



Engagement Report FY2017



Chris Conkey

President & Chief Executive Officer
and Chief Investment Officer,

**Manulife Asset Management
(Public Markets)**

Foreword

At Manulife Asset Management, we see engagement as a constructive exercise intended to promote positive change among companies, as well as an effective tool for enhancing the long-term value of our clients' investments. Rather than divesting a company in the first instance, we believe we can help achieve these objectives as an active owner, on behalf of our clients.

Last year, we adopted an ESG engagement policy to articulate that view, clarify our engagement approach, and outline how it is integrated into our investment process. Our dedicated ESG integration team leads the coordination ESG engagement activities, working in partnership with our investment teams.

I've been most impressed with our investment teams' receptivity to our engagement policy and how it can help them become even better at what they do. Attention to ESG issues is becoming a fundamental part of how Manulife Asset Management manages money.

We believe in active management and ESG is integral to that process. In active management, ESG factor analysis is embedded in our fundamental processes. We believe taking this approach enhances our ability to uncover opportunities or identify weaknesses, ultimately toward the goal of adding value for our clients.

* This report pertains to Manulife Asset Management's listed equity and fixed income engagement activities.



Engagement

We aim to use our influence as investors to encourage companies to adopt sustainable business practices that promote stable long-term growth and reduce material ESG risks over time.

Through engagement, we create an open dialogue with investee companies to deepen our understanding of ESG issues underpinning a company's strategy or valuation. Through engagement, we aim to improve long term risk adjusted results by mitigating ESG risks that could alter the valuation, fundamentals or strategies of companies we invest in.

Our engagement activities include seeking positive change in corporate behavior, challenging corporate practices, requesting improved ESG disclosure, and monitoring and providing feedback on corporate ESG strategy.

We may also partner with other investors through collaborative engagements. Collaborative engagements enable Manulife Asset Management to partner with other investors and industry experts to increase our influence on ESG concerns and macro-economic and systemic issues. In 2017, we participated in 10 collaborative engagements, including three industry-wide engagements related to methane emissions, cybersecurity and climate risk.

Further details are available in our *Engagement Policy*, which is available to the public on our website.

Our global engagement activities:



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COMPANIES



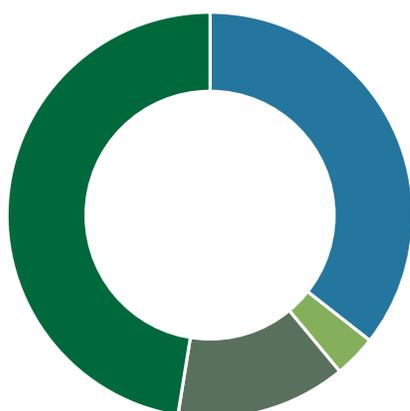
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COLLABORATIVE ENGAGEMENTS

Engagement by Region

Figure 1 – Engagement by Region

Our engagements spanned 14 countries, with a large majority (83%) of engagements occurring in Asia and North America



- North America 47%
- Asia 36%
- Australia & New Zealand 3%
- Europe 14%

Source: Manulife Asset Management December 31, 2017

Figure 2 – Engagement by Industry

Our engagements covered nine industries with financials dominating engagements (35%), followed by the consumer discretionary sector (11%). These sectors comprise high weightings in prominent benchmarks and exhibit a higher occurrence of social and governance issues.



- Financials 35%
- Industrials 5%
- Telecommunication Services 5%
- Energy 7%
- Materials 10%
- Consumer Staples 7%
- Information Technology 10%
- Health Care 10%
- Consumer Discretionary 11%

Source: Manulife Asset Management December 31, 2017



Figure 3.1 – Engagement by Theme – ESG Factor

- We engaged on over 140 ESG issues spread across the three broad areas of environmental, social, and corporate governance themes. We often engage with a company on more than one ESG factor in a given engagement interaction.

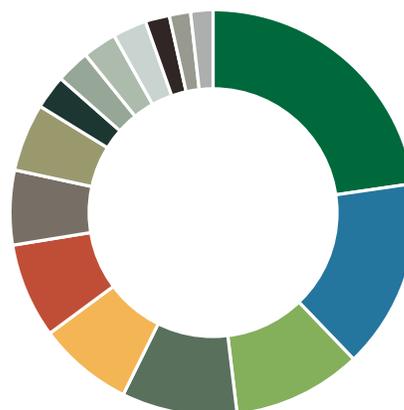


■ Environmental **38%**
 ■ Social **29%**
 ■ Governance **33%**

Source: Manulife Asset Management December 31, 2017

Figure 3.2 – Engagement by Theme – Topic Focus

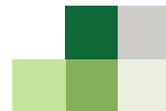
- Our engagement activities covered 14 main themes
- Board structure, employee development and retention and executive compensation were the top three topics.



