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# EDITED TRANSCRIPT

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## CORPORATE PARTICIPANTS

**Colin Simpson** *Manulife Financial Corp - Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

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

## PRESENTATION

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

All right. Welcome back. I'd like to welcome to the stage our next guest, Colin Simpson, Chief Financial Officer of Manulife Corporation. Thanks for coming to Montreal again.

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**Colin Simpson** - *Manulife Financial Corp - Chief Financial Officer*

Thanks a lot, Gabe. It's time for you to relax, now that you finished interviewing your CEO.

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## QUESTIONS AND ANSWERS

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

Yeah, well, I can loosen up a bit. I was uptight that time. Let's start with a fun one, ROE. But, everybody, every company I cover basically is hiking their ROE targets. You were early in that phase, by the way, I'm sure you know it. Just to put a finer point on that target, is it a full year 2027 or an exit rate?

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**Colin Simpson** - *Manulife Financial Corp - Chief Financial Officer*

Yeah, the short answer to the question is: it's a full year 18% target in 2027. I think you're asking the question because we're at 16.5% in 2025, so it still seems like quite a jump to get to 18%. But, if you look at the second half of the year, we had an 18.1% Core ROE in Q3 and a 17.1% in Q4.

So, the second half of the year went quite a bit better than the first half of the year – it shows you that we're pretty close to it. If we look at the longer way to answer the question, the real reason why I was so keen, we were so keen, on an ROE is: it is a measure of quality for a company.

And in my opinion, people underestimate the quality of Manulife as a franchise. I've only been here three years and, to be honest, I think we're a better quality company than people realize. You see that when we trade on down days, we trade worse, and on up days, we trade a little bit better. And so, it still feels like people underappreciate the quality of the stock. Now that's for us to prove.

We don't expect you to give us the credit for it, but the whole reason behind the Core ROE target was to try and prove that we're a high-quality franchise that can deliver 18% year in and year out.

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

Okay, well, the 16.5% last year does make it look like a stretch, but if you take the glass-three-quarters-full perspective, you look at every region – Asia was up, GWAM was up, Canada was up – and the U.S. took a pretty big dip in terms of ROE because of mainly some mortality issues, so that looks like to be the main hindrance to the target at this point. However, for some reasons that may be idiosyncratic, I guess, is there any updated perspective on the U.S. performance in that mortality issue specifically? Because if that turns around, I think the 18% seems a lot more credible very quickly.

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**Colin Simpson** - *Manulife Financial Corp - Chief Financial Officer*

Yeah, you're bang on. Last year we had mortality losses of about $251 million pre-tax. If you exclude those, our 16.5% goes to 17%. Now, what happened? Well, we focus on the high-end of the market, and we had some big deaths unfortunately. That's the business we're in, obviously we spend a lot of time going: well, what happened? What could we have done differently?

These were people that were underwritten 10, 15, 20 years ago and it's just the nature of the business. And so, it will happen from time to time. Now, Sod's law, London buses, whichever one you want to say, it happened Q2, Q3, and Q4, which was painful.

So, to my earlier point about trying to prove that we're a high-quality franchise, it doesn't help if we have disappointments like that. So, we're paying a lot of attention to it. We're obviously very focused on it. Q2 was the blip. Q3 and Q4 were much more normal variability.

And, are we just sitting around waiting to see if more deaths happen? No, not at all. We have this scheme - Vitality scheme or behavioral insurance scheme - where we offer cancer detection tests to our customers and actually we're proactively reaching out to some of our larger customers and saying: you know what, do you fancy a free cancer check on our dime or a free health check?

Anything we can do to help our customers live longer, healthier, and better lives; and, obviously, that will benefit shareholders as well. But, you should expect the mortality experience that we saw in 2025 to be within normal variability, not something that we should expect to see persist. And yeah, as I said, if you can eradicate that, then that's already 50bps on our Core ROE.

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

Okay, well, the Asia business, though, was top 20, yeah, 21% ROE last year. I mean, what's the limit on that business? And, I guess, well, yeah, I'll just leave it at that.

