Manulife

The role of *private assets* in target-date funds

The Manufacturers Life Insurance Company

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Key takeaways

- Target-date solutions grow assets early, then gradually derisk by reallocating to fixed income for capital protection and reduced volatility, preserving purchasing power near retirement.
- Private assets are non-public investments such as real estate, timberland, farmland, agricultural crops, infrastructure, and debt.
- Private assets can help protect capital and reduce volatility by providing stable income streams that may cushion market downturns, while offering diversified returns and a potential hedge against inflation through real asset exposure.
- Defined contribution members benefit from reduced volatility and steadier growth as private assets are added later in the portfolio mix. This encourages long-term investing and helps to build stronger, more sustainable retirement savings.

The goal of target-date solutions

Target-date solutions can be a popular investment vehicle for defined contribution plans. They offer plan members the option to grow their assets more aggressively when they're younger and gradually derisk as they age. This allows members to achieve continued, balanced growth while preserving their capital.

Manulife's target-date solutions in Canada align with this strategy. They maximize growth in the years furthest from retirement and increasingly protect that growth as members approach retirement. This can provide members with a great opportunity to grow their nest egg.

Using target-date solutions to enhance retirement portfolios

In the years furthest from retirement, Manulife Investment Management target-date funds allocate to core equities such as Canadian, U.S. and international large caps, as well as to higher beta assets like small- and mid-cap equities and emerging markets. As derisking begins, equity risk is reallocated to higher-growth fixed income and private assets. Private assets, in particular, continue to offer growth potential while also providing significant downside protection and volatility mitigation. As the glide path derisks over time, private assets continue to play an increasingly important role in mitigating inflation and protecting members' purchasing power.

Our scope of private assets

At a time when private assets are becoming appealing in defined contribution plans, we'll focus on why we've been allocating to these assets within Manulife's target-date solutions since their launch 20 years ago.

When we launched our target-date solutions in 2005, private mortgages were a key component of the portfolios, and we've since been thoughtful about how to continue expanding private asset exposure. Private real estate was introduced in the early 2010s, and in the first half of 2025, we further enhanced the portfolios with a globally diversified private real asset strategy, expanding exposure to U.S. and European real estate, infrastructure, timberland, farmland, and direct lending.

What are private assets?

Private assets refer to investments that aren't publicly traded. These include physical assets owned by companies, such as real estate, timberland, farmland, agricultural crops, infrastructure, as well as debt issued by these companies. The value of these assets is typically determined through a periodic (often quarterly) valuation process, rather than a daily valuation based on publicly traded investments. While these assets are largely illiquid on their own, they can be pooled into a collective investment vehicle, which is typically reserved for larger asset bases such as high-net-worth and institutional investors. However, when paired with liquid, publicly available securities, Manulife can apply them in retirement saving solutions, such as target-date funds.

Why allocate to private assets?

There are several reasons why exposure to private assets is appropriate for members saving for retirement.

