Mercer Limited

TCFD Entity Report (UK)

2024 Reporting Period

welcome to brighter

Contents of the report

1 Our ESG approach

This report is the third annual Task Force on Climate-Related Financial Disclosures ("TCFD") entity report that has been prepared for Mercer Limited ("Mercer") pursuant to Chapter 2 of the Financial Conduct Authority ("FCA") ESG Sourcebook. It relates to the reporting period from 1 January 2024 to 31 December 2024.

Mercer, as a subsidiary of Marsh & McLennan Companies Inc. ("**Marsh McLennan**" or the "**Group**"), shares the Group's climate-related ambitions and integrates Marsh McLennan's climate and business responsibility initiatives into strategy, decision-making and business processes, considering the UK market within which Mercer operates. References to 'we' and 'our' refer to Mercer unless stated otherwise.

Further information as to how the Group is structured and how this informs our Environmental, Social and Governance ("**ESG**") approach, and our disclaimers regarding the basis on which this document and its contents have been prepared is set out at section 2.2. We have formally integrated business responsibility factors into our decision-making processes since 2008 and believe that transparent and consistent disclosure enables better-informed business and investment decisions.

The Marsh McLennan Business Responsibility Committee (the **Business Responsibility Committee**) oversees and supports, among other things, the Group's climate ambitions and initiatives, and reports to the Marsh McLennan Board. The Business Responsibility Committee and the Marsh McLennan Board are both supported by Marsh McLennan's Management Business Responsibility Committee in identifying and advancing, among other things, climate priorities across the Group. Members of Marsh McLennan's Management Business Responsibility Committee are drawn from senior management across our global businesses and corporate departments.

This report details how Marsh McLennan's business responsibility philosophy and initiatives are integrated into Mercer's governance structure, risk management framework and business operations in the UK. It also provides information specific to our investment business. Details of our Group's business responsibility philosophy and environmental achievements are available here.

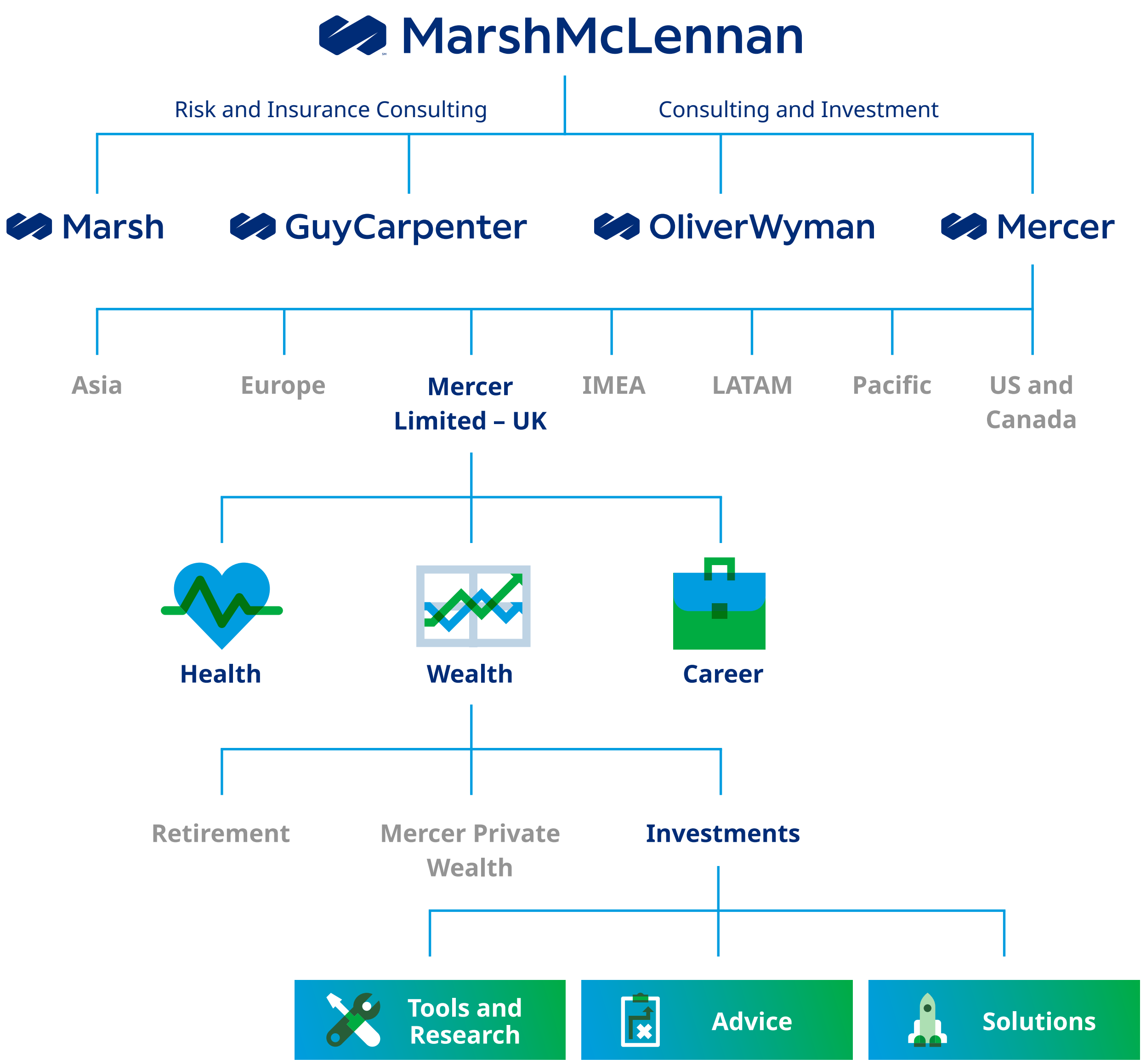
2 TCFD compliance summary

2.1 Alignment of disclosures to TCFD Framework

TCFD Pillars	TCFD Recommendations	Correlated section in this report
Governance Disclose the organisation's governance around climate-related issues and opportunities.	a. Describe the Board's oversight of climate-related risks and opportunities.	Our ESG Approach (page 4) Governance (page 8)
	b. Describe management's role in assessing and managing climate-related risks and opportunities.	Governance (page 9)
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's business, strategy, and financial planning where such information is material.	a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long-term.	Strategy section 4.1 (page 10)
	b. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Strategy section 4.2 (page 12)
	c. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Strategy section 4.3 (page 16)
Risk Management Disclose how the organisation identifies, assesses, and manages climate-related risks.	a. Describe the organisation's processes for identifying and assessing climate-related risks.	Risk Management section 5.2 (page 21)
	b. Describe the organisation's processes for managing climate-related risks.	Risk Management section 5.3-5.5 (page 22)
	c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Risk Management section 5.3-5.5 (page 22)
Metrics and Targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.	a. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Metrics and Targets (page 42)
	b. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas emissions (GHG), and the related risks.	Metrics and Targets (page 42)
	c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Metrics and Targets (page 42)

2.2 Basis of this report and disclaimers

The diagram below illustrates how our Group is structured, and informs our ESG approach:



Only Mercer's investment services business as described in section 6 of this report is within the scope of the FCA's ESG Sourcebook. The activities of Mercer's investment services business are in scope to the extent that certain management activities carried out within this business amount to 'TCFD in-scope business'.

To date, our approach to sustainability has been developed on a group basis; in respect of (a) the Group as a whole as set out in section 1 of this report, and (b) Mercer's global investment advisory and discretionary teams (referred to as the "**Mercer Group**"), which influences the advice and portfolio management provided to clients in the UK.

Mercer provides services to a range of UK institutional investors, including portfolio management services. All decisions regarding discretionary management are taken by Mercer. The clients where discretionary portfolio management services are provided are generally invested by Mercer in what are known as the Mercer funds (the "**Mercer Funds**")[1]. The Mercer Funds are not domiciled in the UK and are managed by the Mercer Group. Information is provided on the Mercer Funds in this report.

During 2024, we continued to develop our approach and methodologies to identifying and isolating data and information relating to the climate-related metrics and targets for the investment portfolios of our discretionary portfolio management clients, as well as looking at ways to improve our climate-related reporting for clients. We are committed to transparency of disclosures for the purposes of this TCFD entity report for Mercer, and – where specified expressly in this report – the disclosures in this report therefore provide information beyond Mercer, to include certain management activities carried out within the wider Mercer Group.

The reader should be aware that:

- This report and its disclosures are made within an evolving legal and financial regulatory practice in circumstances where commonly accepted industry standards and industry best practice are still being established;
- The contents of this report have not been externally audited, and all material and data within it is subject to change without notice;
- Mercer is not responsible for the accuracy and/or validity of any third-party content mentioned or referenced in this report; and
- The contents of this report do not constitute any investment, accounting, legal, regulatory or tax advice, or any invitation or recommendation to enter into any transaction; and
- In this report Mercer has cross-referenced data and methodology adopted within the Mercer Group. Mercer has not had sight of all the various assumptions and methodologies used within the information provided by the Mercer Group.

[1] The majority of the assets under management for Mercer's discretionary portfolio clients are invested in the following Mercer Portfolio or Mercer Funds: the Mercer Model Growth Portfolio (which is comprised of around 10 different Mercer funds where the choice of underlying Mercer funds is at the discretion of Mercer), the Mercer Low Cost Growth Portfolio (also comprised of many Mercer Funds at the discretion of Mercer), the Mercer Diversified Growth Fund, the Mercer Multi Asset Growth Fund, the Mercer Diversified Retirement Fund along with the Mercer LDI Funds and the Mercer Tailored Credit Funds.

3 Governance

3.1 The board's oversight of climate-related risks and opportunities

Group governance

Marsh & McLennan Companies, inc. Board

Business Responsibility Committee

Mercer (UK) board governance

Mercer Limited Board

Risk Committee

Mercer management governance

UK Executive Leadership Team | **Executive Risk Committee**

Supporting Mercer governance

Business Risk Committees

Mercer's Board of Directors (the "**Board**") is responsible for agreeing Mercer's strategic direction including the approach to ESG risks and opportunities. The Board recognises that Marsh McLennan's climate and sustainable finance ambitions will only be successful if they are integrated into Mercer's governance processes. Mercer's climate-related ambitions are considered by the Board when reviewing Mercer's strategy, risk management policies and risk appetite, annual budgets, and performance objectives.

The Board reviews Mercer's strategy annually, including Marsh McLennan's business responsibility related strategic and carbon-risk management initiatives.

Mercer's CEO is the main sponsor of Mercer's climate ambition, set by Marsh McLennan and detailed in the Group's annual business responsibility report.

The CEO provides regular updates to the Board on Mercer's overall performance and delivery of strategic objectives throughout the year. Updates specifically focused on the delivery of ESG-related strategic objectives are also provided to the Board throughout the year.

The Board delegates responsibility for oversight of Mercer's risk management framework to the risk committee (the "**Risk Committee**"), which oversees Mercer's management of climate risks and opportunities through high-level risk reports, deep dives, and updates. Mercer's Chief Risk Officer attends Risk Committee meetings and provides regular verbal and written updates to the Risk Committee on Mercer's overall risk profile, including climate-related risks. Matters are escalated from the Risk Committee to the Board as appropriate.

3.2 Management's role in assessing and managing climate-related risks and opportunities

The Mercer UK Executive Leadership Team ("**UKELT**") supports the CEO in setting the overall strategy for Mercer, which includes Marsh McLennan's climate and carbon strategy, and the delivery of Marsh McLennan's climate ambitions in the UK.

The Mercer Executive Risk Committee ("**ERC**") reviews climate-related risks within the context of Mercer's overall risk management framework. An information dashboard is provided to the ERC on a regular basis to seek to improve visibility and management of top and emerging risks, including climate risks. Management responsibilities for climate risk are integrated into the relevant business and functional areas. Roles and responsibilities for managing climate risk are aligned to Mercer's risk management framework and the three lines of defence model (further detailed in section 5 on risk management) provides oversight and challenge of Mercer´s capabilities in this respect.

Climate risk receives risk management oversight at the ERC through the risk report, and matters are escalated to the Risk Committee where appropriate. Specific governance processes have been implemented to track progress of our ESG commitments and manage any ESG conflicts as they arise with clients, colleagues, vendors and partners.

In March 2025, Marsh McLennan published the Group's annual Business Responsibility report (the "2024 Report"). The strategic objectives and climate ambitions outlined in the 2024 Report are integrated into Mercer's overall corporate strategy and governance structure. Section 5 on risk management sets out further information in respect of our governance processes relating to climate.

4 Strategy

4.1 Our climate-related risks and opportunities over the short, medium, and long-term

The following table summarises the risks that have a climate-related element and outlines potential opportunities. We are integrating these climate-related risks and opportunities, both transition and physical, into how we operate as a business and provide services to our clients.

As this is an evolving landscape, we have built in flexibility to allow for our medium to long term risks to change, and for our short-term risks and opportunities to expand into the medium and long term.

Below is a summary of Mercer's risk taxonomy (the "**Risk Taxonomy**"), which sets out climate-related risks and opportunities as they relate to other risks, and includes the relevant time horizon and the residual exposure/materiality associated with each time horizon.

Section 3 of this report provides further information on the governance arrangements that are in place, including the roles of the Board and Committees with respect to management and oversight of climate-related risks and opportunities.

