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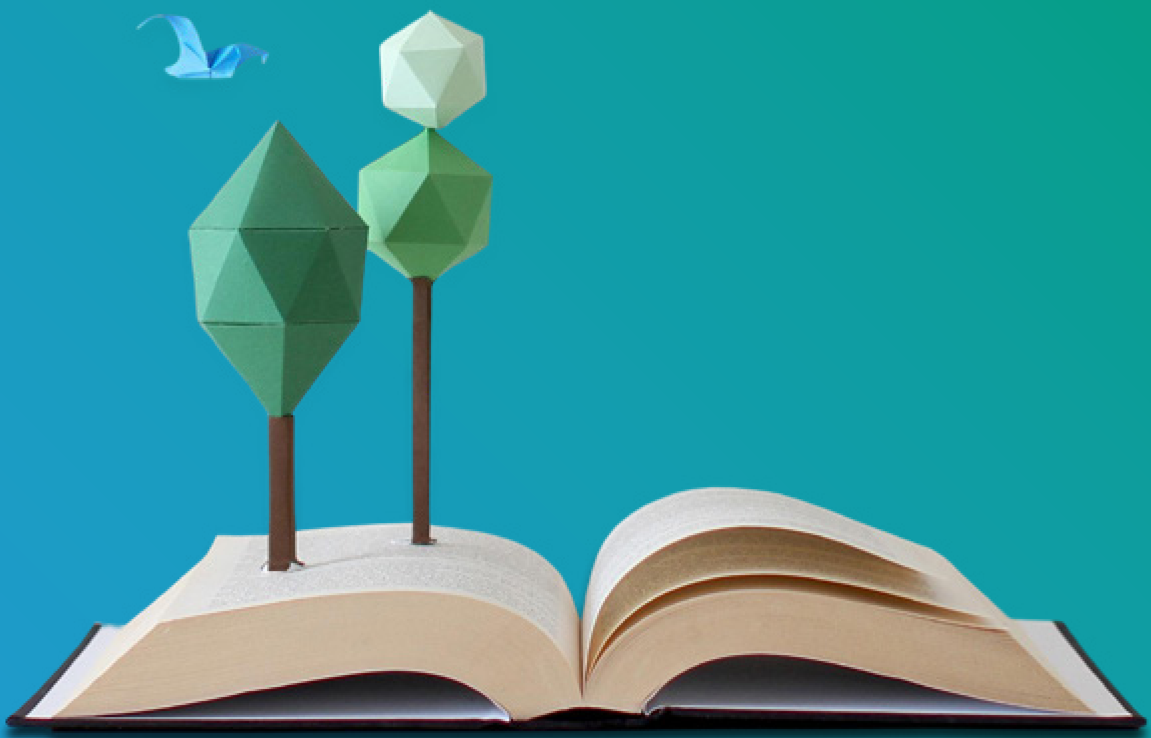
Sustainable Investment Policy

Mercer (N.Z) Limited

September 2023



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Contents

Policy overview and scope

This policy provides an overview of the principles and approaches governing sustainable investment and how Mercer (N.Z.) Limited (Mercer NZ) will implement its beliefs on sustainable investments for the Mercer Investments Trust New Zealand (MITNZ), Mercer Wholesale Funds (MWF) and Mercer Investment Funds (MIF) (together referred to in this policy document as `the Funds`). This policy also covers the retail facing products which invest via the underlying MITNZ (Mercer KiwiSaver scheme, Mercer FlexiSaver, Mercer Super Trust, New Zealand Defence Force KiwiSaver Scheme and Defence Force Superannuation Scheme).

Policy exceptions

Exceptions to this Policy may occur in cases of bespoke client arrangements, such as when a wholesale investor requests that we implement their own sustainable investment preferences. As such, the offer document for each Fund should be referred to for information regarding the sustainability criteria.

Mercer NZ is responsible for establishing, monitoring, and implementing investment strategies for the Funds. Mercer NZ does not directly select securities; instead, Mercer NZ appoints and relies on specialist third-party investment managers to invest on our behalf. Mercer NZ may rely on specialist third party environmental, social and governance (‘ESG’) providers and their methodology for implementing this Policy including determining the securities to be excluded based on the Fund's exclusions criteria.

