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sustainable

investment policy

Mercer Superannuation (Australia) Limited
December 2021

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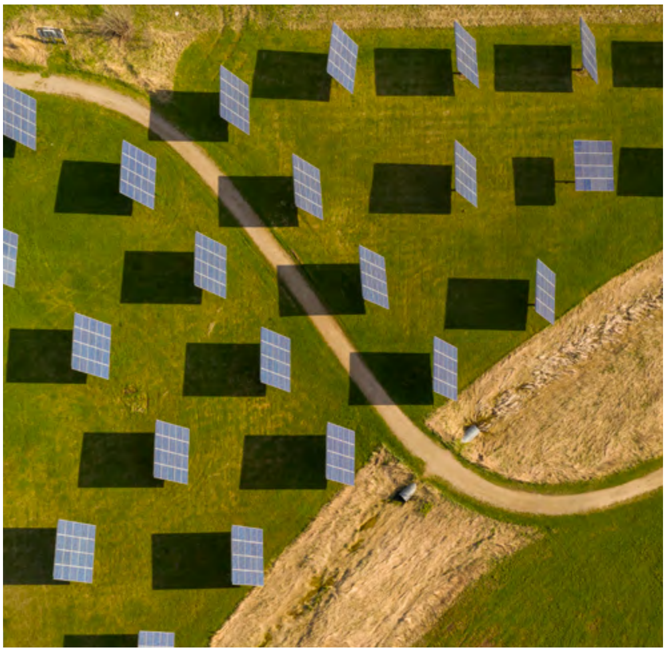
Contents

01/Policy Scope and Key Principles

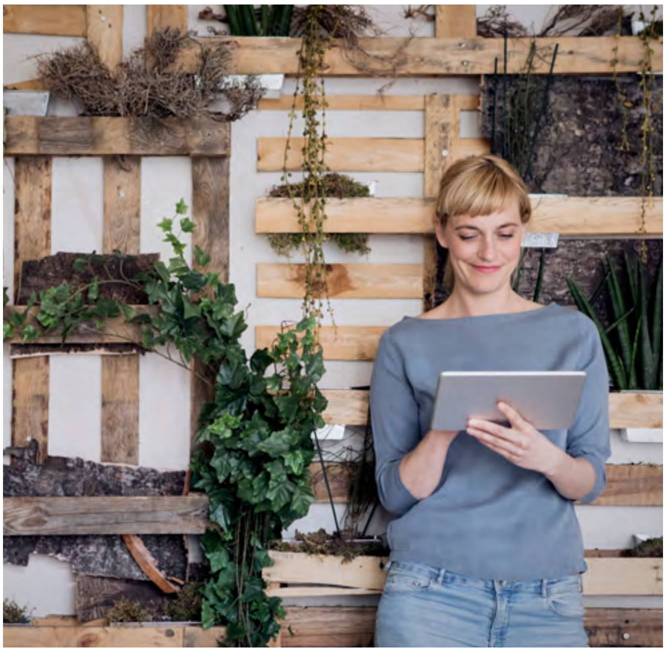
Mercer Superannuation (Australia) Limited (MSAL) is the trustee of the Mercer Super Trust, and Mercer Portfolio Service Superannuation Plan, collectively known as the Trusts. In its capacity as trustee, MSAL has appointed Mercer Investments Australia Limited (MIAL) to act as the primary implemented consultant for the Trusts. MSAL and MIAL are wholly owned subsidiaries of Mercer (Australia) Pty Ltd, which is part of the Mercer group of companies (referred to collectively as 'Mercer', 'we' or 'us').

This policy provides an overview of MSAL's principles and policies governing sustainable investment as it relates to the MIAL managed investment options of the Trusts. Any references to 'the Trustee' throughout this document should be taken as references to MSAL. This policy is intended to cover the relevant requirements of the Superannuation Industry Supervision (SIS) Act and Superannuation Prudential Standard 530 (SPS 530).

