

# MERCER GLOBAL INVESTMENTS EUROPE LIMITED INDUCEMENTS POLICY

## SCOPE

This policy sets out how Mercer Global Investments Europe Limited (“MGIE”) complies with its regulatory obligations in relation to managing the potential conflicts of interest associated with the payment or receipt of any fee, commission or monetary or non-monetary benefit in connection with the provision of an investment service or an ancillary service, to or from any party except from a client or a person on behalf of a client (“Inducements”). It is supplementary to the existing policies of Marsh & McLennan Companies, MGIE’s parent company, including Marsh & McLennan’s Code of Conduct – The Greater Good, and any local policies or procedures in relation to conflicts of interest or Inducements.

## AUTHORISATION STATUS AND REGULATORY FRAMEWORK

MGIE is a MiFID Investment Firm authorised by the Central Bank of Ireland under the European Union (Markets in Financial Instruments), Regulations 2017, which transposes Directive 2014/65/EU (“MiFID II”) and the Commission Delegated Directive (EU) 2017/593 (the “Level 2”) into Irish law. Further guidance relating to inducements is provided in the ESMA guidelines on investor protection (the “ESMA Guidelines”).

MGIE is authorised to conduct the following Investment Services:

1. Receipt and transmission of orders in relation to one or more financial instruments;
2. Portfolio management;
3. Investment advice.

MGIE provides the above services to a range of professional investors including large pension funds, insurance companies and group entities including collective investment schemes.

## REGULATORY REQUIREMENTS

### General Inducements rule

MiFID II prohibits an investment firm from paying or being paid any fee or commission, or providing or being provided with any non-monetary benefit in connection with the provision of an

investment service or an ancillary service, to or by any party except the client or a person on behalf of the client, other than where the payment or benefit:

- (a) is designed to enhance the quality of the relevant service to the client (see Appendix A); and
- (b) does not impair compliance with the investment firm's duty to act honestly, fairly and professionally in accordance with the best interest of its clients.

The existence, nature and amount of the payment or benefit, or, where the amount cannot be ascertained, the method of calculating that amount, must be clearly disclosed to the client, in a manner that is comprehensive, accurate and understandable, prior to the provision of the relevant investment or ancillary service. Where applicable, the investment firm shall also inform the client on mechanisms for transferring to the client the fee, commission, monetary or non-monetary benefit received in relation to the provision of the investment or ancillary service.

The payment or benefit which enables or is necessary for the provision of investment services, such as custody costs, settlement and exchange fees, regulatory levies or legal fees, and which by its nature cannot give rise to conflicts with the investment firm's duties to act honestly, fairly and professionally in accordance with the best interests of its clients, is not subject to the requirements set out in the first subparagraph.

### **Rule when providing portfolio management or independent investment advice**

MiFID II requires investment firms, when providing portfolio management or independent investment advice, to not accept and retain fees, commissions or any monetary or non-monetary benefits paid or provided by any third party or a person acting on behalf of a third party in relation to the provision of the service to clients. Minor non-monetary benefits that are capable of enhancing the quality of service provided to a client and are of a scale and nature such that they could not be judged to impair compliance with the investment firm's duty to act in the best interest of the client shall be clearly disclosed and are excluded from this paragraph.

The Level 2 requires all fees, commissions or monetary benefits received from third parties in relation to the provision of independent investment advice and portfolio management shall be transferred in full to the client.

Investment firms shall set up and implement a policy to ensure that any fees, commissions or any monetary benefits paid or provided by any third party or a person acting on behalf of a third party in relation to the provision of independent investment advice and portfolio management are allocated and transferred to each individual client.

Investment firms shall inform clients about the fees, commissions or any monetary benefits transferred to them, such as through the periodic reporting statements provided to the client.

Such firms shall not accept non-monetary benefits that do not qualify as acceptable minor non-monetary benefits (see Appendix B for examples of minor non-monetary benefits).

