

Mercer's investment approach to modern slavery

Mercer Australia

May 2021





1. Introduction

Mercer is against slavery in all forms and strives in all its activities to respect human rights across its businesses. This document outlines the approach to managing modern slavery risks as it relates to the:

- Mercer Funds (referred to in this document as 'the Funds') that have Mercer Investments (Australia) Limited (MIAL) as the Responsible Entity
- MIAL managed investment options of the Mercer Super Trust, Mercer Portfolio Service Superannuation Plan, and the Mercer Superannuation Investment Trust, collectively known as the Trusts, where Mercer Superannuation (Australia) Limited (MSAL) is the trustee. In its capacity as trustee, MSAL has appointed MIAL to act as the primary implemented consultant for the Trusts.

References to 'Mercer' in this document are to both MSAL and MIAL unless the context otherwise requires.

*This document is **not** a modern slavery statement pursuant to regulation requirements. Mercer's ultimate parent company, Marsh McLennan and a number of the organisation's entities in the Pacific region are captured by the Australian Modern Slavery Act 2018 (Cth) ("the Act"). A joint Marsh McLennan Modern Slavery Statement (MSS) will be produced pursuant to the Act. The MSS is due for submission no later than 30 June each year, commencing 2021, and will be available on Mercer's website and the government register shortly thereafter each year. This investment approach document is separate from the MSS and is intended to provide more detail on investments specifically.*

¹ <https://www.legislation.gov.au/Details/C2018A00153>



2. Mercer's commitment and expectations

Mercer is committed to assessing and addressing modern slavery risks in its investment processes, and ensuring its appointed investment managers and investee companies do the same.

In particular:

- **Avoiding causing or contributing to modern slavery** through its own operations and investment activities.
- **Seeking to assess and address modern slavery risk linked to** its investment practices, through its appointed investment managers and in the portfolio.
- **Providing appropriate access to remedy** if there are any instances where Mercer's investments are found to have caused or contributed to modern slavery, or where Mercer is linked to entities that have caused or contributed to modern slavery, we expect to capture this within engagement activities to apply Mercer's influence to encourage proper access to remedy.

Given our multi-manager investment model, our primary mechanism to manage modern slavery is through our investment managers. Mercer expects its appointed investment managers and investee companies to:

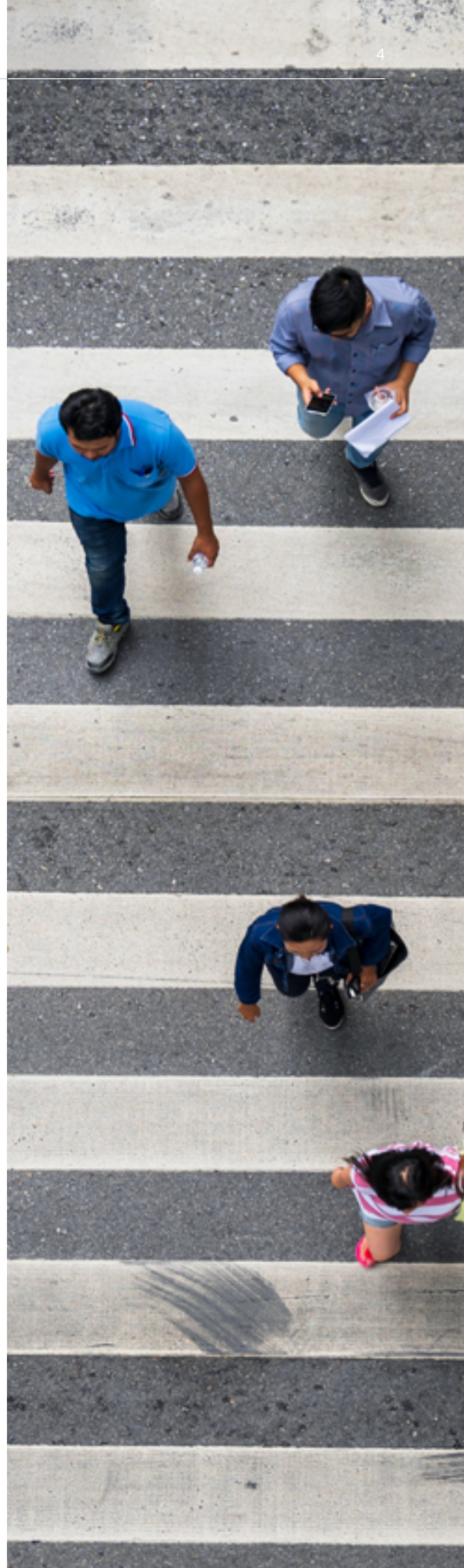
- **Understand modern slavery issues and undertake appropriate due diligence** to assess and address modern slavery risk and remedy modern slavery incidents.
- **At all times comply with relevant modern slavery or human rights legislation** in relevant jurisdictions.
- **Comply with any reasonable requests Mercer may make** to assist in meeting its own commitments.

