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## PRESENTATION

### Operator

Please stand by, your meeting is about to begin. Please be advised that this conference call is being recorded. Good morning, and welcome to the Manulife Financial Second 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 - Manulife Financial Corporation - Global Head of Investor Relations

Thank you, and good morning. Welcome to Manulife's earnings conference call to discuss our second quarter 2020 results. We are conducting this call virtually. Our earnings release, financial statements and related MD&A, statistical information package and webcast slides for today's call are available on the Investor Relations section of our website at [manulife.com](http://manulife.com).

We will begin today's presentation with an overview of our second 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 performance of the company's general account investment portfolio and the direct impact of markets.

Following the prepared remarks, which are 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 Two for a caution on forward-looking statements and Slide 36 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.

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** - *Manulife Financial Corporation - President & Chief Executive Officer*

Thank you, Adrienne. Good morning, everyone, and thank you for joining us today. Turning to Slide Five. Yesterday, we announced our second quarter financial results. The coronavirus pandemic continues to disrupt economies and capital markets worldwide, and as would be expected, COVID-19 had a significant impact on our performance, including first order impacts such as policyholder experience and sales; and second order impacts such as market volatility and ALDA valuations.

However, I am pleased that despite these challenging conditions, we delivered solid results which reflects diversity and resilience of our businesses. We delivered net income attributed to shareholders of \$727 million and core earnings of \$1.6 billion. Core ROE was resilient at 12.2%, and our capital position remains strong with a LICAT ratio of 155%. Book value per share rose to \$25.14, up 10% from the prior year quarter. Finally, our culture of expense discipline and the maturity of our expense efficiency program have played a crucial role in our success over the past few months, as evidenced by our expense efficiency ratio of 48.9%, slightly below our 2022 target of 50%.

Turning to Slide Six. Manulife entered the downturn in a position of strength thanks to the work we've done over the past decade to de-risk our business and reduce the company's sensitivities to market movements. And the release of over \$5 billion of capital through portfolio optimization activity since 2018 further strengthened our position.

Our strategy, including the five priorities, is sound and has not changed in light of recent events. I'm very proud of how the Manulife team executed during the second quarter, despite the very challenging backdrop that was triggered by the COVID-19 pandemic. While we've already achieved our portfolio optimization target, we have generated an additional \$285 million of capital benefit year-to-date, including \$20 million in the second quarter through a variety of initiatives. The initiatives announced to date have resulted in a cumulative capital benefit of \$5.4 billion.

We have a mature expense efficiency program with processes in place that enable us to respond quickly to headwinds, such as lower sales activity related to COVID-19 and lower interest rates. As a result, core expenses declined by 5% in the second quarter of 2020 versus the prior year quarter. And I'm pleased to announce that we expect to achieve our target of \$1 billion of expense efficiencies by the end of 2020, two years ahead of schedule.

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. Our highest potential business has accounted for 64% of total company core earnings in the first half of 2020. In Asia, we continue to expand our agency force, growing our number of agents by 35% year-over-year. And in Global Wealth and Asset Management, we completed the formation of our previously announced asset management joint venture with Mahindra Finance in India. Our fourth priority is about our customers and how we're using technology to attract, engage and retain customers by delivering an outstanding experience.

We achieved a Net Promoter Score of 10, which is a nine-point improvement from the 2017 baseline score of one and a two-point improvement from 2019. During the second quarter of 2020, we continue to enhance and accelerate our digital capabilities to adapt to the current environment and better support our customers during the pandemic. I will discuss our digital capabilities and transformation in greater detail on the following slides.

Our final priority is building a high-performing team. Our target is to achieve top quartile employee engagement compared to global financial services and insurance peers by 2022. I want to take a moment to discuss the importance of civil rights and equality as they relate to Black, Indigenous and People of Colour. The incidence of racism and the subsequent protests across North America have deeply affected us all. I know we're all upset and sad, and those who are more directly impacted are in incredible pain. Regardless of our colour, creed, nationality or beliefs, we must come together and put an end to this injustice. The racist comments, racist actions, the stereotyping, the unjust treatment and much more, impact the daily lives of Black, Indigenous and People of Colour and stand in the way of equal opportunity.

I've spent a lot of time listening through conversations with our employee resource group leaders, and in taking input from many of our employees who have taken the time to write to me and share their feelings and ideas. At Manulife, we're not just listening, we are taking action. To be clear, there is no tolerance for any form of discrimination or racism in our company, and we condemn societal actions that threaten anyone's human rights. In line with our values, every colleague, customer and partner is to be treated with respect at all times. Empathy and care for each other are at the core of what it means to be a member of our team and are foundational to achieving diversity and inclusion efforts. We have an obligation to embrace the uniqueness each of us bring to our community and to ensure that we make everyone feel comfortable and safe. In June, we announced that Manulife will invest more than \$3.5 million over the next two years to promote diversity, equity and inclusion in the workplace and the communities we serve.

Our strategy is comprehensive and focuses on supporting Black, Indigenous and People of Colour employees throughout their careers. We are committed to fostering an environment where all employees know that they belong and can truly thrive. Our program consists of three pillars: first, building representation of Black, Indigenous and People of Colour professionals, through graduate programs, focused leadership recruitment efforts and accelerated mid-career development; second, rolling out programs that are designed to educate and train all employees that go beyond our existing unconscious bias training, and will continue to support fair and equal treatment in the workplace; and third, supporting communities through donations and volunteerism, focused on financial education and career mentorship.

Through these pillars, we aim to create an inclusive culture that permeates our industry and the communities we serve across the globe, supporting Black, Indigenous and People of Colour as we strive for a society that offers true equality.

Moving to Slide Seven. We embarked on a digital transformation journey several years ago and have invested over \$600 million in building digital capabilities since 2018. Clearly, the importance of digital has been further accentuated in recent months during the COVID-19 pandemic. In light of this, I'm sharing a few metrics that illustrate the capabilities that we have in place as a result of our investments in digital over the last few years. Percentage of APE available to be sold via non-face-to-face methods, straight-through processing, digital claims submission and auto-underwriting.

These are just a few of the KPIs that we track internally to evaluate how our digital transformation is progressing, and we may share additional metrics with you over time. The vast majority of our products are available to prospective customers through non-face-to-face solutions. In Global Wealth and Asset Management, 90% of AUMA is available to new and existing retail and retirement customers. In Asia and Canada, 97% of our APE is now accessible to customers through non-face-to-face solutions. And in the U.S., this figure is 80%.

You'll notice that adoption of digital claims submission increased to 95% this quarter, which reflects both our efforts to accelerate the rollout of additional capabilities and the shift in consumer behaviour brought on by the pandemic. Our ambition is to auto-underwrite a greater percentage of new business. However, you should expect this metric to grow slowly over time, given that we carefully evaluate the risk-return trade-off of auto-underwriting additional products.

Turning to Slide Eight. In addition to having solid core digital capabilities in place, we've responded to the current environment by rapidly deploying new and existing technology. In Canada, we expanded our partnership with Akira Health to provide a broader range of online medical services to our insurance customers to better support their health and wellness. In the U.S., we launched JH eApp, a digital new business platform to simplify and accelerate the life insurance purchase experience, and also launched a new fully underwritten term life product, which enables customers to purchase up to USD 1 million in life insurance coverage digitally. And in our Global Wealth and Asset Management business, we launched a new retirement planner tool in the U.S. to deliver an innovative and engaging way for customers to visualize and plan for their retirement. Overall, the acceleration and expansion of our digital tools have greatly enabled us to engage effectively with customers in the current environment.

Moving to Slide Nine. In conclusion, I'm pleased with our second quarter results and the continued strength of our globally diverse business. Our high-performing team members remain committed to our customers and have continued to work diligently to transform the Manulife franchise into a digital customer leader. And their agility and resourcefulness have enabled us to adapt to our customers' needs by re-orienting the customer experience to better suit the current environment. Against the challenging backdrop, our sales volumes were impressive and our solid core earnings growth of 5% versus the prior year quarter highlights our resiliency.

Our balance sheet and capital levels remain strong, which provides financial flexibility during times of elevated market uncertainty. And we remain committed to both our dividend and medium-term financial targets, given that the demographics and economic fundamentals underpinning our strategy have not changed.

While there continues to be a significant number of unknowns that will impact both the length of the downturn and the nature of the recovery, I'm confident that Manulife is well positioned to navigate this challenging new environment.

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

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**Phil Witherington** - *Manulife Financial Corporation - Chief Financial Officer*

Thank you, Roy, and good morning, everyone. Turning to Slide 11 and our financial performance for the second quarter of 2020.

As Roy mentioned, we delivered solid financial and operating results in a challenging environment. Core earnings were up 5% from the prior year quarter, and core ROE was a healthy 12.2%. APE sales and NBV declined by 15% and 22%, respectively. The result that we believe is encouraging in light of the unprecedented COVID-19 containment measures that were in place to varying degrees in all markets in which we operate. And our capital position demonstrated resilience once again in the quarter. Our LICAT ratio of 155% and leverage ratio of 26% provide us with financial flexibility that is valuable in the prevailing environment of elevated market uncertainty.

Of note, we will complete our annual review of actuarial methods and assumptions during the third quarter of 2020. While this review is not yet complete, preliminary indications suggest that there will be a net post-tax charge of approximately \$200 million in the third quarter of 2020. This year, the review will include, among other items, lapse assumptions for Canadian and Japan life insurance, certain mortality assumptions in all segments, a complete review of our Canadian variable annuity assumptions, and we expect to refine certain methodologies.

I will highlight the key drivers of our second quarter performance with reference to the next few slides.

Turning to Slide 12. Core earnings in the second quarter of 2020 were \$1.6 billion, up 5% from the prior year quarter on a constant exchange rate basis. The increase in core earnings was driven by favourable policyholder experience, the favourable impact of markets on seed money investments in segregated funds and mutual funds and the impact of in-force business growth in Asia.

