

# Annual Management Report of Fund Performance

December 31, 2021

## **Manulife Climate Action Fund**

This Annual Management Report of Fund Performance contains financial highlights but does not contain complete annual financial statements of the Fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling 1 888 588 7999, by writing to us at Manulife Investment Management Limited, 200 Bloor Street East, North Tower, Toronto, Ontario M4W 1E5 or by visiting our website at [manulifeim.ca](http://manulifeim.ca) or SEDAR at [sedar.com](http://sedar.com). You may also contact us using one of the above methods to request a copy of the Fund's interim financial statements, proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

### **A Note about Forward Looking Statements**

This Management Report of Fund Performance includes certain statements that are “forward looking statements”. All statements, other than statements of historical fact, included in this Management Report of Fund Performance that address activities, events or developments that the portfolio advisor expects or anticipates will or may occur in the future, including such things as anticipated financial performance, are forward looking statements. The words “may”, “could”, “would”, “should”, “believe”, “plan”, “anticipate”, “expect”, “intend”, “forecast”, “objective” and similar expressions are intended to identify forward looking statements. These forward looking statements are subject to various risks and uncertainties, including the risks described in the Simplified Prospectus of the Fund, which could cause actual financial

performance and expectations to differ materially from the anticipated performance or other expectations expressed. Readers are cautioned not to place undue reliance on these forward looking statements. All opinions contained in forward looking statements are subject to change without notice and are provided in good faith but without legal responsibility. The portfolio advisor has no specific intention of updating any forward looking statements whether as a result of new information, future events or otherwise, except as required by securities legislation. Certain research and information about specific holdings in the Fund, including any opinion, is based upon various sources believed to be reliable, but it cannot be guaranteed to be current, accurate or complete. It is for information only, and is subject to change without notice.

# Management Discussion of Fund Performance

Manulife Investment Management Limited (“Manulife IM Limited” or the “Manager”) is the portfolio advisor (the “portfolio advisor”) for the Manulife Climate Action Fund (the “Fund”).

The views of the portfolio advisor contained in this report are as of December 31, 2021 and this report is not intended to provide legal, accounting, tax or specific investment advice. Views, portfolio holdings, and allocations may have changed subsequent to the year ended December 31, 2021 (the “Period”). For current fund information, please call 1 888 588 7999, or visit [manulifeim.ca](http://manulifeim.ca).

## Investment Objectives and Strategies

The Fund seeks to provide long-term capital growth by investing primarily in a diversified portfolio of global equity securities of issuers who are also leaders in making positive contributions to climate change mitigation.

The portfolio advisor focuses on creating a portfolio aligned with the Paris Agreement climate target to hold the global average temperature increase to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels. The portfolio advisor intends to avoid investments in issuers that generate an important portion of their revenue from fossil fuel generation, mining or sale of thermal coal, alcohol, tobacco or weapons.

The portfolio advisor utilizes a fundamental, bottom-up investment approach to select securities, focusing on performance drivers such as competitive advantage and earnings.

## Risks

The risks associated with investing in the Fund remain as described in the Simplified Prospectus. There were no material changes to the Fund over its last completed financial year that affected the overall level of risk of the Fund.

## Results of Operations

Since the Fund has been available for less than one year, no performance data can be shown.

## Recent Developments

In the view of the portfolio advisor, the post-COVID-19 economic rebound has been robust, although there is potential for the rate of growth to decelerate if economic conditions normalize. The portfolio advisor believes that if slower economic growth materializes, it could be driven by a challenging job market, inflation outpacing wage gains, and weaker consumer confidence. Also, the portfolio advisor feels that notable fiscal and monetary intervention by governments and central banks globally has led to greater total leverage in the financial system and elevated risk to the economic landscape – intervention that the portfolio advisor believes

could be scaled back, albeit slowly. Another risk that concerns the portfolio advisor is inflation where higher wage and input costs are starting to squeeze corporate margins. Supply chains are stretched in many industries and companies with long lead times are having a hard time passing higher costs onto consumers. Inflation is becoming more prevalent across different industries, and companies are building cost inflation into their forecasted profit expectations. The portfolio advisor is focusing on companies that it believes have better pricing power, those that are less exposed to inflation risks and that have free cash flow valuations on their side.

