

# Sustainable Investing Statement

March 2020

# Objective

This document provides an overview of the approach to sustainable investing within the Manulife Investment Management (Manulife IM)<sup>1</sup> Institutional Asset Management business. It outlines our commitment to sustainable investing, describes our core beliefs about sustainability, and describes how environmental, social, and governance (ESG) factors are integrated into our investment processes. Our philosophy provides a flexible framework that supports implementation across different asset classes and investment teams and applies to our public and private markets businesses.<sup>2</sup>

The Manulife IM Sustainable Investing Statement aligns with our fiduciary responsibilities as a manager of client capital and reflects our commitments as a signatory to the Principles for Responsible Investment (PRI), as well as to various stewardship codes that apply in different jurisdictions.

## Our Commitment to Sustainable Investing

Sustainable investing refers to the consistent consideration of key ESG factors to inform or define the investment process. Sustainable investing is a lens that applies to all stages of the investment process across all asset classes. As a responsible investor and steward of client capital, we seek to understand all the relevant factors that could impact the risk and return profile of current and potential investments. We believe that robust ESG integration in investment processes helps us to deliver attractive risk-adjusted returns to our clients over the long term.

Sustainable investing is integral to our business and culture and we recognize our clients' needs in this area are expanding, and their own stakeholders are demanding a formal adoption of sustainable investing practices. Our commitment to sound practices is consistent with our responsibility to help clients achieve their goals.

While we also recognize that the scope of ESG factors relevant to investing will continually evolve, the ESG factors that we believe are most relevant to our investments may include:

- Board structure, diversity, and oversight
- Executive compensation: structure, performance metrics, and oversight
- Minority shareholder rights protection
- Capital management, dividend payouts, and dilution

- Corporate actions (e.g., M&A) and corporate strategy
- Climate change, pollution, natural resources utilization, and other environmental issues
- Health and safety, labor relations, diversity and other social issues
- Human rights, respect for the community and other stakeholder expectations
- Supply chain oversight and management
- Technological innovation and disruption
- Cyber security and privacy
- Population demographic shifts
- Resiliency of infrastructure
- Significant ESG related controversies
- Quality of ESG disclosure and transparency

## Our Beliefs

Manulife IM's commitment to sustainable investing is driven by our beliefs.

- **Sustainability is not a given**  
Achieving sustainable outcomes requires asset managers and investors to display leadership around and commitment to principles of sustainability.
- **Sustainability helps drive financial value**  
The ability to create financial value is impacted by the health of our natural environment and the strength of the social infrastructure in our communities. As such, we believe that ESG analysis is integral to understanding the true value of an investment.
- **The future of sustainability and active investment management is interlinked**  
As financial data and investment processes become increasingly automated, active investment management is necessary to deeply understand and harvest the value implicit in ESG factors.
- **We hold ourselves to a high standard of stewardship**  
Where we own and operate our assets, we believe it is our responsibility to pursue the best sustainability processes and standards for ourselves and our employees. We also take seriously our potential influence over the sustainability trajectory of companies we invest in.

<sup>1</sup> Manulife Investment Management is the unified global brand for Manulife's Global Wealth and Asset Management (GWAM) business which serves individual investors and institutional clients in three businesses: Retirement, Retail and Institutional Asset Management (Public Markets and Private Markets)

<sup>2</sup> The Manulife General Account maintains separate ESG Guidelines that apply to General Account mandates.

- **We share sustainability goals with our clients**

We strive to provide transparency about our asset management process, including our approach to sustainable investing, in order to support our clients in responding to their own stakeholders.

- **Our commitment to stakeholders goes beyond financial performance**

While our commitment to our clients is paramount, as a leading global financial institution we have a role in making a positive contribution to society in addition to our financial performance.

## Governance

Manulife IM has established a governance structure to oversee our teams' sustainable investing activities and support the implementation of the Sustainable Investing Statement in alignment with the firm's overall strategy and business priorities. This structure comprises various committees and working groups across the various asset classes at appropriate levels of the firm with representation from different business functions who are stakeholders in implementing the sustainable investing agenda. The Heads of the Public Markets and Private Markets businesses chair their respective Sustainable Investing Committee which enables regular decision-making oversight of the sustainable and responsible investing agenda that is appropriate to specific asset classes.

