Mercer

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Mercer Investment Solutions

Sustainability & Stewardship Report

For the period
01 Jan 2023 – 31 Dec 2023

October 2024

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Message from the CIO

We are pleased to share details of how Mercer Investment Solutions (Mercer IS[1]), in its capacity as an investment manager, is undertaking its stewardship activities on behalf of the Mercer Funds[2]. Our fourth annual report[3] captures Mercer IS's stewardship approach, activities and outcomes over the calendar year 2023 and is designed to address the 12 principles of the 2020 UK Stewardship Code for investment managers.

During 2023, we continued to focus our stewardship efforts on our engagement priorities - climate change, biodiversity & natural capital, human rights & labour practices and diversity, equity & inclusion.

The growing importance placed on stewardship within the industry to promote better investment outcomes only reinforces our belief that stewardship will continue to play a crucial role in helping our clients meet their investment goals and fiduciary responsibilities, and support outcomes that are more positive for people and the planet.

Mercer IS has evolved its approach over 2023 to ensure that stewardship continues to play a meaningful role in the investment process and in the ongoing monitoring by our investment teams to increase the overall effectiveness of active ownership for the benefit of clients.

Mercer IS does not directly select securities; instead, it selects and combines specialist third party investment managers into Mercer Funds to implement day-to-day investment management tasks. This places Mercer IS in a unique position to engage with multiple managers and provides an opportunity to encourage effective stewardship practices, not only in relation to assets managed on behalf of Mercer IS, but across appointed managers' broader investment processes too.

Mercer's Global Sustainability & Stewardship Survey for managers provides a useful tool to assess and monitor the stewardship practices of our appointed managers, with the 2023 survey providing insights from over 100 managers managing over 200 strategies used within the Mercer Funds.

The results support how manager stewardship approaches are understood across different asset classes and engagement themes and clearly highlight that managers are at different stages in their stewardship journey. Our aim is to identify opportunities to engage with managers to support more effective stewardship practices to drive real world change at a company level.

Key highlights of 2023

- Targeted engagements with managers to support the promotion of sustainability characteristics within the investment strategies of 52 funds disclosing under Article 8 of the EU Sustainable Finance Disclosure Regulation.
- Climate change continues to remain a high priority on our stewardship agenda. Targeted engagements with managers on the decarbonisation commitments of companies contributing significantly to Mercer IS's overall multi-client assets' emissions, to support stewardship activities linked to climate risk management processes in line with the Task Force on Climate Related Financial Disclosures (TCFD) recommendations and progress towards achieving Mercer IS's net zero targets.
- For a number of our clients invested in bespoke mandates, we saw them setting net zero and interim climate-related targets of their own, which have been supported by the use of our Analytics for Climate Transition (ACT) tool.
- We continue to help clients with their stewardship responsibilities through improving the oversight and reporting of investment manager voting and engagement activities to support clients with their annual Implementation Statement disclosures.
- We continue to strengthen our understanding of how nature and biodiversity have a financially material impact on the economy and investments and of how investment managers are incorporating these considerations in their investment processes.

1 This report applies to Mercer Global Investments Europe Limited ("MGIE") in its capacity as investment manager of the Irish domiciled funds for which Mercer Global Investments Management Limited acts as management company, and reference to Mercer IS throughout should also be interpreted to cover these entities.
2 See Important Notices. Noting that the approach to stewardship will differ across asset classes and be limited for some (e.g. cash, Liability-Driven Investments (LDI)). The extent of stewardship activities and monitoring of such will also vary across multi-client and bespoke funds, particularly in instances where clients have set up a bespoke investment vehicle and have a desire to engage with, set and communicate their expectations of managers.
3 This report was reviewed by the Head of Sustainable Investment Solutions and Head of Compliance for Mercer Global Investments Europe Limited, and formally approved by the Mercer Global Investments Europe Limited Board.

- As part of our commitment to supporting initiatives that aim to reverse nature and biodiversity loss, we were a founding signatory to Nature Action 100.
- Supported the establishment of the 30% Club – Irish Investor Chapter.

Focus areas for 2024 and beyond

- Introduce a new ESG integration framework, which incorporates an explicit stewardship factor, in our manager research due diligence process, that will replace the existing strategy level ESG ratings and take effect in 2025.
- Continue to engage with investment managers holding companies on our climate engagement target list and develop a clear escalation strategy for circumstances where medium term progress towards credible decarbonisation plans is deemed insufficient.
- Continue to engage with investment managers holding companies prioritised for engagement based on our UN Global Compact engagement framework, applying escalation strategies where improvements via engagements are deemed to be unlikely.
- Explore ways to integrate material nature-related risks within our stewardship framework and portfolio monitoring, applying recently established frameworks and industry guidance where appropriate.
- Expand our involvement in collaborative initiative working groups to more actively support the development of industry guidance on emerging themes.

Moving forward Mercer IS remains dedicated to promoting best practices in stewardship across our investment activities and amongst investment managers and in supporting our clients in being effective stewards for their members and stakeholders. Transparent reporting of our activities and outcomes to clients and the wider market, as well as collaborative efforts with our clients and other investors, will continue to be key to our ongoing success. We recognise that enhancing the stewardship process requires collective action, and we are committed to using our voice, along with that of our clients, to drive positive change across the industry.

David O’Sullivan

Chief Investment Officer, Mercer Global Investments Europe Limited

01

Purpose, strategy & culture

Mercer IS is a leading provider of investment solutions catering to a diverse range of institutional investors including pension funds, insurance companies, endowments, foundations, and other investors. Our primary purpose is to support clients in setting, implementing and monitoring their investment strategies through our investment solutions to meet their goals and fiduciary responsibilities. Stewardship plays an increasingly key role in this regard.

Mercer IS has been incorporating sustainability considerations into its investment process for many years now. We have continually refined our approach, guided by the intellectual capital, research, resources and support of Mercer's specialist global Sustainable Investment Consulting team, which has been focussing on sustainability risks and opportunities and environmental, social and governance (ESG) factors since 2004. In June 2024, the Mercer Sustainable Investment Consulting team won the Environmental Finance Sustainable Investment Consultant of the Year award for the fourth year running.

Considerations within our investment process largely fall within four key areas:

01 Integration of ESG factors in investment decisions (including climate change, biodiversity and natural capital as key areas of focus)

02 Effective stewardship

03 Capital allocation to sustainability focussed investment solutions

04 Screening

At Mercer IS, we offer a range of active and passive funds across various asset classes including equities, fixed income, multi-asset and liquid alternative asset classes[4]. Mercer IS does not directly select securities; instead, it selects specialist third party investment managers to implement day-to-day investment management tasks. These specialist third party investment managers manage strategies tailored to meet Mercer IS's specific policy requirements which are combined into Mercer Funds, and for certain clients, these funds are combined into portfolios.

We hold our appointed investment managers accountable for integrating sustainability considerations into their investment processes and adopting robust governance and stewardship practices.

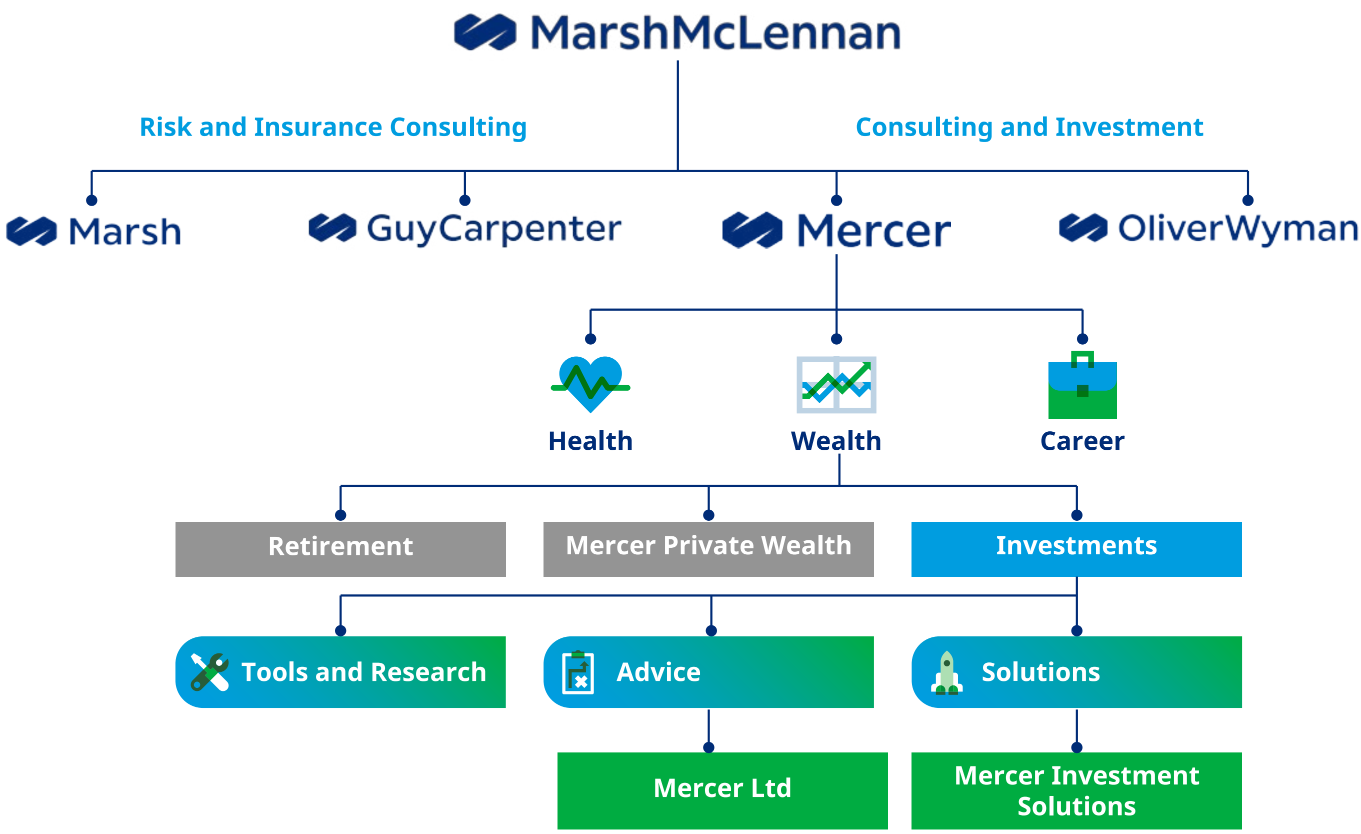
As part of our assessment, we monitor their overall stewardship activity and evaluate their incorporation of Mercer's global engagement priority themes, which encompass climate change, biodiversity & natural capital; labour practices & human rights; and diversity, equity & inclusion.

Our structure, values, culture and philosophy

Mercer IS, as a subsidiary of Marsh & McLennan Companies Inc. ("Marsh McLennan" or the "Group"), shares the Group's ESG and climate-related ambitions and integrates Marsh McLennan's ESG initiatives into strategy, decision-making and business processes.

The diagram below illustrates how the Group is structured:

Figure 1: Governance structure overview



4 This material does not constitute advice or an offer or a solicitation of an offer to buy or sell securities, commodities and/or any other financial instruments or products or constitute a solicitation on behalf of any of the investment managers, their affiliates, products or strategies that Mercer may evaluate or recommend. No investment decision should be made based on this information without first obtaining appropriate professional advice and considering your circumstances.

Marsh McLennan has formally integrated ESG factors into decision-making processes since 2008 and believes that transparent and consistent disclosure enables better-informed business and investment decisions. In March 2024, Marsh McLennan published the Group's annual ESG strategy and climate ambition (the "2023 ESG Report"). The strategic objectives outlined in the 2023 ESG Report are integrated into Mercer's overall corporate strategy and governance structure. The Group's ESG philosophy is summarised below:

Our commitment to ESG starts at home

Our people are our greatest strength

Our future requires climate resilience

Our company plays an important role

Change is up to all of us

The Greater Good – Code of conduct

The Greater Good is the Group's code of conduct and the cornerstone of our culture of integrity. It underpins our values, ethical commitments and standards of business integrity and professionalism. It supports colleagues in making decisions in situations where it may not be clear — or easy. The Greater Good covers a range of topics including anti-corruption, data privacy, conflicts of interest, trade sanctions, money laundering prevention and social responsibility, with colleagues across the Group required to complete training on our code of conduct on an annual basis.

We strive to do the right thing for our colleagues, clients and shareholders, while considering future generations too. This approach is inextricably linked to Mercer's investment philosophy, which aims to produce long-term sustainable investment returns for our clients while helping them manage an ever-expanding risk landscape.

Our culture

At Mercer, our culture fosters innovation and collaboration. We believe in empowering all colleagues to contribute actively to their teams by participating in discussions, sharing their ideas through the organisation and building networks with colleagues both within their local business practice and across Mercer and the wider Marsh McLennan businesses. We are creating a culture of belonging where all colleagues can bring their whole selves to work and thrive and believe that having a diverse workforce and an inclusive culture makes us stronger as an organisation and improves the quality of our work.

Our Colleague Resource Groups ("CRGs") are an integral part of Mercer's ability to succeed in building a culture of belonging. Made up of colleagues who voluntarily work together to help Mercer IS achieve its diversity vision, each CRG plays a critical role in improving our firm's culture and environment. Providing unique perspectives from across our organisation, each CRG focuses on our abilities to hire, develop and retain the best talent; work with an increasingly diverse client base; and connect to the increasingly diverse communities in which our colleagues and clients live and work. Some examples of CRGs operating across the business are Racial and Ethnic Diversity (Mosaic), Women@Mercer, Rising Professionals Network, AccessABILITIES, Social Impact (Mercer Cares), Mental Health @ Mercer, Parents and Carers (PACT) and Pride.

As a growing business, with an ambition to be a top 10 investment firm by 2030 with assets under management in excess of $1 trillion, ensuring we protect and enhance our culture as the business continues to evolve and grow is an imperative for us. Mercer IS's Culture Club was established to engage colleagues from a social and professional perspective and currently operates four sub-groups focusing on Generational Engagement, Mentoring & LiFT (Leadership in Financial Technology), Career Pathways and Recognising Performance. Numerous social events are hosted on a regular basis to enable colleagues to connect with one another outside business hours.

Mercer IS's Diversity, Equity & Inclusion (DE&I) Council is tasked with developing and delivering on Mercer IS's DE&I strategy plan. The Council has four high level objectives focused on Policies & Practices, Talent Management, External Advocacy and Listening & Learning.

In June 2024, Mercer was recognised as one of The Times Top 50 Employers for Gender Equality for the second year running, highlighting our ongoing commitment to prioritising gender equality in the workplace.

Together, through the work of the various CRGs, Culture Club, and DE&I Council, we aim to create a more engaging and inclusive working environment for colleagues.

Mercer's investment philosophy

Mercer's investment philosophy serves as the foundation of our approach to help drive client success. Our investment philosophy was reviewed during 2023 and was formally implemented during 2024. This section covers our updated philosophy as this is fundamental to how we will operate going forward.

Figure 2. Mercer Group's Investment Philosophy

In terms of sustainability and stewardship, our Investment Philosophy covers the following areas:

Client objectives – Aligning governance processes is essential for driving investment performance.

- Aligned governance processes drive investment performance. Particularly in times of crisis, strong governance becomes even more crucial. Investors should regularly review their beliefs, objectives and risk tolerance, considering different timeframes to ensure alignment with their goals.

Strong governance – Effective stewardship plays a crucial role in improving investment outcomes.

- Effective stewardship and engagement with companies, policymakers and stakeholders plays an important role in value creation through the deployment of investor rights and influence. Clear stewardship objectives, meaningful escalation mechanisms in response to unsuccessful engagements, and the feedback loop between stewardship activities and portfolio positioning (including, in some cases, exclusions) are all key to effective stewardship. Stewardship, which involves using voting rights and engaging with companies, can be enhanced through industry-based collaborative initiatives that promote the sharing of public information among investors. This sharing of information helps support each investor in making well-informed decisions.

Rewarded risk – Integrating financially material sustainability transition and socio-economic risks into investment decision-making can potentially enhance portfolio resilience.

- Considering the risks associated with climate transition, natural resource challenges, and socio-economic developments as part of an investor's risk management process can assist in positioning their portfolio across time horizons. This proactive approach enables investors to adapt to potentially changing market dynamics as a result of these trends.

Maximise value – Investing to solve long-term systemic issues may provide opportunities to improve risk-adjusted returns.

- Market inefficiencies in pricing transition risks, as well as the development of new technology and solutions to sustainability challenges across developed and emerging markets, can create opportunities for investors to capitalise on the transition to a net-zero carbon, nature-positive and more equitable world.

Our investment philosophy, coupled with clearly defined processes, ensures sustainability and stewardship considerations are embedded across our investment solutions and services.

Mercer's philosophy includes investing to maximise value, which may involve investing to solve long-term systemic issues that also provide opportunities to improve risk-adjusted returns. Our philosophy is supported by Mercer's forward-looking research, proprietary tools and solutions, which assist us in balancing risk, return, regulatory requirements and reputational considerations, while considering market-wide and systemic risks and incorporating sustainability considerations.

