

MERCER SUPER INVESTMENT TRUST ANNUAL REPORT TO INVESTORS

FOR THE FINANCIAL YEAR ENDING 30 JUNE 2019

CONTENTS

| | |
|--|----|
| About this annual report..... | 1 |
| Trustee's investment objective, philosophy and approach | 2 |
| How the Mercer Super Investment Trust investment options performed | 4 |
| Investment managers..... | 5 |
| Largest investment holdings | 7 |
| Mercer Super Investment Trust investment options | 8 |
| Standard risk measure and risk label..... | 10 |
| Who manages the Mercer Super Investment Trust? | 11 |
| Changes to the Mercer Super Investment Trust..... | 12 |
| Fees and costs..... | 13 |
| Operational Risk Financial Requirement (ORFR)..... | 14 |
| Your Privacy | 15 |
| Enquiries, complaints and communication..... | 15 |
| Financial Information..... | 16 |
| Contact us and Directory..... | 18 |

About this annual report

Mercer Superannuation (Australia) Limited (MSAL) ABN 79 004 717 533 Australian Financial Services Licence #235906 is the Trustee of the Mercer Super Investment Trust (ABN 78 433 715 831). MSAL is the issuer of this Annual Report and a wholly owned subsidiary of Mercer (Australia) Pty Ltd (Mercer) ABN 32 005 315 917.

The Mercer Super Investment Trust is a “pooled superannuation trust” as defined under the Superannuation Industry (Supervision) Act 1993 (SIS).

The Mercer Super Investment Trust is referred to as the ‘Mercer Super Investment Trust’ or the ‘Trust’ throughout this Annual Report.

MSAL is referred to as ‘Trustee’, ‘we’ or ‘us’ throughout this Annual Report.

The information contained in this Annual Report includes general product advice which has been prepared without taking into account the personal objectives, financial situation or needs of individual investors. You should consider these matters, read the product disclosure statement under which you made your investment or for any investment you are considering and obtain personal financial advice from a licensed or appropriately authorised, financial adviser before making a decision concerning your super.

The value of investments in the investment options may rise and fall from time to time. Neither the Trustee, Mercer (which is a wholly owned subsidiary of Marsh and McLennan), any entities within Marsh & McLennan Companies Inc., nor any of the investment managers, guarantees the investment performance, earnings or returns of capital invested in any of the investment options described in this Annual Report.

The investment returns shown in this Annual Report do not take into account the unique characteristics that apply to each investor (such as timing of cash flow). As a result, the actual investment returns applying to a particular investor may differ from the investment returns shown. You should also remember that past performance should not be relied upon as an indicator of future performance.

MSAL provides you with this Annual Report for the 2018/2019 financial year (1 July 2018 to 30 June 2019).

Trustee's investment objective, philosophy and approach

The key objective of the Mercer Super Investment Trust is to provide eligible investors with a suite of tax paid multi-manager investment options.

In the following sections, we describe our investment approach in more detail.

Investment philosophy

Our investment approach is centred on our five core investment principles.

- **Sound Risk Management** – successful investing involves appropriate but not excessive levels of risk to achieve its objectives. Our investment options are well-diversified and are based on sound portfolio construction principles.
- **Active Management** – skilled investment managers can add value over time by taking advantage of market efficiencies. We typically have an active, multi-manager approach. However, where appropriate some investment may use a passive approach.
- **Dynamic Asset Allocation** – from time to time we may take asset allocation positions that are different to the strategic asset allocation of the investment option. We may use dynamic positioning through the market cycle to add value or manage risk.
- **Sustainability** – environmental, social and governance (ESG) factors can have an affect on long-term risk and return outcomes. Sustainability considerations are embedded within our investment processes. For more information, see the Sustainability and ESG considerations section below.
- **Operational efficiency** – high-quality investment operations and implementation are critical to achieving optimal investment outcomes.

Investment objectives and strategy

For each investment option, the Trustee has determined an investment strategy which it believes is reasonably likely to enable the option to meet its objectives. The investment strategy includes the selection of a mix of investments that supports the option's objectives as detailed in the section titled "Mercer Super Investment Trust investment options" starting on page 8.

Changes may be made to the investment objective/s and strategy for each investment option, as required, in order to ensure that the objectives continue to have a reasonable probability of being attained. The actual asset allocations may fall outside the stated ranges during certain times such as extreme market conditions, asset class transitions or material transactions.

Direct investors will be kept informed of any significant changes to the features of the investment option/s in which they are invested.

In formulating the preferred portfolio structure, we aim to ensure access to the widest opportunity set; use of innovative asset classes; and exposure to less efficient markets to maximise the 'value add' potential of each investment option. Consideration is also given to the mix of active and passive management, any capitalisation biases and the optimal number of managers to be utilised. Passive allocations are invested to ensure the particular sector exposure is consistent with the benchmark index for that sector. The overall objective is to produce consistent performance throughout market cycles.

