

The portfolio of the future

ESG Integration, Implementation, Impact



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Agenda

- > Why does ESG matter?
- > Why is ESG important for portfolio performance?
- > Understanding ESG
- > Asking the right questions
- > Implementation


Why does ESG matter?



ESG is time latent and often episodic, but what if it shows up?



Source: Map outlined by geographer Kim Cohen of our country in 2300, if we had lost the fight against the water. Image source: YouTube. <https://youtu.be/RiYLmbapr2Q>.

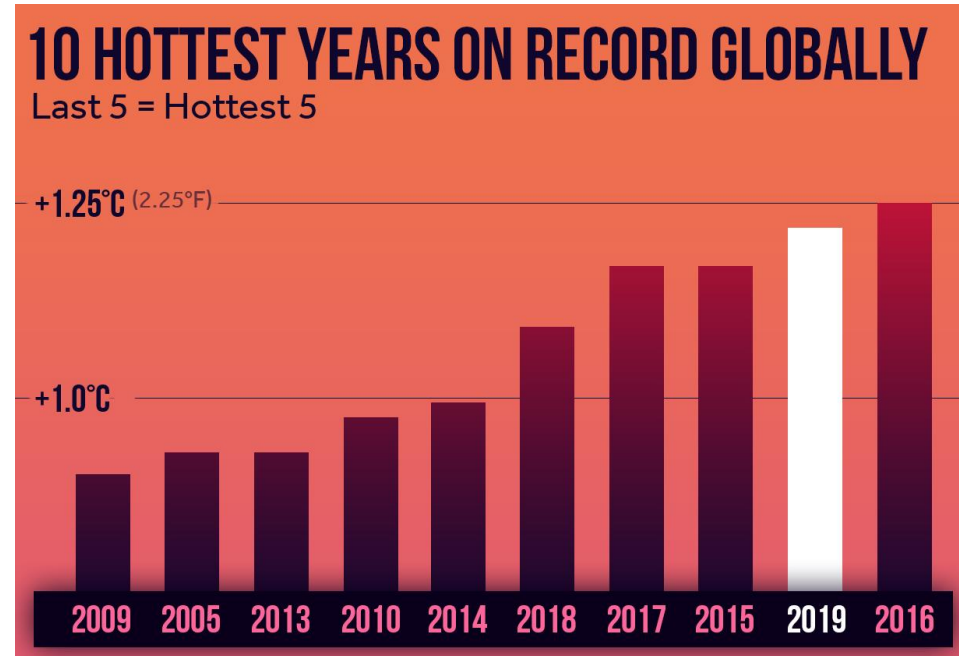
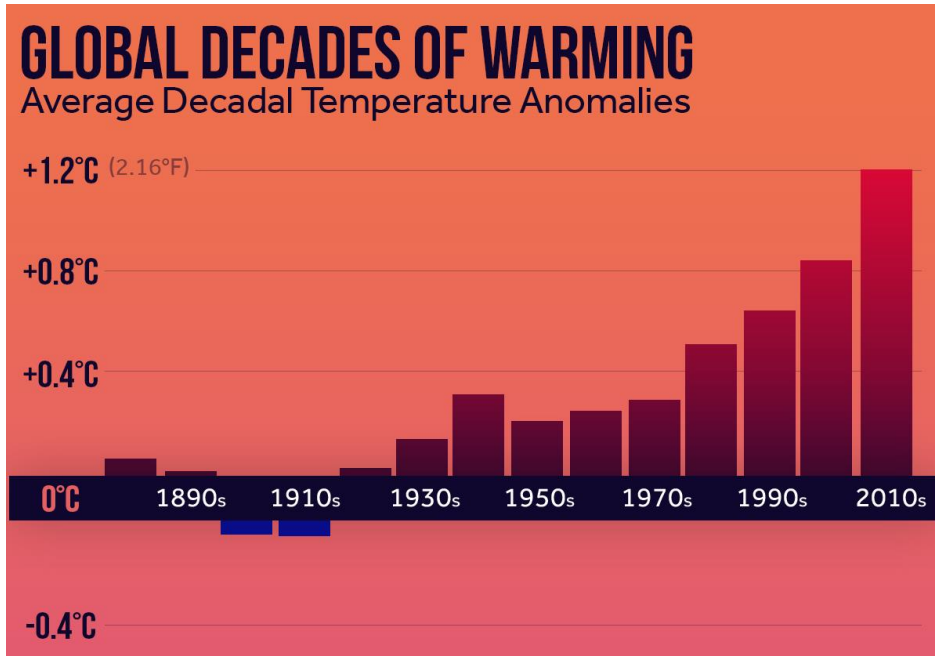


RUTGER BREGMAN

HET WATER KOMT

This is really happening....

2019 was the second hottest year on record, rounding off the hottest decade



Source: Climate Central / NASA GISS & NOAA NCEI global temperature anomalies averages and adjusted to early industrial baseline (1881-1910). Data as at 15th Jan 2020.

Why is ESG important for performance?



Ask BP, after oil spill in 2010

Stock fell by 51% just 40 days after oil spill

Environmental disaster

"...BP has already spent \$28bn on response and clean-up and to pay economic claims to oil spill victims."

April 2015¹

Inadequate social practices

"BP has one of the worst worker safety records among large industrial companies operating in the United States."

August 2016²

Poor governance

"Lapses seem to have been everywhere; e.g., in preparedness, alert systems, communication, and worst-case scenario plans."

June 2010³



1. <https://hbr.org/2010/06/bps-tony-hayward-and-the-failu.html>

2. <https://www.corp-research.org/BP>

3. <https://www.npr.org/2015/04/20/400374744/5-years-after-bp-oil-spill-effects-linger-and-recovery-is-slow>

Image Source: Getty Images

Circa 2020: Same question... Ask Wirecard

Stock fell 99% after auditor Ernst and Young could not find EUR1.9 bn, ~25% of balance sheet

Key points

- > June 2020 - Wirecard was considered “Low Risk” by Sustainalytics
- > The Wirecard accounting scandal has raised fresh questions about corporate governance, with some experts calling it the “Enron of Germany.”
- > German financial regulator BaFin has come under fire for its handling of the situation, with the government now calling for regulatory reform.
- > There are also questions about why EY, Wirecard’s auditor, didn’t pick up on accounting irregularities that date back years.



