Disclosure on the implementation of the requirements of Article 3 of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector regarding the transparency of sustainability risk policies

Document version	• Version 1.1: Update	
Review	• Last review date: 12/12/22 • Next review date: 12/12/23	
Document owner(s)	CRO and the Conducting Officer for Portfolio Management	
Approved by	Executive Committee	14/12/2022
	Board of Managers	16/12/2022
Applicable to	▪ Mercer Alternatives (Luxembourg) S.à R.L. ▪ The members of the Board of the IFM ▪ All professionals acting for or on behalf of the IFM ▪ The Funds themselves and/or General Partners of the AIFs managed by the IFM ▪ The members of the Boards of the Funds and/or General Partners of AIFs managed by the IFM ▪ All professionals acting for or on behalf of the AIFs and/or the General Partners of an AIF managed by the IFM	

Luxembourg, 1 January 2023

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1. Legal framework

Mercer Alternatives (Luxembourg) S.à r.l. (the "AIFM") is a management company authorised by the Luxembourg supervisory authority Commission de Surveillance du Secteur Financier pursuant to Chapter 16 of the Luxembourg law of 17 December 2010 on undertakings for collective investment (hereinafter "UCI Law") and is also authorised as an alternative investment fund manager pursuant to the Luxembourg law of 12 July 2013 on alternative investment fund managers (hereinafter "AIFM Law").

2. Sustainability-related disclosures in the financial services sector

On 27 November 2019, Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosure requirements in the financial services sector (hereinafter "SFDR") was published and entered into force on 10 March 2021.

The main objective of the SFDR is to create transparency on

- how sustainability risks are considered in the management of investment funds; and
- if principal adverse impacts of investment decisions on sustainability factors (“comply or explain”) are considered in the management of investment funds.

These transparency requirements apply in principle to both the AIFM and the managed investment funds.

3. Purpose of this policy

The sustainability risk policy (the “Policy”) describes how the AIFM manages sustainability risks that may arise during the management of the investment funds as required by article 3 SFDR:

- ex-ante, as part of the investment decision-making process; and
- ex-post, as part of the ongoing monitoring.

The AIFM is aware of the potential impact that sustainability risks may have on the managed investment funds. The Policy considering the integration of sustainability risks as part of the investment decision-making process and the ongoing monitoring of these risks also serves to document the fulfilment of the extended fiduciary duties of the AIFM towards the investors of the managed investment funds in accordance with the SFDR and the amended Directive 2011/61/EU on Alternative Investment Fund Managers reflecting the responsibilities of the AIFM regarding the consideration of sustainability risks.

4. Sustainability risk – Regulatory framework

4.1 Sustainability risk – Definition of the SFDR

According to article 2 (22) SFDR sustainability risk means an environmental, social or governance (hereinafter “ESG”) event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.

4.1.1 Sustainability risk – Interaction with traditional risk categories

The AIFM Law as well as the UCI Law[1] are based on the relevant European Directives (i.e. UCITS Directive, AIFM Directive) and further supplement by delegated regulations. These regulatory requirements also define the relevant risk categories to be considered by the AIFM for the managed investment funds, namely

i. market risk,
ii. liquidity risk,
iii. counterparty risk,
iv. credit risk,
v. operational risk, and
vi. sustainability risk.

Sustainability risk is as of August 2022 to be considered as an individual risk category based on the amendments of the AIFMD and UCITSD that entered into force in August 2022

4.1.2 Sustainability risk – Relationship with “Principal adverse impacts”

Article 4 of the SFDR establishes the principle of "Principal adverse impacts" (hereinafter "PAIs") of investment decisions on sustainability factors. Sustainability factors[2] are relevant risk indicators that can manifest themselves as sustainability risks. The consideration of PAIs is specifically relevant for investment funds that are following a sustainable investment strategy. The AIFM's consideration of PAIs in accordance with the requirements of article 4 of the SFDR is disclosed separately on the website.

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[1] Limited relevance for the AIFM as no UCITS are managed but only funds set up under Part II of the UCI Law which qualify as alternative investment funds.

[2] According to article 2 (24) SFDR sustainability factors mean environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

4.2 Sustainability risk – Requirements of the SFDR relevant for this policy

The SFDR imposes transparency requirements on the AIFM and the managed investment funds in connection with sustainability risks. The transparency requirements require that both the AIFM and the managed investment funds describe how sustainability risks are considered and integrated within the investment decision-making process.

