SLC Management | SLC Fixed Income

Your purpose is our purpose

# 2023 Climate Report

# Important information about this report

This report is representative of Environmental, Social, and Governance (ESG) practices generally, which are applied consistent with our fiduciary duty to implement our clients' investment objectives. The relevancy and weighting of ESG-related factors in the investment process depends on the strategy. For example, ESG factors may not be relevant to a strategy designed to replicate an index of securities. Please consult with your SLC Management relationship manager and investment professional to understand how ESG considerations are factored into your customized investment strategy, if at all.

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# Our approach

# Our approach to climate change

Climate change presents a long-term, structural trend that may impact investment risk and return in a variety of ways across different sectors, asset classes, and geographic regions.  As global temperatures rise, we are seeing extreme weather events, such as forest fires, droughts, and floods, occurring with greater frequency and intensity. Efforts to decarbonize are underway and they will likely continue to expand in the years ahead, but the energy transition will involve trade-offs as the world grapples with energy security and affordability. There are many uncertainties, including the impacts of regulatory and policy changes across jurisdictions, the speed and scale of new technologies, and behavioural changes.

Amidst this uncertainty, we believe there may be investment opportunities presented in the shift to a low-carbon future, such as innovation in areas of mitigation and adaptation. We seek to provide opportunities for our clients to invest in the energy transition through green infrastructure and renewables.

We take a pragmatic approach and view climate change from a financial perspective. We believe that taking climate into consideration from an investment risk perspective, where material, will lead to better risk-adjusted returns for our clients over time.

# Our approach

**Across SLC Fixed Income, our approach to climate change is guided by the following factors:**

### We view climate change through a financial lens

Our investment decisions are informed by bottom-up analysis, focused on issues that are financially material to each specific issuer. Climate change can present physical risks like droughts and floods, and transition risks like carbon pricing or technology shifts. We continue to add new tools and data sources to provide information that our investment teams can use to navigate the uncertainty of climate change while delivering on our clients' objectives.

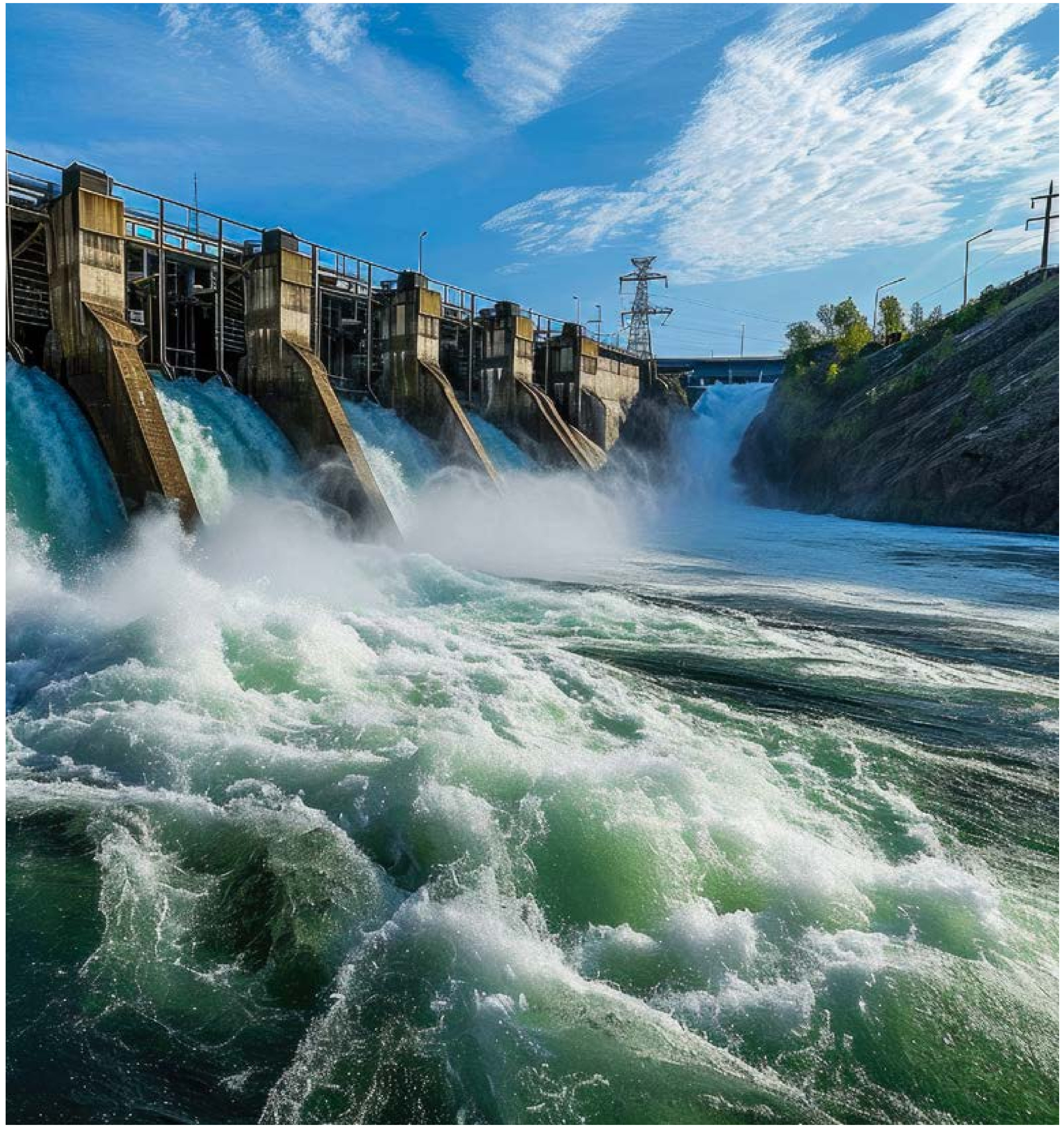
### We want to support companies through the energy transition