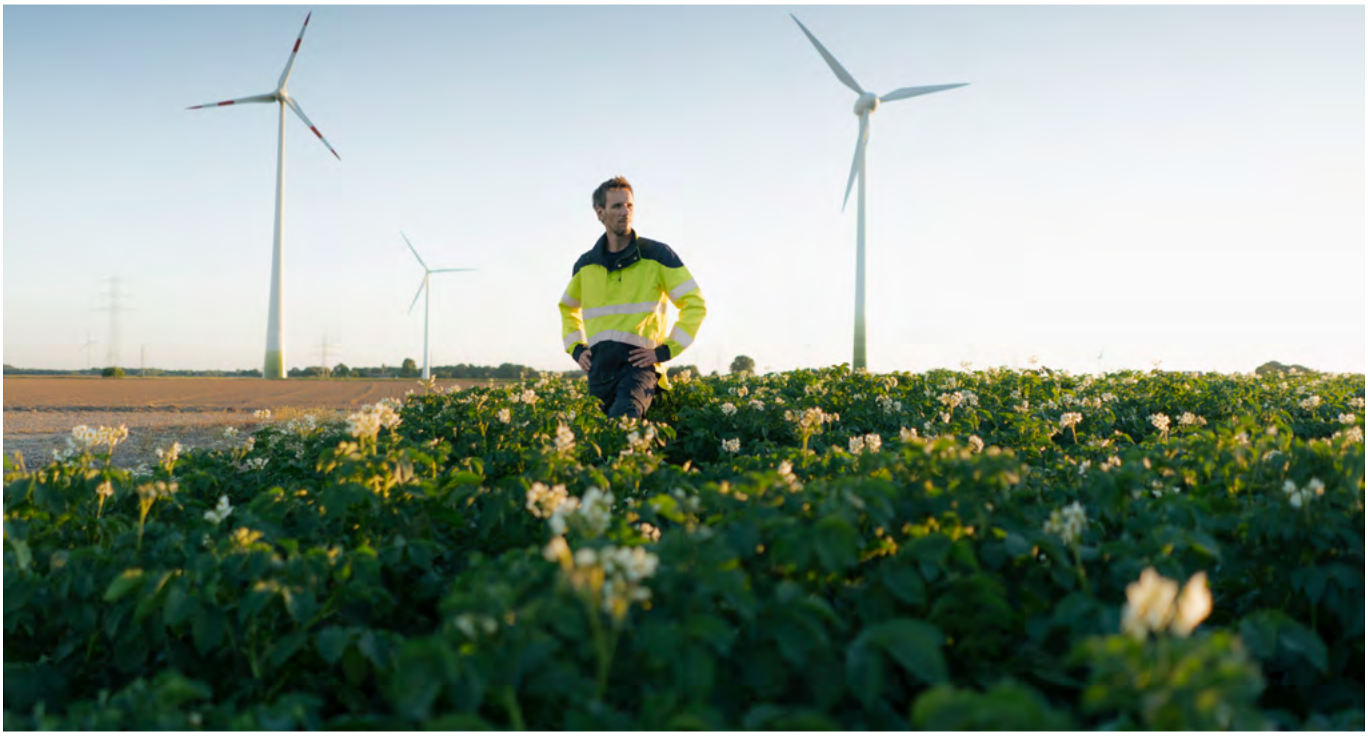


This policy forms part of the investment governance framework for the Trusts and should be read in that context. Please refer to this policy for Mercer's key principles and overarching approach to the following components:

1. Environmental, Social and Governance (ESG) integration
2. Sustainability themes
3. Climate change
4. Active ownership
5. Screening



MIAL does not typically directly select investments; instead it appoints specialist investment managers. This policy sets out how MIAL will implement its investments beliefs on sustainable investment within the Funds it manages. In implementing this policy Mercer commits to clear communication of the policy and transparency in reporting on implementation activities to stakeholders.



