Mercer

2022 Stewardship Report

Mercer Investment Solutions

welcome to brighter

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Message from the CIO

We are pleased to share our 2022 Stewardship Report. This annual report captures the stewardship approach, progress and outcomes of Mercer Investment Solutions (Mercer IS[1]) on behalf of the Mercer Funds[2] over the calendar year 2022.

During 2022, we continued to focus our stewardship efforts on our engagement priorities - climate change, human rights & labour practices and diversity equity and inclusion. Within climate change, we have also recognised the connected roles that natural capital and biodiversity play, building this into our agenda for 2023. These topics have relevance to a significant proportion of the Mercer IS, across asset classes, sectors and countries.

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, plus support more positive outcomes for people and the planet.

David O’Sullivan

Chief Investment Officer, Mercer Global Investments Europe Limited

Mercer IS has evolved its approach over 2022 to ensure that stewardship continues to play a meaningful role in strategy and manager selection decisions and ongoing monitoring by our investment teams to increase the overall effectiveness of active ownership and for the benefit of clients.

Mercer IS does not typically 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 managers' broader investment processes too.

Mercer’s Global ESG & Stewardship Survey for managers provides a useful tool to assess and monitor the stewardship practices of our appointed managers. The 2022 survey received responses from over 200 managers globally representing over 400 strategies across multiple asset classes, with over half of these strategies used within the solutions managed in Europe.

The results support how manager stewardship approaches are understood across different asset classes and engagement themes and clearly highlights 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 the company level. This aligns with Mercer’s broader preference for engagement rather than divestment. There are, however, limited instances in which exclusions may be considered necessary.

A dedicated team was established in late 2021 to support the increasing integration of ESG considerations across the investment process. The team has grown to six members over 2022 and includes two members who focus predominantly on implementing Mercer’s Stewardship Policy within the investment process.

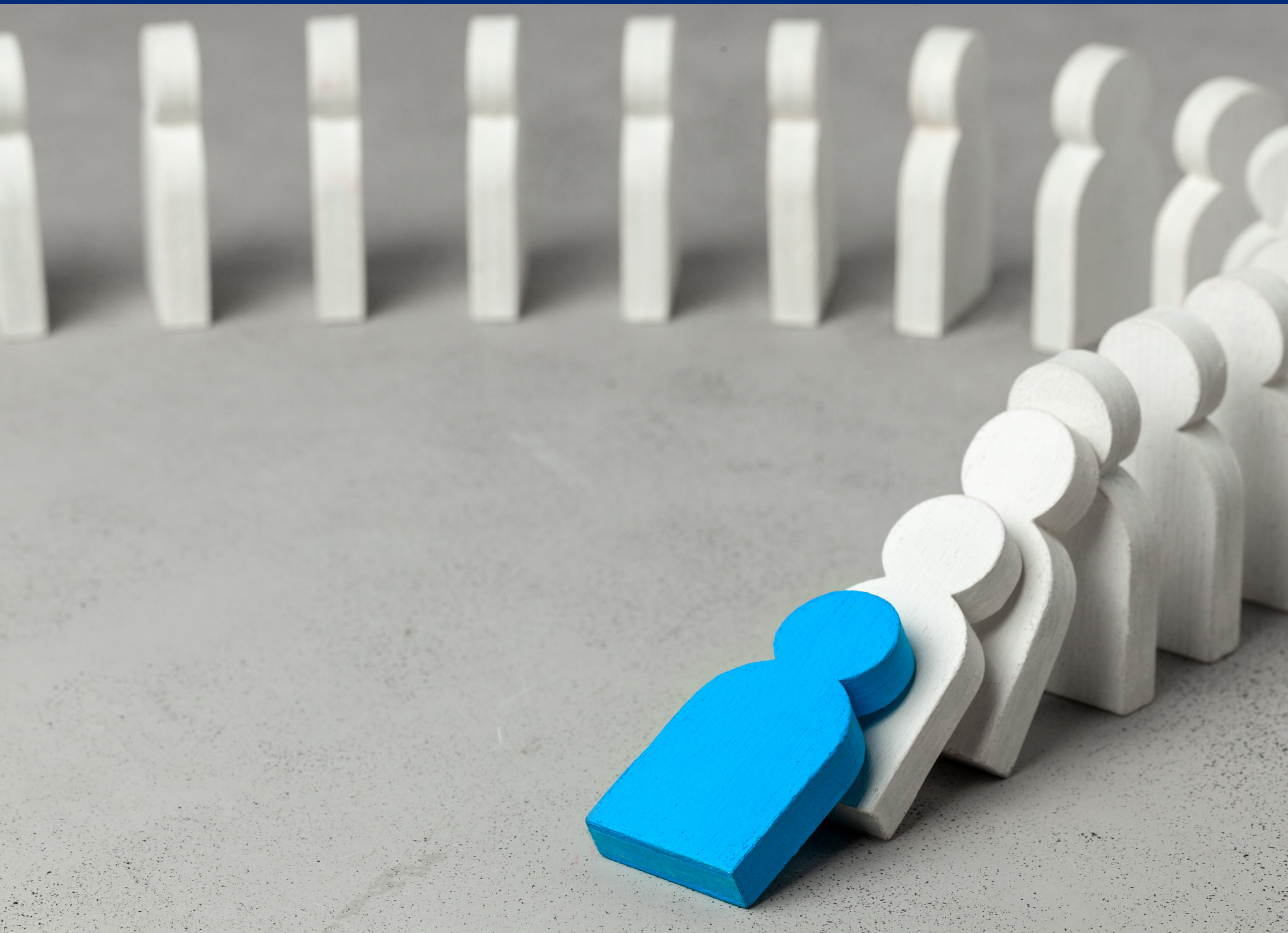
[1] This report applies to Mercer Global Investments Europe Limited and Mercer Global Investments Management Limited, and reference to Mercer IS throughout should also be interpreted to cover these entities.
[2] See Important Notices. Noting that the approach to stewardship will differ across asset classes 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.

Key highlights of 2022:

- Extending the manager engagement survey scope to include liquid alternatives.
- Targeting engagements with managers identified through our Manager Engagement Dashboards.
- Targeting engagements with managers to further incorporate and promote environmental considerations within their investment approaches, to support the re-classification of c.50 funds to Article 8 under the EU Sustainable Finance Disclosure regulations.
- Targeting engagements with managers to reduce emissions across their portfolios, to support alignment with Mercer IS's net zero targets.
- Joining the 30% Club – UK Investor Chapter.

Key additions for 2023:

- Within our engagement priority themes, Mercer IS intends to focus its approach on engaging with managers investing in issuers that can drive meaningful change. Please see more in the climate and diversity sections specifically.
- Going forward Mercer IS remains committed to continuing to evolve its approach to stewardship by promoting best practice and transparently reporting our activities and outcomes to our clients and the wider market.



Introduction

Mercer IS is a leading provider of investment solutions, offering customised guidance for investment decisions, risk management and investment monitoring services to a broad range of institutional investors, including pension funds, insurance companies, endowments, foundations, and other investors.

Our 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 a key role in this regard, as it helps the realisation of long-term shareholder value by providing investors with an opportunity to enhance the value of companies and markets.

Mercer IS does not typically directly select securities; instead, it selects and combines specialist third party investment managers into Mercer Funds to implement day-to-day investment management tasks, and for certain clients, these funds are combined into portfolios. We provide a range of funds across equities, fixed income, passive, multi-asset and liquid alternative asset classes[3].

We expect these specialist managers to adopt standards of good governance and stewardship through voting and engagement practices that include a focus on sustainability risks and other material ESG factors, consistent with Mercer's Investment Beliefs and Stewardship Policy and we aim to monitor our managers against these ESG factors.

Managers are monitored on their broad stewardship or active ownership approach as part of their investment integration as well as against Mercer's global engagement priority themes of climate change; labour practices and human rights; and diversity, equity and inclusion with biodiversity and natural capital more recently being added as a priority theme.

Figure 1: 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 2C scenario 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** Including cognitive and identity diversity in decision-making processes is expected to create better outcomes and solutions

[3] 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.

Our beliefs

1 **Sustainability and ESG factors** can have a material impact on long-term risk and return outcomes and should be integrated into the investment process.

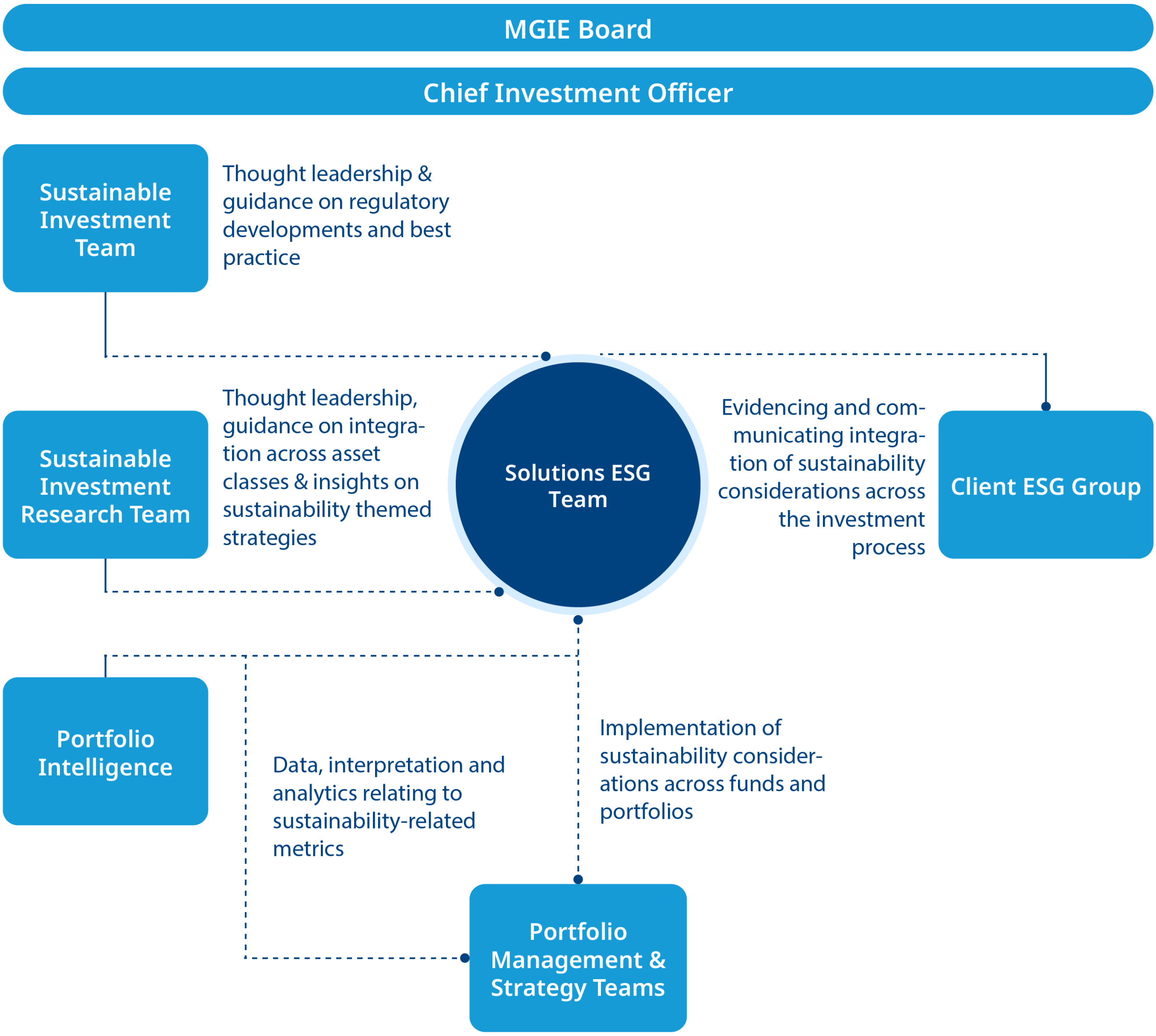
2 **Climate change poses a systemic risk,** and investors should consider the potential financial impacts of both the associated transition to a low-carbon economy and the physical impacts of different climate outcomes.

3 **Stewardship** helps the realisation of long-term shareholder value by providing investors with an opportunity to enhance the value of companies and markets.

4 **Taking a broader and longer-term perspective on risk**, including identifying sustainability themes and trends, is likely to lead to improved risk management and new investment opportunities.

Our approach to stewardship combines Mercer's global investment research and sustainability-related investment expertise with portfolio management and portfolio analytics to implement a meaningful stewardship approach within our investment process.

