

A look at Manulife's Participating Account – 2020 Annual Report

**Investment performance, asset quality
and company strength**



The premiums your clients pay for participating policies are put into an account called the participating (par) account. The money in this account is used to pay things like operating expenses and death benefits for participating policies. What remains is invested. The performance of these par account investments over the long term is important as it affects the values of a participating policy.

As at December 31, 2020, the total participating account assets were \$12.9* billion, and the company had 328,331 participating life insurance policies in force. Dividends paid to participating policy holders in 2020 were \$297 million.

Participating account performance

The balance in the participating account is impacted by many different factors, such as taxes, mortality, expenses, etc. Investment performance within a participating account is the most variable factor and it is also the one most likely to impact the values of a policy. That is why it is important for you to understand the investment objectives – and the results – of the participating account.

Here is an overview of the investment component of the participating account for Manulife's Performax policies.

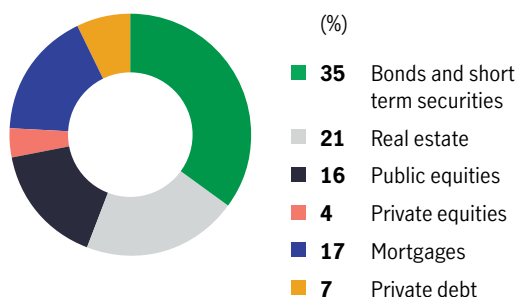
Managing the assets

The portfolio's assets are managed to meet the long-term needs of the participating policy owner. The stable nature of the cash flows associated with participating life products permits asset investment in longer term holdings, specifically equities, mortgages, real estate and investment grade bonds. These assets are usually limited to Canadian investments.

This diversification strategy has historically proven to be the appropriate strategy to provide long-term growth for our policy owners while effectively managing the short term volatility of the investment market.

The following shows the asset mix of the Manulife participating account as at December 31, 2020.**

Invested asset mix – December 31, 2020



Bonds

Bond investments are managed by Manulife Asset Management. Their bond investment philosophy is characterized by high quality and active management.

Bond Quality grade as at December 31, 2020	Percentage (%)
Cash and cash equivalents	7.2
AAA	11.9
AA	13.0
A	29.5
BAA or lower	38.4
Total	100

Bond sector mix

Federal	4.7
Provincial	25.9
Corporate/Municipal	60.0
Liquidity Pool Certificates of Deposit	9.1
Asset/Mortgage backed securities	0.0
Other	0.4
Total	100

Public equities

The equity portion of the par account is managed by Manulife Asset Management. The fund's investment style is to mimic the S&P/TSX Composite Index and is rebalanced as required.

* This includes all ten sub-accounts comprised in the participating account.

** Except as otherwise indicated, references to the Manulife participating (par) account and par fund in this document apply to the Closed Performax, Pre-2009 Open, and Post-2017 Open participating sub-accounts only. As of December 31, 2020, the total assets in these sub-accounts were \$9.8 billion.

Private equities

Private equities offer an alternative source of asset supply to long term Corporate bonds, and constitute a good match for long duration liabilities. The majority of these exclusive assets are managed by Manulife Asset Management and represent diverse sectors of the economy such as, but not limited to, timber, farmland, and infrastructures. Not all sectors are necessarily represented in the participating account.

Mortgages

The mortgage segment is managed by Manulife Financial's Mortgage Division. The segment consists of commercial mortgages and is diversified by location and property type and consists almost entirely of first mortgages.

Real estate

Real estate is managed by Manulife Financial's Real Estate Division. The portfolio focuses on top quality office buildings located in superior downtown and large suburban markets across Canada. The portfolio is diversified by location and

property type. The real estate operation tracks the total yield of all real estate and then allocates the yield to Manulife's different asset segments. This results in more stability in returns since specific buildings are not allocated to specific investment accounts.

