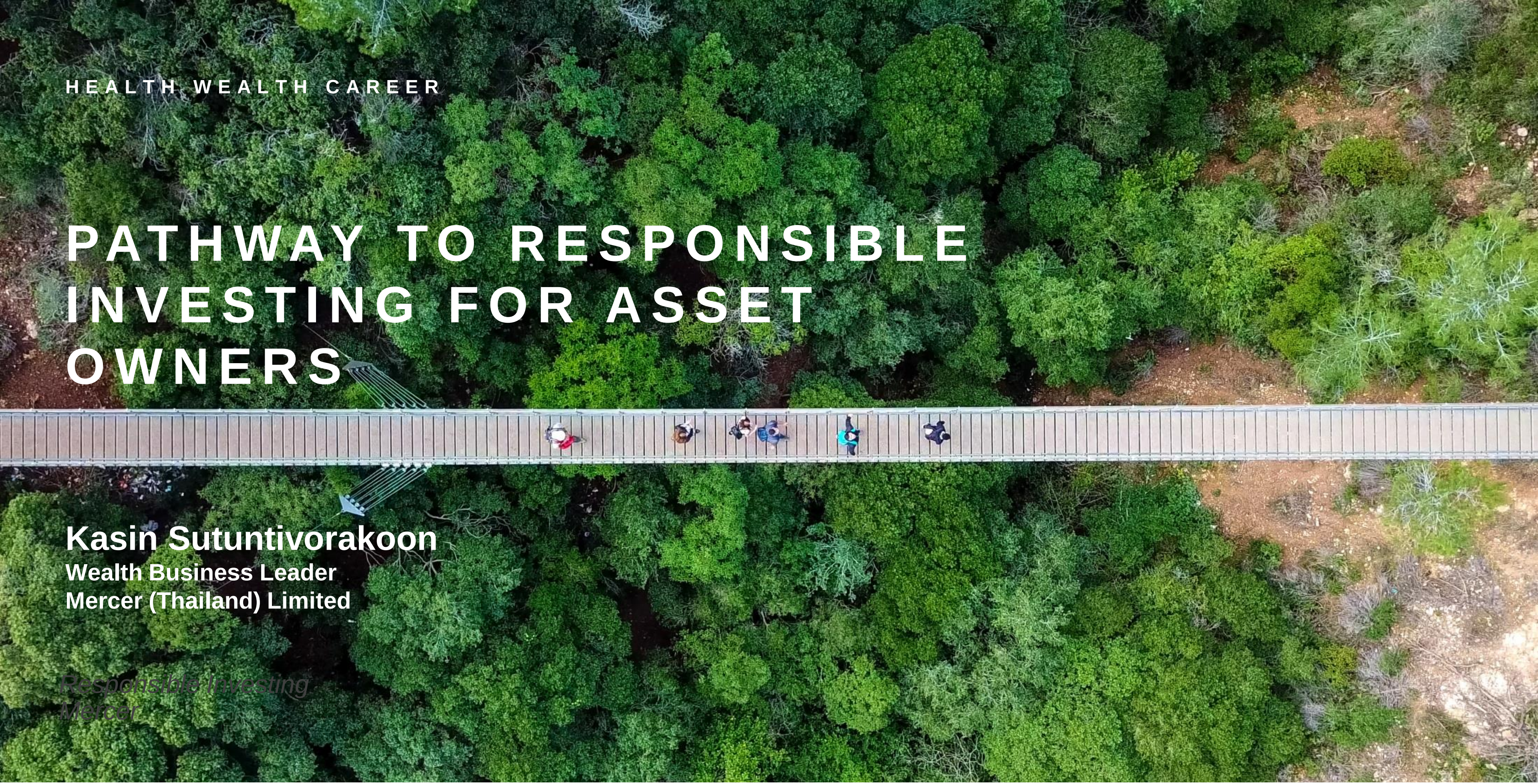


HEALTH WEALTH CAREER

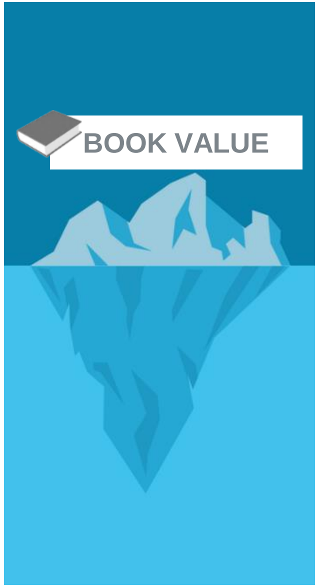
PATHWAY TO RESPONSIBLE INVESTING FOR ASSET OWNERS

