Mercer

Mercer Limited

TCFD Entity Report (UK)

2023 Reporting Period

welcome to brighter

Contents of the report

1 Our ESG approach

This report is the second 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 2023 to 31 December 2023.

Mercer as a subsidiary of Marsh & McLennan Companies Inc. ("**Marsh McLennan**" or the "**Group**"), shares the Group's ESG and climate-related ambitions and integrates Marsh McLennan's Environmental, Social and Governance ("ESG") 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 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 ESG 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 ESG Committee (the "**ESG Committee**") oversees and supports the Group's commitment to ESG and initiatives, and reports to the Marsh McLennan Board. The ESG Committee and the Marsh McLennan Board are both supported by Marsh McLennan's Management ESG Committee in identifying and advancing ESG priorities across the Group. Members of Marsh McLennan's Management ESG Committee are drawn from senior management across our global businesses and corporate departments.

This report details how Marsh McLennan's ESG 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 ESG philosophy and environmental achievements are available here.

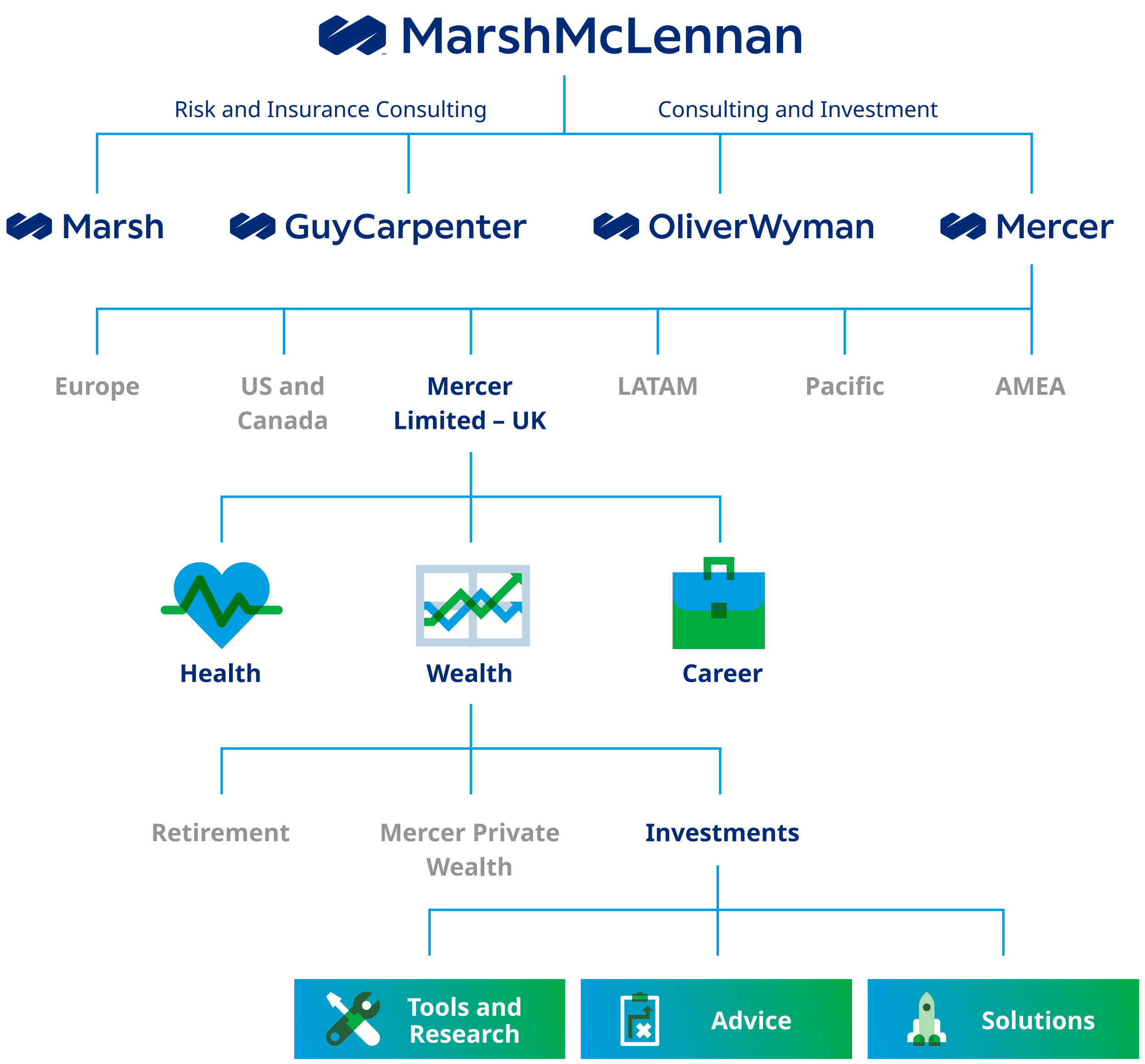
2 TCFD compliance summary

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 8)
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 22)
	b. Describe the organisation's processes for managing climate-related risks.	Risk Management section 5.3-5.5 (page 24)
	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 24)
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 48)
	b. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas emissions (GHG), and the related risks.	Metrics and Targets (page 48)
	c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Metrics and Targets (page 48)

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'.

Mercer provides services to a range of UK institutional investors, including portfolio management services. All decisions regarding discretionary management are taken by Mercer.

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 portfolio management teams (referred to as the "**Mercer Group**"), which influences the advice and portfolio management provided to clients in the UK.

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 2023, 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;
- 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

ESG 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 internal and external ESG-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 ESG 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 ESG 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 'top and emerging risk' report, and matters are escalated to the Risk Committee where appropriate. Specific governance processes have been implemented to track progress of ESG commitments and manage any ESG conflicts as they arise with clients, colleagues, vendors and partners.

In March 2024, Marsh McLennan published the Group's annual ESG strategy and climate ambition (the "2023 ESG Report"). The strategic objectives and climate ambitions outlined in the 2023 ESG 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 transitional 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.

We have also included a case study at section 5 that provides further detail on how an example of a climate-related risk, relating to physical damage and disruption to our business premises and operations, is managed by us.

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

Tier 1 Risk category	Tier 2 Individual risk	Transitional vs physical[2]	Time horizon and impact	Climate-related risks	Climate-related opportunities
Strategic & External	ESG Risk	Transitional, Physical	**S M L** X X X	• The risk that Mercer is impacted by an Environmental or Climate event (or Social or Governance 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 and Transitional Risks.	• Ability to assist our clients with navigating climate-related risks 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	Macro-economic and market downturn (including geopolitical risk)	Transitional, Physical	**M L** X X	• Adverse climate-related events could lead to the value of assets, and discretionary AUM reducing, impacting clients and reducing our revenue.	• Ability to assist our clients with navigating climate -related risks as a result of policy, legal, and market developments.
Strategic Risk	Products, including technology, and service offering not in line with customers' evolving needs or market offering/ competition, including loss of brand value	Transitional	**S M L** X X X	• Risks associated with rapidly evolving client and market demand for sustainable/climate-related services, including risk of not responding to these market demands fast enough, impacting our competitive position. • Reputational/brand damage due to perception of inaction on climate risks or not delivering on commitments.	• Deploying new climate-related practices and processes as a result of technological developments. • Benefiting from improved climate-related research and development in the market and internally. • In respect of reputation/brand, incorporating feedback from external stakeholders to improve internal business practices and provision of services relating to climate.
Operational Risk – Processes / Inter-Group Risk	Reliance on and poor performance of third parties, outsourced service providers and internal service providers	Transitional, Physical	**M L** X X	• Climate-related events such as extreme weather events or transition risks impacting the supply chain, including internal service providers and third parties, resulting in disruption to Mercer's and clients' operations. • Physical risks such as extreme weather events impacting Mercer's operations (including buildings, staff, and technology infrastructure), and any resultant impacts on clients.	• Improvement of our Business Resiliency Management to respond to increased severity of extreme weather events, most likely impacting our affiliate companies and clients outside the UK (and anticipating the consequent impact to Mercer's business). • Increased use of recycling and move to efficient buildings. • Incorporation of new energy sources, and shift towards decentralised energy.
Regulatory Risk	Non-compliance with relevant regulatory expectations/ requirements	Transitional	**S M** X X	• Risks relating to evolving regulation or stakeholder expectations, including costs of compliance and fines or reputational impact of non-compliance.	• Ability to implement new and improved internal processes to meet an increase in disclosure reporting obligations.
Conduct and Client Service Risk	Advice challenged by clients	Transitional	**S M L** X X X	• Mercer provides advice to UK clients on how climate change may impact asset classes and their outcomes. Mercer engages with clients to help them consider and model a range of climate scenarios and analyse different climate-related metrics for their investment portfolios, using data from external providers. This is a complex area, and it is possible that clients or external pressure groups could challenge the advice, leading to reputational risk as well as commercial/litigation risks.	• Ability to provide further services to our clients on how climate change may impact asset classes. • Advice to clients in the climate change area is seen as desirable in the market and effective advice could increase our brand reputation in the space.

