Our Investment Portfolio: High Quality and Diversified

Our investment philosophy employs a bottom-up approach, which combines our strong asset management skills with an in-depth understanding of the characteristics of each investment. We are not limited to fixed income investments but rather hold a diversified blend of assets, including a variety of alternative long-duration asset classes, which provides a distinctive positioning. We use a disciplined approach across all asset classes, and we do not chase yield in the riskier end of the fixed income or alternative asset markets. This philosophy has resulted in a well-diversified, high quality investment portfolio, with excellent credit experience.

Highly Diversified Asset Mix

C$378.5 billion, Carrying value as of December 31, 2019

- Fixed Income & Other 31%
- Alternative Long-Duration Assets (ALDA) 2%
- Public Equities 6%
- Private Placement Debt 10%
- Securitized MBS/ABS 1%
- Mortgages 13%
- Cash & Short-Term Securities 5%
- Policy Loans and Loans to Bank Clients 2%
- Other 1%
- Real Estate 4%
- Infrastructure 2%
- Private Equity & Other ALDA 2%
- Corporate Bonds 32%
- Government Bonds 20%
- Public Equities 6%
- Oil & Gas 1%
- Timberland & Farmland 1%

High Quality Debt Securities and Private Placement Debt

C$236.1 billion

- BB 1%
- BBB 23%
- A 42%
- B & lower, and unrated 1%
- AAA 16%
- AA 17%

- 98% of Debt Securities and Private Placement Debt are Investment Grade
- 75% are rated A or higher
- 20% of Below Investment Grade holdings are Asian sovereign holdings; these assets are held to match against liabilities in countries in which we conduct business

Our debt securities and private placement debt portfolio is of high quality with 75% rated A or higher and below investment grade holdings are limited to 2% of the portfolio. Our private placements benefit from covenants and collateral which typically provide better credit protection and higher potential recoveries.

“Our long term, through-the-cycle, disciplined investment approach has historically allowed us to derive superior long-term risk-adjusted returns by using a diversified, high quality asset mix.”

Scott Hartz
Chief Investment Officer

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1 Includes government insured mortgages (C$7.0B or 14% as at December 31, 2019).
2 Includes debt securities, private placement debt, mortgages, cash & short-term securities, policy loans, loans to bank clients, and other.
3 The credit quality carrying values have been adjusted to reflect the credit quality of the underlying issuers referenced in the credit default swaps ("CDS") sold by the Company. As of December 31, 2019, the Company had C$902 million notional outstanding of CDS protection sold.

All figures in accordance with International Financial Reporting Standards “IFRS” carrying value; quoted as at December 31, 2019 unless otherwise noted.
High Quality Geographical Asset Mix
C$378.5 billion
- Canada 32%
- U.S. 44%
- Hong Kong, rest of Asia & Other 15%
- Japan 5%
- Europe 4%

Presented based on location of issuer
- Assets in Greece, Italy, Ireland, Portugal and Spain limited to <0.3% of total invested assets
- 30% of Asia & Other assets (including Japan) represent sovereign issuers

We currency match our assets with our liabilities, so most of the Asian holdings are local currency bonds backing local currency liabilities.

High Quality Securitized Holdings
C$3.9 billion, representing over 1% of Total Invested Assets
- BBB 2%
- A 9%
- AAA 72%
- Over 98% rated A or better, with 72% rated AAA
- 100% of the CMBS holdings rated AAA are in the most senior class
- ABS holdings highly rated and diversified by sector

Our Structured Credit portfolio totals C$3.9 billion, or 1% of total invested assets. Of this, approximately C$1.6 billion is commercial mortgage-backed securities (CMBS), less than C$0.1 billion is residential mortgage-backed securities (RMBS), and C$2.2 billion is other asset-backed securities (ABS). 100% of the portfolio is rated as investment grade, demonstrating the high quality of these holdings.

Highly Diversified Debt Securities and Private Placement Debt
C$236.1 billion, representing 62% of Total Invested Assets
- Utilities 19%
- Government & Agency 33%
- Energy 9%
- Consumer (non-cyclical) 8%
- Industrial 8%
- Other Financial Services 3%
- Basic Materials 2%
- REITs & Real Estate Related 3%
- Other 0%
- Banks 5%
- Telecommunications 2%
- Insurance 2%
- Securitized MBS/ABS 2%
- Consumer (cyclical) 3%
- Captive Finance Subs 1%

- Diversified across 13 primary sectors
- 53% of issuers are outside of the U.S.
- No single position represents more than 1% of invested assets (excluding government holdings)

Our Debt Securities and Private Placement Debt portfolio is highly diversified by industry sector and geography. It includes private placements of C$38.0 billion, or 16% of our total Debt Securities and Private Placement Debt portfolio, which are a great source of diversification by name, industry and geography.