On the climate policy front, the closing of the 26th UN Climate Change Conference of the Parties (COP26) in mid November brought with it the new ‘Glasgow Climate Pact’, which calls on nations to set new climate targets by the end of 2022 and to phase down unabated fossil fuel usage (including coal) and inefficient subsidies, among other initiatives. From a portfolio construction vantage, the number of companies adopting Science Based Targets aimed at reducing greenhouse gas (GHG) emissions and/or generating green revenues continues to rise, widening the scope of investment opportunities for the Fund. The portfolio advisor is optimistic that its focus on climate leaders with healthy free cash flow yields and returns, should benefit the Fund in a more normal market.

## Subsequent Event

The recent escalating conflict between Ukraine and the Russian Federation has resulted in military conflict, the imposition of economic sanctions, and in significant volatility and uncertainty in financial markets. It is unclear how long the conflict, economic sanctions and related market volatility and uncertainty will continue, what further actions may be taken by governments, and what the resulting impact on global economies, businesses and financial markets may be.

## Related Party Transactions

### The Manufacturers Life Insurance Company (“MLI”)

As of December 31, 2021, MLI owned more than 10% of the outstanding securities of the Fund. Manulife IM Limited is an indirect wholly-owned subsidiary of MLI.

### Trustee

Manulife IM Limited is the trustee of the Fund. The trustee holds the assets of the Fund in trust on behalf of unitholders. No fees are paid to the Manager to act as the trustee for the Fund.

### Manager and Portfolio Advisor

Manulife IM Limited is the Manager of the Fund. Manulife IM Limited performs the managerial functions and is responsible for the overall operations of the Fund and provides administrative services to the Fund including, but not limited to, reporting the net asset value of the Fund and its units, preparing all offering documents for the Fund, and providing all services relating to issuing and redeeming units of the Fund. From time to time, Manulife IM Limited may, on behalf of the Fund, enter into transactions or arrangements with or involving

other members of the Manulife group of companies, or certain other persons or companies that are related or connected to the Fund.

The portfolio advisor is responsible for all investment advice provided to the Fund including providing investment analysis and recommendations, making investment decisions and arranging for the acquisition and disposition of portfolio investments including all necessary brokerage arrangements. Fees for providing these investment management services are included in the management fee.

The Fund paid approximately \$60,000 (excluding HST) in management fees for the Period. For more information about the calculation of management fees, please see the *Management Fees* section in this document.

### Fixed Administration Fee

Manulife IM Limited pays the operating expenses of the Fund, other than Certain Fund Costs (as defined below), in exchange for the payment by the Fund of a fixed rate administration fee in respect of each series. The fixed rate administration fee is calculated as a fixed annual percentage of the average net asset value of each relevant series of the Fund. The Fund paid approximately \$13,000 (excluding HST) in fixed rate administration fees for the Period.

Operating expenses payable by Manulife IM Limited in exchange for the administration fees include, but are not limited to, the costs related to registrar, transfer agency and pricing, accounting and bookkeeping fees, audit and legal fees and expenses, safekeeping and custodial fees, administration costs and trustee services relating to registered tax plans, the costs of prospectuses, fund facts, financial reporting, and other types of communications that the Manager is required to prepare for the Fund so that the Fund complies with all applicable laws and regulatory filing requirements.

Certain Fund Costs include borrowing and interest costs, investor meeting costs (as permitted by Canadian securities regulation), the cost of compliance with any new governmental and regulatory requirements imposed on or after July 27, 2016 (including relating to operating expenses) or with any material change to existing governmental and regulatory requirements imposed on or after July 27, 2016 (including extraordinary increases to regulatory filing fees), any new types of costs, expenses or fees not incurred prior to July 27, 2016, including arising from new government or regulatory requirements relating to the operating expenses or related to those external services that were not commonly charged in the Canadian mutual fund industry as of July 27, 2016 and operating expenses that would have been outside the normal course of business of the Fund after July 27, 2016.

Certain Fund Costs are allocated proportionately among the relevant series. Certain Fund Costs that are specific to a series are allocated to such series. Further details about the fixed rate administration fee and the Certain Fund Costs can be found in the Fund's most recent Simplified Prospectus.

### Participating Dealers

Manulife Securities Investment Services Inc. and Manulife Securities Incorporated, each a subsidiary of MLI, which is an indirect parent company of Manulife IM Limited, may sell securities of the Fund in the normal course of business. As such, they receive applicable sales commissions and trailing commissions paid by the Manager on the sale of securities of the Fund as outlined in the Simplified Prospectus for the Fund.

