In the coming years, Responsible Investing will be routine. Understanding how environment, social and governance (ESG) factors impact security prices and portfolio structure will be integrated across the entire industry. Russell Investments has embraced this and has developed – and continues to develop – best practices for our process, portfolios and clients.

From policy and beliefs to practice — a summary

Russell Investments’ responsible investing practices incorporate decisions from across the business and are drawn from our beliefs and policy.

| Policy | Russell Investments’ policy is to incorporate responsible investing in our investment manager evaluation process, our portfolio management, our advisory services, and through implementing proprietary solutions as desired by clients. |
| Beliefs | ESG factors impact security prices. These factors can vary by company, industry, and region through time. | A deep understanding of how ESG factors impact security prices is valuable to a skillful investment process. | Embedding ESG into a firm’s culture and processes improves the likelihood of prolonged and successful investing. | Active ownership of securities is an effective tool for improving investment outcomes. |
| Practices | Portfolio management | ESG Research & metrics | Culture & processes | Active ownership |
| Manager ranks: on our sub-advisers on ESG integration | Survey: sub-advisers to get a pulse on the market | Manager selection: our portfolio managers select products with knowledge ESG ranks and metrics | Products: ESG products and product enhancements | Corporate ESG: global teams integrate ESG across organization Sustainable work practices: keep our internal practices in check Diversity and inclusion (D&I): support associates across the globe | Proxy voting: vote proxies and incorporate ESG into our policy Engagement: join other shareholders to influence the companies we own Sustainable development goals (SDG): considering SDGs as part of our active ownership practices |

Source: Russell Investments, April 2018
Belief 1: ESG factors impact security prices. These factors can vary by company, industry, and region and their importance can vary through time.

Belief 2: A deep understanding of how ESG factors impact security prices is value-adding to a skillful investment process.

These two beliefs are the foundation of our responsible investing practice. We incorporate ESG awareness into our active manager evaluation and have developed proprietary metrics for our direct investing capabilities. This includes our Decarbonization 2.0 technology and reporting.¹

ESG ranks — a qualitative assessment of our managers

In 2014 we added an assessment of ESG integration into our manager evaluation process. Through a combination of interviews, surveys and a quantitative review of their portfolios, Russell Investments’ analysts rank managers on their ESG integration. Note that we believe ESG awareness and integration is not about restricting securities, targeting ESG or climate-related metrics of any sort, or even intentionally investing in securities with better environment, social or governance practices. But rather, such awareness and integration is about understanding how E, S and G impact a firm, and will impact the future direction of a security’s price.

Exhibit 1: Ranking active managers on their ESG integration

5  4  3  2  1

› The manager demonstrates strong awareness of the potential risk and return of ESG issues on individual holdings and the portfolio structure.
› The manager can clearly demonstrate how portfolio positioning reflects the management of relevant ESG risks and/or how ESG exposures can add value.
› The breadth of perspective and analytical inputs on ESG issues are superior to peers².

Meaningful discrepancies have been found between the target ESG guidelines and holdings in the portfolio.

› The manager demonstrates adequate awareness of the potential risk and return impacts of ESG issues on individual holdings and the portfolio structure.
› The manager’s perspective and analytical inputs on ESG issues is undifferentiated from peers.
› The manager does not demonstrate awareness of the potential risk and return impacts of ESG issues on individual holdings/portfolio structure.

Source: Russell Investments, April 2018

² Compared to peer managers in Russell Investments manager research database.
ESG metrics — a material score for companies

Russell Investments has developed and introduced a new metric for companies called the Material ESG score.\textsuperscript{3} We have mapped the characteristics identified by Sustainable Accounting Standards Board (SASB) as ‘material’ to firm profitability alongside Sustainalytics disaggregated data. With this more targeted collection of underlying data, we then apply an industry-specific weighting scheme to roll the data up into ESG scores. As our ESG integration is refined, we expect these Material ESG scores to become more typical in our reporting, products and analysis — possibly replacing the standard ESG scores currently used.

