

Mercer Master Trust

# Statement of Investment Principles

March 2022



# Introduction

## 1.1

This Statement of Investment Principles (“the Statement”) relates to the Mercer Master Trust (“the Scheme”) and meets the requirements of the Pensions Act 1995 and subsequent legislation, as well as the Pension Regulator’s DC Code of Practice 13: Governance and administration of occupational trust-based schemes providing money purchase benefits. Before preparing this Statement, we have obtained and considered written professional advice from Mercer Limited (“Mercer”), our investment consultants. This Statement is available on a public website.

## 1.2

The Statement sets out the principles that govern our decisions about the investment of the Scheme’s assets. We will refer to this Statement when making investment decisions, to ensure that they are consistent with these principles.

## 1.3

The Scheme has been set up to service multiple employers, each employer has their own Section within the Scheme. The Trustees have consulted with the employers in the preparation of this Statement. We

recognise that we have fiduciary obligations to Scheme members. However, we will seek to maintain a good working relationship with all participating employers. However, our fiduciary obligations to Scheme members will take precedence over their wishes, should these ever conflict.

## 1.4

The Trustees’ investment powers are set out within the Scheme’s governing documentation and relevant legislation. If necessary, the Trustees will take legal advice regarding the interpretation of these. We note that, according to the law, we have ultimate power and responsibility for the Scheme’s investment arrangements. The investment powers of the Trustees are set out in Rule 3 of the Trust Deed and General Rules, the current terms of which are dated November 2018. This Statement is consistent with those powers.

## 1.5

We will, at a minimum, review this Statement every year to ensure that it remains accurate. The Statement will be amended more frequently should any changes be made to the Scheme’s investment arrangements. We are committed to maintaining the accuracy of this Statement on an ongoing basis.

## 2. Choosing Investments

### 2.1

Within each employer Section the Trustees offer a default arrangement and a core range of investment funds. Any of the three lifestyle investment strategies can be chosen as the default arrangement for each Section. This arrangement will be where members who do not make an active investment decision are invested. The chosen default arrangement must be approved by the Trustees as appropriate for the relevant Section's membership. More details on these default arrangements are provided in Appendix 1. There are also a number of individual funds that have been designated as "technical defaults" within individual participating employer's sections due to mapping activity. Further detail on these are provided in Appendix 2.

### 2.2.

Day-to-day management of the investments is delegated to Mercer Global Investments Europe Limited and Mercer Limited (together the "Delegated Investment Manager") for Mercer funds, and delegated to external professional investment managers (collectively the "Investment Managers") for externally managed funds. The administration services that ensure the investment options can be delivered are provided by Scottish Widows Limited and Aviva Life & Pensions UK Limited ("MWS Providers").

### 2.3.

Mercer Workplace Savings ("MWS") provides investment governance services in relation to the arrangements with the Investment Managers and with the MWS Providers.

### 2.4.

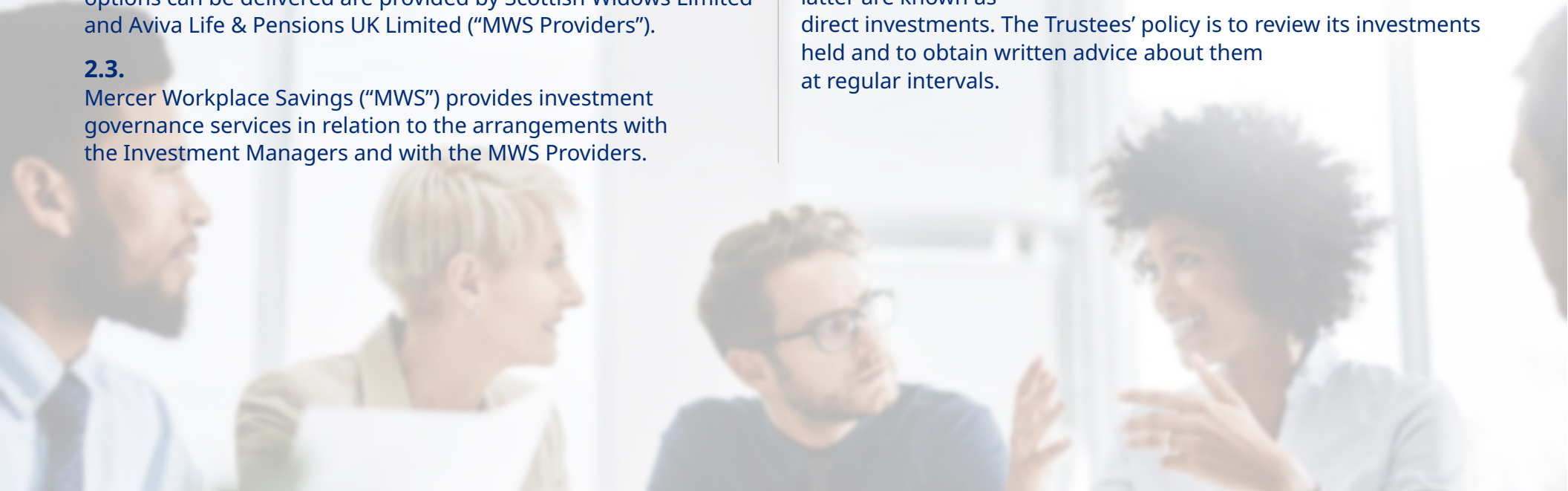
The Trustees are responsible for the selection, appointment, removal and monitoring of the Investment Managers. The Trustees have taken steps to satisfy themselves that the Investment Managers have the appropriate knowledge and experience for managing the Scheme's investments and that they are carrying out their work competently.

### 2.5.

In considering appropriate investments for the Scheme, the Trustees have obtained and considered the written advice from the investment consultant, whom the Trustees believe to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustees' opinion, consistent with the requirements of Section 36 of the Pensions Act 1995, as amended.

### 2.6.

The Trustees invest all assets under long term insurance policies with the MWS Providers. The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager under a written contract, such as the policies for the Scheme, and those where a product is purchased directly. The latter are known as direct investments. The Trustees' policy is to review its investments held and to obtain written advice about them at regular intervals.