Time horizon: Short-term 1 – 3 years, **Medium-term** 3 – 10 years, **Long-term** 10 + years
Impact: X = High, X = Medium, X = Low

Level 1 Firmwide Risk category	Level 2 Individual risk	Transition vs Physical[2]	Time horizon and impact	Climate-related risks	Climate-related opportunities
Strategic	ESG Risk	Transition, Physical	**S M L** X X X	• The risk that Mercer is impacted by an Environmental or climate event which could result in an adverse impact to our brand, value and/or operations of the business. • This includes the potential impact of Physical climate risk events, Transition risks and the resultant impacts on clients.	• Ability to assist our clients with navigating climate-related risks including the potential impacts to their business as a result of policy, legal, and market developments. • Increased demand to provide consulting and advisory services to clients on climate-related strategies and initiatives.
Financial/ Market Risk	Geopolitical & Macroeconomic (includng Market Downturn)	Transition, Physical	**M L** X X	• Changes in public opinion and government policy in relation to ESG and climate risks have the potential to impact the investment strategies of our clients. • Adverse climate-related events may negatively affect asset values and discretionary assets under management (AUM), resulting in reduced client wealth and a decline in our revenue.	• Opportunity to assist clients in reviewing and adjusting their investment strategies to mitigate risks associated with macroeconomic downturns and geopolitical instability, supporting alignment with long-term climate objectives.
Strategic Risk	Uncompetitive Products & Client Proposition	Transition	**S M L** X X X	• Risks stemming from the swift evolution of client and market demand for climate-related services, including the potential failure to adapt quickly enough to these demands, which could adversely affect our competitive edge. • Reputational and brand risks arising from the perception of insufficient action on climate issues or failure to fulfil commitments, potentially leading to a loss of client trust and market position.	• Creating new products and services that meet the evolving demands for sustainability, positioning Mercer as a leader in the market. Capitalising on advancements in climate-related research and development, both within Mercer and in the broader market, to drive innovation and improve service offerings. Actively integrating feedback from external stakeholders to refine internal practices and enhance the delivery of climate-related services, thereby bolstering Mercer's reputation and brand credibility.
Operational Processes	Third Parties, Outsourcing & Other External Suppliers	Transition, Physical	**M L** X X	• Climate-related events, including extreme weather incidents and Transition risks, may disrupt third parties we engage with and as a result impact our supply chain, which could lead to operational interruptions for Mercer and its clients.	• Strengthening our Business Resilience Management strategies to effectively respond to the growing frequency and intensity of extreme weather events, ensuring that we can support our affiliate companies and clients globally while mitigating potential impacts on Mercer's operations. Increasing collaboration with third-party suppliers to implement climate driven programs including recycling initiatives and transition to energy-efficient buildings, promoting sustainability practices throughout our supply chain.
Group Risk	Internal Group Service Providers	Physical	**S M L** X X X	• Physical risks such as extreme weather events impacting Mercer's operations including buildings, staff, and technology. • Further impacts to Mercer's clients arising from lack of ability to fully service clients from climate events.	• Creating and implementing enhanced service protocols that provide resilience to climate-related disruptions, ensuring continuity of operations and support for clients during extreme weather events.
Regulatory Risk	Legal & Regulatory Requirements	Transition	**S M** X X	• Failure to comply with regulations, including those related to climate disclosures or related ESG rules leading to fines and reputational harm due to non-compliance.	• Opportunity to establish and enhance internal processes to effectively address the growing requirements for disclosure reporting obligations related to climate risks.
Clients	Client Experience & Service Delivery	Transition	**S M L** X X X	• Mercer advises UK clients on the impact of climate change on asset classes and investment outcomes, utilising external data to model various climate scenarios. Due to the complexity of this area, there is a risk that clients or advocacy groups may challenge our advice, which could lead to reputational, commercial, and litigation risks.	• Positioning ourselves as a trusted advisor in the climate and sustainability sector, as demand for expert guidance grows, which could enhance our brand reputation and market presence.

[2] Transition risks include extensive policy, legal or market changes. Physical risks include event driven (acute) or longer-term (chronic) shifts in climate patterns. Please see section 5 of this report for further information.

4.2 The impact of climate-related risks and opportunities on our business, strategy, and financial planning

Throughout 2024 we have continued to assess the impact of climate-related issues on Mercer. The categories below are consistent with what we have previously identified and remain areas that we expect to continue expanding upon in the future.

(a) Policy and Legal

This impacts both Mercer as an entity and the advice and services we provide to clients. Regulatory developments that may impact Mercer and the advice and solutions we provide for clients, include:

- ESG ratings regulations, following a draft statutory instrument published by the UK Government, which would make the provision of ESG ratings in certain circumstances a regulated activity. The exact scope and application of these are yet to be determined.
- FCA's anti-greenwashing rule, which came into force from 31 May 2024, and requires regulated entities to ensure communication about products and services is fair and not misleading when talking about sustainability.
- International Sustainability Standards Board (ISSB), which aims to set-out a global baseline for sustainability-related financial disclosure requirements.
- UK sustainability reporting standards, which will endorse a UK version of the ISSB standards. The UK Government consultation process is expected to conclude H1 2025.
- Taskforce for Nature-related Financial Disclosure (TNFD) enabling organisations to report and act upon evolving nature-related risks and opportunities.
- Green Taxonomy by the UK Government to define which economic activities count as environmentally sustainable. The reporting detail will be determined following a consultation.

Broadly, legal implications with global application are relevant to our strategy at Group level. The review of ongoing legal and compliance matters and disclosure requirements impact our strategic planning on how we expand and implement new requirements. For instance, as we lease the majority of our office properties in multi-tenant buildings, we typically have little to no control of the infrastructure.

(b) Our Investment Services

When requested by an institutional investor client, Mercer provides advice to that client on how they can identify climate risks and respond to the risks and opportunities that they face. Some of these investors are impacted by regulatory requirements in their industries, for example the need to create their own TCFD report (see section 6 of this report). Mercer supports clients with producing TCFD reports and with the provision of advice and services supporting the content of TCFD reports. Mercer believes there will be a continued demand for assistance for these services both now and in the future. Where Mercer manages discretionary portfolios, it also considers the impact of climate risk when making decisions on investments.

(c) Market Risk

Mercer is conscious of market risks that may negatively impact the value of our business and our clients' business, and the assets we manage. In respect of our clients, we have considered the implications for strategic asset allocation and investment return implications for investors. Our analysis is on the assumption that markets are not adequately pricing in the transition and physical damages risks that we expect under various climate scenarios in the coming years and decades. This is in part due to an emerging regulatory landscape and inadequate carbon pricing.

It is also a symptom of time-frame misalignment, with many market actors focused on short, sometimes daily, pricing indicators, even when the ultimate asset owners have return objectives over longer time periods. Disruptive technology changes are also knowingly difficult to anticipate and not everyone will get that timing 'right'.

Mercer believes that all of the above points to a more likely sudden, rather than orderly, transition and market volatility, with some potential for stranded assets, as change eventuates. We view market risks as a medium to long-term issue that requires ongoing monitoring and strategic planning. We assist a number of clients to review climate scenarios and construct and manage asset portfolios which we expect to be robust under a variety of market scenarios.

(d) Our Supply Chain

We receive requests concerning our supply chain via the CDP Supply Chain Program as well as through ad hoc questions from clients.

Emissions from purchased goods and services represented over 50% of the Group's emissions in 2024. The Group's approach to address these emissions is focused on improving data quality, supplier engagement and environmental purchasing:

Data quality: The Group is transitioning from spend-based to activity-based emissions accounting, which will provide a better understanding of which suppliers are good candidates for engagement and help identify hotspots.

Supplier engagement: Our supplier management platform collects information about our supplier's business responsibility practices, risk monitoring and regulatory compliance.

Environmentally preferred purchasing: Marsh McLennan has identified sustainability objectives for the Group's top categories of spend, and colleagues across Mercer and the Group are provided with guidance on how to make environmentally preferred purchasing decisions, including energy-efficiency guidelines, recycled content usage and certifications.

We are continuing to assess how we engage with our supply chain on climate-related issues.

From a value chain perspective, our clients' businesses may be adversely impacted by climate-related regulatory and/or physical changes as well as shifts in consumer preferences. These potential impacts create opportunities for us regarding the development of tools and/or our advisory services and how we plan to operate our business. For instance, the race to Net Zero has highlighted the need for the creation of sound solutions and services that help our clients understand and navigate the transition to a resilient, low-carbon economy (considered further below).

(e) Research & Development

Each of our lines of business has its own areas of focus and expertise relating to climate change. Most of the opportunities are consistent with our current business development strategies, practices and client support services, and hence have planned and budgeted research and development expenditure. However, increasingly there are areas outside expectation or that offer a more significant impact than anticipated, which require additional expenditure.

Marsh McLennan currently provides expenditure in areas where further research and development is necessary and plans to continue to fund that additional expenditure over the long-term.

(f) Real Estate

We have continued our journey with our real estate programs through our smart office environments; we have maintained our Green Pantry Initiative following its successful roll out; and we are continuing to implement centralised waste solutions in our offices throughout the UK which will increase recycling rates and reduce our emissions.

Our regional offices are furnished with multi-use kitchenware to reduce unnecessary single-use plastics, and we provide composting, which allows colleagues that choose compostable containers to responsibly dispose of them. Our ultimate goal is to replace all disposables with reusables.

In 2024, we appointed sustainability champions throughout our London and regional offices to help lead the way on our waste-reducing initiatives.

Energy reduction initiatives

In the UK and Ireland, Marsh McLennan buys 100% green electricity for our largest sites. At the remaining locations, the aim is to influence the managing agents' decision on the supply of green energy.

(g) Operational

As part of our waste-management focus, we prioritise responsible end-of-life solutions for office equipment and furniture. Where possible, we seek to repurpose furniture and equipment. We minimise the amount sent to landfill by donating or recycling what cannot be repurposed.

In 2024, through waste reduction and recycling measures, the Group recycled 550,108 pounds of electronic waste, which includes 67,801 pounds of hazardous waste.

With hundreds of thousands of technology components and devices needed to support our environment, technology is a major component of our operations. The Global Technology Group at Marsh McLennan continues to focus on reducing our energy requirements and associated greenhouse gas (GHG) emissions[3]. At Group level, we focus on reducing emissions through renewable energy and energy efficiency, fleet rationalization and electrification, IT asset disposal/recycling, internal policies to empower colleagues to make more sustainable choices and partnering with strategic suppliers.

The Global Technology Group is under the leadership of the Chief Information Officer, a role that oversees Business Resiliency and Security. The Business Resiliency Management team (the "**BRM Team**") provides business continuity guidance and overall program management, including compliance monitoring, to all our businesses. Our BRM Team coordinates business resiliency activities as part of our preparedness lifecycle and crisis response

activities in situations where the Group has been impacted by a significant event, with such activities and programs including:

- conducting business impact analyses;
- establishing and maintaining business resiliency;
- disaster recovery;
- crisis management, and incident response plans;
- performing periodic assessments of key third-party dependencies;
- periodic testing of recovery capabilities; and
- exercising response plans to validate our ability to serve and support our clients in the event of a business disruption event.

Our critical business and corporate functions maintain BRM plans with specific provisions for colleague mobilisation, alternate workspaces, and communication with clients and critical third parties. These plans are created based on business impact analysis which identifies business recovery requirements and priorities; and include: (a) office facilities and personnel; (b) critical applications; (c) mission-critical functions & processes; and (d) key third-party providers.

(h) Reputational

We remain conscious of reputational risks impacting our clients and the third parties we work with. Enabling sustainable futures for our stakeholders is at the heart of our work, as highlighted by our philosophy to partner with clients who make a difference in peoples' lives. This philosophy is guided by the Group's Client Engagement Principles that provides a framework to identify risks from proposed client engagements, including climate related risks, which helps us navigate an evolving risk landscape and make responsible decisions to better serve our clients and the communities in which they operate. The Client Engagement Principles are regularly reviewed and reinforced through periodic communications and training.

We continue to work to align to the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures, the Sustainability Accounting Standards Board (SASB), other emerging regulations, and our own ESG assessments and priorities.

(i) Products and Services

We continue to expand and enhance our climate-related products and services for our clients which can be exemplified by our 'one-enterprise' approach, where we work together across the Group to bring the full power of Marsh McLennan to address challenges such as climate resilience.

This approach allows us to bring together the best thinking, expertise and solutions from our global businesses to our clients, wherever they reside in the world.

As a leader in the complex and increasingly interconnected dynamics around risk, strategy and people, the Group is helping our clients embed climate change strategies into their businesses; from navigating the transition to a resilient low-carbon economy to managing the physical risks associated with extreme weather events. Each of our businesses has its own climate-related specialties and collaborates to best meet our clients' needs.

The Mercer Analytics for Climate Transition Framework ("**ACT Framework**") is a good example of our work in this area and is discussed in more detail below.

[3] See section 7.1 on metrics and targets in respect of Mercer's report on energy consumption and greenhouse gas emissions in its annual report and accounts.

4.3 Our consideration of different climate-related scenarios

For our business

Marsh McLennan is committed to a low-carbon transition strategy across our global business operations that charts a path to Net Zero across our core operations by 2050, with an emissions reduction target of 50% by 2030. Marsh McLennan signed a commitment letter to the Science Based Targets initiative (SBTi) which involved submitting these targets. As of December 31, 2024, the Group has reduced Scope 1 and 2 emissions by 67% as compared to 2019.

Further information on this commitment to Net Zero can be found here in the 2024 Report.

We were certified as a CarbonNeutral® company for the fourth year in a row in 2024. This certification is in accordance with The CarbonNeutral® Protocol – the leading global standard for carbon-neutral programs. To achieve this status, we calculated and offset emissions associated with the operations of our business, covering Scope 1, Scope 2 and select Scope 3 sources, including business travel.

In 2024, Marsh McLennan conducted a scenario analysis which considered the physical and transition risks and opportunities across the Group arising from climate change.

The physical scenario analysis considered various emissions scenarios across an 80 year time horizon (2020-2100) to determine the severity of physical climate damage, considering both low emissions (RCP2.6) and high emissions (RCP8.5) scenarios. As part of the assessment, climate related impacts were considered. The analysis included the potential financial losses associated with asset damage but excluded losses associated with business interruption or productivity loss. The physical climate risk analysis identified and geolocated all office locations and data centers of the Group to facilitate the assessment of climate-related risks and hazards to their specific location. The replacement value of all office locations and accompanying assets (including data centres, building, contents and technology) was estimated to allow quantification of the physical climate risk driven expected financial loss for each location.

The transition risk analysis was designed to understand the risks and opportunities from societal changes undertaken to mitigate climate change. Five decarbonization pathways were analyzed, ranging from no policy SSP-85 pathway which would see an average of greater than 4°C of warming to Paris aligned SSP1-19 pathway where warming was kept to 1.5°C. The shared socioeconomic pathways go beyond the physical drivers of climate change and focus on the societal changes that are projected to limit the increase in the world's average temperature. Pathways where the average warming was 2°C, 2.5°C and 3°C above pre-industrial temperatures were also analysed. The time horizon used for these pathways was 10 years from 2024-2035. This approach aligns to industry best practice.

Through the assessment, Marsh McLennan did not identify any climate-related risks that would significantly impact the Group's operations given various factors including the agile and distributed model of the Group, the services that we are able to offer clients and our relative low-emitter status as opposed to more carbon intensive industries.

For our clients

The Mercer Group has a long history of developing and using climate scenario analysis, first publishing public papers on this in 2011. During this time, the Mercer Group has regularly worked collaboratively with external organisations to develop new thinking on the implications of climate change on strategic asset allocation.

The Mercer Group's approach to climate scenario analysis was updated in 2022 following a partnership with Ortec Finance (and their partner, Cambridge Econometrics), to develop climate scenarios, that are grounded in the latest climate and economic research, and to give practical insights. Mercer published a paper in December 2023 outlining our approach to climate scenario analysis (further details are available here).

