

Your purpose is our purpose.



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2022

# Sustainable Investing 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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# Your purpose is our purpose

SLC Fixed Income is the investment grade fixed income business of SLC Management<sup>1</sup>. We partner with institutional investors across the globe, investing for you and alongside you. With **US\$128/C\$173 billion in assets under management<sup>2</sup>** as of March 31, 2023, we help our clients optimize their asset allocation profile, and meet their long-term income and capital appreciation objectives by leveraging our expertise in investment grade public and private fixed income, liability-driven investing, insurance asset management, and our long tenure managing bespoke portfolios.

In partnership with the SLC Management companies, we can combine our investment capabilities across public and private fixed income, real estate equity and debt, and infrastructure equity to enhance the value that we bring clients. Few investment managers can match this continuum of investment capabilities, which can help clients achieve their risk and return objectives.

Across our platform, our strategies have provided strong and consistent returns. With **more than 600 employees** including **over 180 investment professionals<sup>3</sup>** in countries worldwide, we strive to generate investment insights that can enhance the performance of our solutions.

1. 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. These entities are also referred to as SLC Fixed Income and represent the investment grade public and private fixed income strategies of SLC Management. BGO, InfraRed Capital Partners (InfraRed), Crescent Capital Group (Crescent), Advisors Asset Management Inc. are also part of SLC Management.
2. SLC Fixed Income business refers to Sun Life Capital Management (Canada) Inc. and Sun Life Capital Management (U.S.) LLC. The firm level AUM is as of March 31, 2023, and excludes the AUM of BGO, Crescent Capital Group, InfraRed Capital Partners, and Advisors Asset Management. SLC Management firm level assets under management are provided as of March 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\$3.5/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.
3. Investment professionals include Portfolio Managers, Traders, Research Analysts, Portfolio Strategists, and Investment Strategists under Sun Life Capital Management (Canada) Inc. and Sun Life Capital Management (U.S.) LLC.







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# Leadership view



# Leadership view

## A message from Steve Peacher

If 2022 taught us anything, it is that no one can predict the future. A war in Europe, pandemic-fuelled inflation, aggressive rate hikes and declines in investment markets across the board – the scale of change humbled us all. Amidst this volatility, we were also able to grow our business in a new direction, with the acquisition of retail distribution firm Advisors Asset Management (“AAM”). AAM has the exclusive right to distribute our alternative investment products to the retail market in the United States.

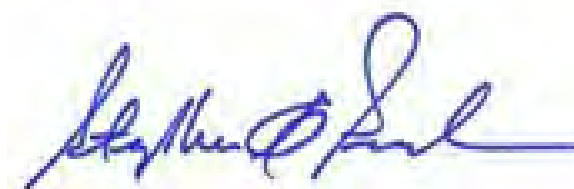
Environmental, Social, and Governance (ESG) issues continued to make headlines. A growing concern is corporate greenwashing and green hushing – organizations exaggerating their commitment to sustainability versus staying silent about it. We have focused this report on our approach and actions. We want to be as clear as possible on what we do and how we do it.

Our job – our fiduciary duty – is to act in our clients’ interest always and seek to deliver excellent investment performance. Nothing will change that. Sustainability factors have been consistently considered in our risk management and investment process. If there are environmental, social, or governance factors that could negatively impact a company’s credit worthiness, performance, or long-term survival, we do not want to own or invest in it. That has everything to do with our fiduciary duty.

However, any additional sustainability considerations are based on a client’s direction. For many clients, investment performance is the sole focus. For other clients, they are looking to align their investment practices with sustainability goals – especially those related to climate.

We continue to build our ability to evaluate and measure ESG factors, making it easier for clients with sustainability goals to achieve and track progress. In an economic and political world that changes daily, our greatest pride is in fulfilling our fiduciary duties and delivering consistent investment performance.

Sincerely,



**Steve Peacher**, President  
SLC Management

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Investment grade fixed income  
business of SLC Management



**US\$128/C\$173B<sup>4</sup>**

in assets under management



Managing Fixed Income and Real  
Assets under management

**US\$270B/C\$365B<sup>5</sup>**

4. SLC Fixed Income business refers to Sun Life Capital Management (Canada) Inc. and Sun Life Capital Management (U.S.) LLC. The firm level AUM is as of March 31, 2023, and excludes the AUM of BGO, Crescent Capital Group, InfraRed Capital Partners, and Advisors Asset Management.

5. SLC Management firm level assets under management are provided as of March 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\$3.5/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.





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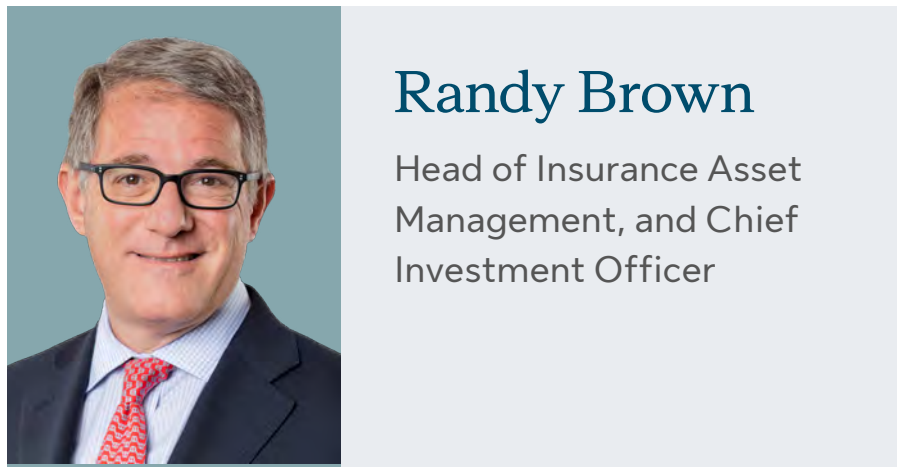
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# Sustainable investing team



# Sustainable investing team

Our Sustainable Investing Team partners across the SLC Fixed Income business to ensure consideration of ESG risks and opportunities, best practices and policies, and honouring our commitment to clients.



