



2021 Annual ESG Manager Survey



The red flag is raised on climate risk

November 2021



Contents

About the survey	4
How managers are integrating ESG	4
ESG-specific consideration by asset managers: UK managers lead the way	5
How asset managers form their ESG insights	6
ESG data sources increase while acquisitions also increase	7
Which ESG factors drive decision-making?	9
How ESG functions are resourced by asset managers	11
Spotlight on active ownership	13
A growth in ESG product offerings	14
ESG reporting	17
Minimum exclusions	18
Focus on climate risk with Net Zero	19
The Sustainable Finance Disclosure Regulation (SFDR)	20
Climate data coverage inconsistencies	21
The greatest ESG issues for asset managers' clients	21
Diversity, equity and inclusion statistics for asset managers	23
Summary: Examining ESG considerations in more detail	25
Appendix 1	26



Note: The source of all information contained in this report, unless otherwise stated, is Russell Investments.



**Yoshie Phillips,
CFA**

Director of Investment
Research,
Global Fixed Income



Miguel Ovalle

Research Analyst,
Global Fixed Income



Emily Zhao

Research Analyst,
Global Equity

Executive summary: Spotlight on climate risk

The importance of environmental, social and governance (ESG) integration is reaching universal recognition amongst the asset management community. Across the globe, regulators and investors are demanding more rigour and transparency for ESG analysis. There is a general acceptance that the incorporation of ESG considerations provides asset managers with a more comprehensive, forward-looking picture of their investment opportunities. The attempt to harmonise ESG frameworks within organisations is happening across the majority of asset classes. An increased number of firms are adding more ESG metrics into their investment process, expanding their dedicated responsible investment resources, and providing greater transparency through reporting. A total of 369 asset managers from around the world participated in our 2021 ESG Manager Survey, representing \$79.6 trillion assets under management. Our dedicated research shows that asset managers are increasing efforts to improve the overall quality of inputs when integrating ESG considerations. 55% of the respondents now have dedicated ESG professionals, compared to 43% in the previous year.

In this wave of change, asset managers reported that data providers are integral in providing a broader perspective of companies or entities in the marketplace, with engagement activities playing a vital role in how asset managers make use of ESG-related information. Furthermore, the results from our 2021 survey indicate that there is an amplified focus on climate risk and a strong commitment to reaching net zero greenhouse gas emissions by 2050. This commitment is likely to increase amongst asset managers following the 2021 United Nations Climate Change Conference (also referred to as COP 26), accelerating the action towards the goals of the Paris Agreement and United Nations Framework Convention on Climate Change.

About the survey

Russell Investments conducted its 2021 annual ESG survey across equity, fixed income, real assets and private markets asset managers from around the globe. The survey aims to assess their attitudes toward responsible investing and how managers integrate ESG considerations into their investment processes. This year's survey covered a wide range of topics, including the following:

- Commitment to net zero by 2050
- ESG data sources
- The importance of ESG-specific considerations
- How ESG insights were formed
- Climate risk: the greatest issue flagged by asset managers' clients
- The rise in dedicated responsible investing resources
- Engagement activities
- Product offerings
- Reporting and data

This year marks our seventh annual ESG manager survey. The annual survey has evolved over the years, enabling deeper insights into trends and into how attitudes toward responsible investing have changed since it launched in 2015.

Russell Investments incorporates ESG considerations into the investment process. As a component of the manager research process, analysts assign an ESG rank to individual strategies, based on rigorous analysis of a number of key determinants of expertise and effectiveness in the area. The ESG manager survey results provide a rich source of information about how each asset manager approaches ESG. As such, the survey results may serve as significant reference points for evaluating investment strategies.

In order to provide the most accurate representation, we tried to consolidate assets under management for single firms which provided more than one regional response. The survey participants have a broad representation by asset size, region and investment strategy offerings. Of the 369 participants, 293 offer equity strategies, 208 offer fixed income strategies, 113 offer private markets strategies and 94 offer real assets strategies. 56% of the respondents are headquartered in the U.S., 15% are based in the United Kingdom, 9% are based in Continental Europe, with the remainder located in other regions. 34% of the respondents have assets under management of less than US\$10 billion while 30% of the participants have over US\$100 billion in assets. We have observed that the level of ESG efforts have a high correlation to the firm's assets under management – the larger firms can afford greater resourcing – resulting in seemingly better ESG-related infrastructure. When comparing the survey results, we were mindful of the underlying composition difference, such as region and asset base.

How managers are integrating ESG

We continue to observe commitments to sustainability-related initiatives across the asset management industry. This is driven by an increase in regulatory standards, an accelerated focus on climate change and a shift in perspective, particularly in social considerations in light of COVID-19. In order to provide deeper analysis into this trend, we asked survey participants to identify sustainability-related organisations and initiatives that they are engaged with (Exhibit 1).

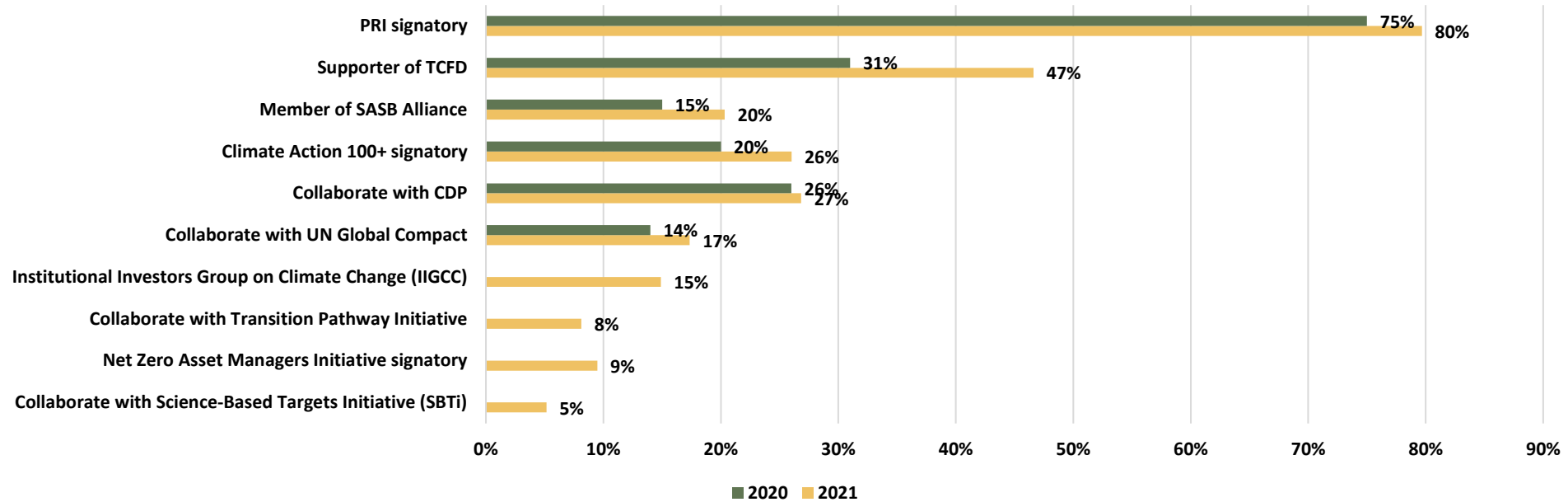
The results reveal that of the 369 survey participants, 80% are signatories to the United Nations-supported Principles of Responsible Investment (PRI), compared to 75% from the 2020 survey, 72% from the 2019 survey and 63% from the 2018 results. We launched our ESG Manager Survey in 2015 with fixed income managers. Our analysis shows a notable increase in PRI signatory status amongst those managers, from 52% in 2015 to 89% in 2021.

The majority of firms without PRI signatory status are those with less than \$100bn assets under management. Being a PRI signatory requires a fair amount of ESG resourcing, as signatories commit to principles that include incorporating ESG considerations into investment decisions, practising active ownership, seeking appropriate disclosure on ESG considerations and promoting acceptance of the principles.

Other prevalent initiatives include supporting the Task Force on Climate-related Financial Disclosures (TCFD), collaborating with the CDP (formerly the Carbon Disclosure Project) and Climate Action 100+ signatories. Additionally, the Net Zero Asset Managers Initiative is rapidly gaining momentum. A number of firms have an extensive list of involvements and advisory roles with initiatives, such as climate change-related, regional-based organisations and stewardship codes.

Sustainability-related organizations/initiatives

Q: Which sustainability-related organization/initiatives are you engaged with?

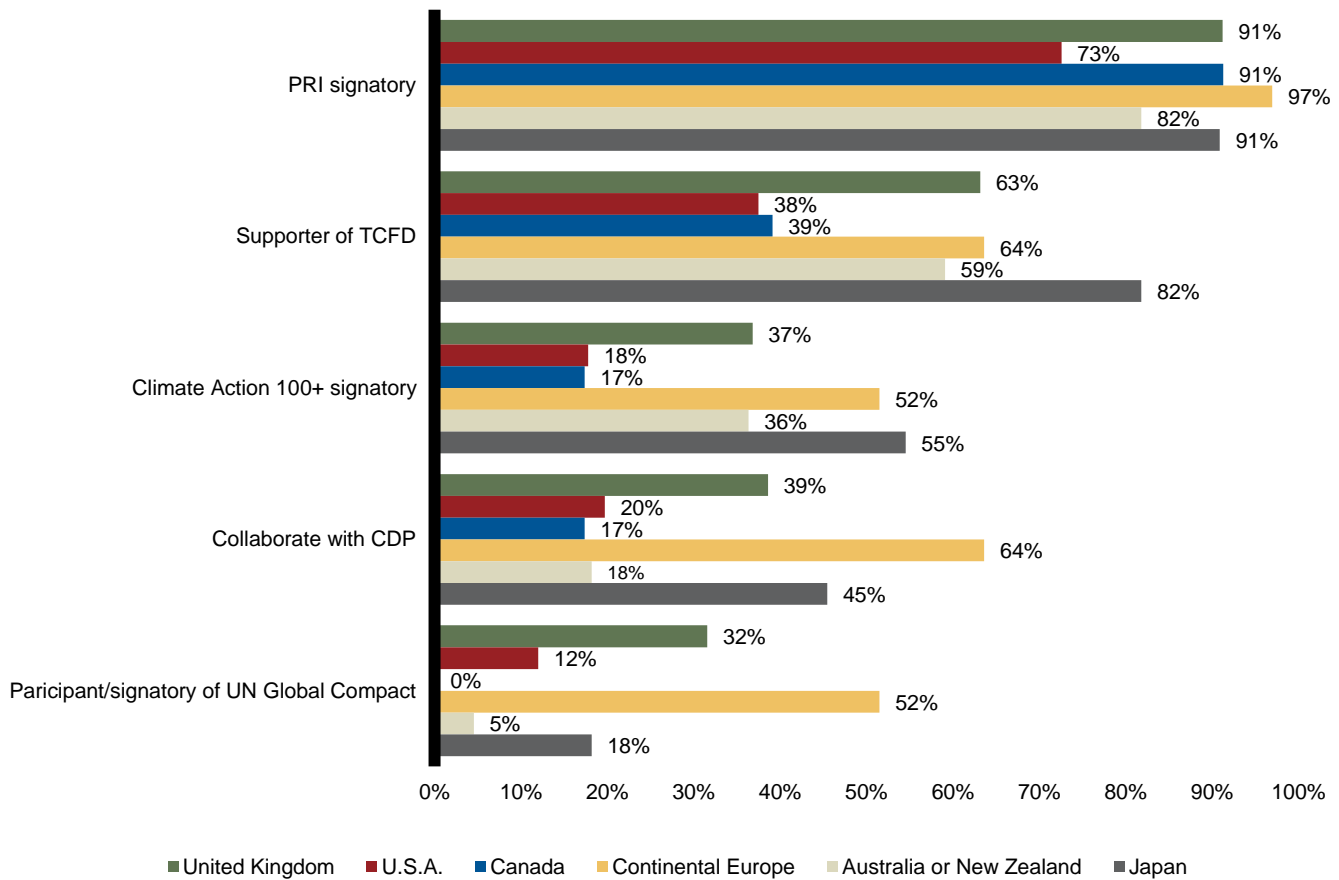


- PRI signatories increased to 80% vs. 75% in 2020, 72% in 2019, 63% in 2018
- Many firms involved with multiple initiatives, such as climate change-related, regional-based organizations and stewardship code
- Larger firms showed greater involvements in multiple initiatives

Source: Russell Investments at September 2021

Exhibit 1: Sustainability-related organisation/initiatives firms engage with

Q: Which sustainability-related organisation/initiatives are you engaged with?