Identifying and responding to global systemic risks

Mercer benefits from thought leadership and wider work across the organisation. Every year, the World Economic Forum, in collaboration with Marsh McLennan, publishes the Global Risks Report[5]. We show the key risks in the report ranked by severity over the short and long term below:

Figure 3: Global risks ranked by severity over the short and long term

	2 years		10 years
1	Cost-of-living crisis	1	Failure to mitigate climate change
2	Natural disasters and extreme weather events	2	Failure of climate-change adaptation
3	Geoeconomic confrontation	3	Natural disasters and extreme weather events
4	Failure to mitigate climate change	4	Biodiversity loss and ecosystem collapse
5	Erosion of social cohesion and societal polarization	5	Large-scale involuntary migration
6	Large-scale environmental damage incidents	6	Natural resource crises
7	Failure of climate change adaptation	7	Erosion of social cohesion and societal polarization
8	Widespread cybercrime and cyber insecurity	8	Widespread cybercrime and cyber insecurity
9	Natural resource crises	9	Geoeconomic confrontation
10	Large-scale involuntary migration	10	Large-scale environmental damage incidents

Risk Categories Economic Environmental Geopolitical Societal Technological

Source: WEF Global Risks Report 2024

5 https://www.marshmclennan.com/insights/publications/2024/january/global-risks-report-2024.html

The Global Risks Report is underpinned by the Global Risks Perception Survey, which brings together leading insights on the evolving global risks landscape from 1,490 experts across academia, business, government, the international community and civil society. Five of the top ten severe risks identified over the long term are linked to environmental factors, and most notably nature. This links with Mercer's Global Strategic Research Committee's (GSRC's) Mega-trend theme for investors, highlighted in the Age of Agility publication.

Identifying market-wide and systemic risks

Annually, Mercer's Global Strategic Research Committee (GSRC) evaluates the pivotal investment themes and opportunities that will hold significance for investors in the upcoming calendar year. Our report, 'The Age of Agility' was published in November 2023 and helps set the research agenda for the coming year. Our research supports us in strategically positioning our investment portfolios and governance frameworks to enhance resilience against both short-term geopolitical and economic risks, as well as long-term systemic risks.

The Age of Agility

In a highly complex and changing world, investors face the challenges of regime change amid socioeconomic super-cycles and systemic mega-trends. The market events over 2023 have underlined some of the fragilities in the global economy and have accentuated other themes (for example, nature and artificial intelligence). Investors are rapidly waking up to opportunities presented by higher interest rates and nature risks as well as other emerging themes. Opportunities can evaporate quickly in these fast-moving and hyperaware times, and investors will need to be flexible in their approaches to capitalise on these. We are now in an age where agility must be the foundation for how investors take and make decisions.

In such an environment, understanding the key trends that will drive markets is crucial. We believe this is best done by applying a series of thematic frameworks to the market landscape that offer investors a structure for shaping their decision-making:

Regime change:

Heightened geopolitical risk, inflation volatility, and transition risks all point to greater volatility, dispersion and dislocation.

Super-cycles:

While interest rate increases are having an impact and cyclical inflationary pressures are subsiding, many significant structural inflationary pressures remain. Increasing protectionism, supply chain pressure, and the needs of the long-term energy transition all skew inflation risks to the upside.

Mega-trends:

Innovation will be key to delivering on the next wave of the transition. Biodiversity is inextricably linked to climate change, creating a critical need to put nature at the heart of future planning and thinking.

The Age of Agility: Mega-trends

Energy modernisation:

- Energy modernisation is driving increased demand for critical minerals and metals.
- Countries with significant metal deposits can benefit from this trend, and improved organisation between these countries is a possibility.

The natural (re)order

• We are in a global biodiversity crisis, and there is a critical need to put nature at the heart of planning and thinking for the future.

- Global commitments to action have been accompanied by new regulation, and investors should be prepared for more in this area.
- Investors should ensure their engagement principles result in tangible objectives.
- Investors should consider nature-related risks within portfolio management, with a holistic approach advisable.

The case for forestry:

- Investors should carefully consider forestry due to its attractive risk, return and correlation characteristics.
- Timber's status as a renewable material, which can be a key building block in the future of the global economy, augments forestry's value.
- Forestry is not just an asset class for value-oriented investors. There are many projects available that can meet the needs of a diverse range of audiences.

The future of food:

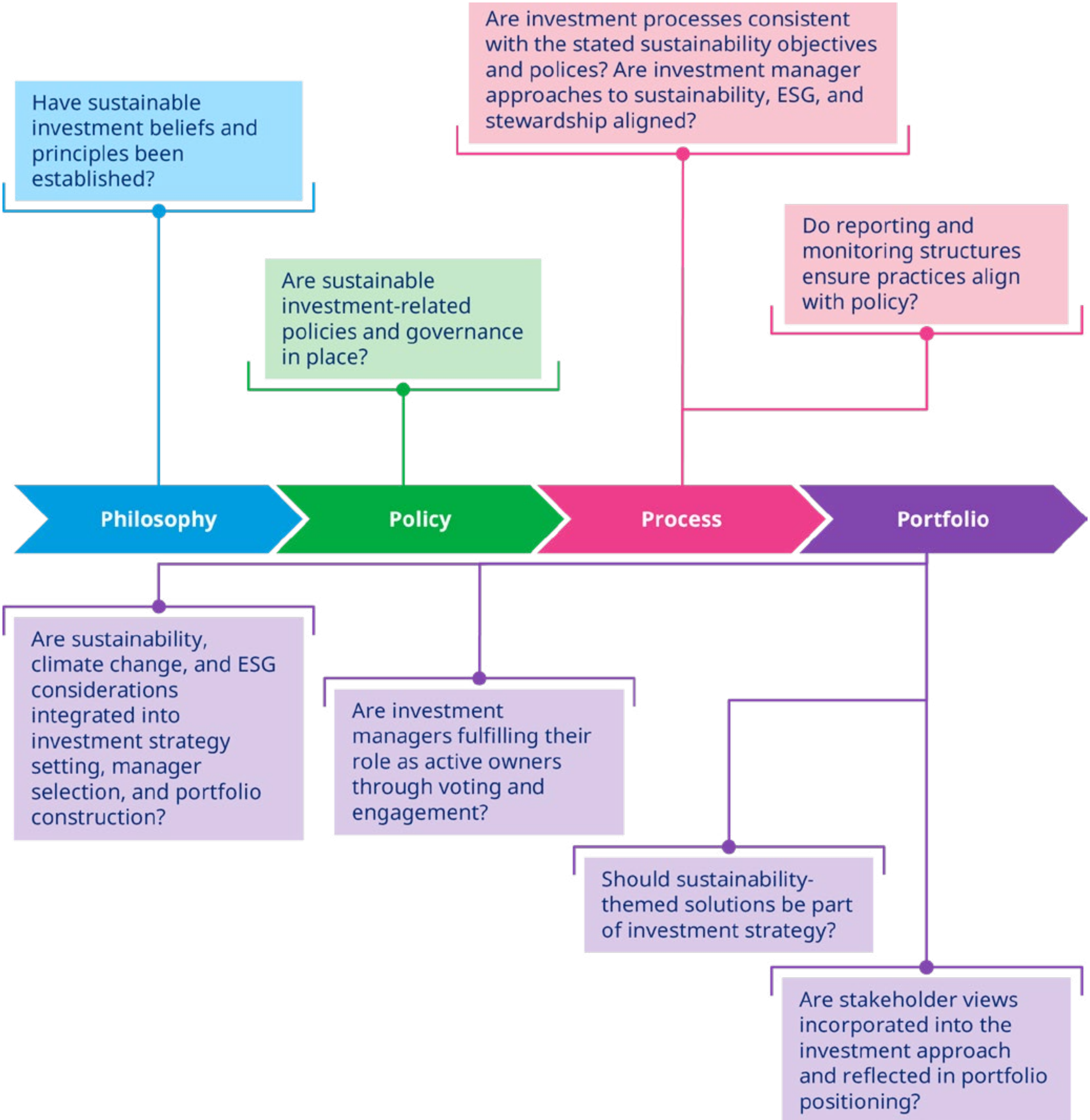
- Food supply needs to expand considerably to meet the demands of a global population that could reach 10 billion.
- The need to reduce emissions coupled with the past impact of agriculture on deforestation means this industry must move to a more sustainable footing.
- Regenerative processes, agritech, agroforestry and mixed land use can all improve agricultural practices.

The circular economy:

- Although much work is still needed, there is clear evidence that we are moving from a linear economic model to a circular one.
- Circular economies offer significant advantages, including reduced pressure on supply, lower systematic risk and the potential for higher risk-adjusted returns.

Mercer IS considers a broad range of sustainability issues and incorporates them into our investment process and portfolios, where relevant and practical. Stewardship is incorporated across all four areas of our Sustainable Investment Pathway, shown below, which sets out the key elements of our approach to embedding sustainability considerations across our solutions.

Mercer's Sustainable Investment Pathway



Mercer IS has prioritised the themes below for engagement with investment managers:

Mercer Investment Solutions Global Engagement Priorities

Environmental	Social	Governance
Climate change Climate-related financial impacts are driven by the associated transition to a low-carbon economy and the physical damages of different climate outcomes – a well below 2°C is both an imperative and an opportunity. **Biodiversity & Natural capital** Destruction of biodiversity and the environment is a key risk to all business, as economies are highly dependent on nature. There are direct links between the environment and financial markets that relate to the interrelationship between nature and climate change. Particularly, addressing nature loss and achieving net-zero climate objectives go hand in hand.	**Human rights & labour practices** Workforce and supply chain safety and human rights practices should avoid contributing to modern slavery, exploitation and other human rights abuses – these can contribute to economic instability, the threat of social tension and subsequent political instability; and negatively impact beneficiaries for economic and health reasons.	**Diversity, Equity & Inclusion (DE&I)** Including cognitive and identity diversity in decision-making processes is expected to create better outcomes and solutions.

More detail on each priority theme is provided in the dedicated thematic sections later in this report. These sections include detail on how we have considered each of these themes in our investment process, including in our engagements with investment managers and further highlight how our investment managers have considered these themes in their investment approaches and in their engagements with issuers.

Collaborative initiatives

Mercer IS recognises the importance of supporting the functioning of markets through industry initiatives and collaboration. We believe that appropriate investor collaboration is often the most effective manner in which to engage, particularly at times of significant corporate or wider economic concerns. We undertake policy engagement through different initiatives and associations to drive best practice, consistency of disclosure on sustainability issues and on topics that are considered aligned with the best interests of our clients. We choose to participate in initiatives where we believe we have the opportunity and ability to improve long-term investment outcomes and contribute to more sustainable and stable global financial markets.

Globally, Mercer is party to a number of **collaborative investor initiatives and engagements where:**

- The topic has been deemed important after being assessed alongside other key themes.
- The objective of the engagement would be better achieved through involvement in local and global initiatives that facilitate collaborative engagement where these mechanisms have a more significant potential to influence outcomes.

- The engagement coordinator is one or more reputable membership organisations, typically where a Mercer entity is already a member and is therefore more likely to demonstrate credibility and positive reputation associations for Mercer and our clients.

Over 2023, Mercer collaborated with several industry groups to improve market wide practices and managing systemic risks. A few key examples of our participation are noted below:

Initiative	Involvement, activity and outome
Broad Sustainability	
Investment Consultants Sustainability Working Group (ICSWG)	Mercer Ltd is an active member of several work streams, including those on regulation, asset owners, stewardship and innovation. A focus area over 2023 has been to drive consistent climate-related metric reporting on Liability Driven Investment portfolios by investment managers. Mercer's Head of Global Investment Research co-chairs the group.
Climate change	
Institutional Investors Group on Climate Change (IIGCC)	Mercer Investments[6] actively participates by joining member calls and forums and providing input and feedback on the following IIGCC Paris Aligned Investing Initiative working groups: stewardship, listed equity and corporate fixed income. More recently members of the team have joined the Renewable Energy, Just Transition and Emerging Markets working groups.
Climate Action 100+	Mercer IS leverages the research and insights gained from attending meetings to support its approach to building a robust climate engagement framework.
Nature	
Task Force on Nature-Related Financial Disclosures (TNFD)	Mercer Ltd is a Forum member and has provided feedback throughout the framework development process. Together with our Mercer Ltd colleagues, we participated in the pilot test of the TNFD framework, applying the proposed framework to map the exposure of one of our sustainability themed funds to the TNFD priority sectors. We focused on testing the risk and opportunity assessment approach for financial institutions and provided our feedback to the TNFD on our experience as a user. Marsh McLennan also provided a senior colleague for a secondment opportunity to work with the TNFD to help in the development of the framework during its initial development.

6 As shown in figure 1 on page 8, Mercer Investments includes both Mercer Ltd, based in the UK and representing the UK investment consulting advisory business and Mercer IS, in its capacity as investment manager and representing the investment solutions business. Mercer IS works with Mercer Ltd, who provides thought leadership and guidance on regulatory developments and best practice.

Initiative	Involvement, activity and outcomes
Nature Action 100	Mercer IS was a founding signatory of Nature Action 100 and as part of its initial participation has signed all letters sent to prioritized companies that set forth the investor expectations of those companies.
Diversity	
30% Club – UK and Irish Chapters	Mercer Ltd and Mercer IS are members of the UK Chapter in corporate and investor capacities respectively, with Mercer IS more recently joining the 30% Irish Chapter. Mercer IS attends Chapter meetings and is actively looking to strengthen its participation through working group participation.
Impact	
Global Impact Investing Network (GIIN)	Mercer Ltd participated in the Listed Equities Working Group culminating in Guidance for Pursuing Impact in Listed Equities which was published in March 2023. This included the role stewardship could play in amplifying impact.

Mercer was also a signatory to, supporter of, or participant in the following initiatives over 2023:

- Principles for Responsible Investment (PRI)
- Task Force on Climate-related Financial Disclosures (TCFD)
- UK Sustainable Investment & Finance
- Transition Pathway Initiative (TPI)
- CDP (formerly the Carbon Disclosure Project)
- The Diversity Project
- Pensions for Purpose

02

Governance, workforce, resources and incentives

Mercer has established a governance and management structure that enables the effective integration of sustainability and stewardship-related considerations across our research activities, investment advice and solutions. This includes creating roles and responsibilities that are specifically focused on sustainability, establishing cross-functional working groups and engaging with colleagues, clients and stakeholders to ensure that sustainability considerations are integrated across the business.

Responsibilities are allocated at board and management levels, with a number of key roles and committees in place to support the effective governance and integration of sustainability and stewardship-related considerations across the organisation.