	Summary of requirements	Level	Implementation
Art. 3 (1) SFDR	Description how the sustainability risks are integrated in the investment decision-making process.	AIFM	Description in this Policy taking into consideration article 6 (1) SFDR
Art. 6 (1) SFDR	Description in pre-contractual disclosures with respect to (i) The manner in which sustainability risks are integrated into the investment decisions; and (ii) The results of the assessments of the likely impacts of sustainability risks on the managed investment funds. Where sustainability risks are not deemed relevant, the pre-contractual disclosures shall include a clear and concise explanation of the reasons therefor.	Investment funds	Principle description in the issuing documents of the respective investment fund, how sustainability risks are taken into consideration within the investment decision-making process.

5. Sustainability risk – Integration in the investment decision-making process

5.1 Sustainability risk – Organisational setup of the portfolio management function

The AIFM is responsible for exercising the portfolio management function for the managed investment funds. The AIFM may delegate the portfolio management function to a qualified third party.

The following principles are relevant irrespective of the delegation of the portfolio management function:

- The AIFM is aware of the potential impact that sustainability risks can have on the value of its investments and considers sustainability risks as relevant to all managed investment funds;
- sustainability risks are integrated into the investment decision-making process, consistent with disclosures in the pre-contractual information of the respective investment fund pursuant to article 6 (1) SFDR and the (potential) qualification of the respective investment fund pursuant to article 8 or 9 SFDR;
- sustainability risks can be assessed both qualitatively and quantitatively;
- The AIFM performs the risk management function and therefore will monitor the sustainability risks (cf. section 6 of the Policy).

5.2 Sustainability risk – Integration in the investment decision-making process in case the portfolio management function is delegated

The AIFM may delegate the portfolio management function to qualified third parties.

Under such model, the delegated portfolio manager is responsible for the integration of sustainability risks within the investment decision-making process. Integration will be performed consistent with the disclosures in the applicable issuing documents pursuant to article 6 (1) SFDR and the qualification of the investment fund pursuant to article 8 or 9 SFDR.

The AIFM monitors on a regular basis the quality of the service provided by delegated portfolio managers. Regular and ongoing due diligence process include an assessment on sustainability risks' integration where consistency with applicable disclosures is reviewed.

The AIFM's risk management function independently reviews sustainability risks during transaction's value chain.

5.3 Sustainability risk – Integration in the investment decision-making process as required by the SFDR

According to the requirements of article 6 (1) SFDR of the SFDR, each investment fund must disclose in the pre-contractual information whether and how ("comply or explain") sustainability risks are considered in the investment decision-making process.

An investment fund complying with the requirements of article 8 or 9 SFDR will disclose in the pre-contractual information the binding ESG/sustainability criteria used in the investment decision-making process. This includes aspects such as exclusion of certain sectors/practices ("negative screening"), integration of ESG ratings/scores, or proportion of sustainable investments in accordance with the legal definition of article 2 (17) SFDR as well as PAI considerations allowing for a further consideration of sustainability risks.

5.4 Sustainability risk – Integration in the investment decision-making process and the consideration of sustainability factors

Sustainability risks can have a material impact on the value of an investment. The delegated portfolio managers will strive to identify such sustainability risk and minimize the impact on value subject to such risks being materialized.

Sustainability factors such as Environmental, Social and Governance can provide a guidance to delegated portfolio managers how to assess potential investments. For illustration purposes environmental criteria may consider how environment is safeguarded or how climate change is addressed. Social criteria examine how relationships with employees, suppliers, customers, and the communities are managed. Governance deals with aspects such as leadership, executive pay, audits, internal controls, and shareholder rights.

The specific sustainability factors that are considered may vary between investment funds, as they depend on the respective investment strategy.

6. Sustainability risk – Ongoing monitoring

The AIFM integrates sustainability risks within the risk profile of the investment fund. The relevant risks are subject to the following criteria:

- Investment strategy of the investment fund;
- disclosure on the consideration of sustainability risks in the pre-contractual information pursuant to article 6 (1) SFDR;
- classification of the investment fund as "non-sustainable", Art. 8 or 9 according to SFDR;

Risk profiles are proposed by the risk management function and approved by the AIFM's senior management and Board.

Sustainability risk are further integrated within the risk matrix where applicable trigger points and limits are established. Ongoing monitoring and assessment of variation against previous reported periods are applied by the risk management function.

6.1 Sustainability risk – Ongoing monitoring & escalation

The AIFM's risk management function is responsible for the monitoring of limits and trigger points including the update of risk profiles should circumstances require so. Escalation process implies addressing any specific topics to:

1. Conducting Officer responsible for the risk management process
2. Senior Management Committee
3. AIFM's Board
4. General Partner's Board

7. Reporting

The AIFM's risk management function reports periodically to the Senior Management Committee and the Board. The risk matrix approach is followed.

8. Policy review

The Policy will be reviewed annually or an ad-hoc basis by the Senior Management Committee and the Board.