The speed and scale of the energy transition in high-emitting sectors will not be straight-forward. For clients who include climate goals in their investment mandates, we seek to invest in carbon-intensive companies with credible plans to decarbonize. Carbon emissions are a backwards-looking metric—we focus on company plans going forward. When evaluating the credibility of decarbonization plans, we look for actions that deliver real-world emissions reductions from the companies themselves.

### We prioritize engagement over divestment

We leverage our involvement in various industry initiatives to engage directly with carbon intensive companies—engaging with companies is an effective way to better understand their strategy to navigate climate risks. We are signatories to the UN-supported **Principles for Responsible Investment** (**PRI**) and are a member of **Climate Engagement Canada**. We are members of the **Partnership for Carbon Accounting Financials** (**PCAF**),  using their framework for measuring and reporting our financed emissions. In 2023, we joined the **Institutional Investors Group on Climate Change**, working with more than 350 institutional investors from around the world to share learnings and resources on assessing climate risk.

The physical and transition risks of climate change may present considerable uncertainty to the global economy and capital markets. As the manager of our clients' capital, we have a responsibility to understand the material investment risks that climate change presents to our portfolio companies.  We leverage third party data sources and internal resources to identify material risks in the companies in which we invest.



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# Governance

# Governance

Our governance approach to managing climate risks that are material for client mandates is two-fold: an overarching Sustainability Committee comprised of senior leaders, and a Sustainable Investment Council, an investment sub-committee that focuses on monitoring and evaluating climate at a sector and issuer level.

This model provides senior-level accountability for emerging climate issues as well as on-the-ground insights from investment teams on immediate issues impacting investment decisions.

Finally, we also have a multi-tiered Risk Committee structure where climate risks impacting the operating companies and SLC Management platform are discussed. Our governance model helps deepen knowledge on climate and ESG issues across senior leadership, improve communication, clarify responsibilities, and encourage collaboration.

## Sustainability Committee

This Committee oversees the direction, priorities, and implementation of sustainable investing initiatives, including climate change, across SLC Fixed Income.

The Committee's mandate includes monitoring regulatory (e.g., OSC, SEC, OSFI) developments; overseeing our industry memberships and associated reporting (e.g., PRI, PCAF); discussing evolving industry practices on ESG and climate; approving policies and procedures related to ESG; and receiving updates on progress towards our clients' and firm mandates and commitments, including to the Net Zero Asset Managers (NZAM) initiative.

Voting members include the President of SLC Management Canada, Chief Investment Officer for Sun Life, Head of Credit Research, and the Managing Director of Sustainable Investing. Non-voting members include ESG Leads from investment teams, legal, marketing and communications, and compliance.

## Sustainable Investment Council

A sub-committee of the Sustainability Committee, the Council is responsible for representing and working with all investment teams to integrate material ESG factors, where relevant, into our investment processes, and is a forum for education and discussion.

Common agenda items include briefings on emerging issues on climate and sustainability. Recent presentations covered topics such as the role of natural gas in the energy transition, nuclear energy, and biodiversity.

Members include the Chief Investment Officer for Sun Life, Chief Investment Officer for U.S. Total Return, Head(s) of Private Fixed Income, Head of Public Fixed Income, representatives from our affiliate companies including BGO and Crescent Capital, as well as other portfolio managers from SLC Fixed Income's Public and Private Fixed Income teams.

## Climate Risk Working Group

In 2023, SLC Fixed Income established an internal Climate Risk Working Group. The Group serves as a forum for members of different investment teams to discuss emerging issues related to physical and transition risks of climate change and share information and learnings on different tools and resources. Reporting to the Sustainable Investing Council, the Climate Risk Working Group identifies the recommended risk metrics for SLC Fixed Income to monitor across the firm.

Members include the ESG leads for public and private fixed income as well as investment team members from our U.S. Total Return, municipals, and securitized assets teams.

