# Sustainable Investment Policy

Helping clients invest for the future

**Mercer Delegated Solutions Europe**
August 2020

welcome to brighter

# 01/ Policy scope and key principles

Mercer Delegated Solutions in Europe (Mercer DSE)[1] provides services to a broad range of institutional investors, including pension funds, insurance companies, endowments, foundations and other investors.

Please refer to this policy for Mercer DSE's key principles and general approach to the following components:

- Environmental, social and corporate governance (ESG) factors
- Sustainability themes and a broader perspective on risk
- Climate change
- Stewardship (voting and engagement)
- Exclusions

Mercer does not typically select investments directly; instead, it selects and combines specialist sub-investment managers into funds and, for certain clients, those funds into portfolios. This policy sets out how Mercer DSE will implement its beliefs on sustainable investment within the multi-client Mercer Funds[2] it manages. In implementing this policy, Mercer commits to clear communication of the policy and transparency in reporting on implementation activities to stakeholders.

[1] Mercer DSE is delivered by Mercer Limited, registered in England No. 984275, whose registered office is at 1 Tower Place West, Tower Place, London EC3R 5BU and Mercer Global Investments Europe Limited, registered in Ireland, No 416688, whose registered office is at Charlotte House, Charlemont Street, Dublin 2, Ireland. See Important Notices.

[2] "Mercer Funds" are any collective investment scheme, including investment companies, common contractual funds, unit trusts and limited partnerships, for which Mercer Global Investments Europe Limited or any affiliate serves as discretionary investment manager.

# 02/ Our approach

Mercer, through its Global Investment Consulting practice, has advised investors on all aspects of ***responsible investment*** (RI) since 2004, and this experience informs the approach taken by Mercer DSE. Mercer DSE is supported by European-based and global members of Mercer's 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 recognize the international and regional guidance on stewardship, such as the UK Stewardship Code and the EU Shareholder Rights Directive II. Mercer's *Investing in a Time of Climate Change* report (and *The Sequel* in 2019), the Paris Agreement on Climate Change and frameworks such as the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) and the United Nations Sustainable Development Goals inform Mercer's investment beliefs and approach.

# 03/
# Our beliefs

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 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) supports the realization of long-term shareholder value by providing investors with an opportunity to enhance the value of companies and markets.

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

# 04/ ESG integration

Mercer DSE believes that enhanced outcomes may be achieved from the assessment by its sub-investment managers of ESG risks and opportunities in security selection and portfolio construction, acknowledging that the degree of relevance or materiality varies between asset classes. Examples of ESG factors include:

**Table 1.** ESG factors

| Enviromental | Social | Governance |
|---|---|---|
| • Climate change<br>• Water<br>• Waste and pollution<br>• Biodiversity | • Healthcare<br>• Social inequality<br>• Health and safety<br>• Demographics/ consumption<br>• Labor standards (including the supply chain)<br>• Modern slavery<br>• Human rights and community impacts | • Board structure, diversity and independence<br>• Remuneration that is aligned with performance<br>• Accounting and audit quality<br>• Anti-bribery and corruption |

Selection and monitoring processes for potential and appointed sub-investment managers include Mercer's ESG Ratings and associated commentary from the Manager Research Team (see Appendix for further detail). ESG Ratings are reviewed during quarterly monitoring processes, with a more comprehensive review performed annually seeking evidence of positive momentum on ESG integration. Expectations are set as ESG3 or above where practicable and relevant to the strategy (with ESG1 being the highest rating and ESG4 being the lowest). Comparisons are also made with the appropriate universe of strategies in Mercer's global database.

# 05/ Sustainability themes

Mercer DSE believes that including exposure to sub-investment managers that identify longer-term environmental and social themes and trends is likely to lead to improved risk management and new investment opportunities.

In addition to "pure-play" allocations to clean energy, water, timber or agriculture, this can include "broad sustainability" allocations to companies providing sustainable goods and services solutions in environmental matters or social areas such as health and education. Selection and monitoring processes for potential and appointed sub-investment managers increasingly consider these exposures in portfolio construction decisions.

Mercer recognizes there are significant developments underway in how investors approach sustainability. Most notably, the 17 United Nations Sustainable Development Goals (the SDGs) and the underlying metrics for each goal to be achieved by 2030.[3] The SDGs address interconnected global challenges, including those related to poverty, inequality, climate change, environmental degradation, prosperity, and peace and justice. The framework can be utilized by the public and private sectors to align their activities with particular themes and measure positive contributions or impacts.

