

# Responsible Funds Update

Mercer Investment Funds

Quarter ending 30 September 2025



# Introduction

Welcome to the September 2025 quarterly update for the Mercer Responsible investment funds. In addition to quarterly fund commentary and performance updates, the objective of this report is to provide insights into, and promote a greater understanding of, sustainable investment. We also report on key engagements over the last quarter.

## Manager

Mercer (N.Z.) Limited is the manager of the Mercer Responsible investment funds.

## Sustainable Investment Policy

The Mercer Responsible investment funds are governed by the Mercer NZ Sustainable Investment Policy and accompanying exclusions and additional exclusions criteria.

## RIAA certification

The Mercer Responsible investment funds have been certified by the Responsible Investment Association of Australasia (RIAA).

# International engagement

International engagement reporting is provided by the investment manager of the Mercer Responsible Overseas Shares – Low Active Risk Portfolio.

The Manager's Quantitative Equity Products (QEP) investment team works in close collaboration with its Sustainable Investment team to facilitate engagement activity. The engagement blueprint includes six priority engagement themes capturing issues relating to environmental (climate change, natural capital & biodiversity), social (human rights, human capital management, diversity & inclusion) and corporate governance.

The Manager engaged with a range of companies on various environmental, social and governance topics during the third quarter. This included engagement with US bank Wells Fargo on the issue of climate change, discussing its climate strategy, as well as human capital, diversity and sustainability reporting.

The company outlined its approach to climate risk, emphasising their alignment with clients and business opportunities, particularly regarding their financing activities in the renewables and electric vehicles space. Wells Fargo also communicated their 2030 sustainability

goals and changes to scope 3 reporting. They underscored climate risks as a key concern and have integrated it into their Enterprise Risk Management process and underwriting procedures.

The discussion on human capital revealed progress in their business model and company culture, with a particular focus on customer satisfaction and complaint handling. Lastly, they expressed a commitment to diversity and sustainability reporting and aim to improve the provision of relevant information to investors.

The Manager also engaged with Tencent on its blueprint theme of human rights. Tencent continues to make progress in strengthening its governance on data privacy and cybersecurity. The company actively engages with ESG ratings agencies to communicate its sustainability improvements and has noted positive momentum with upgrades from both MSCI & Sustainalytics.

As a UNGC signatory, Tencent has committed to improving human rights principles. The company was encouraged to formalise this commitment through a human rights policy.

On data privacy, Tencent communicated that they evaluate each request for data from third parties based on legal grounds, necessity, and its privacy policies, sharing only strictly required information. Further, while Tencent's messenger app WeChat cannot implement end-to-end encryption due to China's national cybersecurity requirements, Tencent does apply internal encryption measures for data storage and transmission. The Manager will continue to monitor progress on its key requests, including publishing a human rights policy, formalising an ethical AI framework, and increasing transparency on data privacy practices.

The Manager's stewardship process extends to a proactive voting programme. It aims to vote on all resolutions unless specifically restricted from doing so, with corporate governance specialists carrying out all voting activities.

The Manager voted at over 200 meetings and almost 2,000 resolutions for companies held across the QEP desk in the third quarter of 2025. Within these votes, over 7% were not with management. Votes against management were focused on compensation plans, the election of directors or auditor related.

For example, the Manager voted against European online retailer Prosus and their executive remuneration proposal as the performance period for the long-term incentive is not sufficiently long. They also voted against Snowflake's board proposal due to concerns around diversity on the board and its overall composition.

## New Zealand engagement

The Mercer Responsible Trans-Tasman Shares Fund invests in the Mercer Responsible Trans-Tasman Shares Portfolio (the Portfolio) within the Mercer Investment Trusts New Zealand.

The Portfolio has three underlying investment managers. Engagement reporting is provided by the two active managers, while the third employs a passive strategy so does not provide engagement reporting.

One active manager reported that company engagements during the quarter primarily involved investor roadshows with boards ahead of the AGM season. Key ESG topics included climate change strategies, executive remuneration frameworks, and board composition.