The Wirecard logo is seen at the payment company’s headquarters in Aschheim near Munich, southern Germany, on June 24, 2020. Christof Stache | AFP via Getty Images.

Understanding ESG



Sustainable Development Goals

EU Taxonomy, regulations and guidelines - a top down impact



Source: UN PRI. Worth noting there are detailed sub goals within each of these categories [169 in total].

Russell Investments beliefs drive integration and solutions



ESG factors impact security prices



A deep understanding of how ESG factors impact security prices is value-adding to a skilful investment process



Embedding ESG considerations into a firm's culture and process improves the likelihood of prolonged and successful investing



Active ownership is an effective tool for improving investment outcomes

Source: Russell Investments. For illustrative purposes only.

Understanding: negative screening

Exclusions do not impact long-term return expectations..... *but may impact tracking error, short-term performance expectations and active manager value-add.*

- > <1% portfolio exclusion:
 - > Does not impact return or tracking error expectations
- > 3-4% portfolio exclusion:
 - > Disrupts short-term returns and tracking error expectations
 - > Moderate with effective management of exposures
- > >5% portfolio exclusions:
 - > Unpredictable return and tracking error expectations
 - > Requires sophisticated exposure management



Understanding: positive screening

Wider lens leads to better informed decisions

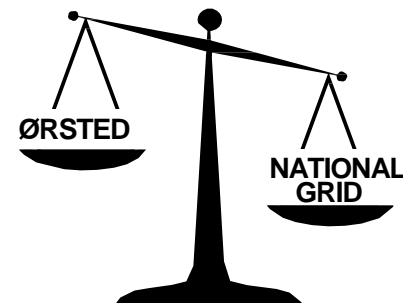
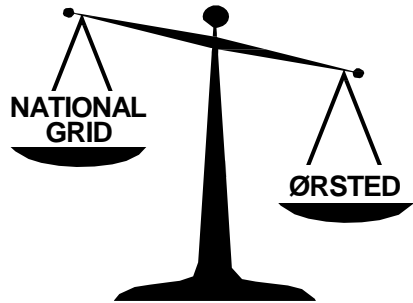
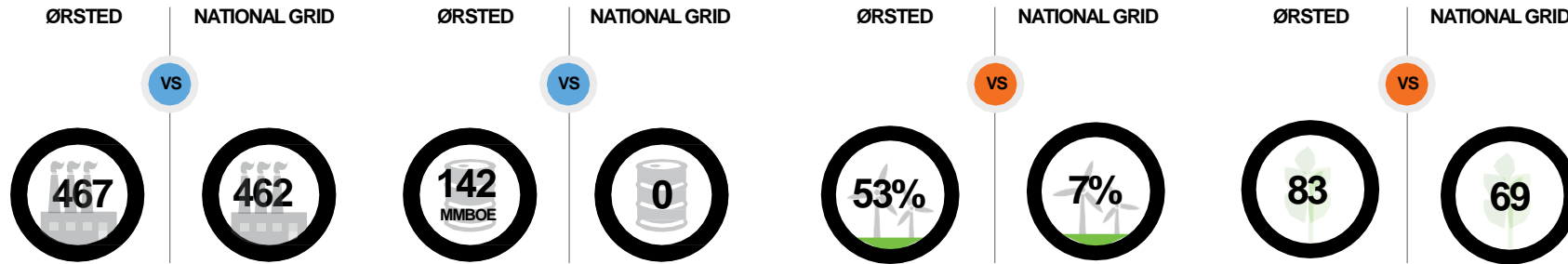
Traditional analysis  Next generation