**Randy Brown**

Head of Insurance Asset Management, and Chief Investment Officer

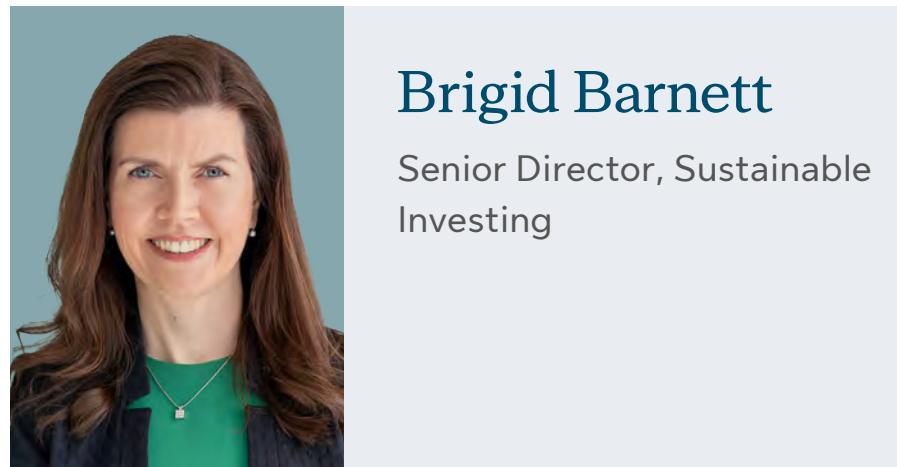
Randy is Executive Sponsor of SLC Management's Sustainable Investment Program, and a member of both our Sustainability Committee and Sustainable Investment Council.



**Andrew Harris**

Managing Director, Sustainable Investing

Andrew is responsible for leading the SLC Fixed Income Sustainable Investing team and ESG integration across our investment teams.



**Brigid Barnett**

Senior Director, Sustainable Investing

Brigid is responsible for supporting ESG integration, engagement, governance and reporting.



**Shen Chen**

Senior Director, ESG Data & Insights

Shen is responsible for managing the ESG data platform, as well as integrating ESG insights into investment processes.



**Kevin Quinlan**

Director, Climate

Kevin is responsible for our climate pillar as well as supporting client-focused initiatives.



**Maggie Zhang**

Associate, Sustainability

Maggie is responsible for supporting the integration of ESG considerations within SLC Fixed Income's investment processes. She also supports implementing the firm's ESG data management strategy.

Ensuring the integration of ESG factors, where appropriate, within our investment teams, ESG leads from our Public and Private Fixed Income Teams are also embedded within the Sustainable Investing Team.



**Olesya Zhovtanetska**

Managing Director, Public Fixed Income, Credit Research & ESG

Olesya is the North American ESG Lead for Public Fixed Income and a member of the SLC Fixed Income Sustainability Committee and Sustainable Investment Council.



**Liz Thorne**

Managing Director, Private Fixed Income & ESG

Liz is the ESG lead for Private Fixed Income and a member of SLC Fixed Income's Sustainable Investment Committee and Sustainable Investment Council.



# Sustainable investing team

## Working together to build a cohesive strategy

Our sustainable investing strategy focuses on three key priorities supported by two platform-wide capabilities.



### ESG integration

Embedding financially material ESG considerations within our investment research, analysis, and decision-making, where appropriate.



### Client solutions

Working proactively with clients who seek to achieve specific sustainability outcomes.



### Engagement

Engaging with key stakeholders to inform our understanding of relevant ESG risks, and influence positive change to benefit investors.



### Governance and reporting

A controls environment that supports documentation, oversight and reporting.



### Data management and analytics

A dynamic ESG data management platform that helps capture data, and supports analysis and processing, integration and reporting

We have developed a **two-tiered governance structure** that captures ESG through both a business and an investment lens.

- **The Sustainability Committee** is responsible for overseeing the direction, priorities and implementation of our sustainable investing initiatives. The Committee monitors regulatory updates and evolving industry practices, as well as oversees SLC Fixed Income's engagement strategy, including participation in industry initiatives.
- **The Sustainable Investment Council** is a sub-committee of the Sustainability Committee. It is the steering body for ESG integration in our investment processes, representing and working across asset class teams. The Council is composed of investment team leaders.





# Sustainable investing team

## Our progress

**In 2022, we made considerable progress in moving sustainable investing initiatives forward.**

1

**We expanded our Sustainable Investing Team.** We added professionals with expertise in data and analytics, climate, and pension investing, among others. The team works very closely and collaboratively with the ESG leads within the Public and Private Fixed Income Teams to help integrate and evolve our approach.

2

**We refined and enhanced our approach to ESG business integration.** We conducted an ESG maturity assessment across all our public and private fixed income strategies. This exercise was structured on the Principles for Responsible Investment (PRI) assessment framework. It helped us gain greater insight into potential areas for enhancement to ESG integration.

3

**We enhanced our ESG data capture.** We onboarded ESG data into a cloud-based environment. We are working towards building a platform to support our client and investment team needs.

4

**We joined the Net Zero Asset Managers (NZAM) initiative and the Partnership for Carbon Accounting Financials (PCAF).** To support our clients on their decarbonization goals, where applicable, we worked to develop interim targets to support the goal of net zero by 2050 that struck a balance between ambition, credibility, and feasibility consistent with our fiduciary duty to our clients. We took into consideration issues such as concentration risk, income loss and market liquidity. This work has increased our climate knowledge and will help us to develop a capability to measure the carbon footprint across our asset base, where applicable.