On climate change, the manager engaged extensively with energy companies regarding their decarbonisation plans. Mercury detailed its carbon accounting approach related to the Huntly strategic fuel reserve agreement, while other companies discussed their roles in New Zealand's energy transition.

On social issues, healthcare company Fisher & Paykel addressed supplier labour compliance and rising injury rates in Mexico, attributing the latter to improved reporting rather than actual negative trends.

Governance discussions focused on board composition and remuneration. The manager raised over-boarding concerns with two healthcare companies, Ryman and Fisher & Paykel, where directors are reducing their commitments accordingly. Fletcher Building discussed remuneration metrics and incentive restructuring amid a strategic review, while Macquarie Group explained its exit from the Net Zero Banking Alliance and outlined its transition philosophy. Several companies sought increases to director fee pools, citing reasons such as succession planning and business complexity.

Industry engagement included active participation in policy development and thought leadership forums. The manager contributed a keynote on sustainable infrastructure investment and joined an impact investment panel at the RIAA NZ annual conference. Insights confirmed that ESG integration does not compromise returns, even as climate policy evolves through XRB consultations and government work on national adaptation frameworks.

Overall, engagement this year has centred on climate change, with annual updates provided during the latest reporting season, including the second round of climate-related disclosures. Looking ahead, governance issues will receive greater focus as the Australasian AGM season peaks.

The other active manager met with Sky City to discuss mandatory carded play, which is due to be implemented in July 2025. While this will reduce gaming revenue, it represents a significant improvement in harm minimisation by enabling better monitoring with fewer manual inputs than previously used. The Adelaide casino will adopt similar measures in 2026, marking positive progress as Sky City moves beyond its regulatory challenges.

This manager also engaged with Mainfreight regarding the decision to support the re-election of Simon Cotter as an independent director, despite Institutional Shareholder Services (ISS) recommending a vote against. ISS cited concerns about Cotter's independence due to his long tenure since 2013, committee memberships, and past advisory role.

After discussions with the Managing Director and reviewing the Board's response – which highlighted Cotter's limited involvement since 2011 and the recent appointment of two new independent directors – it was concluded that mitigating factors sufficiently address independence concerns for now. It was noted that Cotter's tenure is approaching the NZX Code's 12-year threshold, and the Board is demonstrating talent development in logistics and proteins, with younger members stepping into leadership roles.

The manager also met with the Chair of Sky TV to discuss the Board matrix and director tenure. The executive team's performance is viewed positively, with an active search underway for a new CFO. Other topics included director share ownership.

Key risks over the next 1–5 years include NRL rights and potential satellite failure, though the latter is considered unlikely. Board priorities for FY26 focus on integrating Discovery NZ. Sky TV remains a low carbon emitter, with emission targets postponed due to the Discovery NZ integration. Capital management preferences were also discussed. The economic outlook remains cautious, with no major recovery expected in the coming year.

# Market environment

## Economic review

- Global economic activity in Q3 remained resilient despite signs of slowing momentum in several major economies. The United States continued to anchor global growth, supported by robust consumer spending and business investment in AI and technology infrastructure. Inflation continued to ease gradually, allowing the Federal Reserve to deliver its first rate cut of the cycle in September, cutting interest rates by 25 basis points (bps) to 4.25%.
- In Europe, growth stayed subdued but avoided contraction, while China's targeted stimulus measures began to stabilise manufacturing and property activity, offering modest relief to broader Asian markets.
- The MSCI World Index (local currency) rose 7.5%, though was outperformed by the MSCI Emerging Markets Index (local currency), which gained 12.2%. Several investments in the US tech sector saw the Magnificent 7 shares (Apple, Microsoft, Amazon, Alphabet, Meta, Tesla, and Nvidia) rise by 17.6% during the quarter.
- New Zealand economic growth slowed significantly in Q2, as GDP fell by -0.9% quarter-on-quarter (QoQ) in Q2 2025, below market expectations of -0.3% QoQ. The Reserve Bank of New Zealand (RBNZ) reduced interest rates by 25 bps to 3.0%, signalling the possibility of further easing amid a slowing economy and ongoing external challenges. The unemployment rate increased to 5.2% in Q2, up from 5.1% previously. These figures confirm the weak GDP data and support the RBNZ's shift in outlook.
- US Treasuries ended the quarter lower, after yield-curves initially steepened driven by rate-cut expectations and concerns over Fed independence. However, the market appeared to have priced a 25 bps FOMC (Federal Open Market Committee) cut to 4.00–4.25% by September and easing dissent helped reverse the steepening.
- Eurozone yields rose as tariff uncertainty faded and Germany's fiscal stimulus improved the macro-economic outlook, while French bonds lagged amid political fragmentation and a Fitch downgrade from AA- to A+.
- Credit outperformed sovereign bonds during the quarter as US investment-grade spreads tightened to multi-decade lows, boosted by solid earnings and strong demand that absorbed renewed issuance.

