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# Sustainability Policy

## Mercer Ireland Limited

## Effective: March 2021

## Update: March 2022

A business of Marsh McLennan

# Contents

## 1. Introduction

Mercer, through its Global Investment Consulting practice, has had a specialised Responsible Investment Team and has advised investors on all aspects of responsible investment (RI) since 2004. This experience and Mercer's Sustainable Investment Beliefs first published in 2018 informs the approach taken by Mercer (Ireland) Limited ("MIL") to investment decision making and advice on integration of sustainability risks and the provision of sustainability-related information with respect to financial products. This Sustainability Policy ("Policy") articulates our approach to consideration of sustainability factors across all aspects of MIL's activities, namely:

- Responsible investment
- Sustainability trends & themes
- Climate change
- Stewardship
- Sustainability preferences
- Adverse sustainability impacts
- Collaborations

This policy gives the reader general principles behind our practices and references more detailed rules and regulatory compliance documentation set elsewhere. For example, in pre-contractual and periodic statements, as well as in specific policies, such as the remuneration policy considering alignment with sustainability risks, and internal investment due diligence and risk management policies. Our Internal Procedures & Best Practice Guide as well as our marketing materials have all been updated.

## 2. Authorisation status & regulatory framework

MIL is authorised and regulated by the Central Bank of Ireland pursuant to the European Union (Markets in Financial Instruments), Regulations 2017, which transposes Directive 2014/65/EU ("MiFID II") & is also authorised and regulated pursuant to the European Communities (Insurance Mediation) Regulations, 2005 and the Investment Intermediaries Act, 1995. Under Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector ("The Disclosure Regulations") MIL meets the definition under:

- Article 2 (1) d: Of a financial market participant due to its role as co-manufacturer of a pension product in the form of the Aspire range.

MIL is considered a co-manufacturer of the Aspire product. We have two offerings Mercer Aspire with Zurich Life Assurance plc and Mercer Aspire with New Ireland Assurance Company plc. . Mercer Aspire provides access to well diversified funds managed by highly rated managers as well as best in class member communications.  As part of this Mercer Global Investments Europe ("MGIE") manages the investment options against agreed investment guidelines. MGIE does not select individual stocks but, using Mercer's global manager research capabilities is responsible for selecting, blending and monitoring specialist investment managers on the Trustee(s) behalf in each area. These specialist investment managers are subject to the MGIE Sustainable Investment Policy . Where external managers are appointed, MIL consider and monitor ESG integration and the sustainability policy of these managers, who manage c. 2% of the overall assets under management under Mercer Aspire. Mercer's Sustainable Investment Beliefs and the MGIE Sustainability Policy are considered by the Aspire Strategic Committee and its sub-committees, particularly the Aspire Investment Committee, in their decision making processes.

MIL also meets the definition under:

- Article 2 (11) (a) & (e): Of a financial market advisor due to its role as an insurance intermediary who provides insurance advice with regard to IBIPs and an investment firm who provides investment advice.

This policy sets out how MIL implements sustainable investment insight through its role as both a financial market participant and financial market advisor

## 3. Our beliefs

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

1. ESG factors can have a material impact on long-term risk and return outcomes and should be integrated into the investment process.

2. Taking a broader and longer-term perspective on risk, including identifying sustainability themes and trends, is likely to lead to improved risk management and new investment opportunities.

3. Climate change poses a systemic risk, and 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. Active ownership helps the realisation of long-term shareholder value. It supports the realisation of long-term shareholder value by providing investors with an opportunity to enhance the value of companies and markets.

# 4. MIL approach

MIL's approach is focused on the integration of environmental, social & corporate governance (ESG) risks and opportunities into the investment process, and that this is in the best interests of our clients and this is reflected under Mercer Aspire. MIL commits to:

- educating and increasing our knowledge regarding ESG and how these are incorporated into our advice in relation to our products and services.
- enabling our clients to make informed decisions on relevant ESG aspects through our advice, and being transparent in such aspects.
- increasing the integration of ESG aspects when developing advice related to our services

