional clients and (where relevant) their retail customers:



Training

We provide informative literature on our website and at periodic events we host to ensure our clients are well informed about our investment products, their performance and how they have been affected, or may be affected, by market influences. We also provide training and literature in relation to broader investment outcomes associated with our products; this includes the impact of ESG issues.



Fund factsheets

Fund factsheets containing key information about the fund, including performance objective, benchmark, portfolio statistics breakdown (country weighting, volatility, etc.), are made publicly available on our website and via third-party data warehouses (e.g., Financial Express and Morningstar).

Key Investor Information Document (KIID)

In Europe, KIID documents are made available for all funds on our website and via third-party data warehouses and all appointed sub-distributors. The KIID details the fund's objective and investment policy, risk-reward profile, applicable charges and past performance data.

Prospectus

The fund prospectus which contains all fundamental information about the fund, its structure, any management restrictions and a list of available share classes, is made available to all investors and potential investors on our website, third-party data providers and all appointed sub-distributors.

Active ownership disclosures

We showcase our commitment to active ownership, our approach, annual proxy voting statistics and observed trends this annual report. Readers will also find engagement statistics, case studies and details of our industry collaborations.

Monthly and quarterly performance reports

In addition to the fund documentation mentioned above, live performance data is also made available by a number of third parties, including Morningstar and Financial Express. We provide further information around fund management and current holdings to supplement this publicly available data. Clients with significant assets under management may also request bespoke reporting, which we would provide on a monthly or quarterly basis.

2.3 Client training and development

As outlined above, we provide a range of training and development opportunities to our client base to ensure that our clients are kept abreast of key industry developments. Our annual training schedule is informed through feedback received through client surveys, as well as topics chosen by our in-house experts. We also provide timely insights and thought leadership content through our blog and regular LinkedIn updates.

In 2023, we hosted a range of webinars, some of which are highlighted below:

<p>Summer Forum (EMEA)</p> <p>At this half-day event, Russell Investments experts presented on the following topics: private markets, macro Environmental, Social and Governance (ESG) themes and sustainable equity.</p>	<p>PMI Roundtable on ESG (EMEA)</p> <p>After the turmoil of 2022, has your Scheme's focus on ESG changed? Do you expect to alter your investment approach over the next 1-2 years?</p> <ul style="list-style-type: none">• How much emphasis are you putting on;• Endgame planning and de-risking• Incorporating ESG into Fixed Income• Private markets and impact investing• Investments aligned to what is 'morally good' i.e. biodiversity• Improving your scheme's governance	<p>ENGAGE 2023 (Canada)</p> <p>At these 2-day events hosted in Toronto and Seattle, discussions focused on the markets, product innovations and business solutions. Looking at how our institutional heritage, proven investment process and manager research work together to help achieve client goals.</p>
<p>Global Market Outlook</p> <p>Quarterly updates sharing our strategists' market expectations throughout 2023.</p>	<p>ESG Survey webinar (North America)</p> <p>In this panel session hosted by Russell Investments, invited managers examined:</p> <ul style="list-style-type: none">• How are ESG trends reshaping Japanese investor preferences and affecting their dialogue with fund managers and internal decision making?• Major priorities and considerations when integrating ESG into investments, from asset allocation to portfolio monitoring.• How do institutional investors think the priorities will change in the next five years?	<p>Energy Transition webinar (North America)</p> <p>In this webinar, our experts discussed a systematic approach to repositioning concentrated stock positions in a custom, tax-efficient manner by using separately managed accounts, covering:</p> <ul style="list-style-type: none">• The risks and challenges of concentrated stock positions.• A detailed case study of a tax-efficient personalised portfolio transition to direct indexed strategies.• How we work with advisers to develop a custom transition plan and implement ongoing tax-management.

2.4 Taking account of client preferences

- ✓ UK Stewardship Code – Principle 6, 7
- ✓ Japan Principles for Responsible Institutional Investors – Principle 6
- ✓ The New Zealand Stewardship Code – Principle 3

We pursue integration of stewardship and investment through a process that ensures all key allocation decisions aim to support client objectives, while incorporating an understanding of material ESG risks and other financial factors over relevant time horizons. Every solution starts with an understanding and incorporation of client preferences, and our approach to stewardship and responsible investing is globally consistent, integrated and applied across funds and asset classes. All else equal, clients with the same objectives will be provided with the same investment solution based on our best global investment ideas and insights. However, in creating solutions for a diverse client base, all else is often not equal.

To ensure solutions are optimally engineered to meet clients' objectives, we apply a three-step investment approach referred to as Design, Construct, Manage (DCM). Our responsible investing beliefs and practices infuse and inform each of these three steps through the building blocks of our strategic asset allocation, market and manager research, portfolio management and active ownership capabilities.

Design

Central to the "Design" step of our investment process is taking client preferences into consideration. We work with investors to establish clear objectives and to fully understand their preferences, constraints, and circumstances. We use this shared knowledge to develop an investment roadmap, or strategic asset allocation (SAA). This SAA is built around not only required investment returns, but also time horizons, risk appetite, fee sensitivity, liquidity requirements and other critical conditioning factors that determine the most appropriate mix of asset classes and return drivers.

Time horizon, for example, may have a substantial impact on the mix of assets selected and their allocations, particularly allocations to illiquid assets or return sources whose payoff may be seen as most reliable over a longer time-period (but less so over shorter horizons). Our forecasting engine supports this by providing a framework to create an array of scenarios which extend decades into the future and help model asset combinations and the liabilities they seek to meet.

A standard approach in the production of capital market assumptions (CMAs) is to assume key economic and financial variables will revert over time to their long-run trend or reach some sort of "equilibrium" level. However, incorporating climate change risk into these long-run assumptions is a more complex task requiring probabilities around a range of future climate scenarios. To enhance our climate modelling toolkit, Russell Investments partners with an external specialist climate risk provider. We produce baseline CMAs that use historical long-run economic and financial data (referred to as "climate-agnostic CMAs"), and then "shock" the CMAs based on different climate scenarios and their potential economic and financial impact to produce "climate-adjusted CMAs". This enables us to compare the potential portfolio impact of different climate scenarios across asset classes and exposures.

We use our climate-adjusted CMAs to support clients who want to further understand the impact of various climate scenarios on their asset allocation decision. This enhancement also supports clients' climate related disclosure requirements including the Task Force on Climate-Related Financial Disclosures (TCFD).

We continue to evolve our modelling and reporting capabilities and expect to re-evaluate climate vendors in 2024.

Construct

In the "Construct" step of our process, we seek to find and utilise investible strategies that capture the desired SAA exposures, while adding excess return through superior active management. We believe that best-in-class investment managers can identify idiosyncratic mispricing of individual securities and possess the ability to outperform the market through their selection skill and dynamism. We maintain world-class teams of manager due diligence analysts dedicated to identifying and recommending investment managers with an established edge in their area of focus.

In our open architecture approach, our manager research due diligence teams rigorously pit the best strategies against each other in our efforts to find the very best. An evaluation of ESG considerations is an integrated component of that process across asset classes and geographies. Russell Investments' portfolio managers select their active managers from among those ranked highly by our manager research teams, using the ESG assessment in balance with other key criteria, while staying mindful of return targets and profile and exposure data. When constructing multi-manager portfolios with sustainable objectives from a combination of sustainable or thematic sub-adviser strategies, portfolio managers use an additional framework to validate the sustainable credentials of those products. This framework is referred to as I-P-O, for Intent, Process, and Outcome. Additional details can be found in section 4.1.

Manage

The objective of the “Manage” step of the process is to keep the solution on track for success by adapting to changing market environments, effective risk management and attention to efficient implementation. We believe that the fear and greed cycle allows for a robust, process-driven, dynamic management approach, to both add incremental return and to manage risk more effectively over the course of a market cycle. We dynamically manage portfolios with this process by including both quantitative and qualitative analysis of material risks. When this analysis creates a high conviction short term view, we are able to take tactical positions. This is most common when markets have moved to extremes of fear or greed.

Like market, credit, and other risks, portfolio managers seek to identify, assess, and manage financially-material sustainability risks on an ongoing basis within portfolios. Potential risks are identified using available metrics, proprietary scoring, manager reporting, and through communication with sub-advisers. As one means of addressing these risks, our portfolio managers work hand-in-hand with our active ownership team to ensure alignment with our proxy voting and engagement activity. We share more details on these practices in the section on “ESG Integration”.

2.5 Climate aware solutions

As responsible investing has become more complex, Russell Investments’ approach has evolved to address those complications for institutional investors. While a decade ago a climate-aware portfolio may have revolved around divesting from fossil fuels, our approach today is much more nuanced. Now, we take a total-portfolio view within our multi-manager framework.

The question, “What is my exposure to fossil fuels?” is comparatively straightforward to measure and deliver. In contrast, today’s solutions deliver more refined exposures, leveraging manager strategies and proprietary techniques to enable outcomes such as:

- Reduced carbon intensity of the portfolio (emissions per unit of revenue)
- High carbon intensity but with increased investments in green technology or better alignment to the EU taxonomy
- High exposure to energy companies but with company engagement to encourage the adoption of science-based targets, an approach that has the advantage of promoting adaptability and supporting the energy transition

Each of these strategies are “climate-aware” but expressing or capturing a different opportunity set. Through Russell Investments’ unique multi-manager, open architecture platform, we can provide transparency across the total portfolio, as well as the capability to manage exposures. Our portfolio managers assist clients to take advantage of this evolution in approaches, while still maintaining a focus on outcomes at the total portfolio level.

Carbon managed portfolios

While our process is cognizant of material climate-related risks and opportunities across all our funds, Russell Investments has a history of collaborating with clients to build mandates that explicitly target climate-related outcomes such as carbon emissions, fossil fuel reserves, and renewable energy exposure.

As of 31 December 2023, we had approximately \$14.4bn (USD) in carbon-managed strategies. Our products are built with proprietary carbon metrics and other relevant data, and currently we measure carbon footprint using Scope 1 and 2 emissions and data from MSCI. These strategies are often built with a specific carbon reduction target such as a 25% or 50% reduction in weighted average carbon intensity (WACI) or exposure to fossil fuel reserves.

In 2023, we saw the launch of three new sustainable funds across global markets and asset classes.



Case study – Sustainable fund launches in 2023

Sustainable Global Equity Fund

This multi-manager fund benefits from diversified exposure to five highly-rated specialist sustainable equity managers. Thoughtful portfolio implementation targets sustainable and net zero objectives and reduced risk without lowering expected return. The fund was launched in separate account and commingled structures in EMEA and in Australia.

The Global Unlisted Infrastructure Fund

The Global Unlisted Infrastructure Fund (GUI) is designed to be a global and sector- diversified open-end, core-plus fund, investing exclusively in the infrastructure asset class. The Global Unlisted Infrastructure Fund invests in assets that provide essential services to enable, sustain or enhance economic activity and standards of living, producing quantifiable ESG outcomes.

Buy and Maintain Fixed Income Fund

The Russell Investments Buy and Maintain strategy uses a highly customisable approach to build investment-grade credit portfolios that aim to deliver smooth and predictable cash flows to investors. The flexibility of the strategy enables investors to set and achieve sustainability objectives, without compromising desired cash flows.

Target setting

Russell Investments recognises climate change as a challenge to the global economy and the financial well-being of our clients. We collaborate with investors to address this challenge and achieve positive financial outcomes. In 2021, we joined the Net Zero Asset Manager initiative (NZAMi) to support the global goal of net zero GHG emissions by 2050. As part of this commitment, we work in partnership with interested clients to develop a roadmap for portfolio alignment. So far, our activity has focused on:

- performing due diligence on target setting methodologies,
- continuously raising knowledge across teams through regular climate training,
- building new capabilities for tracking progress against climate targets, and critically,
- defining our approach for determining whether portfolios are aligned to a net zero by 2050 objective.

Our initial targets were established in 2022, and we expect to provide an update on these in 2027. Below we provide an outline of the learnings so far.

Update on our approach to net zero target setting

While the concept of net zero by 2050 is relatively clear (i.e., global greenhouse gases emitted should be less than greenhouses gases captured or removed from the atmosphere by the year 2050), it is less clear what this means for investment portfolios.

Useful frameworks from industry bodies can be leveraged for aligning a portfolio with net zero ambition, but approaches vary considerably. As a starting point, we researched several methodologies, with a focus on the NZAMi “approved” target setting methodologies: SBTi for Financial Institutions, the Net Zero Asset Owner Target Setting Protocol, and the Paris Aligned Investor Initiative’s Net Zero Investment Framework (NZIF).

A consistent theme across alignment frameworks is the need for multiple levels of targets. In particular, there is growing recognition that achieving an overall portfolio carbon reduction or temperature score alone is not sufficient. Instead, most frameworks propose a combination of an overall portfolio target, for example a carbon reduction or temperature alignment, in addition to increasing the percent of the portfolio’s assets that can be considered aligned. Engagement also has an important role, as a mechanism to encourage decarbonisation of the largest emitters in the portfolio rather than simply divesting from them. This is because decarbonisation of the largest emitters will be critical to achieving the global goal of net zero. Finally, increasing investments in climate solutions is also consistently noted as an important consideration, and potentially another explicit target to be set.

For our own targets, we primarily leverage the PAII Net Zero Investment Framework (NZIF), supplemented with our own insights. After reviewing a range of approaches, we found the NZIF to be reasonably constructed and sufficiently adaptable to our use case which covers many investment styles, geographies, and asset classes. As noted above, this framework will include multiple levels of targets. The bottom-up asset alignment measures what percent of securities in the portfolio are aligned, aligning, committed to aligning, or not aligned. To date, we have

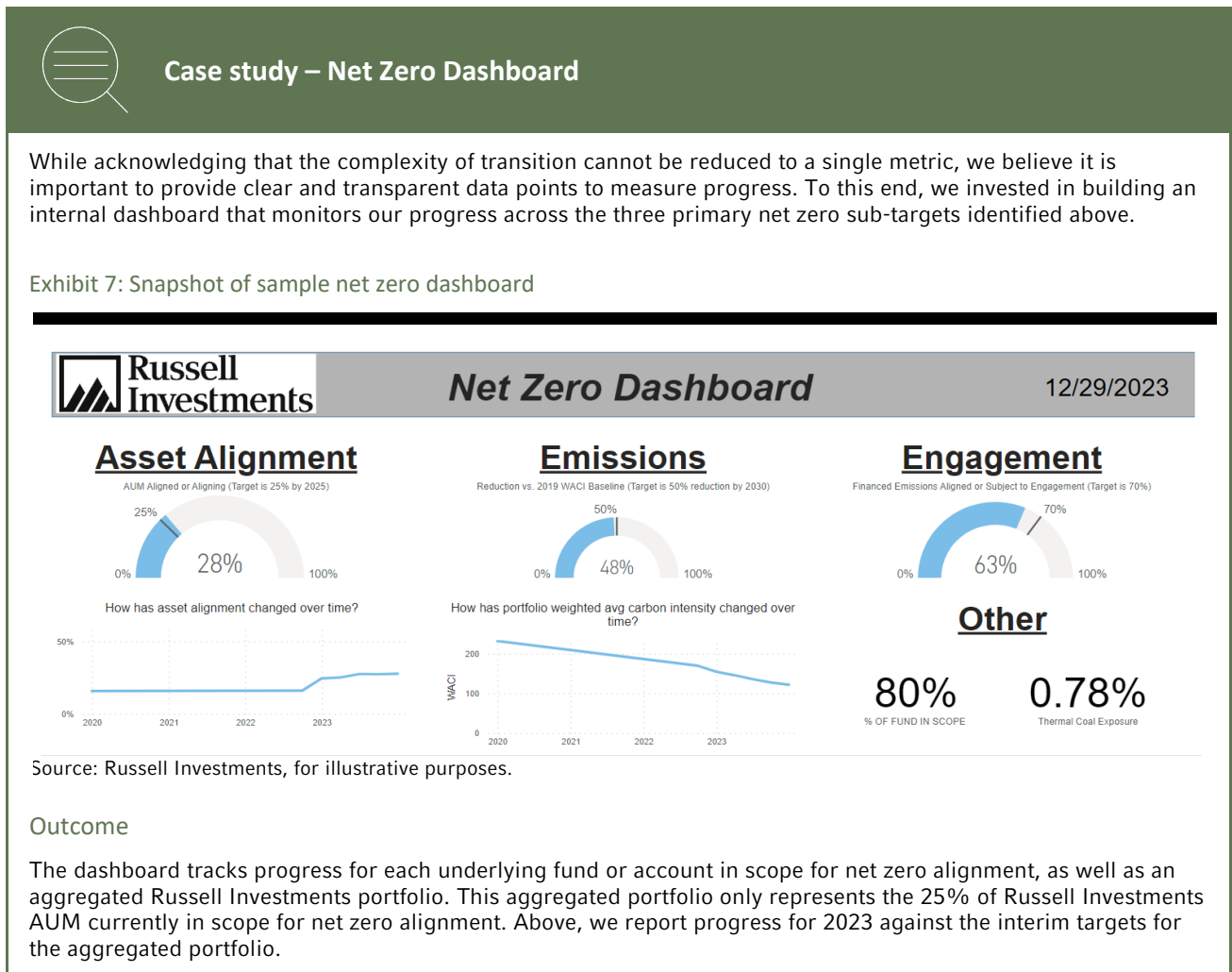
completed a mapping of open data sources such as Climate Action 100+ Benchmark, Transition Pathway Initiative, and the Science Based Target Initiative, as well as our proprietary data providers.

Over time, portfolios on a net zero trajectory need to increase the percentage of the portfolio in the higher ambition buckets (aligned, aligning). We will also set targets to engage with companies in material sectors who represent significant sources of GHGs and are lagging on these assessments.

The next type of target, the top-down portfolio level reference, acts as an accountability mechanism for ensuring that the decarbonisation of the portfolio is consistent with a science-based net zero pathway. Portfolio-level carbon emissions must decrease over time relative to a base year. For example, global absolute GHG emissions need to decrease by approximately 6.7% per year between now and 2030 to be on one of the commonly cited net zero pathways, and this is a common starting reference for a portfolio decarbonisation objective over time. Global emissions need to decrease by approximately 50% by 2030 relative to a 2019 baseline to be aligned to a limited or no overshoot pathway in the IPCC Special Report on 1.5 degrees, and this serves as another common reference point.

While these reference points serve as our guides, there is nuance around the selection of carbon metrics and accounting for sector and regional exposures of a portfolio, given the economy will decarbonise at different rates. In a diversified global portfolio, this may not be critical since the portfolio exposures largely align with the global market on average. However, in an emerging markets fund, or a concentrated infrastructure fund, sectoral or regional decarbonisation considerations can be more meaningful.

Finally, the Net Zero Investment Framework highlights the critical need for increasing investment in climate solutions. These investment opportunities can be identified and targeted via the EU taxonomy criteria, although there may be a rationale for using less stringent definitions of climate solutions as well. We have already acquired EU taxonomy data and have started to integrate it within our sustainable transition universe development. However, this is still a relatively new area and one that will require more investigation before robust target setting is possible.



2.6 Addressing client needs in practice

We recognise the importance of regular communication and engagement with clients to understand their goals, objectives, preferences, and any constraints they may have expressed in their portfolios. We also understand that our clients' needs could change over time. As a result, we use various methods to gather feedback from clients, such as client satisfaction surveys, periodic reviews, and ongoing discussions. Whilst our approach does vary slightly from region to region, our methods are summarised below.

Ongoing dialogue

We believe that the best way to understand our clients' needs is through clear and constant dialogue. This stems from an understanding that each of our clients are different and have unique needs. Therefore, having an open dialogue with each of them ensures that we are aligned on what they are trying to achieve. This form of engagement typically takes place at quarterly meetings and intra-quarterly as needed. This allows us to have detailed discussions of their goals, objectives, preferences and any constraints they may wish to have expressed in their portfolios. In certain jurisdictions, we measure the effectiveness of the relationship through the use of key performance indicators (KPIs), such as:

- Client satisfaction: We ask for performance review feedback from our clients throughout our relationships.
- Client retention: We place a strong focus on the tenure of our clients.
- Investment performance: Clear articulation and setting of investment objectives based on both our understanding of, and our discussions with, clients.
- Bespoke KPIs: We often work with our clients to agree bespoke KPIs around other value-adding services that are of importance (e.g., number of face-to-face meetings).

Client satisfaction survey

We also conduct annual client satisfaction surveys where we engage our clients to provide feedback against the objectives they have set for us. This serves as a useful formal summary of quarterly discussions, and allows for additional comments to be added, which have fed into both our recent product and reporting enhancements.

Third party survey

We conduct periodic third-party client satisfaction surveys to ensure that we are exceeding our clients' expectations and provide an option for clients to submit anonymous feedback and input on how they would like us to evolve our solutions to meet their changing needs. The latest in-depth client survey was carried out over the course of 2023. For illustrative purposes, an example graphic of client survey result received in EMEA has been included in Exhibit 8 below.

Exhibit 8: Example client feedback results

Examples of Client Perspectives	Total Average Score (1-10)	Questions	Example of comments
Support in determining investment strategy	8.5	What do you think Russell Investments is doing well?	"Russell Investments are an integral part of the management team for each of my clients that use their services. They understand the issues facing the trustees and sponsors and work with them to produce workable solutions."
Day-to-day client support & communication	8.5		
Implementation of an appropriate strategy to achieve objectives	8.3	Is there anything you think Russell Investments could improve going forward?	"There is nothing that we think should change. Our experience has been very positive, what we have seen from Russell Investments has been great."
Management of potential conflicts	8.0		
Governance of the mandate	8.0		
High standards of reporting	7.9		
Addressing changes in the regulatory framework	7.8	Is there any other feedback you'd like to provide?	"We want to work together with Russell Investments on our new focus on ESG."
Russell's overall contribution	8.4		

Case studies

Through the feedback mentioned above, as well as the ongoing internal review of our practices, we have identified the following requirements/areas of improvement. We provide details of the actions we have taken in the case studies below.

Case study: market insights

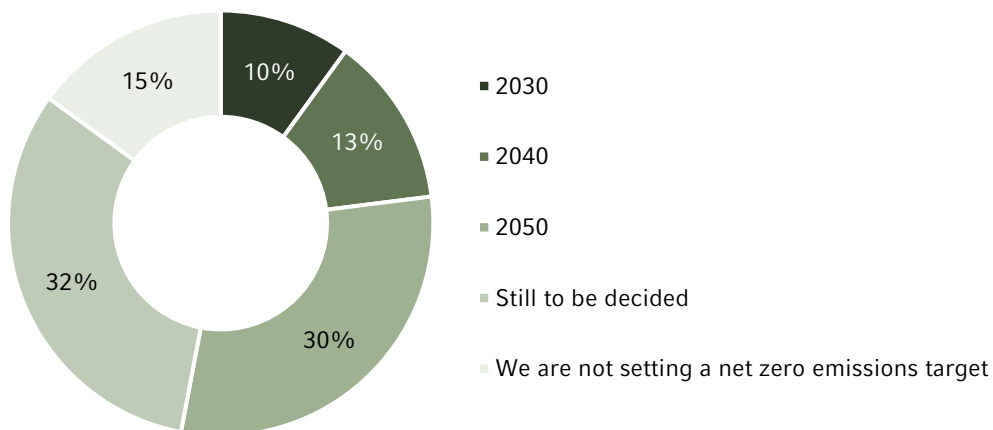


Case study – Bi-annual UK defined benefits market insights study

In 2023, we conducted a bi-annual UK Defined Benefits Market Insights Study. This was based on responses of 107 UK defined benefit schemes, representing a total of over \$318bn (USD) of assets under management. Around half of respondents were responsible for more than \$1.2 billion (USD) of assets. Russell Investments also conducted interviews with 12 leading independent trustees to provide additional context to the survey findings.

The intention of this Study was to understand the key priorities and concerns facing stakeholders, including stewardship. As part of this, the majority of respondents (58%) indicated they were either 'likely' or 'very likely' to increase their focus on climate change related issues in the next twelve months, and as shown in Exhibit 9 below, over half of respondents have already set a net zero target by 2050 or earlier, an increase from 36% in our 2022 Study.

Exhibit 9: Respondents' targets to reach net zero



Source: Russell Investments, December 2023.

Outcome

The UK Defined Benefits Market Insights Study is conducted on a bi-annual basis, designed to allow us to gather feedback and trends from both our client base and wider market. This includes, how our focus on Stewardship can help them to reach their goals. Based on the results received, climate change and net zero in particular will continue to be a key feature of our responsible investing agenda for 2024.

Case studies: Solution development



Case study – Development of Sustainable Global Equity Solution

In 2023, we partnered with a UK client to develop and launch a bespoke Sustainable Global Active Equity Solution. This partnership involved understanding, guiding, and developing a set of sustainability criteria which met the objectives of the client. Following multiple discussions with the client we agreed on various sustainability parameters including a level of required ESG objectives, climate related elements, risk and return tolerances, non-climate sustainability considerations, exclusion requirements and reporting considerations.

Outcome

We were able to draw from our manager research capabilities to identify and access five world-class, global equity specialist managers, which in combination met the various sustainability objectives that had been identified.

The solution designed also offers the flexibility to evolve as our client’s requirements change, utilising our Enhanced Portfolio Implementation capabilities. This infrastructure enables customised changes to the sub-fund under a centralised portfolio management process.



Note: Diagram for illustrative purposes.



Case study – Focused ESG strategy for an APAC OCIO client

Through ongoing discussion culminating in an annual investment strategy review with a non-profit OCIO client, we helped define both new investment objectives and a more ESG-focused investment strategy across the client's entire portfolio.

We recommended a move to a higher growth allocation to better meet the client's long-term horizon and enhance return potential, as well as the incorporation of passive oriented ESG solutions. To incorporate higher levels of ESG considerations into the portfolio, three portfolio options were presented, each showcasing different levels of active and passive management and varying degrees of ESG objectives. This allowed the client to tailor their responsible investing approach while considering associated returns and risks. An iterative and phased approach was utilised to pinpoint the optimal mix of active and passive exposures, aligning with the client's desired ESG exposures.

Outcome

Two active ESG options were launched as a result. In the Australian shares, an active ESG option called the Custom Active Australian Shares SMA was introduced. This enabled the client to exclude stocks that go against their ESG policy without adopting other investors' socially responsible views in a pooled investment trust, as well as positively tilting to stocks which offered renewable energy generation and improved ESG risk scores.

In global shares, an active Global Equity Fund was launched, constructed with best of breed sustainable managers identified through Russell Investment's manager research and our Intent-Process-Outcome approach. The Fund utilised an approach previously designed for a UK client with similar objectives.



Case study – Development of internal dashboard to meet US client requests

Clients are increasingly focused on understanding the diversity characteristics, policies, and practices of their underlying investment managers, and we are well-positioned to support their needs. We continue to enhance our ability to recommend asset managers that have favourable DEI characteristics and to report on diversity among hired managers.

Consistent DEI data can be hard to come by, so we leverage multiple data sources. In 2023, we developed an internal dashboard to assist in monitoring and reporting fund-level sub-adviser DEI data. For Russell Investments in aggregate, we measure diversity among managers in our research pipeline, on our recommended lists, and hired in funds on an annual basis. Furthermore, we provide custom reporting to clients on diversity among hired/funded managers upon request.

Outcome

Our annual Manager ESG Survey suggests that diversity remains an area of high concern for asset owners. The new strategy allows us to meet the needs of clients looking for greater visibility into the DEI practices and characteristics of our underlying managers.



Case study – Private market development

Over the course of 2023, we discussed the development of private market solutions with one of our UK clients, with a focus on providing solutions within private markets which can generate meaningful impact while managing and mitigating climate-related risks. For this new solution, we worked closely with the client to support them in their long-term ambition to demonstrate leadership on responsible investing practices.

Together with the client, we developed a credit solution, which tracks sustainability and ESG metrics in accordance with the client’s long-term climate goals. The solution has a focus on opportunities where private, long-term capital can provide distinct advantages over other capital sources to mitigate climate-related risks.

Outcome

Russell Investments is working alongside the client to identify opportunities that meet the investment parameters outlined for the mandate while simultaneously helping the client deliver their own responsible investing and social impact policies. The solution also allows for the client to set specific ESG-related criteria, such as an exclusion of fund investments and co-investments into strategies that are directly related to companies they wish to exclude.

Case studies: Solution development



Case study – Granular ESG reporting

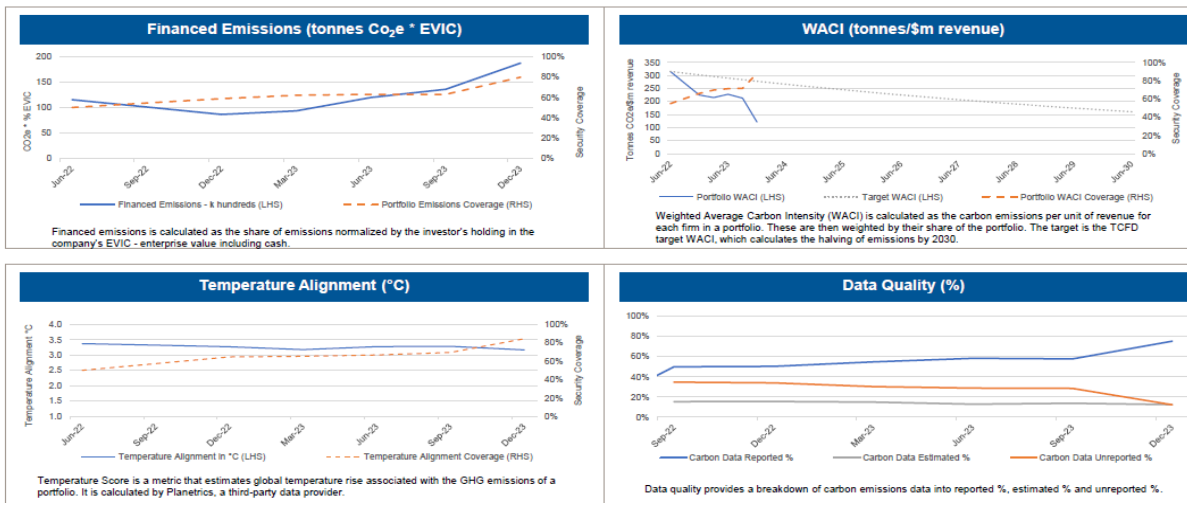
As clients are facing increasing regulatory requirements regarding their ESG reporting, Russell Investments has been actively supporting clients in meeting these requirements by enhancing our ESG reporting and providing more granular data and climate metrics. One such client was required to undertake their first TCFD report in 2023. As part of this process, the trustees identified four climate change metrics against which to measure their asset portfolio and, as required, formally identified a target against which to measure progress for one of those metrics.