There are different tools available for listed and unlisted equities and real assets. As the alignment and measurement tools continue to improve, we expect to evolve our approach and reporting capabilities both internally and with our investors in this area.

## Applicability of ESG and sustainability to different asset classes

Mercer believes that ESG factors can be applied across asset classes — including listed equities (active and passive), sovereign and corporate bonds, property and unlisted assets.

However, we acknowledge that the degree of relevance, or materiality, varies across asset classes, as does the current state of integration by strategies within asset classes. Sustainability-themed strategies are more prevalent in equities and real assets (infrastructure, timber, agriculture) and less so in other asset classes. These considerations, summarized in Table 2, inform our expectations for sub-investment managers in Mercer DSE's selection and monitoring processes.[4]

**Table 2.** ESG and sustainability by asset class

| | Manager progress on ESG integration* | Availability of sustainability-themed strategies** |
|---|---|---|
| Public equity (active) | Medium/high | Low/medium |
| Fixed income | Low/medium | Low |
| Real state | Medium/high | Low |
| Private equity and debt | Medium | Low/medium |
| Infrastructure | High | Medium/high |
| Natural resources*** | Medium | Medium/high |
| Hedge funds | Low | Low |

*Source: Mercer.*

Note: Low: <5%; low/medium: 5%–10%; medium: 11%–20%; medium/high: 21%–40%; high: >40% (as of December 2019).

* 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 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 in this asset class may result in a more favorable view than is currently held.

[3] https://sustainabledevelopment.un.org/topics/sustainabledevelopmentgoals

[4] At the time of adoption of this policy, Mercer does not assign ESG ratings to passive fixed income strategies. Thus, MGIE has no expectations of passive fixed income sub-investment managers as it relates to this policy.

# 06/ Climate change

Mercer DSE believes 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 for investors, as outlined in Mercer's ***Investing in a Time of Climate Change*** report.

Mercer DSE considers these potential financial impacts in portfolio construction within asset classes and in sub-investment manager selection and monitoring processes. Potential financial impacts are also considered at a client portfolio level in certain cases; for example, where Mercer DSE has discretion over the asset allocation of the client portfolio. Together with ongoing research, the potential financial impacts of climate change are included in Mercer DSE's modeling estimates under multiple climate scenarios for physical damage and transition risk factors (as per the *Investing in a Time of Climate Change* report). At the sub-investment manager level, Mercer DSE's expectation is that climate change risk assessment and risk reduction are integrated within a sub-investment manager's approach to ESG, stewardship activities and sustainability themes.

Mercer DSE believes 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. Because of the measures that will be taken to achieve this, we believe it is prudent for investors to position for a "well below two degrees Celsius" outcome and will seek to increasingly align portfolios with that aim where consistent with meeting stated investment objectives. Mercer DSE therefore also participates in collaborative industry engagements to support this end goal.

Mercer DSE's approach to climate-related financial risks and opportunities is summarized below, consistent with the framework recommended in 2017 by the Financial Stability Board's Task Force on Climate-related Financial Disclosure (TCFD). Disclosure consistent with the TCFD recommendations is also expected of appointed sub-investment managers.

In summary, Mercer DSE takes the following approach to the TCFD framework's four elements for managing climate-related financial risks:

**Governance:** Nominated members of the board and the management team have oversight of the Mercer DSE approach to climate-related risks and opportunities, with support provided by Mercer's RI team. The board oversees Mercer DSE's compliance with this policy through annual reporting from management to the board.

**Strategy:** Climate-related scenario analysis is undertaken as part of strategy reviews on multi-asset class portfolios. Portfolio construction within asset classes is undertaken with a consideration of climate-related risks and opportunities under different climate scenarios.

**Risk management:** Consideration is given to risk-reduction strategies to decarbonize the portfolio and identify new low-carbon opportunities, including adding exposure to sustainability-themed sub-investment managers and reviewing passively managed index exposures. In addition, Mercer DSE participates in industry-wide engagements where appropriate.

**Targets/metrics:** Metrics, such as carbon footprinting, are employed to review carbon policy risk relative to benchmark for listed equities exposures and to engage with sub-investment managers on the results. Mercer DSE expects metrics and targets to evolve across asset classes as data becomes increasingly available and reliable.

Mercer DSE's *Climate Change Management* report highlights it's approach to the TCFD framework, including example analysis on strategy, targets and metrics.