Governance structure

Notable committees and roles governing our approach, along with the core responsibilities of each, are provided below:

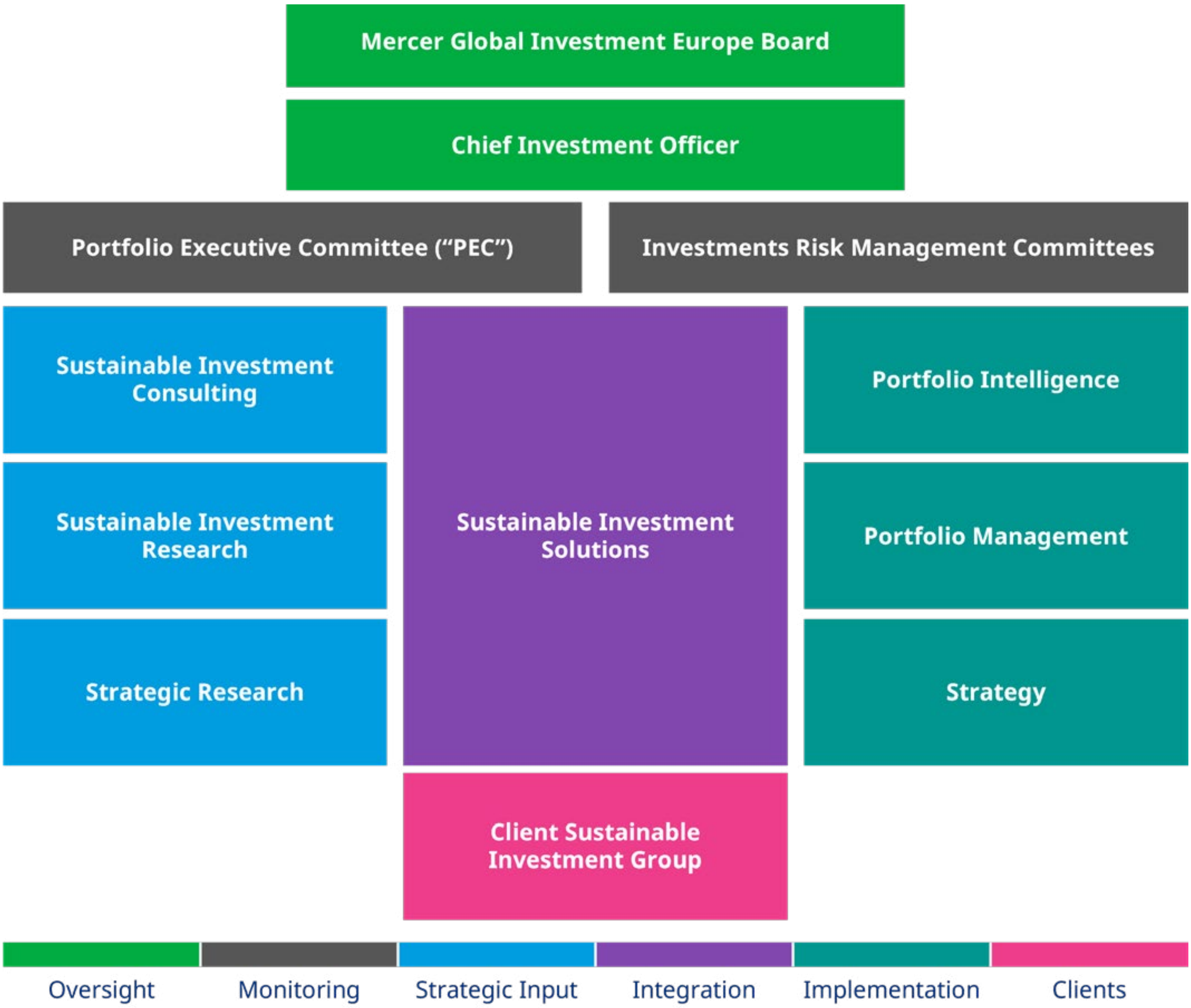
Role	Area of responsibility
Board of Directors	Oversight responsibility for the investment management of the Mercer Funds. The Board reviews and approves annual policy updates and reports addressing the integration of sustainability and stewardship practices within the investment process.
Chief Investment Officer (CIO)	Sets the tone and expectations of, and provides direction to, management committees and portfolio managers on the implementation of the Sustainability and Stewardship Policies. The CIO reviews and assesses results and reports regularly to the Board and senior leadership. The CIO is actively supported by the Head of Sustainable Investment (SI) Solutions for Europe.
Portfolio Executive Committee (PEC)	Chaired by the CIO of MGIE, this committee consists of senior members from the Strategy, Portfolio Management, SI Solutions and Client Teams who are responsible for ensuring the successful implementation of Mercer IS's Sustainability Policy.
Investment Risk Committees	Asset class and client segment specific committees responsible for the monitoring of funds' progress against their sustainability targets and commitments (e.g. net zero targets where applicable, SI commitments for funds that disclose under Article 8 of the EU's Sustainable Finance Disclosure Regulation (SFDR)).
Global Head of Sustainability	Oversight responsibility for Mercer's sustainable investment value proposition and positioning, embedding sustainability in client journeys and driving practical, relevant and value-added outcomes.
Head of Sustainable Investment (SI) Solutions for Europe	Provides strategic direction to the SI Solutions team and broader investment business on the integration of sustainability considerations and oversees the implementation of Mercer IS's Sustainability and Stewardship Policies.
Head of Sustainable Investment Research	Integrates sustainability and stewardship considerations into Mercer's manager research and ESG ratings processes. This research supports our portfolio management teams in the manager selection process and in monitoring appointed managers against the investment manager universe.
Global Sustainable Investment Forum	Provides a platform for sharing ideas, learnings and insights from different regions on sustainable investing approaches. The forum consists of representatives from the global investment, sustainable investment and portfolio intelligence teams and is chaired by the Head of SI Solutions.
Sustainable Investment Co-Ordination Group (SICG)	The SICG meets monthly to address key issues related to the development and implementation of the Sustainability and Stewardship Policies among other sustainable investment matters and consists of representatives from the SI Solutions, SI Consulting, Compliance, Portfolio Management, Portfolio Intelligence, and Client and Business Development teams. The Group is chaired by the Head of SI Solutions.

Management structure

Our approach to incorporating sustainability and stewardship considerations combines Mercer's global sustainable investment, strategic and manager research expertise with portfolio management and portfolio analytics to implement a meaningful approach to incorporating sustainability and stewardship considerations within our investment process and help clients meet their regulatory requirements. Our teams have proven experience in sustainable investment, supporting the implementation of Mercer IS's sustainability-related policies while continuing to meet client and fund investment objectives.

The diagram below illustrates the organisational structure and identifies key resources applied to Mercer's sustainability and stewardship services.

Key resources supporting Mercer's stewardship activities across the investment process



Global Sustainable Investment (SI) Consulting team

Our specialist global SI Consulting team continues to provide insights on best practice to Mercer IS. The SI Consulting team was formed in 2004 and has extensive experience advising leading global institutions on sustainability considerations, stewardship, impact and climate change. The team currently has 24 dedicated and experienced professionals and a network of over 90 SI champions across the globe.

The SI Consulting team's responsibilities with regards to stewardship include understanding and integrating global stewardship expectations into our research, developing and maintaining our stewardship assessment criteria, reviewing investment manager practice against global stewardship codes, developing client reporting templates and advising asset owners on their approach to stewardship. The SI Consulting team works closely with strategic research, manager research, investment consulting colleagues and the SI Solutions team to deliver stewardship insights to stakeholders, both internally and externally.

Global Sustainable Investment (SI) Research team

Our SI Research team provides thought leadership and guidance on the integration of sustainability risks and opportunities across asset classes & insights on sustainability themed strategies (incl. climate, biodiversity and natural capital).

Global Strategic Research team

Our Strategic Research team provides thought leadership and implementation guidance on emerging themes and opportunities, including those focused on sustainability themes and opportunities.

Sustainable Investment (SI) Solutions team

The SI Solutions team focuses on integrating sustainability-related considerations into the investment process and throughout the Mercer Funds, guided by Mercer IS's Sustainability and Stewardship Policies. While stewardship considerations are included in the remit of all team members who have various specialisms, the team includes a senior stewardship specialist, with over 16 years' industry experience, six of which have been spent at Mercer in a sustainability-focused role. The second member is a stewardship associate, with over seven years' industry experience, two of which have been spent at Mercer. Together, and with the support of others from the team and across the broader business, these team members focus on developing and integrating Mercer IS's stewardship framework within the investment process and across the investment teams.

Client Sustainable Investment (SI) Group

The Client SI Group, which consists of seven members from the client team, supports clients along their investment journey in achieving their sustainability goals and meeting their regulatory requirements. The team works closely with the SI Solutions team in supporting clients with incorporating and evidencing sustainability considerations across their portfolios and in meeting their regulatory requirements, such as through TCFD reporting and in the preparation of annual Implementation Statements.

Aligned Incentives

All SI Solutions team members, and those in Mercer IS with specific responsibility for integrating sustainability-related considerations across investment processes, have annual performance goals aligned with the successful implementation of these considerations. These goals include supporting the development of sustainability-related research and tools and integrating sustainability considerations, including climate change, stewardship, and other considerations, across our solutions while supporting our clients in delivering on their sustainability-related ambitions. More specifically, year-end assessments are impacted by meeting these goals.

Training

We recognise that our people are our most valuable asset, and we encourage colleagues to participate in development opportunities to support them in their growth and progress towards furthering their ambitions. There are numerous opportunities provided across various platforms, including the below.

- **Conferences, seminars and workshops:** These are held locally, nationally and internationally, and are offered on a regular basis to allow employees to learn while they informally network with industry colleagues and share experiences.
- **Sustainability focussed training:** To embed sustainability throughout our business, the SI Consulting, Solutions and Client teams ensure that our colleagues can participate in internal training sessions that specifically address various sustainability themes relevant to their particular area of work. Throughout 2023 the training sessions were centred around several key topics, including SFDR, climate-related metrics, disclosure and engagement, net zero target setting and monitoring, biodiversity, natural capital and natural resources, exclusions and screening, as well as stewardship approaches, outcomes and reporting.
- **Mercer Learning Days:** Once a year, Mercer designates a day towards professional development. On that day, colleagues get together virtually or in their offices to learn skills and gain insights on topics of particular relevance and interest to them. This helps all of our colleagues keep on top of the latest trends in our industry as well as learn from thought-leaders and subject matter experts.
- **Training videos and courses:** Our employees have access to hundreds of training courses internally and externally through a web-based tool. Our courses are constantly evaluated to monitor their effectiveness and ensure consistency with our business aims.
- **Professional credentials:** We encourage our teams to work towards getting professional credentials that can support them in staying abreast of trends, techniques and developments within the industry. In particular, we encourage our investment professionals to sit the CFA ESG and CFA Certificate in Climate Investing certificate, which helps enhance knowledge on ESG and climate-related topics, as well as the significance of stewardship in achieving asset owners' sustainability-related goals and aspirations.
- **ESG, climate and sustainability training:** In 2023, Mercer implemented a mandatory training course on ESG, climate, and sustainability for all colleagues, including those outside of the investments business. This comprehensive course offered an overview of the sustainability-related risks and opportunities that could have an impact on our client base. It emphasised the importance of considering these factors in our engagements with clients. By ensuring that all colleagues receive this training, we aim to enhance our collective understanding of ESG, climate, and sustainability and reinforce their relevance in our client interactions.
- **External industry events:** We actively support our colleagues in attending industry webinars and conferences, enabling them to stay informed about the latest insights and trends. We also encourage the sharing of key findings from these events with colleagues across our communication platforms, fostering a culture of knowledge exchange and collaboration. Colleagues are also encouraged to participate in these events where appropriate.
- **Knowledge sharing:** There is ongoing formal and informal collaboration and information sharing between multiple teams across the business. Furthermore, regular updates on sustainability-related industry developments are provided through our internal communications platforms.
- **Learn, Share, Connect:** As a part of Mercer's Global

Investment Forums, Mercer's investment colleagues actively engage in a series of online sessions called "Learn, Share, Connect". These sessions are led by investment managers and serve as a platform for our colleagues and clients to stay informed about the latest investment ideas and innovations. Many of these sessions specifically focus on sustainability-related topics, including the energy transition, sustainable development, natural capital, and improved governance. They provide a valuable opportunity for knowledge sharing and staying up to date with advancements in sustainable investing.

Diversity, Equity & Inclusion

Building an inclusive culture and diverse workforce is a business imperative for Marsh McLennan, with a global cross-enterprise strategy which is then refined at business and country level. Our business and leadership teams are organised around clear, measurable goals to progress the diversity and inclusive culture of our workforce. Mercer is committed to:

Maintaining an employee base with 50/50 gender representation and increasing female representation at senior levels to **50%** by 2027.

Mercer's commitment is evident through its strong network of colleague resource groups, its commitment to HM Treasury's Women in Finance Charter and The Diversity Project, and through the continuing investment in its extensive global gender parity research project When Women Thrive. When it signed up to the Women in Finance Charter in June 2017, it had 34% female representation in its senior management team. As of January 2024, representation had increased to 37%. Whilst it has increased representation over the last 6 years, it has not yet hit its target that aims to reach 50% representation in 2027.

Mercer continues to place significant emphasis on its approach to further its progress towards a diverse workforce. This includes diverse slates in hiring for all roles and particularly senior roles, programmes to accelerate high potential mid-career diverse employees, scrutiny of promotion and reward decisions to avoid bias, compulsory training for managers to encourage awareness of unconscious bias and encouraging flexibility and agility in work for all. Each year, specific programmes are implemented to support our Diversity, Equity and inclusion (DE&I) agenda.

At Mercer IS, we have internal Colleague Resource Groups (CRGs) that champion our DE&I strategy, and it is mandated that they receive sponsorship from an Executive Sponsor from our senior leadership team. Each CRG supports a programme of activity throughout the year, driving awareness and supporting our culture of embracing diversity. Over 2023 and into 2024, amongst other things, our CRGs have focussed on:

- Our **External Advocacy group** has been actively engaging external stakeholders to demonstrate our commitment to DE&I including through the creation of thought pieces (e.g. Coming off Mute on DE&I and Diversity Dressing – Progress Evaluation), blogs (e.g. contributing to Girls Are Investor's (GAIN's) blogs) and podcasts (e.g. Mercer Critical Thinking – DE&I in investing – A pathway to better returns) and participation in a number of industry awards, with our very own Mercer IS International DE&I Leader receiving the Women in Pensions, LGBT+ trailblazer award. The team continues to participate in the Pathway Programme, which focuses on unlocking female talent in the investment management industry and as part of the Pathway and Diversity Projects, hosted an external event promoting DE&I which was attended by 60 female participants.
- Our **Talent Management group** continues to progress our approach to data collection across our various teams, with DE&I goals now standard practice as part of the goal setting progress. The group has also been actively involved in a number of initiatives from school mentoring to social mobility programmes (e.g. UpReach).
- Our **Listening and Learning group** conducted training focussing on cultural diversity and social diversity, connecting DE&I topics with personal stories to promote DE&I through internal newsletters and has also collaborated with Mercer IS's Culture Club on training and newsletters.

- Finally, our **Policies and Practices group** has been reviewing and addressing inconsistencies in our policies and practices across locations, particularly with regard to our maternity and paternity policies and enhancements to Family Leave policies.

In addition to being recognised by leading publications, associations and studies for our achievements, we are also EDGE certified, which is the certification standard for gender and intersectional equity.

We are measuring our progress by:

- Developing and implementing Diversity, Equity and Inclusion dashboards, driving accountability, reporting on progress and delivering action plans. This includes collecting data across gender, ethnicity and racial diversity data, plus age, generation, highest education attained, nationality, disability and sexual orientation.
- Within our quarterly HR analytics board reports, we track our core business key performance indicators, such as headcount, turnover and hiring, split by grade, gender and ethnicity. These are reviewed to ensure focussed action plans.
- As part of our annual salary and promotion review process, we evaluate reward and performance patterns by gender, race and ethnicity to identify and address any biases.
- Performing an annual colleague engagement survey with specific questions about inclusion, with results analysed by gender and ethnicity, grade and business area.

Systems, research and tools

To support comprehensive assessments of our investments and facilitate effective manager engagements, we leverage third-party data across various areas.

As part of our ongoing commitment to continuous improvement, in 2022 Mercer IS, together with the Sustainable Investment Consulting team, conducted a thorough review of our third-party appointments for sustainability data and services. The objective was to identify any gaps in services and areas for enhancement to better meet our needs. The review encompassed nine data providers, evaluating their performance in three key areas: broad sustainability data, bespoke sustainability data, and voting and engagement data.

Based on our assessments, we made the decision to continue working with our existing data providers while implementing additional enhancements across all three areas. For stewardship services we introduced controversy alerts and engagement research, for sustainability data services we incorporated datasets on nature and water, expanded social metrics related to human rights and modern slavery and included country risk analysis. Further detail on the service provided by each third-party provider is provided below.

Third-Party Providers

Third-Party provider	
Glass Lewis	Glass Lewis provides insights and disclosure on the voting activities across Mercer IS's fund range which have voting rights attached to them. Further insights on controversial votes and the engagement activities conducted by Glass Lewis is also shared. Voting results are also shared publicly.
ISS-Ethix	ISS-Ethix provides research to inform exclusion decisions across a number of funds within Mercer IS's fund range. ISS-Ethix research further supports portfolio screening for high-severity sustainability-related risks as flagged according to the UN Global Compact ("UNGC") Principles. Mercer IS engages with underlying investment managers on instances deemed to be a priority based on Mercer IS's UNGC Engagement Framework, which includes a framework for potential exclusion where engagements are unlikely to lead to meaningful change. ISS-Ethix further provides data for UN Sustainable Development Goal (SDG) alignment analysis and inputs into Mercer's Analytics for Climate Transition (ACT) tool.
MSCI	MSCI ESG Research provides a variety of sustainability-related data, including company-level ESG ratings, climate, biodiversity and DE&I-related metrics, as well as principal adverse impact indicators, which supports in monitoring the sustainability characteristics of funds under the SFDR. Metrics are reviewed quarterly at investment risk management committee meetings, or more frequently where required. Metrics are also used as an input to the ACT tool which supports us in monitoring the transition capacity of our portfolios, key climate-related metrics, and progress towards net zero, all of which are presented within Our Investment Approach to Climate Change Report prepared in line with the TCFD recommendations.
State Street	State Street continues to provide support with meeting reporting requirements in relation to SFDR and other regulations (e.g. MiFID II).
Reitigh	Reitigh provides a data management framework to assist with complex administrative, and regulatory reporting tasks. It enhances communication with our investment managers in relation to, among other things, exclusions and engagements.

We have introduced a number of tools to improve efficiencies across our processes, including the above mentioned Reitigh exclusions monitoring process. We regularly evaluate our processes to ensure that we stay up to date with the evolving landscape and continue to deliver high-quality data and services to our clients. The next review of our third-party ESG and sustainability-related data providers is scheduled for 2025.

Mercer's ESG ratings have been an important input into the investment process and in informing manager selection decisions, with the research team assessing the extent to which ESG and stewardship is incorporated into the investment process of investment managers. The figure below summarises our ESG ratings for active and passive strategies.

Figure 4: Mercer's ESG ratings for investment managers

	ESG1	ESG2	ESG3	ESG4
Active	Leading approach to integration, where ESG is embedded in investment philosophy, strong on stewardship which is a core part of the process.	Consistent and repeatable process to ESG integration (focus on risk management), well-developed evidence of stewardship.	Well-developed integration of G, less consistency in E&S, stewardship process is ad hoc, but indications of progress.	Little or no integration of ESG factors or stewardship into core processes and no indication of future change.