### 3. Investment Objectives

#### 3.1.

We believe that members have differing investment needs and that these may change during the course of members' lifetimes – both before and after retirement. We also recognise that members have different attitudes to risk and we believe that ideally members should make their own investment decisions based on their individual circumstances after taking individual professional advice. In this regard our duty is to make available a range of investment funds that enable members to tailor a strategy to their own needs.

#### 3.2.

As highlighted in 2.1, for members who do not wish to make their own investment choices, we make available default arrangements that are described in Appendix 1. However, we recognise that these options may not meet every individual member's needs.

#### 3.3.

Our main aim is to make sure that we can meet our obligations to the members of the Scheme. This is achieved by:

- Offering members access to lifestyle strategies, should they wish to use them, in which the investments are changed over the course of their working life.
- Ensuring that the investment strategy options allow members to invest appropriately for retirement.
- Making available a range of pooled investment funds that serve to meet the varying investment needs and risk tolerances

of Scheme members – both before and after retirement.

- Providing general guidance as to the purpose of each investment option.
- Encouraging members to seek independent financial advice from an appropriate person in determining the most suitable option.
- Making available independent financial advice to members as they approach retirement and making available investment products and solutions that are aligned to their needs.

#### 3.4.

We will regularly review the suitability of the options provided and from time to time will change the Investment Managers, or introduce additional investment funds, as appropriate.

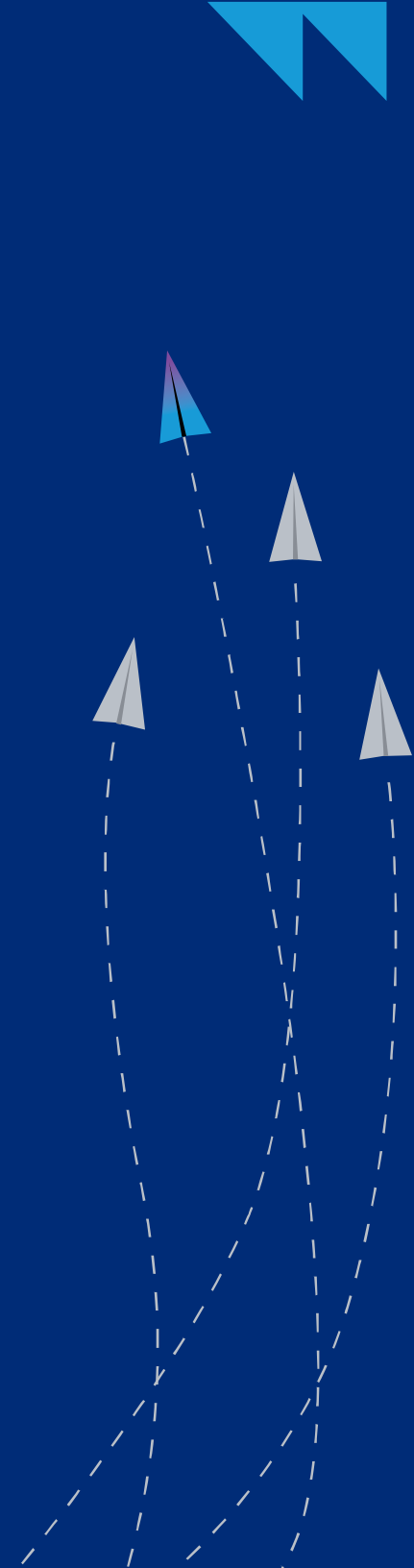
### 4. Kinds of Investments

#### 4.1.

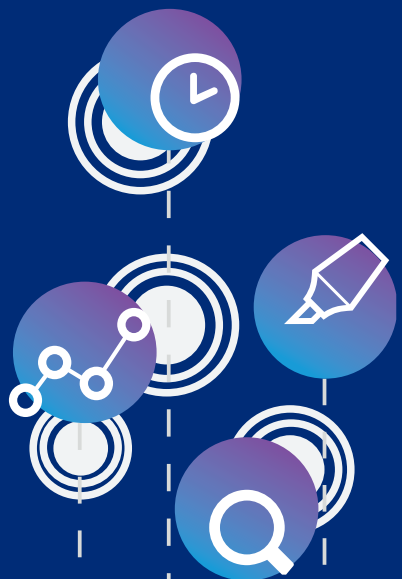
All funds are daily-dealt pooled investment arrangements, with assets mainly invested on regulated markets. It is the Trustees' policy to offer both active and passive management options to members, depending on asset class. Some funds will utilise both active and passive management.

#### 4.2.

A number of funds (across a range of asset classes) have been made available, including: developed market equities, emerging market equities, small capitalisation equities, low volatility equities, sustainable equities, real estate, money market instruments, gilts, index-linked gilts, corporate bonds, multi-asset funds, diversified growth funds and pre-retirement funds.







## 5. Balance Between Different Kinds of Investments

### 5.1.

The Trustees, after taking advice from their investment consultants, have selected a range of Mercer funds and externally managed funds on the MWS Providers' platform to make available to the Scheme's members. Day-to-day management of the assets is delegated to the Delegated Investment Manager for Mercer funds, which have a range of specialist external investment managers underlying them, and to external professional investment managers for the externally managed funds. All Investment Managers have appointed custodians for the safe custody of assets held within their pooled funds in which the Scheme is invested.

### 5.2.

The Trustees recognise the risks that may arise from the lack of diversification of investments. The Trustees therefore make available a range of investment options, to enable members to achieve a diversified holding. Members can combine the investment funds to achieve the desired balance between different kinds of investments.

### 5.3.

For multi-asset funds, each is considered to be diversified across a reasonable number of asset classes / underlying holdings / issuers. For single asset class funds, each is considered to be diversified across a reasonable number of underlying holdings / issuers.

### 5.4.

The Trustees have made three lifestyle strategies available, which seek to more closely match how the member wishes to access their pension savings as they approach retirement. These are designed to be suitable for a member who wishes to either take cash, purchase an annuity (secured income) or take income drawdown for members who ultimately plan to draw down their savings flexibly throughout retirement (variable income). The switching period commences eight years before a member's Normal Retirement Date in the Scheme. These lifestyle strategies operate as the main default arrangements within the Scheme.

