Mercer

2022

UK Stewardship Code Report

Mercer Limited

July 2023

welcome to brighter

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Message from the CEO

We are pleased to share details of how Mercer Limited (Mercer), in its capacity as an investment consultant providing advice, is undertaking its stewardship activities on behalf of our underlying asset owner clients. Our third annual report captures Mercer's stewardship approach, activities and outcomes over the calendar year 2022 and is designed to cover the six principles comprising the 2020 UK Stewardship Code for service providers.

Last year saw significant market volatility, which created challenges for investors. This also created an opportunity for investors to review their investment strategies and reflect on their implementation methods and operational risks, including how best to embed sustainable investment into their investment decisions. Stewardship remained in the spotlight, helped by a growing number of pension schemes enhancing the voting and engagement reporting in their annual Implementation Statements, supported by advice from Mercer.

The expansion of the Task Force on Climate-related Financial Disclosures (TCFD) reporting to a wider cohort of pension schemes under the Department of Work and Pensions legislation was also a focal point for the disclosure of stewardship activities as part of asset owners' climate risk management processes.

As a result, climate change continued to dominate many of our asset owners' stewardship agendas, coupled with growing interest in understanding how nature and biodiversity have a financially material impact on the economy and investments. At the same time, our Sustainable Investment Report 2022[1] highlighted that our asset owner clients are increasingly turning their attention to the S in ESG ('Environmental, Social and Governance'), including how companies treat their employees and wider stakeholders, and their approach to inclusion and diversity.

Stewardship will continue to play a crucial role for asset owners, at both the portfolio company and market level, in ultimately helping our clients meet their investment and sustainability goals. Four highlights of Mercer's advice in this area from 2022 stand out:

- Enhancing the Implementation Statements for our occupational pension trustee clients by improving the oversight of voting and engagement activities undertaken by asset managers across their investment portfolios.
- The Mercer Responsible Investment Total Evaluation (RITE) framework, launched in 2021, has continued to help asset owners progress towards achieving their stewardship ambitions by identifying where their approach sits relative to peers and providing clear plans for improvement.
- The stewardship enhancements to our manager research framework allows us to play our role in improving the overall level of active ownership across the market and across asset classes.
- An increasing number of asset owners that we advise have set net zero targets using our Analytics for Climate Transition (ACT) tool, which is underpinned by effective stewardship. We are excited to see the role stewardship is playing in encouraging sectors and companies to transition in line with a low carbon pathway.

Going forward, Mercer remains committed to promoting best practice approaches to stewardship amongst investment managers as well as supporting our asset owner clients to be effective stewards on behalf of their members and stakeholders. Transparently reporting our activities and outcomes to clients and the wider market, as well as working collaboratively with our clients and other investors, will continue to be key to ongoing success.

This report was reviewed by the UK Head of Sustainable Investment and UK Head of Investments and it was formally approved by the Mercer Limited Board in July 2023.

Benoit Hudon

Mercer UK President and CEO

1 https://www.mercer.com/en-gb/insights/investments/portfolio-strategies/uk-investment-insights/

Principle 1

Our purpose, strategy and culture

Signatories’ purpose, strategy and culture enable them to promote effective stewardship.

Highlights, Outcomes and Focus for Next 12 months

Our asset owner clients continued to make important advances with regards to stewardship over 2022. We believe that the advice, resources and training provided by Mercer have continued to help our clients not only meet regulatory requirements, but also to enable them to achieve leading practice. A number of elements present over the last few years have played a pivotal role in this, including pension scheme regulations, increasing adoption of net zero targets, our Responsible Investment Total Evaluation[2] (RITE) framework and the roll-out of enhancements to our research and manager review processes.

Regulatory requirements focused on Defined Benefit (DB) and Defined Contribution (DC) pension scheme TCFD reporting and Implementation Statements are driving asset owners to move from publishing policy statements to evidencing implementation. We encourage our clients to focus on the benefits these developments can bring to their investment outcomes rather than focussing solely on the reporting. Our investment consultants are empowered to help asset owners place a greater emphasis and priority on effective stewardship and ensuring that it forms a larger part of strategy decisions, risk identification, opportunity generation, manager selection and ongoing monitoring.

The Mercer RITE framework, launched in 2021, has continued to help asset owners progress towards achieving their stewardship ambitions by identifying where their approach sits relative to peers and providing clear plans for improvement. The stewardship enhancements to our manager research framework allows us to play our role in improving the overall level of active ownership across the market and across asset classes.

2 https://www.mercer.com/en-gb/solutions/investments/sustainable-investment/responsible-investing-total-evaluation/

Much of the momentum has been driven by an increasing number of asset owners that we advise setting net zero targets, underpinned by effective stewardship, using our Analytics for Climate Transition (ACT). We are excited to see the role stewardship is playing in encouraging sectors and companies to transition in line with a low carbon pathway.

Over the next 12 months our stewardship priorities are to:

- Continue to assist our clients in making their voting and engagement reporting, including Implementation Statements for UK pension schemes, as focused on activities and outcomes as possible.
- Supporting asset owners to enhance their UK Stewardship Code reporting or put in place plans to become signatories.
- Use the latest findings from our RITE framework to help clients assess how their approach to ESG and stewardship compares to peers and to put in place plans to enhance their approach over time.
- Continue to use and evolve our Analytics for Climate Transition (ACT) framework and carbon footprinting as a basis for empowering asset owner clients to engage with investment managers and underlying companies that will play a critical role in the low carbon transition.

More information is provided on each of these aspects later in the report.

An Overview of Mercer, Our Purpose and Strategy

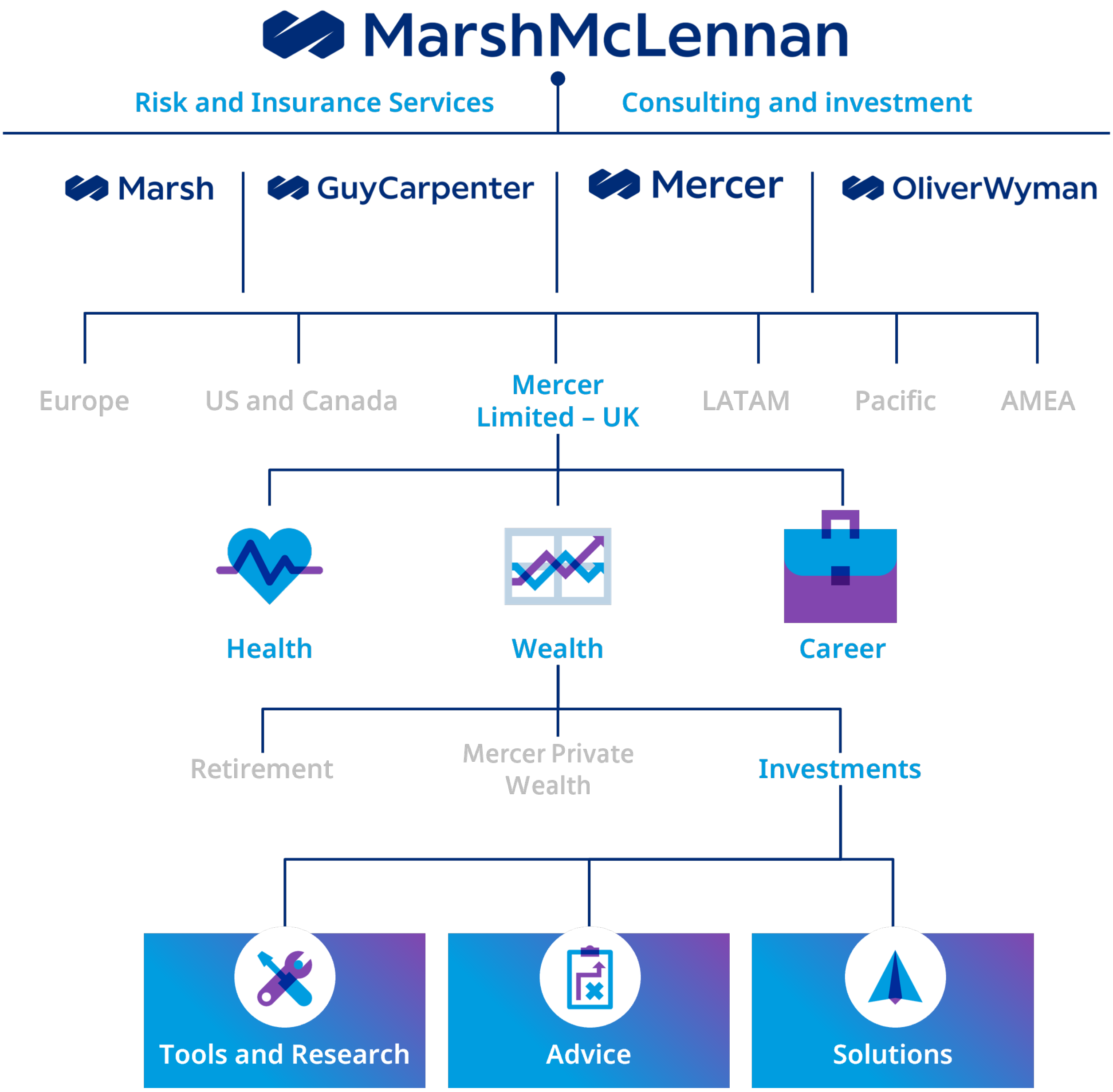
Mercer is a leading provider of investment advice, offering customised guidance on investment strategy, manager selection, implementation, risk management, investment monitoring and sustainable investment to a broad range of institutional asset owners, including but not limited to pension funds, insurance companies, endowments and foundations.

Our purpose is to support asset owners in setting, implementing and monitoring their investment strategies to meet their goals and fiduciary responsibilities. Stewardship plays a key role in this regard.

Our Culture and Firm Values

Mercer as a subsidiary of Marsh & McLennan Companies Inc. (“Marsh McLennan” or the “Group”), shares the Group’s Code of Conduct and ESG ambitions. The diagram below illustrates how our Group is structured, and informs our approach to sustainability:

Figure 1. Governance structure overview



The Group has formally integrated ESG factors into decision-making processes since 2008 and believes that transparent and consistent disclosure enables better-informed business and investment decisions. We share how the Group is making a difference across the ESG pillars in our latest 2022 ESG Report. Our Group's ESG philosophy is summarised below:

1 Our commitment to ESG starts at home

2 Our people are our greatest strength

3 Our future requires climate resilience

4 Our company plays an important role

5 Change is up to all of us

To date, our approach to sustainability has been developed on a Group basis; in respect of (a) Marsh McLennan Group as a whole (as set out in figure 1), and (b) our investment services business across Mercer and Mercer Investment Solutions Europe ("Mercer ISE")[3].

We strive to do the right thing for our colleagues, clients and shareholders, but it is vital that we consider future generations too. This approach is inextricably linked to our Mercer investment philosophy, which aims to produce long-term performance for our clients while helping them manage an ever-expanding risk landscape.

The Greater Good – Code of Conduct

The Greater Good is our Code of conduct and the cornerstone of our culture of integrity. It underpins our values, ethical commitments and standards of business integrity and professionalism. It supports colleagues in making decisions in situations where it may not be clear — or easy. The Greater Good covers a range of topics including anti-corruption, data privacy, conflicts of interest, trade sanctions, money laundering prevention and social responsibility. As a business, we renewed our commitment to The Greater Good in 2020 with a culture centred on Leadership, Commitment, Trust and Teamwork.

