

Investing for a better tomorrow starts today



welcome to brighter

A photograph of a woman and two children in a rooftop garden. The woman is holding a young child, and another child is standing nearby. They are surrounded by various plants, including tomatoes and leafy greens, in wooden raised beds. The background shows a brick wall and a building with windows. The scene is lit with warm, golden light, suggesting late afternoon or early morning.

The only way is sustainability.

Change is not a choice; it is an evolution — and for investors, it means moving with the times.

Institutional portfolios should be regularly reviewed to ensure they are aligned with constantly emerging long-term investment themes linked to structural shifts in society and are positioned to potentially generate the target returns they need.

Today, as a society, we face a future full of change — but much of it is positive.

The 16th edition of the *Global Risks Report* by the World Economic Forum¹ highlighted the interrelation between environmental and social issues — one cannot be resolved without addressing the other. As the world gets ready for a delayed COP26, a failure to act on climate change dominates the risk landscape. The consequences of environmental risks, along with the likelihood of them happening, rank highly on the risk landscape. Infectious disease and its ripple effect on employment and livelihood are also major and pressing concerns.

While change is not a choice, investors do have a decision to make. And for many, this goes beyond a simple opt-out strategy, which can sometimes close down a path toward future investment.

Opportunity abounds ...

Already, in 2018, some \$4 trillion in global index market value was derived from so-called “green revenues,”² while the economic gain from a low carbon growth model by 2030 was predicted to be \$26 trillion.³

Furthermore, the United Nations estimated \$10 trillion would be needed to attain its Sustainable Development Goals (SDGs) by its 2030 objective,⁴ with a further \$650 billion needed a year to fill the “affordable housing gap.”⁵

Investors need to decide whether they want to be part of creating a sustainable future and position their portfolios to potentially benefit from what this evolution brings, or play catch up once these innovations have already been adopted.



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¹ World Economic Forum with support from Marsh McLennan. *The Global Risks Report 2021*, available at <https://www.mercer.com/our-thinking/the-global-risks-report-2021.html>.

² UN Climate Change. “Green Economy Overtaking Fossil Fuel Industry — FTSE Russel Report,” June 8, 2018, available at <https://unfccc.int/news/green-economy-overtaking-fossil-fuel-industry-ftse-russel-report>.

³ The New Climate Economy. *The 2018 Report of the Global Commission on the Economy and Climate*, available at <https://newclimateeconomy.report//2018>.

⁴ United Nations Economic and Social Council. *Long-Term Future Trends and Scenarios — Impacts in the Economic, Social and Environmental Areas on the Realization of the Sustainable Development Goals*, May 7, 2020, available at https://sustainabledevelopment.un.org/content/documents/26128SG_report_longterm_scenarios.pdf.

⁵ McKinsey Global Institute. *Tackling the World's Affordable Housing Challenge*, October 1, 2014, available at <https://www.mckinsey.com/featured-insights/urbanization/tackling-the-worlds-affordable-housing-challenge>.

Why now? Why private markets?

Approaching the long term sustainably

As businesses, regulators and society push for progress on a range of global and local issues, innovation to facilitate that progress must keep pushing ever forward.

From the energy transition to technology to achieving net-zero emissions, from support for minority-owned businesses to solutions for the rapid loss of biodiversity — the scope for innovation and growth is significant.

We believe private markets is where most of this innovation is likely to be found. Unlike listed exchanges and public bond markets, which are the domain of relatively advanced businesses, privately held companies are generally untethered by legacy business models and baggage.

It is within these companies where visions of the future are unconstrained. We are already seeing how invention from small and midsize enterprises is fueling change in much larger businesses around the world.

We believe there have been few times in recent history that have offered so much promise to harness the opportunities of the changes being made towards long-term, positive themes today.

By allocating to these themes, and the opportunities that arise because of them, we believe investors can gain exposure to the significant growth potential on offer.

The companies that are producing the technology and other innovations to power sustainable change are often small. Because of their size, they frequently rely on private capital to fund their expansion and growth.

They need investment in research and development and must be reassured their investors will support their efforts, or they will not have the freedom to think innovatively.

Key themes



Renewable and alternative energy



Energy efficiency



Water infrastructure and technologies



Pollution control



Waste management and technologies



Environmental support services



Sustainable resource management



Inclusive finance



Social/affordable housing



Education



Health

Harnessing the power of sustainable change — what it means for investor portfolios

Investor portfolios need to adapt to the changing world or potentially risk losing focus on return targets. Exposure to companies, sectors or even regions that are falling out of favor could potentially inflict losses on a portfolio over time.