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**Colin Simpson** - *Manulife Financial Corp - Chief Financial Officer*

Yeah, you mentioned Core ROE at 20%. That's just one metric. Earnings grew by 18%. APE, that's our sales metric, grew by 18%. And the New Business Value, which is the value of our sales – that grew by 20%. So, all metrics in Asia were going in the right direction and, really, that drove us upward. I think the 20%, 21% Core ROE, that's a reflection of being part of a larger group.

We don't have to capitalize our Asia business as though it was a standalone entity. And that's the benefit of being part of a large, well-capitalized organization, headquartered in Canada. So, we're able to operate with high margins with decent returns within the Asia business. Even if you look at a business like our Japan business, which is going really well, the ROE on that would surprise many of you in the room.

We don't disclose it separately, but it's certainly not a drag on our Asia Core ROE, and that just is evidence of our ability to run our individual countries at a very efficient way because we're part of a large organization. And, you know, again, the value of being a conglomerate has been lost over time because complexity has eroded the value to the external markets. And, obviously, we all like simplicity, but I do think we deserve some credit for being a well-managed large organization that's able to allocate capital very effectively between our businesses and manage it very efficiently.

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

The last quarter, one of the sticking points, I guess, for the Asia business, despite the earnings growth, was sales were down. And, I think, although I look at it, yeah, sales being down – not ideal; but the prior year, they were up 60% – so that whole tough comp thing. But, if you look at the numbers a little bit more in detail, you see that the sales were down, but the value of new business was down by a lot less. And I'm wondering if that is a reflection of some of the change in mix that's more profitable for the future? Because I know that some of that sales surge we saw last in 2024 was like a savings type product – maybe not as conducive to profit, so there's a silver-lining, I guess, in there.

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**Colin Simpson** - *Manulife Financial Corp - Chief Financial Officer*

Yeah, I think that's right. We have a diversified distribution mix in Hong Kong. We sell through our own agents, we sell through the bank, and we sell through independent agents. And, what happened is there was a change in regulation. And that affected the independent broker channel more. Now, the independent broker channel came in, in full force in 2024, and it really boosted sales to the 60% levels that you're saying.

We lapped a tough comparator, and then we saw that part of the distribution channel slow down a little bit with the change in regulations. I don't want to overemphasize that. That's for us to sort out and to manage, and that's the business that we're in. So, no excuses there. But we wrote less broker business in Q4 last year and that saw a decline in APE, our sales metric, but certainly an improvement in margin.

So, our margin improved by 13% points during that quarter, which is a reflection that we got more business from our agents and our bancassurance channel. I think the reaction was mostly because Hong Kong has been such a powerhouse for us and driving our sales and our earnings. Hong Kong Core Earnings were up 26%.

So, we're still driving a lot of profit growth, a lot of strong ROE, but definitely to see the top-line come off a little bit – that took a bit of shine off the numbers, and so we're really focused on printing good numbers going forward in Hong Kong. They can't, it can't keep growing at 60% per year, but it's a good thing that we've got a diversified Asian business. We're in 12 countries. When one country falters, another country will pick up the slack. Five years ago, I'm pretty sure we weren't saying: Japan and Hong Kong are going really strong. It would be much more like Vietnam and Singapore.

And so, it just so happens that the countries, at certain times, different countries have different places in the stack, and it's great to have a diversified business. It is a unique selling point for us, for North American investors and companies. It's only really us, PRU, and AIA who have proper, diversified businesses, and we're really proud of that.

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

Well, sticking with the Hong Kong business, the Mandatory Provident Fund, which is the retirement/pensions plan over there, and you're one of the biggest providers. There was a regulatory change, and it's going to hit your earnings, and you've quantified that, so that's out there. I'm just wondering – what's missing from the outlook, I suppose, is what you're doing to offset it, and then maybe go into that.

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**Colin Simpson** - *Manulife Financial Corp - Chief Financial Officer*

Yeah, just for a bit of color for anyone who's not completely familiar with the story: you save in Hong Kong for your pension through a Mandatory Provident Fund, so you get a job, you have to save. Turns out, we're number one in the market – and that's a fantastic place to be because people come to Hong Kong, they get a job, and they need an MPF account.

And so, who do they come to? They come to Manulife and that's the establishment of a relationship. And we sell that product to them; and then we build a relationship; and, hopefully, sell longer-term, higher-margin products to our customers. We've got 30% of the market, so that's, again, a phenomenal place to be a high ROE business and it's been very profitable to us.

