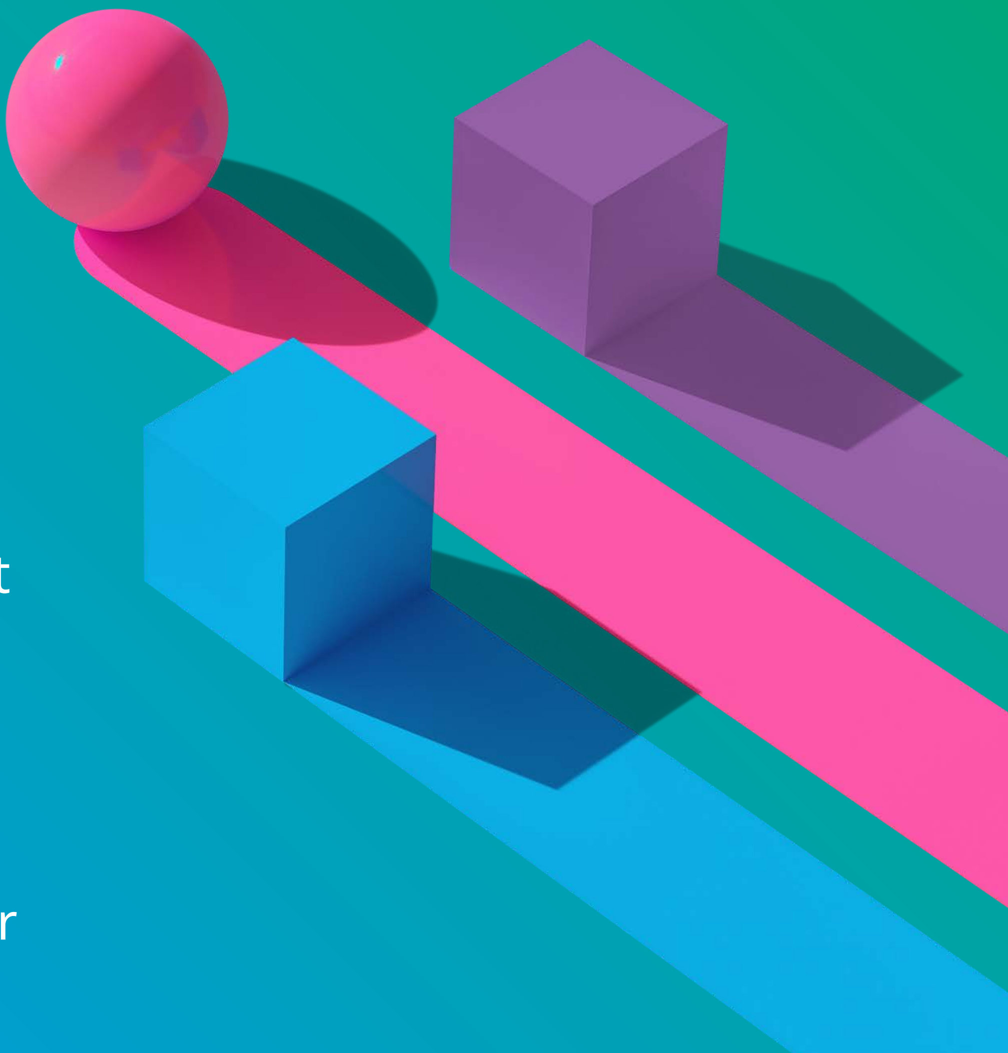
2023 Stewardship Report

Annual Report for
1 January 2022 to
31 December 2022



Mercer Investment Solutions

welcome to brighter

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Message from the CIO

We are pleased to share details of how Mercer Investment Solutions (Mercer IS[1]), in its capacity as an investment manager, is undertaking its stewardship activities on behalf of the Mercer Funds[2]. Our third annual report captures Mercer IS's stewardship approach, activities and outcomes over the calendar year 2022 and is designed to cover the 12 principles comprising the 2020 UK Stewardship Code for investment managers.

During 2022, we continued to focus our stewardship efforts on our engagement priorities - climate change, human rights & labour practices and diversity, equity & inclusion. These topics have relevance to a significant proportion of the Mercer Funds, across asset classes, sectors and regions. Within climate change, we have also recognised the connected roles that natural capital and biodiversity play and have begun incorporating biodiversity into our stewardship agenda. Our focus on biodiversity has included incorporating biodiversity-related questions for the first time in our annual Global ESG & Stewardship Survey, engaging with leading managers on their approach to the Task Force on Nature-Related Financial Disclosures (TNFD) framework, mapping a sample portfolio of companies to the TNFD's priority sectors and collaborating with Mercer's Sustainable Investment Manager Research team to explore the investment opportunity set.

The growing importance placed on stewardship within the industry to promote better investment outcomes only reinforces our belief that stewardship will continue to play a crucial role in helping our clients meet their investment goals and fiduciary responsibilities, and support outcomes that are more positive for people and the planet.

Mercer IS has evolved its approach over 2022 to ensure that stewardship continues to play a meaningful role in strategy and manager selection decisions and ongoing monitoring by our investment teams to increase the overall effectiveness of active ownership and benefit clients.

Mercer IS does not typically directly select securities; instead, it selects and combines specialist third party investment managers into Mercer Funds to implement day-to-day investment management tasks. This places Mercer IS in a unique position to engage with multiple managers and provides an opportunity to encourage effective stewardship practices, not only in relation to assets managed on behalf of Mercer IS, but across appointed managers' broader investment processes too.

Mercer's Global ESG & Stewardship Survey for managers provides a useful tool to assess and monitor the stewardship practices of our appointed managers. The 2022 survey received responses from over 200 managers globally representing over 400 strategies across multiple asset classes, with over half of these strategies used within the solutions managed in Europe.

The results support how manager stewardship approaches are understood across different asset classes and engagement themes and clearly highlight that managers are at different stages in their stewardship journey. Our aim is to identify opportunities to engage with managers to support more effective stewardship practices to drive real world change at the company level. This aligns with Mercer's broader preference for engagement rather than divestment. There are, however, instances in which exclusions may be considered necessary.

Finally, we continue to invest in our people to meet our sustainability goals. A dedicated team was established in late 2021 to support the increasing integration of sustainability considerations across the investment process. The team has grown to six members over 2022 and includes two members who focus predominantly on implementing Mercer's Stewardship Policy within the investment process.

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1 This report applies to Mercer Global Investments Europe Limited ("MGIE") in its capacity as investment manager of the Irish domiciled funds for which Mercer Global Investments Management Limited acts as management company, and reference to Mercer IS throughout should also be interpreted to cover these entities. .

2 See Important Notices. Noting that the approach to stewardship will differ across asset classes and be limited for some (e.g. cash, Liability-Driven Investments (LDI)). The extent of stewardship activities and monitoring of such will also vary across multi-client and bespoke funds, particularly in instances where clients have set up a bespoke investment vehicle and have a desire to engage with, set and communicate their expectations of managers.

Key highlights of 2022:

- Extending the manager engagement survey scope to include liquid alternatives.
- Targeting engagements with managers identified through our Manager Engagement Dashboards.
- Targeting engagements with managers to further incorporate and promote environmental considerations within their investment approaches, to support the re-classification of c.50 funds to Article 8 under the EU Sustainable Finance Disclosure Regulations.
- Targeting engagements with managers to reduce emissions across their portfolios, to support alignment with Mercer IS's net zero targets.
- Joining the 30% Club – UK Investor Chapter.
- Improving the oversight of and reporting on voting and engagement activities to support clients with Engagement Policy Implementation Statement disclosure.

Focus areas for 2023 and beyond:

- Within our engagement priority themes, Mercer IS intends to focus its approach on engaging with managers investing in issuers that can drive meaningful change. To support these engagements, we have developed specific engagement company focus lists.
- Climate-related engagements with managers holding prioritised companies are expected to further support stewardship activities linked to climate risk management processes in line with the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations.
- Diversity-related engagements with managers holding prioritised companies are expected to improve the diversity profile of our investments in line with the ambitions of the 30% Club, of which we are a member of the UK Chapter.
- We continue to strengthen our understanding of the impact of nature and biodiversity on the economy and investments and have incorporated biodiversity as a key engagement priority theme.

Going forward Mercer IS remains committed to continuing to evolve its approach to stewardship by promoting best practice approaches amongst investment managers and transparently reporting our activities and outcomes to our clients and the wider market.

This report was also reviewed by the Head of Sustainable Investment Solutions and Head of Compliance for Mercer Global Investments Europe Limited, and formally approved by the Mercer Global Investments Europe Limited Board.

David O'Sullivan

Chief Investment Officer,
Mercer Global Investments Europe Limited

Purpose, beliefs, strategy and culture

Purpose, beliefs, strategy and culture

Mercer IS is a leading provider of investment solutions, offering customised guidance for investment decisions, risk management and investment monitoring services to a broad range of institutional investors, including pension funds, insurance companies, endowments, foundations, and other investors.

Our purpose is to support clients in setting, implementing and monitoring their investment strategies through our investment solutions to meet their goals and fiduciary responsibilities.

Mercer IS has been incorporating sustainability considerations within its investment process since it was formed in 2006 and has developed its approach since then, supported by Mercer's specialist global Sustainable Investment Consulting team, which has been focussing on risks and opportunities across environmental, social and governance (ESG) issues since its establishment in 2004.

Considerations within our investment process largely fall within four key areas:

1) Integration of ESG factors in investment decisions (including climate change and more recently biodiversity as key areas of focus);
2) stewardship;
3) screening; and
4) allocating to sustainability focussed investment solutions.

Mercer IS does not typically directly select securities; instead, it selects and combines specialist third party investment managers into Mercer Funds to implement day-to-day investment management tasks, and for certain clients, these funds are combined into portfolios. We provide a range of active and passive funds across equities, fixed income, multi-asset and liquid alternative asset classes[3].

Investment managers appointed to the Mercer Funds are expected to integrate sustainability considerations into their investment processes and adopt standards of good governance and stewardship through voting and engagement practices that include a focus on sustainability risks.

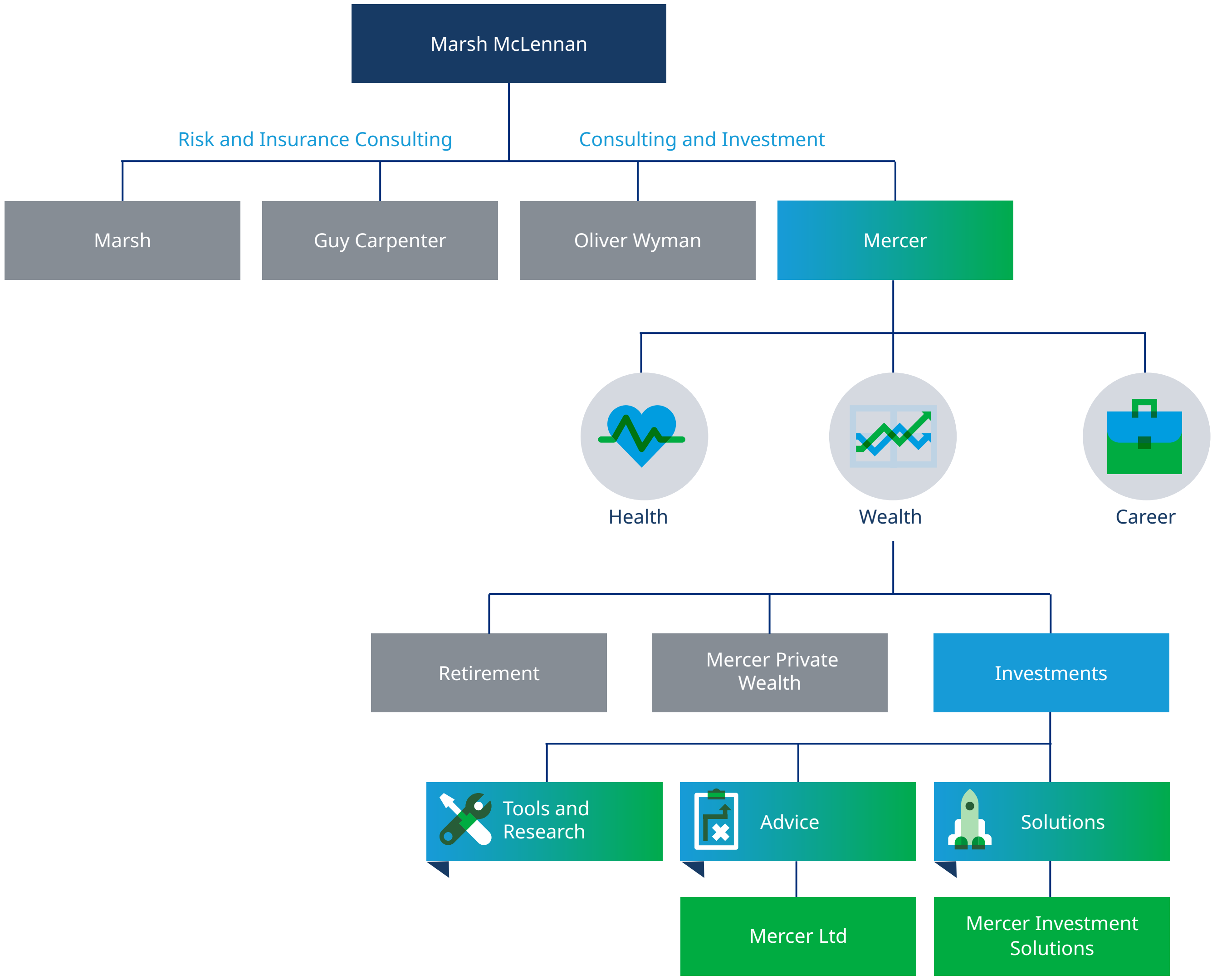
Managers are monitored on their broad stewardship or active ownership approach as part of their investment integration assessment, as well as against Mercer's global engagement priority themes of climate change; labour practices and human rights; and diversity, equity and inclusion, with biodiversity and natural capital more recently added as a priority theme.

3 This material does not constitute advice or an offer or a solicitation of an offer to buy or sell securities, commodities and/or any other financial instruments or products or constitute a solicitation on behalf of any of the investment managers, their affiliates, products or strategies that Mercer may evaluate or recommend. No investment decision should be made based on this information without first obtaining appropriate professional advice and considering your circumstances.

Our culture and firm values

Mercer IS, as a subsidiary of Marsh & McLennan Companies Inc. (“Marsh McLennan” or the “Group”), shares the Group’s Code of Conduct and ESG ambitions. The diagram below illustrates how our Group is structured, and informs our approach to sustainability:

Figure 1. Governance structure overview



1 Our commitment to ESG starts at home

2 Our people are our greatest strength

3 Our future requires climate resilience

4 Our company plays an important role

5 Change is up to all of us

ESG is fundamental to both Mercer IS and Marsh McLennan, who have formally integrated ESG factors into decision-making processes since 2008 and believe that transparent and consistent disclosure enables better-informed business and investment decisions. The Group shares how it is making a difference across various ESG pillars in its latest 2022 ESG Report. Marsh McLennan's ESG philosophy is summarised on the left hand side.

The Greater Good is the Group's code of conduct and the cornerstone of our culture of integrity. It underpins our values, ethical commitments and standards of business integrity and professionalism upheld by the Group. It supports colleagues in making decisions in situations where it may not be clear — or easy. The Greater Good covers a range of topics including anti-corruption, data privacy, conflicts of interest, trade sanctions, money laundering prevention and social responsibility. As a business, Marsh McLennan renewed its commitment to The Greater Good in 2020 with a culture centred on Leadership, Commitment, Trust and Teamwork.

Mercer's investment beliefs

Mercer IS's approach to investment is grounded in its global investment beliefs. Sustainability is at the core of our investment beliefs and philosophy, being one of five key pillars. Mercer's global sustainability beliefs coupled with clearly defined processes ensure sustainability and stewardship considerations are embedded across our investment solutions and services. Our five investment beliefs, with extra detail on sustainability, are shown below:

Figure 2. Mercer's Investment Beliefs

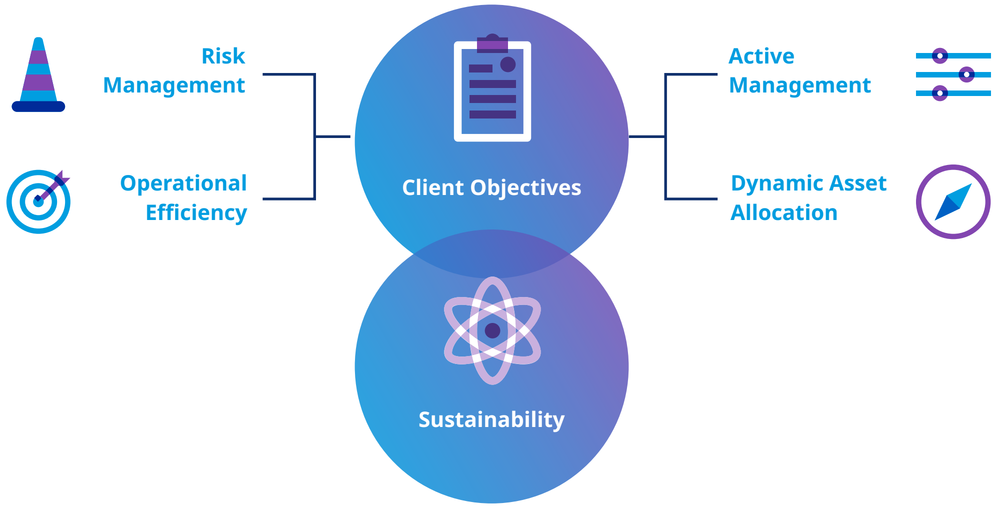


Figure 3. Mercer's Sustainability Beliefs

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

ESG factors can have an 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 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) supports the realisation of long term shareholder value by providing investors with an opportunity to enhance the value of companies and markets.

Consequently, Mercer believes that an approach that considers these sustainability risks and opportunities is in the best interests of our clients.

Mercer IS benefits from thought leadership and wider work across our global firm as well as from our parent company Marsh McLennan on other systemic risks.

For example, every year the World Economic Forum, in collaboration with Marsh McLennan, publishes the Global Risks Report[4]. We show the key systemic risks in the report ranked by severity over the short and long term below:

Figure 4. 2023 – Top 10 short term and long term risks

	2 years		10 years
1	Cost-of-living crisis	1	Failure to mitigate climate change
2	Natural disasters and extreme weather events	2	Failure of climate-change adaptation
3	Geoeconomic confrontation	3	Natural disasters and extreme weather weather events
4	Failure to mitigate climate change	4	Biodiversity loss and ecosystem collapse
5	Erosion of social cohesion and societal polarization	5	Large-scale involuntary migration
6	Large-scale environmental damage incidents	6	Natural resource crises
7	Failure of climate change adaptation	7	Erosion of social cohesion and societal polarization
8	Widespread cybercrime and cyber insecurity	8	Widespread cybercrime and cyber insecurity
9	Natural resource crises	9	Geoeconomic confrontation
10	Large-scale involuntary migration	10	Large-scale environmental damage incidents

Risk categories Economic Environmental Geopolitical Societal Technological

Source: WEF Global Risks Report 2023

4 https://www.marshmclennan.com/insights/publications/2023/january/global-risks-report.html

Engagement framework and priorities

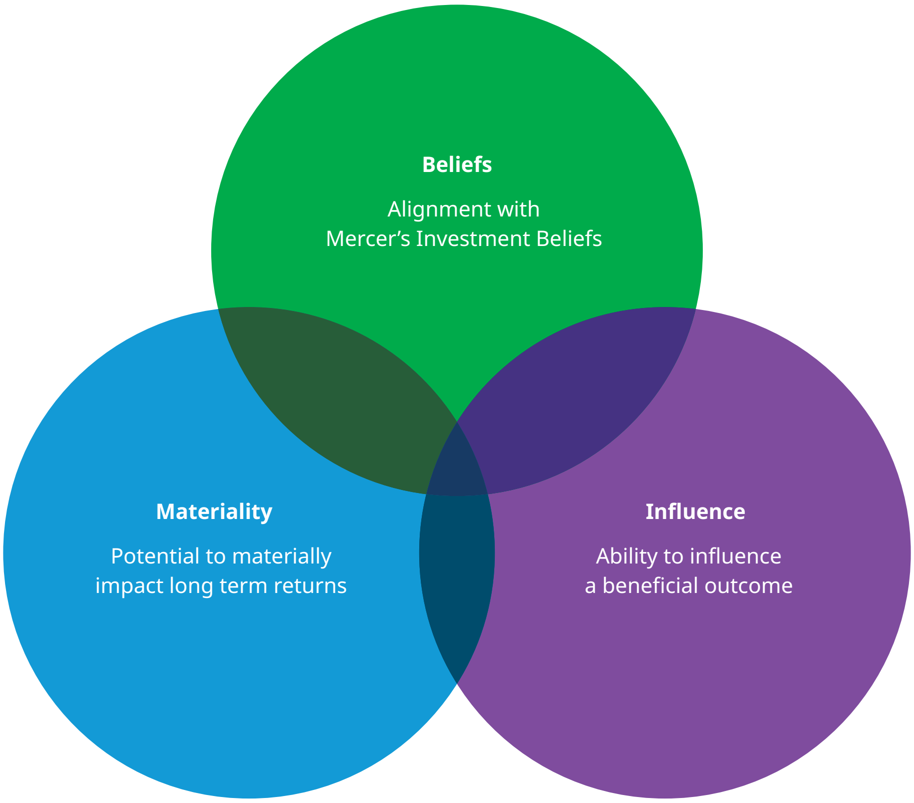
Mercer prioritises market-wide and systemic risks for engagement through initiatives and wider work where they meet three criteria:

Beliefs: The issue or theme should be consistent with Mercer’s investment beliefs.

Materiality: In order to align with the best outcomes for investors, systemic engagement priorities should have the potential to materially impact long term returns. This may be through public policy, exposure across multiple sectors, regions and asset classes etc.

Influence: In order to ensure an appropriate allocation of time and resources, engagement priorities should consider Mercer’s ability to influence a beneficial outcome, whether by joining like-minded investors in a collaborative engagement, engaging directly or empowering our clients to use their influence.

Figure 5. Mercer's Investment engagement framework criteria



Mercer IS has prioritised the themes below for engagement with appointed managers:

Figure 6. Mercer Investment Solutions global engagement priorities

Environmental	Social	Governance
Climate change Climate-related financial impacts are driven by the associated transition to a low-carbon economy and the physical damages of different climate outcomes – A well below 2C scenario is both an imperative and an opportunity. **Biodiversity & Natural capital** Destruction of biodiversity and the environment is a key risk to all business, as economies are highly dependent on nature. There are direct links between the environment and financial markets that relate to the interrelationship between nature and climate change. Particularly, addressing nature loss and achieving net-zero climate objectives go hand in hand.	**Human rights & labour practices** Workforce and supply chain safety and human rights practices should avoid contributing to modern slavery, exploitation and other human rights abuses – these can contribute to economic instability, the threat of social tension and subsequent political instability; and negatively impact beneficiaries for economic and health reasons.	**Diversity, Equity & Inclusion (DEI)** Including cognitive and identity diversity in decision-making processes is expected to create better outcomes and solutions.

More detail on each priority theme is provided in the dedicated thematic sections later in the report. These thematic sections include detail on how Mercer IS has considered each of these themes in our investment process, in our engagements with appointed managers, and how they in turn have considered these themes in their engagements with issuers. Climate change has been a priority for Mercer IS for a number of years now and as such our progress across this theme is well developed. More recently we have added biodiversity as a core priority, particularly given its interconnectedness with climate. We are also pleased by the progress we are making with promoting DEI within our business, across our appointed managers and within the portfolios we manage and look forward to continuing to evolve this. Looking ahead, we hope to further evolve our approach embedding considerations around human rights and labour practices across our portfolios.

Collaborative initiatives

In addition to engaging with appointed managers, Mercer IS and the broader Mercer Investments business recognises the importance of supporting the functioning of markets through industry initiatives and collaboration. Mercer Investments believes that appropriate investor collaboration is often the most effective manner in which to engage, particularly at times of significant corporate or wider economic concerns. We undertake policy engagement through different initiatives and associations to drive best practice, as well as consistency of disclosure on ESG issues and on topics that are considered aligned with the best interests of our clients. We choose to participate in initiatives where we believe we have the opportunity and ability to improve long-term investment outcomes and contribute to more sustainable and stable global financial markets.

Globally, Mercer Investments is party to a number of collaborative investor initiatives and engagements where:

- The topic has been deemed important after being assessed alongside other key themes.
- The objective of the engagement would be better achieved through involvement in local and global initiatives that facilitate collaborative engagement where these mechanisms have a more significant potential to influence outcomes.
- The engagement coordinator is one or more reputable membership organisations, typically where a Mercer entity is already a member, and is therefore more likely to demonstrate credibility and positive reputation associations for Mercer and its clients.