	ESG1	ESG2	ESG3	ESG4
Passive	Leaders in voting and engagement across ESG, stewardship activities and ESG initiatives undertaken consistently at a global level, clear link between engagement & voting actions.	Strong approach to voting and engagement across ESG topics and initiatives at a regional level, with progress made at a global level, working towards clear links between voting and engagement.	Focus of voting and engagement tends to be on governance topics only, or more regionally focused with less evidence of E&S (in voting and engagement, as well as other internal ESG initiatives).	Little or no initiatives taken on developing a global voting and engagement capability, reactive engagements and little progress made on other ESG initiatives.

While Mercer's ESG ratings have been a success since we introduced them at the strategy level in 2008, since then, the asset management industry has evolved and integrating financially material ESG factors has become mainstream. As part of this evolution, we are introducing a new ESG integration framework, which includes a sustainability stewardship assessment factor, in our manager research due diligence process, that will take effect in 2025 and replace the existing strategy level ESG ratings.

In 2021, we formed an alliance with Nasdaq eVestment to host our digital investment analysis platform MercerInsight. The platform captures data from investment managers and has tools to extract that data into charts and tables for better analysis, including analysis related to sustainability factors. Data captured through the platform provides insights into investment managers approach to integrating sustainability considerations into their investment process, including insights on policies and governance structures, resourcing, integration and stewardship as well as insights relating to specific themes e.g. climate, biodiversity and DE&I related topics.

Over 2023 we leveraged the Nasdaq eVestment platform to distribute our Sustainability and Stewardship Survey, to capture and assess investment managers approaches to sustainability and stewardship across asset classes and insights on their consideration of Mercer's global engagement priorities. In 2024, a new module within MercerInsight accessing Nasdaq's collaboration with Matter, a specialist ESG data and analytics provider, was also introduced. This provides additional information analysing holdings in a fund portfolio to score the portfolio along several ESG attributes.

03

Managing conflicts of interest

Mercer IS recognises that the identification, avoidance or management and mitigation of conflicts of interest is an ongoing process. Mercer IS seeks to manage these conflicts primarily with policies and procedures that are designed to protect client interests as well as through disclosures.

Our approach to managing conflicts over 2023 continued to meet the objective to identify key conflicts and mitigate their impact to ensure client interests are put first. However, as Mercer IS does not invest in companies directly, this limits the potential for conflicts of interest in relation to stewardship.

Mercer's overall approach to conflicts of Interest

Mercer IS has a Conflicts of Interest Policy[7] for all colleagues and, in recognition of best practice, it is kept under regular review.

All reasonable steps are taken to prevent conflicts of interest from adversely affecting the interests of our clients. Our Conflicts of Interest Policy explains how we identify, prevent and manage actual or potential conflicts of interest, which may arise between our clients and ourselves, or between one client and another in circumstances where we are providing our products and services.

When considering whether a conflict of interest does, or has the potential to, exist, the following will be taken into account as appropriate:

- Is Mercer IS likely to make a financial gain, or avoid a financial loss, at the expense of the client?
- Does Mercer IS have an interest in the outcome of a service provided to the client or of a transaction carried out on behalf of the client, which is distinct from the client's interest in that outcome?
- Does Mercer IS have a financial or other incentive to favour the interests of another client or group of clients over the interests of the client?
- Does Mercer IS carry on the same business as the client?

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- Does Mercer IS receive or will it receive from a person other than the client an inducement in relation to a service provided to the client, in the form of monetary or non-monetary benefits or services?

Mercer IS seeks to manage these conflicts through disclosure to the client and with policies and procedures that are designed to protect client interests. Where we believe the conflict cannot be managed appropriately, we will decline the engagement. We are committed to conducting business ethically and transparently.

The identification, avoidance or management, and mitigation of conflicts of interest is an ongoing process. Mercer believes that it creates a conflict-aware environment through its governance and oversight processes, communications with clients, disclosure reviews, peer review procedures, and its ongoing training, which includes annual mandatory training on topics such as conflicts of interest, monitoring, and testing.

More information on and examples of areas where potential conflicts may occur is provided in our Conflicts of Interest Policy.

Conflicts of Interest and Stewardship

Our Conflicts of Interest Policy does not include specific reference to stewardship. As Mercer IS does not invest in companies directly, this limits the potential for conflicts of interest in relation to stewardship. Instead, voting rights and responsibilities and company level engagements typically sit with the appointed managers as laid out in investment management agreements, investment guidelines and mandates agreed by the client.

Potential conflicts that could arise in relation to stewardship include holdings related to Mercer IS's parent company stock, Marsh McLennan Companies, Inc, however this is mitigated as Mercer IS does not invest in companies directly. Another potential conflict could arise in relation to stewardship of holdings related to Mercer's clients with listed securities. However, this is also mitigated by Mercer not investing in companies directly; these decisions are taken by our appointed investment managers, who normally are not privy to the identity of Mercer IS's clients.

Expectations of investment managers and their conflicts of interest policies

Mercer IS expects its appointed managers to have policies and procedures in place designed to manage their own conflicts of interest in relation to stewardship. As part of its review and appointment process, Mercer IS assesses whether its appointed managers have policies and procedures that are designed to manage conflicts in relation to stewardship.

As part of quarterly monitoring, managers are required to report on any conflicts of interest arising relating to voting activities specifically. Over 2023 we had 56 circumstances where managers reported voting on proxies where a conflict of interest was present. The majority of these cases related to situations where the manager was invested in different parts of the company's capital structure (e.g. common shares and debt), or cases where the issuer of the security with voting rights was a client of the manager. In all cases, managers provided details of the conflict and mitigation policies and processes in place to protect the interests of their clients, with final voting decisions made in accordance with their voting guidelines.

While voting responsibilities typically sit with appointed investment managers, Mercer IS retains the right to override a manager's vote on any resolution in circumstances where we believe consistency on a significant matter is in the best interest of investors. While we have not exercised this right yet, in determining such votes, we will consider views from our proxy advisor and investment managers deemed to be stewardship leaders. We are currently finalising an updated framework and related procedures with a view to use this authority as part of our priority engagement and escalation process.

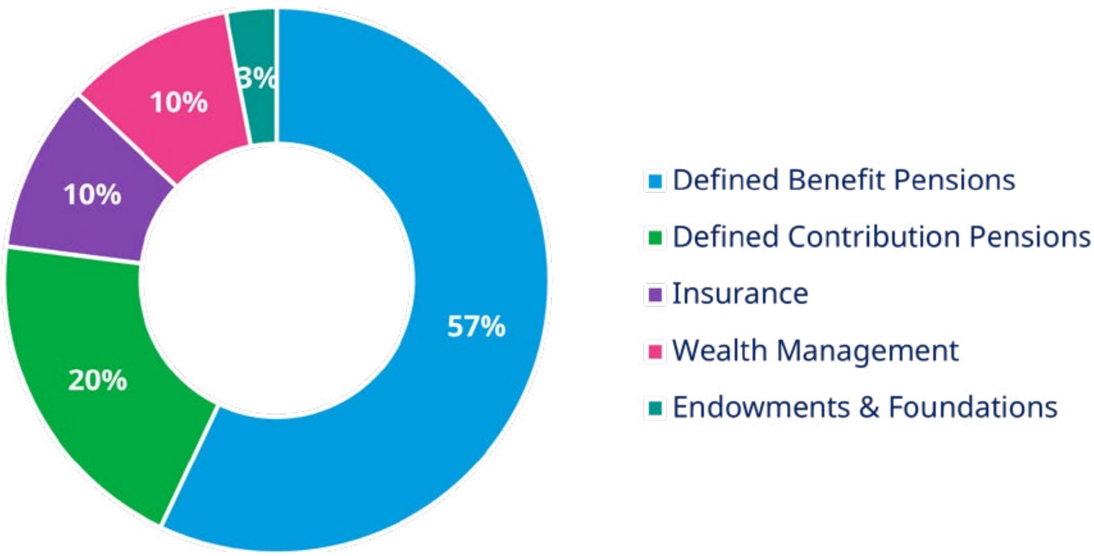
04

Supporting clients with effective stewardship

We continue to see sustainability and stewardship considerations rise up the agenda for our clients, which largely consist of long-term institutional investors, including pension funds, insurance companies, endowments and foundations and wealth managers. Therefore as 'universal owners' with a long-term time horizon, the consideration of investment governance and stewardship is of great importance.

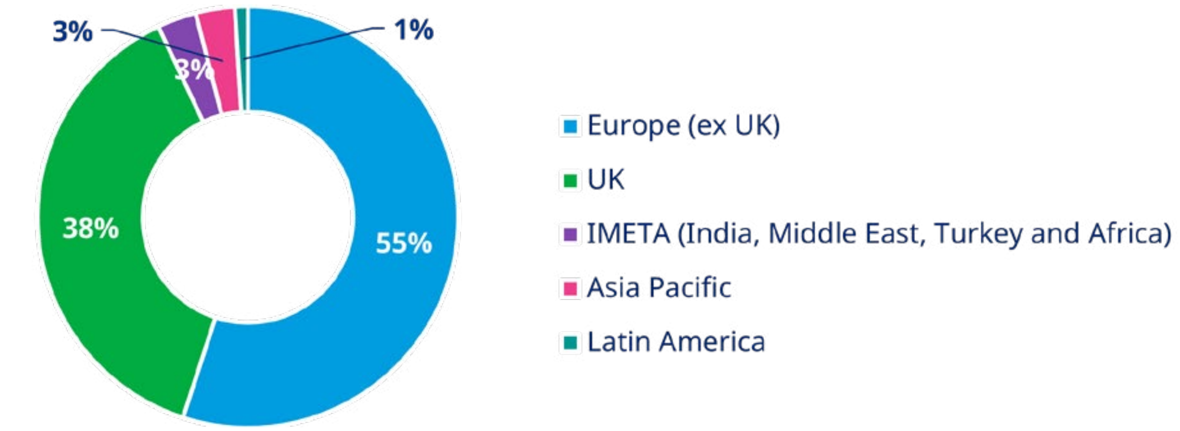
The charts below show the client type, asset class and geographical breakdown of the Mercer IS assets under management (AUM) of c.£129bn as at 31 December 2023.

Figure 5: AUM by client type



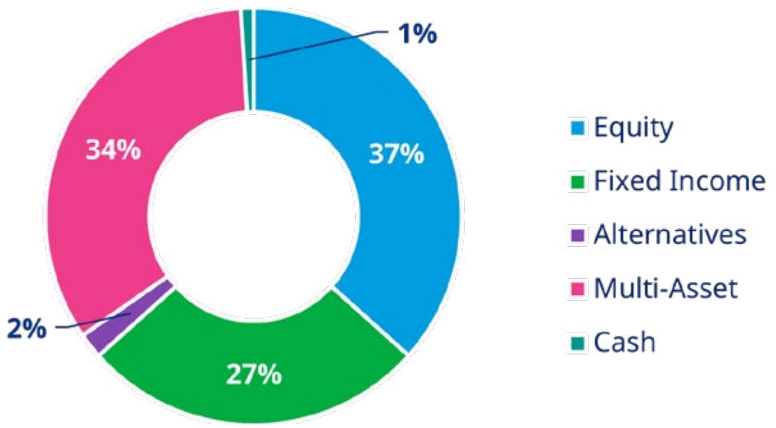
Source: Mercer. Data as at 31 Dec 2023

Figure 6: AUM across client geographical region



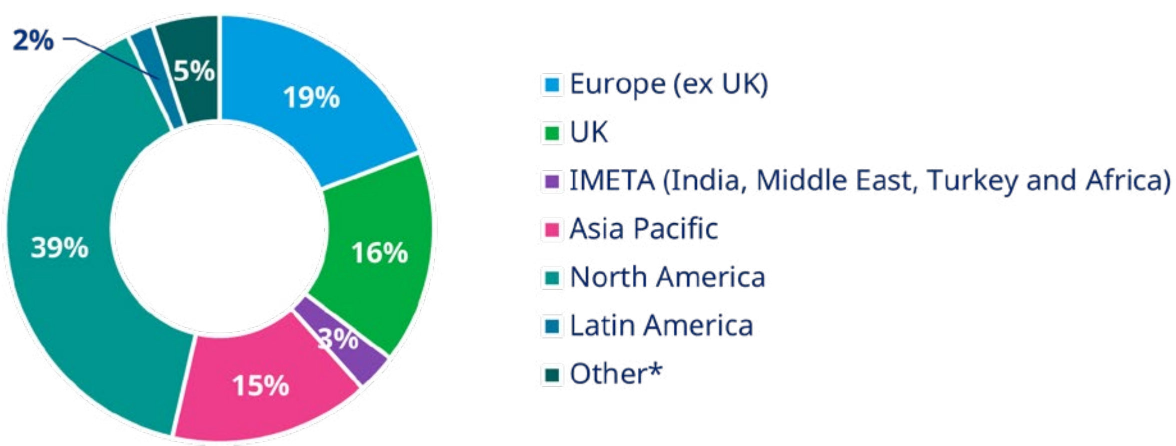
Source: Mercer. Data as at 31 Dec 2023

Figure 7: AUM across asset classes



Source: MSCI Barra. Data as at 31 Dec 2023

Figure 8: AUM by country of exposure



Source: MSCI Barra. Data as at 31 Dec 2023

*Other includes assets classified as Cash & Deposits, Derivatives and assets which have no specific country of exposure data available.

Managing assets in line with clients' sustainability and stewardship policies and preferences

The majority of our clients have long time horizons and Mercer IS seeks to generate long-term sustainable returns to align with these horizons. When setting an investment strategy for a client we take into account their short, medium and long-term objectives and seek to ensure our overall approach, including sustainability and stewardship considerations, aligns with this.

Many of Mercer's clients invest in a fiduciary arrangement with Mercer IS appointed as discretionary investment manager with delegated responsibility for the day-to-day management of clients' assets. For the majority of these clients, assets are invested in a range of specialist multi-client funds, managed by specialist investment managers appointed by Mercer IS. Under these arrangements, clients accept that they may not have the ability to directly influence the approach taken by managers to integrate sustainability and stewardship considerations, however, do expect Mercer IS to manage their assets in line with their best interests.

As a MiFID regulated firm, Mercer IS is required to gather client and prospect sustainability preferences as part of the suitability assessments for portfolio management activities. Gathering these preferences has allowed us to gain insights into our clients' expectations and requirements, enabling us to better align our funds' commitments and sustainability characteristics with our clients' preferences.

Supporting clients with their reporting requirements

Mercer IS may assist clients with drafting investment policies and in setting and managing their investment strategy in line with these. Regular reporting, including sustainability and stewardship activities, is shared with clients to monitor the alignment of their investment policies with their strategy. These reports, and others covering how Mercer IS has integrated sustainability considerations across its investment process, are generally discussed at least annually with clients, with these interactions also providing an opportunity to gather feedback from clients on their needs and expectations.

The below highlights key areas where we have supported clients over 2023 and on which we will continue to build.

Focus Areas	
ESG integration and stewardship monitoring	• We support clients in understanding, considering and monitoring sustainability risks and opportunities across their portfolios. • This takes a number of forms including through the use of Mercer's proprietary investment manager ESG ratings and climate- and diversity-related metrics, which are tracked and monitored over time and shared with clients in quarterly and annual sustainability reporting. • Investment manager voting and engagement activities are monitored and shared with clients to support with the preparation of their Implementation Statements.
Climate-related metrics analysis and net zero target setting	• We remain committed to addressing the risks and opportunities from climate change and in meeting our target of net-zero absolute portfolio carbon emissions for our model discretionary portfolios and the majority of our multi-client, multi-asset funds by 2050, with a 2030 target of at least a 45% reduction in carbon emissions, relative to the size of the portfolio. • From a top-down perspective, climate-related risks and opportunities (covering both physical damages and transition risks) are taken into account as part of our climate change scenario modelling activities, the results of which feed into the strategic asset allocation decision-making of our discretionary portfolios. • From a bottom-up perspective, our Analytics for Climate Transition ("ACT") Tool remains instrumental in supporting us in achieving our net zero targets, through identifying portfolio companies that are high carbon emitters with low transition capacity ("Grey" assets) through to low carbon emitters with high transition capacity ("Green" assets). This assessment allows us to manage high carbon and stranded asset risk and supports our engagements with investment managers holding companies on our Climate Engagement Target list.
Taskforce for Climate-Related Financial Disclosure (TCFD) reporting	• We report in line with the TCFD recommendations and are also supporting an increasing number of clients with the preparation of their own TCFD-aligned reports, both in accordance with the DWP's Climate Change Governance and Reporting Regulations and on a voluntary basis, through the provision of climate-related metrics, climate scenario modelling and support in setting net zero portfolio transition pathways.

