SEPTEMBER 2023

INVESTORS *for* PARIS COMPLIANCE

SUN LIFE & MANULIFE'S NET ZERO COMMITMENTS 2023 PROGRESS REPORT

CONTENTS

SUMMARY & KEY FINDINGS

This is our second year assessing the climate plans of two of Canada's largest life and health insurers and asset managers: Sun Life Financial Inc. ('Sun Life') and Manulife Financial Inc. ('Manulife').[1] In 2022, according to data collected by Investing in Climate Chaos, the companies are the first and fourth largest Canadian investors in coal and in oil and gas, respectively.[2]

2022	COAL	CDN RANKING	OIL & GAS	CDN RANKING
Sun Life	US$11.6 billion	1st	US$12.7 billion	1st
Manulife	US$5.1 billion	4th	US$6.7 billion	4th

This year saw some progress in terms of emissions reporting and emissions reduction targets — though little about how they would be meeting these targets.

As we noted last year, the nature of Sun Life and Manulife's businesses creates an added incentive to follow through on their net zero commitments, and quickly. They are insuring the life and health of people who are increasingly suffering health impacts (including death) from air pollution and extreme weather caused by fossil fuel combustion.

Despite not directly acknowledging how they are contributing to this business risk via their investments in fossil fuels, both companies have committed some portion of their financed emissions to net zero. This year we saw the following progress towards their commitments:

SUN LIFE

- Began disclosing financed emissions associated with a portion of its General Account. One of its asset managers, MFS, started reporting financed emissions across most of its portfolio.
- Set interim emissions reduction targets across almost half of its AUM.
- MFS committed to establishing an escalating engagement strategy in 2023.

1 We assess each company against the key elements of a science-based transition plan. Detailed best practices were laid out in part II of our 2022 report.

2 See the Investing in Climate Chaos database: https://investinginclimatechaos.org/data.

SUMMARY & KEY FINDINGS, CONT'D

MANULIFE

- Reported a second year of emissions associated with most of its General Account.
- Set interim targets across almost half of its General Account; under review by SBTi.
- Formalized General Account coal exclusion criteria, with no new project investment in thermal coal globally and limitations on investment in thermal-coal exposed companies in North America and Europe.
- Committed to lobby in support of its net zero commitment, including reporting on this.

Both companies are assessed in more detail below.

Sun Life and Manulife are major investors in coal despite well known serious health impacts, including premature deaths. / Photo by Chris LeBoutillier

MAJOR OBSTACLES REMAIN

Major gaps remain in both companies' net zero emissions reporting, targets, and strategies:

- Comprehensive emissions reporting, including downstream scope 3 emissions.
- Science-based interim emissions targets capturing all of their portfolios.
- Establishing strategies to meet their targets, including fossil fuel exclusion policies, escalating engagement strategies, greater clarity and ambition about climate solutions funding, and actively showing up on the right side of climate policy debates.

Sun Life has the added challenge in that it is more decentralized than Manulife, which may hinder its ability to act quickly or uniformly on net zero implementation.

	FINANCED EMISSIONS PROGRESS (AS OF JULY 2023)	
	SUN LIFE	MANULIFE
Net Zero target	General Account & Subsidiaries: MFS, BGO, InfraRed, SLGI	General Account
1. Report absolute financed emissions, including scope 3	29% of General Account. MFS reports 82% of AUM. Both exclude material scope 3.	90% of General Account listed debt and equity, excluding most scope 3.
2. Set interim financed emissions targets in line with science	About 50% of AUM subject to interim targets. General Account targets are intensity based; MFS targets may be aligned with science.	About 42% of its GA AUM, may be aligned with science (under review by SBTI).
3. Implement strategies to meet targets:		
i. Fossil fuel phase-out policies	No overall policy. One subsidiary (InfraRed) excludes fossil fuels. Other subsidiaries express opposition to doing so.	Coal exclusion expanded this year from no new project finance, to include reducing exposure to existing projects in Europe and NA.
ii. Escalating engagement policy	No overall escalation policy. One subsidiary is developing one. No overall proxy voting policy. Some subsidiaries disclose votes.	No overall escalation policy. Has proxy voting policy and discloses votes of mutual funds.
iii. Climate solutions investment	Target of $20B in new "sustainable investments," but no clear link to net zero target or to quantifiable emissions reductions in the broader economy. InfraRed targets 50% of AUM invested in climate solutions by 2025.	Has "sustainable investments," but no clear link to net zero target or to quantifiable emissions reductions in the broader economy.
iv. Align public policy lobbying with net zero.	Says supportive of net zero public policy. Limited disclosure of public positions on key climate issues. Does not show up in support of major climate policy.	Statement to align lobbying with the Paris Agreement. Has started to show up in support of major climate policy.