[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

We have continued to assess the impact of climate-related issues on Mercer. The categories below set out the areas identified that we expect to expand 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:

- FCA's anti-greenwashing rule, which came into force from 31 May 2024, and requires regulated entities to ensure communication about products and services with sustainability characteristics is fair, clear and not misleading.
- International Sustainability Standards Board (ISSB), which aims to set-out a global baseline for sustainability-related financial disclosure requirements.
- 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 a client, Mercer provides advice to institutional investors 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 them with this activity. 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'.

All of the above point 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 (for the avoidance of doubt, CDP means Carbon Disclosure Project). We are reviewing 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

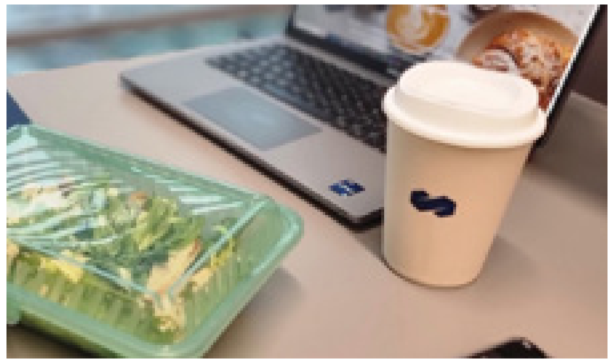
Each of our lines of business has its own areas of focus and expertise relating to climate change. Most of the opportunities are consistent with our current business development strategies, practices and client support services, and hence have planned and budgeted research and development expenditure. 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 creating smart office environments; we have built on our Green Pantry Initiative; and we are implementing centralised waste solutions in our offices which will increase recycling rates and reduce our emissions.

To reduce waste from food service, we partnered with a vendor to provide more sustainable 'to go' containers at our London headquarters. To roll out the Green Pantry Initiative, we educated and engaged our colleagues on the changes, and we are providing a loyalty and rewards program that discounts coffee where a reusable container is used.



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.

Energy reduction initiatives

In the UK and Ireland, Marsh McLennan buys 100% green electricity for our largest sites. For these and other efforts, we were re-accredited with the Carbon Trust Standard. At the remaining locations, the aim is to influence the managing agents' decision on the supply of green energy. We are working with a key outsourced service provider to extend the use of metering and reporting.

(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.

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 focuses on reducing our energy requirements and associated greenhouse gas (GHG) emissions[3]. At Group level, we focus on IT asset disposal/recycling; personal computing; technology purchasing; and server virtualisation, by recycling electronic waste, decreasing the impact of personal computing, maintaining energy-efficient data centres and partnering with strategic suppliers.

The Group has adopted many 'Software as a Service' (SaaS) applications which leverage high efficiency public cloud infrastructure and reduce physical infrastructure, and we ask that our strategic suppliers dispose of obsolete IT assets in an environmentally responsible manner.

The Global Technology Group is under the leadership of the Chief Information Officer, a role that also 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 of 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.

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.

Since the last report we have implemented a new BRM platform to support our activities and programs. The BRM Team maintains a robust business resiliency program which includes:

- 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.

(h) Reputational

We are conscious of reputational risks impacting our clients and the third parties we work with. Our philosophy is to partner with clients who make a difference in peoples’ lives and to take on work that is aligned with our core values.

In 2023, the Group published Client Engagement Principles to help us navigate an evolving risk landscape, to make responsible decisions and better serve the long-term interests of our clients and the communities in which they operate. The Group’s reputation management approach therefore involves keeping abreast of climate risks and opportunities before they arise; as we 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. As part of our ‘one-enterprise’ approach, we are working 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.

One example of our work in this area is the Mercer Analytics for Climate Transition Framework (”ACT Framework”). This is designed to help investors set a transition pathway. We use metrics to assess client portfolios across a spectrum: from, in our opinion, low-transition capacity (‘grey’ investments) to investments that are low-carbon risk/zero carbon already or provide climate solutions (‘green’ investments). We review our approach regularly to ensure that our methodology and advice to clients remains relevant and consistent with the latest scientific thinking on climate change and approaches to using climate-related metrics.

[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 we work toward our goals, we will focus on reducing our emissions through technological advances, including renewables; internal policies that empower colleagues to make more sustainable choices; and partnerships with key stakeholders, such as our suppliers.

Further information on this commitment to Net Zero can be found here in the 2023 ESG Report.

In 2023 we were certified as a CarbonNeutral® company for the third year in a row. 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.

The Group is developing climate-related scenario analysis for Mercer to use to inform the resilience of Mercer's overall strategy, taking into account different climate-related scenarios including 2℃ or lower.

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:

- In 2019, in partnership with a number of our institutional investment clients, the Mercer Group published Investing in a Time of Climate Change — The Sequel ("the Sequel"). The Sequel documents the Mercer Group's former climate scenario model for assessing the effects of climate-related physical risks and the transition to a low-carbon economy on investment return expectations. The Sequel modelled three climate change scenarios: a 2°C, 3°C and 4°C average warming increase from pre-industrial levels, over three timeframes: 2030, 2050 and 2100. Further, the Sequel focuses on the "why, how and what" for investors, providing practical advice, including peer case studies.
- 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).

The Mercer Group believes 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.

In November 2023, the Mercer Group published a paper called Transition Today. Given the interdependencies and prevailing gaps between climate change mitigation and adaptation, nature conservation, fairness, and equity, a broader definition of the climate transition is proposed. This should be one that expands beyond carbon reduction to address the issues of nature loss, physical risks, and adaptation. Any definition should also encompass engagement in the circular economy and support for the principles of equality for sustainable development.

At Mercer, our clients' transition plans are supported by scenario analysis and by our proprietary ACT Framework which provides a forward-looking assessment of climate-transition risk, capacity and opportunity within the context of an investment portfolio. The ACT Framework enables clients to assess possibilities for the transition to, and the development of, low-carbon portfolios.

