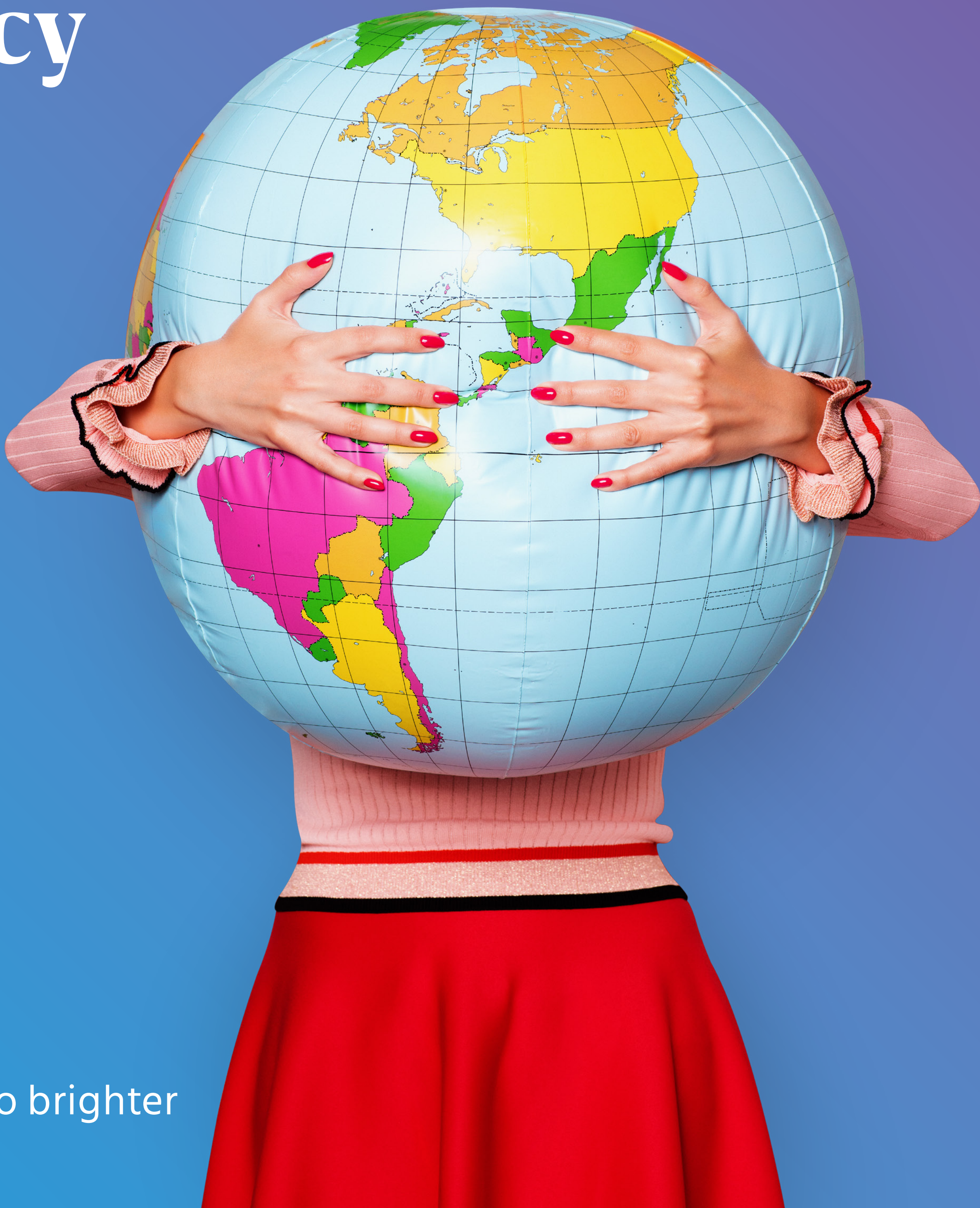
MERCER

private markets

sustainable investments policy

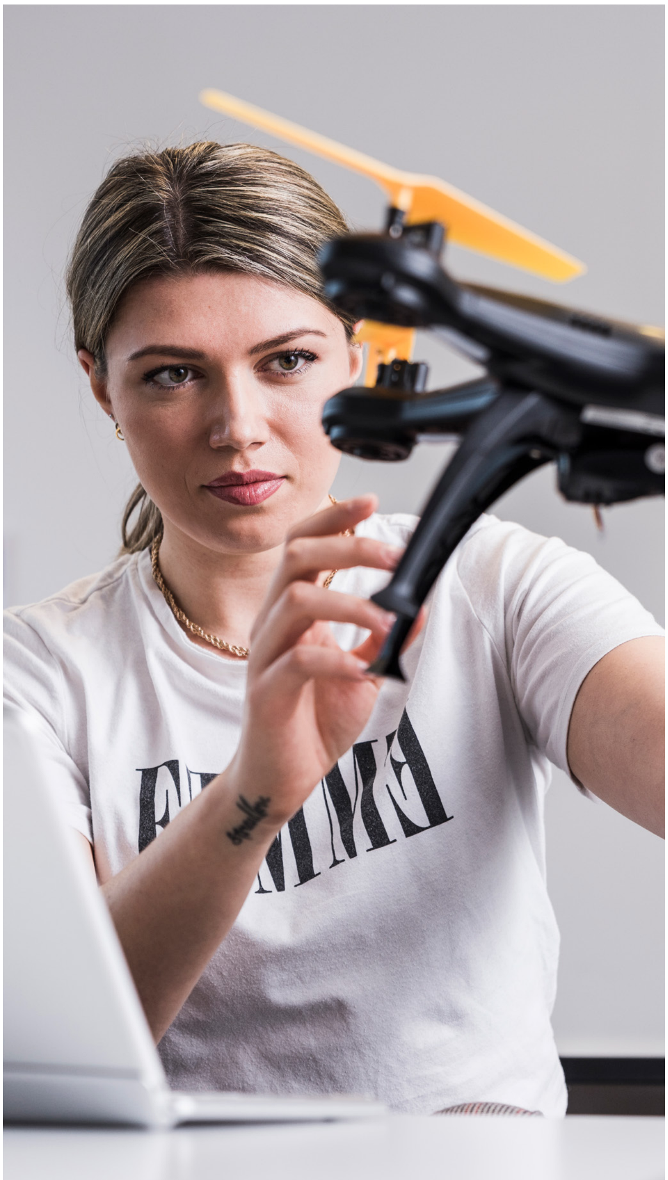


welcome to brighter

Content

01/ Policy scope and key principles

Mercer's Private Investment Partners (PIP) funds are leading private markets investment solutions, offering customised guidance for investment decisions, risk management and investment monitoring.



This policy sets out how the Mercer Alternatives (MA)[1] team will implement its beliefs on sustainable investment within the pooled, private markets–focused discretionary funds ("the Funds")[2] it manages. MA selects and combines specialist underlying investment managers into portfolios of private markets funds, on both a primary and secondary basis. MA may also partner with underlying investment managers in co–investment opportunities as a minority participant. This policy focuses on primary fund investments. The following key principles underpin this policy:

- **Clear communication** to underlying investment managers of MA's environmental, social and corporate governance (ESG) expectations
- **Monitoring** of underlying investment manager ESG and stewardship activities
- **Engagement** with underlying investment managers on ESG practices over time
- **Transparency** on the implementation of this policy to the investors in the Funds

Please refer to this policy for MA's key principles and general approach to environmental, social and corporate governance (ESG) factors; sustainability trends; climate change; stewardship; and screening or exclusions.

[1] Mercer Alternatives (MA) is Mercer's global alternatives platform which operates as a specialist group within Mercer's Investments business.
[2] "The Funds" are collective investment schemes, including investment companies, common contractual funds, unit trusts and limited partnerships, for which MA or affiliates serve as discretionary investment manager. This policy applies on a forward-looking basis only, from PIP VI onwards or else the date of signature by the Global CIO — Alternatives.