## Applicable Asset Classes

As per the systemic risk comments above and Mercer's *Investing in a Time of Climate Change* report, Mercer DSE's current view is that climate change risks are applicable, to varying degrees, across all asset classes. Initial activity has focused on listed equities, active and passive, and sustainability-themed private markets investments; however, all asset classes are being reviewed. As climate change expertise continues to evolve, we will review and update our views and approaches accordingly.

# 07/ Stewardship — share voting and engagement

Mercer DSE believes stewardship (or active ownership) helps the realization of long-term shareholder value by providing investors with an opportunity to enhance the value of companies and markets in a manner more consistent with long-term investor timeframes; for example, voting on resolutions at company AGMs and writing to or meeting with company management on particular issues.

This policy represents Mercer DSE's commitment to industry standards of good governance and stewardship and sets out Mercer DSE's approach to the obligations applicable to it under the EU Shareholder Rights Directive (SRD) II. For more detail, please refer to Mercer DSE's Engagement Policy. Mercer DSE's Irish-domiciled investment management business also supports the revised UK Stewardship Code (the "Code"), which came into effect in January 2020, as universal good practice and is currently developing its approach to applying the 12 principles set out in the revised Code.

Mercer DSE is a long-term institutional investor and "universal owner" and for these reasons regards investment governance and active ownership to be of particular importance in serving the interests of our investors.

Mercer DSE expects sub-investment managers of the multi-client Mercer DSE Funds that invest directly in listed equity, private equity, fixed income (listed and private), real estate and infrastructure to comply with this policy. For pooled investment vehicles, Mercer DSE will engage with the sub-investment managers with the aim of improving the managers' ESG practices in line with this policy.

Mercer DSE's investment governance approach has four main components:

**Share voting**

All shares are to be voted by sub-investment equity managers in a manner deemed most likely to protect and enhance the long-term value of a security as an asset in the portfolio. Mercer DSE has delegated share voting to its appointed equity sub-investment managers and expects them to vote all shares at all companies for all company resolutions unless there is a qualification or exception (refer to the Share Voting section below).

**Engagement**

Mercer DSE expects sub-investment managers appointed to Mercer DSE Funds to adopt clear guidelines on their engagement activities and escalation processes and to report on these activities and outcomes at least annually.

**Disclosure**

Voting and engagement activities of sub-investment managers appointed by Mercer DSE are to be reviewed regularly. This review includes voting records and statistics, along with engagement examples, reported on at least annually in line with required reporting guidelines such as the EU Shareholder Rights Directive II and the UK Stewardship Code.

**Public policy participation**

Engagement may be undertaken with regulators, and sometimes governments, to recommend changes or express views on proposed changes to regulatory regimes where this is deemed important to protect the rights and enhance the interests of shareholders.

# 08/ Share voting

Mercer DSE regards voting its shares as important to our fiduciary responsibility. A vote is a visible and concrete expression of what may have been expressed in private discussion with the company's board or management either via our agents (sub-investment managers) or directly with Mercer management (refer to the Engagement section below). Voting is also an effective way for Mercer DSE and other investors to publicly express views on what a company is doing, and where a company may need to change.

As part of its outsourced investment model, Mercer DSE outsources proxy voting responsibility to its listed equity sub-investment managers. Mercer DSE carefully evaluates each manager's capability in ESG engagement and proxy voting as part of the investment manager selection process to ensure it is representing Mercer DSE's commitment to good governance, sustainable investment and long-term value creation.

## Taking a "super vote"

The outsourcing of proxy voting responsibilities may result in split votes across sub-investment managers. Where Mercer DSE believes consistency on a significant matter is necessary, it may decide to override the sub-investment manager's votes on any resolutions through its authority to direct a single vote or "super vote." The decision to undertake a super vote is ultimately based on Mercer DSE's view of the long-term interests of its investors. In determining such votes, Mercer DSE will consult its proxy voting advisor's position, its sub-investment managers, and consider best practice guidelines and information on governance standards from organizations such as the International Corporate Governance Network (ICGN).

## Voting exceptions

Mercer DSE's objective is for its sub-investment managers to vote on all shares in which the Mercer DSE Funds invest, both domestic and international, with the following qualifications and exceptions:

**Conflicts of interest:** As part of its review and appointment process, Mercer DSE assesses whether selected sub-investment managers have policies and procedures that are designed to manage conflicts in relation to stewardship. Sub-investment managers are required to report on any conflicts of interest and demonstrate that they have adhered to their conflicts policy and reported any breaches.

