

sustainable

# investment policy

Mercer (N.Z.) Limited  
Mercer Investment Trusts New Zealand  
(For Wholesale Investors)

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# 01/Policy Scope and Key Principles

This policy provides an overview of the principles and policies governing sustainable investment and how Mercer (N.Z.) Limited (Mercer NZ) will implement its beliefs on sustainable investments for the Mercer NZ Funds (referred to in this policy document as 'the Funds'<sup>1</sup>).

## Background

Mercer New Zealand's Sustainable Investment Policy is guided by:

- Our company purpose, mission, and investment beliefs
- Our clients and customer perspectives
- Our fiduciary responsibilities
- Compliance with the laws of New Zealand

Mercer NZ is a global leader in redefining the world of work, reshaping retirement and investment outcomes, and unlocking real health and well-being, and a business of Marsh McLennan (MMC), whose purpose is at the core of what we do. As a collective group, MMC's motivation is to create a positive impact on the businesses, people and societies we serve. 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. Please refer to this policy for Mercer's key 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. Screening**

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



<sup>1</sup> The Funds refer to both the wholesale PIE Trusts (Mercer Investment Trusts New Zealand (MITNZ)) that wholesale clients invest in directly as well as retail facing products which invest via the underlying MITNZ



## Our Beliefs

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

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

# 02/ESG Integration



Mercer NZ expects its investment managers to assess and reflect ESG risks and opportunities in security or asset selection and portfolio construction, acknowledging that the degree of relevance or materiality varies between asset classes. Examples of ESG factors are shown below:

**Table 1. ESG Factors**

Environmental	Social	Governance
Climate change	Health and safety	Board diversity, composition and effectiveness
Water	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

Mercer NZ will evaluate the ESG policies, capabilities and practices of its investment managers as part of the manager selection and monitoring process by drawing on Mercer’s ESG Ratings and associated commentary from the Mercer Manager Research team (see Appendix for further detail). Expectations are set as ESG3 or above, where practicable and relevant to the strategy (with ESG1 being the highest rating and ESG4 being the lowest). Mercer NZ works closely with its appointed investment managers to improve their ESG integration practices where required, as well as seek alignment with Mercer’s own ESG commitments and priority themes such as Climate Change (see our **Investment Approach to Climate Change**).

# 03/Sustainability Themes



Mercer believes that including exposure to investment managers that identify longer-term environmental and social themes, and the companies delivering solutions to the environmental and social challenges we face is likely to lead to improved risk management and new investment opportunities. In addition to “pure-play” allocations to clean energy, water, timber or agriculture, this can include “broad sustainability” allocations to companies providing sustainable goods and services solutions in environmental matters or social areas such as health and education.

Mercer’s investment manager selection and monitoring processes increasingly consider these exposures when making decisions about portfolio construction.

Mercer supports the United Nations Sustainable Development Goals (the SDGs) and recognises the need for investment towards achieving these goals by 2030. Mercer also uses the SDGs for measuring revenue alignment in the Funds.

# 04/Climate Change



Mercer believes climate change poses a systemic risk, with financial impacts driven by two key sources of change:

1. The physical damages expected from an increase in average global temperatures, and
2. The associated transition to a low-carbon economy.

Each of these changes presents both risks and opportunities to investors, as outlined in Mercer's *Investing in a Time of Climate Change* reports.

These potential financial impacts are taken into account at a diversified portfolio level, in portfolio construction within asset classes, and in investment manager selection and monitoring processes.

Mercer believes that limiting global average temperature increases this century to “well below two degrees Celsius”, as per the 2015 Paris Agreement, is aligned with the best economic outcome for long-term diversified investors. Mercer NZ supports this end goal and increasingly seeks to align portfolios with that objective where this is also consistent with meeting stated investment objectives. This is demonstrated by Mercer NZ's commitment to achieve net-zero absolute carbon emissions for its Funds by 2050 and expectation to reduce portfolio carbon emissions by 45 per cent from 2020 baseline levels by 2030 (see announcement [here](#)).

This approach is consistent with the framework recommended by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) and can be read in detail in *Mercer NZ's Investment Approach to Climate Change*. Disclosure consistent with the TCFD recommendations is encouraged for appointed investment managers.

# 05/Active Ownership – Share voting and engagement

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

## Share Voting

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

Mercer outsources proxy voting responsibility to its listed equity investment managers and expects all shares to be voted in a timely manner and in a manner deemed most likely to protect and enhance long-term value. Each investment manager's capability in ESG engagement and proxy voting is carefully evaluated as part of the investment manager selection process, to ensure it is representing Mercer's commitment to good governance, sustainable investment and long-term value creation.

Mercer NZ expects its investment managers to establish their own voting policy that sets out the principles and guidelines under which rights to vote are exercised.