## Market summary

- Global equities rallied strongly for a second quarter in a row, supported by resilient economic growth and fuelled by a surge in technology and growth sectors as expectations for artificial intelligence (AI) names intensified despite growing concerns about elevated valuations. The re-commencement of the Fed's interest rate cutting cycle also helped.
- Political uncertainty eased somewhat over the quarter as trade negotiations made progress; to date the impact of tariffs on growth and inflation has been less than the market anticipated.
- Emerging markets outperformed developed markets during the quarter as onshore and offshore Chinese equities (as well as Taiwan equities) rallied sharply on positive trade developments between the US and China, with technology companies performing particularly well.
- The Fed cut interest rates by 0.25% in September due to rising signs of labour market weakness. This contributed to falling yields across most bond maturities, creating a tailwind for fixed income as markets positioned for a continuation of the cutting cycle in the US that was paused late last year.
- Outside of the US, the European Central Bank (ECB), Bank of England, Bank of Japan, and the Swiss central bank all kept rates at existing levels, the ECB noting that inflation remains near target levels. The Bloomberg Global Aggregate Index returned 0.9% during the quarter.
- The RBNZ reduced interest rates by 0.25% to 3.0% in August, signalling the possibility of further easing amid a slowing economy and ongoing external challenges. As the quarter ended, many were predicting a further 0.5% cut in early October. This supported New Zealand equities which were up 5.8% in Q3 with most sectors recording gains.
- Australian equities were up 4.7% with the materials sector delivering the strongest performance as metal prices surged.
- Global listed property returned 4.2% during Q3, while core listed infrastructure stocks also delivered positive returns (4.0%). Both sectors lagged broad developed market equities over the quarter and are well behind the broader market over 12 months.
- Gold prices continued to rise over the quarter as fears over geopolitical events and the prospect of a US government shutdown escalated.

# Performance

## Diversified

### Mercer Responsible Balanced Fund<sup>1</sup>

#### Underlying investment portfolio

The Mercer Responsible Balanced Fund invests into the Mercer Responsible Balanced Portfolio within the Mercer Investment Trusts New Zealand.

#### Asset allocation

Sector weights (average)	Actual (%)	SAA (%)	Tilt (%)
Trans-Tasman shares	12.9	13.0	-0.1
Socially responsible overseas shares*	39.0	39.0	0.0
Property (listed and unlisted)	2.9	3.0	-0.1
Infrastructure (listed and unlisted)	4.9	5.0	-0.1
<b>Growth total</b>	<b>59.7</b>	<b>60.0</b>	<b>-0.3</b>
Overseas sovereign bonds	10.5	11.0	-0.5
Socially responsible global credit	9.6	10.0	-0.4
Short term bonds	3.0	4.5	-1.5
NZ sovereign bonds	10.7	10.0	+0.7
Private debt	1.8	0.5	+1.3
Cash	4.7	4.0	0.7
<b>Defensive total</b>	<b>40.3</b>	<b>40.0</b>	<b>+0.3</b>
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>

\*Includes hedged and unhedged active, low active risk and passive socially responsible overseas shares.

