HEALTH WEALTH CAREER

MERCER INVESTMENTS BELIEFS

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MERCER

Every investor has unique objectives. Mercer's proprietary tools, breadth of expertise, global scale and decades of experience will help you achieve yours. Effective investment strategy requires clear thinking. Mercer holds a set of investment beliefs that underpin our approach and drive investment success.

CLIENT OBJECTIVES

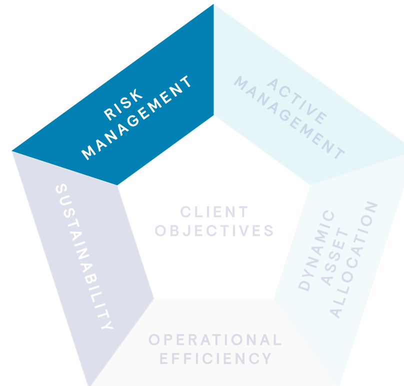
1. All clients are different, and therefore their investment objectives vary. Client beliefs, time horizon, liability structure and broader stakeholder aims are all important considerations when seeking to define investment objectives and, hence, the risk relevant to particular circumstances.

2. An investor's true risk is not being able to meet its obligations. A fund exists to meet obligations, and these should be forefront and central to the development of the objectives and strategy.

3. Robust and high-quality governance processes are critical to success. This is particularly so in times of crisis.

4. Portfolio changes designed to improve risk-adjusted returns can necessitate a more complex set of arrangements, but governance must be "fit for purpose." The potential benefits from complexity need to be balanced against the additional governance costs (in order to ensure sufficient understanding) and risks (complex products or structures can create unintended risks).

5. Environmental, social and governance (ESG) considerations can have a material impact on long-term risk and return outcomes. Financial objectives, time horizon and stakeholder expectations are likely to influence the approach each client adopts.



RISK MANAGEMENT

1. **Asset allocation is the most important decision.** Asset allocation strategy is the primary driver of investment returns and risks.

2. **Risk and return are related.** To obtain returns, some amount of risk must be taken. However, higher risk does not always lead to higher returns. In other words, risk taking does not guarantee that additional returns will be achieved, even over long periods. Clients are more likely to be successful if they seek to minimize their exposure to risks that are poorly rewarded and focus on risks where the expected return is commensurate with the risk taken.

3. **Genuine diversification is beneficial to investment outcomes** (at the asset allocation, "factor exposures" and underlying investment manager levels). In particular:

    - Clients can benefit from building efficiently diversified portfolios.

    - Diversification across different sources of risk and return improves investment efficiency and may help achieve the same level of expected return with a lower level of risk.

    - Diversification should also limit adverse investment outcomes stemming from tail risk events.

    - Achieving true diversification is more than a mathematical exercise since, as history demonstrates, correlations vary over time and in response to differing market conditions.

4. **Risk is a multidimensional concept.** Gaining a thorough understanding of all the risks attached to an asset will frequently be difficult (but necessary). Standard deviation is important to some investors as a measure of risk, but it isn't a total measure of risk. Not all risks apply evenly to all investors. For example, liquidity risk is less of an issue to an investor that doesn't need access to its capital for many years. Investment success can come from understanding and exploiting an investor's risk tolerances.

ACTIVE MANAGEMENT

1. Active management is a skill, and, as evidenced by our value-add analysis, our manager research process can improve the likelihood of identifying skillful managers. There is no single right way to manage money successfully. Skilled managers, however, demonstrate observable characteristics and follow approaches that set them apart from the average. Successful attributes may include:

   - Better understanding of behavioral factors than a typical market participant
   - Willingness and ability to take a longer-term view (where relevant)
   - Superior insight or an ability to "connect the dots."

   Different markets exhibit varying degrees of efficiency, and it's important to recognize which markets offer sufficient potential for alpha generation. Skilled managers are more likely to add value in less-efficient markets.

2. High-conviction managers have a greater likelihood of delivering meaningful alpha after fees. A willingness to be "different" is a prerequisite for successful active management. A portfolio comprising a number of high-conviction managers is one route to achieving superior risk-adjusted returns.

