MMC UK Pension Fund

MarshMcLennan

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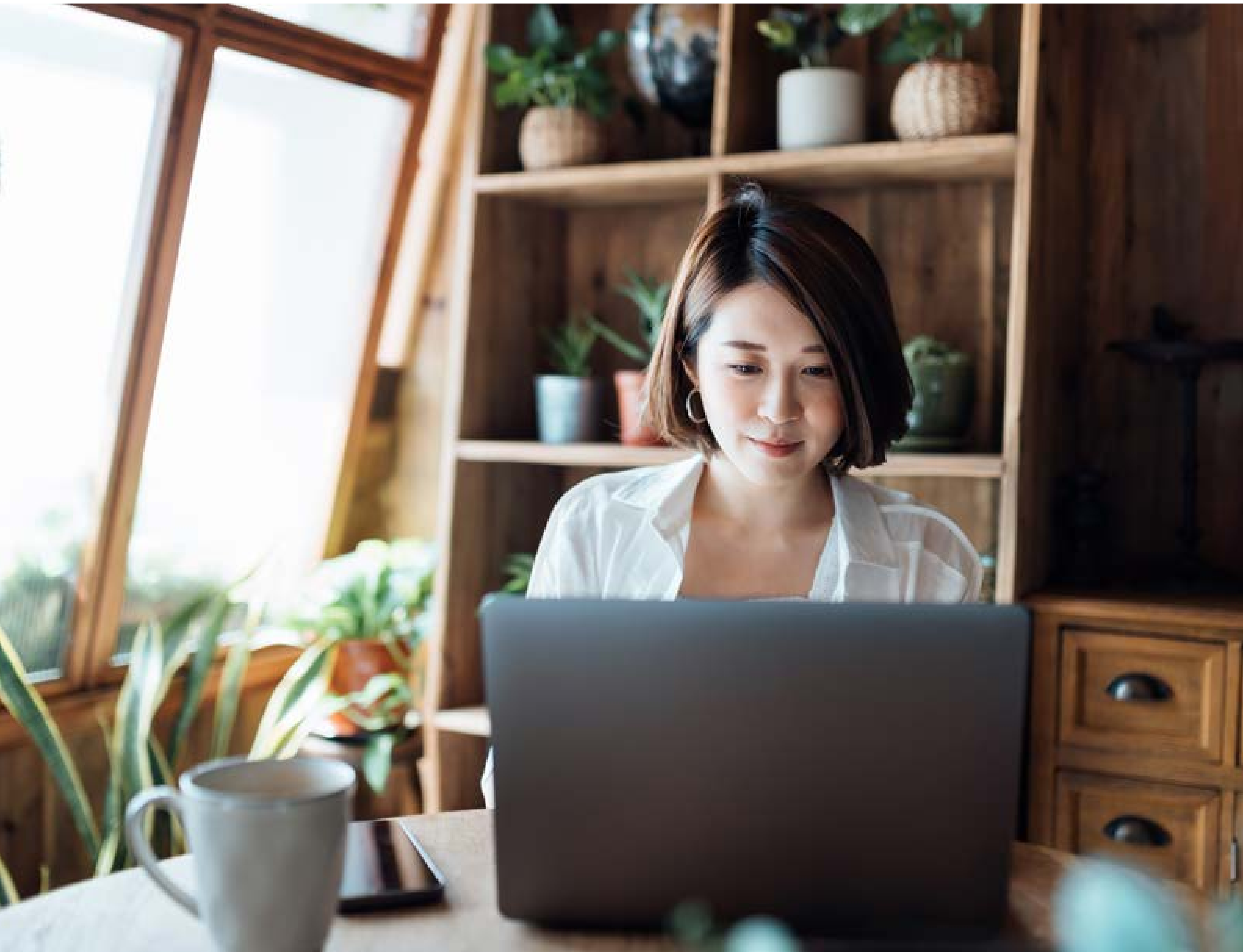
SUSTAINABLE INVESTMENT POLICY

September 2023



MMC UK PENSION FUND

This document sets out the Sustainable Investment Policy for the MMC UK Pension Fund Limited ("the Trustee") of the MMC UK Pension Fund (the "Fund").

