



A Manulife Investment Management Company

# In Our *Nature*

2020 Report on Sustainability  
and Responsible Investing in Timber  
and Agriculture



Our mission:

## To create value through the sustainable management of natural resource investments

Welcome to our 2020 Report on Sustainability and Responsible Investing (SRI). We're excited to share with you some of what we've been up to over the past year. We firmly believe in the value of impact measurement, and we try to quantify our impacts where possible and meaningful. We also believe that not everything that matters can be measured, and that one of the best ways we can demonstrate our impact is to share stories about what we've done. Whether you're most interested in statistics or stories, we hope that this report demonstrates our commitment to continuous improvement in our SRI efforts.

— The Executive team of Hancock Natural Resource Group (HNRG),  
a Manulife Investment Management Company

**Brian Kernohan**  
Chief Sustainability Officer

**Sydney McConathy**  
Head of Global Business Development

**Patricia Mundy**  
General Counsel

**Tom Sarno**  
Global Head of Timberland Investments, CIO

**Wilfred Steiner**  
Chief Financial Officer

**Oliver Williams IV, CFA**  
Global Head of Agricultural Investments, CIO

Front/back cover:

**HNRG timberlands** in the mountains of Washington State, USA.  
Photo credit: Stephanie Hunt

Left/opposite:

**Bees enjoy clover** in our California orchards. This cover crop improves both soil health and pollinator habitat.  
Photo credit: Samantha Lopes

# A message from our Chief Sustainability Officer



**Brian Kernohan**  
Chief Sustainability Officer

The theme of our 2020 report on Sustainability and Responsible Investing is **In Our Nature**.

**In Our Nature** says something about our company. The challenges we faced last year because of the COVID-19 pandemic brought out the best in us, and we demonstrated our resilience through our care for one another while continuing to manage our clients' investments sustainably. Our operations teams left no stone unturned to ensure safe and healthy work environments for our colleagues and contractors, who both continued their roles as essential workers, providing the food and fiber our communities have relied on, even during the pandemic. We also provided employees with a wealth of resources to encourage health and well-being, including additional paid leave, a full week of volunteer time, and an additional five personal days to use in 2021 for rest and recovery.

Yet the pandemic wasn't the only challenge we faced—Hurricane Laura also impacted many of our employees. As with our pandemic response, the care and concern they expressed for one another and their communities during this additional crisis is a testament to their character and to our company's values. It was more clear than ever that in times like these, our people are our most essential asset. We have been extending this human-centered approach beyond our company as well, and this year completed substantive work on a vendor code of conduct, a responsible contracting statement, and an approach to human rights.

In addition to what it says about us, **In Our Nature** also says something about our surroundings. We are both in nature and a part of it. We depend on it and it depends on us. Of the many features of forests and farms that make them unique in the

investment landscape, perhaps the most significant is that they are alive. More than any other asset class, they demonstrate that economic, environmental, and social well-being all depend on the same natural systems: the interdependence of plants, pollinators, precipitation, predators, and even people. Managing these highly integrated ecosystems is a great privilege—and a great opportunity.

The ecosystems we manage provide crucial services, from food and fiber to recreation, from climate stability to pollination and water filtration. All the investments we manage seek to make positive impacts—whether it's restoring salmon habitat or replenishing depleted groundwater aquifers, sequestering carbon or boosting soil health—and this has never been a higher priority for our investors. Some impact investors seek to maximize positive impacts subject to earning a specified return, and this is the driving force behind our upcoming impact-first investment strategy. We're also working to make a positive impact beyond our company, which is why we're part of the Informal Working Group supporting the development and launch of the [TNFD \(Taskforce on Nature-related Financial Disclosures\)](#) to include nature-related risks, dependencies, and opportunities in financial disclosures.

If you know us, you've heard us say it time and time again: good stewardship is good business. Stewardship means taking care of what has been entrusted to us. While 2020 was challenging in many ways, we took care of our colleagues, our communities, and our clients' investments in nature—and we're looking forward to offering our investors even greater opportunities to take care of nature.

A handwritten signature in black ink that reads "Brian Kernohan".

# Messages from our Global Heads of Investment



## Tom Sarno

Global Head of Timberland Investments, CIO

Sustainable forestry benefited significantly in 2020, as the pandemic challenges we all faced stimulated demand for forest products, from pulp and paper used in hygiene and personal protective equipment, to sawtimber used for housing and renovations. And what was true for the industry was true for our timberland investment business, with our foresters and contractors working especially hard to meet this increased demand.

[But the biggest story for sustainable forestry in 2020 belongs to the role of forests as natural climate solutions in decarbonization.](#)

Corporate and investor net-zero commitments grew exponentially last year, as did awareness of the critical role forests play in removing carbon dioxide from the atmosphere. Our forests already remove more CO<sub>2</sub> than our operations emit, and HNRG is laser-focused on managing our forests for positive climate impact. Over the past five years, they have removed an average of 1.9 million tons of CO<sub>2</sub> from the atmosphere annually. We are focused on managing our forests for climate-positive and nature-positive impact, and we're scaling up to be able to offer our investors opportunities for even greater impact in the future.

Despite the challenges we all faced in 2020, we finished the year with a positive outlook, and we're even more confident of what's ahead in 2021—we are just getting started.



## Oliver Williams

Global Head of Agricultural Investments, CIO

2020 was a pivotal year for sustainability in our agriculture investment platform. [After partnering with agricultural investment sector colleagues and competitors to establish Leading Harvest in 2019](#), last year our entire diversified 70,000-acre directly operated U.S. agriculture platform became the first farmland certified under the new standard. Leading Harvest is a game-changer—a third-party performance-based sustainability standard with global ambitions, designed to optimize sustainable farmland management as part of a comprehensive assurance program for all types of farms. It's a privilege to be in on the ground floor.

Like forestry, agriculture has played a critical role in supporting society during the pandemic, continuing to produce food despite global supply chain challenges. As we dig into 2021, we are well aware of agriculture's critical importance in another context as well—as a natural climate solution. We've adopted a deliberate and systematic focus on regenerative agricultural practices that can improve soil health and biodiversity, as well as increase carbon sequestration. We believe that our economies of scale and the deployment of advanced agricultural technologies such as remote sensing and precision irrigation/fertilization will prove to be increasingly important in protecting scarce water resources and adapting to climatic shifts.

We've made great strides in growing our agriculture portfolio over the past year, and it's clear that sustainability is critical to that growth. I couldn't be prouder of our team and the direction we're heading.



# Table of Contents

6	About HNRG
7	Our SRI program
8	Our sustainability performance
10	Investments with impact
12	Integrating sustainability
14	Getting sustainability done together
15	Diversity, equity, and inclusion
16	SRI Theme: Climate stability
18	SRI Theme: Ecosystem resiliency
19	SRI Theme: Watershed protection
20	SRI Theme: People empowerment
21	SRI Theme: Community prosperity
22	Retiring CEO Letter: Bill Peressini
23	Endnotes and disclosures

**Harvesting and reforestation activities** on this HNRG property maintain diverse forests near Mt. Rainier, Washington State  
Photo credit: David Groeschl

All data presented is sourced from HNRG as of December 31, 2020 unless otherwise indicated.

All monetary figures in USD. AUM shown in fair market value.

# About HNRG

## Foundational Principle

Good stewardship is good business.

## Purpose

To make lives better through stewardship of people and the environment.

## Company Values

Consider clients first. Protect our people from harm. Do the right thing (even when no one is looking). Think big. Get it done together. Own it. Share your humanity.

