

# Preparing for our clients' future

Our sustainable investment declaration



# Our investment beliefs

Since 2014, sustainability has been a critical part of the global investment beliefs we employ to help shape our clients' portfolios.

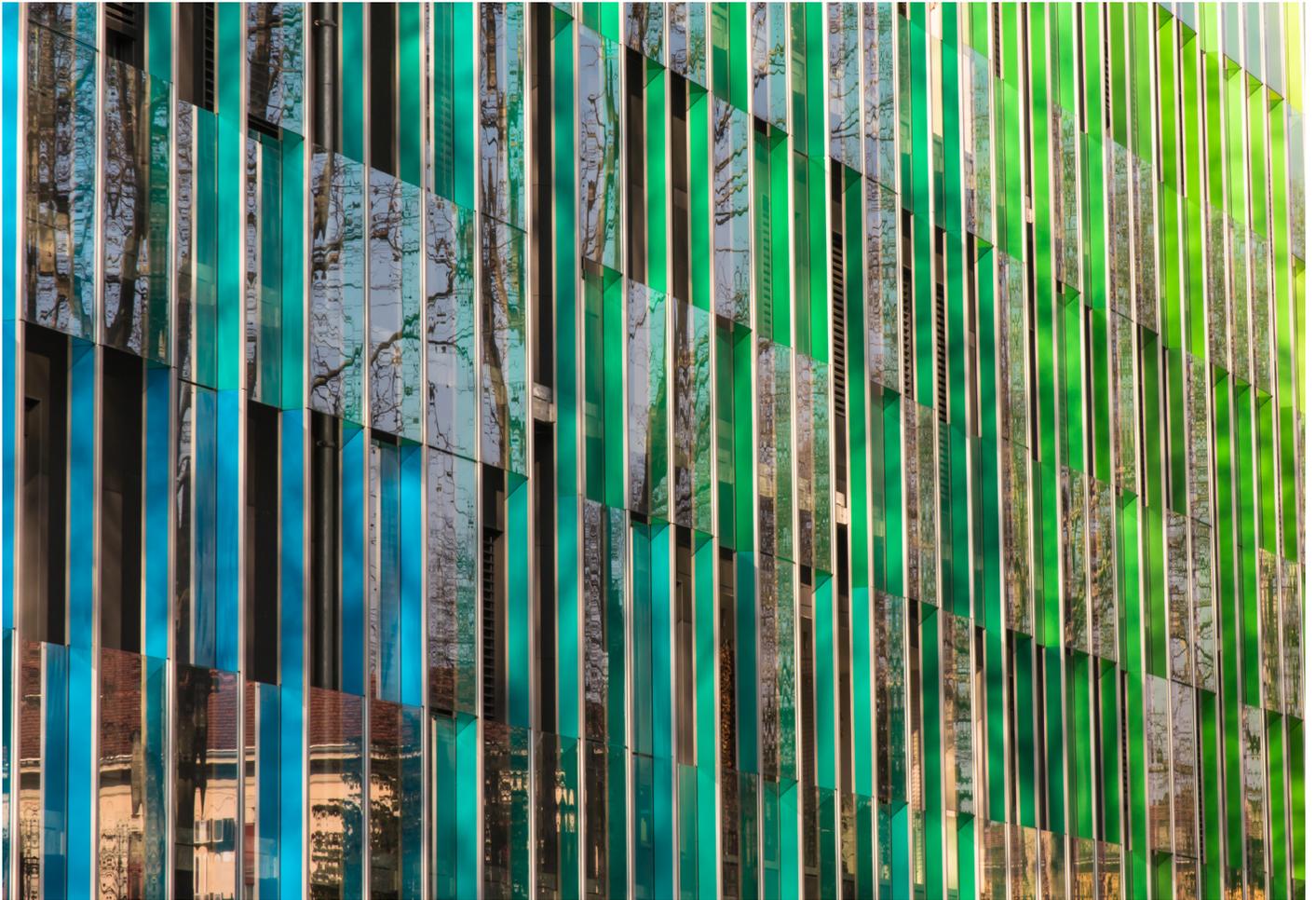
The world is changing rapidly and, often, dramatically. Society is demanding answers — and demanding that those with power, capital and influence act positively to provide them.