THE TRUSTEE'S INVESTMENT BELIEFS

The Trustee believes that a sustainable investment approach is in the best interest of the Fund members and, more specifically, that:

- **Environmental Social and Governance ("ESG")** factors can have an impact on investment risk and return outcomes. The Trustee believes that having a broader perspective with regards to investment policy can improve risk management and lead to new opportunities. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.
- **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.
- **Climate change poses a systemic risk,** and as investors we should consider the potential financial impacts of both the associated transition to a low-carbon economy and the physical impacts of different climate outcomes.
- **Stewardship** (or active ownership) can create and preserve value for companies and markets as a whole. Active ownership helps the realisation of long-term shareholder value by providing investors with an opportunity to enhance the value of companies and markets through voting and engagement (stewardship).

Consequently, the Trustee believes that a sustainable investment approach that considers these risks and opportunities is in the best interest of members.

To reflect these beliefs, the Trustee maintains a Statement of Investment Principles (SIP), which details the key objectives, risks and approach to considering Environmental, Social and Governance ("ESG") factors, such as climate change, as part of its investment decision making. The document is reviewed on at least an annual basis and can be found **here**.

CLIMATE CHANGE BELIEFS

The Trustee also believes that climate change poses a systemic risk, with financial impacts driven by two key sources of change, which present both risks and opportunities to investors.

1. The physical damages expected from an increase in global temperatures; and
2. The transition to a low-carbon economy, required to mitigate the severity of physical damages.

The Trustee seeks to consider climate-related risks and opportunities alongside these other risks in a balanced and proportionate way. The Trustee does not believe that full scale divestment out of all high carbon emitting companies is appropriate in all circumstances and will continue to invest in companies where there is a sufficiently attractive investment case and the asset manager believes there is an opportunity to engage and influence change in the behaviour and actions of a company.

Climate risk is considered by the Trustee on an ongoing basis in the context of all investment risks that the Fund is exposed to and, ultimately, the Fund's primary investment objectives, which are the Trustee's foremost concern.

The Trustee integrates climate analysis insights into the investment manager selection and monitoring processes. The Trustee expects a climate change risk assessment to be integrated within an investment manager's approach to ESG and stewardship activities, as well as being an integral and well-defined part of the fund management process in funds targeting sustainability objectives and outcomes. The Trustee will continue to work with their managers to push for better climate data disclosure from the companies and assets in which the Fund invests. The Trustee's overall approach to climate-related financial risks and opportunities is consistent with the Task Force on Climate-related Financial Disclosures ("TCFD") framework. Selected investment managers are expected to make disclosures consistent with the TCFD recommendations in four areas:

GOVERNANCE, STRATEGY, RISK MANAGEMENT AND METRICS AND TARGETS.

FOUR PILLAR FRAMEWORK FOR ESG INTEGRATION

The Trustee, through its delegated arrangements with Mercer, uses the following four-pillar framework to ensure that their beliefs, as set out above, are incorporated into the Fund's investment arrangements.

1. INTEGRATION

The Trustee only uses investment managers who have processes in place to incorporate the assessment of ESG risks and opportunities in security selection and portfolio construction.

2. STEWARDSHIP

The underlying investment managers are expected to have strong processes in place for voting & engagement.

Investment managers that are signatories of the Financial Reporting Council's UK Stewardship Code are preferred.

3. INVESTMENT

For the DC Section, the Trustee uses a specific exposure to longer-term environmental and social themes / trends to improve risk management and identify new investment opportunities.

4. SCREENING

The Trustee prefers an integration and engagement-based approach but recognise that exclusions may be necessary for certain individual funds.

MONITORING ESG INTEGRATION

In order to ensure that the Fund is incorporating ESG factors in line with the four-pillar framework set out above, the Trustee, through the delegated arrangements with Mercer, has certain expectations and undertake regular monitoring activities accordingly, as set out below.

1. INTEGRATION

This is monitored using Mercer's proprietary asset manager ESG ratings. ESG ratings are considered in the selection, retention and realisation of investments. ESG ratings are reviewed during the quarterly monitoring process.

Investment managers with high ESG ratings are preferred.