**\$10.6 billion**

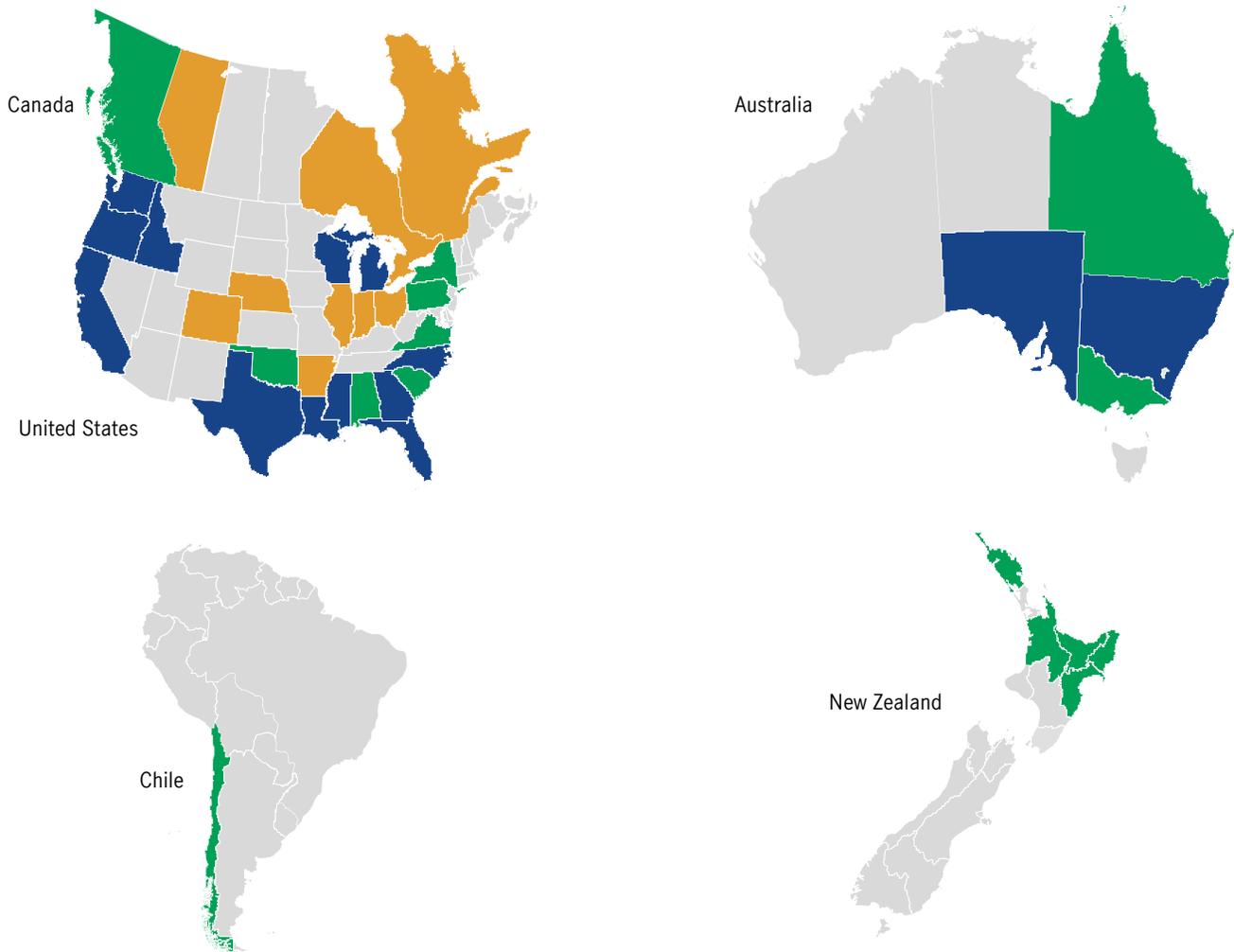
Timber assets under management (AUM)

**\$3.7 billion**

Agriculture assets under management (AUM)

## Our Assets Under Management (as of 2020 year end)

	USA	Australia	New Zealand	Chile	Canada
Timber	3,259 K acres	1,386 K acres	556 K acres	179 K acres	49 K acres
Agriculture	308 K acres	120 K acres	–	2021 acquisition	13 K acres



Source: HNRG. Maps show different scales.

■ Forests
 ■ Forests and Farms
 ■ Farms



Cattle from the local community graze among forest stands and wildlife at HQPlantations in Australia. Photo credit: HQPlantations

## Our SRI program

For us, sustainability is grounded in materiality, so we are aware that non-financial environmental, social, and governance (ESG) factors can have material financial implications. [Following our materiality assessment in 2018](#), we identified five key ESG areas that are material to our business, in addition to Economic Performance and Good Governance and Ethics—collectively, these represent the pillars of our SRI program.

These five thematic areas, detailed below, are foundational for our business and integrated throughout our investment process and property management:



**Climate stability** We seek to limit the impacts of climate change by responsibly using and managing land, creating carbon sequestration opportunities with our forests and farms, and mitigating climate change through investing in renewables and energy efficiency.



**Ecosystem resiliency** Healthy ecosystems provide immense value to the vitality of communities and economies. To ensure this for generations to come, we operate in a way that responsibly manages land and protects sensitive lands\* and biodiversity.



**Watershed protection** Protecting and improving watersheds is vital for the ecosystems and communities that depend on them. We do this by protecting sensitive lands\*, adhering to strict water and land management policies and best practices, and supporting forest growth.



**People empowerment** We value our people, employees, and contractors and work to ensure that we are offering not only safe and healthy working environments but the tools, training, and support they need to thrive.



**Community prosperity** We are committed to supporting and strengthening the local and Indigenous communities where we operate. We provide employment opportunities, public use of our land, engage with NGOs, and support local causes as part of our community stewardship.

We believe we have a responsibility to contribute to the good of society in many ways, and we seek to align our business with global sustainability priorities as expressed in the [17 Sustainable Development Goals \(SDGs\)](#).

\*Sensitive lands are defined as lands with critical habitat for sensitive or endangered species, or lands with high scenic, historical, cultural, or recreational value.

# Our sustainability performance

## Sustainability dashboard

HNRG considers performance measurement and monitoring a core component of sustainability. This helps us track our progress, formulate short and long-term objectives, and compare our performance with industry benchmarks. Not everything that matters can be measured, and not everything that can be measured matters.

Nevertheless, we believe the key performance indicators (KPIs) below provide a reasonably clear picture of how we do business from an ESG perspective. While neither the metrics themselves nor our performance against them is perfect, we aim for continuous improvement in both. [More information on Farmland and Forestry certifications can be found on page 13.](#) [Explanations of metrics can be found on page 23.](#)