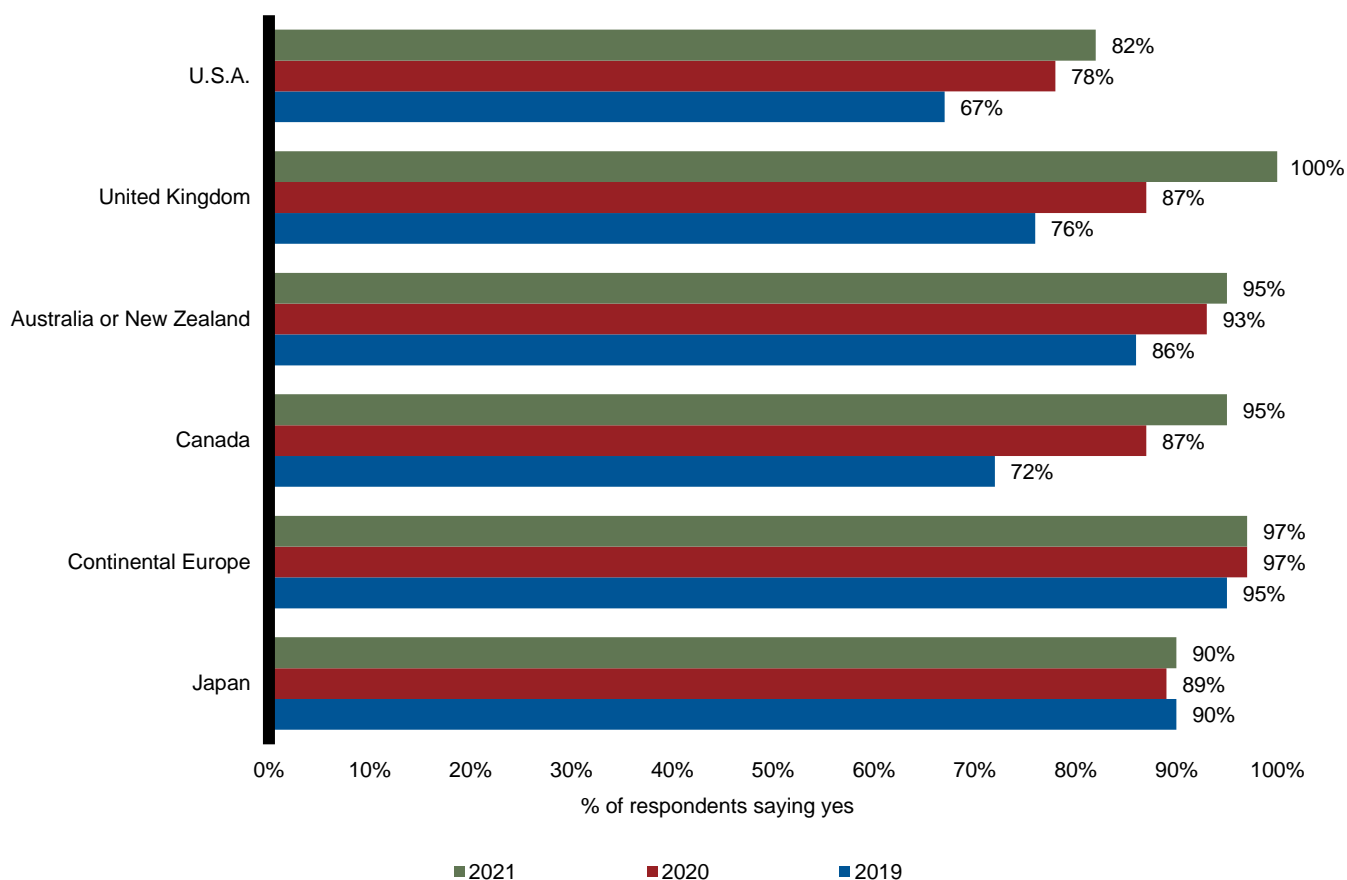


ESG-specific consideration by asset managers: UK managers lead the way

In order to incorporate ESG considerations, we believe that it is critical to conduct explicit ESG assessments in the investment process on a regular basis. We observe whether asset managers have additional inputs specific to ESG-related topics, which are often non-traditional or non-financial-metric-driven considerations. 82% of the respondents said they incorporate explicit qualitative or quantitative ESG consideration assessments at the corporate or sovereign level systematically in their investment process, compared to 78% in 2020. Exhibit two illustrates the year-over-year changes by region, highlighting that the highest percentage increase came from firms based in the U.K., with the most improvements seen among smaller firms, likely due to the local pressure from the client base and regulation. Furthermore, the year-over-year change by asset class shows that 89% of the equity managers have demonstrated the largest increase to explicit ESG assessments in the process, despite being slightly lower than 93% of fixed income managers, 92% of private market managers and 96% of real asset managers. When comparing data at the asset level, the largest year-over-year increase came from smaller firms, narrowing the gap with larger firms and indicating that smaller firms are catching up in terms of integration.

Exhibit 2: ESG factor consideration regularly embedded in the investment process

Q: Do you have explicit ESG factor assessments in your investment process?

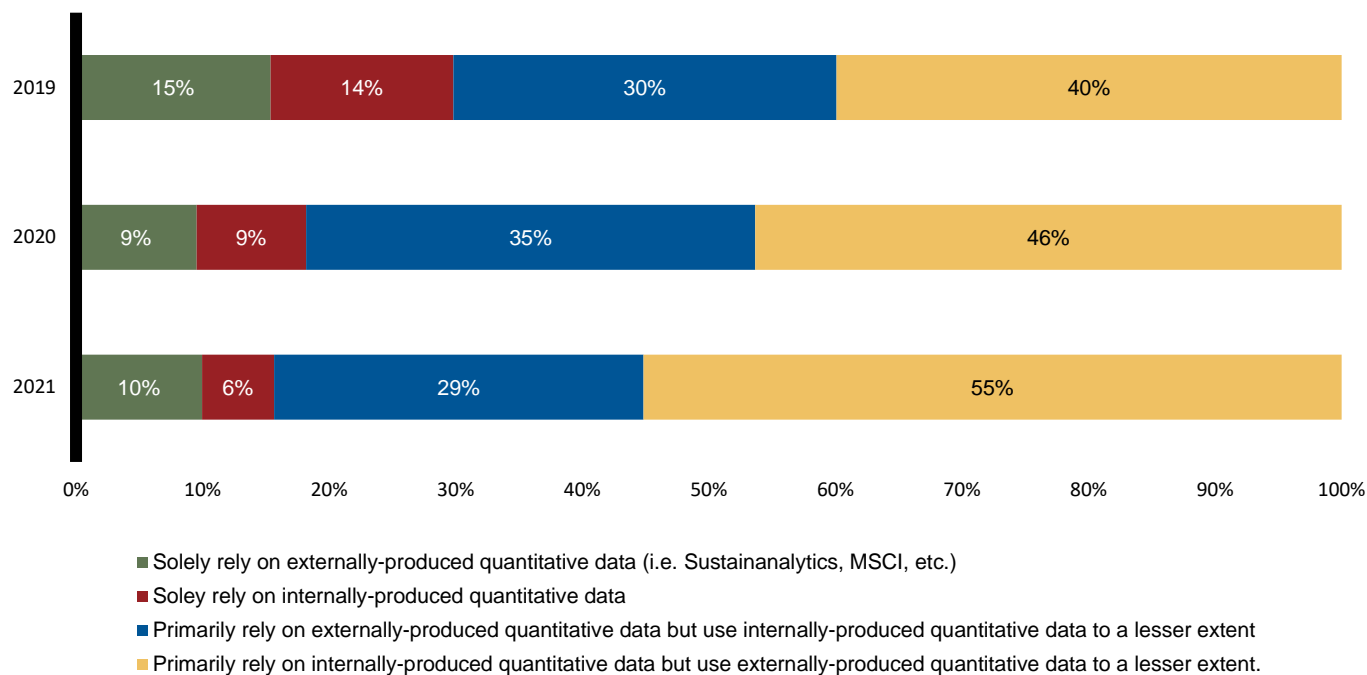


How asset managers form their ESG insights

To better understand how asset managers are forming insights on ESG considerations, we asked how asset managers are driving their ESG assessments. From the results, it appears that asset managers increasingly form their ESG insights with in-house views on specific investment opportunities (Exhibit 3). Significantly, 55% of respondents rely primarily on internally produced quantitative data but use external ESG data providers as additional inputs, compared to 40% of respondents in the 2019 survey for the same category. Conversely, the sole reliance on internally produced ESG metrics declined to just 6% in the 2021 results, compared to 14% in 2019. These findings point to the movement of an increasing number of asset managers toward utilising ESG data providers - whilst conducting their own underlying analysis as the key driver in ESG assessments. While ESG data providers offer a breadth of sustainability-related information, we frequently hear from asset managers that ESG data providers can have very different opinions on the same company – partly due to the subjective nature of many ESG issues. As asset managers try to establish a forward-looking approach to ESG assessments, many will continue to form their own ESG insights, while simultaneously working with external providers. We believe that best practice will come out of a skilful blending of in-house proprietary information and views, alongside analysis of public data.

Exhibit 3: How ESG insights are formed

Q: How do you form your ESG insights?

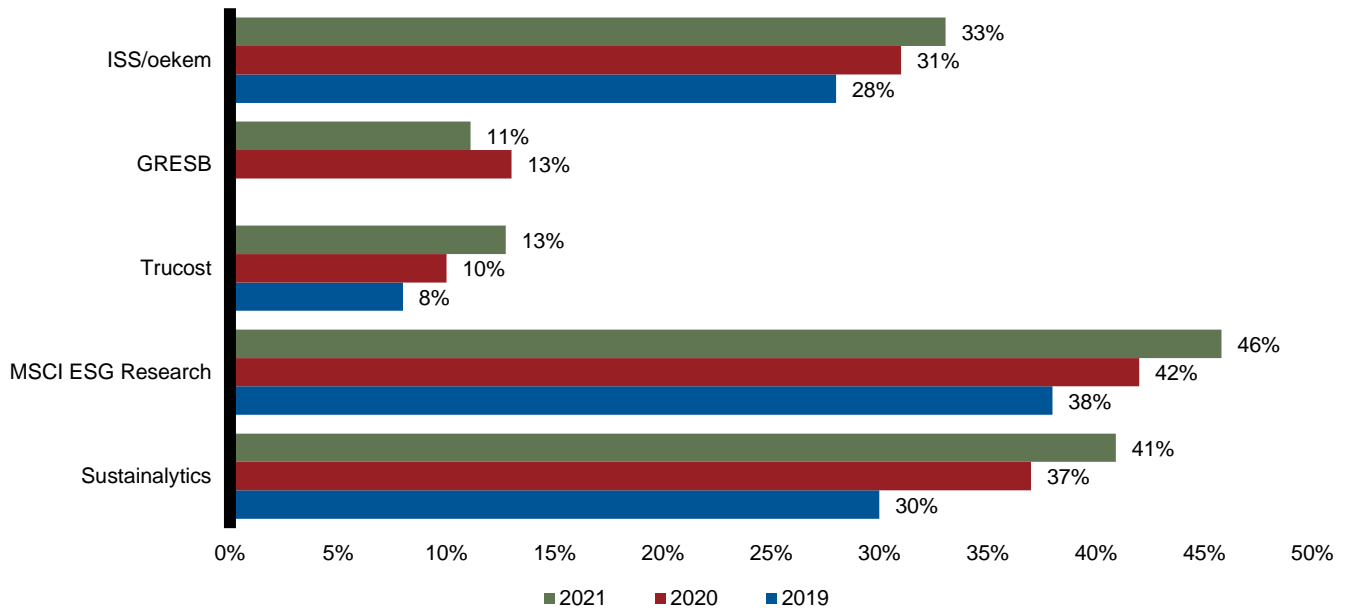


ESG data sources increase while acquisitions also increase

To gauge which external ESG vendors are used to gain additional insights, we asked the survey participants to disclose the providers they subscribe to (Exhibit 4). It is apparent from the results that asset managers are continuing to increase their subscriptions to various ESG data providers across asset classes. MSCI ESG Research remains the market leader for now amongst survey participants, with Sustainalytics closely following. A large number of ESG data providers have their own specialities or cover niche areas of the market. For example, ISS ESG is the leading proxy voting agent, with a strong suite of corporate governance data. Trucost and CDP are known for providing detailed climate-change-related measures, from both companies and supply chains. GRESB focuses on real assets, such as real estate and infrastructure. Other well-known vendors include Bloomberg, Refinitiv, RepRisk and TruValue – all providing broad-based ESG considerations like MSCI and Sustainalytics. Many vendors are participating in acquisitions: Sustainalytics was bought by Morningstar, Trucost became a part of S&P, NS Vigeo Eiris was bought by Moodys, Oekem was acquired by ISS and TruValue is now a part of FactSet. More recently, acquisitions are occurring among niche data providers. Given the high demand for ESG-related data, the number of ESG data providers is increasing and so are the acquisitions. The market landscape of ESG data providers is evolving. Each vendor is enhancing their existing methodology and expanding their coverage in order to stay relevant in today's rapidly growing competitive landscape, whilst trying to better align with the regulatory evolution.

Exhibit 4: External ESG vendor subscriptions

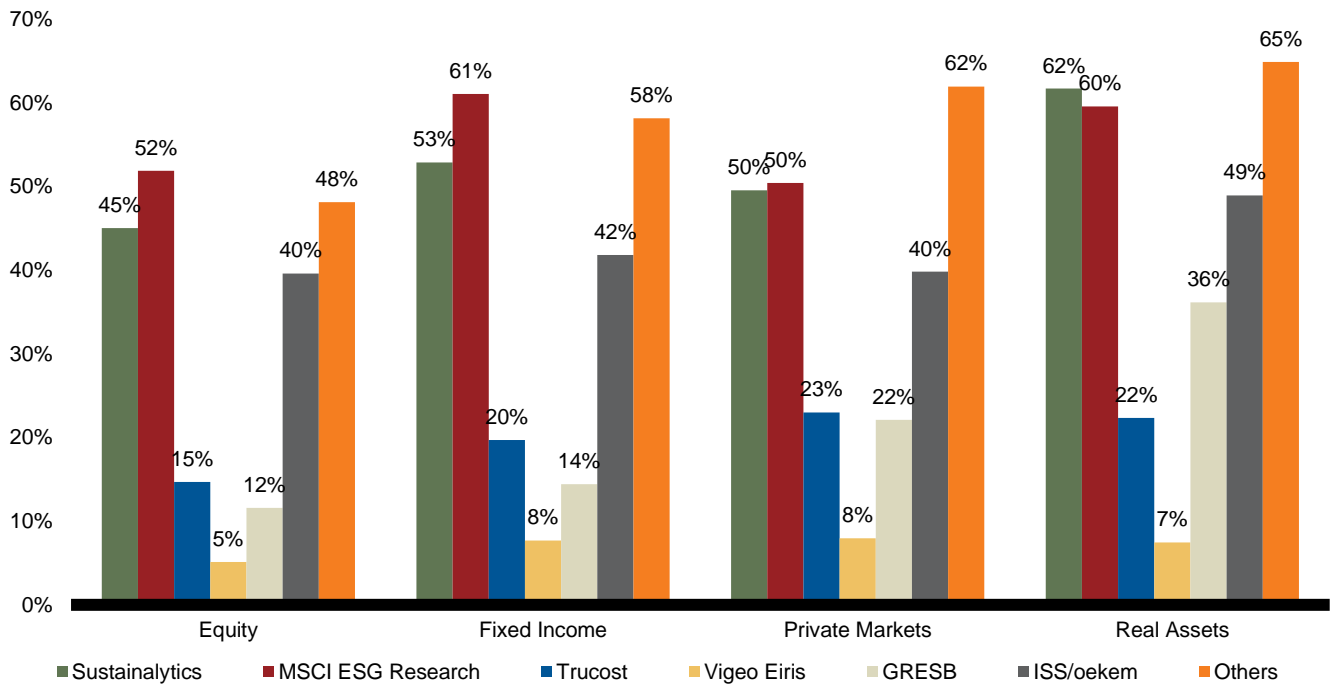
Q: Which external vendors do you subscribe to for the ESG factor assessments (select all that apply)?



The survey indicates that many asset managers subscribe to multiple ESG data providers, suggesting that there is yet to be a provider that offers a single solution for asset managers across all asset classes, or asset managers see value in having multiple viewpoints. When comparing third-party vendor subscriptions across asset classes, we have identified that the “Others” category is higher for fixed income, private markets and real assets - suggesting there are more unique or specific segment data providers for those asset classes (Exhibit 5).

Exhibit 5: ESG data providers by asset class

Q: Which external vendors do you subscribe to for the ESG factor assessments (select all that apply)?