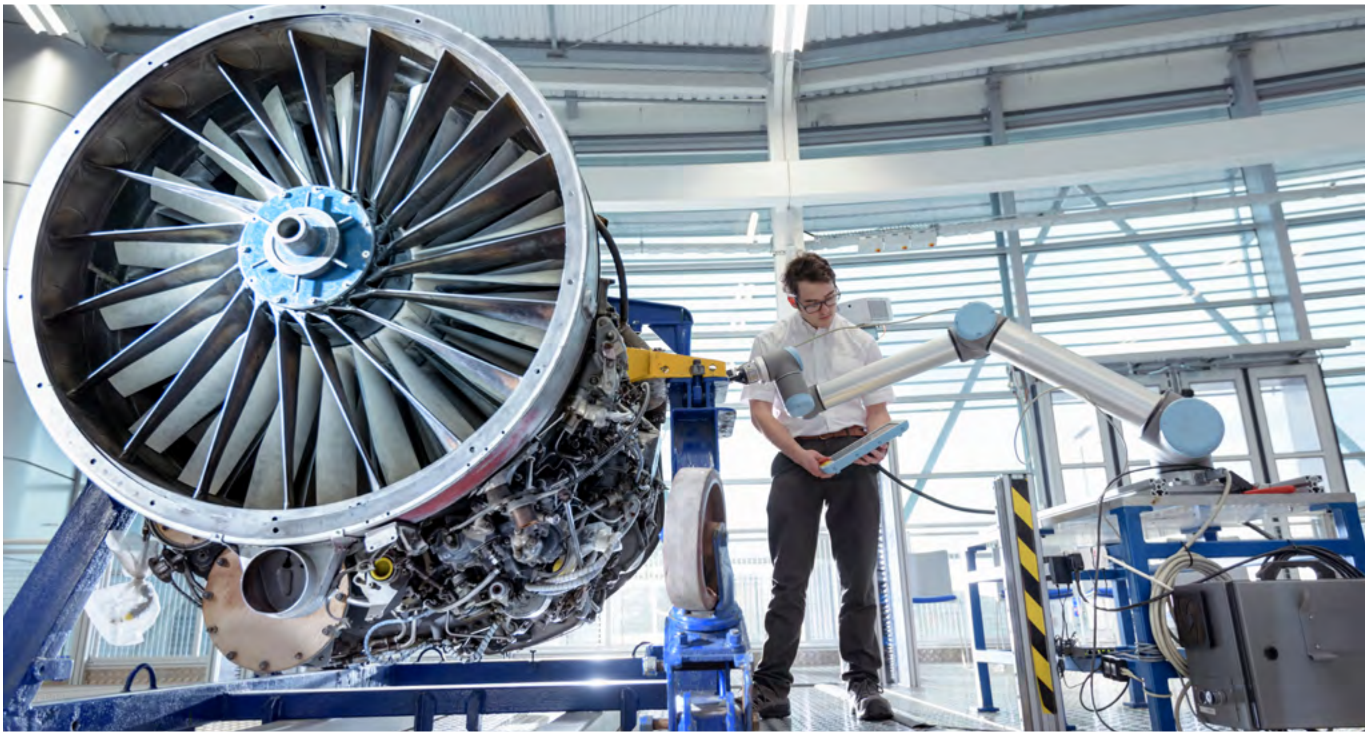
Our Beliefs

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

1. ESG factors can have a material impact on long-term risk and return outcomes and these should be integrated into the investment process.
2. Taking a broader and longer-term perspective on risk, including identifying sustainability themes and trends, is likely to lead to improved risk management and new investment opportunities.
3. Climate change poses a systemic risk, and investors should consider the potential financial impacts of both the associated transition to a low-carbon economy and the physical impacts of different climate outcomes.
4. Stewardship (or active ownership) supports the realisation of long-term shareholder value by providing investors with an opportunity to enhance the value of companies and markets.

Consequently, Mercer believes that a sustainable investment approach that considers these risks and opportunities is in the best interests of our investors.