### **Inducements in Relation to Research**

The definition of research per the Level 2 can be broken down as follows:

1. Research material or services concerning one or several financial instruments or other assets, or the issuers or potential issuers of financial instruments, or be closely related to a specific industry or market such that it informs views on financial instruments, assets or issuers within that sector.
2. The material or services explicitly or implicitly recommends or suggests an investment strategy and provides a substantiated opinion as to the present or future value or price of such instruments or assets,
3. Or otherwise contains analysis and original insights and reach conclusions based on new or existing information that could be used to inform an investment strategy and be relevant and capable of adding value to the investment firm's decisions on behalf of clients being charged for that research.

Research is considered to be a non-monetary benefit and may be received only if the following provisions are met.

The provision of research by third parties to investment firms providing portfolio management or other investment or ancillary services to clients shall not be regarded as an inducement if it is received in return for either of the following:

- (a) direct payments by the investment firm out of its own resources;
- (b) payments from a separate research payment account controlled by the investment firm.

The conditions relating to the operation of a research payment account are set out in Appendix C.

## **MGIE POLICY IN RELATION TO INDUCEMENTS**

### **Assessment of services provided and associated fees and payments**

#### **Delegated Solutions:**

“Delegated Solutions” is the term used by Mercer to describe the implementation of investment advice provided by various Mercer entities using the Mercer Funds (see below for further

information). MGIE is one of the main legal entities in the Mercer group used to deliver Delegated Solutions to clients.

#### **Investment Advice:**

MGIE provides strategic investment advice to Irish and ex-UK domiciled institutional clients. The investment advice provided is on a non-independent basis relating solely to the Mercer Funds. The clients will invest in the Mercer Funds following MGIE's advice. In this advisory relationship, MGIE does not have any discretion in respect of the client's investment.

#### **Bespoke Solutions:**

With Bespoke Solutions, MGIE provides investment advice to a client and designs a fund specifically tailored for their needs. The client may either invest in this bespoke fund exclusively or utilise the bespoke fund in conjunction with other funds including Mercer Funds.

#### **Investment Management:**

##### **Discretionary Investment Management arrangements including Implemented Consulting and Dynamic De-Risking Solutions:**

When a client appoints MGIE as its discretionary investment manager, MGIE has discretion to subscribe or redeem the client's holdings in the Mercer Funds in accordance with the range of pre-agreed parameters and thereby implement the investment strategy designed to meet the client's investment objectives. There are various offerings within discretionary investment management depending on the needs to clients and MGIE's level of discretion as follows:

##### **Implemented Consulting:**

MGIE uses the Mercer Funds to implement strategic investment consulting advice provided to the client. Under the terms of an Investment Management Agreement ("IMA") with the client, MGIE has discretion to subscribe or redeem shares in the Mercer Funds on the client's behalf to rebalance the client's holdings in the Mercer Funds in accordance the investment guidelines. This offering combines investment consulting with implementation using the Mercer Funds.

##### **Dynamic De-risking Solutions ("DDS"):**

DDS is similar to Implemented Consulting in that the client appoints MGIE as its discretionary investment manager; however there is daily solvency monitoring in addition to a de-risking service to help clients de-risk their Defined Benefit ("DB") pension scheme. DDS involves subscribing or redeeming the client's holdings in a "Growth" portfolio comprising of Mercer Funds decided by MGIE to a "Matching" portfolio, again comprising of Mercer Funds decided by MGIE when certain pre-agreed triggers are met. The objective is for a DB pension scheme to be de-risked over time.

**Provision of Discretionary Investment Management to Insurance Companies or other professional clients as part of the Delegated Solution for DC pension schemes:**

MGIE is appointed to act as its discretionary investment manager. Under the terms of the IMA, MGIE has discretion to set investment guidelines for a range of life wrapped products made available by the insurance company to DC pension schemes. Example of this is Mercer Aspire, where MGIE is appointed as Zurich's discretionary investment manager.

In all of the above situations, MGIE provides investment services to clients and receives an investment management fee/advisory fee which is based on the level of services provided to the client, agreed in advance in an IMA or similar legal agreement with the client and, as part of the costs and charges disclosures required under MiFID II, a breakdown of the fees will be provided in the periodic reports sent to clients.

