

HEALTH WEALTH CAREER

INVESTOR STEWARDSHIP – GLOBAL DRIVERS AND TRENDS

2ND SSP NETWORKING EVENT

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STEWARDSHIP FOR EQUITY HOLDINGS CREATING AND PRESERVING VALUE



VOTING



SHARES HAVE VOTING RIGHTS AT COMPANY SHAREHOLDER MEETINGS

For example on: Executive Remuneration, Director Elections, Capital Raising, Approving the Auditors and sometimes shareholder proposals on environmental and social issues (mostly in the US)

ENGAGEMENT

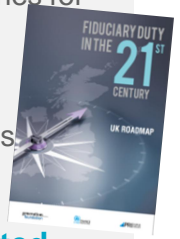
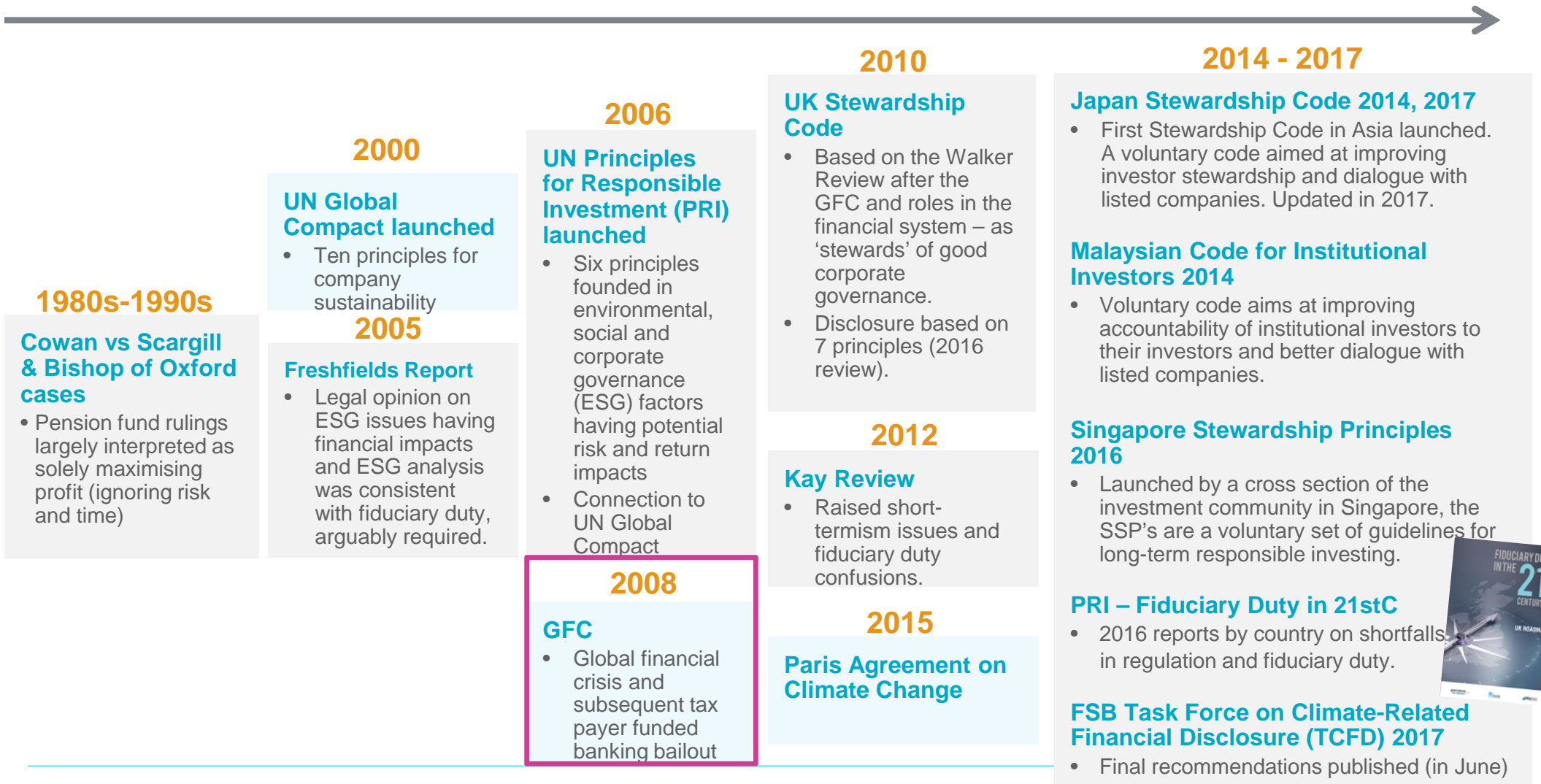