CARBON FOOTPRINT

CARBON RESERVES

GREEN ENERGY RATIO

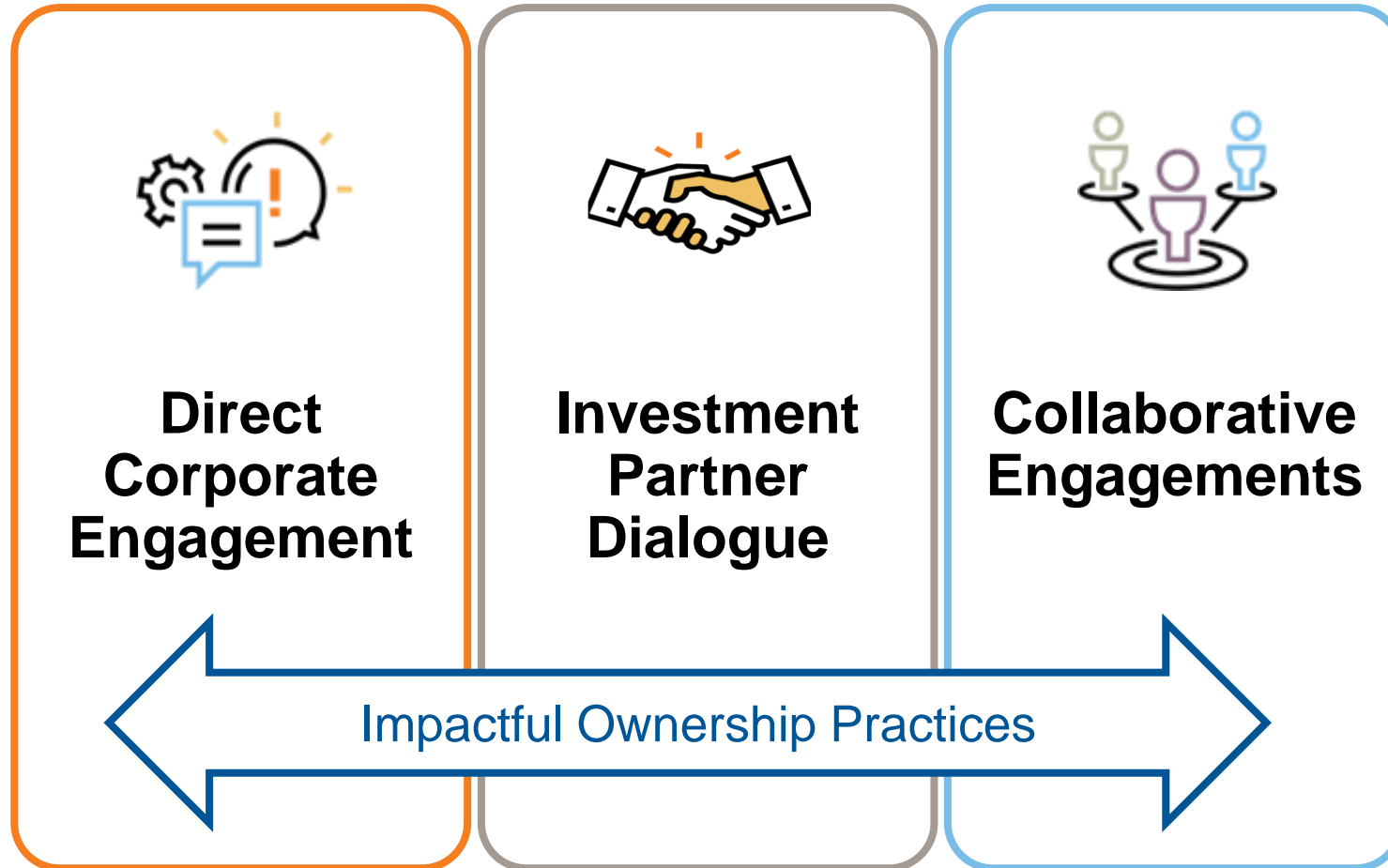
ESG



From Russell Investments, for illustrative purpose only. Trucost and Sustainalytics as of March 2019. ØRSTED previously known as Dong Energy.

Understanding: active ownership

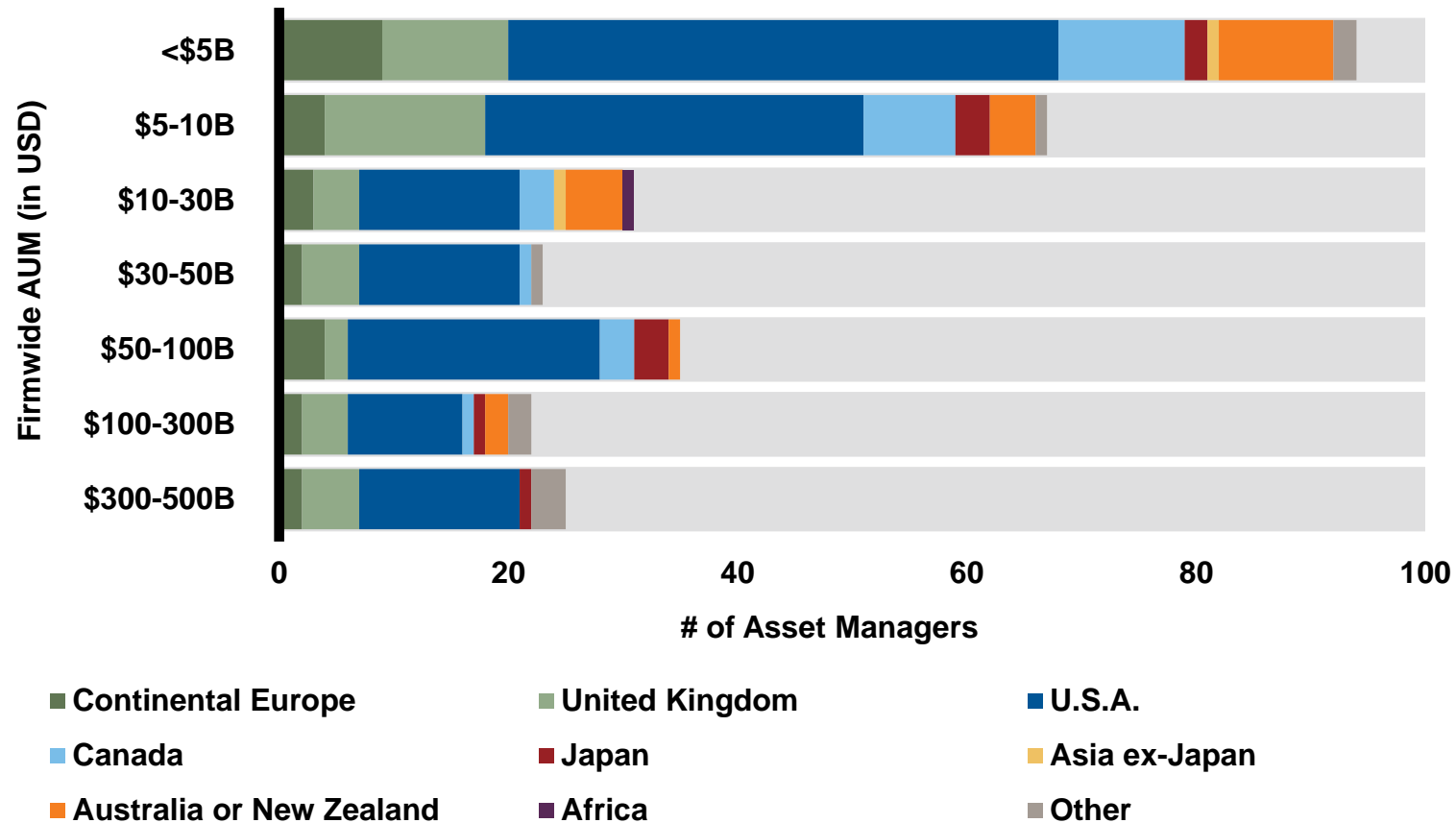
Our approach includes multiple industry touchpoints