Kasin Sutuntivorakoon
Wealth Business Leader
Mercer (Thailand) Limited

Responsible Investing
Mercer

A BROADER PERSPECTIVE – AN ABILITY TO SUSTAIN CAPTURED IN FINANCIAL STATEMENTS?

What is missing from current finance / investment processes?
How might the future be different to the past?



THREE REASONS FOR INVESTORS
WHY?

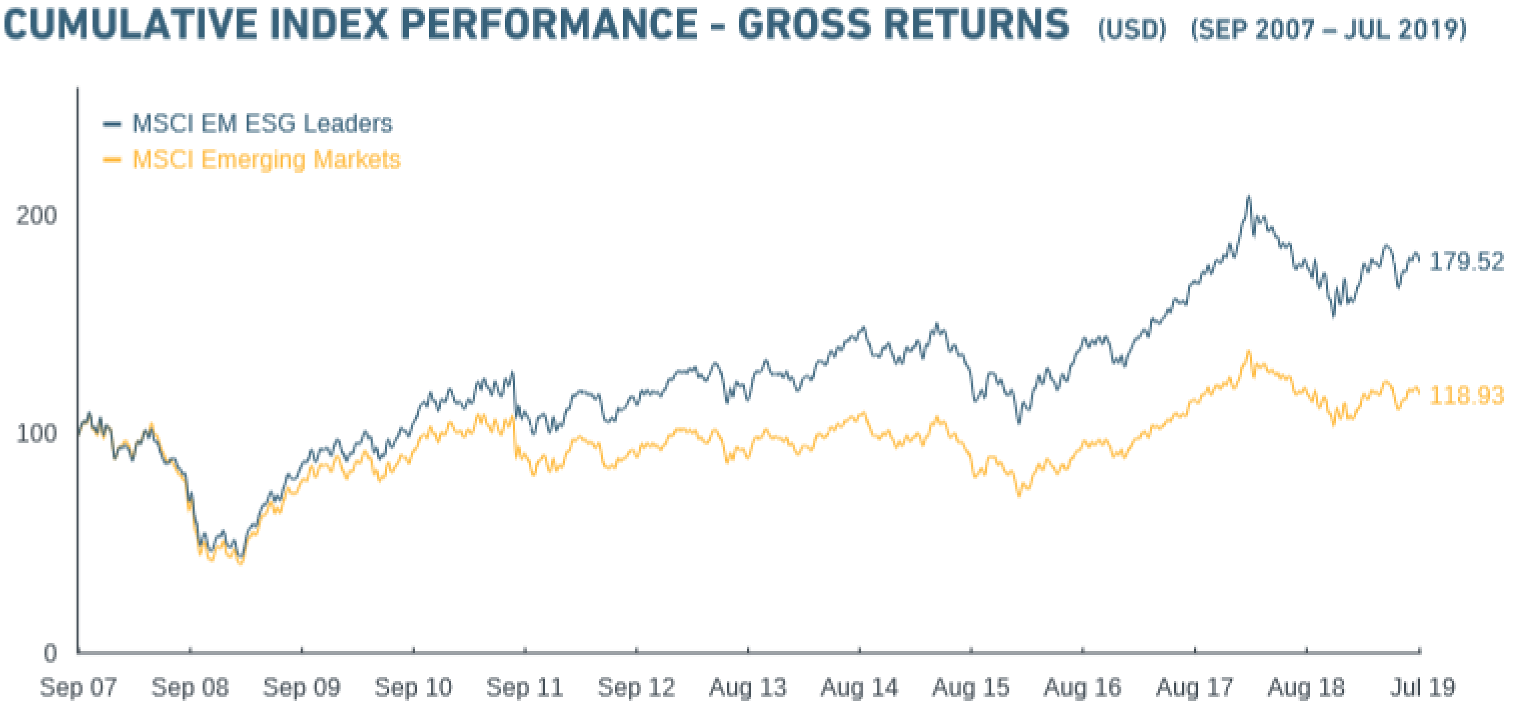
- Responsible Investment (RI) is an approach that includes environmental, social & corporate governance (ESG) factors and broader systemic issues, e.g. climate change and sustainable development, along with active ownership (stewardship) as these can have a material impact on financial performance.