Mercer NZ engages the services of proxy advisor CGI Glass Lewis to facilitate the collation and reporting of proxy voting data. Mercer NZ's proxy voting records are available online (see link [here](#)).

### Taking a 'Super Vote'

While proxy voting is typically outsourced to investment managers and may sometimes lead to mixed votes, Mercer retains the right to direct a 'Super Vote' which overrides the investment manager votes on any resolution in circumstances where Mercer believes consistency on a significant matter is in the best interest of investors. In determining such votes, Mercer will consider its proxy advisor's recommendation, the view of its investment managers and best practice guidelines. Mercer may also conduct its own research or engage with the relevant company to inform its decision on a Super Vote.

### Vote Exceptions

Mercer's objective is to vote on all shares in its portfolio both domestic and international with the following qualifications and exceptions.

**Share blocking markets:** there are some markets that place regulatory barriers to voting usually in the form of limitations on trading of shares if a vote is enacted. Mercer will seek to vote in these markets, however voting may be limited, and Mercer accepts that it may not vote in some or all of these markets.

**Pooled vehicles:** Mercer has some investments in pooled vehicles where the investment manager, not Mercer, has the legal right to vote the shares held within the pooled vehicle. In these cases Mercer accepts that it cannot vote these shares, but may seek to influence outcomes to the extent possible.

**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 by Mercer through its custodian appointing an individual through a standing Power of Attorney for each market, who will then vote in accordance with Mercer NZ's instructions or those of our service providers. The rules on Powers of Attorney vary by market, apply for different time periods and have various cost implications.

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





## Engagement

Engagement may be undertaken with companies via investment managers, collaborative initiatives and/or directly to enhance the long-term value of the company.

Mercer believes its appointed investment managers are typically best placed to prioritise particular engagement topics by company, and this is an expected part of an investment manager's active ownership approach.

However, Mercer may also conduct engagement activities with companies directly, or through involvement in collaborative initiatives, where we believe engagement by Mercer is in the best interests of our investors. To inform our engagement activities, Mercer has developed an Investment Engagement Framework, which considers three main criteria – Beliefs, Materiality and Influence (BMI). Our engagement priorities are expected to intersect meaningfully across the three criteria in order to determine portfolio-wide engagement priorities.

## Public policy participation

Mercer may also directly engage with regulators, and sometimes with governments and other policy makers, to recommend changes or express views on proposed changes to regulatory regimes or policy positions where this is deemed important to protect the rights, or enhance the interests, of its investors.

Public policies that Mercer NZ may engage on are the laws or the rules set by governments and regulators which companies must observe if they desire to operate or have their shares publicly traded in that country – for example, the rules governing the disclosure of financial information to shareholders, company law governing meetings of the company and the election of directors. Some standards, such as those for accounting, are set at a global level. It is these laws, rules, and regulations that set the minimum rules for corporate behaviour and transparency.

# 06/Screening

Mercer may screen portfolios for sectors, companies, products or activities deemed to cause an unacceptable level of harm, or guilty of severe breaches of law or commonly accepted behaviour, or deemed as not meeting the expected ESG standards under the ESG integration approach outlined, such that their viability as an ongoing investment is in question.

## United Nations Global Compact

Mercer screens and monitors listed portfolios for high-severity incidents under the UN Global Compact (UNGC) Principles that relate to human rights, labour, environmental and corruption issues, as identified by Mercer's appointed external ESG research provider.

Mercer expects its investment managers to engage with companies to resolve the UNGC-related issues identified through the screening process and report engagement progress to us.

## Exclusions

As an overarching principle, Mercer is committed to investing responsibly and prefers an integration and engagement-based approach. However, there are some instances in which exclusions may be considered necessary.

Exclusions should be a last resort because once divested, Mercer loses its shareholder rights and thereby the ability to influence the future behaviour of companies. Even where an exclusion may be considered necessary, Mercer will seek opportunities to use its influence to address the underlying issue of concern with companies, regulators and other standard setters such as stock exchanges or industry groups to the extent that ongoing engagement on the issue is aligned with the best interest of investors.

The reasons to exclude certain securities are likely to be a combination of underlying factors that make continuing to include exposure to the securities in the investment universe 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 responsible investment approaches such as engagement, ability to influence, and expected impact on portfolio returns.

The following exclusions are currently applied across all Mercer NZ's Funds:

- **Controversial weapons:** Companies that manufacture whole weapons systems, or delivery platforms, or components that were developed or are significantly modified for exclusive use in cluster munitions, anti-personnel landmines, chemical, biological or nuclear weapons, as well as companies involved in the production and retailing of automatic and semi-automatic civilian firearms and ammunition.
- **Tobacco companies:** Companies involved in the manufacture and/or production of tobacco products (regardless of revenue), including subsidiaries and joint ventures, as well as any other company that derives 50% or more of revenue from other tobacco related business activities such as packaging, distribution and retail of tobacco products.