GENERAL ACCOUNTS & CORPORATE BONDS

This year we see a continued focus on climate action in each company's General Account. These accounts offer insurance companies a good place to begin implementing their net zero strategies because they are assets owned and managed on their own behalf. General Accounts are insurance premiums invested according to federal regulations to ensure they can pay out future claims.[3] This means they are lower-risk investment portfolios with a larger share of bonds.[4]

Corporate bond investments present an important opportunity for climate engagement. At specific times, such as the original decision to offer a loan (which can be over 10 years long), primary financing provides more influence over company management than stockholdings.[5]

This year, Sun Life and Manulife set interim targets specifically for their General Account corporate bond portfolio (in addition to other targets). But, neither outlined strategies to achieve these targets. Specific guidance on how to design a corporate bond engagement framework is available from the IIGCC as of June 2023.

2022-2023 POLICY REFORM

In the past year the Canadian financial supervisor[6] announced the new Climate Risk Management: Guideline B-15. This guideline will require, among other things, that internationally active life and health insurers disclose their climate-related risks and opportunities, incrementally between 2024 and 2025. These requirements overlap with the assessment framework we adopt, in terms of requiring:

- Reporting scope 3 financed and facilitated emissions, and
- Setting targets to manage climate-related risks and opportunities.

B-15 also requires the disclosure of a climate transition plan, but the date for this disclosure has not yet been set.

Though not an element in our assessment framework, effective climate governance is required to ensure the production and implementation of a climate plan and is a major feature of B-15. In the case of companies with multiple subsidiaries, like Sun Life, this means effective climate governance of these entities as well, and their alignment with B-15.[7]

In addition, the Canadian Securities Administration is also working on sustainability disclosure standards that will apply more broadly in the economy (not just to financial companies) and relate to many of the issues discussed in this assessment.

This increasing climate finance regulatory pressure makes taking comprehensive climate action good business.

[3] See OSFI, Life Insurance Capital Adequacy Test (2023).

[4] See Manulife, 2022 ESG Report, at 29.

[5] See, for example, Christian Wilson & Ben Caldecott, Breaking the Bond: Primary Markets and Carbon-Intensive Financing (University of Oxford, Smith School of Sustainable Finance, 2021).

[6] The Office of the Superintendent of Financial Institutions, or OSFI.

[7] Unless they report to OSFI directly (Climate Risk Management: Guideline B-15, at 10).

SUN LIFE

COMPANY PROFILE

As of December 31, 2022, Sun Life Financial Inc. ('Sun Life') had about $1.33 trillion in AUM.[8] Of this AUM, about 15% represents Sun Life's General Account[9] — its insurance premiums invested on its own behalf by its subsidiary SLC Management. Most of the remaining AUM are invested on behalf of third parties by two subsidiaries:

- MFS Investment Management* ($742.3 bn), and
- SLC Management ($209.6 bn).

