

HEALTH WEALTH CAREER

UK STEWARDSHIP CODE – STATEMENT OF COMMITMENT

MERCER DELEGATED SOLUTIONS EUROPE

OCTOBER 2016

MAKE TOMORROW, TODAY



APPROACH TO STEWARDSHIP

Mercer Delegated Solutions in Europe (Mercer DSE¹) is a leading provider of investment solutions, offering customised guidance for investment decisions, risk management and investment monitoring. The practical exercise of good stewardship is integrated by Mercer DSE into these processes.

Mercer has advised investors on all aspects of environmental, social and corporate governance (ESG) integration and stewardship since 2004, and this Responsible Investment experience informs the approach taken by Mercer DSE to responsible and sustainable investment globally.

Mercer's specialist Responsible Investment team assists clients with implementing each of the Code's seven underlying principles through advice and monitoring services. The Chief Investment Officer (CIO) for Mercer DSE is supported by Europe-based members of the Responsible Investment team.

Mercer's Investment Beliefs incorporate a global approach to ESG factors, namely:

- Mercer believes that ESG risks and opportunities can have a material impact on long-term risk and return outcomes.
- Stewardship or active ownership – exercised through voting and engagement – provides investors with an opportunity to enhance the value of companies and markets, thereby supporting the realisation of long-term shareholder value.
- Accessing long-term streams of returns and long-term themes, rather than focusing on short-term price movements, can add value.

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

Further detail follows on how Mercer DSE addresses each of the Code's seven underlying principles. Information is also available separately on how Mercer's advisory business addresses each of the Code's principles.

¹ Mercer DSE is delivered by Mercer Limited, registered in England No. 984275, whose registered office is at 1 Tower Place West, Tower Place, London EC3R 5BU, and Mercer Global Investments Europe Limited, registered in Ireland, No 416688, whose registered office is at Charlotte House Charlemont Street, Dublin 2, Ireland.

PRINCIPLE 1

Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

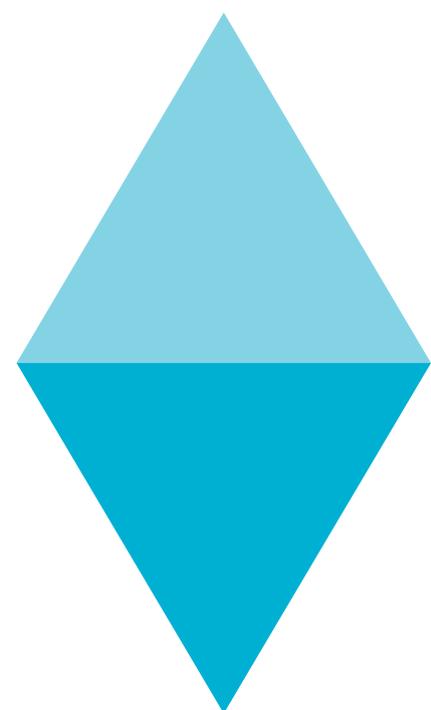
The Sustainable Investment Policy represents Mercer’s commitment to industry standards of good governance and stewardship. Mercer DSE’s publically available [Sustainable Investment Policy](#) states:

“Where companies have inactive/disengaged shareholders, the chances are greater that company management will act in ways that are detrimental to shareholders’ interests. Stewardship can protect against this and also provides investors with an opportunity to enhance the value of companies and markets, and to acquire additional information, which can enhance the investment decision process.”

Mercer DSE’s Irish domiciled investment management business also supports the Code as universal good practice and has made a voluntary statement of commitment to its approach to each of the Code’s seven underlying principles. Mercer DSE includes all applicable equity sub-investment managers in Mercer’s stewardship monitoring, regardless of their domicile or UK/FCA authorisation requirements.

Mercer DSE aims to select sub-investment managers of the Mercer Funds² that exercise voting rights; engage with investee companies, where appropriate, on issues including strategy, performance, risk and corporate governance; and provide appropriate disclosure in connection with the Code.