These items were partially offset by the absence of core investment gains in the quarter, compared with gains in the prior year quarter, lower new business volumes, primarily due to lower sales as a result of COVID-19, and lower investment income in Corporate and Other. We delivered net income attributed to shareholders of \$727 million in the second quarter. Of note, we recognized losses of \$916 million from investment-related experience, driven by lower-than-expected returns on ALDA, including fair value changes on private equity investments, real estate and oil and gas.

The charge of \$495 million from the direct impact of interest rates was driven by narrowing of corporate spreads and the steepening of the U.S. yield curve, partially offset by gains of \$1.5 billion from the sale of AFS bonds. The gain of \$568 million from the direct impact of equity markets reflects the rebound of global equity markets in the second quarter of 2020. When excluding the impact of gains on AFS bonds, the direct impact of interest rates and equity markets was broadly in line with our published sensitivities. Scott will elaborate on these items in a few minutes.

Slide 13 shows our source of earnings analysis. Expected profit on in-force increased by 4% on a constant exchange rate basis, primarily driven by growth in Asia. New business gains were lower than the prior year quarter, reflecting a decline in sales volumes, driven by the adverse impact of

COVID-19. Overall policyholder experience in the second quarter was favourable, reflecting claim terminations in U.S. long-term care due to the impact of COVID-19 and lower claims as a result of lower utilization of dental and health benefits and long-term disability in Canada and health benefits in Asia.

These gains were partially offset by higher claims and lapse losses in our U.S. life business. Of note, despite COVID-19 claims, U.S. life policyholder experience has improved compared with the prior year quarter. Core earnings on surplus was in line with the prior year quarter, as the favourable impact of markets on seed money investments in segregated funds and mutual funds was offset by lower investment income.

Turning to Slide 14. Core earnings decreased by 4% in our Global Wealth and Asset Management business, driven by lower net fee revenue from changes in product mix, lower fee spread in the U.S. Retirement business and lower tax benefits, partially offset by lower expenses from ongoing efficiency initiatives, which mitigate the adverse impacts from increased market volatility. Core earnings in Asia increased by 1% as in-force business growth across Asia and favourable policyholder experience as a result of lower medical claims were mostly offset by the impact of lower new business volumes, driven by the adverse impact of COVID-19.

In the U.S., core earnings increased by 32%, primarily driven by favourable policyholder experience and a focus on expense discipline in the current economic environment. Core earnings in our Canadian business increased by 10%, primarily reflecting more favourable policyholder experience in our insurance businesses, in part due to COVID-19, which was partially offset by the nonrecurrence of gains from the second phase of our segregated fund transfer program in the prior year quarter and the unfavourable impact of lower individual insurance sales.

Slide 15 shows our new business value generation and APE sales. In the second quarter of 2020, we delivered new business value of \$384 million, down 22% from the prior year quarter. In Asia, new business value decreased 21% from the prior year quarter, primarily due to lower APE sales across all markets and a decline in interest rates in Hong Kong, partially offset by a more favourable business mix in Asia Other.

In Canada, new business value decreased 29% from the prior year quarter, primarily due to lower insurance sales volumes. And in the U.S., new business value decreased 22% from the prior year quarter, primarily due to the impact of lower interest rates and lower sales due to the impact of COVID-19. In the second quarter of 2020, we delivered APE sales of \$1.2 billion, down 15% from the prior year quarter. The decline in Asia's APE sales of 17% from the prior year quarter was mainly driven by the adverse impact of COVID-19. Of note, sales improved in the latter part of the quarter as certain markets in Asia began to reopen.

As a result, APE sales in June 2020 increased 4% compared with the same period of 2019. In Canada, APE sales declined by 18% from the prior year quarter, driven by variability in the large case group insurance market. In the U.S., APE sales declined by a modest 3% from the prior year quarter, reflecting the net impact of COVID-19.

Turning to Slide 16. Our Global Wealth and Asset Management business generated net inflows of \$5.1 billion in the second quarter compared with neutral net flows in the prior year quarter, primarily reflecting the funding of a \$6.9 billion mandate from a new institutional client.

In Canada, net inflows of \$8.4 billion improved substantially in comparison to net flows of \$0.1 billion in the second quarter of 2019. The improvement was driven by the institutional mandate and the non-recurrence of a large case retirement plan redemption in the second quarter of 2019.

In Asia, net flows were neutral and lower than the prior year quarter, due to higher redemptions of retail funds in Mainland China and higher redemptions in Institutional Asset Management. In the U.S., net outflows were \$3.3 billion in the second quarter of 2020 compared with net outflows of \$1.8 billion in the second quarter of 2019. This decrease was driven by the redemption of a large case retirement plan and in retail from the portfolio rebalancing by several large advisers, partially offset by lower institutional redemptions. Our core EBITDA margin was 28%, up modestly from the prior year quarter. Our average AUMA remained stable compared with the prior year quarter, as year-to-date net inflows of \$8.3 billion was offset by the unfavourable impact of markets.

Turning to Slide 17. We entered this downturn with a strong balance sheet and capital position, and this continues to be the case. Our LICAT ratio of 155% in the second quarter of 2020 represents \$31 billion of capital above the supervisory target. This is in line with the prior quarter, as the adverse impact from the narrowing of corporate spreads was mainly offset by net capital issuances and favourable equity markets.

Our leverage ratio increased to 26%, slightly above our medium-term target of 25% as we are proactively pre-financing debt that is approaching maturity. The stronger Canadian dollar also contributed to the increase.

Turning to Slide 18. We continued to make meaningful progress towards our target of \$1 billion of pre-tax expense efficiencies by 2022, and delivered \$200 million of incremental saves in the first half of 2020 and \$900 million programmed to date.

The previously announced expense initiatives have already delivered significant benefits. We continued our disciplined approach towards vendor management, specifically focusing on rates re-negotiations, cloud computing and demand management and sought to perform select services in-house where possible. We enhanced customer experience by digitizing sales platforms and internal processes, including underwriting, claims processing and replacing paper statements with e-statements. Many of our digitization efforts have already resulted in reduced core volumes across our global business, therefore enabling efficiency.

We've maintained strong governance as it relates to new spend and continue to see benefits from the people management actions we had taken in 2019. We expect that digital acceleration, which we undertook as a result of COVID-19 will further contribute to our expense optimization. We remain committed to consistently achieving our target of a 50% expense efficiency ratio by 2022. And, as Roy mentioned, our expense efficiency program continues to progress well, and we are pleased to report that we expect to achieve our target of \$1 billion of expense efficiencies by the end of 2020, two years ahead of schedule.

Turning to Slide 19 and core expenses. Our expense efficiency program is mature, and we have built a robust expense management infrastructure and a culture of expense efficiency in recent years. We reduced core general expenses by 5% on a constant exchange rate basis compared with the prior year quarter and delivered a 3.6 percentage point improvement in the expense efficiency ratio. It's worth noting that we accomplished this while continuing to invest in our digital capabilities.

Slide 20 outlines our medium-term financial operating targets and our recent performance. Core EPS growth and core ROE were below our targets, reflecting the challenging macroeconomic environment, combined with an unprecedented level of disruption as a result of COVID-19. Nonetheless, our performance during the first half of 2020 demonstrates Manulife's resilience. It is reasonable to expect COVID-19-related headwinds to continue for the remainder of 2020.

However, despite this, we believe that the core earnings we generated in the first half of 2020 are a good overall indication of our near-term run rate. Looking to 2021 and beyond, we remain committed to our 10% to 12% core EPS growth rate and believe that it is well supported by both geographic and line of business diversification. In addition, we anticipate continued contributions from our well-established expense efficiency program and robust digital capabilities.

I would now like to turn the call over to Scott Hartz, who will discuss the performance of our general account investment portfolio and the direct impact of markets. Scott?

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**Scott Hartz** - *Manulife Financial Corporation - Chief Investment Officer*

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

Slide 22 shows a recent history of our investment-related experience, including losses of \$916 million this quarter.

My prepared remarks on last quarter's analyst call summarized how our investment-related experience is derived. Our credit experience in the second quarter was a net charge of \$20 million, which we believe is a good result in this environment, and reflective of the high-quality, well underwritten nature of our \$275 billion fixed income portfolio. As a reminder, in recessionary periods, we do expect credit results to be worse than our through-the-cycle reserve assumptions, and thus it's not unreasonable to expect additional losses in the future as the impacts of the recessionary environment play out.

Fixed income reinvestment activities have historically generated steady gains. However, we did not benefit from this item in the second quarter of 2020, given corporate spreads tightened considerably and opportunities in the private placement and commercial mortgage sectors were limited relative to the flow of premiums needed to be reinvested. Volumes in these sectors are beginning to recover, and we expect more opportunity here, particularly after the usual summer slowdown.

Hence, we would expect fixed income reinvestment to revert to a more normal trend starting this fall. We wouldn't expect second-half-of-the-year gains to the extent of the first quarter of 2020, as spreads have tightened considerably, but we still believe there will be attractive investment opportunities.

ALDA was a significant drag on our experience this quarter with a charge of \$777 million, largely due to lower-than-expected returns, including fair value charges. Our overall ALDA portfolio is roughly \$40 billion and approximately two thirds of this experience flows through to earnings, with the rest flowing to policyholders. The total return on our portfolio was down approximately 2% for the quarter, which, when compared to the slightly greater than 2% assumed return embedded in our reserves and then tax adjusted, results in the \$777 million charge. The losses spanned several asset classes with approximately one third of the charges on private equity investments, one third on real estate and the remainder in oil and gas and other. Most of our private equity investments are made through investments in private equity funds, whose valuations typically lag one quarter due to the timing of receipt of information from fund sponsors, as is customary for this industry.