**Power of attorney (PoA) markets:** There are some international markets where voting can only be carried out by an individual actually attending the meeting. The rules on PoA vary by market, apply for different periods of time and have various cost implications. Mercer DSE expects sub-investment managers to have PoAs in place for larger markets but accepts that a cost/benefit view may be taken on the smaller markets that employ this structure, meaning there may be some smaller markets where shares are not voted.

**Share-blocking markets:** There are some markets that place regulatory barriers to voting, usually in the form of limitations on trading of shares if a vote is enacted. Mercer DSE's objective is to vote in these markets but it accepts that, on occasion, not all votes will be cast by sub-investment managers.

**Securities lending:** Mercer DSE operates a securities lending program for the benefit of investors. Securities lending is when securities are loaned to third parties in order to earn additional investment returns. Mercer DSE's securities lending program is managed and implemented by an external securities lending agent (SLA). The SLA has established processes to recall shares on loan for voting purposes ahead of an AGM, and Mercer DSE expects that this will not affect our objective to vote on all shares.

**Securities lending collateral:** Mercer DSE's stock lending program is a fully collateralized program, managed and implemented by an external SLA. Mercer DSE's custodian or a sub-agent holds collateral posted by borrowers in a segregated account. Mercer would not expect to ever take receipt of these securities or vote on them. Collateral is therefore not governed by Mercer's Sustainable Investment Policy and is not guaranteed to adhere to the exclusions detailed in this document. The SLA does, however, implement its own exclusions policy on acceptable collateral, which is in part aligned with Mercer's exclusions.

# 09/ Engagement

Corporate engagement refers to discussions with a company, usually at board or senior management level, with the objective of changing the behavior of that company. This will generally occur when Mercer DSE or sub-investment managers have identified underperformance by a company, where the company has failed to meet accepted corporate practice, or where the company's conduct places in doubt its reputation and value.

The issues addressed will generally focus on material ESG factors or business strategy issues — for example, mergers and acquisitions, capital structure and capital allocation, remuneration, climate change risk management and workforce management, including workforce diversity.

Mercer DSE believes its appointed sub-investment managers are typically best-placed to prioritize particular engagement topics by company; however, Mercer DSE as fiduciary also has a role to play in relation to more strategic themes and topics. Mercer DSE has developed an investment engagement framework, which has helped to:

- Develop a systematic approach and key principles for considering themes and topics and agreeing on portfolio-wide engagement priorities
- Document the specific definitions and implementation procedures for approving and amending engagement priorities
- Articulate the governance procedures for monitoring and escalating engagement priorities and implementation in regional investment portfolios

Mercer's investment engagement framework considers three main criteria — Beliefs, Materiality and Influence (BMI), and engagement priorities are expected to intersect meaningfully across all three as tested with answers to a series of questions and evidenced by documenting relevant research and portfolio materiality.

In most instances, corporate engagement implementation is delegated to the appointed investment managers, which are encouraged to engage with portfolio companies on material ESG issues with the aim of improving long-term risk-adjusted returns and the stability of financial markets. Mercer DSE will also communicate our identified engagement priority topics and seek reporting from managers on their activities as they relate to those priorities.

Mercer may also elect to participate, as appropriate, in collaborative industry engagement initiatives. Mercer will give particular consideration to the developments within industry groups where it is a member, such as the Institutional Investors Group on Climate Change (IIGCC) and the Principles of Responsible Investment (PRI).

In addition to the above, Mercer DSE will monitor for high-severity breaches of the UN Global Compact (UNGC) Principles that relate to human rights, environmental and corruption issues, as identified by the external ESG research provider Mercer appoints. In response to identified breaches, Mercer will engage with the investment managers owning those companies and seek their views on the risk, return and reputation implications. If, over a meaningful period of time, the company has not rectified the breach and the investment manager still owns the company, Mercer may decide to test the topic within the exclusions framework and take further action as a result.

# 10/ Disclosure

Mercer DSE expects its selected sub-investment managers to monitor investee companies and to report on stewardship activities and outcomes. Managers are expected to report in line with established best practice, including aligning their reporting with the requirements of the EU Shareholder Rights Directive II and the UK Stewardship Code, where possible.

Mercer DSE also monitors stewardship explicitly for the Mercer DSE Funds by seeking disclosure from sub-investment managers and will report to its investors on its voting and engagement activity and monitoring processes on at least an annual basis across the following four areas.