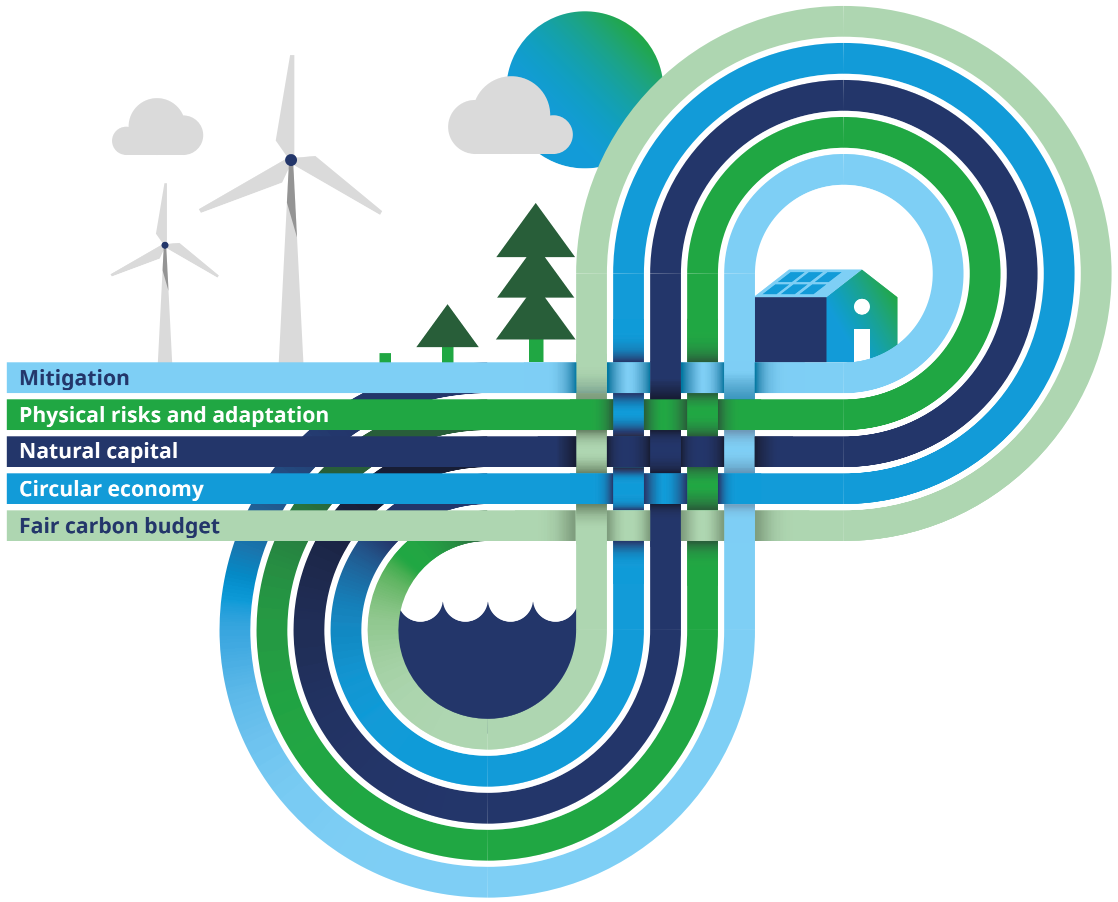
[4] In line with the 2015 Paris Agreement.

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

- Integration — Incorporate climate scenario and transition analysis into strategy, portfolio construction and decisions, as well as the monitoring of market pricing;
- Stewardship — Engage with companies on transition issues, via collaborative initiatives, by utilising voting rights and engagement (typically via asset managers);
- Investment — Allocate investment to low-carbon/sustainable solutions and monitor relevant developments and prices; and
- Screening — Monitor high-carbon exposures where low transition capacity exists.

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 carbon intensity by 2050 for 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 31 December 2021, and used asset class return assumptions at that time. Our analysis uses the following three core scenarios:

A Rapid Transition

Average temperature increase of 1.5°C by 2100. Sudden divestments across multiple securities in 2025 to align portfolios to the Paris Agreement goals, which have disruptive effects on financial markets with sudden repricing followed by stranded assets and a sentiment shock. Following this shock, there is a partial recovery.

An Orderly Transition

Average temperature increase of less than 2°C by 2100. Political and social organisations acting quickly and predictably to implement the recommendations of the Paris Agreement to limit global warming to well below 2°C. Transition impacts occurring but are relatively muted across the broad market.

A Failed Transition

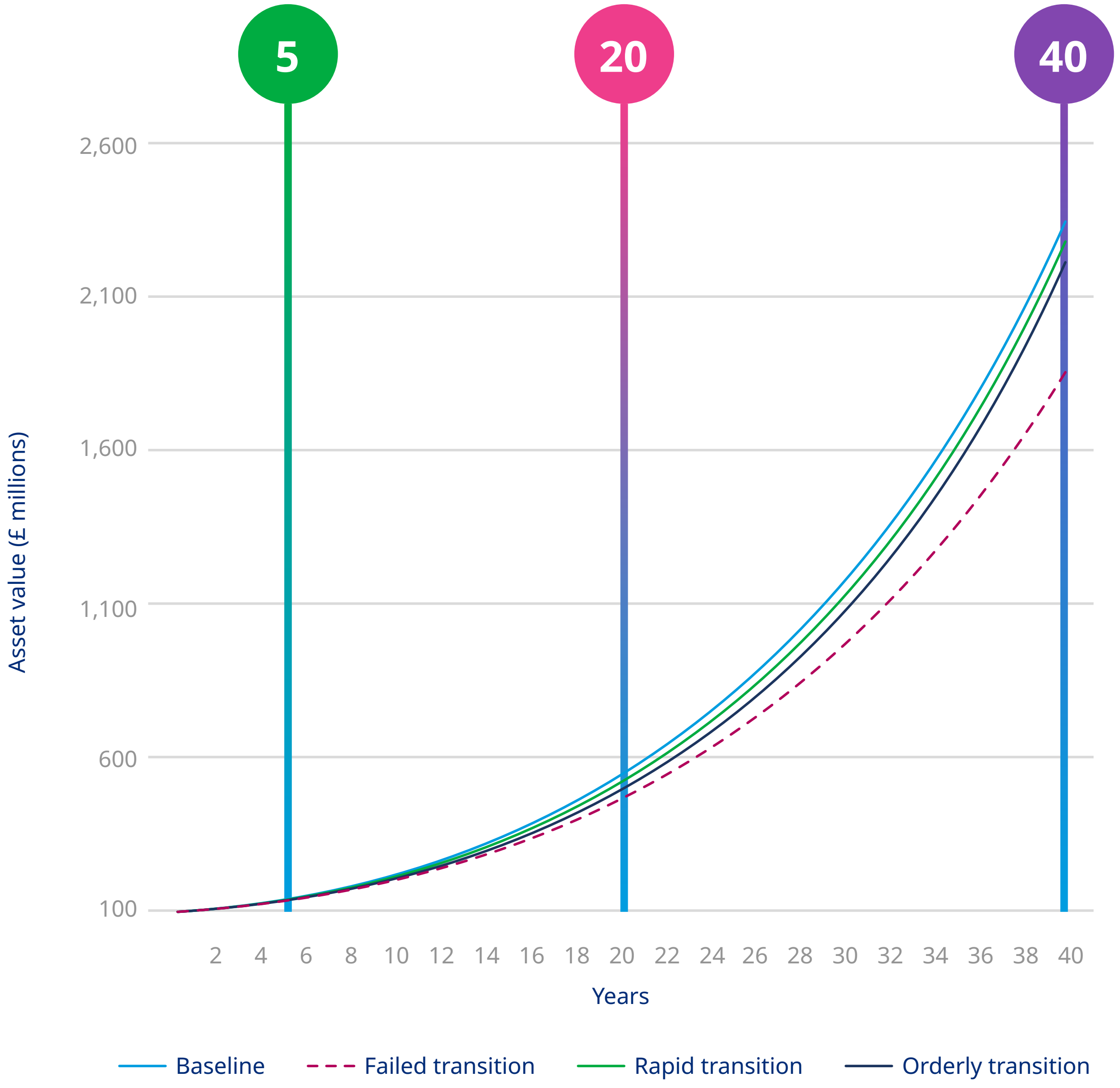
Average temperature increase above 4°C by 2100. The world fails to co-ordinate a transition to Net Zero and global warming exceeds 4°C above pre-industrial levels by 2100. Physical climate impacts cause large reductions in economic productivity and increasing impacts from extreme weather events, reflected in repricing 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 2022 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 5-, 20- and 40-year projection across each scenario.



Our high-level conclusions are as follows:

- **Lower temperature scenarios are expected to preserve asset values compared to scenarios associated with higher temperature outcomes.**
  An Orderly Transition may be marginally preferable for these example portfolios, but a Rapid Transition increases the probability of achieving a 1.5°C objective, which is expected to have lower physical risk than under higher emissions scenarios. Portfolios can be positioned differently to perform better in a Rapid Transition scenario if that scenario eventuates.

- **Sector exposure is key.**
  Differences in return impact are most visible at an industry-sector level, with significant divergence between scenarios, for example in Energy and Utilities.

- **Regional analysis is important** for transition considerations as well as understanding physical risks over the long-term. Overlaying country exposures with sector exposures provides additional insights.

- **Future pricing shocks are likely.** Longer-term impacts, including transition and physical risk, could impact portfolios before they occur. While the exact timing of these shocks is unknown, considering them is beneficial for risk analysis.

