

# Sustainable Investing and Sustainability Risk Statement



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## Objective

This Sustainable Investing and Sustainability Risk Statement (**Statement**) provides an overview of the approach to sustainable investing within the Institutional Asset Management business of Manulife Investment Management<sup>1</sup>.

It outlines our commitment to sustainable investing and describes our core beliefs about sustainability. This Statement also describes how sustainability opportunities, risks and factors are integrated into our investment decision-making 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>.

This Statement aligns with our fiduciary responsibilities as a manager of client capital and is aligned with Manulife Investment Management's overall approach to sustainability. It also reflects our commitments as a signatory to the United Nations Principles for Responsible Investment (**PRI**) and various stewardship codes that apply in different jurisdictions, as well as regulatory requirements, such as the EU Sustainable Finance Disclosure Regulation where applicable.

## Our Commitment to Sustainable Investing

Sustainable investing refers to the consistent consideration of key environmental, social and governance (**ESG**) factors to inform or define the investment process and to gain a more comprehensive understanding of both the risks and the long-term opportunities arising from these factors.

A sustainability risk is any ESG event that, if it occurs, could or will have a material negative impact on the value of investments we make for our clients (**Sustainability Risks**). Sustainability or ESG factors include environmental, social and employee matters, respect for human rights, and anti-corruption and anti-bribery matters (**Sustainability Factors**).

The integration of Sustainability Risks and consideration of Sustainability Factors is a fundamental element of our approach to sustainable investing and is included in references to "sustainable investing" throughout this Statement.

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. We also 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.

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<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). This Statement applies to the Institutional Asset Management business of Manulife Investment Management.

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

While we also recognize that the scope of Sustainability Risks and Factors relevant to investing will continually evolve, the Sustainability Risks and 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 Investment Management'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 and Sustainability Risks are 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 or manage risk implicit in Sustainability 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.
- **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 Investment Management has established a governance structure to oversee our teams' sustainable investing activities and support the implementation of this Statement in alignment with our overall strategy and business priorities. This structure comprises various committees and working groups across the various asset classes at appropriate levels, with representation from different business functions who are stakeholders in implementing Manulife Investment Management's sustainable investing agenda. The Heads of Manulife Investment Management's 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 this Statement through a variety of activities and projects, which may include preparing annual business plans, identifying and developing sustainable investing best practices, managing Sustainability Risks, supporting investment teams to develop tools and methodologies to adopt sustainable investing best practices across the investment life cycle, and leading our 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 this Statement. Through this coordinated approach, the sustainable investing business plans and goals are disseminated and our approach to ESG is further developed by the investment teams.

## Sustainability Risks and Factors Throughout the Investment Lifecycle

Our investment teams are empowered to make decisions in line with their respective investment philosophies and clients' objectives. Each investment team has responsibility for its own investment process, from research through implementation. The integration of ESG including Sustainability Risks, Factors and opportunities into investment processes aligns with this approach ensuring that our analysis is relevant and meaningful to each team's investment process. 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 Sustainability Risks, Factors and opportunities 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 their due diligence process, our investment teams assess Sustainability Risks, Factors and opportunities material to an investment, and incorporate these assessments into their overall investment 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, proprietary and third-party data, and support from the dedicated in-house sustainability teams assigned to their asset class. 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 Sustainability Risks and opportunities are generally documented in investment research. A low, or poor,

rating may not necessarily preclude investment. Thorough analysis and engagement may determine that either the rating is misplaced or that sustainability improvements are underway. We engage with company management to understand their ESG strategy, influence best practices towards disclosure, seek improvement in key sustainability metrics over time, and to address issues pertinent to the specific investment thesis.

## Portfolio Monitoring

Once an investment is made, investment teams continue to monitor all material aspects that could impact an asset or company, including Sustainability Risks, Factors and opportunities. Relevant risks or concerns are addressed as part of the team's ongoing investment process via on-going company surveillance and engagement, where relevant, portfolio positioning and risk monitoring, the sustainability teams may also conduct, on a periodic basis, reviews of individual portfolios, and engage with investment teams about potential Sustainability Risks as a further enhancement to the materiality assessment. The nature of any material risks identified will inform decisions as to next steps within the context of the team's overarching investment process, including further company research and company engagement among other considerations.