Mercer DSE’s approach to voting and engagement is set out in the Stewardship section of the Sustainable Investment Policy below:



² “Mercer Funds” are any collective investment scheme, including investment companies, common contractual funds, unit trusts and limited partnerships, for which Mercer Global Investments Europe Limited or any affiliate serves as investment manager.

STEWARDSHIP – SHARE VOTING AND ENGAGEMENT

Mercer Funds, managed by Mercer DSE, are long-term institutional investors and consider investment governance and active ownership to be of particular importance in serving the interests of investors in the Mercer Funds. Where companies have inactive/disengaged shareholders, the chances are greater that company management will act in ways that are detrimental to shareholders' interests. Stewardship can protect against this and also provides investors with an opportunity to enhance the value of companies and markets, and to acquire additional information, which can enhance the investment decision process.

Mercer DSE expects sub-investment managers of the Mercer Funds that invest directly in listed equities to comply with this policy. In respect of pooled investment vehicles, Mercer DSE works closely with the managers to ensure that, where possible, there is an appropriate level of commitment to the policy.

Mercer DSE's approach has four main components and principles:



SHARE VOTING

- All shares are to be voted by sub-investment managers in a manner deemed most likely to protect and enhance the long-term value for investors.
- All votes are to be evaluated and voted on, unless there is a valid reason to prevent this (see Share Voting Exceptions, on page 6).



TRANSPARENCY

- Voting and engagement activities of sub-investment managers appointed by Mercer DSE are to be reviewed regularly, including voting records and statistics, along with engagement examples, reported on at least an annual basis.
- Reporting is to be provided to investors in compliance with the ESG policy.



CORPORATE ENGAGEMENT

- Mercer DSE expects sub-investment managers appointed to Mercer Funds to adopt clear guidelines on their engagement activities and escalation processes and to report on these activities and outcomes.



PUBLIC POLICY PARTICIPATION

- Engagement with regulators, and sometimes governments, to recommend changes or express views on proposed changes to regulatory regimes may be required where this is deemed important to protect the rights and enhance the interests of shareholders.

FRAMEWORK FOR SUB-INVESTMENT MANAGER MONITORING

Mercer's monitoring focus on voting resolutions and engagement is informed by a range of principles and codes, including the corporate governance guidance and principles published by the Organisation for Economic Co-operation and Development (OECD) and the International Corporate Governance Network (ICGN), along with the 2012 EU Commission Action Plan on European company law and corporate governance. These principles are grouped as follows:

1. Shareholder rights – Shareholders have basic rights that should be upheld. In particular, shareholders should be able to share in company profits, participate in major decisions and exercise their “voice” (for example, through proxy voting or direct company engagement).
2. Role and responsibilities of the board – The board is central to the exercise of good corporate governance within companies. It is accountable to shareholders and must act in their best interests as well as those of the company. History has shown us that underperforming boards are likely to lead to poor returns for shareholders.
3. Risk and audit – The board of the investee company plays a central role in supporting a corporate culture of integrity and ethical standards (which applies equally to the conduct of the board itself). Directors should consider what the European Commission refers to as “the entire range of risks” faced by their company – in this, we would include ESG risks – and ensure that sufficient information on the most important (and potentially material) of these risks is disclosed.
4. Disclosure and transparency – Information on a company's challenges, achievements and failures should be provided to shareholders (and other stakeholders). Company disclosures should be timely and relevant and use appropriate and high-quality reporting frameworks (such as international accounting standards). Shareholders increasingly expect information on relevant and potentially material ESG issues in addition to standard financial disclosures – for example, a company's access to and management of non-renewable resources and its carbon emissions.
5. Remuneration and incentives – The rewards and incentives provided to company executives should align their interests with those of shareholders – the ultimate owners of the company. The fundamental purpose of companies from the perspective of shareholders is to create long-term value. Remuneration policies have an important role to play in supporting this purpose – in particular, by focusing the minds of executives on long-term rather than short-term value creation.

MONITORING OF VOTING

Mercer DSE's share-voting process utilises the Broadridge Proxy Disclosure service to assist in monitoring share voting by sub-investment managers. Mercer's Responsible Investment team monitors oversight of stewardship compliance.