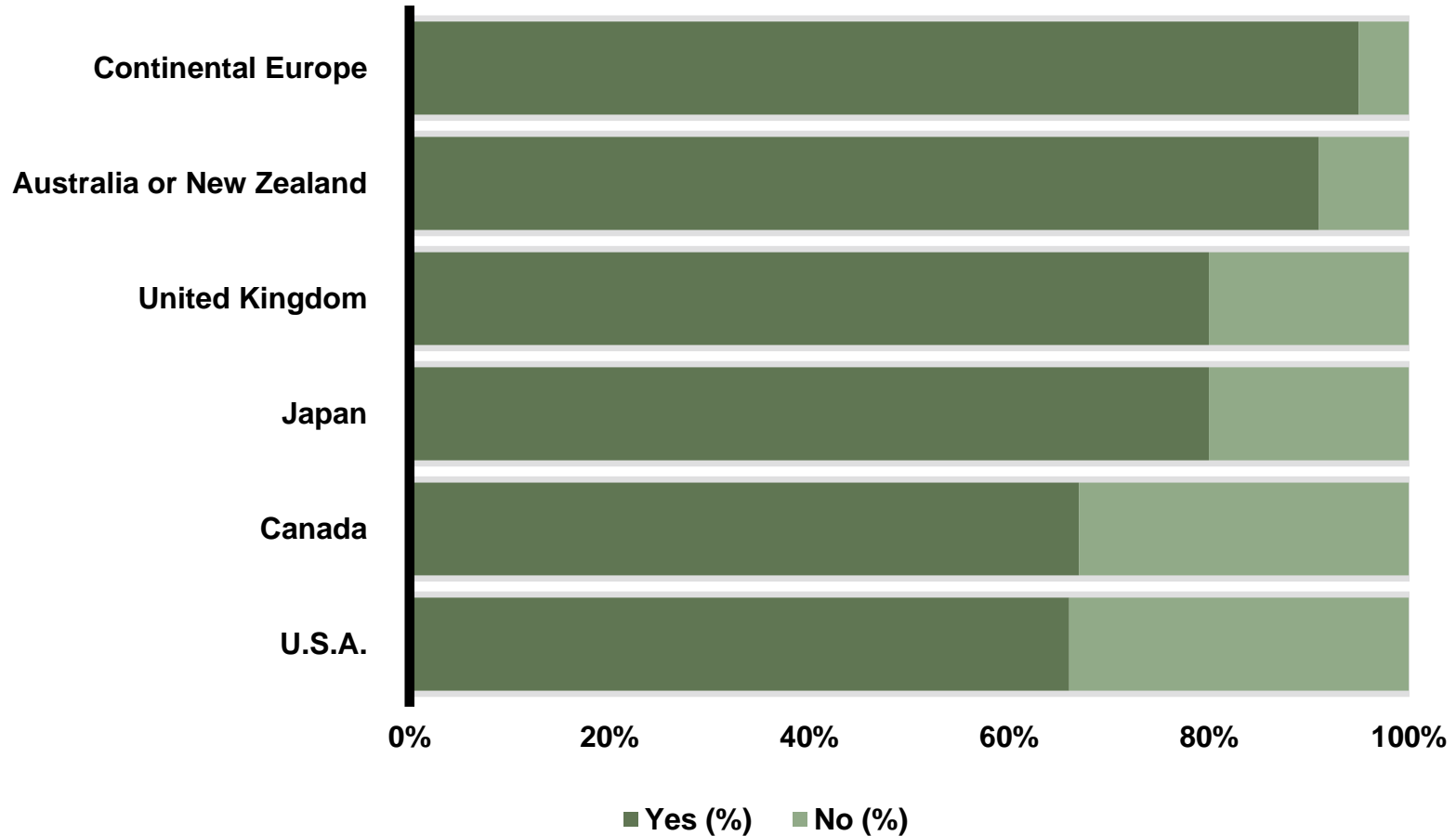
Asking the right questions



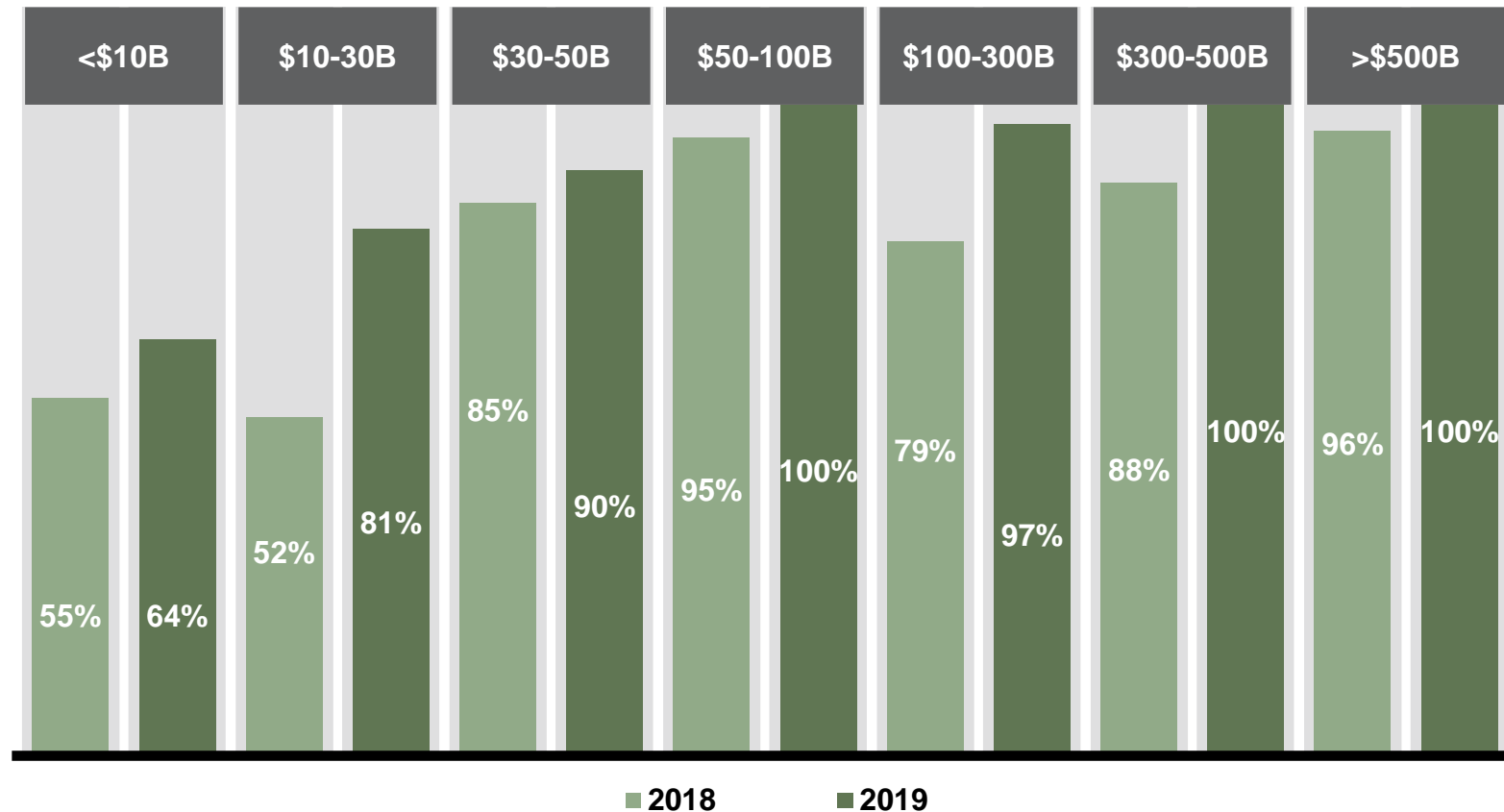
Survey population contains 300 firms with broad representation by asset sizes, regions and investment strategy offerings



