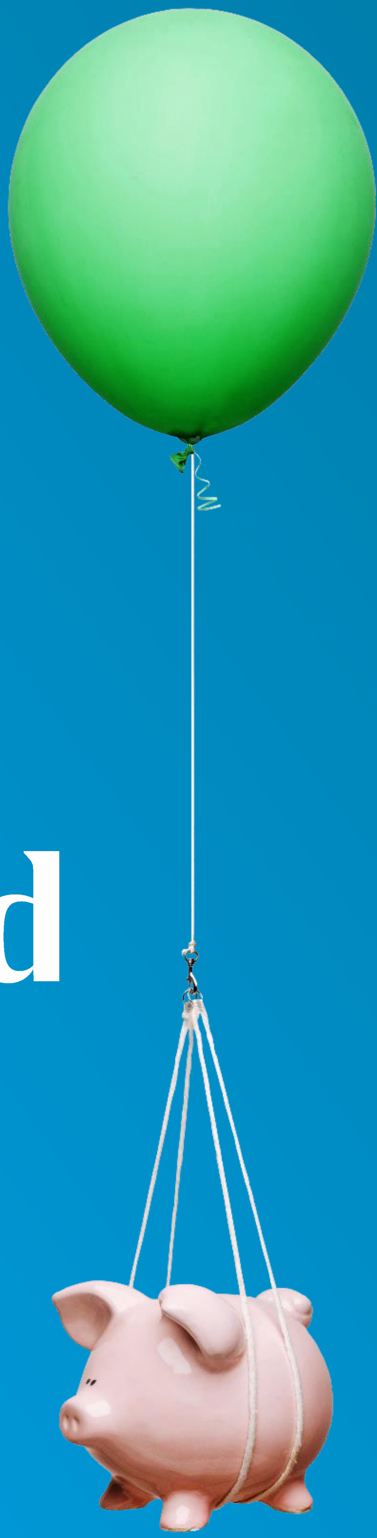
‘sustainability-related disclosures’

mercer diversified growth fund

March 2021



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Contents

1. Summary

The product seeks to promote environmental characteristics within the meaning of Article 8 of the SFDR, namely, to seek to mitigate the impact of climate change through progressive decarbonisation.

The product will seek to achieve its objective through a policy of primarily holding a range of collective investment schemes (the "Underlying Funds"). The Underlying Funds invest in assets including but not limited to equities, bonds, commodities indices (relating to commodities such as energy, agricultural, industrial and precious metals), Real Estate Investment Trust Securities ("REITs") and alternative investments with, for example, multi-asset and absolute return strategies (such Underlying Funds may be multi-asset collective investment schemes) or through direct investment across assets.

2. No sustainable investment objective

The product promotes environmental or social characteristics as described below. While the product does not have sustainable investment as its objective, it may invest partially in some Underlying Funds which may have a sustainable investment objective.

No reference benchmark has been designated for the purpose of attaining the environmental or social characteristics promoted by the financial product.

3. Environmental and social characteristics of the financial product

1. The product contributes to climate change mitigation through progressive decarbonisation.
2. As a result of the decarbonisation and analysis performed to set a decarbonisation pathway, the product will increase its 'transition capacity' by allocating to transition enabling companies and securities and reducing allocations to those companies and securities that are harmful to a low carbon transition.
3. The product promotes environmental or social characteristics by considering principal adverse impacts on sustainability factors. For further information see link: https://stg.mercer.com/content/mercer-sites/investment-solutions/global/all/en/investment-solutions-home/responsible-investment.html#

A number of exclusions are applied to further promote environmental and social sustainability characteristics and to set safeguards on environmental and social elements promoted by the product.

4. Investment strategy

The product contributes to climate change mitigation through progressive decarbonisation.

The product will seek to reduce carbon intensity and absolute carbon emissions in line with the transition pathway outlined in Mercer's Analytics for Climate Transition (ACT) tool and "Investing in the Time of Climate Change" research. The product will seek to reduce carbon emissions with a view to achieving net zero carbon emissions by 2050, and with an expectation of a 6% annualised reduction with a view to achieving at least a 45% reduction from 2019 levels by 2030, calculated relative to the size of the product.

The Investment Manager relies on specific proprietary and third party analyses to assess the product's current and future potential alignment to the decarbonisation expectations. In order to measure its decarbonisation strategy and perform forward-looking portfolio analytics and bottom-up assessment of holdings, the product uses Mercer's ACT tool. The ACT tool is used annually to examine the impact of any proposed investment decisions on the carbon exposure of the product and its alignment with its decarbonisation pathway.