Sun Life also owns the following asset managers:

- Advisors Asset Management (Sun Life owns 51%)
- Crescent Capital Group (Sun Life owns 51%)
- InfraRed Capital Partners* (Sun Life owns 80%)
- BentallGreenOak*

** As of March 2023, members of Net Zero Asset Managers initiative.*

KEY CLIMATE DISCLOSURES

Since our first assessment of its net zero plan last year, Sun Life has published three relevant reports containing updates to its net zero plan, these include its:

- Net Zero by 2050 report (May 2023),
- Sustainability Report 2022 (March 2023), and
- 2022 Annual Report (February 2023).

In addition, Sun Life's asset management businesses also released climate disclosures over this past year, namely:

- MFS, Strategic Climate Plan (May 2023), Annual Sustainability Report (May 2023), Net Zero Progress Report (March 2023),
- InfraRed, Sustainability Report (May 2023), and
- BentallGreenOak, 2022 Inaugural Climate Report (n.d.).

8 www.sunlife.com/en/sustainability/trusted-and-responsible-business/climate-and-environmental-action/.

9 As of December 31, 2022, Sun Life's general account AUM was $205.6 billion (Sun Life, 2022 Annual Report, at 21).

LINKING FOSSIL FUEL INVESTMENTS TO LIFE & HEALTH INSURANCE

Sun Life acknowledges the risks that climate change presents to both its life and health insurance business as well as its asset management business. For example, Sun Life calls out the link between climate change and its life and health insurance in its 2022 Annual Report as follows:

> *"Heat-related deaths and hospitalizations have increased over the last decade and will continue to increase as temperatures rise. Lower air quality from pollutants, warming temperatures and wildfires could have long-term implications on respiratory health. Also negatively impacting our mental health is the emotional distress, anxiety and trauma caused by extreme weather events." (at 76)*

Nonetheless, Sun Life asserts that the life and health risks presented by climate change are not significant in the short term. It does not provide a rationale for this claim. In communications with us, Sun Life cites challenges with data linking mortality and morbidity to climate change because there isn't a uniform process for medical professionals to tag climate-related impacts to life and health in the diagnosis process. With that said, Sun Life also acknowledged more work can be done here. A small step in this direction is evidenced by Sun Life hiring its first ever climate actuary this year.

Sun Life also acknowledges the transition risks of its carbon-intensive investments. However, as the world faces increasing extreme weather events, shareholders need to see an explicit acknowledgment of the risk of continued investments in fossil fuel combustion to the company's life and health insurance business.

MEASURE & REPORT FINANCED EMISSIONS

This year Sun Life began reporting the absolute financed emissions associated with about 50% of its AUM:

- 29% of its General Account: 3.39 Mt CO2e
- 82% of MFS's AUM: 19.98 Mt CO2e

Unfortunately, MFS only reports scope 1 and 2 financed emissions.[10] The General Account emissions reporting does not specify what scopes it includes, but based on our calculations of financed emissions intensity, the higher GA emissions intensity indicates that some scope 3 emissions may be included.

Scope 3 material emissions, particularly downstream oil and gas emissions can represent the single largest source of emissions in an asset manager's portfolio. These are estimated to account for 70-80% of oil and gas company emissions.[11] Failure to report on these downstream emissions represents a major failure to report on a significant transition risk to shareholders.

[10] MFS, Strategic Climate Action Plan, at 20.

[11] Pembina, Evaluating the Climate Ambitions of Canadian Oil Companies, November 2020.

SET MEDIUM-TERM FINANCED EMISSIONS REDUCTION TARGETS

Sun Life has set interim financed emissions reduction targets for about 50% of its AUM: 29% of its General Account and most of MFS.

GENERAL ACCOUNT	EMISSIONS TARGETS (BY 2030 FROM 2019)
Listed corporate bonds	-40% tCO2e / $ million invested
Directly managed listed equities	-50% tCO2e / $ million invested
Commercial real estate	-50% tCO2e / m2
MFS	**EMISSIONS TARGETS**
Equities + corporate bonds	90% of in-scope assets aligned or aligning w' net zero by 2030 100% of in-scope assets net zero aligned or achieving by 2040

The General Account targets are all intensity-based, which do not ensure the absolute reductions required by science. On the other hand, the MFS target may ensure the absolute reductions required by science. This target appears to be based on SBTi methodology (2022, at 32). And, according to communications with Sun Life, includes scope 1, 2, and material scope 3 emissions.