COMMUNICATION WITH COMPANIES OR POLICYMAKERS

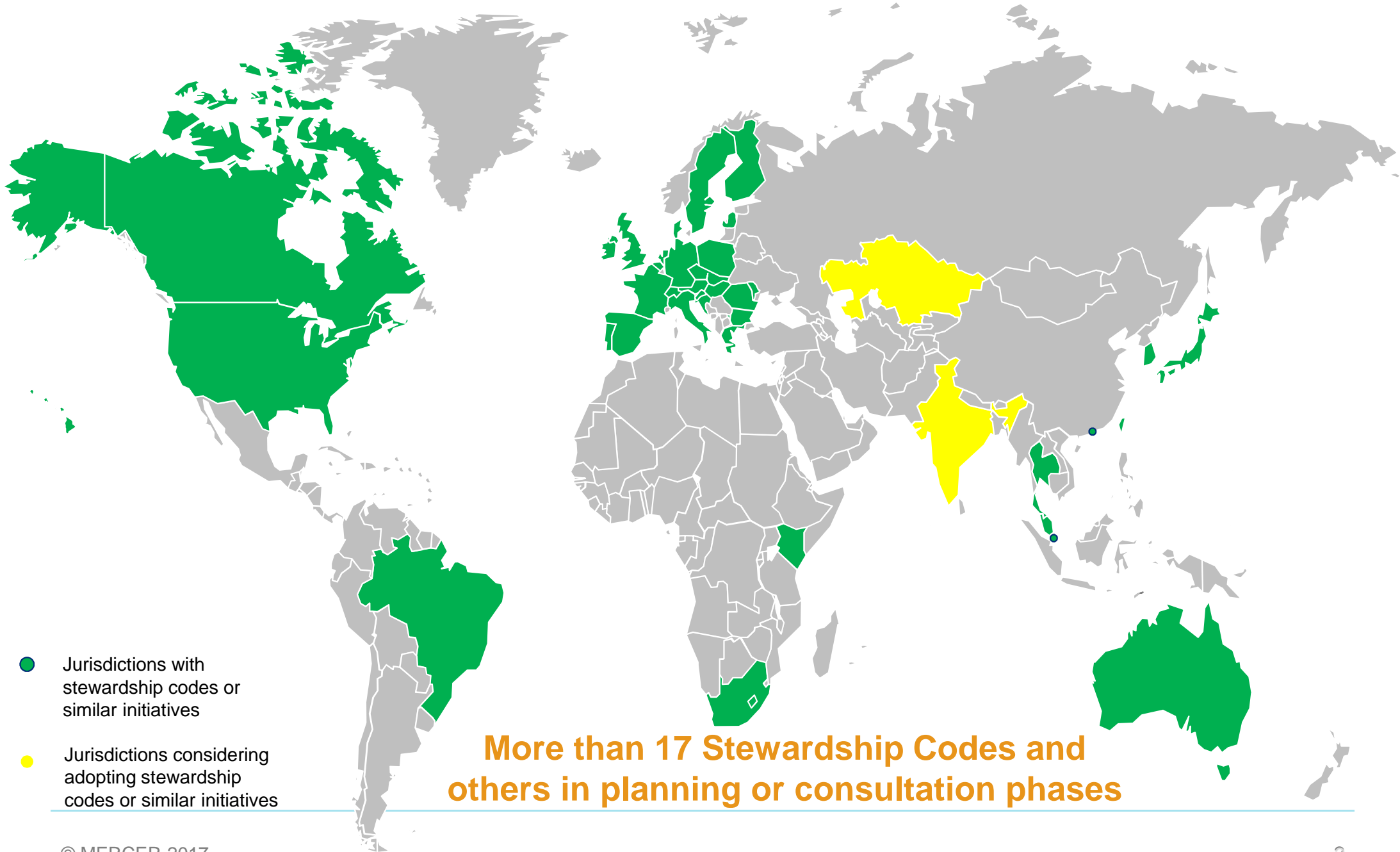
For example, public or private communication by letter or meetings by individual shareholders or collectively on areas for improvement in corporate governance, strategy, operational management and sustainability.

