

TCFD Entity Report (UK)

Mercer Risk Management Limited,
2025 Reporting Period



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Section 1

Introduction

This report is the second annual Task Force on Climate-related Financial Disclosures (“TCFD”) entity report prepared for Mercer Risk Management Limited (“MRML”) in accordance with Chapter 2 of the Financial Conduct Authority (“FCA”) ESG Sourcebook. It covers the reporting period from 1 January 2025 to 31 December 2025.

This entity-level report applies to MRML (formerly Cardano Risk Management Limited (“CRML”)), which is authorised and regulated by the FCA in the United Kingdom.

In June 2024, Marsh & McLennan Companies announced that it had reached an agreement to acquire Cardano Risk Management Limited. The acquisition completed in November 2024, after which the business became part of Marsh & McLennan Companies and is being integrated into Mercer, a Marsh business.

MRML’s clients are predominantly UK defined benefit and defined contribution pension schemes. This report focuses on those MRML clients for whom MRML manages some or all assets on a discretionary basis under MRML’s Sustainable Investment Framework.

The Sustainability Investment Solutions Centre (“SISC”) oversees and supports MRML’s climate and sustainability ambitions and reports to the Marsh & McLennan Companies, Inc. Board. The SISC is supported by the Sustainability Policy Committee (“SPC”), the Sustainability Classification Committee (“SCC”), and the Sustainability Methodology Committee (“SMC”), with representation from senior leaders across our global businesses and corporate functions

This report explains how MRML’s Sustainability Investment Framework is integrated into MRML’s governance structure, risk management, operations and includes information specific to our investment business.

Section 2

Background

The need to achieve “net-zero”

Climate change refers to long-term changes in the Earth’s climate system driven primarily by greenhouse gas (GHG) emissions resulting from human activity. Greenhouse gases include carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O) and other industrial gases, which trap heat in the atmosphere and contribute to global warming.

According to the Intergovernmental Panel on Climate Change (IPCC), human activity has already caused approximately 1.1°C of global warming above pre-industrial levels¹. More recent observational data indicates that warming has continued to accelerate.

2024 was confirmed as the warmest year on record globally, with average temperatures approximately 1.5°C above pre-industrial levels². Although 2025 was marginally cooler than 2024, multiple climate agencies confirmed that it remained one of the three warmest years ever recorded³. Copernicus Climate Change Service data also showed that the three-year period from 2023 to 2025 averaged above 1.5°C above pre-industrial levels for the first time in recorded history⁴.

Climate trends are measured over long periods rather than individual years, meaning that a single year above the 1.5°C threshold does not itself constitute a permanent breach of the Paris Agreement temperature goals. Nevertheless, the recent trajectory is concerning. The eleven warmest years on record have all occurred since 2015⁵.

Even relatively small increases in average global temperatures can have significant consequences for ecosystems, economies and societies. Rising temperatures are associated with increasing frequency and severity of physical climate risks, including heatwaves, droughts, flooding, sea-level rise, hurricanes and wildfires.

Recent years have seen a growing number of severe climate-related events globally. During 2025, many regions experienced record heatwaves, flooding and wildfire activity, while ocean temperatures and ocean heat content also remained near record highs⁶. Europe continued to experience severe flooding events and extreme heat, while parts of North and South America experienced prolonged drought and wildfire conditions. Scientific attribution studies increasingly indicate that climate change is increasing both the likelihood and severity of many extreme weather events, even where individual events cannot be attributed solely to climate change⁷.

¹ IPCC AR6 Synthesis Report, 2023.

² Copernicus 2024 climate summary, 10 January 2025.

³ World Meteorological Organization Climate Summary, 14 January 2026.

⁴ Copernicus 2025 report, 14 January 2026.

⁵ Copernicus Climate Indicators: Temperature.

⁶ Carbon Brief, State of the Climate: 2025 in top three hottest years on record as ocean heat surges, 14 January 2026.

⁷ World Weather Attribution.

Global greenhouse gas emissions also remain close to record levels. According to the United Nations Environment Programme (UNEP), annual global greenhouse gas emissions are estimated at approximately 57 gigatonnes of CO₂ equivalent (GtCO₂e) per year⁸. Fossil fuel combustion remains the single largest contributor to global emissions, although emissions associated with agriculture, land-use change and deforestation also remain significant contributors.

Achieving global net zero emissions over coming decades is therefore widely regarded as necessary to limit the most severe economic, environmental and societal impacts of climate change and to support a more orderly transition to a resilient and sustainable global economy.

What is TCFD?

In July 2023, the Financial Stability Board (FSB) announced that the work of the TCFD had been completed. Having fulfilled its remit, the TCFD disbanded in October 2023, and the International Financial Reporting Standards (IFRS) Foundation, through the International Sustainability Standards Board (ISSB), has now taken over monitoring the progress on climate-related disclosures. This report continues to report in line with the recommendations of the TCFD.

The TCFD created an industry-led reporting framework that sets out recommendations for issuers and financial market participants to organise and standardise climate disclosures.

It was set up because the FSB considered that:

- The financial risks and opportunities posed by climate change are not fully understood and not fully priced by financial markets
- Corporate and financial institutions are not prepared for the transition to a low carbon economy
- This will lead to the misallocation of assets, the risk of asset stranding, and market volatility and dislocation

The TCFD recommendations were adopted by regulators, including by the UK government.

⁸ United Nations Environment Programme, Emissions Gap Report 2024, 24 October 2024.

Governance

Our Climate Change-related Risks and Opportunities governance

Sustainability governance

We take a holistic view of sustainability that includes planetary boundaries and social foundations and the necessary transitions to create a sustainable society. Climate change is one of the key planetary boundaries that is covered by our approach and is highly inter-related with other transitions.

Our governance structure provides oversight of sustainability related topics across the group taking into account the views of the different businesses and clients. By including representatives of different teams, we enhance internal communication, and consider different perspectives, which leads to better decision making.

The approach to sustainability is ultimately overseen and formally approved by the MRML Board and shaped by the input of the Sustainability Policy Committee, co-chaired by the CEO of MRML.

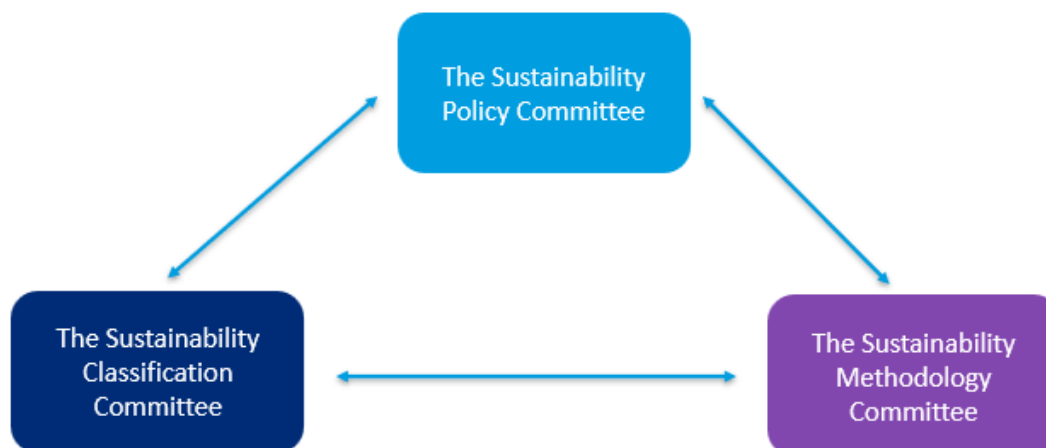
Our approach to Sustainable Investing is set out in our Sustainable Investing Policy and supporting appendices found here: [Sustainability Policies - Cardano](#)

The sustainability committees

Various departments and committees are responsible for formulating and implementing the Sustainability Investment Policy. Following the acquisition of Cardano by Mercer, we have formed a central expertise hub for sustainability investment solutions in the region, the Sustainability Investment Solutions Centre ("**SISC**")

SISC is responsible, together with the investment teams, for the development, implementation, and monitoring of the Sustainability Investment Policy. SISC conducts periodic sustainability screenings of companies and institutions, provides the necessary information for ESG integration to the portfolio managers, and carries out stewardship activities. Additionally, SISC develops new policies to ensure that the approach remains in line with applicable regulations and integrates sustainability risks and opportunities into the policy.

There are three committees to ensure the proper execution of the Sustainability Investment Policy:



- The Sustainability Policy Committee (“**SPC**”) is responsible for setting overall sustainability strategy and approves the Sustainability Investment Policy, including the Sustainability Classification Framework and its criteria and thresholds, from an organisational perspective. It meets regularly with senior representatives from the Board, SISC and other functions. Decisions are made by majority vote. SPC decisions are then reviewed and, if approved, adopted by the board of MRML.
- The Sustainability Categorisation Committee (“**SCC**”) is responsible for determining the (re)classification of investments in line with the Sustainability Classification Framework. This results in an investment universe that includes companies and institutions that meet the minimum sustainability criteria set within the Sustainability Investment Policy. The committee includes senior representatives from SISC, Investment teams, Product Management & Development, Risk Management and Client Servicing teams, and meets regularly. Decisions are made by majority vote and in the event of a tie, the chair has the deciding vote. The SCC reports to the SPC.
- The Sustainability Methodology Committee (“**SMC**”) is responsible for developing and taking decisions on the methodologies that relate to the implementation of sustainability policies and underlying screening processes. It covers both data-driven and qualitative methodologies. It includes representatives from SISC, the Investment teams, ESG Services, and ABS Sustainability, and meets regularly. Decisions are made by majority vote and in the event of a tie, the chair has the deciding vote. The SCC reports to the SPC.

Investment Teams role in Sustainability and Climate Change

The Sustainable Investment Policy outlines our approach to investing sustainably ([Sustainability Policies - Cardano](#)).

The investment team is tasked with incorporating this policy into their approach and works closely with the Sustainability Investment Solutions Centre to formulate specific implementation of our sustainability-related policies in their area.

This includes assessing climate change risks and opportunities specific to their strategy. The approach does vary substantially from strategy to strategy. For example, a Liability Driven Investment strategy typically invests exclusively in UK government bonds and may, from a sustainability point of view, be limited to considering only Green Gilts and issuer and counterparty engagement. In contrast, an equity or credit strategy uses our Sustainable Investment Framework to determine which companies qualify for the portfolio and work with the stewardship team to engage companies in the portfolio on climate change and other sustainability topics.