Roughly three quarters of our private equity portfolio experienced in this one-quarter lag, so we are broadly seeing March valuations being reflected this quarter. The total return on this portfolio for the quarter was down approximately 5% after being down about 1% in Q1. This compares favourably to the Russell 2000 small-cap index, which is the closest public proxy for our portfolio, which was down roughly 13% year-to-date as of June 30.

While we will likely see a modest bounce back in our Q3 numbers, reflecting the Q2 partial recovery of public equities, we don't believe it will be significant. Charges on real estate were driven by appraisal losses. This portfolio is appraised each quarter by external appraisers without a lag. The total return of the portfolio was approximately negative 2% in Q2, reflecting roughly a 1% income return and a 3% appraisal loss. This reversed a 2% positive total return in Q1, so the total return year-to-date is roughly flat.

The mark-to-market loss in Q2 came largely from our office portfolio, which represents roughly 70% of the total portfolio. Multifamily and Industrial held up well. Retail declined in value the most on a percentage basis but represents only 3% of the portfolio. The lower values in Q2 reflect updated appraisal assumptions, including expectations that future rent may be lower or grow at a slower rate and likely reflects somewhat higher-assumed vacancy rates.

In some cases, they also reflect higher cap rates. Our office valuations are supported by long-term leases, which average 5.5 years, and which somewhat mutes the assumption changes. It is worth noting that there has not been a lot of trade activity in the market, making it more challenging for external appraisers to assign valuations in the current environment. While it is difficult to assess where valuations go from here, I am concerned that the longer companies take to get back to the office, the more pressure we might see on office valuations.

Finally, charges on oil and gas related to our indirect U.S. Private Equity Holdings. This portfolio, much like the private equity portfolio, is largely valued on a one-quarter lag. I noted last quarter that given the significant drop in oil prices, we expected large drops in valuations and put through a one-time estimate based on experience from the last oil price collapse. We are now recognizing true-ups to these assumptions as we've received updated information from our fund partners and sponsors. While more recently, we've seen a significant increase in spot oil prices, the forward oil prices did not materially change in Q2, so we do not expect a significant recovery in valuations based on commodity price movements since the end of Q1.

We do, however, expect our oil and gas portfolio to recover some of the losses over the medium term. In the short term, market conditions will continue to be volatile based on supply and demand fluctuations and a short-term further drop in prices cannot be ruled out.

Looking forward, our near-term investment-related experience is dependent upon the path of the economy. We expect all the returns for the remainder of the year to be more in line with our longer-term assumptions. Of course, we are in a very volatile, uncertain time and hence should expect more variable results than normal until we are through the pandemic. Stepping back, we note that the ALDA portfolio is not a fixed income



portfolio. We expect much higher returns on it than in fixed income and hence also more volatility. While we construct the portfolio to be well diversified and largely focused on lower risk assets, performance will be variable quarter-to-quarter due to its mark-to-market nature. In times of market stress, such as these, we would expect the portfolio to underperform our long-term actuarial assumptions.

We do review the expected investment return assumptions on our alternative long duration assets on an annual basis as part of the annual actuarial review. While the review is not yet complete, preliminary work indicates that a reduction in the expected investment returns for ALDA is not warranted, given that these assets are expected to deliver our assumed through the cycle returns over the long term. In fact, higher-risk premiums built into the current valuations provide a tailwind to returns in the medium term. So at this point, we are not expecting changes to our assumptions as we are comfortable the assumed returns reflect our long-term expectations.

Now 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 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 also use interest rate forms to hedge minimum interest rate guarantees in our liabilities. Our sensitivities to interest rates and equity market movements 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. Excluding the impact of gains on available-for-sale bonds, the direct impact of interest rates and equity markets was broadly in line with our published sensitivities this quarter.

We recognized a gain of \$568 million from the direct impact of equity markets, which reflects the rebound of global equity markets in the second quarter of 2020. Our variable annuity hedging program was 95% effective in hedging liability changes this quarter. We also recognized a charge of \$495 million from the direct impact of interest rates, driven by narrowing corporate spreads, the steepening of the U.S. yield curve, along with losses from increases in long-term swap spreads in Canada and a non-parallel movement of swap spread curve in the U.S., partially offset by a gain of \$1.5 billion from the sale of AFS bonds.

Corporate spreads narrowed quite significantly this quarter, which partially reversed the sizable gain recognized in the first quarter of 2020. Our AFS bond portfolio consists of government bonds that we hold in surplus and is an important component of our interest rate risk management strategy. It serves as a natural offset to other interest-related items and is particularly important when large swings occur, such as the narrowing of corporate spreads this quarter.

Our AFS bond portfolio increased in value significantly this year, and our realizations represent a little over half the total gain. Hence our AFS bond portfolio continues to have a significant amount of unrealized gains, and we will continue to use our discretion as to when those gains are realized. So, while we continue to be in a period of extreme market volatility, our hedging programs have been effective at mitigating net income variability, and we remain within our equity and interest rate risk limits.

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

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## QUESTIONS AND ANSWERS

### Operator

Thank you. We will now take questions from the telephone lines. If you have a question and you're using a speaker phone, please lift your handset before making your selection. If you have a question, please press star one on your telephone keypad. To caption the question, please press the pound sign. Please press star one, at this time, if you have a question. There'll be a brief pause while participants register. Thank you for your patience.

And the first question is from Humphrey Lee from Dowling & Partners. Please go ahead.

**Humphrey Lee** - *Dowling & Partners Securities, LLC - Analyst*

Good morning and thank you for taking my questions. My first question is related to Asia. Clearly, the lower new business gains were kind of offset by favourable claims experience. I was wondering if you can provide some additional colour in terms of how the shelters in place have affected the sales activities and claims experience in Asia kind of throughout the quarter and into July, especially given some of the countries starting to see some resurgence.

**Anil Wadhvani** - *Manulife Financial Corporation - General Manager, Asia*

Thanks, Humphrey. This is Anil. So, Asia had a sales drop of 17% year-on-year and 21% on new business value. This largely impacted on account of the COVID situation that resulted into a significant impact on the mobility of our customers as well as our distribution partners. I do want to emphasize that our core earnings, however, grew and it just kind of points to the resiliency factor as well as the diversified nature of our business in Asia. From an outlook perspective, it's a little bit more challenging for us to predict, and I'll just explain why that's the case.

So, on one end, as we progressed through quarter two, we did witness some gradual relaxation of the measures, and Phil alluded to the fact that we did witness a resurgence in the month of June. Our June sales showed a year-on-year growth. But, at the same time, we are also seeing the re-emergence of the virus in some of the markets in Asia, and specifically in Hong Kong, that's currently witnessing the third wave of the outbreak, and that obviously has resulted into additional social-distancing measures, which, needless to say, does impact the sales activity as well as the mobility of our clients as well as our distribution partners.

So that really makes it very challenging for us to kind of make a prediction into quarter three and quarter four of this year. I think what we are focused on is that we remain nimble to the situation on the ground and, as it kind of emerges. We continue to invest in technology and processes and make our non-face-to-face processes a lot more simpler. You would have noted that we continued the expansion of our distribution, mainly our agency channel, which is now up 35%, as well as we are seeing a broad level of interest in our health and protection products across many of our geographies in Asia.

To your second question on policyholder experience, and I'll comment first and then kind of hand it over to Steve if he has any further comments. But it is largely on account of the positive claims experience that we are witnessing as our customers defer nonessential visits to clinics and hospitals. I should underscore, however, that as the situation normalizes, the trend on claims experience or the positive claims experience is also likely to normalize.

Steve, I don't know whether you had any further comments to add on policyholder experience?

**Steve Finch** - *Manulife Financial Corporation - Chief Actuary*

Thanks, Anil. Nothing further to add to that.

**Roy Gori** - *Manulife Financial Corporation - President & Chief Executive Officer*

But if I could just sort of jump in, Humphrey, I think Anil's answer was spot on. And the only thing that I would add is that the Quarter Two results, certainly from a sales perspective, in my mind, were really very solid in light of an incredibly challenging environment as it relates to the COVID restrictions that are in place. And one of the things that really has come to the fore for us is the resiliency and the diversity of our business that Anil highlighted, but also the digitization efforts that we put in place over the last couple of years and that have really come to the fore in the current environment.

So, it continues to be and will be an uncertain environment as we see second waves, maybe even third waves and flare-ups. But we feel that we're in really good shape to navigate that. And the diversity of our business and the fact that we operate across different markets who are at different cycles in this crisis will certainly be an asset for us as we navigate that environment.

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**Humphrey Lee** - *Dowling & Partners Securities, LLC - Analyst*

That makes sense. My second question is related to the U.S. experience. Clearly, you had a very favourable LTC-related experience. Can you talk about what you saw in the quarter? And then was there any difference between the experience between the active life block versus the disabled life block?

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**Steve Finch** - *Manulife Financial Corporation - Chief Actuary*

Thanks, Humphrey, it's Steve Finch here. I'll take that question, and I'll start bigger picture and then get into the details and answer your question. And Anil touched on the Asia policyholder experience. We saw policyholder experience gains in Q2 across our insurance segments globally. So, in Canada, U.S. and in Asia, \$221 million pretax gain on policyholder experience. The biggest drivers were, as you note, in the U.S., also in our Group Benefits business in Canada and then to a lesser degree, in Asia, as Anil just outlined.

So, in the U.S., we saw - on Long-Term Care - we saw gains of just under USD 100 million pretax that came through our Q2 results. The biggest driver of that was higher claimant deaths. As we've seen in the news, the impact on people receiving care in facilities were disproportionately impacted by the virus. And relative to, you know if we look at a four-quarter trend, claimant deaths were up almost 25% over normal run rate.