But there is more to change than just dispensing with the “old” in favor of new styles and ideas. Investors can instead both harness and create new opportunities as the world faces and embraces the future.

We believe our Sustainable Opportunities Solution provides a straightforward mechanism for investors to access this potentially complex theme.

The solution hosts a portfolio of highly rated private funds, offering access to opportunities across equity and debt that are often unavailable in public markets. It aims to generate strong, risk-adjusted returns.

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The Mercer Sustainable Opportunities Solution

Our Sustainable Opportunities Solution is dedicated to identifying genuinely sustainable long-term opportunities in private markets and presents Mercer's best investment ideas.

The solution's aim is to generate positive risk-adjusted returns, while also making positive contributions to challenges the world faces from environmental and social issues. We believe it takes a multi-asset approach, covering multiple themes and sectors within one portfolio, allowing investors to access niche companies and transactions that are really making a difference.



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Why choose our Sustainable Opportunities Solution?

01/ Potential to achieve return objectives while making positive contributions to addressing the climate crisis and sustainability challenges.

02/ Annual impact reporting that documents those contributions using the Sustainable Development Goals — at least six metrics across five goals.

03/ Access to a multi-asset class, multi-theme portfolio within a single sleeve.

04/ Access to more niche opportunities, given the size of typical transactions, and solutions that are truly making a difference in the world.*

05/ Access to managers that can be hard closed and difficult to get exposure to.

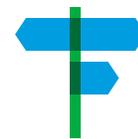
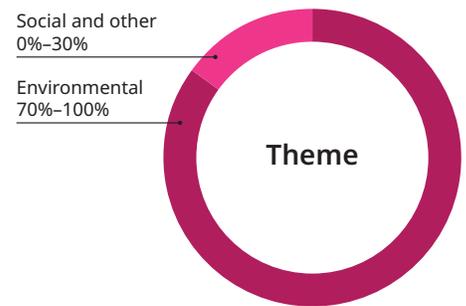
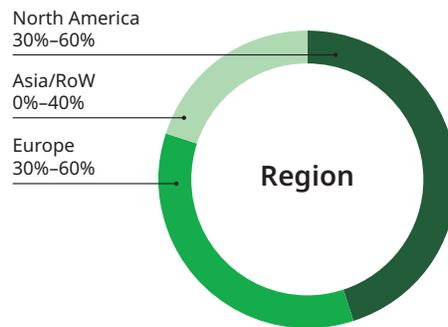
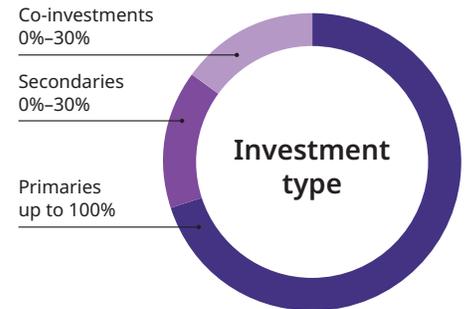
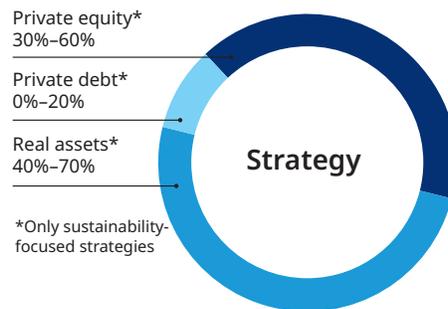
06/ A truly integrated approach to environmental, social and governance (ESG) factors in manager selection, as outlined in the Sustainable Investment Policy.

07/ Collaborative input to the investment process from Mercer's Responsible Investment team and an external advisory panel monitoring the investment guidelines.

*Mercer cannot guarantee access to managers. Access is at the discretion of the manager.

Mercer Sustainable Opportunities Solution: Key characteristics

The solution is projected to be diversified across a minimum of 10 underlying funds, secondaries and co-investments, and access managers that have been identified, analyzed and selected by our global research team. It offers investors access to global themes and opportunities, but with the operational and cost efficiencies brought by a multi-manager and platform-based approach.



~10 fund positions

via primaries and secondaries, excluding co-investments

Diversification

Private markets portfolio with a **sustainability theme**

Target return

7%–10% p.a.

All target allocations or returns and projected portfolio diversifications are for informational purposes only. There is no guarantee that the Fund will be able to implement its investment strategy and attain the allocations, returns or diversifications presented.

Measuring against five of the 12 Sustainable Development Goals, as defined by the United Nations, we can help institutional investors benchmark against their own statement of investment principles.