Modern slavery will not be eradicated in a short time, but will require sustained effort and continual improvement. The Lichtenstein Initiative for Finance Against Slavery and Trafficking (FAST) has reported that awareness raising will be a critical step in tackling modern slavery. Mercer is providing this public statement on its approach in that spirit, and expects its clients, appointed investment managers and investee companies will join Mercer on this journey.



3. Defining modern slavery

Modern slavery is an umbrella term covering a wide range of exploitative practices. Mercer's approach to defining modern slavery is aligned with the Act, which identifies eight exploitative practices with reference to the Criminal Code, as below.



4. Why should investors consider modern slavery?

There are many reasons that investors should actively consider and manage modern slavery risks. For Mercer, these fall into four main categories:

Regulatory risk

Mercer is captured by the Act and therefore must produce an annual statement outlining its activities to assess and address modern slavery risk.

Investment risk

Modern slavery can impact the risk and return outcomes for Mercer's investors by impacting the commercial success, stability and longevity of an investee company or asset, and therefore upon the value of the investment.

Normative responsibility

The world's leading proponent of responsible investment, Principles for Responsible Investment (PRI), has set clear expectations for investors on why and how to consider human rights in investment activities². The 2011 UN Guiding Principles on Business and Human Rights (UNGPs)³, which applies to institutional investors, describe the business sector's responsibility to respect human rights.

Reputation risk

There is reputational risk for investors who fail to undertake adequate due diligence and become associated with modern slavery incidents that could have been avoided.



² <https://www.unpri.org/news-and-press/principles-for-responsible-investment-sets-new-human-rightsexpectations-for-investors/6638.article?adredir=1>

³ https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr_en.p

5. How is Mercer assessing and addressing modern slavery risks in its investment approach?

Mercer's investment beliefs and Sustainable Investment Policy collectively emphasise the importance of Environmental, Social and Governance (ESG) issues, including human rights and modern slavery. In response to the 2018 legislation in Australia, the focus on modern slavery has increased.

The diagram and summary below outline the components of Mercer's modern slavery program and the activities that have been undertaken.



5.1 Understanding modern slavery risk in Mercer investments

- Risk assessment approach:
 - Mercer developed a custom portfolio modern slavery risk assessment, with reference to the UN Guiding Principles (UNGPs), other industry frameworks, and the Act. The methodology assesses both inherent and entity specific risk indicators, both reactively and proactively as described below.