To enable the monitoring of the identified climate change metrics by the client, Russell Investments augmented the ESG component of the quarterly investment performance report to directly report on these metrics.

Outcome

The enhanced ESG report received positive feedback and covered all the key metrics that had been set out by the trustees, such as Financed Emissions and WACI-scores over time. Furthermore, the inclusion of these metrics in the client’s quarterly report (as shown below in Exhibit 10) enables the client to easily track the metrics required in their TCFD reporting.

Exhibit 10: Evolution of quarterly client reporting





3. Governance of stewardship

- ✓ UK Stewardship Code - Principles 2
- ✓ Japan Principles for Responsible Institutional Investors – Principle 7
- ✓ The New Zealand Stewardship Code – Principle 1



Our governance bodies and supporting processes ensure alignment of our activities with our clients’ best interests and effective stewardship across all our investments, at every level of our organisation. Our corporate and investment bodies recognise that stewardship is central to investment management, and this has been the main organic driver of our evolution as good stewards of our clients’ investments with us. Below, we provide details of our global and EMEA governance structures and resources, and how they contribute to a consistent emphasis on high standards of fiduciary duties.

3.1 Global governance structure

At Russell Investments, global governance is headed by our Board of Directors and an Executive Committee (EC). Leadership on stewardship starts at the top of the organisation and is expressed through the empowerment of a number of global committees to establish practices and oversee their faithful execution. These committees ensure compliance with global investment, risk, and stewardship standards across all regions, as well as being responsible for introducing continuous enhancements to our approach, in line with our best thinking and industry practice.

Exhibit 11: Global governance committees



Source: Russell Investments, for illustrative purposes only.

The EC is the most senior management group at Russell Investments and is responsible for determining the company's business strategy and overseeing its implementation. Overall direction and emphasis on stewardship is set by the EC as part of investment strategy and corporate management. In recent years, the EC has strongly supported increased integration and resourcing of stewardship activities.

The Global Risk Management Committee (GRMC) plays a critical role in our risk management and stewardship practices. It provides an independent global authority over major areas of risk and control essential for effective management of the company.

The GRMC, acting in its oversight capacity, is authorised and directed to review and evaluate investment, credit, and operational risks. It provides guidance to the business units for the proper identification, assessment, monitoring, and mitigation of these risks. It is authorised by the EC, and its responsibilities relate to all legal entities and businesses operated by Russell Investments, worldwide. Global oversight by the committee for risk management practices is supported by regional risk management sub-committees in each of Russell Investments' current business regions. Further information on how Russell Investments identifies and responds to market-wide and systemic risks is explained under section 2.

Board oversight of climate risk

Russell Investments' Board of Directors has ultimate responsibility for the strategic priority, corporate governance, and long-term stewardship of the firm. Climate-related risks and opportunities have been identified as a strategic priority for the business. As a result, significant consideration has been put towards establishing the appropriate governance frameworks to identify, assess and manage these risks and opportunities.

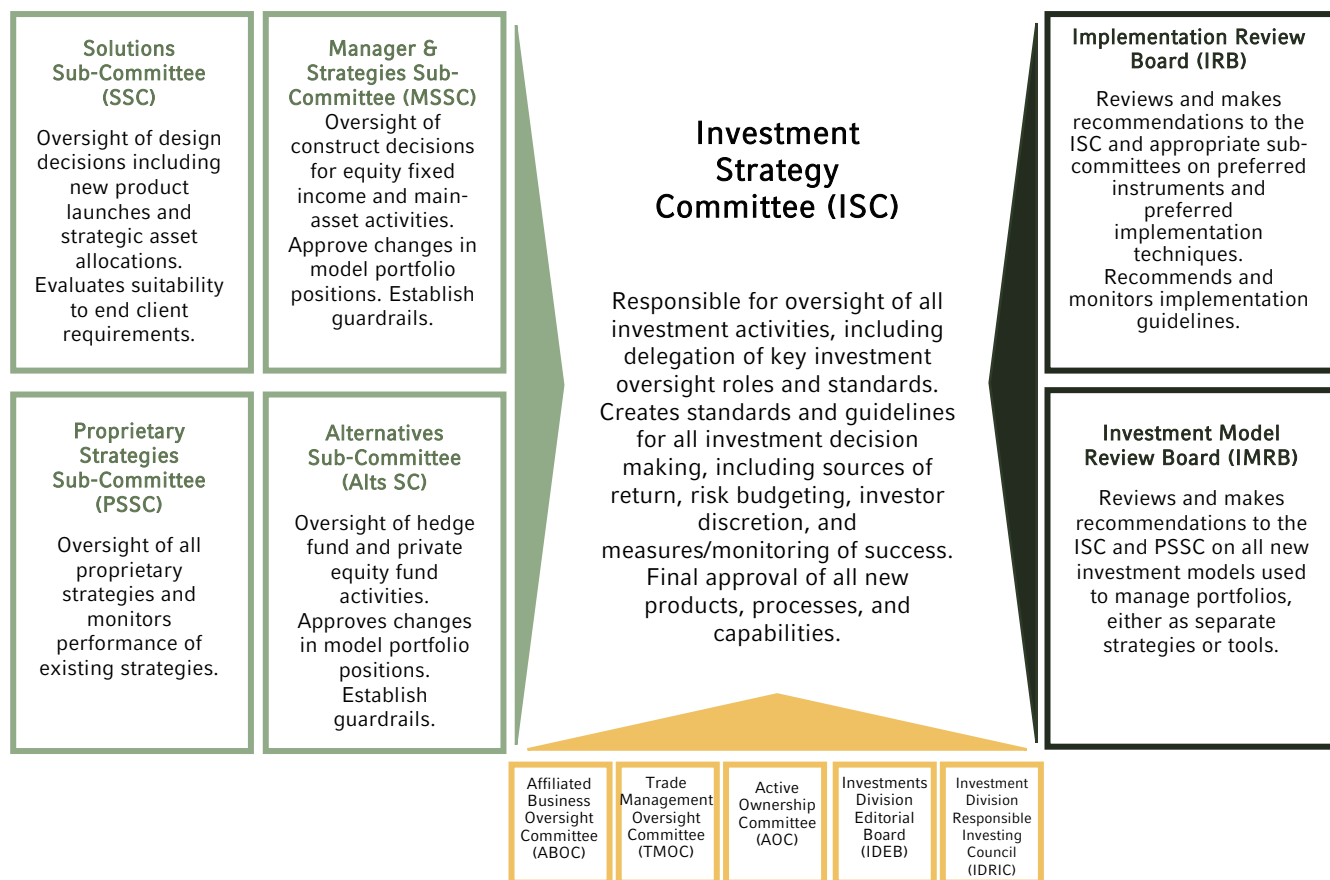
The firm's TCFD report is tabled annually at the Audit and Risk Committee meeting. This provides the Board with an opportunity to further deepen their understanding of the firms' exposure to climate risk. Russell Investments' Board, through the Executive Committee (EC) and Audit and Risk Committee, has delegated oversight of the risks associated with climate change to the Investment Strategy Committee and the Global Risk Management Committee.

3.2 Investment governance structure

The Investment Division (ID) is responsible for undertaking all investment activities for clients. The ID is governed by the Investment Strategy Committee (ISC), which is authorised by the EC to oversee investment activities, review investment performance, and establish investment policy and strategy. The ISC is responsible for processes and standards of stewardship practice, with a focus on active ownership and creating long-term value through appropriate decision making around allocations and risk management. As regulatory standards and industry practices evolve, the ISC seeks to continually update investment processes, including stewardship practices.

The ISC's members comprise the Global Chief Investment Officer, who serves as the Chairperson, and senior ID and risk professionals. The ISC delegates to numerous sub-committees to review and recommend proposals to create new investment products, launch new funds and hire/terminate investment managers.

Exhibit 12: Investment Strategy Committee



Source: Russell Investments, for illustrative purposes only.

The groups reporting to the ISC have written charters outlining their documentation requirements, such as records of approvals, decisions, and oversight activities. Each of these groups has delegated responsibilities from the ISC, relating to the faithful execution of stewardship responsibilities and the continuous development of investment practices for the management of client assets. Whether those duties relate to ensuring sound investment decisions on behalf of clients, verifying the rigor and appropriateness of investment analysis, or guarding against potential risks or conflicts, they all feed into the broader mission of improving financial security for people.

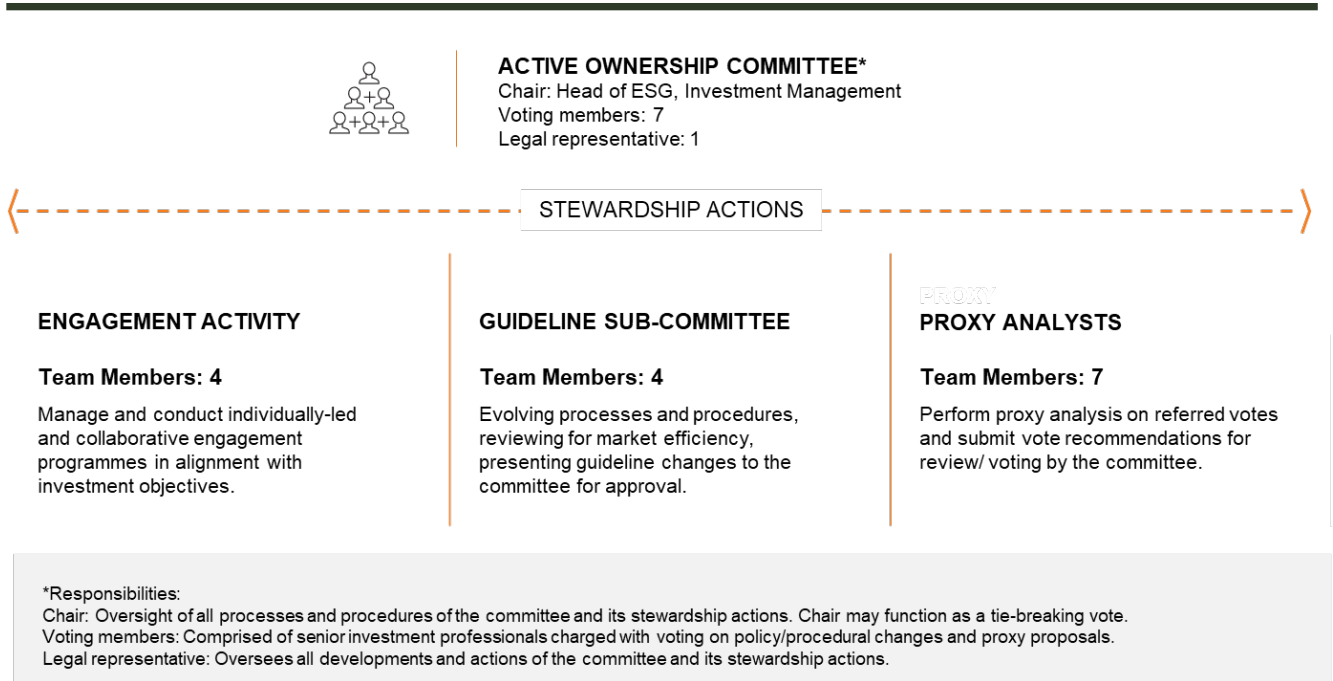
Our governance process features performance measurement, with much focus placed on metrics that assign accountability and reflect the outcomes our clients seek. We formally review these metrics and outcomes with the accountable parties on an annual cycle (and informally more frequently), and we continually revisit mandates, objectives, and performance metrics for their alignment with the mission of each group.

Every ISC sub-committee is responsible for embedding good stewardship practices into its governance and decision-making processes. For example, the Manager and Strategies Sub-Committee ensures that proposed portfolio structures are well-constructed to meet investment targets within risk guidelines. As part of that oversight, the committee must confirm that sub-advisers have sufficient ESG capabilities embedded in their overall evaluation and will consider available metrics on ESG factors when approving portfolio structures.

Within the ID, our Active Ownership Committee (AOC) oversees a globally consistent and rigorous approach to proxy voting and engagement activities. Under this oversight, the Active Ownership Team executes the day-to-day process, maintaining proxy voting policies, procedures and guidelines, while implementing voting decisions and evolving our processes as needed to meet client needs and expectations. The AOC is made up of tenured and experienced Russell Investments professionals from a variety of roles around the world, including portfolio management, manager research and investment strategy. All proxy voting and engagement activities are advised by a member of Russell Investments' legal team.

Within the Active Ownership Committee, our Guideline Sub-Committee meets regularly to review and propose adjustments that ensure our guidelines are aligned with current best practices. Meanwhile, dedicated personnel work alongside our portfolio managers to direct and coordinate our engagements with public companies, our sub-advisers and other market participants. This organisational structure, and the diverse set of participating investment professionals, ensures our active ownership function is integrated within our investment process.

Exhibit 13: Active Ownership Committee structure



Source: Russell Investments. For illustrative purposes only.

3.3 Responsible investing governance structure

We favour an integrated approach to responsible investing and have subject matter experts embedded throughout our organisation. Our responsible investing teams and initiatives are led by an executive sponsor, our Global CIO Kate El-Hillow, demonstrating Russell Investments’ commitment to these initiatives. Two councils provide governance and coordination for our responsible investing practices and initiatives, namely the Go-to-Market Responsible Investing Council (GTMRIC) and the Investment Division Responsible Investing Council (IDRIC).

GTM Responsible Investing Council

Russell Investments’ GTM Responsible Investing Council (GTMRIC) is responsible for guiding our investment deliverables and Go-To-Market (GTM) activity on responsible investing, as well as charged with ensuring we deliver the best possible responsible investing solutions and outcomes to our clients globally.

The council consists of representatives from across the business including the investment division as well as product, marketing, legal, compliance, and client-facing teams. Jihan Diolosa, Head of Global ESG Strategy, chairs this council.

Exhibit 14: GTM Responsible Investing Council structure



Investment Division Responsible Investing Council

Russell Investments' Investment Division Responsible Investing Council (IDRIC) is the principal body of responsible investing experts at our firm. The council is responsible for devising and leading the Investment Division's (ID) response to a broad set of sustainable investing challenges and requirements emanating from our clients, our business strategy, and a changing regulatory environment - typically prioritised and delivered to the ID via the firm-wide GTMRIC. Importantly, the IDRIC, which reports to the ISC, guides the ID's responsible investment practice across our investment process.

Specifically, this group ensures that the data, infrastructure, and processes are in place to support effective active ownership and an integrated approach to incorporating financially material ESG factors and risk mitigation into investment decision making. These responsible investing experts from across our research and portfolio management teams are empowered to propose improvements in stewardship and investment practice, to be approved by the ISC. The council is chaired by Kris Tomasovic Nelson, Head of ESG Investment Management.

Exhibit 15: Investment Division Responsible Investing Council structure



3.4 Resourcing stewardship

The ID is organised around three core strengths: research, portfolio management, and implementation services. Some of the key investment functions most central to stewardship practices include:

- **Manager Research Analysts** – Specialists responsible for gaining a thorough understanding of the universe of investable managers and products and for making recommendations which they believe offer our clients the best opportunities.
- **Portfolio Managers** – Professionals tasked with the strategic asset allocation, manager and strategy selection and daily portfolio monitoring of Russell Investments’ strategies.
- **Portfolio Analysts** – These professionals work closely with our portfolio managers and provide them with the necessary analytical tools and research reports to aid their decision making.
- **Implementation Portfolio Managers** – These specialists execute the investment decisions of the portfolio managers, ensuring the timeliness and efficiency of any changes.
- **Research and Development** – This team is responsible for research of the capital markets and creation of forecasts and investment strategies that identify and capture key sources of return. Additionally, the team enables the development of supporting technologies and tools to effectively deliver our investment insights to clients. Our R&D professionals have the quantitative capabilities to apply the tools of data science and advanced computing to a wide range of investment challenges.
- **Asset Allocation & Investment Solutions** – Members of this group lead our efforts in asset allocation issues, including all forecasting and modelling. They also participate in research of institutional matters, such as reviewing and understanding the implications of pending legislation, or the role of potential new asset classes, such as portable alpha and overlay strategies and evaluation of less traditional asset classes.
- **Active Ownership:** The dedicated professionals on our Active Ownership Team enable our proxy voting policies, procedures, guidelines and voting decisions. This team also leads our engagement process with participation from a wider group of investment professionals.
- **Service Providers:** The extent to which service providers are used and the service they provide from a stewardship perspective is covered in Section 4.4 of this report.

The collective efforts of these functions help to create and maintain solutions that are not only tailored to pursue our clients’ return objectives, but also reflect our best thinking in terms of manager research and projected market behaviour. This division of roles and responsibilities is designed to create clear ownership of key decisions matched with appropriate expertise and experience. We value specialisation and clear accountability in these roles, even as we seek to effectively guide all investment professionals’ activities to collectively contribute to clients’ total portfolios. The table below provides details of our current total headcount of investment professionals. We believe that this is an effective combination of subject matter experts and qualifications for meeting our stewardship requirements.

Exhibit 16: Total number of investment professionals

TOTAL NUMBER OF INVESTMENT PROFESSIONALS	NUMBER OF INVESTMENT PROFESSIONALS WITH CFAS	NUMBER OF INVESTMENT PROFESSIONALS WITH PHDS	AVERAGE RUSSELL INVESTMENTS YEARS’ TENURE	AVERAGE INDUSTRY YEARS’ EXPERIENCE
Total Investment Professionals	320	155	9	11.1

Source: Russell Investments, data as at 31 December 2023.

Associates are encouraged to pursue educational opportunities to develop skills and meet their career goals. Russell Investments’ associate development programme holds managers accountable for working with their direct reports to create a development plan with the goal of growing existing and developing new skill sets. Furthermore, we encourage participation in continuing education opportunities, such as the Chartered Financial Analyst programme, to enhance knowledge through job-related areas of study, or pursuing licenses and professional designations applicable to their positions. To further encourage associates, a generous tuition reimbursement programme for qualified programmes and areas of study is in place.

Specific to responsible investing, both broad and role-specific training is required for key investment professionals, ensuring an appropriate understanding of ESG concepts and topics as they seek to deliver strong investment outcomes and stewardship to clients. In addition, client-facing teams have continual access to regular training on capital markets, investment strategy, asset class behaviour, and portfolio management innovations.



Case study – Rotational proxy analyst programme

Russell Investments' proxy voting programme leverages an extensive, bespoke set of proxy voting guidelines, but some categories of proposals require more careful review and assessment. The first step in this process is conducted by an internal proxy analyst who evaluates the proposal and prepares a recommendation for our Active Ownership Committee on whether to support or reject it. As the number of shareholder proposals requiring a deeper review has increased, Russell Investments has in turn expanded our ranks of proxy analysts.

Our internal proxy analysts, who serve on a two-year rotation, are members of the investment division, typically portfolio or manager research analysts, globally distributed and from different asset classes. The Active Ownership Team provides training to the analysts on an annual basis and oversees the vote recommendation process.

Outcome

This programme provides training on active ownership to an expanded number of our investment associates, while supporting the evaluation of a significant number of complex proxy decisions.

3.5 Alignment of incentives to integrate stewardship

As a global organisation, we have made the consideration of ESG and effective stewardship across all investment decisions a key objective. Senior portfolio managers are compensated based upon a combination of factors which encompass their success in delivering desired investment outcomes to clients, while effectively contributing to investment processes and providing suitable levels of stewardship of client assets. Within that overarching evaluation framework, portfolio managers are required to consider ESG factors and stewardship in evaluating and selecting sub-advisers, as well as evaluating ESG risks and exposures at the total portfolio level and pursuing engagement opportunities. Portfolio managers' effective incorporation of these factors is explicitly measured, included in annual assessments, and linked to compensation.

In addition to senior portfolio managers, all associates with specific responsibilities for ESG, stewardship and climate change have annual performance goals aligned with the success of the integration of these topics. These goals include evolving our responsible investing and stewardship practices to be in line with global standards; collaborating with leading industry bodies to advance industry frameworks; driving our engagement practices; and research and development. All these items are aimed at delivering robust stewardship practices to meet our clients' objectives. Success in meeting these specific stewardship and ESG-related performance goals is linked to remuneration.



4. ESG Integration and Responsible Investing

- ✓ UK Stewardship Code - Principle 2, 7
- ✓ Japan Principles for Responsible Institutional Investors - Principle 7
- ✓ The New Zealand Stewardship Code - Principle 3

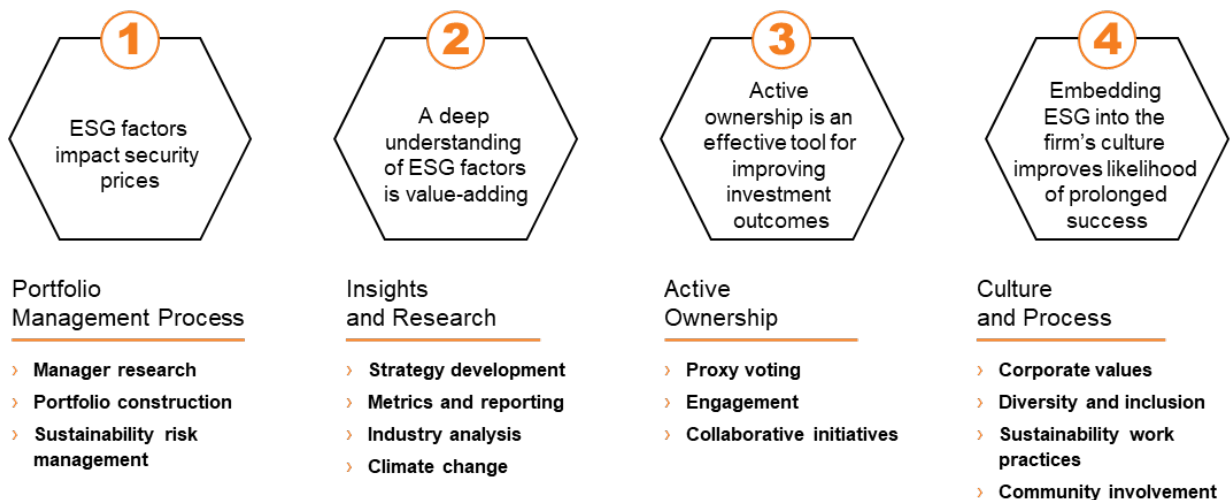


4.1 Our integrated approach to stewardship and investment

As a function of our integrated approach, material ESG considerations and stewardship are woven into our standard investment practice at all stages of our investment process. Subject matter experts are embedded within our research, risk, analytics, quantitative and portfolio management teams, and work in close coordination with dedicated responsible investing and active ownership personnel. Our professionals understand the ways in which sustainability issues manifest in the financial performance of various investments across asset classes, and their aim is to identify and act on material financial risks and opportunities.

Below, we describe how our responsible investing beliefs and policies, detailed in section 1, translate into practice within our key investment capabilities.

Exhibit 17: Responsible Investing in practice



Source: Russell Investments. For illustrative purposes only.

Belief 1 – ESG factors can impact security prices

Portfolio Management Process

Responsible investing is integrated throughout our investment process, including our manager research, portfolio management and portfolio construction activities. We believe that material ESG considerations should sit alongside traditional assessments as a part of the overall strategy evaluation. Since 2014, our manager research analysts have evaluated how effectively investment managers assess and manage ESG issues within their investment process as a standard component of our diligence across all asset classes. Analysts leverage both quantitative and qualitative information in conducting each review, drawing on external data and research from providers including Sustainalytics and MSCI. Equity research analysts can view Sustainalytics' and MSCI ESG data for each sub-adviser strategy we monitor via proprietary tools and ESG reporting. Our analysts also utilise information gathered from our Annual ESG Survey, which broadly polls active equity, fixed income, and private markets managers to measure the state of ESG integration across the industry investment practice. We are continually evaluating and working to incorporate additional data sets for all asset classes.

Our ESG-related due diligence covers a wide set of sub-advisers' stewardship activities, as described under the four sub-categories in Exhibit 18 below. The ESG sub-rank, which is shared with clients alongside our other sub-ranks, ranges from one to five, with a ranking of three considered consistent with the peer group average.

Exhibit 18: ESG sub scores



ESG Commitment

ESG resources are robust and aligned with the investment process. Individuals responsible for ESG have relevant experience and are skilled. There is a variety of high-quality data sources and tools available to investment decision makers



ESG Consideration

Strong awareness of the risk and return impact of ESG is evident. Breadth and depth of perspective are superior to peers. Insights are derived from primary research and are differentiated.



ESG Implementation

ESG insights are effectively and consistently translated into portfolio positioning. The manager can clearly demonstrate how portfolio positioning reflects the management of relevant ESG risk and return drivers.



Active Ownership

The transparency, quality and duration of engagement with investee companies on ESG issues is consistently superior to peers. Success measures are clearly stated and appropriate. Where applicable, effort is made to make informed use of proxy voting.

Source: Russell Investments, for illustrative purposes only.

Russell Investments' research analysts maintain ESG sub-ranks on nearly 1,750 strategies across all asset classes and geographies. In addition, more than 400 manager strategies researched by analysts have been identified as having a specific ESG outcome intent as part of their investment process. In 2023, 55 of those products had their assessment ranks updated following research meetings that included more than 100 of these strategies. Greater visibility into the drivers of the ESG rank has prompted greater understanding of how ESG factors influence a manager's potential outcomes and has offered improved transparency to portfolio managers and clients. While analysts assign an ESG rank to all high interest and recommended strategies, and it is just one of several areas of due diligence, the drivers behind a manager's ESG approach are naturally of particular importance to those strategies which aim to deliver explicit sustainable objectives.

For mandates with explicit sustainable objectives, we ensure that portfolio managers select strategies with strong ESG integration through a framework at Russell Investments known as Intent, Process, Outcome (I-P-O). Product intent reflects a strategy's philosophy or objectives. A manager's process is evidenced by consistent and effective integration of ESG and responsible investing practices at the fund level. Finally, a sustainable or ESG outcome is evidenced through product characteristics. These will differ by asset class but may include the target investment type, low ESG risk, revenue alignment, or low carbon emissions. Through close collaboration and clear

documentation, research analysts and portfolio managers use I-P-O to validate the sustainable objectives and capabilities of a strategy prior to inclusion in our multi manager sustainable funds.

Analysts record their analysis and conclusions, including ranks, in our global proprietary database, RADAR (Russell Investments Analysis, Data, and Ranks). Further details about RADAR and the way we hold managers accountable through due diligence are provided under section 4.4.

Russell Investments' portfolio managers select active managers from among those ranked highly by our manager research teams. The Investment Strategy Committee and its delegate committees confirm that sub-advisers selected by portfolio managers for client solutions have sufficient and appropriate ESG capabilities for each fund assignment.



Case study – Manager change to enhance ESG integration in the Global Credit Fund

ESG integration in the fixed income market is rapidly evolving, and our open architecture platform allows us to partner with leading asset managers who have superior investment frameworks. Among other capabilities, compelling managers are able to consistently and effectively identify ESG-related risk and return opportunities. In the fixed income space, our manager research team sought to enhance the manager line-up in the Global Credit Fund where the client was looking to improve the overall profile of sustainability in the Fund.

Outcome

After conducting numerous due diligence meetings, our manager research team identified a sub-adviser who offers a compelling performance expectation with a convincing practice of assessing ESG-related risk and return opportunities in their investment process. As a result of hiring the newly identified manager, the average ESG assessment rank for the Fund improved, and there was a material improvement in the carbon footprint intensity measure. Furthermore, engagement activities in the Fund are expected to improve after this manager change.

Portfolio managers manage sustainability risks in our investment solutions through our quarterly and annual manager review process and through implementing proprietary solutions. Through a process known at Russell Investments as 'Enhanced Oversight' (EO), portfolio management teams assess sustainability risks in funds and explain how those risks are being monitored and managed. EO is designed to provide sufficiently granular insights into fund/portfolio exposures - without adopting a 'checklist' approach that would fail to recognise the breadth, complexity, and relevance of sustainability issues. EO focuses on broad ESG themes as well as specific securities identified from:

- Our own quantitative analysis, where we monitor the highest and most material sustainability risks at the total-portfolio level
- Sub-adviser insights, whom we explicitly direct to highlight financially-material sustainability issues
- Other third-party sources including those who provide company and thematic ESG research

Quantitative analysis is used wherever data is available and robust, particularly in equities where our primary data sets include Sustainalytics' Risk Rating, Carbon Footprint and Russell Investments' Material ESG Score. Russell Investments' proprietary Material ESG Score is designed to highlight sustainability issues that are relevant and specific to a particular company and its industry. In calculating this score, we utilise Sustainalytics, SASB's Materiality Map, corporate governance scores and environmental data from multiple providers with an emphasis on forward-looking information where available.