The governance structure is supported by staff who specialize in sustainable investing. These specialists support the implementation of the Sustainable Investing Statement through a variety of activities and projects which may include preparing annual business plans, identifying and developing sustainable investing best practices, supporting investment teams to develop tools and methodologies to adopt sustainable investing best practices across the investment life cycle, and leading the firm's participation in external initiatives or collaborative engagements.

The sustainable investing specialists work closely with portfolio managers and investment analysts located around the globe on the implementation of the Sustainable Investing Statement. Through this coordinated approach, the sustainable investing business plans and goals are disseminated and the firm's approach to ESG is further developed by the investment teams.

## Sustainability Integration Throughout the Investment Lifecycle

Our investment teams are empowered to make decisions in line with their investment philosophy and clients' objectives.

Each investment team has responsibility for its own investment process, from research through implementation. The integration of ESG research and considerations into investment processes aligns with this approach. In our Public Market investments, Chief Investment Officers have oversight of the investment processes of the individual investment teams, which includes the ongoing strengthening of our sustainable investing approach. In Private Markets our global head of each asset class provides a similar function of oversight and accountability for sustainable investing.

We look to incorporate material ESG considerations throughout the stages of our investment lifecycle, taking into account the characteristics of the asset class and investment capability in question, as well as industry and geography among other factors.

## Due Diligence and Decision Making

As part of the due diligence process, investment teams assess ESG issues material to an investment, and incorporate these factors into fundamental analysis, which then may influence their valuations, portfolio construction decisions, and transaction underwriting, where relevant. To inform their assessment framework, teams may utilize ESG research, data, and support from the dedicated in-house ESG teams assigned to public and private markets. Investment teams may also consider the responses of investee company management teams to inquiries focused on their ability and willingness to manage ESG issues. Conclusions about the materiality of ESG factors are documented in investment research.

## Portfolio Monitoring

Once an investment is made, investment teams continue to monitor all material aspects that could impact an asset or company, including ESG factors. Relevant risks or concerns are addressed as part of the team's ongoing investment process where relevant. The ESG teams may also conduct, on a periodic basis, reviews of individual portfolios, and engage with investment teams about potential ESG issues as a further enhancement to the materiality assessment.

## Asset Allocation

Our multi-asset solutions team emphasizes dynamic asset allocation and holistic risk management on a global scale. As part of the team's responsibility for working with Manulife IM's manager research group in the selection and monitoring of fund managers whose strategies are the building blocks of tailored asset allocation solutions, the team makes qualitative assessments of these managers' approaches to ESG integration.

# Stewardship

## i. Engagement

Responsible stewardship is an integral component of our business and culture, which extends across our public and private market investing activities. We seek to engage with companies in our capacity as an institutional investor to have a constructive dialogue on a variety of investment matters with the goal of enhancing long-term investment value.

Engagement also provides an opportunity to gather further information, which feeds into our due diligence process. Where relevant, we may engage to enact positive change in disclosure, management, and performance related to ESG factors.

Investment teams generally meet company management as part of their fundamental research process. These meetings provide analysts and portfolio managers with insights into management quality, business drivers, and the strategies of the companies in which they invest. In addition, these meetings allow investment teams to assess companies' risk, including exposure to ESG factors and the companies' management of that exposure to protect shareholder value. Where appropriate, specialist ESG analysts may also participate in company meetings alongside Manulife IM investment analysts and portfolio managers.

We also participate in collaborative engagements with other firms in our industry. Engaging collaboratively with other investors amplifies our impact on the companies, industries, and markets in our collective orbit of influence. For the companies we engage with, collaborative efforts reduce the noise of numerous points of view, helping focus on goal setting and real outcomes. Collaboration is always in alignment with our fiduciary duty to our clients as an asset manager.

If in our opinion issues of concern remain unaddressed by a company's leadership after a process of engagement conducted over a reasonable period of time, then we may consider an escalation. This could include voting our equity proxies in accordance with our views, filing or co-filing a shareholder resolution, or divesting.

Manulife IM may also occasionally engage with regulators where we believe it is appropriate and in the best interests of our clients.

