

UK STEWARDSHIP CODE – STATEMENT OF COMMITMENT

MERCER LIMITED

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APPROACH TO STEWARDSHIP

Mercer Limited (“Mercer”) is a leading provider of investment advice, offering customised guidance on investment strategy, implementation, risk management and investment monitoring in the UK.

Mercer supports the UK Stewardship Code (the Code) and integrates stewardship related advice into its broader investment advisory and research services. This document sets out how Mercer, in its capacity as a service provider, approaches stewardship and indicates how Mercer’s advisory business in the UK supports its asset owner clients in addressing stewardship.

Mercer has advised investors on all aspects of environmental, social, corporate governance (ESG) integration and stewardship since 2004 and this [Responsible Investment](#) experience informs the approach taken by Mercer to responsible and sustainable investment globally.

Mercer’s specialist Responsible Investment (RI) team assists clients with implementing the Code through advice and monitoring services. The RI team also supports the Chief Investment Officer for Mercer Delegated Solutions Europe (Mercer DSE).

[Mercer’s Investment Beliefs](#) incorporate a global approach to environmental, social, and corporate governance (ESG) factors namely:

- Mercer believes that ESG risks and opportunities can have a material impact on long-term risk and return outcomes.
- Stewardship or active ownership — exercised through voting and engagement — provides investors with an opportunity to enhance the value of companies and markets, thereby supporting the realisation of long-term shareholder value.
- Accessing long-term streams of returns and long-term themes, rather than focusing on short-term price movements, can add value.

Consequently, a sustainable investment approach that considers these risks and opportunities is in the best interests of Mercer’s clients.

Further detail is provided below on how Mercer’s investment advisory business in the UK addresses each of the Code’s seven underlying principles. For information on how Mercer DSE, acting in its capacity as a fiduciary manager, addresses each of the Code’s principles, please see [here](#).

Principle 1

Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

In its capacity as a service provider, Mercer does not invest in companies directly. 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.

Mercer uses two tools to undertake such monitoring activities:

- ESG Ratings, which are assigned by Mercer's manager researchers at the investment strategy level
- UK Stewardship Code Assessments, which are assigned by Mercer's RI team at the investment manager level

We have summarised each of these monitoring tools below.

ESG RATINGS

Actively managed strategies

Mercer's ESG ratings for actively managed investment strategies were first introduced in 2008 and have been included, as standard, in all client performance monitoring reports since 2012. Mercer has assigned an ESG rating to more than 5,500 strategies and in 2014 Mercer introduced ESGp ratings for passively managed equity strategies in order to assess the active ownership practices of index-tracking managers in more detail.

In assigning ESG ratings for actively managed strategies, Mercer assesses how ESG factors are incorporated into idea generation, portfolio construction, implementation and business management as set out in the table below:

Factor	Example Criteria
Idea generation	Look for evidence of market-leading capability with respect to identifying and integrating ESG factors into active fund positions as a source of value added. We look for an integrated approach to ESG factors into buy/sell decisions, as evidenced by the skill of team members, data sourcing and the inclusion of ESG factors by the portfolio managers themselves in the identification of attractive investment opportunities
Portfolio construction	Look for evidence that the manager makes an effort to integrate ESG-driven views into the active bets in the portfolio, taking into account the strength of the conviction and the expected time period in which the ESG factor is likely to become material.
Implementation/ Voting & Engagement	Evidence that the manager has a long-term investment horizon (as evidenced by portfolio-turnover data) to implement ESG views effectively. Also look for evidence of voting and engagement activities as beta-enhancement tools
Business management / firm wide commitment	The extent to which the business leaders understand and accept the importance of ESG/RI and the extent to which they have committed time and effort to integrating this across the investment institution.

The final ESG assessment represents Mercer’s view on the extent to which ESG and responsible ownership practices (voting and engagement) are integrated into the fund manager’s strategy. The ratings are presented as ‘zones of capabilities’ along a four-point scale as follows:

- **ESG1** – leader in the integration of ESG into core processes.
- **ESG2** – less advanced than ESG1 companies but with moderate integration of ESG factors.
- **ESG3** – limited progress with respect to ESG integration, albeit with signs of potential improvement.
- **ESG4** – little or no integration of ESG into core processes and no strong indication of future change.

We believe that identification of what constitutes a sustainable competitive advantage or a significant potential weakness requires a sound understanding of investment markets, the practical workings of investment-management firms, and the competitors under consideration.

Passively Managed Equity Strategies

In 2014, Mercer introduced ESG ratings for passively managed equity strategies ('ESGp ratings'). Historically, Mercer's ESG ratings have been applied to actively managed strategies. In particular, Mercer has focused on the level of ESG integration in the idea-generation and portfolio-construction processes, the factors that drive our overall strategy rating. We recognised that our traditional ESG ratings framework was not applicable to passively managed equity strategies as it did not allow Mercer to capture the extent to which the manager was being an active owner; although the assets may be managed passively, the ownership rights associated with these assets should still be actively exercised. We therefore adapted our ESG ratings framework accordingly, to focus on corporate governance, voting and engagement activities.

