MERCER INVESTMENT THEMES & ASSET ALLOCATION SURVEY 2017

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CONTESTO DI MERCATO

EVOLUZIONE DELLO SCENARIO POST-CRISI

GESTIONE DELLA CRISI (2009-2014)

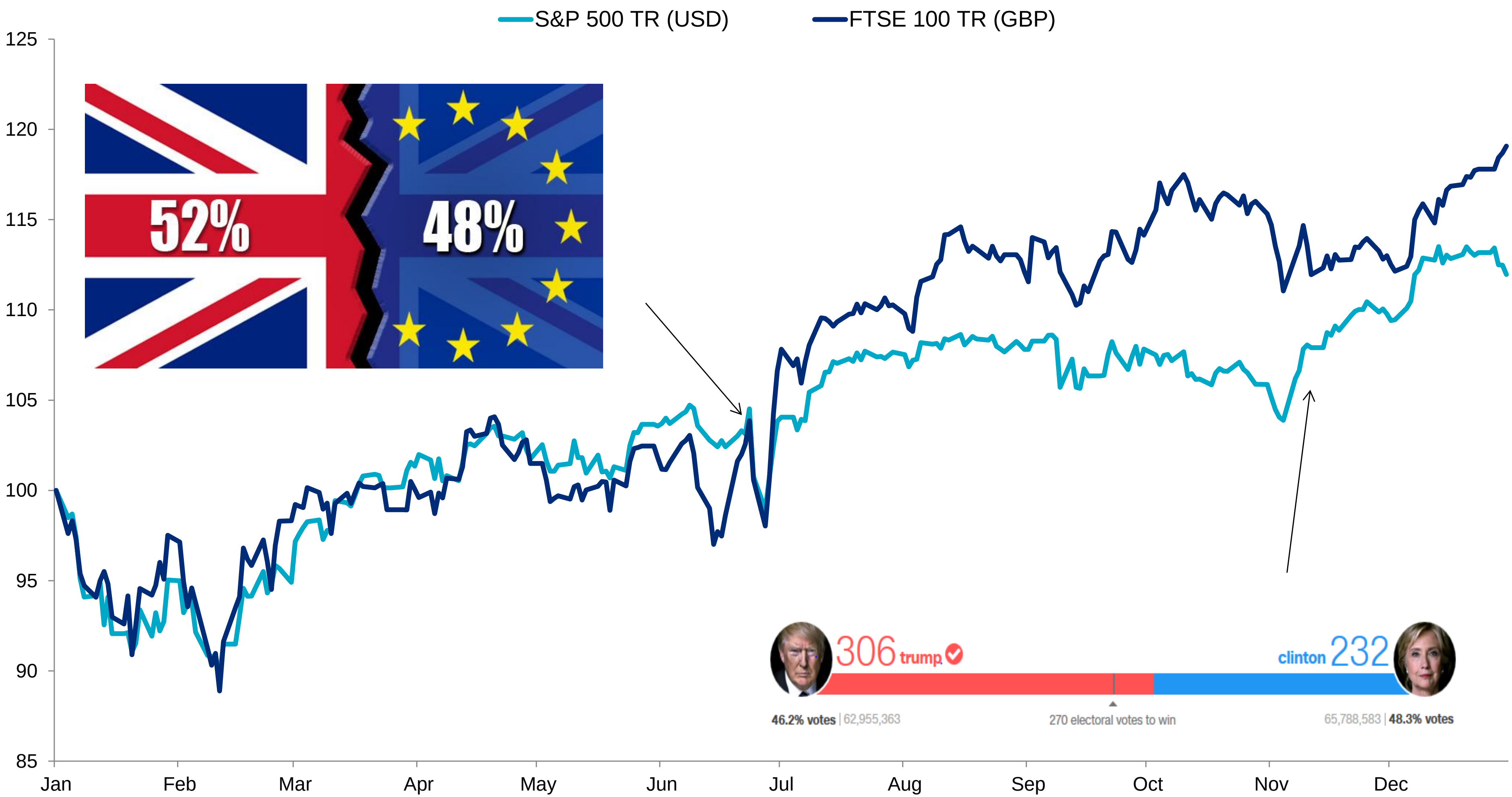
Interventi di policy sincronizzati
- – Elevati "premi al rischio" ma con un chiaro trend di discesa
- – Volatilità in calo
- – Prevalenza della politica monetaria

- Predominanza di asset finanziari sottovalutati: "*buy beta*"
- Rischi
  - – Riduzione dei deficit
  - – Impatti stimoli fiscali e monetari
  - – Crisi dell'area Euro

TENTATIVO DI NORMALIZZAZIONE (2015-2020)

- Politiche monetarie divergenti
  - – Bassi premi al rischio
  - – Alta volatilità
- Pochi *asset* finanziari "a sconto": "ricerca dell'*alpha*"
- Crescente enfasi sulla politica fiscale
- Rischi
  - – Impatti della "normalizzazione"
  - – Populismo in ascesa
  - – De-globalizzazione e protezionismo
  - – Minore liquidità nel mercato

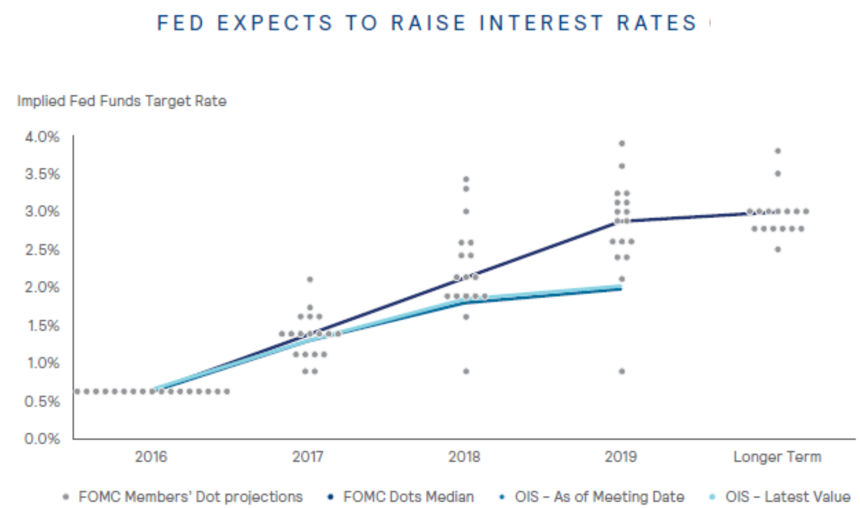
UN ANNO DI SORPRESE POLITICHE



Source: Thomson Reuters Datastream

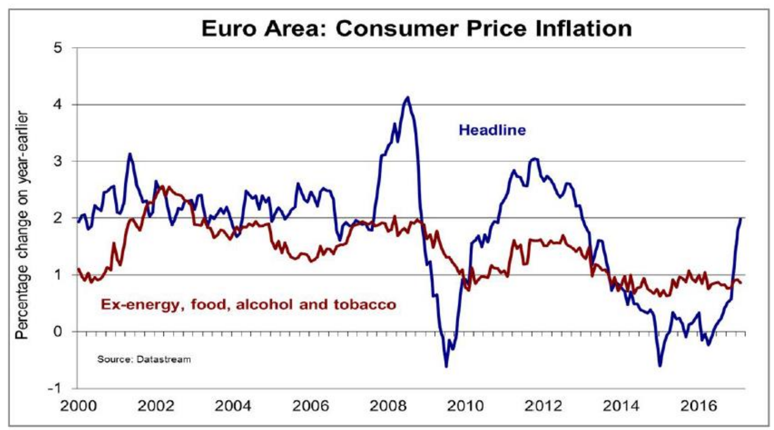
BANCHE CENTRALI E POLITICHE MONETARIE

- Una crescita globale più sostenuta, un livello di disoccupazione più basso e un'inflazione in rialzo influenzeranno inevitabilmente le politiche monetarie
- Negli Stati Uniti, la Federal Reserve prevede 3 rialzi del tasso d'interesse nel 2017 e noi consideriamo questo come lo scenario di base per l'anno
- Nell'Eurozona, è probabile che la Banca Centrale Europea continui nella sua politica accomodante fornendo ulteriori stimoli monetari all'economia. Tuttavia è possibile anche che sul finire del 2017 la BCE possa considerare di concludere il programma di Quantitive Easing



INFLAZIONE

- Nel 2017 l'inflazione globale dovrebbe raggiungere il 2,5%, aumentando rispetto al 2016 (1,5%) e principalmente trainata dal prezzo del petrolio
- L'inflazione core – che esclude i prezzi di cibo e energia – si prospetta più stabile e al di sopra del 2% solo negli Stati Uniti e nel Regno Unito. Nell'Eurozona e in Giappone prevediamo rimanga sotto la soglia del 2%
- In generale, vediamo un maggior rischio di rialzo per l'inflazione statunitense e un minore rischio di ribasso per quella giapponese e dell'Eurozona



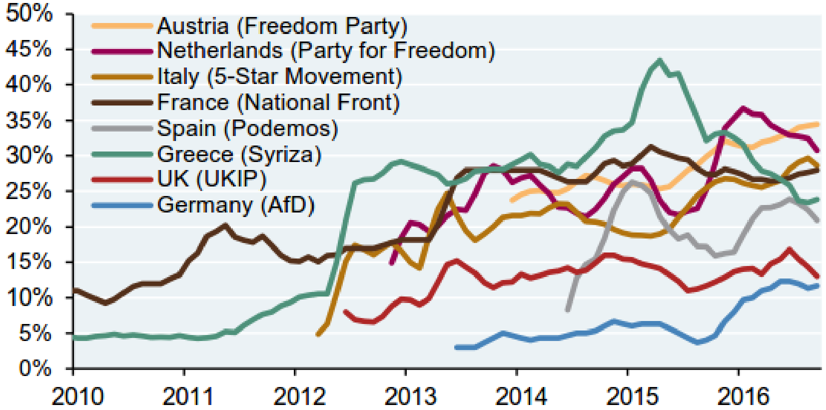
ALTERNATIVI

- I rendimenti degli **Hedge Funds** sono stati poco convincenti nel 2016. Tuttavia, viste le attuali valutazioni azionarie e obbligazionarie dopo 8 anni di rendimenti elevati, puntare sugli alternativi sembra una strategia interessante
- Ci aspettiamo che gli Hedge Funds realizzino rendimenti netti ben al di sopra del cash e preferiamo quelli che esibiscono la minore correlazione con le asset class tradizionali
- Per gli investitori disposti a tollerare investimenti meno liquidi o illiquidi crediamo che i **mercati privati** possano rappresentare un'opportunità
- Il Private Debt, gli asset reali e il Private Equity attirano l'interesse degli investitori che vogliono migliorare i rendimenti, trovare nuove fonti di reddito o aumentare la diversificazione del portafoglio
- In ogni caso, suggeriamo di considerare i crescenti volumi di capitale allocati in alcune aree del mercato e di modulare l'esposizione nel tempo con un adeguato livello di diversificazione

TEMI CHIAVE MERCER PER IL 2017 E OLTRE

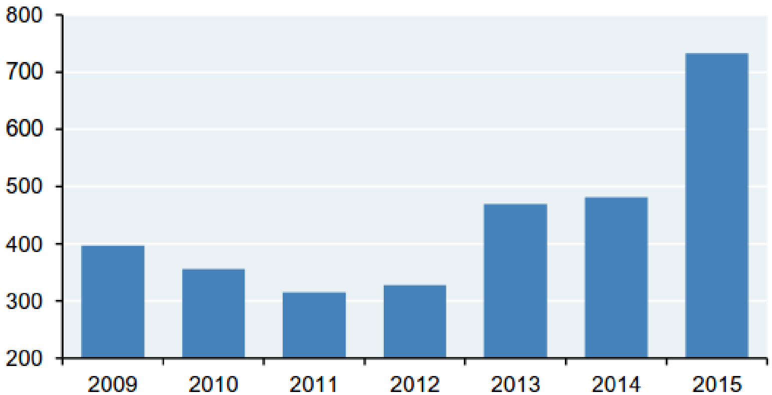
1. FRAMMENTAZIONE

Rising support for populist parties in Europe
% of support in polls (3-month average)



Source: JPMorgan Asset Management. 30 September 2016.

Global rise in trade protectionism
# of discriminatory trade measures

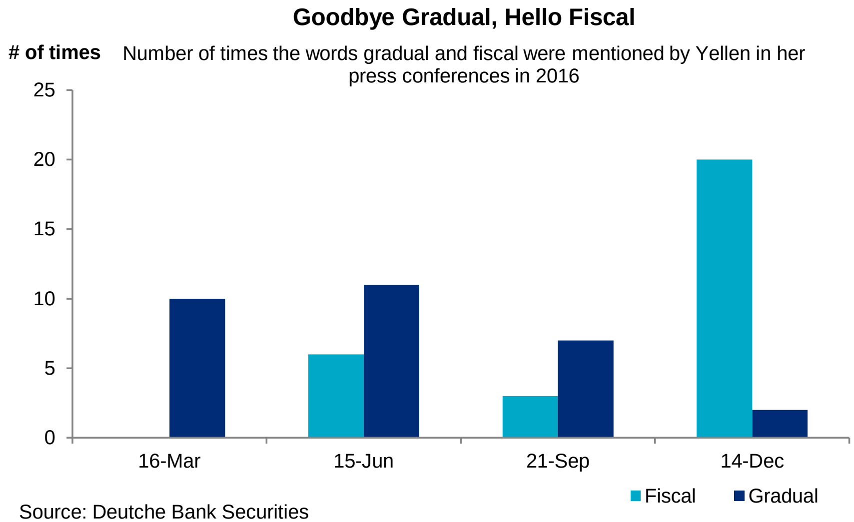


Source: Center for Economic and Policy Research. July 2016.

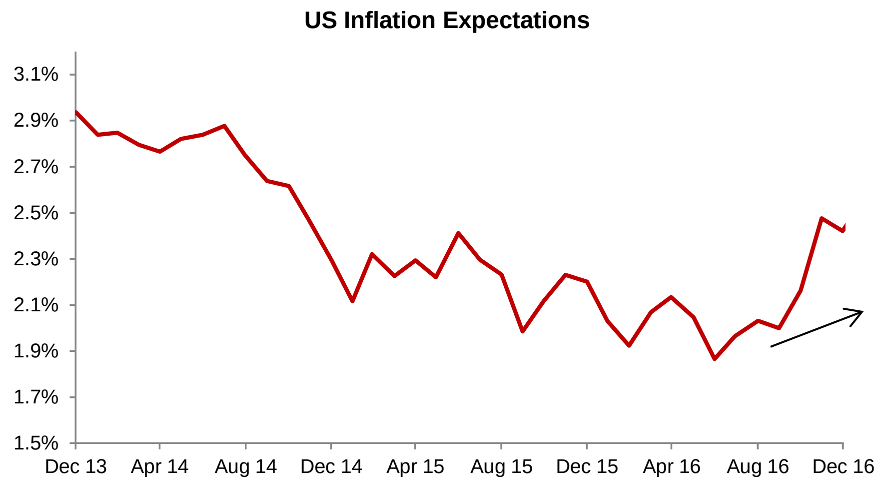
IMPLICAZIONI DI INVESTIMENTO

- Vi è il rischio che vittorie populiste in Europa creino una crisi esistenziale dell'EU e dell'Eurozona
- Stiamo entrando in un periodo di de-globalizzazione? I rischi includono un aumento nel protezionismo e una guerra commerciale
- Verificare la robustezza del portafoglio verso scenari negativi. Gli investitori sensibili alla volatilità possono considerare coperture "hard" o "soft"
- Periodi di stress e volatilità possono creare opportunità per strategie flessibili e dinamiche
- Possibilità di ulteriori grandi movimenti valutari. C'è bisogno di una chiara politica di copertura dal rischio di cambio e vi sono opportunità per i gestori attivi sulle valute

2. PASSAGGIO DALLA POLITICA MONETARIA ALLA POLITICA FISCALE



Source: Deutche Bank Securities

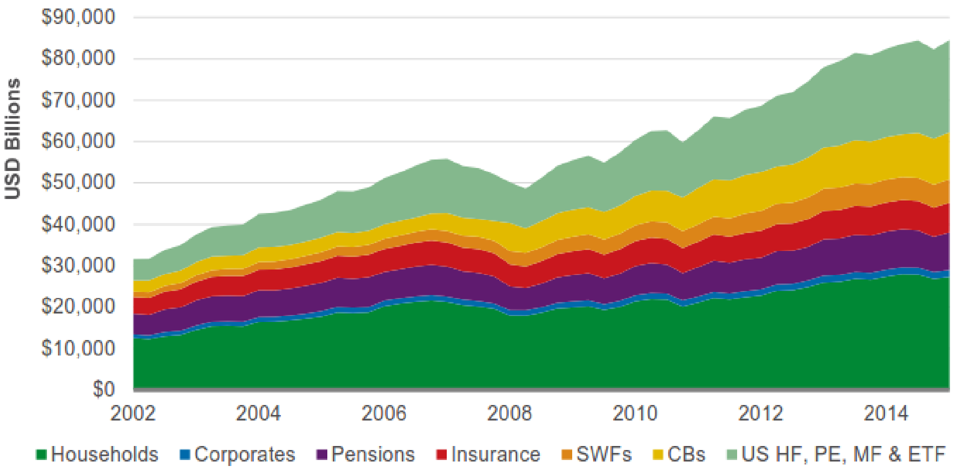


Source: Bloomberg

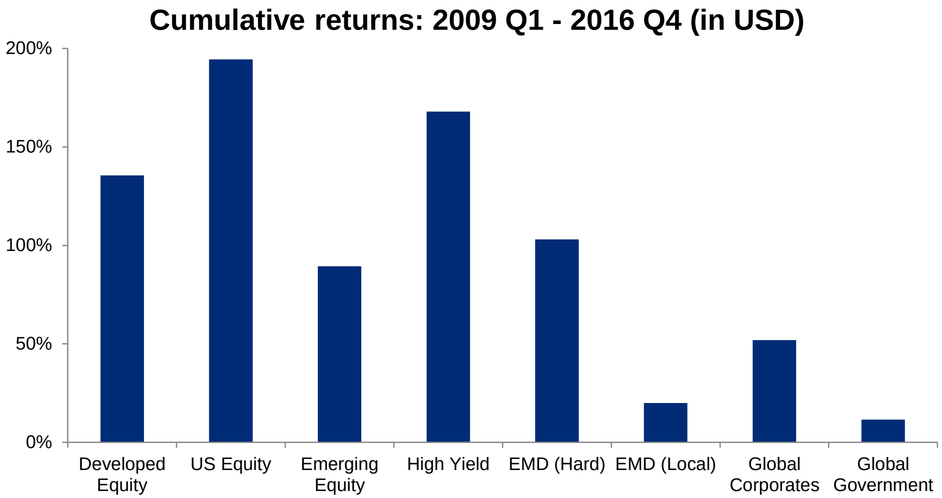
IMPLICAZIONI DI INVESTIMENTO

- Il ritmo e la portata degli stimoli fiscali restano incerti. È possibile che le forze reflazionistiche si rinvigoriscano nelle economie globali
- Considerare in che misura l'inflazione in crescita rappresenti un rischio concreto. Coperture specifiche dall'inflazione e asset reali possono essere interessanti
- Esposizioni al credito a tasso variabile o a duration corta possono essere preferibili a strategie legate al benchmark con esposizione strutturale alla duration
- Maggiore incertezza e divergenza tra politiche monetarie e fiscali possono creare opportunità per strategie macro
- Una politica monetaria restrittiva può portare a un aumento del tasso di default e creare opportunità per le strategie distressed debt

3. ABBONDANZA DI CAPITALE



Source: BlackRock.