Our Strategy

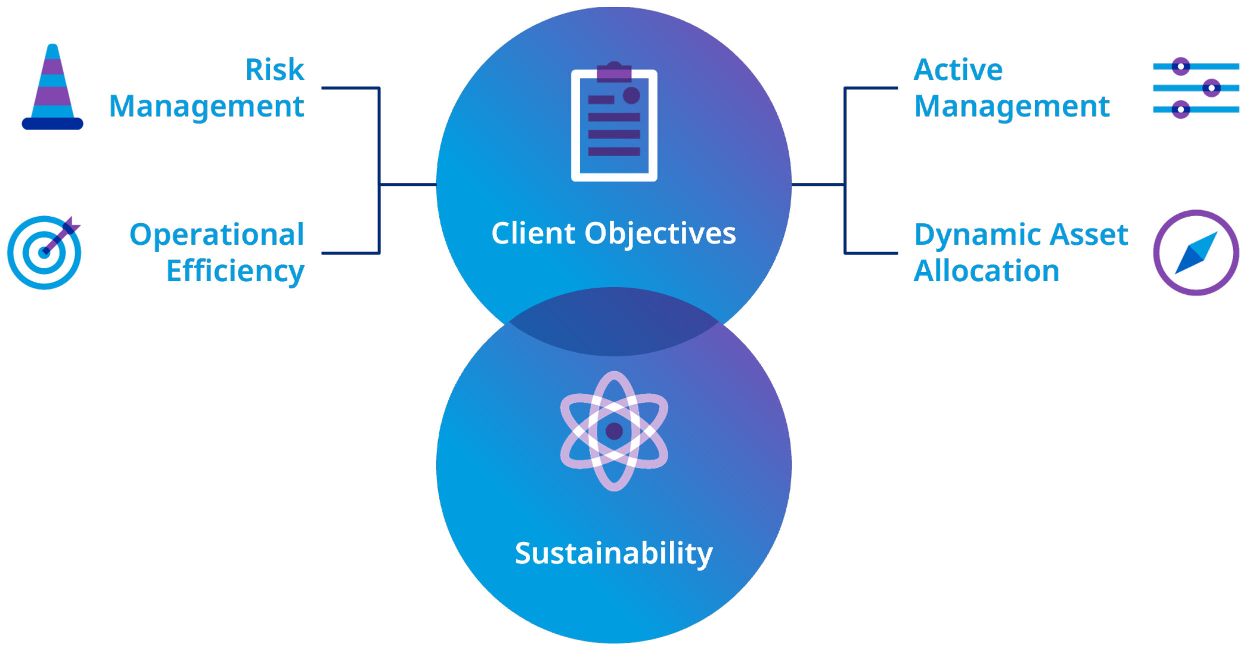
Mercer has been advising its asset owner clients on a wide range of sustainable investment issues since the formation of its specialist global Sustainable Investment ('SI') team in 2004, focussing on risks and opportunities across environmental, social and governance (ESG) issues. Our advice is aligned with UK regulatory expectations for asset owners and typically falls into three key areas: integration of ESG factors in investment decisions; stewardship; and climate change. Nature, including biodiversity, is expected to become another key area, particularly following the finalisation of the Taskforce on Nature-related Financial Disclosures (TNFD) expected in late 2023. Investment consultants are expected to integrate these elements in their advice (where applicable).

3 Comprised of two Irish entities, Mercer Global Investment Management Limited ("MGIM") and Mercer Global Investment Europe Limited ("MGIE")

Mercer's Investment Beliefs

Our culture has enabled us to set a clear top-down view on our approach to stewardship. Mercer's global sustainable investment beliefs coupled with clearly defined processes ensure sustainability and stewardship considerations are embedded across our investment solutions and services.

Figure 2. Mercer's Investment Beliefs



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

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

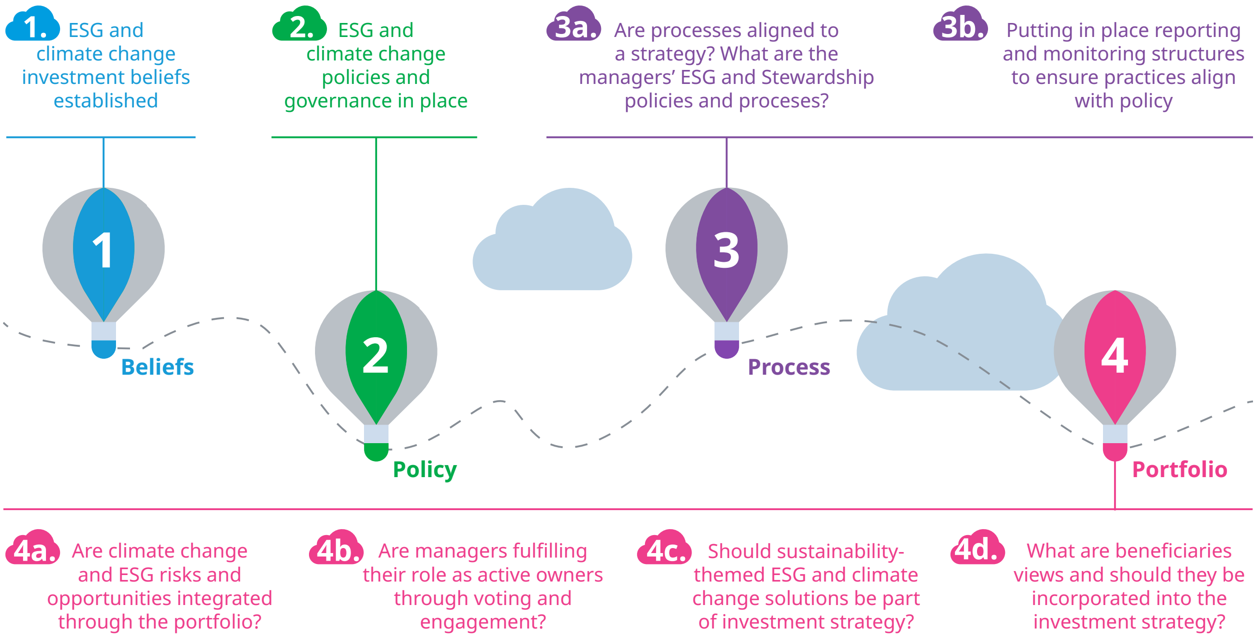
Consequently, Mercer believes that an approach that considers these sustainability risks and opportunities is in the best interests of our clients.

Overview of Our Stewardship Services

Our clients need to manage a broad range of sustainability issues and incorporate them into their portfolios to achieve their investment objectives, and communicate their activities to stakeholders. Our forward-looking research and proprietary tools and solutions help asset owners balance risk, return, regulations, and reputational consideration while measuring sustainability outcomes.

Mercer provides stewardship services across all four areas of our Sustainable Investment (SI) Pathway, shown below, which sets out the key elements of our approach to SI advice.

Figure 3. Mercer's Sustainable Investment Pathway



Activities and Outcomes

The table below captures the main ways our purpose, strategy, culture and beliefs have come together and enabled us to provide leading stewardship advice and services to our clients over 2022, and the outcomes we achieved.

Area & Approach	Activities and outcomes
Statement of Investment Principles (SIP) and Implementation Statement support	We successfully assisted a growing number of relevant Defined Benefit (DB) pension scheme and Defined Contribution (DC) pension scheme clients: • To improve and evolve their engagement policy approach captured in their SIPs. • In the production of Implementation Statements detailing voting and engagement activity which had taken place in their asset portfolios. Through our support and advice to UK pension trustees in preparing their annual Implementation Statements, we have helped to improve their oversight of the voting and engagement activities that are undertaken on their behalf by investment managers. We also updated our guidance on supporting clients in producing Implementation Statements to reflect statutory and non-statutory developments. In particular, the updates include guidance on how to define a "significant vote" and identification of key engagement priorities, linked to the asset owner sustainable investment beliefs workshops we provide to our clients.
ESG and stewardship benchmarking	In 2021, Mercer introduced the award-winning Responsible Investment Total Evaluation (RITE) tool[4] that scores a pension scheme according to how well sustainable investment is integrated into each aspect of Mercer's Sustainable Investment Pathway. RITE has been a powerful tool in helping asset owners evaluate their progress and how to improve on sustainability, including stewardship. The number of schemes covered by RITE has increased to more than 1,000 from 650+ over the year, representing more than $400 billion of assets and over 5 million UK pension scheme members. Over 2022, schemes have made clear progress with the overall average of schemes moving from a C+ in 2021 to B in 2022. Table 1 provides examples of key improvements schemes are making and the main interventions taken to improve progress on sustainable investment.

4 Professional Pensions' DB Investment Innovation of the Year 2022 and Pension and Investment Provider Awards' ESG Data Provider of the Year 2022.

Area & Approach	Activities and outcomes
ESG integration and stewardship monitoring	Clients continue to use our proprietary investment manager ESG ratings widely to understand and challenge investment managers to improve the integration of ESG considerations into their investment decision-making processes, which includes their stewardship practices at the firm and strategy level. For many of our clients, these assessments are now formal, annual exercises with improvements tracked and monitored. The investment manager ESG ratings are also used as an assessment criteria in manager selection exercises. We continue to support our clients in engaging with their investment managers by requesting better disclosures on voting and engagement activity, ESG-related metrics, and helping clients in understanding their portfolios and progress (or lack of) made by their managers year-over-year. This is done through formal channels such as manager research meetings, manager surveys, and manager reports.
Climate change analysis and net zero target setting	We worked with a growing number of leading asset owners on setting net zero targets and implementation plans using our ACT framework. A key focus of the ACT framework is to use stewardship activities to stay invested, rather than prioritising disinvestment. We support our clients to work with investment managers, to engage with companies that could be well-placed for the low carbon transition but do not yet have comprehensive transition plans in place as part of their business models. We also assisted a growing number of large DB and DC asset owners prepare to report in line with DWP's Climate Change Governance and Reporting regulations, with climate change scenario analysis and carbon footprinting results providing key avenues for further engagement with investment managers.

Examples and Outcomes from the RITE Tool in its Second Year

Over the year, the proportion of UK pension schemes scoring C or C+ under the RITE tool has fallen to 58% from 68% and schemes ranked A or better have more than doubled from 6% to 13%[5]. In particular:

- There was an increase in the number of pension schemes allocating assets to sustainable fund options, reflecting trustee beliefs that sustainable investing can enhance performance.
- More trustee boards are starting to report on sustainability metrics, most notably climate-related metrics. This included pension schemes which have statutory climate-related reporting obligations as well as pension schemes looking to enhance their climate-related governance processes.
- Sustainable investment continues to be a key consideration in the selection, retention and monitoring of investment managers.
- More pension schemes are actively challenging investment managers' voting decisions but few trustee boards are directly involved in collaborative engagements.

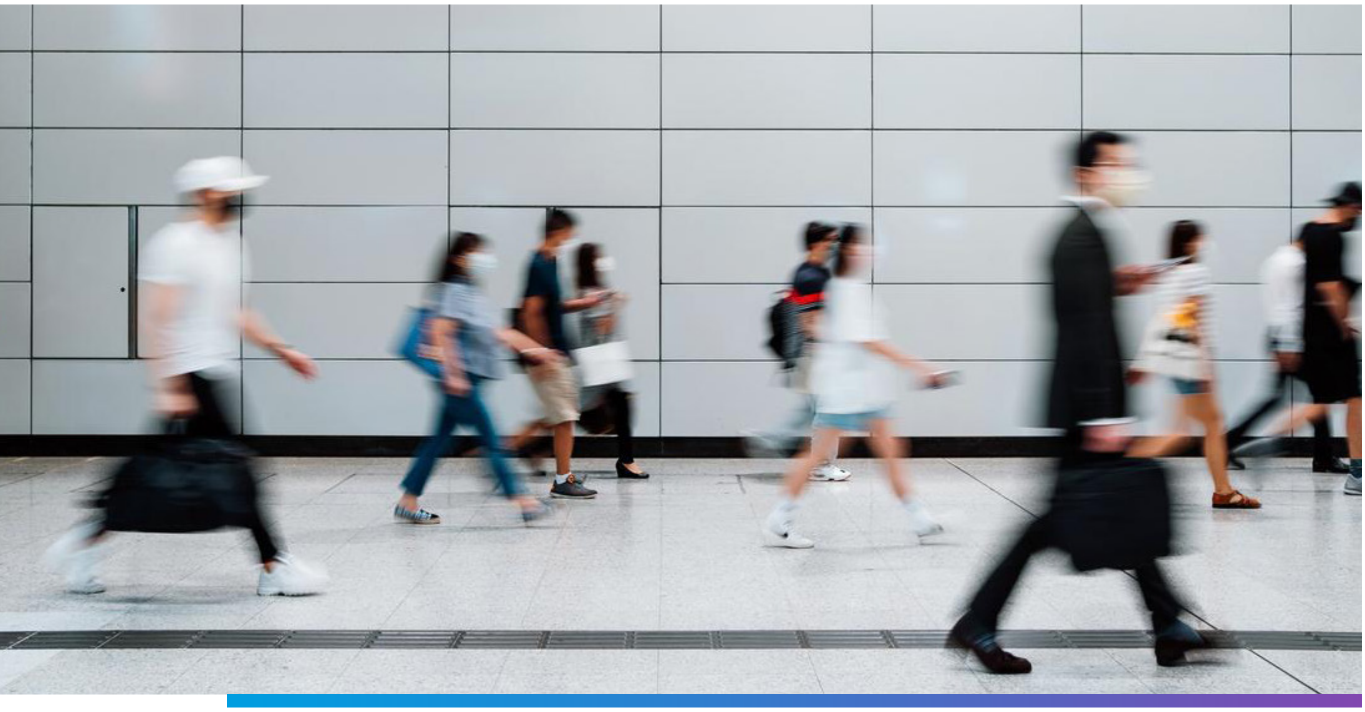
In 2022, we saw schemes take the following actions to help improve their progress on their SI Pathway, relative to the previous year:

- Beliefs: 50% (up from 32%) of schemes have undertaken a sustainable investment beliefs survey or workshop in the past three years.
- Policy: 40% (up from 20%) of schemes seek to align with or integrate their sponsoring employer's sustainability policies.
- Process: 85% (up from 80%) of schemes have carried out an investment manager ESG ratings assessment to benchmark the ratings of the funds held in their portfolios against the wider universe of funds. The ESG ratings cover ESG integration and stewardship capabilities.
- Portfolio: 30% (up from 22%) of schemes include sustainable/low carbon assets in their portfolio.