### 5.5.

The Trustees have made available a range of individual fund options for investment in addition to the default arrangements.




## 6. Investment Risk

### 6.1.

Risks in a defined contribution scheme lie with a member themselves. The Trustees have considered risks from a number of perspectives when designing the investments for the Scheme.

### 6.2.

The list below is not exhaustive but covers the main risks that the Trustees consider and how they are managed.

Risk	Description	Mitigation
 <p><b>Inflation Risk</b></p>	<p>The real value (i.e. post inflation) value of members' accounts decreases.</p>	<ul style="list-style-type: none"> <li>▶ The Trustees provide members with a range of funds, across various asset classes, with the majority expected to keep pace with inflation (with the exception of the money market and fixed interest bond funds).</li> <li>▶ Members are able to set their own investment allocations, in line with their risk tolerances.</li> <li>▶ The growth phase of the lifestyle strategies is also designed to provide returns that are over and above inflation, to ensure that members' savings keep up with inflation.</li> <li>▶ The Trustees consider the real returns (i.e. return above inflation) of the funds on a regular basis, with positive values indicating returns that have kept pace with inflation.</li> </ul>
 <p><b>Pension Conversion Risk</b></p>	<p>Member's investments do not match how they would like to use their pots in retirement.</p>	<ul style="list-style-type: none"> <li>▶ The Trustees make available three lifestyle strategies for members, targeting either cash, drawdown or annuity. Lifestyle strategies automatically switch member assets as they approach retirement into investments that are expected to be less volatile relative to how they wish to access their pension savings. This aims to reduce the risk of a substantial fall in the purchasing power of their accumulated savings near retirement.</li> <li>▶ For each participating employer the main default lifestyle strategy is chosen based on the demographics of that section. The lifestyle strategies are reviewed on an annual basis. The Trustees consider overall market trends with regards to how benefits are being taken at retirement, and will change the structure of the lifestyle strategies accordingly.</li> <li>▶ The Trustees consider the returns of the funds used within the de-risking phase of the Lifestyle Strategies both in absolute terms as well as relative to inflation, cash or annuity prices (depending on their selected retirement destination).</li> </ul>
 <p><b>Market Risk</b></p>	<p>The value of securities, including equities and interest bearing assets, can go down as well as up.</p>	<ul style="list-style-type: none"> <li>▶ The Trustees provide members with a range of funds, across various asset classes. Members are able to set their own investment strategy in line with their risk tolerances.</li> <li>▶ The Investment Managers are expected to invest in properly diversified portfolios and to spread assets across a number of individual shares and securities. The Trustees monitor the performance of investment funds on a quarterly basis.</li> </ul>

Risk	Description	Mitigation
 <p><b>Default/ Credit Risk</b></p>	<p>A counterparty (i.e. external investment manager), either an underlying holding or pooled arrangement, cannot meet its obligation.</p>	<ul style="list-style-type: none"> <li>▶ Members are able to set their own investment allocations, in line with their risk tolerances.</li> <li>▶ The Investment Managers are expected to invest in properly diversified portfolios and to spread assets across a number of individual shares and securities. The Trustees monitor the performance of investment funds on a quarterly basis.</li> <li>▶ The Trustees monitor the performance of investment funds on a quarterly basis. The Trustees undertake an assessment of the security of assets. The investment consultant provides advice on the suitability of the investment arrangements.</li> </ul>
 <p><b>Currency Risk</b></p>	<p>The value of an investment in the member's base currency may change as a result of fluctuating foreign exchange rates.</p>	<ul style="list-style-type: none"> <li>▶ The Trustees provide diversified investment options that invest in local as well as overseas markets and currencies. Members are able to set their own investment allocations, in line with their risk tolerances.</li> <li>▶ The consideration of this risk is delegated to Investment Managers.</li> <li>▶ The Trustees monitor the performance of investment funds on a quarterly basis and consider the movements in foreign currencies relative to pound sterling.</li> </ul>
 <p><b>Operational Risk</b></p>	<p>A lack of robust internal processes, people and systems.</p>	<ul style="list-style-type: none"> <li>▶ Outsourced to MWS with regards to the MWS Providers as the investment platforms.</li> <li>▶ Outsourced to the Delegated Investment Manager with regards to Mercer funds.</li> <li>▶ Outsourced to the investment consultant with regards to externally managed funds.</li> <li>▶ Members are able to set their own investment allocations, in line with their risk tolerances.</li> <li>▶ Considering the investment consultant's ratings of investment strategies, monitoring these on a quarterly basis.</li> <li>▶ Considering MWS's research views on the MWS Providers on an annual basis.</li> </ul>

Risk	Description	Mitigation
 <p><b>Liquidity Risk</b></p>	<p>Assets may not be readily marketable when required.</p>	<ul style="list-style-type: none"> <li>▶ The Trustees access daily dealt and daily priced pooled funds through a unit-linked insurance contract from the MWS Providers.</li> <li>▶ The Trustees have also undertaken a security of assets review of the Scheme's investments and consider the pricing and dealing terms of the funds underlying the unit-linked insurance contract.</li> </ul>
 <p><b>Environmental, Social and Governance ("ESG") Risk</b></p>	<p>ESG factors can have a significant effect on the performance of the investments held by the Scheme e.g. extreme weather events, poor governance.</p>	<ul style="list-style-type: none"> <li>▶ Delegated to Investment Managers. More details are set out in Section 9 of this Statement and in the Trustees' Responsible Investment and Voting Policy, provided in Appendix 3.</li> <li>▶ The Trustees review their Investment Managers' policies and actions in relation to this on an annual basis.</li> </ul>
 <p><b>Manager Risk</b></p>	<p>Returns from investment management may not meet expectations, leading to lower than expected returns to members.</p>	<ul style="list-style-type: none"> <li>▶ The Trustees make available a number of actively managed funds to members where they deem appropriate; for example, equity, multi-asset or property funds.</li> <li>▶ The day to day management of Mercer funds, including asset allocation and manager selection decisions, has been delegated to the Delegated Investment Manager, who in turn places responsibility for the investment of the Scheme's assets in Mercer funds with a range of underlying specialist external investment managers. The Delegated Investment Manager aims to invest in Mercer highly rated funds, those that Mercer believes have above average chance, over time, of meeting their objectives and outperforming their benchmarks.</li> <li>▶ Outsourced to the investment consultant with regards to externally managed funds.</li> <li>▶ The Trustees monitor performance and investment consultant rating of funds on a regular basis relative to the fund's benchmark and stated targets/objective.</li> </ul>



## 7. Expected Return on Investments

### 7.1.

When designing the fund range offered to members, the Trustees have regard to the relative investment return, net of fees, and risk that each fund is expected to provide. The Trustees are advised by their investment consultant on these matters, whom they have deemed to be appropriately qualified.