<b>Climate stability<sup>1,2</sup></b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>SDGs</b>
Total scope 1 emissions (MtCO <sub>2</sub> e)	38 K	38 K	65 K	113 K <sup>3</sup>	
Total scope 2 emissions (MtCO <sub>2</sub> e)	17 K	16 K	41 K	11 K	
Total scope 3 emissions (MtCO <sub>2</sub> e)	320 K	328 K	426 K	386 K	
Total GHG removals (MtCO <sub>2</sub> , 5-year trailing average)	8.2 M	6.0 M	3.1 M	2.2 M	
Forests—MtCO <sub>2</sub> stored in wood products harvested in 2020	4.2 M	3.8 M	3.2 M	2.9 M	
Forests—% net productive area harvested each year	2.95%	2.76%	3.32%	2.75%	
Forests—carbon credits sold (cumulative, MtCO <sub>2</sub> )	4.1 M	4.9 M	6.1 M	6.1 M	
<b>Ecosystem resiliency</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>SDGs</b>
Forests % certified sustainable	100%	100%	100%	100%	
Forests % with a conservation designation <sup>4</sup>	N/C	N/C	N/C	25%	
Sensitive forest lands protected (cumulative acres)	462 K	470 K	471 K	472 K	
Farmland acres certified sustainable	6.9 K	14.5 K	101 K	112 K	
<b>Watershed protection</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>SDGs</b>
Miles stream frontage protected	N/C	N/C	20 K <sup>5</sup>	20 K	
Permanent crop farms using water conservation practices	100%	100%	100%	100%	
<b>People empowerment</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>SDGs</b>
Employees <sup>6</sup>	811	847	906	958	
% female employees	25%	25%	28%	28%	
% female senior management <sup>7</sup>	N/C	15%	17%	18%	
Enterprise TIFR <sup>8</sup>	N/C	10.7	7.0	6.2	
Enterprise LTIFR <sup>8</sup>	N/C	6.3	4.5	4.4	
<b>Community prosperity</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>SDGs</b>
Charitable contributions (corporate)	\$358 K	\$466 K	\$512 K	\$552 K	
Charitable contributions (employees)	N/C	N/C	\$49 K	\$61 K	
Lands open to unrestricted public access (acres)	2.5 M	2.5 M	2.3 M	2.3 M	

Note: N/C = metric not calculated due to lack of data availability  
MtCO<sub>2</sub>e = metric tons CO<sub>2</sub> equivalent



An HNRG almond orchard in bloom in California. Photo credit: Traci Maselli

## Continuous improvement

Last year in our SRI report, we published a dashboard summarizing our sustainability performance. We've updated it this year with some additional metrics (for example, % forests with conservation attributes; % net productive forest area harvested annually) and removed others that we believe were less meaningful for our core business (for example, training hours; MW of renewable electricity installed). We are investing in our ability to track and measure more and more sustainability data, and over time expect to be able to develop increasingly granular and context-based metrics.

New for 2021, we've had our 2020 GHG inventory audited and verified by an independent third party, offering our investors assurance of our emissions and the bulk of our removals. By 2022, we also plan to offer our investors client and/or fund-level sustainability reporting so that in addition to understanding our overall sustainability performance as a firm, they also have richer information about the sustainability performance of the assets they own. We believe that simply providing such information to our investors will facilitate conversations about how to make even greater positive impacts—an opportunity we look forward to.

Finally, we recognize that timber and agriculture remain comparatively small asset classes relative to others such as public and

private equity and credit, and that as a result there are fewer well-developed sustainability performance metrics and standards for them. As a key stakeholder in both asset classes and consistent with our collaborative approach ([read more in the “Getting sustainability done together” section](#)), we are actively working to develop standards and metrics. In particular, we are engaged in:

- [Updating the GHG Protocol to include guidance](#) on CO<sub>2</sub> removals and land sector emissions.
- The [WBCSD's Forest Solutions Group](#), designing a set of KPIs to measure [implementation of the Forest Sector SDG Roadmap](#), to which we contributed.
- Working collaboratively with Manulife Investment Management colleagues, participating as an Informal Working Group member [developing the scope and mandate of the TNFD](#).

As we work to continuously improve both internally and alongside like-minded companies across the forest and farmland management sectors, we invite your comments about what sustainability information investors and other stakeholders find most helpful.



A juvenile New Zealand falcon (kārearea) surveys HNRG timber operations in New Zealand. Photo credit: Sally Strang

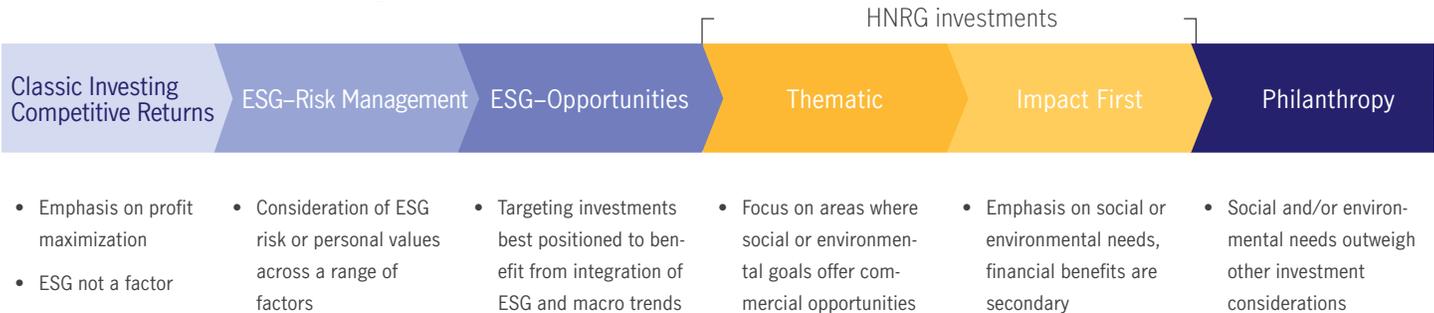
# Investments with impact

HNRG manages thematic investments, targeting market-rate financial returns alongside positive environmental and social benefits. When we say that “Good stewardship is good business,” we mean that taking care of the forests, farms, ecosystems, and communities entrusted to us is essential for achieving competitive long-term returns.

Investments that make a positive impact—or impact investments—are becoming more and more mainstream, and for good reason: we need them. Climate change, nature loss, and worsening inequality demand that investment decisions consider the impact those investments will have, whether positive or negative. We have a long history of incorporating these considerations into all aspects of our business, from how we conduct due diligence to how we manage our properties.

It’s an exciting time to manage forests and farms as appreciation grows for the ecosystem services that trees and soils provide, especially their role as natural climate solutions. Last year saw an explosion of corporate Net Zero commitments within an already robust landscape of climate alliances, disclosures, accounting standards, and reporting frameworks—followed by the renewal of government commitments in 2021. As more and more investors and companies begin to explicitly value carbon sequestration and other ecosystem services, we believe that additional forest and farm-based assets will become investable. We are developing a platform for investors to be able to make these types of credible, measurable impact-first climate and nature investments at scale. We believe these markets will only increase in size and number in the future.

## Sustainable and impact investing spectrum



For illustrative purposes only. This diagram is a variation of Sonen Capital's adaptation of Bridges Venture (2012) “Sustainable & Impact Investment: How we define the market.” HNRG is currently developing an impact-first platform.



## An impact Q&A with Sydney McConathy Head of Business Development

*Q: What are you hearing from investors interested in timber & agriculture these days?*

A: More and more, the conversations I have with investors are not just about returns, but about sustainability, ESG factors in our investment process, carbon and net zero. Investors realize there are opportunities to put their capital to work and are committed to making a positive impact for the environment and society.

*Q: Do you manage impact investments?*

A: We are committed to making a positive impact with every investment we manage, even as we aim to expand our strategies to include “pure play” impact-first investments. This is why we place such a high priority on third-party certifications—because they provide independent assurance to our investors that we are managing all of our assets sustainably. Whether it’s protecting biological diversity or special sites, promoting soil health and conservation, or fostering positive relationships with Indigenous Peoples or local communities, positive impact is central to our investment thesis.

*Q: How do your investments make a positive impact?*

A: One thing that is sometimes overlooked with timber and agriculture investments is the impact we make through what we produce. Healthy foods like nuts, fruits, and vegetables meet

basic human needs, and last year alone our forests produced enough sawlogs to build the equivalent of over 110,000 homes\*. Forests and farms are also natural climate solutions, sequestering carbon, providing wildlife habitat, and offering other ecosystem services such as providing clean water or recreational opportunities.