5 Asset owners are scored on a scale of A++ to C.

Principle 2

Governance, workforce, resources and incentives



Signatories' governance, resources and incentives support stewardship.

Highlights, Outcomes and Focus for Next 12 Months

Our governance structure continued to successfully leverage scale and help clients meet regulatory stewardship requirements, while providing access to specialist knowledge for clients looking to be stewardship leaders.

Year-on-year, the level of sustainable investment and stewardship knowledge across Mercer continues to grow. Over 2022, knowing the number of clients producing Implementation Statements would grow further, we continued to use our delivery structure to disseminate evolving best practice effectively and support growing client demand. In line with this, we continued business-wide integration efforts and ESG training policies. Given the pace of change, governance structures and resourcing are priorities to ensure our delivery continues to be efficient and effective.

Over 2022, our clients benefited from the extensive manager research we undertake on ESG and active ownership. The latest stewardship improvements to the manager research and monitoring processes started in 2021 and continued into 2022. An example is the integration of stewardship as one of the four factors that inputs into our investable ratings for passive equity managers, which feeds into investment manager monitoring and selection exercises.

Following a formal review, we retained our third party ESG data providers, while enhancing our offering through additional capabilities, including new data-sets on nature to assist with Taskforce on Nature-related Financial Disclosures (TNFD) reporting.

We expect these enhancements to support clients with their Implementation Statements and wider stewardship needs by providing insights and analysis to support clients in their engagements with investment managers.

Supporting Effective Stewardship Through our Governance Structures and Processes

For stewardship to be effective, it is crucial that it is integral to investment decision-making. As such, over the last decade, global Mercer Investments has evolved its governance approach to embed stewardship at the heart of our investment research, which in turn informs our advice to asset owners. The current governance structure has been put in place to ensure that investment consultants are equipped with the knowledge and resources to meet their clients' needs, with the ability to draw on specialist knowledge from the Sustainable Investment (SI) and the Manager Research teams. Over 2022, the governance structure has remained broadly the same as 2021, with new appointments and changes to the Sustainable Investment leadership team.

Governance Structure and Resources

Mercer's clients are typically long-term institutional investors and 'universal owners'[6]. As such, we regard investment governance and active ownership to be of particular importance in serving the interests of our clients.

Mercer has put in place a governance structure that enables the effective integration of stewardship activities across our research activities, investment advice and solutions[7] , both in the UK and across the globe. Our approach to stewardship combines Mercer Investment's global investment research and sustainable investment expertise with local investment consulting expertise to deliver decision-useful stewardship advice to our asset owner clients. This approach enables us to adopt a globally consistent approach to stewardship integration across our Investments business while enabling delivery by local experts.

6 Asset owners who own globally diversified portfolios across regions and sectors.
7 Mercer Investment Solutions Europe (ISE) produces its own UK Stewardship Code Report that can be found online.

Management Structure

In the UK, Mercer has a dedicated management structure that supports the integration of ESG and stewardship considerations into the advice and solutions that it provides to asset owners. This includes creating roles and responsibilities that are specifically focused on sustainability, establishing cross-functional working groups and engaging with colleagues, clients and stakeholders to ensure that sustainability considerations are integrated across the firm.

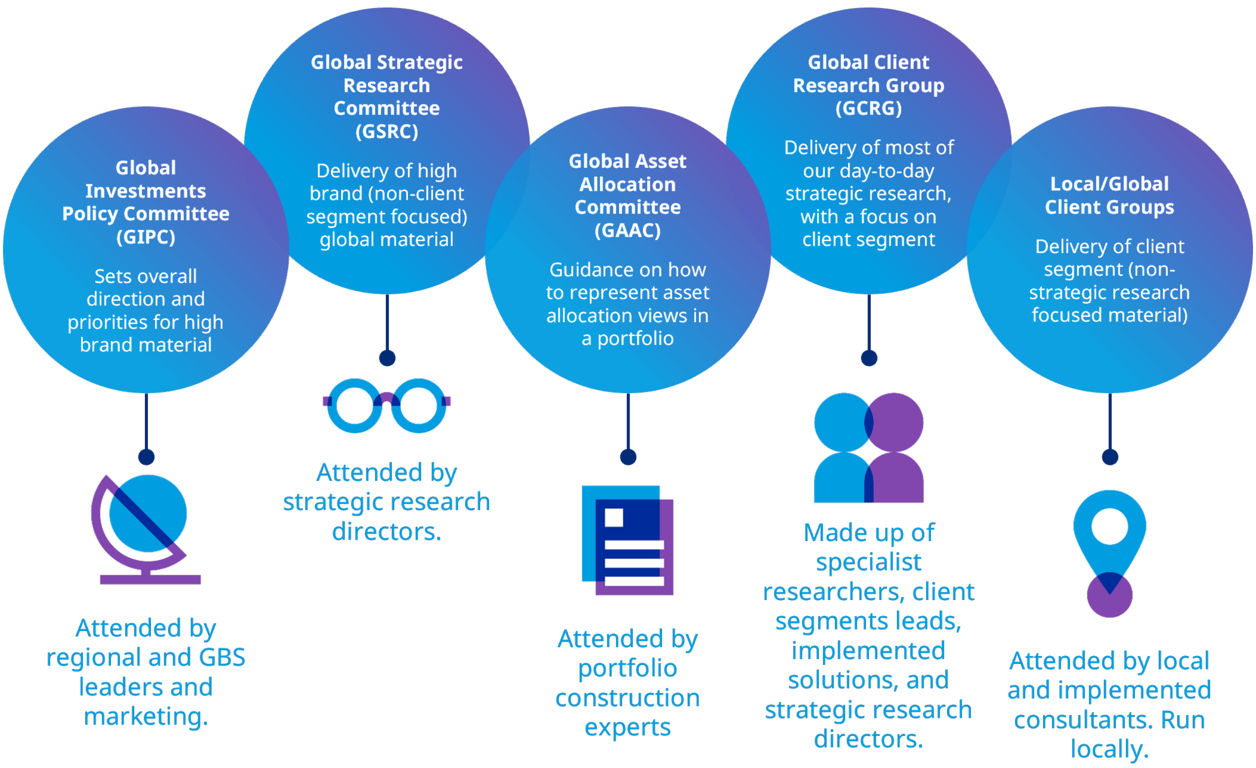
Role	Areas of responsibility
UK Head of Investments	The UK Head of Investments is responsible for the stewardship-related services provided by Mercer to UK asset owners through the provision of advice or discretionary management services. This investment leadership, actively supported by the UK Sustainability Integration Lead, means stewardship-related advice is increasingly being incorporated into the investment advice across relevant areas. In addition, the UK Head of Investments ensures Mercer supports asset owners to meet their regulatory disclosure requirements.
UK Sustainability Integration Lead	The Sustainability Integration Lead is responsible for disseminating best practice learnings in sustainability to UK investment consultants, ensuring they are equipped to integrate ESG factors, including climate change and stewardship, in their investment advice and help clients meet regulatory requirements, such as Implementation Statements. The Sustainability Integration Lead works closely with the specialist Sustainable Investment team and representatives from UK Wealth business leaders to ensure the advice provided to our clients is current, relevant and helps facilitate more effective decision making.
UK Head of Sustainable Investment	With respect to providing asset owner advice on Sustainable Investment, including stewardship, the UK Head of Investments is supported by the UK Head of Sustainable Investment. The UK Head of Sustainable Investment is part of the Global Sustainable Investment team and co- ordinates with the UK Sustainability Integration Lead to provide resources and support to UK investment consultants on areas such as ESG integration, nature, impact investing, stewardship and climate change. The UK Head of Sustainable Investment meets fortnightly with the Sustainability Integration Lead.
Global Head of Sustainable Investment Manager Research	The Global Head of Sustainable Investment Manager Research supports the UK Head of Investments and is responsible for integrating stewardship-related considerations into Mercer Investment's manager research and ESG ratings processes. This research allows our consultants to help clients align their manager selection preferences with their sustainable investment beliefs, including stewardship, as well as monitoring incumbent managers against the investment manager universe.

Role	Areas of responsibility
UK Consulting Resources – UK SI Champions	The Sustainable Investment Champions in the UK provide support to investment consulting colleagues. The Sustainable Investment Champions are a select group of analysts and consultants, equipped and empowered to answer colleague questions and undertake analysis and present on sustainable investment topics, including stewardship, to clients and at external events.

Wider Global Resources

The UK Investments business has the leadership and support of the global Mercer Investments business. This reinforces the growing importance of stewardship-related considerations, and monitoring for developments within decision making, across asset owners. As stewardship forms part of our global investment beliefs, it is a topic and theme, which forms a critical part of our investment research agenda. It is therefore embedded into our manager research, strategic research and intellectual capital.

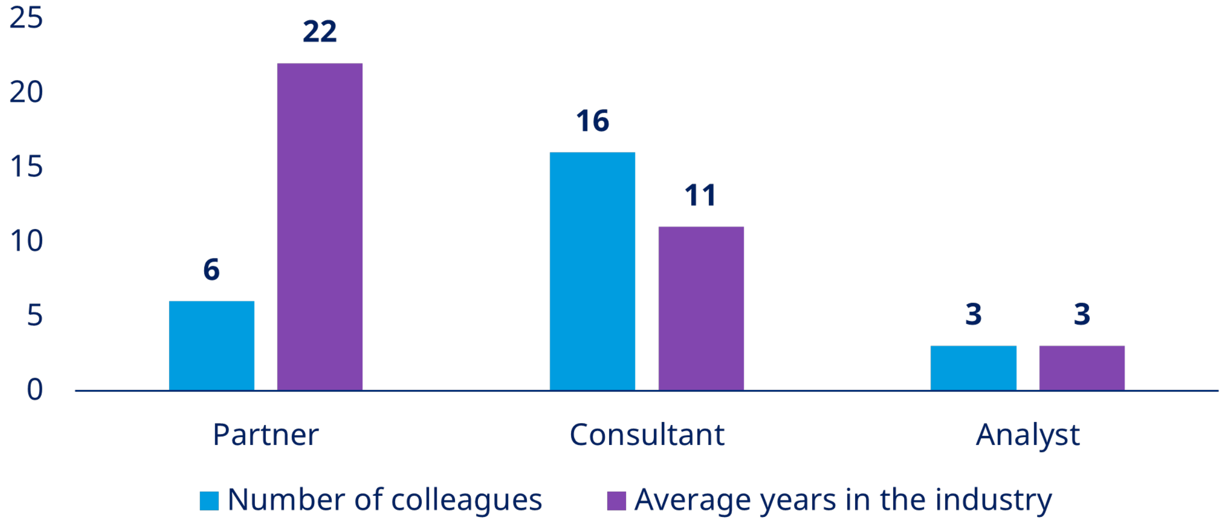
Figure 4. Global resources across Mercer investments



Mercer Global Sustainable Investment Team

Mercer's specialist global SI team sits at the heart of our approach to stewardship. The SI team was formed in 2004 and has extensive experience advising leading global institutions on ESG issues, stewardship, sustainability and climate change. The team currently has 25 dedicated and experienced professionals across the globe and a network of around 90 Sustainable Investment Champions across the globe.

Figure 5. Mercer's Global Sustainable Investment Team



The SI team is responsible for determining the approach to stewardship, understanding and integrating global stewardship expectations into our research, developing and maintaining our stewardship assessment criteria, reviewing investment manager practice against global stewardship codes, developing client reporting templates and advising asset owners on their approach to stewardship. The SI team works closely with strategic research, manager research and investment consulting colleagues to deliver stewardship advice.

The SI team has extensive experience advising on stewardship with several team members providing advice on stewardship since the launch of the UK Stewardship Code back in 2010, as well as subsequent regional codes, such as the Australian code and the Japanese code. The team has advised many asset owners on their stewardship approach and disclosures. The diverse nature of the team, by gender, background, experience and thought enables us to provide well-rounded advice. The team's varied experience includes a mix of those with investment and broad ESG research focused backgrounds to those with specialisms in corporate governance, engagement, policy development, social impact measurement and climate change.

Aligned Incentives

All SI team members, the UK Sustainability Integration Lead and those with specific responsibility for ESG, stewardship and climate change research and advice have annual performance goals aligned with the success of the integration of these issues. The goals influence their year-end compensation. These goals cover delivering for our clients, industry engagement, and maintaining leading research and tools. More specifically, year-end assessments are impacted by meeting stewardship-related goals. Members of the SI team have goals in relation to working with the UK Sustainability Integration Lead on business-wide integration efforts, successfully rolling out sustainability monitoring and assessments, advising/assisting clients reporting against the UK Stewardship Code and assisting Mercer with its own UK Stewardship Code reporting.

Training

As part of embedding sustainability throughout our business, the UK Sustainability Integration Lead and SI team along with SI Champions conduct ongoing training sessions for our colleagues focused on various ESG themes. There is regular information sharing between the UK Sustainability Integration Lead, SI team and investment analysts and consultants, with topics and training selected based on the requirements of the local business.