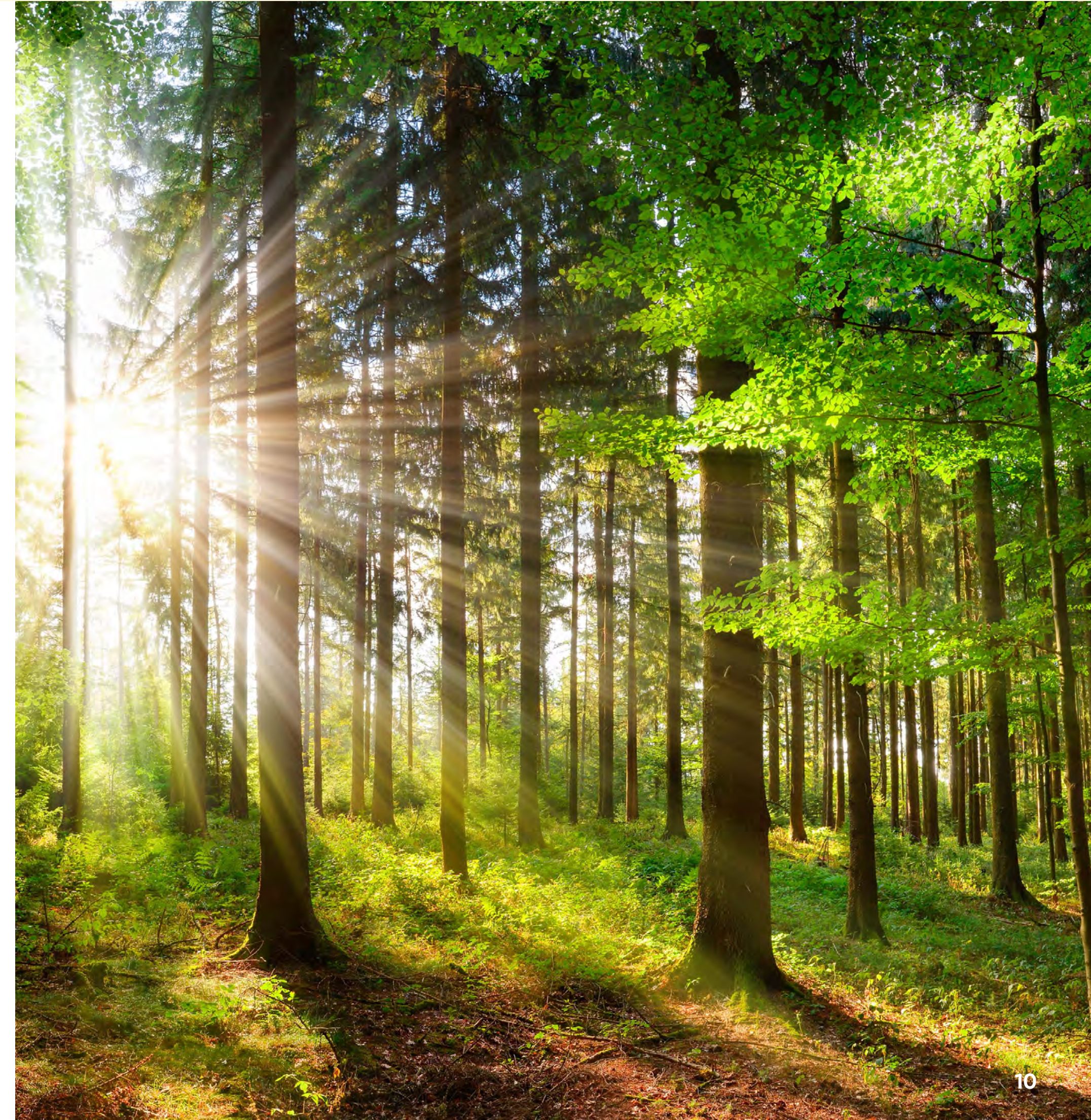
5

**We implemented comprehensive education initiatives related to ESG.** We hosted an ESG Summit involving 600+ employees across SLC Fixed Income and our affiliate companies. The event featured industry experts and senior members of our investment teams. Topics ranged from market views to climate and net zero, and ESG integration. We also launched online education for all employees on SLC Fixed Income's approach to ESG integration and engagement, as well as on climate change and our net zero commitment.

6

**We invested sustainably.** We contributed an additional US\$1.8/C\$2.4 billion in new sustainable investments<sup>6</sup> towards the 2025 sustainable investment targets under the direction of one of our largest clients in the financial services sector.

6. Represents investments of SLC Fixed Income, which are managed on a discretionary and non-discretionary basis for Sun Life's General account and third-party investors and clients.





# Sustainable investing team

## The path forward

In 2023, we submitted our interim targets as part of our NZAM commitments. We are working to enhance our operating processes, systems and data, and tools to support and track our commitments. In addition, we will:

- support the development of sustainability-oriented offerings and develop options for reporting to clients on ESG and climate portfolio attributes;
- enhance our data management practices helping ensure we provide decision-relevant value for both our investment teams and our clients;
- continue to lend our time and voice to those initiatives where we think they can add value for our clients, as well as produce education and insights to better communicate with our clients and employees on our work and capabilities in this space; and
- continue to develop our governance practices and track the emerging regulations in climate and ESG that are impacting our clients.

### The path towards a more diverse, equitable and inclusive culture

Diversity, equity and inclusion (DE&I) is vital to our success. As a global employer, we foster a culture of respect, support and collaboration. As an asset manager, we are guided by values that better support our clients, people and community. Fostering a diverse and inclusive work environment broadens our lens and enables us to capture perspectives informed by diverse backgrounds. This in turn can help drive future growth and innovation within our investment approach creating value for our clients and communities. Our path forward includes:

<p>Fostering an inclusive culture</p>	<p>Empowering authentic leadership</p>	<p>Championing change</p>	<p>Partnering across communities</p>
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For more details, please visit [www.slcmangement.com](http://www.slcmangement.com)







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# ESG integration



# ESG Integration

## Our approach

Considering material ESG risks and opportunities can preserve and enhance the long-term market value and income generation capacity of investment assets. This can contribute to better investment performance over time and help our clients achieve their investing goals.

