REFINITIV STREETEVENTS

EDITED TRANSCRIPT

MFC.TO - Manulife Financial Corp at Scotiabank Financials Summit

EVENT DATE/TIME: SEPTEMBER 05, 2024 / 5:30PM GMT

CORPORATE PARTICIPANTS

Roy Gori *Manulife Financial Corp - President, Chief Executive Officer*

CONFERENCE CALL PARTICIPANTS

Meny Grauman *Scotiabank - Analyst*

PRESENTATION

Meny Grauman - *Scotiabank - Analyst*

Hello, again. It's my pleasure to close out the lifeco portion of the day with Roy Gori, President and CEO of Manulife. Good to see you, Roy.

Roy Gori - *Manulife Financial Corp - President, Chief Executive Officer*

Good to see you as well.

Meny Grauman - *Scotiabank - Analyst*

I think the last time I saw you in person, we were in Hong Kong.

Roy Gori - *Manulife Financial Corp - President, Chief Executive Officer*

Indeed, Investor Day.

QUESTIONS AND ANSWERS

Meny Grauman - *Scotiabank - Analyst*

That's right. Which is a good segue because I wanted to talk about the Investor Day, a very successful Investor Day. And maybe get your thoughts to kick things off in terms of key takeaways that you wanted investors to come back to Toronto with from that event.

Roy Gori - *Manulife Financial Corp - President, Chief Executive Officer*

Yes. Thanks, Meny, and good afternoon, everyone. It's great to be here again and looking forward to an opportunity to talk to many of you later on today as well.

Investor Day was a really important event for us and maybe more important than past Investor Days. Because it was, for us, marking maybe the ending of an era and the beginning of a new era for our company.

So to answer your question more directly, Meny, I would have said that there are probably three key takeaways that we wanted to leave with folks. The first was that we have transformed the company. We're a radically different company today than we were in 2017. And you can look at that from a variety of different measures or different ways.

The ROE of our company has gone from 11% to 16%. The legacy businesses, as defined by long-term care and VA, has gone from contributing 24% of earnings down to 12%, 11% on a pro-rata basis. Expense efficiency, 55%, improved to 45%. Dramatic digitization of our business, improvement in our NPS scores, STP, and so on and so forth. And I could rattle on for ages.

So the first point that we really wanted to deliver and execute was that we're a changed company. We are not the risky business that we were post-GFC. And as a result, we think we're a much more exciting proposition.

The second message is that we believe we are uniquely positioned to capitalize on the megatrends that are shaping the global economy. Those being the growth of the middle class in Asia; there are 2 billion people in the middle class. They forecast to grow to 3.5 billion by 2030. That's fueling the growth that is Asia.

The second is that we have an aging population. The global demographic is aging at a rate that we've never seen before. And we see a dramatic digitization of the customer base. There are few companies, if any, that are able to capitalize on that as well as we are given our geographic footprint.

And to put a finer point on it, we articulated targets for our business for the next three years that really capture what we believe the potential of our franchise is. One was an increase of our ROE target 18% plus. The second is reinforcing the fact that our 10% to 12% earnings growth remains.

We've looked at our efficiency ratio continuing to improve, but we also talked about cash. And the fact that we expect to deliver remittances over the next four years of $22 billion. So we are unique and we believe that the targets that we've established articulate that. And quite frankly, there are very few companies that can talk to cash, earnings growth, and ROE in the way that we have and are able to.

And then the third message is that we're demonstrating execution success against that. Quarter in, quarter out, we've been able to actually demonstrate progress not only against the goals and ambitions that we have, but against our market comparison peers. So that those are probably the three messages and why it was an important Investor Day for us.

Meny Grauman - *Scotiabank - Analyst*

I wanted to follow up with a number of different things that you talked about, specifically the ROE. But first and maybe just as a follow up, so it's clear why you brought investors to Hong Kong. That's your hub; that's really the center of your operations. But then you took people to Indonesia. So just wanted you to just explain what was the thinking there. Why Indonesia?