Belief 3: Embedding ESG considerations into a firm’s culture and processes improves the likelihood of prolonged and successful investing.

As a part of Belief 3, firms’ organizational dynamics, cultural values and actions are assessed. A diversity and inclusion disaggregated rank is also included as part of our manager assessment. We believe that firms who do the following are more likely to achieve prolonged investment success:

• Attract and retain the right people
• Offer a supporting environment for their investment teams
• Fair remunerations and incentives
• Bestow a level of autonomy to make good investment decisions
• Provide adequate resources to do a good job

Consistent with Belief 3 is also our own active role in sustainability and responsible investing. We do this through industry memberships with organizations such as the Principles for Responsible Investments (PRI)\textsuperscript{4} and the Institutional Investors Group on Climate Change (IIGCC).

Belief 4: Active ownership of securities is an effective tool for improving investment outcomes.

Russell Investments actively works to increase shareholder value as we support and foster positive change – whether that's through the proxy voting process, engaging directly with companies or collaborating with industry leaders.

Proxy voting

Russell Investments has built a robust proxy voting and governance process over the last 30 years. The Proxy Committee and Proxy Voting Guideline Subcommittee meet regularly to ensure that our Proxy Voting Guidelines are aligned with current best practices. The professionals who make up these committees not only stay on top of current issues and topics that are important to asset owners today but work to analyze the risk and reward merits of these topics.


Exhibit 2: Proxy voting statistics 2017

Data as of December 31, 2017. Source: Russell Investments

Engagement

Being an engaged shareholder is another important component of Russell Investments’ active ownership responsibilities. This includes engaging with the investment managers that sub-advice our portfolios, as well as engaging directly with management teams of companies we own.

As part of becoming a PRI signatory, Russell Investments has built a more explicit and organized engagement effort. For example, we directly engage with companies on a host of topics via our Corporate Engagement Committee. We are also actively considering how to incorporate the United Nations Sustainable Development Goals into our engagement practices. To this end, we have defined our specific engagement focus areas for 2018: Compensation, Accountability, Diversity, Sustainability and Shareholder Outreach.

Best practices for responsible investing – looking forward

As we further develop our approach to responsible investing, we endeavor to lead the investment community in integrating investing best practices with responsible investing best practices. Ultimately, we expect these two to be one and the same.
ABOUT RUSSELL INVESTMENTS

Russell Investments is a global asset manager and one of only a few firms that offers actively managed multi-asset portfolios and services, which include advice, investments and implementation. Russell Investments stands with institutional investors, financial advisors and individuals working with their advisors—using our core capabilities that extend across capital market insights, manager research, asset allocation, portfolio implementation and factor exposures to help investors achieve their desired investment outcomes.

FOR MORE INFORMATION:

Call Russell Investments at 866-737-2228 or visit russellinvestments.com/ca/institutional

Important information

Nothing in this publication is intended to constitute legal, tax, securities or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. This information is made available on an "as is" basis. Russell Investments Canada Limited does not make any warranty or representation regarding the information.

Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an event rate of return and may experience negative growth. As with any type of portfolio structuring attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns.

Russell Investments is the operating name of a group of companies under common management, including Russell Investments Canada Limited.

Russell Investments’ ownership is composed of a majority stake held by funds managed by TA Associates with minority stakes held by funds managed by Reverence Capital Partners and Russell Investments’ management.

Copyright © Russell Investments Canada Limited 2019. All rights reserved.

Frank Russell Company is the owner of the Russell trademarks contained in this material and all trademark rights related to the Russell trademarks, which the members of the Russell Investments group of companies are permitted to use under license from Frank Russell Company. The members of the Russell Investments group of companies are not affiliated in any manner with Frank Russell Company or any entity operating under the “FTSE RUSSELL” brand.

Date of first publication: January 2019

CORPCA-00117 [EXP 01-2021]