HEALTH WEALTH CAREER

UK Stewardship Code — Statement of Commitment

MERCER DELEGATED SOLUTIONS EUROPE

June 2019

MERCER

APPROACH TO STEWARDSHIP

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

Mercer has advised investors on all aspects of environmental, social and corporate governance (ESG) integration and stewardship since 2004, and this **responsible investment** experience informs the approach taken by Mercer DSE to responsible and sustainable investment globally.

Mercer's specialist Responsible Investment Team assists clients with implementing each of the FRC Stewardship Code's seven underlying principles through advice and monitoring services. Mercer DSE is supported by Europe-based members of the Responsible Investment Team.

Mercer's Investment Beliefs incorporate a global approach to ESG factors. Mercer believes a sustainable investment approach is more likely to create and preserve long-term investment capital and, more specifically, that:

- ESG factors can have a material impact on long-term risk and return outcomes and should be integrated into the investment process.
- Stewardship (or active ownership) supports the realisation of long-term shareholder value by providing investors with an opportunity to enhance the value of companies and markets.
- Taking a broader and longer perspective on risk, including identifying sustainability themes and trends, is likely to lead to improved risk management and new investment opportunities.
- 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.

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

Further detail follows on how Mercer DSE addresses each of the Code's seven underlying principles within the multi-client active and passive equity Mercer Funds[2] it manages.

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.

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.

PRINCIPLE 1

Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Sustainable Investment Policy represents Mercer DSE's commitment to industry standards of good governance and stewardship. This publicly available Sustainable Investment Policy states:

> *'Active/engaged shareholders have a greater chance of ensuring company management acts in ways that are aligned with shareholder interests. Stewardship can also provide investors with an opportunity to enhance the value of companies and markets and to acquire additional information, which can enhance the investment decision process.'*

Mercer DSE's Irish-domiciled Investment Management practice also supports the Code as universal good practice and has made a voluntary statement of commitment to its approach to each of the Code's seven underlying principles. Mercer DSE includes all applicable equity sub-investment managers in Mercer's stewardship monitoring, regardless of their domicile or UK/FCA authorisation requirements.

Mercer DSE aims to select sub-investment managers of the Mercer Funds[2] that exercise voting rights; engage with investee companies, where appropriate, on issues including strategy, performance, risk and corporate governance; and provide appropriate disclosure in connection with the Code.

Mercer DSE's approach to voting and engagement is set out in the Stewardship section of its **Sustainable Investment Policy** and shown below:

STEWARDSHIP — SHARE VOTING AND ENGAGEMENT

Mercer Funds, managed by Mercer DSE, are long-term institutional investors and consider investment governance and active ownership to be of particular importance. Active/engaged shareholders have a greater chance of ensuring company management acts in ways that are aligned with shareholder interests. Stewardship can also provide investors with an opportunity to enhance the value of companies and markets and to acquire additional information, which can enhance the investment decision process.

Mercer DSE expects sub-investment managers of the Mercer Funds that invest directly in listed equities 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.

[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 investment manager.

Mercer DSE's approach has four main components and principles:

SHARE VOTING

- All shares are to be voted by sub-investment managers in a manner deemed most likely to protect and enhance the long-term value for investors.
- All votes are to be evaluated and voted on unless there is a valid reason to prevent this (see Voting Exceptions on page 6).

TRANSPARENCY

- Voting and engagement activities of sub-investment managers appointed by Mercer DSE are to be reviewed regularly, including voting records and statistics along with engagement examples, reported on at least an annual basis.
- Reporting will be provided to investors in compliance with the Transparency guidelines provided in the Policy Implementation section of the Sustainable Investment Policy.

CORPORATE ENGAGEMENT

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

PUBLIC POLICY PARTICIPATION

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

FRAMEWORK FOR SUB-INVESTMENT MANAGER MONITORING

Mercer DSE's monitoring focus on voting resolutions and engagement 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, the 2018 UK Corporate Governance Code and the 2019 Central Bank of Ireland Corporate Governance Code. 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 'voice' (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 that effective boards are likely to enhance long-term corporate value, thereby creating value 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.