Figure 2. Oversight for Sustainable Investing Activities



Stewardship Highlights

2022 ESG & Stewardship Survey

	Combined	Equities	Fixed Income	Alternatives
Strategies covered*	261	124	103	34
Managers covered**	147*	84	56	25

*Survey responses are based on strategy and not firm-wide manager level and are for strategies managed by Mercer IS;

**Managers may manage multiple mandates across different asset classes hence asset class numbers do not add up to the combined number

370+
Climate-related engagement examples provided by managers

260+
Human rights-related engagement examples provided by managers

60+
Diversity-related engagement examples provided by managers

Collaborative Initiatives

95%
of strategies reference their organisation being a signatory to the **Principles for Responsible Investing** (PRI)

77%
of strategies reference their organisation being a supporter of the **Task Force on Climate-related Financial Disclosures** (TCFD)

63%
of strategies reference their organisation being a signatory to the **UK Stewardship Code**

52%
of strategies reference their organisation being a signatory to other **regional Stewardship Codes**

38%
of strategies reference their organisation being a supporter of the **Task Force on Nature-related Financial Disclosures** (TNFD)

Mercer ESG Ratings

21% of funds have seen an improved ESG rating over the last year

ESG Integration

% Funds with higher or equivalent* ESG rating relative to MercerInsight Universe

90%	88%	80%	100%
Equity	Fixed Income	Alternatives	Multi Asset

*Equivalent includes funds where ratings are within +/- 0.1 of MercerInsight universe average rating

Climate Change

On average active funds with corporate exposures are **33%** more carbon efficient than their respective benchmarks

82% of active funds with corporate exposures have lower carbon intensity than their respective benchmarks

*These results pertain to 18 actively managed multi-client Mercer funds with corporate exposures and non-cash benchmarks

Human Rights and Labour Practices

- 79% of equity strategies use engagement with issuers as a means to manage human rights risks
- 76% of fixed income strategies use engagement with issuers as a means to manage human rights risks

Diversity, Equity and Inclusion

- 35% of Key Decision Makers (KDMs)[4] across the Mercer IS business are non-male
- Non-male KDMs of equity funds increased 3.4% to 16.7%
- Non-male KDMs of fixed income funds increased 4.2% to 14.7%

Voting activity

Meetings Available to Vote at	Meetings Voted at	Meetings with at least 1 vote against management
13,300	98.9%	70.2%

Proposals Available to Vote on	Proposals Voted on	Shareholder Proposals Supported
566,800	97.0%	54.3%

Monitoring ESG Integration – Mercer ESG Ratings

Mercer's investment strategy-level ESG ratings across asset classes assess the degree to which, alongside other ESG related factors, active ownership practices are incorporated within an investment manager's investment process. Mercer's ESG ratings are considered when appointing mandates and during the ongoing assessment of appointed managers' approaches to ESG and active ownership.

ESG ratings are reviewed against asset class peer groups for equity, fixed income, property, infrastructure, liquid alternatives and multi-asset funds on at least a quarterly basis. Insights from these reviews may lead to engagements with managers whose ESG ratings are behind their peer groups, in order to drive greater integration of ESG considerations into their investment process, for the benefit of not only our clients, but their broader client base too.

Figure 3: Highlights from the 2022 ESG ratings review

% Funds with higher or equivalent* ESG rating relative to MercerInsight Universe

90%	88%	80%	100%
Equities	Fixed Income	Alternatives	Multi Asset

21% of funds have seen an improved ESG rating over the last year

8% due to manager ESG rating upgrades

13% due to changes in manager line-ups

*Equivalent includes funds where ratings are within +/- 0.1 of MercerInsight universe average rating

While we appreciate there are varying degrees of integrating ESG considerations across investment styles and asset classes, Mercer IS has been identifying managers with ESG ratings below their peer universe and engaging with these over the long term. An example of an ongoing engagement with a systematic equity manager, which contributed to an improvement in ESG integration and by extension, an improvement in ESG rating, is provided below.

Case Study: Engaging with a systematic emerging market equity manager

2020 | 2021 | 2022 | 2023

Short-term Engagement
Carbon footprint reduction

Objectives — **Status**

1. Reduce the carbon footprint of our funds
2. Understand the range of climate integration across managers and asset classes.

Methodology
Direct engagement. Carbon footprint analysis was undertaken in 2020 to identify funds with the highest carbon footprint. Engagements were then conducted by our PM team with managers through meetings, emails, and calls.

Outcome
Between 2020 and June 2021, the manager was able to reduce the fund's carbon footprint by over 70% without impacting their investment process.

This was a key driver in reducing the overall carbon footprint of the fund by 44% over the period, and ultimately achieving a carbon footprint of 50% below benchmark as at 30 June 2021.

While this engagement was considered successful, it was noted that there were opportunity areas around the manager's broader sustainability approach and implementation.

Long-term Engagement
Effective enhancements to stewardship within systematic strategies

Objectives — **Status**

1. Gain a deeper understanding of the limitations and opportunities available to systematic managers in undertaking stewardship
2. Encourage managers to adopt a stewardship approach that is: a) formalized through policy, b) implemented though asset-class relevant stewardship activity, and c) evidenced though quality disclosure.

Methodology
The manager was identified as an engagement candidate following the results of our 2021 ESG & Stewardship survey, which indicated room for improvement on policies, disclosure, and stewardship activity.

Initial two-way engagement
We first wrote to the manager, requesting a range of information to support their responses to the engagement survey. Following our initial request, an engagement-dedicated session was arranged to discuss their responses. To gauge the spectrum of stewardship activities among peers, we also met with other systematic managers, in addition to leveraging research available on MercerInsight™.

The session, which was attended by members of both our PM and ESG Investments teams, in combination with our research, was successful in deepening our own understanding of the limitations faced by systematic managers in undertaking stewardship activities, particularly where traditional engagement tools may be misaligned with a quantitative investment process.

During the session the manager shared a number of developments they had made to their investment process, including the use of a climate risk assessment. Despite this, we felt there remained potential opportunity areas, and highlighted the following points for their consideration:

1. The importance of a policy formalizing their sustainability beliefs and stewardship approach.
2. The growing needs of clients for more accessible and transparent reporting of ESG factors, notably outcome-driven voting and engagement examples.
3. The range of alternative stewardship tools we have seen from other systematic managers, such as involvement in collaborative initiatives and customized voting policies.

Progress/follow-up engagements
Upon follow-up in early 2023, the manager shared an engagement and active ownership policy, in which they detail an active stewardship solution considerate of their investment approach. This was a significant milestone in objective 2 being satisfied. Further time is needed to evidence how the new policy is being implemented in practice, which we will monitor over time.

These developments have also supported a rating upgrade from ESG4 to ESG3 during 2022.

Monitoring Stewardship – Annual ESG & Stewardship Survey

Undertaking engagement with appointed managers on priority ESG and stewardship topics for Mercer IS is an important part of our sustainability commitments and aligned with our regulatory obligations in certain regions. One of the core inputs into developing our understanding of appointed managers' approaches to stewardship is through the Global ESG & Stewardship Survey. Responses for over 400 strategies were received across our European, Pacific and North American regions, highlighting the extent of our reach and the significant opportunity we have to shape managers' stewardship practices. Highlights from the European survey results are provided throughout the remainder of the report.

2022 ESG & Stewardship Survey responses

	Europe	Equities	Fixed Income	Alternatives
Strategies covered*	261	124	103	34
Managers covered**	147	84	56	25
Response rate	92%	98%	97%	68%

*Survey responses are based on strategy and not firm-wide manager level;

**Managers may manage multiple mandates across different asset classes hence asset class numbers do not add up to total for Europe

The survey covers appointed managers' broad stewardship or active ownership approaches, as part of their investment integration and then focuses on Mercer's global engagement priorities of climate change; labour practices and human rights; and diversity, equity and inclusion. Within climate change, we have also recognised the connected roles that natural capital and biodiversity play this year.

Strategies in scope may form part of multi-client or bespoke funds with the level of monitoring and engagement varying across multi-client and bespoke funds. This is particularly in instances where clients have a desire to stay involved in engaging with and setting and communicating expectations of managers, in their bespoke implementation solution. For the first time, we have also extended the scope of the survey to include liquid alternatives.

Managers' general approach to stewardship

Overall approach to stewardship

It is pleasing to note that almost all strategies within equities and fixed income engage with issuers on material ESG issues and that this number has grown year on year, particularly for fixed income. Unsurprisingly, when it comes to liquid alternatives i.e. hedge funds, which were included in the survey for the first time this year, the frequency of engagement activity is significantly lower.

This is largely due to a number of underlying sub-asset classes not lending themselves to opportunities to engage (e.g. derivatives, ETFs). The results also highlight that while portfolio managers are mostly responsible for engaging with issuers, engagements more generally are a collective effort between portfolio managers and a dedicated engagement team and further show the variety of engagement approaches used by managers.

Figure 4: Strategies engaging on material ESG issues as part of the investment process

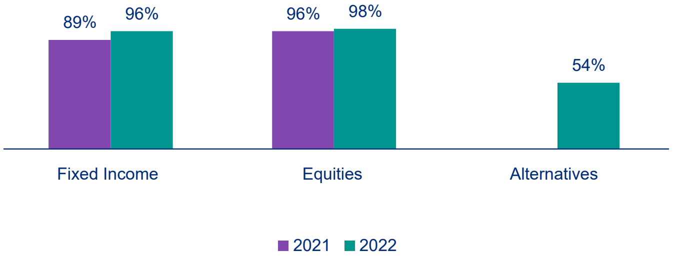


Figure 5: Strategies where different individuals are responsible for conducting engagements

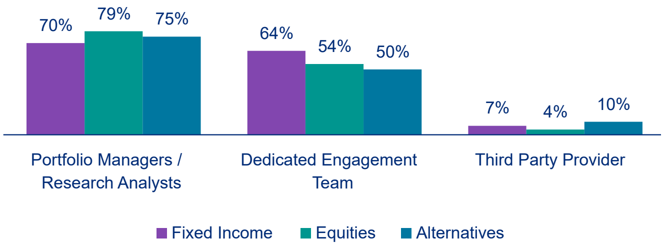
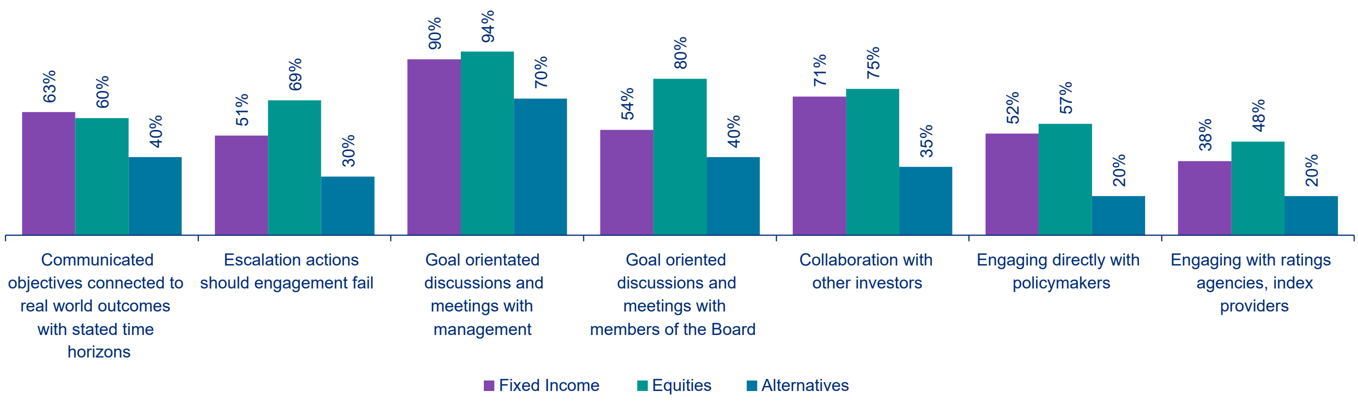


Figure 6: Strategies where different individuals are responsible for conducting engagements



We expect our appointed managers to contribute to initiatives that facilitate collaborative engagement with companies and/or policymakers where relevant, on material ESG issues as well as broader initiatives that represent best practice in sustainable investing and are pleased to note that the majority of managers support initiatives that promote and facilitate engagement.