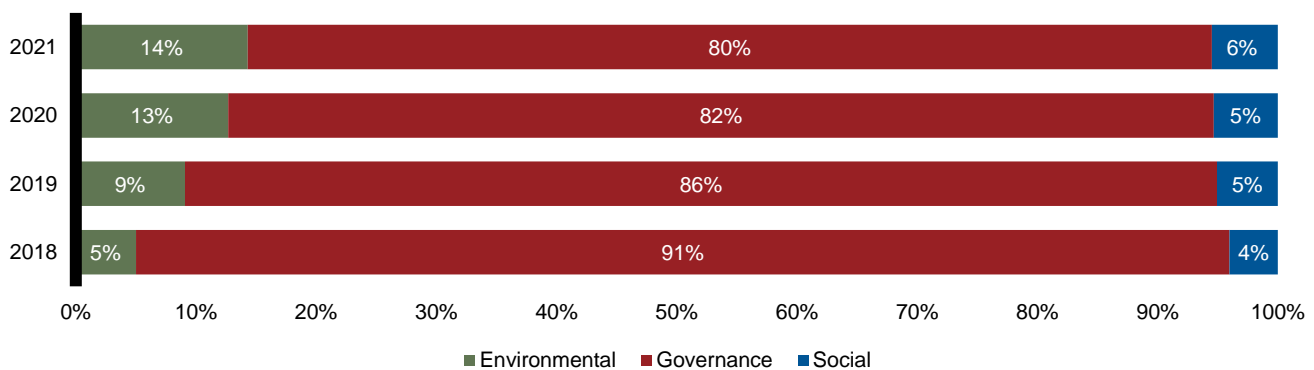


Which ESG factors drive decision-making?

The broadening of ESG-related information available in the marketplace is highlighting the materiality risks associated with ESG, enabling further adoption of the integration of ESG. However, despite the increase, the extent of the role that ESG assessments play in actual investment decisions remains unclear - especially around environmental and social considerations. To gain further clarity, we first asked which ESG considerations impact the investment decisions the most. Each year, governance remains the dominant factor (Exhibit 6). This is no surprise, given that company management is a critical component in generating long-term enterprise value. When asset managers are considering each of the ESG elements, they need to consider the materiality of each consideration, and materiality differs by industry. For example, environmental aspects might be important for the energy or utility sectors but less important for the banking sector. However, overall corporate governance – how companies are managed – applies to all companies, regardless of industry. That being said, we have noticed a reasonable increase in environmental considerations, when compared to previous years' responses. This is likely due to the increased awareness and desire among market participants to tackle climate risk, which could impact asset prices over time.

Exhibit 6: Which ESG factor impacts your investment decision the most?

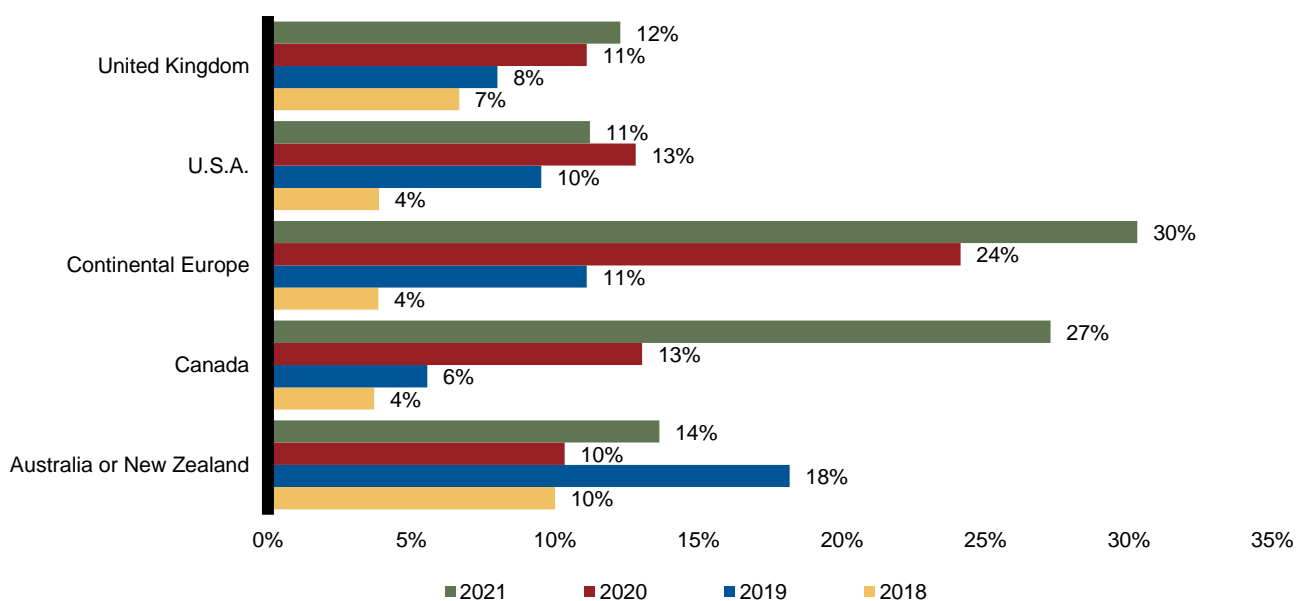
Q: In general, which ESG factor impacts your investment decisions the most?



For those who selected environmental as the most important consideration in their investment decisions by region, we see a sizeable increase among managers who are based in Continental Europe (Exhibit 7). This steep rise in environmental considerations is in line with the recent introduction of the EU's sustainability regulations and provides further proof that regulations can drive significant industry practices.

Exhibit 7: Where are environmental considerations the most important?

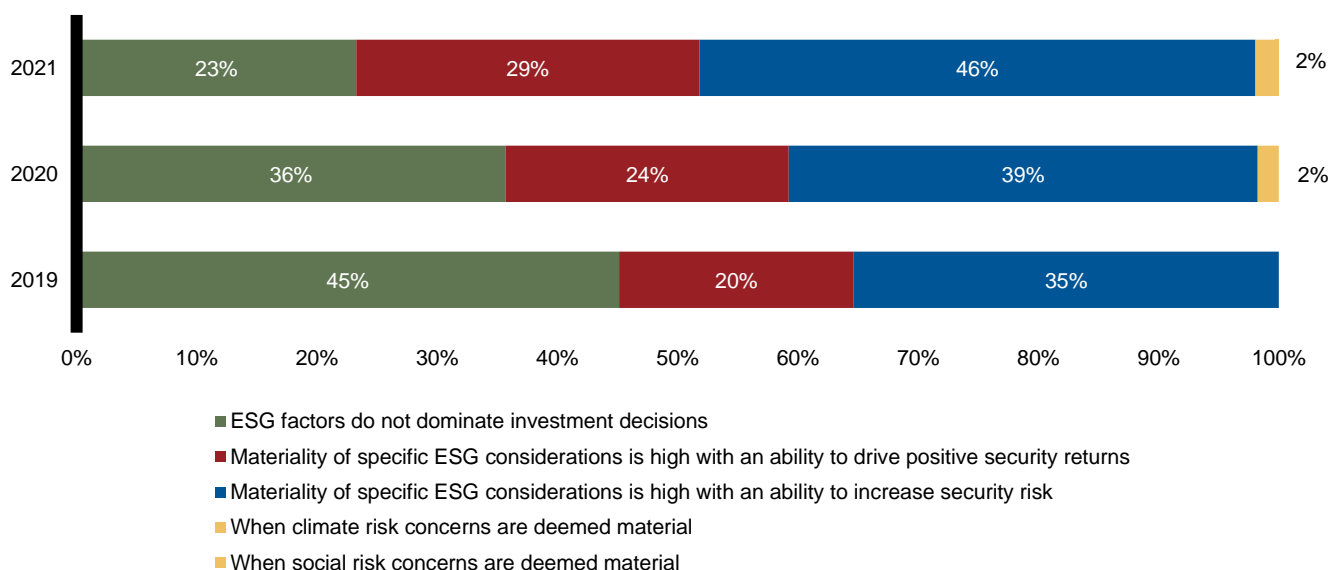
Percentage of Managers who chose Environmental (by region)



We asked managers when ESG considerations should dominate investment decisions (outside of investment guideline considerations). The results show that financial materiality is a focal point for the decision-making process. 75% of the respondents claim to incorporate specific ESG considerations when the materiality is high, versus 63% from the previous year (Exhibit 8). An increased number of respondents incorporate ESG considerations into investment decisions when there is a potential impact to security risk generated from higher material considerations. This response suggests that more asset managers treat the evaluation of the impact of ESG considerations as a risk-management exercise. Interestingly, climate risk concerns in isolation have little influence on the majority of managers' overall investment decisions. We believe that this is because asset managers are mostly evaluating the materiality of ESG considerations - climate risk is a part of that - instead of climate risk being the sole driving factor. While it's understandable that investors incorporate material factors into investment decisions, what remains unclear is whether ESG is another tool to monitor risk, or if it actually influences investment decisions.

Exhibit 8: When ESG considerations should dominate investment decisions

Q: How do you determine when ESG factors should dominate the investment decisions?

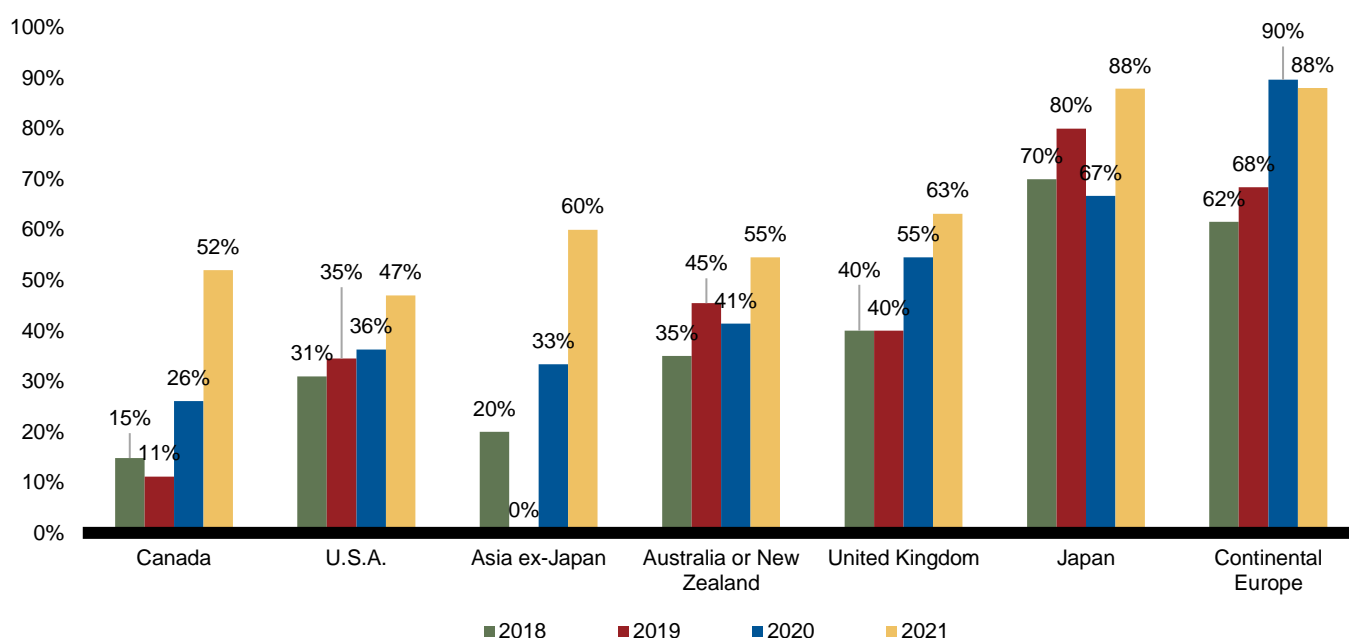


How ESG functions are resourced by asset managers

Investment professionals specialising in sustainable and responsible investing are in high demand. We have observed that many firms have invested in resources across the industry - this is reflected in the survey results. An increased number of firms are dedicating efforts to ESG initiatives and are adding dedicated ESG or responsible investing teams, particularly those firms with larger assets under management. The survey results indicate that the financial industry is moving towards embracing ESG awareness as part of a broader investment analysis. This increased dedication and awareness to ESG considerations are resulting in firms requiring additional resources in order to achieve scale and expertise. However, we also believe that it is integral for firms to expand expertise, as well as to ensure that a high level of quality and transparency is maintained. We asked managers if they have dedicated ESG professionals who spend more than 90% of their time on ESG-specific matters. The results showed 55% of the respondents having dedicated ESG professionals, compared to 43% in the previous year. When observing the year-on-year progress to dedicated resources at the regional level, regions outside of Continental Europe are catching up (Exhibit 9). When we analysed the results further, Continental Europe leads for the number of ESG professionals relative to the rest of the investment team. This analysis shows that the ESG headcount ratio is generally greater in Europe than in other regions. The nature of the roles for those dedicated ESG professionals are split across engagement specialists, dedicated research analysts or portfolio managers for ESG and responsible investing strategies, capital market research and others (this includes product development and Head of Sustainability roles).

Exhibit 9: Dedicated ESG professionals who spend more than 90% of their time in ESG-specific matters

Q: Does your firm have dedicated ESG professionals who spend more than 90% of their time on ESG matters?

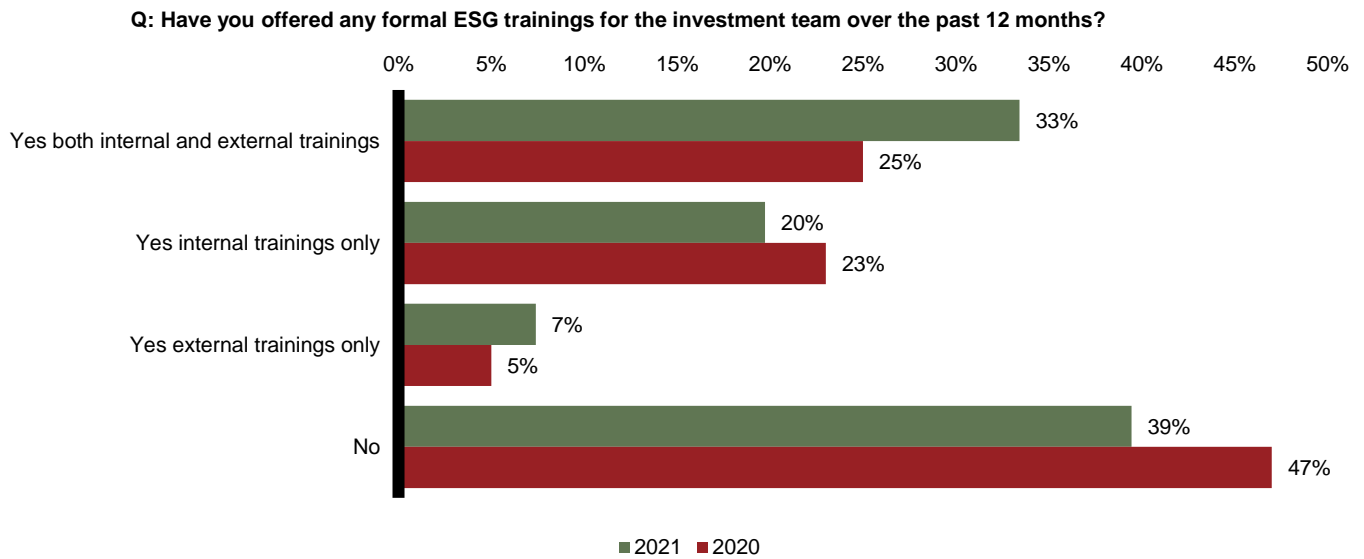


ESG training continues to rise in prominence

The ESG landscape is continuously evolving and often viewed as complex and challenging. For this reason, we believe that it is essential that investment teams are provided with adequate training in order to stay abreast of the ever-changing landscape. We asked managers if they have offered any formal internal or external ESG training to the investment team over the past 12 months (Exhibit 10).