Mercer NZ’s investment arrangements include both investment management agreements (‘IMAs’) or similar type of agreements with appointed investment managers, and investments in collective investment vehicles (‘CIVs’). While we expect all of our appointed investment managers to take into account the requirements of this Policy, alignment with this Policy is typically expected to be higher in IMA arrangements (where Mercer NZ can seek to include formal requirements in the IMA) than in CIV arrangements where Mercer NZ does not have the same level of contractual influence over the underlying investments or reporting requirements, and there may be instances where Mercer NZ’s exclusion criteria may not be adhered to by the CIV.

Mercer NZ’s view is that sustainable investment principles can be broadly applied across asset classes such as trans-tasman shares, international shares, growth fixed interest, defensive fixed interest, real assets and alternatives. However, the degree of relevance, materiality as well as implementation capability can vary significantly across asset classes.

Investors should also consider the offer document for each relevant Fund.

Background

This policy is guided by:

- Our fiduciary responsibilities
- Compliance with the laws of New Zealand

Mercer NZ is part of the wider Mercer global organisation and is a business of Marsh McLennan. References to Mercer shall be construed to include Mercer LLC and/or its associated companies.

Mercer NZ provides services to a broad range of investors, including KiwiSaver members, workplace saving schemes, endowments, foundations, financial services organisations, iwi, and other investors.

This policy forms part of the investment governance framework for the Funds and should be read in that context.

This policy includes Mercer NZ's key sustainable investment principles and overarching approach to the following components:

1. Environmental, Social and Corporate Governance (ESG) Integration
2. Sustainability Themes
3. Climate change
4. Active Ownership
5. Exclusions

Typically, Mercer NZ does not directly select investments; instead it appoints specialist investment managers. This policy sets out how Mercer NZ implements its investments beliefs on sustainable investment within the Funds it manages.

Our Sustainable Investment Beliefs and Approach

Globally, Mercer believes a sustainable investment approach is consistent with an objective of creating and preserving long term investment capital and more specifically, that:

1. ESG factors can have a material impact on long-term risk and return outcomes and these 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. 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, Mercer NZ believes that a sustainable investment approach that considers these risks and opportunities is in the best interests of our investors.

Where relevant and aligned with achieving the investment objectives of the Fund, ESG considerations may be incorporated into the Fund’s investment processes using the following key techniques:

- Integrating ESG considerations into investment processes (ESG integration)
- Seeking to make investments linked to sustainability-themes (Sustainability-themed investing)
- Integrating climate change considerations into investment processes (Climate change)
- Undertaking active ownership activities, which encompasses engagement and proxy voting (Active ownership)
- Seeking to avoid certain investments (Exclusions)

Information on how each of these key techniques are applied within the Funds is outlined in this Policy.

1. ESG Integration

Mercer NZ expects its appointed investment managers to assess and reflect ESG risks and opportunities when they select securities or assets and construct portfolios. The degree of relevance or materiality varies across asset classes and the type of investment strategy the managers' use.

The table below contains examples of ESG factors which may be considered by our appointed investment managers:

Table 1. ESG Factor Examples

Environmental	Social	Governance
Climate change	Health and safety	Board diversity, composition and effectiveness
Water security	Labour standards and modern slavery, including supply chains	Executive remuneration
Waste and pollution	Human rights and community impacts	Conduct, culture and ethics
Biodiversity	Demographics / consumption	Shareholder rights

An investment manager's ESG capabilities and the extent of ESG integration within a strategy form an important part of Mercer NZ's investment manager selection process. During the investment manager selection process and on a periodic basis, Mercer NZ will qualitatively assess an investment strategy's level of ESG integration in the investment process, including ESG resourcing by the investment manager. This is done by drawing on the ESG ratings and commentary ('ESG Ratings') from the Mercer Manager Research team ('MMR'). MMR's ESG Ratings range from ESG1 being the highest, to ESG4 being the lowest. MMR largely undertakes a qualitative assessment of an investment manager's ESG capabilities based on desk-based research as well as meeting with their key investment and ESG personnel. See Appendix B for further details about MMR's ESG Ratings process.

Where relevant and aligned with the investment strategy and objectives of a Fund, Mercer NZ has a preference to appoint investment managers with higher ESG Ratings rather than lower.

Mercer NZ also offers a number of socially responsible, sustainable and ethically labelled funds (identified as such in their relevant offer documentation) that apply additional sustainability criteria. One of these additional criteria includes selecting investment managers or strategies with higher ESG Ratings, typically ESG1 or ESG2.