Since the publication of this paper, Mercer has made further improvements to its climate scenario framework as part of Mercer's continuing work to incorporate the latest scientific insights into the modelling:

- In 2024, Mercer's climate scenario analysis framework was updated to include a **fourth, "2.6ºC limited transition", scenario**. This scenario illustrates the impacts of a transition where policymakers implement limited Nationally Determined Contributions and fall short of meeting the Paris Agreement goals. The attempted transition translates to a slight downward re-pricing of securities in the late 2020s. Physical risks are increased relative to the Rapid Transition and Orderly Transition and are priced in to a degree in the late 2020s and the late 2030s.
- Mercer's analysis now includes an updated approach to modelling the physical effects of climate change. Chronic physical risk is modelled by incorporating a **non-linear damage function**, which better reflects the increased damage of a given temperature increase as the planet heats up. This approach is deemed more prudent as alternative linear functions are likely to underestimate the effect of tipping points and the limits to adaptation.

The Mercer Group recognises that climate change is a systemic risk, and that limiting global average temperatures to well below 2°C[4] is likely aligned to the best financial outcomes for long-term diversified investors.

Mercer Group's systems thinking approach to investing for a net zero future incorporates physical risks and climate adaptation, natural capital, circular economy and the notion of fair carbon budgets, which the Mercer Group believes will support the mobilisation of finance to developing countries and drive real-world transition. This approach is covered in Mercer Group's 2023 paper called Transition Today. This paper won the 2024 Thought Leadership paper on Sustainable Investing at the Environmental Finance awards. In November 2024, the Mercer Group published a paper called Transition Today: A Progress Update, which highlights the paradox of investment portfolios achieving carbon reduction against a backdrop of rising global carbon emissions.

Mercer works with institutional investors to support climate objective setting and strategy development in pursuit of a transition pathway. Through our collaboration, investors can align with the current standards in climate integration to seek to mitigate climate risk and aim to maximise climate opportunities.

Investors assess current positioning and their net-zero pathway through analysis via Mercer Group's ACT Framework, which uses bottom-up portfolio analytics to evaluate how well (or poorly) aligned investment holdings are with climate transition, by analysing exposure to "grey" climate risks, "green" transition opportunities and "in-between" assets in investment allocations. Such analysis guides decision-making at asset class, sector and underlying company holdings over time.

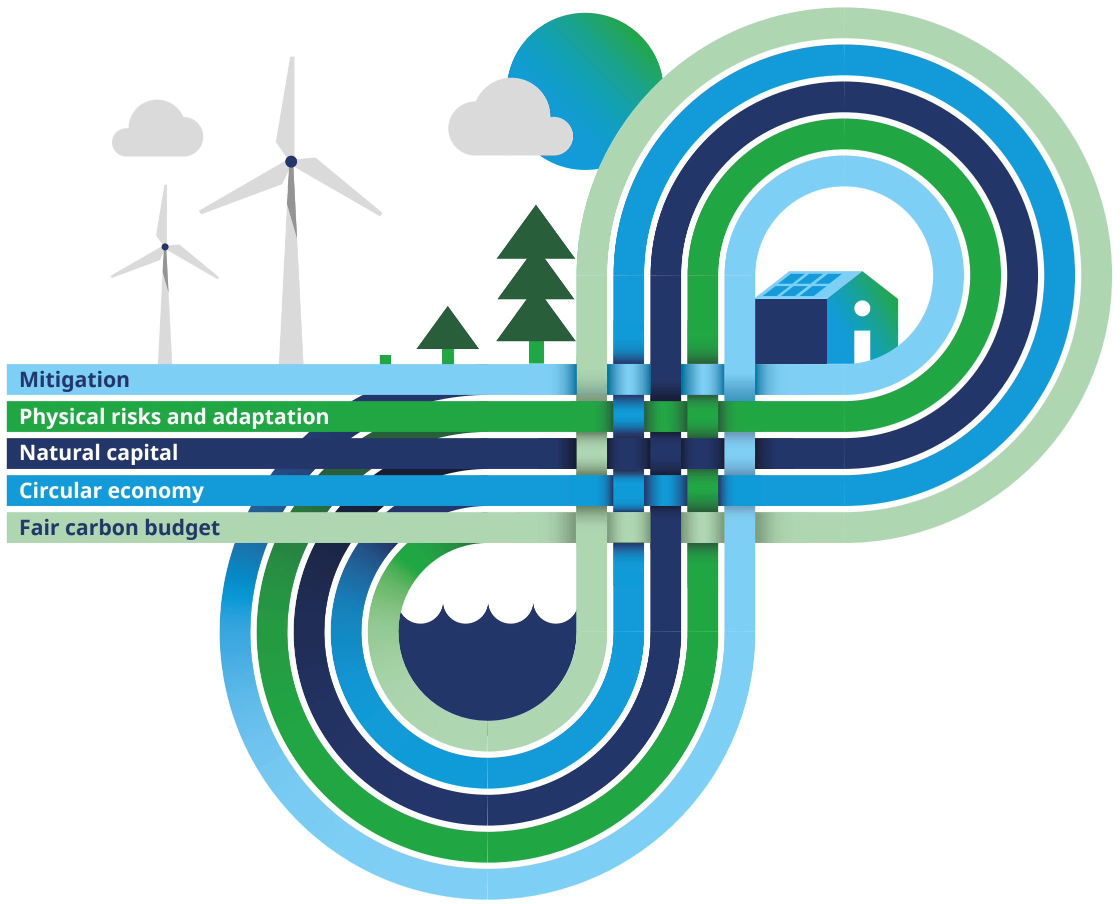
[4] In line with the 2015 Paris Agreement.

Mercer applies the following approaches to advice on investing to support the climate transition:

- **Integrating for Resilience** – Are sustainability, transition and socio-economic risks considered and integrated through the investment strategy?
- **Capital Allocation** – Should sustainability, transition and/or impact-themed solutions be part of the investment strategy?
- **Stewardship** – Are investment managers fulfilling their role as active owners through voting and engagement?
- **Screening** – What are stakeholder views, and how should they be incorporated into the investment strategy?

This infographic represents an expanded view of climate transition, made up of five key, interrelated issues, that allow for a better assessment of transition.

An expanded model of transition



Mitigation
Reducing emissions and greenhouse gases to support progress to net zero
Addresses cause
Scales clean energy and drives energy efficiency

Physical risks and adaptation
Adjusting to actual and expected climate change risks
Addresses symptom
Supports disaster management of severe flood and wildfire events, and communities at risk

Natural capital
Investing in natural capital — the assets that nature provides — to support climate mitigation
Addresses cause
Reduces deforestation; supports reforestation, regenerative agriculture and food security; and protects biodiversity and water quality

Circular economy
Reducing waste, moving away from a "take, make, waste" economy
Addresses cause
Targets zero waste by utilizing resources already in use, such as plastics

Fair carbon budget
Allocating the global carbon budget equitably, a core lever in channelling capital flows from the global North to South
Addresses symptom
Factors in sector and regional differences to the development of sustainable infrastructure

In 2021, the Mercer Group announced its aim to achieve Net Zero portfolio absolute emissions by 2050 for the majority of its UK, European and Asian discretionary portfolios and for the majority of its multi-client, multi-asset Mercer Funds domiciled in Ireland (the "**Net Zero Target**"). The Mercer Group also established an expectation that portfolio carbon intensity would reduce by 45% by 2030, from 2019 baseline levels[5]. Mercer has adopted the same targets for the Model Growth Portfolio and Low Cost Growth Portfolio used for the majority of our discretionary UK clients.

To consider the impact of climate scenarios on our UK portfolio management clients, we carried out climate change scenario analysis on the strategic asset allocation of the Model Growth Portfolio[6]. The latest climate change scenario analysis was based on the strategic asset allocation of the reviewed portfolios as of 30 June 2024, and used asset class return assumptions at that time.

Mercer focuses on the following four core scenarios:

1.5°C Rapid Transition

Average temperature increase of 1.5°C by 2100 in line with the Paris Agreement. This scenario assumes sudden large-scale downward re-pricing across multiple securities in 2026. This could be driven by a change in policy or realisation that policy change is inevitable, consideration of stranded assets or expected cost. To a degree the shock is sentiment driven and is therefore followed by a partial recovery across markets. The physical damages are most limited under this scenario.

<2°C Orderly Transition

Average temperature increase of less than 2.0°C by 2100. This scenario assumes political and social organisations act in a co-ordinated way to implement the recommendations of the Paris Agreement to limit global warming to below 2°C. Transition impacts do occur but are relatively muted across the broad market.

2.6°C Limited Transition

Average temperature increase of 2.6°C by 2100. This scenario assumes that policymakers implement limited Nationally Determined Contributions and fall short of meeting the Paris Agreement goals. The attempted transition translates in a slight downward re-pricing of securities in the late 2020s and slightly mitigates physical damage (relative to a failed transition). These physical damages are priced in to a degree in the late 2020s and the late 2030s.

3.7°C Failed Transition

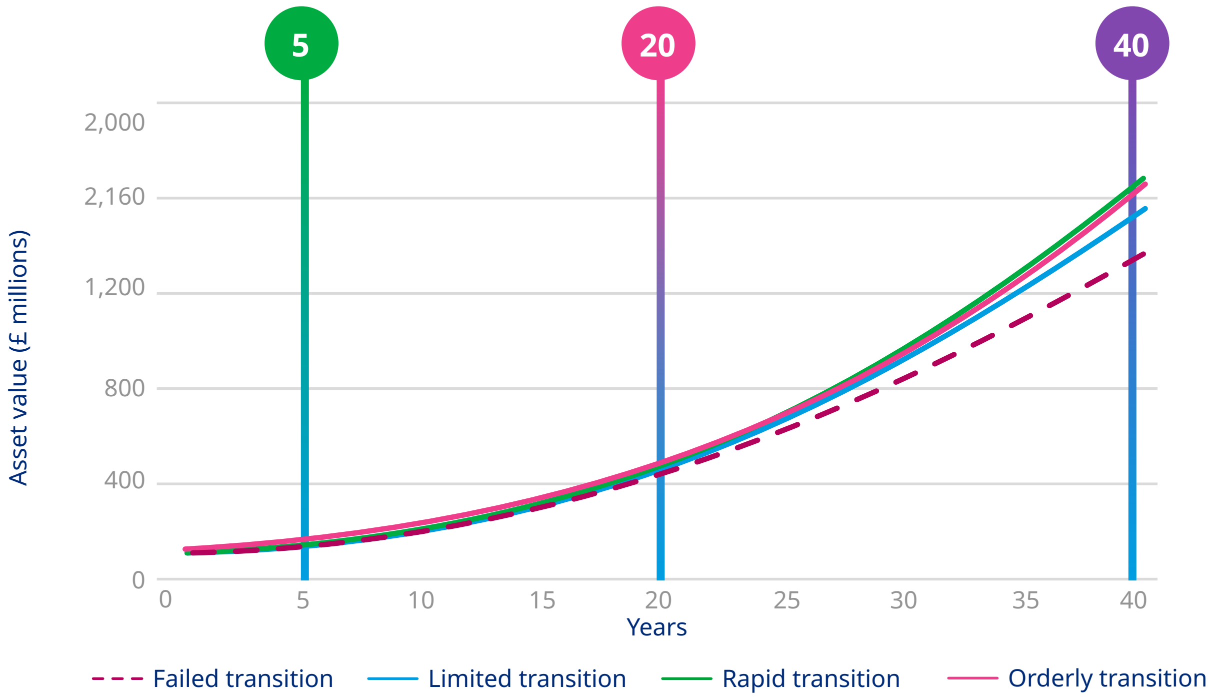
Average temperature increase of 3.7°C by 2100. This scenario assumes the world fails to co-ordinate a transition to a low carbon economy and global warming hits 3.7°C above pre-industrial levels by 2100. Physical climate impacts cause large reductions in economic productivity and increasingly negative impacts from extreme weather events. Certain climate tipping points are hit and explicitly modelled. These are reflected in re-pricing events in the late 2020s and late 2030s.

These scenarios are compared against a baseline, which reflects Mercer's capital market assumptions plus a weighted combination of the three climate scenarios. The weighting is Mercer's view on what scenarios markets were anticipating and pricing-in at the time of the analysis. Further information on the modelling assumptions can be found in Appendix A of the 2025 TCFD report for the Mercer Funds (found here).

[5] Per dollar of assets under management.
[6] The Mercer Model Growth Portfolio is used as the basis of the growth engine for the majority of our UK discretionary clients' assets under management. It is comprised of around 10 different underlying Mercer funds. The choice of underlying Mercer funds is at the discretion of Mercer.

The selected scenario modelling illustrates potential impacts over a 40-year period. It includes the ability to review shorter periods, including 5 and 20 years.

The following chart illustrates the Model Growth Portfolio's 5-, 20- and 40-year projection across each scenario.



Our analysis has led to the following high-level conclusions:

- **A Successful Transition is an Imperative:** Over the long term for nearly all investors a successful transition leads to enhanced projected returns when compared to scenarios associated with higher temperature outcomes due to lower physical damages.
- **Sustainable Allocations Protect against Transition Risk, Growth Assets are highly vulnerable to Physical Risk:** Asset class returns vary significantly by scenario depending on their respective exposure to transition and physical risks.
- **Sector Exposure is Key:** Differences in return impact are most visible at an industry-sector level, with significant divergence between scenarios. Oil and Gas, Fossil Fuel Based Utilities and Renewables are most impacted by the transition.
- **Investors should be Aware of Future Pricing Shocks:** As markets react to new information as a result of changing physical and policy / transition risks, investors will be vulnerable to rapid repricing shocks. Exploring the potential impact that repricing events can have on investment strategy and positioning portfolios ahead of time is critical.

Scenario analysis remains an important reminder that isolating a preferred scenario does not mean it will eventuate. There are complex system changes at play, which limit the accuracy of modelling. We also appreciate that while investors have an influential role to play, they do not have direct control over government policies or all investee company decisions.

5 Risk management

5.1 Introduction

Our enterprise risk management framework ("**ERM Framework**") advocates for and facilitates strong risk management across our businesses and functions.

Through our risk management processes, we raise awareness of key risks, ensure appropriate controls activity is undertaken, integrate discussion about risk into our decision-making processes, and foster alignment between senior management and the Board.

Mercer works with, and draws insights from, the wider Group to develop its insights on climate related risks. The 2024 Report (page 14) available here, provides a brief overview of the Group's approach to enterprise risk management and the integration of risks into overall risk management.

This section 5 sets out the processes Mercer has in place to identify, assess, and manage its climate-related risks, and how these processes are integrated into Mercer's overall risk management framework.

Mercer reviews its risk profile regularly; as part of its risk assessment processes as well as through benchmarking based on internal and external (industry) risk reports. This helps inform any changes to Mercer's Risk Taxonomy. In the last year, we have updated our Risk Taxonomy, which is reflected in the risk table in section 5.3.2. "ESG" risk exists as a standalone risk in our Risk Taxonomy. The discussions of emerging risks through the Emerging Risks process, as further described below, also covers the impacts of climate related events, which are further raised at the Risk Committees. We will continue to work with our wider stakeholders to review and evolve our risk management practices where necessary.

