

Private equity and credit

# *Sustainable* investing framework

## **Philosophy**

Consistent with Manulife Investment Management's sustainable investing and sustainability risk statement, our private equity and credit (PE&C) group is committed to sustainable investing and the sustainable management of our clients' assets. Sustainable investing is particularly important for private equity in view of our focus on creating long-term value and building strong relationships with general partners (GPs), sponsors, and company management. Within private credit, assessing environmental, social, and governance (ESG) issues that may be material before an investment is made can help us anticipate inherent downside risks. Across all assets, in our view, profiling potential material risks and opportunities related to ESG is critical to preserving and enhancing the value of our investments. Ultimately, we believe that evaluation of ESG risks and opportunities in our PE&C investments can yield sustainable returns over the long term.

This framework outlines our approach to sustainable investing—in our private equity (co-investments, fund investments, and secondaries) investments and in our credit (senior loans and mezzanine financing) investments—and provides an overview of how we incorporate material ESG considerations into the investment lifecycle, factoring in the special characteristics of each investment, along with those of its sector or industry.

## Roles and responsibilities

Our investment teams are empowered to make decisions consistent with their investment philosophy and their clients' objectives. Each investment team takes responsibility for its own investment processes, from research through to implementation. The integration of ESG research and considerations into the PE&C investment processes align with this approach.

Our PE&C teams are supported by staff who specialize in sustainable investing. The private markets sustainable investing team works closely with the broader PE&C teams on the implementation of this framework and Manulife Investment Management's sustainable investing and sustainability risk statement.

Key to our approach to sustainable investing is Manulife Investment Management's governance structure, which was established to oversee our teams' sustainable investing activities. The global head of PE&C is a member of the Private Markets Sustainable Investing Committee, which is chaired by the head of private markets; this committee steers regular decision-making and oversees the sustainable investing agenda across private markets.

## ESG integration in the investment process

### Due diligence

- We employ a materiality approach to due diligence based on our own expertise and external resources
- We conduct an ESG assessment of all new investments. An ESG assessment of the sponsor is also completed for our co-investments, secondaries, and credit investments

### Investment decision and documentation

- Conclusions of ESG due diligence are included in our deal investment memorandum
- The analysis includes the identification and discussion of red flags, areas for improvement, areas not assessed, and strengths
- ESG analysis is evaluated during the investment committee approval process

### Initial post-investment actions

- The PE&C teams leverage a variety of tools—shareholder rights, board seats, and our broader relationships with investment partners (who typically control the underlying portfolio companies)—to encourage the consideration of material ESG issues
- We regularly review current investments in the portfolios, focusing on those changes that we believe will affect asset valuation and performance

### Active ownership and monitoring

- We draw on our strong relationships to promote awareness of ESG-related incidents
- On an annual basis, we update and monitor the ESG performance of our investments using our proprietary framework
- Where we control the exit, we identify and manage ESG related considerations, when applicable

### Reporting

- We're committed to communicating material ESG-related information to our investors in our quarterly reports and at the annual general meeting (AGM) and provide additional reporting on an annual and ad hoc basis when requested by investors
- As a signatory to the PRI, we report annually to the PRI private equity and fixed-income modules

## Exclusions

In general, we prefer to engage rather than exclude. An exception to this is our adherence to a cluster munitions policy, which holds that Manulife Investment Management will not knowingly make direct investments in companies that manufacture cluster munitions—a policy that aligns Manulife Investment Management’s investment operations with the business practices of our parent company, Manulife Financial Corporation.

## Collaboration and engagement

The PE&C teams recognize the importance of collaborating with other investors and industry experts in order to gain insight into evolving best practices and to contribute to the development and adoption of ESG integration globally.

In our capacity as an institutional investor, we seek to engage in constructive dialogue with firms and industry organizations on a variety of investment matters, with the goal of enhancing long-term investment value. This engagement with stakeholders has the potential to amplify our impact on the companies, industries, and markets in our collective orbit of influence. When it’s opportune and appropriate, we may engage with companies to seek positive change in their disclosure, management, and performance related to ESG factors.

### **Business partners and portfolio companies**

We seek to actively engage with our GPs and with the associated GPs for our direct investments. Typical conversation topics may include the firm’s recent investment activities, notable business updates, and personnel and quarterly performance updates. If we have board seats or board observer rights, we participate in quarterly board meetings as well as any interim update calls.

### **Investors**

We hold candid conversations with current and potential investors to explore ESG issues and to enhance our internal processes based on market expectations and industry best practices. Engagement with investors takes many forms—responding to information requests, sharing information through our AGMs, and periodic reporting.

### **Peers and industry associations**

We recognize the importance of collaborating with other investors and industry experts, both to gain insight into evolving best practices and to contribute to the development and adoption of ESG integration globally.



A widespread health crisis such as a global pandemic could cause substantial market volatility, exchange-trading suspensions and closures, and affect portfolio performance. For example, the novel coronavirus disease (COVID-19) has resulted in significant disruptions to global business activity. The impact of a health crisis and other epidemics and pandemics that may arise in the future could affect the global economy in ways that cannot necessarily be foreseen at the present time. A health crisis may exacerbate other preexisting political, social, and economic risks. Any such impact could adversely affect the portfolio's performance, resulting in losses to your investment.

*Investing involves risks, including the potential loss of principal. Financial markets are volatile and can fluctuate significantly in response to company, industry, political, regulatory, market, or economic developments. These risks are magnified for investments made in emerging markets. Currency risk is the risk that fluctuations in exchange rates may adversely affect the value of a portfolio's investments.*

The information provided does not take into account the suitability, investment objectives, financial situation, or particular needs of any specific person. You should consider the suitability of any type of investment for your circumstances and, if necessary, seek professional advice.

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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—along with access to specialized, unaffiliated asset managers from around the world through our multimanager model.

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