

Mercer Investment Solutions Europe – Engagement Priorities

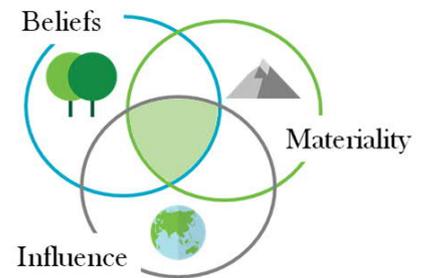
Introduction

Mercer Investment Solutions Europe (Mercer ISE) appoints sub-investment managers, who are expected to adopt voting and engagement practices that include a focus on sustainability risks and other material Environmental, Social and Governance (ESG) themes and topics. These include governance and strategy, together with relevant environmental and social topics, consistent with Mercer’s Investment Beliefs as outlined in [Mercer ISE’s Sustainability Policy](#).

Mercer ISE believes its appointed sub-investment managers are typically best placed to prioritise particular engagement topics by security, however, Mercer ISE also has a role to play in relation to more strategic themes and topics, with the aim of protecting economic value, improving long-term investment outcomes, identifying and managing risks and contributing to more sustainable and stable global financial markets.

Engagement Framework

Mercer ISE has developed an Engagement Framework, which considers three main criteria – Beliefs, Materiality and Influence (BMI) and engagement priorities are expected to intersect meaningfully across the three. This has helped to develop a systematic approach and key principles for considering themes and topics and agreeing portfolio-wide engagement priorities.



Beliefs

In order to align with Mercer’s investment beliefs, engagement priorities consider Mercer ISE’s fiduciary responsibility to clients, [Mercer’s Global Investment Beliefs](#), [Mercer’s thought leadership, research and intellectual capital](#), research from the [MMC Insights group](#) and Mercer’s Sustainability Investment beliefs.

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

- » **Environmental, Social and Corporate Governance (ESG)** factors can have a material impact on long-term risk and return outcomes and these should be integrated into the investment process.
- » **Taking a broader longer-term perspective on risk**, including identifying sustainability themes and trends, is likely to lead to improved risk management and new investment opportunities.
- » **Climate change poses a systemic risk** and investors should consider the potential financial impacts of both the associated transition to a low-carbon economy and the physical impacts of different climate outcomes.
- » **Stewardship** helps the realisation of long-term shareholder value by providing investors with an opportunity to enhance the value of companies and markets.

Materiality

In order to align with the best outcomes for clients, engagement priorities should have the potential to materially impact long term returns. Our assessment of materiality may include, but is not limited to, **academic or industry research, public policy and portfolio exposure weight.**

Influence

In order to ensure an appropriate allocation of time and resources, engagement priorities should consider Mercer ISEs' ability to influence a beneficial outcome, whether by joining like-minded investors in a collaborative engagement or engaging directly. An assessment of influence may include the **expectation for positive influence and achieving the desired outcome, together with portfolio exposure weight.**

Implementation

For those themes identified as engagement priorities, the implementation options include:

- 1) External managers to undertake the engagement with companies
- 2) Collaborative engagement e.g. Mercer to co-sign letters or statements or join a collaborative initiative
- 3) Mercer to undertake the engagement, directly (expected to be limited) or potentially via an externally-appointed engagement provider

Options 1 and 2 are the most likely. Connected to 1, Mercer ISE conducts an annual survey with sub-investment managers on their engagement approach and outcomes, together with their views on priority themes or topics as part of their investment process. On 2, Mercer ISE's Sustainability Policy summarises our most recent collaborative initiative participation.

Current Engagement Priorities

Mercer ISE has identified a number of priority themes and topics for engagement (see table below). Climate Change, Diversity and Modern Slavery are the current focus areas in our engagements with sub-investment managers for 2021.

Mercer ISE's engagement priorities

	Topic	Belief
Governance and Strategy	Aligned remuneration and incentives	Remuneration and incentives should be aligned over appropriate timeframes for executives, commensurate with evidenced value contribution for long term investors.
	Inclusive, diverse decision-making	Including cognitive and identity diversity in decision-making processes is expected to create better outcomes and solutions.
	Transparent disclosure of material ESG factors	Adequate disclosure and transparency is critical for investors to better identify potential ESG topics that make profitability unsustainable or inconsistent with long-term investor best interests.
Environmental Sustainability	Climate change Low-carbon transition (mitigation) and physical damages resilience (adaptation)	Climate-related financial impacts are driven by the associated transition to a low-carbon economy and the physical damages of different climate outcomes. Mercer believes investing for a well below 2°C scenario is both an imperative and an opportunity and therefore seeks Paris Agreement aligned actions by companies and policymakers.
	Pollution and natural resource degradation Water, air, land incl. biodiversity	Clean air, water and a nutritious diet are fundamental requirements for human life – pollution and degradation of biodiversity and these fundamental natural resources impacts are expected to impact on human health, exacerbate physical damages like flooding and climate change and reduce the value of economic activity.
Social Sustainability	Human rights Modern slavery, workforce pay or safety standards, human rights	Workforce and supply chain safety, and human rights practices should avoid contributing to modern slavery, exploitation and other human rights abuses. This can contribute to unproductive economic activity, rent-seeking and economic instability; the threat of social tension and subsequent political instability; and negative impacts on beneficiaries for economic and health reasons.
	Addictive products Tobacco, opioids, gambling, alcohol & sugar	Products that have known addictive properties and can be exploited to addict meaningful numbers in society can create harmful, economic and social well-being consequences.

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