

Mercer Investments (Australia) Limited

Stewardship Policy

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Important notices

'MERCER' is a registered trademark of Mercer (Australia) Pty Ltd ABN 32 005 315 917.

Except where expressly stated, this Stewardship Policy ('**Policy**') applies to the investment funds for which Mercer Investments (Australia) Limited ('**MIAL**') ABN 66 008 612 397 Australian Financial Services Licence #244385 acts as the responsible entity or trustee. MIAL is a wholly owned subsidiary of Mercer (Australia) Pty Ltd, which is part of the global group of companies ('**Mercer**'). This Policy contains proprietary information of Mercer and is intended for the exclusive use of the parties to whom it was provided by Mercer. Its content may not be modified, sold or otherwise provided, in whole or in part, to any other person or entity, without written permission from the appropriate Mercer entity.

The findings, ratings and/or opinions expressed herein are the intellectual property of Mercer and are subject to change without notice. They are not intended to convey any guarantees as to the future performance of the investment products, asset classes or capital markets discussed. Past performance does not guarantee future results. Mercer's ratings do not constitute individualised investment advice.

Any advice contained herein is of a general nature only and does not take into account the personal needs and circumstances of any particular individual. Prior to acting on any information contained in this document, you need to take into account your own financial circumstances, consider the offer documents (Product Disclosure Statement, Information Memorandum or Term Sheet as applicable) for any product ('**Offer Document**') you are considering, and seek professional advice from a licensed, or appropriately authorised financial adviser if you are unsure of what action to take.

Overview, Purpose and Scope

Overview

This Policy outlines our approach to stewardship where applicable to the investment funds ('the Funds') for which Mercer Investments (Australia) Limited ('**MIAL**', '**we**', '**us**' or '**our**') acts as the responsible entity ('**RE**') or trustee.

MIAL is responsible for developing and implementing the investment strategy for each of the Funds. We do not typically directly select individual securities in each Fund; instead, we appoint third-party investment managers to select these securities on our behalf¹. We undertake a range of supervisory activities in respect of our appointed investment managers with the aim of ensuring investment managers act consistently with their mandates and the principles set out in this Policy when they select securities or other assets and construct their portfolios.

MIAL relies on specialist third party providers and their methodologies to implement this Policy, for example, for voting execution, reporting and for company-level data on environmental, social and governance ('**ESG**') factors. Providers are reviewed at least every three years, or more frequently if required, and may change from time to time.

Purpose and Scope

Effective stewardship, which we consider includes engagement with companies we invest in or may invest in as well as policymakers, can improve investment outcomes by leveraging investor rights and influence to seek change and/or gather additional information to make better investment decisions.

Our stewardship activities seek to align with the expectations in the Financial Services Council's *Standard 13 on Voting Policy, Voting Record and Disclosure*.

Stewardship is not implemented absolutely nor uniformly across all holdings, strategies, managers or Funds. It is applied where relevant and practicable and in line with the specific ESG considerations techniques set out in the relevant Offer Document for each Fund.

The engagement, escalation and disclosure principles and approach outlined in this Policy are typically applied across the major asset classes in which we invest (e.g. Australian and International/Global Shares, Real Assets and Fixed Interest), applied to some investment strategies within Alternatives, and not applied to Cash.

The voting principles and approach outlined in this Policy are only applicable to Directed Investments in Listed Equities (Australian and International/Global Shares and Listed Real Assets).

- **Directed Investments** means investments where we can direct and control our exposure to individual securities via our appointed investment managers, including through individually managed portfolios of securities. Directed Investments do not include our investments in pooled vehicles (including managed investment schemes and exchange traded funds) where we cannot direct or control our exposure to individual securities within the pooled investment. Directed Investments also do not include some forms of derivatives.

Please refer to the appropriate Offer Documents for information on the relevance of stewardship activities for a Fund. Offer Documents are available at mercer.com.au/mercerfunds, or available on request by calling us.

This Policy does not apply to the Excluded Funds listed in Appendix A.

¹ This describes the way in which our Single Sector Funds are managed. The Diversified Funds are typically constructed with a number of underlying Single Sector Funds.

Stewardship

Effective stewardship, which we consider includes engagement with companies we invest in or may invest in as well as policymakers, can improve investment outcomes by leveraging investor rights and influence to seek change and/or gather additional information to make better investment decisions.

We utilise two primary approaches to stewardship - engagement and voting.

Engagement

Engagement may be undertaken with companies or policymakers via appointed investment managers, collaborative initiatives and / or directly by MIAL.