- Their inclusion is more likely to lead to sustainable investment outcomes e.g. a greater ability to sustain paying pensions in the future.

- We also recognise we don't invest in a vacuum and every client has a unique set of stakeholders and organisation values where investment alignment may be required.

Responsible investors consider ESG factors in risk, return and reputation decisions in the belief this approach will deliver more sustainable outcomes.

DOES GOOD INVESTMENT STEWARDSHIP ADD VALUE?
BROAD VS ESG EMERGING MARKETS INDEX RETURNS



Source: MSCI : https://www.msci.com/documents/10199/c341baf6-e515-4015-af5e-c1d864cae53e

HOW TO BEGIN?
UNDERSTAND, PLAN, APPLY

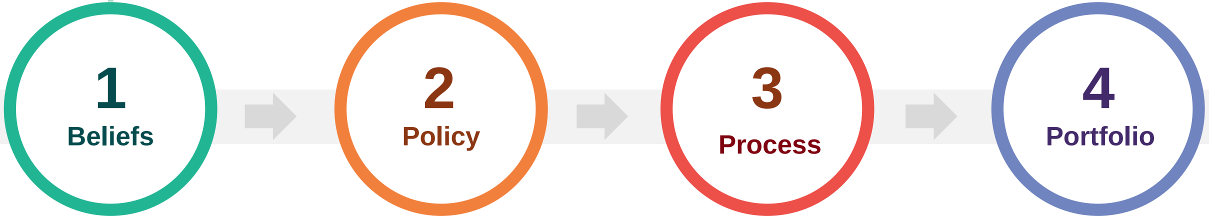
APPLY: ESG and climate change are part of every stage of investing.

1. Are ESG and climate change investment beliefs established?

2. Are ESG and climate change policies and governance in place?

3. Are processes aligned to a strategy? How are internal and external managers guided to follow ESG policy and process?

4. Are reporting and monitoring structures in place to ensure practices align with policy?



5. Are climate change and ESG risks and opportunities integrated through the fund?

6. Is a clear approach to voting and engagement in place?

7. Are sustainability-themed ESG and climate change solutions part of investment strategy?

8. Is a robust and defensible screening framework in place? Is it monitored?

MERCER'S INVESTMENT BELIEFS

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

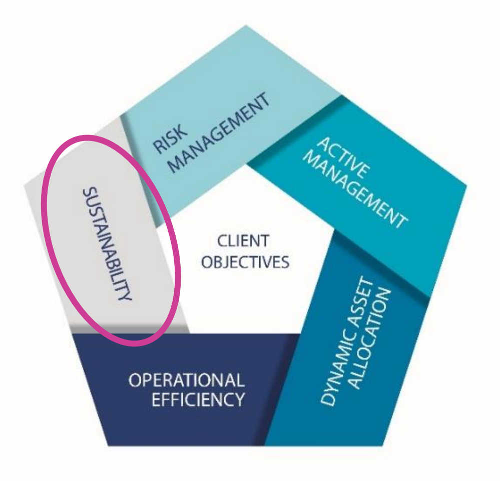
We believe a sustainable investment approach is more likely to create and preserve long-term investment capital and more specifically that:

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 and longer-term perspective on risk, including identifying 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 of different climate outcomes.

4. Stewardship supports the realisation of long-term shareholder value by providing investors with an opportunity to enhance the value of companies and markets.



RESPONSIBLE OR SUSTAINABLE INVESTMENT
THERE ARE MULTIPLE APPROACHES TO CONSIDER WHEN SETTING YOUR ESG POLICY

Fiduciary Duty Expectations

INTEGRATION

- Include material environmental, social, and governance (ESG) factors in investment decisions.

Objective:
Broader perspective on risk / opportunity.

STEWARDSHIP

- Exercise active ownership / stewardship (voting and engagement).

Objective:
Company / market improvements.