For the DC Section, the annual Mercer Workplace Savings ("MWS") ESG Report assesses each underlying investment manager and looks for evidence of strong, or at least positive, momentum on ESG integration.

2. STEWARDSHIP

Mercer's ESG ratings also include an assessment on voting and engagement practices.

Voting is delegated to the underlying investment managers, via Mercer Global Investments Europe ("MGIE"), in its capacity as investment manager for the Fund. The Trustee requires its underlying investment managers to vote on all actions, unless detrimental to the fund, and to report all exceptions to this.

Underlying investment managers provide voting and engagement data annually. The Trustee will review this data and include it in the annual implementation statement.

3. INVESTMENT

For the DC Section, the MWS multi-asset funds, including those used within the default glidepaths, include an allocation to a passive sustainable global equity fund. Two global equity funds with a sustainability focus (one active, one passive) are available within the DC self-select fund range.

4. SCREENING

As an overarching principle, MGIE prefers an integration and engagement based approach. There are, however, limited instances in which exclusions may be considered necessary.

Even where an exclusion may be considered necessary, MGIE will seek opportunities to use its influence to address the underlying issue of concern with companies, regulators and other standard setters, to the extent that ongoing engagement on the issue is aligned with the best interest of investors.

MGIE has developed an Investment Exclusions Framework where multiple risk, return and reputation criteria are considered. Any potential exclusions are evaluated against this framework to determine if they should be implemented.

For the DC Section, the annual MWS ESG Report provides an assessment of stewardship practices, as set out in the "Stewardship" section of this document.

For the DB Section, the annual Mercer Implemented Solutions Stewardship Report sets out the stewardship approach, progress and outcomes of Mercer Investment Solutions on behalf of the Mercer Funds over each calendar year.

The Investment Committee of the Trustee includes a sustainable investment implementation plan within its annual business plan. This is reviewed at each of its quarterly Investment Committee meetings. The Trustee regularly receives training on sustainable investment, and in particular, climate change, and this will be recorded in the Trustee Training Log.

CLIMATE ANALYTICS APPROACH

Climate-Related Metrics

In line with the TCFD framework, the Trustee will report four different climate-related metrics annually. The metrics help the Trustee to understand risk exposures and opportunities associated with the Fund's investment portfolio and identify areas for further risk management. The metrics relate to the Fund's financed emissions only and exclude emissions associated with the operation of the Fund. The reported metrics are as follows:

1. **Absolute emissions metric:**
   Total carbon emissions;

2. **Emissions intensity metric:**
   Weighted average carbon intensity;

3. **Portfolio Alignment metric:**
   Implied temperature rise; and

4. **An additional climate change metric:**
   Data Quality

The Trustee recognises the challenges with various metrics, tools and modelling techniques used to assess climate change risks. The Trustee aims to work with its investment advisor and underlying investment managers, via MGIE, to continuously improve the approach as more data becomes available.

