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Demystifying ESG

### Speaker Participants

#### Leslie Brophy

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#### Alyson Slater

Managing Director, Sustainable Investment, Manulife Investment Management

#### Patrick Blais

Senior Portfolio Manager, Fundamental Equity Team, Manulife Investment Management

### Presentation

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#### Leslie Brophy:

Hello everyone. Welcome and thank you for taking the time to join us at this quarter's Manulife Private Wealth webinar. The theme this quarter is drawn from activities scheduled around Earth Week to help raise awareness of climate change and to better understand how stewards of capital, such as Manulife Investment Management, leverage environmental, social and governance principles to effect positive change in the boardroom of the country's largest corporations. My name is Leslie Brophy, and I'm the AVP of Manulife Private Wealth, responsible for the investment platform and the Sales Team at Manulife Private Wealth. At MPW, we are committed to responsible investing through the investment management companies we allocate capital to, and we believe we have a role to play in making positive contributions to society. As a steward of client capital, we continually review together with our Manulife Investment Management partners on the Global Manager Research team, how our investment managers apply ESG, that is environmental, social and governance principles to their processes. In this episode of our quarterly webinar, we'll discuss how employing ESG principles can create long-term value while helping to realize a sustainable trajectory for the economy. We'll also look at how the integration of ESG principles can help fund managers understand the true value of an investment, mitigate risk and identify new opportunities. As always, this event is prepared solely for your information, and for those interested in a replay or in sharing this information with others, we are recording this segment. A copy of the recording will be available on MPW's website at [manulifeprivatewealth.ca](http://manulifeprivatewealth.ca) or via LinkedIn at Manulife Private Wealth.

We'll have time for questions at the end of the section and if you listen to this discussion between our panelists and

if you have a question please submit your question through the button at the bottom of your screen. If you wish to remain anonymous, you have the ability to select that option before submitting your question. So let's introduce our guests today. These two individuals are two of Manulife Investment Management's experts on ESG and sustainable investing. Patrick Blais is a Senior Portfolio Manager on the Fundamental Equity Team at Manulife Investment Management. He's responsible for the Canadian core equity strategies, which seek to provide long-term capital growth by investing primarily in a diversified portfolio of Canadian equity securities. Prior to joining Manulife, Patrick was a portfolio manager and analyst at KBSH Capital Management, focusing on international equities. Patrick holds the Chartered Financial Analyst designation and is a Fellow of the Society of Actuaries.

Our other guest today, Alyson Slater, is the Managing Director of Sustainable Investment at Manulife Investment Management. She leads sustainable investment and ESG activities in Canadian public markets. Alyson supports ESG integration across asset classes, investment stewardship, activities with issuers, new sustainability-themed product development and engages with clients and key stakeholders in Canada and beyond. Alyson is a member of the Canadian Sustainability Standards Board and the federal sustainability development strategy advisory committee. Welcome, Patrick and Alyson. Let's get started.

So, big picture. What is Manulife's Investment Management's view of sustainable investing overall? Why do we do it? And why is this important to our clients? Alyson?

#### Alyson Slater (4:08):

Well, Leslie, I actually think you took the words right out of my mouth in your opening remarks, so thank you for setting things up on this Earth Day and for the opportunity to be here with the group today. I really appreciate it. But as you said, it's more than just the right thing to do, in the end it creates long-term value for our clients and that's why we've made sustainability a core part of our strategy and we see it as a key driver for future success as well, so it's not only about managing risk today but also being positioned competitively for the future. We are typically longer-term investors, we're committed to sustainably delivering on our clients' financial objectives, of course, and acting as responsible stewards of the assets that we invest in. And our approach at Manulife Investment Management is aligned with the parent organization, Manulife Financial Corp, who really walk the talk on this. And the Board of Directors at the highest level does oversee all that we do on sustainability and on sustainable investment and that rolls right on down through into Manulife Investment Management. Here at Manulife Investment Management we do embrace sustainability across all asset classes. Today, we're talking about public asset classes but, for