*Q: Have you made a net-zero commitment?*

A: Our operations are already climate positive! In any given year, our forests and farms typically remove 5–10x more carbon from the atmosphere than our operations emit ([See page 17](#)). These assets can play an important role in reducing the carbon footprint of our investors, as well. Even though we are net-zero, we continue to look for opportunities to more effectively reduce our emissions.

*Q: Is it possible to maximize an investment for carbon sequestration or other ecosystem services?*

A: Yes. All the investments we manage aim to make a positive impact, but we call these types of investments impact-first because they prioritize environmental and social impacts over financial returns. While these kinds of investments may not fit the portfolio needs of every investor, we believe they can meet the needs of those who are committed to addressing their carbon footprint and who may value other positive environmental or social impacts while also receiving a financial return.

\*Based on assumption of 110 m3 sawtimber required per house build and 12.3 million m3 of sawtimber produced by HNRG in 2020.

HNRG's newest cherry orchard in Chile. Photo credit: Rick Bodio



# Integrating sustainability

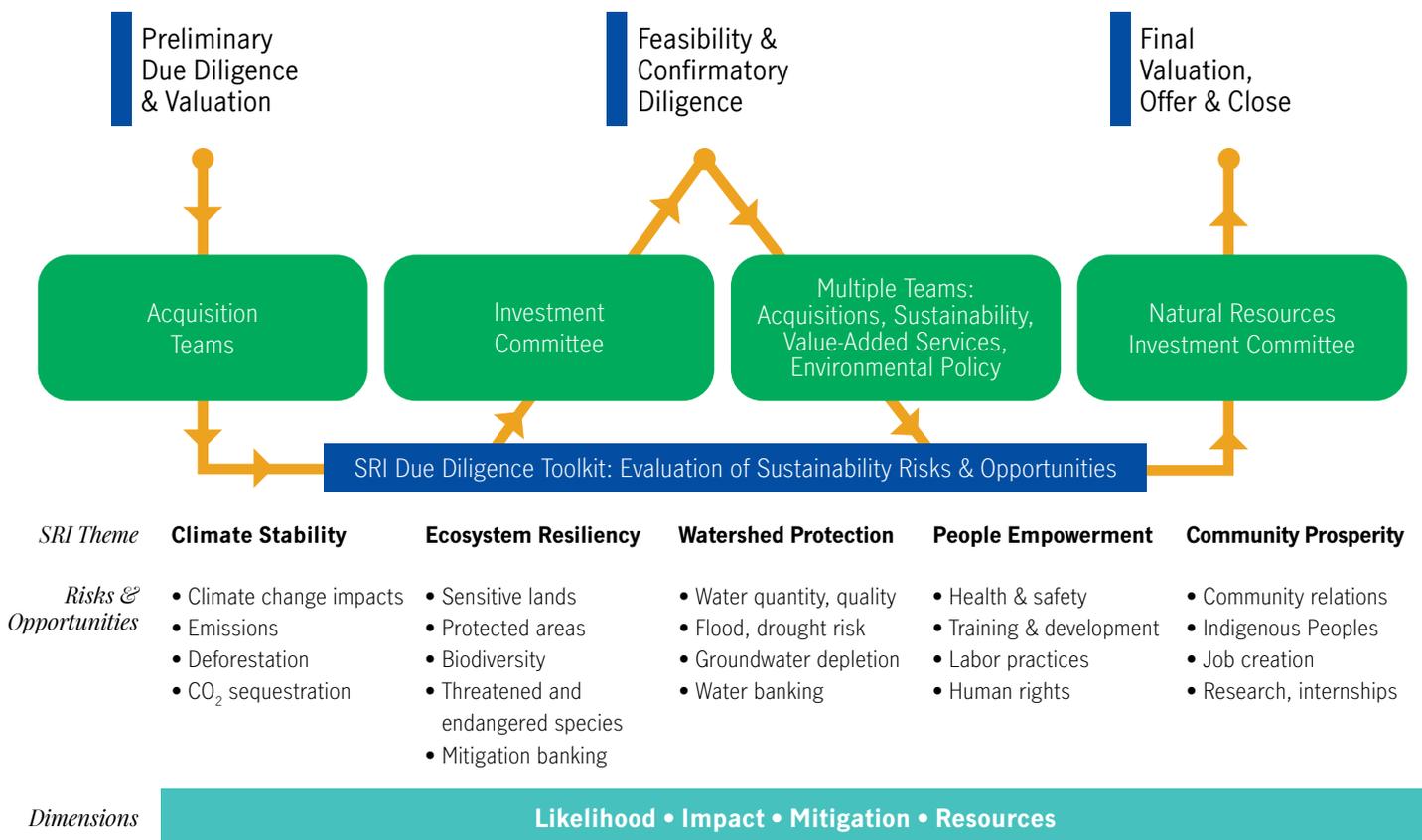
## ESG factors in our investment process

Sustainability is an integral part of HNRG’s acquisition due diligence. In 2020, we completed a comprehensive effort to formalize how we document and incorporate sustainability throughout the investment process: from idea generation through target identification, acquisition due diligence, valuation, and closing. To ensure that all relevant ESG risks and opportunities are considered in a standardized way across every possible deal, our acquisition teams use HNRG’s new SRI Toolkit, which has been developed to enable a consistent and structured approach to assessing the characteristics of an investment opportunity. The Toolkit (see figure below) is structured based on our five key sustainability priorities and documents relevant assessments undertaken to address each of them.

The assessment is undertaken in two stages, starting with an initial review conducted by the acquisition team in preliminary

due diligence and valuation. Relevant risks and opportunities are assigned low, medium, or high ratings across likelihood and impact dimensions. This preliminary assessment is included in the information package prepared for review and vote by the investment committee. If the deal passes the vote, it proceeds to feasibility and confirmatory diligence. The Toolkit is then used for a second stage that includes the acquisition team as well as support teams, including Sustainability, Value-Added Services, and Environmental Policy. In addition to likelihood and impact dimensions, these teams may use various external resources and tools to conduct deeper sustainability diligence, and will develop plans to mitigate risks and realize opportunities. The results of these investigations are documented in the Toolkit, incorporated into underwriting considerations, and included within the investment memo for vote by our ultimate investment decision-making body, the Natural Resources Investment Committee.

## SRI Toolkit: How we incorporate sustainability into the investment process



For illustrative purposes only.



**Lake Kaiwai, New Zealand.** Harvesting of this sensitive area requires consultation with local iwi, careful establishment of harvest infrastructure, and specialized cable equipment. We take great care to preserve water quality and the ecological area along the lake border. Photo credit: Andrew Widdowson

## ESG factors in our property management

We manage our forests and farms not only to secure competitive financial returns, but also to achieve key environmental and social objectives set out by third-party sustainability standards. In forestry this includes [Sustainable Forestry Initiative® \(SFI®\)](#) and the [Forest Stewardship Council® \(FSC®\)](#), and in agriculture this includes [Leading Harvest](#) and others (for example: [Global GAP](#), [USDA GAP](#), [Lodi](#), [SAI-FSA](#)). In order to ensure that we operate consistently with the standards, HNRG follows a comprehensive set of Stewardship Principles that integrates the development, management, and operation of working lands for useful products with a commitment to conserve soil, air, and water quality; biological diversity; wildlife habitats; and participation in vibrant, healthy communities. These principles inform more granular stewardship policies that guide our property management professionals in day-to-day asset management decisions.