Figure 7: Broad collaborative initiatives

95%

of strategies reference their organisation being a signatory to the **Principles for Responsible Investing** (PRI)

63%

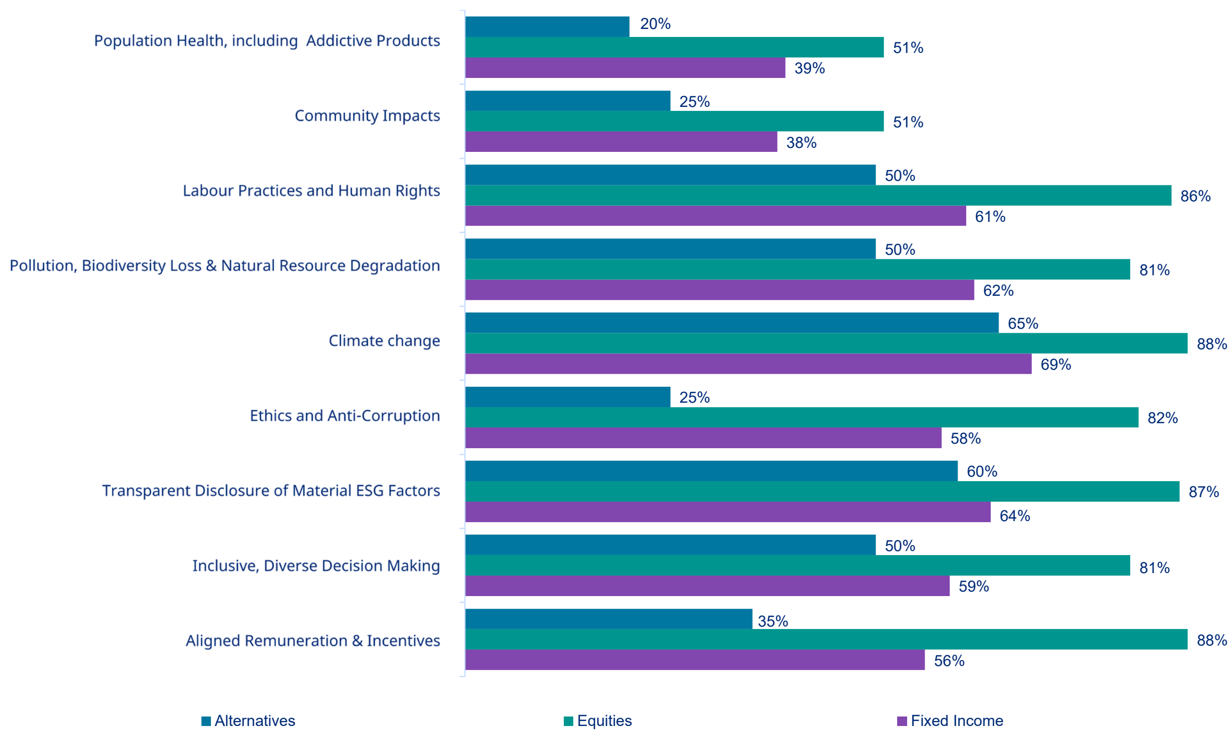
of strategies reference their organisations being a signatory to the **UK Stewardship Code**

52%

of strategies reference their organisation being a signatory to other **regional Stewardship Codes**

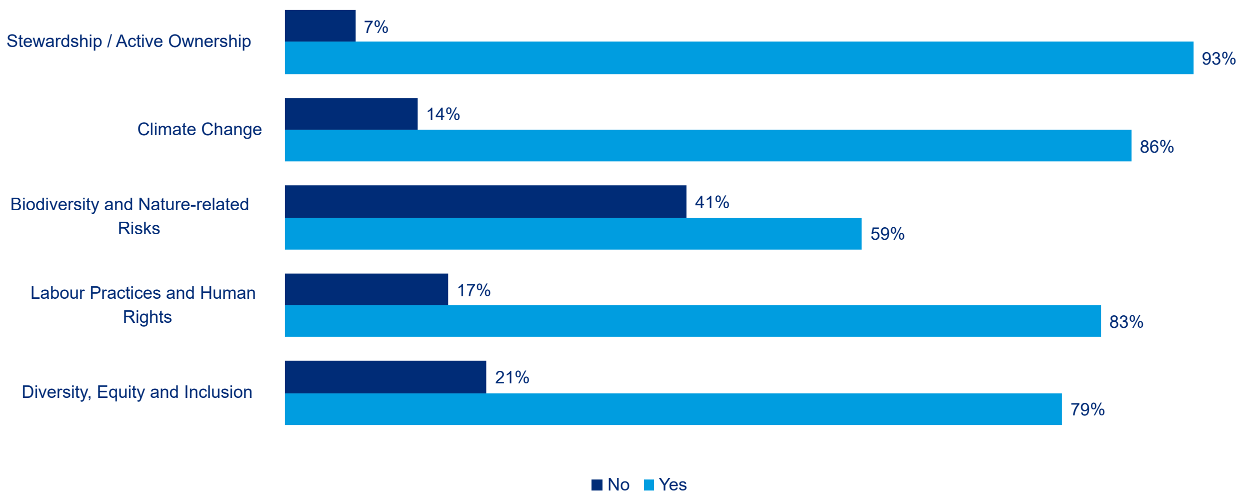
Managers tend to engage on topics that are most material to specific issuers they hold. The below highlights an alignment of engagements on ESG topics that are of particular focus to Mercer IS. While there was variation in the year-on-year results across all topics, notable increases in focus (i.e. >10% increase from 2021) were noted across equity strategies relating to the themes of Pollution, Biodiversity Loss and Natural Resource Degradation and Labour Practices and Human Rights.

Figure 8: Strategies referencing engagement on specific ESG topics



In line with Mercer's Sustainable Investment Pathway, there is an expectation that sustainability considerations are integrated across a manager's investment approach. Sustainability-related beliefs, considerations and approaches should be clearly articulated within a manager's sustainability policies. It is pleasing to note that a majority of managers make explicit reference to Mercer's global engagement priority themes within these policies. It is also unsurprising to note climate change being referenced most extensively and encouraging to see biodiversity formally embedded. We would expect explicit reference to biodiversity within policies to increase in future years.

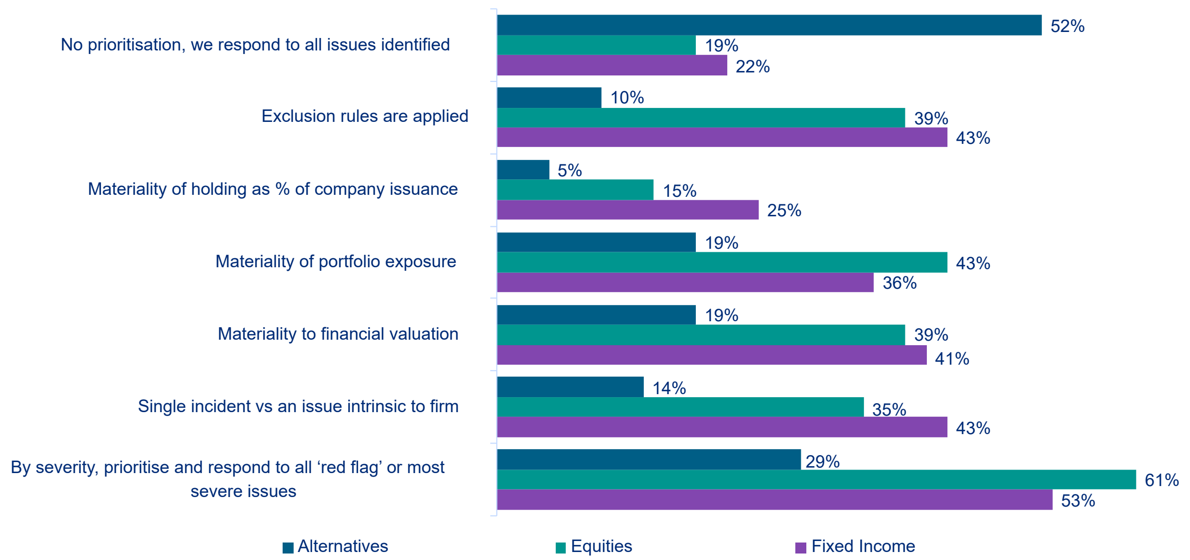
Figure 9: Strategies where policies specifically reference the below themes



Approach to UN Global Compact monitoring

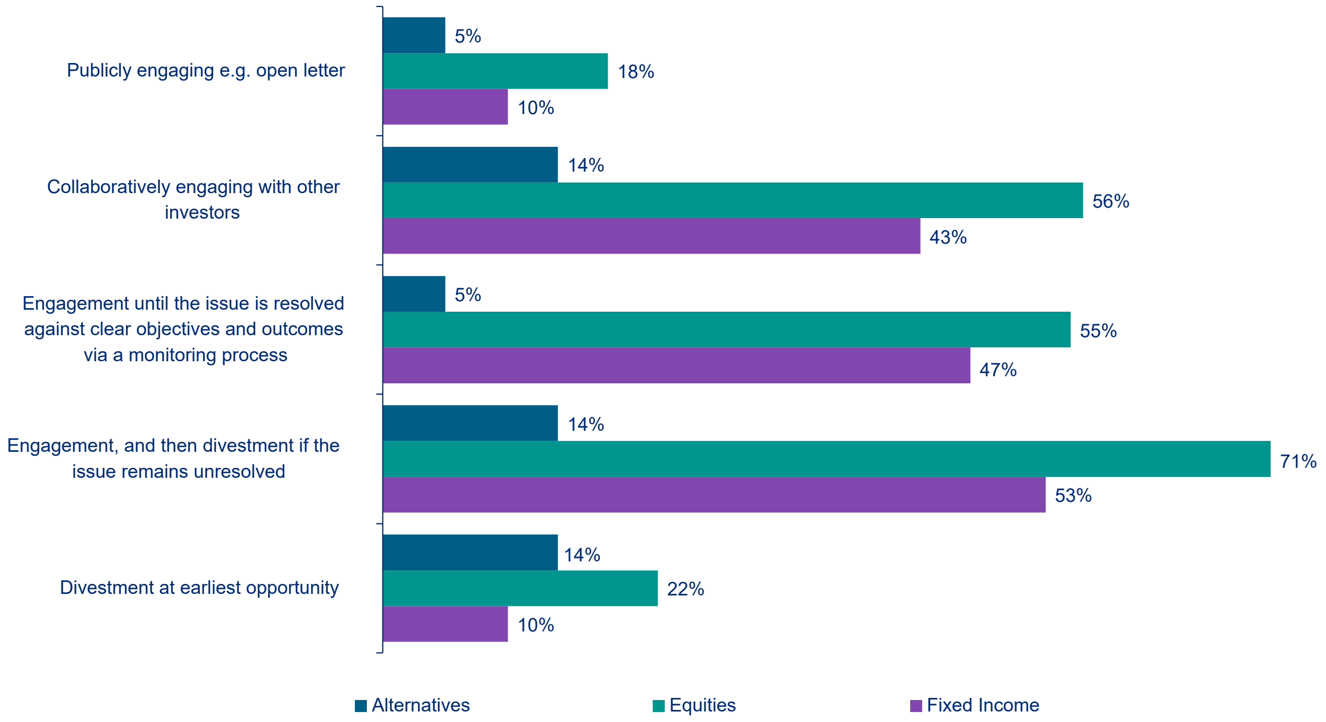
Mercer IS monitors high-severity breaches of the United Nations' Global Compact (UNGC) Principles that relate to human rights, environmental and corruption issues across its multi-client equity and fixed income funds. Mercer's prioritisation of UN Global Compact issues focuses on the most severe issues, in line with the most commonly used approach by managers.

Figure 10: Prioritisation of identified UN Global Compact issues across strategies



We also note a clear preference for engagement over divesting at the earliest opportunity, as once divested the ability to positively influence through voting and engagement, is no longer available.

Figure 11: Strategies referencing approaches to identified UN Global Compact issues



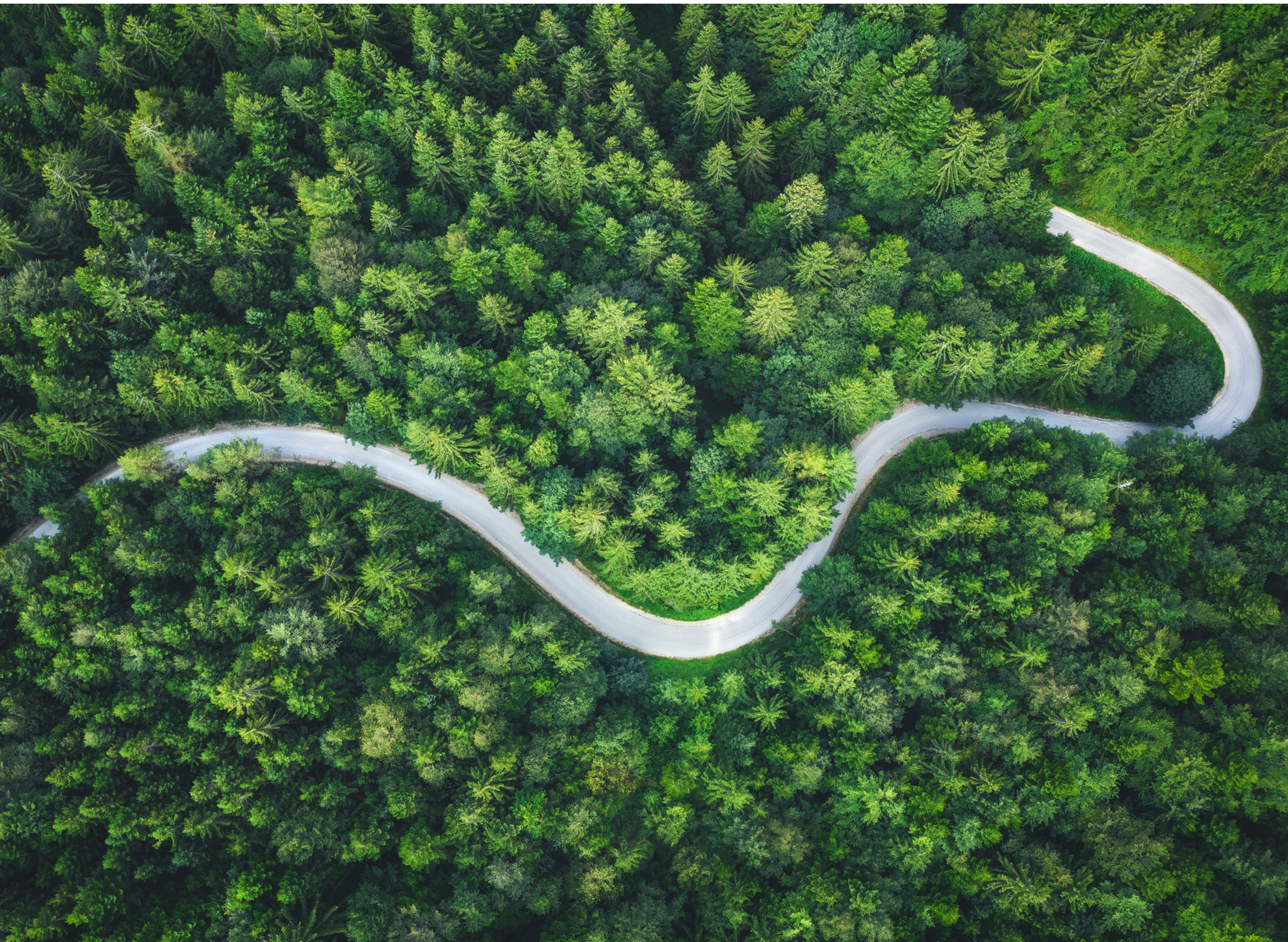
Focusing on our engagement priorities

Approach to Climate Change

Mercer believes climate change poses a systemic risk, and investors should consider the potential financial impacts of both the associated transition to a low-carbon economy and the physical impacts of different climate outcomes.