### Transfer Agent

Manulife IM Limited is the transfer agent of the Fund. The transfer agent maintains the register of unitholders of the Fund. Manulife IM Limited was not reimbursed by the Fund for the Period for the operating costs incurred in providing such services as these are covered by the Fixed Administration Fee.

## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the Period and for each of the past four years or, if shorter, the periods since the inception of the Fund. The information in the tables below is for the period from January 1 to December 31 of each year or the inception date to December 31 in the inception period, unless otherwise indicated.

# Manulife Climate Action Fund

## The Fund's Net Assets Per Unit<sup>(1)</sup> (\$)

### Advisor Series

	December 31, 2021
<b>Net assets, beginning of period</b>	10.00
Increase (decrease) from operations:	
Total revenue	0.08
Total expenses	(0.20)
Realized gains (losses) for the period	0.21
Unrealized gains (losses) for the period	2.01
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	2.10
Distributions:	
From income (excluding dividends)	-
From dividends	-
From capital gains	-
Return of capital	-
<b>Total distributions for the period<sup>(3)</sup></b>	-
<b>Net assets, end of period</b>	11.77

### Series F

	December 31, 2021
<b>Net assets, beginning of period</b>	10.00
Increase (decrease) from operations:	
Total revenue	0.07
Total expenses	(0.12)
Realized gains (losses) for the period	0.21
Unrealized gains (losses) for the period	1.95
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	2.11
Distributions:	
From income (excluding dividends)	-
From dividends	-
From capital gains	0.04
Return of capital	-
<b>Total distributions for the period<sup>(3)</sup></b>	0.04
<b>Net assets, end of period</b>	11.81

**Series FT**

	December 31, 2021
<b>Net assets, beginning of period</b>	15.00
Increase (decrease) from operations:	
Total revenue	0.13
Total expenses	(0.18)
Realized gains (losses) for the period	0.26
Unrealized gains (losses) for the period	3.18
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	3.39
Distributions:	
From income (excluding dividends)	-
From dividends	-
From capital gains	0.06
Return of capital	0.54
<b>Total distributions for the period<sup>(3)</sup></b>	0.60
<b>Net assets, end of period</b>	17.12

**Series G**

	December 31, 2021
<b>Net assets, beginning of period</b>	10.00
Increase (decrease) from operations:	
Total revenue	0.07
Total expenses	(0.04)
Realized gains (losses) for the period	0.23
Unrealized gains (losses) for the period	1.88
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	2.14
Distributions:	
From income (excluding dividends)	-
From dividends	0.01
From capital gains	0.16
Return of capital	-
<b>Total distributions for the period<sup>(3)</sup></b>	0.17
<b>Net assets, end of period</b>	11.76

# Manulife Climate Action Fund

## Series O

	December 31, 2021
<b>Net assets, beginning of period</b>	10.00
Increase (decrease) from operations:	
Total revenue	0.09
Total expenses	(0.05)
Realized gains (losses) for the period	0.16
Unrealized gains (losses) for the period	1.73
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	1.93
Distributions:	
From income (excluding dividends)	-
From dividends	0.01
From capital gains	0.15
Return of capital	-
<b>Total distributions for the period<sup>(3)</sup></b>	0.16
<b>Net assets, end of period</b>	11.77

## Series T

	December 31, 2021
<b>Net assets, beginning of period</b>	15.00
Increase (decrease) from operations:	
Total revenue	0.07
Total expenses	(0.28)
Realized gains (losses) for the period	0.29
Unrealized gains (losses) for the period	4.05
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	4.13
Distributions:	
From income (excluding dividends)	-
From dividends	-
From capital gains	-
Return of capital	0.60
<b>Total distributions for the period<sup>(3)</sup></b>	0.60
<b>Net assets, end of period</b>	17.01

**Series X**

	<b>December 31, 2021</b>
<b>Net assets, beginning of period</b>	10.00
Increase (decrease) from operations:	
Total revenue	0.07
Total expenses	(0.04)
Realized gains (losses) for the period	0.21
Unrealized gains (losses) for the period	1.96
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>2.20</b>
Distributions:	
From income (excluding dividends)	-
From dividends	0.01
From capital gains	0.16
Return of capital	-
<b>Total distributions for the period<sup>(3)</sup></b>	<b>0.17</b>
<b>Net assets, end of period</b>	<b>11.76</b>

<sup>(1)</sup> This information is derived from the Fund's audited annual financial statements.

<sup>(2)</sup> Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on weighted average numbers of units outstanding over the financial Period.

