Active ownership report

2022

Russell Investments

Contents

A message from our Chief Investment Officer

Furthering our commitment to stewardship

2021 was another eventful year, and one that yet again shone a spotlight on Environmental, Social and Governance (ESG) topics.

The ongoing coronavirus pandemic and the run up to the COP26 conference significantly increased focus on ESG topics by governments, NGOs, the business sector, and various other important stakeholders around the globe. While the long-term implications of these events are still unfolding, this much is obvious: security pricing is increasingly reflecting ESG factors, and ESG risks and opportunities must be taken into account when designing investment strategies.

When our clients entrust us with their capital, it is our duty as stewards to serve their interests by navigating the challenges and uncertainty in an ever-changing regulatory and investment landscape. To this end, stewardship is embedded in Russell Investments' DNA. We are actively and constantly assessing ESG trends, what they mean for our clients, and how we can provide investment solutions with the goal to deliver competitive and long-term performance. Through our active ownership activities, we encourage changes in the businesses in which we invest, which should benefit both shareholders and society as a whole.

A key part of staying in step with ESG trends is evaluating and updating our existing responsible investing and active ownership policies and processes on an annual basis. These include our Engagement Focus Areas and practices and our custom Proxy Voting Guidelines, crucial tools to fulfil our fiduciary duties. The updates made to our Proxy Voting Guidelines in the last year have directly led to increased scrutiny on significant Environment and Social topics by our Active Ownership Committee, and further bolstered our stance on director accountability.

In the past year, Russell Investments has also significantly enhanced our engagement program. We have evolved our systematic and comprehensive engagement selection process and grown our dedicated active ownership team to expand our collaborations with sub-adviser partners and third-party shareholder groups. This has extended the breadth of our outreach and strengthened our overall responsible investing approach.

In 2022 we face a busy regulatory calendar that includes new requirements under the Taskforce for Climate-related Financial Disclosures (TCFD), Mifid II, the implementation of the EU taxonomy, and preparation for phase two of the Sustainable Financial Disclosure Regulation (SFDR). I am confident that the strong team supporting our sustainability and active ownership efforts across the firm will rise to meet any challenges as regulators and market participants continue to advance standards, definitions, and requirements.

Our clients and their interests come first when we design investment solutions, and we believe a strong active ownership program is core to achieving client aims. At Russell Investments we aim to leverage the unique aspects of our platform engaging and influencing industry standards, asset managers and companies to create an active ownership program that has the most impact and alignment with client objectives and interests. We trust this report provides you with useful insights that demonstrate our commitment to continuing to improve our approach to stewardship. As is more true with ESG than most any client solution, we will get better together through strong partnership, shared insights, and transparency. Please do not hesitate to contact us if you would require more information or to provide us with your valuable feedback.

Sincerely,

K. El-Hillow

Kate El-Hillow

Global Chief Investment Officer, Russell Investments

2021 active ownership snapshot

Engagement activity

47%
more engagements with companies on ESG topics compared to 2020

32%
Environmental

Engaged across 31 different markets

39%
Governance

11%
Social

18%
ESG disclosure & UNGC

Proxy voting

10,041
Meetings voted

12,375
Votes against management

97,534
Proposals voted

Voted across 89 different markets

Responsible investing

Investment beliefs

We believe that open architecture investing is a superior approach to stewardship when done with appropriate care, as it enables independent oversight and decision-making.

Russell Investments' open architecture investment approach was developed during the 1960s, 1970s, and 1980s out of a recognition that the investment management industry lacked a robust standard of stewardship for both institutional and individual investors. As the manager of the first multi-manager funds, we sought 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.

Today, we believe that open architecture investing is a superior approach to stewardship when done with appropriate care, as it enables independent oversight and decision-making. This approach has significantly raised in popularity over the years, and continues to drive innovation in stewardship practices, enforcing greater transparency and accountability among investment managers and service providers. Our investment advisory capabilities, coupled with a firm-wide focus on superior client service, have naturally led to stewardship and fiduciary responsibility being core to our investment approach and our corporate values and identity.

Every investment solution we construct and investment decision we make focuses on seeking long-term investment outcomes for our clients using the most powerful investment toolkit available.

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 to guide 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 best 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.

Responsible investing beliefs

Responsible Investing is at the heart of our investment beliefs. Russell Investments believes Environmental, Social and Governance (ESG) factors can have a material impact on investment outcomes. As a global investment solutions provider, we believe that transparency and investing responsibly can help deliver attractive investment returns and meet client objectives in the long term. We have established an integrated responsible investing practice to provide stewardship in incorporating ESG considerations into investment decisions and active ownership across the firm. The practice is founded on the following set of four core beliefs:

Exhibit 1: Responsible investing beliefs

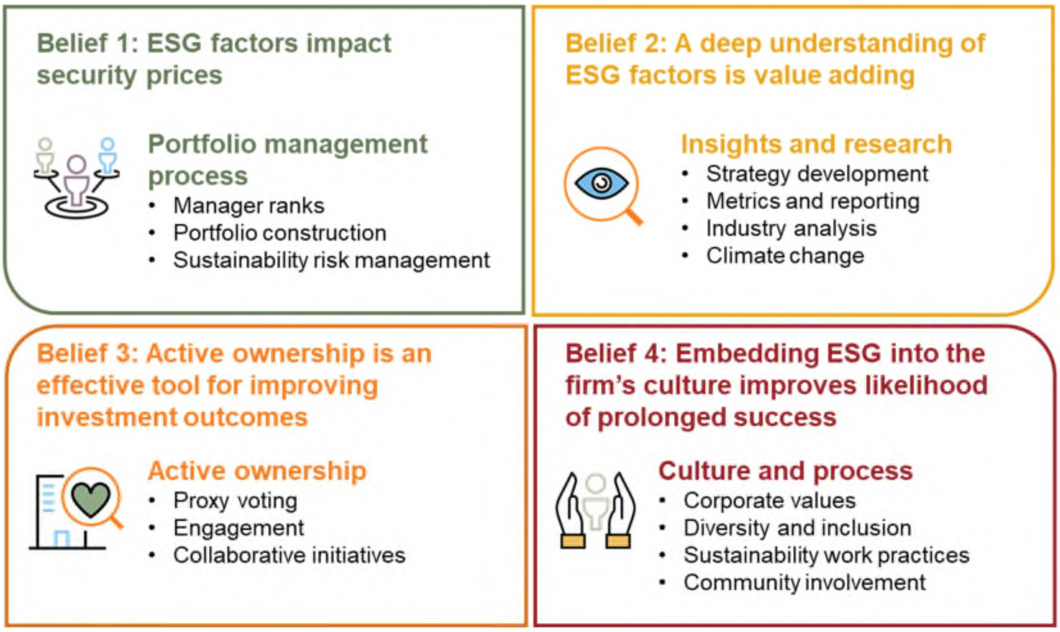
Source: Russell Investments. For illustrative purposes only.

Delivering on responsible investing objectives

Drawing on the core responsible investing beliefs outlined above, Russell Investments has developed formal policies on responsible investing, climate change, and sustainability risks that underpin our efforts to efficiently integrate environmental, social and governance considerations into our investment manager evaluation process, our portfolio management, our advisory services and when implementing proprietary solutions as desired by clients.

To achieve these responsible investing objectives, Russell Investments has developed a firmwide, holistic, ESG-integrated approach that interconnects our core responsible investing beliefs:

Exhibit 2: Responsible investing beliefs in practice



Source: Russell Investments. For illustrative purposes only.

1. Portfolio management process

Responsible investing is integrated throughout our investment process, including in our manager research, portfolio management, and portfolio construction activities. We believe ESG considerations should sit alongside traditional assessments as a part of the overall investment considerations for strategy evaluation. Manager research analysts have assigned an ESG rank to individual strategies since 2014, but as a natural evolution, we have expanded and refined our due diligence to cover a wider set of sub-advisers' stewardship activities. Furthermore, we produce an annual ESG survey of active managers, which assesses the integration of ESG considerations in investment processes among equity, fixed income and private markets managers.

Russell Investments' portfolio managers select active managers from among those ranked highly by our manager research teams. Through close collaboration we ensure that sustainable mandates employ managers with strong ESG integration. Furthermore, portfolio managers seek to identify and assess financially-material sustainability risks on an ongoing basis within portfolios. Potential risks are identified using available metrics and in communication with external investment managers.

2. Insights and research

We tailor our research to evolve our understanding of sustainability risks, and this is reflected in our strategy development, metrics and reporting, as well as industry analysis.

Our researchers are continually developing and refining our ESG-related strategies, such as Decarbonisation 2.0, impact investing, and ESG-themed solutions. Our internal reporting and oversight incorporate third-party data and industry-standard frameworks, along with our own proprietary metrics such as the Material ESG Score.

As climate change remains one of the most pressing challenges of our generation, in addition to making a firmwide commitment to net zero[1], in 2021, we have further strengthened our capabilities by establishing an ongoing partnership with a specialist climate risk provider[2] to supplement our existing climate metrics.

3. Active ownership

Russell Investments has built a robust proxy voting and governance process over the last 30 years, geared toward engagement on issues related to ESG factors. Our Active Ownership Committee ("the Committee") oversees a globally consistent and rigorous approach to proxy voting and engagement activities. The dedicated professionals on our Active Ownership Team enable our proxy voting policies, procedures, guidelines and voting decisions, whilst continuing to adapt our processes to meet evolving client needs and expectations.

The Committee is made up of experienced Russell Investments' professionals from a variety of roles, 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 Committee, our Guideline Sub-Committee meets regularly to review and propose adjustments that ensure our guidelines are aligned with current best practices, and our Engagement Sub-Committee directs and monitors our engagements with public companies, our sub-advisers and other market participants. This organisational structure and the diverse set of participating investment professionals keeps our active ownership function integrated within our investment process.

Exhibit 3: Governance of active ownership

Responsibilities: Chair: Oversight of all processes and procedures of the committee and its sub-committees.
Voting members: Comprised of senior investment professionals charged with voting on policy/procedural changes and proxy proposals.
Legal representative: Oversees all developments and actions of the committee and its sub-committees.
Source: Russell Investments, for illustrative purposes only.

[1] https://russellinvestments.com/au/about-us/press/2021/russell-investments-announces-net-zero-carbon-emissions-goal
[2] https://russellinvestments.com/nz/blog/tcfd-explained

At Russell Investments, we believe that being an active owner is an important component of our investment responsibilities, as well as our fiduciary duty. As part of our stewardship activities, we aim to engage with companies on overall business strategy, capital allocation, and environmental, social and governance practices while encouraging appropriate levels of risk mitigation in line with our engagement policy.

Additional information regarding our proxy voting and engagement actions during 2021, as well as our plans to further strengthen Russell Investments' active ownership function going forward, are detailed below in the sections titled Engagement, Voting and Reporting, and Policy Advocacy and Collaboration.

4. Culture and process

At Russell Investments, 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 to our shareholders and community. The following four key pillars support our culture and process:

1. **Corporate values:** Russell Investments' people and values[3] 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.

   Full details of our approach to corporate responsibility can be found here.

[3] https://russellinvestments.com/nz/careers/our-culture

Engagement

Our approach

As a leading investment solutions partner with multi-asset and multi-manager capabilities, we leverage a broad set of relationships to exert influence and enable multiple levels of engagement. These relationships extend across and through sub-advisers, standards setters, proxy and engagement service providers, other market participants and of course, corporate issuers.

Ongoing dialogue with companies is a fundamental part of our responsible investing strategy. Our engagement approach is to build a mutually beneficial long-term relationship with the investee companies and to help them set a direction of travel from an ESG perspective.

Russell Investments' engagement process and activities are led by the Active Ownership Team with participation from a wide group of global investment professionals from both research and portfolio management. Throughout 2021, we rolled out a program to increase each portfolio management team's involvement in our active ownership efforts – this included hiring dedicated active ownership professionals to oversee the development and strategy of our engagements.

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. Further information can be found in our engagement policy.

