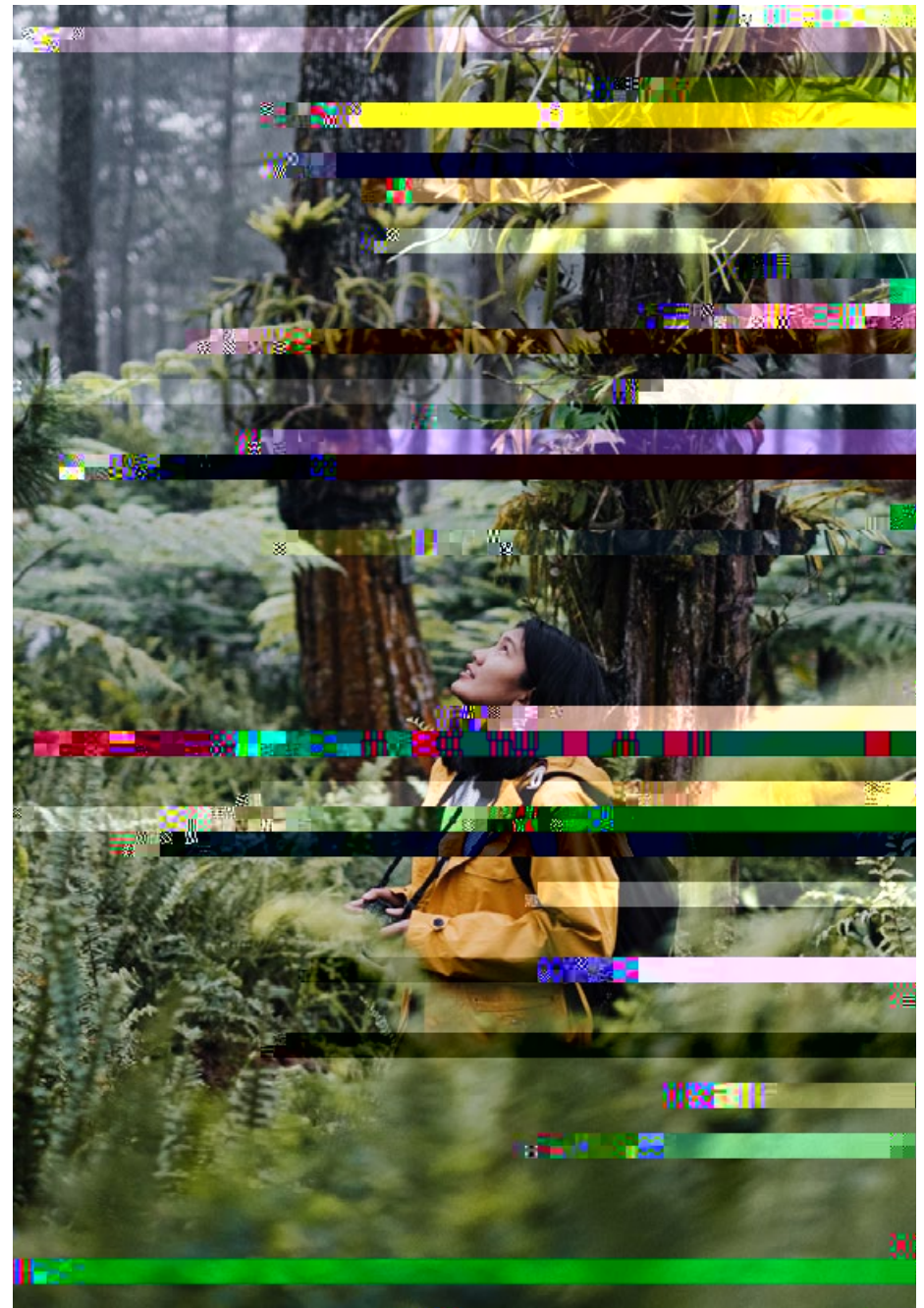




### Our position on transition

Climate change presents a systemic risk, challenging investors to consider both the potential financial impacts of the associated transition to a low-carbon economy and the physical impacts of different climate outcomes. Mercer is committed to investing for a 1.5-degree scenario because robust climate scenario analysis evidence that is in the best financial interests of our clients. We are seeing increasing demand for a rigorous and measurable approach



Mercer's Analytics for Climate Transition or ACT is a strategic, forward looking assessment of the risks and opportunities that arise from a transition to a low carbon economy in an investment portfolio. Companies are ranked along a spectrum spanning high carbon intensity assets with low capacity to transition, to green assets, providing

## Establishing transition capacity

ACT supports climate transition strategies through top-down climate scenario analysis, forward-looking portfolio analytics and bottom-up assessment of holdings. This multi-dimensional view seeks to establish where emissions are currently being generated across the portfolio and, at a more granular level, companies' capacity to transition, mitigate and adapt.