**Provision of Discretionary Investment Management to the Irish domiciled Mercer Funds:**

MGIE has been appointed by Mercer Global Investments Management Limited ("MGIM") as the investment manager for the Mercer Funds. MGIE will appoint various sub-investment managers; each of which has discretion to manage a segment of the assets of the sub-funds of the Mercer Funds in accordance with agreed investment guidelines. MGIE also manages certain funds directly on a fund of fund basis. When buying or selling target funds, should MGIE receive any rebates or commissions from target fund managers, such rebates will be paid directly back to the funds as required under Irish fund rules.

Certain sub-investment managers are paid by MGIE and certain others are paid from the assets of the funds. Regardless of which, the fee arrangement is fully disclosed to clients.

**Provision of Discretionary Investment Management to the Other Funds:**

MGIE may be appointed as investment manager for other funds and may receive a fee from these funds or their management companies for the services provided. Any such arrangements will be assessed to ensure compliance with this policy.

**Distribution Services:**

MGIM appoints MGIE to act as the global distributor of the Mercer Funds and therefore can appoint affiliates such as Mercer Limited or third parties as sub-distributors. Mercer Private Markets (Luxembourg) s.a.r.l. has also appointed MGIE to act as sub-distributor of Mercer Private Investors Partners IV SICAV SIF, a Luxembourg domiciled alternative investment fund.

Responsibilities and fee arrangements are set out in distribution agreements with clients and are assessed to ensure compliance with this policy.

## MGIE POLICY IN RELATION TO RESEARCH

MGIE does not itself execute transactions on regulated markets / execution venues or through brokers and therefore does not engage in transactions where charges for research are bundled with execution commissions. MGIE may receive research, or access publically available information, which is considered to be a minor non-monetary benefit (in line with the criteria set out in Appendix B) so long as it is reasonable and proportionate and of such scale that it is unlikely to influence the investment firm's behaviour in any way that is detrimental to the interests of the relevant client.

Should MGIE receive, in connection with services provided to clients, investment research as defined under MiFID II, which is not a minor non-monetary benefit, it will pay for it itself, unless a client explicitly gives permission for the research to be paid for via a research payment account to be funded by the client and in line with MiFID II obligations.

### **Research consumed by sub-investment managers**

MGIE's approach when appointing sub-investment managers is to require the sub-investment manager to pay for research costs themselves out of their own assets. This ensures compliance with the MiFID II inducement rules. In certain instances, clients may agree to allow sub-investment managers to charge for research. In such cases, research payment accounts will be put in place as per the requirements set out in the research payment account schedule below.

## ASSESSMENT OF FEES, COMMISSIONS AND MONETARY AND NON-MONETARY BENEFITS

MGIE has an inducements matrix in place which sets out its assessment to ensure that any relevant fees, commissions or non-monetary benefits are designed to enhance the quality of the relevant service provided.

MGIE has also put in place a research matrix to review any materials received or provided by MGIE. This assessment outlines the type of material and why it can or cannot continue to be received or provided and, if so, if a charge is in place. It also includes an assessment of whether materials would be considered a minor non-monetary benefit.

## REVIEW AND APPROVAL OF POLICY

This policy was prepared by the MGIE Compliance Department and approved by the Board of Directors. As outlined above, an annual assessment of the implementation of this policy including the appropriate controls will be conducted. Part of this assessment will be to consider whether this policy is required to be reviewed. Any revised version of this policy will be approved by the Board of Directors.

## DISCLOSURE TO CLIENTS

This policy will be provided to all clients prior to the provision of investment services and will also be available on <https://www.delegated-solutions.mercer.com/>.

## RECORD RETENTION

All records relating to this policy including the assessments completed and the client disclosures will be retained for a period of not less than 6 years.

