

REFINITIV STREETEVENTS

# EDITED TRANSCRIPT

MFC.TO - Manulife Financial Corp at National Bank Financial Services Conference

EVENT DATE/TIME: MARCH 30, 2023 / 1:10PM GMT

## CORPORATE PARTICIPANTS

**Phil Witherington** *Manulife Financial Corporation - CFO*

## CONFERENCE CALL PARTICIPANTS

**Gabriel Dechaine** *National Bank Financial, Inc., Research Division - Analyst*

## PRESENTATION

**Gabriel Dechaine** - *National Bank Financial, Inc., Research Division - Analyst*

All right. Good morning, everybody. I'd like to welcome to the stage Philip James Witherington, Manulife's Chief Financial Officer. And I just learned an Aston Villa fan for anybody in the room or online. That's a premier like then.

---

**Phil Witherington** - *Manulife Financial Corporation - CFO*

Who's Aston Villa, is the question.

## QUESTIONS AND ANSWERS

**Gabriel Dechaine** - *National Bank Financial, Inc., Research Division - Analyst*

Exactly Thanks, Phil, for joining us this year again. I guess, yesterday, I had banks, today I have life insurance companies and trying to start off some more of the topical questions because of what's happened over the past few weeks. And insurance companies have exposure to corporate bonds, of course, and about 20% of the corporate bond exposure is to financials. Wondering if you can talk a little bit about how much you have to European financials and U.S. regional banks perhaps? And obviously, you've got some credit risk reserves against those holdings. And if you're particularly concerned at the moment.

---

**Phil Witherington** - *Manulife Financial Corporation - CFO*

Sure. Thank you, Gabriel. And before I dive into that response, let me thank you for hosting me today. And thanks to everyone in the audience for joining and looking forward to interacting with you later. On to the topic of the -- I can't say the day, but the last few weeks, I suppose, the challenges of the -- I won't call it a crisis - deliberately avoiding calling it a crisis, but the challenges in the banking industry. When I look at our fixed income portfolio, a portfolio of around \$250 billion, 15% of that is financial institutions.

It's a well-diversified portfolio within the financial institutions component of 15%. About 1/3 of that is banks. And that is, diversified portfolio, largely in the geographies that we operate as an organization so the U.S., Canada, Asia. And given, of course, the significance of the U.S. economy, that's a significant part of our portfolio. But I want to clarify, we have no material exposures to Silicon Valley Bank, Signature Bank and in fact, none of the names that you've seen in the news are concerns to us in terms of our exposure. And we have no material exposures to alternative Tier 1 debt. So I think we're in a really good spot there. We've managed our credit risk on a conservative basis. And when you step back overall and look at the fixed income portfolio, 97% of it is investment grade, 75% of it is rated A or above. So it's a conservative and conservatively managed portfolio, and that's true for financial institutions as well as more broadly.

**Gabriel Dechaine** - National Bank Financial, Inc., Research Division - Analyst

That's a fulsome response. I appreciate that. My next question is on IFRS 17. I don't want to get into the weeds on it. But conceptually, we have a market environment that's pretty volatile currently. And I'm just wondering - investors would notice it if you were reporting results tomorrow, let's say, the divergence between reported in the quarter, would it be wider or similar something else under -- compared to the current accounting?

---

**Phil Witherington** - Manulife Financial Corporation - CFO

Yes. So I actually expect to see greater stability of core earnings under IFRS 17. And from an investment return perspective, what you will see in core earnings. Fixed income, you'll see the effective interest yield. You'll also see expected credit losses, IFRS 9 expected credit losses. And then for non-fixed income assets, you'll see expected long-term rate of return.

So I suppose the volatile component there could be expected credit losses, but that's a cyclical part of the credit cycle - will be separately disclosed so you'll be able to look at pre-ECL, ECL and post-ECL in the same way that the banks already disclose their IFRS 9 ECLs. Outside of core earnings, you'll see the variance to expected long-term rate of return on non-fixed income. And so that will simply be the difference between the expected return and the actual return, very transparent.