I. Return characteristics

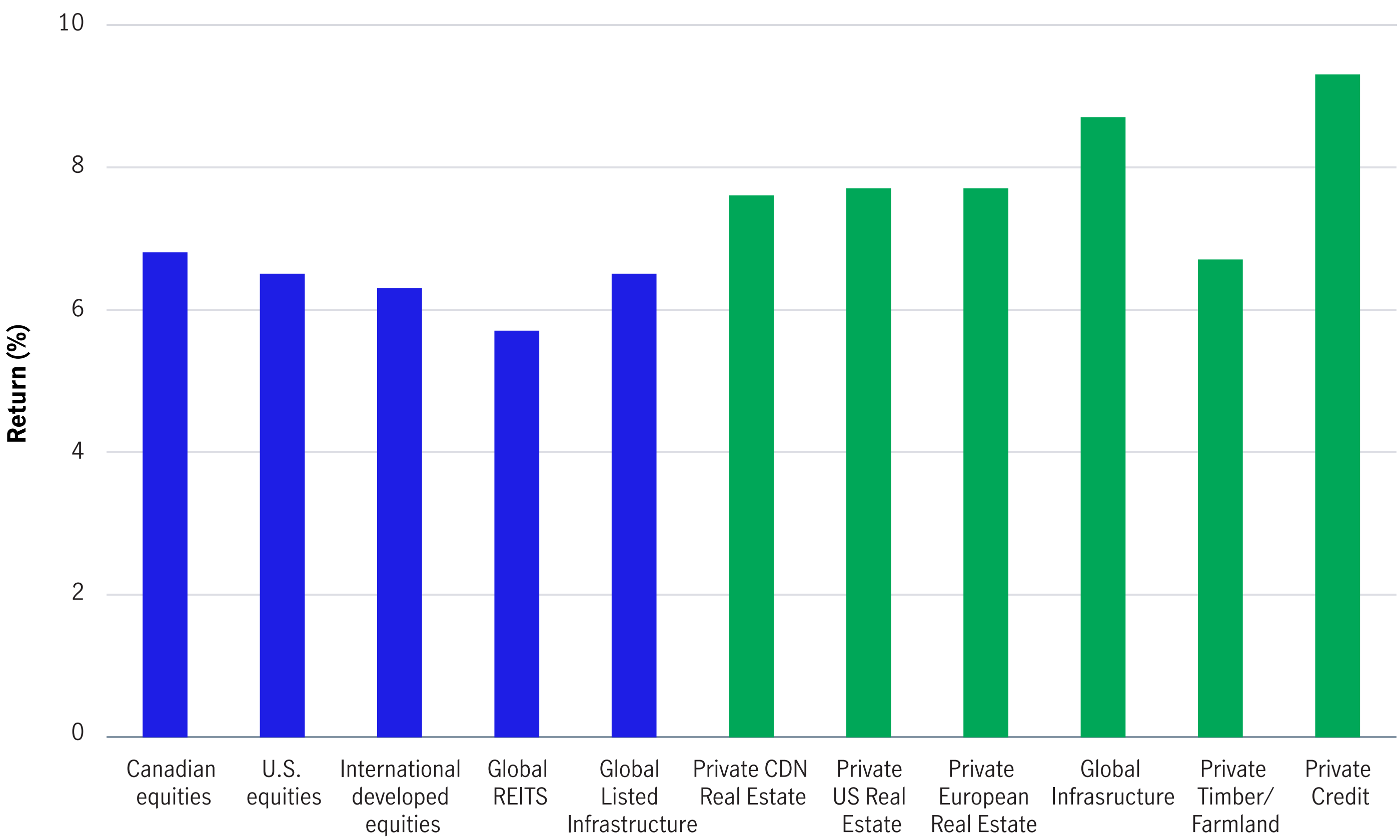
Private assets offer differentiated return drivers relative to public assets. Their market values are driven by contractual income, underlying asset-level economics, and long-term structural growth rather than short-term market beta.

A key component of these returns is the illiquidity premium, which is the additional return members earn for committing capital that can't be traded daily. By allocating to private assets through near-dated vintages, members approaching retirement can access this additional source of return.

In addition, private assets generate cash flows, such as rental income from real estate, proceeds from agricultural production, timber sales, or usage fees from infrastructure assets, that are typically more predictable than public-market dividends. These revenues are often contractually set well in advance, sometimes even indexed to inflation, and are less sensitive to economic cycles.

The higher expected return associated with private assets is reflected in our proprietary long-term return projections. These returns also provide members, especially those nearing retirement, with a greater sense of stability.

Long-term return projections for select public markets equities and private assets



Source: Manulife Investment Management Multi-Asset Solutions Team, December 31, 2025. Returns in CAD. Asset class forecasts are comprised of inputs driven by proprietary Manulife IM research and are not meant as predictions for any particular index, mutual fund, or investment vehicle. To initiate the investment process, the investment team formulates five-year and long-term risk and return expectations, developed through a variety of quantitative modelling techniques and complemented with qualitative and fundamental insight. Assumptions are then adjusted for a number of factors. This chart contains forecasts reflecting potential future events and is only as current as of the date indicated. There is no assurance that such events will occur, and the actual asset class return may be significantly different from that shown here. This material should not be viewed as a recommendation or a solicitation of an offer to buy or sell any investment products or to adopt any investment strategy. Past performance is not an indication of future results. It is not possible to invest directly in an index.

