Mercer

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Sustainable **Investment Policy**

Mercer (N.Z.) Limited

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A business of Marsh McLennan

Contents

Purpose, Overview and Scope

This Sustainable Investment policy (this Policy) outlines our approach to environmental, social and governance (ESG) factors, stewardship, exclusions and investment in themes that apply (except where expressly stated) to the investment funds for which Mercer (N.Z.) Limited ('Mercer NZ', 'we', 'our', 'us') acts as a manager being the Mercer Investments Trust New Zealand (MITNZ), Mercer Wholesale Funds (MWF), the Mercer Investment Funds (MIF), Mercer KiwiSaver scheme, Mercer FlexiSaver, Mercer Super Trust, New Zealand Defence Force KiwiSaver Scheme and Defence Force Superannuation Scheme. Together, these funds are defined as "the Funds" in this Policy.

Overview

Mercer NZ is responsible for developing and implementing investment strategies for the Funds. We do not typically directly select individual securities in each Fund; instead, Mercer NZ appoints third-party investment managers to select these securities on our behalf[1]. We undertake a range of supervisory activities in respect of our appointed investment managers with the aim of ensuring investment managers act consistently with their mandates and the principles set out in this Policy when they select securities or other assets and construct portfolios. This is set out further in the 'Principles and Implementation Techniques' section below.

Mercer NZ relies on specialist third-party providers and their methodology for implementing this Policy, (for example, determining the securities to be excluded based on the Fund's exclusions criteria). We aim to review providers at least every three years (or more frequently if required) and may change from time to time.

Scope

Sustainable investment (or SI) is a term we use to describe a range of approaches to investment that have regard to how ESG factors may impact future investment outcomes. Sustainable investment and related practices may mean different things to different investors. We have defined the implementation techniques we use, but do not guarantee that our principles or implementation techniques align with the individual sustainability beliefs or preferences of any given investor.

Mercer NZ's view is that the principles of sustainable investing can be broadly applied across asset classes such as Trans-Tasman shares, international shares, growth fixed interest, defensive fixed interest, real assets and alternatives. However, the degree of relevance, based on materiality as well as implementation capability, can vary significantly across asset classes. For example, Mercer NZ does not regard sustainable investment principles to be relevant to investment in cash. For more information, see the asset class relevance table in the 'Principles and Implementation Techniques' section below.

In practice, our principles are not implemented absolutely nor uniformly across all holdings, strategies, managers or Funds. They are applied where relevant and practicable, and in line with the specific SI practices set out in this Policy for each Fund. The degree of relevance or materiality of ESG risks varies across asset classes and other factors, such as the type of investment strategy as noted below.

- **Directed Investments** are investments where we can direct and control our exposure to individual securities via our appointed investment managers, including through individually managed portfolios of securities. Directed Investments do not include our investments in pooled vehicles (including managed investment schemes and exchange traded funds) where we cannot direct or control our exposure to individual securities within the pooled investment. Directed Investments also do not include some forms of derivatives.
- **Related Parties pooled vehicles** means investments where Mercer NZ can generally have more influence in the way assets or underlying exposures are managed than other pooled vehicles, but that influence is not so significant that the investments should be regarded as Directed Investments. This may include investments we gain exposure to as a holder in a related entity pooled vehicle, such as Mercer Investments (Australia) Limited funds.

Investors should also consider the Product Disclosure Statement or Information Memorandum as applicable (Offer Document) for each relevant Fund. **This Policy does not apply to the Excluded Funds and asset classes listed in Appendix B**.

[1] This describes the way in which our Single Sector Funds, are managed. The Diversified Funds are typically constructed with a number of underlying Single Sector Funds. Examples of Single Sector Funds are an Overseas Shares fund or a Short Term Bond fund.

Principles and Implementation Techniques

We believe sustainable investment approaches are consistent with an objective to create and preserve long-term investment capital, where relevant and aligned with achieving investment objectives.

This is informed by Mercer's global philosophy and principles, updated in 2024 (available **here**) and our local experience implementing and evolving our sustainable investment approach for over a decade.

Mercer NZ has principles to guide our implementation approach, summarised into four techniques:

- **Integration of ESG factors** in relevant investment decisions can potentially enhance portfolio resilience. This includes appointing investment managers who assess and reflect ESG risks and opportunities when they select investments and construct their portfolios.
- **Stewardship**, via engagement with investment managers, companies and policymakers and/or via proxy voting at listed company annual general meetings, can improve investment outcomes by leveraging investor rights and influence. Engagement may be undertaken with companies or policymakers via appointed investment managers, collaborative initiatives and/or directly by us.
- **Exclusions** that seek to avoid investment in, or remove or reduce exposure as much as practicable to, certain companies or securities with involvement in defined products or business activities can help respond to stakeholder expectations where integration and stewardship are considered to be insufficient.
- **Investment in themes**, which is only applicable to the Sustainable Funds[2] (refer to the 'Sustainable Funds – Investment in Themes' section below), may provide additional opportunities to improve risk-adjusted returns.