Our approach

Mercer, through its global investment consulting business, has advised investors on all aspects of responsible investment (RI) since 2004, and this experience informs the approach taken by MA. MA team members are supported by members of the global RI team.

Mercer articulates its approach in its global investments beliefs. These beliefs support Mercer's commitment to the Principles for Responsible Investment (PRI) and recognise the international and regional guidance on stewardship. Mercer's *Investing in a Time of Climate Change* report, and *The Sequel*, the Paris Agreement on Climate Change and the drivers underpinning the Sustainable Development Goals are examples of other frameworks that inform our RI views.

Mercer believes a sustainable investment approach is more likely to create and preserve long-term investment capital and more specifically that:

1. ESG factors can have a material impact on long-term risk and return outcomes, and these should be integrated into the investment process.
2. 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.
3. 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.
4. Stewardship (or active ownership) helps the realisation of long-term shareholder value by providing investors with an opportunity to enhance the value of companies and markets.

Consequently, MA believes that a sustainable investment approach that considers these risks and opportunities is in the best interests of our clients.

02/
ESG integration

MA expects all its underlying investment managers to assess and reflect, as appropriate, ESG risks and opportunities in asset selection and portfolio construction. Examples of ESG factors include:

Environmental

- Climate change
- Water
- Waste and pollution
- Biodiversity

Social

- Health and safety
- Labour standards (including in the supply chain)
- Human rights and community impacts
- Demographics/consumption