MIAL believes its appointed investment managers are typically best placed to conduct engagement with companies or assets on our behalf and, where relevant, this is an expected part of an investment manager's stewardship approach. The investment managers make investment decisions within a strategy and are expected to identify potentially material opportunities or risks that may require engagement activity. However, MIAL may also conduct engagement activities with companies directly, or through involvement in collaborative initiatives, where we believe engagement by MIAL is in the best long-term interests of our investors.

We may also engage with regulators, governments and other policymakers, collaboratively or directly, to recommend changes or express views on current or proposed regulation or policy positions where we consider this important to protect the rights or enhance the interests of our investors.

Engagement seeks to target various ESG factors identified as potentially material, for example company board governance or remuneration and climate change risks, and/or to respond when we become aware of matters of material concern (such as a high severity incident under the United Nations Global Compact principles).

MIAL may use a range of inputs to determine when engagement may be warranted. These include but are not limited to ESG research from an external provider, information gained through collaborative initiatives, Mercer's own research or tools, information gained through engagement with investment managers, and ESG portfolio analysis.

Voting

As a shareholder of publicly listed companies, MIAL has the right to vote at shareholder meetings and regards voting our shares as important.

We delegate the exercise of our proxy voting rights to our listed equity investment managers and where practical, expect the listed equity investment managers to vote shares in a timely manner and in a manner deemed most likely to protect and enhance long-term value. Typically, an investment manager's capability in stewardship is evaluated as part of the investment manager selection process to seek alignment with MIAL's commitment to promote good governance and long-term value creation.

MIAL expects its listed equity investment managers to establish their own voting policy that sets out the principles and guidelines under which rights to vote are exercised.

MIAL engages the services of a third-party proxy advisor (Glass Lewis, at time of writing) to provide proxy voting research and facilitate the collation and reporting of proxy voting data, which MIAL uses to monitor manager voting. Our ability to directly monitor and report on proxy voting only applies to Directed Investments.

From time to time, a Fund may hold listed equities in a transition account where the transition manager does not have a voting policy or capability. In these instances, MIAL will seek to vote the shares in the transition account in alignment with the recommendations of the proxy advisor.

Exercising a 'Priority Vote'

While proxy voting decisions are typically delegated to the listed equity investment managers, MIAL retains the right to review investment manager vote intentions and rationale, and potentially align votes for our account in certain circumstances. There may be resolutions where votes are 'Mixed' or 'Split' if the appointed investment managers vote differently. When MIAL reviews and potentially intervenes in manager positions ('**Priority Vote**'), this is typically because it is one of our most material holdings, there is some contention around the vote, and MIAL believes its intervention would better reflect our view on the best interests of investors.

In determining such votes, MIAL may consider:

- its proxy advisor's recommendation
- the view of its listed equity investment managers, particularly those which we believe to have a high level of engagement expertise
- collaborative initiative research, or
- the company's views.

MIAL may also conduct its own research or engage with the relevant company to inform its decision, and typically provides prior notice to the company of its voting intentions.

When a Priority Vote is exercised, MIAL will also seek to apply the voting decision to any relevant shares held in transition accounts.

The voting principles discussed below apply to MIAL's decision making in the case of a Priority Vote.

Voting principles

When considering ESG factors in voting activities, we generally seek to support resolutions that encourage transparency, accountability and alignment with shareholder interests and timeframes.

As mentioned above, MIAL expects its listed equity investment managers to establish their own voting policy that sets out the principles and guidelines under which rights to vote are exercised. However, MIAL's voting principles help to guide decisions where a Priority Vote is being considered. They may also be used on occasions where MIAL is reviewing appointed investment manager proxy voting decisions.

MIAL's voting principles on various topics are documented within internal procedures and reviewed at least annually. In summary, these include principles for governance topics - such as director elections, board composition, and remuneration - and stewardship on environmental and social topics.

Operational limitations for voting

MIAL's objective is to vote all listed shares on a best endeavours basis. However, there may be circumstances where MIAL or its appointed investment managers may be unable to participate in a vote. MIAL seeks to reduce the extent of such voting exceptions through monitoring activities and engagement with managers on their voting systems and practices. There may also be circumstances where the investment manager or MIAL decide that abstaining from a vote may be in the best interests of investors.

There is no significant jurisdictional variation in our voting principles, however in practice, significant holdings in local markets are likely to receive more attention, largely due to portfolio materiality prioritisation.