Our consideration of ESG factors in investment decisions depends on many variables including a client’s objectives and the underlying mandate, the asset type and availability of information, and the expected holding periods.

ESG factors can vary by industry, geography and asset class – and can change over time. That’s why we believe our investment teams are best positioned to identify and evaluate these risks and opportunities, where relevant. We use our in-house expertise, and guidance from various industry providers, to determine which factors are most relevant.

A process used to support our ESG analysis is our proprietary ESG investment assessment and scoring framework, which is designed to assess the relative environmental, social and governance risks of issuers within an industry or asset type. The foundation for the framework is industry or sector-based analyses of the material ESG factors that could impact the value and financial performance of the assets over time.

### Download

**SLC** | Fixed Income  
**SLC Fixed Income Sustainable Investing Policy**

 **Sun Life**  
**2022 Sun Life Sustainability Report**





# ESG integration

## Investing in public fixed income

Managing investment grade public fixed income is at the heart of our continuum of solutions and our clients' portfolios. Over **80 investment professionals**<sup>7</sup> comprise our public fixed income team, which includes a team of credit research analysts organized by sector. As of December 31, 2022, the teams **manage US\$84/C\$114 billion in public fixed income investments**.

We combine deep bottom-up fundamental research capabilities with a comprehensive understanding of sectors and credit. We analyze both qualitative and quantitative risk factors. Credit analysts assign both a fundamental credit score, which incorporates our ESG views, where material, as well as a separate ESG score for companies in our investible universe. We have developed proprietary industry ESG scorecards to evaluate material ESG factors and generate ESG scores. Data sources for our ESG scores include MSCI, CDP, and rating agencies as well as company and broker research reports, among others.

Portfolio managers may use ESG scores as an input into overall investment decision-making, alongside credit metrics and relative value depending on a variety of factors including client mandate and time horizon, among others.

We have a responsibility to mitigate ESG risks in order to maximize returns on behalf of our clients. The goal of our research and analysis is to ensure that portfolio managers are aware of the material investment risks associated with ESG and that we are being appropriately compensated for them.



**80+**  
investment  
professionals



**US\$84B**  
**C\$114B**

public fixed income investments



**US\$1.7B**  
**C\$2.4B**

Green Social Sustainable  
bond holdings<sup>8</sup>

### Meet the Leaders



**Rich Familetti**  
Chief Investment Officer, U.S. Total  
Return Fixed Income

Rich leads the portfolio management teams who invest on behalf of SLC Management's U.S. pension asset management clients. Rich and his team have experience specializing in corporate credit and fixed income asset allocation.



**Doug Gardiner**  
Senior Managing Director, Portfolio  
Manager & Head of Public Fixed Income

Doug oversees investment activities in the public fixed income and derivatives markets specializing in pension and insurance asset management for clients in Canada, as well as the U.S. and U.K.

7. Investment professionals include Portfolio Managers, Traders, Research Analysts, Portfolio Strategists, and Investment Strategists under Sun Life Capital Management (Canada) Inc. and Sun Life Capital Management (U.S.) LLC.  
8. Represents investments of SLC Fixed Income, which are managed on a discretionary and non-discretionary basis for Sun Life's General account and third-party investors and clients.



# ESG integration

## Sustainable Investing in action<sup>9</sup>



We invested in a leading European agricultural and construction equipment manufacturer. They hold a strong market position, benefiting from its strong product and geographic diversity, an extensive dealer network, and robust cash flow generation.

The company has strong GHG emissions reduction goals, and detailed tracking of their progress, including a specific emission reduction target to be achieved by 2030. Further, the company has robust toxic emission reduction performance and well-defined waste management targets. They have a leading waste recovery rate at company plants worldwide. On social factors, they have strong health and safety metrics, including worker safety and product quality and safety.

The company also places a high priority on investing in and innovating with recent technologies. Through its investment arm, the company seeks to accelerate time-to-market for valuable product innovations. These are designed to boost customer productivity and help them achieve their own decarbonization targets.

### OUTCOME

We have recently added to our investment in this company. They continue to improve their credit story, with solid EBITDA growth and continuing debt reduction. In addition, we believe that their strong ESG focus plays a key role in the decarbonization of Europe's agriculture sector.



We invested in a major European utility with improving credit fundamentals. The company recently introduced a large asset sale program to help pay off debts and strengthen its credit metrics. Additionally, its bonds trade at an attractive spread compared to U.S. utilities.

The company's strong ESG focus was also a factor in our investment. The European Union aims to be climate neutral by 2050. The company has committed to achieve net zero emissions more rapidly than the European Union objectives.

The company is one of Europe's largest renewable operators, with hydro and other renewable power sources making up more than half of their installed generation capacity. This is a key metric, as utilities that generate power from carbon intensive fuels bear the greatest risk of carbon taxes, stranded assets through the mandated closure of coal plants, and increasing capital expenditures to lower carbon emissions. With its renewable energy focus, the utility we invested in is well positioned amidst the carbon transition compared to its peers.

### OUTCOME

We invested in the company given its improving credit fundamentals and power generation skew to non or low carbon fuels. We believe that the company is well positioned to transition away from carbon intensive fuels and will play an essential role in Europe's objective to become climate neutral.

9. The 'Sustainable investing in action' case studies are for illustrative purposes only. Any reference to a specific asset does not constitute a recommendation to buy, sell or hold or directly invest in it. It should not be assumed that the recommendations made in the future will be profitable or will equal the results of the assets discussed in this document. Represents investments of SLC Fixed Income, which are managed on a discretionary and non-discretionary basis for Sun Life's General account and third-party investors and clients.



# ESG integration

## Sustainable Investing in action<sup>10</sup>



### CASE STUDY

#### Strong governance and a community focus

We invested in a large mutually owned lender that has strong market shares in both the mortgage and savings markets. They benefit from good asset quality, sound funding and liquidity, and strong capitalization. As a mutual lender owned by its members, they also have a strong community focus, donating 1% of pre-tax profits to charities.

