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# EDITED TRANSCRIPT

Manulife Financial Corp Fireside Chat Hosted by TD Securities

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## CORPORATE PARTICIPANTS

**Roy Gori** *Manulife Financial Corporation - President, CEO & Director*

## CONFERENCE CALL PARTICIPANTS

**Mario Mendonca** *TD Securities Equity Research - MD & Research Analyst*

## PRESENTATION

**Mario Mendonca** *TD Securities Equity Research - MD & Research Analyst*

Good morning, everyone, and thank you for joining us today. Today, we've got Roy Gori, President and CEO of Manulife Financial.

Roy, thank you very much for doing this. It's been a busy time for you, I imagine, getting this deal done. I appreciate taking the time to do this with me.

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**Roy Gori** *Manulife Financial Corporation - President, CEO & Director*

Pleasure to be with you.

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**Mario Mendonca** *TD Securities Equity Research - MD & Research Analyst*

I appreciate it. Can you get us started with just your take on the deal, the details of the deal, maybe something brief? I suspect everybody on this call read about the transaction, learned about it. So why don't you give us your quick take?

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**Roy Gori** *Manulife Financial Corporation - President, CEO & Director*

Yes. A couple of quick thoughts, Mario. Last week's transaction announcement was a major milestone for us. We're really proud to announce the transaction and, quite frankly, it's been many months in the making. At a very high level, it was a \$13 billion reinsurance deal with Global Atlantic on 4 legacy low ROE blocks. Obviously, the biggest piece was LTC, which is about \$6 billion, represented about 45% of the entire block that we traded, \$1.6 billion in structured settlements and about \$5.6 billion of 2 Japan Whole Life businesses.

Largest LTC transaction in history. Full risk transfer. It has us disposing \$1.7 billion of ALDA and frees up \$1.2 billion of capital, which we'll be deploying completely to buybacks, which means that post-buyback, the transaction will create earnings per share accretion and will be ROE accretive.

And we transacted at an attractive multiple, 9.5x earnings. And for us, it was really critical because it went a long way towards validating the prudence of our reserving.

Beyond the transaction, I would say that it's one major step in our transformation that you've been following very closely, Mario. Since 2017, we've been on a journey to transform and reshape our portfolio towards lower risk and higher return. And with this transaction, we've now freed up \$10 billion of capital. We've improved ROE from about 11% or low 11% to almost 16% as at Q3. And LTC VA represented about 24% of our earnings. Now represents with this transaction, about 11%, so we think it's been a big journey for us to really try to transform our portfolio.

This transaction is a major milestone. And we're not done. We think that there's still a lot more that we can do as it relates to derisking our business and reducing the contribution of legacy. So we feel that there's still more for us to do and more value for us to create.

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**Mario Mendonca** *TD Securities Equity Research - MD & Research Analyst*

That's helpful. So as I get into this and start asking questions, for the folks on the line, for the attendees, you can use the question box. There is a box there you can enter in some questions. I'll look over my left shoulder occasionally and look for questions. And I'll relay the questions to Roy.

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## QUESTIONS AND ANSWERS

**Mario Mendonca TD Securities Equity Research - MD & Research Analyst**

But let me get started. It's been my view that Manulife stock has been impacted over the very long term, well before your time at the company by a number of these legacy issues, not the least of which was the sort of risk and low returns associated with the long-term care business. So what I'd like to do to get started with is, let's address, or rather, how does this reinsurance transaction address that first part, that first issue, which is that Manulife is perceived, because of long-term care and perhaps some other issues, as more risky or greater risk of charges or capital hits, how does this transaction address that specific issue about risk?

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**Roy Gori Manulife Financial Corporation - President, CEO & Director**

Yes. I think that's a great question. So again, why in 2018, we decided to have a focus around 5 key priority areas, with the #1 being portfolio optimization, was to really acknowledge that very point that you're making, Mario. And that is that we had an overconcentration of legacy businesses that were an overhang on our stock. And we've done a lot to reduce the legacy contribution. As I said, LTC and VA now represent 11%. We did the VA transaction last year, which was another significant milestone for us. And the equity that we have allocated to legacy is down about 40% from 2018, so, quite significant.

Many analysts have speculated on how much of a discount is embedded in our stock price related to LTC because of the span of outcomes, and you can look at various reports on that. Some have speculated that it could be \$5 billion to \$6 billion. So getting a transaction done, I think, goes a long way towards, I guess, putting a line or a floor underneath that. So this transaction was important for us to actually complete it and to demonstrate that the reserving that we have is robust, is conservative and, quite frankly, validated, not just by the independent third parties that we use on a regular basis when we do our annual reviews, but to have it in the transaction was a really important milestone.

So I think this was an important transaction, A, because it went a long way towards validating the conservatism in our assumptions. And I think it also illustrates that we're at a turning point in long-term care, where now we've got a maturity of data that suggests that we're going to possibly see more transactions in the future. And I think that bodes well for us because we obviously would like to continue down this path.

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**Mario Mendonca TD Securities Equity Research - MD & Research Analyst**

Let's go to that particular point about validating third-party assumptions, because I agree with the notion that it's a routine discussion that I've had in the past that -- could there be something wrong with these assumptions that would lead to material charges? You'll know very well that in 2016, that's precisely what happened. There were some big charges. I always felt that, over time, just the passage of time, without material charges, would bring investors along, including the skeptical ones, that the assumptions were good, especially long periods of zero to modestly positive experience gains, I thought that would get investors along. And I think it did for some, but a transaction like this is important in that it takes us maybe the next step of the way.

