Mercer

welcome to brighter

2023

Sustainability Policy

Mercer Investment Solutions

Sustainability Policy

A business of Marsh McLennan

Contents

Introduction and Policy Scope

This Sustainability Policy (the "Policy") sets out the key principles and guidelines used by Mercer Investment Solutions (Mercer IS)[1] entities to consider and respond to sustainability risks and opportunities and Environmental, Social and Corporate Governance (ESG) factors in investment process decision-making for the Mercer Funds[2] ("the Funds").

Mercer IS partners with long-term institutional investors, including pension funds, insurance companies, endowments, foundations, and other investors. Mercer IS does not typically directly select securities; instead, it selects and combines specialist third party sub-investment managers (managers) into segregated mandates within the Funds to implement the day-to-day investment management tasks. Mercer IS may also invest in pooled vehicles. For the majority of clients, these segregated and pooled arrangements are combined into the Funds and for certain clients, are combined into portfolios.

While the principles contained in this policy are broadly applied, the level of application may vary, particularly in cases where clients have a desire to implement their individual preferences. Application may also vary depending on the degree of discretion available in the arrangements, which is expected to be higher in segregated mandates relative to pooled vehicles and the degree of relevance given the asset class.

The Policy is communicated to all appointed managers with segregated mandates. Mercer IS will monitor appointed managers on their implementation consistent with this policy to encourage sustainability risks and opportunities to be considered within investment decision making.

This policy is guided by our fiduciary responsibilities and forms part of the investment governance framework for the Funds and should be read in that context. Investors should also consider the offering document for each relevant Fund.

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[1] This policy applies to Mercer Global Investments Europe Limited ("MGIE") in its capacity as investment manager of the Irish domiciled funds for which Mercer Global Investments Management Limited acts as management company, and reference to Mercer IS throughout should also be interpreted to cover these entities.

[2] "Mercer Funds" are any collective investment scheme, including investment companies, common contractual funds, unit trusts and limited partnerships, for which MGIE or any affiliate serves as discretionary investment manager. This includes the Mercer Ireland domiciled UCITS and AIFs for which MGIE acts as Management Company or Alternative Investment Fund Manager respectively. For further information, please see the "Important Notices" section of this policy.

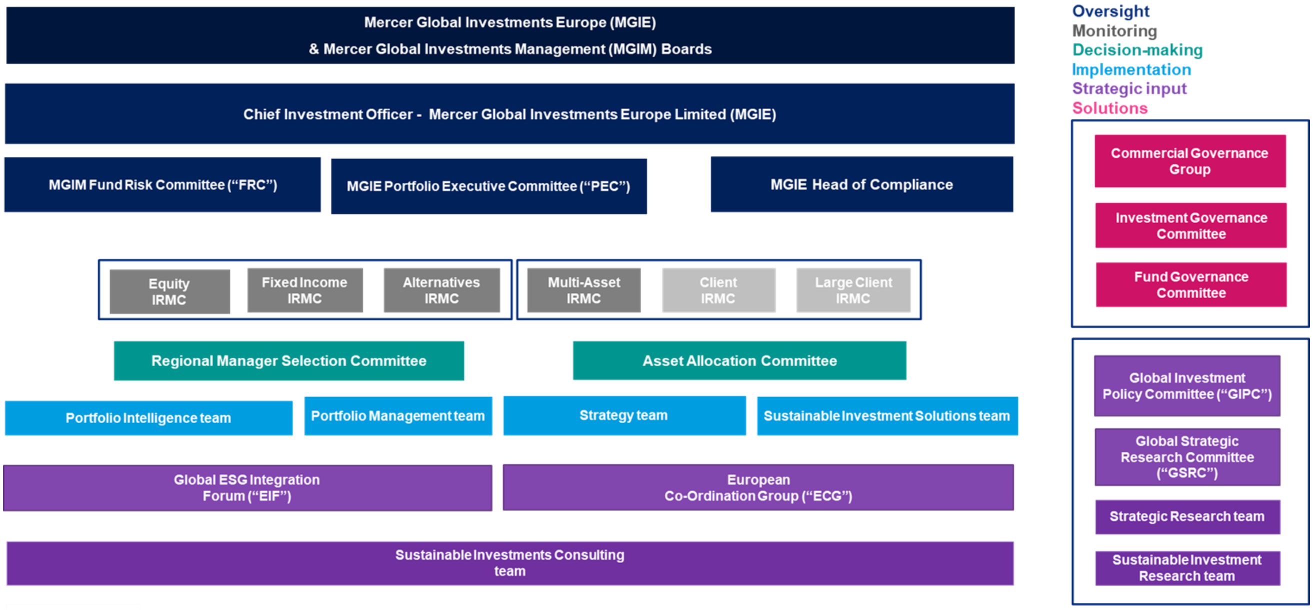
The Policy includes the following areas, namely:

- **Governance and Implementation**
- **Sustainable Investment Beliefs**
- **Integration of sustainability risks and opportunities**
- **Climate change**
- **Stewardship**
- **Exclusions**

Governance and Implementation

Mercer IS has established a clear governance structure with responsibilities allocated at board and management levels with inputs and oversight by global team members and integration responsibilities across the business, illustrated in the diagram below.

Figure 1: Governance Structure



Sustainability is embedded across various committees and teams with functions that include oversight, guidance, advice and strategy, and implementation. The table below further describes the responsibilities and key stakeholders involved in decision-making on sustainability risks and opportunities activities across the organisation.

MGIM and MGIE Boards ("the Boards")	The Board of Directors for MGIE and MGIM	Responsible for approving the adoption of the Policy and reviewing updates from Mercer IS on the implementation of the Policy.
MGIE CIO	Chief Investment Officer for MGIE	Responsible for integrating sustainability considerations into investment strategy and adopting processes and practices to manage sustainability risks across portfolios.
MGIM Fund Risk Committee	MGIM and MGIE senior management across Compliance, Portfolio Intelligence, and Portfolio Management	Provides regulatory investment risk oversight on the Funds, including oversight on the sustainability characteristics which the Funds have committed to under the SFDR.

Portfolio Executive Committee	Chaired by the CIO, consists of senior members from the Portfolio Management and Sustainable Investment Solutions teams	Oversees Mercer IS's key regulatory responsibilities, and sustainability implications on the Funds and portfolios.
Head of Compliance	Chief Compliance officer for MGIE	Responsible for monitoring for compliance with regulatory requirements.
Investment Risk Management Committee (IRMC)	Representatives from Portfolio Intelligence and Portfolio Management teams across each asset class	Provides quarterly monitoring of sustainability risks on the Funds, including the relevant sustainability characteristics IS have committed to promoting and monitoring under the SFDR.
Global OCIO SI Forum	Representatives from the sustainable investment consulting team, OCIO team, manager and strategic research, and invited guests across the firm based on topic expertise	Meets quarterly to share best practice globally and reviewing new processes, methodologies, or policy recommendations.
ESG Coordination Group	Representatives from the European and AMEA investment, sustainable investment, compliance, portfolio intelligence, client and business development teams	Monitors progress related to the development and implementation of the policy and other ESG related matters.
Sustainable Investment Consulting Team	Subject-matter experts sitting across UK, Europe, North America, Asia, and the Pacific supporting institutional investors in their local markets in integrating sustainability across investments	Dedicated members from the SI Consulting team provide thought- leadership and guidance on regulatory developments, stewardship approaches, themes and opportunities relating to investing sustainably and insights on sustainability considerations across different asset classes and strategies, to the SI Solutions team.
Client Management Teams	Comprised of client directors, managers and analysts across Europe and UK	Responsible for day-to-day management of IS clients and supporting clients in delivering on their sustainability objectives with support from the SI Solutions team.
Sustainable Investment Solutions Team	Implementation experts across stewardship, climate, and regulation	Responsible for translating Mercer's thought leadership and best practice into clear policies and processes for implementation into portfolios by various teams across the business.
Portfolio Management Teams	Portfolio managers and analysts across Europe and UK, reporting to the Head of Portfolio Management	Responsible for the implementation of the policy and embedding sustainability considerations across investment activities, more specifically in identifying, assessing, monitoring and managing sustainability risks and opportunities within the Funds.