MONITORING OF VOTING

Mercer DSE expects its selected sub-investment managers to monitor investee companies and to report on stewardship activities and outcomes. Mercer DSE also monitors stewardship explicitly for the Mercer Funds by seeking disclosure from the sub-investment managers on two annual stewardship information requests (please refer to Principle 7 for more detail):

1. A policy review that applies the UK Stewardship Code principles framework: Monitoring confirms that managers have achieved, are making reasonable progress towards or can reasonably explain why they do not anticipate meeting the requirements of the Code.

2. A voting and engagement activity review: See Principle 3 on page 7.

Mercer DSE accepts that sub-investment managers may have detailed knowledge of both the governance and operations of the investee companies and has therefore enabled sub-investment managers to vote based on their own proxy-voting execution policy. Leveraging sub-investment manager knowledge to benefit the voting process may result in 'split votes' in which Mercer DSE's sub-investment managers vote differently on a resolution. Mercer DSE regards explanations from sub-investment managers as critical, and these explanations, particularly where there are split votes, are part of the monitoring process.

VOTING EXCEPTIONS

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

Conflicts of interest: As part of its review and appointment process, Mercer DSE assesses whether its 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: Some global markets allow voting to be carried out only by in-person attendance. The rules on PoA vary by market, apply for different periods of time and have various cost implications. Mercer DSE expects the sub-investment managers to have PoAs in place for larger markets but accepts that a cost/benefit view on smaller markets is required and shares may not be voted where doing so is prohibitive.

Share-blocking markets: Some markets place regulatory barriers on 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 collateral: Mercer's stock-lending program is a fully collateralised and indemnified solution, managed and implemented by an external Securities Lending Agent (SLA). Collateral posted by borrowers is held in a segregated account by a tri-party collateral manager appointed by the SLA. The SLA has established processes to recall shares from loan for voting purposes ahead of an annual general meeting, and Mercer expects that this will not affect our objective to vote on all listed equities.

Where sub-investment managers have not voted, Mercer DSE expects rationale to be provided to account for these 'no votes', which typically includes references to PoA or share-blocking. Mercer DSE periodically reviews the percentage of no votes and the rationale provided and may engage with the sub-investment manager if these reviews raise questions or concerns.

PRINCIPLE 2

Institutional investors should have a robust policy on managing conflicts of interest in relation to Stewardship, and this policy should be publicly disclosed.

Mercer DSE expects its selected sub-investment managers to have policies and procedures in place designed to manage their own conflicts of interest in relation to stewardship. As part of our annual policy monitoring process (see Principle 3, below), sub-investment managers are required to report on their conflicts of interest policy and the procedures that allow them to adhere to that policy.

Mercer DSE also recognises and manages its own potential conflicts of interest in relation to stewardship, as follows:

- Mercer recognises and manages the potential conflict between the interests of Mercer DSE's clients and those of the broader organisation. To ensure that the best interests of all clients are being met, Mercer DSE has delegated all vote execution and company-level engagement to the selected sub-investment managers, and it monitors sub-investment managers' approach to voting and engagements rather than making specific voting and engagement decisions.

PRINCIPLE 3

Institutional investors should monitor their investee companies.

Mercer DSE expects its selected sub-investment managers to monitor investee companies and to report on stewardship activities and outcomes.

Mercer DSE monitors this activity via Mercer's research on each underlying sub-investment manager, which is conducted by Mercer's Global Manager Research Team. This research includes an ESG rating and commentary on the manager's approach to ESG integration and stewardship.

Mercer DSE also monitors stewardship explicitly for the Mercer Funds by seeking disclosure from the sub-investment managers on two stewardship information requests:

1. A policy review that applies the UK Stewardship Code principles framework: Monitoring confirms that managers have achieved, are making reasonable progress towards or can reasonably explain why they do not anticipate meeting the requirements of the Code.