Examples of sustainability principles and objectives in third-party certification are shown below. We are proud that as of year-end 2020, 100% of our forests were certified under either SFI (3.3 million acres in the USA and Canada) or FSC (2.1 million acres in Australia, New Zealand, and Chile), and we continue to grow our certified sustainable farmland acreage, with the goal of 100% certification of eligible properties under the Leading Harvest Farmland Management Standard. In 2020, our entire diversified 70,000-acre directly operated U.S. agriculture portfolio—consisting of almonds, pistachios, walnuts, apples, table and wine grapes, and cranberries—became the first farmland certified under the new standard. [Read more about Leading Harvest in the box on page 14.](#)



### SFI® Principles

1. Sustainable forestry
2. Forest productivity and health
3. Protection of water resources
4. Protection of biological diversity
5. Aesthetics and recreation
6. Protection of special sites
7. Responsible fiber sourcing
8. Legal compliance
9. Research
10. Training and education
11. Community involvement and social responsibility
12. Transparency
13. Continual improvement



### FSC® Principles

1. Compliance with laws
2. Workers' rights and employment conditions
3. Indigenous Peoples' rights
4. Community relations
5. Benefits from the forest
6. Environmental values and impacts
7. Management planning
8. Monitoring and assessment
9. High conservation values
10. Implementation of management activities



### Leading Harvest Principles

1. Sustainable agriculture management
2. Soil health and conservation
3. Protection of water resources
4. Protection of crops
5. Energy use, air quality, and climate change
6. Waste and material management
7. Conservation of biodiversity
8. Protection of special sites
9. Local communities
10. Employees and farm labor
11. Legal and regulatory compliance
12. Management review and continuous improvement
13. Tenant-operated operations

# Getting sustainability done together

“Get it done together” is one of our values and collaboration is a cornerstone of our business. We recognize that we can’t specialize in everything, and we seek to establish mutually beneficial relationships with organizations and companies that can complement our strengths and that have a similar culture and values. Leading Harvest exemplifies this (see box below). So does our extensive partnership network with forestry research cooperatives ([read about it in the Ecosystem Resiliency section](#)) and the way our teams

pitched in to help one another during a hurricane ([read about it in the Community Prosperity section](#)).

These relationships not only help us improve our sustainability performance; they also reflect our conviction that when it comes to solving global challenges, we’re all in this together. The following are some of the organizations we actively partnered with in 2020, whether through program participation, research funding, or charitable contributions.



We support research into the resilience of agriculture and forestry to climate change at the Massachusetts Institute of Technology’s Joint Program on the Science and Policy of Global Change and the University of California-Davis.



We actively participate in the World Business Council on Sustainable Development’s (WBCSD) Forest Solutions Group, Scaling Positive Agriculture, and Nature Action projects in collaboration with industry partners focused on scaling forestry and agriculture as natural climate solutions.



We support the Michigan State University Forest Carbon and Climate Program’s mission to increase the understanding and implementation of climate-smart forest management.



We support the American Farmland Trust’s efforts to drive the adoption of regenerative farming practices and the study and sharing of quantifiable farmland conservation outcomes.



We provide funding to American Bird Conservancy for its work conserving wild birds and their habitats throughout North America, including threatened and endangered species.



We support The Conservation Fund’s efforts to protect land and water resources for wildlife habitat, climate change mitigation, recreation, and working lands.



**Leading Harvest** As a timberland and farmland investment manager, we have insight into market trends and gaps in both sectors. We were an early mover in third-party forest certification, and have now managed third-party certified timberland investments for over two decades. In 2014, we began to mirror, adapt, and extend the sustainability protocols internalized in our timberland properties to our farmlands by establishing a set of stewardship principles. At the time, the agriculture sector lacked a sustainability standard that could work across different crop types, production systems, scales, and geographies. Yet our experiences in forest certification demonstrated that such a standard could be developed.

In 2017, we helped convene the Sustainable Agriculture Working Group, which consisted of two leading environmental nonprofit organizations—the Conservation Fund and Manomet—and eight professional farmland owner and management entities. Using the Sustainable Forestry Initiative® (SFI®) blueprint, the group collected input from some four-dozen

stakeholders—farmers, environmental leaders, academics, government agencies, and investment managers. The resulting Leading Harvest Farmland Management standard is performance based and designed to help land managers achieve sustainability through continuous improvement on 13 specific operational objectives, collectively rigorous and complete, yet practical and obtainable.

HNRG is a founding member of Leading Harvest and is committed to certifying all eligible farmland to the Leading Harvest Farmland Management Standard. In addition, Oliver Williams, Global Head of Agriculture, is current Chairperson of the Board of Directors for Leading Harvest.

In 2020, our entire diversified 70,000-acre directly operated U.S. agriculture platform became the first farmland certified under the new standard, and [we’re committed to achieving 100% certification to the Leading Harvest standard in jurisdictions where it is established.](#)



HQRPlantations employees plan operations in Australia. HNRG is developing diversity targets for increasing gender diversity and BIPOC representation in leadership roles. Photo credit: Matthew Aitken

## Diversity, equity, and inclusion

There is strength and resilience in diversity. At HNRG, we define diversity across all the ways human beings are unique, both visible and invisible, innate, and external, and we find strength and resilience in our own diversity as well. We also view diversity as an ideal to which we continually aspire.

HNRG operates in three different industries: forestry, agriculture, and investment management. None of these have been diverse, historically. [According to the U.S. Bureau of Labor Statistics](#), in the U.S. in 2020, females comprised only 26% of employment in forestry, 29% of employment in crop production, and 37% of employment in financial investments; these same industries were 98% white, 93% white, and 81% white, respectively, reflecting a serious lack of Black, Indigenous, and people of color (BIPOC) representation. Similar gender, racial, and ethnic lack of diversity persists in these industries in other countries in which we operate—as well as in our own operations.

Various historical reasons exist for these imbalances in the industries we are part of, and we have a shared responsibility in addressing both the imbalances and the structural conditions that contributed to them. In 2018, HNRG began by establishing a Diversity,

Equity, and Inclusion Committee. The Committee partners with our employees to foster a more diverse and inclusive workplace where employees feel confident, inspired, valued, and included.

HNRG strives to be an actively diverse and inclusive organization, where everyone's perspectives and efforts are considered and valued by the Company and its employees, and where everyone has equal opportunities for advancement, regardless of gender, race, or ethnicity. In that spirit, HNRG is in the process of developing its own diversity targets, consistent with Manulife's goals of the following:

- [Increase leadership gender diversity](#) to “at least 30% representation of women on all boards and C-suites” by 2022.
- [Increasing BIPOC representation in leadership roles](#) by 30% by 2025, and annually hiring at least 25% BIPOC talent.

HNRG aspires to be a company that stands up and speaks out against racial and other injustices and that encourages its employees to do the same. This starts with doing our best to ensure that we are an increasingly diverse and inclusive company that respects and celebrates difference.



**Working with Indigenous communities** As a global business with many of our operations in rural areas, we have the privilege of working alongside many Indigenous communities in the U.S. (Muckleshoot), Australia (Butchulla, Kabi), New Zealand (Maori), and Chile (Mapuche). In Australia, HNRG subsidiary HQRPlantations engages with various Indigenous Peoples to foster relationships and explore mutually beneficial opportunities. Over the last two years we have partnered with a Butchulla elder to develop a commercial contracting group comprised of young Butchulla people that facilitates Indigenous economic independence and reconnects Butchulla young people with their country.