■ Board Structure **23%**
 ■ Employee Development **15%**
 ■ Executive Compensation **10%**
 ■ Cybersecurity **9%**
 ■ Emissions **7%**
 ■ Product Quality & Safety **7%**
 ■ Supply Chain **6%**
 ■ Land Use **5%**
 ■ Water **3%**
 ■ Energy Consumption **3%**
 ■ Shareholder Rights **3%**
 ■ Climate Change **3%**
 ■ Pollution **2%**
 ■ COrruption **2%**
 ■ Other **2%**

Source: Manulife Asset Management December 31, 2017

As articulated in our ESG policy, Manulife Asset Management believes that successful companies in the long term will exhibit strong governance practices. This belief is reflected in two of the top three themes being governance related. The other top theme was employee development: we firmly believe companies that focus on recruiting, training and retaining talent have a stronger likelihood of having a more sustainable business model over the long term versus peers.



Case 1

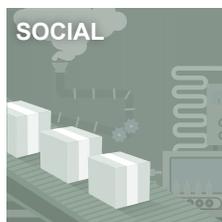
The investment team met with a vertically integrated pork producer to discuss fundamental business issues and several ESG concerns including insufficient disclosure on carbon emissions. The company failed to provide clarity on the questions raised. The proprietary analysis and insights gained through the engagement revealed that the risk/reward profile of the company was not attractive and the company lacked transparency on its ESG disclosures; the investment team decided not to invest in this company.

Case 2

A metals & mining company had outstanding liabilities provisioned for legal claims associated with a collapsed tailings dam. We engaged with the company to better understand whether any actions had been taken to improve risk management and avoid future controversies; to determine if provisioning was adequate for ongoing civil and criminal legal actions; and to assess whether the company's communications with ESG research providers was timely and proactive.

Through engaging with the company, the investment team gained a clearer understanding of the risks associated with various types of tailing dams and the risk mitigation processes. The company's actions in response to the controversy and greater government oversight in the aftermath has resulted in improved disclosures, and the ability to better benchmark the company against its peers.

The investment team felt confident in the actions that management team had taken and we executed our proxy vote in support with management.



Case 3

A financial company was identified as having been assessed with a poor rating by an external ESG research and data provider, and that this was likely related to poor ESG disclosures. The investment team met with company management seeking information on a range of ESG issues, including social issues like the utilization, incentivization, and retention of high quality talent. The company shared its strategy around diversity, inclusion and retention. The investment team was satisfied with the company's response to this issue, and other ESG issues, and continues to hold this position.



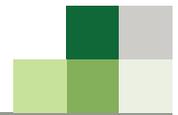
Case 4

An auto manufacturer was identified as an outlier due to poor governance standards relative to global, domestic and industry peers. The investment team met with company management seeking information on the company's approach to board independence, provisioning for potential product recalls, and industry emissions scandals. The company conveyed an unsatisfactory approach, creating doubt for the investment team about its regard for long-term minority shareholder interests. The company was placed on a watch list to reduce and ultimately eliminate the position.



Case 5

We engaged with a mid-size bank in 2016. The objective for the outreach in 2016 was to influence the bank to report on sustainability metrics relevant for its operations and apply governance best practices. We were pleased to see the bank release its first sustainability report in Q1 2017. In addition, some of the governance issues highlighted in 2016 have been improved or resolved. We continued to engage with this company throughout 2017 on a range of ESG issues, including cybersecurity, climate change and product safety.



Manulife Asset Management's ESG Team



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Investing involves risks, including the loss of principal. Financial markets are volatile and can fluctuate significantly in response to company, industry, political, regulatory, market, or economic developments. These risks are magnified for investments made in emerging markets.

Global events have resulted, and may continue to result, in an unusually high degree of volatility in the financial markets, both domestic and foreign.

The natural resources industry can be significantly affected by events relating to international political and economic developments, energy conservation, the success of exploration projects, commodity prices, and taxes and other governmental regulations.

Investing in securities of companies in the real estate industry subjects a fund to the risks associated with the direct ownership of real estate. Real Estate Investment Trusts ("REITs") involve additional risk factors including poor performance by a REIT's manager, changes to the tax laws, and failure by the REIT to qualify for tax-free distribution of income or exemption under the Investment Company Act of 1940.

A rise in interest rates typically causes bond prices to fall. The longer the average maturity of the bonds held, the more sensitive a strategy is likely to be to interest-rate changes. The yield earned will vary with changes in interest rates.

Currency risk is the risk that fluctuations in exchange rates may adversely affect the value of a fund's investments.

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Manulife Asset Management

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