Sustainability and ESG considerations

Our sustainable investment approach is based on four key pillars:

- **Environmental, Social and Governance integration** – integrating ESG factors into our investment decision-making processes.
- **Active ownership** – exercising shareholder rights through proxy voting and corporate engagement to drive better investment outcomes
- **Sustainability-themed investments** – investing in assets, industry or sectors that promote and have the potential to benefit from sustainability factors. For example, investing in renewable energy to benefit from the transition to a lower carbon economy.
- **Exclusions** – prohibiting investment in specific products, activities or companies. Currently the Trustee has approved the exclusion of companies that manufacture tobacco products and controversial weapons from all investment options.

For more information, refer to the Trustee's Sustainable Investment Policy available from www.mercer.com.au/msit or by calling the Helpline.

What are the investment options?

The Trust offers a range of investment options, each utilising the multi-manager investment approach and with its own set of investment objectives. The investment options available during the financial year 2018/19 are listed below:

| Mercer Super Investment Trust investment options | |
|--|----------------------------|
| Single Sector | |
| | Mercer Australian Shares |
| Diversified | |
| | Mercer Diversified Shares |
| | Mercer Conservative Growth |
| | Mercer Moderate Growth |
| | Mercer Growth |
| | Mercer High Growth |

For more information about the full range of investment options on offer, please call us on 1300 728 928.

Diversified options

These options offer varying levels of exposure (or potential exposure) to different asset classes to achieve specific investment objectives. In most cases, they provide exposure across the full spectrum of asset classes in Australia and overseas.

Single Sector options

As at 30 June 2019, there is only one single sector option available, namely the Mercer Australian Shares investment option which provides exposure predominantly to one major asset class.

Use of derivatives

Derivatives, such as futures or options, are investment securities whose value is derived from other investments. For example, the value of a share option is linked to the value of the underlying share.

The trustee does not undertake day-to-day management of derivative instruments. Investment managers may utilise derivatives in managing investment portfolios for the Trustee and in managing pooled investment vehicles in which the Trustee invests. Derivatives may be used to assist in the efficient management of the portfolios (e.g. to quickly and effectively adjust asset class exposures and for rebalancing purposes) and to manage risk (e.g. for currency hedging). Losses from derivatives can occur (e.g. due to market movements).

Derivative risk is managed by limiting derivative use in relevant Investment and or Transition Management Agreements with investment managers and by considering the risks and controls set out in the managers' Derivative Risk Statements, where applicable.

Derivatives charge ratio

The derivatives charge ratio is the percentage of the total market value of the assets of the Mercer Super Investment Trust (other than cash) that the Trustee has charged as security for derivatives investments made by the Trustee.

Based on information provided by the custodian and investment managers, the Trustee is unaware of any period in the year where the derivatives charge ratio exceeded 5%.

Liquidity of the Mercer Super Investment Trust

The Trustee's approach to managing liquidity is to ensure, as far as possible, that there will always be sufficient liquidity to meet liabilities when due, under normal and stressed conditions, without incurring unacceptable losses.

Normally, a withdrawal request will be completed within 10 business days. However, the Trust Deed permits the Trustee to take up to 60 days to satisfy a withdrawal request and to suspend withdrawals or extend this period in certain circumstances.

Where there are insufficient funds to meet the request in the Trust's bank account, the Trustee may take appropriate action (e.g. redeem investments) to create sufficient funds. In such cases, the Trustee reserves the right to process the withdrawal on the date on which sufficient funds are available, using the unit price applying at that date, where it would otherwise prejudice the interests of other investors.

How the Mercer Super Investment Trust investment options performed

The following table shows the performance of the Trustee's six investment options after fees and taxes to 30 June 2019 on both a single year and compound return basis.

| Mercer Super Investment Trust investment options | | Annual returns to 30 June | | | | | Compound returns to 30 June 2019 | | | | |
|--|----------------------------|---------------------------|--------|--------|--------|--------|----------------------------------|--------------|--------------|--------------|--------------|
| | | 2019 % | 2018 % | 2017 % | 2016 % | 2015 % | 1 year % pa | 2 years % pa | 3 years % pa | 4 years % pa | 5 years % pa |
| Shares | Mercer Australian Shares | 9.04 | 12.89 | 14.08 | 1.11 | 5.70 | 9.04 | 10.95 | 11.98 | 9.16 | 8.46 |
| | Mercer Diversified Shares | 7.86 | 12.90 | 13.81 | -0.19 | 11.86 | 7.86 | 10.35 | 11.49 | 8.45 | 9.12 |
| Diversified | Mercer Conservative Growth | 5.50 | 4.45 | 4.05 | 2.90 | 6.20 | 5.50 | 4.97 | 4.67 | 4.22 | 4.61 |
| | Mercer Moderate Growth | 6.47 | 6.56 | 6.30 | 2.58 | 7.72 | 6.47 | 6.52 | 6.44 | 5.46 | 5.91 |
| | Mercer Growth | 7.24 | 8.88 | 9.01 | 1.88 | 9.15 | 7.24 | 8.06 | 8.37 | 6.71 | 7.20 |
| | Mercer High Growth | 7.40 | 10.90 | 10.68 | 1.40 | 10.00 | 7.40 | 9.14 | 9.65 | 7.53 | 8.02 |

Single year and compound returns are calculated assuming that \$1 is invested at the start of the relevant period and that no further amounts are invested over the period. They are based on exit prices and allow for the deduction of investment management fees. Compound returns are calculated as the average of annual returns. For example, if returns are 5%, 6% and 7% over three consecutive years, the compound return is 6% per annum, as the same result could be achieved by earning a return of 6% in each of the three years.