So let's examine, in that context, the negative ceding commission of \$270 million. I think that's the amount specifically related to long-term care. You made the point that the assumptions by the third party were consistent, in line with Manulife assumptions, but the negative ceding commission arose out of different return expectations. Now I think for some investors, and maybe even some analysts on the call, that they interpreted that to mean different return assumptions on the assets supporting the reserves. And I'm not sure that was the intent of that phrase in your press release.

So let's try to make a distinction between the expected returns that a company like a reinsurer might have on their allocated capital and the expected returns on the assets Manulife uses to support those reserves. Those are 2 different things.

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**Roy Gori Manulife Financial Corporation - President, CEO & Director**

Yes, that's an excellent question. So there's 2 parts to your question. One, around the prudence of the reserving, and then the negative seed and where did that come from? So firstly, on the prudence of our reserving, we always feel actually very comfortable with our reserving, we've strengthened our reserving over time. But actually, if you look back over the last decade, we've only materially strengthened once in more than a decade. And to your point, Mario, over the last 10 years, we've actually had positive policyholder experience, even when you take out the COVID years, which obviously were positive, it's broadly neutral.

Now under accounting standards required by Canada, we have to regularly update our actuarial assumptions, not only based on our data, but based on industry data. And that's not the case in all other jurisdictions. The other thing that's required in Canada, because of OSFI's requirement, is that we have to get an independent peer reviewer. So we've felt that we've been pretty robust in our reserving.

Our reserves include a \$5.8 billion margin over and above best estimates. That's about 20%. So we think that goes another way towards demonstrating how conservative our reserving is.

And then the other implicit margin that's embedded is, under IFRS 17, and you'll know this quite well, the discount rate that's being used, we have a URR of about 3.5% and the 30-year at the moment is around 4% last time I looked. So we feel pretty good about our reserving and the process that we use. And again, another validation of that in my mind was the VA transaction that we did last year. We transacted at 10x earnings, with a profit margin, quite frankly, versus many other trades that happened in the last few years that were at a significantly lower multiple, which, again, I think, goes towards our reserving.

Now on the negative cede. When we went through the process, obviously, a huge due diligence was done by the party that we transacted with. And we obviously participated in that quite extensively. And when they actually completed their analysis, we get to see what they're assuming. And from an assumptions perspective, at least as it relates to the biometric risk, they were pretty much in line with ours. And that wasn't something that we started or designed. We basically looked at the results at the end, and that's exactly what we saw. And to your point, we did have a negative cede, but it didn't relate to the assumptions. It related more to the return on capital.

So to the very specific question that you asked, it wasn't the return on the investments. It was rather the return on capital. And you would expect that a third party like Global Atlantic would have a higher return on capital assumption, which they're using to discount the business. And as a result of that, is what we saw the \$270 million negative cede.

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**Mario Mendonca TD Securities Equity Research - MD & Research Analyst**

The reason I wanted to be quite specific in that question is, on Manulife's conference calls, it's common to have questions around the return expectations around the ALDA and other asset classes. It's something that investors now are sort of sensitive to. So on the call, when I heard questions like that, it really piqued my interest because it felt like that wasn't clear to some folks. But I think we're clear now, does not have to do with return expectations on the asset, but rather the return they want on their capital.

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**Roy Gori Manulife Financial Corporation - President, CEO & Director**

Yes.

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**Mario Mendonca TD Securities Equity Research - MD & Research Analyst**

So the next element, I mean, there's reducing risk, which I think we've covered now reasonably well, especially along the lines of like the morbidity where we've seen, I think a 12% or a some-odd percent reduction in the morbidity sensitivity. The ALDA is another area of risk I'd like to discuss. \$1.7 billion of ALDA being sold as a result. I asked this question of Hung as well because I was a little thrown off by it. There's \$13-or-so billion of reserves but only \$1.7 billion of ALDA being sold. My initial impression was, hey, couldn't there have been a lot more ALDA sold? Help me think through that. Why 1.7, why is that the right number?

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**Roy Gori Manulife Financial Corporation - President, CEO & Director**

Because this is the ALDA that we had backing the liabilities. So this is just a function of what we have. And we don't have necessarily higher concentrations on ALDA on certain blocks. So this was the ALDA that we had backing these collective liabilities. ALDA is a great asset class for us. This is something that we're quite proud of. I think what you want from an insurance company like ours is a company that can manage the risks of the liabilities really well and deliver a good return over time, but you also want to know that we're delivering superior returns as far as assets are going. So if you just had a fixed income portfolio, it was no risk, you're not really doing your job very well.

So for us, ALDA is a great asset class that has delivered superior returns over 18-plus years. And then even if you look at the last 3.5, 4 years, it's also delivered very, very strong returns, which much lower -- with much lower volatility.

So yes, we will be disposing of about \$1.7 billion worth of ALDA. We expect to do that over the next 12 months or so. We're not a forced seller. We'll do that in a smart and sensible way. But -- and that is about a 5% reduction in the non pass-through or par block of ALDA that we have. So it's not insignificant, and some folks have really looked at that and are quite happy with that. But again, we're actually quite happy with our ALDA strategy.

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**Mario Mendonca TD Securities Equity Research - MD & Research Analyst**

Okay. I want to flip over, so we talked about risk, I want to flip over to the returns. I've got a question here over my left shoulder, and I'm going to read out the question. It's sort of in line with what I was thinking as well. So Manulife's done -- taken this important step in reducing the legacy business or what this questioner called like derisking. So the question is, how should we think about a fully derisked ROE for Manulife? Could it be closer to peers? And they offer the number 20% long term. That's a pretty big number, perhaps maybe not 20%. But a fully derisked Manulife, as you remove the sort of 10% ROE or sub-10% ROE business, what natural ROE? I think that's the question the person is asking here, what natural ROE can we get to?