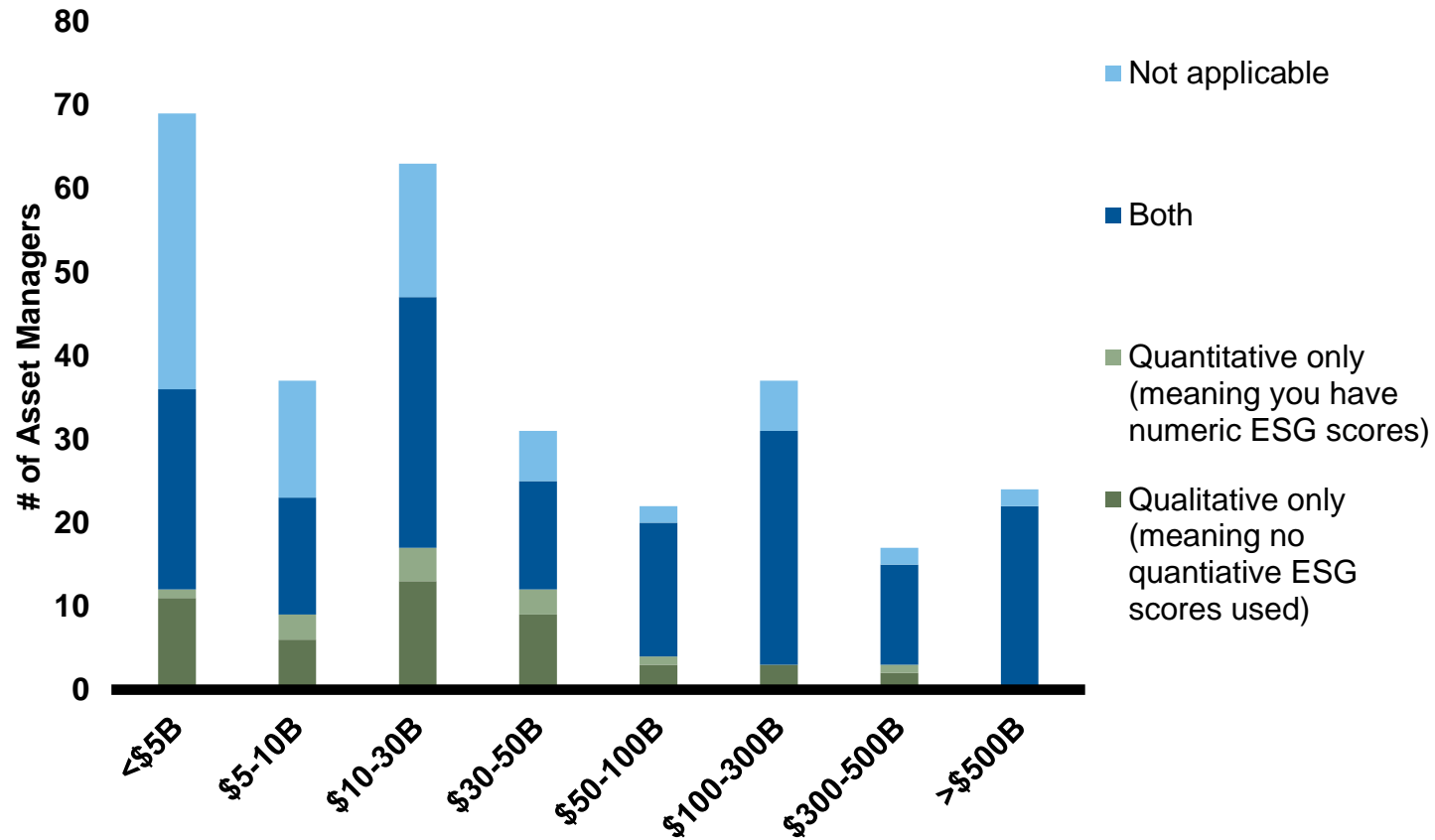
PRI Signatory Status increased to 72% from 64% the previous year