5. Methodology

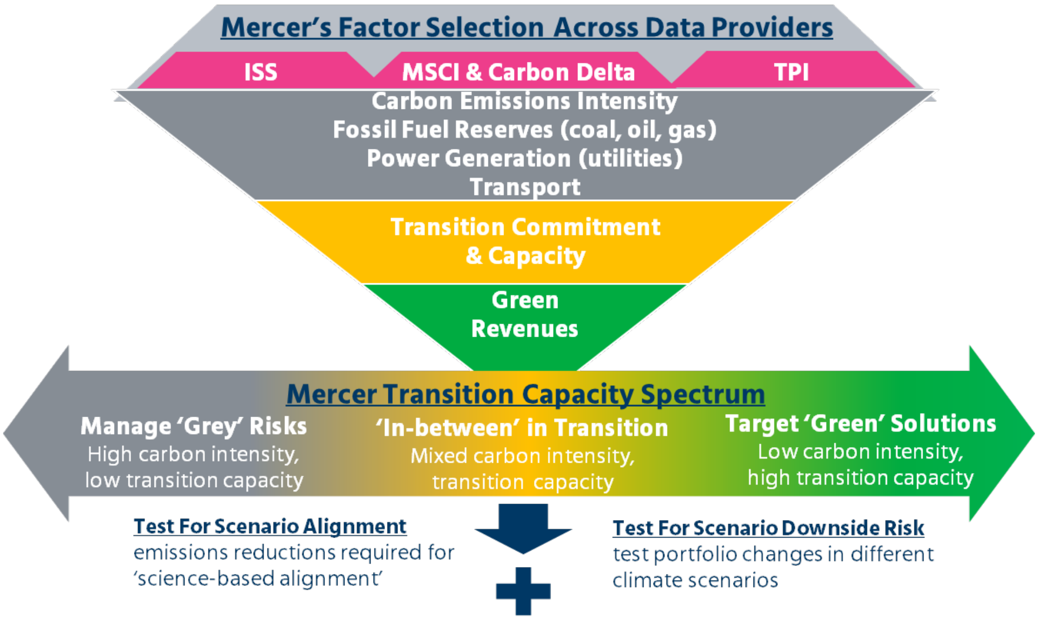
The product will increase its 'transition capacity' and decarbonisation efforts by allocating to transition enabling companies and securities and weighting down allocations to those companies and securities that are harmful to a low carbon transition.

In 2020, Mercer launched the ACT framework and tool, which undertakes specific analysis into a low-carbon transition. The tool and insights from the framework are used to analyse the product for its transition alignment in order to establish a decarbonisation pathway. This involves calculating the baseline emissions and transition capacity spectrum of the product, considering measurable targets for reducing emissions and growing the transition capacity of assets and assessing and prioritizing specific measures across integration, investment, screening and stewardship.

Mercer's proprietary ACT score measures transition capacity. The ACT score is a proprietary scoring system informed by a number of indicators including Carbon Emissions Intensity, Absolute Carbon Emissions, Fossil Fuel Reserves, Power Generation Carbon Intensity, Transportation Carbon Score, Transition Commitment and Capacity, MSCI LCT score, TPI score, warming potential and green revenues.

Companies and securities are analysed in a bottom–up manner, with individual company/security transition capacity scores assigned, allowing for each company or security to be categorised into seven classes of transition capacity from dark grey to dark green. Initial ACT analysis findings and targets are made available in periodic reporting.

Mercer's ACT framework



A number of exclusions are applied to further promote environmental and social sustainability characteristics and set safeguards on environmental and social elements promoted by the product.

Exclusions

The reasons to exclude certain securities are a combination of factors that make continued exposure to these securities untenable in the view of environmental and social characteristics promoted.

Mercer ISE relies on a third party provider of environmental, social and governance (ESG) research in determining the individual companies to be excluded. The sub-investment managers are informed on semi-annual basis of any new exclusions.

Fund exclusions	
Controversial Weapons	Companies directly involved in the development and production (manufacture), sale or distribution of cluster munitions; anti-personnel mines; and biological, chemical and nuclear weapons.
Civilian Firearms	(Semi-) Automatic civilian firearms manufacturers and retailers

The product excludes companies on the basis of controversial behavior and controversial products (including controversial weapons, civilian firearms- please refer to the monitoring section below for more details on exclusions). There may however be limited circumstances where the product invests in underlying pooled funds where this is not possible

Good governance practices of the investee companies are managed both at a product and sub-product level.

