

Climate Statement

Mercer (N.Z.) Limited

For the year ended 31 March 2024



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Statement of Compliance

Mercer (N.Z.) Limited (**'Mercer NZ'**, **'we'**, **'us'** or **'our'**) is a climate reporting entity as defined by section 461O of the Financial Markets Conduct Act 2013 (**'FMCA'**).

As a climate reporting entity we have prepared the following climate-related disclosures for the registered managed investment schemes for which Mercer NZ acts as manager listed on page 8 (**'Mercer Schemes'** or **'Mercer Funds'** as applicable) covering the period between 1 April 2023 and 31 March 2024 as required by section 461ZC of the FMCA.

We confirm that the climate-related disclosures contained within this document comply with the Aotearoa New Zealand Climate Standards (the **'NZ CS'**) issued by the External Reporting Board (**'XRB'**). The climate-related disclosures include all material disclosures in relation to the Mercer Funds.

In preparing the climate-related disclosures for the Mercer Funds we have elected to rely on the following Adoption Provisions:

Table 1.1: Adoption provisions

Adoption Provision 1: Current financial impacts	Provides exemption from disclosure of the current financial impacts of physical and transition impacts during the first reporting period.
Adoption Provision 4: Scope 3 GHG emissions	Provides exemption from disclosure of Scope 3 emissions during the first reporting period. Refer to 'Scope of Emissions' in Appendix D on page 58 for details about Scope 3 emissions of portfolio holdings.
Adoption Provision 5: Comparatives for Scope 3 GHG emissions	Provides exemption from disclosure of comparative information for Scope 3 greenhouse gas ('GHG') emissions information for the immediately preceding two reporting periods.
Adoption Provision 6: Comparatives for metrics	Provides exemption from disclosure of comparative information for each metric disclosed for the immediately preceding two reporting periods.
Adoption Provision 7: Analysis of trends	Provides exemption from disclosing an analysis of the main trends evident from a comparison of each metric from previous reporting periods to the current reporting period.



Paula Jackson
Director, Mercer (N.Z.) Limited
16 July 2024



Ross Butler
Director, Mercer (N.Z.) Limited
16 July 2024

Important notices

'Mercer' is a registered trademark of Mercer (N.Z.) Limited.

Except where expressly stated, this Climate Statement 2024 ('Statement') applies to the Mercer Funds.

Mercer NZ is part of the Mercer global group of companies (Mercer) and is a business of Marsh McLennan. References to Mercer shall be construed to include Mercer LLC and/or its associated companies.

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 regulated financial advice.

Information contained herein has been obtained from a range of third party sources. While the information is believed to be reliable, Mercer has not sought to verify it independently. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential or incidental damages), for any error, omission or inaccuracy in the data supplied by any third party.

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 Product Disclosure Statement for any product you are considering, and seek professional advice from a licensed, or appropriately authorised financial adviser if you are unsure of what action to take.

Risk warnings: The value of your investments can go down as well as up, and you may not get back the amount you have invested. Investments denominated in a foreign currency will fluctuate with the value of the currency. Certain investments carry additional risks that should be considered before making an investment decision.

Reliable data as at 31 March 2024 was not available at the time of finalising this Statement. Accordingly, the position as at 31 December 2023 has been used where indicated. We believe this position is a reliable approximation of the position as at 31 March 2024 for the Mercer Funds. Assets under management for the Mercer Funds are reported in NZ\$, however climate metrics are expressed where relevant in US\$ such as Carbon Footprint and Absolute emissions as per international convention.

Please note that while climate metrics are reported on in this Statement in line with global consensus, there are many factors that can impact progress demonstrated using climate metrics, beyond emissions reduction. One such instance is the growth in company enterprise values, which all else being equal can lead to carbon footprint climate metrics appearing to decrease, while emissions remain constant or increase. We are currently undertaking detailed attribution analysis to better understand the drivers of change in climate metrics to enhance our management of our progress towards our Net Zero Target.

Some of the underlying data has been provided by MSCI which is ©2024 MSCI ESG Research LLC.

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Calculated figures are rebased for representative full coverage. Corporate WACI figures represent Scope 1 and 2 emissions normalised by US\$1M revenue. Sovereign WACI figures represent CO2e Emissions normalised by US\$1M. GDP Proxies are applied where appropriate. Figures are based on best-available data at time of calculation. Calculation methodologies are subject to change based on evolving market standards. Figures may not sum to 100.00 due to rounding.

We note that only Scope 1 and 2 emissions data is included in this Statement, except where noted, and in our regular portfolio monitoring. This means that for some companies, carbon assessments could be considered an understatement. Scope 1, 2 and 3 emissions are as defined by the GHG protocol. To date there has not been sufficient confidence in Scope 3 emissions data, given the high degree of estimation, however, changing disclosure expectations should increase the data quality.

Other than Macquarie Bank Limited (MBL), none of the entities noted in this document are authorised deposit-taking institutions for the purposes of the Banking Act 1959 (Commonwealth of Australia). The obligations of these entities do not represent deposits or other liabilities of MBL. Any investments are subject to investment risk including possible delays in repayment and loss of income and principal invested. MBL does not guarantee or otherwise provide assurance in respect of the obligations of these entities, unless noted otherwise.

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Welcome message

Kia ora,

Climate change and consideration of its investment implications have been referred to in Mercer's global investment beliefs since 2018. We recognise climate change is a systemic risk and that limiting global average temperature increases to well below 2°C¹ is likely to be aligned with the best financial outcome for long-term diversified investors.

In 2021, Mercer NZ established a target to achieve net zero absolute portfolio carbon emissions² by 2050 for all assets under management in New Zealand (**'Net Zero Target'**). Mercer NZ also established an expectation that portfolio carbon emissions would reduce by 45% by 2030, from 2020 baseline levels³. This target relies on some key assumptions outlined in the Metrics and Targets section on page 32.

Our climate-related investment beliefs, policy, target, and action plan are informed by a range of research and analysis.

- Mercer's climate transition framework and Analytics for Climate Transition (**'ACT'**) tool
- Ortec Finance ClimateMAPS research
- Mercer's 2015 and 2019 Investing in a Time of Climate Change reports⁴
- Mercer's 2011 research on climate change and its implications for strategic asset allocation⁵

At Mercer, we continue to evolve our thinking about how we incorporate climate-related risks and opportunities within our investment decision-making processes and across the Mercer Funds, and in the reporting period for the year to 31 March 2024, key activities included:

- Continuing to implement climate-related Governance, including:
 - Review of the Mercer NZ Sustainable Investment Policy⁶ (September 2023) (**'SI Policy'**).
 - Sustainable Investment considerations in broader reviews of governance and committee structures.
- Applying Mercer's latest global Climate Scenario Analysis Tool (**'CAST'**) to a range of Mercer NZ single sector and diversified portfolios to inform our climate and broader investment strategy into 2024.

- Building on our climate Risk Management approach through ongoing and enhanced analysis and engagement across a range of climate risks and opportunities, including fossil fuel reserves, investments in contributors to climate solutions, and emissions monitoring.
- Introducing a range of new climate-related metrics to our ongoing monitoring, such as physical risks metrics (for listed and unlisted assets) and continuing to track progress towards our Net Zero Target and associated climate transition plan (**'Climate Plan'**)⁷.

We're on a journey towards meeting 2030 expectations, while also navigating short-term transition risk volatility, particularly in the current market environment. In future years this Statement will help to keep our stakeholders updated about how our approach and Climate Plan are evolving.

Ultimately, we believe that for true success, all players in the economic ecosystem need to play their part. Collaboration will become more critical. We'll endeavour to engage with industry, regulators, lawmakers, and other bodies in various ways to inform our investment strategies and solutions as we seek to meet both our climate targets and investment objectives.

We hope this Statement gives our investors and stakeholders confidence that we continue to thoughtfully incorporate climate-related financial risk and opportunity considerations into our investment processes and decision-making.

Ngā mihi,



Pdraig Brown
Chief Investment Officer,
Mercer NZ



Sarah Whitelock
Consumer Wealth Leader,
Mercer NZ

If you have any feedback or questions, please contact your Mercer representative or email CRDNZ@mercer.com.

¹ We note that the 2015 Paris Agreement has a core goal to limit global average temperature increase to well below 2° Celsius, while pursuing efforts to limit the increase to 1.5° Celsius.

² Defined as: absolute portfolio carbon emissions per \$M of funds under management (**'FUM'**), Scope 1&2 emissions for the Mercer Investment Trusts New Zealand (**'MITNZ'**) in aggregate. The Mercer KiwiSaver scheme, Mercer FlexiSaver, Mercer Super Trust, New Zealand Defence Force KiwiSaver Scheme and Defence Force Superannuation Scheme invest via the underlying MITNZ. Some of the funds in the Mercer Investment Funds invest via the underlying MITNZ.

³ Per dollar of assets under management.

⁴ <https://www.mercer.com/our-thinking/wealth/sustainable-investment.html>

⁵ <https://iasj.org/wp-content/uploads/Investing-in-a-Time-of-Climate-Change-Mercer.pdf>

⁶ The SI Policy is available on the www.mercerfinancialservices.co.nz and www.mutlimanager.mercer.co.nz websites or at www.disclose-register.companiesoffice.govt.nz (search under "Offers" for name of Scheme).

⁷ As defined in our SI policy.

Introduction

The investment funds within the managed investment schemes for which Mercer NZ acts as Manager are listed on the next page ('Mercer Schemes' or 'Mercer Funds' as applicable).

This is our first Climate Statement, issued under the Financial Markets Conduct Act 2013 as amended by the Financial Sector (Climate-disclosure and Other Matters) Amendment Act 2021.

This Statement explains to current and prospective investors how Mercer NZ seeks to manage climate-related risks and consider climate-related opportunities for the Mercer Funds.

Why does climate change matter to investors?

The Principles for Responsible Investment ('the PRI') is a United Nations-supported network and the world's leading proponent of responsible investment. The PRI provides the following introduction to climate change in the investor context:



Climate change will have significant physical and economic impacts on many different aspects of human activity, as identified by bodies including the Intergovernmental Panel on Climate Change ('IPCC')⁸, the IMF⁹ and the Bank of England¹⁰. Climate change is a systemic issue which affects all asset types and sectors. As such, it will impact the portfolio returns, asset valuations and asset allocation processes of asset owners with diversified, global portfolios. It will provide new investment opportunities [...] Climate change also introduces new risk.



More information on the relevance of climate change, why it matters to investors, the science, and how asset owners can approach climate change, can be found on the PRI website¹¹ and their introductory guide to climate change for asset owners. Climate reporting relating to Mercer's corporate operations is captured within Marsh McLennan's global sustainability reporting, available online¹².



⁸ <https://www.ipcc.ch/>

⁹ <https://www.imf.org/en/Publications/WP/Issues/2019/10/11/Long-Term-Macroeconomic-Effects-of-Climate-Change-A-Cross-Country-Analysis-48691>

¹⁰ <https://www.bankofengland.co.uk/-/media/boe/files/speech/2015/breaking-the-tragedy-of-the-horizon-climate-change-and-financial-stability.pdf>

¹¹ <https://www.unpri.org/introductory-guides-to-responsible-investment/an-introduction-to-responsible-investment-climate-change-for-asset-owners/5981.article>

¹² The report can be accessed via <https://www.marshmcclennan.com/about/esg-2023.html>

Mercer Funds covered by this Statement

You will find specific fund metrics in Appendix E from page 64.

Table 2.1: Mercer Funds covered by this Statement¹³

Scheme Name	Mercer FlexiSaver	Mercer Super Trust	Mercer KiwiSaver scheme	New Zealand Defence Force KiwiSaver Scheme	Defence Force Superannuation Scheme	Mercer Investment Funds
Fund Name	Mercer Cash	Mercer Cash	Cash	Cash	Cash	Mercer Macquarie NZ Cash Fund
	Mercer Conservative	Mercer Conservative	Sustainable Conservative	Conservative	Conservative	Mercer Macquarie NZ Fixed Interest Fund
	Mercer Moderate	Mercer Moderate	Sustainable Plus Moderate	Moderate	Moderate	Mercer Macquarie NZ Short Duration Fund
	Mercer Balanced	Mercer Balanced	Sustainable Plus Balanced	Balanced	Balanced	Mercer Macquarie Global Income Opportunities Fund
	Mercer Growth	Mercer Growth	Sustainable Plus Growth	Growth	Growth	Mercer Ethical Leaders Conservative Fund ¹⁴
	Mercer High Growth	Mercer High Growth	Sustainable Plus High Growth	High Growth	High Growth	Mercer Income Generator Fund
	Mercer Shares	Mercer Shares	Sustainable Plus Shares	Shares	Shares	Mercer Ethical Leaders Balanced Fund
						Mercer Ethical Leaders Growth Fund ¹⁴
						Mercer Macquarie Real Return Opportunities Fund
						Mercer Global Shares Fund
						Mercer Core Global Shares Fund
						Mercer Core Hedged Global Shares Fund
						Mercer Emerging Markets Shares Fund
						Mercer Ethical Leaders Global Shares Fund
						Mercer NZ Shares Fund ¹⁵
						Mercer Macquarie Australian Shares Fund
						Mercer Ethical Leaders NZ Shares Fund
						Mercer NZ Shares Passive Fund
						Mercer Ethical Leaders Hedged Global Fixed Interest Index Fund
						Mercer All Country Global Shares Index Fund
						Mercer Australian Property Index Fund
						Mercer Macquarie Global Listed Real Estate Fund
						Mercer Macquarie Global Listed Infrastructure Fund

The relevant Scheme's Product Disclosure Statement will provide you with information on the relevant Mercer Fund. These are available on the Disclose Register¹⁶.

¹³ The New Zealand Defence Force FlexiSaver Scheme is not a separate managed investment scheme, but a section within Mercer FlexiSaver. In this Statement, information for the funds within the New Zealand Defence Force FlexiSaver Scheme is reflected in the Mercer FlexiSaver funds.

¹⁴ The Mercer Ethical Leaders Conservative Fund and Mercer Ethical Leaders Growth Fund were closed to new investors on 11 June 2024.

¹⁵ The Mercer NZ Shares Fund was disestablished on 30 May 2024.

¹⁶ The Disclose register can be accessed here: www.disclose-register.companiesoffice.govt.nz (search under "Offers" for name of Scheme)

Mercer NZ as the Manager of the Mercer Schemes is responsible for the Mercer Funds' design and implementation. This includes the investment objectives and allocations to different investment manager strategies and monitoring those strategies against objectives within various market contexts, as well as reporting. Our local investment team draws on Mercer's global investment research, financial tools, and advice. Mercer NZ does not directly select securities – we appoint and rely on external investment managers to invest on our behalf. Mercer NZ may also rely on third-party Environmental, Social and Governance ('ESG') research providers and their methodologies to implement our approach to climate change, for example, by providing carbon emissions data on portfolio companies.

Sustainable and Ethically labelled Funds

Mercer NZ is responsible for a range of sustainable and ethically-labelled funds (identified as such in their relevant offer documentation). These funds incorporate additional criteria into their investment processes. The SI Policy provides specific details, but examples of features these funds may include are:

- Seeking to appoint investment managers with higher ESG integration capabilities or who actively seek a higher proportion of investments linked to sustainability themes, to manage parts of the portfolio (both 'higher' judgements as compared to relevant strategies in the Mercer manager research universe and views of Mercer's manager research and portfolio management teams).
- Seeking to achieve a carbon intensity that is below the Weighted Average Carbon Intensity ('WACI') of the fund's benchmark by a given percentage, measured at least annually. WACI is the measure of portfolio exposure to companies' carbon emissions, measured by emissions (tCO₂e) per \$M revenue¹⁷.
- Seeking to avoid or reduce exposure to certain companies or securities that meet specific exclusions criteria, such as, companies that own proved or probable reserves in coal, oil, or gas; and derive in excess of 15% of their revenue from exploration and extraction of coal, oil or gas (as further defined in the SI Policy). The full explanation of our exclusion criteria and processes are set out in our SI Policy.

Our guiding framework

We aim to make our approach and disclosure consistent with the NZ CS framework developed by the XRB. Based on the XRB analysis¹⁸, we consider there is a high degree of interoperability between NZ CS and the Task Force on Climate Related Disclosures ('TCFD') recommendations and the International Sustainability Standards Board ('ISSB') standards. Therefore, we have approached this Statement in a similar way to which Mercer globally approaches TCFD.

Climate-related Disclosure ('CRD') reporting is categorised into four key areas – governance, strategy, risk management, and metrics and targets.

Figure 2.2: CRD Reporting Framework



Governance

The organisation's governance around climate-related risks and opportunities

Strategy

The actual and potential impacts of climate-related risks and opportunities on the organisation's business, strategy, and financial planning

Risk Management

The processes used by the organisation to identify, assess, and manage climate-related risks

Metrics and Targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities

¹⁷ Gross revenue in the last full financial year is used, or where not available, net revenue based on available company filings.

¹⁸ Publication XRB position statement: International alignment of climate reporting <https://www.xrb.govt.nz/dmsdocument/5035>

Governance

Mercer NZ has a sustainable investment governance structure with responsibilities allocated at Board and Management levels with inputs and oversight by Mercer global investment leadership and integration responsibilities across the organisation. The below figures outline Mercer NZ's governance and structure and also those governance structures relevant to sustainable investment and climate.

Figure 3.1

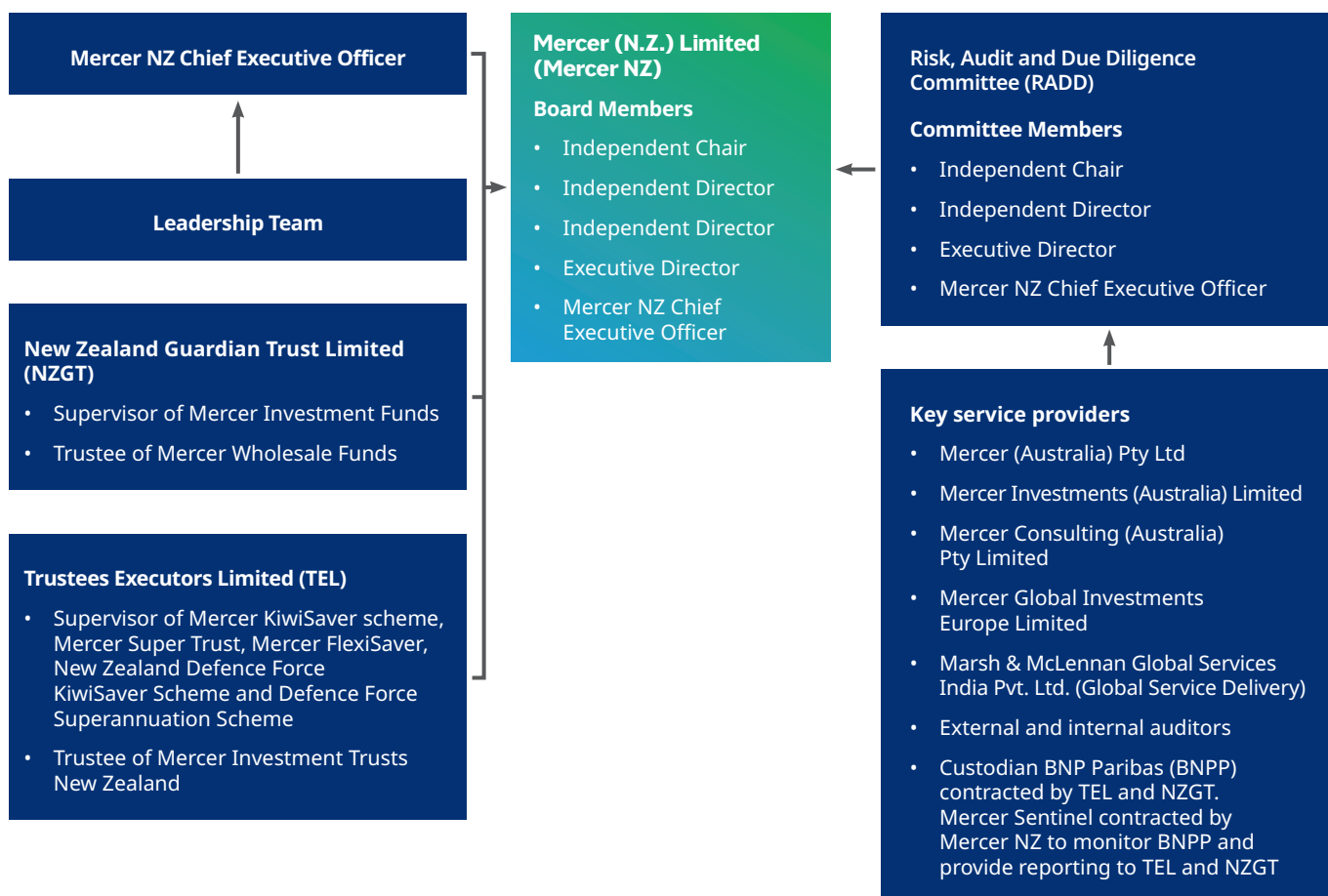
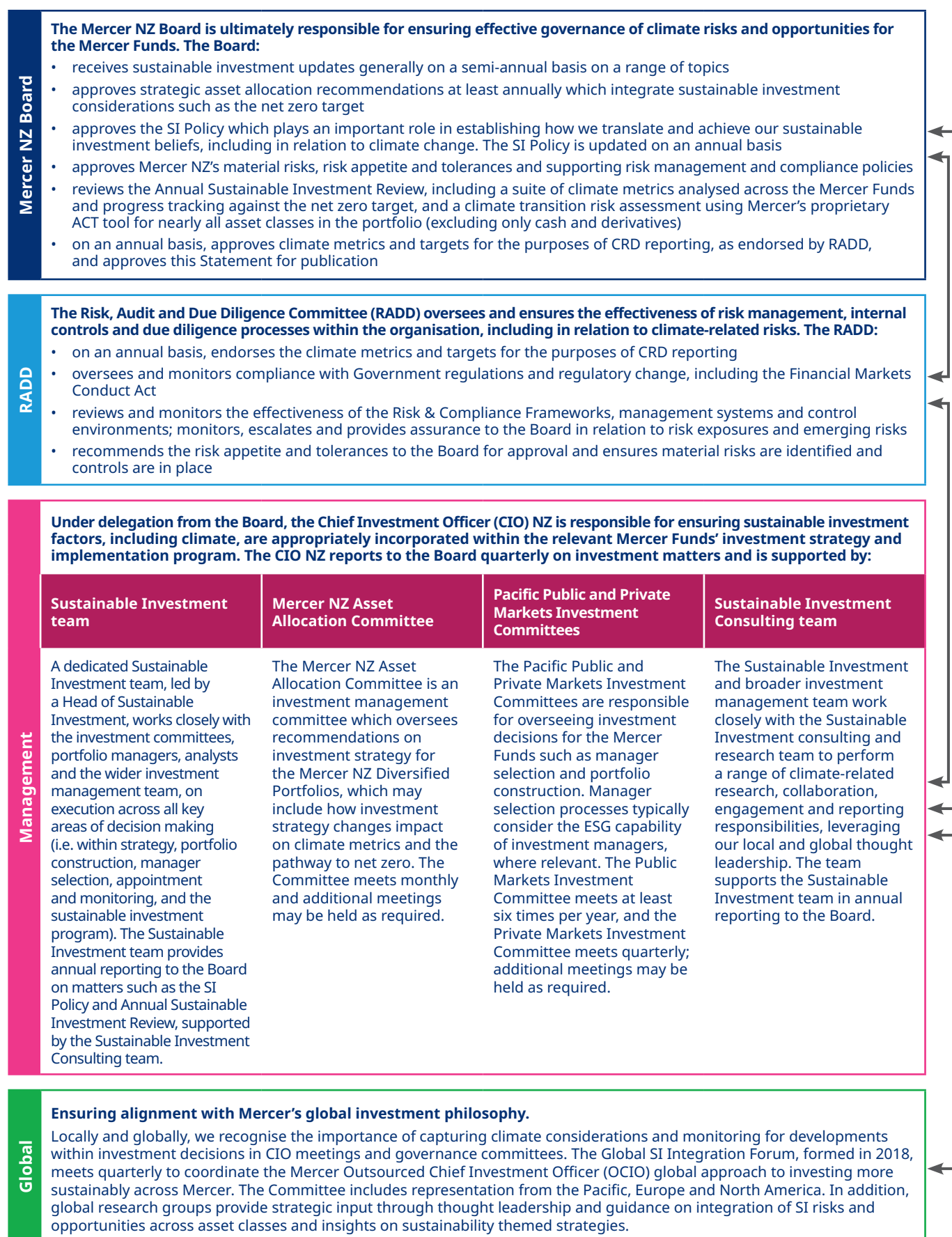


Figure 3.2



Mercer NZ Board

The Mercer NZ Board plays an integral role in guiding and overseeing the operations and strategy of the Mercer Funds and is ultimately responsible for ensuring effective governance of climate risks and opportunities for the Mercer Funds.

Comprised of five directors, three of whom are independent, non-executive directors (including the Chair), the Board brings together a diverse range of skills, experience and knowledge to ensure effective decision-making and governance. The Board maintains a Board Skills Matrix to assess and document the collective skills, experience, and knowledge of Board members and ensure collectively it has the necessary skills and expertise to fulfil its responsibilities.

The Mercer NZ Board is informed on climate-related risks and opportunities and how these may influence decisions in relation to risk management, strategy setting, implementation, and monitoring. Updates are provided by the Sustainable Investment team through a formal board paper and presentation at the board meeting.

Climate-related performance metrics are not incorporated into remuneration policies.

The Risk, Audit and Due Diligence Committee ('**RADD**') is a subcommittee of the Board and is chaired by one of its independent, non-executive directors. RADD is delegated with the responsibility of providing oversight and assurance to the Board regarding risk management, compliance and relevant governance within Mercer NZ, including in relation to ESG and climate-related matters. RADD reports to the Board on a quarterly basis.

Management

The NZ Chief Investment Officer ('**NZ CIO**') is responsible for ensuring climate change is appropriately incorporated within the Mercer Funds' investment strategy and implementation program. The NZ CIO is actively supported by the portfolio management team and a dedicated Sustainable Investment team, led by a Head of Sustainable Investment, in execution on an ongoing basis across all key areas of decision making, including strategy, portfolio construction, manager selection and monitoring, and the sustainable investment program. The Portfolio Management and Sustainable Investment teams also work closely with the Sustainable Investment consulting team and research team, leveraging local and global thought leadership.

Management-level investment committees provide governance and oversight of decision-making, ensuring investment decisions incorporate ESG factors where relevant. The Mercer New Zealand Asset Allocation Committee oversees recommendations on investment strategy for the Mercer NZ Diversified Portfolios, including how investment strategy changes may impact on climate metrics and the pathway to net zero. The Pacific Public and Private Markets Investment Committees are responsible for overseeing investment decisions for single-sector Mercer portfolios in the MITNZ, such as manager selection, portfolio construction and new fund proposals. Manager selection typically considers the ESG capability of investment managers, where relevant.

The NZ CIO reports on a quarterly basis to the Board on investment matters. The Sustainable Investment team and Sustainable Investment Consulting team also provide annual reporting to the Board including in relation to the Annual Sustainable Investment Review and the annual review of the SI Policy.

Global

The NZ CIO and investment management team are also supported by global CIO and Sustainable Investment teams and governance forums which ensures climate change considerations are considered within investment decisions, for example, the Global Sustainable Investment Integration Forum.

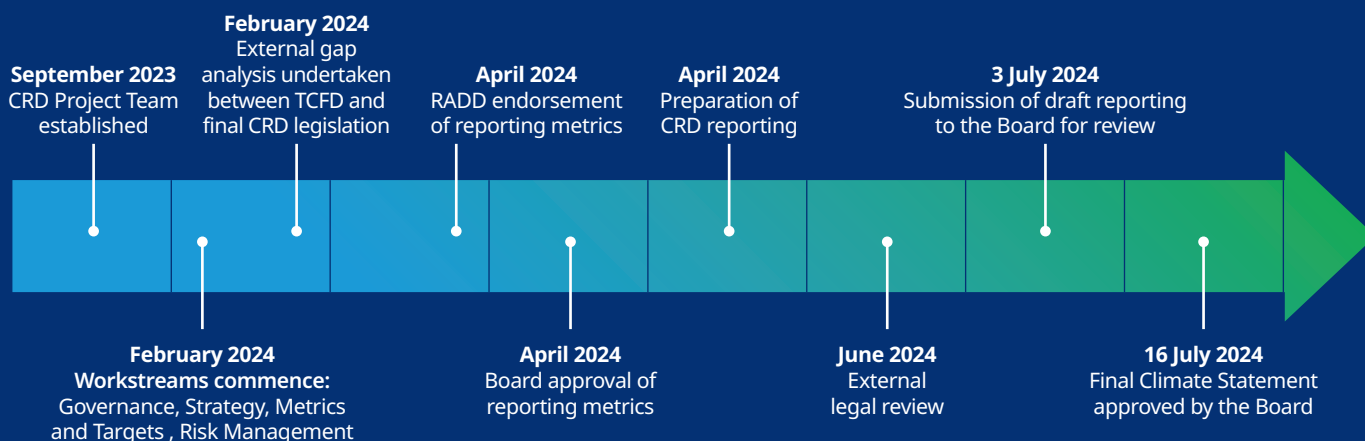
New Zealand Defence Force Savings Schemes funds

In relation to the New Zealand Defence Force KiwiSaver Scheme, the New Zealand Defence Force FlexiSaver Scheme (which is not a separate managed investment scheme, but a section within Mercer FlexiSaver) and Defence Force Superannuation Scheme, the Chief of Defence Force has various consultation, approval and other rights (but is not a governing body or management in relation to this Statement).

Governance for this Statement

This Statement has been prepared by a dedicated CRD project team, in accordance with a CRD Project Charter and with oversight by RADD and the Board. The CRD project team has generally met fortnightly for the production of this first Statement. The project team consisted of the Executive Project Sponsors and work streams focusing on Governance, Risk Management, Strategy, Metrics and Targets and was supported by colleagues across the business.

The Statement Process



Strategy

Our belief that investors should consider the potential financial impacts of both the associated transition to net zero and the physical impacts of different climate outcomes informs our strategic response.

As we are the manager of the Mercer Schemes and make investment decisions on behalf of our members and investors, our role in understanding and assessing the impacts of climate change on our investment portfolios, and how these may emerge over the investment horizon, is critical in determining how these are addressed in our investment strategies.

We use a top-down and bottom-up approach:

- **Top-down:** primarily informed by climate scenario analysis.
- **Bottom-up:** primarily informed by transition assessment tool and physical risk assessment.

Sustainable Investment Policy

Mercer's global investment belief on sustainability establishes that climate change poses a systemic risk. Financial impacts are driven by two key sources of change:

1. The physical risks expected from an increase in average global temperatures.
2. The associated transition to net zero.

Both these changes provide potential risks and opportunities for investors. We therefore consider the potential financial impacts at a diversified portfolio level, as well as in portfolio construction within relevant asset classes (for example, excluding cash) and in certain investment manager selection and monitoring processes.

The SI Policy plays an important role in establishing how we translate and achieve our sustainable investment beliefs. Consistent with Mercer NZ's Net Zero Target¹⁹, the SI Policy includes a dedicated section on climate change that outlines a summary of the Climate Plan, which is provided in detail in this Statement.

Mercer NZ's Climate Plan broadly aims for:

- An approach to decarbonisation that is broadly aligned with the well below 2°C commitment within the Paris Agreement²⁰, but also accounting for the transition in the real economy and understanding the different transition capacities by asset class, given liquidity and sector exposures.
- A reduction in atmospheric carbon emissions, not just portfolio carbon emissions intensity, measured by absolute emissions per \$M invested (typically referred to as a '**carbon footprint**').

Integrating climate change considerations into investment processes is one of the key techniques we use to implement ESG considerations into the Mercer Funds.

We have three key implementation approaches where relevant and consistent with stated investment objectives.

Table 4.1: The Three Pillars of our Approach

	Integration Incorporating climate metrics into investment management processes to help inform strategic asset allocation modelling, strategy allocations within asset classes and monitoring.
	Active ownership²¹ Engaging on climate-related topics e.g. high emitting companies and their decarbonisation targets and implementation plans, primarily via our appointed investment managers and through participation in collaborative initiatives. Engagement is preferred over an exclusions approach as we expect this has a greater probability of supporting real world emissions reductions, not just portfolio reductions.
	Sustainability themed investment Including exposure to investment managers that identify longer-term environmental and social themes and seek to invest in companies that are delivering solutions to environmental and social challenges.

We may also use exclusions as an implementation tool for direct holdings although our overarching preference is for engagement rather than exclusion.

Ultimately, our SI Policy describes how we manage climate change considerations across the investment business and sets out our responsibilities.