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**Roy Gori Manulife Financial Corporation - President, CEO & Director**

Yes. So I think that's an excellent question. So again, we're quite proud of the way that we've improved the return profile of the business since 2017, as I mentioned, about 11%, up to about 16%. So the way you improve the return profile and derisk the business is effectively exiting or divesting low-return businesses, and for all the future capital that you put in, you're getting a better return.

Now what I would say is that 11% to roughly 16%, or 11.3% to 15.7%, understates the improvement in ROE. Because if you remember, the excess capital we had over supervisory minimums in 2017 was about \$16 billion, and now we're at about \$22 billion. So we have excess capital that's greater than it was back then, which obviously is a drag on ROE. If you take that on a like-for-like basis, you'll improve the ROE even further, which is why we've been quite active in the place of deploying capital through buybacks.

So to answer your question, A, we believe that there's still further upside to divest low ROE businesses, i.e., less than 10%. We think there's more work to do there. And we expect to see that over the next 12, 18, 24 months.

And then the other part of the equation is, what is the return that we're getting on our new business, which is where we're deploying organic capital. And we're, I think, very unique in that we've got a footprint through our business in Asia, in the very high profitable Canada businesses that we have, as well as in the U.S. segments that we play in WAM, our new business, long-term return on capital is in excess of 20%. So yes, over the long period, if we continue to divest our low ROE businesses, the new capital that we're deploying is circa 20% or greater than 20%. So that is our long-term equilibrium that we'll eventually get to, because that's what all the business that we write today is circa 20% or 20-plus percent, which I think is the leading indicator of where we're going to go.

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**Mario Mendonca TD Securities Equity Research - MD & Research Analyst**

Okay. So I want to flip over now and actually maybe we're going to go back to the cede commission just for a moment. One of the things that came across my desk when we saw the \$270 million cede commission, that was on a 14% of the book. Is it reasonable then to expect, if the entire book were done that the cede commission would be, call it, \$1.7 billion, it would be materially higher? Or are these books so unique, the reinsurance companies that do the business so unique, that you can't translate from one to the next?

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**Roy Gori Manulife Financial Corporation - President, CEO & Director**

Yes. So if you do the math, you're absolutely right, Mario. You take the 14% book that we've done and you take the \$270 million and you extrapolate that, you roughly get to 1.7 or less than \$2 billion. And the first thing I'd say is that is significantly less than what most would attribute the discount in our stock price. So I think that's sort of the first part of call.

The second question is, how does the risk profile of the block that we've traded compared to the rest of the block? We would say that it's broadly similar. It's 14% of our total block, 12% of our morbidity sensitivity. So it's broadly the same. Yes, it's a little bit older, but it's also a lot riskier in terms of the profile of the business itself.

The next thing I would say though is that we're expecting that, through time, that that bid offer spread would continue to narrow. As we

saw with VA, when the first transaction that was done in the market for VA was executed in 2017, it was at a significantly worse price than what was ultimately traded in 2022. So we think that through time, we're going to continue to see the bid offer spread narrow. And the fact that we had multiple parties that were interested in talking to us about this transaction and this block versus 3, 4 years ago where, quite frankly, there would have been fewer or none, I think really talks to the maturation of the data and the interest in this block of business now versus where it was. So I would expect that we would see the bid offer spread to continue to narrow through time. The first transaction, obviously, is sometimes the hardest. And then I guess it piques everyone's interest, and then you've got a whole lot of parties that are in the market for this, will start to look at this a lot more seriously. And I expect that the bid offer spread is going to continue to narrow.

So I would say the 1.7, yes, it's a mathematical calculation, but I would expect over time that to continue to narrow down.

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**Mario Mendonca TD Securities Equity Research - MD & Research Analyst**

Okay. I want to spend a few minutes thinking about the next transaction and not necessarily Manulife as the next participant in the transaction, because when the ball gets rolling, there are other players here that would be interested in reinsuring their blocks as well. One of the concerns I had is that a U.S. insurer would enter into a reinsurance deal on their block, but because their underlying assumptions aren't updated with the frequency that we get under Canadian GAAP or IFRS 17, we could see unfavourable economics for one of these insurance companies because of the difference in reserving.

Is that something that crosses your mind? Is that something you think about at Manulife, that we have to be careful when -- if and when a U.S. insurer does a deal, that we can't necessarily translate that to Manulife? Is that something we should think about?

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**Roy Gori Manulife Financial Corporation - President, CEO & Director**

You should think about it. And that's something that's been top of the mind for me. And that's one of the factors that has driven my motivation to transact perhaps quicker than not. I can't speak for how conservative my peers are reserving. I know that we've been very robust. And without a transaction in the market, if someone else had transacted at a much worse multiple, then the implication would be that that would be applied across all blocks of business. And that was a risk that we didn't want.

So yes, it's not completely out of the realm of possibility that a competitor would transact at a different negative cede to us. So that was certainly a motivating force for us to get a transaction out there. We feel pretty good about our reserving. To your point, the requirements under Canadian accounting and supervisory oversight are very robust. We ourselves have been very thorough and conservative in our reserving practices. And you saw that through the VA transaction. We didn't want to be the victims of a pro rata calculation based on some competitor's transaction. So we wanted to get out on the front foot and do a very big material trade, which I think would help eliminate the risk that you're just talking about.

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**Mario Mendonca TD Securities Equity Research - MD & Research Analyst**

Marc, in his opening comments referred to another block that he said had similar characteristics. I think he quantified it at \$3.8 billion. Is there some reason why that block had to be separated from the existing block that was reinsured? Could those have come together in a transaction like this?