The organization is currently one of the top ranked issuers in our proprietary ESG scoring of the banking sector. They score high on governance, based on a high percentage of independent board members, good female representation, and incorporation of ESG measures in executive compensation. Moreover, they have strong consumer financial protection policies and robust data privacy and security policies.

In addition, the organization is committed to reducing GHG emissions, aiming to achieve net zero emissions by 2050. In the near term, their goal is to achieve above-average energy efficiency in at least half of their mortgage portfolio.

### OUTCOME

We increased our position in 2022, given our evaluation of the issuer's good credit fundamentals, strong ESG score and attractive relative value.



### CASE STUDY

#### Expanding the pool of affordable housing through Project Loans

A particular U.S. government agency guarantees the payment of principal and interest on securities backed by loans issued under government agency programs, the Federal Housing Administration and the Department of Veterans Affairs.

One of the Agency's business lines is Project Loans, which are mortgages used for the construction, rehabilitation, purchase, and refinancing of multi-family residential and health-care properties.

The long-term goal of this public private partnership is to support affordable housing and promote stable communities. A critical part of that effort is facilitating the construction and renovation of multifamily housing.

Project Loans are a well-established program of the U.S. Department of Housing and Urban Development – and include a broad range of issuers. These loans allow the borrower to lock in fixed rate longer term, often 30-40 years, financing while still giving the borrower the option to prepay the loan after an interim period with no penalty. The Agency also provides borrowers a rate incentive for those who qualify under their 'Green and Energy Efficient Housing' program. The Agency has also added a "Green Status" field to its multi-family disclosure, giving information that supports our sustainable investing decisions.

### OUTCOME

We provided financing for the construction, and refinancing for the multi-family rental housing that is geared to moderate- and low-income households. Purchasing the last cash flow of the project loans gives us long duration exposure, at attractive long-term yields. We have invested significantly in this sector of the housing market as we believe providing financing may help meet the needs of diverse communities across the country.

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# ESG integration

## Investing in private fixed income

Our private fixed income team, with over **50 investment professionals<sup>11</sup>**, manages more than **US\$34/C\$46 billion in private credit assets** as of December 31, 2022. As part of our investment due diligence and decision-making process, we consider the client mandate, investment time horizon, relative value and, where applicable, ESG and sustainability factors. Consideration of ESG risks and opportunities plays an important and growing role within our investing framework in two main ways:

- First, from a defensive standpoint, sustainable investing criteria serves to assess risks. While our clients may vary in their level of concern regarding sustainability issues, all clients want to avoid undue risks. That is why we consider ESG factors in assessing the risks of investments.
- Second, sustainable investing can also be proactive. Many investment grade private credit transactions offer our clients the opportunity to support renewable energy and green projects, or projects with a positive social impact. We have deep expertise in these areas and these investments support sustainable activities including energy transition while seeking to earn an attractive return for our clients. Of our combined investment in private fixed income assets, nearly 40% is invested in investments where the use of proceeds has green, social, or combined benefits.<sup>12</sup>

Of our investment in private fixed income assets<sup>13</sup>:

- **US\$13/C\$18B** in investments where the use of proceeds has green, social or combined benefit;
- **US\$9/C\$12B** is invested in green investments providing environmental benefits; and
- **US\$4/C\$6B** is invested in social investments providing essential services for social benefits.

Sustainable investment areas include:	
Climate solutions	Essential services for vulnerable populations
Utility scale wind and solar	Long-term care
Energy efficiency	Affordable housing
Residential solar	Emergency shelter
Green buildings	Hospitals
Mass transit	Recovery facilities
District heating	Basic education

In 2022, we invested more than **US\$1/C\$1.4 billion** in sustainable investments<sup>13</sup>:

	Number of deals	Investment (Millions)
Renewable energy	3	US\$161/C\$218
Energy efficiency	3	US\$45/C\$61
Sustainable/green buildings	3	US\$165/C\$223
Clean transportation	4	US\$188/C\$255
Access to essential services	17	US\$500/C\$677
<b>Total</b>	<b>30</b>	<b>US\$1,058/C\$1,434</b>



### Enhanced ESG reporting

Our credit analysts have developed proprietary private fixed income ESG scorecards to evaluate material ESG factors. We continue to evolve our approach. We assess each investment using these scorecards and material risks may factor into our decision-making. Our credit analysts have developed these scorecards to ensure material ESG factors are evaluated consistently and communicated to portfolio managers as part of investment evaluations.

In 2022, the private fixed income investment team enhanced its ESG investment data collection and tracking systems to enhance oversight of each new investment from an ESG perspective, and provide clients who have specific ESG objectives with bespoke sustainable investment information.

### Meet the Leader

**Sam Tillinghast**

Senior Managing Director,  
Head of Private Fixed Income

Sam oversees all private fixed income activity in North America, leading a diversified team of over 50 investment professionals.



<sup>11</sup> Investment professionals include Portfolio Managers, Traders, Research Analysts, Portfolio Strategists, and Investment Strategists under Sun Life Capital Management (Canada) Inc. and Sun Life Capital Management (U.S.) LLC.

<sup>12</sup> In determining what qualifies as a sustainable investment, in general, our framework is predicated on the International Capital Markets Association's (ICMA) definition of green, social and sustainable use of proceeds. ICMA's categories include renewables, energy efficiency, green buildings, clean transportation, sustainable water management, and access to essential services, and in some cases have further eligibility thresholds. For instance, in the case of green buildings, LEED gold or higher is the eligibility threshold. We 1) look at the use of proceeds for our investments directed to projects, pure play borrowers or expenditures (in the case of labelled bonds) that have a positive environmental or social purpose and impact, and 2) review the use of proceeds potential to restrict access to essential services for vulnerable populations (including affordability) or cause significant harm to the environment, and 3) categorize according to ICMA. The definition of 'sustainable investment' may vary depending on a client's investment objectives.