Over 2022, sessions were focused on biodiversity and nature, climate transition and opportunities, impact investing, COP27 and COP15, and active stewardship and implementation statements. Training sessions were also delivered to consultants on the RITE tool and Task Force on Climate-related Financial Disclosures (TCFD) reporting (see example below). As per client demands, we also conducted training presentations on stewardship to trustees as part of beliefs workshops and on a standalone basis.

Mercer continues to offer and encourage consultants within and outside of SI functions to get formal training through the CFA Certificate in ESG Investing and the CFA Certificate in Climate Investing to enhance knowledge around ESG and climate, and the importance of stewardship as a way to achieve asset owners' sustainable investment objectives and ambitions.

Example: Ramping up for TCFD disclosures for pension schemes

Mandatory disclosures in line with the TCFD framework came into effect 1 October 2021 for the largest pension schemes (£5B+ AUM) that fell under the requirements of the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021. The next set of schemes (£1B+ AUM) came into scope of the Regulations with effect from 1 October 2022.

In early 2022, we provided additional training on TCFD reporting and climate-related analysis in order for consultants to have effective conversations with pension scheme trustees about their approach to climate change governance. Consultants who provided support to the largest pension schemes during 2021 were instrumental in the training and coaching of colleagues, focusing on the importance of good governance and sharing client experiences.

Our training was structured around the four pillars of the TCFD Framework: Governance, Strategy, Risk Management, and Metrics and Targets. It was relevant to consultants advising UK pension trustees of schemes of any size, including schemes that did not fall under the regulations. Our key objectives were to educate colleagues on:

- How trustees should review their exposure to climate change risk and determine how their investments contribute to climate change
- How to support trustees in developing a strategy and defining targets for managing the scheme's exposure to climate-related risk
- Understanding the outcomes from climate scenario modeling and using them to inform strategy;
- How to support trustees in documenting their approach to climate risks and opportunities through annual disclosures
- Aligning trustees' engagement priorities with their climate-related beliefs and climate risk exposures within their asset portfolio

Inclusion & Diversity

Building an inclusive culture and diverse workforce is a business imperative for Marsh McLennan, with a global cross-enterprise strategy which is then refined at business and country level. Our business and leadership teams are organised around clear, measurable goals to progress the diversity and inclusive culture of our workforce. Mercer Limited is committed to:

Maintaining an employee base with 50/50 gender representation, and increasing female representation at senior levels to **50%** by 2027.

Ensuring that our employee base, represents UK society by increasing our ethnic diversity from **10%** to **18%** by 2027, including **4%** Black colleagues.

We publish the **gender diversity** of our workforce annually, and monitor key metrics throughout the year.

We continue to place significant emphasis on our strategies to continue our progress towards a diverse workforce. This includes diverse slates in hiring for all roles and particularly senior roles, programmes to accelerate high potential mid-career diverse employees, scrutiny of promotion and reward decisions to avoid bias, and agility in work for all. Each year, we implement specific programmes to support our Inclusion & Diversity (I&D) agenda. In 2022, amongst other things we have:

Created a focus on future talent: focussed activity to retain or improve diverse representation at senior management level, such as Succession Planning for "power seats", our Women in Growth programme and senior management sponsorship programmes.

Recruited a diverse workforce: Implemented an I&D focussed recruitment strategy for senior management hires, and clear I&D requirements for all hires (including Talent & Acquisition and market mapping).

Embedded I&D into BAU: Development and implementation of I&D targets, real time diversity data dashboards and ongoing BAU quarterly reporting and action plans.

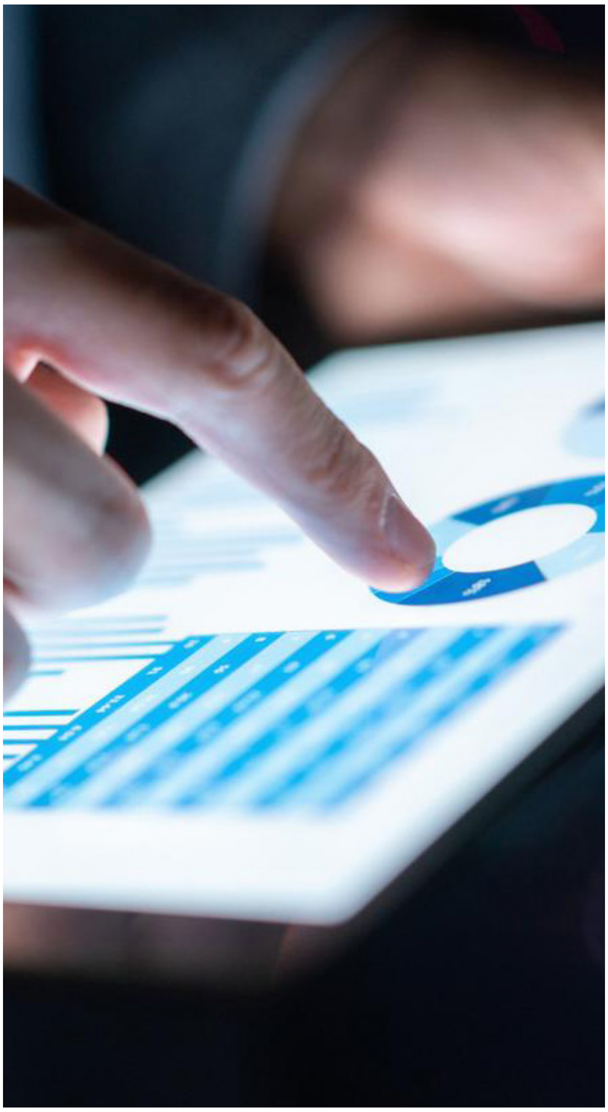
In addition to being recognised by leading publications, associations and studies for our achievements we are also EDGE certified, which is the certification standard for gender and intersectional equity.

Fees and Quality of Our Work

We seek to deliver value to our clients. Fees for stewardship-related work are typically quoted for in advance when it is on a project basis or included in annual fixed fees for quarterly or annual exercises. This provides certainty and transparency on the cost of the work we undertake for clients.[8]

Underpinning the quality and accuracy of our work, whether it be investment advice, manager research or monitoring reports, is our peer review process. This ensures that advice and reports provided to clients have been through multiple layers of review and challenge by colleagues with the appropriate qualifications, authorisations and knowledge to ensure that we are providing our best advice in a clear, balanced and concise manner.

We seek feedback for continuous improvement, including stewardship services through regular client satisfaction monitoring (see Principle 5 for more detail).



8 For our discretionary clients using Mercer ISE services, stewardship related work is incorporated into the annual management charge (AMC) fee.

Embedding Stewardship in Systems, Processes, Research, & Analysis

Mercer regards governance and good stewardship to be particularly important in servicing the best interests of our clients. As such, stewardship is a foundational pillar in our investment advice, embedded throughout the services and solutions in our Sustainable Investment Pathway (see Principle 1).

Consistent with this, stewardship and active ownership forms an explicit part of Mercer Investment's investment manager ESG ratings for investment strategies we assess and rate, as part of the Manager Research function. The manager research team assess the extent to which ESG and stewardship is incorporated into the investment process and investment decisions. Please see the figure below which summaries our ESG ratings for active strategies and our ESGp ratings for passive strategies. More information can be found here.

Figure 6. Mercer's ESG ratings for investment managers

	ESG 1	ESG 2	ESG 3	ESG 4
Active	Leading approach to integration, where ESG is **embedded in investment philosophy;** strong on stewardship which is a core part of process	**Consistent and repeatable** process to ESG integration (**focus on risk management**); well-developed evidence of stewardship.	**Well-developed G integration; less consistency in E&S;** stewardship process is ad hoc, but indications of progress.	**Little or no integration** of ESG factors or stewardship into core processes and no indication of future change.

	ESGp 1	ESGp 2	ESGp 3	ESGp 4
Passive	Leaders in voting and engagement **across ESG**; stewardship activities and ESG initiatives undertaken consistently at a **global level; clear link between engagement & voting actions**	**Strong approach** to voting and engagement across ESG topics, and initiatives at a regional level, with progress made at a global level; **working towards clearer links between voting and engagement**	Focus of voting and engagement tends to be on **governance topics only**, or more regionally focused with **less evidence of E&S** (in voting and engagement, as well as other internal ESG initiatives)	**Little or no initiatives** taken on developing a global voting and engagement capability, reactive engagements; and little progress made on other ESG initiatives

Please see Mercer's Guide to ESG Ratings https://www.mercer.com/our-thinking/mercer-esg-ratings.html

Over 2022, we went live with updated questions on climate and Inclusion & Diversity in MercerInsight, our global manager database, for investment managers to populate. These questions include details around climate-specific voting policies and initiatives along with strategy level questions around ESG integration, strategy specific engagement, voting activity, exclusions, climate change, and other impact-related questions. We continue to encourage managers to ensure they have completed the data request. The climate and Inclusion & Diversity sections have been coded in MercerInsight.

In 2021, Manager Research combined two of the existing passive factors (Portfolio Construction and Implementation & Risk Management) to form a single factor while introducing Stewardship as one of the four factors used to assess managers. This update was progressed in 2022 on a case-by-case basis when we reviewed passive strategies as part of the regular research update for an investment manager. The combination is now called 'Implementation and Risk Management', 'Stewardship' is a fourth factor. 'Cost and Fee' and 'Business Management' remain the same. For equities, an assessment was pre-existing in the form of ESGp ratings for passive managers. Therefore the transition to Stewardship as a fourth factor was clear. For fixed income, this this saw the introduction of the assessment of stewardship at the same time as integrating it into a fourth factor. The move to Stewardship as a fourth factor continues to be worked on into 2023.

On tools, we have formed an alliance with eVestment to host our digital investment analysis platform MercerInsight[9]. The new platform will capture more data from investment managers and have stronger tools to extract that data into charts and tables for better analysis, including ESG-related factors. This will then influence the discussions we have with investment managers and, in turn, inform the conversations the investment managers will have with the underlying companies they invest in.

Over 2023 we plan to leverage the eVestment[10] platform to better capture and assess investment managers across asset class on how they are undertaking stewardship and engagement in their investment strategies. The updates will collate stewardship information input by managers into eVestment and in some categories score managers on their stewardship capabilities in a systematic way based on this data. The data captured will be based on policy and governance structures, dedicated resourcing on stewardship, engagement process and outcomes, collaborative initiatives, and voting for equities. As deemed appropriate, we may also focus on collating further information on specific themes such as climate change, Inclusion & Diversity, human rights, and nature. This will allow for flexibility to include new data and themes as they emerge.

As a result of this evolution in our wider investment manager research approach and to avoid duplication of effort, we have currently paused on conducting separate assessments and monitoring reports using the Stewardship Assessment Framework referenced in Mercer's 2021 UK Stewardship Code report. We will continue to evolve and integrate the Stewardship Assessment Framework into our wider approach.

9 Mercer's platform for institutional investors and investment managers to gain access to insights and analytics on our investment research.

10 Owned by NASDAQ, eVestment is the leading institutional investment database and software company. eVestment brings transparency and efficiency to the global institutional market, equipping managers, asset owners and consultants to make data-driven decisions, deploy their resources more productively and ultimately realize better outcomes.

Example: MercerInsight - An Alliance with eVestment

Mercer Investment's vision is to create an ecosystem of trusted data, robust analytics and forward looking research that investment professionals can rely on as they pursue due diligence on candidate investment strategies to help achieve their target outcomes.

The alliance with eVestment will help global Mercer Investments provide streamlined, transparent analytical coverage across all asset classes. As a result of this migration, we reviewed our databases including ESG data we collect and analyse. We updated and added data fields on stewardship, Inclusion & Diversity, and ESG themes like climate.

Asset owner clients and our consultants can use the ESG data and analytics from the platform in various ways:

- **ESG integration:** asset owners can screen their current strategies to understand the level of integration in their strategies through Mercer Investment's investment manager ESG ratings and research reports.
- **Supporting manager selection:** integrate the ESG research as part of selection and monitoring criteria of investment managers and strategies. Also use Mercer Investment's investment manager ESG ratings as part of the assessment process in conjunction with manager responses.
- **Undertaking additional due diligence:** using the ESG data to further investigate specific areas and engage with assessment managers.
- **Allocation to sustainability themes:** platform allows users to search for investment solutions across a range of sustainability themes such as climate and biodiversity to understand the opportunities in the investment universe and identify implementation options.

The data from the tool also helps the manager research team to inform discussions with managers to help assess and rate investment strategies.

Third Party ESG Data Provider Review

We use third-party data to provide more granular assessment across a number of areas, assisting with identifying trends and supporting more effective manager engagements. As part of our commitment to continuous improvement, Mercer undertook a review in 2022 of the third party appointments for ESG data and services to assess gaps in services and areas for improvement to better service our clients analytical needs. The review assessed nine data providers on three key areas: broad ESG data, bespoke ESG data, and voting and engagement data.