When considering investment decisions, please remember that investment returns over a short time frame (one or two years) should not be considered in isolation. Time frames of five years or longer will provide a more accurate indication of the overall long-term performance of an investment option. In addition, different options may have different levels of risk (see the Mercer Super Investment Trust's investment options section on page 8), which may lead to different investment returns for each Option.

Finally, don't forget that the value of investments can go up and down and past performance should not be relied upon as an indicator of future performance. The performance information contained in this Annual Report is up to date at the time of its preparation. In future, you can obtain updated performance information by calling 1300 728 928 or accessing www.mercer.com.au/msit.

We can send you a copy of the updated information, free of charge, on request. Performance is also reported in the monthly and quarterly investment updates.

Investment managers

The majority of the assets of the Mercer Super Investment Trust, are invested in funds managed by MIAL, which in turn have investments with underlying investment managers.

The following table lists the underlying investment managers of the Mercer Super Investment Trust during 1 July 2018 to 30 June 2019 appointed or terminated by MIAL.

| Asset Class | Investment Manager Name | Movement |
|--|--|---------------------------|
| Australian Shares | Ausbil Investment Management | |
| | Avoca | Terminated November 2018 |
| | BlackRock | Terminated November 2018 |
| | CITI Global Markets (CITI is appointed as a transition manager tracking the index) | |
| | Colonial First State | |
| | Fidelity | |
| | Firetrail | Appointed November 2018 |
| | Greencape | |
| | IFM Investors | |
| | JCP | Terminated March 2019 |
| | Nikko Investment Management | Terminated February 2019 |
| | Perennial Value Management | |
| | Plato | |
| | State Street Global Advisors (SSgA) | |
| | Vinva Investment Management | |
| | WaveStone Capital | |
| Overseas Shares | Yarra Capital Management | |
| | Acadian | |
| | AQR Small Cap | |
| | Arrowstreet(Overseas Large Capital Active Shares) | |
| | Arrowstreet(Overseas Small Capital Shares) | |
| | Baillie Gifford(Overseas Large Capital Active Shares) | |
| | Baillie Gifford(Overseas Small Capital Shares) | |
| | BlackRock Investment Management | |
| | Hexavest | Terminated December 2018 |
| | Investec | Terminated September 2018 |
| | Lazard Asset Management | |
| | LGIM | Appointed May 2019 |
| | LSV Asset Management(Overseas Large Capital Active Shares) | |
| | LSV Asset Management(Overseas Small Capital Shares) | |
| | Macquarie Investment Management(Alternative Indexation) | |
| | Macquarie Investment Management | |
| Schroder Investment Management | | |
| State Street Global Advisors (SSgA) | Terminated May 2019 | |
| Wellington(Overseas Large Capital Active Shares) | Appointed December 2018 | |
| William Blair | Appointed September 2018 | |
| Property | AMP Capital Shopping Centre Fund | |
| | Brookfield Investment Management | |
| | Charter Hall Industrial | |
| | Charter Hall Retail | |
| | Dexus Wholesale Property Fund | |
| | Goodman Funds Management | |
| | Investa Property Group | |
| | Investa SPV | |
| | Lend Lease Investment Management (APPF Retail) | |

| Asset Class | Investment Manager Name | Movement |
|--------------------------|--|--------------------------|
| Infrastructure | Macquarie Investment Management | |
| | Principal Global Investors | |
| | Axium Infrastructure | |
| | Colonial First State Global Asset Management(Global Listed Infrastructure) | |
| | Colonial First State Global Asset Management(Global Unlisted Infrastructure) | |
| | IFM Investors | |
| | KKR | |
| | Macquarie Asia Infrastructure Fund | |
| | Macquarie Investment Management | |
| | Macquarie Specialised Asset Management | |
| | Magellan Asset Management | Appointed September 2018 |
| RARE | Terminated September 2018 | |
| Alternatives | Stonepeak Infrastructure Partners | |
| | Aviva Investors | |
| | Invesco Asset Management | |
| | Mercer Select Alternatives Strategies | |
| | New Forests Asset Management | |
| Growth Fixed Interest | Apollo Global Management | |
| | Audax Group | |
| | Beach Point Capital Management | |
| | BlackRock | |
| | Colchester Global Investors | |
| | CQS | |
| | Intermediate Capital Group | |
| | KKR | |
| | Metrics Credit Partners | |
| | Nomura Asset Management | |
| | Oak Hill Advisors | |
| | Wellington Management(Emerging Markets Debt) | Appointed March 2019 |
| | Wellington Management(Global High Yield) | |
| Defensive Fixed Interest | Westbourne Capital | |
| | Ardea Investment Management | |
| | Aviva Investors | |
| | AXA Investment Managers | |
| | Challenger(Australian Sovereign Bonds) | |
| | Challenger(Australian Inflation Plus) | |
| | Challenger(Global Sovereign Bonds) | Terminated April 2019 |
| | Colchester Global Investors | |
| | GAM | Terminated August 2018 |
| | H2O Asset Management(Global Absolute Return Bonds) | Appointed April 2019 |
| | H2O Asset Management(Global Sovereign Bonds) | |
| | Kapstream | Terminated July 2018 |
| | LGIM | Appointed April 2019 |
| | Macquarie Investment Management | |
| | Newton Investment Management | Appointed July 2018 |
| | Payden & Rygel(Global Absolute Return Bonds) | Appointed April 2019 |
| | QIC | Terminated November 2018 |
| Cash | Robeco | |
| | T. Rowe Price | |
| | Wellington Management | |
| | BlackRock | |
| | Challenger | |

Largest investment holdings

As at 30 June 2019, the Mercer Super Investment Trust held 92% of its total assets in the Mercer Growth investment option.

