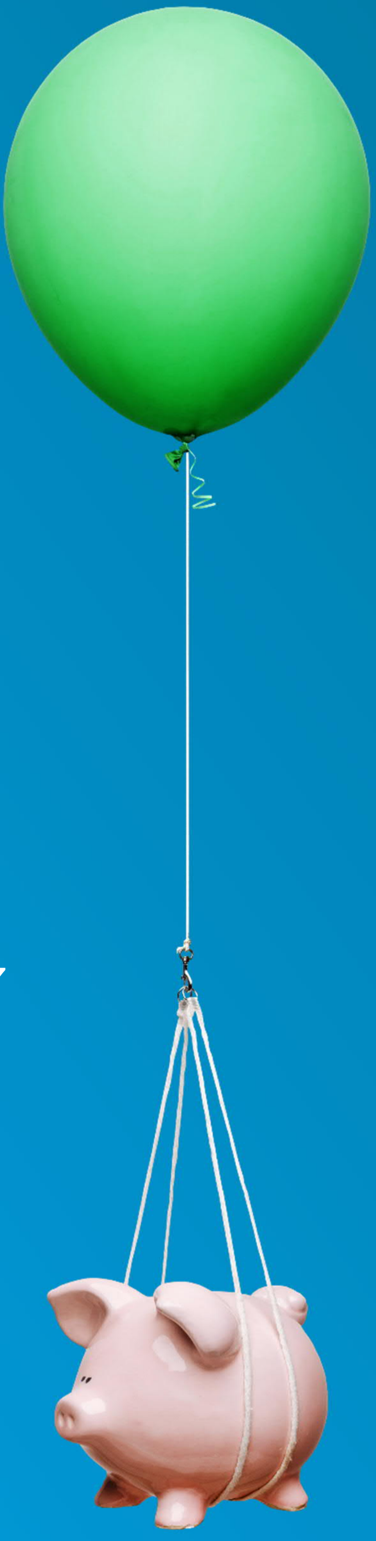
MERCER

‘sustainability-related disclosures’

# mercer sustainable global equity fund



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# Contents

# 1. Summary

The product is a multi-manager fund. 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. Environmental considerations for the product may broadly include greenhouse gas reduction, increased allocation to renewable energy investments, waste reduction, clean water provision, biodiversity and / or the circular economy. Social considerations may include the reduction of inequality, encouraging social cohesion, promoting fair labour practices and making investments in human capital or socially disadvantaged communities.

# 2. No sustainable investment objective

The 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 is a multi-manager fund. Mercer ISE chooses sub-investment managers that are considered best-in-class in their responsiveness to sustainability risks, as well as opportunities. The opportunity set available to sub investment-managers consists of sustainable investments. A number of sub-investment managers appointed will be categorized as Article 9 products under the Sustainable Finance Disclosure Regulations (SFDR). Mercer ISE will monitor and report on the proportion of sustainable investments as required under the SFDR.

Directly linked to the proportion of sustainable investments held in sub-products, Mercer ISE will summarize and monitor Article 9 sub-product periodic reporting on “Do No Significantly Harm” (DNSH) due diligence and processes. Information will be made available to Mercer ISE clients in periodic disclosures.

Linked to DNSH recognition and mitigation, 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 adverse impacts together with exclusionary safeguards outlined in this document (for example negative impacts on SDGs 12, 13, 14 and 15) 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 promotes sustainability by selecting sub-investment manager strategies from a limited best-in-class universe.
2. The product promotes sustainability by bringing sustainability aligned and sustainable investments within the reach of a broader asset owner audience and by encouraging growth and innovation in the sustainable investment management industry.
3. The product promotes environmental and social characteristics by considering principal adverse impacts on sustainability factors.

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 promotes environmental and social characteristics by limiting the selection of sub-investment managers to those strategies considered best-in-class, which are responsive to ESG risks and as well as opportunities, and those with strong stewardship processes.

This is achieved by only investing in sub-investment manager strategies that receive the highest (ESG1) or second highest (ESG2) ESG rating by Mercer's Global Manager Research team. The population of ESG1 and ESG2 strategies across all asset classes currently includes 21% of all products (+4500) rated according to Mercer's proprietary ESG rating methodology. The rating scale, used globally within Mercer, reaches down to ESG4 (ESG3, ESG4).

**Mercer ESG rating scale – active strategies**

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

 

# 5. Methodology

Mercer's proprietary ESG rating process precedes the SFDR by over a decade and has been used by the industry as a proxy for consideration of ESG risks and promotion of sustainability. ESG1 rated strategies (3% of all equity strategies rated as at December 2020) are, in main, assigned to active thematic and best-in-class sustainability strategies (for example investments targeting exposures in water, renewables, waste reduction, biodiversity, circular economy, social impact and community investments). ESG2 rated strategies (25% of all equity strategies rated as at December 2020) build on strong sustainability credentials (environmental considerations may for example include greenhouse gas reduction and social considerations include the promotion of fair labour practices, reduction in modern slavery, good governance, equality and avoidance of controversies) achieved predominantly through exclusionary and best-in-class methods.