Ultimately based on our assessments, we decided to continue with the incumbent data providers, with additional enhancements across all three areas. For stewardship services, we added controversy alerts and engagement research along with a new voting option for specific funds. For ESG data services, we added new nature and water datasets, more social metrics on human rights and modern slavery, and country risk. These new enhancements will help to support growing client data demands and improve our research capabilities to better advise our clients.

Principle 3

Conflicts of interest

Signatories identify and manage conflicts of interest and put the best interests of clients first.

Highlights, Outcomes and Focus for Next 12 months

Mercer recognises that the identification, avoidance or management and mitigation of conflicts of interest is an ongoing process. Mercer seeks to manage these conflicts primarily with policies and procedures that are designed to protect client interests as well as through disclosures.

Our approach to managing conflicts over 2022 continued to meet the objective to identify key conflicts and mitigate their impact to ensure client interests were put first. We continued to proactively manage conflicts in relation to our business providing investment consulting services and offering investment solutions through our fiduciary business.

Following revisions to the Mercer Global Conflicts of Interest Policy and guidance over 2022, the respective business lines within Mercer reviewed the information they already captured, and have been working to increase the granularity of information held to meet the revised policy guidelines.

Conflicts of Interest and Stewardship

Our Conflicts of Interest Policy and Conflicts of Interest Statement do not include specific reference to stewardship. In its capacity as a service provider that provides investment advice, Mercer does not invest in companies directly and as such this limits the potential for conflicts of interest in relation to stewardship. Instead, voting rights and responsibilities typically sit with the investment manager as laid out in investment management agreement/investment guidelines/mandates agreed by the client.

Potential conflicts that could arise in relation to stewardship include holdings in relation to Mercer's parent company stock, Marsh McLennan Companies, Inc, but again this is mitigated as Mercer does not invest in companies directly. Please see Principle 1 for a diagram laying out our Group business structure.

There were no reported conflicts of interest over 2022 in relation to our stewardship activity.

Mercer's Overall Approach to Conflicts of Interest

Mercer has a Conflicts of Interest Policy for all UK colleagues and in recognising best practice, it is kept under regular review.

Mercer takes all reasonable steps to prevent conflicts of interest from adversely affecting the interests of our clients. Our Conflicts of Interest Policy explains how we identify, prevent and manage actual or potential conflicts of interest which may arise between our clients and ourselves, or between one client and another in circumstances where we are providing our products and services.

When considering whether a conflict of interest does, or has the potential to exist, the following will be taken into account as appropriate:

- Is Mercer likely to make a financial gain, or avoid a financial loss, at a client's expense?
- Does Mercer have an interest in the outcome of a service provided to the client or of a transaction carried out on behalf of the client, which is separate and distinct from the client's interest in that outcome?
- Does Mercer have a financial or other incentive to favour the interests of one client (or group of clients) over the interests of another client?
- When providing a service to a client, does Mercer receive or will it receive from a person other than the client an inducement in relation to a service provided to the client, in the form of monies, goods or services, other than the standard fee for that service?
- Does the service ask Mercer to investigate, evaluate, offer an opinion or advise on the work of another line of business in Marsh McLennan?

Mercer seeks to manage these conflicts through disclosure and with policies and procedures that are designed to protect client interests. Where we believe the conflict cannot be managed appropriately, we will decline the engagement. We are committed to conducting business ethically and transparently.

The identification, avoidance or management, and mitigation of conflicts of interest is an ongoing process. Mercer believes that it creates a conflict-aware environment through its governance and oversight processes, communications with clients, disclosure reviews, peer review procedures, and its ongoing training, monitoring, and testing.

Where Potential Conflicts of Interest Can Occur

Mercer has a specific Conflict of Interest Statement covering the global Investments business. A copy of the Statement can be found here. The Statement identifies a number of areas where potential conflicts of interest can occur:

- Through earning higher revenues or profits from certain types of client arrangements, including through providing a more complex, higher-cost solution for clients when a simpler, lower-cost solution is available.
- From relationships Mercer has with providers of services or products to its clients, including fee arrangements or commission.
- Due to the receipt of confidential information.
- Through performance-related remuneration paid to Mercer employees.
- Through personal relationships Mercer's employees have with its clients or service providers.
- From gifts or entertainment provided to clients or prospects, or received by staff from current or prospective service providers.
- Due to employees holding non-Mercer positions.

The conflicts of interest listed above are not directly related to stewardship. Our overarching focus is on long-term investment outcomes for our asset owner clients.

Specific Potential Conflicts of Interest

The following section describes three areas of potential conflicts, with selected examples against each. Full details are set out in our Conflicts of Interest Statement.

1. **Conflicts between Mercer and its clients:** Mercer Investments draws on a breadth of global resources to develop intellectual capital that can be implemented locally, and on a client-by-client basis, taking into account their particular solutions needs, investment objectives, regulatory considerations, and preferences. Mercer Investments' services are delivered along a continuum that allows clients to select their preferred level of interaction with Mercer. While this business model provides significant flexibility for clients, this can create a conflict between Mercer's own interests and those of its clients.

Example:

- **Fee arrangements with clients:** Mercer offers a wide range of investment services to its clients, with a variety of fee arrangements. Current fee arrangements include fixed fees, time-based fees, commissions, fees based on assets under advisement or management, and fees with performance adjustments.
- **Mitigation:** Mercer's fee arrangements are described clearly in disclosure documents and/or in client agreements and are structured to comply with applicable law.

2. **Conflicts between multiple lines of business or legal entities within Mercer and/or Marsh McLennan:** Mercer Investments offers clients a number of services and solutions ranging from advice on asset allocation, asset classes, and investment providers including manager recommendations, to implementation of investment recommendations or discretionary investment management arrangements. The discretionary investment management arrangements typically use Mercer Funds[11] and Mercer Alternatives Funds. This could create a conflict between Mercer's interests and the interests of clients.

Example:

- **Availability of investment manager research:** Mercer could have an incentive to provide its research on third-party investment managers to certain clients or to consulting or Investment Solutions teams before providing the same information to other Mercer clients. Examples of potentially valuable information include a change to Mercer's rating of an investment strategy offered by a third-party investment manager.
- **Mitigation:** Mercer makes new or updated manager research available at the same time to all subscribers and users of MercerInsight[12] (internally and externally) by publishing it on the database. Research includes such information as news items regarding a third-party investment manager, decisions by the manager research team to change the rating of a manager's strategy, and information about a manager's capacity to accept new investments.

3. **Conflicts between the interests of clients and employees, their family members or significant personal relationships:** Circumstances involving Mercer employees, their family members or persons with whom employees have significant personal relationships can give rise to conflicts of interest between such persons and Mercer's clients.

Example:

- **Access to confidential information:** Employees may have access to confidential information on a corporate entity through a personal relationship, in which the employee has or could acquire a personal shareholding.
- **Mitigation:** In addition to the Conflicts of Interest Statement, Mercer has other policies, procedures and codes in place to minimise such conflicts including The Greater Good, Personal Securities Trading Policies, and Policies on Holding Outside Directorships. Compliance with key policies is monitored and mandatory training is deployed to personnel.

11 Mercer Funds" are any collective investment scheme, including investment companies, common contractual funds, unit trusts and limited partnerships, for which Mercer Global Investments Europe Limited or any affiliate serves as discretionary investment manager.
12 MercerInsight®, an alliance with eVestment, is a powerful digital platform that provides forward-looking research and ratings along with data and analytics on investment managers and a wide range of asset classes across both public and private markets.

Managing Conflicts Arising from the Investment Solutions Business

Mercer has a large and diverse client base, some of whom compete with one another in the same industry or sector or compete with one another for limited investment opportunities. Mercer recognises that there could be an incentive to favour clients that are perceived to be more valuable to Mercer over others that are perceived to be less valuable. Mercer might also have an incentive to favour Mercer Funds via its Investment Solutions business over other discretionary client accounts.

Mercer has adopted protocols to be followed when introducing Investment Solutions to clients. These protocols include disclosures to allow clients to fully understand the difference between working with Mercer under an advisory-only approach and under an Investment Solutions approach, so that clients can make an informed decision. It is Mercer's policy that Investment Solutions and Mercer Funds should only be offered to a client if Mercer reasonably believes it would be appropriate for the client's needs. Clear disclosures regarding fees and services are provided to clients prior to take-on.

Expectations of Investment Managers and Their Conflicts of Interest Policies

Investment managers are appointed by our clients, with advice provided by Mercer. As part of the appointment process, Mercer can assess whether the investment manager's stewardship policy aligns with that of the client. For segregated accounts, clients may agree bespoke voting and engagement arrangements with investment managers, supported by advice from Mercer.

Principle 4

Promoting well-functioning markets

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Highlights, Outcomes and Focus for Next 12 months

Over 2022, the creation, development and continued roll-out of various internal and external frameworks, guides, toolkits and improved disclosures across stewardship, climate change, biodiversity and diversity & inclusion supported our approach to identifying and responding to market-wide and systemic risks and active support for a number of collaborative industry initiatives. While various investors and initiatives continue to show global leadership on stewardship, the market as a whole still has a long way to go in deploying best practice active ownership practices to tackle the greatest challenges facing investors.

Our Sustainable Investment Pathway approach means that UK clients benefit from climate change considerations throughout their investment approach, and they are clear on what role stewardship can play in encouraging companies to transition to a low carbon pathway. Central to this is our Analytics for Climate Transition[13] (ACT) framework. We saw continued growth in the number of clients adopting net zero and climate-related targets, partly driven by our larger DB and DC pension scheme clients beginning to report in line with DWP climate change reporting regulations.

13 https://www.mercer.com/en-gb/insights/investments/investing-sustainably/preparing-portfolios-for-climate-change/

Climate change and net zero investing continued to be our key priority over 2022, and will remain an area of focus into 2023 and beyond. Our involvement in climate change initiatives has supported the development and deployment of frameworks, such as the ICSWG Guide for Assessing Climate Competency of Investment Consultants, to ensure we can demonstrate to our clients how we are embedding climate-related risks and opportunities into relevant investment advice at the firm level and at the individual consultant level.

Overall, we are pleased with our progress addressing climate change risks in terms of portfolio alignment, raising stewardship focus and through collaboration. We believe our leadership has helped shape the market, provided more sustainable investment options and, going forward, supports the widespread adoption of net zero frameworks across the institutional investor markets that we serve. However, we recognise that efforts to limit warming are currently insufficient to meet the goals of the Paris Agreement.

Further, there is more work to be done to incorporate other key systemic risks into our clients' stewardship efforts and to align their portfolios accordingly. We provide further detail on the following areas below:

Market-wide progress on nature and biodiversity is less developed but we expect rapid progress in the coming years and we are committed to shaping the market's approach to this critical area through our participation in the TNFD forum.

We see continued focus on Inclusion & Diversity, both within portfolios and in terms of key decision makers within investment managers.

Identifying Market-Wide and Systemic Risks

Mercer prioritises market wide and systemic risks for engagement through initiatives and wider work where they meet three criteria:

Beliefs: The issue or theme should be consistent with Mercer's investment beliefs (See Principle 1).

Materiality: In order to align with the best outcomes for investors, systemic engagement priorities should have the potential to materially impact long term returns. This may be through public policy, exposure across multiple sectors, regions and asset classes etc.

Influence: In order to ensure an appropriate allocation of time and resources, engagement priorities should consider Mercer's ability to influence a beneficial outcome, whether by joining like-minded investors in a collaborative engagement, engaging directly or empowering our clients to use their influence.

Identifying and Responding to Global Systemic Risks

Mercer benefits from thought leadership and wider work across our global firm as well as from our parent company Marsh McLennan on other systemic risks.

For example, every year the World Economic Forum, in collaboration with Marsh McLennan publishes the Global Risks Report[14]. We show the key risks in the report ranked by severity over the short and long term below:

Figure 7. 2023 – Top 10 short term and long term risks

	2 years		10 years
1	Cost-of-living crisis	1	Failure to mitigate climate change
2	Natural disasters and extreme weather events	2	Failure of climate-change adaptation
3	Geoeconomic confrontation	3	Natural disasters and extreme weather events
4	Failure to mitigate climate change	4	Biodiversity loss and ecosystem collapse
5	Erosion of social cohesion and societal polarization	5	Large-scale involuntary migration
6	Large-scale environmental damage incidents	6	Natural resource crises
7	Failure of climate change adaptation	7	Erosion of social cohesion and societal polarization
8	Widespread cybercrime and cyber insecurity	8	Widespread cybercrime and cyber insecurity
9	Natural resource crises	9	Geoeconomic confrontation
10	Large-scale involuntary migration	10	Large-scale environmental damage incidents

Risk Categories Economic Environmental Geopolitical Societal Technological

Source: WEF Global Risks Report 2023

14 https://www.marshmclennan.com/insights/publications/2023/january/global-risks-report.html

While we provide advice to investors on each of the areas above as appropriate, we highlight our work on climate change and nature below.