<sup>13</sup> Represents investments of SLC Fixed Income, which are managed on a discretionary and non-discretionary basis for Sun Life's General account and third-party investors and clients.



# ESG integration

## Sustainable Investing in action<sup>14</sup>



### CASE STUDY

#### Increasing energy security through an award-winning floating solar project

We are the financier of a floating solar project which won a Procore 2022 Groundbreaker Award for its renewable energy innovation. The Department of Defense partnered with Duke Energy and Ameresco to build a 1.1 MW floating solar installation on the Big Muddy Lake located at Camp Mackall, part of Fort Liberty, one of the world's largest defense installations.

The project is part of a **US\$36 million Utility Energy Service Contract** that focused on energy resilience and security at Fort Liberty. Energy alternatives have become more critical as hurricanes and other severe weather conditions are expected to be more frequent due to climate change.

The system supplies power to the fort from the local grid and will provide power during electric service outages. This is the largest floating solar PV system in the southeast and the first for the Department of Defense.

### OUTCOME

Our participation in the project provided us with a secure, long-term, high quality credit investment. From an ESG perspective, the Utility Energy Service Contract reduces energy costs, enhances decarbonization, and improves energy resilience and security for more than 50,000 people who live or work in the area.



### CASE STUDY

#### Expanding transit and reducing fuel consumption in Canada's largest city

SLC Fixed Income is an experienced investor in infrastructure P3 investments in Canada and worldwide. In 2022, we invested in a transit project with Connect 6ix Partnership. The project involves the construction and operation of a new 15.6km subway line – the Ontario Line. It is an integral part of Ontario's C\$28.5 billion long term transportation program to improve transit across the province.

The Province of Ontario has contracted the Partnership to design, procure, test, and install the rolling stock and associated technical systems for the Ontario Line project. The Partnership will also operate and maintain the Ontario Line once complete and operational.

It is anticipated that the Ontario Line will reduce the number of daily cars on the road by 28,000 per day, resulting in a reduction in fuel consumption of 7.2 million liters annually.

### OUTCOME

The Ontario Line rolling stock transaction represents an attractive, long-term investment from both a risk and reward perspective. It also provides a meaningful impact to the local community by making it easier for residents and workers to travel across the region, while lessening their carbon footprint.

14. The 'Sustainable investing in action' case studies are for illustrative purposes only. Any reference to a specific asset does not constitute a recommendation to buy, sell or hold or directly invest in it. It should not be assumed that the recommendations made in the future will be profitable or will equal the results of the assets discussed in this document. Represents investments of SLC Fixed Income, which are managed on a discretionary and non-discretionary basis for Sun Life's General account and third-party investors and clients.



# ESG integration

## Sustainable Investing in action<sup>15</sup>



**CASE STUDY**  
**Expanding shelter capacity for those experiencing homelessness**

We invested in a US\$53 million issuance that finances the construction of a 200-bed homeless shelter in the New York City region, our third homeless shelter financing in 2022. We also financed the construction of a “safe haven” shelter and the deep renovation of a family shelter.

The 510 Gates shelter is being developed by the Doe Fund, which provides those experiencing homelessness with state-of-the-art, safe housing with on-site social services. This newest shelter is designed to serve formerly incarcerated men.

Residents can participate in the Doe Fund’s Ready, Willing & Able program. The program focuses on paid work, complemented by holistic social services, career training, education and sobriety support.

### OUTCOME

These emergency shelter investments provide us with a high credit quality payment stream of 20 to 30 years, and an attractive yield. From an ESG perspective, our project participations have helped expand the capacity of critical social service.

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# Client solutions



# Client solutions

Where appropriate, we work with our clients to help them meet their sustainability and climate-related goals. In 2022 and continuing into 2023, our focus has been on both broad-based and bespoke reporting.

## Net zero emissions reporting

Climate change is a long-term, structural trend. It will impact investment risk and return in a variety of ways across different sectors, asset classes, and geographic regions. As the manager of our clients' capital, we have a responsibility to mitigate the risks that climate change presents to their investments.

We also have the ability to support clients who have decarbonization targets for their investments. A key part of this support is centred on developing our ability to quantify the GHG emissions of our assets under management, also known as 'financed emissions', and make that available to our clients who seek it. To increase our capabilities, in 2022 we joined the Partnership for Carbon Accounting Financials (PCAF), to work with peers on emerging practices for quantifying and disclosing financed emissions.

In 2022, we worked with an external consultant to develop a 2019 baseline GHG emissions profile for one of our clients. This data helped them set their 2030 interim decarbonization targets under their 2050 net zero commitment. The asset types covered under their targets included listed corporate bonds, commercial real estate, and directly managed listed equities.

## Aligning with international frameworks

Some clients have been seeking a better understanding of how their investments align with international ESG, Climate and Sustainability frameworks.

In 2022, we addressed this need for some clients invested in our U.S. Private Fixed Income products. Our reporting highlights the percentage of green, social and sustainable investments in a client's portfolio, as follows:

- showing the alignment, where applicable, to one or more UN Sustainable Development Goals;
- outlining how these organizations use the investment proceeds to further ESG goals; and
- providing a summary of material ESG factors considered in the investment analysis

The UN Sustainable Development Goals are important to many of our clients. These reports add considerable value, helping clients better understand their portfolio's alignment to these goals and ESG factors in their portfolios.







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# Climate



# Climate

## Joining the Net Zero Asset Managers initiative

In 2022, SLC Fixed Income joined the Net Zero Asset Managers (NZAM) initiative to support clients with net zero investment commitments.

Joining NZAM helps us better understand climate risks as a fixed income investor allowing us to enhance our reporting tools, build more robust data analysis, and identify and pursue alternative energy investment opportunities. By joining NZAM, SLC Fixed Income commits to:

- working in partnership with asset owner clients, borrowers, and investees on their decarbonization goals;
- within one year, setting an interim target for the proportion of assets to be managed in line with the target of net zero emissions; and
- reviewing interim target at least every five years.

