Approach to Investments in Coal

We recognize that there is a general consensus in the scientific literature that phasing down coal power generation is critical to reducing greenhouse gas (GHG) emissions, limiting the worst impacts of climate change. The United Nations annual climate conferences (COP) 26 and 28 have led to commitments by countries to accelerate efforts towards the phase-down of unabated coal power and a transition away from fossil fuels in the energy system, but also recognized that there will be a role for transition fuels to achieve emissions reductions. Further, many nations where Sun Life operates have made regulatory and other commitments to reduce their GHG emissions and we will need to do our part to contribute to these national regulatory and policy requirements and goals.

Transitioning requires careful consideration of current energy demands and impacts on local communities, especially when it comes to making decisions that have far reaching impacts beyond the investments themselves. We believe that the energy transition is underway and that efforts to decarbonize will continue to expand in the years ahead. However, 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.

Sun Life does not have a company-wide exclusion policy on coal investments.

As an asset owner:
Sun Life is committed to working with the companies in our General Account (GA) portfolio, where possible, to better understand climate change impacts to their business and understand their plans to manage the energy transition. We believe that direct engagement can be more powerful than divestment and are engaging with companies in key sectors.

Sun Life's GA invests in the utilities sector and energy transition. Some of these companies have exposure to thermal coal. In these instances, these companies have indicated that they are:

- committed to phase down unabated coal power and/or investing significantly in renewable power and other clean energy sources, and
- well-positioned to meet the demands of an energy transition, and
- generally critical to local economic development and energy security.

74% of the GA's coal-related exposure is in the electric utilities sector[1]. These companies generate power from multiple sources, including coal, oil & gas, and renewables. Electrification is critical to reducing GHG emissions across the global economy. As electricity demand is expected to grow, in part due to the adoption of electric vehicles, demand for artificial intelligence, etc., we believe electric utilities will benefit from these trends.

As an asset manager:
Our asset managers invest assets consistent with their fiduciary duty to understand the financially material investment risks that climate change presents to portfolio companies, and consistent with Client investment objectives. 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, asset managers seek to invest in carbon-intensive companies with credible plans to decarbonize. When evaluating the credibility of decarbonization plans, we look for measurable actions that deliver real-world reductions from the companies themselves.

Just as our asset managers are different, so too are their targets and plans for addressing climate change, in alignment with their Clients' objectives and preferences. Refer to the websites of each asset management business for more details on their specific approach to sustainable investing.

[1] As of December 31, 2023.

Case Study: Duke Energy

The case study below provides an example of one of Sun Life's asset managers, MFS', engagement efforts.

In October 2021, the US state of North Carolina passed key legislation in its efforts to achieve net zero emissions.

A Duke Energy–backed bill, among other measures, formalized plans to reduce the state's electric sector greenhouse gas emissions by 70% by 2030 compared to a 2005 baseline and carbon neutrality by the year 2050. This bill has helped Duke Energy's transition efforts as it contains constructive regulatory mechanisms that incentivize the transformation of electricity generation and reduce CO_2 emissions.

Among these are provisions that allow for multiyear rate plans (to ease the burden of utility companies navigating constant rate increases), net zero performance–based incentives and provisions that will facilitate coal plant retirements through securitization and general rate case recoveries.

As of 2023, Duke had achieved a 48% reduction in CO_2 emissions from 2005 levels (compared with its target of 50% by 2030). Notably, a significant portion of emissions reductions were a result of Duke retiring 56 coal units with a generation capacity of 7.5 gigawatts since 2005 as well as 6.0 gigawatts increase in generation capacity from renewables by 2031.

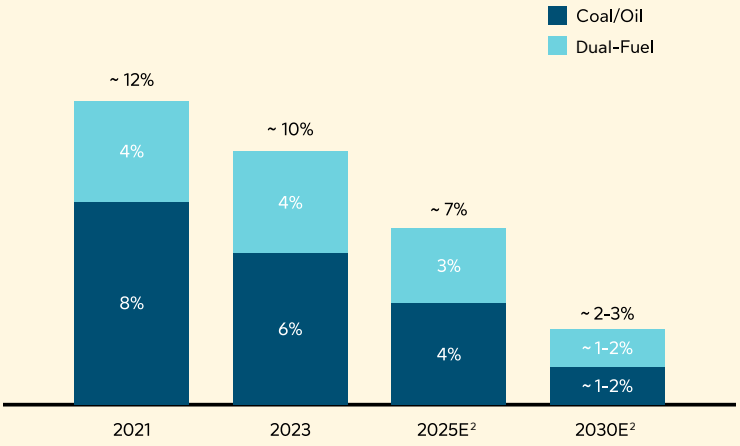
Duke has expanded the scope of its net zero goals to include:

A new interim target of 80% reduction in scope 1 emissions by 2040

An interim target of reducing Scope 2 and certain Scope 3 emissions by 50% compared to 2021 levels

A plan to retire coal completely by 2035

Coal as a percent of Duke Energy's earnings base



[2] 2025 and 2030 estimate will be impacted by customer demand for electricity, weather, fuel and purchased power prices, and other factors.

In addition, in 2023, Duke published its Just Transition Principles to guide how it thinks holistically about addressing the energy transition's impacts on employees and communities. These principles include supporting the workforce, engaging the community, prioritizing reliable, affordable and accessible energy for all customers, and evaluating community development.

In engaging, to test the viability of the company's targets and the credibility of its transition plan, MFS investigated the factors shaping the speed of its transition to lower carbon generation, such as regulatory alignment, customer affordability, energy security and technology development. MFS also discussed its capital expenditure plan both in terms of relative opportunity (the outlook and role of gas generation as a transition fuel in replacing coal assets), as well as mitigating relative risk (such as enhancing system resiliency amidst more extreme weather events and addressing stranded asset risk).

While we note the recent uptick in power demand growth, largely due to factors such as the rise in power demand associated with AI growth, we also acknowledge that this presents a significant challenge to the rapid decarbonization efforts by power utilities. Despite this headwind, we are reassured that the company remains committed to seeking opportunities for decarbonization, while also striking a balance to achieve affordability, ensure security, and meet the demands of load growth.