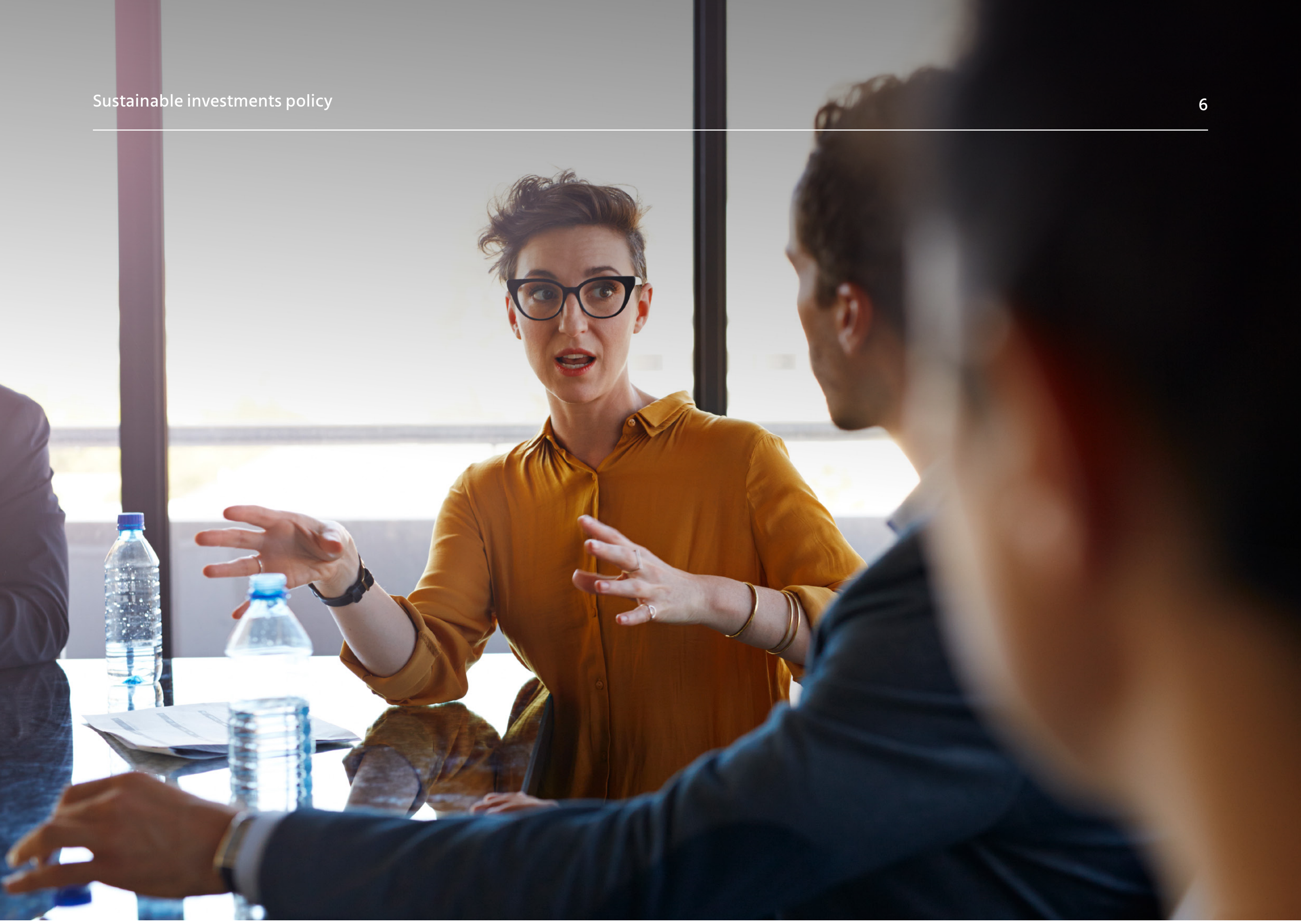
Governance

- Board structure and diversity
- Remuneration that is aligned with performance
- Accounting and audit quality
- Anti-bribery and corruption

Mercer's ESG Ratings represent the MA team's assessment of the degree to which ESG factors are incorporated within a strategy's investment process. Four factors are considered and documented within the research commentary: business management; alignment, strategy and track record.

An overall rating is assigned, where ESG1 = highest possible rating and ESG4 = lowest possible rating. The research is stored within Mercer's Global Investment Manager Database (GIMD).

ESG1	ESG2	ESG3	ESG4
Leading approach to integration, where ESG is **embedded in investment philosophy;** strong on stewardship which is a core part of process.	**Consistent and repeatable** proccess to ESG integration (**focus on risk management**); well-developed evidence of stewardship.	**Well–developed G integration; less consistency in E & S;** stewardship process is ad hoc, but indications of progress.	**Little or no integration** of ESG or stewardship into core processes and no indication of future change.



Selection and monitoring processes for potential and appointed underlying investment managers include Mercer's ESG ratings and associated commentary from the MA team, with support from the RI team as appropriate. ESG ratings are reviewed during the underlying investment manager appointment process and during a comprehensive review when all underlying investment managers have been fully allocated for each PIP Fund.

MA expects that funds selected for the Funds on a primary basis will generally have ESG ratings of ESG3 or better (with ESG1 being the highest and ESG4 being the lowest rating), although funds with ESG ratings of ESG4 will not be excluded from consideration. Comparisons are also made with the appropriate universe of researched investment funds in Mercer's global database. MA expects that the average ESG ratings for asset class sleeves within each PIP Fund should be in line with or better than their universe (noting the way in which the universes for private markets funds are constructed within Mercer).