#### Fund performance

As at 30 September 2025

September 2025 quarter	%
Fund return	4.82
Benchmark return	5.39
<i>Excess returns</i>	-0.57

#### Average annual returns (%)

Periods ending 30 Sept 2025	1 year	3 years	5 years	10 years	Since inception*
Fund return	8.97	11.20	7.61	7.43	8.30
Benchmark return	10.9	12.14	7.57	7.69	8.07
<i>Excess returns</i>	-1.93	-0.94	0.04	-0.26	0.23

\*Inception date 11 August 2009

Note: All performance figures are before tax and fees

#### Fund commentary

- The Mercer Responsible Balanced Fund produced a positive return in the September quarter but underperformed the benchmark return. The Fund has also underperformed over 1, 3 and 10-year periods.
- The main contributors towards returns over the quarter was security selection in domestic and global bonds and the allocation to short term bonds and indexed and low risk overseas shares. Detractors included security selection in active overseas shares and the allocation to overseas shares (hedged and unhedged) and private debt.
- Over the last 12 months, security selection in Trans-Tasman shares, active overseas shares and listed infrastructure, and the allocations to overseas shares, listed property and private debt, detracted from returns. Security selection in unlisted property and global bonds, along with the allocation to indexed and low risk overseas shares, contributed positively.

## New Zealand shares

#### Market review

New Zealand equities were up 5.8% in Q3, on the backdrop of easing rates. The RBNZ opted to cut the OCR by 25 bps in September, with markets pricing in further cuts in October, bottoming out at 2.25% by the end of 2025.

Most sectors recorded gains over the quarter. Materials delivered the strongest performance; rising 24.7%, as metal prices surged. Information technology was the weakest sector, declining by -4.2%.

<sup>1</sup> Fund name changed as of December 1<sup>st</sup> 2025, formerly named Mercer Sustainable Balanced Fund.



## Mercer Responsible Trans-Tasman Shares Fund

### Fund performance

As at 30 September 2025

September 2025 quarter	%
Fund return	4.67
S&P/NZX 50 Gross Index with Imputation Credits	5.78
Excess returns	-1.11

Average annual returns (%)

Periods ending 30 Sept 2025	1 year	3 years	5 years	10 years	Since inception*
Fund return	5.34	9.04	4.56	11.11	12.06
Benchmark return	7.75	7.15	3.29	10.02	11.02
Excess returns	-2.41	1.89	1.27	1.09	1.04

\*Inception date 12 December 2012

Note: All performance figures are before tax and fees.

### Fund manager

The Fund invests into the Mercer Responsible Trans-Tasman Shares Portfolio in the Mercer Investment Trusts New Zealand (MITNZ).

### Fund commentary

Fund performance was positive but under the benchmark for the quarter. The Fund returned 4.67% over the quarter, underperforming the benchmark by -1.11%.

The New Zealand share market delivered a positive return this quarter. Company earnings results reflected the challenging economic environment; however, conditions appear stable rather than deteriorating, and the outlook has improved, supported by the more aggressive rate-cutting cycle.

The portfolio benefited from its positioning in the information technology sector, particularly strong stock selection in Life360 and Xero. However, performance was negatively impacted by an overweight position in the healthcare sector, as well as underweight exposure to the real estate and communications sectors.

At the individual security level, the largest detractors were Ebos, which disappointed the market with its earnings results amid uncertainty surrounding the new CEO transition, and Telix, which declined sharply following an additional US regulatory review.

## Global shares

### Market review

- Markets were buoyed by two main drivers: robust corporate earnings and surprisingly sturdy economic data (especially in the US), where growth stocks outpaced expectations. That momentum, together with expectations of interest-rate cuts, pushed stocks to fresh highs through September, with emerging markets leading the gains.
- Developed market equities (MSCI World (local currency)) rose by 7.5% in Q3 2025, despite disappointing US economic data. Several investments in the US tech sector saw US equities (MSCI US (local currency)) continue to climb. This was driven by the "Magnificent 7" (Apple, Microsoft, Amazon, Alphabet, Meta, Tesla, and Nvidia), which rose by 17.6% during the quarter.
- Emerging market shares (MSCI EM (local currency)) rose 12.2%, driven by a 19.8% rise in the Chinese equities (MSCI China (local currency)) during the quarter.