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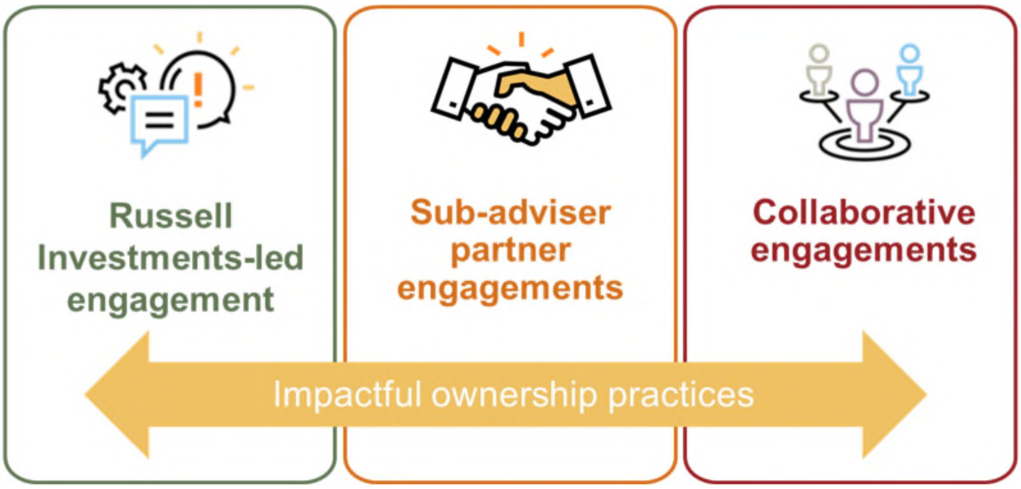
Exhibit 4: Impactful ownership practices



Source: Russell Investments, for illustrative purposes only.

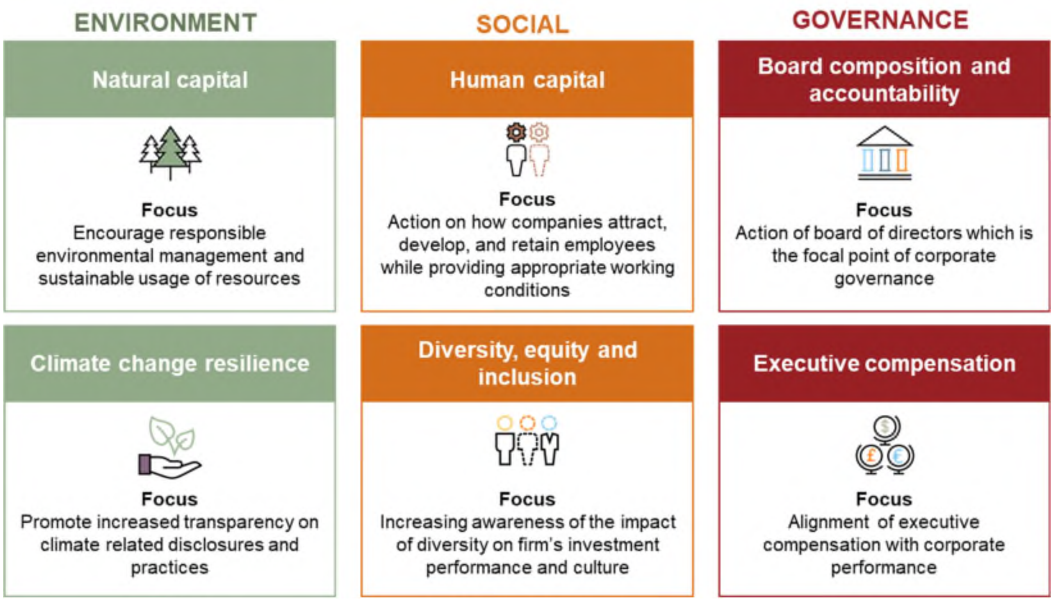
Russell Investments-led engagements

At Russell Investments we believe that a strong stewardship program includes pursuing activities which offer the highest return or risk mitigation opportunities. To this end, Russell Investments' Active Ownership Team strategy is focused on material issues under the general categories of Environment, Social, and Governance. 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.

Russell Investments maintains six focus areas which have been chosen through consideration of our clients' expectations, our proxy voting and engagement practices through time, our corporate values, and our responsible investing beliefs.

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

Exhibit 5: Engagement focus areas



Source: Russell Investments, for illustrative purposes only.

These focus areas are underpinned by two overarching principles:

ESG disclosure

Russell Investments encourages companies to make public how they are addressing key 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 an annual basis, that provides information in line with peers and industry good practices.

For most small market capitalisation and emerging market 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 to small cap and emerging market holdings therefore starts with improving ESG disclosures.

UN Global Compact

Established in 1999, the UN Global Compact ('UNGC') is a voluntary framework that has Ten Principles built around human rights, labour standards, the environment, and anticorruption. These principles promote the integration of sustainable business practices and challenge companies to become more open and transparent about their strategies, policies, and procedures pertinent to sustainability issues.

Since the framework's inception, over 15,000 companies and 3,000 non-business signatories based in over 160 countries have become signatories to the UNGC, growing into the largest corporate sustainability initiative in the world[4].

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. 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 with the purpose of understanding why a breach has been flagged, to promote improvements in governance practices, and to ultimately assess whether the company exhibits good governance.

Engagement selection

In addition to our core focus areas, Russell Investments also 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;
- ESG analysis performed in-house and by third-party vendors of ESG metrics focusing on subindustry 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 and approved by Russell Investments' Investment Strategy Committee.

[4] https://express.adobe.com/page/k93cLbjYIzmME/

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, so 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, Russell Investments-led engagements with sub-adviser input, or reinforcement of engagement efforts that are already underway.

Sub-adviser partner input — **54%** of total

Joint engagements — **29%** of total

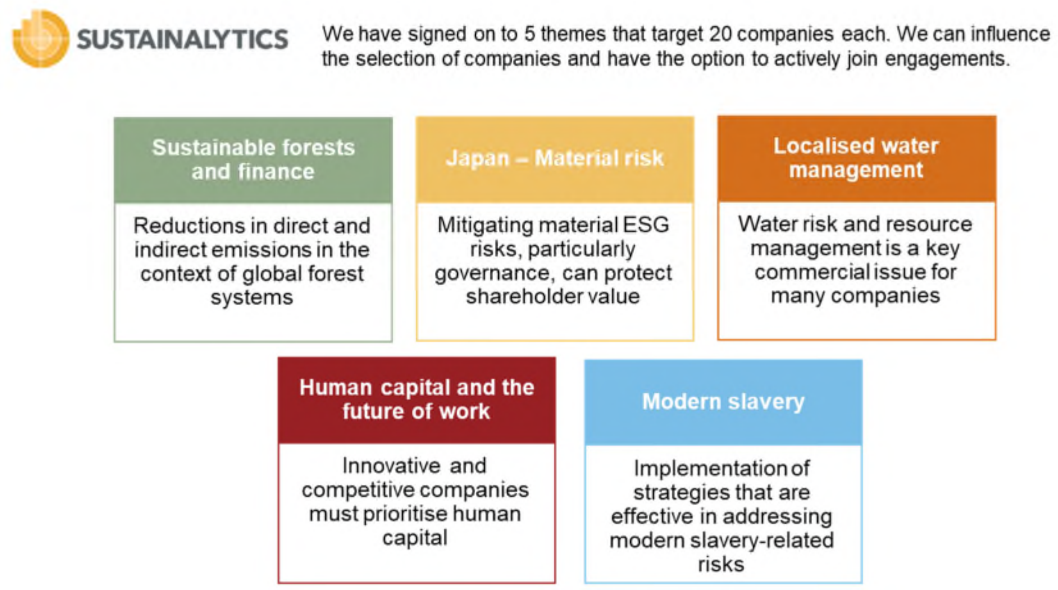
During 2021 we received input from sub-adviser partners for 54% of the engagements conducted. Furthermore, Russell Investments conducted joint engagements with several sub-advisers throughout 2021; these represented 29% of the total engagements. Joint engagements are pursued when we believe additional investor presence and expert insight into company operations will further our intended outcomes. We value the expertise our sub-advisers can provide to engagement conversations, and we assess the utility of a joint engagement on a company-by-company basis.

Collaborative engagements

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. Russell Investments has selected engagement themes that align with our focus areas and provide expertise and access in areas where partnership increases the likelihood of success. Across all five themes selected, our investment professionals participate directly in calls with the targeted companies.

Russell Investments' collaboration with Sustainalytics has materially broadened our scope of engagements. Sustainalytics thematic engagement programs are designed to run a three-year timeline. At the beginning of 2021, the Climate Change Transition program concluded, but Russell Investments joined two more: Climate Change-Sustainable Forests and Financing, and Modern Slavery. We chose the former to maintain our high activity on environmental issues and added the latter to bolster our outreach on an important social problem. These themes align with our active ownership strategy and our engagement focus areas.

Exhibit 6: Sustainalytics engagement themes



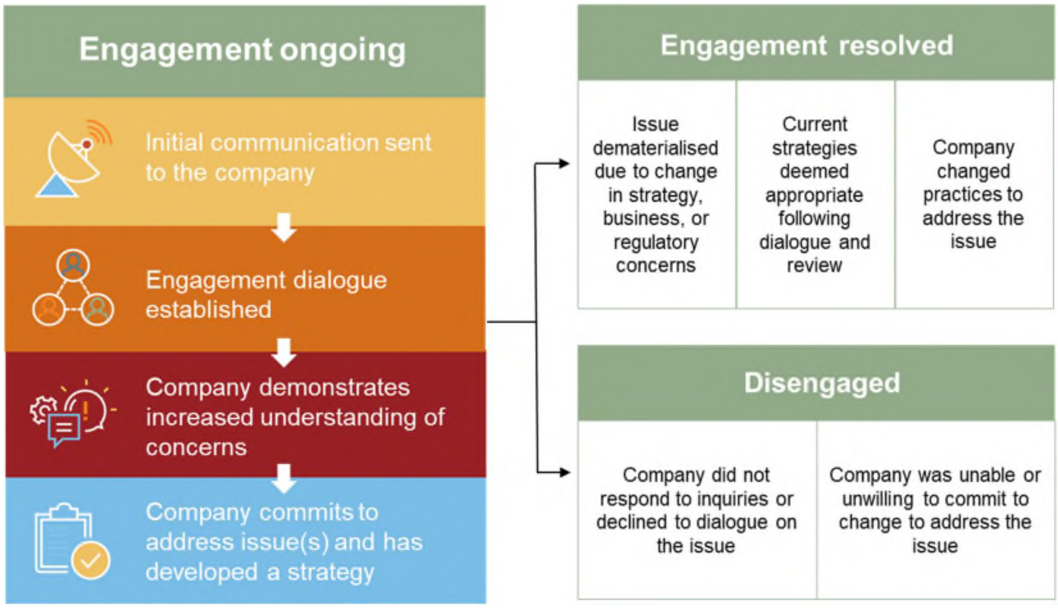
Source: Russell Investments, for illustrative purposes only.

In addition to our efforts with sub-advisers and through Sustainalytics, we play an active role in sustainability and responsible investing through involvement in organisations promoting sustainable operating and investment practices. Memberships in these organisations and investor groups broaden our scope of influence beyond the companies in which we invest. Further information can be found in the Policy Advocacy and Collaborations section.

Tracking progress

Russell Investments understands that addressing risk and return opportunities through stewardship can be a lengthy process – not every action will move in a straight line toward success. To that end, we track and monitor company progress and record the status of each individual engagement action, including the relevant focus area and the aim of each outreach. Engagements are ’on-going’ as long as we believe that progress can be made. On-going actions 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 7: Tracking engagement process



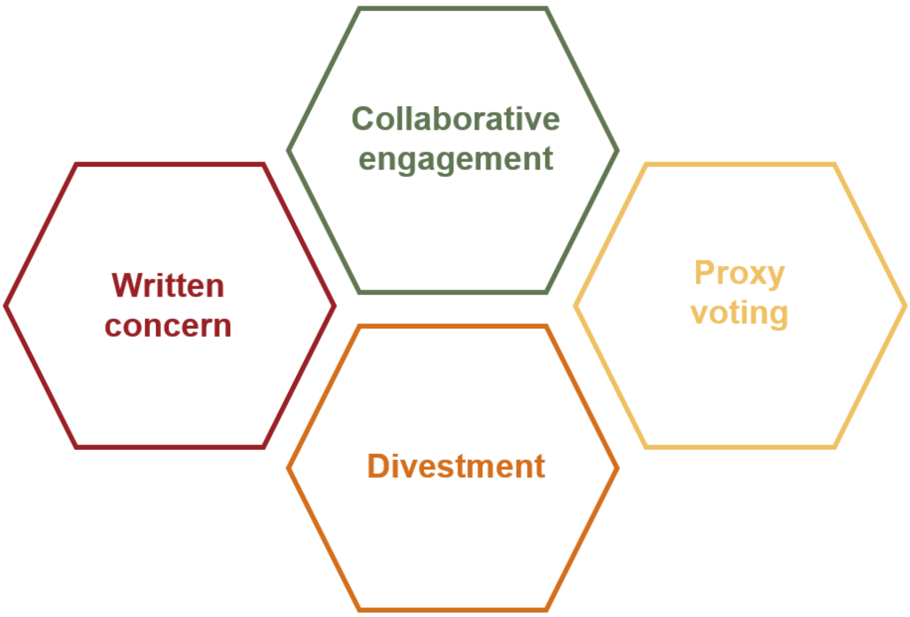
Source: Russell Investments, for illustrative purposes only.