Mercer's ESG ratings represents Mercer ISE's view of the sub-investment manager's capabilities across a four-factor framework: Idea Generation, Portfolio Construction, Implementation (Stewardship) and Business Management (Firm-wide commitment) highlighted below, with ESG 1 and ESG 2 ratings defined thereafter.

| **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 are ideas 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 make to minimize portfolio turnover |
| Business Management (Firm-wide commitment) | The extent to which the business leaders of the sub-investment managers understand and support responsible investing and integrate these across the business and evidence of firm-wide beliefs, policies and sustainability strategies in place |

| ESG ratings definitions | |
|---|---|
| ESG 1 | ESG factors are **embedded into the investment philosophy** of the strategy; this may drive idea generation and is a key part of the value-add process, with consistent integration across the four factors (idea generation, portfolio construction, implementation (stewardship) and business management). Sub-Investment Managers tend to be acutely aware of sustainability and other ESG risks and opportunities and **stewardship (good governance)** is a core part of the strategy with a strong approach to engagement and voting. |
| ESG 2 | ESG factors do not necessarily drive the idea generation process but are a consistent part of the research analysis, with a focus on sustainability risk in the investment decision-making process. Sub-Investment Manager's will typically have a strong focus on governance issues and are relatively progressed on environmental and/or social issues. There is an element of Sub-Investment Manager's taking into account the materiality and time-frame of some of these issues and their impact on underlying holdings. In addition, stewardship activities at the portfolio level are well-developed across voting and engagement. |

Under the SFDR the expectation is that several, if not the majority of ESG1 rated strategies will acquire Article 9 status and ESG2 rated strategies will likely have a very high distribution of Article 8 strategies. Mercer will monitor and report on this distribution. The product, through its exposure to only ESG1 and ESG2 rated strategies, is hence considered to be responsive to sustainability risks and promotes a broad range of environmental and social characteristics. The product also participates in sustainable investment opportunities as outlined in Section 3 above. Sustainability characteristics and strong stewardship processes are promoted at each sub-investment manager level and at the aggregate level in the product. Stewardship is an explicit part of the rating for each strategy.

**The product promotes sustainability by bringing sustainability aligned - and sustainable investments within the reach of a broader asset owner audience and by encouraging growth and innovation in the sustainable investment management industry.**

The product is a multi-manager strategy and as an aggregator of investments it promotes sustainability through its commitment to only allocate to best-in-class products (i.e. ESG1 and ESG2 rated strategies as discussed above). Above its promotion of sustainability characteristics, the allocation to best-in-class products encourages the development of the specialist sustainable investment management industry, in line with EU Commission Action Plan on Financing Sustainable Growth. The product brings sustainability aligned investments within the reach of a broader asset owner audience, supporting capital allocation to promote sustainability.

 

**A number of exclusions are applied to further promote other environmental and social sustainability characteristics and set safeguards to obtain 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. Factors include Mercer investment beliefs, sustainability risk management, expected social and environmental impact, public policy alignment and investor expectations, as well as expected impact on portfolio returns (more detailed methodology is outlined in the methodology section of this document).

Mercer ISE relies on a third party provider of ESG Research in determining the individual companies to be considered for exclusion based on the decisions made under the Mercer exclusion methodology criteria. The sub-investment managers are informed on a semi-annual basis of any new names to be considered for exclusion.

| Exclusion Criteria | |
|---|---|
| Adult Entertainment | Producers and companies with more than 50% of revenue from adult entertainment-related business activities. |
| Alcohol | Producers and companies with more than 50% of revenue from alcohol-related business activities. |
| 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 |
| Fossil Fuels | Companies with more than 5% of revenue from Fossil Fuels and companies with more than 1% of revenue from coal mining and power generation. Companies on the ISS Coal top 100 list- based on the size of company reserves. |
| Gambling | Producers and companies with more than 50% of revenue from gambling-related business activities |
| Tobacco companies | Producers and companies with more than 50% of revenue from tobacco-related business activities. |

| | |
|---|---|
| Norm-Based (UN Global Compact) | Companies with verified failure to respect established norms as well as severe or very severe controversies |
| Environmental | Significant negative impact on Sustainable Development Goals such as:<br>• SDG 12: Responsible Consumption and Production<br>• SDG 13: Climate Action<br>• SDG 14: Life Below Water<br>• SDG 15: Life on Land |

The nature of the best-in-class investment processes of sub-products, most aligned with promotion of environmental and social characteristics, lead them to avoid investment in activities and securities that do not adhere to norms and conventions and present sustainability risks. Such processes more often positively screen sectors and securities that promote sustainability characteristics. In addition the Do No Significant Harm principle is considered where Article 9 status of sub-products requires this.