Case study – ESG module development for portfolio analytics

Outcome

In 2023, we completed a project which added an “ESG module” to our portfolio attribution and analytics platform. The project enabled real time calculation of ESG-related exposures at the fund, manager/sleeve, and security level while incorporating information from the firm’s enterprise data workflow (ERMS). The module delivers data from vendors such as MSCI, Sustainalytics, and Planetrics to enable portfolio managers to monitor ESG objectives and constraints at a portfolio level across the suite of funds and client accounts. This includes equity, fixed income, and multi-asset strategies.

To share ESG-related insights across teams, Russell Investments uses an internal platform called ENACT. The name ENACT was drawn from the combination of two of our critical responsible investing practices: Enhanced Oversight and Active Ownership. ENACT allows investment team members to record and access the insights that are gathered during sub-adviser oversight (including EO) and from engagement activity.

Critically, ENACT maps an issuer’s securities across funds, enabling coordination between fixed income and equity experts, and it serves as a timeline and progress marker for our engagement objectives. We believe that setting and tracking explicit engagement objectives is key to an effective programme, and we were early in implementing process and tool for this. We continue to evolve ENACT by adding data and enhancing its functionality. For example, in 2023 we made changes that promoted complementarity between ENACT and our Net Zero Dashboard with the aim of streamlining our net zero engagement planning. Russell Investments is pleased to be operating according to best practices in this area.



Case study – Enhanced oversight within an emerging market fund

ESG-related data is notoriously scarce for emerging market companies as many firms do not disclose the same information as their developed market counterparts. Enhanced Oversight allows our teams to overcome this hurdle and more accurately assess holding companies in these regions. Where our portfolio management teams have the opportunity to gather risk and opportunity information from the EO process, it can lead to engagement with the identified company.

An example of this process is shown through our exposure to a Mexican construction materials company. Russell Investments holds both equity and debt in the company across multiple portfolios. Through EO, it was identified by our public equity emerging markets team and our fixed income team as having high risk. Each team subsequently requested manager insight into how the specific ESG risks for this holding are assessed and managed.

Both managers shared that they were actively engaging with the company due to its global leadership in the cement industry and long-term risks and opportunities around sustainability issues. However, our fixed income manager noted the potential risks to the cement producer of being overtaken by peers who are also demonstrating strong sustainability progress. Continued monitoring of the company by Russell Investments was flagged by our investment teams.

Outcome

After integrating our managers comments into our engagement selection criteria, the Active Ownership Team in partnership with both the fixed income and emerging markets listed equity team determined this materials company to be a strong candidate for engagement. We explore this engagement and its outcomes in the Engagement section of this report.

While EO was first developed and deployed as a tool for sustainably focused equity funds, in 2023 we worked to adapt and extend its application across all asset classes and portfolios, with a particular focus on fixed income enhancements. Our fixed income portfolio managers assess bond-specific characteristics (e.g., our total market-value exposure, the duration remaining to maturity, and credit rating) alongside traditional ESG risk metrics

(Sustainalytics ESG Rating, ESG controversies, and MSCI Carbon score) and work with sub-advisers to integrate the risks highlighted.

Meanwhile, our Private Markets Teams source proprietary ESG reporting and data directly from our sub-advisers. Materials can include our completed ESG DDQ (Due Diligence questionnaire), the sub-adviser's ESG policy, and any other ESG reporting, such as the Institutional Limited Partners Association (ILPA) or Data Convergence Project templates. If ESG risks are identified, our private markets portfolio managers encourage improved ESG practices and/or reporting.

For each Russell Investments managed fund or segregated portfolio, enhanced oversight may result in the following actions for certain holdings, with consideration of the impact of risks at the total portfolio level:

- Reviewing of metrics and the research behind the metrics
- Discussion with the sub-adviser supporting the holding
- Discussion with the Active Ownership Team to consider engagement options

Given that we have built proprietary ESG models and undertake our own ESG research, we are not wholly reliant on third-party providers. We subscribe to a wide variety of data sets from the different providers outlined above, which provide raw performance data, drawing on analysis of the data and materials produced by our sub-advisers to inform our models and research. Further information on the processes in place to ensure service providers support integration of stewardship and investments is provided under section 4.4.

Belief 2 - A deep understanding of ESG factors is value adding

Insight and research

We tailor our research to evolve our understanding of sustainability risks and opportunities, and this is reflected in our strategy development, metrics, and reporting. The research agenda is tailored to address challenges faced by clients as well as an ongoing commitment to enhance our proprietary ESG strategies. For example, we refined off-the-shelf ESG scores built for a wide range of uses, to focus on financially material ESG issues for use in our proprietary ESG strategy. While managing low carbon strategies, we found that several unintended consequences such as reduced exposure to renewable energy and overall increase in ESG-related risk were prevalent among simplistic approaches to carbon reduction, so we researched and implemented enhancements that better aligned with our clients' objectives including the introduction of a green energy ratio. As our clients faced regulatory pressure to introduce climate scenario analysis, we performed detailed due diligence on a dozen climate risk model providers, and onboarded our preferred provider to enable clients across our platform to meet this emerging obligation. All of these capabilities have been implemented to deliver comprehensive sustainable solutions.



Case study – Enhancing physical climate risk modelling capabilities

To further our work in providing climate-aware solutions, we identified the need to enhance our capabilities in assessing and incorporating physical climate risks into overall financial risk analysis. The assessment of physical climate risk poses a significant challenge due to its complexity and the lack of standardised methodologies. Thus, we initiated a comprehensive review process to evaluate physical climate risk providers. The process involved assessing multiple providers based on criteria such as the sophistication of their methodologies, data quality, track record, and alignment with industry standards. As well, we launched a project to develop in house GIS expertise and began to develop tools to allow us to visualise the physical risk exposure of a client's private real estate portfolio.

Outcome

After thorough evaluation and due diligence, we engaged a specialist data provider to help us complete a case study for a large institutional client. The chosen provider offered advanced modelling capabilities and robust data analytics, enabling us to enhance our understanding of physical climate risks within the client's private real estate portfolio.

Furthermore, recognising the importance of physical risk exposures from a geographic perspective, we invested in developing GIS and spatial analysis capabilities. This involved leveraging advanced geospatial technologies to map and analyse the distribution of physical climate-related hazards such as flooding, sea-level rise, and extreme weather events across the client's real estate portfolio.

Building a sustainable transition universe

Russell Investments began developing decarbonisation overlays in 2015. However, our investment professionals recognised that investing in a way that actively contributes to a more sustainable future requires a deeper level of scrutiny and a more careful application of ESG data than a simple de-risking approach. For clients desiring a systematic overlay, strategies must be tailored to pinpoint and support businesses and sectors actively progressing towards more sustainable practices, technologies, and operations.

Thus, we designed a systematic approach to identifying investments that captures a company's positive impact on the environment and society while acknowledging the trade-offs between positive and negative outcomes. This "Sustainable Transition Universe" navigates the complexity of sustainable transformation by applying a multi-faceted criteria set. The high-level criteria include:

- **Positive Impact Today:** We evaluate companies based on their revenues or services linked to Sustainable Development Goals (SDGs) and other positive impact themes.
- **Emerging Technologies:** We consider technologies in development, measured by capital expenditure and patents held. These technologies are critical for driving sustainable change in the future.
- **Negative Impact Assessment:** We assess companies based on the significance of their negative impact. This isn't about excluding all companies with negative impacts, as all companies have some level of negative impact. Instead, we focus on those with a substantial overall negative impact that hinders their potential to contribute positively to sustainability.

The Sustainable Transition Universe truly shines in its ability to be used within multi manager portfolios through our Completion Portfolio framework. We build sustainability-focused funds while controlling for the potential factor and sector biases that may materialise at the total portfolio level - all while ensuring that each name held within the portfolio still meets our rigorous sustainability standards.

Belief 3 - Active ownership is an effective tool for improving investment outcomes

Active Ownership

As part of our stewardship activities, we aim to engage with companies on overall business strategy, capital allocation, and ESG practices, while encouraging appropriate levels of risk mitigation in line with our engagement policy. In addition, we promote transparency to support informed decision making and well-functioning financial markets by engaging specifically on ESG disclosures. While a number of criteria guide our selection of engagement opportunities, our evaluation of a company's sustainable risks is couched in its industry context, through the use of peer-relative metrics and qualitative comparisons.

Additional information regarding our proxy voting and engagement actions during 2023, as well as our plans to further strengthen Russell Investments' active ownership function going forward, are detailed in the Active Ownership segment, section 5 below.

Belief 4 - Embedding ESG into the firm's culture improves likelihood of prolonged success

Culture and processes

At Russell Investments, our culture is built on a commitment to a foundational set of beliefs and practices which provide a rich combination of real-world guidance and an over-arching ethic within which we conduct our business. We believe that the effective integration of diverse ideas and perspectives brings richness to our culture and increases our ability to provide innovative solutions to our clients, while adding value to our shareholders and community. Please refer to section 1 to learn more about our purpose and values.

4.2 Our risk management programme

- ✓ UK Stewardship Code – Principle 4
- ✓ Japan Principles for Responsible Institutional Investors – Principle 1
- ✓ The New Zealand Stewardship Code – Principle 3

In order to identify threats to financial security and manage them for the benefit of investors and the broader market, we have developed a robust, multi-layered approach to risk identification and response. This approach seeks to stay vigilant to all sorts of risks, both operational and financial, as well as formulate careful responses to threats that impact our business, our clients and the broader market and society.

Identifying and responding to systemic risks: Framework and key elements

At Russell Investments, we operate an independent risk management programme through an organisational unit called Global Risk Management (GRM). Consistent with best practices and regulatory requirements, GRM is independent from both manufacturing and go-to-market functions.

GRM's basic framework is to identify, measure, monitor and communicate, along with the supporting concepts of integration, insight and challenge. Important elements in GRM's risk framework include:

- **Risk matrix:** The purpose of this matrix is to identify and inventory key risks for each of Russell Investments' businesses, along with the drivers of these risks.
- **Risk measurement:** Multiple risk measurements are required in most instances to get a detailed 'read' on risks.
- **Five lines of defence:** Russell Investments has adopted a 'five lines of defence' protocol to reinforce each associate's role in the risk management process. These are (1) Board Oversight, (2) Executive Management, (3) Internal Audit, (4) Risk Management and Compliance and (5) Business Units. Each of these have established and reinforced responsibilities for the identification and management of risk.
- **Risk governance:** GRM has implemented a risk governance structure which has been integrated into other Russell Investments governance structures.
- **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. Key dimensions of this are '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. Informal assessments occur continuously. These assessments are used for multiple purposes such as escalation when appropriate, development of remediation plans and input to the annual audit plan.
- **Organisation and specialisation:** GRM's organisational arrangements includes three specialised risk teams: credit, investment/market, and operational risk. The Operational Risk Team is also responsible for the insurance programme and business continuity. Functional teams are supported by several regional associates.

Key risk categories and response mechanisms

Different categories of risk require discrete tools and processes to identify, examine and respond to risks in the course of an evolving market and operating environment. The GRM function is organised around the management of Investment Risk, Credit Risk, and Operational Risk with appropriate tools, expertise, and attention applied to each, the details of which are explained below.

Investment risk

The Investment Risk Management (IRM) team measures and monitors market and liquidity risks. IRM operates a granular multi-asset enterprise risk system consisting of internally developed, as well as industry leading third-party, market risk models with IRM-developed proprietary components which extend and enhance the capabilities. Investment Risk is always modelled at the total portfolio level and not by individual asset classes.

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

1. **Market risk:** The risk of change in the 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.
2. **Exposure measurement:** Quantifying exposures across key investment risk dimensions (i.e., country, currency, asset type, GICS and credit rating) provides a non-model-based view into investment strategy. Investment risk arises when there is a mismatch between stated strategy and actual exposures taken.

-
3. 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 risks need to be considered:
 - a. Market liquidity risk is the potential adverse price impact due to illiquidity on a particular security.
 - b. Funding liquidity risk is the potential for adverse impacts due to portfolio dealing terms and/or redemption activity (behaviour) of an investor.

Credit risk

Russell Investments' Credit Risk Management Team independently review 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.

- **Exposure monitoring:** Credit Risk Management applies a risk-based approach to monitoring credit exposures. Consistent with Russell Investments' five lines of defence, the business unit bears primary responsibility for monitoring and managing credit exposures.
- **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.
- **Approved list:** Russell Investments portfolio managers and traders may only use issuers and counterparties on the approved list maintained by Credit Risk Management.

Material ESG criteria inform our credit evaluation. For example, our opinion on the fundamental strength of a counterparty reflects diversification of its business model and considers a company's ability to sustain itself in the advent of a severe shock due to environmental related issues. We also consider how well a company manages its relationships with its workforce, the society in which it operates, and its political environment. Lastly, in scoring a counter-party's management team, we consider the make-up of a counterparty's board, its strength, independence and its effectiveness of decision making and oversight, and we address any regulatory, tax or legal violations, among other disclosures. We score more favourably companies that are taking a proactive role when incorporating sustainable practices.

Operational Risk

Operational Risk Management (ORM) focuses on identifying, assessing, and monitoring operational risks.

Russell Investments uses 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. Our long-standing formal escalation protocol promotes timely communication to senior management, enabling changes (i.e., enhancements to controls) to be made when necessary. Russell Investments employs a disciplined event capture approach with results reported through the risk governance structure. 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 the evolution of strategy and portfolio composition.

- **Governance:** Russell Investments maintains an Operational Risk Committee which is a sub-committee of the Global Risk Management Committee. Chaired by the Global Head of 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, third party, 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 exposure.
- **Event Escalation:** All events are required to be reported to the associate's manager and Regional Risk Officer in accordance with the Firm's global event escalation policy. Depending on the severity and type of event, the escalation process could include the Global Head of Operational Risk, the Chief Legal Officer, Global Chief Compliance Officer, Chief Operating Officer, and other Executive Committee members, as well as the CEO. Regulatory and compliance breaches are reported to the relevant regional compliance officer and regulatory authority, if necessary.
- **Business Continuity:** The Business Continuity (BC) team works closely with global and regional business units to develop appropriate plans. Each business continuity plan documents key processes and applications and covers recovery time objectives and alternative procedures in the event of a loss or outage. Each business unit validates its business continuity plan periodically through a combination of annual review, tabletop scenarios and integrated disaster recovery exercises. The Business Continuity group provides periodic programme status updates to the Operational Risk Committee.

Enterprise risk assessment

On an annual basis, Russell Investments updates its Enterprise Risk Assessment, which includes a list of market-wide and systemic risks identified by Russell Investments' Global Risk Management Team. Each identified event is given a rating across two dimensions namely likelihood and severity. At year-end 2023 as compared to the prior year, there was no change in the top risks as identified by the GRMT:

- Illiquidity Risk
- Policy Exhaustion
- Pandemic
- Factor crowding investing
- Trade-and currency wars
- Technological advances
- Cold War 2.0
- Correlation shock
- Climate risk including transition risk and physical risk

Notably, while life feels post-pandemic for many, the contagion remains on the risk list due to the continued mutations in the spike protein, which current vaccines target.

We continue to improve our understanding of climate change at the enterprise level. In 2023, we expanded our review under the categories of physical risk and climate risk. Further information in relation to our approach to tackling climate risk is provided in section 4.3.

Once risks/events are identified, steps are taken to evaluate whether these risks should be monitored and/or mitigated. Where required, this may include recommending new risk monitoring procedures or changes in portfolios to track or address the potential impact of the risk.

Climate change is acknowledged as a risk that needs to be considered at the total portfolio/client level and, as such, will be implemented in Russell Investments' Enterprise Risk Management System. This implementation will include exposure information (e.g., carbon footprint) as well as climate scenario analytics capabilities. Further information in relation to our approach to tackling climate risk is provided in section 4.3.

Sustainability Risks Policy

Russell Investments' policy is to integrate sustainability risk management into our investment solutions by identifying, evaluating and managing relevant risks in our investment manager review process, portfolio management and through implementing proprietary solutions. We believe sustainability risks are most relevant to investment outcomes when they exhibit financial materiality and, like all investment risks, are incorporated by balancing expected risk with expected reward. In managing investment solutions, we consider financially-material sustainability risks in the context of expected rewards using a blend of inputs from sources including, but not limited to, investment managers, third-party data sources, and Russell Investments' propriety analysis. Furthermore, we incorporate bespoke sustainability risk management and explicit controls based on clients' requirements for customised mandates. As well, we seek to collaborate with our advisory clients to consider, monitor and manage sustainability risk priorities in their portfolios.

Developing a deep understanding of portfolios' financially-material sustainability risks and how they are identified is an explicit objective for all Russell Investments' portfolio managers. Our process for ensuring this happens, called "Enhanced Oversight", is described in section 4.1. Portfolio managers leverage our standard sub-adviser review cycles, including annual due diligence, quarterly reviews and other meetings throughout the year, in this process. We also address sustainability risks throughout our investment practices, including our manager research rankings which explicitly assess their ESG capabilities and active ownership as well as via investment committee governance, which is described in section 3.

4.3 Addressing market-wide and systemic risks: climate change

- ✓ UK Stewardship Code – Principle 7
- ✓ Japan Principles for Responsible Institutional Investors - Principle 1
- ✓ The New Zealand Stewardship Code - Principle 3

The challenge

Russell Investments formally endorsed the Task Force on Climate-related Financial Disclosure (TCFD) in 2019 in recognition that climate change is a monumental challenge to the global economy and that without reliable climate-related financial information, markets cannot accurately price climate risks and opportunities. Incorporating climate-related risk management strategies into the financial system is a crucial first step to pricing risk and directing capital flows needed to meet global ambitions for the energy transition. The recommendations provide a useful and common framework to increase transparency within financial markets.

Our vision

We pride ourselves on partnering with clients to meet their climate objectives. Through our stewardship programmes, and as active investors, we promote the TCFD's recommendation for companies to provide effective climate-related disclosures that enable more informed financial decision making. We advocate for companies to have board-level oversight and governance of climate change impacts. We also hold ourselves accountable for providing transparency around our own investments and operations. We are committed to driving progress.

Progress to date

We have made considerable progress incorporating climate change considerations into our business. In our TCFD Report, we outline key climate-related risks and opportunities and assess them using metrics and scenario analysis in accordance with the recommendations of the TCFD. We share policies developed for formally and systematically addressing sustainability risks and describe the evolving practices by which we integrate climate awareness into our investment process. We believe that active ownership is an important lever for delivering investment outcomes and is also one of the most effective tools at our disposal to effect change.

Progress to date has included enhancing processes for climate risk and opportunity identification, assessment, and management in the following ways:

- **Establishing appropriate governance** – Establishing governance around climate risks, including development of a climate change policy, addition of climate risk metrics to our risk management dashboard, and identification of individuals responsible for our climate response.
- **Extending quantitative research** – Expanding the depth of our quantitative risk assessment capabilities for transition and physical risk, including breakdown by channel through a partnership with a climate model specialist.
- **Policy development** – Enhancing the process through which climate risk is managed in portfolios, as detailed in our Sustainability Risk Policy, which was reviewed and approved by the IDRIC in July 2023 with no material changes. The key elements of this policy direct investment professionals to leverage data, sub-adviser insights and in-house expertise to identify and manage sustainability risks.
- **Active ownership** – Engaging with investee companies on the topic of climate change risk and natural capital – with over 50% of our corporate engagements covering environmental issues in 2023.
- **Solution development** – Managing carbon reduction portfolios, as we have done since first launching low carbon strategies in 2015, with a track record of enhancements to our approach as best practices and data evolve.

In recognition that tackling climate change requires global coordination, we emphasise collaborative action including:

- Aligning with other investors to encourage comparable disclosures and consistent regulatory frameworks, which is a necessary step to improving the availability and quality of data.
- Engaging collectively with systemically important emitters as a powerful tool for addressing systemic risk. This includes our support for Climate Action 100+ and other collective engagement channels, as detailed in section 5.1 of this report.

- Sharing best practices across industry practitioners to facilitate information sharing and collective knowledge building. This includes collaborations with, and support for, the Institutional Investors Group on Climate Change (IIGCC) and the Transition Pathway Initiative (TPI), among others. These are described in section 6.3.

Identification of climate-related risks and opportunities

The first step in managing climate-related risks in investments is identifying them. There are many mechanisms through which climate-related factors impact security prices, but these risks can be broadly categorised as transition or physical risks. We recognise that different risks are likely to manifest over different time horizons and that they require different tools to assess, as outlined below.

Exhibit 19: Snapshot of the climate risk identification and assessment process

RISK OR OPPORTUNITY IDENTIFIED	DESCRIPTION	EXAMPLES OF ASSESSMENT TOOLS	MOST RELEVANT TIME HORIZON
Transition Risks & opportunities	Risks arising from shift to low carbon economy	Scenario analysis (esp. transition scenarios), metrics	Medium term
Changes in cost	Price on carbon, costs of abatement	Carbon footprint metrics	Short and medium term
Changes in demand	Demand destruction and creation arising from shifts in demand	Scenario analysis (esp. transition scenarios), metrics on green revenues or climate solutions, exposure to potentially stranded assets	Short and medium term
Physical Risks	Physical risks can be event driven (acute) or longer-term shifts (chronic) in climate patterns	Scenario analysis, (esp. hot house world scenarios)	Long term
Acute	Increased severity of extreme weather events	Scenario analysis (esp. hot house world scenarios), asset-level risk mapping	All but increasing severity long term
Chronic	Changes in weather patterns, rising temperatures, rising sea levels	Scenario analysis (esp. hot house world scenarios), estimated sensitivity to productivity impacts, heating/cooling days	Medium and long term

Climate risk is characterised by a longer time horizon than many traditionally managed risks. To make this more explicit, we refer to short-to-medium-term horizons, in the climate context, as a three-to-ten-year horizon, and a long-term horizon as the period out to 2050, although we note these are rough approximations only.

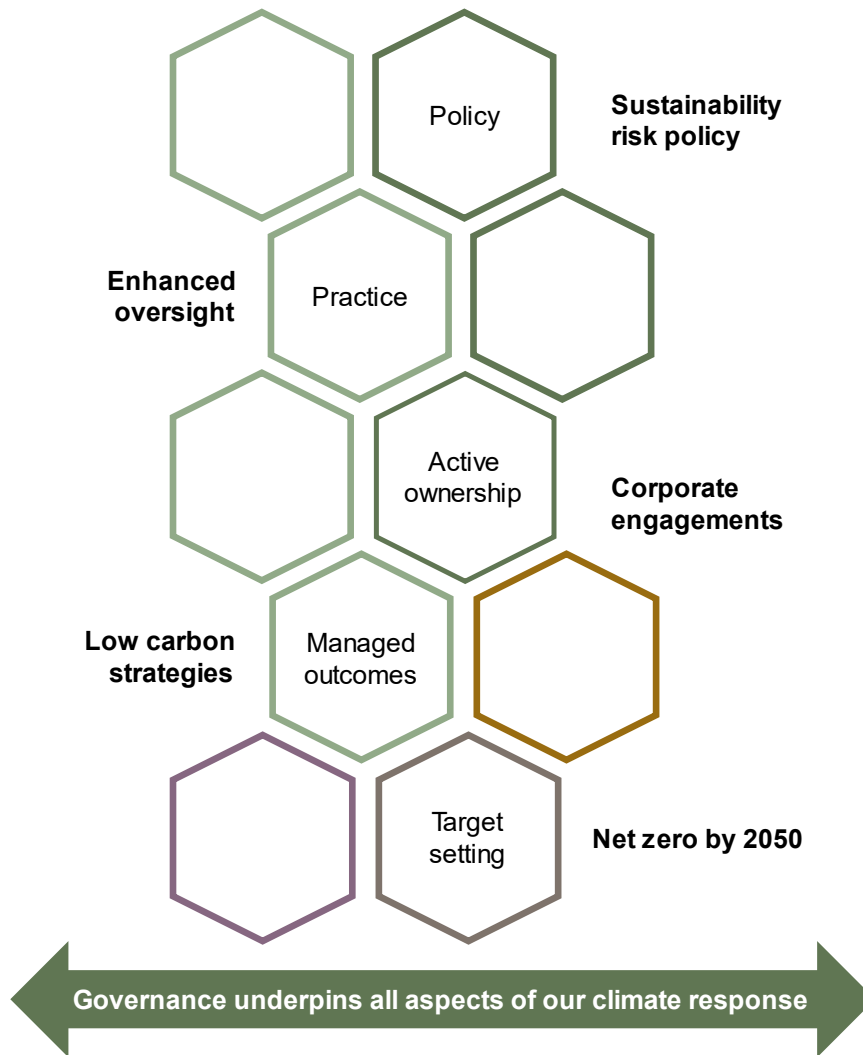
Assessment and management of climate-related risks and opportunities

On an annual basis we provide an assessment of our global portfolio against metrics and scenario analysis in accordance with the recommendations of the TCFD. Following identification and assessment of climate-related risks and opportunities, we turn to management. Portfolio managers are the first line of defence in managing portfolio risks, and management of climate risk is no different. We believe embedding deep expertise and awareness of sustainability risk within investment teams is key to fully integrating climate management into our process. This is formalised in our sustainability risk policy, as described in section 4.2. In addition to a formal policy, our climate risk management practices continue to evolve. This includes our enhanced oversight and active ownership programmes, where climate-related considerations play a pivotal role.

Supplementing these firm-wide practices, we continually enhance our approach to carbon-managed portfolios for clients and funds that want to build in more explicit climate-related outcomes. For a subset of clients and funds, we set and manage to forward-looking net zero targets. Taken together, we adopt a multi-layered approach to managing climate issues including formal policies, practices, engagement and carbon managed portfolios and target setting.

Despite considerable progress, we know this is the beginning of a long journey for our organisation and the global investment community at large when it comes to tackling climate risk in portfolios. Most immediate on our horizon remains our commitment to the Net Zero Asset Managers' Initiative. Our commitment involves rapidly raising knowledge across teams, building new capabilities, and setting ambitious targets around what it means for our portfolios to be aligned to a net zero by 2050 objective, always with a client-first, fiduciary focus. We are expanding our coverage of active managers with a focus on climate considerations and sustainable strategies more broadly, and we continue to seek out data sets that provide valuable insight into the climate exposures of our portfolios.

Exhibit 20: A multi-layered approach to our climate response: key pillars



Source: Russell Investments.

4.4 Our approach to monitoring service providers

- ✓ UK Stewardship Code – Principle 2, 8
- ✓ Japan Principles for Responsible Institutional Investors - UK Stewardship Code – Principle 8
- ✓ The New Zealand Stewardship Code - UK Stewardship Code – Principle 4

Our multi-manager business strategy requires the oversight and monitoring of external asset managers that we employ in our investment portfolios. We also rely on third-party providers to support our active ownership practices. Furthermore, we count on a host of additional third-party vendors to ensure the overall efficiency of our core services for clients. A description of how we hold each of these three categories of service providers accountable is provided below.

External managers

Due diligence on external managers prior to their inclusion within our funds and portfolios is conducted at two levels by specialist teams that are independent of each other:

- Manager research analysts who sit within the Investment Division (ID) and evaluate and monitor from an investment perspective, and
- The Global Manager Oversight and Due Diligence (GMOOD) group within the Global Risk Management (GRM) function, which is independent of the ID.

We believe that it is important from a risk and compliance perspective to separate the operational due diligence function, which reports up to our Chief Operating Officer, from the investment due diligence function, which reports up to our Global Chief Investment Officer. This separate, operational review is particularly pertinent within alternative and unlisted asset classes, such as hedge funds and private market investment strategies, where transparency is lower.

The combination of our investment research and our operational due diligence research on managers aims to achieve objectives and minimise negative surprises for our clients. We have had success in avoiding managers that have exposed investors to headline risks. A description of each type of research is provided below.

Manager research due diligence

Russell Investments has an experienced team of approximately 37 analysts engaged solely in the manager research process. Each year, our research analysts conduct approximately 1,800 research meetings and conference calls with investment managers. These evaluation sessions are our primary means of gathering information to arrive at an informed opinion about a manager's product(s). Our assessments, gained from multiple sessions over time, allow us to establish an overall opinion of the organisation and its investment strategies. Our analysts are responsible for pre-meeting analysis of the product (meeting preparation that includes a historical review of prior meetings and analysis of the strategy) and for conducting the research meetings. Analysts supplement these meetings with regular contact with managers in their universe, through phone calls, emails and less formal update meetings as required.

As part of our evaluation process, we conduct a qualitative and quantitative assessment. We score managers against a detailed framework that captures the key inputs to a robust investment process, and we undertake quantitative analysis of each strategy's performance patterns, attribution and outcomes. A sampling of the inputs can be described as the following:

Exhibit 21: A qualitative and quantitative evaluation

QUALITATIVE ASSESSMENT	
Organisation	Stability, ownership, and incentives
Team	Dynamics, diversity, and motivation
Experience	Skill and stability of personnel
Capital markets case	Conceptual basis for philosophy
Research	Depth and alignment
Decision making	Accountability and efficiency
Security Selection	Use of security-level characteristics
ESG	Insights, portfolio implementation, and active ownership
QUANTITATIVE METRICS	
Portfolio construction	Effects of portfolio turnover
Consistency with philosophy	Magnitude of risk assumed/tracking error
Stability through time	Sources of relative performance
Ability to manage sizeable accounts	Liquidity analysis
Absolute and risk-adjusted performance vs. broad manager universe	Style indexes

Source: Russell Investments. For illustrative purposes only.