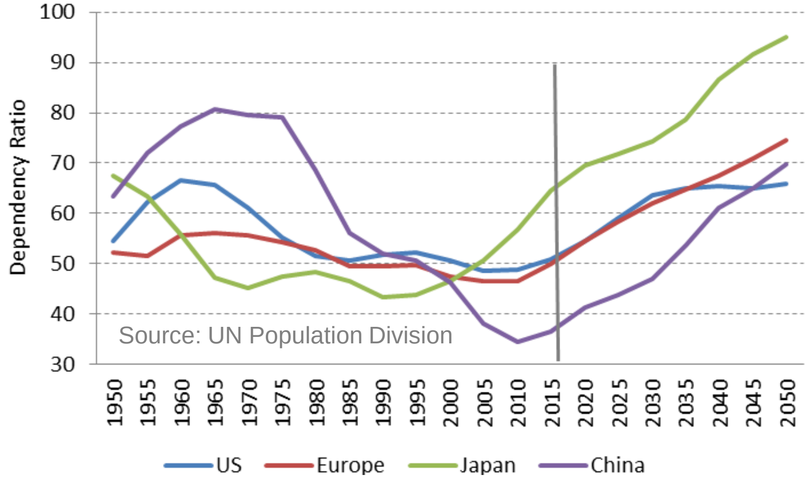
Source: Thomson Reuters Datastream, MSCI, S&P, JP Morgan, BAML

IMPLICAZIONI DI INVESTIMENTO

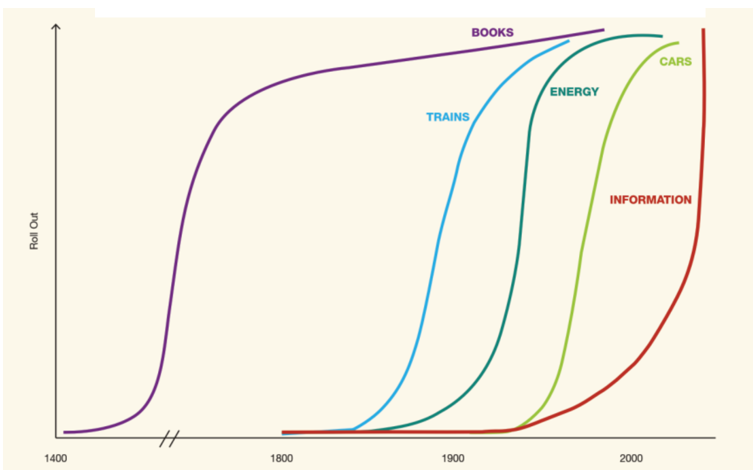
- I rendimenti eccezionali degli ultimi 8 anni non si ripeteranno nei prossimi 8 anni
- È poco probabile che i portafogli principalmente investiti nell'azionario quotato e in obbligazioni forniscano un profilo di rischio-rendimento interessante. Porre grande attenzione alla diversificazione delle fonti di rendimento:
  - Puntare all'alpha in tutte le sue forme: factor exposure, "hands-on value creation" e idiosyncratic alpha.
  - Ricercare il premio di rischio e illiquidità sui mercati privati
- Considerare i rischi impliciti negli indici basati sulla capitalizzazione (specialmente obbligazionari) in seguito a un periodo di politiche accomodanti delle banche centrali
  - Riposizionamento verso mandati attivi meno vincolati

4. COMPRENDERE I CAMBIAMENTI STRUTTURALI

Large parts of the world are moving through a demographic inflection point



Accelerating pace of technological change



Source: Baillie Gifford

IMPLICAZIONI DI INVESTIMENTO

- Il cambiamento climatico, i trend demografici e l'evoluzione tecnologica avranno implicazioni importanti per gli investitori di lungo termine
- Il cambiamento climatico presenta un rischio materiale per gli asset reali (clima estremo) e un rischio politico per gli asset sensibili all'andamento del carbone. Gli investitori dovrebbero comprendere la loro esposizione a questi rischi
- Quando i baby-boomers andranno in pensione, probabilmente ridurranno i risparmi generando pressione al rialzo nei rendimenti reali
- L'evoluzione tecnologica produrrà vincitori e vinti. Questo dovrebbe creare opportunità per gli investitori long/short. Gran parte degli indici a capitalizzazione di mercato sono esposti alla rivoluzione tecnologica nel tempo
- Le aziende tecnologiche possono scegliere di rimanere per più tempo private rispetto al passato. La remunerazione derivante dal cambiamento tecnologico può quindi andare in gran parte agli investitori nei mercati privati

TEMI CHIAVE MERCER PER IL 2017 E OLTRE

- Verificare la robustezza del portafoglio in scenari negativi
- Considerare coperture “hard” e “soft”
- L’importanza di una politica di copertura dal rischio valutario

- Associare gli impatti sul portafoglio del rischio di inflazione
- Considerare coperture specifiche o asset reali
- Terreno più fertile per le strategie macro?

- Aspettativa di rendimenti più bassi in prospettiva
- Ricercare rendimenti nell’alpha e nei premi di illiquidità e complessità
- Fare attenzione ai rischi racchiusi negli indici a capitalizzazione

- Comprendere l’esposizione al cambiamento climatico
- I trend demografici e tecnologici creeranno vincitori e vinti
- La remunerazione dal cambiamento tecnologico può andare a chi investe nei mercati privati

I PRINCIPALI RISCHI NEL CONTESTO GLOBALE

Global Risks Report: I rischi ambientali e sociali rientrano tra i più rilevanti…

Top 5 Rischi Globali per probabilità

2013	2014	2015	2016	2017
Income disparity	Income disparity	Interstate conflict	Involuntary migration	Extreme weather
Fiscal imbalances	Extreme weather	Extreme weather	Extreme weather	Involuntary migration
Greenhouse gas emissions	Unemployment or underemployment	National governance failures	Weak climate change response	Natural catastrophes
Water supply crisis	Climate change	State collapse	Interstate conflict	Terrorist attack
Ageing population	Cyber attacks	High unemployment	Natural catastrophes	Data fraud

Top 5 Rischi Globali per impatto

2013	2014	2015	2016	2017
Systemic financial failure	Fiscal crises	Water crises	Weak climate change response	WMDs
Water supply crisis	Climate change	Infectious diseases	WMDs	Extreme weather
Fiscal imbalances	Water crises	WMDs	Water crises	Natural catastrophes
WMDs	Unemployment or underemployment	Interstate conflict	Involuntary migration	Water crises
Weak climate change response	Critical ICT systems breakdown	Weak climate change response	Energy price shock	Weak climate change response

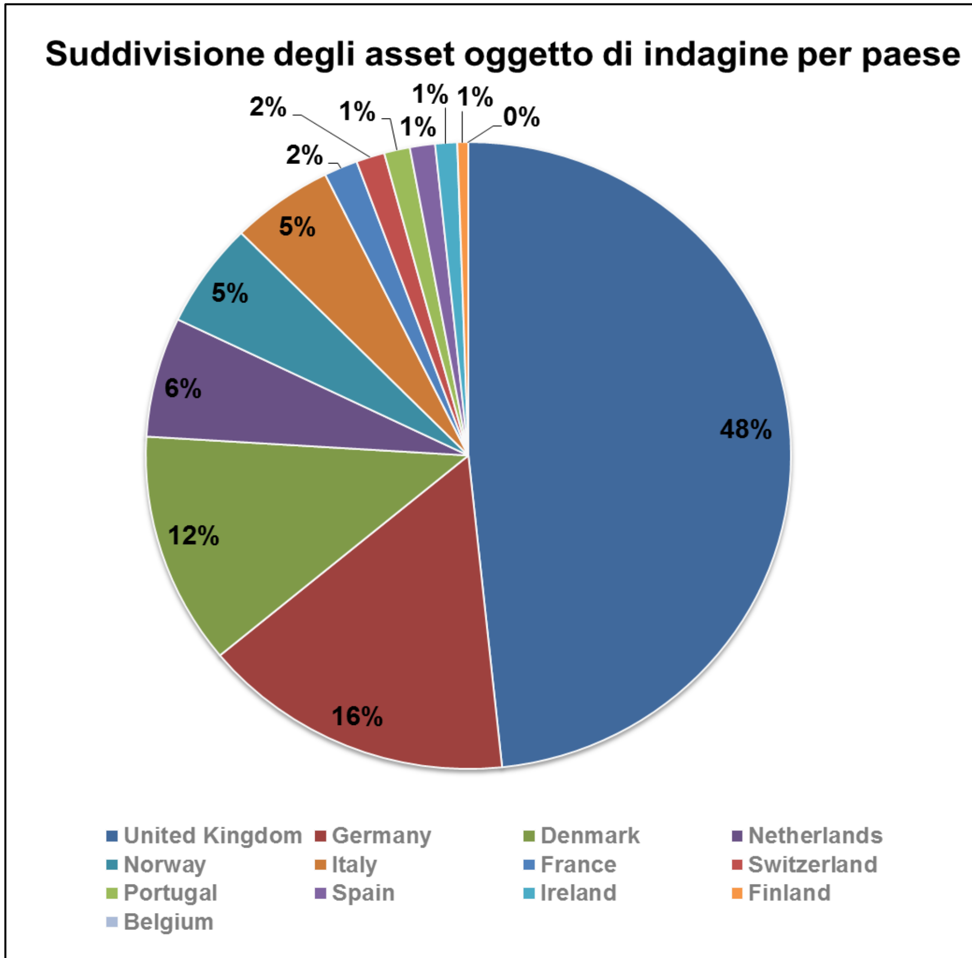
Economic Environmental Geopolitical Social Technological

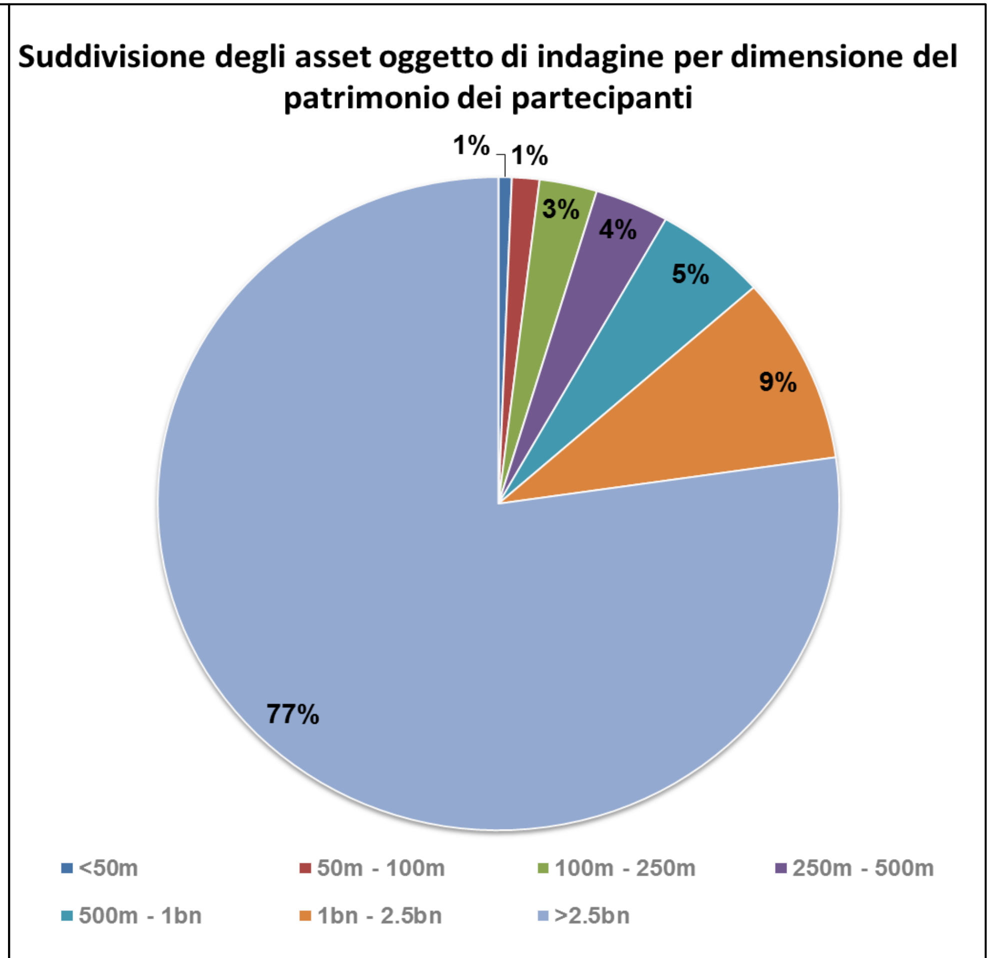
Fonte: Global Risks Report 2017 Marsh & McLennan Companies - World Economic Forum (2017)

ASSET ALLOCATION SURVEY 2017

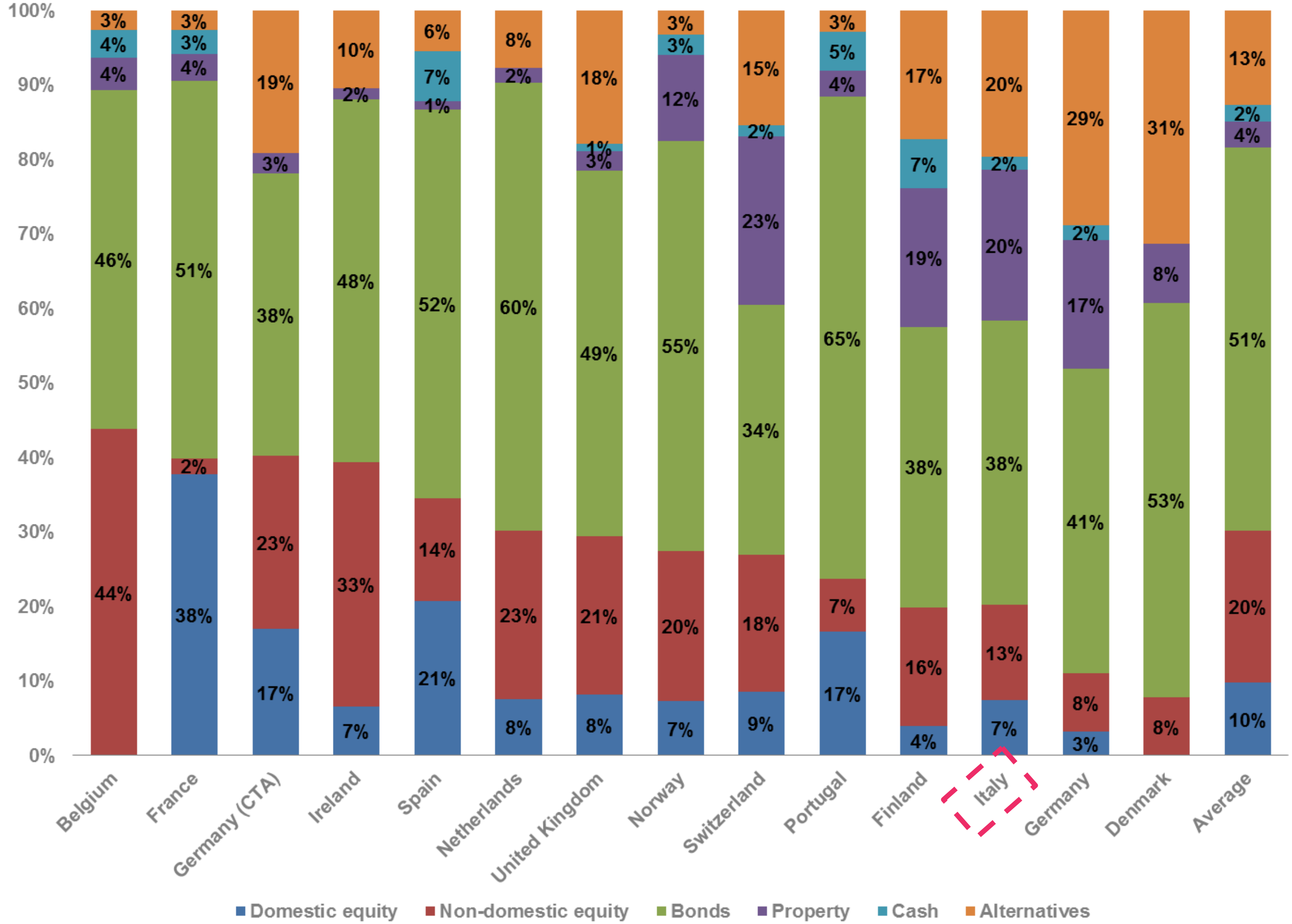
ASSET ALLOCATION SURVEY

- La ricerca analizza le tendenze nell'asset allocation dei grandi investitori istituzionali, in particolare dei fondi pensione europei
- L'edizione 2017 è stata condotta su quasi **1.250 portafogli** istituzionali europei in **13 Paesi** per un totale attività di oltre **1.100 miliardi di euro**