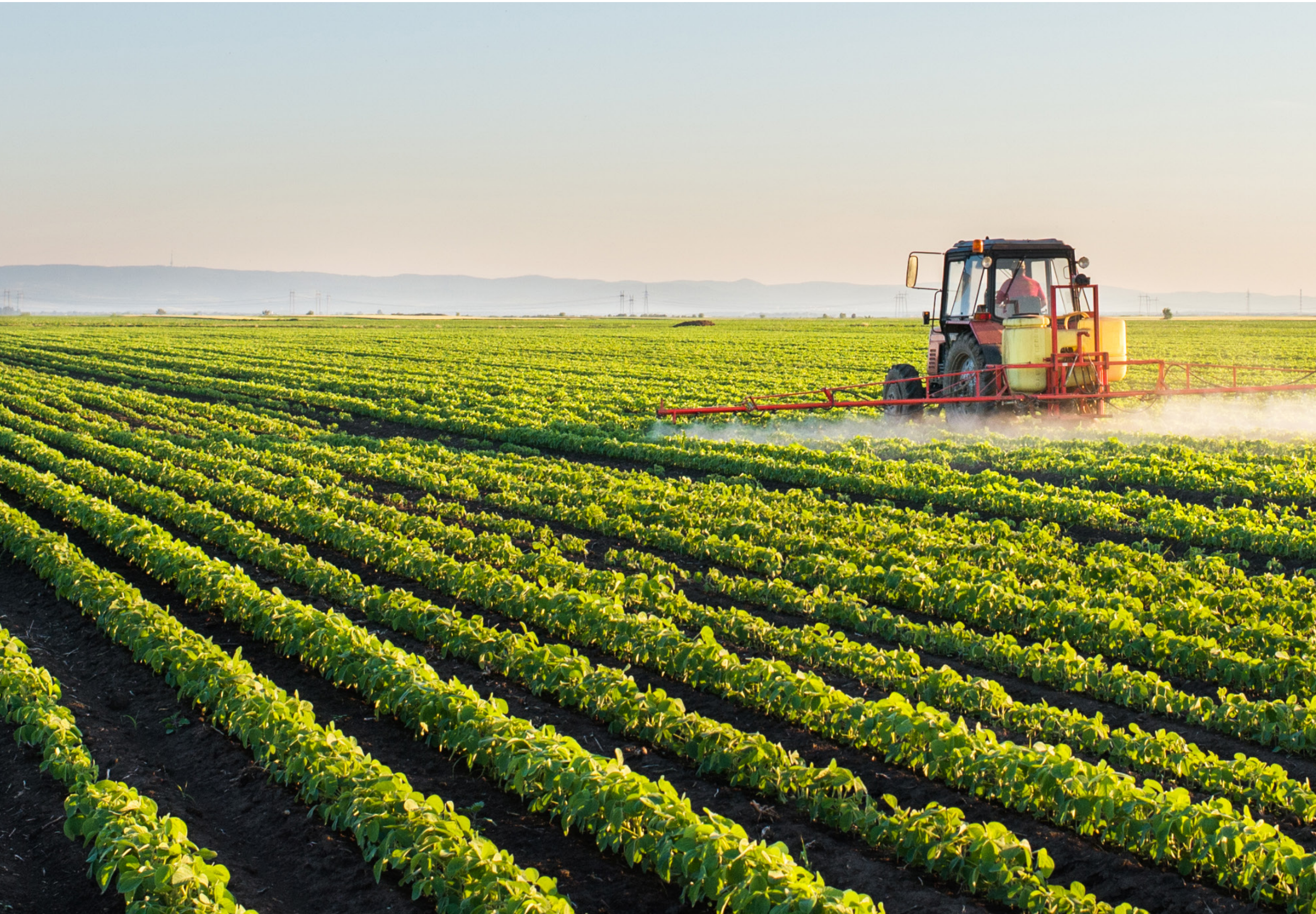
Due to their nature, secondaries and co-investment opportunities do not easily lend themselves to an assessment of ESG integration in the same way as primary fund investments. Specifically, given that MA's due diligence of these opportunities does not result in a formal investment rating, neither is there a formal ESG rating assigned.

However, MA will seek to consider the underlying investment manager's approach to ESG integration (where possible) as part of its due diligence on secondary and co-investment opportunities. Typically, this will draw upon any prior due diligence carried out by MA on the underlying investment manager (or corresponding investment fund). However, the degree of ESG integration will not limit MA's ability to consider secondary or co-investment opportunities.

03/ Sustainability themes

MA believes that if underlying investment managers identify longer–term environmental and social themes and trends, this is likely to lead to improved risk management and new investment opportunities.

Exposure to these themes and trends can be direct or indirect (and vary between portfolios), but in all cases MA expects underlying investment managers to at least have an awareness of sustainability in their investment decision-making. MA's focus is on sustainability integration, with sustainability allocations (either direct or indirect) seen as an area for development over time. This approach excludes MA's explicitly sustainability–focused mandates (e.g. sustainable opportunities), which have separate investment guidelines and are focused explicitly on allocations to opportunities driven by trends in sustainability.



04/ Applicable asset classes

MA believes that ESG factors can be applied across asset classes. However, we acknowledge that the current state of integration varies within and across asset classes, and also by investment manager. Sustainability–themed strategies are more prevalent in private equity and real assets (infrastructure, real estate, timber, agriculture) and less so in other asset classes. These considerations, summarised in the table below, inform our expectations for underlying investment managers in MA's selection and monitoring processes.

Table 1. ESG ratings and sustainability themes by asset class

	Manager progress on ESG integration*	Availability of sustainability — themes strategies**
Private equity	Medium	Low/medium
Private debt	Low/medium	Low
Real estate	Medium/high	Low
Infrastructure	High	Medium/high
Natural resources ***	Medium	Medium/high

Note: Low: <5%; Low/Medium: 5-10%; Medium/High: 21-40% (As of December 2018)

*Refers to the percent distribution of ESG1 and 2 rated strategies in GIMD, where available.
**Refers to the percent distribution of sustainability themed strategies compared to mainstream strategies by asset class – noting equities is a large universe so the low relative number is not actually a low absolute number.
***Conservative view — research updates on this asset class may result in a more favourable view than is currently held.