The degree of relevance or materiality of ESG risks varies across asset classes and other factors, such as the type of investment strategy. Below is a summary of the general applicability of these techniques to particular asset classes.

As the Mercer Macquarie Real Return Opportunities fund, the Mercer Macquarie Global Income Opportunities fund and the Mercer Australian Property Index fund are pooled vehicles, we do not have influence over the way underlying assets are managed, and the above-mentioned degree of relevance or materiality of ESG may vary in particular for these funds.

Asset classes	Integration of ESG factors	Stewardship via engagement#	Stewardship via voting	Exclusions	Investment in themes
Trans-Tasman, International / Global Shares	Applicable	Applicable	Applicable for Directed Investments	Applicable for Directed Investments	Only applicable to the Sustainable Funds
Real Assets (property and infrastructure)	Applicable	Applicable	Applicable for listed assets within Directed Investments	Applicable for Directed Investments	Not applicable
Alternatives*	Applicable depending on investment strategy ^	Applicable depending on investment strategy ^	Not applicable	Not applicable	Not applicable
Growth and Defensive Fixed Interest	Applicable depending on investment strategy ^	Applicable depending on investment strategy ^	Not applicable	Applicable for Directed Investments	Only applicable to the Sustainable Funds
Cash	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

* Alternatives include a range of different strategies and are only relevant to those Diversified Funds with an allocation to alternatives (as set out in the Asset Allocation table in each Fund's Offer Document).

^ Application varies according to the type of alternative and fixed income strategies adopted, as ESG integration and stewardship is not applicable to some alternatives and some index fixed income strategies.

Engagement in this context refers to engagement with companies in which we invest and may be via investment managers or directly with companies. Refer to the 'Stewardship via Engagement' section below for more information.

For more information on how these techniques are applied in relation to climate change, please see Appendix C and refer to Mercer NZ's latest Climate Statement for the Mercer NZ retail funds: Mercer FlexiSaver, Mercer Super Trust, Mercer KiwiSaver scheme, New Zealand Defence Force KiwiSaver Scheme, Defence Force Superannuation Scheme and Mercer Investment Funds available **here** or at **crd-app.companiesoffice.govt.nz.**

[2] Appendix A lists the Mercer NZ funds which we define as Sustainable Funds.

Integration

Assessing financially material ESG factors into investment decision-making can potentially enhance portfolio resilience.

For example, in selecting and appointing investment managers, we aim to assess the extent to which consideration of ESG risks and the likelihood of being rewarded is included in the manager's investment approach for the relevant strategy (e.g. climate-related transition risk). We may also engage with appointed investment managers to encourage improvement, where identified in our monitoring activities.

The table below contains examples of ESG factors that may be considered by us and our appointed investment managers. Not all ESG factors are considered in, or relevant to, all parts of the investment process or our decision-making. A key part of incorporating ESG information is determining which factors and information are most relevant and material to decisions, and how best to incorporate them. Our oversight is focused on systemic, intersecting risks that potentially pose material financial risk and return implications across portfolios, such as changes in sustainability, transition and socio-economic risks.

Table 1 ESG Factor Examples

Environmental	Social	Governance
Climate change	Health and safety	Board diversity, composition and effectiveness
Natural capital and biodiversity	Labour standards and modern slavery, including supply chains	Executive remuneration
Waste and pollution	Human rights	Conduct, culture and ethics
		Shareholder rights

During the investment manager selection process and on a periodic basis, Mercer NZ will qualitatively assess an investment strategy's level of ESG integration in the investment process, including resourcing by the investment manager. This is done by drawing on the Mercer Manager Research team (MMR) and their views, together with the investment team's views. MMR largely undertakes a qualitative assessment of an investment manager's ESG capabilities based on desk-based research, as well as meeting with investment managers' key investment personnel.

Where relevant and aligned with the investment strategy and objectives of a Fund, Mercer NZ has a preference to appoint investment managers with stronger ESG integration capabilities rather than weaker. This is particularly relevant for the Funds we define as Responsible or Sustainable[3], offered by Mercer NZ.

[3] Appendix A lists the Mercer NZ funds which we define as Sustainable Funds and Responsible Funds.

Stewardship

Effective stewardship, which we consider includes engagement with companies we invest in or may invest in, as well as policymakers, can potentially improve investment outcomes by leveraging investor rights and influence to seek change and/or gather additional information to make better investment decisions.

We utilise two primary approaches to stewardship – engagement and voting.

Engagement

Engagement may be undertaken with companies or policymakers via appointed investment managers, collaborative initiatives and/or directly by Mercer NZ or Mercer globally. We also typically engage with our appointed investment managers on at least an annual basis, for example through an annual survey covering all relevant strategies and targeted meetings by asset class.