02/ESG Integration



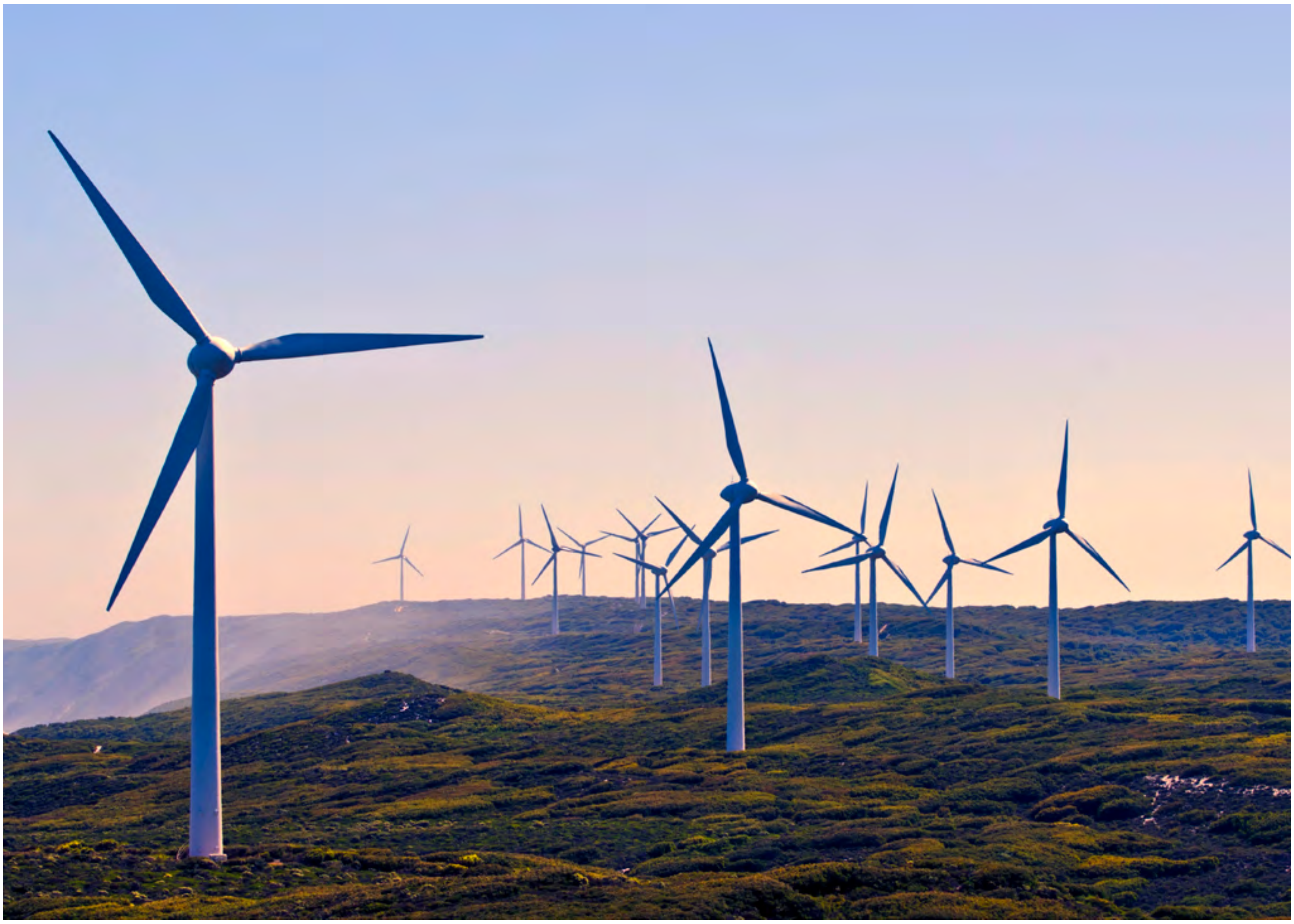
MIAL expects its investment managers to assess and reflect ESG risks and opportunities in security or asset selection and portfolio construction, acknowledging that the degree of relevance or materiality varies between asset classes. Examples of ESG factors are shown below:

Table 1. ESG Factors

Environmental	Social	Governance
Climate change	Health and safety	Board diversity, composition and effectiveness
Water	Labour standards and modern slavery, including **in** supply chains	Executive remuneration
Waste and pollution	Human rights and community impacts	Conduct, culture and ethics
Biodiversity	Demographics / consumption	Shareholder rights

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

03/Sustainability Themes



Mercer believes that including exposure to investment managers that identify longer-term environmental and social themes, and the companies delivering solutions to environmental and social challenges is likely to lead to improved risk management and new investment opportunities. In addition to 'pure-play' allocations such as clean energy, water, timber or agriculture, this can include 'broad sustainability' allocations to companies providing sustainable goods and services in environmental matters or social areas such as health and education. MIAL's investment manager selection and monitoring processes increasingly consider these exposures in portfolio construction decisions.

