

DIVEST INVEST EUROPE

SUSTAINABLE AND 'FOSSIL FUEL FREE' INVESTMENTS – CONSIDERATIONS FOR INVESTORS

JULY, 2016

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Document summary

This document provides selected outputs from a project conducted by Mercer for the Divest Invest Europe initiative.

The information collated in the following pages provides the reader with a summary of the work conducted by Mercer via the following:

- A two page summary of the project.
- An article written by Jane Ambachtsheer, highlighting some of the key findings of the project.
- Selected information on the availability of investment products (funds) in different asset classes – focusing on Listed Equities, Fixed Income and Private Markets (such as Private Equity and Infrastructure).

It is important for the reader to note that (currently) investment managers rarely declare whether they have exposure – within individual portfolios – to companies involved in the production or use of fossil fuels. Mercer is beginning to see strategies (funds) with policies that restrict exposure to fossil fuel companies but this is currently the exception rather than the rule.

Investors specifically interested in “fossil fuel free” (FFF) funds are therefore required to contact managers directly to determine whether the funds they provide are FFF and, where they are, that this is a deliberate policy driven by views on climate risk rather than a shorter-term outcome of wider economic views (i.e. which could change and result in exposure to fossil fuel companies at some point in the future).

To facilitate these investigations Mercer has provided selected information (in Appendix C) on Global Equity strategies within our Sustainability-themed and ‘Pure Play’ sub universes that are held in our research database. It is not guaranteed that these equity funds are FFF but they are less likely than traditional equity funds to include fossil fuel companies and therefore present a starting point for further due diligence.

Other sources of fund availability include the following public resources:

Fossilfreefunds.org:

- Designed to answer the question: ***‘Does my fund contain fossil fuels?’***
- Multiple “fossil fuel” screens available.
- Focuses on ‘mainstream’ funds – includes unintentionally FFF (e.g. health) funds.

Novethic: fund labels

- Awards transparency and best practice on ESG integration (portfolio level).
- Designed to enable comparison across “SRI” and “Green” funds.
- European focus (with French manager bias).

ImpactBase:

- Database of 380+ *impact investment* funds and products.
- Diverse range of strategies (geographies; theme).
- Predominantly private markets (private equity; private debt).
- Manager populated.

With resources such as those listed above it is important to be mindful of their purpose and how comprehensive they are. Investors should obtain appropriate advice prior to any decisions and should always conduct appropriate due diligence.

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The Divest Invest Europe project

Introduction

During the first quarter of 2016 Mercer provided a workshop to the Divest / Invest Europe initiative. The aim of the session was to provide signatories of this initiative with information on the investment landscape for sustainable, low carbon and 'fossil fuel free' investment strategies.

Sustainable, low carbon and 'fossil fuel free' investment strategies (or funds) cover a growing range of opportunities for investors. However, investors should note that strategies falling within these categories will tend to have different objectives. It is therefore important that each investor carefully considers which strategies are best aligned with their specific objectives and constraints. The definitions below are based on Mercer's view of the three categories:

- **Sustainability-themed:** Investment strategies in this category focus on solutions to broad environmental and social challenges. They provide exposure to themes such as alternative or low carbon energy, education, energy efficiency, health and water. Products available to investors in this category tend to be actively managed and are mostly available in listed and private equities. Opportunities also exist in infrastructure funds but these tend to be more focused on alternative / renewable energy (i.e. environmental rather than social investment themes).
- **Low carbon:** Whilst sustainability-themed investment funds will typically have a "low carbon" element (in that they are less likely to invest in traditional energy related sectors), there are a growing number of passive equity indices that explicitly focus on reducing exposure to carbon. This is achieved by either reducing exposure to companies with high carbon emissions and/or companies with fossil fuel reserves – by reducing their weighting in the index, or removing them entirely. Investors require funds that track these indices in order to invest against them – there is currently limited availability for such funds in the UK and Europe. Whilst the focus of these low carbon indices is on listed equities currently, fixed income options are emerging (e.g. green bond indices).
- **Fossil fuel free:** In response to demand from Endowments and Foundations in particular, some index providers (e.g. FTSE, MSCI and S&P) have created 'fossil fuel free' (FFF) versions of mainstream equity indices. These indices remove companies that have exposure to fossil fuels – although definitions vary across providers – and then re-weight all other holdings in a way that maintains the return and risk characteristics as closely as possible to the original index. As with the low carbon option above, FFF indices are currently focused on listed equities and imply a passive (i.e. index tracking) approach.

Note: Many investment funds will be naturally FFF either because they have a specific sector or thematic focus or because the economic and financial characteristics of these companies or

sectors are unattractive to the individual fund manager. Throughout the work we conducted for Divest Invest Europe we referred to the latter as “unintentionally” FFF i.e. the lack of exposure to fossil fuels was not driven by concerns over climate change. The key point regarding unintentionally FFF funds is that they may not always avoid fossil fuels – it is therefore important for Divest Invest Europe signatories to consider whether these funds are appropriate investment options for them.

