

Mercer | SUPER TRUST

# MERCER FUNDS SUSTAINABLE INVESTMENT POLICY

MAY 2014

## SCOPE

At Mercer, we believe taking an investment view that goes beyond traditional financial analysis and considers a wide range of risks and opportunities – including factors that support sustainability, such as good governance, consideration of environmental and social impacts on assets, as well as the associated policy and regulatory implications—is more likely to create and preserve long-term investment capital.

As an investor in domestic and international markets, Mercer believes that environmental, social and governance (ESG) factors may have a material impact on long term risk and return outcomes. Further, Mercer believes that principles of active ownership and investment stewardship are of value in the investment process. For that reason, ESG factors may be incorporated in Mercer’s investment decision making and ownership practices for its investment funds/options in the Pacific region. This policy should be read in conjunction with the Mercer Funds Corporate Governance Policy.

This combined approach to the integration of ESG considerations and active ownership practices is captured at Mercer as a sustainable investment approach. Mercer believes that sustainable investment principles can be applied across asset classes, including: domestic and international shares, sovereign and corporate bonds, property, and unlisted assets.

The following key principles underpin the Mercer Sustainable Investment Policy. Mercer will:

- Ensure that its appointed investment managers, consultants and other relevant service providers are informed about its expectations in relation to ESG and investment governance.
- Undertake annual reviews of its investment manager ESG ratings and seek to improve the ESG ratings through engagement with existing managers during the monitoring process and in the selection of new managers.
- Promote Mercer’s expectations in respect of ESG as a Mercer ESG 3 Rating and above, where practicable (with ESG 1 being the highest and ESG 4 being the lowest rating), as a formal part of investment manager selection and review processes.
- Provide oversight where ESG factors require a whole of portfolio view due to the systemic nature of a particular risk or where there may be thematic opportunities to consider. Themes which may affect investment decisions such as population and demographic shifts, climate change implications, energy and resource constraints, may form part of long term asset allocation or sector level decisions where it is deemed beneficial for portfolio risk and return expectations to do so.
- Apply principles of active ownership and investment stewardship and, exercise its duties and obligations as an owner (or steward) of invested assets – including share voting and engagement. Refer to the Mercer Funds Corporate Governance Policy for details.

## APPLICATION TO DIFFERENT INVESTMENT STRUCTURES

Mercer’s investment arrangements are a combination of separate mandates with investment managers, investments in pooled vehicles, and direct investments. Appropriate approaches to ESG integration are expected across these different investment arrangements, including quantitative and passively managed approaches.

Mercer’s Investment Management Agreements for mandates will reference the Mercer Sustainable Investment Policy. Where Mercer invests in pooled funds, adopting the policy ultimately relies on the investment managers incorporating ESG into their investment processes.

Mercer expects the investment managers it appoints to demonstrate an acceptable level of commitment to the management of key ESG risks and opportunities. Mercer recognises that sustainable corporate behaviour over time is in the best interests of long term investors. Mercer believes that ESG risks and opportunities should be assessed by investment managers in regard to stock selection and portfolio construction. Where possible, examples of ESG factors could include:

- Environmental pollution and climate change
- Resource constraints
- Social impacts of health and safety
- Supply chain management
- Corporate governance implications of company remuneration structures.

## LISTED DOMESTIC AND INTERNATIONAL EQUITIES

To implement the policy in listed domestic and international equities, Mercer will inform all of its external investment managers, and other service providers, that Mercer will:

- Regularly monitor the progress of internal and external equity investment managers and their ESG integration progress
- Promote Mercer’s expectations in respect of ESG and key thematic trends, e.g. climate change, in equity asset classes as a formal part of the firm’s investment manager selection and review process
- Report on the progress of Mercer’s policy implementation to Mercer’s Board and shareholders, via the Mercer member website and via regular reports.

## INVESTMENTS IN QUANTITATIVE AND PASSIVELY MANAGED VEHICLES

Mercer invests in some investment products in which the holding of any particular company is the result of a quantitative investment or a passively managed process. In these cases, Mercer will write to the investment managers concerned to encourage them, where appropriate, to consider how the policy may be of relevance and to encourage such managers to engage with the companies through collaborative networks on ESG matters. In addition, managers can be asked about risk metrics associated with ESG themes and for quantitative managers specifically, the scope for these to be incorporated into quantitative models.

## INVESTMENTS IN POOLED VEHICLES

Mercer also invests in pooled vehicles and these products have their own Trustee or Responsible Entity, who must act on behalf of all unit holders collectively.

Whilst the adoption of the policy in these vehicles ultimately relies on investment managers incorporating ESG into their investment processes, Mercer's Trustee retains ultimate responsibility for meeting the firm's aspirations in regard to investing in a sustainable manner and for the firm's share in such vehicles. Mercer will, where appropriate, seek to monitor significant ESG issues that arise within a pooled investment.

## INVESTMENTS IN UNLISTED COMPANIES AND ALTERNATIVE ASSET CLASSES

Mercer may invest directly and indirectly in some unlisted companies and in alternative asset classes / private equity vehicles. Alternative investment managers, including private equity, hedge funds, infrastructure and real estate, are assessed with regard to a wide range of factors that include their consideration of ESG risks and opportunities. For the purposes of this policy we consider real estate an alternative asset class. Mercer can consider sustainable property characteristics within the real estate portfolio whether managed internally or outsourced. Mercer may consider ESG factors in regard to the maintenance and refurbishment of existing properties and as a factor in regard to the selection of new buildings.

In these instances, the Mercer Sustainable Investment Policy will be applied on a similar basis to externally-managed listed assets, noted above.

In keeping with the policy regarding potential systemic risks at the portfolio level, Mercer will monitor investments that are potentially exposed to climate change impacts and incorporate this within an assessment of the portfolio from time to time.

## DOMESTIC AND GLOBAL BONDS

Mercer investment in domestic bonds and global bonds whether managed internally or outsourced, can include consideration of ESG through portfolio positioning that is focussed on their long term thematic driven views. ESG may be considered as part of alpha generating ideas in the context of country and credit decisions, for example. ESG issues may be considered as part of specific issue selection, or incorporated in decision making processes.

## SUPPORTING INDUSTRY-WIDE INITIATIVES

As a leading provider and asset owner in the industry, Mercer will keep apprised of, and participate as appropriate, in collaborative industry initiatives on areas of concern or opportunity to improve the long term sustainability of the capital markets in which we invest. Mercer will give consideration to the developments within relevant industry groups, such as the International Corporate Governance Network (ICGN), the Investor Group on Climate Change (IGCC), and the United Nations Principles of Responsible Investment (PRI).

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