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# Manulife Financial Corp. (MFC)

Q1 2020 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Please stand by. Your meeting is ready to begin. Please be advised that this conference call is being recorded. Good morning and welcome to the Manulife Financial First Quarter 2020 Financial Results Conference Call. Your host for today will be Ms. Adrienne O'Neill. Please go ahead, Ms. O'Neill.

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### Adrienne O'Neill

*Global Head of Investor Relations, Manulife Financial Corp.*

Thank you and good morning. Welcome to Manulife's earnings conference call to discuss our first quarter 2020 results. For the first time in our company's history, we are conducting this call virtually. Our earnings release, financial statements, and related MD&A, embedded value report, statistical information package, and webcast slides for today's call are available on the Investor Relations section of our website at manulife.com.

We will begin today's presentation with an overview of our first quarter and an update on our strategic priorities by Roy Gori, our President and Chief Executive Officer. Following Roy's remarks, Phil Witherington, our Chief Financial Officer, will discuss the company's financial and operating results. We will end today's presentation with Scott Hartz, our Chief Investment Officer, who will discuss the company's general account invested asset portfolio and the effectiveness of our hedging programs.

Following the prepared remarks which were recorded earlier this week to ensure optimal sound quality, we will move to the live question-and-answer portion of the call. We ask each participant to adhere to a limit of two questions. If you have additional questions, please re-queue and we will do our best to respond to all questions.

Before we start, please refer to slide 2 for a caution on forward-looking statements and slide 44 for a note on the use of non-GAAP financial measures in this presentation. Note that certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from what is stated. This slide also indicates where to find more information on these topics and the factors that could cause actual results to differ materially from those stated.

With that, I'd like to turn the call over to Roy Gori, our President and Chief Executive Officer. Roy?

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### Roy Gori

*President & Chief Executive Officer, Manulife Financial Corp.*

Thank you, Adrienne. Good morning, everyone and thank you for joining us today. Turning to slide 5. I'd like to start by acknowledging the significance of the situation that we find ourselves in. As a global community, we offer our deepest sympathies to those who've been directly impacted by COVID-19 and our immense gratitude to frontline healthcare and other essential workers for their crucial contributions.

I believe that it's at times like these that we have a responsibility to step up and protect the health and welfare of our employees, customers and communities and that's exactly what we're doing at Manulife. The health and safety of our employees is a top priority, as is our focus and commitment to supporting our customers around the world. We're very proud that enacting our business continuity plans enabled 95% of our global employees to work from home during the pandemic.

As of today, approximately 90% of our employees are working from home, as many of our colleagues have returned to the office in China and Hong Kong. We have ensured salary continuance and offered flexible arrangements to employees who encountered COVID-19 related challenges with remote work. This is a challenging time for many people, and we're focused on ensuring that our customers are receiving the highest level of service and support possible. We remain open in every market that we have a presence and continue to offer all products and services.

In order to make things easier and safer for customers, as well as for our employees, advisors and agents, we responded to the crisis by leveraging technology to rapidly deploy various client solutions. In some instances, these were new tools that we already had in the pipeline. And in other cases, we moved fast to deploy existing technology to new markets. I will share some examples later in my presentation. In addition, we've dedicated over CAD 20 million to financial relief for customers who are experiencing hardships. These include extended premium grace periods on a number of insurance products across our segments, mortgage payments deferrals through Manulife Bank and waiving the fee for 401(k) hardship withdrawals in our Global Wealth and Asset Management business. And we are donating funds to causes supporting healthcare workers and hospitals providing COVID-19 care, and to aid programs that provide food security to vulnerable populations in our communities.

Before we move on, I'd like to acknowledge how incredibly proud I am of the Manulife team. There are countless examples of how our team members have risen to the challenge and gone above and beyond to be there for our customers when they needed us most. Many of them are on the call today and thank you to each of you.

Turning to slide 6, we're very pleased with how smoothly our employees across all levels and functions were able to transition to working from home. This was possible because we've made key strategic investments in our network, equipment and tools over the last few years, because we already had a mature work-from-home culture. For example, 99% of our North American employees have been working remotely since mid-March, resulting in VPN usage increasing to 2.5 times regular levels, and yet, during peak periods, our average network utilization is less than 55% of our total capacity. We are keeping team members up to date by hosting enterprise-wide townhalls, posting regular video updates from senior executives and launching a speaker series to tackle various topics of interest, including mental health. Finally, our online learning tools are well developed and as a result, participation in training programs has continued at pre-crisis levels. In addition, we leveraged this expertise to pivot to online learning for our agents and advisors around the globe.

Turning to slide 7. As I said earlier, we responded to the crisis by rapidly deploying new and existing technology. This included launching chatbot technology to manage call center volumes, DocuSign to enable contact-less transactions and reinforcing our existing digital tools such as e-applications, for life insurance in Canada and the US, and we've enabled non-face-to-face processes for sales in all markets in Asia. Prior to the crisis, we've been using this technology in China and thanks to that experience, our capabilities were well developed.

When the crisis hit and isolation measures were put in place around the world, we accelerated our plans to rollout this technology more broadly in the region. This enables our distribution partners and agents to engage with our customers according to their preferences. It also positions us well to capitalize on any changes in customer sentiment post COVID-19 and supports productivity and retention of our agency force. The ultimate test as to whether these measures are working well is the NPS score. And we're happy to report that we've actually experienced a slight improvement in our transactional NPS score since the onset of COVID-19 which we see as a big win, given our elevated core volumes and the pivot to working remotely.

Turning to slide 8. Manulife entered the quarter in a position of strength, thanks to the work we've done over the past decade, de-risk our business and reduce our company sensitivity to market movements. In the first quarter of

2020, our LICAT ratio improved to 155% and our leverage ratio of 23% was considerably lower than it was two years ago and it's now below our medium-term target. This combination results in more financial flexibility than we've had in recent years. We have a high-quality invested asset portfolio, with 98% of fixed income assets rated as investment grade. Scott will delve into our general account portfolio and the effectiveness of our hedging programs in his presentation.

We've diligently worked towards becoming a digital customer leader, and as you heard before, this is serving us well in the current environment. Finally, expense efficiency has been one of our highest priorities and we've made meaningful progress towards our 2022 target, with the delivery of total expense savings of CAD 700 million. And our strong culture of expense discipline is serving us well in this environment. As a result of these strengths, I'm confident that Manulife is well positioned to navigate this crisis and the associated economic downturn.

Turning to slide 9. Yesterday, we announced our first quarter financial results. As I noted, the coronavirus continues to disrupt economies and capital markets worldwide. Our operating conditions during the first quarter were understandably affected. Despite these challenging conditions, we delivered solid results, demonstrating the diversity and resilience of our businesses. We delivered net income attributed to shareholders of CAD 1.3 billion and core earnings of CAD 1 billion. The relatively small variance between these two figures amidst challenging macroeconomic conditions is a testament to the performance of our equity markets and interest rate hedging programs.

Core ROE was resilient at 8.2% and we achieved net inflows of CAD 3.2 billion in Global WAM, with all business lines contributing positive net flows. Book value per share rose to CAD 26.53 and we also reported embedded value of CAD 58.1 billion or CAD 29.79 per share as of December 31, 2019. It's worth noting that embedded value only reflects a portion of the value of our businesses, as it attributes no value to future new business and only tangible book value to our growing Wealth and Asset Management businesses as well as our P&C reinsurance operations and Manulife Bank.

Turning to slide 10. Despite the challenging environment, I believe that we've accomplished a great deal in the first quarter. We successfully completed our 2022 portfolio optimization target of CAD 5 billion of capital in the fourth quarter of 2019, three years ahead of schedule. While we've achieved our target, we generated an additional CAD 265 million of capital benefit in the first quarter of 2020 through a variety of initiatives. The initiatives announced to-date have resulted in cumulative capital benefit of CAD 5.3 billion. We remain focused on aggressively managing costs to drive expense efficiency, which resulted in modest core expense growth of 2% in the first quarter of 2020, which is well below our historic average.

Our third priority is to accelerate growth in our highest potential businesses, and we aspire to have these businesses generate two-thirds of total company core earnings by 2022. In Asia, we extended our exclusive strategic bancassurance arrangement with Bank Danamon Indonesia to 2036. And in Global WAM, we launched a large case US retirement plan worth CAD 2.6 billion with over a 100,000 participants.

Our fourth priority is our customers and how we're using technology to attract, engage and retain customers by delivering an outstanding experience. As I previously mentioned, during the first quarter of 2020, we've leveraged our digital platforms to better serve our customers during the COVID-19 pandemic.

Our final priority is high-performing team. Our target is to achieve top quartile employee engagement compared to global financial services and insurance peers by 2022. In February, I was delighted to announce the appointment of Karen Leggett as Chief Marketing Officer and in March, we were named one of Canada's best diversity employers for the third year in a row by Mediacorp.

Moving to slide 11. In conclusion, we have a fantastic diverse franchise and a winning team. We are in a position of strength and will remain focused on maintaining financial flexibility and operational resiliency. The long-term fundamentals and demographics underpinning our strategy remain unchanged. Times such as these reinforce the importance of insurance, wealth management and retirement products which we believe will drive high demand for our products in the future and even stronger customer preferences to interact with companies who have digital capabilities and streamline processes.

We are in an unprecedented macroeconomic environment and there are many possible scenarios on the length and nature of the impending recovery. The path of the recovery remains to be seen. But I'm confident that we are in a position of strength. We'll remain committed to our dividend along with our medium-term financial targets.