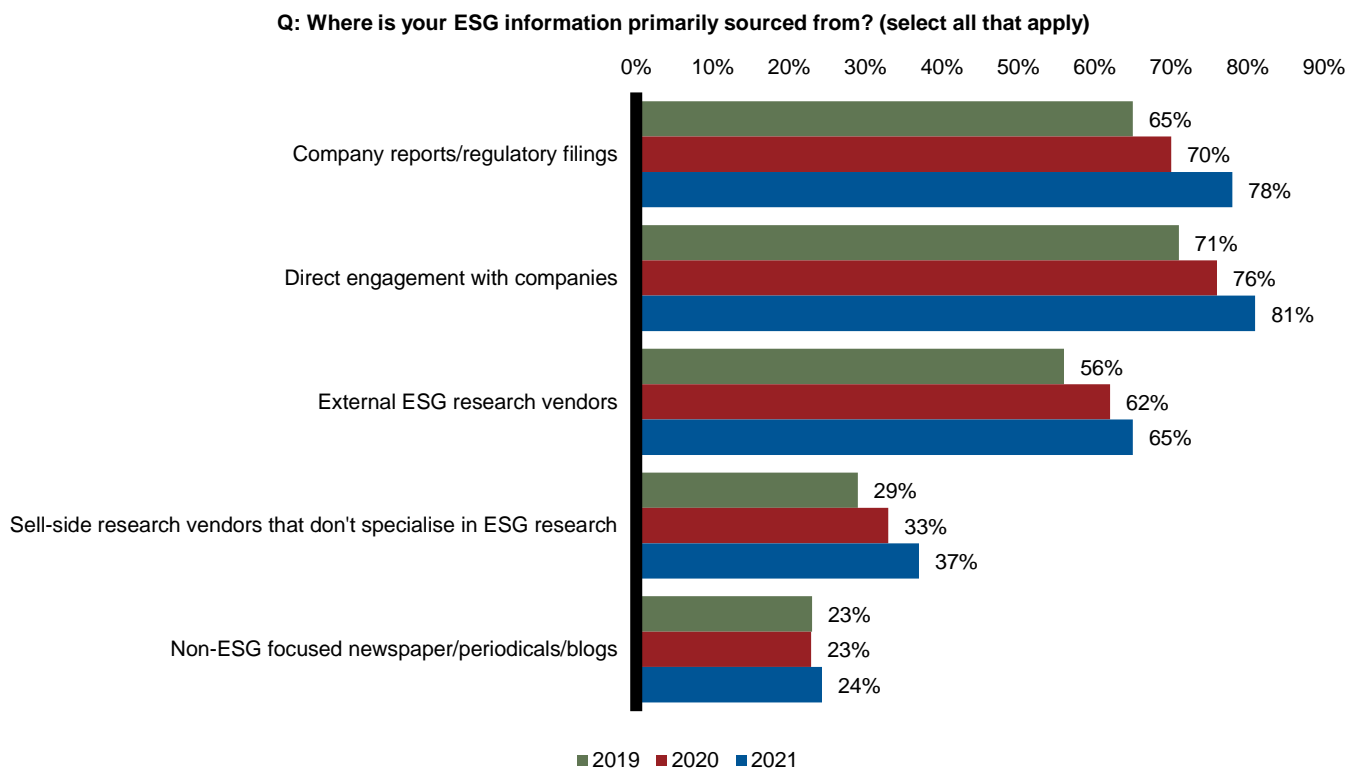
The findings show that asset managers are not only increasingly providing training on ESG in general, but they are also providing more comprehensive training both internally and externally. Whilst the environmental element in ESG has played a role in investment decisions for some time, the coronavirus pandemic has put a spotlight on social considerations. Additionally, government bodies across the globe are increasing regulations surrounding ESG – most notably the [EU's sustainability regulations](#). Thus, asset managers are finding an increased demand to incorporate ESG into investment decisions and ensure investment teams are well-equipped to do so. Popular external ESG training courses included PRI Academy and CFA Sustainability.

Exhibit 10: Formal ESG training offered to the investment team



When asked to identify the primary source of ESG information, engagement activities are viewed as the most frequent primary source of ESG-related assessments, as 81% of the respondents selected this category, compared to 76% in 2020 (Exhibit 11). Generally speaking, asset managers are utilising broader information sources to gather ESG-related inputs. When comparing the 2021 results to the 2018 survey, a notable increase of the information source is in the company reports/regulatory filings, likely indicating the increased transparency of the company’s reporting in sustainability-related topics. And as investors continue to view corporate governance as the most important ESG consideration which speaks to companies’ business practices or conducts, it is understandable that investors also focus on engagement, due to its influence on governance and how it serves as an important information feedback tool for company analysis.

Exhibit 11: Where ESG information is primarily sourced from



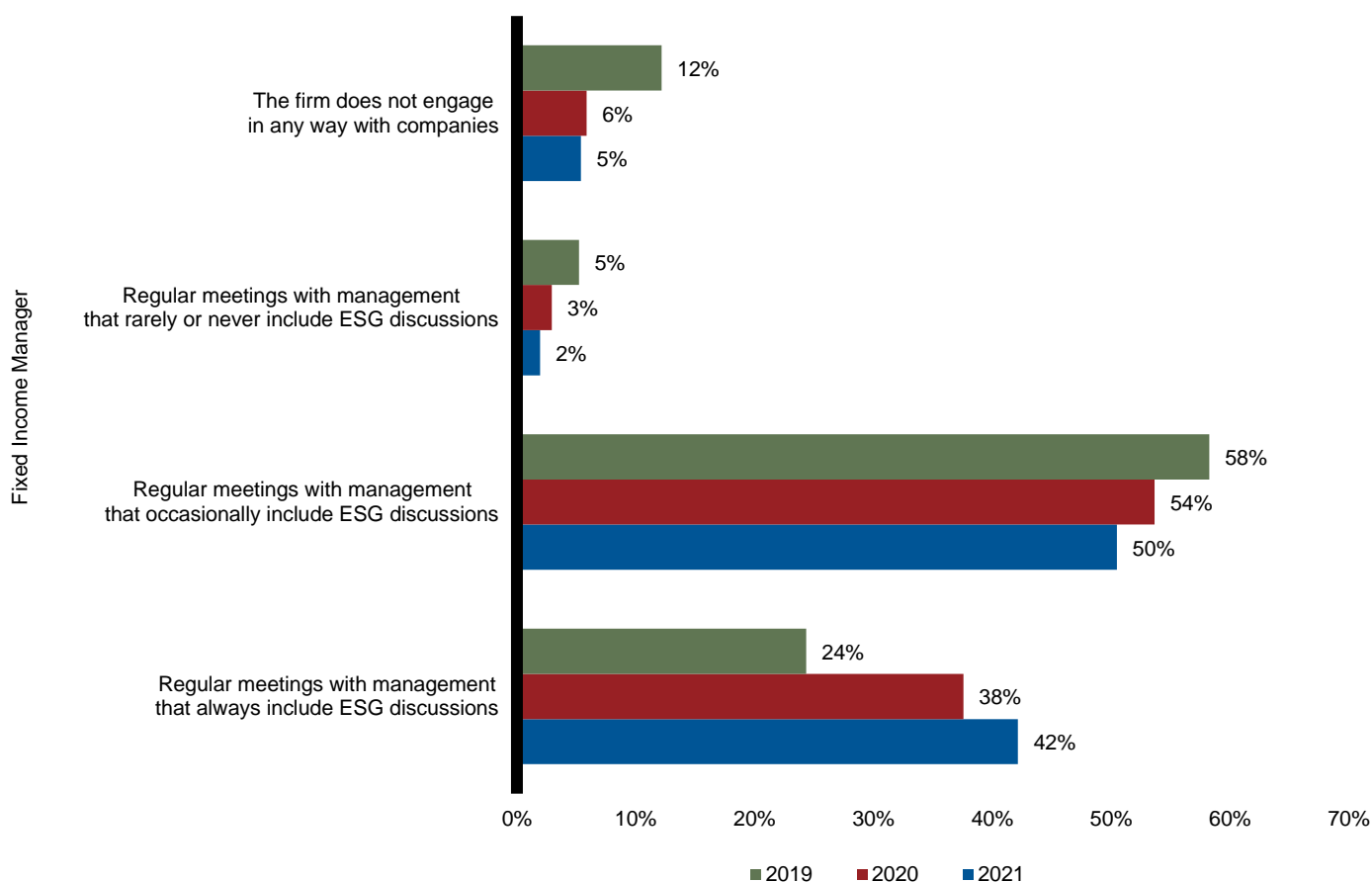
Spotlight on active ownership

Asset managers continue to increase their engagement activities. This includes engagement with underlying companies and governments, in order to influence entities' potential outcomes, such as greater transparency, improved behaviours and reduced uncertainty and risk. 90% of the respondents include ESG discussions in meetings with senior management of the companies they invest in. 35% of the respondents claimed they always include ESG discussions, compared to just 21% in the 2018 survey response. Conversely, the respondents who rarely or never include ESG discussions declined to 9%, compared to 20% in 2018. The survey results suggest an increasing trend of engagement activities becoming a prominent component in investment activities. Almost all of the respondents with assets under management greater than US\$100 billion indicated that they always or occasionally included ESG discussions in meetings with senior management. 7% of the respondents cited that they don't engage at all with companies. Those firms include systematic equity and fixed income managers, private markets and real assets managers who are not accustomed to incorporating engagement activities in an attempt to influence corporate business practices. We believe the increased engagement activities reflect the acceptance of value creation via engagement.

The survey also indicates that engagement activities increased, even among fixed income managers, where 92% of fixed income managers regularly engage with underlying holdings they invest in (Exhibit 12). When comparing the responses over the past three years, fixed income managers show the largest year-over-year changes as more bond managers are incorporating engagement activities. Bondholder engagement has become a crucial part of the responsible investment approach and process. A growing number of bond investors hold the view that engagement activities can provide greater insights into the underlying companies or entities, improve transparency and influence business practices. As the importance of active ownership continues to increase, so will the consensus among investors to incorporate active management across all asset classes.

Exhibit 12: Engagement activities among fixed income managers

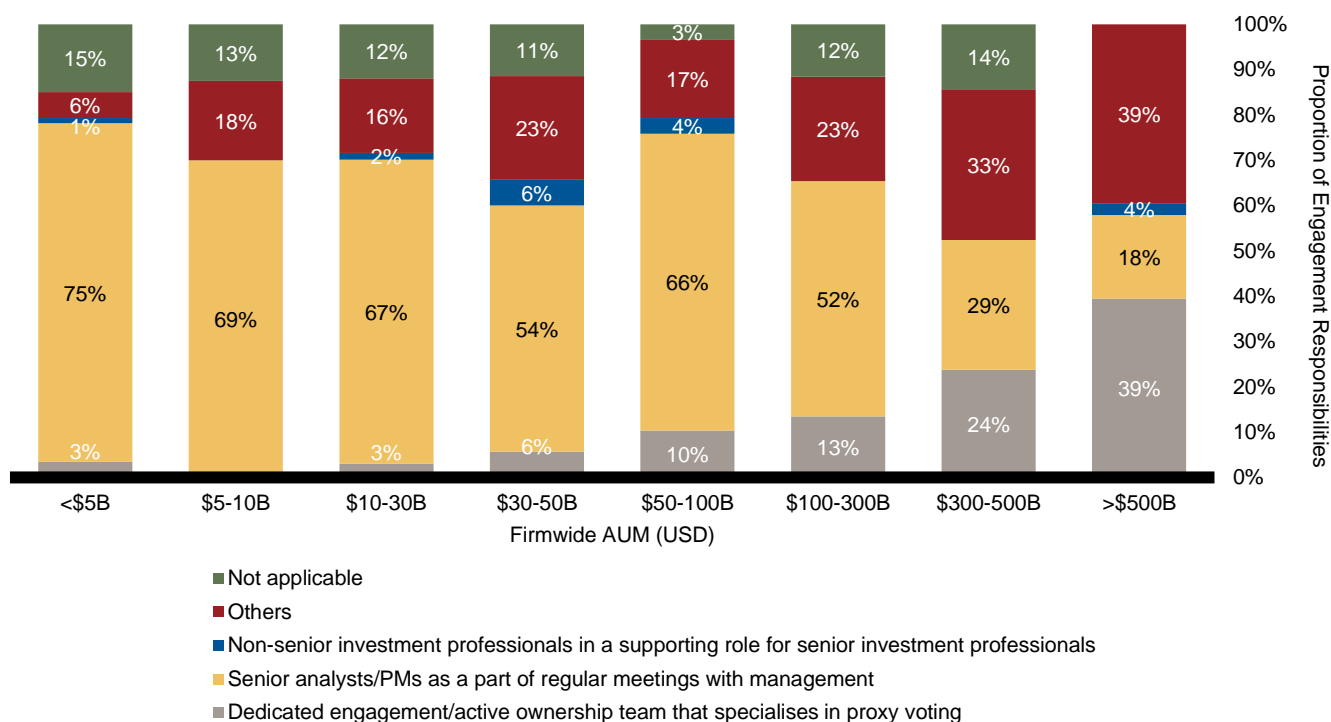
Q: Which of the following is true regarding the participation of your firm in shareholder engagement activities



For additional insight into engagement activities, we asked who conducts such engagement activities in general (Exhibit 13). Larger firms are more likely to have dedicated ESG resources and personnel who handle ESG engagement activities, and therefore reported that a greater proportion of their engagement activities are handled by dedicated engagement/active ownership teams. The majority of respondents indicated that senior investment professionals are responsible for engagement activities in both large and small asset managers, reflective of the commitment of asset managers to having deep conversations with management teams at the senior level. The number of firms that selected "Others" indicates that the engagement team and senior investment professionals often get involved in engagement activities.

Exhibit 13: Who conducts engagement activities?

Q: Who conducts engagement activities?