Mercer NZ may engage with its appointed investment managers, particularly those with a lower ESG Rating, to encourage them to improve their ESG integration practices. We also may engage with appointed investment managers to seek alignment with Mercer's ESG priorities such as climate change (see our Investment Approach to Climate Change) and modern slavery.

Mercer will disclose in its annual Sustainable Investment report the proportion of managers rated ESG 1-4 in relation to the Funds and how it compares with the average investment universe as defined by Mercer along with the proportion of funds that are managed by managers with Sustainable Development Goals or sustainable investment themes incorporated into their investment framework.

2. Sustainability Themes

Mercer NZ believes that including exposure to investment managers that identify longer-term environmental and social themes and who seek to invest in companies delivering solutions to environmental and social challenges, are likely to lead to improved risk management and new investment opportunities. Examples of these sustainability themed investment opportunities could be safe and accessible water, sustainable agriculture, renewable energy, green buildings and lower carbon tilted portfolios.

Mercer NZ's investment manager selection and monitoring processes as well as strategic asset allocation reviews may seek to consider including sustainability themed investment opportunities where this is aligned with the investment strategy and objectives of a Fund.

Further, Mercer NZ's socially responsible, sustainable and ethically labelled funds may aim for a higher allocation to sustainability themes via the appointed investment managers.

Mercer also uses the data and tools of third-party data providers to measure the extent to which companies (for the listed equity and corporate credit holdings) products and services contribute to (or detract from) sustainability challenges, as grouped by the UN Sustainable Development Goals framework.

3. Climate Change

Mercer believes that limiting global average temperature increases this century to 'well below 2°C', as per the 2015 Paris Agreement, is likely to be aligned with the best financial outcome for long-term diversified investors, such as those who typically invest in the Funds.

Mercer NZ supports this end goal and seeks to align portfolios with that objective, where this is also consistent with meeting stated investment objectives. This is demonstrated by Mercer NZ's target to achieve net zero absolute carbon emissions[1] in the MITNZ in aggregate as at the time of announcement in 2021 (see link here) by 2050 with an expectation to reduce emissions by 45% from 2020 baseline levels by 2030[2].

It is noted that as of 3 March 2023, Mercer NZ became the manager of Macquarie Asset Management NZ Limited's retail and wholesale funds. The funds are now called the Mercer Wholesale Funds (MWF) (for wholesale investors) and Mercer Investment Funds (MIF) (for retail investors). Previously, Macquarie Asset Management NZ Limited committed to net zero emissions by 2040 for these funds. Mercer will review the timeframe of the MWF and MIF commitment in due course.

Achieving the net zero target relies on some key assumptions including:

- The prevalent climate science at the time the target was set, recommending a net zero target date of 2050.
- Mercer's climate scenario analysis, indicating a 2°C or below scenario is considered to be in investors' best interests.
- The availability of sufficient investment strategies, solutions, asset level climate data and industry frameworks that allow investors across asset classes to decarbonise while meeting investment objectives.
- An expectation that governments will follow through on their own commitments to ensure the objectives of the Paris Agreement are met.

The target is expected to be met by following a climate transition plan ('the Climate Plan'). The Climate Plan would aim for:

- an approach to decarbonisation which is broadly aligned with the commitments of the Paris Agreement, but accounting for the transition occurring in the real economy and understanding the different transition capacity by asset class, given liquidity and sector exposures.
- Mercer's climate scenario analysis, indicating a 2°C or below scenario is considered to be in investors' best interests.

Where relevant and consistent with meeting the investment objectives as stated in the product disclosure documents, the Climate Plan seeks to incorporate key sustainable investment principles as follows:

- Integration – incorporating climate metrics in portfolio management including investment manager monitoring and strategic asset allocation modelling.
- Active ownership – engaging with appointed investment managers, via collaborative initiatives or directly with companies to support decarbonisation and orderly climate transition.
- Sustainability themed investment - including exposure to investment managers that identify longer-term environmental and social themes and who seek to invest in companies delivering solutions to environmental and social challenges.

[1] Defined as absolute carbon emissions, per $M of FUM and Scope 1&2 for the Mercer Investment Trusts New Zealand funds in aggregate.

[2] Per dollar of assets under management.

Progress towards achieving the stated target will be monitored on a regular basis, typically annually, considering absolute emissions and carbon intensity reductions, together with transition capacity using Mercer's proprietary Analytics for Climate Transition ('ACT') tool.