InfraRed has committed to set science-based targets by the end of 2023 for its TRIG fund.

IMPLEMENT STRATEGIES TO MEET TARGETS

ESTABLISH FOSSIL FUEL PHASE-OUT POLICIES

Despite being Canada's largest investor in fossil fuels, Sun Life does not disclose any fossil fuel exclusion policies.[12]

MFS' risk assessment framework considers the sufficiency of a company's climate action plan and whether it focuses on absolute reductions.[13] MFS also has an ESG data dashboard, which includes absolute and intensity emissions, company-defined climate targets, and third-party scores.[14] In the longer term, they commit to developing a process to monitor progress against net zero commitments and the alignment of portfolios with the decarbonization goals of the Paris Agreement. They do not commit to divesting if no meaningful progress is achieved.

InfraRed commits to include net zero criteria into its pre-investment requirements.[15] This will complement its coal, oil, and gas fossil fuel exclusion policy, which we reviewed last year.[16]

SLC Management has not changed its stand against divestment (see last year's report at 27).

12 See https://coalpolicytool.org/.

13 MFS, Strategic Climate Action Plan, at 14.

14 Ibid, at 17.

15 InfraRed, Net Zero Progress Report 2022.

16 InfraRed Exclusion Policy 2022, at 2-4, available at: www.ircp.com/sustainability/.

ESTABLISH ESCALATING ENGAGEMENT STRATEGIES

Overall, Sun Life commits to engagement over divestment, even though this is a false dichotomy. Engagement can play a critical role in a net zero transition plan, but Sun Life does not provide a robust engagement strategy. Several of its subsidiaries show elements of an engagement strategy, but none commits to escalate engagement beyond voting in support of climate-related shareholder resolutions. This limits effectiveness.

MFS has an engagement program for priority companies to assess how aligned their climate transition plans are with a 1.5-degree pathway.[17] The MFS Climate Principles lays out its expectations for company climate disclosures and actions. MFS commits to supporting climate-related shareholder resolutions that align with its Principles.[18] MFS is also actively engaged with six CA100+ companies. MFS has a searchable proxy voting database, current to March 2023. For 2023 MFS is committed to "enhance its climate-related voting and escalation policies, increasing clarity for issuers on proposal types it will typically support."[19]

InfraRed has set a target that 90% of its financed emissions be subject to direct or collective engagement and stewardship actions by 2030. It plans on developing an engagement strategy this year.[20]

SLC Management leads CA100+ engagement with one oil and gas company — pushing them on scope 3 reporting, among other things.[21] SLC is also working on a bond engagement framework.

INVEST IN CLIMATE SOLUTIONS

Sun Life has set a $20 billion new "sustainable investing" goal from 2021 to 2025, which bundles environmental and social investments.[22] It is not clear what portion of this target is contributing to Sun Life's net zero commitment, and how these investments will enable its net zero target and the broader economy's energy transition.

InfraRed has set a target to allocate 50% of its AUM to climate solutions by 2025, from the 45% of AUM committed as of December 2022. It defines climate solutions as "renewable energy, battery storage, and other supporting infrastructure for the energy transition."[23]

ALIGN PUBLIC POLICY LOBBYING WITH NET ZERO

Sun Life commits to contributing to public policy discussions and working with governments to drive climate progress. For example, its submission to the Canadian Securities Administrators' proposed National Instrument 51-107 Disclosure of Climate-related Matters, as well as its submission to OSFI-B15's consultation. For the latter, Sun Life supported OSFI's position on climate risk management with no exceptions. Both are summarized in Sun Life's 2022 CDP response.

Sun Life has yet to show up publicly in support of major climate policy, such as debates regarding federal climate accountability, carbon pricing, or a cap on Canada's oil and gas emissions.

