

'sustainability-related disclosures'

mercero short duration global bond fund 1

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welcome to brighter



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1. Summary

The product is a fund-of-funds product across fixed income funds. Mercer Investment Solutions Europe (ISE) chooses sub-product managers that are considered best-in-class in their responsiveness to sustainability risks, as well as opportunities. Sub-products also present strong stewardship processes and adherence to good governance standards.

The product seeks to promote environmental and social characteristics within the meaning of Article 8 of the SFDR by primarily investing in global bonds and fixed income securities.

2. No sustainable investment objective

This product promotes environmental or social characteristics as discussed below in more detail. While the product does not have sustainable investment as its objective, it may invest partially in some sustainable investments.

The product takes into account principal adverse impacts on sustainability factors and will disclose its adverse impact in line with Mercer ISE's Principal Adverse Impact statement. Monitoring and identification of the adverse impact together with exclusionary safeguards outlined in this document (see Exclusions section) contribute to the reduction of harm from the product.

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

3. Environmental and social characteristics of the financial product

1. The product uses a measurement framework to evaluate and score companies based on their alignment with and contribution to the United Nations Sustainable Development Goals.
2. The product promotes environmental or social characteristics by considering principal adverse impacts on sustainability factors.
3. A number of exclusions are applied to further promote environmental and social sustainability characteristics and set safeguards on environmental and social elements promoted by this product.

4. Investment strategy

The product uses a measurement framework to evaluate and score companies based on their alignment with and contribution to the United Nations Sustainable Development Goals.

The sustainable investment characteristics are achieved by allocating to sub-investment manager(s) who seek to invest in companies whose business models and practices align to the 17 SDG targets to promote sustainable development and sustainable characteristics. This is done by investing in the corporate debt of companies with a positive or neutral SDG score and excluding investments in companies with a negative contribution to the SDGs.

5. Methodology

The SDG scores are based on a proprietary SDG rating methodology that build on a SDG framework model. The methodology assigns SDG scores to all securities ranging from highly negative -3 to highly positive +3 to assess a securities contribution to SDGs. Investments in the corporate debt of companies with a positive or neutral SDG score are made with investments in companies with a negative contribution to the SDGs excluded.

Third party data from various sources is analysed and evaluated to obtain an SDG score that measures a company's contribution to the SDGs. These SDG scores reflect whether the contribution is positive, neutral or negative); whether the contribution is high, medium or low and whether the company is party to any legal disputes or controversies.

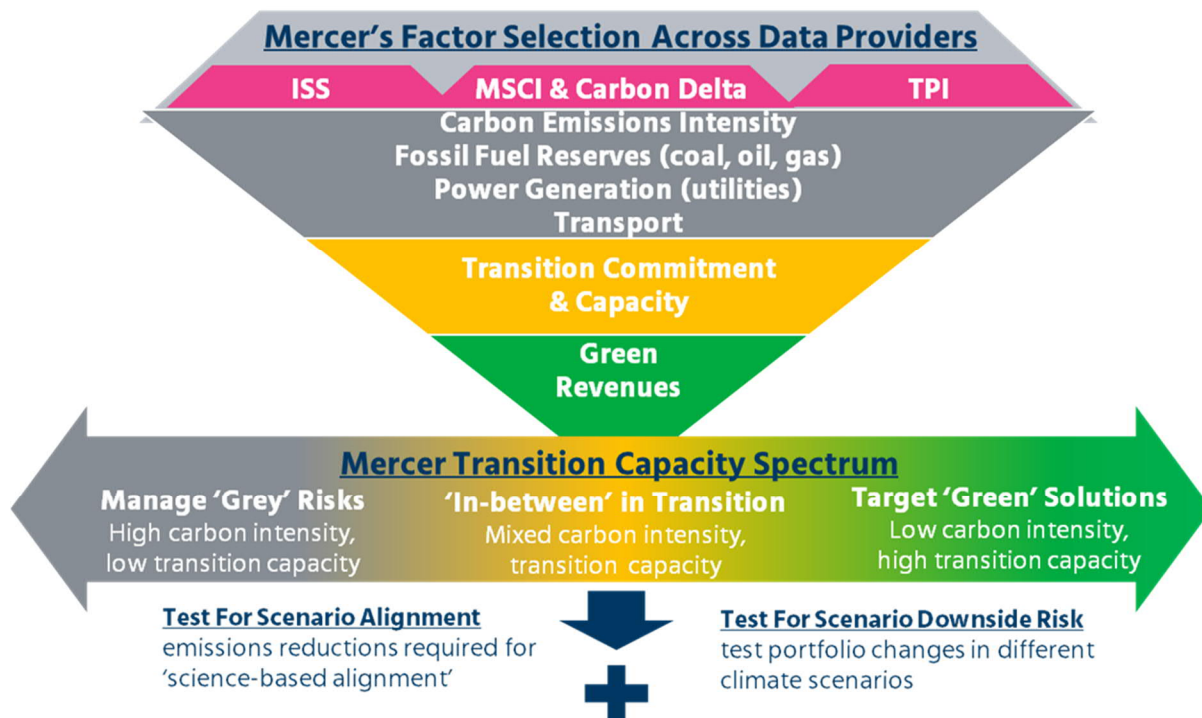
The product is analysed and monitored to assess how sub-managers promote environmental characteristics