CHANGING EXPECTATIONS OF INVESTORS FIDUCIARY DUTIES

Investment decision makers with discretionary powers have a fiduciary duty to their beneficiaries, with interpretation of these duties evolving over time



STEWARDSHIP AROUND THE GLOBE



- Jurisdictions with stewardship codes or similar initiatives
- Jurisdictions considering adopting stewardship codes or similar initiatives

More than 17 Stewardship Codes and others in planning or consultation phases

STEWARDSHIP CODE EXAMPLES

UK AND JAPAN

The 7 Principles of the UK Stewardship Code (2010) - institutional investors should:

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities.
2. Have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.
3. **Monitor their investee companies.**
4. Establish clear guidelines on when and how they will escalate their activities.
5. Be willing to act collectively with other investors where appropriate.
6. Have a clear policy on voting and disclosure of voting activity.
7. **Report periodically** on their stewardship and voting activities.

The 7 Principles of the Japan Stewardship Code (2016) - institutional investors should:

1. Similar to UK.
2. Similar to UK.
3. Similar to UK.
4. Combines 4 and 5 from the UK and less potentially confrontational on engagement – seek to arrive at common understanding and solve problems via constructive engagement.
5. Similar to UK Principle 6 on Voting.
6. Similar to UK Principle 7 on Reporting.
7. New addition about contributing positively to sustainable growth of companies re knowledge and resources to appropriately fulfil stewardship activities.

MERCER'S INVESTMENT BELIEFS

At Mercer we have classified our beliefs according to the five areas shown in the diagram since 2014. The sustainability beliefs were recently, formally updated in May 2017 as follows:

We believe a sustainable investment approach is more likely to create and preserve long-term investment capital and more specifically that:

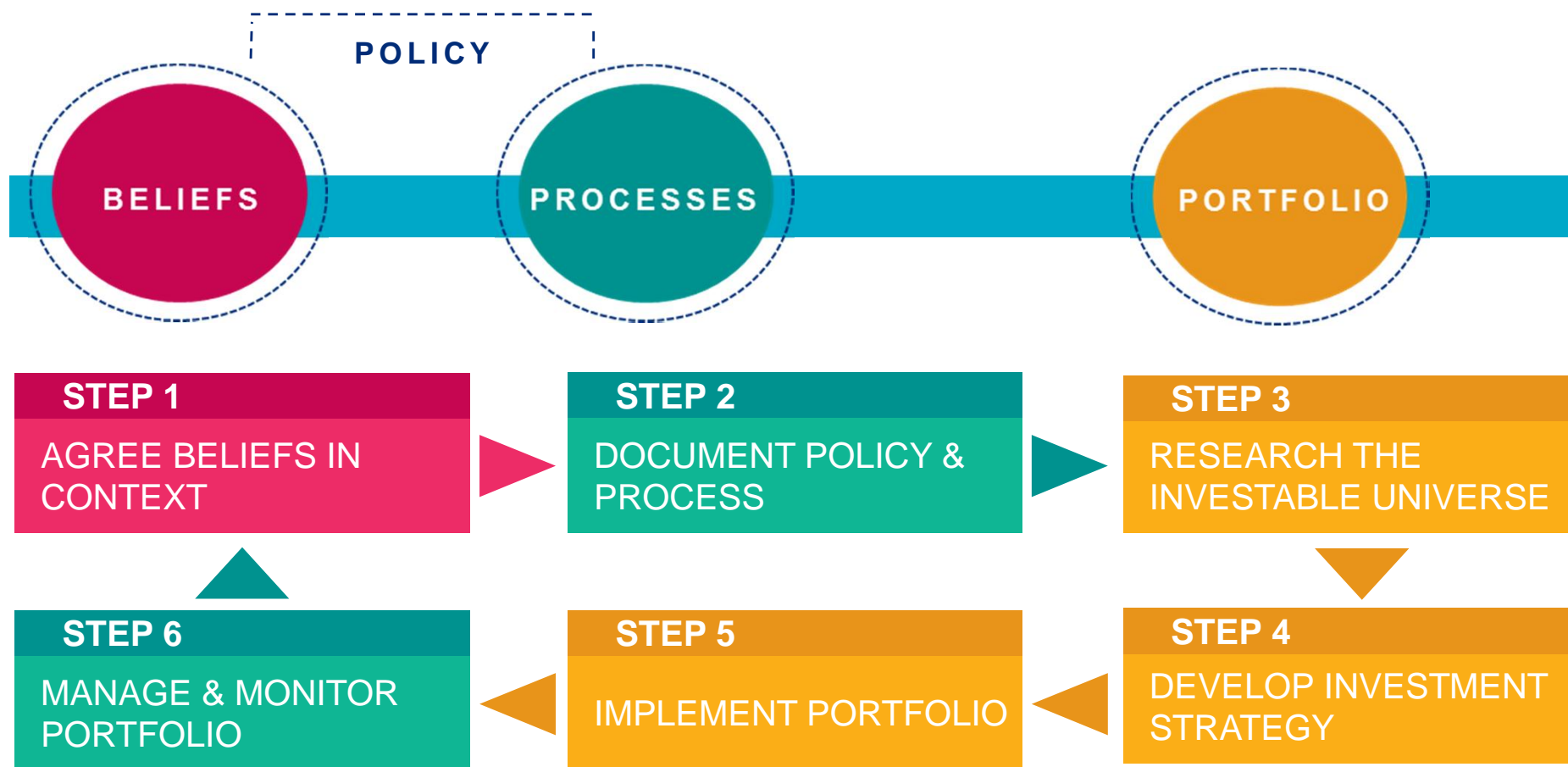
1. **Environmental, Social and Corporate Governance (ESG)** issues can have a material impact on long-term risk and return outcomes and these issues should be integrated into the investment process.
2. **Taking a broader perspective on risk**, including identifying longer-term sustainability themes and trends, is likely to lead to improved risk management and new investment opportunities.
3. **Climate change** poses a systemic risk and investors should consider the potential financial impacts of both the associated transition to a low-carbon economy and the physical impacts.
4. **Stewardship** helps the realisation of long-term shareholder value by providing investors with an opportunity to enhance the value of companies and markets.
5. **Accessing long-term streams of returns**, rather than focusing on short-term price movements, can add value.



[A full copy of Mercer's Investment Beliefs is available online or can be provided.](#)

INVESTMENT PROCESS INTEGRATION

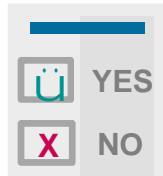
Mercer believes a sustainable investment approach is more likely to create and preserve long-term investment capital and therefore ESG issues and stewardship are integrated throughout the investment process.