Statement of Investment Principles (SIP) and Implementation Statement support	• We successfully assist an increasing number of Defined Benefit (DB) and Defined Contribution (DC) pension scheme clients with their Statement of Investment Principles in various ways. • We facilitated the acquisition of more comprehensive information from investment managers to support our clients in meeting their regulatory reporting obligations. • A number of tools have been introduced to enhance disclosure and transparency of voting and engagement activities (e.g. significant votes analyser and engagement tracker). • We supported the enhancement and refinement of our client's Engagement Policy approach, as reflected in their Statements of Investment Principles. • We continued to advocate for the use of industry-led data templates, such as the Pensions and Lifetime Savings Association's (PLSA) vote reporting template and the Investment Consultants Sustainability Working Group's (ICSWG) engagement reporting guide.
Sustainability and stewardship benchmarking	• In 2021, Mercer introduced the award-winning Responsible Investment Total Evaluation (RITE) tool[8] to help asset owners assess how well sustainability is integrated into their overall investment decision making. RITE has been a powerful tool in helping our clients evaluate their progress and provides guidance on how to improve integration of sustainability considerations, including stewardship. • Now in its third year, the number of schemes covered by RITE has increased from 650 to more than 1,000 representing over $400 billion of assets and over 5 million pension scheme members. • In late 2023, the RITE tool underwent an update to ensure its alignment with the latest advancements in sustainable investment practices and to expand its coverage to include asset owners worldwide following its initial implementation across clients in the UK.

8 Professional Pensions' DB Investment Innovation of the Year 2022 and Pension and Investment Provider Awards' ESG Data Provider of the Year 2022

Client case study

Background

- International not for profit within the agriculture industry.
- Client since 2016 when Mercer started providing strategic investment advice and managing half of the investable assets of the Endowment.
- Mercer won the remainder of the mandate and transitioned to a full Outsourced Chief Investment Officer (OCIO) relationship in 2022.

Client requirements

- Full OCIO partner with significant ESG expertise to advise on investment decisions and to outsource operational management of the portfolio.
- Assistance with ongoing governance to shape Investment Policy in line with its Mission Statement and design a robust Sustainable Investment Framework.
- Utilise Mercer's expertise in ESG and sustainable investing to construct a diversified portfolio for the client with an ESG focus

Solution

- Client sets overarching strategic asset allocation and ranges, which Mercer implements on a discretionary basis.
- Results in a diversified allocation across traditional, alternative and private market investments
- Private Market program is allocated to Sustainable Opportunities / Global Impact and Private Debt allocations

Integrating sustainability

- Regular ESG-focused meeting agendas providing education sessions & workshops (e.g. ESG beliefs survey, sustainable investment beliefs workshop, net zero implementation options, understanding various ESG initiatives, climate risk training) resulted in:
  - Design of Sustainable Investment Framework confirming the client's sustainable investment Beliefs and implementation
  - Confirmation of Net Zero Investment Framework including a net zero by 2040 target and decarbonisation pathway
  - Identifying priority ESG initiatives that align with the client's mission
  - Aligning with TCFD recommendations, preparing for their first voluntary TCFD-aligned report to be published in 2025
- Provided support and training to assist the client establish its Sustainability Committee
- Helped the client establish a Climate Risk Governance Framework, including integrating climate risk into their risk register.
- Client's ambitions are broadly aligned with Mercer's overarching net zero target (2050), and we will monitor for opportunities to decarbonise their portfolio at an enhanced pace.

Communicating with clients

Effective communication with clients is crucial for being successful in our role as investment managers. In addition to offering a range of reporting services to meet various sustainability and stewardship needs and ensure regulatory compliance, we strive to customise our communication to each client using a variety of methods and mediums. We actively engage with our clients through publications, webinars, reports, and regular communication.

We proactively highlight specific ideas that may be of interest to our clients, and we provide ad hoc reports to alert our clients to relevant changes in the investment environment. This ensures our clients are always aware of the latest developments.

We have invested significant resources in integrating our sustainability and stewardship resources throughout our investments business. This integration ensures that our communication is clear, concise, consistent, and tailored to the specific needs of our clients. Furthermore, our peer review process ensures that our work is accurate and appropriate for its intended audience.

Clients also benefit from access to research and thought leadership through the MercerInsight Community, a digital platform that keeps investors up to date with the latest investment research, trends and innovations. The platform not only provides valuable insights from Mercer but also includes contributions from various third-party publishers and investment managers.

Client views and evaluating our effectiveness

Our clients are our most important source of information about our innovation, quality, performance, and areas for improvement. As part of our commitment to being a leading provider of investment solutions and providing high-quality client service, and to discern the current level of client satisfaction, we formally and actively collect client input through:

- Client satisfaction reviews
- Continuous client/Mercer IS team interactions and requests for feedback
- Meetings between Mercer IS senior executives and clients

Client Experience Measurements (CEM): This is how we gather client feedback through independent reviews with clients. Reviews are conducted by a senior colleague independent of the day-to-day client team. We use the quantitative and qualitative feedback to create action plans for client teams as well as client satisfaction metrics that can be monitored for trends, helping us to continue to invest in our service and develop new solutions based on what we hear from clients. The CEM process includes questions tailored to a client's circumstance.

Client Experience Measurements

CEMs provide an opportunity for clients to feedback on our service, including whether we are meeting their stewardship needs, and support in identifying their key priorities. We aspire to achieve an 8+ scoring on CEMs (on a scale of 1-10), remaining consistent over the last few years, which requires us to take the right action on lower scoring CEMs. Overall feedback from our clients was that they believe Mercer to be a trusted adviser, acting as a partner. We have also received positive feedback on the CEM process itself.

Informal dialogue with clients and consultant feedback: We actively encourage client-facing consultants to provide comments and feedback to our Client SI and SI Solutions teams on the challenges, needs and expectations of our clients. This ensures we develop our solutions in a way that best meets the needs of our clients and helps us to innovate and drive new ideas. The Sustainable Investment Co-Ordination Group, which meets monthly, further provides a platform for sharing.

Client engagement survey: The survey, which is specifically focused on canvassing the views of Mercer IS clients across the UK on sustainability considerations as part of the investment process, was conducted over 2023. This provided insights on clients' views on the effectiveness of various approaches to incorporating sustainability considerations, along with insights on their preferences for the prioritisation of different engagement themes.

ESG beliefs surveys: These are an important way to understand client beliefs and views on a range of sustainability themes, implementation approaches and how to be an effective active owner. We use the outputs to refine clients' investment policies and embed their key beliefs in strategic asset allocation and fund selection decisions.

Working with clients: We work with clients who are recognised global sustainability leaders. Our interactions with these clients have played a crucial role in driving our proactive approach towards integrating sustainable investment considerations into our solutions.

Providing solutions: We have launched funds that promote sustainability characteristics based on client feedback and demand. These funds promote environmental and/or social characteristics while incorporating a number of exclusions based on our Sensitive Topics Framework.

05

Reviewing policies, processes and activities

Mercer IS reviews its policies, processes and activities relating to sustainable investing and stewardship on a regular basis. With sustainability and stewardship requirements continuing to grow for both us and our clients, we will continue to ensure that our policy review and assurance processes, and supporting documentation, remain fit for purpose.

Policy reviews: Mercer IS has a structured approach to reviewing and updating existing policies and frameworks. Policies generally undergo an annual review process with input from a broad range of stakeholders, review from the Head of SI Solutions for Europe, the Head of Compliance for Investment Solutions and the CIO, with final approval by the Board.

There are typically three drivers that might lead to a review of, and change to, underlying policies, processes or activities. We provide recent examples against all three opposite:

Regulation

- **Sustainable Finance Disclosure Regulation (SFDR):** As part of SFDR, many of the Mercer Funds have made various commitments that we believe enhance their resilience to potential financially material sustainability-related risks. To enable us to deliver on these commitments we have enhanced our datasets and developed various monitoring and oversight procedures. These include regular reviews with our portfolio management and portfolio intelligence teams in relation to carbon emissions intensities, the level of sustainable investments, exclusions and various principal adverse impacts. It has also increased direct discussions with appointed investment managers on sustainability-related topics.
- **Implementation statements:** To support clients in the preparation of their implementation statements, we have enhanced our processes that support the disclosure of voting and engagement activity by our investment managers. This includes the development of a voting tool to support vote analysis and reporting, and a manager engagement database.

Best practice

- **Climate engagement target list:** We believe effective stewardship plays an important role in improving investment outcomes and in supporting us in progressing towards our net zero targets. While company-level engagement activity is typically led by our appointed managers, we have developed a targeted approach to identifying the holdings we view as priorities for engagement on climate risk, engaging with our managers specifically on these issuers. The objective of this targeted engagement approach is to ensure that issuers in high impact sectors[9] responsible for significant portions of our asset base's carbon emissions have set credible decarbonisation plans and are aligned with a successful transition to a low carbon economy. We have also established an escalation framework for these engagements which is linked to voting and includes the potential for divestment if progress towards alignment with net zero is deemed insufficient or unlikely.

Key themes

- **Climate:** We have seen ongoing advancements in data and frameworks related to climate change, enabling us to enhance our proprietary tools and provide better guidance to our clients. We leverage technology to expand the utilisation of our Analytics for Climate Transition (ACT) tool, as we observe a growing demand from clients for climate-related metrics and transition-related analytics.
- **Nature and Biodiversity:** We are exploring how best to implement effective nature and biodiversity portfolio risk analysis and plan to conduct further research on how this emerging theme should be integrated across our sustainability framework. In 2023, Mercer Investments signed up as a pilot test partner to the TNFD framework and formally submitted our response to the Taskforce in May 2023. This work was followed by active engagements with a selection of our sustainability leader managers to understand existing approaches to integrating nature themes as well as the key challenges being faced by the investment industry.

Policy compliance: Compliance against policy principles is formally monitored via quarterly Investment Risk Management Committees, each focusing on specific asset classes and client segments. The Portfolio Executive Committee and Compliance function provides further oversight for monitoring the successful implementation of Mercer's Sustainability Policy, with annual updates on policy implementation provided to the Board.

Internal Audit: Mercer's Investments Business is subject to annual internal audit reviews conducted by the Marsh McLennan (MMC) Internal Audit & Control function. An internal audit plan is prepared based on the business risk model and incorporates Mercer IS. Internal Audit presents its audit plan to the Mercer Audit Committee on an annual basis who will either sign off on the proposed plan for implementation to commence, or request that specific changes be made. To gain independence from management, Internal Audit has a direct reporting line into the Audit Committee of the Board of Directors of MMC. The company also prepares a Controls Report in accordance with the International Standard on Assurance Engagements ISAE 3402 "Assurance Reports on Controls at a Service Organisation" and there have been no exceptions noted.

External Audit and Review: Mercer IS is subject to ongoing financial audit by its external auditors. The external auditors periodically report to the Board and senior management.

Quality assurance: Finally, our improvement initiatives are shaped by our extensive quality assurance processes, through which we gather client feedback and apply it to service improvements and enhancements. This includes Client Experience Measurement (CEM) reviews to gather qualitative and quantitative feedback on our performance, both face-to-face with clients and via surveys.

9 as defined by IIGCC https://www.iigcc.org/resource/net-zero-investment-framework-implementation-guide/

Internal assurance

Mercer follows a 'Three Lines of Defence' model to manage risk across the business. This allows us to identify, assess and manage risks in a proportionate manner, while meeting client, shareholder and regulatory expectations.

1. The first line of defence is undertaken within the relevant business function which owns and manages risk. In this context, the SI Solutions team and portfolio managers are expected to follow policies and procedures to support effective integration of sustainability considerations and stewardship.
2. The second line of defence is the risk and compliance teams overseeing the management of risk and compliance with regulatory requirements. Along with the annual review of policies relating to sustainability and stewardship, the compliance team undertakes periodic monitoring reviews to monitor how well risks are being managed and assess how effectively policies have been implemented.
3. The third line of defence is the internal audit team or other functions that might provide independent assurance.

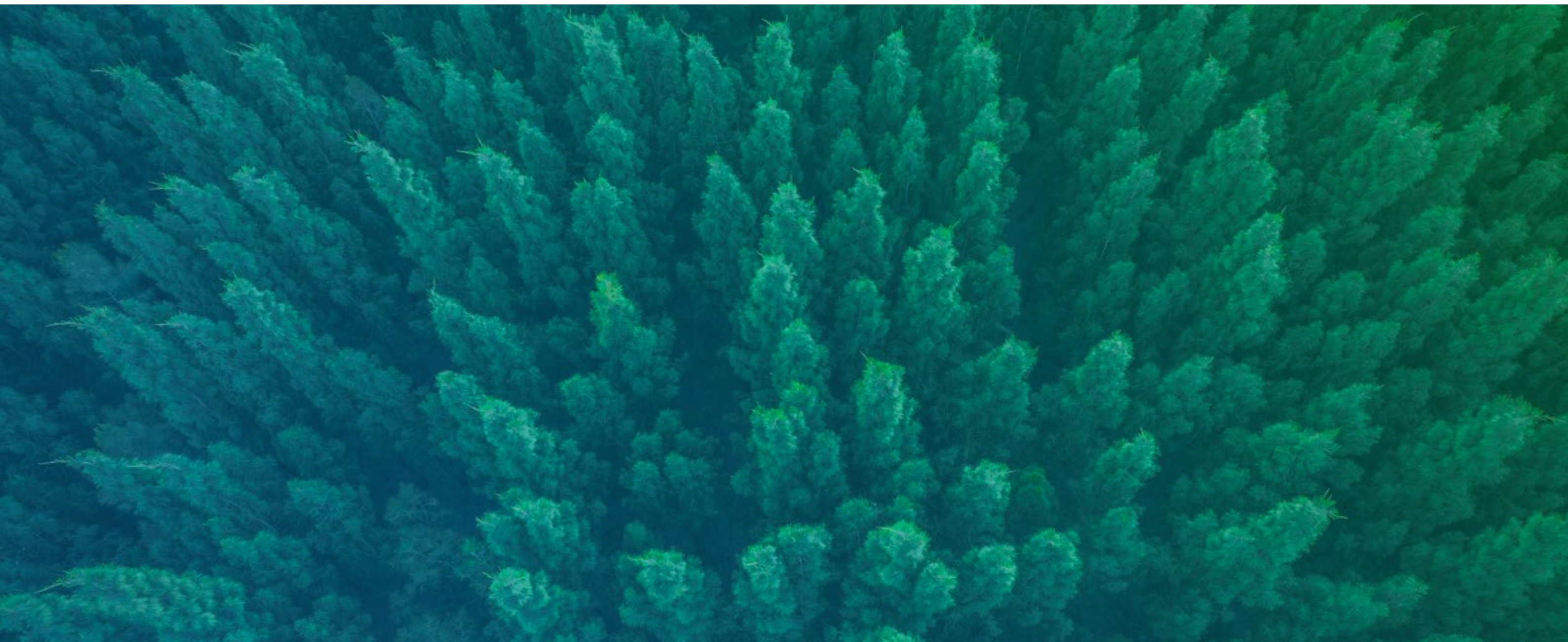
The SI Solutions team has regular dialogue with compliance and audit teams to continuously assess and strengthen our internal assurance processes.

Our clients and investment managers may also take a number of approaches to assurance with both external and internal assurance undertaken on their sustainability and stewardship activities. Many also seek legal advice on documents such as their Statements of Investment Principles, Implementation Statements and TCFD-aligned reports. Feedback from external reviews is considered in the development of our solutions and in our reporting to clients.

Given ongoing regulatory developments, we will continue to review and develop our policies, processes and activities and strengthen assurance processes to ensure they remain fit for purpose.

Ensuring sustainability and stewardship reporting is fair, balanced and understandable

All regular reporting provided to clients is subject to our peer review process to ensure effective client communications. The process includes three stages: 'do', 'check' and 'peer review'. The peer review stage is undertaken by a colleague who has the necessary skills and knowledge but was not involved in producing the report. This approach, along with clear research, analysis, monitoring frameworks and internal stewardship processes, is key to ensuring reporting is fair, balanced and understandable.



06

Monitoring investment managers

Overall approach

Mercer IS appoints managers that are expected to adopt sustainability and stewardship practices that include a focus on material sustainability-related topics consistent with Mercer's investment philosophy and sustainability guiding principles. While guided by our philosophy and principles, we believe our investment managers are typically best placed to prioritise incorporating sustainability and stewardship considerations across the strategies they manage on our behalf. This is particularly the case for stewardship activities such as voting on and engaging with underlying issuers, where implementation is delegated to our investment managers, who are expected to have detailed knowledge of the practices of the issuers they invest in and who are encouraged to engage with them on sustainability matters with the aim of improving long-term risk adjusted returns.

Approach across different investment arrangements

Our investment arrangements are a combination of segregated mandates with investment managers and investments in pooled vehicles. For the majority of clients, these segregated and pooled arrangements are combined into Mercer funds and for certain clients, these funds are combined into portfolios. We actively monitor our investment managers on their incorporation of sustainability considerations and stewardship activities, consistent with Mercer's Sustainability and Stewardship Policies[10].

10 Policy application may vary depending on the degree of discretion available (which is expected to be higher in segregated mandates relative to pooled vehicles).