And importantly, no longer will there be a discounted present value impact of future expected investment returns. So any changes in expectations up or down will no longer create variability in the income statement or potential balance sheet capital sensitivity. So that's a distinct positive under IFRS 17. I think that's really the key points to make.

Maybe touch on interest rates as well because we've seen over 2022, quite a marked change in the interest rate environment - that's pulled back a bit in the first quarter. Under our current -- I see current the old IFRS 4 regime, movements in interest rates did have an impact on book value. And that arose because there is an economic disconnect between movements in assets and liabilities.

Asset fair values move immediately with the markets, whereas liabilities, because the discount rate used to value those liabilities was linked to the assets, not the market, there will be a lagged effect or a much less of an effect on market movements on liabilities. In an IFRS 17 environment, liability discount rates are determined as risk free rates plus risk premium.

Therefore, they are much more sensitive to changes in market conditions. So as assets move, liabilities move in the opposite direction, you get a much closer reflection of the overall economics, and that is a distinct positive when it comes to variability in book value. So I find that stability comforting as we make the transition to IFRS 17, both for book value but also therefore, capital stability.

---

**Gabriel Dechaine** - National Bank Financial, Inc., Research Division - Analyst

And speaking of capital, are you adjusting your minimum target level or you're maintaining the same one that you've had under IFRS 4?

---

**Phil Witherington** - Manulife Financial Corporation - CFO

We've made no changes to our capital targets as a result of the transition to IFRS 17. Naturally, it's really important for us to observe how the capital ratio responds in an IFRS 17 environment, both through back testing, but also in a live environment as well. So that's something we'll continue to monitor. But I do see the stability of the capital ratio as a favourable factor when it comes to confidence in capital deployment, but also I think it's something that increases our resilience to stress scenarios, which is really important.

**Gabriel Dechaine** - National Bank Financial, Inc., Research Division - Analyst

Bringing it more to the business and operations level. The lockdowns in Hong Kong and elsewhere have been an impediment to sales and business activity in general for Manulife and others, of course. Those lockdowns have eased. I'm wondering how long do you expect normal business activity and sales volumes? Is it immediate or something more later in the year? Or how long that takes? When do you expect that to normalize?

---

**Phil Witherington** - Manulife Financial Corporation - CFO

Well, I'll give you a straight answer to that. I know you like straight answers. It's a matter of quarters rather than years. And I think it does take time to build up I suppose, the routine levels of productivity, build the sales pipeline, complete the level of sales. But even in the fourth quarter, when you look at our results, if you look at the Asia Other markets, already in the fourth quarter, we're delivering an aggregate double-digit earnings growth. The important measure is the expected earnings on in-force. That was double-digit growth in Asia in the fourth quarter.

And then in early January, sort of late December last year and early January this year, there were initially rumours and then confirmed a very rapid reopening of Mainland China post-COVID, then a reopening of the border with Hong Kong. And more recently in March, a complete removal of pandemic restrictions with discontinuation of the mask mandate in Hong Kong.

So I think we're now in a situation where we are on a level playing field with pre-pandemic in terms of policies. It does take time to rebuild the travel capacity. So the key element in particular for mainland Chinese visitors into Hong Kong, is their ability to get into Hong Kong - that's visa issuance, it's travel capacity. That capacity is rebuilding, I actually read in the newspaper yesterday that one of the airlines in Hong Kong said that by the end of this week, they will have the same level of capacity for transport between Mainland China and Hong Kong as they had pre-pandemic.

So things are moving quickly. I expect we'll see each month an improvement in consumer confidence and therefore, sales volumes for us a matter of quarters rather than years for this to normalize. And it's not about getting back to where we were pre-pandemic. The opportunity is now much larger as a result of policy measures related to Hong Kong's role in the Greater Bay Area of China.

---

**Gabriel Dechaine** - National Bank Financial, Inc., Research Division - Analyst

Well, what do you mean by that - people are more conscious of their health and want more insurance coverage or something else?

