

# MERCER INVESTMENTS BELIEFS

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



## CLIENT OBJECTIVES

1. All clients are different, and therefore their investment objectives vary.
2. An investor's true risk is not being able to meet its obligations.
3. Robust and high-quality governance processes are critical to success.
4. Improved risk-adjusted returns can necessitate a more complex set of arrangements, but governance must be "fit for purpose."
5. Environmental, social and governance (ESG) considerations can have a material impact on long-term risk and return outcomes.

## RISK MANAGEMENT

1. Asset allocation is the most important decision.
2. Risk and return are related.
3. Genuine diversification is beneficial to investment outcomes.
4. Risk is a multidimensional concept.

## ACTIVE MANAGEMENT

1. Active management is a skill, and, as evidenced by our value-add analysis, our manager research process can improve the likelihood of identifying skillful managers.
2. High-conviction managers have a greater likelihood of delivering meaningful alpha after fees.
3. Even the most skillful managers will experience periods of underperformance.

4. An appropriate benchmark or measure should be agreed upon and used to assess the performance of the manager.
5. Asset management organizations are more likely to be successful if portfolio managers' rewards are aligned with those of their clients and if the culture is investment-led and exhibits a high degree of integrity.
6. A proportion of what has historically been thought of as "alpha" can be considered to be due to exposure to various risk premia.

## DYNAMIC ASSET ALLOCATION (DAA)

1. DAA can add value.
2. Markets are behavioral in nature, and "animal spirits" can move asset prices away from "fair value" for significant periods of time.
3. Many valuation variables in investment markets are mean-reverting in the long term.
4. Implementing medium-term asset allocation views can add value but can also mitigate downside risk in a portfolio.

## OPERATIONAL EFFICIENCY

1. High-quality investment operations and investment implementation are critical to realizing successful investment results.
2. Achieving the highest value for money spent has a direct bearing on investment success.

## SUSTAINABILITY

1. ESG risks can have a material impact on long-term risk and return outcomes.
2. Taking a broader and longer-term perspective on risk is likely to lead to improved risk management and new investment opportunities.
3. Climate change poses a systemic risk.
4. Active ownership helps the realization of long-term shareholder value.

### IMPORTANT NOTES

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