Monitoring highlights

We support our clients in monitoring the sustainability-related and stewardship activities of investment managers, including the assessment of investment managers' capabilities with incorporating sustainability considerations within their investment activities and carrying out stewardship activities. Various monitoring activities and reports have supported our clients in being effective stewards and in understanding the actions taken by us, and the investment managers we appoint, on their behalf.

Insights and highlights on our approach to monitoring and engaging with investment managers on our priority themes, as well as on their broader approach to integrating sustainability and stewardship considerations, are provided on the pages that follow.

Mercer IS further assists clients with bespoke reporting requirements, including tailored manager ESG ratings reports, stewardship surveys and the use of our Analytics for Climate Transition (ACT) Tool on individual client portfolios, enabling clients to understand their exposure to potential climate-related risks.

Integrating sustainability considerations

Our annual Sustainability Report provides insights and highlights on a number of sustainability-related topics (e.g. ESG ratings, climate, diversity and stewardship) with specific reference to the Mercer multi-client funds. This report has recently been re-designed to support customised client reporting to reflect the sustainability characteristics of each client's individual portfolio and the underlying funds they have exposure to. The insights shared in the report summarise the ongoing work across our various areas of focus when monitoring our investment managers, whether it be relating to their general approach to integrating sustainability considerations and their approach to conducting stewardship activities, or more specifically relating to our engagement priority themes.

Integration of sustainability considerations across managers - ESG ratings

Mercer's strategy-level ESG ratings are derived from assessment criteria that reflects what Mercer believes is "best practice" ESG integration. Mercer's ESG ratings assess the degree to which, alongside other ESG-related factors, stewardship practices are incorporated within an investment manager's investment process and are considered when appointing mandates and during the ongoing assessment of appointed managers.

Mercer IS has been reviewing the ESG ratings of its funds against asset class peer groups for a number of years now, with insights from these reviews driving engagements with managers, particularly where manager ESG ratings are behind their peer groups.

Highlights from the 2023 ESG ratings review

The 2023 annual review highlighted that 34 (89%) of the 38 funds in scope either have similar or better ESG ratings than their respective universe's average.

82%
of fixed income funds have better or similar ESG ratings than their universe's average

92%
of actively managed equity funds have better or similar ESG ratings than their universe's average

100%
of passively managed equity funds have better or similar ESG ratings than their universe's average

We have been monitoring our funds' ESG ratings for many years now and have continued to see improvement, with a 21% improvement noted over the last period of review.

- An improvement across 12% of fixed income funds was noted over the last period
- An improvement across 25% of actively managed equity funds was noted over the last period
- An improvement across 33% of passively managed equity funds was noted over the last period

While we appreciate there are varying degrees of applicability across investment styles and asset classes, we have been tracking where managers have ESG ratings below their peer universe and focussing our engagement activities on these managers. An example of an ongoing engagement with one of our passive equity managers, which contributed to an improvement in ESG integration and by extension, an improvement in ESG rating, is shown below.

Case study: Ongoing engagements with a passive equity manager

One of our largest passive equity managers, managing over a quarter of our passive equity strategies, had a below peer group ESG rating, which flagged a need for engagement from us. Following a number of engagements over multiple years, the manager enhanced its sustainability integration and stewardship practices, resulting in an upgrade to its ESG rating

2020

- ESGp3 rating
- Engagements via the Mercer IS portfolio management team to encourage better voting and engagement reporting practices and participation in collaborative initiatives
- Head of Sustainable Investment appointed
- Enhancement of reporting capabilities
- Improvement in collaborative initiative participation

2022

- Improvements observed however gaps relative to peers still evident
- Rating re-affirmed at ESGp3
- Ongoing engagements via both the Mercer IS portfolio management and sustainable investment solutions teams

2023

- ESG rating upgraded to ESGp2 from ESGp3
- Responsible investment team made up of seven individuals with relevant credentials established
- Development of stewardship themes
- Clear engagement strategy
- Improvement in voting and engagement disclosure
- Custom voting policy developed
- Appointment of bespoke active engagement service provider

Sustainability and stewardship approaches across managers

In addition to assessing managers' approaches to sustainability and stewardship through the ESG ratings process, on an annual basis Mercer IS conducts an extensive global survey with all managers appointed in our funds to assess their overall approach to integrating sustainability considerations and conducting stewardship activities across the mandates they manage on our behalf. This is an important part of our engagement with managers and is aligned with our regulatory obligations in certain regions.

Case study: Mercer Global OCIO Sustainability and Stewardship Survey

- Our fourth annual survey sought the views from our appointed managers on their approaches to integrating sustainability considerations and conducting stewardship activities within their investment processes over 2023, before seeking insights on their views and approaches to integrating Mercer IS's engagement priorities.
- 283 responses were received from 154 investment managers relating to strategies appointed to our European multi-client and bespoke funds.
- Responses were received across asset classes covering listed equity, fixed income and alternatives.
- The magnitude of responses received highlights the extent of our reach and the significant opportunity we have to shape managers' sustainability and stewardship practices.

Sample insights from the survey*:

- 97% are managed by managers who are PRI signatories (n = 3%; nr = 0%)
- 97% are managed by managers who have a firm-wide policy on ESG (n = 2%; nr = 1%)
- 94% are managed by managers who advocate for ESG improvements at fund level (n=3%; nr = 3%)
- 91% are managed by managers who are members of collaborative initiatives (n = 7%; nr = 2%)
- 91% are managed by managers who have a dedicated ESG oversight function at the organisation (n = 6%; nr = 3%)
- 89% are managed by managers who have a formal engagement policy (n = 8%; nr = 3%)

*Based on equity and fixed income multi-client and bespoke strategies. n = no, nr = no response

Prioritising action on climate change and transition

Climate change and net zero investing continued to be a key priority over 2023 and will remain an area of focus into 2024 and beyond for both us and the broader Mercer business.

Mercer believes climate change poses a systemic risk, with financial impacts driven by both physical damages and the transition to a low carbon economy. Both of these changes present both risks and opportunities to investors. Further information about Mercer's approach to climate change can be found in Mercer's public reports on climate-related disclosures.

Our approach to managing climate-related financial risks and opportunities is consistent with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) and we are also supporting a growing number of our clients report against the TCFD framework's four elements on an annual basis. We encourage investment managers to adopt this framework as well.

The possibility of climate-related factors leading to sudden market repricing underscores the need for action to keep climate policies up to date and, if applicable, adjust investment strategies. We have also updated our stewardship policy to reference our climate engagement framework and voting expectations of managers and continue to explore opportunities to allocate funds to climate solutions.

Consistent with our belief that climate change is a systemic risk, our view is that climate change risks are applicable, to varying degrees, across all asset classes.

We apply the following approaches to investing to support the climate transition:

- Integration: Incorporate climate scenario and transition analysis into strategy, portfolio construction and investment decisions, as well as the monitoring of market pricing;
- Stewardship: Engage with companies on transition issues, via collaborative initiatives, by utilising voting rights and engagement (typically via investment managers);
- Investment: Allocate investment to low carbon / sustainable solutions and monitor relevant developments and prices; and
- Screening: Monitor high-carbon exposures where low transition capacity exists.

Climate scenario analysis

Mercer has a long history of developing and using climate scenario analysis, first publishing public papers in 2011. During this time, Mercer has regularly worked collaboratively with external organisations to develop new thinking on the implications of climate change on strategic asset allocation.

Mercer's approach to climate scenario analysis was updated in 2022 following a partnership with Ortec Finance (and their partner, Cambridge Econometrics) to develop climate scenarios that are grounded in the latest climate and economic research, and to give practical insights.

Mercer believes that climate change is a systemic risk, and that limiting global average temperature increases to well below 2°C is likely aligned to the best financial outcomes for long-term diversified investors.

Investing during a climate crisis

- Research on climate scenarios, including economic and financial impacts, has accelerated quickly and we anticipate further development as science and policy evolve.
- Mercer is committed to playing a part in this continuing research.
- Mercer published a paper in December 2023 called 'Investing during a climate crisis'[11], outlining our approach to climate scenario analysis.

Net zero targets and transition plans

In 2021, Mercer IS announced its aim to achieve net-zero absolute portfolio carbon emissions by 2050 for discretionary model portfolios and for the majority of its multi-client, multi-asset funds domiciled in Ireland (our net zero target). We also established an expectation that portfolio carbon emissions intensity would reduce by 45% by 2030 from 2020 baseline levels.

Our climate-related investment philosophy, policy, target and action plan have been informed by a range of research and analysis:

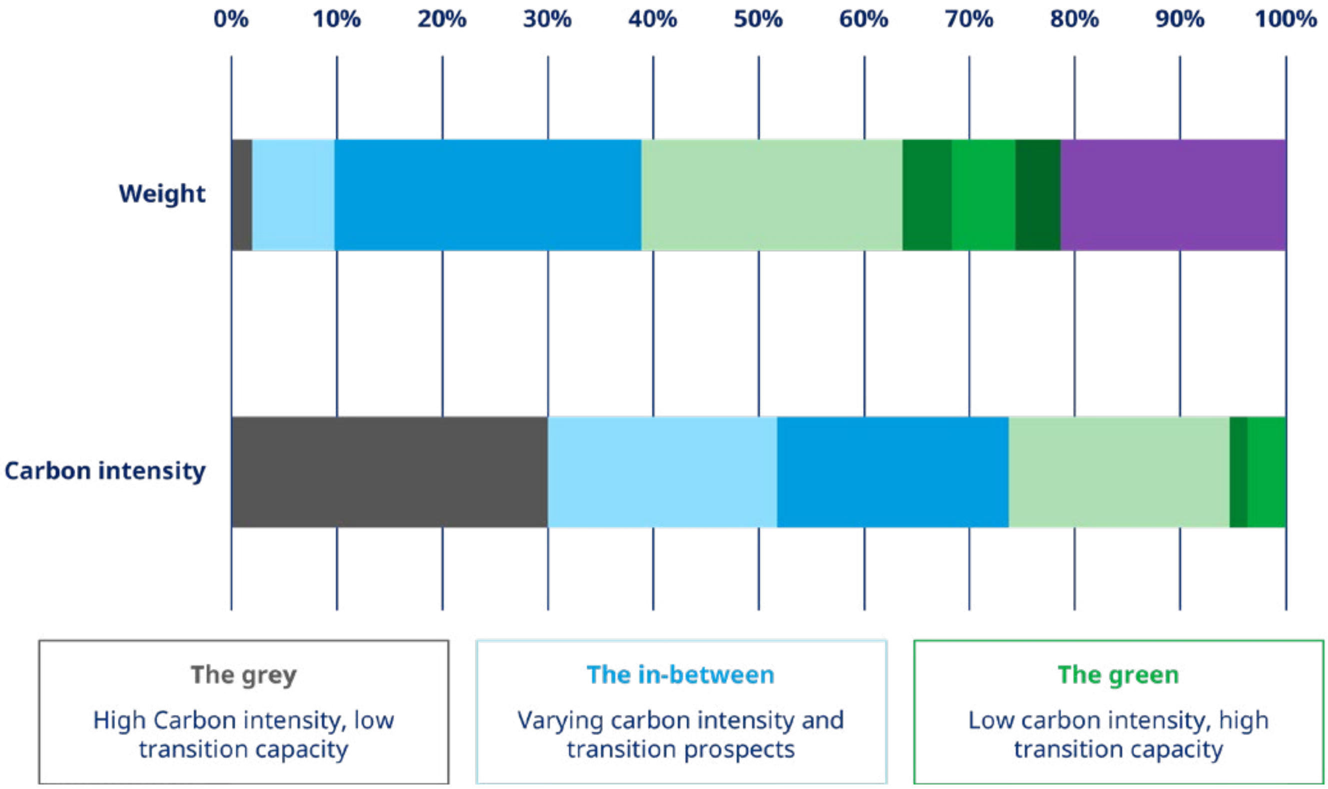
- Mercer's climate transition framework and Analytics for Climate Transition (ACT) tool
- Ortec Finance ClimateMAPS research
- Institutional Investor Group on Climate Change Net Zero Investment Framework
- Mercer's recent 2023 Transition Today and 2024 State of the Transition papers
- Mercer's 2015 and 2019 Investing in a Time of Climate Change reports[12]
- Mercer's long history of research on climate change and its implications for strategic asset allocation

11 https://www.mercer.com/en-gb/insights/investments/investing-sustainably/investing-during-climate-crisis/
12 In line with the 2015 Paris Agreement.

Mercer's Analytics for Climate Transition (ACT) tool

Central to our approach is our Analytics for Climate Transition[13] (ACT) tool, which has supported us in gaining a deeper understanding of the factors driving progress towards our climate-related targets.

- The ACT tool is a strategic and forward-looking view of the risk and opportunities that may arise from a transition to a low carbon economy and supports us in positioning our portfolios to mitigate risks and identify opportunities in this global transition.
- The framework enables us to assess possibilities for the transition to, and the development of, low carbon portfolios as well as using stewardship to hold our investment managers to account on their stock selection decisions and discharging their stewardship responsibilities.
- It helps us identify where the highest carbon-intensity and transition capacity risks lie in our portfolios, including the potential for stranded-asset risk in the high emissions intensity / low transition capacity ("dark grey" companies), and where emissions reductions can best be achieved by portfolio weight adjustments while still meeting investment objectives.
- During 2023, we continued to enhance the tool by incorporating physical risk-related metrics into the framework and the measurement of companies adopting net zero targets.



13 https://www.mercer.com/en-gb/insights/investments/investing-sustainably/preparing-portfolios-for-climate-change/

While we are mindful that we are early on our long-term journey towards meeting our net zero target, we are also keeping our 2030 expectations in sight and navigating short-term transition-risk volatility to support our funds in meeting these targets.

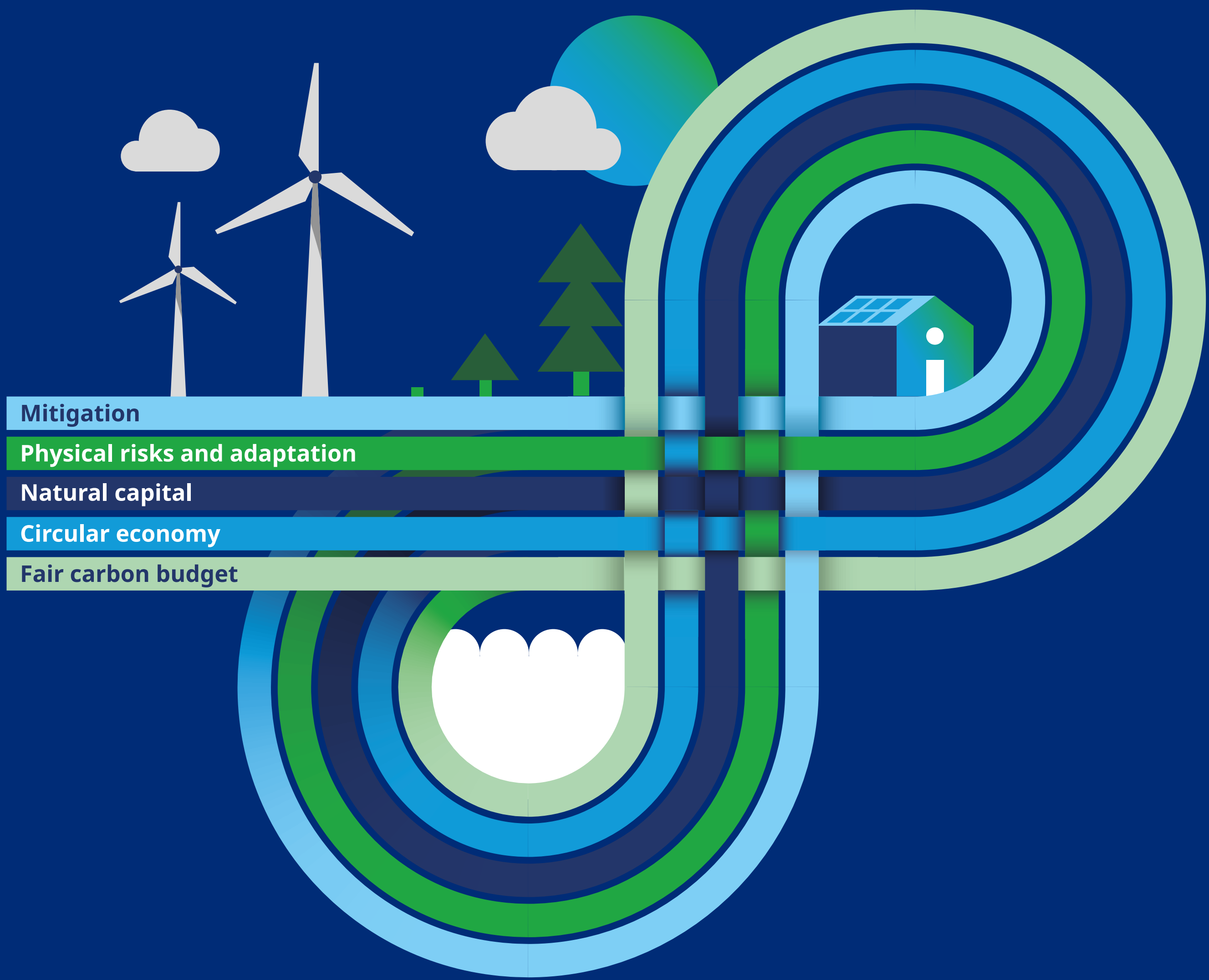
We are pleased to note that as of 31 December 2023, all 16 of our multi-asset funds with net zero targets are on track to meet the carbon intensity reduction required to meet our 2030 and 2050 targets. Progress over the first four years has largely been driven by climate-related commitments made for the majority of our building block equity and fixed income multi-client funds as part of our Article 8 disclosures under the SFDR.