Roy Gori - *Manulife Financial Corp - President, Chief Executive Officer*

Yes. Well, I think it's always great to get investors and analysts out to Asia to experience what's going on, on the ground in that part of the world. And most folks that travel to Asia typically go to Hong Kong or Singapore and don't venture further than that. And Asia is so much more than just Hong Kong and Singapore.

And the second objective was that Indonesia is a tremendous opportunity. When people think about Asia, they typically think about China and maybe India. I think Indonesia gets neglected. And for our industry, it's a huge opportunity.

Firstly, there's almost 300 million people that live in Indonesia. The middle class is going to triple in the next two decades. And the insurance penetration is approximately 1%, in fact, a little bit less than 1%, which is a third of the rest of Asia. So the demographics and the opportunity that are represented in Indonesia are often underappreciated and neglected.

And we have a leadership position there. We've been there for more than 30 years. We've got a great team. And we've been executing against that agenda. And we think that this is really one of the opportunities that will be a standout for us in the next five to seven years.

Meny Grauman - *Scotiabank - Analyst*

And in terms of ROE, you talked about 16% ROE in Q2. The target is 18% plus by 2027. So maybe you can help us figure out how do you get there in terms of building blocks? What gets you to 18%-plus?

Roy Gori - *Manulife Financial Corp - President, Chief Executive Officer*

Yes, I think that's a great question. And at our Investor Day, this was a key focus of our attention. And we not only articulated our goal to get to 18%-plus. And the plus is because, by the way, we're not incorporating any inorganic transactions in our roadmap to getting to the 18%. So we think that anything that we do inorganically should be accretive to that 18% goal.

Because that was a big goal out there from a perspective of where many of our competitors are and certainly a huge growth from where we are today, two percentage points, I will remind folks that we actually increased our ROE 4 percentage points from 2017. So we do have a track record.

But that was a pretty big goal. And as a result, we put a lot of disclosure against how we're going to get there, much more than we normally would at an Investor Day. So we broke that down by segment. And we showed for GWAM, for Asia, for Canada, and for the US segments exactly how we're going to get there.

And if anyone wants to see any of the details on that, we can make them available to you or you can definitely see them on our website. But if I had to sort of pull it up a little bit and give you some of the big movements, it wouldn't surprise you that GWAM and Asia are going to be the biggest moving parts in terms of getting to that objective or that goal. Asia contributes about 1 percentage point of that growth. And GWAM represents about 0.6, 0.7.

Our Asia business ROE is going to grow from 16% to 21% over this time period. And GWAM is going to go from 25% to 28%. And in Asia, a large part of that is just continuing the momentum that we have. The benefits of scale come to the fore, which is why being a scale player in Asia really matters. And we'll continue to grow our distribution and diversify our Asia business whilst driving expense efficiency.

We still think there's a lot more to do on driving cost out of our business by looking at digitizing and improving the efficiency of our franchise. I think gen AI is another key factor that's going to accelerate that, and we can talk about that if you're interested.

And then obviously with GWAM, it's similar. We continue to get the benefits of scale. We got $1.4 trillion of assets under management. And as we continue to grow that business, we'll get scale, and that translates into ROE improvement that we've seen to date. But we continue to expect to see as we look forward.

Meny Grauman - *Scotiabank - Analyst*

I wanted to talk about reinsurance transactions. The $13 billion reinsurance deal that you announced back in December was very well received by the market, very, very well received. I think you've been quite clear that you would like to deliver another transaction, broadly similar type of transaction.

So do you have any updates in terms of, maybe even just to reiterate that outlook, obviously any announcement here would help the conference a lot, so if you could do something for me. But any update in terms of what you're thinking about there in terms of what's likely, what's possible, deal structure, timing, size?

Roy Gori - *Manulife Financial Corp - President, Chief Executive Officer*

Yes. So we've been very active in dealing with our legacy businesses and freeing up capital from lower ROE businesses. That's no surprise to anyone. We set a goal in 2017 to free up $5 billion worth of capital, and many said that's a pretty ambitious target. And we've actually delivered $11 billion worth of capital.