We hold a monthly research meeting that involves our Sustainability Team and the Investment teams. The meetings cover rotating sustainability topics and how these impact our assessments at the company, issue and sector level. The goal of these meetings is to exchange views and systematically integrate our approach across the firm.

Our data sources

We rely on data from various data providers in our assessments. We supplement this quantitative data with our own teams' inhouse qualitative research. The data providers are regularly reviewed with new data sources added where data is missing. Our primary data providers for sustainability data include MSCI and Sustainalytics. We have extensive additional data sources including, for example, satellite and supply chain data from our deforestation engagement programme with Satelligence.

For third-party manager portfolios we request and rely on the data from third-party managers. The quality of data available varies substantially across managers and asset classes.

While we make efforts to ensure the validity of the data, we note that data changes from year to year can be substantial driven by changes in methodology, estimations produced by data providers and changes in reporting quality by the underlying companies or third-party managers.

Our own operations

In March 2026, Marsh published the Group's annual Business Responsibility report (the "[2025 Report](#)").

The strategic objectives and climate ambitions set out in that report are integrated into Mercer's corporate strategy and governance structure.

Progress over 2025

2025 marked a year of integration and review. With the acquisition by Mercer, the focus was on beginning to align investment approaches. While nothing has changed in the direct mandates that we manage, or in our stewardship approach, work was done to start aligning definitions and approaches.

On climate this was a natural time to initiate a review of the Climate Strategy. Updates to the Climate Strategy include several recommendations to align more closely with the Net Zero Investment Framework 2.0 published by the IIGCC. Key Changes include:

- The Paris agreement in 2015 agreed to “limit global warming to “well below 2°C and pursue efforts to limit warming to 1.5°C”. We have previously aligned our targets to the 1.5°C pathway.
- We are realistic that the world is not currently aligning with this trajectory; global carbon emissions have continued to increase rather than decline. We think that a “well below 2°C pathway is still possible” provided there is sufficient global policy support.
- We have therefore updated the wording to make several things clear:
 - o We reframe the trajectory as an objective rather than a target. As investors we cannot target the pace of real-world decarbonisation, but we can support others (our investee companies and policy makers) to achieve this.
 - o We are clearer that the desired objective of net zero 2050 applies primarily to developed market countries and does not apply to emerging markets who need longer to achieve net zero.
 - o We will make every effort to support real-world decarbonization aligned with these reference objectives and real economy outcomes, but we will not engage in portfolio “paper decarbonisation” simply to hit these headline objectives: if our portfolio headline carbon footprint reductions are at odds with the reference objectives we will reconsider these reference objectives to make sure that we both meet our fiduciary duty in achieving financial returns for clients, and to continue to have the maximum real-world impact through our stewardship efforts to support the transition towards a sustainable society
- As such the revised policy places even more emphasises stewardship and engagement as the key mechanism to accelerating the real-world transition.
 - o Where company engagement is not effective we are increasingly emphasising policy engagement with regulators, governments and policy makers.

From a resourcing perspective, our Sustainable Investment capabilities have continued to grow as we have consolidated the Mercer Global Investor Sustainability team and the Cardano sustainability team into a single Global Sustainable Investment Centre (SISC) for the Mercer International region.

We inform our own approach to climate change through:

- Our in-house SISC, which has extensive expertise and is involved in a range of collaborative stewardship engagements. We have experts focused specifically on climate change alongside other systemically important sustainability issues such as biodiversity and water usage.
- The resources of the broader Mercer and Marsh group which includes the Mercer Global Sustainable Investment Engine.
- Our involvement in external industry initiatives such as the IIGCC, this Institutional Investors Group on Climate Change.

In addition, through the year, we held various education sessions discussing both investment and sustainability topics that are open to both investment, sustainability and client teams.

Section 3

Our Strategic Approach to Climate Change

Our clients are mostly UK Defined Benefit (DB) and Defined Contribution (DC) pension funds. We believe incorporating climate risk and opportunity analysis is a crucial part to both managing our clients' financial results over various timeframes as well as the real-world impact of their investments. Below we set out the various aspects that inform our strategy.

Our investment beliefs drive our approach to climate change

In 2023 we published an updated Sustainable Investment Policy and related Appendices, available on our [website](#). Here we summarise our key beliefs relevant to managing climate related risk.

Our mission and purpose

Our mission is to deliver better long-term savings solutions that benefit everyone. We believe that steady, predictable, and sustainable returns are in our clients' long-term interests, and that these can be achieved through strong risk management and by incorporating sustainability into the core of our business, and the products and services we offer our clients.

Our clients are typically asset owners, institutional investors such as pension funds managed by groups of trustees operating on behalf of their member beneficiaries with long-term time horizons. They have a fiduciary interest to act in the best interests of their members. For most of our clients, the financial risk, return and outcomes of their investments is of primary importance. And as a fiduciary manager and advisor we aim to facilitate them achieving those outcomes.

Our investment management services aim to achieve financial returns in line with the risks assumed, and to contribute to the transition to a sustainable society.

Our approach to investing is articulated in detail in our Sustainable Investment Policy, which includes our sustainable investment framework, responsible capital allocation approach and stewardship approach, which aim to create long-term value for our investments, and sustainable benefits for the economy, the environment and society. Below we extract key concepts relevant to our approach to managing climate risks.

Achieving financial returns and contributing to the transition to a sustainable society

We approach making investments on our client's behalf with "dual objectives" or a double materiality perspective. We believe that we should aim to achieve both financial returns

commensurate with the risks that we take, and that we should aim for a specific real-world impact: we should contribute to the transition to a sustainable society (defined below in more detail).

We believe these two objectives are mutually re-enforcing of each other. Specifically:

- Financial risks are best managed by incorporating environmental, social and governance factors into the risk assessment of each investment. Many environmental, social and governance risks are financially material to investments. Good stewardship practices have the potential to therefore create long-term value at the individual investment level.
- That at the economy wide level, systemic sustainability risks (both environmental and social) are amongst the most fundamental future risks faced by investors. These systemic risks, such as climate change, will impact economies through direct effects but also through policy, growth and inflation, which will, in turn, impact market outcomes and our client outcomes. Our clients' portfolios are exposed to a wide range of systemic sustainability market risks and are unable to diversify some of these systemic risks away. But through sound stewardship practices we can advocate for real economy changes, that if successfully achieved can lead to lower financial risks in the future for members. Therefore, good stewardship can lead to sustainable benefits for the economy, the environment and society, and hence better financial outcomes of our client portfolios.

Hence our approach to stewardship seeks to both deliver financial outcomes at the individual investment level, and to contribute to the transition to a more sustainable society to the benefit of the economy, the environment and society, that can ultimately deliver better financial outcomes at a portfolio level for our clients. We believe it is therefore in strong alignment with our clients' fiduciary duties to their members.

Our priority transitions

We identify the following priority systemic sustainability themes, which, if tackled in combination, we believe, can contribute to a successful transition to a sustainable society:

Planetary Boundaries:

- Fighting climate change
- Halting biodiversity loss and deforestation
- Using water sustainably
- Managing scarce resources, limiting pollution and the transition towards a circular economy

Social Foundations:

- The provision of basic needs such as clean water, nutritious food, healthcare, housing, energy and financial services which are accessible and affordable
- Transition to a fairer society addresses inequality through access to education and training, income and work, improved diversity, and gender equality in the workplace.

- Strong governance, which is vital for businesses to maintain their social license to operate and for governments to maintain their democratic legitimacy

Our investment approach

We believe that the investment outcomes are driven by two key investment processes:

- Capital Allocation
- Stewardship and Engagement

As a fiduciary manager and asset manager we manage some portfolios directly on behalf of clients and others are outsourced to third parties or make extensive use of derivative instruments. Capital allocation therefore includes two channels:

- Direct Capital Allocation: where we are responsible for making an investment in an issuer – a corporate, a sovereign issuer, or even a specific project across public and private markets in both primary and secondary market allocations.
- Indirect capital allocation: where we gain exposure to investments either through third-party managers or via derivatives executed with counterparties.

Our approach to Capital Allocation and Stewardship and Engagement will differ between these two channels.

- For direct capital allocation we have a Sustainable Investment Framework that determines our classification of every investment we make from a forward-looking sustainability perspective. This classification determines whether a direct investment is eligible for our portfolios and what our stewardship and engagement priorities for that investment will be.
- For indirect capital allocation, we recognise our approach to sustainable investing is only one of many valid sustainable investment approaches. We apply a framework for assessing the approach that third-party managers or counterparties take to integrating environmental, social and governance risks and sustainability into their processes, determining whether they meet our minimum standards, and we engage with those third-party managers and counterparties to improve their approach over time.

Our stewardship approach

We believe stewardship is essential to driving real world change and managing financial risks.

MRML is a signatory to the UK Stewardship Code and a member of stakeholder initiatives that facilitate engagement, such as Climate Action 100+.

We believe that our stewardship can drive change through three channels:

1. At the specific investments (e.g. companies through our equity or credit investments)
2. Through our allocations to third-party managers where we can influence their policies and practice
3. By engaging with the ecosystem of stakeholders who can affect climate policy and

outcomes. This includes regulators, policy makers, NGOs and industry groups.

To conduct our engagements, we have adopted the following principles:

- **Collaboration** – engagement is more efficient and impactful when managers collaborate, not just for the investors, but for the companies too (who will field fewer, but higher conviction, engagements from their investors); we collaborate with other investors and market organisations that drive sustainable investment practices.
- **Quality over quantity** – we are interested in meaningful engagements, seeking tangible results with strong reporting.
- **Long-term** – we encourage long-term relationships with companies. Successful stewardship can take many months, maybe even years.
- **Real-world impact** – we are interested in engagement on topics that contribute to positive real-world sustainability impact and address systemic issues (such as, reduction in absolute carbon emissions).
- **Innovation** – we encourage innovation, for example, our satellite-based engagement towards zero deforestation.
- **Integrated** – stewardship contributes to investment decisions.
- **Goal-oriented** – we set objectives and work towards those; if progress is not meaningful, we will consider escalation including voting against board members or changes in capital allocation.
- **Transparency** – some engagements, perhaps even many, will be unsuccessful.