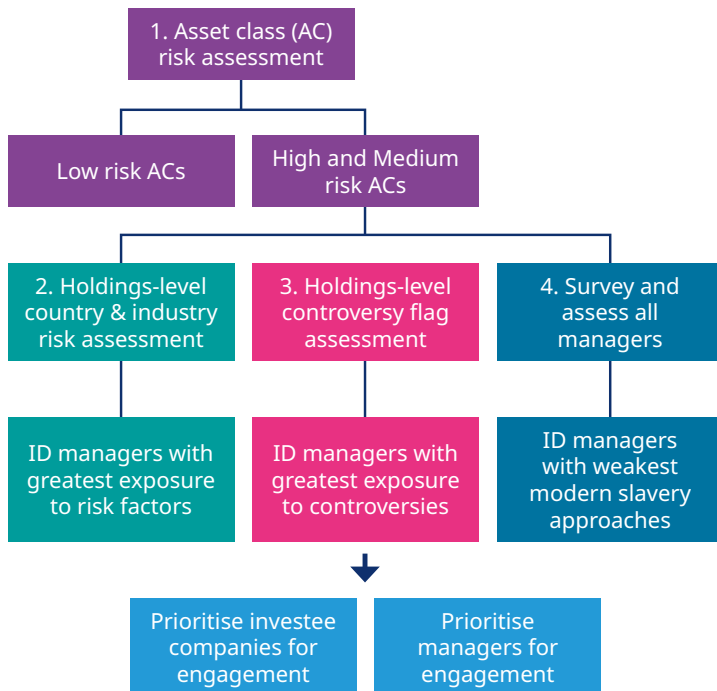
Reactive risk, entity specific

Looks at exposure to investment holdings known to have historic or recent modern slavery controversies.

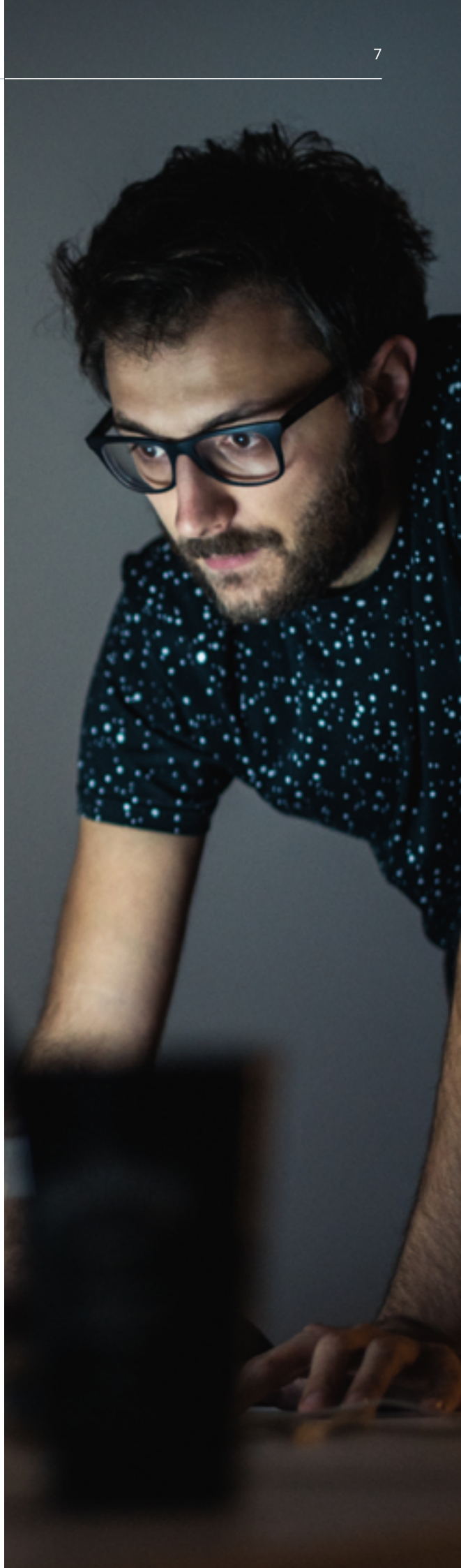
Proactive, inherent risk

Looks at investment exposure to countries, industries, products, services or raw materials known to have high modern slavery risk.

- The assessment used data from globally recognised international standards and research, including the UNGPs and International Labour Organisation, the Global Slavery Index, US State Department Trafficking in Persons reports, US Department of Labour Child and Forced Labour reports, and others.
- Mercer's portfolio risk assessment process is outlined below.