More details: [ESG Engagement Policy](#)

## ii. Voting

Manulife IM<sup>3</sup> seeks to responsibly exercise its voting rights. The right to vote is a basic component of share ownership and is an important control mechanism to ensure that public and private companies and funds are managed in the best interests of their shareholders and investors. When Manulife IM is granted and accepts responsibility for voting proxies for client accounts, it will seek to ensure proxies are received and are voted in the best interests of the individual client.

We have adopted voting policies and procedures to ensure that proxies are voted in compliance with the requirements of all applicable rules and general fiduciary principles. When making voting decisions, Manulife IM does so in the belief that successful companies are better positioned over the long-term if they have:

- **Robust oversight**, including a strong and effective board with independent and objective leaders working on behalf of shareholders and investors;
- **Mechanisms to mitigate risk**, such as effective internal controls board expertise covering a firm's unique risk profile, and routine use of KPIs to measure and assess long-term risks;
- **A management team aligned with investors** through remuneration structures that incentivize long-term performance through the judicious and sustainable stewardship of company resources;
- **Transparent and thorough reporting** of the components of the business that are most significant to shareholders and stakeholders with focus on the firm's long-term success; and,
- **Management focused on all forms of capital**, including environmental, social, and human capital.

Manulife IM may refrain from voting a proxy due to logistical considerations that may have a detrimental effect on its ability to vote that proxy. Representative examples include cases in which underlying securities have been lent out pursuant to a client's securities lending program; situations where there is insufficient information to make a voting decision; and conditions under which market practices make it expensive to vote compared with the benefits of doing so.

Manulife IM seeks to ensure that proxy votes are cast in each client's best interests and handles potential conflicts of interest in accordance with the firm's Proxy Voting Policy.

More details: [Proxy Voting Policy](#)

<sup>3</sup>The Private Markets businesses maintain a separate proxy voting program and governance framework.

### iii. Operations

In segments where we operate assets, the incorporation of ESG considerations starts with the integration of ESG factors into our investment analysis and due diligence process. In our operating activities, we hold ourselves to a high standard of stewardship and sustainability. We do this both to protect and grow the value of the assets themselves as we create long-term value for our stakeholders.

## Exclusions

In general, we prefer to engage rather than exclude. An exception to that is our adherence to a Cluster Munitions Policy that aligns Manulife IM's investment operations with the business practices of our parent company, Manulife Financial Corporation. The Policy holds that we will not knowingly make direct investments in companies that manufacture cluster munitions. This policy applies to all investments made: (a) by or for the General Account of Manulife Financial Corporation's insurance company subsidiaries; and (b) for third-party clients of Manulife IM, where we have investment discretion. It may not apply to index investments, unaffiliated fund mandates, and client-directed managed accounts.

Exclusions may also arise in certain portfolios that Manulife IM may create in response to client requests, such as mandates and segregated accounts with specific values-based or compliance-driven screening criteria.

## Transparency and Disclosure

Manulife IM recognizes the importance of transparency and will report on sustainable and responsible investing related developments in an annual Sustainable Investing Report.

We will report annually on our activities and progress on implementing the Principles for Responsible Investment (PRI) in accordance with the PRI reporting framework. Further, we will fulfill our reporting requirements under any stewardship codes to which we have committed, for those aspects of our business to which such codes apply.

## Collaboration

Manulife IM seeks to promote sustainable capital markets and recognizes the importance of collaborating with other investors and industry experts both to gain insights into evolving best practices and to contribute to the growth and adoption of ESG integration worldwide. To that end, we participate in various sustainability initiatives, industry associations, and working groups, including the following selected examples:

- Asian Corporate Governance Association
- Asia Investor Group on Climate Change
- Canadian Coalition for Good Governance
- Ceres
- Climate Action 100+
- Global Impact Investing Network
- GRESB
- MIT Joint Program on the Science and Policy of Global Change
- Principles for Responsible Investing (PRI)
- Responsible Investing Association (RIA) (Canada)
- Sustainability Accounting Standards Board Investor Advisory Group
- World Business Council for Sustainable Development

We select groups and initiatives to which we contribute based on several general criteria. These include considerations of a group's relationship to a region of significance for Manulife IM; how the overarching focus of the group may bear on Manulife IM's approach to promoting sustainability; and whether participation in the group may offer meaningful opportunities to engage with peers for knowledge sharing and discussions of best practices.

Please visit our website at [manulifeim.com/institutional](http://manulifeim.com/institutional) for additional information about Manulife IM.