The tables below show the top ten shares held by the diversified options in the Australian and international shares portfolios, as at 30 June 2019.

Top 10 Australian share holdings

| Investment | % of Australian shares portfolio |
|-----------------------------|----------------------------------|
| Commonwealth Bank | 7.8 |
| BHP Group Ltd | 6.6 |
| CSL | 5.4 |
| Westpac Banking Corporation | 4.8 |
| ANZ Banking Group | 4.7 |
| National Australia Bank | 3.8 |
| Woolworths Group Ltd | 2.6 |
| Rio Tinto | 2.5 |
| Transurban Group | 2.4 |
| Telstra Corporation | 2.3 |

Top 10 international share holdings

| Investment | % of International shares portfolio |
|------------------|-------------------------------------|
| Microsoft Corp | 1.3 |
| Alphabet Inc | 1.2 |
| Visa | 1.1 |
| Amazon | 1.1 |
| Roche | 1.1 |
| Mastercard | 1.0 |
| Apple | 0.9 |
| Novartis | 0.8 |
| Merck & Co. Inc. | 0.8 |
| AIA Group Ltd | 0.8 |

How the assets of the Trust are invested

The Trustee invests the Mercer Super Investment Trust's assets as follows:

- In other funds managed by professional investment managers.
- In a range of investments such as securities, derivatives and cash managed via mandates held with professional investment managers.
- By investing the assets in funds managed by Mercer Investments (Australia) Limited (MIAL) including the Mercer Investment Funds (MIFs) and/or the Mercer Multi-Manager Funds (MMFs). The assets may also be invested in funds or investment vehicles managed by other Mercer related entities.

Depending on the nature of the assets they are held either by an independent custodian on behalf of the Trustee or directly by MIAL, on behalf of the Trustee, as the responsible entity for the MIFs or MMFs.

As of 30 June 2019, there was no investment (including a combination of investments through a single or group associated enterprises) that have a combined value of more than 5% of the total assets of the Mercer Super Investment Trust.

Mercer Super Investment Trust investment options

The following section provides the investment objectives, investment approach, level of risk, mix of investments for each of the Mercer Super Investment Trust investment options as at 30 June 2019.

Mercer Australian Shares

Objectives

- Achieve a return (over the medium to longer term) which is competitive with comparable funds that have similar risk characteristics;
- Outperform the notional return of a benchmark portfolio of suitable market indices over periods of one year or greater.

Investment strategy

The investment option invests in Australian shares using a multi-manager approach.

Risk label

High

Mix of investments

Asset allocation at 30 June

| Growth/ Defensive Exposure | 2019 % | 2018 % |
|-------------------------------|-----------|-----------|
| Growth investments | 99.8 | 99.4 |
| Defensive investments | 0.2 | 0.6 |

| Asset Class | | % |
|-----------------------|------|------|
| Australian shares | 99.8 | 99.4 |
| Cash & fixed interest | 0.2 | 0.6 |

Mercer Conservative Growth

Objectives

- To achieve a return (after tax and investment fees) that exceeds CPI increases by at least 1.5% per annum over rolling three year periods.

Investment strategy

The investment option invests in a mix of investments using a multi-manager investment approach.

Risk label

Low to Medium

Mix of investments

Asset allocation at 30 June

| Growth/ Defensive Exposure | 2019 % | 2018 % |
|-------------------------------|-----------|-----------|
| Growth investments | 34.7 | 35.9 |
| Defensive investments | 65.3 | 64.1 |

| Asset Classes | % | % |
|-----------------------------|------|------|
| Australian Shares | 10.5 | 10.4 |
| International Shares | 14.1 | 13.3 |
| Property and Infrastructure | 9.9 | 9.8 |
| Alternative Assets | 2.7 | 3.8 |
| Growth Fixed Interest | 3.4 | 4.0 |
| Fixed Interest | 37.8 | 38.9 |
| Cash | 21.6 | 19.8 |

Mercer Moderate Growth

Objectives

- To achieve a return (after tax and investment fees) that exceeds CPI increases by at least 2.5% per annum over rolling four year periods.

Investment strategy

The investment option invests in a mix of investments using a multi-manager investment approach.