In line with this belief, Mercer IS has committed to target net-zero absolute carbon emissions by 2050 for its model discretionary portfolios and the majority of its multi-client, multi asset funds, representing EUR 33.1 billion in assets under management as at 31 December 2021. To achieve this, Mercer plans to reduce portfolio relative carbon emissions by at least 45% from 2019 baseline levels by 2030. On a strategic asset allocation basis, all portfolios in scope of our commitment are currently on track year-on-year to meet both the long term and interim target carbon reductions as at 31 December 2022.

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



Case study: Engagements with managers to enhance the promotion of environmental characteristics

EU Sustainable Finance Disclosure Regulations (SFDR) and development of funds to better promote environmental and social characteristics led to numerous engagements with managers, most notably on the incorporation of climate considerations in their investment approach

These engagements led to new climate-related commitments on active funds as well as additional exclusions to reduce the environmental impact of all funds in scope of Article 8 disclosures. These activities led to appointed managers enhancing their approach to considering, and in a number of cases supporting, decarbonisation efforts

These changes contributed more generally to a reduction in carbon emissions and have contributed to the below results

On average active funds with corporate exposures are **33%** more carbon efficient than their respective benchmarks

82% of active funds with corporate exposures have lower carbon intensity than their respective benchmarks

For Mercer IS, some of the key highlights around our integration of climate include:

Climate Highlights

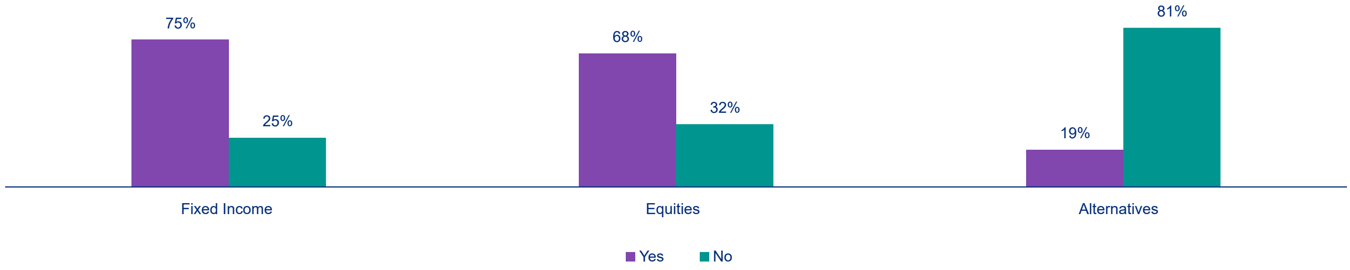
Release of Mercer IS's Investment Approach to Climate Change - 2022 TCFD status report	New climate change scenario model, developed in collaboration with Ortec Finance, to test key portfolio resiliency and preparedness for different climate change scenarios	Engagements with managers to promote greater consideration of environmental characteristics across Article 8 SFDR classified products (incl. re-classification of c. 50 funds to Article 8*)	Formalisation of issuer-level climate engagement priorities

*over the period 2021 and 2022

Mercer IS has set out how it intends to fulfil the climate-related commitments mentioned above and manage its climate-related financial risks and opportunities in its latest Investment Approach to Climate Change Report. Mercer IS's approach and disclosure, is consistent with the framework recommended by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (the TCFD), which has become the industry standard globally.

Mercer IS expects managers to disclose in line with the recommendations of the TCFD is encouraged with appointed managers too. Year-on-year survey results indicate that disclosure in line with TCFD from equity strategy managers has increased by 3% to 68% and for fixed income strategies by 12% to 75%.

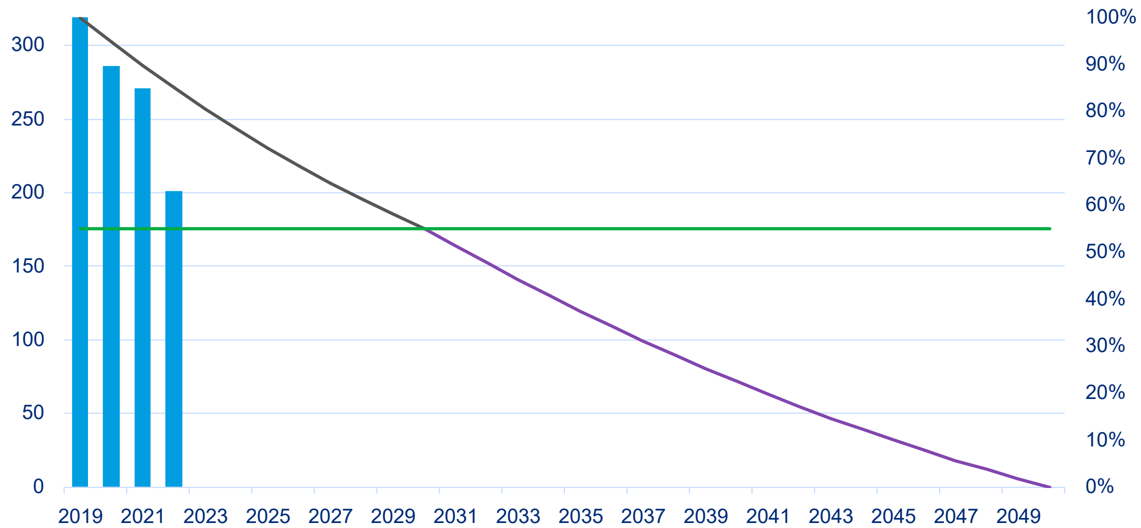
Figure 12: Strategies managed by managers referencing disclosure in line with the recommendations of the Task Force on Climate-related Financial Disclosures



We are now three years on our journey towards net zero portfolio carbon emissions. We are pleased to see strong decarbonisation across our portfolios as we better position our solutions towards preparing for the transition to a low carbon economy. Progress has been made through a combination of active engagement with underlying managers, the restructuring of existing active solutions to better integrate climate risk, and the repositioning of some passive solutions to track climate-aware benchmarks.

An example of the decarbonisation progress across one of our multi-asset funds is shown below. Progress will not be in a straight line; investing in the transition will likely come with short-to-medium term fluctuations in global emissions, but we are confident that with a strong beliefs and stewardship framework we can achieve our targets and enable real world emission reductions. For more information, see the [Climate Change Management & TCFD Reporting section] of our [Responsible Investment website.]

Figure 13: Example of decarbonisation progress across a multi-asset fund with a net zero commitment

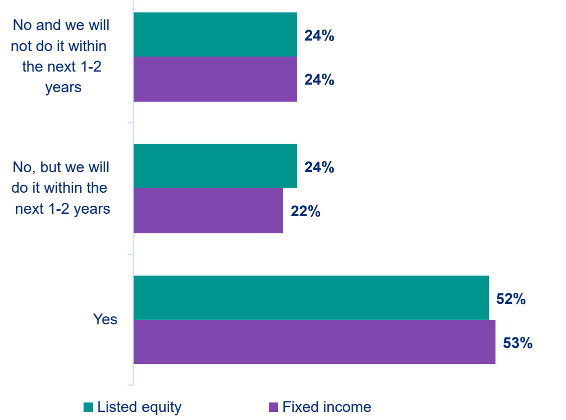


Metrics in tons CO²/$M sales

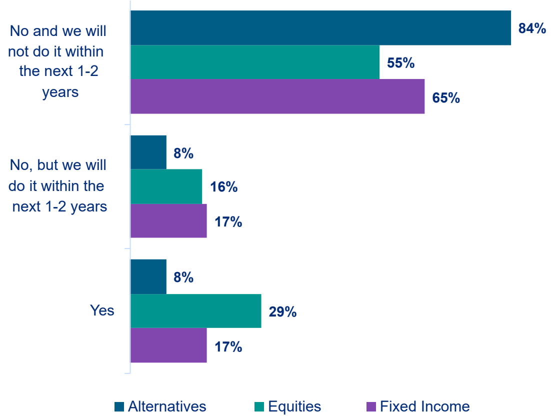
A big change in the number of strategies referencing having a climate transition target in place was noted across the 2021 and 2022 surveys, which is likely to be a result of managers re-evaluating their commitments based on evolving industry and regulatory developments around the practical implications of transitioning portfolios.

Figure 14: Strategies referencing having climate transition targets in place

2021



2022



While there is a relatively low percentage of strategies that have transition targets associated with them, many more are monitoring a range of climate-related metrics that support with measuring and managing climate related risks. We expect an increase in the use of climate-related metrics to support investment decisions, as data availability and coverage improves. For funds aligned with the Article 8 and Article 9 disclosure requirements of the EU's Sustainable Finance Disclosure Regulations (SFDR), greater consideration of these and other sustainability-related metrics are expected, particularly for funds reporting on principle adverse impacts. Further, new product-level TCFD disclosures effective in the UK from 2023 are expected to bring additional coverage and stronger considerations of climate-related risks and opportunities.

Figure 15: Key climate-related metrics tracked across strategies

	Equities	Fixed Income	Alternatives
Absolute emissions	77%	63%	24%
Carbon intensity (Scope 1&2)	85%	73%	32%
Carbon intensity (Scope 3)	61%	50%	19%
Reserves (potential emissions)	27%	24%	8%
Power generation sources (utilities sector)	34%	39%	14%
Climate VAR	34%	28%	3%
Forward looking transition metrics e.g. strategy, target setting	57%	51%	8%
Percentage of portfolio companies with Science Based Targets initiative commitments (verification)	55%	44%	8%
Temperature alignment	45%	47%	11%
Data quality	36%	39%	5%
Physical damages risks	33%	*33%*	*11%*
Emissions avoided	16%	*26%*	*0%*
Offsets / net contributors	12%	17%	3%

Through the ESG & Stewardship Survey, managers have provided over 370 engagement examples relating to their engagements with issuers on climate-related matters.

Mercer IS expects its appointed managers to adopt clear guidelines on escalation processes where engagement activities have not been successful. In some cases, these escalation processes may lead to voting against climate-related resolutions proposed by management or adding issuers to divestment lists.