5.2 Management of climate-related risks

Climate-related risks are identified, assessed, and managed through ongoing and dedicated processes. This ultimately feeds into Mercer's Risk and Control Self-Assessment ("**RCSA**") process as well as the Emerging Risks process (as described below). The RCSA is an internal process by which Mercer identifies, assesses, and manages its risks and assesses the effectiveness of controls. Further information on the RCSA process is included in section 5.3. In particular, the following high-level approach is followed in respect of climate-related risks:

- Mercer's Risk Team performs its own research into climate-related risks, utilising Marsh McLennan's publications, and any relevant external publications, such as those applicable to the industries in which we operate.
- The Risk Team performs benchmarking against Marsh McLennan's risk insights.
- Workshops are held with "**Risk Owners**", being senior leaders who are ultimately accountable for risks under their ownership, and other senior subject matter experts from across Mercer, following a risk-based approach (both as part of the RCSA process and Emerging Risks Processes).

Mercer believes climate change poses a systemic risk, with the impact driven by two key sources as follows:

- **Transition Risks:** Risks related to the transition to a lower-carbon economy (e.g. risks related to policy and regulatory changes and shifts in consumer preferences/ expectations).
- **Physical Risks:** Risks related to the physical impacts of climate change (e.g. extreme weather events).

Each of these present risks and opportunities to Mercer and our clients; and are considered in our identification and assessment of risks. The identified risks are assessed based on their likelihood of occurrence and impact, taking into account financial and qualitative impact factors, in line with our overall risk management approach.

Section 5.3 provides further information on how climate-related risk management is integrated into Mercer's overall risk management.

5.3 Integration into Mercer's overall risk management

5.3.1 Risk identification, assessment and management processes

Mercer has a well-understood ERM Framework which includes formal processes to identify, assess, manage, report on, and monitor risks to which it is exposed. A key process in this risk life-cycle includes the RCSA as follows.

The Risk and Control Self-Assessment (RCSA) process

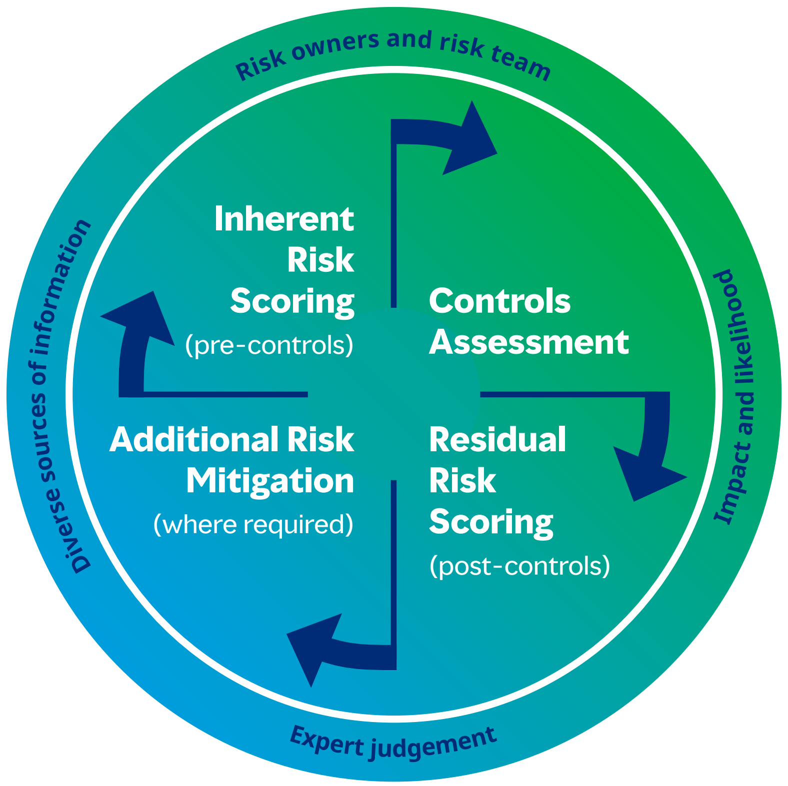
Risks, including climate-related risks, are identified, assessed, and managed as part of the RCSA process, which covers all risk types. The RCSA is the process by which existing risks and controls are assessed and new risks and controls are identified.

The second line Risk Team facilitates this process and meets with senior Risk Owners, who are responsible for the identification, assessment, and management of their respective risks. The Risk Team provides the necessary guidance and challenge.

The RCSA process covers, among other areas:

- **Inherent Risk scoring (pre-controls):** assessing the likelihood of risks occurring and the impact of each risk occurring, assuming no controls are implemented.
- **Controls assessment:** assessing the effectiveness of current controls to mitigate the risks.
- **Residual Risk scoring (post-controls):** assessing the likelihood of risks occurring and the impact of each risk occurring, taking into account the current controls that are in place to mitigate each risk.
- **Target Risk scoring:** assessing the target likelihood and impacts of the risks, in line with the Company Risk Appetite.

The following diagram summarises the RCSA process:



Emerging Risks Process

The Risk Function has implemented an updated formalised process for identifying and assessing Emerging Risks. This is to help identify potential threats (or opportunities) that may not yet be fully understood but may have a significant impact on the organisation (or society). This process has identified climate related risks and will continue to be reported as part of regular committee reporting.

How new risks are identified

Various processes and sources of insight are utilised to help inform the identification of new risks, including climate-related risks, covering both top-down and bottom-up processes. The identification and assessment of risks considers the feedback loop with other risk management activities and data, drawing on insights from:

- Errors & Omissions/incidents.
- Review of Emerging Risks (including any external publications and insights).
- KRIs and reverse stress testing.
- Top-down and bottom-up views from the second line Risk team, Risk Committees, Risk Owners and other subject matter experts and functions, e.g. findings from Internal Audit and Compliance Monitoring.

How risks are assessed

The following high-level processes and approaches are in place for assessing the potential size, impact and scope of identified climate risks:

- **Impact and Likelihood assessment** –
  To help determine the relative significance of risks, including climate-related risks in relation to other risks, a scoring matrix is used to assess each risk. This covers both quantitative criteria and qualitative factors to consider the impact and likelihood of the risks occurring.
  The qualitative factors include relevant existing and emerging regulatory requirements. Regulatory horizon scanning further aids this assessment by providing a view of any emerging regulatory requirements relevant to climate change. Other qualitative factors that are considered include operational impact (e.g. extent of an outage and associated impact on clients), and extent of any reputational impact. The scoring matrix used by Mercer is in line with standard industry practice.
- **Identification of appropriate Risk Owners**
  Risk Owners are allocated, who are of appropriate seniority and can provide a forward-looking view of the risks they own.
- **Expert judgement** – Reflecting the Risk Owners' prior experience and insights on how the risk could develop going forward, Risk Owners provide their judgement on possible risk drivers, risk consequences and financial impacts to Mercer, the market and clients.
- **Key Risk Indicators ("KRIs")** – KRI metrics are monitored and used to help provide a view on the expected risk exposure.
- The processes for assessing the potential size and scope of identified climate risks, and their relative significance, will also evolve and vary subject to the climate-related risk in question. Climate scenario analysis is also used to assess the size and scope of climate risks for our discretionary asset portfolios (see section 4 on strategy).

How risks are managed

Risk Owners are responsible for identifying and monitoring risk mitigation plans, including climate-related risks. Should a risk breach its risk appetite, which are based on Board-approved risk appetite statements, a decision is made to either accept or mitigate the risk, based on a four 'T's model:

- **Treat the risk:** by taking action to control the risk and limit its impact to acceptable levels, i.e., implementation of new controls.
- **Transfer the risk:** by passing the risk onto another organisation/entity, such as through an insurance policy.
- **Terminate the risk:** by altering processes and/or ceasing the activity that brings rise to the risk (if feasible).
- **Tolerate the risk:** if nothing can be done (at a reasonable cost) to mitigate the risk, the risk may be tolerated. This may require re-alignment of the risk appetite and will require governance approval.

Top risks, including those breaching appetite, are reported to and discussed with our Risk Committees. The Risk Committees further escalate any risks and matters to the Board as required.

5.3.2 Representation on the Risk Taxonomy

Climate-related risks are represented on our Risk Taxonomy in one of two ways:

- **Vertically:** i.e. as distinct risks.
- **Horizontally:** within one of the other risks, where climate-related risks are integrated into existing risks, such as third party risk and regulatory risk.

The following table summarises Mercer's Risk Taxonomy, highlighting some of those risks that have a climate-related component. This demonstrates that climate-related risks, both Transition and Physical, are integrated into a number of our individual risks across our risk categories. As noted in our previous report, Mercer introduced a standalone ESG Level 2 risk within the Risk Taxonomy in 2023, which includes climate-related risk within the 'E' consideration under the wider ESG umbrella. This risk was agreed for addition to the Risk Taxonomy by the Risk Committee and reflects the progress being made to include specific sustainability risks within the Risk Taxonomy, including in respect of climate-related risks.

Section 4 of this report provides further insights on our climate-related risks and opportunities (and their respective time horizon and materiality/impact).

Climate related risks as represented in our Risk Taxonomy

Level 1 Firmwide	Tier 2 Individual risk	Transition vs Physical	Climate related risks
Strategic	ESG Risk	Transition,	• The risk that Mercer is impacted by an Environmental or climate event which could result in an adverse impact to our brand, value and/or operations of the business. • This includes the potential impact of Physical climate risk events, Transition risks and the resultant impacts on clients
Financial/ Market Risk	Geopolitical & Macroeconomic (incl. Market Downturn)	Transition, Physical	• Changes in public opinion and government policy in relation to ESG and climate risks have the potential to impact the investment strategies of our clients. • Adverse climate-related events may negatively affect asset values and discretionary assets under management (AUM), resulting in reduced client wealth and a decline in our revenue.
Strategic Risk	Uncompetitive Products & Client Proposition	Transition	• Risks stemming from the swift evolution of client and market demand for climate-related services, including the potential failure to adapt quickly enough to these demands, which could adversely affect our competitive edge. • Reputational and brand risks arising from the perception of insufficient action on climate issues or failure to fulfil commitments, potentially leading to a loss of client trust and market position.
Operational Processes	Third Parties, Outsourcing & Other External Suppliers	Transition, Physical	• Climate-related events, including extreme weather incidents and Transition risks, may disrupt third parties we engage with and as a result impact our supply chain, which could lead to operational interruptions for Mercer and its clients.
Group Risk	Internal Group Service Providers	Physical	• Physical risks such as extreme weather events impacting Mercer's operations including buildings, staff, and technology. • Further impacts to Mercer's clients arising from lack of ability to fully service clients from Cclimate events
Regulatory Risk	Legal & Regulatory Requirements	Transition	• Failure to comply with regulations, including those related to climate disclosures or related ESG rules leading to fines and reputational harm due to non-compliance.
Clients	Client Experience & Service Delivery	Transition	• Mercer advises UK clients on the impact of climate change on asset classes and investment outcomes, utilising external data to model various climate scenarios. Due to the complexity of this area, there is a risk that clients or advocacy groups may challenge our advice, which could lead to reputational, commercial, and litigation risks.

5.3.3 The three lines of defence and risk management

The three lines of defence model (the "**Three Lines of Defence**") is an industry-recognised model which helps articulate the roles and responsibilities for managing risk across the organisation. It therefore helps clarify responsibilities for the management of all risk types across Mercer and mitigates the risk of gaps or duplications in risk management and assurance activities.

The first line is ultimately responsible for owning and managing their risks, including climate-related risks. The second line Risk Team provides the necessary framework, guidance, advice and challenge. The third line Internal Audit provides assurance through internal audit reviews.

Mercer's governance bodies provide overarching leadership and oversight of the risk management framework, including taking steps so that key risks are identified and managed by Management, in line with risk appetite. External stakeholders, which sit outside of the Three Lines of Defence, will provide varying degrees of oversight of risk management activity and influence Mercer's appetite for risk. The following diagram summarises the Three Lines of Defence for Mercer.

Outline of Mercer's Three Lines of Defence model

*In addition to Risk and Compliance, a number of other functions undertake risk control activities. These include Legal, HR, Privacy and Technology teams.

5.4 Engagement with stakeholders

We work with our wider stakeholders in the drive towards climate risk management and identification of opportunities. Marsh McLennan is encouraging low-carbon, climate-resilient investment in the corporate sector by helping our clients embed climate into planning and decision-making in the areas of Risk, Strategy and People. Through the wider Group, we help capital providers and corporations to understand and quantify climate risks. The Group works with businesses and financial institutions to set and execute low-carbon transition strategies that collectively chart a path to Net Zero. The Group helps clients understand, manage and reduce their exposures to physical climate risks. The Group also advises clients on how to prepare, engage and empower their workforces in order to execute the profound transformations required.

The 2024 Report, (page 4), sets out further examples of opportunities we have identified to help clients, and the wider industry, navigate climate risks and associated opportunities.

5.5 Asset management activities

As set out in section 2 above, Mercer provides services to a range of UK institutional investors, including portfolio management services. All decisions regarding discretionary management are taken by Mercer. The clients where discretionary portfolio management services are provided are generally invested by Mercer in what are known as the Mercer funds (the "**Mercer Funds**"[7]). The Mercer Funds are not domiciled in the UK and are managed by the Mercer Group. In this section, we outline the approach of Mercer and the Mercer Group to identifying, assessing and managing climate risks for our discretionary investors.

[7] The majority of the assets under management for Mercer's discretionary portfolio clients are invested in the following Mercer Portfolios or funds: the Mercer Model Growth Portfolio (which is comprised of around 10 different Mercer funds where the choice of underlying Mercer funds is at the discretion of Mercer), the Mercer Low Cost Growth Portfolio (which also comprises of about 10 underlying Mercer funds where the choice of funds is at the discretion of Mercer), the Mercer Diversified Growth fund, the Mercer Multi Asset Growth fund, the Mercer Diversified Retirement fund along with Mercer LDI funds and the Mercer Tailored Credit fund.

1. Integration – risk reduction

- **Informing investment-related decisions and monitoring:**
  Including climate-related analysis alongside traditional financial information during key investment decision-making and monitoring processes allows Mercer to better understand potential impacts on its approach:

  – **Strategic asset allocation ("SAA"):** In SAA reviews carried out by the Mercer Group of the key model portfolios (including Mercer's review of the Model Growth Portfolio), climate-related analysis is included for consideration as part of the process. The Model Growth Portfolio is diversified across asset classes, sectors, and geographies to manage risk, including climate-related risks. The Model Growth Portfolio is evaluated under various scenarios, and we use different assumptions to help Mercer make more informed SAA decisions with respect to the Model Growth Portfolio in order to help our clients investing in the Portfolio meet their long-term strategic goals and objectives.