Divestment

We believe that engagement is usually the most effective tool for changing corporate behaviour, and Russell Investments' position as a manager-of-managers means that we do not make investment or divestment decisions on behalf of our sub-adviser partners. As a result, divestment is currently not a frequently used escalation strategy. However, we communicate with our sub-advisers when companies we engage with refuse to change or are not moving quickly enough to operate sustainably.

Our escalation strategies, shown in exhibit 8, are assessed on a case-by-case basis and do not follow a particular order. We believe that achieving a positive outcome is more important executing a linear path.

Exhibit 8: Escalation strategies



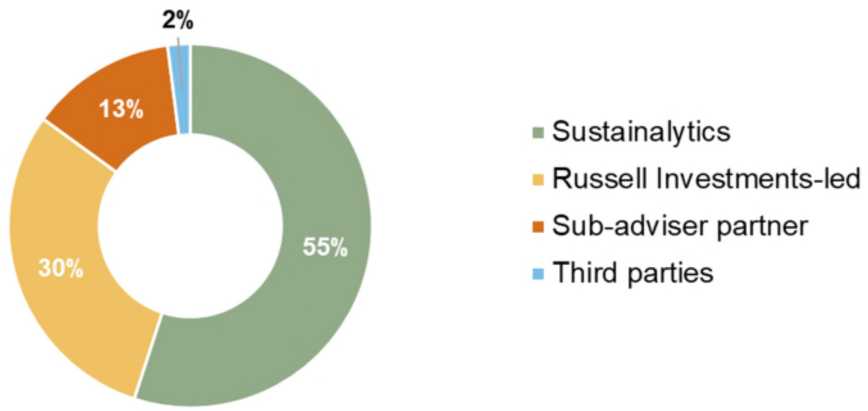
Source: Russell Investments, for illustrative purposes only.

2021 engagement activity

Engagement channels

Russell Investments occupies a special position in terms of industry influence and reach, and this creates multiple avenues for engagement. Over half of our engagements have been conducted through partnership with Sustainalytics, while one third of the engagement activities in 2021 were proactively identified and led by Russell Investments. In 2022, we aim to continue to increase our Russell Investments-led engagements, as well as our collaborative activity through third parties such as Climate Action 100+.

Exhibit 9: Engagement channels



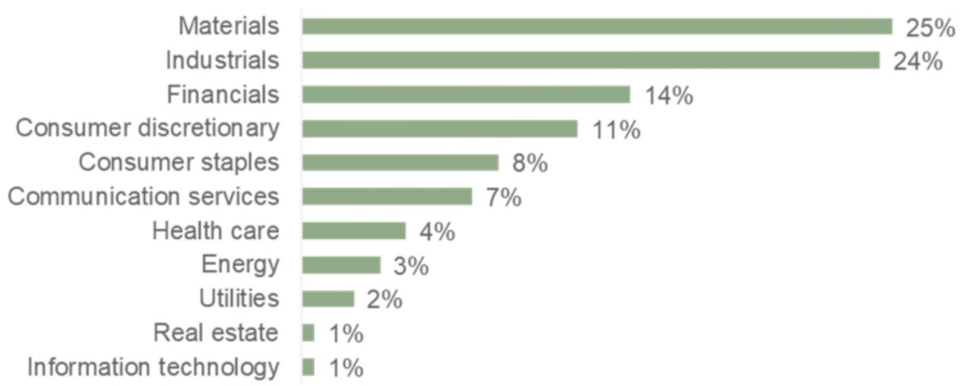
Source: Russell Investments. For illustrative purposes only.

Engagements by sector

At Russell Investments we recognise the importance of materiality, and we seek to evaluate how companies are managing the 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 2021 we engaged with companies across 63 different subindustries. Almost one quarter of the engagements conducted over the reporting period were with companies in the materials sector followed closely by the industrial sector.

Exhibit 10: Percentage of engagement by sector



Source: Russell Investments.

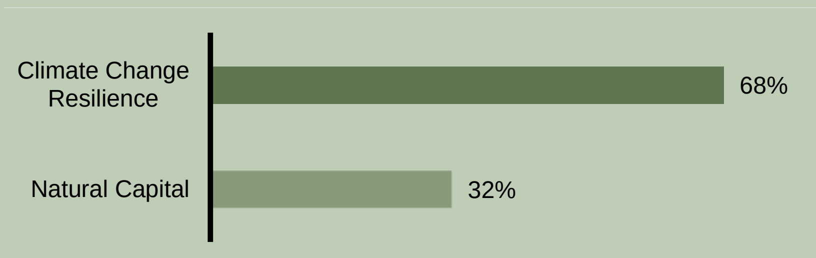
Engagement by focus area

As a result of our active ownership development and efforts, during 2021 we successfully increased the number of engagements with companies on ESG topics by 47% compared to 2020. All our engagements were undertaken remotely, given the travel restrictions imposed in response to the Covid-19 pandemic.

Environmental

32%

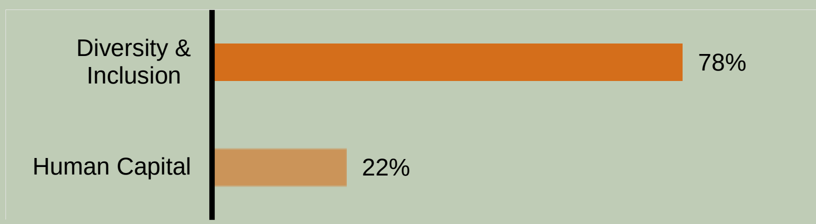
Our engagements related to environmental topics:



Social

11%

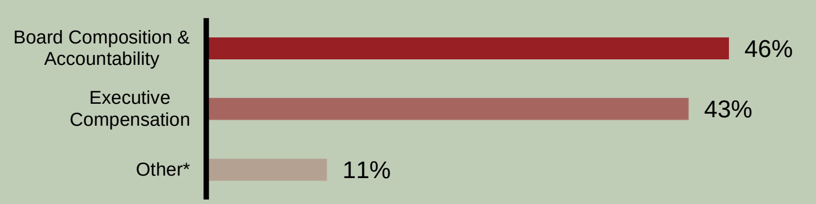
Our engagements related to social topics:



Governance

39%

Our engagements related to governance topics:



* Identifies topics outside our engagement focus areas (capital allocation, related party transactions, and share capital structure)

ESG Disclosure

17%

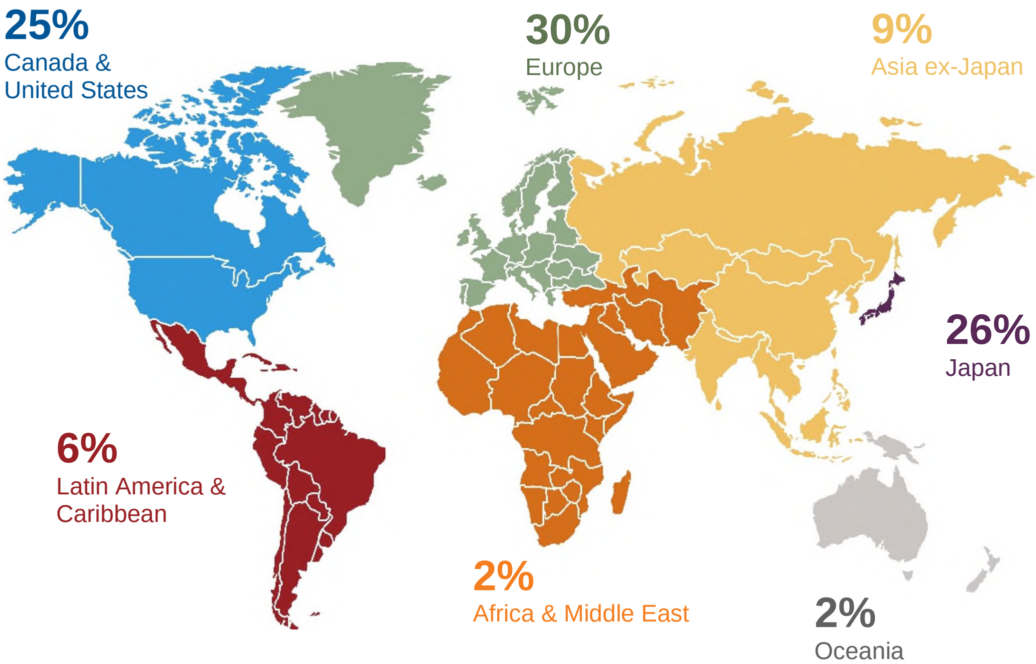
UNGC

1%

Engagements by region

Because we are a global firm with global investments, our active ownership strategy can achieve wide geographic impact. In the last two years, through our partnership with Sustainalytics, we increased our engagement activity with companies in some emerging markets where we had limited outreach in the past. Across all our engagement channels in 2021, we held engagements with companies in 31 different markets, distributed in seven main geographic regions:

Exhibit 11: Engagement distribution by region



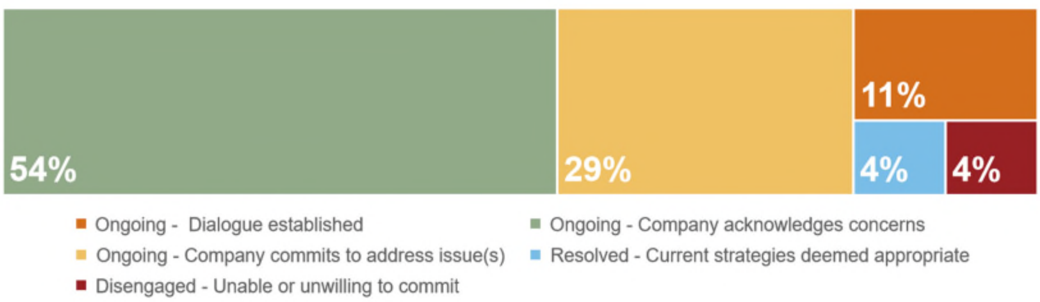
Source: Russell Investments. For illustrative purposes only.

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.

During 2021, more than half of the companies we engaged with acknowledged and showed a clear appreciation of the concerns we raised. Approximately one third committed to address the issues and/or has developed a strategy to do so. Furthermore, a small proportion of the ongoing engagements have been closed due to a satisfactory response and implementation of a strategy by the company.

Exhibit 12: Breakdown of engagement outcomes



Source: Russell Investments. For illustrative purposes only.

Engagement by asset class

The fixed term and contractual nature of bond investments afford bondholders a finite number of engagement opportunities to make explicit impact with individual issuers. These opportunities are often very brief, before an investment decision must be made, and they are not open to all parties, but rather at the discretion of the issuer's willingness to engage in most instances. Russell Investments typically focuses on evaluating and hiring managers with strong awareness and capabilities to engage on ESG issues and then allows the managers to engage with issuers on our behalf.

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 taken 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.

Bondholder engagement has become a key information source in assessing ESG related risk and return opportunities in the marketplace, and our sub-advisers are actively utilising their engagement activities to obtain greater insights of the underlying companies or entities, as well as improve their transparency and influence on business practices. Based on our monitoring activities, our sub-advisers increasingly exercise proactive engagement activities considering the materiality of industry-specific and company-specific risks.

The ability for bondholders to influence bond issuers also depends on how often bond issuers issue debts for their capital needs: repeated bond issuers are more incentivised to listen to bondholders.