# Governance

## Climate and ESG Integration

Our governance structure for climate and ESG is focused on collaboration and materiality in support of our clients' investment objectives. Each of these bodies or groups has specific roles and responsibilities as outlined below.

### Sustainability Committee

- Investment policies
- Engagement policies
- Progress towards Net Zero targets
- Emerging climate risks/trends
- Discuss client ESG/climate needs

### Sustainable Investing Team

- Net Zero target and strategy support
- Advancing ESG integration across firm
- Tracking, support on issuer engagement
- ESG/climate data and research
- Subject matter expertise on climate, ESG issues as they arise
- Reporting: TCFD, PRI, PCAF, NZAM

### Portfolio managers

- Integrating ESG/climate considerations as it relates to client investment objectives
- Ultimately responsible for determining risk/reward on individual investments, reflecting client guidance
- Public Fixed Income
- Private Fixed Income

### Credit analysts/Deal teams

- Tracking and assessing climate risks, where material, for issuers
- Engagement with issuers
- ESG sector/thematic research
- Public Fixed Income: updating ESG scores for investable universe
- Private Fixed Income: due diligence and ESG assessments for new investments and monitoring of all existing investments

### Sustainability Council

- Education/briefings on ESG/climate topics
- Discussion of materiality of climate risks

### Net Zero Working Group

- ESG leads for Public and Private Fixed Income, members of the Sustainable Investment team
- Oversees net zero targets, data, implementation

### Climate Risk Working Group

- Comprised of investment team members for different asset classes and ESG leads for public and private fixed income
- Forum for discussing emerging physical and transition risk issues
- Identifies climate KRIs relevant to SLC Fixed Income

# Strategy

# Strategy

### Overview of potential physical and transition risks

The risk of climate change may present systemic risks to the companies in which we invest. Warming temperatures driven by climate change may create an environment conducive to physical risks, such as increasing frequency and intensity of weather events and changing climate patterns. Global responses to move towards a low-carbon economy may create transition risks, as government policies, technology and market demands shift over time. Climate risks can manifest in various ways across different sectors, asset classes, and time horizons.

| Risk Category: Physical | Climate-related Risk | Impacts | Time Horizon |
|---|---|---|---|
| **ACUTE PHYSICAL RISK** | • Flooding, storms, and forest fires damaging property, transportation, infrastructure<br>• Extreme heat stress | • Business operations disruptions, asset impairment<br>• Loss of revenues due to disruptions to supply chains<br>• Increased costs for recovery, insurance | Short, medium, and long-term |
| **CHRONIC PHYSICAL RISK** | • Sea-level rise, increased coastal and inland flooding<br>• Longer, more intense droughts, heat waves, forest fires | • Asset impairments<br>• Shipping, agriculture disrupted due to water constraints<br>• Increased business and government capex costs for adaptation, resilience<br>• Mass migration | Medium, long-term |

# Strategy

| Risk Category: Transition | Climate-related Risk | Impacts | Time Horizon |
|---|---|---|---|
| **POLICY & LEGAL RISK** | • Increasing reporting requirements from regulators on climate risks<br>• Increasing litigation on large emitters | • Increased costs of compliance and operations<br>• Demand destruction<br>• Fines and penalties | Short, medium-term |
| **MARKET RISK** | • Decline in demand for carbon intensive products<br>• Increased demand for critical minerals for low-carbon technologies | • Impacted asset values and stranded assets<br>• Demand destruction for high-carbon products<br>• Increased costs for key inputs (e.g., lithium) | Short, medium, and long-term |
| **TECHNOLOGY RISK** | • Low-carbon technologies disrupt traditional industries (e.g., electric vehicles) | • Increased cost from implementing new technology<br>• Higher capital costs for emerging technology investments<br>• Industry disruption and impaired asset values | Medium-term |
| **REPUTATIONAL RISK** | • Increased stakeholder scrutiny on climate impact and net zero commitments | • Loss of market share due to changing consumer preferences<br>• Increased costs to mitigate climate change/ respond in business model<br>• Loss of license to operate | Short, medium-term |

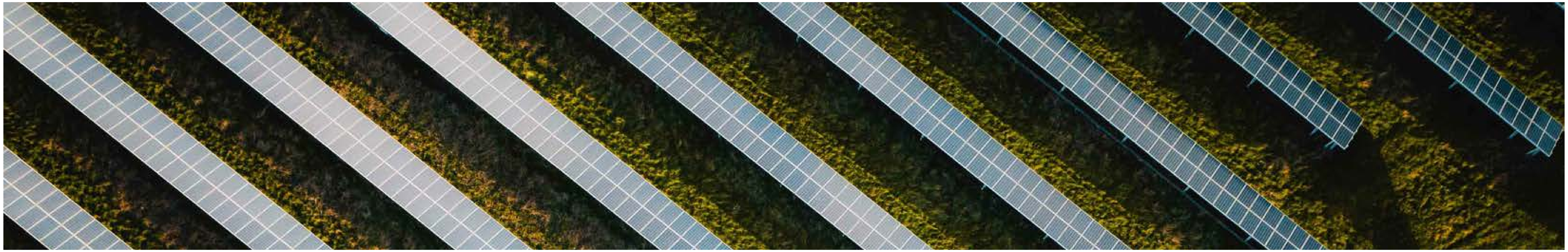
### Time Horizons

In the context of assessing climate risk in the short-term, we apply a time horizon of 0-3 years. SLC Fixed Income defines short-term risks as event risks associated with an increase in storms and other localized physical risks associated with climate change. In addition, more companies are developing strategies to transition their businesses to address climate change.

