MERCER
MAKE TOMORROW, TODAY

RESPONSIBLE INVESTMENT POLICY

MERCER (N.Z.) LIMITED

- **SUSTAINABLE INVESTMENT**
- **ETHICAL EXCLUSIONS**
- **CORPORATE GOVERNANCE & PROXY VOTING**

MAY 2019

MARSH & McLENNAN COMPANIES

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BACKGROUND

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

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

Mercer is part of the Marsh & McLennan Companies (MMC), whose purpose is at the core of what we do. As a collective group, MMC's motivation is to create a positive impact on the businesses, people and societies we serve.

At Mercer, our mission is to make a difference in people's lives. We strive to "Make Tomorrow, Today" by helping our clients and customers advance their health, wealth and careers.

In addition, we believe a sustainable investment approach is more likely to create and preserve long term investment capital.

The three components of the policy are:

1. Sustainable Investment
2. Ethical Exclusions
3. Corporate Governance and Proxy Voting

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SUSTAINABLE INVESTMENT

Scope

At Mercer (N.Z.) Limited (Mercer), we believe taking an investment view that goes beyond traditional financial analysis and considers a wide range of risks and opportunities – including factors that support sustainability, such as good governance, consideration of environmental and social impacts on assets, as well as the associated policy and regulatory implications – is more likely to create and preserve long-term investment capital.

As an investor in New Zealand and international markets, Mercer believes that Environmental, Social and Governance (ESG) factors can have a material impact on long term risk and return outcomes. Further, Mercer believes that principles of active ownership and investment stewardship are of value in the investment process. For that reason ESG factors are incorporated in Mercer's decision making and ownership practices for its investment funds / options in New Zealand.

This combined approach to the integration of ESG considerations and active ownership practices is known at Mercer as our sustainable investment approach. Mercer believes that sustainable investment principles can be applied across asset classes, including: New Zealand and international shares, sovereign and corporate bonds and real assets.

The following key principles underpin Mercer's approach to Sustainable Investment. Mercer will:

- Ensure that its appointed investment managers, consultants and other relevant service providers are informed about its expectations in relation to ESG and investment governance

- Regularly review its investment manager ESG ratings and seek to improve the overall ESG ratings through engagement with existing managers during the monitoring process and in the selection of new managers

- Promote Mercer's expectations in respect of ESG as a Mercer ESG 3 rating and above, where practicable (with ESG 1 being the highest and ESG 4 being the lowest rating), as a formal part of investment manager selection and review processes

- Provide oversight where ESG factors require a whole of portfolio view due to the systemic nature of a particular risk or where there may be thematic opportunities to consider. Themes which may affect investment decisions such as population and demographic shifts, climate change and the transition to a low carbon economy, energy and resource constraints, may form part of long term asset allocation or sector level decisions where it is deemed beneficial for portfolio risk and return expectations to do so.

Application to different investment structures

Mercer's investment arrangements are a combination of investments held directly and managed under a separate mandate by investment managers and collective investment vehicles (CIV's). Appropriate approaches to ESG integration are expected across these different investment approaches.

Mercer expects the investment managers it appoints to demonstrate an acceptable level of commitment to the management of key ESG risks and opportunities. Mercer recognises that sustainable corporate behaviour over time is in the best interests of long term investors. Mercer believes that ESG risks and opportunities should be assessed by investment managers in regard to security selection and portfolio construction. Examples of relevant ESG factors could include:

- Environmental pollution and climate change
- Resource constraints
- Social impacts of health and safety
- Supply chain management including labour standards
- Corporate governance implications of company remuneration structures

Listed New Zealand and international shares

To implement the Sustainable Investment approach in listed New Zealand and international shares, Mercer will inform its external investment managers and other service providers that Mercer will:

- Regularly monitor the progress of equity investment managers and their ESG integration progress
- Promote Mercer's expectations in respect of ESG integration and key thematic issues e.g. climate change, carbon emissions and the shift to a low carbon economy, in equity asset classes as a formal part of the investment manager selection and review process
- Report on the progress of Mercer's policy implementation to Mercer's Board

Investment in collective investment vehicles

Mercer may invest in CIV's, including exchange traded funds (ETF's), and these products have their own trustees who must act on behalf of all unit holders collectively.

Whilst the adoption of the policy in these vehicles ultimately relies on investment managers incorporating ESG into their investment processes, Mercer will seek to monitor significant ESG issues that arise within a CIV.

Investments in unlisted assets and alternative asset classes

Mercer may invest directly and via a CIV in some unlisted companies and in alternative asset classes / private vehicles. Alternative investment managers, including private equity, hedge funds, infrastructure and property, are assessed with regard to a wide range of factors that include their consideration of ESG risks and opportunities. Mercer can consider sustainable property characteristics within the real estate portfolio whether managed internally or outsourced. Mercer may consider ESG factors in regard to the maintenance and refurbishment of existing properties and as a factor in regard to the selection of new buildings. In these instances, Mercer's approach to Sustainable Investment will be applied on a similar basis to listed assets noted above.