I think if you had to look at the situation, the government probably looks at it as: okay, well, companies have been able to charge a little bit more than global averages because the fund is needed to scale.

Now, that funds like us – businesses like us are at scale. It makes sense to restrict the charging. And the way that the government has done this is that they've taken over the administration for the whole industry. So, they take over the administration, we don't do that administration, and we pay the government basis points for that administration.

The impact of that, because we used to make profits on that, the impact of that was $25 million U.S. dollars a quarter. So, we're giving that up. And that's net of the reduction in expenses because, obviously, if we don't have to do the administration, we save on those expenses. So, the question that you're asking is: well, what mitigating factors are --

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

could you recoup it or --

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**Colin Simpson** - *Manulife Financial Corp - Chief Financial Officer*

We're certainly going to reduce the people doing admin, but the net impact of that is still $25 million a quarter. So, unfortunately, there's no more to come on that, but we've still got work to do to right-size that business.

I think, you know, when you think of $25 million a quarter, that's two years' worth of growth that we're giving up. Disappointing. And but something that, you know, we're taking on the chin, as well, like when you look at the long-term, it's an amazing business for us to be in. And it gives us a calling card in different Asian countries. We go in and say, look, this is what Hong Kong does for your pension provision, you should think about this. We're good at this. We can do this.

And we have great conversations across the region, around how to increase pension savings throughout the region because demographics are quickly changing in Asia, and that, in itself, provides both a risk and opportunity to the region.

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

Was that regulatory change disruptive enough that some of the smaller players might be wanting to sell in a 30% market share? Are you able to do anything?

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**Colin Simpson** - *Manulife Financial Corp - Chief Financial Officer*

Yeah, we're in the market, for sure, looking at books of business to try and take it out now. That was my reaction is: there's going to be even more consolidation. But actually, this doesn't help too much because the government now does the administration. So, you can come as a small player and not need scale and be supported by the government. So, it doesn't actually drive more consolidation, but I think some companies are just too small that they will look to punch out, and we'll be there for sure; we're in the business to grow that.

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

Well, speaking of acquisitions, you acquired Comvest, announced it last year anyway, a private credit manager. And then, you know, the market changed subsequently. Two, kind of, questions: what makes Comvest different, such that those, maybe, high-flyers that are getting into burnt that doesn't apply to Comvest – they're established, whatever. And then two, even if their business model is more established, more disciplined, etc., the demand for what they're selling might be lower or maybe not – can you talk about the growth outlook for them?

**Colin Simpson** - *Manulife Financial Corp - Chief Financial Officer*

We bought Comvest which had about $14 billion on its platform, U.S. dollars, and we paid just under a billion dollars for 75% of that business.

It was a fantastic acquisition for us because, in the past, we've been able to offer just about everything: from timber and ag, all the way up to public credit and public equities, and everything in between, even semi-private through our acquisition of CQS a few years ago.

So, really the missing piece was private credit, which, as we all know, had been growing a lot. And we've been watching somewhat from the sidelines, always looking to acquire. Now, Comvest was a very sweet spot for us because it wasn't so big that it would completely destabilize the organization if something went wrong, but it was big enough that we can now have scale in private credit.

So, all the funds are third-party. So, there's no real risk on our own balance sheet for this. We haven't been a big participant in private credit; which is also why we needed to buy in the skill set, because it's not that we've been able to grow it ourselves.

And so what we're talking about is really things like sub-investment grade, floating rate notes, five-rate, five-year duration private credit. And this is where Comvest is awesome at. And so, that, along with the culture, made them a really great fit for us now.

It turns out that the headlines didn't work in our favor, and so we did the acquisition and the world seemed to fall out of some of the private credit market from a headline perspective – you do have to take everything with a grain of salt.

I mean, Private Credit is a $40 trillion-market in the U.S., of which only $2 trillion is sub-investment grade. So, the headlines you read are not necessarily reflective of the private credit market, of which we've been a big participant in the above investment grade business, and we'll continue to be so. But anyway, getting back to the question at hand: what makes them different? They're very much mid-market focused.