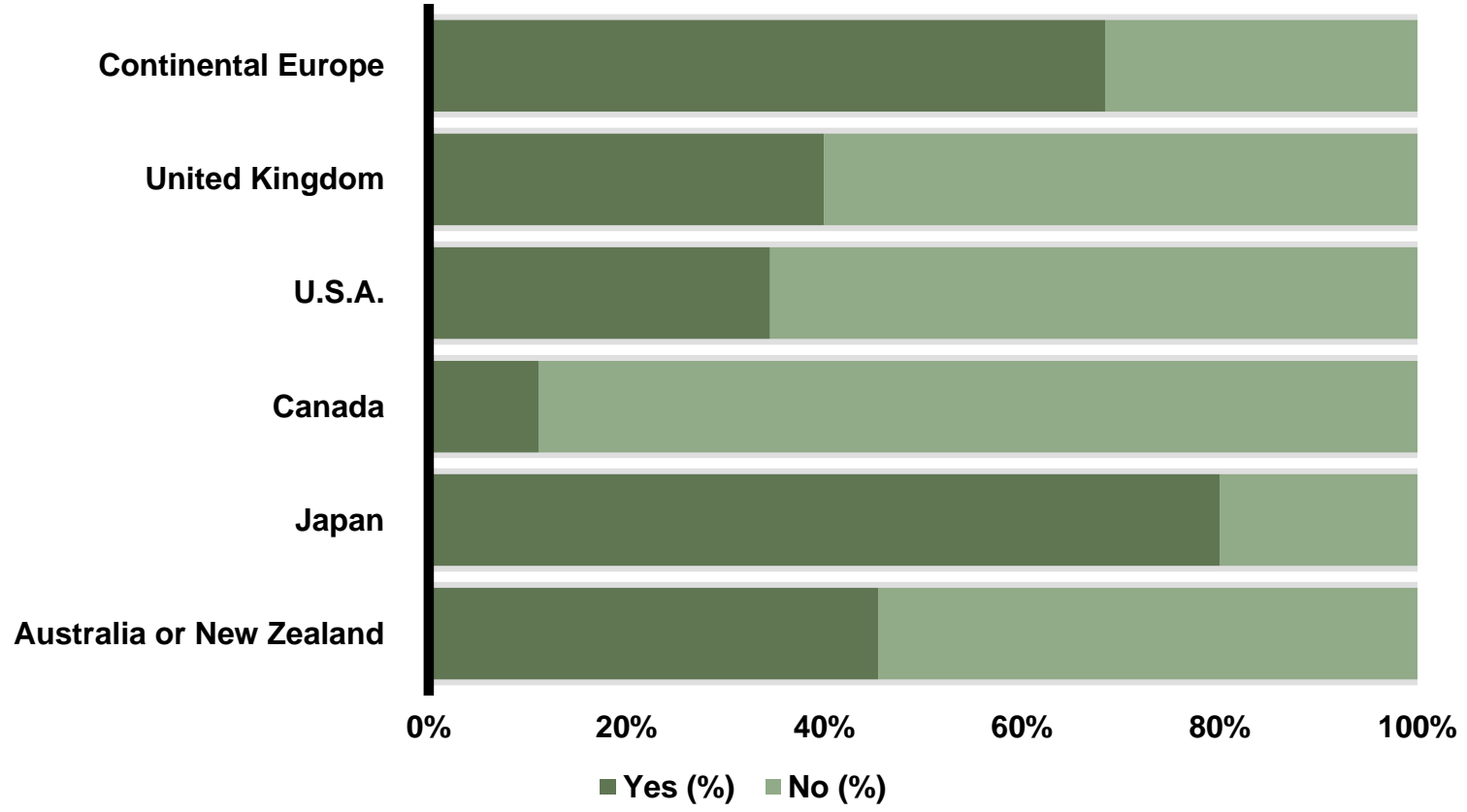
82% of the respondents have a formalised Responsible Investing Policy, compared with 71% from the prior year



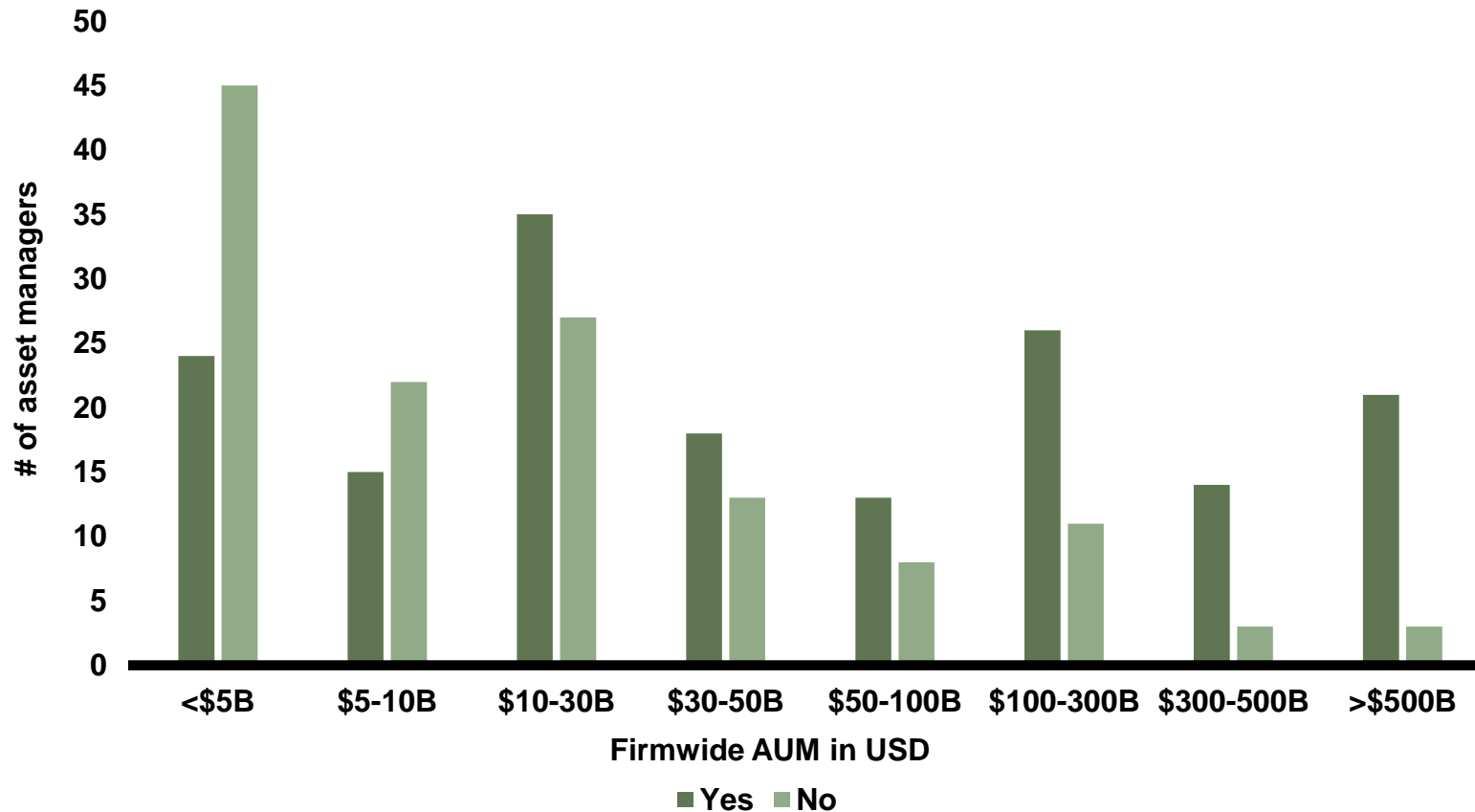
73% of the respondents have explicit qualitative or quantitative ESG factor assessments built in their investment processes



40% of the respondents have dedicated ESG professionals who spend more than 90% of their time in ESG specific matters and the results have higher correlation to larger firms



56% of the respondents provide ESG reporting to the existing clients and the larger firms have better reporting capabilities



Russell Investments Research: 2019 ESG Survey.