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.

Mercer UK TCFD Entity Report

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, integrate discussion about risk into our decision-making processes, and foster alignment between senior management and the Board.

Mercer works with internal and external stakeholders to understand its impact on climate risks, as well as the impact of climate risks on Mercer. In doing so, Mercer works with and draws insights from the wider Group. The 2023 ESG Report (page 37) available here, provides an overview of the Group's approach to enterprise risk management and the integration of climate risks into overall risk management.

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

Ahead of our first TCFD report for Mercer covering the 2022 reporting period, we reviewed and, where appropriate, adapted our risk management processes in recognition of climate-related risks. This year we have continued to meet with relevant internal stakeholders on aspects of climate-related risks. This has enabled us to further develop and consolidate our insights on climate-related risks and opportunities.

We have updated our Risk Taxonomy by expanding our risk table at section 5.3.2 and adding an "ESG" risk to our Risk Taxonomy. We have continued to provide briefings to our Risk Committees (the "Risk Committees") on the evolving climate-related regulatory and risk landscape as appropriate.

Whilst we have robust risk management processes within Mercer and across the Group, we recognise that effective management of climate-related risks remains an ongoing journey. This entails continuing to work with our wider stakeholders to review and evolve our 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. 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 external publications, such as those relevant to the industries in which we operate.
- The Risk Team performs benchmarking against Marsh McLennan's risk insights.
- Risk owners ("**Risk Owners**") are senior leaders who are ultimately accountable for the risks under their ownership. They will consider, with input from other subject matter experts, whether exposure to each risk is within appetite and the cost/benefit trade-off of implementing additional controls. They have a key role in identifying and assessing climate-related risks relevant to Mercer. Workshops are held with Risk Owners and other senior subject matter experts from across Mercer on a quarterly basis, following a risk-based approach.

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 quarterly 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 (as explained in our three lines of defence model at section 5.3.3 below) 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.

The following diagram summarises the RCSA process:

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
- KRIs and reverse stress testing
- External publications and insights
- Top-down and bottom-up views from the second line Risk Team, Risk Committees, Risk Owners and other subject matter experts.

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, of appropriate seniority, are agreed and can provide a forward-looking view and assessment 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. As an example, section 5.4 provides further information on how a specific physical risk is identified, assessed, and managed.

The top-down 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 threshold, 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.

Section 4 of this report provides further insights on our climate-related risks and opportunities (and their respective time horizon and materiality/impact). We have also included a case study below at section 5.4.1, which provides further detail on how one example of physical climate-related risk is managed by us.

5.3.2 Representation on the Risk Taxonomy

Climate-related risks are represented in 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 transitional and physical, are integrated into a number of our individual risks across our risk categories.

In late 2023, Mercer UK also introduced a standalone ESG Level 2 risk within the Risk Taxonomy, 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 Committees and reflects the progress being made to include specific sustainability risks within the Risk Taxonomy, including in respect of climate-related risks.

Climate related risks as represented in our Risk Taxonomy

Tier 1 Risk category	Tier 2 Individual risk	Transitional vs physical	Climate related risks
Strategic & External	ESG Risk	Transitional, Physical	• The risk that Mercer is impacted by an Environmental or Climate event (or a Social or Governance 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 and Transitional Risks.
Financial/ Market Risk	Macro-economic and market downturn (including geopolitical risk)	Transitional, Physical	• Adverse climate-related events could lead to the value of assets, and discretionary AUM reducing, impacting clients and reducing our revenue.
Strategic & External Risk	Products, including technology, and service offering not in line with customer's evolving needs or market offering/ competition, including loss of brand value	Transitional	• Risks and opportunities associated with rapidly evolving client and market demand for sustainable/climate-related services, including risk of not responding to these market demands fast enough, impacting our competitive position. • Reputational/brand damage due to perception of inaction on climate risks or not delivering on commitments.
Operational Risk – Processes/ Inter-Group Risk	Reliance on and poor performance of third parties, outsourced service providers and internal service providers	Transitional, Physical	• Climate-related events such as extreme weather events or transition risks impacting the supply chain, including internal service providers and third parties, resulting in disruption to Mercer's and clients' operations. • Physical risks such as extreme weather events impacting Mercer's operations (including buildings, staff, and technology infrastructure) and any resultant impacts on clients.
Regulatory Risk	Non-compliance with relevant regulatory expectations/ requirements	Transitional	• Risks relating to evolving regulation or stakeholder expectations, including costs of compliance and fines or reputational impact of non-compliance.
Conduct and Client Service Risk	Advice challenged by clients	Transitional	• Mercer provides advice to clients on how climate change may impact asset classes. Mercer engages with clients to help them consider and model a range of climate scenarios and analyse different climate-related metrics for their investment portfolios, using data from external providers. This is a complex area, and it is possible that clients or external pressure groups could challenge the advice, leading to reputational risk as well as commercial/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.

5.4.1 Case study:

Physical climate risk and business resiliency management

Our BRM Team aims to prepare, detect, and respond effectively to adverse events and threats (including climate-related events), that may impact Marsh McLennan's colleagues, operations, and assets.

To evaluate risks, each office is assigned a tier from 1 to 4, based on potential business impact. Tier 1 and 2 locations undergo annual (Tier 1) or biennial (Tier 2) reviews of location-related risks, including risks from extreme weather and climate-related events, such as flooding, tornados, wildfires, hurricanes, and extreme heat or cold. Identified risks are reviewed and classified as high, medium or low based on impact and likelihood, and mitigation actions are captured for follow-up and implementation. Each of our locations have incident response protocols to respond to identified risks, and our office leaders attend annual crisis management training sessions.

5.4.2 Case study:

Excellence in sustainability advisory

The Mercer Group, including Mercer colleagues, continues to actively interact with our clients on their exposures to Climate and Sustainability Risk within their investment portfolios. As a reflection of this work, the Mercer Group's Sustainable Investment Team was named Investment Consultant of the Year for the third year in a row at Environmental Finance's Sustainable Investment Awards 2023.

The Mercer Group, including Mercer professionals, supports clients in integrating ESG factors into their decision-making and assessing their portfolios' exposure to climate risk. The Mercer Group has also developed a white paper, Nature Alert, on how clients can start to incorporate nature into their decision-making.

5.5 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 2023 ESG Report, (pages 15-18), sets out further examples of opportunities we have identified to help clients, and the wider industry, navigate climate risks and associated opportunities (page 17 refers to Mercer's role more specifically).

5.6 Asset management activities

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) and >4°C (Failed transition) increase by 2100.

  – **The Mercer Analytics for Climate Transition Framework:** Our ACT Framework draws on third party metrics for company-level emissions and reserves; transition commitments and green revenues; and other UN Sustainable Development Goals (UN SDG) indicators to categorise companies from 'grey' (high-carbon and low-transition investments) to the '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.

  – **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 has evolved to now include 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 (Carbon Disclosure Project)

  – 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 ESG ratings and associated analysis to evaluate manager capabilities and practices across all manager selection decisions. These proprietary investment manager ESG ratings include assessing how the manager is incorporating material ESG factors (including climate) into its evaluation of investments.

- **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 Mercer Model Growth Portfolio, we include an allocation to an actively managed sustainable listed infrastructure strategy to better position our portfolios for the transition to a low-carbon economy and fully incorporate sustainability themes throughout the portfolio construction process. The new allocation is circa 50% less carbon intensive than the previous allocation, and total portfolio carbon intensity saw a 11% reduction attributable to this strategy switch. In the Mercer Low Cost Growth Portfolio there is a passively managed sustainable listed infrastructure strategy for similar carbon reduction benefit.

- **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[8], 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 exploring 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] 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 asset owners, including pension funds, insurance companies, endowments, foundations, wealth managers and other investors. Our 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[9].