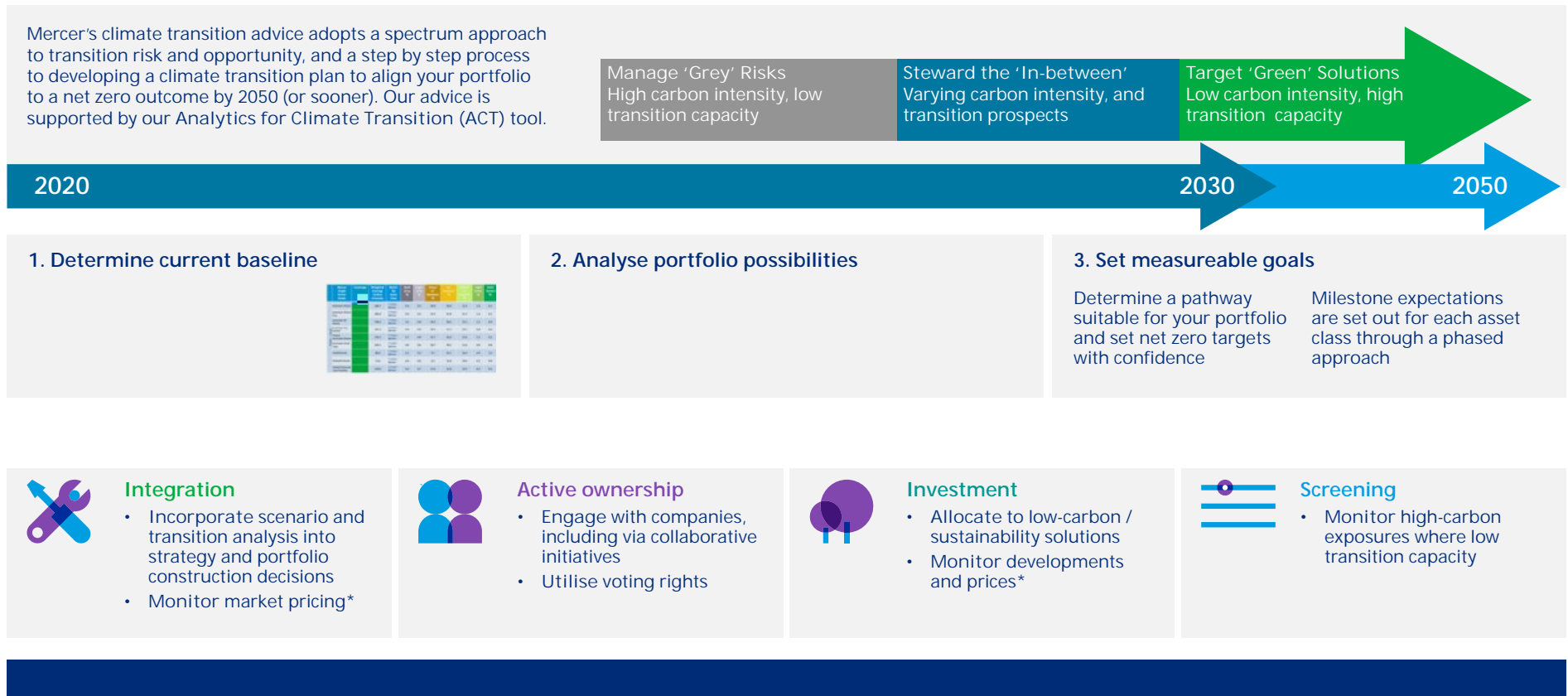
From this starting point, ACT allows investors to develop transition plans that include a step-by-step process, enabling investors to rank companies and portfolios by their capacity to support annual emissions reductions (transition