---

**Phil Witherington** - Manulife Financial Corporation - CFO

Well, I think that's one aspect. Without a doubt, the pandemic has highlighted the importance of life insurance coverage, critical illness coverage, medical coverage. But then beyond that, when I look at the policy measures that have been announced by Central Government in Beijing as well as in the -- sequentially over a number of years, but most recently in the 2022 Hong Kong Chief Executive address, the role of Hong Kong in the development of Southern China, the Greater Bay Area is particularly important.

And pre-pandemic, the proportion of our business in Hong Kong that comprised new business in Hong Kong that comprised sales to Mainland Chinese visitors into Hong Kong, it varied in any quarter between 15% and 25%. I expect that could increase in the future as a result of the policy measures that Central and Hong Kong governments have put in place.

---

**Gabriel Dechaine** - National Bank Financial, Inc., Research Division - Analyst

Okay. So sales to Mainland Chinese has not been a big part of Manulife's business in Hong Kong, but you expect it to become a bigger part going...

**Phil Witherington** - Manulife Financial Corporation - CFO

I do expect it to grow. And the reason for that is that the policy developments to us are a clear demonstration that Mainland Chinese visitor sales in Hong Kong are a legitimate market for Hong Kong insurers. We have a really strong domestic base. We're not reliant upon MCV or Mainland Chinese Visitors segment. But that's what I'm saying, it's not about getting back to where we were. There's a substantial growth opportunity beyond where we were pre-pandemic.

---

**Gabriel Dechaine** - National Bank Financial, Inc., Research Division - Analyst

Okay. Before I move it to North America, one last question on the Asia business and Hong Kong in particular. There were expectations that because of lockdowns and other matters, Hong Kong residents would move to Canada or the U.K. or wherever and there'll be withdrawals from the Mandatory Provident Fund, the Retirement Scheme. Have you observed that at all in your...

---

**Phil Witherington** - Manulife Financial Corporation - CFO

We have not seen material withdrawals from the MPF, the Mandatory Provident Scheme. We're the largest provider in the market, both in terms of assets under management and cash flows. I think Hong Kong historically has seen- it's been a jurisdiction where there's been populations that come in and populations that go out. A trend that's been happening for the past decade, and this is not new, is increased migration of Mainland Chinese into Hong Kong.

It continues to be a destination of choice for reasons of education, job opportunity, quality of life, medical care. So I think that trend will continue. And there are more than 1 million individuals that live in Hong Kong that were born in Mainland China and have migrated. So to the extent we see some migration outwards, I think there's a strong demand for migration inwards as well.

---

**Gabriel Dechaine** - National Bank Financial, Inc., Research Division - Analyst

So now I'll bring it to the U.S. You've got a big back book of universal life that's in runoff in the secondary guarantee. It's come up every so often because some of the U.S. peers have taken charges, Prudential and Lincoln. I suspect you're not as concerned or investors shouldn't be as concerned because of Canadian accounting, you tend to take the reserve hits as they come or gradually, I suspect? Is that accurate?

---

**Phil Witherington** - Manulife Financial Corporation - CFO

That's correct. It's not something that worries me. The secondary guarantee portfolio that you referred to, it's a category of business that we stopped raising more than 10 years ago. So our experience is well developed in that block of business. The average age of our policyholders is mid-70s. So it's a mature block of business. And as you said, because of the discipline in the Canadian regime of reviewing and updating our assumptions periodically, there's no catch-up loss recognition that I'm worried about at all.

So our lapse assumptions have been changed over the course of the past decade to bring them down below 1%, which is a really important threshold. And I think many of the changes that we're seeing in the U.S. are to bring lapse rates to that similar level of 1% or below. So I feel confident that we're prudently reserved in that block of business, and it's not something that's keeping me awake at night.

---

**Gabriel Dechaine** - National Bank Financial, Inc., Research Division - Analyst

I don't know if you know the answer, but you're sub-1% lapse. Do you know where your peers in the U.S. - what their starting point is when they're playing catch-up on reserving?