Mercer NZ believes its appointed investment managers are typically best placed to conduct engagement with companies or assets on our behalf and, where relevant, this is an expected part of an investment manager's stewardship approach. The investment managers make investment decisions within a strategy and are expected to identify potentially material opportunities or risks that may require engagement activity. However, Mercer NZ may also conduct engagement activities with companies directly, or through involvement in collaborative initiatives, where we believe engagement by Mercer NZ is in the best interests of our investors.

We may also engage with regulators, governments and other policymakers, collaboratively or directly, to recommend changes or express views on current or proposed regulation or policy positions where we consider this important to protect the rights or enhance the interests of our investors.

Engagement seeks to target various ESG factors identified as potentially material, for example company board governance or remuneration and climate change risks, and/or to respond when we become aware of matters of material concern (such as a high severity incident under the United Nations Global Compact principles).

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

Voting

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

We delegate the exercise of our proxy voting rights to our listed equity investment managers and where practical, expect the listed equity investment managers to vote the shares in a timely manner and in a manner deemed most likely to protect and enhance long-term value. Typically, an investment manager's capability in stewardship is evaluated as part of the investment manager selection process, to seek alignment with Mercer NZ's commitment to promote good governance and long-term value creation.

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

Mercer NZ engages the services of a third-party proxy advisor (Glass Lewis, at the time of writing) to provide proxy voting research and facilitate the collation and reporting of proxy voting data, which Mercer NZ uses to monitor manager voting. Our ability to directly monitor and report on proxy voting only applies to Directed Investments.

From time to time, a Fund may hold listed equities in a transition account where the transition manager does not have a voting policy or capability. In these instances, Mercer NZ will seek to vote the shares in the transition account in alignment with the recommendations of the proxy advisor.

Exercising a 'Priority Vote'

While proxy voting decisions are typically delegated to the listed equity investment managers, Mercer NZ retains the right to review investment manager vote intentions and rationale, and potentially align votes for our account in certain circumstances. There may be resolutions where votes are 'Mixed' or 'Split' if the appointed investment managers vote differently. When Mercer NZ reviews and potentially intervenes in manager positions (Priority Vote), this is typically because it is one of our most material holdings, there is some contention around the vote, and Mercer NZ believes its intervention would better reflect our view on the best interests of investors as well as aligning with our voting principles as described in the "Voting principles" section below.

In determining such votes, Mercer NZ may consider a range of factors, including:

- its proxy advisor's recommendation
- the view of its listed equity investment managers, particularly those we believe to have greater engagement expertise
- collaborative initiative research, and/or
- the company's views.

Mercer NZ may also conduct its own research or engage with the relevant company to inform its decision, and typically provides prior notice to the company of its voting intentions.

When a Priority Vote is exercised, Mercer NZ will also seek to apply the voting decision to any relevant shares held in transition accounts.

The Voting principles discussed below apply to Mercer NZ's decision making in the case of a Priority Vote.

Voting principles

When considering ESG factors in voting activities, we generally seek to support resolutions that encourage transparency, accountability and alignment with shareholder interests and timeframes.

As mentioned above, Mercer NZ expects its listed equity investment managers to establish their own voting policy that sets out the principles and guidelines under which rights to vote are exercised. However, Mercer NZ's voting principles help to guide decisions where a Priority Vote is being considered. They may also be used on occasions where Mercer NZ is reviewing appointed investment manager proxy voting decisions.

Mercer NZ's voting principles on various topics are documented within internal procedures and we aim to review these procedures at least annually. In summary, these include principles for governance topics – such as director elections, board composition, and remuneration – and stewardship on environmental and social topics.

Operational limitations for voting

Mercer NZ's objective is to vote all listed shares on a best endeavours basis. However, there may be circumstances where Mercer NZ or its appointed investment managers may be unable to participate in a vote. Mercer NZ seeks to reduce the extent of such voting exceptions through monitoring activities and engagement with managers on their voting systems and practices. There may also be circumstances where the investment manager or Mercer NZ decides that abstaining from a vote may be in the best interests of investors.

There is no significant jurisdictional variation in our voting principles, however in practice, significant holdings in local markets are likely to receive more attention, largely due to portfolio materiality prioritisation.

Types of voting exception scenarios are explained below:

Term	Definition
Share blocking markets	There are some markets that place regulatory barriers to voting, usually in the form of limitations on trading shares if a vote is enacted. Although Mercer NZ will seek to vote in these markets, we accept voting may be limited or not possible.
Pooled vehicles, including related parties	Mercer NZ may have investments in pooled vehicles (including managed investment schemes and exchange traded funds) where we cannot direct or control our exposure to individual securities within the pooled investment and the investment manager, rather than Mercer NZ, has the shareholder voting rights. While we may not be able to report on the voting activity of pooled vehicles, we still expect the investment managers of these vehicles to exercise their voting powers.
Power of Attorney (PoA) markets	There are some international markets where voting can only be carried out by an individual actually attending the meeting. This usually needs to be carried out on Mercer NZ's behalf by the custodian. The rules on PoAs vary by market, apply for different periods of time, and have various cost implications. Mercer NZ will typically put in place PoAs for larger markets (such as Argentina, Brazil, Poland and Sweden) but will undertake a cost/benefit analysis on smaller markets which employ this structure. As a consequence, there may be some smaller markets where Mercer NZ will decide that it is not in investor interests to vote shares.