The availability of investment products (funds)

In addition to the workshop described above, Mercer provided Divest Invest Europe with information held within our Global Investment Manager Database (GIMD) to highlight the availability of investment funds across different asset classes that may be of interest to the group.

The table below provides a summary of this information – the area outlined in red highlights the availability of strategies (across different asset classes) that are most likely to be of interest to the Divest Invest group. **Note:** “ESG” stands for environmental, social and corporate governance. Integration of ESG issues refers to the extent to which an individual investment manager considers these issues when constructing and managing a fund. Whilst this may incorporate concerns over climate change it also covers a much wider range of issues.

Availability of strategies based on Mercer’s research database (GIMD)

	Relevance of ESG to risk/return drivers	Current state of ESG integration (distribution of ratings)*	Availability of sustainable-themed strategies**	Availability of “fossil fuel free” strategies
Active equity	Medium	Medium	Medium/High	Medium/Low
Fixed Income	Low	Low	Low	Low
Real Estate	High	Medium/High	Low	N/A
Private Markets	Medium/High	Medium/High	Medium/High	Medium/High
Natural Resources	High	Medium/High	Low	Low
Infrastructure	High	Medium/High	Low	Medium/Low

Source: Mercer

The remainder of this document focuses on individual asset classes, with a particular focus on actively managed UK and Global listed equity strategies. Additional information on passive low carbon and FFF indices and the limited range of equity funds tracking these indices is provided in Appendix A.

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Article

The article provided in this section was written by Jane Ambachtsheer – a Partner and Chair of Mercer’s Global Responsible Investment team. The article draws on a workshop that Mercer held with the Divest Invest Europe initiative in March 2016. An edited version of the article was published in Investment and Pensions Europe in June 2016.¹

Twin Aims – Protecting investment returns and addressing the climate crisis

During 2014 a group of investors initiated [Divest Invest](#) in order to heighten investment industry awareness of climate risk and leverage the power of the financial sector towards climate action.² Today this movement numbers over 500 organisations with US\$3.4 trillion in assets. This article discusses the outcome of a workshop led by Mercer which focused on motivations, barriers and opportunities for Europeans to Divest Invest.

The Backdrop

Investment pools often serve a social purpose, be it to fund university research, pay pensions or support charitable endeavors – often into perpetuity. Meeting these aims is generally the sole focus of those responsible for overseeing the assets, often involving a fiduciary duty to do so in a prudent manner. What does this have to do with climate change? Historically – very little, but times are changing.

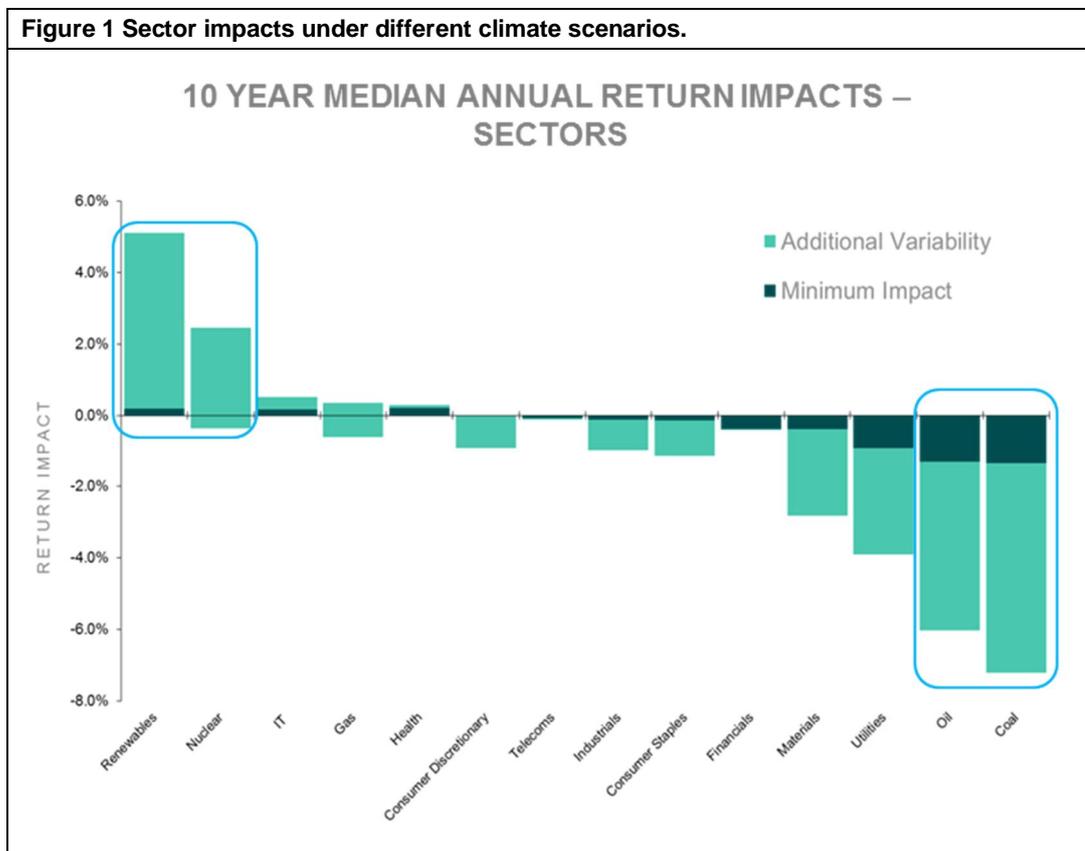
The Paris Agreement, struck in December 2015 by 196 governments covering over 95% of global emissions, sets out an ambitious target of limiting global warming to well below 2°Celsius over pre-industrial levels, and preferably 1.5°C. Achieving this will have significant implications for different sectors of the economy.³ Figure 1, an excerpt from Mercer’s 2015 [Investing in a Time of Climate Change](#) study, shows the potential sector level impact on investment returns,