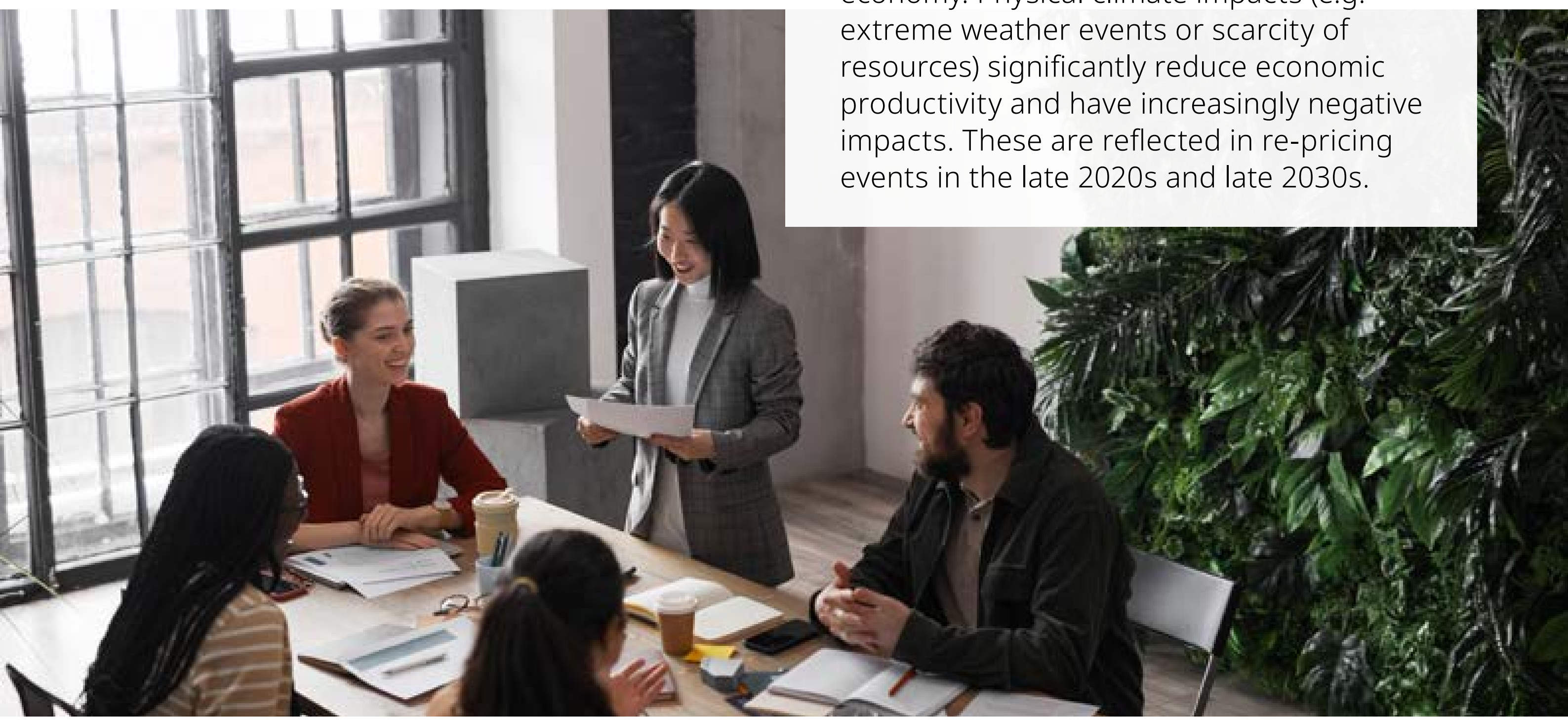
Climate Scenario Analysis

The Trustee will undertake climate scenario analysis at least every three years (or following any material changes to the investment strategy) to the test the resilience of the investment strategy, and funding strategy for the DB Section, adopted by the Trustee. The scenarios tested are selected by the Trustee to test a broad range of feasible outcomes and the Fund's exposure to both transition and physical risks. The scenarios refer to average temperature increases by 2100 and are as follows:

1. **Rapid transition (1.5°C)**
   This scenario assumes sudden downward re-pricing across assets in 2025. Moreover, this scenario assumes there is a partial recovery after the market shock. Physical damages are lower under this scenario than the others considered.

2. **Orderly Transition (less than 2°C)**
   In this scenario, governments and wider society act in a co-ordinated way to decarbonise and to limit global warming to well below 2°C. Transition impacts do occur but are relatively muted.

3. **Failed transition (greater than 4°C)**
   This scenario assumes the world fails to co-ordinate a transition to a low carbon economy. Physical climate impacts (e.g. extreme weather events or scarcity of resources) significantly reduce economic productivity and have increasingly negative impacts. These are reflected in re-pricing events in the late 2020s and late 2030s.



CLIMATE ANALYTICS APPROACH CONTINUED.