Risk label

Medium

Mix of investments

Asset allocation at 30 June

| Growth/ Defensive Exposure | 2019 % | 2018 % |
|-------------------------------|-----------|-----------|
| Growth investments | 56.3 | 55.1 |
| Defensive investments | 43.7 | 44.9 |

| Asset Classes | % | % |
|-----------------------------|------|------|
| Australian Shares | 18.8 | 19.1 |
| International Shares | 23.3 | 21.4 |
| Property and Infrastructure | 13.0 | 11.7 |
| Alternative Assets | 3.1 | 4.6 |
| Growth Fixed Interest | 5.8 | 4.8 |
| Fixed Interest | 25.3 | 28.3 |
| Cash | 10.7 | 10.1 |

Mercer Growth

Objectives

- To achieve a return (after tax and investment fees) that exceeds CPI increases by at least 3.5% per annum over rolling five year periods.

Investment strategy

The investment option invests in a mix of investments using a multi-manager investment approach.

Risk label

Medium to High

Mix of investments

Asset allocation at 30 June

| Growth/ Defensive Exposure | 2019 % | 2018 % |
|-------------------------------|-----------|-----------|
| Growth investments | 77.1 | 80.6 |
| Defensive investments | 22.9 | 19.4 |

| Asset Classes | % | % |
|-----------------------------|------|------|
| Australian Shares | 28.4 | 28.8 |
| International Shares | 34.8 | 33.6 |
| Property and Infrastructure | 14.4 | 14.1 |
| Alternative Assets | 5.6 | 7.1 |
| Growth Fixed Interest | 4.6 | 4.8 |
| Fixed Interest | 8.7 | 8.6 |
| Cash | 3.5 | 3.0 |

Mercer High Growth

Objectives

- To achieve a return (after tax and investment fees) that exceeds CPI increases by at least 4% per annum over rolling seven year periods.

Investment strategy

The investment option invests in a mix of investments using a multi-manager investment approach.

Risk label

High

Mix of investments

Asset allocation at 30 June

| Growth/ Defensive Exposure | 2019 % | 2018 % |
|-------------------------------|-----------|-----------|
| Growth investments | 87.8 | 91.0 |
| Defensive investments | 12.2 | 9.0 |

| Asset Classes | % | % |
|-----------------------------|------|------|
| Australian Shares | 34.4 | 35.3 |
| International Shares | 38.3 | 38.0 |
| Property and Infrastructure | 16.4 | 14.5 |
| Alternative Assets | 2.8 | 4.6 |
| Growth Fixed Interest | 4.4 | 4.3 |
| Fixed Interest | 1.0 | 2.5 |
| Cash | 2.7 | 0.8 |

Mercer Diversified Shares

Objectives

- To achieve a return (after tax and investment fees) that exceeds CPI increases by at least 4% per annum over rolling ten year periods.

Investment strategy

The investment option invests in Australian and international shares, including small capitalization stocks ('small caps') and emerging markets, using a multi-manager approach.

Risk label

High

Mix of investments

Asset allocation at 30 June

| Growth/ Defensive Exposure | 2019 % | 2018 % |
|-------------------------------|-----------|-----------|
| Growth investments | 99.2 | 99.7 |
| Defensive investments | 0.8 | 0.3 |

| Asset Classes | % | % |
|----------------------|------|------|
| Australian Shares | 44.8 | 45.7 |
| International Shares | 54.4 | 54.0 |
| Cash | 0.8 | 0.3 |

Standard risk measure and risk label

The standard risk measure is a standardised investment industry guide to assist investors to compare investment options that are expected to deliver a number of negative annual returns over any 20 year period. The standard risk measure consists of seven risk labels, shown in the table on the right.

The risk labels are indicative only. The risk label for each investment option is determined by us on the basis of financial market forecasts and should not be considered to be a guarantee or forecast of the number or frequency of negative annual returns an investment option may experience. The risk labels may change from time to time.

| Risk label | Estimated number of negative returns over any 20 year period |
|----------------|--|
| Very high | 6 or more |
| High | Between 4 and 6 |
| Medium to high | Between 3 and 4 |
| Medium | Between 2 and 3 |
| Low to medium | Between 1 and 2 |
| Low | Between 0.5 and 1 |
| Very low | Less than 0.5 |

Who manages the Mercer Super Investment Trust?

The Trustee of the Mercer Super Investment Trust is Mercer Superannuation (Australia) Limited (MSAL) ABN 79 004 717 533 Australian Financial Services Licence #235906, which operates the Mercer Super Investment Trust in accordance with the governing documents and applicable law.

The current directors of MSAL are as follows:



Jan Swinhoe
Chairman
Non-executive director



Brian Bengier
Non-executive director



Sue O'Connor
Non-executive director



Pauline Vamos
Non-executive director



Darren Wickham
Non-executive director



Ben Walsh
Executive director

Service providers to the Mercer Super Investment Trust

The Trustee appoints service providers to assist it in running the Mercer Super Investment Trust.

The main service providers to the Trustee are:

- The Northern Trust Company, the custodian which provides a range of services including custody and trust administration services (such as unit pricing and unit registry services).
- Mercer Investments (Australia) Limited (ABN 66 008 612 397) to provide distribution and product management services as well as strategic advice in relation to the structure and management of the investment portfolios in the Mercer Super Investment Trust.
- Mercer Outsourcing (Australia) Pty Ltd which provides various fund accounting, tax and income distribution related functions.

Other information

The Trustee has not incurred any penalties under section 38A of SIS during the year ended 30 June 2019.