In addition, we saw lower incidence, about 20% lower than normal, so that's less people initiating their claims. And we saw an increase in insureds leaving care, either suspending home health visits or actually leaving facilities. So, both of those trends, we believe, are just a delay in claims. People need the care, and in that case, we did not book the gain. So, we increased our IBNR by approximately \$100 million to recognize that fact.

The rest of what we're seeing in terms of direct mortality impact of COVID is primarily driven by our U.S. life business, where we saw, across the company, about \$36 million of COVID claims on life, but that was the vast majority was in our U.S. life business. And then to round out the picture in Canada in our Group business, we saw a number of different trends. We saw in our health and dental business, just less people going to receive routine care. So that was a big driver of the gains in Canada. In addition, in our long-term disability business, we saw lower incidence and higher recoveries. So, I'll pause there.

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**Humphrey Lee** - *Dowling & Partners Securities, LLC - Analyst*

So just to clarify, so the Long-Term Care piece in the U.S. was less than \$100 million positive. But then that is after you booked in a \$100 million IBNR reserve, is that correct?

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**Steve Finch** - *Manulife Financial Corporation - Chief Actuary*

That's correct.

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**Humphrey Lee** - *Dowling & Partners Securities, LLC - Analyst*

And then is there any difference between kind of the active life versus the disabled life block?

**Steve Finch** - *Manulife Financial Corporation - Chief Actuary*

Yes. So, the higher claimant deaths, that's the disabled, those are on claim. That was the 24% over normal. On the active life block, there was a small gain this quarter, probably 5% to 10% higher than normal deaths, but the biggest driver was on those on claim.

**Humphrey Lee** - *Dowling & Partners Securities, LLC - Analyst*

Got it. Thank you for the details.

**Operator**

Thank you. The next question is from Steve Theriault from Eight Capital. Please go ahead.

**Steve Theriault** - *Eight Capital, Research Division - Principal & Head of Research*

Thanks. If I could start with a question on Japan. The new business value was down over 50% year-on-year despite APE sales down 17%. Can you give us -- probably for Anil, can you give us a bit of context here on the mix? And I'm also wondering, going back to Roy's slide on APE available to be sold via non face-to-face methods - is it any different for Japan versus some of your other geographies versus the 97% you show on that slide?

**Anil Wadhvani** - *Manulife Financial Corporation - General Manager, Asia*

Yes. Thanks for the question. And Japan sales was largely impacted again on the back of the introduction of the state of emergency in response to the outbreak, and that kind of severely constrained our distribution activities in Japan. Our sales in the second quarter were \$113 million, which were down 18% year-on-year. And again, that just kind of illustrates the level of disruption that was caused. From a product mix perspective, a sales mix perspective, if you would recall, quarter two of 2019, we had very little of COLI sales, and that was largely on account of the fact that we had enforced temporary cessation of COLI sales on account of the new tax laws.

We did have COLI sales in quarter two of 2020. In fact, COLI contributed to 45% of the product mix. So, the traction on COLI was there, but the product mix obviously had an impact on the margins, both in terms of new business value as well as in terms of new business gains. From an actions perspective, what we are focused on is we are trying to kind of balance between sales and margin, given the current macroeconomic environment. We are also very focused on driving expense efficiency, and we had mentioned this in the previous quarter call as well. And thirdly, we continue to onboard new MGA partners in Japan, but at the same time, encourage them to offer non-COLI products to be able to enhance our distribution with respect to our non-COLI value proposition.

In terms of non-face-to-face, yes, we do have products in terms of non-face-to-face in Japan, though I must point out that the products in Japan are slightly more elaborate. So, for example, in case of COLI, you typically require a face-to-face interaction, so it becomes a little bit more challenging in Japan to offer all the products on a non-face-to-face basis. But yes, we do have the non-face-to-face capabilities in pretty much all markets, and that includes Japan.

**Steve Theriault** - *Eight Capital, Research Division - Principal & Head of Research*

And is the 4% lift in sales overall for Asia in June, is that kind of indicative for Japan? Or is Japan a little bit worse off?

**Anil Wadhvani** - *Manulife Financial Corporation - General Manager, Asia*

So Japan also did see a little bit of the resurgence in June. The 4% is more attributable to overall Asia. But Japan was not able to cover some of the significant impacts of, specifically in April and May, where there were much tighter state of emergency that was placed. And it was only over a

period of time that Japan started to emerge from the state of emergency. Even until today, a lot of our employees are working from home. And again, the mobility is clearly not back to its normal levels, even with some of the relaxation that we've seen in the state of emergency in Japan.

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**Steve Theriault** - *Eight Capital, Research Division - Principal & Head of Research*

Okay, thanks for that colour. And just second question on the URR. Can you share -- we've heard from a couple of peers this quarter. Can you share anything you're hearing or sensing on in terms of a potential URR charge, including the timing? And also, I guess, wondering if you'd consider moving earlier than usual, if we are going down the road of a prescribed change.

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**Steve Finch** - *Manulife Financial Corporation - Chief Actuary*

Sure. It's Steve. I'll take that one. So, on the URR, the Actuarial Standards Board in Canada is looking at the URR given where interest rates have gone and the delay of implementation of IFRS 17 by a year. Previously, they had said they did not anticipate updating prior to IFRS 17, but those two factors have caused them to look at it.

We expect them to go through their work through this year and give guidance next year. They have to look at the URR as well as stochastic calibration guidance that they give along with that. So, we think they've got a fair bit of work to do, and we don't anticipate that it will be finished this year. So, you can count on us updating in 2021 when the guidance comes out. And just for context, remember, this is -- their review and their methodology is based on a very long-term look back at interest rates. And the last two changes that have been made were 10 basis points and 15 basis points, just to give some context, and our year-end disclosure gives a sensitivity for total company, at a 10-basis-point reduction it is estimated at a \$350 million charge.

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**Steve Theriault** - *Eight Capital, Research Division - Principal & Head of Research*

I think this is just the last thing; how linear does that charge progress if it is a bit bigger than the 10 basis points?

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**Steve Finch** - *Manulife Financial Corporation - Chief Actuary*

I think, given the long look back that they've got in their historical moves, I think that guidance is pretty good in terms of if they were 15 basis points versus 10 basis points. We did take a \$500 million charge when they reduced by 15 basis points.

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**Steve Theriault** - *Eight Capital, Research Division - Principal & Head of Research*

Okay, thanks for that.

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**Operator**

Thank you. The next question is from Gabriel Dechaine from National Bank Financial. Please go ahead.

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

Good morning. I have a question for Scott or Phil or Steve on the ALDA. And I'd like to refer you to Slide 22. I recognize this year has been a tough one for ALDA valuation. But if I go back to that slide, it looks like pretty much every year, there's been some investment losses there. Just wondering what needs to happen for you to have to review some of the return assumptions in that portfolio because the potential implications there are substantial.

**Steve Finch** - *Manulife Financial Corporation - Chief Actuary*

It's Steve. I can start, and then I'll ask Scott to add to the comments. So, we do look at long-term expectations of ALDA. It's backing long-term liabilities, so, we don't look too much at short-term volatility. The review process that we undertake, there's a very close dialogue between Scott and his team and the actuarial team. In addition, the ALDA assumptions are part of our independent third-party review process of all assumptions. And when Scott's team is evaluating deals and looking at how much they're willing to pay for assets, they've got the return assumption targets in mind. And that guides how much -- the price that they're willing to pay for assets.

So, over the long term, we do expect to achieve the assumptions that are embedded. I'll pass it to Scott for any addition.

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**Scott Hartz** - *Manulife Financial Corporation - Chief Investment Officer*

Yes. Thanks, Steve, and thanks, Gabriel, for the question. When we set these assumptions, as Steve suggested, we do both: we look backward to see what returns have been, and we look forward to see what we're expecting to earn on the investments that we're currently making. And if you look back, over the last four years, on average, we've achieved our returns. And if you go back to that fifth year, that loss there was due to the big oil and gas on Slide 22 that you've been referring to. But if you look at the last 10-year history, our returns have been -- including the results we've seen thus far this year -- have been roughly 9%, which is about in line with what we're assuming.

So, if we look back at history, it doesn't seem to be any reason to change them. And then as we look at new investments that we're underwriting, we do believe we can achieve those returns prospectively on new investments. And as I pointed out in my prepared remarks, the sort of increased risk premiums we're seeing in some of the valuations actually provide a tailwind to the returns in the medium term.

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

Right. And I guess that it's not a homogeneous portfolio. I'm just wondering like if -- oil and gas has had some issues. But CRE, you mentioned in your comments that if this work-from-home situation persists, you're more concerned, I forget exactly the quote here, but how many quarters or what type of time frame would we need to see experience losses or investment experience losses before we start to think about an assumption review?

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**Scott Hartz** - *Manulife Financial Corporation - Chief Investment Officer*

So we're going to go through periods like this. We always have recessions where the returns are negative. We saw in the great financial crisis, we saw peak-to-trough valuation drops of I think 35% for the market, our portfolio did a bit better than that. So, we're going to go through these periods. And if -- and it's hard to say where office is going to go. I was sort of signaling in the near term. I'm a little concerned what appraisers might do. The bigger question is, I think, to your point, ultimately, will after we get through the pandemic, will there be less in-office work? And we think there probably will be a little bit, but we also think there's strong reason some folks want to be back to the office. And we didn't really enter into this in an overbuilt situation. So just natural growth in economy will take up that slack, and we would expect over the longer-term to be able to achieve those returns.

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**Steve Finch** - *Manulife Financial Corporation - Chief Actuary*

And Gabriel, this is Steve. The other comment in terms of when we'll look at this -- as I said, they're very long-term assumptions. We're in the middle of -- somewhere in the middle of a pandemic, and no one really knows how it's going to evolve. So, changing very long-term assumptions, I think, at this stage would be premature.