Investment-grade corporate bond issuers are, by definition, companies with higher credit ratings resulting from healthier financial conditions. Such companies are often large, 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 seem to be more established among sub-advisers with investment-grade corporate bond mandates.

Depending on the market conditions, one can say high-yield issuers potentially have a greater incentive to listen to potential investors' needs, as their ability to access capital markets is less than those of investment-grade companies. There are more private companies in the high-yield market than in the investment-grade corporate market. Private companies often lack transparency, such as transparency into the composition of board membership. While our high-yield managers were already communicating with underlying companies' managements and their stakeholders, their engagement activities are shifting dialogues to ask broader ESG-related questions. Our high-yield managers have focused on increasing transparency and influencing corporate behaviours in efforts to improve the long-term enterprise value of the company in the past. At the same time, our sub-advisers are increasingly focusing on their engagement activities around climate risk.

Case Study: High yield manager engagement

TYPE OF ENGAGEMENT

Sub-adviser partner

COUNTRY OF INCORPORATION

Brazil

MARKET CAP

BRL 74.96bn

SECTOR

Materials

CONTEXT

One of our high yield managers engaged on several occasions with the world's largest pulp producer based in Brazil. Our sub-adviser already had a long-term relationship and climate change was recognised as key material risk for the company.

ACTIONS

Our sub-adviser encouraged the company to address climate change in line with their engagement priorities. Encouraging bond issuers to issue sustainability-linked bonds to align certain KPIs is a key trend we see for the bondholder engagements.

OUTCOMES

The company issued a sustainability-linked bond which is linked to a scope 1 and 2 emission target, in line with the company's goal to achieve net zero carbon emissions by 2030. If the established targets are not met, the company must pay higher coupons to its investors.

NEXT STEPS

Whilst the initial objective of the engagement has been achieved, the financial implication of the outcomes requires further monitoring. Our sub-adviser will track the company's performance against the targets set.

Engagement activities with sovereign issuers can be a very challenging. Changes are often slower at the country level than at the company level. Other differences between sovereign and company engagements we have identified are in relation to the communication channel, the political regime, and the election cycle. During 2021, we have seen our emerging market debt managers engaging with bond issuers to seek sustainable outcomes. Collaborative engagement – where a group of institutional investors comes together to engage with entities – appears to be a popular engagement practice with sovereign-debt investors.

Case study: Sovereign bond manager

TYPE OF ENGAGEMENT

Sub-adviser partner

COUNTRY

Malaysia

CONTEXT

Malaysia is heavily reliant on coal and natural gas to generate electricity. Whilst the government has made pledges and set targets that align to net-zero emissions pathways, the actual strategic plan is below standards.

ACTIONS

Our sub-adviser reached out to multiple government officials, including the Minister of Finance, about Malaysia's commitment at COP26 and how to achieve it. To this end, our sub-adviser pushed for a detailed action plan. The manager is also involved in collaborative engagement activities with other asset managers and asset allocators to put further pressure the local policymakers.

OUTCOMES

While we acknowledge that a detailed plan has not been published at this time, we recognise that desired engagement outcomes, particularly in this asset class, takes longer than others.

NEXT STEPS

Russell Investments continues to encourage and support our sub-advisers to push a sustainable agenda through engagement activities.

Activity across our focus areas

This section of the report offers detailed examples of engagement conducted and topics discussed based on our focus areas.

Our corporate engagement efforts address companies and issues that extend across our investment portfolio strategies to capture our presence globally, and we have selected examples that demonstrate the range of our active ownership efforts in terms of geographical distribution, size and sector of the companies, channel used, and engagement topics.

As noted above, Russell Investments engages across six ESG focus areas, underpinned by two overarching principles based on meaningful ESG-related disclosure and compliance with the Ten Principles laid out in the UN Global Compact.

Climate change resilience

Russell Investments recognises that climate change is one of the defining, global challenges of this generation and is a material investment issue across regions and industries. Based on a research report published by CDP, the world's 215 largest companies, representing USD 17 trillion in market capitalisation, estimate[5] the financial impact of climate risks to total at least USD 1 trillion, the majority of which are expected to hit in the next 3 years. 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 the climate change-related risks. Further details of RI's climate response can be found in our TCFD report

Russell Investments has been an official supporter of the TCFD since 2019, and we promote the TCFD's recommendation that companies provide effective climate-related disclosures that 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: Engaging on climate change

ENGAGEMENT CHANNEL

Russell Investments-led

COUNTRY OF INCORPORATION

Japan

MARKET CAP

JPY 248.7bn

SECTOR

Consumer Discretionary

CONTEXT

Russell Investments engaged with a Japan-based tire company. The company is materially exposed to GHG emissions as the manufacturing of tire and rubber products (the extraction of petroleum, milling, curing, and cooling of rubber requires a considerable amount of energy) is becoming more frequently regulated. In addition, the company uses large quantities of water alongside the natural resources needed to source rubber for tires.

ACTIONS

Russell Investments identified that the company lagged in practices and disclosure compared to its regional and market cap peers. We engaged with the company to encourage improvements in the company's overall ESG disclosures, in particular climate change related disclosures. Moreover, we sought to collaborate with the company on their strategy and management of natural resources relevant for their operations.

OUTCOMES

From discussion with the company, Russell Investments determined that the company was quite advanced in incorporating ESG issues into its strategic planning even though its public disclosures were weak. Recognising that regulatory pressures are rising to reduce emissions footprint and sustainably manage supply chains, the company has conducted a materiality assessment and set new targets around sustainability issues looking at its value creation, operational risk reduction, and the safety and quality of their product.

NEXT STEPS

Although the company has committed to address our concerns and has developed a strategy to do so, we consider this engagement to be ongoing. In 2022, we will follow up with the company on execution of their plans, including but not limited to TCFD reporting, setting Science Based Targets for GHG reduction, and water reduction targets at the regional level.

[5] https://www.cdp.net/en/articles/media/worlds-biggest-companies-face-1-trillion-in-climate-change-risks

Natural capital management

Measuring and valuing natural capital can provide companies with detailed statistics for better management of natural resources that contribute to economic development and growth. Better understanding of the mechanisms that link ecological systems to human wellbeing are required to assess both the value of benefits from natural resource systems, and the expenditure required to maintain those benefits.

Russell Investments believes that companies should display an understanding of their environmental resource use across their businesses, and demonstrate responsible environmental management aimed at maintaining the long-term usage of assets. 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 is 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: Engaging on natural capital

TYPE OF ENGAGEMENT

Sub-adviser partner

COUNTRY OF INCORPORATION

United States

MARKET CAP

USD 18.69bn

SECTOR

Materials

CONTEXT

Russell Investments engaged with a U.S. manufacturer of packaging products and printing papers with international operations. As a paper & pulp company, it has a large environmental footprint from its sourcing of raw materials to its processing involving large amounts of water and subsequent emissions. We connected with the company to conduct a joint engagement with our sub-adviser. The company has experienced a series of corporate actions and ESG controversies which made this approach beneficial given the existing relationship of the sub-adviser with the company.

ACTIONS

Russell Investments engaged to encourage the company to set sustainability targets for its operations – including emissions reduction targets and water stewardship targets. Our sub-adviser led a discussion on the operational and financial impacts of previous environmental issues and recent corporate actions. This supported Russell Investment’s goal in illustrating the current liability facing the company from its environmental practices.

OUTCOMES

The company has a long history of considering its environmental footprint and has published an annual Sustainability Report since 2012. While they integrate sustainable practices into their operations, they have yet to set targets in line with international best-practice (e.g., emission reduction targets aligned with the Paris Agreement’s 1.5c scenario). Further, while a large portion of company operations rely on sustainable water usage and resourcing, the company’s disclosures on its water stewardship and natural resource management is limited.

NEXT STEPS

The company is committed to aligning future disclosures with international standards including expanding its water stewardship efforts and setting science-based targets for emissions reduction. Russell Investments expects to continue engaging with company to follow progression towards the indicated commitments and targets.

Human capital management

Research[6] shows that the relationship between diversity on executive teams and the likelihood of financial outperformance has strengthened over time. The most diverse companies are now more likely than ever to outperform less diverse peers on profitability.

Human capital management is, therefore, a critical component in company performance. It determines how companies attract, develop, and retain employees while providing working conditions favouring greater employee engagement. Human capital is material across all companies; hence we expect companies to provide meaningful and comparable disclosure in this area.

The Covid-19 pandemic has greatly increased global stakeholder interest in human capital. An increasingly tight labour market has led to a greater focus on employee recruitment, retention, and inclusion. Furthermore, the global pandemic has heightened emphasis on gender, racial, and ethnic equity, which we address in a separate focus area given its relevance.

Case study: Engaging on human capital management

TYPE OF ENGAGEMENT

Russell Investments-led

COUNTRY OF INCORPORATION

Nigeria

MARKET CAP

USD 821.02bn

SECTOR

Financials

CONTEXT

During 2021, Russell Investments engaged with a Nigerian-based bank. The industry faces a high degree of competition for skilled employees and has a low level of diversity, especially among senior roles. In recent years, considerable media attention has been focused on cases of gender discrimination involving publicly-listed companies in the financial sector.

ACTIONS

Russell Investments connected with the company to encourage improved human capital management practices, and to provide our views and expectations in relation to ESG disclosure surrounding human capital management, financial inclusion, and ESG integration into financing.

Specifically, we engaged with the company on their employee training programs and initiatives and the impact of Covid-19 from a human capital perspective.

OUTCOMES

The company has incorporated ESG training and understanding of risks into its employee development programs. The company was responsive and supportive of its employees during the initial stages of the Covid-19 pandemic with overall retention remaining high. It also increased access to employee development resources for continued improvement since 2020. The company is actively working to overcome the country-specific challenges of financial inclusion by designing localised strategies for development. Moreover, the company integrates ESG assessments into its lending practices including ESG specific covenants in its loan contracts.

NEXT STEPS

The engagement with the company is ongoing. Russell Investments will evaluate the company's year-over-year progress in its 2022 ESG Report once published. We expect to see a greater level of detail disclosed by the company on their existing practices on human capital management and forward-looking strategic plans in this area.

[6] 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 and good governance practices, that diversity helps create long-term shareholder value. Russell Investments promotes diversity as a valuable tool to enable high-performing teams and strong business outcomes.

A wide range of market participants are calling for greater diversity disclosure[7]. This includes basic workforce statistics, ethnic and cultural diversity, and details on policies. Russell Investments recognises this lack of disclosure as a barrier for investors to assess a company's culture and for the wider workforce of the company to understand their employer's approach to equity and inclusion. Companies should demonstrate how they are recruiting, promoting, protecting, and retaining a diverse workforce.

Case study: Engaging on diversity, equity and inclusion

TYPE OF ENGAGEMENT

Russell Investments-led

COUNTRY OF INCORPORATION

France

MARKET CAP

EUR 3.69bn

SECTOR

Technology and communications

CONTEXT

Russell Investments engaged with a France-based digital transformation company specialising in solutions related to cloud storage, big data & analytics, cybersecurity, high-performance computing, business applications, the digital workplace, and automation. The industry is characterised by relatively low representation from women and minority groups; efforts to recruit from and develop diverse talent pools can serve to address the talent shortage and generally improve the value of company offerings.

ACTIONS

Russell Investments engaged with the company to promote their diversity programme and human capital management, after our internal research found that the company reported a high rate of employee turnover. While this engagement was identified, driven and led by Russell Investments in isolation, we did receive input from our sub-adviser ahead of our conversation with the company.

OUTCOMES

The company recognises the industry-wide diversity problem, including a gender bias, and they have developed a clear strategy to recruit diverse talent where possible. The company also has an inclusive technology strategy designed to increase accessibility to technology for people with disabilities.

NEXT STEPS

This engagement is ongoing. Russell Investments will connect with the company after the 2022 Annual General Meeting to monitor and discuss progress.