And the average ROE on that $11 billion that we freed up was about 4% to 5%. So that's been a key driving force as to why we've moved from an 11% ROE company to 16%. And the LTC transaction we did in December was something that we're very proud of. Obviously, we know and knew that LTC has been a stumbling block for us and for many investors in terms of whether they would want to invest in Manulife. And we knew that we had to get a transaction out there to show a true market value of our portfolio.

And we believe that there was a significant discount embedded in our stock price that could be eliminated if we transact at a reasonable price. And we did, and therefore, we were rewarded with significant appreciation of the market cap and the share price.

It's great that now the question is: when are you going to do another transaction? Before it was: could you ever do an LTC transaction? So I'm happy that, that kind of narrative has changed.

And I would say that we're seeing the market open up quite significantly. And that's not uncommon for any of these businesses. We saw the same thing with VA. Many years ago, VA was untransactable. First transaction was done, and then we saw a series of transactions that followed, and at much more attractive multiples in due course.

I think that trend line will be the case for LTC as well. And we've seen many more parties interested. And I would just say that when folks have looked at LTC over the last seven years, we certainly have been working hard to see if there was a transaction that was possible. We'd always get to the table with, commercially, it could make sense for the other party, but there was this negative halo that was always there, which was a concern for a potential buyer.

And I think the first transaction has gone a long way towards eliminating that negative halo, and folks are now able to look at it more commercially. So I'm going to disappoint you, Meny, and not announce anything now, or give you a forecast on date or timing. But I will say that it is a priority for me to still get another transaction out.

I think it was good to get one done. I think it would be even better to get another transaction done, and I think that will help our shareholders. But I want to do a good transaction. I've been pretty disciplined, I think you know, around what deals we would do, and keen desire to make sure we demonstrate that we're creating value. And we'll apply that same discipline as it relates to a possible future LTC transaction.

Meny Grauman - *Scotiabank - Analyst*

I wanted to dig into what's driving this interest. You're talking about increased counterparty interest. So part of it is just the transaction itself setting a precedent. But what else is going on that you would highlight that is helping sort of improve the market here?

Roy Gori - *Manulife Financial Corp - President, Chief Executive Officer*

That's a really good question. So I do think the negative halo, eliminating that is a big factor. I wouldn't underestimate how big that is.

I think the second big factor is that we're having a maturing of data. The biggest issue with LTC has been that, there's a fan of outcomes in terms of how the portfolio will ultimately perform and behave. And every year that's gone by, we're able to get more data to support the assumptions that we've got, which reduce the fan of outcomes. So I think that's been our friend.

I think the third factor is we are putting a lot more time and effort into how to manage this business organically better. And we're seeing a lot of value from that. There's a series of things that we can and will do. And when we've talked to counterparties and shared with them what we think we can do, many of these items are not embedded in the reserves. They get quite excited by this and these include, obviously, the price increases that we've been able to execute.

In '22, when we did our basis review, we had $2 billion in our reserves. We've already executed 70% of that -- actually more than 70%. And that's supposed to be a lifetime assumption. So we've been very effective at getting the price increases.

We've evolved our price increases. It used to be just getting a price increase or not. Now it's price increase versus a landing spot, which is no price increase. You can keep the same price, but we'll reduce your benefits, which is equally valuable to us.

The third evolution now for us on price increases or on pricing is that we now offer the option to buy the policy back from the customer. So here's a lump sum to buy your policy back. So it's like doing an LTC transaction at the most granular level. That's another option. So I think those provide lots of opportunity.

We've been looking to reduce our fraud, waste, and abuse by using technology. I'll give you an example. We now geoprint our healthcare providers when they go to long-term care customers' homes. So in the past, they may have said, look, I spent an hour there, but they maybe just spent 45 minutes.

Now I can geoprint the healthcare provider and know how long exactly they were at the home, keeping people in homes for longer. Obviously, if they don't go to a long-term care facility, that's significantly advantageous to us.

So how do we keep people in their homes for longer? We go into their house and actually make their house less prone to issues so that they can stay. Temperature detectors in stoves, pillboxes with alarms, handles, rails, eliminating carpet that could cause falls and stoppages and so on. So there's a lot we can do, and we are doing.