2. A voting and engagement activity review that covers the following areas:

   a. **Voting execution** — The Broadridge voting system is to be used to obtain the voting statistics to monitor execution and consider vote percentages.

   b. **Voting rationale** — Brief commentary, based on sub-investment-manager-disclosed information, should be provided, covering votes cast in four parts: a) votes against management, b) votes against proxy advisor policy (where applicable), c) abstentions and d) no votes.

   c. **Engagement** — Brief commentary, based on sub-investment-manager-disclosed information, should be provided, capturing examples of instances where the sub-investment manager has exchanged views with companies; for example, a) number of companies engaged, b) engagement examples by topic, c) engagement examples that are collaborative and d) any voting activity that is an escalation connected to engagement.

An anonymised sample of both monitoring reports was provided to the Financial Reporting Council (FRC) at the time of our initial submission. Examples from our 2018 voting and engagement activity review are included below.

EXAMPLE VOTE STATISTICS

Manager	Manager 1		Manager 2		Manager 3		Manager 4		Total	
	#	%	#	%	#	%	#	%	#	%
Total votes cast	**3,567**	**96.4%**	**298**	**88.2%**	**1,847**	**95.8%**	**497**	**99.8%**	**6,209**	**96.1%**
Votes for management	3,126	84.5%	262	77.5%	1,671	86.7%	470	94.4%	5,529	85.5%
Votes against management	373	10.1%	33	9.8%	175	9.1%	27	5.4%	608	9.4%
Abstentions	68	1.8%	3	0.9%	1	0.1%	0	0.0%	72	1.1%
No votes	**133**	**3.6%**	**40**	**11.8%**	**81**	**4.2%**	**1**	**0.2%**	**255**	**3.9%**

Example: Commentary on Vote Rationale

Manager 2:

Votes against management: A summary voting and engagement report was provided. Votes against management included a range of issues, the majority of which focused on the issuance of shares, stock options, remuneration and dividend payments.

Abstentions: Only three abstentions were recorded over the period. One resolution related to the issuance of equity to acquire a third party, wherein the manager had concerns regarding the suitability of the transaction. The remaining two resolutions related to the election of a company president and director, raising concerns around board independence. Rationales for abstentions were provided.

No votes: The rationale for no votes related to the practice of 'share blocking' — the rules in some markets that restrict managers from selling shares during the period between the votes being cast and the date of the meeting.

Example: Commentary on Engagements

Manager 2:

Useful summaries of engagements with company management were provided. The majority of reported activity relates to governance issues and, in particular, incentive and remuneration proposals. Specific examples on engagements were provided for Company C and Company D, for which there were quarterly engagements relating to CEO remuneration. Engagements on social issues specifically relating to supply chain/distribution management were also had with Company E.

Example: Heat Map Summary

Mercer DSE also summarises its findings using a 'heat map' or 'traffic light' system to isolate areas requiring improvement and to inform our ongoing monitoring and engagement with managers.

Portfolio	Manager	Vote ex.	Vote dis.	Engagement	Comments	PRI/ICGN*	Proxy adv.
Fund 1	Manager 1				High-level voting disclosure No engagement (quant-style manager)	PRI	ISS
	Manager 2				Comprehensive disclosure on voting and engagement	PRI/ICGN	Own
	Manager 3				Detailed voting rationale Mainly collaborative engagements focussing on environmental considerations	PRI	ISS
	Manager 4				No voting rationale Engagement examples across E, S and G factors	PRI/ICGN	Own

PRINCIPLE 4

Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

Mercer DSE expects its selected sub-investment managers to adopt clear guidelines on their engagement activities and escalation processes and to report on these activities and outcomes as per Principles 1, 6 and 7. Mercer DSE's stewardship monitoring also seeks examples where voting decisions — for example, against management — have been a deliberate escalation following engagement.

In terms of Mercer DSE's escalation with sub-investment managers, our monitoring process tracks improvements from previous monitoring reports, identifies areas for future improvements and provides feedback to managers. During the monitoring process, if sub-investment managers fail to comply, explain their governance principles or respond to our feedback, ongoing stewardship concerns will be escalated to the Mercer DSE chief investment officer (CIO). The CIO will engage with the sub-investment manager directly in the first instance. If there is no indication of improvement, stewardship concerns will be viewed as a meaningful consideration, alongside other investment factors, in subsequent retention or termination decisions for that sub-investment manager.

PRINCIPLE 5

Institutional investors should be willing to act collectively with other investors where appropriate.

