Corporate Governance

Proxy Voting Principles July 2011

Russell believes that corporate governance is a crucial issue confronting the investment industry. Shareholders have a responsibility to monitor company management to exert their influence though the exercise of voting rights. Russell is an active shareholder. As such, we vote on the vast majority of issues raised at company meetings. This document summarises how we exercise these voting rights on our fund investors' behalf.

Russell recognises the standards and requirements of regulatory authorities globally, for example, the mutual fund proxy voting rules in the US, the NAPF guidelines in the UK and the ASX and IFSA corporate governance guidelines in Australia. Russell considers these regional rules, standards and concepts in establishing Proxy Voting Principles and the associated Proxy Voting Guidelines.

Russell believes that the best interests of shareholders are served when corporate governance practices support proposals that follow four key principles – increase transparency, improve accountability, ensure independence, and build long-term share value.

Transparency
Shareholders can best gauge the value of their ownership when the corporation's policies and actions are visible. This includes providing sufficient disclosure on compensation practices, capital allocation decisions, mergers and acquisitions, corporate governance structure and environmental and social issues.
Russell does not support proposals to limit shareholders' ability to see and evaluate mergers and acquisitions, evaluate tender offers or limit the ability of shareholders to reject poison pill defenses.

Accountability
Shareholder interests are best served when management is clearly accountable for corporate performance. Compensation plans providing excessive compensation without suitable links to performance, or substantial payment for failure, are contrary to shareholder interests. Compensation should be tied to objective measures of company performance. Stock or stock options should be a significant enough portion of executive compensation to align management interests to those of shareholders.

Independence
Boards of Directors, Audit Committees, and Executive Compensation Committees should be sufficiently independent of management to provide a reasonable check on management activity. The Board should be composed of a majority of independent Directors. Key committees, such as audit, compensation, or nominating committees, should be composed exclusively of independent Directors. There should be adequate disclosure of all ties between Board members, the company and company management. The company's auditors should also be independent of the company.

Long-term value
Good governance will keep a company focused on the creation of long-term value. When a company becomes too focused on short-term profits, current earnings forecasts, or analysts' estimates, good governance may be jeopardised and the fundamental soundness of the business may be compromised. Russell believes that the pursuit of goals without short term economic impact can often enhance shareholder or stakeholder interests. However, the pursuit of these types of objectives may also create

conflicts between groups of stakeholders that are difficult to resolve. Accordingly, Russell assesses the short-term and long-term impact of an issue, and considers positions that are consistent with the long-term economic best interests of shareholders.

Environmental, Social and Governance Practices

Russell believes that voting proxy rights is an important responsibility of the firm and we give it serious attention. Our primary goal is to vote in the best interest of our clients and on a globally consistent basis. Following is a summary of the key principles and procedures Russell applies to environmental, social and governance (ESG) issues related to voting proxies.

Environmental, Social and Governance Proxy Principles

Russell generally supports greater transparency, reporting and disclosure about a company's environmental and social practices. In particular, Russell supports the Global Reporting Initiative (GRI) and will vote in favor of proposals to require companies to produce an annual report following GRI standards. Russell also supports greater disclosure and transparency related to the following areas:

- Diversity and equal opportunity employment
- Human rights
- Environmental practices
- Business operations in markets with high political risk
- Product safety
- Animal welfare standards
- Political contributions
- Landmine and cluster munitions production

Environmental, Social and Governance Engagement Objective

As a manager of managers, Russell's investment research process does not include any primary research on public corporations. As a result, we are generally not able to weigh the specific costs and benefits of an environmental, social or governance (ESG) initiative or its impact on shareholder value. Furthermore, while particular ESG actions may enhance the investment case for one particular manager in a fund, it should be noted that another manager holding the security in the same fund may take a different view.

The Financial Reporting Council published the UK Stewardship Code in July 2010 in the United Kingdom. This code is arguably the highest standard on shareholder engagement and Russell seeks to follow this code. However, since Russell does not engage in primary research on individual public companies, our investment approach limits our ability to engage with companies in an informed manner, however, Russell may engage through the following means:

- Provide support to or participate in engagement efforts initiated by other investors or agents.
- Actively support greater disclosure from the companies where Russell is a shareholder.
- Review results of requests for engagement notes maintained by managers in our funds.

Voting Policies and Procedures

Russell's Proxy Voting Committee establishes and oversees Russell's proxy voting policies, procedures and guidelines, and votes the proxies. It is comprised of three or more members at any particular time, and each member is an investment professional employed by Russell or one of its subsidiaries. The committee reviews the Policies and Guidelines at least annually and can make amendments as necessary. The committee also addresses proxies that are not covered by current policies and guidelines and documents the rationale for proxies that are not voted in accordance with policies and guidelines or pursuant to the recommendation of the proxy administrator.

Russell's Investment Manager and Security Services department acts as the proxy coordinator responsible for the day-to-day administration of proxy voting. The proxy coordinator also manages all third party communications in connection with proxy voting, including communications with clients, money managers, proxy solicitors and issuers and maintains appropriate records.

Russell may hire a third party service provider as proxy administrator to be responsible for performing certain research services and proxy voting execution services subject to ongoing supervision by the proxy coordinator and oversight by the Committee. The proxy administrator will not be an affiliate of Russell Investments. Russell retains final authority and fiduciary responsibility for proxy voting at all times. Russell has appointed ISS to provide corporate governance research and proxy voting execution services.

The proxy administrator conducts appropriate research with respect to each matter presented for a vote, evaluates each matter under the Guidelines and can take action consistent with the Guidelines. When proxies present unique issues or topics not specifically set out in the Guidelines, the proxy administrator will refer the item to Russell with an explanation and a recommendation. The Proxy Committee uses this information and may obtain input from managers, to make a decision on what action to take.