New Zealand and global bonds

Mercer investment in New Zealand and global bonds whether managed directly or via a CIV, may include consideration of ESG through portfolio positioning that is focused on long term thematic driven views. ESG may be considered as part of risk management or alpha generating ideas in the context of country and credit decisions, for example, ESG issues may be considered as part of specific issue selection or incorporated in the decision making processes.

Supporting industry-wide initiatives

As a leading provider and asset manager in the industry, Mercer will keep apprised of and participate, as appropriate, in collaborative industry initiatives on areas of concern or opportunity to improve the long term sustainability of the capital markets in which we invest. Mercer will give consideration to the developments within relevant industry groups such as the international Corporate Governance Network (ICGN), the Investor Group on Climate Change (IGCC), and the United Nations-supported Principles of Responsible Investment (PRI).

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ETHICAL EXCLUSION

Scope and Criteria

Consistent with our purpose, mission and investment beliefs, Mercer may exclude investments in companies that do substantial and irreparable harm to society or the environment provided the risk/ return implications of excluding such companies is not expected to lead to significant financial detriment for clients and can be effectively managed.

In determining whether to exclude any investment on this basis, Mercer will consider:

- Whether excluding the investment supports our purpose to create a positive impact on the businesses, people and societies we serve and our mission to help our clients and customers advance their health, wealth and careers
- Whether New Zealand legislation, regulation or government commitments prohibit the product or activity or aim to severely curtail or make obsolete such products or activities in the foreseeable future.
- Our clients and customers’ perspectives
- The impact of exclusion or ongoing investment on the reputation of Mercer and our existing and potential clients
- The efficacy of other responsible investment approaches in addressing the issue of concern such as engagement with companies.

Implementation

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

Mercer will apply this framework to its direct investments. To the extent it is feasible, commercially prudent, and cost effective for clients, Mercer will use best endeavours to apply this framework to any indirect investments in collective investment vehicles (including exchange traded funds).

Current Exclusions

As at the date of this policy, Mercer (NZ) Ltd has determined that the following products should be excluded on this basis:

- Companies manufacturing cluster munitions, landmines, chemical or biological weapons, or nuclear weapons[1].
- Companies manufacturing tobacco products[2].
- Companies involved in the production and retailing of automatic and semi-automatic civilian firearms[3]

Mercer may consider additional products or services for exclusion in future against this policy.

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[1] The specific exclusions are currently as follows: Companies that manufacture whole weapons systems, components, or delivery platforms, or components that were developed or are significantly modified for exclusive use in cluster munitions, anti-personnel landmines, biological and chemical weapons or nuclear weapons. Nuclear weapons companies include companies: i) with contracts to operate/manage government-owned facilities that manufacture nuclear warheads and missiles or components for nuclear warheads and missiles, such as fissile materials, non-nuclear components, explosives, triggers and detonators, etc. ii) that assemble and integrate warheads and missile bodies; iii) that provide auxiliary services related to nuclear weapons, such as repairing and maintaining nuclear weapons, providing overhaul and upgrade services (including engineering), stockpiling and stewardship, R&D work, testing and simulations, etc. iv) with contracts to operate/manage government-owned facilities that conduct R&D, testing, simulations, and other essential sciences on nuclear weapons

[2] For tobacco manufacturing companies identified under the General Industry Classification System as Tobacco (Industry Code 302030) or who derive 50% or more of revenue from tobacco-related business activities will be excluded.

[3] All companies identified as being involved in the production and retailing of automatic and semi-automatic civilian firearms will be excluded. No minimum revenue threshold will apply for this exclusion.

3

CORPORATE GOVERNANCE & PROXY VOTING

Scope

This section of the Responsible Investment Policy governs Mercer's share voting and company engagement activities and pertains to ownership of New Zealand and international shares on behalf of investors in Mercer investment funds /options.

Mercer believes that principles of active ownership and investment stewardship are of value in the investment process. Accordingly, Mercer will apply principles of active ownership and investment stewardship and exercise its duties and obligations as an owner (or steward) of invested assets – including share voting and engagement.

The following key principles underpin the Mercer approach:

- Shares are voted in a manner that is deemed most likely to protect and enhance the long-term value of a security as an asset to the portfolio
- Mercer ensures all votes are evaluated and voted on for all company resolutions, unless there is a conflict of interest or exceptional administrative burden that would prevent this from occurring
- Voting records are maintained

The proxy voting approach applies to shares held directly and managed under a separate mandate. Where shares are held in collective investment vehicles, the legal right to vote lies with the investment manager and therefore, the investment manager's policy and voting system will apply rather than Mercer's.