Over 2022, Mercer Investments collaborated with several industry groups to improve market-wide practices and managing systemic risks. A few key examples of our participation are noted below:

Initiative	Involvement, activity and outcomes
Climate change	
Institutional Investors Group on Climate Change (IIGCC)	Mercer Investments[5] attend member calls, with Mercer Ltd providing input and feedback on the following IIGCC Paris Aligned Investing Initiative working groups: stewardship, listed equity and corporate fixed income. This participation supported the production of the Net Zero Stewardship Toolkit in 2022.
Climate Action 100+	Mercer IS has attended meetings relating to the recent Phase 2 signatory consultation and, as a result, are reviewing new involvement opportunities available following strategy developments introduced by Climate Action 100+.
Nature	
Task Force on Nature-Related Financial Disclosures (TNFD)	Mercer Ltd is a Forum member and has provided feedback throughout the framework development process and has also worked with Mercer IS on applying the TNFD framework to map the exposure of one of its sustainability-themed funds to the TNFD priority sectors. In 2023, Mercer Investments will look to pilot test the TNFD framework, focussing on assessing the risk and opportunity assessment approach for Financial Institutions. Marsh McLennan has also provided a senior colleague a secondment opportunity to work with the TNFD to help in the development of the framework over the past year.

5 As shown in figure 1 on page 7, Mercer Investments includes both Mercer Ltd, based in the UK and representing the UK investment consulting advisory business and Mercer IS, in its capacity as investment manager and representing the investment solutions business. Mercer IS works with Mercer Ltd, who provides thought leadership and guidance on regulatory developments and best practice.

Diversity	
30% Club – UK Chapter	Mercer Ltd and Mercer IS are members of this club in separate corporate and investor capacities respectively as part of its commitment to improving gender diversity across its industry and within its investment portfolios. Mercer IS is currently reviewing opportunities to participate in one or more of the 30% Club - UK Chapter working groups
Impact	
Global Impact Investing Network (GIIN)	Mercer Ltd participated in the Listed Equities Working Group culminating in Guidance for Pursuing Impact in Listed Equities which was published in March 2023. This included a look at the role stewardship could play in amplifying impact.
Broad Sustainability	
Investment Consultants Sustainability Working Group	Mercer Ltd is an active member of several work streams, including those on regulation, asset owners, stewardship and innovation. These in turn have produced materials such as the Trustee Guide for Assessing Climate Competency of Investment Consultants and the Engagement Reporting Guide. Mercer Investments' Head of Global Investment Research co-chairs the group.

In addition to the examples listed above, over 2022, Mercer was also a signatory to, supporter of, or participant in the following initiatives:

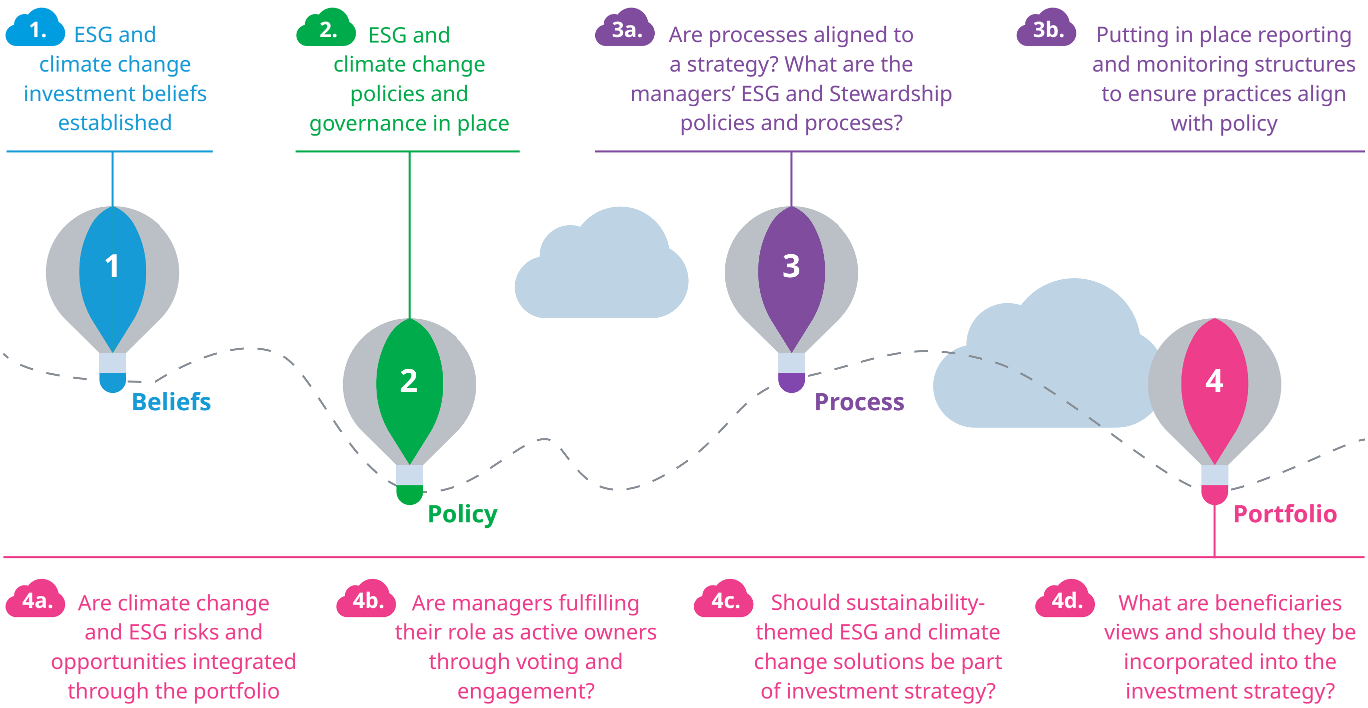
Principles for Responsible Investment (PRI)	Mercer IS and Mercer Ltd
Task Force on Climate-Related Financial Disclosures (TCFD)	Mercer IS and Mercer Ltd
UK Sustainable Investment & Finance Association (UKSIF)	Mercer Ltd
Transition Pathway Initiative (TPI)	Mercer Ltd
The CDP (previously Carbon Disclosure Project)	Mercer Ltd
The Diversity Project	Mercer Ltd

Mercer IS also monitors managers' participation in industry initiatives, with a particular focus on initiatives related to our engagement priority themes. More detail on the level of participation from appointed managers is provided in the dedicated thematic sections later in the report.

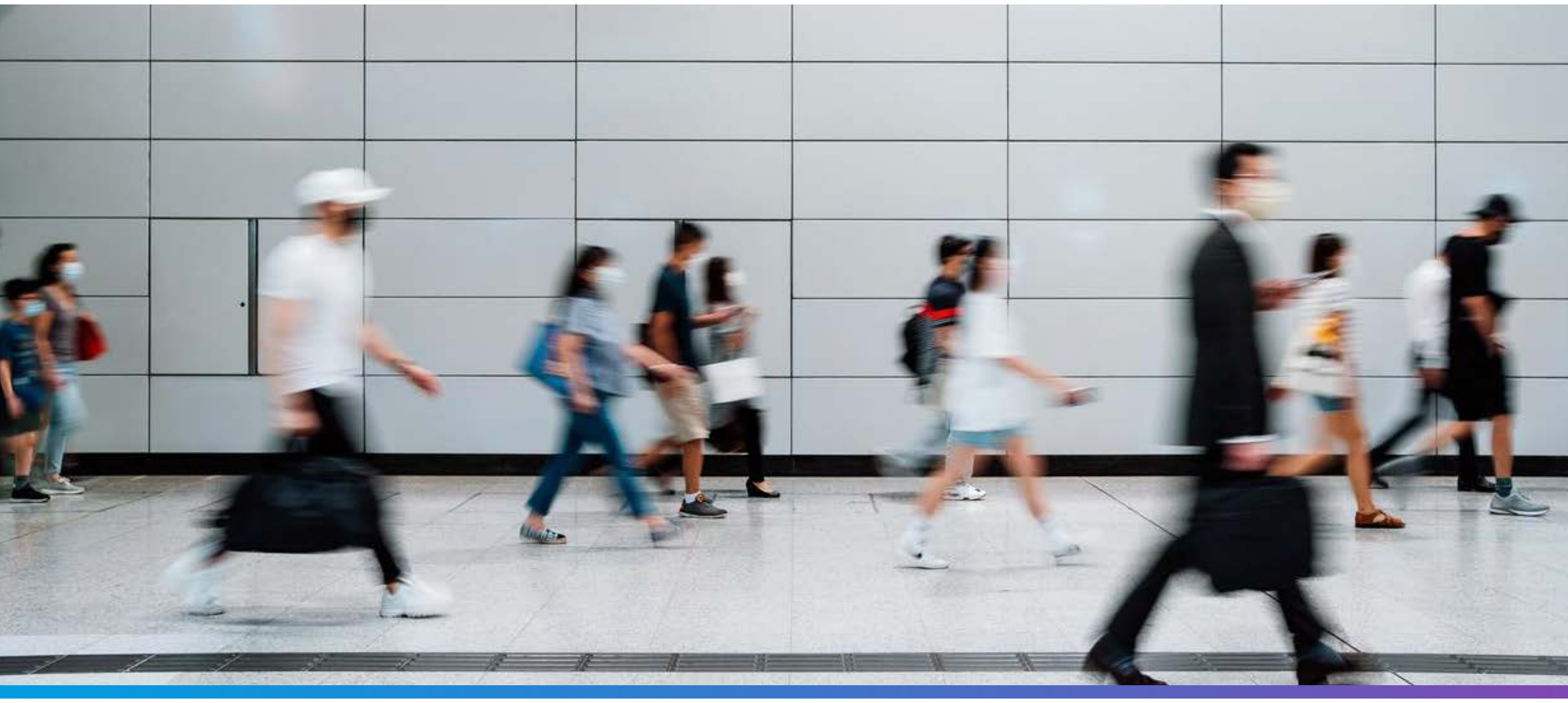
Mercer IS considers a broad range of sustainability issues and incorporates them into our investment process and portfolios, where relevant and practical. These considerations are informed, in part, by forward-looking research and proprietary tools provided by our colleagues in the Sustainable Investment Consulting team and support us in developing solutions that aim to balance risk, return, regulations, and reputational considerations while promoting sustainability outcomes.

Mercer incorporates stewardship across all four areas of our Sustainable Investment Pathway, shown below, which sets out the key elements of our approach to embedding sustainability considerations across our solutions. Mercer provides integrated stewardship solutions across belief setting, policy development, manager selection, implementation, and monitoring and engagement processes.

Figure 7. Mercer´s Sustainable Investment pathway



Governance, workforce, resources and incentives



Governance, workforce, resources and incentives

Mercer has put in place a governance and management structure that enables the effective integration of stewardship across our research activities, investment advice and solutions. This includes creating roles and responsibilities that are specifically focused on sustainability, establishing cross-functional working groups and engaging with colleagues, clients and stakeholders to ensure that sustainability considerations are integrated across the business.

Our governance structure has supported the business well by successfully leveraging scale, accessing and disseminating specialist stewardship knowledge to our investment teams, and helping clients meet and exceed regulatory stewardship requirements.

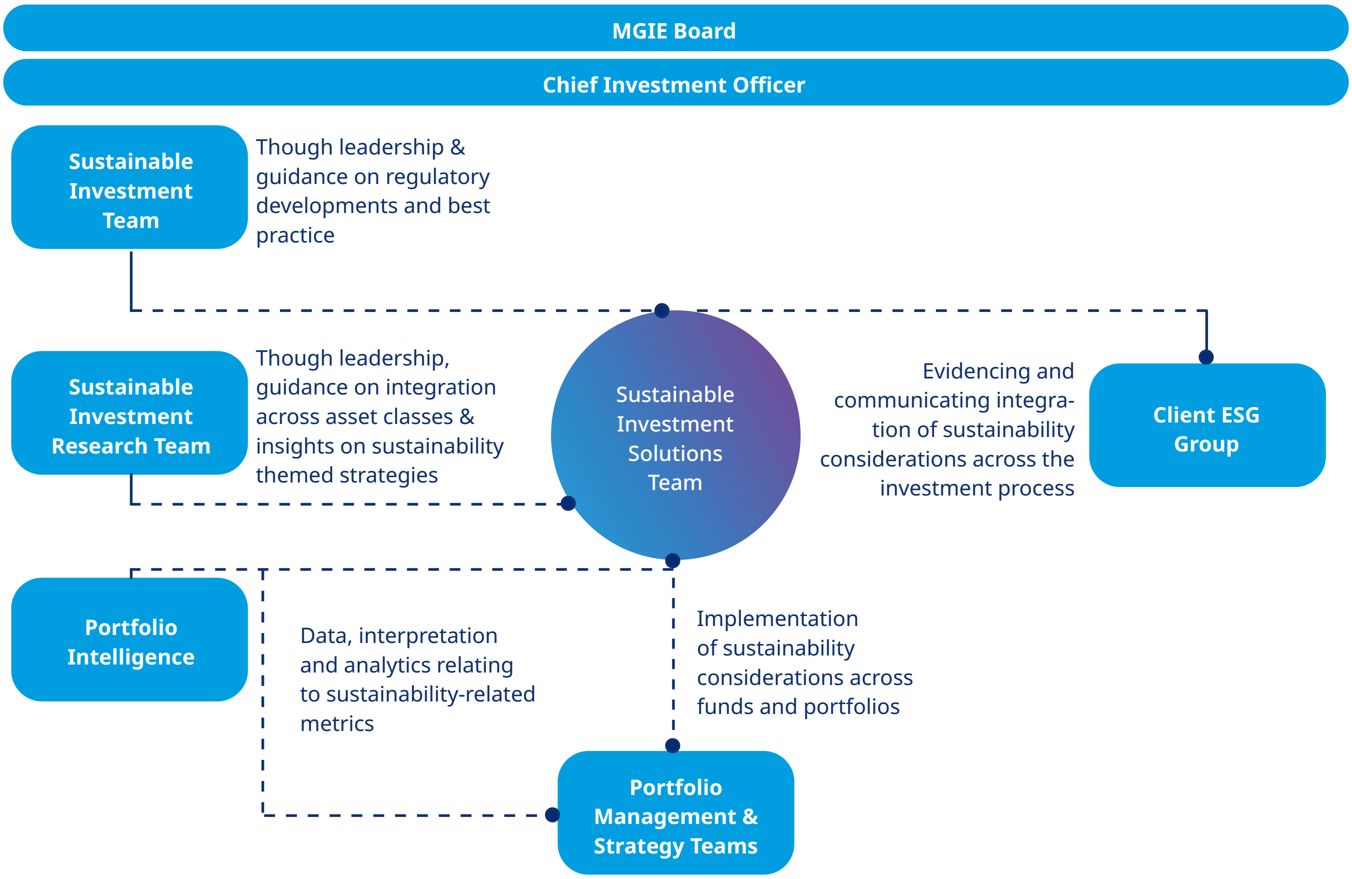
A number of key roles are in place to support the effective integration of stewardship and broader sustainability-related considerations. These, along with the core responsibilities of each, are provided below with:

Role	Areas of responsibility
Mercer IS Board of Directors	Oversight responsibility for the investment management of the Mercer Funds. The Board receives updates on stewardship practices as part of annual updates on the implementation of the Sustainability and Stewardship Policies.
Mercer IS Chief Investment Officer (CIO)	Sets expectations and provides direction to portfolio managers and management committees on the implementation of the Sustainability and Stewardship Policies. The CIO reviews and assesses results and reports regularly to business management and the Board.
Mercer IS Head of Sustainable Investment Solutions	Provides strategic direction to the Sustainable Investment Solutions team and broader investment business on the integration of sustainability considerations and oversees the implementation of Mercer IS's Sustainability and Stewardship Policies.
Global Head of ESG and Sustainability	Oversight responsibility for Mercer's ESG value proposition and positioning, embedding sustainability in client journeys and driving practical, relevant and value-added outcomes.
Global Leader for Sustainable Investment Solutions	Provides strategic direction to the broader Sustainable Investment Consulting team, which generates intellectual capital and provides advice on best practice to the Sustainable Investment Solutions Team across areas such as ESG integration, stewardship, screening, climate change and biodiversity.
Head of Sustainable Investment Research	Integrates stewardship considerations into Mercer's manager research and ESG ratings processes. This research supports our portfolio managers in the manager selection process and in monitoring appointed managers against the investment manager universe.

Role	Areas of responsibility
Global ESG Integration Forum (EIF)	Oversees and coordinates the approach to ESG integration across the Global Investment Solutions business, developing and/or reviewing frameworks and policies on ESG matters and sharing ideas, learnings and keeping up to date with best-practice ESG integration. The Forum consists of representatives from the global investment, sustainable investment and portfolio intelligence teams. The Forum is chaired by the Global Leader for Sustainable Investment Solutions.
ESG Co-Ordination Group (ECG)	The ECG meets regularly to address key issues related to the development and implementation of the Sustainability and Stewardship Policies and other ESG-related matters and consists of representatives from the sustainable investment solutions, sustainable investment consulting, investment, compliance, portfolio management, portfolio intelligence, and client and business development teams. The Group is chaired by Mercer IS Head of Sustainable Investment Solutions.

For stewardship to be effective, it is crucial that it is integral to investment decision-making. Our approach to stewardship combines Mercer's global investment research and sustainability-related investment expertise with portfolio management and portfolio analytics to implement a meaningful stewardship approach within our investment process.

Figure 8. Key resources supporting Mercer's stewardship activities across the investment process



Mercer Global Sustainable Investment Consulting team
Mercer's specialist global Sustainable Investment Consulting team (or "SI team") continues to provide advice on best practice to Mercer IS. The SI team was formed in 2004 and has extensive experience advising leading global institutions on ESG issues, stewardship, sustainability and climate change. The team currently has 25 dedicated and experienced professionals across the globe and is supported by a network of around 90 Sustainable Investment Champions. The SI team has extensive experience advising on stewardship with several team members providing advice on stewardship since the launch of the UK Stewardship Code back in 2010. These team members work closely with the Sustainable Investment Solutions team (or "SIS team") in developing our approach to stewardship.

Mercer IS Sustainable Investment Solutions team
To support Mercer IS's evolving approach to integrating sustainability across its solutions and meet increasing regulatory and reporting requirements, Mercer IS established a dedicated Sustainable Investment Solutions team in 2021. This included the appointment of the Head of Sustainable Investment Solutions and two hires during 2021 with an additional three hires added to the team in early 2022 to strengthen ESG integration and sustainability implementation across our solutions and investment processes. The team focuses on a number of areas including ESG integration, climate, screening, data and analytics and stewardship. The team includes a senior stewardship specialist, with over 15 years' industry experience, five of which have been spent at Mercer in a sustainability-focused role.

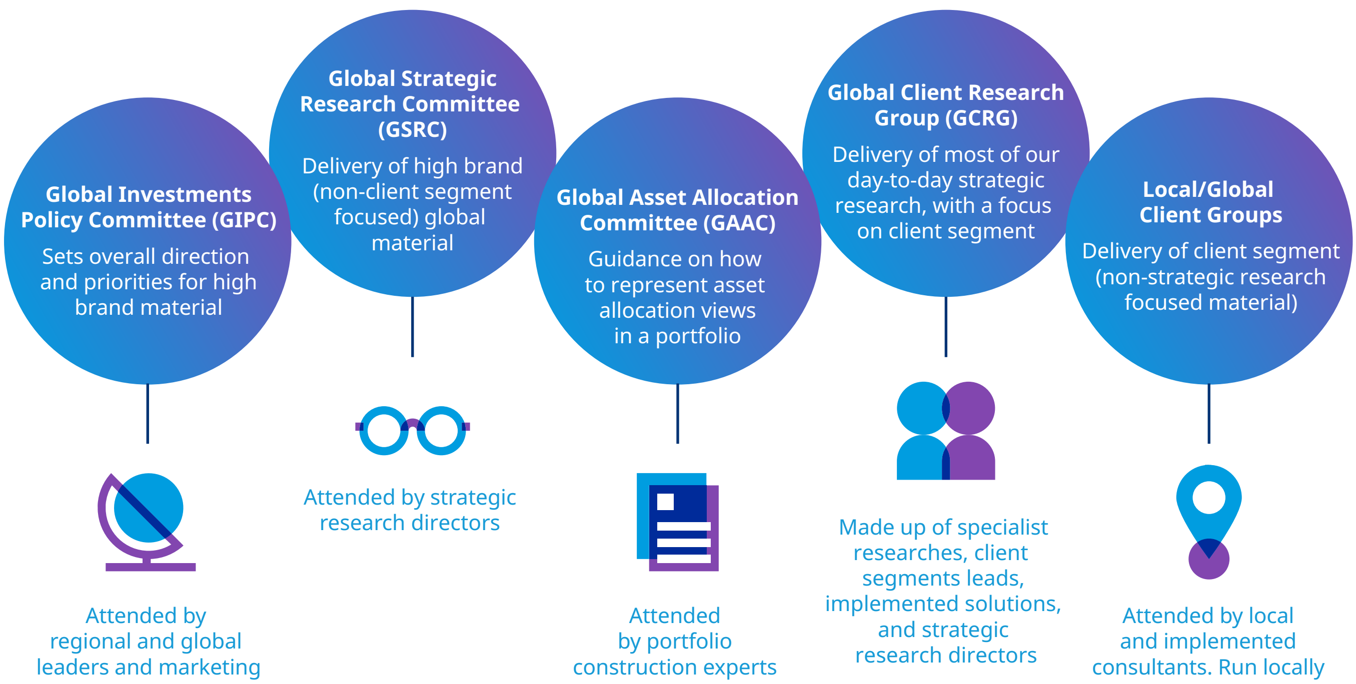
The second member is a senior stewardship analyst, with over four years' industry experience, all of which have been spent at Mercer. Together these team members focus on developing and integrating Mercer IS's stewardship framework within the investment process and across the investment teams, along with other members of the SIS team and with input from the SI team.

Client ESG Group
To support client teams in evidencing and communicating the integration of sustainability considerations across the investment process with clients, a dedicated Client ESG Group was established in 2020. The Client ESG Group consists of seven members from the client team who work closely with the Sustainable Investment Solutions team in supporting clients in meeting their regulatory requirements, such as TCFD reporting and Engagement Policy Implementation Statements, as well as incorporating and evidencing sustainability considerations across their portfolios.

Wider global resources

Mercer IS has the leadership and support of the global Mercer Investments business. As stewardship forms part of our global investment beliefs, it is a topic and theme which forms a critical part of our investment research agenda. It is therefore embedded into our manager research, strategic research and intellectual capital.

Figure 9. Global resources across Mercer investments



Aligned incentives

All team members of the Sustainable Investment Solutions team have annual performance goals aligned with the successful implementation of Mercer IS's Sustainability and Stewardship Policies. These goals cover integrating ESG, stewardship, climate change and other sustainability-related issues across our solutions and delivering for our clients. These goals influence year-end compensation and discretionary bonuses.

Mercer has included specific objectives in the annual goal setting process for all staff relating to the incorporation of sustainability considerations in roles and decision-making. Additional goals, relating to understanding and promoting Mercer's sustainability beliefs and implementing the key principles embedded in Mercer's Sustainability Policy, are assigned to those with investment management responsibilities.

Training

As part of embedding sustainability throughout our business, the Sustainable Investment Solutions team, with support from the Sustainable Investment Consulting team, hold training sessions for colleagues focused on various ESG themes. There is regular information sharing between the Sustainable Investment Solutions, Sustainable Investment Consulting, Investment, Client ESG Group and broader client-facing teams. Topics and training vary and focus on the practical implementation of sustainability considerations across solutions while considering clients requirements.

Over 2022, regular training sessions were held to keep consultants up to date on Mercer IS's sustainability-related investment activity. These sessions covered a variety of topics and included an annual update on work covering all four pillars of our sustainability approach i.e. ESG integration, stewardship, sustainability-themed investments and screening. As part of an extensive project to meet our Sustainable Finance Disclosure Regulation reporting requirements, updates on related developments within the majority of our multi-client Funds' sustainability characteristics were provided along with multiple sessions to ensure new client sustainability preferences requirements under MiFID's suitability assessment framework were effectively integrated. We worked collaboratively with our Sustainable Investment Consulting colleagues to deliver additional educational sessions addressing developments relating to biodiversity and climate investing, with a focus on TCFD reporting (for our clients and Mercer IS as a business). This included training on climate-related metrics and Mercer's climate transition framework for net zero target setting.

In addition, the broader Mercer Investments business has benefitted from the breadth and depth of research provided by Mercer, investment managers and industry stakeholders, during Mercer's annual Global Investment Forums (GIFs) and Learn-Share-Connect (LSC) sessions.

Mercer continues to encourage investment staff and client consultants to participate in formal training through the CFA ESG certificate and the CFA Certificate in Climate Investing to enhance knowledge around ESG and climate-related investing, and the importance of stewardship as a way to achieve clients' sustainability objectives and ambitions. Through these and other initiatives, we continue to see the level of sustainability and stewardship knowledge across Mercer IS grow year-on-year.

Diversity, equity & inclusion

Building an inclusive culture and diverse workforce is a business imperative for Marsh McLennan, with a global cross-enterprise strategy which is then refined at business and country level. Our business and leadership teams are organised around clear, measurable goals to progress the diversity and inclusive culture of our workforce.