05/ Climate change

MA believes that climate change poses a systemic risk, with financial impacts driven by two key sources of change. The first is the physical damages expected from an increase in average global temperatures and the second is the associated transition to a low-carbon economy, required to mitigate the likelihood and severity of physical damages. Each of these changes presents both risks and opportunities to investors, as outlined in Mercer's *Investing in a Time of Climate Change* report and *The Sequel.*

At the underlying investment manager level, MA's expectation is that climate change risk assessment and risk reduction are integrated within a manager's approach to ESG, stewardship activities and awareness of sustainability.

Mercer recognises that limiting global average temperature increases this century to "well below two degrees Celsius", as per the 2015 Paris Agreement, is aligned with the best economic outcome for long-term diversified investors. Mercer therefore participates in collaborative industry engagements to support this end goal, and will seek to increasingly align portfolios with that objective where consistent with meeting stated investment objectives.

MA's approach to climate-related financial risks and opportunities is summarised below, consistent with the framework recommended in 2017 by the Financial Stability Board's Task Force on Climate-related Financial Disclosure (TCFD).

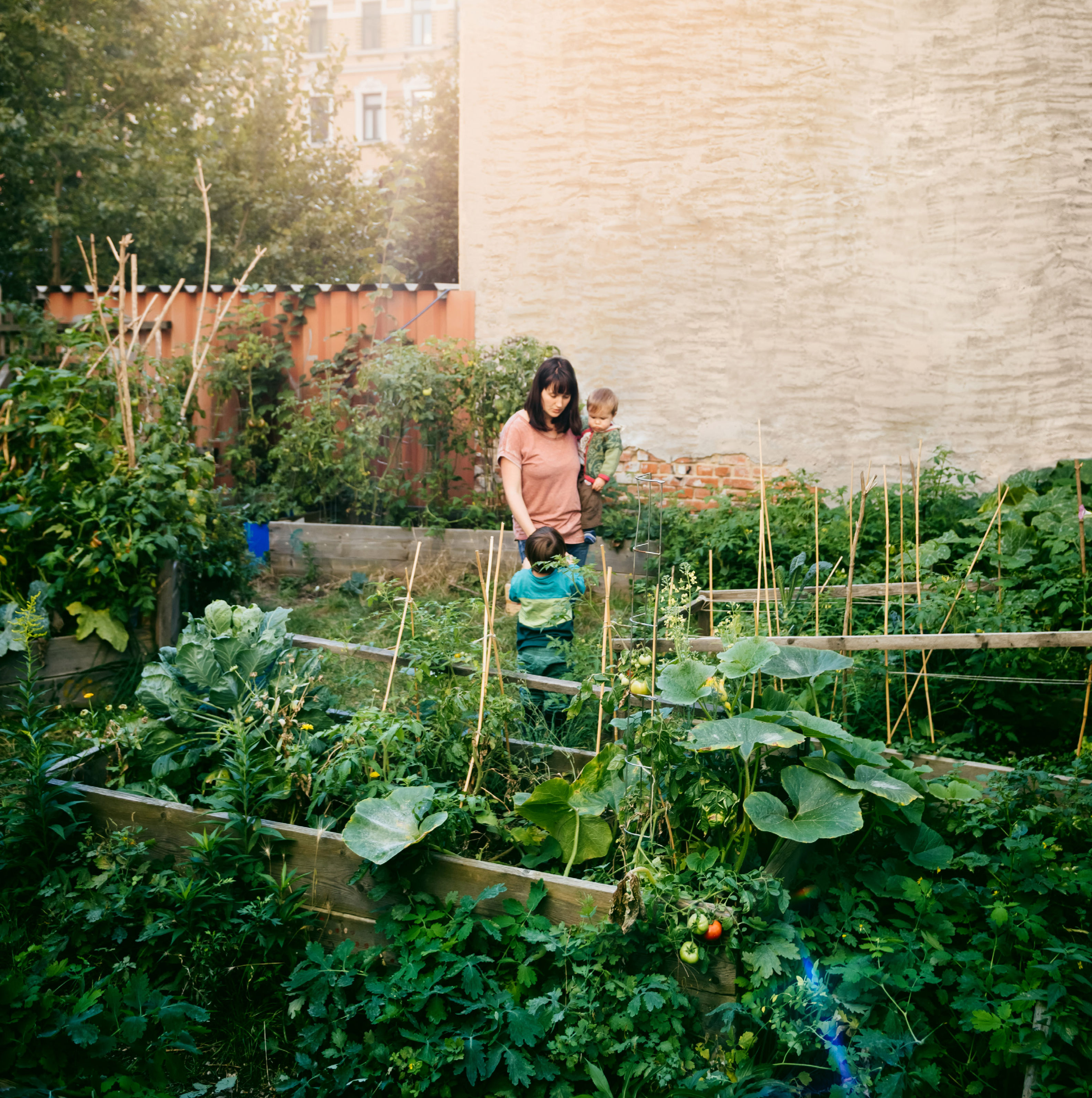
Disclosures consistent with the TCFD recommendations are also expected of appointed underlying investment managers.