Case study: Engagement escalation leading to voting against management

Multinational utility company

The manager has been engaging with the company on climate-related topics since 2019. In early 2022, the manager shared its expectations of what a credible climate transition plan should include with the issuer so the issuer was clear on what was required for the manager to support it. For the manager, an ambitious and credible plan is encouraged, and would include:

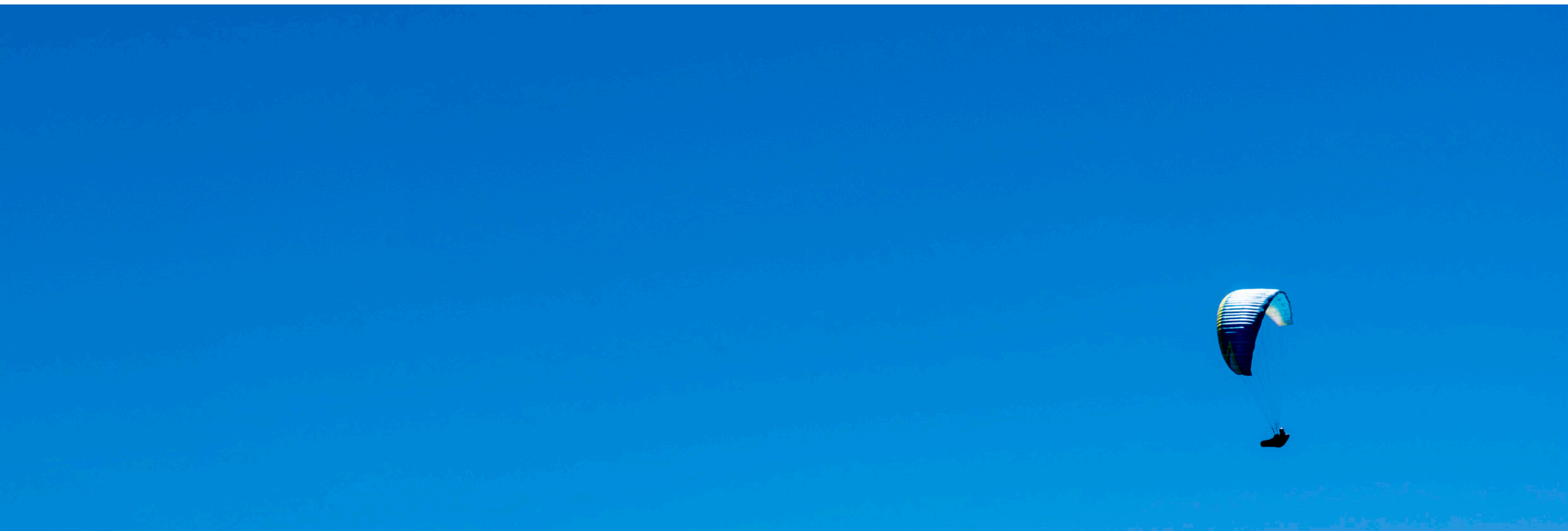
- A public commitment to net zero by 2050;
- Disclosure of short-term (up to 2025), medium-term (2026-2035) and long-term (2036-2050) targets covering scope 1 and 2 emissions and material scope 3 emissions;
- Disclosure of current scope 1, 2 and material scope 3 emissions;
- Credible targets that are aligned to a 1.5°C trajectory. Gaining approval and verification by SBTI (or other external independent parties as they develop) can help demonstrate the credibility and accountability of plans.

The manager recognises the progress the company has made in setting scope 1, 2 and 3 GHG emission reduction targets, as well as its commitments to phase out the use of coal in Europe by 2025 and globally by 2027. However, given concerns around the company's electricity generation targets not being aligned with a 1.5C trajectory and their climate transition plan not meeting the manager's expectations, the manager was not able to support the vote.

Case study: Engagement escalation leading to inclusion on divestment list

Food processing company

- The manager has been engaging with and sharing minimum expectations with companies in 20 climate-critical sectors. These companies are influential in their sectors, but are not yet leaders in sustainability. Engagement with these companies focusses on helping them meet these minimum expectations, and understanding the hurdles they must overcome.
- The manager has been engaging with the issuer since 2017, with discussions focussing on deforestation, regenerative agriculture, low-impact foods and climate disclosures and targets. The manager has also been monitoring, for example, their percentage of traceable and certified palm oil.
- While the company has made some improvements, given the lack of sufficient progress against the manager's minimum expectations, a decision was made in 2020 to place the issuer on the manager's divestment list (for relevant funds). The manager has also voted against the re-election of the relevant director at their AGM.
- The issuer has made some progress towards its net zero targets and sustainable product sourcing, however, still lacks scope three upstream agricultural emissions targets and has no deforestation policy.
- The manager has therefore kept the company on its divestment list (for relevant funds), while continuing to engage with them to encourage them to meet their minimum expectations.



Observing an alignment between a manager's engagement and voting activities is helpful in assessing effective stewardship. Across equity strategies, at least half of all strategies reported to have voted at least once against management on climate related resolutions, with this number increasing over the last year, highlighting increasing activism across managers.

Figure 16: Voting against management on climate resolutions across equity strategies

Over 2023, our intention is to become more granular and prioritise engagements with managers holding specific issuers across our multi-client funds. These issuers will be prioritised based on their contribution to overall carbon emissions across all multi-client funds, whilst taking into consideration their transition capacity based on analysis using Mercer's Analytics for Climate Transition ("ACT") tool.

Mercer's Analytics for Climate Transition (ACT) tool draws on multiple data providers and metrics to assess and rank emissions intensity, transition capacity and green revenues in portfolios across a spectrum from grey to green investments. This assessment is then used to support reducing exposure to grey assets where there is high stranded asset risk, grow the exposure to green solutions and steward the assets that are in between.

Whether the issuers are involved in a material sector, captured under other engagement initiatives (e.g. CA 100+) and/or have approved science-based targets (SBTIs), will also be considered. Our initial analysis suggests that the top 10 companies without SBTi targets contribute almost 28% towards overall emissions, with the top 25 accounting for approximately 45% of overall emissions.

Finally, it is pleasing to note from the ESG & Stewardship Survey that managers' alignment with, and participation in, climate-related collaborative initiatives has generally increased over the last year (with the exception of TCFD supporters, which has largely remained flat.)

Figure 17: Example of ACT assessment across single and multi-asset funds

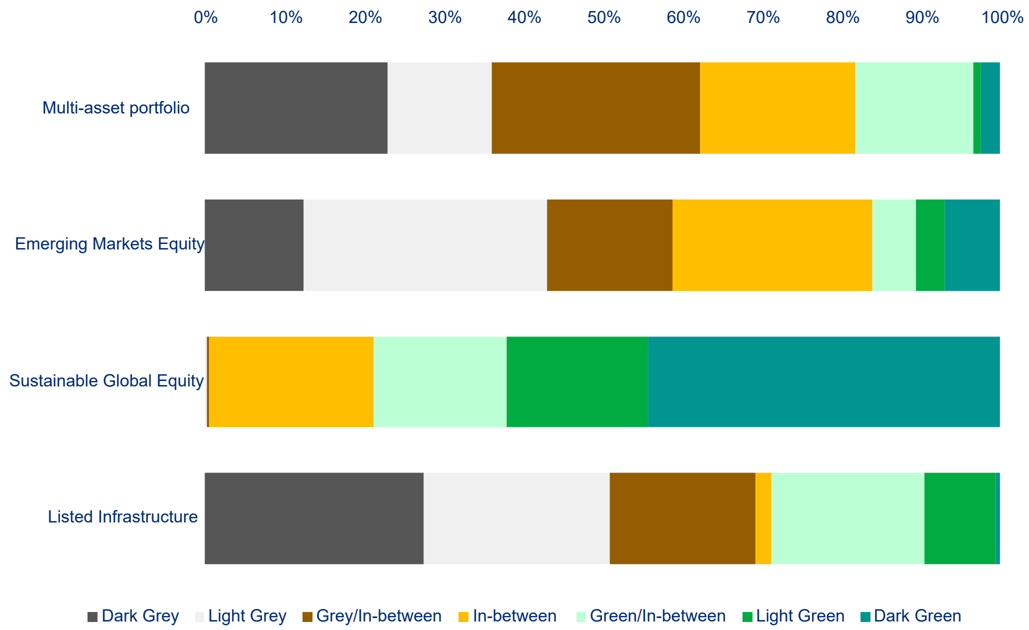


Figure 18: Appointed managers' participation in climate related collaborative initiatives

77%
of strategies reference their organisation being a supporter of the **Task Force on Climate-related Financial Disclosures** (TCFD)
(2021: 79%)

62%
of strategies reference their organisation being a supporter of **regional climate initiatives e.g. Institutional Investors Group on Climate Change** (IIGCC)
(2021:53%)

62%
of strategies reference their organisation being a supporter of **Climate Action 100+**
(2021: 55%)

59%
of strategies reference their organisation being a member of the Net Zero Asset Manager initiative (NZAMi)
(2021: 44%)

36%
of strategies reference their organisation being a member of the Transition Pathway Initiative (TPi)
(2021: 35%)

28%
of strategies reference their organisation being a member of the Science-Based Targets initiative (SBTi)
(2021: 10%)

Figure 19: Mercer's participation in climate related collaborative initiatives

- **TCFD***: Mercer is a signatory and reports in line with the TCFD recommendations
- **IIGCC****: Mercer actively participated by joining member calls and providing input/feedback on the following IIGCC Paris Aligned Investing Initiative working groups: stewardship, listed equity and corporate fixed income. Participation in working group calls has supported the production of a Net Zero Stewardship Toolkit.
- **Climate Action 100+***: As a member we use CA100+ research to assist with identifying significant votes and monitor the contribution our appointed managers make to the initiative. We are evaluating opportunities to increase our support of and involvement in the initiative over 2023.

*undertaken in Mercer IS's name **undertaken in Mercer Limited's[5] name

[5] Mercer Limited provides wealth advisory and investment services to a range of institutional clients and further provides advisory services to Mercer IS on sustainable investing

Approach to Biodiversity

Recognising the connected roles that natural capital and biodiversity have with climate and therefore the importance of these themes in achieving broader climate transition targets, work has begun on developing Mercer's approach to integrating biodiversity considerations into our investment portfolios.

Biodiversity Highlights

- Engaging with leading managers on their approach to **Task Force on Nature-related Financial Disclosures** (TNFD)
- Incorporating biodiversity related questions for the first time in our ESG & Stewardship Survey
- Collaborating with Mercer's Sustainable Investment Manager Research team to explore the investment opportunity set
- Producing strategic research papers Biodiversity on the Brink (2021) and Nature Alert (2022)

Mercer's participation in biodiversity related collaborative initiatives

Mercer expects biodiversity to play an increasingly important role in investment portfolios over the coming years and has joined the TNFD as a Forum member in support of this. As a Forum member, Mercer has begun work on mapping the exposure of one of its sustainability themed funds to the TNFD priority sectors, and will be partaking in pilot testing of the framework.

Figure 20: Appointed managers' participation in biodiversity related collaborative initiatives

38%
of strategies reference their organisation being a supporter of the **Task Force on Nature-related Financial Disclosures** (TNFD
(2021: 18%)

39%
of strategies reference their organisation being a signatory to the **FAIRR Initiative**
(2021:28%)

16%
of strategies reference their organisation being a signatory to the **Finance Pledge for Biodiversity**
(2021: -)

Case study: Engagements with managers on their approach to TNFD

As momentum around the TNFD framework started to build with the early releases of the TNFD beta frameworks, we conducted a survey of managers we consider as leaders in ESG integration, to enhance our understanding of the approach managers are taking to considering biodiversity-related risks and opportunities.

We received responses from seven managers, covering both equity and fixed income strategies. Six of the seven managers are TNFD Forum members, with one being a TNFD Taskforce member.

Findings from the engagements:

- **Policies**: Managers are articulating their approaches through the development of standalone biodiversity and/or deforestation policies.
- **Integration in ratings**: Managers are integrating biodiversity related risks & opportunities in their investment processes by including biodiversity-related metrics as part of their risk assessments and factoring this into their issuer ratings methodology.
- **Stewardship**: Managers are engaging with companies on biodiversity issues and seeking opportunities to get involved in collaborative initiatives to help support integration of biodiversity considerations.
- **Capital allocations**: Managers are looking at opportunities to allocate to issuers tackling biodiversity loss.

What was also clear is that many respondents were finding it difficult to source financially material data and therefore additional approaches have been seen, for example:

- **Controversies and misconduct**: Most managers screen their investments for environmental controversies or evidence of misconduct and breaches of environmental law. We would expect to see this step undertaken as part of standard due diligence procedures by all asset managers.
- **Enhancing sector risk assessments**: Some managers have mapped sectors of heightened exposure to biodiversity risks and have conducted enhanced due diligence for companies in these sectors. Companies within these sectors must demonstrate more advanced policies and risk mitigation strategies surrounding nature/ biodiversity.
- **Opportunities**: There are a few managers in the impact space incorporating frameworks to measure and track nature positivity metrics. These managers often assess the degree of alignment of their portfolio with the UN SDGs that are focused on nature themes.

It is pleasing to note that approximately half of equity and fixed income strategies are considering the impact of nature & biodiversity risks in investment decisions, and while the industry still waits on further guidance from the TNFD, managers are already tracking a variety of metrics to support in their understanding of potential risks and opportunities relating to nature. And we have also seen managers engaging on the topic with issuers.