[7] https://www.ft.com/content/b45f6a13-c8e6-484b-a75f-bb578178e87f

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 board 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: Engaging on board composition and accountability

TYPE OF ENGAGEMENT

Sub-adviser partner

COUNTRY OF INCORPORATION

Luxembourg

MARKET CAP

USD 17.27bn

SECTOR

Health care

ENGAGEMENT FOCUS AREA(S)

Board Composition and Accountability

CONTEXT

Russell Investments, in coordination with our sub-adviser, conducted a joint engagement with a Luxembourg-based laboratory equipment and services company. The company recently grew the board from 6 to 8 members, achieving an independent majority despite 3 insiders on the board. This is a positive step, but the board size is still relatively small and lacks substantial business and science acumen among the independent members. Furthermore, the company operates labs around the world and approximately one third of these are leased from a third company owned by the CEO. Because the amount of cashflow from the leases exceeds the dividends and compensation received by the CEO for his public company ownership and role, these transactions create a conflict of interest.

ACTIONS

Russell Investments engaged with the company to discuss board composition and endorse greater diversity, equity and inclusion at board level. Moreover, our objective was to encourage the company to address the conflict of interest concerns arising from the related-party transactions, i.e. the lab leases.

OUTCOMES

On board diversity, the CEO believes the current board make-up is sufficient for the company's size; however, should they add another director, the company will prioritise a diverse candidate as it is one of the company's strategic initiatives. On related party transactions, the CEO understands the conflict and why investors are uneasy. The CEO is willing to recommend that the company purchase the buildings being leased as an investment, thus eliminating the conflict. A timeline was not provided for action, and it was noted that the investment was very dependent on the company's other needs.

NEXT STEPS

Russell Investments and its investment partner will monitor developments on the issues discussed. On a separate topic, we aim to engage with the board's remuneration committee to discuss executive compensation practices and disclosures during 2022.

Executive compensation

Russell Investments believes executive compensation should align the interests of a companies' management with those of shareholders. Programs 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: Engaging on executive compensation

TYPE OF ENGAGEMENT

Russell Investments-led

COUNTRY OF INCORPORATION

United Kingdom

MARKET CAP

USD 528.07m

SECTOR

Materials

CONTEXT

Russell Investments engaged with a UK-based gold and silver mining company, which has operations in Peru and Argentina. We voted against management on the advisory 'Say on Pay' vote at the 2021 Annual General Meeting due to concerns at the relatively high payout under the safety component of the annual bonus despite a fatality during the year under review. Additionally, the company received high dissent from shareholders on both the binding vote on the remuneration policy and the advisory vote on the remuneration report at the 2020 annual meeting, meaning that shareholders were neither in favour of the guidelines nor the implementation of executive pay.

ACTIONS

Russell Investments engaged with the company to measure and assess the company's response to the vote results and to encourage the company to improve remuneration-related disclosures. Furthermore, we requested information regarding the decision behind the payout, and the executive compensation package and structure.

OUTCOMES

The company understood why investors are dissatisfied with the level of disclosure provided and demonstrated willingness to discuss and potentially change its disclosure practices to better fit investor expectations.

NEXT STEPS

This engagement has been classified as ongoing. Russell Investments will continue to monitor disclosure improvement on executive compensation and engage with the company accordingly.

ESG disclosure

During 2021, investors and regulators continued to focus on the scope and quality of public company disclosure of ESG information. Not every jurisdiction has rules on ESG disclosures, and much guidance focuses on best practice or best efforts rather than mandatory. For example, across emerging markets, corporate ESG disclosures are uneven and broadly lag those in developed markets. At Russell Investments, we believe that encouraging companies globally to up their ESG performance and ESG disclosures, can drive business success. To this end, we motivate companies to make public how they are addressing key ESG issues relevant to their business practices in a timely manner.

SPOTLIGHT – ESG DISCLOSURE ON SMALL CAP COMPANIES

Case study 1

ENGAGEMENT CHANNEL

Sub-adviser partner

COUNTRY OF INCORPORATION

United States

MARKET CAP

USD 454.6m

SECTOR

Consumer services

We engaged with a US based company that operates and franchises restaurants featuring made-to-order cuisine. Russell Investments identified that the company did not provide meaningful disclosure on material sustainability issues relevant to the restaurant industry, and the company was falling behind peers on ESG reporting. We sought input and insights from our sub-adviser and decided that, strategically, a collaborative engagement alongside our sub-adviser would be more impactful. We engaged with the company to find that they are currently exploring ESG disclosures and are leaning towards the SASB framework. The company also noted that they have programs in place for waste management. In addition, the company is exploring methods to integrate sustainability and health concerns into their supply chain.

Case study 2

ENGAGEMENT CHANNEL

Russell Investments-led

COUNTRY OF INCORPORATION

United States

MARKET CAP

USD 7.85bn

SECTOR

Consumer discretionary

We engaged with a multi-jurisdictional gaming company based in the US. Russell Investments established that the company released its first ESG report in 2021. We sought input from our sub-adviser on the stock, and after further internal debate, we decided to connect with the company to encourage it making more explicit disclosure in certain material ESG-related topics, such as carbon and water stress. In response, the company showed a clear understanding of our concerns and displayed a strategic focus on ESG-related matters -- in particular, on emissions reduction, sustainable resource use management, and robust human capital management and diversity programs. Whilst the company described challenges in measuring and reporting in some of these areas, they have committed to improve disclosure as they improve their data collection methods.

OUTCOMES

Both companies indicated understanding of the concerns raised during our engagement, but Russell Investments will continue to monitor and engage with them as they progress towards ESG disclosures and greater incorporation of ESG factors in business practices.

Escalation

Russell Investments believes executive compensation should align the interests of a companies' management with those of shareholders. Programs 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: Proxy voting escalation

ENGAGEMENT CHANNEL

Russell Investments-led

COUNTRY OF INCORPORATION

United States

MARKET CAP

USD 3.99bn

SECTOR

Consumer staples

ENGAGEMENT FOCUS AREA(S)

Human capital management

CONTEXT

A shareholder resolution requesting that the board report the Company's human rights due diligence process was proposed at the 2020 Annual General Meeting of a poultry producer based in the US. Given the company's industry, it could be exposed to several human rights-related risks in its own operations as well as those maintained by its contract growers. As has been seen with other companies, allegations of human rights abuses can inflict, at a minimum, reputational damage on targeted companies and may dramatically affect shareholder value.

ACTIONS

There was debate among Committee members over whether to support the shareholder proposal. The committee ultimately voted to reject the proposal in 2020 on the basis that engagement would be a more effective tool to communicate our concerns. In August 2020, Russell Investments met with the company to discuss their response to the shareholder proposal. The company pointed out that they had in fact had a decline in worker injury in the period 2017 – 2019 due to their efforts, and are ahead of peers in their sustainability efforts, having adopted the SASB disclosure framework in 2019. Although we had an overall positive view on management's efforts within their own plants, the company was not able to outline a plan for screening contract growers. As a result, we escalated the company for further monitoring.

OUTCOMES

After finding no progress made on risk mitigation in the supply chain in 2021, Russell Investments' Committee voted to support a repeat of the shareholder proposal requesting a human rights due diligence report.

Participation in Sustainalytics activity

Sustainalytics' engagement services allow for close oversight and integration with our internal active ownership and investment processes. Our Engagement Sub-Committee, responsible for the selection and monitoring of engagement themes, communicates regularly with Sustainalytics on the positioning of these themes and target company selection and monitors progress and outcomes. Additionally, members of the Active Ownership Team, portfolio managers and members of the wider investment division regularly participate in the direct company engagements led by Sustainalytics.

Case study: Concluding climate change transition theme

CONTEXT

Russell Investments, in alignment with our focus area on Climate Change Resilience, joined Sustainalytics' Climate Change Transition engagement theme in early 2020. The theme targeted twenty companies in the steel and construction industries. These industries were selected because they had received comparatively less attention than the oil and gas, power utilities, and transportation sectors within the climate debate, and on a combined basis, steel and cement represent approximately 13% of anthropogenic greenhouse gas (GHG) emissions globally. This set of engagements aimed to further climate-related international disclosure standards and company alignment with a 2-degree or lower transition pathway. Specifically, participants advocated for the integration of transitional and physical risk and a mitigation strategy beyond 2020 utilising science-based targets or the equivalent.

ACTIVITY

Over the course of the engagement, Sustainalytics led 73 engagement meetings, sent approximately 600 communications, and coordinated responses to an investor letter on climate transition. Through this collaborative engagement, Russell Investments was able to engage with 20 companies in 13 different countries in four main regions, held across 93 different Russell Investments' funds. To each company, we promoted the integration of environmental, social, governance and climate-related factors into reporting, strategic planning, and risk management for long-term value creation.

OUTCOMES

Through this collaboration, we contributed to the following outcomes[8]:

- Between 2018 and 2020, 10 of the 15 companies (20 total) that reported to CDP improved their Climate Reporting score.
- Nine of the twenty companies were included under the Climate Action 100+ list of the worst contributors to global GHG emissions, and each of these companies showed evidence of improvement in their scoring with the Climate Action 100+.
- 80% of the engaged companies set 2030 targets or equivalent, while 90% established a 2030 target and/or 2050 carbon neutrality ambition. Five of the twenty companies also set science-based targets.
- Throughout the engagement, targeted companies showed significant improvements in terms of various aspects relating to climate transition innovation.
- Several companies used CDP reporting as a steppingstone to alignment with the Task Force on Climate Related Disclosures (TCFD), and by the end of the engagement in 2020, three of the more advanced companies were considering how to best align their reporting and target setting with the TCFD.
- While none of the companies had yet directly tied climate-related objectives to executive or board level compensation – more advanced companies were open to or had already started discussions to put this in place.

NEXT STEPS

While the Climate Transition engagement has concluded, the issues it addressed remain important and unresolved. Russell Investments will continue outreach through:

- Russell Investments-led activity under our environmental-related focus areas, Natural Capital and Climate Change Resilience.
- In partnership with Sustainalytics on the Localised Water Management and the Sustainable Forest and Finance themes.

[8] Sustainalytics Climate Transition Final Report

Voting and reporting

Our approach

For 30 years, Russell Investments has executed a robust, global proxy voting programme that is a foundation of our stewardship efforts. Russell Investments' Guidelines are carefully drafted to result in votes that promote the best interest of our clients.

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.

For 30 years, Russell Investments has executed a robust, global proxy voting programme that is a foundation of 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 regulation, which 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 stay in line with shareholders' best interests. The Voting Guidelines address most proxy issues with detailed specificity; however, the Active Ownership Committee ("the Committee") recognises that some issues require more scrutiny and a non-prescriptive approach; in those instances, the Guidelines refer the votes to the Committee for review.

An external service provider, Glass Lewis, serves as our proxy administrator and is responsible for aggregating proxy ballots received directly from Russell Investments' custodians and 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 analysts, who in turn provide a recommendation to the Committee based on individual research and the research provided by the proxy administrator. The majority of proposals voted 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[9].

[9] https://russellinvestments.com/nz/about-us/responsible-investing

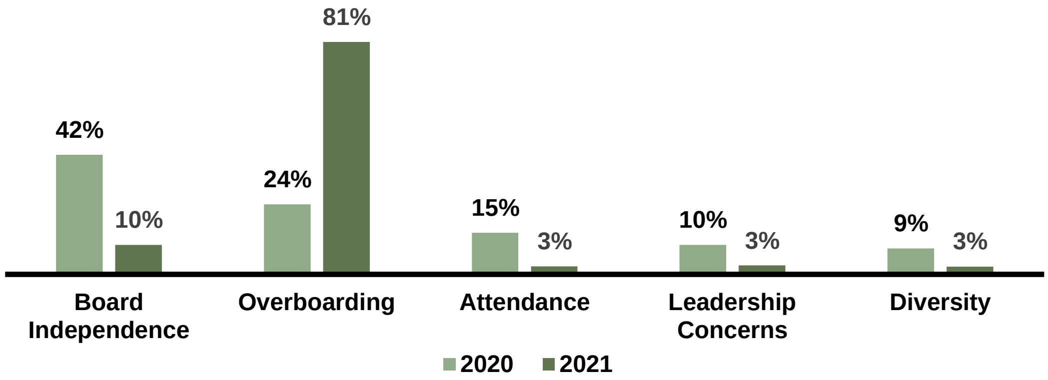
Impact of 2021 guidelines updates

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 2021 proxy season made a considerable impact on our voting activity:

Time commitment of directors

Over-commitment is considered a material governance concern as it could potentially compromise the quality of the board, because of the directors in question being spread too thinly. This lack of sufficient 'dedication' results in lesser quality decision-making by the directorship and is associated with negative performance and company valuations. To discourage overboarding and promote proper director oversight, we tightened our guidelines to oppose the election of directors who serve on the boards of more than three publicly traded companies, a decrease from five in the previous iteration. This provision alone accounted for 38% of votes against provider, demonstrating our independent stance on director accountability.