In summary, MA will take the following approach to the TCFD framework's four elements for managing climate-related financial risks:

- **Governance:** Nominated members of the MA senior management team (comprising Global CIO — Alternatives, Global Business Leader — Alternatives and Global Co-CIOs — Private Markets) have oversight of the MA approach to climate-related risks and opportunities, with support provided from Mercer's RI team. These members will oversee MA's compliance with this policy.
- **Strategy:** The aim is for portfolio construction within asset classes to be undertaken with a consideration for climate-related risks and opportunities. MA will seek to incorporate (as appropriate) Mercer's Investing in a Time of Climate Change scenario analysis findings into this process.
- **Risk management:** Existing processes for ESG integration and engagement (MA with managers and managers with companies) will increasingly incorporate climate-related risk factors, for example considering transition risk reduction options and assessing physical damages risks for real assets. In addition, Mercer participates in industry-wide engagement activity to encourage successful implementation of the Paris Agreement in an effort to minimize future systemic risk associated with climate change.
- **Targets/metrics:** MA has already developed climate-related metrics as part of its Annual Impact Reporting for its first Sustainable Opportunities investment solution. The aim is that MA will seek to develop climate-related metrics (as appropriate) to review and engage with underlying investment managers across other private markets asset classes. This process will be led by Mercer's RI team.

Applicable asset classes

As per the systemic risk comments above and Mercer's *Investing in a Time of Climate Change* report, MA's current view is that climate change risks are applicable, to varying degrees, across all asset classes. The bulk of our activity so far has focused on sustainability–themed private markets investments; however, we are broadening our approach to more actively include additional asset classes. As climate change expertise continues to evolve, we will review and update our views and approaches accordingly.



06/ Stewardship

MA believes stewardship (or active ownership) helps the realisation of long-term shareholder value by providing investors with an opportunity to enhance the value of companies, as well as providing scope for reducing risk. Stewardship is of particular importance in private markets given the long-term, illiquid nature of these asset classes, and the proximity between shareholders and investee companies through board representation and interactions with company management.

MA, who manages the Funds, is a long-term institutional investor and considers investment governance and active ownership to be of particular importance. Active/engaged shareholders have a greater chance of company management acting in ways that are aligned with shareholder interests. Stewardship can also provide investors with additional information and insight into a company's current and prospective performance, which can enhance the investment decision process.

Given the nature of private markets, MA assesses the approach taken by underlying investment managers to stewardship as part of its pre-investment due diligence. MA focuses on opportunities where the underlying investment manager seeks to secure strong governance rights to exert influence as appropriate. However, MA recognises that the appropriate level of governance rights varies according to the asset class in question (and within asset classes, the sub-strategy being followed).

MA's approach has the following main components and principles:

Active ownership

- Underlying investment managers are expected to exercise the governance rights associated with their respective shareholdings in a manner deemed most likely to protect and enhance the long-term value for investors.
- Underlying investment managers should seek to align the remuneration of portfolio company management teams to maximise shareholder value.
- As an investor itself, MA will seek to negotiate terms and conditions with underlying investment managers to improve investor protections and the degree of alignment. This includes both legal/tax terms (taking appropriate external advice) as well as commercial terms such as fee structures.
- MA will seek to engage regularly with underlying investment managers to exert positive influence. Where possible, this will be through seeking advisory board positions and making active contributions, or else through bilateral periodic meetings and updates.
- MA will seek to provide feedback (where appropriate) received from its own clients to underlying investment managers as part of its engagement process.

Transparency

- Underlying investment managers appointed by MA are expected to provide detailed reporting on their activities to MA on an annual basis.
- MA's expectation is that underlying investment managers will also report on their ESG-related activities, on an annual basis. Where such reporting is not provided, MA will encourage underlying investment managers to develop such reporting over time.

Public policy participation

- MA expects that underlying investment managers will engage with all key relevant stakeholders (including governments, regulators and local communities) as may be required where this is deemed important to protect the rights and enhance the interests of investors. MA also expects underlying investment managers to report on these engagement activities.