## Mercer Responsible Global Shares Fund

### Fund performance

As at 30 September 2025

September 2025 quarter	%
Fund return	9.07
MSCI World Index* (69% hedged to NZD)	8.89
Excess returns	0.18

Average annual returns (%)

Periods ending 30 Sept 2025	1 year	3 years	5 years	10 years	Since inception*
Fund return	21.07	21.84	15.69	12.00	8.93
Benchmark return	20.18	22.15	14.65	12.43	8.54
Excess returns	0.89	-0.31	1.04	-0.43	0.39

\*Inception date 6 November 2007

Note: All performance figures are before tax and fees.

### Fund manager

The Mercer Responsible Global Shares Fund invests into the Mercer Responsible Overseas Shares Portfolio. Schroders, PanAgora and Acadian were appointed as managers within the Mercer Responsible Overseas Shares Portfolio, effective 15 December 2025.

## Fund commentary

Global equities delivered solid returns in the third quarter of 2025, supported by resilient corporate earnings and expectations of continued policy support. While macroeconomic data pointed to some softening, it remained sufficiently resilient to keep recession fears in check. US tariffs remained a key theme during Q3, but their impact has so far been less than feared back in April.

The strategy outperformed over the quarter as markets navigated diverging regional growth signals, evolving central bank policy expectations and a robust earnings season. While the strategy's quality focus remained a steady anchor, contributors were broad based across cyclical and structural growth.

Specifically, positioning in technology (semis and hardware) was additive as the sector continued to perform strongly in the wake of solid earnings. Industrials also contributed, driven by exposure to manufacturing and construction names which benefitted from resilient demand.

Materials supported relative performance as select exposures in chemicals and metals gained on improving demand trends in Asia. Additional contributions came from financials (banks) and real estate, where stock selection was rewarded.

Detractors were modest over the period and largely from more defensive areas which lagged in a risk on environment. Notably, communications were the key detractor from holdings across Telcos, while holdings in higher quality utilities were similarly left behind.

## Global fixed interest

### Market review

- International government bonds gained in Q3, as US Treasury yields ended lower after expectations for rate cuts increased and were priced into markets.
- Meanwhile, UK, German and Japanese yields rose amid fiscal and political pressures.

## Mercer Responsible Hedged Global Fixed Interest Index Fund

### Fund performance

As at 30 September 2025

September 2025 quarter	%
Fund return	0.93
Bloomberg MSCI Global Aggregate SRI Select ex Fossil Fuels Index* (100% hedged to NZD)	0.93
<i>Excess returns</i>	<i>0.00</i>

Average annual returns (%)

Periods ending 30 Sept 2025	1 year	3 years	5 years	10 years	Since inception*
Fund return	1.85	4.20	-0.49	N/A	1.38
Benchmark return	1.70	4.19	-0.49	N/A	1.40
<i>Excess returns</i>	<i>0.15</i>	<i>0.01</i>	<i>0.00</i>	<i>-</i>	<i>-0.02</i>

\*Inception date 27 November 2017

Note: All performance figures are before tax and fees.

### Fund commentary

The Fund is a passively managed international fixed interest portfolio that is designed to track the return of the Bloomberg MSCI Global Aggregate SRI Select ex Fossil Fuels Index\*, fully hedged to the NZ dollar.

The Fund returned 0.93% over the September 2025 quarter, in line with the benchmark return.

\*Source: MSCI. The MSCI data is comprised of a custom index calculated by MSCI for, and as requested by, Mercer (N.Z.) Limited. The MSCI data is for internal use only and may not be redistributed or used in connection with creation or offering any securities, financial products or indices. Neither MSCI nor any other third party involved in or related to compiling, computing or creating the MSCI data ("The MSCI Parties") makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and the MSCI Parties hereby expressly disclaim all warranties or originality, accuracy, completeness or fitness for a particular purpose with respect to such data. Without limiting any of the foregoing, in no event shall any of the MSCI Parties have any liabilities for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

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