¹ The IPE article is available here: <http://bit.ly/29aURCf>

² Specifically, they commit to: Make no new investments in the top 200 oil, gas, and coal companies; Sell existing assets tied to these oil, gas, and coal investments within 3-5 years, and; Invest in climate solutions, such as zero carbon energy, energy efficiency, sustainable agriculture, water efficiency and more.

³ A 2015 study by University College London (https://www.bartlett.ucl.ac.uk/sustainable/sustainable-news/nature_fossil_fuels) concludes that a third of oil reserves, half of gas reserves and over 80% of current coal reserves globally should remain in the ground and not be used before 2050 if global warming is to stay below the 2°C target agreed by policy makers.

wherein the return impact of a 2°C scenario is reflected in the full height of the bars. This scenario sees significant potential erosion of returns for materials, utilities and fossil fuel based energy sectors, with strong gains to renewables.



An energy transition is already underway. A record US\$329bn was invested in renewable energy in 2015, an increase of nearly 30% over 2014 (Bloomberg New Energy Finance). For the first time in, 2014, economic growth was decoupled from emissions growth (i.e. the economy grew, while energy-related emissions did not), a trend observed by the International Energy Agency again in 2015. This aligns with the rapid introduction of solar and wind power sources, with the latter taking over the fossil fuel based power installations in the US in 2015 (Bloomberg New Energy Finance). In the automobile sector, the market capitalisation of Tesla – whose mission is to accelerate the world’s transition to sustainable transportation – is now half that of General Motors.

The speed of take up of new technologies has increased significantly over the last century. It has happened faster than predicted by many analysts, suggesting we can expect to see the overall share of non-fossil fuel based energy technologies continue to accelerate at a swift pace – perhaps most rapidly where these technologies involve distributed generation more akin to ‘consumer products’ (e.g. portable solar panels you put on your roof).

Divest-Invest Experiences to Date

Mercer surveyed 21 current and prospective signatories to Divest Invest and the results provide a number of interesting insights for asset owners and managers.⁴

Key Motivations for committing to Divest Invest reflect wide ranging concern and ambition

- **77% - Ethical:** *“We do not want our investments to undermine the work of our philanthropy and grant making”.*
- **59% - Financial:** *“We are gravely concerned about the risks posed to fossil fuel investments by likely changes to policy and by the increasing competitiveness of the alternative energy market”.*
- **59% - Political:** *“We want to send a loud, public signal to governments, policy makers and business leaders about the future we want them to enable”.*

Divestment progress still in early stages

- **60%** of respondents have conducted some form of portfolio assessment for fossil fuel exposures
- **90%** of respondents have other restrictions in place (such as tobacco or arms), which can complicate divestment from fossil fuels (e.g. many fossil fuel-free strategies do not include other exclusions)
- **All respondents except one** have some form of pooled funds, which can limit the ability to sell individual holdings
- **Variation exists** among what might be divested from, with coal and tar sands oil topping the list (each at 88%), followed by extraction of oil/gas (both at 75%), utilities generating/distributing energy from fossil fuels (75%) and distribution of fossil fuels (69%).

Investment component making good progress, although barriers exist

- Many investors surveyed have made positive allocations into low-carbon or fossil fuel free assets by asset class (75% to equity; 43% to fixed income or private equity; 36% to infrastructure) and by theme (38% to renewables; 31% to sustainability themed equities)

⁴ Respondents were primarily UK charities

- The barriers cited towards further allocations included: higher fees; a perception of poor(er) returns; lack of choice or poor availability of products.

Breaking down barriers to the low-carbon transition

Although signatories are early in the process of divestment from fossil fuels and investment in climate solutions, they are committed to this path. The final part of the workshop focused on two key priorities: i) helping the signatories to implement the commitment and ii) how the initiative can help move the market towards better managing and pricing climate risk.

Implementing the commitment

Mercer's categorization of sustainability related investment approaches into four categories is shown below. The two on the left focus on risk mitigation and an integration of environmental, social or governance (ESG) into traditional investment strategies, whereas the right hand side focuses on thematic allocations.