We consider medium-term as 3-10 years. Medium-term risks reflect the point at which climate change risks may grow in importance, new regulations come into effect, companies begin to implement their climate transition plans and valuation/credit quality may begin to be impacted over time. For example, more assets may become stranded as alternative energy sources and solutions become more efficient and cost effective.

We consider long-term as 10+ years. Long-term risks include chronic physical risks and transition of consumer behaviour risks associated with the migration from high-carbon assets; disruptive technologies become operational and may displace certain existing business models; regulatory pressures may heighten as we approach national and international climate targets and goals; and climate change could become more pervasive in disrupting supply chains.

# Strategy



## Our approach

Our credit analysts conduct bottom-up credit research, identifying and incorporating material climate and ESG risk factors. This information is provided to our portfolio managers to inform investment decisions as it relates to client objectives. We don't take a top-down view on climate and ESG issues—we evaluate each investment individually at the security level.

Our investment teams have deep experience structuring investments within their asset classes. A detailed analysis of every investment opportunity is conducted, both prior to making an investment and on an on-going basis. A disciplined approval framework is applied to all investments.

| Investment philosophy | Research and insights | Portfolio decisions and construction | Oversight |
|---|---|---|---|
| We view climate change as a potential long-term structural trend that may impact investment risk and return in a variety of ways across different sectors, asset classes, and geographic regions. | • Specialized, in-depth credit analysis, incorporating ESG factors, across global sectors and issuers.<br>• Thematic research on ESG and climate issues to provide additional insights.<br>• Physical and transition climate risk considerations are incorporated, if material, in ESG assessments. | • Decisions consider several factors including client mandate, investment time horizon, relative value, and credit fundamentals.<br>• ESG considerations are integrated into portfolio construction decisions for certain investment strategies and client mandates. | Long-standing governance and risk management culture includes a disciplined approval and review framework that is applied to all investment decisions. |

# Strategy

## Climate-related investment opportunities

SLC Fixed Income actively invests in opportunities that seek to provide attractive returns across asset classes, including opportunities related to the low-carbon transition, including renewable energy, energy efficiency, green buildings, and enabling infrastructure for renewables. We also invest in green and sustainability bonds and loans. We make these investments consistent with our client objectives including applicable performance expectations.

## Supporting clients with net zero goals

SLC Fixed Income is a signatory to the Net Zero Asset Managers initiative. We work in partnership with our clients to help achieve their goals and objectives consistent with our fiduciary duty. For example, SLC Fixed Income released interim targets for assets we manage for our parent company Sun Life's investment portfolio, covering listed corporate bonds and directly managed listed equities. We intend to expand target coverage over time as data improves and new methodologies for other asset classes become available. These interim targets were accepted by NZAM in July 2023.

Our approach for clients with net zero goals is rooted in data quality, transparency, and real-world impact. We believe that our ability to identify companies that have credible transition plans supported by high quality management teams will be critical to achieving our clients' targets.

## Offering clients net zero products

In 2023, SLC Fixed Income began managing a net zero public fixed income strategy that was launched in Canada. The strategy offers clients an opportunity to invest in a way that supports decarbonization and the energy transition. We seek to reduce the greenhouse gas emissions intensity of the strategy's corporate bond exposure to at least 50% of the baseline levels by 2030 and will seek to achieve further reductions in a manner that is consistent with achieving global net zero greenhouse gas emissions or carbon emissions by 2050. The strategy's baseline GHG emissions intensity is the Carbon Emissions to Value Invested (CEVI) metric using 2019 year-end data. CEVI is the total carbon emissions for a portfolio normalized by the portfolio value, expressed in tons of carbon emissions equivalent per million dollars invested. The strategy also aims to increase its allocation to labelled green, sustainability, or SDG (Sustainable Development Goal) climate bonds, so that the allocation is at least 10% of the total portfolio by 2030.

## Engagement

Engagement with company management can be effective, where relevant, in our consideration of climate risks and opportunities for our clients. Engagement allows us to work constructively and collaboratively with company management to better understand their views on climate risk, including disclosures and performance-related factors, and progress towards their goals. As a fixed income asset manager, we generally do not own shares or undertake proxy voting. We participate in Climate Engagement Canada as it enables us to engage directly on climate risk with issuers and better understand the challenges they face and opportunities they may have in navigating the energy transition.