From environmental concerns to how diversity, equity and inclusion (DEI) is rising up the corporate agenda, investors have a wide range of new risks and opportunities to factor into their portfolio allocations.

By taking a sustainable investment approach, we believe asset owners are more likely to create and preserve long-term capital and meet their objectives.

- 1. Environmental, social and governance (ESG) factors** can have a material impact on long-term risk and return outcomes, and these issues should be integrated into the investment process.
- 2. Taking a broader, longer-term perspective on risk**, including identifying sustainability themes and trends, is likely to lead to improved risk management and new investment opportunities.
- 3. Climate change poses a systemic risk**, and 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.
- 4. Stewardship helps the realization of long-term shareholder value** by providing investors with an opportunity to enhance the value of companies and markets.





# Our sustainability principles

As a Marsh McLennan company, we strive to do the right thing for our colleagues, clients and shareholders, but it is vital that we consider future generations too. This approach is inextricably linked to our Mercer investment philosophy, which aims to produce long-term performance for our clients while helping them manage an ever-expanding risk landscape. Across the full spectrum of investor requirements — from bespoke strategy design to pooled funds — we help our clients stay focused on their individual objectives amid a changing and sometimes challenging outlook.

## Our clients need to manage a broad range of sustainability factors and incorporate them into their portfolios, achieve their investment objectives, and communicate their activities to a broad base. Our forward-looking research and proprietary tools and solutions help clients:



Achieve investment objectives by taking a broader perspective on risk and opportunities



Improve company and market environment prospects by being active owners



Align portfolios to support international environmental targets, DEI and societal commitments



Measure real-world sustainability outcomes



Balance risk, return, regulation and reputation considerations



**Communicate  
to beneficiaries,  
stakeholders  
and society**

We know there is more to investing than reacting to short-term movements of capital. For decades, we have studied what drives markets for a wide range of international clients, helping investors make the most informed choices.

Our clients draw on our experience to help them manage risk in portfolios and recognize opportunities as they arise. By cutting through complexity, we help our clients identify the key elements that underpin performance today and what will be important in the long term.

This is how we work with our clients to distill the essence of what sustainability means for their portfolios. Our approach helps identify the factors that are likely to produce positive outcomes, along with those that may trip clients up in the medium to long term.

As these factors are constantly changing, it is our role to keep pace with — and often stay ahead of — shifting trends.

We recognize that every client has different objectives and will take their own approach to achieve them, but the same risks influence every single portfolio and can ultimately have the same impact if not addressed.

By working with us, clients access extensive research that identifies risks around ESG factors with the potential to enhance portfolio management. ESG impacts can be positive and negative — creating opportunities to invest and threats to avoid. We believe these factors — and more that have yet to fully develop — will play a part in long-term investment portfolio performance.

# Our sustainability principles



A broader perspective on risk, return and the real world helps prepare portfolios.

- Systemic change in governance, society and the environment is happening at pace all around us.
- This impacts all regions and asset classes, whether the change is viewed favorably or not, requiring informed investment decisions.
- Incorporating a sustainable approach is likely to lower risk and could generate additional returns over the long term.

## 1



Stakeholder capitalism is a reality.

- Regulators are reacting, implementing new rules on companies and investors.
- Beneficiaries and stakeholders are becoming more engaged and require evidence of robust portfolio and stewardship actions.
- Investment returns and their impact on society and the environment must increasingly find a way to coexist.

## 2



As investor influence grows, so does the expectation of accountability.

- Excluding certain investments is a limited answer to investing for the future.
- Active ownership, voting and engagement with companies and policymakers can improve alignment with investor timeframes and interests.
- Disclosure and transparency supports accountability throughout the financial system, and stakeholders expect clear communication.