Applicable corporate governance principles

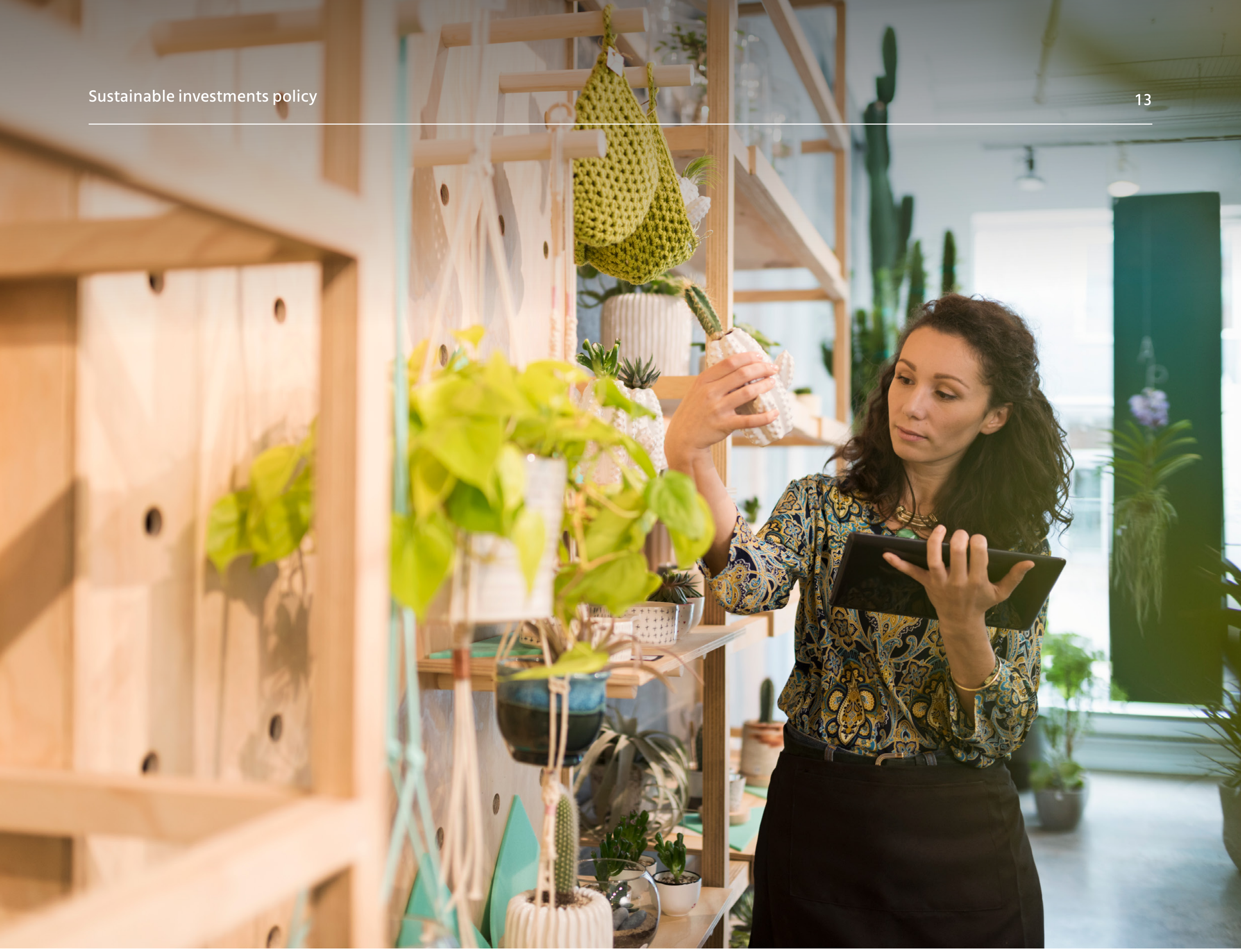
Mercer's approach is informed by a range of principles and codes, including the corporate governance guidance and principles published by the Organisation for Economic Co-operation and Development (OECD) and the International Corporate Governance Network (ICGN), along with the 2012 EU Commission Action Plan on European company law and corporate governance. These principles are grouped as follows:

1. **Shareholder rights** — Shareholders have basic rights that should be upheld. In particular, shareholders should be able to share in company profits, participate in major decisions and exercise their "voices" (for example, through proxy voting or direct company engagement).
2. **Role and responsibilities of the board** — The board is central to the exercise of good corporate governance within companies. It is accountable to shareholders and must act in their best interests as well as those of the company. History has shown us that underperforming boards are more likely to lead to poor returns for shareholders.
3. **Risk and audit** — The board of the investee company plays a central role in supporting a corporate culture of integrity and ethical standards (which applies equally to the conduct of the board itself). Directors should consider what the European Commission refers to as "the entire range of risks" faced by their company — in this, we would include ESG risks — and ensure that sufficient information on the most important (and potentially material) of these risks is disclosed.
4. **Disclosure and transparency** — Information on a company's challenges, achievements and failures should be provided to shareholders (and other stakeholders). Company disclosures should be timely and relevant and use appropriate and high-quality reporting frameworks (such as international accounting standards). Shareholders increasingly expect information on relevant and potentially material ESG issues in addition to standard financial disclosures — for example, a company's access to and management of non-renewable resources and its carbon emissions.
5. **Remuneration and incentives** — The rewards and incentives provided to company executives should align their interests with those of shareholders — the ultimate owners of the company. The fundamental purpose of companies from the perspective of shareholders is to create long-term value. Remuneration policies have an important role to play in supporting this purpose — in particular, by focusing the minds of executives on long-term rather than short-term value creation.

MA expects that its underlying investment managers will adopt 'best practice' corporate governance structures consistent with the principles outlined above, at the investee companies acquired by their funds. For private debt funds, MA expects that underlying investment managers will seek to ensure that 'best practice' corporate governance structures are in place at companies where debt is being provided.

Monitoring engagement

MA expects its selected underlying investment managers to actively engage with and monitor investee companies, and to report on stewardship activities and outcomes to underlying investors. MA will also monitor stewardship activity explicitly for the Funds by seeking responses from the underlying investment managers on their engagement activity. This is expected to include brief commentary, based on underlying investment manager-disclosed information, with examples to give insights into where the underlying investment manager has participated in company boards or exchanged views with companies and on what topics. This can also include examples of public policy engagement on a collaborative basis.



07/ Screening

MA believes that screening and excluding companies based on their products or activities are driven by clients and a requirement to avoid profiting from investment activities that don't align with stakeholder values. As an investor in private markets, there is little ability to influence specific investments once committed to underlying funds.

