



DIFC Employees Workplace Savings (DEWS) Plan

DEWS Low Growth Fund – Mercer USD Cash Fund

**Enhanced portfolio with a new
manager appointment**

October 2020

welcome to brighter

Introduction

In light of the very low yields offered by cash at present, Mercer Financial Services Middle East Limited (Mercer) as investment advisors to the Master Trustee of the DEWS Plan are pleased to inform you of changes that provide an expected enhancement to the DEWS Low Growth Fund (Mercer USD Cash Fund).

This document details the changes that Mercer Global Investments Europe Limited (MGIE) (as investment manager to the DEWS Plan's core risk-profiled funds) are undertaking in the Mercer USD Cash Fund.

In line with regulatory-guided market practice for cash funds, the Mercer USD Cash Fund will be migrating from an existing rules-based approach to a fully active approach. The portfolio will comprise of money market instruments including very short-dated, high-quality government bonds. This is expected to improve the portfolio's yield¹ and liquidity² profile, increase diversification and reduce counterparty risk. MGIE have also decided to use this change in structure as an opportunity to replace the incumbent investment manager (ILIM) with UBS within the cash portfolio.

You do not need to take any action as a result of these changes. Given the broader opportunity set and greater reliance on skill within the revised strategy, we expect a small fee increase of 0.025% per annum. However, this is likely to be more than offset by the expected increase in yield and therefore the net of fee returns are expected to be higher (estimated 0.05% - 0.10% increase in net of fees return).

Rationale for Changes

The current approach sees the current sub-investment manager (ILIM) use only certain cash deposits and certificates of deposit within prescribed risk limits. In the context of an evolving regulatory environment and a heightened focus on liquidity, a more actively managed solution will allow the deployment of an expanded portfolio management toolkit – this greater flexibility in terms of instrument selection will help create an enhanced portfolio, without compromising on liquidity.

MGIE also believe that appointing a manager with a greater experience in managing portfolios for UCITS³ cash funds positions them well to anticipate and respond to any further changes in the regulatory environment.

Breadth of universe

- Under the new portfolio structure, UBS will be able to exercise greater judgement in terms of benefitting from market opportunities whilst also avoiding any structural return drags.

¹ Yield refers to the return on an investment, expressed as a percentage.

² Liquidity refers to the ability to buy or sell an asset without causing a significant impact on the asset's price.

³ Undertakings for the Collective Investment in Transferable Securities (UCITS) refers to a regulatory framework that allows for collective investment schemes to operate freely throughout the European Union.

- UBS is expected to make efficient use of floating rate notes⁴ and commercial paper⁵ and this underpins MGIE's expectation that the fund can outperform its cash benchmark.

Credit risk

- The ability to tap into a wide range of eligible money market fund instruments such as commercial paper, floating rate notes and high quality, short-dated government bonds, will see the portfolio become more diversified and bear less concentrated counterparty risk – the maximum exposure to any one issuer will also reduce from 8% to 6% as part of this change.

Higher net yield

- Given the broader opportunity set and greater reliance on skill within the revised portfolios, the fees for UBS will be higher. However, the small fee increase is more than offset by the expected increase in yield and therefore the net of fee returns are expected to be higher.

Overview of UBS

- UBS have significant experience in managing cash portfolios, with money market funds being a core part of their investment business (UBS manage in excess of USD 85 billion compared to USD 4 billion managed by ILIM).
- UBS are highly rated by Mercer for their cash portfolio management and include some, albeit limited, Environmental, Social and Governance (ESG) considerations as part of their cash fund approach.

Impacts of Restructuring

- The transaction costs associated with this manager change will be negligible as the current cash deposits will be allowed to mature before the new strategy is implemented.
- There will be no change to the fund documents as this manager switch represents an evolution of the current strategy rather than a fundamental change to the existing mandate.

Anticipated Timeline

- The transition is expected to take place during October 2020.

A Final Word on the Benchmark

- There will be no change to the benchmark (FTSE USD 1 Month Euro Deposit Index) and the goal of outperforming the 'cash' market is therefore unchanged.

⁴ Floating rate notes are instruments with a variable coupon rate, that are periodically reset based on some predetermined benchmark interest rate.

⁵ Unsecured short-term debt issued by banks, corporations and other borrowers.

Important Notices

Mercer USD Cash Fund is a sub fund of MGI Funds PLC, an Irish domiciled UCITS umbrella fund authorised and regulated by the Central Bank of Ireland. All documentation related to the fund, including Prospectuses and Key Investor Information Documents, where relevant, and information on costs and charges, can be found on:
<https://investment-solutions.mercer.com/#generalfundinformation>.

Funds are only available for sale in jurisdictions where they have been approved for distribution. The Sub-Fund is authorised under the Money Market Fund Regulation as a VNAV Money Market Fund and is classified as a Standard Money Market Fund

This document has been created by Mercer Financial Services Middle East Limited at the request and under the supervision of Equiom Isle of Man Ltd, the Master Trustee and Operator of the DIFC Employee Workplace Savings plan ('DEWS' or 'the Plan'). The information contained herein supports the DEWS Member's Guide and the DEWS Investment Guide, providing information on the various Investment Options available within the Plan. It should only be read by Members of the Plan.

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