## 3

As the world changes and society looks to those with the power, capital and influence to act positively to address this change, we have a responsibility to our clients to integrate what we study and observe — and the expected impacts — into our advice and implementation of investment strategy. This helps ensure that our clients' portfolios are equipped to face and embrace the ever-changing risk landscape.

By constantly working to stay ahead of these evolving factors, we can directly translate our sustainability approach into our tools, strategies and policies, allowing our clients to stay focused on what matters to them.

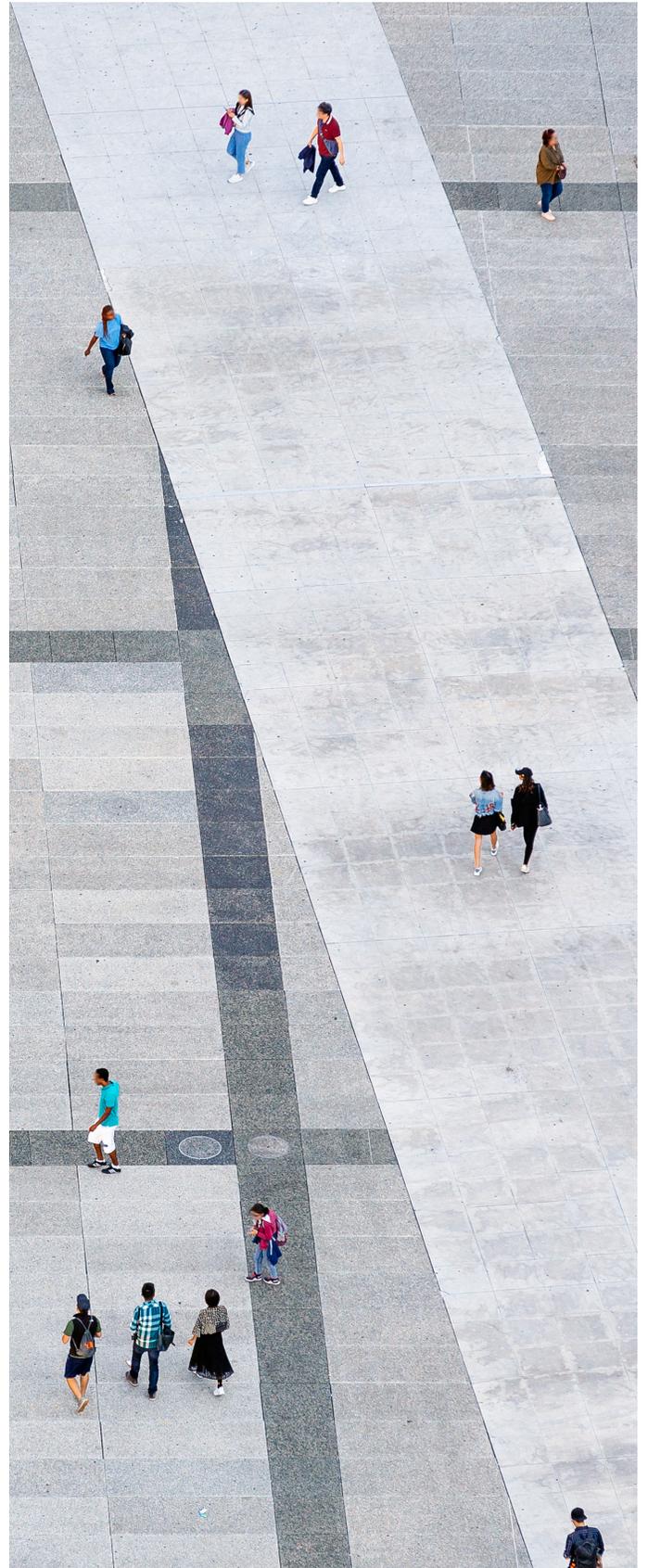
# Your needs, our expertise — A path to take action

**As a trusted researcher, advisor and implementer of investment strategy, it is our role not only to anticipate but also to help create the mechanisms through which our clients can both mitigate risks and position themselves to capture emerging opportunities more quickly in a way that suits them.**

We have invested in forward-looking research capabilities and collaborated with leading investors to inform decisions on what we believe our clients need. Understanding the key component of “materiality” in all strategies and funds helps us prioritize which factors need more pressing attention, as they may have the more immediate and significant impact on client portfolios.