Prioritising Action on Climate Change and Transition

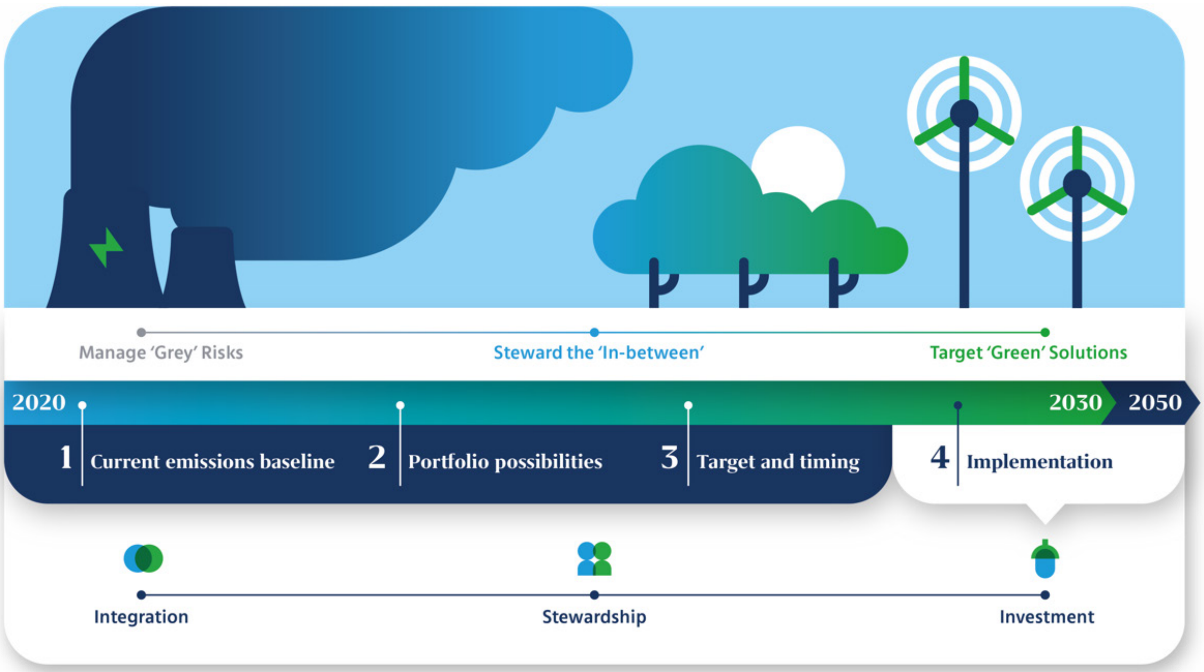
Mercer believes climate change poses a systemic risk, with financial impacts driven by both physical damages and the transition to a low carbon economy. Both of these changes presents both risks and opportunities to investors.

As climate change continues to climb the investment risk agenda of decision makers worldwide, global Mercer Investments entered into a global collaboration with Ortec Finance, a leading provider of risk and return management technology and solutions, during 2022. The collaboration enhances Mercer Investment's existing climate scenario analysis to better inform investors seeking to manage climate-related risk and identify opportunities. For UK pension schemes, the climate scenario analysis supports the requirements of the DWP's Climate Change Governance and Reporting Regulations 2021.

Mercer believes that limiting global average temperature increases this century to "well below two degrees Celsius", in line with the 2015 Paris Agreement, is aligned with the best economic outcome for long-term diversified investors.

Consistent with this, Mercer Investment's Analytics for Climate Transition (ACT) framework which supports the increasing investor focus on net zero investing. It is focused on helping investors who want to set and implement net zero targets, construct climate resilient portfolios on a multi-year timeframe. Mercer's framework is a strategic and forward looking view of the risk and opportunities that arise from a transition to a low carbon economy, and how investors can best position their portfolios to mitigate risks and identify opportunities in this global transition. We continue to develop this tool and over 2022. We incorporated into the framework physical risk-related metrics and the measurement of companies adopting net zero targets. The framework is built around four key steps summarised in the diagram below.

Figure 8. Overview of Mercer's Analytics for Climate Transition Framework



Our approach to advising clients on managing climate-related financial risks and opportunities is consistent with the Financial Stability Board's Task Force on Climate-related Financial Disclosure (TCFD). A growing number of our clients report against the TCFD framework's four elements on an annual basis. We encourage investment managers to adopt this framework as well.

Consistent with our belief that climate change is a systemic risk, Mercer's view is that climate change risks are applicable, to varying degrees, across all asset classes. Manager research incorporates relevant climate change considerations by asset class as reflected in our manager research ratings (see Principle 2 for more detail on the methodology). See Principle 1 for further detail on how climate change is integrated throughout our Sustainable Investment Pathway.

Focus on Nature

Nature has risen in prominence as a significant investment theme. At Mercer, we are committed to helping our clients integrate nature into their investment portfolios when that is aligned with their values. Crucial to this will be evolving net zero policies, and general investment policies, to incorporate nature. This is vital given the fact that the reversal of biodiversity loss and the restoration of biodiverse ecosystems are fundamental to achieving a successful climate transition.

Although frameworks for incorporating nature and biodiversity considerations into investment portfolios are still emerging, there are actions that can be taken today so that investors can be proactive participants in supporting the future of all life on this planet. We believe that over the short-term, nature and biodiversity considerations are likely to become increasingly financially material to asset valuations. This change will be driven by a number of key market developments.

Our view is that investment stewardship is a vital tool that asset owners can use to promote nature positivity in their investment portfolios. To bring about change through active ownership, we encourage our clients to consider including nature and biodiversity among their key stewardship priorities. This could be implemented by working in partnership with investment managers to encourage them to prioritise nature-related engagements. Other approaches where we support some of our clients includes working with an engagement advisor or participating in collaborative initiatives.

We have identified key considerations for nature stewardship priorities, which we will continue to promote to our clients in 2023:

- Considering nature and biodiversity as a stewardship priority within the sustainable investment policy.
- Embedding nature within a stewardship framework to help engagements with investment managers.
- Mapping portfolio companies to the TNFD's priority sectors and using it to inform engagements with managers and through collaborative initiatives.
- Reporting and monitoring stewardship activities including results of engagement and proxy votes.

Over 2022, to support our clients and the broader industry around nature, we took the following actions:

- Global Mercer is a member of, and participates in, the TNFD Forum and has provided feedback throughout the framework development process. In 2023, we will look to pilot test the TNFD framework, especially around assessing the risk and opportunity assessment approach for Financial Institutions.
- The Mercer Sustainable Investment team will work with Mercer's Global Strategic Research Committee ("GSRC") to pursue specific objectives within nature, including developing an approach to incorporating nature themes within our clients' investment objectives as well as developing stewardship policies focused on nature positivity and monitoring stewardship activities of investment managers against these policies.

Going forwards, we will evolve our capabilities on nature to cater for the considerable demand we are seeing from clients in this area. We are reviewing the market landscape for natural capital opportunities to support clients to allocate to these opportunities. We are following the developments of the TNFD and are looking to draw on TNFD guidance around the core biodiversity metrics to develop an investor risk management tool for nature as well as include certain metrics into our quantitative climate analytics tools such as ACT. All this work will lend to supporting our clients on their stewardship efforts on the nature theme and better position their portfolios towards the opportunities through engagement and investment.

As this theme is maturing at a rapid pace, we are continuously reviewing our investment advice and consulting tools to continue to align with sustainability best practice. Further investment insights on nature are captured in our Nature Alert paper.

Inclusion & diversity

Consistent with the findings from our Sustainable Investment Survey (see Principle 5) a significant minority plan to focus more on social issues, including Inclusion & Diversity. Educating our clients about the significance of inclusion and diversity from an investment perspective helps asset owners engage with their investment managers in order to better understand how these factors are being taken into account in portfolio construction.

Our manager research process considers the importance of having a diverse portfolio management team and this factor will have an impact on our manager research rating. This brings a different perspective to our clients into how inclusion and diversity are key factors in risk management and driving opportunities.

We believe the enhancements to our manager research process on Inclusion & Diversity will support our clients as they work with their investment managers to address these issues.

Collaborative Engagement

Mercer recognises the importance of supporting the functioning of markets through industry initiatives and collaboration. Mercer believes that appropriate investor collaboration is often the most effective manner in which to engage, particularly at times of significant corporate or wider economic concerns. We undertake policy engagement through different initiatives and associations to drive best practice, consistency of disclosure on ESG issues and on topics that are considered aligned with the best interests of our clients. We choose to participate in initiatives where we believe we have the opportunity and ability to improve long-term investment outcomes and contribute to more sustainable and stable global financial markets.

Globally, Mercer Investments is party to a number of collaborative investor initiatives and engagements where:

- The topic has been deemed important after being assessed alongside other key themes.
- The objective of the engagement would be better achieved through involvement in local and global initiatives that facilitate collaborative engagement where these mechanisms have a more significant potential to influence outcomes.
- The engagement coordinator is one or more reputable membership organisations, typically where a Mercer entity is already a member, and is therefore more likely to demonstrate credibility and positive reputation associations for global Mercer and its clients.

Over 2022, Mercer Investments collaborated with several industry groups to improve market wide practices and managing systemic risks. A few key examples of our participation are noted below:

Initiative	Involvement, activity and outcomes over 2021/22
Broad Sustainability	
Investment Consultants Sustainability Working Group	Jo Holden, Head of Global Investment Research, co-chairs the group. Mercer is an active member of several work streams, including those on regulation, asset owners, stewardship and innovation. These in turn have produced materials such as the Trustee Guide for Assessing Climate Competency of Investment Consultants and Engagement Reporting Guide.
Climate change	
Institutional Investors Group on Climate Change (IIGCC)	Active member. Actively participated by joining member calls and providing input/ feedback on the following IIGCC Paris Aligned Investing Initiative working groups: stewardship, listed equity and corporate fixed income. This participation supported the production of the Net Zero Stewardship Toolkit in 2022.
Climate Action 100+	The new stewardship team for Mercer ISE has participated in meetings relating to the recent Phase 2 signatory consultation and, as a result, are reviewing new involvement opportunities available following strategy developments introduced by Climate Action 100+.
Nature	
TNFD	Global Mercer is an active Forum member. See above for further details on how we are supporting the development of the framework. Marsh McLennan provided a senior colleague a secondment opportunity to work with the TNFD to help in the development of TNFD framework over the past year.
Diversity	
30% Club	Mercer Ltd and Mercer ISE are members of the 30% club in separate corporate and investor capacities respectively as part of Mercer's commitment to improving gender diversity across the industry and within investment portfolios. Mercer ISE is further reviewing opportunities to participate in one or more of the 30% Club UK Chapter working groups.
Impact	
GIIN	Active member. Mercer participated in the Listed Equities Working Group culminating in Guidance for Pursuing Impact in Listed Equities which was published in March 2023. This included the role stewardship could play in amplifying impact.

In addition to the examples listed above, over 2022, Mercer was also a signatory to, supporter of or participant in the following initiatives:

- Principles for Responsible Investment (PRI)
- UK Sustainable Investment & Finance (UKSIF)
- Task Force on Climate-related Financial Disclosures (TCFD)
- Transition Pathway Initiative (TPI)
- Carbon Disclosure Project (CDP)
- The Diversity Project

Mercer also has representations on several industry groups:

- Association of Consulting Actuaries
- Institute and Faculty of Actuaries
- Society of Pension Professionals
- Pensions and Lifetime Savings Association (PLSA)

Example: Global Mercer at COP 27

Institutional investors are under pressure to address climate loss, damage and transition. Reflecting investor actions and needs, Mercer conducted a workshop at the United Nations Climate Change Conference of the Parties (COP 27), held in Sharm El-Sheikh, Egypt. The session discussed client actions, opportunities and challenges to investing for net zero pathways, including analysis of allocation to emerging and frontier markets.

The session focused on the role financial institutions play a role in supporting de-risking and deepening capital markets, and the need to support sustainable development and social needs as part of a Just Transition. This session was led on the back of our research paper 'Advancing the transition: Seeking to mitigate risk and driving adaptation beyond COP27'. Along with investing in solutions, the paper highlights the important role of stewardship in supporting the climate transition.

This panel event, hosted by Mercer global, brought together experts from major investment firms, with institutions that address sustainable development goals and impact, to discuss how the flow of capital from developed markets can use sustainability and impact to support developing economies to become more resilient.

To read our insights from COP 27, please see the blog post by Rich Nuzum, Investments and Global Chief Investment Strategist.

Mercer actively participates in numerous consultations every year. Over 2022 we provided feedback on:

- The Department of Work and Pension's consultation on climate change governance and reporting for Local Government Pension Schemes (LGPS).
- The Financial Reporting Council's (FRC) consultation on new requirements for actuaries to consider climate change and ESG related risks.
- The DWP consultation on 'Climate and Investment Reporting- Setting Expectations and Empowering Savers'.

Mercer looks forward to continuing to be an active contributor to collaborative initiatives focused on promoting a well-functioning financial system in 2023.

Principle 5

Supporting clients' stewardship

Signatories support clients' integration of stewardship and investment, taking into account, material environmental, social and governance issues, and communicating what activities they have undertaken.