In 2020, Mercer launched the [Analytics for Climate Transition \(ACT\)](#) framework and tool, which undertakes specific analysis into the low-carbon transition. The tool and insights from the framework will be used to analyse the product for its promotion of environmental characteristics.

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

Companies and securities are analysed in a bottom-up manner, with individual company/security transition capacity scores assigned, allowing for each company or security to be categorised into seven classes of transition capacity from dark grey to dark green.

Mercer’s Analytics for Climate Transition (ACT) framework



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

The reasons to exclude certain securities are a combination of a number of factors contributing to environmental and social characteristics that make continued exposure to these securities untenable.

The fund excludes companies on the basis of controversial behavior and controversial products.

Exclusions criteria	
International Law and Human Rights	Companies that contribute to serious violations of international law.
Environmental Damage	Companies involved in activities that cause serious environmental damage.
Corruption and Financial Crime	Companies that are involved in grand corruption.

Recreational Cannabis	Companies involved in the sale of cannabis products for recreational use, or components exclusively designed for such products, exceeds 5 percent of total sales.
Controversial Weapons	Companies directly involved in the development and production (manufacture), sale or distribution of cluster munitions; anti-personnel mines; and biological, chemical and nuclear weapons.
Civilian Firearms	(Semi-) Automatic civilian firearms manufacturers and retailers
Coal	Companies with more than 5 percent of their revenue from coal-related activities.
Palm Oil	Companies that are involved in severe and/or systematic unsustainable palm oil production.
Tobacco companies	Producers and companies with more than 50% of revenue from tobacco-related business activities.

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

The choice of best in class sub products specializing in responsible investment and sustainability ensures the managers who run such mandates are experts in assessing good governance.

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

ESG integration in the four-factor framework	
Idea Generation	Approach taken by the Sub-Investment Manager to identify ESG risks and opportunities at the strategy level, including reference to how ideas are sourced, how materiality is determined and how these are incorporated into financial analysis
Portfolio Construction	The effectiveness of the Sub-Investment Manager in translating ESG views into active positions in the strategy

Implementation (Stewardship)	The extent to which the Sub-Investment Manager engages on ESG topics at the strategy level, including impact of engagements leading to changes in strategy positioning and/or the investment horizon and evidence of any efforts made by the Sub-Investment Manager to minimize portfolio turnover
Business Management (Firm-wide commitment)	The extent to which the business leaders of Sub-Investment Manager’s understand and support responsible investing and integrate across the business and evidence that firm-wide beliefs, policies and sustainability strategies are in place

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

In addition, Mercer ISE monitors high-severity breaches of the United Nations’ Global Compact (UNGC) Principles that relate to human rights, environmental and corruption issues. The sub-product managers are required on a semi-annual basis to review holdings in breach of these principles, as identified by the external ESG research provider Mercer appoints. In response to identified breaches, Mercer ISE will engage with the sub-product managers owning those companies and seek their views on the risk, return and reputation implications as well as engagement insights on the issue.

Mercer ISE monitors stewardship for the Product by receiving periodic disclosures from sub-product managers, as well as through Mercer ISE annual manager engagement survey. The engagement survey to capture manager’s approaches to engagement and includes a specific focus on the governance and approach adopted towards themes outlined in Mercer ISE’s Global Engagement Priorities. The survey also captures summary reporting on engagement activities. These manager disclosures are used as a basis for engaging with sub-investment managers to promote good governance and engagement approaches over time. Mercer ISE also monitors sub-product manager practices against the principles of the UK Stewardship Code.