Responsibility for continued compliance with this policy extends across many areas of the Mercer IS business, with employees expected to support Mercer IS in undertaking its activities in a responsible manner. Employees are expected to include sustainability considerations, where possible, and relevant, in their roles and in their decision-making process. To promote sound and effective management of sustainability risks, Mercer IS has further adopted remuneration policies that are consistent with promoting greater recognition of sustainability risks across Mercer IS's activities. Sustainability-related goals are also set and form part of the investment teams performance-related goals each year.

Mercer IS has documented processes aimed at delivering on the expectations contained in the policy. Annual work plans provide a framework to deliver on policy implementation and assist with internal monitoring and oversight from various committees.

Sustainable Investment Beliefs

Globally, Mercer believes integrating sustainability considerations into its investment approach is more likely to create and preserve long-term investment capital and, more specifically, that:

1 **Sustainability and ESG factors** can have a material impact on long-term risk and return outcomes and should be integrated into the investment process.

2 **Climate change poses a systemic risk,** and investors should consider the potential financial impacts of both the associated transition to a low-carbon economy and the physical impacts of different climate outcomes.

3 **Stewardship** can help the realisation of long-term shareholder value by providing investors with an opportunity to enhance the value of companies and markets.

4 **Taking a broader and longer-term perspective on risk,** including identifying sustainability themes and trends, is likely to lead to improved risk management and new investment opportunities.

Consequently, Mercer IS believes that an approach that considers these risks and opportunities is in the best interests of our clients.

Mercer IS's preference is to emphasise integration and stewardship approaches, however, in a limited number of instances, exclusions of certain investments may be necessary to respond to regional regulatory or client expectations.

Integration of Sustainability Risks and Opportunities

Mercer IS expects its appointed managers to assess and reflect sustainability risks and opportunities in security or asset selection and portfolio construction. The degree of relevance or materiality varies across asset classes and type of investment strategy the managers use.

The table below contains examples of ESG factors that may lead to sustainability risks and have a potential impact on the value of an investment, and may be considered by our appointed investment managers:

Figure 2. ESG Factors

Environmental	Social	Governance
• Climate change • Water • Waste and pollution • Nature & biodiversity loss	• Labour standards and modern slavery (including the supply chain) • Human rights and community impacts • Health and safety • Social inequality • Demographics/ consumption	• Board diversity, composition, independence and effectiveness • Executive remuneration • Conduct, culture and ethics • Shareholder rights

An investment managers' ESG capabilities and the extent of ESG integration within a strategy form an important part of the Mercer IS investment manager selection process. During the investment manager selection process and on a periodic basis, Mercer IS will qualitatively assess an investment strategy's level of ESG integration in the investment process, including ESG resourcing by the investment manager. This is done by drawing on the ESG ratings and commentary ('ESG Ratings') from the Mercer Manager Research team ('MMR'). MMR's ESG Ratings range from ESG1 being the highest, to ESG4 being the lowest. MMR largely undertakes a qualitative assessment of an investment manager's ESG capabilities based on desk-based research as well as meeting with their key investment and ESG personnel. See Appendix A for further details about MMR's ESG Ratings process for both active and passive strategies.

Where relevant and aligned with the investment strategy and objectives of a Fund, Mercer IS has a preference to appoint investment managers with higher ESG Ratings (i.e. ESG1 being the highest) rather than lower. Comparisons are also made with the appropriate universe of strategies in Mercer's global database to provide a relative position to similar strategies.

Mercer IS also offers a number of funds that apply additional sustainability criteria (identified as such in their relevant offering documentation). One of these additional criteria includes selecting investment managers or strategies with higher ESG Ratings, typically ESG1 or ESG2.

ESG ratings at Sub-Fund level and Sub-Investment Manager level are monitored at quarterly IRMCs. Mercer IS may engage with its appointed investment managers, particularly those with a lower ESG rating, to encourage them to improve their ESG integration practices. We also may engage with appointed investment managers to seek alignment with Mercer's ESG priorities such as climate change (see our Investment Approach to Climate Change).

Mercer IS also uses third-party ESG research to monitor certain multi-client Funds across areas including:

Companies with potentially high severity ESG-related risks, as flagged according to the UN Global Compact (UNGC) Principles, which relate to human rights, labour, environmental and corruption issues. Further detail is provided in the Engagement section below.