### 7.2.

The Trustees recognise the risks that may arise from the lack of diversification of investments. The Trustees therefore make available a range of investment options.

### 7.3.

The balance between different kinds of investments will determine the expected return on a member's assets and should be related to the member's own risk appetite and tolerances.

### 7.4.

The funds made available are expected to provide an investment commensurate with the level of risk being taken.

## 8. Realisation of Investments

### 8.1.

The day-to-day selection of investments is delegated to the Investment Managers.

The investment managers have responsibility for the buying, selling and realisation of the underlying assets.

### 8.2.

The day to day activities which the Investment Managers carry out for the Trustees are governed by the arrangements between them and the MWS Providers, which are reviewed from time to time to ensure that the operating instructions, guidelines and restrictions remain appropriate.

### 8.3.

The policy of the Trustees is to invest in regulated pooled investments that are subject to the local market regulation and safeguards. As investment options are made available under a long term insurance contract, the funds must comply with the relevant rules on stock lending in The FCA Handbook.

### 8.4.

The Trustees' administrators will realise investments following member requests and in line with regulatory guidance.

### 8.5.

This section also applies to the default arrangements, as outlined in Appendices 1 and 2.



## 9. Financially Material Considerations and Engagement Policy

### 9.1.

In addition to those items detailed in Sections 2 to 8 of this Statement, the Trustees believe that engagement on environmental, social, and corporate governance ("ESG") factors has a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole.

### 9.2.

The Trustees' Responsible Investment and Voting Policy outlines their approach to considering ESG factors in more detail, this policy is set out in Appendix 3.

### 9.3.

The Trustees have delegated day-to-day management of the assets to the Investment Managers. These Investment Managers are expected to evaluate ESG factors, including climate change considerations, and directly engage with the relevant parties in order to exercise voting rights and fulfil stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

### 9.4.

The Trustees consider how ESG, climate change and stewardship is integrated within the Investment Managers' processes.

### 9.5.

The Trustees believe that the Delegated Investment Manager has the necessary expertise and framework in place to effectively manage and monitor investments in line with these areas, and this is implemented through their four pillar framework: integration, stewardship, thematic investment and screening. The Mercer funds for the Scheme incorporate these four pillars as far as is practical. The Delegated Investment Manager is expected to provide reporting on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon foot printing for equities and/or climate scenario analysis for diversified portfolios, and these are reviewed by the Trustees.

### 9.6.

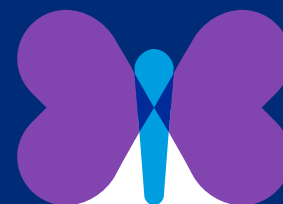
As part of their regular training, the Trustees have received training on responsible investment, including how ESG, climate change and stewardship can best be incorporated within the Scheme.

### 9.7.

The above items listed are in relation to what the Trustees consider 'financially material considerations'. The Trustees believe the appropriate time horizon for which to assess these considerations within should be viewed at a member level. This will be dependent on the member's age and when they choose to retire.

### 9.8.

This section also applies to the default arrangements, as outlined in Appendices 1 and 2.



## 10. Asset Manager Arrangements

### 10.1

The Trustees access the Investment Manager's products (or funds) through the MWS providers' insurance platforms. The Delegated Investment Manager appoints underlying investment managers and the Trustees select funds from external investment managers based on their capabilities, and therefore the perceived likelihood of achieving the expected return and risk characteristics required. Mercer's manager research rating reflects Mercer's forward-looking assessment of a manager's ability to meet or exceed their objectives. As the Trustees invest in pooled or multi-client investment vehicles they accept that they have no ability to influence the Investment Managers to align their decisions with the Trustees' policies set out in this Statement. However, appropriate mandates can be selected to align with the overall investment strategy.

### 10.2.

The Trustees expect the Investment Managers to incorporate consideration of longer term factors, such as ESG into their decision-making process where appropriate. The Delegated Investment Manager expects all underlying investment managers to incorporate the consideration of longer term factors, such as ESG, into their decision making process where appropriate. The extent to which this is so will be considered during the selection, retention and realisation of manager appointments. Voting and engagement activity should be used by investment managers to discuss the performance of an issuer of debt or equity. The Delegated Investment Manager engages with underlying investment managers on this activity and if dissatisfied will look to replace the manager. As the Trustees invest in pooled or multi-client investment vehicles they accept that they have no ability to influence the Investment Managers to align their decisions with the Trustees' policies set out in this Statement. However, appropriate mandates can be selected to align with the overall investment strategy.

### 10.3.

The Trustees' focus is on longer-term performance but shorter-

term performance is monitored to ensure any concerns can be identified in a timely manner. The Trustees review both absolute and relative performance of the Investment Managers' products (or funds) on a quarterly basis, including assessments of both shorter and longer time horizons. The Trustees and the Delegated Investment Manager also rely upon Mercer's manager research capabilities. The remuneration for Investment Managers used by the Scheme is based on assets under management; the levels of these fees are reviewed annually as part of the annual value for money assessment to ensure they continue to represent value for members. If the Investment Managers' performance is not satisfactory, the Trustees will request an explanation of performance and process from the relevant investment manager. If not satisfied with this, the Trustees may request further action be taken, including a review of fees.

### 10.4.

Portfolio turnover costs for each of the funds are reviewed on an annual basis as part of the annual value for members assessment. The ability to assess the appropriateness of these costs is limited by the availability of data. The Trustees will monitor industry developments in how to assess these costs and incorporate this in future value for members assessments. Importantly, performance is reviewed net of portfolio turnover costs.

