Mercer is a registered business name of Mercer Investments (HK) Ltd. Mercer is a wholly owned subsidiary of Marsh & McLennan Companies, which lists its stock (ticker symbol: MMC) on the New York and Chicago stock exchanges with a market capitalisation of more than US$30.8 billion as at May 2015.

In Australia, Mercer commenced its operations in 1971, with investment consulting a major focus of the business. Since then Mercer's investment business has evolved and for over 40 years we have been successfully providing a full range of investment services, including responsible investment, research and related analytical tools. It has also offered an implemented consulting service since 1995. The local investment team is based in Melbourne and Sydney and comprises about 110 staff – 65 advice and research, 21 portfolio management and operational due diligence, 4 product development and 21 support staff. Globally, Mercer Investments has over 1,300 staff.

Worldwide, Mercer advises on assets of over US$9.2 trillion, including about $240 billion in Australia for about 55 institutional clients (with a retainer arrangement). It also manages assets of about US$115 billion, including about $24 billion in Australia.

Mercer Response to Consultation on Principles of Responsible Ownership

Mercer welcomes the introduction of a set of Principles of Responsible Ownership as outlined in this Consultation Paper issued by the Hong Kong Securities and Futures Commission. As a signatory to the UN Principles for Responsible Investment, Mercer sees great value in establishing clear guidelines and frameworks for responsible investment and active ownership. Mercer's dedicated global team of Responsible Investment specialists works with asset owners around the world to address investment risks and opportunities arising from environmental, social and governance (ESG) factors and to safeguard the long-term sustainability of their investments. In other markets such as the UK, Japan and Australia, Mercer routinely works with asset owners to comply with Principles similar to those proposed by the SFC.

With respect to the seven draft principles outlined in this consultation, Mercer is supportive of all seven principles based on a "comply or explain" model. As an investment advisor, we know many asset owners and investment managers will have different investment approaches that lend themselves more or less easily to engagement. For example, quantitative and/or passive investment strategies typically do not include regular meetings with company management where such engagement would normally arise. Nevertheless, as outlined in this consultation paper, all shareholders have access to voting rights which they can use as part of a responsible ownership approach that may contribute to healthier and more stable capital markets. For investors in other asset classes where no voting rights exist, their ability to engage is expected to be more limited.

Mercer supports the application of these Principles to institutional investors, with a higher compliance burden falling on Hong Kong-regulated institutional investors and a secondary focus on foreign investors. We question the effectiveness of such an approach focusing on retail investors since, beyond voting their shares, many retail investors will not have sufficient access or opportunity to engage in line with the principles. Focusing first on local institutional investors is both pragmatic given SFC's regulatory oversight role, and also consistent with the practices in place in the UK, Australia and Japan.

Mercer understands the intent of Principle 3 – Policies for escalation – but is somewhat concerned that this policy may be overly prescriptive. Engagement can be very resource intensive and investors may determine that the cost of an escalation process outweighs the benefits to be gained. Nevertheless, the "comply or explain" methodology proposed should enable investors to articulate this challenge in their policies and reporting.

One aspect of Responsible Ownership not covered by your consultation but important for meeting SFC's policy objectives is the willingness of Hong Kong-listed companies to engage with their investors. In order for this policy to be effective, listed companies must be willing to engage constructively with their institutional investors, providing accurate and timely information and responding to questions raised by investors. Not all listed companies may be willing to participate in such engagement given their size, investor relations function and understanding of the value of investor engagement. This is particularly true given the growth of mainland Chinese companies issuing H Shares in Hong Kong, where Chinese companies have limited history in investor engagement. We would encourage SFC to work in partnership with the Hong Kong Stock Exchange and other bodies representing listed companies to ensure cooperation and understanding between companies and investors on matters of responsible ownership and sustainable investing.