Highlights, Outcomes and Focus for Next 12 Months

Our advice and support, including voting and engagement assessments, ESG ratings exercises and assistance with implementation statements have supported our asset owner clients to be effective stewards and equip them to push their investment managers for improved stewardship disclosure and ever greater action. These have led to more active engagements between clients and investment managers.

Over 2022, we continued to proactively seek out client views on a range of investment-related topics including stewardship, through centralised surveys, such as our Sustainable Investment Report[15] (formerly European Insights Reports). This survey has proved useful in capturing top-down broad asset owner key trends and views over time.

We also seek bottom-up feedback from our clients on the service they are receiving from Mercer though pulse surveys and more structured feedback conversations. We take account of the feedback received from clients, and colleagues, with an aim to identify areas for improvement.

We have successfully communicated with clients and met their needs using a variety of approaches and offerings that we view as demonstrably effective.

15 https://www.mercer.com/en-gb/insights/investments/portfolio-strategies/uk-investment-insights/#investmentReport

This is evidenced by the fact that we have been able to educate, advise and provide recommendations which have resulted in a large number of clients meeting SIP, Implementation Statement and wider stewardship requirements to a high standard.

A continued focus for 2023 will be assisting our leading asset owner clients to report in line with the UK Stewardship Code and to make UK occupational pension scheme Implementation Statements as effective as possible in terms of capturing progress and outcomes. We believe we are well placed to assist with this given our evolving approach to stewardship assessments and manager research as well as our full, and longstanding, support for the Stewardship Code.

In addition, we continue to evolve our Stewardship Assessment Framework. While we initially intended to roll this out over 2022, we continue to evolve our approach to ensure that our Stewardship Assessment Framework is integrated into our broader investment manager research framework as it evolves. We believe this will offer an improved approach for asset owners to understand investment manager stewardship activities across asset classes. We expect to be able to report further on this revised framework over 2023/24.

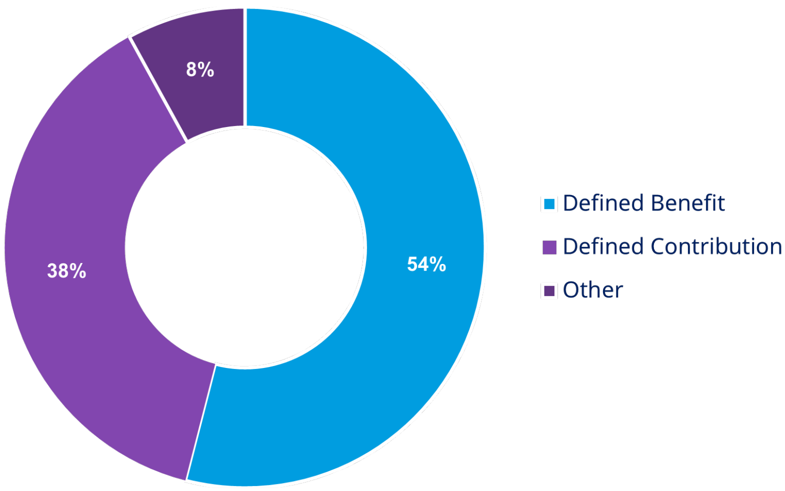
Our Clients – Breakdown by Geography, Client Type and Asset Allocation

The vast majority of clients advised by Mercer are diversified, long-term institutional investors. Therefore as ‘universal owners’ with a long time horizon the consideration of investment governance and active ownership is of great importance. Stewardship services are provided to our institutional client base by our investment consultant team within Investments in Mercer Wealth (see Overview of Management Structure diagram in Principle 2). Retail investors are serviced by Mercer Private Wealth which sits in a separate line of business within Mercer Wealth not covered by this report.

As at 31 December 2022, around 99% of Mercer (UK) Wealth’s institutional clients, where we provide investment advisory services, were based in the UK. The other clients were based in the Americas and Europe.

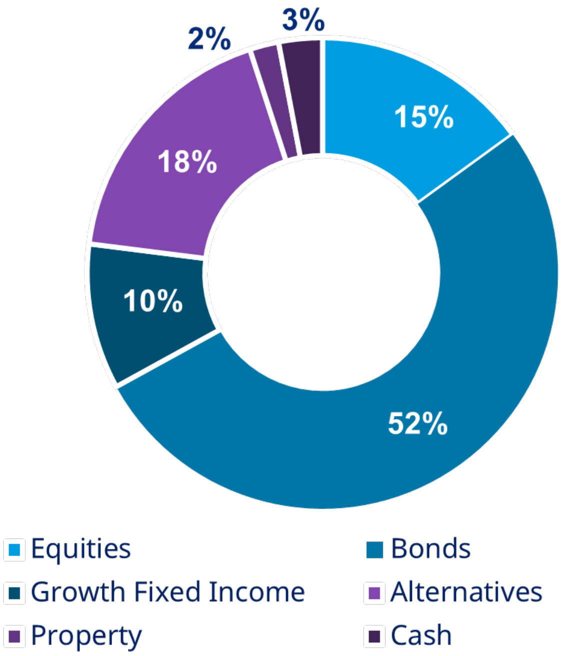
The chart below shows Mercer’s Wealth institutional client breakdown by client type as at 31 December 2022[16].

UK Wealth Institutional Clients by Entity (%)

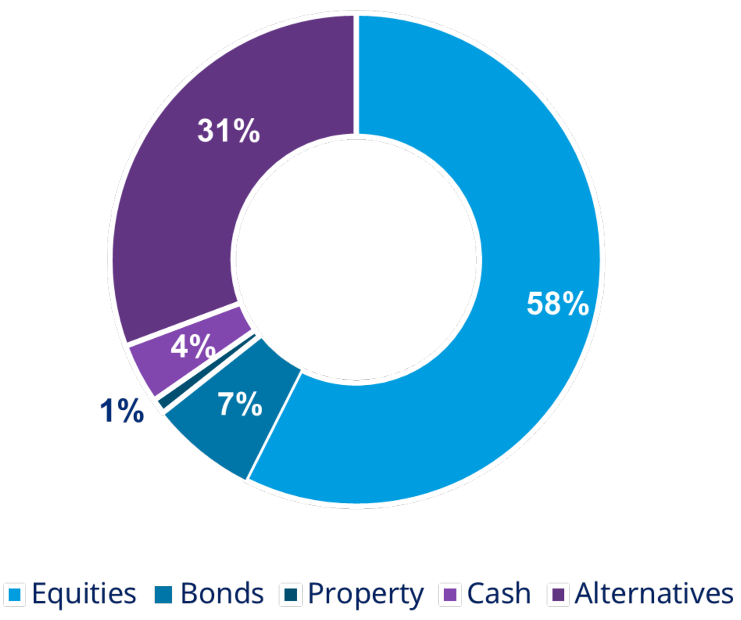


16 Please note that over 2022, Mercer undertook an exercise of collating and refershing our client database to ensure accuracy, completeness, and consistency across regions. As a result, there may be variability in figures from the previous year and direct year over year comparisons may not be meaningful.

UK Asset Allocation Split for DB schemes – 31 December 2022



UK Asset Allocation Split for DC schemes – 31 December 2022



The figures above show the broad allocation of scheme assets for UK Defined Benefit (DB) and Defined Contribution (DC) schemes. For DB schemes, bonds constitute the largest position and allocations to equities have remained at 15% (when compared to the end of 2020) but have been on a downward trend for two decades. For DC schemes, the majority of assets are allocated to equities. We are seeing growth in alternatives which include diversified growth funds.

UK Investment Insights: Sustainable Investment Survey 2022

As part of Mercer's annual UK Investment Insights report, we surveyed our clients on how they are applying sustainable investment in their schemes. This research identifies emerging trends in the behaviour of 441 DB schemes across the UK, reflecting total assets of approximately £344 billion (as at 31 December 2021).

The sustainable investment findings from the survey are captured in a standalone report- UK Investment Insights: Sustainable Investment Report 2022. As part of the survey, we asked questions around stewardship and engagement practices. We found voting and engagement are high on the agenda for schemes when both selecting and monitoring an investment manager. For example, 49% of our advisory clients take voting and engagement issues into account when selecting a manager and 61% when monitoring their investment managers. Ninety-seven percent of the schemes we surveyed delegate voting and engagement activities to their investment managers. It is also worth noting that the majority of schemes (59%) expect to do more on voting and engagement in the near term as schemes' expectations of their investment managers are rising.

Figure 11. Does the scheme consider the voting and engagement activities when selecting an investment manager?

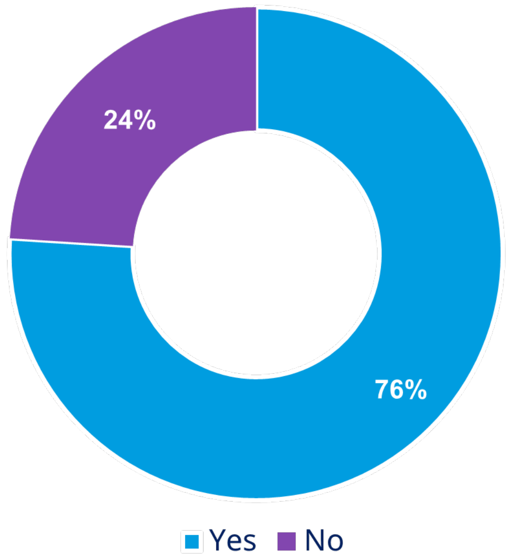
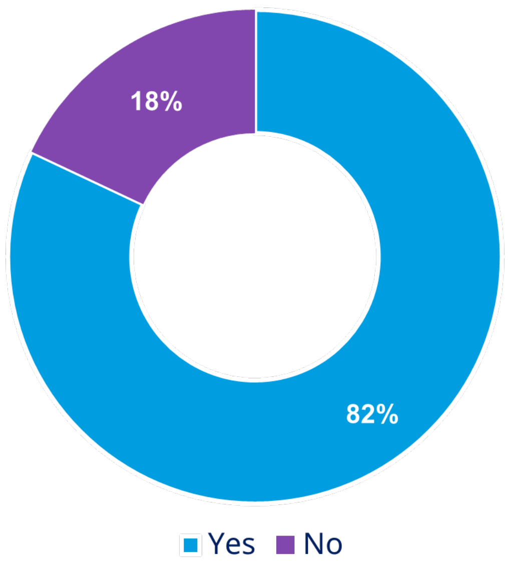


Figure 12. Does the scheme consider the voting and engagement activities when monitoring its investment managers?



Working with Our Clients to Support their Stewardship

Mercer supports its advisory clients in monitoring the stewardship and engagement activities of investment managers, including the assessment of external investment managers' capabilities with respect to monitoring investee companies. Monitoring reports are used by UK asset owners to track progress and support implementation statements. Mercer uses the following approaches to undertake such monitoring activities:

1. **Voting and Engagement assessments.** These are based on a traffic light system, rating manager approaches from Market Leading to Poor Practice. This assessment supplements in the information required for UK occupational pension scheme implementation statement reporting. It is split into two parts as follows:

- Voting (listed equity): A summary assessment focusing on Vote Execution (are "No Votes" minimal and explained?) and Vote disclosure (has the manager demonstrated thoughtful approach to voting and comprehensive disclosure including rationale on ESG factors as relevant?).
- Engagement disclosure (listed equity and corporate bonds): A summary assessment capturing the level of disclosure and examples given by the managers for insights on where the manager has engaged by exchanging views with companies on a range of ESG topics.

2. **Investment Manager ESG ratings review against asset class peer groups.** ESG ratings are derived from assessment criteria that vary according to asset class and are relative to what Mercer believes is "best practice" ESG integration. Investment managers' active ownership practices are incorporated into Mercer Investment's investment manager ESG ratings framework, thereby impacting their overall ESG rating. Active ownership plays a particularly large role for passive ESG ratings.

Engaging on the Back of our Reports

Clients have successfully used these Voting and Engagement and ESG Ratings reports to push for improvements to investment manager approaches including:

- The hiring of more resource for the investment manager's stewardship teams.
- Better explanations of the investment manager's rationale for voting on key resolutions.
- The provision of bespoke client reporting.
- Pushing passive and active listed equity and corporate bond investment managers to further improve their transparency of reporting and better demonstrate how voting is tied to engagement activity.

Example: Example Voting and Engagement Assessments

Portfolio	Manager	Vote execution	Vote disclosure	Engagement	Comments	PRI | ICGN	Proxy advisor
Fund1	Manager 1				High-level voting disclosure No engagement (quant-style manager)	PRI	ISS
	Manager 2				Comprehensive disclosure on voting and engagement	PRI | ICGN	Own
	Manager 3				Detailed voting rationale Mainly collaborative engagements focussing on environmental considerations	PRI	ISS
	Manager 4				No voting rationale Engagement examples across E,S and G factors	PRI | ICGN	Own

In addition, Mercer provides bespoke voting and engagement reporting to meet specific client needs. However, we recognise the importance of adopting industry standard approaches to voting and engagement data collection where suitable frameworks exist, such as the PLSA voting template and ICSWG Engagement Reporting Guide.