  – **Portfolio Intelligence:** The Mercer Group evaluates portfolio risk exposures for relevance and prioritisation through a specific asset-class lens, including regional and sector exposures. Information on the funds and underlying managers within the Model Growth Portfolio and Low Cost Growth Portfolio is used to inform Mercer's asset allocation and choice of Mercer Funds (analysis is based on our primary climate analysis tools as well as other key metrics such as weighted average carbon intensity or "**WACI**").

  – **Appointed managers/funds:** At the Mercer Fund level, the Mercer Group works closely with the appointed managers to improve their ESG and climate change integration practices where required. The majority of portfolios for Mercer's UK discretionary clients are invested in Mercer Funds.

- **Strengthening climate-related analysis:**
  Climate-related analysis is a critical part of Mercer's investment decision-making, and we monitor appropriate metrics to understand the impact of our investment decisions on our progress against our Net Zero Target.

  Our primary climate analysis tools are:

  – **Climate Scenario Analysis:** Specifically, evaluating portfolios under scenarios for 1.5°C (Rapid transition), 1.8°C (Orderly transition), 2.6ºC (Limited transition) and >4°C (Failed transition) increase by 2100.

  – **The Mercer Analytics for Climate Transition Framework:** Mercer Group's ACT Framework draws on third party metrics for company-level emissions and reserves; transition commitments and green revenues; and other UN Sustainable Development Goals indicators to categorise companies from 'grey' (high-carbon and low-transition investments) to 'green' (those already low-/zero-carbon or with climate solutions).

  – **Mercer's Manager Sustainability and Stewardship Survey:** This survey is sent to appointed investment managers globally by the Mercer Group. The results from the dedicated climate change section provide insight into managers' policies, processes, and activities, which, when combined with portfolio analytics, are used by the Mercer Group to inform engagements with investment managers.

2. Active ownership – transition support

- Climate-related company engagement has to date largely been undertaken via the external underlying investment managers used within the Mercer Funds in which Mercer's discretionary portfolios invest. Key active investment ownership activities by the Mercer Group with a risk management lens include:

  – **Regular Manager Meetings:** Regular meetings with appointed investment managers may include discussion of material ESG issues, such as climate-related impacts, as relevant to portfolio investments, i.e. manager carbon intensity, portfolio vulnerabilities, and specific investment opportunities.

  – **Engagement Target Lists:** The Mercer Group has developed a climate engagement target list based off holdings in high impact sectors[8] and those contributing the most to overall emissions intensity across Mercer assets[9]. Appointed sub-investment managers with exposure to these holdings are expected to engage directly to understand the company's decarbonisation ambitions and encourage progress. The Mercer Group also has a nature engagement target list which was established by analysing the largest holdings across the Mercer assets and on both the Nature action 100 benchmark and the Forest 500 list. Sub-Investment managers with exposure to these holdings are engaged with by the Group to understand their approach to assessing potential nature-related risks with reference to prioritised companies.

  – **Mercer's Manager Sustainability and Stewardship Survey:** As noted above, this survey is sent to appointed investment managers globally by the Mercer Group. It provides specific insights on how investment managers are addressing climate risks and opportunities which support manager monitoring and stewardship engagement activity.

  – **Voting:** Although proxy voting responsibility is outsourced to equity managers, the Mercer Group carefully examines the voting activity annually to ensure alignment with our commitments on climate transition and long-term value creation. The Mercer Group's Stewardship Policy includes voting expectations for managers, requiring them to review climate-related disclosures, challenge boards with inaction on climate change, and consider voting against directors not supportive of the climate transition. The Mercer Group also encourages voting in favour of resolutions promoting climate-related disclosures and emission reduction targets.

- **Collaborative Initiatives:** The Mercer Group is a supporter/signatory to the following climate-related initiatives:

  – Institutional Investors Group on Climate Change (IGCC)

  – Task Force on Climate-related Financial Disclosures (TCFD)

  – Climate Action 100+ (CA100+)

  – Task Force on Nature-related Financial Disclosures (TNFD Forum Member)

  – CDP

  – Transition Pathway Initiative (TPI)

  These initiatives help us manage risk by providing insight into upcoming policy reviews, peer engagements and industry developments. Some of these initiatives, specifically CA100+, include direct company engagement to help drive better company-level climate risk management and disclosure. Adopting a collaborative approach is generally deemed beneficial from both a resource management and outcomes perspective for investors and companies rather than each investor approaching companies individually with different requests.

3. Sustainability-themed investing

- **Selection and Monitoring Process:** In addition to the climate integration approaches, the portfolio construction decision process considers exposure to sustainability themes, including climate transition and adaptation themes. When selecting from the Mercer Funds, we also use the Mercer Group's global investment manager research and associated analysis to evaluate manager capabilities and practices across all manager selection decisions. These manager research assessments include evaluating how the manager is incorporating material ESG factors (including climate) into its investment process, and how relevant ESG risks are to the associated asset class.

- **Allocations:** For some of the Mercer Funds used in the portfolios, there are specific alignment provisions and/or climate-related restrictions in the investment management agreements with appointed managers. In the majority of the active equity solutions there is a carbon intensity reduction relative to its benchmark, and in the fixed income solutions there is an exclusionary policy on high carbon emitters from the investible universe.

- **Climate-aware Benchmarks:** Within the Mercer Funds (which are used in the discretionary portfolios managed by Mercer for UK clients), a selection of passively managed strategies are used which track climate-aware benchmarks including Paris-aligned and Climate Transition benchmarks, as defined under the EU's Benchmark Regulation. These benchmarks exclude certain activities, such as companies generating revenues >5% from Oil Sands and Thermal Coal[10], as well as carbon emission reduction targets in line with at least 50% initial reduction compared to the parent. In some cases, the benchmarks also incorporate ESG tilting based on proprietary ESG scoring. The Mercer Group is continuing to explore the broader use of climate-aware benchmarks to better position the passive solutions for the transition to a low-carbon economy.

- **EU Sustainable Finance Disclosure Regulation (SFDR):** The majority of the Mercer Funds have implemented binding characteristics that promote positive environmental and social outcomes and are disclosing under Article 8 of the SFDR. These commitments include benchmark-relative WACI reductions, exclusions related to fossil fuel and the highest carbon-emitting activities, and an enhanced UN Global Compact engagement and escalation framework.

[8] High impact material sectors are as defined by the IIGCC. Certain material sectors are deemed high impact based on GHG emissions in their value chain. Transition of high impact material sectors are critical to achieving net zero and are those linked to the company focus lists of Climate Action 100+ and TPI, plus banks, real estate, agriculture, forestry, and fishing.
[9] Based on a portfolio comprised of 36 multi-client active and passive equity and fixed income funds as at 31st Dec 2022.
[10] Gross revenue in the last full financial year is used, or where not available, net revenue based on available company filings.

6 Mercer's investment services

An overview of Mercer investments

Mercer offers customised guidance for investment decisions, risk management and investment monitoring services to a broad range of institutional asset owners, including pension funds, insurance companies, endowments, foundations, wealth managers and other investors. Mercer's purpose is to support clients in setting, implementing, and monitoring their investment strategies to meet their goals and fiduciary responsibilities.

This section provides an overview of Mercer's UK investment services business, which provides advice and portfolio management that feeds from the Mercer Group. Mercer is regulated by the FCA, and the Mercer Group is authorised and regulated by various similar regulatory bodies in their locations, such as the Central Bank of Ireland.

The Mercer Group influences the advice and portfolio management provided to clients in the UK. Mercer provides services to a range of UK institutional investors, including portfolio management services. All decisions regarding discretionary management are taken by Mercer. The clients where discretionary portfolio management services are provided are generally invested by Mercer in what are known as the Mercer Funds. The Mercer Funds are not domiciled in the UK and are managed by the Mercer Group. Mercer's role in choosing which funds to use (the discretionary portfolio management) is what brings it into scope for the purposes of our TCFD disclosure requirements[11].

The investment manager of the Mercer Funds in the Mercer Group has published a Sustainability Policy (available here) which sets out how it intends to fulfil its climate-related commitments and manage climate-related financial risks and opportunities for the Mercer Funds.

Mercer Workplace Savings is an investment and governance offering provided by Mercer to defined contribution (DC) pension scheme clients in the UK and utilises the Mercer Funds.

6.1 Our investment philosophy

The Investment Philosophy enables the Mercer Group to set a clear top-down view on the approach to climate change. Mercer Group revised its Investment Philosophy during 2024 to reflect the evolving and dynamic investment environment in which both the Mercer Group and its clients operate. The Investment Philosophy outlined below serves as the foundation of Mercer Group's approach to help drive client success.

[11] The majority of the assets under management for Mercer's discretionary portfolio clients are invested in the following Mercer Portfolio or Mercer funds: the Mercer Model Growth Portfolio (which is comprised of around 10 different Mercer funds where the choice of underlying Mercer funds is at the discretion of Mercer), the Mercer Low Cost Growth Portfolio (also comprised of about 10 underlying Mercer funds whre the choice of Funds isat the discretion of Mercer), the Mercer Diversified Growth Fund, the Mercer Multi Asset Growth Fund, the Mercer Diversified Retirement Fund along with the Mercer LDI Funds and the Mercer Tailored Credit Funds.

Mercer Group's Investment Philosophy

In terms of sustainability, climate change and stewardship, Mercer Group's Investment Philosophy covers the following areas:

Client objectives – Aligning governance processes is essential for driving investment performance.

- Aligned governance processes drive investment performance. Particularly in times of crisis, strong governance becomes even more crucial. Investors should regularly review their beliefs, objectives and risk tolerance, considering different timeframes to ensure alignment with their goals.

Strong governance – Effective stewardship plays a crucial role in improving investment outcomes.

- Effective stewardship and engagement with companies, policymakers and stakeholders play an important role in value creation through the deployment of investor rights and influence. Clear stewardship objectives, meaningful escalation mechanisms in response to unsuccessful engagements, and the feedback loop between stewardship activities and portfolio positioning (including, in some cases, exclusions) are all key to effective stewardship. Stewardship, which involves using voting rights and engaging with companies, can be enhanced through industry-based collaborative initiatives that promote the sharing of public information among investors. This sharing of information helps support each investor in making well-informed decisions.

Maximise value – Investing to solve long-term systemic issues may provide opportunities to improve risk-adjusted returns.

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

Rewarded risk – Integrating financially material sustainability transition and socio-economic risks into investment decision-making can potentially enhance portfolio resilience.

- Considering the risks associated with climate transition, natural resource challenges, and socio-economic developments as part of an investor's risk management process can assist in positioning their portfolio across time horizons. This proactive approach enables investors to adapt to potentially changing market dynamics as a result of these trends.

The Investment Philosophy coupled with clearly defined processes ensure sustainability, climate change and stewardship considerations are embedded across our investment solutions and services.

6.2 Investment services

Management of climate risks and opportunities plays a key role in the advice and services we provide to our investment clients as set out below:

(a) Investment advice:

Mercer has been advising its asset owner clients on a wide range of sustainable investment issues since the formation of its specialist global Sustainable Investment Team in 2004. Our advice is aligned with UK regulatory expectations for asset owners. For Mercer Group, sustainable investment captures environmental, social and governance considerations and other systemic risks (including climate change) through approaches such as integration for resilience, capital allocation across sustainability themes, and effective stewardship. Investors typically use these approaches to address risks, generate long-term value and/or create positive societal outcomes. Investment consultants are expected to integrate these elements in their advice where applicable.

(b) Portfolio management:

As above, Mercer's business involves portfolio management activities, which brings it into scope for the purposes of TCFD.

Mercer's approach to monitoring and managing climate risks for their discretionary investors is set out in section 5.6.

Mercer selects and combines funds across equities, fixed income, passive solutions, and alternatives. Management of climate risks is a consideration for the selection of these funds. The majority of investment funds used within the delegated solutions offered to UK clients are Mercer Funds, and most UK clients invest in a discretionary portfolio referred to as the Mercer Model Growth Portfolio or the Mercer Low Cost Growth Portfolio which is a lower cost version of the Model Growth Portfolio.

(c) Mercer workplace savings (MWS):

MWS is Mercer's DC workplace pension investment and governance solution available within either contract-based or trust-based pension scheme arrangements. Aviva Life & Pensions UK Limited ("**Aviva**") and Scottish Widows Limited ("**Scottish Widows**") deliver the MWS investment solution to both corporate and trustee clients including the Mercer Master Trust, via their insurance platforms. The MWS investment solution is newly available to clients of the Mercer Smart Pension section of the Smart Pension Master Trust via Smart Pension's chosen insurance investment platform of Mobius Life Limited (Mobius Life).

The MWS investment solution consists of a number of unit linked funds which corporate and trustee clients make available for their employees and members to invest their workplace pension savings contributions in. Some of these unit linked funds are also used as part of the Mercer SmartPath™ [12] investment strategies, which are designed for use as default investment arrangements – where a member's workplace pension savings contributions are invested if they have expressed no choice in relation to the investment of these contributions. The Mercer SmartPath™ objective is to improve the adequacy and sustainability of members' pension savings.

[12] Mercer SmartPath™ is a pre-set investment portfolio available to corporate and trustee clients, for them to make available for their employees and members to invest their workplace pension savings contributions in as a default arrangement. It delivers an appropriate lifestyle investment strategy for each of the three at-retirement options: cash, annuity (secured income), or income drawdown (variable income). https://www.uk.mercer.com/what-we-do/wealth-and-investments/mercer-smartpath.html

The MWS Investment Governance Committee ("**IGC**"), consisting of senior Mercer DC investment specialists, takes overarching responsibility for the MWS investment arrangements delivered through Aviva, Scottish Widows and Mobius Life. The Trustees of the Mercer Master Trust take responsibility for member assets invested via the Mercer Master Trust. The MWS IGC and Mercer Master Trust Trustees, with the support of the Mercer Group (as set out in section 6.5) take responsibility for:

- Choosing the range of funds made available as part of the MWS investment solution;
- Reviewing proposed changes to the strategic asset allocation of the key multi-asset funds; and
- Designing the glidepaths of the Mercer SmartPath™ strategies.

The majority of investment funds used within the MWS investment solution are Mercer Funds. For some of these Mercer Funds, there are specific alignment provisions and/or climate-related restrictions in the investment management agreements with appointed managers.

When choosing to use the Mercer Funds, the MWS IGC and Mercer Master Trust Trustees are looking at how climate change integration is incorporated into the manager selection and portfolio management of the relevant investment funds. In particular, the majority of Mercer Funds made available within the MWS arrangements are funds that disclose under Article 8 requirements of the EU's Sustainable Financial Disclosure Regulations. This means that the fund promotes, among other characteristics, environmental or social characteristics.