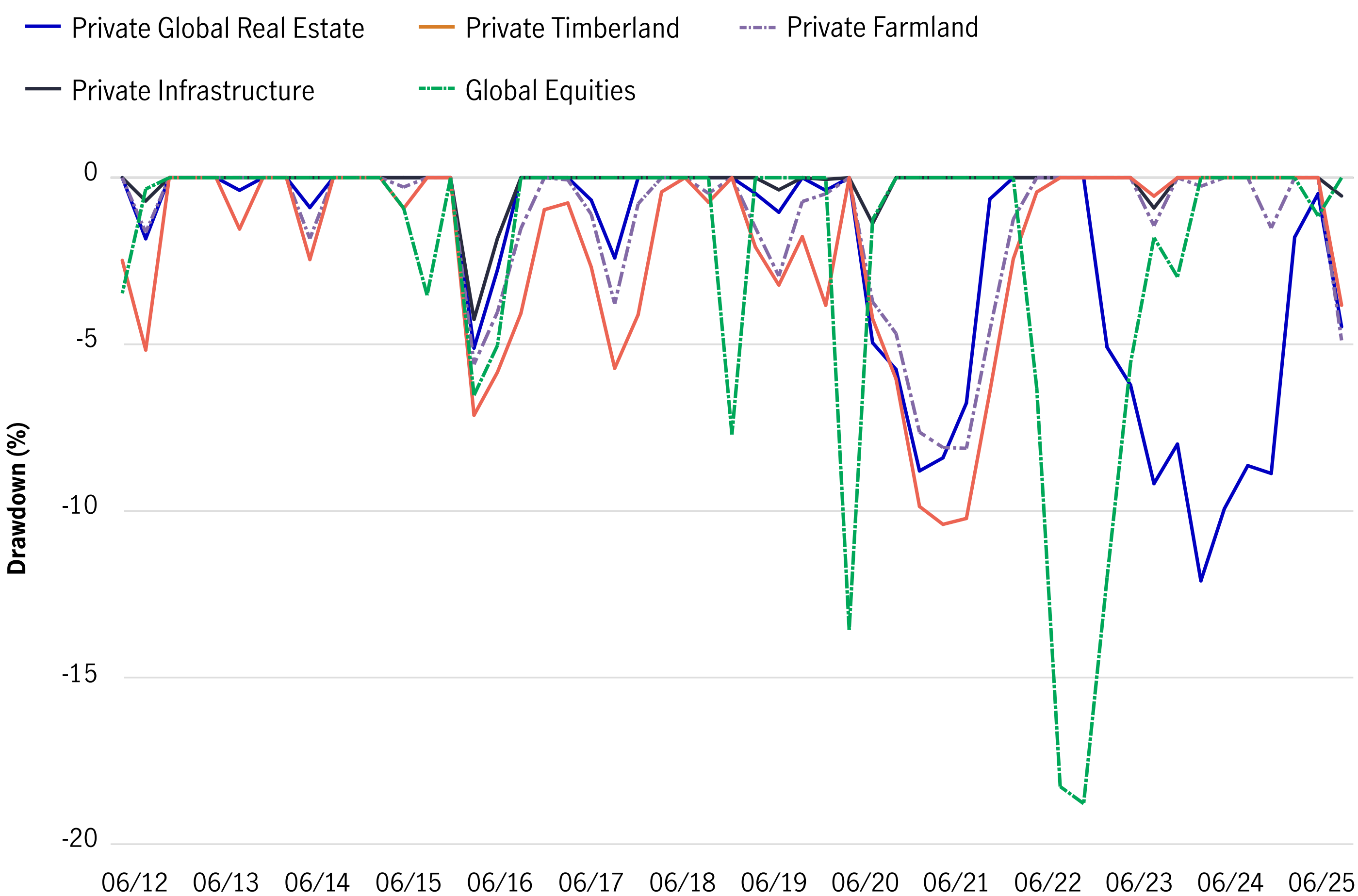
II. Capital protection

Private asset investments are typically evaluated based on the stability of their cash flows and the value of the underlying assets, with contractual features in place to help support capital protection.