With assistance from HQRPlantations, the Butchulla Indigenous Industries Group (BIIG) has developed a silvicultural contracting business with a full safety management system and a team of workers trained in silvicultural activities, accredited for prescribed burning and fire management. In addition to our business relationship, at HQRPlantations we have had the immense privilege of building a strong relationship with several Butchulla people, including Butchulla dancer Joe “Jo Jo” Mala (pictured left).



Forests we manage, such as this one in Oregon, remove carbon dioxide from the atmosphere and provide habitat for aquatic species. Photo credit: Florian Deisenhofer

## Climate stability

Climate change presents both risks and opportunities for the biological assets we manage, and we discuss both in detail in our inaugural [2020 Climate Report](#), which is aligned with the four-part recommendations of the [Task Force on Climate-related Financial Disclosures \(TCFD\)](#). Chief among our commitments to climate stability is our adherence to a [strict Zero-Deforestation Policy](#), and we continually seek to mitigate climate risks and realize climate opportunities through proactive asset management initiatives such as those described below.

### Natural climate solutions

The trees and soils we manage in our forests and on our farms have tremendous potential to sequester carbon—these natural climate solutions (NCS) represent 37% of the opportunity to cost-effectively sequester carbon, which is [what's needed by 2030 to keep global warming below 1.5°C](#). Various approaches can help realize this opportunity. In forestry, this includes various improved forest management practices such as protecting and restoring high-conservation areas, expanding riparian buffers, supporting native and managing invasive species, extending or limiting harvest cycles, and restricting chemical usage. In agriculture, it includes regenerative practices such as cover cropping, reduced tillage, orchard recycling, compost deployment, integration of livestock and pollinators, sustainable water management, and integrated pest management. Recent technological advances in remote sensing, such as LiDAR (discussed in our next section) will enable us to understand the impact of these practices on carbon sequestration more accurately in the future.

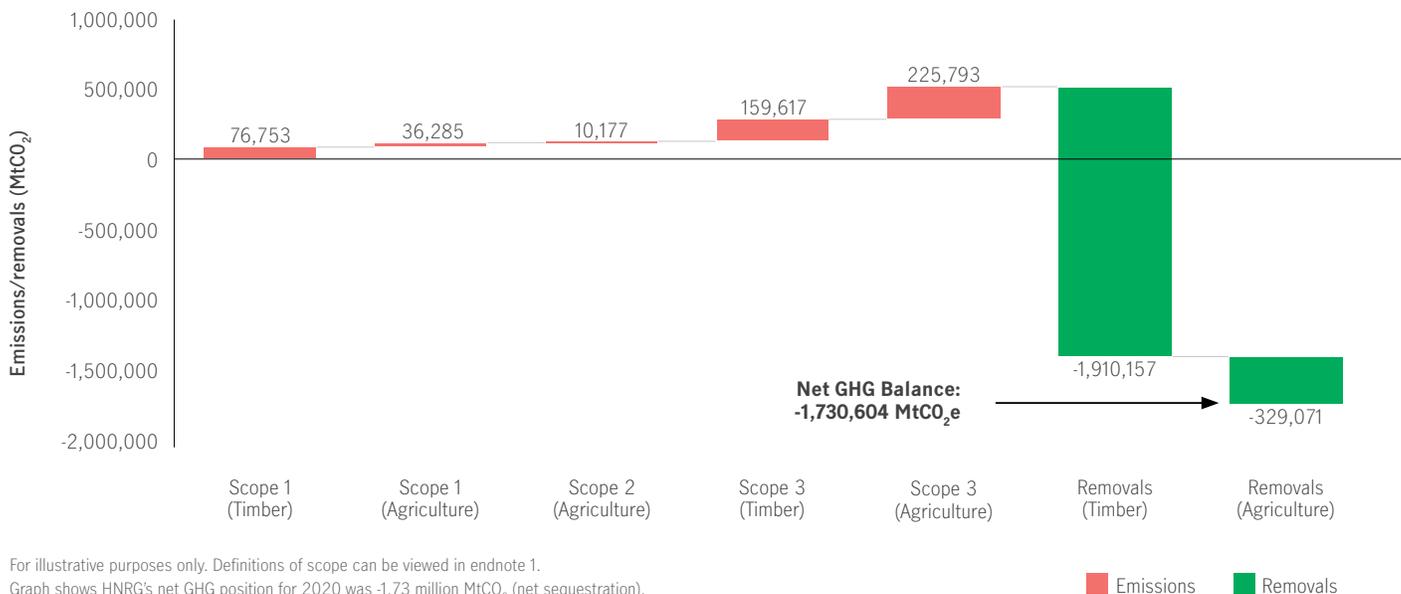
### Forest carbon measurement

The amount of carbon a forest stores is directly proportional to the volume of timber in that forest. For over a century, foresters and land managers have been quantifying timber volumes by “cruising”, a ground-based statistical sampling process that involves taking field measurements from representative samples of forest plots, and then extrapolating the results over an entire forest estate. Since 2008, we have tracked and quantified the carbon our forests sequester and store from the atmosphere in this way. But recent advances in remote sensing technology have enabled even more accurate timber volume—and therefore forest carbon—calculations.

Light Detection and Ranging (or LiDAR) technology uses laser light pulses to calculate distances to objects, and a scanner that receives and interprets the light pulses when they bounce back. These lasers can be aerial (mounted on planes, helicopters, or drones) or ground-based. The light pulses are then used to construct a collection of data points or “point clouds,” to be transformed into digital representations of real-world objects such as trees. Last year—after several years of research, vendor due diligence and pilot tests—we began collecting LiDAR data for our forests, providing in many cases a census of every tree in a forest. As we roll out LiDAR globally, we anticipate being able to measure forest carbon sequestration with improved accuracy.

## HNRG greenhouse gas emissions & removals inventory

The figure below shows our 2020 greenhouse gas (GHG) inventory by scope and sector. Because of variability inherent to measuring the carbon stocks of biological assets, a five-year trailing average (2016 to 2020) is used to calculate removals. Emissions are 2020 data only. HNRG's net GHG position for 2020 was -1.73 million MtCO<sub>2</sub> (net sequestration).



### Digging into regenerative agriculture

Like forestry, agriculture holds great potential as a natural climate solution through the sequestration of CO<sub>2</sub> in soils. Realizing this potential, however, requires a focus on soil health as much as on farm profitability—which requires not only good chemistry, but good physical structure and biology. Regenerative practices such as cover cropping, reduced or zero tillage, and integrated pest management build soil health by enhancing soil organic matter and restoring soil biodiversity, and can promote healthier and more diverse farm ecosystems alongside greater farm profitability. Regenerative farming can restore nutrient deficiencies and reduce vulnerability to pests and diseases, as well as the need for synthetic inputs, while increasing the soil's water holding capacity and carbon sequestration.

HNRG currently follows regenerative principles on many of its farms and intends to increase their application over time by implementing a regenerative farming program tailored according to geography, crop type, and environment. Some examples from our properties are shown below. We expect that further scientific research in this area, combined with a growing understanding of the benefits of these practices—including soil carbon sequestration and its measurement—can only lead to wider deployment of regenerative practices over time.



**Orchard recycling** on some redevelopments offers the opportunity to transfer years of cumulative nutrient removal from the soil to the woody mass of the orchard, back to the soil.



**Cover cropping** and cover vegetation seeding provides the opportunity to improve soil health. We are studying effects on yield, reduced drought risk, reduced input (fertilizer) costs.



**Maintaining living roots** through mowing winter grasses instead of discing keeps the living root intact below ground to continue the many biological, chemical, and physical benefits provided by the root mass.