Mercer NZ also manages a number of Sustainable or Socially Responsible Investment Funds and investment options, to which additional exclusions apply. These additional exclusions are designed to align with the expectations of investors in those Funds. Examples include excluding companies involved in adult entertainment, alcohol, fossil fuels and gambling.

## Implementation

Mercer relies on a third party provider of ESG Research in determining the individual companies to be excluded based on the decisions made under the above criteria.

Mercer will apply this framework to its direct investments, through its Investment Management Agreements with its external investment managers. Where Mercer is invested in pooled funds, it may not be able to dictate these exclusions. In these instances, Mercer will make best endeavours to implement the exclusions and will notify the investment manager of any approved exclusions and the specific definitions for those exclusions.

In selecting investment managers and CIVs, Mercer will consider the manager's ability to implement any approved exclusions. Compliance with the exclusions will be encouraged and monitored but cannot be guaranteed. From time to time, a manager of a CIV may exclude the product, activity or industry using a definition that is different to Mercer's definition. This is acceptable provided there is a broad consistency with the Mercer definition.

# 07/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 the policy.
Mercer (N.Z) Limited	Monitor against policy.
Chief Investment Officer (CIO)	Accountable for adherence to policy and oversight of Investment Management Team.
Investment Management Team	Implement policy.

This policy will be reviewed at least annually, or more frequently if:

- Meaningful change is made to the sustainable investment process; or
- Relevant legislation or regulation requirements 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 by an Authorised Signatory of Mercer NZ or by the Chief Executive Officer. All other amendments to this document must be approved under the Central Policy of Delegation process.

## Application to different investment structures

Mercer NZ's investment arrangements are a combination of separate mandates with investment managers, investments in pooled vehicles, and direct investments. Appropriate approaches are expected across these different investment arrangements.

Mercer NZ's Investment Management Agreements for mandates will reference Mercer NZ's Sustainable Investment Policy (formerly Responsible Investment Policy). Where Mercer NZ invests in pooled funds, alignment with this policy ultimately relies on the investment managers incorporating ESG into their investment processes.

Mercer NZ may, where appropriate, seek to monitor significant ESG issues that arise within a pooled investment.

## Application to different asset classes

Mercer believes that ESG factors can be applied across asset classes including, listed equities (active and passive), sovereign and corporate bonds, property, infrastructure and unlisted assets. However, we acknowledge that the degree of relevance or materiality varies as does the current state of integration by strategies between asset classes. Climate change risks are applicable, to varying degrees, across all asset classes with a focus on listed equities, infrastructure, real estate and fixed income. These considerations inform our expectations for investment managers in Mercer's selection and monitoring processes.

## Appendix

### Revision History

Version	Reason for amendment	Date
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

## Mercer's ESG Ratings

Mercer's ESG Ratings represent the Mercer Manager Research team's assessment of the degree to which environmental, social and corporate governance (ESG) factors are incorporated within a strategy's investment process. 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 (GIMD).

### Mercer's Four Factor Framework



#### Idea generation

- Efforts to identify and integrate ESG factors into active fund positions as a source of added value.
- Identification of material ESG factors - skill of team members, data sourcing.



#### Portfolio construction

- Efforts to integrate ESG driven views into the portfolio's construction.



#### Implementation

- Engagement and proxy voting activities (where applicable).
- Investment horizon aligns with ability to effectively implement ESG views.



#### Business management

- Firm-level support for ESG integration, engagement activities and transparency.

### Mercers Four ESG Ratings

#### ESG1

ESG integrated into investment philosophy; **active ownership a core part of process.**

#### ESG2

**Consistent and repeatable** process to ESG integration (focus on risk management); **strong evidence of active ownership.**

#### ESG3

Ad-hoc process to ESG integration and active ownership, but **indications of progress.**

#### ESG4

**Little or no integration** of ESG factors or active ownership into core processes and **no indication of future change.**

## Important notices

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To invest in the MITNZ, you will need to complete an application form included in, or accompanying, a current MITNZ Information Memorandum which is issued by, and available from Mercer. The MITNZ are only open to investment by a person who is a wholesale investor for the purposes of the Financial Markets Conduct Act 2013.

The information contained in this document is of a general nature only and does not take into account the personal objectives, financial situation or needs of individual investors. It is important that you consider these matters, read the MITNZ Information Memorandum and obtain advice from an appropriately qualified financial adviser before making any investment decision. The investment returns shown for the MITNZ throughout this document do not take into account the unique characteristics that apply to each investor (such as timing of cash flow). As a result, the actual investment returns applying to a particular investor may differ from the investment returns shown in this document. You should also remember that past performance should not be relied upon as an indicator of future performance.

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