---

**Phil Witherington** - *Manulife Financial Corporation - CFO*

I actually don't know the answer to that.

---

**Phil Witherington** - *Manulife Financial Corporation - CFO*

It's not something that is always clearly disclosed. But I think the key is -- and this is true not just of the secondary guarantee universal life block, but all of our business. Any experience that's emerging over time is captured and reflected in our best estimate assumptions. And that's true in this block for all pre-pandemic experience. Our last reserve adjustment was in 2021 as part of our annual review of actuarial methods and assumptions. So up to date for everything that we had seen pre-pandemic.

---

**Gabriel Dechaine** - *National Bank Financial, Inc., Research Division - Analyst*

Are there any updates on -- or I guess, updated commentary on legacy block transactions, there was a phase where it was fast and furious, if you will. And it's kind of gone quiet. With interest rates having risen and with the age of certain blocks of your business where there's a lot of data, any more interest?

---

**Phil Witherington** - *Manulife Financial Corporation - CFO*

We have been busy. And in a 5-second summary over the past 5, 6 years, the fixed annuity blocks, the BOLI blocks, more recently, the U.S. variable annuity blocks, lots of work and progress has been completed. And overall, that's resulted in a \$9 billion of capital that has been released.

Where do we go from here? So first thing to say is that portfolio optimization, and that's risk reduction as well as capital management activities, continues to be a strategic priority for us. Is there anything in the pipeline? I can't talk about specific transactions, but I can say that we are reviewing a number of opportunities with a view to both reducing risk and unlocking value that may not necessarily be capital release. But here's our view, and this is how we will look at it - if there is an opportunity to generate shareholder value through transacting on the portfolio, we have the appetite to do that even if it requires deploying some capital to do it.

Our focus here is total shareholder return and risk reduction. And when it comes to long-term care, this is a portfolio where we have a really robust organic management plan. The experience has been stable in recent years. There are multiple risk mitigants, including the contractual right to increase premiums subject to state regulatory approval.

But if there is an opportunity to reduce our exposure to that, yes, we're very keen to do so. And we'll explore potential transactions. But in all honesty, the bid-ask spreads remain quite wide there, and we will not be taken to the cleaners. But if there's a point of attachment - a point that we can get a transaction done, we'd be prepared to move.

---

**Gabriel Dechaine** - *National Bank Financial, Inc., Research Division - Analyst*

You mentioned you'd be willing to deploy capital in a transaction, meaning you're open to taking a loss from an accounting standpoint, if you were to unload a legacy park?

---

**Phil Witherington** - *Manulife Financial Corporation - CFO*

Yes, for material risk reduction and to unlock total shareholder return, we're prepared to do that.

---

**Gabriel Dechaine** - National Bank Financial, Inc., Research Division - Analyst

And this isn't a legacy business, but I've been asked a few times, and this is a Canadian question, Manulife Bank is \$200 million-ish of earnings a year for Manulife. How do you see the strategic fit of that business within Manulife and considering some of the consolidation activity that we've seen in December, is it a core business? Would you be willing to sell it? Or how do you view things?

---

**Phil Witherington** - Manulife Financial Corporation - CFO

It's a great business, and I'm very proud of Manulife Bank and Manulife Private Wealth customer - recommend it to anyone in the room, Gabe, of course, as well as you.

---

**Gabriel Dechaine** - National Bank Financial, Inc., Research Division - Analyst

Just not in Quebec.

---

**Phil Witherington** - Manulife Financial Corporation - CFO

So it's a great business, and it actually is an integrated part of our proposition to customers here in Canada. As you commented, it's profitable. It generates reliable cash flow streams, and we like it for all of those reasons. To your point on consolidation in the broader banking sector here in Canada, I think the transactions we have seen demonstrate the franchise value that we have built with Manulife Bank.

And I really like the flexibility that, that provides to have a valuable asset on the books where the true value clearly well exceeds the book value that we've built over time. And it's a low-risk portfolio as well. The asset portfolio is residential mortgages. And beyond the guaranteed mortgages, the insurance guaranteed mortgages, the loan to value is around 60% so a substantial cushion there - from a funding perspective, a broad funding base as well and low-cost base because it's a pure organic Internet bank.