Escalation

Where Mercer NZ considers that interaction with an appointed investment manager or a portfolio company has not yielded the desired outcomes against targeted objectives and timeframes, we have established various escalation strategies that may be employed to increase the likelihood of outcomes being met and reduce the likelihood of identified risks persisting. The specific timeframes may change based on the nature of the escalation. Internal guidelines have been established for such escalation considerations and the approach to escalation will vary for appointed investment managers compared to portfolio companies.

Options for escalation with companies could include increased frequency of engagement, collaborating with other investors to address the company's lack of response, utilising our proxy voting rights, putting forward a shareholder resolution, and ultimately considering divesting from the company or excluding it from investment portfolios.

Disclosure

Mercer NZ typically aims to report to our investors on our stewardship activities on an annual basis in our Annual Sustainable Investment Report[4]. Individual client reporting can provide further, more specific examples on engagement statistics and activities, as well as case study examples by topic or with particular companies.

In the interests of transparency, Mercer NZ discloses proxy voting results on our website **here**[5] (to the extent that these are available e.g. for Directed Investments). Proxy voting results are updated on a six-monthly basis, within three calendar months of the end of the reporting period and show the prior twelve months.

[4] Annual Sustainable Investment Report available on https://www.multimanager.mercer.co.nz/funds/environmental-social-governance-policies.html and https://www.mercerfinancialservices.co.nz/sustainable-investment.html.

[5] https://viewpoint.glasslewis.com/WD/?siteId=Mercer

Exclusions

Exclusions involve seeking to avoid investing in, as well as removing or reducing exposure as much as practicable to, certain companies with involvement in defined products or business activities.

Exclusions can be used to respond to evolving societal norms and expectations, including New Zealand Government policy positions, especially where integration and stewardship are considered to be insufficient or not applicable.

Exclusions may be implemented either as rules-based, pre-defined criteria (such as the Exclusions Criteria defined below) or an escalation response for specific holdings related to an engagement process (as described above under the “Stewardship” section). The below documents our approach to rules-based exclusions.

As described below, our application of exclusions is generally determined by the asset class and nature of the holdings, and are subject to the operational limitations and exceptions.

Exclusions only apply to Directed Investments.
If a Directed Investment meets an Exclusions Criteria, our investment managers will generally be expected to divest the Directed Investment in a reasonable period of time and as market conditions allow.

Exclusions Criteria

As at the date of this Policy, appointed investment managers are required to apply the following exclusions to the Directed Investments of the Funds (Exclusions Criteria), unless an operational limitation as noted below, or other factors beyond our reasonable control, mean they are not possible to apply.

Exclusion	Exclusions Criteria
Controversial weapons	Companies that manufacture whole weapons systems, or delivery platforms, or key components that were developed or are significantly modified for use in cluster munitions, anti-personnel landmines, biological or chemical weapons or nuclear weapons (regardless of revenue). Companies with involvement* in the production or retailing of automatic or semi-automatic civilian firearms or ammunition (regardless of revenue).
Tobacco	Companies with involvement* in the production of tobacco, manufacture of nicotine alternatives or tobacco-based products (regardless of revenue), including subsidiaries and joint ventures. Nicotine alternatives and tobacco-based products include, for example, nicotine vaping products such as ‘vaping’ devices and e-cigarettes. Any other company that derives greater than 50% of revenue^ from tobacco-related distribution, wholesale or retail, and services such as marketing or supplying products necessary for production.
Russian assets#	Defined as: • Sanctioned Russian entities and related entities of sanctioned entities; • Equity – issues of publicly held companies with Russia as the country of incorporation or where the security has a primary listing in Russia (including ADRs/GDRs), including their subsidiaries; • Fixed income – issuers captured in equity screening (as above) by country of incorporation, plus Russian sovereign bonds and bonds issued by Russian government-related entities (Rouble or foreign currency denominated); • Cash holdings in Russian currency; • Russian FX exposure; • Private markets assets domiciled in Russia; • All secondary issues of excluded securities; and • Derivatives having a Russian asset as primary exposure.

* Involvement is determined by a third-party ESG research provider, currently ISS ESG, typically assessed based on revenue derived from defined activities (no revenue thresholds) or in the case of expansion metrics assessed based on capital expenditure.