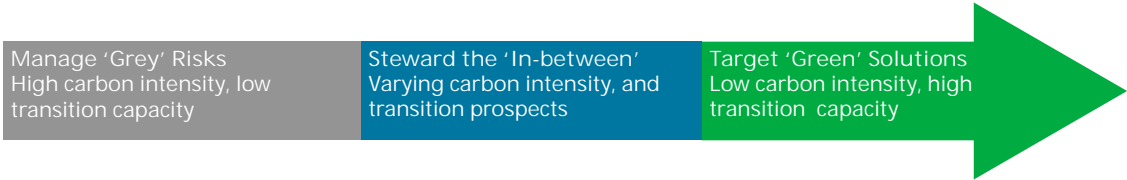
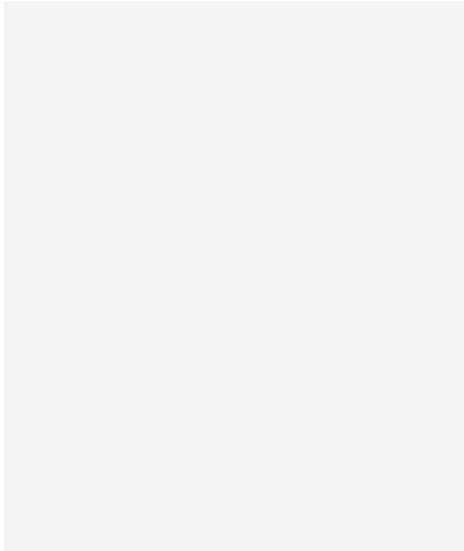
capacity), prioritize active ownership of companies, and allocate to transition solutions.

A multi-dimensional assessment draws on a range of data providers and metrics to assess portfolios across a spectrum from 'grey' to 'green' investments; given that many companies lie somewhere in the middle, their capacity for future transition needs to be fully assessed and determined.

Through this process, investors start to identify which portfolio companies and holdings are, for example, high carbon and low transition, or low – even zero – carbon and high transition.

Figure 1. Overview of the Analytics for Climate Transition (ACT)





● Dark grey ● Light grey

● % not assessed

We have found progress can then be measured against climate transition benchmarks by setting a year-over-year carbon reduction target, with tolerance ranges to facilitate dynamic portfolio management, using a climate transition or Paris aligned index where possible.

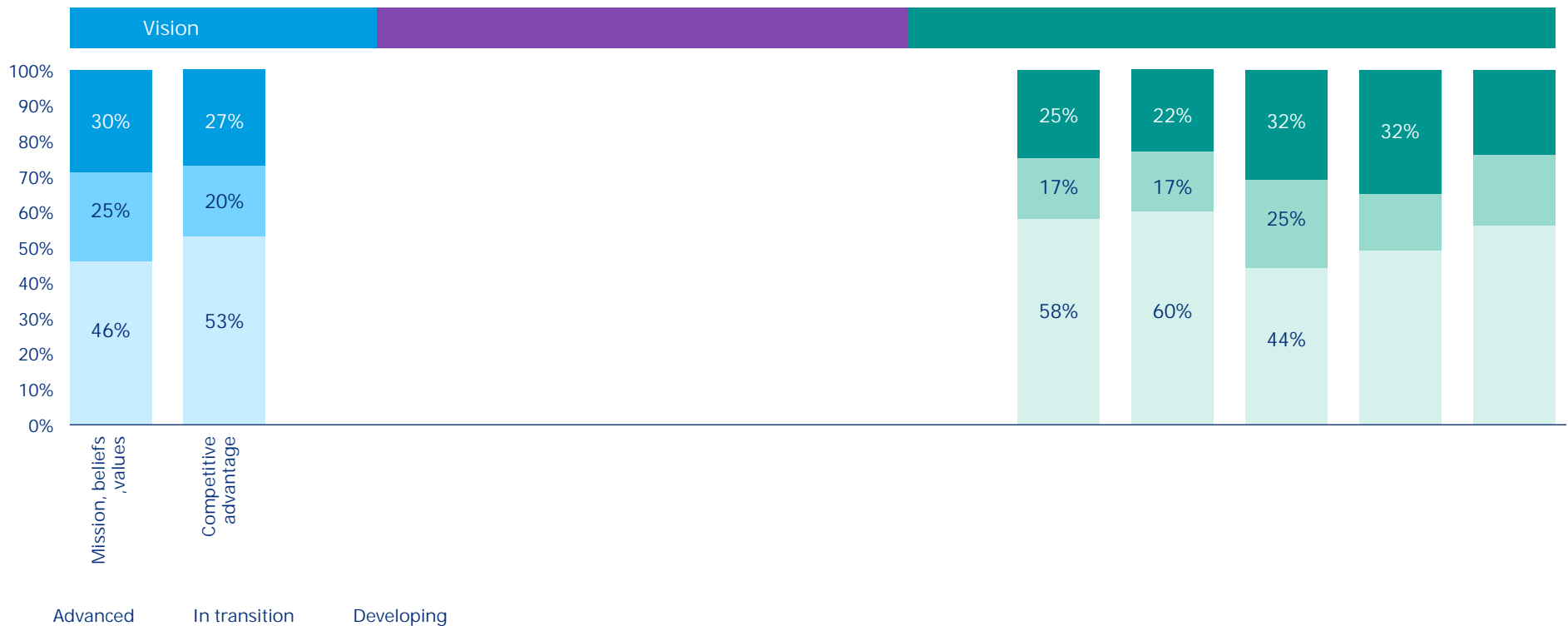
There are two broad approaches:

- 1.

### Vision, governance, implementation

Through engagement with a community of leading institutional investors and managers, Mercer partnered with the World Economic Forum to develop a climate-investing benchmarking tool and framework, which seeks to highlight the practices and frameworks of pioneering climate investors that can be adopted by all institutional investors.

The benchmark assesses how institutional investors set their vision, governance and implementation across 80 investment-related activities, in 10 categories, to identify the key challenges impeding climate investing.



Source: Pacesetters: Setting the Tempo of Advanced Climate Investing, 8  
[https://www3.weforum.org/docs/WEF\\_Setting\\_the\\_Tempo\\_of\\_Advanced\\_Climate\\_Investing\\_2022.pdf](https://www3.weforum.org/docs/WEF_Setting_the_Tempo_of_Advanced_Climate_Investing_2022.pdf)



Climate-investing benchmarking enables the asset owner community to pinpoint the activities that may deliver the most significant improvements to risk/return outcomes. While steps to advance the transition will evolve as standardization, climate data disclosures and measurement of adaptation improve, the adoption of a strategic framework can guide investors' approach.

Investors in the "advanced" stage according to the World Economic Forum (WEF)

By establishing a clear framework, transition plans can deliver a systematic approach to

# Advancing a just transition:

Investor demand can potentially catalyze the development of climate solutions in areas such as sustainable infrastructure across the globe, in turn supporting the deepening of capital markets in emerging economies. Comparison of the number of strategies available to investors across developed and versus emerging markets evidences the scale of the opportunity for the development of solutions within the emerging markets universe of 741 in comparison to developed markets universe of 2,476<sup>8</sup>

Within markets, increased collaboration and coordination between stakeholder groups – managers, governments and multilateral development banks – can

help drive the development of key steps in the infrastructure financing cycle. More coordinated project planning and enhanced due diligence processes, for example, can support investors' consideration of the sustainability characteristics and impact opportunities of prospective investments.<sup>9</sup>

Impact outcomes can only become a more substantive part of investors'

While impact measurement and management practices have progressed



### Sustainability research

We were one of the first consultants to explore ESG factors and implement them into investment research, a pioneering position we are proud to continue to hold. Mercer's Global Manager Research Team is responsible for the more than 5,600 ESG-rated strategies on MercerInsight® that inform investment decisions across asset classes around the world.

### Meet some of our sustainable investment advice professionals

Since 2004, our Sustainable Investment (SI) Advisory Team has been committed to helping clients achieve meaningful sustainable investment outcomes. Our team comprises more than 20 dedicated professionals, supported by a global network of champions.

Mercer's advice and solutions teams are happy to talk about our experience to date and what we anticipate coming next in the path toward sustainable investment.



**Helga Birgden**  
Global Chair - Mercer  
Sustainable Investment



**Cara Williams**  
Global ESG Strategy Lead



**Max Messervy**  
Head of Sustainable  
Investment, Americas