For more information see our Stewardship code application published on our website.

Our risk management tools

We believe in a robust approach to risk management which includes:

- Using **scenario analysis** to consider not only likely outcomes but alternative scenarios and creating portfolios that are robust to a range of potential economic and sustainability/climate scenarios.
- We are sceptical of statistical modelling of many risks and prefer an approach that considers potential outcomes without assigning probabilities of overly relying on statistical models.
- We aim to **hedge unrewarded risks** where it is economic to do so (e.g. liability driven investment (LDI) risks for DB pension funds)
- **Diversification** (focused on fundamental economic scenario diversification rather than statistical diversification) leads to longer-term more stable outcomes
- Deliberate use of “**protective instruments**”, such as options can help protect against some risks.
- **Actively managing the asset allocation** to protect the downside and capture the upside

- Access to diversified **third-party manager skill** can lead to more portfolio diversification where this is consistent with clients' expense budgets and beliefs
- Influencing risk outcomes can be done through **effective stewardship** and engagement both at the investment level and at the systems or ecosystem level. In the case of systemic risks such as climate change, biodiversity loss or social inequality, this may be the only mechanism to influence risk outcomes.

Managing these risks enables MRML to practice effective stewardship as it participates in safeguarding the long-term interests of our clients and beneficiaries.

Our investment beliefs drive our activities and hence outcomes for our clients in line with our purpose and enables effective stewardship of our client's assets. In addition to these key high-level beliefs, we have many specific investment beliefs which we have not elaborated on in more detail here.

Our Climate Change strategy

Our approach to climate change is set out extensively in our Climate Strategy Document [Cardano-Climate-Target-Strategy.pdf](#). This document which is updated periodically sets out our ambitions on tackling climate change.

Our industry involvement

MRML is a signatory to the Principles for Responsible Investment (PRI), a member of the Institutional Investors Group on Climate Change (IIGCC), and a signatory of the UK Stewardship Code.

Over 2025 we were involved in many such initiatives, we list some here:

- MRML responded to the Department for Energy Security and Net Zero's consultation on Transition Plan Requirements in 2025, emphasising the importance of transition plans for pension trustees and asset owners. These plans support long-term investment strategies by clarifying decarbonisation goals, risks, and opportunities.

We advocated for transition plan requirements tailored to asset owners, consistent reporting for portfolio aggregation, and merging disclosures with existing TCFD reporting to reduce duplication. We cautioned against mandating implementation of transition plans due to fiduciary duty constraints and supported a flexible, science-based approach aligned with well below 2°C targets. The response also called for broadening transition definitions to include climate adaptation, nature, and social factors, enhancing transparency from private equity, encouraging ambitious disclosures through safe-harbour provisions, and endorsing high-integrity carbon credits as a complement to emissions reductions.

- In 2025 the Dutch Climate Coalition (DCC) expanded its engagements to the fossil fuel demand side sectors. The DCC initially focused on the oil and gas sector. However, due to limited progress and ability to influence, the group broadened its scope to include demand-side sectors such as chemicals, steel, and utilities. The overarching engagement objectives, broadly aligned with the Climate Action 100+ (CA100+) benchmark.

In 2025, the DCC organised a strategy session that led to the formation of sector working groups. These groups identified priority sector companies, appointed investor leads, and established engagement objectives. MRML leads the steel working group and actively participated in preparatory meetings and engagement dialogues with two steel companies and two chemical companies. Engagements with the oil companies also continued.

- MRML is a co-lead within Nature Action 100 chemical sector engagements. The engagement objectives, which align with the six investor expectations, include the assessment and disclosure of impacts, dependencies, risks and opportunities on nature, the management of hazardous chemicals, waste and water and product innovation

We are extensively involved in a wide range of collaborative engagement initiatives in our Stewardship programs (see section 5). We play an active role in many of these initiatives, for example leading on several company engagements with Climate Action 100+ (CA100+).

MRML is a member of Partnership for Carbon Accounting Financials (PCAF), the International Capital Market Association (ICMA), the Taskforce on Nature-related Financial Disclosures (TNFD) early adopter program, the Net Zero Asset Managers Initiative, and we have been involved with various working groups and advisory boards for the Investment Consultants Sustainability Working Group (ICSWG) and the IIGCC. These both help educate us on the latest thinking with regards to climate change and allow us to contribute thought leadership to the industry.

The short, medium and long-term climate-related risks

Our varied client base has different time horizons. For the purposes of climate change risk and opportunities consideration we consider:

- “Short-term” to be less than 3 years
- “Medium-term” to be 3 to 10 years, (at the moment we focus out to 2030) and
- “Long-term” beyond 10 years out to 2050.

The Long-term

For many of our pension fund clients their members are ultimately exposed to the effects of climate change over the long-term when the true physical and economic effects of the pathways we are on will become apparent. Defined Contribution clients generally have even longer-term time horizons than Defined Benefit clients, given their typically younger membership profile.

Climate Scenarios are usually defined in terms of their global warming impact as of the year 2100, with either +1.5, +2 or +3°C of warming above preindustrial levels. This compares to +1.1°C of warming today.

We define our long-term investment time horizon as when global green-house-gas emissions are able to reach Net Zero. At this point, global warming itself should stabilise, though the effects of that warming will continue to perpetuate beyond this point. The Paris Agreement

and our own real-world objective is to target Net Zero by 2050 in order to reach the +1.5°C goal.

Whether this is achieved in practice is not up to investors, even though we play an important role. It is very dependent on global policy makers and coordinated action across global governments, industry and consumers. Current policies are insufficient to reach this goal by 2050. The world may reach this Net Zero goal only later, for example by 2070, in which case higher temperature scenarios, like +2 or +3°C, are more likely by 2100. Regardless of the timing, the need to achieve Net Zero will remain an imperative.

The Medium-Term: 3 to 10 years (out to 2030) is our primary time horizon

We believe the effects of climate change on our economic systems will be felt far sooner than 2050, not primarily because of the physical effects of climate change, but mostly because of the economic effects of the policies, consumer behaviour and market discounting mechanisms that will drive financial market outcomes over this time horizon. For our climate scenario analysis we focus on the medium-term time horizon from now until 2030.

We consider the potential economic and market paths during this medium-term timeframe rather than predicting an exact outcome at the end point of 2030.

The Short-term

Over short time frames we don't think there is much value in projecting different climate scenarios, as outcomes are highly uncertain and depend on many factors in addition to climate change.

The climate change-related risks and opportunities that will affect our investment strategy over the short, medium and long-term

We have adapted the table below from The Bank of England's Prudential Regulation Authority⁹. It is a useful summary of the climate change-related risks over different timeframes.

Climate change-related risk		Short/medium/long term	Main causes of financial impact on savers
Physical	Acute	Medium/long	Increased frequency and/or severity of extreme weather events
	Chronic	Medium/long	Steady increase in global sea levels and changes in precipitation patterns
		Medium/long	Rising temperatures

⁹ The Bank of England, Climate Change Summary, last updated 20 May 2026.

Transitional	Policy and legal	Short/medium	Regulation of existing products and services
		Short/medium	Sectors facing penalty incentives could harm current business models
	Market demand	Short/medium	Changing consumer behaviour
	Technology	Medium	Existing products replaced with lower-emission technology
	Reputational	Short/medium	Increased scrutiny following changes in stakeholder's perceptions of climate-related action or inaction

As illustrated, most investors split climate risks into Physical Risks and Transition Risks. We also find it useful to think in terms of “bottom-up risks”, which can be assessed based on the characteristics of a specific investment, and “top-down risks”, which are a function of the global economic system and market level outcomes.

Bottom-up risks can be modelled by understanding specific assets in detail and we use data providers like MSCI to help us assess these risks for individual assets. Top-down risks depend on economic outcomes and are more difficult to model. These are often very poorly modelled in current climate scenario quantitative tools, to the degree where we find the results to be unusable.

We therefore break climate related risk into three broad categories:

1. **Physical Risks:** The impact of weather and climate on physical assets. For example, the damage to a factory due to coastal flooding and storm damage or exposure to wildfire risks (hazards). This depends on the frequency and severity of hazards, the location of physical assets, and their resilience. This is a “bottom-up” risk applied to each specific asset.
2. **Transition Risks:** The impact of implementing climate policies on individual companies, usually modelled by focussing on the “bottom-up” effect on each specific asset:
 - The financial risk exposure of a business to the increase in either direct or indirect financial costs of greenhouse gas emissions through its own activities or its supply chain. In 1.5°C scenarios this potential cost is high for high emitters in the short to medium-term. In the 3-degree scenario such costs are lower to begin with and more uncertain as time progresses.
 - Financial opportunities - the potential for technological progress and changing policy driven by climate change to create new opportunities for green revenue for certain companies. This opportunity is accelerated by supportive policy that increases demand in the 1.5°C scenario or delayed by less supportive policy in the 3°C scenario.
3. **Systemic Risks:** The impact of climate change on broad “top-down” economic activity and financial markets. We believe broad financial market returns are a

function of several key variables: expectations of future economic growth, inflation, interest rates and the risk appetite of investors. The systemic risk of climate change refers to the linkage between climate change and these key financial market drivers through the many complex mechanisms that drive our global economies: for example, its impact on productivity, migration, government policies, consumer behaviour, food supply, insurance availability and many other complex interactions. All of these will collectively drive pricing in bond, equity and credit markets and exchange rates.

Our approach to scenarios analysis

Our approach to scenario analysis combines quantitative and qualitative elements but is based on a narrative approach to scenarios as we believe this is more decision useful than current quantitative approaches which we believe give an unwarranted sense of precision to hugely uncertain outcomes.

Each scenario consists of a degree of warming by 2100 but our focus for scenario analysis is primarily on the medium-term (out to 2030) development towards that longer-term trajectory.

The purpose of our scenario analysis is not to place probabilities on the likelihood of different outcomes. Rather we imagine plausible outcomes and then consider what the implications of such a scenario would be for client portfolios. Our scenario narratives embed not only climate change factors but also a range of geopolitical, policy and consumer behaviours that may arise in the various long-term climate pathways.

