

Mercer Master Trust
**Responsible
Investment and
Voting Policy**

September 2022



This document sets out the Responsible Investment and Voting Policy for the Trustees of the Mercer Master Trust (the “Scheme”).



The Trustees' investment beliefs

The Trustees believe that a sustainable investment approach is in the best interest of Scheme members and, more specifically, that:

1. **Environmental Social and Governance (“ESG”)** factors can have a material impact on long-term risk and return outcomes and should be integrated into the investment process.
2. **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.
3. **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.
4. **Stewardship** (or active ownership) supports the realisation of long-term shareholder value by providing investors with an opportunity to enhance the value of companies and markets.

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

The Trustees' responsible investment beliefs are aligned to the investment beliefs of Mercer, as the Scheme's founder.



Climate change beliefs

The Trustees also believe 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 Trustees believe that limiting global average temperature increases this century to “well below 2°C”, as per the 2015 Paris Agreement, is aligned with the best economic outcome for investors.

Therefore, the Trustees integrate climate analysis insights into the investment manager selection and monitoring processes and in portfolio construction. The Trustees expect 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 Trustees’ 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.



The Mercer Master Trust’s multi-asset funds* have committed to a target of net-zero absolute carbon emissions by 2050. We expect that portfolio carbon emissions will be reduced by 45% relative to 2019 baseline levels by 2030. This commitment is aligned with targeting a 1.5°C limit on global temperature increases and the Paris Agreement’s ambitions.



*multi-asset funds refers to: Mercer Growth fund, Mercer Diversified Retirement fund, Mercer Diversified Growth fund, Mercer Defensive fund, Mercer Moderate Growth fund, Mercer High Growth fund.

Four pillar framework for ESG integration

The Trustees use the following four-pillar framework to ensure that their beliefs, as set out above, are incorporated into the MMT's investment arrangements.

01 Integration

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

02 Stewardship

Our 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.

03 Investment

The Trustees use a specific exposure to longer-term environmental and social themes / trends to improve risk management and identify new investment opportunities.

04 Screening

The Trustees prefer an integration and engagement-based approach but recognise that exclusions may be necessary in certain circumstances.



Stewardship

The Trustees regard investment governance and active ownership to be of particular importance in serving the long-term interests of our members. The Trustees believe 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 Trustees invest in pooled or multi-client funds and delegate voting and engagement to the selected investment managers. Investment managers are encouraged 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 Trustees expect 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 Trustees have agreed a number of themes as the focus of their voting and engagement activities. These themes are in line with those of the Scheme's primary investment manager, Mercer Global Investments Europe Limited, and are set out in the table below. The Trustees will engage with the primary investment manager on an annual basis regarding these priorities.

Engagement priorities

Environmental sustainability

Climate change;

- Low-carbon transition (mitigation) and physical damages resilience (adaptation)

Pollution and natural resource degradation;

- Water (rivers and oceans), air, land (forests, biodiversity and soils)

Social sustainability

Human rights;

- Modern slavery, pay & safety in workforce and supply chains, abuses in conflict zones

Addictive products;

- Tobacco, opioids, gambling, alcohol, sugar

Governance and strategy

- Aligned remuneration and incentives
- Inclusive, diverse decision-making
- Transparent disclosure of material ESG factors



Monitoring ESG integration

In order to ensure that the Scheme is incorporating ESG factors in line with the four-pillar framework set out above, the Trustees have certain expectations and undertake regular monitoring activities accordingly, as set out below.

01 Integration

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

Managers with high ESG ratings are preferred. The annual Responsible Investment Report assesses each investment manager and looks for evidence of strong, or at least positive momentum on, ESG integration.

02 Stewardship

Mercer's ESG ratings also include an assessment on voting and engagement practices. ESG ratings are considered upon the selection, retention and realisation of investments. ESG ratings are reviewed during the quarterly monitoring process.

The annual Responsible Investment Report provides an assessment of stewardship practices, as set out in the "Stewardship" section of this document.

Investment managers provide voting and engagement data annually. The Trustees will review this data and include it in the annual implementation statement.

03 Investment

Our 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 made available within the fund range.

04 Screening

Exclusions are considered in line with the investment managers' exclusion framework.

The Trustees review the list of excluded activities from investment managers annually.

The Trustees include an update on responsible investment on the agenda at each of their quarterly investment governance meetings. They also receive training on responsible investment and this will be recorded in their training log.

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