Integration starts with our research

Here's what our disaggregated ranks tell us

- > **Qualitative** based on interviews with managers
 - > Are the portfolio managers in the loop or is it marketing spin?
 - > How does ESG impact their decision-making?
 - > Is analysis integrated or coming from a separate team?
- > **Quantitative** based on our annual ESG Manager survey
 - > Surveyed 461 investment firms
 - > Focused on 4, 3, or A ranked products in 2019 and 2020
 - > 300 responses



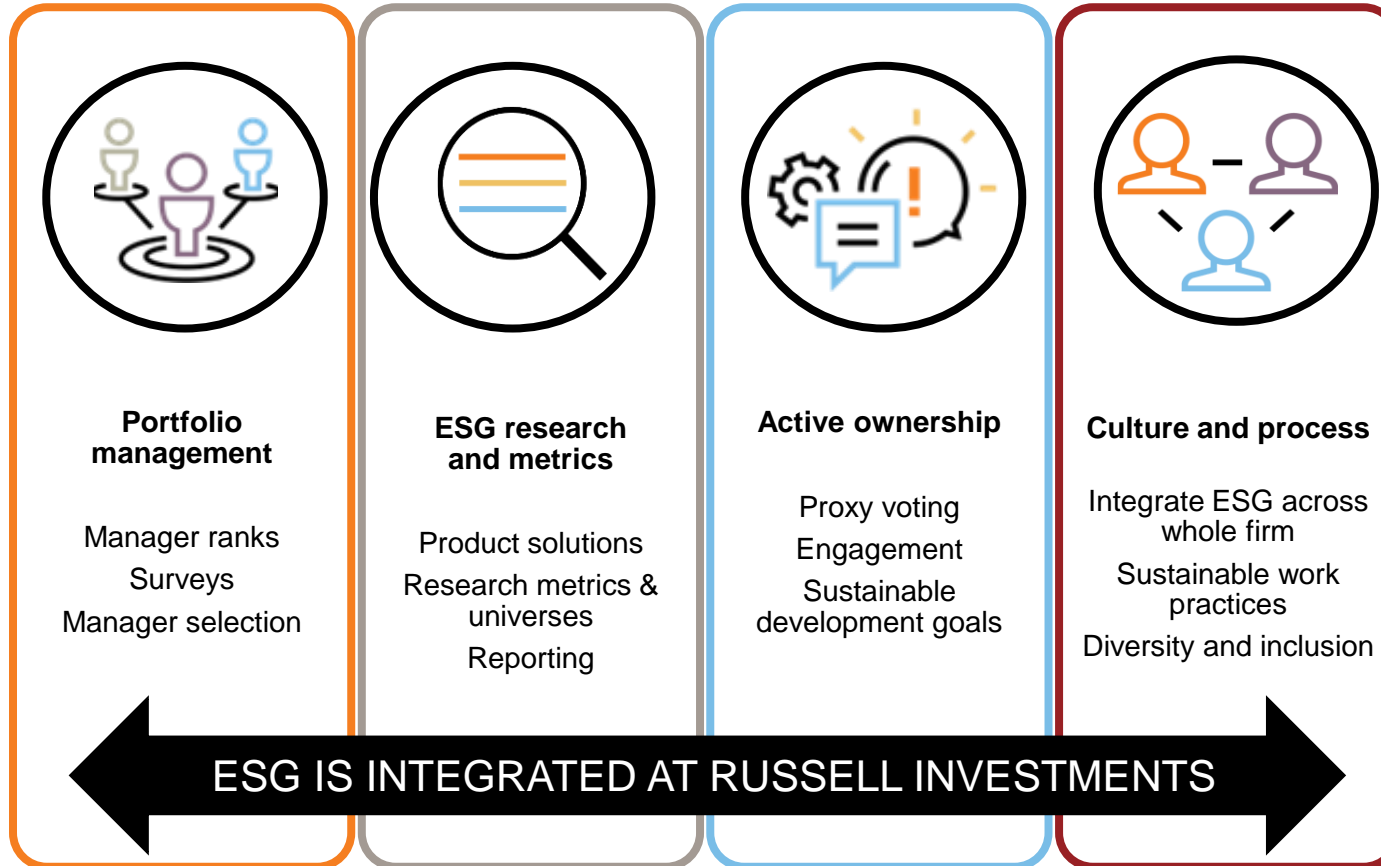
- > The manager demonstrates **strong awareness** of the potential risk and return impacts of ESG issues on individual holdings and the portfolio structure.
- > The manager can **clearly demonstrate** how portfolio positioning reflects the management of relevant ESG risks and/or how ESG exposures can add value.
- > The breadth of perspective and analytical **inputs on ESG issues are superior to peers.**
- > 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 either **does not demonstrate awareness** of the potential risk and return impacts of ESG issues on individual holdings/portfolio structure.
 - > **Meaningful discrepancies** have been found between the target ESG guidelines and holdings in the portfolio.
 - > The manager's perspective and analytical **inputs on ESG issues lack rigor.**