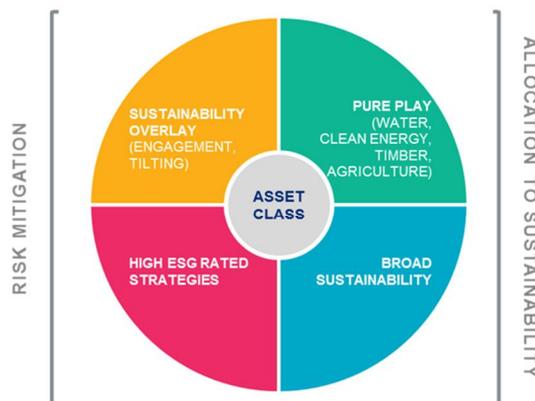
Figure 2 Mercer's sustainable investment framework

Sustainability overlay: This category is typically most applicable within the listed equity asset class. May include

- Re-weighting or tilting passive index constituents (alternative indexing)
- Engaging with companies based on sustainability issues
- Applying exclusions (such as fossil fuels) to index constituents.

High ESG-rated strategies: We assign ESG ratings at the investment strategy level

- Enables clients to identify managers that actively integrate ESG into investment decision-making, and those that do not.



Pure play:

- Focuses primarily on one particular sustainability theme e.g. climate change mitigation or adaptation solutions, water, timber or agriculture.

Broad sustainability:

- Strategies that target a range of environmental and social trends
- In addition to the pure-play themes –often include social opportunities in health, education, and other sustainable goods and services.

The workshop reviewed the investment products and approaches which already exist to support these efforts by UK- based charities (our particular focus in this workshop), and an assessment of gaps in the four key asset classes respondents are invested in: Global Equities, UK Equities, Fixed Income, and Private Market investments. Our analysis determined that:

- There is an **adequate supply** of active fossil fuel free Global Equity options
- There is a **lack of fossil fuel free** UK Equity options (passive and active)
- There is a **lack of fossil fuel free** Fixed Income options in general

- There is a **significant number** of Global Private Market thematic fossil fuel free options

The key priority agreed was to collaborate on the development of appropriate, accessible and affordable **passive vehicles** available to UK investors.

Evolving the market

The group also discussed steps that could help move the market towards better managing and pricing climate risk. For example, industry narrative is dominated by the assumption that oil price changes are cyclical, without much focus on what the strength of the Paris Agreement means for long-term demand. The industry should increase its awareness of the potential investment ramifications associated with the low/zero-carbon energy transition in order to provide sound advice to investors.

Marrying concern and ambition

Climate change is a financial issue that isn't going to go away, and is one Mercer suggests be added to a pension fund's risk register. Momentum in the investment community was a contributing factor to the success of the Paris Agreement, and is continuing. Regulators are also now beginning to focus on how investors are considering the investment risks associated with climate change.⁵

Divest Invest supporters believe that redirecting capital from fossil fuels into clean energy investments is the most effective way of limiting global temperature rises to below the 1.5°C above pre-industrial levels target agreed in Paris. The development of additional investment products to help them do so is inevitable.

Looking ahead – climate change is a topic which seems set to remain on the agenda of European investment committees.

Europeans for Divest Invest welcome interest from asset owners and managers in collaborating on the development of passive vehicles available to UK investors. Please contact Tom Harrison at the Sainsbury Family Charitable Trusts, tom.harrison@sfct.org.uk.

⁵ The phase one report (April 2016) of the Financial Stability Board Task Force for Climate Related Financial Disclosures (available at <https://www.fsb-tcfd.org/>) explains that the Task Force's review will focus both on how companies report their management of climate related risks, as well as how this information is reported across the investment chain (i.e. by investors and their service providers).

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Information on individual asset classes

The information contained in the remainder of this document serves as a follow-up to the March 2016 workshop and provides a listing of the relevant investment strategies within Listed Equities in particular, based on information held in Mercer's internal research database (GIMD).

We have divided the lists of Equity strategies into Global and UK, following the format of the materials used at the workshop. We have also included information on sustainability-themed opportunities currently available within Private Markets (e.g. private equity and infrastructure) specifically via fund of funds, as well as a list of managers that provide strategies within Fixed Income that may be of interest.

Caveats

A general point to highlight is that very few investment strategies (relative to the wider universe of funds in the market) have an explicit policy at present to be "fossil fuel free". The strategies highlighted in the lists included in the Appendices may not all be fossil fuel free – and where they are, it may be unintentional rather than explicit (i.e. not the result of a policy to deliberately avoid fossil fuels). Further points to highlight are as follows:

- The strategies provided in this document are not intended to be a complete representation of the universe, but rather to provide an indication of the availability of strategies.
- References to "unintentional" fossil fuel free strategies only refers to those that had the available sector information as at September 2015 to determine if they had any exposure to fossil fuels (refer to the proxies used to define "fossil fuel free" in the section on Equities, below).
- Some entries to Mercer's research database are maintained by the investment managers themselves. Mercer cannot attest to the validity of the data.
- The list is provided for high-level information purposes only and the inclusion (or omission) of investment strategies from the list should not be construed as a personal recommendation (or otherwise) of such strategies.
- Mercer does not guarantee the future performance of any of the investment strategies listed.