Figure 21: Strategies referencing consideration of nature & biodiversity risks in investment decisions

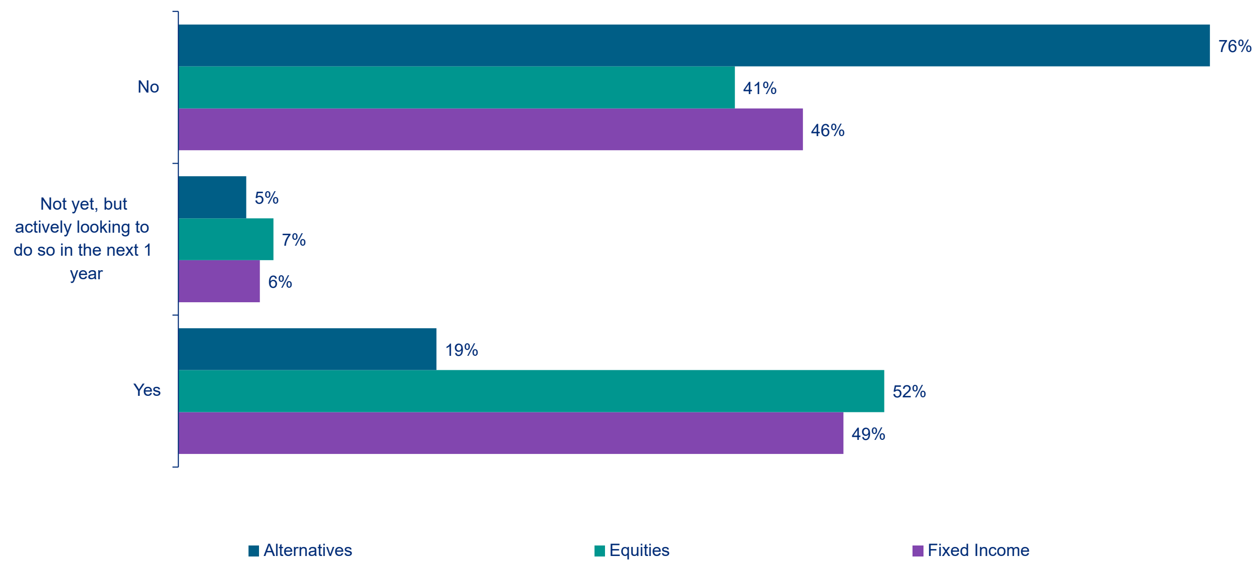


Figure 22: Key biodiversity related metrics tracked across strategies

	Fixed Income	Equities	Alternatives
Deforestation	24%	14%	5%
Green or solutions revenues	45%	52%	8%
Water risks / availability	33%	30%	14%
Waste or resource utilisation	28%	27%	11%
Biodiversity impacts	37%	35%	11%

Case study: Engagement escalation leading to vote against management

Multinational consumer goods company

- The manager has been engaging with the company with a focus on encouraging the company to eliminate deforestation from its supply chain. The company is one of the world's largest producers of household consumer goods and its supply chain involves exposure to a number of risks in this area, including palm oil and wood pulp.
- In 2020, the manager supported a resolution calling on the company to report on its efforts to eliminate deforestation, which was passed.
- In the same year, the manager also engaged with the company and encouraged it to report to CDP Forests and accelerate its programme to source more Forest Stewardship Council (FSC) certified pulp. Shortly after we saw the company submitting to CDP Forests and accelerating its commitment to ensure that 95% of its pulp is FSC certified.
- The manager has continued to engage directly with the company throughout 2022 on its forest supply chain risks, its progress on limiting deforestation and the impact on biodiversity. The manager acknowledges the improved transparency from the company on its forestry practices but remains mindful of the company's exposure to deforestation risks and a lack of commitment to eliminate deforestation in primary forests across its supply chains. For this reason, the manager escalated its concerns by voting against the re-election of the board chair at the latest AGM.

Approach to Human Rights and Labour Practices

Another priority area of engagement for Mercer IS relates to labour and workforce practices and supply chain safety, as well as human rights practices that avoid contributing to modern slavery, exploitation and other human rights abuses. We encourage managers to formalise their approach via documented policies and procedural risk assessments within investment portfolios, to identify high-risk companies and evidence actions they are taking to resolve identified issues.

Majority of managers have policies and processes in place to manage human rights risks and use a variety of approaches to address these were relevant, most notably through engagements with issuers.

Figure 23: Strategies where organisation has a policy or process to managing human rights risks.

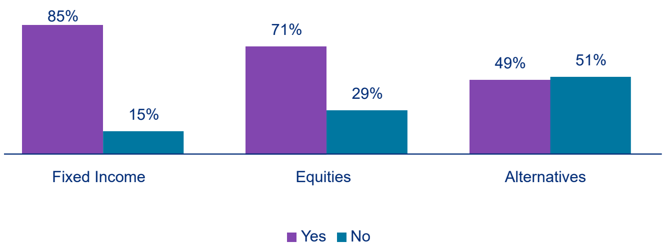


Figure 24: Strategies where human rights or labour practices risks are identified, tracked and reported on

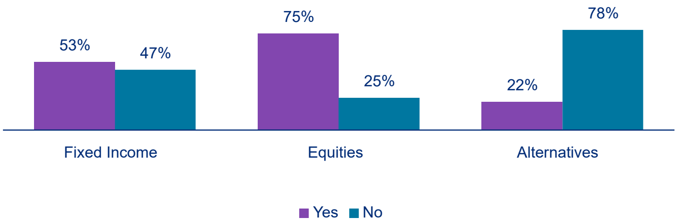
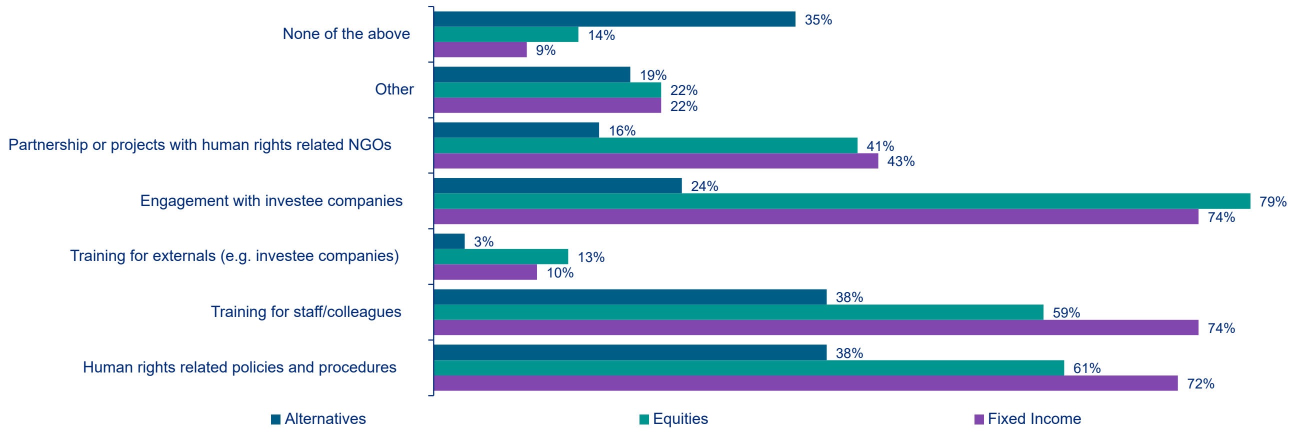


Figure 25: Strategies approaches to addressing and managing human rights risks



Case study: Engagement relating to improving transparency on labour related practices and human rights

Energy company

- The objective of the engagement was to guide the company on how to best prioritise, measure and report on material ESG considerations identified by the manager, which included labour practices (specifically health and safety of employees) as well as community relations.
- During the engagement, the manager gained insight into the company's approach, highlighted what it perceived to be the most material issues and provided details on industry best practice.
- Since the engagement, the company has released an ESG report, which it will publish on an annual basis, and which will include the company's ESG strategy and identification of its most material KPIs, consistent with those outlined in the engagement with the manager.
- With respect to labour practices, one of the four "high importance, high maturity" elements of its ESG program is Employee Health & Safety Management & Training. The company has disclosed quantitative data backing up its commitment to strong labour practices (e.g. 40 consecutive months achieved with zero recordable accidents during construction and 100% Health, Safety, Environmental and Regulatory (HSER) Safety Training compliance among employees). The manager believes these efforts represent an important step for the company to identify, measure, and report on specific ESG goals.

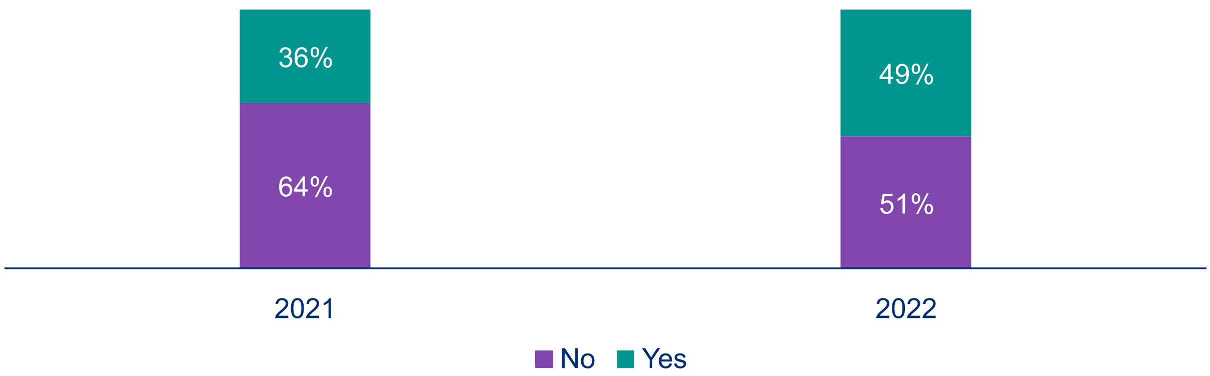
Case study: Engagement escalation leading to voting against management and subsequent divestment

Digital services company

- The manager commenced engagement with the company in 2019, initially focusing on its workplace environment and evolution of company culture.
- Following a UNI Global Union complaint regarding worker right violations during Covid, and subsequent investigation by a global intergovernmental authority, the manager intensified its engagement efforts. As part of this, the manager requested a roadmap with clear milestones on how employee practices would improve. They also participated in collaborative engagement, seeking demonstrable action on the issues raised.
    - A key tool used to escalate engagement efforts was utilising their voting rights. At the 2021 AGM, the manager voted against the re-election of certain Board members to encourage a structure with Board members who would challenge and diversify the Board's decision-making process.
    - In 2022 the manager further escalated efforts by holding follow-up discussions with members of the company's leadership team, and a letter to the Board with a recommendation that it engage with an established ethics specialist.
- Following the re-election of directors and an unsatisfactory Board response to the letter, the manager had the impression of limited counterpower from the Board. In addition to this, continued complaints regarding employee treatment were a cause of concern to the manager, who ultimately decided to downgrade their internal ESG Quality rating for the company in Q2 2022.
- Over Q2 and Q3, the company faced additional external criticism, most of which was denied by the company. The manager used this to engage the company a final time, urging the Board to:
    1. Meet with a business ethics expert;
    2. Demonstrate more stringent and independent oversight on its Human Capital management;
    3. Publish a report of an investigation launched internally with the support of an independent third-party.
- The company did not publish a report, and there were no resulting actions identified from the final efforts listed above, therefore the manager ultimately decided to divest from the company across all portfolios.

Observing an alignment between a manager's engagement and voting activities is helpful in assessing effective stewardship. Across equity strategies, almost half of all strategies reported to have voted at least once against management on human rights or labour related resolutions, with this number increasing over the last year, highlighting increasing activism across managers.

Figure 26: Voting against management on labour practices and human rights resolutions across equity strategies



Approach to Diversity, Equity and Inclusion

Mercer IS's mission is to mirror the representation of the communities we serve in and welcome colleagues and clients regardless of their background, gender, ethnicity, age or sexual orientation. As the largest fiduciary manager in the world, Mercer IS has the ability to influence change and actively engage with portfolio managers responsible for our asset class building blocks.

We believe that diverse teams lead to better decision-making and have therefore taken several measures to ensure this view is reflected within our own portfolio management team, the teams of our sub-investment managers and across portfolio holdings, where possible.

Mercer's 30 x 30 target

Mercer IS has set a target to achieve at least 30% non-male key decision makers (KDMs) across our portfolios by 2030. While 30% is the minimum aim, the long-term target is 50% non-male representation . Our aim is to work collaboratively with our appointed managers to drive change in the industry as a whole, not just in our underlying portfolios.

Similarly, Mercer IS aims to hold itself to the same target and is pleased to state that as at 31 December 2022, 35% of Key-Decision Makers[6] across the Mercer IS business were non-male.

Mercer IS's diversity statistics highlight a commitment to gender diversity, however these numbers are not necessarily reflective of the broader investment manager landscape, based on broader Mercer research.

MercerInsight

In May 2020, Mercer published Diversity Dressing: The Hidden Figures, where gender diversity amongst KDMs listed on MercerInsight™ was examined. Three years on, in the follow-up paper Diversity Dressing: Progress evaluation, the data was revisited to see how the gender profile has changed in the global investment management industry.

A snapshot of MercerInsight™ on 1 December 2022 revealed 21,452 unique individuals assigned as a KDM to at least one investment strategy by any investment manager on the database. Of these, we identified a disappointing small increase to 13.7% as female, compared to 12.0% three years prior, on 1 December 2019.

However, among shorter-tenured KDMs, the proportion was much higher, and in the 0-5 year cohort, 32% of KDMs were female in 2022. This is a noticeable increase from 2019 (19%), which is encouraging.

Diversity across appointed managers

Mercer's ambition to promote diversity extends beyond its own business through to the managers it appoints. This is assessed in part within the manager research process and documented in a dedicated section within research reports. Diversity amongst KDMs across appointed managers is monitored by investment teams and support engagements with managers on the topic.

It is pleasing to note that there has been an increase across both active equity and fixed income multi-client funds and that across both active equity and fixed income multi-client funds, the representation of females KDMs is higher than the broader universe of 13.7%[7]. We expect this number to grow over time both across our funds and the industry as a whole, supported in part through our engagements with managers on the topic and participation in industry initiatives.