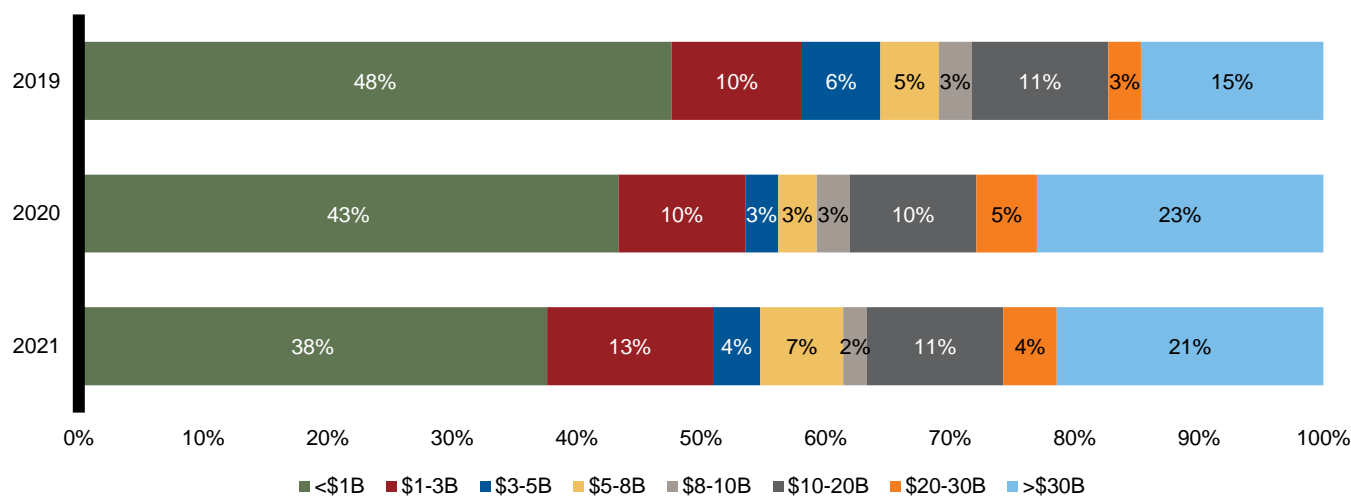


A growth in ESG product offerings

We have observed ESG-related product expansion across asset classes, with an increased number of assets going into ESG and responsible investing strategy offerings over the recent years. We asked asset managers to share the firmwide assets under management with strategies that are clearly defined as responsible investing or that incorporate ESG considerations, as of 31 March 2021. 57% of the respondents offer some form of ESG-related and/or responsible investing strategy. 36% of the overall ESG strategy asset base is less than US\$1 billion total, compared to 43% in 2020 and 48% in 2019, indicating that ESG strategies have grown to over \$1 billion for most respondents. To further assess where the inflows have been generated, we analysed ESG-related strategies with over US\$1 billion in assets under management and compared the growth rates. Our findings show that firms with larger AUM grew their overall ESG-focused strategies in 2020. This may suggest that firms with strong ESG positions in the market had benefitted from proportionally more ESG inflows previously in 2020, but smaller firms are catching up.

Exhibit 14: What is your firm's ESG-related assets under management (strategies that are clearly defined as responsible investing/ESG offerings) in USD as of 31 March 2021?

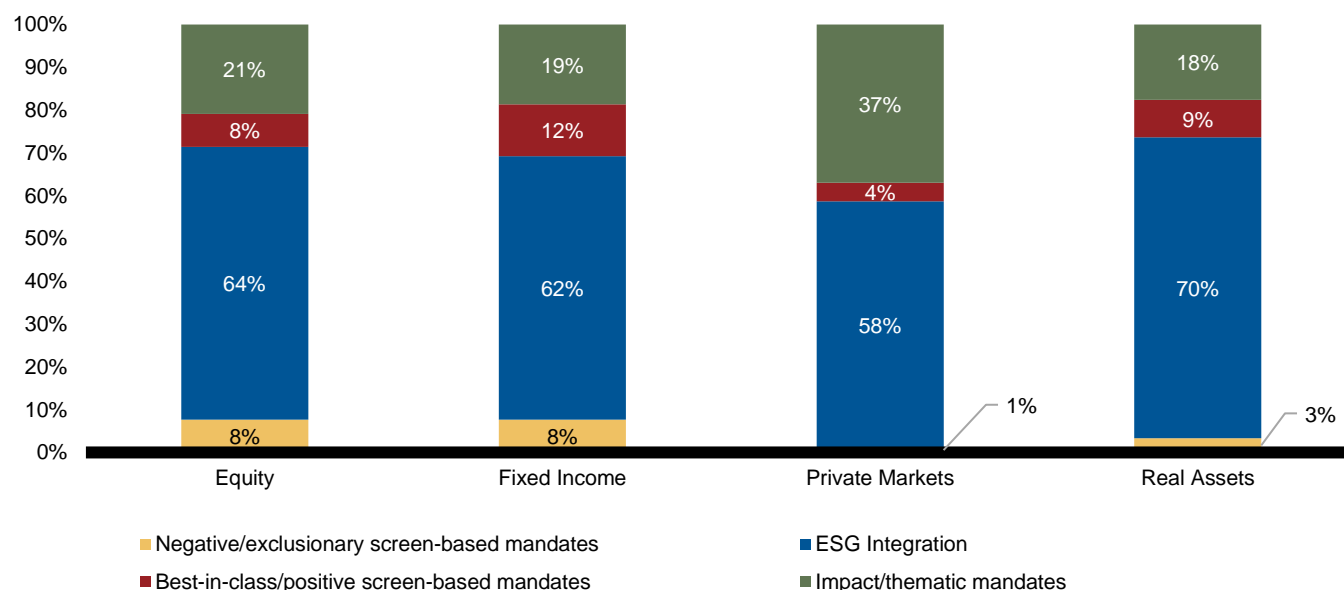
Q: What is your firm's ESG-related AUM (strategies that are clearly defined as Responsible Investing/ESG offerings) in USD as of 31 March 2021?



In order to gain a deeper understanding of ESG-related strategy offerings, we asked firms to classify the types of offerings they currently offer, including exclusionary screen-based, ESG integration, best-in-class/positive tilt-based and impact/thematic strategies. Across the asset classes, the strategies which provide ESG integration are the largest proportion of strategies offered to date. Additionally, we asked which type of strategies asset managers are seeing the most interest and asset growth in over the past 12 months. The results show proportionally more demand in ESG integrated strategies, which are often mainstream strategies that are benchmarked against traditional public indices, such as the MSCI EAFE Index and Bloomberg Barclays Global Aggregate Index (Exhibit 15). These findings suggest that investors may be looking to substitute existing core allocations for sustainable strategies with ESG outcomes. Furthermore, impact/thematic strategies are also gaining momentum as a popular category across all asset classes.

Exhibit 15: Which types of ESG/Responsible Investing products are seeing the most interest and asset growth over the past 12 months?

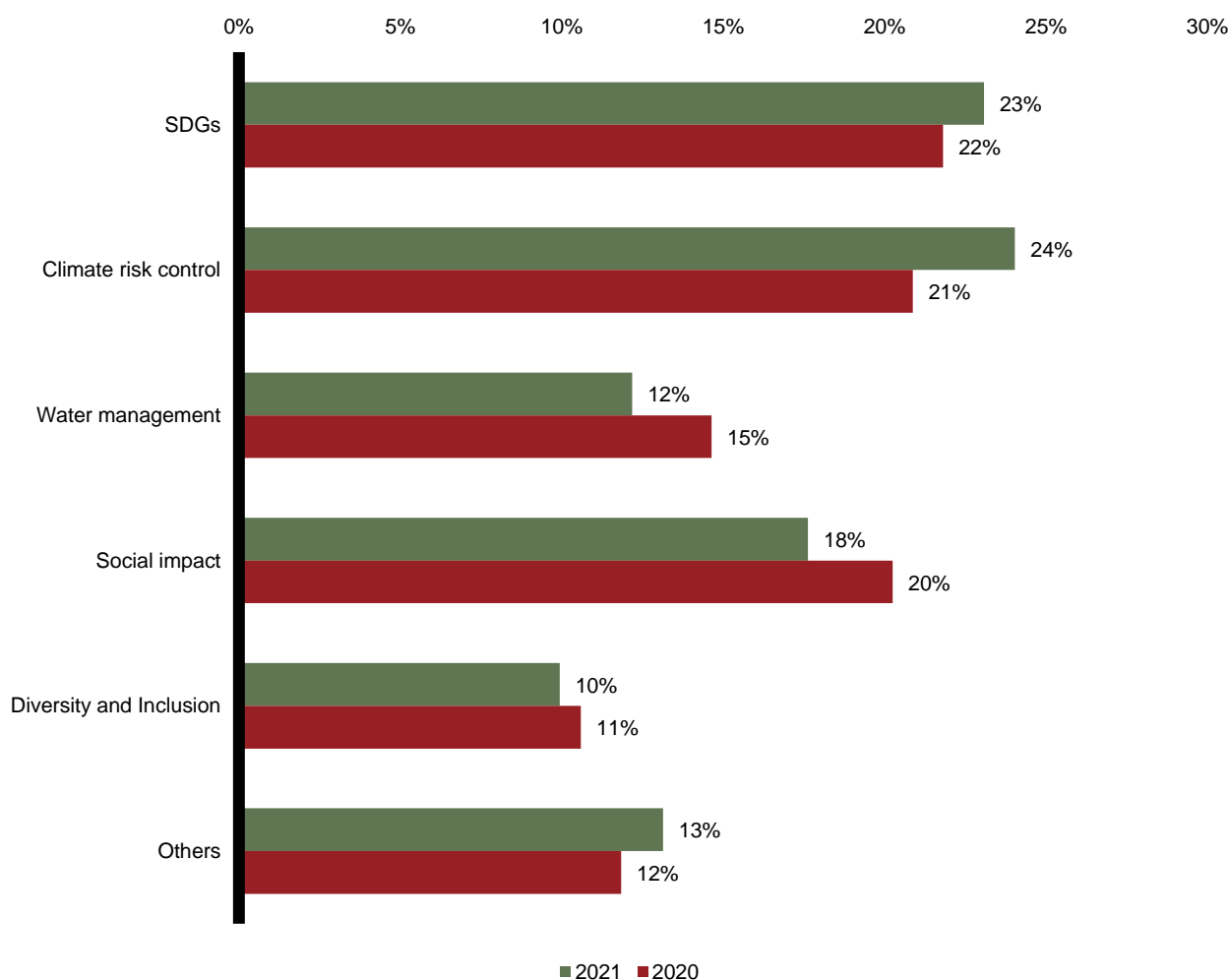
Q: Which type of ESG/Responsible Investing products are you seeing the most interest and/or asset growth over the past 12 months?



Among impact strategies, climate risk and the United Nations Sustainable Development Goals (SDGs) are identified as the most popular themes (Exhibit 16). While the social impact category slightly declined this year compared to 2020, the “Others” category had a slight increase, with respondents mentioning social themes. Therefore, the social impact theme remained relatively flat from the 2020 survey results. This may come as a surprise, due to the COVID-19 environment, where social issues, such as racial and gender inequality, healthcare availability and affordable housing are receiving greater attention. However, this result may speak to the size of the overall investment opportunity set. For example, social bond issuance materially surged since the COVID-19 crisis, as the pandemic brought heightened attention to the importance of social issues. However, the overall social bond market remains very small, relative to the rest of the global bond market. In addition, social issues generally apply to companies’ operational aspects – such as employee safety, diversity and data privacy – which require more subjectivity in assessing the investment opportunity set. This is an area that is behind scientific-based themes, such as climate risk, which provides greater transparency and data availability.

Exhibit 16: If you offer any impact strategies, which themes do they focus on the most?

Q: If you offer any impact strategies, on which themes do they focus? (select all that apply)



ESG reporting

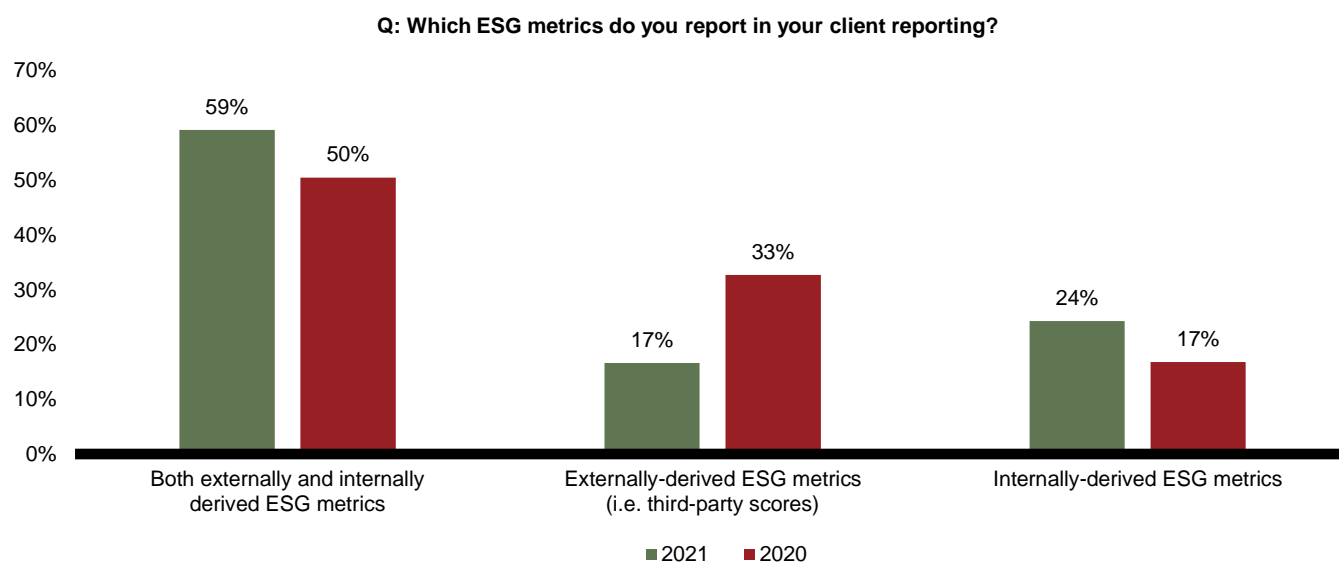
ESG reporting capabilities are an important topic in responsible investing, and the coverage, depth and quality continue to advance. Regulators, particularly in Europe, are increasingly stepping in to raise the sustainable finance reporting standards, with asset owners demanding greater transparency and disclosures around ESG and sustainable considerations in their portfolios. The demand for metric-driven reporting is generally two-fold: firstly, for ESG or sustainable criteria broadly and secondly, for climate-change-related metrics such as carbon intensity. To gauge how asset managers are addressing the transparency demand, we asked them to share their reporting capabilities.

52% of the respondents, compared to 49% in 2020, claimed to offer ESG-specific reporting to their existing clients for both ESG-labelled strategies and non-ESG-labelled strategies. Understandably, those larger-sized asset managers seem to have the robust infrastructure required to support their reporting capabilities. 33% of the respondents, compared to 42% in 2020, do not offer ESG specific reporting to the clients at the time the survey was submitted. We have had a number of conversations with asset managers across the globe, observing that managers often have a large proportion of ESG-related data, which is not currently reported to their client base, partly due to the lack of data consistency. Over the coming years, the communication of ESG-related data within client reporting is likely to both increase and evolve.