Thank you. And I'll hand over to Phil Witherington who will review the highlights of our financial results. Phil?

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## Philip Witherington

*Chief Financial Officer, Manulife Financial Corp.*

Thank you, Roy, and good morning, everyone. Turning to slide 13 and our financial performance for the first quarter of 2020. As Roy mentioned, considering the challenging conditions, we delivered solid results. I will highlight the key drivers of our first quarter performance with reference to the next few slides.

Turning to slide 14. Core earnings in the first quarter of 2020 were CAD 1 billion, down 34% from the prior-year quarter on a constant exchange rate basis. The decrease in core earnings was driven by the unfavorable impact of markets on seed money investments, the absence of core investment gains, lower new business volumes in Japan compared with a very strong quarter for Japan COLI in the prior year and unfavorable policyholder experience in North America, including elevated travel insurance claims related to COVID-19. These items were partially offset by the impact of in-force growth in Asia and higher fee income from higher average asset levels in our Global Wealth and Asset Management businesses. We are pleased with the resilient performance of our businesses during these challenging times and believe that Manulife is well positioned to continue to succeed through this period of uncertainty and the subsequent recovery.

We delivered net income attributed to shareholders of CAD 1.3 billion in the first quarter. Of note, we recognized losses of CAD 608 million from investment-related experience, driven by lower than expected returns on ALDA, primarily due to the impact of sharp declines in oil prices. The favorable impact of fixed income reinvestment activities, as we took advantage of wider corporate spreads, served as a partial offset. The gain of CAD 2.1 billion from the direct impact of interest rates was primarily driven by wider corporate spreads and realized gains on the sale of AFS bonds, partially offset by the impact of lower risk-free rates. The charge of CAD 1.3 billion from the direct impact of equity markets reflects significant declines in global equities during a volatile quarter. We also reported a CAD 72 million gain related to a tax benefit from the US CARES Act as a result of carrying back net operating losses to prior years.

Slide 15 shows our source of earnings analysis. Expected profit on in-force increased a modest 3% on a constant exchange rate basis, driven by growth in Asia. New business gains were lower than the prior-year quarter due to lower sales volumes in Japan. As a reminder, the first quarter of 2019 was an exceptional quarter for Japan COLI sales. Overall policyholder experience in the first quarter was unfavorable primarily due to higher travel claims in Canada related to COVID-19 travel interruption and cancellation and higher claims in our US life insurance business. LTC policyholder experience was neutral in the first quarter of 2020.



Turning to slide 16. We delivered core earnings growth of 6% in our Global Wealth and Asset Management business, driven by higher average asset levels. Core earnings in Asia decreased by 7%, driven by lower new business volumes in Japan. You may recall that in the first quarter of 2019, we experienced a significant increase in COLI sales in Japan, as customers anticipated the introduction of unfavorable tax changes. In contrast, our businesses in Hong Kong and Asia Other, both delivered double-digit core earnings growth which served as a partial offset. In the US, core earnings decreased by 13%, driven by unfavorable life insurance policyholder experience. Core earnings in our Canadian business decreased by 16%, primarily due to unfavorable travel claims experience related to COVID-19. We delivered core ROE of 8.2% in the first quarter of 2020, against a backdrop of challenging market conditions.

Slide 17 shows our new business value generation and APE sales. In the first quarter of 2020, we delivered new business value of CAD 469 million, down 11% from the prior-year quarter. In Asia, new business value decreased by 14% compared with the first quarter of 2019, as growth in Hong Kong and Asia Other was more than offset by a decline in Japan. In Canada, new business value increased by 24% from the prior-year quarter, driven by higher sales across all business lines. And in the US, new business value decreased 23%, primarily due to the impact of lower sales volumes and less favorable business mix.

In the first quarter of 2020, we delivered APE sales of CAD 1.6 billion, down 9% from the prior-year quarter. The decline in APE sales growth is driven by the impact of tax changes on COLI product sales in Japan, which offset growth in Hong Kong and Asia Other. In Canada, APE growth of 44% compared with the first quarter of 2019 was driven by large case group insurance sales and continued growth of our individual insurance business. In the US, APE sales were largely in line with the prior-year quarter as lower domestic universal life sales following regulatory changes in the fourth quarter of 2019 more than offset higher-term and international sales.

Turning to slide 18. Our Global Wealth and Asset Management business generated net inflows of CAD 3.2 billion in the first quarter compared with net outflows of CAD 1.3 billion in the prior-year quarter, with positive contributions from all business lines despite higher retail redemptions in the US and Canada amid equity market declines in March. In the US, net outflows of CAD 0.2 billion in the first quarter of 2020 improved compared to CAD 4 billion of net outflows in the first quarter of 2019. This improvement was driven by higher retail gross flows primarily from strong institutional model allocations and intermediary sales, as well as the sale of a large case retirement plan.

In Canada, net inflows of CAD 2.8 billion improved compared to net inflows of CAD 2.1 billion in the first quarter of 2019. The improvement was driven by higher gross flows into institutional asset management equity mandates. In Asia, net inflows of CAD 0.6 billion were in line with the prior-year quarter as higher net inflows in retirement were offset by higher mainly institutional redemptions. Our core EBITDA margin remained solid at 27.3%, in line with the prior quarter and up 30 basis points from the prior-year quarter. Our average AUM remained stable compared with the prior-year quarter as the unfavorable impact of markets was offset by net inflows.

Turning to slide 19. We have entered this downturn with a strong balance sheet and regulatory capital position. Our financial position has strengthened further in the first quarter of 2020. We have CAD 31 billion of capital above the supervisory target and our LICAT ratio improved to 155%. The 15 percentage point increase compared to the prior quarter was driven by the positive impact of widening corporate spreads and lower risk-free rates, partially offset by the impact of lower public equity and ALDA valuations.

Our leverage ratio declined to 23%, 2 percentage points below our medium-term target of 25%. The decrease in the leverage ratio was driven by the impact of lower interest rates which increased the value of AFS debt securities, the CAD 500 million subordinated debt redemption that's occurred in January 2020, the favorable

impact of a weaker Canadian dollar and growth in retained earnings. These factors were partially offset by share buybacks.

Given the high levels of market volatility and overall uncertainty, we believe it is prudent to have strong levels of capital and liquidity and to adopt a longer time horizon than in normal conditions to address future financing needs. Our relatively low leverage ratio allows for this cautious approach to pre-financing.

Turning to slide 20. We continue to maintain strong liquidity at both consolidated and legal-entity levels and we are confident in our ability to meet all our payments and obligations. Approximately one quarter of the assets in our general account portfolio are liquid government bonds and cash.

I would also like to reiterate our capital allocation priorities which remain unchanged. Organic investments in our highest priority businesses remain our top priority, followed by sustainable dividend increases, opportunistic share buybacks and then M&A. It's worth noting that it is not unreasonable to expect that subsidiary remittances would be lower in this interest rate environment. However, we do not expect this to be a constraint to our capital priorities. As an example of our appetite to deploy capital, within the last few weeks, we have extended our exclusive bancassurance agreement with Bank Danamon Indonesia until 2036.

Slide 21 outlines our medium-term financial operating targets and our recent performance. Core EPS growth, core ROE and expense efficiency were below our targets, primarily driven by the challenging macroeconomic environment in the first quarter of 2020. And like most other companies, we expect the second quarter of 2020 to be a challenging one given the isolation measures that have been in place around the world. In light of the current environment, we would not expect to achieve our medium-term core EPS growth target of 10% to 12% this year. We are in a strong position and we remain committed to our dividend along with our medium-term financial targets.

I would now like to turn the call over to Scott Hartz who will discuss our general account investment portfolio.  
Scott?

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## Scott Hartz

*Chief Investment Officer, Manulife Financial Corp.*

Thank you, Phil. And good morning, everyone. I'm pleased to provide you with a more in-depth update on the direct impact of equity markets and interest rates on our results and on our investment-related experience. I will also provide some additional color on the strength of our investment portfolio.

Please turn to slide 23. As you might recall, our dynamic program hedges variable annuity risk on a best estimate economic basis and our macro program hedges the remaining equity market risks not covered by the dynamic program.

Our VA hedging program was severely tested this quarter given the significant volatility we saw in both interest rates and equities. The program performed quite well offsetting 93% of the increase in the liability. The slippage was roughly half due to the trading needed to rebalance the hedge and half due to the underlying funds underperforming our hedging benchmarks. This fund under performance typically reverses when markets normalize.

Our interest rate hedging program uses a combination of long bonds in the cash market, forward starting interest rate swaps, treasury forwards and treasury futures. We do also use interest rate floors to hedge minimum interest



rate guarantees in our liabilities. Our sensitivities to interest rates and equity markets have been significantly reduced since the 2008 global financial crisis.

Starting from 2013, when we achieved our hedging targets, you can see the impact from interest rates and equity markets have largely offset each other and over time have had an immaterial impact on net income. During the first quarter of 2020, we saw the US 30-year risk-free rate drop over 100 basis points, the S&P 500 dropped 20%, the VIX increased to 80%, and corporate spreads widened by roughly 150 basis points.

In these volatile market conditions, we recognized a CAD 792 million gain as losses related to the direct impact of equity markets and falling risk-free rates were more than offset by widening corporate spreads. So, while we are certainly in a period of extreme market stress, our hedging programs have been effective at mitigating net income variability and we remain within our equity and interest rate risk limit.