The ACT tool assesses portfolios for climate transition risk across a spectrum, with the companies within portfolios categorised as those that have high emissions and limited capacity to transition ('grey' category) to investments that have low emissions and high capacity to transition ('green' category) and the range between the two ('in-between' categories). Progress against the stated target will be included in an Annual Sustainable Investment report, or similar progress report, which will be available on the Mercer NZ websites multimanager.mercer.co.nz and mercerfinancialservices.co.nz.

Mercer's approach to climate change seeks to be consistent with the Task Force on Climate- related Financial Disclosures ('TCFD') recommendations. We also prefer our investment managers to make disclosures consistent with the TCFD recommendations. In addition, Mercer NZ is currently working towards applying the New Zealand climate-related disclosure framework for annual reporting periods beginning on or after 1 January 2023 for its registered schemes.

Investors will be able to track the progress of the MITNZ against the targets stated above through the regular progress updates and the Annual Sustainable Investment report. Mercer NZ believes that the strategies it has adopted mean that achieving these targets is realistic. If Mercer NZ identifies that MITNZ is not on track to meet these targets in a material way then Mercer NZ will inform investors in MITNZ and communicate any consequences or changes in strategy (which may include revising the climate change targets).

4. Active Ownership

Mercer believes that stewardship, or active ownership, helps the realisation of long-term investor value through voting and engagement.

Share Voting

As a shareholder of publicly listed companies, Mercer NZ has the right to vote at shareholder meetings and regards voting our shares as an important fiduciary responsibility.

Mercer NZ outsources our proxy voting responsibility to our listed equity investment managers and, where practically possible, expect the listed equity investment managers to vote shares in a timely manner and in a manner deemed most likely to protect and enhance long-term value. Typically, an investment manager's capability in active ownership is evaluated as part of the investment manager selection process, to seek alignment with Mercer NZ's commitment to good governance and long-term value creation.

Mercer NZ expects its listed equity investment managers to establish their own voting policy that sets out the principles and guidelines under which rights to vote are exercised. The investment managers must report details to Mercer of such voting on an annual basis.

Mercer NZ engages the services of a third-party proxy advisor to provide proxy voting research and facilitate the collation and reporting of proxy voting data. Mercer NZ's proxy voting records, where available, can be found online (see link here) and are updated semi-annually.

Exercising a 'Super Vote'

While proxy voting decisions are typically outsourced to the listed equity investment managers, Mercer NZ retains the right to instruct the listed equity investment managers on how to vote the shares in our account. When we do this, it is called exercising a 'Super Vote'. We would typically exercise a 'Super Vote' when we believe it is in the best interest of investors. In determining such votes, Mercer NZ may consider its proxy advisor's recommendation, the view of its listed equity investment managers and best practice industry standards and governance guidelines. Mercer NZ may also conduct its own research or engage with the relevant company to inform its decision on a Super Vote.

Vote Exceptions

Mercer NZ's objective is to vote all listed shares on a best endeavours basis. However, there may be circumstances where despite best endeavours of the investment manager, they may be unable to participate in a vote. There may also be circumstances where the investment manager or Mercer NZ decide that abstaining from a vote may be in the best interests of investors.

Types of voting exception scenarios are explained below:

Share blocking markets: there are some markets that place regulatory barriers to voting, usually in the form of limitations on trading shares if a vote is enacted.

Although Mercer NZ will seek to vote in these markets, we accept voting may be limited or not possible.

CIVs: Mercer NZ may have investments in CIVs where the investment manager, not Mercer NZ, has the legal right to vote the shares held within the pooled vehicle. While we may not be able to require the investment manager to exercise voting powers in a particular way, or report on the voting activity of CIVs, we still expect the investment manager of these vehicles to exercise any voting powers appropriately.

Power of Attorney (PoA) markets: there are some international markets where voting can only be carried out by an individual actually attending the meeting.

This usually needs to be carried out on Mercer NZ's behalf by the custodian. The rules on PoAs vary by market, apply for different periods of time and have various cost implications.

Mercer NZ will typically put in place PoAs for larger markets (for example, Brazil, Argentina, Sweden and Poland) but will undertake a cost / benefit analysis on smaller markets which employ this structure, meaning that there may be some smaller markets where Mercer NZ will not vote shares.