This product takes into account principal adverse impacts on sustainability factors and will monitor and disclose its adverse impacts in line with the Mercer ISE Principal Adverse Impact statement.

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

The choice of best-in-class sub-products (i.e.ESG1 and ESG2 rated) specialising in responsible investment and sustainability ensures the sub-investment managers who run such mandates are experts in assessing good governance across their investments. Mercer ISE makes information available that explains the process applied by these managers.

The product uses UNGC violations and controversy screening to identify companies deemed to be in breach of United Nations Global Compact principles and excludes such companies from the investment universe. Companies deemed to be in breach of United Nations Global Compact principles and companies considered as having a significant negative impact on the United Nations Sustainable Development Goals, such as sustainable consumption and production, climate action, life on water and life on land, are excluded (please refer to Exclusions section above).

Mercer ISE monitors stewardship explicitly for the product by receiving periodic disclosures from sub-investment managers, as well as through Mercer ISE's annual manager engagement survey. The engagement survey captures sub-investment manager's approaches to voting and engagement and includes a specific focus on the governance and general approach adopted towards themes outlined in Mercer ISE's Global Engagement Priorities. The survey also captures disclosure of significant votes, the services of proxy advisors and summary reporting on engagement activities. These sub-investment manager disclosures are used as a basis for engaging with sub-investment managers to promote good governance and enhancing the 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**

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 for investment aggregators and asset owners. This research both guides the 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 allocates to sub-managers that apply integration of material environmental, social and governance issues in investment decision making. The product itself through its sub-managers applies exclusions based on UN Global Compact and OECD screening on environmental, social and governance issues (full list of exclusion in the monitoring section), and engagement 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

The product is a multi-manager fund. Mercer ISE chooses sub-product managers that are considered best-in-class in their responsiveness to sustainability risks, as well as opportunities (i.e.ESG1 and ESG2 rated).

Sustainability characteristics are promoted at each sub-product level and at the aggregate level in the product. As a multi-manager product focusing on best-in-class managers responsive to sustainability risks and transition opportunities the opportunity set will includes sustainable investments and the product will partially invest in these, which will be categorized as Article 9 under the SFDR.

 

**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 the full remaining allocation. The best-in-class strategy applied and the extensive exclusionary screen fulfil the product aim to hold only investments which are aligned with the environmental or social characteristics of the product, or are qualified as sustainable investments.

Disclosures relating to the monitoring of Article 9 sub-product reporting on Do Not Significant Harm due diligence, relating to the proportion of sustainable investments held, will also be made.

# 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:**

| Environmental | Data sources | Link to environmental and/or social characteristic |
|---|---|---|
| Greenhouse gas emissions (Scope 1,2) | MSCI | Adverse impact |
| GHG intensity of investee companies | MSCI | Adverse impact |
| Exposure to companies with fossil fuel reserves | MSCI | Adverse impact |
| Power Generation Carbon Intensity | MSCI | Adverse impact |
| Renewable Energy Generation | MSCI | Adverse impact |
| Clean transport infrastructure | MSCI | Adverse impact |
| Low carbon transition management | MSCI | Adverse impact |
| Warming Potential | Carbon Delta | Adverse impact |

| | | |
|---|---|---|
| Climate VaR | Carbon Delta | Adverse impact |
| Green Revenues | ISS | Adverse impact |
| Carbon transition scores | Mercer ACT tool | Adverse impact |
| Environmental impact - SDG alignment | ISS | Adverse impact |
| Exclusion screens (Fossil fuels) | ISS | Adverse impact |
| **Social** | | |
| Violations of UNGC principles | ISS | Good governance, adverse impact |
| Board gender diversity | MSCI | Adverse impact |
| Social impact - SDG alignment | ISS | Adverse impact |
| Exclusion screens (Controversial weapons, tobacco, alcohol, adult entertainment, gambling) | ISS | Adverse impact |
| **Other** | | |
| Company ESG ratings | MSCI | Good governance |
| Sub-product ESG ratings | Mercer | Best-in-class, good governance, adverse impact |

**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 multi-manager product level using ESG data from different data providers to clean, control and unify the sub-investment managers' data to ensure consistent reporting. Data, such as company ESG ratings, and other sustainability related-metrics is analysed in monthly cycles at a sub-product and product level to assess the products promotion of environmental and social 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 daily 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-Investment Manager's 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 (see ESG ratings section above).

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.

 

# Important Notices



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

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

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

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

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

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

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