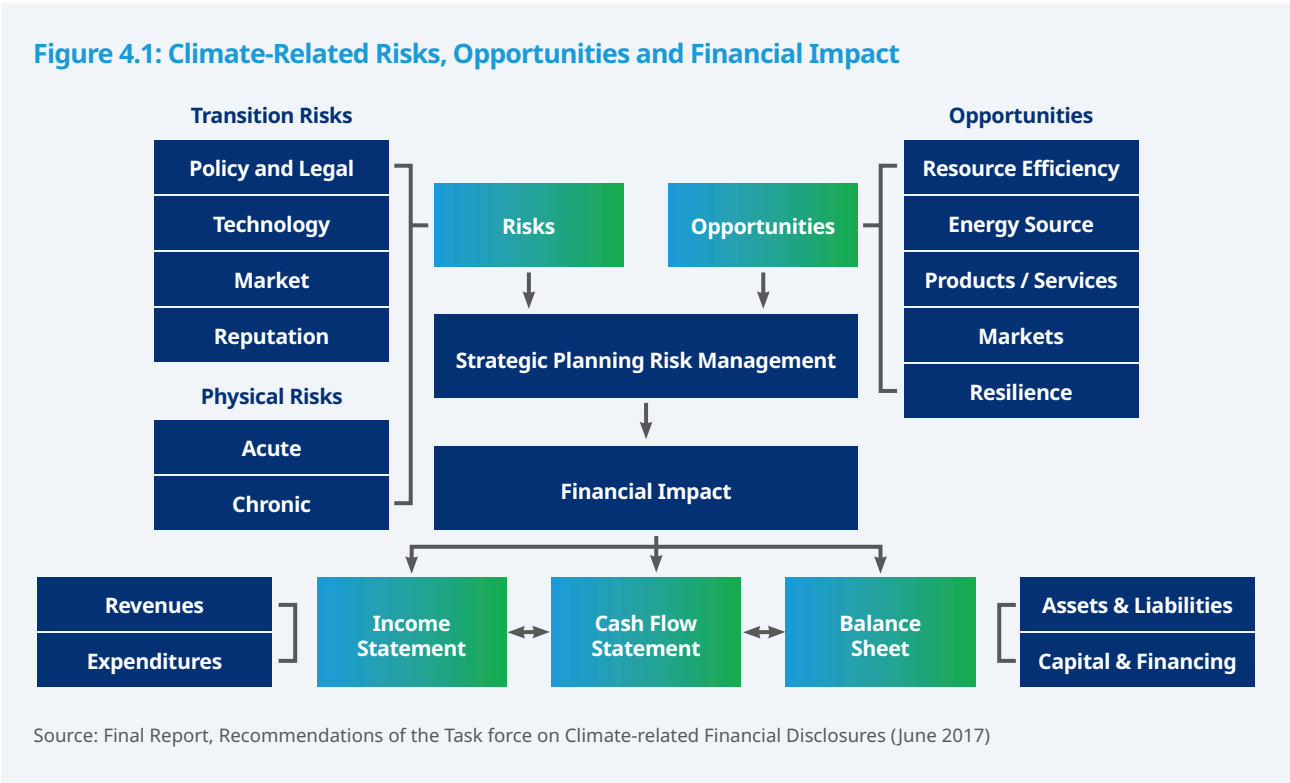
¹⁹ Information on Mercer NZ's Net Zero Target is available in the Metrics and targets section of this Statement on page 32 and in Appendix C: Net Zero Target on page 56.

²⁰ We note that the 2015 Paris Agreement has a core goal to limit global temperature increase to well below 2° Celsius above pre-industrial levels, while pursuing efforts to limit the increase to 1.5°.

²¹ Active ownership (sometimes termed "**stewardship**") is an umbrella term for a wide range of activities. In the context of our climate-related activities covered in this Statement, we primarily mean our engagement with appointed investment managers and collaborative company engagement, as described above. Our voting model outsources voting to appointed investment managers, and we expect investment managers to vote in a manner deemed most likely to protect and enhance long-term value.

Current climate-related impacts

Mercer NZ recognises that the risks and opportunities arising from climate change are diverse and continuously evolving. This is demonstrated well in the below Figure which was taken from the Final Report issued by the TCFD. Further information on this is found in Appendix A on page 50.



Climate change presents risks and opportunities over the short, medium, and long term, which we aim to better understand and mitigate where possible.



Short term (5 years)

Over the short term, risks and opportunities may present themselves through rapid market re-pricing relating to climate transition. These include but are not limited to:

- **Scenario pathways become clearer.** For example, it becomes increasingly likely that a sub-2°C scenario occurs which drives greater transition risk.
- **Market awareness grows.** For example, the implications of the physical impacts of climate change become clearer to markets and are reflected in asset valuations.
- **Policy changes unexpectedly surprise markets.** For example, if a carbon price or a significant regulatory requirement is introduced across key markets to which the portfolio is exposed, at a sufficiently high price to impact behaviour.
- There is perceived or real increased pricing of greenhouse gas emissions/carbon.
- There is a substitution of existing products and services with lower emission alternatives.
- Litigation risk relating to dangerous warming becomes more prevalent.
- There are increases in the energy/heat efficiency of buildings and infrastructure.

The ability of Mercer NZ to consider these short-term changes can position the Mercer Funds favourably, for example aligning investments to the climate transition by avoiding and reducing investment (through both tilting and exclusions) in high-emitting carbon sensitive businesses that do not have a business plan that supports the transition to a low carbon economy.

Medium term (10 years)

Over the medium term, risks and opportunities associated with the transition to a low carbon economy are still likely to dominate relative to the physical impacts of climate change. These include but are not limited to:

- The development of technology and low carbon solutions.
- Policy and regulation are also likely to play a key role at the international, national, and regional level.
- Technology and policy changes are likely to produce leaders and laggards both between and within sectors.
- Advancement of the transition is likely to crystallise stranded asset²² risks over the medium term.

The ability of investment managers to understand these changes may position funds favourably, for example by increasing investments in new emerging technologies. Mercer NZ will aim to select managers and indices that can identify potential emergence of low carbon opportunities and the decline of some traditional sectors.

Long term (40 years)

Over the long term, physical risks are expected to come to the fore. This includes but is not limited to:

- Where the impact of natural catastrophes leads to physical damages through extreme weather events.
- Availability of resources is expected to become more important if changes in weather patterns (e.g. temperature or precipitation) affect the availability of natural resources such as water.

Mercer NZ and investment managers' ability to understand these changes may position funds favourably in the future, for example increasing investments in infrastructure projects that display a high level of climate resilience. A changing climate may directly impact the viability of some assets or business models (for example, flood risk for real estate and the availability and cost of insurance).

Please see Appendix A on page 53 for more on the limitations in modelling systemic physical risks, particularly over the longer term, and our understanding that physical risks are likely to be underestimated in our current modelling.



²² Stranded assets are "assets that have suffered from unanticipated or premature write-downs, devaluations or conversion to liabilities". Climate change is expected to cause a significant increase in stranded assets for carbon-intensive industries and investors, with a potential ripple effect throughout the world economy.



Impact of climate-related risks and opportunities

Mercer NZ acknowledges the wider social and economic risks posed by climate change and that for Mercer NZ the greatest expected impact to the Mercer Funds is the potential impact on achieving investment objectives. Members' and investors' outcomes rely on investment returns, which are directly related to the value of the underlying assets. The value of these underlying assets are increasingly expected to be impacted by climate-related risks and opportunities and the aim is therefore to position portfolios to mitigate risks and maximise opportunities where possible.

The strategic asset allocation of the multi-asset funds is diversified across asset classes, sectors and geographies, and the single sector funds are diversified across sectors and, where applicable, geographies. Diversification is expected to be beneficial to some extent, however, we recognise that climate-related risks are systemic and cannot be addressed solely through diversification. Therefore, we expect that assessing and prioritising the most likely portfolio contributions to climate-related risk and opportunity, alongside other traditional investment considerations, and adopting a variety of active ownership strategies are where actions are best directed. For example, there are asset classes such as global listed infrastructure and emerging market equity that may have high emissions contributions but are also expected to enhance risk-adjusted returns in various ways for example, through additional diversification benefits and inflation protection.

Addressing future risks and opportunities

Mercer NZ seeks to consider:

- the potential climate-related impact on the most popular arrangements²³, including a range of strategic asset allocations.
- mechanisms other than investment strategy, for example active ownership, as detailed in the Risk Management section on page 30.
- investment manager expectations and how they can best support and implement opportunities to reduce climate-related risks exposure and maximise opportunities over various time periods.

²³ Popular arrangements refers to funds with the largest funds under management or number of members. For Mercer NZ, this is considered at the MITNZ level.

Analysis of the Mercer Funds climate-related risks and opportunities

We have looked at the potential impacts on, and resilience of, the Mercer Funds to climate-related risks and opportunities, taking into consideration different climate related scenarios.

Climate scenario analysis

The chosen scenarios can help Mercer NZ as a manager better understand the likely resilience of each Mercer Fund's investment strategy to different potential warming pathways covering eventual temperature increases over different timeframes.

Climate change scenario analysis has been undertaken based on the strategic asset allocation of the respective fund arrangements (as at 31 March 2024) to assess the potential implications under three different scenarios: **Rapid Transition**, **Orderly Transition** and **Failed Transition** (further details are below).

Mercer partnered with Ortec Finance and Cambridge Econometrics to develop climate scenarios that are grounded in the latest climate and economic research and give practical insights for investors. The scenarios are constructed to explore a range of plausible futures over periods up to 40 years, rather than exploring tail risks.

In shorter timeframes, transition risk tends to dominate while over longer timeframes physical risk will be the key driver of climate impacts. A key strength of our scenarios is that they allow for climate impacts to be "priced-in" before they happen. This reflects likely market dynamics and means climate impacts are more likely to fit within investment timeframes.

Our analysis uses the following three core (hypothetical) scenarios:

A Rapid Transition – Average temperature increase of 1.5°C by 2100. Sudden divestments across multiple securities in 2025 to align portfolios to the Paris Agreement goals, which have disruptive effects on financial markets with sudden repricing followed by stranded assets and a sentiment shock. Following this shock, there is a partial recovery.

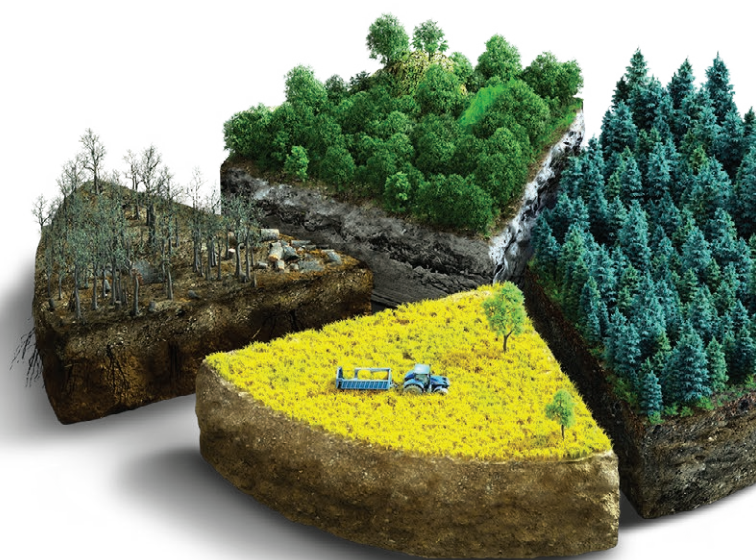
An Orderly Transition – Average temperature increase of less than 2°C (modelled on 1.8°C) by 2100. Political and social organisations acting quickly and predictably to implement the recommendations of the Paris Agreement to limit global warming to well below 2°C. Transition impacts occurring but are relatively muted across the broad market.

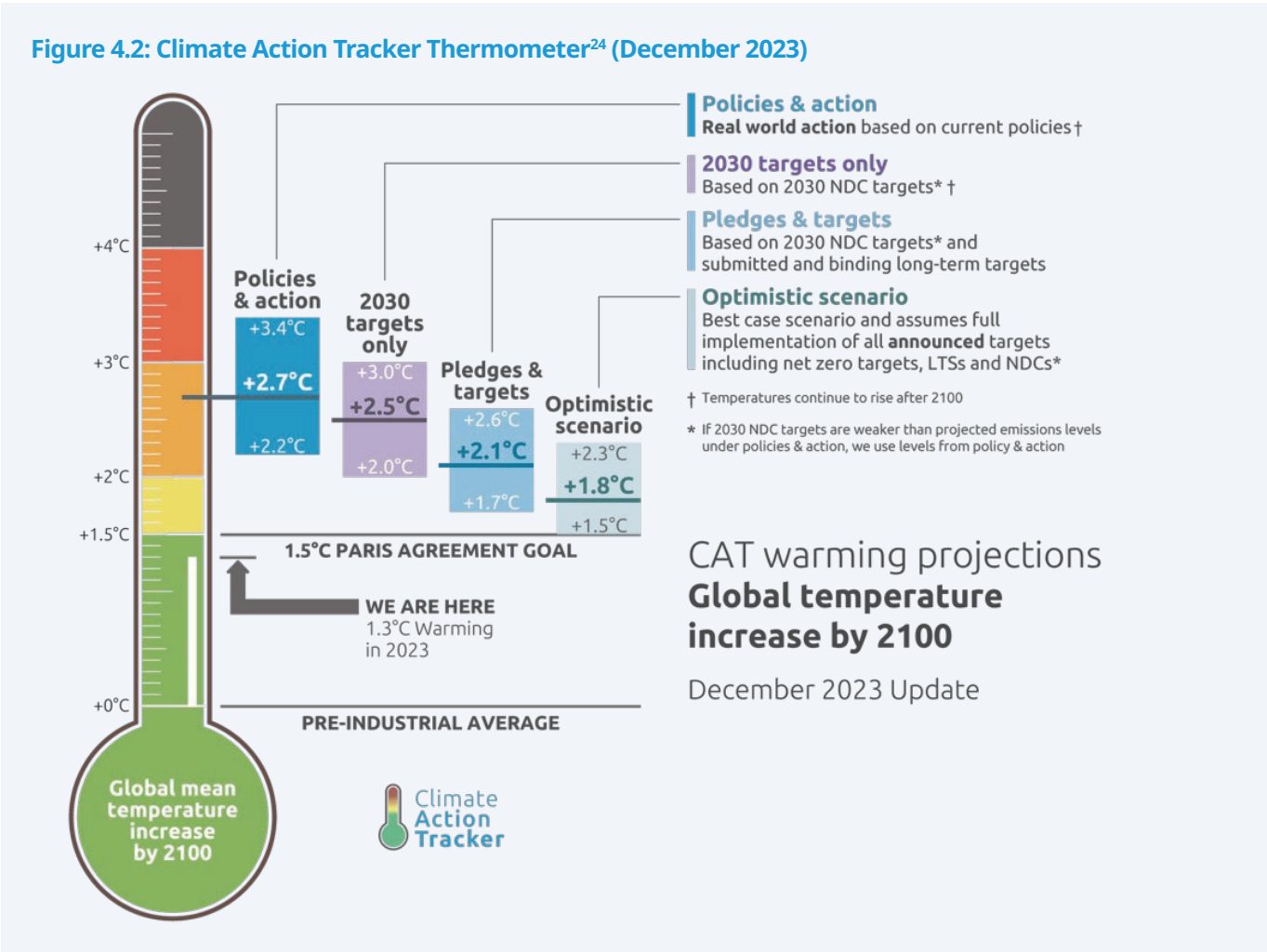
A Failed Transition – Average temperature increase above 4°C (modelled on 4.3°C) by 2100. The world fails to coordinate a transition to net zero and global warming exceeds 4°C above pre-industrial levels by 2100. Physical climate impacts cause large reductions in economic productivity and increasing impacts from extreme weather events, reflected in repricing events in the late 2020s and late 2030s.

These scenarios are compared against a baseline, which reflects Mercer's capital market assumptions plus a weighted combination of the three climate scenarios. The weighting is Mercer's view on which scenarios markets are currently anticipating and pricing in (Appendix A on page 52 contains more information about this including the underlying assumptions used for the Climate Scenario Analysis).

While every investor has a particular timeframe, the selected scenario modelling illustrates potential impacts over a 40-year period and includes the ability to review shorter periods, e.g. 5 and 10 years. We expect the modelling to be most beneficial when it reflects investor-relevant time periods and the longer outlook.

The Climate Action Tracker Thermometer, in Figure 4.2 on the next page, shows "median" warming temperature estimates by 2100. For example, as at December 2023, there is a 50% chance that temperature increases (relative to the pre-industrial average) will exceed 2.0°C based on current pledges and targets. We have shown how the colour coded scenarios listed above relate to the temperatures on the thermometer.





²⁴ <https://climateactiontracker.org/global/cat-thermometer>



Summary of scenario analysis results for selected Mercer funds

For the purpose of this Statement, we carried out climate change scenario analysis on the strategic asset allocation ('SAA') for each Mercer Fund (this includes single sector and diversified portfolios) and to illustrate potential implications under the three different scenarios outlined above. We selected the Mercer Balanced fund²⁵, the Sustainable Conservative fund²⁶ and the Sustainable Plus Balanced fund²⁷ in order to represent and comment on the results in this part of the Statement. These funds are the largest by funds under management, representing one third of the total assets reported in this Statement and cover a mix of distinct asset allocations. Due to the long-term nature of the climate change scenario analysis, we assessed the impact of climate scenarios against our SAA implemented as at 31 March 2024 given the time horizons, rather than including the shorter-term dynamic asset allocation ('DAA') overlay and rather than actual fund holding data. Details for the Climate Scenario Model used by Mercer NZ can be found in Appendix A on page 50 and details for the Climate Scenario Analysis for all of the Mercer Funds can be found in Appendix E from page 64.

Outputs shown in the table below illustrate the 5, 10, 30 and 40-year projection across each scenario for the additional climate impact on returns expected annually, relative to the baseline²⁸.

Please see Appendix E from page 64 for the climate impact for each Mercer Fund. Our Climate Scenario analysis provides projection over four timeframes which includes a 30-year projection in addition to the 5, 10 and 40 year timeframes.

Table 4.2: Projected climate impacts on returns

Scenario and timeframe	Mercer Balanced			Sustainable Conservative			Sustainable Plus Balanced		
	Annualised Returns (%)	Cumulative returns (%)		Annualised Returns (%)	Cumulative returns (%)		Annualised Returns (%)	Cumulative returns (%)	
	Expected Return (Baseline)	Climate Impact		Expected Return (Baseline)	Climate Impact		Expected Return (Baseline)	Climate Impact	
Rapid Transition									
Impact at 5 years	7.4%	-1.0%	-4.7%	5.5%	-0.4%	-1.8%	7.3%	-0.8%	-3.7%
Impact at 10 years	7.6%	-0.5%	-4.9%	5.7%	-0.2%	-1.5%	7.5%	-0.4%	-3.7%
Impact at 30 years	7.9%	-0.1%	-2.0%	6.1%	0.0%	0.5%	7.8%	0.0%	-0.7%
Impact at 40 years	7.3%	0.0%	-0.5%	5.4%	-0.1%	1.1%	7.2%	0.0%	1.0%
Orderly Transition									
Impact at 5 years	7.4%	-0.3%	-1.5%	5.5%	-0.1%	-0.5%	7.3%	-0.3%	-1.4%
Impact at 10 years	7.6%	-0.1%	-1.1%	5.7%	0.0%	0.0%	7.5%	-0.1%	-0.9%
Impact at 30 years	7.9%	-0.1%	-2.0%	6.1%	0.0%	0.2%	7.8%	-0.1%	-1.6%
Impact at 40 years	7.3%	-0.1%	-4.6%	5.4%	-0.1%	-1.9%	7.2%	-0.1%	-4.2%
Failed Transition									
Impact at 5 years	7.4%	0.2%	0.7%	5.5%	0.0%	0.2%	7.3%	0.1%	0.5%
Impact at 10 years	7.6%	-0.2%	-1.9%	5.7%	-0.1%	-1.0%	7.5%	-0.2%	-2.2%
Impact at 30 years	7.9%	-0.8%	-20.1%	6.1%	-0.3%	-9.1%	7.8%	-0.8%	-20.4%
Impact at 40 years	7.3%	-0.8%	-26.0%	5.4%	-0.4%	-12.5%	7.2%	-0.8%	-26.4%

While the impacts on returns are generally muted on an annualised basis, we believe they are quite significant on a longer-term cumulative basis.

²⁵ For the purpose of this part of the Statement, Mercer Balanced fund covers both the Mercer Balanced fund in the Mercer Super Trust and the Mercer Balanced fund in Mercer FlexiSaver

²⁶ Sustainable Conservative fund in the Mercer KiwiSaver scheme

²⁷ Sustainable Plus Balanced fund in the Mercer KiwiSaver scheme

²⁸ At a market level transition risks are reasonably priced in; however longer-term physical risks are more likely to be mispriced. Transition risks remain at sector level and at the market level due to the potential for more extreme transition scenarios to occur. We express this view by modelling scenarios relative to a climate aware baseline.

Table 4.3: Projected climate impacts on returns in the long-term

Time Horizon	Diversified Fund
Short-term (5 years)	Transition risk dominates, with the Rapid Transition having the biggest impact over a 5-year period, with this timeframe muted for the Orderly and Failed Transition scenarios.
Medium-term (10 years)	Over the medium term, physical risks and transition risks have material negative impacts on returns in the Failed Transition scenario, which do not eventuate in the Rapid and Orderly Transitions.
Long-term (40 years)	Over the long term, physical risks continue to drive meaningful annual drags on return, which do not eventuate in a Rapid or Orderly Transition scenario. We also know physical risks modelling cannot capture the full systemic impacts that may emerge. This is why adaptation, together with transition, are expected to be considerations in the sustainability-themed allocations as discussed earlier in the Strategy section.

Within asset classes, sector exposures are important and can have meaningfully divergent results under different climate scenarios.

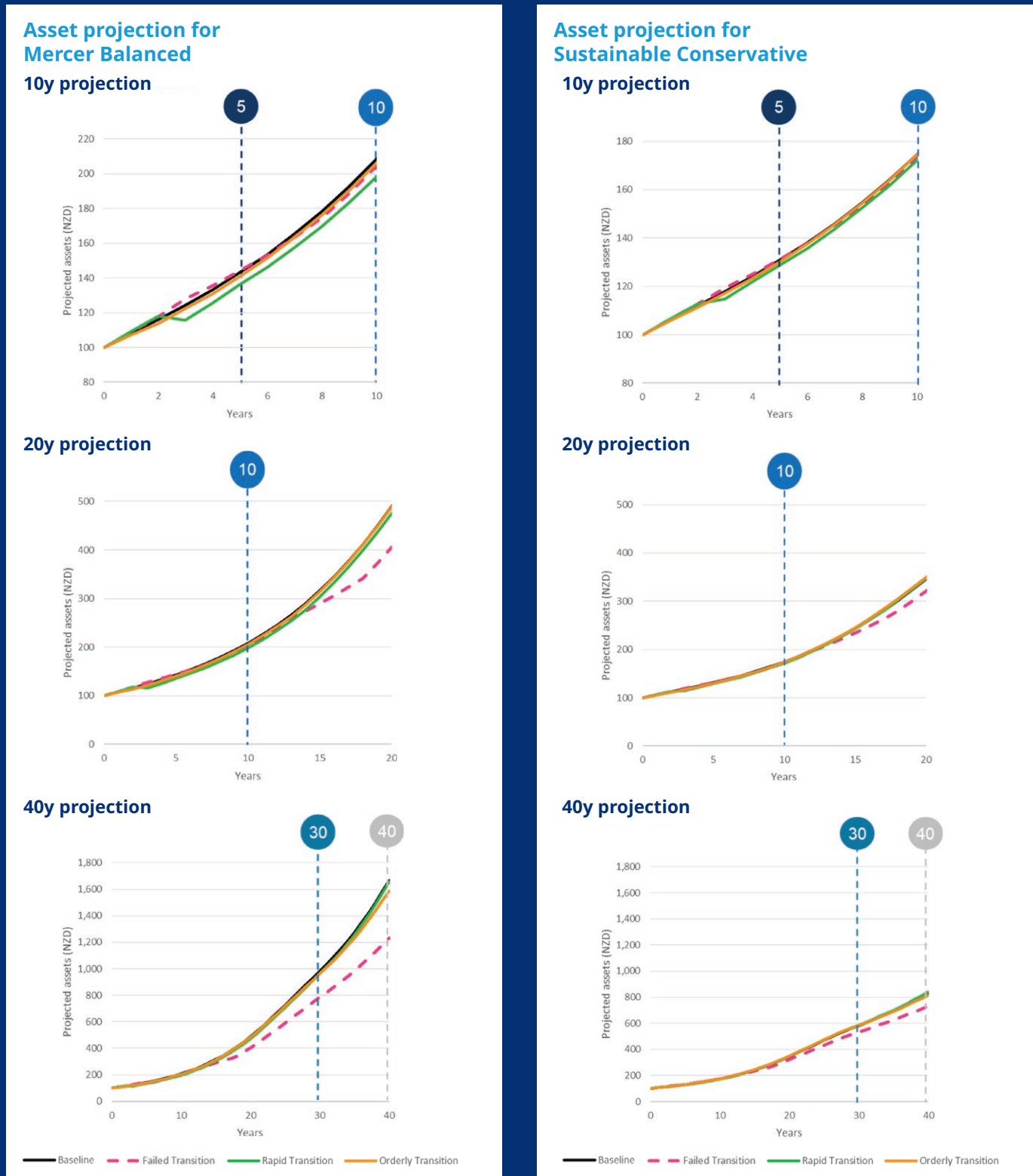


Climate return impacts

Overall, lower warming scenarios, ideally achieved through an orderly transition, are in the best interest of the strategies. However, short-term transition risks are linked with the rapid (disorderly) transition associated with limiting warming to 1.5°C, largely due to policy drivers.

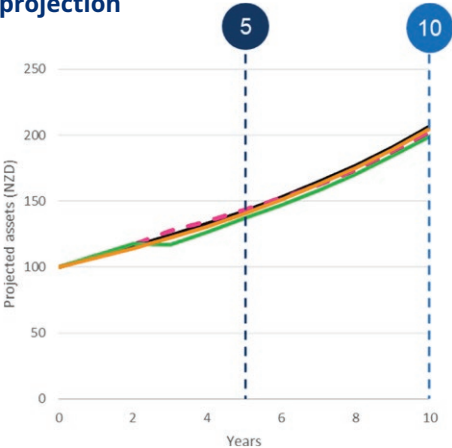
The below chart/s illustrate the 10, 20, and 40-year projection across each scenario for a NZ\$100 asset value. These provide Mercer NZ with an indication of how resilient each fund's investment strategy may be in different climate change scenarios. The projected impact of these scenarios on the investment returns of each fund's investment strategies can be seen in the below Figure.

Figure 4.3: Asset value projection for a representative fund – across three timeframes and all transition scenarios²⁹

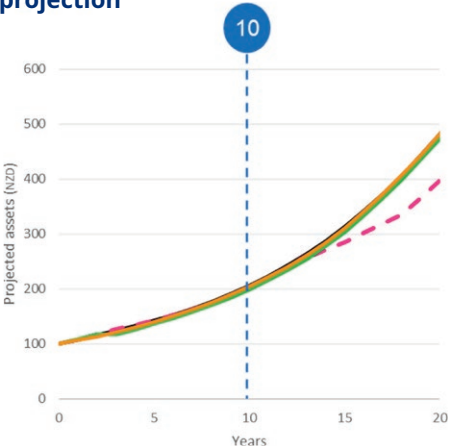


²⁹ Source: Mercer, Ortec Finance and Cambridge Econometrics. Economic data as at December 2022 and central assumptions as at September 2023.

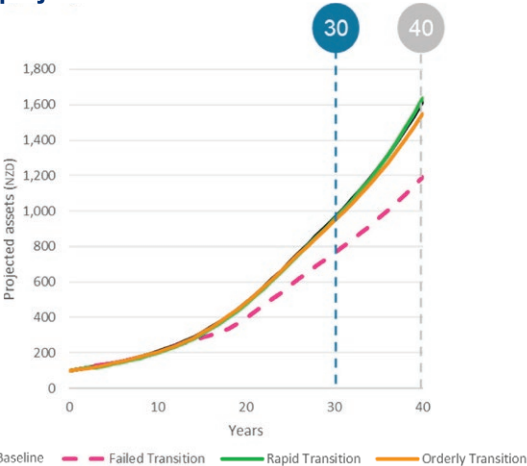
Asset projection for Sustainable Plus Balanced
10y projection



20y projection



40y projection



— Baseline — Failed Transition — Rapid Transition — Orderly Transition



Understanding Sector and Regional Exposures are Integral to Climate Risk Management

The chart below shows the annualised climate impact experienced by different equity sectors over the next five years where transition risk is most significant.

Electric Utilities/Gas Utilities/Multi-Utilities, is a sector that is particularly exposed to transition risk and its returns will be negatively impacted by a **Rapid** and **Orderly** Transition scenario.

Conversely, this sector along with Coal & Manufactured Fuels, and Oil & Gas perform well under a **Failed** Transition scenario due to climate related risks not being priced in.

Renewable Energy and Low Carbon Electricity are the only two sectors to generate positive returns under a **Rapid** and **Orderly** Transition scenario.

Figure 4.4: Example of annualised climate impact experienced by different equity sectors over the next five years³⁰



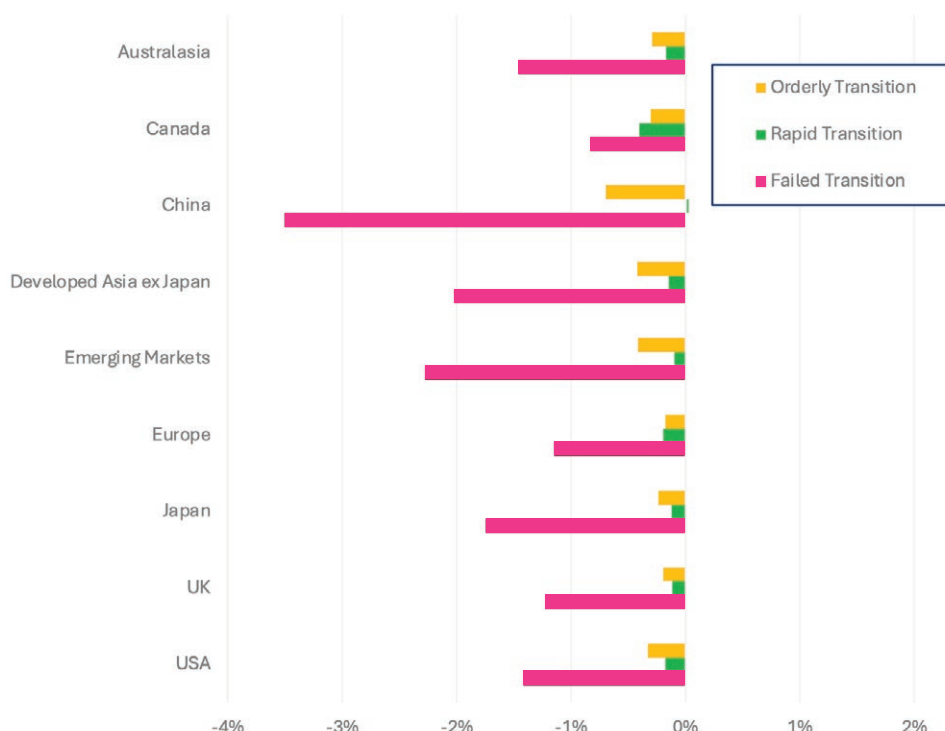
Within asset classes, sector exposures are important and can have meaningfully divergent results under different climate scenarios.

³⁰ Source: Mercer/Ortec

The chart below shows the annualised climate impact experienced by different regions over the next five years where physical risk is most significant under a **Failed Transition**.

This regional analysis helps us understand physical risk exposures under a **Failed Transition**. The regions most exposed to physical risk are Emerging Markets (in particular China) and Developed Asia ex Japan.

Figure 4.5: Example of annualised climate impact experienced by different regions over the next 5 years³¹



Key findings and high-level conclusions from scenario analysis

- **Lower temperature** scenarios are expected to preserve asset values compared to scenarios associated with higher temperature outcomes.
- An **Orderly** Transition may be marginally preferable for the examples shown in figures 4.3 to 4.5, but a **Rapid** Transition increases the probability of achieving a 1.5°C objective, which is expected to have lower physical risk than under higher emissions scenarios. Portfolios can be positioned differently to perform better in a **Rapid** Transition scenario if that scenario eventuates.
- Compared to the former 2019 Mercer Climate Model, the 2022 Climate Model shows greater negative impacts on portfolios than previously thought. Physical risk impacts are also emerging sooner, i.e. before 2050.
- **Sector exposure is key.** Differences in return impacts are most visible at an industry-sector level, with a significant divergence between scenarios, for example in Energy and Utilities.
- **Regional analysis** is important for transition considerations as well as understanding physical risks over the long term. Overlaying country exposures with sector exposures provides additional insights.
- **Future pricing shocks are likely.** Longer-term impacts, including transition and physical risk, could impact portfolios before they occur. While the exact timing and magnitude of these shocks is unknown, considering them is beneficial for risk analysis.
- Scenario analysis remains an important reminder that isolating a preferred scenario does not mean it will eventuate. There are complex system changes at play, which prevent accurate modelling and are unlikely to be linear or neat. We also appreciate that while investors have an influential role to play, they do not have direct control over government policies or investee company decisions.
- Scenario analysis helps to set the potential context, with the complementary bottom-up assessments important for monitoring and responding to scenario likelihood over shorter time periods.


You can read more about the model in Appendix E on page 60.

³¹ Source: Mercer/Ortec

Integrating into broader portfolio risk management

Our Climate Plan provides a structure for climate-related risk management. For the Mercer Funds, climate-related risk is outlined in the table below. This outlines some of the key actions we have taken as part of this plan, split across three implementation pillars – Integration, Active Ownership and where relevant, Sustainability-Themed Investing. Through these pillars, we focus on a genuine whole of economy and portfolio transition, not just portfolio emissions reduction.