As described above, MWS is offered in partnership with Aviva and Scottish Widows. Their entity-level reports can be found at the links below. Scottish Widows: **www.scottishwidows.co.uk/climatereport**; Aviva: **https://www.aviva.com/sustainability/reporting/climate-related-financial-disclosure** Public TCFD product reports related to MWS are currently produced and published by Aviva and Scottish Widows.

6.3 Activity over 2024 across the advice and solutions provided to asset owners

During 2024 we continued to evolve our approach to helping asset owners manage climate-related risks and seek climate-related opportunities. Four highlights stand out:

- Mercer continued to assist circa 50 UK pension schemes to prepare TCFD reports in accordance with the DWP's Climate Change Governance and Reporting Regulations. These schemes were required to set a climate target, which, for many, was a target to reduce carbon intensity on a portion of their assets by 2030. Schemes were also required to use climate scenario analysis to understand the resilience of their funding and investment strategy with consideration of the impact on markets, and for defined benefit (DB) schemes, their sponsor covenant and longevity risk. The scenario advice is based on assumptions from Ortec Finance, a leading provider of risk and return management technology and solutions. Mercer's collaboration with Ortec Finance enhances our existing climate scenario analysis to better inform investors seeking to control climate-related risk and identify opportunities.

- Mercer Group's Analytics for Climate Transition Framework ("**ACT Framework**") continues to help a growing number of clients set Net Zero targets and develop transition plans to achieve these targets. The ACT Framework places a high value on the role of investor stewardship to encourage companies to participate in the low-carbon transition alongside direct investment in climate-related solutions and broader integration of climate considerations in the investment process.

- During 2024, Mercer began the development of emissions attribution analysis, using Mercer Group's ACT framework, to better understand the drivers for year-on-year change in carbon intensity metrics. Mercer Group's Transition Today: Progress Update paper reinforces the paradox between portfolio and real-world emissions. Between 2020 and 2024, actual scope 1+2 emission reductions across companies within the MSCI ACWI contributed only 13.4% of the total reduction of the carbon footprint of the index; the remaining 86.6% of reductions achieved were unrelated to the volume of GHGs emitted into the atmosphere by the portfolio, driven instead by changes in company valuations and/or index constituents.

- Mercer held a biodiversity breakfast seminar to educate asset owners on the financial risks and opportunities associated with natural capital and the interconnectedness of climate change and nature.and Low Cost Growth Portfolios, and to consider the impact of any investment changes on the progress against the pathway.

- Mercer continued to monitor the progress against the Net Zero transition pathway for its Model Growth and Low Cost Growth Portfolios, and to consider the impact of any investment changes on the progress against the pathway.

6.4 Investment services: internal structure

This section should be read in conjunction with section 3 on governance.

Our approach to climate change combines the Mercer Group's global investment manager research and sustainable investment expertise with local investment consulting expertise to deliver decision-useful climate–related advice to asset owners. This approach enables us to adopt a globally consistent approach to climate change integration across our investment business while enabling delivery by local experts.

Mercer's global Sustainable Investment Team ("**SI Team**") sits at the heart of our approach to climate change. The SI Team was formed in 2004 and has extensive experience advising leading global institutions on ESG issues, stewardship, sustainability, and climate change. It currently has 25 experienced professionals across Mercer globally.

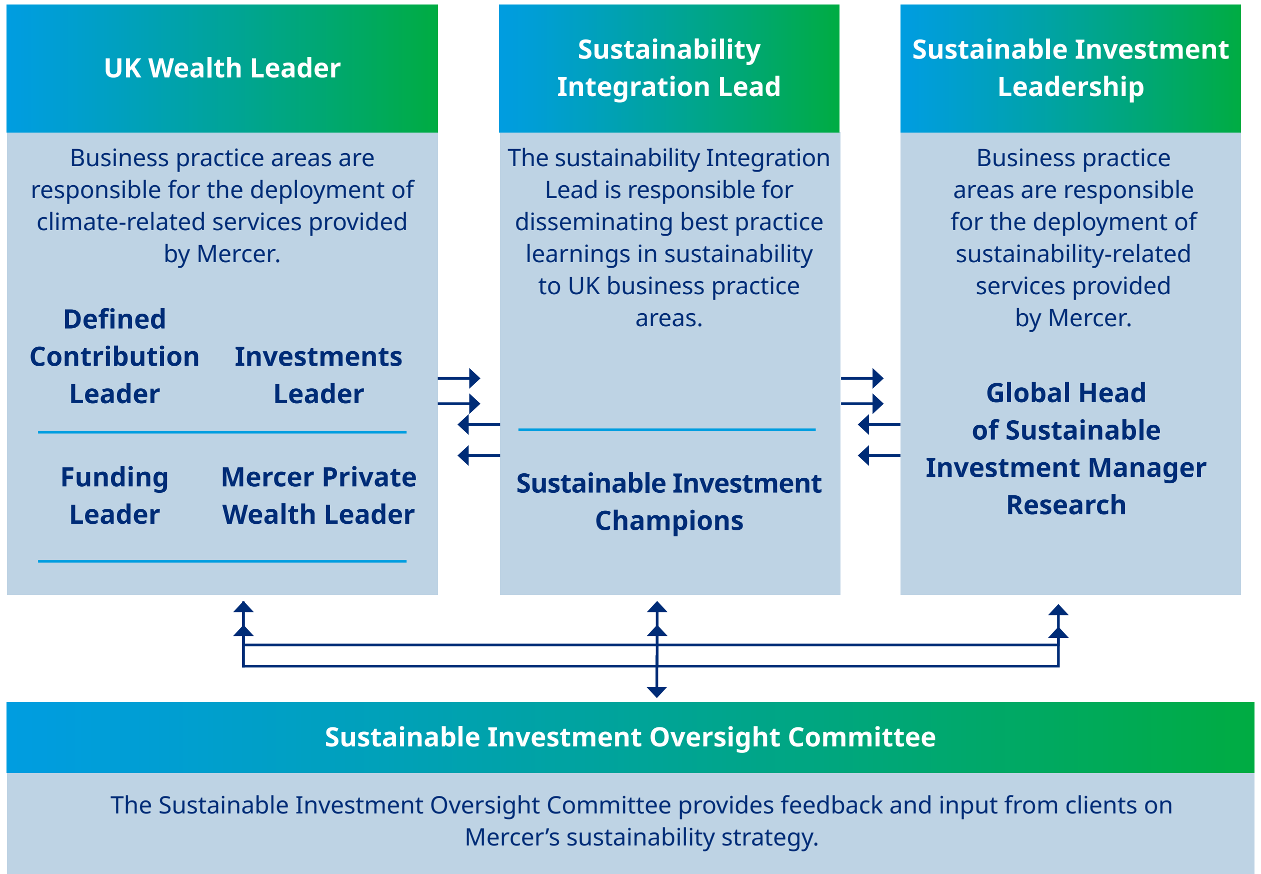
The SI Team is responsible for determining Mercer's approach to climate change scenario analysis, climate-related metric analysis, climate-related target setting and transition plan construction. It is also responsible for understanding and integrating climate-related themes in our research. The SI Team works closely with strategic research, manager research and investment consulting colleagues to deliver climate-related investment advice.

Management structure

In the UK, Mercer has a dedicated leadership structure that supports the integration of climate risk considerations into the advice and solutions that it provides to asset owners. This includes creating roles and responsibilities that are specifically focused on sustainability, establishing cross-functional working groups, and engaging with colleagues, clients, and stakeholders so that sustainability considerations are integrated across the firm.

The diagram below illustrates the organisational structure and identifies key resources applied to Mercer's climate change approach.

Mercer's Business Practice Leadership for Sustainability and Stewardship Services



Business practice leadership

The following section sets out the roles and key responsibilities with respect to Mercer's climate change activities and advice:

- **UK Wealth Leader:** The UK Wealth Leader sets the tone and expectations for leaders in the Wealth business, including in relation to investment, structure, and resources to effectively address sustainability, including climate change through our products and services. As a member of the UK Executive Team, they also Lare responsible for aligning with Mercer's broader climate-related strategy.
- **UK Investments Leader:** The UK Investments Leader is responsible for the sustainability and climate-related services provided by Mercer to UK asset owners through the provision of advice or discretionary management services. The UK Investments Leader is actively supported by the UK Sustainability Integration Lead. Sustainability-related advice and climate-focussed advice is increasingly incorporated into the investment advice across relevant areas such as within objective and investment policy setting, manager selection and monitoring - this is consistent with Mercer Group's Investment Philosophy. In addition, the UK Investments Leader oversees Mercer's work in supporting asset owners to meet their regulatory disclosure requirements such as the preparation and disclosure of an annual TCFD report.

Our other business practice leaders are responsible for deploying sustainability-related services to our clients, including climate-focussed services. They use cross-functional working groups to engage clients and other stakeholders to integrate sustainability considerations into our solutions, with examples shown below:

- **DC Leader:** Our DC consultants work with our DC clients to consider sustainability and climate-related risks and opportunities The DC Leader has oversight of MWS and adopts sustainability and climate-related considerations at the strategy and management level.
- **Mercer Private Wealth Leader:** Our Private Wealth business provides services to companies to support their employees at any stage of their financial journey. Our financial advisors work with high net-worth individuals to consider sustainability-related risks and opportunities, including climate change. In addition, the Mercer Private Wealth business uses the intellectual capital, products, and services of the UK Investments business, where relevant, including support on climate-related issues.
- **Funding Leader:** Our scheme actuaries work with our clients to consider other climate-related risks and opportunities, such as the impact on longevity and pension scheme sponsor covenant.

Integration of best practice

- **Sustainability Integration Lead:** The Sustainability Integration Lead is responsible for sharing knowledge and insights on sustainability with our UK investment consultants. They are equipped to integrate ESG factors including climate change, nature and stewardship in investment advice, and help clients meet regulatory requirements such as Implementation Statements and TCFD reporting. The Sustainability Integration Lead collaborates closely with the specialist global SI Team and UK Wealth business leaders so the advice provided to our clients remains up to date, relevant, and supports more effective decision-making. By staying informed about the latest developments in sustainability, the Sustainability Integration Lead helps to deliver current and valuable guidance to Mercer's clients in navigating the evolving landscape of sustainable investing.
- **Global Head of Sustainable Investment Manager Research** – The Global Head of Sustainable Investment Manager Research for the Mercer Group supports the UK Investments Leader and the Sustainability Integration Lead and is responsible for integrating sustainability-related considerations, including climate change, and stewardship into Mercer's manager research. This research allows our consultants to help clients align their manager selection preferences with their sustainable investment beliefs, including climate change, as well as monitoring incumbent managers against the investment manager universe. This research is also used within the Mercer Funds. For appointed and candidate managers, exposure to climate solutions is considered as one part of the portfolio construction decision.
- **Sustainable Investment Champions:** The Sustainable Investment Champions in the UK provide support to investment consulting colleagues. The Sustainable Investment Champions are a select group of analysts and consultants, equipped to answer colleague questions and undertake analysis and present on Sustainable Investment topics to clients and at external events.