<sup>(3)</sup> Distributions were paid in cash/reinvested in additional units of the Fund, or both.



# Manulife Climate Action Fund

## Ratios and Supplemental Data

### Advisor Series

	December 31, 2021
Total net asset value (000's) <sup>(1)</sup> (\$)	8,306
Number of units outstanding (000's) <sup>(1)</sup>	706
Management expense ratio <sup>(2)</sup> (%)	2.21
Management expense ratio before waivers or absorptions (%)	2.21
Trading expense ratio <sup>(3)</sup> (%)	0.41
Portfolio turnover rate <sup>(4)</sup> (%)	52.29
Net Asset Value per unit <sup>(1)</sup> (\$)	11.77

### Series F

	December 31, 2021
Total net asset value (000's) <sup>(1)</sup> (\$)	5,725
Number of units outstanding (000's) <sup>(1)</sup>	485
Management expense ratio <sup>(2)</sup> (%)	1.09
Management expense ratio before waivers or absorptions (%)	1.10
Trading expense ratio <sup>(3)</sup> (%)	0.41
Portfolio turnover rate <sup>(4)</sup> (%)	52.29
Net Asset Value per unit <sup>(1)</sup> (\$)	11.81

### Series FT

	December 31, 2021
Total net asset value (000's) <sup>(1)</sup> (\$)	24
Number of units outstanding (000's) <sup>(1)</sup>	1
Management expense ratio <sup>(2)</sup> (%)	1.11
Management expense ratio before waivers or absorptions (%)	1.12
Trading expense ratio <sup>(3)</sup> (%)	0.41
Portfolio turnover rate <sup>(4)</sup> (%)	52.29
Net Asset Value per unit <sup>(1)</sup> (\$)	17.12

### Series G

	December 31, 2021
Total net asset value (000's) <sup>(1)</sup> (\$)	27,497
Number of units outstanding (000's) <sup>(1)</sup>	2,338
Management expense ratio <sup>(2)</sup> (%)	-
Management expense ratio before waivers or absorptions (%)	-
Trading expense ratio <sup>(3)</sup> (%)	0.41
Portfolio turnover rate <sup>(4)</sup> (%)	52.29
Net Asset Value per unit <sup>(1)</sup> (\$)	11.76

**Series O**

	<b>December 31, 2021</b>
Total net asset value (000's) <sup>(1)</sup> (\$)	2,205
Number of units outstanding (000's) <sup>(1)</sup>	187
Management expense ratio <sup>(2)</sup> (%)	0.14
Management expense ratio before waivers or absorptions (%)	0.15
Trading expense ratio <sup>(3)</sup> (%)	0.41
Portfolio turnover rate <sup>(4)</sup> (%)	52.29
Net Asset Value per unit <sup>(1)</sup> (\$)	11.77

**Series T**

	<b>December 31, 2021</b>
Total net asset value (000's) <sup>(1)</sup> (\$)	7
Number of units outstanding (000's) <sup>(1)</sup>	-
Management expense ratio <sup>(2)</sup> (%)	2.19
Management expense ratio before waivers or absorptions (%)	2.19
Trading expense ratio <sup>(3)</sup> (%)	0.41
Portfolio turnover rate <sup>(4)</sup> (%)	52.29
Net Asset Value per unit <sup>(1)</sup> (\$)	17.01

**Series X**

	<b>December 31, 2021</b>
Total net asset value (000's) <sup>(1)</sup> (\$)	10,383
Number of units outstanding (000's) <sup>(1)</sup>	883
Management expense ratio <sup>(2)</sup> (%)	-
Management expense ratio before waivers or absorptions (%)	-
Trading expense ratio <sup>(3)</sup> (%)	0.41
Portfolio turnover rate <sup>(4)</sup> (%)	52.29
Net Asset Value per unit <sup>(1)</sup> (\$)	11.76

<sup>(1)</sup> This information is provided as at December 31 of the year shown, unless otherwise noted.

<sup>(2)</sup> Management expense ratio (MER) is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the Period. The Fund calculates its MER in accordance with regulatory requirements. The MER excludes any operating expenses waived or absorbed by the Manager, which may be discontinued at any time by the Manager at its discretion without notice.

<sup>(3)</sup> The trading expense ratio represents total commissions and other portfolio transactions costs expressed as an annualized percentage of daily average net asset value during the Period.