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**Roy Gori Manulife Financial Corporation - President, CEO & Director**

They could have. And I'm sort of delighted that now with many of the analysts and shareholders, people have started to talk about, well, why was it only 6 and why not bigger? Six is the largest transaction ever done. And again, 2 years ago, folks are saying, is it possible to even transact? And now it feels like the narrative is moving to, well, why not more? And when is the next transaction, which is, I think, exactly the purpose of us wanting to get a transaction actually done.

There's no reason why that wasn't included. I think it was a pretty material block, \$6 billion for our counterparty. And again, I think for them, they wanted to sort of get some experience and see what that would look like. We want them to do phenomenally well. We want them to make a ton of money off this transaction. And I think they and others will, as a result of that, start looking at the other blocks. And as I said, the negative cede will continue to narrow down.

But there was no particular reason why that wasn't included. And that's obviously something that we're going to continue to pursue, looking at that block and other blocks that we could possibly trade.

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**Mario Mendonca TD Securities Equity Research - MD & Research Analyst**

I'm not sure if this is a question you can answer. It's an interesting question that just came through. If you can, the question is, are you actively getting calls from folks in the market or potential counterparties about this trade and potential successors? Like I guess the question is, has this started the ball rolling on long-term care transaction?

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**Roy Gori Manulife Financial Corporation - President, CEO & Director**

Yes. So yes, I don't want to say too much about that, and I don't want to speculate on a future transaction. But again, the thing that was really encouraging for me, and you and I've spoken about this many times, Mario, is this bit of a spread or bid-ask spread on LTC being very wide. And we're pretty upfront about that. What we did see in the last 12 months is that that started to narrow, and it also came with multiple parties wanting to talk to us.

And again, 2, 3 years ago, there weren't too many people that wanted to have a conversation around LTC. That's changed in the last 12 months. And obviously, the parties that weren't successful in this opportunity that didn't get the deal, and clearly Global Atlantic -- won, those other parties are certainly reaching out to us and asking for more details and more information. And that's a good thing. I think that's a good thing that you've got parties that are trying to understand how this transaction actually came together and maybe why they missed the transaction when Global Atlantic was able to get it over the line.

So yes, that's certainly what we're seeing, and I think that bodes well.

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**Mario Mendonca TD Securities Equity Research - MD & Research Analyst**

So questions are coming in a little more abruptly now, and I do want to address some of them because some of these are questions that I got that I really wasn't able to answer, I'm just not close enough to it, so maybe something you can address? This is the largest LTC risk transfer and a landmark transaction for the industry. Is there any colour on why the reinsurer, this is the party that Global Atlantic reinsured to, any colour on why the reinsurer chose to be unnamed? And why didn't Global Atlantic want to reinsure the block themselves? Is there anything you can offer there?

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**Roy Gori Manulife Financial Corporation - President, CEO & Director**

Yes. Well, we're obviously delighted to work with Global Atlantic. They're an existing reinsurance partner of ours. We've done 2 trades with them previously. This is now our third. They're A-minus and A2 rated by S&P and Moody's. So a great counterparty and quite frankly, for us, there's a level of trust and confidence that we've built through the various blocks that we've traded in the past and the work we've done with them. So we are delighted to work with them.

More recently, KKR acquired the remaining stake in Global Atlantic, which we think, again, is another good step.

In terms of why they reinsured it, it's really, to be fair a question for them. I would say though that they wanted someone who was an expert in LTC and understood the biometric risk really well. And they've got a third party to take that risk. Yes, so it's hard to speculate on more than that. I can tell you that they were delighted to not only partner with us, but also to find a highly-rated global reinsurer to take this other piece.

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**Mario Mendonca TD Securities Equity Research - MD & Research Analyst**

That's helpful. Let me just address one other thing. This is another question I struggled with myself. In Marc's comments, he did a good job of characterizing this block against other blocks. He talked about this one -- how this one is more mature, but how other blocks had less aggressive features attached to them. And it was a pretty good summary he offered. And I think in your presentation, you laid it out pretty clearly as well.

At the end of the day, it was hard to figure out whether the remaining block is, let's say, would have a greater range of outcomes, the riskier block, than the block that was reinsured. Is there a way to characterize that? Or are they just too different to do that?

**Roy Gori Manulife Financial Corporation - President, CEO & Director**

Yes. It is difficult to do, but we would say that at the highest level that we believe that the traded block is quite similar from a risk profile perspective to the remaining block. And again, I think the best way to illustrate that is that the block itself represented 14% of our total portfolio, but it also represented about 12% of our morbidity sensitivity, which is a good way of sort of trying get a feel for whether the risk profile is different or not. So we feel it's quite similar.

The other thing that folks maybe don't appreciate is that when we reserve, we take all of the data on all of our blocks and apply that to the reserving for all of our existing blocks, including the younger blocks. So it's not like we look at the experience on the younger blocks and apply only that experience against it. So we'll take the experience that we have on our older blocks, and to the extent that that's relevant, we apply that to our reserving on all of our blocks, including the younger blocks. So that's just something that ensures that we're being robust and we're using all data available.

And as I mentioned on the call, I think we've really achieved or reached a milestone from a data maturation perspective. 50% of the policies or the customers that we originally had or originally wrote business for are now no longer with us. That's a major milestone for us. And it talks to the data really getting to a point of greater maturation, which reduces the span of outcomes if you've got that kind of maturity.