Pollinator habitat in our California orchards. Photo credit: Samantha Lopes

# Ecosystem resiliency

## Advocating for a TNFD

In recent years, business leaders have consistently identified biodiversity loss as one of the top risks to global business. The [World Economic Forum's 2020 Global Risks Report](#) warns that biodiversity loss has come to “threaten the foundations of our economy.” According to the Organisation for Economic Co-operation and Development (OECD), up to [\\$20 trillion in ecosystem services was estimated to have been lost per year between 1997 and 2011](#). Just as with climate change, investors need to understand nature-related dependencies, risks, and impacts—for which they'll need robust, reliable information at the issuer level and disclosures that are standardized and comparable.

Now, a new initiative, the Task Force on Nature-related Financial Disclosures (TNFD)—co-led by founding partners Global Canopy, the [United Nations Development Programme \(UNDP\)](#), the [United Nations Environment Programme Finance Initiative \(UNEP FI\)](#), and the [World Wide Fund for Nature \(WWF\)](#)—aims to create reporting standards for biodiversity and natural capital that “[steer finance towards outcomes that are nature-positive](#).” We're proud to be a member of the Informal Working Group for the TNFD and excited to see much-needed guidance later in 2021. We believe that nature-related disclosures will help financial institutions shift finance away from destructive activities toward nature-positive investments, creating greater resilience in the global economy.

## Planting seeds for bees and butterflies

Pollinators are essential in the production of fruits, nuts, and vegetables—without them these foods would not exist. Nurturing pollinator populations helps ensure the sustainability of our opera-

tions, our clients' assets, and our environment. Over the past three years, HNRG has participated in the [Seeds for Bees Program](#) and now manages approximately 172 acres of pollinator habitat across our California orchards. Our operations teams manage these sites so as to restore pollinator habitat to support all beneficial insects, planting this supplemental forage with the necessary “nutrition” required to build healthy and vigorous colonies.

## Boosting climate resilience

HNRG participates in over 20 university cooperatives that conduct research into all aspects of forestry—from genetic tree improvement to reforestation, forest soils to tree nutrition, optimal tree density to wind protection, and seed orchard culture. With the ongoing impact of climate change on forest environments in mind, HNRG supports six tree improvement cooperatives developing robust seedlings genetically adapted to climate-related influences.

## Looking out for squirrels

We also support changing practices to protect wildlife. In Wisconsin, we are creating a regional seedling orchard from our red pine progeny test, eliminating the need to harvest red pine cones from squirrels' winter food caches, or middens. These huge seed stockpiles are often 20 feet long, and are critical nutrition for squirrels, who improve forest soil health and [play a critical role in forest food webs](#). Red pine climate change resilience, enhanced plantation growth, and log quality improvements are also achieved by using cooperative genetic data to thin the seed orchard to those trees most adaptable to current and future climate conditions. Cooperative research partnerships like this are a cornerstone of HNRG sustainability innovation and forest stewardship.



The common merganser can be found in or near many of HNRG's Pacific Northwest properties year-round. Photo credit: Gretchen Lech

## Watershed protection

### Replenishing groundwater aquifers in California

Water is a key agricultural input as well as a scarce resource, particularly in some of the world's most important growing regions. For us, water stewardship is important everywhere, but it's critical in California's Central Valley and in most of Australia.

For HNRG, that means we use water judiciously, and we also put excess water back into the ground in order to help restore our aquifers. After acquiring one of our California orchards in 2010, we discovered that an area to the northwest of the orchard was experiencing a high degree of subsidence (sinking) due to groundwater depletion. Over the following years, we followed some of that orchard in order to store excess flood water, providing more consistent access to clean water for us and a source of aquifer recharge for other watershed users. By 2020, the subsidence rate had declined from 12 inches per year to less than 1 inch per year as a direct result of our management activities.

### Restoring salmon habitat in Washington

Watershed protection is a key element of sustainable forest management. We recognize that communities downstream of our operations rely on our managed waterways for their water supplies, as do the inhabitants of the rivers and streams themselves. In the U.S. Pacific

Northwest, those inhabitants are salmon. In 2020, through a partnership with the [Columbia River Estuary Study Taskforce \(CREST\)](#), HNRG expanded an existing patch of quality salmon spawning and rearing habitat within a reach of the Lower Columbia River Estuary. The project successfully restored access to 1.5 miles of high-quality spawning habitat for adult salmon, and enlarged the tidal prism to connect with the 10-acre floodplain wetland. This tidal connection allows the site to inundate regularly and naturally during tidal and flood conditions, contributing to natural processes and a complex mosaic of interconnected wetlands and floodplain habitat.

### Bingera Creek environmental watering

The Murray River is one of Australia's largest and most important river systems. It has great environmental significance, supporting wetlands, native forests, fish, and other wildlife. To assist government environmental water holders in achieving their watering objectives, we make our irrigation infrastructure available for delivery of water to disconnected wetlands and priority environmental sites that adjoin our farms. During 2019–2020, we worked with the New South Wales Office of Environment and Heritage to deliver 500 million liters of water to Bingera Creek, watering approximately 6.5 kilometers of channel and 50 hectares of wetlands. The environmental water provided habitat, food, and breeding opportunities for local frogs and waterfowl.



Early education is key to building a diverse and inclusive workforce in forestry and agriculture, and proper safety gear and training is essential. Photo credit: Jake Thiemens

## People empowerment

### Health and safety in a pandemic

Empowering our people begins with creating a healthy and safe working environment where our employees enjoy what they do and look out for their colleagues. That was never more important—or challenging—than it was in 2020 at the height of the pandemic. In March of that year, when lockdowns began in North America, we sent our office staff to work from home. But many of our colleagues in property management who were considered essential workers continued actively managing our forests and farms to keep providing the food and fiber our society depends on.

One of our core values is “Protect our people from harm” and we invested considerable resources in pursuit of that value. We rapidly developed a Preparedness, Response, and Control Plan to keep our employees and contractors healthy, which in turn allowed us to continue to manage our client investments sustainably, with minimal interruption. In North America alone, we purchased 19,000 masks and required anyone on our properties to wear a mask. We also worked in partnership with local agencies to procure N95 and KN95 masks, not only for our HNRG team, but also for our contractor partners. In order to maintain social distancing, we operated at reduced capacity and even left worker housing areas open to serve as quarantine facilities—at times also making the difficult decision to temporarily shut down entire properties. But in all cases, we maintained our focus on people, establishing a “people-focused” case file support program for both our employees and contractors, as well as a COVID-19 Team Care Program for team members and their families who contracted or were exposed to COVID-19.

### Focusing on well-being during challenging times

In addition to the tactical plans we introduced to keep our staff and contractors healthy amidst COVID-19, we undertook a major effort to ensure our people had the resources they needed at home so they could deal with these challenging circumstances. We expanded employee annual volunteer time from one day to five, and no longer required volunteer time be spent on behalf of registered charities, so that everyone was free to help out wherever they saw the greatest need. We also provided our employees with access to a wealth of resources to facilitate mental health and well-being, and in recognition of the need for sufficient rest and recovery, gave each employee an additional five personal days for use in 2021.

### Caring for our people through a hurricane

The pandemic wasn’t the only difficult circumstance for our people in 2020. When Hurricane Laura struck Texas and Louisiana, many of our team members were left without power for quite a few weeks, with some also sustaining damage to their homes. Despite that, from the very beginning of the storm, our teams in those two states gathered supplies and convened in a matter of hours to ensure all our employees and their families were safe, taken care of, and ready to rebuild. From delivering generators, gas, and air-conditioning units, to acquiring tarps and putting them on roofs, the teams were there when they needed each other most, taking time to check in on each other and embodying our values of “Share your humanity” and “Get it done together.”