Mercer DSE encourages dialogue with sub-investment managers as part of the monitoring process. Mercer DSE accepts that sub-investment managers may have detailed knowledge of both the governance and the operations of the investee companies and has therefore enabled sub-investment managers to vote based on their own proxy-voting execution policy. Leveraging sub-investment manager knowledge to benefit the voting process may result in "split votes", where Mercer DSE's sub-investment managers vote differently on a resolution. Mercer DSE regards explanations from sub-investment managers as critical, and these explanations, particularly where there are split votes, are key to the monitoring process.

VOTING EXCEPTIONS

Mercer DSE's objective is for its sub-investment managers to vote on all listed equities that are invested in by the Mercer Funds, with the following qualifications and exceptions.

Conflicts of interest: As part of Mercer DSE's review and appointment process, it assesses whether selected sub-investment managers have policies and procedures that are designed to manage conflicts in relation to stewardship. Sub-investment managers are required to report on any conflicts of interest and demonstrate that they have adhered to their conflicts policy and reported any breaches.

Power of attorney (PoA) markets: Some global markets allow voting to be carried out only by in-person attendance. The rules on PoA vary by market, apply for different periods of time and have various cost implications. Mercer DSE expects the sub-investment managers to have PoAs in place for larger markets but accepts that a cost/benefit view on smaller markets is required and shares may not be voted where that is prohibitive.

Share-blocking markets: Some markets place regulatory barriers on voting, usually in the form of limitations on trading of shares if a vote is enacted. Mercer DSE's objective is to vote in these markets but accepts that, on occasion, not all votes will be cast by sub-investment managers.

Stock lending: At the time of writing, Mercer DSE does not have an active stock-lending programme. Should Mercer DSE have an active share-lending programme in future, where there is a significant vote, or where it is a major shareholder, Mercer DSE will seek to recall the shares from loan and vote those shares, particularly where our vote will be against management.

Where sub-investment managers have not voted, Mercer DSE expects rationale to be provided to account for these, which typically includes references to PoA or share-blocking. Mercer DSE periodically reviews the percentage of "no votes" and the rationale provided and may engage with the sub-investment manager if these reviews raise questions or concerns.

PRINCIPLE 2

Institutional investors have a robust policy on managing conflicts of interest in relation to Stewardship, and this policy should be publicly disclosed.

As a fiduciary manager, Mercer DSE expects its selected sub-investment managers to have policies and procedures in place designed to manage their own conflicts of interest in relation to stewardship. As part of our annual policy monitoring process (see Principle 3), sub-investment managers are required to report on their conflicts of interest policy and procedures to adhere to that policy.

Mercer DSE also recognises and manages its own potential conflicts of interest in relation to stewardship, as follows:

- A conflict that is being managed is how we work in the best interests of both Mercer DSE clients and the wide variety of companies that the broader organisation provides advisory services. Mercer DSE has delegated all vote execution and company-level engagement to the selected sub-investment managers and has undertaken a monitoring and sub-investment manager engagement approach, rather than making specific voting and engagement decisions.
- Mercer's parent company is Marsh & McLennan Companies, which is listed on the New York stock exchange (ticker MMC). As part of Mercer DSE investment guidelines, it is also a requirement that equity sub-investment managers do not hold MMC or affiliates stock.



PRINCIPLE 3

Institutional investors should monitor their investee companies.

As a fiduciary manager, Mercer DSE expects its selected sub-investment managers to monitor investee companies and to report on stewardship activities and outcomes.

Mercer DSE monitors this activity via Mercer's research on each underlying sub-investment manager, which is conducted by Mercer's global manager research team. This research includes an ESG rating and commentary on the manager's approach to ESG integration and stewardship.