The three climate scenarios we use are:

- 1.5°C: Paris-aligned transition scenario. This is our goal. We hope through our stewardship, engagement with policy makers and investment activity to help accelerate the transition to achieve this outcome.
 - We reference the Network for Greening the Financial System (NGFS) Net Zero 2050 scenario climate scenario model which assumes measures are taken that will keep the rise in temperature limited to 1.5°C.
- 2°C: Late transition scenario. This is what we think is most likely to happen given the current pace of policy change that we observe.
 - The NGFS Delayed Transition assumes new measures are introduced to tackle climate change, but are introduced too late limit warming to 1.5°C. We also use the work of the “inevitable policy response” commissioned by the PRI to inform this scenario.
- 3°C: Slow transition scenario. This is our hot-house scenario which could happen if policy action stalls. This scenario could also happen because climate tipping points accelerate climate change faster than anticipated in current climate models despite mitigating efforts.
 - We use the NGFS Current Policies scenario which assumes current policies continue as is and there is not further progress.

To assess the bottom-up asset specific risk (physical and transitional) we can use Climate Value-At-Risk metrics from our data provider MSCI (which we use specifically for equity and corporate credit risks but not other asset classes). However, we believe these metrics at

present severely underestimate the systemic risks and fail to discount sufficiently long-term physical risks. As these systemic risks are the largest by an order of magnitude for our clients, we have chosen not to publish the results of this quantitative scenario analysis which we believe may be misleading. Instead, we have developed the qualitative approach outlined above.

The results of our scenario analysis

The importance of systemic risk and stewardship

As noted earlier in this report, we believe there are three broad categories of climate-related risk that influence portfolio outcomes:

1. Physical Risk – the direct impacts of climate change on assets, businesses and economic activity;
2. Transition Risk – risks arising from policy, technology, legal, market and behavioural changes associated with the transition to a lower-carbon economy; and
3. Systemic Risk – broader macroeconomic and financial system impacts arising from climate change and the transition process itself.

Physical and transition risks can often be assessed at an individual asset or issuer level. Accordingly, we analyse both our directly managed investments and third-party manager exposures to understand their sensitivity to these bottom-up climate risks.

However, while bottom-up analysis remains important, we believe the most significant long-term climate-related risks for diversified investors are systemic in nature.

A key insight from our scenario analysis is that the systemic effects of climate change are substantial, highly interconnected and difficult to diversify away. Traditional diversification across asset classes may provide limited protection where climate change materially affects economic growth, inflation, productivity, supply chains, geopolitical stability and financial markets simultaneously.

For long-term investors, these systemic effects are therefore likely to be a major driver of portfolio outcomes. This is consistent with the widely held view that strategic asset allocation and broader macroeconomic conditions are the dominant determinants of long-term investment performance for diversified portfolios.

Our response is to seek, wherever possible, to contribute to an orderly transition towards a net zero and more sustainable global economy aligned with the goals of the Paris Agreement. While the transition itself carries costs and disruption, most economic analysis continues to indicate that the long-term costs of delayed or insufficient action are likely to be materially greater than the costs associated with transition and adaptation.

This underpins our focus on stewardship and engagement, both at the company level and through broader engagement with policymakers, regulators and industry initiatives. Our objective is to support credible transition pathways consistent with achieving global net zero

emissions over time and limiting the most severe long-term economic and societal consequences of climate change.

This also informs our “dual objectives” approach: seeking strong long-term financial outcomes for clients while supporting the real-world transition to a more sustainable economy. We believe these objectives are increasingly interconnected in the context of long-term systemic climate risk.

Scenario outcomes

The climate-related impact on any individual client portfolio will depend on the specific assets held, liability profile, investment strategy and exposure to both bottom-up and systemic risks.

The tables below are intended to provide directional qualitative assessments for typical client portfolios based on our current understanding of climate-related risks and opportunities. While portfolios differ materially in their structure and exposures, we believe the broad conclusions are relevant across equities, sovereign bonds, credit and private market investments.

Scenario outcomes: short-term horizons

In some circumstances, short-term analysis remains appropriate. For example, clients approaching insurance buyout or seeking to reduce funding-level volatility may focus primarily on shorter-term risk management objectives.

Over short-term horizons, we do not believe climate scenario pathways are sufficiently differentiated to support robust long-term climate forecasting. However, our broader risk management framework continues to use scenario analysis to help clients understand shorter-term macroeconomic, market and funding risks.

Scenario outcomes: medium-term horizons to 2030

Over medium-term horizons, systemic climate-related risks are driven less by the direct physical effects of climate change itself and more by the economic consequences of policy responses, technological change, geopolitical developments and shifts in consumer and corporate behaviour.

Over recent years, climate policy and transition pathways have become increasingly uneven across regions. Significant investment in renewable energy, electrification and energy security continues globally, particularly in China, parts of Europe and certain emerging markets. China, for example, has continued to accelerate renewable energy deployment and remains central to the global energy transition supply chain.

At the same time, geopolitical tensions, energy security concerns, industrial policy competition and differing national policy priorities have contributed to a more fragmented global transition environment. Recent elections and policy developments in several major economies, including the United States and Europe, have increased uncertainty regarding the pace, coordination and consistency of climate policy implementation.

These developments may reduce certain near-term transition risks for carbon-intensive sectors where policy action is delayed, but they may also increase longer-term physical and

systemic risks by making a more orderly transition pathway less likely.

In addition, recent years have seen a growing frequency and severity of climate-related physical events globally, including heatwaves, flooding, droughts and wildfires, contributing to increasing economic disruption, infrastructure damage, insurance losses and supply chain pressures. These developments reinforce the importance of incorporating both transition and physical risks into investment analysis and portfolio construction.

From a bottom-up perspective, we believe assessment of physical and transition risks at issuer, sector and asset level will become increasingly important over time as disclosure standards, data quality and regulatory expectations continue to evolve.

The table below summarises our qualitative assessment of directional impacts for most client portfolios over medium-term horizons.

Portfolio impacts: medium-term horizons

Scenario	1.5°C	2.0°C	3.0°C
Physical Risk impact	Moderately negative	Moderately negative	Highly negative
Transitional Risk impact	Negative	Moderately negative	Initially moderate but increasingly uncertain
Systemic Risk impact	Positive	Moderately negative	Highly negative
Portfolio Impact	Positive	Moderately negative	Negative

Scenario outcomes: longer-term horizons to 2050

Over longer-term horizons, the direct physical effects of climate change are expected to play an increasingly important role in determining macroeconomic and investment outcomes.

Climate change may increasingly affect productivity, inflation, labour markets, food systems, migration patterns, infrastructure resilience, public finances and geopolitical stability. The interaction between physical climate impacts and policy responses is also likely to become more pronounced over time.

Longer-term risks may also be amplified by the potential crossing of climate tipping points and irreversible environmental changes, including biodiversity loss, ecosystem degradation, sea level rise and changes to agricultural productivity and water availability. Such developments could have profound implications for economic activity and societal resilience in certain regions.

As the transition pathway becomes clearer over time, investors will need to adapt portfolios to evolving policy, technological and physical realities. Delayed action may ultimately require more abrupt and economically disruptive policy responses in future periods, increasing transition-related volatility and systemic risk.

For this reason, we believe transition risks are likely to remain significant across all climate

pathways over the long term, even where policy action is initially delayed.

Overall, we believe a well-managed transition consistent with limiting warming towards 1.5°C is likely to represent the most favourable long-term economic and investment outcome for diversified portfolios. Conversely, scenarios involving materially higher warming are expected to lead to increasingly adverse economic, environmental and financial outcomes.

The table below summarises our qualitative assessment of directional impacts over longer-term horizons.

Portfolio impacts: longer-term horizons

Scenario	1.5°C	2.0°C	3.0°C
Physical Risk impact	Moderate	Highly negative	Highly negative
Transitional Risk impact	Negative	Highly negative	Highly negative
Systemic Risk impact	Positive	Moderately negative	Highly negative
Portfolio Impact	Positive	Negative	Very Negative

Conclusions and implications from the climate scenario analysis

As a result of this analysis, we prioritise four broad actions to help manage climate-related risks and opportunities:

1. Stewardship and engagement

Stewardship activities aimed at increasing the resilience of investments to physical and transition risks and supporting progress towards long-term net zero objectives.

2. Policy and ecosystem engagement

Engagement with policymakers, regulators, industry bodies and other stakeholders to support credible, orderly and economically sustainable transition pathways.

3. Integration of climate risk into investment decision-making

Incorporating assessment of physical and transition risks into security selection, portfolio construction and manager oversight across both directly managed and third-party portfolios.

4. Identifying climate-related investment opportunities

Seeking investment opportunities that may benefit from, or contribute to, the transition to a lower-carbon, more resource-efficient and resilient global economy.

Caveats

Scenario analysis necessarily depends on a range of assumptions and uncertainties. We do not seek to predict future outcomes or assign precise probabilities to individual climate

scenarios.

There remain substantial uncertainties relating to:

- the pace and severity of climate change;
- the timing and effectiveness of policy responses;
- technological development and adoption;
- geopolitical developments;
- behavioural and consumer changes;
- macroeconomic impacts; and
- financial market reactions.

Accordingly, scenario analysis should be viewed as a tool for assessing resilience across a range of plausible future outcomes rather than as a forecast.

We believe this narrative-led approach helps us and our clients focus on the most material climate-related risks and opportunities affecting long-term investment outcomes. It also supports more resilient portfolio construction and risk management across a range of potential transition pathways.

Over time, we expect improvements in climate data, scenario methodologies and analytical capabilities to enhance our ability to differentiate risks and opportunities across sectors, geographies and individual assets.

Incorporating climate scenario analysis into investment solutions

Our clients are mostly UK defined benefit and defined contribution pension funds. We work with them in various ways:

- As an asset manager, we invest directly in issues from companies and governments (equities and bonds)
- As a fiduciary manager, next to our direct investments, we also invest indirectly via third-party managers and, for derivatives, via counterparties
- As an investment advisor, on pensions and risk management, and as an advisor on sustainability and corporate covenants, we support our clients to set their strategies including climate change

Their investment strategies span a range of asset classes and typically may include exposure to the following building blocks:

1. LDI (Liability Driven Investment) strategies that focus largely on UK government bond exposures and related derivatives
2. Equity portfolios
3. Investment grade credit cashflow driven investments
4. Multi-Asset diversified growth portfolios implemented through both direct investments and derivatives

5. Third-party managers pursuing active alpha strategies across public and private markets and a range of strategies.

In each strategy we aim to take what steps are practicable to ensure our investments are resilient to climate change-related risks and opportunities and, where possible, contribute to the transition to a more sustainable society including with regards to climate change (see section 5 for more detail). As such, through our capital allocation, stewardship activities and advice, we not only look to create investment solutions that mitigate sustainability-related risks, we also hope to contribute to the transition to a sustainable society.