Exhibit 13: Rationale for votes against management on director elections

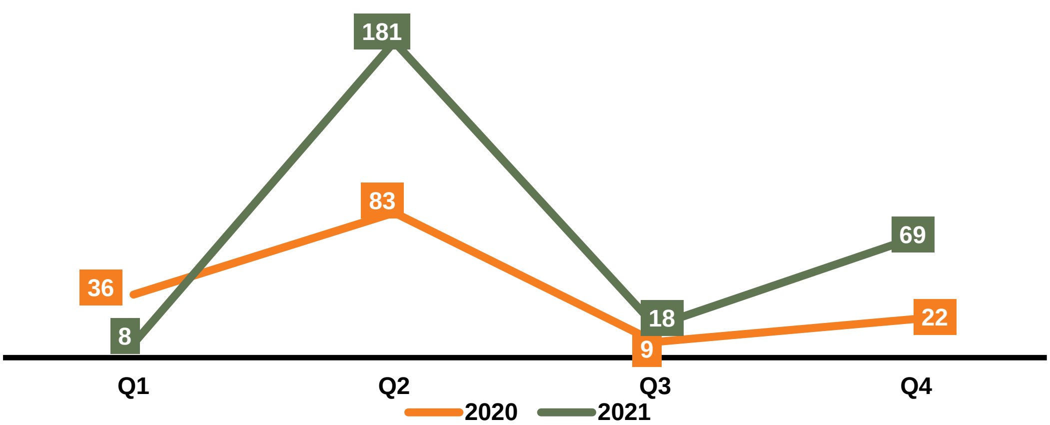


Source: Russell Investments.

Environmental and social proposals

Russell Investments believes it is important for companies to effectively oversee and manage material environmental, social, and governance issues. To ensure close attention by the Committee, starting in 2021 all proposals relating to environmental and social proposals and those requesting creation or improvement of ESG risk reporting were made subject to a case-by-case review by the Committee. As a result of this amendment, the number of referred proposals increased 180% compared to the previous year.

Exhibit 14: Number of referred proposals reviewed by the committee



Source: Russell Investments.

Looking ahead: 2022 guidelines updates

For the 2022 proxy season, the Committee has further refined our guidelines to reflect Russell Investments' consideration of various ESG topics, as well as increase the efficiency of the voting process.

The ESG landscape is constantly changing, and Russell Investments aims to keep pace with an ever-expanding regulatory environment. Beyond refining the guidelines concerning ESG shareholder proposals, the Committee ratified amendments for the 2022 proxy season, including but not limited to:

- 'One share, one vote': We have simplified our existing guidelines to explicitly express support for the 'one share, one vote' principle, and clarify our approach pertaining to dual class share structures and loyalty shares.
- Board diversity: We have bolstered our diversity guideline at board level. From 2022 proxy season, we will hold the chair of the nomination committee accountable by voting against their re-election when gender diversity of the board members is not in line with the expectations of each market.

Referred items

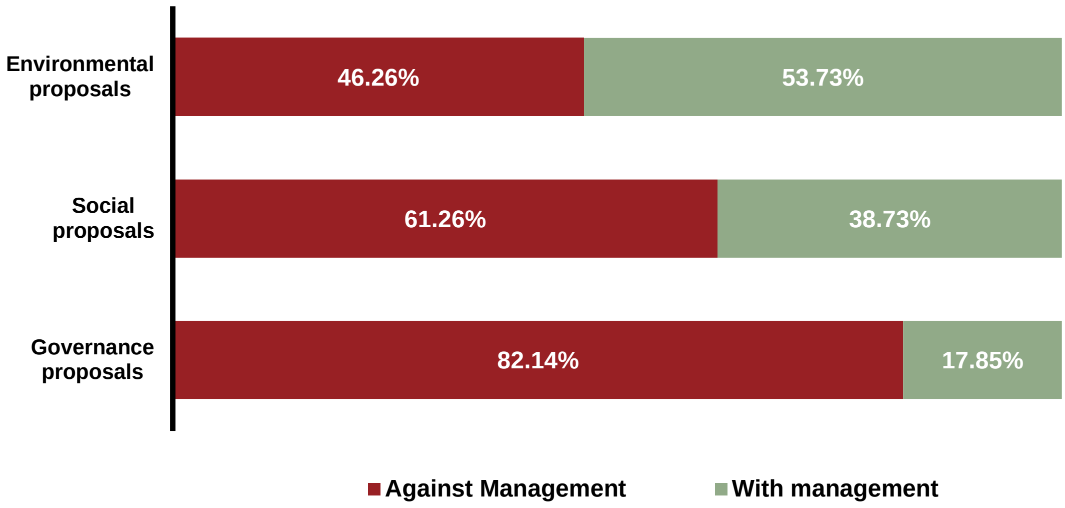
The Committee reviews those proposals that require more scrutiny and a non-prescriptive approach, and any proposals that are not specifically addressed in the guidelines. At Russell Investments, we believe good stewardship requires careful consideration of each proposal on its individual merits.

To this end, the Committee evaluates each proposal considering the following factors:

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

During 2021, 639 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, 43% 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 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 15: Russell Investments votes on referred items



Source: Russell Investments.

Fixed income

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. For fixed income assets, the number of occasions when Russell Investments will be engaged in proxy voting will be very limited. In 2021, the bondholder votes that Russell Investments cast were all of a technical nature. 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.

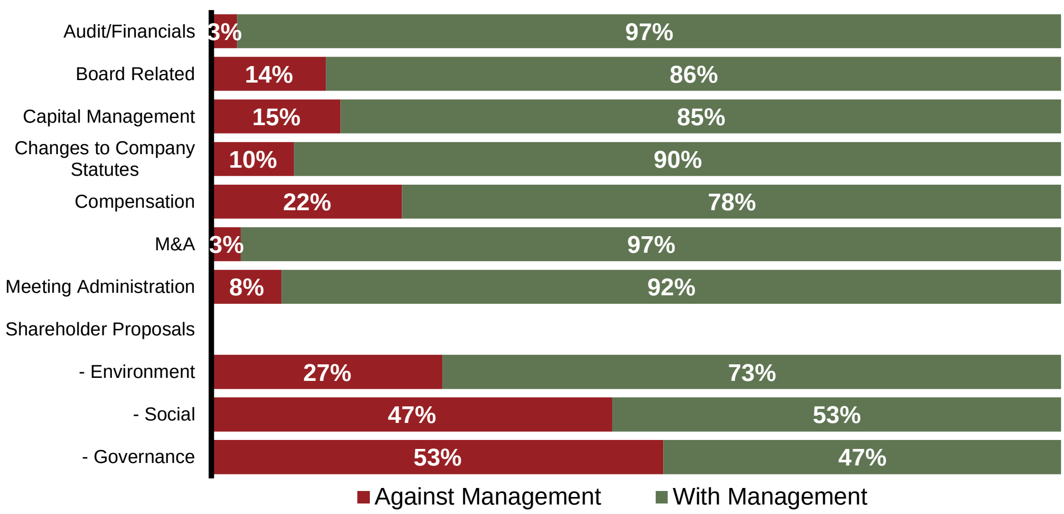
Stock lending

As a fiduciary, Russell Investments maintains the voting rights for all holdings. We do not delegate voting to any of our sub-advisers, though in some cases we may reach out to a sub-adviser for additional information regarding specific proxy items. The proxy coordinator is responsible for ensuring that all of Russell Investments voting rights are exercised and conducts a quarterly review of accounts which should have 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 full voting rights on behalf of our clients. Glass Lewis currently produces a weekly report of shares that we have out on loan with upcoming proxy votes. 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.

2021 proxy voting activity

10,041 Meetings voted	**97,534** Proposals voted	**893** Shareholder proposals	**5,577** Votes against provider	**12,375** Votes against management
97% Of eligible meetings	**97%** Of eligible proposals	**1%** Of total voting activity	**6%** Of proposals voted	**13%** Of proposals voted

Exhibit 16: Voting activity per topic

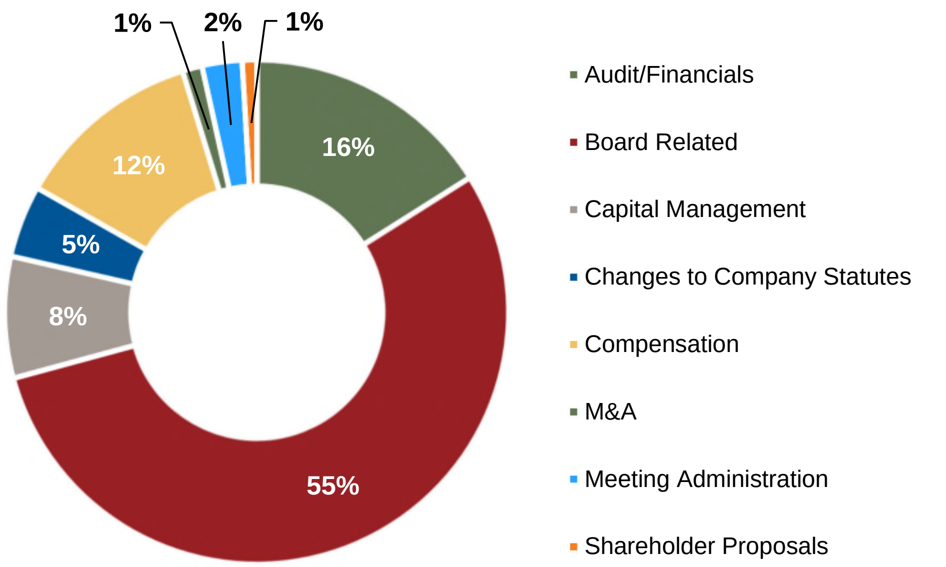


Source: Russell Investments.

Proxy season overview

In 2021, Russell Investments voted on 94,534 individual proposals, representing 97% of proposals eligible, and on 10,041 individual meetings, representing 97% of meetings which Russell Investments was eligible to vote. The small percentage of unvoted meetings (marked as 'take no action' in our reporting) were due to share blocking, power of attorney markets (POAs), or operational barriers. As is frequently the case, most items voted related to governance issues, with the largest portion being board related.

Exhibit 17: Votes by issue

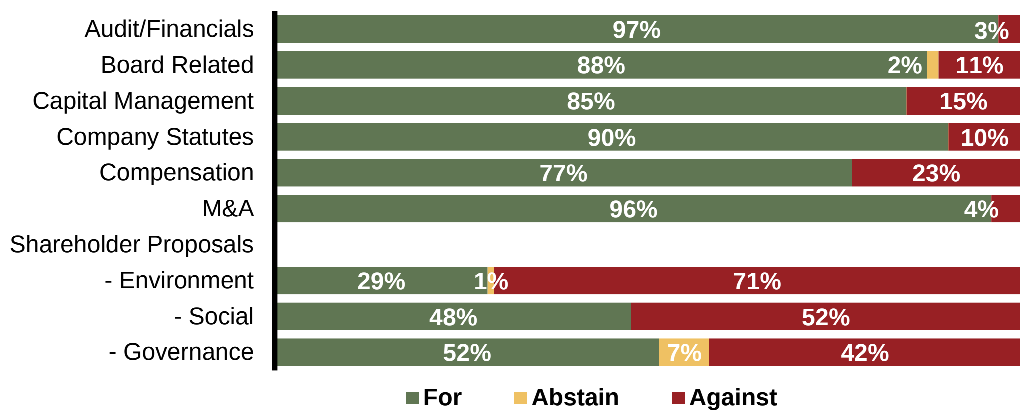


Source: Russell Investments.

Russell Investments voted against management on 13% of proxy items and voted against Glass Lewis recommendations on 6% of proposals. Of the votes against management, 35% were also against Glass Lewis' recommendation, which is, once again, reflective of the independence of Russell Investments' guidelines and voting activity.

Regarding management proposals, we have most frequently voted against items relating to executive compensation (23% against), but we also frequently disagreed with management proposals concerning capital management (15% against). On the other hand, we have been largely supportive of proposals categorised as Audit/Financial.