Through this ongoing work, we have developed tools and frameworks that can be directly applied and implemented in any portfolio, and we are constantly innovating to bring our clients more.

Since 2014, our advice and implementation framework — the Sustainable Investment Pathway — has aimed to provide the foundations for good governance and portfolio implementation, with enough flexibility to evolve as new research and developments require the emergence of new specialist modules.



# Our Sustainable Investment Pathway



## Our solutions help clients address a wide range of sustainability factors, from climate change to the DEI agenda and supply chain issues.

### For the environment

- Climate scenario analysis:
  - This analysis is designed to help investors gauge the potential impact of climate change transition and physical damages on investment returns under multiple climate scenarios for asset allocation, asset classes and sectors, allowing investors to assess what needs to change, when and how.
- [Analytics for Climate Transition \(ACT\)](#):<sup>1</sup>
  - The ACT tool helps investors construct portfolios for a multi-year transition timeframe, noting a 1.5°C scenario requires at least a 45% reduction in emissions by 2030. Transition advice, supported by ACT, helps investors set baselines, assess opportunities for change, establish targets and produce implementation plans that can be integrated with strategy and portfolio construction decisions.
- Sustainable investment opportunities through private markets solutions:<sup>2</sup>
  - These solutions help investors access investment themes and strategies expected to benefit from trends in the energy transition and solutions in natural resource and waste reduction challenges. [Find out more about our sustainable solutions.](#)

### For society

- Working practices and human rights:
  - We help investors assess and address working practices and human rights risks in investment processes. We also support investors to ensure that their investment managers and investee companies do the same to meet regulatory and stakeholder expectations.

- Addressing DEI through private markets solutions:
  - We provide solutions to help investors access companies and projects that focus on limiting and reducing global inequalities to unleash substantial economic growth prospects, such as our [“Leap Continuum”](#):<sup>3</sup>
    - The Leap Continuum identifies shifting trends in DEI to allocate capital to companies making positive change and capturing a diversified range of investment opportunities.
    - Choosing more diverse managers provides an opportunity to invest in a growing segment of the market that has the potential to generate strong risk-adjusted returns. Get to know the [“Leap Continuum,”](#) our suite of DEI research, advice and solutions for private markets. Explore how you can take the leap with us, and learn more in our [white paper](#) on DEI implementation in private markets.

### For corporate governance

- Rating and annual assessment reporting:<sup>4</sup>
  - This service helps investors assess ESG integration and stewardship by using Mercer’s ESG Ratings to support strategy selection decisions across asset classes and monitor for improvement over time. Annual assessment reporting against policy commitments can also help investors monitor their own implementation and improvements over time.
- Developing long-term value:<sup>5,6</sup>
  - We help investors enhance the value of companies and markets, consistent with investment objectives, by establishing good governance and stewardship practices. Read the latest in our series of groundbreaking reports published in conjunction with the World Economic Forum, [Transformational Investment Practices of Advanced Investors](#).

# Sustainability, along with its purpose and impact in investment portfolios, is multifaceted.



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With something that encompasses such a wide range of factors, it is essential not to focus on just one element. We continuously work to understand the scale, importance and impact any of these elements may have on client portfolios.

Our approach comprises a vast array of research, experience, innovation and structures that are part of the service we offer all our clients.

Everything we have learned on this sustainability journey — and everything we have yet to discover — is distilled into our advice and implementation to enable our clients to prepare portfolios for what the future may bring.

# Our experience, your advantage

For almost 20 years, we have championed how incorporating sustainability into a portfolio does not mean sacrificing returns but instead has the potential to help enhance them.