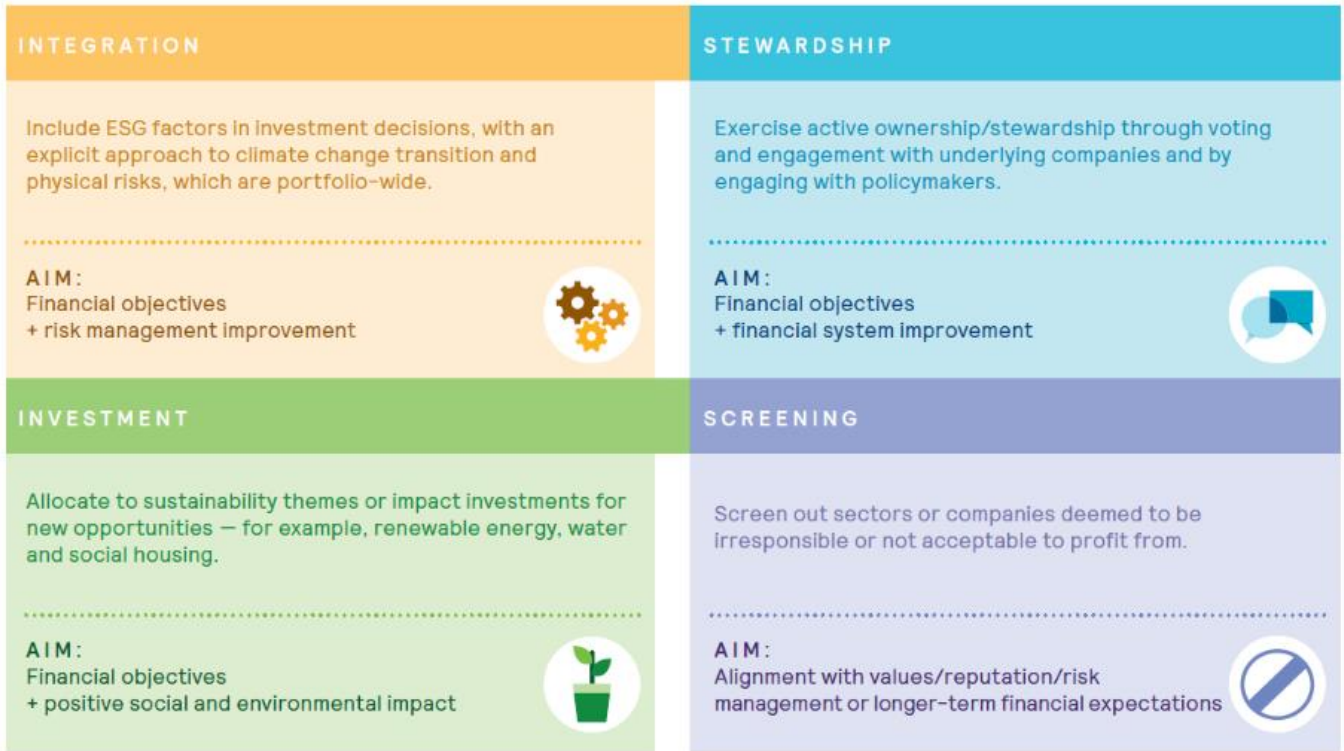
MIL supports Mercer's commitment to the Principles for Responsible Investment (PRI). Mercer's thought leadership reports such as Investing in a Time of Climate Change and Investing in the Time of Transition and frameworks Mercer is a supporter to, such as the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), direct our thinking when it comes to considering climate change and transition to low carbon economies.

## 4.1 Responsible Investment - Integration of sustainability risks and opportunities

At Mercer, we define responsible investment (RI) as an investment approach that includes environmental, social and corporate governance (ESG) factors and broader systemic issues — for example, climate change and sustainable development — along with active ownership (stewardship).

MIL acknowledges that ESG risks and opportunities can have a material impact on long-term risk and return outcomes. Consequently, an investment approach, which considers such risks and opportunities, is promoted. MIL clients receive continuous flow of information and insight in relation to sustainability throughout all MIL engagements, from investment strategy and governance discussion to, for example, selection and monitoring investment managers. MIL utilises Mercer's Pathway to Responsible Investment approach to highlight sustainability factors at every stage of our interactions with our clients.


Our taxonomy of four key ESG approaches is summarised below. To learn more, please see our ABC of ESG document that provides further details.