Investment performance

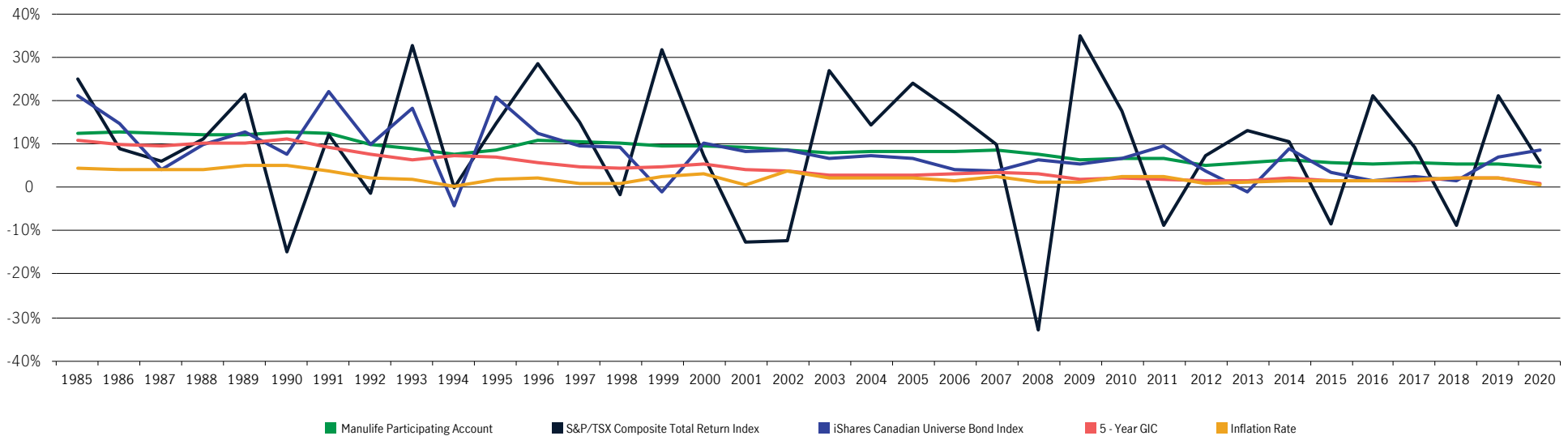
The investment performance of the participating account will ultimately affect the values of a policy. The long-term investment strategy and accounting rules that govern participating policies contribute to the stability of the participating account yield.

Prior to 2007, Canadian Generally Accepted Accounting Principles (CGAAP) for life insurance companies allowed significant smoothing of returns for investment income compared to the relatively volatile yields that resulted from changes in market values of assets. Effective January 1, 2007, the CGAAP rules were changed for financial reporting purposes so that the returns are a closer match to market value. However, to measure investment

yields on participating accounts (to determine dividends to policyholders), Manulife will continue to employ a smoothed basis which will mean yields are more stable over time, similar to the stability under the prior reporting basis. The Participating Fund's yields shown after December 31, 2006 were calculated using Manulife's new smoothing basis.

It's important to look at how changes in equity markets and interest rates may impact the participating account yield. The following chart shows the historical performance of the participating account. Also included is the rate available for 5-year Guaranteed Investment Certificates (GICs), and the returns of the S&P/TSX Composite Index.

The 5-year GIC rate provides an indication of the investment returns that were available for new fixed interest investments and how these rates have changed over time. The S&P/TSX Composite Index returns show how equity performance has varied over the same period. By comparing these lines, you can see how the participating account yield is influenced by the investment returns.



Note: Past results are not necessarily indicative of future performance and investment returns will fluctuate.

It is important to understand how a participating account works. The participating account works like a “portfolio average” account – the current account return is based on an average of all the invested assets at that time. As new money is invested, the average return will go up or down depending on whether the new money is invested at rates that are higher or lower than the participating account’s return.

Investment performance

The following shows the historical results and annualized returns for the participating account (after the deduction of investment expenses*) relative to other economic indicators.

Year	Par Fund Yield (%)	S&P/TSX Composite Total Return Index ¹ (%)	iShares Canadian Universe Bond Index ² (%)	5-Year GIC (%) ³	Consumer Price Index ³ (%)
1985	12.4	25.1	21.2	10.8	4.4
1986	12.7	9.0	14.7	9.7	4.2
1987	12.5	5.9	4.0	9.6	4.1
1988	12.1	11.1	9.8	10.1	4.0
1989	12.0	21.4	12.8	10.3	5.2
1990	12.8	-14.8	7.5	11.2	5.0
1991	12.4	12.0	22.1	9.3	3.8
1992	9.9	-1.4	9.8	7.7	2.1
1993	8.8	32.5	18.1	6.4	1.7
1994	7.5	-0.2	-4.3	7.4	0.2
1995	8.5	14.5	20.7	7.1	1.8
1996	11.0	28.3	12.3	5.7	2.2
1997	10.6	15.0	9.6	4.7	0.8
1998	10.2	-1.6	9.2	4.4	1.0
1999	9.4	31.7	-1.1	4.8	2.6
2000	9.5	7.4	10.3	5.3	3.2
2001	9.1	-12.6	8.1	4.0	0.7
2002	8.6	-12.4	8.7	3.9	3.9