While ESG-related reporting guidance continues to grow in prominence, such as the TCFD framework, the reporting contents still vary widely at this time. This lack of consensus is understandable, as sustainable investing can mean different things to different people. From a values-based standpoint, some investors might care more about social issues (i.e., labour practices and data security), while others care more about governance issues (i.e., executive compensation, internal controls and shareholder rights). At the same time, there is mounting interest in environmental issues, especially around climate change. Furthermore, many asset managers measure ESG criteria in their portfolios differently. As shown in the survey results, some firms incorporate third-party ESG data vendors to help form their ESG insights.

A number of asset managers reference the vendor inputs, then augment them within their own assessments, which might result in different observations from the vendor's conclusion in the ESG reporting. As vendors and asset managers express ESG outcomes differently, it is understandable that investors request their own criteria in order to facilitate comparison. To check the current status of ESG metric reporting, we asked firms which ESG metrics they disclose in their client reporting. (Exhibit 20). 59% of the respondents with ESG reporting capabilities report both externally and internally derived ESG metrics, compared to 50% in 2020 (Exhibit 17). Interestingly, solely relying on externally derived ESG metrics declined this year, supporting the thesis that an increasing level of asset managers are taking ownership of their ESG views.

Exhibit 17: Which ESG metrics do you report in your client reporting?



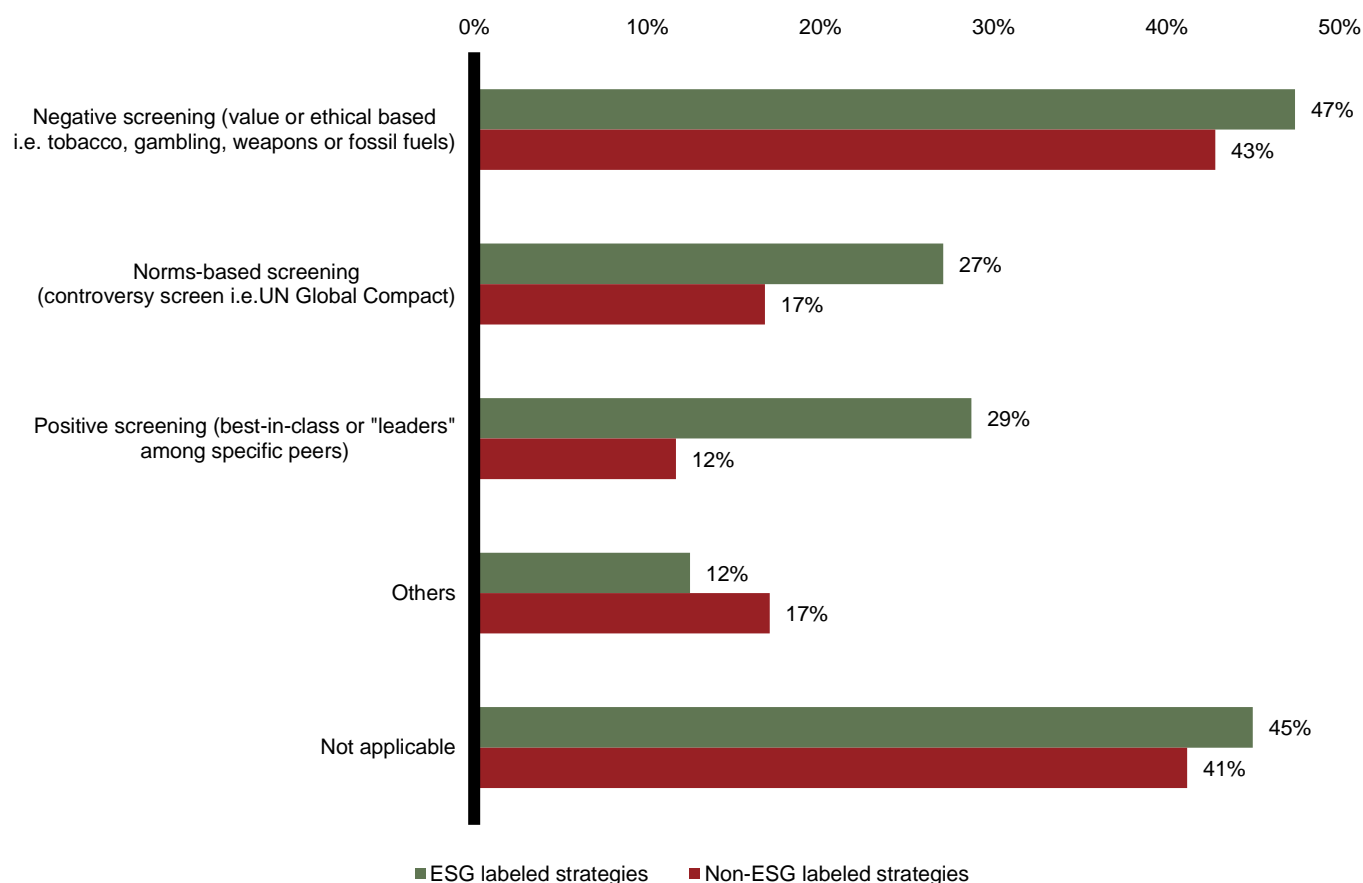
Minimum exclusions

Our 2021 survey results identify that screening is one of the most widely used tools utilised to implement a responsible investment policy in the asset management community. Screening uses a set of criteria to determine which sectors, companies or countries are eligible or ineligible to be included in a specific portfolio as a baseline investment decision. Negative screening with values or ethical-based criteria focuses on product-based considerations and tends to centre on certain sectors, such as tobacco, controversial weapons and thermal coal. Norm-based screening focuses on business conduct or operation irrespective of sectors, such as United Nations Global Compact violators. Positive screening focuses on business activities that may identify firms as *leaders* among peers. In order to gauge the level of screening practices, we asked which screening criteria the asset managers utilise for both labelled and non-labelled sustainable strategy offerings (Exhibit 18).

The most popular screening criteria is value-based negative screening for both labelled and non-labelled sustainable strategies. Specifically, 47% of the respondents who use some form of screening criteria apply the value-based negative screening for the labelled sustainable strategies. For non-labelled strategies, the use of the negative screening practices was the highest among European-based asset managers, where the majority of them utilise negative screening criteria (even in non-labelled strategy offerings). Based on our manager due diligence meetings, we have observed that some asset managers utilise hard rules for such exclusion policies. Others link engagement activities to modify the exclusion criteria, especially for conduct-based exclusion lists where the business practices can be improved.

Exhibit 18: Which exclusionary screening criteria, if any, do you apply in both Sustainable/ESG-labelled and non-labelled strategy offerings? (select all that apply)

Q: If you use screening to implement a responsible investment policy in any of sustainable/ESG-labelled and NON ESG-labelled strategy offerings, which one(s) do you apply in general? (select all that apply)



Focus on climate risk with Net Zero

In April this year, 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. 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 organisation, and the Principles for Responsible Investment (PRI).

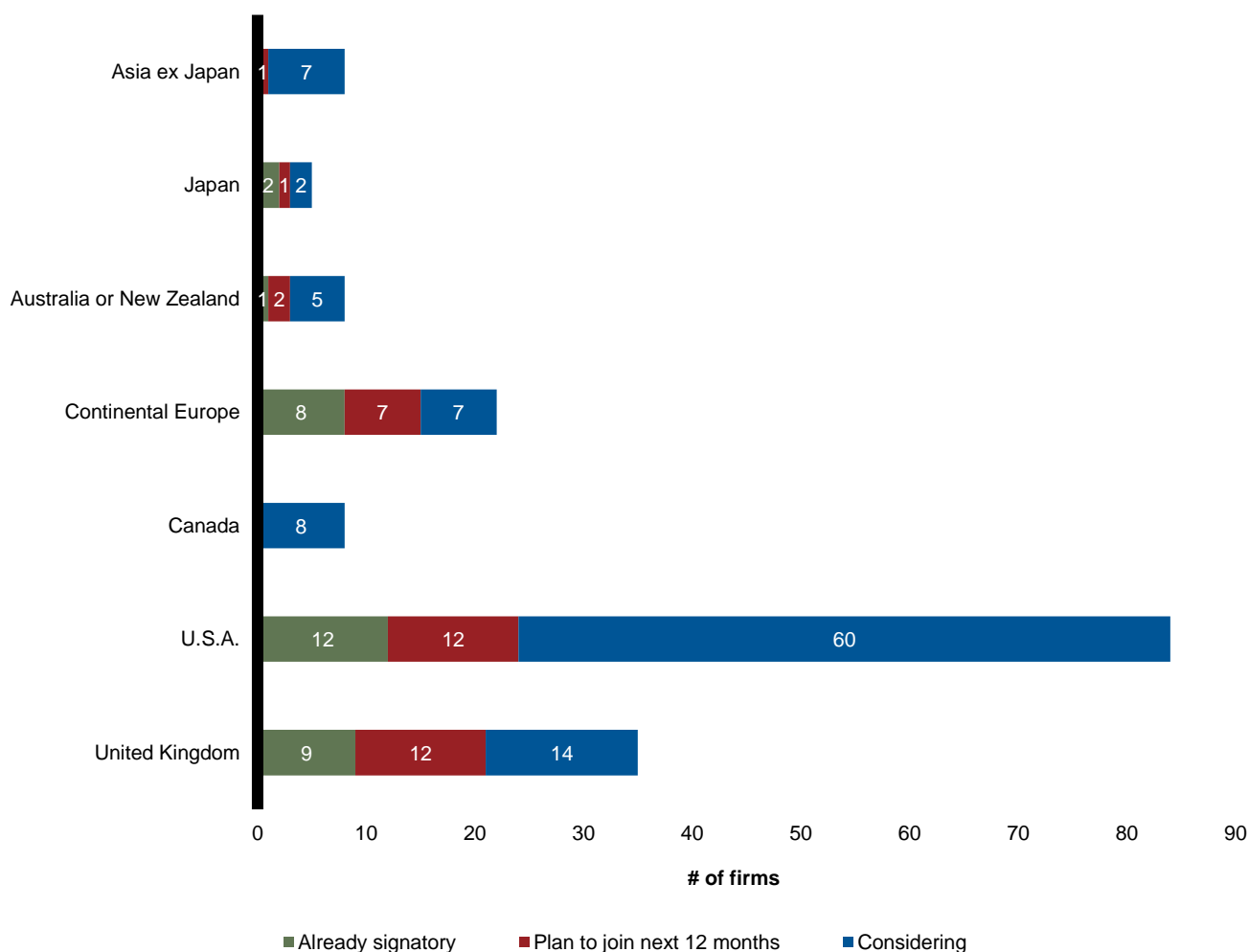
As climate change plays an integral role across the globe, with financial institutions needing to take action, we asked managers if they have signed up to the Net Zero Initiative – and if not, whether they plan on joining. As a participant in this initiative, the firm must be committed to working in partnership with its clients on goals consistent with an ambition to reach net zero emissions by 2050 across all its assets under management.

The survey results show that asset managers based in the U.S. include the highest number of signatories, with a large proportion of those not already signed up stating that they are seriously considering it (Exhibit 19). The UK and Europe are not far behind – which is likely due to regulatory pressures and increased demand from clients seeking to align with net zero emissions by 2050.

In November 2021, the UK hosted the [United Nations Climate Change Conference \(COP26\)](#). The COP26 summit brought almost every country together to accelerate action towards the goals of the Paris Agreement and the UN Framework Convention on Climate Change. The acceleration and drive in tackling climate change across the globe is likely to significantly increase the number of asset managers signing up to the Net Zero Initiative over the coming months.

Exhibit 19: Net Zero Asset Managers Initiative

Q: If you have not signed up to the Net Zero Asset Managers Initiative, do you plan to become a signatory over the next 12 months?



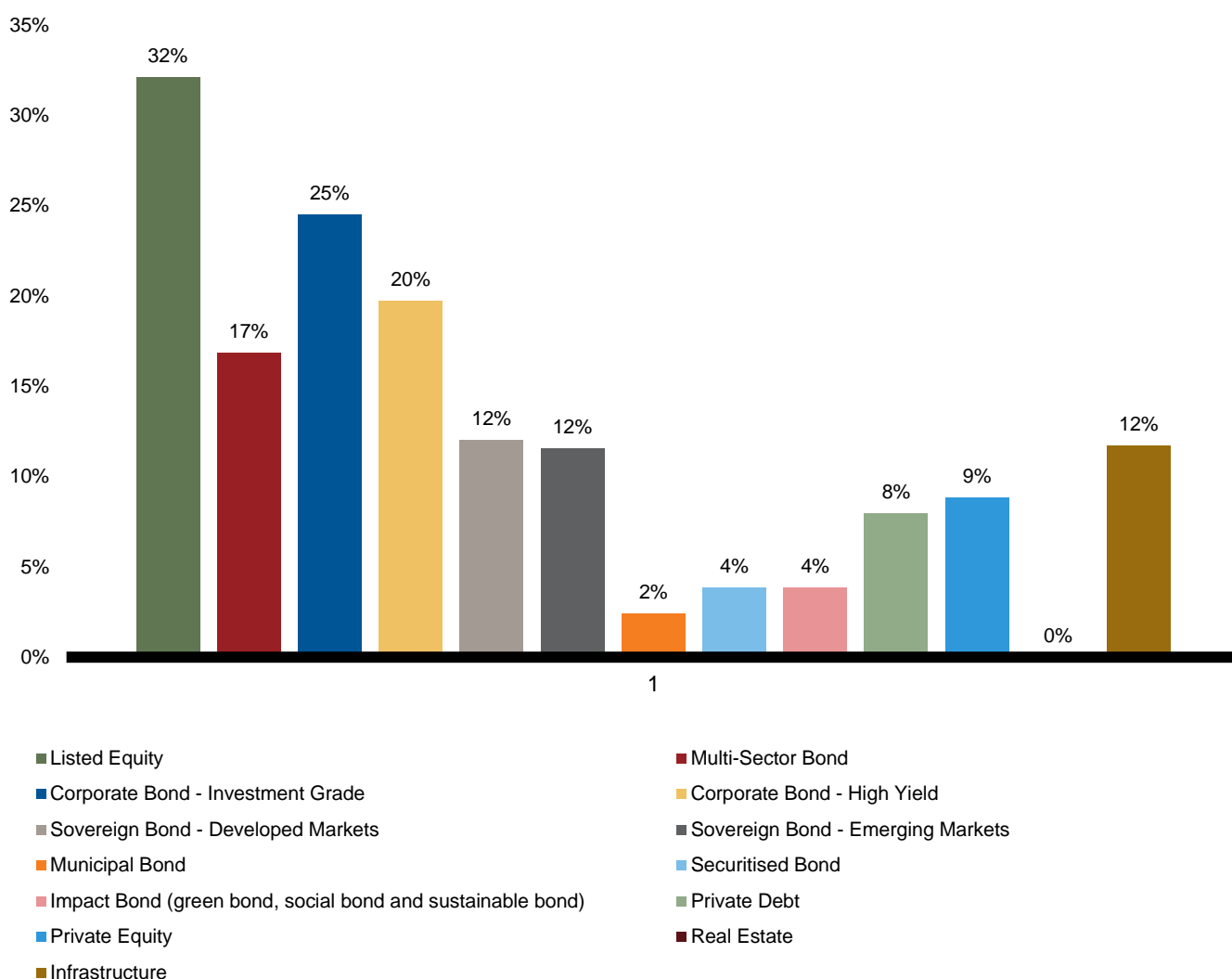
The Sustainable Finance Disclosure Regulation (SFDR)

The introduction of the Sustainable Finance Disclosure Regulation (SFDR), under EU regulation, classifies products that have met certain ESG criteria concerning the investment process or objective to be identified as Article 8 products. In order to gain further insight, we asked managers which strategies are classified as Article 8 today (Exhibit 20). Due to their greater ESG data coverage available – when compared to the other strategies – listed equity and corporate bond strategies have the highest percentage of products classified as Article 8.