<sup>(4)</sup> The Fund's portfolio turnover rate indicates how actively the portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a portfolio turnover rate in the period, the greater the trading costs payable by the Fund in the period, and the greater the chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of a portfolio.

# Manulife Climate Action Fund

## Management Fees

The Manager is responsible for the day-to-day management and administration of the Fund. The Manager monitors and evaluates the performance of the Fund, pays for the investment management services of the portfolio advisor, commissions to registered dealers and arranges for the other administrative services required to support the Fund. Other administrative services include: marketing, advertising, product development, information technology, and general business services. As compensation for its services, the Manager is entitled to receive a management fee, which is calculated daily based on the net asset value of a series of the Fund from the previous trading day and payable monthly.

The Fund does not pay a management fee to the Manager for its Series G, Series O and Series X units. Series G and Series O unitholders of the Fund pay a negotiated management fee directly to the Manager. Series X unitholders of the Fund do not pay a management fee since these units are bought by Manulife mutual funds and it would result in a duplication of management fees.

The following table shows the expenses paid out of the management fee expressed as a percentage of the management fee for the series of the Fund.

Units	Expenses Paid out of the Management Fee (%)		
	Management Fee (%)	Dealer Compensation <sup>(1)</sup>	Investment Management, Administration and Other
Advisor Series	1.72	58.64	41.36
Series F	0.72	N/A	100.00
Series FT	0.72	N/A	100.00
Series T	1.72	51.01	48.99

<sup>(1)</sup> Dealer compensation represents cash commissions paid by the Manager to registered dealers during the Period and includes upfront deferred sales charge and trailing commissions. This amount may, in certain circumstances, exceed 100% of the fees earned by the Manager during the Period. For new funds or series, the amount presented may not be indicative of longer term operating periods.

## Past Performance

Since the Fund is less than 12 months old, this information is not available.

## Summary of Investment Portfolio

### Asset Allocation (%)

Equities	98.7
Cash and Cash Equivalents	0.8
Other assets less liabilities	0.5
<b>Total</b>	<b>100.0</b>

### Sector Allocation (%)

Information Technology	25.8
Industrials	23.7
Consumer Discretionary	14.9
Health Care	13.2
Financials	9.5
Consumer Staples	4.9
Utilities	2.6
Communication Services	2.1
Materials	2.0
Cash and Cash Equivalents	0.8
Other assets less liabilities	0.5
<b>Total</b>	<b>100.0</b>

### Geographic Allocation (%)

United States	64.2
Great Britain	8.3
France	7.3
Netherlands	3.9
Ireland	3.7
Japan	3.5
Jersey	3.4
Canada	2.6
Germany	1.8
Cash and Cash Equivalents	0.8
Other assets less liabilities	0.5
<b>Total</b>	<b>100.0</b>

### Top 25 Holdings\*

Issuer	% of Net Asset Value
Microsoft Corp.	7.5
CSX Corp.	4.3
Schneider Electric SE	4.3
Danaher Corp.	4.1
Johnson Controls International PLC	3.7
Mastercard, Inc.	3.6
Thermo Fisher Scientific, Inc.	3.5
Lowe's Cos., Inc.	3.5
Aptiv PLC	3.4
Anthem, Inc.	3.1
Intertek Group PLC	3.0
EssilorLuxottica SA	3.0
S&P Global, Inc.	2.8
London Stock Exchange Group PLC	2.8
Northland Power, Inc.	2.6
Sony Group Corp.	2.5
Nike, Inc., Class B	2.5
Applied Materials, Inc.	2.5
QUALCOMM, Inc.	2.5
RELX PLC	2.5
Cisco Systems, Inc.	2.2
Equifax, Inc.	2.2
Cognizant Technology Solutions Corp.	2.1
Alphabet, Inc.	2.1
Wolters Kluwer NV	2.1
<b>Total</b>	<b>78.4</b>

\* All holdings are as at report date December 31, 2021. Actual holdings may differ following this date. Where a Fund holds less than 25 holdings, all holdings have been disclosed.

The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund. Current quarterly updates are available by calling 1 888 588 7999 or online at [manulifeim.ca](http://manulifeim.ca).

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Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the fund facts as well as the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Manulife Funds are managed by Manulife Investment Management Limited. Manulife Investment Management is a trade name of Manulife Investment Management Limited. Manulife, Manulife Investment Management, the Stylized M Design, and Manulife Investment Management & Stylized M Design are trademarks of The Manufacturers Life Insurance Company and are used by it, and by its affiliates under license.

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