Private assets also benefit from a more stable, long-term investor base, which tends to reduce portfolio churn relative to retail-oriented public vehicles. This "stickier" capital allows managers to maintain a focus on fundamentals during market downturns, rather than reacting to short-term fluctuations, further supporting capital preservation for members later in the glide path.

Finally, as covered previously, private assets generate a meaningful portion of total return through income, which continues to accrue even during market drawdowns. This income component helps cushion declines in asset values. For members later in the glide path, when preserving accumulated savings is critical, private assets provide an additional layer of protection that complements public investments by buffering downside risk when it matters most.

Drawdown



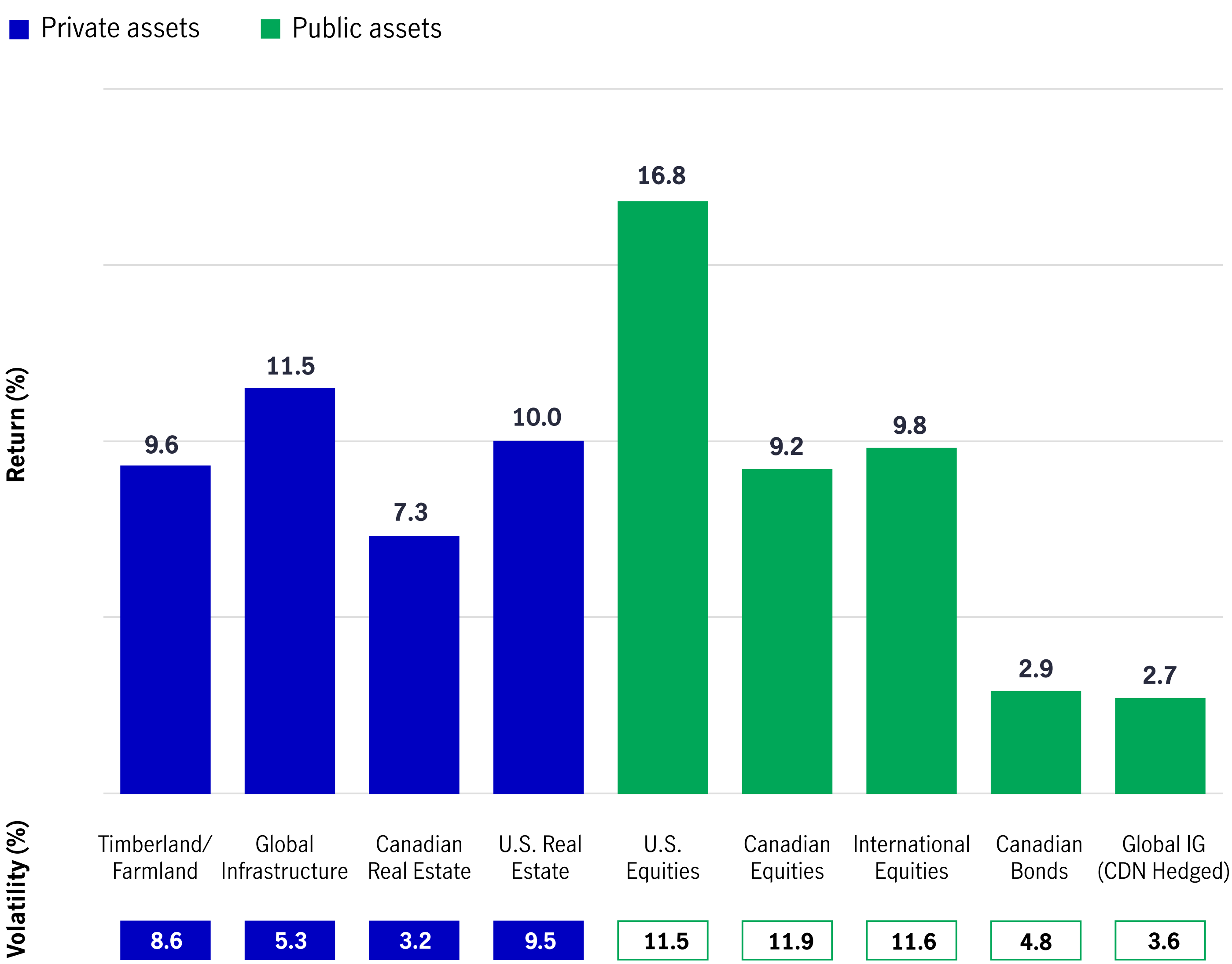
Source: Manulife Investment Management, December 31, 2025. Returns in CAD. For the period June 30, 2012, to June 30, 2025. Global equities represented by MSCI AC World GR Index; Private Timberland represented by MCREIF Timberland index; Private Farmland represented by NCREIF Farmland Index; Private Infrastructure represented by the Burgiss Infrastructure Index; Private Global Real Estate represented by MSCI GLOBAL QUARTERLY PROPERTY INDEX.