Our clients' asset allocations will generally evolve over time, for example, as DB pension funds de-risk or as DC members progress along their journey path to retirement. The aggregate exposures across asset classes are therefore always in a state of flux.

In terms of monitoring our progress against our climate commitments we therefore aim to implement our approach within each building block and our TCFD reporting for the MRML entity will focus on the progress of each building block.

The first four strategies above incorporate direct investments we make on behalf of clients in underlying securities that follow the Sustainable Investment Framework described in section 5. The multi-asset and third-party manager portfolios involve indirect investments to which our external manager ESG process is applied.

Incorporating climate change into covenant risk assessment

For our Defined Benefit Clients understanding their covenant risk is a key component of their risk management strategy. This includes an assessment of the sponsor covenant from a sustainability and climate change perspective.

This is a service offered by our client covenant advisory business who have developed several models to help with detailed assessment of physical risks and other aspects that can affect covenant.

Risk management

How we identify, assess and seek to manage climate change-related risks and opportunities

From the scenario analysis above we have identified the following climate related risks and opportunities:

- Risk 1: The systemic risk posed by climate change impacting long-term economic growth, inflation and financial market outcomes (top-down)
 - In the long-term the risk is specifically that there is insufficient action to limit global warming to a 1.5°C scenario.

- As discussed, we think this is a systemic risk that cannot be easily diversified away. The opportunity for us is to help influence real world change that will support the transition.
- To address this risk, we seek to apply our approach to stewardship across our assets focused on systemically important risks like climate change, biodiversity loss etc. The intention is to influence companies and issuers to reduce their negative impacts, to accelerate their contribution to the transition and to manage their risks
- We also seek to engage with policy makers to encourage a focus on climate related policy that will speed the transition.
- Risk 2: The systemic risk posed by evolving government policy and consumer reactions to climate change impacting long-term economic growth, inflation and financial market outcomes (top-down)
 - We recognise the potential for such policies to affect macro-economic outcomes, but the precise impact is highly uncertain across the scenarios: the transition could progress more quickly than anticipated or more slowly and chaotically; and growth or inflation could be affected by a multitude of geo-political and policy related outcomes.
 - To address this risk we seek to:
 - Understand the nature of evolving policy and regulation. We have various specialists within our Sustainability and Multi-Asset Investment teams who monitor these policies and regulation
 - Create robust portfolios that consider multiple scenarios for growth and inflation and diversify across asset classes and across fundamental economic drivers (we describe these as economically balanced portfolios). This is intrinsic to our approach to portfolio construction and asset allocation.
- Risk 3: The Transition risk and Physical risk resulting from climate change on individual assets (bottom up)
 - Our Sustainable Investment Framework drives our stock selection. We explain this in more detail below.
 - This framework allows us to exclude companies that we think are at risk of failing to transition or are exposed to unacceptable risks which they do not have the capacity to manage.
 - It also allows us to identify positive impact opportunities that can help accelerate the transition

In the sections below we explain how these risks are assessed, managed and mitigated across the various investment strategies we manage for clients

How we identify and manage market-wide and systemic sustainability risks including climate change

Sustainability risks are overseen by the Sustainable Policy Committee who set the Sustainable Investment Policy. When implementing the Sustainable Investment Policy, the Sustainability

Investment Committee brings the MRML Sustainability Group together with the investment teams to make decisions which may require input from both areas, such as on climate change.

We deploy all the risk management tools in our toolbox to help mitigate these risks.

However, as the systemic risks such as climate change cannot be diversified away, the only way we believe we can help mitigate those risks is to engage in effective stewardship, both at the asset level and the policy engagement level.

To measure progress, we define several portfolio goals which, if achieved, would contribute to mitigating these systemic risks including reaching:

- Net zero green-house-gas emissions by 2050 (with interim objectives)
- Net zero deforestation by 2030
- Water neutrality by 2030
- In addition, although more difficult to monitor quantitatively, we have also set a goal of progress towards a circular economy by 2050 and human rights and social capital goals for our portfolio.

Understanding of these systemic risks is supplemented by the external working bodies we are part of such as the UNPRI, IIGCC etc.

How we make these assessments:

- Our MRML Sustainability Group consist of experts in many sustainability related risks, including climate change, and monitors ongoing policy and regulatory developments.
- We are members of external industry groups such as the IIGCC and UNPRI. These provide valuable frameworks, industry context and access to experts on climate change. We are involved in several working groups and collaborative engagements led by these groups.
- Our multi-asset team monitors developing policy that may affect growth and inflation outcomes
- Bottom-up assessment of corporate exposure and risk is completed by our MRML Sustainability Group following our Sustainable Investment Framework.
- Our Manager Research Team have a formal process to assess third-party managers approach to integrating ESG risk into their investment policies.

Our Sustainable Investment Framework drives our direct portfolio risk management

Our Sustainable Investment Policy relates to our investment and advisory activity and sets out how we integrate environmental, social and governance issues and real-world sustainability impact insights into our investment decision-making, stewardship and policy engagement activities.

Our Sustainable Investment Policy draws on over 30 years' sustainability-related experience at MRML. It incorporates our Group-wide beliefs, sustainability targets and an overview of the policy's implementation for our internally and externally managed assets. This policy is underpinned by a series of documents, which apply to our directly managed assets:

- Our Sustainable Investment Policy, elaborates on our Sustainable Investment Framework which includes how we assess:
 - investee entity compliance with international standards
 - investee entity involvement in activities deemed too harmful for society
 - the capacity of investee entities to transition towards a sustainable society
 - whether investee entities make a positive contribution to a sustainable society
- For more detail see the MRML Sustainable Investment Framework in appendix A and the Impact Investing Policy in appendix B
- Our approach to stewardship, engagement and voting (see our Engagement Policy and Voting Policy – appendices C and D)
- Our priority sustainability themes (see thematic strategy documents on climate change, biodiversity and water – appendices E1 to E3)
- Asset class-specific policies and proprietary measurement methods (see appendices F and G)

All documents mentioned above are available [here](#).

Our Sustainable Investment Framework

Our Sustainable Investment Framework is based on our belief that the world needs to transition towards a sustainable future. This transition provides opportunities for companies and sovereigns but also brings risks.

Our Sustainable Investment Framework is based on the priority systemic risk themes (climate change, biodiversity loss etc) and classifies each entity on its ability to transition towards a sustainable society. Where entities fit on this framework is determined by the sustainability-related risks and opportunities and the entities' real-world impacts and determines whether we should invest in them. It also determines to what extent engagement can mitigate remaining sustainability-related risks or advance their transition.

Classification of each entity in the framework is based on a two steps procedure (below figure). Each step is summarised below and described in more detailed in the Sustainable Investment Policy document.

- Step 1: Evaluate if the entity's behaviour and the activities fit within a sustainable society. We assess if the entity violates international standards or is involved in activities considered too harmful for society such that it would cause too much harm to the social foundations or planetary boundaries. These entities are excluded from direct investment.
- Step 2: Classify the entity based on its ability and likelihood to contribute to, or adapt to, the transition to a sustainable society and on how sustainable its operations are. If the entity adapts and contributes, either through reducing negatives or accelerating positives, we may invest. If it is unlikely to adapt and, therefore, represents unacceptable risk to our portfolios and creates unacceptable negative impacts to society, we usually avoid investing.



The classification into these categories begins with a process that incorporates quantitative screening based on sustainability data from various data providers including MSCI and Sustainalytics. This may then be supplemented with qualitative analysis performed by our research team in the MRML Sustainability Group research team to come to a final recommendation on each investment’s classification. Classification is ultimately approved by our Sustainability Classification Committee.

Applying the sustainable investment framework to manage climate risks in our direct investments

Managing funding risk for pension fund clients through Liability Driven Investment strategies

LDI strategies represent a very substantial risk management tool to manage defined benefit pension funds in the face of the systemic risks of climate change. Our approach is typically to hedge the pension fund liabilities up to cover the full value of the assets. This means that the funding ratio (the ratio of the value of assets over the value of liabilities) is largely immune to the changes in interest rates or inflation expectations which are very uncertain under different climate scenarios.

Equities

In 2023 we introduced a new enhanced index equity strategy that forms the core equity exposure in all of our fiduciary client portfolios. These portfolios are managed according to our sustainable investment framework which involves

1. excluding companies that we believe are at risk of failing to adapt to the necessary transitions including climate change
2. investing in, and supporting through active stewardship, those companies that are willing and able to adapt, already operate sustainably or are even positively contributing to the transition.

At a portfolio level we monitor carbon emissions and the pathway of progress of this portfolio over time. This targets a reducing carbon pathway ahead or in-line with our commitments. The climate targets applied to our direct equity portfolios was approved by the Science Based Target initiative (SBTi) in 2023.

Key to influencing the transition in our investments is our approach to stewardship (expanded on below). This is explained in detail in our stewardship policy. We are UK Stewardship Code signatories and our UK Stewardship Code submission ([Cardano-Stewardship-Report-2024.pdf](#)) demonstrates our approach in detail. An updated version for 2025 will be published in September.