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

Okay. Thanks for that.

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**Operator**

Thank you. The next question is from Doug Young from Desjardins Capital Markets. Please go ahead.

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**Doug Young** - Desjardins Securities, Research Division - Diversified Financials and Insurance Analyst

Hi, good morning, maybe just back to you, Steve. The \$200 million charge related to the review of actuarial assumptions -- and I think that the release lists out a number of items that you're reviewing and that could have the impact -- is there any -- is there one particular area? Obviously, you've talked about ALDA, and that's not being part of this process. Is there one -- is there any particular area that you're reviewing that could have a disproportionate impact on that review?

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**Steve Finch** - Manulife Financial Corporation - Chief Actuary

Thanks, Doug. And as you know, we do a comprehensive review every year. So, there's a lot of assumptions that are being reviewed. We called out certain ones. I'll draw your attention to what's causing that modest pressure in terms of increasing reserves.

The universal life business in Canada, we're seeing lower lapses since the last study. In this low interest rate environment, people are really valuing the benefits. And we're seeing it on the larger policies. People are just hanging on to these policies. A reminder, for context, we've talked about before, that the lapse -- the ultimate lapse rates on this business, the current assumptions are under 0.5% annually, and we expect to reduce that assumption further. So that's the one I would call out at this stage.

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**Doug Young** - Desjardins Securities, Research Division - Diversified Financials and Insurance Analyst

Okay. And then just second, on the LICAT ratio, I guess, we had expected it to be a little weaker than it was. It held up rather well. Just wondering if you can give like a waterfall kind of what were the items, and you know and corporate spreads coming in would put pressure on it. Like what were the different items that caused it essentially to be flat sequentially?

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**Phil Witherington** - Manulife Financial Corporation - Chief Financial Officer

And Doug, this is Phil, maybe I should take that one. So, as you point out, there was a headwind to the LICAT ratio, which was the narrowing of corporate spreads in the quarter, but that was substantially offset by the impact of the new capital issuances during the quarter. And you may recall that we had said on the call last quarter that we would cautiously pre-finance maturing issuances, and that's what we had done during Q2. So that's had a favourable impact -- a favourable short-term impact on the LICAT ratio.

There's also been a small favourable impact from foreign exchange movements. But beyond those two items, they are the main drivers.

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**Doug Young** - Desjardins Securities, Research Division - Diversified Financials and Insurance Analyst

Okay. And just a follow-up. I mean, Phil, or Roy, I mean you have 155% LICAT. I mean, I can do the math on what the excess capital would be 120%, 130%, 140%. Like in your mind, like how much excess capital do you have currently? And how long are you willing to sit on this? And I get it's nice to have in times of uncertainty, but it looks like a substantial amount of excess capital. So, I'm just wondering if you can quantify it and how you think about it?

**Roy Gori** - *Manulife Financial Corporation - President & Chief Executive Officer*

Yes. Thanks, Doug. Let me start, and Phil might chime in as well. Well, we've sort of worked very hard on increasing the balance sheet strength of the franchise as well as our capital position. As you know, portfolio optimization was a huge focus for us over the last couple of years. We set a target of \$5 billion worth of capital that we wanted to free up by 2022. And at the end of '19, we delivered that target three years ahead of time, which obviously has gone a long way towards helping us get to the LICAT position of strength that we're in today. And while we didn't have foresight to COVID, when we went down that path, it certainly has put us in a position of greater strength and confidence as we navigate this challenging environment. In environments like this, balance sheet strength and capital are really front and center. We have disclosed the strength of our capital position and the excess that we have over supervisory minimums, and that's, in fact, included in the deck.

We haven't provided other internal targets that we have. But it's suffice to say that we feel that we're in a very strong position, and that will not only put us in good stead to navigate the current environment; it puts us in good stead as we look to the future and how we want to think about deploying capital to achieve our ambition. Obviously, organic growth is going to be our first objective and goal.

But we have other flexibility and opportunity that comes with a strong capital position. Phil, I'm not sure if you would -- you want to supplement.

**Phil Witherington** - *Manulife Financial Corporation - Chief Financial Officer*

Yes. Just a couple of supplements. We will manage the balance sheet conservatively, and that's what we are doing. And I think that's prudent in the current environment of uncertainty. It's worth pointing out that we have been building the capital ratio over a number of quarters now, for the reasons that Roy highlighted. But we have also been deploying capital along the way, so, the deployment to reduce leverage from 30% down to below our 25% targets in Q1 - we've come back above that as a result of the cautious pre-financing that's been carried out in the second quarter. But also, the increase in the dividend that we announced in February, 12%, that's now in the dividend run rate, and we do remain committed to the dividend policy in a progressively increasing dividend as well in line with our medium-term financial operating guidance.

We like the flexibility of having a strong capital position. That provides us with the ability to both invest organically as we have done this year through the renewal of our exclusive distribution arrangement with Danamon Bank in Indonesia. That was a really important strategic action for us. But also, potential deployment through inorganic mechanisms that I admit the bar is high for us on that, but if something is strategically relevant, we stand ready to move.

**Doug Young** - *Desjardins Securities, Research Division - Diversified Financials and Insurance Analyst*

Maybe I try a differently, is there a minimum LICAT that you wouldn't go below? Like would you go below 130%? Like do you care to throw a number in there?

**Phil Witherington** - *Manulife Financial Corporation - Chief Financial Officer*

Well, Doug, I'd just remind you that when we transitioned from MCCR to LICAT, the point of transition, if I recall, was 129%, and that was a strong position. The point of calibration that we gave at that time is that the old benchmark of a 200% MCCR ratio was equivalent to a LICAT of a 115%. And so, there's no doubt that we are in a strong position, but there's not really a -- I would -- certainly wouldn't call 130% the minimum.

**Doug Young** - *Desjardins Securities, Research Division - Diversified Financials and Insurance Analyst*

Okay, thank you.



**Operator**

Thank you. The next question is from David Motemaden from Evercore ISI. Please go ahead.

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**David Motemaden** - *Evercore ISI, Research Division - Research Analyst*

Good morning. Just a question for Phil. Just on, specifically, last quarter, you talked about the \$2.5 billion of injections to the local subsidiaries. I'm wondering if there were any additional injections during the second quarter of this year? And if so, how those were funded.

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**Phil Witherington** - *Manulife Financial Corporation - Chief Financial Officer*

Great. David, thank you for the question and good morning. The -- you recall correctly, I did say last quarter on the call that we'd injected approximately \$2.5 billion to our subsidiaries. Since that time, we have not down-streamed any further capital from MLI to our subs. And that really reflects the -- I think, the relative stability from a macroeconomic perspective over the time that has passed since then. But also, some of the other measures that we have taken to mitigate the sensitivity of our subsidiaries, particularly in Asia, to macroeconomic factors. So, the \$2.5 billion injection certainly stabilized the situation and there's been no need to top that up, and I don't anticipate any further top-ups given the current macro environment.

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**David Motemaden** - *Evercore ISI, Research Division - Research Analyst*

Okay, great. And I guess just a quick follow-up before I go to my next question. Just, I'm not even sure how meaningful the LICAT ratio is at this point, just given how much -- how important the local solvency ratios are. But if I think about the debt that was -- I guess you issued at the Holdco and you injected it into MLI, and that's what's increasing the LICAT to 155%. I guess once you repay that debt starting in 3Q, then should we just think about the LICAT just coming back down, obviously, not taking into account any capital generation and other movements?

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**Phil Witherington** - *Manulife Financial Corporation - Chief Financial Officer*

Yes, David, that's a good point. So, it's fair to say that the LICAT ratio is somewhat flattered at the moment by the pre-financing activity that had been carried out in the second quarter. And that it is deliberate that we are pre-financing in this environment. We are being conservative. But typically, we would pre-finance over a one or two-quarter time horizon.

We're now looking at 12 months or beyond time horizon in order to mitigate the risk that at any point markets may close as a result of uncertainty and instability. But I think the deployment of the capital that we've raised is quite clear in the medium term. In the second quarter itself, we have redeemed \$750 million of debt. There's a further \$705 million -- \$675 million maturing in the third quarter. And then when I look ahead to 2021, the maturities as well as debt that becomes available for redemption is in the order of \$2 billion. So, I think we have a lot of flexibility here.

Having said all that, I think it is an opportunistic time for us to be in the debt markets. Coupon rates are at all-time lows. And if we just look at the issuances in the second quarter, the coupon issuance rate was more than 70 basis points lower than the debt that we redeemed. So, I do see this as an opportunity for us to rebalance our debt portfolio.

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**David Motemaden** - *Evercore ISI, Research Division - Research Analyst*

Yes. Thanks Phil. I totally agree with that as well. And then just my second question for Roy and Phil as well. Just on the 10% to 12% EPS growth target that you reiterated in '21 and beyond. Hoping you can just give us a bit more of a sense for the growth rates -- the earnings growth rates that you're thinking about by geography that give you confidence that you can hit that return target?

**Roy Gori** - *Manulife Financial Corporation - President & Chief Executive Officer*

Yes. Thanks, David. I'm not going to get into any forecasting by segment or by geography. But what I would say is that we do have confidence in our medium-term targets. And in particular, the 10% to 12% growth ambition as it relates to core earnings. And that confidence comes from the strength of our position that we entered this crisis from. And again, I referred to the balance sheet and the capital position earlier, and that's really allowed us to go on offense. We've been on this agenda of digitizing our franchise for at least a couple of years. We've invested more than \$600 million on technology and infrastructure to support that digitization, and the current environment has just accelerated that trend, which we see as a tailwind in the long term.

Beyond that, the three macro trends that we feel are really critical to our industry and certainly to us, are, a) the emergence of the middle class in Asia and the growth of that middle class; b) the aging demographics globally, which obviously translates into a significant retirement gap and, quite frankly, a transfer of wealth; and then finally, the digitization.