This is reflected in the ESGp four factor framework, which is detailed in the table below.

Factors	Example criteria
Voting and engagement process	Quality of engagement – is the focus only on corporate governance issues or does the team have a process in place for environment and social engagements?
Resources and implementation	Effectiveness of engagement outcomes – is this being measured? If so, how?
ESG integration and internal initiatives	What additional work is the team undertaking regarding ESG data analysis to enhance the active ownership process?
Industry collaboration / firm-wide activities	Does the team work with other institutional investors in collaborative initiatives and engage with regulators and policymakers?

ESGp ratings are also assigned using an ESGp1 to ESGp4 scale (see below) but are not directly equivalent to Mercer's ESG rating scale for active equity strategies, as passive equity strategies do not consider Idea Generation or Portfolio Construction.

- **ESGp1** – leader in voting and engagement across ESG topics, with active ownership activities and ESG initiatives undertaken consistently at a global level.
- **ESGp2** – Strong approach to voting and engagement across ESG topics, and initiatives at a regional level, with progress made at a global level.
- **ESGp3** – Focus tends to be on voting and engagement on governance topics only, more regionally focused with less evidence of other internal ESG initiatives.
- **ESGp4** – Little or no initiatives taken on developing a voting and engagement capability, with little progress made on other ESG initiatives.

UK STEWARDSHIP CODE ASSESSMENTS

In addition to assigning ESG ratings at a strategy level, Mercer undertakes an assessment of investment managers' commitment to the UK Stewardship Code. Mercer introduced its UK Stewardship Code Assessments in 2010 following the introduction of the Code and to date Mercer has undertaken independent reviews of around 60 managers with regards to their compliance with the Code, which are available to clients upon request.

Mercer's assessments consider compliance against each principle and at the overall manager level, using the assessment scale below:

Compliance levels for each principle are indicated as follows:

- **Green+:** Best practice compliance with comprehensive public disclosure.
- **Green:** Good practice compliance with good public disclosure.
- **Amber:** Partial compliance or limited explanation, with improvements recommended.
- **Red:** Non-compliance and no explanation.

Compliance levels overall are indicated as follows:

- **Green+:** Best practice i.e. comprehensive compliance with guidelines for all seven principles.
- **Green:** Good practice i.e. compliance with majority of principles at good or best practice levels, with no non-compliance.
- **Amber:** Partial compliance i.e. majority of principles are partially compliant or non-compliant.
- **Red:** Non-compliance and no explanation i.e. no principles are met.

In line with the Code's comply or explain approach, Mercer's assessment process strictly requires all principles to be met in order to assess an external investment manager as meeting good or best practice compliance overall, given that complying with a principle is possible by providing a meaningful explanation.

Mercer encourages its clients to monitor investment manager compliance with the Code on an annual basis.

Additional monitoring activities

In addition, upon client request, Mercer provides monitoring reports covering investment manager voting and engagement activities.

Principle 2

Institutional investors have a robust policy on managing conflicts of interest in relation to Stewardship and this policy should be publicly disclosed.

In its capacity as a service provider, Mercer does not invest in companies directly and as such has no conflicts of interest in relationship to stewardship. Mercer's approach to managing potential conflicts of interest can be found [here](#).

Principle 3

Institutional investors should monitor their investee companies.

In its capacity as a service provider, Mercer does not invest in companies directly. 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.

When assessing the approach of external investment managers with respect to the monitoring of investee companies, Mercer considers:

- Its ESG ratings, which indicate the extent to which ESG issues are integrated into the decision-making processes.
- The level and quality of disclosure provided by the external investment manager with respect to monitoring of investee companies.
- The investment strategy and process of the manager.

Mercer assesses the compliance of external investment managers using its four-point scale:

- **Green+:** Comprehensive public disclosure providing clarity of approach with respect to ongoing monitoring activities.
- **Green:** Good public disclosure with clear guidance on monitoring activities.
- **Amber:** Some disclosure but with limited clarity on the approach or lack of consistency in the approach.
- **Red:** No disclosure of monitoring approach.

Mercer reviews its criteria for assessment regularly and in line with updated guidance from the FRC.

Principle 4

Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

In its capacity as a service provider, Mercer does not invest in companies directly. 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 the escalation of engagement activities.

When assessing the approach of external investment managers in this regard, Mercer considers:

- The level and quality of disclosure provided by the external investment manager on the escalation of stewardship activities.
- The consistency of approach in identifying cases where escalation is required.
- The chain of responsibility with respect to escalation.
- The results of escalation activity.

In addition, Mercer assists its clients in requesting that investment managers provide examples of escalation, including details of the trigger point for escalation, the escalation approach taken, and the result of the escalation.

Mercer assesses the compliance of external investment managers using its four-point scale:

- **Green+:** Comprehensive public disclosure providing clarity of approach to escalation of stewardship activities.
- **Green:** Good public disclosure with clear guidance on escalation activities.
- **Amber:** Some disclosure but with limited clarity.
- **Red:** No disclosure of escalation approach.

Mercer reviews its criteria for assessment regularly and in line with updated guidance from the FRC.