Environmental, social and governance (ESG) factors form an integral part of our due diligence process, during which we gather information through questions, manager onsite discussions and reference calls. The Sustainable Opportunities Solution takes an integrated approach to ESG factors in manager selection, as outlined in the Sustainable Investment Policy, which details our approach to implementing our beliefs into the research and selection process. This encompasses key principles, sustainability trends, climate change, stewardship and screening or exclusions.

Once fully invested, our annual impact report documents the contribution our clients' investments have made over the year through the fund. Measuring against five of the 12 Sustainable Development Goals, as defined by the United Nations, we can help institutional investors benchmark against their own statement of investment principles.

Driven by our forward-looking research into ESG themes and demand from our clients, we believe this approach to sustainability within the solution should generate long-term returns.

Five Sustainable Development Goals



Zero hunger



Clean water and sanitation



Affordable and clean energy



Sustainable cities and communities



Responsible consumption and production



**Investors need to
decide whether
they want to be
part of creating a
sustainable future.**



Portfolio case study: Alternative energy — sPower

In 2012, three experienced energy executives founded a new type of company in their traditionally fossil-fuel-intensive sector. It initially consisted of a relatively small 45MW solar utility, but the team wanted to expand quickly.

They investigated acquiring solar power developer Silverado Power, a much larger supplier that had fallen into financial distress.

Around the same time, Fir Tree Partners — a private markets manager that focuses on special situations — was providing rescue financing to Silverado. As a result of a default on that loan, Fir Tree gained control of the company and placed it in a fund it had created specifically to hold it.

In 2014, sPower and Silverado merged, enabling the original three executives to grow the business further through acquisitions and joint ventures. By 2017, sPower had become the US's largest private solar utility, producing more than 1.1GW in energy and employing more than 2,500 people.

In that same year, it was sold by Fir Tree Partners to Fortune 500 global energy company AES and a Canadian sovereign fund for \$1.6 billion. This result delivered strong returns to investors.

sPower continued to expand, developing a 6000-acre solar farm in Virginia, in the US, to fuel data centers belonging to Apple and Microsoft. In 2020, when it owned and operated a wind, solar and storage portfolio of nearly 2GW, sPower merged with AES's clean energy business in the US to form AES Clean Energy, one of the leading renewables platform in the country.⁶

By 2017, sPower ...

Operated 75 solar and wind projects across **11** US states, producing

1.3 GW
in clean energy

Had installed more than

4 million
solar panels

Generated enough clean energy to power around

350,000
homes annually

Avoided carbon to the equivalent to planting a

3 million-acre
forest (approximately the size of the state of Connecticut)

Created

thousands
of permanent and temporary jobs

Source: Mercer data

⁶ Business Wire. "sPower to Become Part of a Leading Renewables Platform in the US," November 17, 2020, available at <https://www.businesswire.com/news/home/20201117005807/en/sPower-to-Become-Part-of-a-Leading-Renewables-Platform-in-the-US>.

Why is Mercer the right partner for your sustainable opportunities investment?

Experience: Mercer has been helping institutional investors access private markets for more than 25 years, and we understand how the broad range of opportunities within them can potentially add value to portfolios. Our disciplined, research-driven approach helps us select highly rated managers to allocate investor capital.

Over almost three decades, we have developed relationships with a large number of managers worldwide, which enables us to have forward visibility of their future plans and launches, and positions us well to gain access for our clients.⁷ We are often able to source sought-after managers and smaller, niche providers, which gives our clients potential exposure to limited-availability investments.

Global resources: Our global private market assets under advisement sit at \$124 billion, with assets under management around \$15 billion.⁸ From our 25 global offices, our 200 private market professionals identify, research and analyze critical themes that impact and fuel growth and change in the sector.

Our global teams scour managers operating across a wide variety of strategies and thoroughly examine their processes. Our research team continually refreshes its outlook to seek new opportunities while monitoring all managers within our portfolios. This robust governance structure provides our clients with numerous possibilities for investing in a way that complements their existing portfolios, with a view to helping them potentially reach their objectives.

Responsible investment heritage: We have been assigning ESG ratings to investment strategies since 2008, integrating them into our research to provide an additional data point in our manager selection process. Flexible allocation across target geographies and strategy types is essential to help investors capture the broadest possible range of options.

We also received an “A” rating in our first UNPRI reporting in 2020 as a provider of fund of funds and at an asset class level for alternatives. We believe this should give our clients confidence in the consistently high standards we have set based on our pioneering, forward-looking research and implementation around ESG factors — especially in private markets.

⁷ Mercer cannot guarantee access to funds/strategies.

⁸ As at December 31, 2019.

Find out more



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