III. Volatility

Private assets tend to exhibit lower observed volatility because they're not repriced daily and are less influenced by short-term market sentiment. Valuations are driven primarily by underlying asset fundamentals and cash-flow performance rather than temporary market dislocations.

Within the glide path, particularly after de-risking begins and members are nearing or entering retirement, this volatility dampening helps smooth the portfolio's growth trajectory, resulting in smaller peaks and valleys over time. A smoother investment experience reduces the likelihood of sharp drawdowns that can prompt reactive decision-making, increasing the probability that members will remain invested through market cycles and are positioned to participate in subsequent recoveries.

15-year annualized returns / risk as of June 30, 2025



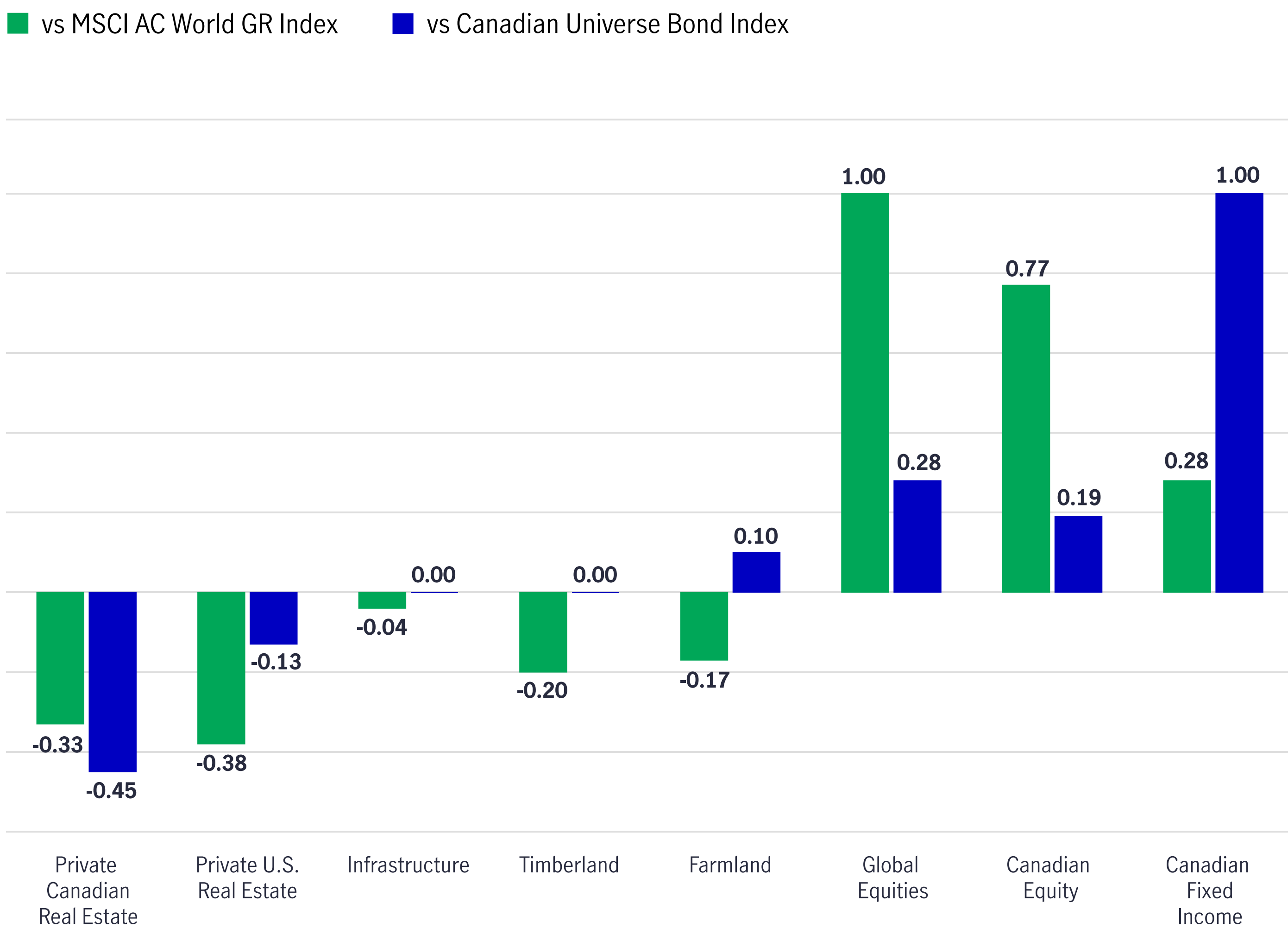
Source: Manulife Investment Management, Morningstar as of June 30, 2025. Representative indexes: Timberland/Farmland: 50% NCREIF Timberland/ 50% NCREIF Farmland; Global Infrastructure: Burgiss Infrastructure Index; Canadian Real Estate: MSCI Canadian Property Index; US Real Estate: NCREIF Property Index; U.S. Equities: S&P 500 TR Index; Canadian Equities: S&P/TSX Composite TR Index; Canadian Bonds: FTSE Canada Universe Bond Index; U.S. Bonds: Bloomberg U.S. Agg. Bond Index. All returns are in Canadian dollars. For illustrative purposes only.

IV. Diversification

Private assets broaden investment opportunities beyond traditional public equities and bonds by providing exposure to a wider range of sectors, capital structures, and economic drivers. Due to their infrequent trading, their return patterns tend to be less influenced by short-term market sentiment, technical factors, and geopolitical noise that often affect traditional portfolio building blocks.

This results in lower correlation and more balanced performance across market cycles. In the context of our glide path, incorporating private assets reduces reliance on any single source of return as the glide path derisks, improving overall portfolio efficiency and helping to support more consistent outcomes for members as they approach and move through retirement.

Correlation of private markets vs. public markets



Source: Manulife Investment Management, June 30, 2025.

V. Inflation hedge

Inflation can erode the real value of both savings and investments, making the protection of purchasing power increasingly important as members approach retirement. Many private assets derive their value from essential goods and services, giving them a more direct connection to inflation compared to traditional financial assets. As prices rise, these assets often benefit through higher income, stronger asset values, or both.

Private assets are closely linked to key components of inflation. Infrastructure assets are tied to transportation and utilities, farmland to food production, timberland and real estate to housing, and logistics assets, such as shipping and warehousing, to the global supply chain. Exposure to these underlying drivers provides a natural hedge, as revenues are often supported by long-term contracts, regulated pricing, or demand that persists across economic cycles. As hard assets, these investments tend to retain real economic value as the purchasing power of money erodes.