Table 4.4: Integrating climate-related risk into broader portfolio management

Key Actions	
Integration (Risk Reduction) 	<ul style="list-style-type: none"> • Informing investment-related decisions and monitoring: including climate-related analysis alongside traditional financial information during key investment decision-making and monitoring processes allows us to better understand potential impacts on its approach. <ul style="list-style-type: none"> – Strategic Asset Allocation (SAA): In some diversified fund SAA reviews, climate-related analysis is included for consideration as part of the process. – Portfolio Intelligence: We use annual climate-related analysis across asset classes, funds and managers to inform our positioning. For example, climate-related analysis was included in portfolio intelligence sessions with the investment management team during the reporting period. • Strengthening climate-related analysis: Climate-related analysis is part of our investment decision-making and we monitor appropriate metrics, such as emission reduction targets and portfolio transition capabilities. Our primary analysis tools are: <ul style="list-style-type: none"> – Climate Scenario Analysis: Specifically, evaluating portfolios under scenarios for 1.5°C (Rapid Transition), 1.8°C (Orderly Transition) and >4°C (Failed Transition) increase by 2100³² and distributing this information to key teams. – Mercer's ACT tool: Drawing on third-party metrics for company level emissions and reserves, transition commitments and green revenues and other UN Sustainable Development Goals ('SDG') indicators to categorise companies from 'grey' (high-carbon and low-transition investments) to 'green' (those already with low-/zero-carbon or with climate solutions). We share the results with relevant teams to support manager engagement. – Mercer's Manager Engagement Survey ('MES'): This goes to appointed investment managers globally, by strategy, to monitor developments and support manager engagements. The results from the dedicated climate change section provide insight into managers' policies, processes, and activities. When combined with portfolio analytics, Mercer can identify the best positioned managers, and use this to inform engagement priorities. • Integrating the Climate Plan into investment processes and decision-making: <ul style="list-style-type: none"> – Net Zero Target: Mercer has set a Net Zero Target based on insights gained from its ACT tool and advice framework. This target, alongside our Climate Plan, sets a clear firm-wide position and provides a structured approach to delivery. – Manager Appointments: For specific investment strategies (prioritised by investment management agreements ('IMAs') review timing, new onboarding, heightened ESG risks) we have begun to include climate-related provisions in the relevant IMAs in limited instances. The development of this approach and the subsequent provisions was the result of extensive consultation and engagement with our internal Investment Management team and relevant appointed investment managers, amongst others. Inclusion of specific climate-related provisions may be based on a range of factors such as materiality and the role of the strategy from a portfolio construction perspective, e.g. for a relevant and applicable Sustainable Global Shares strategy we require it to have a carbon intensity lower than its benchmark by a given percentage (%).

³² See Strategy section on page 20 for key findings and Appendix B on pages 54–55 for further details on Assumptions and Methodology.

Key Actions

Active Ownership (Transition Support)



- Climate-related company engagement has to date largely been undertaken via our investment managers as well as via the Climate Action100+ collaborative engagement initiative. Key active ownership activities with a risk management lens include:
 - **Regular Manager Meetings:** Regular meetings with our investment managers may include discussion of material ESG issues, i.e. carbon intensity, portfolio vulnerabilities and specific investment opportunities.
 - **Annual MES:** Provides specific insights on how investment managers are addressing climate risks and opportunities, as well as the overarching development of asset classes. These data points act as a resource for manager monitoring and further research.
 - **Manager Engagement Dashboards and Trackers:** These track our investment management team's quarterly meetings to identify engagement priorities and monitor engagement activities and outcomes.
 - **Voting:** Mercer NZ outsources proxy voting responsibility to our listed equity investment managers and, where practically possible, 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. A link to our voting disclosure section, is available on our sustainable investment webpages³³.

Collaborative Initiatives: Mercer, through related companies is a supporter/signatory to the following global and regional climate-related initiatives:

- Investor Group on Climate Change ('IGCC')
- Climate Action 100+ ('CA100+')
- CDP (formerly the Carbon Disclosure Project)
- Task Force on Climate-related Financial Disclosures ('TCFD')
- Task Force on Nature-related Financial Disclosures ('TNFD' Forum member)
- Transition Pathway Initiative ('TPI')

These initiatives help us manage risk by providing insight into upcoming policy reviews, peer engagements and industry developments. Some of these initiatives, specifically CA100+, include direct company engagement to help drive better company level climate risk management and disclosure. Adopting a collaborative approach is generally deemed beneficial from both a resource management and outcomes perspective for investors and companies rather than each investor approaching companies individually with different requests. This is illustrated in the consistent asks for high emitting companies in the CA100+ Net Zero Benchmark Report and the progress tracked in recent years³⁴.

³³ This information can be accessed here <https://www.mercerfinancialservices.co.nz/sustainable-investment.html> and at <https://www.multimanager.mercer.co.nz/funds/environmental-social-governance-policies.html>

³⁴ 2023 Net Zero Company Benchmark results: <https://www.climateaction100.org/net-zero-company-benchmark/findings/>

Key Actions

Sustainability themed investment



- **Selection and Monitoring Process:** For sustainable and ethically labelled funds, in addition to the climate integration approaches set out in the 'Integration (Risk Reduction)' row above, the manager selection and portfolio construction decision process considers exposure to sustainability themes, including climate transition and adaptation themes. We also use ESG Ratings and associated analysis to evaluate manager capabilities and practices across all manager selection decisions. These ESG Ratings include assessing how the manager is incorporating material ESG factors (including climate) into its evaluation of investments.
- **Solutions Allocations:** Our investments in companies and assets contributing to climate solutions³⁵ have primarily been in dedicated sustainable-labelled listed equity strategies and real assets, driven by investment manager and strategy selection. Beyond sustainable-labelled funds, some examples of an investment contributing to climate solutions are:
 - the Mercer Unlisted Global Infrastructure Portfolio, which is a building block in a number of our diversified retail portfolios and has increased its exposure to renewable energy in recent years (now >20%); and
 - all strategies within the Mercer Unlisted Property Fund which is a building block in some of our funds have Net Zero targets by 2030 for Scope 1 and 2 emissions.
- Mercer NZ's sustainable-labelled equity and credit funds seek to have a higher allocation to strategies targeting solutions relative to the broad market opportunity set. For some equity, listed property and infrastructure strategies, there are specific alignment provisions and/or climate-related restrictions in the Investment Management Agreement.

Progress towards achieving these actions will be monitored on a regular basis, typically annually, considering absolute emissions and carbon intensity reductions, together with transition capacity using Mercer's ACT tool. More information is provided in the Risk Management section on how Mercer seeks to identify, assess, and manage climate-related risks.

Strategic response

Our internally developed and managed diversified portfolios are invested in a range of asset classes by our appointed investment managers. Our single sector portfolios have a greater exposure to the impact applicable to their relevant asset classes. The table below provides examples of the climate-related impacts that could have a material financial impact for each asset class.

Table 4.5: Examples of climate-related impacts on each asset class

Asset Class:	Shares
Impact of climate change on asset class	<p>Climate-related impacts in shares are those that have the potential to affect either the profitability or overall value of a company.</p> <p>For example, changing regulation that restricts carbon emissions poses transition risks to companies with emissions exposures through increased operational costs. Companies can also face shifts in consumer preferences and demand, which can impact revenue.</p> <p>However, the transition to net zero can also create opportunities, such as for companies that are developing new technologies like renewable energy assets that will replace traditional, more carbon-intensive solutions.</p> <p>Companies may also be exposed to physical risks with financial impacts, like damage to property and equipment during stronger storm and cyclone events, or reduced access to primary inputs like water if there is less rainfall. This can lead to higher insurance premiums and capital costs, or even an inability to insure against the risks.</p>
Asset Class:	Fixed Income
Impact of climate change on asset class	<p>The impact of climate change on fixed income investments, through corporate and government-issued bonds, differs from shares.</p> <p>The most likely risk in fixed income comes from the default risk of the issuer – the possibility that they cannot return the money the investor gave them or pay the investor the promised interest. Investors should always assess the potential impacts that may affect an issuer's ability to fund any interest payments and repay the initial capital.</p> <p>As fixed income investments have a fixed term, climate-related impacts may be considered over a more defined timeframe.</p> <p>In addition, climate-related opportunities have appeared through green bonds and climate bonds, which fund low-carbon and renewable energy developments. Issuers can benefit from the growing investor appetite for these bonds and diversify their investor base.</p>

³⁵ In the context of this Statement, we are defining climate solutions by how we calculate our exposure. We use data from third-party data provider ISS ESG. In this context climate solutions are considered to positively impact one or more of the following UN SDGs: Affordable & Clean Energy, Climate Action, Responsible Consumption & Production, and Sustainable Cities & Communities. More information on the UN SDGs is available at <https://sdgs.un.org/>

Asset Class:	Real Assets
Impact of climate change on asset class	<p>The focus on asset investment means there is greater exposure to the physical impacts of climate change compared to other asset classes. For example, the growing frequency and severity of extreme weather events can leave assets in certain geographies increasingly exposed to the physical impacts of climate change, such as extreme heat or rising sea levels.</p> <p>Real assets investors, whether asset owners or investment managers, may also be exposed to regulatory actions designed to reduce carbon emissions and influence consumer behaviour, as well as face client and public pressure to take a clear and systematic approach to emissions reductions and resilience preparedness.</p> <p>In transitioning the global economy toward net zero, climate-related opportunities arise from things like renewable energy infrastructure, climate resilient and/or 'green property' assets and carbon sequestration and nature-positive developments in forestry/farmland. These provide investors with improved resiliency to climate-related impacts.</p>
What is Mercer NZ's strategic response?	<p>Mercer NZ considers climate-related impacts in the investment process across three pillars:</p> <ul style="list-style-type: none"> • Integration: we seek to incorporate climate change considerations into key investment decision-making processes, as below, and endeavour to ensure the impacts are considered in a 'business as usual' manner. Importantly, this does not result in a specific, fixed weight given to climate considerations in these processes. We integrate climate-specific considerations into strategic asset allocations for diversified funds and investment manager selection, as well as our appointment and monitoring processes. We do this by leveraging internal research and analysis (such as Mercer's Climate Scenario Analysis, the ACT tool, Mercer's MES responses and ESG Ratings) to provide insights alongside financial and investment-related information. The relevance of this may change dependant on the asset class and the investment strategy. There are some asset classes and investment strategies where climate-specific considerations are more or less relevant (e.g. listed equities and cash, respectively) – this may be due to the accuracy and quality of climate-related information available and/or the availability and effectiveness of mechanisms that can be used to identify, assess and action climate-related information. • Active Ownership: Climate-related active ownership is primarily centred on engagement with our appointed investment managers followed by industry engagement via collaborative initiatives. We believe these approaches can help drive real world decarbonisation by supporting progress in climate policy and regulatory responses and transition changes in high emitting companies: <ul style="list-style-type: none"> – Select manager engagement is undertaken by the relevant portfolio managers and analysts in the investment management team and may be in conjunction with the sustainable investment specialists where climate change will be given a greater strategic focus. This is more likely where a manager has higher exposures to companies more likely to be impacted by climate-related risks, e.g. as determined by the integration analytics, and will leverage manager research views and answers to the MES climate change questions to seek improvements in how managers are allocating to and engaging with investee companies. – Collaborative engagement refers to our involvement via initiatives such as the Investor Group on Climate Change ('IGCC') and Climate Action 100+. These initiatives are aimed at climate policy advocacy as well as engagement with highest emitting companies. • Sustainability-themed Investing: in our sustainable and ethically labelled funds, we consider how investment managers approach sustainability themes in their idea generation, including climate transition and adaptation, stock selection or portfolio construction processes. Allocation to these strategies occurs primarily through sustainable-labelled equity and credit strategies, although real assets also include a range of relevant exposures. For some equity, listed property, and infrastructure strategies, we also have specific alignment provisions and/or climate-related restrictions in the Investment Management Agreement ('IMA').

Risk Management

Mercer NZ expects its investment managers to assess and reflect ESG factors (including climate-related risks and opportunities) when they select securities or assets and construct portfolios. We understand that the degree of relevance or materiality varies across asset classes and the type of investment strategy, but our role is to monitor these risks and opportunities across our relevant holdings, using systematic frameworks to inform our broader investment decision-making processes. We continue to monitor our investment managers' unique approaches, engaging with them to seek improvements where appropriate.

For the Mercer Funds, climate-related risk is addressed primarily through the Integration and Active Ownership channels as shown in Table 4.4: Integrating climate-related risk into broader portfolio management in the Strategy section on page 26.

Identifying, assessing, and managing climate-related risks

Top-down climate scenario analysis³⁶ is the foundational framework we use to assess the size and scope of potential climate-related return impacts in a range of future scenario outcomes. This framework seeks to inform asset class and industry sector considerations, to minimise risks and maximise new opportunities. Mercer considers the impacts of these scenarios over 5, 10, 30 and 40-year time horizons as mentioned in the Strategy section on pages 15–16 under Current climate-related impacts.

Climate scenario modelling and assessment is typically conducted every 2-3 years, and in conjunction with investment strategy reviews and prioritises additional risk considerations. The analysis is undertaken more frequently should a material change occur, including when considering its currency when preparing future annual climate Statements.

Mercer's ACT tool³⁷, which provides a company level perspective across relevant asset classes on a 'well below 2°C' or transition scenario. You can find more details about the methodology and framework in Appendix B on pages 54–55.

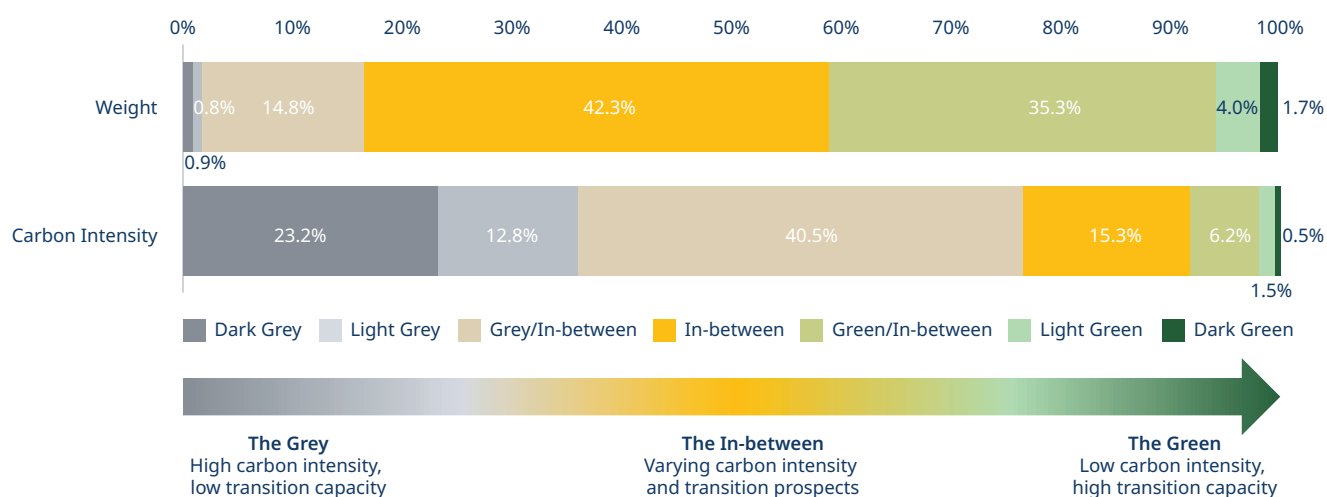
The ACT tool has helped us identify where the highest carbon intensity and transition capacity risks lie in our portfolios, including the potential for stranded asset risk in the high emissions intensity-low transition capacity ("dark grey" companies), and where emissions reductions can be best achieved by portfolio weight while still meeting investment objectives. Company level categorisation helps to compare different portfolios and benchmarks within asset classes, as well as compare asset class impacts to adopt a thorough risk management approach to an economy-wide and portfolio-wide transition, using the proxy insights from the Mercer Funds covered in this Statement. Approximately 82% of assets of the Mercer Funds are covered in our analysis as at 31 December 2023 due to data not being available for the balance of assets. You can see the key outputs from our analysis in the Metrics and Targets section on page 36.

³⁶ More information is set out in the Strategy section on page 14.

³⁷ To date this has primarily focused on transition risks, but increasingly recognises the need to include physical risks. Both the top down and bottom up approaches capture all asset classes except derivatives.

The figure below shows how the ACT tool assesses the transition risk and opportunities for an illustrative portfolio.

Figure 5.1: Transition assessment: Example diversified portfolio



Source: Mercer, with underlying metrics from MSCI ESG Research and ISS

We seek to ensure our established frameworks and processes meet existing and anticipated regulatory requirements. We keep up to date on climate change regulation and industry developments through relevant New Zealand and regional industry working groups, such as the Investor Group on Climate Change manager meetings, industry conferences and associated research and briefings.

Prioritisation and fund exclusions

Through our portfolio analytics discussed above, Mercer NZ is able to identify high-carbon intensity, low-transition capacity holdings within the Mercer Funds. As an overarching principle, Mercer prefers an integration and engagement-based approach to sustainable investing rather than an exclusions-based approach. Notwithstanding this, for Mercer's sustainable and ethically labelled funds, we aim for our Equity and Credit Asset Classes to exclude companies that own proved or probable reserves in coal, oil, or gas; and derive in excess of 15% of their revenue from exploration and extraction of coal, oil or gas³⁸.

For further information on exclusion definitions please refer to Mercer's SI Policy, the relevant fund's Statement of Investment Policy and Objectives ('SIPO'), and Mercer website(s)³⁹.

³⁸ As further defined in our SI Policy

³⁹ Mercer NZ's SI policy can be accessed here at <https://www.mercerfinancialservices.co.nz/sustainable-investment.html> and <https://www.multimanager.mercer.co.nz/funds/environmental-social-governance-policies.html>. A relevant fund's SIPO can be accessed on the Disclose register here <https://disclose-register.companiesoffice.govt.nz/> (search under "Scheme" for name of Scheme)

Metrics and targets

Climate-related metrics help us understand fund exposures and opportunities. We identify areas for further risk management, including manager portfolio monitoring. These metrics also inform active ownership priorities and are essential for monitoring progress towards our climate targets.

We know the availability of accurate data for some asset classes is an industry-wide issue and we encourage some of our investment managers, and the underlying companies in which they invest, to improve their climate (and carbon) reporting as quickly as reasonably possible.

With this in mind, please note that approximately 82% of assets of the Mercer Funds are covered as at 31 December 2023 due to data not being available for the balance of assets.

Please note, in relation to the Internal emissions price metric⁴⁰ and Remuneration metric⁴¹, we have determined that due to data not being available through our data providers and its limited relevance in the context of diversified investment schemes, these metrics are not being covered or reported upon in this Statement.

Climate targets

In 2021, Mercer established a target to achieve net zero absolute portfolio carbon emissions by 2050 for all assets under management in New Zealand (including the Mercer Funds at that time⁴²). Mercer also established an expectation that portfolio carbon emissions would reduce by 45% by 2030, from 2020 baseline levels.

Although we are working towards Mercer's Net Zero Target, we have not made the 2025 interim target public yet. We intend to revisit this once we have rolling three-year data and can consider increasing transparency ahead of the 2025 mid-point to 2030.

When the goal was originally set, the 2050 Net Zero Target was consistent with targeting a well below 2°C limit on global temperature increases and the broader Paris Agreement ambitions for a 1.5°C limit. While Mercer NZ continues to view the current Net Zero Target as broadly aligned with this objective, we also recognise that greater reductions may become required more quickly in future to maintain that alignment status. Any changes to government policy or other external factors may also affect future policy or targets.

⁴⁰ expressed as price per metric tonne of CO₂e used internally by an entity.

⁴¹ expressed as management remuneration linked to climate-related risks and opportunities in the current period, expressed as a percentage, weighting, description or amount of overall management remuneration.

⁴² Further information on Mercer NZ's Net Zero Target is available in Appendix C on page 56.

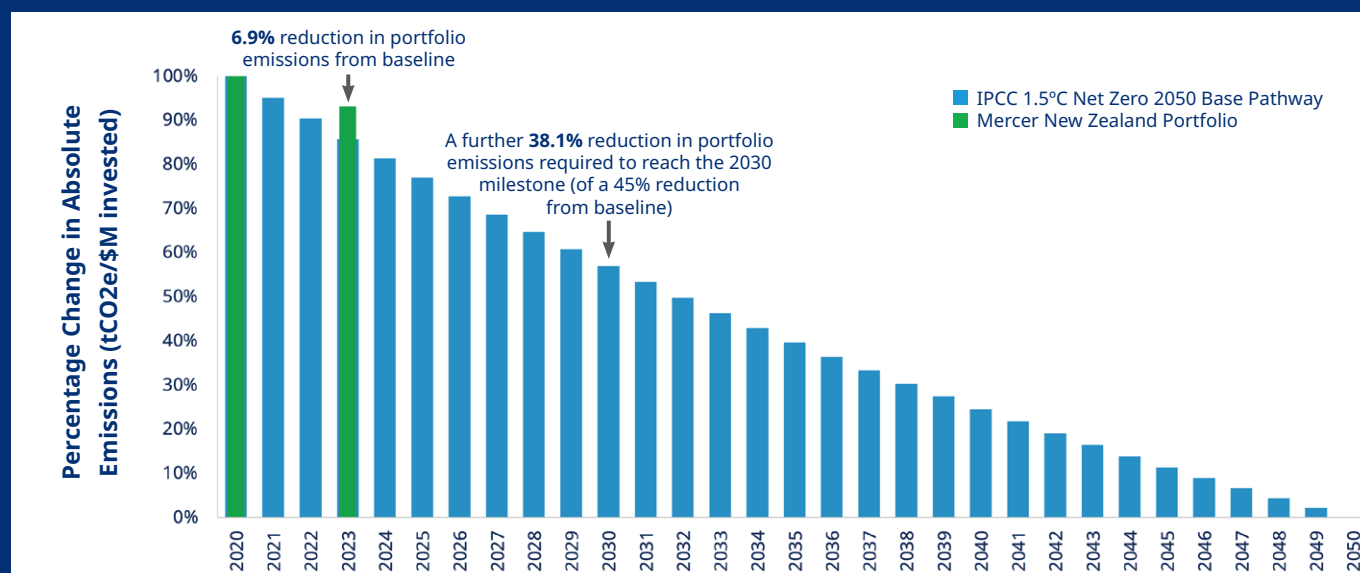


Progress against the Net Zero Target

Progress on emissions reduction is tracked annually against the Intergovernmental Panel on Climate Change ('IPCC') 1.5°C pathway with no or limited overshoot (reference scenario C1⁴³) - an internationally recognised Paris-aligned mitigation pathway supported by key investor frameworks.

The emissions reduction target is set on carbon footprint (Absolute Emissions/\$M invested). This metric measures the share of total emissions generated by underlying investments, normalised by assets under management ('AUM') to allow for comparability across different parts of the portfolio and to negate the impact of AUM changes over time.

Figure 6.1: Emissions reduction over time⁴⁴



- The entire Mercer NZ portfolio (including assets from the Macquarie Asset Management ('MAM') transfer of funds in March 2023) reduced the portfolio Carbon Footprint (Absolute Emissions/\$M invested basis) by 6.9% from the 2020 baseline.
- Based on the emissions tracking result for the year to 31 December 2023, the portfolio is lagging its targeted reductions by 2023 vs the IPCC reference pathway. This is partially linked to the inclusion of the MAM transfer of funds.
- Carbon Footprint is most concentrated within Global Equity and Infrastructure asset classes.

A more granular analysis on forward-looking climate transition capacity and opportunity is currently being undertaken as part of Mercer's Climate Plan. This analysis will help Mercer prioritise emissions reductions within the portfolio, guide manager engagement and identify climate transition aligned opportunities, as part of our commitment to a net zero future.

Please note that while climate metrics are reported on in this Statement in line with global consensus, there are many factors that can impact progress demonstrated using climate metrics, beyond emissions reduction. One such instance is the growth in company enterprise values, which all else equal can lead to carbon footprint climate metrics appear to decrease, while emissions remain constant or increase. We are currently undertaking detailed attribution analysis to better understand the drivers of change in climate metrics to enhance our management of our progress towards our Net Zero Target.

Key assumptions

The Net Zero Target is based on the belief that it is likely to be in the best long-term financial interests of members and investors and that we can achieve short-term implementation while still meeting diversified fund objectives. This target draws on current climate science, international government policy responses and the response by companies in the real economy.

This target relies upon several key assumptions:

- The prevalent climate science at the time the target was set, recommending a net zero target date of 2050.
- Mercer's climate scenario analysis, undertaken three times since 2015, indicating that a 2°C or below scenario is in investors' best interests and that aligning with a transition scenario does not present additional long-term downside risk if another scenario eventuates.
- The availability of sufficient investment strategies, solutions, asset-level climate data and industry frameworks that allow investors across asset classes to decarbonise while meeting investment objectives.
- Our discussions with many investment managers about their ability to still deliver on investment objectives with these net zero emissions reduction considerations in mind.
- A staged transition across different asset classes and strategies based on underlying sector exposures and liquidity considerations.
- An expectation that governments will follow through on their commitments to ensure the objectives of the Paris Agreement are met, including increasing the ambition of their Nationally Determined Contributions.

⁴³ <https://www.ipcc.ch/assessment-report/ar6/>

⁴⁴ Source: Mercer with underlying data from IPCC and MSCI ESG as at 31 December 2023.

Achieving Net Zero

The Strategy section on page 15 outlines how we manage climate-related impacts as part of the Climate Plan. However, the table below explains specific examples relevant to our Net Zero Target across the three pillars:

Table 6.1: Examples of how we manage climate related risks as part of our Climate Plan

	Integration	<p>Developing specific net zero and other climate-related provisions for Investment Management Agreements. The development of this approach and the subsequent provisions was the result of extensive consultation and engagement with our internal Investment Portfolio Management team and relevant appointed investment managers, amongst others. Inclusion of climate-related provisions may be based on a range of factors including materiality and the role of the strategy from a portfolio construction perspective and where appropriate, e.g. for a Global Sustainable Shares strategy we require it to have a carbon intensity lower than its benchmark by a given percentage (%).</p> <p>Monitoring metrics against the Net Zero Target and understanding the drivers for change i.e. market environment, asset allocation, and strategy allocations and company-level change.</p>
	Active ownership	<p>Engaging appointed investment managers on the approaches taken to integrate climate considerations in their investment process, specifically via the annual MES. The most recent survey included questions on net zero targets and monitoring metrics and further aimed to capture the connected roles that natural capital and biodiversity play with climate change.</p> <p>We are also building on company level engagement via managers with prioritisation based on climate analysis including emissions materiality, Mercer's ACT analysis, and different net zero target assessments. Manager views on these identified companies and their engagement progress with company Boards and management will help inform next steps. For exposures to private markets, disclosure is expected to be the initial manager engagement focus. Together, these priorities will help develop the framework to conduct goal-orientated engagements and set specific targets in the future.</p>
	Sustainability themed investment	<p>Monitoring fund-level exposure to contributors to climate solutions and continuing to consider the role this plays in our portfolio and Climate Plan.</p> <p>We broadly expect the opportunities to continue to grow and our portfolio exposure to climate solutions to increase. However, this area is still evolving, and we intend to stop setting targets until the industry is more aligned around common data, analysis approaches and relevant standards.</p>

Climate metrics definitions

We currently report on the following emissions metrics, which we believe to be credible and useful in decision-making. These climate-related metrics are detailed in Appendix D on pages 58–59.

Mercer's GHG emissions have been measured using Absolute Emissions, Carbon Footprint and Weighted Average Carbon Intensity.

In accordance with PCAF and Global GHG Accounting & Reporting Standards, the GHG emissions consolidation approach used are equity share and bonds holdings or Financed Emission as described in the definition below. For the global warming potential ('GWP') we have expressed our portfolio emissions as CO₂ tons equivalent.

Table 6.2: Climate metric definitions

Metric	Explanation
Absolute Emissions or Financed Emissions/ Investor's Share of Emissions	<p>The financed emissions of an investment in a company or sovereign entity represent the investor's share of the absolute Scope 1 and Scope 2 carbon emissions (tons CO₂) of a company or sovereign entity. The total Greenhouse House Gas emissions takes an ownership approach to answer what proportion of a company's emissions an investor owns and is responsible for financing.</p>
Carbon Footprint or Financed Emissions/ Investor's Share of Emissions per \$M Invested	<p>This relates to the above metric, normalised for Funds Under Management ('FUM') size. This is to negate the effect of FUM growth in the calculation of the financed emissions figures for effective tracking against a baseline over time. Measuring the emissions per \$M of FUM will also enable us to include financed emissions data for unlisted asset classes over time, as manager disclosure improves.</p>

Metric	Explanation
Weighted Average Carbon Intensity ('WACI')	For listed equities and corporate fixed income, WACI is the measure of portfolio exposure to companies' carbon emissions, measured by emissions (tCO ₂ e) per \$M gross revenue (or, where not available, net revenues based on available company filings). The WACI represents companies' Scope 1 and Scope 2 ⁴⁵ carbon emissions normalised for the size of a company based on annual revenue (tons CO ₂ per \$M sales). For sovereign fixed income, the WACI represents the carbon intensity of an economy (tons CO ₂ per \$M PPP adjusted GDP). For private markets, where investment manager provided data was not available or of sufficient quality the average carbon intensity of comparable listed market subsectors is used as proxies where provided emissions data from investment managers is not available.
Physical Risk Analysis	This analysis looks at listed equities only by considering the Climate value at risk (Climate VaR) of portfolios at the aggregate regional and sector level. This analysis uses MSCI's Physical Risk Company Climate VaR which assesses the value of a company lost in a "worst-case" downside or upside potential, expressed a percentage of the company's market value, assuming trends in extreme cold, extreme heat, extreme precipitation, heavy snowfall, extreme wind, coastal flooding, fluvial flooding, tropical cyclones, river low flow and wildfires continue.
Transition risks	The aggregated ACT Score for each portfolio. Mercer's ACT tool uses 16 transition-based indicators and assigns each company a score to categorise transition capacity from Dark Grey (representing evidence of a higher transition risk) to Dark Green (representing evidence of a transition opportunity).
Contributors to Climate Solutions Analysis Climate-related opportunities	This analysis looks at the overall contribution of listed equities portfolios toward climate solutions ⁴⁶ using ISS' Product and Services score for six environmental SDGs – climate action, affordable and clean energy, responsible consumption and production, and sustainable cities and communities. Scoring ranges from -10 to +10, with 0 representing a neutral contribution to climate solutions.
Portfolio Alignment - % with SBTi validated targets	Answers what proportion of the companies in each portfolio have validated net zero decarbonisation targets that have been independently assessed by a third party – the Science Based Targets initiative (' SBTi ') 3rd party experts, indicating alignment with the low carbon transition. This measure is expressed as a % of each portfolio with validated net zero decarbonisation targets as assessed by the SBTi.
Capital deployment	Metric reporting the amount of capital expenditure, financing, or investment deployed toward climate-related risks and opportunities. Mercer NZ currently undertakes fossil fuel analysis of Cap Ex Share % - Percentage of capital expenditure on the activity (a distinct field, for Coal Mining, Coal Power, Oil & Gas extraction).
Non-Emissions Based Metric – Data Coverage	This metric provides a perspective on the weight that should be placed on climate metrics where data quality is poor. This is the proportion of emissions data that is company reported or estimated or neither.
Internal emissions price metric (Not Reported)	Determined that due to data not being available through our data providers and its limited relevance in the context of diversified investment schemes, these metrics have not been covered or reported upon in this Statement.
Remuneration metric⁴⁷ (Not Reported)	Determined that due to data not being available through our data providers and its limited relevance in the context of diversified investment schemes, these metrics have not been covered or reported upon in this Statement.

⁴⁵ We note that only Scope 1 and 2 emissions data is included in this report, except where noted, and in our regular portfolio monitoring. This means that for some companies, carbon assessments could be considered an understatement. Scope 1, 2 and 3 emissions are as defined by the GHG protocol. To date there has not been sufficient confidence in Scope 3 emissions data, given the high degree of estimation, however, changing disclosure expectations should increase the data quality.

⁴⁶ Expressed as price per metric tonne of CO₂e used internally by an entity.

⁴⁷ Expressed as management remuneration linked to climate-related risks and opportunities in the current period, expressed as a percentage, weighting, description or amount of overall management remuneration.

Metrics and Targets – Analysis Results for Representative Funds

Reporting for the climate-related metrics we use across the Mercer Funds is either in aggregate across all reported Mercer Funds where data is available, or specific to individual funds as outlined below. The following metrics are presented for the Mercer Balanced fund⁴⁸, the Sustainable Conservative fund and the Mercer Sustainable Plus Balanced fund for illustrative purposes. These three funds represent 30% of the assets reported under this Statement and aim to help contextualise the metrics and data produced for this Statement. The Metrics and Targets section on page 34 outlines the definition we use.

Absolute Emissions

Absolute Emissions contribution is presented as the investor's share of a company's total scope 1 and 2 emissions (tCO₂e), using \$M FUM invested across the assessed portfolio for funds with emissions data.

Table 7.1: Absolute Emissions results for selected funds as at 31 December 2023

	Proportion of fund in Sovereigns (%)	% of Total FUM reported under this Statement	Absolute emissions (tCO ₂ e)
Mercer Balanced	27.3%	4.9%	23,846
Sustainable Conservative	58.2%	12.4%	96,542
Sustainable Plus Balanced	26.9%	9.7%	42,824

Absolute Emissions do not normalise for company size, so there is no comparison to benchmark. Smaller companies will naturally produce less emissions than larger companies.