^ Revenue is gross revenue in the last full financial year or, where not available, net revenues based on available company filings.

Mercer NZ has instructed its investment managers to divest any existing exposure to Russian securities as market conditions allow and to prohibit any new investments in Russian securities. This may mean that some Funds still retain exposures to Directed Investments in Russian securities, as Mercer NZ seeks to divest in a manner that promotes the best interests of investors.

The Additional Exclusions Criteria section below only applies to the Funds we define as a Responsible or Sustainable Fund[6].

Additional Exclusions Criteria

Further to the exclusions listed in the Exclusions Criteria section above, additional exclusions also apply for the Responsible and Sustainable Funds (listed in Appendix A).

Applying Additional Exclusions Criteria may affect investment risks and returns where, for example, there are exclusions to investments in companies that are not typically excluded in other funds. If those excluded companies perform well or poorly in certain time periods, there may be differences in return outcomes compared to a benchmark or comparable fund where those exclusions are not applied.

The Additional Exclusions listed below apply to the Directed Investments of some asset classes – equities, global bonds and global credit – for the Responsible and Sustainable Funds (Additional Exclusions) within certain revenue thresholds, unless exceptions (as noted below) or other factors beyond Mercer NZ's control mean they are not possible to apply. Other Fixed Income, Overseas Sovereign Bonds and New Zealand Sovereign Bonds asset classes do not have the below Additional Exclusions.

These Additional Exclusions for responsible and sustainable labelled Equities and Global Bonds are defined as:

Additional Exclusion	**Additional Exclusions Criteria** for responsible and sustainable labelled Equities and Global Bonds
Coal, oil, or gas	Companies with involvement* in the following as defined by Global Industry Classification Standard (GICS) sub-industry: • Oil & gas drilling • Oil & gas equipment & services • Integrated oil & gas • Oil & gas exploration & production • Thermal coal & consumable fuels. Companies that own proved or probable reserves in coal, oil, or gas; and derive in excess of 15% of their revenue^ from exploration and extraction of thermal coal, oil or gas. Where referred to above, 'coal, oil or gas' includes these fuels where derived from unconventional sources such as tar sands or shale.
Adult entertainment	Companies with greater than 10% of revenue^ from adult entertainment-related business activity (adult entertainment-related activities mean production, distribution and not accessible to minors as defined by third-party data provider).
Alcohol	Companies with greater than 10% of revenue^ from alcohol-related business activities (alcohol-related activities mean production, distribution and services to the production of alcoholic beverages alcohol as defined by third-party data provider).
Gambling	Companies with greater than 10% of revenue^ from gambling-related business activities (gambling-related activities mean production, services and distribution of gambling products as defined by third-party data provider).
Depleted uranium	Companies with involvement* in the development or production of depleted uranium ammunition/armour.

^ Revenue is gross revenue in the last full financial year or, where not available, net revenues based on available company filings.

[6] Appendix A lists the Mercer NZ funds which we define as Sustainable Funds and Responsible Funds.

The following Additional Exclusions apply to responsible and sustainable labelled Global Credit and are defined as:

Additional Exclusion	**Additional Exclusions Criteria –** for responsible and sustainable labelled **Global Credit**
Nuclear weapons	Companies with involvement* in the development or production of nuclear weapons.
Depleted uranium	Companies with involvement* in the development or production of depleted uranium ammunition/armour.
Tobacco	Companies that derive greater than 10% of revenue^ from tobacco-related distribution, wholesale or retail, and services such as marketing or supplying products necessary for production.
Cannabis	Companies that derive greater than 10% of revenue^ from cannabis (medicinal or recreational) production, distribution or services.
Saudi Arabia	Saudi Arabian securities, defined by country of incorporation or where the security has a primary listing in Saudi Arabia, including subsidiaries.
Adult entertainment **Alcohol** **Gambling**	Companies with a material exposure to adult entertainment, alcohol or gambling, where materiality is defined as greater than 10% of revenue^ from production and/or distribution, wholesale or retail, and services such as marketing or supplying products necessary for production.
Live animal exports	Companies that derive greater than 10% of revenue^ from live animal export for the purpose of selling live animals for slaughter, husbandry and breeding subjects, including specialised transportation services specifically designed to facilitate live exports.
Animal fur production	Companies that derive greater than 5% of revenue^ from fur production.
Thermal coal mining	Companies that derive greater than 5% of revenue^ from thermal coal mining.
Oil sands production	Companies that derive greater than 5% of revenue^ from oil sands production.
Fossil fuels	Companies that own proved or probable reserves in coal, oil or gas and derive greater than 15% of revenue^ from exploration and/or extraction of coal, oil, or gas; or companies with a primary business activity in any of the excluded sub-sectors below: • Oil & gas drilling • Oil & gas equipment & services • Integrated oil & gas • Oil & gas exploration & production • Thermal coal & consumable fossil fuels. Where referred to above, 'coal, oil or gas' includes fuels derived from conventional and unconventional sources such as tar sands or shale.