Investors interested in identifying strategies that meet their specific requirements should always conduct careful due diligence of both managers and the strategies under consideration. In addition, please refer to the Important Notices set out at the end of this document

Mercer is available to provide additional research insight and due diligence, please feel free to contact Aled Jones, Principal, to discuss at: Aled.Jones@mercero.com or +44 20 7178 3594.

Listed Equities

For the purposes of generating relevant Listed Equity strategies we have used Mercer's Global Investment Manager Database (GIMD). GIMD is a proprietary, web-based database that provides information and insights on investment strategies globally and across asset classes.

Equity strategies are presented **in a separate attachment**, according to the following categories:

- **Sustainability themes:** These strategies focus on sustainability-related themes as part of their investment strategy. They invest in opportunities across a range of environmental themes such as water, clean energy, and agriculture, as well as social demographic opportunities in health, education, and other sustainable goods and services.
- **Pure play:** Investments tend to be concentrated (i.e. more narrowly focused on a single theme or opportunity) e.g. water (including water infrastructure, technologies, and utilities), renewable energy and energy efficiency, or food and agriculture.
-

Fixed Income

As highlighted during the March 2016 workshop, the availability of Fixed Income strategies that incorporate environmental, social and corporate governance (ESG) issues in any form – including limiting exposure to fossil fuels – is extremely limited.

In order to provide an indicative list of the relevant strategies available in this asset class, Mercer contacted a selection of managers directly to obtain further information. The managers were based predominantly within Europe, and we approached managers that we considered more likely to offer products with an SRI, ESG or thematic approach (e.g. managing similar products in other asset classes) and which could therefore be of interest to the Divest Invest group.

The list of Fixed Income managers included in Appendix B is based on the information we received in response to our enquiries. It should be noted that we have only provided information on the managers that responded to our request for information and were able to provide relevant information.

Private Markets

The below table includes an indicative list of current private market fund of fund providers focused on the sustainability themes. We note that some funds may not be fully fossil free (although can confirm that the Mercer fund will be fossil fuel free).

Manager	Focus (Current or Historical)	Highest Tier Management Fee*
Mercer PIP IV – Sustainable Opportunities	Global Sustainable Private Markets and Real Assets strategy	0.65 %
Sonen (GSRA)	Global Sustainable Real Assets strategy	1.0 %
Morgan Stanley (Integro)	Private equity fund-of-funds focused on social and/or environmental impact in emerging markets	1.5 %
Sarona	Private equity frontier markets fund of fund focused on social and/or environmental impact	1.0 %

APPENDIX A

Low carbon passive equity indices

This section provides selected information on currently available low carbon and/or FFF equity indices. These can be broadly defined as equity indices that reduce or remove exposure to fossil fuels and energy companies.

Typically, these indices have a risk management focus i.e. they aim to reduce exposure to carbon emissions and/or fossil fuel reserves and therefore reduce an investor’s exposure to policy measures aimed at tackling the causes of climate change. Investors typically use these indices by allocating to a passive equity fund that tracks a particular index.

Overview of approach to index construction

Index Provider	Index Name	Parent Index	Carbon Reduction		Construction Methodology / Approach
			Emissions ¹	Reserves ²	
MSCI	MSCI World/ ACWI ex Fossil Fuel	MSCI World/ ACWI	13%	100%	This index excludes companies that own oil, gas and coal reserves for the purpose of energy generation.
MSCI	MSCI World/ ACWI ex Coal	MSCI World/ ACWI	4%	44%	This index excludes any constituent identified as having coal reserves used for energy purposes.
FTSE	FTSE Developed ex Fossil Fuel	FTSE Developed	Data not available		<p>Companies at high risk from devaluation as a result of “stranded assets” are excluded from the parent index, based on their:</p> <ul style="list-style-type: none"> – Sector classification: companies in the Exploration & Production, Integrated Oil & Gas or Coal Mining & General Mining sectors are excluded. – Sources of revenue: companies are excluded if they have revenues from Bituminous Coal and Lignite Surface Mining, Bituminous Coal Underground Mining, Anthracite Mining, Crude Petroleum and Natural Gas or Natural Gas liquid. – Fossil fuel reserves: Companies with proven and probable coal, oil or gas reserves are excluded.

¹ Reduction in emissions is defined as reduction in tons of CO₂ equivalents emitted per million dollars of sales.

² Reduction in reserves is defined as reduction in tons of CO₂ equivalent per million dollars of market capitalisation.

Source: MSCI, Beyond Divestment Using Low Carbon Indices, March 2015

Matrix of existing products

The table below highlights existing passive equity products available as at December 2015.