example, we are the largest investor in sustainably managed timberland and agriculture, for example, worldwide. So, we try to bring this to life in all of our asset classes and use this as a competitive advantage. In our public team where I sit, I think we are 13-strong now in Sustainable Investment and we are embedded within and sitting among our investment professionals the world over, so I'm just sitting across the hall from Patrick for example and we have colleagues in all the places where we have our investment teams including Montreal, Boston, also Singapore, Hong Kong and London. So, we're really there to help support, integrate, bring subject-matter expertise and help the teams move things forward on sustainability. So, in short, this is both a risk and an opportunity that we want to harness to really get the best results for our clients and for the companies we invest in, the underlying assets, we want to help them be the best they can be if you want to think of it that way.

**Patrick Blais (6:25):**

Yeah, if I can—hi everyone—if I can just add to Alyson's comments as a portfolio manager, it's been quite fascinating to see the journey that ESG has taken over the last 10 years within the company. Ten years ago, management decided that ESG was important, and it was important because it would actually help to improve our investment returns and manage the risk. So, we built out a great team, Alyson's part of that team. It's quite a sizeable team, probably one of the biggest in Canada, and we partner with them to bring value to our clients. And our clients have definitely identified it as a focus. When I think about many of our large clients' pension plans, foundations, endowments and the consultants that helped them to choose the asset manager, ESG is a must-have. And doing it effectively is definitely a differentiator. I think we're lucky at Manulife, I think we do it very well. And just to give you an illustration of the topics that we address, it can be carbon emissions, it can be about supply chain resiliency, for example the type of labour they employ, very topical last year was the issue of slave labour, how we do we handle it, how do we make sure that we have the processes to make sure that our investments aren't attached to them. Things like corporate governance, management compensation structure, very critical. These are all the number of items that we get to address in partnership with the ESG team. The way I like to think about ESG as well is what does it mean to us today? Years ago, I think ESG was very niche. It was a term, SLI, which may have been too narrow. It's moved on now to sustainability. We think about it a little bit broader, the sustainability of our investments. But I like to think of it more just as responsible investing. We have to remember right we're shareholders, which means we're owners of these companies, so we should act like owners, we should care about what our companies do for the betterment of our investment. And I think at Manulife we're very lucky, I think we do it very well. I think we're well recognized, and I'm looking forward to seeing how the industry continues to evolve.

**Leslie Brophy (8:59):**

Thanks, I've certainly learned a lot by working with your team, Patrick, and with Alyson and your predecessor on ESG and what that means from an investment perspective. But turning to the Canadian Equity Fund that you run and the fact that it emphasizes its integration of environmental and social risks into the overall investment process and asset level assessment, can you explain to us a little bit more what this means?

**Alyson Slater (9:27):**

Well, the definition of ESG integration, this is a term that people are throwing around a lot these days so you might hear it out there but it just simply means the process of considering all material factors in investment analysis and in investment decision-making, so environmental, social, governance, ESG, factors. Patrick just outlined the sorts of things we look at. I mean in the end, we're asking ourselves will the company's ability to make money be impacted by things like increased storms from climate change, or from disruptions in their supply chain because of increased fiscal climate change risk. Do they treat their people well and therefore do they retain the best talent? Does the board have the right skillset, does it function well and does it have the skills to oversee some of these risks that maybe have traditionally been on the fringes of business but that our now quite central to a successful business. So not every company will have the same set of material ESG risks and opportunities, of course. It really depends on their business model, where they're operating, what sector they're in, and those sorts of factors. So, we do believe over time that companies with better sustainability characteristics are usually future-proof or future-ready, they're more efficient, they're lower risk, they're more resilient, they avoid controversy, and they're just generally better-run companies, better-led companies. So, in the end, we do a lot at Manulife from the Sustainable Investment Team to set up systems, processes, data sets, practices, you name it. But in the end, the ESG integration itself is owned and implemented at the investment team level, so by the teams themselves, around the world. So, I'd like to pass it back to Patrick to talk a little bit more about the way they bring this to life in his strategy.