The policy count also has decreased by 16% since 2018. So people often ask me, well, why now? Why were you able to trade this block? And we've said, obviously, the bid offer spread has narrowed quite significantly, but why has it narrowed? The first is the portfolio itself. The data that we've got now is at a point where we've got a lot of maturity and, therefore, the span of outcomes is reducing and has reduced significantly.

The second factor was that our portfolio experience has been actually good, policyholder experience, as you highlighted, Mario, has been quite neutral, and it's been consistent with our reserving. We've only had one significant strengthening over time.

And then the third factor, which was really interesting to our counterparty, was the effectiveness of our organic actions. We've been taking a lot of actions to improve the outcomes on this block. And that was really very interesting to our counterparties, and it's whether we're using new technology to keep people in their homes for longer or we're using advanced analytics to detect fraud. Those are all big factors that have helped drive, I think, the reason why we're able to transact now versus in the past.

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**Mario Mendonca TD Securities Equity Research - MD & Research Analyst**

Two questions have come in that sound very similar to each other that I'm going to sort of bundle into one. The question is sort of maybe talk about the depth of the reinsurance market for LTC. Because I think that's -- I mean this transaction was great in that it really validated those assumptions by third parties. I like that aspect of it. But I guess the question is, are there other players out there? Is there some depth to the reinsurance market? And sort of a related one was, was there more than one partner interested in playing the Global Atlantic role? And was there more than one party, what they're referring to as the unnamed third party, was there more than one insurer that could have played that role? I think that's where they're going. It's really depth questions. Are there other players there?

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**Roy Gori Manulife Financial Corporation - President, CEO & Director**

Yes. So the good news is that, yes, there were more than one or even more than 2 parties. So I'm not going to get into specifics on how many exactly. But there were multiple parties that were willing to play the Global Atlantic role and the reinsurance role of the biometric risk. And again, I think that's a more recent phenomenon, i.e., over the last 12, 18 months, we've seen that evolve, and I've sort of explained some of the reasons why that's the case.

And again, I think we saw a similar trend line on VA. In 2016, the big question that I was being asked, or the company was being asked, was, is there a market for variable annuity? And in 2017, we saw the first transactions that took place, and there were very few parties that were interested in variable annuities at that point in time. But come '21, '22, the market was very deep.

So we saw multiple parties was the short answer. And I do expect that we're going to see more parties come to the table and become more interested. The first transaction is often the hardest because everyone is watching. And again, there is this real big negative



connotation associated with LTC. But once folks see that the transactions out there, I think it piques the interest and folks will start to realize that they can actually transact and make some money.

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**Mario Mendonca TD Securities Equity Research - MD & Research Analyst**

Question about interest rates. So the participants are clearly engaged in this. There's a lot of interesting questions coming through. One on rates, higher rates probably played a role in getting this deal done, but we've seen rates reverse course pretty sharply in the last couple of weeks. Does the decline in rates mean we may have to wait some time for another reinsurance deal?

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**Roy Gori Manulife Financial Corporation - President, CEO & Director**

Couple of thoughts. So firstly, rates certainly didn't hurt. They helped. But I wouldn't say that they were a main factor in getting the transaction done. They were a nice, helpful factor that was there. That's the first thing.

The second thing I'd say is that the help that was possibly there on rates, which, by the way, is a positive tailwind for all long-term businesses and something that we're benefiting from more generally, or we will benefit from more generally, we see that through our earnings. But it's also not the short end of the curve. So whilst we're seeing a lot of volatility and a lot of reductions in the short end of the curve and a lot of speculation as to whether the Fed or central banks are going to drop rates, we've seen less movement at the very long 30-plus end of the curve. And certainly, the 30 end of the curve, I believe, is going to be higher than it was over the last decade even with some speculation that we might see some rate cuts.

So the tailwind that's coming from rates is certainly there. It was not a key factor or a big factor in deciding this transaction. And I generally believe that a higher rate environment, one that we're in right now, is that helpfulness is going to continue to be there even with some speculation that rates are coming down. I think for where it matters on the curve, I think, generally, folks are seeing that we're going to see higher rates, not necessarily at the 7% or 8% mark, but certainly higher rates at the 30-plus mark.

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**Mario Mendonca TD Securities Equity Research - MD & Research Analyst**

And sort of somewhat related to that, because this was an older block, and I think somebody had asked this question on the call, do you necessarily have to wait for the other blocks to mature materially before you can get a deal done? Or is there some way transactions get done on younger blocks?

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**Roy Gori Manulife Financial Corporation - President, CEO & Director**

Yes, we don't think you have to wait for them to get to the same age maturity. For us, what mattered in the transaction was not necessarily the age but the risk profile. And as we said on the call, yes, this block was older, but it had a higher risk profile. So when we talk to these different parties about transacting, they want to look at the entire risk profile. Yes, they'll look at age as one factor, but they're looking at lifetime benefits. They're looking at inflation protection. So all of that matters in combination. And for us, this block was pretty directionally consistent with what we have remaining.

So we don't think that age alone was a key factor in getting this transaction over the line. It was a combination of all the elements of the risk profile. And that's why, again, it was quite important for us to get a transaction done that was consistent with the overall risk profile. If it was a cherry-picked portfolio that looked really attractive and was low risk, we didn't think that we'd get the right level of credit for it. So it was important for us for this to have a similar risk profile to what we have remaining, and we think we've achieved that.

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**Mario Mendonca TD Securities Equity Research - MD & Research Analyst**

I want to go to capital for a moment. One of the bigger distinguishing features between the banks, let's say, and Manulife on the other hand or the banks and insurance companies generally is that the insurance companies have demonstrated they have a lot of capital. And nothing proves that more than buying back stock. So the direction I want to go on this one is, this transaction got done, released \$1.2 billion of capital, but it wasn't like a theoretical thing. This is capital that's going to be used to buy back stock, and Manulife has been at this now for a few years, buying back stock.