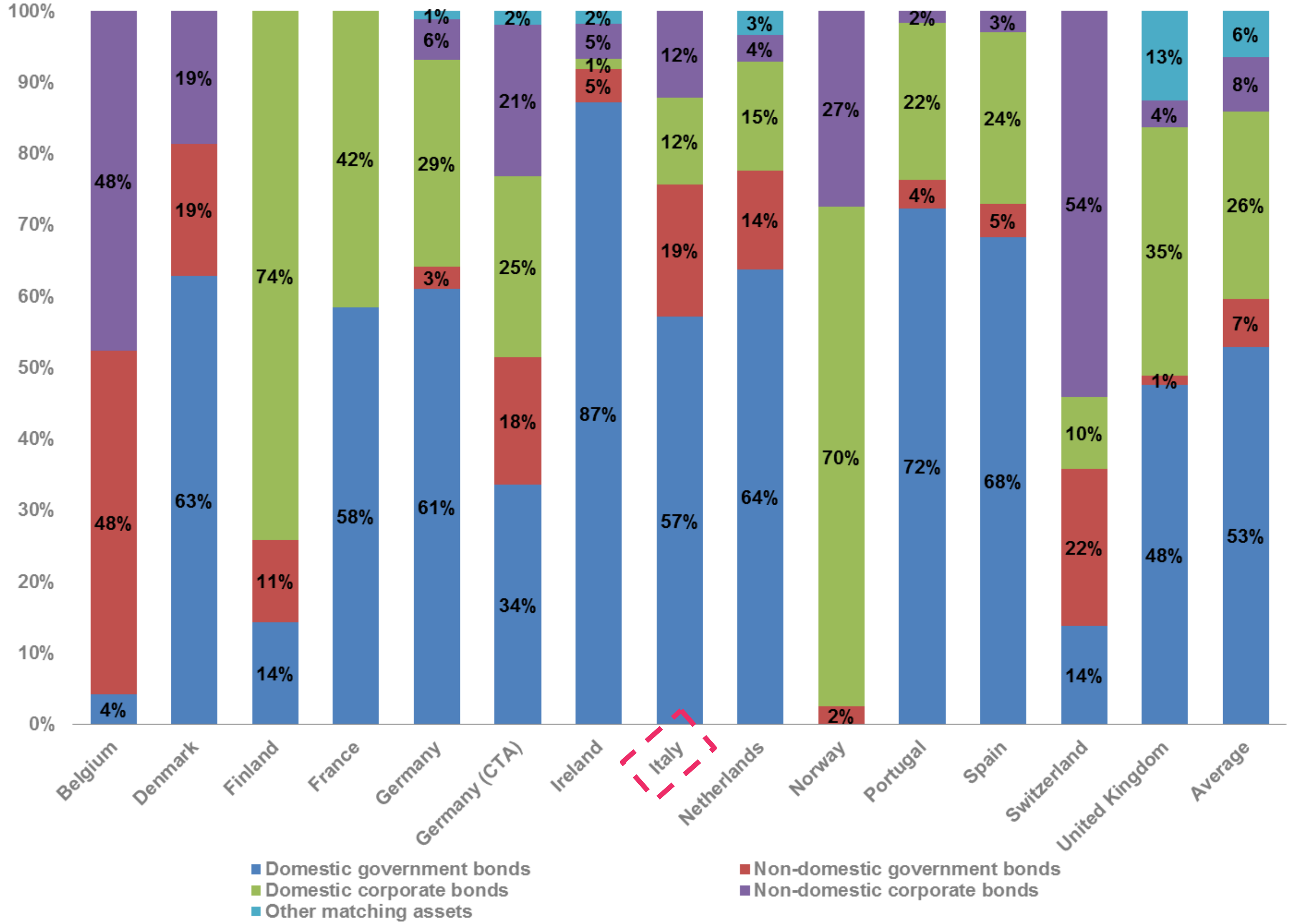




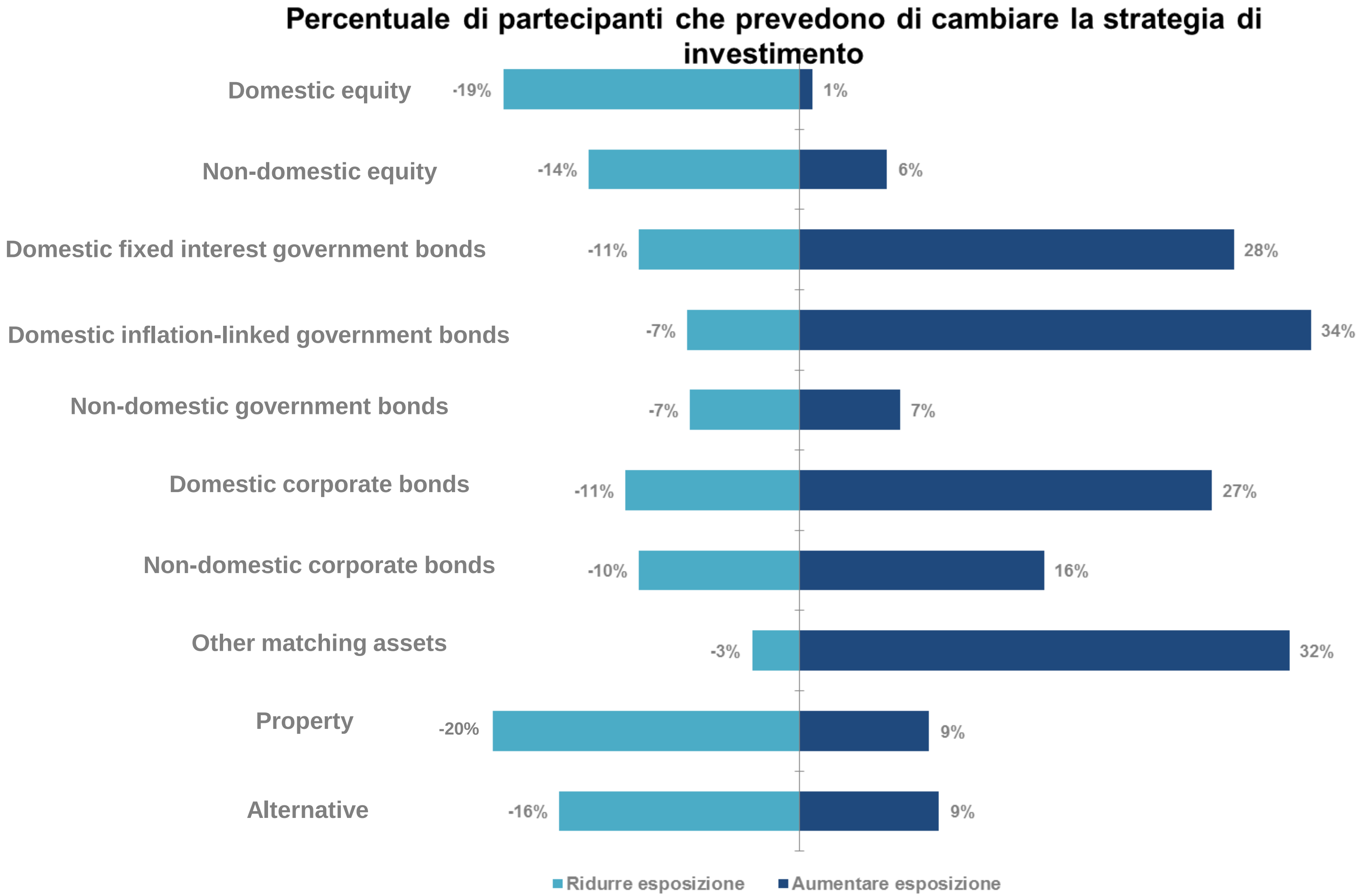
ASSET ALLOCATION STRATEGICA PER PAESE



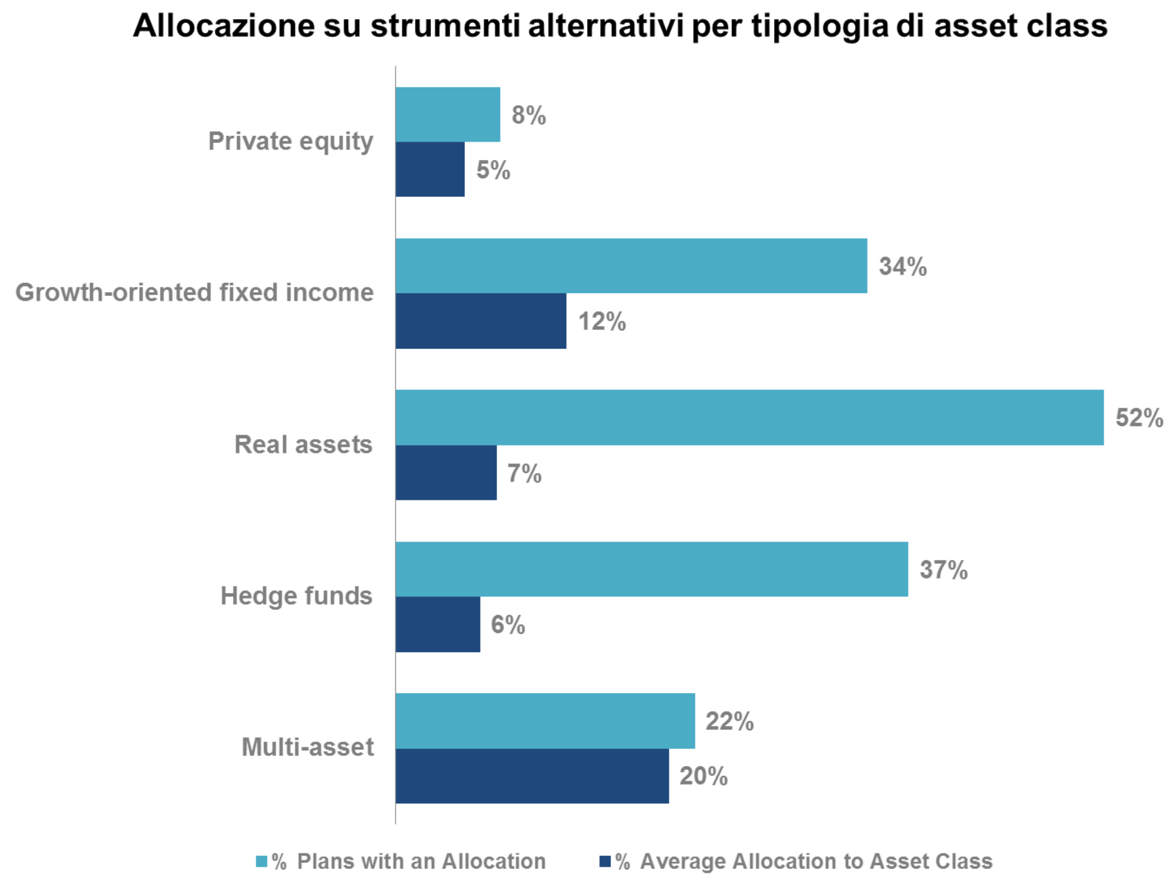
ESPOSIZIONE OBBLIGAZIONARIA



TENDENZE FUTURE DI ASSET ALLOCATION



INVESTIMENTI ALTERNATIVI: LE ALLOCAZIONI



- Le allocazioni medie oscillano tra il 5% del private equity e il 20% delle strategie multi-asset
- Le allocazioni medie di portafoglio su tutte le sottocategorie sono sostanzialmente invariate rispetto all'anno precedente

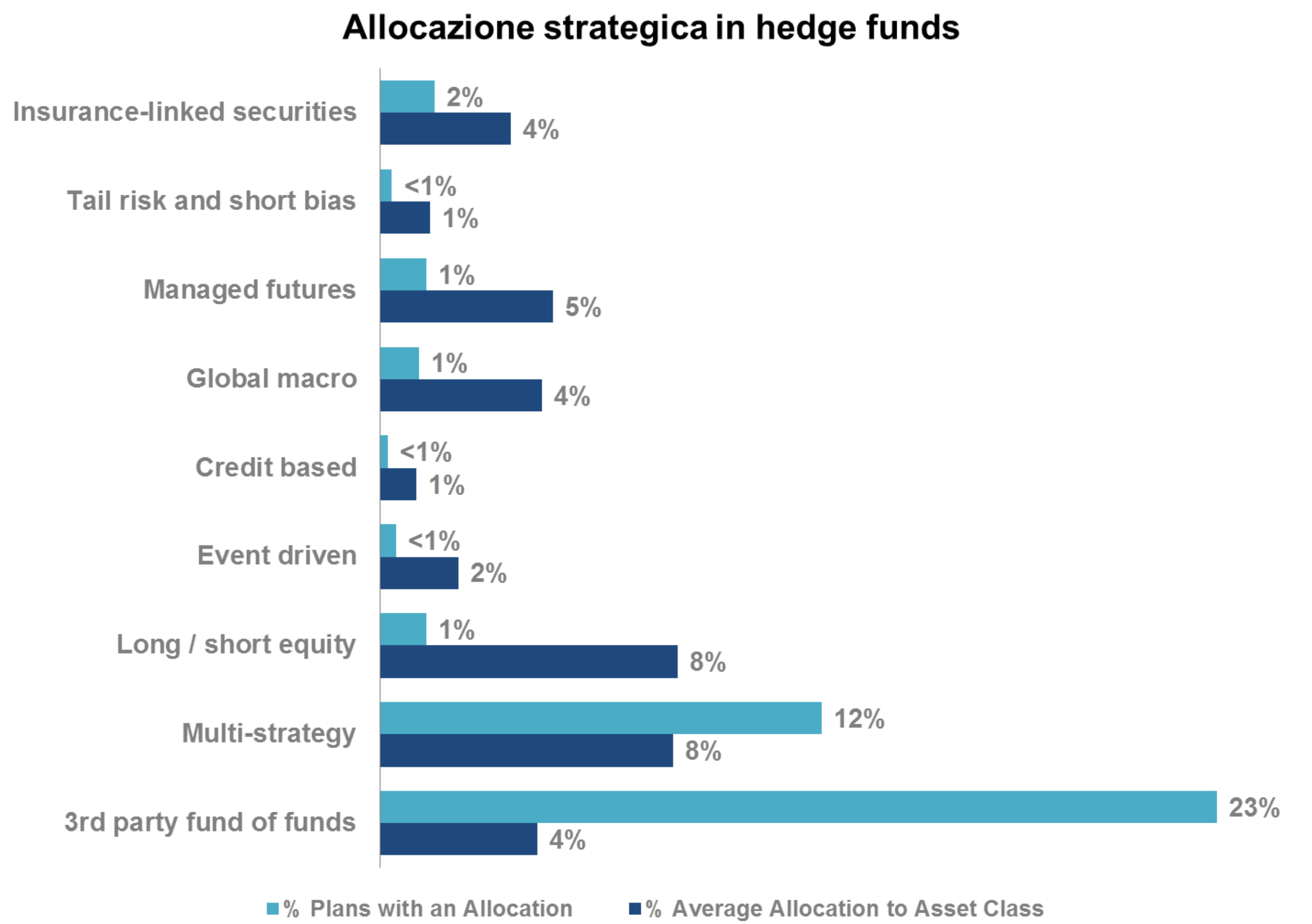
FOCUS SU STRATEGIE OBBLIGAZIONARIE DIVERSIFICATE

- Si conferma la ricerca della più ampia diversificazione sui portafogli obbligazionari
- Le strategie multi-asset e a rendimento assoluto hanno l'allocazione media maggiore; queste strategie offrono diversificazione e minore direzionalità in un contesto di potenziale rialzo dei tassi di interesse
- Gli investimenti multi-asset credit, absolute return e private debt costituiscono le componenti principali di portafoglio, in linea con l'anno precedente

FOCUS SU REAL ASSETS

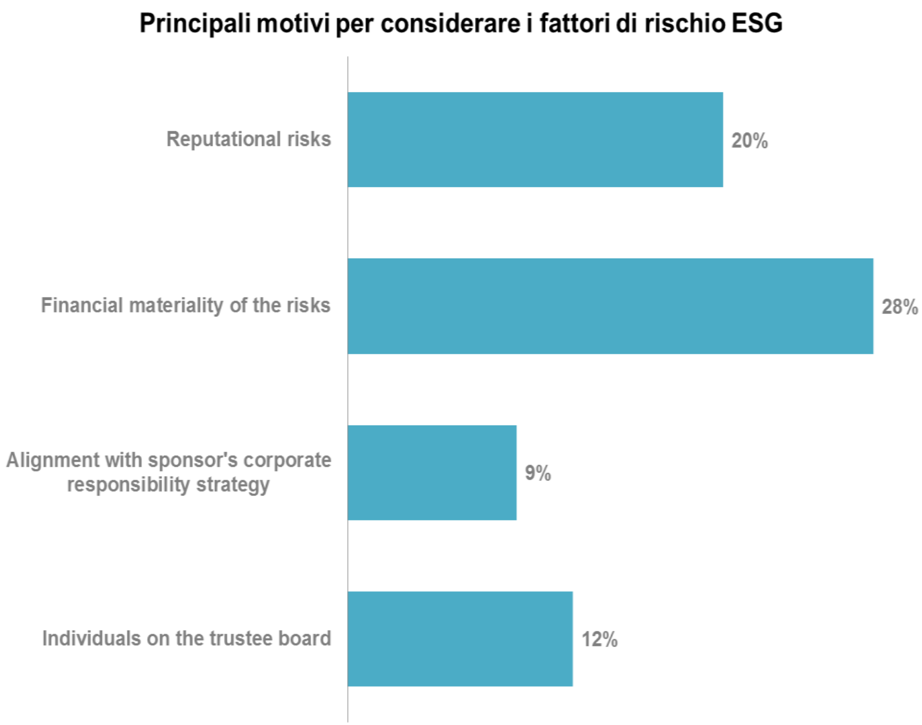
- Si registra un continuo aumento degli asset reali, anche alla luce del ruolo di diversificazione, decorrelazione e di protezione dall'inflazione
- Rispetto allo scorso anno è aumentata l'allocazione verso il real estate grazie alla componente domestic

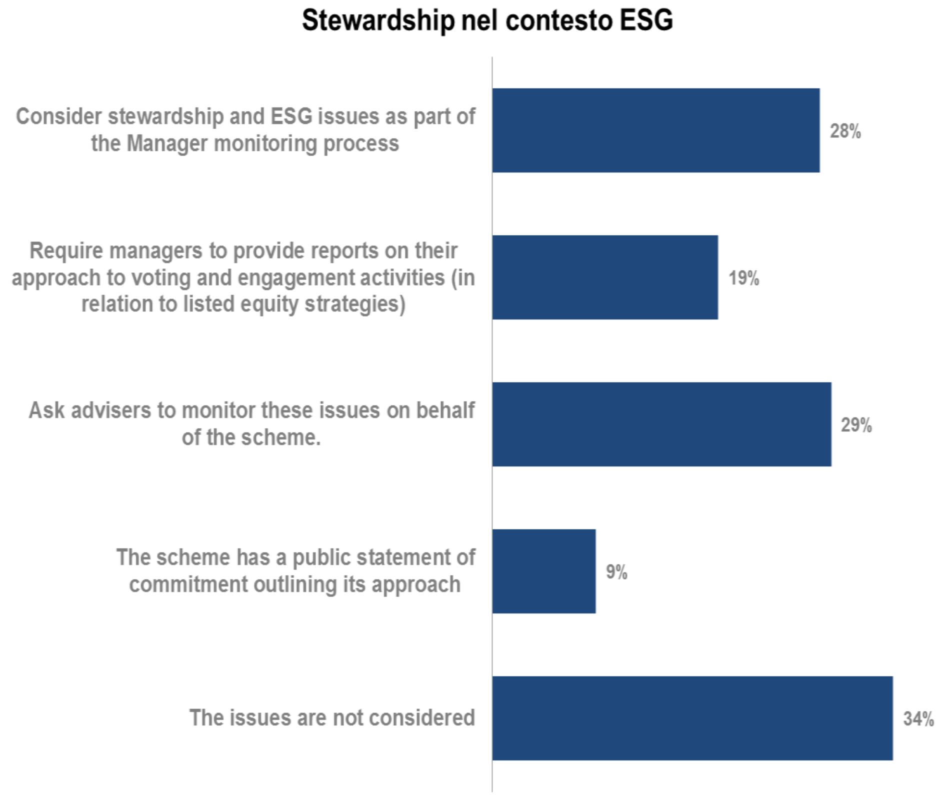
FOCUS SU HEDGE FUNDS



- Gli investitori mantengono una buona diversificazione tra le varie strategie hedge funds
- Long short equity e multistrategy sono le strategie con il peso medio di portafoglio più alto

FOCUS SU ESG(ENVIRONEMNT, SOCIAL, GOVERNANCE)





- Le conseguenze finanziarie e gli aspetti reputazionali costituiscono i principali elementi chiave per l’integrazione dei fattori ESG nei portafogli
- Solo il 5% del campione considera i rischi connessi al cambiamento climatico come un tema rilevante per gli investimenti

IL CAMPIONE ITALIANO

ASSET ALLOCATION SURVEY
IL CAMPIONE ITALIANO 2017

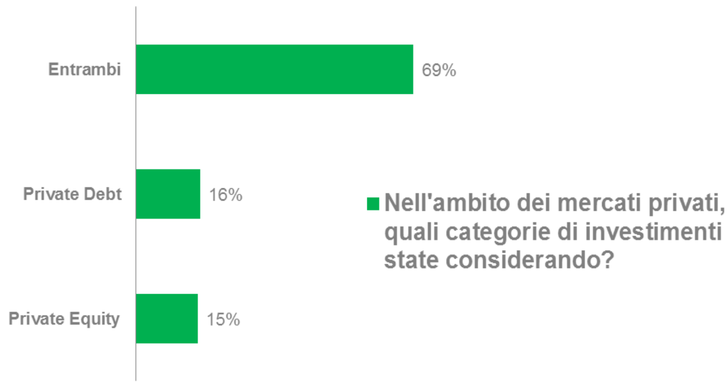
Da 26 a 70 miliardi	✓ In termini di asset under management il campione italiano 2017 vale più di €70 miliardi ✓ Un incremento rispetto al 2016 di più di €44 miliardi
+50%	✓ Il numero di partecipanti nel 2017 è aumentato del 50% rispetto al 2016 ✓ I più importanti investitori istituzionali italiani fanno parte del campione
Da 1% a oltre 5%	✓ La rilevanza dell'Italia nel campione europeo è cresciuta notevolmente ✓ Il campione italiano 2017 è il quinto più rappresentativo in termini di asset under management