Changes to the Mercer Super Investment Trust

Governing Rules

There were no amendments to the governing rules in the period from 1 July 2018 to 30 June 2019.

Fees and costs

It is important to understand how fees and costs apply in the Mercer Super Investment Trust. The fees and costs may be deducted from your investment account balance, from the returns on your investment or from the Trust assets as a whole.

Investment management fee

The Trustee may engage one or more investment managers to invest and manage the assets of an investment option. In doing so, the Trustee may negotiate a fee schedule with an investment manager under which the fee payable by the Trustee to the investment manager increases or decreases based on the overall amount of assets, managed by the investment manager for the underlying funds or direct investments. The investment management fee payable in respect of an investment option will not vary for any such increase or decrease in the fees payable to any investment manager, with the exception of any performance fee element as detailed under Performance fees.

Where an investment option invests in another Mercer fund or a fund managed by another investment manager, the investment management fee includes the investment management fee for the underlying fund/s.

Administration fee

The Trustee has the right to be reimbursed from the assets of the Trust for all administrative costs it incurs in the proper performance of its duties in administering the Trust. The Trustee deducts an amount for expenses out of the assets of each investment option, which is called an administration fee.

The administration fee for each investment option is passed on to investors by way of an adjustment to the unit price, which reduces the investment performance of the relevant investment option.

The administration fee varies from year to year reflecting the actual expenses incurred.

The actual administration fee for the financial year 1 July 2018 – 30 June 2019 is listed in Total fees and charges for the 12 months to 30 June 2019 table on page 14.

Indirect cost ratio

Each investment option has an Indirect Cost Ratio (ICR) that is predominantly made up of any indirect costs incurred by the underlying investment vehicles into which the Trust invests, including but not limited to:

- Performance related fees;
- Any expenses charged by any underlying investment vehicle or manager of those vehicles;
- The net explicit transactional and operational costs (see 'Transactional and operational costs' below), and
- Over the Counter Derivatives costs (use for hedging and/or non-hedging purposes).

The indirect cost for each investment option varies from year to year reflecting the actual costs incurred, which may be affected by changes to one or more of the following:

- Assets under management;
- Amounts payable to the service providers to the Trustee, including (but not limited to) investment managers, specialist legal and tax advisors and the custodian;
- Performance of individual investment managers, where performance related fee arrangements exist.

The ICR is generally calculated and deducted daily (from the underlying investment vehicles or the relevant investment options, as applicable) when unit prices are determined, and is therefore reflected in the value of your account balance.

Performance related fees

The Trustee does not charge a performance fee, however where an underlying investment vehicle or manager is used to invest the assets of an investment option they may charge a performance related fee. These fees are typically reflected in the unit price of the underlying investment vehicle and accordingly form part of the ICR of the relevant investment option.

Underlying investment vehicles or managers that charge a performance related fee will generally only apply those fees when performance is greater than an agreed target. Accordingly, performance related fees will generally only arise when higher returns, relative to a specified target for a particular manager, are achieved.

Where an investment option invests in another Mercer fund or a fund managed by another investment manager, the performance fee estimate in the Total fees and charges table on page 14 includes any performance fee estimate for the underlying fund/s.

Transactional and operational costs

Transactional and operational costs are the costs associated with trading to manage the investment strategy for each investment option, as well as the buy and sell spreads that may be applied at the time of an investor making an application (buy spread) and withdrawal (sell spread) to cover the costs of these transactions. Such costs are borne by investors and some components of the transactional and operational costs are additional to the fees and costs disclosed in the Fees and costs table below. No part of any transactional and operational cost is paid to the Trustee or any investment manager as a fee.

Ongoing transactional and operational costs include:

- Explicit costs, such as brokerage, settlement costs (including custody costs), clearing costs, stamp duty on an investment transaction and property management costs (where applicable).
- Implicit costs, which are costs that include an assessment of the difference between the price paid for acquiring an asset and the price that would be payable if it were disposed of (bid/ask price assessment) less any costs recouped by the underlying investment vehicles.

The net transactional and operational costs incurred for each investment option are equal to the total transactional and operational costs less any costs recouped from the application of the buy/sell spread (paid by transacting investors). See Buy/Sell spreads for details of which investment options have buy/sell spreads applied to them.

Buy/sell spreads

For each investment option, the entry price for the issue of units is different from the exit price for the redemption of those units. The difference between the entry and exit price is commonly called a buy/sell spread. The buy and sell spreads are designed to ensure, to the extent possible, that any transaction costs incurred as a result of an investor applying to or withdrawing from an investment option are borne by that investor and not by other existing investors.

Buy spread is applied at the time the contribution or rollover is paid into the Trust (or a switch is made within the Trust). Sell spread is applied when you make a withdrawal from the Trust.

The estimated buy and sell spreads may vary from time to time and we may waive or reduce the buy/sell spread at our discretion. No part of the buy/sell spread is paid to the Trustee or an investment manager. The buy/sell spread is not subject to GST.

Borrowing costs

Borrowing costs means costs relating to a credit facilities used by the underlying managers as part of the overall investment strategy. The borrowing costs (if any) for each of the investment options for the year ending 30 June 2019 are set out in the table below.