## Task Force on Climate-related Financial Disclosures (TCFD)

A key action in our approach to climate change is increasing our transparency and reporting. That is why we are also working towards providing reporting in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) in 2023. The TCFD seeks to increase reporting of climate-related financial information by providing recommendations on the types of information to disclose – such as governance, risk management, strategy, and metrics and targets.







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# Engagement



# Engagement

SLC Fixed Income participates in industry activities to continue to increase our insights and expertise in this area, help support our role as fiduciary to our clients, and help our clients achieve their investment goals.

## Why do we engage with companies?

We engage with companies to help inform our understanding of relevant ESG risks that could help lead to improved long-term performance. We do so to understand ESG risks and to work with companies on issues, including climate change among others, that could have a material impact on the value of their securities – this is done as a part of our investment process under our fiduciary duty to our clients.

In addition to the collaborative initiatives noted below, we regularly discuss ESG matters in meetings with corporate management teams which can provide an opportunity to better understand ESG matters relevant to the issuer.

### Climate Action 100+

Climate Action 100+ is an investor-led initiative that seeks to engage the world's largest corporate GHG emitters to act on climate change. Companies include 100 systemically important emitters accounting for two thirds of annual global industrial emissions, alongside more than 60 others with significant opportunity to drive the clean energy transition. To date, 700 investors with US\$68/C\$92 trillion in assets under management\* have signed on to the initiative.

\*Source: [climateaction100.org](https://climateaction100.org)

### Climate Engagement Canada (CEC)

In 2021, SLC Management was a founding member of Climate Engagement Canada (CEC), which has grown to 36 institutional investors collectively managing over C\$4 trillion in assets\*. The initiative aims to work collaboratively to support Canada's business transition to net zero by engaging with 40 of Canada's highest emitting companies to encourage best practices around climate change disclosures, risks and opportunities.

\*Source: [climateengagement.ca](https://climateengagement.ca)

### Canadian Coalition of Good Governance (CCGG)

Representing the interests of institutional investors, the CCGG promotes good governance practices in Canadian public companies, including improvements of the regulatory environment and efficiency and effectiveness of the Canadian capital markets. In 2022, CCGG met with the boards of 30 TSX-listed issuers on topics such as executive compensation and oversight of material business risks.

We endorse the [CCGG Stewardship Principles](#) and strive to implement the principles where relevant to SLC Fixed Income. Our annual Sustainable Investing Report is part of our commitment to disclose our approach to stewardship.

## Broader public and industry participation

### IFRS Sustainability Alliance

The International Financial Reporting Standards (IFRS) Sustainability Alliance is a global non-profit organization that offers a suite of resources designed to help investors develop shared understanding of enterprise value. The resources include the Sustainability Accounting Standards Board (SASB) which guide the disclosure of financially material sustainability information by companies to investors. The SASB Standards are a reference when we identify key ESG factors by industry. The IFRS Sustainability Alliance also offers education opportunities for its members.

### Responsible Investment Association (RIA)

The RIA is a network of investors and investment professionals who practice and support responsible investment. RIA's mandate is to promote the adoption of responsible investing in Canada's retail and institutional markets. We are an active participant in the RIA's education and information initiatives, lending our voice and imparting our insights through its conferences and publications. Andrew Harris, Managing Director, Sustainable Investing, participated in a fireside chat at the 2022 RIA Fall Forum about the "state of play" in sustainable finance.

### Private Placement Investors Association (PPIA)

The Private Placements Investors Association (PPIA) is a business association of institutional investors that are active, direct investors in the primary market for privately placed debt instruments. To address investors' need for more standardized ESG disclosure, a core group of six investors, including SLC Fixed Income, came together in 2021 to form the PPIA ESG Standards Committee. The Committee's goal was to create a common questionnaire to provide clarity regarding the investment community's ESG data gathering needs and achieve process efficiency and consistency for issuers, agents, and investors. The PPIA Corporate Sustainability Questionnaire launched in April 2022, including 25 questions in level one and additional questions in level two. The questionnaire is publicly available on the PPIA website.

### Canadian Bond Investors' Association

The Canadian Bond Investors' Association (CBIA) was established in 2011 and represents over 50 of the largest fixed income institutional investor organizations in Canada, with over C\$1.2 trillion in fixed income assets under management\*. One of the CBIA's objectives is to be an advocate for positive change in the Canadian fixed income market, including encouraging best practices for ESG. We are a member of the CBIA's ESG Committee.

\*Source: [bondinvestors.ca](https://bondinvestors.ca)





# Engagement

## Partnership for Carbon Accounting Financials (PCAF)

In 2022, SLC Fixed Income joined the Partnership for Carbon Accounting Financials (PCAF). PCAF is an industry-led initiative to facilitate transparency and accountability of financed emissions within the financial industry. Members assess and disclose the GHG emissions associated with their loans and investments in line with the PCAF Standard.

## Principles for Responsible Investment (PRI)

The United Nations supported Principles for Responsible Investment (PRI)<sup>16</sup> is one of the world's leading organizations for responsible investment representing US\$121/C\$164 trillion of assets under management. SLC Management has been a signatory since 2014. We contribute to the PRI through participation in webinars and collaborating with other signatories. For example, we participate in PRI Community of Practice sessions designed to bring signatories together to discuss best practices.

Signatories are required to respond to the PRI's annual questionnaire. Please see below for the results of our most recent PRI assessment<sup>17</sup>.