LE VIEW DEGLI INVESTITORI ISTITUZIONALI ITALIANI

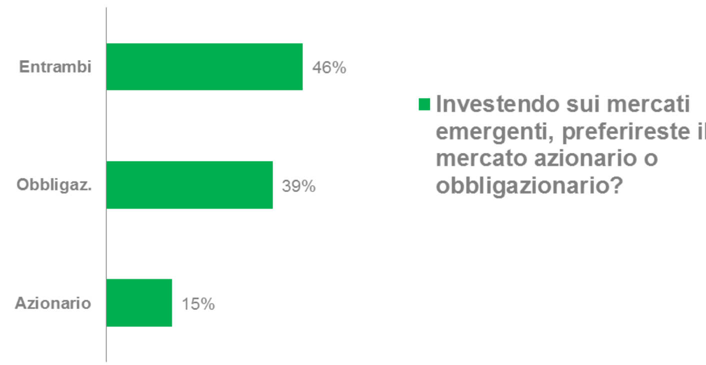
- **100%** Inflazione in risalita
- **72%** Opportunità nel mercato del credito
- **50%** Banche Centrali meno rilevanti per i mercati
- **56%** Euro ancora debole
- **54%** Materie prime non abbastanza interessanti

DOMANDE AI PARTECIPANTI ITALIANI
FOCUS SU TEMI RILEVANTI

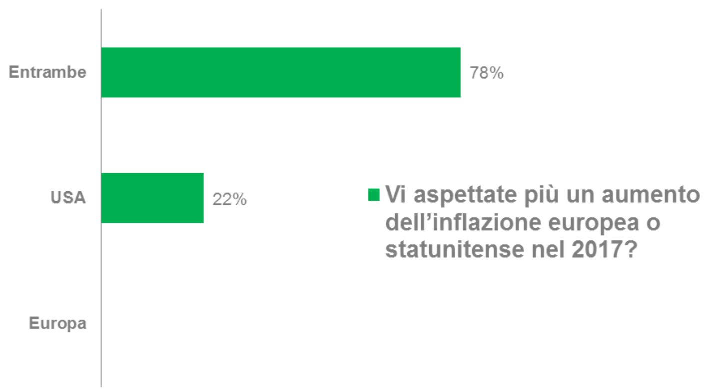
MERCATI PRIVATI



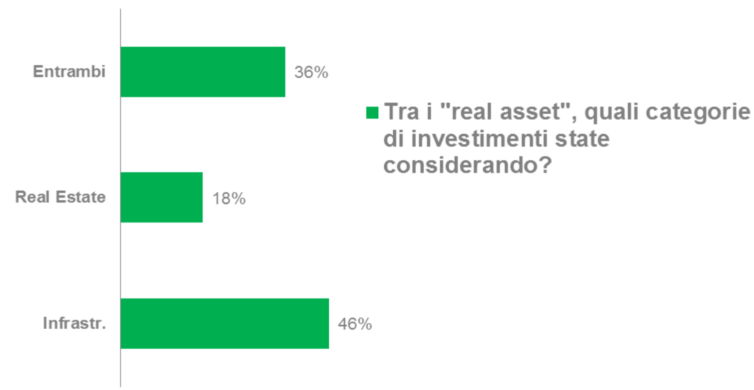
MERCATI EMERGENTI



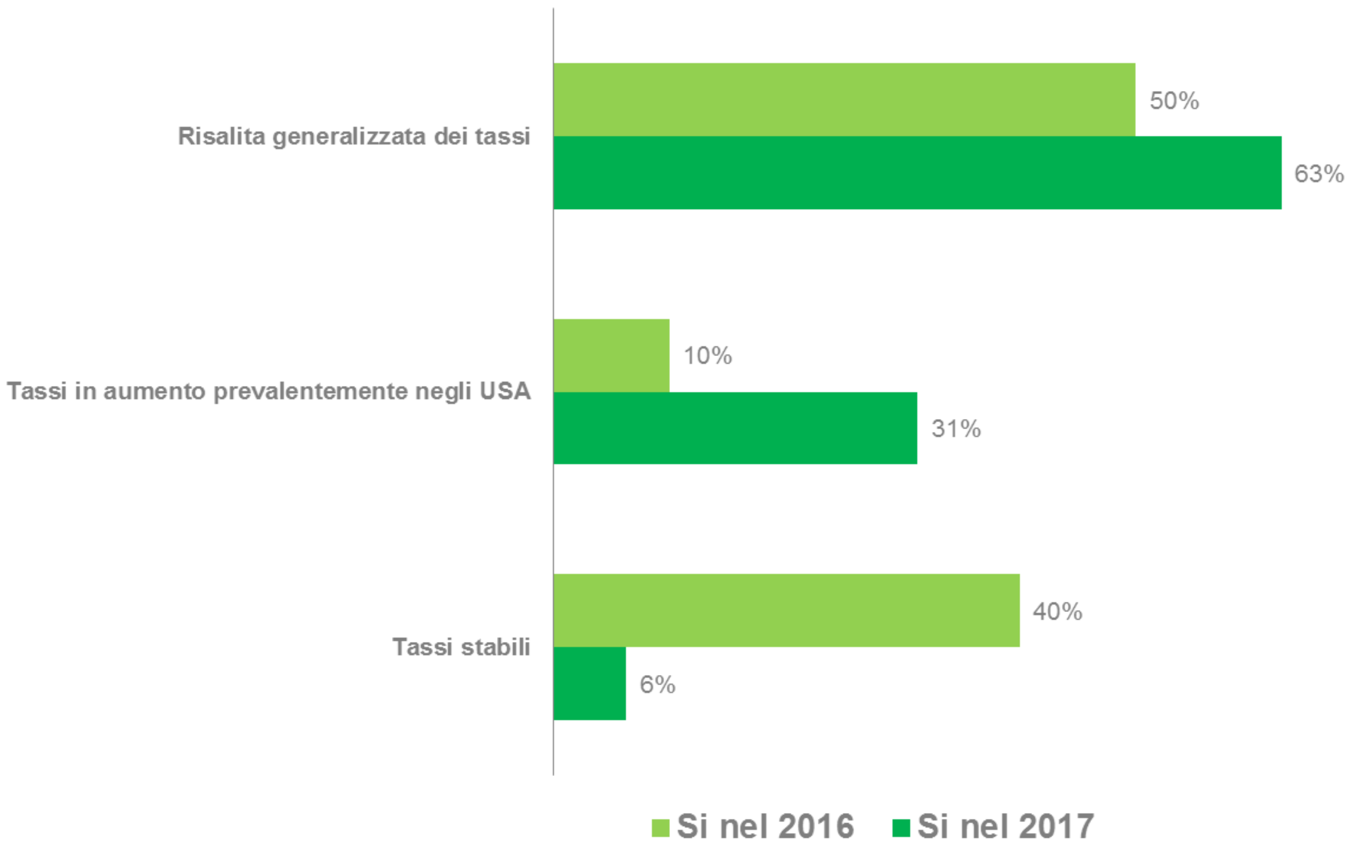
INFLAZIONE



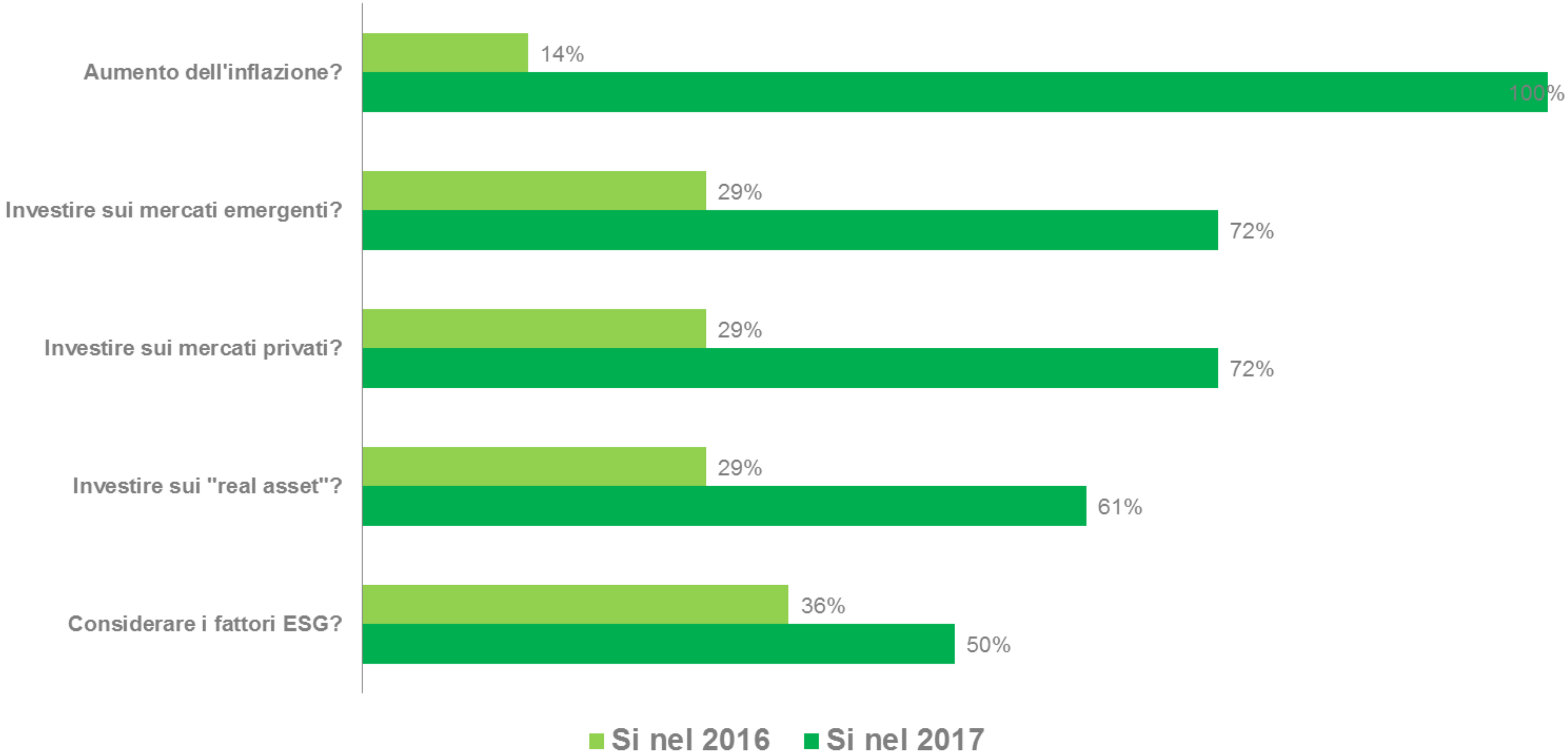
REAL ASSET



ASPETTATIVE SUI TASSI D'INTERESSE 2017 VS 2016



INFLAZIONE E SCELTE D'INVESTIMENTO 2017 VS 2016



IL CAMPIONE ITALIANO
PRINCIPALI TENDENZE 2017 VS 2016

1. L'aspettativa di un **aumento dell'inflazione** nel corso del 2017 è comune a tutti gli investitori istituzionali italiani partecipanti al sondaggio, mentre nel 2016 solo il 14% si attendeva un incremento nel corso dell'anno
2. Alla luce delle valutazioni di mercato e dei miglioramenti nei fondamentali economici, i **Paesi Emergenti** sembrano un'opportunità interessante per circa il 70% degli investitori istituzionali, contro il 30% dell'anno scorso
3. In ascesa anche i **mercati privati**: il premio di illiquidità, la diversificazione delle fonti di rendimento e la bassa correlazione con i mercati tradizionali hanno fatto crescere l'appetibilità di questa asset class rispetto allo scorso anno (72% nel 2017 vs 29% nel 2016)
4. Gli **asset reali** guadagnano interesse tra gli investitori istituzionali che, in virtù del ruolo di diversificazione, de-correlazione e protezione dall'inflazione, stanno considerando sempre più di inserirli in portafoglio (60% 2017 vs 30% 2016)
5. Buone notizie sul tema **ESG**, dal momento che il 50% del campione dichiara di integrare le tematiche proprie degli investimenti responsabili nel processo d'investimento, rispetto al 36% del 2016

CONCLUSIONI

COSTRUIRE UN PORTAFOGLIO ROBUSTO
LE IDEE DI MERCER

Un approccio *absolute return* nel mercato obbligazionario	✓ Approccio flessibile e dinamico ✓ Rendimenti positivi in tutte le fasi di mercato ✓ De-correlare l'esposizione obbligazionaria dall'andamento di mercato del reddito fisso ✓ Strategie interessanti in assenza di opportunità «a buon mercato»

Ricercare il premio di illiquidità nei *private markets*	✓ Gestione attiva da parte di gestori qualificati ✓ Diversificare l'esposizione al rischio dei mercati tradizionali ✓ Opportunità di investimento non accessibili attraverso i mercati pubblici ✓ Premio di illiquidità

COSTRUIRE UN PORTAFOGLIO ROBUSTO
LE IDEE DI MERCER

È arrivato il momento degli *hedge funds*?	✓ Indipendenza rispetto ai trend dei mercati tradizionali ✓ Protezione del portafoglio nelle fasi di ribasso del mercato ✓ Gestione dinamica del portafoglio ✓ Sovra-performance in momenti di alta dispersione di rendimenti
Inserire i *real asset* in un portafogli istituzionale	✓ *Hedging* dal rischio di inflazione ✓ De-correlazione rispetto alle asset class tradizionali ✓ Interessanti prospettive di rendimento a livello globale ✓ L'oro come scudo nelle fasi di forte volatilità sui mercati

APPENDICE: AVVERTENZE IMPORTANTI

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MAKE
TOMORROW,
TODAY

MERCER

HEALTH WEALTH CAREER

MERCER PRIVATE MARKETS

INTERNATIONAL TRENDS & OPPORTUNITIES

Conference Rome, 8 June 2017

Stefan Hepp, Global Business Leader Private Markets

INTRODUCTION

MERCER'S INVESTMENTS BUSINESS
BREADTH OF OUR CAPABILITIES

21 COUNTRIES

2,200+ STAFF

62 CITIES

40+ YEARS EXPERIENCE

TOOLS & RESEARCH

- Global manager database
- Performance analytics
- Wealth-management tools
- Investment research
- Operational due diligence

ADVICE

- Investment strategy
- Asset allocation
- Portfolio construction
- Manager selection
- Responsible investment
- Transitions, custody, FX

SOLUTIONS

- Investment management
- Single asset class
- Alternative assets
- Diversified portfolios
- Liability solutions

USD 6trn
Subscriber Assets

2,800+
Consulting Clients

USD 10.2trn[1]
under advice

1,000+
Discretionary Clients

USD 157bn[2]
under implementation

1) Assets under advisement includes aggregated data for Mercer Investment Consulting LLC and its affiliated companies globally ("Mercer") as of June 2016. Data is derived from a variety of sources, including, but not limited to, third-party custodians or investment managers, regulatory filings, and client self-reported data. Mercer has not independently verified the data. Where available, data is provided as of 30 June 2016 ("Reporting Date"). If data was not available as of the Reporting Date, information from a date closest in time to the Reporting Date, which may be of a more recent date than the Reporting Date, was included. Data includes assets of clients that have engaged Mercer to provide project-based services within the 12-month period ending on the Reporting Date, and assets of clients that subscribe to Mercer's Manager Research database.
2) The assets under management data reported here include aggregate data for Mercer Investment Management, Inc. and its affiliated fiduciary management businesses globally as of December 2016.

MERCER'S IMPLEMENTATION PLATFORM
$160BN AUM / 100+ SOLUTIONS / 400+ CLIENTS

MERCER'S EUROPEAN PLATFORM

FIXED INCOME

- Absolute return
- Multi-asset credit
- Emerging markets
- High yield
- Global bonds
- Credit & government

EQUITIES ACTIVE

- Global equities
- Regional equities
- Low volatility
- Small cap
- Emerging markets
- Sustainable

AD-HOC

- Global equities
- Fundamental indexation
- Fixed income
- LDI

ALTERNATIVES

- Commingled solutions
- Bespoke arrangements
- Hedge funds
- Liquid alternatives
- UCITS / Non-UCITS

PRIVATE MARKETS

- Commingled solutions
- Bespoke arrangements
- Private equity
- Infrastructure
- Private debt
- Real estate
- Sustainable

LARGE CLIENT SOLUTIONS / STRATEGIC PARTNERSHIPS

- **Bespoke fund builds**
- **Modular services**
  - Operational execution
  - Manager research and selection
  - Risk management
  - Monitoring and reporting
  - Operational due diligence
- **Specialist intellectual capital**
- **Platform facilities**
- **White labeling**

MERCER PRIVATE MARKETS
A DEDICATED TEAM – INVESTMENTS AND OPERATIONAL CAPABILITIES

MERCER PRIVATE MARKETS

BILL MUYSKEN
Global CIO Alternatives

STEFAN HEPP
Global Business Leader Private Markets

INVESTMENTS		OPERATIONS	INVESTOR RELATIONS
RALPH AERNI Global Co-CIO	**MICHAEL FORESTNER** Global Co-CIO	**CHRISTOPH BIGGER** Global COO	**STEFAN HEPP** Global Business Leader Private Markets

Private Equity/Debt (US)	Private Equity/Debt (Europe)	Private Equity/Debt (Asia/Pacific)	Infrastructure & Real Assets	Investment Operations	Legal & Compliance	Portfolio Risk & Analytics
Harry Leggat	Dirk Lienemann	Ralph Aerni	Toby Buscombe	Katarina Stanojkovic Kristin Ferrer	Peter Zollinger	Martin Schaufelberger