17 Priority companies are defined based on the following criteria: total firm position across asset classes; latest analyst rating; proportion of ownership (equity); sector; exposure to transition risk; emissions; and status of net zero commitments and interim targets.

18 MFS Strategic Climate Action Plan, at 9.

19 Ibid, at 17.

20 InfraRed, Net Zero Progress Report 2022.

21 SLC Management, 2021 Sustainable Investing report, at 19.

22 Sun Life, Sustainability Report, at 25-26.

23 Climate solutions classifications are informed by the EU Taxonomy. InfraRed notes that evolutions in the Taxonomy may lead to certain projects being reclassified, and its baseline may need to be revised to reflect such changes.

MANULIFE

COMPANY PROFILE

As of December 31, 2022, Manulife Financial Corporation ('Manulife') had about $1.1 trillion in AUM.[24] Of this, just over a third represents Manulife's General Account — its insurance premiums invested on its own behalf.[25]

KEY CLIMATE DISCLOSURES

Since our first assessment of their net zero plan last Fall (Sept. 2022), Manulife has published four reports containing relevant updates:

- 2022 ESG Report (May 2023)
- Stewardship Report 2022 (May 2023)
- 2022 CDP Report (August 2022)
- 2022 Annual Report (March 2023)

LINKING FOSSIL FUEL INVESTMENTS TO LIFE & HEALTH INSURANCE

As with Sun Life, in its 2022 Annual Report Manulife highlights the risk that climate change presents to both its investments and the mortality or morbidity of its insurance clients.[26] But, it does not acknowledge the link between its significant investments in fossil fuels and the life and health of its insured clients.

MEASURE & REPORT FINANCED EMISSIONS

Manulife reports absolute financed emissions for a second year (2021) for a slightly larger portion of its General Account's listed equity and corporate debt (90%, up from 74% in 2020). This represents 34% of its total AUM (up from 30% last year).[27] However, this reporting only includes upstream scope 3 emissions, missing out on the largest share of its financed emissions: downstream oil and gas emissions.

Manulife's reported absolute emissions declined by 4% in 2021 from the prior year — driven primarily by reductions in its power and energy holdings. Manulife does not explain how these reductions were achieved.

Manulife restated its financed emissions for 2020 downwards by 16%. No rationale was provided for this restatement.

[24] Manulife, 2022 Annual Report, at 14.

[25] Ibid, at 38.

[26] Ibid, at 50.

[27] Manulife, 2022 ESG Report, at 83.

SET MEDIUM-TERM FINANCED EMISSIONS REDUCTIONS TARGETS

Manulife set the following interim net zero financed emissions targets for its General Account:

- For listed equity and debt:
  - From 2.9 in 2019 to 2.5 degrees Celsius by 2027 (scope 1, 2, and 3), and
  - From 2.7 in 2019 to 2.3 degrees Celsius by 2027 (scope 1 and 2 emissions).
- For its alternative long-duration assets (i.e. real estate, timberland, and agriculture)
  - -40% absolute scope 1 and 2 emissions by 2035.
- For its power project financing:
  - -72% CO_2e/kwh by 2035 or in line with a 2035 IEA target intensity.

These targets cover 42% of its General Account, which represents 15% of its total AUM. They are currently under review by SBTi. We applaud Manulife for subjecting its targets to third-party validation.

IMPLEMENT STRATEGIES TO MEET TARGETS

ESTABLISH FOSSIL FUEL PHASE-OUT POLICIES

Manulife has begun to evaluate its General Account for alignment with the goals of the Paris Agreement. But, it does not provide much detail on its approach for companies that are not aligned.