Engagement

Engagement may be undertaken with companies or policymakers via appointed investment managers, collaborative initiatives and / or directly by Mercer. Company engagement has the potential to enhance the long-term value of the company by seeking to address material ESG matters of concern.

Mercer believes its appointed investment managers are typically best placed to conduct engagement with the companies on our behalf and, where relevant, this is an expected part of an investment manager's active ownership approach. In this context, Mercer seeks alignment with our appointed investment managers on Mercer's engagement priorities such as climate or modern slavery.

However, Mercer may also conduct engagement activities with companies directly, or through involvement in collaborative initiatives, where we believe engagement by Mercer NZ is in the best long-term interests of our investors.

Via our appointed investment managers, collaborative initiatives and /or directly, we may also engage with regulators, governments and other policy makers to recommend changes or express views on sustainable investment regulatory regimes or policy positions where this is deemed important to protect the rights, or enhance the interests, of our investors.

Examples include engagement on key sustainable investment topics (such as climate change or modern slavery) or when Mercer becomes aware of matters of material ESG concern at a company level (such as a high severity incident under the United Nations Global Compact principles).

Mercer may use a range of inputs to determine when engagement may be warranted. These include but are not limited to ESG research from an external provider, information gained through collaborative initiatives, Mercer's own sustainable investment research or tools, information gained through engagement with investment managers or ESG portfolio analysis.

Disclosure

In the interests of transparency, Mercer NZ will make its voting results available on or via this website to the extent that these are available) on a six-monthly basis, within three calendar months of the end of the six-month period.

Mercer NZ will also report our active ownership activity on an annual basis in the Annual Sustainable Investment Report which will be available on the Mercer NZ websites here for the MITNZ, MWF and MIF and here for Mercer KiwiSaver scheme, Mercer FlexiSaver and Mercer Super Trust.

5. Exclusions

In broad terms, Mercer NZ's application of exclusions (as described below) is generally determined by the nature of our holdings, including through related entities or third parties. Specifically, whether the holdings are "direct" or "indirect".

- Direct Holdings generally mean securities held directly by our custodian under an Investment Management Agreement (IMA) arrangement with an investment manager. *Exclusions mainly apply to direct security holdings within mandates.*
- Indirect Holdings generally mean securities held within a CIV, derivative, exchange traded vehicle or other structure where the underlying securities are not directly held by our custodian and we do not control the way assets are managed. *Mercer does not control whether its exclusions are applied to Indirect Holdings.*

As an overarching principle, Mercer NZ prefers an integration and engagement-based approach to sustainable investing rather than an exclusions-based approach. There are however, a limited number of instances in which we apply exclusions. Mercer NZ's approach to "exclusions" involves seeking to not invest, as well as removing or reducing exposure as much as practicable in certain companies that are involved in products or activities that we determine the Funds should not have exposure to.

We consider that exclusions should be a last resort because, once divested, Mercer NZ loses its shareholder rights and thereby the ability to influence the behaviour of companies.

The reasons to exclude certain securities are typically due to factors that make continuing to invest untenable.

These factors include but are not limited to: investment beliefs, risk management considerations, expected social impact or level of harm, public policy position, societal norms, investor expectations, efficacy of other approaches (such as engagement), ability to influence and expected impact on portfolio returns.

While Mercer NZ may invest in assets related to the broad categories discussed below, the following specific exclusions apply to the Direct Holdings (but not necessarily Indirect Holdings) of the Funds ('Exclusions Criteria'), unless exceptions (noted below) or other factors beyond Mercer NZ's control mean they are not possible to apply:

- **Controversial weapons** companies, means companies that:
  - manufacture whole weapons systems, or delivery platforms, or key components that were developed or are significantly modified for use in cluster munitions, anti-personnel landmines, biological or chemical weapons or nuclear weapons (regardless of revenue).
  - are involved in the production and retailing of automatic or semi-automatic civilian firearms and ammunition (regardless of revenue).
- **Tobacco** companies, means companies that:
  - are involved in the production of tobacco, manufacture of nicotine alternatives or tobacco-based products (regardless of revenue), including subsidiaries and joint ventures. Nicotine alternatives and tobacco-based products include nicotine vaping products (such as 'vaping' devices and e-cigarettes).
  - derive 50% or more of their gross revenue (or, where gross revenue figures are not available, net revenue) from tobacco-related business activities such as packaging, distribution and retailing.
- **Russian assets,** defined as:
  - Sanctioned Russian entities and related entities of sanctioned entities;
  - Equity – issues of publicly held companies with Russia as the country of incorporation and where the security has a primary listing in Russia (including ADRs/GDRs), plus subsidiary mapping;
  - Fixed income – issuers captured in equity screening (as above) by country of incorporation, plus Russian sovereign bonds and bonds issued by Russian government-related entities (Rouble or foreign currency denominated);
  - Cash holdings in Russian currency;

- o Russian FX exposure;
- o Private markets assets domiciled in Russia;
- o All secondary issues of excluded securities; and
- o Derivatives having a Russian asset as primary exposure.