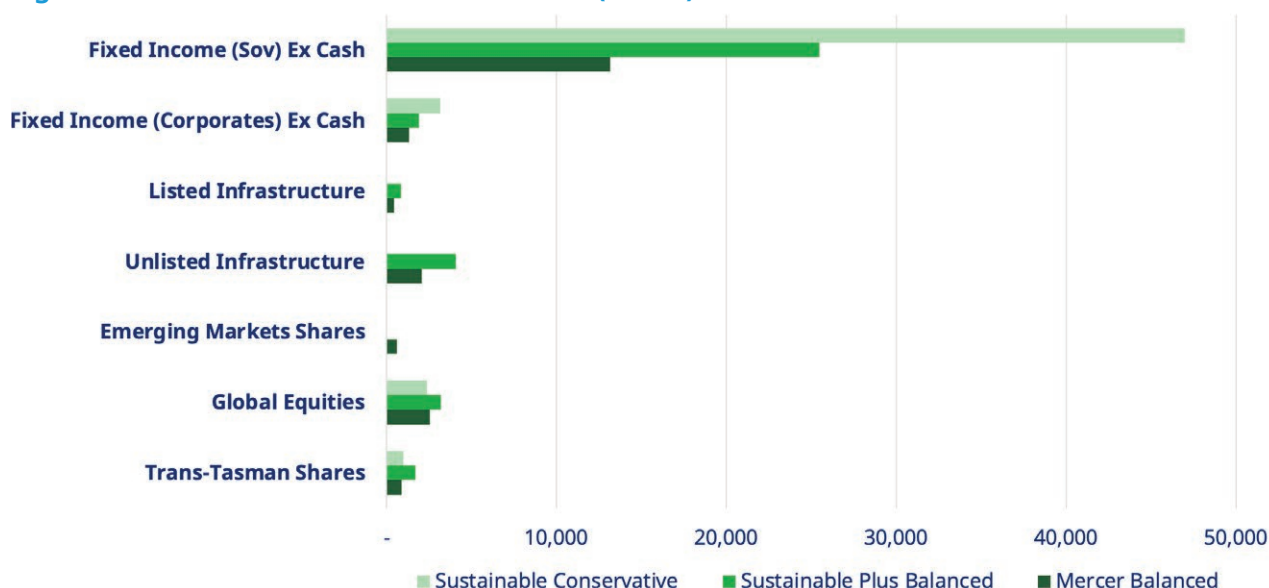
Comparing Absolute Emissions by contribution/ \$M FUM invested allows for a change in FUM over time.

Absolute Emissions for the representative funds across asset classes are shown in the graph below.

Sovereign Fixed income are contributing significantly to the total portfolio Absolute Emissions. Trans-Tasman shares contributes less to Absolute Emissions compared to Global equities. The Sustainable Plus Balanced fund has a relatively modest allocation to the Unlisted Infrastructure asset class but is the largest contributor to Absolute Emissions after Sovereign Fixed Income.

Listed and unlisted property are not included due to insufficient data across investment managers.

Figure 7.1: Absolute Emissions Contribution (tCO₂e)



⁴⁸ For the purpose of this part of the Statement, Mercer Balanced fund covers both the Mercer Balanced fund in the Mercer Super Trust and the Mercer Balanced fund in Mercer FlexiSaver.

Carbon Footprint

Carbon Footprint is the investor's or scheme member's share of emissions per \$M invested.

Through calculation of carbon footprint metrics per strategy, and then aggregating this up to the asset class and total portfolio level, we can build a bottom up (holding company) based metric for the Total Portfolio.

Carbon Footprint results for the Mercer Balanced fund, the Sustainable Conservative fund and the Sustainable Plus Balanced fund are at 31 December 2023.

To help contextualise the funds carbon intensity we have included the MSCI World Ex Tobacco Ex CW⁴⁹ carbon footprint in this table and following graphs as an indicative measure of carbon footprint. Please note that the MSCI World Ex Tobacco Ex CW is purely shown as a comparison for this and the following metrics however the Mercer representative funds have varying diversified strategic asset allocations whereas the index is a global equities index.

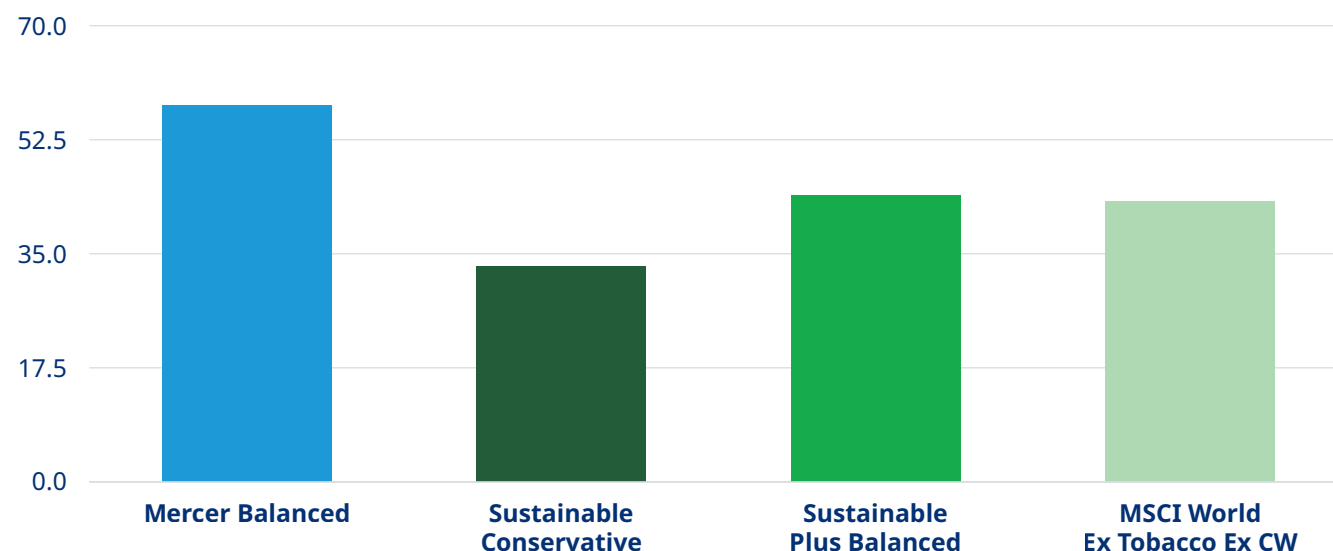
Table 7.2: Carbon footprint results for selected funds as at 31 December 2023

	Carbon intensity footprint (tonnes per \$ million invested) – Scope 1&2
Mercer Balanced	57.8
Sustainable Conservative	33.1
Sustainable Plus Balanced	43.9
MSCI World Ex Tobacco Ex CW	43.0

The carbon footprint of the Sustainable Conservative fund is 23% below the carbon footprint of the MSCI World Ex Tobacco Ex CW. One key point to note is that the Sustainable Conservative fund does not have exposure to unlisted infrastructure which is a high carbon intensity asset class. The carbon footprint of the Sustainable Plus Balanced fund is aligned with the MSCI World Ex Tobacco Ex CW. The carbon footprint of the Mercer Balanced fund is 34% higher than the MSCI World Ex Tobacco Ex CW which is mainly due to the diversified nature of the portfolio and the inclusion of real assets in the strategic asset allocation.

Figure 7.2: Carbon footprint results for selected funds as at 31 December 2023

Carbon intensity footprint (tonnes per \$ million invested) – Scope 1&2



⁴⁹ MSCI World excluding tobacco and controversial weapons.

Weighted Average Carbon Intensity (WACI)

WACI is a widely used metric to assess carbon risk for portfolios and make comparisons across portfolios and asset classes over time. By normalising a company's emissions by their revenues, this allows us to compare a large company to a small company, or an equity portfolio with a credit portfolio on a fair and consistent basis and through time. Through calculation of WACI metrics per strategy, and then aggregating this up to the asset class and total portfolio level, we can build a bottom up (holding company) based WACI metric for the Total Portfolio. For sovereign fixed income, the WACI represents the carbon intensity of an economy. For private markets, where investment manager data was not available or of sufficient quality the average carbon intensity of comparable listed market subsectors is used as proxies where provided emissions data from investment managers is not available.

WACI results for the Mercer Balanced fund, the Sustainable Conservative fund, and the Sustainable Plus Balanced fund are as at 31 December 2023. For Equities: Weighted average carbon intensity (WACI, expressed in tCO₂e / \$M Revenue). For sovereign fixed income: Weighted average carbon intensity represents the carbon intensity of an economy (WACI is expressed in Production Emissions tCO₂e / \$M PPP adjusted GDP)⁵⁰.

Table 7.3: WACI results for selected funds as at 31 December 2023

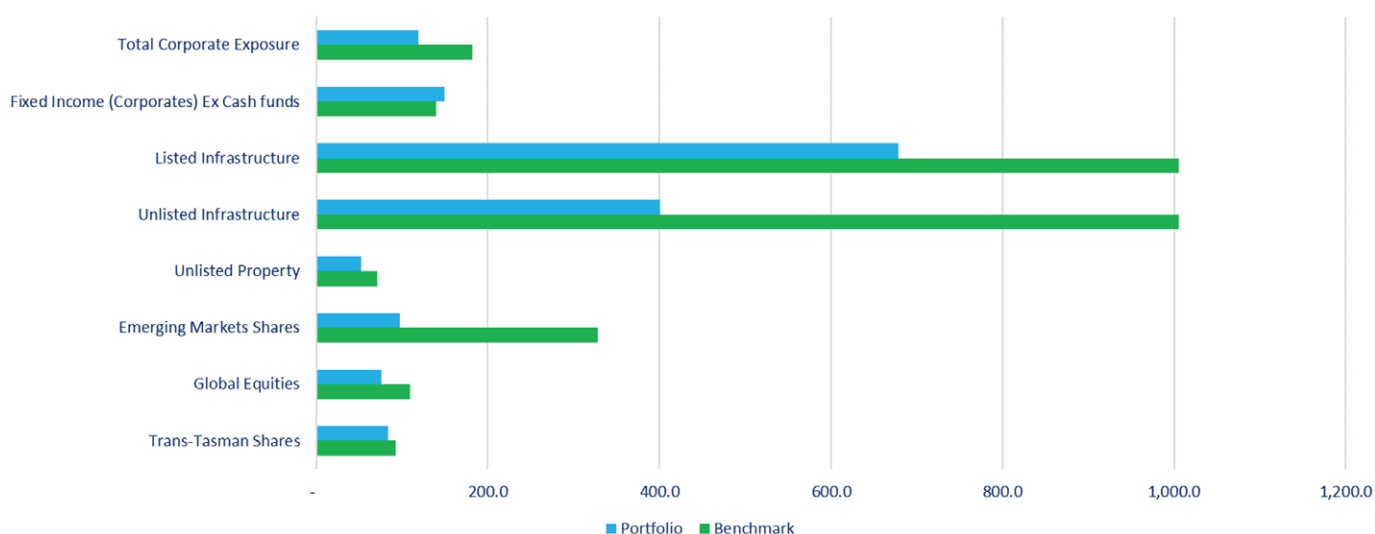
	Proportion of fund in Sovereigns (%)	Listed WACI (tonnes per \$ million revenue) – Scope 1&2	Sovereign WACI (tonnes per \$M PPP adjusted GDP) – Scope 1&2
Mercer Balanced	27.3%	118.6	313.5
Sustainable Conservative	58.2%	93.4	330.5
Sustainable Plus Balanced	26.9%	116.3	314.3
MSCI World Ex Tobacco Ex CW		111.3	

You should be aware that even where an asset class is overall below benchmark, individual funds within the asset class can be above benchmark.

Benchmark data is not available for several fixed income funds which some Mercer Funds invest into (being the following underlying funds: Mercer New Zealand Sovereign Bond Portfolio, Mercer Global Sovereign True Index, Mercer Overseas Sovereign Bond Portfolio, Mercer Global Absolute Return Bond Fund and Mercer Short Term Bond Fund). Please note that the Cash allocation in diversified funds has been calculated and included in the metrics. However, derivatives asset classes and positions are excluded from WACI calculations due to a lack of global consensus around treatment as well as data availability and concerns about defining the applicability of emissions in these asset classes.

The Mercer Balanced fund WACI breakdown by asset class show that all allocations have lower WACI than their respective benchmark except for fixed income. It is worth noting that the listed infrastructure listed allocation is the largest contributor to the overall WACI measure.

Figure 7.3: Mercer Balanced Weighted Average Carbon Intensity (tCO₂e / \$M Revenue)



⁵⁰ In line with the recommended approach set out in the PCAF (Partnership for Carbon Accounting Financials) Greenhouse gases (GHG) Protocol

By contrast the Sustainable Conservative fund's largest contributor is the Fixed Income asset class as there is no exposure to real assets in this portfolio.

Figure 7.4: Sustainable Conservative Weighted Average Carbon Intensity (tCO₂e / \$M Revenue)

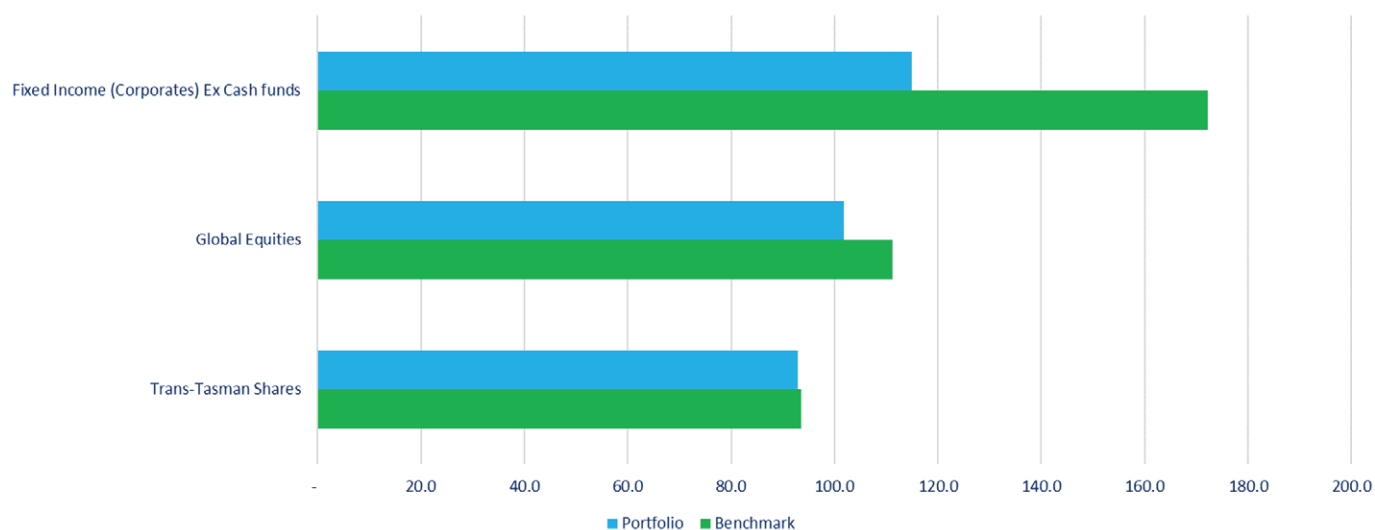
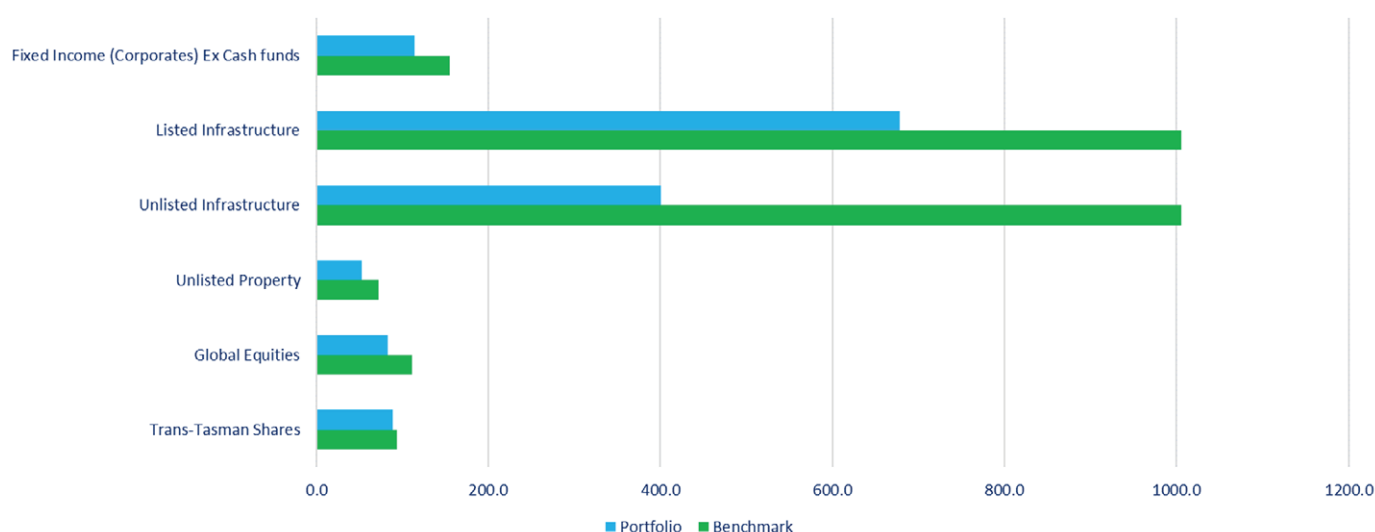


Figure 7.5: Sustainable Plus Balanced Weighted Average Carbon Intensity (tCO₂e / \$M Revenue)



For the three representative funds above, the Mercer Balanced fund, Sustainable Conservative fund and Sustainable Plus Balanced fund, for all asset classes, WACI is below benchmark⁵¹ at the asset level with the exception of the fixed income (corporate) WACI for the Mercer Balanced fund.

The largest variation from the benchmark is for unlisted infrastructure⁵², which is -60% to the benchmark across all funds except the Sustainable Conservative fund where no allocation to this asset class was made.

The smallest variation from the benchmark is for the Mercer Balanced fund fixed income exposure, which is 7% higher than its benchmark.

⁵¹ Asset class benchmark WACI is calculated through a weighted average of the benchmark WACI for each individual fund.

⁵² 30 June 2023 data was used to generate an estimated WACI for unlisted infrastructure where actuals were not available.

Transition Risks

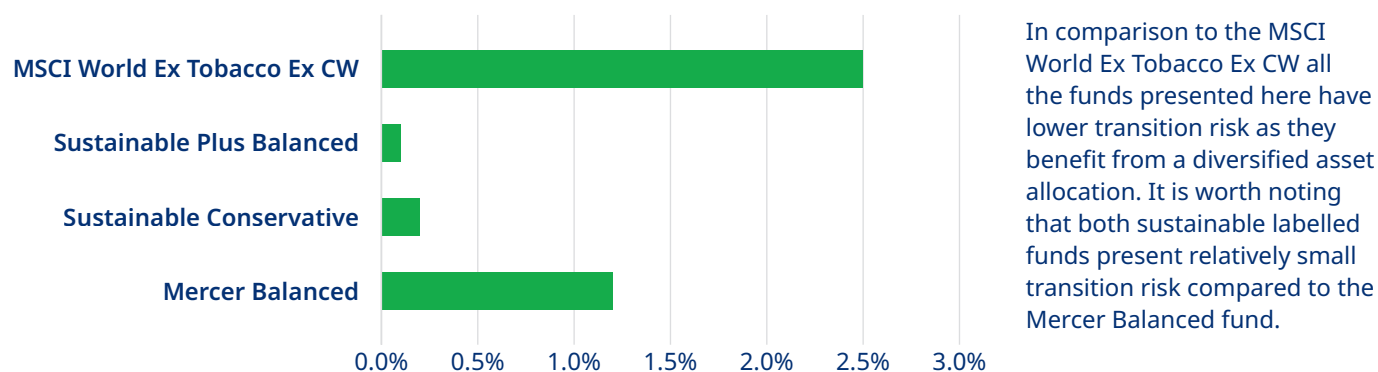
Mercer NZ uses the aggregated ACT Score for each strategy and rollup at the portfolio level for the 16 transition-based indicators and assigns each company a score to categorise transition capacity from Dark Grey (representing evidence of a higher transition risk) to Dark Green (representing evidence of a transition opportunity). The Transition risk is the sum of the Dark and Light grey in this analysis and as such represents the percentage of assets identified by Mercer NZ as most vulnerable to transition risks.

The results below are shown for the Mercer Balanced fund, the Sustainable Conservative fund and the Sustainable Plus Balanced fund as at 31 December 2023.

Table 7.4: Transition risks for selected funds as at 31 December 2023

	Transition Risks (%)
Mercer Balanced	1.2%
Sustainable Conservative	0.2%
Sustainable Plus Balanced	0.1%
MSCI World Ex Tobacco Ex CW	2.5%

Figure 7.6: Transition risks for selected funds as at 31 December 2023



Physical Risks

Physical risks analysis allows us to assess the downside risk potential from physical impacts on a company's assets and identify those holdings most exposed to physical risk impacts between now and 2035. This is expressed as an average Climate VaR.

The results are as follows for the Mercer Balanced fund, the Sustainable Conservative fund, and the Sustainable Plus Balanced fund as at 31 December 2023. Please note that the MSCI World Ex Tobacco Ex CW is purely shown as a comparison for this and the following metrics however the Mercer representative funds have varying diversified strategic asset allocations whereas the index is a global equities index.

Table 7.5: Physical risks for selected funds as at 31 December 2023

Physical Risk (%) Climate VaR	
Mercer Balanced	-11.8%
Sustainable Conservative	-9.2%
Sustainable Plus Balanced	-5.9%
MSCI World Ex Tobacco Ex CW	-11.6%

The Mercer Balanced fund presents the largest physical risk of 11.8% on aggregate in line with the MSCI World Ex Tobacco Ex CW Climate VaR.

The Sustainable Conservative fund's Climate VaR is estimated to 9.2%. For the Sustainable Plus Balanced fund, the inclusion of sustainable themed investments in the asset allocation helps mitigate the physical risk to just under 6%. The below chart assesses physical risk using the climate physical VaR metric, measured across each asset class.

Figure 7.7: Physical Risks for selected funds listed sub-asset classes





Climate-related opportunities contributors (listed securities only)

Paragraph 22(e) of NZ CS requires an amount or percentage of assets, or business activities aligned with climate-related opportunities to be displayed. In this Statement, we have used a more conservative approach to present climate-related opportunities as we believe using a percentage basis may overstate the opportunities.

ISS ESG's SDG Impact ratings ('**SDG Score**') (products and services only) have been used to measure investments (listed securities only) that are contributing to, or obstructing, the transformation processes required to achieve the environmental and social goals identified in the UN SDGs.

The below chart provides an example of the results for the Mercer Balanced fund, the Sustainable Conservative fund, and the Sustainable Plus Balanced fund. These companies are those making a neutral or positive contribution and are above 0 on the 0 to +10 scale. We have not yet set a higher minimum threshold.

The six SDGs selected for inclusion in this analysis as most relevant to climate solutions are:

- Affordable & Clean Energy
- Climate Action
- Life Below Water
- Life On Land
- Responsible Consumption & Production
- Sustainable Cities & Communities

Companies are rated on a scale of -10 (significant negative impact) to +10 (significant positive impact). Over 6,500 global companies are covered by this dataset. Research is limited to companies so equity and credit strategies can be analysed, but sovereigns or derivative strategies cannot.

The results are as follows for the Mercer Balanced fund, the Sustainable Conservative fund and the Sustainable Plus Balanced fund as at 31 December 2023:

Table 7.6: SDG score for selected funds as at 31 December 2023

	Climate Opportunities (SDG Score)	Benchmark Metric
Mercer Balanced	0.02	-0.09
Sustainable Conservative	0.06	-0.19
Sustainable Plus Balanced	0.27	-0.12
MSCI World Ex Tobacco Ex CW	0.00	

The Mercer Balanced fund chart below presents the climate related opportunities ('CRO') in each asset class highlighting that the portfolio exposure to CRO on a net basis is greater than any other asset class in listed infrastructure comparatively to the benchmark. Global equities and emerging market fund exposure are better than their respective benchmark. Trans-Tasman and Fixed Income asset classes are aligned.

Figure 7.8: Mercer Balanced Climate Related Opportunities



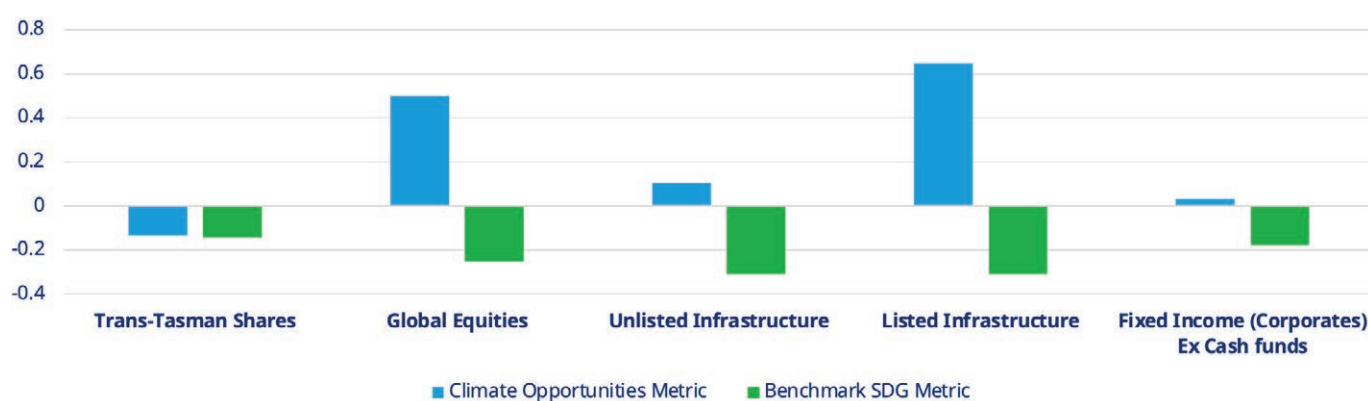
The Sustainable Conservative fund chart below presents the CRO in each asset class highlighting that the portfolio exposure to CRO on a net basis is greater than the benchmark in Global Equities and Fixed Income. Trans-Tasman exposure is aligned to the benchmark and a small detractor to the CRO of the fund.

Figure 7.9: Sustainable Conservative Climate Related Opportunities



The Sustainable Plus Balanced fund CRO chart illustrates that the portfolio exposure to CRO on a net basis is better than the benchmarks across all asset classes. However, we note the fund's Trans-Tasman exposure is aligned to the benchmark and a small detractor to the overall fund CRO.

Figure 7.10: Sustainable Plus Balanced Climate Related Opportunities



Capital deployment (fossil fuel analysis)

The capital deployment metric reports the amount of capital expenditure, financing, or investment deployed toward climate-related risks and opportunities. For capital expenditure related to climate risk our fossil fuel analysis reflects the percentage of capital expenditure on the activity (a distinct field, for Coal Mining, Coal Power, Oil & Gas extraction). For capital expenditure related to climate opportunities our green expansion analysis captures the total percentage of a company's capital expenditure invested in the expansion or development of renewable energy projects for the most recent fiscal year.

The below results are shown for the Mercer Balanced fund, the Sustainable Conservative fund and the Sustainable Plus Balanced fund as at 30 June 2023.

Table 7.7: Fossil fuel analysis for selected funds as at 30 June 2023

	Fossil Fuel Capital Deployment Metric	Green Capex Opportunities Metric
Mercer Balanced	2.4%	6.3%
Sustainable Conservative	3.1%	4.4%
Sustainable Plus Balanced	1.2%	6.2%
MSCI World Ex Tobacco Ex CW	7.1%	4.7%

All of the representative funds have a significant lower aggregate Fossil Fuel Capital Deployment metric compared to the MSCI World Ex Tobacco Ex CW. This can be explained by the diversified nature of the portfolios across asset classes. For the Sustainable Conservative fund and the Sustainable Plus Balanced fund, it is worth noting that there are fossil fuel exclusions applied to equities (and credit for the Sustainable Plus Balanced fund) exposures⁵³.

By contrast, the Green Capital Expenditure Opportunities metric seeks to identify the percentage of companies' capital expenditure to renewable energy projects. Both the Mercer Balanced fund and the Sustainable Plus Balanced fund have greater exposure than the MSCI World Ex Tobacco Ex CW even with their more diversified asset allocation. The Sustainable Conservative fund presents a lower exposure to companies with renewable energy project capital expenditure given the fund's lower equities exposure.

Portfolio Alignment - % with Science Based Targets Initiative ('SBTi') approved targets

Portfolio alignment metrics aim to measure what proportion of the companies in each portfolio have validated net zero decarbonisation targets that have been independently assessed by a third party (SBTi). This is indicating alignment with the low carbon transition. This measure is expressed as a % of each portfolio with validated approved net zero decarbonisation targets as assessed by the SBTi. For comparison, we have included the MSCI World Ex Tobacco Ex CW SBTi metrics.

The results below are shown for the Mercer Balanced fund, the Sustainable Conservative fund and the Sustainable Plus Balanced fund as at 31 December 2023.

Table 7.8: Portfolio Alignment with SBTi approved targets for selected funds as at 31 December 2023

	% with SBTi validated targets
Mercer Balanced	32.9%
Sustainable Conservative	37.2%
Sustainable Plus Balanced	43.3%
MSCI World Ex Tobacco Ex CW	44.0%

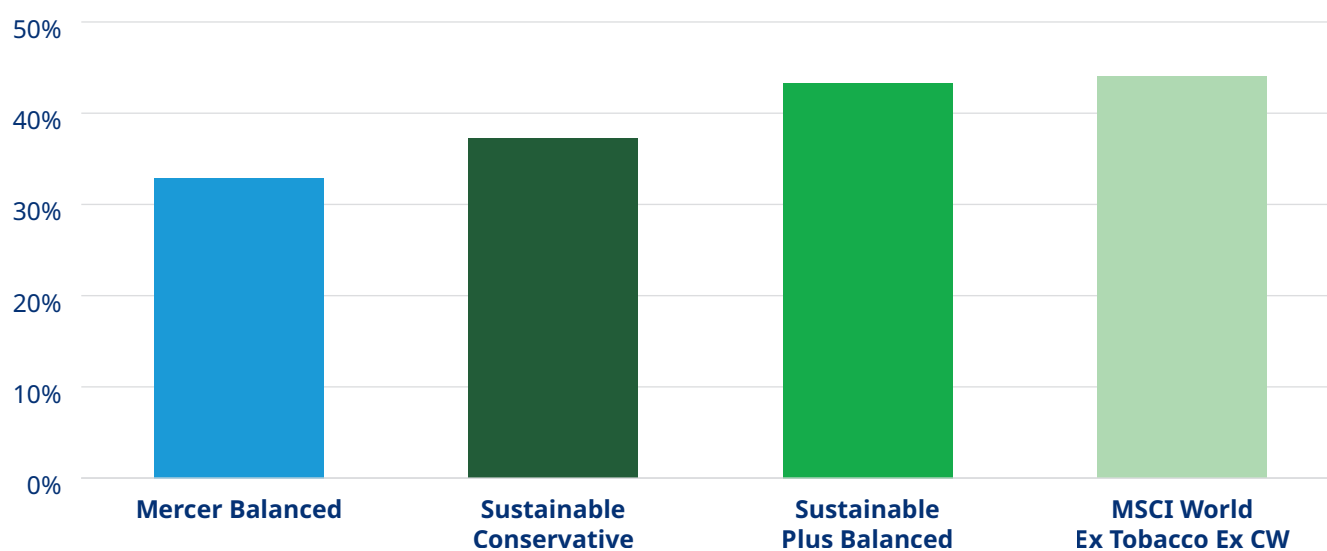
⁵³ For further information on exclusion definitions please refer to Mercer's SI Policy, the relevant fund's SIPO, and Mercer website(s).



Overall, we note that the funds presented here have exposure to SBTi validated targets underlying holdings albeit lower than the MSCI World Ex Tobacco Ex CW. This can be attributed to the active nature of the underlying managers in sizing each holding in their strategies or the assessment by these managers to include a company or not in its portfolio regardless of a company commitment to adhere to SBTi.

Figure 7.11: Portfolio alignment with SBTi approved targets for selected funds as at 31 December 2023

% of funds with SBTi validated targets



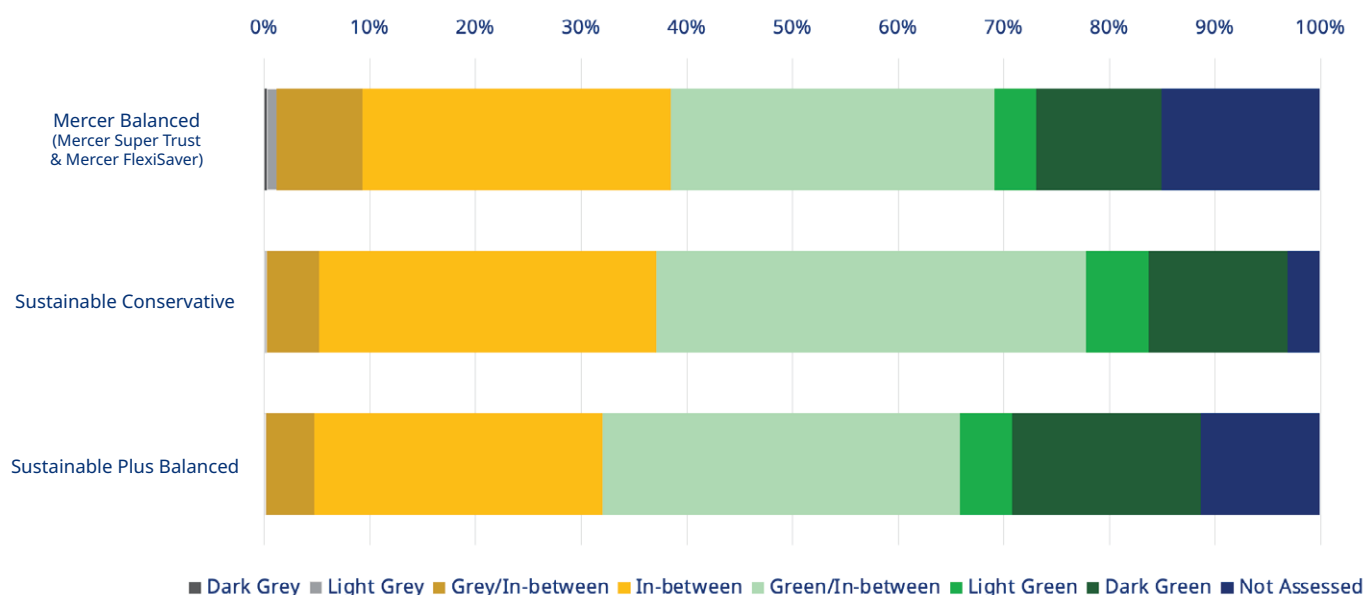
Transition capacity

In addition to the metrics tracked and assessed above, we also focus on understanding the transition capacity of the Mercer Funds captured through Mercer's ACT tool. The tool aggregates multiple climate-related metrics to provide a forward-looking view of transition capacity on a spectrum. While it is not a single metric that can be monitored over time, it is proving to be beneficial for looking forward and assessing potential stranded asset risk and identifying the most appropriate priorities for future emissions reductions.