* Involvement is determined by a third-party ESG research provider, currently ISS ESG, typically assessed based on revenue derived from defined activities (no revenue thresholds) or in the case of expansion metrics assessed based on capital expenditure.

^ Revenue is gross revenue in the last full financial year or, where not available, net revenues based on available company filings.

The Exclusions Criteria and Additional Exclusions Criteria listed above are current as at the date of this Policy and changes may occur from time to time. The latest Exclusions Criteria and Additional Exclusions Criteria (if any) can be found **here** for the MITNZ, MWF and MIF and **here** for Mercer KiwiSaver scheme, Mercer FlexiSaver and Mercer Super Trust and in the Statement of Investment Policy and Objectives of each relevant Fund.

We reserve the right to implement other exclusions at our discretion having regard to investor best interests. Any material changes will be communicated to investors.

Determining whether companies or securities meet an Exclusions Criteria

For Directed Investments:

- we currently engage ISS ESG[7], a third-party ESG research provider to create lists of excluded securities (Exclusion Lists) based on our Exclusions Criteria and Additional Exclusions Criteria. The research provider has defined evaluation rules and methodology frameworks underpinning its assessment.
- the Exclusion Lists are typically updated on a quarterly basis and made available to the investment managers, as relevant.
- where a security is identified that is on a Exclusion List, the manager is instructed to not make any additional purchases of such security or securities and shall divest such security or securities within 10 business days after quarter end, unless agreed otherwise with Mercer NZ.
- our custodian monitors compliance of Directed Investments against the Exclusion Lists, and would flag any discrepancies with Mercer NZ.

For those investments outside the Directed Investments definition, although we have a limited capacity to implement exclusions, we typically provide the Exclusions Criteria and Additional Exclusions Criteria to the investment managers and request they seek to align with the Exclusions Criteria and Additional Exclusions Criteria (where possible).

As the Mercer Macquarie Real Return Opportunities Fund, the Mercer Macquarie Global Income Opportunities fund and the Mercer Australian Property Index fund are pooled vehicles, we do not have influence over the way underlying assets are managed, and the above-mentioned exclusions may not apply to these funds.

Operational limitations or exceptions for exclusions

As noted above, we are generally able to apply exclusions to Directed Investments only.

For our investment holdings in any Fund the following operational limitations or exceptions may impact our ability to apply our Exclusions Criteria:

- **Transitional implementation for the Funds** – From time to time, Directed Investments may be transitioned into the Funds. In these instances, the investment managers of any transitioned Directed Investments will be instructed to implement the Exclusions Criteria as market conditions allow and in the best interest of investors. The investment managers will require a transition timeframe to align with the Exclusions Criteria. This means that the Funds may contain exposures to securities that would otherwise meet the Exclusions Criteria for a period of time following the transition of Directed Investments into the Funds.
- **Discretion** – In limited circumstances, we may allow the investment managers to continue to hold or acquire Directed Investments that meet the Exclusions Criteria (for example, where a movement above an exclusion threshold may be temporary due to market movements or data lags or where the Directed Investments are material to achieving the Fund's objectives). In such circumstances, we will continue to monitor the exposure to the Directed Investments and instruct investment managers to divest only if we believe it is in the best interests of our investors.
- **Other factors beyond our control** – There remain some factors beyond our control which means a Fund may have exposure to a company or security that meets an Exclusions Criteria. These factors may include, for example, market conditions and liquidity, operational or structural constraints, different definitions and methodologies of research providers, or where there is a change of a company's revenue mix over a reporting period, data or calculation methodologies.
- **Limited reporting** – The third-party researchers we engage do not report on all organisations. Their reports cover a subset of the companies available for investment. If managers invest in assets that fall outside the parameters of research available to us, it is possible that investments may be made in entities that would otherwise be excluded based on our Exclusions Criteria.

[7] Mercer may change the third-party ESG research provider and/or change the scope of its role from time to time.

Sustainable Funds – Investment in Themes

The fourth implementation technique, investment in themes, includes investing in solutions to long-term systemic issues that may provide additional opportunities to improve risk-adjusted returns. This is only applicable to some asset classes in the Sustainable Funds as not all asset classes within diversified funds are classified as sustainable (as noted in the "Scope" section above).

Market inefficiencies in pricing transition risks, combined with the development of new technology and sustainable solutions across developed and emerging markets, may create opportunities for investors to capitalise on the transition to a net-zero carbon, nature-positive, and more equitable world.

Examples of these sustainability-themed investment opportunities may include safe and accessible water, sustainable agriculture, renewable energy, green buildings and lower carbon tilted portfolios.