Module	SLC Management Star Score (1 to 5)	SLC Management and Median Scores (out of one hundred)
Direct - Fixed Income - Corporate	★★★★★	96/62
Direct - Fixed Income - Securitised	★★★★★	95/55
Direct - Fixed Income - SSA	★★★★★	92/50
Direct - Fixed Income - Private Debt	★★★★★	88/67
Investment Stewardship Policy	★★★★★	88/60

16. Principles for Responsible Investment ("PRI") ratings are based on six Principles for putting responsible investing into practice. The Principles were developed by an international group of institutional investors and are supported by the UN reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. Rating was issued on 8/18/2022 by PRI and is based on information as of 12/31/2020. Compensation, inclusive of membership fees as relevant, has been provided for survey participation, ranking and/or rating issuance as applicable. Ratings are consistent with commitments to the following Principles, incorporating ESG issues into investment analysis and decision-making processes, incorporating ESG issues into ownership policies and procedures, seeking appropriate disclosure on ESG issues by entities in which we invest, promoting acceptance and implementation of the Principles within the investment industry, enhancing effectiveness in implementing the Principles and reporting on activities and progress towards implementing the Principles.

17. Please see the following link for information relating to the methodology of assessment: <https://www.unpri.org/reporting-and-assessment/how-investors-are-assessed-on-their-reporting/3066.article>





# Engagement

## Engaging with issuers<sup>18</sup>

### CASE STUDY

As an active investor, dialogue with issuers is a fundamental part of SLC Fixed Income’s investment process. Along with other institutional investors, we have been engaged with a large North American company focused on the transportation and storage of fossil fuels. We chose the company due to its scale, impact on the environment, and its role in facilitating energy transition.

We met with senior leaders of the company during 2022, including the CEO and Chief Sustainability Officer. Our discussions focused on:

- reduction targets in GHG emissions;
- methane reduction and reporting;
- investment in low carbon and no carbon opportunities;
- participation with industry associations; and environmental disclosure.

### OUTCOME & NEXT STEPS

The company takes this work seriously, continuing to provide us with regular access to company executives. This helps us understand the company’s environmental strategies and informs our ESG analysis.

Overall, the company has made progress on their climate change goals in the following ways:

- establishing a corporate emissions intensity key performance indicator;
- obtaining independent third-party limited assurance of Scope 1 and Scope 2 GHG emissions and corporate emissions intensity data<sup>19</sup>; and
- dedicating billions in its capital plan to emissions free and low carbon energy projects.

18. This case study is for illustrative purposes only. Any reference to a specific asset does not constitute a recommendation to buy, sell or hold or directly invest in it. It should not be assumed that the recommendations made in the future will be profitable or will equal the results of the assets discussed in this document.

19. The GHG Protocol Corporate Accounting and Reporting Standard







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# Our specialty managers





# Our specialty managers

SLC Fixed Income's global reach and capabilities have grown with the partnerships we have built through SLC Management's specialty managers, BGO, InfraRed Capital Partners, Crescent Capital Group, and Advisors Asset Management. While each firm has a unique focus, we all share a strong and common commitment to sustainable investing.



**BGO** is a leading real estate investment management advisor and a provider of real estate services, globally. BGO serves the interests of more than 750 institutional clients with approximately US\$83/C\$112 billion of assets under management\* and expertise in the asset management of office, industrial, multi-residential, retail and hospitality properties across the globe. BGO's ESG approach is directly tied to their investment strategies and designed to match a range of client and investor risk and return expectations. As a fiduciary, they approach Sustainable Investing from both a risk mitigation and a value creation perspective to help enhance the long-term financial and operational resiliency of the asset. They employ activities and strategies to help ensure excellence in risk reduction, value creation, transparency, thought leadership and engagement. For more information on sustainable investing from BGO visit: <https://www.bentallgreenoak.com/>



**InfraRed Capital Partners Limited (InfraRed)** is an international infrastructure investment manager, with over US\$13/C\$18 billion of equity capital\* in multiple private and listed funds. They connect global investors looking for long-term stable returns with major infrastructure and real estate projects. InfraRed invests in real assets that: contribute positively to society, support the transition to a net zero future, and provide essential services to communities and societies around the world. InfraRed believes a long-term, sustainability-led mindset is essential to delivering lasting success. They are proud to have achieved sustainability accomplishments during 2022. You can read more about these accomplishments by visiting: <https://www.ircp.com/>



**Crescent Capital Group LP (Crescent)**, a global alternative credit investment manager, is a leading investor in mezzanine debt, middle market direct lending in the U.S. and Europe, high-yield bonds and broadly syndicated loans managing over US\$40/C\$54 billion in assets under management.\* Crescent believes that a thorough analysis of ESG-related issues is essential to understanding a company's long-term sustainability, risk and opportunities and credit quality. Crescent is proud to have achieved sustainability accomplishments during 2022. You can read more about these accomplishments by visiting: <https://www.crescentcap.com/>



**Advisors Asset Management (AAM)** is a highly respected financial force providing complete portfolio solutions tailored to the individual needs of financial professionals. They offer access to mutual funds, managed accounts, ETFs, unit for High Net Worth clients. AAM is proud of the long-term relationships they have built with advisors helping them create innovative investments and services that are relevant and have the potential to meet today's challenges. AAM has assets under administration of US\$37/C\$50 billion, and US\$4/C\$5 billion in assets under management\*. You can read more about AAM's accomplishments by visiting <https://www.aamlive.com/aboutus/home>

\*Financial information as of March 31, 2023.



# Disclosure

Sun Life is a leading international financial services organization providing insurance, wealth and asset management solutions to individual and corporate Clients. Sun Life has operations in several 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](http://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. These entities are also referred to as SLC Fixed Income and represent the investment grade public and private fixed income strategies of SLC Management. BGO, InfraRed Capital Partners (InfraRed) and Crescent Capital Group (Crescent) are also part 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 a providers 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. 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. One of the longest tenured credit managers in the industry, Crescent is a leading investor in mezzanine debt, middle market direct lending in the U.S. and Europe, 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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SLC Management and SLC Fixed Income firm level assets under management are provided as of March 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\$3.5/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.

Sustainable investment data is provided as of December 31, 2022, unless otherwise stated. Currency is provided in Canadian and U.S. dollars unless otherwise stated. Examples of sustainable investment actions and outcomes may include financial data in either USD or CAD depending on the geography of the investment.

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