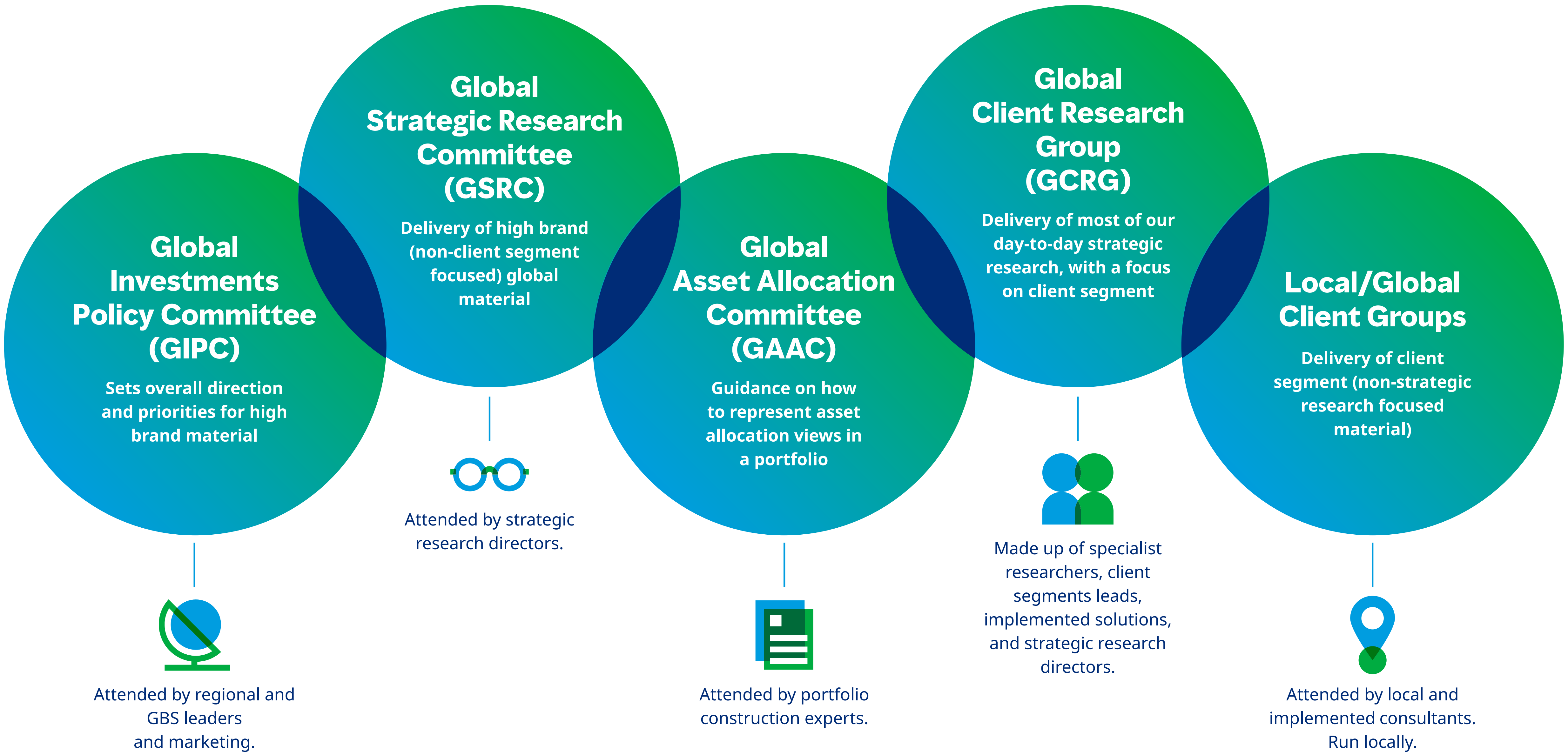
Continuous Improvement

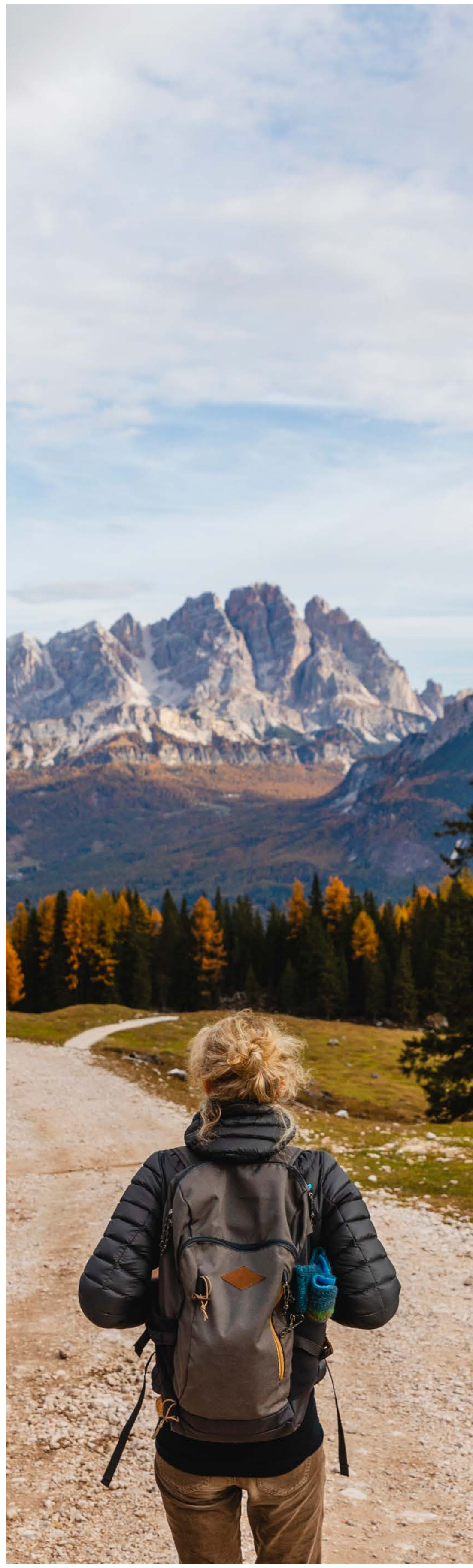
- **Sustainable Investment Oversight Committee:** The Sustainable Investment Oversight Committee provides feedback from clients and colleagues on Mercer's sustainability strategy to the Sustainable Investment Leadership and the Business Practice Leadership, where relevant. It is formed of the Sustainability Integration Lead and eight business representatives from different client segments, including Defined Benefit and Defined Contribution pension schemes, endowment, foundation, insurance, and wealth management clients. The Sustainable Investment Oversight Committee meets monthly to review consulting materials covering ESG integration, climate change, nature and stewardship and determines whether the materials will help our clients with their investment decision-making and wider governance processes.

6.5 Wider Global Resources

The UK Investments business benefits from the leadership and support of the Mercer Group. This reinforces the growing importance of climate-related considerations, and monitoring for developments within decision-making across asset owners.

Climate change is a topic and theme, which forms an important part of our investment research agenda. It is therefore embedded into our manager research, strategic research, and intellectual capital. Given the overarching global approach, there is no particular investment strategy managed by Mercer that is materially different across the world.





7 Metrics and targets

7.1 Entity level metrics and targets

Mercer, as part of Marsh McLennan, recognises its obligations to be good stewards of the environment and continues to look at ways to minimise its carbon footprint and impact on the environment.

The approach to the environment and environmental reporting is managed at a Group level. As part of the Group, Mercer maintained its certification as a CarbonNeutral® company, which was first achieved in 2021 across all of the Group's global operations. The Group has committed to set and execute low-carbon strategies across its global operations, which collectively chart a path to Net Zero by 2050, with an emissions reduction target of 50% by 2030. By the end of 2024, the Group proudly achieved its 2030 reduction target for scope 1 and 2 emissions.

The 2024 Report sets out the Group's business responsibility and climate initiatives. In line with TCFD Recommendations and Recommended Disclosures, the 2024 Report sets out the metrics and targets used by the Group, to assess and manage relevant climate-related risks and opportunities.

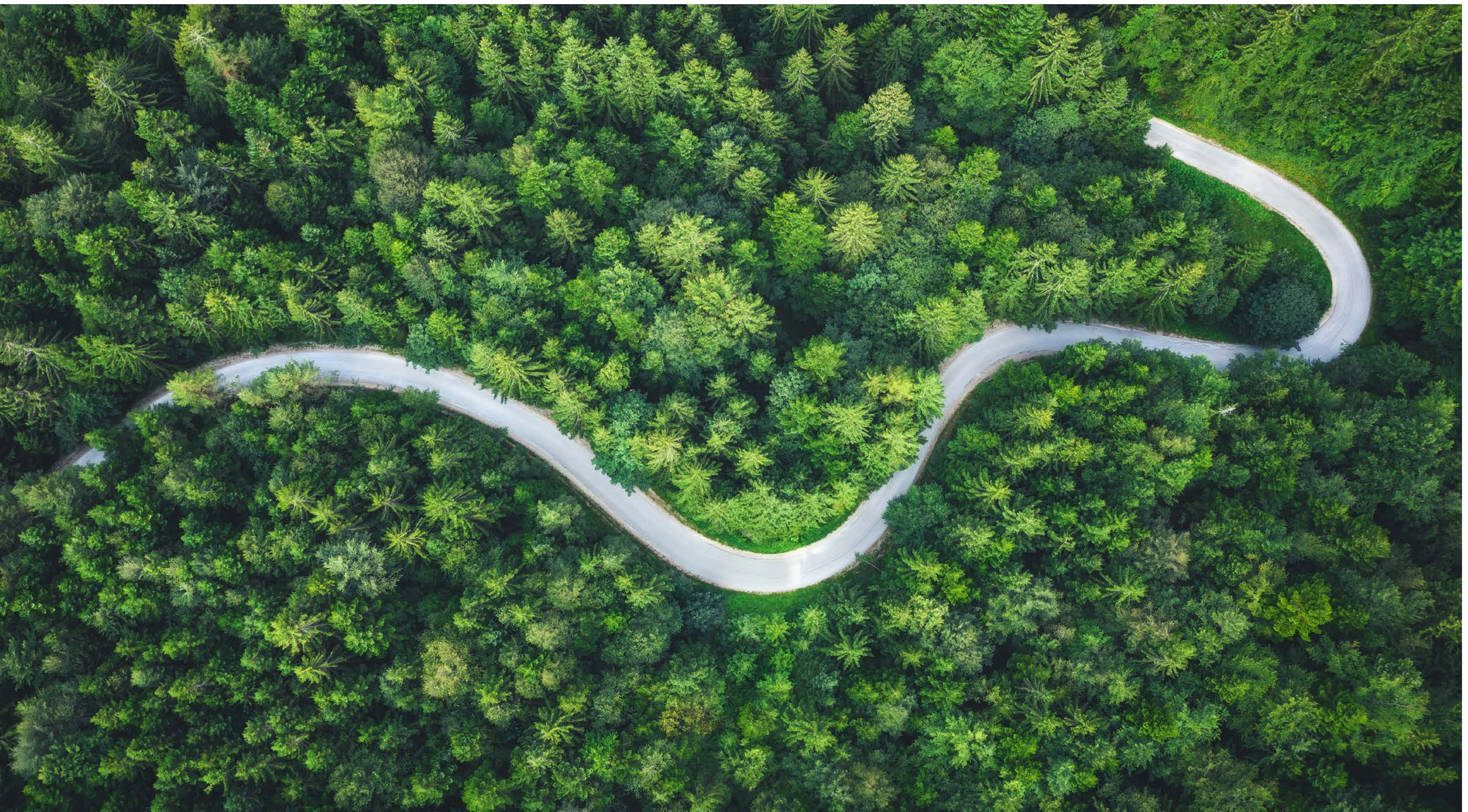
Please refer to the following sections of the 2024 Report available here for further detail on metrics and targets:

Page 9 of the 2024 Report sets out Marsh McLennan's commitment to Net Zero.

Page 17 of Appendix A of the 2024 Report sets out Marsh McLennan's 2024 emissions inventory, including Scope 1, Scope 2, and Scope 3 greenhouse gas (GHG) emissions.

As detailed in section 3 of this report, Mercer incorporates the Group's climate-related targets into Mercer's strategy for business conducted in the UK and discloses progress against these targets in accordance with local regulations.

Mercer's total emissions scope summary for the year ended 31 December 2024 is as follows:



Total emissions

	2024	**2024**	**2023**	**2023**	**2022**	**2022**
	(Tonnes of CO_2e)	(Tonnes of CO_2e)	(Tonnes of CO_2e)	(Tonnes of CO_2e)	(Tonnes of CO_2e)	(Tonnes of CO_2e)
	Location based	Market based	Location based	Market based	Location based	Market based
Scope 1 – Direct	134	134	302	302	261	261
Scope 2 – Indirect	965	362	1,779	570	1,886	648
	1,099	**496**	**2,080**	**872**	**2,147**	**909**
Scope 3 – Indirect	127	127	52	52	101	101
Total	**1,226**	**623**	**2,132**	**924**	**2,248**	**1,010**
Total TCO^2e on Scopes 1&2 above	**1,099**	**496**	**2,080**	**872**	**2,147**	**909**
Headcount as at 31 December		2,654		4,074		4,057
Intensity measurement (TCO^2e per employee)	**0.41**	**0.19**	**0.51**	**0.21**	**0.53**	**0.22**
	Electricity (kWh)	Gas (kWh)	Electricity (kWh)	Gas (kWh)	Electricity (kWh)	Gas (kWh)
Energy consumption used to calculate emissions (kWh)	4,659,470	670,413	8,587,355	1,018,713	9,753,065	1,197,832
	Total	**5,329,883**	**Total**	**9,606,068**	**Total**	**10,950,897**

Note
The company's UK facilities are largely operated on a shared basis with other operating companies within the Group. The portfolio is predominantly leased and is managed centrally. The supply of gas and electricity for a property can either be sourced by the company or the supply managed via a building landlord.

The increase in scope 3 emissions relative to prior years are primarily due to a change in calculation methodology and process enhancements. The company expects to rebaseline using the new calculation methodology.

Mercer reports on energy consumption and greenhouse gas emissions in its annual report and accounts (the "**Accounts**") in accordance with the Streamlined Energy and Carbon Reporting regulations ("**SECR**").

This includes an outline of the methodology used to calculate carbon emissions, for which Mercer has taken guidance from the UK Governmental Reporting Guidelines, Greenhouse Gas Protocol reporting standard and UK Governance Greenhouse Gas Conversion Factors.

7.2 Asset management metrics and targets

Information is provided here on the model investment discretionary growth portfolios and the Mercer Funds commonly used by Mercer's UK discretionary clients. Mercer has set a Net Zero Target for the model discretionary growth portfolios including the Model Growth Portfolio and Mercer Low Cost Growth Portfolio. The Mercer Group has set a Net Zero Target for the Mercer Diversified Growth Fund, Mercer Multi-Asset Growth Fund and Mercer Diversified Retirement Plan which are also used by Mercer's UK clients.

We acknowledge the availability of accurate data for some asset classes is an industry-wide issue and both Mercer and the Mercer Group encourage our investment managers, who in turn encourage the underlying companies in which they invest where achievable, to improve their climate-related reporting as quickly as reasonably possible.

a) Metrics

The climate-related metrics help Mercer understand climate exposures and opportunities, and identify areas for further risk management. We currently report on the following metrics in line with the TCFD framework, which we believe to be credible and easy to understand measures that are useful in decision-making:

Absolute Emissions

This represents each company's reported or estimated greenhouse gas emissions, where available (includes Scope 1 + 2 emissions, with Scope 3 shown separately). Scope 1 emissions are those from sources owned or controlled by the company (e.g., direct combustion of fuel from vehicles), whereas Scope 2 emissions are those caused by the generation of energy purchased by the company. Scope 3 emissions include emissions produced in the supply chain (upstream) and the distribution process (downstream). At present, they can be challenging to measure reliably, and as such we use only estimated data sets as calculated by MSCI as it allows for a consistency of calculation methodology.

Carbon Footprint

This measures the carbon emissions (in metric tonnes) per million US dollars invested for listed equity and corporate fixed income. We scale by size of investment so as to negate the effect of asset growth in the calculation of the financed emissions figures for effective tracking against a baseline over time. This is TCFD's recommended metric for measuring carbon emission intensity. For sovereign debt, a country's production emissions are normalised by Purchasing Power Parity-adjusted gross domestic product (GDP) rather than sales, to give a sovereign intensity metric.

Weighted-Average Carbon Intensity (WACI)

This is an alternative carbon-emission-intensity metric based on weightings and measures the carbon emissions (in metric tonnes) generated per million US dollars of sales for listed equities and corporate fixed income.

Science Based Target Initiative approved targets

Percentage of portfolio companies with approved Net Zero Decarbonisation Targets assessed by the Science Based Targets initiative (SBTi).

Implied Temperature Rise

This analyses the warming scenario with which the investment is aligned. Implied Temperature Rise is a forward-looking metric that helps infer the degree of portfolio alignment with the goals of the Paris Agreement (i.e., limiting global warming to well below 2°C). We recognise that very few companies are currently aligned with Net Zero pathways but that this will change as companies transition their business models.

Data Quality

Percentage of portfolio which has reported data, estimated data, verified data and not covered data. This would be the share of portfolio held at year end for which climate-related metrics of an acceptable quality have been obtained. The share of the portfolio on which high quality climate-related disclosures are taking place is a good indication of the integration of climate risk and opportunity in trustee and asset manager decision-making.

Climate Value at Risk

This demonstrates the expected return contribution from changes arising in a 1.5°C scenario out to 2100. It is designed to provide a forward-looking and returns-based valuation assessment to measure climate-related risks and opportunities in an investment portfolio across top-down risks and opportunities (transition and physical exposures) and bottom-up risks and opportunities (policy/economic impacts and technology/company-specifics).

The following tables set out the metrics for the discretionary portfolios and the Mercer Funds most commonly used in the management of UK discretionary clients as at 31 December 2024. Mercer manages $39bn assets under management (“**AUM**”) for UK clients under an IMA.