Initially engaged by global institutional investors that dared to pursue a more sustainable approach to asset allocation and security selection, we have developed potential ways for any of our clients to benefit from this new methodology — and we keep evolving it over time.

We have worked and continue to collaborate with some of the world's most sophisticated investors and international organizations,<sup>7</sup> researching and investigating external elements that may throw our clients' strategies off course.

Well before the Paris Agreement and TCFD frameworks, DEI initiatives, and stewardship codes, we had already identified these issues — and more besides — as some of the drivers of investment performance.

Our work has paved the way for both structural change in our industry and a fundamental reassessment of investment values at some of the world's largest and most advanced institutional investors.<sup>8</sup>

As a founding signatory to the United Nations-backed Principles for Responsible Investment in 2006, we had already helped the organization create and launch its guiding values and standards.<sup>9</sup>

Our forward-looking research led us to see how investors could not only be part of the vital change that needs to happen to protect our environment and reinvigorate societies, but also how they might position themselves to see the potential benefit in their portfolios by avoiding calamities and embracing vast new potential.<sup>10</sup>

Today, with more than US\$380 billion in global assets under management and US\$17 trillion in global assets under advisement,<sup>11</sup> we continue to forge ahead in our exploration and influence in the field of investment management. We want to ensure we can help our clients around the world incorporate a wide range of sustainability factors into their investment processes and potentially improve their outcomes.



**We recognize our position and responsibility, and — through the use of our proprietary tools and other mechanisms — aim to improve the system in which we all invest, hold ourselves and others to account, and increasingly deliver positive change within society and our environment.**

**Helga Birgden,**  
Global Head of Sustainable Investment, Mercer



We are grateful to our clients around the world, with whom we've studied and articulated solutions for these issues, along with those who have embraced our approach within their long-term, forward-looking portfolios.

## 20 years of championing sustainability implementation



### 2004–2010

- Mercer's proprietary ESG ratings platform for investment strategies launched
- SI consulting practices developed and new team formed
- Advice provided to UN on PRI development
- Many ESG materiality and education papers published



### 2011–2013

- *Climate Change and Strategic Asset Allocation* report published
- Climate Change Task Force launched by MMC and managed by Mercer
- Sustainable opportunities private markets solution launched



### 2014–2015

- Investment beliefs formalized
- Mercer's Sustainable Investment Pathway established
- *Investing in a Time of Climate Change* report released in 2015
- ESG ratings for passive equity managers reached over 4,000 strategies
- Sustainable Investment Policies established for Investment Solutions

### 2016–2019

- Sustainable Global Equity fund launched; second Sustainable Opportunities closed
- Mercer represented on the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)
- Investment beliefs updated and strengthened
- *Investing in a Time of Climate Change — The Sequel 2019* published

### 2020–2021

- In partnership with the World Economic Forum, research report on *Transformational Investment — Converting Global System Risks Into Sustainable Returns* published
- Awarded an A+ and six As from the PRI for our US\$306 billion (as of June 2020) in assets under management in investment solutions across public and private markets
- *Analytics on Climate Transition (ACT)* Framework launched globally



## Learn more about sustainable investing at Mercer

### Sustainability research

We were one of the first consultants to explore ESG factors and implement them into investment research, a pioneering position we are proud to continue to hold. Mercer's Global Manager Research Team is responsible for the more than 5,600 ESG-rated strategies on MercerInsight® that inform investment decisions across asset classes around the world.

### Meet some of our sustainable investment advice professionals

Since 2004, our Sustainable Investment (SI) Advisory Team has been committed to helping clients achieve meaningful sustainable investment outcomes. Our team comprises more than 20 dedicated professionals, supported by a global network of champions.

Mercer's advice and solutions teams are happy to talk about our experience to date and what we anticipate coming next in the path toward sustainable investment.