In addition to the above factors, we have identified a variety of proprietary attributes of successful managers that are unique to given styles of management. Analysts are charged with making relative assessments of managers within their respective styles, to better discriminate among manager choices. The results of our manager research efforts are captured in our global proprietary database, RADAR, which we believe is one of the largest and most comprehensive manager tracking databases in the world. Developed in-house, RADAR is our primary repository for research reports generated on the products of investment managers globally and includes over 14,000 current manager products.



Case study – Annual manager ESG due diligence questionnaire

Since 2014, Russell Investments has requested information from high-interest external investment managers on the integration of responsible investing practices into their investment processes. For calendar year 2023 and for our sub-adviser managers, this took the form of a Due Diligence Questionnaire (DDQ) with enhanced emphasis on understanding and overseeing their stewardship activities. The ESG DDQ results provide a supplementary source of information about how each asset manager approaches ESG issues and responsible investing, serving as reference points for our research analysts when evaluating investment strategies.

Outcome

Our DDQ covered a range of topics from commitments including net zero target setting and the United Nations Principles for Responsible Investing (UNPRI), to product trends, reporting, and stewardship outcomes for both engagement and proxy voting. Responses represented 80% of our funded managers.

Throughout 2023, we saw the strengthening of reporting requirements in Europe, Canada, and Australia, as well as the rise of a more contentious debate in the United States. For our managers, top challenges cited to integrating sustainability information into investment decision making included 1) the missing or poor quality of data received from corporates and 2) meeting diverse client needs and expectations.

Nevertheless, over half of our managers noted the dollar value of their sustainable investing AUM grew from 2022 to 2023. Managers also responded that environmental issues continue to be the biggest concern voiced by clients – suggesting that sustainability will continue to be a lasting force in the investment landscape.

Additional key insights from the FY23 ESG DDQ are detailed below.

Manager Resourcing

Across our sub-advisers, 68% have full-time dedicated responsible investing professionals with most resources being dedicated to a specific sustainability team, a stewardship team focusing on policy, proxy voting, and engagement activities, or within an equity-specific team.

Manager Responsible Investing Commitments and Net Zero

Complementing our own commitments, many of our sub-advisers have also joined sustainability-related organisations and initiatives with the majority (over 75%) having signed on to the UNPRI. When it comes to reporting specific initiatives, almost 50% support TCFD reporting, with 29% reporting via CDP, 20% reporting to the International Financial Reporting Standards for Sustainability, and 16% reporting to the Global Real Estate Sustainability Benchmark.

More than 30% of our managers are signatories to the Net Zero Asset Managers Initiative and have made the commitment to support a net zero by 2050 goal. In line with this, we saw 27% of our sub-advisers engage through the Climate Action 100+ network and over 5% engage with companies through the Nature Action 100 network.

Sustainability Products

Over the past 12 months, our sub-advisers saw the most growth and/or interest from clients in ESG-integrated products followed by specific thematic mandates. Where our sub-advisers offer impact strategies, the majority focus on the energy transition followed by strategies aligned to the Sustainable Development Goals (SDGs), and lastly social impact strategies.

Sustainability Integration

In 2023, reducing risk was still the most cited driver of ESG-driven investment decision making. Governance concerns were reported as a driver 40% of the time, followed by climate risk and social risks at 35% and 33% respectively. Of our sub-advisers, only 5% noted that ESG factors do not drive investment decisions, a steady annual decline from the 22% who chose that answer in 2021.



Case study – Annual manager ESG due diligence questionnaire

Active Ownership

Over 80% of our sub-advisers actively engage with management of their corporate holdings to discuss sustainability issues. Collaborative engagement remains an important tool for investors to utilise when engaging with holding companies as over 60% of our sub-advisers note they've partaken in collaborative engagement with other investors.

When engaging with corporate holdings, governance topics were of highest importance for our sub-advisers in conversations followed by climate change specific risks or opportunities, and finally human capital management issues. Our sub-advisers did not limit their outreach to corporate holdings; over 40% engaged with policy makers as part of their responsible investing approach.

After conducting engagements, 74% of managers established sustainability related objectives and outcomes which were documented and monitored. If an engagement was deemed unsuccessful, over half of our managers indicated that they have utilised adverse proxy voting (i.e., a vote against management or a vote for a shareholder resolution) and written communication as a tool for escalation with 37% divesting from companies where the engagement had failed.

Global manager oversight and due diligence

The Global Manager Oversight and Due Diligence (GMODD) team's operational due diligence (ODD) review involves evaluating the business, compliance and operational risks and controls of third-party managers that may materially impact Russell Investments, our funds and clients. A thorough ODD review is based upon discussions with key principals and employees of the manager; observations of their business practices; and an appraisal of various documentation and representations disclosed by the manager. When conditions allow, an on-site meeting in the office is also optimal. The key areas analysed include:

- **Operational risks** – it is important to examine the manager's trade processes, from execution and counterparty oversight to settlement and reconciliation, along with guideline compliance, allocation policies, and cross trades. This area also includes an analysis of the manager's soft dollar and directed brokerage policies and its resolution process for trade and operational errors.
- **Business risks** – ODD reviews a firm's business structure and vendor oversight, strategic planning processes (including organisational growth) governance, management oversight and supervision, along with the firm's IT infrastructure and business continuity planning.
- **Compliance** – a review of this area considers the firm's compliance monitoring and reporting, personal trading policies, gifts and entertainments and conflict of interest policies, compliance with regulatory agencies, personal information security, and record retention.

ODD involves a different skill set to that which is needed for performing investment due diligence. We believe that it is best conducted by professionals with strong backgrounds in global regulations, trading, operations, and business risks. The outcome of an ODD review can have clear Red or Green flags - but may in practice sit in an Amber area. In formulating an opinion, the ODD reviewer will consider:

- **Consistency** – were all the documents and verbal assertions consistent with each other and all the relationship confirmations consistent with expectations?
- **Transparency** – did the manager provide documents in a timely way and allow access to the key people and systems during the on-site visit? Were the reviewers allowed an open dialogue with the firm's service providers and referees?
- **Firm infrastructure** – does the firm have a tight control environment with sufficient systems and knowledgeable support staff to support the products they are managing?
- **Manager reputation** – did all the background checks come back clean and with all references confirmed?

Absent clear Red flags where an ODD review will recommend that an investor avoid allocating funds to a specific money manager, an investor may still decide to invest with a manager with some deficiencies. The value of the ODD report is that the investor is aware of these deficiencies and is able to monitor them and work with the money manager to increase their controls in the areas where specific weaknesses have been identified.

ODD is not a new concept. We have built a global team of analysts dedicated to conducting reviews of the risks outside of managers' investment capabilities. These analysts follow our Manager Compliance and Operations

Review (Manager CORE) process, helping shape the way Russell Investments ranks money managers and the decisions for recommending, hiring, or terminating managers.

ODD can help investors to understand the additional risks to money managers’ businesses beyond the investment risks, ensuring a more holistic assessment of managers’ capabilities. ODD is not just a process to be followed when hiring a manager. We undertake reviews of these risks on an ongoing basis, as a manager’s business evolves.



Case study – A 2023 operational due diligence review

In the second half of 2023, the GMODD team conducted an on-site operational due diligence review with a private equity manager. Where deficiencies are found, based on tested ODD criteria, recommendations are provided as well as assistance to address the identified issues.

Outcome

This review identified two items which resulted in sub-section ratings of “Weak,” and as a result the GMODD team made recommendations to address the inadequacies. The “Weak” rating was attributable to two specific practices. First, the manager engages expert networks but had not implemented compliance oversight of interactions with the expert networks. The GMODD team recommended that the manager institute compliance oversight on a sample of these interactions to address material non-public information/insider trading risks. Secondly, the manager’s Valuation Committee includes only Investment team personnel, with membership identical to the Investment Committee. The GMODD team recommended making changes to the composition of this committee, as the Valuation Committee should include qualified non-investment personnel to offer some level of independence. The manager agreed to consider implementing these changes.

Active ownership

In order to deliver effective stewardship, Russell Investments relies on third-party data providers, including Sustainalytics and proxy adviser Glass Lewis. The primary services we receive are detailed in the diagram below.

Exhibit 22: Details of service providers

SERVICE PROVIDER	SERVICE RENDERED	HOW THIS SERVICE CONTRIBUTES TO RI'S ACTIVE OWNERSHIP
Glass, Lewis & Co	Viewpoint Voting Platform	Allows Russell Investments to monitor a very high volume of voting activity and place manual votes when appropriate.
	Application of Custom Proxy Voting Guidelines	Glass Lewis applies a bespoke set of Proxy Voting Guidelines created and maintained by Russell Investments’ Active Ownership Committee.
	Resolution research and analysis	Russell Investments’ internal proxy analysts draw on Glass Lewis’ research and analysis as one of several resources when preparing a recommendation for the Active Ownership Committee on a referred item. For more information on referred items, please see Section 5.2.
Sustainalytics	Coordinate collaborative engagement partnership	Sustainalytics coordinates and leads engagement activities; Russell Investments participates in Sustainalytics’ Thematic engagements, please see Section 5.1.
	Company-level ESG ratings and analysis	Our investment professionals leverage Sustainalytics’ ESG risk ratings and analysis in our manager due diligence, in portfolio management and construction, and in our engagement practice.

Source: Russell Investments. For illustrative purposes only.

To ensure our process of delivering effective stewardship is of high standard, we regularly monitor and review the services of both Glass Lewis’ and Sustainalytics’.

For proxy voting, the annual service review includes sampling and statistics from the previous year’s vote activity to measure the accuracy and timeliness of the Glass Lewis research team. Russell Investments tracks these statistics year-on-year to ensure consistent quality of service. Members of the Active Ownership Committee also hold an annual meeting with Glass Lewis, addressing any concerns or updates regarding the services they provide.

Russell Investments has partnered with Sustainalytics as an engagement service provider because their model allows for close oversight and integration with our internal active ownership and investment processes. Our Active

Ownership Team, under the oversight of the Active Ownership Committee, is responsible for the selection and monitoring of engagement themes. The team communicates regularly with Sustainalytics on the positioning of these themes, target company selection and on progress and outcomes. Additionally, portfolio managers and wider members of the ID regularly participate in direct company engagements led by Sustainalytics.

Other third-party vendors

As a global organisation, Russell Investments has longstanding experience of integrating with various internationally recognised outsourcing vendors and partners, alongside our internal resources, to improve the overall efficiency of our core services for clients. We engage with providers across our operational, information technology and financial service lines, for some of our middle and back-office support services. We maintain continuous oversight of our providers via service level agreements, formal relationship meetings and evaluations that incorporate performance metrics.

We utilise third-party providers for middle-back-office services such as administration services for our pooled funds, custodian/depository services, portfolio accounting, and certain IT services. Three primary service providers we engage with are described below.

- **State Street** – We have a long history of working with State Street globally, since 1995 in EMEA. State Street provides all fund administration (including fund accounting), prospectus and regulatory guidelines monitoring, and custodian/depository services for Russell Investments.
- **SS&C Globe Ops** – SS&C Globe Ops provides portfolio accounting services, including daily reconciliations of cash and positions when comparing our current holdings with the custodians' data.
- **CGI** – As a proportion of IT support functions are outsourced, Russell Investments' dedicated global IT Applications and Infrastructure department works in conjunction with CGI to provide IT infrastructure, including IT support and security.

Russell Investments' vendor risk management framework utilises a combination of decentralised vendor management, centralised risk management, and focused sourcing and 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, assigned resources provide primary selection, monitoring and oversight of key vendors, such as management of service levels and the identification and mitigation of service issues. These efforts are the 'first line of defence' to mitigate vendor risks and identify areas of service improvement. For example, Global Operations (Fund Services, Investment and Data Operations) works directly with key service vendors (custodians, trading counterparties, reporting providers, etc.) daily to manage fund and client investment activities. During the initial selection and onboarding process, the first line activities include consultation, as needed, with subject matter experts such as Legal, IT, Compliance and Operational Risk Management as part of Russell Investments' vendor due diligence process. Assigned vendor owners review and follow up on any relevant findings or issues noted in key vendor controls documentation such as SSAE 18/SOC 1 reports. Other activities include tasks such as vendor performance monitoring, continuous improvement reviews, event management and analysis, and quality assurance. Onsite visits (if required) are periodically performed with key vendors to review operations and to assess performance as necessary.

As a second line of defence, Global Risk Management operates a Third-Party Risk Management programme that provides enterprise level oversight for the firm's designated critical vendors. Control activities facilitated in conjunction with first line business units include assessment of vendor SOC reports, IT posture via vendor security assessment questionnaires, and vendor business continuity and (4th party) oversight programmes. The programme also conducts ad-hoc targeted due diligence in response to specific widespread events, such as cybersecurity events impacting a large number of firms or geopolitical events that potentially impact service providers. Governance of the programme is directed by the Operational Risk Committee with assistance from other committees depending on the type of vendor and risks involved.



Case study – An unnamed vendor review in 2023

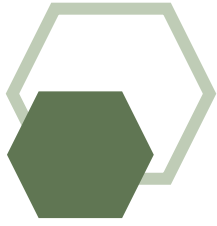
Our review of a critical vendor’s control environment in 2023 found that the vendor’s independent external auditor provided a “Qualified” opinion indicating that a control was not in place to provide a reasonable assurance that lockbox items were processed completely and timely. Russell Investments Global Finance team conducted an investigation and as a result were assured that Russell Investments was not impacted by the missing lockbox control.

Outcome

Russell Investments’ Global Finance, Global Risk Management, and Global IT (“Russell Investments review team”) reviewed the vendor’s response to the missing control indicating the primary issue was minimal staffing at the lockbox processing centre and the inability of the vendor to provide an audit report detailing the timestamp for each step in the process. The review team found the vendor’s response, including adding new processes and procedures to validate, track, and trace lockbox operations were appropriate.

Global Sourcing and Procurement

Starting in 2022 and following a review of systems that would allow us to analyse vendor spend data alongside metrics on diversity, our Global Sourcing and Procurement team implemented a product from Supplier.io, called Supplier Explorer. The tool identifies supplier diversity metrics within our existing spend data and allows us to search for other diverse suppliers as well. Utilisation of that tool in 2023 resulted in a 45% increase in the number of vendors that meet the classification of diverse provider and a 51% increase in spending with Women Business Enterprises (WBEs). The tool has also helped establish a baseline for reporting and transparency. We are a member of the Financial Services Roundtable for Supplier Diversity giving us access to further benchmarking and learning about best practices that are specific to our industry. We continue to evaluate additional memberships with groups that certify, develop, and connect Minority Business Enterprises (MBEs) with major corporations and public agencies.



5. Active Ownership

- ✓ UK Stewardship Code - Principle 9
- ✓ Japan Principles for Responsible Institutional Investors - Principle 1, 3, 4
- ✓ The New Zealand Stewardship Code - Principle 2, 4



5.1 Our engagement approach

Active ownership is an important component of our investment responsibilities and decision-making process. As part of our stewardship activities, we aim to engage with companies on overall business strategy, capital allocation and responsible investing practices, while encouraging appropriate levels of risk mitigation. Furthermore, through ongoing dialogue, we can better understand both the risk factors and potential return associated with the ownership of a company. Through our engagement activities, we aim to promote changes by encouraging good practices on material issues that may protect and enhance long-term sustainable value creation and shareholder rights, and ultimately benefit our clients as the beneficiaries of our investments.

Our business model and service capabilities enable a multi-channel approach to stewardship, meaning that we engage directly with issuers, engage through and with our sub-adviser partners, and join collaborative engagement efforts with third-party market participants.

Exhibit 23: Impactful ownership practices



Source: Russell Investments, for illustrative purposes only.

As a leading investment solutions partner with multi-asset and multi-manager capabilities, we leverage a broad set of relationships, including those with our sub-adviser partners, to exert influence and enable multiple levels of engagement. These relationships extend across and through our sub-advisers, external standards setters, proxy and engagement service providers, other market participants and, of course, corporate issuers. These connections also provide information sharing and serve as an important feedback loop into our active ownership and investment processes.

Russell Investments-led engagements

A strong stewardship programme includes pursuing activities which offer the highest return or risk mitigation opportunities. To this end, Russell Investments' Active Ownership strategy is focused on material issues under the general categories of ESG. While we recognise that a broad set of issues are worthy of shareholder attention, we believe that identifying a select set of engagement priorities supports accountability and successful outcomes.

Internally led, direct company engagements are initiated by two key methods:

- Intentional selection of portfolio companies identified as high ESG risk through various data resources. Further described in the engagement selection criteria below.
- From our proxy voting activity – We may engage with management in advance of an AGM, or instances where we have voted against management may lead to a follow-up engagement. Some of these votes are determined by our custom guidelines; others are referred to the Active Ownership Committee for special review. The proxy voting section below provides additional information on referred items and the manual voting process.

Sub-adviser partner engagements

Given our position as a multi asset manager-of-managers, we leverage our relationships with our sub-advisers to provide an informed and integrated approach to active ownership. Sub-advisers are hired to play targeted, value-enhancing roles in our portfolios. Day-to-day they are routinely in close contact with our investee companies, with over 80% of sub-advisers noting they regularly meet with management to discuss ESG issues (per the FY2023 ESG DDQ). Therefore, it is natural that their insights and recommendations regularly contribute to our engagement and voting processes.

We consider our sub-adviser relationships to be a strategically important element of our stewardship programme. Whenever possible, our portfolio managers solicit input from our sub-adviser partners in the selection of our engagement priorities. Discussions with our sub-advisers can validate the benefit of an engagement and inform our approach. Through consultation with our sub-adviser partners, we determine whether joint outreach or separate but aligned efforts are more likely to be effective. Opportunities highlighted by our sub-advisers might result in partnered engagement efforts, in Russell Investments-led engagements with sub-adviser input, or in reinforcement of engagement efforts that are already underway. In all scenarios, we have an opportunity to amplify the strategic input of our sub-adviser partners to the holding company.

Collaborative engagements

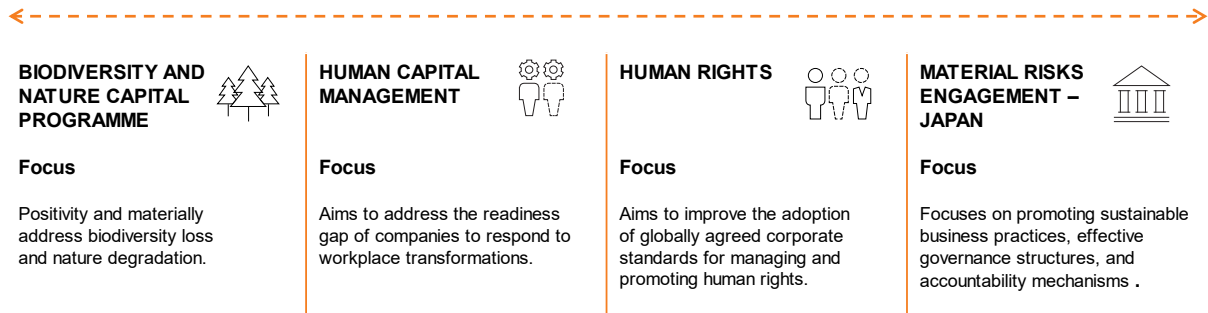
- ✓ UK Stewardship Code – Principle 10
- ✓ Japan Principles for Responsible Institutional Investors – Principle 3, 4
- ✓ The New Zealand Stewardship Code – Principle 4, 7

Russell Investments leverages third-party engagement initiatives to extend our reach across regions and markets. In 2023, we utilised Sustainalytics engagement offering alongside our memberships with the Climate Action 100+ initiative, Net Zero Engagement Initiative (NZEI), and Nature Action 100 initiative. More information on our collaborative engagement efforts is provided below.

Sustainalytics

Since early 2020, Russell Investments has leveraged a partnership with Sustainalytics for thematic and collaborative engagements. Sustainalytics' engagement programmes enable participants to build relationships with a selected set of issuers to encourage action on specific issues in ways that promote long-term value. In the second half of 2023, Sustainalytics restructured their collaborative engagement channels, beginning a shift from "thematic subscriptions" to broader themes for engagement. The new approach targets a larger selection of companies for engagement, as well as evolving the processes to allow for engagement beyond the three-year timeline that was previously in place. The new structure supports third-party industry initiatives and stewardship codes. Russell Investments is continuing our participation through selected topics that align with our engagement focus areas as defined in the engagement selection section below. Russell Investments' collaboration with Sustainalytics has materially broadened our scope of engagements particularly in emerging markets, where it can be difficult to initiate engagement conversations with companies. Across all four themes selected, our investment professionals participate directly in calls with the targeted companies.

Exhibit 24: Thematic engagement through Sustanalytics in 2023



Source: Russell Investments, for illustrative purposes only.

Climate Action 100+

Russell Investments recognises climate change as a threat to the global economy and the financial security of our clients, and we participate in investor collaborations that support our efforts to mitigate this threat and deliver strong financial outcomes. One of the largest is Climate Action 100+, an investor initiative launched in 2017 to encourage companies to improve governance and strengthen climate-related financial disclosures and transition plans. As members of the Climate Action 100+ initiative since early 2020, Russell Investments has engaged with a selected number of companies on climate transition to support the initiative’s goal. Our efforts with the initiative are paralleled by 27% of our funded sub-advisers who are also participants in the Climate Action 100+ initiative, showcasing the value the initiative can have in expanding our active ownership programme.

Russell Investments is actively involved as a participating member, taking the lead on a select number of engagements and prioritising the protection of our clients’ interests as our primary focus. We directly and indirectly engage with 170 companies, making it a meaningful component of our active ownership programme. Climate Action 100+ participation has allowed us more efficient access to these companies and allowed the companies to be responsive to a wider number of investors. During 2023 we have actively contributed to the working groups with respect to companies we engage with.



Case study – Repositioning our leadership within Climate Action 100+

Engagement Channel	Collaborative Engagement
Country of Incorporation	United Kingdom
Market Cap	\$8.7bn (USD)
Asset Class	Fixed Income & Public Equity
Sector	Utilities

In 2021, Russell Investments joined the collaborative engagement via CA100+ as a Lead Investor for a UK-based oil and gas distribution company which is classified as one of the 100 largest emitting companies globally.

As co-lead of the engagement, we had regular dialogue with the company as it considered how to improve its approach to climate change. Moreover, we sought updates on the company's public policy activities and lobbying alignment disclosure. We have found the company to be very constructive and open to engagement on climate change risk.

Outcome

After careful consideration, and in acknowledgment of the company's strong commitment and intentionality in its journey toward achieving net zero emissions and considering that our primary sub-adviser raised no concerns regarding the company's decarbonisation strategy, Russell Investments decided to step down from its co-lead role in 2023 and redirect our stewardship efforts toward other leadership positions we hold. Our shift in focus emphasises our commitment to engaging on the highest risk and return opportunities across our investment portfolio, thereby benefitting our clients.

Net zero engagement initiative

The NZEI launched formally in March 2023 and aims to extend investor engagement beyond the CA100+ focus list. The aim is to include more companies that are heavy users of fossil fuels, thus exposing these companies to risks due to the transition to a low-carbon economy. The initial target is focused on 107 high-emitting companies in Europe with plans to expand the scope of engagement targets after the initial phase. These companies are engaged by more than 90 investors with the goal of providing more transparency to the company's climate transition plan.

Nature Action 100

Estimates suggest that more than 50% of global GDP is dependent on nature and, therefore, exposed to risks relating to biodiversity loss and natural resource degradation. Nature Action 100 is a global investor engagement initiative mobilising institutional investors to establish a common high-level agenda for engagements and a clear set of expectations to drive greater corporate ambition and action to stem nature and biodiversity loss. Investors participating in the initiative are engaging with 100 companies in key sectors deemed to be systemically important in reversing nature and biodiversity loss by 2030. Russell Investments joined Nature Action 100 at its launch in 2023 as a co-signatory of the letter sent to the targeted companies. Initial engagement actions are scheduled to take place in early 2024. With our participation in Nature Action 100, we aim to contribute to the transition toward a more sustainable and resilient global economy for the protection of our clients' interests.

Engagement selection

At Russell Investments, we hold thousands of securities on behalf of our clients. Our engagements are conducted with consistent application of our processes across geographies, sectors and market cap. However, given the breadth of our investment operations and clients' interests, we leverage data and research to focus our efforts on the highest return or risk mitigation opportunities. The time horizons of these engagements are aligned with our clients' requirements as detailed earlier in this report.

Russell Investments considers the following criteria when selecting targets for engagement:

- Russell Investments' ownership stake, as percent of shares outstanding and/or weight of fund exposure;
- Proxy voting history and management responsiveness to shareholder concerns;
- Material ESG analysis performed in-house and by third-party vendors of ESG metrics focusing on sub-industry peer comparison and ESG-related controversies;
- Research and analysis from Glass Lewis, our proxy voting administrator;

- Any history of previous engagement activity; and
- Opportunities highlighted by our sub-advisers.

Engagement targets are finalised using the input and insights of our portfolio management teams via processes approved by Russell Investments’ Investment Strategy Committee.

Engagement focus areas

In addition to the criteria outlined above, we centre our engagement activities around six focus areas, listed below. These have been chosen in consideration of:

1. Our business purpose of addressing our clients’ most pressing financial challenges,
2. Clients’ expectations collected from surveys and communication,
3. Our proxy voting and engagement practices through time,
4. Our corporate values and purpose, and
5. Our responsible investing beliefs.

Our engagement focus areas are monitored and updated as required to address regulatory developments, emerging investment risk and opportunities, and clients’ requests and needs. More information on this approach can be found in our engagement policy.

We expand on the financial materiality of these focus areas and provide relevant case studies beginning on page 70 of this report.

Exhibit 25: Engagement focus areas



Source: Russell Investments, for illustrative purposes only.

ESG Disclosure

Russell Investments encourages companies to publicise how they are addressing material ESG issues relevant to their business practices in a timely manner. To this end, we promote the publication of an integrated or standalone sustainability report on an annual basis, which provides information in line with peers and industry good practices.

For most small market capitalisation and emerging market equity holdings, we expect ESG disclosure to be the main engagement topic. We recognise that these companies have a disadvantage compared to their larger or developed market peers due to resource constraints and the financial burden that comes with measuring and disclosing ESG risks. Our advocacy for small cap and emerging market holdings therefore often starts with improving ESG disclosures.



Case study – Improving ESG disclosure at a small cap company

Engagement Channel	Russell Investments-led
Country of Incorporation	United Kingdom
Market Cap	\$1.1bn (USD)
Asset Class	Public Equity
Sector	Materials

Russell Investments engaged for the second time with a UK-based chemicals company that operates globally. After an initial engagement on the topic of increased disclosure in 2022, the company demonstrated some progress by reporting a strategic, integrated approach to sustainability. However, Russell Investments held a follow-up engagement in 2023 to encourage higher transparency around the actions the company is taking to meet its stated targets. We requested that the company to disclose metrics and specific targets relating to its sustainability goals. In our view, the lack of disclosure is material because it obscures key aspects of its risk profile and operational performance. Clear disclosures support the evaluation of the long-term viability and resilience of the business while insufficient disclosure can erode investor trust and interest.

Outcome

Russell Investments will continue to engage with the company. While it has invested in addressing ESG risks within its business, we aim to see the opportunities from this strategy reflected in the company's growth. Furthermore, we will expect more transparency and specificity in their next annual report.

United Nations Global Compact

Established in 1999, the United Nations Global Compact (UNGC) is a voluntary framework consisting of ten principles focused on human rights, labour standards, the environment, and anti-corruption. These principles promote the integration of sustainable business practices and challenge companies to become more open and transparent about their strategies, policies, and procedures related to sustainability issues. The UNGC has grown into the largest corporate sustainability initiative in the world.

To ensure that companies meet a minimum standard for good governance practices, we check whether a company has breached global 'norms', as represented by the UN Global Compact Principles. The Russell Investments Global Exclusions Committee (GEC) monitors our holdings for breaches of the UNGC Principles and oversees any actions that are taken as a result. If a company is identified as being in breach of one of the principles of the UNGC, we consider the company a high-priority engagement target. Our goal is to understand why a breach has been flagged, promote improvements in governance practices, and ultimately assess whether the company exhibits good governance.



Case study – Mitigating potential human rights violations

Engagement Channel	Russell Investments-led
Country of Incorporation	United Kingdom-Australia
Market Cap	\$106.8bn (USD)
Asset Class	Public Equity
Sector	Diversified Metals Mining

Russell Investments engaged with a global diversified miner to ensure the company complies with the international norms and standards such as Global Compact's internationally recognised principles for business conduct, ILO Conventions, and the OECD Guidelines for Multinationals Enterprises.

The company is facing some challenges in its operations due to the presence of numerous protected rock shelters in the area. The company expressed efforts to avoid blasting near these sensitive sites. In the past, similar events had a profound material impact on the company, influencing its stakeholder relations and operational strategies. It led to reputational damage, affecting investor confidence and brand reputation.

Outcome

The company has recognised the need for potential revisions in blasting management techniques and the acknowledged the complexity of balancing operational needs with environmental and cultural preservation concerns. Russell Investments will continue to engage with the company to ensure we are comfortable with how the company is addressing human rights impacts.

Engagement tracking and escalation

- ✓ UK Stewardship Code – Principle 11
- ✓ Japan Principles for Responsible Institutional Investors - Principle 3, 4
- ✓ The New Zealand Stewardship Code - Principle 4, 7

Tracking

Our Active Ownership Team, in coordination with the relevant portfolio management team, is responsible for monitoring and recording the status of company progress for each engagement action, including the relevant focus area and the aim of each outreach. Engagements are 'ongoing' as long as we believe progress can be made. Ongoing activities include early-stage conversations that result in raised awareness, as well as companies that have moved toward implementation of a revised strategy. While we do not subscribe to an explicit time frame for escalating or closing our internally-led engagements, we expect and plan for most issues to be resolved over a three-year period.