- This risk assessment allows Mercer to identify and target its highest risk asset classes, investment managers and underlying assets/investments.



• **Risk assessment results:**

Regular risk assessment results will be provided as part of client reporting and the Annual Sustainable Investment Report, however, summary findings from the 2020 risk assessment are included below as an example.

- The asset class thematic risk assessment and holdings-level country and industry risk assessments identified risk hotspots in several asset classes, including:

Examples of high risk asset classes identified
Emerging Market Shares and Bonds
Global Property
Global Infrastructure

- Some of the highest risk country and sector exposures identified in the emerging market shares portfolio included:

Emerging Market Shares Examples of high risk country and sector exposures
Russia – Materials and Chemicals
India – Oil, Gas and Consumable Fuels
China – Communication Services

- Controversy flag assessment

Controversy flag assessment
0 red flags (highest risk) companies
13 amber flag companies

- The review of investment manager practices found the greatest gap to be in risk assessment practices, with some good practices in place but room for improvement in engagement practices and reporting.

• **Training:**

Mercer has developed and delivered dedicated training to the Mercer Boards, leadership and investments team, covering modern slavery, the Act, and the Mercer approach. All Mercer colleagues will also be required to undertake a modern slavery e-Learning training module.

• **Research:**

Mercer has conducted extensive research into modern slavery and human rights issues and investor approaches, including country and industry risk, external data and service providers, and developing internal training and guidance materials.



5.2 Addressing and managing modern slavery risk



Beliefs, policy and process:

Mercer's Sustainable Investment Policy explicitly identifies modern slavery as a key ESG consideration. Mercer's approach to active ownership within that policy outlines how we define and discharge our duties as stewards of investment capital. This guides the way in which we vote and engage, including on the issue of modern slavery and human rights.



Integration:

Manager ESG Ratings: Selection and monitoring processes for potential and appointed investment managers is informed by Mercer's ESG Ratings and associated commentary from the Manager Research team. These ratings represent the Mercer Manager Research team's assessment of the degree to which ESG factors are incorporated within a strategy's investment process. This may include the extent to which an investment manager already addresses modern slavery risk, or how well they are positioned to introduce modern slavery considerations into their investment approach.



Active ownership:

Manager engagement: We expect our appointed investment managers to consider modern slavery risks under the 'S' component of ESG when managing portfolios on our behalf. Mercer has incorporated a dedicated set of modern slavery questions into its annual investment manager survey since 2019. Responses are reviewed and scored, and investment managers are prioritised for further review and engagement based on scoring relative to peers within the same asset class.

Awareness raising and knowledge sharing: Mercer is an active member of a Human Rights Working Group convened by the Responsible Investment Association of Australasia (RIAA). Through this initiative, Mercer co-authored the 'Investor Toolkit for Human Rights', which is available on RIAA's website ([online here](#)). The toolkit focuses on supply chains and provides guidance on modern slavery risk specifically. Mercer colleagues have authored articles on modern slavery during 2019-2020, and we expect those industry contributions to continue.



Screening:

Mercer utilises the UN Global Compact framework to monitor for explicit breaches of human rights law, including modern slavery. Exclusions or divestment is not a starting point, Mercer prefers to engage first with companies whose ESG practices are deemed unsatisfactory. Exclusion is however an escalation option.

5.3 Monitoring, reporting and disclosure



Annual monitoring:

Mercer has integrated modern slavery risk into its annual ESG portfolio review as well as annual investment manager ESG survey. This monitoring receives attention from the Chief Investment Officer and the Boards.



Internal and external report:

In addition to the annual modern slavery statement Mercer is required to produce under the Act, Mercer has created this document to provide further detail and transparency on our investment approach to managing modern slavery risk.

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Certain investments carry additional risks that should be considered before choosing an investment manager or making an investment decision.

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<https://www.mercerfinancialservices.com/>

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