Diversity metrics, such as the percentage of women on boards, which is consistent with Mercer's belief that diversity in all its forms matters and that diverse decision-making teams with shared values, are more likely to outperform. This view on diversity also applies to appointed managers, where relevant, where Mercer includes diversity metrics as a factor within monitoring processes, including through relevant questions in the annual manager engagement survey and within review meetings with managers.

As part of its commitment to promoting diversity, Mercer IS is a member of the 30% Club Ireland Investor Group and a signatory of the UK Chapter of the 30% Club.

At the entity level, in accordance with the Sustainable Finance Disclosure Regulation ("SFDR") Mercer IS also consider the principal adverse impacts of investment decisions on sustainability factors. More detail on this is provided in the Principal Adverse Sustainability Impacts Statement.

Mercer IS believes that including exposure to strategies that identify longer-term environmental and social themes and the companies delivering solutions is likely to lead to improved risk management and new investment opportunity discoveries. In addition to specific allocations to products, which promote environmental and social characteristics and target sustainable investment objectives, allocations can include a broader sustainability lens by tilting portfolio profiles toward recognition of sustainability risks. Our selection and monitoring processes for potential and appointed managers consider exposures and themes in portfolio construction decisions.

Mercer sees rapid developments underway in how investors approach sustainability. Most notably, regulatory initiatives redefine sustainable investment in key global jurisdictions today and the importance of the United Nations Sustainable Development Goals (SDGs). The SDGs signpost interconnected global challenges across social and environmental issues and related investment themes. Mercer IS may use the data and tools of third-party data providers to measure the extent to which companies (for the listed equity and corporate credit holdings) products and services contribute to (or detract from) sustainability challenges, as grouped by the SDGs.

For individual Mercer Funds and portfolio solution pre-contractual information and sustainability risk integration details please visit our dedicated sustainability website.

Climate Change

Mercer believes climate change poses a systemic risk and recognises that limiting global average temperature increases this century to “well below two degrees Celsius”, as per the 2015 Paris Agreement, is likely to be aligned with the best financial outcome for long-term diversified investors, such as those who typically invest in the Funds.

Mercer IS supports this end goal and increasingly seeks to align portfolios with this goal where this is also consistent with meeting stated investment objectives. This is demonstrated by Mercer IS’s target to achieve net-zero absolute portfolio carbon emissions for our model discretionary portfolios and the majority of our multi-client, multi asset Funds by 2050.

To achieve this, Mercer IS plans to reduce portfolio relative carbon emissions by at least 45% from 2019 baseline levels by 2030.

Achieving the net zero target relies on some key assumptions including:

1. The prevalent climate science at the time the target was set, recommending a net zero target date of 2050.
2. Mercer’s climate scenario analysis, indicating a 2°C or below scenario is considered to be in investors’ best interests.
3. The availability of sufficient investment strategies, solutions, asset level climate data and industry frameworks that allow investors across asset classes to decarbonise while meeting investment objectives.
4. An expectation that governments will follow through on their own commitments to ensure the objectives of the Paris Agreement are met.

This decision was supported by insights gained from Mercer’s Investing in a Time of Climate Change (2015 and 2019) reports, Mercer’s Analytics for Climate Transition (ACT) tool and advice framework, and through undertaking climate scenario analysis and stress testing modelling of Mercer IS’s diversified portfolios, asset classes and sectors.

Mercer’s approach to managing climate change risks is consistent with the framework recommended by the Financial Stability Board’s Task Force on Climate-related Financial

Disclosures (TCFD), with Mercer IS's 'Our investment approach to climate change' report, highlighting Mercer IS's approach to the TCFD framework in more detail, including example analysis on strategy and targets and metrics. Disclosure consistent with the TCFD recommendations is also encouraged for appointed managers.

The target is expected to be met by following a climate transition plan ('the Climate Plan'). The Climate Plan aims for:

- An approach to decarbonisation which is broadly aligned with the commitments of the Paris Agreement, but accounting for the transition occurring in the real economy and understanding the different transition capacity by asset class, given liquidity and sector exposures.
- A reduction in atmospheric carbon emissions as opposed to just portfolio carbon emissions. This is measured by absolute emissions per dollar invested.