Exhibit 26: Tracking engagement progress

ENGAGEMENT ONGOING



ENGAGEMENT RESOLVED	
Current strategies deemed appropriate following dialogue and review	Company changed practices to address the issue
DISENGAGED	
Company did not respond to inquiries or declined to dialogue on the issue	Company was unable or unwilling to commit to change to address the issue
WITHDRAWN	
Engagement paused due to a decrease in ownership	Issue(s) no longer relevant due to material change (including corporate action or regulatory conditions)

Source: Russell Investments, for illustrative purposes only.

Engagements and outcomes are reviewed at least annually, and members of the Active Ownership Team are charged with recommending whether an engagement should be escalated, finalised, or closed - typically in consultation with relevant AOC members or investment colleagues. When a company repeatedly fails to respond to our outreach and/or does not advance along a path toward implementation, the Active Ownership Team may recommend escalation activity to the AOC.

Escalation

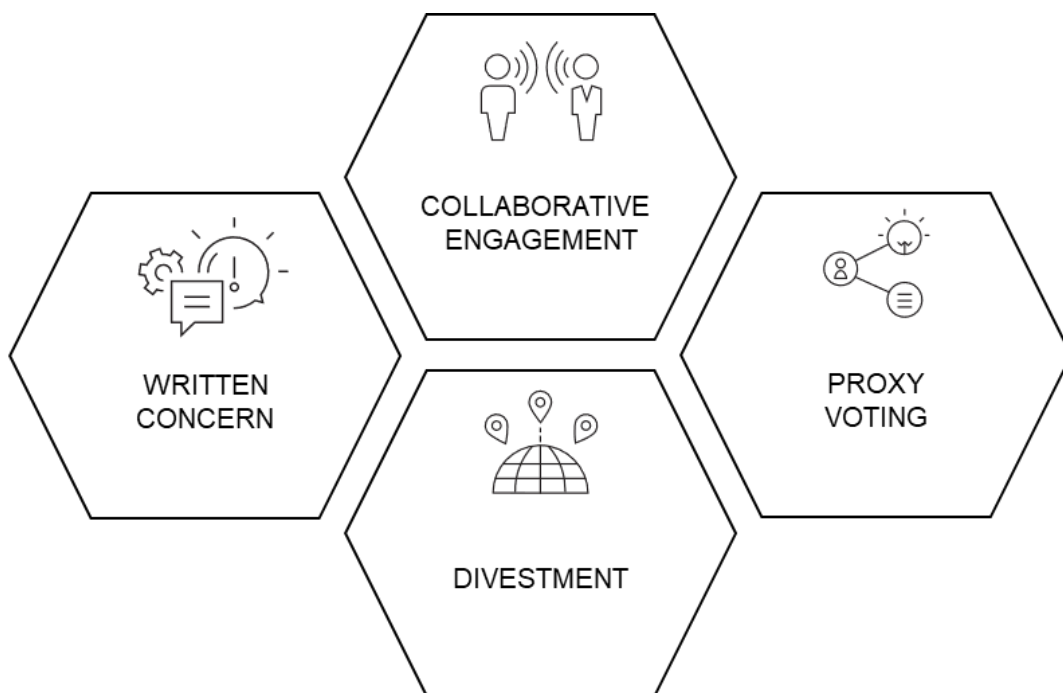
At Russell Investments, being an active owner is an important component of our investment responsibilities and fiduciary duty. We are a long-term shareholder across thousands of securities on behalf our clients, and we engage knowing our clients should benefit over the longer-term. Our engagement approach is to encourage risk mitigation on the most material risk or return opportunities through building mutually beneficial long-term relationships with investee companies. We believe that ongoing dialogue is likely to be more effective than divestment or exclusion see that as a fundamental part of our responsible investing strategy.

We have several avenues for escalation, including enhanced dialogue with our sub-advisers and other market participants that result in coordinated or collaborative engagements, sharing concerns in writing (publicly or privately), and/or adverse proxy voting on related items. Regardless of engagement status, we challenge and monitor our sub-adviser partners on the sustainability risks of their holdings on a regular basis, assessing their insight and analysis to ensure strong oversight.

As a global investment solutions provider, we seek to maintain a broad investible universe that provides the greatest scope for identifying excess return opportunities and diversified portfolio positioning.

We believe that in many circumstances there are better alternatives to managing risk and sustainability outcomes than outright exclusion, and we adopt a multi-disciplinary approach to managing sustainability risks, as detailed in our Sustainability Risks Policy.³ Where appropriate, exclusions are used to meet client preferences, manage risk, or to deliver on strategy objectives. When using an exclusion, we strive to employ a thoughtful approach to calibrating criteria so as to meet complex topics such as energy transition with a holistic approach, meaning identifying companies whose business models are at risk as well as those likely to contribute to real-world solutions.

Exhibit 27: Escalation strategies



Source: Russell Investments, for illustrative purposes only.



Case study – Escalation to sub-adviser due to poor governance practices at a controlled company

Engagement Channel	Russell Investments-led
Country of Incorporation	France
Market Cap	\$14.5bn (USD)
Asset Class	Public Equity
Sector	Industrials

Russell Investments expects companies to follow governance good practices for the market they operate in, including remuneration benchmarked versus peers and transparency into pay structure. Further, controlled companies are encouraged to have at least one third of their board constituted by independent directors.

Russell Investments engaged for a second time with a French aerospace and defence company, focusing on its governance practices as well as environmental and social strategies. Ultimately, the company is below peers in integrating reasonable governance practices - even considering it is a controlled company. The company has no remuneration committee on the board and all remuneration decisions are made by one individual.

Outcome

During this engagement, the company showcased their response to shareholder requests to integrate ESG issue management into remuneration. While this demonstrated they are willing to work with shareholders, they were unwilling to increase transparency into remuneration. Russell Investments escalated the engagement to vote-against-management at the 2023 AGM due to the company’s continued indifference toward shareholder opinions on board independence and executive remuneration.

In addition to voting against the company’s remuneration scheme, Russell Investments has also escalated the engagement by communicating the outcome of our conversations to our sub-advisers, flagging this as a material governance risk.

Engagement across asset classes

Fixed Income

The fixed term and contractual nature of bond investments afford bondholders a finite number of engagement opportunities to make explicit impact with individual issuers. In most instances, these opportunities are brief in duration, occur before an investment decision must be made, are not open to all parties, and are offered at the discretion of the issuer's willingness to engage. However, repeat and frequent bond issuers have a greater incentive to listen to bondholders.

Russell Investments leverages a multi-avenue engagement approach for its fixed income holdings alongside equity engagements. This results in direct engagements with corporate fixed income holdings as well as our monitoring of sub-advisers engaging with issuers. As bondholder engagement has become a key source of information for assessing ESG-related risk and return opportunities in the marketplace, we actively use these activities to gain greater insight into underlying companies or entities, improve corporate transparency, and influence business practices.

In 2023, Russell Investments expanded its Enhanced Oversight processes to incorporate fixed income holdings, a challenging process due to the nature of the securities and lack of data. In our assessment, we consider bond-specific characteristics alongside traditional ESG risk metrics. This includes our total market-value exposure, the duration remaining to maturity, and credit rating. Combined, these metrics are used to evaluate the downside ESG risk an issuer may be presenting within our portfolios. See section 4 above for more information.

The Enhanced Oversight process has led to an increase in the number of Russell Investments-led, fixed-income specific engagements. Due to our broad equity exposure, we may conduct these in tandem with our equity teams; however, the focus of the conversation will be more focused on improving risk management practices as opposed to sustainable opportunities. Please see below for more in-depth case studies of our fixed income specific engagements.

At the same time, we maintain oversight of the responsible investing awareness and capabilities of our underlying managers, including their efforts toward engagement. Our sub-adviser due diligence framework incorporates an assessment of the level and quality of ESG integration and active ownership across all asset classes, including fixed income. Consideration given in this process includes, but is not limited to:

- How managers prioritise engagement activities;
- How engagement objectives are set;
- Who is involved in the engagement activities;
- How the progress is monitored;
- How engagement activity success is measured; and
- Publication of product or asset class specific sustainability reports.

Based on our monitoring activities, our sub-advisers are increasingly exercising proactive engagement in the context of materiality and industry and company-specific risks, but the frequency and nature of the conversations can vary depending on the credit quality of the issuer. More information regarding this process can be found in the section 4 above.

Investment-grade corporate bond issuers are, by definition, companies with higher credit ratings resulting from healthier financial conditions. Such companies are often large in size, listed on the stock market, and employ dedicated investor relations personnel to address investor concerns. Therefore, the transparency of the investment-grade bond issuers tends to be greater than that of the below-investment-grade bond issuers. As such, although we have seen a substantial expansion of engagement efforts among below investment-grade bond managers (such as high-yield managers), engagement activities are more established among sub-advisers with investment-grade corporate bond mandates.

Depending on market conditions, high-yield issuers potentially have a greater incentive to listen to potential investors' needs, as their ability to access capital markets is less certain than that of investment-grade companies. There are also more private companies in the high-yield market than in the investment-grade corporate market, and private companies often lack transparency, such as visibility into the composition of board members. While our high-yield managers were already communicating with the management of underlying companies and their stakeholders, this dialogue is shifting to include broader ESG-related questions. Our high-yield managers also focus on increasing transparency and influencing corporate behaviours, to improve the long-term enterprise value of the company. At the same time, our sub-advisers are increasingly focusing on their engagement activities around climate risk.



Case study – Fixed Income engagement on natural capital management

Engagement Channel	Russell Investments-led
Country of Incorporation	Canada
Market Cap	\$26.4bn (USD)
Asset Class	Fixed Income
Sector	Chemicals

Russell Investments continued its engagement with the company following an initial discussion in 2022 to increase its disclosures of metrics, targets, and overall strategy regarding climate change resilience and natural capital management.

Given the company's role as an agricultural-chemical provider, it must consider both emissions-reduction strategies and opportunities for natural capital and biodiversity management by collaborating with growers. We found that the company has significantly advanced the integration of sustainability strategies and disclosures through improved annual reporting. However, there is still room for improvement, especially concerning measurements and targets for Scope 3 emissions reduction.

Outcome

The disclosures made and targets set by the company showcase a logical approach to managing its natural capital risks. We will continue to monitor how the company succeeds in tracking biodiversity metrics and the expected expanded targets aimed at reducing adverse impacts.



Case study – Fixed Income engagement on natural and human capital

Engagement Channel	Russell Investments-led
Country of Incorporation	Mexico
Market Cap	\$12.2bn (USD)
Asset Class	Fixed Income
Sector	Materials

Russell Investments engaged with a company involved in production, distribution, marketing and sale of cement and other global construction materials to encourage the company to identify the natural capital impacts and/or dependencies that are relevant to their business and long-term strategy. Furthermore, we aimed to confirm the robustness of the human capital management of the company.

From a materiality perspective the efficient utilisation of human capital ensures smooth operations, innovation, and quality control throughout the production and distribution processes. Secondly, natural capital, particularly access to raw materials like limestone and clay, is essential for cement production, and sustainable management of these resources is critical for long-term viability and environmental compliance.

Outcome

While we are broadly satisfied with the board's oversight of the human capital strategy from a governance perspective, there appears to be a challenge with the monitoring of third parties, particularly regarding road accidents, which may compromise the company's commitment to achieving its target of zero fatalities by 2025. Biodiversity impact is also an area that needs development. The company will be setting targets and is currently in conversations with the Science Based Targets Network (SBTN) to establish science-based targets. They expect to have the targets verified within the next year. Russell Investments will continue to engage with the company with a particular focus on natural capital management, as the company is developing its strategic approach to these issues.

Private Markets

Over the past decade the level of sophistication of private market funds has increased significantly. In this context, and as a private market investor, Russell Investments recognises that active ownership, combined with the ability to ensure strong execution in individual portfolio companies, is increasingly important to realising value.

Private Markets is a diverse asset class that includes a wide range of different strategies such as venture capital, growth equity, and buyouts, as well as indirect strategies such as fund of funds and secondaries. Different sub-asset classes and funds will have different exposures to ESG-related risks and opportunities. Therefore, a 'one-size-fits-all' approach to active ownership is rarely deployed consistently across an entire portfolio, or even throughout the life cycle of a particular asset.

To overcome the challenges associated with this asset class, and to ensure we execute on fulfilling our duties as an active owner, we employ the following mechanisms for active ownership in private markets:

- **Good Governance:** Governance is crucial in this asset class because it is very difficult to adjust the terms of ownership after the initial investment. Hence, governance practices and requests are discussed upfront, while thinking about the long-term relationship with the manager.
- **Limited Partner Advisory Committee (LPAC) seats:** Where possible, we try to gain LPAC seats to provide additional transparency, and for smaller investments we aim for 'observer status'. Private markets can be very opaque; these interactions enhance the transparency we receive for our investors.
- **Voting:** We actively participate on voting items. Adjustments to documentation that require LPAC or investor approval can occur regularly due to, for example, new investors or adjustments to Key Person provisions.

Engagement and Monitoring: Given that data in this market is not readily available, insights gained through regular engagement with managers and other investors is the best source to improve transparency. Using side letters to require and encourage disclosure and reporting on material ESG issues is another important tool used in this process.



Case study – Private Equity partnership governance engagement

Engagement Type	Negotiation of proper "key person clause" in Limited Partnership Agreement
Country of Incorporation	United Kingdom
Subasset	Buyouts – European lower middle market

Russell Investments engaged with a company involved in production, distribution, marketing and sale of cement and other global construction materials to encourage the company to identify the natural capital impacts and/or dependencies that are relevant to their business and long-term strategy. Furthermore, we aimed to confirm the robustness of the human capital management of the company.

From a materiality perspective the efficient utilisation of human capital ensures smooth operations, innovation, and quality control throughout the production and distribution processes. Secondly, natural capital, particularly access to raw materials like limestone and clay, is essential for cement production, and sustainable management of these resources is critical for long-term viability and environmental compliance.

Outcome

While we are broadly satisfied with the board's oversight of the human capital strategy from a governance perspective, there appears to be a challenge with the monitoring of third parties, particularly regarding road accidents, which may compromise the company's commitment to achieving its target of zero fatalities by 2025. Biodiversity impact is also an area that needs development. The company will be setting targets and is currently in conversations with the Science Based Targets Network (SBTN) to establish science-based targets. They expect to have the targets verified within the next year. Russell Investments will continue to engage with the company with a particular focus on natural capital management, as the company is developing its strategic approach to these issues.



Case study – Re-electing independent directors

Engagement Type	Election of independent directors – LPAC member
Country of Incorporation	Singapore
Subasset	Asian core open-end real estate fund

Our sub-adviser recognised the importance of maintaining strong governance practices and sought investor consent for key board appointments. This included the re-election of two independent directors to ensure continuity and uphold the integrity of the board. Additionally, the sub-adviser proposed the election of a third independent director to replace an outgoing member, thus ensuring a diverse and skilled board composition capable of effectively overseeing the fund's operations and safeguarding investor interests.

Outcome

Independence stands as a cornerstone of sound governance principles, ensuring objectivity and accountability within decision-making processes. Recognising this fundamental value, Russell Investments supported the election and re-election of independent directors. By doing so, Russell Investments reaffirmed its commitment to upholding the highest standards of governance, thereby fostering investor confidence and trust in the integrity of the board's oversight. This endorsement further underscores Russell Investments' dedication to promoting transparency, fairness, and responsible stewardship across its investment activities.



Case study – Private Equity Fund Extension

Engagement Type	Fund Term Extension– LPAC member
Country of Incorporation	United Kingdom
Subasset	UK Close-end opportunistic real estate fund

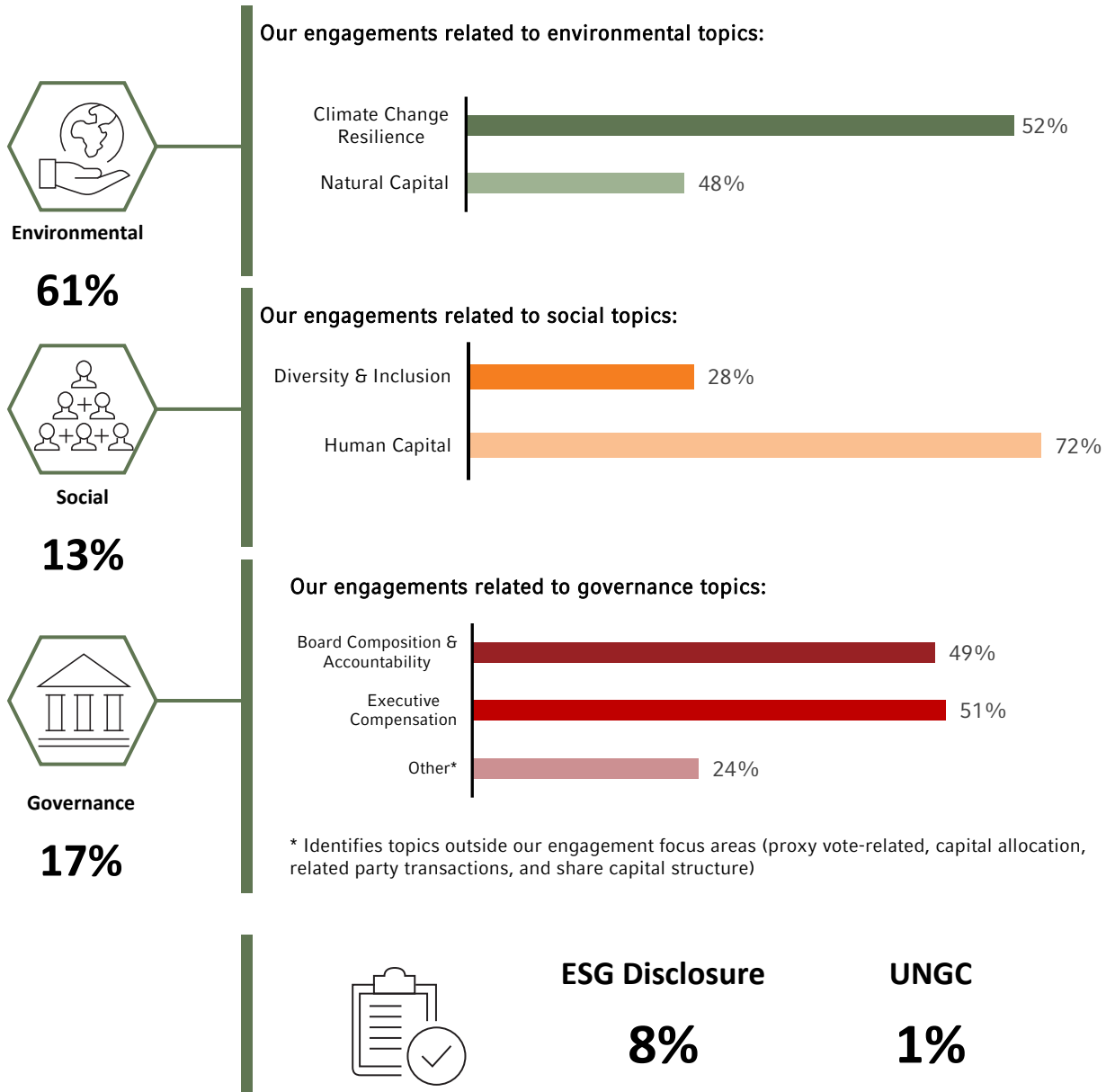
Our sub-adviser manager approached the Limited Partner Advisory Committee seeking approval to extend the fund term by six months. This extension was necessitated by deferred payments resulting from the sale of the fund's interest in a corporate entity. The decision to seek approval underscored the manager's commitment to transparent communication and prudent financial management, ensuring that all stakeholders were informed and consulted regarding the fund's operations and strategic decisions. This proactive approach aimed to mitigate potential uncertainties arising from the deferred payments and to safeguard the interests of the fund's investors.

Outcome

As a member of the Limited Partner Advisory Committee (LPAC), we were asked to approve this extension. Since the fund was no longer charging investment management fees, our sub-adviser manager proposed that overheads of the fund-specific general partner entities would be borne by the partnership during the extension period, up to a specified cap. Russell Investments found the proposal to be reasonable and approved the extension.

Engagement activity in 2023

At Russell Investments, engagements are dialogue undertaken to understand, influence and/or improve business practices and disclosures. As a result of our active ownership development and efforts, during the reporting year we held 510 engagements with 263 different equity issuers.

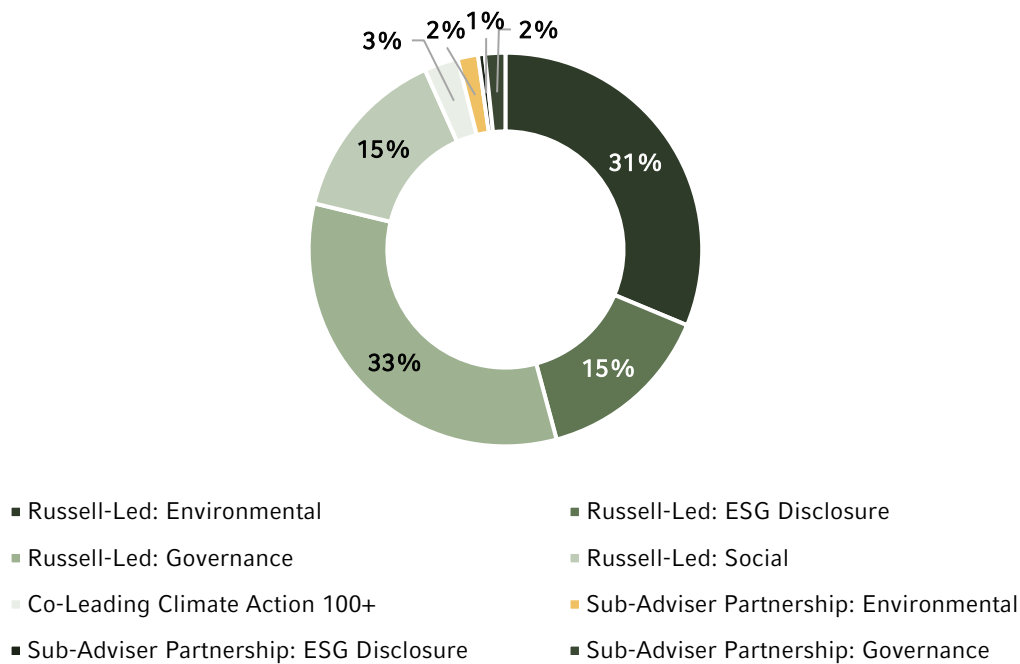


Engagement by avenue

Russell Investments occupies a privileged position in terms of industry influence and reach which creates multiple avenues for engagement. Our active engagements encompass Russell Investments-led engagements where we are solely responsible for building agendas and tracking engagement outcomes, as well as those conducted in partnership with our sub-advisers.

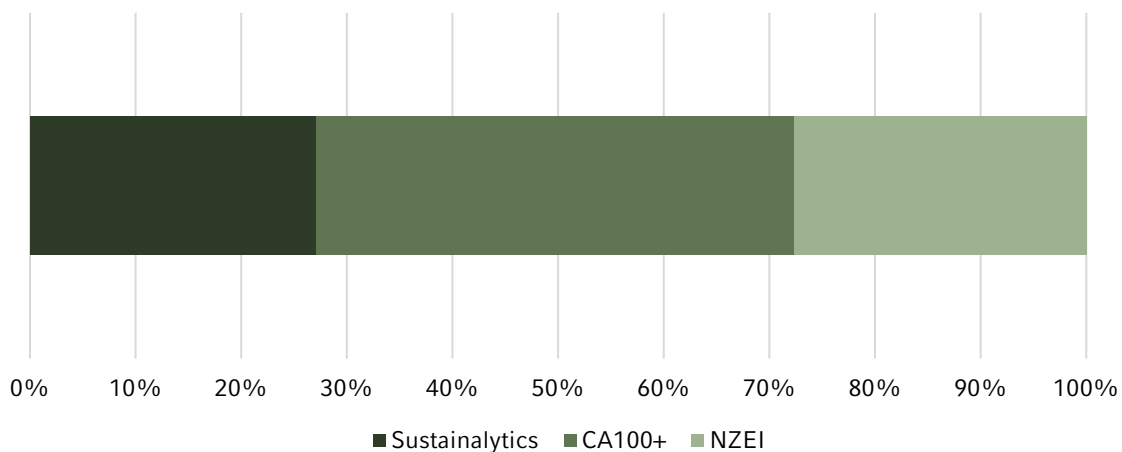
Through third-party initiatives, Russell Investments supports collaborative outreach as detailed above (the CA100+, NZEI, and Sustainalytics). Due to the structure of these initiatives, Russell Investments leads only a select number of conversations, while in others, we contribute to agenda building and knowledge sharing. The breakdown of our involvement between third-party collaborations is detailed in exhibit 29.

Exhibit 28: Engagement channels - active engagement



Source: Russell Investments, data as at 31 December, 2023.

Exhibit 29: Engagement channels – influence through third-party collaborations



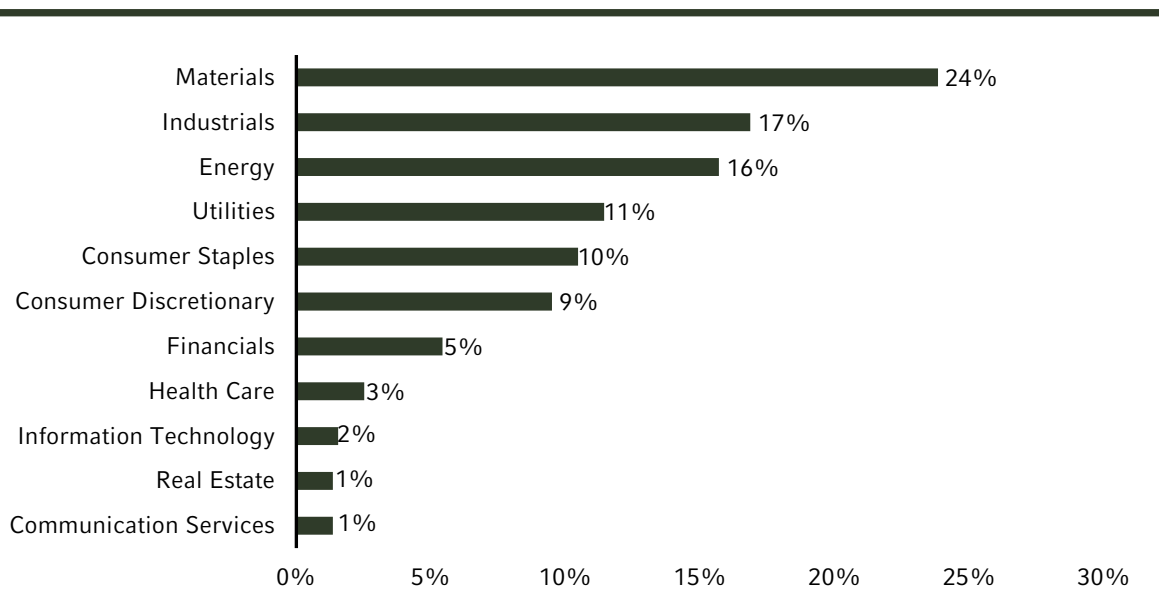
Source: Russell Investments, data as at 31 December, 2023.

Engagements by sector

At Russell Investments, we recognise the importance of materiality, and we seek to evaluate how companies are managing material ESG factors that also impact financial performance. For this reason, we support the Sustainability Accounting Standards Board ('SASB') standards as a fundamental way for companies to communicate financially material sustainability information to investors in an industry-specific and comparable way. In the same manner, we use SASB standards to identify sector-specific priority issues for corporate engagement.

In line with the breadth of our engagement strategy, during 2023 we engaged with companies across 88 different sub-industries. Almost one quarter of the engagements conducted over the reporting period were with companies in the materials sector, followed by Industrials and Energy.

Exhibit 30: Percentage of engagement by sector

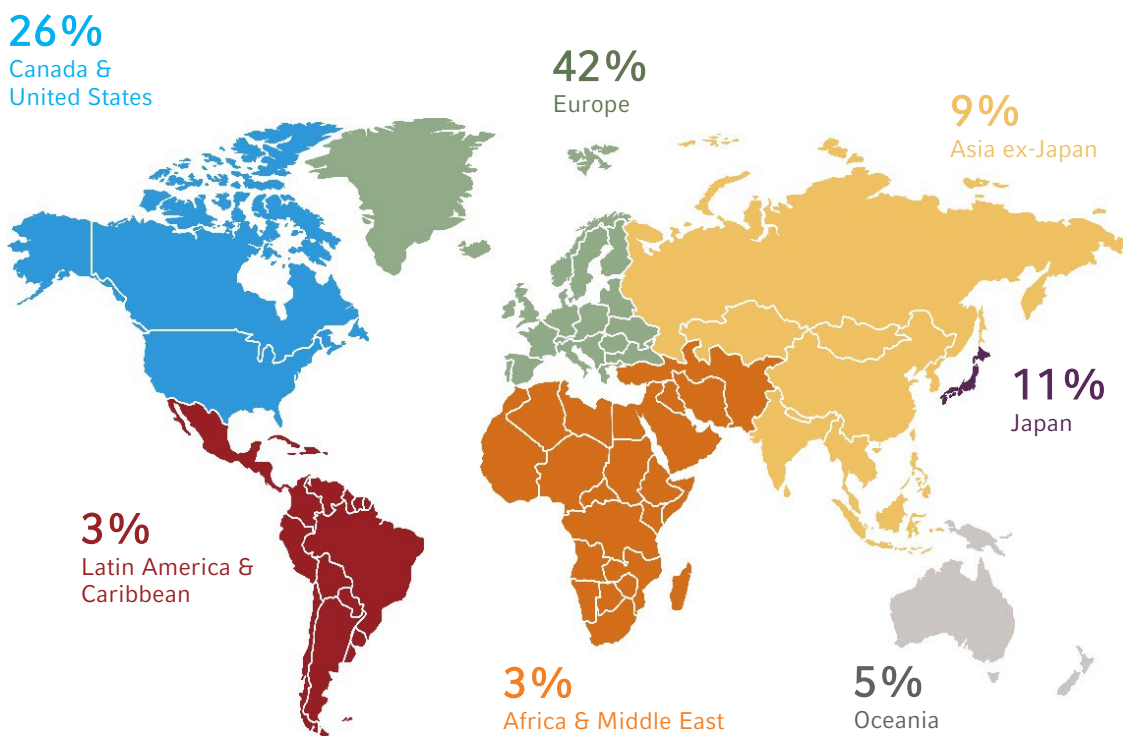


Source: Russell Investments, data as at 31 December, 2023.