We're still at the early part there, but I think that's a huge opportunity for us. And the statistic that I often provide it is that if we can just simply defer someone going into care by one year, even if they stay in care for the same amount of time, that's a $2 billion opportunity in its own right.

And by the way, I haven't mentioned all the new pharmaceuticals that are coming out there. Drugs that are improving Alzheimer's and dementia, I think have got a significant potential to help us as well.

So long answer to your question. But I actually believe we've moved from this being a heavily discounted business to maybe more neutral. And I think it can become actually a positive if we can execute and demonstrate a track record against some of these items.

Meny Grauman - *Scotiabank - Analyst*

And when you talk about these organic tools that you have, it sounds like it's a slow process. I just want to get a sense, because sometimes I get the question, why can't you speed it up? Why can't you make it more of a priority and really press the gas on some of these?

Roy Gori - *Manulife Financial Corp - President, Chief Executive Officer*

We are pressing the gas. So we've got a dedicated team of people that just do this and do nothing else. The issue is that it takes time to see the impact of those items.

So if I go in and work to keep you in your home for longer by doing A, B, and C, the question is: how can I actually translate that into the entire portfolio? How do I have enough data to have the translation?

So I actually think that we're not a mile away from getting to a critical mass point. But it does take time to be able to demonstrate that these changes and these initiatives organically convert into upside opportunity. But we're certainly not holding back. We're not going slow.

Meny Grauman - *Scotiabank - Analyst*

And in terms of price increases, is there any, before we were talking about the interesting politics in the US right now, very contentious politics, is there any politicization of these price increases? Any issues that you're seeing?

Roy Gori - *Manulife Financial Corp - President, Chief Executive Officer*

We haven't seen significant issues in terms of our ability to get price increases executed. If anything, these alternative options make it a little bit easier for the regulator to approve. Like if I go to a regulator and I say I want a 30% price increase, that's kind of hard for them to get their head around.

But if I say, look, I'm going to offer the customer a no increase in price with the benefits, it makes it a little bit easier for them to approve that package than just the price increase. And then with the buyback now, it's a little bit better.

So the short answer is that there's always going to be that push and pull, but we haven't seen any dramatic changes that give us less confidence in our ability to execute against our rightful price increase authority and capability. And we've got to do our part to make that more compelling so that it's more easily approvable.

Meny Grauman - *Scotiabank - Analyst*

And is it also true that you're talking about these organic tools that you have, that that has implications on the inorganic side as well, right? Because at the end of the day, you're still holding on to some of this risk. You're not giving up 100%.

Roy Gori - *Manulife Financial Corp - President, Chief Executive Officer*

When we do transact, the transacting party typically wants us to have skin in the game. And we have no problem with that. We want to be aligned with them. And that's also another reason why they may be more excited to do a transaction if they see that we're not just putting our hands up and saying over to you.

But they have been very excited about these inorganic actions. And quite frankly, many of them are coming to the table and offering their ideas and solutions and are wanting to lean in and actually help us with this. So I think that combination is actually very encouraging.

Meny Grauman - *Scotiabank - Analyst*

I wanted to shift gears, talk about ALDA returns. That's an area where I get a lot of questions from investors. ALDA returns, missed expectations once again in Q2. But I think it's important to highlight the dynamics. There's a shift here under the surface in terms of what's driving that miss versus expectation.

So if you could just talk about that, the shift between real estate and PE and specifically what happened in Q2.

Roy Gori - *Manulife Financial Corp - President, Chief Executive Officer*

Yes. So let me just sort of step back and I would start by saying that alternates is a really valuable asset class. In fact, the last speaker talked a little bit about that and was seeing a lot of interest from multiple segments on the wealth side for this asset class because it provides superior returns with less volatility and it diversifies their portfolio. Makes a lot of sense; that's the same reason we like ALDA.

And we've been investing in ALDA for more than 20 years and that's also very critical. Because to invest in this asset class, you need to understand it really very well. And over the long period of time, it has delivered very good returns with lower volatility than equities. for example.