Consideration of ESG factors are applied across asset classes — including listed equities (active and passive), sovereign and corporate bonds, property and unlisted assets — and to all mandates, not just ones labelled "sustainable investments". However, we acknowledge that the degree of relevance, or materiality, may vary across asset classes, as does the current state of integration by strategies within asset classes. Client needs and preferences also inform the degree and depth of eventual integration, while MIL's default position is to always highlight potential sustainability considerations.

Mercer's ESG assessment of investment managers is a key tool utilised in ESG integration. MIL includes Mercer's ESG Ratings and associated commentary, at no extra cost, in the selection and monitoring processes for potential and appointed investment managers. ESG ratings are undertaken at a strategy level by Mercer's global manager research team. They are on a scale from 1 (highest) to 4 (lowest) and assess how well managers integrate ESG factors into investment processes for each of their strategies. (for more on the methodology of ratings please visit https://www.mercer.com/our-thinking/mercer-esg-ratings.html). As part of the investment monitoring process, comparisons of ESG ratings are made with the appropriate universe of strategies in Mercer's global database to gain understanding of the relative position of client's investments in term of ESG integration.

MIL has adopted remuneration policies that are consistent with the integration of sustainability risks. Remuneration policies can be accessed here

The Aspire Strategic Committee and its sub-committees, in particular the Aspire Investment Committee, implement the above approaches and considerations for Mercer Aspire.

### 4.2. Sustainability Trends & Themes – a broader perspective on risk and opportunity

MIL believes that including exposures to strategies promoting and targeting sustainable investment objectives by identifying transformative investments is likely to lead to improved risk management and new investment return opportunities. In addition to "pure-play" allocations to for example, clean energy, water, timber or agriculture, this can include "broad sustainability" promoting allocations to companies providing sustainable goods and services, lower exposure to transition risks or solutions to environmental or social matters. When it comes to specific sustainability-themed strategies, such strategies are more prevalent in equities and real assets, although this is an area that is fast developing and our advice on the appropriate strategy and manager selection considers thematic exposures across the investment universe.

MIL includes specific allocations to these areas within our recommended best ideas growth portfolios and reference portfolios. We also monitor and report on specific client allocations as part of our yearly European Asset Allocation Survey, using these results to engage with clients.

MIL also offer Article 8 and Article 9 investment options, as categorised by the Sustainable Finance Disclosure Regulation, under Mercer Aspire.

### 4.3. Climate change – a key risk and opportunity

MIL believes climate change poses a systemic and asset specific risk, with financial impacts driven by two key sources of change. The first is the transition to a low carbon economy required to mitigate the likelihood and severity of physical damages (transition risk), and the second is the physical damages expected from an increase in average global temperatures (physical risk). Each of these changes presents both risks and opportunities for investors, as outlined in Mercer's *Investing in a Time of Climate Change* report and the *Investing in the Time of Transition.* MIL's view is that climate change risks are applicable, to varying degrees, across all asset classes and will impact return expectations. While initial activity may have focused on listed equities (active and passive) and sustainability-themed private markets investments; today, MIL reviews all asset classes using the climate lens.

MIL does this by utilising and making various tools available that both inform MILs insight and helps clients to align with TCFD recommendations by creating governance structures, strategic dialogue, risk management practices and setting targets and metrics for climate transition. MIL offers expertise and services that allow clients to address each stage in TCFD recommendations.

MIL carries out climate scenario analysis for our flagship Aspire investment portfolio, the Aspire Moderate Growth Portfolio, and monitors the carbon footprint of the Aspire 'Leave Me To It' equity funds. Understanding the relative implications for different asset classes and sub-asset classes under different climate change scenarios, particularly given multiple asset classes perform differently by scenario and time period, helps to identify priority risks and opportunities on a strategic basis. The Mercer climate scenario model estimates a 'climate impact on return', which is in addition to the annual returns expected for asset classes and industry sectors. The Mercer model isolates transition and physical damages risk factors and maps the relative impact of each under three climate scenarios (2, 3 and 4 degree temperature increases). This modelling, which includes both scenario analysis and stress testing, helps to inform portfolio composition decisions for Mercer Aspire.

### 4.4. Stewardship – practice to enhance value

Stewardship helps in the realisation of long-term value. In companies with inactive/disengaged owners and stakeholders, the chances are greater that company management will act in ways detrimental to stakeholders' interests. Stewardship — exercised through voting and engagement — provides diversified investors with an opportunity to enhance the value of companies and markets.