## 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 Investment Management'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.

## Passive products, other asset classes and delegation to third-party investment managers

Whilst this Statement describes Manulife Investment Management's general approach to sustainable investing, including the integration of Sustainability Risks into its decision-making process, some investments may be managed differently to some or all of the processes set out in this Statement where the approach is impractical or impossible, for example in relation to certain instrument types where sustainable comparable alternatives are unavailable. Where another approach is adopted in relation to an investment strategy, the details will be set out in the relevant product literature or client agreement.

This may include, but is not limited to:

- passive funds which are designed to replicate an index;
- funds that invest in derivative instruments where Sustainability Factors are not considered due to the time horizon of the investment or the lack of alternative liquid investments or where sustainability integration, due diligence and information has not yet evolved to a degree that the processes in this Statement can reasonably be followed;
- products managed in accordance with specific client objectives which preclude following aspects of this policy; and
- investments in funds where investment management is delegated to an entity outside of the Manulife group of companies. Where we invest in funds managed by third party managers, those managers may apply their own methods of Sustainability Risk integration. Managers in jurisdictions outside of the European Union may not be subject to the same requirement to have policies in place to address Sustainability Risks. This Statement applies only to our own fund management practices.

## 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 and mitigating risk.

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 Sustainability Risks or 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' risks, including exposure to Sustainability 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 Investment Management 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 Investment Management may also occasionally engage with regulators where we believe it is appropriate and in the best interests of our clients.

More details on Manulife Investment Management Public Markets: [ESG Engagement Policy](#)

### ii. Voting

Manulife Investment Management 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 Investment Management 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 Investment Management 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 financial and non-financial 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 a focus on the firm’s long-term success; and,
- **Management focused on all forms of capital**, including environmental, social, and human capital.

Manulife Investment Management 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 Investment Management 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 on Manulife Investment Management Public Markets: [Proxy Voting Policy](#)

### iii. Operations

In segments where we operate assets, the incorporation of ESG considerations starts with the integration of Sustainability Risks and Factors into our investment analysis and due diligence process. In our operating activities, we hold ourselves and third-party operating companies (or managers) 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 Investment Management’s investment operations with the business practices of our parent company, Manulife Financial Corporation. The Cluster Munitions Policy states 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 Investment Management, 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 Investment Management may create in response to client requests, such as mandates and segregated accounts with specific values-based or compliance-driven screening criteria.

### Principal Adverse Impacts

Adverse impacts are the environmental and social implications of economic activity that are considered to have a negative effect on the world. There is an inexhaustive range of factors, for example, climate-related impacts or human rights policies adopted by investee companies to gauge these adverse impacts. Manulife Investment Management recognises the importance of these impacts on our investments and identifying and monitoring such adverse impacts is integral to the



integration of Sustainability Risks in our decision-making process. The risks we currently consider to be of most relevance to our business are set out in the section “Our Commitment to Sustainable Investing and Risk Integration” above.

We use various techniques to identify, avoid or mitigate adverse risks in the investment research process including through the methods otherwise described in this Statement, including our approach to engagement and voting. Where relevant for our entities and/or products, we will set out further details on our approach to the principal adverse impacts of investment decisions on our website and in the relevant product literature.

## Transparency and Disclosure

Manulife Investment Management 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 PRI in accordance with the PRI reporting framework. Further, we will fulfil 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 Investment Management 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<sup>3</sup>:

- 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 Investment Management; how the overarching focus of the group may bear on Manulife Investment Management’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.

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<sup>3</sup> Current as of February 2021. Further up to date information is available upon request.



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

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

This material has not been reviewed by, is not registered with any securities or other regulatory authority, and may, where appropriate, be distributed by the following Manulife entities in their respective jurisdictions. Additional information about Manulife Investment Management may be found at [manulifeim.com/institutional](http://manulifeim.com/institutional)

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