In addition to the stewardship monitoring described above, we provide monitoring and reporting across the following areas to clients:

- Mercer Investment's investment manager ESG ratings for all relevant asset classes are included in quarterly investment performance reports
- Climate scenario modelling and climate metrics (see Principle 4)
- UN Sustainable Development Goals (SDG) alignment reporting for listed portfolios
- Monitoring of exclusions

Each one of these reports provide meaningful avenues for clients to better understand and engage with their investment managers and underlying companies as appropriate.

Stewardship Disclosure Expectations of Investment Managers

We expect clear and comparable stewardship data disclosure from investment managers, plus evidence of:

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

Mercer believes that providing this information is central to the discharge of a manager's stewardship responsibilities to its clients, and that it should therefore be provided regularly and routinely. Mercer engages managers regularly on behalf of our clients regarding improvements to reporting and disclosure. Mercer also supports clients to directly engage with investment managers by providing, for example, draft letters and assessment reporting. We have found investment managers are receptive to client feedback when it is targeted and provided in a collaborative manner by investors with long term horizons.

Client Views and Evaluating our Effectiveness

We actively seek client feedback through numerous channels to help us improve and innovate and to be able to best serve our clients. The following are the key ways we capture the views, ideas, and opinions of our clients.

ESG belief surveys: An important way to understand client preferences and beliefs/views on a range of sustainability themes, implementation approaches and their views on how to be an effective active owner. We use the output to refine their investment policies and embed the key beliefs in strategic asset allocation and manager selection and retention decisions.

UK Sustainable Investment Report: Findings from the survey results based on our UK client base have proven useful in capturing key trends and changing investor preferences over time, including in respect of ESG and stewardship.

Informal dialogue with clients and consultant feedback: Through our ongoing work and discussions with clients, we seek targeted feedback on how well we are delivering services for our clients. Consultants provide comments and feedback to UK Sustainability Integration Lead, the SI team, manager research and intellectual capital teams on the challenges, needs and expectations of our advisory clients. This ensures we develop our thinking and advice that best meets the needs of our clients and helps us to innovate and drive new ideas.

Client Experience Measurements (CEM): Entails a formal dialogue (via interviews, surveys, and reviews) between clients and an independent contact from Mercer. The process allows us to listen to the voice of our client and deeply understand their needs. See more on CEMs in the example below.

Processes to capture day-to-day client feedback, including CEMs, have helped assess and improve the effectiveness of our chosen approaches, including effectiveness of communicating with clients (see below). Client feedback continues to support efforts to evolve implementation statement reporting in year three to be more member friendly while staying consistent with the latest regulations.

Client Experience Measurements

CEMs provide an opportunity for clients to feedback on our service, including whether we are meeting their stewardship needs, and identify their key priorities. We aspire to an 8+ scoring on CEMs (on a scale of 1-10), remaining fairly consistent over last few years, which requires us to take the right action on lower scoring CEMs.

Overall feedback from our clients was that they believe Mercer to be a trusted adviser, acting as a partner.

We have a number of clients who are recognised global sustainability leaders and these client interactions in particular have supported and driven efforts to proactively incorporate leading sustainable investment considerations throughout our advice. Feedback from clients has been useful, enhancing our tools and services around stewardship and informing additional questions for investment managers on the eVestment platform.

Communicating with Clients

Communicating effectively to clients is critical to providing quality advice and being effective investment consultants. In addition to offering a range of reporting services designed to meet various ESG and stewardship needs and support regulatory compliance, we seek to tailor our communication to clients using a variety of means and mediums that is most appropriate to them, ranging from documents in Excel, Word and PowerPoint form, to remote and in-person communication, to videos and blogs and whitepapers.

We have put considerable resource into integrating our ESG and stewardship resources and advice across the investment business (see Principle 2) so that our communication is clear, concise, consistent and tailored as needed. Our peer review process (see Principle 6) also ensures that our work is appropriate for its intended audience.

The ICSWG is a collaborative means by which Mercer, and the investment consulting industry as a whole, can communicate progress being made on ESG and stewardship to institutional clients. Our work with the ICSWG and the resulting Trustee Guide for Assessing Climate Competency of Investment Consultants and Engagement Reporting Guide should enable greater consistency across the industry.

We publish our research and thought-leadership on the MercerInsight® Community. The digital platform allows investors to stay informed on the latest investment research, trends and innovations and helps to inform decision-making. It provides investment insights from Mercer and a range of third-party publishers.

Setting and monitoring performance against Investment Consultant Objectives, a requirement of the Occupational Pension Schemes (Governance and Registration) (Amendment) Regulations 2022, is another avenue for clients to assess our effectiveness. We pride ourselves on having strong relationships with our clients so any potential concerns or issues are raised and addressed early.

Principle 6

Review and assurance

Signatories review their policies and assure their processes.

Highlights, Outcomes and Focus for Next 12 Months

Over 2022, we continued to review various policies, processes and activities leading to a number of meaningful changes as well as implementing enhancements agreed in 2020/21. These included implementing changes to manager research (see Principle 2) and net zero tools (see Principle 4), as well as providing greater resources and support for business-wide processes to ensure our clients meet and exceed regulatory stewardship requirements.

We recognise the importance of sustainable investment to our clients and other entities within Mercer's global investments business. In 2021, global Mercer Investments made a Sustainable Investment Declaration[17] providing an overview of our commitment to sustainability and capturing our sustainable investment beliefs, principles and pathway.

A quality review covering the Wealth advisory business was last carried out in 2021. As part of that review, a sample of client Statement of Investment Principles and Implementation Statements were assessed for consistency and clarity. While there are substantial internal review processes already in place, we revisited our approach to internal assurance processes in relation to stewardship over 2022/23. Following discussions on the current approach to stewardship assurance between internal audit, compliance, the UK Sustainability Integration Lead and UK Head of Sustainable Investment, it was agreed that a repeat of the Wealth team quality review will be considered for 2024.

17 https://www.mercer.com/content/dam/mercer-dotcom/global/en/shared-assets/global/attachments/pdf-2021-mercer-sustainability-declaration.pdf

With stewardship requirements for asset owners growing, we will continue to ensure that our policy review and assurance processes, and documentation, remain fit for purpose. We intend to keep them under review in 2023.

Reviewing our Policies and Activities to Support Clients

Mercer reviews its policies, processes and activities relating to sustainable investment and stewardship on a regular basis to ensure we continue to meet our clients' needs. There are typically three drivers that might lead to a review of and change to underlying policies, processes or activities. We provide recent examples against all three below:

- **Regulation**
  - **Climate change:** To support the second wave of pension schemes that fall under the DWP's Climate Change Governance and Reporting regulations, we enhanced our training and best practice guides to equip colleagues to meet our clients' reporting needs and to help our clients understand the materiality of climate-related risks on their investment (and funding, for DB schemes) strategy. We created consultant-ready reporting templates which ensured consistency and completeness. We also formed an internal working group made up of client consultants, the SI team, and data analytics to build a streamlined and robust process for supporting climate-related analysis and reporting. The working group produced internal guidance documents to support our colleagues and offered drop-in sessions to discuss any issues faced by field consultants or client-related feedback. We also enhanced our metrics offering to meet current and expected regulatory requirements such as adding Data Quality and evolving Scope 3 emissions reporting. Over 2022, we went live with our updated climate change scenario modelling tool which provides clients more options on the type of modelling they can conduct on their asset allocations to meet their regulatory requirements while being cost effective.
  - **Stewardship activities:** with effect from October 2022, the reporting requirements of stewardship activities of UK pension trustees was enhanced. We enabled our colleagues to be prepared for the change through training webinars and centrally producing client facing materials to educate our clients. We also engaged with investment managers during the year to understand the type of data they could provide and to promote the use of industry standard templates when requesting voting and engagement data.
- **Best practice:** We believe stewardship is an important pillar of implementing sustainability objectives of our clients. As such, we continuously monitor how this area is evolving through the industry groups we participate in, our communications with investment managers, and understanding client needs. As a result, we are integrating stewardship into our data requests to investment managers and the four factor rating process for passive equities and fixed income (see Principle 2).
- **Key themes:** We are seeing continuous improvements in data and frameworks around climate change which has helped us evolve our tools and advice to clients. For example, we added a new alignment and physical risk metrics to our Analytics for Climate Transition (ACT) tool in 2022 and plan to use technology to further scale the use of the tool over 2023 as we continue to see increasing client demand for climate-related metrics. Nature and biodiversity is another key theme where we will look to add portfolio indicators in our tools and produce more research in the near term.

The reviews underpinning these areas are internal given the bespoke nature of the services we provide to clients and proprietary nature of our ratings and assessment approaches. However clients regularly provide feedback, which we take into account as part of our continuous improvement. We cover this in more detail in Principle 5.

Further, as stated in Principle 5, clients often use the findings from our manager research and stewardship monitoring reports to engage with investment managers. As investment managers respond to our findings, this provides a useful feedback loop for determining the effectiveness of our advice and client support.

Process for Reviewing Manager Research and Stewardship Monitoring Frameworks

Mercer has a clear approach to reviewing and updating existing policies and frameworks. Of most relevance to stewardship is our Manager Research Framework. When the Manager Research Framework is updated it goes through a rigorous process of internal peer review and challenge from an asset class and product category specific lead research committee, with input from a diverse set of colleagues specialised in the respective area, before they are finalised. Manager research ratings are subject to approval from an internal research committee of individuals responsible for each sub-asset class as well as a broader ratings ratification committee, which ensures consistency across regions and asset classes as appropriate.

The relevant research and SI teams have primary and day-to-day responsibility for the implementation of the ratings and assessment frameworks respectively, dealing with any queries about it, and implementing internal control systems and procedures that are required to adhere to them.

The table below describes where ultimate responsibility sits for reviewing different types of frameworks, processes and activities.

Team/committee responsible	Description of framework/process/activity
UK Head of Investments/UK Sustainability Integration Lead/SI team	Processes and activities driven by regulatory requirements and to support client requests, training and preferences related to stewardship
Sustainable Investment Leadership Team/ GSRC	Sustainable Investment Frameworks
Global Investment Policy Committee	Manager Research Frameworks incorporating stewardship considerations

Internal Assurance

Mercer follows a 'Three Lines of Defence' model to manage risk across the business. This allows us to identify, assess and manage risks in a proportionate manner, while meeting client, shareholder and regulatory expectations.

1. The first line of defence is undertaken within the relevant business function which owns and manages risk. In this context, investment consultants are expected to follow policies and procedures, including the peer review process (see below for more detail on this process).
2. The second line of defence is the compliance team overseeing management of risk. Our compliance team undertakes periodic monitoring reviews to assess how well risks are being managed and to ensure that processes, including peer review, are being followed.
3. The third line of defence is the internal audit team or other functions that might provide independent assurance.

The UK Investments team has regular dialogue with compliance and audit teams to continuously assess and strengthen our internal assurance processes. An internal audit of deliverables to clients, focussing on evidencing quality reviews, has been conducted by the Internal Audit team in 2023.

As highlighted, a quality review covering the Wealth advisory business was last carried out in 2021. As part of that review, a sample of client Statement of Investment Principles and Implementation Statements were assessed for consistency and clarity. The review outlined recommendations for improvements, including further centralised gathering of manager stewardship information and further guidance for consultants, both of which took place over 2022 as well as efforts to make colleagues aware of these improvements. Following discussions on the current approach to stewardship assurance between internal audit, compliance, the UK Sustainability Integration Lead and UK Head of Sustainable Investment, it was agreed that a repeat of the Wealth team quality review will be considered for 2024.

Our clients and their investment managers take a number of approaches to assurance with both external and internal assurance undertaken on their stewardship activities. Many also seek legal advice on documents such as SIPs and Implementation Statements. Feedback from external reviews is considered in the development of our client facing materials.

Ensuring Stewardship Reporting is Fair, Balanced and Understandable

The UK Head of Investments, working closely with Mercer's UK Sustainability Integration Lead and SI team, is responsible for overseeing the provision of client advice and services on ESG matters, ensuring these are applied across client segments to a high standard and in a consistent manner, wherever possible. To date these processes and activities have been reviewed on an ongoing basis, underpinned by wider monitoring approaches described in Principle 5.

All day-to-day advice and services provided to clients, as well as manager research reports, are subject to our peer review process to ensure effective client stewardship. The process includes three stages: 'do', 'check' and 'peer review'. The review stage is undertaken by a colleague who has the necessary skills and knowledge, but was not involved in producing the report. This approach, along with clear research/monitoring frameworks and internal stewardship processes, is key to ensuring reporting is fair, balanced and understandable.

Reviewing Third Party Data Providers

Mercer undertakes regular reviews of its third party data providers. See Principle 2 for further detail on the outcome of the 2022 review including stewardship enhancements. Between formal reviews Mercer undertakes ongoing dialogue with its providers in order to improve the level of service and disclosure, and quality of data received.