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

04/Climate Change

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

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

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

MIAL considers these potential financial impacts at a diversified portfolio level, in portfolio construction within asset classes, and in investment manager selection and monitoring processes.

Mercer believes that limiting global average temperature increases this century to 'well below 2°C', as per the 2015 Paris Agreement, is aligned with the best economic outcome for long-term diversified investors. Mercer supports this end goal and increasingly seeks to align portfolios with that objective where this is also consistent with meeting stated investment objectives. This is demonstrated by Mercer's commitment to achieve net-zero absolute carbon emissions[1] for its Funds by 2050 and expectation to reduce portfolio carbon emissions by 45 per cent from 2020 baseline levels by 2030[2] (see announcement **here**).

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

[1] Defined as absolute carbon emissions, per $M of FUM and Scope 1&2 for the Mercer Funds in aggregate and for each diversified fund.

[2] Per dollar of assets under management.

05/Active Ownership

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

Share Voting

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

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

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

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

Taking a 'Super Vote'

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

Vote Exceptions

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

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

Securities lending: MIAL operates a Securities Lending Program for the benefit of investors. Securities lending is when securities are loaned to third parties in order to earn additional investment returns.

For any identified material portfolio holdings requiring a Super Vote, MIAL will endeavour to recall the shares on loan.

In order to continue to vote across the vast majority of resolutions, MIAL will only lend a maximum of 90% of the value of its holdings in any company.

Securities lending collateral: MIAL's stock lending program is a fully collateralised program, managed and implemented by an external Securities Lending Agent. Collateral posted by borrowers is held by MIAL's Custodian or a sub-agent in a segregated account. MIAL would not expect to ever take receipt of these securities, or vote on them. Collateral is therefore not governed by Mercer's Sustainable Investment Policy.

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

Power of Attorney (PoA) markets: there are some international markets where voting can only be carried out by an individual actually attending the meeting.

This usually needs to be carried out by MIAL through its custodian appointing an individual through a standing PoA for each market, who will then vote in accordance with MIAL's instructions or those of our service providers. The rules on PoAs vary by market, apply for different periods of time and have various cost implications.

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

[3] Mixed votes" occur where multiple managers have voted on the same proposal with different positions.

Engagement

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

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

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

Public policy participation

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

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

Disclosure

In the interests of transparency, Mercer will publish all voting results on its website on a six-monthly basis, within three calendar months of the end of the six-month period, as required by current industry standards and in line with the standard set by the Financial Services Council. Voting reports, including the use of Super Votes and any contentious or sensitive votes, will be tabled at the relevant Board meetings on a six-monthly basis.

Mercer will also report its voting and engagement activity on an annual basis within its annual Sustainable Investment update available on its website.

06/Screening

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

United Nations Global Compact

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

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

Exclusions

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

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

The reasons to exclude certain sectors, products, activities or companies are likely to be a combination of a number of factors that make continuing to include exposure to the securities in the investment universe untenable. These factors include, but are not limited to; investment beliefs, risk management considerations, expected social impact or level of harm, public policy position, societal norms, investor expectations, efficacy of other responsible investment approaches such as engagement, ability to influence, and expected impact on portfolio returns.

The following exclusions are currently applied across all Mercer Funds:

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

Mercer also offers a number of Sustainable or Sustainable Plus funds and investment options to which additional exclusions apply. These additional exclusions are designed to align with the expectations of investors in those funds. Examples include excluding companies involved in adult entertainment, alcohol, the most carbon intensive fossil fuels, and gambling.

Implementation

MIAL 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.

MIAL will apply the exclusions to its direct investments through its Investment Management Agreements with its external investment managers. Where Mercer is invested in a collective investment scheme (CIV) or fund in which its assets are pooled with others, it may not be able to dictate these exclusions. In these instances, MIAL will make best endeavours to implement the exclusions and will notify the investment manager of any approved exclusions and the specific definitions for those exclusions.