1. A policy, implementation and reporting review[5] applies the Principles framework of the 2020 UK Stewardship Code. Monitoring confirms that managers have achieved, are making reasonable progress toward or can reasonably explain why they do not anticipate meeting the requirements of the Code.
2. An implementation report sets out how Mercer DSE has implemented its Engagement Policy in line with the principles of the EU Shareholder Rights Directive II. This report will include a general description of voting behavior, an explanation of the most significant votes and the use of the services of proxy advisors.
3. Voting results for all companies voted on a semiannual basis, along with summary reporting on voting trends, will be available within three calendar months of the end of the six-month period.
4. An annual engagement review will cover examples where sub-investment managers have engaged with companies, including a) number of companies engaged, b) engagement examples by topic, c) engagement examples that are collaborative and d) any voting activity/engagement activities impacting investment decisions.

[5] The revised UK Stewardship Code came into effect in January 2020. Sub-investment managers wishing to become a signatory to the UK Stewardship Code have until March 31, 2021, to report in line with the 12 principles under the revised Code, after which Mercer DSE will commence with its policy, implementation and reporting review.

# 11/ Exclusions

As an overarching principle, Mercer DSE is committed to investing responsibly and prefers an integration and engagement-based approach as outlined earlier in the policy. However, there are a number of instances in which exclusions may be considered necessary. Exclusions should be a last resort because, once divested, Mercer DSE loses its shareholder rights and thereby the ability to influence the future behavior of companies.

Even where an exclusion may be considered necessary, Mercer DSE will seek opportunities to use its influence to address the underlying issue of concern with companies, 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 interest of investors.

The reasons to exclude certain securities are likely to be a combination of a number of underlying factors that make continuing to include exposure to the securities in the investment universe untenable. These factors could include investment beliefs, risk management, expected social impact, public policy, reputation, investor expectations, ability to influence and expected impact on portfolio returns.

When considering exclusions, Mercer DSE has developed an investment exclusions framework, where multiple risk, return and reputation criteria are considered. The key components of the framework include an assessment using the following exclusion criteria:

1. Whether legislation, regulation or government commitments prohibit the production, distribution, consumption or use of a product, service or activity, or aim to severely curtail or make obsolete such products, services or activities in the foreseeable future
2. Whether the exclusion will have a positive/immaterial/negative impact on risk-adjusted returns, consistent with fiduciary obligations
3. Whether Mercer is of the view that the product, service or activity causes substantial and irreparable harm to society
4. Whether the exclusion is consistent with Mercer's purpose to create a positive impact on the businesses, people and communities we serve and our mission to help our investors advance their health, wealth and careers
5. Whether other responsible investment approaches, such as company engagement, are expected to have efficacy in addressing the issue of concern
6. Whether the exclusion is aligned with the expectations of our investors, both current and prospective
7. Whether the exclusion is likely to reduce reputational risk of Mercer and/or our investors