Engagement by region

Because we are a global firm, our active ownership strategy has wide geographic reach. In the last two years, through our partnership with Sustainalytics, we increased our engagement activity with companies in emerging and other markets where we had limited activity in the past, particularly the Japanese market. Across all our engagement channels in 2023, we held engagements with companies in 36 different markets, across seven main geographic regions:

Exhibit 31: Engagement distribution by region



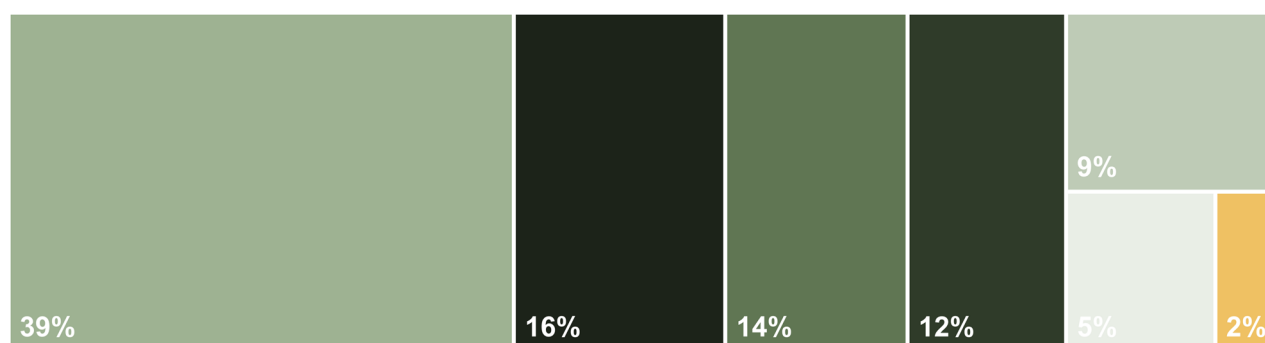
Source: Russell Investments, data as at 31 December, 2023.

Engagement outcomes

A crucial part of Russell Investments' engagement process and a key part of our stewardship responsibilities is tracking the progress of corporate action and measuring the impact of our engagement activities.

In 2023 while reviewing the status of on-going engagement activity, we determined that 14% of the companies we engaged with had resolved the issue(s) positively. Furthermore, over three quarters of these companies with objectives that remain on-going have shown a clear appreciation of the concerns we raised and have committed to address the issue or are already developing a strategy to do so. We believe our efforts and oversight are a contributing factor to many of these positive developments. We note that only a small proportion of the ongoing engagements have been closed due to an unsatisfactory response from the company.

Exhibit 32: Breakdown of engagement outcomes



- 1.A. Ongoing - Company acknowledges understanding of the concerns
- 1.B. Ongoing - Company commits to address issue(s)
- 1.C. Ongoing - Company is developing a strategy and is integrating it into business operations
- 2.A. Resolved - Current strategies deemed appropriate following dialogue and review
- 2.B. Resolved - Company changed practices to address the identified risk or opportunity
- 3.B. Disengaged - Unable or unwilling to commit to change to address the issue
- 4.A. Withdrawn - Engagement paused due to a decrease in ownership

Source: Russell Investments, data as at 31 December, 2023.

Activity across our focus areas

Climate change resilience

Russell Investments recognises that climate change is one of the defining global challenges of our time and, therefore, a material investment issue that crosses regions and industries. Our policy is to research, measure, report and consider climate change risk and opportunities as an integral part of our investing practice, our active ownership, and our business operations to mitigate the impact of climate change-related risks.

Russell Investments has been an official supporter of the TCFD since 2019, and we promote its recommendation that companies provide effective climate-related disclosures to enable more informed financial decision making. In addition, we advocate for companies to have board-level oversight and governance of climate change impacts. Finally, Russell Investments expects companies to explain how they have incorporated climate-related issues into their business, strategy, and financial planning – including the disclosure of key metrics and risk management processes.



Case study – Encouraging the development of a strategic transition plan

Engagement Channel	Sub-adviser partnership
Country of Incorporation	USA
Market Cap	\$73.8bn (USD)
Asset Class	Public Equity
Sector	Energy

In 2023, Russell Investments, in partnership with our sub-adviser, conducted an initial engagement with a global energy equipment and services firm that mainly works with oil and gas operators. The primary goal of the conversation was to encourage the company to create a transition plan that includes short- and medium-term actions to support its strategic ambitions. We also requested improvement of its climate-related financial disclosures.

We discussed the company's transition plan, encompassing its short- and medium-term strategies aimed at reducing carbon emissions across various scopes. This plan focused on transition technology, which the Company recognised as an opportunity for growth. The company expressed its intention to release more detailed disclosures in its next sustainability report, which will also include improved CDP disclosure.

Outcome

The company's plans for expanded disclosure represents a positive development that can provide investors with valuable insights into its sustainability performance and risk management practices. Russell Investments plans to continue engaging with the company in partnership with our sub-adviser following the release of the company's sustainability report in the first half of 2024.

Natural capital management

Measuring and valuing natural capital can enable companies to better manage the natural resources that contribute to economic development and growth. Better understanding of the mechanisms that link ecological systems to human wellbeing is required to assess both the value of benefits from natural resource systems, as well as the expenditure required to maintain those benefits. Russell Investments believes that companies should display an understanding of their environmental resource usage across their businesses and demonstrate responsible environmental management aimed at maintaining the long-term availability of assets. As well, we expect companies to implement sound and sustainable environmental practices across their operations and supply chains to protect against material and reputational risks which can arise from the mismanagement of natural capital. Initiatives and policies that avoid and/or reduce deforestation are an area of focus for Russell Investments. We advocate for disclosure as a starting point. In addition, for companies with material biodiversity exposure, and/or those which operate in natural resource-constrained regions, we seek policies on restoration, preservation, and efforts to control any soil and water contamination.



Case study – Managing natural resources risk in the supply chain

Engagement Channel	Russell Investments-led
Country of Incorporation	Japan
Market Cap	\$2.7bn (USD)
Asset Class	Fixed Income & Public Equity
Sector	Consumer Discretionary

Russell Investments engaged with a Japanese automobile components company which operates on a global scale. The company is exposed to significant risk from natural capital management, given their reliance on natural resources including water and rubber in their supply chain. We encourage companies to disclose metrics related to nature-related risks and opportunities based on dependencies and impacts, and to showcase how the organisation integrates such risks into the overall risk-management approach.

Since our initial engagement, the company has expanded its capacity to assess sustainability specific risks and opportunities by increasing the resources that support its sustainability-related working group structure. However, the company's organisation of ESG-related documentation is a hindrance to good shareholder communication of its strategy and approach.

Outcome

The company is working to enhance its supplier assessments to include climate, nature, and human capital metrics. By integrating these metrics, the company aims to better understand and mitigate potential risks associated with its supply chain, ranging from environmental vulnerabilities to social and labour issues. Russell Investments acknowledges the significance of this initiative and will maintain ongoing engagement with the company as it evolves its supplier selection and retention strategy to include natural capital metrics.

Human capital management

Human capital management is a critical component in company performance. It determines how companies attract, develop, and retain employees while providing working conditions that stimulate greater employee engagement. Human capital is material across all companies; hence we expect companies to provide meaningful and comparable disclosure in this area. Moreover, research shows that the relationship between diversity on executive teams and the likelihood of financial outperformance has strengthened over time². The most diverse companies are now more likely than ever to outperform less diverse peers on profitability.

While human capital is perpetually important, an increasingly tight labour market has led to a greater focus on employee recruitment, retention, and inclusion. Furthermore, societal emphasis on gender, racial and ethnic equity continues to grow; we address this as a separate focus area given its significance.



Case study – Improving Health and Safety Practices

Engagement Channel	Russell Investments-led
Country of Incorporation	Canada
Market Cap	\$27.5bn (USD)
Asset Class	Public Equity
Sector	Metals & Mining

Russell Investments engaged with a mining company domiciled in Canada. The dialogue was focused on the company's efforts around human capital management, climate change resilience, and natural capital management. The company has a robust ESG report and is consistently transparent with stakeholders. However, recent and consistent controversies and events showcase that the company's strategy needs to be adjusted to prevent further negative impacts on the business and a subsequent shift in strategy (and reporting) may be required. The company has had five on-the-job deaths since December 2022 and is focusing on overhauling its health and safety practices to meet its target of zero fatalities.

Outcome

The company plans to hire a third-party auditor to assess its health and safety programmes, with the results expected in early 2024. They aim to make the report available to investors. The expected release of the audit report to investors in early 2024 reflects the company's proactive approach to communicating its efforts in this critical area and building trust with stakeholders. Russell Investments recognises the importance of prioritising health and safety practices within companies, as they not only safeguard employees but also contribute to operational efficiency and long-term sustainability. As such, we are committed to continuing our engagement with the company to support its endeavours in enhancing health and safety practices.

² "Diversity wins: How inclusion matters". (2020, May 19). McKinsey & Company. Available here: <https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters#>

Diversity, equity, and inclusion

There is ample evidence, and it is globally accepted by way of empirical research, that diversity is aligned with good governance and that it helps to create long-term shareholder value. Russell Investments promotes diversity as a valuable tool to enable high-performing teams and strong business outcomes, and we advocate for greater diversity disclosure. This includes basic workforce statistics, ethnic and cultural diversity, and details on policies. Russell Investments sees lack of disclosure as a barrier for investors who want to assess a company's culture and a deterrent for the wider workforce and potential employees of a company who want to understand an employer's approach to equity and inclusion. Workers want to know their efforts will be recognised and fairly rewarded. Companies should demonstrate how they are recruiting, promoting, protecting, and retaining a diverse workforce.



Case study – Japanese Board Diversity and Executive DEI

Engagement Channel	Russell Investments-led
Country of Incorporation	Japan
Market Cap	\$3.3bn (USD)
Asset Class	Public Equity
Sector	Financials

Russell Investments engaged with a regional bank located in Japan, to discuss improvements in board independence and gender diversity at the board and management levels.

While compliant with the Japanese Corporate Governance code, the company does have room for improvement especially compared to global practices. At the board level, just 9% of directors are gender diverse, and while the company indicated it maintains internal targets and a strategy to increase female board diversity, it was not yet comfortable sharing the plan with investors. When asked about how the company is promoting a culture of inclusion and how it supports female managers to maintain a work-life-balance, the company was unable to provide a satisfactory answer besides noting it does train employees on DEI areas.

Outcome

Russell Investments would like the company to demonstrate significant cultural improvements regarding its DEI practices and transparently provide retention rates of females across management levels. Due to the low diversity on the board and in management, as well as the perceived attitude toward DEI practices, the Active Ownership Team recommended that the Active Ownership Committee consider voting against the Chair of the Nomination Committee at the next AGM.

Russell Investments aims to schedule a call with the company ahead of the 2024 AGM to communicate our intention and gather a response.

Board composition and accountability

The board of directors is the focal point of corporate governance. Directors represent the shareholders, and they are charged with safeguarding investors' interests. The board should promote the long-term best interests of the company by acting on an informed basis, with good faith, care and loyalty. This helps to ensure the effectiveness of the directors in promoting successful companies, thereby generating sustainable value creation for investors while having regard to other stakeholders.

At Russell Investments, we expect companies to have foundational governance structures that promote accountability, responsibility, transparency, responsiveness, diversity, and independence from company management.



Case study – Ensuring appropriate governance structures are in place

Engagement Channel	Russell Investments-led
Country of Incorporation	United States
Market Cap	\$502.7bn (USD)
Asset Class	Fixed Income & Public Equity
Sector	Diversified Banks

Russell Investments engaged with a financial holding company based in the U.S., to request the company to split up the roles of the CEO and Chair of the board. Splitting the roles of chair and CEO is material as it enhances corporate governance by introducing a system of checks and balances, reducing the risk of conflicts of interest, and promoting independent oversight.

Outcome

In acknowledgment of the substantial support garnered at the AGM for the separation of the CEO and Chair roles, the company has made a firm commitment to enact this change upon the CEO's departure. A succession plan has already been set in motion, with the CEO slated to assume the chairmanship role for approximately one year to facilitate a seamless leadership transition. Following this interim period, an independent chair will be appointed to the board, aligning with best practices in corporate governance and enhancing board oversight and accountability. This proactive approach underscores the company's dedication to responsive governance and ensures continuity and effectiveness in its leadership structure. We are satisfied with the response received, and no further action is needed.

Executive compensation

Russell Investments believes executive compensation should align the interests of a companies' management with those of shareholders. Programmes should offer clear and transparent disclosure, coupled with basic fairness in the use of shareholders' capital to retain and incentivise management. Inappropriate and poorly designed remuneration structures have been a contributing factor to excessive and imprudent risk taking by individuals. Hence, we regularly engage with companies to ensure that remuneration packages effectively align the interests of the executive directors, the workforce, and shareholders with the company's strategy and performance achieved.



Case study – Compensation accountability

Engagement Channel	Russell Investments-led
Country of Incorporation	Australia
Market Cap	\$7.71bn (USD)
Asset Class	Public Equity
Sector	Industrials

Russell Investments engaged with an Australian transportation infrastructure company during its compensation road show to address the negative outcomes from the 2023 AGM. The board attributed much of the dissent to a semi-controversial acquisition, which has since demonstrated strong performance. They believe that increased disclosure will foster positive sentiment among shareholders for the 2024 AGM.

The company plans to reconfigure the equity plan to incorporate relative total shareholder return (TSR) metrics and operational cash flow, expanding the metrics to two. Additionally, they intend to extend the vesting period to four or five years. We see the proposed changes as an improvement in the compensation package.

Outcome

The company has clearly responded to shareholder feedback and is working to enhance transparency around remuneration reporting and compensation structure to better align with shareholder interests. Russell Investments will monitor the remuneration report before the 2024 AGM for the anticipated changes to ensure the company follows through on its commitments. We will reach out to the company before the AGM if these changes are not reflected in the reporting.

5.2 Proxy voting

- ✓ UK Stewardship Code – Principle 12
- ✓ Japan Principles for Responsible Institutional Investors - Principle 1, 5, 6
- ✓ The New Zealand Stewardship Code - Principle 2, 5

For 30 years, Russell Investments has executed a robust, global proxy voting programme that is a foundation for our stewardship efforts. Russell Investments has documented Proxy Voting Policies and Procedures and maintains custom Proxy Voting Guidelines. Our Guidelines are a bespoke set of rules and policies, based on industry best practices and regulations that dictate how to vote on certain topics. Russell Investments' Guidelines are carefully drafted to result in votes that promote the best interest of our clients, and, at least annually, our Guidelines Sub-Committee reviews and updates them to remain aligned with shareholders' best interests. The Voting Guidelines address most proxy issues with detailed specificity; however, the Active Ownership Committee ("the Committee") recognises some issues require more scrutiny and a non-prescriptive approach. In those instances, the Guidelines refer the votes to the Committee for review. Our committee members are among our most experienced investment professionals around the globe.

As our external proxy administrator, Glass Lewis, is responsible for aggregating proxy ballots received directly from Russell Investments' custodians and for applying our custom Guidelines when executing proxy votes. Russell Investments' internal proxy coordinator monitors our voting activity via Glass Lewis' online platform and directs any proposals that require case-by-case review to internal proxy research analysts, who in turn provide a recommendation to the Committee based on individual and proxy administrator-provided research. The majority of proposals voted on by Russell Investments do not require case-by-case review – Glass Lewis applies our Guidelines directly. To ensure that Glass Lewis casts votes in accordance with our Guidelines, the Committee oversees an annual internal audit process to verify the accuracy of vote execution.

Our Proxy Voting Guidelines are available to review in their entirety on our Responsible Investing site [here](#).

Impact of 2023 guidelines updates

As described above, the Guideline Sub-Committee's annual review of our Proxy Voting Guidelines allows the Committee to remain abreast of regulatory updates and industry trends. Two amendments to the Proxy Voting Guidelines that were implemented for the 2023 proxy season made a considerable impact on our voting activity:

- **Time Commitment of Directors**

- Following a review of the efficacy of the overboarding threshold before the 2023 proxy season, the Committee voted to adjust our approach to overboarding, so that our default stance is to oppose the election of a non-executive director who serves on the boards of more than four publicly traded companies. If the candidate is also an executive director of a publicly traded company, the number of board seats allowed (outside of the company for which the candidate serves as an executive director) is reduced to two.
- As a result of this update, our rate of voting against directors for overboarding significantly decreased year-over-year and was no longer the primary driver of votes against directors. This marks an improvement from our approach in 2022, where we found that our overboarding policy did not allow enough flexibility for directors who also served as executives at external companies.

- **"Say on Climate" Policy**

- Management sponsored "Say on Climate" proposals emerged as a new channel for investor engagement in climate change strategies during 2021. We believe these votes can drive better carbon disclosures, encourage more credible climate strategies and enhance shareholder engagement; however, we are also wary of unilaterally supporting these resolutions, given that shareholders could approve plans with emission targets or strategies that prove inadequate in the future. Companies might then try to avoid updating those plans in future years by anchoring to the fact that they received shareholder approval.
- We expect companies to provide a level of transparency that allows investors to better understand how they may be impacted by climate-related risks and opportunities, and how they have embedded climate change into their strategy. We evaluate management-sponsored votes on climate plans and reports on a case-by-case basis, and we may consider several factors, including but not limited to the governance of the vote, the materiality of climate risk to a company compared to its peers, and any information gained from our engagement activities and/or sub-adviser input.

Looking ahead: 2024 guidelines updates

For the 2024 proxy season and as per annual practice, the Committee refined our Guidelines to enhance Russell Investments' consideration of various risks, practices and strategies, as well as to increase the efficiency of the voting process.



Case study – Annual Proxy guidelines review

In the fourth quarter of 2023, Russell Investments' Active Ownership Committee undertook a comprehensive review and drafted updates to our Proxy Voting Guidelines. This initiative reflects our ongoing commitment to enhancing our stewardship practices and aligning them with evolving market trends and best practices. Through this process, we sought to ensure that our voting guidelines remain robust, relevant, and reflective of our core principles and values.

Outcome

In addition to revising our policies, the Committee approved the reformatting of the guidelines document to provide a concise summary of Russell Investments' stance on key proxy topics. This new format offers a high-level overview of each issue. We trust this new format demonstrates transparency and accountability in our stewardship activities. It provides clients and stakeholders with insight into the principles guiding our voting decisions on behalf of our investment portfolios.

The responsible investing landscape is constantly changing, and Russell Investments aims to keep pace with the regulatory environment. Beyond refining the guidelines concerning ESG shareholder proposals, the Committee ratified amendments for the 2024 proxy season, including but not limited to:

- **Updated voting policy on board diversity**
 - Regulations promoting board diversity are increasingly recognised as vital for fostering inclusive decision-making and enhancing corporate governance practices worldwide. These regulations aim to ensure that boards reflect the diverse perspectives of society, including gender, ethnicity, age, and background. Through mandates or guidelines, governments and regulatory bodies encourage companies to embrace diversity at the highest levels of leadership, promoting fairness, equality, and representation in corporate settings.
 - While at Russell Investments, we consider the specificities of each market, we have had a threshold-based approach to board-level gender diversity for the last two proxy seasons. We vote against the chair of the nominating committee of the board of a blue-chip developed market company outside Asia that is not at least 30 percent gender diverse. Following analysis of the proposals where Russell Investments voted against a nominating committee chair in 2023, we found that there were several instances where the nominating committee chair that we had opposed based on this rule was in fact a gender-diverse director.
 - The committee determined an update was appropriate, as voting against the election of a gender-diverse director under the existing guideline was inconsistent with the intention of the rule.
 - As a result, we have amended the guideline going into the 2024 season – where a given board does not meet the 30% threshold for gender diversity, but the chair of the nominating committee is gender diverse, Russell Investments will vote on a case-by-case basis.
- **Streamlined approach to remuneration policies and reports.**
 - Russell Investments has historically applied a customised set of proxy voting guidelines for over a decade. These guidelines, initially developed with a region-specific focus on remuneration, have evolved over time. In 2024, after careful review by the AOC, it was determined that updating our approach was necessary to ensure alignment with current industry practices and global trends. This update aims to streamline our approach in line with global best practices, moving towards a single, unified approach across all markets.

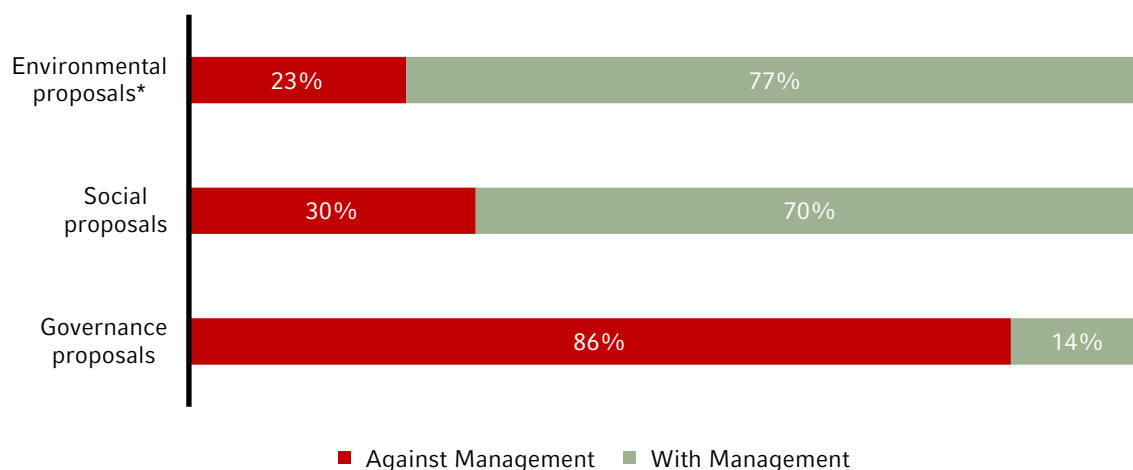
Referred Items

The Committee reviews those proposals that require more scrutiny and a non-prescriptive approach, and any proposals that are not specifically addressed in our guidelines. At Russell Investments, we believe good stewardship requires careful consideration of each proposal on its individual merits. To this end, the Committee evaluates each proposal, considering the following factors:

- Research conducted by our internal proxy analyst,
- External research from our proxy administrator,
- External research from Sustainalytics,
- Input from our sub-advisers on voting and engagement, and
- Input from the Active Ownership Team when a Russell Investments-led engagement has been previously conducted.

During 2023, 699 proposals were referred to Russell Investments' internal proxy analysts, either because our Guidelines dictated case-by-case review or because the proposal topic was not covered by the Guidelines. Of the referred proposals, 62% were evaluated and voted on by the Committee. The remainder of the referred proposals were of a technical nature, so our internal proxy analysts were able to make a vote decision based on careful application of existing proxy voting guidelines without additional input from the Committee. An overview of how the Committee has voted is provided on the graph below:

Exhibit 33: Russell Investments votes on referred items



*includes "say on climate" proposals.

Source: Russell Investments, data as at 31 December, 2023.

The Active Ownership Committee had the highest rate of support for governance-related proposals. Russell Investments emphasises the importance of shareholder rights, which is reflected in our voting support of proposals which request:

- Right to Act by Written Consent
- Independent Board Chairman/Separation of Chair and CEO
- Elimination of Supermajority Provisions

Voting across asset classes

The right to exercise our votes through non-equity asset classes varies by the type of asset and even among individual investments. In all circumstances, we seek to achieve mutually beneficial outcomes while being consistent with our fiduciary duty of protecting our clients' interests. In cases where we can exercise our voting rights on environmental, corporate governance, and social matters, we ensure that the same process and policies are applied across geographies and instruments.

- For fixed income assets, the number of occasions when Russell Investments will be engaged in proxy voting will be very limited. In 2023, the bondholder votes that Russell Investments cast were all of a technical nature.
- As mentioned in the engagement section, we actively participate in voting items for private markets. Details and case studies can be found in section 5.

Stock lending

As a fiduciary, Russell Investments maintains the voting rights for all holdings. We do not delegate voting to any of our sub-advisers, though we may reach out to a sub-adviser for additional information regarding specific proxy votes. Our proxy administrator, Glass Lewis, is responsible for managing the proxy ballots that Russell Investments receives based on our holdings, a process that is monitored in turn by Russell Investments' internal proxy coordinator using Glass Lewis' online Viewpoint platform. The proxy coordinator is responsible for ensuring all of Russell Investments' voting rights are exercised and conducts a quarterly review of accounts with voting rights against the accounts on record with Glass Lewis.

Our policy on securities lending, as it applies to proxy voting, ensures that we exercise voting rights on behalf of our clients. Glass Lewis currently produces a weekly report of shares with upcoming proxy votes that meet pre-determined criteria for potential restriction and/or recall. Russell Investments' policy requires a restrict/recall action for issuers that are either (1) undergoing M&A activity, or (2) issuers for which Russell Investments holds >2% of overall shares outstanding. Additionally, the Active Ownership Committee has discretion to restrict securities on a case-by-case basis. We restrict these securities (either 15 business days out from the record date, or as soon as we are notified, whichever comes first) from being loaned before their record date, recalling any loans as necessary. The restriction is lifted one business day after the record date.

Proxy voting activity in 2023

Proxy voting is a fundamental tool for listed equity, whereby shareholders are entitled to express support or concern with aspects of corporate governance, operations, or disclosures. As stewards of our clients' capital, we have an obligation to vote responsibly and hold companies to account on their behalf.

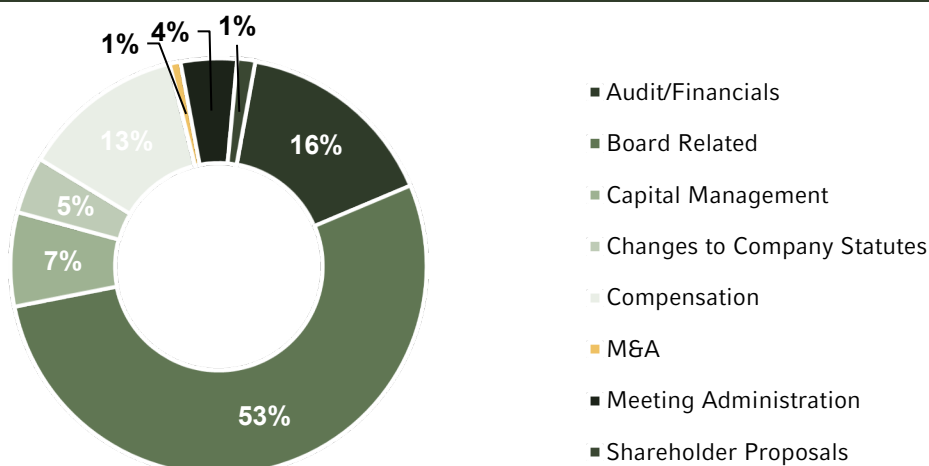
Russell Investments' proxy voting records are publicly available on our website [here](#). We do not publish vote rationales beyond those described in our custom Proxy Voting Guidelines.

Exhibit 34: 2023 proxy voting activity

9,747 Meetings voted	98,267 Proposals voted	1,344 Shareholder proposals	3,791 Votes against provider	12,588 Votes against management
97% Of eligible meetings	95% Of eligible proposals	1% Of total voting activity	4% Of proposals voted	13% Of proposals voted

Source: Russell Investments, data as at 31 December, 2023.

