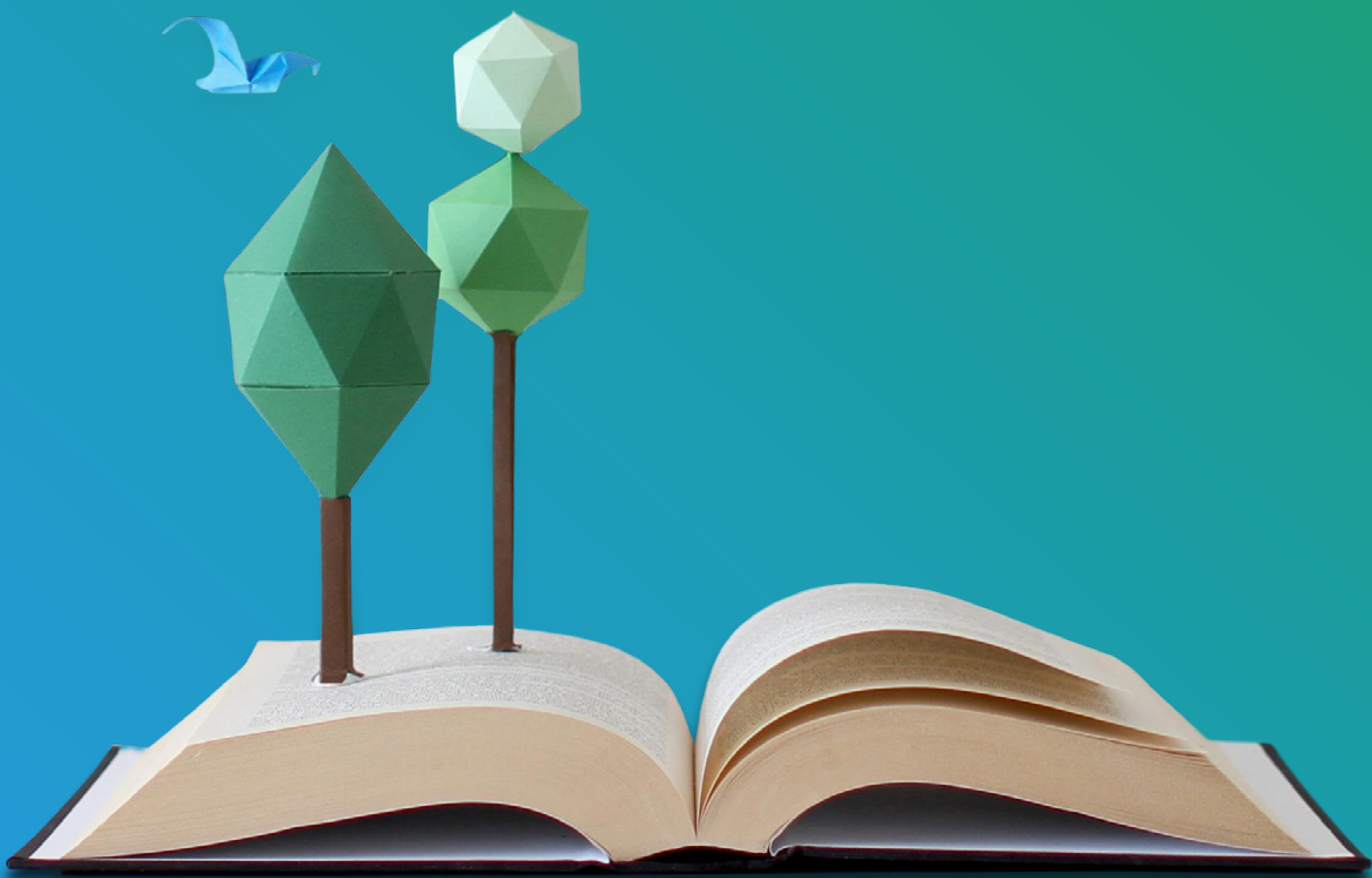
MERCER

Mercer Workplace Savings

Responsible Investment Approach



welcome to brighter

What is Responsible Investment?