## APPENDIX A

### Enhancing the quality of the service

The Level 2 sets out the following conditions which must be met if the inducement is considered to enhance the quality of the relevant service provided:

(a) it is justified by the provision of an additional or higher level service to the relevant client, proportional to the level of inducements received, such as:

(i) the provision of non-independent investment advice on and access to a wide range of suitable financial instruments including an appropriate number of instruments from third party product providers having no close links with the investment firm;

(ii) the provision of non-independent investment advice combined with either: an offer to the client, at least on an annual basis, to assess the continuing suitability of the financial instruments in which the client has invested; or with another on-going service that is likely to be of value to the client such as advice about the suggested optimal asset allocation of the client; or

(iii) the provision of access, at a competitive price, to a wide range of financial instruments that are likely to meet the needs of the client, including an appropriate number of instruments from third party product providers having no close links with the investment firm, together with either the provision of added-value tools, such as objective information tools helping the relevant client to take investment decisions or enabling the relevant client to monitor, model and adjust the range of financial instruments in which they have invested, or providing periodic reports of the performance and costs and charges associated with the financial instruments.

(b) it does not directly benefit the recipient firm, its shareholders or employees without tangible benefit to the relevant client;

(c) it is justified by the provision of an on-going benefit to the relevant client in relation to an on-going inducement.

A fee, commission, or non-monetary benefit shall not be considered acceptable if the provision of relevant services to the client is biased or distorted as a result of the fee, commission or non-monetary benefit.

Investment firms shall fulfil the requirements set out above on an ongoing basis as long as they continue to pay or receive the fee, commission or non-monetary benefit.

Investment firms shall hold evidence that any fees, commissions or non-monetary benefits paid or received by the firm are designed to enhance the quality of the relevant service to the client:

(a) by keeping an internal list of all fees, commissions and non-monetary benefits received by the investment firm from a third party in relation to the provision of investment or ancillary services; and

(b) by recording how the fees, commissions and non-monetary benefits paid or received by the investment firm, or that it intends to use, enhance the quality of the services provided to the relevant clients and the steps taken in order not to impair the firm's duty to act honestly, fairly and professionally in accordance with the best interests of the client.

In relation to any payment or benefit received from or paid to third parties, investment firms shall disclose to the client the following information:

(a) prior to the provision of the relevant investment or ancillary service, the investment firm shall disclose to the client information on the payment or benefit concerned. Minor non-monetary benefits may be described in a generic way. Other non-monetary benefits received or paid by the investment firm in connection with the investment service provided to a client shall be priced and disclosed separately;

(b) where an investment firm was unable to ascertain on an ex-ante basis the amount of any payment or benefit to be received or paid, and instead disclosed to the client the method of calculating that amount, the firm shall also provide its clients with information of the exact amount of the payment or benefit received or paid on an ex-post basis; and

(c) at least once a year, as long as (on-going) inducements are received by the investment firm in relation to the investment services provided to the relevant clients, the investment firm shall inform its clients on an individual basis about the actual amount of payments or benefits received or paid. Minor non-monetary benefits may be described in a generic way.

When more firms are involved in a distribution channel, each investment firm providing an investment or ancillary service shall comply with its obligations to make disclosures to its clients.

## APPENDIX B

### Acceptable minor non-monetary benefits

Benefits shall qualify as acceptable minor non-monetary benefits only if they are:

- (a) information or documentation relating to a financial instrument or an investment service, is generic in nature or personalised to reflect the circumstances of an individual client;
- (b) written material from a third party that is commissioned and paid for by an corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any investment firms wishing to receive it or to the general public;
- (c) non-substantive material or services consisting of short term market commentary on the latest economic statistics or company results for example or information on upcoming releases or events, which is provided by a third party and contains only a brief summary of its own opinion on such information that is not substantiated nor includes any substantive analysis such as where they simply reiterate a view based on an existing recommendation or substantive research material or services, can be deemed to be information relating to a financial instrument or investment service of a scale and nature such so that it constitutes an acceptable minor non-monetary benefit.
- (d) participation in conferences, seminars and other training events on the benefits and features of a specific financial instrument or an investment service;
- (e) hospitality of a reasonable de minimis value, such as food and drink during a business meeting or a conference, seminar or other training events mentioned under point (c); and
- (f) other minor non-monetary benefits which a Member States deems capable of enhancing the quality of service provided to a client and, having regard to the total level of benefits provided by one entity or group of entities, are of a scale and nature that are unlikely to impair compliance with an investment firm's duty to act in the best interest of the client.
- (g) Material repeating or summarising public news stories or public statements from corporate issuers (e.g. public quarterly results reports or other market announcements).