In particular with regards to Climate Change and the related topics of Biodiversity Loss, Water usage and Materials usage, MRML are active participants in a range of collaborative engagement initiatives:

Initiatives where we play an active or leading role in a company engagement:

Planetary Boundary	Initiative	Sector/Topic
Climate	Dutch Climate Coalition	Oil & Gas, Chemicals: Climate transition
	Sustainalytics Net Zero program	Metals, Utilities, Airlines, Oil & Gas: Climate transition
	IIGCC Net Zero Engagement Initiative (NZEI)	Utilities: Climate transition
	ShareAction: Chemicals decarbonisation program	Chemicals: Climate transition
	ShareAction: EU banking program	Banks: Climate transition

	Climate Action 100+	Agriculture: Net Zero and climate transition
	FAIRR Protein Diversification	Food & agriculture supply chain: Climate transition strategies
Biodiversity	Satellite-based deforestation program (MRML-led)	Consumer Goods: Deforestation in the supply chain
	PRI Spring	Agriculture, Mining: Lobbying related to public policy to prevent deforestation and biodiversity loss
	Nature Action 100	Specialty Chemicals: Biodiversity
	Sustainalytics Biodiversity & Natural Capital program	Banks: Biodiversity oversight and transition
	Share Action Pesticides initiative	Chemicals: Pesticide production and biodiversity loss
	FAIRR Waste & Pollution	Packaged Foods & Meats: Biodiversity risks from waste
Water	Valuing Water Finance Initiative	Restaurants: Water scarcity and water quality
Materials Use	Nature Action 100	Specialty Chemicals: Biodiversity
	Investor Initiative on Hazardous Chemicals (IIHC)	Chemicals: Phase-out of hazardous chemicals
	Plastic Solutions Investor Alliance (PSIA)	Consumer Goods: Plastic reduction
	VBDO plastics initiative	Consumer Goods: Plastic reduction

Bond investments

We invest in a wide range of bond asset classes including corporate credit, government bonds, LDI strategies and use of proceeds bonds (Green, Blue, Sustainable and Social bonds). Our approach in each differs according to the needs of the specific sub-asset class.

Investment Grade Credit

Our investment grade credit portfolios use the same sustainability framework applied to equity portfolios.

This means that bond issuers that are deemed to be non-adapting, at-risk, harmful or in violation of international standards are normally excluded from our credit portfolios. It means that those issuers included in our portfolios are managing their transition risks in a sufficient way to adapt to the climate transition.

We have not yet set a portfolio level carbon pathway for these portfolios.

Bond issuers will also be subject to the same engagement process described above for our equity portfolios, with priority companies identified based on the systemically important transition themes. The CSG Stewardship team will lead on many of these systemic engagements with involvement from the Investment Team at times raising certain sustainability concerns with companies.

Sovereign bond exposure

The majority of our sovereign bond exposure comes through our LDI strategies and is particularly focused on UK government bonds. In these portfolios we are not able to disinvest should governments fail to transition. Instead, our focus is on engaging with and encouraging governments to commit to and increase their ambitions towards Net Zero.

For sovereign bonds we adopt a different framework from corporate issuers but the objectives and principles are similar: understand the risk exposures, understand what sovereigns are doing to align themselves to a more sustainable society including their climate transition ambitions, and engage where possible. Because no sovereigns are currently operating as “sustainable” or “positive impact” most fall into our Adapting category. However, several sovereigns in certain emerging markets are excluded from our direct investment portfolios because they do not comply with our policies on human rights or other relevant issues under our investment framework.

Industry participation

We are regular responders to government and regulator consultations and work together with like-minded investors in engaging on government policy.

Examples of MRML’s participation in industry initiatives are below:

Initiative	About	Rationale and Participation
Climate Action 100+ - MRML is a lead investor	Climate Action 100+ is an investor-led initiative aimed at ensuring the world's largest corporate greenhouse gas emitters take necessary climate change action, coordinating engagement with companies and pushing for governance reform, enhanced disclosure, and	MRML is a lead investor in Climate Action 100+ and supports collaborative engagements on portfolio companies

	concrete actions to reduce greenhouse gas emissions in line with the Paris Agreement.	
Dutch Climate Coalition – MRML is a member	The Dutch Climate Coalition, led by the Dutch Climate Minister and involving Dutch institutional investors, advocates for phasing out fossil fuel subsidies, urging oil and gas companies to align with the Paris Agreement, and emphasises the collective responsibility of various stakeholders in combating climate change towards a sustainable and climate-resilient future.	This participation extends MRML's involvement in Climate Action 100+. Involvement allows for collaboration with other high conviction sustainable asset managers so that the industry has more powerful engagements with high-emitting companies.
Platform Living Wage Financials – MRML is a member	PLWF is a coalition of financial institutions working together to promote and ensure the implementation of living wages and incomes within the supply chains of their investee companies.	MRML actively participates in PLWF to address the sustainability theme of gender equality and living wages at an industry-wide level.
ShareAction's Good Work Coalition – MRML is a member	ShareAction's Good Work Coalition is a collaborative effort focused on improving work conditions and corporate accountability.	MRML is an active member within the Good Work Coalition. Our participation enables us to expand our level of engagement and influence. For example, through the Good Work Coalition, we signed 11 company letters, participated in engagement calls and signed a letter to the UK government on the topic of workers' rights and wages.
Partnership for Carbon Accounting and Financials – MRML is a member	PCAF is a global collaboration of financial institutions focused on measuring and disclosing greenhouse gas emissions associated with their loans and investments, promoting transparency and accountability in alignment with the Paris Agreement.	MRML participates in PCAF to help create robust greenhouse gas measurement methodologies to improve climate risk and opportunity assessments and consequently promote the resilience of financial markets.
Net Zero Asset Managers Initiative –	The Net Zero Asset Managers Initiative is a global coalition of asset managers committed to achieving net zero greenhouse	MRML engages collaboratively in this initiative and supports the principles that drive the initiative, specifically that investments should

MRML is a signatory	gas emissions by 2050 or sooner, supporting efforts to limit global warming to 1.5 degrees Celsius, consistent with their fiduciary duty to clients and beneficiaries.	support the real-world transition to a low carbon economy.
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Green Bonds and Use-of-Proceeds Bonds

One of the more direct ways to contribute to the transition is through investing in Green Bonds or “Use of Proceeds” Bonds. These can directly finance climate related initiatives. We encourage the use of these bonds in our Multi-Asset, Credit and LDI strategies where appropriate.

We have a detailed approach to the selection of Green Bonds, Blue Bonds and Sustainable - Use of Proceeds or Sustainability linked bonds. This process does not accept that any bond with a green label will qualify for our portfolios, rather it needs to meet our own internal criteria for sufficient ambition in promoting the transition to a more sustainable economy.

Multi-Asset portfolios

In multi-asset portfolios we emphasise diversification across asset classes and fundamental economic drivers as a primary tool for managing long-term risks including climate change. We also incorporate protective instruments such as options that may protect against shorter-term risks. Many of these exposures are taken through derivatives where, from a stewardship perspective and in line with our model of influence, we believe our ability to have an influence on issuers is more limited.

We therefore focus our multi-asset sustainability efforts on:

- Green Social and Sustainable Bond exposures where the use of proceeds can directly contribute to making a real-world impact
- The core equity portfolio holdings in the multi-asset funds managed as described above
- Commodity exposures: we will not invest in direct fossil fuel commodities but do have exposure to commodities (via derivatives) that we believe support the transition to a low carbon economy such as industrial metals and EU carbon allowance certificates
- Third-party funds discussed below

Our approach to risk management with third-party managers

In addition to our direct investments, we help our clients invest in more than 60 external investment managers and monitor over 120 external funds across most major markets, asset classes (public and private), and geographies. We have a flexible approach to account for

different strategies, underlying asset classes and geographies without compromising on ESG focus, which we believe drives the best outcomes.

We recognise there are many valid sustainable and responsible investing approaches, and we do not apply our in-house sustainability framework or stewardship policies to external managers.

Instead, at MRML, the team works closely with appointed managers to improve their ESG and climate change integration practices, where required. The majority of portfolios for MRML's discretionary clients are invested in third-party managers within pooled funds.

Climate-related risks are a core component of MRML's active ownership approach to third-party managers. Our key active ownership activities, applied through a risk management lens, include:

- **Regular Manager Meetings:** Regular meetings with appointed investment managers may involve discussions on material ESG issues, as relevant to portfolio investments (for example: manager carbon intensity, portfolio vulnerabilities, and specific investment opportunities).
- **Engagement Target Lists:** MRML maintains climate and nature engagement target lists based on holdings in high-impact material sectors, as defined by the IIGCC, and those that contribute materially to portfolio emissions or nature-related risks.

Appointed third-party managers with exposure to these holdings are expected to engage companies to assess decarbonisation and nature-risk strategies to encourage progress.

- **Voting:** While proxy voting responsibility is delegated to equity managers, MRML reviews voting activity annually to ensure alignment with our climate-transition commitments and long-term value objectives. The Stewardship Policy sets expectations for managers, including reviewing the level of climate-related disclosures and commitments made by companies, challenging the re-election of boards that have shown persistent inaction on climate change and/or climate-related disclosures, and considering voting against the re-appointment of directors that are not supportive towards aligning their business with the climate transition. MRML also encourages voting in favour of shareholder resolutions that promote climate-related disclosure and emission reduction targets.
- **Collaborative Initiatives:** MRML is a supporter/signatory to the following climate-related initiatives:
 - Institutional Investors Group on Climate Change (IGCC)
 - Climate Action 100+ (CA100+)
 - Task Force on Nature-related Financial Disclosures (TNFD Forum Member)
 - CDP
 - Transition Pathway Initiative (TPI)

These initiatives help us manage risk by providing insight into upcoming policy reviews, peer engagements, and industry developments. Some of these initiatives, specifically CA100+, include direct company engagement to help drive better company-level climate risk management and disclosure.

Climate change stewardship

Our engagement activities are held at issuer level and cover both equities and bond holdings. In terms of geography, our dialogues tend to be concentrated in Europe and in North America, where the concept and process for companies having engagement dialogues with investors is more developed.

We review our engagement activities on a continuous basis and have made efforts to increase our engagements in other regions. We expect all companies to work towards achieving the same ultimate sustainability goals that are relevant to their business strategies (including net zero, net zero deforestation, and strong human rights due diligence, among others). However, we acknowledge that companies in emerging markets may be at an earlier stage of their sustainability journeys and have less dedicated resources. This means that our engagement efforts here focus on more foundational practices, such as creating policies, creating internal structures, and developing board and management level oversight of sustainability issues.

We make public an overview of our engagement activities [here](#). Climate change tops the list of topics on which we play an active role with 38 (up from 35 in 2023) different company engagements as of December 2024. Engagements in connection Deforestation and Biodiversity (42) and Water use (10) also relate closely to climate change.

We also engage policy makers, regulators and other stakeholders through public consultations and direct conversations. In recent years we have responded to the Transition Plan Taskforce consultation, the International Sustainability Standards Board consultation, the Taskforce for Nature Related Disclosures and the FRC Stewardship Code consultation amongst others that are all relevant to climate change.