INVESTMENT

- Allocate to sustainability themed demand areas as opportunities e.g. renewable energy, energy efficiency.

Objective:
Long-term growth + positive 'impact'.

SCREENING

- Avoid negatives: e.g. controversial weapons, tobacco, coal
- Include positives: 'best-in-class'.

Objective:
Mission / Values alignment.

MERCER'S ESG RATING CRITERIA

ACTIVE (all asset classes)

IDEA GENERATION

- ESG factors integrated into active fund positions as a source of value added.
- Identification of material ESG factors - skill of team members, data sourcing

PORTFOLIO CONSTRUCTION

- Efforts to integrate ESG driven views into the portfolio's construction.

IMPLEMENTATION

- Engagement and proxy voting activities (if applicable).
- Investment horizon align with ability to effectively implement ESG views?

BUSINESS MANAGEMENT

- Firm-level support for ESG integration, engagement activities and transparency.

PASSIVE (equities)

VOTING & ENGAGEMENT

- Policy, process and prioritisation.
- Quality of engagements.

RESOURCES & IMPLEMENTATION

- Data analysis to enhance active ownership.

ESG INTEGRATION

- Skill set of resources.
- Effectiveness of engagement outcomes.

FIRMWIDE COMMITMENT

- Collaborative initiatives and engagement with regulators and policymakers.

CLIMATE CHANGE AS AN INVESTMENT ISSUE
DAMAGES & RETURN IMPLICATIONS

Significant increases in GHG emissions are raising average temperatures and changing the Earth's climate

Increase by 2100

1°C	Today - already driving some physical damages
2°C	'Safe' range for humans, but with meaningful damages expected
3°C	Not seen for 3 million years, with highly disruptive damages expected
4°C	Not seen for tens of millions of years, with severe damages expected

Low-carbon energy transition

- **Policy changes** to influence that transition
- **Technology** to enable that transition

+

Physical damages

- **Impacts** of sea level rise, storms, wildfires
- **Resource availability** of water and food

POTENTIAL FINANCIAL IMPACTS MEAN CONSIDERING CLIMATE CHANGE IS INCREASINGLY SEEN AS A CORE FIDUCIARY DUTY

STEWARDSHIP FOR EQUITY HOLDINGS
CREATING AND PRESERVING VALUE

INVESTOR VALUE CHAIN

ASSET OWNERS → INVESTMENT MANAGERS → COMPANIES

VOTING

YES

NO

SHARES HAVE VOTING RIGHTS ON COMPANY AGM PROPOSALS

For example on: executive remuneration, disclosure on financially material information 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.

MONITORING

Stewardship Policies

Simply ask to read the manager's policy or Mercer could also complete a short assessment against the UK Stewardship Code principles

Voting and Engagement Activity

Simply ask to read the latest voting and engagement report or Mercer could also complete a short assessment on:

- Vote statistics / rationale for votes against management
- Engagement activity and rationale on different topics

NEW SOLUTIONS – NEW OPPORTUNITIES
INVESTMENT THEMES

RENEWABLE AND ALTERNATIVE ENERGY

Solar, wind, wave, biofuels, and geothermal technology

ENERGY EFFICIENCY

Storage plus power network, industry, building, and transport efficiency

WATER INFRASTRUCTURE AND TECHNOLOGIES

Irrigation, storage, treatment, drainage and flood protection

POLLUTION CONTROL

Pollution control solutions and environmental testing

WASTE MANAGEMENT AND TECHNOLOGIES

Recycling processing, hazardous and general waste management

HEALTH AND SOCIAL SERVICES

Positive impacts for social development and poverty or aging population

SUSTAINABLE CONSUMER GOODS

Meeting shifting consumer demands in sourcing and technology

RESPONSIBLE FINANCE

Supporting role for real economy

SCREENING POLICY
ALIGNING VALUES AND MANAGING REPUTATIONAL RISKS

Possible considerations for exposure exclusions :

Adult entertainment: companies with >10% revenue from adult entertainment-related business activities.

Alcohol: companies with >10% revenue from alcohol-related business activities.

Controversial weapons/armaments: companies directly involved in the development and production (manufacture), sale or distribution of cluster munitions; anti-personnel mines; and biological, chemical and nuclear weapons.

Fossil Fuels: companies with >20% revenue from the extraction of thermal coal and/or tar sands oil.