Next, slide 24 shows a recent history of our investment-related experience. As a reminder, investment-related experience is derived from three sources; one, fixed income reinvestment which compares our purchase and sale activity to our reserve assumptions; two, credit experience which compares the impact of downgrades and defaults to that assumed in our reserves; and three, ALDA and other which compares how the total return on our ALDA investments performed relative to our reserve assumptions. As a reminder, ALDA, short for alternative long-duration assets, is our term for private non-fixed income assets comprised largely of real asset.

Over the past three years, investment-related experience has been significantly in excess of the CAD 400 million we can include in our core earnings. Gains from fixed income reinvestment have been strong and steady over this period and were a significant contributor this quarter as we took advantage of the very wide-spread environment to redeploy government bonds into high-quality spread products. Credit results have also been a reliable contributor up to the current quarter. In recessionary periods, we do expect credit results to be worse than our through-the-cycle reserve assumption.

ALDA was a significant drag this quarter, particularly due to the markdown of our oil and gas portfolio, given the significant decline in energy prices. We do expect variability in our ALDA portfolio quarter-to-quarter, due to its mark-to-market nature. But we also expect significant recoveries when market conditions improve. Through this cycle, our ALDA portfolio has largely performed as expected.

Now, turning to slide 25. Our invested assets are diverse and of high quality. Over 98% of our fixed income assets are investment grade. We hold a diverse mix with a focus on defensive asset classes. I will expand on this later in my presentation. We've relied on our ALDA portfolio to generate enhanced yield. This has removed the need for us to chase yield though riskier fixed income assets. For example, our exposure to below investment grade is limited to only 2% of our portfolio and we do not have any exposure to collateralized loan obligations.

Finally, a key component of our risk management framework is our credit team. As a company, we take credit risk very seriously and manage it within a highly experienced team which has been through many credit cycles. Our approach to credit risk has served us well in downturns including the 2008 global financial crisis.

Turning to slide 26, you'll see it illustrates how strong our long-term credit performance has been. Our portfolio losses have consistently stayed below benchmark levels since the financial crisis. Based on our portfolio as at March 31, 2020, the long-term expected level, based on Moody's default studies applied to our aggregate credit exposure, is approximately CAD 108 million pre-tax per quarter. Further, relative to our internal credit loss assumptions, we have generated positive credit experience each calendar year since 2010.

The chart on this slide represents actual impairments, while the accounting credit results also include increased credit reserves for downgrades. These reserves will ultimately be released into income, so this chart reflects the ultimate impact of credit on our income. While we have certainly been pleased with this performance, we would remind everyone that credit is inherently cyclical. We will expect some adverse impacts from the current market environment, but that is the nature of the cycle and therefore credit losses are likely to be elevated throughout the recession. At the same time, we are taking advantage of the market conditions and investing in very high-quality issuers as spreads not seen since the GFC. This should provide an offset to our temporarily unfavorable credit experience.

Now, turning to slide 27, we show our investment-grade fixed income rating distribution relative to US industry benchmark. As I mentioned earlier, 98% of our fixed income portfolios investment grade is 75% rated A and above. Relative to the industry benchmark, as represented by Barclays US Corporate Index, our portfolio has a significantly higher weight in bonds rated A and above. While the BBB component of the corporate bond universe has increased in recent years, ours has been stable and is well below the market weight.

In addition, within our BBB portfolio, only 17% is rated BBB-, which is the weakest category. Our below-investment grade holdings, which I previously mentioned, are only 2% of our fixed income portfolio, are well diversified by industry sectors and proportionately lower than our holdings at the time of the global financial crisis.

Turning to page 28, we show our fixed income portfolio by sector. Our portfolio is quite diverse and built to endure significant economic stress. The portfolio is weighted most heavily in government and utility sectors, both of which are more defensive in nature. Our energy holdings which constitute 8% of our portfolio are currently under higher pressure given the significant demand destruction we are witnessing, and I will cover the details of that portfolio in a few slides. I'd also point out that we have a modest 3% weight in the more exposed consumer cyclical sector.

On to slide 29 which shows the composition of our ALDA portfolio. We continue to believe ALDA represents an integral and complementary component of our investment mix backing long-term liabilities. In combination with fixed income assets, which back the first 20 to 30 years of liability cash flows, we believe alternative assets have the potential to increase expected returns while managing the level of risk. We have strong in-house capabilities and experienced investment professionals in each of our alternative asset classes.

As you may recall, we recently sold over CAD 5 billion of ALDA supporting our North American legacy businesses which allowed us to release over CAD 2.2 billion of capital. This helped us reduce our exposure in guaranteed segments. Currently, more than one-third of our ALDA supports participating in pass-through businesses. We assess our actuarial assumptions every year but have no reason to believe our ALDA return assumptions are unreasonable over the long-term holding period.

Slide 30 summarizes our fixed income energy exposure, which is topical considering current depressed oil prices. Here, you can see the subsector diversification. More than one-third of our portfolio is in midstream, such as pipelines which largely transport natural gas and liquids and are less susceptible to changes in commodity prices. This portfolio is high quality with 94% rated investment grade. Given our limited exposure to high-yield issuers, we do not expect widespread defaults, although given the significant pressure on oil prices, we would expect downgrades.

Slide 31 summarizes our energy exposure through ALDA. As noted earlier, our ALDA oil and gas portfolio generated – experienced loss this quarter. Our private equity oil and gas holdings are in the US and are valued based on the forward strip. When prices fall, we might typically see a delay in the loss recognition as we are

dependent on valuations from our fund managers. In this case, given the drastic price swing, we did not wait for our fund valuations and estimated some of the loss that would normally have been recognized in Q2.

Our conventional Canadian oil and gas properties are managed by our subsidiary, NAL Resources. These assets are valued by an independent appraiser whose forward price deck typically moves less than the forward market curve, but this quarter, it moved more than the market, which exacerbated the loss. While the loss was material this quarter, it was largely a mark-to-market fair value adjustment. The ultimate loss will depend on realized prices well into the future. And while in the short-term, prices will likely stay depressed, we would expect a significant recovery when demand is restored as shutdown production will be difficult to restart. Both our Canadian and US holdings are largely unlevered, so they should be able to manage the short-term stress the industry is experiencing.

Moving on to slide 32. In summary, I want to reiterate that our invested assets portfolio is high-quality and diverse. It is designed to endure significant economic stress. We have a very strong history of favorable credit experience which is a testament to our credit teams and underwriting processes.

While oil and gas prices are stressed, we continue to believe these are high-quality assets and that our holdings will rebound in the medium-term when markets improve. Finally, risk premiums have increased significantly, and we have taken advantage of these as we continue to be cash flow positive in this environment and are putting that to work in attractive investments.

This concludes our prepared remarks. Operator, we will now open the call to questions.

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. We will now take questions from the telephone lines. [Operator Instructions] Thank you. Your first question is from Tom MacKinnon from BMO Capital. Please go ahead. Your line is open.

**Tom MacKinnon**

*Analyst, BMO Capital Markets*

Q

Yeah. Thanks very much. Can you hear me?

**Roy Gori**

*President & Chief Executive Officer, Manulife Financial Corp.*

A

We can, Tom.

**Tom MacKinnon**

*Analyst, BMO Capital Markets*

Q

Yeah. I got cut off a little bit on the call, but I'm not sure if you talked at all about any kind of outlook in terms of sales in April. If you can take us through that by division, that would be helpful. And then, I have one follow up.

**Roy Gori**

*President & Chief Executive Officer, Manulife Financial Corp.*

A

Yeah. Let me tackle that, Tom. Firstly, good morning and great to see you, well, at least remotely. Obviously, sales is going to be one area that impacts our business and we're expecting to see a lot of volatility as quite frankly different geographies adjust to the impacts of isolation and social distancing.

I'm quite pleased actually with our first quarter results, our new business value is still highlighted in the prepared remarks with CAD 469 million. And actually when you adjust the Japan or when you look at it on an ex-Japan basis, we're up 12%. April, first month of the quarter, we're basically looking at across all geographies a net 10% off the same quarter of last year. But, again, this is obviously going to be an area of significant movement, so, I'd hate to draw a trend line from that to conclude on how the quarter is going to end, or how we're going to look at the rest of the year. So it's something we're watching very closely. We're pleased with the resiliency of our franchise and quite frankly how our organization has adapted, given the challenging circumstances to use new technologies to interact with customers and to continue our sales momentum as we saw in Q1. April results are encouraging, but still much more work for us to do on that front.

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**Tom MacKinnon**

*Analyst, BMO Capital Markets*

Q

Is there any way you can elaborate at all as to what you're seeing in US or Canada or in Asia with respect to that overall net 10%.

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**Roy Gori**

*President & Chief Executive Officer, Manulife Financial Corp.*

A

Yeah. So, the movement is obviously varies by geography and then even within Asia it varies significantly by marketplace as we've seen different markets come back at different paces. In China, for example, we're now seeing in our own operation 80% of our people back in the office environment. But let me pause and ask Mike, Marianne and Anil to just provide some extra color on each of those geographies. Mike, do you want to start off with Canada, then we'll go to US and Anil.

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**Michael J. Doughty**

*President & Chief Executive Officer, Manulife Canada*

A

Sure. So, thanks, Tom. This is Mike, and then, in Canada, as Roy said, in April, we didn't see any material change in the – we came out of Q1 with very strong momentum. I would say that we're looking at some places very closely. We've obviously done a lot of work over a number of years to digitize a lot of our sales process. So, we're seeing a lot more take-up of some of the tools that we have. We've also been expanding that over the last six weeks. So, electronic applications are up. Electronic contract delivery and receipt are up. Electronic signatures are all up. So, none of that is really getting in the way now of us being able to continue to process business. The place that we are seeing a significant slowdown is the social distancing and the effect that it's had on paramedicals being able to visit homes to collect evidence. So, at the larger end of the market, we're seeing much more of a slowdown than at the smaller end of the market.