Index approach	LGIM	BlackRock	Northern Trust	BNY Mellon	SSgA	Amundi	IFM
MSCI Low Carbon Target	LGIM MSCI World Low Carbon Target Index Fund (weekly dealing)	BlackRock iShares Low Carbon Target ETF	-	-	SPDR MSCI ACWI Low Carbon Target ETF	-	-
MSCI Low Carbon Leaders	-	-	NT Emerging Markets Custom Low Carbon Optimised Equity Index Fund	<ul style="list-style-type: none"> Mellon Carbon Efficiency Strategy – ACWI Mellon Carbon Efficiency US (Russell 3000) 	-	<ul style="list-style-type: none"> Amundi Index Equity Global (World) Low Carbon Fund and ETF Amundi Index Equity Europe (World) Low Carbon Fund 	-
MSCI ex Fossil Fuel	-	-	-	-	-	-	-
FTSE Developed ex Fossil Fuel	-	BlackRock Developed Equity ex Fossil Fuel Fund	-	-	-	-	-
FTSE UK Carbon Optimised	LGIM UK Equity Carbon Optimised Index Fund (weekly dealing)	-	-	-	-	-	-
S&P 500 Carbon Efficient Index	-	-	-	-	-	-	-
S&P 500 Fossil Fuel Free Index	-	-	-	-	SPDR S&P 500 Fossil Fuel Free ETF	-	-
S&P/ASX 200	-	-	-	-	-	-	IFM Low Carbon Australian Shares fund

Emerging low carbon strategies (active and passive)

The table below highlights additional low carbon / FFF strategies that were identified during our research for the workshop held in Q1 2016.

Strategy	Manager	Type	Region	Benchmark	Carbon Reduction	What is it?	What's different?
ET Low-Carbon and Fossil Free Index Series	Environmental Investment Organisation	Passive index tracker	Global or regional	Multiple	25 - 69% reduction in tons of CO2 equivalents emitted per million dollars of sales	<ul style="list-style-type: none"> The ET Index Series is underpinned by the ET Carbon Rankings, which score listed companies according to their carbon emissions, as well as their levels of disclosure and verification. The Index Series works by taking the companies found in a normal index and re-weighting them, either positively or negatively, according to their position in the Carbon Ranking. The fossil free series further exclude fossil free stocks. 	<ul style="list-style-type: none"> Designed to closely track the returns of an underlying benchmark while limiting exposure to carbon. Scope 3 (value chain) emissions data included for a complete assessment of company carbon emissions. Engagement with companies as part of process.
Magellan Low Carbon Strategy (MLCS)	Magellan Asset Management	Active fund	Global	MSCI World	N/A	<ul style="list-style-type: none"> MLCS is a sub-strategy of Magellan Global Equities (a high conviction strategy with a focus on absolute returns and capital preservation) that applies three low carbon screens: <ol style="list-style-type: none"> Portfolio emissions cap Company emissions cap Fossil Fuels exclusion 	<ul style="list-style-type: none"> Active global equity strategy with a high degree of ESG integration that invests in low carbon intensity companies.
ETHO	Etho Capital	ETF	US	Etho Climate Leadership Index	50%-70% lower carbon emissions per dollar invested than benchmark indices	<ul style="list-style-type: none"> ETHO tracks an equally weighted index of the most carbon efficient "climate leaders" in each industry. Etho positively selects climate leaders by creating a carbon emissions rank for a company and compares it to the average carbon emissions for the relevant industry. It also avoids fossil fuel companies and companies that are not socially responsible. 	<ul style="list-style-type: none"> Accessible to a full spectrum of investors. The inclusion of ESG quantitative and qualitative screen looks to favour companies who operate sustainably. Equally weighted index.

APPENDIX B

Fixed Income manager and strategy information

Manager Name	Comments
Alliance Trust	Manages a Sustainable Future Corporate Bond Fund. The fund has 3 specific goals: Avoid investment in coal, oil, tar sands and unconventional natural gas; Aim for a low exposure to carbon risk throughout the portfolio; Invest in companies helping to accelerate the decarbonisation of economic activity.
Allianz GI	The Allianz Green Bond Fund invests in a mix of supranational and corporate green bonds. No Energy exposure. 65% invested in Green Bonds.
AXA IM	Launched a Green Bond fund in 2015 - the AXA WF Planet Bonds fund. Currently can invest in diversified Energy and Utilities companies but is working towards being fossil fuel free.
BlackRock	<u>Under development:</u> Blackrock has a passive Green Bond fund in the pipeline (underlying index likely to be the MSCI/Barclays Green Bond index)
BMO	Manages a UK Responsible Corporate Bond Fund. Applies specific ethical exclusions but is not explicitly fossil fuel free.
Colonial First State Global Asset Management	Does not provide explicitly fossil free fixed income strategies but would consider setting up a segregated mandate (subject to minimum investment commitments).
Columbia Threadneedle	Manages a UK social impact fund. Not explicitly fossil fuel free but unlikely to have fossil fuel exposure by nature of the securities held. Can run segregated mandates that include specific screens.
Danske Capital	<u>Under development:</u> Danske is planning to launch a Sustainable Credit Strategy in 2016. Not clear at this stage if this would be available to UK investors.