Mercer IS is committed to:

- Reflecting the communities in which we serve
- Promoting stronger gender diversity across both the key decision makers (KDM[6]) within our own investments team and the teams of appointed managers responsible for our fully discretionary portfolios.
- As at 31 December 2022, 35% of the KDMs within Mercer IS were female identifying.
- As at 31 December 2022, over 16% and over 14% of the KDMs across the equity and fixed income appointed managers' teams respectively were female identifying. While these numbers still fall below industry best practice, we have noted an increase over 2022 and are committed to continuing to work with our appointed managers to drive positive change in the industry as a whole[7].

We continue to place significant emphasis on our strategy to progress towards a diverse workforce. This includes diverse slates in hiring for all roles and particularly senior roles, programmes to accelerate high potential mid-career diverse employees, scrutiny of promotion and reward decisions to avoid bias, and agility in work for all. Each year, we implement specific programmes to support our Diversity, Equity & inclusion (DEI) agenda.

Over 2022, amongst other things we have:

- Used private-listening exercises and employee surveys to inform the focus of our approach to embedding DEI in our workforce. Recent areas of focus include reviewing our parental leave and flexible working policies as well as our exit interview process.
- Focussed on advocacy and role modelling: delivered training, regular newsletter and podcast series on DEI, worked across our Business Resource Groups and DEI networks, hosted focus groups and sponsored internship programmes focussed on individuals in under-represented groups.
- Created a focus on future talent: focussed activity to retain or improve diverse representation at senior management level, such as Succession Planning for "power seats", our Women in Growth programme and senior management sponsorship programmes.
- Recruited a diverse workforce: Implemented a DEI focussed recruitment strategy for senior management hires, and clear DEI requirements for all hires (including Talent & Acquisition and market mapping) and established a more robust exit interview process.
- Embedded DEI into BAU: Development and implementation of DEI targets, real time diversity data dashboards and ongoing BAU quarterly reporting and action plans.

In addition to being recognised by leading publications, associations and studies for our achievements, we are also EDGE certified, which is the certification standard for gender and intersectional equity. Reflecting our commitment to gender diversity, Mercer IS also became a signatory of the 30% Club's UK Investor Chapter in 2022.

Manager research, systems and tools

Manage research

Stewardship and active ownership form an explicit part of Mercer's ESG ratings framework applied during the manager research process for the investment strategies we assess and rate, as part of the Manager Research function. The manager research team assess the extent to which ESG and stewardship is incorporated into the investment process and investment decisions. Please see the figure below which summarises our ESG ratings for active strategies and our ESGp ratings for passive strategies.

6 where KDM is someone who is either a) an authorised signatory b) voting member of investment committee or c) lead portfolio manager or adviser

7 see Diversity, Equity and Inclusion section under Engagement Priorities starting on page 45

Figure 10. Mercer's ESG ratings for investment managers

	ESG 1	ESG 2	ESG 3	ESG 4
Active	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 progess.	**Little or no integration** of ESG factors or stewardship into core processes and no indication of future change.

	ESGp1	ESGp2	ESGp3	ESG4
Passive	Leaders in voting and engagement **across ESG;** stewardship activities and ESG intiatives undertaken consistently at a **global level; clear link between engagement & voting actions.**	**Strong approach** to voting and engagement across ESG topics, and initiatives at a regional level, with progress made at a global level; **working towards clearer links between voting and engagement.**	Focus of voting and engagement tends to be on **governance topics only**, or more regionally focused with **less evidence of E&S** (in voting and engagement, as well as other internal ESG initiatives).	**Little or no initiatives** taken on developing a global voting and engagement capability, reactive engagements; and little progress made on other ESG initiatives.

Mercer has developed a four factor framework to inform ESG ratings.

Figure 11. Mercer's ESG four factor framework

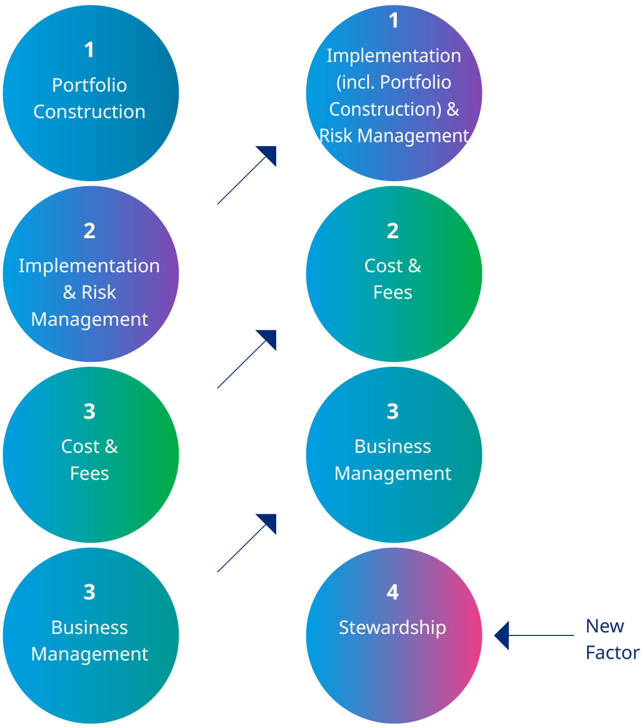
	Idea generation	Portfolio Construction	Implementation	Business Management
Active	ESG factors integrated into active fund positions as a source of value added. Identification of material ESG factors, skill of team members, data sourcing.	Efforts to integrate ESG driven views into the portfolio's construction.	Engagement and proxy voting activities (if applicable). Investment horizon aligned with ability to effectively implement ESG views.	Firm-level support for ESG integration, engagement activities and transparency.

	ESG integration	Resources & Implementation	Voting & Engagement	Firm-wide commitment
Passive	Skill set of resources.	Efforts to integrate ESG driven views into the portfolio's construction.	Engagement and proxy voting activities (if applicable). Investment horizon aligned with ability to effectively implement ESG views.	Firm-level support for ESG integration, engagement activities and transparency.

In addition to ESG ratings, Mercer also has Investment Ratings, based on a four factor framework.

In 2021, Manager Research combined two of the existing passive factors ('Portfolio Construction' and 'Implementation & Risk Management') to form a single factor while introducing 'Stewardship' as a standalone factor to assess managers' ESG integration. 'Cost and Fees' and 'Business Management' factors remained the same. This update was progressed in 2022 on a case-by-case basis when passive strategies were reviewed as part of the regular research update for an investment manager. For equities, an assessment was pre-existing in the form of ESGp ratings for passive managers. Therefore the transition to 'Stewardship' as a fourth factor was clear. For fixed income, this saw the introduction of the assessment of stewardship at the same time as integrating it into a fourth factor. The move to 'Stewardship' as a fourth factor continues to be worked on in 2023.

Figure 12. Change to Mercer's passive ESG four factor framework



Systems

Over 2022, Mercer Investments went live with updated questions on climate and DEI in MercerInsight, our global manager database, for investment managers to populate. These questions include details around climate-specific voting policies and initiatives along with strategy level questions around ESG integration, strategy specific engagement, voting activity, exclusions, climate change, and other sustainability-related questions. We continue to encourage managers to ensure they have completed the data request.

In addition, Mercer IS uses its annual ESG and Stewardship Survey to capture appointed managers' responses to questions covering managers' broad stewardship or active ownership approaches as part of their investment integration, then focuses on Mercer's global engagement priorities of climate change; labour practices and human rights; and diversity, equity and inclusion. Within climate change, the connected roles that natural capital and biodiversity have are also recognised this year.

A project aiming to map and merge questions from both the annual ESG and Stewardship survey and MercerInsight is currently underway to develop a single source of manager-related information and further reduce the volume of requests for information disseminated to managers.

Tools

Mercer Investments have formed an alliance with eVestment to host our digital investment analysis platform MercerInsight[8]. The new platform will capture more data from investment managers and have stronger tools to extract that data into charts and tables for better analysis, including ESG-related factors. This will then influence the discussions we have with investment managers and, in turn, inform the conversations the investment managers will have with the underlying companies they invest in.

Over 2023 we plan to leverage the eVestment[9] platform to better capture and assess investment managers on how they are undertaking stewardship and engagement in their investment strategies across asset classes. The updates will collate stewardship information input by managers into eVestment and, in some categories, score managers on their stewardship capabilities in a systematic way based on this data. The data captured will be based on policy and governance structures, dedicated resourcing on stewardship, engagement process and outcomes, collaborative initiatives, and voting for equities. As deemed appropriate, we may also focus on collating further information on specific themes such as climate change, DEI, human rights, and nature. This will allow for flexibility to include new data and themes as they emerge.

As a result of this evolution in our wider investment manager research approach, and to avoid duplication of effort, we have currently paused conducting separate assessments and monitoring reports using the Stewardship Assessment Framework referenced in Mercer IS's 2021 UK Stewardship Code report. As part of the evolution in our approach we will look to consider and align, where practical, our research approach with the Principles of the UK Stewardship Code.

Third party ESG data provider review

We use third-party data to provide more granular analysis and assessments across a number of areas, assisting with identifying trends and supporting more effective manager engagements. This has been particularly helpful in supporting our wider net zero engagement activities with appointed managers, as we work with them to transition our portfolios to support our net zero targets across our multi-client, multi-asset funds.

Mercer IS undertakes regular reviews of its third party data providers as part of our commitment to continuous improvement. Mercer IS, together with the Sustainable Investment Consulting team, undertook a review in 2022 of the third party appointments for ESG data and service providers to assess gaps in service and identify areas for improvement. The review assessed nine data providers on three key areas: broad ESG data, bespoke ESG data, and voting and engagement data.

Based on our assessments, we decided to continue with the incumbent data providers, with additional enhancements to support greater ESG integration. For stewardship services, we added controversy alerts and engagement research, and for ESG data services we added new nature and water datasets, more social metrics on human rights and modern slavery, and country risk.

Between formal reviews, Mercer IS undertakes ongoing dialogue with its providers in order to improve the level of service, disclosure and quality of data received.

8 Mercer's platform for institutional investors and investment managers to gain access to insights and analytics on our investment research.

9 Owned by NASDAQ, eVestment is the leading institutional investment database and software company. eVestment brings transparency and efficiency to the global institutional market, equipping managers, asset owners and consultants to make data-driven decisions, deploy their resources more productively and ultimately realize better outcomes.

Use of third party data and service providers

Data / service provider	
Glass Lewis	Mercer IS uses Glass Lewis to assist with the reporting of voting statistics across all multi-client and bespoke funds at an aggregated, fund specific and strategy level. The reporting from Glass Lewis enables us to identify how all votes have been cast, and provides us with granular data on specific voting topics relating to our engagement priority themes e.g. climate change and board diversity. Controversy alerts and engagement research are a new addition to the services and research provided by Glass Lewis, which we believe will further support our engagements with appointed managers. The reporting provided assists us in supporting clients with the preparation of Engagement Policy Implementation Statements. Glass Lewis also maintains public disclosure of voting results on our dedicated website.
ISS-Ethix	Mercer IS has appointed ISS-Ethix to assist in identifying securities for exclusion across a number of Mercer Funds as well as portfolio screening for high-severity ESG-related risks as flagged according to the UN Global Compact ("UNGC") Principles that relate to human rights, labour, environment and corruption issues. In line with recent commitments made under SFDR, identified instances across active and passive equity and active fixed income funds will be flagged and raised with underlying managers for engagement purposes and potential exclusion in future in line with Mercer's UNGC Engagement Framework. This methodology supports the promotion of good governance practices, particularly across funds classified as Article 8 as per the SFDR. ISS is also used for the net environmental and social UN Sustainable Development Goals (SDG) mapping of a number of funds, and to provide metrics on exposure to green revenues, which is used as an input into our Analytics for Climate Transition (ACT) tool.
MSCI	Mercer IS has access to MSCI ESG Research and utilises their bottom up company-level ESG ratings, climate and diversity-related metrics to monitor portfolio holdings. These metrics are reviewed quarterly at investment risk management committee meetings, more frequently where required, and further used as an engagement tool with managers to ensure they are doing what their process commits them to undertake. Metrics are also used as an input to the ACT tool to assist with our transition targets and reporting in line with TCFD requirements. More recently we have extended our services to include the module relating to SFDR to assist in monitoring Principal Adverse Impact indicators and other metrics required as part of SFDR, which will further provide insights for engagements with managers. We have also begun to track and analyse biodiversity metrics and will be linking these to our existing climate framework over 2023 to formally integrate biodiversity and broader nature risks within our investment management process.
State Street	Mercer IS has appointed State Street for the provision of certain reporting requirements in relation to SFDR and other regulations (e.g. MiFID II). State Street are responsible for the calculation of Principal Adverse Impact indicators and the production of certain required reporting templates, such as the European ESG Template (EET), and SFDR Pre-contractual and Periodic Disclosures.

Managing conflicts of interest

Managing conflicts of interest

Mercer IS recognises that the identification, avoidance or management and mitigation of conflicts of interest is an ongoing process. Mercer IS seeks to manage these conflicts primarily with policies and procedures that are designed to protect client interests as well as through disclosures.

Mercer IS does not invest in companies directly and as such this limits the potential for conflicts of interest in relation to stewardship. We will continue to monitor appointed manager conflicts of interest through our quarterly due diligence questionnaire.

Mercer IS takes all reasonable steps to prevent conflicts of interest from adversely affecting the interests of our clients. Our Conflicts of Interest Policy explains how we identify, prevent and manage actual or potential conflicts of interest, which may arise between our clients and ourselves, or between one client and another, in circumstances where we are providing our products and services.

When considering whether a conflict of interest does, or has the potential to exist, Mercer IS's Conflicts of Interest Policy has a list of criteria to consider. The following will be taken into account as appropriate:

- Is Mercer IS likely to make a financial gain, or avoid a financial loss, at the expense of the client?
- Does Mercer IS have an interest in the outcome of a service provided to the client or of a transaction carried out on behalf of the client, which is distinct from the client's interest in that outcome?
- Does Mercer IS have a financial or other incentive to favour the interests of one client or group of clients over the interests of another client?
- Does Mercer IS carry on the same business as the client?
- Does Mercer IS receive or will it receive from a person other than the client an inducement in relation to a service provided to the client, in the form of monetary or non-monetary benefits or services?

Our Conflicts of Interest Policy does not include specific reference to stewardship. As mentioned, Mercer IS does not invest in companies directly, limiting potential conflicts of interest relating to stewardship. Instead, voting rights and responsibilities typically sit with the appointed managers as laid out in investment management agreements and investment guidelines.

Expectations of investment managers and their conflicts of interest policies

Mercer expects its appointed managers to have policies and procedures in place designed to manage their own conflicts of interest in relation to stewardship. As part of its review and appointment process, Mercer assesses whether its appointed managers have policies and procedures that are designed to manage conflicts in relation to stewardship. As part of quarterly due diligence questionnaires, managers are required to report on their conflicts of interest policy and the procedures that allow them to adhere to that policy.

Over 2022, nine appointed managers reported voting on proxies where a conflict of interest was present. The majority of these cases related to one of two circumstances: 1) cases where the manager was invested in different parts of the company's capital structure (e.g. common shares and debt), and 2) cases where the issuer of the securities being voted was a client of the manager holding the voting rights. In all cases, managers provided details of the conflict mitigation policies and processes in place to protect the interests of their clients. As a result of these policies, the majority of cases were reviewed by an oversight committee prior to vote execution or were voted in-line with the managers' proxy advisor's recommendation, in accordance with their voting guidelines.

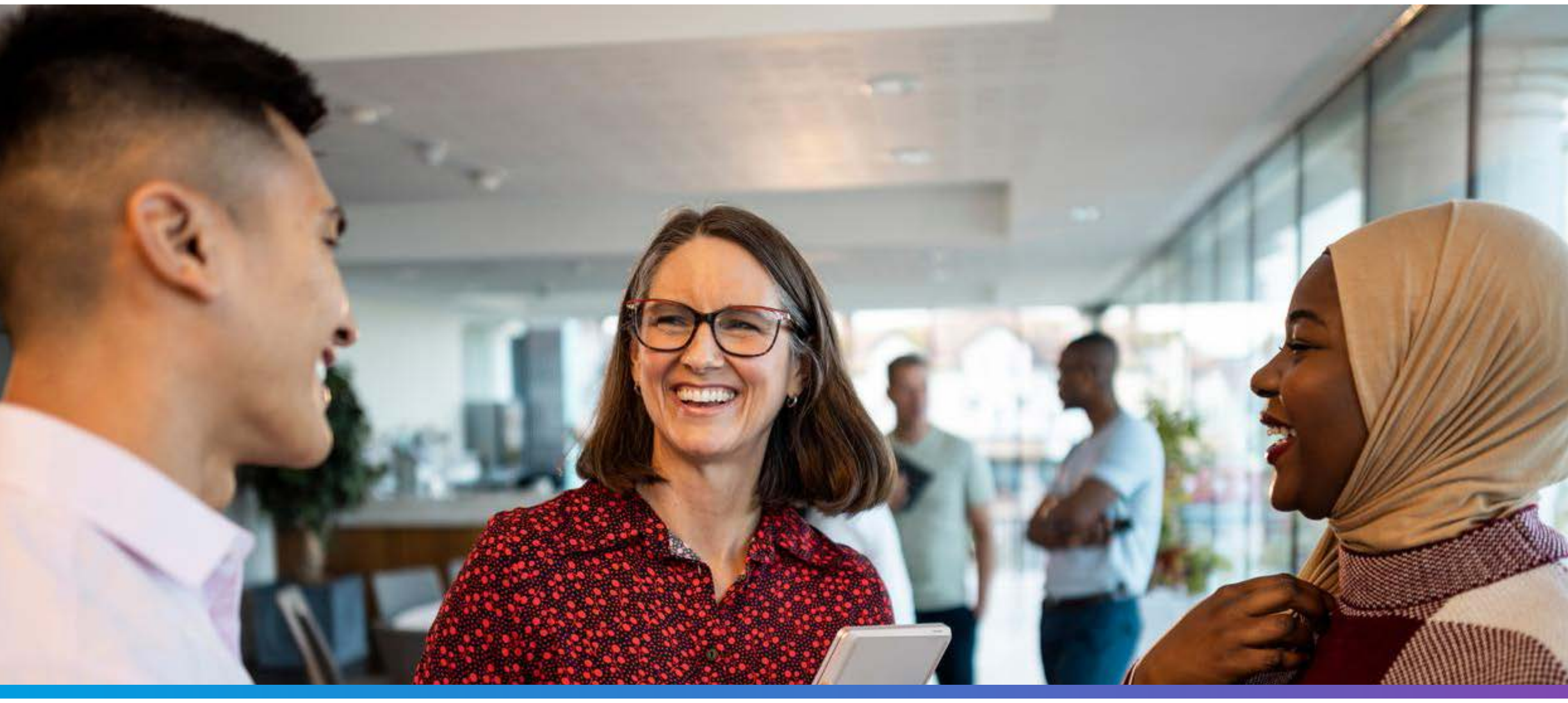
Mercer IS recognises and manages the potential conflict between the interests of clients and those of the broader organisation. Mercer IS typically delegates all vote execution and company-level engagement to appointed managers and monitors their approach to voting and engagements, rather than making specific voting and engagement decisions. Mercer IS retains the right to direct a 'Super Vote' to override a manager's vote on any resolution in circumstances where we believe consistency on a significant matter is in the best interest of investors. While Mercer IS has not exercised this right yet, in determining such votes, we will consider our proxy advisor's recommendation, the view of our investment managers and best practice guidelines and Mercer IS's Global Engagement Priorities. Mercer IS may also conduct its own research or engage with the relevant company to inform its decision on a Super Vote, in these circumstances.

Potential conflicts that could arise include holdings in relation to Mercer IS's parent company stock, Marsh McLennan companies (MMC), however this is mitigated through the delegation of all vote execution and company-level engagement to appointed managers.

Mercer IS will endeavour to prioritise topics for engagement that are in the best interests of our clients. However, given Mercer IS's broad client base, there may be cases where the nature of a client's business is in conflict with that. This would not limit Mercer IS from advocating for these engagement activities, and where these engagement activities occur, the investment team will communicate the engagement priorities to client relationship teams so they can consider the sensitivities for Mercer IS clients or prospects.

A similar approach is adopted in the case where companies, who are also clients of Mercer, are excluded across Mercer Funds given the nature of their business, based on Mercer's Exclusions Framework.

Supporting clients with stewardship



Supporting clients with stewardship

The vast majority of clients Mercer IS partners with are long-term institutional investors, including pension funds, insurance companies, endowments and foundations. Therefore as 'universal owners' with a long-term time horizon, the consideration of investment governance and active ownership is of great importance.

The charts below show the client, asset class and geographical breakdown of the Mercer IS assets under management (AUM) of c.£117bn as at 31 December 2022.

AUM by client type

Type	
DB	60%
DC	18%
Insurance	10%
Wealth Management	8%
Endowments & Foundations	3%
Financial Institutions	2%
Total	**100%**

Source: Mercer. Data as at 31 Dec 2022

AUM across client geographical region

Type	
Europe (ex UK)	54%
UK	40%
IMETA (India, Middle East, Turkey and Africa)	3%
Asia Pacific	3%
North America	<1%
Total	**100%**

Source: Mercer. Data as at 31 Dec 2022

AUM across asset classes

Asset class	
Equity	35%
Fixed Income	28%
Alternatives	2%
Multi Asset	34%
Cash	1%
Total	**100%**

Source: MSCI Barra. Data as at 31 Dec 2022

AUM by country of exposure

Country of exposure	
Europe (ex UK)	18%
UK	16%
IMETA (India, Middle East, Turkey and Africa)	4%
Asia Pacific	16%
North America	37%
Latam	2%
Other*	7%
Total	**100%**

Source: MSCI Barra. Data as at 31 Dec 2022

* Other includes assets classified as Cash & Deposits, Derivatives & Other Assets & also assets which have N/A, World or no country of exposure data in MSCI Barra

Managing to appropriate time horizons

The majority of our clients have long-term time horizons and Mercer IS in turn seeks to generate long-term sustainable returns to align with these horizons. When setting an investment strategy for a client we take into account their short, medium and long-term objectives and seek to ensure our overall approach, including stewardship activity, aligns with this. Clients with longer time horizons typically have long-term holdings in investments (e.g. equities) making long-term risks and opportunities highly relevant, including market-wide risks. However, even clients with shorter horizons and investments in instruments that mature over a shorter period of time (e.g. corporate bonds) can be exposed to rapid repricing through ESG and wider risks. Stewardship therefore is still important but from a risk perspective. We recognise shorter time horizons also increase liquidity requirements which in turn limits the ability to invest with, and by extension engage with, certain areas of the market. Mercer's ESG ratings also seek to assess whether the investment horizon of the manager aligns with an ability to implement ESG views effectively.

Managing assets in line with clients' stewardship and investment policies

Mercer IS assists its clients with drafting investment policies and then manages investment strategies in line with them, reporting against key areas. The use of Engagement Policy Implementation Statements provides the opportunity for our pension scheme clients to formally document the practical implementation of various stewardship policies found within their Statements of Investment Principles. We assist clients with drafting these reports, which provides the opportunity to ensure what is articulated is implemented in practice.

Many of Mercer's clients invest in a fiduciary arrangement with Mercer IS appointed as discretionary investment manager with delegated responsibility for the day-to-day management of clients' assets. For the majority of these clients, assets are invested in a range of specialist multi-client funds ("Mercer Funds"). Mercer IS is responsible for the appointment and monitoring of suitably diversified specialist third party investment managers for Mercer Funds' assets.

Under these arrangements, clients accept that they do not have the ability to directly determine the engagement or voting policies or arrangements of the managers of the Mercer Funds. However, clients expect Mercer to manage assets in a manner, as far as is practicably possible, that is consistent with their engagement policy as well as broader investment policies.

As detailed below, clients review regular stewardship and sustainability/ ESG integration reports from Mercer IS, in order to consider whether their policies are being properly implemented. These reviews are generally supplemented with a detailed presentation to clients, on at least an annual basis, to highlight how Mercer IS has carried out its fiduciary responsibilities and integrated sustainability considerations across its investment processes. These interactions also provide an opportunity for Mercer IS to gather feedback from clients on any additional areas they feel should be addressed.

Supporting clients with their reporting requirements

Communicating effectively to clients is critical in supporting our clients in being effective stewards, and in understanding the actions taken by Mercer IS and our appointed managers on their behalf. Over 2022, various reports and monitoring exercises have supported clients with the preparation of their implementation statements and disclosure of sustainability considerations. The material included in our standard reporting covers a variety of information, including:

- A selection of sustainability-related metrics (incl. ESG ratings) are included in quarterly investment performance reports
- Climate scenario modelling and climate metrics to support TCFD-related disclosures
- Stewardship-related reporting such as engagement examples across priority themes and voting information (quantitative and qualitative) to support the completion of clients' Engagement Policy Implementation Statement disclosures as part of their annual financial reporting requirements.
- A variety of sustainability-related information is included in the Annual Sustainability Report including ESG ratings, climate-related metrics, voting statistics and engagement examples.
- Insights on Mercer IS's approach to stewardship across both voting and engagement activities is shared in the annual Stewardship Report, which this report expands on.
- Given the wide range and evolving requirements of our client base, we also provide bespoke voting, engagement and other sustainability-related reporting to meet specific client needs where necessary.