3. Even the most skillful managers will experience periods of underperformance. This can be amplified with high-conviction managers. It follows that past performance is frequently a poor guide to future performance. Care should be taken in appointing or retaining managers following a strong period of performance.

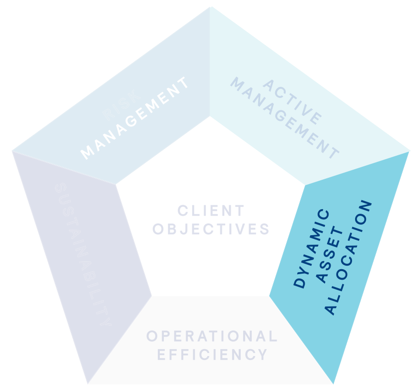
4. An appropriate benchmark or measure should be agreed upon and used to assess the performance of the manager, with an appropriate timeframe commensurate with the nature of the strategy.

5. Asset management organizations are more likely to be successful if:

   - The rewards of portfolio managers are aligned with those of their clients
   - The culture is investment-led and exhibits a high degree of integrity

   Investment management organizations frequently develop, change and mature over time. Large organizations benefit from deeper and broader research, but they may face headwinds, such as not being able to implement investment views in a timely manner.

6. A proportion of what has historically been thought of as "alpha" can be considered to be due to exposure to various risk premia (or style factors). Portfolios should be diversified by risk premia, and equity investors should consider their mix of factor exposures.



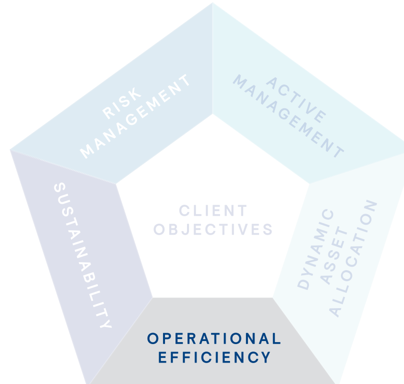
DYNAMIC ASSET ALLOCATION (DAA)

1. DAA can add value. Although strategic asset allocation is critical to the achievement of long-term objectives, a static strategy is unlikely to be able to capture all the available return-seeking/risk-mitigation opportunities.

2. Markets are behavioral in nature, and “animal spirits” can move asset prices away from “fair value” for significant periods of time. Inefficiencies between markets are frequently larger than inefficiencies within markets, so dynamic asset allocation is a valuable tool for improving risk/return outcomes. Irrational behavior in markets creates opportunities for long-term and/or contrarian investors.

3. Many valuation variables in investment markets are mean-reverting in the long run. This can allow long-term investors to obtain better risk/reward outcomes than those with shorter time horizons. The length of time over which some investment views play out means that good investment decisions are often uncomfortable; but being contrarian can add value.

4. Implementing medium-term asset allocation views can add value but can also mitigate downside risk in a portfolio. Success in dynamic asset allocation is more likely within a structured framework. Strong investment governance should improve investment decision-making, particularly in times of crisis.



OPERATIONAL EFFICIENCY

1. High-quality investment operations and investment implementation are critical to realizing successful investment results. Clients should strive for simplicity and focus on what matters. Operational inefficiencies, poor implementation and lapses of internal controls can erode returns and expose investors to unwanted risks and potential losses.

2. Achieving the highest value for money spent has a direct bearing on investment success. Investors should consider both financial costs and nonfinancial elements (such as regulation, governance, reputation, etc.) As to financial costs, the effects of less obvious factors implicit in transacting business (such as spreads and market impact) should be considered alongside those that are directly observable and explicitly agreed upon (such as management charges).

SUSTAINABILITY

1. ESG factors can have a material impact on long-term risk and return outcomes and 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 both the potential financial impacts of the associated transition to a low-carbon economy and the physical impacts of different climate outcomes.

4. Active ownership helps the realization of long-term shareholder value by providing investors with an opportunity to enhance the value of companies and markets.

IMPORTANT NOTES

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