We made further strides towards reducing portfolio carbon intensities in 2023 with the launch of a sustainable listed infrastructure solution, transitioning the majority of our discretionary clients' assets to the new strategy. The sustainable infrastructure solution's carbon intensity was less than half that of the original strategy at time of launch. Infrastructure is a traditionally high emission asset class, so the transition to the new solution alone resulted in a carbon intensity reduction of more than 10% across some portfolios.

Supporting our journey towards meeting these targets are the underlying funds that are the building blocks for our portfolios. At the end of 2023, 90% of our key building block funds, where applicable, had lower carbon intensities than their respective benchmarks. All our active equity funds that disclose under Article 8 of the SFDR commit to a carbon intensity that is 20% below their respective benchmarks over a 3-year rolling period. Our active fixed income solutions with Article 8 disclosures exclude the highest emitting issuers (those with carbon intensities over 3,000 tonnes per million dollar of revenue) unless they show strong transition capacity as assessed using our ACT Tool. These commitments, as well as active engagements with our underlying managers, have helped to reduce the carbon intensities of our multi asset funds and portfolios in scope of our net zero target.

An evolving definition for the climate transition

- Mercer published a paper in November 2023 called 'Transition Today", which proposed a broader definition of the climate transition given the interdependencies and prevailing gaps between climate change mitigation and adaptation, nature conservation, fairness and equity.
- The definition proposed is one that expands beyond carbon reduction to address the issues of nature loss, physical risks and adaptation and also encompass engagement in the circular economy and support for the principles of equality for sustainable development.



Mitigation

Reducing emissions and greenhouse gases to support progress to net zero

Addresses cause
Scales clean energy and drives energy efficiency

Physical risks and adaptation

Adjusting to actual and expected climate change risks

Addresses symptom
Supports disaster management of severe flood and wildfire events, and communities at risk

Natural capital

Investing in natural capital — the assets that nature provides — to support climate mitigation

Addresses cause
Reduces deforestation; supports reforestation, regenerative agriculture and food security; and protects biodiversity and water quality

Circular economy

Reducing waste, moving away from a "take, make, waste" economy

Addresses cause
Targets zero waste by utilizing resources already in use, such as plastics

Fair carbon budget

Allocating the global carbon budget equitably, a core lever in channelling capital flows from the global North to South

Addresses symptom
Factors in sector and regional differences to the development of sustainable infrastructure

Climate-related engagements

Engaging with appointed managers on their consideration and management of climate-related risks and working closely with them to reduce our solutions' emissions intensities, has been an important part of our engagement activities in ensuring we are able to progress towards our net zero target.

Our climate engagement target list is underpinned by effective stewardship and is empowering us to actively engage with our investment managers, with the goal of ensuring that they too are actively supporting the transition to a more sustainable and climate-resilient future through engaging with high emitting companies.

Case study: Climate engagement target list

- Analysis has shown the top 10 contributing issuers in high impact sectors^ are responsible for c.25% of total portfolio* emission intensity, with the top 50 issuers alone responsible for c.65% of total portfolio emissions intensity
- Priority issuers are identified using multiple climate-related metrics (using third party data and Mercer's ACT results), with a focus on both emissions and transition related metrics, as opposed to only historical emissions.
- Over 2023, we engaged with 24 of our appointed investment managers holding these 10 priority issuers to assess their stewardship activities relating to encouraging decarbonisation progress across issuers, with the majority of them noting that the issuers had decarbonisation plans in place.
- Since then we have developed an escalation framework to further support these engagements, which brings in additional climate metrics and escalation activities linked to voting and exclusion.

^as defined by IIGCC https://www.iigcc.org/resource/net-zero-investment-framework-implementation-guide/
*Defined as the core 36 multi-client active and passive equity and fixed income funds. A portfolio was built where each fund was assigned a weight in the overall portfolio based on its $AUM. Data as at 31st Dec 2022

In addition to our engagements with appointed investment managers to support decarbonisation efforts across our funds and portfolios, we expect managers to engage with the underlying companies they invest in to promote more sustainable investment outcomes. To support our monitoring and reporting of engagement activities across managers, we have developed a database that houses numerous examples of engagements, covering different funds, managers, strategies and themes.

Manager engagements with issuers on climate

Case study 1:

Sector	Communications
Theme	Climate mitigation
Issue	Concerns around lack of science-based decarbonisation targets
Action	The manager engaged with the company on the importance of engaged with company around the importance of establishing and reporting science-based decarbonisation targets. Understanding the practical implications for setting these, and the complexities with measuring and managing scope 3 emissions, the manager has encouraged the company to focus on scope 1 and 2 and incorporate scope 3 when feasible.
Outcome and next steps	The company submitted its Greenhouse Gas (GHG) emission targets to SBTi (Science-Based Targets initiative) for validation.

Case study 2:

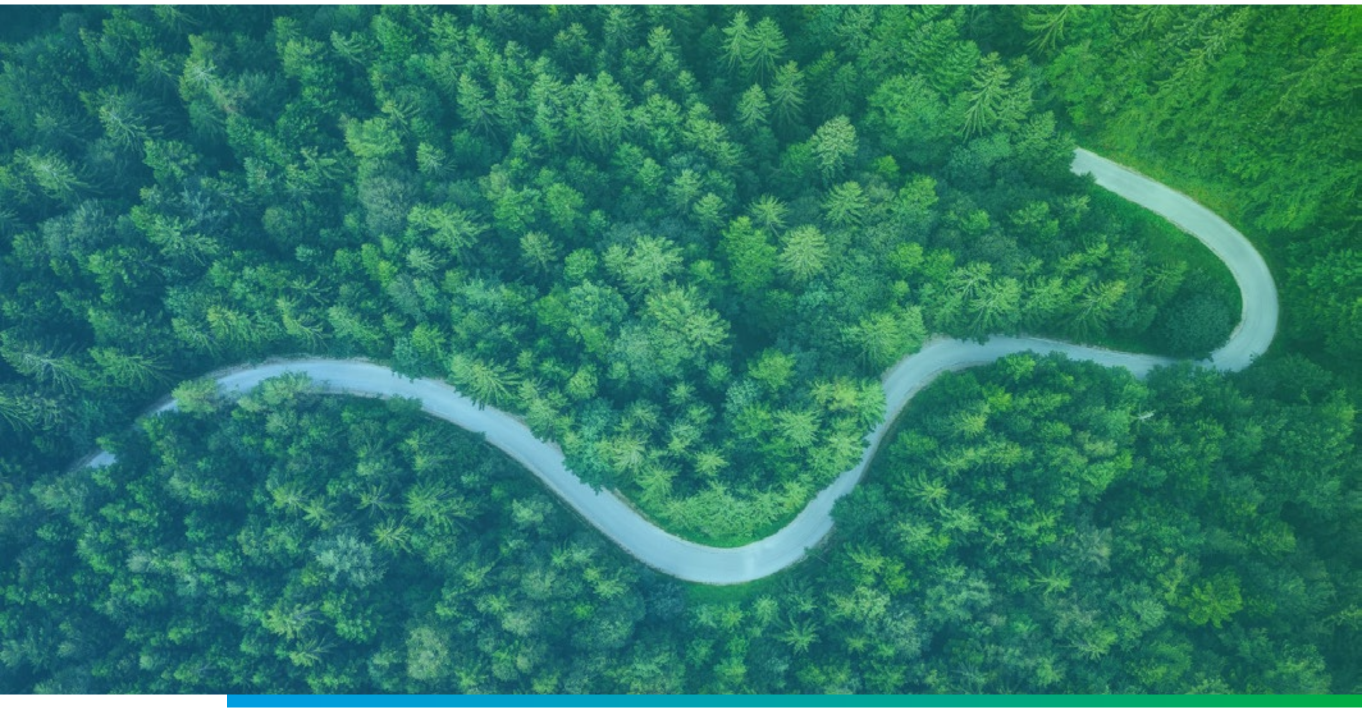
Sector	Industrials
Theme	Governance and transparency on climate risk management
Issue	Lagging climate risk management processes and disclosures
Action	Collaborative engagement with another shareholder to better understand the company's approach to climate risk management, plans for future reporting and measurement of scope 3 emissions. The company was very receptive to investor feedback and views as it evolves its processes and related disclosures.

Outcome and next steps	The company acknowledged that it is still in the early stages of its sustainability journey, has enhanced governance and oversight of climate risk by creating a new Chief Sustainability Officer position and is providing climate-focused education sessions for board members. The company is also launching a pilot program to begin the process of measuring scope 3 emissions.

Case study 3:

Sector	Basic Materials
Theme	Emissions reduction targets
Issue	The company has near-term emission targets but has not yet committed to long term or net zero targets through SBTi, and there are no scope 3 targets in place
Action	Collaborative engagement as part of the IIGCC Net Zero Engagement initiative (NZEI) to get clarity on the company's net zero transition plan, including SBTi target setting, Scope 3 emissions, decarbonization strategy, related capex plans and policy engagement.
Outcome and next steps	The company is ahead of its goal for reducing carbon intensity by 35% by 2028 and is currently working with its major suppliers to set their own targets to support it with its Scope 3 reporting. The company has budgeted to retrofit steam methane reformers and existing hydrogen facilities with carbon capture technology and is working on sequestration as well. The company will be reviewing its SBTi target and will continue to focus on supporting its customers to decarbonise and work with suppliers to set reduction targets.

Evolving our approach to nature



Nature has risen in prominence as a significant investment theme. At Mercer IS, we are committed to integrating nature into our investment portfolios where relevant. Crucial to this will be evolving our net zero policies, and general investment policies, to incorporate nature. This is vital given the fact that the reversal of biodiversity loss and the restoration of biodiverse ecosystems are fundamental to achieving a successful climate transition.

Although frameworks for incorporating nature and biodiversity considerations into investment portfolios are still emerging, there are actions that can be taken today so that investors can be proactive participants in supporting the future of all life on this planet. We believe that, over the short-term, nature and biodiversity considerations are likely to become increasingly financially material to asset valuations. This change will be driven by a number of key market developments.

Investment stewardship can be a vital tool to promote nature positivity in investment portfolios. To bring about change through active ownership, we have included nature and biodiversity as one of our key stewardship priorities. In addition, we have taken a number of actions to implement nature and biodiversity considerations into our investment decision-making process. These actions include:

- Updating our sustainability and stewardship policies to reference the interconnections between nature and biodiversity loss and climate and emphasise nature and biodiversity as a key stewardship priority.
- Joining collaborative initiatives e.g. TNFD and Nature Action 100
- Incorporating nature and biodiversity-related questions in our annual sustainability and stewardship survey.
- Monitoring managers' approaches to considering and integrating biodiversity and nature considerations in the strategies they manage on our behalf.
- Engaging directly with select managers on their approaches to integrating nature and biodiversity as themes to knowledge share on ideas and challenges.
- Highlighting nature as an investment theme featured prominently on the agendas of Mercer’s Global Investment Forums including as a keynote speech, “Nature – Red Alert for the Pale Blue Dot” and a half day Biodiversity Deep Dive breakout session.

TNFD framework pilot testing

Mercer is a member of, and participates in, the TNFD Forum and has provided feedback throughout the framework development process. Mercer signed up as a pilot test partner to the TNFD and pilot tested the TNFD framework, especially around assessing the risk and opportunity assessment approach for Financial Institutions. Our results were formally submitted to the TNFD in May 2023. The pilot test was set up to evaluate how the TNFD's metrics will feed into nature-risk assessments to be used by investors to model nature-related risks and opportunities.

Pilot test findings:

- Data coverage is low across many of the metrics.
- The TNFD maps metrics to the Principal Adverse Impact disclosures under the EU's Sustainable Finance Disclosures Regulation. With the advent of the Corporate Sustainability Reporting Directive, corporate reporting for nature is likely to improve.
- To date, there is limited guidance from the TNFD on the financial materiality of each metric, particularly as they relate to different sectors.

Until corporate reporting improves on nature / biodiversity metrics, it will be difficult for investors to incorporate quantitative factors on nature into investment decision-making.

Further to monitoring managers' approaches to considering and integrating biodiversity and nature considerations into their investment process, we are also obtaining insights from investment managers on the engagements they are having with issuers relating to nature.

Case study: Manager engagements with issuers on nature

Sector	Consumer Staples
Theme	Nature and deforestation
Issue	As one of the world's largest producers of household consumer goods, the company's supply chain has exposure risks relating to palm oil and wood pulp
Action	The manager has conducted a number of stewardship activities over the past few years to encourage the company to eliminate deforestation from its supply chain. This includes: • Supporting a resolution calling on the company to report on efforts to eliminate deforestation, which was passed with 67% support. • Requesting that the manager report to CDP Forests, accelerate their programme to source more Forest Stewardship Council (FSC) certified pulp and consider splitting the role of chair and CEO, all of which has since been satisfied. • Since then, the manager has continued to engage with the company on its forest supply chain risks, their progress on limiting deforestation, and their impact on biodiversity and have also escalated their concerns through voting against members of the board.
Outcome and next steps	While the manager remains mindful of the company's exposure to deforestation risks, they acknowledge the company's improved transparency on its forestry practices. The manager themselves, having signed the COP 26 Commitment on Eliminating Agricultural Commodity Driven Deforestation from Investment Portfolios and having published a deforestation policy, has also clearly communicated its minimum expectations to the company. The manager expects the company to have both a deforestation policy and programme, and that failing this, voting sanctions would be applied to it.

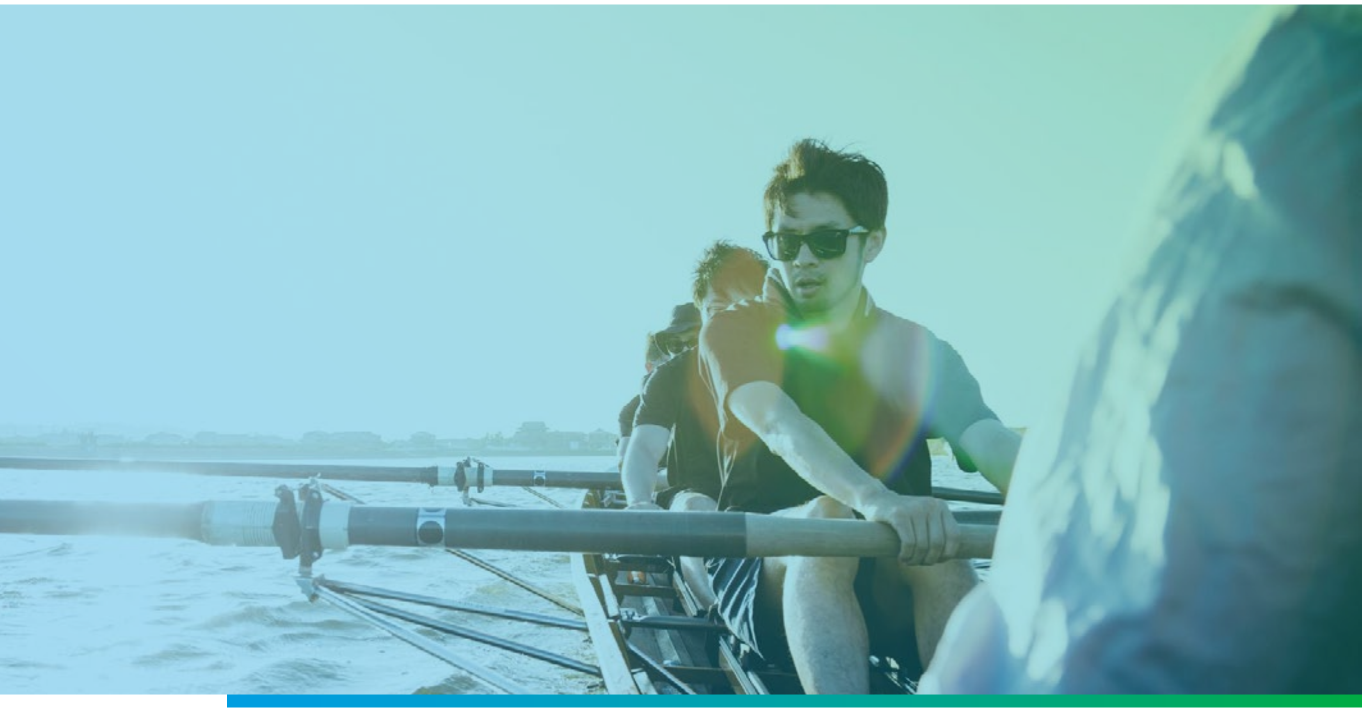
Going forward, we continue to evolve our capabilities on nature to support its integration across the portfolios we manage and cater for the demand we are seeing from clients in this area. We are reviewing the market landscape for natural capital opportunities to support us and our clients in allocating to these opportunities.