Clients also benefit from access to research and thought-leadership on the Mercer Insight Community. This digital platform allows investors to stay informed on the latest investment research, trends and innovations and helps to inform decision-making. It provides investment insights from Mercer and a range of third-party publishers.

Insights gained from these monitoring and engagement activities are also shared with the broader investment teams to support their engagements with managers and understanding of managers' approaches to stewardship and how they incorporate sustainability considerations into their investment decision-making processes.

We actively seek out client feedback through various channels, ranging from formal client surveys and reviews to ongoing discussions and queries from clients. Through these interactions, we are able to capture client feedback through multiple lenses. Feedback through bottom up, direct client interactions can provide deeper insights and improvements (for example on technical aspects to mandate design), while we can achieve a better understanding of broad client consensus and themes through surveys asking a consistent set of questions.

Client Experience Measurements (CEM) are an example of how feedback is sought from clients and are a formal dialogue (via interviews, surveys, and reviews) between clients and an independent contact from Mercer Investments. The process allows us to listen to the voice of our client and deeply understand their needs. Processes to capture day-to-day client feedback, including CEMs, have helped assess and improve the effectiveness of our chosen approaches, including effectiveness of communicating with clients. Client feedback continues to support efforts to evolve implementation statement reporting to be more member friendly while staying consistent with the latest regulations. See more on CEMs in the example below.

Client Experience Measurements

CEMs provide an opportunity for clients to feedback on our service, including whether we are meeting their stewardship needs, and to identify their key priorities. We aspire to an 8+ scoring on CEMs (on a scale of 1-10), remaining fairly consistent over the last few years, which has required us to take the right action on lower scoring CEMs. Overall feedback from our clients was that they believe Mercer to be a trusted adviser, acting as a partner.

UK Investment Insights: Sustainable Investment Survey 2022

As part of Mercer Investment's annual UK Investment Insights report, Mercer Investments surveyed its pension clients on how they are incorporating sustainable investing in their schemes. This research identifies emerging trends in the behaviour of 441 Defined Benefit (DB) schemes across the UK, reflecting total assets of approximately £344 billion (as at 31 December 2021).

The findings from the sustainable investing survey are captured in a standalone report - UK Investment Insights: Sustainable Investment Report 2022. Questions contained in this survey sought views on stewardship and engagement practices from clients across both the advisory and delegated solutions business.

It was found that voting and engagement are high on the agenda for schemes when both selecting and monitoring an investment manager. For example, 76% of clients take voting and engagement issues into account when selecting a manager and 82% when monitoring their investment managers. 97% percent of the schemes surveyed delegate voting and engagement activities to their investment managers. It is also worth noting that the majority of schemes (59%) expect to do more on voting and engagement in the near term as schemes' expectations of their investment managers are rising.

Figure 13. Does the scheme consider the voting and engagement activities when selecting an investment manager?

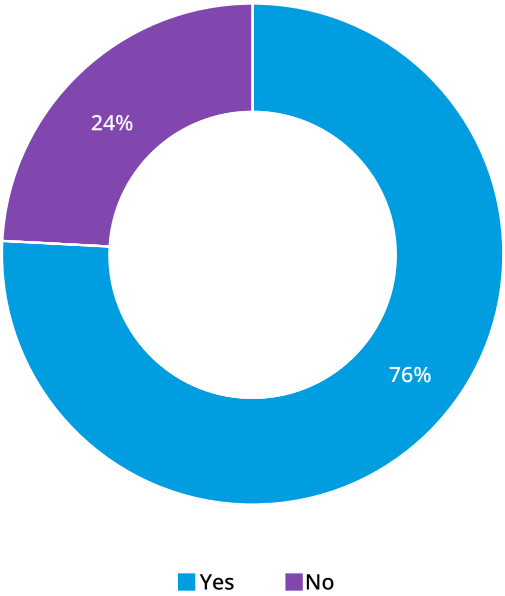
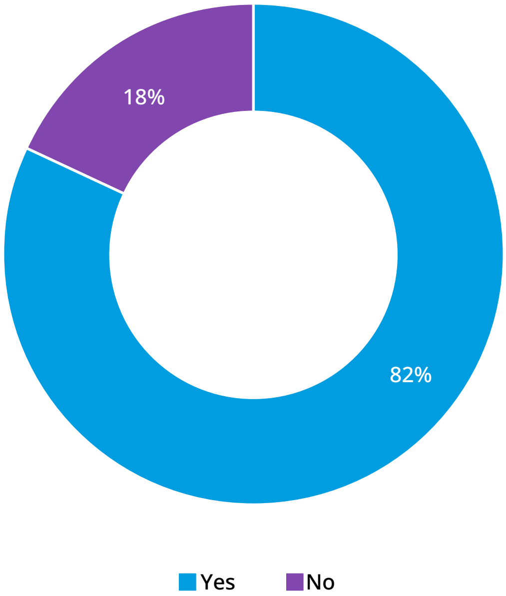


Figure 14. Does the scheme consider the voting and engagement activities when monitoring its investment managers?



While the UK Investment Insights report referenced above captured the views and approaches from both advisory and solutions clients in the UK, Mercer IS will be issuing a survey in 2023 specifically designed to seek the views of Mercer IS (i.e. solutions) clients across the UK, Europe and Asia. This will build on the first client survey conducted in 2021, which surveyed Mercer Ltd clients across the UK invested in Mercer IS's solutions on their engagement priority preferences.

ESG beliefs surveys may also be used to understand client preferences and their beliefs and views on a range of sustainability themes, implementation approaches and on how to be an active owner. Where these are carried out, the outputs are used to refine clients' investment policies and embed their key beliefs in strategic asset allocation and fund selection decisions.

We have a number of clients who are recognised as global sustainability leaders and interactions with these clients in particular have supported and driven proactive efforts to incorporate greater consideration of sustainability factors throughout the Mercer Funds.

We have launched funds with sustainability characteristics based on client feedback and demand. These funds focus on promoting environmental and/or social characteristics and incorporate a number of exclusions, which have also been informed by client discussions and our view of their suitability.

We actively encourage client-facing consultants to provide comments and feedback to our manager research and intellectual capital teams on the challenges, needs and expectations of our clients. This ensures we develop our solutions in a way that best meets the needs of our clients and helps us to innovate and drive new ideas.

The monthly meeting of the ESG Co-Ordination Group (ECG) is an important forum to ensure views and needs of clients and prospects make it into the development of solutions and reporting considerations.

The below highlights key areas where we have supported clients over 2022 and which we will continue to build on in 2023 and beyond.

Focus Areas	
ESG integration and stewardship monitoring	We support clients in understanding, considering and monitoring sustainability risks and opportunities across their portfolios. This is supported in a number of ways including through the use of Mercer's proprietary investment manager ESG ratings (please see page 41), climate- and diversity-related metrics (please see pages 51, 53 and 64) and portfolio alignment with the Sustainable Development Goals (SDGs), with ratings and metrics tracked and monitored over time and shared with clients in an annual ESG report. In addition, investment manager voting and engagement activities are tracked (please see pages 40-77).
Climate change analysis and net zero target setting	We are committed to addressing the risks and opportunities from climate change and have set ourselves a target of net-zero absolute portfolio carbon emissions for our model discretionary portfolios and the majority of our multi-client, multi asset Funds by 2050, with a 2030 target of at least a 45% reduction in carbon emissions (progress against this commitment is shown on page 50). From a top down perspective, climate-related risks and opportunities (covering both physical damages and transition risks) are taken into account as part of our climate change scenario modelling – the results of which feed into the strategic asset allocation of our discretionary portfolios. From a bottom up perspective, we utilise our proprietary Analytics for Climate Transition (ACT) Tool (see page 53), which identifies portfolio companies that are high carbon emitters with low transition capacity ("Grey" assets) through to low carbon emitters with high transition capacity ("Green" assets). This assessment allows us to manage high carbon and stranded asset risk and informs our engagements with investment managers on working with companies held within their portfolios that could be well-placed for the low carbon transition, but who do not yet have comprehensive transition plans in place as part of their business models. We report in line with the Task-Force on Climate-Related Financial Disclosure and have also assisted a growing number of clients report in line with the Department for Work and Pensions (DWP's) Climate Change Governance and Reporting regulations.
Statement of Investment Principles (SIP) and Implementation Statement support	We successfully assisted a growing number of relevant Defined Benefit (DB) pension scheme and Defined Contribution (DC) pension scheme clients: • To improve and evolve their engagement policy approach captured in their SIPs, including Trustees actively considering the Mercer approach and priorities to ensure it aligns with the Trustees policies, and how the approach is monitored. • In the production of Implementation Statements detailing voting and engagement activity which had taken place in their portfolios, with statements including disclosure on the most significant votes linked to key engagement priorities and the rationale for voting decisions. This has been supported by: • An ongoing focus on improving processes to support greater transparency and disclosure on the voting and engagement activities of our appointed managers. • The use of Glass Lewis to monitor appointed managers' voting activities • The use of Mercer's annual ESG & Stewardship survey to capture appointed managers' engagement activities Through our support to UK pension trustees in preparing their annual Implementation Statements and discussing their engagement priorities, we have helped to improve their oversight of the voting and engagement activities that are undertaken on their behalf by appointed managers.
ESG and stewardship benchmarking	In 2021, Mercer introduced the award-winning Responsible Investment Total Evaluation (RITE) tool[10] that scores a pension scheme according to how well sustainability is integrated into each aspect of Mercer's Sustainable Investment Pathway. RITE has been a powerful tool in helping our clients evaluate their progress and provide guidance on how to improve integration of sustainability considerations, including stewardship. The number of schemes covered by RITE has increased from 650 in 2021 to more than 1,000 in 2022, representing over $400 billion of assets and over 5 million UK pension scheme members. Schemes have made clear progress with the overall average scheme score moving from a C+ in 2021 to B in 2022[11].

10 Professional Pensions' DB Investment Innovation of the Year 2022 and Pension and Investment Provider Awards' ESG Data Provider of the Year 2022
11 Includes both advisory clients (Mercer Ltd) and delegated clients (Mercer Investment Solutions)

Reviewing policies, processes and activities

Reviewing policies, processes and activities

Mercer IS reviews its policies, processes and activities relating to sustainable investing and stewardship on a regular basis with policies undergoing an annual review process. The introduction of the EU Sustainable Finance Disclosure Regulation led to the implementation of a number of new processes and activities, and has encouraged greater disclosure on how sustainability risks and opportunities are considered across our investment process, as detailed in our Sustainability Policy. Mercer IS has also developed a standalone Stewardship Policy, integrated sustainability considerations into its remuneration policies, and developed policies and approaches to considering Principal Adverse Impacts within our investment process.

Mercer IS's governance structures ensure policies are updated annually and are adhered to, with compliance against policy principles monitored via Investment Risk Management Committees. The monitoring of sustainability-related risks and the integration of sustainability considerations across the investment management process is also supported through the inclusion of sustainability-related factors across business risk registers.

Policy reviews receive input and review from the Head of Sustainable Investment Solutions for MGIE, the Global Solutions Leader for Sustainable Investment and the Head of Compliance for MGIE and are approved by the Chief Investment Officer for MGIE. The Board receives policy updates along with quarterly and annual updates on policy implementation.

There are typically three drivers that might lead to a review of, and change to, underlying policies, processes or activities. We provide recent examples against all three below:

- **Regulation**:
  - The 2022 review of the Mercer IS Sustainability Policy included further updates relating to SFDR implementation, enhancements to Mercer IS's approach to climate change modelling and transition analysis, further detail on policy implementation and governance and updates to Mercer IS's exclusion policy. A variety of processes and activities to support these policy updates were simultaneously put in place to support implementation.
  - To support clients in scope of the DWP's Climate Change Governance and Reporting regulations, we enhanced our monitoring and disclosure of climate-related metrics to support clients' reporting requirements and help them understand the materiality of climate-related risks on their investments. We also enhanced our metrics offering to meet current and expected regulatory requirements such as expanding our metrics offering to include Data Quality and the evolving Scope 3 emissions reporting. Over 2022, the use of an updated climate scenario modelling tool, developed in partnership with Ortec Finance, has further supported our strategy teams' understanding of the potential impacts of climate change on different asset allocations across our multi-asset portfolios.
- **Best practice:**
  - Prior to 2022, Mercer IS's approach to stewardship was embedded within its Sustainability Policy, however given the evolution in our approach to stewardship and recognising the increasing role stewardship plays in the investment process, a standalone policy was introduced in 2022. Mercer IS has continued to enhance its disclosure around stewardship activities, including providing more detail on significant votes and engagements to support clients in the preparation of their Engagement Policy Implementation Statements. Greater insights on engagements that Mercer IS have undertaken with appointed managers, and further insights on engagements appointed managers have had with underlying issuers, are also shared with clients.
- **Key themes:**
  - To capture nature's growing prominence as a significant investment theme, and understand the approach appointed managers are taking to incorporate biodiversity

considerations in their investment process, the 2022 ESG and Stewardship survey included questions relating to biodiversity and nature. Biodiversity will be included as a distinct engagement priority as part of the 2023 annual review and update of Mercer IS's Stewardship Policy.

– Continuous improvements in data and frameworks around climate change has supported the evolution of tools developed by the broader Sustainable Investment Consulting team. For example, new alignment and physical risk metrics have been added to the Analytics for Climate Transition (ACT) tool in 2022 and work is planned to use technology to further scale the use of the tool over 2023 to meet increasing client demand for climate-related metrics. The inclusion of nature and biodiversity related metrics within tools is another key theme which will be considered in the near term.

Internal assurance

Mercer follows a 'Three Lines of Defence' model to manage risk across the business. This allows us to identify, assess and manage risks in a proportionate manner, while meeting client, shareholder and regulatory expectations.

1. The first line of defence is undertaken within the relevant business function which owns and manages risk. In this context, the Sustainable Investment Solutions team and portfolio managers are expected to follow policies and procedures to support effective stewardship. These procedures may relate to documenting and tracking engagements with managers; distributing and collating results from the ESG and Stewardship survey, and summarising and reporting on engagement activities. Across all these areas, and others relating to stewardship activities and the reporting thereof, the Sustainable Investment Solutions team and portfolio managers are expected to follow the peer review process (see below for more detail on this process).

2. The second line of defence is the risk and compliance teams overseeing the management of risk and compliance with regulatory obligations respectively. In addition to the annual review of policies relating to stewardship, our compliance team undertakes periodic monitoring reviews of processes underlying engagement activities as well as the reporting provided as a result of these activities.

3. The third line of defence is the internal audit team or other functions that might provide independent assurance.

The Sustainable Investment Solutions team has regular dialogue with compliance and audit teams to continuously assess and strengthen our internal assurance processes. In 2023, the scope of the internal audit will expand to include the integration of sustainability characteristics into Mercer Funds.

Our clients and appointed managers may take a number of approaches to assurance, with both external and internal assurance undertaken on their stewardship activities. Many clients also seek legal advice on documents such as their SIPs and Engagement Policy Implementation Statements.

Given ongoing regulatory developments, we will continue to review and develop our policies, processes and activities and strengthen assurance processes to ensure they remain fit for purpose.

Ensuring stewardship reporting is fair, balanced and understandable

All regular reporting provided to clients is subject to our peer review process. The process includes three stages: 'do', 'check' and 'peer review'. The review stage is undertaken by a colleague who has the necessary skills and knowledge, but was not involved in producing the report. This approach, along with internal stewardship processes, is key to ensuring reporting is fair, balanced and understandable.

In addition, the compliance team reviews publicly disclosed stewardship reports and related policies and provides advice on regulatory developments in this space.

Monitoring investment managers

Monitoring investment managers

Overall approach

Mercer IS appoints managers that are expected to adopt stewardship practices that include a focus on material ESG topics, including governance and strategy, together with relevant environmental and social topics consistent with Mercer's Sustainability Beliefs. Mercer IS believes its appointed managers are typically best placed to prioritise particular engagement topics by company. Therefore, in most instances, corporate engagement implementation is delegated to the appointed investment managers, who are encouraged to engage with issuers on material ESG issues with the aim of improving long-term risk adjusted returns and the stability of financial markets.

Approach across different investment arrangements

Mercer IS's investment arrangements are a combination of segregated mandates with appointed managers or investments in pooled vehicles. For the majority of clients, these segregated and pooled arrangements are combined into Mercer Funds and for certain clients, these funds are combined into portfolios. Mercer IS actively monitors its appointed managers on ESG integration and stewardship, consistent with Mercer's Sustainability Policy; however, application may vary depending on the degree of discretion available (which is expected to be higher in segregated mandates relative to pooled vehicles) in which the Mercer Funds invest.

Monitoring highlights

Mercer supports its clients in monitoring the stewardship and engagement activities of investment managers, including the assessment of external investment managers' capabilities with respect to monitoring investee companies. Over 2022, various reports and monitoring exercises, including our annual Stewardship Report, Sustainability Report and ESG and Stewardship Survey, have supported our clients in being effective stewards and in understanding the actions taken by Mercer IS and our appointed managers on their behalf.

Monitoring activities and reports are used to track progress and support clients with their implementation statements. A summary of key monitoring and engagement activity with appointed managers over 2022 is provided on the pages that follow, along with detail on Mercer IS's approach to engaging on and incorporating sustainability considerations relating to its priority engagement themes. The activities relate to appointed managers' and Mercer IS's approach to:

Broad ESG & stewardship approaches			Priority engagement themes		
ESG Integration (ESG ratings)	Stewardship	Monitoring of UNGC incidences	Climate & Biodiversity	Human rights & Labour relations	Diversity, Equity & Inclusion

Standard material supporting clients with the preparation of their Engagement Policy Implementation Statements and disclosure of sustainability considerations is issued by Mercer IS on a regular basis, including:

- An annual Sustainability Report delivered to all clients, including invested funds' average ESG ratings, climate-related metrics covering net zero progress where relevant, stewardship activity, and diversity, equity and inclusion integration. Throughout the year clients receive regular updates on activity relating to specific sustainability topics and themes, including our three engagement priority themes. Our standard client reporting includes ESG metrics covering ESG integration (based on Mercer's ESG Rating framework), Weighted Average Carbon Intensity metrics for equity and fixed income funds, and board gender diversity statistics for equity funds, helping clients keep abreast of progress the funds are making across these topics.
- An annual Stewardship Report which breaks down all engagement and voting activity from the previous year, presented through the lens of our engagement priority themes and capturing both our engagement activity with appointed managers, and our managers' activity with issuing companies.
- An annual Climate Change Management Report published in line with recommendations from the TCFD, outlining the planned actions and progress to date related to Mercer's net zero targets. The report includes detail on stewardship activities between Mercer IS and appointed managers relating to climate risk integration and mitigation, as well as potential opportunities in climate solutions investing. In terms of net zero progress, the narratives provided in the report are based on our model / off-the-shelf portfolios that clients' portfolios are broadly invested in line with, giving clients an insight into the main drivers of their own portfolio decarbonisation trajectories and stewardship focuses required in the medium term to support portfolio decarbonisation.

Mercer IS further assists clients with bespoke reporting requirements, including tailored manager ESG ratings reports, stewardship surveys and the use of our Analytics for Climate Transition (ACT) Tool on individual client portfolios, enabling clients to understand their exposure to potential climate-related risks.

Using Mercer ESG ratings to assess ESG integration

Mercer investment strategy-level ESG ratings are derived from assessment criteria that vary according to asset class and are relative to what Mercer believes is "best practice" ESG integration. Mercer's ESG ratings assess the degree to which, alongside other ESG related factors, active ownership practices are incorporated within an investment manager's investment process. Mercer's ESG ratings are considered when appointing mandates and during the ongoing assessment of appointed managers' approaches to ESG and active ownership.

ESG ratings are reviewed against asset class peer groups for equity, fixed income, property, infrastructure, liquid alternatives and multi-asset funds on at least a quarterly basis. Insights from these reviews may lead to engagements with managers whose ESG ratings are behind their peer groups, in order to drive greater integration of ESG considerations into their investment process, for the benefit of not only our clients, but their broader client base too.

Figure 15: Highlights from the 2022 annual ESG ratings review

% Funds with Higher or Equivalent[12] ESG Rating relative to MercerInsight Universe

Equities	Fixed Income	Alternatives	Multi-asset
(90%)	**(88%)**	**(80%)**	**(100%)**

21% of funds have seen an improved ESG rating over the last year

8% due to manager ESG rating upgrades

13% due to changes in manager line-ups

While we appreciate there are varying degrees of applicability across investment styles and asset classes, Mercer IS has been identifying managers with ESG ratings below their peer universe and engaging with these over the long term. These engagements are informed by research produced by Mercer's Manager Research team as well as the results from the manager's response to our annual ESG and stewardship survey. An example of an ongoing engagement with a systematic equity manager, which contributed to an improvement in ESG integration and by extension, an improvement in ESG rating, is shown below.

12 Equivalent includes funds' ratings within +/- 0.1 of MercerInsight universe average ratings

Case Study: Engaging with a systematic emerging market equity manager contributing to an improvement in ESG rating.

2020 2021 2022 2023

Short-term Engagement
Carbon footprint reduction

Objectives — **Status**
1. Reduce the carbon footprint of our funds
2. Understand the range of climate integration across managers and asset classes.

Methodology
Direct engagement. Carbon footprint analysis was undertaken in 2020 to identify funds with the highest carbon footprint. Engagements were then conducted by our PM team with managers through meetings, emails, and calls.

Outcome
Between 2020 and June 2021, the manager was able to reduce the fund's carbon footprint by over 70% without impacting their investment process.

This was a key driver in reducing the overall carbon footprint of the fund by 44% over the period, and ultimately achieving a carbon footprint of 50% below benchmark as at 30 June 2021.

While this engagement was considered successful, it was noted that there were opportunity areas around the manager's broader sustainability approach and implementation.

Long-term Engagement
Effective enhancements to stewardship within systematic strategies

Objectives — **Status**
1. Gain a deeper understanding of the limitations and opportunities available to systematic managers in undertaking stewardship
2. Encourage managers to adopt a stewardship approach that is: a) formalized through policy, b) implemented though asset-class relevant stewardship activity, and c) evidenced though quality disclosure.

Methodology
The manager was identified as an engagement candidate following the results of our 2021 ESG & Stewardship survey, which indicated room for improvement on policies, disclosure, and stewardship activity.

Initial two-way engagement
We first wrote to the manager, requesting a range of information to support their responses to the engagement survey. Following our initial request, an engagement-dedicated session was arranged to discuss their responses. To gauge the spectrum of stewardship activities among peers, we also met with other systematic managers, in addition to leveraging research available on MercerInsight™.

The session, which was attended by members of both our PM and ESG Investments teams, in combination with our research, was successful in deepening our own understanding of the limitations faced by systematic managers in undertaking stewardship activities, particularly where traditional engagement tools may be misaligned with a quantitative investment process.

During the session the manager shared a number of developments they had made to their investment process, including the use of a climate risk assessment. Despite this, we felt there remained potential opportunity areas, and highlighted the following points for their consideration:
1. The importance of a policy formalizing their sustainability beliefs and stewardship approach.
2. The growing needs of clients for more accessible and transparent reporting of ESG factors, notably outcome-driven voting and engagement examples.
3. The range of alternative stewardship tools we have seen from other systematic managers, such as involvement in collaborative initiatives and customized voting policies.

Progress/follow-up engagements
Upon follow-up in early 2023, the manager shared an engagement and active ownership policy, in which they detail an active stewardship solution considerate of their investment approach. This was a significant milestone in objective 2 being satisfied. Further time is needed to evidence how the new policy is being implemented in practice, which we will monitor over time.

These developments have also supported a rating upgrade from ESG4 to ESG3 during 2022.

Mercer's annual ESG & stewardship survey

Undertaking engagement with managers on priority ESG and stewardship topics for Mercer IS is an important part of our sustainability commitments and aligned with our regulatory obligations in certain regions. One of the core inputs into developing our understanding of managers' approaches to stewardship is through the Global Annual ESG & Stewardship Survey. Responses for over 400 strategies were received across our European, Pacific and North American regions, highlighting the extent of our reach and the significant opportunity we have to shape managers' stewardship practices. Highlights from the survey pertaining to strategies used in Mercer Funds domiciled in Europe are provided below.

Survey responses

	Europe	Equities	Fixed Income	Alternatives
Strategies covered*	261	124	103	34
Managers covered**	147	84	56	25
Response rate	92%	98%	97%	68%

*Survey responses are based on strategy and not firm-wide manager level;
**Managers may manage multiple mandates across different asset classes hence asset class numbers do not add up to total for Europe

The survey covers appointed managers' broad stewardship or active ownership approaches, as part of their investment integration, and then focuses on Mercer's global engagement priorities of climate change; labour practices and human rights; and diversity, equity and inclusion. Within climate change, we have also recognised the connected roles that natural capital and biodiversity play this year.

Strategies in scope may form part of multi-client or bespoke funds, with the level of monitoring and engagement varying across multi-client and bespoke funds. This is particularly true in instances where clients have a desire to stay involved in engaging with, and setting and communicating expectations of, managers in their bespoke implementation solutions. For the first time, as noted in our 2022 highlights, and in line with extending our monitoring of managers to additional asset classes, we have also extended the scope of the survey to include liquid alternative strategies.