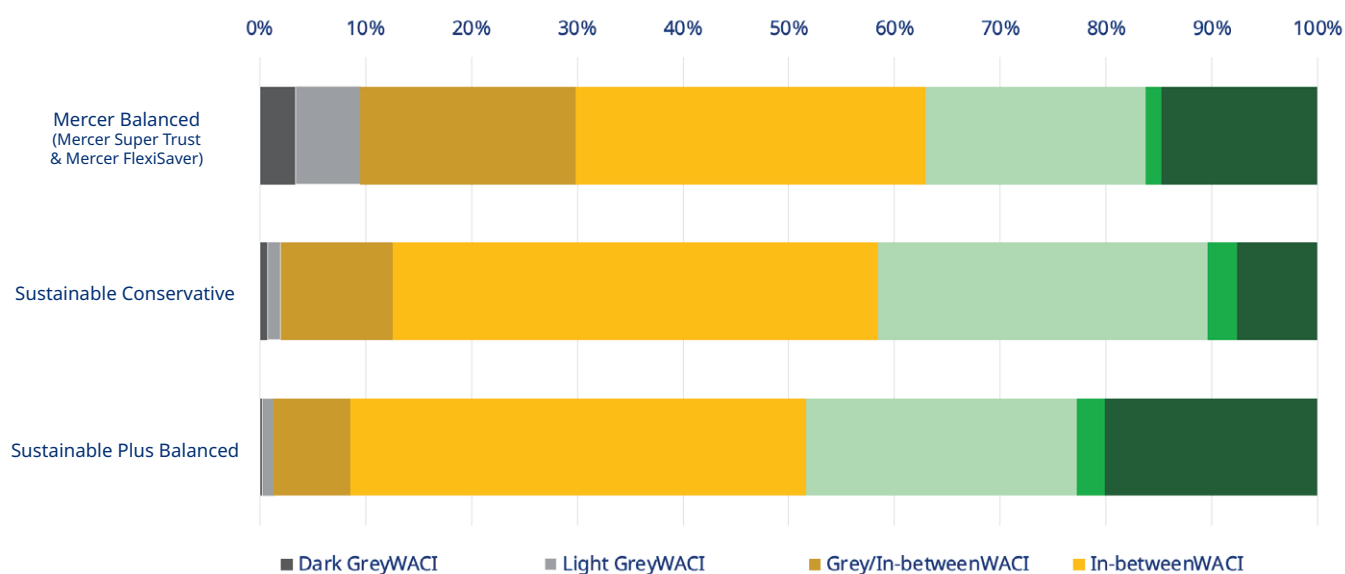
The below graphics illustrate the climate transition assessment (using the ACT tool) for the Mercer Balanced fund, the Sustainable Conservative fund and the Sustainable Plus Balanced fund as at 31 December 2023.

7.12: Climate transition assessment for selected funds as at 31 December 2023

Analytics for Climate Transition (ACT) Corporate Assessment by Weight (%)

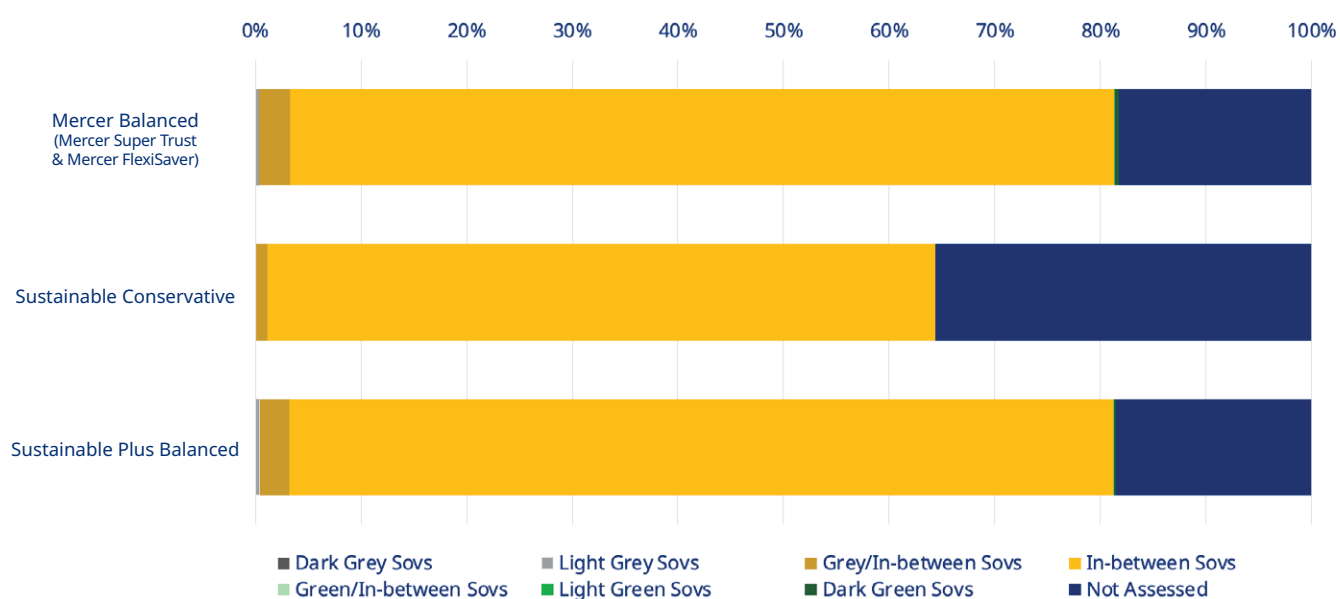


Analytics for Climate Transition (ACT) Corporate Assessment by WACI (%)

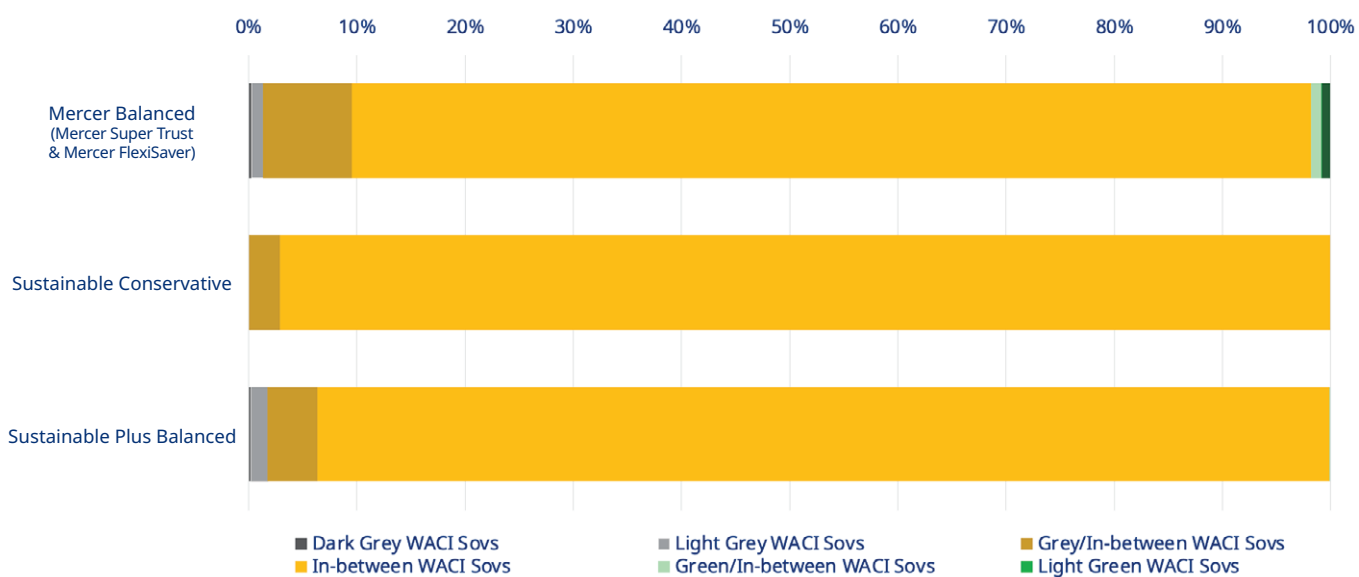




Analytics for Climate Transition (ACT) Sovereign Assessment by Weight (%)



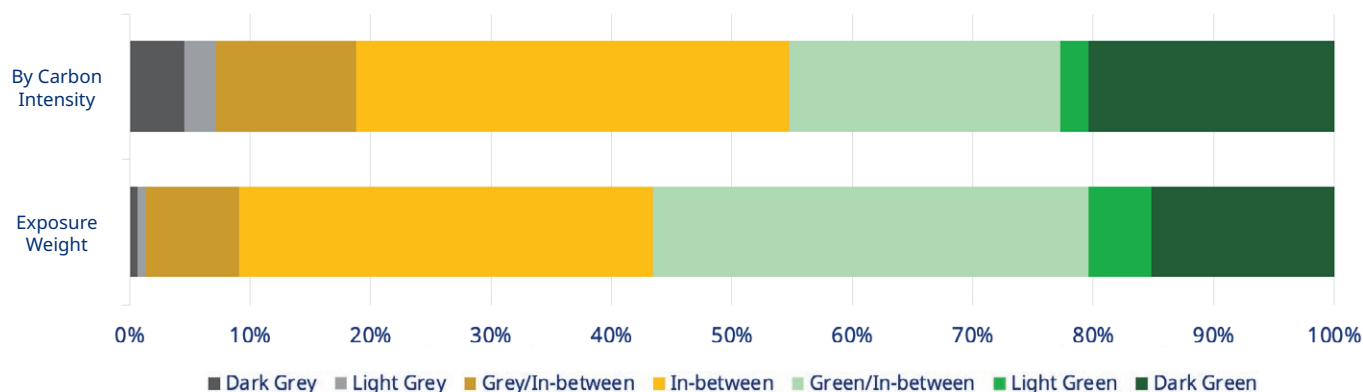
Analytics for Climate Transition (ACT) Sovereign Assessment by WACI (%)



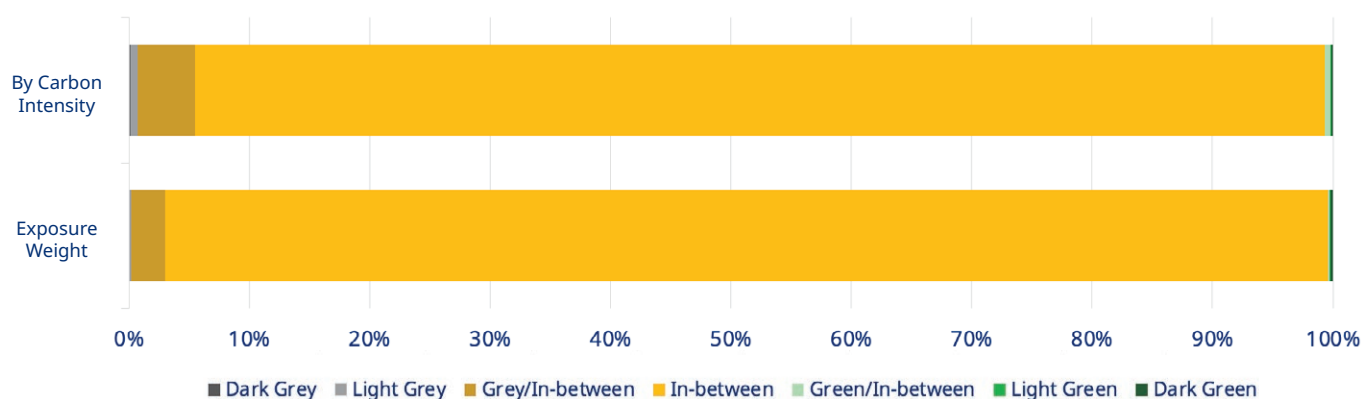
The below graphics illustrate the climate transition assessment (using the ACT tool) for the total assessable⁵⁴ Mercer Funds captured under this Statement as at 31 December 2023.

Figure 7.13: Climate transition assessment for the total assessable Mercer Funds in this Statement as at 31 December 2023

Mercer Funds Analytics for Climate Transition (ACT) Corporate Transition Assessment



Mercer Funds Analytics for Climate Transition (ACT) Sovereign Transition Assessment



The Grey
high carbon intensity,
low transition capacity

The In-between
varying carbon intensity and
transition prospects

The Green
low carbon intensity,
high transition capacity

Analytics for Climate Transition (ACT) Corporate Transition Assessment

Mercer Funds in aggregate	Dark Grey	Light Grey	Grey/In-between	In-between	Green/In-between	Light Green	Dark Green
By weight	0.6%	0.7%	7.9%	34.4%	36.3%	5.1%	15.1%
By Carbon Intensity	4.1%	2.9%	12.2%	36.7%	23.1%	2.1%	18.8%

Analytics for Climate Transition (ACT) Sovereign Transition Assessment

Mercer Funds in aggregate	Dark Grey	Light Grey	Grey/In-between	In-between	Green/In-between	Light Green	Dark Green
By weight	0.0%	0.3%	2.9%	96.4%	0.1%	0.0%	0.3%
By Carbon Intensity	0.1%	0.6%	4.2%	74.3%	0.4%	0.0%	0.2%

⁵⁴ noting approximately 82% excluding cash of the aggregate Mercer Funds captured under this Statement by weight are captured as assessable in the analysis, due to data availability.

The Mercer Funds in aggregate have 1.2% of corporate exposure by weight to dark grey and light grey assets, which are responsible for 6.6% of the total assessed portfolio WACI. Meanwhile, only 0.3% of the Mercer Funds in aggregate have sovereign exposure by weight to dark grey and light grey and are responsible for 0.6% of the total assessed WACI. These carbon-intensive exposures are monitored regularly so we can manage and engage in line with the Climate Plan.

A further breakdown by asset class revealed that Australian equity, as well as listed infrastructure, were the greatest contributors to the grey assets, while global SR equities and listed property contributed the most to green assets.

Within the aggregated fund reported under this Statement, 19.8% of our corporate exposure and 0.3% of our sovereign exposure by weight are categorised as high transition capacity (light and dark green).

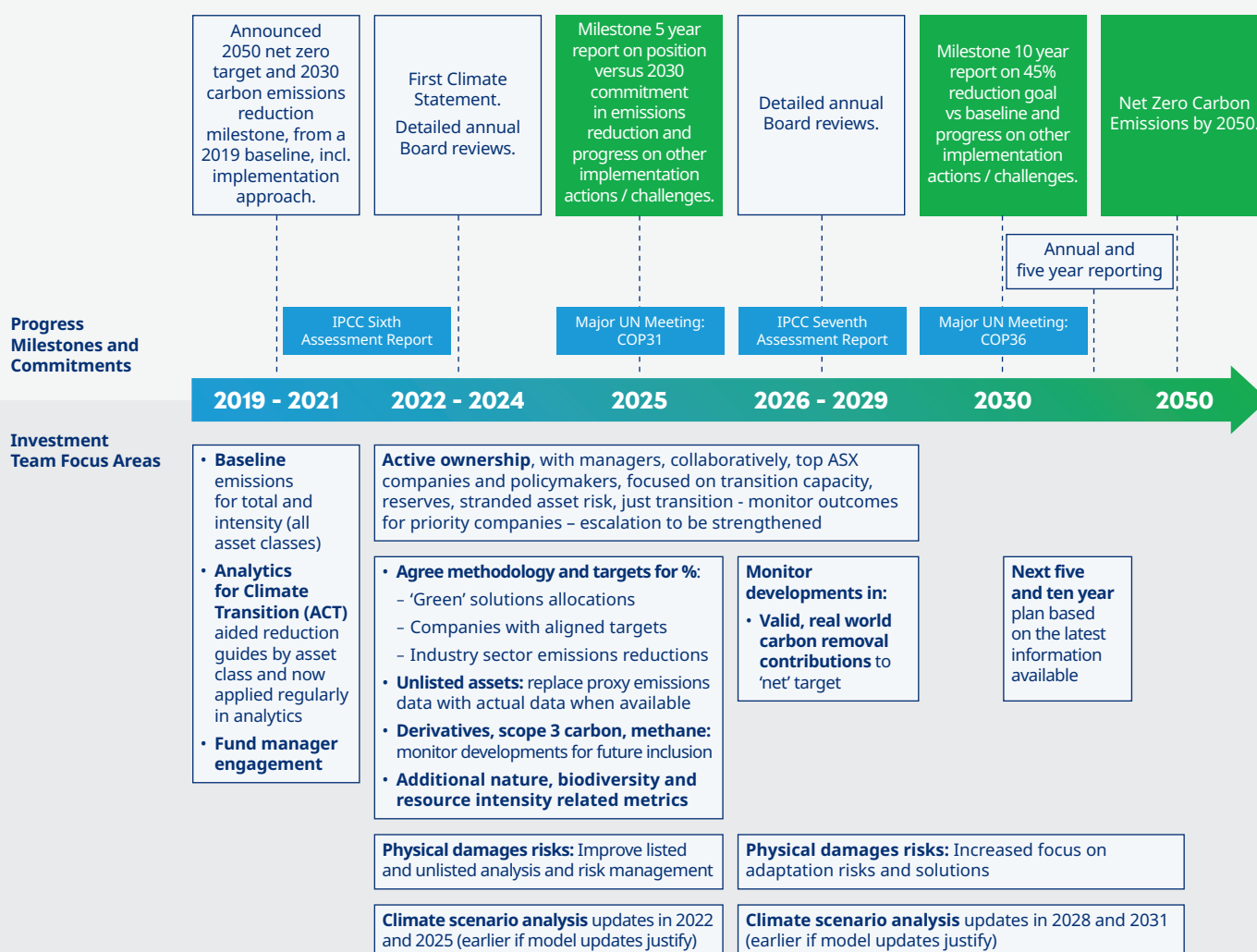
Out of the Mercer Funds captured under this Statement (\$6.1bn as at 31 December 2023) this analysis covers approximately 82% including cash fund and 85% excluding cash funds out of the total reported FUM in this Statement. We do not have sufficient data to include asset classes like alternatives and private equity, and unlisted assets are excluded from this analysis.

Looking forward

The timeline below illustrates our key priorities over the short, medium and long term. As the industry and investor needs evolve, we anticipate that we will continue to develop in this area.

Figure 7.14: Roadmap over the short, medium and long term

A Roadmap to 2025 and 2030



Appendix A: Climate Scenario Model

We use climate change scenario analysis to support strategic asset allocation decisions by testing resilience under multiple potential future outcomes. These scenarios cover a range of policy assumptions, market responses and temperature outcomes.

The Mercer climate scenarios are modelled using the macro-econometric (non-equilibrium) model of Cambridge Econometrics (**'the E3ME climate model'**), delivered in collaboration with Ortec Finance. Mercer's collaboration with Cambridge Econometrics and Ortec Finance aims to ensure the scenarios are grounded in the latest climate and economic research and give practical insights.

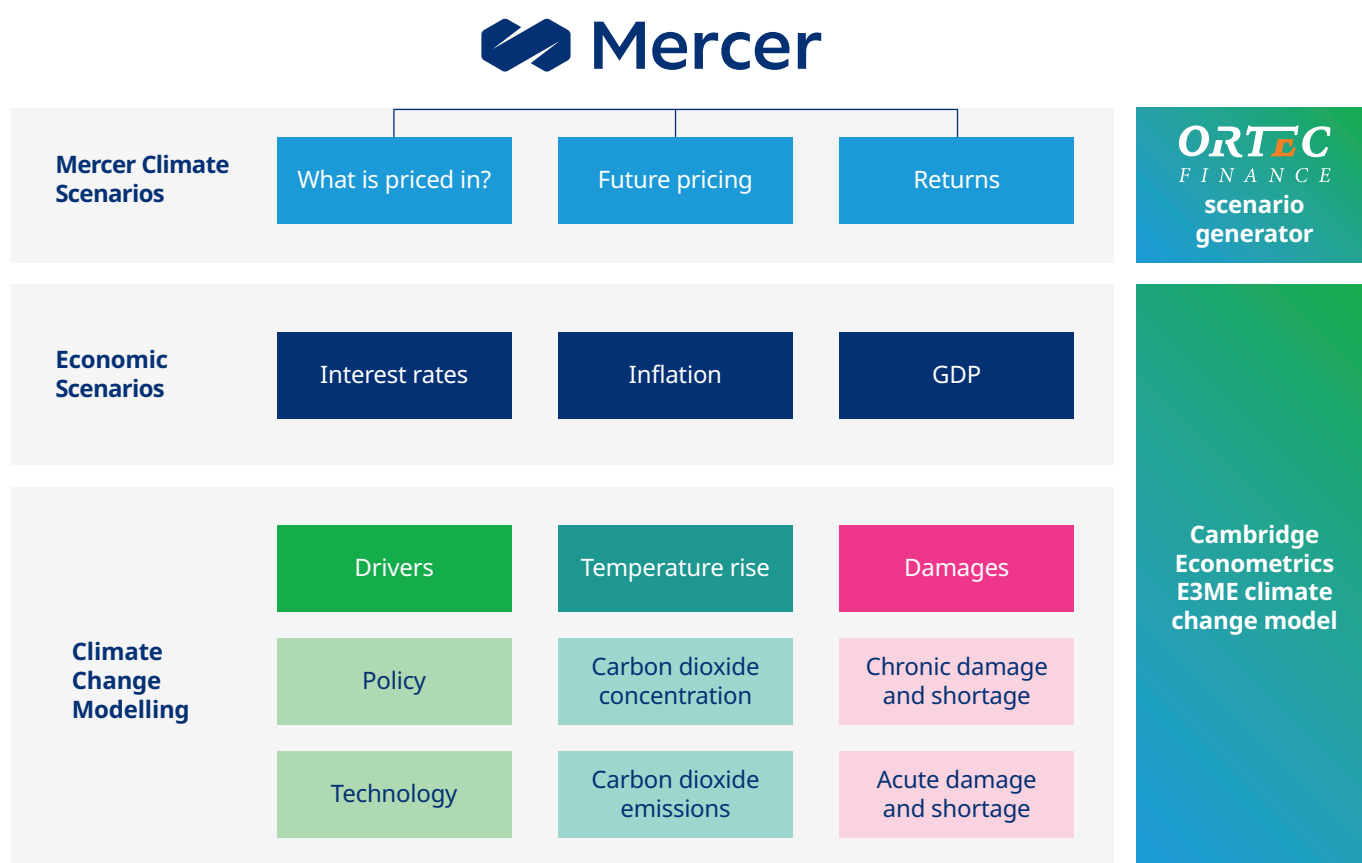
More about the climate scenarios

Mercer's climate scenarios build investment modelling on top of the economic impacts of different climate change scenarios within the Cambridge Econometrics E3ME climate change model.

Each scenario covers a specific level of warming, driven by levels of carbon dioxide ('CO₂') and other greenhouse gases ('GHGs'). These levels are determined by the policies enacted and the technological developments. The impacts of the warming are shown in the physical risks. E3ME maps this to economic impacts and Ortec Finance's scenario generator maps the economic impacts to investment returns by making assumptions on what's currently priced in and how future pricing shocks will occur.

Mercer's scenarios include Mercer's views on what is priced in and are built on Mercer's climate-aware capital market assumptions.

Figure A.1: Mercer's Climate Scenario Construction Model



How does the modelling work?

The diagram above provides an overview of how the scenarios are constructed in multiple layers, including investment scenarios, economic scenarios and climate scenarios.

Potential financial impacts are driven by two key sources of change:

- 1. The physical risks expected from an increase in average global temperatures, and
- 2. The associated transition to net zero.

The figure below demonstrates some of the potential risk factors associated with these key sources of change.

Figure A.2: Physical risk factors



The scenarios are not built on the Network for Greening the Financial System (‘NGFS’) scenarios but can be mapped to the NGFS framework including the orderly and disorderly transition and increased warming and physical damages scenarios. A key differentiating factor in our scenarios is the forward pricing-in of stress tests. The September 2022 NGFS update has not been considered in the CAST analysis presented in this Statement.

- i) Scenario stress testing is embedded into the Mercer/Ortec scenarios, while the NGFS scenarios do not incorporate this.
- ii) Pricing-in shocks are captured before the actual risk event. For example, the physical risk is now assumed to be priced in within current investor timeframes, rather than in 2100.

The baseline comparison is Mercer’s view on what is priced in today, reflecting capital market assumptions and a weighted combination of the three climate scenarios given current policies.



Modelling assumptions

Table A.1: Modelling assumptions used in this Statement

	Rapid Transition	Orderly Transition	Failed Transition
Summary	Sudden divestments in 2026 to align portfolios with to Paris Agreement goals have disruptive effects on financial markets with sudden repricing followed by stranded assets and a sentiment shock.	Political and social organisations act quickly and predictably to implement the recommendations of the Paris Agreement to limit global warming to below 2°C.	The world fails to meet the Paris Agreement goals and global warming reaches 4.3°C above pre-industrial levels by 2100. Physical climate impacts cause large reductions in economic productivity and increasing impacts from extreme weather events.
Cumulative emissions	416 GtCO ₂ (2020-2100) – most closely corresponding to the ‘lowest emissions’ IPCC pathway: SSP1 – RCP1.9.	810 GtCO ₂ (2019-2020) – most closely corresponding to the ‘low emissions’ IPCC pathway: SSP1 – RCP2.6.	5,127 GtCO ₂ (2020-2100) – most closely corresponding to the ‘high emissions’ IPCC pathway: SSP3 – RCP7.0.
Temperature change	Average temperature increase of 1.5°C by 2100 in line with the Paris Agreement. Under this scenario, the average temperature increase stabilises at 1.5°C around 2050.	Average temperature increase of 1.8°C by 2100. This scenario includes additional economic damage consistent with ~1.8°C of average temperature rise – peaking in 2070. The additional damage under this scenario could be associated with further human emissions or greater impacts from feedback loops and tipping points.	Average temperature increase of >4°C by 2100.
Key policy & tech assumptions	An ambitious policy regime is pursued to encourage greater decarbonisation of the electricity sector and to reduce emissions across all sectors of the economy. Higher carbon prices, larger investment in energy efficiency and faster phase out of coal-fired power generation under a Rapid Transition. This is earlier and more effective under a Rapid Transition than the Orderly Transition, which allows for less investment in energy efficiency and bioenergy with carbon capture and storage.		Existing policy regimes are continued with the same level of ambition.
Financial climate modelling	Pricing in of transition and physical risks of the coming 40 years occurs within one year in 2026. As a result of this aggressive market correction, a confidence shock to the financial system takes place in the same year.	Pricing in of transition and physical risks until 2050 takes place over the first 4 years. The additional damage, beyond 1.5°C, impacts asset performance on a year-by-year basis with no advance pricing in.	Physical risks are priced in two different periods: 2026-2030 (risks of first 40 years) and 2036-2040 (risks of 40-80 years).
Physical risk impact on GDP	Physical risks are regionally differentiated, consider variation in expected temperature increase per region and increase dramatically with rising average global temperature. Physical risks are built up from: <ul style="list-style-type: none"> Gradual physical risks associated with rising temperature (agricultural, labour and industrial productivity losses) Economic impacts from climate-related extreme weather events Current modelling does not capture environmental tipping points or knock-on effects (e.g., migration and conflict).		
Physical risk impact on inflation	Gradual physical impact (supply shocks) on inflation included through risks to agriculture and change in food prices. Total impact on a Global CPI Index is +2% in 2100.	No explicit modelling of physical risk impact on inflation (supply-side shocks). Impact on inflation follows the historical relationship between GDP and CPI.	Severe gradual physical impact (supply shocks) on inflation included through risks to agriculture and change in food prices. Total impact on a Global CPI Index is +15% in 2100.

While there are many benefits, there are also limitations associated with any modelling. Further detail is provided later in this Appendix.

Risks and opportunities

Transition Risks and Opportunities

We reviewed the potential financial and economic risks and opportunities from the transition to net zero (that is, one that has a low or no reliance on fossil fuels) in areas such as Technology and Policy.

Risks may include the possibility of sudden asset re-pricing events, or increased costs, associated with high-carbon activities and products. There may also be opportunities from low-carbon technology developments.

The transition to net zero emissions is already underway, as evidenced by the disruption in major sectors such as energy and utilities, and increasingly in transport and the built environment. These technology and economy-driven changes are emerging iteratively, with a growing policy ambition globally from governments, companies and investors, together with individual demand.

These developments may increase the likelihood of a lower warming scenario and the near-term risks and opportunities this scenario may present.

Physical Risks and Opportunities

The higher the future level of global temperature rises, the more frequent and significant physical risks are expected to be. Physical risks may include:

- Availability of natural resources (water, food, materials, biodiversity loss)
- Chronic Damage (longer-term shifts in climate patterns causing sea levels to rise or heat waves)
- Acute Damage (major catastrophes from storms, wildfires, droughts, floods)

In shorter timeframes, transition risk tends to dominate. However, over longer timeframes, physical risks and the associated damage (both anticipated and realised) is likely to be the key driver of climate impacts. Physical damage risk and loss are largely expected to emerge in the medium to longer term and to require increasing prioritisation, given emerging evidence for perils eventuating sooner than anticipated in multiple regions⁵⁵. These tend to present the greatest risk where the physical assets of a company are critical to its financial outcomes (for example an office building, a network of factories or a timber plantation)⁵⁶. A key strength of our scenario analysis is that it aims to allow for climate impacts to be priced in before they happen. This reflects likely market dynamics and our expectation that climate impacts can be expected within investment timeframes.

Climate scenario modelling limitations

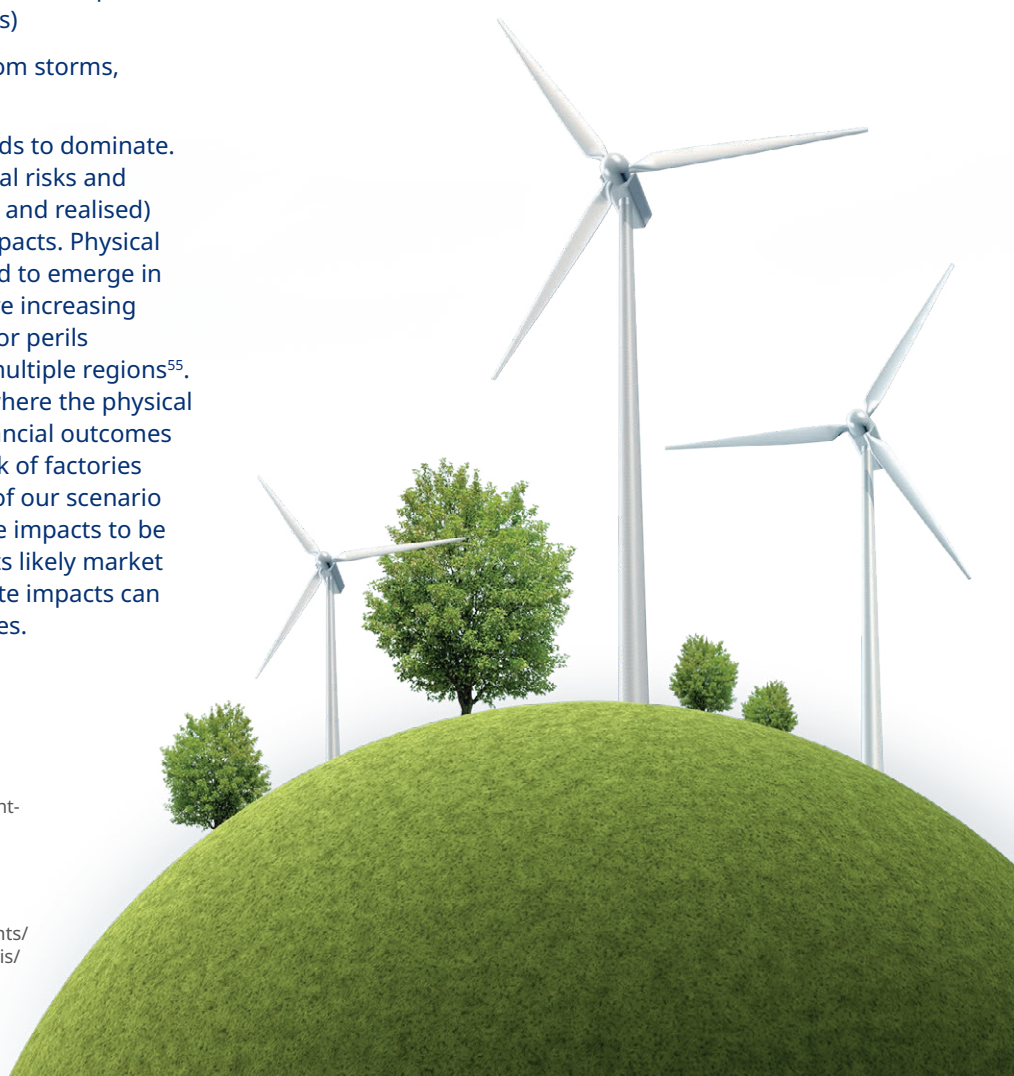
1. The further into the future you go, the less reliable any quantitative modelling is likely to be.
2. Looking at average asset class returns over multi-decade timeframes leads to invariably small impacts. The results are potentially significantly underestimated.
3. There is a reasonable likelihood that physical risks are grossly underestimated. Feedback loops or tipping points, like permafrost melting, are challenging to models, particularly around the timing and the speed at which it could accelerate.
4. Financial stability and insurance breakdown is not modelled. A systemic failure may be caused by either an uninsurable 4°C physical environment or due to the scale of mitigation and adaption required to avoid material warming of the planet.
5. Most adaptation costs and social factors are not priced into the models. These include population health and climate-related migration.