So those three trends were relevant before we entered COVID and are relevant today. If anything, COVID has reinforced some of those trends, and in particular, digitization and the greater focus on insurance and health. So, we feel that we are very well positioned, both from a function of the geographies that we operate in and the line of businesses that we run, to really continue the agenda of growth that we've had over the several three-four years passed. And that gives us the confidence in the outlook that we have for the longer term.

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**David Motemaden** - *Evercore ISI, Research Division - Research Analyst*

Okay, great. And you mentioned expenses being a pretty big component. And I guess you're almost there, a couple of years earlier than expected on the \$1 billion of net expense saves. So, is there anything else that you're considering in terms of maybe upside to those expense saves that can help you get to the 10% to 12% goal?

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**Roy Gori** - *Manulife Financial Corporation - President & Chief Executive Officer*

Yes. Great question, David. Let me start, and Phil, please chime in. You're right. The focus on expenses has paid dividends for us and is paying dividends and is a great offset for some challenges that we're seeing this year. Again, to be able to declare the achievement of our \$1 billion goal two years ahead of schedule, certainly is something that we're proud of, but it also just illustrates how well cost and efficiency has been embraced in our organization. And I would say that it's easy to get cost out, but getting it out in a sustainable way and in a sensible way is really what's required. And for us, that means leveraging our global scale, renegotiating with vendors, looking at the digitization of our processes, so that we actually have these costs removed without any negative impact to the top line.

So, with that foundation in place, we are constantly looking at where do we go next. So, costs will continue to be a focus for us beyond 2020 and beyond the achievement of our \$1 billion target, and that will be another critical driver that gives us confidence in achieving that 10% to 12% core earnings growth. It will continue to play in the equation of our growth targets.

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**Phil Witherington** - *Manulife Financial Corporation - Chief Financial Officer*

Yes. And this is Phil. Just to add to that. You're right to point out the anticipated achievement of the \$1 billion expense efficiency target two years ahead of schedule in 2020, but it's also important to recognize that we had a second target, which is consistently achieving the 50% cost-efficiency ratio and that one, although we're below 50% this quarter, there are some revenue headwinds this quarter that helped with that ratio, so, we're very focused on making sure that that 50% is embedded into the future. And I think an important part of that is our ability to make the cost base as variable as possible. And you can see this quarter some of the progress we're making with expenses coming down by 5% fairly consistently across the reductions across all of our operating business segments. So, I think that's where our focus will be from here, making sure that the 50% is sustainable.

**David Motemaden** - *Evercore ISI, Research Division - Research Analyst*

Okay. Great. Thanks for taking my questions.

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**Operator**

Thank you. The next question is from Meny Grauman from Scotiabank. Please go ahead.

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**Meny Grauman** - *Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst*

Hi, good morning. Just wanted to talk about portfolio optimization. It seems to me like COVID makes additional portfolio optimization just harder to do. And I'm wondering if you agree with that, and sort of as a corollary, is there any opportunities there that maybe are not so obvious that you can point to?

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**Roy Gori** - *Manulife Financial Corporation - President & Chief Executive Officer*

Let me start, Meny, and I'll hand over to Steve and Naveed, who, I think, can provide some supplementary comments. And my starting comments would be that this has been, as you know, Meny, a really important focus for us. And again, the efforts to free up \$5 billion worth of capital were very significant and very helpful for us as we navigated the current environment. We still see further opportunity. Whilst we achieved our \$5 billion target, we didn't feel that it was right to stop the focus in this space. So, whilst we achieved our broad goal, we felt that this is still a key tailwind for us. If we can continue to focus in this space in a sensible way. And actually, year-to-date this year, we've already generated more than \$200 million worth of capital value. So, we think that there certainly are some challenges and headwinds that the current environment presents as it relates to portfolio optimization. But at the same time, there are also opportunities. So, we're going to continue to focus in that space, and we think that there is more opportunity for us to leverage. But let me hand over to perhaps to Naveed and Steve.

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**Naveed Irshad** - *Manulife Financial Corporation - Head of North American Legacy Business*

Hi. It's Naveed here. I tell you what - at the onset of the crisis, there was probably a pause in the market as participants sort of figured out what was happening, and that's why you see a relatively low capital release number for us in Q2. But we're actually getting back on track and hope to have a lot more to talk about in the upcoming quarters. I'd actually say that the current market appetite for blocks, again, sort of paused a little bit in late Q1, early Q2, but it's at the same level it was pre-crisis, in my view.

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**Meny Grauman** - *Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst*

And then just as a second question, just in terms of the opportunities had in M&A, you kind of touched on it, but I'm just wondering if your view of M&A has changed because of the crisis. Are you seeing the potential for any opportunistic deals out there? And specifically, we hear a lot about digitization, is digitization more of an M&A opportunity in your mind now than it was even a few months ago?

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**Roy Gori** - *Manulife Financial Corporation - President & Chief Executive Officer*

Yes. Thanks, Meny. I'd start by saying that I think we're in a fortunate position to not need M&A to achieve our medium-term targets. So, I think this is an important point. I think it's quite dangerous to need M&A to bolster growth in order to achieve goals or targets that an organization set. So, I'd start with a comment from the outset, which is that we do not believe that we need M&A to deliver against the medium-term goals that we have. We believe that there are sufficient organic opportunities through the distribution of our business and the footprint that we have to deliver those goals. So that's, in my mind, at least, a great starting point. The position of strength that we have from a capital perspective does provide us greater flexibility, a) to deal with the crisis like this, but also opportunistically, to look at opportunities to grow at a perhaps faster pace.

We're being incredibly diligent when we think about M&A. We set a very high bar in terms of the expectations and the goals that we would have for M&A. And at the same time, we think it's really critical that any M&A that you do is tied very closely into your strategy and that you can do that M&A from a position of strength and scale and that it very much fits into your existing business thought and operation. And the short answer to your question is that, yes, we will continue to look at M&A opportunities. Closer to home for us have been some of the transactions that we've done with bancassurance, as highlighted by Phil earlier, and in particular, the extension of our partnership with Danamon, which was a phenomenal partnership for us in Indonesia, and the extension is something that we're delighted about, gives us further strength in that market and further growth opportunities. So, we'll continue to look at M&A, but we'll look at that opportunistically with a very sensible bar.

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**Meny Grauman** - *Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst*

Thanks for that, Roy.

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**Operator**

Thank you. The next question is from Tom MacKinnon from BMO Capital Markets. Please go ahead.

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**Tom MacKinnon** - *BMO Capital Markets - MD & Analyst*

Yes, thanks very much, good morning. Two questions. The first really is with respect to Canadian Group experience, Steve, maybe you can comment as to what you're seeing in terms of long-term disability experience? And also, with respect to the benefit and policyholder experience you had in Canada on lower utilization of dental benefits and other health benefits. To what extent do you think this was just largely deferred, and would we get a pickup in utilization in the ensuing quarters, and why wasn't that just sort of reflected in an IBNR? And then I have a follow-up.

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**Steve Finch** - *Manulife Financial Corporation - Chief Actuary*

Sure, Tom, and I'll start, but Mike can add some colour on the Canadian experience. I think the way that we're viewing the -- and more broadly, the COVID experience is that these are temporary -- related to the buyer. So, we do expect some reversion back to more normal levels. We expect that in Canada as well, as people begin to go back to see the dentist, go back for their routine medical care, so, we do expect that to revert back to normal levels over time. And I'll pass it to Mike to add more colour on the Canadian experience.

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**Mike Doughty** - *Manulife Financial Corporation - General Manager, Canada*

Yes. It's Mike here. Steve, I think, covered it very well. We did see towards the end, there was obviously a huge drop in utilization when all of the provinces were basically shut down and restricted. Through June as provinces started to open up, we really saw people reverting back to normal levels. Now I will say it's very hard to predict. It's still, as you know, a very fluid environment out there, and we don't know what's going to happen with second waves and third waves and all those kinds of things. But at this point, we're predicting that we're going to get back to more normal levels for health and dental.

Your question about long-term disability. We've been very pleased with our results through the pandemic. Our teams have been very effective at getting people back to work even when it's working from home. So, we have not seen any sort of abnormal trends and are thinking that that should be a fairly neutral experience for us going forward. But again, we're watching the external environment very closely.

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**Tom MacKinnon** - *BMO Capital Markets - MD & Analyst*

Okay, thanks. And then the next question has to do with Asia, and it's the significant increase in agents. Maybe -- wondering what's driving that? Sometimes training and recruiting might be more difficult in this environment. How are you combating that? Or how are you dealing with that?

And especially compliance, when we see large increases in the number of agents, we just might want to be careful about compliance efforts and how is that being handled in this kind of environment? And are there any expense implications of this large increase in career agents in Asia?

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**Anil Wadhvani** - *Manulife Financial Corporation - General Manager, Asia*

Thanks, Tom. Thanks for the question. So, we did witness a 35% growth in agency year-on-year. But I do want to point out that this will moderate over the medium term. I think there were two markets that significantly contributed to this. One was Vietnam. And again, given our market position in Vietnam, we are number one and have grown quite significantly over the last couple of years. There is a natural draw from folks who want to develop their career in agency towards Manulife. And I think the second market that drove that growth was China. And again, China is witnessing over 20% growth from a year-on-year basis in agency. China growth was also a couple of factors there. One, to your point, on digital onboarding. In China, we did use digital onboarding and recruitment, so that really acted as a force multiplier. But we are also witnessing that in professionals and certain other sectors, are choosing agency profession as a career as well.