STEWARDSHIP FOR EQUITY HOLDINGS CREATING AND PRESERVING VALUE



VOTING



SHARES HAVE VOTING RIGHTS ON COMPANY AGM PROPOSALS

For example on: Executive Remuneration, Board Roles and Responsibilities, Disclosure and Transparency on Financially Material Information and Strategy e.g. carbon disclosures and low-carbon transition strategies.

ENGAGEMENT



COMMUNICATION WITH COMPANIES OR POLICYMAKERS

For example, public or private communication by letter or meetings by individual shareholders or collectively on areas for improvement.

MERCER MONITORING

ANNUALLY:

Stewardship policies and approach, as per the UK Stewardship Code

SEMI-ANNUALLY:

Vote statistics / rationale for votes against management or not executed
Engagement activity and rationale on different topic areas

STEWARDSHIP MONITORING REVIEW

MARCH 2017 RESULTS - EXAMPLE



2017 UK STEWARDSHIP CODE REVIEW*

*Firm level assessment

| BEST PRACTICE | GOOD PRACTICE | IMPROVEMENTS RECOMMENDED | POOR PRACTICE |
|---------------|---------------|--------------------------|---------------|
| 17% (4/24) ↑ | 46% (11/24) ↑ | 33% (8/24) ↓ | 4% (1/24) ↑ |



H2 2016 VOTING*

*Strategy level assessment

| BEST PRACTICE | GOOD PRACTICE | IMPROVEMENTS RECOMMENDED | POOR PRACTICE |
|---------------|---------------|--------------------------|---------------|
| 24% (6/25) ↑ | 40% (10/25) | 36% (9/25) ↓ | 0% (0/25) |



H2 2016 ENGAGEMENT*

*Strategy level assessment

| BEST PRACTICE | GOOD PRACTICE | IMPROVEMENTS RECOMMENDED | POOR PRACTICE |
|---------------|---------------|--------------------------|---------------|
| 20% (5/25) ↑ | 20% (5/25) ↑ | 32% (8/25) | 28% (7/25) ↓ |

Engagement examples include:

- **Governance:** Executive comp: Board independence; Financial reporting
- **Environmental:** Climate change – disclosure and strategy
- **Social:** Supply chain (modern slavery); Human rights, Community relations

ENGAGEMENT WITH POLICY MAKERS PROMOTING SUSTAINABLE FINANCIAL MARKETS

Long-term sustainable investment outcomes rely on well-functioning capital markets which value the social and environmental capital. Mercer actively supports industry engagements to achieve this end.



ASIA INVESTOR GROUP ON CLIMATE CHANGE

CDP DRIVING SUSTAINABLE ECONOMIES

Ceres

Investor Group on Climate Change

IIGCC Institutional Investors Group on Climate Change

PRI Principles for Responsible Investment

3 July 2017

LETTER FROM GLOBAL INVESTORS TO GOVERNMENTS OF THE G20 NATIONS

This letter is signed by 390 investors representing more than USD \$22 trillion in assets.

As long-term institutional investors, we believe that the mitigation of climate change is essential for the safeguarding of our investments.

We have previously conveyed our strong support for the Paris Agreement [link](#) and we reiterate our call for governments to continue to support and fully implement the Agreement.



- The Task Force on Climate-Related Financial Disclosures (TCFD) published its final recommendations for **companies**, **asset managers** and **asset owners** in June 2017.
 - TCFD was initiated by the Financial Stability Board and is a 32-member group, chaired by Michael Bloomberg, and **includes Mercer's Jane Ambachtsheer**. The recommendations already have strong business and industry support.



INVESTMENT PROCESS INTEGRATION



AGREE BELIEFS IN
CONTEXT OF CHANGING
STEWARDSHIP
EXPECTATIONS

DOCUMENT POLICY &
PROCESS CHANGES

MANAGE & MONITOR
STEWARDSHIP
ACTIVITIES

IMPORTANT NOTICES

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MAKE



**TOMORROW,
TODAY**

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