## Climate data

SLC Fixed Income has access to Moody's Analytics Climate On Demand and ICE Sustainable Finance to assess physical risks, and access to MSCI and S&P Trucost for ESG and climate data to inform assessment of the transition risk posed by climate change. The ability to use these tools depends on the asset class. We are continuously evaluating new data sources and analytics providers while building out our own internal data marketplace to ensure that our investors and client facing teams have the tools they need to successfully integrate climate into their investing and reporting activities, as required by client mandates.

Examples of data we may utilize include:

- Greenhouse gas (GHG) emissions, carbon intensity, and breakdown by Scope 1, 2, & 3 emissions
- Identification of companies and sectors that are compatible with a well-below 2°C world, in alignment with the Paris Agreement
- Analysis of asset-level exposure to physical risks from climate change under varying future scenarios

# Strategy

## Scenario analysis

SLC Fixed Income has access to third party tools to conduct physical and transition climate scenario analysis for client portfolios, and we continue to build our capabilities in this fast-moving space to deliver on our clients' regulatory reporting needs.

## Physical risk scenario analysis

Moody's Climate On Demand provides physical risk scenarios for certain geographical areas and is primarily used for our hard assets including real estate and private debt infrastructure, while ICE is used for municipal bonds and agency mortgage-backed securities.

Through these tools, we have the ability to assess potential risks from climate hazards, such as:

- Floods
- Hurricanes and typhoons
- Heat stress
- Water stress
- Sea level rise
- Wildfires

## Transition risk scenario analysis

For clients who request reporting on transition risk, we use the S&P Trucost Paris Alignment tool. This tool assesses company-level alignment with the Paris Agreement goal to limit global warming to well below 2°C from pre-industrial levels. The approach taken is a transition pathway assessment, which examines the adequacy of emissions reductions over time required to meet either a 1.5°C or 2°C carbon budget.

SCENARIO ANALYSIS CASE STUDY

### Physical and Transition Risk*[1]

In 2023, SLC Fixed Income supported a large client undertaking climate scenario analysis, looking at both physical and transition risks in an "extreme but plausible" scenario. A scenario narrative was developed that looked at escalating multi-year wildfire damage to real estate and infrastructure assets in North America followed by a market backlash to carbon intensive companies through heightened transition risk.

First, the Net Zero Working Group used Moody's Climate on Demand tool to identify high and medium risk real estate (both mortgages and equity) assets to wildfire risk under the emissions pathway Shared Socioeconomic Pathway (SSP) 2 - Representative Concentration Pathway (RCP) 8.5, out to 2030. The group also conducted a qualitative assessment of scientific literature and projections for geographic regions most susceptible to wildfire risk this decade to identify risk exposures for private investments in infrastructure in an extreme wildfire scenario.

We also looked at the impacts to our client's corporate bond and equity holdings by industry through the lens of rising transition risk. The scenario narrative design emulates that of the "Sudden wake-up call" scenario in the NGFS Conceptual note on short-term climate scenarios. In this scenario, extreme weather events trigger sudden change in public opinion, cascading an accelerated transition as governments hastily implement policies to reduce emissions. This scenario looks at how the NGFS Delayed Transition long-term scenario could play out in the short term. The Sustainable Investing team worked very closely with our analysts to identify "winners" and "losers" in terms of impacts to fundamental credit risk for issuers within the respective industries.

This exercise provided learnings that inform our go-forward approach on scenario analysis when supporting clients in meeting their regulatory requirements for stress testing. We find third-party tools useful for identifying potential areas of exposure for physical risk, but understand that they should not be relied on for extrapolating asset-level damages. For physical risk impacts, assessing financial losses requires asset-level analysis, looking at vulnerability, ability to adapt, and other relevant protections in place (e.g. insurance, covenants, etc.).

1. Case study is provided for informational purposes only.

# Strategy

## Client reporting on climate

SLC Fixed Income offers standard climate reporting for certain clients, upon request. We can provide clients with a range of climate metrics, with a focus on financed emissions, depending on asset class.

Financed emissions can be a proxy for transition risk, which may impact investment performance depending on a portfolio company's business model and forward outlook. Increasingly, investors are interested in this data for their own reporting to regulators or stakeholders. Financial regulators and broader sustainability reporting standards like the ISSB are stipulating disclosure of financed emissions. SLC Fixed Income uses the PCAF methodology and associated databases, as required, to calculate financed emissions.

For clients with public fixed income and sovereign assets, we have the ability to report on absolute financed emissions, carbon footprint (carbon emissions to value invested), investments in labelled green, social, and sustainability bonds, weighted average carbon intensity, as well as provide attribution of the sectors driving the overall portfolio carbon footprint. Data quality is generally high and we use GHG data provided by MSCI and Trucost to inform our calculations.