Prior to this year, Manulife had no formal coal policy or controls. Now it has a policy in place for its General Account and is finalizing controls to monitor performance. Manulife's coal policy provides that it will no longer finance new thermal coal mining and unabated coal-fired power generation projects (globally), and will reduce exposure to thermal coal mines and utilities that lack credible plans to decarbonize in North America and Europe.[28] This is a step in the right direction. We expect to see this exclusion expanded across all jurisdictions, to all forms of investment, and to its entire portfolio. Best practice is to phase out coal in OECD countries by 2030 and everywhere by 2040.[29]

Toronto blanketed by forest fire smoke. Life and health insurance companies have a particular obligation to address the climate impacts of their investments. / "Toronto Skyline from the Port Lands through the wildfire smoke" by wyliepoon, licensed under CC BY-NC-ND 2.0.

[28] 2022 ESG Report, at 29.

[29] See UNEP PRI Thermal Coal Position, n.d.

ESTABLISH ESCALATING ENGAGEMENT STRATEGIES

Manulife Investment Management's (MIM) proxy voting policy indicates that, for a subset of it equity investments, it may vote in alignment with its climate change statement (which states support for the Paris Agreement) and may vote against the re-election of a director in certain instances, including failure to manage ESG risks or poor sustainability reporting. MIM says it meets with issuers on a range of sustainability topics and votes in support of a "variety" of climate-related shareholder resolutions, for example, those that call for reporting on climate risk.[30] Manulife's third party asset management arm participates in climate engagement via collaborative efforts such as Climate Action 100+ and Climate Engagement Canada. Ideally, Manulife would disclose what it is specifically seeking in, and the results of, these engagements. We were unable to confirm whether Manulife's proxy votes aligned with these claims during the 2023 AGM season as its searchable proxy voting record database is only current as of June 2022.

Manulife is in the process of assessing engagement strategies for fixed-income instruments.[31]

Based on the fact that engagement is Manulife's primary tactic for achieving its decarbonization targets, it is unclear how the above engagement strategies will achieve the absolute emission reductions required to achieve net zero across its portfolio. More detail regarding reporting and escalation is needed.

INVEST IN CLIMATE SOLUTIONS

Manulife highlights its $68.6 billion in "green investments" in its 2022 ESG report.[32] It specifies what types of investments qualify; these include renewable energy, mass transit, electric vehicles, green building, energy efficiency retrofit projects, and green bonds (per its Green Bond Framework). Manulife excludes investments in the oil and gas sector from this green label.

Manulife does not set a green finance target, nor does it clearly outline how all qualifying investments enable its net zero target and the broader economy's energy transition.

ALIGN PUBLIC POLICY LOBBYING WITH NET ZERO

In its 2022 Stewardship report, Manulife commits to engage with governments, primarily via collaborative efforts, to encourage strategic policy developments that address the climate crisis.[33] We also note that Manulife recently signed a letter[34] along with other investors in support of achieving emissions reductions in Canada's oil and gas sector. We look forward to Manulife becoming more visible in its climate policy advocacy.

30 Ibid, at 34.

31 2022 ESG Report, at 29.

32 2022 ESG Report, at 14.

33 Manulife, Stewardship report 2022, at 8, 10, 83, 91-92.

34 See investor letter here.

RECOMMENDATIONS

Last year we made the following general recommendations, which still apply:

1. Measure and disclose all financed emissions, including material scope 3 emissions.
2. Adopt interim financed emissions reduction targets, aligned with climate science.
3. Accelerate the adoption and implementation of portfolio decarbonization strategies to meet targets.

This year we more specifically recommend that Sun Life and Manulife build on the progress they've made reporting financed emissions and target-setting in their General Accounts by:

- Reporting on downstream scope 3 emissions.
- Establishing coal exclusion policies for new and existing investments, across all asset classes, that conform to best practices for a phase-out in the OECD by 2030 and everywhere by 2040.
- Establishing escalating, time-bound engagement strategies for carbon-intensive investments across all asset classes (equity, corporate bond, and private equity holdings) where there is no evidence of a science-based net-zero transition plan.
- Earmarking "sustainable investments" funds more specifically for climate solutions with clear criteria for achieving emissions reductions.
- Finally, a commitment to expand these measures to their broader portfolios ahead of 2030.

Best practices on all of the above can be found in Part II of last year's report..