With that preamble, I want to go to a question that came through. It was, how do you think about capital release in long-term care absent transactions over time? Is it possible to see reserve releases and capital -- like freeing up capital during these triennial reviews? Like does capital naturally leave that business or is freed up naturally in that business?

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**Roy Gori Manulife Financial Corporation - President, CEO & Director**

Yes, that's a really good question. So a couple of thoughts. Firstly, we are in a very strong capital position. And I think we've demonstrated that through just looking at our capital ratios. The fact that we've got \$22 billion above the supervisory minimum, the highest we've been for a very long period of time, and \$10 billion above our internal operating range, which has come from all of our focus on freeing up capital and reducing percentage of our businesses that are legacy in nature. And we put our money where our mouth is, Mario. As you've seen in '22, we deployed \$1.9 billion towards buybacks, and in '23, \$1.5 billion. And that is somewhat unusual in an environment where there's still a lot of uncertainty in terms of outcomes. And you see OSFI is clearly quite concerned. And in fact, on the banking side, increasing capital rules.

The fact that we've been actually buying back, I think, makes us quite exceptional versus many of our peers, not just in banking, but even across the insurance sector. And I think it talks to the strength of the capital position that we're in, which is great.

And then obviously, in addition to the 1.9 and the 1.5, we're deploying the whole \$1.2 billion towards buybacks, which we think is a great way for us to reward shareholders. And there's further upside for us there.

As we look forward and as the span of outcomes continues to narrow, we again think that we'll see the ability to transact, and that's going to certainly be one way of freeing up capital. Are we going to see a reduction in our reserving? I don't know. We've been quite conservative there. And I certainly wouldn't want to speak for Steve or the actuarial team, but we've gained a lot of confidence.

The other thing I'd say is that we're quite conservative on the price increases that we embed in our reserving. As you know, and as we've articulated, we've got about \$6.5 billion asks into the regulators, and in our reserving, we only put in, at the last basis, \$2 billion. And we've got a track record of executing against that. Now that is technically a forever assumption. But we've demonstrated through the basis change reviews that we're able to execute against that within a 3-year period. And we're on track for this 3 years to, again, deliver or exceed even that \$2 billion assumption that we have in our reserving. We've already received more than \$700 million worth of price increases against that \$2 billion, and we're about 1/3 of the way through there. So we do feel that we've been very conservative. If you look at our price increases in our reserving, represents about 5% of our reserves, and against many of our peers they have a much larger ratio. So being conservative here, I think, is prudent and sensible. And we think, again, as the bid offer spread narrows, this is an opportunity from a capital perspective.

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**Mario Mendonca TD Securities Equity Research - MD & Research Analyst**

A related question about capital came through that I thought was interesting. How do you think about the percentage of earnings converted to free cash flow through remittances? And do these transactions help or hurt that conversion? And this is important, I think, because I think on your call you talked about the \$1.2 billion being funded by remittances. So maybe let's discuss it in that context.

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**Roy Gori Manulife Financial Corporation - President, CEO & Director**

Yes. So yes, I'll just reiterate the point that we made on the call. The \$1.2 billion that we're freeing up is going to be coming from remittances from the various geographies. It's pretty proportionate. So yes, it's freeing up IFRS 17 LICAT capital, but it's clearly also coming from the remittances that we're going to be getting from the transaction. So yes, that is definitely the case.

We've been pretty good at demonstrating our remittances being a very large percentage of our core earnings over time. And generating free cash is critical. We know that that is absolutely a critical way through which companies like ours should be measured. And again, as a percentage of earnings, we've demonstrated quite a robust ratio.

We're thinking through, Mario, whether we should be providing greater disclosure on free cash generated. So that's something that we're currently contemplating. We think at the end of the day, remittances is what count. I can give you a free cash generated number as some of our peers do. But to some extent, it's still a little bit theoretical, where remittances are really the money question.

So we think that's the most robust way to look at cash generated from the various businesses that you have. But we are taking away this idea of possibly providing more detailed information as it relates to free cash generation. But it's been a focus for the company. And actually, I feel really good about the way we've driven a focus on not only remittances, but free cash generation, and the speed at which cash is generated off the new businesses that we're writing.

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**Mario Mendonca TD Securities Equity Research - MD & Research Analyst**

Yes. Just maybe just let me go off for a moment on this. This is something I spoke to Hung about and the folks at Manulife. The free cash flow or organic free cash flow is being disclosed by peers has a number of conceptual flaws in it, and it's something I've talked to them about. You got to be really careful saying we generate x billion -- x hundred million dollars of free cash flow, but our LICAT has gone down by 15 points. You can't say those 2 things in the same sentence and have credibility.

So if Manulife introduces this whole notion of organic capital generation or free cash flow generation, there needs to be some connection between that and the change in the LICAT, otherwise it loses meaning for me.

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**Roy Gori Manulife Financial Corporation - President, CEO & Director**

I couldn't agree more. And that's why I think -- and I think it's a point that is lost on a lot of folks, Mario. So I think you hit the nail on the head. And I think folks sometimes get very comfortable with an organic cash generation metric. But not have it, A, tied to LICAT capital, but also not have it tied to remittances either. So I think it's a really, really good point, and that's why -- we've always been a little bit cautious around whether we should have something like that. And we always thought remittances is what really matters, and that's what people should focus on. But we're taking that away, and I don't disagree with your point at all.