WE COVER THE MANAGER UNIVERSE WITH A GLOBAL TEAM AND LOCAL PRESENCE

85
EMPLOYEES

9
OFFICES

20
YEAR EXPERIENCE

$22bn
COMMITTED ASSETS

132
CLIENTS

>6,000
PRIVATE MARKET FUND OFFERINGS SCREENED

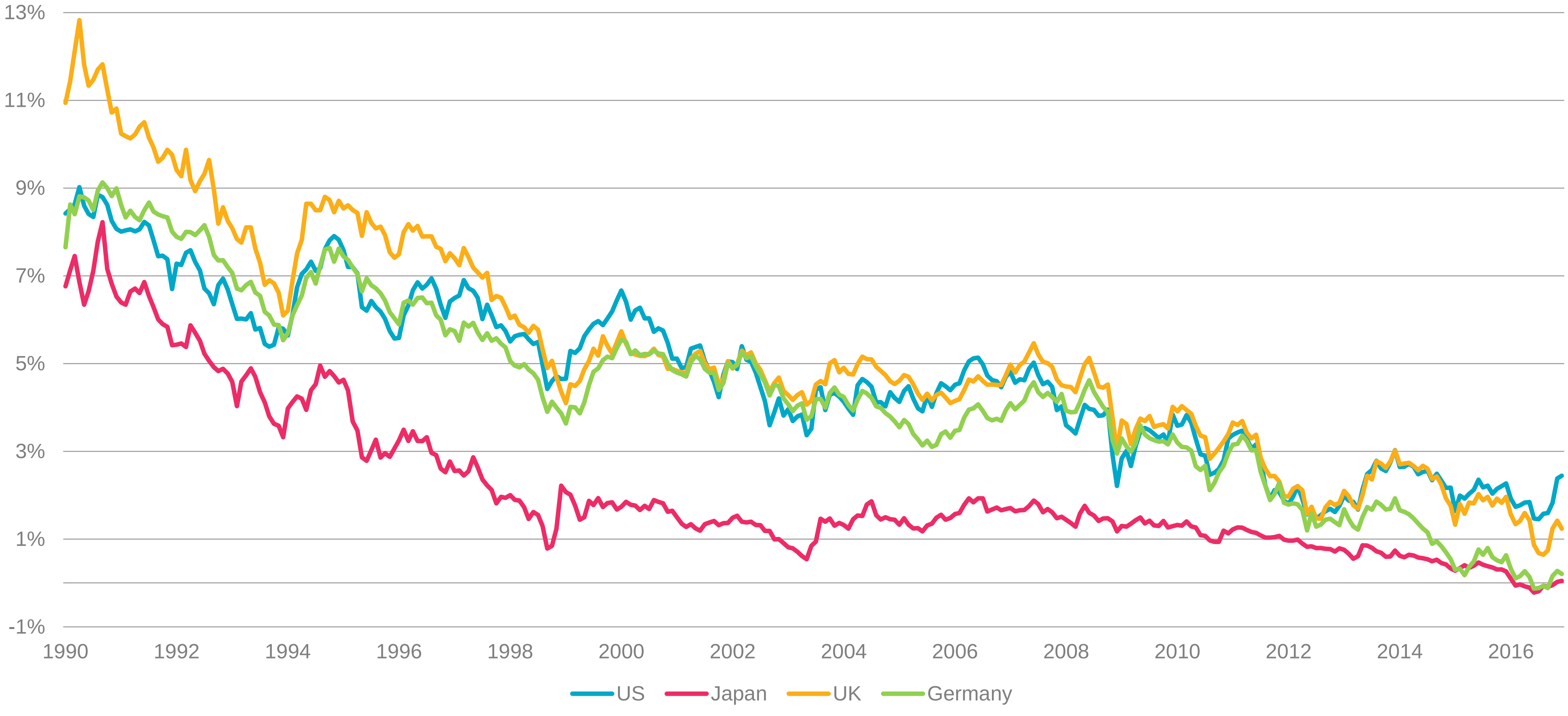
BROAD AND GLOBAL NETWORK NEEDED TO ENSURE ACCESS TO ESTABLISHED MANAGERS AND A ROBUST SELECTION OF FUNDS

THE GROWING IMPORTANCE OF PRIVATE MARKET INVESTMENTS

AROUND THE WORLD PRIVATE MARKET INVESTMENTS PLAY AN INCREASINGLY PROMINENT ROLE IN CLIENTS' PORTFOLIOS

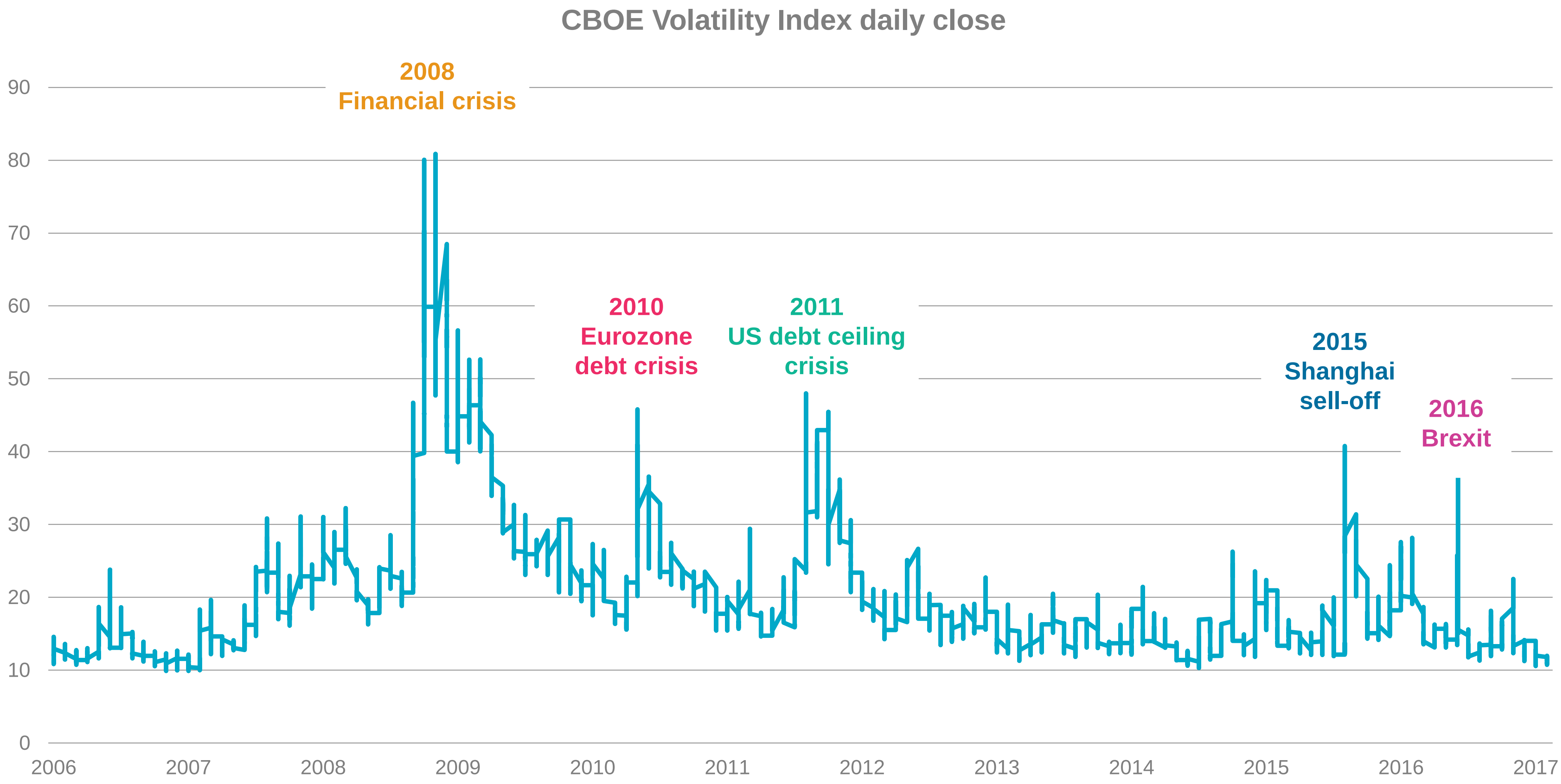
YIELD STARVED INVESTORS SEEK NEW SOURCES OF INCOME AND GROWTH…

Treasury bond interest rates since 1990



Source: Bloomberg; Global Financial Data
US Generic Govt 10Y Yield / Japan Generic Govt 10Y Yield / UK Generic Govt 10Y Yield / Germany Generic Govt 10Y Yield

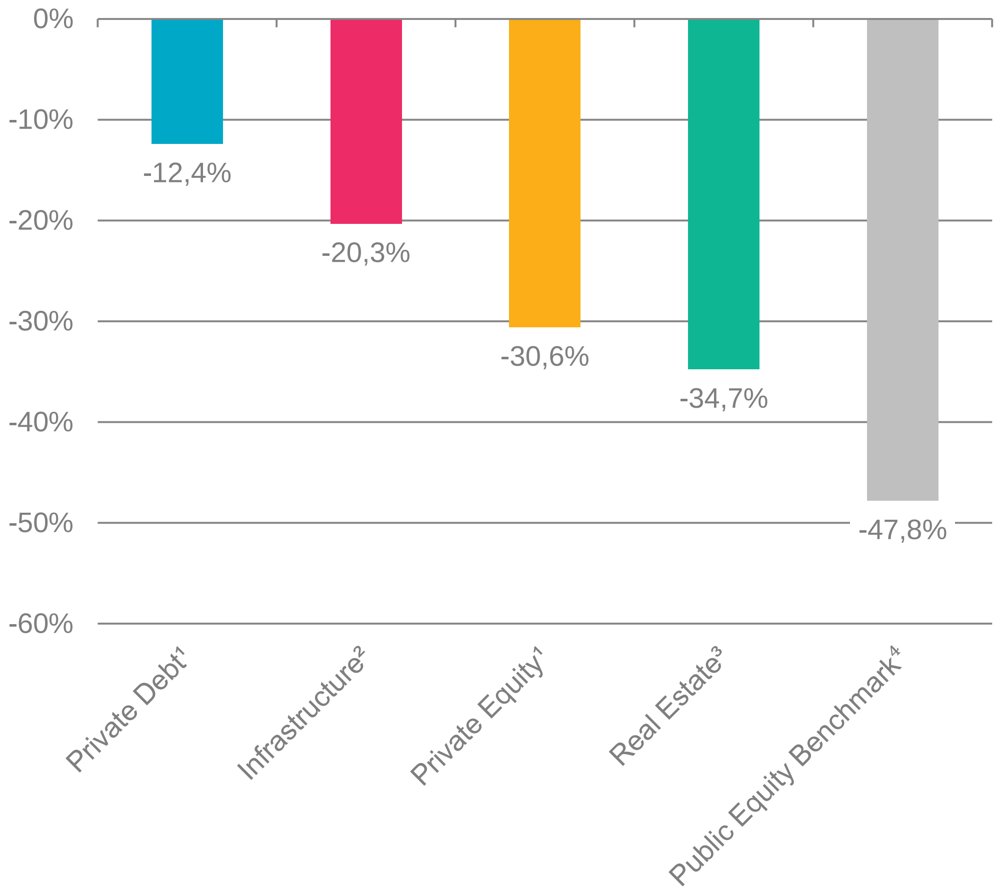
…WHILE FACING THE REPEATED BOUTS OF MARKET VOLATILITY IN RECENT YEARS



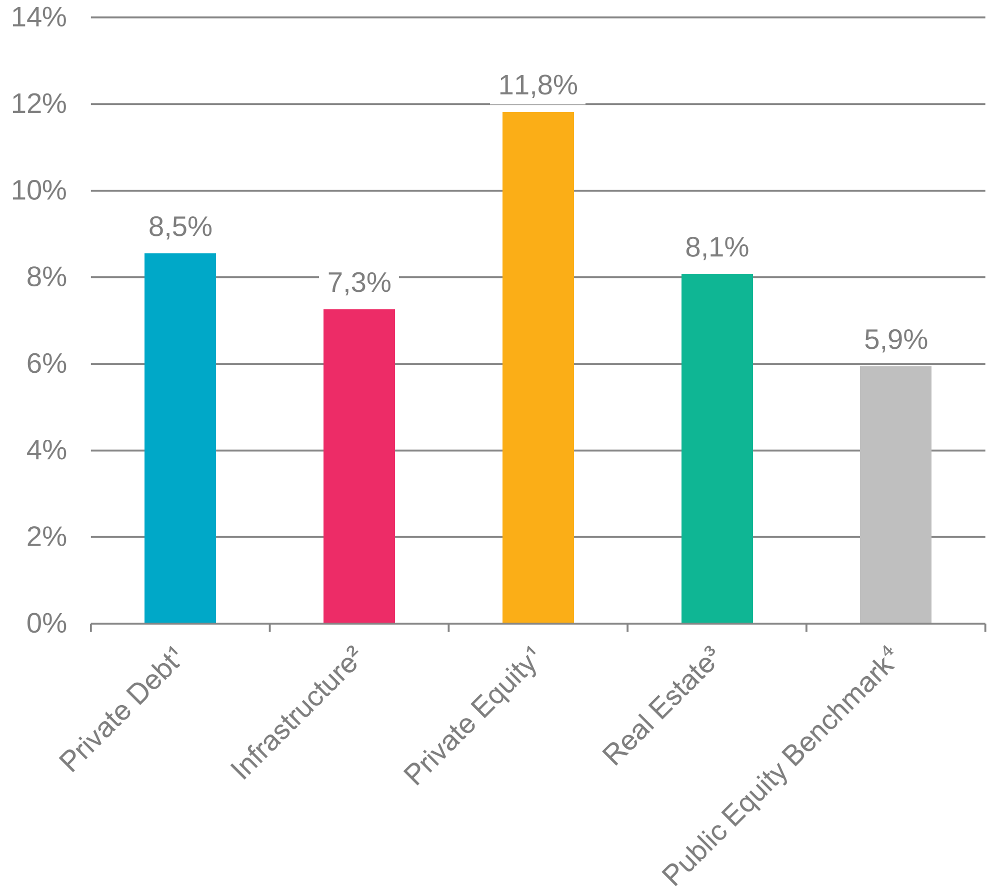
Source: Bloomberg

PRIVATE MARKETS INVESTMENTS PROVED TO BE MORE ROBUST DURING THE FINANCIAL CRISIS

Performance (cum.) Private Markets vs. Public Equity 12/2007 – 03/2009 in USD



Performance (ann.) Private Markets vs. Public Equity 12/2003 – 6/2016 in USD

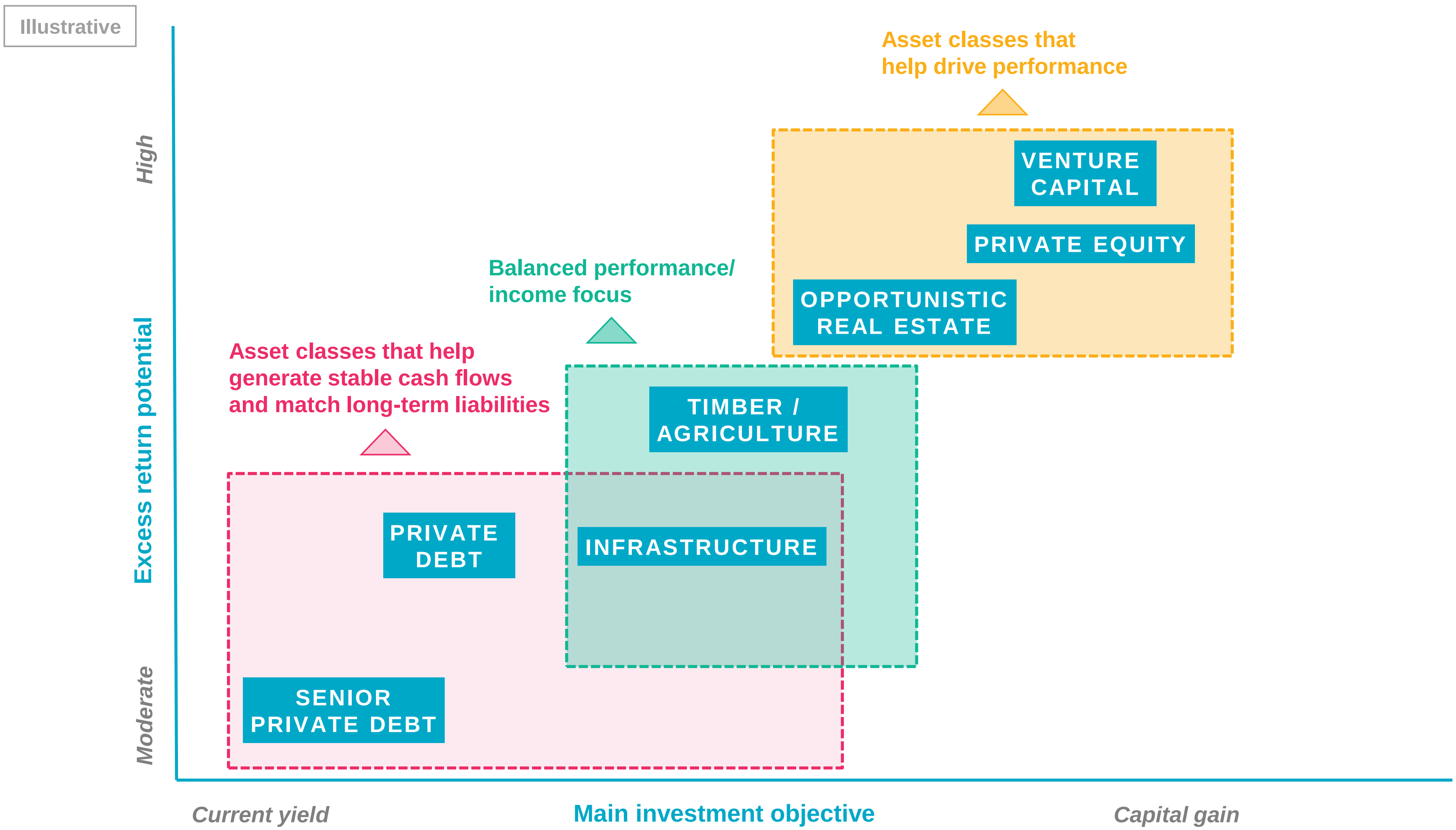


Sources: 1) Burgiss Private iQ / 2) Cambridge Associated / 3) Preqin (as of Q1/16) / 4) MSCI World Net TR

BUILDING A BETTER GROWTH PORTFOLIO
WHY ALLOCATE TO PRIVATE MARKET INVESTMENTS

GREATER ALPHA POTENTIAL	Greater alpha potential through active management with best in class managers persistently demonstrating significant value-add
BETTER DIVERSIFICATION OF RETURN	Diversifies risk away from listed public market performance
ACCESS OPPORTUNITIES	Access to investment opportunities that are not accessible through public markets
LONG TERM INVESTMENT HORIZON	Capitalize on the illiquidity premium available to the providers of long term capital

PRIVATE MARKET ASSETS IN THE RISK/RETURN SPECTRUM

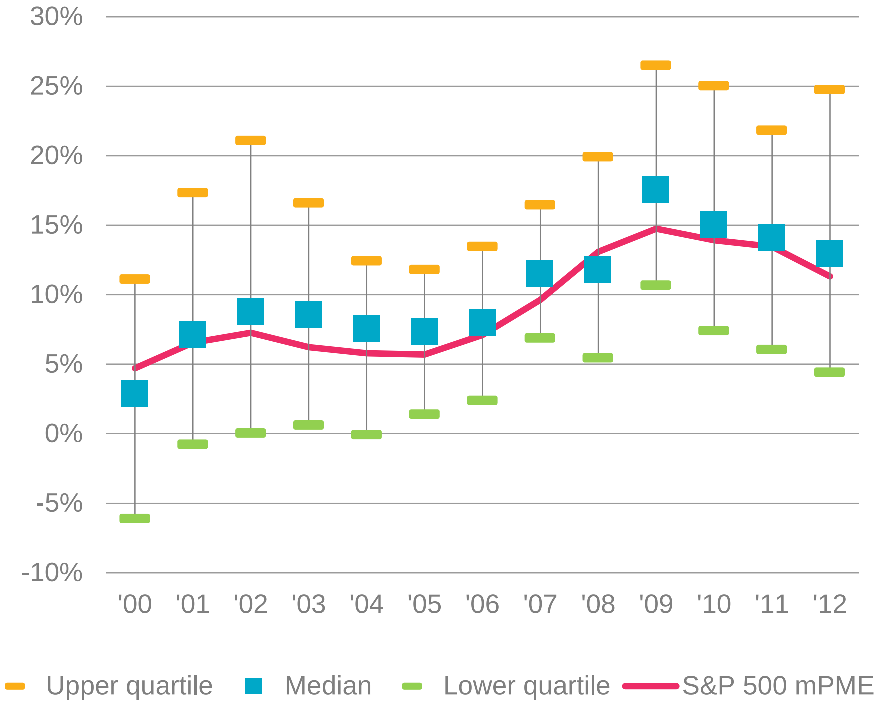


ASPECTS OF PORTFOLIO CONSTRUCTION

PRIVATE MARKET INVESTMENTS REQUIRE DIVERSIFICATION

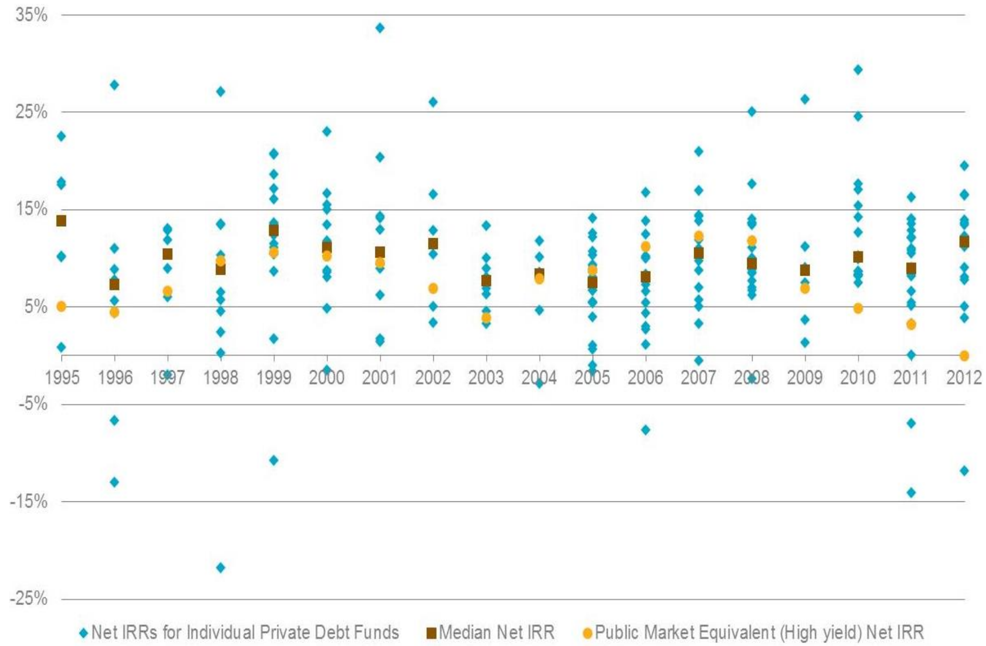
Distribution of Net IRRs for Private Equity funds