Climate-related targets

The Trustee has set a climate-related target for each Section of the Fund. The Trustee will keep the climate-related targets under review to ensure they still remain appropriate and relevant, taking into account any changes to the investment strategy of the Sections, the availability of data and wider market developments. With this in mind the Trustee may change its targets in the future

DC SECTION

As the Mercer Growth and Diversified Retirement Funds make up a large part of the default investment strategy and over 50% of the total assets for the Defined Contribution Section, the Trustee has agreed to set a climate-related target for these funds as follows:

To reduce carbon intensity in the Mercer Growth and Mercer Diversified Retirement Funds by at least 45% from 2019 baseline levels by 2030.*

**Figure stated represents tCo2e2/$M revenue, Scope 1 and Scope 2 emissions.*

DB SECTION

The climate-related targets for the Defined Benefit sub-Sections have been separated to reflect the different investment strategies for each Section:

SEDGWICK SECTION, MARSH SECTION AND MERCER SECTION (THE 'LEGACY SECTIONS')

The investment strategies for the Legacy Sections are similar in terms of asset allocation and manager line-up. As the funding levels of the Legacy Sections have improved, lower risk investment strategies have been implemented. With this in mind, the Trustee has agreed to focus on the carbon intensity of the Risk Reducing Assets. Within the Risk Reducing Asset portfolio, the Liability Hedging Programme has the largest allocation. The exposure is mainly to UK government gilts. The Trustee has little control over the carbon intensity of the UK and has concluded that a target set for the Liability Hedging Programme would be very difficult to influence and change.

The buy & maintain investment grade credit mandates largely make up the remainder of the Risk Reducing Asset portfolio. The Legacy Sections have Fund specific mandates with the buy and maintain credit mandates, which means the Trustee can make Fund specific amendments to the investment guidelines with each underlying investment manager.

The Trustee's climate-related target for the Legacy Sections is:

To reduce the carbon intensity across the buy and maintain Investment Grade Credit mandates in aggregate by at least 40% by 2030*

**Figure stated represents tCo2e2/$M revenue, Scope 1 and Scope 2 emissions.*

JLT SECTION

As at 30 June 2022, around a third of the JLT Section's investment (excluding the buy-in contract) strategy was allocated to the Diversified Growth Fund. The Trustee's climate-related target for the JLT Section is:

To reduce the carbon intensity of the Diversified Growth Fund allocation by at least 45% (from 2019 baseline levels) by 2030*

**Figure stated represents tCo2e2/$M revenue, Scope 1 and Scope 2 emissions.*

STEWARDSHIP

The Trustee regards investment governance and active ownership to be of particular importance in serving the long-term interests of our members. The Trustee believes stewardship (or active ownership) 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.

The Trustee invests in pooled, bespoke pooled and segregated portfolios, and the Trustee delegates voting and engagement to the selected investment managers, who are expected to engage with portfolio companies on material sustainability risks, adverse sustainability impacts and other ESG issues with the aim of improving long-term risk adjusted returns and the stability of financial markets. The Trustee expects underlying investment managers to fulfil stewardship obligations in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustee requires managers to vote on all actions, unless detrimental to the fund, and to report all exceptions to this. Underlying investment managers provide voting and engagement data annually. The Trustee will review this data and include it in the annual Implementation Statement.

The Trustee, through the delegated arrangement with Mercer, has agreed a number of themes as the focus of their voting and engagement activities. These themes are in line with those of the MGIE and are set out in the table below. For the DB Section, MGIE will engage with the underlying investment managers on these priorities on an ongoing basis. For the DC Section, MWS, on behalf of the Trustee, will engage with the primary investment manager on an annual basis regarding these priorities.

ENGAGEMENT PRIORITIES

ENVIRONMENTAL SUSTAINABILITY	SOCIAL SUSTAINABILITY	GOVERNANCE AND STRATEGY
CLIMATE CHANGE	HUMAN RIGHTS AND LABOUR PRACTICES	DIVERSITY, EQUITY AND INCLUSION

SIGNIFICANT VOTES

The Trustee considers significant votes on the underlying holdings of the Fund on an annual basis. The Trustee has decided to consider votes focussing on shareholder resolutions relating to priority engagement themes, while taking into account the size of holding across funds. These votes are deemed significant by the Trustee.

In curating the significant votes for the Fund, the Trustee screens by the following criteria:

1. Shareholder resolutions;
2. Its three priority engagement themes of Climate change, Human rights and labour practices, and Diversity, equity and inclusion; and
3. Top 10 holdings.

Compliance with this Statement

The Trustee monitors compliance with this Statement on a regular basis. The Trustee will review this statement triennially or following any material changes to the investment strategy of the Fund, which it judges to have a bearing on the stated sustainable investment policy. Any such review will be carried out in consultation with the Company.