“Our private placement debt portfolio helps further diversify the fixed income portfolio by name and by industry as it provides opportunities not available in the public markets. Private placements also typically contain protective covenants not generally available in the public bond market.”

Scott Hartz
Chief Investment Officer

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High Quality Direct Mortgage Portfolio

C$49.4 billion, representing 13% of Total Invested Assets

By Property Type

Canadian Single-family residential – CMHC1 insured 13%
Canadian single-family residential 28%
Agriculture 1%
Other Commercial – CMHC1 insured 0.5%
Other Commercial 6%

High Quality Commercial Real Estate Holdings

Fair value of C$14.3 billion, representing 4% of Total Invested Assets on a fair value basis

Fair Value, By Type

Company Own-Use 23%
Office – Downtown 39%
Office - Suburban 12%
Residential 13%
Industrial 7%
Retail 3%
Other 3%

Non-CMHC Insured Commercial Mortgages

Conservatively underwritten with low loan-to-value and high debt-service coverage ratios.

We have C$28.8 billion in commercial mortgages which have been conservatively underwritten and continue to have low loan-to-value and high debt-service-coverage ratios. We are well diversified by property type and we avoid risky segments of the markets such as construction loans and second liens. Further, we currently have no loans in arrears.

Non-CMHC Insured Commercial Mortgages

Conservatively underwritten with low loan-to-value and high debt-service coverage ratios.

Our Canadian residential mortgage portfolio includes high quality residential mortgages issued by Manulife Bank of Canada, with 33% insured, primarily by CMHC1.

Our agriculture loans are well diversified by business type and geography.

1 CMHC is Canada Mortgage and Housing Corporation, Canada’s AAA national housing agency, and is the primary provider of mortgage insurance.
2 LTV and DSC are based on current loan review cash flows.
3 Arrears defined as over 90 days past due in Canada and over 60 days past due in the U.S.
4 Excludes CMHC insured loans and Manulife Bank commercial mortgage loans.
5 Excludes assets slated for disposition / development.
6 Excludes fair value of the land lease for Manulife Tower, Hong Kong which is classified as an operating lease for accounting purposes.

The fair value of our commercial real estate portfolio is C$14.3 billion and represents 4% of our total invested assets on a fair value basis. This is a high quality portfolio, with virtually no leverage and mostly premium urban office towers, concentrated in cities with stable growth and highly diverse economies in North America and Asia. With an average occupancy rate of 94.5% and average lease term remaining of 5.7 years, we are well positioned to manage through challenging economic conditions.

All figures in accordance with International Financial Reporting Standards “IFRS” carrying value; quoted as at December 31, 2019 unless otherwise noted.
Other Alternative Long-Duration Assets

C$24.9 billion, representing 7% of Total Invested Assets

- Private Equity 26%
- Infrastructure 35%
- Timberland 13%
- Other ALDA 7%
- Oil and Gas 13%
- Farmland 6%

- Real assets represent investments in varied sectors of the economy
- A good match for long-duration liabilities
- Alternative source of asset supply to long-term Corporate bonds
- Majority of the assets are managed in-house; we have significant experience in managing and originating these assets

Our other alternative long-duration assets have a carrying value of C$24.9 billion representing 7% of our total invested assets.

These alternative long-duration assets have historically generated enhanced yields and diversification relative to traditional fixed income markets. The longer term nature of these assets is a good match for our long-duration liabilities, and results in superior risk adjusted returns without having to pursue fixed income strategies.

The fair value of our other alternative long-duration assets is C$25.6 billion and represents 7% of our total invested assets on a fair value basis.

Other Notable Items

- Financials fixed income net exposure\(^1\) of C$16.7 billion is well diversified by geography, sub-sector and name
- Gross unrealized losses were limited to C$0.6 billion of our fixed income holdings
  - Gross unrealized losses for debt securities trading at less than 80% of amortized cost for more than 6 months is C$71 million
  - The potential future impact to shareholders’ pre-tax earnings for debt securities trading at less than 80% of cost for greater than 6 month is limited to C$48 million
- Limited net exposure to European bank hybrids (C$68 million)\(^2\)
- Limited exposure to credit default swaps (“CDS”), with C$502 million notional outstanding of CDS protection sold

“We have strong capabilities and experienced investment professionals in each of these alternative long-duration asset (ALDA) classes. We are both an ALDA investor and an ALDA manager which provides us with a deeper understanding of these asset classes.”

Scott Hartz
Chief Investment Officer

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\(^1\) Excludes par and pass-thru and reflects the cumulative impact of downgrades on reserves.

\(^2\) Presented based on location of issuer parent.

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