Table 1: Scope 1 and 2 emissions-based metrics covering corporate holdings

Emissions-based metrics Scope 1+2	**Assets under management** 31-Dec-24 ($)	**Absolute emissions** (tCO$_2$e) Corporate ssets	**Carbon footprint** (tCO$_2$e/$m invested)		**Weighted average carbon intensity** (tCO$_2$e/$m revenue)	
			Coverage	Metric	Coverage	Metric
Model Growth Portfolio	1,545,165,792	61,283	76%	80.8	76%	155.1
Low Cost Growth Portfolio	1,364,419,329	65,962	84%	78.7	84%	166.0
Mercer Multi Asset Growth Fund	13,389,554,234	541,640	97%	53.7	97%	122.2
Mercer Diversified Growth Fund	9,301,921,124	383,885	95%	59.2	95%	157.5
Mercer Diversified Retirement Fund	2,238,887,658	91,221	91%	63.6	92%	133.0
Liability Driven Investment Funds[13]	4,519,409,856	–	–	–	–	–
Tailored Credit Funds[14]	6,827,087,047	279,706	91%	43.22	92%	112.4

Table 2: Scope 1 and 2 emissions-based metrics covering sovereign holdings (production emissions)

Emissions-based metrics Scope 1+2	**Production Emissions Including LULUCF**				**Production Emissions Excluding LULUCF**			
	Sovereign Carbon Intensity (tC0$_2$e / $M PPP – Adjusted GDP)		**Absolute Emissions (tC0$_2$E)**		**Sovereign Carbon Intensity (tC0^{2}e / $M PPP – Adjusted GDP)**		**Absolute Emissions (tC0^{2}E)**	
	Coverage	Metric	Coverage	Metric	Coverage	Metric	Coverage	Metric
Model Growth Portfolio	100%	211.0	100%	134,432	100%	187.5	100%	119,492
Low Cost Growth Portfolio	100%	213.44	100%	120,931	100%	189.3	100%	107,268
Mercer Multi Asset Growth Fund	100%	224.63	100%	412,424	100%	217.9	100%	400,150
Mercer Diversified Growth Fund	100%	240.39	100%	380,995	100%	241,4	100%	382,594
Mercer Diversified Retirement Fund	100%	188.0	100%	114,857	100%	184.6	100%	112,760
Liability Driven Investment Funds[13]	100%	119.4	100%	1,029,273	100%	119.2	100%	1,027,393
Tailored Credit Funds[14]	100%	111.2	100%	8,724	100%	110.8	100%	8,698

Table 3: Scope 1 and 2 emissions-based metrics covering sovereign holdings (consumption emissions)

Emissions-based metrics Scope 1+2	**Consumption Emissions**					
	Sovereign Carbon Intensity (tC0$_2$e / capita)		**Sovereign Carbon Intensity (tC0$_2$e / $M PPP – Adjusted GDP)**		**Absolute Emissions (tC0$_2$E)**	
	Coverage	Metric	Coverage	Metric	Coverage	Metric
Model Growth Portfolio	100%	9.5	100%	208.8	100%	133,078
Low Cost Growth Portfolio	100%	9.4	100%	209.6	100%	118,739
Mercer Multi Asset Growth Fund	100%	10.3	100%	222.2	100%	408,018
Mercer Diversified Growth Fund	100%	12.2	100%	239.9	100%	380,184
Mercer Diversified Retirement Fund	100%	10.1	100%	203.7	100%	124,476
Liability Driven Investment Funds[13]	100%	9.1	100%	164.2	100%	1,415,442
Tailored Credit Funds[14]	100%	8.4	100%	154.3	100%	12,107

[13] Liability Driven Investing Funds refers to Mercer LDI Fund I, Mercer Sterling Inflation Linked LDI Bond Fund, Mercer Sterling Nominal LDI Bond Fund, Mercer Flexible LDI £ Real Enhanced Matching Fund 1, Mercer Flexible LDI £ Real Enhanced Matching Fund 2, Mercer Flexible LDI £ Real Enhanced Matching Fund 3, Mercer Flexible LDI £ Fixed Enhanced Matching Fund 2, Mercer Flexible LDI £ Fixed Enhanced Matching Fund 3 and Mercer Flexible LDI GBP Inflation Enhanced Matching Fund 1.

[14] Tailored Credit Funds refers to Mercer Tailored Credit Fund 1 and Mercer Tailored Credit Fund 2.

Table 4: Scope 3 emissions-based metrics for corporate exposures only (sovereign data not available)

Emissions-based metrics Scope 3	**Absolute emissions** (tCO$_2$e) Corporate assets		**Carbon footprint** (tCO$_2$e/$m invested)		**Weighted average carbon intensity** (tCO$_2$e/$m revenue)	
	Upstream	Downstream	Upstream	Downstream	Upstream	Downstream
Model Growth Portfolio	125,970	263,893	82	171	167	298
Low Cost Growth Portfolio	124,693	274,602	91	201	204	363
Mercer Multi Asset Growth Fund	1,033,685	2,383,765	77	178	202	321
Mercer Diversified Growth Fund	668,359	1,618,343	72	174	198	337
Mercer Diversified Retirement Fund	170,664	439,538	76	196	171	345
Liability Driven Investment Funds[13]	–	–	–	–	–	–
Tailored Credit Funds[14]	588,616	942,464	86	138	217	249

Table 5: Data quality metric for corporate exposures only

Data quality Scope 1+2 (Corporate only)	**Corporate assets** (% of portfolio)	**Reported**		**Estimated**		**Unavailable**	
		Scope 1+2	Scope 3*	Scope 1+2	Scope 3	Scope 1+2	Scope 3
Model Growth Portfolio	49%	31%	26%	7%	37%	12%	12%
Low Cost Growth Portfolio	61%	44%	39%	8%	52%	10%	10%
Mercer Multi Asset Growth Fund	75%	64%	58%	9%	73%	2%	2%
Mercer Diversified Growth Fund	70%	57%	52%	9%	67%	3%	3%
Mercer Diversified Retirement Fund	64%	51%	46%	8%	59%	5%	5%
Liability Driven Investment Funds[13]	–	–	–	–	–	–	–
Tailored Credit Funds[14]	95%	75%	71%	13%	88%	7%	7%

Table 6: Non-emissions-based metrics and alignment metrics for the corporate exposures only

Non-emissions-based & alignment metrics	**Corporate assets** (% of portfolio)	**Climate value at risk** (%)		**Implied temperature rise** (°C)		**SBTi alignment** (%)
		Coverage	Metric	Coverage	Metric	
Model Growth Portfolio	49%	71%	-15.0	59%	4.1	24%
Low Cost Growth Portfolio	61%	81%	-13.7	70%	4.1	32%
Mercer Multi Asset Growth Fund	75%	95%	-11.3	93%	3.8	43%
Mercer Diversified Growth Fund	70%	92%	-11.9	90%	3.7	41%
Mercer Diversified Retirement Fund	64%	83%	-13.9	88%	3.7	38%
Liability Driven Investment Funds[13]	–	–	–	–	–	–
Tailored Credit Funds[14]	95%	68%	–11.7	88%	2.5	41%

Scope 3 emissions are provided for listed equities and corporate bonds as they are based on corporate metrics. Sovereign assets, cash and derivatives are excluded from this analysis. Estimated data is used due to the lack of availability or poor quality of reported data. Using only MSCI estimated scope 3 data ensures that data methodology is consistent for all companies across similar sectors, providing a more robust understanding of where the risks lie and a better intertemporal understanding of how portfolios have evolved. Note, due to its estimated nature, it is not recommended to base investment decisions on scope 3 data until availability and reliability of reported data improves.

- As at Date 31/12/24. FX rate used 1.25159 GBP/USD.
- Data Source: MSCI Barra One.
- Calculated figures are rebased to 100% to represent full coverage.
- Figures are based on best-available data at time of calculation. Calculation methodologies are subject to change based on evolving market standards.
- Where look through is not available on certain passively managed external pooled vehicles, comparable index proxies have been used to supplement the data.
- The Implied Temperature Rise metric has increased on a year-on-year basis due to model updates by the data provider. In particular, the carbon budget time horizon to net zero was reduced from 2070 to 2050 as well as a 'credibility overlay' to decarbonisation commitments for the underlying companies.
- Sovereign emissions data for consumption emissions shown are consistent with the PCAF definition of consumption emissions, equivalent to production emissions, less exported emissions, plus imported emissions. Emissions data exclude land use, land-use change and forestry. The methodology used for Sovereign bonds has improved over the years, making it unfair to compare year-on-year data. As a result, the current analysis does not take into account the sovereign figures from previous analyses.
- Sovereign emissions data for the production emissions shown are consistent with the PCAF definition of Scope 1 sovereign emissions, aligning with the UNFCCC definition of domestic territorial emissions, including emissions from exported goods and services. Emissions data are presented including and excluding land use, land-use change and forestry (LULUCF). The methodology used for Sovereign bonds has improved over the years, making it unfair to compare year-on-year data. As a result, the current analysis does not take into account the sovereign figures from previous analyses.
- Absolute emissions include corporate exposures (equity, corporate credit and securitised assets) and sovereign exposures as relevant. Excluded from the analysis are derivatives and some collective investment schemes held within the funds with no look through available.
- LDI metrics from total long only exposure to UK Gilts and Cash ($7,584,902,759) is shown in the above table. Short exposures and derivatives (including repos) are excluded from this analysis. LDI assets are presented as portfolio value less synthetic funding (short/repos/other items).
- Please be aware that these figures are being provided purely for informational purposes only. While the underlying funds may promote environmental and/or social characteristics (please see the fund offering documents for full information on such commitments where relevant), the model portfolios do not promote environmental or social characteristics, nor do they commit to making investments in sustainable investments.

(b) Targets

As mentioned above, Mercer set a Net Zero Target for portfolio carbon intensity by 2050 for the model discretionary growth portfolios including the Model Growth Portfolio and Low Cost Growth Portfolio. To achieve this, Mercer expects to reduce portfolio carbon intensity by 45% by 2030 from 2019 baseline levels. At the time, these targets were set on the basis that keeping the long-term temperature to 'well below 2°C', as per the 2015 Paris Agreement, is aligned with the best economic outcome for long-term diversified investors, recognising that greater, quicker reductions may be required to maintain that alignment status. Mercer is committed to achieving this without altering investment objectives or expected risk/return profiles to deliver on both short and long-term investor outcomes. Mercer will seek to align the Model Growth Portfolio with these targets.

For the purpose of this report, we will focus on the progress of the Model Growth Portfolio. Weighted-Average Carbon Intensity ("**WACI**") is the most widely used metric to assess carbon risk for portfolios and make comparisons across assets. WACI is the measure of portfolio exposure to companies' carbon emissions, measured by emissions (tCO_2e) per million US dollars of revenue.

We have made positive progress towards reducing our total-portfolio-level carbon metrics versus baseline levels. The Model Growth Portfolio has reduced its WACI by 32% when compared to December 2019, and is on track to meet Mercer's interim 2030 expectation to be aligned with the recommended IPCC 1.5°C pathway to Net Zero by 2050 with no or limited overshoot.

Model Growth Portfolio

There was a slight uptick in WACI over the year 2024 in the Model Growth Portfolio, as real world emissions hit their peak in 2024, however the Portfolio is still on track to meet its interim 2030 target, and ultimate 2050 target, with a reduction to date of 32% relative to its December 2019 baseline. We expect that the emissions profile of the Portfolio will oscillate in the short term but will continue to see a downward trend over the medium to long term.

There were a number of asset allocation decisions over the year which contributed to the slight increase, as even though the majority of the underlying building blocks saw a decrease in WACI over the year, there was an increase in allocation to higher carbon intensity strategies on a relative basis.

An increase in allocation to the Dynamic Asset Allocation Fund (which has exposure to Asian High Yield and Frontier Debt), Emerging Market Debt (HC) and also Multi-Asset Credit contributed the majority of WACI increase on the portfolio, although these strategies saw a decreased carbon intensity at strategy level over the year.

A tilt away from higher carbon intensity strategies such as listed infrastructure offset the increase in carbon intensity somewhat, as did an increase in allocation to Passive Sustainable Global Equity, Global Equity and Global Bonds. Emerging Markets Equity was one of the few active strategies to see an increase in its carbon intensity, however it still has a 60% reduction in carbon intensity relative to its benchmark.

All metrics have their drawbacks when considered in isolation, which is why we consider multiple climate-related metrics when managing climate risk in our portfolios.

As data coverage improves and accuracy in our carbon monitoring increases, so will our ability to make informed decisions and better plan for our long term commitment.

In 2024 we added enhancements to our tracking methodology to include attribution analysis, which allows us to drill down into the effect of allocating to different strategies from both an asset allocation perspective and the underlying strategy's carbon emission profile to aid our decision-making and stewardship efforts and better link portfolio intensity reductions with real world emissions reduction.

The Model Growth Portfolio applies to $1.54bn of AUM for UK clients as at 31 December 2024.

Carbon-reduction targets are much like performance targets. They help to set expectations and provide goalposts to track and measure progress.

To meet its targets, Mercer will use the following key levers, and will evolve and update our levers as the industry and guidance on climate considerations evolves:

- Strategic asset allocation and portfolio construction decisions to allocate to solutions in line with its climate goals and consistent with our fiduciary responsibilities.
- Asset-class approach to implementation, e.g. selecting strategies and funds that consider climate goal alignment and other risk and return factors.
- Carbon related commitments on certain strategies – active equity strategies have a carbon intensity reduction target relative to benchmarks; active fixed income strategies removal of high carbon emitters (carbon intensity of over 3000tCo2) from the investible universe; exclusions related to carbon intensive activities (certain fossil fuel extraction activities).
- Allocation to sustainable infrastructure to support the energy transition that underpins significant parts of the economy.
- Enhanced stewardship framework on companies identified as having higher potential adverse impacts on climate and nature.
- Mercer will look to the Mercer Group for support with stewardship, using voting and engagement tools to ultimately target transition within company business models.

The Mercer Group is working closely to identify and manage a staged emissions reduction plan, oversee fund allocations to climate solutions and steward an increase in transition capacity across the Mercer Funds. Progress on reductions will continue to be monitored. These targets are also embedded within the Mercer Group's governance, risk management, and strategy processes and communicated to relevant partners and third parties.

Important notices

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This report has been prepared in compliance with Chapter 2 'Disclosure of climate-related financial information' of the FCA ESG Sourcebook. As stated in section 2.2 of this report, where data is not currently available, this has been disclosed as permitted under the ESG Sourcebook.

I confirm to the best of my knowledge that the disclosures provided in this report for Mercer Limited, including any third party or group disclosures cross-referenced, as informed by section 2.2 of this report, comply with the requirements of chapter 2 'Disclosure of climate-related financial information' of the FCA ESG Sourcebook.

Benoit Hudon
President & CEO Mercer UK
6 June 2025

Mercer

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