Mercer believes that appropriate investor collaboration is the most effective manner in which to engage, particularly at times of significant corporate or wider economic concerns.

Globally, Mercer is party to a number of collaborative investor initiatives focussed on improving the long-term sustainability of capital markets. For example, Mercer is a service provider signatory to the Principles for Responsible Investment (PRI), a signatory to the Carbon Disclosure Project (CDP) and a member of the Global Impact Investing Network (GIIN) and has signed the Task Force on Climate-related Financial Disclosures (TCFD) Statement of Support. In Europe, Mercer is also a member of the Institutional Investors Group on Climate Change (IIGCC), the UK Sustainable Investment and Finance Association (UKSIF) and the European Sustainable Investment Forum (Eurosif), all of which promote best practice on ESG issues. Mercer's global research database also captures investment manager participation in collaborative investor initiatives on ESG and stewardship.

Mercer will keep up to date and participate as appropriate in any new initiatives that may develop over time. As an example of our own willingness to act collectively, Mercer has signed every Global Investor Statement on Climate Change since 2014 and the multiple investor initiatives within the Investor Agenda in 2018.

Mercer DSE reviews the extent to which its selected sub-investment managers are open to and actively participate in investor initiatives with respect to stewardship. The regular stewardship monitoring request seeks recent participation examples on any collaborative activity.

PRINCIPLE 6

Institutional investors should have a clear policy on voting and disclosure of voting activity.

Mercer DSE reviews the extent to which its selected sub-investment managers have corporate governance and voting policies in place, and it reviews these during the annual policy assessment process (based on the UK Stewardship Code Principles). Annually, equity managers are also required to disclose commentary on their voting activity, providing insights into the rationale behind their voting statistics. An example of the monitoring report inclusions is provided under Principle 3 on page 8. The monitoring report, including our vote statistics, is made available to clients, but because it includes Mercer's views and assessments of each manager, it is not made publically available.

The Sustainable Investment Policy for Mercer DSE and the extracts provided in Principle 1 provide further detail on Mercer DSE's share-voting policy; however, a summary is provided below:

- Sub-investment managers will participate in all share votes in a manner deemed most likely to protect and enhance the long-term value for investors.

- All votes are to be evaluated and participated in, unless there is a valid reason to prevent this (see Voting Exceptions on page 6).

Monitoring oversight is provided by Mercer's Responsible Investment Team, which is tasked with management of stewardship compliance. Areas of focus are outlined in the Sustainable Investment Policy, but, in summary, these include governance and strategy (shareholder rights, role and responsibilities of the board, risk and audit, disclosure and transparency, and remuneration and incentives) together with environmental and social factors and trends, consistent with Mercer's ESG beliefs.

PRINCIPLE 7

Institutional investors should report periodically on their stewardship and voting activities.

Annually, Mercer DSE updates clients with the latest stewardship monitoring reports, as outlined under Principle 3. Summary stewardship monitoring results are included in client performance reports and standard meeting presentation material, whereas full reports are emailed to clients by their consultants.

STATEMENT OF COMMITMENT GOVERNANCE

This Statement was last updated in June 2019 and is reviewed on an annual basis. It has been prepared by the Responsible Investment Team and approved by the Mercer DSE CIO.

For any further queries, please contact:

Jillian Reid (Primary)
Principal — Responsible Investment
jillian.reid@mercer.com
+44 20 7178 3164

Inge West (Secondary)
Associate — Responsible Investment
inge.west@mercer.com
+44 20 7178 3147

IMPORTANT NOTICES

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

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 individualised 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.

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 domiciled in Ireland is Mercer Global Investments Europe Limited, which is authorised and regulated by the Central Bank of Ireland. Registered in Republic of Ireland No. 416688. Registered Office: Charlotte House, Charlemont Street, Dublin 2.

INVESTORS IN PEOPLE

Issued in the United Kingdom by Mercer Limited, which is authorised and regulated by the Financial Conduct Authority. Registered in England No. 984275.

Registered Office: 1 Tower Place West, Tower Place, London, EC3R 5BU.

6010034-GB

MARSH & McLENNAN COMPANIES