**Patrick Blais (11:22):**

Thank Alyson. So, as Alyson pointed out, I mean the concept of ESG integration, what we mean by ESG integration, is really making sure that all the risk and opportunities are reflected in our investment analysis. There's no exclusion in our fund, we're not excluding any names, we're not including certain names just because of their environmental, social or governance characteristics. What we're doing is actually measuring the risk and opportunities on the environmental, social and corporate governance front to understand if they can impact our investment view. We have a certain way of investing. My team's known for focusing on the cash that a company generates and what's the risk to that cash, and what's the quality of the company according to that cash and determining a valuation. Now, certain metrics that in the past we weren't really thinking about, because to be

honest I think we were doing a disservice to our investors by not really thinking as long-term as we should, and by we I mean the industry as a whole. But what I think what the ESG partnership has brought is a robustness in the ability to do that analysis and do it well. So take carbon emissions, for example. I think today we're all aware that there's a real impact on companies and on high-emitting carbon companies. We're seeing a lot of regulations taxing carbon emissions, we're seeing regulations capping carbon emissions. We're seeing clear shifts and transition in the real economy because of society's decision to address this topic. Now, if you look at our other funds, we don't exclude energy companies. In fact, at certain points in time in the last few years, we've been overweight, and very overweight in energy companies. But that said, we always made sure that we reflected the risk of this transition in our assessment of our potential investments. Meaning that if the risk was more than captured in the investment then we had conviction that we could step in, and make an investment because we were factoring in that transition. So, we're not excluding energy companies but we're making sure that we're reflecting in this instant the risk of regulation and taxes and the penalties associated with being a high carbon emitter. So, it's just really improving your investment framework and allowing you really to do better investment decisions that can ultimately potentially help you to deliver better returns.

**Leslie Brophy (14:04):**

Yeah and, Patrick, with your comments, it's evident that there is a lot of rigour that goes into your process with regard to ESG and the principals that are part of that. How has the use of data and standards, how have they developed? And are you actually able to use existing company reporting relative to ESG principles in the investment processes and the research that you do?

**Alison Slater (14:38):**

I mean it's a great question. And ESG, or sustainable investment overall, you know requires a lot of data and, admittedly, we are decades behind, probably, in financial reporting, when it comes to standardized practice, the regulations and policies that mandate that sort of practice and of course even company know-how in terms of what to report and how to report it in a fashion and in a time-scale that's usable for investors. This is an ongoing dialogue but there are signs of maturing sustainable investment reporting practices where we're sort of moving beyond the challenges of some of these that have dogged us in the early days. So, data is available, investment-grade data you could even say, is available, becoming more and more available, accelerating. And we contribute to standards development, I think you mentioned in my bio earlier, I'm sitting on the Canadian Sustainability Standards Board where we're trying to shape the future of the sorts of standards that we expect companies to use so that we can get the data we need as investors on that. That said, the Sustainable Investment team, we do spend a lot of time curating data sets, drawing from the main providers. And they're, you know they're names you all

know, Bloomberg, MSCI, S&P, they all have ESG data offerings. But what we need to do is sort of understand the strengths and weaknesses of those different data sets, figure out which one is best for whatever purpose and bring that together, do our own research in addition and create sources, and create curated data sets and work with IT to make sure our team, Patrick and his team, for example, can very easily get access to high-quality data on their screens and be able to use it on a day-to-day basis just in the way that do use financial data.