Providing top-of-the-line personal protection equipment is always a priority for HNRG. We made the 2020 apple harvest even safer by adhering to strict social distancing guidelines to prevent the spread of COVID-19. Photo credit: Traci Maselli

## Community prosperity

### Running a resilient business

During a year when employment across many sectors was hard hit and many lost jobs, HNRG doubled down on its commitment to our people and our communities, and we grew. As a result of good planning, a commitment to our people, and our provision of materials to meet the basic human need for food, shelter, and paper products, we did well as a business in 2020. The strength and resilience of our people and our business came fully into focus.

### Fostering human rights

In a globalized and interconnected world, we're all part of one worldwide community. We recognize that even though we operate in countries with good governance and strong rule of law, the complex nature of global value chains makes it imperative for us to champion human rights and justice for all. We do this in our own operations, and we also encourage such an approach among those around us—our contractors and vendors in particular. That's why in 2020 we worked extensively with our parent company Manulife on our collective approach to human rights, and developed a bespoke procurement policy that integrates our priorities on human rights into vendor contracts in the form of a vendor commitment to our code of conduct.

### Working and playing hard

We live in the communities where we work and play. The benefits of being outside in nature were highlighted during a year when many of us often felt “stuck at home” or unable to gather with family, friends, and colleagues in the ways we're used to doing. Fortunately, we manage about 6 million acres of nature, and keep much of it open for public access. Whether it's a mountain biking trail network through the Kinleith forest in Tokoroa, New Zealand, or providing access for terminally ill children to go fishing with a local game warden on a cranberry lake in Wisconsin, we are pleased to foster recreation and play.

### Being a good neighbor

We aspire to be a good neighbor, and one of the best illustrations of that last year was the effort of our manager at one of our cranberry properties in Wisconsin. [We were profiled by Leading Harvest](#)—the new farmland management standard—for exceptional practices in community engagement. Our team regularly collects trash in the wooded areas, streams, and roadways of the operation's surrounding communities. Community cleanup efforts promote positive relationships with neighbors and contribute to healthy living environments on and off the farm.



Retiring CEO Bill Peressini in his favorite environment: the vineyard. Photo credit: Patti Peressini

## A letter from Bill Peressini, retiring Chief Executive Officer

I can hardly believe it's been a decade since I joined HNRG in 2011. Then I think about HNRG's growth over that time, including over the past year during a global pandemic, and I am amazed at how much this incredible team has accomplished.

We've grown our assets under management from \$10.3 billion to \$14.3 billion. Our agriculture platform has nearly tripled in size and expanded into Australia, Canada, and Chile. We've re-established our timberland business in South America. We planted our 1 billionth tree and are now at nearly 1.2 billion trees. The list goes on, and it's a real testament to the quality of this team. But the biggest story has been the growing importance of sustainability.

When I transitioned from CFO to CEO at the end of 2015, the Sustainable Development Goals were only months old and the ink on the Paris Climate Agreement was still drying. Little did I know at the time how significant these would be for my tenure as CEO.

Within the next year, we began to structure our sustainability program, and in 2018 named Brian Kernohan our Chief Sustainability

Officer. Since then, it's been off to the races. Following our first report on Sustainability and Responsible Investing (SRI) in 2018 and our first TCFD-aligned Climate Disclosure in 2020, this is now our third SRI report. HNRG launched our Diversity, Equity, and Inclusion Council. We envisioned a farmland certification program, and then worked with like-minded industry participants to make Leading Harvest a reality. We've articulated our company's culture and values, and we make a conscious effort to live them out every day. We also aim to launch a new impact-first investing initiative focused specifically on leveraging the value of forests and farms as natural climate solutions, while still earning a good return for our investors.

As I retire and pass the baton to the very capable hands of Tom and Oliver, I couldn't be prouder of our accomplishments. Even amidst the greatest challenges of our time—climate change, nature depletion, and inequality—I am confident that HNRG has a very important role to play in making our world more sustainable. While we've accomplished so much already, I'm confident the best is yet to come!

*W.E. Peressini*

# Endnotes and disclosures

## [Our sustainability performance: dashboard footnotes](#)

1. HNRRG uses an operational control boundary approach for calculating our GHG inventory. For our 2020 inventory, all scope 1, 2, and 3 emissions, as well as CO<sub>2</sub> removals from forests, have been verified by an independent third party. We elected not to have our soil carbon removals verified this year, which are optional for reporting under the GHG Protocol Corporate Standard. As soil carbon quantification methods are developed further and a method that is sufficiently accurate and practical to implement is identified, we intend to include it in future year verifications.
2. Scope 1 emissions are direct emissions from sources that we control. These include timberland emissions from fertilization and prescribed burns, and farmland emissions from fertilization and fuel combustion on farms we operate. Scope 2 emissions are indirect emissions from consumption of purchased electricity. There are no electricity-related emissions from our timber business; scope 2 emissions from agriculture are associated with powering shops and irrigation pumps on farms we operate. Scope 3 emissions are indirect emissions in the value chain. Timber emissions associated with harvesting activity are classified as scope 3 as harvesting is conducted by contractors. Agriculture scope 3 emissions include all emissions from farms we lease to tenants.
3. Extensive methodology enhancements were implemented for the 2020 inventory, increasing accuracy and comprehensiveness relative to previous years. The increase in scope 1 emissions in 2020 was due entirely to a timber methodology enhancement that now includes emissions from fertilizer and prescribed burns.
4. Forests % with a conservation designation is the sum of non-overlapping forest acres out of total forest acres belonging in one or more of these categories: high conservation value forests, designated old growth forests, stream management zones, riparian management zones, channel migration zones, leave areas, conservation easements, restricted management due to threatened and endangered species, and areas of historic or cultural significance.
5. Stream frontage is restated for 2019 to include results from additional analysis conducted in 2020.
6. Employee base includes HNRRG and wholly owned subsidiaries.
7. "Senior management" includes positions at Tier 3 and above. Titles vary by segment but include all executives and directors as well as some managers.
8. TIFR = Total injury frequency rate. LTIFR = Lost time injury frequency rate. Both are calculated as enterprise-wide weighted averages per one million hours worked and include all HNRRG employees plus approximately 5,600 full-time equivalent (FTE) contractors.

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A Manulife Investment Management Company

## About Hancock Natural Resource Group, Inc.

Hancock Natural Resource Group, Inc. is a registered investment adviser and part of Manulife Investment Management's Private Markets platform. We specialize in global farmland and timberland portfolio development and management on behalf of our investors worldwide. Our timber division manages approximately 5.4 million acres of timberland across the United States and in Canada, New Zealand, Australia, and Chile. Our agricultural investment group oversees approximately 440,000 acres of prime farmland in major agricultural regions of the United States and in Canada and Australia.

## About Manulife Investment Management

Manulife Investment Management is the global wealth and asset management segment of Manulife Financial Corporation. We draw on more than a century of financial stewardship to partner with clients across our institutional, retail, and retirement businesses globally. Our specialist approach to money management includes the highly differentiated strategies of our fixed-income, specialized equity, multi-asset solutions, and private markets teams.

Every photo in this report was taken by an employee or contractor on or near properties we manage. We take tremendous pride in our work, and we've decided to share some of that passion with you.

Note: The investments referenced and pictured throughout this report are part of HNRG's timberland and farmland strategies and are provided for illustrative purposes only. The investments identified do not represent all of the properties purchased, sold or recommended for a portfolio.

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