Appointed investment manager's overall approach to stewardship

It is pleasing to note that almost all strategies within equities and fixed income engage with issuers on material ESG issues and that this number has grown year on year, particularly for fixed income. Unsurprisingly, when it comes to liquid alternatives i.e. hedge funds, which were included in the survey for the first time this year, the frequency of engagement activity is significantly lower. This is largely due to a number of underlying sub-asset classes not lending themselves to opportunities to engage (e.g. derivatives, ETFs). The results also highlight that while portfolio managers are mostly responsibly for engaging with issuers, engagements more generally are a collective effort between portfolio managers and a dedicated engagement team, and further show the variety of engagement approaches used by managers.

Figure 16: Strategies engaging on material ESG issues as part of the investment process

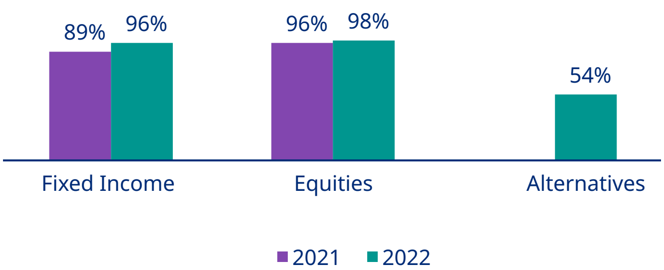


Figure 17: Strategies where different individuals are responsible for conducting engagements

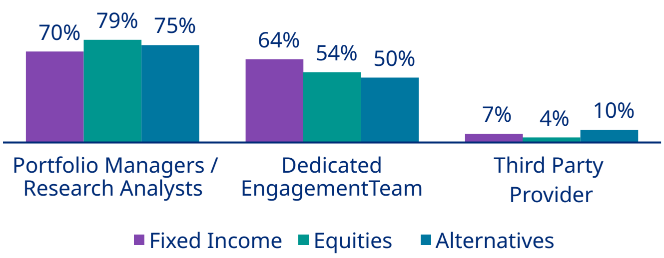
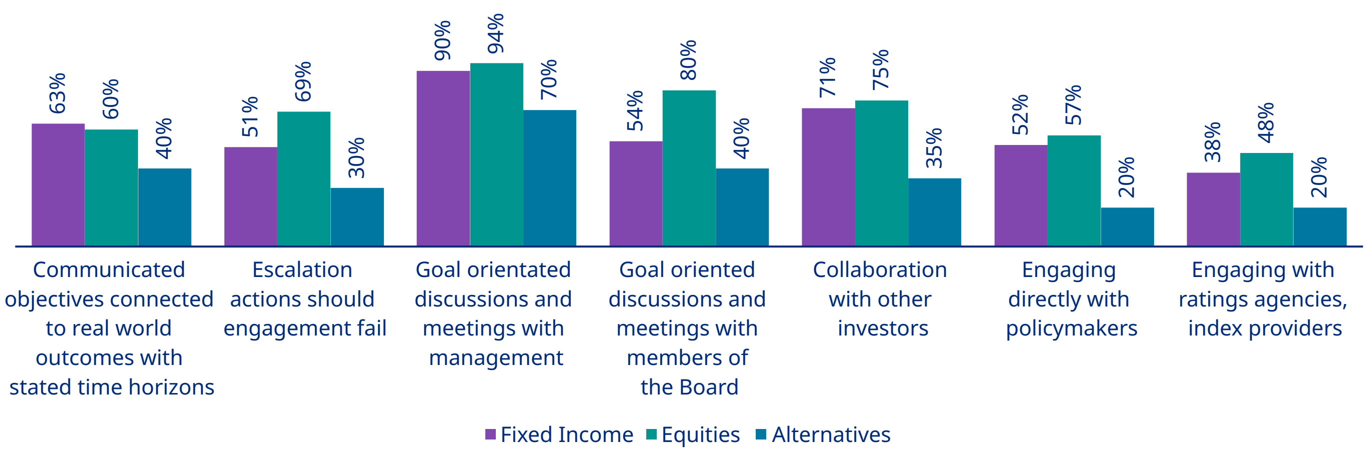


Figure 18: Strategies using different engagement approaches



We expect our appointed managers to contribute to initiatives that facilitate collaborative engagement with companies and/or policymakers, where relevant, on material ESG issues as well as broader initiatives that represent best practice in sustainable investing and are pleased to note that the majority of managers support initiatives that promote and facilitate engagement.

Figure 19: Broad collaborative initiatives

93%
of strategies reference their organisation being a member or supporter signatory to **initiatives that promote and facilitate engagement**

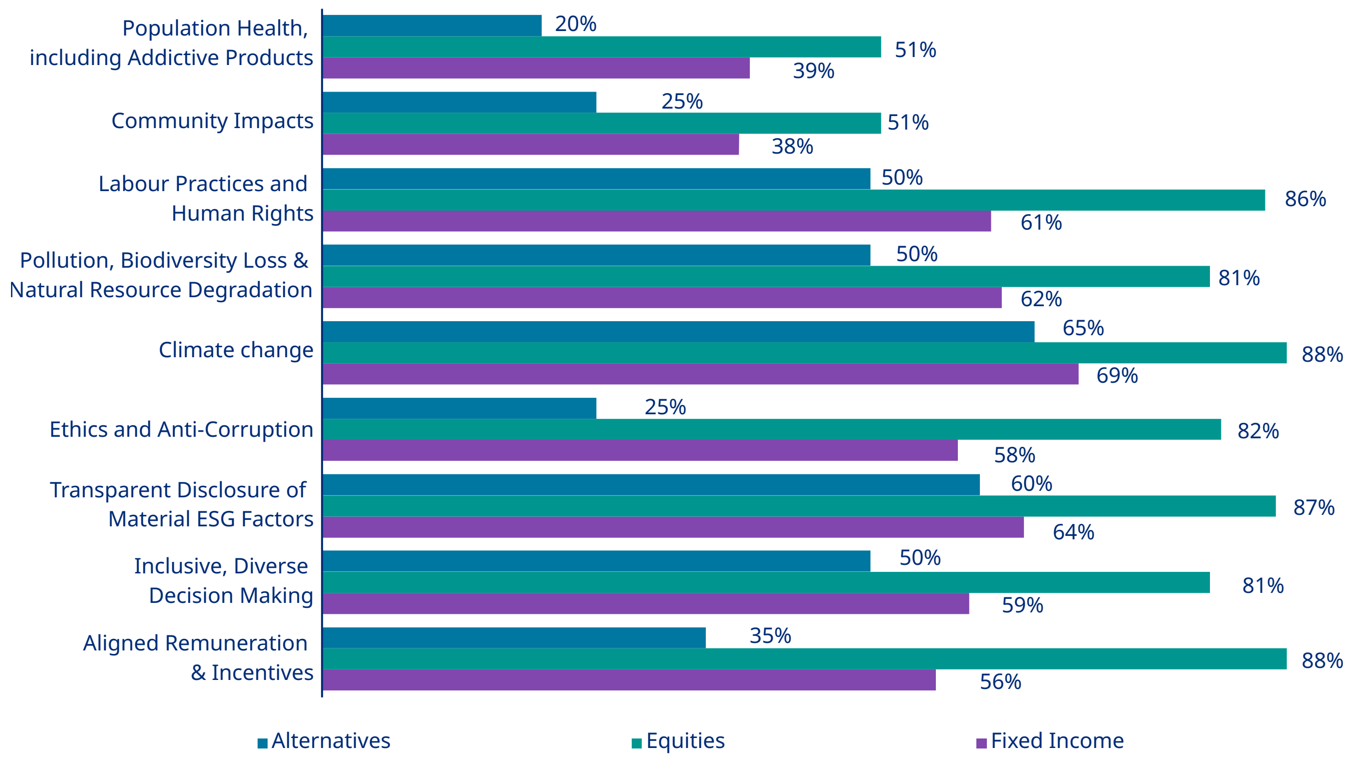
95%
of strategies reference their organisation being a signatory to the **Principles for Responsible Investing** (PRI)

63%
of strategies reference their organisation being a signatory to the **UK Stewardship Code**

52%
of strategies reference their organisation being a signatory to other **regional Stewardship Codes**

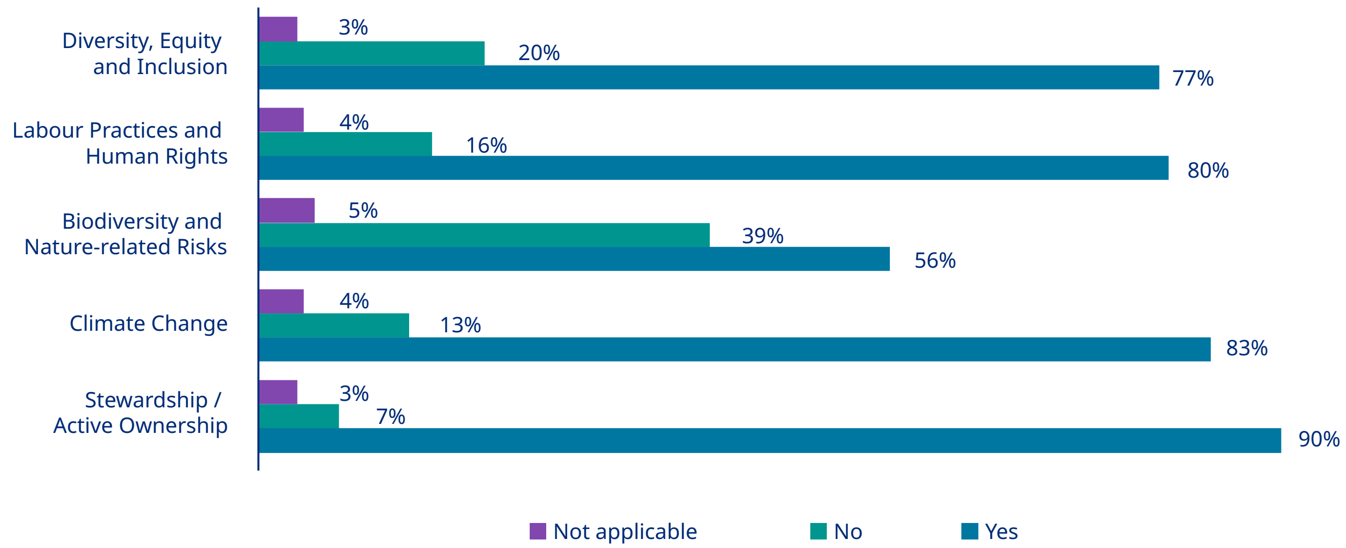
Managers tend to engage on topics that are most material to specific issuers they hold. The below highlights an alignment of engagements on ESG topics that are of particular focus to Mercer IS. While there was variation in the year-on-year results across all topics, notable increases in focus (defined as >10% increase from 2021) were noted across equity strategies relating to the themes of Pollution, Biodiversity Loss and Natural Resource Degradation and Labour Practices and Human Rights.

Figure 20: Strategies referencing engagement on specific ESG topics



In line with Mercer's Sustainable Investment Pathway, there is an expectation that sustainability considerations are integrated across a manager's investment approach. Sustainability-related beliefs, considerations and approaches should be clearly articulated within a manager's sustainability policies. It is pleasing to note that a majority of managers make explicit reference to Mercer's global engagement priority themes within these policies. It is also unsurprising to note climate change being referenced most extensively and encouraging to see biodiversity formally embedded. We would expect explicit reference to biodiversity within policies to increase in future years.

Figure 21: Strategies where policies specifically reference the below themes

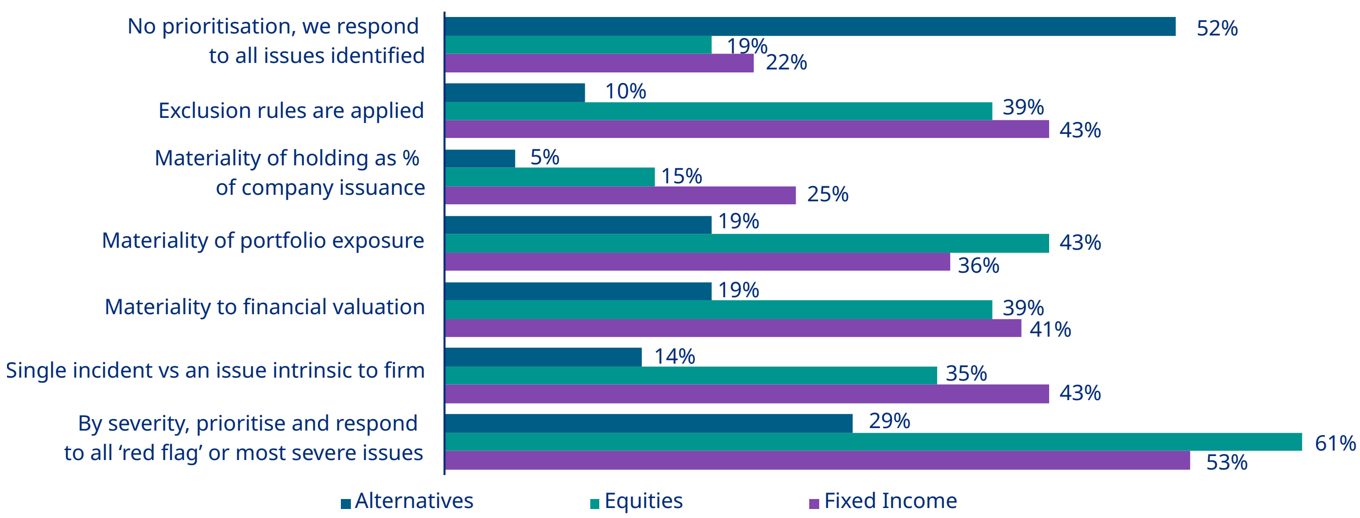


Mercer IS's approach to UN Global Compact monitoring

Mercer IS screens and monitors its multi-client equity and fixed income funds for high-severity ESG-related risks as flagged according to the UN Global Compact (UNGC) principles that relate to human rights, labour, environment and corruption issues, as identified by our appointed external ESG research provider, ISS-Ethix.

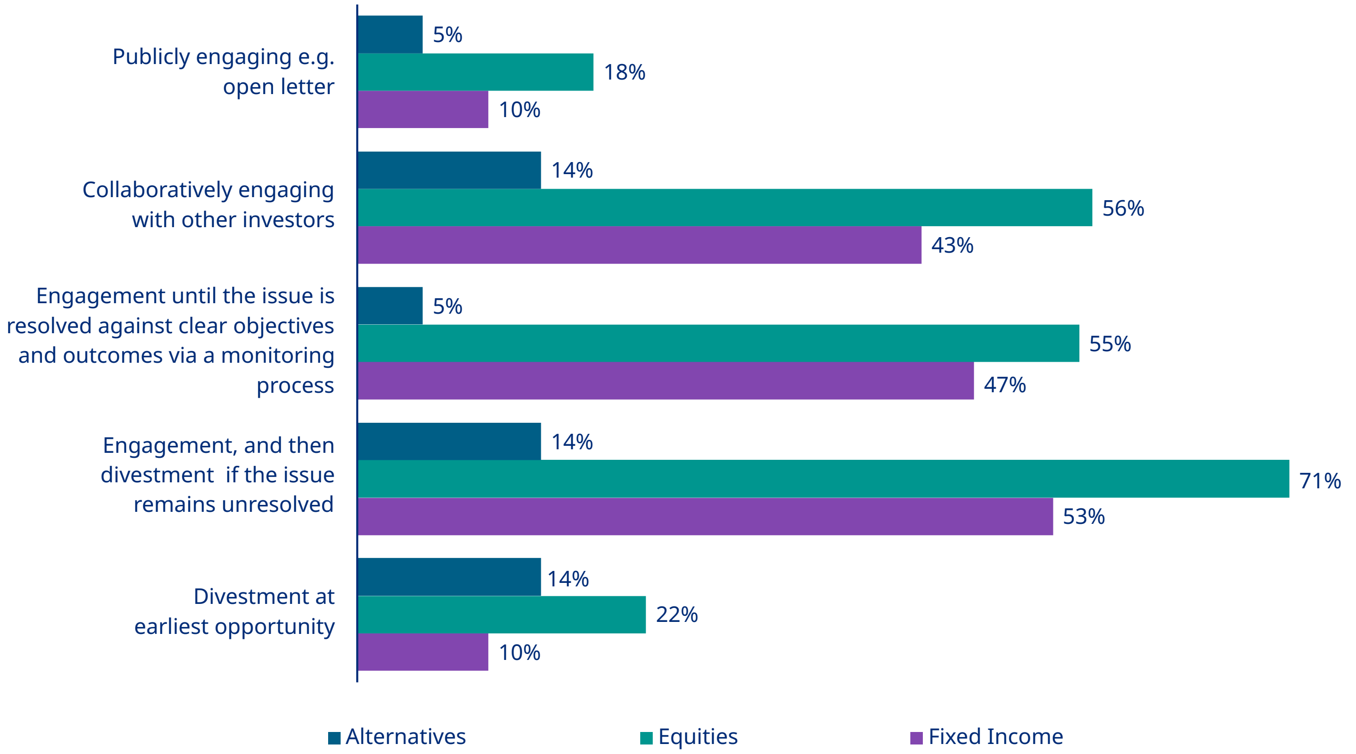
Mercer's prioritisation of UN Global Compact issues focuses on the most severe issues, in line with the most commonly used approach by managers.

Figure 22: Prioritisation of identified UN Global Compact issues across strategies



In response to identified incidents, we will engage with the managers owning those companies and seek their views on the risk, return and reputation implications as well as ongoing engagement activity on the issue. If we do not see sufficient progress on the outcomes of engagements managers are having with companies and issuers, these cases are escalated in line with Mercer IS's UNGC Engagement Framework, highlighted below. We also note a clear preference for engagement over divesting at the earliest opportunity as, once divested, the ability to positively influence an issuer through voting and engagement is no longer available.

Figure 23: Strategies referencing approaches to identified UN Global Compact issues



Mercer IS's approach to monitoring, engagement and escalation in relation to UNGC incidences is detailed below.

UNGC Engagement Framework

Prioritising high severity ESG-related risks

- Our appointed external ESG research provider identifies companies for high-severity incidents under the UNGC principles, which is shared with appointed managers to assist in their monitoring.
- Engagements with managers holding companies with high-severity incidents are prioritised based on the duration of incident and holding period of manager

Engaging with managers

- Where a manager is identified as having exposure to a prioritised company with a high severity incident, the manager is expected to communicate at least annually where they are undertaking engagement with prioritised holdings and progress being made, which is tracked internally.
- In addition, managers have the opportunity to provide detail on their approach to monitoring UNGC-related incidents, including examples of any engagements and outcomes, in the annual ESG & Stewardship survey.

Oversight and escalation

An escalation process, which may result in exclusion, will respond to instances where:

- Triggers are met on duration, where a high severity incident has been open for a predefined period without a company demonstrating sufficient remediation and where the manager has held the company that same predefined period, without a company demonstrating sufficient remediation in response to manager engagement.
- Manager(s) views on the associated financial and reputational risk are high and likelihood for remediation are low.
- The issue is pervasive to the entire company, as opposed to a single incident or an issue related to one part of the company.
- The potential risk/return impacts of exclusion if implemented are low.
- Although exclusion for higher materiality companies is possible for persistent remediation failures.

An internal approval committee reviews proposals and if an exclusion decision is taken, the company will be moved from the UNGC list to the exclusion list.

Mercer IS's approach to Climate Change

Mercer believes climate change poses a systemic risk, and investors should consider the potential financial impacts driven by both physical damages and the transition to a low carbon economy. Both of these changes presents both risks and opportunities to investors.

As climate change continues to climb the investment risk agenda of decision makers worldwide, Mercer Investments entered into a global collaboration with Ortec Finance, a leading provider of risk and return management technology and solutions, during 2022. The collaboration enhances Mercer Investment's existing climate scenario analysis to better inform investors seeking to manage climate-related risk and identify opportunities. For UK pension schemes, the climate scenario analysis supports the requirements of the DWP's Climate Change Governance and Reporting Regulations 2021.

Mercer believes that limiting global average temperature increases this century to "well below two degrees Celsius", in line with the 2015 Paris Agreement, is aligned with the best economic outcome for long-term diversified investors.

In line with this belief, Mercer IS has committed to target net-zero absolute carbon emissions by 2050 for its model discretionary portfolios and the majority of its multi-client, multi asset funds, representing €33.1billion in assets under management as at 31 December 2022. To achieve this, Mercer plans to reduce portfolio relative carbon emissions by at least 45% from 2019 baseline levels by 2030. On a strategic asset allocation basis, all portfolios in scope of our commitment are currently on track year-on-year to meet both the long term and interim target carbon reductions as at 31 December 2022.

Consistent with this, Mercer Investment's Analytics for Climate Transition (ACT) framework, supports the increasing investor focus on net zero investing. It is focused on helping investors who want to set and implement net zero targets and construct climate resilient portfolios on a multi-year timeframe. The ACT framework is a strategic and forward-looking view of the risk and opportunities that arise from a transition to a low carbon economy, and how investors can best position their portfolios to mitigate risks and identify opportunities in this global transition. We continue to develop this tool and over 2022 we incorporated physical risk-related metrics and the measurement of companies adopting net zero targets into the framework. The framework is built around four key steps summarised in the diagram below:

Figure 24: Overview of Mercer's analytics for climate transition framework

Engaging with appointed managers on their consideration and management of climate-related risks, and working closely with them to reduce emissions, has been an important part of our engagement activities in ensuring we are able to achieve our target.

Case study: Engagements with managers to enhance the promotion of environmental characteristics

EU Sustainable Finance Disclosure Regulations (SFDR) and development of funds to better promote environmental and social characteristics led to numerous engagements with managers, most notably on the incorporation of climate considerations in their investment approach

These engagements led to new climate-related commitments on active funds as well as additional exclusions to reduce the environmental impact of all funds in scope of Article 8 disclosures. These activities led to appointed managers enhancing their approach to considering, and in a number of cases supporting, decarbonisation efforts

These changes contributed more generally to a reduction in carbon emissions and have contributed to the below results[13]

On average active funds with corporate exposures are **33%** more carbon efficient than their respective benchmarks

82% of active funds with corporate exposures have lower carbon intensity than their respective benchmarks

13 These results pertain to 18 actively managed multi-client Mercer funds with corporate exposures and non-cash benchmarks

For Mercer IS, some of the key highlights around our integration of climate include:

Climate highlights

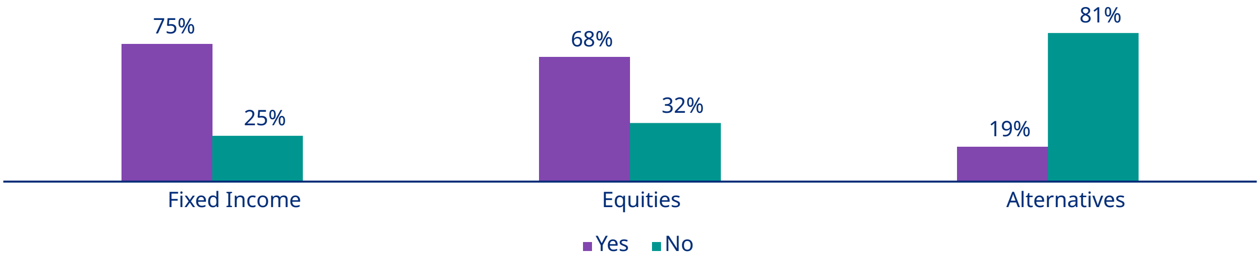
Release of Mercer IS's Investment Approach to Climate Change - 2022 TCFD status report	New climate change scenario model, developed in collaboration with Ortec Finance, to test key portfolio resiliency and preparedness for different climate change scenarios	Engagements with managers to promote greater consideration of environmental characteristics across products in scope of Article 8 disclosures (incl. re-classification of c. 50 funds to Article 8*)	Formalisation of issuer-level climate engagement priorities	Production of strategic research papers, including the "Mercer COP 27 - Advancing the transition" paper by the Sustainable Investment Consulting team

*over the period 2021 and 2022

Mercer IS has set out how it intends to fulfil the climate-related commitments mentioned above and manage its climate-related financial risks and opportunities in its latest Investment Approach to Climate Change Report. Mercer IS's approach and disclosure is consistent with the framework recommended by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (the TCFD), which has become the industry standard globally.

Mercer IS expects managers to disclose in line with the recommendations of the TCFD. Year-on-year survey results indicate that disclosure in line with TCFD from equity strategy managers has increased by 3% to 68% and for fixed income strategies by 12% to 75%.