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

07/Policy Implementation and Governance

Mercer Superannuation (Australia) Ltd (MSAL) is the owner of the policy as the trustee. In its capacity as trustee, MSAL has appointed Mercer Investments Australia Limited (MIAL) to act as the primary implemented consultant for the Trusts. MIAL's Investment Management and Responsible Investment Team's reports to MIAL on those topics covered by the policy and will be accountable for guiding the implementation of the policy, reviewing the policy annually, and recommending amendments as necessary.

Key responsibilities for the maintenance and implementation of this policy are set out in the table below.

Name of owner	Area of responsibility
MIAL	Approve and monitor against policy.
Chief Investment Officer (CIO)	Accountability for adherence to policy and oversight of Investment Management Team.
Investment Management Team	Management against policy.

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

- Meaningful change is made to the sustainable investment process; or
- Relevant legislation or regulation requirements change.

Despite any provision to the contrary, management may amend this document to:

- Correct any grammatical, typographical or cross referencing errors;
- Reflect non-material changes to operational procedures;
- Reflect any non-material changes required by law, a regulator or internal/external auditors; or
- Implement any required changes flowing from a board resolution;

Provided the amendment is approved by any two members of the Pacific Leadership Team ('PLT'). All other amendments to this document must be approved by the MSAL Board.

Application to different investment structures

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

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

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

Application to different asset classes

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

Appendix A

Revision History

Version	Reason for amendment	Date approved by MIAL Board
1.	Inclusion of Sustainable Investment Policy within broader governance framework.	15 November 2017
2	Inclusion of Exclusions into Sustainable Investment Policy	15 June 2018
3.	Annual update. Incorporation of Securities Lending in the Active Ownership sections plus other minor editing.	21 November 2018
4.	Annual update. Notable updates in the sustainability section to reference the SDGs, the active ownership section on proxy voting and the engagement framework, update latest exclusions definitions, together with layout improvements and other minor edits.	21 November 2019
5	Annual update. Review to make the Policy concise and principles based.	19 November 2020
6	Annual update: Align policy wording to key implementation developments during the year notably in the areas of Active Ownership, Net Zero, Modern Slavery and UN Global Compact.	23 November 2021

Appendix

Mercer's ESG Ratings

Mercer's ESG Ratings represent the Mercer Manager Research team's assessment of the degree to which environmental, social and corporate governance (ESG) factors are incorporated within a strategy's investment process. Four factors are considered and documented within the research commentary and an overall rating assigned, where ESG1 is the highest possible rating and ESG4 is the lowest possible rating. The research is stored within Mercer's Global Investment Manager Database (GIMD).

Mercer's ESG Ratings

Mercer's Four Factor Framework

Idea generation

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

Portfolio construction

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

Implementation

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

Business management

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

Mercers Four ESG Ratings

ESG1

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

ESG2

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

ESG3

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

ESG4

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

For passive equity ratings, the overall framework is the same, but the focus is primarily concerned with stewardship activities.

Mercer's ESG Passive Ratings

Mercer's four factors – passive equities

Voting & engagement

- Policy, process and prioritisation.
- Quality of engagement.

Resources & Implementation

- Data analysis to enhance active ownership.

ESG integration

- Skill set of resources.
- Effectiveness of engagement outcomes.

Firmwide commitment

- Collaborative initiatives and engagement with regulators and policymakers.

Mercers Four ESG Passive Ratings

ESGp1

- Leaders in V&E across ESG; stewardship activities and ESG initiatives undertaken consistently at a global level.
- Clear link between engagement & voting actions.

ESGp2

- Strong approach to V&E across ESG topics, and initiatives at a regional level, with progress made at a global level;
- Working towards clearer links between V&E.

ESGp3

- Focus of V&E tends to be on governance topics only, or more regionally focused with less evidence E&S (in voting & engagement, as well as other internal ESG initiatives).

ESGp4

- Little or no initiatives taken on developing a global V&E capability, reactive engagements; and little progress made on other ESG initiatives.

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