I'd also just lastly comment on our group benefits business. We're certainly continuing to see sales. We've switched to virtual finalist presentations, et cetera, but we are seeing a slowdown in sort of small business quotes as those business owners have been really primarily focused on just making sure they manage their business. So, I'll stop there and maybe pass it to Marianne.

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**Marianne Harrison**

*General Manager, U.S., Manulife Financial Corp.*

A

So, hi Tom. It's Marianne. In the US, very similar story to what Mike just said, in terms of the capabilities that we have been building over the last couple of years, getting e-applications, e-signatures, e-delivery, it's been relatively smooth, because we had those tools in place. Even though there historically haven't been a lot of take up on it, there certainly is now.

Our April month was actually a pretty good month and we are seeing business holding, but we are seeing a change in mix as you might expect, less of the permanent, more of the term, just because of what Mike was talking about in terms of being able to do the parameds exams, we can't do that. And so, we have changed some of our underwriting standards as well, things like 80 and above, we're not currently writing and looking at some of the substandard pretty closely, just because of the fact that we can't get the parameds done. So, that's basically where we are in the US. Over to you, Anil.

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**Anil Wadhvani**

*President & Chief Executive Officer, Manulife Asia*

**A**

Thanks, Marianne. Thanks for the question, Tom. So, in Asia, it's different depending upon each of the markets and we've been witnessing the outbreak since the third week of January and it firstly emerged in China, quickly followed by Hong Kong and then, Hong Kong and China started to get better. The outbreak then spread to Japan and South Asian markets, which are now experiencing pretty severe levels of lockdown and isolation measures.

What we're witnessing in China is almost 90% of our folks are back to work. And in Hong Kong, it's now north of 70%. So that's kind of positive. And I think it's only going to get better as the quarter progresses. However, the customer activity is still not at normal levels and that's on account of the economic uncertainty that's upon us.

What I think is, again in line with what Mike and Marianne said, the investments that we made in our business are really paying off. So, for example, in Asia, we now have non-face-to-face enabled in all our markets and we're looking to constantly improve our processes and thereby really enabling our distributor partners to engage with our customers.

We also believe there are going to be extended period of lockdowns. And again, we've introduced that in our agency force and now extending progressively to our bank partners. So, I think it's kind of a mixed bag for us and say China and Hong Kong are getting better. In fact, in April, we saw China and markets like Vietnam getting very close to levels of what we had experienced in April of last year. But again, in other markets, on account of the lockdowns, they are much more severely impacted. And we believe that while the measures were eased, the lockdown measures will be with us in some form or shape as we go through the quarter.

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**Roy Gori**

*President & Chief Executive Officer, Manulife Financial Corp.*

**A**

Paul, it might be valuable for you also to give a bit of a flavor for our progress in GWAM or what you're seeing from a GWAM perspective as well?

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**Paul Lorentz**

*President & CEO, Global Wealth and Asset Management, Manulife Financial Corp.*

**A**

Yeah. Thanks, Roy and Tom. It's Paul here. I'll just add to some of the sediments (sic) [sentiments] offered by Anil, Mike and Marianne. We're seeing similar trends as it relate to non-face-to-face sales opportunities and particularly the impact on the small business owner, on our retirement business. So, that is something we're expected. And I guess the other one that's somewhat unique to us and in Asia amid some of the market volatility, we have seen a shift into more cash and bank deposits in Asia which does have an impact.

But having said that, we are confident in our ability to generate net flows or positive net flows over the long term. And I think some encouraging signs from my perspective are that in Asia, we were able to deliver positive net flows this quarter despite COVID-19 impacting Asia earlier than some of the other regions. We also entered the year with a stronger pipeline on the institutional side than we started last year, so that set us up well for this year.

And then, thirdly, we've been very proactive with customers and advisors in terms of engaging with them during this period of time, whether it's support, thought leadership, et cetera, and it's been very appreciated by them and I think it sets us up well as we navigate this crisis and come out of it to just really be true partners for both our customers and our advisors moving forward.

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**Tom MacKinnon***Analyst, BMO Capital Markets*

Q

Yeah. Thanks. And just as a follow-up, is there any – what are you seeing in terms of your property cap retrocession covers? Are you seeing any – as you setup any provisions? Is there any claims activity? How should we be thinking about that business?

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**Philip Witherington***Chief Financial Officer, Manulife Financial Corp.*

A

So Tom, this is Phil. I think that one is best handled by me. We're not seeing any interruption as a consequence of COVID-19, our P&C Re business, reinsures our reinsurance clients who offer property damage protection arising from natural perils, such as earthquakes and hurricanes. And while there may be business interruption, claims associated with property damage claims arising from those natural perils, in the case of a pandemic, that's not something that would fall within the scope of our coverage.

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**Tom MacKinnon***Analyst, BMO Capital Markets*

Q

Okay. Thank you.

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**Operator:** Thank you. The next question from Steve Theriault from Eight Capital. Please go ahead. Your line is now open.

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**Steve Theriault***Analyst, Eight Capital*

Q

Thanks very much. Maybe I'll go with the question going to the ALDA oil and gas exposures. So, Scott, I think what you're saying is that we should think of the hit this quarter as more of a mark-to-market than what we've seen in the past, trying to do more of a – trying to more fully reserve for the impairment that we've seen. So, is that right? And is it correct that it's sort of in the CAD 700 million to CAD 800 million range this quarter and what would it take to see more losses from here? I guess how comfortable are you in the initial assessment?

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**Scott Hartz***Chief Investment Officer, Manulife Financial Corp.*

A

Yeah, Steve, it's Scott. Thanks for the question. And you've painted about right. Our losses were about CAD 750 million this quarter and that was a mark-to-market, some of that loss will undoubtedly stick as some of our properties are currently drilling and producing oil and selling oil and they're selling it at lower prices than we would have expected. But it is a mark-to-market based on 10-plus years of expected cash flow and marking it all sort of



at the current market levels. And we did, as you pointed out and I pointed out in my prepared remarks, try to fairly fully take that through on our NAL subsidiary, we have an outside appraiser and that is the way it works. It's taken mark-to-market in the current quarter.

For our bigger US private equity portfolio, we are reliant on the private equity firms who manage a lot of those assets to give us marks and typically we don't get those in time and things tend to be lagged a quarter and sometimes even two. But given the precipitous drop in prices, we tried to estimate best – based on prior experience. The last time we had a major drop in prices, we tried to estimate where those marks would come out and put through an estimate. It doesn't mean there won't be future losses as we get those marks in and I would say the last time we did see losses continue to dribble in a bit after the first big initial markdown, but we have accelerated those and we feel like we've gotten a lot of it behind us.

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**Steve Theriault***Analyst, Eight Capital*

Q

I guess from here, on the way back or if things deteriorate further, do you stick with that mark-to-market approach or was it sort of a mark-to-market approach on a one-time basis and then it's more of a bit more of a smoothed progression from here?

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**Scott Hartz***Chief Investment Officer, Manulife Financial Corp.*

A

Well, it really is mark-to-market. It's just a question of when do we get the mark? And so, again, for NAL, we get the mark at that quarter end, a real-time mark. It's just we're delayed on the private equity portfolio. And that – so for small movements, we're not going to try to estimate what that is, but when we see a big movement like that, we do try to estimate it.

And I would again end with some of this undoubtedly will be real losses given the cash flows in the short term, but we would expect prices to recover. We're going to see shut-ins to production which we really did not see the last time we had prices go down and it becomes hard to restart. We'll need to see much higher prices to try to restart and there's – and in a lot of cases, restarts are difficult to do and don't produce the same level. So, if prices get up, prices need to get north of \$50 to encourage a significant shale drilling or taking off the shut-ins. And at those kind of price levels, we would expect a significant recovery in our portfolio.

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**Steve Theriault***Analyst, Eight Capital*

Q

Okay. And then, maybe I'll ask a related question on the fixed income energy exposure. Scott, can you give a bit more detail on, say, the E&P and the oilfield services exposure? What kind of risk do you think there is there, and can you give us a little more color?

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**Scott Hartz***Chief Investment Officer, Manulife Financial Corp.*

A

Sure. Happy to do that. And page 30 of the slide deck does show that breakdown. And you have highlighted, I would say, the two sectors of most concern for us. We also have midstream which is much less of a concern and you can see that the quality distribution here is largely investment grade, a fair amount in BBB, but most of that midstream would be BBB. And the majors are high quality and we'd expect to be in good shape.

The oilfield services is probably the one of most concern. They make a lot of their money through drilling activity which is going to pretty much sieve here. But our portfolio there is higher quality, it's more skewed to the A range,

mostly in the top three service providers. So we'll probably get some downgrades there, but we would expect to see those stay investment grade. Offshore drilling, sort of the subcomponent of that, we did spike that out. It's a very small part of the portfolio, but that will – that is below investment grade. That is – if we're going to see impairments here, that is where we're going to see it, but it is a very small part of the portfolio.

And then, the E&P, exploration and production, which is a little bigger part of the portfolio, there's a real mix there. We do have a couple of billion there of sort of national oil companies, CNOOC in China, National Oil Company of Korea and those will be well supported by the sovereigns, no concern, but we do have a fair amount of independent producers who are more in the BBB range and that is where we would expect to see some downgrades to below investment grade. But they started investment grade, they're strong, we do not expect impairments there, but we do expect some downgrades.