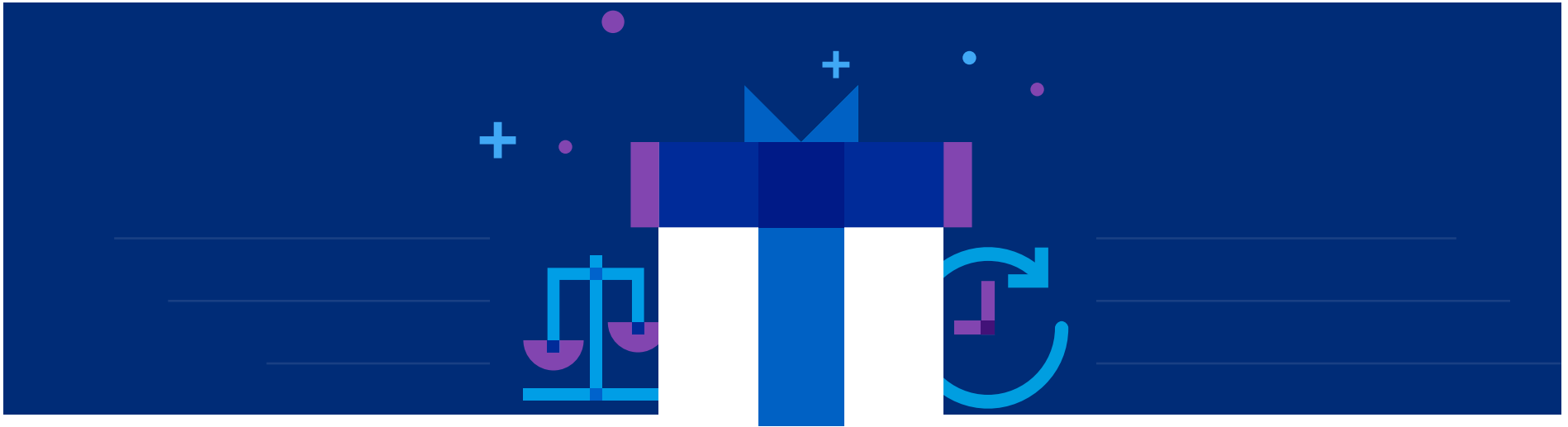
### 10.5.

The Trustees are a long term investor, all funds are open-ended and therefore there is no set duration for manager appointments. The Delegated Investment Manager is responsible for the selection, appointment, monitoring and removal of the underlying investment managers. The Trustees are responsible for the selection, appointment and removal of the external investment managers. The Trustees may also choose to remove a fund from the fund range, if no longer considered appropriate. The fund range is formally reviewed on at least a triennial basis.

### 10.6

This section also applies to the default arrangements, as outlined in Appendices 1 and 2.





## 11. Non-Financial Factors

### 11.1.

The Trustees have engaged with participating employers on their views, and have taken their views into consideration when choosing the Scheme's investments.

### 11.2.

The Trustees take into account member views, when expressed, and may ask for member views from time to time in relation to financial and non-financial matters.

### 11.3.

In particular, in the annual Chair Statement infographic, members are invited to express opinions, on any issue, for the Trustees' consideration. The Trustees are also currently considering how member views on responsible investment in particular can be more directly gauged.

### 11.4.

The Trustees' Responsible Investment and Voting Policy, in Appendix 3 of this Statement, sets out the Trustees' approach to exclusions.

### 11.5.

This section also applies to the default arrangements, as outlined in Appendices 1 and 2.

## 12. Compliance with this Statement

### 12.1.

The Trustees, MWS, the MWS Providers and Mercer have duties to perform in order to ensure compliance with this Statement. These are:

- The Trustees will review this Statement every Scheme year on the advice of Mercer and will record compliance with it at the relevant Trustees' meeting. The Trustees and MWS will monitor the MWS Providers' arrangement to ensure that the service continues to meet the Scheme's needs and objectives.
- The MWS Providers will provide full information in respect of transactions in units in the underlying funds and valuations of the units held by the Scheme from time to time as required by the Trustees.
- Mercer will provide the advice needed to allow us to review and update this Statement annually (or more frequently if required).

### 12.2.

This section also applies to the default arrangements, as outlined in Appendices 1 and 2.

*Signed on behalf of The Trustees of the Mercer Master Trust*



# Appendix 1:

## Default Investment Arrangements

This Appendix has been produced in line with regulation 2A of The Occupational Pension Schemes (Investment) Regulations 2005, as amended.

In some instances members do not make an active decision in relation to the investment of their pension savings. In this instance the member would be automatically invested into a default arrangement. Details of these default arrangements within the Scheme are provided in this Appendix.

### The Scheme has two categories of default investment arrangements:

- The main default investment strategy - Mercer SmartPath™. This investment framework delivers an appropriate investment strategy for each of the three at-retirement options: cash, an annuity (secured income) or income drawdown (variable income). Participating employers are able to participate in the decision over which is the most suitable default pathway for their membership. With each strategy, members are initially invested in the Mercer Growth Fund, which is dynamically managed by Mercer and aims for good long-term capital growth, but manages risk through diversification. This is covered in more detail in this appendix.
- Default funds created through mapping exercises. Any funds within each individual participating employer's section within the Scheme that had assets mapped into them after April 2018. These are covered in more detail in Appendix 2.

## 1. Aims and Objectives

### 1.2.

The default investment arrangements are designed to be suitable for members who do not make an active choice, recognising that members have different requirements and objectives. Members can opt to choose an alternative investments at any time.

### 1.3.

There are three lifestyle strategies available, and these are designed to be suitable for a member who wishes to either take cash, purchase an annuity (secured income) or take income drawdown (variable income) for members who ultimately plan to draw down their savings flexibly throughout retirement.

### 1.4.

The Trustees believe that members have differing investment needs and that these may change during the course of members' lifetimes – both before and after retirement. We also recognise that members have different attitudes to risk and we believe that ideally members should make their own investment decisions based on their individual circumstances after taking individual professional advice.