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**Mario Mendonca TD Securities Equity Research - MD & Research Analyst**

Here's an interesting question. So Manulife, this was a quota share, 20%, 80%. Maybe talk about why this deal was structured that way. Is it a way to make sure that both parties retain some skin in the game? And would future transactions also be structured in this manner?

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**Roy Gori Manulife Financial Corporation - President, CEO & Director**

Yes, it's not unusual to have a reinsurance deal like this with a quota share. And the reason for that is quite simple, the party that we're doing the transaction with, who, by the way, is going to rely on us to continue to administer the blocks, they want to ensure that we are motivated towards the same outcomes that they are, which is what I would want if I was them as well.

So in the worst-case scenario, if, for example, I reinsure this block of business, and then I don't continue my process of looking for fraud in my claims and digitizing my business, and reducing incidents through the use of geo print tracking of the home care providers, for example, then I could do that and save some money or I could just simply get less motivated towards doing that. And that's going to reduce the outcomes that happen for the third party.

So they want to make sure that we've got skin in the game. And rightfully so. And especially given what I said earlier, and that is that when they got very excited about this block, they saw all of the organic actions that we're taking. And I'd like to talk about that a little bit more as well if we had time. But we think that there's a lot of upside through managing this business organically better.

And the technology that we have today is quite significant towards facilitating that. You can do the sums, if you could reduce the fraud, we know -- everyone knows that there's fraud in claims, if you could reduce 5% of those frauds, then you can save significant dollars and improve returns quite significantly. If you can keep someone in their home for a year longer than going to a long-term care facility because you are deploying technology in the home, sensors, for example, that detect fires, that's one way. That's a very simple and easy way, which is very inexpensive today versus the cost of doing that 5 years ago. That's worth billions of dollars.

So the third party wants to ensure that we're continuing to invest in that space and that we're driving the right outcomes, rightfully so. And we want to drive that outcome as well because, again, for us, the prize is that we continue to narrow the bid offer spread on these blocks and reduce the probability that there is a negative policyholder experience on this.

I think this is really an untapped area, the organic actions. And that's stuff that we control. That doesn't include any of the new pharmaceuticals that we're seeing that are reducing the risk of Alzheimer's and dementia, which is one of the biggest reasons why folks go into long-term care facilities. That, again, is quite promising. At least the research that we've been doing in that space is telling us that could be another tailwind for this kind of business which, again, is only going to be helpful for us.

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**Mario Mendonca TD Securities Equity Research - MD & Research Analyst**

So I want to drive a little deeper into that. As these -- all these actions, whether it's a reinsurance transaction, whether it's these organic actions you take, all of this sort of -- and might be sort of reduces the fan of outcomes for Manulife as a stock and for your earnings and your capital. As this fan of outcomes gets compressed, and this is sort of a question that came through, does that give you confidence to hold less excess capital than you're holding today? Because arguably, there's a lot of excess capital in this business. Could you run at a skinnier level of excess capital for the range of outcomes or fan of outcomes is narrow?

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**Roy Gori Manulife Financial Corporation - President, CEO & Director**

Yes. Technically, yes. The technical answer is that, yes, if we continue to see the fan of outcomes narrow, then clearly, yes, you would require less capital and your reserving would be less. I think that is definitely a possible outcome that we're aggressively working towards. If we can just get -- as a first port of call though, if I can get the bid offer spread to get to 0, that would be a great milestone. Getting that narrowed to, as you did a pro rata of 1.7 when embedded in our stock price is 5-plus, and for that 1.7, by the way, to be all about return on capital, not about assumptions, we think that was a major milestone with a very significant block.

Can that eventually evolve to an even better outcome from a capital deployment perspective? Absolutely.

The other thing I just wanted to touch on, we were quite innovative several years back on our price increases. You'll remember this, Mario, when we would go to get price increases, the regulators would sometimes balk at the increase. And we then -- were very innovative. We introduced this landing spot idea, which is the customer can choose to not have a price increase, but instead have a benefit reduction. For us, from a reserving perspective, they are exactly the same as the price increase. So we're as good. And if it increases, A, the probability for a regulator to give you that price increase, then that's a win. And then B, if it gives you the take up with the customer, that's another win as well.

Recently, the other innovation that we've done in that space is a cash buyout. So in addition to those 2 options, premium increase or no increase but a benefit reduction, now we're offering customers a third option that we've been getting approvals for from regulators, which is we'll buy your policy out. So here is a lump sum of money that will basically buy your policy out. It's effectively like selling the business, but you're doing it in individual blocks, customer by customer.

So it's still very early days there, but I'm actually quite excited about this. I think that is an option that, again, will go some way towards reducing the size of this business. And when we talk about it being -- VA and LTC being 11%, LTC is approximately 10 or less than 10, this, again, will continue to help support the reduction of the business. And our goal is for LTC to be such a small part of our business that folks don't discuss it anymore. And we think that we're on our way towards that outcome.

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**Mario Mendonca TD Securities Equity Research - MD & Research Analyst**

Now one final question on the nature of this transaction, then I want to get into precisely what you just mentioned, where investors start thinking outside of the risk. And the question came through, which I'll get to in a moment, that hammers that point home. That's precisely what some investors are already starting to do. But before I get there, one question on ALDA, that could -- would the company use the upcoming \$1.7 billion ALDA sale as an opportunity to validate the embedded returns across the whole portfolio? I think what they're getting at there is, could you sell this at a value that then says, yes, of course, the rest of the ALDA is worth this amount?