The United Nations Principles for Responsible Investments ("UN PRI") defines responsible investment ("RI") as a strategy and practice to incorporate environmental, social and corporate governance ("ESG") factors in investment decisions and active ownership. ESG factors range a broad spectrum of issues, from climate change to executive remuneration.

It is Mercer's belief that ESG factors can have a material impact on financial performance and that their consideration in an investment approach will both create and preserve long term value for investors.

Environmental Concerns
- Climate change
- Energy efficiency
- Waste and pollution
- Water and resource scarcity

Social concerns
- Health and safety
- Stakeholder concerns
- Demographics
- Labour and supply

Corporate governance concerns
- Audit quality
- Board structure
- Remuneration
- Shareholder rights

Responsible investment approaches should not be confused with other approaches that consider ESG factors for non-financial reasons, for example:

- **Socially Responsible Investing:** balances an investor's values with performance considerations and typically seeks a trade-off between social and financial objectives.
- **Ethical Investing:** An investment philosophy guided by moral values, ethical codes or religious beliefs and rooted in negative screening of investments in sensitive sectors.
- **Impact Investing:** Investments made with the intention to generate measurable social and environmental impact with no anticipated trade-off to financial return.

Mercer SmartPath™

Mercer SmartPath™ is the default investment solution for Mercer Workplace Savings which delivers Mercer's best ideas to defined contribution pension members. The investment funds used within Mercer SmartPath™ are managed by Mercer and thus adhere to Mercer's Sustainable Investment Policy. The team behind Mercer SmartPath™ also works closely with our global responsible investment team to ensure we continue to develop our proposition.

Mercer's Responsible Investment Team

Since 2004, Mercer has built an experienced and dedicated global responsible investment team. The team advises clients on why and how to integrate ESG factors and stewardship into all stages of the investment process in order to help them achieve more sustainable investment outcomes. The team also carries out research on a wide variety of RI topics and establishes Mercer's house views and policies relating to sustainable investing.

Mercer is also part of several industry initiatives such as the Carbon Disclosure Project ("CDP"), Global Impact Investing Initiative ("GIIN") and the Institutional Investors Group on Climate

Change ("IIGCC") and recently received an A+ rating in the "2020 PRI Assessment Report", available to read on our website.

Mercer's Core Beliefs on ESG

Mercer believes a sustainable investment approach is one more likely to create and preserve long-term investment capital and more specifically, that:

- **ESG factors** can have a material impact on long-term risk and return outcomes and should be integrated into the investment process.
- 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 investors should consider both the potential financial impacts of the associated transition to a low-carbon economy and the physical impacts of different climate outcomes.
- **Active ownership** helps the realization of long-term shareholder value by providing investors with an opportunity to enhance the value of companies and markets through voting and engagement (stewardship).

Mercer's Sustainable Investment Policy

Mercer does not directly select investments (e.g. individual stocks and bonds), but instead selects and combines specialist sub-investment managers into portfolios. Mercer therefore has developed a Sustainable Investment Policy to ensure that ESG considerations are factored into these portfolios. This policy is underpinned by four key principles:

- **Clear communication** to sub-investment managers of Mercer's expectations on ESG
- **Active monitoring** of sub-investment manager ESG and stewardship activities
- **Engagement** with sub-investment managers to improve ESG practices over time
- **Transparency** on the implementation of this sustainable investment policy to investors in Mercer's funds

Mercer's Four-Pillar ESG framework

Mercer prides itself on its attitude and implementation of ESG, incorporating a sustainable investment approach into the core beliefs of Mercer SmartPath™, Mercer's defined contribution investment and governance solution.