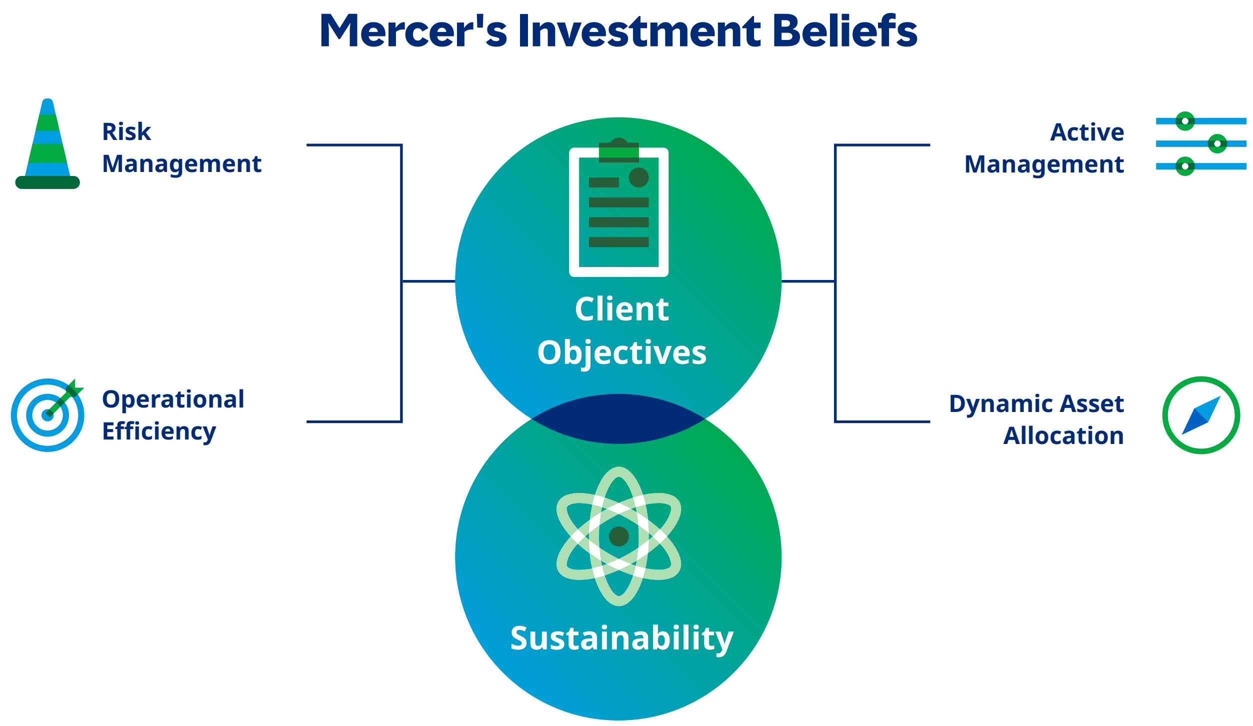
The investment manager of the Mercer Funds in the Mercer Group has published a Sustainability Policy (available here) which sets out how it intends to fulfil its climate-related commitments and manage climate-related financial risks and opportunities for the Mercer Funds.

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 beliefs

Our culture has enabled us to set a clear top-down global view on our approach to climate change. Mercer's sustainable investment beliefs coupled with defined processes serve to embed climate change considerations across our portfolio management solutions and advice. Our investment beliefs, with extra detail on sustainability, are shown opposite:

[9] 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.



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

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

Consequently, Mercer believes that an approach that considers these sustainability risks and opportunities is in the best interests of our clients.

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 and typically falls into three key areas: ESG integration, stewardship and climate change. 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 via their insurance platforms.

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™ [10] 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.

The MWS Investment Governance Committee ("**IGC**"), consisting of senior Mercer DC investment specialists, takes overarching responsibility for the MWS investment arrangements delivered to Aviva and Scottish Widows. The MWS IGC, 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;
- selecting the investment manager/strategy for each fund; and
- designing the asset allocation of the Mercer SmartPath™ strategies.

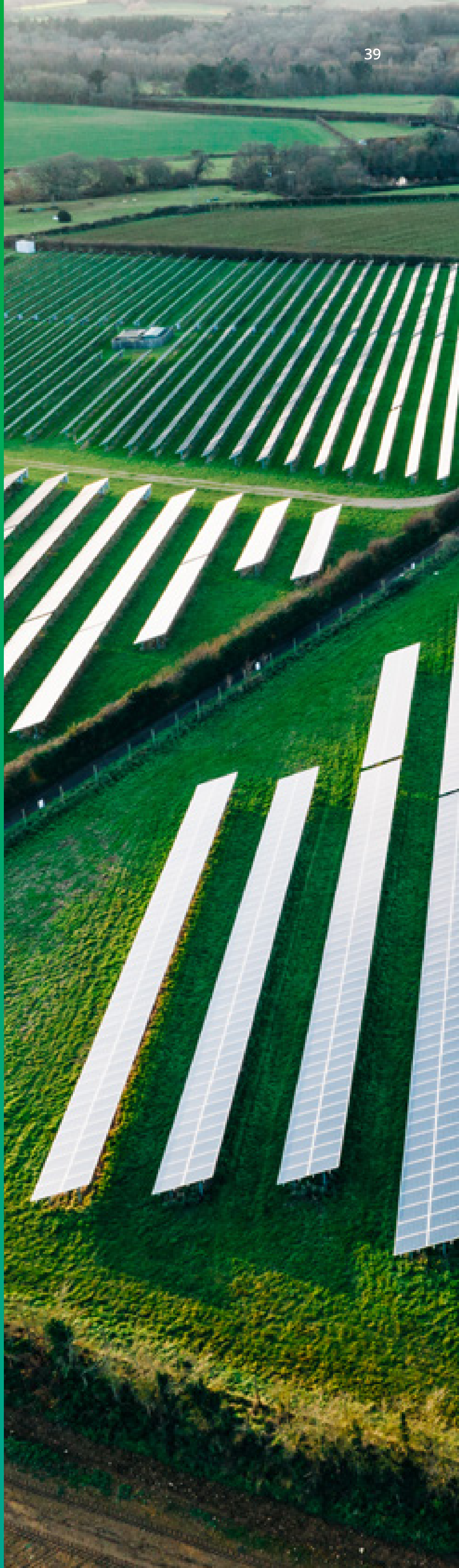
[10] Mercer SmartPath™ is a pre-set investment portfolio available to corporate and trustee clients, for them to make available for their employees and members to invest their workplace pension savings contributions in as a default arrangement. It delivers an appropriate lifestyle investment strategy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

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 is 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.

On an annual basis, the MWS IGC considers climate scenario analysis for the three different Mercer SmartPath™ investment strategies which indicates the potential impact of different climate scenarios on an individual's projected pot size. This is particularly important, given the long-term nature of these investments, for an individual, where those entering the workforce could be invested in the strategy for 45+ years.

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 produced and published by Aviva and Scottish Widows.



6.3 Activity over 2023 across the advice and solutions provided to asset owners

During 2023 we continued to evolve our approach to helping asset owners manage climate-related risks and seek climate-related opportunities. Four highlights stand out:

- Mercer assisted 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.
- Our 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 not disinvest, but 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 2023 we began the development of a digital version of this to further support clients.
- We provided educational material for asset owners covering topics relevant to sustainable investments and climate change including:
  - UK pension schemes peer group analysis on metrics and targets and response to critiques on climate scenario analysis available here;
  - The Mercer Group produced a white paper, Nature Alert, on how clients can start to incorporate nature into their decision-making; and
  - The Mercer Group created a series of materials in the lead up to COP28, including our Transition Today paper (see section 4.3)
- Mercer continued to monitor the progress against the Net Zero target 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.