Year	Par Fund Yield (%)	S&P/TSX Composite Total Return Index ¹ (%)	iShares Canadian Universe Bond Index ² (%)	5-Year GIC (%) ³	Consumer Price Index ³ (%)
2003	8.0	26.7	6.7	2.9	2.0
2004	8.1	14.5	7.2	2.8	2.1
2005	8.3	24.1	6.5	2.7	2.2
2006	8.2	17.3	4.1	3.2	1.6
2007	8.5	9.8	3.7	3.3	2.4
2008	7.6	-33.0	6.4	3.0	1.2
2009	6.4	35.1	5.4	2.0	1.3
2010	6.5	17.6	6.7	2.0	2.4
2011	6.8	-8.7	9.6	1.8	2.5
2012	5.1	7.2	3.6	1.6	0.8
2013	5.6	13.0	-1.2	1.6	1.2
2014	6.2	10.6	8.8	2.0	1.5
2015	5.7	-8.3	3.5	1.5	1.6
2016	5.2	21.1	1.7	1.5	1.5
2017	5.6	9.1	2.5	1.6	1.9
2018	5.3	-8.9	1.4	2.2	2.0
2019	5.4	21.0	6.9	2.0	2.2
2020	4.8	5.6	8.7	0.8	0.7

Sources: ¹ S&P/TSX Index Services. ² BlackRock. ³ Bank of Canada.

*Investment expenses for 2020 is 14 basis points. Investment expenses may vary from year to year due to the number and nature of transactions required to maintain the target asset mix.

Average annualized returns

The values in this table are as at December 31, 2020

Year	Par Fund Yield (%)	S&P/TSX Composite Total Return Index ¹ (%)	iShares Canadian Universe Bond Index ² (%)	5-Year GIC ³ (%)	Consumer Price Index ³ (%)
1	4.8	5.6	8.7	0.8	0.7
3	5.2	5.2	5.6	1.7	1.6
5	5.3	9.0	4.2	1.6	1.7
10	5.6	5.6	4.5	1.7	1.6
25	7.4	7.9	5.9	2.9	1.8
25-year standard deviation	1.9	16.3	3.5	1.4	0.8
Average annualized returns (since 1985)	8.5	8.5	7.8	4.7	2.3
Standard deviation (since 1985)	2.5	15.3	6.1	3.2	1.3

Sources: ¹ S&P/TSX Index Services. ² BlackRock. ³ Bank of Canada.

For more information speak to your Manulife Sales Representative or visit **Advisor Portal**.

For Illustration Purposes Only. Comparison made between Manulife Par Fund, CPI, S&P/TSX Composite Total Return Index, iShare Canadian Universe Bond Index and 5-Yr GICs is for illustration purposes only. Past performances are no guarantee of future returns. Canada CPI: The Consumer Price Index (CPI) is an indicator of changes in consumer prices experienced by Canadians. It is obtained by comparing, over time, the cost of a fixed basket of goods and services purchased by consumers. GICs: A Guaranteed Investment Certificate (GIC) is a secure investment that guarantees 100% of the original amount that you invested. Your investment earns interest, at either a fixed or a variable rate, or based on a pre-determined formula. The index is unmanaged and cannot be purchased directly by investors.

Manulife, Manulife & Stylized M Design, and Stylized M Design are trademarks of The Manufacturers Life Insurance Company and are used by it, and by its affiliates under license.

MP1188858E 03/21 AODA

Company strength

While a company's strength is important when choosing any insurance product, it is particularly important in participating policies because of their long term commitment.

Manulife is one of the strongest insurance companies in Canada, based on our financial strength and claims-paying ability ratings. These two factors are "rated" by a number of third-party agencies.