ESG factors are incorporated through Mercer's four-pillar framework

1 Integration

2 Investment

3 Stewardship

4 Screening

1. Integration

Mercer expects all its sub-investment managers to assess and reflect ESG risks and opportunities when selecting investments and in portfolio construction. Mercer rates how well managers look to do this through a specific ESG rating process. Mercer SmartPath™ is reviewed on a regular basis, where all strategies have their ESG rating assessed with a preference for those with higher ESG ratings. Mercer will look to engage with sub-investment managers on areas of weakness and in some circumstances will look to remove strategies with a poor ESG rating.

Mercer's ESG rating process is extensive, reviewing a wide universe of investments with separate considerations for active and passive strategies. The scoring system rates managers in four categories, with ESG1 and ESGp1 denoting the highest rating and ESG4 and ESGp4 the lowest. Information on how managers are rated is set out in more detail below.

Active	**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.
Passive	**ESGp1**	**ESGp2**	**ESGp3**	**ESGp4**
	Leaders in voting & engagement ("V&E) **across ESG;** steward-ship activities and ESG initiatives under-taken consistently at a **global level; clear link between en-gagement & voting actions.**	**Strong approach** to V&E across ESG topics, and initiatives at a regional level, with progress made at a global level; **working towards clearer links between V&E.**	Focus of V&E tends to be on **governance topics only** or more regionally focused with **less evidence of E&S** (in V&E, as well as other internal ESG initiatives).	**Little or no initiatives** taken on developing a global V&E capability, reactive engagements; and little progress made on other ESG initiatives

There is increased focus on the consideration of climate-related finance risks and how this is integrated within investments. Our climate change statement (available here under the header "Investing in a Time of Climate Change") ensures Mercer's public commitment to best practise in climate change. We produced this statement in line with the Task Force on Climate-related Financial Disclosures ("TCFD"). The statement sets out our climate change scenario modelling, development of our internal governance processes and our assessment of climate change-related risks.

2. Investment

Mercer SmartPath™ has a 5% allocation to the Mercer Passive Sustainable Global Equity fund, reflecting our view that a sustainable investment approach will add value through additional return and risk mitigation. This fund is designed to tilt towards those companies that score more highly against a selection of ESG metrics and are more aligned with the transition to a low carbon economy.

Key Features of the Mercer Passive Sustainable Global Equity fund	
	Sustainability focus Integrated ESG factors into weighting the securities held in the portolio
	Exclusions Excludes companies and activites that don't reflect the values of sustanability
	Decarbonised portfolio Focus on significantly lower carbon emissions

The actively managed Mercer Sustainable Global Equity fund is also available as a self-select option for members wanting further exposure to sustainable investments. This fund aims to generate growth from various sectors that are well positioned to benefit from sustainable development. In particular the fund will invest in companies whose innovations address some of the world's most intractable social & environmental problems and companies that focus on four major transitions that are expected to shape the global economy of the future - i.e. demographics, environmental, technological and governance.

3. Stewardship

Mercer believes that good stewardship, exercised through voting and engagement, provides investors with an opportunity to enhance the value of companies and markets, thereby supporting the realisation of long-term shareholder value. Mercer evaluate sub-investment managers on a number of principles.

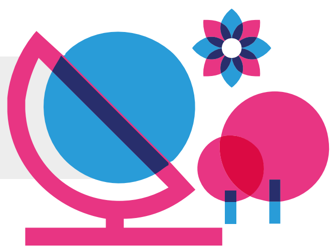
We formalise this assessment in our annual UK Stewardship Code Monitoring Report which reviews each sub-investment manager within our investment proposition. This report reviews voting execution, voting rationale and engagement activities.

We believe that providing this information is central to the discharge of an equity manager's stewardship responsibilities. We will engage with any sub-investment managers we have concerns with.

4. Screening

For all of our actively managed equity and fixed income funds, and some of our passively managed equity funds we look to screen out controversial weapon producers and tobacco companies.

The Mercer Passive Sustainable Global Equity fund, allocated to within our default investment solution, excludes some additional activities based on revenue targets. Exclusions include companies from the fossil fuel, adult entertainment, alcohol and gambling industries.



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