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**Steve Theriault**

*Analyst, Eight Capital*

Thanks for that color.

Q

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**Scott Hartz**

*Chief Investment Officer, Manulife Financial Corp.*

Sure.

A

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**Operator:** Thank you. The next question is from Humphrey Lee from Dowling & Partners. Please go ahead. Your line is open.

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**Humphrey Lee**

*Analyst, Dowling & Partners*

Good morning, and thank you for taking my questions. In terms of claims exposure to COVID-19, do you have any sense in terms of the net mortality sensitivity to the number of deaths that you can share based on the number of deaths in the US or the number of deaths in Canada?

Q

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**Steve Finch**

*Chief Actuary, Manulife Financial Corp.*

Hi, Humphrey, it's Steve Finch, I'll take that question. And yes, we've done fairly extensive stress testing on our portfolio. And your question with respect to businesses that have either mortality or longevity exposure, so Manulife overall, we've got a diversified mix of business. And in a pandemic like this, we would expect charges in some lines of business with offsets in other lines; so charges in our life insurance business, but offsets in businesses with longevity exposure such as annuity and long-term care.

A

So, in those businesses where there's a direct exposure to mortality or longevity, in a scenario where there were a 100,000 US deaths, we would expect a charge of approximately CAD 30 million post-tax, with the caveat that we do insure large policies particularly in the US, so there could be lots of variability. But, roughly CAD 30 million post-tax for 100,000 US deaths. We'll see other impacts as well from claims, notable – the travel claims that we booked in Q1 and we're also closely watching our group businesses in Canada for the effects that the impact to the economy could have on claims there, but we're not observing any material trends at this point.

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**Humphrey Lee**

*Analyst, Dowling & Partners*

Q

So, for that CAD 30 million, is it just for the US or is that contemplating for Canada as well?

**Steve Finch**

*Chief Actuary, Manulife Financial Corp.*

That's total company.

A

**Humphrey Lee**

*Analyst, Dowling & Partners*

Okay. That's helpful. And then, in terms of the investment portfolio, I appreciate all the colors that you've provided in terms of the exposure and where you see the pressure points. But have you done any stress test in terms of maybe comparing to the previous crisis, kind of running through from a bottoms up approach where you see, or it could be a potential kind of capital impact from kind of impairments and defaults?

Q

**Steve Finch**

*Chief Actuary, Manulife Financial Corp.*

Yeah. Sure. Go ahead.

A

**Scott Hartz**

*Chief Investment Officer, Manulife Financial Corp.*

Let me – yeah, let me start with that. And Steve, you can certainly add. Every crisis is a little bit different. And this one is a bit different from the GFC. I guess one of the differences I'd call out is that, in the GFC, we saw – it was really focused in the financial sector and was really tough on the investment grade banks and other financial institutions. And so, we actually saw defaults on companies that start out as investment grade. This time around, it's very different. And I think the central banks globally have really reacted so much quicker and so much more than they did in the GFC that they provided liquidity to those companies. And it's liquidity that's really the big issue in the short run and given what we've seen, I don't really expect much in the way of investment grade defaults, which is why we focus so much on the below investment grade part of our portfolio being only 2%. There, the smaller, weaker companies, they don't have access to a lot of the stimulus coming out of the central banks is where we might expect impairments. So, it's a little difficult compared to the GFC.

A

And we do expect most of our experience this cycle to be hence more downgrades than defaults. And downgrades, while they create a hit to earnings as we increase reserves in the current quarter, they get released in subsequent quarters to the extent we don't have defaults. And just as we've looked at that and look at sort of stress testing and what might happen, one thing to give you a bit of a guide is, if we saw 25% of our whole portfolio on a pro-rata basis, be downgraded one notch. And by one notch, I mean, if – there's typically three notches in a rating category; so for BBB, there will be triple BBB+, BBB, BBB-. And so, if they move down one notch, we would expect about a CAD 250 million post-tax reserve increase and hit to earnings. And the way we do it, things have to move a full category to have an increase in reserve. So, we would see that BBB- has been downgraded to below investment grade is what would create that charge. And about half of that overall charge we would see does come out of BBB portfolio. So that's a little context for you. And Steve, I don't know if you want to add?

**Humphrey Lee**

*Analyst, Dowling & Partners*

That's helpful.

Q

**Steve Finch***Chief Actuary, Manulife Financial Corp.*

A

Yeah. I'll just add in terms of our overall stress testing. We do routinely do stress testing on the entire company on the balance sheet and we have stressed more severe scenarios than what we saw on the global financial crisis. And everything that we've been doing over the years, building up our hedging programs, the portfolio optimization initiative, we enter this time in a position of strength where we wanted to make sure that the company can withstand very severe shocks and still be in a strong position. And so, we're confident in the capital position of the company based on the stress testing that we've done.

**Humphrey Lee***Analyst, Dowling & Partners*

Q

Thank you.

**Operator:** Thank you. The next question is from Mario Mendonca from TD Securities. Please go ahead. Your line is open.

**Mario Mendonca***Analyst, TD Securities*

Q

Good morning. Perhaps one thing I was looking for in the disclosures I couldn't find was the asset default assumptions. Steve is that something you'd be comfortable disclosing today. The asset default assumptions in the reserves that is.

**Steve Finch***Chief Actuary, Manulife Financial Corp.*

A

Maybe what I – sorry, go ahead.

**Mario Mendonca***Analyst, TD Securities*

Q

I was going to ask actually what the dollar amount of the reserve is in the asset default reserves.

**Steve Finch***Chief Actuary, Manulife Financial Corp.*

A

Sure. So, what I can do is describe our process. So, as with other assumptions, we go through detailed regular reviews. We work closely with Scott's team. We look at the Moody's long-term default averages and our experience has been, over a long period of time has been better than what we see in the Moody's studies. We have not gone all the way to our experience. So, we've reflected some of our own experience and some of the industry experience. And as you can imagine, the default assumptions vary by ratings category, by tenure, et cetera. So, it quite a detailed set of assumptions. Overall, we've estimated that the amount of provision for credit in our reserves, it's approximately CAD 3.5 billion; that was at the end of 2019. So, as of Q1, it's likely gone up a little bit because of the currency movements and about a third to 40% of that is PfAD or margin.

**Mario Mendonca***Analyst, TD Securities*

Q

Okay. And then, just a quick clarification. Scott, when you referred to \$50 oil, were you talking WTI US dollar?

**Scott Hartz**

*Chief Investment Officer, Manulife Financial Corp.*

Yes. Yes. I was.

A

**Mario Mendonca**

*Analyst, TD Securities*

Okay. And then, sorry, just real quickly, Steve, the CAD 108 million you referred to from Moody's, you're saying that's the estimated or the expected losses, you're not – I think what you said there is, that's not what's in the reserve, the CAD 108 million, that's just for information purposes.

Q

**Steve Finch**

*Chief Actuary, Manulife Financial Corp.*

That's correct. Yes.

A

**Mario Mendonca**

*Analyst, TD Securities*

Okay. Thank you.

Q

**Operator:** Thank you. The next question is from Gabriel Dechaine from National Bank Financial. Please go ahead. Your line is open.

**Gabriel Dechaine**

*Analyst, National Bank Financial*

All right. Good morning. Couple of questions; one on ALDA and one on Manulife Bank. On, well, I guess the investment experience of slide 24 and Scott, you said – and there's no reason to believe your ALDA return assumptions are unreasonable or something to that extent. And I understand that it's a long-term return assumption. But what I see in that chart is, credits in a tailwind, but that's going away temporarily. But four out of five years where the ALDA experience was negative, I know there's oil and gas affecting a couple of years, but maybe walk me through some of the other issues that may have arisen and what I should interpret from that chart.

Q

**Scott Hartz**

*Chief Investment Officer, Manulife Financial Corp.*

Sure, Gabriel. Thanks for the question. So yeah, let me give you a little perspective on this. We really think our ALDA through this cycle will perform about what we put in our reserve. So, when we talk about CAD 400 million of expected performance, that's really coming out of a combination of credit and fixed income reinvestment. And they do tend to be negatively correlated to each other. So, when times are good and we're getting credit releases, it's very difficult to add value in our fixed income portfolio. We do historically manage to do some every year, but as you all have seen in this first quarter here, we actually had CAD 370 million of fixed income gains in one quarter and that was due to the volatility in the market, the wider spreads, the opportunities we saw, accompanied by a CAD 50 million credit loss, so, that was offset and I wouldn't assume CAD 370 million a quarter going forward, but we should expect elevated fixed income investment gains during this period when we have credit losses. So, that's how I see those two sort of offsetting each other and providing a reliable stream of investment gains.

A

On the ALDA front, it is part of the portfolio, that's sort of brutally mark-to-market and it's going to have volatility in the best of times. And in these sort of times, you should expect losses and we should expect more gains in better times. And frankly, a part of the losses due to higher risk premiums being baked into those valuations and that would portend higher returns going forward. So, we feel very comfortable with our long-term assumption. We will revisit that this year as we do every year, but, I have no reason to believe we will change those.

**Gabriel Dechaine***Analyst, National Bank Financial*

Q

Okay. And then, my question on Manulife Bank. Can you tell me the composition of the portfolio, how much of it's Manulife One, how many of your mortgage customers have sought payment deferrals, and if you're seeing any behavioral changes in terms of how the Manulife One product is used? I think it's pretty flexible in terms of how you can access your money if you need it.