In addition, many private assets are structured so that their cash flows grow with inflation, either through pricing power or through contracts explicitly indexed to inflation. This enables returns to keep pace with rising costs more effectively than nominal assets such as traditional bonds, whose income is fixed.

This relationship has been evident over the past 20 years, with private assets such as timberland, farmland, and infrastructure delivering strong performance across both rising and falling inflation regimes. As illustrated, private assets have generally outperformed traditional equities and fixed income during periods of rising inflation, while still delivering competitive returns when inflation moderates. This consistency across inflation environments has made private assets a core allocation for pension schemes globally. For defined contribution members, incorporating exposure to real estate, infrastructure, timberland, and farmland within the glide path helps protect purchasing power and supports more resilient retirement outcomes over time.

Real assets offered stronger returns when inflation was rising

Average annual performance in rising/falling inflation regimes over the past 20 years

Real assets have provided a strong hedge against inflation

Past performance does not guarantee future results.
Source: Morningstar Direct, Average 12-month rolling annualized returns from June 30, 2005, to June 30, 2025. Returns in USD for representative indexes: Farmland: NCREIF Farmland; U.S. Real Estate: NCREIF US Real Estate; Infrastructure Equities: S&P Global Infrastructure TR Index, Timberland: NCREIF Timberland; Commodities: S&P GSCI TR Index; U.S. Bonds: Bloomberg U.S. Agg. Bond Index; U.S. Equities: S&P 500 TR Index; Direct Infrastructure: Burgiss Global Infrastructure Pooled Composite. Returns in CAD for representative indexes; Canadian Equities: S&P/TSX Composite TR Index; Canadian Bonds: FTSE Canada Universe Bond Index. U.S. CPI data from Bureau of Labor Statistics. Rising inflation is defined as periods when annual U.S. CPI >2.5% and falling inflation defined as periods when annual U.S. CPI<2.5%.

How can private assets benefit defined contribution investors?

An enhanced investor experience

As target date investors, our objective is to deliver prudent wealth growth while minimizing drawdowns and managing volatility to provide a smoother ride for our members. This approach keeps them invested in more challenging market environments. Private assets align with these objectives by supporting steadier growth and reducing reliance on short-term market movements. By helping members remain invested through market cycles, private assets can increase the likelihood of higher account balances at retirement, reducing the risk of outliving savings during the decumulation phase.