### Resources to find out more

[Sustainable Investment](#) at Mercer

Integration with [Investment Solutions](#) at Mercer

[Accelerating DEI in Investment: Harnessing the Power of Diversity](#)

[Transformational Investment Practices of Advanced Investors: Mercer and The WEF](#)

## Notes

- <sup>1</sup> Mercer press release. “Mercer Launches New Climate Change Solution to Help Investors Transition to a 1.5°C Climate Scenario,” November 11, 2020, available at <https://www.uk.mercer.com/newsroom/mercer-launches-new-climate-change-solution-to-help-investors-transition-to-a-1-point-5-c-climate-scenario.html>.
- <sup>2</sup> Mercer. “Investing Sustainably Through Private Markets,” available at <https://www.mercer.com/what-we-do/wealth-and-investments/sustainable-opportunities.html?clr#contactForm>.
- <sup>3</sup> Mercer. “Accelerating DEI in Investment: Harnessing the Power of Diversity,” available at <https://www.mercer.com/what-we-do/wealth-and-investments/harnessing-the-power-of-diversity.html>.
- <sup>4</sup> Mercer. “Responsible Investment: Mercer ESG Ratings,” available at <https://www.mercer.com/our-thinking/mercer-esg-ratings.html>.
- <sup>5</sup> Mercer and World Economic Forum. “Trendsetters: Transformational Investment Practices of Advanced Investors,” available at <https://www.mercer.com/our-thinking/wealth/trendsetters-transformational-investment-practices-of-advanced-investors.html>.
- <sup>6</sup> Mercer. “Investment Solutions — Get Future-Ready: Building Better Governance Together,” available at <https://www.mercer.com/events/webcasts/investment-solutions-get-future-ready-building-better-governance-together.html>.
- <sup>7</sup> World Economic Forum. *Transformational Investment: Converting Global Systemic Risks Into Sustainable Returns*, May 28, 2020, available at <https://www.weforum.org/whitepapers/transformational-investment-converting-global-systemic-risks-into-sustainable-returns>.
- <sup>8</sup> Norwegian Ministry of Finance. *Responsible Investment: Government Pension Fund Global*, 2010, available at [https://www.regjeringen.no/globalassets/upload/fin/brosjyre/2010/spu/english\\_2010/spu\\_hefte\\_eng\\_ebook.pdf](https://www.regjeringen.no/globalassets/upload/fin/brosjyre/2010/spu/english_2010/spu_hefte_eng_ebook.pdf).
- <sup>9</sup> The Asset Management Working Group of the United Nations Environment Programme Finance Initiative and Mercer. *Demystifying Responsible Investment Performance: A Review of Key Academic and Broker Research on ESG Factors*, October 2007, available at [https://www.sriservices.co.uk/wp-content/uploads/Demystifying\\_Responsible\\_Investment\\_Performance\\_01-unepfi-2007.pdf](https://www.sriservices.co.uk/wp-content/uploads/Demystifying_Responsible_Investment_Performance_01-unepfi-2007.pdf).
- <sup>10</sup> Mercer. *Investing in a Time of Climate Change: The Sequel 2019 — Executive Summary*, available at [https://www.mmc.com/content/dam/mmc-web/insights/publications/2019/apr/FINAL\\_Investing-in-a-Time-of-Climate-Change-2019-Executive-Summary-HIGH.pdf](https://www.mmc.com/content/dam/mmc-web/insights/publications/2019/apr/FINAL_Investing-in-a-Time-of-Climate-Change-2019-Executive-Summary-HIGH.pdf).
- <sup>11</sup> Ibid.
- <sup>12</sup> Mercer, as of May 31, 2021.

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Under the Employee Retirement Income Security Act in the United States (ERISA), the decision to invest in ESG-themed options for ERISA plans, like all options, must be in the best financial interest of the plan and its participants. ESG thematic investing may be subject to greater scrutiny; for example, its inclusion in an ERISA plan may trigger a heightened level of review of various objective criteria across all investment options. Active ownership efforts should be considered in light of the cost versus benefit to the plan of engaging in such efforts. Clients are encouraged to consult with ERISA counsel regarding responsible investing.