For clients in private fixed income, we have the ability to report on absolute financed emissions, carbon intensity, investments in sustainable assets, as well as avoided emissions, which is a PCAF metric calculating emissions avoided through investments in renewable energy. Calculating financed emissions for private investments is a complex process and the nature of our underwriting process gives us deal-level data that enables better reporting for our clients.

## Understanding transition risk through the Net Zero Investment Framework

Financed emissions are an important metric, but they are fundamentally backwards looking. As we seek to identify and manage material transition risks for our clients with net zero objectives, our strategy involves the use of the Paris Aligned Investor Initiative's Net Zero Investment Framework (NZIF).

We use the NZIF for clients that have net zero alignment goals or targets for their portfolio. We believe the multi-faceted scoring system is a clear and transparent way to track company progress over time and compare peers within sectors.

Using the NZIF, companies are assessed according to factors such as their climate targets, the quality of disclosure, capital expenditures, and the detail and credibility of their decarbonization plans. The goal is to move beyond a company's carbon footprint and understand which companies have credible plans in place to reduce emissions over time in line with their business objectives—both understanding where companies are today and where they are headed in reducing their transition risk.

We believe NZIF is a useful tool for managing to clients' climate objectives as it avoids the potential unintended outcomes of divestment or exclusions, and instead helps identify sectoral leaders that are navigating the climate transition. Currently, we conduct NZIF assessments for clients with alignment goals on an annual basis, focused on a subset of the carbon intensive companies with the largest financed emissions exposure. NZIF is primarily used for listed corporate bonds, but we draw on its approach when considering investments in private fixed income. As data sources improve, we intend to expand our alignment coverage to a broader universe of companies.

# Risk management

# Risk management

## Identifying and assessing climate risks

From an investment perspective, climate-related risks, where determined material to an industry, are assessed and integrated where relevant when making investment decisions. A number of different analyses can be incorporated into our assessment of climate risks through both stand-alone analysis of physical risks by geographic region and through the assessment of business model and carbon transition risks. Where determined appropriate, monitoring climate-related risks may include acute and chronic physical risks and transition risks related to regulation, legal, technology, market and reputation or consumer preferences.

SLC Fixed Income identifies and assesses climate-related risks through our proprietary ESG research and scoring system. We continue to develop portfolio and risk management tools and research focused on assessing companies' climate risk exposure and resilience.

For public fixed income, our proprietary ESG scorecards assess companies on ESG risk factors deemed material by sector within our coverage universe. The incorporation of climate-related risks and opportunities depends on the materiality to credit risk for each individual investment. Over 400 corporate issuers were scored using our proprietary ESG scorecards in 2023.

For private fixed income, our investment approval memos include proprietary ESG scorecards that assess relevant climate-related factors. In 2023, more than 1,000 credits were assessed. These proprietary scorecards vary by asset type (e.g., real estate, infrastructure, securitization) and sector. Investments undergo an extensive pre-investment and annual due diligence process looking at issues of transition risk from sudden policy or market shifts, and the risk of stranded assets.

Examples of climate factors incorporated into our sector-specific scorecards for corporate bonds:

| | |
|---|---|
| UTILITIES | • GHG emissions intensity<br>• Decarbonization strategy<br>• Ambition of climate target |
| BUILDING MATERIALS | • GHG emissions intensity<br>• Decarbonization strategy<br>• Ambition of climate target |
| ENERGY | • GHG emissions intensity<br>• Decarbonization strategy<br>• Methane reduction strategy<br>• Exposure to water-stressed geographies<br>• Ambition of climate target |
| METALS & MINING | • GHG emissions intensity<br>• Decarbonization strategy<br>• Ambition of climate target<br>• Environmental controversies |

## Management of climate risks

SLC Management's Risk Management Framework (RMF) sets out the overarching framework for the management of risk across SLC. In addition to risks associated with managing investments, it seeks to manage other business-level risks, including those related to operations, people and culture, asset raising, and regulatory requirements, all of which may be impacted by climate change. The RMF elements include risk governance and accountabilities, risk universe, risk appetite and risk management policies.

### Key pillars of the RMF include:

**Business and strategic risk:** The risk of loss resulting from the inability to adequately identify, plan or implement an appropriate strategy to achieve strategic and business objectives or adapt to changes in client behavior, the external business, economic, political, regulatory or environmental and social landscape or when assumptions made in strategy are not realized as expected.

**Operational risk:** The risk of loss (financial and non-financial) resulting from inadequate or failed internal processes, people and systems or from external events.

**Investment risk**: The risk that an investment strategy is not executed in a prudent manner such that the mandate significantly fails to fulfill its investment objective and so materially falls short of its target returns and relevant benchmark rates of return that the strategy creates risk of reputational harm and financial losses.