The Exclusions Criteria above applies to all of Mercer NZ's Direct Holdings in the asset classes listed on page 3.

Socially responsible, Sustainable and Ethically-labelled funds

Mercer NZ also offers a number of socially responsible, sustainable and ethically-labelled funds which may apply additional exclusions to the above Exclusions Criteria ('Additional Exclusions').

The Additional Exclusions listed below apply to the Direct Holdings (but not necessarily the Indirect Holdings) of the socially responsible, sustainable and ethically-labelled funds ('SR Exclusions Criteria'), unless exceptions (noted below) or other factors beyond Mercer NZ's control mean they are not possible to apply.

The Additional Exclusions listed below are applied to Equities and Global Credit asset classes to exclude investments in alcohol, gambling, adult entertainment and fossil fuels within certain revenue thresholds. Other Fixed Income, Overseas Sovereign Bonds and New Zealand Sovereign Bonds asset classes do not have the below Additional Exclusions.

These Additional Exclusions are defined as:

- Companies that are involved in the following as defined by Global Industry Classification Standard (GICS) sub-industry:
  - o Oil & Gas Drilling
  - o Oil & Gas Equipment & Services
  - o Integrated Oil & Gas
  - o Oil & Gas Exploration & Production
  - o Coal & Consumable Fuels
- Companies that own proved or probable reserves in coal, oil, or gas; and derive in excess of 15% of their revenue from exploration and extraction of coal, oil or gas.

Where referred to above, 'coal, oil or gas' includes these fuels where derived from unconventional sources such as tar sands or shale. However, metallurgical coal is not included in the term "coal".[3]

- Companies with more than 10% of revenue from adult entertainment-related business activity (adult entertainment-related activities mean production, distribution and not accessible to minors as defined by third-party data provider).
- Companies with more than 10% of revenue from alcohol-related business activities (alcohol-related activities mean production, distribution and services to the production of alcoholic beverages alcohol as defined by third-party data provider).
- Companies with more than 10% of revenue from gambling-related business activities (gambling-related activities mean production, services and distribution of gambling products as defined by third-party data provider).
- Companies involved in the development and production of depleted uranium ammunition/armour.

Revenue is based on the latest reported company financial year end. Net revenue is used where gross revenue is unavailable.

[3] ISS ESG definitions as follows: 'Metallurgical/coking coal' designates the various grades of coal suitable for carbonisation to make coke for steel manufacture. Metallurgical coal has a particularly high heating value and a low ash content. 'Thermal/steam coal' designates coal used by power plants and industrial steam boilers to produce electricity or process steam. It generally has a lower heat content and a higher share of volatile matter than metallurgical coal.

The Exclusions Criteria and Additional Exclusions listed above are current as at the date of this Policy and changes may occur from time to time. The latest Exclusions Criteria and Additional Exclusions can be found here for the MITNZ, MWF and MIF and here for Mercer KiwiSaver scheme, Mercer FlexiSaver and Mercer Super Trust.

Exceptions

Mercer NZ is generally able to apply exclusions only to Direct Holdings. This may mean that the Funds may have exposure to securities meeting the Exclusions Criteria for Indirect Holdings and/or in instances of exceptions as follows:

- **Transitional implementation for the Funds** – from time to time Direct Holdings may be transitioned into the Funds. In these instances, the investment managers of any transitioned Direct Holdings will be instructed to implement the Exclusions Criteria as market conditions allow and in the best interest of investors. The investment managers will require a transition timeframe to align with the Exclusions Criteria. This means that the Funds may contain exposures to securities that would otherwise meet the Exclusions Criteria for a period of time around the transition of Direct Holdings into the Funds.
- **Bespoke client arrangements** – exceptions may occur in cases of bespoke client arrangements, such as when a wholesale investor requests that we implement their own exclusions requirements. The relevant offer document will outline the exclusions requirements for bespoke funds, as applicable.
- **Discretion** – if a Direct Holding meets an Exclusions Criteria, our investment managers will generally be expected to divest the Direct Holding in a reasonable period of time and as market conditions allow. In limited circumstances, we may allow the investment managers to continue to hold or acquire a company meeting the Exclusions Criteria; for example, where a movement above an exclusions threshold may be temporary, due to market movements or data lags, or where the investment is material to achieving the Fund's objectives. In such circumstances, we will continue to monitor the investment and instruct investment managers to divest only if it is in the best interests of our investors.
- **Other factors beyond our control** – there remain some factors beyond our control that mean a Fund may have exposure to a company or security that meets an Exclusions Criteria. These factors may include, for example, market conditions and liquidity, operational or structural constraints, different definitions and methodologies of research providers or where there is a change of revenue over a reporting period, data or calculation methodologies.

Implementation

Determining whether companies or securities meet an Exclusions Criteria.

Mercer NZ is generally able to apply exclusions to Direct Holdings (as defined above). Mercer NZ is generally not able to apply exclusions to Indirect Holdings, such as where the Funds are invested in a CIV, derivative, exchange traded vehicle or other structure where the underlying securities are not directly held by our custodian.

Mercer NZ implements exclusions by providing Exclusions Criteria to a third party provider of ESG research (currently, ISS ESG) to create a list of excluded securities ('Exclusions List'). ISS ESG has defined evaluation rules and methodology frameworks underpinning their assessment which can be found in detail here. The Exclusions List is updated on a quarterly basis and made available to our investment managers, as relevant.

In addition to the Exclusions List, Mercer NZ may provide the Exclusions Criteria to our investment managers and request them to seek to identify other securities that align with the Exclusions Criteria but that have not been captured on the Exclusions List.

The custodian, BNP Paribas, monitors compliance of Direct Holdings against the Exclusion List on a daily basis as at close of business.

Policy Implementation and Governance

Key responsibilities for the maintenance and implementation of this Policy are set out in the table below.

Name of owner	Area of responsibility
Mercer NZ Board	Own and approve Policy.
Mercer NZ Risk, Audit & Due Diligence Committee	Oversee monitoring against Policy.
Chief Investment Officer (CIO)	Accountable for adherence to this Policy and oversight of the Investment Management Team.
Investment Management Team	Responsible for managing investments including portfolio construction, manager selection, appointment and monitoring in alignment with this Policy.
Mercer Sustainable Investment Consulting Team	Provide annual review of effective implementation of this Policy.
Mercer Risk and Compliance Team	Oversight of Policy governance.

This Policy will be reviewed annually, or more frequently if required to reflect any meaningful change to Mercer NZ's sustainable investment process or as required by relevant law or regulatory change.

Despite any provision to the contrary, management may amend this document to:

- Correct any grammatical, typographical or cross-referencing errors;
- Reflect non-material changes to operational procedures;
- Reflect any non-material changes required by law, a regulator or internal/external auditors; or
- Implement any required changes flowing from a board resolution; provided the amendment is approved under the Mercer NZ Board's Central Policy of Delegation.

Appendix A

Revision history

Version	Reason for amendment	Date approved
1.	The creation of the Sustainable Investment Policy and the Corporate Governance Policy.	December 2015
2.	Creation of the Ethical Exclusions Policy that exclude companies manufacturing cluster munitions, landmines, chemical or biological weapons, or nuclear weapons. The amalgamation of the Sustainable Investment Policy, the Corporate Governance Policy, and the Ethical Exclusions Policy into the Responsible Investment Policy and the addition of a tobacco exclusions.	April 2017
4.	Additional firearms exclusions were added to the Responsible Investment Policy.	May 2019
5.	Additional tobacco and nuclear weapons exclusions were added. Sustainable Investment section divided into the ESG Integration and Sustainability Themes sections. The addition of a section on Climate Change and an update to the Active Ownership section. Update to the exclusion criteria framework. The segregation of and update to the Policy Implementation section, and the addition of the Appendix to include details of Mercer's ESG framework. The addition of a revision history chart.	November 2019
6.	Review to make the Policy more concise and principles based & align policy wording to key implementation developments during the year notably in the areas of Active ownership, Net Zero, and UN Global Compact. Update name from Responsible Investment Policy to Sustainable Investment Policy, in-line with Mercer Global and Industry language.	February 2022
7.	Annual policy review and update to align with regulatory guidance. Updated to add details of exclusions.	September 2023