Where relevant and consistent with meeting the investment objectives as stated in the product disclosure documents, the Climate Plan seeks to incorporate key principles as follows:

- **Integration –** Incorporating climate metrics in portfolio management including investment manager monitoring and strategic asset allocation modelling.
- **Active ownership –** Engaging with appointed investment managers, via collaborative initiatives or directly with companies, to support decarbonisation and an orderly climate transition.
- **Sustainability themed investment –** Including exposure to investment managers that identify longer-term environmental and social themes and who seek to invest in companies delivering solutions to environmental and social challenges.

Progress towards achieving the stated target will be monitored on a regular basis, typically annually, considering absolute emissions and carbon intensity reductions, together with transition capacity using Mercer's proprietary Analytics for Climate Transition ('ACT') tool.

The ACT tool assesses portfolios for climate transition risk across a spectrum, with the companies within portfolios categorised as those that have high emissions and limited capacity to transition ('grey' category) to those that have low emissions and a high capacity to transition ('green' category) and the range between the two ('in-between' categories). Progress against the stated target will be included in 'Our investment approach to climate change' report, which will be available on the Mercer IS websites.

Nature and biodiversity are intrinsically linked to climate change. Crucially, climate change cannot be mitigated unless natural systems are restored around the world. As such, we are increasingly seeking to understand the interconnections between nature and biodiversity loss and our climate targets by analysing our investments and engaging with appointed managers on nature-related dependencies, impacts, risks and opportunities. As we gain a better understanding of material nature-related exposures to investment portfolios and the impacts of climate change on nature (and vice-versa), we expect a greater focus on nature in our stewardship activities and in seeking nature-based solutions to protect, manage, and restore ecosystems.

At the manager level, Mercer IS's expectation is that climate change and nature risk assessments are integrated, where relevant, within the approach to considering sustainability risks and opportunities and within stewardship activities, as well as being an integral and well-defined part of the process for funds promoting sustainability characteristics and targeting sustainability objectives and outcomes.

Stewardship

Mercer IS believes stewardship (or active ownership) plays an important role in managing sustainability risks and other ESG factors. It can help the realisation of long-term investor value through engagement and voting. We support industry standards of good governance and stewardship, such as the UK Stewardship Code 2020, to which Mercer IS is a signatory. Mercer IS was included in the initial signatories, published in 2021 by the Financial Reporting Council (FRC), with its Stewardship Code Statement made public at the same time.

Mercer IS's Stewardship Policy ("the Stewardship Policy") outlines the key principles and Mercer IS's approach to embedding effective stewardship in our investment process, including in manager selection, monitoring and reporting. A summary of the key principles is provided below.

Engagement

Mercer IS believes its appointed managers are typically best placed to prioritise particular engagement topics by security, given they are expected to have detailed knowledge of both the governance and the operations of the companies and issuers they invest in and are therefore best placed to engage on topics that are most material to each security. However, we recognise the pivotal role Mercer IS has in monitoring their stewardship activities and promoting more effective stewardship practices, including allocating appropriate time to more strategic themes and topics.

A core component of our stewardship approach centres on engagements with our appointed managers. Where relevant, portfolio managers engage with appointed managers on their overall approach to ESG integration and stewardship, including their policy statements, integration of ESG considerations across their investment processes and voting and engagement activities related to portfolio holdings.

Mercer's annual Manager Engagement Survey provides useful insights into managers' approaches to stewardship, and whether the managers' voting and engagement activities align with Mercers' own global engagement priorities.

Mercer IS screens and monitors listed portfolios for high-severity ESG-related incidents as flagged according to the UN Global Compact ("UNGC") Principles that relate to human rights, labour, environment, and corruption issues, as identified by our appointed external ESG research provider. In response to identified incidents, we will engage with the managers owning those companies and seek their views on the risk, return and reputation implications as well as engagement insights on the issue.

Via our appointed investment managers, collaborative initiatives and/or directly, we may also engage with regulators, governments, and other policy makers to recommend changes or express views on sustainable investment regulatory regimes or policy positions where this is deemed important to protect the rights, or enhance the interests, of our investors.

Mercer IS may also elect to participate, as appropriate, in collaborative industry engagement initiatives related to engagement priorities, or other topics that are considered aligned with the best interests of our clients.

Please refer to the Stewardship Policy for more detail.