Manager Name	Comments
Fisch Asset Management	Fisch Global Sustainable CB strategy - currently no UK share class (but could be set up subject to demand in the UK market)
JAR Capital	Manages the JAR Capital Sustainable Income Fund - this is a High Yield strategy (i.e. invests in issuers that are sub-investment grade). Operates traditional exclusions including weapons, tobacco and alcohol. Has no exposure to coal mining, or coal utilities where they achieve more than 30% in revenue from coal.
Jupiter Asset Management	<u>Under development:</u> Multi asset fund (60/40 bonds/equities) to be launched in 2016 – the Jupiter Global Ecology Diversified fund. Explicit focus on reducing fossil fuel exposure (e.g. no Oil and Gas or Mining). Some exposure to Utilities is possible but under strict criteria (e.g. significant majority of energy generated from renewables).
M&G Investments	<u>Under development:</u> M&G is planning is currently developing a private debt fund that has an explicit ESG focus and will be fossil fuel free. The fund will invest in a range of sectors including renewable energy and green real estate.
Mirova	Has 2 funds available to UK investors: the Mirova Euro Sustainable Aggregate Fund and the Mirova Euro Sustainable Corporate Bond Fund. Not explicitly fossil fuel free but Mirova doesn't invest in any coal stocks across its portfolios.
Newton Investment Management	Does not provide explicitly fossil free fixed income strategies but would consider setting up a segregated mandate (min. £50m commitment required).
Nikko Asset Management	Manages a World Bank Green Bond fund - only invests in Green Bonds issued by the World Bank. The use of the proceeds of these bonds is clearly linked to combating climate change.
Robeco SAM	Manages a European Sustainable Credit fund which has four focus areas: CO2. Waste, Water, Energy. Not explicitly fossil fuel free.
State Street Global Advisors	Offers a Global Green Bond Index Fund - tracking the MSCI Barclays Green Bond Index (an aggregate of Corporate and Government/ Supranational issuers). Also has a European Sustainable Corporate Bond Index Fund. Not explicitly fossil fuel free.

APPENDIX C

Listed Equity strategies within GIMD

The list of strategies (funds) included in the tables below are drawn from Mercer’s internal research database, GIMD. The information is provided as an indication only of the range of funds that may be of interest to the Divest Invest Europe group.

Note: The strategies listed are not necessarily “fossil fuel free” – instead they are based on the different categories within our database, described in more detail on page six (above) i.e. Sustainability-themed and Pure Play. Investors must conduct their own due diligence to determine whether any funds meet their own objectives and restrictions.

Global Equity - Sustainability-themed, SRI and/or Pureplay strategies

Source: Mercer GIMD

Note: The strategies listed here are thematic sustainability funds (see Section 4 of the accompanying document for explanations of the product categories). These strategies may not be "fossil fuel free". Investors should conduct their own due diligence on specific products to ensure that they are suitable.