For more information, please refer to Mercer's December 2023 *Investing in a Climate Crisis* paper and the Limitations noted on page 6 of that paper⁵⁷.

⁵⁵ Intergovernmental Panel on Climate Change Sixth Assessment Report - <https://www.ipcc.ch/assessment-report/ar6/> (synthesis report released March 2023).

⁵⁶ See Mercer's Zero places to hide paper <https://www.mercer.com/our-thinking/wealth/zero-places-to-hide.html>

⁵⁷ <https://www.mercer.com/en-gb/insights/investments/investing-sustainably/investing-during-climate-crisis/>



Appendix B: Analytics for climate transition methodology

Mercer's proprietary ACT tool provides a bottom-up company-level perspective on transition risk and capacity across asset classes. A transition scenario, Rapid or Orderly, is increasingly possible, as the number of climate laws and decisions made by global policymakers to attempt to curb global emissions increase. That said, global emissions are still rising. As financial climate change related disclosure regulation covers more companies and asset owners/managers, the impact of climate change is likely to be increasingly priced into markets and impact asset prices. Government policy and regulation, the Paris Agreement, technology tipping points and pricing shifts in the energy sector, along with consumer sentiment and company actions are all contributing to this pricing in. A transition scenario presents the greatest short-term risks and opportunities in different sectors over the next decade to investors and therefore it is critical to understand risk exposures and where opportunities from the transition may lie.

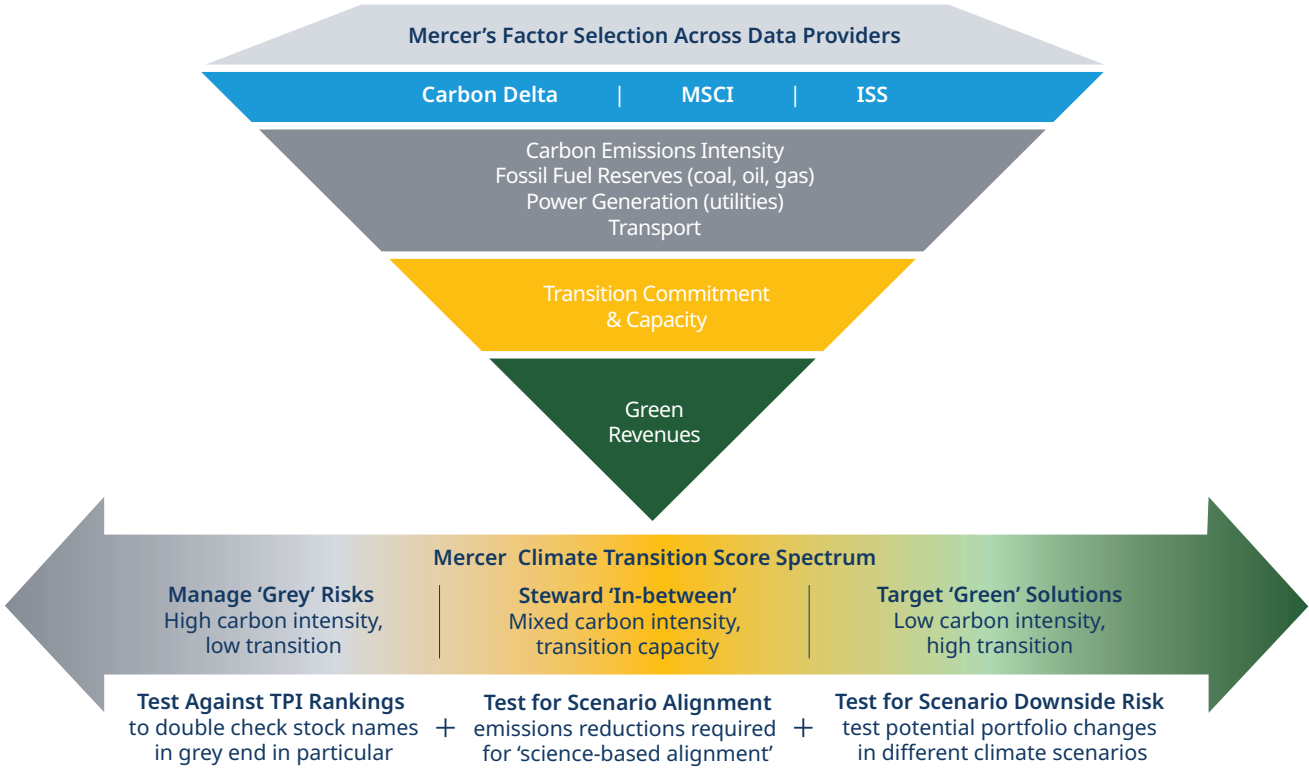
Figure B.1:

Overview of the transition plan based on ACT



ACT draws on multiple third-party metrics for company level emissions and reserves, transition commitments and green revenues and other UN SDG indicators. Mercer has selected and weighted the metrics to provide a single transition capacity assessment, categorising companies and therefore strategies and portfolios on a spectrum — going from grey, high-carbon and low-transition investments, to green, those already low-/zero-carbon or climate solutions, and the many companies in the middle, the in-between with varying transition capacities.

Figure B.2: Overview of Mercer’s transition capacity assessment



Appendix C: Net Zero Target

We have undertaken a step-by-step process to manage climate transition risk and underpin Mercer's Net Zero Target, supported by what we believe to be a robust analysis and our Climate Plan. We expect to achieve this without altering investment objectives or expected risk/return profiles to deliver on both short and long-term investor outcomes.

Figure C.1:

Our climate transition framework

Mercer has adopted a spectrum approach that aims to assess transition risk and capacity across portfolios using our Analytics for Climate Transition (ACT) tool.

Manage 'Grey' Risks
High carbon intensity,
Low transition capacity

Steward the 'In-between'
Varying carbon intensity
and transition prospects

Target 'Green' Solutions
Low carbon intensity,
high transition capacity

2020

2030

2050

1. Calculate the baseline

2. Analyse portfolio possibilities

3. Set measurable goals

4. Implement the plan



Integration

- Incorporate analysis into strategy and portfolio decisions
- Optimise SAA and seek asset class alignment
- Monitor market pricing*



Active Ownership

- Engage with appointed investment managers and companies and utilise voting rights to influence disclosure and practices aligned with 2030 and 2050 ambitions, including via collaborative initiatives



Investment

- Allocate to low-carbon / sustainability themed solutions
- Monitor technology developments and pricing*



Screening

- Screen to monitor high-carbon exposures with low transition capacity

Disclosure consistent with the TCFD and CRD framework – including metrics and targets

*'Decarbonisation at the Right Price' (DARP) is a term used to describe this market aware approach to transition objectives

Carbon reduction targets are much like performance targets. They help to set expectations and provide goalposts to track and measure progress. We allocate investment capital to many companies across local and global economies and, consistent with Mercer's global thinking, we expect that setting a public carbon reduction target, underpinned by a thoughtful Climate Plan focused on genuine economic transition, sends an important signal that we, alongside like-minded investors, companies and governments, can play a role in achieving a 'well below 2°C' scenario.

To meet our targets, we have the following key levers to apply:

- Strategic Asset Allocation and portfolio construction decisions to allocate to solutions in line with our climate goals and consistent with our fiduciary responsibilities.
- Asset class approach to implementation. For example, selecting strategies and mandate guidelines with consideration for climate goal alignment and other risk/return factors.
- Active ownership and voting and engagement tools, to ultimately target transition within company business models.
- Allocation to sustainable infrastructure to support the energy transition that underpins significant parts of the whole economy.

We seek to work closely with our investment managers to identify and manage a staged emissions reduction plan, oversee fund allocations to climate solutions and steward an increase in transition capacity across the Mercer Funds. We monitor and report progress on reductions to Mercer Funds' investors/members annually. These targets are being embedded within necessary governance, risk management and strategy processes and we communicate them to relevant partners and third parties (such as relevant investment managers and data providers).



Appendix D:

Metrics Methodology

Data sources

Our climate-related metrics are sourced from MSCI ESG and ISS ESG using stock list data provided by our investment managers and/or appointed custodian.

Scope of emissions

Scope 1 and 2 emissions are not attributed to the activities of the Mercer Funds themselves, consequently, references to emissions data relate to those of the portfolio holdings within each of the Mercer Funds.

Only Scope 1 and 2 emissions data of portfolio holdings are included in this Statement, except where noted. This means that for some companies, carbon assessments could be considered an understatement. In accordance with adoption provision 4 contained within NZ CS 2, Scope 3 emissions. We believe Scope 3 emissions remains largely estimated. Scope 1, 2 and 3 emissions of the portfolio holdings are as defined by the GHG protocol.

Data coverage

Data coverage refers to the proportion of an asset in which the various climate-related metric data is available. There are gaps in the data due to:

- Some public listed companies are not publishing climate-related data or are providing poor quality data, particularly public equity and corporate bonds. It is also challenging to obtain data for emerging market equity due to general disclosure and transparency issues.
- Many private companies do not currently produce climate-related data. In addition, coverage for private markets, such as private equity and private debt, is low or zero for mature funds.
- Sovereigns or governments may not publish climate-related data in the public domain. This is a particular challenge for emerging market debt.
- Short-term instruments, such as secured finance assets, have limited data available due to the short-term nature of the individual assets.
- For the long-dated property portfolio, the occupiers of the buildings in the portfolio have full operational control and there are no Scope 1 or 2 emissions associated with the investments. Our investment managers are looking to improve the collection of Scope 3 emissions data – this includes occupier activities where they have direct utility supplier contracts.

Metrics in this Statement use a pro-rata approach to scale up each climate metric to present the data as if full coverage was available for each asset. This assumes that the part of an investment fund that does not have data available has the same investment characteristics (for example, same sector or geography) as the part where there is data.

Figure D.1 Overview of Mercer's metrics calculations methodology

Emissions-based	Absolute Emissions	$\Sigma \frac{\$ \text{Investment}}{\text{issuer's EVIC}} * \text{Scope 1 \& 2 emissions}$
	Carbon Footprint	$\Sigma \left[\frac{\$ \text{Investment}}{\text{issuer's EVIC}} * \text{Scope 1 \& 2 emissions} \right]$ \$ Portfolio value (\$M)
	Weighted Average Carbon Intensity (WACI) (corporate assets only)	$\Sigma \frac{\$ \text{Investment}}{\$ \text{Portfolio value}} * \frac{\text{Scope 1 \& 2 emissions}}{\$ \text{M of issuer's Revenue}}$
	GDP-based WACI (Sovereign debt assets only)	$\Sigma \frac{\$ \text{Investment}}{\$ \text{Portfolio value}} * \frac{\text{Total GHG emissions of country}}{\$ \text{M of issuer's Revenue}}$
Portfolio alignment	SBTi validated targets	Percentage of each Mercer Fund with validated net zero decarbonisation targets as assessed by the Science Based Targets Initiative (SBTi).
Non-emissions-based	Data coverage	Percentage of the portfolio covered where data is available and verified.
	Climate Value at Risk	This demonstrates the expected return contribution from changes arising in a 1.5°C scenario out to 2100. It is designed to provide a forward-looking and returns-based valuation assessment to measure climate-related risks and opportunities in an investment portfolio across top-down risks and opportunities (transition and physical exposures) and bottom-up risks and opportunities (policy / economic impacts and technology / company-specifics).

Appendix E: Technical Climate Scenario Analysis, Climate Impact and Metrics

Mercer FlexiSaver⁵⁸ and Mercer Super Trust

Funds reported under this Statement and their Strategic Asset Allocation (SAA)

Modelling Asset Class	Mercer Conservative	Mercer Moderate	Mercer Balanced	Mercer Growth	Mercer High Growth	Mercer Shares	Mercer Cash
Global Developed Equity	8.4%	16.0%	24.7%	33.7%	42.4%	47.9%	-
Emerging Markets Equity	-	2.5%	4.0%	6.0%	7.0%	9.0%	-
New Zealand Equity	5.0%	10.0%	14.0%	18.0%	20.0%	26.0%	-
All World Global Equity - ESG Tilting	1.2%	2.0%	3.1%	4.1%	5.2%	5.7%	-
Passive Paris Aligned Equity	2.4%	4.0%	6.2%	8.2%	10.4%	11.4%	-
Absolute Return Fixed Income (ARFI)	2.0%	3.0%	3.0%	2.0%	1.0%	-	-
Global Investment Grade Credit	15.0%	12.0%	11.0%	5.5%	1.0%	-	-
Listed Infrastructure	1.0%	1.5%	2.0%	3.0%	3.0%	-	-
Global Private Infrastructure	1.0%	2.0%	3.0%	3.5%	1.0%	-	-
Global Government Bonds	18.0%	14.0%	11.0%	5.5%	1.0%	-	-
New Zealand Sovereign	15.0%	13.0%	10.0%	5.0%	3.5%	-	-
Unlisted property Trans Tasman	1.0%	2.0%	3.0%	3.5%	3.5%	-	-
Global Real Estate	-	-	-	-	-	-	-
Cash	30.0%	18.0%	5.0%	2.0%	1.0%	-	100.0%

⁵⁸ The New Zealand Defence Force FlexiSaver Scheme is not a separate managed investment scheme, but a section within Mercer FlexiSaver. In this Statement, information for the funds within the New Zealand Defence Force FlexiSaver Scheme is reflected in the Mercer FlexiSaver funds.

Mercer KiwiSaver scheme

Funds reported under this Statement and their Strategic Asset Allocation (SAA)

Modelling Asset Class	Sustainable Conservative	Sustainable Plus Moderate	Sustainable Plus Balanced	Sustainable Plus Growth	Sustainable Plus High Growth	Sustainable Plus Shares	Cash
Global Developed Equity	-	-	-	-	-	-	-
Emerging Markets Equity	-	-	-	-	-	-	-
New Zealand Equity	5.0%	10.0%	14.0%	18.0%	20.0%	26.0%	-
All World Global Equity - ESG Tilting	15.0%	19.6%	30.4%	41.6%	52.0%	59.2%	-
Passive Paris Aligned Equity	-	4.9%	7.6%	10.4%	13.0%	14.8%	-
Absolute Return Fixed Income (ARFI)	-	3.0%	3.0%	2.0%	1.0%	-	-
Global Investment Grade Credit	16.5%	12.0%	11.0%	5.5%	1.0%	-	-
Listed Infrastructure	-	1.5%	2.0%	3.0%	3.0%	-	-
Global Private Infrastructure	-	2.0%	3.0%	3.5%	3.5%	-	-
Global Government Bonds	18.5%	14.0%	11.0%	5.5%	1.0%	-	-
New Zealand Sovereign	15.0%	13.0%	10.0%	5.0%	1.0%	-	-
Unlisted property Trans Tasman	-	2.0%	3.0%	3.5%	3.5%	-	-
Global Real Estate	-	-	-	-	-	-	-
Cash	30.0%	18.0%	5.0%	2.0%	1.0%	-	100.0%

New Zealand Defence Force KiwiSaver Scheme and Defence Force Superannuation Scheme

Funds reported under this Statement and their Strategic Asset Allocation (SAA)

Modelling Asset Class	Conservative	Moderate	Balanced	Growth	High Growth	Shares	Cash
Global Developed Equity	7.8%	13.7%	21.7%	31.0%	37.4%	45.5%	-
Emerging Markets Equity	-	2.0%	3.6%	5.5%	6.6%	9.3%	-
New Zealand Equity	5.0%	9.5%	12.5%	15.5%	20.0%	26.0%	-
All World Global Equity - ESG Tilting	1.9%	3.4%	5.1%	7.0%	8.5%	9.6%	-
Passive Paris Aligned Equity	1.9%	3.4%	5.1%	7.0%	8.5%	9.6%	-
Absolute Return Fixed Income (ARFI)	3.0%	5.0%	7.0%	5.0%	1.0%	-	-
Global Investment Grade Credit	13.5%	10.0%	8.0%	4.0%	1.0%	-	-
Listed Infrastructure	1.8%	4.0%	6.0%	7.0%	7.0%	-	-
Global Private Infrastructure	-	-	-	5.0%	1.0%	-	-
Global Government Bonds	18.5%	14.0%	11.0%	-	-	-	-
New Zealand Sovereign	15.0%	13.0%	10.0%	5.0%	1.0%	-	-
Unlisted property Trans Tasman	--	-	-	-	-	-	-
Global Real Estate	1.8%	4.0%	6.0%	7.0%	7.0%	-	-
Cash	30.0%	18.0%	4.0%	1.0%	1.0%	-	100.0%

Mercer Investment Funds

Funds reported under this Statement and their Strategic Asset Allocation (SAA)

Modelling Asset Class	Mercer Ethical Leaders Conservative Fund	Mercer Ethical Leaders Balanced Fund	Mercer Ethical Leaders Growth Fund	Mercer Ethical Leaders Global Shares Fund	Mercer Ethical Leaders NZ Shares Fund	Mercer Ethical Leaders Hedged Global Fixed Interest Index Fund	Mercer Macquarie Real Return Opportunities Fund	Mercer Macquarie Global Income Opportunities Fund	Mercer Income Generator Fund	Mercer Core Global Shares (Hedged & Unhedged) Fund
Global Developed Equity	13.0%	35.0%	57.5%	-	-	-	7.0%	-	-	100.0%
All World Global Equity	-	-	-	-	-	-	-	-	-	-
All World Global ESG Equity	-	-	-	100.0%	-	-	-	-	-	-
New Zealand Equity	5.0%	20.0%	22.5%	-	100.0%	-	-	-	20.0%	-
Australian Equity	-	-	-	-	-	-	6.0%	-	10.0%	-
Emerging Markets Equity	-	-	-	-	-	-	-	-	-	-
Global High Yield Credit	-	-	-	-	-	-	9.0%	5.0%	-	-
Global Real Estate (listed)	7.0%	10.0%	10.0%	-	-	-	-	-	3.0%	-
New Zealand Composite	25.0%	12.5%	2.5%	-	-	-	-	-	-	-
Absolute Return Fixed Income (ARFI)	-	-	-	-	-	-	-	-	31.5%	-
Global Government Bonds	-	-	-	-	-	55.0%	-	-	-	-
Global Investment Grade Credit	11.3%	5.6%	1.1%	-	-	45.0%	45.0%	72.0%	11.3%	-
Global Bonds	13.8%	6.9%	1.4%	-	-	-	-	-	13.8%	-
Emerging Market Debt – Hard Currency	-	-	-	-	-	-	5.0%	8.0%	-	-
Listed Infrastructure	-	-	-	-	-	-	-	-	5.0%	-
Australasian Listed Property	-	-	-	-	-	-	-	-	2.5%	-
Global Real Estate (listed)	-	-	-	-	-	-	-	-	-	-
New Zealand Fixed Income	-	-	-	-	-	-	-	-	-	-
Hedge Fund	-	-	-	-	-	-	8.0%	-	-	-
Cash	25.0%	10.0%	5.0%	-	-	-	20.0%	15.0%	3.0%	-



Mercer Investment Funds (cont.)**Funds reported under this Statement and their Strategic Asset Allocation (SAA)**

Modelling Asset Class	Mercer Global Shares/Mercer All Country Global Shares Index Fund	Mercer NZ Shares/Mercer NZ Shares Passive Fund	Mercer Macquarie Australian Shares Fund	Mercer Emerging Markets Shares Fund	Mercer Macquarie NZ Fixed Interest Fund	Mercer Macquarie Global Listed Infrastructure Fund	Mercer Australian Property Index Fund	Mercer Macquarie Global Listed Real Estate Fund	Mercer Macquarie NZ Short Duration Fund	Mercer Macquarie NZ Cash Fund
Global Developed Equity		-	-	-	-	-		-	-	-
All World Global Equity	100.0%	-	-	-	-	-	-	-	-	-
All World Global ESG Equity	-	-	-	-	-	-	-	-	-	-
New Zealand Equity	-	100.0%	-	-	-	-	-	-	-	-
Australian Equity	-	-	100.0%	-	-	-	-	-	-	-
Emerging Markets Equity	-	-	-	100.0%		-	-	-	-	-
Global High Yield Credit	-	-	-	-	-	-	-	-	-	-
Global Real Estate (listed)	-	-	-	-	-	-	-	-	-	-
New Zealand Composite	-	-	-	-	100.0%	-	-	-	-	-
Absolute Return Fixed Income (ARFI)	-	-	-	-	-	-	-	-	-	-
Global Government Bonds	-	-	-	-	-	-	-	-	-	-
Global Investment Grade Credit	-	-	-	-	-	-	-	-	-	-
Global Bonds	-	-	-	-	-	-	-	-	-	-
Emerging Market Debt – Hard Currency	-	-	-	-	-	-	-	-	-	-
Listed Infrastructure	-	-	-	-	-	100.0%	-	-	-	-
Australasian Listed Property	-	-	-	-	-	-	100.0%	-	-	-
Global Real Estate (listed)	-	-	-	-	-	-	-	100.0%		
New Zealand Fixed Income	-	-	-	-	-	-	-	-	100.0%	-
Hedge Fund	-	-	-	-	-	-	-	-	-	-
Cash	-	-	-	-	-	-	-	-	-	100.0%

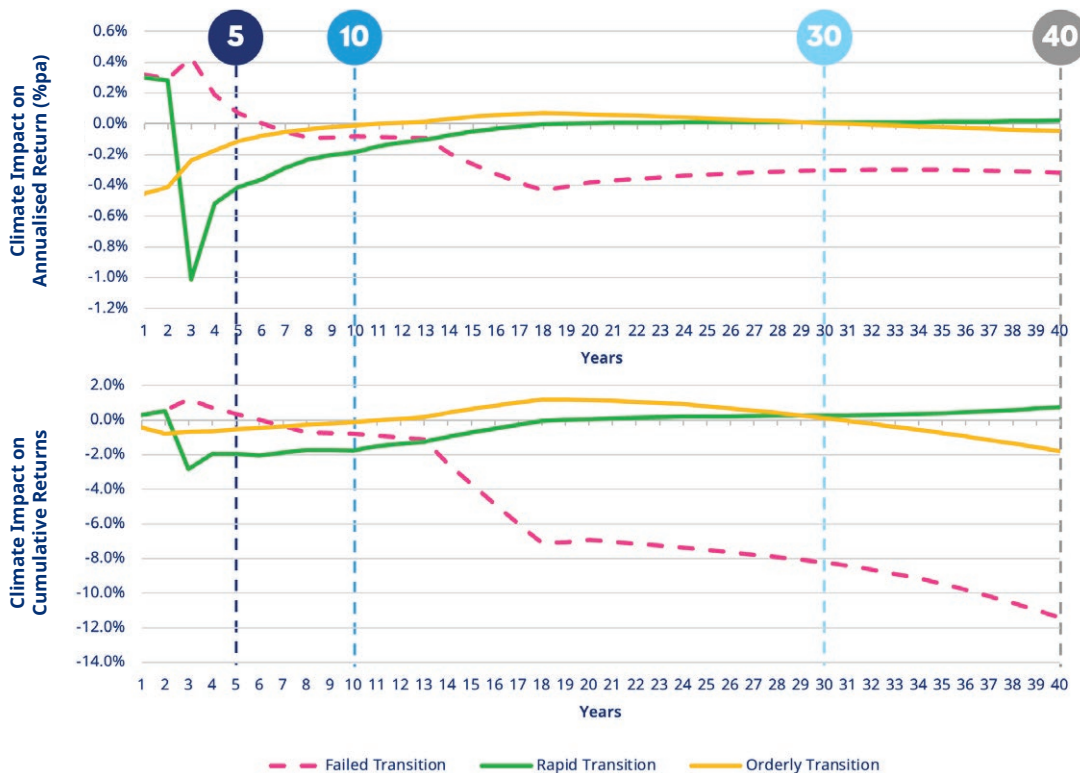


Climate Scenario Analysis, Impact and Metrics



Mercer FlexiSaver⁵⁹, Mercer Super Trust

Mercer Conservative



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about **2.8% (1.0% p.a.)** in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by **1.9% (0.4% p.a.)** over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by **1.8% (0.2% p.a.)**. The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful scenario**. Under this scenario, returns are reduced by **8.2%** on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around **11.4%** on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

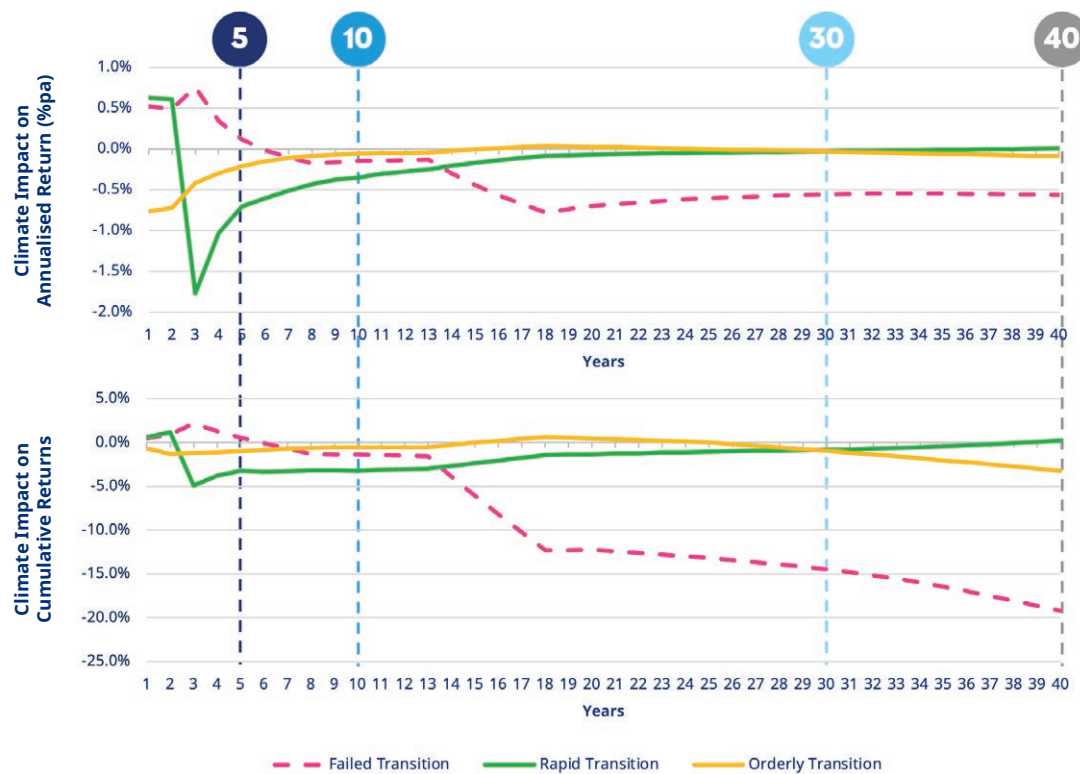
	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	5.5%	-0.4%	-1.9%
Impact at 10 years	5.7%	-0.2%	-1.8%
Impact at 30 years	6.1%	0.0%	0.3%
Impact at 40 years	5.4%	0.0%	0.7%
Orderly Transition			
Impact at 5 years	5.5%	-0.1%	-0.5%
Impact at 10 years	5.7%	0.0%	-0.1%
Impact at 30 years	6.1%	0.0%	0.1%
Impact at 40 years	5.4%	0.0%	-1.8%
Failed Transition			
Impact at 5 years	5.5%	0.1%	0.3%
Impact at 10 years	5.7%	-0.1%	-0.8%
Impact at 30 years	6.1%	-0.3%	-8.2%
Impact at 40 years	5.4%	-0.3%	-11.4%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO ₂ e)	Carbon Footprint (tCO ₂ e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO ₂ e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO ₂ e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO ₂ e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$59	1.0%	59.0%	65.3%	705	46.8	114.3	0.7%	-11.4%	330.4	7,178	7,884	0.01	-0.06	1.8%	4.1%	27.3%

⁵⁹ The New Zealand Defence Force FlexiSaver Scheme is not a separate managed investment scheme, but a section within Mercer FlexiSaver. In this Statement, information for the funds within the New Zealand Defence Force FlexiSaver Scheme is reflected in the Mercer FlexiSaver funds.

Mercer FlexiSaver, Mercer Super Trust

Mercer Moderate



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about **4.9% (1.8% p.a.)** in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by **3.3% (0.7% p.a.)** over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by **3.3% (0.4% p.a.)**. The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful scenario**. Under this scenario, returns are reduced by **14.5%** on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around **19.2%** on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

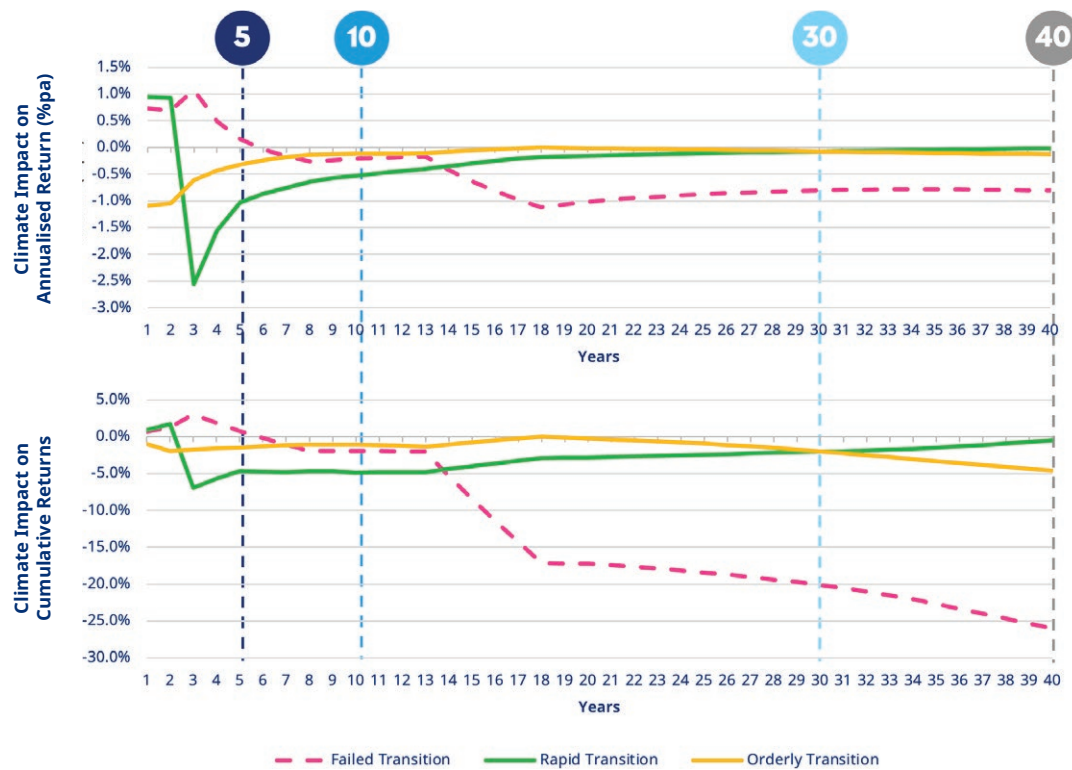
This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	6.5%	-0.7%	-3.3%
Impact at 10 years	6.7%	-0.4%	-3.3%
Impact at 30 years	7.0%	0.0%	-0.8%
Impact at 40 years	6.4%	0.0%	0.2%
Orderly Transition			
Impact at 5 years	6.5%	-0.2%	-1.0%
Impact at 10 years	6.7%	-0.1%	-0.6%
Impact at 30 years	7.0%	0.0%	-0.9%
Impact at 40 years	6.4%	-0.1%	-3.2%
Failed Transition			
Impact at 5 years	6.5%	0.1%	0.5%
Impact at 10 years	6.7%	-0.1%	-1.4%
Impact at 30 years	7.0%	-0.6%	-14.5%
Impact at 40 years	6.4%	-0.6%	-19.2%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$108	1.8%	43.8%	73.2%	2,096	55.2	117.6	1.1%	-11.8%	326.9	9,678	11,773	0.01	-0.08	2.2%	5.7%	30.6%

Mercer FlexiSaver, Mercer Super Trust

Mercer Balanced



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about 7.0% (2.6% p.a.) in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by 4.7% (1.0% p.a.) over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by 4.9% (0.5% p.a.). The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful scenario**. Under this scenario, returns are reduced by 20.1% on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around 26.0% on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	7.4%	-1.0%	-4.7%
Impact at 10 years	7.6%	-0.5%	-4.9%
Impact at 30 years	7.9%	-0.1%	-2.0%
Impact at 40 years	7.3%	0.0%	-0.5%
Orderly Transition			
Impact at 5 years	7.4%	-0.3%	-1.5%
Impact at 10 years	7.6%	-0.1%	-1.1%
Impact at 30 years	7.9%	-0.1%	-2.0%
Impact at 40 years	7.3%	-0.1%	-4.6%
Failed Transition			
Impact at 5 years	7.4%	0.2%	0.7%
Impact at 10 years	7.6%	-0.2%	-1.9%
Impact at 30 years	7.9%	-0.8%	-20.1%
Impact at 40 years	7.3%	-0.8%	-26.0%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$300	4.9%	27.3%	82.2%	7,859	57.8	118.6	1.2%	-11.8%	313.5	15,988	23,846	0.02	-0.09	2.4%	6.3%	32.9%

Mercer FlexiSaver, Mercer Super Trust

Mercer Growth



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about **8.9% (3.3% p.a.)** in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by **6.1% (1.3% p.a.)** over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by **6.3% (0.7% p.a.)**. The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful scenario**. Under this scenario, returns are reduced by **25.6%** on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around **32.7%** on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	8.4%	-1.3%	-6.1%
Impact at 10 years	8.5%	-0.7%	-6.3%
Impact at 30 years	8.8%	-0.1%	-3.1%
Impact at 40 years	8.2%	0.0%	-1.0%
Orderly Transition			
Impact at 5 years	8.4%	-0.4%	-2.0%
Impact at 10 years	8.5%	-0.2%	-1.5%
Impact at 30 years	8.8%	-0.1%	-3.0%
Impact at 40 years	8.2%	-0.2%	-5.9%
Failed Transition			
Impact at 5 years	8.4%	0.2%	0.9%
Impact at 10 years	8.5%	-0.3%	-2.6%
Impact at 30 years	8.8%	-1.1%	-25.6%
Impact at 40 years	8.2%	-1.1%	-32.7%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$197	3.2%	13.5%	85.3%	6,209	58.4	118.1	1.3%	-11.7%	311.5	5,182	11,391	0.03	-0.11	2.6%	6.9%	34.4%