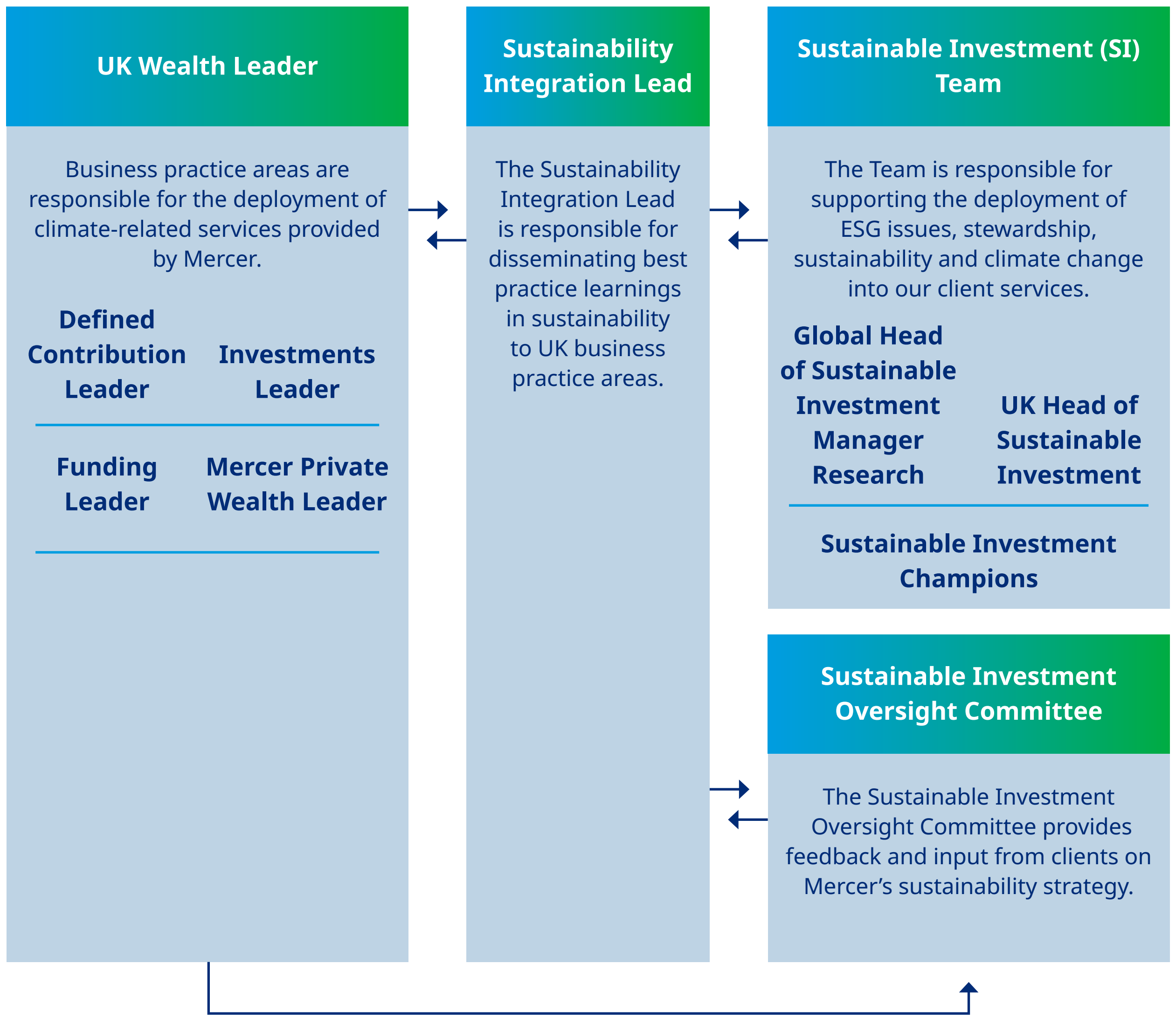
Mercer's global Sustainable Investment Team ("**SI Team**") sits at the heart of our approach to climate change. The SI Team was formed in 2004 and has extensive experience advising leading global institutions on ESG issues, stewardship, sustainability, and climate change. It currently has 25 experienced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



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 climate change through our products and services. As a member of the UK Executive Team, they also are responsible for aligning with Mercer's broader climate-related strategy.

- **UK Investments Leader:** The UK Investments Leader is responsible for the 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 and UK Head of Sustainability. Climate-related 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's global investment beliefs. 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 climate-related services to our clients. 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 climate-related risks and opportunities The DC Leader has oversight of MWS and adopts 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 climate-relate risks and opportunities. 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 of climate on longevity and pension scheme sponsor covenant.

Integration of best practice

- **Sustainability Integration Lead:** The Sustainability Integration Lead is responsible for disseminating learnings in sustainability to UK investment consultants. They are equipped to integrate ESG factors including climate change and stewardship in their investment advice, and help clients meet regulatory requirements such as Implementation Statements and TCFD reporting. The Sustainability Integration Lead works closely with the SI Team, and UK Wealth business leaders so that the advice provided to our clients is current, relevant and helps facilitate more effective decision-making.

Sustainable investments leadership

- **UK Head of Sustainable Investment:** With respect to providing asset owner advice on sustainable investment, including climate change, the UK Investments Leader is supported by the UK Head of Sustainable Investment. The UK Head of Sustainable Investment is part of the SI Team and co-ordinates with the UK Sustainability Integration Lead to provide resources and support to UK investment consultants on areas such as ESG integration, nature, impact investing, stewardship and climate change. The UK Head of Sustainable Investment meets fortnightly with the Sustainability Integration Lead.

- **Global Head of Sustainable Investment Manager Research** – The Global Head of Sustainable Investment Manager Research supports the UK Investments Leader and is responsible for integrating climate-related considerations into Mercer's manager research and ESG ratings processes. This research allows our consultants to help clients align their manager selection preferences with their sustainable investment beliefs, including climate change, as well as monitor incumbent managers against the investment manager universe. The 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, as well as present on Sustainable Investment topics to clients and at external events.