MIL focusses on the activities and outcomes of stewardship and helps clients to exercise stewardship across all asset classes. Mercer Limited is a signatory and active supporter to the UK Stewardship Code. The New 2020 UK Code is used a set of guiding best practice principles to inform MIL's approach in stewardship when it comes to its activities as service provider or as an advisor to asset owners.

In its capacity as service provider, MIL does not invest in companies directly. MIL supports its clients in monitoring the stewardship and engagement activities of external investment managers' capabilities with respect to monitoring investee companies.

MIL uses two tools to undertake such monitoring activities, where available:

- ESG Ratings, which are assigned by Mercer's manager researchers at the investment strategy level
- UK Stewardship Code assessments, which are assigned by Mercer's Responsible Investment team at investment manager level

For Mercer Aspire, an annual stewardship monitoring report is prepared by Mercer's Responsible Investment team to assess each equity manager's voting and engagement activity.

MIL's expectation for stewardship activity is for:

- All shares to be voted or valid reasons given for those not voted;
- Voting and engagement to be focused on protecting and enhancing long-term value.

MIL's expectation on stewardship disclosure is for clear and comparable data, plus evidence of:

- Governance and strategy issues being considered (shareholder rights; role and responsibilities of the board; risk and audit; disclosure and transparency; remuneration and incentives);
- A broad range of environmental and social issues being considered;
- Engagement leading up to, and following, votes against management.

Mercer Aspire also conduct an annual review of investment manager's compliance with the UK Stewardship code in order to compare manager practices against guiding best practice principles.

The European Union (Shareholders' Rights) Regulations 2020 increase investment transparency requirements for 'institutional investors' including pension schemes that invest directly or indirectly in company shares listed on an EU regulated market. Mercer Global Investments Europe ("MGIE") have confirmed compliance with the regulations and the MGIE Engagement Policy is publicly available.

## 5. Sustainability preferences – a cornerstone in a relationship

In addition to obtaining information about a client's investment perspectives and assessing their investment risk profile, MIL also ensures that ESG issues and objectives are considered. Through adherence to the approach described in this policy, MIL ensures that ESG considerations and preferences are assessed and integrated. This means, as outlined above, that in the description of the factors taken into consideration in the investment decision process, for example selection of an investment strategy, along with such factors as the risks, costs and complexity of instruments – ESG is included. In its capacity as service provider, Mercer does not invest in companies directly and as such has no conflicts of interest in relation to the integration of ESG. Mercer's approach to managing potential conflict of interests can be found here.

## 6. MIL's approach to considering adverse sustainability impacts

Under Article 4 of the Disclosure Regulations there is a requirement for firms to publish and maintain on the website whether principal adverse impacts of investment decisions on sustainability factors are considered through the types of financial products they make available; (Financial Market Participant) & the types of financial products they advise on (Financial Advisors). Currently MIL considers such impacts as part of investment decisions & through its investment/insurance advice but is awaiting the clarity of the Level II regulations prior to making such a statement

## 7. Collaborations

Our parent company was a founding (and continuing) signatory to the Principles of Responsible Investment (PRI). Mercer is also a supporting member of TCFD and a member of IIGCC. Locally MIL participates in collaborative industry initiatives. MIL currently supports and is an active member of the following Irish initiatives:

- Partner and Committee Member of the Sustainable & Responsible Investment Forum (SIF) Ireland
- Society of Actuaries in Ireland Sustainability and Climate Change Steering Group

## 8. Availability of this policy

This policy is provided to all clients before the provision of relevant services and is also available on Responsible Investment | Mercer Ireland

## 9. Policy review and approval

This policy was reviewed by Executive Risk Committee ("ERC") and the Board Risk & Compliance Committee ("BRCC") prior to being approved by the Board of Directors of Mercer Ireland Limited.

This policy will be subject to an annual review.

**Version Control**

| Version | Prepared by | Reviewed By | Approved By | Effective date |
|---|---|---|---|---|
| 1 | Responsible Investment Team & Compliance | Executive Risk Committee & Board Risk & Compliance Comittee | Board of Directors | March 2021 |
| 2 | Compliance | Executive Risk Committee & Board Risk & Compliance Committee | Board of Directors | March 2022 |

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