So, I think there are a couple of factors that are resulting into the high-growth measures or the high-growth percentage that you're witnessing. I do want to call out a couple of things, however. We are not only focused on quantity. We are equally focused on quality. And I think one of the key imperatives for us is how do we then convert this agency headcount growth into active agents. And towards that, our active agent account has also grown by 16%. I do want to also underscore the point that we now have in excess of 3,700 MDRT and we are one of the fastest-growing companies when you compare to top-tier insurance companies in Asia on MDRT. Clearly, recruiting, training as well as retention of agents is a key focus area for us. And you did point out the fact that when you see such a surge, you do have to also beef up your risk and control framework, and we are absolutely doing that. So for example, in Asia, we have instituted a welcome call process, whereby we call customers, offer sales, to ensure that customers have understood what they have bought as well as use that as a means of providing feedback and training to our new as well as our existing agents.

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**Tom MacKinnon** - *BMO Capital Markets - MD & Analyst*

Okay, thanks. And just MDRT, that's Million Dollar Round Table. That's a productivity measure, correct?

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**Anil Wadhvani** - *Manulife Financial Corporation - General Manager, Asia*

That is correct. And we have 3,700-plus MDRT agents as of right now.

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**Tom MacKinnon** - *BMO Capital Markets - MD & Analyst*

Okay, thanks for that.

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**Operator**

Thank you. The next question is from Paul Holden from CIBC. Please go ahead.

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**Paul Holden** - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Thanks, good morning. I want to ask a question on expected profit growth for both Canada and U.S. We've seen capital optimization measures slow, you've run ahead of pace on your expense savings, and we're also seeing some pretty good sales growth in recent quarters out of those two businesses, so just wondering when we can expect to see expected profit growth start to accelerate?

**Steve Finch** - *Manulife Financial Corporation - Chief Actuary*

Sure. It's Steve here. And you hit on a couple of the things that we've seen on expected profit growth in North America. Over the last year and a bit, we've disclosed that some of the legacy actions have provided some drag on expected profit growth. If we back up and think about what do we expect total company we would expect approximately 6% when we look at the long term trends on expected profit growth with higher growth in Asia and then lower growth in North America because of some of those legacy business.

The other thing that we are seeing currently is lower interest rates does have a -- put a drag on the earnings on in-force. That comes through over time. It does take a while for sales to come through. The size of the in-force is quite large. So, it does take time for new sales to flow through the earnings on in-force line. So, I think stepping back and sort of looking at overall company about 6%, Asia higher, North America lower is how you should think about it.

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**Paul Holden** - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Okay. Fair. And then just a follow-up sort of to that question, maybe more broadly on the expense savings. Like, where specifically should we look for that to show up in terms of the -- either the SOE statement or the segmented reporting?

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**Steve Finch** - *Manulife Financial Corporation - Chief Actuary*

Sure. I can start, and Phil can add his thoughts. I mean, the -- I like looking at that efficiency ratio because that is how you can see that the -- that we're making progress overall in terms of our medium-term objective. And then in terms of showing up in the source of earnings, it shows up in our experience line. So embedded in that experience gains line is typically where it shows up. But I like the focus of having that efficiency ratio.

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**Phil Witherington** - *Manulife Financial Corporation - Chief Financial Officer*

Thanks, Steve. And the only point I would add there is that looking at the profit and loss account, the general expenses is a good indicator as well as to the amount of expense benefits that are flowing through, and that's where we've really brought the expense growth rate down from the historic 7% to 9% down to the 3% to 5%. And then this quarter, given the macro environment that we're seeing, the efficiency measures that we've put in place, the variability of the cost base, we've put that down to negative 5%, so, I think that really is testament to the efficiency program we've rolled out.

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**Paul Holden** - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Okay. Thank you.

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**Operator**

Thank you. The next question is from Mario Mendonca from TD Securities. Please go ahead.

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

Good morning. If I could go back to ALDA just for a moment. The -- I see the way your ALDA return assumptions are, on average, 9.1% before the PfAD -- sorry, 9.3% before the PfAD, 6.1% after the PfAD. Could you talk maybe on a pre-PfAD basis where you would -- what asset classes are capable of generating like an 11% plus return? And maybe compare that to the ones that the asset classes that are more around the 5% or 6% level. And of course, these are pre-PfAD numbers. It would be helpful to understand what asset classes you think are still capable of delivering that in this environment.

**Scott Hartz** - Manulife Financial Corporation - Chief Investment Officer

Sure. Sorry. Thanks, Mario. It's a good question because it's not a homogeneous portfolio, to your point. And as we looked at the history of returns, some have had higher returns, some have had lower returns, and that's clearly going to be the case going forward. So, if I look at the lower returning assets. I don't think we're investing in anything where we'd expect a 5% to 6% return, but maybe more in the 8% return is where we would expect things like unlevered real estate. Our real estate portfolio, as a lot of our asset classes, we play in the lower end of the risk return spectrum. So, it's unlevered, tends to be in sort of gateway cities, and it's hard to achieve that 9.3% return you quoted on real estate.

We do do some deals. We do some development in real estate, which provides some extra return that gets us there. But we would expect lower than our average return on real estate. We'd also expect that on our timber portfolio. That again, is unlevered, very stable returns, but tends to be a bit lower. Where we would see higher returns is certainly in private equity. Historically, private equity has been a much higher return asset class than that, and we would expect that going forward. Oil and gas is a bit of a conundrum, and it's become a very small part of the portfolio, so it's probably not worth spending much time on. But my perspective is that it will provide a much higher return than that going forward, given how much it's been beaten down.

It's a little ironic that when we have bad returns we get a lot of questions about how sustainable are your return assumptions. It's really after you've had a downturn that returns should improve. We saw that after the GFC. The returns were very strong for a few years. We would expect something similar here. It's when we're blowing out high returns that I'd encourage you to continue to ask us those questions: are those, you know, can we achieve those? So, oil and gas would be higher; private equity.

Infrastructure is an interesting asset class, that's more probably in the middle. We could reach out on infrastructure, take more risk and generate higher returns but again, we prize having very little volatility in this portfolio. And maybe it hasn't felt like that the last couple of quarters, but the return numbers, as you've seen, you know our return this quarter was minus 2%, which, you know, you compare that to like what (and that's a very bad quarter for us), what a bad quarter it is for public equity markets, and it's a fraction of the volatility. So, within infrastructure, which has held up actually very well, and year-to-date is on target for its returns, and that's because we stay in the more stable range, which gets us around those -- that average return we're looking for.

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

Great, I just have a follow-up on that then. If you had to take assets out of ALDA, let's just use ALDA as one particular big asset class. And you had to take, say, \$1 billion out, what would be the sort of next best return you could generate outside of ALDA? So, if 9.3% is the average in ALDA -- what's the next best? Would it be an average of, say, 7%? I'm just trying to think of what the next best would be, because presumably ALDA would be your highest returning asset block.

**Scott Hartz** - Manulife Financial Corporation - Chief Investment Officer

Yes. It -- within ALDA - I'm not sure if the question is within ALDA, like if I took \$1 billion out what it would be. But we have ALDA, we have fixed income, we have public equity. Fixed income, clearly, the returns are a lot lower. You can see where interest rates are, and corporate spreads are. But there's not really much in between that we would invest in.

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

So the next best would be -- it would be fixed income with returns of -- where were those are -- those would be like 4%, 5% then?

**Scott Hartz** - Manulife Financial Corporation - Chief Investment Officer

Yes, probably even below that, probably 3, 3%ish, 3% to 4%, I would say.

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

And then, sorry my final question then: I know IFRS 17 is quite a ways in the distance still, but it's something I'm starting to think about. What happens in IFRS 17? Do all these sort of excess returns that are built into the reserve, essentially lower reserves because of the excess returns, do all those, let's call it, lower reserves then have to be booked? Like is there just a big charge against shareholders' equity to adjust your reserves in an IFRS 17 world because of the use of ALDA?

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**Phil Witherington** - Manulife Financial Corporation - Chief Financial Officer

So Mario, this is Phil. I'll make a start on that, and Steve, feel free to supplement. One of the characteristics of IFRS 17 is that the valuation of assets and liabilities are disconnected. And I think that's important because -- it's important to understand because what it means is there is then greater flexibility and changes, if you like, to the asset portfolio to the extent changes are made, there isn't an impact - corresponding impact - on the liabilities. Of course, the liabilities would be valued with a discount rate that reflects the risks of those liabilities.

So, I think it's important when we look at our portfolio now with the current lens and with an IFRS 17 lens, we look at the underlying economic rationale for investing in various asset classes. And this is where we do believe that ALDA has an important role because it generally doesn't have maturity dates, it gives rise to stable recurring cash flows, and it's a good match, therefore, for our long-term liabilities. It's a good inflation hedge as well, so, I think for all those reasons, we have flexibility as we enter into IFRS 17, but remain committed to ALDA. Steve, is there anything that you wanted to add?

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**Steve Finch** - Manulife Financial Corporation - Chief Actuary

Yes. Just a couple of additional points to expand. So, for our long-dated liabilities, where they're not liquid - there's something bad has to happen for someone to make the claim. In IFRS 17, you apply a illiquidity premium, so that boosts the discount rate for long-term liabilities. The other interesting point is that for ALDA -- and agree that we -- it is an asset class that's performed well, and it is very suitable for some of our long-dated liabilities.

One thing under IFRS 17 that is different than today is if we did change return assumptions under today's regime, that's all capitalized upfront through net income. That's not the case under IFRS 17 because of that delinking of assets and liabilities.

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

Okay. So, there's actually some advantages, then, under IFRS 17 and an ALDA world -- there isn't the big massive hit when you change the assumptions. But just to put a final point on, are you saying that the illiquidity premium on the long-dated liabilities would be consistently high, such that you would not have to take a big hit against your book value on conversion to IFRS 17 because of the ALDA?