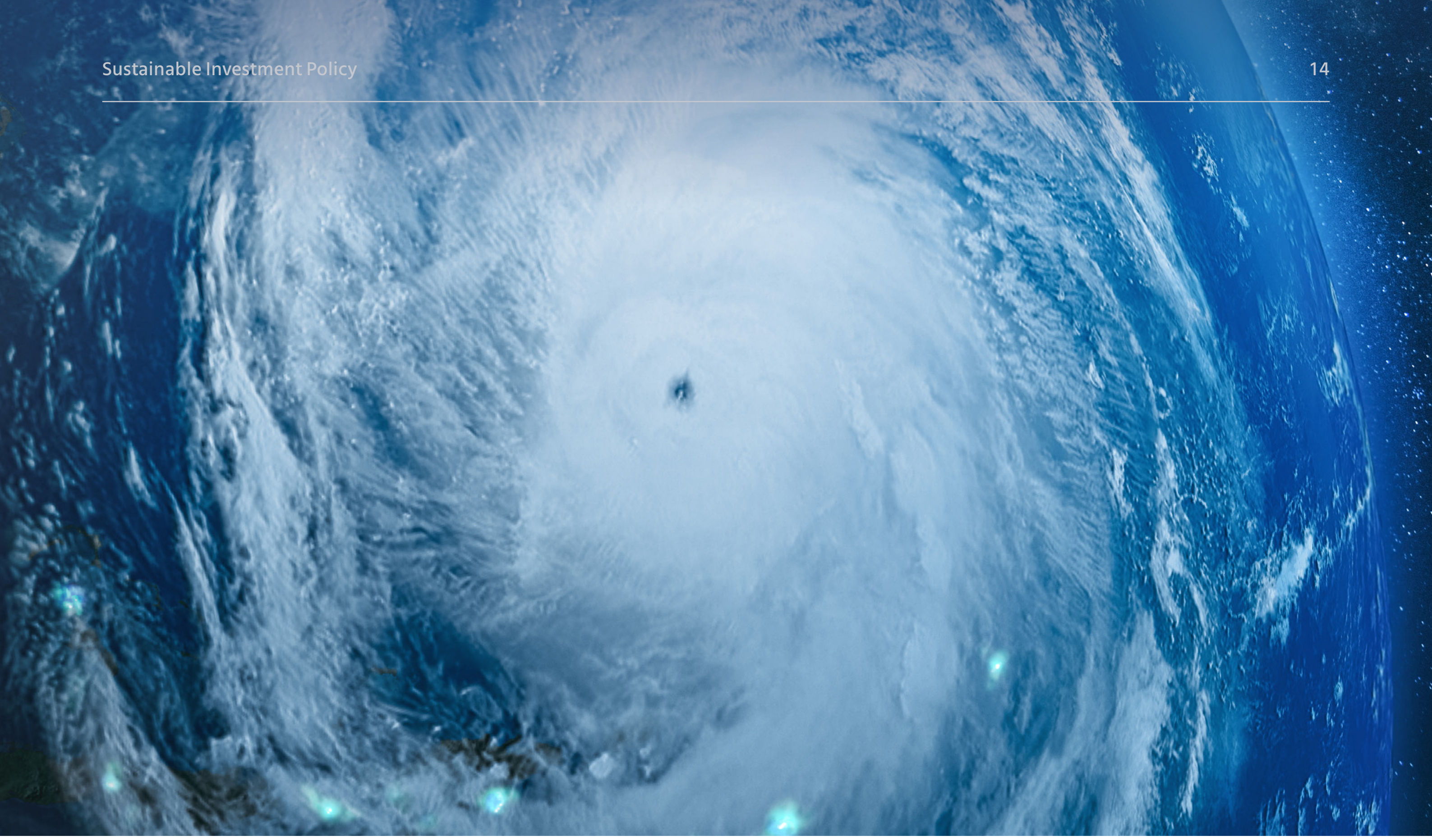
In evaluating any potential exclusion against the above criteria, Mercer considers the response to each question individually and the response to the exclusion criteria in total.

## Implementation

Mercer DSE relies on a third–party provider of ESG research in determining the individual companies to be excluded based on the decisions made under the above criteria. Sub–investment managers are informed on a quarterly basis of any new exclusions.

Mercer DSE will apply this framework to its direct investments, through its Investment Management Agreements with its external investment managers. Where Mercer is invested in a fund in which its assets are pooled with those of others, it may not be able to dictate these exclusions. In these instances, Mercer will make best endeavors to implement the investment exclusions framework and will notify the underlying pooled fund manager of any approved exclusions and the specific definitions for those exclusions.

In selecting investment managers, Mercer DSE will consider the manager's ability to implement any approved exclusions. Compliance with the exclusions will be encouraged and monitored but cannot be guaranteed all of the time.
From time to time, a manager of an underlying pooled fund may exclude the product, activity or industry using a definition that is different from Mercer DSE's definition. This is acceptable provided there is broad consistency with the Mercer DSE definition. If we become aware that an underlying pooled fund has material exposure to an excluded product, activity or industry, and the manager is unable or unwilling to divest these exposures, the underlying pooled fund will be terminated in an orderly manner.



## Current exclusions

For Mercer DSE's actively managed multi-client equity and fixed income funds, and selectively for some passively managed multi-client equity funds,[6] the following exclusions are currently applied as a result of decisions supported by the exclusions framework outlined above:

- Controversial weapons: companies that manufacture whole weapons systems, components and/or delivery platforms for use in cluster munitions, antipersonnel landmines, biological, chemical or nuclear weapons and companies providing auxiliary services to nuclear weapons
- Civilian weapons: companies that manufacture and/or derive any amount of annual revenues from the distribution (wholesale or retail) of automatic or semi-automatic firearms intended for civilian use
- Tobacco: companies that manufacture tobacco products and/or derive > 50% of annual revenues from tobacco-related business activities (for example, transport, packaging and retail)

For Mercer DSE's passively managed multi-client equity and fixed income funds, Mercer DSE will apply the following exclusions as of October 1, 2020, as a result of decisions supported by the exclusions framework outlined above while simultaneously taking into account our clients' investment objective, which, for the most part, is to achieve the performance of the underlying index with minimal tracking error.