Gambling: companies with >10% revenue from gambling-related business activities.

Tobacco: companies with >10% revenue from tobacco-related business activities.

PORTFOLIO CONSTRUCTION AND IMPLEMENTATION

Total portfolio:

- Blend of **core** and **thematic** strategies creates flexibility that can be employed as a thematic or total global equity allocation

Core strategies:

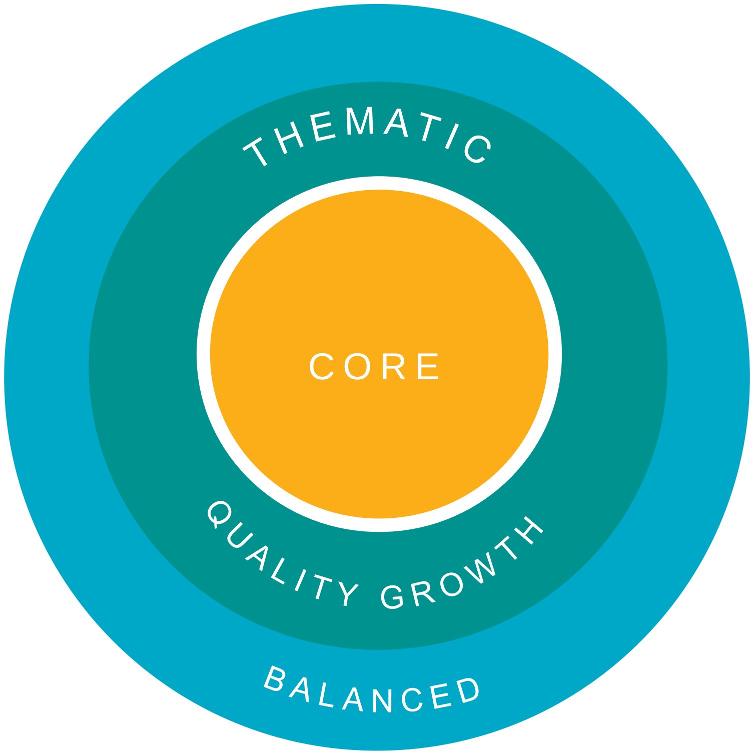
- Provide diversified factor, sector, and geographic exposures

Thematic strategies:

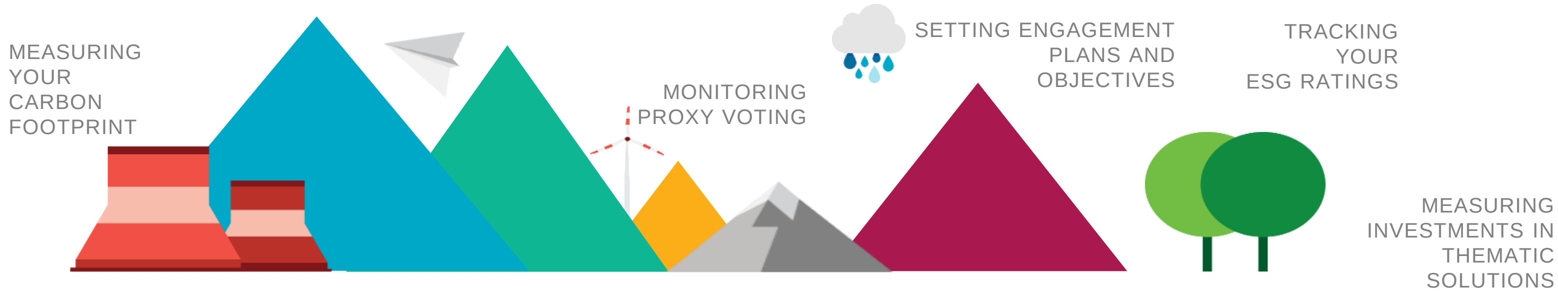
- Concentrated mandates, focusing on quality growth companies who specialise in providing solutions to the challenges of sustainability

ESG risk mitigation

- All strategies are expected to meet a high standard on risk mitigation, as measured by:
  - ESG integration (ESG1 or ESG2 only Mercer ratings)



WHAT GETS MEASURED … GETS MANAGED



THE RESPONSIBLE INVESTMENT PATHWAY

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