Mercer FlexiSaver, Mercer Super Trust

Mercer High Growth



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about **10.3% (3.9% p.a.)** in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by **7.2% (1.6% p.a.)** over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by **7.4% (0.8% p.a.)**. The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful scenario**. Under this scenario, returns are reduced by **29.6%** on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around **37.3%** on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	9.1%	-1.6%	-7.2%
Impact at 10 years	9.2%	-0.8%	-7.4%
Impact at 30 years	9.5%	-0.1%	-4.0%
Impact at 40 years	8.8%	0.0%	-1.6%
Orderly Transition			
Impact at 5 years	9.1%	-0.5%	-2.4%
Impact at 10 years	9.2%	-0.2%	-1.8%
Impact at 30 years	9.5%	-0.1%	-3.8%
Impact at 40 years	8.8%	-0.2%	-7.0%
Failed Transition			
Impact at 5 years	9.1%	0.2%	1.1%
Impact at 10 years	9.2%	-0.4%	-3.2%
Impact at 30 years	9.5%	-1.3%	-29.6%
Impact at 40 years	8.8%	-1.3%	-37.3%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO ₂ e)	Carbon Footprint (tCO ₂ e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO ₂ e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO ₂ e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO ₂ e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$53	0.9%	3.4%	87.6%	1,785	55.8	110.6	1.4%	-11.6%	321.9	368	2,153	0.03	-0.13	2.7%	7.1%	35.6%

Mercer FlexiSaver, Mercer Super Trust

Mercer Shares



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about **11.1% (4.2% p.a.)** in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by **7.9% (1.8% p.a.)** over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by **8.3% (0.9% p.a.)**. The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful scenario**. Under this scenario, returns are reduced by **31.2%** on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around **39.2%** on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	9.4%	-1.8%	-7.9%
Impact at 10 years	9.6%	-0.9%	-8.3%
Impact at 30 years	9.8%	-0.2%	-4.8%
Impact at 40 years	9.1%	-0.1%	-2.2%
Orderly Transition			
Impact at 5 years	9.4%	-0.5%	-2.3%
Impact at 10 years	9.6%	-0.2%	-1.8%
Impact at 30 years	9.8%	-0.1%	-4.0%
Impact at 40 years	9.1%	-0.2%	-7.5%
Failed Transition			
Impact at 5 years	9.4%	0.2%	1.1%
Impact at 10 years	9.6%	-0.4%	-3.4%
Impact at 30 years	9.8%	-1.4%	-31.2%
Impact at 40 years	9.1%	-1.3%	-39.2%

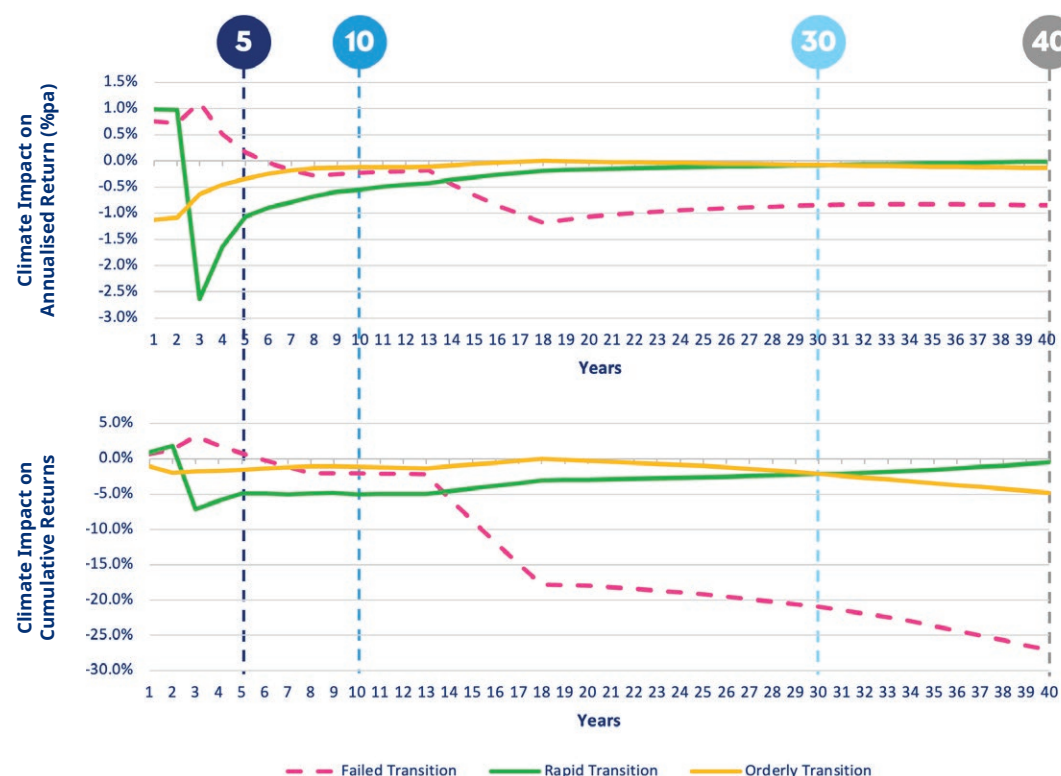
AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO ₂ e)	Carbon Footprint (tCO ₂ e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO ₂ e/\$M PPP Adj GDP)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO ₂ e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO ₂ e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$86	1.4%	0.0%	95.3%	2,376	44.4	82.3	1.5%	-12.8%	0.0	0	2,376	0.00	-0.22	2.8%	8.2%	38.6%

Mercer Super Trust

Consolidated Climate Statement

In accordance with the fair presentation requirements contained within NZ CS 3, and specifically the underlying principle of relevance, we believe it is appropriate to treat each fund constituted under the Mercer Super Trust as a separate fund for the purposes of this Statement, notwithstanding the fact that the liabilities of each fund are not absolutely limited to that fund. This view has been formed on the basis that the liabilities and expenses attributable for each fund are met at first instance from that fund and given the context in which Mercer Super Trust operates it is not reasonable to anticipate a scenario in which the liabilities and expenses of a fund would not be able to be met from its own assets. In addition, investors are unable to invest in the Mercer Super Trust as a whole, and can only invest in its underlying funds.

Given the nature of the underlying funds and their operation, we believe that it would be potentially misleading, and inconsistent with the fair presentation principles, to provide a consolidated climate statement for the Mercer Super Trust as a whole.



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about **7.2% (2.6% p.a.)** in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by **4.9% (1.1% p.a.)** over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by **5.0% (0.6% p.a.)**. The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful scenario**. Under this scenario, returns are reduced by **21.0%** on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around **27.1%** on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favorable long-term outcomes for the portfolio**.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	7.6%	-1.1%	-4.9%
Impact at 10 years	7.7%	-0.6%	-5.0%
Impact at 30 years	8.0%	-0.1%	-2.2%
Impact at 40 years	7.4%	0.0%	-0.5%
Orderly Transition			
Impact at 5 years	7.6%	-0.3%	-1.6%
Impact at 10 years	7.7%	-0.1%	-1.1%
Impact at 30 years	8.0%	-0.1%	-2.1%
Impact at 40 years	7.4%	-0.1%	-4.8%
Failed Transition			
Impact at 5 years	7.6%	0.2%	0.8%
Impact at 10 years	7.7%	-0.2%	-2.1%
Impact at 30 years	8.0%	-0.8%	-21.0%
Impact at 40 years	7.4%	-0.8%	-27.1%

Mercer KiwiSaver scheme

Sustainable Conservative



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about **2.6% (0.9% p.a.)** in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by **1.8% (0.4% p.a.)** over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by **1.5% (0.2% p.a.)**. The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful scenario**. Under this scenario, returns are reduced by **9.1%** on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around **12.5%** on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	5.5%	-0.4%	-1.8%
Impact at 10 years	5.7%	-0.2%	-1.5%
Impact at 30 years	6.1%	0.0%	0.5%
Impact at 40 years	5.4%	-0.1%	1.1%
Orderly Transition			
Impact at 5 years	5.5%	-0.1%	-0.5%
Impact at 10 years	5.7%	0.0%	0.0%
Impact at 30 years	6.1%	0.0%	0.2%
Impact at 40 years	5.4%	-0.1%	-1.9%
Failed Transition			
Impact at 5 years	5.5%	0.0%	0.2%
Impact at 10 years	5.7%	-0.1%	-1.0%
Impact at 30 years	6.1%	-0.3%	-9.1%
Impact at 40 years	5.4%	-0.4%	-12.5%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO ₂ e)	Carbon Footprint (tCO ₂ e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO ₂ e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO ₂ e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO ₂ e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$752	12.4%	58.2%	73.1%	6,483	33.1	93.4	0.2%	-9.2%	330.5	90,058	96,542	0.06	-0.19	3.1%	4.4%	37.2%

Mercer KiwiSaver scheme

Sustainable Plus Moderate



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about **4.2% (1.5% p.a.)** in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by **2.7% (0.6% p.a.)** over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the **Rapid Transition and Failed Transition have impacts of similar magnitude**. Meaning transition risks and physical risks are similarly important. The Rapid Transition reduces annualised returns by **2.5% p.a.** and Failed Transition reduces annualised returns by **1.6% p.a.** The impact of the Orderly Transition is small on the basis that transition costs and impacts are smaller and largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful scenario**. Under this scenario, returns are reduced by **14.7%** on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around **19.5%** on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	6.4%	-0.6%	-2.7%
Impact at 10 years	6.6%	-0.3%	-2.5%
Impact at 30 years	6.9%	0.0%	0.1%
Impact at 40 years	6.3%	0.0%	1.2%
Orderly Transition			
Impact at 5 years	6.4%	-0.2%	-0.9%
Impact at 10 years	6.6%	0.0%	-0.5%
Impact at 30 years	6.9%	0.0%	-0.7%
Impact at 40 years	6.3%	-0.1%	-3.0%
Failed Transition			
Impact at 5 years	6.4%	0.1%	0.4%
Impact at 10 years	6.6%	-0.2%	-1.6%
Impact at 30 years	6.9%	-0.6%	-14.7%
Impact at 40 years	6.3%	-0.6%	-19.5%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$225	3.7%	43.4%	76.0%	3,335	42.0	112.4	0.1%	-6.4%	327.6	19,954	23,289	0.22	-0.12	1.4%	5.8%	40.3%

Mercer KiwiSaver scheme

Sustainable Plus Balanced



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about **5.9% (2.2% p.a.)** in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by **3.7% (0.8% p.a.)** over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by **3.7% (0.4% p.a.)**. The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful scenario**. Under this scenario, returns are reduced by **20.4%** on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around **26.4%** on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	7.3%	-0.8%	-3.7%
Impact at 10 years	7.5%	-0.4%	-3.7%
Impact at 30 years	7.8%	0.0%	-0.7%
Impact at 40 years	7.2%	0.0%	1.0%
Orderly Transition			
Impact at 5 years	7.3%	-0.3%	-1.4%
Impact at 10 years	7.5%	-0.1%	-0.9%
Impact at 30 years	7.8%	-0.1%	-1.6%
Impact at 40 years	7.2%	-0.1%	-4.2%
Failed Transition			
Impact at 5 years	7.3%	0.1%	0.5%
Impact at 10 years	7.5%	-0.2%	-2.2%
Impact at 30 years	7.8%	-0.8%	-20.4%
Impact at 40 years	7.2%	-0.8%	-26.4%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$590	9.7%	26.9%	85.0%	11,784	43.9	116.3	0.1%	-5.9%	314.3	31,040	42,824	0.27	-0.12	1.2%	6.2%	43.3%

Mercer KiwiSaver scheme

Sustainable Plus Growth



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about 7.4% (2.7% p.a.) in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by 4.7% (1.0% p.a.) over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by 4.7% (0.5% p.a.). The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful**. Under this scenario, returns are reduced by 26.0% on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around 33.0% on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	8.2%	-1.0%	-4.7%
Impact at 10 years	8.4%	-0.5%	-4.7%
Impact at 30 years	8.7%	0.0%	-1.2%
Impact at 40 years	8.1%	0.0%	1.1%
Orderly Transition			
Impact at 5 years	8.2%	-0.4%	-1.9%
Impact at 10 years	8.4%	-0.1%	-1.3%
Impact at 30 years	8.7%	-0.1%	-2.5%
Impact at 40 years	8.1%	-0.1%	-5.4%
Failed Transition			
Impact at 5 years	8.2%	0.1%	0.6%
Impact at 10 years	8.4%	-0.3%	-3.0%
Impact at 30 years	8.7%	-1.1%	-26.0%
Impact at 40 years	8.1%	-1.1%	-33.0%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$234	3.8%	13.3%	87.3%	5,409	42.9	118.3	0.2%	-5.3%	312.3	6,069	11,478	0.30	-0.12	1.0%	6.6%	45.4%

Mercer KiwiSaver scheme

Sustainable Plus High Growth



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about **8.5% (3.2% p.a.)** in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by **5.5% (1.2% p.a.)** over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by **5.4% (0.6% p.a.)**. The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful scenario**. Under this scenario, returns are reduced by **30.0%** on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around **37.8%** on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

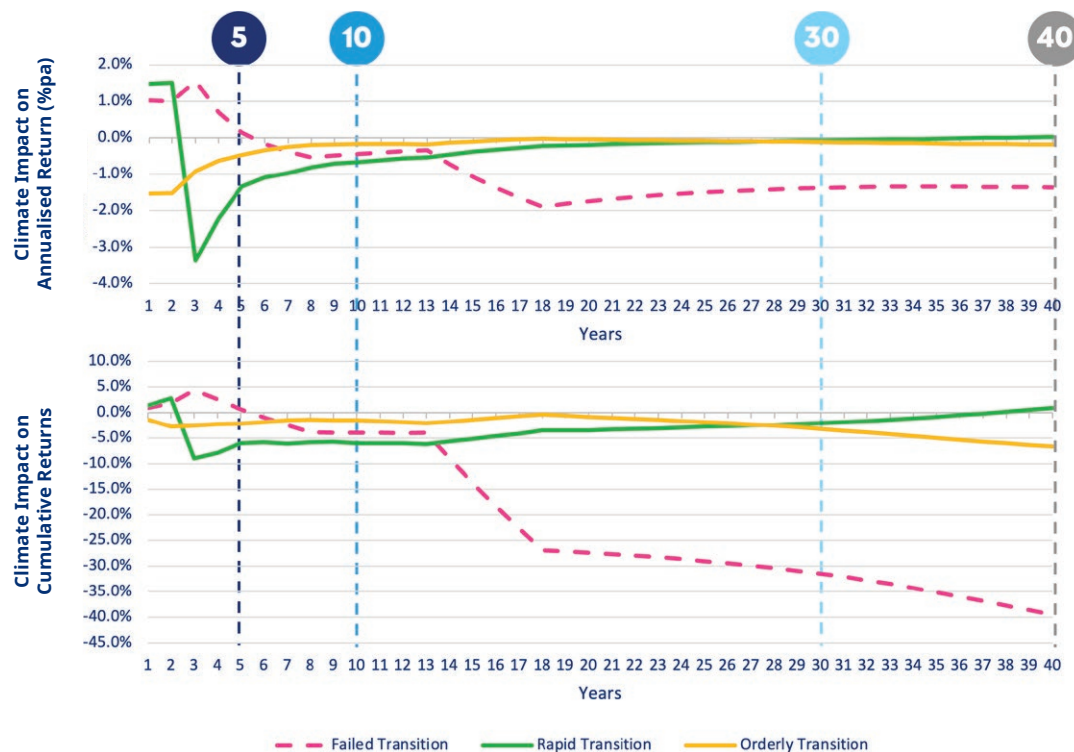
This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	8.9%	-1.2%	-5.5%
Impact at 10 years	9.1%	-0.6%	-5.4%
Impact at 30 years	9.4%	-0.1%	-1.6%
Impact at 40 years	8.7%	0.0%	1.1%
Orderly			
Impact at 5 years	8.9%	-0.5%	-2.2%
Impact at 10 years	9.1%	-0.2%	-1.6%
Impact at 30 years	9.4%	-0.1%	-3.1%
Impact at 40 years	8.7%	-0.2%	-6.3%
Failed Transition			
Impact at 5 years	8.9%	0.1%	0.7%
Impact at 10 years	9.1%	-0.4%	-3.7%
Impact at 30 years	9.4%	-1.3%	-30.0%
Impact at 40 years	8.7%	-1.3%	-37.8%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$337	5.6%	3.4%	88.9%	8,124	40.0	113.3	0.1%	-5.0%	322.6	2,313	10,438	0.34	-0.14	0.8%	6.6%	46.9%

Mercer KiwiSaver scheme

Sustainable Plus Shares



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about **9.0% (3.4% p.a.)** in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by **6.0% (1.3% p.a.)** over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by **6.0% (0.7% p.a.)**. The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful**. Under this scenario, returns are reduced by **31.5%** on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around **39.5%** on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	9.2%	-1.3%	-6.0%
Impact at 10 years	9.4%	-0.7%	-6.0%
Impact at 30 years	9.6%	-0.1%	-2.1%
Impact at 40 years	8.9%	0.0%	0.9%
Orderly Transition			
Impact at 5 years	9.2%	-0.5%	-2.2%
Impact at 10 years	9.4%	-0.2%	-1.6%
Impact at 30 years	9.6%	-0.1%	-3.2%
Impact at 40 years	8.9%	-0.2%	-6.7%
Failed Transition			
Impact at 5 years	9.2%	0.1%	0.7%
Impact at 10 years	9.4%	-0.4%	-4.0%
Impact at 30 years	9.6%	-1.4%	-31.5%
Impact at 40 years	8.9%	-1.4%	-39.5%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$55	0.9%	0.0%	96.8%	870	25.4	84.4	0.0%	-5.1%	0.0	0	870	0.33	-0.22	0.7%	7.7%	51.6%

New Zealand Defence Force KiwiSaver Scheme, Defence Force Superannuation Scheme

Conservative



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about **2.8% (1.0% p.a.)** in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by **2.0% (0.4% p.a.)** over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by **1.8% (0.2% p.a.)**. The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful scenario**. Under this scenario, returns are reduced by **8.2%** on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around **11.5%** on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

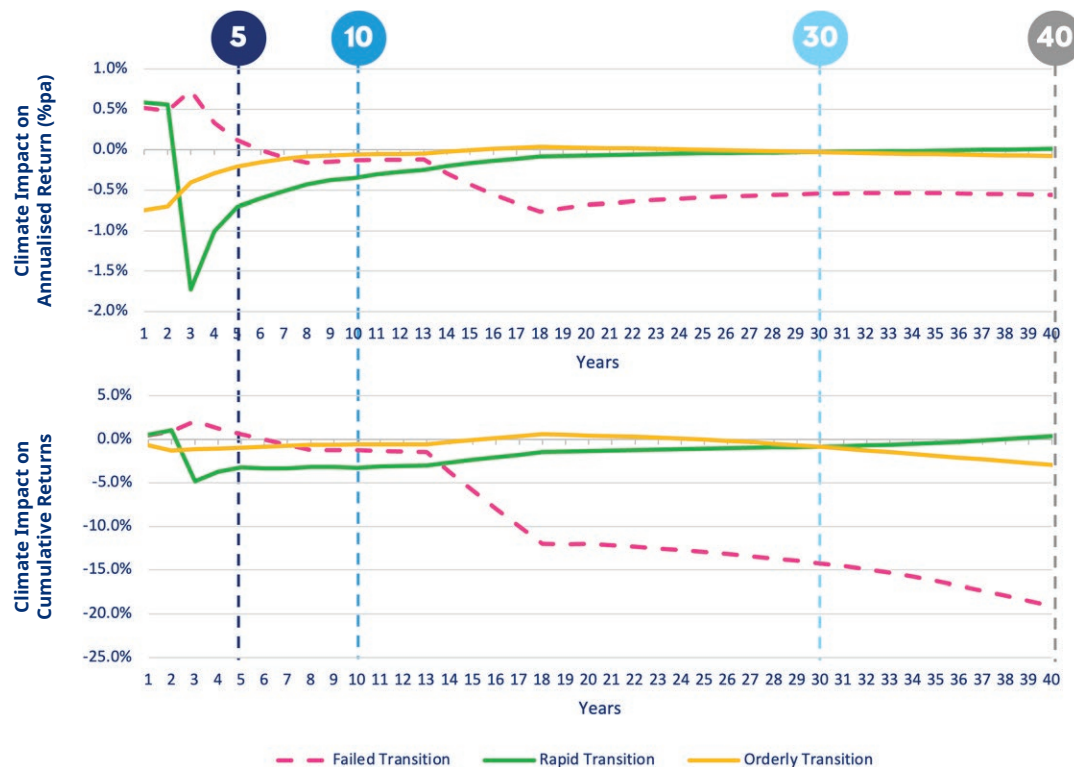
This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	5.5%	-0.4%	-2.0%
Impact at 10 years	5.7%	-0.2%	-1.8%
Impact at 30 years	6.1%	0.0%	0.2%
Impact at 40 years	5.4%	0.0%	0.8%
Orderly			
Impact at 5 years	5.5%	-0.1%	-0.5%
Impact at 10 years	5.7%	0.0%	-0.1%
Impact at 30 years	6.1%	0.0%	0.1%
Impact at 40 years	5.4%	0.0%	-1.7%
Failed Transition			
Impact at 5 years	5.5%	0.1%	0.3%
Impact at 10 years	5.7%	-0.1%	-0.7%
Impact at 30 years	6.1%	-0.3%	-8.2%
Impact at 40 years	5.4%	-0.3%	-11.5%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$15	0.2%	60.1%	67.2%	140	38.6	118.7	0.7%	-11.1%	329.5	1,795	1,935	0.12	-0.04	1.6%	4.1%	30.9%

New Zealand Defence Force KiwiSaver Scheme, Defence Force Superannuation Scheme

Moderate



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about **4.8% (1.7% p.a.)** in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by **3.3% (0.7% p.a.)** over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by **3.3% (0.4% p.a.)**. The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful**. Under this scenario, returns are reduced by **14.2%** on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around **19.1%** on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

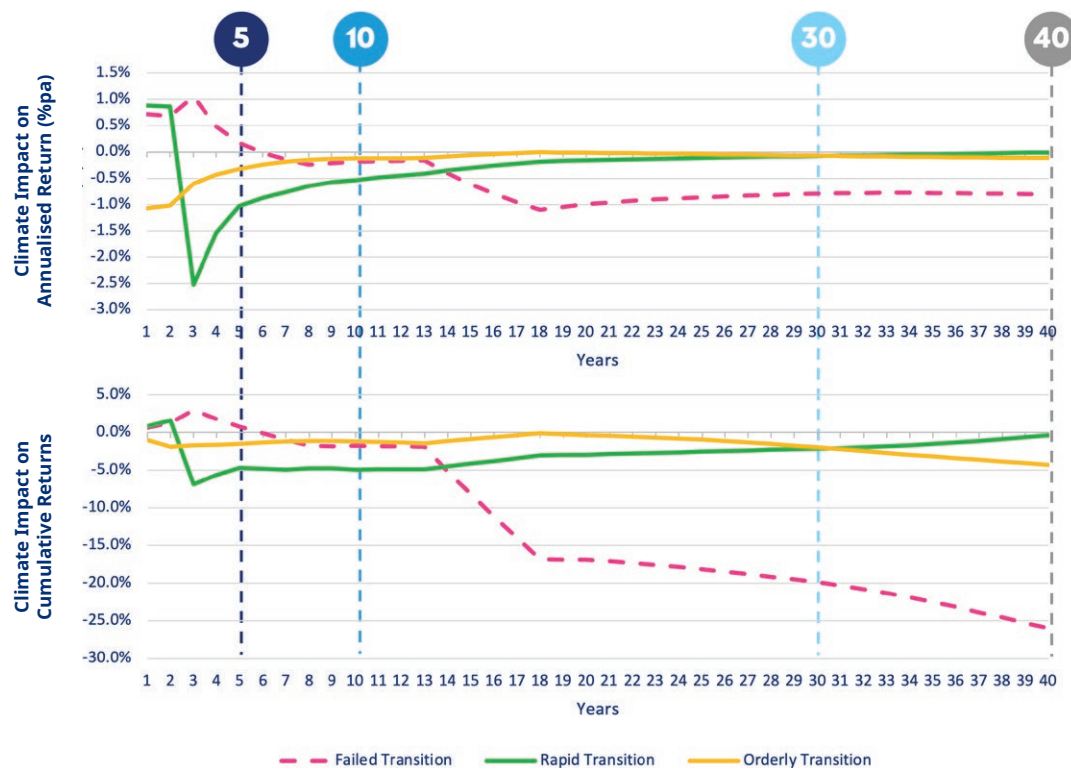
This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	6.5%	-0.7%	-3.3%
Impact at 10 years	6.7%	-0.4%	-3.3%
Impact at 30 years	7.0%	0.0%	-0.8%
Impact at 40 years	6.4%	0.0%	0.3%
Orderly Transition			
Impact at 5 years	6.5%	-0.2%	-1.0%
Impact at 10 years	6.7%	-0.1%	-0.6%
Impact at 30 years	7.0%	0.0%	-0.9%
Impact at 40 years	6.4%	-0.1%	-2.9%
Failed Transition			
Impact at 5 years	6.5%	0.1%	0.6%
Impact at 10 years	6.7%	-0.1%	-1.2%
Impact at 30 years	7.0%	-0.5%	-14.2%
Impact at 40 years	6.4%	-0.6%	-19.1%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$18	0.3%	44.9%	77.2%	269	44.0	134.2	1.1%	-11.4%	326.5	1,631	1,900	0.18	-0.04	2.0%	5.6%	35.7%

New Zealand Defence Force KiwiSaver Scheme, Defence Force Superannuation Scheme

Balanced



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about **6.9% (2.5% p.a.)** in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by **4.7% (1.0% p.a.)** over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by **4.9% (0.5% p.a.)**. The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful**. Under this scenario, returns are reduced by **19.9%** on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around **26.0%** on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	7.4%	-1.0%	-4.7%
Impact at 10 years	7.6%	-0.5%	-4.9%
Impact at 30 years	7.9%	-0.1%	-2.1%
Impact at 40 years	7.3%	0.0%	-0.4%
Orderly Transition			
Impact at 5 years	7.4%	-0.3%	-1.5%
Impact at 10 years	7.6%	-0.1%	-1.2%
Impact at 30 years	7.9%	-0.1%	-2.0%
Impact at 40 years	7.3%	-0.1%	-4.3%
Failed Transition			
Impact at 5 years	7.4%	0.2%	0.8%
Impact at 10 years	7.6%	-0.2%	-1.8%
Impact at 30 years	7.9%	-0.8%	-19.9%
Impact at 40 years	7.3%	-0.8%	-26.0%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$361	5.9%	28.8%	88.7%	7,399	46.2	141.0	1.2%	-11.5%	311.5	20,132	27,531	0.22	-0.04	2.2%	6.0%	38.5%

New Zealand Defence Force KiwiSaver Scheme, Defence Force Superannuation Scheme

Growth



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about **8.8% (3.3% p.a.)** in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by **6.1% (1.4% p.a.)** over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by **6.4% (0.7% p.a.)**. The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful**. Under this scenario, returns are reduced by **25.5%** on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around **32.7%** on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	8.4%	-1.4%	-6.1%
Impact at 10 years	8.6%	-0.7%	-6.4%
Impact at 30 years	8.8%	-0.1%	-3.2%
Impact at 40 years	8.2%	0.0%	-1.0%
Orderly Transition			
Impact at 5 years	8.4%	-0.4%	-2.0%
Impact at 10 years	8.6%	-0.2%	-1.6%
Impact at 30 years	8.8%	-0.1%	-3.0%
Impact at 40 years	8.2%	-0.2%	-5.6%
Failed Transition			
Impact at 5 years	8.4%	0.2%	0.9%
Impact at 10 years	8.6%	-0.3%	-2.5%
Impact at 30 years	8.8%	-1.1%	-25.5%
Impact at 40 years	8.2%	-1.1%	-32.7%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$90	1.5%	14.0%	92.6%	2,197	45.8	135.6	1.4%	-11.5%	310.2	2,417	4,614	0.23	-0.06	2.4%	6.3%	40.0%

New Zealand Defence Force KiwiSaver Scheme, Defence Force Superannuation Scheme

High Growth



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about 10.1% (3.8% p.a.) in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by 7.1% (1.6% p.a.) over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by 7.4% (0.8% p.a.). The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful**. Under this scenario, returns are reduced by 29.3% on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around 37.3% on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	9.0%	-1.6%	-7.1%
Impact at 10 years	9.2%	-0.8%	-7.4%
Impact at 30 years	9.5%	-0.1%	-3.9%
Impact at 40 years	8.8%	0.0%	-1.2%
Orderly Transition			
Impact at 5 years	9.0%	-0.5%	-2.3%
Impact at 10 years	9.2%	-0.2%	-1.9%
Impact at 30 years	9.5%	-0.1%	-3.6%
Impact at 40 years	8.8%	-0.2%	-6.5%
Failed Transition			
Impact at 5 years	9.0%	0.2%	1.1%
Impact at 10 years	9.2%	-0.3%	-3.0%
Impact at 30 years	9.5%	-1.3%	-29.3%
Impact at 40 years	8.8%	-1.3%	-37.3%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$91	1.5%	3.4%	94.4%	2,428	44.3	127.2	1.4%	-11.2%	321.9	630	3,058	0.21	-0.09	2.4%	7.0%	41.3%

New Zealand Defence Force KiwiSaver Scheme, Defence Force Superannuation Scheme Shares



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about **11.0% (4.2% p.a.)** in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by **7.9% (1.8% p.a.)** over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by **8.2% (0.9% p.a.)**. The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful**. Under this scenario, returns are reduced by **31.3%** on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around **39.4%** on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	9.4%	-1.8%	-7.9%
Impact at 10 years	9.6%	-0.9%	-8.2%
Impact at 30 years	9.8%	-0.2%	-4.7%
Impact at 40 years	9.1%	-0.1%	-2.1%
Orderly Transition			
Impact at 5 years	9.4%	-0.5%	-2.3%
Impact at 10 years	9.6%	-0.2%	-1.8%
Impact at 30 years	9.8%	-0.1%	-4.0%
Impact at 40 years	9.1%	-0.2%	-7.5%
Failed Transition			
Impact at 5 years	9.4%	0.2%	1.0%
Impact at 10 years	9.6%	-0.4%	-3.5%
Impact at 30 years	9.8%	-1.4%	-31.3%
Impact at 40 years	9.1%	-1.4%	-39.4%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$86	1.4%	0.0%	95.3%	2,376	44.4	82.3	1.5%	-12.8%	0.0	0	2,376	0.00	-0.22	2.8%	8.2%	38.6%

**Mercer Super Trust, Mercer FlexiSaver, Mercer KiwiSaver scheme,
New Zealand Defence Force KiwiSaver Scheme and Defence Force Superannuation Scheme**

Cash

Cash funds are excluded from the climate scenario analysis due to the very short duration nature of cash. In the climate scenario analysis, the impacts on short term interest rates are close to zero. We have repeated the climate metrics for the Mercer Cash fund below noting the low percentage of the underlying fund holdings coverage (16.1%).