Mercers ESG ratings' methodology allocates ESG ratings at a strategy level on a scale from ESG1 (highest) to ESG4 (lowest) to assess to what extent underlying funds integrate sustainability risks and opportunities and other ESG factors and stewardship into their investment process. This assessment utilizes Mercer's proprietary ESG Ratings methodology, based on a four-factor framework.

ESG integration in the four-factor framework	
Idea Generation	Approach taken by the sub-investment manager to identify ESG risks and opportunities at the strategy level, including reference to how ideas are sourced, how materiality is determined and how these are incorporated into financial analysis
Portfolio Construction	The effectiveness of the sub-investment manager in translating ESG views into active positions in the strategy
Implementation (Stewardship)	The extent to which the sub-investment manager engages on ESG topics at the strategy level, including impact of engagements leading to changes in strategy positioning and/or the investment horizon and evidence of any efforts made by the sub-investment manager to minimize portfolio turnover
Business Management (Firm-wide commitment)	The extent to which the business leaders of sub-investment manager's understand and support responsible investing and integrate across the business and evidence that firm-wide beliefs, policies and sustainability strategies are in place

The four factor rating framework explicitly concentrates on manager processes to manage and identify good governance in investee companies via the Implementation (Stewardship) factor. Mercer ISE makes available to clients policy and process information from sub-product managers that in qualitative and quantitative terms explains the processes applied by these managers.

The product uses United Nations Global Compact (UNGC) violations and controversy screening to identify securities that are deemed to be in breach of UNGC principles and will seek to engage with managers holding these securities in order to promote good governance. There may however be limited circumstances where the product invests in underlying pooled funds, where this is not possible.

Mercer ISE monitors stewardship for the product by receiving periodic disclosures from underlying fund managers, as well as through Mercer ISE's annual manager engagement survey. The engagement survey captures manager's approaches to voting and engagement and includes a specific focus on the governance and approach adopted towards themes outlined in Mercer ISE's global engagement priorities. For further information see link: https://stg.mercer.com/content/mercer-sites/investment-solutions/global/all/en/investment-solutions-home/responsible-investment.html#

The survey also captures disclosure of significant votes, the services of proxy advisors and summary reporting on engagement activities. These manager disclosures are used as a basis for engaging with underlying fund managers to promote good governance and engagement approaches over time. Mercer ISE also monitors sub-product manager practices against the principles of the UK Stewardship Code.

Sustainability risk impact on returns at the aggregate Mercer product level

As outlined in Mercer Investment Beliefs and as further defined by SFDR, ESG events or conditions that may occur can have an actual or potential material negative impact on the value of investments the product holds.

Examples of sustainability risks include climate-related and environmental risks, poor governance practices and/ or significant social issues. Risk can be experienced at an asset, regional, sectoral or system level and may impact the value of the product.

To mitigate climate change risk, Mercer has produced extensive research on climate change and climate transition risk. This research both guides Mercer's beliefs on the importance of sustainability risk, as well as helping to inform underlying fund selection decisions.

The product will increase its 'transition capacity' and decarbonisation efforts by allocating to transition enabling companies and securities and weighting down allocations to those companies and securities that are harmful to a low carbon transition using the Mercer ACT framework and tool, which undertakes specific analysis into a low-carbon transition. The tool and insights from the framework are used to analyse the product for its transition alignment in order to establish a decarbonisation pathway. Please refer to the Methodology section for more detail.

6. Proportion of investments

The investment product is a fund-of fund product, investing across multiple Underlying Funds.

As a fund-of-funds, the product focuses on decarbonisation and transition alignment and the products are responsive to sustainability risks and transition opportunities. Given this, the opportunity set may include sustainable investments and the product may have exposure to sustainable investments as a result of this approach.
Investments aligned with sustainability characteristics: The proportion of investments aligned with environmental and social characteristics will be disclosed in periodic reporting as required in future.