IRR of US private equity funds vs. S&P 500 as of 31 December 2015



Distribution of Net IRRs for Private Debt funds

IRR of private debt funds vs. Barclays High Yield Index as of 31 December 2015

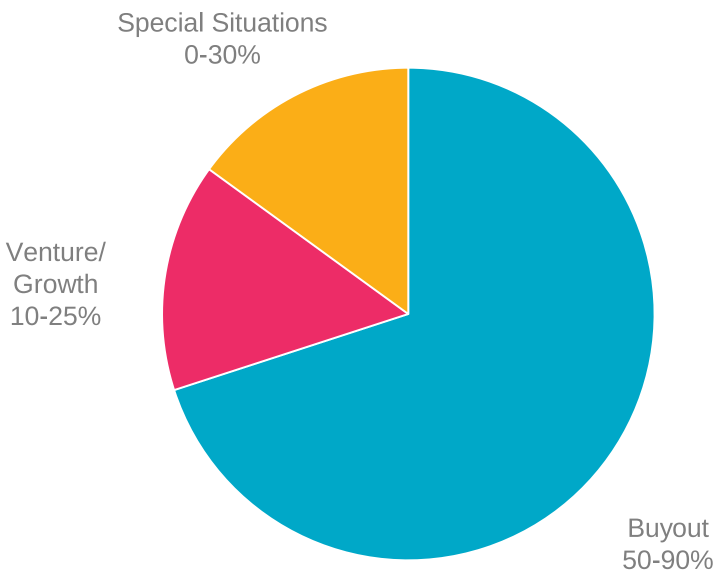


Note: Newer vintage years are not yet meaningful due to "j-curve" effects
Source: Cambridge Associates / Thomson ONE

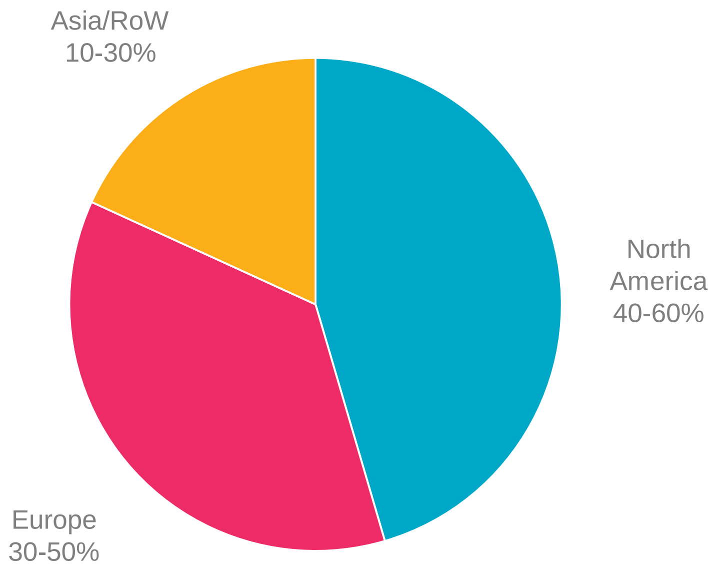
Source: CVC Capital Partners, Arbor Square Associates, Family Firm Institute

PORTFOLIO CONSTRUCTION – ASSET ALLOCATION

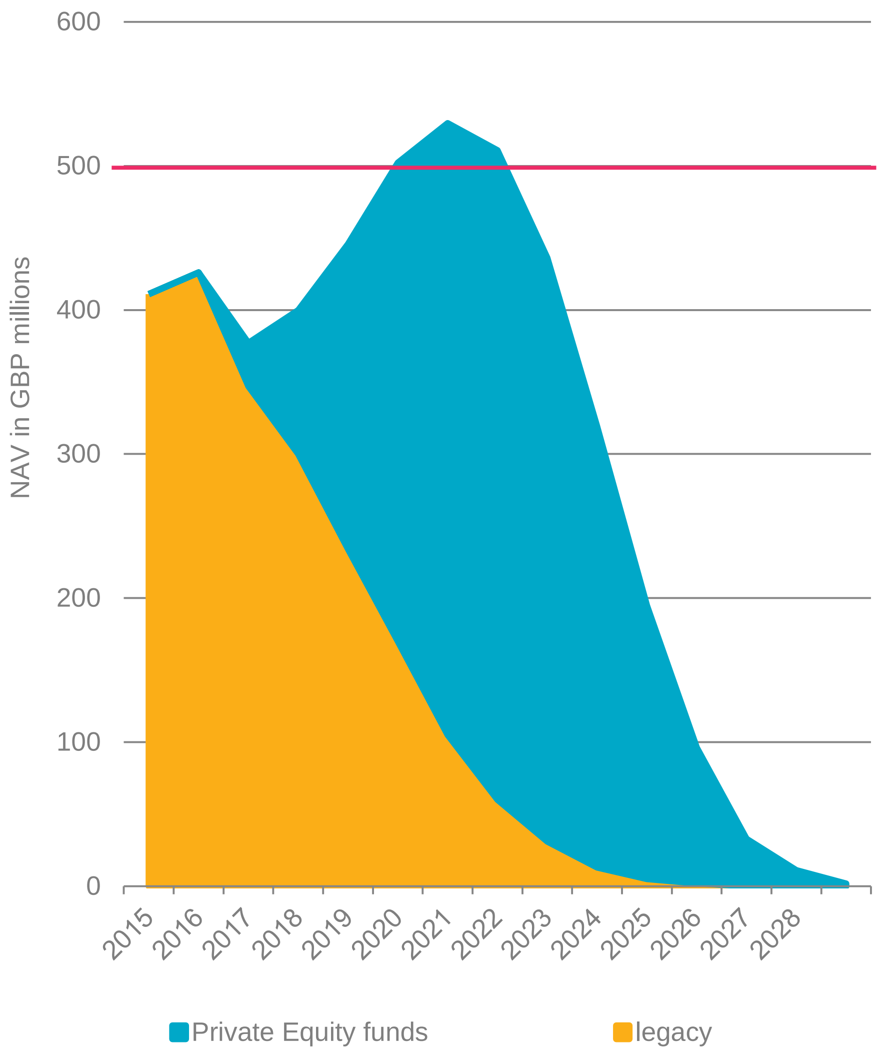
Target allocation by stage

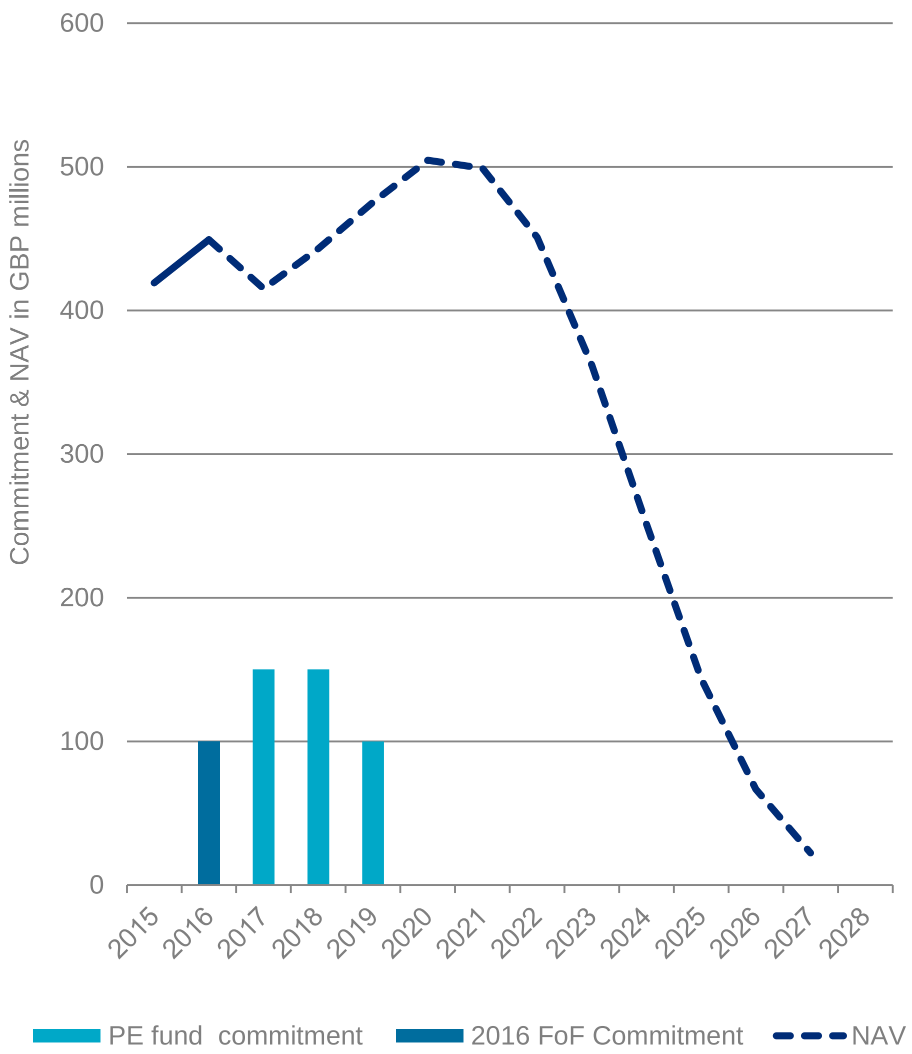


Target allocation by region

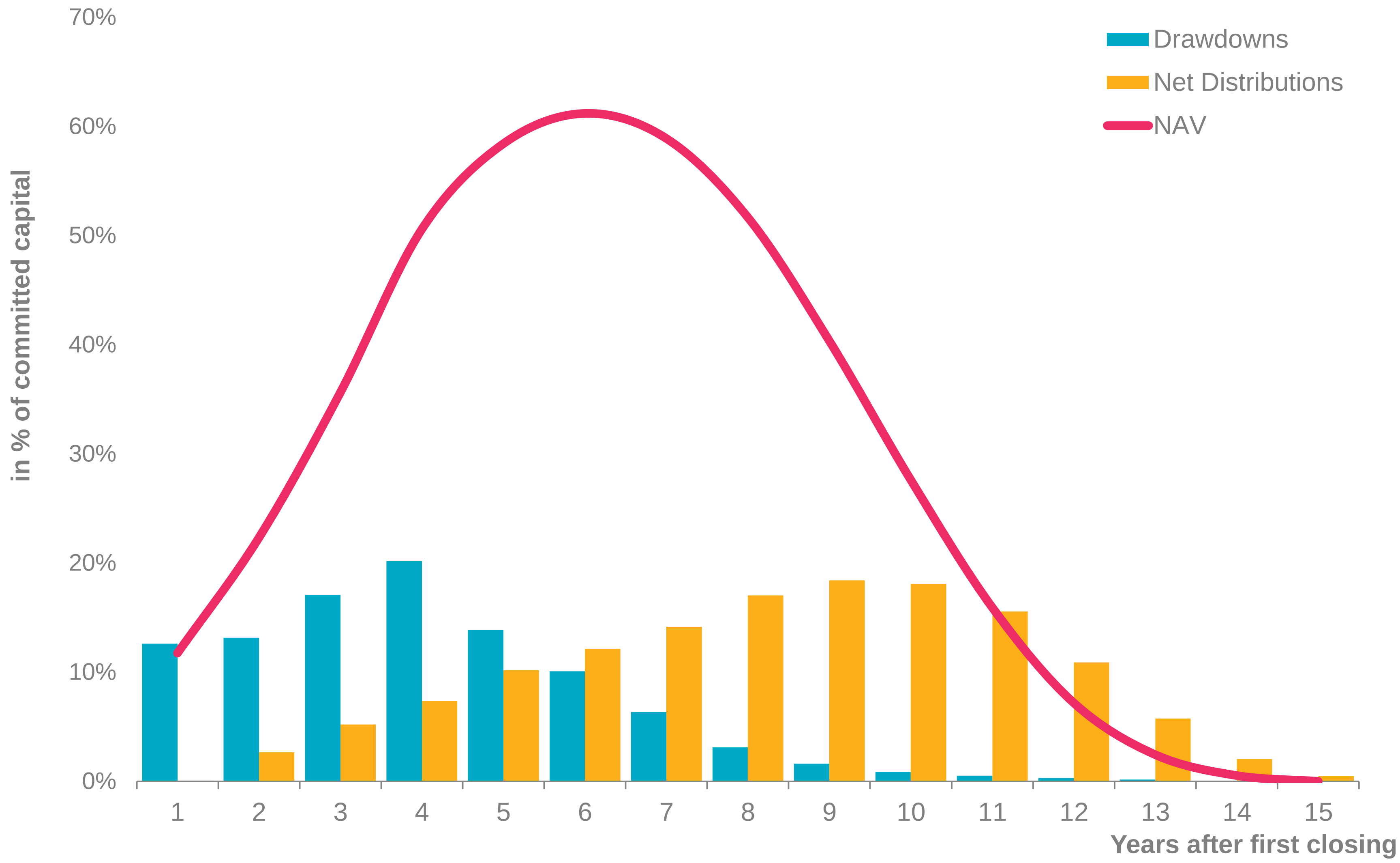


PORTFOLIO CONSTRUCTION – COMMITMENT PLANNING





STYLIZED CASH FLOW PROFILE – OPERATIONAL CHALLENGES

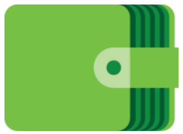


Note: Underlying data of this cash flow model chart are based on estimations and not a guarantee of future performance.

OUR CAPABILITIES
FLEXIBLE SOLUTIONS

SINGLE CLIENT ADVISORY	**Investment research**
SINGLE CLIENT PROGRAMS & FUNDS	**On balance sheet investing** (Investment research and monitoring / controlling)
	Investing through an SPV (Investment research, monitoring / controlling and establishment / management of an SPV)
MULTI CLIENT FUNDS	**Commingled fund solutions**

PRIVATE EQUITY



PRIVATE DEBT

INFRASTRUCTURE

REAL ESTATE

Primaries	**Secondaries**	**Co-Investments**

INVESTMENT PROCESS

OPPORTUNITY SET IS ACKNOWLEDGED BY INVESTORS BUT THE HUNT FOR ALPHA CREATES ACCESS ISSUES

Source: Thomson ONE

OUR FUND SELECTION FOLLOWS A RIGOROUS PROCESS

GLOBAL SOURCING
(Global Research View Database)

In aggregate MPM has reviewed more than 6'000 fund offerings over the last decade (400-500 primary fund offerings reviewed each year)

PRIORITIZE CANDIDATES

Production of Research Views (Factsheets) within investment team
Quality of fund offering
Investment needs of active programs

DUE DILIGENCE

Production of Due Diligence Report (Investment DD)
Team/organization
Track record & value creation
Investment strategy

RATINGS

Ratings assigned by MPM Investment Committee

RECOMMENDATION FOR INVESTMENT → **LEGAL & TAX REVIEW** → **RECOMMENDATION FOR SUBSCRIPTION**

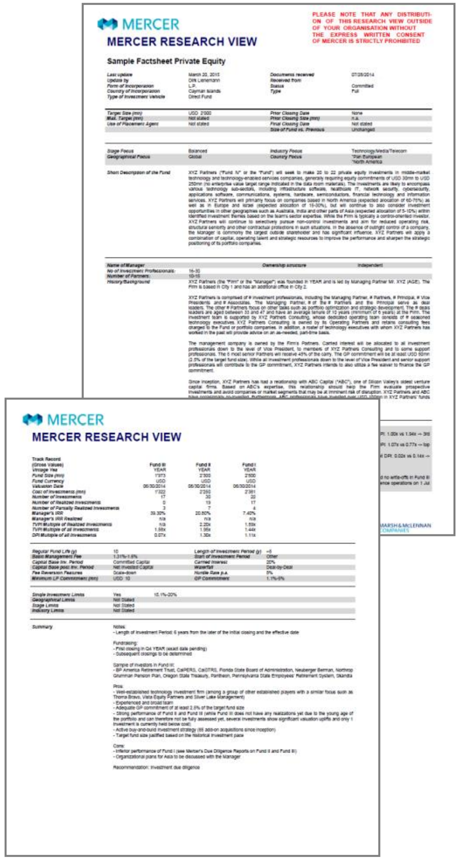
RATINGS

A	**Above-average** prospects of outperformance
B+	**Above-average** prospects of outperformance, but with some reservations
B	**Average** prospects of outperformance
C	**Below-average** prospects of outperformance
N	Not rated
R	Early-stage research /research no longer maintained

INVESTMENT DECISION PROCESS
TRANSPARENCY AND COMPARABILITY

MERCER RESEARCH VIEW

2 page factsheet



MERCER
MERCER RESEARCH VIEW
Sample Factsheet Private Equity

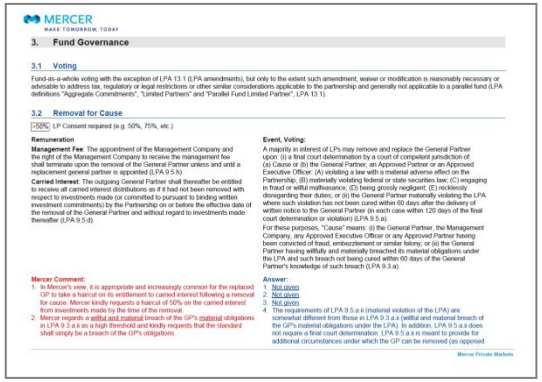
MERCER DUE DILIGENCE REPORT

~40 page report

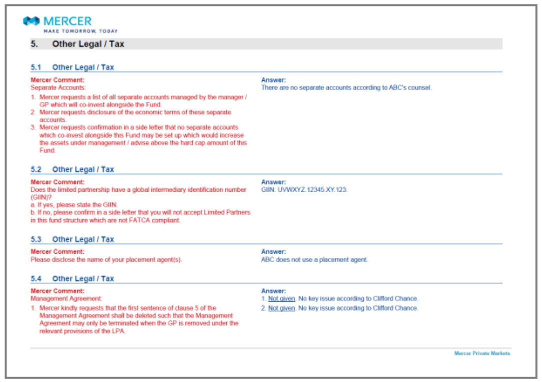
MERCER
DUE DILIGENCE REPORT
PRIVATE EQUITY FUND
ABC FUND VII
SAMPLE REPORT
ASSESSMENT