Implementation



Integration and understanding is key

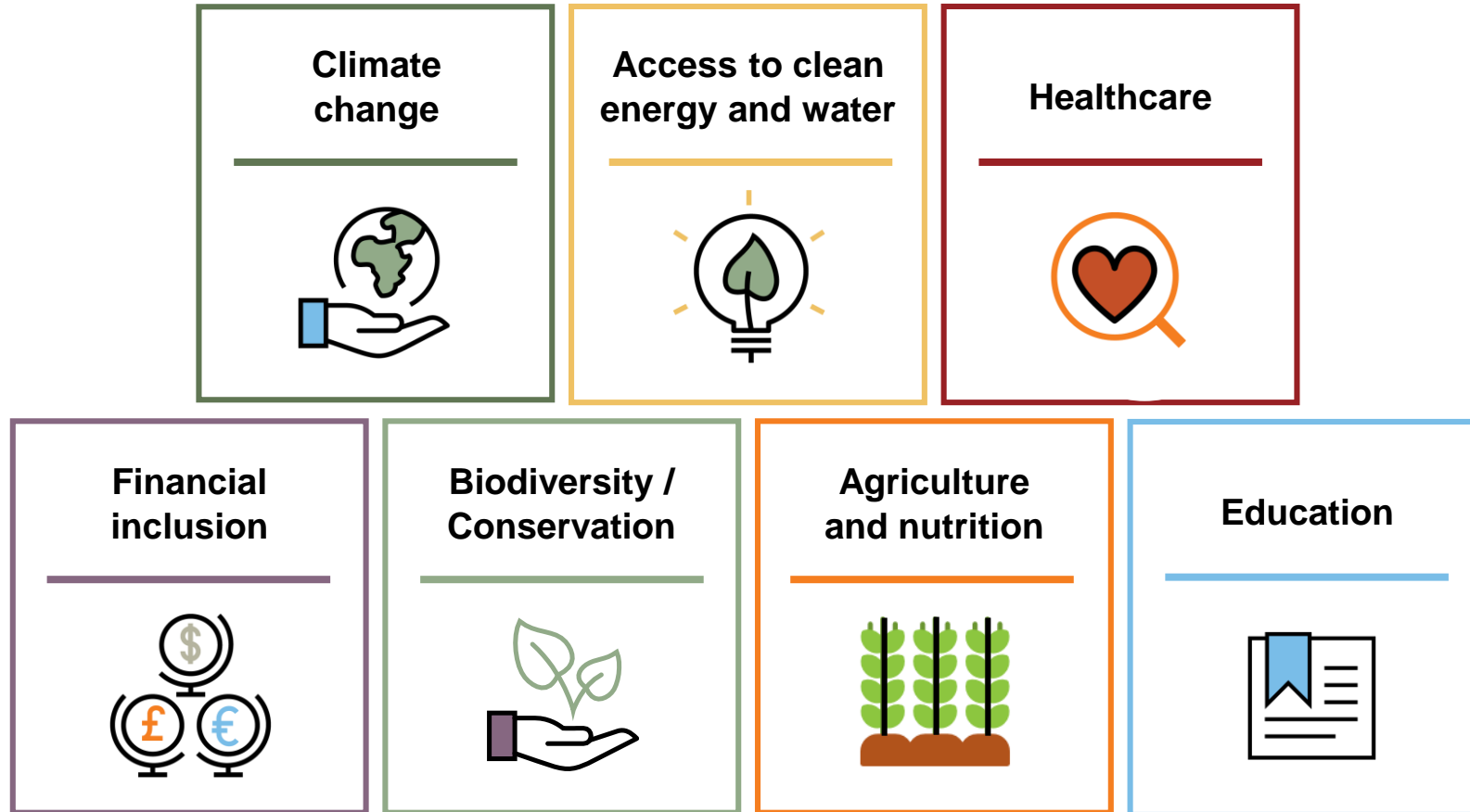
We integrate ESG into our practices and processes



All Russell Investments solutions, funds and services embed ESG




Translating SDG's into investment themes

Example focus themes



Source: Russell Investments. For illustrative purposes only.

Translating into a well diversified climate transition portfolio

| Theme | Inputs | Impact KPI's | Output |
|--|----------------------|--|--|
|  <p>Climate Change</p> | Renewable energy | Tons of CO2 avoided |   <p>Access to affordable, sustainable clean energy for all to support action to combat climate change</p> |
| | Renewable Nat Gas | MWh hours clean energy produced | |
| | Carbon sequestration | Tons of Co2 sequestered through reclaimed land | |
| | Electrification | Well paying jobs created | |
| | Climate resilience | | |

Source: Russell Investments. For illustrative purposes only.

Future standard ESG reporting

In addition to financial/ solvency reporting requirements

Reduce carbon emissions



X tCO₂ ↓

Equates to X million cars taken off the road

Clean energy produced



X MWh

Equates to X tons of oil left in the ground

Well paying jobs created



X jobs

Jobs created in underserved communities

Hectares of reclaimed land



X km²

Equivalent to X tonnes of Co₂ avoided (X cars taken off the road)

Source: Russell Investments. For illustrative purposes only.

Key Messages

What should keep you up at night

- 1) We are all personally impacted if we don't act
- 2) ESG Risk, can have major impact on portfolio performance
- 3) Understanding ESG is key
- 4) Asking the right questions to your partners is important to get what you want
- 5) The portfolio of the future has ESG fully implemented. Clear objectives, clear investment cases, clear metrics and detailed reporting.

Important information

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Impacting performance and outcomes

Active ownership is our fiduciary duty and an opportunity

Since 2009
UN-PRI signatory

A/A+ rated
By the UNPRI¹

Tier 1
UK Financial Reporting Council

Stewardship codes
Global application of and
commitment to the UK and
Japan Stewardship Codes

Signatory of:



¹ Russell Investments received an A or A+ rating across all categories evaluated in 2020. Russell Investments' Full 2020 PRI Assessment and Transparency Report as well as the PRI methodology can be found at <https://russellinvestments.com/us/corporate-responsibility/responsible-investing>.

Thank you.
Any questions?



Biographies



Helma Verkouw
Director, Client Relations and ESG Solutions
Northern Europe

Helma Verkouw is a client executive for Russell Investments in Northern Europe managing strategic accounts and is a subject matter expert on Responsible/ESG knowledge.

In her role she is responsible for the strategic client portfolio management and the development of sustainable investment portfolio solutions.

Helma is co-founder and lead member of Russell Investments' ESG Global Council since 2009, which has oversight over Responsible/ESG investing issues and where the company-wide house view is developed and RI/ESG product development is managed.

Prior to joining Russell Investments, Helma spent five years at F&C Asset Management as a senior client relationship manager for Dutch pension funds. Prior to that, she developed eight years of experience at Achmea Group where she was involved with pension solutions and undertook global implementation services, responsible for portfolio transitions.

She has 27 years of experience in the asset management industry and has been working for Russell Investments since 2006.

Master in Economics, University of Amsterdam, Netherlands, 1992
Bachelor degree, Business School of Economics, specializing in Banking and Insurance, 1988