Mercer DSE also monitors stewardship activity explicitly for the Mercer DSE Funds by seeking responses from the sub-investment managers to respond to two stewardship information requests:

1. An annual stewardship policy review that utilises the UK Stewardship Code principles framework. Monitoring confirms that managers have achieved, are making reasonable progress towards or can reasonably explain why they do not anticipate meeting the requirements of the Code.
2. A six-month voting and engagement activity and disclosure request. Mercer DSE uses the Broadridge voting system to compile the voting statistics by Mercer Fund, together with supporting voting and engagement commentary from the sub-investment managers.

Voting: Brief commentary, based on sub-investment manager disclosed information, covers votes cast in four parts: a) votes against management; b) votes against proxy advisor policy (where applicable); c) abstentions; and d) no votes.

Engagement: Brief commentary, based on sub-investment manager disclosed information, captures examples to give insights into where the sub-investment manager has exchanged views with companies. This includes: a) number of companies engaged, broken down by governance and strategy, environmental and social; b) engagement examples by topic; c) engagement examples that are collaborative, such as PRI Clearinghouse examples or other initiatives; and d) any voting activity that is an escalation connected to engagement.

An anonymised sample of both monitoring reports has been provided to the Financial Reporting Council (FRC). Examples from a recent voting and engagement activity report covering six months, is included on the following page.

EXAMPLE VOTE STATISTICS

MANAGER	MANAGER 1		MANAGER 2		MANAGER 3		TOTAL	
	#	%	#	%	#	%	#	%
Total votes cast	1,494	97.3%	627	100%	2,622	96.6%	4,743	97.3%
For management	1,340	87.3%	583	93.0%	1,243	45.8%	3,166	64.9%
Against management	135	8.8%	33	5.3%	1,378	50.8%	1,546	31.7%
Abstain	19	1.2%	11	1.8%	1	0.0%	31	0.6%
No vote	41	2.7%	0	0.0%	92	3.4%	133	2.7%

Example votes rationale summary comments Manager 2:

- *Votes against management* – A voting and engagement report was provided, with helpful summaries. Companies that incurred votes against management included XYZ (executive compensation proposal) and ABC (equity issuance proposal).
- *Votes against proxy advisor policy* – Nothing to report on any votes against policy as Manager 2 uses a combination of its own policy plus ISS and Glass Lewis.
- *Abstentions* – Abstained on 11 proposals over the six-month period. These abstentions included two capital issuance resolutions at X, which Manager 2 believed had a lack of disclosure, and a resolution at Y, where Manager 2 had concerns about the stringency of the performance conditions but also recognised improvements to the plan in the past year.
- *No votes* – Voting system indicates that all votes were cast during the period.

Example engagement rationale summary comments Manager 2:

The commentary is accessible and gives beneficial insights into the rationale for the engagement activity. Disclosure includes multiple company names by topic – for example, corporate governance, executive remuneration, AGM proposals and environmental/social. Particularly interesting engagements included discussions with PQR, Inc. and JKL, Inc. on carbon emissions disclosure, as well as discussions with WXY plc on the best ways to introduce external challenge into the boardroom.

Example heat map summary

Mercer DSE also summarises our findings into a “heat map” or “traffic light” system to isolate improvements and areas requiring improvement to assist in our ongoing monitoring and engagement with managers.

PORTFOLIO	MANAGERS	VOTING EXECUTION	VOTING DISCLOSURE	ENGAGEMENT	COMMENTS	PRI/ICGN MEMBER*	PROXY ADVISOR
Fund 1	Manager 1	Good practice	Improvement recommended	Poor practice	Limited vote disclosure and no engagement (quant style).		ISS
	Manager 2	Good practice	Best practice	Best practice	Best practice, insightful reporting summaries on voting and engagement, including environmental and social.	PRI/ICGN	Own/ISS/GL
	Manager 3	Good practice	Good practice	Good practice	Disclosure improved on last period regarding voting. Engagement summary and example provided.	PRI	No advisor

PRINCIPLE 4

Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

As a fiduciary manager, Mercer DSE expects its selected sub-investment managers to adopt clear guidelines on their engagement activities and escalation processes and to report on these activities and outcomes as per Principles 1, 6 and 7. Mercer DSE's stewardship monitoring also seeks examples where voting decisions – for example, against management – have been a deliberate escalation following engagement.