Borrowing costs

| Investment option | Borrowing Costs (% per annum of your account balance) |
|----------------------------|---|
| Mercer Australian Shares | 0.00 |
| Mercer Diversified Shares | 0.00 |
| Mercer High Growth | 0.05 |
| Mercer Growth | 0.07 |
| Mercer Moderate Growth | 0.04 |
| Mercer Conservative Growth | 0.03 |

Borrowing costs are an additional cost to you and are typically reflected in the unit price of the underlying investment vehicle. The amounts shown are the estimated borrowing costs for the year ending 30 June 2019 and are based on the actual information available and/or reasonable estimates for that period. Borrowing costs may vary from year to year.

Additional fees and costs

Bank charges in relation to your investment may be payable by you. These charges may include telegraphic transfer, bank cheque and dishonour fees. Details of the fees and costs in dollar amounts that were charged to your individual investment are set out in the periodic statement provided to you in the year ended 30 June 2019.

Operational Risk Financial Requirement (ORFR)

In response to the Government's Stronger Super reforms, the Trustee has set aside capital to meet an Operational Risk Financial Requirement (ORFR) for the Trust. The Government introduced this requirement so that pooled superannuation trusts have access to resources to compensate investors, where relevant, for any operational incident which adversely impacts their entitlements.

The ORFR for the Mercer Super Investment Trust is currently being met by Trustee capital.

The Trustee will monitor the operational risks and the appropriateness of the ORFR level on an ongoing basis.

Total fees and charges for the 12 months to 30 June 2019

The table below shows the investment fee, the asset based administration fee, the Indirect Cost Ratio and the Buy/Sell Spread for each investment option in the Trust.

| Investment option | Investment fee (% per annum) | Administration fee (% per annum) | ICR (% per annum of your account balance) for year to 30 June 2019 | Buy Spread (%) | Sell Spread (%) |
|---|---------------------------------|--|---|----------------------|-----------------------|
| Single sector Mercer Australian Shares | 0.90 | 0.10 | 0.13 | 0.28 | 0.28 |
| Diversified Mercer Diversified Shares | 0.95 | 0.04 | 0.13 | 0.23 | 0.21 |
| Mercer High Growth | 1.00 | 0.07 | 0.28 | 0.18 | 0.18 |
| Mercer Growth | 0.93 | 0.04 | 0.30 | 0.17 | 0.16 |
| Mercer Moderate Growth | 0.87 | 0.10 | 0.24 | 0.14 | 0.14 |
| Mercer Conservative Growth | 0.80 | 0.08 | 0.20 | 0.10 | 0.10 |

* The investment management fees that apply to you may be lower than those referred to above where a reduced fee has been negotiated direct with the Trustee.

Your Privacy

For information on privacy and the handling of your personal information please refer to the Mercer Australia Privacy Policy available at mercer.com.au or contact us on 1300 728 928.

Enquiries, complaints and communication

The following section is applicable to direct investors only. Indirect investors accessing the Mercer Super Investment Trust through an Investor Directed Portfolio Service ('IPDS') or IDPS-like schemes ('Service') should contact your Service Provider if you have any enquires or complaints.

Enquiries and complaints procedures

The Trustee has a process in place for dealing with any enquiries or complaints you may have. If you have any enquiries or complaints you can write to:

Mercer Superannuation (Australia) Limited
GPO Box 9946
Melbourne
VIC 3001
Or call on 1300 728 928.

We will acknowledge complaints within 14 days and will communicate our decision to you within 45 days.

The Trustee always seeks to resolve any complaints to the satisfaction of all concerned and in the best interests of all the investors of the Trust.

Further information available on request

Investors are entitled to inspect the governing rules and copies of certain accounts, annual reports and returns. Certain other information is also available on request. You can arrange to see these documents during business hours free of charge by lodging a written request with the Trustee.

Keeping you up-to-date

Direct investors in the Mercer Super Investment Trust will receive:

- A transaction advice confirming every investment, withdrawal or investment strategy alteration to your existing investments;
- A monthly advice confirming the value of your investments;
- A concise monthly investment report (available via www.mercer.com.au/msit);
- An annual statement; and
- This annual report which provides statutory and other useful information.

Financial Information

This is abridged financial information for the Mercer Super Investment Trust for the year ended 30 June 2019. The full audited accounts and auditors report are available and you can request them by contacting us.