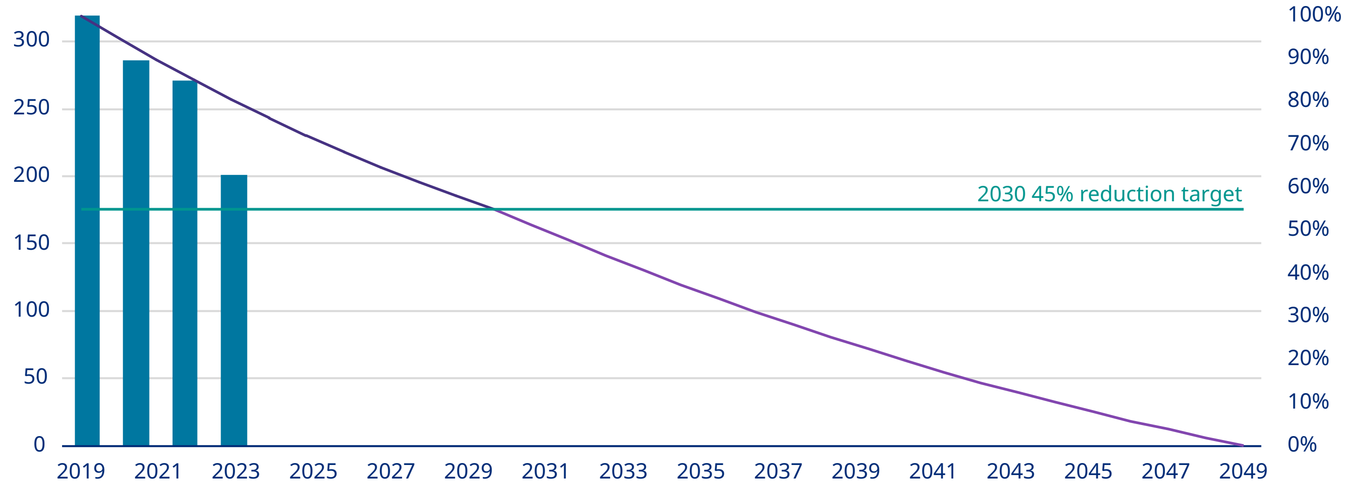
Figure 25: Strategies managed by managers referencing disclosure in line with the recommendations of the TCFD



We are now three years on our journey towards net zero portfolio carbon emissions. We are pleased to see strong decarbonisation across our portfolios as we better position our solutions towards preparing for the transition to a low carbon economy. Progress has been made through a combination of active engagement with underlying managers, the restructuring of existing active solutions to better integrate climate risk, and the repositioning of some passive solutions to track climate-aware benchmarks.

An example of the decarbonisation progress across one of our multi-asset funds, represented by portfolio Weighted Average Carbon Intensity, is shown below. Progress will not be in a straight line; investing in the transition will likely come with short-to-medium term fluctuations in global emissions, but we are confident that with a strong beliefs and stewardship framework we can achieve our targets and enable real world emission reductions. For more information, see the Climate Change Management & TCFD Reporting section of our Responsible Investment website.

Figure 26: Example of decarbonisation progress across a multi-asset fund with a net zero target



A big reduction was noted versus 2021 survey results in the number of strategies referencing a climate transition target, which is likely to be a result of managers re-evaluating their commitments based on evolving industry and regulatory developments around the practical implications of transitioning portfolios.

Figure 27: Strategies referencing having climate transition targets in place (2021)

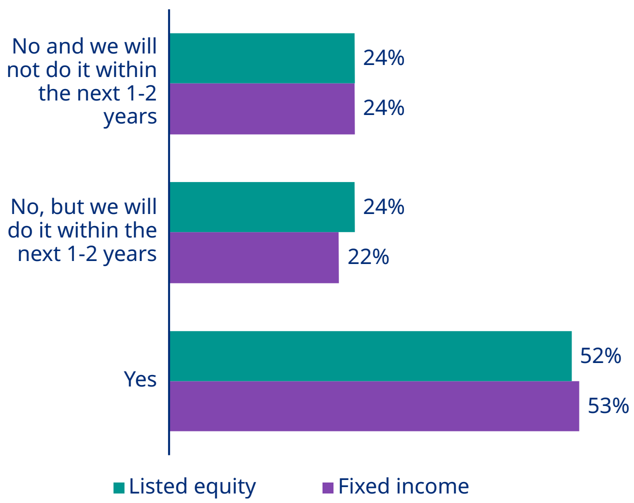
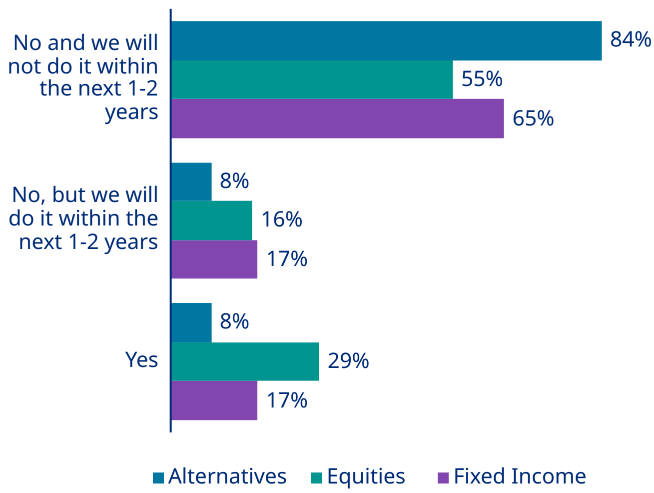


Figure 28: Strategies referencing having climate transition targets in place (2022)



While there is a relatively low percentage of strategies that have transition targets associated with them, many more are monitoring a range of climate-related metrics that support measuring and managing climate related risks. We expect an increase in the use of climate-related metrics to support investment decisions as data availability and coverage improves. For funds aligned with the Article 8 and Article 9 disclosure requirements of the EU's Sustainable Finance Disclosure Regulations (SFDR), greater consideration of these and other sustainability-related metrics are expected, particularly for funds reporting on principal adverse impacts. Further, new product-level TCFD disclosures effective in the UK from 2023 are expected to bring additional coverage and stronger considerations of climate-related risks and opportunities.

Figure 29: Key climate-related metrics tracked across strategies

	Equities	Fixed Income	Alternatives
Absolute emissions	77%	63%	24%
Carbon intensity (Scope 1&2)	85%	73%	32%
Carbon intensity (Scope 3)	61%	50%	19%
Reserves (potential emissions)	27%	24%	8%
Power generation sources (utilities sector)	34%	39%	14%
Climate Value at Risk	34%	28%	3%
Forward looking transition metrics e.g. strategy, target setting	57%	51%	8%
Percentage of portfolio companies with Science Based Targets initiative commitments (verification)	55%	44%	8%
Temperature alignment	45%	47%	11%
Data quality	36%	39%	5%
Physical damages risks	33%	33%	11%
Emissions avoided	16%	26%	0%
Offsets / net contributors	12%	17%	3%

Mercer IS, through its ESG & Stewardship Survey, highlights to managers, the importance of them engaging with issuers on priority themes, of which climate is one. Mercer's appointed managers have provided over 370 engagement examples relating to their engagements with issuers on climate-related matters.

Mercer IS expects its appointed managers to adopt clear guidelines on escalation processes where engagement activities have not been successful. In some cases, these escalation processes may lead to voting against climate-related resolutions proposed by management or adding issuers to divestment lists.

Case study: Engagement escalation leading to voting against management

Multinational utility company

- The manager has been engaging with the company on climate-related topics since 2019. In early 2022, the manager shared its expectations of what a credible climate transition plan should include with the issuer so the issuer was clear on what was required for the manager to support it. For the manager, an ambitious and credible plan is encouraged, and would include:
  - A public commitment to net zero by 2050;
  - Disclosure of short-term (up to 2025), medium-term (2026-2035) and long-term (2036-2050) targets covering scope 1 and 2 emissions and material scope 3 emissions;
  - Disclosure of current scope 1, 2 and material scope 3 emissions;
  - Credible targets that are aligned to a 1.5°C trajectory. Gaining approval and verification by SBTI (or other external independent parties as they develop) can help demonstrate the credibility and accountability of plans.
- The manager recognises the progress the company has made in setting scope 1, 2 and 3 GHG emission reduction targets, as well as its commitments to phase out the use of coal in Europe by 2025 and globally by 2027. However, due to concerns around the company's electricity generation targets not being aligned with a 1.5C trajectory and their climate transition plan not meeting the manager's expectations, the manager was not able to support the vote.

Case study: Engagement escalation leading to inclusion on divestment list

Food processing company

- The manager believes that company engagement is a crucial part of transitioning to a net zero economy by 2050. They have been engaging with and sharing minimum expectations with companies in 20 climate-critical sectors and have selected roughly 100 companies for "in-depth" engagements, These companies are influential in their sectors but are not yet leaders in sustainability. Engagement with these companies focusses on helping them meet these minimum expectations and understanding the hurdles they must overcome. By virtue of their influence, there is also an expectation that their improvements would be likely to have a knock-on effect on other companies within the sector, and in supply chains.
- The manager has been engaging with this particular issuer since 2017, with discussions focussing on deforestation, regenerative agriculture, low-impact foods and climate disclosures and targets. The manager has also been monitoring, for example, the company's percentage of traceable and certified palm oil.
- While the company has made some improvements, given the lack of sufficient progress against the manager's minimum expectations, a decision was made in 2020 to place the issuer on the manager's divestment list (for relevant funds). The manager has also voted against the re-election of the relevant director at their AGM.
- The issuer has made some progress towards its net zero targets and sustainable product sourcing, however, still lacks scope three upstream agricultural emissions targets and has no deforestation policy.
- The manager has therefore kept the company on its divestment list (for relevant funds), while continuing to engage with them to encourage them to meet their minimum expectations.

Observing an alignment between a manager's engagement and voting activities is helpful in assessing effective stewardship. Across equity strategies, at least half of all strategies reported to have voted at least once against management on climate-related resolutions, with this number growing over the last year, highlighting increasing activism across managers.

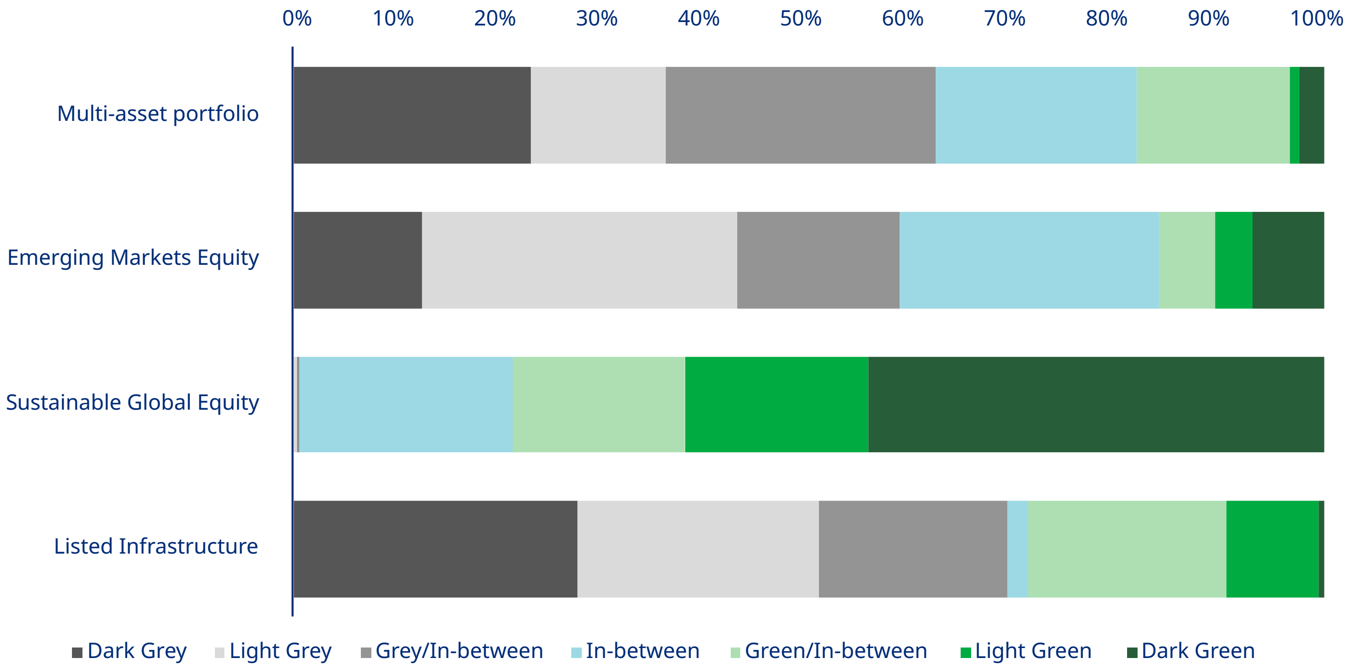
Figure 30: Voting against management on climate resolutions across strategies

Looking forward

Over 2023, our intention is to become more granular and prioritise engagements with managers holding specific issuers across our multi-client funds. These issuers will be prioritised based on their contribution to overall carbon emissions across core multi-client building block funds, whilst taking into consideration their transition capacity based on analysis using Mercer's Analytics for Climate Transition (ACT) tool.

Mercer's ACT tool draws on multiple data providers and metrics to assess and rank emissions intensity, transition capacity and green revenues in portfolios across a spectrum from grey to green investments[14]. This assessment is then used to support reducing exposure to grey assets where there is high stranded asset risk, grow the exposure to green solutions, and steward the assets that are in between.

Figure 31: Example of ACT assessment across single and multi-asset funds



14 Where grey investments represent investments with high carbon intensity and low transition capacity, green investments represent investments with low carbon intensity and high transition capacity and in-between investments have varying carbon intensity and transition prospects.

Whether the issuers operate in a high impact sector, captured under other engagement initiatives (e.g. CA 100+) and/or have approved science-based targets (SBTIs), will also be considered. Our initial analysis suggests that the top 10 companies in high impacting sectors[15] without SBTi targets contribute over 25% towards overall emissions, with the top 25 accounting for approximately 40% of overall emissions.

Finally, it is pleasing to note from the ESG & Stewardship Survey that managers' alignment with, and participation in, climate-related collaborative initiatives has generally increased over the last year (with the exception of TCFD supporters, which has largely remained flat.)

Figure 32: Appointed managers' participation in climate-related collaborative initiatives

77%
of strategies reference their organisation being a supporter of the **Task Force on Climate-related Financial Disclosures** (TCFD)
(2021: 79%)

62%
of strategies reference their organisation being a supporter of **regional climate initiatives e.g. Institutional Investors Group on Climate Change** (IIGCC)
(2021: 53%)

62%
of strategies reference their organisation being a supporter of **Climate Action 100+**
(2021: 55%)

59%
of strategies reference their organisation being a member of the **Net Zero Asset Manager initiative** (NZAMi)
(2021: 44%)

36%
of strategies reference their organisation being a member of the **Transition Pathway Initiative** (TPI)
(2021: 35%)

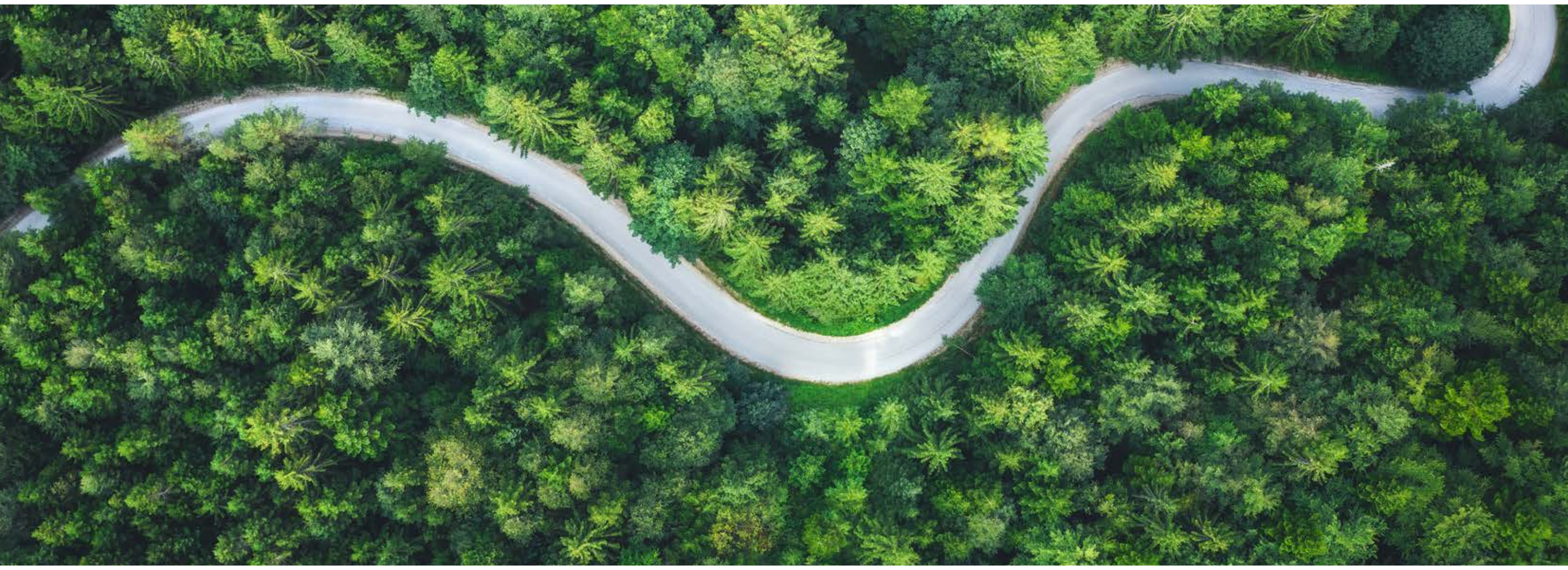
28%
of strategies reference their organisation being a member of the **Science-Based Targets initiative** (SBTi)
(2021: 10%)

Figure 33: Mercer's participation in climate-related collaborative initiatives

TCFD*	Mercer is a signatory and reports in line with the TCFD recommendations
IIGCC**	Mercer actively participated by joining member calls and providing input/feedback on the following IIGCC Paris Aligned Investing Initiative working groups: stewardship, listed equity and corporate fixed income. Participation in working group calls has supported the production of a Net Zero Stewardship Toolkit.
Climate Action 100+*	As a member we use CA100+ research to assist with identifying significant votes and monitor the contribution our appointed managers make to the initiative. We are evaluating opportunities to increase our support of and involvement in the initiative over 2023.

*undertaken in Mercer IS's name **undertaken in Mercer Limited's name[16]

15 As defined by the IIGCC Net Zero Investment Framework
16 Mercer Limited provides wealth advisory and investment services to a range of institutional clients and further provides advisory services to Mercer IS on sustainable investing



Mercer IS's approach to Biodiversity

Nature has risen in prominence as a significant investment theme across the industry. At Mercer IS, we are committed to integrating nature-related risks and opportunities into our investment portfolios. Crucial to this will be the evolution of net zero policies, and general investment policies, to incorporate nature. This is vital given the fact that the reversal of biodiversity loss and the restoration of biodiverse ecosystems are fundamental to achieving a successful climate transition.

Although frameworks for incorporating nature and biodiversity considerations into investment portfolios are still emerging, there are actions that can be taken today so that investors can be proactive participants in supporting the future of all life on this planet. We believe that, over the short-term, nature and biodiversity considerations are likely to become increasingly financially material to asset valuations. Our view is that investment stewardship is a vital tool that can be used to promote nature positivity in investment portfolios. To encourage change through active ownership, we have included nature and biodiversity as a key engagement priority and have begun our implementation journey using a variety of approaches highlighted below.

Biodiversity Highlights
Engaging with leading managers on their approach to the Task Force on Nature-Related Financial Disclosures (TNFD)
Incorporating biodiversity-related questions for the first time in our Annual ESG & Stewardship Survey
Collaborating with Mercer's Sustainable Investment Manager Research team to explore the investment opportunity set
Mapping portfolio companies of a sample portfolio to the TNFD's priority sectors
Production of strategic research papers, Biodiversity on the Brink (2021) and Nature Alert (2022), by the Sustainable Investment Consulting team

Figure 34: Mercer's participation in biodiversity-related collaborative initiatives

Mercer Investments expects biodiversity to play an increasingly important role in investment portfolios over the coming years. In support of this, Mercer Investments has joined the Task Force on Nature-related Financial Disclosures (TNFD) as a Forum member. As a Forum member, Mercer Investments has provided feedback throughout the framework development process and has also worked with Mercer IS on applying the TNFD framework to map the exposure of one of its sustainability themed funds to the TNFD priority sectors. In 2023, Mercer Investments and Mercer IS will look to pilot test the TNFD framework, focussing on assessing the risk and opportunity assessment approach for Financial Institutions.

Figure 35: Appointed managers' participation in biodiversity-related collaborative initiatives

38%
of strategies reference their organisation being a supporter of the **Task Force on Nature-related Financial Disclosures** (TNFD **(2021: 18%)**

16%
of strategies reference their organisation being a signatory to the **Finance Pledge for Biodiversity (2021: -)**

39%
of strategies reference their organisation being a signatory to the Farm Animal Investment Risk and Return **(FAIRR) Initiative (2021:28%)**

Case study: Engagements with managers on their approach to TNFD

As momentum around the TNFD framework started to build with the early releases of the TNFD beta frameworks, we conducted a survey of managers we consider as leaders in ESG integration, to enhance our understanding of the approach managers are taking to considering biodiversity-related risks and opportunities.

We received responses from seven managers, covering both equity and fixed income strategies. Six of the seven managers are TNFD Forum members, with one being a TNFD Taskforce member.

Findings from the engagements:

- **Policies:** Managers are articulating their approaches through the development of standalone biodiversity and/or deforestation policies.
- **Integration in ratings:** Managers are integrating biodiversity related risks & opportunities in their investment processes by including biodiversity-related metrics as part of their risk assessments and factoring this into their issuer ratings methodology.
- **Stewardship:** Managers are engaging with companies on biodiversity issues and seeking opportunities to get involved in collaborative initiatives to help support integration of biodiversity considerations.
- **Capital allocations:** Managers are looking at opportunities to allocate to issuers tackling biodiversity loss.

What was also clear is that many respondents were finding it difficult to source financially material data and therefore additional approaches have been seen, for example:

- **Controversies and misconduct:** Most managers screen their investments for environmental controversies or evidence of misconduct and breaches of environmental law. We would expect to see this step undertaken as part of standard due diligence procedures by all asset managers.
- **Enhancing sector risk assessments:** Some managers have mapped sectors of heightened exposure to biodiversity risks and have conducted enhanced due diligence for companies in these sectors. Companies within these sectors must demonstrate more advanced policies and risk mitigation strategies surrounding nature/biodiversity.
- **Opportunities:** There are a few managers in the impact space incorporating frameworks to measure and track nature positivity metrics. These managers often assess the degree of alignment of their portfolio with the UN SDGs that are focused on nature themes.

It is pleasing to note that approximately half of equity and fixed income strategies surveyed are considering the impact of nature & biodiversity risks in investment decisions, and while the industry still waits on further guidance from the TNFD, managers are already tracking a variety of metrics to support in their understanding of potential risks and opportunities relating to nature. We have also seen managers engaging on the topic with issuers.

Figure 36: Strategies referencing consideration of nature & biodiversity risks in investment decisions

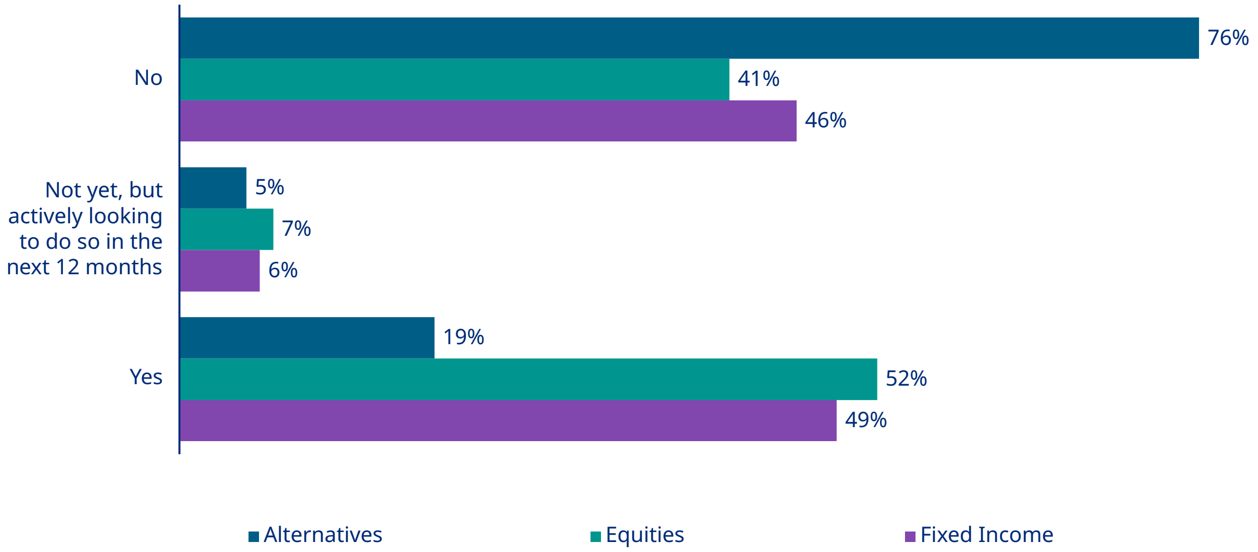


Figure 37: Key biodiversity-related metrics tracked across strategies

	Fixed income	Equities	Alternatives
Deforestation	24%	14%	5%
Green or solutions revenues	45%	52%	8%
Water risks / availability	33%	30%	14%
Waste or resource utilisation	28%	27%	11%
Biodiversity impacts	37%	35%	11%

Case study: Engagement escalation leading to vote against management

Multinational consumer goods company

- The manager has been engaging with the company with a focus on encouraging the company to eliminate deforestation from its supply chain. The company is one of the world's largest producers of household consumer goods and its supply chain involves exposure to a number of risks in this area, including palm oil and wood pulp.
- In 2020, the manager supported a resolution calling on the company to report on its efforts to eliminate deforestation, which was passed.
- In the same year, the manager also engaged with the company and encouraged it to report to CDP Forests and accelerate its programme to source more Forest Stewardship Council (FSC) certified pulp. Shortly after, we saw the company submitting to CDP Forests and accelerating its commitment to ensure that 95% of its pulp is FSC certified.
- The manager has continued to engage directly with the company throughout 2022 on its forest supply chain risks, its progress on limiting deforestation and the impact on biodiversity. The manager acknowledges the improved transparency from the company on its forestry practices but remains mindful of the company's exposure to deforestation risks and a lack of commitment to eliminate deforestation in primary forests across its supply chains. For this reason, the manager escalated its concerns by voting against the re-election of the board chair at the latest AGM.