The results also show that surveyed managers are not classifying real asset strategies as Article 8. Why? In the past, real assets have received scrutiny, as electricity supply, railways and airports often have high emissions. Additionally, unlike listed equity and corporate bonds, one of the biggest challenges is the commonality and comparability of data. However, despite these challenges, the transformation of the energy sector and the industrial sector will require vast amounts of investment. This will be an opportunity for investors seeking sustainable objectives in these asset classes, as opportunities arise and new standards are established.

Exhibit 20: The Sustainable Finance Disclosure Regulation Article 8 classified today

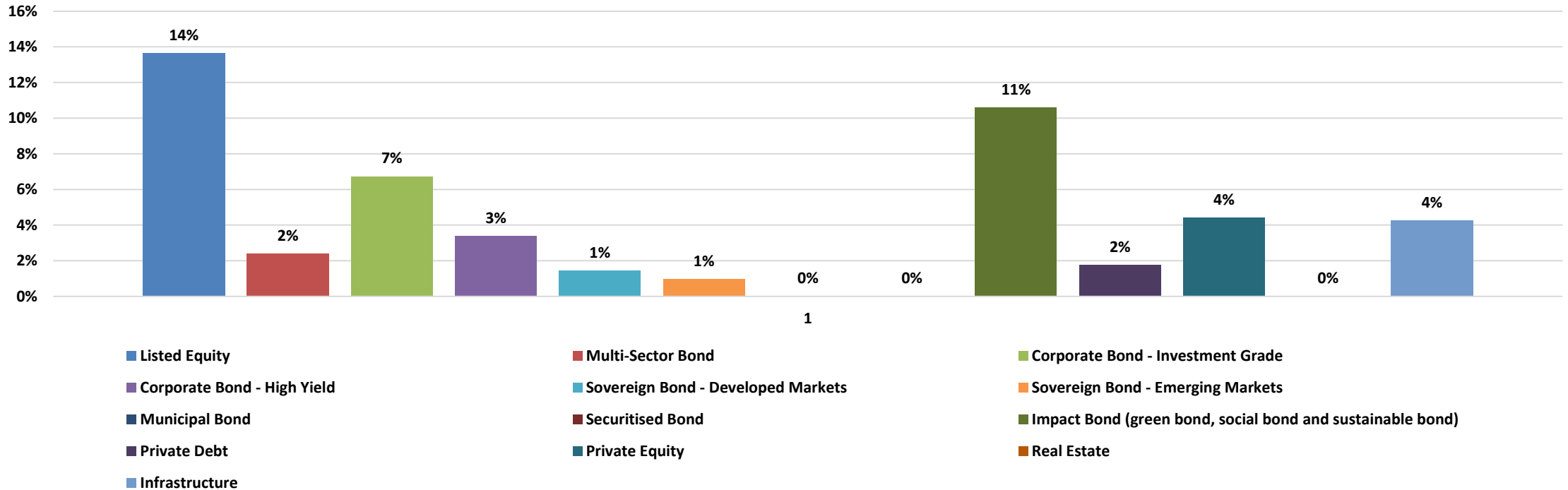
Q: Based on the Sustainable Finance Disclosure Regulation (SFDR) under the EU Regulation, which strategies are classified as Article 8 today? (select all that apply)



SFDR Article 9 classified today

By strategy

Q: Based on the Sustainable Finance Disclosure Regulation (SFDR) under the EU Regulation, which strategies are classified as Article 9 today? (select all that apply)



- Current Article 9 status highest among listed equity, followed by impact bond strategies

Source: Russell Investments at September 2021

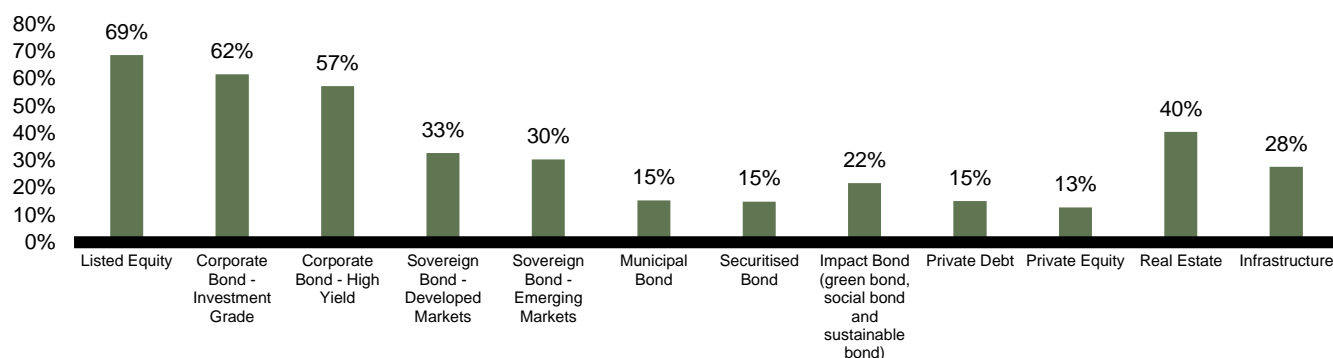
Climate data coverage inconsistencies

The spotlight continues to shine on the demand for climate metrics. The increased urgency has resulted in third-party data providers expanding the climate-related metrics available.

Currently, many asset managers focus on scope 1 (which covers direct emissions from owned or controlled sources) and scope 2 (which covers indirect emissions from the energy generation of the reporting company) of the entities they invest in. There is a growing desire to capture scope 3 data as well, which would include all other indirect emissions that occur in a company's value chain. This data is still considered unreliable. However, the availability of climate metrics in the market varies greatly depending on strategy type. In order to gauge the current status of climate data availability, we asked asset managers which investment strategy types currently provide carbon-intensity data (Exhibit 21). Listed equity, followed by public corporate bonds, have the highest coverage for climate data. Other areas, such as the sovereign bond segment, are gaining more attention for their climate metric availability, but still have a long way to go. When comparing climate data across different asset classes, it is important to be mindful of differing measurements. For example, a popular carbon intensity measure used in the corporate bond market is the Weighted Average Carbon Intensity (WACI) - which calculates the carbon intensity as metrics tons of greenhouse gas (GHG) emissions per million sales for corporate bond issuers. On the other hand, a common carbon emission measure for sovereign bond issuers is the use of GHG emissions divided by GDP or GDP per capita. The climate measures of those two segments are very different, making it a challenge to consolidate the two segments.

Exhibit 21: Carbon measure data availability

Q: which one(s) do you have externally-produced quantitative data available for carbon emission? (select all that apply)



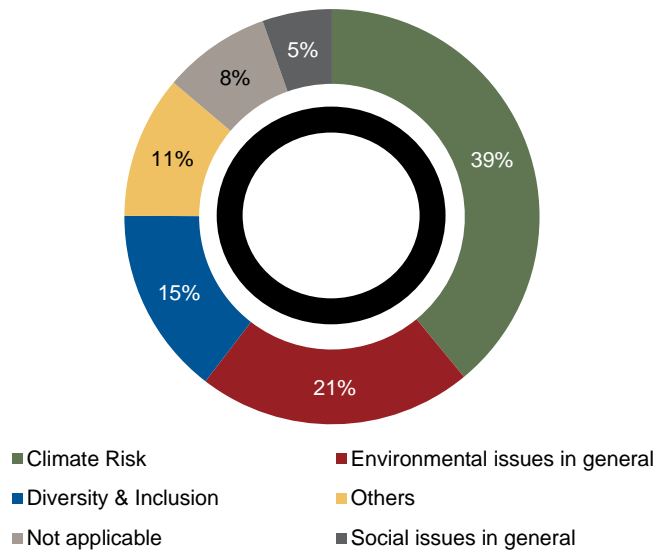
The greatest ESG issues for asset managers' clients

As ESG considerations cover a wide range of topics, we asked the survey participants to select the single largest ESG issue they tend to hear from their client base (Exhibit 22). With financial regulators making it a priority and asset owners continuing to highlight the growing urgency around climate change, it was no surprise that climate risk was flagged as the greatest issue relating to ESG that the respondents hear from their client base. Specifically, 39% of the respondents selected climate risk, followed by 21% for environmental issues in general. 15% of the respondents selected Diversity, Equity and Inclusion (DEI) as being the top ESG issue. Among the respondents who selected "Others" in this section, many cited that both climate risk and DEI are equally seen as a consistent issue.

While DEI is an important social issue, only 5% of the respondents selected social issues in general. However, a large number of respondents that selected "Others" also cited how concerns on social issues are increasing. Based on our conversations with asset managers and our client base, we believe that this result understates DEI concerns, due to climate risk being a dominant factor. In other words, it's not that DEI is less important, but rather, it likely speaks to the urgency of climate risk control across the globe.

Exhibit 22: The single biggest ESG issue hearing from the clients

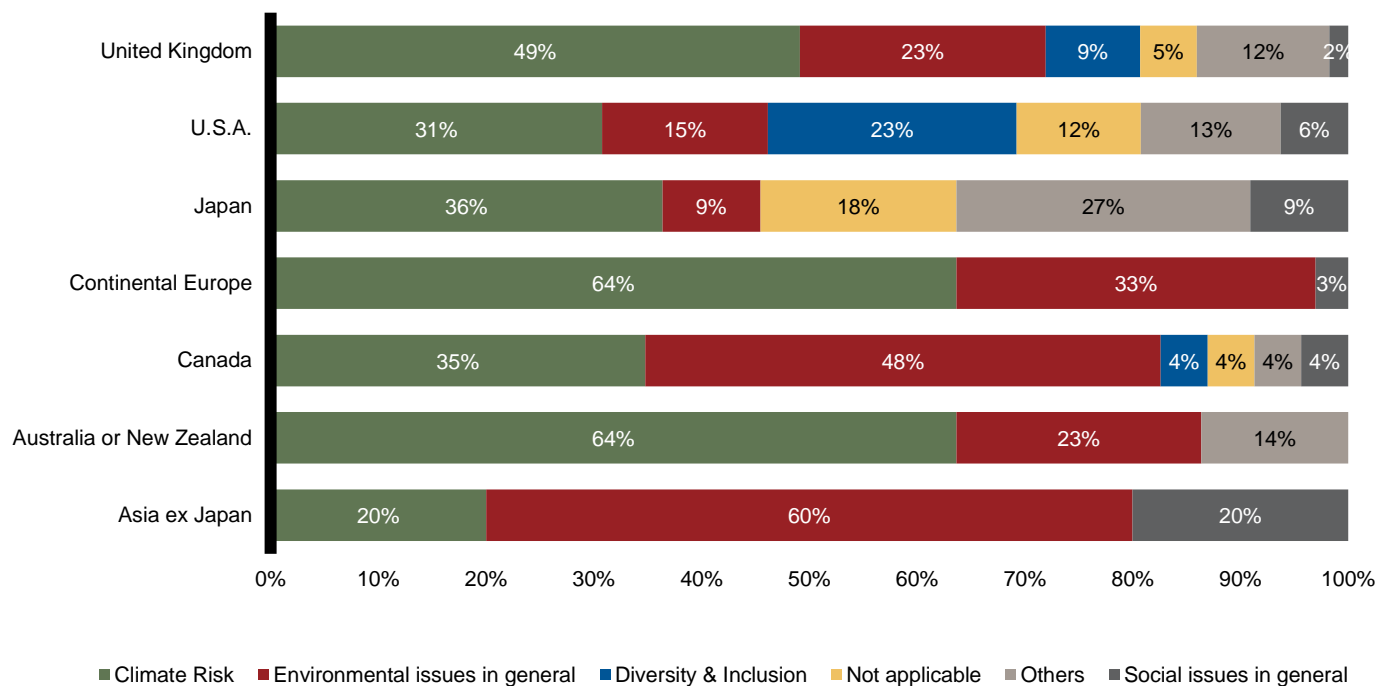
Q: What is the single biggest ESG issue you hear the most from your client base?



To further look into the client voice around ESG issues, we showed the same response by regions (Exhibit 23). The client base in Continental Europe and Australia or New Zealand, followed by United Kingdom, selected climate risk as being the highest ESG concern. Combining climate risk and environmental issues, the client base in Continental Europe, Australia or New Zealand and Canada had the largest weight in the environmental-related topics. DEI was the most prominent concern in the U.S., where 23% of U.S. based firms cited it as the biggest ESG issue they hear from their client base. The United Kingdom was the second region, where 9% of the respondents selected DEI as being the biggest ESG issue. The COVID-19 pandemic, amongst other events, have created a heightened sense of awareness around social inequality.

Exhibit 23: The single biggest ESG issue heard from the clients by region

Q: What is the single biggest ESG issue you hear the most from your client base?



Diversity, equity and inclusion statistics for asset managers

There is a growing effort to promote diversity, equity and inclusions (DEI) practices in the asset management community, in an attempt to recruit and retain a more diverse talent pool, increase employee engagement through diverse representation and empower broader perspectives and thinking. The DEI issues have gained heightened interest during the COVID-19 pandemic – with the focus on tackling the societal challenge of inequality in the workplace. The application of supportive DEI efforts is necessarily multi-faceted, as diversity issues across gender, ethnicity, sexual orientation, disabilities and social background.

The investment industry has a lack of diversity. We asked participants what the female representation is at the following levels: total firm, investment team, senior investment team and board membership. We also asked the same set of questions about ethnic minority representation. Generally speaking, we have observed that the disclosure is greater for gender than ethnicity – likely due to the fact that some firms only have data on the gender of their employees (often due to legal prohibitions or other difficulties in gathering information about ethnicity). For instance, 94% of the respondents disclosed the percentage of their total female employees and only 75% for the ethnic minority.

Well-executed diverse thoughts and perspectives should lead to favourable investment outcomes. Therefore, we asked firms what percentage of their senior investment professionals are female (Exhibit 24). The definition of senior investment professionals can vary depending on the firm, due to many firms having varied organisational structures. To take this into consideration, we left the interpretation of senior investment professionals up to the respondents. Among the firms which responded to this question, 72% of the firms have less than 20% female senior investment professionals. Female senior investment professional representation was greater in Asia ex-Japan, Canada and the UK. As for ethnic minority status among senior investment professionals, we couldn't make a conclusive statement due to a large no-response volume (Exhibit 25). However, we did receive a reasonable response rate for the ethnic minority status for U.S. based firms. The results show that U.S. based firms' senior investment professional ethnic minority representation was slightly higher than gender diversity.