They go for the complex stuff, so they put a lot of effort into it. We don't have exposure to retail perpetual BDCs. So, where you're seeing a lot of the headlines is really around liquidity. People want their money out. They're thinking: well, there's going to be a rush for the door. I want to be first. And so, guess what happens? There's a rush for the door.

But the reality is that we haven't sold through any of these retail BDCs where people have the ability to come in and go out as they please. And so, our capital is much more permanent. Teaming up with a company like Manulife helps that situation. And, right now, what we're seeing is more attractive lending conditions as a lender, so spreads are a bit wider.

So, I think conditions are great for Comvest. And, for a business like them who are incentivized to grow for the long-term, they're probably looking at the situation – well, not probably – they are looking at the situation as an opportunity and not necessarily as a risk. Because if you rewind six months, maybe nine months ago, everyone was throwing money at private credit, it was difficult to get loans, there was money on the sidelines, and it was a real bun fight. So, we think it's a good opportunity and we'll keep everyone updated, but so far no exposure to the Tricolor or some of the big names that have been in the press around defaulting. So, we feel very good about the acquisition.

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

All right, well. Sticking to the investment theme: interest rates – years and years ago, we always thought low interest rates are bad for life insurance companies; we want higher interest rates. And, you know, we've had higher interest rates, not like they were in the old days, of course, but still high enough that the marks on real estate, private equity positions, and your general fund are consistently a drag on reported earnings anyway. Is it preferable for you to have lower interest rates as an insurance company?

**Colin Simpson** - *Manulife Financial Corp - Chief Financial Officer*

No, I think executives do have a tendency to like any situation as being good for the business, but no, we don't try and take interest rate risk. We hedge out interest rate risk once we take the business on our books. It's very difficult to make money out of interest rates on a consistent basis, especially when you're a large corporate. So, generally, the best way to think about interest rates is: when the yield curve is higher and steeper, people like our products more because we can offer longer-term guarantees more attractively than you can do saving money in a bank account. And the best way to look at that through our numbers is our value of new business/new business value. It goes up by $140 million for every 50 basis points increase. But once it's in our books, it's locked in. Now, when interest rates come down, some parts of our portfolio get better. We have commercial real estate on our books, we have private equity on our books, so the valuations of those should improve if the short end of the curve goes down. However, you've got to also look through why is the short end of the curve going down? Kind of like the economy is not going through a great time.

So, not like private equity and commercial real estate are going to do particularly well in that circumstance, so I don't want to overplay the role of interest rates coming down as a positive for our company. I think for the insurance industry as a whole, higher and steeper brings capital into the industry, and it's good. So far, the long end of the curve seems pretty stubborn and will probably stay that way, and that's good for us.

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

Okay. Switching to Manulife Bank, that's like, I can proudly say, when I'm modeling a company, that's one where I'm reliably accurate. But that's because it hasn't been growing for a number of years. Does it still make sense for Manulife to have that bank? Like, what's the business case? And, also, like, if I use the OSFI financial data, it looks like it's actually drag in your ROE. So, what's the counterargument to running that thing?

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**Colin Simpson** - *Manulife Financial Corp - Chief Financial Officer*

Yes. We're number 8 in the market. It is an attractive market to be in – we heard that from the last presenter. I think your synopsis is right, but what's going on beneath the surface is a lot more than what you say. Lending assets are up 12%, so we're growing quite a lot.

Why? Because advisors who we deal with – that's our distribution channel, is independent advisors; they kind of like having the client to themselves. And so, they like dealing with a bank that's maybe a little bit more independent or maybe offers a little bit of a different offering to some of the bigger banks. So, we're a popular choice amongst advisors.

We're number 8 in the market, as I said, so plenty of room to grow on the upside. Now, the reason why earnings have been flat is: while we've been doing all these great things on growing lending assets, the short end of the curve has been coming down; and because we're not a deposit financed business, that has hurt our net interest margin.

So, that is the reason why earnings have been soggy, if not slightly down. Does owning a bank makes sense for us? Absolutely. Should we be doing better with the bank? Absolutely. Obviously, if we can't and we don't, then that's a completely different conversation for us to have.