**Michael J. Doughty***President & Chief Executive Officer, Manulife Canada*

A

Yeah. Let me take that one, it's Mike. So, just in terms of the sort of makeup of the bank portfolio, it is primarily residential mortgages. So, about 91% of the assets are made up of the residential mortgage book, and that is pretty well distributed across the country. We have not seen any sort of material deterioration. We're obviously watching this very closely as are all financial institutions. We have, like a lot of the other banks, we did introduce a deferral program. We are at about – it changes every day, but we're about 7,000 of our customers have deferred, most of those on a three-month basis. So, again, we're watching this very closely. We think the bank is in very good shape. And just lastly, I'll just say, we stress test this regularly. And even under extreme stresses, it's something that company can handle and manage fairly effectively. I don't know if Rahim wants to add anything to that.

**Gabriel Dechaine***Analyst, National Bank Financial*

Q

How many customers do you have, 7,000 is the number, but percentage wise?

**Michael J. Doughty***President & Chief Executive Officer, Manulife Canada*

A

Yeah. It's about – just it's about a 100,000 and change.

**Gabriel Dechaine***Analyst, National Bank Financial*

Q

Thanks.

**[OC6XKQ-E Raheem Hirji]**

A

Nothing else from me.

**Operator:** Thank you. The next question is from David Motemaden from Evercore ISI. Please go ahead. Your line is open.



**David Motemaden***Analyst, Evercore ISI*

Q

Hi. Good morning. I just had a question, I mean, it's good to see the 155% LICAT ratio, but I wanted to drill in a little bit on Phil's statements that you still – you expect lower remittances this year. The 155% LICAT wouldn't suggest that you would need to have lower remittances this year than the CAD 2.8 billion last year. So wondering what the disconnect is there?

**Philip Witherington***Chief Financial Officer, Manulife Financial Corp.*

A

Thanks David for the question. This is Phil. So, as we've said before, in environments where we see declining interest rates, we do expect to see lower remittances particularly from our subsidiaries in Asia and we've noted on previous calls that Hong Kong in particular is a regime that has a sensitivity to interest rates in terms of its surplus capital levels and therefore ability to remit. As we've reiterated a number of times, remittances will bounce around from year to year. But we do remain confident in our remittance capacity for the medium term. And combined with the strong LICAT position that you highlighted, 155%, the increase from 140% at the end of the year and the strong liquidity position of the company, that does enable us to continue to service debt and dividends through times of market stress. Final point that I'll add is that we are a diversified company and we're not exclusively dependent upon any of our segments or legal entities for generation of remittances.

**David Motemaden***Analyst, Evercore ISI*

Q

Great. And maybe just on the Hong Kong point that you just brought up, Phil, what was the HKIA capital ratio there and what's your target? And do you – I mean, is that something where you think you need to inject capital with rates at these levels?

**Philip Witherington***Chief Financial Officer, Manulife Financial Corp.*

A

So David, we don't set out the individual levels of capital in each of our jurisdictions. There is some information on statutory targets included in the embedded value report, but the strong LICAT position and the low leverage means that we do have the ability to deploy resources wherever they are needed in the group. And I think in the interest of transparency, I will tell you that this year, as a result of the sensitivity to market interest rates in our overseas, some of our overseas subsidiaries, we have down-streamed assets. And that, combined with some other measures that we have taken to mitigate the impact of those market sensitivities, means that we don't expect to inject further material capital into those overseas operations. And just to be totally transparent and one of the reasons why in my remarks we do refer to an expectation of lower remittances, by the end of April, the aggregate amount that we have down-streamed is in the order of CAD 2.5 billion.

**David Motemaden***Analyst, Evercore ISI*

Q

Is that you down-stream CAD 2.5 billion, is that to Hong Kong specifically or that's across all of the subsidiaries, the US as well?

**Philip Witherington***Chief Financial Officer, Manulife Financial Corp.*

A

That's a number that's – is an aggregate number for all of our subsidiaries. But the US is a very stable capital regime, stable liability valuations and we've not needed to downstream any money into the US.

**David Motemaden***Analyst, Evercore ISI*

Q

Okay. Got it. And then, if I can just follow-up, I guess, kind of relatedly on that point, just on slide 20 where you talk about consolidated liquidity. I guess, I'm more interested in terms of cash that you have at the parent at the HoldCo. Wondering if we could get an update on where that stood at the end of the first quarter and also if you can size the cash need that the HoldCo for the rest of the year outside of the common dividend?

**Philip Witherington***Chief Financial Officer, Manulife Financial Corp.*

A

Yeah. Thanks, David. This is Phil, again. So, as you may or may not be aware, our corporate structure is one whereby our HoldCo, the listed company, MFC, has one subsidiary MLI, so, that's a vertical structure. And our practice is not to hold assets at the – in the holding company, the listing company and that's really possible because both MFC and the wholly-owned subsidiary, MLI, are both entities here in Canada that are regulated by the same regulator, OSFI, and there are no special restrictions or approvals that would constrain us from moving funds between those entities.

You referenced to the slide where we do point out that approximately one-quarter of our invested assets are held in either cash or liquid government bonds. That is a consolidated number, but I can also say that it's a number that's true for Canada as well. So, in terms of the capital and liquidity position, it's something that I really don't believe is a constraint.

**David Motemaden***Analyst, Evercore ISI*

Q

Great. Thank you.

**Operator:** Thank you. The next question is from Meny Grauman from Cormark Securities. Please go ahead. Your line is open.

**Meny Grauman***Analyst, Cormark Securities, Inc.*

Q

Hi. Good morning. I'm just wondering about exposure in the investment book to specifically aviation, hotels, restaurants and leisure. As a group, what would the exposure be in the investment book?

**Scott Hartz***Chief Investment Officer, Manulife Financial Corp.*

A

Sure, Meny. It's Scott. I'll take that question. So, as you mentioned, consumer cyclicals is a low sector for us at 3%. And within that, hotels – to answer your specific questions, hotels would be a very small number within the credit book of less than CAD 150 million to premier names. Within the commercial mortgage book, we have only CAD 300 million. We typically don't lend to hotels and two of those would be premier hotels in Boston, with quite low on to value. So yeah, hotels are going to come under significant pressure, but we don't believe that's going to be a concern to our portfolio.

Restaurants, we have very little exposure to restaurants and what little we have is to McDonald's and Starbucks are a strong, strong companies that we do not have much concern on. On retail, we tend to stick to sort of things that are now considered essential service, that are high quality, the sort of Costcos, Walmarts, Home Depots of the world. And then, in leisure, we have a CAD 1.4 billion exposure to sports teams. And there, this is the case

you're getting kind of the theme broader portfolio, we tend to stick with the strongest companies. So, we do stick with the strongest commercially oriented teams. These would be stadium financings. And all of these are underwritten assuming there will be a lost season. We had assumed the strike season, not what's going on now. So, we again don't see any issues probably not even any downgrades there unless this really does extend out into probably the next calendar year. So, we feel very good about that part of the portfolio.

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**Meny Grauman***Analyst, Cormark Securities, Inc.*

Q

And just in terms of the overall real estate exposure, can you just talk about rental forbearance experience in the quarter? And then what you saw in April and I guess even May now that I guess most rents are in?

---

**Scott Hartz***Chief Investment Officer, Manulife Financial Corp.*

A

Yeah. So there's two parts to the real estate portfolio, there's the mortgage portfolio and then the real estate owned portfolio. And in both cases, it's retail where we're seeing the most pressure. And in the commercial mortgage portfolio, in April, we received payments as scheduled on 98.5% of the book, so 1.5% we did not, that was focused in retail. And in those cases, in almost all cases, we just gave forbearance on principal, not on interest, although there were a couple of cases where we did defer those as well. And again, these are deferred, so they will defer typically for three months to be paid.

And the May, it's still early, but the numbers are trending in a very similar direction. On the real-estate-owned side, again our exposure to retail is very small, it's 3% of the portfolio. When you look at specifically retail, if you include all the retail, some office buildings have a little bit of retail on their podium, it gets up to more like 4.5% and that's where we're seeing most of the issues, although we are seeing some rents from co-working spaces asking for deferrals and so forth. So, it's a little higher number, it's about 10% of the lease payments were not made in April and we gave deferrals on those. And thus far, in May, again it's early, but trends are working similar.

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**Meny Grauman***Analyst, Cormark Securities, Inc.*

Q

Thank you.

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**Operator:** Thank you. The next question is from Darko Mihelic from RBC Capital Markets. Please go ahead. Your line is open.

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**Darko Mihelic***Analyst, RBC Capital Markets*

Q

Hi, thank you. My question is for Steve. We note that there is a neutral impact this quarter from long-term care. I was wondering what's your early read here on the long-term care side? And I'm asking it from two different angles. One is just what you think could happen here? And what I'm potentially concerned about is premium rate increases may be difficult going forward, maybe lapses will change, certainly interest rates. So, from your reserving perspective, what's your early read on what you're seeing? And then, secondarily, we have seen some instances of statutory reserves being reopened and challenged. I'm wondering if you can give us any update on that side as well.