Our risk management and compliance personnel work closely with business partners through management committees, projects, and in regular day-to-day interaction to identify, assess and manage business-related and portfolio management risks. These interactions are key to maintaining an effective risk and compliance culture. In 2023, SLC Fixed Income established a stand-alone Risk Committee. The Sustainable Investing team provides quarterly updates on key risk indicators (KRIs) to the Committee; these KRIs include any material changes impacting interim net zero targets for client assets being managed to net zero.

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# Metrics & targets

# Metrics and targets

## Operational emissions

Emissions associated with SLC Fixed Income operations are consolidated and are included in our parent company Sun Life's overall emissions reporting. Operational emissions are accounted for as Scope 3 emission sources and are calculated according to the GHG Protocol Corporate Accounting and Reporting Standard, using the financial control approach. For more information on Sun Life's 2023 global greenhouse gas (GHG) emissions reporting, refer to **Sun Life's 2023 Sustainability Report** and **2023 GHG Reporting Methodology**.

## Interim net zero targets

SLC Fixed Income has developed a set of interim net zero targets that apply to the investment assets we manage for our parent company, Sun Life. These targets are for listed corporate bonds and directly managed listed equities and were accepted by the Net Zero Asset Managers initiative in July 2023.

Collectively, the interim targets cover 20.2% of SLC Fixed Income total AUM as of December 31, 2023.[2]

### Target

**Directly-managed listed equities:** 50% reduction in CEVI by 2030 from a 2019 baseline

**Baseline:** 59.3 tCO2e per million dollars invested

**Assets in scope:** Sun Life's investment portfolio of directly managed listed equities

**Metric:** Carbon intensity, using a target metric of carbon emissions to value invested

**Strategy**

The target was developed via a bottom-up approach, whereby the projected 2030 GHG emissions reductions for listed equities were calculated based on publicly stated targets made by underlying issuers. Those without targets were calculated as having no change in emissions levels. Many of the listed equities are sub-managed by other asset managers.

### Target

**Listed corporate bonds:** A minimum 40% reduction in carbon intensity by 2030, from a 2019 baseline

**Baseline:** 82.4 tCO2e per million dollars invested

**Assets in scope:** Sun Life's investment portfolio of listed corporate bonds

**Metric:** Carbon intensity, using a target metric of carbon emissions to value invested

**Strategy**

The target was developed via a bottom-up approach, whereby the projected 2030 GHG emissions reductions for listed corporate bonds were calculated based on publicly stated targets made by underlying issuers. A target of a minimum 40% reduction in carbon intensity was developed, balancing ambitions on climate goals while adjusting for the speed of the transition in hard-to-abate sectors and emerging markets, as well as minimizing cost and excessive divestment concerns. Asset-level guidelines were developed for investment teams to prioritize investments in large emitters that have credible climate strategies.

### Target

**Listed corporate bonds:** 65% of the Top 50 financed emitters in material sectors achieving net zero 'aligned' or 'aligning' by 2030

**Baseline:** An initial baseline of 2022 holdings found 2% of top emitters were 'aligned' and 34% were 'aligning'.

**Assets in scope:** Sun Life's investment portfolio of listed corporate bonds. The target is on the 50 largest financed emitters in material sectors in the listed corporate bonds portfolio. Material sectors cover utilities (electric, multi, and gas); oil, gas, and consumable fuels; aviation; chemicals; construction materials, and mining.

**Metric:** The Paris Aligned Investment Initiative's Net Zero Investment Framework

**Strategy**

A net zero alignment target prioritizes new investment decisions in carbon-intensive companies that have credible plans to decarbonize. This aligns with our investment philosophy of supporting companies through the energy transition. Companies that are not demonstrating progress may see investment exposure reduced or divested.

2. SLC Fixed Income AUM was $185.2 billion as of Dec 31, 2023. SLC Fixed Income refers to Sun Life Capital Management (Canada) Inc. and Sun Life Capital Management (U.S.) LLC. AUM data is in CAD and includes management of assets for the Sun Life General Account, as well as third-party clients. SLC Fixed Income AUM excludes the AUM of BGO, Crescent Capital Group, InfraRed Capital Partners, and Advisors Asset Management.

# Our way forward

# Our way forward

### Future work

SLC Fixed Income's priority for 2024 is to continue to expand our climate data and reporting capabilities for clients with climate goals and to provide enhanced tools for our investment teams to assess climate risks that are material to investment decisions.

| TCFD pillars | Activities in 2023 | Next steps |
|---|---|---|
| GOVERNANCE | • Launch of internal Climate Risk Working Group<br>• Sustainability Council oversees climate risk | • Finalize climate risk dashboard<br>• Integration of climate risks into business and strategic planning processes where relevant |
| STRATEGY | • Expanded client reporting capabilities on carbon footprint<br>• Began managing net zero bond strategy<br>• Onboarded ICE physical risk data | • Expand client reporting capabilities for scenario analysis |
| RISK MANAGEMENT | • Developed internal ESG dashboard integrating climate data from third-party providers<br>• Assessed variety of third-party scenario analysis tools for both physical and transition risks | • Expand net zero alignment assessment beyond top emitters |
| METRICS AND TARGETS | • Established interim net zero targets for Sun Life's investment portfolio assets in listed corporate bonds and directly managed listed equities | • Explore appropriate interim targets for Sun Life's investments for other asset classes |