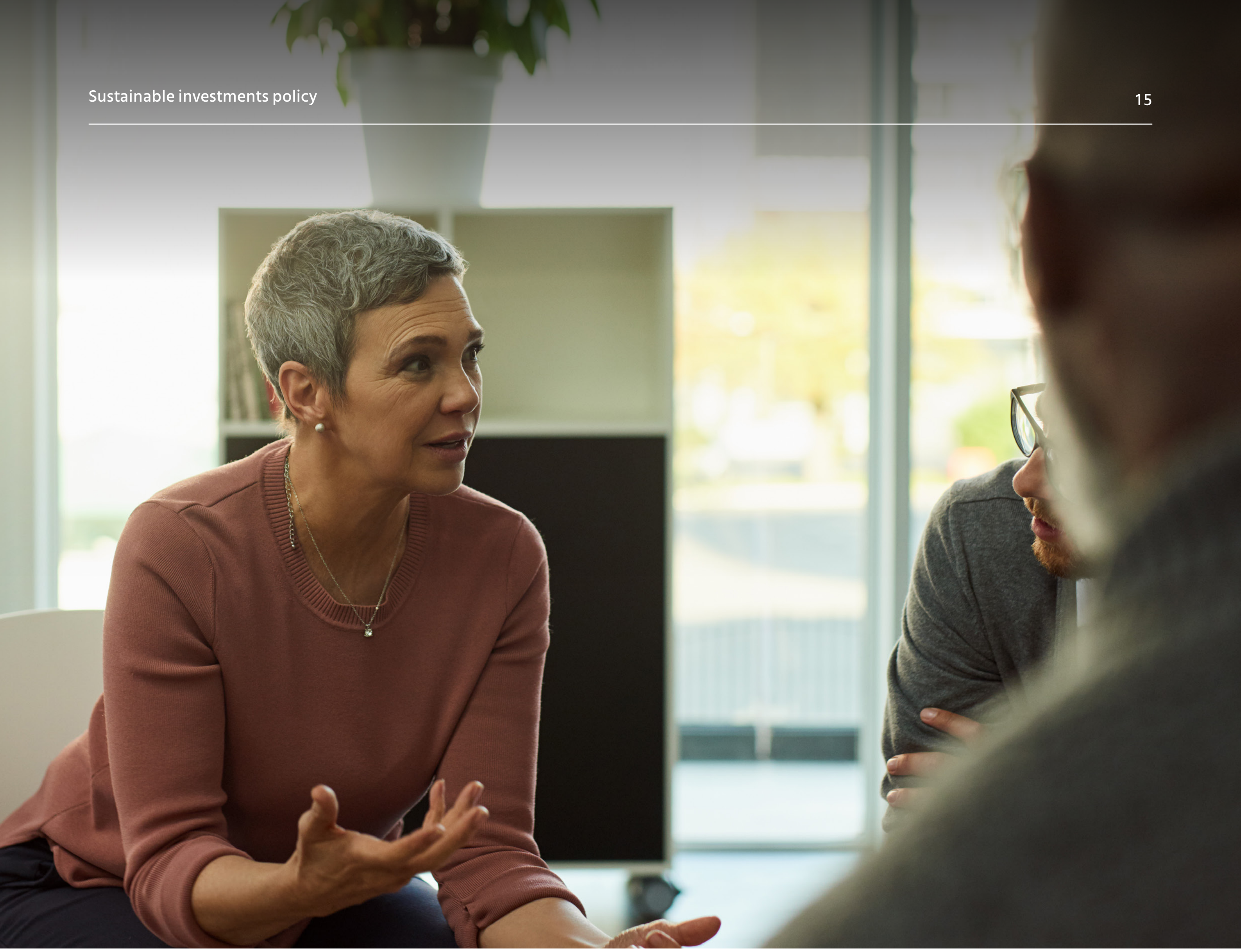
This means that screening and excluding individual stocks cannot be implemented as in the public markets. That said, in the Sustainable Opportunities sleeve for the PIP investments, investment guidelines have been established to set objectives for the portfolio's focus together with a list of products and activities deemed inconsistent with the sustainability ethos. Reviews against the guidelines and manager views on the guidelines form part of the due diligence process for that sleeve. The remaining PIP sleeves do not currently implement any screens or exclusions.

08/
Policy implementation

The following table describes how Mercer will implement the commitments set out in this policy across the different asset classes.

Table 2. Implementation summary

Due diligence / Monitoring	• Assess manager's ESG capabilities using Mercer's ESG Ratings. • Monitor manager's approach to ESG integration, climate change, and key developments (positive and negative) on each new fund raised and researched.
Engagement	• Engage with managers to protect Mercer's interests as an investor, both formally and informally. • Engage with managers on ESG-specific areas during due diligence and subsequent monitoring.
Transparency	• Reporting is expected of managers on ESG, stewardship and climate change in relevant asset classes. • MA will provide our investors in those asset classes with an annual summary of underlying manager ESG ratings.
Supporting industry initiatives	In addition, Mercer will participate where possible in collaborative industry initiatives on responsible and sustainable investment. Mercer currently supports the following key initiatives globally: • United Nations Principles for Responsible Investment (PRI) • Regional Sustainable Investment and Finance Associations • Regional Investor Groups on Climate Change • Carbon Disclosure Project (CDP) • Global Impact Investing Initiative (GIIN) • The Investor Agenda



09/
Policy governance

MA is the owner of the policy. Mercer's RI team supports and reports to MA on those topics covered by the policy and will be accountable for guiding the implementation of the policy, reviewing the policy annually and recommending amendments as necessary.

For more information, please speak with your local MA contact.

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