Appendix B

Mercer's ESG ratings

The Mercer Manager Research (MMR) ESG Ratings represent their assessment of the extent to which ESG and active ownership (voting and engagement) are integrated into a strategy's investment decision making process. MMR's ESG Ratings is incorporated into Mercer NZ's investment manager selection process and ongoing monitoring, with the expectation that the ratings set minimum qualifying criteria for initial and ongoing appointments, where practicable and relevant to the strategy. Four factors are considered and documented within the research commentary and an overall rating assigned, where ESG1 is the highest possible rating and ESG4 is the lowest possible rating. The research is stored within Mercer's Global Investment Manager Database.

The four factors against which an investment manager's investment strategy is assessed are as follows:

ESG integration in the Four-Factor Framework	
Idea Generation	How does the Investment Management Team identify ESG risks and opportunities at the portfolio level? How are ideas sourced? How is the materiality determined and incorporated into financial analysis?
Portfolio Construction	How effectively does the portfolio manager translate ESG views into active positions in the portfolio?
Implementation (Stewardship)	To what extent does the investment manager engage on ESG topics at the portfolio level? How has the engagement led to a change in portfolio positioning and/or the investment horizon? What efforts does the investment manager make to minimise portfolio turnover?
Business Management (Firm-wide commitment)	To what extent do the business leaders understand and support responsible investment and to what extent are these integrated across the business? What firm-wide beliefs, policies and responsible investment strategies are in place?

The ESG Ratings represent MMR's view of the investment manager's capability in terms of what they are doing across the four factors: idea generation; portfolio construction; implementation (voting and engagement) and firm-wide commitment. The ratings are as below:

ESG1	The highest ESG rating is assigned to strategies that MMR believe to be leaders in integrating ESG and active ownership into their core processes, and that provide clear evidence that ESG overall, or a particular ESG theme, is embedded and core to idea generation and portfolio construction.
ESG2	The second highest rating is assigned to strategies that, in MMR's view, include ESG factors as a consistent part of decision making, with a strong focus on risk in valuation processes and commitment at the firm-wide level, including on active ownership.
ESG3	The penultimate rating is assigned to strategies for which, in MMR's view, the investment manager has made some progress with respect to ESG integration and/or active ownership, particularly on corporate governance, but for which there is little evidence that ESG factors are taken into consideration consistently in valuations and investment processes.
ESG4	The lowest ESG rating is assigned to strategies for which, in MMR's view, little to no integration on ESG and active ownership into their core processes.

For passive strategies, MMR apply an ESGp1 through to ESGp4 scale. There are two key distinctions between ESG ratings for passive and active strategies. First, for passive, the bulk of the focus is on voting and engagement practices. Second, for passive equity strategies, most of MMR analysis focuses on firm-wide levels of commitment rather than at the individual strategy level.

The following rating scale will apply to passive equity strategies only:

ESGp1	The firm is a leader in its stewardship activities, undertaking voting and engagement activities at a global level rather than at just a regional level. Policies are clearly articulated and transparent, with the resources, expertise and systems in place to ensure these activities are implemented effectively. Engagement is undertaken and typically done at the company, industry and regulatory level. Voting policies also proactively address environmental and social issues in order for the investment management team to vote effectively and engage with companies (rather than abstaining or focusing only on governance issues) and there is a clear link between the voting policies, engagement agendas and voting actions.
ESGp2	This rating will typically indicate the investment manager has made clear efforts to develop a process for its voting and engagement activities, but lags the best practices in some respect (e.g. regionally strong, but working towards developing a global presence; demonstrates some strength in company and industry engagement, but not in engaging with regulatory bodies, lack of full visibility on the link between voting actions).
ESGp3	Investment managers will have some dedicated resources in place and will demonstrate some but not all characteristics of the above ratings 1-2, but the primary focus is likely to be only on governance aspects of voting and engagement. Voting and engagement will also tend to be at the regional level rather than global.
ESGp4	Managers will have few resources in place and will demonstrate some but not all characteristics of the above ratings 1-2 but will not have the same level of disclosure. Voting will typically be outsourced with limited oversight and little or no evidence of engagement. Efforts to address environmental and/or social issues, either within voting or engagement, will be limited or absent.

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