For more details see our stewardship code submission.

Case Study - Engaging the banking sector on its climate transition

MRML participates in The Climate Transition Banking Program, led by ShareAction - an investor engagement initiative aimed at ensuring major EU and UK banks align their governance, policies, and financing activities with the Paris Agreement. Given the systemic influence of large banks on capital flows, their strategic decisions are fundamental to global climate outcomes.

In recent years, the operating environment for banks has become more challenging due to geopolitical tensions, pushbacks against climate action, and differing regulatory expectations. These dynamics emphasise the importance of consistent and strategic engagement to ensure that net-zero commitments remain aligned with long-term value creation objectives.

One of the banks being engaged is one of Europe's largest banks. Although the bank has made a formal commitment to achieve net zero by 2050, it remains the region's largest financier of fossil fuels and its reported financing to the sector has increased by 36% between 2023 and 2024. This raises questions about the alignment between its long-term climate ambitions and current financing activities. In recent years, the coalition also observed a softening in the bank's public climate positioning. During engagement dialogues, the bank pointed to factors such as the pace of client transitions, energy security needs in key markets, and evolving regulatory expectations as

contributors to these trends. Despite these explanations, the Investment Manager continues to view the divergence between stated ambitions and current financing levels as a material concern.

MRML has engaged with the bank under ShareAction's Climate Transition Banking Program since 2023. In 2024, it co-filed a shareholder resolution at the Annual General Meeting, asking the bank to phase out financial support for fossil fuel companies and utilities misaligned with Paris climate goals. The resolution secured 24% shareholder support, an unusually high level for a climate-related proposal at a bank. It signaled investor concern about the pace of its net-zero transition. Following the AGM vote, the bank agreed to hold an annual meeting between the CEO, senior management and the investor group to discuss progress on its climate strategy. The first in-person meeting was held in 2024 and in 2025, a second meeting took place at the bank's UK headquarters and was attended by the Investment Manager. The meeting was constructive and provided valuable insights into the bank's challenging operating environment – especially its significant exposure to the US market, which accounts for more than half of its revenue. The bank explained that its large US shareholders are increasingly moving in a different direction than its UK and European investors, creating pressure not only on maintaining climate ambitions, but also on the extent to which the bank feels it can be vocal.

The meeting offered an important opportunity to outline the improvements the coalition would like to see despite the challenges, including the need for stronger public advocacy and clearer external confirmation that the bank remains committed to its climate strategy. The bank expressed appreciation for the engagement and acknowledged the value it brings in shaping the bank's climate approach. It was a valuable meeting that strengthened mutual understanding and established a constructive basis for continued dialogue.

Looking ahead, continued engagement with will remain a priority MRML, with a focus on supporting the bank in translating its commitments into tangible, measurable actions aligned with global climate goals. Building on the strong established relationship through the engagement so far, emphasis will be put on the need for clear and consistent public signals, recognising the influential role the bank (alongside the other banks engaged in the program) can place in shaping the wider climate transition.

Section 4

Metrics and targets

Terminology

The GHG Protocol Corporate Standard¹⁰ classifies a company's GHG emissions into three scopes:

- **Scope 1 “direct” emissions:** those from sources owned or controlled by the Company (e.g. direct combustion of fuel from vehicles); and
- **Scope 2 “indirect” emissions:** those caused by the generation of energy (e.g. electricity) purchased by the Company.
- **Scope 3 “indirect” emissions:** In this category go all the emissions associated, not with the company itself, but that occur in the value chain of the reporting company.

Tons of Carbon dioxide equivalent (tCO₂e) measures the total emissions in tons from various greenhouse gases on the basis of their warming potential, by converting amounts of other gases to the equivalent amount of carbon dioxide with the same global warming potential.

Companies are increasingly being required to report on their Scope 1 and 2 emissions. Scope 3 emissions (sometimes split into upstream and downstream emissions) help us better understand a company's sensitivity to climate change-related risks and opportunities, and its ability to transition. It can therefore help to understand relative performance of different companies within industries, but it is a less accurately reported number and often has to be estimated.

Explaining our targets

We support the Paris Climate Agreement of limiting global warming to below 2°C versus pre-industrial levels with limited or no overshoot. We do this by committing our investment portfolios to net zero greenhouse gas (GHG) emissions by 2050, known as ‘net zero’.

We aim for an emissions reduction in our strategies of 50% by 2030 and 75% by 2040, with the baseline year set at December 2019. This implies an average 7% reduction in GHG emissions every year, which informs our asset-class decarbonisation targets. We aim for this reduction to come through “real-world” de-carbonisation by the underlying investments rather than “paper portfolio decarbonisation” whereby we simply sell assets with higher carbon footprints in order to meet this target.

In order to achieve this real-world goal we would like all of the issuers (companies and governments) we invest in to develop Science Based Targets aligned with the Paris

¹⁰ Greenhouse Gas Protocol Corporate Standard, FAQs

Agreement specific to their industry and geography and develop and implement transition plans to achieve this.

We support the concept of 'fair share' decarbonisation targets: countries with historically higher emissions (which tend to be developed markets) should decarbonise more rapidly than countries with historically lower emissions (which tend to be emerging markets). Our default position is in our fiduciary management, our asset management, our advice, and our liability-driven investments.

We measure progress towards this using the Carbon Footprint for Scope 1 and 2 emissions, an Intensity emissions based metric explained below, for each strategy or asset class. This is because our assets under management vary over time (as we win new clients or old clients move to buyout) and our clients asset allocation changes over time so the mixture between asset classes also varies over time. By measuring our progress at the strategy and asset class level, an intensity based metric provides the most comparable metric from one year to the next that allows us to track our progress. We report scope 3 emissions but these are not used to track the targets for reasons explained below.

For sovereign emissions, the emissions are defined as those that relate to production (scope 1) and consumption (scope 1, 2 and 3 minus exported emissions) in line with the Partnership for Carbon Accounting of Financials (PCAF) guidance. Emissions in this report are showing including those from land use, land use change and forestry (LULUCF).

- **Production emissions:** those attributable to emissions produced domestically and include domestic consumption and exports; and
- **Consumption emissions:** these include production emissions, minus exported emissions, plus imported emissions (emissions related to energy and non-energy imports from goods or services from outside the country territory as a result of activities taken place in the country territory).

We compare our progress in our portfolio to that of the broad market index per strategy. While our focus is on reducing emissions in the real world in the companies we own in our portfolio, we also need to understand the progress that is being made in the broad markets.

We measure forward looking alignment of the portfolio with the Paris agreement by focusing on the alignment metric, the percentage with an approved Science Based Target (SBTi).

The metrics we calculate

We calculate and disclose the following metrics to our clients in respect of their portfolios:

Metric	Units	Which assets?	How we use this
Absolute financed emissions (Scope 1+2, 3)	tCO ₂ e	Equities, Credit	Our clients will own a portion of each company they invest in. This metric measures the absolute emissions associated with the proportion of each company they have financed. Absolute emissions tell us the emissions associated with our investments.

			While an important metric for us – and the regulator – it is difficult to use this metric for comparison purposes, because it is dependent on the number of clients we have, their asset allocation and their size which varies from year to year.
Carbon Footprint (Scope 1+2,3)	tCO2e/£m invested based on Enterprise Value including Cash	Equities, Credit	This is the main metric we monitor over time to measure progress relative to the market in each asset class. If the carbon intensity of each asset class reaches Net Zero by 2050 through real world decarbonisation we will have achieved the objective. At a portfolio level this measures the portfolio carbon emissions adjusting for variations in the size of the portfolio (for example due to changes in asset allocation). It will change when the portfolio changes (selling one company and buying another), and as the underlying company emissions change over time. It is also affected by the underlying company share prices. It measures current emissions and not the future direction. We monitor our portfolio decarbonisation progress against our targets using this measure for scope 1 and 2 emissions.
Data Quality	%	Equities, Credit	This is the percentage of the portfolio for which there is high quality emissions data (backed by verified and reported data)
Portfolio Alignment	% SBTi approved target	Equities, Credit	This is the percentage of the portfolio exposure having set Science Based Targets to align with either a 1.5°C or 2°C climate scenario. We use the Science-Based Targets Initiative (SBTi) framework which assesses the ambition of a company's Scope 1 and 2 targets. This is our primary forward-looking metric to assess progress on how many companies are making commitments to reduce their emissions.

In Scope Assets

AUM across MRML clients with an IMA or in MRML pooled vehicles

Strategy	GBP (m)
Global Equity	766
LDI (ex credit, ex derivative exposure)	9,958

Credit	547
Multi-Asset**	573
Third-Party Managers	662
Total discretionary AUM	12,507
** This excludes direct Global Equity exposure and third-party managers within Multi-Asset portfolios	

We will produce TCFD compliant climate metrics for these clients as and when requested.

The results and our progress

Because every client's portfolio differs and their asset composition will vary over time, we do not report aggregate absolute metrics in this report. Each client can request a detailed report of all of the above metrics in section 6.3 specific to their portfolio.

In this entity level report we focus on reporting progress with regards to Carbon Footprint and Portfolio Alignment across the different main common building blocks used in our client portfolios. Some clients have bespoke portfolios that are not reported on here.

We measure our portfolio emissions over time relative to a baseline of 2019. For strategies that did not exist in 2019 we will either measure from inception or relative to the 2019 market benchmark for the strategy. For our credit strategies the custom benchmarks were only developed in 2022 and 2023 so baseline numbers are not available, we will report progress on these portfolios in future years. Our multi-asset portfolios are not managed against benchmarks.

For 2025, following the acquisition, it is important to note that the methodology has changed compared with last year's report. As a result, year-on-year comparability is limited and any conclusions drawn from differences between this year's analysis and last year's should be treated with caution. All available manager holdings were processed through a centralised tool, enabling results to be produced consistently across all strategies and providing a more robust like-for-like basis, with larger asset coverage within multi-asset strategies. We expect this enhanced methodology to support more meaningful comparisons in future years.