Voting

As a shareholder of publicly listed companies, Mercer IS has the right to vote at shareholder meetings and regards voting its shares as important to its fiduciary responsibility.

As part of its investment model, proxy voting responsibility is given to listed equity managers with an expectation that all shares are to be voted[3] in a timely manner and a manner deemed most likely to protect and enhance long-term value. Mercer IS evaluates each sub-investment manager's capability in ESG engagement and proxy voting, as part of the selection process, to review against Mercer IS's support for good governance, integration of sustainability considerations and long-term value creation.

Mercer expects its investment managers to establish their own voting policy that sets out the principles and guidelines under which rights to vote are exercised. Mercer engages the services of a reputable third party to facilitate the collation and reporting of proxy voting data. Mercer's proxy voting records are available online via the Proxy Voting Search site, where you can search by region and company over the prior six months.

Taking a 'Super Vote'

While proxy voting is typically carried out by managers which may sometimes lead to mixed votes, Mercer IS retains the right to direct a 'Super Vote' to override a manager's vote on any resolution in circumstances where Mercer IS believes consistency on a significant matter is in the best interest of investors. While Mercer IS has not exercised this right yet, in determining such votes, Mercer IS will consider its proxy advisor's recommendation, the view of its investment managers and best practice guidelines, and Mercer's Global Engagement Priorities. Mercer IS may also conduct its own research or engage with the relevant company to inform its decision on a Super Vote in these circumstances.

Disclosure of significant votes

We have based our definition of significant votes for reporting in line with the requirements of the Shareholder Rights Directive (SRD) II on our Global Engagement Priorities, supported by our Beliefs, Materiality and Impact (BMI) Framework. Significant votes are therefore identified as those that focus on Mercer IS's priority engagement themes, while taking into account the size of holding within funds.

Reporting and disclosures

Mercer IS expects its appointed managers to report on stewardship activities and outcomes in line with established best practice, including aligning their reporting with the requirements of the EU Shareholder Rights Directive and the UK Stewardship Code, where possible.

[3] There are a number of limited circumstances where voting rights may not be exercised relating to, for example, conflicts of interest, share-blocking markets, power of attorney (POA) markets etc. Please refer to the Stewardship Policy for Voting Exceptions

Mercer IS endeavours to provide clear and transparent reporting on its stewardship activities including through the following:

On an annual basis, we publish our Stewardship Report, which sets out how the Stewardship Policy has been implemented, in line with the requirements of the EU Shareholder Rights Directive II. This report includes highlights of engagements with managers, results from our annual Manager Engagement Survey and proxy voting activities.

Our approach to the 12 principles of the UK Stewardship Code is set out in our UK Stewardship Code Report. We are a signatory of the Code and will report annually in line with the requirements of the Financial Reporting Council.

On a quarterly basis clients are able to receive fund specific information relating to the voting and certain engagement activities of the managers appointed to the funds they invest in.

Exclusions

As an overarching principle, Mercer IS emphasises investing responsibly and prefers an integration and engagement-based approach. There are however limited instances in which exclusions may be considered necessary.

Exclusions should be a last resort as, once divested, Mercer IS loses its ownership rights and thereby the ability to influence the future behaviour of companies and issuers. Even where an exclusion may be considered necessary, Mercer IS will seek opportunities to use its influence to address the underlying issue of concern with companies and issuers, regulators, and other standard setters, such as stock exchanges or industry groups, to the extent that ongoing engagement on the issue is aligned with the best interests of clients.

The reasons to exclude certain securities are likely to be a combination of factors that make continuing to include exposure to the securities in the investment universe untenable. These factors include, but are not limited to, investment beliefs, risk management, expected social impact, public policy, societal norms, investor expectations, efficacy of other responsible investment approaches such as engagement, ability to influence, and expected impact on portfolio returns.

When considering exclusions, Mercer IS has developed an Investment Exclusions Framework which helps to define our approach and set processes, including escalation steps, on responding to various ESG topics. At the heart of the framework are considerations for risk, return and reputation. The framework takes a systems-thinking approach, is evidence-based, and explicitly takes into account various dimensions important to our clients such as harmful or adverse impacts, stakeholder concerns, public policy guidance, civil society views, and portfolio materiality.

In evaluating any potential exclusion, Mercer IS considers the response to each question individually and the response to the exclusion criteria in total.