7. Monitoring of environmental and social characteristics and data sources

Sustainability indicators used to measure the attainment of the environmental or social characteristics promoted by the financial product:

Environmental	Data sources	Link to environmental and/or social characteristic
Greenhouse gas emissions (Scope 1,2)	MSCI	Decarbonisation, transition capacity
GHG intensity of investee companies (Scope 1,2)	MSCI	Decarbonisation, transition capacity
Exposure to companies with fossil fuel reserves	MSCI	Decarbonisation, transition capacity
Power Generation Carbon Intensity	MSCI	Decarbonisation, transition capacity
Renewable Energy Generation	MSCI	Decarbonisation, transition capacity
Clean transport infrastructure	MSCI	Decarbonisation, transition capacity
Low carbon transition management	MSCI	Decarbonisation, transition capacity
Warming Potential	Carbon Delta	Decarbonisation, transition capacity
Climate VaR	Carbon Delta	Decarbonisation, transition capacity
Green Revenues	ISS	Decarbonisation, transition capacity
Carbon transition scores	Mercer ACT tool	Decarbonisation, transition capacity

Social		
Violations of UNGC principles	ISS	Good governance, adverse impact
Exclusion screens (Controversial weapons)	ISS	Adverse impact
Other		
Company ESG ratings	MSCI	Adverse impact

Monitoring sustainability indicators used to measure the attainment of the environmental or social characteristics promoted by the financial product:

As part of the investment monitoring process, sustainability indicators are analysed at an Underlying Fund and overall fund of funds level using ESG data from different data providers. Sustainability related-metrics are analysed at a sub-product and product level. There may however be limited circumstances where the product invests in underlying pooled funds where this is not possible.

Data, such as company ESG ratings, and other sustainability related-metrics are analysed in monthly cycles on all Underlying Funds and at a product level. Analysis of the product's transition and decarbonisation trajectory is conducted annually at a minimum.

Underlying fund ESG Ratings are regularly reviewed including during quarterly monitoring by the portfolio management teams with a more comprehensive review performed annually. In these reviews, Mercer ISE seeks to evidence of positive momentum on underlying fund manager's processes.

The global scope of the product brings in different countries, regions and asset classes that have varying challenges when it comes data quality and coverage and that need to be considered, in particular in emerging markets. Some data may be modelled rather than reported data and data from some companies may be delayed. Sustainability indicators are after all proxies and weak models for expected outcomes and can fail to capture changes in the sustainability risk profiles of securities they are linked to.

Monitoring exclusions

Exclusions compliance forms part of the Investment Management Agreements with the underlying fund managers and is monitored daily by Mercer ISE's custodian. Any breaches identified are investigated by Mercer to ensure compliance. There may however be limited circumstances where the product invests in underlying pooled funds, where this is not possible.

8. Engagement policies

Mercer ISE believes stewardship (or active ownership) and good governance helps the realisation of long-term value by providing investors with an opportunity to enhance the value of companies and markets in a manner consistent with long-term investor timeframes.

Assessment and measurement

Mercer ISE expects appointed underlying fund managers to monitor and engage with investee companies and to report on stewardship activities and outcomes. Mercer ISE carefully evaluates each underlying fund manager's stewardship capabilities (voting and engagement) as part of the manager selection process to ensure it is representing Mercer ISE's commitment to good governance and long-term value creation. Furthermore, ESG ratings pay specific attention to identifying underlying manager stewardship capabilities.

In addition, Mercer ISE assesses managers on their commitment to standards of good governance including, for example against the principles of the UK Stewardship Code (the "Code").

Important Notices

References to Mercer Investments Solutions Europe or Mercer ISE shall be construed to include the following entities:

Mercer Global Investments Europe Limited ("MGIE") is regulated by the Central Bank of Ireland under the European Union (Markets in Financial Instruments) Regulations 2017, as an investment firm.

Mercer Global Investments Management Limited ("MGIM") is regulated by the Central Bank of Ireland to act as an alternative investment fund manager ("AIFM") under Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and as a UCITS management company in accordance with Council Directive 2009/65/EC (as amended).

MGIM acts as AIFM and UCITS Management Company to a number of Irish domiciled AIFs and UCITS, collectively referred to the "Mercer Funds". MGIE has been appointed as Investment Manager to the Mercer Funds.

Under Regulation (EU) 2019/2088 on sustainability–related disclosures in the financial services sector ("SFDR"), both MGIM and MGIE as classified as financial market participants and the Mercer Funds are classified as financial products. This disclosure sets out how sustainability risk is integrated into the decision making process of MGIE in its management of the Mercer Funds and also more generally integrated as part of its management of client portfolios where relevant.

Mercer Diversified Growth Fund is a sub-fund of MGI Funds PLC, an Irish domiciled UCITS umbrella fund authorised and regulated by the Central Bank of Ireland. All documentation related to the fund(s), including Prospectuses, Key Investor Information Documents and information on costs and charges, can be found on https://investment-solutions.mercer.com/#generalfundinformation. Funds are only available for sale in jurisdictions where they have been approved for distribution.

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