**Patrick Blais (16:35):**

Yeah, so I think Alyson really nailed it when she said do your own work, right? In the past, when we started, we were really relying on third-party ratings, which was a little bit disingenuous in my mind because at the end of the day, what is our own opinion? We need to stand for something. At Manulife, we really put a lot of investment in now being able to access data, and access the right data. There's a lot of data out there, but the ESG team has done great work to basically curate and source the right data that leads us to better understand the companies that we're investing in as well as our portfolios, right? We really try to be objective and to measure the ESG profile of every one of the names that we invest in but as well as our funds. So, for example, we can easily pinpoint the carbon emission profile of the companies but as well as the fund. But it goes beyond environmental. Also, for example, on the social front, gender diversity, very topical, very important. We can view that in our fund, where we stand relative to the index. We can view from corporate governance where we stand for example when it comes to the proportion of independent directors or directors on the board. Now, we're not managing the fund to specific metrics but we want to see how we're positioned, what we're invested in and where can we improve, right? If we do have certain metrics where we fall behind on the index, we want to understand why, we want to understand which companies. And I'm sure we'll get into this in a few minutes. ESG goes beyond just measuring and analyzing, it's also engaging and enacting change in some of the investments that we have. So, yeah, at the end of the day, it's do your own work, rely on the data. I've seen massive improvement in the data but also companies' willingness to share data. I remember 10 years ago, it was impossible to get any carbon emission data out of any company. Today, I would say I'm quite pleased to see the evolution and the transparency of many companies, even energy companies, on that forefront, to really be transparent, be objective, and show in many instances the good work that they're doing in trying to address some of these critical issues.

**Leslie Brophy (19:19):**

Yeah, I would say you know that over time we just get better at reporting and being more sensitive to the kind of impact that we're having overall to the climate, to environmental, social and governance issues. One of the things that comes up from time to time in the media headlines is the subject of greenwashing. What... how do

you view this and what can investors do to think about greenwashing in, you know, from a perspective of making an investment decision?

**Alyson Slater (19:53):**

Yeah, well, simply put, you know the way we define greenwashing is it happens when the green or sustainability credentials are overstated. So, for example, this could be a company claiming that their products or their services are greener than they really are. You know, or it's not only the environment as Patrick said, you know that are better on social issues than they really are. Or it could be an investment manager claiming that their fund product is doing more for the environment that it really is. You know you can't get into that position where you overstate it. So, as an investment manager, this kind of gets back to some of the earlier points, links to some of the earlier points we made about the importance of standards, regulation, reporting, transparency to help reinforce the fast-maturing field and help this field stabilize. But for us, it's important to be sure that we get beyond any possible greenwashing by the companies that we're invested in by really digging into the data and making sure that we agree that they are where they say they are in terms of their environmental credentials, on the one hand, and then on the other hand, for us to be clear and transparent and consistent when we talk about the ESG characteristics of our investment products. And here, I think there's been some confusion in the market. When we talk about ESG integration, we're mainly looking through that risk lense, you know. Are we, as Patrick said, are we, have we taken all risks into account? Have we priced it in? That's what we're doing with ESG integration. We're not necessarily optimizing for a climate-focused result or a DEI result. We're not saying okay we're aiming this fund to only have women CEOs at these companies. That's not what we're doing. What we do is we have an understanding of the gender diversity at these companies and which ones are stronger, which ones are weaker, where we can try to drive better results, but we're not necessarily, we're not going to overstate and say this is a female-led fund or something like that. So, it's being very clear about the difference between integration and impact and what you're trying to do, how you're trying to design the fund. Are you taking advantage of risks and opportunities or are you trying to align capital with certain ESG outcomes, for example. Very different things. So, really important as an investment manager that we're very clear to our clients about the different characteristics of the whole wide variety of different funds that we have, what they're actually doing, what we're aiming to do in terms of ESG with those funds, what's the objective.

**Patrick Blais (22:29):**

Yeah, just to quickly add to Alyson's point, I really view it as if you're aligned with an investor that takes ESG seriously, meaning that they have an independent ESG team, they've invested in ESG, it can't be done on the fly. I've seen the amount of work that Alyson and her team put in. It takes a lot of strength, and it takes the right

people. And the truth is there's a lot of nuance in ESG. It doesn't stop at the numbers. The numbers are very important, and it's good to have an objective, transparent ESG process that aligns and improves the investment approach, but in many instances, for example when there's a problem with the company, it takes a lot of nuance to be able to address it and take the right steps forward to try to have a positive impact. And that really comes down to engagement and it's a key critical place, item, when it comes to ESG and it's definitely something that we take at heart and I'm sure we can discuss in a few minutes.

**Leslie Brophy (23:49):**

Actually that's a good segue into our next question and just thinking about evaluating ESG risks in the issuers that you own. And obviously you're trying to get, actively, you're actively trying to get better results for clients and for sustainability but can you talk a little bit more about the concept of stewardship and engagement activities that you have with the issuers?