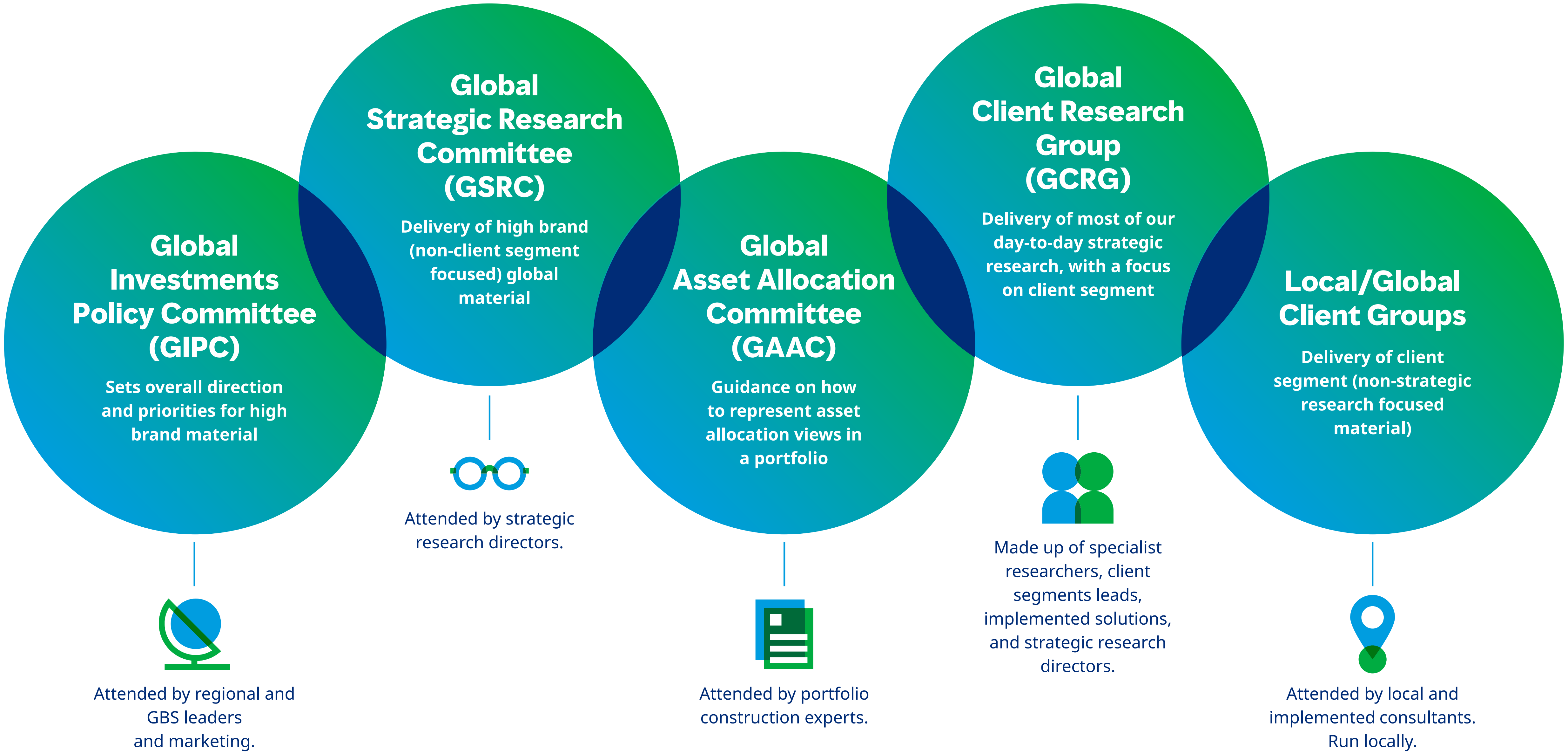
Continuous Improvement

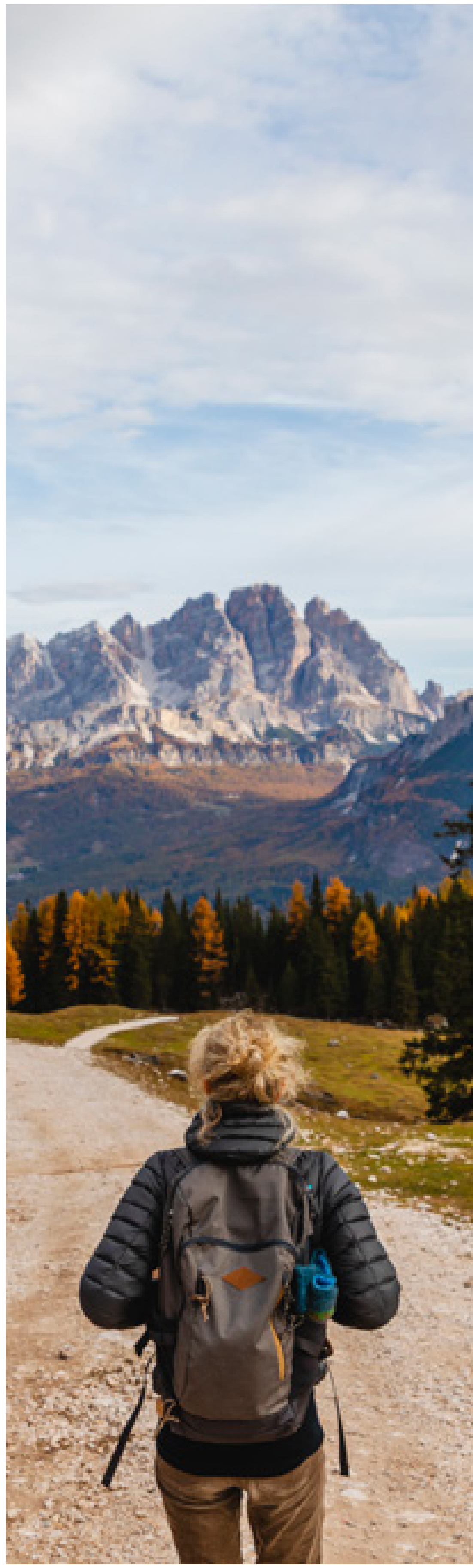
- **Sustainable Investment Oversight Committee:** The Sustainable Investment Oversight Committee provides feedback from clients and colleagues on Mercer's sustainability strategy to the Sustainable Investment Leadership and the Business Practice Leadership, where relevant. It is formed of the Sustainability Integration Lead and eight business representatives from different client segments, including DB and DC 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 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.

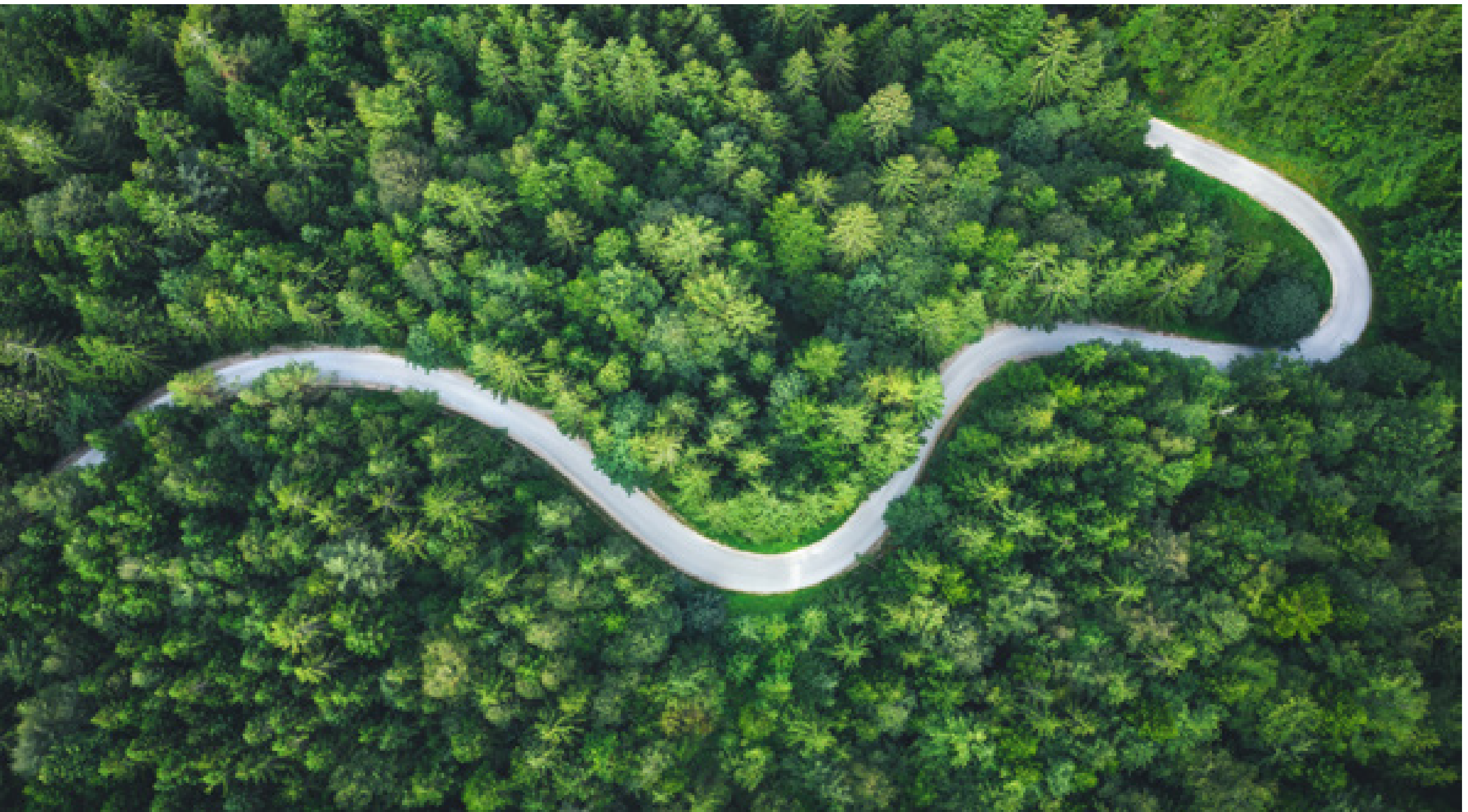
The 2023 ESG Report details the Group's approach to ESG priorities. In line with TCFD Recommendations and Recommended Disclosures, the ESG Report sets out the metrics and targets used by the Group, to assess and manage relevant climate-related risks and opportunities. Please refer to the following sections of the 2023 ESG Report available here for further detail on metrics and targets:

Page 9 of the 2023 ESG Report sets out Marsh McLennan's commitment to Net Zero.