LEGAL & TAX REVIEW

~20 page report



MERCER
3. Fund Governance



MERCER
5. Other Legal / Tax

OUR INVESTMENT PHILOSOPHY

MANAGER SELECTION	Manager selection is a key differentiator given the large universe of managers (interesting trends do not compensate for a rigorous “bottom-up” analysis)
EXPERIENCE	Investment talent is rare – we back experienced teams whose investment capabilities are supported by a verifiable track record
ALIGNMENT OF INTEREST	MPM prefers directly aligned teams that can invest autonomously
DIVERSIFICATION	Diversification across vintage years, regions, sectors and investment types is a key element of MPM’s portfolio build-up
FOCUS	Focus on operational value creation that generates real, tangible, long-lasting value

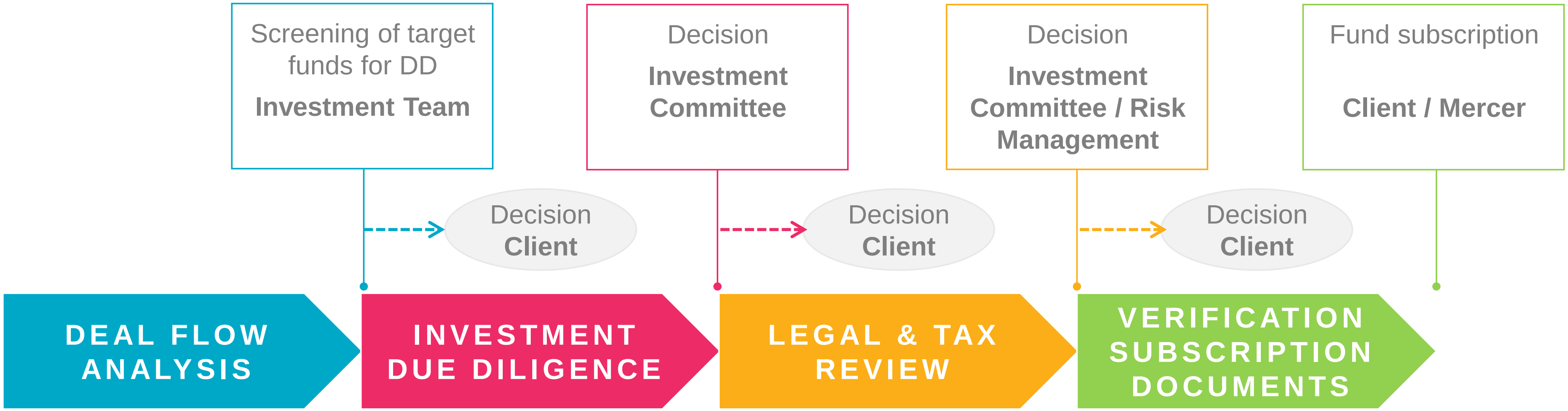
HOW WE ADD VALUE

SAVINGS THROUGH SCALE & BUYING POWER	**BUYING POWER** Assets under advice USD 10.2trn (Mercer Investments) Assets under management USD 22bn globally (Mercer Private Markets)
INTELLECTUAL CAPITAL VIA SPECIALIST TEAMS	**SPECIALIST TEAMS** Who support wealth managers, pension, charity, endowment & foundation clients throughout Europe Asset allocation, portfolio construction, risk management & implementation
ADDED VALUE THROUGH MANAGER RESEARCH, ACCESS & UNPARALLED INSIGHT	**RESEARCH** ~50 research professionals (Mercer Private Markets & Real Estate boutique) ~1300 active funds covered 400-500 funds reviewed each year 20 year track record
IMPLEMENTATION: EFFICIENT, TRANSPARENT, ROBUST	**OPERATIONAL INFRASTRUCTURE** 100+ dedicated European operational staff 80+ European funds

Client

OUR INVESTMENT PROCESS ALLOWS CLIENTS TO BE INVOLVED

Our step-by-step due diligence (DD) process provides the basis for client involvement



MERCER PRIVATE MARKETS INVESTMENT COMMITTEE

Standing members:
Bill Muysken, Stefan Hepp, Ralph Aerni, Mike Forestner, Garvan McCarthy

Rotating members:
Harry Leggat (US PE), Dirk Lienemann (EU PE), Toby Buscombe (Infra), Allison Yager (RE), Benjamin Baumann (RE)

APPENDIX

STABILITY OF RETURNS OF OUR COMMINGLED FUNDS OVER VARIOUS CYCLES

	Fund	Vintage year*	Asset class	Net IRR as of 30.09.2016	Portfolio IRR as of 30.09.2016
**	Mercer Private Equity I	1998	Europe/Asia/RoW buyouts/growth	11.3%	13.6%
Harvest phase	Mercer Private Equity II	2006	Europe/Asia/RoW buyouts/special situations/growth	8.2%	12.4%
	Mercer Private Equity III	2008	US/Asia/RoW buyouts/special situations/growth	9.8%	12.4%
	Mercer Real Estate I	2008	Global Real Estate	7.2%	10.2%
	PIP I Private Equity	2008	Global Private Equity	7.9%	10.2%
	PIP I Real Assets	2008	Global Energy, Infra, Mining & opportunistic RE	3.9%	5.9%
	PIP II Private Equity	2010	Global Private Equity	14.7%	19.3%
	PIP II Real Assets	2010	Global Energy, Infra, Mining & opportunistic RE	4.5%	7.1%
	Mercer Private Equity IV	2011	Global Private Equity	7.5%	12.9%
Investment phase***	Mercer Real Estate II	2013	Global Real Estate	4.5%	14.4%
	Mercer Private Equity V	2013	Global Private Equity	-3.5%	4.5%
	PIP III Private Equity	2013	Global Private Equity	8.7%	23.2%
	PIP III Real Assets	2013	Global Energy, Infra, Mining & opportunistic RE	2.5%	6.9%
	PIP III Private Debt	2014	Global Corporate, Real Estate and Infrastructure Debt	4.0%	6.0%
	PIP III Senior Private Debt	2014	Global Corporate, Real Estate Debt and Infrastructure Senior Debt	14.5%	19.4%
	PIP III Sustainable Opportunities	2014	Global Sustainable Opportunities	-6.1%	-4.9%
	Mercer Infrastructure Select	2014	Global Infrastructure	-10.0%	3.1%

Note: The funds labeled Mercer have been launched under the SCM brand prior to the acquisition of SCM in early 2015.

* Vintage year based on 1st closing date
** Fully liquidated as of Q1 2014
*** The 2013-14 vintage year performance is too early to provide a good indication; performance driven by discounts on NAV or “j-curve” effects

SENIOR MANAGEMENT

BILL MUYSKEN

Global CIO Alternatives

Joined in 1992, Bill is Global Chief Investment Officer for Alternatives of Mercer Investments.

Prior to rejoining Mercer, Bill had previously been with Mercer Investments as Global Head of Manager Research, and from 2003 onwards as Global Head of Research. In 2003 Bill was named European Investment Consultant of the Year by Global Money Management magazine.

Bill spent a 3 ¼ year period between his two stints at Mercer as a portfolio manager in Thames River Capital's Multimanager Alternatives team.

Prior to joining Mercer, Bill had worked for the Australian Government in Canberra and for Prudential Assurance in Sydney.

Bill holds a Bachelor's degree in Actuarial Studies from Macquarie University, Sydney, Australia.

DR. STEFAN HEPP

Global Business Leader Private Markets

Joined in 1996, Stefan is Global Business Leader of Mercer Investments' Private Markets Group.

Until the merger with Mercer Stefan was Founder and Chief Executive Officer of SCM Strategic Capital Management AG (now part of Mercer's Investments business).

Previously, he was Executive Director and member of the management committee with Morgan Stanley AG in Zurich, and prior to that with Morgan Stanley Dean Witter in London, J.P. Morgan in Zurich, and Salomon Brothers Int. in London.

Stefan earned a Ph.D. in economics from the University of St. Gallen (HSG), Switzerland, holds a Master's degrees in business administration from Chicago Graduate School, USA, and in social sciences from Birmingham Graduate School, UK.

RALPH AERNI

Global Co-CIO Private Markets

Joined in 2003, Ralph is Global Co-Chief Investment Officer of Mercer Investments' Private Markets Group.

Until the merger with Mercer Ralph was a Partner and Chief Investment Officer at SCM Strategic Capital Management AG (now part of Mercer's Investments business).

Before joining SCM, he was a Senior Analyst Fund Investments with Swiss Life Private Equity Partners AG and prior to that with Bank Vontobel AG.

He started his career in the Corporate Banking division of UBS and subsequently as Corporate Secretary of Cantrade Privatbank AG.

Ralph holds a degree in business administration from the HWZ University of Applied Sciences Zurich, Switzerland, and participated in an Executive Management program at INSEAD, Fontainebleau, France.

MICHAEL FORESTNER

Global Co-CIO Private Markets

Joined in 2003, Michael is Global Co-Chief Investment Officer of Mercer Investments' Private Markets Group.

Prior to joining Mercer, Michael spent 2 years as Managing Director of EndPoint Capital, LLC, a SEC-registered investment advisor.

Prior to EndPoint, Michael worked for 4 years as a Principal Trust Analyst at Southern Company Services.

Previously, he was an Equity Analyst/Trader for Equity Investment Corporation, a mid-cap value equity money manager.

Michael holds a Master's degree in business administration from the University of Georgia, USA, with an emphasis in finance. He is a CFA Charterholder and a member of the CFA Institute and the St. Louis Society of Financial Analysts.

SENIOR MANAGEMENT

CHRISTOPH BIGGER

**Global COO
Private Markets**

Joined in 2014, Christoph is Global COO of Mercer Investments' Private Markets Group.

Until the merger with Mercer Christoph was a Partner and COO at SCM Strategic Capital Management AG (now part of Mercer's Investments business).

Previously, Christoph was a member of the management committee at SIX Group, responsible for the operation of the Swiss Stock Exchange.

Prior to that he worked several years in leading positions at Bank Leu, Credit Suisse First Boston, Clearstream Banking Luxembourg, DAB Bank in Munich and Paris.

Christoph holds a Master's degree in law from the University of Fribourg, Switzerland, and is a Swiss qualified lawyer.

HARRY LEGGAT

**Head of Private Equity / Debt
North America**

Joined in 2007, Harry is Head of the North American Private Equity investment team of Mercer Investments' Private Markets Group.

Prior to joining Mercer/Hammond Associates, Harry spent 3 years as Vice President of Asset Consulting Group, Inc. where he was responsible for directing research and due diligence activities.

Previously, Harry was a Principal of RCP Advisors, LLC, a mid-market buyout focused fund of funds manager, and prior to that, Harry was a Senior Consultant in the Mergers & Acquisitions Practice at Aon Group and a Senior Consultant at Ernst & Young, LLP.

Harry holds a Master's degree in business administration from Washington University, USA, and a Bachelor of Arts in economics from the University of Pennsylvania, USA.

DIRK LIENEMANN

**Head of Private Equity / Debt
Europe**

Joined in 2006, Dirk is Head of the European Private Equity investment team of Mercer Investments' Private Markets Group.

Until the merger with Mercer Dirk was a Partner and Head of Investment Management at SCM Strategic Capital Management AG (now part of Mercer's Investments business).

Before joining SCM, he worked 5 years as member of a leading corporate finance / M&A team in Switzerland for various employers (Andersen, Ernst & Young and finally Sal. Oppenheim Corporate Finance).

Dirk holds a Master's degree in business administration and economics from the University of St. Gallen (HSG), Switzerland, and studied at the Copenhagen Business School, Denmark. He is a CFA Charterholder.

TOBY BUSCOMBE

Global Head of Infrastructure

Joined in 2011, Toby is Global Head of the Infrastructure investment team of Mercer Investments' Private Markets Group.

Prior to joining Mercer, Toby was a Partner and Director at Access Capital Advisers, leading the firm's Infrastructure Group UK & Europe. Toby established Access' London office and led a team of investment professionals in sourcing, due diligence and execution of investments and divestments in infrastructure, hybrid private equity and credit across the UK and Europe.

Previously, Toby was an economist with the New Zealand Department of Labour.

Toby holds a first class honors degree in economics from the Australian National University, Canberra, and is a CFA Charterholder.

ADDRESSES & CONTACTS

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Mercer Private Markets **St. Louis, USA** Phone: +1 314 588 2500	**Harry Leggat** Partner harry.leggat@mercer.com	
Mercer Private Markets **Hong Kong, HK** Phone: +852 3476 3800	**Mei-ni Yang** Principal mei-ni.yang@mercer.com	
Mercer Private Markets **Sydney, Australia** Phone: +61 2 8864 6800	**Mark Murray** Principal mark.murray@mercer.com	

Important Notices

References to Mercer shall be construed to include all associated companies.

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For the most recent approved ratings of an investment strategy, and a fuller explanation of their meanings, contact your Mercer representative.

For Mercer's conflict of interest disclosures, contact your Mercer representative or see www.mercer.com/conflictsofinterest.
Mercer's universes are intended to provide collective samples of strategies that best allow for robust peer group comparisons over a chosen timeframe. Mercer does not assert that the peer groups are wholly representative of and applicable to all strategies available to investors.

MAKE
TOMORROW,
TODAY

MERCER

ESG AND CLIMATE CHANGE

June 2017

Lucy Tusa, Principal
London

SUSTAINABLE INVESTMENT AND ESG

OUR SUSTAINABILITY HERITAGE

13

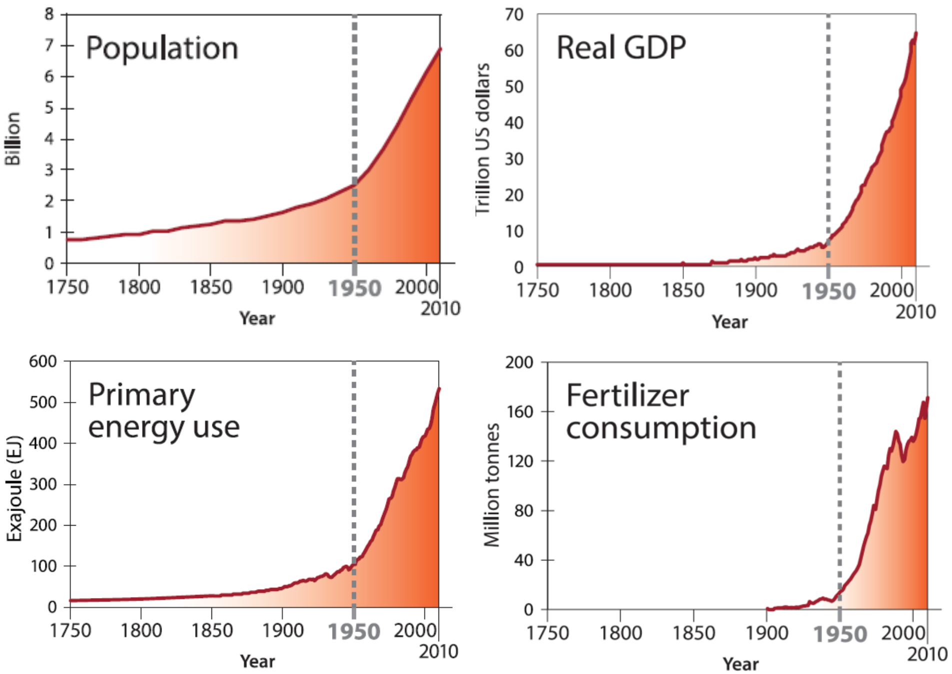
SPECIALISTS

Proven thought leader across RI themes

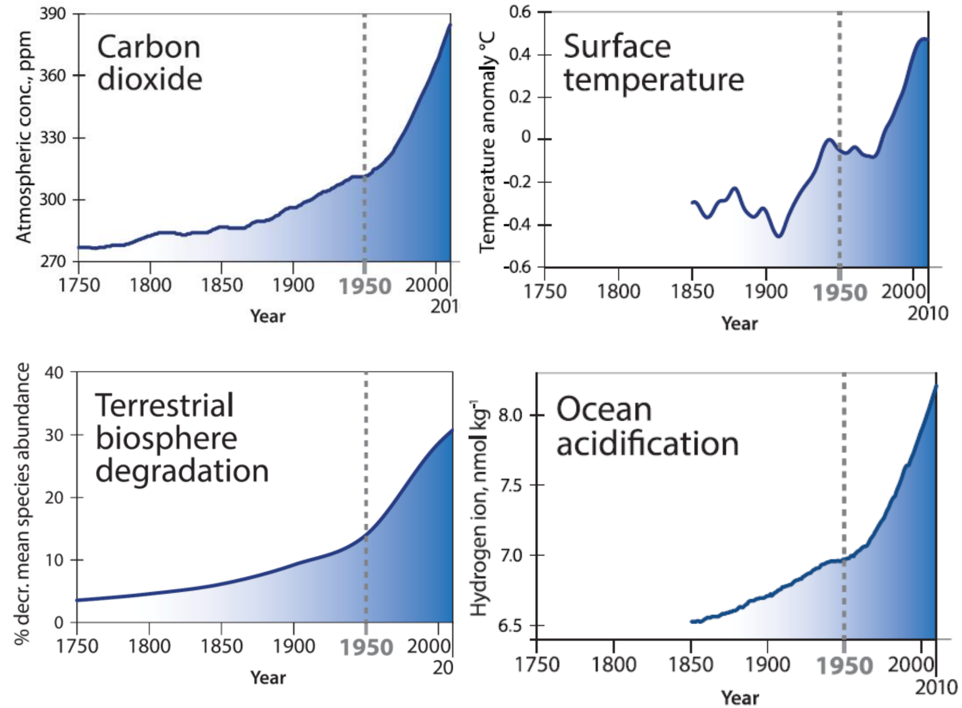
ENVIRONMENTAL, SOCIAL AND GOVERNANCE ISSUES – RESPONSIBLE INVESTMENT

THE BIG PICTURE
UNDERSTANDING HOW THE WORLD IS CHANGING

Socio-Economic trends (1750 – 2010)



Earth system trends (1750 – 2010)



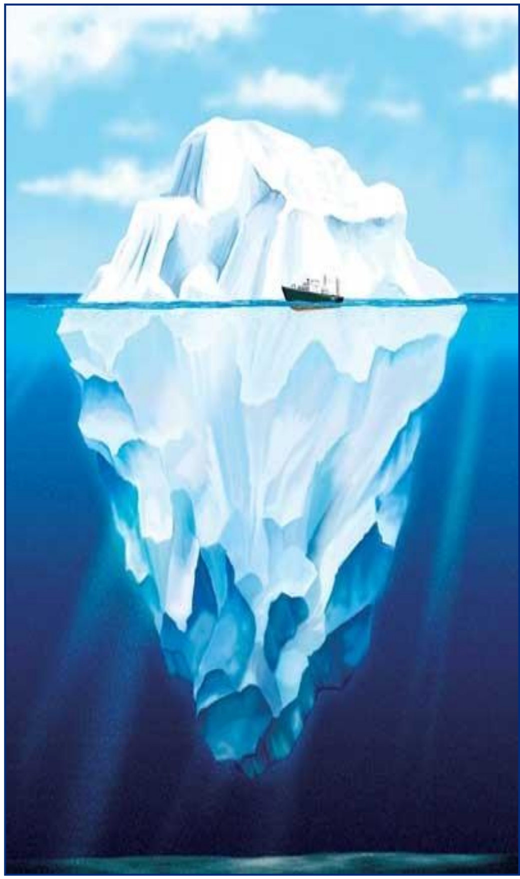
Source: Steffen et al (2015)

Responsible Investment is not about changing the world, it's about understanding how the world is changing and how companies will be affected.