**Alyson Slater (24:17):**

Well, I'm really glad that you've asked that because we've talked a lot about integration here and kind of the nuts and bolts and the math, but a lot of what we do as active managers is really you know we've got a huge opportunity to engage with the companies that we own to try to drive better results, and you know we do this anyway on business matters, on financial results, for example. So, this is not new work, so adding in questions about the board of directors, about the governance practices in place to the board of directors, for example. Talking to senior management about some of the risks they're facing, how are they coping, how do they see climate change as a risk, and how are they looking out five years, ten years to try to change business operations to mitigate or avoid those risks, for example. Maybe they've had a controversy, we've seen their name in the headlines. It happens all the time. So they're facing a reputation risk now. We call them up, we find out what happened. Were they, was anyone surprised by that, did they have procedures in place that failed them? Was it something that came out of left field and how are they going to respond? And you know, we can help with some advice with our own expertise. We definitely monitor the situation to see how they're going over time. Some of these things are not fixable overnight. So, I think it's looking at ourselves as a partner. Hey, we're an owner as Patrick said, we're acting as owners, we care about this company, we want them to do well. We don't want them to be lagging their peers for example, on an ESG area, or be subject to a greater risk than they really need to be taking. We can also, you know, having an open line of dialogue with them, we get access to information and data that maybe they hadn't reported yet in the public domain, we get access to board thoughts, leadership, you know where they think they're going on these issues. And last year I can say in the public markets we conducted over 1,200 engagements with issuers. Not only on the equity side but also on the fixed income side, with issuers

just on ESG issues, so 1,200. And as I said there's only 12 or 13 of us on the ESG team so it's not us conducting 100 engagements each. This happens at the team level, so all the investment teams take this on when they come across, usually it's a risk or a red flag or a performance issue or maybe a data point that's missing. You know they won't hesitate, they'll call up the company and have a conversation with management or board, whatever is appropriate to try to find out what they want to know.

**Patrick Blais (27:02):**

So, within my team, engagements are definitely critical. For example, in 2024, we've already had nine engagements, and it's important to understand, I do believe that we pride ourselves on quality engagements. It's easy just to meet a company and ask a few ESG-related questions and call it an ESG engagement but the truth is at Manulife we look for outcome-based engagements, meaning that when we meet with companies and we're having one of these ESG meetings, we've already done our work and our work has assessed where the company could do better to favour shareholder returns. Just to give you an example, we all know climate change, again, is a big topic that's having a real impact on companies. What we're looking for out of companies is a clear path to plan on how they're going to address their carbon emissions. We're a big believer that one of the best initiatives out there is science-based targets. It's being adopted by a lot of companies, especially companies that are leading the charge in terms of how to decarbonize effectively, right? To adapt to a new reality. So, we've had many instances where we engage with companies where we view that it would be in their best interest and the best interest of shareholders, to adopt science-based targets. Another one could just be board diversity. Many times, we think certain companies, especially large companies, should be able to fairly diversify their board, whether it's from the gender or a specific background. So, we are in agreement with companies that in certain instances we believe they can do it better. And again, it's for the betterment of shareholders. We don't want companies to be viewed negatively due to a lack of diversity, and in all honesty diversity typically brings diversity of thought, which allows you to better manage a company from a risk and opportunity point of view.

**Leslie Brophy (29:22):**

So, bringing it back to Earth Week and the fact that we celebrated Earth Day not too long ago, let's talk a little more about climate change. And the fact that climate change has been front and centre over the years. It's probably the most important ESG topic. Can you update how investors could look at this in their own investment process and touch upon nature and biodiversity? It seems like these issues are getting more and more traction in capital markets.