From time to time, we're going to see underperformance versus our benchmarks and targets and over performance. And what typically happens is when we have a period of underperformance, we have that followed by a period of over performance. In 2020, we delivered under our benchmarks. In '21, we exceeded. In fact, we exceeded by more than we'd underperformed in the prior year.

So we're going to see that. And one might argue that right now, we're seeing that underperformance and hopefully that'll translate in short order into some overperformance.

But the nuance factor that you highlight, Meny, is absolutely right and that is that it specifically relates to higher rates. We've seen some segments within ALDA become a little bit more challenged and specifically as it relates to a higher rate environment. That's been real estate as a sector and obviously the return to office has been another factor driving some softening in that sector.

And by the way, we've significantly reduced our real estate holdings over a number of years. So for that, it has been less of an issue. And then private equity, especially leveraged private equity has been another more challenged segment.

But now with the yield curve moving in the way that it has and the short end of the curve starting to come down, that maybe will translate into some positive momentum in the future. I'm not going to declare when that might be.

The encouraging thing that we would also point to is that in the real estate sector itself, we've seen continuous improvements. So the challenge that we've seen there has gradually gotten smaller and smaller every quarter, quite frankly, since Q2 of last year.

Meny Grauman - *Scotiabank - Analyst*

ALDA currently makes up 14% of invested assets. So how do you see that share evolving over the coming years?

Roy Gori - *Manulife Financial Corp - President, Chief Executive Officer*

Yes. So you're right, it's about 14% of invested assets, but I think it's more important to look at the shareholder portion of that. So a large chunk of that, almost half of that, goes to par or participating policyholders. So it's roughly about 7% from a shareholder lens perspective.

And that's been pretty stable. I would expect that, that will continue to be either stable or decrease in time. And the other advantage of doing long-term care type transactions is that it allows us to maybe divest some of these portfolios or make them available to participating or third-party customers who are looking at these asset classes. So that's another divestiture option that we often have available to ourselves.

So it's certainly not an area that we want to grow. We like the asset class. We think it's a good contributor from a return volatility and from a diversification perspective. But we would certainly like to see it be maybe where it is or slightly smaller.

Meny Grauman - *Scotiabank - Analyst*

I wanted to talk about an interesting measure that you talked about at your recent Investor Day, LROC, lifetime return on capital. Just wanted to get your perspective on why you believe this is a good measure of performance for Manulife. Should we be focusing on it more -- more than ROE in your opinion, just more in general? How should we look at it?

Roy Gori - *Manulife Financial Corp - President, Chief Executive Officer*

We do. And I do think that LROC is a really important measure that isn't getting anywhere near enough attention. I wouldn't say it's more important than ROE. But the way I look at it is, the ROE is your portfolio return on equity, whereas your LROC is the return on the new business that you're writing.

And you can win market share. But if you're doing that at very poor LROCs, that's not going to bode well for the future. No one would notice that for many years, certainly in any CEO's tenure. And I think that's why it deserves a lot more attention and we've been focused very much on that.

So the way I can improve my ROE is I can make my in-force business more profitable, I can do that organically, or I can do that by divesting parts of my business that have got low ROE. And we've talked a little bit about how we've done that and what we've done on that front.

The other way I improve ROE is to make sure that the new business that I'm writing is at high ROEs. And that's what we've done. In fact, we've increased our ROE on new business in Asia, for example, from 16% in 2017 to now it's 25%, actually greater than 25%. And the total portfolio LROCs have increased very dramatically.

So it's not just enough to win market share, you need to win market share with good return on equity. And that's going to be the flow that ultimately is the trend line for where the ROE of the entire franchise will go.

That is not a measure that you should look at in isolation, in my opinion. There's a combination of multiple factors. We stress test our LROCs for various economic scenarios, so that's another thing that we look at. I also look at the capital payback year.

So how quickly do I get my capital paid back? I can have a great LROC, but if it takes me 10 years to get my capital back, that's not necessarily a good return either. And on LROC, we've improved -- sorry, on capital payback year, we've improved our payback year, from about seven years in 2017 to now it's three years.