In terms of Mercer DSE's escalation with sub-investment managers, our monitoring process tracks improvements from previous monitoring reports, identifies areas for future improvements and provides written feedback to managers on an annual basis. During the regular monitoring process, if sub-investment managers fail to comply or explain its good governance principles, or respond to our feedback, ongoing stewardship concerns will be escalated to the Mercer DSE CIO. The CIO will engage with the sub-investment manager directly in the first instance. If no indication of improvement persists, stewardship is expected to be viewed as a meaningful consideration, alongside other investment factors, in subsequent retention or termination decisions for that sub-investment manager.

PRINCIPLE 5

Institutional investors should be willing to act collectively with other investors where appropriate.

Mercer believes that appropriate investor collaboration is the most effective manner in which to engage, particularly at times of significant corporate or wider economic concerns.

Globally, Mercer is party to a number of collaborative investor initiatives focused on improving the long-term sustainability of capital markets. For example, Mercer is a service provider signatory to the UN Principles for Responsible Investment (PRI). In Europe, Mercer is also a member of the Institutional Investor Group on Climate Change (IIGCC), UK Sustainable Investment and Finance (UKSIF) and Eurosif, all of which promote best practice on ESG issues. Mercer's global research database also captures where investment managers participate in collaborative investor initiatives on ESG and stewardship.

As a fiduciary manager, Mercer DSE reviews the extent to which its selected sub-investment managers are open to and actively participate in investor initiatives with respect to stewardship. The regular stewardship monitoring request seeks recent participation examples on any collaborative activity – for example, PRI Clearinghouse or "Aiming for A".

Mercer will keep up to date, and participate as appropriate, in any new initiatives that may develop in time. As an example of our own willingness to act collectively, Mercer is a signatory to the 2014 Global Investor Statement on Climate Change, the 2015 Paris Pledge for Action, and the 2016 Paris Agreement letter to the G20.

PRINCIPLE 6

Institutional investors should have a clear policy on voting and disclosure of voting activity.

As a fiduciary manager, Mercer DSE reviews the extent to which its selected sub-investment managers have corporate governance and voting policies in place, and it reviews these during the annual policy assessment process (based on the UK Stewardship Code Principles). Every six months, equity managers are also required to disclose commentary on their voting activity, providing insights into the rationale behind their voting statistics. An example of the monitoring report inclusions is provided under Principle 3. The monitoring report, including our vote statistics, is made available to clients but is not made publically available, given it includes Mercer's views and assessment of each manager.

The Sustainable Investment Policy for Mercer DSE, and the extracts provided in Principle 1, provides further detail on Mercer DSE's share voting policy; however, a summary is provided as follows:

- All shares are to be voted by sub-investment managers in a manner deemed most likely to protect and enhance the long-term value for investors.
- All votes are to be evaluated and voted on, unless there is a valid reason to prevent this (see Share Voting Exceptions).

Mercer DSE's share-voting process utilises the Broadridge Proxy Disclosure service to assist in monitoring share voting by the appointed sub-investment managers. Monitoring oversight is provided by Mercer's Responsible Investment team, who are tasked with management of stewardship compliance. Areas of focus are outlined in the Sustainable Investment Policy, but in summary, these include governance and strategy (shareholder rights; role and responsibilities of the board; risk and audit; disclosure and transparency; and remuneration and incentives), together with environmental and social factors and trends, consistent with Mercer's ESG beliefs.

PRINCIPLE 7

Institutional investors should report periodically on their stewardship and voting activities.

On a six-month basis, Mercer DSE updates clients with the latest stewardship monitoring reports, as outlined under Principle 3. A summary of the stewardship monitoring results are included in all client performance reports and standard meeting presentation material. The full reports are also emailed to clients by their consultant.

STATEMENT OF COMMITMENT GOVERNANCE

This Statement was last updated in September 2016 and is reviewed on an annual basis. It has been prepared by the Responsible Investment team and approved by the Mercer DSE CIO.

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IMPORTANT NOTICES

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