We are following the developments of the TNFD and are looking to draw on TNFD guidance around the core biodiversity metrics to support us in integrating relevant metrics into our investment process, which in turn will support us in our stewardship efforts on nature as a theme and better position our portfolios towards the opportunities available through engagement and investment.

Further investment insights on nature are captured in our Preparing Investors for the TNFD[14] paper.

14 https://www.mercer.com/assets/uk/en_gb/shared-assets/local/attachments/pdf-preparing-investors-for-tnfd-2023.pdf

Monitoring human rights & labour practices



Engaging on issues relating to human rights and labour practices is another area of focus for us. We draw on the UN Global Compact (UN GC) Principles, which relate to human rights, labour, environment and corruption issues, to support us in monitoring our multi-client equity and fixed income funds for high-severity incidences as flagged by our third-party provider. Incidences for engagement with investment managers are prioritised based on our internal framework, during which we seek their views on the risk, return and reputation implications as well as insights on their stewardship activities related to the incident.

Our internal framework allows for engagements to occur over multiple years to allow for remediation given our preference for engagement over divestment, with escalation activities built in where insufficient progress is noted.

Case study: Engagements with investment managers on UN Global Compact incidences

38
multi-client equity & fixed income funds screened

17
companies flagged for high-severity incidences

14
investment managers with exposure

61
engagements with investment managers

- Incidences engaged on across categories: 6 environmental, 5 labour & human rights and 1 corruption case.
- None of the incidences associated with companies were identified as high risk with a low likelihood of remediation and as such none were escalated for potential consideration for exclusion based on our internal framework.
- Instead, as these incidences were deemed low/medium risk, with a high/medium likelihood of remediation by the investment managers, they have been added to an engagement watch list for an additional year of engagement in line with our internal framework.

Mercer's sustainability and stewardship survey also seeks to gain insights from managers on their approach to human rights and labour practices while obtaining insights from investment managers on the engagements they are having with issuers relating to human rights and labour practices.

Manager engagements with issuers on human rights

Case study 1:

Sector	Technology
Theme	Human rights and freedom of association
Issue	Concerns including complicity in state censorship and surveillance using social messaging app
Action	The manager developed an engagement plan with the company supported by insights from its Investment and Human Rights Working Group which commissioned a study by a leading human rights theorist to assist in assessing complex human rights cases such as this one and invited other distinguished academics to provide them with additional independent challenge and insight.
Outcome and next steps	The company has been increasing transparency and public disclosures on its approach to user data awareness and privacy.

Case study 2:

Sector	Technology
Theme	Human rights in supply chain and human capital management
Issue	Low score in the World Benchmarking Alliance's corporate human rights benchmark
Action	Collaborative thematic engagement as part of the Investor Alliance for Human Rights initiative. Discussed the outcomes of their recent human rights assessment and actions and encouraged the company to enhance their disclosures on the findings in their next sustainability report. Manager shared some best practices from peer companies within the broader ICT sector which the company agreed to review.
Outcome and next steps	The company confirmed that they are looking to improve their risk management processes and disclosures in this area. They have implemented a revised human rights governance structure, including a newly formed working group that provides regular inputs to the board and has broad representation across different business functions. The company further confirmed it recently updated its human rights-related policies.

We are looking to further evolve our approach to include portfolio risk assessments to support integrating relevant metrics into our investment process, which in turn will support us in our stewardship efforts on human rights and labour practices.

Diversity, equity and inclusion

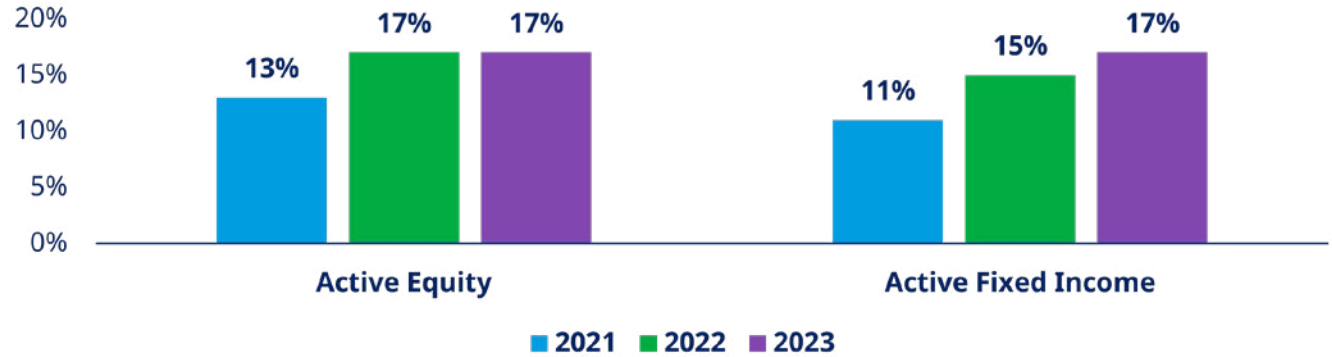
At Mercer IS, we believe that diverse teams lead to better decision-making, and we have therefore taken several measures to work towards reflecting this view within our own portfolio management team, the teams of our appointed managers and across portfolio holdings.

Participation in collaborative initiatives can also support raising awareness and contributing to initiatives across the broader industry, with Mercer IS being a member of the 30% Club across both the UK and Irish Investor Chapters. More broadly, Mercer is a member of The Diversity Project, which seeks to accelerate progress towards a more inclusive culture in the investment and savings profession.

While Diversity, Equity and Inclusion covers a wider range of topics, gender is a metric more easily measured and more widely disclosed. We annually review the proportion of female-identifying key decision makers in the portfolio management teams of the investment managers appointed in our multi-client funds.

Case study: Diversity across investment managers

Female-identifying key decision makers (KDM's) across multi-client funds

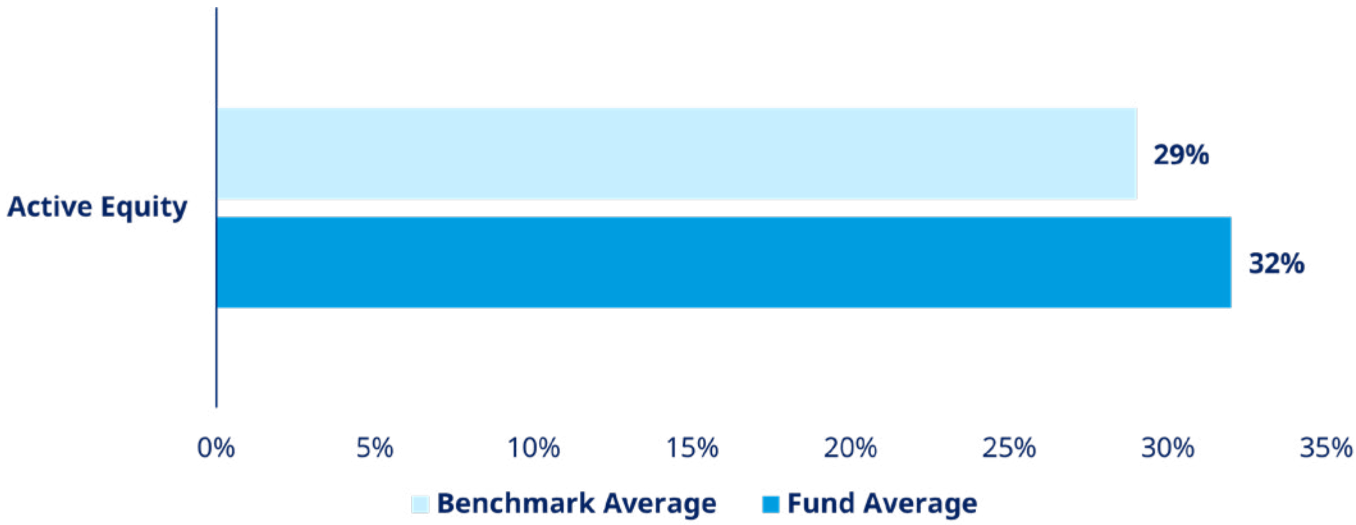


*Where KDM include CIOs, portfolio managers, research analysts (where senior and directly relevant) and investment committee members who are significantly involved in the key investment decisions for the strategy.

Further to monitoring the diversity profiles across the KDMs of the investment managers we appoint, we also monitor the board diversity profiles of the underlying equity strategies used in our multi-client equity funds as well as engagement activities managers are having with issuers to promote diversity, equity and inclusion.

Case study: Diversity across multi-client equity strategies

Female-identifying board representation across issuers invested in via equity multi-client funds:



Case study: Diversity, Equity & Inclusion engagement with issuers

Sector	Energy
Theme	Diversity
Issue	Promoting further diversity in a traditionally male-dominated industry
Action	The manager engaged with the company on the development of new initiatives to ensure continued enhancement of diversity metrics. It was noted that there had been an increase from 24% to 26% in female representation across the workforce, 28% of managerial positions being held by females, a 101% gender pay gap and inclusion of the company in the Bloomberg Equality Index over 2023.
Outcome and next steps	The company has committed to increasing female representation across the workforce to 30% by 2030 and have introduced mentoring programmes to increase females in managerial positions. Currently 3 females report directly into the CEO for mentoring.

07

Exercising rights and responsibilities

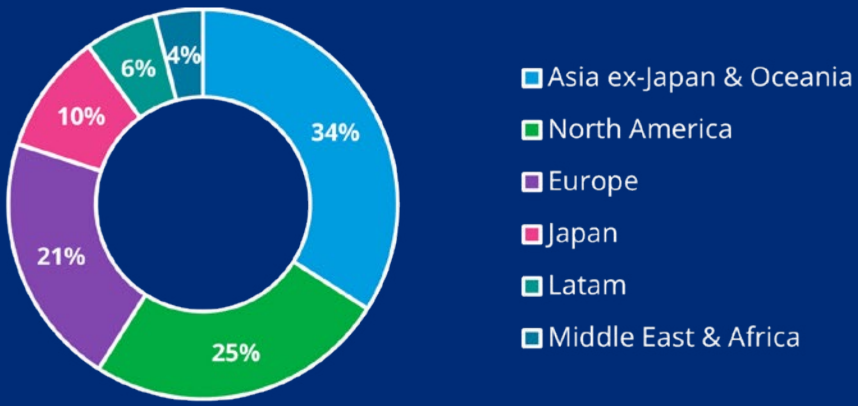
As the appointed manager of funds that invest in publicly listed companies, Mercer IS has the right to vote at shareholder meetings on behalf of unitholders in its funds. We regard voting our shares as important to our fiduciary responsibility. Consistent with our investment model, voting rights and responsibilities typically sit with the appointed managers who are expected to vote all shares in a manner deemed most likely to protect and enhance long-term value. We carefully evaluate each manager's capability in proxy voting as part of the manager selection process. Mercer IS expects its investment managers to establish their own voting policy that sets out the principles and guidelines under which rights to vote are exercised.

Voting statistics

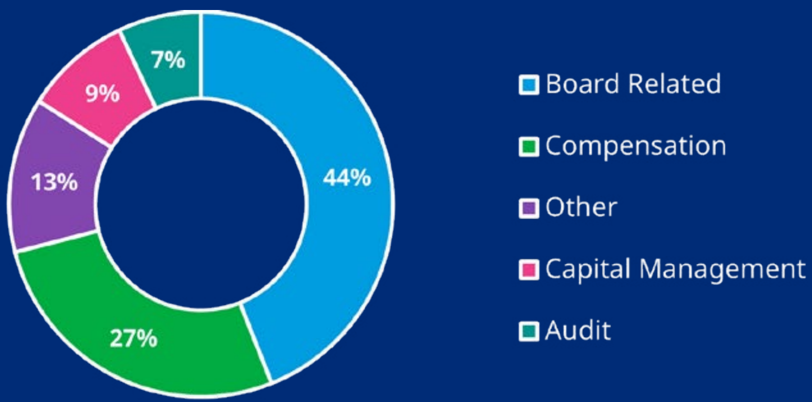
The statistics below represent the aggregated results of voting activities in 2023 across all segregated mandates. Our expectation is that our investment managers vote on all shares, however we do recognise that there may be certain exceptions, for example where conflicts of interest exist or in particular markets where certain restrictions apply. Please refer to our Stewardship Policy which provides further detail on this.

Fund specific statistics are made available to clients on a quarterly and annual basis along with significant votes.

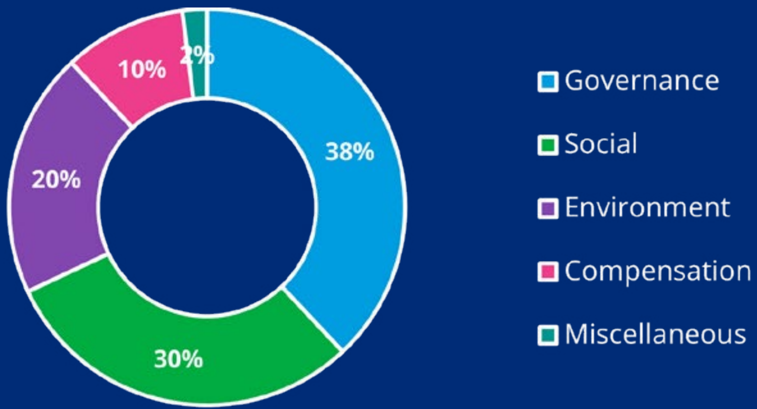
Our managers voted at 40,314 meetings over 2023



Our managers voted against 73,140 management proposals over 2023



Our managers supported 4,552 shareholder proposals over 2023



Use of proxy advisors

Mercer expects investment managers to have detailed knowledge of both the governance and the operations of the companies they invest in and has therefore enabled managers to vote based on their own voting policy. As we do not vote shares directly, we do not use the services of a proxy voting advisor, however we do monitor the use of proxy voting advisors by our underlying managers.

Voting expectations

In the most recent update of the Mercer IS Stewardship Policy, specific voting expectations were clarified relating to our engagement priorities of climate and diversity, equity and inclusion.

We expect our investment managers to review the level of climate-related disclosures and commitments made by companies and to challenge the re-election of boards that have shown persistent inaction on climate change and/or climate-related disclosures and consider voting against the (re-) appointment of directors that are not supportive towards aligning their business with the climate transition. We further expect managers to consider voting in favour of any reasonable resolution that promotes increased climate-change related disclosures and mandates the setting of emission reduction targets and reporting (such as disclosures in line with the recommendations of the Task Force on Climate-Related Financial Disclosures).

We also believe that diversity in backgrounds and experiences brings greater innovation, which can feed into the bottom line. We expect our investment managers to review all board director (re-) appointment votes for appropriate diversity. We recognise the challenges of defining diversity and data collection across different regions and communities, however in relation to gender diversity specifically, where data is most widely available, we request that all votes for board directors are considered with the aim of strengthening female-identifying representation on the boards of companies.

Significant votes

On a quarterly basis, we support clients with the preparation of their Implementation Statements by providing them with insights on significant votes over the prior 12-month period. Significant votes are identified either with reference to our clients' specific definitions, or to Mercer IS's definition, which focusses on proposals aligned with Mercer's global engagement priority themes and relating to companies that are a significant weight in our funds. All proxy voting results are further disclosed publicly on our Proxy Voting site.

Disclosure of voting activities

Mercer IS monitors the voting activities of appointed equity managers and provides quarterly reporting to clients to assist them in the preparation of their Implementation Statements. Aggregated reporting is further provided in this report. Our reporting is supported by the use of a third-party provider who reports voting activities carried out on Mercer IS's behalf by appointed managers. Voting data is sourced by our third-party provider, directly from custodians, providing an independent source of voting disclosure, and further supporting our efforts to monitor whether managers are exercising their voting rights to the fullest extent possible. Over the last year, we have enhanced our approach and the tools we use to report on voting activity which has allowed us to provide clients with more bespoke reporting on areas of interest and enabled us to improve the timeliness of delivery.

Our Proxy Voting site, which is updated every six months disclosing proxy votes over the prior six-month period, continues to provide information on how proxy votes are exercised within the Mercer funds.

Appendix

Appendix – Meeting the principles of the UK Stewardship Code

	Description	Pages
Principle 1	Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.	7-18, 33-40
Principle 2	Signatories' governance, resources and incentives support stewardship.	20-28
Principle 3	Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	30-31
Principle 4	Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.	12-16, 50-64
Principle 5	Signatories review their policies, assure their processes and assess the effectiveness of their activities.	42-44
Principle 6	Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.	33-40
Principle 7	Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.	16, 28, 33-40, 46-64
Principle 8	Signatories monitor and hold to account managers and/or service providers.	26-27, 46-64
Principle 9	Signatories engage with issuers to maintain or enhance the value of assets.	46-64
Principle 10	Signatories, where necessary, participate in collaborative engagement to influence issuers.	16-18
Principle 11	Signatories, where necessary, escalate stewardship activities to influence issuers.	41, 61-62
Principle 12	Signatories actively exercise their rights and responsibilities.	46-68

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