

Mercer sustainable investment

A history of defining new approaches



welcome to brighter



Mercer has been a pioneer of sustainable investment for over 15 years. We have immense experience, equipping us to understand your beliefs and guide your journey to sustainability as ESG factors become a core part of the investment process.

The future is arriving fast for sustainable investment. After years of slow progress, suddenly regulatory pressure in the UK is putting environmental, social and governance (ESG) integration and responsible stewardship at the heart of investment portfolios.

As an asset owner, how should you react? How can you comply with new regulations, manage reputational risks, or access opportunities to improve returns?

At Mercer, we have been thoughtfully debating these questions and engineering solutions for over 15 years. We can truthfully claim to have been one of the drivers of the emerging ESG debate, even when this was a lonely place to be.

Today, that means we have knowledge, unrivalled research and foresight. We use this to help our clients to define and implement their approaches to sustainable investment, as the integration of ESG factors plays a catalytic role in shaping a more sustainable world.

How can Mercer help?

Sustainable investment is quickly moving up the agenda. A raft of new regulations in the UK are putting ESG risks and opportunities at the core of the investment process. Asset owners are having to change their approaches — for some this means a radical change, for others refinement.

At a time when the regulators are clear that they do not want a cookie cutter approach, Mercer's vast experience in ESG makes us ideally placed to help define and develop tailored programmes based on our clients' beliefs.

We work with organisations of all sizes, from those that are acknowledged experts right through to those who are starting their journeys.

Plotting your journey

We describe sustainable investment as an approach that incorporates ESG factors and broader systemic issues — for instance, climate change and sustainable development — along with active ownership (stewardship).

For those clients in the early stages of their journey to sustainable investment, we help by first identifying your beliefs, after which we take our clients through a step-by-step pathway — formulating beliefs and policies, designing processes, and then helping to implement them in portfolios.

It's a journey intended to allow asset owners and investors to develop the approaches that suit them best. You may want to make sustainable investment a central capability or simply to comply with emerging regulations.

Different approaches

There are many ways in which institutional investors approach sustainable investment as they balance risk/return objectives and reputational considerations with the needs of beneficiaries and other stakeholders. We define four basic approaches: **integration**, **investment**, **stewardship** and **screening**. Depending on their beliefs, most investors would have a combination of these.

Our approaches



Integration

Include ESG factors in investment decisions, with an explicit approach to climate change transition and physical risks, which are portfolio-wide

Aim

Financial objectives
+ risk management improvement



Stewardship

Exercise active ownership/stewardship through voting and engagement with underlying companies and by engaging with policymakers

Aim

Financial objectives
+ risk system improvement



Investment

Allocate to sustainability themes or impact investments for new opportunities – for example, renewable energy, water and social housing

Aim

Financial objectives
+ positive social and environmental impact



Screening

Screen out sectors or companies deemed to be irresponsible or not acceptable to profit from

Aim

Alignment with values/reputation/risk management or longer-term financial expectations

Shaping ESG asset management since 2004

We established our Responsible Investment team in 2004. Since then it has been a leader in the development of the sector in the UK and globally, influencing policymakers and regulators, while working collaboratively with other industry leaders to champion new initiatives.

Notably, we were one of the founding signatories of and an original adviser to the UN-backed Principles for Responsible Investment.

Our history has been one of consistent foresight, collaboration and innovation, as shown in our timeline.

Central to our investment beliefs is the principle that ESG factors can materially affect long-term risk and return outcomes.

Looking to the future, we are working closely with the World Economic Forum on the transformation risk associated with global trends such as climate change and water security.

1980s

Supported anti-Apartheid in South Africa

2004

Appointed to advise UN PRI

2008

Launched global ESG ratings

2015

- Launched *Investing in a Time of Climate Change* report
- ESG ratings for passive equity

2014

- Developed Framework for Sustainable Growth

2011

Climate Change and Strategic Asset Allocation report launched

2016

- Mercer on Global Financial Stability Board Task Force
- Preparing Portfolios for Transformation
- Named #1 investment consultant globally by IRRI

2019

Launched *Investing in a Time of Climate Change: The Sequel*

2020

- Mercer Climate Transition Plan
- Launched Analytics for Climate Transition (ACT)
- *Transformational Investment: Converting Global Systemic Risks into Sustainable Returns*
- Addressing Modern Slavery and Human Rights
- Partnership with UK-China Green Finance Centre — *Resilience: Lessons to Scale Responsible Investing*
- Responsible Investment Integration into US Defined Contribution Plans
- Impact Investing
- Climate Transition Indices

2021

We are committing to a target of net-zero absolute carbon emissions by 2050 across the majority of our funds¹ as part of our global investment roadmap. We expect to reduce absolute portfolio carbon emissions by 45% from 2019 baseline levels by 2030.²

¹ Defined as absolute carbon emissions, per \$M of FUM and Scope 1&2 for 11 multi-asset Mercer Funds in aggregate and for each participating client with a discretionary growth portfolio. – For clients with discretionary growth portfolios, total client AUM has been considered here. For UK, European and Asian discretionary client portfolios and for most multi-client funds domiciled in Ireland. This represents a combined \$43.7 billion USD in assets under management as of 31 December 2020. For Australian funds and Mercer-managed investment options within Mercer Super, this represents a combined \$36.4 billion AUD.

² Per dollar of assets under management. While the funds continue to maintain an investment objective of seeking long-term growth of capital and income, they also promote environmental characteristics through progressive decarbonisation with a view to achieving net zero emissions by 2050.

In conclusion

Now is a notable time for sustainable investment. New regulations and changing investor preferences are making stewardship and climate change core to the investment process. What's more, fund flows are growing fast.

As one of the early adopters, Mercer is a recognised thought leader. That translates into exceptional knowledge, clear insights and extensive manager research. Whether your concerns are regulatory compliance, reputation or improved risk/return, we can help you achieve your goals.

We can help you look to the future, define your approach to sustainable investment and make it a strength.

Contact us

Let us help you design a sustainable investment strategy aligned to your beliefs and goals. If you would like to take the next step on this journey, please get in touch with us below.

www.uk.mercer.com/sustainable-investment

Alternatively, please feel free to contact our local expert:



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