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**Roy Gori Manulife Financial Corporation - President, CEO & Director**

Look, we feel pretty good about our processes for updating the valuations in our ALDA business. Again, as we've discussed on the call as many times, Mario, we have a very robust process to update our valuations quite regularly, and it's done with third parties. We don't do that ourselves by and large. And again, we think this is a great asset class that's generated significant value for our shareholders. Why would you not want a company like ours to deliver superior returns, whether that's in the fixed income space or in equities? But ALDA is

an important asset class.

And honestly, institutions and high net worth individuals are more and more looking at ALDA as an asset class to diversify their portfolio and deliver superior returns with lower volatility. So we think this is a great strength of the company. We feel pretty confident that we'll be able to divest our ALDA at reasonable valuations that are broadly consistent with the valuations that we have on book. And we think, yes, that hopefully will be another point of validation around ALDA.

But right now, ALDA has been challenged largely in the commercial real estate space because of the increasing cap rates. To your point earlier, if rates continue to drop, that is going to become possibly a tailwind for real estate. And again, I'm not going to be celebrating that. So one thing we're not going to do is if you see all of a sudden commercial real estate deliver significantly higher returns than what we've got assumed, we're not going to be celebrating that and suggesting that our ALDA return should be revalidated upward.

But the short answer to your question, we feel really good about ALDA. We think it's an important asset class that generates a lot of value. You'd want a company like ours to be having a deep expertise in ALDA. This is not something that we've just gotten into over the last 5, 10 years. We've been doing this for more than 20 years. And now we're using our ALDA capability for third-parties, institutions and retail clients. Quite frankly, insurance companies use our ALDA capability when they're managing their own GA. So I won't mention names, but many of our competitors are actually using us for our ALDA capability. So we're hoping that we can continue to show the track record on ALDA that would give folks confidence that that's a strength.

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**Mario Mendonca TD Securities Equity Research - MD & Research Analyst**

And there's a couple of questions that came through. And I'm encouraged when I see this because this is kind of where I thought eventually the conversation was going to head. I think first we had to go through all the sort of stress of understanding this transaction, what it means. But now we can get into the questions that I think you're going to face a lot more often going forward, which is, you've derisked this company materially, is it time to start using this excess capital for more than buybacks? Like you've got a platform now. You've got the Wealth Management business. You've got the Asian business. These are important growth platforms. I'm not suggesting they're starved of capital, but is it time to start allocating capital to those businesses both organically and inorganically? That's the gist of these 2 questions I'm staring at.

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**Roy Gori Manulife Financial Corporation - President, CEO & Director**

Yes. I think that's a great question. And I agree with you, Mario, I think that's exactly the kind of question that we wanted to facilitate through transacting with this block, but also through the other transactions that we've traded over the last 5 years.

We think that MFC represents a pretty attractive proposition from an investment perspective. Our dividends, circa 5.5%, which in the current environment is really very solid, strong leadership positions in North America with very good returns and very good leadership positions that are differentiated versus our peers, very stable earnings there, good quality of business. And what makes us unique versus many of our peers is that we've got these phenomenal growth engines in Asia and WAM which have got a lot of upside. And if you look at the growth that we've achieved there over the last 5, 6 years, it's a CAGR of almost 10%. It's about 10% and that includes the pandemic years, by the way. If you take the pandemic years out of it and look pre-pandemic for both Asia and GWAM, it's almost a CAGR of about 15% for both of those businesses.

So we feel that we've got 2 exciting platforms that have got a lot of growth upside, because of the geographic diversity, but also the business diversity of those businesses. Number one priority for our company is to deploy our capital for organic growth. That's where we have a very high confidence that we can generate returns with lowest risk or lowest uncertainty.

And it goes back to the early question that you asked me, what's the ROE of the company? And I mentioned that our new business, our organic capital is generating north of 20% return on equity. And if you keep growing your new business at 20% and getting rid of your old blocks, eventually, that will become the landing spot for your ROE.

So we've not had any issue with deploying capital organically to those businesses and generating superior growth. Again, I'll remind most folks that maybe don't have the history with us, our Asia franchise was the sixth largest in 2014, sixth largest of the pan-Asian

players. And now we're the third largest. So we've been outgrowing the market. And we have a very, very exciting platform that's 126 years in the making.

Now are there opportunities for us to deploy our capital inorganically to those growth engines? We do have that. And that's the luxury of having \$10 billion of capital in excess of our upper operating range. But I'm also very judicious around those inorganic opportunities, Mario. I'm going to make sure that when we deploy capital-- it's very easy to get a bump in your stock price when you announce a transaction. It's another thing to ensure that you're delivering on the results of that transaction over the years that come.

So we've been very deliberate about making sure that when we transact or when we do any M&A, that we've got a high degree of confidence. In the current environment, we think that there could be some interesting opportunities. So we're always looking at those opportunities to see if we can accelerate the transformation of the company. And it's good to have that lever in your toolkit.

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**Mario Mendonca TD Securities Equity Research - MD & Research Analyst**

Yes. I'm glad we finished with that. Let me see, there might be -- yes, there's a few that came through, they're interesting, but I'm going to I'm going to send them off internally. So if your question wasn't answered, it's an interesting question, there's a couple of them here. I'm going to send them off internally. I think it's better that way.

Roy, thanks for doing this. And for everyone who joined us, I appreciate you guys taking time this morning. And any closing remarks, Roy? Or did we cover it in the last question?

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**Roy Gori Manulife Financial Corporation - President, CEO & Director**

No, I think we covered a lot, and I appreciate the time that you and all the folks on the call took for this call, and I wish you and your families all the best for the holidays and for the year ahead.

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**Mario Mendonca TD Securities Equity Research - MD & Research Analyst**

Thank you. Happy holidays, everyone. Thank you for joining us. Thanks, Roy.

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