**Alyson Slater (29:54):**

Yeah, you're right. The thing about climate change, now we all know what it is, but let's take a step back. Why is it

of interest to investors, this is the question. A couple years ago, Bank of Canada and the prudential regulator, OSFI, that's the one that supervises the banks and the insurance companies, they proclaimed climate change to be a systemic risk. So this means they see climate change, and that could be either the risk coming from more wild fires, more floods that we've had, more extreme heat, we all lived through that last summer, goodness sakes, or it could be the risks coming from the low carbon transition, meaning as we try to move off fossil fuels, it will be quite disruptive in our society as we embrace other forms of energy and sort of change the way our underlying system really works. So, whichever path we go on, we're looking at systemic-level risk. And from an investor's standpoint, this just means, this is a non-diversifiable risk. It just means we can't sell some companies in our portfolio that are in a certain geographic region or in a certain sector and be free of the risk. We're not able to do that because climate risk touches pretty much every company in every sector in every part of the world. And so we need to understand that that's how companies are preparing, how companies are coping today with the physical risk that is upon us, how they're positioning themselves to be successful in a low-carbon future. And there's huge opportunity here as well. What we're seeing is companies getting greater and greater revenues from clean-tech sources, for example. So it's not all doom and gloom. There's also opportunity growing and growing week on week, so that's very exciting. You touched upon nature, and that's an area that Manulife is definitely taking a leadership position in. It really stems, as I mentioned earlier, it stems from our long-term ownership of sustainably managed forests and agricultural activities in our private-market side. And so we've got a ton of expertise in this space on nature and biodiversity, and the way to think about it as an investor in public markets is, you know, pretty much everything we rely on in our lives originates in nature, doesn't it? You know, the materials for our homes, the food we eat, our water, I mean even our electronics that we can't live without, even infrastructure, couldn't be made without the vital inputs from our natural environment. And so, the way we look at it is that many sectors have deep dependencies on inputs or services as you might call it from nature. So, some seem clear like forestry and agriculture, but think about a semi-conductor company. They require massive amounts of fresh, cold water to produce personal products that rely on, that produce semi-conductors. We think about you know, pharmacy and personal products that require specialty plant materials. I mean it goes on and on and on, especially when we start thinking about food producers. So, what we're wondering from the public markets perspective, is are they aware of these dependencies? Are they doing the work to make sure that they can continue to draw down from those nature reserves or are they degrading and diminishing those natural reserves, putting themselves and the wider sector or the wider community at risk actually? So, this is something we're trying to assess in our portfolios, which companies are having an outsized impact on nature loss, for example, which companies

have critical dependencies on inputs that might be under threat, have they assessed it, and are they positioning themselves for success? So, the big picture level, I guess that's the way we, in a nutshell, how we look at climate and nature.

**Patrick Blais (33:42):**

Yeah, so from a portfolio management perspective, when it comes to climate change, I think we've seen a clear evolution, and the ability for portfolio managers to measure the risk and the opportunities that are associated with direct carbon emissions at the company level. Now, I think we've broadened it out. For example, one of the big topics in the last year, is something that we, the ESG team as well as my team's been involved with, especially with the Canadian banks, comes toward finance commissions, right, where there is a lot of debate over how to address and to reflect the risk and opportunities of Canadian banks financing large carbon emitters and, on the counter side, financing Canadian solutions. So, we've been involved at that level to really understand what are the risks and the opportunities and what can these companies do better to improve their risk-return profile and better shareholder returns. Now when it comes to nature, biodiversity, it's only started but it's already had some impacts in how we assess companies. For example, when I think about a certain restaurant company that's been in our portfolio in the past, we did address their use of water as well as potential links to deforestation. And it doesn't mean that if it's not talked about it can't become a risk. I think you want to be ahead of the risk. You want to understand them and you want to understand where the company is going. Because, again, these issues, there's a real cost to them, there's a real social cost. And like we saw with climate change, society came around and decided that we wanted to reflect this cost at the operational level, hence the existence of carbon taxes now, and caps on carbon emissions. And we do believe that when it comes to nature, biodiversity, we're not just doing it because we think it's the right thing to do. I mean, up to a certain point it does drive us how to operate responsibly, but there's also the reality that it probably will become a real monetary cost. The taxation of companies on nature and their environment. So, it's really about making sure that we're capturing all the risks, capturing all the opportunities and reflecting it in all our investment decisions to make sure that we deliver good returns for our clients.