Types of voting exception scenarios are explained below:

Term	Definition
Share blocking markets	<p>There are some markets that place regulatory barriers to voting, usually in the form of limitations on trading shares if a vote is enacted.</p> <p>Although MIAL will seek to vote in these markets, we accept voting may be limited or not possible.</p>
Securities lending	<p>MIAL participates in a securities lending program for the benefit of investors.</p> <p>For any identified material portfolio holdings requiring a Priority Vote, MIAL will work with our securities lending agent to endeavour to recall the shares on loan.</p> <p>In order to maintain voting rights on securities we hold, MIAL will only lend a maximum of 90% of the value of our holdings in any company.</p>
Securities lending collateral	<p>MIAL's securities lending program is a fully-collateralised program, managed and implemented by an external securities lending agent. Collateral posted by borrowers is held by MIAL's custodian or a sub-agent in a segregated account.</p> <p>MIAL would not expect to take receipt of these securities or vote on them. Collateral is therefore not governed by this Policy.</p>
Pooled vehicles	<p>MIAL may have investments in pooled vehicles (such as managed investment schemes and exchange traded funds) where the investment manager, rather than MIAL, has the shareholder voting rights. While we may not be able to report on the voting activity of pooled vehicles, we still expect the investment managers of these vehicles to exercise their voting powers.</p>
Power of Attorney ('PoA') markets	<p>There are some international markets where voting can only be carried out by an individual actually attending the meeting. This usually needs to be carried out on MIAL's behalf by the custodian. The rules on PoAs vary by market, apply for different periods of time, and have various cost implications.</p> <p>MIAL will typically put in place PoAs for larger markets (such as Argentina, Brazil, Poland and Sweden) but will undertake a cost / benefit analysis on smaller markets which employ this structure. As a consequence there may be some smaller markets where MIAL will decide that it is not in investor interests to vote shares.</p>

Escalation

Where MIAL considers that interaction with an appointed investment manager or a portfolio company has not yielded the desired outcomes against targeted objectives and timeframes, we have established various escalation strategies that may be employed to increase the likelihood of outcomes being met and reduce the likelihood of identified risks persisting. The specific timeframes may change based on the nature of the escalation. Internal guidelines have been established for such escalation considerations and the approach to escalation will vary for appointed investment managers compared to portfolio companies.

Options for escalation with companies could include increased frequency of engagement, collaborating with other investors to address the company's lack of response, utilising our proxy voting rights, putting forward a shareholder resolution, and ultimately considering divesting from the company or excluding it from investment portfolios.

Disclosure

MIAL typically reports to our clients on our stewardship activities on an annual basis. Client reporting can provide further, more specific examples on engagement statistics and activities, as well as case study examples by topic or with particular companies.

In the interests of transparency, MIAL discloses proxy voting results on our website [here](#) (to the extent that these are available e.g. for Directed Investments). Proxy voting results are updated on a six-monthly basis, within three calendar months of the end of the reporting period and show the prior twelve months.

Appendix A - Scope

Excluded Funds

Name or description of Fund	Effective Date (if other than this Policy's date)
Mercer Multi-Strategy Alternatives Fund	
Non-Mercer branded investments offered by the Mercer Portfolio Service Investment Plan	
Non-Mercer managed funds within the Mercer CoreSeries Portfolios	
Bespoke client arrangements (such as when a client requests that we implement their own sustainable investment preferences)	

Appendix B - Policy Governance

Key responsibilities for the maintenance and implementation of this Policy are in the table below.

Name of owner	Area of responsibility
MIAL Board	Approve and monitor against Policy.
Mercer Pacific Chief Investment Officer (CIO)	Accountable for adherence to this Policy and oversight of the Investment Management Team.
Mercer Sustainable Investment, Investment Management Team	Responsible for maintaining this Policy and working with the wider Investment Management Team on implementation and monitoring alignment with this Policy.
Mercer Sustainable Investment, Consulting Team	Provide annual review of effective implementation of this Policy and input to any Policy updates.
Mercer Legal, Risk and Compliance Teams	Oversight of Policy governance.

This Policy will be reviewed at least annually, or more frequently if required, to reflect any meaningful change to MIAL’s investment approaches, FSC guidelines, or where required by relevant law or regulation.

Despite any provision to the contrary, management may amend this document to:

- Correct any grammatical, typographical or cross-referencing errors
- Reflect non-material changes to operational procedures
- Reflect any non-material changes required by law, a regulator or internal/external auditors, or
- Implement any required changes flowing from a MIAL Board resolution.

Any amendments completed by management must be approved by any two members of the Pacific Leadership Team. All other amendments to this Policy must be reviewed and approved by the MIAL Board.