Page 49 of Appendix 1 of the 2023 ESG Report sets out Marsh McLennan's 2023 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 ESG-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 2023* is as follows:



Total emissions

	2023	2023	2022	2022	2021	2021
	(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	303	303*	261	261	333	333
Scope 2 – Indirect	1,779	570	1,886	648	1,916	448
	2,082	873	2,147	909	2,249	781
Scope 3 – Indirect	52	52	101	101	313	313
Total	**2,134**	**925**	**2,248**	**1,010**	**2,562**	**1,094**

	2023	2023	2022	2022	2021	2021
	(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
Total TCO^2e on Scopes 1&2 above	**2082**	**873**	**2,105**	**867**	**2,249**	**781**

	Electricity (kWh)	Gas (kWh)	Electricity (kWh)	Gas (kWh)	Electricity (kWh)	Gas (kWh)
Energy consumption used to calculate emissions (kWh)	8,587,355	1,018,713	9,753,065	1,197,832	9,021,663	1,816,236
	Total	**9,606,068**	**Total**	**10,950,897**	**Total**	**10,837,899**

Intensity ratio
An intensity ratio compares emissions data with a financial indicator, the company has chosen to use CO^2 per employee

Intensity measurement (TCO^2e per employee) Headcount as of December 31	0.51	0.21 4074	0.53	0.22 4057	0.56	0.19 4009

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.

*2023 Scope 1 – Direct emissions increased slightly owing to a 3% increase in gas consumption, as the UK 2023 winter was colder by 1.5°C compared to the 2022 winter. There was a slight increase in Headcount as well. In addition, as colleagues returned to office, we also saw an increase in company travel.

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 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 know 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:

Mercer UK TCFD Entity Report

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 2023. Mercer manages $35bn assets under management (“**AUM**”) for UK clients under an IMA.

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

Emissions-based metrics Scope 1+2	**Assets under management** 31-Dec-23 ($)	**Absolute emissions** (tCO_2e) Corporate assets	**Carbon footprint** (tCO_2e/\$m invested)		**Weighted average carbon intensity** (tCO_2e/\$m revenue)		**Absolute emissions** (tCO_2e) Sovereign assets	**Sovereign intensity** (tCO_2e Production emissions / \$m PPP-adjusted GDP)	
			Coverage	Metric	Coverage	Metric		Coverage	Metric
Model Growth Portfolio	1,558,674,482	70,342	83%	65.7	86%	151.7	85,136	97%	373.5
Low Cost Growth Portfolio	1,608,207,870	62,409	82%	65.6	86%	166.8	73,434	100%	243.8
Mercer Multi Asset Growth Fund	14,023,120,171	827,099	96%	77.8	98%	198.3	698,514	100%	312.3
Mercer Diversified Growth Fund	8,761,272,713	487,138	93%	79.8	96%	205.2	454,200	100%	297.1
Mercer Diversified Retirement Fund	1,734,797,560	63,875	85%	58.2	94%	150.1	102,216	100%	201.1
Liability Driven Investment Funds[11]	5,847,343,229	-	-	-	-	-	983,258	100%	210.6
Tailored Credit Funds[12]	6,753,035,324	231,585	61%	36.4	94%	122.4	15,229	100%	128.5

[11] 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.
[12] Tailored Credit Funds refers to Mercer Tailored Credit Fund 1 and Mercer Tailored Credit Fund 2.

Table 2: Scope 3 emissions-based metrics for corporate exposures only (sovereign data not available)

Emissions-based metrics Scope 3	**Absolute emissions** (tCO_2e) Corporate assets		**Carbon footprint** (tCO_2e/\$m invested)		**Weighted average carbon intensity** (tCO_2e/\$m revenue)	
	Upstream	Downstream	Upstream	Downstream	Upstream	Downstream
Model Growth Portfolio	142,247	294,902	91	189	206	590
Low Cost Growth Portfolio	123,359	223,355	81	151	190	574
Mercer Multi Asset Growth Fund	1,170,236	2,295,526	83	164	208	275
Mercer Diversified Growth Fund	677,026	1,376,606	77	157	194	271
Mercer Diversified Retirement Fund	108,639	221,228	63	128	163	275
Liability Driven Investment Funds[11]	-	-	-	-	-	-
Tailored Credit Funds[12]	566,588	917,417	84	136	211	186

Table 3: 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	69%	48%	-	11%	59%	10%	10%
Low Cost Growth Portfolio	59%	40%	-	11%	50%	8%	9%
Mercer Multi Asset Growth Fund	76%	60%	-	14%	74%	2%	2%
Mercer Diversified Growth Fund	70%	53%	-	13%	66%	3%	4%
Mercer Diversified Retirement Fund	63%	49%	-	11%	59%	4%	4%
Liability Driven Investment Funds[11]	0%	-	-	-	-	-	
Tailored Credit Funds[12]	94%	71%	-	18%	88%	6%	6%

*Due to differences in approaches to reporting Scope 3 emissions, only estimated data is used in calculations to ensure consistency in underlying methodology.

Table 4: 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	69%	82%	–16.7%	80%	2.4	30%
Low Cost Growth Portfolio	59%	80%	–15.0%	79%	2.3	30%
Mercer Multi Asset Growth Fund	76%	95%	–16.3%	94%	2.4	35%
Mercer Diversified Growth Fund	70%	92%	–16.4%	92%	2.4	34%
Mercer Diversified Retirement Fund	63%	83%	–14.2%	90%	2.2	37%
Liability Driven Investment Funds[11]	0%	-	-	-	-	-
Tailored Credit Funds[12]	94%	59%	–14.0%	89%	1.7	38%

- As at Date 31/12/23. FX rate used 1.273 USD/GBP.
- 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.
- Sovereign analysis has been conducted in line with the recommended methodology set out by PCAF, Intensity formula Product Emissions / PPP Adjusted GDP ($m). Data for Production Emissions (GHG) for 2021 sourced from EDGARv7.0 website: https://edgar.jrc.ec.europa.eu/dataset_ghg70. Crippa et al. (2021 https://edgar.jrc.ec.europa.eu/report_2021, 2022 https://edgar.jrc.ec.europa.eu/report_2022). Data for PPP Adjusted GDP for the latest available data (2020-2021) sourced from The World Bank: https://data.worldbank.org/indicator/NY.GDP.MKTP.PP.CD
- 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 ($9,527,906,917) 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 (tCO2e) 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 33% 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

Up until the end of 2022, our predominantly actively managed Model Growth Portfolio was off track against the required decarbonisation pathway. In early 2023, we launched the Mercer Sustainable Listed Infrastructure Fund and transitioned the majority of our delegated clients' listed infrastructure exposure to this new fund. The new fund's WACI is 50% lower than the original Mercer Global Listed Infrastructure Fund, and its transition capacity, as analysed using Mercer's ACT Framework, is significantly better. At portfolio level, this transition contributed to an 11% reduction in WACI over the year. This has brought the Model Growth Portfolio on track, having achieved a 33% reduction in WACI since baseline, 26% of which was realised over 2023. A detractor to progress but an enhancement of accuracy was new data from external pooled vehicles used in our Dynamic Asset Allocation tilts, in particular the Asian high-yield strategy we use has a relatively high carbon intensity.

Results will become more insightful as rolling multi-year outcomes can be tracked, particularly given high volatility in WACI to date, and as data coverage improves across asset classes.

The Model Growth Portfolio applies to $1.5bn of AUM for UK clients as at 31 December 2023.

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:

- Strategic asset allocation and portfolio construction decisions to allocate to solutions in line with its climate goals and consistent with its fiduciary responsibilities.
- Asset-class approach to implementation, e.g. selecting strategies and funds that consider climate goal alignment and other risk and return factors.
- Allocation to sustainable infrastructure to support the energy transition that underpins significant parts of the economy.
- 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

Compliance Statement

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
20 May 2024

Mercer

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MSCI

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The value of investments and any income from them may fall as well as rise and investors may receive back less than the amount invested. There is also a currency risk involved in investing in assets which are in a foreign currency.

Changes in exchange rates may have an adverse effect on the value price or income of the product. The levels and basis of, and relief from, taxation can change. Where the information refers to a particular tax treatment, such tax treatment depends on the individual circumstances of each client and may be subject to change in the future. Mercer does not give advice on tax-related matters. Any forecasts made are not a reliable indicator of future performance.

No investment decision should be made based on this information without first obtaining appropriate authorised advice and considering your circumstances.

For our policy on conflicts of interest and other corporate policies, please see Interest (mercer.com). All data as at dates specified and source is Mercer unless otherwise stated.

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