

Filed Electronically

June 17, 2022

Ms. Vanessa Countryman
Secretary
US Securities and Exchange Commission
100 F Street NE
Washington DC 20549-1090

**RE: RIN 3235-AM87
The Enhancement and Standardization of Climate-Related
Disclosures for Investors**

Dear Ms. Countryman:

Manulife Investment Management is a global wealth and asset management business with US\$831.7 billion in assets under management and administration,¹ including US\$194.5 billion in public fixed-income assets and US\$111.3 billion in public equities, and US\$151.1 billion in private markets strategies. In the United States we operate under the Manulife Investment Management and John Hancock brands. We offer clients a range of strategies, and integrate environmental, social and governance (ESG) considerations in the majority of our assets under management.² As part of this integration, we consider the impact of ESG factors, including climate change, on the financial risk and return profile of the companies in which we invest.

Manulife Investment Management welcomes the Commission's action to require registrant provision of climate-related information. Consistent, reliable, and comparable climate data will significantly enhance our industry's ability to measure, assess, and manage climate-related risks and opportunities across client assets over the short, medium, and long terms. By improving our understanding of issuer investment risks and opportunities on a standardized and comparable basis, we believe investors will have greater opportunity both to seek opportunities for financial returns and to understand and manage financial risks.

The current need for better data is, in part, why we are a founding member of the Climate Action 100+ investor initiative and are supportive of the Task Force on Climate-related Financial Disclosures and Value Reporting Foundation disclosure frameworks. Our need for better data also drives our investment stewardship activities where we execute proxy voting and engage with issuers to encourage voluntary disclosure of the information on which this proposed rule is focused.

Utilization of disclosures to assess risk

While disclosure of climate-related data is currently voluntary, fragmented, and inconsistent, our investment professionals do consider and integrate what information is available into their decision-making where they deem it material and relevant to their investment process and thesis. Below are

¹ Global Wealth and Asset Management assets under management and administration as of March 31, 2022, which includes US\$185.2 billion of assets managed on behalf of other segments and US\$143.1 billion of assets under administration for the Retail, Retirement and Institutional business lines of Manulife's Global Wealth and Asset Management segment.

² The examples in this response cover practice examples from our global investment teams and global suite of products and are not focused on our U.S. strategies and brand.

examples of how some of our investment teams have considered climate in their processes to improve outcomes for clients.

- **Using emissions data as a due diligence factor:** Manulife Investment Management has used emissions data to evaluate potential investments with their issuer peers, and to subsequently adjust our position. For example, when considering a potential investment in a steel company, with strong financial statements and a robust outlook for growth, we may go through a due diligence appraisal that will look at the issuer's scope 1 and scope 2 emissions and evaluate against peers with similarly available data. This evaluation may show that the issuer is producing significantly higher emissions than peers. When considered against a likely future price on carbon in the issuer's market, our modelling may then demonstrate that the issuer's projected profit margins will shrink significantly. The issuer will no longer have the upside we first considered, and we may adjust our position.
- **Risk metric to measure potential valuation changes:** We use prospective risk metrics in our daily risk reports that measure potential valuation changes due to physical and transition risks, as well as technology opportunities presented by climate change. We can use these metrics in our analysis of an individual issuer or in aggregate across a portfolio. In estimating physical risk, these metrics use estimates regarding 1) potential incurred cost and lost revenue due to extreme weather events and 2) the associated transition risk. The transition risk methodology uses scope 1, 2, and 3 emissions estimates.
- **Climate themed product:** We offer a climate strategy that targets a greenhouse gas (GHG) emissions profile significantly lower than that of the benchmark on both a scope 1 and 2 and a scope 1, 2, and upstream scope 3 basis. The strategy targets a GHG emission profile that aligns with achieving net zero emissions by 2050 and tracks historical and projected carbon emissions of each company to determine alignment with these objectives. Analysis of the quality of GHG reduction strategies implemented by companies is undertaken, while factors such as carbon offsets are scrutinized for their quality and eligibility in the portfolio.
- **Assigning a carbon cost in financial models:** For some investments in oil and gas issuers, we may track consolidated scope 1 and 2 carbon emissions when disclosed in annual sustainability reports. Future carbon emissions are forecasted using assumptions on carbon intensity per barrel of oil equivalent produced, while we also assign a carbon cost per ton of carbon emitted, which scales higher over time as the cost increases. In these instances, the carbon cost burden for producers into the future is forecasted and the magnitude of that cost is quantified. This modeling reflects an increasingly onerous carbon cost outlook. Where applied, these assumptions impact our view of free cash flow and, ultimately, firm valuation.
- **Re-weighting portfolios based on emissions:** Manulife Investment Management has used climate-related data to moderate our position sizing given a specific portfolio goal of low emissions. For example, a review of the consolidated carbon emissions of a waste management firm held in one of our thematic portfolios may lead to the investment team determining that the overall carbon intensity of the business, while improving, remains high. Our position may then be moderated but kept within the portfolio because our analysis anticipates lower carbon intensity moving forward, given the issuer's strategy of 1) introducing more fuel-efficient trucks in its fleet, 2) its initiatives around landfill gas capture and recycling, and 3) generation of carbon credits from the company's landfill gas capture facilities that should add value over time.

Scope 3 data

The full financial relevance of scope 3 emissions data is not yet clear due to the existing lack of robust data sets. We anticipate, however, that downstream scope 3 emissions data could be used as a leading indicator of exposure to revenue risk in the future, as customer preferences for lower carbon products and services change or as regulations take effect. Upstream scope 3 data could be a leading indicator of

Manulife Investment Management

supply chain risk and increased cost. Reporting might also encourage market actors to look at emissions risks across their entire value chain, moving beyond operations-only emissions. The increased consideration of emissions risk from sourcing, through operations, to the end consumer will create a diversified portfolio potentially made more resilient as market actors influence better practices among one another.

We also understand, however, that disclosure of emissions across a registrant's full value chain is difficult at this time due to the inconsistent disclosure of scope 1 and 2 emissions by others and due to the lack of methodology for calculating scope 3 emissions. We would suggest, therefore, that the SEC phase-in any requirements for scope 3 reporting, with reporting on scope 3 required at least 3 years after mandated scope 1 and 2 reporting is required.

Given the global commitment by governments to tackle climate change in the Paris Agreement, a commitment strengthened at COP26 in Glasgow, disclosure on climate-related risks is more essential than ever. Improving disclosure on climate change risks and opportunities will help address and manage a clear systemic risk to financial markets, while at the same time enabling a more resilient financial system.

Manulife Investment Management again thanks the Commission for its action developing a framework for consistent, reliable, and comparable climate data across registrants. The disclosure contemplated in the proposed rule will both enable us to enhance our existing processes, some of which are outlined above, and allow for broader integration of climate considerations across our investment activities. Standardized reporting of financially material climate data will help the market better evaluate issuer risk and opportunity profiles, performance, and overall competitive positioning.

We support the Commission's efforts and look forward to a state of reporting that will enhance our ability to drive risk-adjusted returns across our investment portfolios on behalf of our clients.

Sincerely,

/s/ Peter Mennie

Peter Mennie
Global Head of ESG Research and Integration