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$81	1.3%	80.8%	16.1%	4	0.4	4.0	0.0%	-4.0%	3.7	151	155	0.00	0.00	0.0%	0.0%	0.0%



Mercer Investment Funds

Mercer Ethical Leaders Conservative Fund



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about 3.4% (1.2% p.a.) in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by 2.3% (0.5% p.a.) over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by 2.3% (0.2% p.a.). The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful scenario**. Under this scenario, returns are reduced by 9.4% on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around 12.7% on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that generates the most favourable long-term outcomes for the portfolio.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	5.7%	-0.5%	-2.3%
Impact at 10 years	5.9%	-0.2%	-2.3%
Impact at 30 years	6.2%	0.0%	-0.3%
Impact at 40 years	5.6%	0.0%	0.2%
Orderly Transition			
Impact at 5 years	5.7%	-0.1%	-0.6%
Impact at 10 years	5.9%	0.0%	-0.2%
Impact at 30 years	6.2%	0.0%	0.0%
Impact at 40 years	5.6%	-0.1%	-2.0%
Failed Transition			
Impact at 5 years	5.7%	0.1%	0.3%
Impact at 10 years	5.9%	-0.1%	-0.8%
Impact at 30 years	6.2%	-0.3%	-9.4%
Impact at 40 years	5.6%	-0.4%	-12.7%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$4	0.1%	52.3%	71.3%	29	22.4	55.5	0.0%	-3.6%	327.4	457	486	0.18	0.15	0.3%	3.0%	27.6%

Mercer Investment Funds

Mercer Ethical Leaders Balanced Fund



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about 7.4% (2.7% p.a.) in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by 5.2% (1.1% p.a.) over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by 5.4% (0.6% p.a.). The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful**. Under this scenario, returns are reduced by 20.3% on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around 26.0% on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	7.5%	-1.1%	-5.2%
Impact at 10 years	7.6%	-0.6%	-5.4%
Impact at 30 years	7.9%	-0.1%	-2.5%
Impact at 40 years	7.2%	0.0%	-0.8%
Orderly Transition			
Impact at 5 years	7.5%	-0.3%	-1.4%
Impact at 10 years	7.6%	-0.1%	-1.1%
Impact at 30 years	7.9%	-0.1%	-1.8%
Impact at 40 years	7.2%	-0.1%	-4.2%
Failed Transition			
Impact at 5 years	7.5%	0.2%	0.9%
Impact at 10 years	7.6%	-0.2%	-1.8%
Impact at 30 years	7.9%	-0.8%	-20.3%
Impact at 40 years	7.2%	-0.8%	-26.0%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$43	0.7%	24.4%	86.3%	445	21.8	61.3	0.0%	-5.3%	324.1	2,134	2,579	0.14	0.06	0.1%	6.0%	41.5%

Mercer Investment Funds

Mercer Ethical Leaders Growth Fund



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about 10.2% (3.8% p.a.) in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by 7.3% (1.6% p.a.) over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by 7.8% (1.6% p.a.). The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful scenario**. Under this scenario, returns are reduced by 27.0% on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around 33.8% on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	8.6%	-1.6%	-7.3%
Impact at 10 years	8.8%	-0.9%	-7.8%
Impact at 30 years	9.1%	-0.2%	-4.6%
Impact at 40 years	8.3%	-0.1%	-2.3%
Orderly Transition			
Impact at 5 years	8.6%	-0.5%	-2.2%
Impact at 10 years	8.8%	-0.2%	-1.8%
Impact at 30 years	9.1%	-0.1%	-3.3%
Impact at 40 years	8.3%	-0.2%	-6.1%
Failed Transition			
Impact at 5 years	8.6%	0.3%	1.3%
Impact at 10 years	8.8%	-0.3%	-2.5%
Impact at 30 years	9.1%	-1.1%	-27.0%
Impact at 40 years	8.3%	-1.1%	-33.8%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$13	0.2%	7.0%	93.3%	163	21.3	60.1	0.0%	-6.0%	339.2	195	358	0.11	-0.01	0.0%	5.4%	45.1%

Mercer Investment Funds

Mercer Ethical Leaders Global Shares Fund



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about **9.4% (3.6% p.a.)** in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by **6.4% (1.4% p.a.)** over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by **6.2% (0.7% p.a.)**. The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful scenario**. Under this scenario, returns are reduced by **34.4%** on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around **42.9%** on an annualised basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	9.4%	-1.4%	-6.4%
Impact at 10 years	9.7%	-0.7%	-6.2%
Impact at 30 years	9.9%	-0.1%	-3.0%
Impact at 40 years	9.1%	0.0%	-0.5%
Orderly Transition			
Impact at 5 years	9.4%	-0.6%	-2.8%
Impact at 10 years	9.7%	-0.2%	-2.1%
Impact at 30 years	9.9%	-0.2%	-4.4%
Impact at 40 years	9.1%	-0.2%	-8.6%
Failed Transition			
Impact at 5 years	9.4%	0.1%	0.4%
Impact at 10 years	9.7%	-0.5%	-4.7%
Impact at 30 years	9.9%	-1.5%	-34.4%
Impact at 40 years	9.1%	-1.5%	-42.9%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities (tCO2e)	% with SBTi approved targets
\$37	0.6%	0.0%	97.4%	489	21.0	48.0	0.0%	-7.0%	0.0	0	489	0.00	-0.25	0.0%	0.0%	43.5%

Mercer Investment Funds

Mercer Ethical Leaders NZ Shares Fund



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about **9.5% (3.5% p.a.)** in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by **6.1% (1.4% p.a.)** over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by **6.7% (0.8% p.a.)**. The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful**. Under this scenario, returns are reduced by **25.4%** on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around **32.4%** on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	8.6%	-1.4%	-6.1%
Impact at 10 years	8.6%	-0.8%	-6.7%
Impact at 30 years	8.9%	0.0%	-0.9%
Impact at 40 years	8.3%	0.1%	3.7%
Orderly Transition			
Impact at 5 years	8.6%	-0.1%	-0.5%
Impact at 10 years	8.6%	0.0%	-0.1%
Impact at 30 years	8.9%	0.0%	0.0%
Impact at 40 years	8.3%	0.0%	-1.7%
Failed Transition			
Impact at 5 years	8.6%	0.3%	1.6%
Impact at 10 years	8.6%	-0.2%	-1.7%
Impact at 30 years	8.9%	-1.1%	-25.4%
Impact at 40 years	8.3%	-1.1%	-32.4%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO ₂ e)	Carbon Footprint (tCO ₂ e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO ₂ e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO ₂ e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO ₂ e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities (tCO ₂ e)	% with SBTi approved targets
\$47	0.8%	0.0%	98.8%	789	27.1	77.6	0.0%	-2.6%	0.0	0	789	-0.15	-0.14	0.0%	22.0%	51.8%

Mercer Investment Funds

Mercer Ethical Leaders Hedged Global Fixed Interest Index Fund



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about **1.9% (0.7% p.a.)** in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by **1.1% (0.2% p.a.)** over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by **1.4% (0.1% p.a.)**. The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful scenario**. Under this scenario, returns are reduced by **1.1%** on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around **2.1%** on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, **makes the lower warming scenario the one that generates the most favourable long-term outcomes for the portfolio**.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	4.7%	-0.2%	-1.1%
Impact at 10 years	4.9%	-0.1%	-1.4%
Impact at 30 years	5.2%	0.0%	0.1%
Impact at 40 years	4.7%	0.0%	-0.2%
Orderly Transition			
Impact at 5 years	4.7%	0.0%	0.0%
Impact at 10 years	4.9%	0.0%	0.1%
Impact at 30 years	5.2%	0.0%	0.9%
Impact at 40 years	4.7%	0.0%	-0.8%
Failed Transition			
Impact at 5 years	4.7%	0.0%	0.1%
Impact at 10 years	4.9%	0.0%	0.2%
Impact at 30 years	5.2%	0.0%	-1.1%
Impact at 40 years	4.7%	-0.1%	-2.1%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M PPP Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$252	4.1%	69.6%	79.6%	1,077	22.6	47.3	0.0%	-8.8%	2.3	256	1,333	0.00	-0.04	0.0%	0.0%	6.8%

Mercer Investment Funds

Mercer Macquarie Real Return Opportunities Fund



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about **4.6% (1.7% p.a.)** in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by **2.9% (0.6% p.a.)** over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by **3.0% (0.3% p.a.)**. The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful scenario**. Under this scenario, returns are reduced by **6.4%** on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around **9.2%** on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

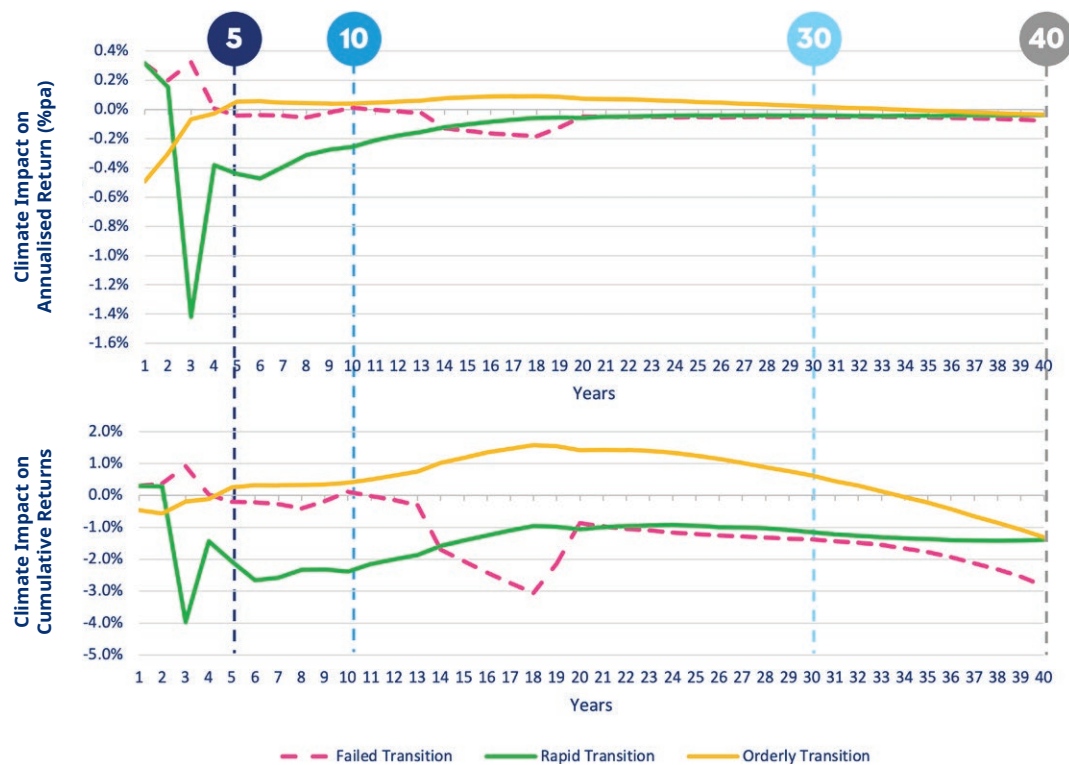
This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	6.3%	-0.6%	-2.9%
Impact at 10 years	6.5%	-0.3%	-3.0%
Impact at 30 years	6.8%	-0.1%	-1.6%
Impact at 40 years	6.1%	0.0%	-1.6%
Orderly Transition			
Impact at 5 years	6.3%	0.0%	-0.2%
Impact at 10 years	6.5%	0.0%	0.1%
Impact at 30 years	6.8%	0.0%	-0.2%
Impact at 40 years	6.1%	-0.1%	-2.3%
Failed Transition			
Impact at 5 years	6.3%	0.0%	0.0%
Impact at 10 years	6.5%	-0.1%	-0.5%
Impact at 30 years	6.8%	-0.2%	-6.4%
Impact at 40 years	6.1%	-0.3%	-9.2%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$11	0.2%	7.5%	53.8%	335	55.0	203.6	0.8%	-13.4%	0.0	0	335	0.00	0.00	0.0%	0.1%	3.7%

Mercer Investment Funds

Mercer Macquarie Global Income Opportunities Fund



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about **4.0% (1.4% p.a.)** in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by **2.1% (0.4% p.a.)** over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by **2.4% (0.3% p.a.)**. The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful scenario**. Under this scenario, returns are reduced by **1.1%** on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around **2.8%** on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	5.6%	-0.4%	-2.1%
Impact at 10 years	5.8%	-0.3%	-2.4%
Impact at 30 years	6.0%	0.0%	-1.1%
Impact at 40 years	5.2%	0.0%	-1.4%
Orderly Transition			
Impact at 5 years	5.6%	0.1%	0.3%
Impact at 10 years	5.8%	0.0%	0.4%
Impact at 30 years	6.0%	0.0%	0.6%
Impact at 40 years	5.2%	0.0%	-1.3%
Failed Transition			
Impact at 5 years	5.6%	0.0%	-0.2%
Impact at 10 years	5.8%	0.0%	0.1%
Impact at 30 years	6.0%	0.0%	-1.4%
Impact at 40 years	5.2%	-0.1%	-2.8%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$12	0.2%	1.8%	43.5%	690	96.7	285.0	0.8%	-13.9%	3.8	0	691	0.00	0.00	0.0%	0.0%	5.0%

Mercer Investment Funds

Mercer Income Generator Fund



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about **6.0% (2.2% p.a.)** in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by **3.6% (0.5% p.a.)** over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by **4.1% (0.8% p.a.)**. The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful**. Under this scenario, returns are reduced by **12.6%** on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around **17.0%** on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	6.9%	-0.8%	-3.6%
Impact at 10 years	7.1%	-0.5%	-4.1%
Impact at 30 years	7.6%	-0.1%	-1.8%
Impact at 40 years	7.1%	0.0%	-0.4%
Orderly Transition			
Impact at 5 years	6.9%	-0.1%	-0.6%
Impact at 10 years	7.1%	-0.1%	-0.5%
Impact at 30 years	7.6%	0.0%	-0.7%
Impact at 40 years	7.1%	-0.1%	-2.2%
Failed Transition			
Impact at 5 years	6.9%	0.1%	0.5%
Impact at 10 years	7.1%	-0.1%	-0.7%
Impact at 30 years	7.6%	-0.5%	-12.6%
Impact at 40 years	7.1%	-0.5%	-17.0%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$38	0.6%	29.4%	76.7%	1,125	67.1	126.6	1.0%	-10.9%	291.1	2,032	3,157	-0.07	0.04	6.6%	10.2%	28.4%

Mercer Investment Funds

Mercer Core Global Shares Fund and Mercer Core Hedged Global Shares Fund



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about **12.9% (4.9% p.a.)** in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by **9.9% (2.3% p.a.)** over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by **10.4% (1.2% p.a.)**. The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful scenario**. Under this scenario, returns are reduced by **31.4%** on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around **38.8%** on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	9.4%	-2.3%	-9.9%
Impact at 10 years	9.7%	-1.2%	-10.4%
Impact at 30 years	9.9%	-0.3%	-7.9%
Impact at 40 years	9.1%	-0.2%	-6.2%
Orderly Transition			
Impact at 5 years	9.4%	-0.8%	-3.5%
Impact at 10 years	9.7%	-0.3%	-3.1%
Impact at 30 years	9.9%	-0.2%	-5.6%
Impact at 40 years	9.1%	-0.3%	-9.1%
Failed Transition			
Impact at 5 years	9.4%	0.3%	1.6%
Impact at 10 years	9.7%	-0.3%	-3.1%
Impact at 30 years	9.9%	-1.4%	-31.4%
Impact at 40 years	9.1%	-1.3%	-38.8%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$21	0.3%	0.0%	94.7%	708	55.0	61.6	3.8%	-15.9%	0.0	0	708	-0.56	-0.25	11.5%	8.7%	35.2%

Mercer Investment Funds

Mercer Global Shares Fund & Mercer All Country Global Shares Index Fund



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about 12.9% (4.9% p.a.) in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by 9.4% (2.1% p.a.) over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by 9.6% (1.1% p.a.). The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful scenario**. Under this scenario, returns are reduced by 33.4% on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around 41.4% on an annualised basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	9.4%	-2.1%	-9.4%
Impact at 10 years	9.7%	-1.1%	-9.6%
Impact at 30 years	9.9%	-0.3%	-6.9%
Impact at 40 years	9.1%	-0.1%	-4.6%
Orderly Transition			
Impact at 5 years	9.4%	-0.7%	-3.2%
Impact at 10 years	9.7%	-0.3%	-2.9%
Impact at 30 years	9.9%	-0.2%	-5.7%
Impact at 40 years	9.1%	-0.3%	-9.8%
Failed Transition			
Impact at 5 years	9.4%	0.3%	1.2%
Impact at 10 years	9.7%	-0.4%	-3.7%
Impact at 30 years	9.9%	-1.5%	-33.4%
Impact at 40 years	9.1%	-1.4%	-41.4%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$28	0.5%	0.0%	93.9%	925	53.6	80.6	3.4%	-16.1%	0.0	0	925	-0.40	-0.24	9.3%	6.8%	35.4%

Mercer Investment Funds

Mercer NZ Shares Fund & Mercer NZ Shares Passive Fund



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about **9.5% (3.5% p.a.)** in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by **6.1% (1.4% p.a.)** over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by **6.7% (0.8% p.a.)**. The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful**. Under this scenario, returns are reduced by **25.4%** on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around **32.4%** on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	8.6%	-1.4%	-6.1%
Impact at 10 years	8.6%	-0.8%	-6.7%
Impact at 30 years	8.9%	0.0%	-0.9%
Impact at 40 years	8.3%	0.1%	3.7%
Orderly Transition			
Impact at 5 years	8.6%	-0.1%	-0.5%
Impact at 10 years	8.6%	0.0%	-0.1%
Impact at 30 years	8.9%	0.0%	0.0%
Impact at 40 years	8.3%	0.0%	-1.7%
Failed Transition			
Impact at 5 years	8.6%	0.3%	1.6%
Impact at 10 years	8.6%	-0.2%	-1.7%
Impact at 30 years	8.9%	-1.1%	-25.4%
Impact at 40 years	8.3%	-1.1%	-32.4%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$134	2.2%	0.0%	98.8%	3,408	40.8	92.4	0.3%	-5.6%	0.0	0	3,408	-0.14	-0.14	2.2%	21.7%	54.5%

Mercer Investment Funds

Mercer Macquarie Australian Shares Fund



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about 12.5% (4.6% p.a.) in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by 9.1% (1.4% p.a.) over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by 10.0% (1.1% p.a.). The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful**. Under this scenario, returns are reduced by 34.3% on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around 42.5% on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

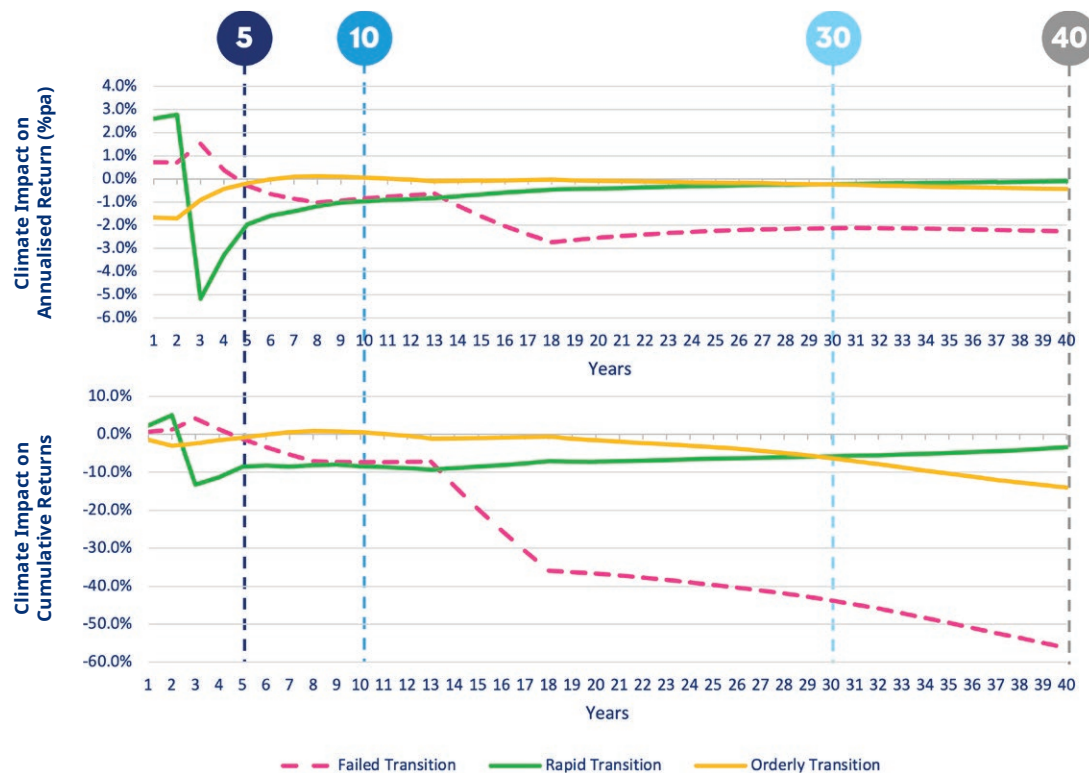
This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	9.1%	-2.0%	-9.1%
Impact at 10 years	9.6%	-1.1%	-10.0%
Impact at 30 years	11.0%	-0.3%	-7.7%
Impact at 40 years	11.4%	-0.2%	-6.2%
Orderly Transition			
Impact at 5 years	9.1%	-0.7%	-3.0%
Impact at 10 years	9.6%	-0.3%	-2.8%
Impact at 30 years	11.0%	-0.2%	-6.5%
Impact at 40 years	11.4%	-0.3%	-10.5%
Failed Transition			
Impact at 5 years	9.1%	0.2%	0.9%
Impact at 10 years	9.6%	-0.4%	-3.7%
Impact at 30 years	11.0%	-1.5%	-34.3%
Impact at 40 years	11.4%	-1.5%	-42.5%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$339	5.6%	0.0%	97.4%	21,726	102.9	171.4	5.4%	-24.2%	0.0	0	21,726	-0.64	-0.62	17.9%	3.7%	12.5%

Mercer Investment Funds

Mercer Emerging Markets Shares Fund



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about **13.3% (5.2% p.a.)** in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by **8.5% (2.0% p.a.)** over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the **Rapid Transition and Failed Transition have impacts of similar magnitude**. Meaning transition risks and physical risks are similarly important. The Rapid Transition reduces annualised returns by **1.0% p.a.** and the Failed Transition reduces annualised returns by **0.8% p.a.**. The impact of the Orderly Transition is small on the basis that transition costs and impacts are smaller and largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful scenario**. Under this scenario, returns are reduced by **43.8%** on an annualised basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around **56.2%** on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	11.5%	-2.0%	-8.5%
Impact at 10 years	11.7%	-1.0%	-8.4%
Impact at 30 years	11.9%	-0.2%	-5.8%
Impact at 40 years	11.1%	-0.1%	-3.4%
Orderly Transition			
Impact at 5 years	11.5%	-0.2%	-0.9%
Impact at 10 years	11.7%	0.1%	0.5%
Impact at 30 years	11.9%	-0.2%	-6.3%
Impact at 40 years	11.1%	-0.4%	-14.1%
Failed Transition			
Impact at 5 years	11.5%	-0.3%	-1.3%
Impact at 10 years	11.7%	-0.8%	-7.3%
Impact at 30 years	11.9%	-2.1%	-43.8%
Impact at 40 years	11.1%	-2.3%	-56.2%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$5	0.1%	0.0%	73.9%	256	79.6	97.9	3.4%	-30.9%	0.0	0	256	0.00	-0.18	0.0%	0.0%	13.1%

Mercer Investment Funds

Mercer Macquarie NZ Fixed Interest Fund



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about **1.7% (0.6% p.a.)** in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by **1.1% (0.2% p.a.)** over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by **1.3% (0.1% p.a.)**. The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful scenario**. Under this scenario, returns are reduced by **1.1%** on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around **2.1%** on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

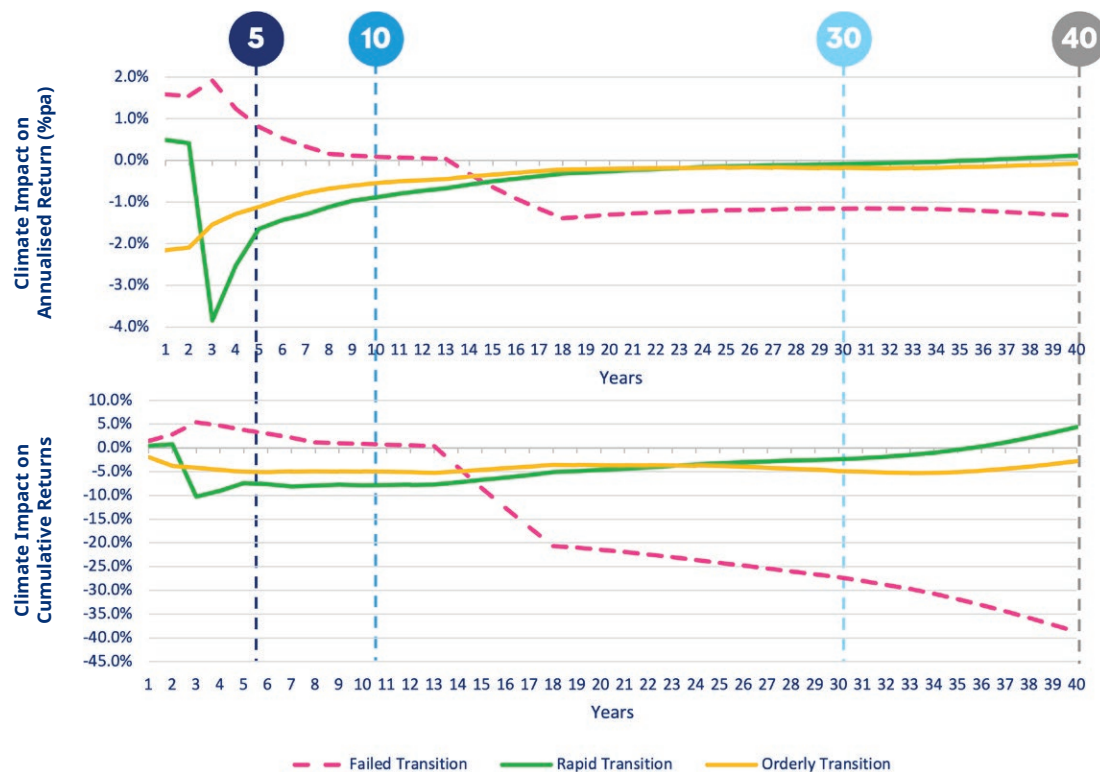
This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	4.6%	-0.2%	-1.1%
Impact at 10 years	4.8%	-0.1%	-1.3%
Impact at 30 years	5.2%	0.0%	0.2%
Impact at 40 years	4.6%	0.0%	0.0%
Orderly Transition			
Impact at 5 years	4.6%	0.0%	0.0%
Impact at 10 years	4.8%	0.0%	0.0%
Impact at 30 years	5.2%	0.0%	0.8%
Impact at 40 years	4.6%	0.0%	-0.8%
Failed Transition			
Impact at 5 years	4.6%	0.0%	0.1%
Impact at 10 years	4.8%	0.0%	0.2%
Impact at 30 years	5.2%	0.0%	-1.1%
Impact at 40 years	4.6%	-0.1%	-2.1%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$317	5.2%	68.6%	80.7%	1,928	31.1	36.1	0.0%	4.5%	3.7	506	2,433	0.00	0.00	0.0%	0.5%	5.5%

Mercer Investment Funds

Mercer Macquarie Global Listed Infrastructure Fund



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about **10.3% (3.8% p.a.)** in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by **7.7% (1.6% p.a.)** over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by **7.8% (0.9% p.a.)**. The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful**. Under this scenario, returns are reduced by **27.3%** on an annualised basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around **38.7%** on an annualised basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, **makes the lower warming scenario the one that generates the most favourable long-term outcomes for the portfolio**.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	8.3%	-1.6%	-7.4%
Impact at 10 years	8.5%	-0.9%	-7.9%
Impact at 30 years	9.0%	-0.1%	-2.4%
Impact at 40 years	9.3%	0.1%	4.4%
Orderly Transition			
Impact at 5 years	8.3%	-1.1%	-5.0%
Impact at 10 years	8.5%	-0.5%	-4.9%
Impact at 30 years	9.0%	-0.2%	-4.8%
Impact at 40 years	9.3%	-0.1%	-2.8%
Failed Transition			
Impact at 5 years	8.3%	0.8%	3.8%
Impact at 10 years	8.5%	0.1%	0.8%
Impact at 30 years	9.0%	-1.2%	-27.3%
Impact at 40 years	9.3%	-1.3%	-38.7%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$177	2.9%	0.0%	98.4%	15,666	142.4	604.8	6.0%	-27.1%	0.0	0	15,666	0.29	-0.31	33.7%	23.7%	37.9%

Mercer Investment Funds

Mercer Australian Property Index Fund



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about **8.5% (3.1% p.a.)** in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by **5.4% (1.2% p.a.)** over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by **6.1% (0.7% p.a.)**. The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful**. Under this scenario, returns are reduced by **24.7%** on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around **29.5%** on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that **generates the most favourable long-term outcomes for the portfolio**.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	6.2%	-1.2%	-5.4%
Impact at 10 years	6.7%	-0.7%	-6.1%
Impact at 30 years	8.1%	-0.1%	-3.5%
Impact at 40 years	8.5%	-0.1%	-2.3%
Orderly Transition			
Impact at 5 years	6.2%	-0.2%	-0.8%
Impact at 10 years	6.7%	-0.1%	-0.5%
Impact at 30 years	8.1%	-0.1%	-1.8%
Impact at 40 years	8.5%	-0.1%	-3.8%
Failed Transition			
Impact at 5 years	6.2%	0.0%	0.2%
Impact at 10 years	6.7%	-0.2%	-2.2%
Impact at 30 years	8.1%	-1.0%	-24.7%
Impact at 40 years	8.5%	-0.9%	-29.5%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities (tCO2e)	% with SBTi approved targets
\$13	0.2%	0.0%	95.9%	58	7.2	72.1	0.0%	-5.8%	0.0	0	58	0.00	2.25	0.0%	0.0%	34.1%

Mercer Investment Funds

Mercer Macquarie Global Listed Real Estate Fund



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about **4.8% (1.8% p.a.)** in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by **2.5% (0.6% p.a.)** over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the **Rapid Transition and Failed Transition have impacts of similar magnitude**. Meaning transition risks and physical risks are similarly important and reduces annualised returns by **0.3% p.a.** The impact of the Orderly Transition is small on the basis that transition costs and impacts are smaller and largely priced in.

30 Years: Over the medium to long term, impacts from physical damages begin to be priced in and the **Failed Transition becomes the most impactful scenario**. Under this scenario, returns are reduced by **25.3%** on a cumulative basis.

40 Years: Over the long term, physical damages continue to be the dominant risk driver and the **Failed Transition is by far the worst scenario**. The reduction in returns under this scenario is around **31.1%** on a cumulative basis. It is also worth highlighting that the higher warming and hence damage under the Orderly Transition (<2°C) scenario, relative to the Rapid Transition (1.5°C) scenario, makes the lower warming scenario the one that generates the most favourable long-term outcomes for the portfolio.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	8.0%	-0.6%	-2.5%
Impact at 10 years	8.2%	-0.3%	-2.4%
Impact at 30 years	8.4%	0.0%	0.6%
Impact at 40 years	7.6%	0.1%	2.5%
Orderly Transition			
Impact at 5 years	8.0%	-0.2%	-0.9%
Impact at 10 years	8.2%	0.0%	-0.4%
Impact at 30 years	8.4%	0.0%	-1.1%
Impact at 40 years	7.6%	-0.1%	-2.7%
Failed Transition			
Impact at 5 years	8.0%	0.0%	-0.2%
Impact at 10 years	8.2%	-0.3%	-3.0%
Impact at 30 years	8.4%	-1.0%	-25.3%
Impact at 40 years	7.6%	-1.0%	-31.1%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO2e)	Carbon Footprint (tCO2e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO2e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO2e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO2e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$190	3.1%	0.0%	96.4%	1,062	9.0	95.6	0.0%	-10.5%	0.0	0	1,062	1.33	1.62	0.0%	0.0%	51.5%

Mercer Investment Funds

Mercer Macquarie NZ Short Duration Fund



Summary of results

5 Years: Over the short term, transition risk dominates, with the **Rapid Transition scenario having the most significant impact on investment returns**. Under this scenario there is a shock to returns of about **4.3% (1.5% p.a.)** in year 3 from a sudden and aggressive pricing-in of transition risk driven by unprecedented policy action, with markets initially overreacting before partially recovering. Overall, returns are reduced by **2.0% (0.4% p.a.)** over the 5-year period in the Rapid Transition. The return impact under a Failed Transition is marginally positive due to transition costs not materialising.

10 Years: Over this time period, the Rapid Transition reduces returns by **2.6% (0.3% p.a.)**. The impact of the Orderly Transition and Failed Transition is relatively small at this point on the basis that transition costs and impacts are largely priced in.

30 Years / 40 Years: Over the medium to long term, Rapid Transition remains with the most significant impacts, also physical damages begin to be priced.

This table sets out the annualised and cumulative return impacts of the three climate scenarios relative to the baseline based on the asset allocation modelled.

	Annualised Returns (%)		Cumulative Returns (%)
	Expected Return (Baseline)	Climate Impact	Climate Impact
Rapid Transition			
Impact at 5 years	5.5%	-0.4%	-2.0%
Impact at 10 years	5.6%	-0.3%	-2.6%
Impact at 30 years	5.8%	-0.1%	-1.5%
Impact at 40 years	5.0%	-0.1%	-1.9%
Orderly Transition			
Impact at 5 years	5.5%	0.1%	0.3%
Impact at 10 years	5.6%	0.0%	0.4%
Impact at 30 years	5.8%	0.0%	1.0%
Impact at 40 years	5.0%	0.0%	-0.8%
Failed Transition			
Impact at 5 years	5.5%	0.0%	-0.2%
Impact at 10 years	5.6%	0.0%	0.3%
Impact at 30 years	5.8%	0.0%	-0.7%
Impact at 40 years	5.0%	0.0%	-1.6%

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO ₂ e)	Carbon Footprint (tCO ₂ e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO ₂ e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO ₂ e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO ₂ e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$91	1.5%	19.5%	67.9%	2,381	52.0	36.4	0.0%	-7.9%	3.7	41	2,422	-0.07	0.00	1.1%	3.6%	15.0%

Mercer Investment Funds

Mercer Macquarie NZ Cash Fund

Cash funds are excluded from the climate scenario analysis due to the very short duration nature of cash. In the climate scenario analysis, the impacts on short term interest rates are close to zero. We have repeated the climate metrics for the Mercer Macquarie NZ Cash Fund below noting the low percentage of the underlying fund holdings coverage (27.5%).

AUM (NZD) in million	Weight of Option	Proportion of fund in Sovereigns (%)	% of Fund Covered by Assessment	Corporate Absolute Emissions (tCO ₂ e)	Carbon Footprint (tCO ₂ e / USD \$M FUM)	Fund Weighted Average Carbon Intensity (tCO ₂ e/\$M Revenue)	Transition Risks (%)	Physical Risk (%) Climate VaR	Sovereign Carbon Intensity tCO ₂ e / \$M PPP Adj GDP	Sovereign Absolute Emissions (tCO ₂ e)	Total Absolute Emissions	Climate Opportunities (SDG Score)	Benchmark SDG Climate Opportunities	Fossil Fuel Capital Deployment Metric	Capex Opportunities	% with SBTi approved targets
\$298	4.9%	71.1%	27.5%	1,358	25.3	44.4	0.0%	4.8%	3.7	493	1,851	0.01	0.00	1.7%	3.9%	5.3%



Notes

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