Current Exclusions

As a result of decisions supported by Mercer's Investment Exclusions Framework, certain multi-client Funds have exclusions applied. The majority of Mercer's multi-client Funds have the below exclusions applied, however, exclusions may vary between funds based on client expectations and needs, or applicability to the asset class.

Controversial Weapons

Companies that manufacture whole weapons systems, or delivery platforms or components that were developed or are significantly modified for exclusive use in cluster munitions, anti-personnel landmines, biological or chemical weapons.

Civilian Firearms

Companies involved in the production and retailing of automatic and semi-automatic civilian firearms and ammunition.

Tobacco companies

Companies involved in the manufacture and/or production of tobacco products, including cigarettes and e-cigarettes and/or companies that grow or process raw tobacco leaves (regardless of revenue), including subsidiaries and joint ventures, as well as any other company that derives 50% or more of revenue from other tobacco-related business activities such as packaging, distribution, and retail of tobacco products.

Nuclear weapons

Companies that manufacture or assemble nuclear warheads, nuclear missiles, components (incl. fissile materials) and/or delivery platforms and companies providing auxiliary services related to nuclear weapons.

Mercer IS also manages a number of Funds that promote environmental and/or social characteristics or target a particular objective such as alignment with the Paris Agreement. These funds have additional exclusions designed to align with product characteristics and objectives – please see relevant product disclosures on our dedicated website for further information.

Document Responsibilities

Review

This policy will be reviewed regularly, typically annually, or more frequently if meaningful change is made to the integration of sustainability risks into the investment process, or relevant legislation or regulation requirements change.

Approval and Amendments

Despite any provision to the contrary, management may amend this document to:

- Correct any grammatical, typographical or cross referencing errors
- Reflect non-material changes to operational procedures
- Reflect any non-material changes required by law, a regulator or internal/external auditors

The amendment must be approved by any one member of both the MGIE Portfolio Management and Sustainable Investment Solutions Team, with consultation with a member of the Sustainable Investment Consulting Team. The Boards and the CIO must approve all other amendments to this document.

Revision History

Version	Reason for amendment	Date
1	Sustainable Investment Policy first formalised.	June 2015
2	Inclusion of climate change considerations in line with the 2017 update to Mercer's global investment beliefs.	November 2017
3	Inclusion of Exclusions and monitoring of UNGC breaches and amendments to reflect stewardship approach given the implementation of a securities lending program.	May 2019
4	Notable updates in the sustainability section to reference the SDGs, the active ownership section on proxy voting and the engagement framework to consider requirements of the UK Stewardship Code and the EU Shareholder Rights Directive, the exclusions section to update definitions and include the implementation of exclusions across passive funds, together with layout improvements and other minor edits.	August 2020
5	Update in relation to SFDR implementation.	February 2021
6	Updates include reference to standalone Stewardship Policy, with summary information provided on Mercer ISE's approach to Stewardship; enhancements to Mercer ISE's approach to climate change modelling and transition analysis; further detail on policy implementation and governance; sign posting review of exclusions alignment across passive and active funds and signing up to the UK Chapter of the 30% Club, together with layout improvements and general tightening of policy wording.	July 2022
7	Updates to the Governance Section, removing climate change scenario modelling and transition analysis and referencing the TCFD report; removing the exclusion implementation section; and combining sustainability risks and opportunities into one section.	August 2023

Appendices

Appendix A

Mercer's ESG Ratings

The Mercer Manager Research (MMR) ESG Ratings represent their assessment of the extent to which ESG and active ownership (voting and engagement) are integrated into a strategy's investment decision making process. MMR's ESG Ratings will be incorporated into Mercer IS's investment manager selection process and ongoing monitoring, with the expectation that the ratings set minimum qualifying criteria for initial and ongoing appointments, where practicable and relevant to the strategy. Four factors are considered and documented within the research commentary and an overall rating assigned, where ESG1 is the highest possible rating and ESG4 is the lowest possible rating. The research is stored within Mercer's Global Investment Manager Database.