### 1.5.

For members who do not wish to make their own investment choices, we make available default arrangements. For the default arrangements, our main aim is to

make sure that we can meet our obligations to the members of the Scheme, including ensuring that assets are invested in the best interests of these members. This is achieved by the following:

- Ensuring the default lifestyle strategy for each individual section is aligned with the broad membership demographic and the views of how the members will take their benefits at retirement, after receiving written advice from the investment consultant.
- Taking into account the views of employers where possible, in light of their understanding of the membership's demographics.
- Offering members 'Lifestyle' approaches to investment strategy, should they wish to use them, in which the investments are managed over the course of their working life.
- Where appropriate the Trustees have considered the balance of investments to be held in the default arrangements, including the characteristics of particular asset classes and the balance between the use of active and passive investments. The Trustees have used modelling where appropriate in considering the combined effects of allocations.
- Ensuring that the investment strategy options allow members to plan for retirement, and the Lifestyle Strategies protect members as far as is possible should they take their benefits in line with that Lifestyle Strategy.
- Providing general guidance as to the purpose of each investment option.

#### **1.6.**

The Trustees will regularly review the suitability of the default arrangements provided.

## **2. Choosing Investments**

#### **2.1.**

Different default arrangements may be chosen for different participating employers due to differences in member demographics.

#### **2.2.**

This is managed in line with the main Scheme, as detailed in Section 2 of the Statement.

## **3. Kinds of Investments**

#### **3.1.**

All funds are daily-dealt pooled investment arrangements, with assets mainly invested on regulated markets.

#### **3.2.**

Both active and passive management are utilised within the lifestyle strategies, depending on asset class.

## **4. Balance Between Different Kinds of Investments**

#### **4.1.**

The Trustees have made three lifestyle strategies available, which seek to more closely match how the member wishes to access their pension savings as they approach retirement. These are designed to be suitable for a member who wishes to either take cash, purchase an annuity (secured income) or take income drawdown, for members who ultimately plan to draw down their savings flexibly throughout retirement (variable income). The switching period commences eight years before a member's Normal Retirement Date in the Scheme. These lifestyle strategies operate as the main default arrangements within the Scheme.

## **5. Investment Risk**

#### **5.1.**

In addition to the risks outlined in Section 6 of the Statement, the Trustees are cognisant of members being invested in a default arrangement that is not suitable for their individual circumstances. The Trustees encourage all members to review their investments on a regular basis through regular communications.

## 6. Expected Return on Investments

### 6.1.

This is managed in line with the main Scheme, as detailed in Section 7 of the Statement.

## 7. Realisation of Investments

### 7.1.

This is managed in line with the main Scheme, as detailed in Section 8 of the Statement.

## 8. Financially Material Considerations and Engagement Policy

### 8.1.

This is managed in line with the main Scheme, as detailed in Section 9 of the Statement.

## 9. Asset Manager Arrangements

### 9.1.

This is managed in line with the main Scheme, as detailed in Section 10 of the Statement.

## 10. Non-Financial Factors

### 10.1.

This is managed in line with the main Scheme, as detailed in Section 11 of the Statement.



# Table 1: Default Arrangements

Lifestyle Strategy	Underlying Fund	Fund Objective
<b>Target Drawdown Path</b> <p>■ BlackRock Institutional Sterling Liquidity Fund ■ Mercer DRF ■ Mercer Growth Fund</p>	<b>Mercer Growth Fund</b>	The fund seeks to achieve medium to long-term high capital growth over the long-term with medium to high risk by investing predominantly in a diversified mix of bonds, share and other assets type, with a benchmark of cash + 4.0% p.a.
	<b>Mercer Diversified Retirement Fund ("DRF")</b>	The fund aims to deliver equity-like returns with reduced volatility. Over the long term the fund is expected to deliver returns of approximately cash + 2.5% p.a.
	<b>BlackRock Institutional Sterling Liquidity Fund</b>	The fund aims to perform in line with the 7 day Sterling LIBID.
<b>Target Annuity Path</b> <p>■ BlackRock Institutional Sterling Liquidity Fund ■ LGIM Pre-Retirement Fund ■ Mercer Growth Fund</p>	<b>Mercer Growth Fund</b>	The fund seeks to achieve medium to long-term high capital growth over the long-term with medium to high risk by investing predominantly in a diversified mix of bonds, share and other assets type, with a benchmark of cash + 4.0% p.a.
	<b>LGIM Pre-Retirement Fund</b>	The fund aims to invest in assets that reflect the investments underlying a typical non-inflation linked pension annuity product.
	<b>BlackRock Institutional Sterling Liquidity Fund</b>	The fund aims to perform in line with the 7 day Sterling LIBID.
<b>Target Cash Path</b> <p>■ BlackRock Institutional Sterling Liquidity Fund ■ BlackRock Aquila All Stocks Corporate Bond Index Fund ■ Mercer Growth Fund</p>	<b>Mercer Growth Fund</b>	The fund seeks to achieve medium to long-term high capital growth over the long-term with medium to high risk by investing predominantly in a diversified mix of bonds, share and other assets type, with a benchmark of cash+ 4.0% p.a.
	<b>BlackRock Aquila All Stocks Corporate Bond Index Fund</b>	This fund aims to achieve returns consistent with the iBoxx £ Non-Gilts Index. This fund invests in investment grade corporate bonds denominated in sterling.
	<b>BlackRock Institutional Sterling Liquidity Fund</b>	The fund aims to perform in line with the 7 day Sterling LIBID.

<sup>1</sup>Cash refers to FTSE GBP 1 Month Euro Deposit Index



# Appendix 2:

## Technical Default

### Arrangements

This Appendix has been produced in line with regulation 2A of The Occupational Pension Schemes (Investment) Regulations 2005, as amended.

Regulation 3 of The Occupational Pension Schemes (Charges and Governance) Regulations 2015, as amended, sets out that a default arrangement can be created by allocating workers to a fund when they have not expressed a choice. To this effect, a number of default arrangements have been created when mapping members into the Scheme from their ceding schemes, which are hereafter referred to as “technical defaults”. Details of these technical default arrangements within the Scheme are provided in this Appendix.