---

**Gabriel Dechaine** - National Bank Financial, Inc., Research Division - Analyst

So commercial real estate is a hot topic these days for obvious reasons. Manulife and your peer group, it's roughly 10% to 12% of the general fund. Last quarter, you took a markdown on -- or however you want to frame it on the real estate holdings. Is this a recurring kind of issue because you go through your portfolio a quarter at a time? How should investors anticipate the returns on the real estate portfolio and the next few quarters, I guess?

---

**Phil Witherington** - Manulife Financial Corporation - CFO

Yes. For us, real estate is around 4% of general account portfolio.

---

**Gabriel Dechaine** - National Bank Financial, Inc., Research Division - Analyst

Sorry, I'm including commercial mortgages in that.

---

**Phil Witherington** - Manulife Financial Corporation - CFO

Okay. Yes. Okay. So right, but yes, pure real estate for us is about 4%. To your -- sorry, would you mind to repeat the first part of the question?



**Gabriel Dechaine** - National Bank Financial, Inc., Research Division - Analyst

I included commercial mortgages. So the pure -- the owner -- the properties you own is 4% and the commercial mortgage is another -- on top of that, there was a markdown or a real estate valuation loss in Q4. Is this a recurring issue, I guess, that investors should anticipate?

---

**Phil Witherington** - Manulife Financial Corporation - CFO

So really important point on our accounting methodology here, and this does differ from some of our peers. More than 95% of our real estate portfolio is subject to independent third-party valuation every single quarter. We don't have -- what we saw in Q4 was not the first of 4 quarters of consistent charges. It captures close to everything in our portfolio. The driver of the real estate write-downs, and it was a 5% reduction in valuations in the fourth quarter.

The driver of that was an increase in cap rates to reflect the increase in interest rates over the course of 2022. I think the reality is that cap rates tend to increase gradually. So I do expect there to be an ongoing headwind with respect to real estate and in particular, office real estate. But I don't expect future quarters to be of the same magnitude of Q4, and there's certainly no overhang from 2022 still sitting there in the portfolio.

---

**Gabriel Dechaine** - National Bank Financial, Inc., Research Division - Analyst

Got it. We've only got a few moments left. Seed capital gains, you indicated that \$80 million to \$100 million a quarter was a sustainable number. How big is that portfolio anyway, the seed capital portfolio?

---

**Phil Witherington** - Manulife Financial Corporation - CFO

Seed. If you look at seed capital and available-for-sale equities, so public equities that we classify as available for sale under the IFRS 4 - the former accounting regime. That portfolio at the end of the year was around \$3 billion, and that's lower than it has been - sort of a low point that it's been in recent years. And we do vary the size of the portfolio based on market conditions and expected risk that we anticipate on the horizon. It forms part of a broader surplus portfolio.

The surplus portfolio is \$40 billion to \$50 billion. This is the nonfixed income component currently about \$3 billion. And I think based on where we are at the balance sheet days at the end of Q4, you could expect up to \$80 million a quarter of returns from that. To the extent that, that portfolio increases over time, it could go higher and it has historically goes well.

So the final thing I would say about that is that under IFRS 17, there's a slight change in the accounting. So as I said earlier, what will go through core earnings is the expected long-term rate of return. What goes through net income is the actual return. And there's no longer any discretion when it comes to timing of recognition of realization of available-for-sale gains.

---

**Gabriel Dechaine** - National Bank Financial, Inc., Research Division - Analyst

I tried to keep it accounting-light, and I think we did that. I appreciate the time you're spending with us today and always great to get caught up.

---

**Phil Witherington** - Manulife Financial Corporation - CFO

It's great to be here. Thanks for the invitation, Gabriel.

---

**Gabriel Dechaine** - National Bank Financial, Inc., Research Division - Analyst

You bet.



**DISCLAIMER**

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2023, Refinitiv. All Rights Reserved.