



Best practices for responsible investing

Executive summary



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 value-adding 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 Manager ranks: on our sub-advisers on ESG integration Surveys: sub-advisers to get a pulse on the market Manager selection: our portfolio managers select products with knowledge ESG ranks and metrics	ESG RESEARCH & METRICS Products: ESG products and product enhancements Research: research metrics & universes Reporting: report our sub-advisor ranks and all relevant metrics for listed assets (including bonds)	CULTURE & PROCESSES 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	ACTIVE OWNERSHIP 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

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

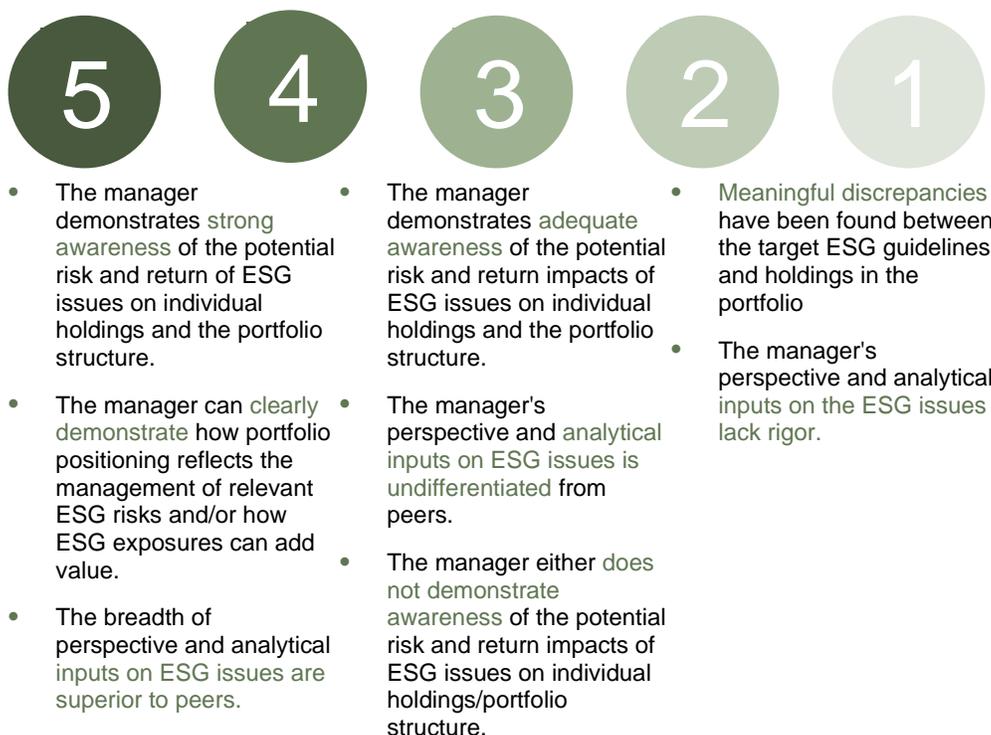
Belief 2: A deep understanding of how ESG factors impact security prices is value-adding to a skillful investment process.

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



Source: Russell Investments, April 2018

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ESG metrics — a material score for companies

Russell Investments has developed and introduced a new metric for companies called the Material ESG score.² We have mapped the characteristics identified by 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 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)³ 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

Reviewing and selecting active managers are core competencies at Russell Investments

To that end, our preference is to construct portfolios with active managers to capture value-add from ESG factors and manage ESG-related risks.

Engagement

Being an engaged shareholder is another important component of Russell Investments' active ownership responsibilities. This includes engaging with the investment managers that sub-advise 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.

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- ¹ Bennett, S., Steinbarth, E. (2017). "Decarbonization 2.0: Russell Investments' sustainable investing solution for the energy transition." *Russell Investments Research*. Available at: <https://russellinvestments.com/us/insights/articles/decarbonization-2-sustainable>
- ² Steinbarth, E., Bennett, S. (2017). "Materiality matters: Introducing a new ESG metric." *Russell Investments Research*. Available at: <https://russellinvestments.com/us/insights/articles/materiality-matters>
- ³ Russell Investments. (2017). "Russell Investments and the United Nations-backed principles for responsible investment." Available at: <https://russellinvestments.com/us/about-us/responsible-investing>

About Russell Investments

Russell Investments is a global asset manager with a unique set of capabilities that we believe is essential to managing your total portfolio and to meeting your desired outcome. At Russell Investments, we stand with you, whether you're an institutional investor, a financial adviser, or an individual guided by an advisor's personalized advice. We believe the best way to reach your desired outcomes is with a multi-asset approach that combines: asset allocation, capital markets insights, factor exposures, manager research and portfolio implementation.

For more information

Call Russell Investments at **800-426-8506** or visit russellinvestments.com/institutional

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