Acceptable minor non-monetary benefits shall be reasonable and proportionate and of such a scale that they are unlikely to influence the investment firm's behaviour in any way that is detrimental to the interests of the relevant client.

Disclosure of minor non-monetary benefits shall be made prior to the provision of the relevant investment or ancillary services to clients and may be described in a generic way.

## APPENDIX C

### Conditions relating to the operation of a research payment account

- (i) the research payment account is funded by a specific research charge to the client;
- (ii) as part of establishing a research payment account and agreeing the research charge with their clients, investment firms set and regularly assess a research budget as an internal administrative measure;
- (iii) the investment firm is held responsible for the research payment account;
- (iv) the investment firm regularly assesses the quality of the research purchased based on robust quality criteria and its ability to contribute to better investment decisions.

Where an investment firm makes use of the research payment account, it shall provide the following information to clients:

- (a) before the provision of an investment service to clients, information about the budgeted amount for research and the amount of the estimated research charge for each of them;
- (b) annual information on the total costs that each of them has incurred for third party research.

Where an investment firm operates a research payment account, the investment firm shall also be required, upon request by their clients or by competent authorities, to provide a summary of the providers paid from this account, the total amount they were paid over a defined period, the benefits and services received by the investment firm, and how the total amount spent from the account compares to the budget set by the firm for that period, noting any rebate or carry-over if residual funds remain in the account. The specific research charge shall:

- (a) only be based on a research budget set by the investment firm for the purpose of establishing the need for third party research in respect of investment services rendered to its clients; and
- (b) not be linked to the volume and/or value of transactions executed on behalf of the clients.

Every operational arrangement for the collection of the client research charge, where it is not collected separately but alongside a transaction commission, shall indicate a separately identifiable research charge and shall fully comply with the conditions set out above.

The total amount of research charges received may not exceed the research budget.

The investment firm shall agree with clients, in the firm's investment management agreement or general terms of business, the research charge as budgeted by the firm and the frequency with which the specific research charge will be deducted from the resources of the client over the year. Increases in the research budget shall only take place after the provision of clear information to clients about such intended increases. If there is a surplus in the research payment account at the end of a period, the firm should have a process to rebate those funds to the client or to offset it against the research budget and charge calculated for the following period.

The research budget shall be managed solely by the investment firm and shall be based on a reasonable assessment of the need for third party research. The allocation of the research budget to purchase third party research shall be subject to appropriate controls and senior management oversight to ensure it is managed and used in the best interests of the firm's clients. Those controls include a clear audit trail of payments made to research providers and how the amounts paid were determined with reference to the quality criteria referred to above. Investment firms shall not use the research budget and research payment account to fund internal research.

The investment firm may delegate the administration of the research payment account to a third party, provided that the arrangement facilitates the purchase of third party research and payments to research providers in the name of the investment firm without any undue delay in accordance with the investment firm's instruction.

Investment firms shall establish all necessary elements in a written policy and provide it to their clients. It shall also address the extent to which research purchased through the research payment account may benefit clients' portfolios, including, where relevant, by taking into account investment strategies applicable to various types of portfolios, and the approach the firm will take to allocate such costs fairly to the various clients' portfolios.

An investment firm providing execution services shall identify separate charges for these services that only reflect the cost of executing the transaction. The provision of each other benefit or service by the same investment firm to investment firms, established in the Union shall be subject to a separately identifiable charge; the supply of and charges for those benefits or services shall not be influenced or conditioned by levels of payment for execution services.