CLIENT CASE STUDY

ESG BETA COMPLETION PORTFOLIO

Russell Investments

EMPOWERING A FOUNDATION WITH A CUSTOM BETA PORTFOLIO, CUSTOM AND DYNAMIC EXCLUSIONS, ALL WITHOUT STRESSING THEIR INTERNAL STAFF

The organization

A donor-funded foundation managing over $4 billion in assets. Its mission is to find a cure for a life-threatening disease and to improve the quality of life for individuals with the disease. As a proponent of venture philanthropy, the foundation partners with leading biotechnology and pharmaceutical companies, as well as academic medical centers, to fund groundbreaking research, clinical trials, and drug development in pursuit of its mission. Its investment program is managed by the chief investment officer (CIO), investment staff, and investment committee.

The foundation teamed up with Russell Investments to help better meet its investment objectives through a three-pronged solution, which consisted of the following phases:

1. Setting strategic direction
2. Implementing a total equity restructure and managing a custom environmental, social and governance (ESG) beta completion portfolio
3. Maintaining ongoing risk management and utilizing overlay and other bespoke strategies

The challenge

The foundation’s investment team held specific investment beliefs that they wanted to implement within the portfolio, including exclusions based not only on ESG considerations, but on performance-driven theories. The limited size of their in-house team, along with limits in data, technology and other capabilities, hampered their ability to implement their beliefs.

Meeting investment objectives

This three-pronged approach helped the foundation address the multiple challenges it was facing.

The solution

Work with Russell Investments’ complete suite of capabilities in order to turn beliefs into implemented strategies.

Custom beta completion portfolio

Russell Investments had already implemented a custom beta completion portfolio. Our dedicated, well-resourced implementation team of over 26 portfolio managers and traders helped the foundation transition over $2 billion in assets across 30 investment managers, from its legacy global equity portfolio into a **custom ESG beta completion portfolio.** This portfolio intended to achieve the foundation's beta needs, or target return, while also screening out tobacco companies.

This strategy allocated long/short to the MSCI World Index and the MSCI emerging markets index. In order to align this move with their total portfolio, we removed equity exposures to China and Hong Kong, as the portfolio already included a significant amount of private exposure within these two regions. We also reduced European exposure to offset an existing Eurozone manager already embedded in the plan.

Other specific exposure activities also occurred, such as substituting emerging markets and buying the physical assets.

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Custom alpha exclusions

More recently, we've implemented a dynamic and highly-customized alpha-exclusion program at the client's request. Every month, the client provides us with a security-level exclusion list, based on their own beliefs. The client flags individual companies based on a custom signal which is implemented as an exclusion in the portfolio. The goal of these exclusions is to generate positive excess return. However, executing on this strategy requires an implementation partner that has the resources and ability to operationalize these timely requests. That partner must also have a dedication to customization and client satisfaction, as well as a dynamic view of the total portfolio's alignment.

Custom access to our signals and research

The client recognized that they were taking on a significant amount of idiosyncratic risk on single names and they asked how we might assist them with portfolio attributions. We created a backtest, utilizing our research and data, allowing them to theoretically cap their maximum underweight at 25 basis points. By using our proprietary toolkit, we assisted the client in researching various possible outcomes and fine tuning their approach.

An additional backtest examined the potential of an equal-weight value portfolio. The proposed strategy exchanged exposure from their MSCI U.S. holdings with the equal value portfolio, and then analyzed the difference in returns to determine the behavior of those signals.

Results

At the beginning of our relationship, the portfolio was mostly passive. This was not a strategic decision, but was simply based on resource constraints, such as lack of data, lack of analytics and testing abilities, and limited means to implement beliefs. The client has proven to have significant insights. By partnering their own insights with Russell Investments' platform of capabilities and data, they have now aligned their portfolio with their unique and dynamic views.

QUESTIONS?

Call Russell Investments at **866-739-7979**
or visit **russellinvestments.com/nonprofit**

ABOUT RUSSELL INVESTMENTS

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