[6] where KDM is someone who is either a) an authorised signatory b) voting member of investment committee or c) lead portfolio manager or adviser
[7] Diversity Dressing: Progress evaluation

Figure 27: Average non-male KDMs across active Mercer multi-client funds

Case Study – a collaborative approach to improving gender diversity within the investment management industry

Mercer

A Collaborative Approach to Improving Gender Diversity within the Investment Management Industry

Process

Mercer's manager research and portfolio management team recognize that it takes time to train and support talent through the ranks. We do not expect to see changes overnight, but we want to ensure we partner with investment managers whose diversity, equity and inclusion (DE&I) values align with ours. An example of a manager we have engaged with on this topic is an independent boutique investment firm. We have formed a strong relationship with the investment team over a number of years and diversity has been a topic we have continuously engaged with them on. Mercer recognizes that real change takes time and effort and were kept well informed by the team whilst they developed a graduate scheme and a female internship programme.

Challenges

The manager is a small business consisting of 8 partners and 3 employees, and the investment team is small by design. This meant it was very challenging to improve the diversity of the investment team, particularly given they are all founding partners. They knew the simplest way to address the balance in their business would have been to hire people who are already in the industry, but they saw this as a zero-sum outcome that would not result in any change in the industry.

Outcome

In January 2022, the manager launched a graduate scheme, as a way to add resource and to improve the overall diversity of the team. The team clearly invested time in thinking about how the programme should work, and the structure and rigor of the programme was a meaningful undertaking for the firm of their size. The founding partners identified five modules designed around the firm's investment philosophy, alignment, franchise, financial, sustainability and valuation, which enabled them to properly embed participants in the firm investment philosophy and culture. A female graduate was the first person to be put through the programme and she now has a taken on a full-time position within the business. In addition to the graduate scheme, they approached a number of entities that focused on improving diversity in the finance industry. Ultimately, they signed up to GAIN (Girls are Investors) and worked with the group to bring on two interns during the summer of 2022. The partners used the structure of the graduate scheme and their learning from this experience to influence the structure of the internship programme. This further demonstrates their desire to improve diversity in the finance industry, as well as within their own investment firm.

Encouraging progress on gender diversity has been a focus for Mercer IS for a number of years already, whether it be working with appointed managers to promote more diverse investment management teams or encouraging them to engage with their holding companies with a view to improving gender diversity across portfolios.

Diversity profiles of portfolios

Mercer IS also monitors portfolio level Board diversity metrics, and includes these as part of regular client reporting for its multi-client funds. While it is pleasing to note that the average non-male representation across all funds is above 30% and above its peer universe, across both multi-client equity and fixed income funds, there are still approximately one third of funds that have less than 30% non-male board representation. These funds are likely to be a focus area for Mercer IS going forward as we seek to encourage managers to set diversity expectations and promote higher levels of diversity across issuers and funds.

Figure 28: Average non-male Board representation across multi-client equity and fixed income funds

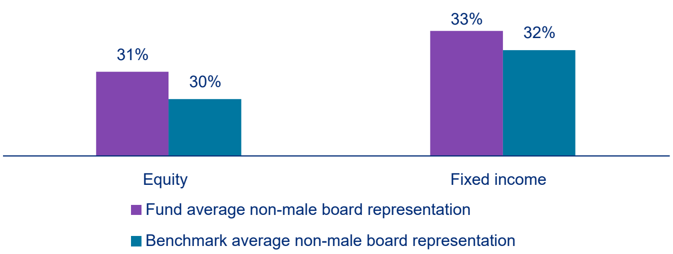


Figure 29: % of funds with >30% non-male Board representation across multi-client equity and fixed income funds

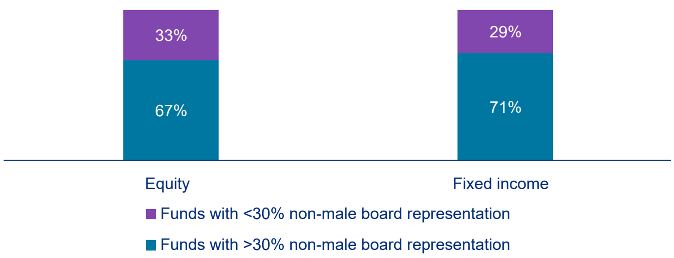
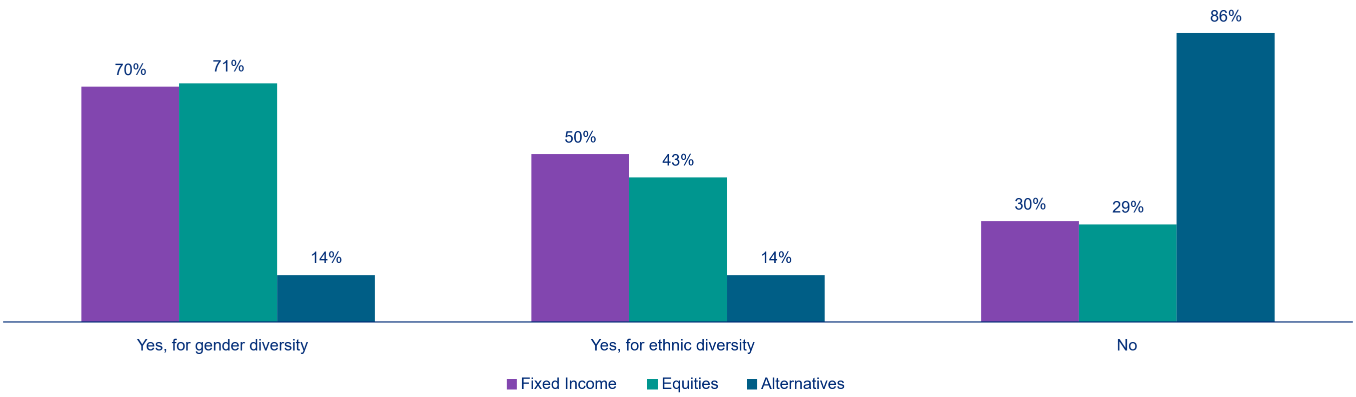
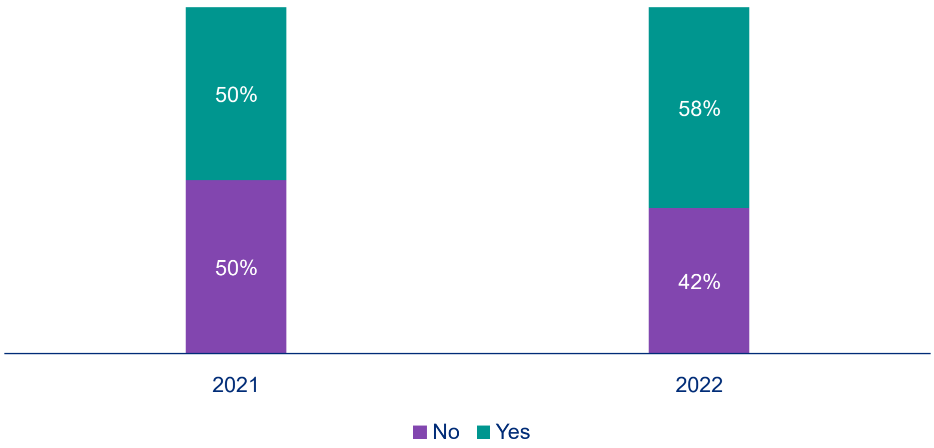


Figure 30: Strategies where managers have set expectations for listed companies with respect to management and Board diversity, equity and inclusion



Observing an alignment between a manager's engagement and voting activities is helpful in assessing effective stewardship. Across equity strategies, at least half of all strategies reported to have voted at least once against management on diversity related resolutions, with this number increasing over the last year, highlighting increasing activism across managers.

Figure 31: Voting against management on diversity related resolutions across equity strategies



Participation in collaborative initiatives can also support raising awareness and contributing to initiatives across the broader industry, and it is pleasing to note that more than a third of Mercer IS's appointed managers support a diversity-related collaborative initiative.

Figure 32: Appointed managers' participation in diversity related collaborative initiatives

39% of strategies reference their organisation being a supporter of the **30% Club or 40:40 Vision or ILPA D&I initiative**

Figure 33: Mercer's participation in diversity related collaborative initiatives

Diversity Project

Mercer IS is a member of The Diversity Project which seeks to accelerate progress towards a more inclusive culture in the investment and savings profession. Mercer IS took part in the Diversity Project Investment Springboard and CASP mentoring programs, focussed on school and university students from low socio-economic backgrounds and the LiFT leadership training programme. Further, our DEI Lead took part in the Fish out of Water campaign, with a focus on LGBT+ inclusion, and Mercer produced two articles for the Gender by Design Compendium.

30% Club – UK Investor Chapter

Mercer IS is a member of the 30% Club – UK Investor Chapter and has set itself a goal that by 2030 at least 30% of the key decision-makers (KDMs) within appointed managers used in Mercer Funds will identify as non-male ("30 by 2030"). Mercer also monitors Board level gender diversity of its multi-client funds and will seek to undertake stewardship activities with its appointed managers to encourage progress at a portfolio level. Mercer IS is also currently reviewing opportunities to become more involved in one of the Chapter's Working Groups.

Case study: Engagement escalation leading to voting against management

In late 2021, following a similar campaign relating to gender diversity, the manager wrote to FTSE100 chairs to encourage ethnic diversity on their boards. The manager communicated its expectations that companies should set targets for executive level ethnic diversity, develop a robust strategy to achieve them, track progress against these and regularly report progress to the Board and investors.

The manager also established a policy over 2022, where it voted against the nominations committee chair of any FTSE100 company without at least one non-white director on the Board and/or any non-disclosing company's.

Since sending these letters, 25 companies acknowledged receipt, 15 provided a substantial response (for example a letter from a Board chair).

One company in particular stated that it was in the process of setting new D&I targets and the manager engaged with company management to assess how the company would improve Board diversity from 29% to 33% female representation. Subsequent to the engagement efforts, the company announced the appointment of two female Independent Non-Executive Directors with effect from 1 January 2022. One of the females has an ethnic minority background. These changes led to female representation on the Board increasing from 29% to 44%.

Proxy voting activities

As the appointed investment manager of funds that invest in publicly listed companies, Mercer IS has the right to vote at shareholder meetings on behalf of unitholders in these 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.

Use of proxy advisors

Mercer accepts that managers may have detailed knowledge of both the governance and the operations of investee companies 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.

The majority of managers use a proxy advisor for vote execution and vote recommendations, with a number of managers leveraging research from multiple advisors. While proxy advice can be a valuable input into the voting decision-making process, we do caution manager's placing full reliance on proxy advisors' recommendations. For this reason we request that managers provide us with guidance on the % of votes against their proxy advisor.

Figure 34: Use of proxy advisors

89% of equity strategies use a proxy advisor

86% cited the use of ISS, 39% the use of Glass Lewis and 19% reference other providers, with a number of strategies citing the use of multiple providers

Figure 35: % of votes against proxy advisor during the reporting period

Disclosure

Mercer IS monitors the voting activities of appointed equity managers and provides quarterly reporting to clients. Mercer IS uses a third party provider who provides aggregated reporting of voting activities carried out on Mercer IS's behalf by appointed managers.

In order to provide more information on how proxy votes are exercised within the Mercer IS multi-client funds, a Proxy Voting Search site has been enabled, which is updated every six months, which discloses proxy votes over the prior six-month period.

We similarly encourage managers to be transparent with their voting activities through public disclosure of voting activities, and will seek to engage with those where transparency can be improved.

Figure 36: Transparency around voting activities

78% of equity strategies **publicly disclose** voting activities

75% of equity strategies **publicly disclose voting rationale** where they have voted against a resolution

2022 Proxy voting highlights

The statistics below represent the aggregated results of voting activities across all segregated mandates, with voting rights attached, which are managed on behalf of Mercer IS by its appointed managers. Fund specific statistics are available to investors in multi-client and bespoke funds on request.