Going forward, we will evolve our capabilities on nature to cater for the demand we are seeing from clients in this area. We have begun reviewing the market landscape for natural capital opportunities to support our clients in allocating to these opportunities.

We are following the developments of the TNFD and are looking to draw on TNFD guidance around the core biodiversity metrics to develop an investor risk management tool for nature as well as include certain metrics into our quantitative climate analytics tools, such as ACT.

This work will lend itself to supporting our stewardship efforts on nature as a theme and better position our portfolios towards the opportunities through engagement and investment.

Mercer IS's approach to Human Rights and Labour Practices

Another priority area of engagement for Mercer IS relates to labour and workforce practices and supply chain safety, as well as human rights practices that avoid contributing to modern slavery, exploitation and other human rights abuses. We encourage managers to formalise their approach via documented policies and procedural risk assessments within investment portfolios to identify high-risk companies and evidence actions they are taking to resolve identified issues.

The majority of managers have policies and processes in place to manage human rights risks and use a variety of approaches to address these where relevant, most notably through engagements with issuers.

Figure 38: Policy or process to managing human rights risks

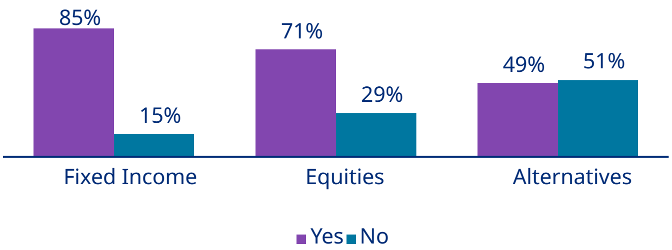


Figure 39: Strategies where human rights or labour practices risks are identified, tracked and reported on

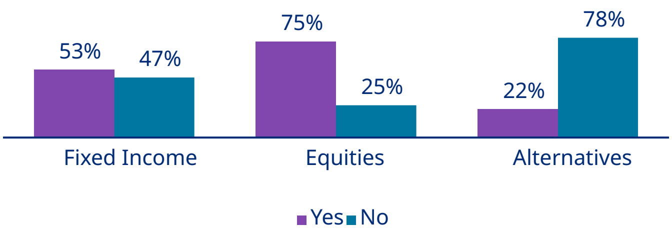
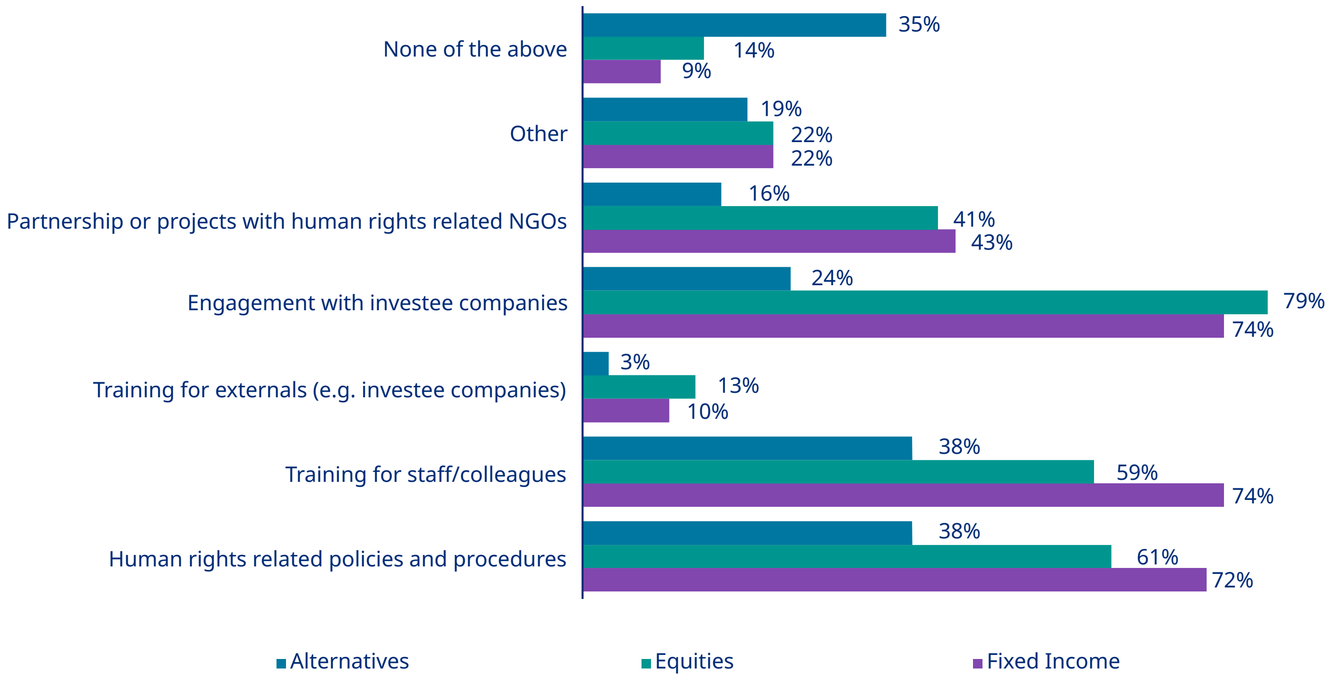


Figure 40: Strategies' approaches to addressing and managing human rights risks



Case study: Engagement relating to improving transparency on labour related practices and human rights

Energy company

- The objective of the engagement was to guide the company on how to best prioritise, measure, and report on material ESG considerations identified by the manager, which included labour practices (specifically health and safety of employees) as well as community relations.
- During the engagement, the manager gained insight into the company's approach, highlighted what it perceived to be the most material issues and provided details on industry best practice.
- Since the engagement, the company has released an ESG report, which it will publish on an annual basis, and which will include the company's ESG strategy and identification of its most material KPIs, consistent with those outlined in the engagement with the manager.
- With respect to labour practices, one of the four "high importance, high maturity" elements of its ESG program is Employee Health & Safety Management & Training. The company has been able to disclose quantitative data backing up its commitment to strong labour practices (e.g. "40 consecutive months achieved with zero recordable accidents during construction" and "100% Health, Safety, Environmental and Regulatory (HSER) Safety Training compliance among employees"). The manager believes these efforts represent an important step for the company to identify, measure, and report on specific ESG goals.

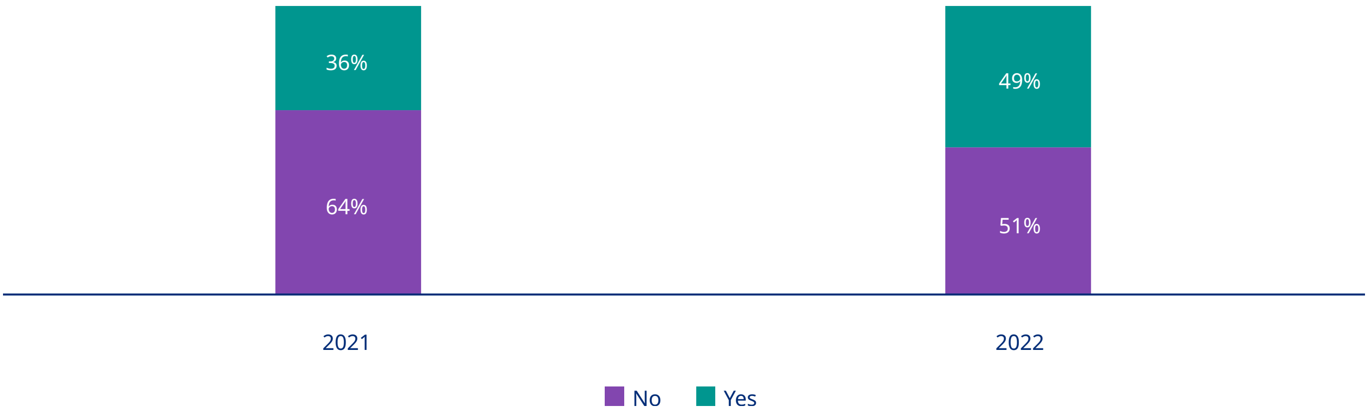
Case study: Engagement escalation leading to voting against management and ultimately divesting

Digital services company

- The manager commenced engagement with the company in 2019, initially focusing on its workplace environment and evolution of company culture.
- Following a UNI Global Union complaint regarding worker right violations during Covid, and subsequent investigation by a global intergovernmental authority, the manager intensified its engagement efforts. As part of this, the manager requested a roadmap with clear milestones on how employee practices would improve. They also participated in collaborative engagement, seeking demonstrable action on the issues raised.
  - A key tool used to escalate engagement efforts was utilising their voting rights. At the 2021 AGM, the manager voted against the re-election of certain Board members to encourage a structure with Board members who would challenge and diversify the Board's decision-making process.
  - In 2022 the manager further escalated efforts by holding follow-up discussions with members of the company's leadership team, and sent a letter to the Board with a recommendation that it engages with an established ethics specialist.
- Following the re-election of directors and an unsatisfactory Board response to the letter, the manager had the impression of limited counterpower from the Board. In addition to this, continued complaints regarding employee treatment from the UNI Global Union were a cause of concern to the manager, who ultimately decided to downgrade their internal ESG Quality rating for the company in Q2 2022.
- Over Q2 and Q3, the company faced additional external criticism, most of which was denied by the company. The manager used this to engage the company a final time, urging the Board to:
  1. Meet with a business ethics expert;
  2. Demonstrate more stringent and independent oversight on its Human Capital management;
  3. Publish a report of an investigation launched internally with the support of an independent third-party.
- The company did not publish a report, and there were no resulting actions identified from the final efforts listed above, therefore the manager ultimately decided to divest from the company across all portfolios.

Observing an alignment between a manager's engagement and voting activities is helpful in assessing effective stewardship. Across equity strategies, almost half of all strategies reported to have voted at least once against management on human rights or labour related resolutions, with this number increasing over the last year, highlighting increasing activism across managers.

Figure 41: Voting against management on labour practices and human rights resolutions across equity strategies



Mercer IS's approach to Diversity, Equity and Inclusion

Mercer IS's mission is to mirror the representation of the communities we serve in and welcome colleagues and clients regardless of their background, gender, ethnicity, age or sexual orientation. As the largest fiduciary manager in the world, Mercer IS has the ability to influence change and actively engage with portfolio managers responsible for our asset class building blocks.

We believe that diverse teams lead to better decision-making and have therefore taken several measures to ensure this view is reflected within our own portfolio management team, the teams of our sub-investment managers and across portfolio holdings, where possible.

Mercer IS aims to work collaboratively with our appointed managers to drive change in the industry as a whole, and across our underlying portfolios. Similarly, Mercer IS aims to support improving diversity across the industry and is pleased to state that as at 31 December 2022, 35% of Key Decision Makers (KDMs) across the Mercer IS business were female-identifying. Mercer IS's diversity statistics highlight a commitment to gender diversity, however these numbers are not necessarily reflecting the investment manager landscape, based on broader Mercer research.

In May 2020, Mercer published Diversity Dressing: The Hidden Figures, where gender diversity amongst KDMs listed on MercerInsight™ was examined. Three years on, in the follow-up paper Diversity Dressing: Progress evaluation, the data was revisited to see how the gender profile has changed in the global investment management industry.

A snapshot of MercerInsight™ on 1 December 2022 revealed 21,452 unique individuals assigned as a KDM to at least one investment strategy by any investment manager on the database. Of these, we identified a disappointingly small increase to 13.7% as female-identifying, compared to 12.0% three years prior, on 1 December 2019.

However, focusing on the shorter-tenured KDMs the proportion was much higher, and in the 0-5 year cohort 32% of KDMs were female-identifying in 2022. This is a noticeable increase from 2019 (19%), signalling an uptick in progression of female-identifying talent into KDM roles.

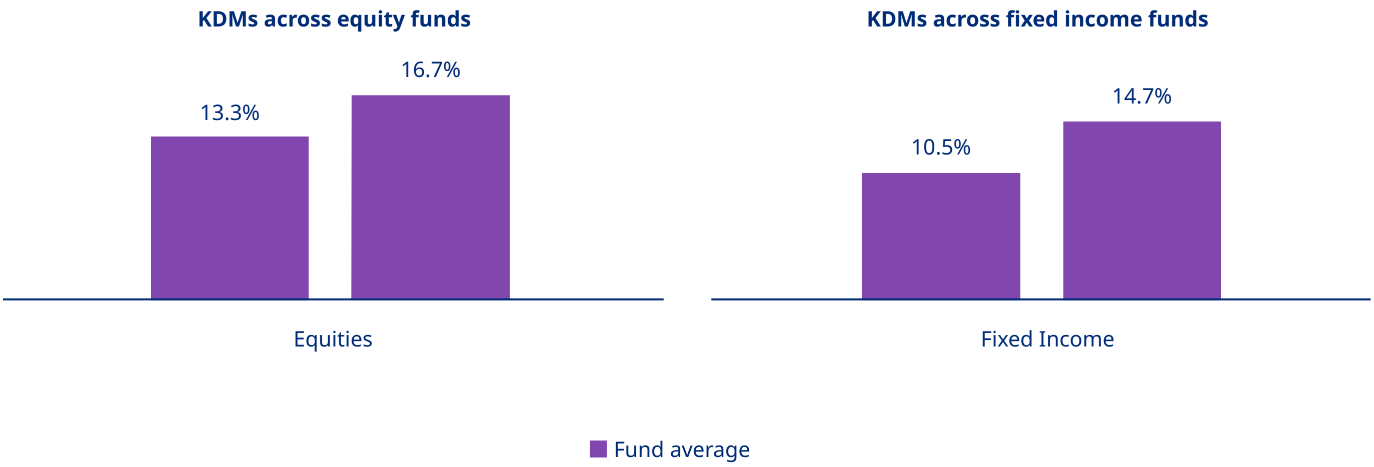
Diversity across appointed managers

Mercer's ambition to promote diversity extends beyond its own business through to the managers it appoints. This is assessed in part within the manager research process and documented in a dedicated section within research reports. Diversity amongst KDMs across appointed managers is monitored by investment teams and supports engagements with managers on the topic.

It is pleasing to note that there has been an increase in female-identifying representation across both active equity and active fixed income multi-client funds' KDMs, and that both figures are higher than the broader universe of 13.7%[17]. We expect this number to grow over time across our funds and the industry as a whole, supported in part through our engagements with managers on the topic and participation in industry initiatives.

17 Diversity Dressing: Progress evaluation

Figure 42: Female-identifying KDMs across active Mercer multi-client funds



Case Study – a collaborative approach to improving gender diversity within the investment management industry

Mercer

A Collaborative Approach to Improving Gender Diversity within the Investment Management Industry

Process

Mercer's manager research and portfolio management team recognise that it takes time to train and support talent through the ranks. We do not expect to see changes overnight, but we want to ensure we partner with investment managers whose diversity, equity and inclusion (DE&I) values align with ours. An example of a manager we have engaged with on this topic is an independent boutique investment firm. We have formed a strong relationship with the investment team over a number of years and diversity has been a topic we have continuously engaged with them on. Mercer recognises that real change takes time and effort and were kept well informed by the team whilst they developed a graduate scheme and a female internship programme.

Challenges

The manager is a small business consisting of 8 partners and 3 employees, and the investment team is small by design. This meant it was very challenging to improve the diversity of the investment team, particularly given they are all founding partners. They knew the simplest way to address the balance in their business would have been to hire people who are already in the industry, but they saw this as a zero-sum outcome that would not result in any change in the industry.

Outcome

In January 2022, the manager launched a graduate scheme, as a way to add resource and to improve the overall diversity of the team. The team clearly invested time in thinking about how the programme should work, and the structure and rigor of the programme was a meaningful undertaking for the firm of their size. The founding partners identified five modules designed around the firm's investment philosophy, alignment, franchise, financial, sustainability and valuation, which enabled them to properly embed participants in the firm investment philosophy and culture. A female graduate was the first person to be put through the programme and she now has a taken on a full-time position within the business. In addition to the graduate scheme, they approached a number of entities that focused on improving diversity in the finance industry. Ultimately, they signed up to GAIN (Girls are Investors) and worked with the group to bring on two interns during the summer of 2022. The partners used the structure of the graduate scheme and their learning from this experience to influence the structure of the internship programme. This further demonstrates their desire to improve diversity in the finance industry, as well as within their own investment firm.

Diversity profiles of portfolios

Encouraging progress on gender diversity has been a focus for Mercer IS for a number of years already, whether it be working with appointed managers to promote more diverse investment management teams or encouraging them to engage with their holding companies with a view to improving gender diversity across portfolios.

Mercer IS is also monitoring portfolio level Board diversity metrics and includes these as part of regular client reporting for its multi-client funds. While it is pleasing to note that the average female-identifying Board representation across all funds is above 30% and above the peer universe, across both multi-client equity and fixed income funds there are still approximately one third of funds that have an average of less than 30% female-identifying investee company Board representation.

Looking ahead
The funds that have less than 30% female-identifying investee company Board representation will be a focus area for Mercer IS going forward as we seek to encourage managers to set issuer-level diversity expectations and promote higher levels of diversity across issuers and funds.

Figure 43: Average female-identifying board representation across multi-client equity and fixed income funds

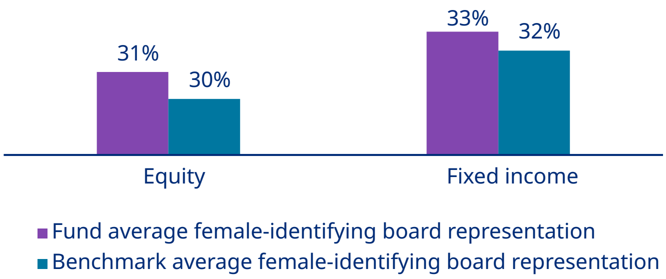


Figure 44: % of funds with >30% female-identifying board representation across multi-client equity and fixed income funds

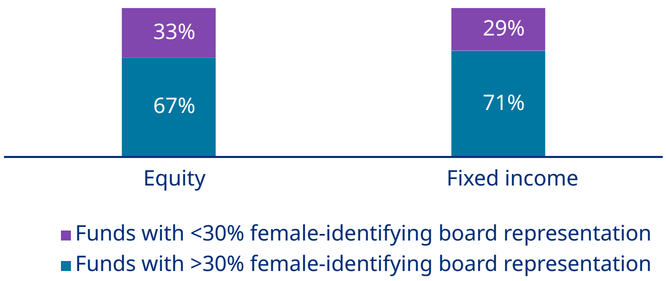
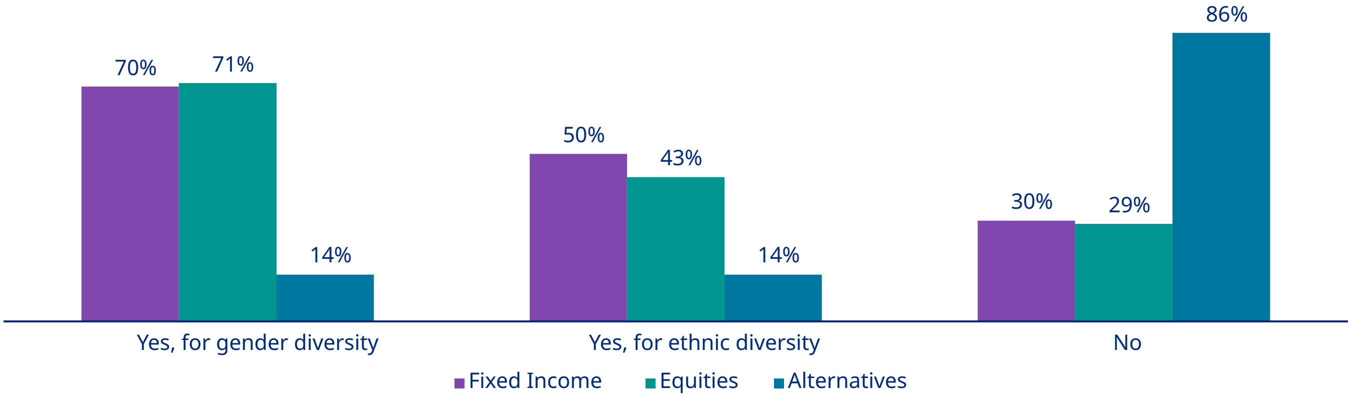
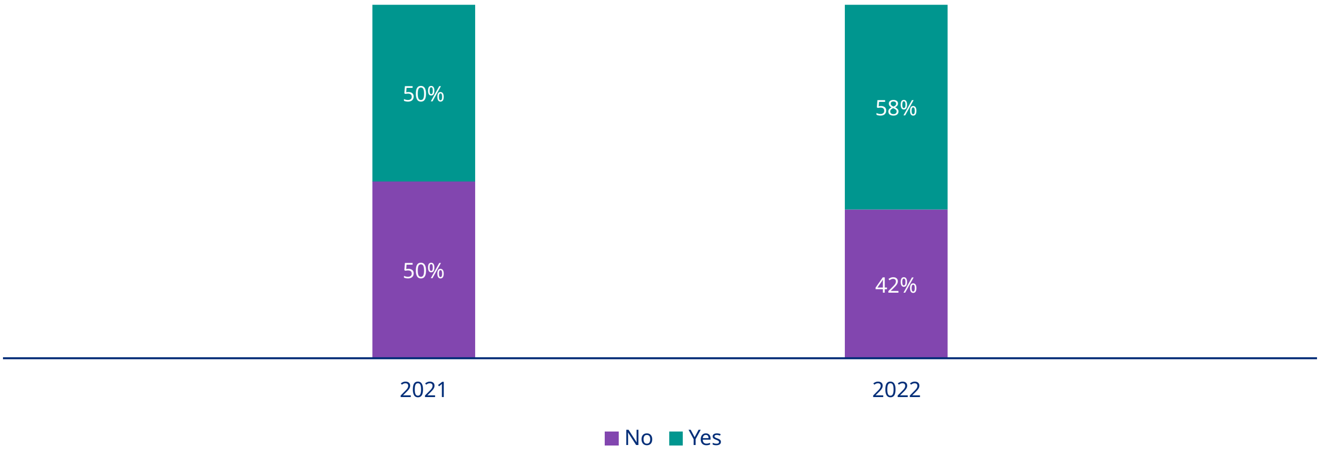


Figure 45: Strategies where managers have set expectations for listed companies with respect to management and board diversity, equity and inclusion



Across equity strategies, more than half reported to have voted at least once against management on diversity-related resolutions, with this number increasing over the last year, highlighting increasing activism across managers and a strong alignment between voting and engagement activities.

Figure 46: Voting against management on diversity related resolutions across strategies



Participation in collaborative initiatives can also raise awareness and benefit initiatives across the broader industry, and it is pleasing to note that more than a third of Mercer IS's appointed managers support a diversity-related collaborative initiative.

Figure 47: Appointed managers' participation in diversity-related collaborative initiatives

39% of strategies reference being a supporter of a diversity-related initiative (e.g. 30% Club or 40:40 Vision)

Figure 48: Mercer's participation in diversity-related collaborative initiatives

Diversity Project	30% Club – UK Investor Chapter
Mercer is a member of The Diversity Project, which seeks to accelerate progress towards a more inclusive culture in the investment and savings profession. Mercer took part in the Diversity Project Investment Springboard and CASP mentoring programs, focussed on school and university students from low socio-economic backgrounds and the LiFT leadership training programme. Further, our DEI Lead took part in the Fish out of Water campaign, with a focus on LGBT+ inclusion, and Mercer produced two articles for the Gender by Design Compendium.	Mercer is a member of the 30% Club – UK Investor Chapter (the Chapter) as part of its commitment to improving gender diversity across the industry and within its investment portfolios. Mercer also monitors board level gender diversity of its multi-client funds and will seek to undertake stewardship activities with its appointed managers to encourage progress at a portfolio level. Mercer is currently reviewing opportunities to become more involved in one of the Chapter's Working Groups.