So it's a very short payback of capital. It's a high return. And that really talks to the quality of our franchise and the quality of our ROE and where it will be going in the future, beyond the 18% number.

Meny Grauman - *Scotiabank - Analyst*

I wanted to ask you about -- well, at the Investor Day, there was a very interesting presentation, a video on your Prenuvo partnership. And I wanted to make it broader, just in terms of the broad ecosystem of partners that you've put together in terms of adding value added sort of health services to your product offering. And really ask it from the perspective of a shareholder.

So these are very interesting. Maybe you could talk a little bit about what Prenuvo is. But the question is: why should investors care? What's the key takeaway from an investor's point of view from these initiatives?

Roy Gori - *Manulife Financial Corp - President, Chief Executive Officer*

Yes. Is anyone familiar with Prenuvo? Show of hands? No one? One person. GRAIL? Anyone familiar with GRAIL? Gallery test, GRAIL?

Okay. So we've got some educating to do. So I firmly believe that the future of our industry is behavioral insurance. And to make a finer point on that, the history of our industry is one where you come and buy a life insurance policy from us, I'm simplifying, and we don't talk to you for 20, 30 years, and actually, we'll probably talk to your next of kin. And we'll make a claim payment to you.

The future of our industry, in my opinion, is going to be where I work with you to get outcomes that are good for you and good for me. What is an outcome that's good for me as a life insurance company? It's you living longer. Why is that better? I think this is kind of obvious. I get to take your premiums and I earn a return over a longer period of time. So I win if you live longer.

Guess what? You win, too, if you live longer, as long as you're living healthier. So we want you to live healthier, too. So we're completely aligned. That's a good thing.

All right, so behavioral insurance is where I work with you. Instead of just selling you this insurance policy, I work with you to help you live longer. So we've now built this program of behavioral insurance, which is connecting with our customers and helping them live longer.

How do they live longer? You take a Prenuvo test. Prenuvo is a full-body MRI. It'll detect cancers early or any other issues that could create morbidity or longevity issues for you. If you get them early, you've got a 10 times chance of fixing them.

GRAIL, it's a blood draw test that can detect 50 cancers. If you're over 50 in this room and you've not done a GRAIL test, please go and do it. We've got customers that have done the test, had no idea that they were unhealthy or susceptible to cancer and have been diagnosed with early stage cancer.

You get cancer early stage detection, your chance of survivorship increases by 10 times. And we've got customers, and you saw the video of Kelly King, who have learned that they've got cancer and are now able to deal with this and live a completely normal life.

We know that if you sleep better, you're going to live longer and healthier. So we've got partnerships with Oura, Fitbit, Apple Watch to track and detect. We know that if you do 10,000 steps a day, you're going to do that.

So we've got this connectivity and we're going to reward you for doing the things that help you live longer. So that may include giving you vouchers and Apple Watches for free or giving you discounts on your premiums.

Why can I do that? Because you're a lower risk to me and you're going to make me a lot more money. This is the future of our industry. We're the leader in this space. We've got 2 million customers already who are behavioral insurance and are doing this with us. And quite frankly, this should be 70% of our business, just so that, quite frankly, people are able to enjoy the benefits of detecting things early.

Another great correlating factor for longevity is people that do an annual medical. If you do an annual medical, you're likely to live longer than people that don't. So we're going to encourage you to do annual medicals. And all these things, by the way, we've got now partner companies that we work with. We get big discounts from them because we're giving them volumes that we can offer to customers so that they can actually do those things.

Meny Grauman - *Scotiabank - Analyst*

You're a good insurance salesman, Roy.

Roy Gori - *Manulife Financial Corp - President, Chief Executive Officer*

There you go.

Meny Grauman - *Scotiabank - Analyst*

I have a lot more questions, but we're out of time.

Roy Gori - *Manulife Financial Corp - President, Chief Executive Officer*

We'll have application forms at the back if anyone's interested.

Meny Grauman - *Scotiabank - Analyst*

You get commission.

Roy Gori - *Manulife Financial Corp - President, Chief Executive Officer*

Thank you all. Really appreciate it. Thank you.