Applying additional exclusions, such as those applied to the actively managed multi-client equity and fixed income funds, to the current underlying index will increase tracking error.

- Controversial weapons: companies that manufacture whole weapons systems, components and/or delivery platforms for use in cluster munitions, antipersonnel landmines and biological and chemical weapons
- Civilian weapons: companies that manufacture and/or derive any amount of annual revenues from the distribution (wholesale or retail) of automatic or semi-automatic firearms intended for civilian use

Notwithstanding this, we recognize that ESG is a key priority. We are constantly reviewing our entire fund range through this lens and will look to align exclusions applied to our actively managed multi-client equity and fixed income funds to our passively managed multi-client equity and fixed income funds.

Mercer utilizes ISS ESG research to inform the sub-investment managers of the list of companies to be excluded each quarter.

Mercer DSE also manages a number of funds that have additional exclusions designed to align with the values of a particular customer base. Examples include excluding companies earning a percentage of revenue from gambling, alcohol, adult entertainment and/or fossil fuels.

[6] Passive Fundamental Global Indexation and Passive Sustainable Global Equity Funds.

# 12/ Policy implementation

Table 3 below describes how Mercer DSE will implement the commitments set out in this policy across different asset classes.

**Table 3.** Implementation summary

| | |
|---|---|
| **Communication** | All appointed investment managers are to be sent the latest version of the policy, as referenced in the Investment Management Agreement (IMA) with each manager. |
| **Monitoring** | • Manager ESG capabilities using Mercer's ESG Ratings (all asset classes)<br>• Portfolio holdings for ESG, climate change and sustainable development metrics (equities, fixed income and real assets)<br>• Voting and engagement activity (equities only for voting, engagement across asset classes)<br>• Exclusions compliance (equities and fixed income) and UN Global Compact breaches (equities and fixed income) |
| **Engagement** | • Request information on manager views on material ESG issues and how they are considering these in investment analysis and portfolio construction (all asset classes).<br>• Communicate with managers on areas of weakness or questions identified in the above monitoring (all asset classes).<br>• Communicate with companies directly on occasion, particularly around super vote considerations.<br>• In addition, Mercer will participate in collaborative industry initiatives. Mercer currently supports the following key initiatives globally and within Europe:<br>– Carbon Disclosure Project (CDP)<br>– Global Impact Investing Initiative (GIIN)<br>– Institutional Investors Group on Climate Change (IIGCC)<br>– Principles for Responsible Investment (PRI)<br>– UK Sustainable Investment and Finance Association (UKSIF)<br>– The Investor Agenda, including Climate Action 100+<br>– Transition Pathway Initiative (TPI) |
| **Transparency** | • Report to investors and the board on progress against the above commitments at least annually.<br>• Provide public disclosure on proxy voting.<br>• A stand-alone report on Mercer's climate change management has been made available as of January 2020. |

## Application to different investment arrangements

Mercer's investment arrangements are a combination of segregated mandates with sub-investment managers or investments in pooled vehicles.

Mercer DSE will actively monitor its appointed sub-investment managers on ESG integration, consistent with this Sustainable Investment Policy; however, application may vary depending on the degree of discretion available (which is expected to be higher in segregated mandates relative to pooled vehicles in which the Mercer Funds invest).

# 13/ Policy governance

Mercer DSE is the owner of this policy. Mercer's Responsible Investment Team supports and reports to Mercer DSE 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.

Key responsibilities for the maintenance of this policy are set out in the table below.

| Name of owner | Area of responsibility |
|---|---|
| MGIE Board | Monitor against policy |
| CIO | Accountable for adherence to policy and oversight of Investment Management Team |
| Investment Management Team | Implement against policy |

This policy will be reviewed at least annually, or more frequently if:

- Meaningful change is made to the sustainable investment process
- Relevant legislation or regulation requirements change

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

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

provided any one member of both the MGIE and Responsible Investment Team approves the amendment. The CIO must approve all other amendments to this document.