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**Steve Finch***Chief Actuary, Manulife Financial Corp.*

A

Thanks, Darko, it's Steve here. I'll take those in order. So, as you can imagine, we're tracking very closely a lot of emerging data on all of our businesses, but LTC is one that we're particularly focused on. We did not see a lot of observable changes or trends in the first quarter. In April, we are beginning to see a couple of trends. It has been widely reported high fatality rates in nursing homes and assisted living facilities. So, we have seen in April some trending up in reported deaths, there can be a lag in long-term care with getting all the data in. And we have seen some early indications of lower incidence or new claims occurring. We will be tracking very closely any lapse experience, and all sorts of trends that we may see on this business. It is a very long-term business, so I think we may see some noise in the short-term and we will probably see some offsets to elevated claims in our life businesses. But I think it's too early to estimate long-term trends. But as you can imagine, we'll be paying very, very close attention to this and reporting on what we're seeing as we're going forward.

On your second question with respect to statutory reserves and regulators challenging companies, there was a peer I think that you're referring to there. What I can – I can't comment on other companies, but I can talk to you about the regulatory process and the conversations that we've been having. The regulators have increased significantly the amount of information that they're looking for on long-term care. There is a very detailed filing that we do, it's bilateral between the companies and the states called AG 51 filing where we provide very comprehensive information on our assumptions on our experience and we've had follow-up very in-depth dialogue with a group of regulators that's been overseeing this. And they had lots of questions. We engaged very constructively with them and they've raised no concerns with the adequacy of our reserves.

As you know, we went through a very comprehensive review of assumptions in the third quarter of last year. We have a professional third-party peer reviewer that reports to our audit committee and those assumptions feed into our best estimate assumptions on US NAIC adequacy testing on LTC. So there's been a very robust process to go into those assumptions. And as a part of asset adequacy testing in the US, even though we've got adequate margin in long-term care, we also look broadly at the total margin in the company when assessing adequacy of reserves. So, based on all the facts that I've just laid out, I don't see a risk to us of having state regulators challenging our LTC reserves, I see no evidence of that.

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**Darko Mihelic**

*Analyst, RBC Capital Markets*

**Q**

Thank you for that Steve. That's a good answer. And just a very quick follow-up for Naveed, I think. You managed to get CAD 5 billion of capital. What's the outlook now? And is it possible that we should think about your work and your activities being very muffled in the current environment?

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**Naveed Irshad**

*Head of North America Legacy Business, Manulife Financial Corp.*

**A**

Yeah. Hi Darko. I think short term, it probably has delayed some transactions that we were working on. I think the increased volatility, especially on asset prices, make it difficult to transact in this environment. In some case, getting bandwidth from regulators may be challenging in this environment. But actually in the medium to longer term, I actually think it could create more opportunities. I've talked to some third parties, including private equity backed companies, and they've indicated that they have a considerable amount of dry powder available and attractive yield opportunities. So, I think those are things we'll look at the appropriate time. But I think I've said before that we've been focused on pivoting to organic in-force management, so things like re-pricings, adjusting crediting rates. And actually we think that as we get out of this crisis, there'll be an opportunity to ramp up our buy-out programs which can be a win-win for customers and the company as customers are looking for liquidity. So, I think it's very much in flux, but I feel that there's still quite a bit of opportunity here.

**Darko Mihelic***Analyst, RBC Capital Markets*

Okay. Thanks very much.

Q

**Marianne Harrison***General Manager, U.S., Manulife Financial Corp.*

Hi, Darko, it's Marianne. I was just going to answer that question on lapses. You had a question for Steve on the – sorry, not lapses, on the rate increases for LTC. So, we've actually gotten a couple approved since the crisis has started and only two states have actually said that we're not to file rate increases during this time. So, we are continuing to go, and we still have momentum in terms of filing the rate increases.

A

**Darko Mihelic***Analyst, RBC Capital Markets*

Thank you, Marianne. That's helpful. And while I have you, are you considering doing what some other of your peers are doing in the US which is dropping 30-year term product and really significant changes in back to the whole product lineup given the interest rate environment?

Q

**Marianne Harrison***General Manager, U.S., Manulife Financial Corp.*

Well, as you probably know, our product line up is, we've got about 20 products in the product portfolio and they are very much adjustable already. So, I would say that we have done a lot of those changes over the years versus where our peer companies are. So, I think we're in a good spot where we are right now.

A

**Darko Mihelic***Analyst, RBC Capital Markets*

Okay. Thanks.

Q

**Operator:** Thank you. Your next question is from Doug Young from Desjardins Capital Markets. Please go ahead. Your line is open.

**Doug Young***Analyst, Desjardins Securities*

Hi. Good morning. I guess this question is probably for Steve. As per your disclosure, lower interest rates now positively impacts earnings by CAD 300 million and I would guess there are some nuances. And to the extent that we can have a simple discussion as to what those nuances are, that would be fantastic. Just hoping to get some color on that.

Q

**Steve Finch***Chief Actuary, Manulife Financial Corp.*

Sure, Doug. Thanks. Yes. The first point to make is that we've not changed our hedging program. So, they're as they have been designed and the change in that sensitivity this quarter, it's primarily due to a divergence between the economics, the underlying economics which we hedge to and our accounting basis as a result of the market movements, specifically its corporate spreads. So, the major spread widening that we saw means that our liability sensitivity changed by less than the asset sensitivity. Remember, we don't hedge corporate spreads, we view them as often a nice offset to perhaps stressed equity markets which is what we're seeing in the first quarter. And

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the key thing is that if corporate spreads were to revert back to or towards year-end levels, we would expect that our sensitivities would revert back as well. So, I would view it as more of a temporary situation.

**Doug Young***Analyst, Desjardins Securities*

Q

So, we should use the Q4 sensitivities really as a base case when we're thinking about interest rate impact. Is that a fair thought process?

**Steve Finch***Chief Actuary, Manulife Financial Corp.*

A

Yeah. And the other – yeah, a couple other comments. I mean, when you look at these sensitivities relative to the size of the balance sheet and our net income, it's really quite modest. We've really immunized for parallel moves on current period impacts and another place I'd point you to is in the embedded value disclosure where we disclosed that a 50 basis point decline in yields results in overtime approximately a CAD 350 million hit to embedded value. I think it really demonstrates the power of the hedging programs that we put in place.

**Doug Young***Analyst, Desjardins Securities*

Q

Okay. And just a second follow-up on your claims exposure to COVID-19, you said it was a 100,000 deaths, is that 100,000 deaths across your own book? Is that the way to think of it and the way that you've stressed it?

**Steve Finch***Chief Actuary, Manulife Financial Corp.*

A

No. Good point for clarity. A lot of people have been benchmarking on stress scenarios saying how many deaths would that mean in the United States population. So, that's a 100,000 US population deaths. And currently, the figure, the reported figure it's on the order of 70,000. The other thing that we're watching as well is that there may be underreporting, there may be COVID deaths that are not specifically identified as COVID. So, I'm really talking about all excess mortality related to the US population.

**Doug Young***Analyst, Desjardins Securities*

Q

And so, that CAD 30 million is just for your US book, but you said that was actually across your entire book, is that...

**Steve Finch***Chief Actuary, Manulife Financial Corp.*

A

That's across our entire book and I think it's – there is offsets in there, right. I commented that because of the diversified nature, we've got some businesses that have exposure to claims – to mortality rates and other businesses with exposure to longevity. The other thing that I'd add is, what we're seeing is the pandemic is disproportionately hitting the lower income part of the population and the insured population tends to be of a higher economic situation. So that's also factoring into the results. We've also reflected the expected mortality rates by age as older ages are also more impacted.

**Doug Young***Analyst, Desjardins Securities*

Q

Okay. That's great. Thank you very much.



**Operator:** Thank you. The next question is from Sumit Malhotra from Scotia Capital. Please go ahead. Your line is open.

**Sumit Malhotra**

*Analyst, Scotiabank Global Banking and Markets*

Q

Thanks. Good morning. I'll try to keep this brief. Firstly for Scott. Just in the earnings on surplus, this is not the first time we've seen some reference to seed capital marks for Manulife, obviously it's a larger number this quarter. Just hoping you can educate me here on what the total size of this investment is for the company that runs through this line? And specifically, what are you using to mark these investments on a quarterly basis?

**Philip Witherington**

*Chief Financial Officer, Manulife Financial Corp.*

A

So Sumit, this is Phil. I think it makes sense for me to start on that and have Scott supplement with anything he'd like to supplement. The value of the seed capital investments in our surplus segment, it's approximately CAD 1.5 billion and that does include a mix of equity funds and balanced and bond funds. In Q1 2020, the after-tax impact of marking those to market was CAD 176 million. But that loss compares to actually a mark to market gain in the first quarter of 2019 of CAD 98 million. So, the year-on-year swing that we've seen here in terms of distortion to core earnings is in the order of CAD 270 million. Now, that impact is greater than you may expect based on our disclosed equity sensitivities, because if the – what's happened this quarter is that the mark-to-market on equities has been combined with widening corporate spreads. That has reduced the value of the bond funds and also the bonds within balanced funds. And so, that's what's causing the slightly larger impact than you might expect. The portfolio mix, if you look at the whole portfolio, it's roughly 60% equities, 40% bonds. Is there anything, Scott, you'd like to add to that?

**Scott Hartz**

*Chief Investment Officer, Manulife Financial Corp.*

A

Yeah. The only thing I'd add, Phil, is that these are these are all public securities. So they are absolutely mark to market at current levels.