Statement of net assets as at 30 June 2019

| | 2019 | 2019 | 2018 |
|---|------|--------|--------|
| | % | \$'000 | \$'000 |
| Assets | | | |
| Cash and equivalents | 0% | 1,233 | 3,194 |
| Receivables | | | |
| Unsettled sales | 0% | | |
| Accrued income | 2% | 13,032 | 13,777 |
| Unsettled applications | 0% | 8 | |
| GST Claimable | 0% | 58 | 57 |
| Other receivables | 0% | | |
| Unlisted units in managed investment schemes - Unrelated | | | |
| Lend Lease Core Plus Fund active & passive units | 0% | | |
| Unlisted units in managed investment schemes – Related | | | |
| AP#1 Trust | 7% | 42,683 | 41,832 |
| Mercer DG (ex p) Trust | 9% | 52,985 | 54,210 |
| Mercer DS Trust | 0% | - | - |
| Mercer OSS Trust | 0% | 206 | 256 |
| OSSH#1 Trust | 5% | 28,177 | 23,498 |
| Mercer Investment Funds Australian Shares Plus Trust | 8% | 52,106 | 61,450 |
| Mercer Passive Global Listed Property Fund | 0% | 571 | 394 |
| Mercer Passive Emerging Markets Share Fund | 1% | 8,298 | 17,962 |
| Mercer Investment Funds Overseas Shares Trust | 1% | 4,024 | 3,924 |
| Mercer Tailored #1 Trust | 6% | 34,704 | 32,137 |
| TAL#2 Trust | 1% | 3,640 | 6,792 |
| Mercer Australian Inflation Plus Fund | 2% | 10,464 | 10,366 |
| Mercer Australian Sovereign Bond Fund | 2% | 10,537 | 11,127 |
| Mercer Cash Fund | 3% | 18,348 | 12,710 |
| Mercer Global Sovereign Bond Fund | 1% | 4,565 | 4,219 |
| Mercer Global Credit Fund | 0% | 358 | 413 |
| Mercer Australian Small Companies Fund | 3% | 17,761 | 16,960 |
| Mercer Emerging Markets Debt Fund | 3% | 17,004 | 4,923 |
| Mercer Passive Global Listed Infrastructure Fund | 0% | 381 | 389 |
| Mercer Global Absolute Return Bond Fund | 4% | 22,540 | 20,402 |
| Mercer Passive Australian Shares Fund | 10% | 63,596 | 42,925 |
| Mercer Global Enhanced Low Volatility Shares Fund | 6% | 36,840 | 20,326 |
| Mercer Passive International Shares Fund | 2% | 14,718 | 15,615 |
| Mercer Diversified Alternatives Fund | 3% | 21,559 | 20,682 |
| Mercer Global High Yield Bond Fund | 0% | 459 | 5,322 |
| Mercer Global Opportunistic Credit Fund | 0% | - | 8,082 |

| | 2019 | 2019 | 2018 |
|--|------|----------------|----------------|
| | % | \$'000 | \$'000 |
| Assets | | | |
| Mercer Conservative Growth Overlay Fund | 0% | 38 | 37 |
| Mercer Emerging Markets Shares Fund | 3% | 15,592 | 13,056 |
| Mercer Moderate Growth Overlay Fund | 0% | 88 | 78 |
| Mercer Growth Overlay Fund | 2% | 9,690 | 8,371 |
| Mercer High Growth Overlay Fund | 0% | 322 | 243 |
| Mercer Global Private Debt Fund | 1% | 8,847 | 7,548 |
| Mercer Diversified Growth Fund | 2% | 10,482 | 10,325 |
| Mercer Risk Management Overlay Fund | 4% | 25,790 | 25,067 |
| Mercer Passive Hedged International Shares | 6% | 34,821 | 30,161 |
| Mercer Global Small Companies Shares Fund | 3% | 19,052 | 16,661 |
| Current tax asset | 0% | 3,316 | 1,583 |
| Total Assets | 100% | 608,893 | 567,074 |

| | 2019 | 2018 |
|--|----------------|----------------|
| | \$'000 | \$'000 |
| Liabilities | | |
| Payables | 456 | 428 |
| Current Tax Liabilities | | |
| Deferred Tax Liabilities | 7,294 | 5,262 |
| Total Liabilities | 7,750 | 5,690 |
| Net assets | 601,143 | 561,384 |
| Total equity attributable to unit holders | 601,143 | 561,384 |

Statement of financial performance for the year ended 30 June 2019

| | 2019 | 2018 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| Investment Income | | |
| Interest Income | 21 | 26 |
| Trust distributions | 24,381 | 23,471 |
| Net gains/(losses) on financial instruments held at fair value through profit or loss | 21,064 | 30,305 |
| Other income | | |
| Total investment income/(loss) | 45,466 | 53,802 |
| Expenses | | |
| Trustee Fees | 2,899 | 3,044 |
| Other operating expenses | 332 | 231 |
| Total expenses | 3,231 | 3,275 |
| Profit/(loss) before tax expense/(income) | 42,235 | 50,527 |
| Tax expense/(income) | 858 | 3,436 |
| Profit/(loss) for the reporting period after tax expense/(income) attributable to unitholders | 41,377 | 47,091 |

Contact us

If you need help call us on 1300 728 928 or you can visit our website at www.mercer.com.au/msit.

Directory

Trustee

Mercer Superannuation (Australia) Limited

Registered Office

Collins Square
Level 15, 727 Collins Street
Docklands VIC 3008

Auditor to the Trustee

Deloitte Touche Tohmatsu
550 Bourke Street
Melbourne Victoria 3000

Auditor to the Mercer Super Investment Trust

PricewaterhouseCoopers
2 Riverside Quay
Southbank, Victoria 3006

Fund Manager

Mercer Investments (Australia) Limited
Collins Square
Level 15, 727 Collins Street
Docklands VIC 3008

Custodian

The Northern Trust Company
GPO Box 804
Melbourne, Victoria 3000

Any enquiries or complaints should be directed to

The Enquiries and Complaints Officer
Mercer Super Investment Trust
GPO Box 9946
Melbourne VIC 3001