Principle 5

Institutional investors should be willing to act collectively with other investors where appropriate.

Mercer believes that appropriate investor collaboration is an effective manner in which to engage, particularly at times of significant corporate or wider economic concerns.

Globally, Mercer is party to a number of collaborative investor initiatives focused on improving the long term sustainability of capital markets. For example, Mercer is a service provider signatory to the UN Principles for Responsible Investment (PRI). In Europe, Mercer is also a member of the Institutional Investor Group on Climate Change (IIGCC), UK Sustainable Investment and Finance Association (UKSIF) and Eurosif, all of which promote best practice on ESG issues. Mercer's global research database also captures where investment managers participate in collaborative investor initiatives on ESG and stewardship.

Mercer will keep up to date, and participate as appropriate, in any new initiatives that may develop in time. As an example of our own willingness to act collectively, Mercer is a signatory to the 2014 Global Investor Statement on Climate Change, the 2015 Paris Pledge for Action, and the 2016 Paris Agreement letter to the G20.

In its capacity as a service provider, Mercer does not invest in companies directly. 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 collaborative engagement.

When assessing the approach of external investment managers with respect to collaborative engagement activities, Mercer considers:

- The level and quality of disclosure provided by the external investment manager on its collaborative engagement activities.
- The consistency of approach in identifying opportunities for collaboration.
- The process applied in undertaking collaborative engagement activity.
- The results of collaborative engagement activity.

In addition, Mercer assists its clients in requesting that investment managers provide examples of collaborative engagement, including details of the reasons for collaboration, the partners in the collaboration, the role played by the investment manager in the collaboration and the result of the collaborative engagement activity.

Mercer assesses the compliance of external investment managers using its four-point scale:

- **Green+:** Comprehensive public disclosure of the approach to collaborative engagement, including examples of such engagement activities.
- **Green:** Good public disclosure with supporting evidence of collaborative activity over the last twelve months.
- **Amber:** Some disclosure but with limited evidence of collaborative activity over the last twelve months.
- **Red:** No disclosure of approach to collaboration and/ or a lack of willingness to engage collectively with no meaningful explanation.

Mercer reviews its criteria for assessment regularly and in line with updated guidance from the FRC.

Principle 6

Institutional investors should have a clear policy on voting and disclosure of voting activity.

In its capacity as a service provider, Mercer does not invest in companies directly. Mercer supports its advisory clients in monitoring the stewardship and engagement activities of investment managers, in particular in assessing external investment managers' voting policies and disclosure of voting activities.

When assessing the approach of external investment managers with respect to voting activity, Mercer considers:

- The level and quality of disclosure provided by the external investment manager with respect to voting activities.
- The quality and accessibility of the manager's voting policy.
- Resources applied to voting activities and details of decision-making process.
- The use of third party proxy voting providers.
- Disclosure of voting records.
- Reporting of voting activity and examples of rationale behind voting decisions, including the quality of reporting.

In addition, Mercer assists its clients in requesting that investment managers provide meaningful details of voting activities, including details of votes with/ against company management, votes with/ against proxy adviser policy, abstentions and explanations of voting decisions.

Mercer assesses the compliance of external investment managers using its four-point scale:

- **Green+:** Comprehensive public disclosure of approach to voting, including publication of voting policy (or policies) along with disclosure of voting activity and high quality reporting on voting activity.
- **Green:** Good public disclosure of voting policy and evidence of voting activity.
- **Amber:** Limited disclosure of voting activities. Policy in place but not made publicly available.
- **Red:** No disclosure and/or no evidence of voting activity.

Mercer reviews its criteria for assessment regularly and in line with updated guidance from the FRC.

Principle 7

Institutional investors should report periodically on their stewardship and voting activities.

In its capacity as a service provider, Mercer does not invest in companies directly. Mercer supports its advisory clients in monitoring the stewardship and engagement activities of investment managers, including the assessment of external investment managers' reporting on stewardship and voting activities.

When assessing the approach of external investment managers with respect to reporting, Mercer considers:

- The level and quality of disclosure provided by the external investment manager within its reporting.
- The quality and accessibility of the manager's reporting.
- Consistency of reporting.
- Ability to tailor reporting to client requirements.
- The timeliness of reporting.

In addition, Mercer assists its clients in requesting that investment managers provide meaningful reporting of stewardship activities, including summarising examples of engagement activity, highlighting engagement progress on a consistent basis and regularly reporting to clients on a proactive basis.

Mercer assesses the compliance of external investment managers using its four-point scale:

- **Green+:** Comprehensive public disclosure of stewardship activities updated regularly.
- **Green:** Good public disclosure of stewardship activities.
- **Amber:** Limited reporting. Reporting to clients only with no public reporting.
- **Red:** No disclosure and/or no evidence of reporting.

Mercer reviews its criteria for assessment regularly and in line with updated guidance from the FRC.

Statement of Commitment Governance

This Statement was last updated in September 2016 and is reviewed on an annual basis. It has been prepared by the Responsible Investment team and approved by Mercer's UK Head of Investments.

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