The four factors against which an investment manager's investment strategy is assessed are as follows:

ESG integration in the Four-Factor Framework	
Idea Generation	How does the Investment Management Team identify ESG risks and opportunities at the portfolio level? How are ideas sourced? How is the materiality determined and incorporated into financial analysis?
Portfolio Construction	How effectively does the portfolio manager translate ESG views into active positions in the portfolio?
Implementation (Stewardship)	To what extent does the investment manager engage on ESG topics at the portfolio level? How has the engagement led to a change in portfolio positioning and/or the investment horizon? What efforts does the investment manager make to minimise portfolio turnover?
Business Management (Firm-wide commitment)	To what extent do the business leaders understand and support responsible investment and to what extent are these integrated across the business? What firm-wide beliefs, policies and responsible investment strategies are in place?

The ESG Ratings represent MMR's view of the investment manager's capability in terms of what they are doing across the four factors: idea generation; portfolio construction; implementation (stewardship) and firm-wide commitment. The ratings are as below:

ESG1	The highest ESG rating is assigned to strategies that MMR believe to be leaders in integrating ESG and active ownership into their core processes, and that provide clear evidence that ESG overall, or a particular ESG theme, is embedded and core to idea generation and portfolio construction.
ESG2	The second highest rating is assigned to strategies that, in MMR's view, include ESG factors as a consistent part of decision making, with a strong focus on risk in valuation processes and commitment at the firm-wide level, including on active ownership.

ESG3	The penultimate rating is assigned to strategies for which, in MMR's view, the investment manager has made some progress with respect to ESG integration and/or active ownership, particularly on corporate governance, but for which there is little evidence that ESG factors are taken into consideration consistently in valuations and investment processes.
ESG4	The lowest ESG rating is assigned to strategies for which, in MMR's view, there is little to no integration of ESG and active ownership into their core processes.

For passive strategies, MMR apply an ESGp1 through to ESGp4 scale. There are two key distinctions between ESG ratings for passive and active strategies. First, for passive, the bulk of the focus is on voting and engagement practices. Second, for passive equity strategies, most of MMR's analysis focuses on firm-wide levels of commitment rather than at the individual strategy level.

The following rating scale will apply to passive equity strategies only:

ESGp1	The firm is a leader in its stewardship activities, undertaking voting and engagement activities at a global level rather than at just a regional level. Policies are clearly articulated and transparent, with the resources, expertise and systems in place to ensure these activities are implemented effectively. Engagement is undertaken and typically done at the company, industry and regulatory level. Voting policies also proactively address environmental and social issues in order for the investment management team to vote effectively and engage with companies (rather than abstaining or focusing only on governance issues) and there is a clear link between the voting policies, engagement agendas and voting actions.
ESGp2	This rating will typically indicate the investment manager has made clear efforts to develop a process for its voting and engagement activities, but lags the best practices in some respect (e.g. regionally strong, but working towards developing a global presence; demonstrates some strength in company and industry engagement, but not in engaging with regulatory bodies, lack of full visibility on the link between voting actions).
ESGp3	Investment managers will have some dedicated resources in place and will demonstrate some but not all characteristics of the above ratings 1-2, but the primary focus is likely to be only on governance aspects of voting and engagement. Voting and engagement will also tend to be at the regional level rather than global.
ESGp4	Managers will have few resources in place and will demonstrate some but not all characteristics of the above ratings 1-2 but will not have the same level of disclosure. Voting will typically be outsourced with limited oversight and little or no evidence of engagement. Efforts to address environmental and/or social issues, either within voting or engagement, will be limited or absent.

References to Mercer IS shall be construed to include the following entities:

Mercer Global Investments Europe Limited (“MGIE”) is regulated by the Central Bank of Ireland under the European Union (Markets in Financial Instruments) Regulations 2017, as an investment firm.

Mercer Global Investments Management Limited (“MGIM”) is regulated by the Central Bank of Ireland to act as an alternative investment fund manager (“AIFM”) under Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and as a UCITS management company in accordance with Council Directive 2009/65/EC (as amended).

MGIM acts as AIFM and UCITS Management Company to a number of Irish domiciled AIFs and UCITS, collectively referred to the “Mercer Funds”.

MGIE has been appointed as Investment Manager to the Mercer Funds. Under Regulation (EU) 2019/2088 on sustainability–related disclosures in the financial services sector (“SFDR”), both MGIM and MGIE as classified as financial market participants and the Mercer Funds are classified as financial products.

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