### The Scheme has two categories of default investment arrangements:

- The main default investment strategy - Mercer SmartPath™. This investment framework delivers an appropriate investment strategy for each of the three at-retirement options: cash, an annuity (secured income) or income drawdown (variable income). Participating employers are able to participate in the decision over which is the most suitable default pathway for their membership. With each strategy, members are initially invested in the Mercer Growth Fund, which is dynamically managed by Mercer and aims for good long-term capital growth, but manages risk through diversification. This is covered in more detail in Appendix 1.
- Default funds created through mapping exercises. Any funds within each individual participating employer’s section within the Scheme that had assets mapped into them after April 2018. These are covered in more detail in this appendix.

## 1. Aims and Objectives

### 1.1.

This is managed in line with the main Scheme, as detailed in Section 1 of the Statement.

### 1.2.

The aims and objectives of each of the technical default arrangements is detailed in Table 1 of this Appendix.

## 2. Choosing Investments

### 2.1.

This is managed in line with the main Scheme, as detailed in Section 2 of the Statement.

## 3. Kinds of Investments

### 3.1.

This is managed in line with the main Scheme, as detailed in Section 4 of the Statement.

## 4. Balance Between Different Kinds of Investments

### 4.1.

This is managed in line with the main Scheme, as detailed in Section 5 of the Statement.

## 5. Investment Risk

### 5.1.

This is managed in line with the main Scheme, as detailed in Section 6 of the Statement.

## 6. Expected Return on Investments

### 6.1.

This is managed in line with the main Scheme, as detailed in Section 7 of the Statement.

## 7. Realisation of Investments

### 7.1.

This is managed in line with the main Scheme, as detailed in Section 8 of the Statement.

## 8. Financially Material Considerations and Engagement Policy

### 8.1.

This is managed in line with the main Scheme, as detailed in Section 9 of the Statement.

## 9. Asset Manager Arrangements

### 9.1.

This is managed in line with the main Scheme, as detailed in Section 10 of the Statement.

## 10. Non-Financial Factors

### 10.1.

This is managed in line with the main Scheme, as detailed in Section 11 of the Statement



## Table 1: Aims and Objectives of Technical Defaults

Technical Default Arrangement	Aims and Objectives
<b>Mercer Moderate Growth Fund</b>	The fund seeks to achieve medium to long-term high capital growth over the long-term with medium to high risk by investing predominantly in a diversified mix of bonds, share and other assets type, with a benchmark of cash+ 3.0% p.a.
<b>Mercer Growth Fund</b>	The fund seeks to achieve medium to long-term high capital growth over the long-term with medium to high risk by investing predominantly in a diversified mix of bonds, share and other assets type, with a benchmark of cash+ 4.0% p.a.
<b>Mercer High Growth Fund</b>	The fund seeks to achieve high levels of capital growth over the long-term but with high levels of risk by investing predominantly shares, with a benchmark of cash+ 4.5% p.a.
<b>Mercer Passive UK Equity Fund</b>	The fund aims to achieve a return that is consistent with the return of the FTSE All-Share Index.
<b>Mercer Passive Overseas Equity Fund</b>	The fund aims to achieve a return in line with the FTSE All-World Developed ex-UK Index.
<b>Mercer Passive Overseas (Hedged) Equity Fund</b>	The fund aims to achieve a return consistent with the FTSE All World Developed ex UK Index (95% GBP Hedged) composite or other equivalent index.
<b>Mercer Passive Emerging Markets Equity Fund</b>	The fund aims to achieve a return consistent with the MSCI Global Emerging Markets Index.
<b>Mercer Passive Over 15 Year Gilt Fund</b>	The fund aims to achieve a return consistent with the FTSE UK Gilts Over 15 Years Index.
<b>Mercer Passive Over 5 Year Index Linked Gilt Fund</b>	The fund aims to achieve a return consistent with the FTSE UK Gilts Index-Linked Over 5 Years Index.

Technical Default Arrangement	Aims and Objectives
<b>Mercer Passive Corporate Bond Fund</b>	This fund invests in investment grade corporate bonds denominated in sterling. The fund aims to achieve a return consistent with the iBoxx £ Non-Gilts Index.
<b>Mercer Diversified Growth Fund</b>	The objective of the strategy is to outperform cash by 3-4% p.a. over rolling three year periods
<b>Mercer Diversified Retirement Fund</b>	The fund aims to deliver equity-like returns with reduced volatility. Over the long term the fund is expected to deliver returns of approximately cash + 2.5% p.a.
<b>Mercer Pre-Retirement Fund</b>	The fund aims to achieve a return consistent with the level annuity prices by investing in a passively-managed underlying fund that invest in UK Government and corporate bonds.
<b>Mercer Inflation Linked Pre-Retirement Fund</b>	The fund aims to achieve a return consistent with the move in inflation linked annuity prices by investing in a passively-managed fund that invests in UK Index Linked Government and corporate bonds.
<b>Mercer Shariah Fund</b>	The fund aims to offer investors the opportunity to grow their money in line with the performance of the Dow Jones Islamic Titans 100 Index.
<b>Mercer Money Market Fund / Mercer Cash Fund</b>	The fund aims to achieve an investment that is in line with wholesale money market short-term interest rates. Specifically, the fund will aim to better the return of 7 Day LIBID before fees.



# Appendix 3:

## Responsible Investment and Voting Policy

Mercer Master Trust

# Responsible investment and voting policy

August 2021



welcome to brighter



**This document sets out the responsible investment and voting policy for the Trustees of the Mercer Master Trust (the “Scheme”).**





# The Trustees' investment beliefs

**The Trustees believe that a sustainable investment approach is in the best interest of Scheme members and, more specifically, that:**

1. Environmental, social and governance (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, as investors, we 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 (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, the Trustees believe that a sustainable investment approach that considers these risks and opportunities is in the best interest of members.

The Trustees' responsible investment beliefs are aligned to the investment beliefs of Mercer, as the Scheme's founder.



# Climate change beliefs

**The Trustees also believe that climate change poses a systemic risk, with financial impacts driven by two key sources of change, which present both risks and opportunities to investors:**

1. The physical damages expected from an increase in global temperatures
2. The transition to a low-carbon economy, required to mitigate the severity of physical damages

The Trustees believe that limiting global average temperature increases this century to well below 2°C, as per the 2015 Paris Agreement, aligns with the best economic outcome for investors.