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**Steve Finch** - Manulife Financial Corporation - Chief Actuary

I think it's too early to comment on opening balance sheet. There's so many things that go into IFRS 17, so, we're not prepared at this time to comment specifically on that transition balance sheet. We'll provide a lot more information as we get to IFRS 17.

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

Thank you.



**Operator**

Thank you. The next question is from Nigel D'Souza from Veritas. Please go ahead.

**Nigel D'Souza** - *Veritas Investment - Investment Analyst*

Thank you. Good morning. Two quick questions from me. First, I just want to touch on your credit experience. Scott, you mentioned that you expect credit results to run a bit worse than your cycle reserve assumptions in a recessionary environment, and I was wondering if you could expand on that? I mean, year-to-date we've seen negative credit experience concentrated in the non-investment-grade bucket, which is -- which Manulife has very little exposure to. So, the negative credit experience, is that just from an expectation for probability defaults to increase across the credit spectrum? What do you see the driver there? And could you touch on what drove impairments for credit experience this quarter?

**Scott Hartz** - *Manulife Financial Corporation - Chief Investment Officer*

Sure. Thanks for the question, Nigel. So yes, as a reminder, our credit experience comes from two sources. One, it comes from if we impair an asset. And secondly, it comes from downgrades, and then we have to put additional reserves up to allow for higher future expected defaults. And in the first quarter, we saw most of the result, we had a \$50 million loss relative to long-term assumptions. That was really being driven by a lot of downgrades, and that came out of oil and gas, materials, consumer cyclicals, what you might expect in this environment.

In the second quarter, we've actually -- downgrades have really slowed down significantly. We didn't see a lot of downgrades. We did see impairments, and they really came out of one particular area, which I did flag in the first quarter call. Within our oil and gas portfolio, we had three offshore drillers, and we ended up impairing all three of them. They have not all gone into bankruptcy - one has, but we just did not think those were going to recover, so we've impaired those, and that's generated, not all of the impairment charge, but most of the impairment charge in the second quarter. So then looking forward, as time rolls on, it's obviously very much a function of how this pandemic plays out. But we do expect companies to come under increasing pressure. I think the good news and probably what's prevented more downgrades than we might have otherwise expected was that companies and investment-grade companies, in particular, which, as you point out, is 97% of our book is where we wouldn't really expect any impairments, but we might worry about downgrades. They've really had access to capital because of these quick moves by central banks.

So, they've got liquidity, that can bridge them through a time period, and that prevents a lot of immediate downgrades. But the longer this plays out and the more revenues are pressured, ultimately, they have the liquidity, but you notice that the leverage statistics go up and we probably would expect continued heightened downgrades in this environment. I think we're feeling better about it than we were last quarter when we talked about this. So -- but we still would expect them to be elevated. And the longer this goes on, the more pressure companies will come under.

**Nigel D'Souza** - *Veritas Investment - Investment Analyst*

Okay. That's really helpful. And just a last quick question on your investment-related experience. I understand there's a lot of moving parts, and you mentioned the lag for private equity and real estate valuations. But it sounds like the unfavourable experience that you've had in the first quarter, it's largely played out, and you don't expect that to continue in the second half. Is that fair to say? And is it also fair to say that you're still on track for core investment gains to restart in 2021?

**Scott Hartz** - *Manulife Financial Corporation - Chief Investment Officer*

Yes. Thanks. That's exactly right. I mean, I'm feeling good about where our portfolio is valued at this point relative to our current conditions, right? And in fact, maybe there's a little bit of upside given the lift we saw in the public markets in the second quarter, and we don't have all the second quarter parks in private equity in oil and gas. And maybe there's a little bit of a lift there. As I said, I'm a little cautious on real estate, I argue with my real estate folks, they remain convinced that values will hold from here. But anyways, to me, if I had to point to one part, it could be a little soft, and I just mean a little soft. I don't expect big changes.

But as we see, it's a big portfolio and even small changes can matter. So, where we sit now, I really do expect to achieve our CALM returns for the remainder of the year and then going forward. But that's based on where we are, where the capital markets sit, what the expected course of this is and getting a vaccine probably early next year. And understanding there will be other waves, as we've seen in Asia and in some of the states in the U.S., but continual progress to accompany -- the countries reopening.

If that changes in a negative way, then, of course, all bets are off. So finally, resetting the clock next year, yes, I feel good about achieving our investment gains target.

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**Nigel D'Souza** - *Veritas Investment - Investment Analyst*

Okay. Thank you. Appreciate the colour.

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**Operator**

Thank you. The next question is from Darko Mihelic from RBC Capital Markets. Please go ahead.

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**Darko Mihelic** - *RBC Capital Markets - MD & Equity Analyst*

Hi, thank you, good morning and thanks for extending the call. I wanted to revisit, Steve, your comments earlier on in the call. You mentioned in Long-Term Care that your -- you had 24%, 25% higher deaths versus the four-quarter trend. And you also mentioned a 20% lower incidence. Now when I look at the impact on net income for changes to the non-economic assumptions for Long-Term Care, the numbers look far bigger. So, in other words, with a 24% higher death rate, you should have seen a much bigger impact and 20% lower incidence and realize it's an IBNR, but can you help reconcile your comments to your disclosure on changes to assumptions for Long-Term Care?

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**Steve Finch** - *Manulife Financial Corporation - Chief Actuary*

Sure, Darko. Thanks. And it's really as simple as that we're seeing one quarter of variance versus our assumption. The disclosures on changes assumptions, that's if we were to change the assumption going forward. We don't expect these trends to be long-term -- they're really related to what's happening with the pandemic, so, these are short-term variations from our long-term assumptions. So, they're not capitalized impacts.

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**Darko Mihelic** - *RBC Capital Markets - MD & Equity Analyst*

Fair. And -- which is what I thought you were going to answer. But I guess the understanding that your position right now is, from what I'm gathering, is that COVID-19 is a very temporary impact on most of your books of business. What is the -- I mean, how much data do you need? And what is the early work that you're seeing from the actuarial profession on COVID-19 and the potential longer-term impacts of it?

I'm coming from a non-actuarial background, but my early read is it's a flu. It's a bad one. A vaccine will not eradicate it, so it will, therefore, be with us probably forever, much like H1N1. And is the early view then that this will have a simply higher mortality rate for the elderly? Or - over to you, but what's the early work in the early read on the actuarial profession on the longer-term impact from COVID-19, recognizing that this is really early? But I'd like to get some idea of what you're seeing so far on that side and on that angle.

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**Steve Finch** - *Manulife Financial Corporation - Chief Actuary*

Sure. And I think, first, a reminder that we've got a diversified book of business overall, where we've got exposure to mortality and longevity. So, that -- as we've seen, that's provided some balance through this -- through the pandemic. In terms of longer-term trends, I have seen papers that are -- I would call them more speculative now in terms of whether there'll be ongoing respiratory challenge for people that have had the virus. I

don't think we'll know for some period of time in terms of what longer-term implications might be. Not surprisingly, we've been quite focused on short term, where we've seen -- the retail life insurance population - generally higher means, higher income than the broad population - has not been impacted as badly. And then we've seen, as we note in the care facilities, that they've been disproportionately impacted. The longer-term impacts, we will wait and see and study very closely.

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**Darko Mihelic** - *RBC Capital Markets - MD & Equity Analyst*

And how much more data do you think you need before you really move on any assumption?

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**Steve Finch** - *Manulife Financial Corporation - Chief Actuary*

So in the short term, I think we just have to see how the pandemic plays out. We can't predict how things are going to evolve. But once Long-Term Care - we believe that the people that have suspended care, they need the care. And we think we'll see that come back over the short term. Short term is hard to define because we don't know how the pandemic will play out. It's really when will people feel safe to have caregivers in their home. Or go back into facilities. So, I won't give you a time frame because it does depend on how the pandemic plays out. And then we will go to school on looking at longer-term trends and evaluate accordingly.

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**Roy Gori** - *Manulife Financial Corporation - President & Chief Executive Officer*

Yes, let me just add, Darko. I think you're asking a really good question. And quite frankly, it's a question that we're spending a lot of time trying to analyze and understand and anticipate, as are many others in the industry and certainly the actuarial profession. But it's still way too early to declare what the long-term consequences of COVID are, and there is still way too many unknowns for that. But we will definitely keep you updated as we learn more and as we get confidence as to how this will play out. And quite frankly, what's front and center right now for us is how the short term and the medium term will pan out. That is really what's front and center and, as I've said many times, I expect that there's going to be a lot of uncertainty and volatility until we see an at-scale deployment of the vaccine. And even then, there's some question marks around how effective that vaccine will be - will it be a once and done, or will you need multiple vaccines to stay immune? Will the virus itself mutate? So, clearly, something we watch very closely. And the question you're asking is a really good one. But the short answer is way too early to declare the long-term on this one and navigating the short to medium-term is really front and center.

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**Darko Mihelic** - *RBC Capital Markets - MD & Equity Analyst*

Fair enough, but I could appreciate that entirely. Just last update, Steve, if you can, premium rate increases, the size of the reserve you have there? And is there any -- has there been any negative impact or any issues with getting premium rate increases?

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**Steve Finch** - *Manulife Financial Corporation - Chief Actuary*

Sure. I could start, Naveed can add if he'd like. We have continued to make steady progress at achieving the premium increases that we're seeking. If you recall, we had embedded \$1.9 billion in our reserves as of the last basis change. And I remain very comfortable that we're making good progress and we have achieved that anywhere from then.

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**Darko Mihelic** - *RBC Capital Markets - MD & Equity Analyst*

Great. Thank you very much, appreciate that.

**Operator**

Thank you. There are no further questions at this time. I'd like to turn the meeting back over to Ms. O'Neill.

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**Adrienne O'Neill** - *Manulife Financial Corporation - Global Head of Investor Relations*

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 thank you for your participation.

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