Emissions associated with our direct financed exposure

Strategy description	% coverage scope 1&2 *	% coverage scope 3*	Absolute Financed Emissions tCO2e	Carbon Intensity	% change Scope 1+2 Carbon Intensity
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(Fund Code & Inception date)					(tCO2e/ EVIC for corporates per £m invested)		2025 vs 2024
			Scope 1+2	Scope 3	Scope 1+2	Scope 3	
Global Equity incl. Emerging Markets (CGSEF – April 2023)	100%	97.7%	25,611	202,023	33.5	264.6	-1.5%
Benchmark**	100%	99.4%	37,236	267,448	48.6	349.2	-16.4%
Medium dated Buy-and-Maintain Credit (CCIF1 – March 2022)	92.6%	95.2%	8,463	107,683	18.6	236.3	-25.6%
Benchmark***	83.1%	84.5%	11,175	137,237	23.8	203.6	-48.3%
Long dated Buy-and-maintain Credit (CCIF2 - Feb 2023)	85.2%	88.2%	3,529	13,072	45.8	169.7	-32.6%
Benchmark***	84.0%	86.3%	2,193	88,044	28.2	264.3	-45.8%
Multi-Asset Prime (CIPF3 - 2018)	84.2%	84.7%	27,288	270,948	59.7	382.8	+5.3%
Multi-Asset Vector (CIPF2 - 2016)	86.0%	86.6%	57,526	356,441	66.9	414.6	+30.1%

Source: Mercer, using data from MSCI. Analysis is based on portfolio stocklists as at 31 December 2025, using latest available data feeds as at 09 June 2026

*% coverage includes exposure to equity and credit, and includes directly reported carbon metrics, estimated metrics for known exposures and estimated metrics for exposures that are proxied where exposures are not available.

** The equity benchmark is the MSCI All Country World benchmark. The 2019 Baseline for UK clients is assumed to be 100% exposure to MSCI All Country World before ESG strategies were implemented for clients.

*** The credit benchmark is a custom buy and maintain credit benchmark. As this benchmark was not available in 2019 there is no baseline data.

**** CCIF2 is a long-dated credit buy and maintain portfolio. Compared to the benchmark the portfolio is overweight utilities which tend to have higher Scope 1&2 emissions, underweight sovereign and securitised debt, which tend to have lower or no emissions data, and underweight the energy sector which has very high scope 3 emissions. As a result, the portfolio has higher Scope 1+2 emissions versus the benchmark but lower Scope 3 emissions.

Data Quality associated with direct financed exposure

A full breakdown of the data quality for the various strategies analysed has been provided below:

Strategies	Verified	Reported	Estimated	Unavailable
Global Equity incl. Emerging Markets	76.6%	15.2%	5.7%	2.5%
Medium dated Buy-and-Maintain Credit	59.0%	28.9%	4.6%	7.4%
Long dated Buy-and-maintain Credit	55.7%	28.6%	3.3%	12.4%
Multi-Asset Prime	60.9%	13.8%	10.6%	14.7%
Multi-Asset Vector	58.7%	15.5%	13.0%	12.8%

Science Based Target Initiative (SBTi) alignment within direct financed exposure

These are the percentages of the various strategies invested in companies that have set Science Based Targets to align with either a 1.5 degree or 2 degree climate scenario. We use the Science-Based Targets Initiative (SBTi) framework which assesses the ambition of a company's Scope 1 and 2 targets.

Strategies	SBTi alignment
Global Equity incl. Emerging Markets	52.8%

Medium dated Buy-and- Maintain Credit	39.6%
Long dated Buy-and-maintain Credit	36.3%
Multi-Asset Prime	39.2%
Multi-Asset Vector	37.7%

Emissions associated with our sovereign financed exposure

Strategy	Coverage	Total Carbon Emissions (tCO ₂ e)		Sovereign intensity	
		Production (inc. LULUCF)	Consumption	Production emissions (tCO ₂ e/£m PPP adjusted GDP)	Consumption emissions (tCO ₂ e/capita)
LDI	100%	905,220	1,372,171	90.9	8
Multi-Asset Prime	97.5%	22,635	20,262	209.3	7.1
Multi-Asset Vector	97.4%	19,076	16,942	212.3	7.1

For LDI:

Derivative exposure represents the market value of exposure as a % of total net asset value. For the LDI portfolio, emissions from total long exposure to gilts (£9,958.4m) are shown in the table above. Gilts posted out as collateral are included in gilt valuations; gilts received as collateral are excluded. Cash and other derivative contracts (including short gilt TRS contracts) have been excluded.

Absolute production emissions (including LULUCF) from additional exposure achieved through funded gilt exposure (£5,998.3m) are 545,242 tCO₂e and from long gilt TRS contracts (£3,960.2m) are 359,979 tCO₂e.

For consumption emissions, total emissions in respect of funded gilt exposure (£5,998.3m) are 826,500 tCO₂e. Total emissions from additional exposure achieved through long gilt TRS contracts (£3,960.2m) are 545,671 tCO₂e.

Notes:

The scope 1,2 & 3 emissions data **does not** include our exposure to:

- Cash
- Derivative exposure to commodities (there is no industry standard methodology for measuring carbon impact of commodity derivative exposures)
- Funds that have minimal credit and equity exposures or invest in these securities over a very short time horizon, mostly using derivatives. This also includes fund strategies (mostly hedge fund strategies) we classify as “low focus” and other liquid alternative strategies.

In the above tables we do not include private market exposures because there is no standard portfolio of private market allocations we track. The private market strategies of our clients vary substantially from one to another, clients are at very different stages of maturity (some may be allocating, others are no longer allocating to illiquid strategies). When reporting to clients on their specific portfolios we will report on carbon metrics for their private market portfolios.

Data collection, quality control and limitations

We recognise the importance of managing climate change-related risks and opportunities – but also the challenges involved in ‘doing it well’ including challenges with data quality. Data quality across the industry continues to improve over time but we still have a long way to go.

We continue to develop and evolve our policies to reflect climate change-related challenges. This reflects the evolution of our thinking on sustainability and the changes underway in the financial services sector, and society more broadly. We do not wait for data to be perfect, rather we work with what is available and get on with the task of supporting the transition.

Our data sources

When measuring at portfolio level, where we aggregate the emissions of investee companies (credit and equity).

In 2020, MRML appointed MSCI as its external sustainability data provider, for amongst other items Carbon Footprint data (Scope 1, 2 and 3), Climate Scenario Analysis (CVaR metrics) and other climate related data. The appointment followed an RFP process which reviewed the service offerings of different providers. We selected MSCI for a number of reasons, including the extent of its coverage, MSCI’s research process (and as such, data reliability), and portfolio scenario analysis based on degrees of warming.

The appointment (and reappointment) is overseen by our SISC.

This data provides insights into where climate risk may be most acute on a geographic, sectoral and individual security level both from a physical and a transition risk perspective. It is used to understand and discuss risk exposures. It is not particularly useful when

considering systemic risks which tend to be underestimated in the models used, where we make use of our more qualitative approach to macro scenario analysis.

We incorporate data from numerous other data providers including Sustainalytics, Urgewald (for fossil fuel related data), and engagement initiatives like the Satelligence based collaborative engagement initiative that we initiated which tracks and engages on deforestation linked to agricultural commodity production.

Notes on our methodologies

The TCFD regulations set out multiple methodologies and metrics to determine corporate and sovereign greenhouse gas emissions metrics. We comply with reporting the key metrics required by the FCA, but our portfolios will use more detailed metrics and assessments in driving portfolio strategy. There remain methodological challenges and data for some asset classes, such as hedge funds, private markets, commodities and derivatives.

MRML participates in, and contributes to, multiple industry initiatives to develop and evolve metrics and reporting on climate change, in particular, IIGCC and PCAF.

IIGCC is the Institutional Investors Group on Climate Change, and it hosts the Paris-Aligned Investment Initiative and the Net Zero Investment Framework. The initiative sets out the advantages and disadvantages of the multiple methodologies used to determine a company's, and portfolio's, absolute emissions, emissions intensity, and more recently, environmental alignment

We use "EVIC" (enterprise value including cash) to determine financed emissions. Enterprise value is the sum of the market capitalisation of ordinary & preferred shares, the book value of debt and non-controlling interests and cash. This aligns with the FCAs requirements, MSCI and the recommendations of PCAF – the Partnership for Carbon Accounting Financials initiative.

We have worked with the IIGCC to develop methods and guidance for reporting on emissions associated with our derivative exposures. For simplicity in this report, we have reported on the total long exposures (physical and derivative). We do not allow "netting" of short exposures against long exposures which may mislead with regards to the true real-world emissions associated with the portfolio. Further breakdowns can be made available to clients between physical and derivative exposure.

While we believe companies should disclose their Scope 3 emissions, we note that there are a number of data challenges which will take time to resolve. There are also challenges to aggregating scope 3 data because one company's scope 3 may be another company's scope 1 and 2 emissions. While Scope 3 data is becoming more widely available, it is still often calculated using estimation methods that vary substantially from year to year and the quality of reporting by companies varies substantially. As a result, our primary measure of progress is based on Scope 1 and 2 data, which we believe is more reliable, and we rely on MSCI's estimation methodologies for Scope 3 data.

Finally, we note that there will be inaccuracies in the data. In some markets, corporate greenhouse gas emissions disclosures are not regulated, and not subject to audit. The quality of the data is constantly improving but we find still subject to substantial revisions from year to year. We believe that the processes we have implemented mitigate for known

limitations in data quality and coverage. We will continue to engage with standard-setters, policymakers, data providers and companies to improve data quality.

Glossary

- CA100+: Climate Action 100+, a collaborative engagement initiative seeking to engage with c167 of the largest global GHG emitters
- tCO2e: Tons of Carbon dioxide equivalent
- DB pension: Defined benefit pension fund
- DC pension: Defined Contribution pension fund
- ESG: Environmental, Social and Governance
- EVIC: Enterprise Value Including Cash, an estimate of the total asset value of a company comprising both equity, debt and cash on balance sheet.
- GHG: Greenhouse gasses, includes carbon dioxide, methane, nitrous oxide, hydrofluorocarbons (and others)
- IIGCC: Institutional Investor Group on Climate Change
- MSCI: MRML's ESG data provider (Morgan Stanley Capital International)
- NZAMI: Net Zero Asset Managers Initiative
- NZICI: Net Zero Investment Consultants Initiative
- PAII: Paris Aligned Investment Initiative
- PCAF: Partnership for Carbon Accounting Financials
- PRI: UN-supported Principles for Responsible Investment
- TCFD: Task Force on Climate-related Financial Disclosures

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