Asset classes continue to work for retirees

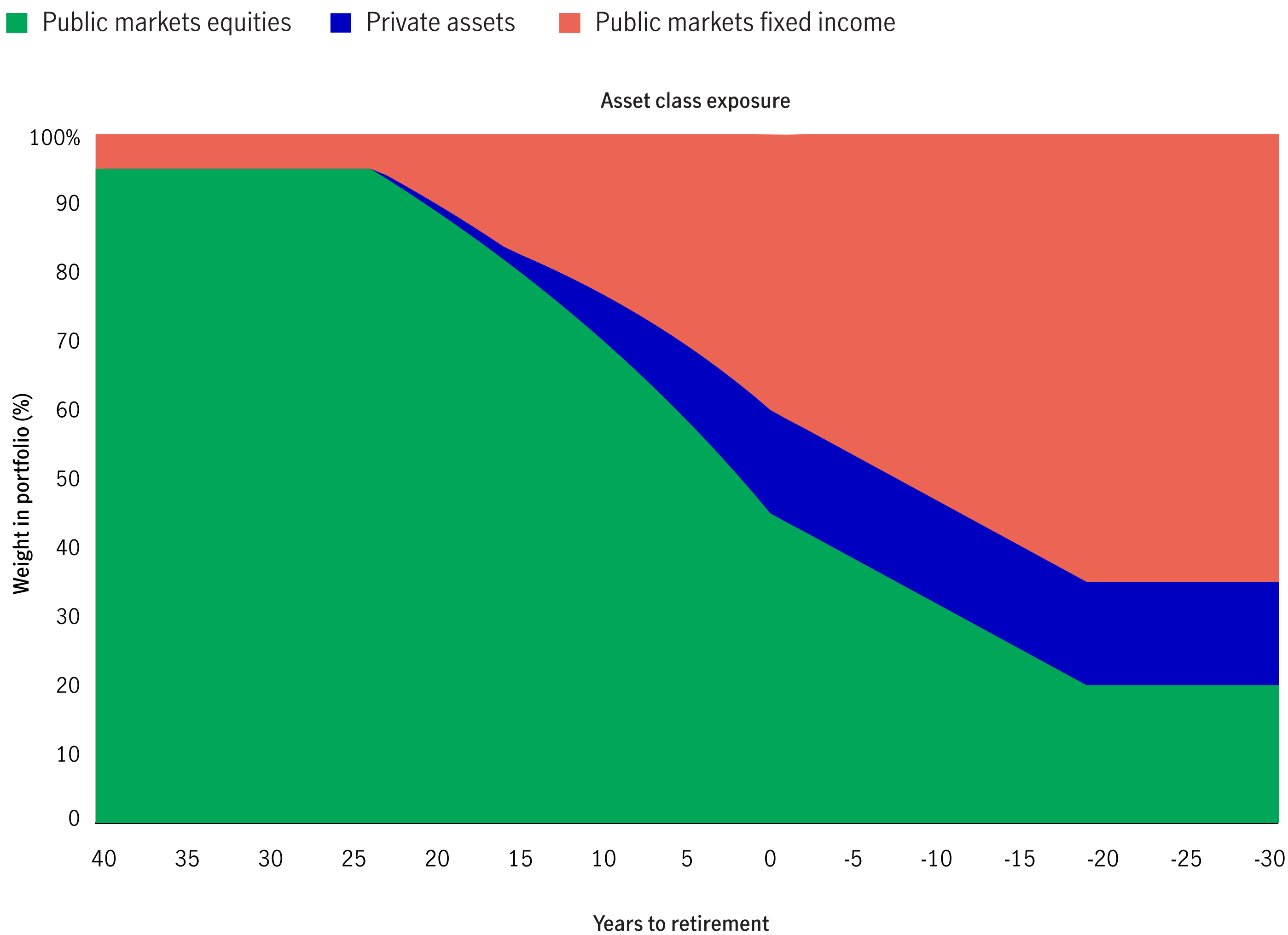
Our responsibility as stewards of capital doesn't end at retirement. Within a through-retirement glide path, private assets continue to play a role in supporting retirement outcomes. As retirement income has shifted from employer-sponsored defined benefit plans to largely being funded by defined contribution balances, preserving purchasing power over a 20 to 30-year retirement horizon has become essential. The income orientation, inflation sensitivity, and resilience of many private assets make them well-suited to supporting sustainable retirement income and maintaining real value over time.

The long-term nature of the asset class

Private assets are inherently long-term investments, supported by predictable cash flows and return profiles that have historically been more stable across market cycles. While higher-beta assets such as small-cap and emerging-market equities are more appropriate earlier in the glide path when younger members can tolerate greater risk, private assets become increasingly valuable as the glide path begins to derisk. Even at that stage, members still face decades-long investment horizons, allowing private assets ample time to meaningfully contribute to outcomes. This makes them a natural fit within a 50+ year glide path, particularly as members transition from growth toward capital preservation and income generation.

Thoughtful glidepath construction: Strategic design

Glidepath within a glidepath managed through retirement



Source: Manulife Investment Management, December 31, 2025. For illustrative purposes only.

Our investment expertise

Manulife is one of the largest group retirement providers in Canada, and its Multi-Asset Solutions Team at Manulife Investment Management (MIM) has been providing target-date solutions for 30 years. Since its inception, the team has included private assets in the asset mix. This is because MIM has one of the most extensive private asset investment offerings in the world. It's also the world's largest timber manager. The business encompasses key sectors such as agriculture, real estate, direct infrastructure, private credit, and equity. While it was initially used to support its general account, MIM now packages and distributes single and mixed-asset private asset solutions to institutions, private investors, and increasingly to individual investors around the globe.

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