Exhibit 24: Female representation in the senior investment team

Q: What percentage of your firm's senior investment professionals are women?

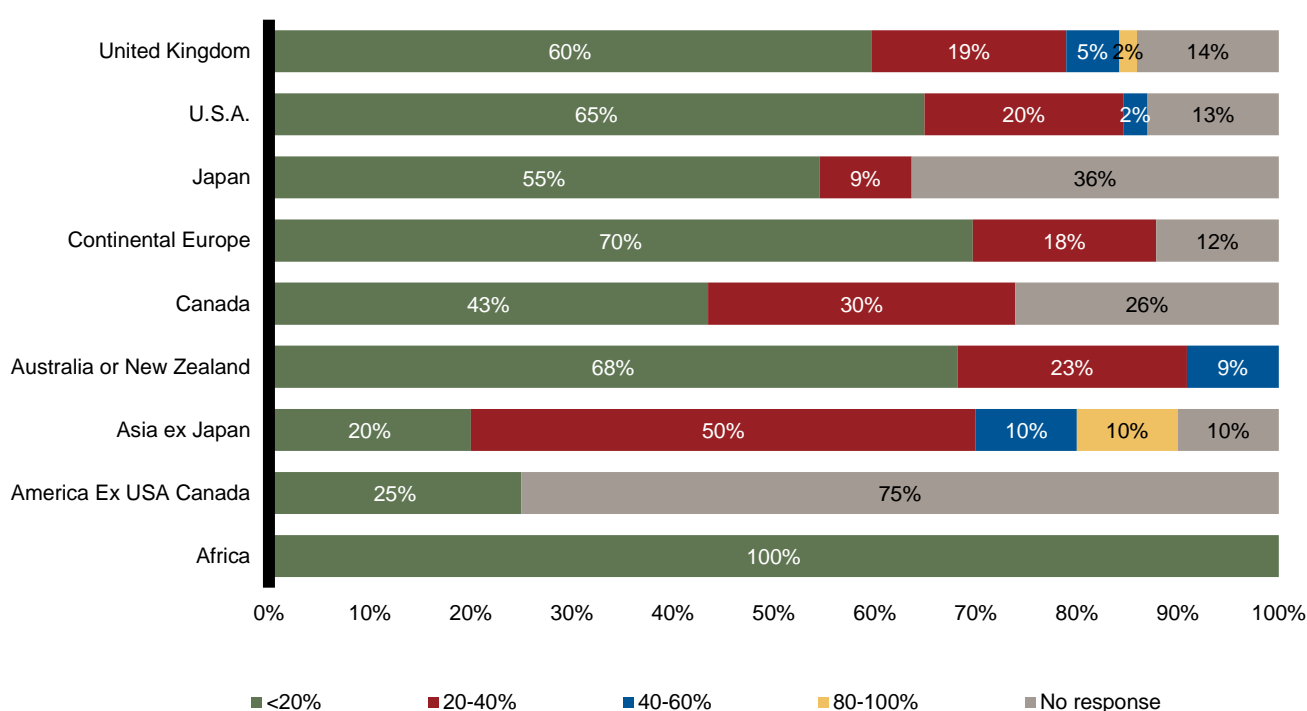
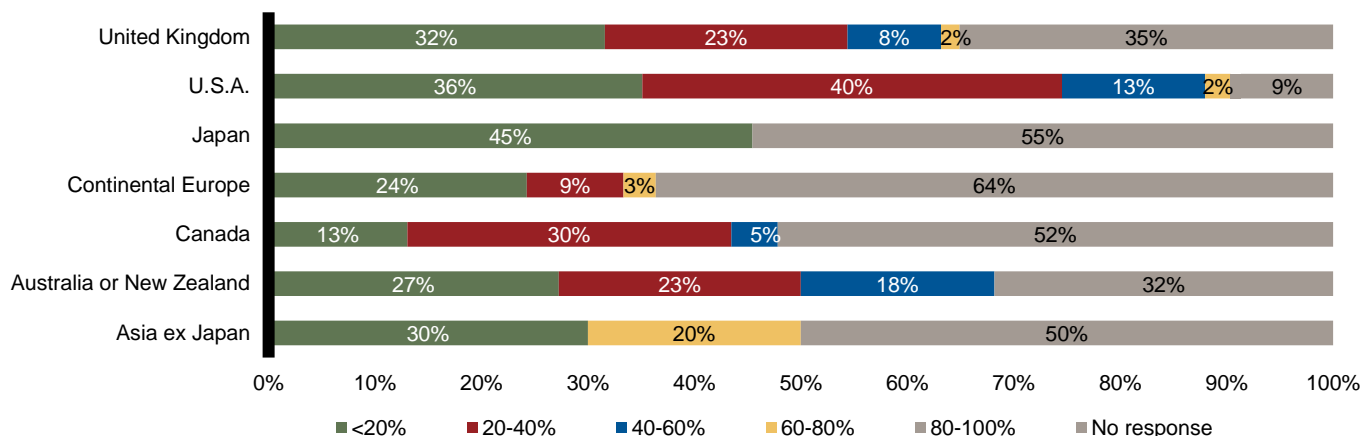


Exhibit 25: Total employment status for ethnic minority

Q: What percentage of your firm's employees identify themselves as a member of a minority group?



When asked to disclose the gender diversity amongst board memberships, we found marginally greater diversification in board membership, compared to the gender diversity among senior investment professionals. In the U.K., U.S. and Continental Europe, the results show that these regions had the greatest gender diversity in board membership (Exhibit 26). Finally, the gender representation in board membership was greater than the ethnic minority representation. (Exhibit 27).

Exhibit 26: Female board membership representation

Q: What percentage of your firm's board members are women?

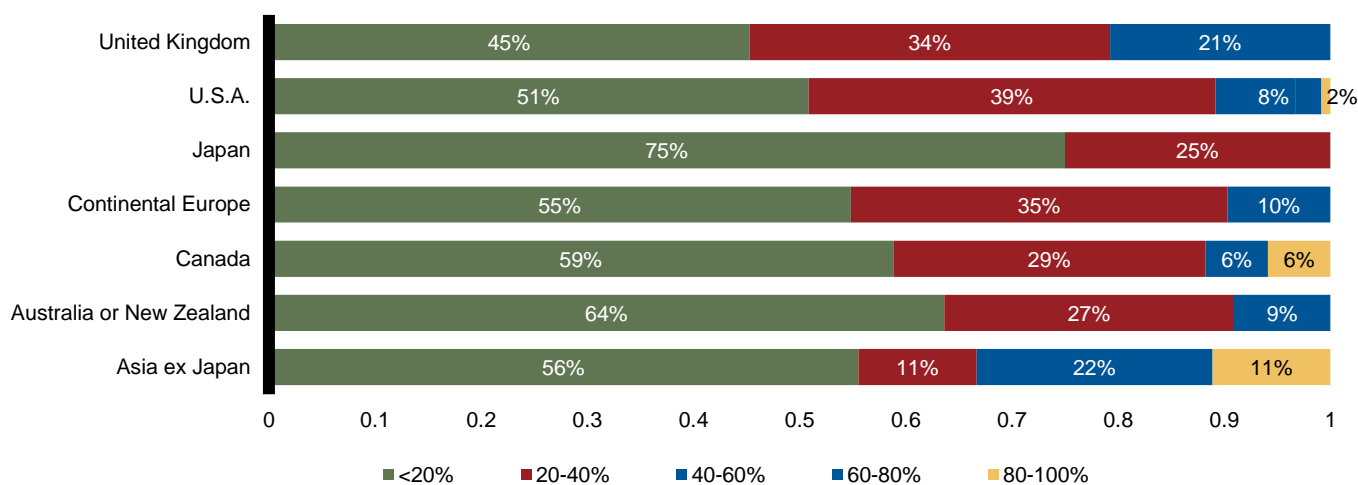
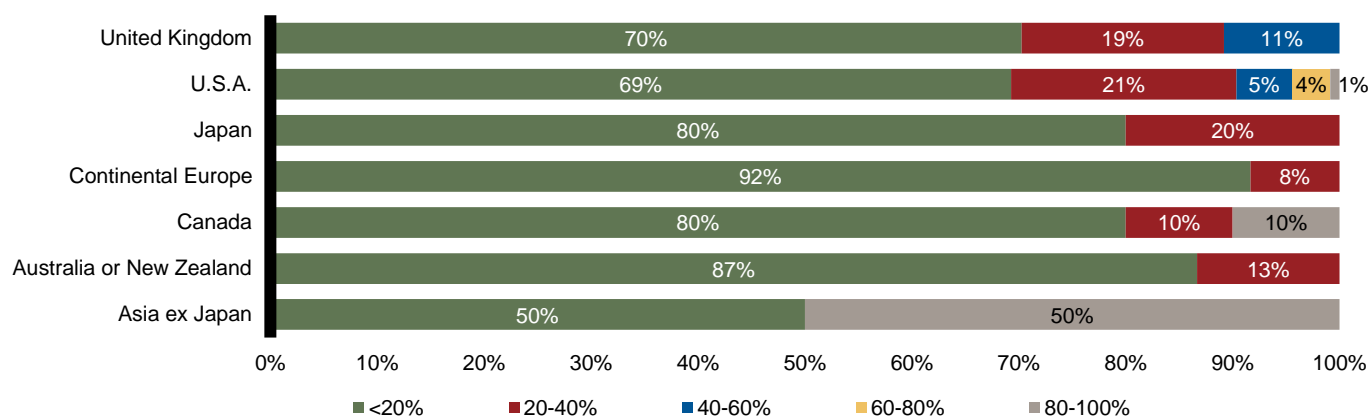


Exhibit 27: Ethnic minority board membership representation

Q: What percentage of your firm's employees identify themselves as a member of a minority group?



Summary: Examining ESG considerations in more detail

The 2021 Russell Investments ESG Manager Survey revealed a continuously high level of ESG awareness and increasing integration of ESG data and analysis into investment processes within asset management. The survey results conclude that while the starting point varies, many asset managers are evolving their ESG integration practices to capture material ESG-related information in their investment processes. Many firms have moved their ESG integration practices from *making a gesture* to meaningful compliance. Others have shown greater commitment, such as identifying material ESG-related information and incorporating such inputs into key investment decisions. Ever-growing regulatory pressure and client demand are further pushing ESG integration practices, with no end in sight. The speed of adoption creates its own issues, and many asset managers are trying to navigate through rapid adaptation and expansion of ESG integration.

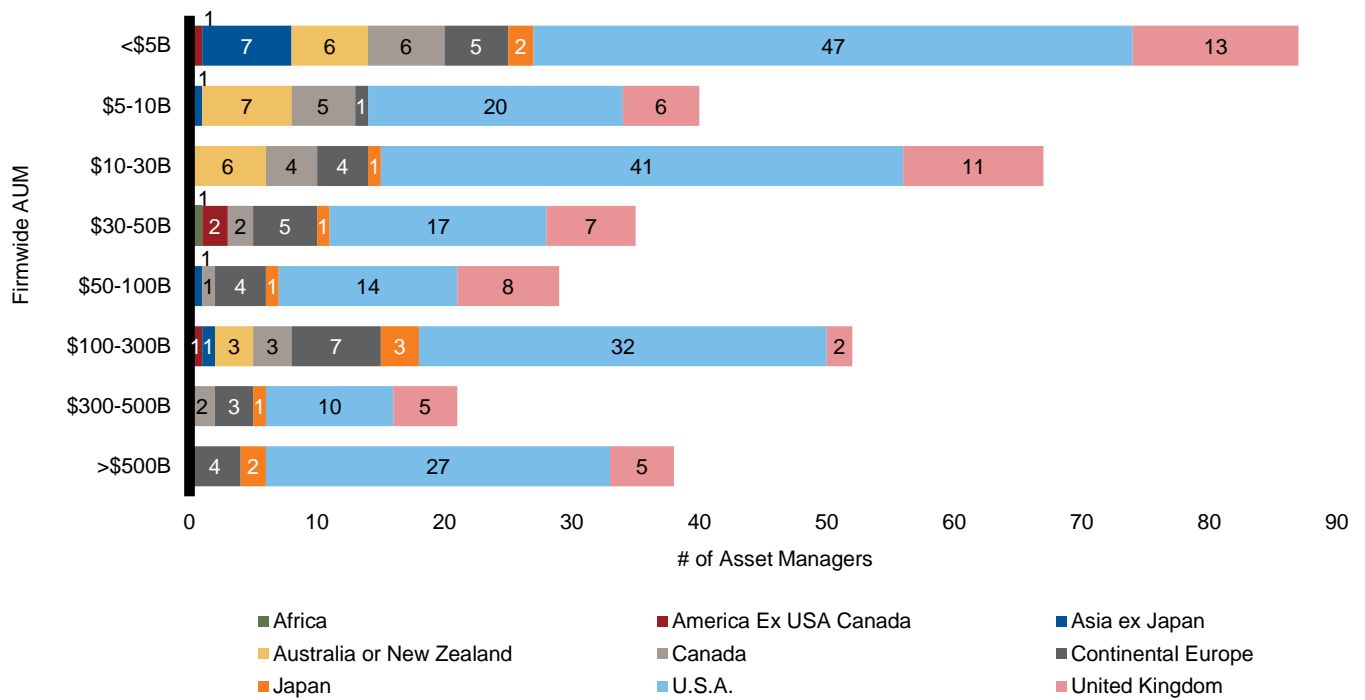
ESG metrics continue to expand as well, along with ESG data providers, where more asset managers are using multiple data providers to broaden ESG-related awareness and perspective. An increased number of asset managers are forming their ESG insights within house views, supplemented by external ESG data providers. As engagement was cited as the most popular ESG information source, these activities further expand among fixed income managers. An increasing number of firms are incorporating additional ESG metrics into their investment processes and expanding their dedicated responsible investment resources, providing greater transparency through reporting.

Russell Investments integrates ESG evaluations into its manager research practice. As a vital part of the manager strategy evaluation, this ESG survey helps form our assessment of managers' ESG integrations. The results of this survey point to a marketplace that continues to evolve in the integration of ESG into practices. At the same time, measurements of actual impact on investment decisions remain vague. When financial materiality of ESG-specific consideration is high, investors take such information into consideration. But anecdotally, such instances in isolation appear rare. The link between ESG effort and a direct tie to portfolio performance to ESG considerations remains unclear. This suggests that ESG criteria are rarely strong drivers in the overall investment decisions and instead inputs to both investment decisions and other desired outcomes.

At Russell Investments, we take a holistic approach to portfolio construction and management. Our goal is to achieve best-practice ESG integration to effectively capture ESG materiality. We believe that ESG topics, including DEI and climate change, can have material impacts on capital flows, which can influence asset prices. An integrated ESG process allows ESG issues to be understood and managed holistically. We believe that this approach not only allows for the best outcomes for our clients, but for our society and planet as well.

Appendix 1

Survey population



About Russell Investments

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