The Sustainable Funds typically aim for a higher allocation to sustainability themes via the appointed investment managers than an equivalent non-Sustainable Fund. We currently use the following guidance for categorising a Sustainable Fund:

- exposure to underlying strategies where Mercer Manager Research categorises their idea generation process as preferencing exposure to sustainability-themed companies or assets or underlying funds classified by the Responsible Investment Association of Australasia (RIAA) as Sustainable; and
- funds meet a threshold exposure where the allocation to these defined strategies can be assessed as a majority of the Strategic Asset Allocation (adjusted for Cash and Sovereign bonds allocation if any) for diversified funds and a substantial majority for single-sector funds.

Appendix A – Responsible and Sustainable Funds

In 2024, RIAA launched classifications to be used alongside its certification program. Drawing on both the RIAA guidance and feedback from the Australian and European markets, Mercer NZ has engaged in a review of its labelling methodology.

The fund names and classifications set out below are the current fund names and classifications for those funds. However, once Mercer NZ has finalised its review of the labelling methodology, the fund names will be updated in line with that methodology in 2025.

Fund name	Classification
Mercer KiwiSaver scheme	
Sustainable Conservative	Responsible
Sustainable Plus Moderate	Sustainable
Sustainable Plus Balanced	Sustainable
Sustainable Plus Growth	Sustainable
Sustainable Plus High Growth	Sustainable
Sustainable Plus Shares	Sustainable
Mercer Investment Funds (MIF)	
Mercer Ethical Leaders Balanced Fund	Sustainable
Mercer Ethical Leaders NZ Shares Fund	Responsible
Mercer Ethical Leaders Global Shares Fund	Responsible
Mercer Ethical Leaders Hedged Global Fixed Interest Index Fund	Responsible
Mercer Investment Trusts New Zealand (MITNZ)	
Mercer Socially Responsible Overseas Shares Portfolio (Hedged and Unhedged)	Sustainable
Mercer Socially Responsible Conservative Portfolio	Sustainable
Mercer Socially Responsible Moderate Portfolio	Sustainable
Mercer Socially Responsible Balanced Portfolio	Sustainable
Mercer Socially Responsible Growth Portfolio	Sustainable
Mercer Socially Responsible High Growth Portfolio	Sustainable
Mercer Socially Responsible Global Credit Portfolio	Sustainable
Mercer Socially Responsible Trans-Tasman Shares Portfolio	Responsible
Mercer Socially Responsible Overseas Shares – Low Active Risk Portfolio	Responsible
Mercer Socially Responsible Overseas Shares Index Portfolio (Hedged and Unhedged)	Responsible
Mercer Socially Responsible Global Aggregate Index Portfolio	Responsible

Appendix B – Scope of Excluded Funds and Asset Class

Name or description of Fund	Effective Date (if other than this Policy's date)
Mercer Diversifying Alternative Strategies Portfolio in the MITNZ	
Private equity (asset class)	
Cash (asset class)	
Bespoke client arrangements (such as when a client requests that we implement their own sustainable investment preferences)	

Appendix C – Climate Change

Climate targets

In 2021, Mercer established a target to achieve net-zero absolute portfolio carbon emissions by 2050 for all assets under management in New Zealand (including the Mercer Funds at that time). Mercer also established an expectation that portfolio carbon emissions would reduce by 45% by 2030, from 2020 baseline levels. A review of Mercer's net-zero target is planned for 2025 at the mid-point to 2030.

We also note that as of 3 March 2023, Mercer NZ became the manager of Macquarie Asset Management NZ Limited's retail and wholesale funds. The funds are now called the Mercer Wholesale Funds (MWF) (for wholesale investors) and Mercer Investment Funds (MIF) (for retail investors). Previously, Macquarie Asset Management NZ Limited had set a net-zero emissions target by 2040 for these funds. Mercer will review the MWF and MIF target as part of the planned 5 yearly review in 2025.

Key assumptions

The net-zero target is based on the belief that it is likely to be aligned with the best long-term financial interests of members and investors, and that we can achieve short-term implementation while still meeting diversified fund objectives. This target draws on current climate science, international government policy responses and the response by companies in the real economy.

This target relies upon several key assumptions:

- the prevalent climate science at the time the target was set, recommending a net-zero target date of 2050.
- Mercer's climate scenario analysis (undertaken three times since 2015) indicating that a 2°C or below scenario is in investors' best interests and that aligning with a transition scenario does not present additional long-term downside risk if another scenario eventuates.
- the availability of sufficient investment strategies, solutions, asset-level climate data and industry frameworks that allow investors across asset classes to decarbonise while meeting investment objectives.
- our discussions with many investment managers about their ability to deliver on investment objectives while taking net-zero emissions reductions into consideration.
- a staged transition across different asset classes and strategies based on underlying sector exposures and liquidity considerations.
- an expectation that governments will follow through on their commitments to ensure the objectives of the Paris Agreement are met, including increasing the ambition of their Nationally Determined Contributions.