Therefore, the Trustees integrate climate analysis insights into the investment manager selection and monitoring processes. The Trustees expect a climate change risk assessment to be integrated within an investment manager's approach to ESG and stewardship activities. It is also an integral and well-defined part of the fund management process in funds targeting sustainability objectives and outcomes.

The Trustees' overall approach to climate-related financial risks and opportunities is consistent with the Task Force on Climate-related Financial Disclosures (TCFD) framework. Selected investment managers are expected to make disclosures consistent with the TCFD recommendations. The climate change management



report for the Mercer Master Trust, *Investing in a Time of Climate Change — Mercer Master Trust*, can be found [here](#).

The Mercer Master Trust's multi-asset funds\* have committed to a target of net-zero absolute carbon emissions by 2050. We expect that portfolio carbon emissions will be reduced by 45% relative to 2019 baseline levels by 2030. This commitment is aligned with targeting a 1.5°C limit on global temperature increases and the Paris Agreement's ambitions.

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\*"Multi-asset funds" refers to Mercer Growth fund, Mercer Diversified Retirement fund, Mercer Diversified Growth fund, Mercer Defensive fund, Mercer Moderate Growth fund, and Mercer High Growth fund.

# Four-pillar framework for ESG integration

The Trustees use the following four-pillar framework to ensure that their beliefs, as set out above, are incorporated into the Scheme’s investment arrangements.

1 Integration	2 Stewardship	3 Investment	4 Screening
We only use investment managers who have consistent processes in place to incorporate the assessment of ESG risks and opportunities in security selection and portfolio construction.	<p>Our investment managers are expected to have robust processes in place for voting and engagement.</p> <p>Investment managers that are signatories of the Financial Reporting Council's UK Stewardship Code are preferred.</p>	We use a specific exposure to longer-term environmental and social themes/trends to improve risk management and identify new investment opportunities.	We prefer an integration- and engagement-based approach but recognise that exclusions may be necessary in certain circumstances.



# Stewardship

The Trustees regard investment governance and active ownership as being of particular importance in serving the long-term interests of our members. The Trustees believe stewardship (or active ownership) helps the realisation of long-term value by providing investors with an opportunity to enhance the value of companies and markets in a manner consistent with long-term investor timeframes.

The Trustees invest in pooled or multi-client funds and delegate voting and engagement to the selected investment managers. Managers are encouraged to engage with portfolio companies on material

sustainability risks, adverse sustainability impacts and other ESG issues, with the aim of improving long-term risk-adjusted returns and the stability of financial markets. The Trustees expect investment managers to fulfil stewardship obligations in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustees have agreed a number of themes as the focus of their voting and engagement activities. These themes are in line with those of the Scheme’s primary investment manager, Mercer Global Investments Europe Limited, and are set out in the table below. The Trustees engage with the primary investment manager on an annual basis regarding these priorities.

## Engagement priorities

Environmental sustainability	Social sustainability	Governance and strategy
<p><b>Climate change:</b></p> <ul style="list-style-type: none"><li>• Low-carbon transition (mitigation) and physical damages resilience (adaptation)</li></ul> <p><b>Pollution and natural resource degradation:</b></p> <ul style="list-style-type: none"><li>• Water (rivers and oceans), air, land (forests, biodiversity and soils)</li></ul>	<p><b>Human rights:</b></p> <ul style="list-style-type: none"><li>• Modern slavery, pay and safety in the workforce and supply chains, abuses in conflict zones</li></ul> <p><b>Addictive products:</b></p> <ul style="list-style-type: none"><li>• Tobacco, opioids, gambling, alcohol, sugar</li></ul>	<ul style="list-style-type: none"><li>• Aligned remuneration and incentives</li><li>• Inclusive, diverse decision-making</li><li>• Transparent disclosure of material ESG factors</li></ul>

On an annual basis, the Trustees consider a responsible investment report that sets out the following for each of the funds containing listed equities:

- A general description of voting behaviour of all underlying investment managers
- An explanation of the most significant votes taken
- Information on the use, if any, of the services of proxy advisers
- Information on how it has cast votes in the general meetings of companies in which it holds shares
- An assessment of how the investment manager has performed with regards to the UK Stewardship Code



# Monitoring ESG integration

In order to ensure that the Scheme is incorporating ESG factors in line with the four-pillar framework outlined above, the Trustees have certain expectations and undertake regular monitoring activities accordingly, as set out below.

1 Integration	2 Stewardship	3 Investment	4 Screening
<p>This is monitored using Mercer's proprietary ESG ratings. ESG ratings are considered upon the selection, retention and realisation of investments. ESG ratings are reviewed during the quarterly monitoring process.</p> <p>Managers with high ESG ratings are preferred. The annual Responsible Investment Report assesses each investment manager and looks for evidence of strong, or at least positive, momentum on ESG integration.</p>	<p>Mercer's ESG ratings also include an assessment on voting and engagement practices. ESG ratings are considered upon the selection, retention and realisation of investments. ESG ratings are reviewed during the quarterly monitoring process.</p> <p>The annual Responsible Investment Report provides an assessment of stewardship practices, as set out in the "Stewardship" section of this document.</p> <p>Investment managers provide voting and engagement data annually. The Trustees will review this data and include it in the annual implementation statement.</p>	<p>Our multi-asset funds, including those used within the default glidepaths, include allocations to passive ESG-focused global equity and global high-yield bond funds.</p> <p>Two global equity funds with a sustainability focus (one active, one passive) are made available within the fund range.</p>	<p>Exclusions are considered in line with the investment managers' exclusion framework.</p> <p>The Trustees review the list of excluded activities from investment managers annually.</p>

The Trustees include an update on responsible investment on the agenda at each of their quarterly investment governance meetings. They also receive training on responsible investment, which is recorded in the Trustee training log.

## IMPORTANT NOTICES

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Mercer Limited  
Tower Place West  
London, EC3R 5BU  
[www.mercer.com](http://www.mercer.com)

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