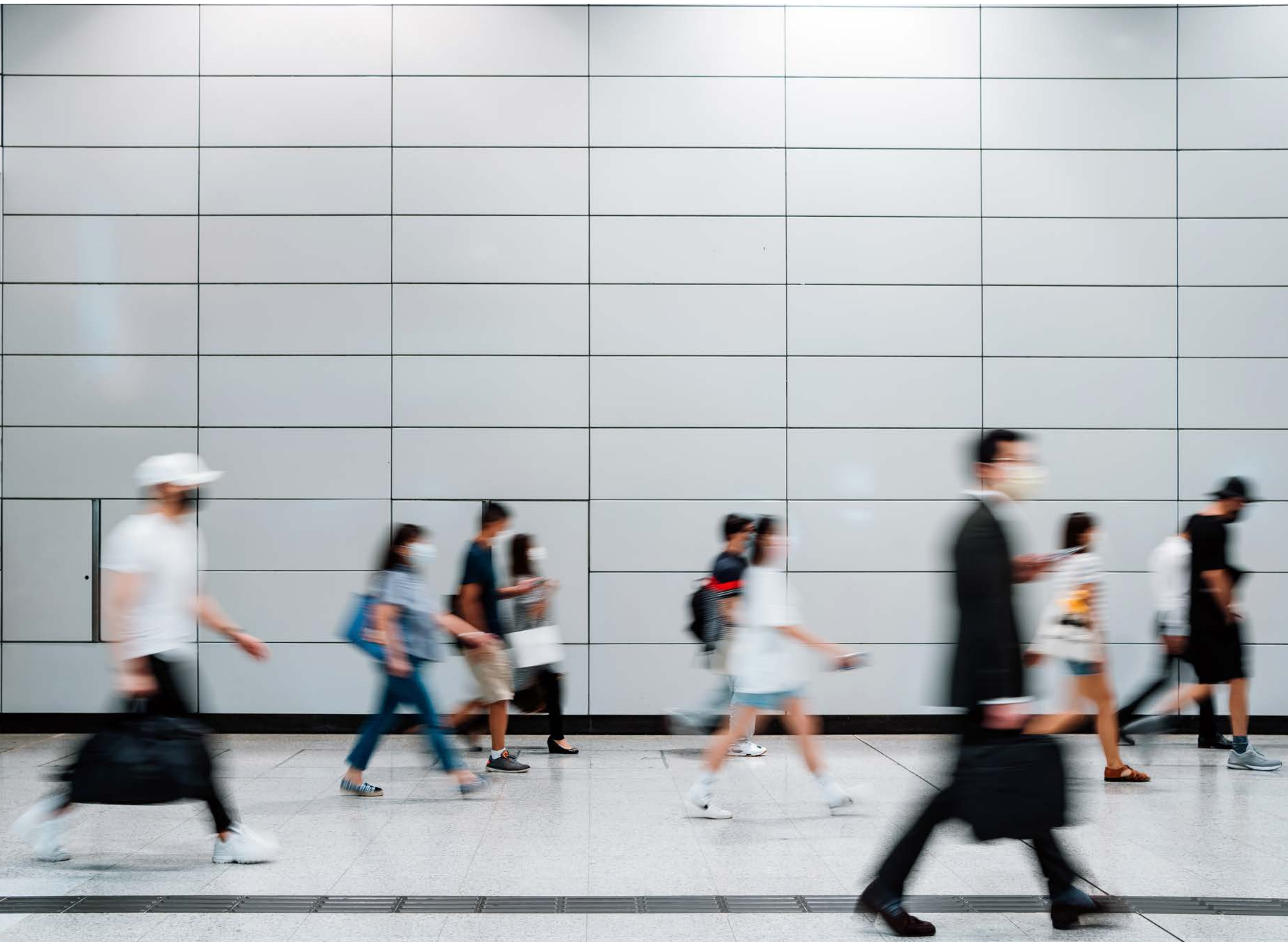
Case study: Engagement escalation leading to voting against management

In late 2021, following a similar campaign relating to gender diversity, the manager wrote to FTSE100 chairs to encourage ethnic diversity on their boards. The manager communicated its expectations that companies should set targets for executive level ethnic diversity, develop a robust strategy to achieve them, track progress against these and regularly report progress to the board and investors.

The manager also established a policy over 2022, where it voted against the nominations committee chair of any FTSE100 company without at least one non-white director on the board and/or any non-disclosing companies.

Since sending these letters, 25 companies acknowledged receipt, with 15 providing a substantial response (for example a letter from a board chair).

One company in particular stated that it was in the process of setting new DEI targets and the manager engaged with company management to assess how the company would improve board diversity from 29% to 33% female representation. Subsequent to the engagement efforts, the company announced the appointment of two female Independent Non-Executive Directors with effect from 1 January 2022. One of the females has an ethnic minority background. These changes led to female representation on the Board increasing from 29% to 44%.



Exercising voting rights and responsibilities

Exercising voting rights and responsibilities

As the appointed manager of funds that invest in publicly listed companies, Mercer IS has the right to vote at shareholder meetings on behalf of unitholders in these funds. We regard voting our shares as important to our fiduciary responsibility. Consistent with our investment model, voting rights and responsibilities typically sit with the appointed managers who are expected to vote all shares in a manner deemed most likely to protect and enhance long-term value. We carefully evaluate each manager's capability in proxy voting as part of the manager selection process. Mercer IS expects its investment managers to establish their own voting policy that sets out the principles and guidelines under which rights to vote are exercised.

Voting exceptions

Mercer IS's objective is for its appointed managers to vote on all shares in which the Mercer Funds invest, with the following qualifications and exceptions:

- **Conflicts of interest:** Mercer IS assesses whether appointed managers have policies and procedures that manage conflicts in relation to stewardship. Appointed managers are required to report on any conflicts of interest and demonstrate that they have adhered to their conflicts of interest policy and reported any breaches.
- **Power of attorney (PoA) markets:** There are some international markets where voting may only be carried out by an individual actually attending the meeting in person. The rules on PoA vary by market, apply for different periods of time and have various cost implications. Mercer IS expects appointed managers to have PoAs in place for larger markets but accepts that a cost/benefit view can be taken on smaller markets that employ this structure, meaning that there may be some smaller markets where shares may not be voted.
- **Share-blocking markets:** There are some markets that place regulatory barriers to voting, usually in the form of limitations on trading of shares if a vote is enacted. Our expectation is that managers will vote in these markets but we accept that, on occasion, appointed managers may not cast all votes.
- **Securities Lending:** Mercer IS operates a Securities Lending Program for the benefit of investors. Securities lending is when securities are loaned to third parties in order to earn additional investment returns. Mercer IS's securities lending program is managed and implemented by an external Securities Lending Agent (SLA). The SLA has established processes to recall shares on loan for voting purposes ahead of an AGM and we expect that this will not affect our objective to vote on all shares.
- **Securities Lending Collateral:** Mercer IS's Securities Lending Program is a fully collateralised program, managed and implemented by an external SLA. Mercer IS's custodian or a sub-custodian holds collateral posted by borrowers in a segregated account. Mercer IS would not expect to ever take receipt of these securities or vote on them. Collateral is therefore not governed by Mercer IS's Stewardship Policy.

Use of proxy advisors

Mercer accepts that managers may have detailed knowledge of both the governance and the operations of investee companies and has therefore enabled managers to vote based on their own voting policy. As we do not vote shares directly, we do not use the services of a proxy voting advisor, however we do monitor the use of proxy voting advisors by our underlying managers.

The majority of managers use a proxy advisor for vote execution and vote recommendations, with a number of managers leveraging research from multiple advisors. While proxy advice can be a valuable input into the voting decision-making process, we do caution managers placing full reliance on proxy advisors' recommendations. For this reason, we request that managers provide us with guidance on the % of votes against their proxy advisor.

Figure 49: Use of proxy advisors

89% of equity strategies use a proxy advisor

86% cited the use of ISS, 39% the use of Glass Lewis and 19% reference other providers, with a number of strategies citing the use of multiple providers

Figure 50: % of votes against proxy advisor during the reporting period

Most significant votes

Significant votes are identified with reference to our Global Engagement Priority themes, which are supported by our Beliefs, Materiality and Influence (BMI) Framework[18]. These significant votes focus on resolutions relating to priority engagement themes, while taking into account the size of holding across funds.

As part of our oversight of managers' voting activity, we follow-up on key significant votes with requests for additional disclosure such as rationale for voting decisions. As well as supporting clients in meeting their regulatory reporting requirements through additional disclosure, this two-way engagement also allows us to understand the policies and processes supporting managers' voting activity and wider engagement efforts across portfolios.

A list of the most significant votes have been included in Appendix A.

Disclosure

Mercer IS monitors the voting activities of appointed equity managers and provides quarterly reporting to clients to assist them in the preparation of their implementation statements. Aggregated reporting is further provided in the annual Stewardship Report. This is supported by the use of a third party provider who reports voting activities carried out on Mercer IS's behalf by appointed managers. Voting data is sourced by our third party provider, directly from custodians, providing an independent source of voting disclosure, and further supporting our efforts to monitor whether managers are exercising their voting rights to the fullest extent possible.

In order to provide more information on how proxy votes are exercised within the Mercer multi-client funds, a Proxy Voting Search site has been enabled, which is updated every six months, disclosing proxy votes over the prior six-month period.

We similarly encourage managers to be transparent with their voting activities through public disclosure of voting activities and will seek to engage with those where transparency can be improved.

18 Please refer to Mercer's Stewardship Policy for more detail

Figure 51: Transparency around voting activities

78% of equity strategies publicly disclose voting activities

75% of equity strategies publicly disclose voting rationale where they have voted against a resolution

2022 Proxy voting activity

The statistics below represent the aggregated results of voting activities across all segregated mandates with voting rights attached, which are managed on behalf of Mercer IS by its appointed managers. Fund specific statistics are available to investors in multi-client and bespoke funds on request.

Meeting Statistics[19]

Meetings Available to Vote at	Meetings Voted at	Meetings with at least 1 vote against management
13,300	98.9%	70.2%

Number of companies:	Number of countries*:
9,500	79

*Relating to country of security origin

Over 2022, managers voted on 97% of the proposals of which they were eligible to vote on, abstained from 1% and left 2% unvoted. In some cases, unvoted proposals relate to power of attorney (POA) markets[20] and share-blocking markets[21] and while the expectation is that managers will have POAs in place and vote in share-blocking markets, we accept that a cost/benefit view may be taken on smaller markets and in some share-blocking markets, not all votes may be cast.

Proposal Statistics[22]

Proposals Available to Vote on	Proposals Voted on
566,800	97.0%

% Management Proposals	% Shareholder Proposals
98.1%	1.9%

Proposals Voted Against Management's Recommendation	Shareholder Proposals Supported
16.0%	54.3%

Proposals by Vote Decision		
82.7% For	**15.9%** Against	**1.3%** Abstain

Proposal Statistics (continued)

Proposals by Category	
Audit/Financials	15.4%
Board Related	51.7%
Capital Management	8.3%
Changes to Company Statutes	5.5%
Compensation	12.1%
M&A	0.9%
Meeting Administration	2.0%
Other	2.3%
Shareholder Proposals	1.9%
SHP: Compensation	6.1%
SHP: Environment	14.5%
SHP: Social	32.2%
SHP: Governance	44.5%
SHP: Misc	2.7%

19 Meeting and no. of company statistics have been rounded to the nearest 100, where relevant
20 There are some international markets where voting may only be carried out by an individual attending the meeting in person.
21 There are some markets that place regulatory barriers to voting, usually in the form of limitations on trading of shares if a vote is enacted.
22 Proposal statistics have been rounded to the nearest 100, where relevant

Appendix

Appendix A: Significant votes over 2022

Category	Issuer	Proposal	Vote Decision and Reflections	Outcome
Human Rights and Labour Practices	Amazon	Shareholder Proposal Regarding Report on Freedom of Association	**Vote Decision: For** Managers supported the proposal given that the company is facing ongoing controversy with respect to its warehouse operations and suppliers. There has also been concern around the company's recently enacted 'Human Rights Commitment, Policy and Practice: Freedom of Association and Collective Bargaining' statement, in that it provides insufficient disclosure. Managers felt shareholders would benefit from increased disclosure and transparency to assess how the company is managing human rights-related risks, especially regarding freedom of association issues in its warehouse operations in the U.S. and abroad, and that shareholders would benefit from increased disclosure with regard to freedom of association restrictions in high-risk sourcing countries. Following the AGM, the company produced the report in response to the support shown for this proposal. Despite this, the proposal was tabled once again in the 2023 AGM, citing that the new report failed to explain how specific international labour standards—the International Labor Organization Declaration on Fundamental Principles and Rights at Work—align with its own commitments. The proposal received strong support again, indicating continued shareholder concerns that Amazon will be expected to address later in the year.	Did not pass (39% For)
	Apple	Shareholder Proposal Regarding Report on Effectiveness of Supply Chain Policies on Forced Labour	**Vote Decision: For** Managers supported increased transparency on the company's supply chain policies and processes in that it could help alleviate growing risks related to manufacturing in certain regions. Apple responded to shareholder support by committing to conduct a third-party assessment, focused on the company's efforts to comply with its Human Rights Policy. Investors continue to engage with Apple following this commitment to ensure accountability.	Did not pass (33% For)
	Johnson & Johnson	Shareholder Proposal Regarding Report on Access to Covid-19 Products	**Vote Decision: For** While acknowledging the company does provide some disclosure around its pricing of the Covid-19 vaccine, the manager felt the company fell short regarding transparency on how it has taken public funding for the development of Covid-19 products into account in its pricing and other access decisions so far, as well as how this will be taken into account in future.	Did not pass (33% For)

Category	Issuer	Proposal	Vote Decision and Reflections	Outcome
Human Rights and Labour Practices	Pfizer	Shareholder Proposal Regarding Public Health Costs of Limiting Covid-19 Vaccine Technologies	**Vote Decision: For** Managers supported this proposal given they felt shareholders would benefit from more detailed and comprehensive disclosure about how the company plans to address the risks associated with the limited sharing of vaccine technology, particularly given growing health concerns. Managers further noted the ongoing negotiations at the WTO may also affect the company's intellectual property for Covid-19 vaccines and other treatments, which the company itself has identified as a risk. The company has faced increasing scrutiny over vaccine access and the company's negotiations with countries over its Covid-19 vaccine. Moreover, given the company's current disclosure the requested report should not be unduly burdensome or overly costly for the company to produce. The Johnson & Johnson and Pfizer proposals were part of a wider campaign seeking equity in access from vaccine providers, particularly focusing on protecting the rights and access of low and middle-income countries. While the proposals did not pass and received minimal response from the respective companies, shareholders were relatively supportive across the board, with the proposals being tabled again at the 2023 AGMs and receiving similar support rates among shareholders.	Did not pass (9% For)
	Mastercard	Shareholder Proposal Regarding Report on Untraceable Firearms	**Vote Decision: For** Managers supported this proposal given the forthcoming regulatory change regarding this subject matter, and they felt it was reasonable for the company to furnish the report.	Did not pass (10% For)
Environment	Microsoft	Shareholder Proposal Regarding Managing Climate Risk in Employee Retirement Options	**Vote Decision: Split** Managers who voted against the proposal felt this was not a material risk for the company given the current investment options available to employees. There was a concern that additional reporting on the company's retirement plan options in the manner suggested by this proposal were unlikely to be a prudent use of company resources. Managers who voted for this proposal were supportive of better disclosure, but also felt the success of this proposal would help support the ongoing dialogue between employees and management around long-term climate risk. While the proposal did not pass, it earned an 11% vote in favour, achieving the threshold needed to continue dialogue with the company and to resubmit the resolution next year, if necessary.	Did not pass (11% For)

Category	Issuer	Proposal	Vote Decision and Reflections	Outcome
Environment	Aena S.M.E.	Management Proposal Regarding Approval of Climate Action Plan	**Vote Decision: Against** While the proposal of a climate action plan is a step in the right direction, the manager did not support it as they believed there was insufficient information for shareholders to provide an opinion on the current approach to addressing climate action. The manager also voted against the remuneration report due to equally insufficient information around targets and lack of alignment in incentive structure. Aena's Climate Action Plan was produced following investor engagement and has been an area of particular focus at the company's AGM in recent years, with the recent introduction of an accountability mechanism through an annual shareholder vote. Aena was the first Spanish company to incorporate this. While relatively few voted against approving the plan in 2022, the approval rate dropped in the 2023 AGM. Investors have therefore been able to signal dissatisfaction with progress or disclosures, which the company will need to address prior to the next vote.	Passed (94% For)
	Charter Communication	Shareholder Proposal Regarding Climate Report	**Vote Decision: For** Managers supported this proposal as they felt additional information on the company's Greenhouse Gas (GHG) emission reduction goals alignment with the Paris Agreement goals would allow shareholders to better assess how the company is mitigating climate change related risks.	Did not pass (37% For)
	Standard Bank	Shareholder Proposals Regarding 1) GHG Reduction Targets, and 2) Disclosure of GHG Reduction targets	**Vote Decision: For** Managers supported these proposals as they felt there would be benefits to progressive disclosure on the company's financed emissions and climate strategy, noting that the company putting the proposals to a vote is a positive development. These proposals were tabled with the support of Standard Bank, and form part of a long-term campaign between the bank and activist investor organisations. Shareholder proposals in previous AGMs requested the company publish a climate strategy and accompanying short-, medium-, and long-term targets. The company subsequently published its Climate Policy in March 2022 to comply with these proposals, however notably lacking short and medium-term targets, which the 2022 AGM proposals sought to address. Following this feedback, the company agreed to review the policy by March 2023, after which shareholders would be able to express their views ahead of the 2023 AGM, the results of which are still provisional at the time of writing. Over 2023, Standard Bank have faced increased media attention, driven in particular by activist organisations calling for the company to address its potential non-compliance with its commitments under the Equator Principles.	Passed (Both 99% For)

Category	Issuer	Proposal	Vote Decision and Reflections	Outcome
Environment	Sketchers	Shareholder Proposal Regarding Report on GHG Targets & Paris Agreement Alignment	**Vote Decision: For** The manager supported this proposal, noting that the company lacks meaningful targets, strategy, and actions regarding climate change. Sketchers opposed the resolution, stating that the company was already aligned with the proposal's mission and that Sketchers is committed to creating a more equitable and sustainable environment. However, the high support rate indicated shareholders commonly agreed that Sketchers was not providing enough information for shareholders to understand its long-term economic profitability with respect to climate-related risks and how the company intends to thrive in a net zero economy. Despite the proposal not passing, enough support was received for it to be tabled again at the 2023 AGM, where shareholder support dropped to 13%.	Did not pass (25% For)
	Electric Power Development	Shareholder Proposal Regarding Aligning Business Strategy to the Paris Agreement	**Vote Decision: For** The manager felt that in light of the company's already high GHG emissions and the lack of a concrete plan to retire old coal power facilities, it was in shareholders' interest to better understand how the company intends to remain viable in the long term, with the help of critical climate information, which would be ensured with the proposed change. The manager also felt that the proposed contents of the proposal did not appear to be unduly burdensome or overly prescriptive and therefore supported this proposal.	Did not pass (26% For)
	Total Energies SE	Management Proposal Regarding Opinion on 2022 Sustainability and Climate Progress Report	**Vote Decision: For** Managers supported this proposal, noting the following points as rationale for their support: -The company committed to reduce by 30 percent scope 3 GHG emissions from oil production by 2030; -The company pursues investments in alternative sources of energy and Carbon Capture & Storage (CCS) technology; -The company committed to disclose absolute targets for GHG emissions covering all activities, the evolution of the energy mix and targeted production volumes, the potential contribution of CCS technology, and the work of assessment carried out by an independent third party; -The company committed to propose a shareholders' vote at each AGM addressing its sustainability and climate progress report.	Passed (89% For)

Category	Issuer	Proposal	Vote Decision and Reflections	Outcome
Environment			Despite this support, it was recognised the report was not without any concerns for shareholders, in particular the announcement of increased productions and new production sites in the report. This, in addition to perceived shortcomings in management's response, resulted in a shareholder proposal relating to climate strategy and disclosure being tabled at the 2023 AGM. The proposal did not pass, but received 30% votes in favour despite the company urging shareholders to vote against it.	
	Rio Tinto	Management Proposal Regarding Approval of Climate Action Plan	**Vote Decision: Against** Managers voted against company management's climate action plan as they felt the company can do more to address its lifecycle emissions, including setting ambitious medium and long-term scope 3 targets. They encouraged Rio Tinto to lead the mining and minerals industry by setting stretching scope 3 emissions reduction targets.	Passed (82% For)
	Standard Chartered	Management Proposal Regarding Endorsement of Pathway to Net Zero	**Vote Decision: For** Following engagement with company management on a climate transition plan, the company put forward a net zero plan at the AGM. The manager was satisfied this met expectations and voted in favour of it.	Passed (83% For)
		Shareholder Proposal Regarding Fossil Fuel Financing	**Vote Decision: Against** At the same AGM in which the net zero plan was put forward by management, a shareholder proposal regarding more transparency on fossil fuel financing was put forward simultaneously, which the manager did not support.	Did not pass (12% For)
Diversity	Alphabet	Shareholder Proposal Regarding Report on Board Diversity	**Vote Decision: Split** Managers who voted against this proposal noted the board's Nominating and Corporate Governance Committee states a commitment to diversity in hiring board members. They therefore felt the company is not significantly lagging its peers in board diversity, and it provides sufficient disclosure on board diversity data. Managers who voted for the proposal felt that while the company's current disclosure and efforts to promote board diversity are commendable, additional information on the company's board diversification efforts would aid investors in determining if the company is taking appropriate measures to ensure minority candidates are included among prospective board nominees. Improved board diversity would bring the company in line with an increasing proportion of other companies that have committed to board inclusiveness and aid in attracting employees, creating goodwill with consumers, and competing in the increasingly global marketplace, ultimately benefitting long-term shareholder value.	Did not pass (5% For)

Category	Issuer	Proposal	Vote Decision and Reflections	Outcome
Diversity			In response to the AGM, Shareholders and employees were quoted that "a gender pay gap and lack of diversity could make it difficult for the company to hire and retain workers, posing a long-term risk to its ability to innovate." The company has been subject to increased media attention regarding persistent underrepresentation of women and racial monitories in the company's US broader workforce, and therefore shareholders were generally more supportive of a shareholder proposal seeking a third-party racial equity analysis of the company's impacts on Black, Indigenous, and People of Colour communities.	
	NextEra Energy	Shareholder Proposals Regarding 1) Disclosure of Board Diversity and Skills, and 2) Employee Diversity Data Reporting	**Vote Decision: For** The manager supported both shareholder proposals regarding diversity as they believe: - A well governed and diverse board is more likely to perform over the long term; - Having to disclose additional diversity data in their reporting may lead to reduced inequality.	Did not pass (25% For)
	Prologis	Management Proposal Regarding the Election of Executive Committee Members	**Vote Decision: Against** The manager expects companies to separate the roles of Chair and CEO due to risk management and oversight. The manager also notes that the company has an all-male Executive Committee and expects a board to be regularly refreshed in order to maintain an appropriate mix of independence, relevant skills, experience, tenure, and background. Given this, the manager voted against resolutions relating to a joint CEO/ Chair role, diversity, and independence. While the company did not respond to the lower support rate of their re-elections, the manager noted they would continue to vote with the intention of promoting more diverse boards in a variety of respects at future meetings.	Passed (85% For)
	Badger Meter	Shareholder Proposal Regarding Board Diversity Report	**Vote Decision: For** While the manager acknowledged the company's progress towards on-going and long-term board diversification efforts, the manager also felt the request for additional reporting was reasonable and would enable shareholders to have a better understanding of the company's approach.	Did not pass (25% For)

Appendix B: Meeting the principles of the UK Stewardship Code

This report is designed to cover the reporting expectations relating to the 12 principles of the UK Stewardship Code for investment managers. The content related to the expectations of each principle is referenced below.

	Description	Pages
Principle 1	Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.	5-15; 30-35
Principle 2	Signatories' governance, resources and incentives support stewardship.	16-26
Principle 3	Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	27-29
Principle 4	Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.	9-12; 45-66
Principle 5	Signatories review their policies, assure their processes and assess the effectiveness of their activities.	36-38
Principle 6	Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.	30-35
Principle 7	Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.	12; 22-26; 30-35; 39-66
Principle 8	Signatories monitor and hold to account managers and/or service providers.	25-26, 39-66
Principle 9	Signatories engage with issuers to maintain or enhance the value of assets.	12; 39-66
Principle 10	Signatories, where necessary, participate in collaborative engagement to influence issuers.	13-14; 44; 54; 56; 65
Principle 11	Signatories, where necessary, escalate stewardship activities to influence issuers.	45-47; 52; 58; 60; 66
Principle 12	Signatories actively exercise their rights and responsibilities.	39-70

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