Mercer as an active owner

Mercer is a long-term institutional investor and a 'universal' owner and for these reasons Mercer regards investment governance and active ownership as being of particular importance in serving the interests of our clients and customers. This policy, and the actions governed by this policy, represents Mercer's commitment to industry standards of good governance. Mercer's investment governance approach has three main components:

- Share voting
- Corporate engagement
- Public policy participation

Share voting

Mercer regards voting its shares as important to our fiduciary responsibility. A vote is a visible and concrete expression of what may have been expressed in private discussion with the company's board or management either via our agents (investment managers) or directly with Mercer management (refer to engagement section below). Voting is also an effective way for Mercer and other investors to publicly express views on what a company is doing, and where a company may need to change. For this reason, Mercer will instruct its investment managers to vote unambiguously 'for; or 'against' all company proposals in order to send a clear signal to the company. However, it may be that Mercer or its investment managers will vote 'abstain' as part of the engagement process - for instance, Mercer may signal to a company our desire for change by voting 'abstain' while simultaneously informing the company's board that if change is not sufficient future votes may be 'against' rather than 'abstain'. (Of necessity, there will also be other types of votes that may be driven by regulatory requirements or the circumstances of individual jurisdictions – for instance an 'abstain' or 'take no action' in circumstances where there has been a share issuance and the manager has participated in that issuance.)
Mercer appoints and utilises a proxy voting adviser for New Zealand and international shares for their voting execution platform, research reports, vote recommendations, and aggregated reporting. With this support, Mercer adopts the following approaches in domestic and international markets.

New Zealand and Australian shares

The decision on how to vote is ultimately made by Mercer, with oversight provided by dedicated Mercer investment professionals tasked with management of compliance with Mercer's approach to Corporate Governance and Proxy Voting.

In the first instance, Mercer policy will reflect Mercer's appointed proxy voting adviser's recommendation. The proxy voting adviser issues a report recommending 'for', 'against', or 'abstain /take no action' according to their assessment of each resolution on the basis of their guidelines. Mercer requests each of its investment managers that hold the stock to vote according to the Mercer policy on each resolution, however, should managers wish to vote differently, they may do so but are requested to document their reasons – a 'comply or explain' procedure. Mercer regards this explanation from managers as critical, as investment managers may have detailed knowledge of both the governance and operations of their investee companies and we encourage dialogue between Mercer as the ultimate fiduciary and its managers. Mercer accepts that by enabling managers to vote differently to Mercer policy, based on the belief that manager knowledge may be beneficial to the voting process, this may result in 'split votes' where Mercer's investment managers vote differently on a resolution.

Taking a super vote

Mercer has the authority to vote in a single vote or 'Super Vote' which overrides all manager and proxy advisor votes on any resolution in circumstances where Mercer believes such a vote on a significant matter is necessary. Ultimately, the decision to undertake a 'Super Vote' is based on Mercer's view of the long-term interests of its investors. In determining such votes, Mercer will consult its proxy voting advisers, its investment manager(s) and consider best practice guidelines.

International shares

Mercer has instructed its investment managers to undertake voting for Mercer's institutional shareholdings on all shares, subject to the limitations outlined below. Mercer retains the right to engage with managers and override manager voting decisions, as above, on occasion. Mercer's objective is to vote on all directly held shares in its portfolio, with the following qualifications and exceptions:

- Share blocking markets: there are some markets that place regulatory barriers to voting usually in the form of limitations on trading of shares if a vote is enacted. Mercer will seek to vote in these markets, however voting may be limited, and Mercer accepts that it may not be able vote in some or all of these markets.
- Stock lending: at the time of writing, Mercer in New Zealand does not have an active share lending programme. Should Mercer have an active share lending programme in future, where there is a significant vote, or where Mercer is a major shareholder, Mercer will seek to recall the shares from loan and vote those shares, particularly where our vote on a resolution is 'Against'.
- Collective investment vehicles: Mercer has some investments in CIV's where the investment manager, not Mercer, has the legal right to vote the shares contained in the CIV. In these cases, Mercer accepts that it cannot vote these shares, and will instead seek to monitor, and on occasion, influence voting by the investment manager.
- Individual country constraints on proxy voting such as administratively burdensome power of attorney requirements.

Corporate engagement

Corporate engagement means to have discussions with a company, usually at Board or senior management level, with the objective of understanding or changing the behaviour of that company. This will generally occur when Mercer or its agents have identified underperformance by a company, or where the company has failed to meet accepted corporate practice or where the company's conduct places in doubt the reputation and value of the company.

The issues addressed will generally focus on material environmental, social and governance (ESG) factors or business strategy issues – for example, mergers and acquisitions, capital structure and capital allocation. In general these discussions will be conducted on a confidential basis to encourage trust and openness thereby increasing the likelihood of beneficial change.

Public policy participation

Mercer has a direct interest in engaging with regulators, and sometimes with governments, to recommend changes or express views on proposed changes to regulatory regimes where this is deemed important to protect the rights, and enhance the interests of investors.

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

Disclaimer

Mercer (N.Z.) Limited (Mercer) has prepared and published this Report. Investors should be aware that the value of an investment in any of the Mercer investment options may rise and fall from time to time and that neither Mercer nor its related entities guarantees or accepts any legal liability arising from or connected to, the investment performance, earnings or return of capital invested in any of the Mercer investment options.

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

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