RESPONSIBLE INVESTMENT – AN OVERVIEW

FROM GLOBAL RISKS TO ESG ISSUES

A broader perspective on risk



Environmental

- Air quality
- Energy / Climate
- Water

Social

- Diversity
- Product safety
- Working conditions

Corporate Governance

- Audit quality
- Board composition
- Remuneration

RISK, RETURN AND DIVERSIFICATION
WHAT DO WE MEAN BY "RISK"?

RATIONALE FOR ADOPTING AN RI APPROACH

Better alignment between mission, objectives and investments

↓

Helps to manage reputational risk / stakeholder concerns

↓

Protects and enhances value of the Fund's investments

↓

Supports system / market change (ESG best practice)

↓

Can identify positive investment opportunities

RESPONSIBLE INVESTMENT – AN OVERVIEW
AN EVOLVING AREA

Ethical Investment

- An investment philosophy guided by moral values, ethical codes or religious beliefs.
- Traditionally associated with ***negative screening*** or ***exclusions***.

Socially Responsible Investment (SRI)

- An investment process that seeks to achieve social and environmental goals alongside financial objectives.
- Often employs a ***'best in class'*** approach.

Responsible Investment (RI)

- Using information on environmental, social and corporate governance (ESG) issues to better understand risks and opportunities.
- Based on the belief that ***ESG information*** can be "material" (i.e. have an impact on financial performance).

Selecting the right approach for the Endowment:

What are the trustees trying to achieve? | What resources are available to you?

RESPONSIBLE INVESTMENT – AN OVERVIEW
A RANGE OF IMPLEMENTATION APPROACHES

INTEGRATION

- Include ESG information in investment analysis / decisions.

Objective:
Broader perspective on risk / opportunity.

STEWARDSHIP

- Exercise active ownership / stewardship (voting and engagement).

Objective:
Better behaviour (e.g. by companies).

THEMED

- Invest in "sustainability" and/or "impact" themes (e.g. renewable energy, health, education, social enterprises).

Objective:
Returns from long-term trends + Positive impact.

SCREENING

- Avoid negatives: tobacco, controversial weapons.
- Include positives: 'best-in-class'.

Objective:
Alignment of Mission / Values.

Selecting the right approach– many investors combine approaches

- What are the trustees trying to achieve?
- What resources are available to you?

ESG AND CLIMATE CHANGE DEVELOPMENTS

- The **Task Force on Climate-Related Financial Disclosures (TCFD),** a global industry-led body, is soon to present a new framework for disclosing climate-related risk and opportunity management across Governance, Strategy, Risk Management, and Metrics / Targets.
  - The framework applies to asset owners, asset managers and companies and is anticipated to become a new best-practice industry standard (PRI reporting will be consistent in Q1 2018).
  - It will be presented to the G20 in July and may become a regulated expectation, noting Mark Carney and the UK Financial Stability Board instigated the Task Force.

- **Other developments include:**
  - **The European Parliament** revised the European pension fund directive in November 2016, enshrining ESG provisions, including climate change risk assessments, into European Union law – IORP2.
  - The **Center for International Environmental Law and Mercer** published the *'Trillion Dollar Transformation: Fiduciary Duty, Divestment and Fossil Fuels in an Era of Climate Risk'* in December 2016, on how climate change may affect the fiduciary obligations of trustees.

PORTFOLIO STRATEGY

CLIMATE CHANGE AND SUSTAINABILITY THEMES

CLIMATE IMPACT ON RETURNS
FOUR KEY FINDINGS ON FUTURE POSSIBILITIES

1. Climate change will have an impact regardless of scenario.
2. Potential sector impacts are most meaningful – particularly over the next 10 years.
3. Asset class impacts can also be material – and vary by climate scenario.
4. A 2˚C (Transformation) scenario need not harm total diversified portfolio returns out to 2050.

Commissioned by 16 investors representing $1.5trillion in AUM

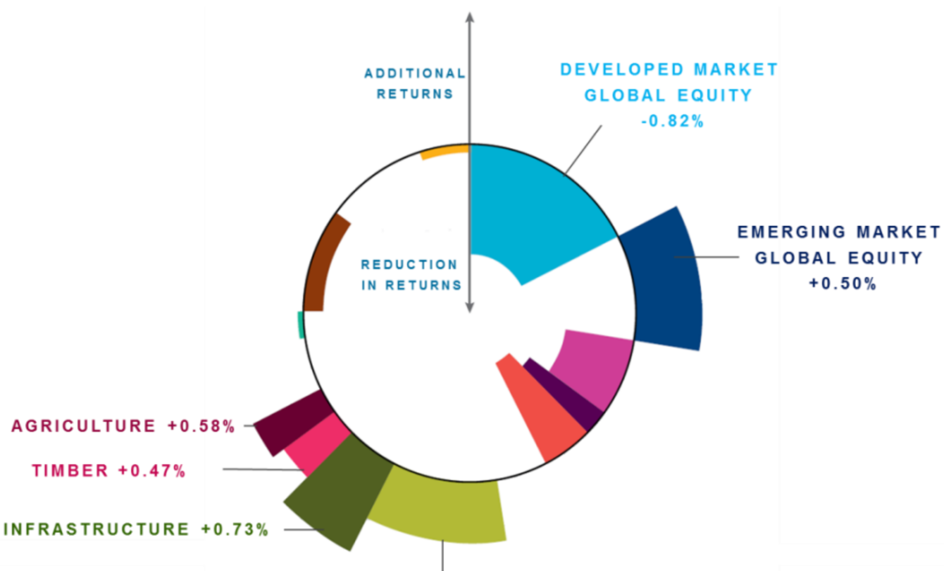
www.mercer.com/climate-change-study

CLIMATE IMPACT ON RETURNS
INVESTOR IMPLICATIONS – 2°C SCENARIO

What impact could the low-carbon energy transition and physical damages have for an investment portfolio in the next 10 years?

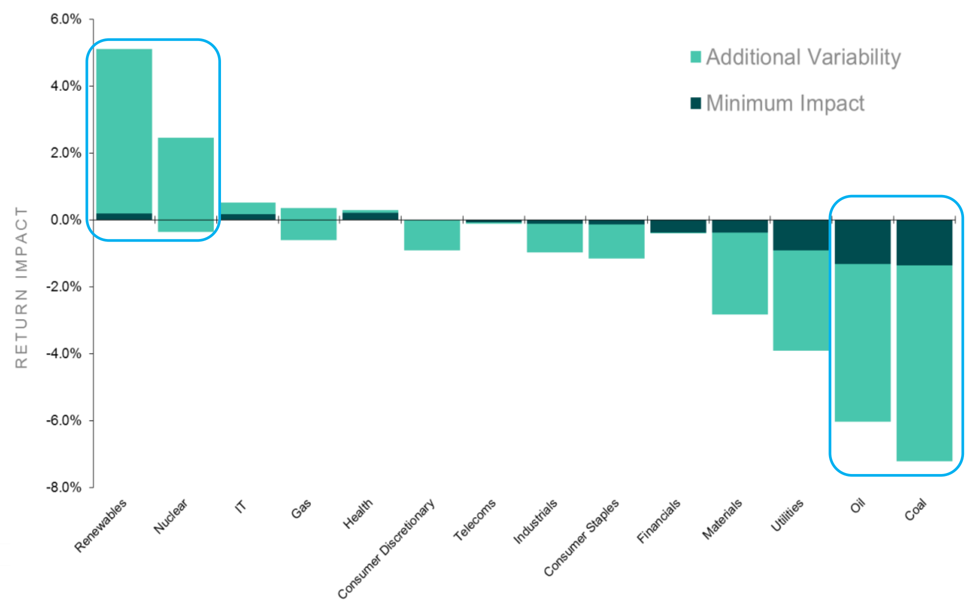
- 2ºC scenario has greatest near-term (i.e. 10 year) impacts
- **Asset classes** and **sectors** matter
- Investors should review exposure to “at risk” sectors e.g. Energy, Utilities

10 YEAR MEDIAN ANNUAL RETURN IMPACTS – ASSET CLASSES



Source: Mercer (2015)

10 YEAR MEDIAN ANNUAL RETURN IMPACTS – SECTORS



WITH RISK COMES OPPORTUNITY
SUSTAINABILITY THEMED INVESTMENTS

RENEWABLE AND ALTERNATIVE ENERGY

Solar, wind, wave, biofuels, and geothermal technology

ENERGY EFFICIENCY

Storage plus power network, industry, building, and transport efficiency

WATER INFRASTRUCTURE AND TECHNOLOGIES

Irrigation, storage, treatment, drainage and flood protection

POLLUTION CONTROL

Pollution control solutions and environmental testing

WASTE MANAGEMENT AND TECHNOLOGIES

Recycling processing, hazardous and general waste management

HEALTH AND SOCIAL SERVICES

Positive impacts for social development and poverty or aging population

SUSTAINABLE CONSUMER GOODS

Meeting shifting consumer demands in sourcing and technology

RESPONSIBLE FINANCE

Supporting role for real economy

MANAGER APPOINTMENTS

ESG AND STEWARDSHIP

MERCER'S ESG RATINGS
ASSESSING INTEGRATION

- Overall rating represents our assessment of the strategy across the four factors, where ESG 1 = highest possible rating and ESG 4 = lowest possible rating

ESG1	ESG2	ESG3	ESG4
Leader in the integration of ESG factors and active ownership into core processes	Less advanced than ESG1 but with **moderate integration of ESG factors** and active ownership	**Limited progress** with ESG integration and active ownership, albeit with **signs of potential improvement**	**Little or no integration of ESG factors** and active ownership into core processes and no strong indication of future change

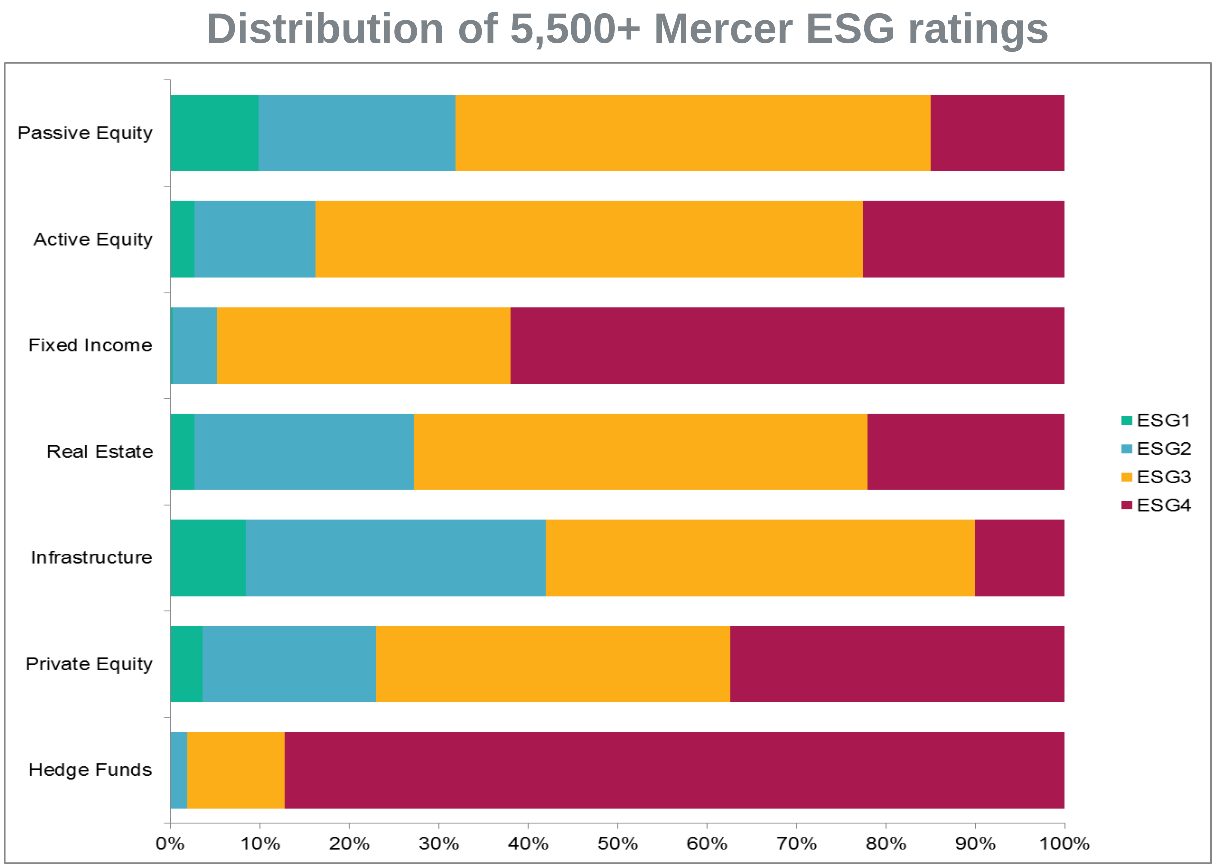
IDEA GENERATION
- Efforts to identify and integrate ESG factors into active fund positions as a source of value added.
- Identification of material ESG factors - skill of team members, data sourcing.

IMPLEMENTATION
- Engagement and proxy voting activities (where applicable) with investee companies.
- Does the investment horizon align with the ability to effectively implement ESG views?

PORTFOLIO CONSTRUCTION
Efforts to integrate ESG driven views into the portfolio's construction.

BUSINESS MANAGEMENT
Firm-level support for ESG integration, engagement activities and transparency.

MERCER ESG RATINGS
BY ASSET CLASS



Over **5,500** strategies rated since **2008**

Less than **15%** achieve an **ESG1** or **ESG2**

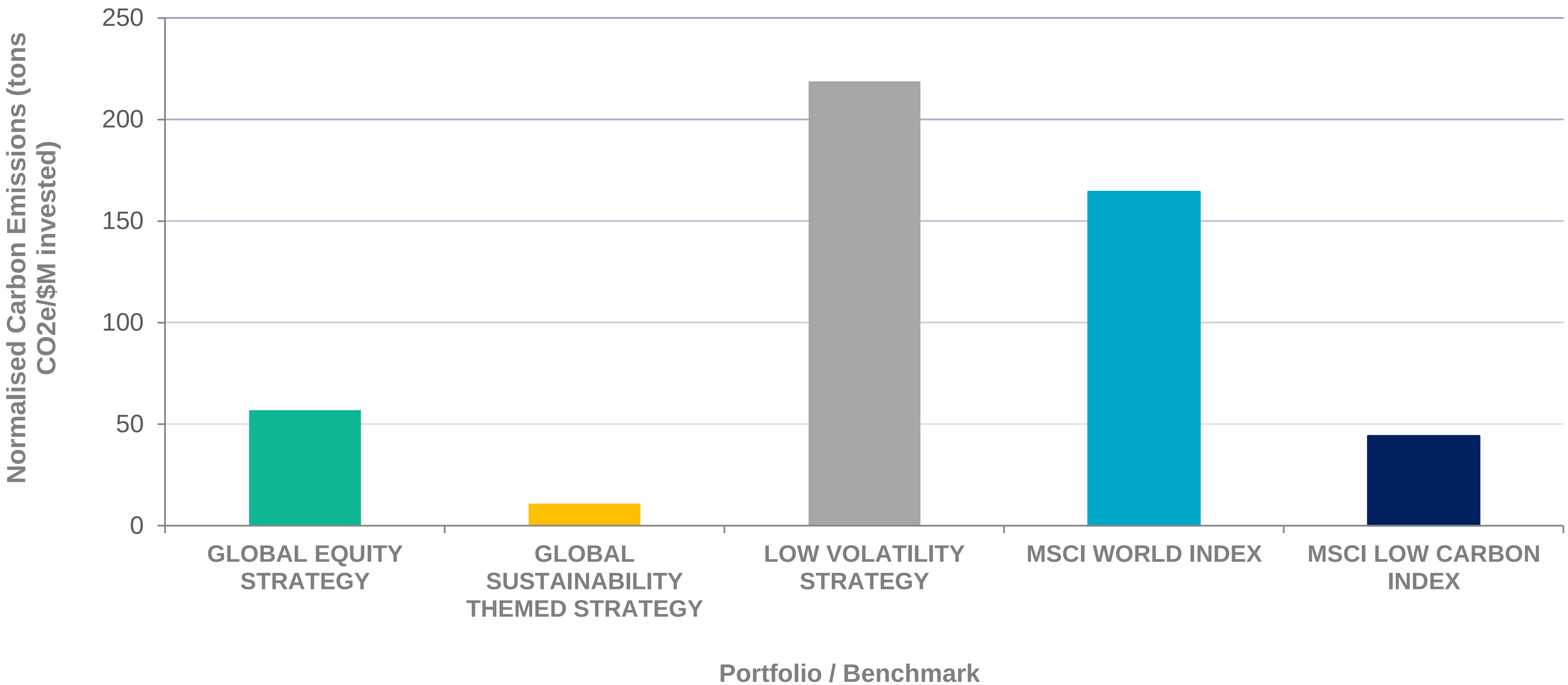
ESG ratings for passive equity introduced in **2014**

APPENDIX

RESPONSIBLE INVESTMENT – AN OVERVIEW
ASSESSING RISK – CARBON FOOTPRINT ANALYSIS

Carbon footprint results of passive and active global equity strategies.

- Global equity
- Sustainability-themed global equity
- MSCI World
- MSCI Low Carbon Target



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RESPONSIBLE INVESTMENT – AN OVERVIEW

UN PRINCIPLES FOR RESPONSIBLE INVESTMENT

INCORPORATE ESG ISSUES
INTO INVESTMENT ANALYSIS AND DECISION-MAKING PROCESSES

- Include ESG issues in investment policy statements
- Support development of ESG related analysis
- Assess the capabilities of internal and external investment managers in incorporating ESG issues

BE ACTIVE OWNERS
AND INCORPORATE ESG ISSUES INTO OUR OWNERSHIP POLICIES AND PRACTICES

- Develop and monitor an active ownership policy, including voting and engagement
- Participate in collaborative engagement initiatives
- Request investment managers to undertake and report on ESG-related engagement

SEEK APPROPRIATE DISCLOSURE
ON ESG ISSUES BY THE ENTITIES IN WHICH WE INVEST

- Encourage and request transparency and reporting on ESG issues
- Support initiatives promoting ESG disclosure

PROMOTE ACCEPTANCE AND IMPLEMENTATION
OF THE PRINCIPLES WITHIN THE INVESTMENT INDUSTRY

- Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly
- Communicate ESG expectations to investment service providers
- Support the development of tools for benchmarking ESG integration

WORK TOGETHER
TO ENHANCE THE EFFECTIVENESS IN IMPLEMENTING THE PRINCIPLES

- Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning
- Develop and support appropriate collaborative initiatives

REPORT ON ACTIVITIES AND PROGRESS
TOWARDS IMPLEMENTING THE PRINCIPLES

- Disclose how ESG issues are integrated within investment practices
- Disclose active ownership activities
- Make use of reporting to raise awareness among a broader group of stakeholders

Source: PRI

RESPONSIBLE INVESTMENT – AN OVERVIEW
SUSTAINABLE DEVELOPMENT GOALS

Could the SDGs be useful as an "impact measurement" tool?

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MAKE
TOMORROW,
TODAY