Product Category	Manager Name	Strategy Name
Sustainability themes	AGF Investments	AGF Global Sustainable Growth Equity
Sustainability themes	AMBER Asset Management	Klima & Miljø
Sustainability themes	Baldwin Brothers	Highwater Global Fund
Sustainability themes	BNP Paribas Investment Partners	Global Environment
Sustainability themes	BNP Paribas Investment Partners	Impax Environmental Markets Trust
Sustainability themes	BNP Paribas Investment Partners	Environmental Opportunities
Sustainability themes	CB Asset Management	Save Earth Fund
Sustainability themes	Change Investment Management	Change Opportunities Fund
Sustainability themes	Colonial First State Global Asset Management	Worldwide Sustainability
Sustainability themes	Credit Suisse Asset Management	Credit Suisse Global Dividend Plus Equity Strategy
Sustainability themes	Deutsche Bank	DBP CROCI Carbon 100 Euro TR Fund
Sustainability themes	Dimensional Fund Advisors	World ex US All Cap Core Sustainability Strategy
Sustainability themes	ECOFI Investissements	Sustainable development
Sustainability themes	Essex Investment Management Company	Essex Global Environmental Opportunities Strategy (GEOS)
Sustainability themes	Fidelity International	Global Demographics (Hilary Natoff & Aneta Wynimko)
Sustainability themes	First State Investments	Stewart Investors Worldwide Sustainability Strategy
Sustainability themes	Fondsfinans Kapitalforvaltning	Fondsfinans Energi
Sustainability themes	Gabelli Asset Management Company	Gabelli SRI Green Fund
Sustainability themes	Global Thematic Partners	Global Agribusiness
Sustainability themes	Green Alpha Advisors	Green Alpha Next Economy Index
Sustainability themes	Greenchip Financial Corp.	Global Equity
Sustainability themes	HSBC Global Asset Management	Climate Change
Sustainability themes	Impax Asset Management	Impax Food and Agriculture Strategy
Sustainability themes	Impax Asset Management	Impax Leaders Management
Sustainability themes	Inflection Point Capital Management	Global Megatrends
Sustainability themes	Jupiter Asset Management	Global Equity - Ecology (Charlie Thomas)
Sustainability themes	Kleinwort Benson Investors	KBI Agribusiness Strategy
Sustainability themes	Kleinwort Benson Investors	KBI Global Resource Solutions Strategy
Sustainability themes	La Francaise AM	Global Equity
Sustainability themes	Lombard Odier Investment Managers	Generation Global
Sustainability themes	Lombard Odier Investment Managers	Global High Conviction
Sustainability themes	Man Group	GLG Global Sustainability Equity Strategy
Sustainability themes	Martin Investment Management	Eco-Investing
Sustainability themes	Mirova	Mirova Actions Multithematiques Global Strategy
Sustainability themes	Nanuk Asset Management	Nanuk New World Fund
Sustainability themes	Northern Trust Asset Management	Northern Global Sustainability Index Fund
Sustainability themes	Old Mutual Investment Group (South Africa)	Old Mutual MSCI World ESG Index Fund
Sustainability themes	OP-Rahastoyhtio Oy/OP-Fund Management Company	Global equity
Sustainability themes	Osmosis Investment Management	MoRE World Fund
Sustainability themes	Pax World Management Corporation	Pax World Global Women's Equality Fund
Sustainability themes	Pax World Management Corporation	Pax World International Fund
Sustainability themes	Pictet Asset Management	Agriculture
Sustainability themes	Pictet Asset Management	Environmental Megatrend Selection
Sustainability themes	Pictet Asset Management	Timber
Sustainability themes	Prudential Investments	Prudential Jennison Natural Resources Fund Inc.
Sustainability themes	Robeco Group	RobecoSAM Quant Sustainable Global Equities
Sustainability themes	RobecoSAM AG	RobecoSAM Smart Materials
Sustainability themes	RobecoSAM AG	RobecoSAM Sustainable Agribusiness Equities
Sustainability themes	RobecoSAM AG	RobecoSAM Sustainable Climate
Sustainability themes	Rockefeller & Co.	Global Ex-Energy Equity Strategy
Sustainability themes	Schroder Investment Management	Global Climate Change Equity
Sustainability themes	SEDCO Capital	SEDCO CAPITAL Global Sustainable Equities (Shariah)
Sustainability themes	SPP Fonder AB	SPP Global Topp 100
Sustainability themes	State Street Global Advisors	Global Enhanced 4Good Equity
Sustainability themes	State Street Global Advisors	Screened MSCI Europe Index
Sustainability themes	State Street Global Advisors	Screened MSCI Pacific Index
Sustainability themes	Sustainable Asset Management USA	SAM Sustainable Climate Strategy
Sustainability themes	Sustainable Asset Management USA	SAM Sustainable Global Equities
Sustainability themes	Swisscanto Asset Management	Climate Invest
Sustainability themes	Touchstone Investments	Touchstone Sustainability and Impact Equity Fund
Sustainability themes	Trillium Asset Management	Global Equity
Sustainability themes	UBS Asset Management	Climate Change Certificate
Sustainability themes	UBS Asset Management	Global Innovators
Sustainability themes	Vontobel Asset Management (Europe)	New Power
Sustainability themes	Wellington Management	Global Environmental Opportunities
Sustainability themes	Wellington Management	Global Impact
Sustainability themes	WHEB Asset Management	FP WHEB Sustainability Fund
Sustainability themes	Zurich Anlagestiftung	Equities Sustainable Global
Pureplay	Allianz Global Investors	AllianzGI Global Equity EcoTrends
Pureplay	Allianz Global Investors	AllianzGI Global Water Equity
Pureplay	Arkx	Clean Energy
Pureplay	Australian Ethical	Global Smart Energy - Thematic

Product Category	Manager Name	Strategy Name
Pureplay	Bank J. Safra Sarasin Ltd	JSS Sustainable Equity - New Power
Pureplay	Bank J. Safra Sarasin Ltd	JSS Sustainable Equity - Water
Pureplay	BlackRock	Fundamental New Energy
Pureplay	Calvert Investment Management	Global Alternative Energy
Pureplay	Delta Lloyd Asset Management	Water & Climate
Pureplay	Desjardins Global Asset Management	DGIA Systematic Global Environment Equity Strategy
Pureplay	DNB Asset Management	Renewable Energy
Pureplay	EIC Partners	Core
Pureplay	Guinness Asset Management	Alternative Energy
Pureplay	Hazel Capital	Hazel Global Cleantech Equity
Pureplay	Impax Asset Management	Impax Water Strategy
Pureplay	Kleinwort Benson Investors	KBI Energy Solutions Strategy
Pureplay	Kleinwort Benson Investors	KBI Water Strategy
Pureplay	La Francaise AM	Carbon Zero
Pureplay	Lombard Odier Investment Managers	Global Energy
Pureplay	Mirova	Mirova Monothematiques Global Water & Agriculture Strategy
Pureplay	Pictet Asset Management	Clean Energy
Pureplay	Pictet Asset Management	Pictet Water Fund
Pureplay	Piper Hill Partners	Piper Global Water
Pureplay	RobecoSAM AG	RobecoSAM Smart Energy
Pureplay	RobecoSAM AG	RobecoSAM Sustainable Water
Pureplay	Summit Global Management	Summit Water SMA Long Only
Pureplay	Sustainable Asset Management USA	SAM Sustainable Smart Energy
Pureplay	Sustainable Asset Management USA	SAM Sustainable Water Strategy
Pureplay	Swisscanto Asset Management	Water Invest
Pureplay	UBS Asset Management	Water Certificate
Pureplay	Vescore Ltd	Sustainable Water
Pureplay	Vontobel Asset Management (Europe)	Clean Technology

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