# Disclosure

Sun Life is an international financial services organization providing asset management, wealth, insurance and health solutions to individual and institutional Clients. Sun Life has operations in a number of markets worldwide, including Canada, the United States, the United Kingdom, Ireland, Hong Kong, the Philippines, Japan, Indonesia, India, China, Australia, Singapore, Vietnam, Malaysia and Bermuda. For more information, please visit www.sunlife.com.

Sun Life Financial Inc. trades on the Toronto (TSX), New York (NYSE) and Philippine (PSE) stock exchanges under the ticker symbol SLF.

SLC Management is the brand name for the institutional asset management business of Sun Life under which the entities Sun Life Capital Management (U.S.) LLC in the United States, and Sun Life Capital Management (Canada) Inc. in Canada operate. BGO, InfraRed Capital Partners (InfraRed), Crescent Capital Group (Crescent) and Advisors Asset Management (AAM) are also part of SLC Management. "SLC Fixed Income" refers to the investment grade and private fixed income business of SLC Management, represented by Sun Life Capital Management (U.S.) LLC in the United States and Sun Life Capital Management (Canada) Inc. in Canada. SLC Fixed Income offers pooled funds, separately managed accounts and other securities-based investment advisory services with the support of the investment operations of SLC Management.

Sun Life Capital Management (Canada) Inc. is a Canadian registered portfolio manager, investment fund manager, exempt market dealer and in Ontario, a commodity trading manager. Sun Life Capital Management (U.S.) LLC is registered with the U.S. Securities and Exchange Commission as an investment adviser and is also a Commodity Trading Advisor and Commodity Pool Operator registered with the Commodity Futures Trading Commission under the Commodity Exchange Act and Members of the National Futures Association. In the U.S., securities are offered by Sun Life Institutional Distributors (U.S.) LLC, a SEC registered broker-dealer and a member of the Financial Industry Regulatory Authority (FINRA).

BGO is a global real estate investment management advisor and provider of real estate services. In the U.S., real estate mandates are offered by BentallGreenOak (U.S.) Limited Partnership, who is registered with the SEC as an investment adviser or Sun Life Institutional Distributors (U.S.) LLC, an SEC registered broker-dealer and a member of the Financial Industry Regulatory Authority (FINRA). In Canada, real estate mandates are offered by BentallGreenOak (Canada) Limited Partnership, BGO Capital (Canada) Inc. or Sun Life Capital Management (Canada) Inc. BGO Capital (Canada) Inc. is a Canadian registered portfolio manager and exempt market dealer and is registered as an investment fund manager in British Columbia, Ontario and Quebec.

InfraRed Capital Partners is an international investment manager focused on infrastructure. Operating worldwide, InfraRed manages equity capital in multiple private and listed funds, primarily for institutional investors across the globe. InfraRed Capital Partners Ltd. is authorized and regulated in the UK by the Financial Conduct Authority.

Crescent Capital Group is a global alternative credit investment manager registered with the U.S. Securities and Exchange Commission as an investment adviser. Crescent provides private credit financing (including senior, unitranche and junior debt) to middle-market companies in the U.S. and Europe, and invests in high-yield bonds and broadly syndicated loans.

AAM is an independent U.S. retail distribution firm that provides a range of solutions and products to financial advisors at wirehouses, registered investment advisors and independent broker-dealers.

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Unless otherwise stated, all figures and estimates provided have been sourced internally and are as of December 31, 2023. Currency is provided in both Canadian and U.S. dollars unless otherwise stated. Examples of sustainable investment actions and outcomes, and engagement initiatives may include financial data in either USD or CAD depending on the geography of the investment/initiative. Past performance is not indicative of future results.

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SLC Management and SLC Fixed Income firm level assets under management are provided as of December 31, 2023. SLC Management firm level AUM represents combined assets of Sun Life Capital Management (Canada) Inc., Sun Life Capital Management (U.S.) LLC., BGO, InfraRed Capital Partners, Crescent Capital Group LP, and Advisors Asset Management Inc. (AAM). Total firm AUM includes cash and other, and unfunded commitments; cash and other includes US$2.5/C$3.4 billion in AAM equity; unfunded commitments are approximately US$22/C$30 billion. Total firm AUM excludes US$37/C$50 billion in assets under administration by AAM. SLC Fixed Income firm level AUM represents combined assets of Sun Life Capital Management (Canada) Inc., and Sun Life Capital Management (U.S.) LLC., and excludes BGO, InfraRed Capital Partners, Crescent Capital Group LP, and Advisors Asset Management Inc.



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