**Sumit Malhotra**

*Analyst, Scotiabank Global Banking and Markets*

Q

All right. So, I think by giving us a notional fill, there is at least something we can think about on how that trends. Last one is for Anil. I'm sure you'll be happy for the business that on a trend-line basis, it's now been a full year since the repositioning of the COLI product in Japan. I mean, your insurance sales in that country have sequentially moved higher in every quarter since Q2, your earnings have been in a reasonable range. If I try to separate the outlook here between what's happening with the impact of the pandemic versus the positioning of the product, as far as you're concerned, has the take up of your redesigned COLI product now reflected your expectations and it has more to do with what happens with the broader economy in that country as opposed to where Manulife is positioned?

**Anil Wadhvani**

*President & Chief Executive Officer, Manulife Asia*

A

Thanks, Sumit. Thanks for the question. So, from a COLI perspective, you're absolutely right. So, from an enactment perspective, we saw that in quarter three and then sequentially we have seen our sales improve. In fact, in quarter one of this year, as you rightly pointed out, we've witnessed CAD 164 million which was a jump of

about 28% quarter-on-quarter and our earnings jumped as well by 17%. So, I think we are pleased with the momentum. The challenge, Sumit, is that Japan continues to be under the cloud of COVID and is right now faced up with a lot of restrictions around lockdown, so the mobility of both the customers, as well as our agents is impacted and it doesn't help that the economic uncertainty would obviously add to the customer sentiment as you can imagine.

What we are focused on and just to kind of provide you a little a bit of color on that, number one, if you look at our product mix right now, only a third of our sales contribute to the overall sales that we generate. Only a third of COLI sales now contribute to the overall sales that we generate in Japan. So, we've kind of in many ways built a much more resilient product mix and moved away from our dependence on COLI, which as you can reckon, if you were to kind of place it back to quarter one of last year, it was quite high.

The second piece is, distribution is going to be pivotal as it always is. And towards that, we have been investing in building up our MFA channel on the success that we've kind of seen in Singapore. We have gone up to 170 advisors, and also inviting more MGAs to onboard with us. In addition to that, we've also been training our existing MGAs to offer the non-COLI products, which is again, as you can see, starting to show some results. And last but not the least, as I had mentioned the last time around as well, we are looking at expense efficiency measures in Japan given the – given the new volume trajectory that we are experiencing there. So, from a sequential perspective, we are pretty pleased with what we have seen. Unfortunately, on account of COVID, there is a huge amount of uncertainty and it kind of becomes hard to predict as to what the new normal would look like.

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### Roy Gori

*President & Chief Executive Officer, Manulife Financial Corp.*

A

And Sumit, if I could just jump in, I think Anil's summary was spot on. And just to punctuate one of the key points that he made was around diversity. One of the things that we've been really focused on over the last four to five years has been strengthening the diversity of our franchise. That's true for us globally, but it's absolutely true for us in Asia. So, reducing the reliance on any one market or one product line is something that we've been gradually focused on and have seen improvements in success. And again, yeah, in Japan, we're seeing the reduced reliance on COLI and specific acquisition channels is something that we're going to continue to focus our efforts on in the course of this year and beyond. So, that really is a big element of our Asia strategy is just that diversity of geography, diversity of channel and distribution, as well as diversity of products as well.

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### Sumit Malhotra

*Analyst, Scotiabank Global Banking and Markets*

Q

Appreciate your thoughts. Thanks for your time.

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**Operator:** Thank you. The next question is from Paul Holden from CIBC World Markets. Please go ahead. Your line is open.

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### Paul Holden

*Analyst, CIBC*

Q

Thank you. Good morning. I want to ask you question again related to the oil and gas portfolio within ALDA. And I guess what I want to better understand is kind of the contribution it had been making to core earnings and given the impairment charge and where WTI is now, what the impact is going [ph] forward to potential impact to quarter (01:28:44).

**Scott Hartz**

*Chief Investment Officer, Manulife Financial Corp.*

A

Sure, sure Paul, it's Scott, I'll take that one. So, for core earnings, you may recall that we will put up to CAD 100 million of investment gains a quarter and core earnings up to CAD 400 million for the full year, and that's a combination of the ALDA performance, the fixed income and the credit. And as I mentioned earlier, it's typically the fixed income and the credit that contributes the most of that. ALDA really contributes some volatility, but has been pretty much on our assumptions over the longer term. So within ALDA, oil and gas is a very small component, it's 6% of our ALDA portfolio. So, it plays a very small role. I would say unfortunately in the last five years, it's played an outsized role in the wrong direction. But the nature of investing is that things do cycle around. And actually in the first decade of the 2000s, oil and gas was the strongest contributor to our ALDA returns. And in the last decade, they've been the lowest contributor. So, it's been a bit of a drag on our overall investment experience. But despite that, we've, on average, been able to produce CAD 400 million of investment claims in recent years

**Paul Holden**

*Analyst, CIBC*

Q

Okay. So, what you're saying here is despite the impairment charge or maybe not impairment, but mark down in Q1, that's not necessarily really going to be a drag on forward core earnings, is that what I'm hearing?

**Scott Hartz**

*Chief Investment Officer, Manulife Financial Corp.*

A

I think for this year, it's going to be very difficult to get investment gains in the core earnings. We're starting at minus CAD 600 million. We'd have to recoup all that before we could put it into core. And frankly, I do expect future credit losses. They will likely be offset by fixed income gains, but we'll also probably see some additional ALDA losses. So I think it's unlikely you're going to see a contribution to core from investment gains this year, but we'll turn the page the next year and I would expect to be back on track.

**Paul Holden**

*Analyst, CIBC*

Q

Understand. Second question is related to new business in Asia. So, if I just take a simple look of Q-over-Q and total sales from Asia were actually up, but business gains were down now, I'm assume that's due to lower interest rates, but is that correct and were maybe there are similar factors at play as well?

**Anil Wadhvani**

*President & Chief Executive Officer, Manulife Asia*

A

Yeah. Thanks for the question. This is Anil. Let me take this and I'll then kind of turn it to Phil if he has any supplement comments. But I think if you look at the quarter-on-quarter new business gains, there are three essential factors that impact it. So one, from a proportionality perspective, we saw higher sales in Japan and just the margin mix had an impact from a quarter-on-quarter perspective.

Secondly, we saw some very strong door opening in China which was on the back of savings and annuity product. Unfortunately, the COVID hit us in the third week of January, so February and March we were not able to cross-sell as well as get the right product mix. So, that had a knock-on impact as well.

And the third one was the product mix in Hong Kong. And on account of the outbreak, there was a bit of a skew from a customer segment to a short-pay products which again impacted the product mix. I should however

underscore the fact that the new business value margin in Hong Kong continues to be north of 60% which we believe is still a very, very healthy. But the three things that really contributed were the ones that I just articulated.

**Paul Holden***Analyst, CIBC*

Okay. And it sounds like...

Q

**Philip Witherington***Chief Financial Officer, Manulife Financial Corp.*

Thanks, Anil. And maybe I'll just supplement with a couple of points. One is that new business gains are one of the items that we've commented a few times do tend to bounce around from quarter-to-quarter and year-to-year. There is naturally a correlation with the volume of new business that we write as well as the mix. And as Roy had commented on earlier, we are in a challenging environment and I think as we look forward, it's hard to predict exactly what volumes will be and that will be one of the drivers of new business gains for the remainder of the year.

A

**Paul Holden***Analyst, CIBC*

Got it. Okay. Thank you.

Q

**Operator:** Thank you. The next question is from Scott Chan from Canaccord Genuity. Please go ahead. Your line is open.

**Scott Chan***Analyst, Canaccord Genuity*

Good morning. Scott, maybe just a follow-up on Paul's question on core investment gains. The CAD 608 million that has to catch-up, does that – you said at the end of the year or does that have to make-up the difference in order for you to book core investment gains starting say in Q1 2021?

Q

**Philip Witherington***Chief Financial Officer, Manulife Financial Corp.*

Scott, this is Phil. It resets on the 1st of January.

A

**Scott Chan***Analyst, Canaccord Genuity*

It resets. Okay. And maybe just a last question for Roy. You talked about the capital priorities, organically, and you talked about the bank insurance agreement, committed to the dividend, obviously buybacks are halted, but M&A is – M&A feasible in this environment. Are you looking at stuff more or are you more concerned about the first priority?

Q

**Roy Gori***President & Chief Executive Officer, Manulife Financial Corp.*

Yeah. Scott, thanks for the question. Again, I'd start by saying that we feel very confident about our capital position. And again, we entered into this crisis from a position of strength. So that's really put us in good order. And as mentioned earlier, our focus from a capital prioritization perspective really hasn't changed. We've always talked about the fact that organically growing our business is where we see the greatest opportunity and that

A

again will continue to be the case for us as we look forward. And then, obviously, we were obviously very committed to the dividend and tactical share buybacks when we see the price of our stock not reflected accurately or correctly.

On the M&A front, we're in a fortunate position in that we don't feel we need M&A to deliver on through the cycle or medium-term targets. But opportunistically, if there are opportunities that align to our strategy and that allow us to accelerate our agenda to growth, then we would certainly look at them. So, we again feel that the strength of our capital position puts us in good stead to navigate this situation and at the same time opportunistically if there are great value opportunities on the M&A front, we would definitely consider them.

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**Scott Chan**

*Analyst, Canaccord Genuity*



Thank you.

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**Operator:** Thank you. There are no further questions registered at this time. I'll turn the meeting back to Ms. O'Neill.

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**Adrienne O'Neill**

*Global Head of Investor Relations, Manulife Financial Corp.*

Thank you, operator. We'll be available after the call if there's any follow-up questions. Have a nice morning, everybody.

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**Operator:** Thank you. The conference has now ended. Please disconnect your lines at this time and we thank you for your participation.

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