Exhibit 18: Russell Investments voting behaviour

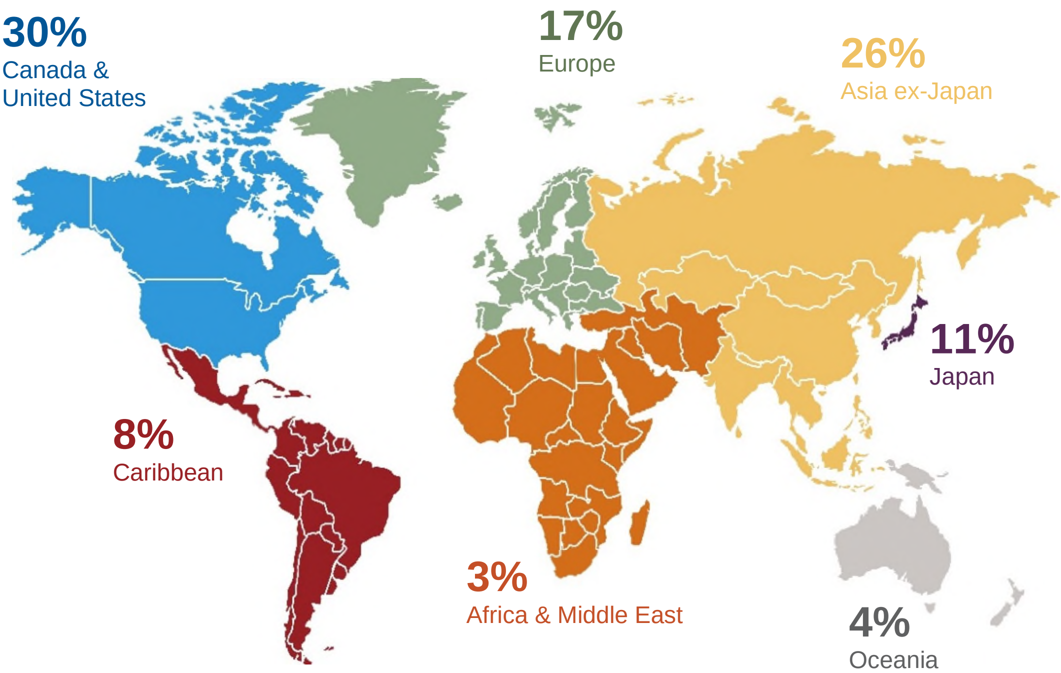


Source: Russell Investments.

Proxy voting by region

Russell Investments applies a consistent proxy voting practice around the globe. We exercised our votes across 89 different countries in 2021. Approximately half of the proposals voted applied to companies based in North America and Europe, with Asia-based companies (including Japan) accounting for over a third of the votes. Africa and the Middle East were the regions with the lowest voting activity registered in 2021.

Exhibit 19: Proxy voting distribution by region



Source: Russell Investments. For illustrative purposes only.

Voting activity on contentious topics

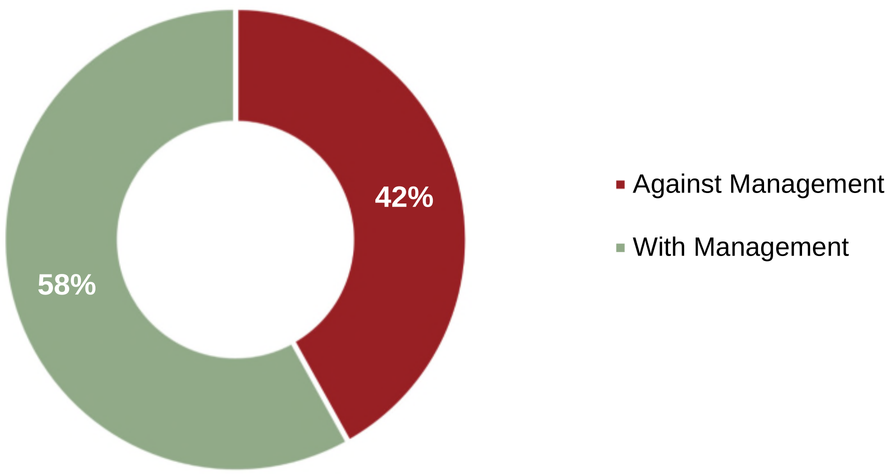
Climate risk voting

During 2021 our voting activity has been consistent with our commitment for all assets under management to achieve net zero emission by 2050 or sooner. In this regard, Russell Investments has voted on 118 climate-change related proposals, and it has supported all resolutions flagged by Climate Action 100+. Furthermore, we took voting action against 42% of the companies for their failure to make sufficient progress in terms of climate risk disclosure and/or management.

In line with our engagement focus areas, we have refreshed our voting guidelines regarding 'Say on Climate' proposals. This new provision expands Committee review to include management proposals, advisory or otherwise, which propose a plan for climate risk management. We expect portfolio companies to provide necessary disclosure that allow us to assess their preparedness for the transition to a low-carbon economy. We evaluate climate plan on a case-by-case basis, with particular attention to:

- How the company explains the roles of the board and shareholders in executing the plan
- What the proposal is asking shareholders to approve; we are wary of providing direct votes on strategy, preferring to leave that detail with management.

Exhibit 20: Management support on climate change-related proposals



Source: Russell Investments.

Case study: Voting with management on climate risk

COMPANY NAME

Origin Energy Limited

COUNTRY OF INCORPORATION

Australia

MARKET CAP

AUD 10.20bn

SECTOR

Utilities

MANAGEMENT RECOMMENDATION

Against

RUSSELL INVESTMENTS VOTE

Against

CONTEXT

Origin Energy Limited is an Australia-based energy company. The Company is engaged in the exploration and production of natural gas, electricity generation, wholesale and retail sales of electricity and gas, and the sale of liquefied natural gas. At the 2021 shareholder meeting, a shareholder proposal requested that the company strengthen its review of industry associations to ensure that it identifies areas of inconsistency with the Paris Agreement.

RUSSELL INVESTMENTS ACTIONS

- As part of the Committee's review, Russell Investments sought a recommendation from a sub-adviser partner which holds the Company. The sub-adviser has continuously engaged with the company on climate change risks and mitigation over the last several years and noted that they have seen significant progress made by the company since the beginning of their engagement, including improved disclosure on industry associations and their positions on climate change versus the company's own position.
- The Committee voted to reject this proposal, based on the company's responsiveness on this issue, as well as the fact that, while there may be discrepancies between the company's positions on climate and those advocated by its trade associations, the company has already addressed these issues in existing disclosures.

OUTCOMES

While the resolution did not pass, it received approximately 37% support from shareholders, which is deemed to be a significant level of support. Russell Investments will continue to monitor the company's progress on this area and dialogue with our sub-adviser on the matter.

Case study: Voting against management on climate risk

COMPANY NAME

Imperial Oil

COUNTRY OF INCORPORATION

Canada

MARKET CAP

CAD 34.14bn

SECTOR

Energy

MANAGEMENT RECOMMENDATION

Against

RUSSELL INVESTMENTS VOTE

For

CONTEXT

The company is one of Canada's largest integrated oil companies. It is active in all phases of the petroleum industry in Canada, including the exploration, production, and sale of crude oil and natural gas. The company is controlled by Exxon Mobil Corporation that owns approximately 69.6% of the company's outstanding shares. Given the nature and scope of the company's operations, it could be subject to significant risks with respect to climate change effects and the associated regulatory and/or investor pressures.

RUSSELL INVESTMENTS ACTIONS

- The proposal requested that the Company adopt an ambition to achieve net zero carbon emissions at or before 2050, covering Scope 1 (direct emissions) and 2 emissions (indirect emissions from purchased electricity), which we believe is a reasonable request given market and regulatory momentum toward cutting carbon emissions.
- We have established that disclosures on this topic are lagging against peers.
- The Company states in response to this proposal that it is developing pathways to reduce its GHG emissions intensity in support of a net-zero future. We believe that shareholder support for this proposal would serve to further support the Company in its development of these pathways and its stated preference to set concrete targets.
- Russell Investments is a member of the Net Zero Asset Manager initiative and has a goal of net-zero by 2050. Supporting this proposal is aligned with our firm's commitments

OUTCOMES

The resolution received approximately 14% support from shareholders. Whilst this level of support may not appear material, it represents 46% of the free float given Exxon Mobil's ownership of the company. The company has already acknowledged increased regulatory and business risk reaffirming its goal to achieve net zero Scope 1 and 2 greenhouse gas emissions in the company's oil sands operations by 2050 in support of Canada's commitment to move towards net zero emissions.

Voting on human capital management

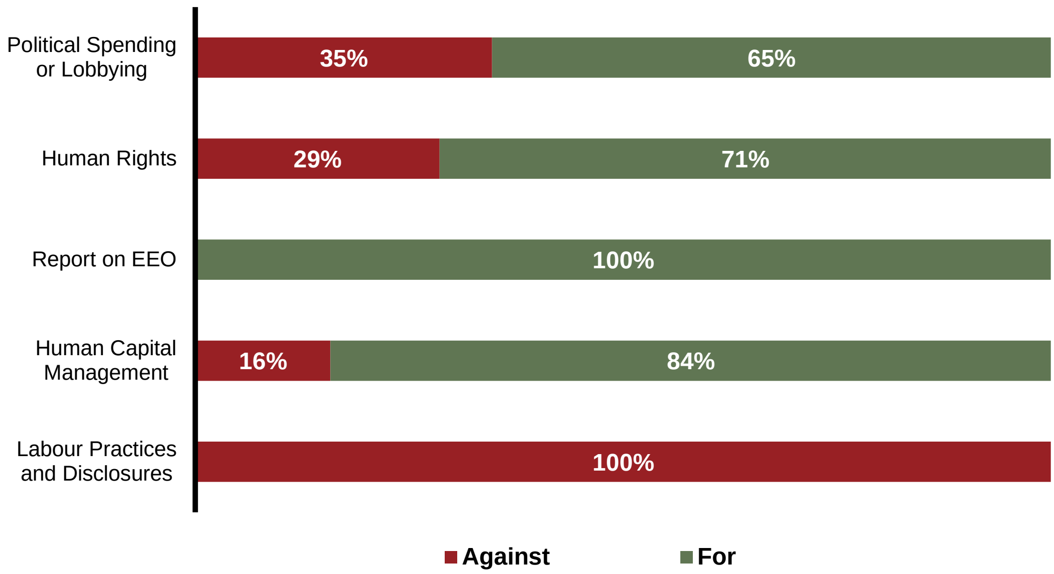
As part of our increased focus on human capital management, we consider taking action using our votes on those companies that we identified as laggards on the topic, either by supporting a relevant shareholder proposal or holding directors accountable by voting against their election at the shareholder meeting.

At Russell Investments, when assessing shareholder proposals, we pay careful consideration to the following factors:

- Current practices and/or disclosures are deemed to be inadequate.
- The proposal addresses a peer relative deficiency.
- The proposal is not duplicating 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.

During the last reporting year, as shown in the graphic below, we supported most shareholder proposals related to human capital management; however, we voted against all shareholder proposals seeking better reporting and practices surrounding labour practices.

Exhibit 21: Votes on human capital related shareholder resolution



Source: Russell Investments.

Case study: Voting against management on diversity, equity and inclusion

COMPANY NAME

Tesla Inc.

COUNTRY OF INCORPORATION

United States

MARKET CAP

USD 827.60bn

SECTOR

Consumer discretionary

MANAGEMENT RECOMMENDATION

Against

RUSSELL INVESTMENTS VOTE

For

CONTEXT

Tesla, Inc. designs, develops, manufactures, sells, and leases electric vehicles and energy generation and storage systems, and offers services related to its sustainable energy products. At the latest shareholder meeting, the company received a shareholder proposal requesting they produce an annual report assessing the company's diversity, equity and inclusion efforts.

RUSSELL INVESTMENTS ACTIONS

The Committee voted to support this proposal based on the importance of workforce diversity to both companies and investors. The Committee felt that additional disclosure concerning the company's efforts in this regard and the board's role in overseeing this issue would allow shareholders to better understand how the company is managing this critical topic. Additionally, the Committee recognised that the company already provides a fair amount of disclosure on issues of diversity, equity and inclusion, and therefore the enhanced reporting requested by this proposal would not prove difficult or burdensome.