**Leslie Brophy (36:27):**

Thank you, it's definitely a hot topic that I think we'll continue to discuss over many, many years to come. I'm going to stop the formal remarks right now, we are starting to run out of time, and I want to thank you, Patrick and Alyson, for sharing your insights today. I'll turn it over now to questions, I do see we have a question in the queue. And for those of you who do have additional questions, please look for the button at the bottom of your screens and if you wish to remain anonymous with your question, there is that option to do so as well. So, question comes in: With a 50-50 portfolio of bonds and

equity, how does the environmental aspect affect the portfolio?

**Alyson Slater (37:20):**

Well, I could jump in a little bit there because I do work with our Fixed Income Team as well as Patrick's team, which is an equity team. Patrick mentioned earlier how they look at the potential risk that an ESG issue might have on sustainable free cash flow, or something that his team, a the core valuation that his team uses. The Fixed Income Team looks at it differently. They'll look at could this ESG risk impact the credit profile of this company? Is it priced into this bond? Is it going to impact cost of credit, or cost of capital for example, for these companies. So the team looks at it through a different lens but they still do embrace ESG. And I will say the other interesting thing with fixed income is the rise of what we call labelled bonds. So, these days you can buy a green bond, you can buy a transition bond, a low-carbon transition bond, you can buy a blue bond, you can buy a silver bond. So, there's a rise of this labelled bond segment where these bonds have been issued with a use-of-proceeds designation. So they're saying okay this money has been raised to decarbonize a factory, this money has been raised to buy... this bond has been issued by a municipality to build social housing, right? And then there's metrics related to the bond, and it may change the return on the bond if the issuer meets or doesn't meet those environmental or social goals. So, that's a kind of another angle that fixed income investors have at their fingertips as well. So at the equities level it's about the issuer, and at the fixed income level it's about the issuer and the issuance itself. We have that second layer we can look at through an ESG lens.

**Patrick Blais (39:15):**

And just maybe to reinforce on the equity portion, it really comes down on a per name basis what the ESG profile might imply for the risk return. We've talked a lot about the risks, I mentioned carbon emissions, I mentioned broader deforestation. But there are also opportunities. For example, a name in a portfolio, which we actually thought with some ESG investigative work really convinced us that there was clearly more upside than we initially thought. It was an engineering firm where they had developed a clear leadership when it came to engineering services around the environment. And we did see in the past that it helped them to sustain superior growth. So here's an instance where that work gave us actually not just risk, a better understanding of the risk, but a better understanding of the opportunity and therefore further upside in the name. So, it's really about per-name approach when it comes to the analysis but I really want to re-emphasize as well as engagements, we do think that through our engagements we have bettered some of our investments. And sometimes it's something as simple as really having a discussion when it comes to executive compensation. We do believe that the right incentives can drive the right action for shareholders. In many instances, we've intervened, engaged with companies, even extended our engagement to effective

proxy voting to basically nudge companies in what we think is the right direction where their incentive is just better aligned with shareholders. So, I think we have to take a step back and look at the complete picture on the impact we can have, and I'll be honest with you, it can really be quite powerful. And really make our investments better and make the investment landscape better for everyone involved.

**Leslie Brophy (41:22):**

Thank you. And we have one last question because we are believe it or not running out of time. This question is related to certain companies who seemed many years ago to be on the fringe of breaking into the ESG environment, whether it was in the energy sector or one of the other ones, that were on the fringe and they haven't really lived up to their promise from a performance perspective. They might be right in the sweet spot from an ESG perspective, but from a stock performance, they haven't really produced the results expected or at least what folks thought when they were first issued would be smack dab, this is where we want to go. Any kind of ideas or thoughts around what's happening underneath the firm or is it that the market hasn't picked up on the story, or is it fundamentals?

**Patrick Blais (42:23):**

Alyson, do you want me to take that first? I'll just start and maybe you can add.

**Alyson Slater (42:27)**

Sure.