Sustainability risk impact on returns at the aggregate Mercer product level

As outlined in [Mercer Investment Beliefs](#) and as further defined by SFDR, environmental, social and governance events or conditions that may occur can have an actual or potential material negative impact on the value of investments the product holds.

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

To mitigate climate change risk Mercer has produced extensive research on climate change and climate transition risk. This research both guides the high beliefs on the importance of sustainability risk, as well as help to inform sub-product selection decisions.

To mitigate impact of environmental, social and governance risks, the product only invests in sub-investment managers that apply integration of material environmental, social and governance issues in investment decision making. The product itself through its sub-investment managers applies exclusions based on UN Global Compact and OECD screening on environmental, social and governance issues and engages with companies on environmental, social and governance issues. These measures significantly reduce the asset level environmental, social and governance risk for the product.

6. Proportion of investments

As a product focusing on promoting SDGs the product is responsive to sustainability risks and opportunities. Given this, the opportunity set includes sustainable investments and the product may partially invests in these. The product may have sub-investment managers appointed that will be categorized as Article 9 products adhering to related SFDR regulatory requirements.

Qualified sustainable Investments: Mercer ISE monitors and reports the proportion of qualifying sustainable investments based on the information it receives from Article 9 sub-products. The early stage of the SFDR implementation and the consequent time-lag before Article 9 sub-product managers begin to disclose their proportion of sustainable investments the aggregate fund-of-funds minimum level for such investments can only be disclosed in product's first periodic disclosures.

Investments aligned with sustainability characteristics: The proportion of investments aligned with environmental and social characteristic but not sustainable investments is unknown prior to 10 March 2021 when all sub-investment managers have not made their SFDR Article final designations. Mercer ISE will in periodic reporting outline the proportion of investments in the category and accordingly quantify other investments.

7. Monitoring of environmental and social characteristics and data sources

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

The sub-product manager uses a proprietary SDG framework and their own in-house analysis but supplements with data from third party ESG data providers.

Sustainability indicators	Data sources	Link to environmental and/or social characteristic
SDG score	Robecco	SDG alignment
Company ESG ratings	MSCI	Good governance, Adverse impact
Environmental		
Greenhouse gas emissions (Scope 1,2)	MSCI	Adverse impact, SDG alignment
GHG intensity of investee companies (Scope 1,2)	MSCI	Adverse impact, SDG alignment
Exposure to companies with fossil fuel reserves	MSCI	Adverse impact, SDG alignment
Power Generation Carbon Intensity	MSCI	Adverse impact, SDG alignment
Renewable Energy Generation	MSCI	Adverse impact, SDG alignment
Clean transport infrastructure	MSCI	Adverse impact, SDG alignment
Low carbon transition management	MSCI	Adverse impact, SDG alignment
Warming Potential	Carbon Delta	Adverse impact,
Climate VaR	Carbon Delta	Adverse impact
Green Revenues	ISS	Adverse impact, SDG alignment
Carbon transition scores	Mercer ACT tool	Adverse impact, SDG alignment
Exclusion screens (Fossil fuels, palm oil)	ISS / Sustainalytics	Adverse impact, SDG alignment
Social		
Violations of UNGC principles and OECD guidelines	ISS / Sustainalytics	Good governance, adverse impact, SDG alignment
Exclusion screens (Controversial weapons, military contracting, tobacco, alcohol, gambling, adult entertainment)	ISS / Sustainalytics	Adverse impact, SDG contribution

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

As part of the investment monitoring process, sustainability indicators are analysed at a sub-product and product level using ESG data from different data providers. Sustainability related-metrics are analysed at a sub-product and product level.

The ACT analysis will be performed on at least an annual basis to assist with monitoring the product's promotion of environmental characteristics.

Underlying sub-product ESG Ratings are regularly reviewed including during quarterly monitoring by the portfolio management teams with a more comprehensive review performed annually.

Limitations to methodologies and data

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

Monitoring exclusions

Exclusions monitoring forms part of the Investment Management Agreements with the sub-investment managers and is monitored by Mercer ISE's custodian. Any exceptions identified are investigated by Mercer.

8. Engagement policies

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

Assessment and measurement

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

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

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