OUTCOMES

The proposal was narrowly defeated, with over 40% support. At the time of writing this report, the company has not made any public communication nor improved disclosures on diversity, equity and inclusion. Russell Investments will continue to monitor the company response to shareholders concerns and explore ways to bring attention to this issue, particularly in light of the recent news of a California regulatory agency suing the company for alleged racial discrimination and harassment.

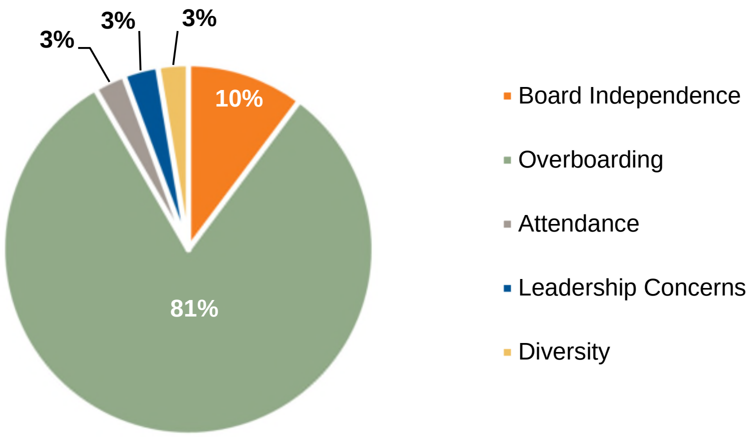
Holding the board accountable through voting

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

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

As explained earlier in this report, the most frequent reason that Russell Investments opposed the election of a director in 2021 was due to overboarding concerns, followed by board independence and leadership concerns. Given the more stringent approach to diversity at the board level laid out in our guidelines for 2022, we expect an increase on votes against directors during the 2022 proxy season.

Exhibit 22: Votes against management on director elections



Source: Russell Investments.

Case study: Executive compensation

COMPANY NAME

Informa plc

COUNTRY OF INCORPORATION

United Kingdom

MARKET CAP

GBP 8.62bn

SECTOR

Consumer discretionary

MANAGEMENT RECOMMENDATION

For

RUSSELL INVESTMENTS VOTE

Against

CONTEXT

Informa PLC is an international event, intelligence and scholarly research company based in the UK. The Company had intended to conduct a remuneration policy review during FY2020, following the completion of the chair succession process in order to present it up for shareholder approval at the 2021 AGM; however, given the impact of the pandemic and the ongoing uncertainty as to the recovery of the company, the company suspended its triennial remuneration policy review. As such, the committee proposed a roll-over policy at the 2020 AGM, with no material changes. However, approximately 35.13% of shareholders voted against the remuneration policy at the 2020 AGM. Before the AGM, media reports[10] highlighted that several high-profile institutional investors raised concerns over the company's target-free bonus scheme and lack of investor engagement.

RUSSELL INVESTMENTS ACTIONS

- Russell Investments voted against the report given the concerns with the adjustments made to the variable incentive awards.
- Additionally, we felt the company's compensation committee failed to adequately address the concerns raised by shareholders or outline actions taken because of the previous significant dissent. For this reason, we voted against the re-election of all members of the committee.

OUTCOMES

On 3 June 2021 Informa announced that the vote on their remuneration report failed to pass with 61.74% shareholders' opposition. Consequently, the Company will initiate a new consultation with shareholders on its next approach to remuneration, including on a new Remuneration Policy. Furthermore, the re-election of the chair of the compensation committee, Steven Davidson, received the lowest level of support on director elections among the FTSE 100 companies (53.4% in favour).

[10] https://www.ft.com/content/bcd4b8ed-f2af-40d5-b757-28c6dc2c4f06

Case study: Proxy contest

COMPANY NAME

Exxon Mobil Corp

COUNTRY OF INCORPORATION

United States

MARKET CAP

USD 320.91bn

SECTOR

Energy

MANAGEMENT RECOMMENDATION

Against

RUSSELL INVESTMENTS VOTE

For

CONTEXT

The Company is engaged in the exploration, production, trade, transportation, and sale of crude oil and natural gas as well as the manufacture, transportation, and sale of petroleum products, petrochemicals, and a range of specialty products. The 2021 annual shareholders meeting of Exxon Mobil Corp. included a contested election of directors proposed by Engine No. 1, an investment firm that owns just 0.2% of Exxon's outstanding common stock. Exxon expanded the size of its board and nominated 12 director candidates for approval at the annual shareholders meeting. In contest, Engine No. 1 nominated four alternative candidates with the goal of pushing the energy giant to reduce its carbon footprint.

RUSSELL INVESTMENTS ACTIONS

- Ahead of the vote, Russell Investments reached out to its sub-adviser for additional input and insight into the contested vote.
- We voted to support two of the four activist candidates nominated to the board. We withheld our vote for the other two dissident candidates on the basis that the goal of adding new skills and background to the board to support the company's strategy on emissions and carbon capture capabilities would be met with two candidates.

OUTCOMES

The result of this proxy contest was unprecedented. The support from Exxon's biggest institutional investors culminated in a successful activist campaign: three alternative director candidates won election to the board of Exxon.

Policy advocacy and collaborations

Sustainable investment advocacy groups

Russell Investments takes an active role in sustainability and responsible investing through involvement in outside organisations promoting sustainable operating and investment practices. In the spring of 2021, Russell Investments joined the Net Zero Asset Managers Initiative, a group of international asset managers committed to supporting the goal of net-zero greenhouse gas emissions by 2050 or sooner.

Russell Investments takes an active role in sustainability and responsible investing through involvement in outside organisations promoting sustainable operating and investment practices. Memberships in these organisations and investor groups broaden our scope of influence beyond our sub-advisers and the companies in which we invest. We have been a signatory of the United Nations-supported Principles for Responsible Investment (PRI) since 2009 and have adopted the PRI's six principles for responsible investing, including those which relate to collaborative engagement. In addition to being a signatory of the PRI, we are either signatories or members of the following advocacy groups.

Institutional Investors Group on Climate Chance

Task Force on Climate Related Financial

Institutional Investors Group on Climate Chance

Carbon Disclosure Project

Investment Association (IA)

Transition Pathway Initiative

Investment Company

Securities Industry and Financial Markets

Responsible Investment Association Australasia

Climate change and net zero commitment

Net Zero Asset Managers Initiative

In the spring of 2021, Russell Investments joined the Net Zero Asset Managers Initiative, a group of international asset managers committed to supporting the goal of net-zero greenhouse gas emissions by 2050 or sooner. Launched in late 2020, this initiative is endorsed by the Investor Agenda with founding partners including the Institutional Investors Group on Climate Change (IIGCC), Ceres, a sustainability advocacy organization, and the Principles for Responsible Investment (PRI). As a participant in this initiative and depending on regulatory considerations, Russell Investments has committed to work in partnership with its clients on goals, consistent with an ambition to reach net-zero emissions by 2050 or sooner across all its assets under management.

To accelerate these efforts, in 2021, Russell Investments has added roles to its responsible investing team and established a global taskforce to develop a net-zero emissions transition plan. This taskforce will set interim targets in collaboration with clients globally and build upon established practices such as the firm's comprehensive manager research process, which already features ESG evaluations for managers. The taskforce will also focus on leveraging the firm's robust active ownership program which includes natural capital management and climate change resilience as key engagement objectives. Taskforce members will collaborate with other firms aligned with the Net Zero Asset Managers Initiative to help develop best practice industry frameworks.

IIGCC

The IIGCC is the European membership body for investor collaboration on climate change. IIGCC's mission is to mobilise capital for the low carbon transition and to ensure resilience to the impacts of a changing climate by collaborating with business, policymakers, and fellow investors. We have been a member of IIGCC since 2015 and actively collaborate and participate at industry events and seminars. We also actively contribute to consultations when there is an opportunity to do so.

Climate Action 100+

Climate Action 100+ is an investor initiative launched in 2017 to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. We joined the Climate Action 100+ initiative in early 2020 and have directly engaged with a select number of companies on climate transition through the regional entities.

As active members of the Climate Action 100+ initiative and in line with our Net Zero Carbon Emission Goal, we have been engaging with companies to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. To this end, during 2021 we have shown support for all Climate Action 100+ flagged proxy voting resolutions, which is a clear expression of preference on issues directly related to the initiative's goals.

UK Stewardship code

On the 10th of March 2022, Russell Investments was listed by the Financial Reporting Council (FRC) as a signatory to the UK Stewardship Code 2020. The Stewardship Code 'Code' sets high standards for participants in the financial services industry to demonstrate their stewardship practices.

The UK Stewardship Code 2020 took effect on 1st of January 2020 followed a substantial revision of the 2012 version. The revised version is a set of 12 'apply and explain' principles. Applicants for signatory status are required to submit an annual Stewardship Report that demonstrates how they have applied the principles over the preceding 12 months, reporting on activities undertaken and outcomes achieved. The 12 Principles cover many aspects of effective stewardship such as: Purpose, Strategy and Culture; Stewardship, Investment and ESG Integration and Exercising Rights and Responsibilities. The Code now covers all asset classes globally and asks managers to demonstrate their effectiveness as a fiduciary and their consideration of material ESG issues in investment decision making, among other new requirements.

Diversity, equity and inclusion

As a global company, we recognise the benefit of different sources of insight and knowledge; to this end diversity, equity and inclusion is integral to our long-term growth strategy. At Russell Investments, we consider diversity, equity and inclusion via multiple lenses (i.e., gender, ethnicity and sexual orientation). To advance our efforts we have established a Diversity, Equity and Inclusion (DE&I) Council whose purpose is to increase diversity, equity and inclusion among employees.

During 2021, we joined the Institutional Investing Diversity Cooperative (IIDC)[11] aiming to promote greater diversity in the institutional asset management industry by advocating for access to data that would capture multiple dimensions of diversity. Members meet regularly to discuss key initiatives and specific action items that can encourage asset managers to offer more robust and comprehensive diversity data.

The IIDC was set up at the start of 2021 and contains firms responsible for the stewardship of assets held by institutions in retirement plans, employee health funds, endowments, foundations, operating funds, and capital reserves, among others. The IIDC continues to focus on traditional asset manager diversity data collection as a top 2022 priority and is also expanding its efforts to alternative asset managers.

Principles for Responsible Investment (PRI)

As a globally recognised proponent of responsible investment, the PRI provides resources and best practices for investors incorporating ESG considerations into their investment and ownership decisions. As a signatory to the PRI since 2009, Russell Investments has a long-standing relationship with the organisation and has completed the annual PRI assessment every year since 2013.

Russell Investments is committed to embedding the PRI's six principles where consistent with our fiduciary responsibilities.

Russell Investments has made great strides over the years in incorporating the PRI principles into our processes including manager research, portfolio management, and proxy voting and engagement. In addition, we develop and deploy proprietary ESG-specific investment capabilities such as our decarbonisation and ESG tilting methodologies.

We believe that our ongoing commitment to the PRI principles is one of the best ways that we can demonstrate to our clients and peers alike our dedication to responsible investing.

We will continue to focus on the implementation of PRI's six principles to best support our clients and society in responsible and sustainable investing.

Blog posts

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. Our annual training schedule is informed through feedback received from 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. During 2021, Russell Investments published 17 blog posts relevant to ESG and responsible investing. These posts were written by investment professionals across various regions and teams, reflective of our broad range of services and diverse client base. For the reporting period under review, Russell Investments published blogs that address responsible investing for Private Markets[12], Commodities[13], Infrastructure[14] and Fixed Income[15]. Other topics included the G7 summit and COP26, as well as 5 posts directly engaging with climate change risks. All of Russell Investments' ESG and Responsible Investing blog posts are publicly available on our website[16].

[11] https://www.iidcoop.org/
[12] https://russellinvestments.com/nz/blog/private-markets-responsible-investing
[13] https://russellinvestments.com/nz/blog/esg-investing-commodities-outlook
[14] https://russellinvestments.com/nz/blog/infrastructure-decarbonization-sustainability
[15] https://russellinvestments.com/nz/blog/2021-esg-considerations-in-fixed-income
[16] https://russellinvestments.com/nz/blog?topicIds=7d4b2c85-34be-475d-b142-e02c914bfa8d

For more information

Contact: **Russell Investments Active Ownership**

visit **russellinvestments.co.nz**

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