**Patrick Blais (42:30):**

It's something that we think about all the time, right? So, as an investor, I think it's always to remember, right, you do need to always look at the fundamentals and not just invest in a story. What I find may be a little unfortunate is that the market does chase stories in many instances, and sometimes it's exciting, right? I mean we've heard a lot especially on the environmental front, innovation when it comes to renewables, when it comes to carbon capture. But you always have to be careful, because you have to take a step back and ask yourself, what are the risks that I'm taking and how sound are the fundamentals? Now, we have a particular way of investing. For those of you that know us, we're all about companies that generate cash, have a history of generating cash and that we believe will continue to generate cash, that we can measure the risk to that cash flow and can measure the quality of the company, and lastly but definitely importantly, what we think the firms are worth. We wouldn't buy a concept stock or a speculative name when it comes to our portfolio. But rest assured that there are companies that are benefitting from those environmental opportunities. In many instances, it's funny ....it's actually the existing companies that are taking some of these new technologies and incorporating them into their business and making their business better. Take rail companies for example. We do think they have a real credible plan to reduce their carbon emissions to zero within a reasonable

timeframe. And they're going to do it through a variety of steps becoming more efficient, gradually electrifying their system. And that's just going to build their value proposition, right? Because when you think about a lot of their customers, they're actually looking to reduce their carbon emissions. If you ship goods, it's probably one... pricing is important but what's becoming equally as important is how much carbon emissions are you going to save by shipping the goods in the right fashion. And rail companies are seeing goods being directed their way, business being directed their way because they're proving to be much more efficient when it comes to carbon emissions, much lower than their competitors, namely trucking companies. So, you know at the end of the day, there's a lot of opportunities in the ESG space but you still have to be careful, you still have to have a good sound investment process that allows you to identify the right ones, right? The ones that are right for you. I've just described maybe what's right for me, maybe it's not right for everyone. Maybe people are looking for something a little more speculative, a little more exciting, a little more... But what I've told you is how we manage money, right? We manage money carefully for our clients, and we're in it for the long term. And at the end of the day, we're buying what we believe are sound businesses that are doing the right thing on every front, including the ESG front, and seizing those opportunities while managing those risks.

**Leslie Brophy (45:44):**

Alyson, any additional comments?

**Alyson Slater (45:46):**

Well, just to say and I think you're talking about companies that might be trying to offer the solutions of the future, right? And this is, rather than the ones, the established incumbents of today, who's out there trying to think about renewables, or you know clean tech solutions that are as of yet unproven, as of yet there aren't major guaranteed markets for yet, there's confused policy and regulatory environment. And as Patrick says, it's not only about what you hope maybe comes to life, in terms of if you're interested in climate and a clean future, but it's we need to see those companies succeeding as well, we need to have those locked-in sales, we need to have that growth, we need to have that possibility. So, in a transition area, a lot of this we're still waiting. As I said, that's exciting days for some people, for some investors, because we're still waiting to see which are going to be the winners of the future. You know where's the policy going to come down and sort of anoint various sectors as winners, as we go through that low-carbon transition switch. And some of those pathways are just not yet clear. You know, which of these clean-tech solutions are going to become the norm, and become important parts of the way our economy is powered in the future. So, the path is still ahead for us.

**Leslie Brophy (47:09)**

Okay, thank you Alyson. I see that we've got a couple more questions in the queue. Unfortunately, we are out of

time, so I'm just making sure we're recording them and we will get back to, we'll post the answers on our website once we post the webinar. So, thank you everyone. That's all the time that we do have for today. At MPW we believe robust ESG integration can help deliver attractive risk-adjusted returns for our clients over the long term and we put this into practice in our investment process. We fully recognize the scope of ESG investing is constantly evolving, and our approach continues to develop and mature in tandem. We look at industry best practices and leverage the experience of our parent company, Manulife Financial Corporation, where possible. I hope today's session was insightful. Should you wish to learn more about the strategies presented, or the Manulife Private Wealth platform, please reach out to your investment counsellor or a member of the Manulife Private Wealth team. Thank you for joining us today and we look forward to hosting you at our next session.

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