Exhibit 35: Voting activity per topic

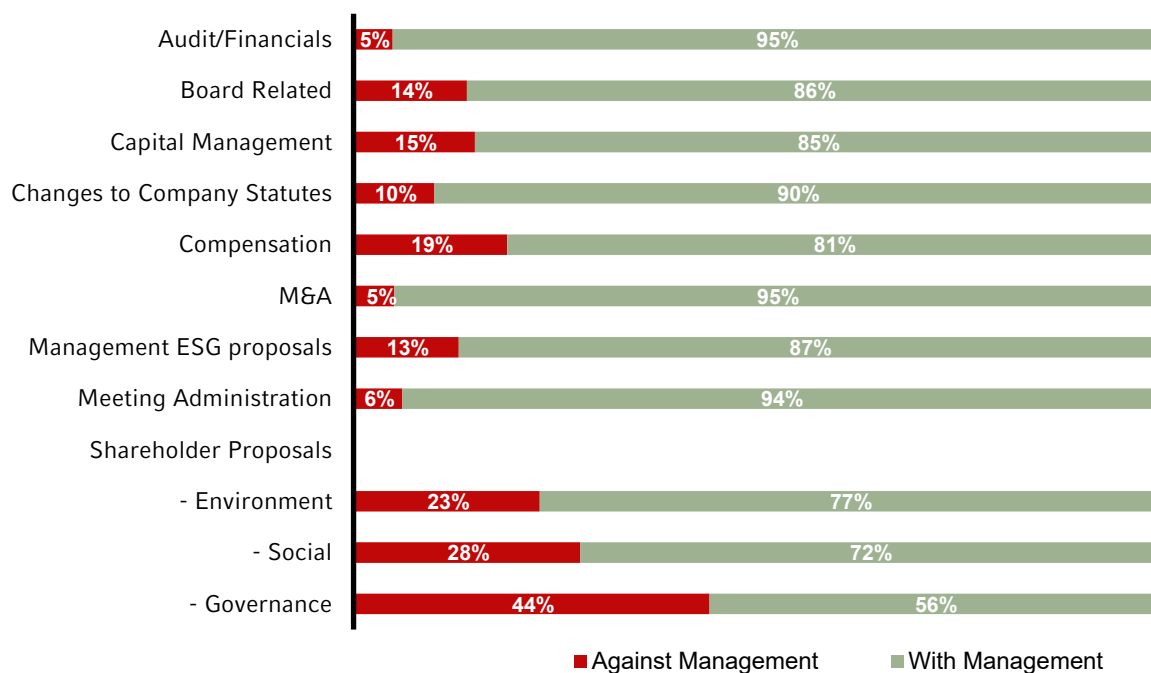


Source: Russell Investments, data as at 31 December, 2023.

Proxy season overview

In 2023, Russell Investments voted on 98,267 individual proposals, representing 95% of proposals eligible, and on 9,747 individual meetings, representing 97% of meetings where Russell Investments was eligible to vote. As is usually the case, the majority of items voted relate to governance issues, with the largest portion being board related. The small percentage of unvoted meetings were due to share blocking power of attorney markets (POAs) or operational barriers. Additionally, Russell Investments did not cast any proxy votes for Russian issuers that were subject to sanctions by any jurisdiction from 3 March, 2022 onwards. Our proxy administrator suspended their engagement and research with these companies following the Russian invasion of Ukraine, and as a result, we were unable to cast informed voting decisions and reached a decision to suspend voting action for these entities.

Exhibit 36: Votes by issue

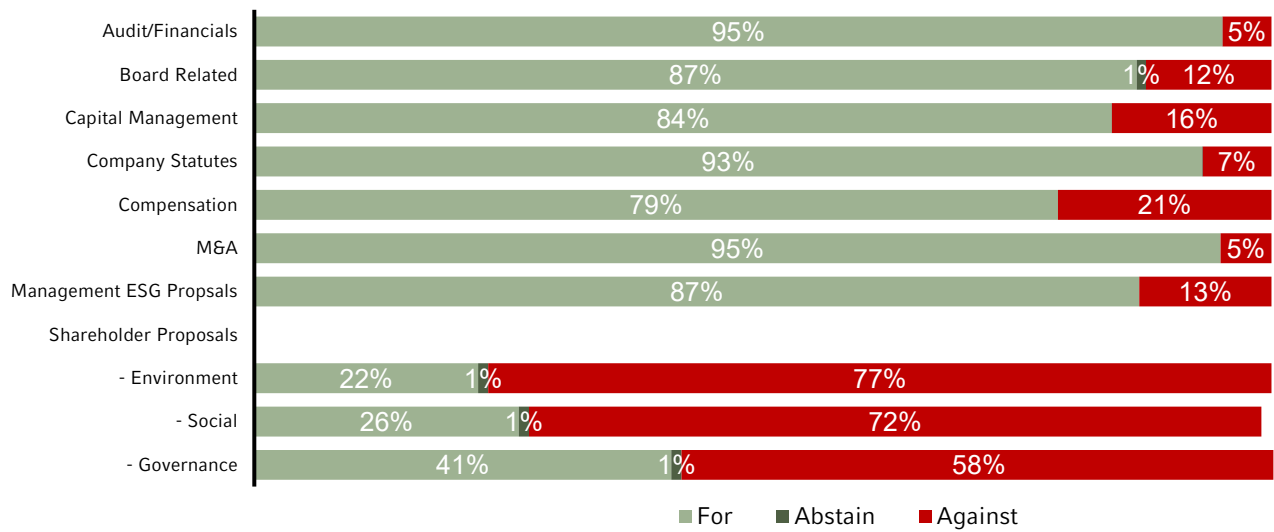


Source: Russell Investments, data as at 31 December, 2023.

Russell Investments voted against management on 13% of proxy items and voted against Glass Lewis recommendations on 4% of proposals. 23% of votes against management were also against Glass Lewis' recommendation, which is reflective of the independence of Russell Investments' guidelines and voting activity.

Russell Investments' votes against management declined by approximately two percent year-over-year, however the largest portion of these votes - 57% of votes against management - remained against the election of director candidates. Insufficient independence was the most frequently cited reason for voting against a given director, coming up in about half of our votes against director candidates. Over-boarding (Russell Investments will generally withhold support from candidates who serve on the boards of five or more public companies) and inadequate gender diversity at the board level were the next most common reasons for voting against. We also frequently disagreed with management proposals concerning compensation, voting against approximately 18% of these proposals.

Exhibit 37: Russell Investments voting behaviour

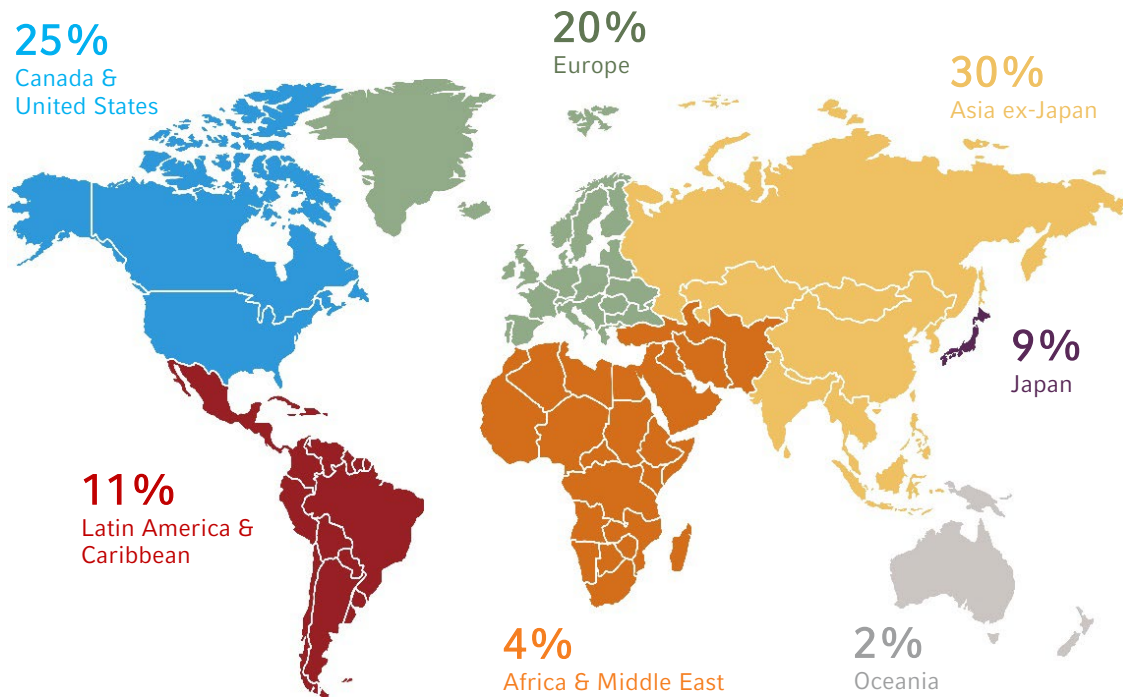


Source: Russell Investments, data as at 31 December, 2023.

Proxy voting by region

Russell Investments applies a consistent proxy voting practice around the globe. We have exercised our votes across 86 different countries during 2023. The distribution of our votes has shifted slightly: for the first time less than half of the proposals voted on applied to companies based in Europe and North America while Asia-based companies (including Japan) accounting for nearly 40% of the votes. Oceania had the lowest voting activity registered.

Exhibit 38: Proxy voting distribution by region

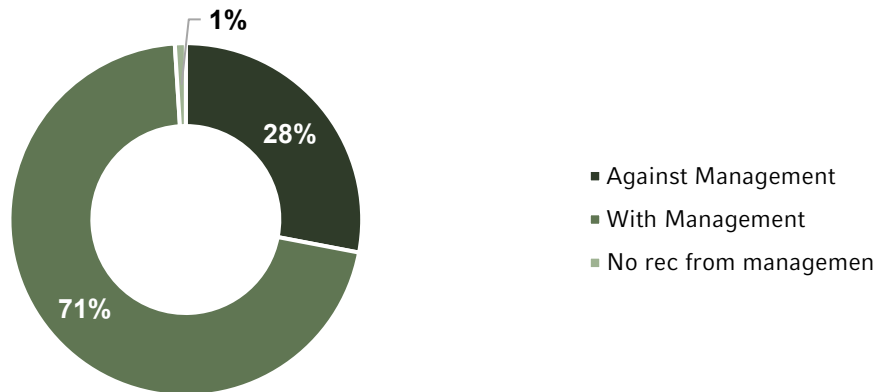


Source: Russell Investments, data as at 31 December, 2023.

Climate risk-related proposals

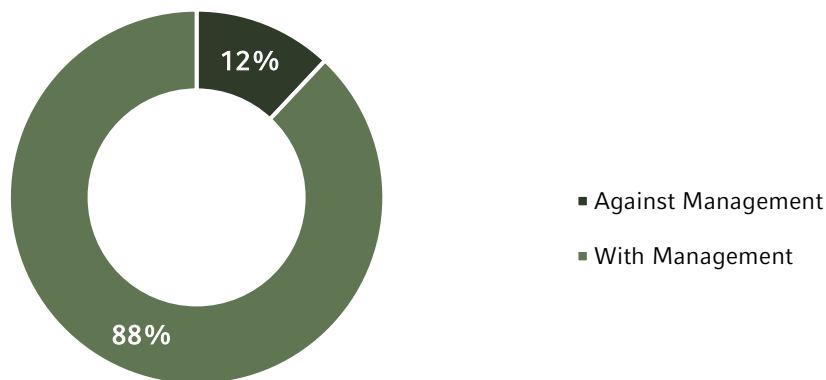
During 2023, our voting activity has reflected our view of climate risk as financial risk. In this regard, Russell Investments has voted on 165 climate-change related proposals, including a meaningful portion that were “say on climate” and other climate-related management proposals. We voted with management on 71% of these proposals. Only three shareholder proposals passed, including one which requested increased emissions disclosure at a major energy company – this was approved over management’s objection. The two other climate-change related shareholder proposals that passed, one at another energy company and the other in the banking sector, had the support of management.

Exhibit 39: Votes on climate-related shareholder proposals



In line with our engagement focus areas, we have refreshed our voting guidelines regarding “say on climate” proposals. During the 2023 season, Russell Investments voted against the climate transition reports at three companies, out of 26 such management proposals brought forward for an advisory vote, and supported climate transition plans at 23 additional companies. Nineteen of the say on climate proposals were on the ballot at European companies, with the rest spread between Canada, Australia, and South Africa.

Exhibit 40: Russell Investments votes on “say on climate” proposals





Case study – Management Say-on-Climate proposal vs. shareholder proposal requesting transition targets at major energy company

Country of Incorporation	United Kingdom
Market Cap	\$210.2bn (USD)
Sector	Energy

Management and shareholders alike have recognised the need for climate change strategy, but tensions can arise between corporate strategies for transition and the goals that some shareholders believe should be set to manage long-term risk from climate change and GHG emissions. In some cases, management and shareholder proposal often competing visions. Russell Investments evaluates every climate and transition-related proposal individually, based on the merits of the proposal, with our fiduciary duty to our clients to deliver long-term benefits as the ultimate driver of all voting decisions.

Proposal Type: Management proposal on Energy Transition

Management recommendation	For
Russell Investments Vote	Against

This vote was unusual as it requested shareholders to provide a yes/no on the progress made towards the company's stated climate strategy. While the company had made progress towards its stated climate goals in the past year, the Active Ownership Committee had significant cause for concern regarding the company's overall strategy and thus the progress. The company should enhance its current disclosures to address some unacknowledged risks and provide transparency around the company's CAPEX alignment with its stated transition goals.

Proposal Type: Shareholder proposal requesting Scope 3 emissions targets and alignment with the Paris Agreement

Management recommendation	Against
Russell Investments Vote	Against

This resolution was binding in nature. Binding resolutions raise concerns because they limit the flexibility of the board to adapt to changing circumstances and make strategic decisions in the best interest of the company. Additionally, they can undermine the accountability of the board to shareholders, as it may feel constrained in its ability to exercise independent judgment.

Outcome

Russell Investments' Active Ownership Committee voted against both the management proposal and the shareholder proposal concerning transition strategy. While the management proposal requested that shareholders provide assent to the progress made towards its stated climate strategy, Russell Investments retains meaningful concerns about the overall strategy despite management's forward progress, prompting the AOC to vote against management's proposal.

Conversely, while the Committee understood and generally supported the onus of the shareholder proposal in theory, we could not support a binding vote on this matter. Supplanting the judgment of the board in this case would have been inappropriate as it could, going forward, restrict management's ability to develop strategies to address the transition to a low-carbon economy in ways that would benefit shareholders.

Voting on social issues

Our voting activity on social topics, including human capital management and human rights concerns, reflects an industry trend – as the total number of social shareholder proposals continues to increase on an annual basis, they are receiving less support overall. In our opinion, the proportion of proposals put forward by shareholders which have evidentiary basis for support has fallen. Not all shareholder proposals are created equal, which makes Russell Investments’ case-by-case approach more important than ever. Russell Investments has opposed more than half of all socially-oriented shareholder proposals in 2023, with the most frequently supported proposals pertaining to requests for increased disclosure at companies with public human capital controversies, while rejecting proposals that were redundant, overly prescriptive, or, as in the case of “anti-ESG proposals,” constructed in bad faith.

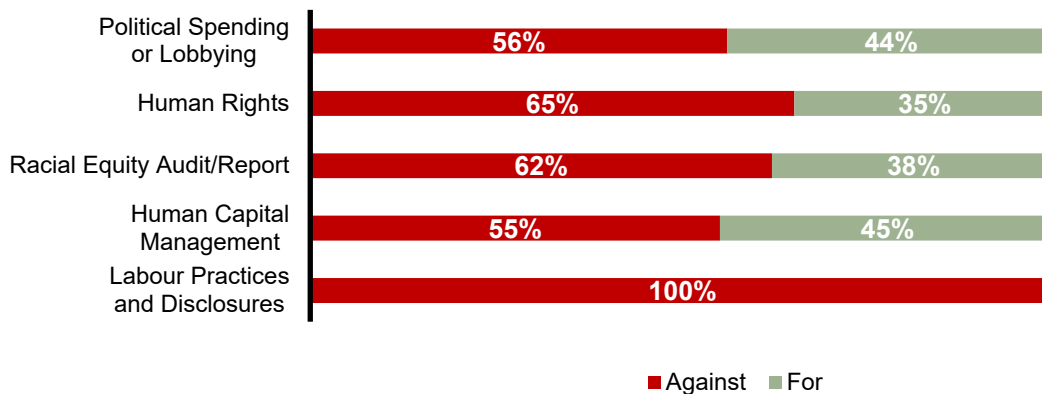
As part of our focus on human capital management, we will exercise our vote with companies that we identify as laggards, either by supporting a relevant shareholder proposal or holding directors accountable by voting against their election at the shareholder meeting.

At Russell Investments, when assessing human capital related shareholder proposals, we consider taking voting action under the following conditions:

- Current practices and/or disclosures are deemed to be inadequate.
- The proposal addresses a peer relative deficiency.
- The proposal does not duplicate existing practices.
- The board failed to provide commitment to address the proponent’s concerns.
- The topic is relevant to the company and sector in which it operates.

If the proposal is overly prescriptive in detailing strategy/operational decisions, we may vote against.

Exhibit 41: Vote on human capital-related proposals



Source: Russell Investments, data as at 31 December, 2023.



Case study – Voting on human-capital and reputational risks relating to labour controversy

Country of Incorporation	United States
Market Cap	\$103.8bn (USD)
Sector	Consumer Discretionary
Management recommendation	Against
Russell Investments Vote	For

Following significant media scrutiny regarding allegations of illegal anti-union practices attributed to company management, shareholders took proactive steps to address concerns regarding employees' rights to freedom of association. In response, they filed a proposal calling for an independent audit and comprehensive report to assess the company's adherence to labour laws and its respect for employees' rights to form or join trade unions.

Outcome

As a social issue, this proposal was referred to the Active Ownership Committee for further review, per our guidelines. The Committee voted to support this proposal, alongside over 51% of shareholders. High-profile controversies can, at a minimum, result in reputational harm and less engaged employees. They can also lead to costly fines, litigation, or employee actions, such as walkouts, that can cause significant disruption to the company's operations.

Holding the board accountable through voting

Good governance is the starting point for sound management. Russell Investments' Proxy Voting Guidelines support governance structures that ensure management and board members maintain independence, objectivity, and act in the best interest of shareholders. We also emphasise the importance of shareholder rights.

As active ownership and engagement continue to be crucial tools for responsible investing, it is paramount that boards are prepared to collect and respond to shareholder feedback, particularly when a company receives significant dissent at their AGM. Best governance practices will include a formal process for the board to engage with shareholders, and where this is not in place, a company is likely to face increasing shareholder discontent. Engagement is an opportunity for a company to bridge any gaps in understanding – companies which do not have an effective mechanism for shareholder engagement are likely to see increased opposition to management proposals.



Case study – Voting against Say-on-Pay following an unsuccessful engagement

Country of Incorporation	United States
Market Cap	\$49.3bn (USD)
Sector	Retail REITs
Management recommendation	For
Russell Investments Vote	Against

Russell Investments' Active Ownership Team conducted an engagement with a self-administered and self-managed real estate investment trust (REIT) based in the U.S. prior to the company's 2023 AGM, where we anticipated voting against management on two items, as per our Guidelines. The purpose of the engagement was to gain a deeper understanding of the reasoning behind a significant discretionary grant and to express our concerns regarding the overall structure of their compensation package.

During our discussion with the chair of the compensation committee, we discovered that they were unable to provide a compelling rationale for granting an all-cash one-off award to the company executive team without any performance conditions attached. Moreover, we expressed significant concerns regarding the level of discretion allowed in the compensation structure, yet the chair of the compensation committee did not acknowledge why the company's compensation practices raised concerns.

Outcome

Our discussion with the chair of the compensation committee failed to provide clarity regarding the committee's rationale or approach to compensation structure. Consequently, we voted against the compensation package in accordance with our Guidelines. The level of shareholder dissent following the 2023 AGM was practically unprecedented, with over 88% of shareholders rejecting the company's say-on-pay proposal.



6. Policies, processes, and procedures supporting responsible investing



6.1 Conflicts of interest policy

- ✓ UK Stewardship Code – Principle 3
- ✓ Japan Principles for Responsible Institutional Investors – Principle 2
- ✓ The New Zealand Stewardship Code – Principle 6

At Russell Investments, we maintain a governance framework that is designed to ensure a coordinated and consistent approach to the management of conflicts of interests across all regions in which we operate. Our culture, supported by the Global Code of Conduct, recognises the fiduciary duties that we owe to our clients, and promotes the ethos of ensuring client interests are put ahead of both the firm’s interests and the personal interests of its associates. As a fiduciary, we are expected to eliminate or mitigate conflicts of interests and to make full disclosure of all material conflicts to our clients.

The Russell Investments Global Conflicts of Interest Policy provides guidance in identifying and handling actual and potential conflicts of interest in the operation of its business, and each region has a supplemental conflict of interest policy to meet specific jurisdictional requirements. Together, our global and local policies are in place to manage all potential or actual conflicts of interest in the best interests of our clients. Associates are required to comply with the Global Policy but also the requirements of any applicable local conflict of interest policy in their jurisdiction.

Our Global Conflicts of Interest Policy is the responsibility of the Global Chief Compliance Officer who administers it with the oversight of Russell Investments’ Global Risk Management Committee. It is reviewed regularly with the latest review dated February 2024.

Management of conflicts

Russell Investments maintains a governance framework to ensure a coordinated and consistent approach to management of conflicts across all regions in which it operates.

The Russell Investments Global Conflicts of Interest Policy applies to all associates anywhere in the world, in connection with any activity related to Russell Investments or its business. Each associate is expected to avoid conflicts of interest where possible, and to play their part in identifying any conflicts of interest, enabling Russell Investments to take appropriate action to eliminate or mitigate the conflict and/or make appropriate disclosures to our clients.

The controls which Russell Investments has in place to manage each potential or actual conflict of interest include effective governance and stewardship; the segregation of duties; the creation of policies and procedures of information barriers; remuneration policies that remove direct conflicts of interest; or setting pre-determined individual approval limits, over which escalation and approval is required.

A number of global and regional committees have been established which play a key role in helping to ensure that the management of conflicts is embedded in business processes. Specifically, from a global perspective:

- The Global Risk Management Committee has been established to oversee Russell Investments' risk management framework including investment, credit and operational risk and it administers the Global Conflicts of Interest Policy.
- Affiliated Business Oversight Committee – oversees selection of affiliated entities for investment advisory, brokerage and other related services.
- Global Trade Management Oversight Committee – oversees and analyses trading arrangements and trade execution.

At a regional level, we have implemented local conflicts of interest policies and practices which are applicable to the requirements of the local jurisdiction and business, with oversight at a local level provided by the applicable management and governance bodies.

Where the organisational and administrative controls are deemed insufficient to effectively manage or prevent a potential or actual conflict of interest, or to ensure effective stewardship, the matter is escalated in accordance with the regional policies and procedures.

For example, for our EMEA businesses, a Conflicts of Interest Working Group has been established to assist in the management of potential conflicts with its membership comprised of associates from business line management and support functions such as Legal, Compliance, Risk and Operations. The working group considers and discusses all potential and actual conflicts of interest arising in relation to Russell Investments' business activities, whilst assessing the effective business management of those conflicts of interest. If it is not possible to manage a conflict of interest to a level of confidence that the risk of damage to a client's interests will be prevented, the Conflicts of Interest Working Group will identify the client disclosures that will subsequently be necessary. The Board of each EMEA Group Company is responsible for overseeing the implementation of arrangements to ensure effective stewardship and management of conflicts of interests, including review of the EMEA conflicts of interest policy. All situations identified as constituting a conflict of interest, or that may potentially give rise to a conflict of interest, are documented in the relevant conflict of interest maps, which detail the organisational and administrative controls in place to manage them.

Some common conflicts and controls which apply to Russell Investments Group are set out in the examples below:

Exhibit 41: Examples of conflicts and control procedures

CONFLICT	CONTROL PROCEDURES
<p>Employees might be able to benefit from awareness of confidential trading activity undertaken by Russell Investments (e.g., personal account dealing in a security that forms part of a transition event or is traded by the direct investing team (dealing ahead/ front-running).</p>	<p>The Global Code of Conduct requires each of the regions to develop policies, standards and limitations regarding the personal trading activity of its associates to minimise the potential conflicts of interest relating to personal account dealing. Through regional policies, each associate is required to trade in their personal investment accounts lawfully and in a manner which avoids actual or potential conflicts between the interests of the associate and the interests of Russell Investments in our clients. This includes an obligation to report certain accounts, holdings and transactions to regional compliance. In particular, associates are prohibited from trading, either personally or on behalf of others, on material, non-public information or communicating such information in violation of applicable law. They are also prohibited from purchasing or selling ahead of client orders.</p> <p>Any suspected instances of market abuse must be reported immediately to the regional Compliance team for investigation.</p>
<p>Employees could be induced to enter into contracts with third parties, to the detriment of a segregated or fiduciary management client, or funds (where Russell Investments acts as an Adviser/ Investment Manager or distributor).</p> <p>Employees might induce a client, distributor, money manager, or other service provider into doing business with Russell Investments where this is not in the best interest of other clients or funds.</p>	<p>Associates are strictly prohibited from offering, paying or accepting remuneration or consideration for the purpose of improperly influencing the actions of government officials, political parties, candidates for public offices or others. They are also required to exercise particular care when extending common business courtesies to public officials. Regional offices have specific practices relating to anti-bribery and corruption in alignment with local regulatory and statutory standards, but there is a global requirement for associates to promptly report any bribery or corruption concerns to their regional compliance department or legal department.</p>
<p>Poor product design could adversely affect end clients; or lead to problems with market integrity by enabling the firm to mitigate and/or dispose of its own risks or exposure to the underlying assets of the product where the firm already holds the underlying assets on own account.</p>	<p>Russell Investments operates comprehensive procedures relating to product governance. The Global Product Governance Committee is the top-level governing body for all product approvals and amendments, and it delegates some authority to local product committees on a regional basis. As part of the product governance process, the relevant product committee will consider potential conflicts for this specific issue, with all potential issues assessed as part of the product development and management processes.</p> <p>For both new and existing products, consideration is given to whether the product design or amendment / development introduces any new risks to customer best interests which may need to be mitigated or disclosed.</p>
<p>Russell Investments segregated, fiduciary management or other large clients investing in Russell Investments' funds ("target funds") may result in significant influence on the investment strategy of the target fund (i.e., so that the strategy is more aligned to the investing client(s) or in the case of proposed significant redemptions, making a change to the investment strategy to keep clients within the target fund).</p>	<p>The investment strategies of Russell Investments funds are overseen by the asset class sub-committees and the ISC. Additionally, the relevant regional governing body will review the investment strategy as applicable.</p> <p>The Russell Investments portfolio manager provides written details of the investment strategy proposal to the ISC to ensure, amongst other things, the fair treatment of all investors. All proposals regarding initial investments required approval of the ISC.</p>
<p>Financial incentivisation/reward of portfolio managers may lead to inappropriate investment risks being taken (relative to the investment objective and policies) to protect employee compensation.</p>	<p>Russell Investments has a Global Remuneration Policy that considers market intelligence on compensation to be an important data point in the determination of both overall and individual pay levels for all Russell Investments employees, including senior executives and associates in risk and control positions.</p> <p>A Global Compensation Council reviews and approves compensation opportunities for individuals based on their job responsibilities and market levels of pay for organisations of appropriate size, business segments, geography, complexity and profitability relative to Russell Investments.</p> <p>In addition to market levels of compensation, quantitative and qualitative assessments of Russell Investments' performance and individuals' contributions to that performance, including Russell Investments risk management, where applicable, are important determinants of incentive compensation outcomes.</p> <p>A global Sales Compensation Council (SCC) has been established to review and approve sales commission plans. The SCC comprises members of the global senior management team.</p> <p>In order to align incentives with clients, portfolio managers are compensated based on the performance of the portfolios managed, as well as on Russell Investments' profits.</p>

At Russell Investments, in regard to stewardship, we have specific conflicts of interest controls in respect of activities surrounding employee outside interests, our active ownership and our investment management practices. The following outlines the procedures for these areas:

Outside interests

Outside business interests or directorships can create conflicts of interest with an associate's obligations to Russell Investments, which could have an adverse effect on the ability to meet our obligations to our clients and our funds (where we act as adviser, investment manager, distributor or otherwise).

All outside business interests or directorships of associates must be formally declared in accordance with the Russell Investments Global Code of Conduct. Associates must obtain prior approval from their supervisor and their regional compliance department for any outside business affiliation, employment, or acceptance of compensation from any other person or entity including (but not limited to), the acceptance of directorships, governorships, or trusteeships, becoming an officer, director or partner or any business organisation, or receiving compensation from another organisation. Detailed guidance is embedded in the Global Code of Conduct, for consideration in terms of how to approach outside business activities in respect of both employees and independent contractors of the organisation.

All new associates must certify that they have read and understand the requirements in the Russell Investments Global Code of Conduct, which includes requirements in respect of outside business interests. Associates must complete an annual declaration to certify they have read, understand and continue to comply with the Global Code of Conduct.

Active ownership

The Russell Investments' Conflicts of Interest Policy does not specifically reference stewardship. However, the implementation of various processes to manage any potential conflicts of interest ensures that clients' interests are at the forefront in relation to stewardship. Our stewardship activities in relation to active ownership relate to proxy voting and corporate engagement, and we have processes to manage potential conflicts in both these areas:

1. Proxy voting conflict of interest procedures.

Where Russell Investments maintains the voting rights for underlying securities, it appoints a proxy administrator that acts within the guidelines set out in Russell Investments Proxy Voting Policy. Our proxy voting policies and procedures are designed to ensure that those proxy voting decisions; (i) are made in accordance with the best interests of clients; and (ii) enable the Active Ownership Committee to resolve any material conflicts of interest relating to voting and engagement. Further details on our Active Ownership Governance Structure can be found in the Governance of Stewardship section above.

Proxy Voting Guidelines are constructed to be aligned with international good practices and standards, and are applied to all votable proxy items, without exception, for issuers that currently have, or recently had, an existing relationship with Russell Investments, as either a client or vendor. Any votes that are not covered by the Guidelines, or any votes which require case-by-case review, are referred to the Active Ownership Committee for a review and vote. This process is further explained here.

For any votes referred to the Active Ownership Committee, potential conflicts of interest are mitigated by (i) the committee structure itself, which requires a quorum for a final vote, and (ii) all votes submitted by committee members requiring a certification attesting that the voting member has no knowledge of any potential conflicts of interest between the client, Russell Investments and its affiliates, as well as no personal material conflicts (such as personal stock ownership).

2. Corporate engagement conflict of interest procedures.

Structural separation – Russell Investments maintains a segregated reporting structure between active ownership and client facing employees. Consistent with this, only ID associates engage with and provide feedback to companies.