To meet our targets, we rely on our principles and implementation techniques referred to in this Policy.

We seek to work closely with our investment managers to identify and manage a staged emissions reduction plan, and steward an increase in transition capacity across the Mercer Funds. We also oversee fund allocations to climate solutions, particularly in the Sustainable Funds. We monitor and report progress on reductions to Mercer Funds' investors/members in the Annual Sustainable Investment Report[8] or in client specific reporting. These targets are being embedded within necessary governance, risk management and strategy processes and we communicate them to relevant partners and third-parties (such as relevant investment managers and data providers).

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

Progress towards achieving the stated target will be monitored on a regular basis, typically annually, considering absolute emissions and carbon intensity reductions, together with transition capacity using Mercer's proprietary Analytics for Climate Transition (ACT) tool. The ACT tool assesses portfolios for climate transition risk across a spectrum, with the companies within portfolios categorised as those that have high emissions and limited capacity to transition ('grey' category) to investments that have low emissions and high capacity to transition ('green' category) and the range between the two ('in-between' categories).

[8] Annual Sustainable Investment Report available on https://www.multimanager.mercer.co.nz/funds/environmental-social-governance-policies.html and https://www.mercerfinancialservices.co.nz/sustainable-investment.html.

Appendix D – Policy Governance

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

Name of owner	Area of responsibility
Mercer NZ Board	Owns and approves Policy.
Mercer NZ Risk, Audit & Due Diligence Committee	Oversee monitoring against Policy.
Mercer NZ Chief Investment Officer (CIO)	Accountable for adherence to this Policy and oversight of the Investment Management Team.
Mercer Sustainable Investment, Investment Management Team	Responsible for maintaining this Policy and working with the wider Investment Management Team on implementation and monitoring alignment with this Policy.
Mercer Sustainable Investment, Consulting Team	Provide annual review of effective implementation of this Policy and input to any Policy updates.
Mercer Risk and Compliance Team	Oversight of Policy governance.

This Policy will aim to be reviewed at least annually (or more frequently if required) to reflect any meaningful change to Mercer NZ's investment approaches or where required by relevant law or regulation.

Despite any provision to the contrary, this Policy may be amended to:

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

Appendix E – Revision History

Version	Reason for amendment	Date approved
1.	The creation of the Sustainable Investment Policy and the Corporate Governance Policy.	December 2015
2.	Creation of the Ethical Exclusions Policy which excludes companies manufacturing cluster munitions, landmines, chemical or biological weapons, or nuclear weapons. The amalgamation of the Sustainable Investment Policy, the Corporate Governance Policy and the Ethical Exclusions Policy into the Responsible Investment Policy and the addition of a tobacco exclusions.	April 2017
3.	Additional firearms exclusions were added to the Responsible Investment Policy.	May 2019
4.	Additional tobacco and nuclear weapons exclusions were added. Sustainable Investment section divided into the ESG Integration and Sustainability Themes sections. The addition of a section on Climate Change and an update to the Active Ownership section. Update to the exclusion criteria framework. The segregation of and update to the Policy Implementation section, and the addition of the Appendix to include details of Mercer's ESG framework. The addition of a revision history chart.	November 2019
5.	Review to make the Policy more concise and principles based & align policy wording to key implementation developments during the year notably in the areas of Active ownership, Net Zero, and UN Global Compact. Update name from Responsible Investment Policy to Sustainable Investment Policy, in-line with Mercer Global and Industry language.	February 2022
6.	Annual policy review and update to align with regulatory guidance. Updated to add details of exclusions.	September 2023
7.	Updated with Mercer latest Global Philosophy and Principles. Phasing-out of the global ESG Ratings. Moved climate change section to Appendix and referenced our Climate Statement. Updates on stewardship, additional exclusions and thematic investments only applying to Sustainable Funds.	February 2025

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Disclaimer for Retail Customers

Investors should be aware that the value of an investment in any of the Mercer NZ investment options may rise and fall from time to time and that neither Mercer NZ nor its related entities guarantees or accepts any liability arising from or connected to, the investment performance, earnings or return of capital invested in any of the Mercer investment options.
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Mercer NZ is the manager of the Mercer Investment Trusts New Zealand (MITNZ) and the Mercer Wholesale Funds (MWF).
The MITNZ and MWF are a range of unregistered wholesale investment trusts. Investors should be aware that the value of an investment in any of the MITNZ or MWF investment options may rise and fall from time to time and that neither Mercer NZ 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 MITNZ or MWF investment options. To invest in the MITNZ or MWF, you will need to complete an application form included in, or accompanying, a current MITNZ or MWF Information Memorandum which is issued by, and available from Mercer NZ. The MITNZ and MWF are only open to investment by a person who is a wholesale investor for the purposes of the Financial Markets Conduct Act 2013.

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This document refers to Mercer NZ's latest Climate Statement but does not form part of the Climate Statement.

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