Meeting Statistics[8]

Meetings Available to Vote at	Meetings Voted at	Meetings with at least 1 vote against management
13,300	98.9%	70.2%

Number of companies:	Number of countries*:
9,500	79

*Relating to country of security origin

Proposal Statistics[9]

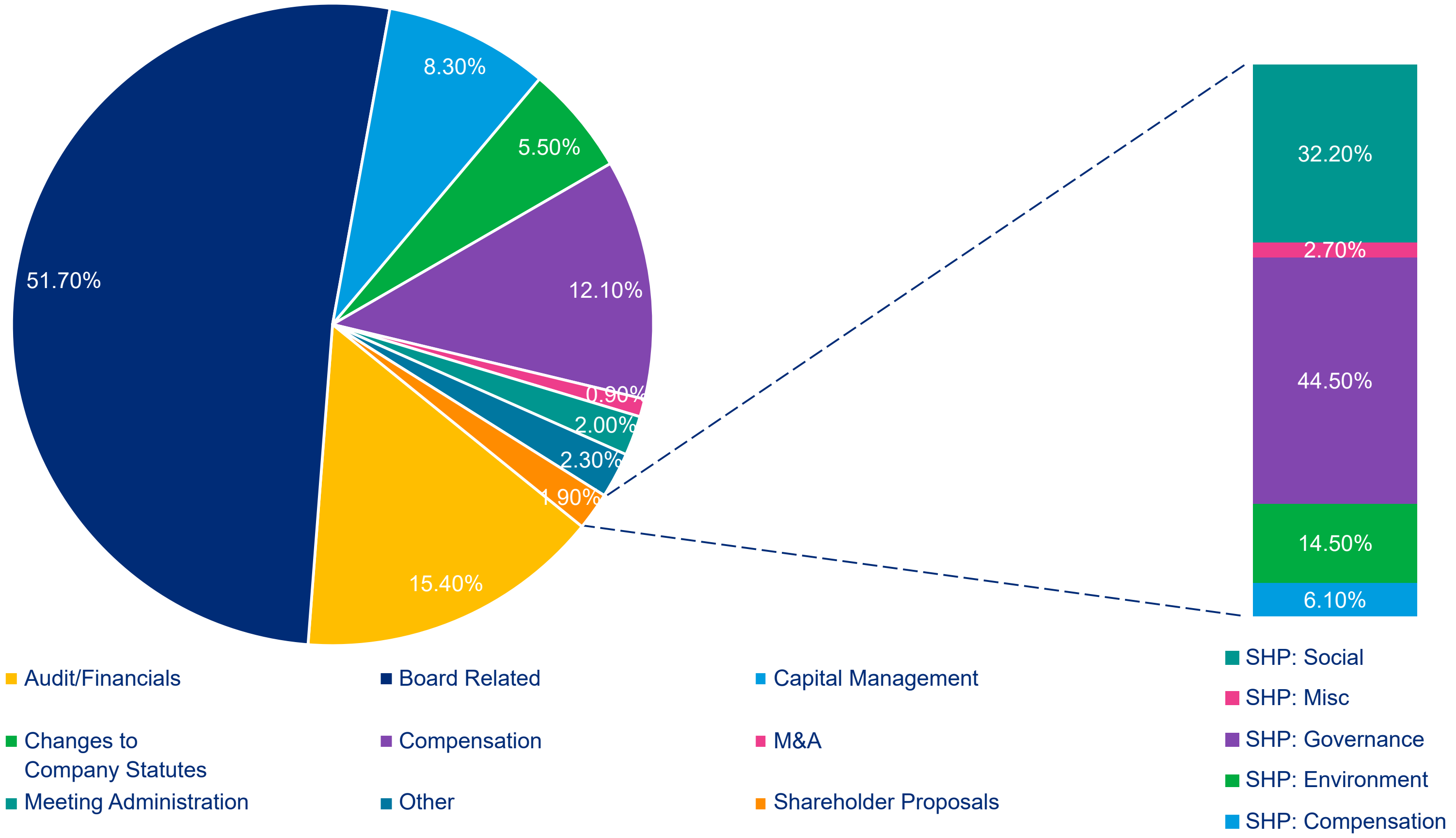
Managers vote on the majority of proposals by declaring whether they are in favour ("FOR") or against ("AGAINST") the proposal. A small number of votes relate to frequency decisions, for example say-on-pay, where managers select a time-period as opposed to voting For or Against the proposal. Managers are also able to abstain from voting ("ABSTAIN") on proposals, for example where conflicts of interests exist. In instances where a manager has not voted on, or declared abstention for a proposal of which they are eligible to vote on, these proposals are considered unvoted. Over 2022, managers ultimately voted on 97% of the proposals of which they were eligible to vote on, abstained from 1% and left 2% unvoted. In some cases, unvoted proposals relate to power of attorney (POA) markets[10] and share-blocking markets[11] and while the expectation is that managers will have POAs in place and vote in share-blocking markets, we accept that a cost/benefit view may be taken on smaller markets and in some share-blocking markets, not all votes will be cast.

Proposals Available to Vote on	Proposals Voted on
566,800	97.0%
% Management Proposals	**% Shareholder Proposals**
98.1%	1.9%
Proposals Voted Against Management's Recommendation	**Shareholder Proposals Supported**
16.0%	54.3%

[8]Meeting and no. of company statistics have been rounded to the nearest 100, where relevant
[9]Proposal statistics have been rounded to the nearest 100, where relevant
[10]There are some international markets where voting may only be carried out by an individual attending the meeting in person.
[11]There are some markets that place regulatory barriers to voting, usually in the form of limitations on trading of shares if a vote is enacted.

Proposals by Vote Decision

82.7%	15.9%	1.3%
For	Against	Abstain



Most Significant Votes

Significant votes are identified by using our Global Engagement Priority themes, which are supported by our Beliefs, Materiality and Influence (BMI) Framework. These significant votes focus on shareholder resolutions relating to priority engagement themes, while taking into account the size of holding across funds and controversial proposals.

As part of our oversight of managers' voting activity, we follow-up on key significant votes with requests for additional disclosure such as rationale for voting decisions. As well as supporting clients in meeting their regulatory reporting requirements through additional disclosure, this two-way engagement also allows us to understand the policies and processes supporting managers' voting activity and wider engagement efforts across portfolios.

Most significant votes for 2022

Category	Issuer	Proposal	Decision	Rationale	Outcome
Human Rights and Labour Practices	Amazon	Shareholder Proposal Regarding Report on Freedom of Association	For	Managers supported the proposal given that the company is facing ongoing controversy with respect to its warehouse operations and suppliers. There has also been concern around the company's recently enacted Human Rights Commitment, Policy and Practice: Freedom of Association and Collective Bargaining statement, in that it provides insufficient disclosure. Managers ultimately felt shareholders would benefit from increased disclosure and transparency to assess how the company is managing human rights-related risks, especially regarding freedom of association issues in its warehouse operations in the U.S. and abroad and that shareholders would benefit from increased disclosure with regard to freedom of association restrictions in high-risk sourcing countries.	Did not pass (39% For)
	Johnson & Johnson	Shareholder Proposal Regarding Report on Access to Covid-19 Products	For	While acknowledging the company does provide some disclosure around its pricing of the COVID-19 vaccine, the manager felt the company fell short regarding transparency on how it has taken public funding for the development of Covid-19 products into account in its pricing and other access decisions so far, as well as how this will be taken into account in future.	Did not pass (33% For)
	Apple	Shareholder Proposal Regarding Report on Effectiveness of Supply Chain Policies on Forced Labour	For	Managers supported this proposal as they agreed that increased transparency on the company's supply chain policies and processes could help alleviate growing risks related to manufacturing in certain regions.	Did not pass (33% For)
	Pfizer	Shareholder Proposal Regarding Public Health Costs of Limiting Covid-19 Vaccine Technologies	For	Managers supported this proposal given they felt shareholders would benefit from more detailed and comprehensive disclosure about how the company plans to address the risks associated with the limited sharing of vaccine technology, particularly given growing health concerns. Managers further noted the ongoing negotiations at the WTO may also affect the company's IP for Covid-19 vaccines and other treatments, which the company itself has identified as a risk. The company has faced increasing scrutiny over vaccine access and the company's negotiations with countries over its Covid-19 vaccine. Moreover, given the company's current disclosure the requested report should not be unduly burdensome or overly costly for the company to produce.	Did not pass (9% For)
	Mastercard	Shareholder Proposal Regarding Report on Untraceable Firearms	For	Managers supported this proposal given the forthcoming regulatory change regarding this subject matter, and they felt it is reasonable for the company to furnish the report.	Did not pass (10% For)

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Environment	Microsoft	Shareholder Proposal Regarding Managing Climate Risk in Employee Retirement Options	Split	Managers who voted against the proposal felt this was not a material risk for the company given the current investment options available to employees. They were generally concerned that additional reporting on the company's retirement plan options in the manner suggested by this proposal were unlikely to be a prudent use of company resources. Managers who voted for this proposal were generally supportive of better disclosure, but also felt the success of this proposal would help support the ongoing dialogue between employees and management around long-term climate risk. While the proposal did not pass, it earned an 11% vote in favour, achieving the threshold needed to continue dialog with the company and to resubmit the resolution next year, if necessary.	Did not pass (11% For)
	Aena S.M.E.	Management Proposal Regarding Approval of Climate Action Plan	Against	While the proposal of a climate action plan is a step in the right direction, the manager did not support it as they believed there was insufficient information for shareholders to provide an opinion on the current approach to addressing climate action. The manager also voted against the remuneration report due to equally insufficient information around targets and lack of alignment in incentive structure.	Passed (94% For)
	Charter Communi-cation	Shareholder Proposal Regarding Climate Report	For	Managers supported this proposal as they felt additional information on the company’s GHG emission reduction goals alignment with the Paris Agreement goals, would allow shareholders to better assess how the company is mitigating climate change related risks.	Did not pass (37% For)
	Standard Bank	Shareholder Proposals Regarding 1) GHG Reduction Targets, and 2) Disclosure of GHG Reduction targets	For	Managers supported these proposals as they felt there are benefits to progressive disclosure on the company's financed emissions and climate strategy, noting that the company putting the proposals to a vote is a positive development.	Passed (Both 99% For)
	Sketchers	Shareholder Proposal Regarding Report on GHG Targets & Paris Agreement Alignment	For	The manager supported this proposal, noting that the company lacks meaningful targets, strategy and actions in regards to climate change.	Passed (75% For)

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Environment	Electric Power Develop-ment	Shareholder Proposal Regarding Aligning Business Strategy to the Paris Agreement	For	The manager felt that in light of the company's already high GHG emissions and the lack of a concrete plan to retire old coal power facilities, it was in shareholders' interest to better understand how the company intends to remain viable in the long term, with the help of critical climate information, which would be ensured with the proposed change. The manager also felt that the proposed contents of the proposal did not appear to be unduly burdensome or overly prescriptive and therefore supported this proposal.	Did not pass (26% For)
	Total Energies SE	Management Proposal Regarding Opinion on 2022 Sustainability and Climate Progress Report	For	Managers supported this proposal, however noted it is not without any concerns for shareholders given that the report announced increased productions and new production sites. Managers noted the following points as rationale for their support: • The company committed to reduce by 30 percent scope 3 GHG emissions from oil production by 2030; • The company pursues investments in alternative sources of energy and Carbon Capture & Storage (CCS) technology; • The company committed to disclose absolute targets for GHG emissions covering all activities, the evolution of the energy mix and targeted production volumes, the potential contribution of CCS technology, and the work of assessment carried out by an independent third party; • The company committed to propose a shareholders' vote at each AGM addressing its sustainable and climate report and progress.	Passed (89% For)
	Rio Tinto	Management Proposal Regarding Approval of Climate Action Plan	Against	Managers voted against company management’s climate action plan as they felt the company can do more to address its lifecycle emissions, including setting ambitious medium and long-term scope 3 targets. They encouraged Rio Tinto to lead the mining and minerals industry by setting stretching scope 3 emissions reduction targets.	Passed (82% For)
	Standard Chartered	Management Proposal Regarding Endorsement of Pathway to Net Zero	For	Following engagement with company management on a climate transition plan, the company put forward a net zero plan at the AGM. The manager was satisfied this met expectations and voted in favour of it.	Passed (83% For)
		Shareholder Proposal Regarding Fossil Fuel Financing	Against	At the same AGM in which the net zero plan was put forward by management, a shareholder proposal regarding more transparency on fossil fuel financing was put forward simultaneously, which the manager did not support.	Did not pass (12 % For)

Category	Issuer	Proposal	Decision	Rationale	Outcome
Diversity	Alphabet	Shareholder Proposal Regarding Report on Board Diversity	Split	Managers who voted against this proposal noted the board’s Nominating and Corporate Governance Committee states a commitment to diversity in hiring board members. They therefore felt the company is not significantly lagging its peers in board diversity, and it provides sufficient disclosure on board diversity data. Managers who voted for the proposal felt that while the company's current disclosure and efforts to promote board diversity are commendable, additional information on the company's board diversification efforts would aid investors in determining if the company is taking appropriate measures to ensure minority candidates are included among prospective board nominees. Improved board diversity would bring the company in line with an increasing proportion of other companies that have committed to board inclusiveness and aid in attracting employees, creating goodwill with consumers, and competing in the increasingly global marketplace, ultimately benefitting long-term shareholder value.	Did not pass (5% For)
	NextEra Energy	Shareholder Proposals Regarding 1) Disclosure of Board Diversity and Skills, and 2) Employee Diversity Data Reporting	For	The manager supported both shareholder proposals regarding diversity as they believe: • A well governed and diverse board is more likely to perform over the long term; • Having to disclose additional diversity data in their reporting may lead to reduced inequality.	Did not pass (25% For)
	Prologis	Management Proposal Regarding the Election of Executive Committee Members	Against	The manager expects companies to separate the roles of Chair and CEO due to risk management and oversight. The manager also notes that the company has an all-male Executive Committee and expects a board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background. Given this, the manager voted against resolutions relating to a joint CEO/chair role, diversity, and independence.	Passed (85% For)
	Badger Meter	Shareholder Proposal Regarding Board Diversity Report	For	While the manager acknowledged the company's progress towards on-going and long-term board diversification efforts, the manager also felt the request for additional reporting was reasonable, and would enable shareholders to have a better understanding of the company's approach.	Did not pass (25% For)

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