Transparent and consistent selection process – Russell Investments uses the same process to identify engagement targets across the board, without regard to any relationship with such parties.

Robust governance structure – The Active Ownership Team is required to seek approval from the firm's Investment Strategy Committee for all engagement targets identified, before taking any action (even in the case of those of a collaborative nature) to (i) ensure decisions are made in accordance with the best interests of clients; and (ii) enable the Active Ownership Committee to resolve any material conflicts of interest relating to voting and engagement.

2023 Investment management

In most circumstances, Russell Investments acts as a manager of managers rather than investing directly in securities. We have identified the following potential conflicts in respect of this model and, as a result, have implemented appropriate controls to help mitigate these potential conflicts:

Exhibit 41: Examples of conflicts and control procedures

CONFLICT	CONTROL PROCEDURES
The inappropriate selection or retention of managers for commercial reasons. For example, appointing a money manager in return for AUM investment.	Our procedures for appointment retention and termination of managers follows a quantifiable process based on the ability of the money manager's product to contribute meaningfully towards the fund's/client's overall risk and return objective and is overseen by the entity-level and global committees.
Unfairly allocating high-ranked managers across certain clients or fund complexes, using up their spare capacity and inappropriately disadvantaging another client or fund complex.	The segregation of duties between the research analysts responsible for manager rankings and recommendations, and the go-to-market sales team, who might have commercial rather than investment reasons for selecting a manager.
Recommending frequent money manager changes to a client in order to increase revenue for Russell Investments.	Research Analysts receive no incentives to favour one manager over another. Such analysts are therefore not directly influenced by AUM inflows, distributor relationships, client relationships or commercial profit margins. Any changes made or recommended are done so based on clear procedures for appointment, as alluded to above.

Managers are required to manage their own conflicts of interest in accordance with the Russell Investments' Conflicts of Interest Policy, or with the manager's own equivalent standard of policy. We monitor any material violations of these policies by the managers.

As part of the firm's ongoing due diligence process, managers' control environments are evaluated for their ability to mitigate conflicts of interest through ongoing employee training; use of monitoring processes and systems; their internal testing of controls; and their governance process to address conflicts identified.

Outcomes to managing conflicts in practice

Below, we provide examples of how we have addressed actual or potential conflicts in 2023 in relation to stewardship.



Case study – Conflict of interest arising from use of affiliates for trading and execution services

Russell Investments has an established trading desk that provides comprehensive brokerage services to both third-party clients as well as certain affiliates. An inherent conflict exists because Russell Investments earns compensation for the trading directed by its affiliates through its trading desk. Russell Investments manages this conflict of interest through monitoring of trade activity and periodic oversight by senior management.

We have established independent transaction cost analysis (TCA), where independent third parties provide Russell Investments with benchmarking of the trading desk's execution quality versus its peers. The independent TCA allows its affiliates to continuously assess whether they receive best execution from the trading desk. In addition, Russell Investments has established an internal committee, which oversees this relationship and receives reporting on execution quality. The internal committee meets on a quarterly basis and is comprised of members from Portfolio Management, Trading, Legal, Compliance, Risk, and Operations.

Outcome

Russell Investments continues to use its trading desk as the primary executing broker for its affiliates. We recognise the risk of future conflicts and have implemented monitoring (e.g., independent TCA) and governance to appropriately mitigate these risks.



Case study – Information barriers to protect clients

The majority of Russell Investments' equity interests are owned by certain private equity funds which form part of Russell Investments' ownership structure. In order to ensure any potential conflicts of interest that may arise from these ownerships and circumstances are identified and properly managed, controls and measures have been put in place.

Russell Investments' Compliance function regularly monitors for potential conflicts of interest in the portfolio holdings of each private equity fund in the ownership structure, with processes in place for protecting the independence and objectivity of our research where this eventuality might occur. This includes a specific requirement that all portfolio holdings in the private equity funds ownership structure that are determined by Russell Investments Compliance to be a controlling affiliate of that company, are blocked from user view on the Russell Investments Research and Advisory Systems – with these safeguards being compliance-monitored throughout the year.

Outcome

Relevant companies are blocked from the user view on the Russell Investments Research and Advisory Systems based on this control measure.



Case study – Individual conflict controls

The majority of Russell Investments' equity interests are owned by certain private equity funds which form part of Russell Investments' ownership structure. Controls and measures have been put in place to ensure any potential conflicts of interest that may arise from these circumstances are identified and properly managed.

Where conflicts of interest were to arise through a Russell Investments' Senior Manager having a conflicting interest in, or being appointed as a director of, an organisation within the portfolio holdings of, or controlled by, our private equity ownership structure, we have systems and controls in place to identify these circumstances and, where appropriate, will manage conflicts arising from these 'Control Affiliations'.

Outcome

Where control affiliations arise/exist, the Russell Investments Compliance function determines any potential portfolio holding entity conflicts. The Compliance function examines a number of factors - including any trading relationships, business relationships, finance relationships, direct financial interest, operational synergies or shared profit incentives between the portfolio holding organisation and Russell Investments - to determine if any conflicts of interest exist and need managing.

We recognise the risk of future conflicts of interest occurring in connection with any such identified portfolio holdings, and therefore subject them to ongoing, specific, and stringent safeguards.

6.2 Diversity and inclusion

- ✓ UK Stewardship Code – Principle 2
- ✓ Japan Principles for Responsible Institutional Investors - Principle 1
- ✓ The New Zealand Stewardship Code - Principle 1

As a global company, we recognise the benefits of different sources of insight and knowledge. Valuing diversity gives us an advantage by pooling ideas and providing solutions from more than one point of view. Effective management of diverse perspectives enriches our culture and increases our ability to provide innovative solutions to our clients, while adding value to our shareholders and community.

Diversity is an integral part of our long-term growth strategy. Our ability to fulfil our purpose of improving financial security for people hinges on the quality of our workforce and our ability to provide appropriate solutions to a diverse group of clients. Our approach to diversity and inclusion spans our internal corporate diversity efforts, as well as those of third-party service providers. Details of our diversity efforts with regard to third party service providers are covered under section 4.3. Below, we provide an overview of our internal corporate efforts on this subject.

Internal corporate diversity and inclusion efforts

At Russell Investments, we consider diversity through multiple lenses (e.g., gender, ethnicity, and sexual orientation). To advance our efforts we have established a Corporate Social Responsibility (CSR) Council whose purpose is to increase diversity, equity, and inclusion among employees, support workplace sustainability efforts, and promote community engagement through volunteering and giving. The CSR Council's goals related to DEI include, but are not limited to, the following:

- Demonstrating leadership commitment and accountability for attracting, developing, and retaining diverse talent
- Championing the advancement of diversity, equity, and inclusion, internally and in our communities
- Fostering a culture of inclusion
- Growing our diverse associate representation globally each year

Our stated purpose is to create an inclusive work environment that is free from discrimination and harassment, emphasising our commitment to treating associates with respect. Equal opportunity extends to all employment aspects including hiring, promotions, transfers, terminations, training, working conditions, compensation, and benefits. Decisions pertaining to employment must not be discriminatory, based on any characteristic protected by law. Further information can be found in our CSR report.

Global Associate Resource Groups

These associate groups/committees (ARGs) are led by associates and are designed to increase engagement and understanding while contributing to a more inclusive workplace. ARGs also facilitate dialogue and learning about inclusion issues across Russell Investments. These groups provide leadership and development opportunities for associates and support minorities and/or women in the workplace.

- Women's Associate Resource Group
- Black Associate Resource Group
- LGBT & Allies (LGBTQA) Associate Resource Group
- Veteran's Associate Resource Group

In addition, we have a Global Community Engagement Council, a Global Wellness Associate Resource Group, a Global Sustainability Work Practices Group, and regional Social Committees – all collaborating with our Diversity, Equity, and Inclusion Associate Resource Groups under the CSR umbrella on programming and initiatives.

2023 Activity

Through 2023 we have continued to stay connected and have furthered our Diversity and Inclusion efforts. Highlights from educational events hosted this year include the following:

- Girl Scouts Financial Education Programme
- Real Talk About Racism and Discrimination Training
- What's Your Superpower? Women's Leadership Panel and Networking Event
- A Conversation with Angel Bonilla – Trans Identity
- Veteran's Day Event Fireside Chat with Captain Alan Schrader, USN, Retired
- Women's ARG sponsored Generations: A Conversation with Dr. Jean Twenge
- Black ARG Networking Socials

In addition to the many events hosted by the ARG's, the following programmes are also in place:

- Women in Sales Excellence (WISE): A programme to provide mentorship and educational opportunities to women in sales.
- Global diversity mentorship programme: An opportunity for diverse talent to reverse mentor senior executives.
- Training: All new hires are required to complete unconscious bias training. Russell Investments provides anti-harassment and discrimination training to associates every two years and, in several regions, requires the training upon hire.
- Pay equality and disclosure: Russell Investments conducts a full compensation review each year, ensuring equal pay for equal work with a focus on gender and race/ethnicity diversity. Russell investments voluntarily participates in the UK Gender Pay Gap initiative, publishing results annually.
- Policies and performance goals: Russell Investments ensures its global and regional policies are inclusive and free from bias.
- Global volunteering programme whereby volunteer hours are matched and associates are afforded two days off for volunteer activities of their choice per year.

Promoting diversity: The following incentives are in place globally to promote diversity:

- Code of Ethics and Global Code of Conduct: Both Codes support overall ethical conduct and include statements on anti-harassment and anti-discrimination that must be adhered to across the firm.
- Global Citizen Goals: These goals are assigned to all associates (manager and individual contributor versions), and our EC and year-end bonus compensation is dependent upon succeeding with these objectives.
- Individual Contributor: Demonstrates good corporate citizenship by living Russell Investments' values and principles and contributing to our culture of compliance, meritocracy, inclusivity, and diversity.
- Leadership: Serves as a role model for Russell Investments' leadership behaviours, values, and principles. Demonstrates good judgment with a focus on strengthening our culture of compliance, meritocracy, inclusivity, and diversity.

6.3 Policy advocacy and collaborations

- ✓ UK Stewardship Code – Principle 4, 10
- ✓ Japan Principles for Responsible Institutional Investors - Principle 1
- ✓ The New Zealand Stewardship Code - Principle 7

We actively collaborate in initiatives with industry participants, regulatory working groups and other stakeholders to collectively deliver a well-functioning financial system. Over the course of 2023, we have contributed to the activities of the following organisations:



Principles for Responsible Investment (PRI)

As a signatory to the PRI since 2009, Russell Investments has a long-standing relationship with the organisation and has completed PRI assessments annually. Russell Investments incorporates the PRI principles into our processes including through manager research, portfolio management, and proxy voting and engagement. Furthermore, we purposefully assess the initiatives and consultations driven by PRI, and we participate where relevant.



Institutional Investors Group on Climate Change (IIGCC)

We have been a member of IIGCC since 2015, actively collaborating and participating at industry events and seminars. We also contribute to consultations as and when there is an opportunity to do so.



Climate Action 100+

The role Russell Investments plays in this initiative is further explained under the engagement section [here](#).

Nature Action 100



Nature Action 100

The role Russell Investments plays in this initiative is further explained under the engagement section [here](#).



Transition Pathway Initiative (TPI)

We leverage the independent research and data from TPI to facilitate information sharing and collective knowledge building. Moreover, we have completed the mapping of this open source to set our own targets towards our net zero commitment.



Carbon Disclosure Project (CDP)

We use the global disclosure system provided by CDP as one of several sources that help us to manage environmental impact in our portfolios. We have also collaborated with CDP in engagement campaigns; for example, during 2022 we supported a campaign that targets 1,200 high impact companies on committing and setting a 1.5 degree-aligned, SBTi approved science-based emissions reduction target.



Task Force on Climate-related Financial Disclosures (TCFD)

We have embedded the TCFD framework in our stewardship activities and regularly engage with companies in this area. More details have been provided in the engagement section of this report.



[The Net Zero Asset Managers initiative](#)

In 2021, Russell Investments joined the Net Zero Asset Managers Initiative. We have committed to work in partnership with interested clients on goals consistent with an ambition to reach net zero emissions by 2050 or sooner across all its assets under management. Further information can be found [here](#).



[Institutional Investing Diversity Cooperative \(IIDC\)](#)

IIDC members meet regularly to discuss key initiatives and specific action items that can encourage asset managers to offer more robust and comprehensive diversity data. We are actively involved in IIDC through regular meetings, ad-hoc sub-committee projects, and industry event speaking opportunities.



[Investment Association \(IA\)](#)

Collaborations in 2023 include attending multiple industry seminars and responding to the FCA proposed rules on sustainability.



[Investors Against Slavery and Trafficking Asia Pacific \(IAST APAC\)](#)

Russell Investments is a participating investor in the Investors Against Slavery and Trafficking Asia Pacific (IAST APAC) initiative is an investor-led, collaborative project. It was established in 2020 to engage with companies in the Asia-Pacific region to promote effective action in finding, fixing and preventing modern slavery in operations and supply chains.



[Investment Company Institute \(ICI\)](#)

We support the organisation to advocate on legislation, regulation and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services.



[Securities Industry and Financial Markets Association \(SIFMA\)](#)

Russell Investments supports SIFMA to advocate on legislation, regulation and business policy that affects retail and institutional investors, equity and fixed income markets, and related products and services.



[Responsible Investment Association Australasia \(RIAA\)](#)

We actively contribute to the RIAA to ensure capital is aligned with achieving a healthy society, environment and economy. Russell Investments has three of its Australian funds certified by RIAA. RIAA's Certification Symbol is recognised by investors and consumers across the region, providing confidence that a product or provider is delivering on its responsible investment promise and meeting the Australian and New Zealand standard for responsible investing.



[Department of Labor \(DOL\)](#)

In the United States, we have joined industry trade associations and worked directly with the Department of Labor to improve the language associated with how The Employee Retirement Income Security Act of 1974 (ERISA) plan sponsors consider financially-material factors related to ESG.



Case study – Collaborative consultations and advocacy

Throughout 2023, Russell Investments actively cooperated with various consultations organised by industry groups and regulators. These consultations comprised a range of activities, including participation in questionnaires, completion of surveys, and attendance at working group meetings. Through these channels, Russell Investments took the opportunity to contribute our insights and expertise, thereby influencing the trajectory of collaborative programmes and providing strategic advice to shape the direction of industry bodies.

Outcome

Collaboration Group	Consultation
HM Treasury (HMT)	Future regulatory regime for Environmental, Social, and Governance (ESG) ratings providers
Investor Group	Letter from investors and corporates to call for Ofgem to be given a net zero mandate
PRI	Global Stewardship Resourcing Survey
CDP	SBT Engagement Campaign
FRC	UK Corporate Governance Code Consultation
IIGCC	Stewardship Alignment Questionnaire
DWP	Taskforce on Social Factors (TSF) consultation
Nature Action 100	Feedback on Draft Benchmark Indicators
TNFD	Capacity Building Survey

Thought Leadership

We provide a range of training and development opportunities for our client base to ensure that our clients are kept abreast of key industry developments, as outlined previously in this report. During 2023, Russell Investments published 30 [blog posts](#) relevant to ESG and responsible investing. These posts were written by investment professionals across various regions and teams, reflecting our broad range of services and diverse client base.

6.4 Reviewing policies and processes

- ✓ UK Stewardship Code – Principle 5
- ✓ Japan Principles for Responsible Institutional Investors - Principle 1
- ✓ The New Zealand Stewardship Code - Principle 2

Our policies cover all aspects of our investment and business practices, including our stewardship approach. Our Compliance and Legal teams continually review the regulatory landscape and add and refresh policies to ensure we are up to date with regulatory requirements. Furthermore, these reviews verify that our research aligns with best practice.

Our governance oversight combines formal and informal feedback loops. Metrics are generated on a range of ongoing practices; these metrics are calculated regularly for items that are subject to ongoing review such as performance assessment, portfolio risk exposures, compliance guideline reporting and productivity metrics.

In addition to regularly reviewed reports, ad hoc studies are conducted from time to time. These reports and studies encompass a broader set of data over a range of time periods and are typically focused on a particular aspect of our investment process that we are seeking to assess and improve.

Policy and process description documents are also regularly reviewed and updated. As an example, in 2023 we updated our internal Investment Philosophy and Process paper, which is a comprehensive reference guide on the beliefs and structure of our investment process available to our investment and business teams. In this iteration, substantial updates and additions were included for components of our investment process where recent enhancements have been made. These include in ESG-related practices and active ownership, management of positioning strategies, implementation and governance structures.

When undertaking analysis, we aim to use the same underlying data and metrics that inform our investment decision making and policy review process, as we use for client reporting and submissions to regulatory bodies.

This alignment helps ensure that our evaluation and reporting practices for both internal and external uses are fair and accurate.

Internal audit

In addition to continuous reviews and feedback loops, an independent Internal Audit (IA) team undertakes a rolling agenda of review on a range of key investment activities. The purpose of Russell Investments Group Internal Audit function is to provide independent and objective assurance and consulting services designed to improve the organisation's controls and operations. Internal Audit accomplishes this by providing risk-based and objective assurance, advice, and insight to enhance and protect organisational value. Internal Audit helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to test, evaluate and improve the effectiveness of governance, risk management and control processes.

The Russell Investments Group Internal Audit function utilises a risk-based approach in developing the annual audit plan. The audit universe of key processes is assessed to focus the audit plan on the areas of highest risk. Any issues identified by Internal Audit require management action plans (MAPs) and are tracked to resolution by Internal Audit. The status of open issues is regularly reported to relevant boards and audit committees. Internal Audit validates resolution to close issues identified.

The IA process involves a structured assessment of key processes and risks, including detailed testing of mitigating controls across the organisation. These audits are designed to assess if systems and procedures are effective, efficient and function as designed, thereby helping ensure:

- risks are appropriately identified and managed;
- quality and continuous improvement are fostered in the organisation's control process;
- significant financial, managerial, and operating information is prepared accurately and reliably; and
- resources are adequately protected.



Case study – Internal responsible investing audit

During 2023, as part of our internal risk management processes, Russell Investments Risk Team conducted a comprehensive review of all processes and procedures related to ESG-related practices, active ownership, and responsible investing. The audit, which took place over several months, delivered improved efficiency and governance across all contributing business units.

Outcome

The outcome of the audit led Russell Investments to reinforce mechanisms which connect daily responsible investing work to the Investment Strategy Committee to achieve stronger oversight. Russell Investments has three committees which now provide regular, direct updates to the ISC on responsible investing matters – the Global Exclusions Committee, the Active Ownership Committee, and the Investment Division Responsible Investing Committee.

In addition, Russell Investments decided to increase the frequency of updates to the firm's Executive Committee (EC) from annual to at least semi-annual. The Responsible Investing Council (RIC) Heads and/or their operating committee sponsors provide updates on firmwide ESG and sustainable investing strategies and milestones including both internal KPIs and public commitments, such as the United Nations-supported Principles for Responsible Investment (UNPRI), The UK Stewardship Code, and the Net Zero Asset Managers Initiative.



7. Appendix: Stewardship code mappings



7.1 The UK Stewardship Code

PRINCIPLE	REQUIREMENTS	PAGES
Principle 1	Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.	
	Signatories should explain the purpose of the organisation and an outline of its culture, values, business model and strategy	7, 8
	Signatories should explain their investment beliefs, i.e., what factors they consider important for desired investment outcomes and why	8-10
	Signatories should explain what actions they have taken to ensure their investment beliefs, strategy, and culture enable effective stewardship	4-6, 10
	Signatories should disclose how their purpose and investment beliefs have guided their stewardship, investment strategy and decision-making	4-6, 10
	Signatories should disclose an assessment of how effective they have been in serving the best interests of clients and beneficiaries.	10, 11, 17, 21-25
Principle 2	Signatories' governance, resources and incentives support stewardship.	
	Signatories should explain how their governance structures and processes have enabled oversight and accountability for effective stewardship within their organisation and the rationale for their chosen approach.	26- 32
	Signatories should explain how they have appropriately resourced stewardship activities, including their chosen organisational and workforce structures	26- 32
	Signatories should explain how they have appropriately resourced stewardship activities, including their seniority, experience, qualifications, training and diversity	31, 32, 93, 94
	Signatories should explain how they have appropriately resourced stewardship activities, including their investment in systems, processes, research and analysis	32-38

	Signatories should explain how they have appropriately resourced stewardship activities, including the extent to which service providers were used and the services they provided	31, 32, 45-51
	Signatories should explain how any performance management or reward programmes have incentivised the workforce to integrate stewardship and investment decision-making	32
	Signatories should disclose how effective their chosen governance structures and processes have been in supporting stewardship; and Signatories should disclose how they may be improved	29, 30
Principle 3	Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	
	Signatories should disclose their conflicts policy and how this has been applied to stewardship	87-92
	Signatories should explain how they have identified and managed any instances of actual or potential conflicts related to stewardship.	87-92
	Signatories should disclose examples of how they have addressed actual or potential conflicts	91, 92
Principle 4	Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.	
	Signatories should explain how they have identified and responded to market-wide and systemic risk(s), as appropriate.	42- 44
	Signatories should explain how they have worked with other stakeholders to promote continued improvement of the functioning of financial markets.	18, 19, 95-97
	Signatories should explain the role they played in any relevant industry initiatives in which they have participated, the extent of their contribution and an assessment of their effectiveness, with examples.	95-97
	Signatories should explain how they have aligned their investments accordingly.	42- 44
	Signatories should disclose an assessment of their effectiveness in identifying and responding to market-wide and systemic risks and promoting well-functioning financial markets.	42- 44
Principle 5	Signatories review their policies, assure their processes and assess the effectiveness of their activities.	
	Signatories should explain how they have reviewed their policies to ensure they enable effective stewardship	97-98
	Signatories should explain what internal or external assurance they have received in relation to stewardship (undertaken directly or on their behalf) and the rationale for their chosen approach	98
	Signatories should explain how they have ensured their stewardship reporting is fair, balanced and understandable	13-16, 21-25
	Signatories should explain how their review and assurance has led to the continuous improvement of stewardship policies and processes	98
Principle 6	Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.	
	Signatories should disclose the approximate breakdown of their client base, for example, institutional versus retail, and geographic distribution	11-13
	Signatories should disclose the approximate breakdown of assets under management across asset classes and geographies	11-13

	Signatories should disclose the length of the investment time horizon they have considered appropriate to deliver to the needs of clients and/or beneficiaries and why	11, 17
	Signatories should explain how they have sought and received clients' views and the reason for their chosen approach	20-25
	Signatories should explain how assets have been managed in alignment with clients' stewardship and investment policies	20-25
	Signatories should explain what they have communicated to clients about their stewardship and investment activities and outcomes to meet their needs, including the type of information provided, methods and frequency of communication to enable them to fulfil their stewardship reporting requirements.	13-16
	Signatories should explain how they have evaluated the effectiveness of their chosen methods to understand the needs of clients and/or beneficiaries	20-25
	Signatories should explain how they have taken account of the views of clients and what actions they have taken as a result.	20-25
Principle 7	Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues and climate change, to fulfil their responsibilities.	
	Signatories should disclose the issues they have prioritised for assessing investments, prior to holding, monitoring through holding and exiting. This should include ESG issues of importance to them.	33- 38
	Signatories should explain how integration of stewardship and investment has differed for funds, asset classes and geographies	17-25
	Signatories should explain how they have ensured tenders have included a requirement to integrate stewardship and investment, including material ESG issues	17-25, 33- 38
	Signatories should explain how they have ensured the design and award of mandates included requirements to integrate stewardship and investment to align with the investment time horizons of beneficiaries	17-25, 33- 38
	Signatories should explain the processes they have used to integrate stewardship and investment, including material ESG issues, to align with the investment time horizons of clients and/or beneficiaries	17-25, 33- 38, 43, 44
	Signatories should explain the processes they have used to ensure service providers have received clear and actionable criteria to support integration of stewardship and investment, including material ESG issues	17-25, 33- 38, 43, 44
	Signatories should explain how information gathered through stewardship has informed acquisition, monitoring and exit decisions, either directly or on their behalf, and with reference to how they have best served clients and/or beneficiaries	17-25, 33- 38, 43, 44
Principle 8	Signatories monitor and hold to account managers and/or service providers	
	Signatories should explain how they have monitored service providers to ensure services have been delivered to meet their needs.	45- 50
	Signatories should explain how the services have been delivered to meet their needs	45- 50
	Signatories should explain the action they have taken where signatories' expectations of their managers and/or service providers have not been met	45- 50
Principle 9	Signatories engage with issuers to maintain or enhance the value of assets	
	Signatories should explain how they have selected and prioritised engagement (for example, key issues and/or size of holding)	55-58

Signatories should explain how they have developed well-informed and precise objectives for engagement with examples	55-60, 70-75
Signatories should explain what methods of engagement and the extent to which they have been used	52, 55, 66
Signatories should explain the reasons for their chosen approach, with reference to their disclosure under Context for Principle 1 and 6	55-60
Signatories should explain how engagement has differed for certain funds, assets, or geographies	65-68
Signatories should describe the outcomes of engagement that is ongoing or has concluded in the preceding 12 months, undertaken directly or by others on their behalf.	52-58, 67-75
Principle 10 Signatories, where necessary, participate in collaborative engagement to influence issuers.	
Signatories should disclose what collaborative engagements they have participated in and why, including those undertaken directly or by others on their behalf.	53- 55, 95-97
Signatories should describe the outcomes of collaborative engagement.	53- 55
Principle 11 Signatories, where necessary, escalate stewardship activities to influence issuers.	
Signatories should explain how they have selected and prioritised issues, and developed well-informed objectives for escalation	58- 60
Signatories should explain when they have chosen to escalate their engagement, including the issue(s) and the reasons for their chosen approach, using examples	58- 60
Signatories should explain how escalation has differed for funds, assets or geographies	58- 60
Signatories should describe the outcomes of escalation either undertaken directly or by others on their behalf	58- 60
Principle 12 Signatories actively exercise their rights and responsibilities	
Signatories should explain how they exercise their rights and responsibilities, and how their approach has differed for funds, assets or geographies	76-80
For listed equity assets signatories should disclose their voting policy, including any house policies and the extent to which funds set their own policies	76-80
For listed equity assets signatories should state the extent to which they use the default recommendations of proxy advisers	78, 79
For listed equity assets signatories should report the extent to which clients may override a house policy	76-80
For listed equity assets signatories should disclose their policy on allowing clients to direct voting in segregated and pooled accounts	76-80
For listed equity assets, signatories should state what approach they have taken to stock lending, recalling lent stock for voting and how they seek to mitigate 'empty voting'	79
For listed equity assets, signatories should disclose the proportion of shares that were voted in the past year and why	76-80
For listed equity assets, signatories should provide a link to their voting records, including votes withheld if applicable	79

For listed equity assets, signatories should explain their rationale for some or all voting decisions	79-86
For listed equity assets, signatories should explain how they have monitored what shares and voting rights they have	79-86
For fixed income assets, signatories should explain their approach to seeking amendments to terms and conditions in indentures or contracts	79
For listed equity assets, signatories should provide examples of the outcomes of resolutions they have voted on over the past 12 months	79-86
Signatories should explain how they exercise their rights and responsibilities, and how their approach has differed for funds, assets or geographies	79-86

7.2 Japan Principles for Responsible Institutional Investors

PRINCIPLE	REQUIREMENTS	PAGES
Principle 1	Institutional investors should have a clear policy on how they fulfil their stewardship responsibilities and publicly disclose it.	7-10, 39-41, 52-75, 93, 94, 95-98
Principle 2	Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.	87- 92
Principle 3	Institutional investors should monitor investee companies so that they can appropriately fulfil their stewardship responsibilities with an orientation toward the sustainable growth of the companies.	52-75
Principle 4	Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.	52-75
Principle 5	Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies	76-79
Principle 6	Institutional investors in principle should report periodically on how they fulfil their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.	11-25, 79
Principle 7	To contribute positively to the sustainable growth of investee companies, institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies.	26-38
Principle 8	Service providers for institutional investors should endeavour to contribute to the enhancement of the functions of the entire investment chain by appropriately providing services for institutional investors to fulfil their stewardship responsibilities.	45-51

7.3 The New Zealand Stewardship Code

PRINCIPLE	REQUIREMENTS	PAGES
Principle 1	Signatories will establish, and publicly articulate, how their investment philosophy, governance structures, and resourcing supports the goals of effective stewardship.	7-10, 26-32, 93, 94
Principle 2	Signatories will develop and implement measurable and effective stewardship policies.	11- 25, 41, 52, 70, 76, 77, 79, 97, 98
Principle 3	Signatories will incorporate material ESG matters into their investment decisions and stewardship practices.	17-25, 33-44
Principle 4	Signatories will engage regularly and effectively with underlying managers, issuers, and other key stakeholders	45-51, 52-75
Principle 5	Signatories will exercise voting rights in accordance with their investment mandate, and regularly and transparently disclose voting actions and outcomes.	76-76
Principle 6	Signatories will endeavour to avoid any conflict of interest that does not put the best interests of their clients and beneficiaries first and explain their approach to managing any conflicts of interest that arise.	87- 92
Principle 7	Signatories will work collaboratively to amplify investor influence on ESG matters with issuers, policy makers, index providers, standard setters, and other key stakeholders.	48, 49, 50, 95- 97
Principle 8	Signatories will regularly measure, and publicly report, on their actions taken to support stewardship, and demonstrate how these have contributed to the goals of effective stewardship.	11-25, 78, 79
Principle 9	Signatories will invest to improve clients' and beneficiaries' awareness of stewardship, improve their internal capabilities, and provide resources to deliver impactful stewardship.	11-25

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