But, in the meantime, we're working really hard to make sure that we maximize the value for Manulife as a real opportunity for us to grow, as opposed to other parts of the market where we have 20-30% market shares and that's hard to grow from.

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

Right. So, without, like, if you look at it in isolation, numbers look, maybe, not as good. But your wealth business or your independent distribution business wouldn't be doing as well. Is that basically it?

**Colin Simpson** - *Manulife Financial Corp - Chief Financial Officer*

I think that will be the case in the future once we really get that bank operating as an avenue to offer a more wholistic product offering to our customers. Right now, we haven't maximized the value of that, but that's the potential.

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

I want to wrap up on capital allocation. One: buybacks are the first thing that comes to mind because it's next on my question list. You have outlined your buyback plan for, or you updated your program, for the upcoming year. It's a little bit smaller, I guess, than it was. Is that because the stock's valuation is a lot higher? Is it because you've got other deployment opportunities in mind, or it's just nothing and don't worry about it?

**Colin Simpson** - *Manulife Financial Corp - Chief Financial Officer*

No. We did 5% two years ago and part of that was because we did a reinsurance transaction that released about 3% of our market cap and capital. Then, we did 3%; we did another reinsurance transaction that released 1%; and then, now, we've announced 2.5%. So, it's pretty much in-line and it does utilize the capital that we haven't spent on dividends and acquisitions.

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

I guess, the bigger buybacks were tied to dispositions, reinsurance transactions – and the tone around that has changed a little bit – and, I guess, you know, LTC specifically; is it because the posturing? I guess, you don't want to signal that you're desperate to sell, of course, right, just to make it hyperbolic. But also, you've done a lot of things to improve the risk profile of the business over the years, so it also hedges some mortality risks and stuff like that. So, what's the appetite for, yeah, like, legacy dispositions?

**Colin Simpson** - *Manulife Financial Corp - Chief Financial Officer*

Portfolio optimization is always going to be a key thing for us, and reinsurers want to deal with us; we're a great counterparty. But you have to appreciate that reinsurers also need to make their profit. And so, you know, we needed to do those deals that we did because, three years ago, actually, Phil Witherington, the former CFO, was sitting here and you were grilling him on LTC, and rightfully so, because it's like: tell me how I can believe your numbers.

Well, we'll tell you how you can believe our numbers; we'll do a reinsurance transaction with someone who everyone trusts, and now you can believe our numbers. I don't think we have that same level of doubt; but if we did, we can still pull the trigger on more transactions because we have people that we're talking to that are interested in doing transactions. Right now, does it feel like our number one priority? Arguably, I'm not so sure, but, if you feel differently, let us know; and we can and we will. I don't think it's a something no or never, and I don't think it's a number one priority; it's somewhere in between, and it's something we've got to decide to do going forward.

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

Okay. What about: I asked about acquisitions of the MPF market. What about something bigger, more ambitious in the U.S. for instance? There are some insurers that could be potentially sold with some business lines that would fit well with Manulife, some that don't, of course. But, another way of asking it: would you be willing to sacrifice the timing of your 18% ROE for a deal?

**Colin Simpson** - *Manulife Financial Corp - Chief Financial Officer*

I mean, I spent a bit of time in capital markets, and I think the market doesn't quite like missing targets and doesn't quite like surprises, so it would have to be a blockbuster acquisition for us to pursue to do those two things. As a CFO you'd never say never, but it's very hard to see what is Manulife missing. And then, also, what are other people offering that would plug that gap. So, it would be unusual, Gabe, to be honest. And so, we've got great opportunities within our own stable to maximize the value for Manulife.

We're on a fantastic trajectory. But, as I said, we've got lots to prove to you, and we're dead set on improving this company and driving it higher and being a champion – a global champion, to be honest. So, M&A is not something that we are spending huge amounts of time on, but I'm also conscious that growing in mature markets is hard. And so, M&A can, well, prove to be a trigger for that, and we’ve shown that with various acquisitions, particularly in our GWAM business. So, it’s all to play for, to be honest.

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

Okay. And I agree: pushing back, missing targets – not a good thing. Write that down. All right. Thanks for your time, that was a pleasure.

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**Colin Simpson** - *Manulife Financial Corp - Chief Financial Officer*

Always, Gabe.

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