# Revision history

| Version | Reason for amendment | Date |
|---|---|---|
| 1 | Sustainable Investment Policy first formalized | June 2015 |
| 2 | Inclusion of climate change considerations in line with the 2017 update to Mercer's Global Investments 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 | Annual update; 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 II, 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 |

# Contact us

**Jillian Reid**
Principal — Responsible Investment
jillian.reid@mercer.com

**Inge West**
Associate — Responsible Investment
inge.west@mercer.com

**Niall O'Sullivan**
Chief Investment Officer — Delegated Solutions, Europe
niall.osullivan@mercer.com

**Andrew McDougall**
Head of Portfolio Management — Delegated Solutions, Europe
andrew.k.mcdougall@mercer.com

**Jan-Hein van den Akker**
Head of Equity — Delegated Solutions, Europe
jan-hein.vandenakker@mercer.com

# 14/ Appendix — Mercer's ESG Ratings

Mercer's ESG Ratings represent the Mercer Manager Research Team's assessment of the degree to which environmental, social and corporate governance (ESG) factors are incorporated within a strategy's investment process.

Four factors are considered and documented within the research commentary and an overall rating assigned, where ESG1 = highest possible rating and ESG4 = lowest possible rating. The research is stored within Mercer's Global Investment Manager Database (GIMD).

## Mercer's four factors

### Idea generation

- ESG factors integrated into active fund positions as a source of value added
- Identification of material ESG factors — skills of team members, data sourcing

### Implementation

- Engagement and proxy voting activities (if applicable)
- Investment horizon aligned with ability to effectively implement ESG view

### Portfolio construction

- Efforts to integrate ESG-driven views into the portfolio's construction

### Business management

- Firm-level support for ESG integration, engagement activities and transparency

| | ESG1 | ESG2 | ESG3 | ESG4 |
|---|---|---|---|---|
| Active | Leading approach to integration, where ESG is embedded in investment philosophy; strong on stewardship, which is a core part of process | Consistent and repeatable process 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 factors or stewardship into core processes and no indication of future change |

For passive equity ratings, the overall framework is the same, but the focus is primarily concerned with stewardship activities.

# Mercer's four factors

### Voting and engagement
- Policy, process and priorization
- Quality of engagements

### ESG integration
- Skill set of resources
- Effectiveness of engagement outcomes

### Resources and implementation
- Data analysis to enhance active ownership

### Firm-wide commitment
- Collaborative initiatives and engagement with regulators and policymakers

| Passive | ESGp1 | ESGp2 | ESGp3 | ESGp4 |
|---|---|---|---|---|
| | Leaders in V&E across ESG; stewardship activities and ESG initiatives undertaken consistently at a global level; clear link between engagement and voting actions | Strong approach to V&E across ESG topics and initiatives at a regional level, with progress made at a global level; working toward clearer links between V&E | Focus of V&E tends to be on governance topics only or more regionally focused with less evidence of E&S (in voting and engagement, as well as other internal ESG initiatives) | Little or no initiatives taken on developing a global V&E capability, reactive engagements; and little progress made on other ESG initiatives |

**Important notices**

References to Mercer shall be construed to include Mercer LLC and/or its associated companies.

This contains proprietary information of Mercer and is intended for the exclusive use of the parties to whom it was provided by Mercer. Its content may not be modified, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's prior written permission.

The findings, ratings and/or opinions expressed herein are the intellectual property of Mercer and are subject to change without notice. They are not intended to convey any guarantees as to the future performance of the investment products, asset classes or capital markets discussed. Past performance does not guarantee future results. Mercer's ratings do not constitute individualized investment advice.

This does not contain investment advice relating to your particular circumstances. No investment decision should be made based on this information without first obtaining appropriate professional advice and considering your circumstances. This does not constitute an offer to purchase or sell any securities.

The opinions expressed herein are the intellectual property of Mercer and are subject to change without notice. They are not intended to convey any guarantees as to the future performance of the investment products, asset classes or capital markets discussed.

For Mercer's conflict of interest disclosures, contact your Mercer representative or see http://www.mercer.com/conflictsofinterest.

Information contained herein has been obtained from a range of third-party sources. Although the information is believed to be reliable, Mercer has not sought to verify it independently. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential or incidental damages) for any error, omission or inaccuracy in the data supplied by any third party.

Certain regulated services are provided by Mercer Global Investments Europe Limited and Mercer Limited. Mercer Global Investments Europe Limited is regulated by the Central Bank of Ireland. Mercer Limited is authorized and regulated by the Financial Conduct Authority.

Registered in England and Wales No. 984275. Registered Office: 1 Tower Place West, Tower Place, London EC3R 5BU. Under a Delegated Solutions approach in Europe, Mercer provides access to Mercer's best ideas through the Mercer Funds. The investment manager to the Mercer Funds is Mercer Global Investments Europe Limited.

MARSH & McLENNAN COMPANIES


6011119a-WE