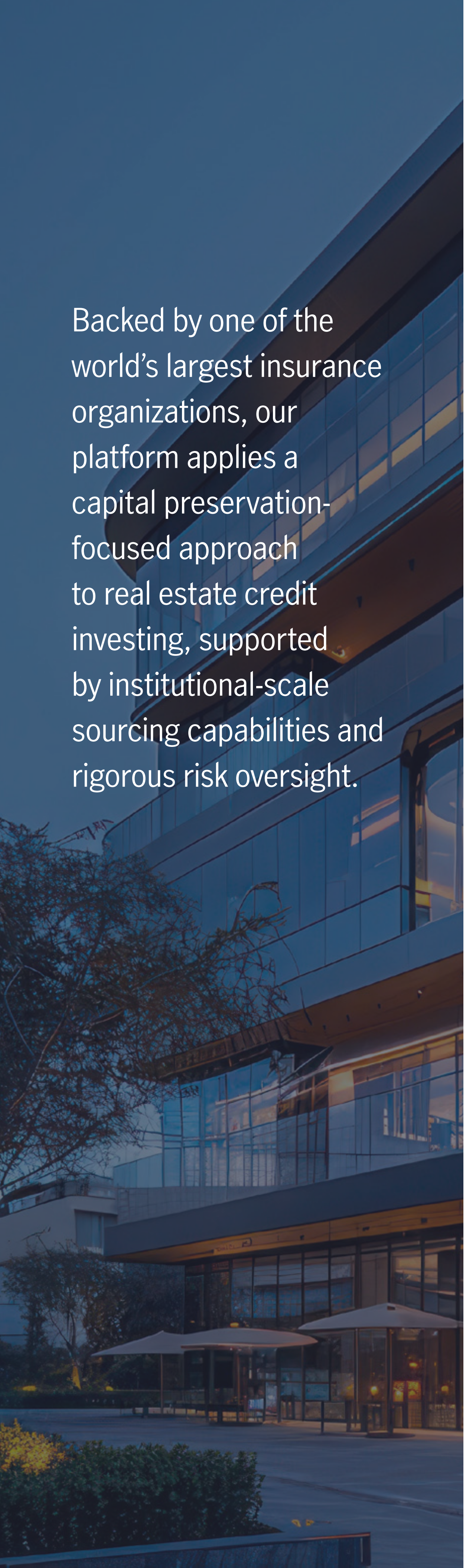
Manulife Investment Management

Real estate credit: targeted solutions for a *shifting* market landscape



Backed by one of the world's largest insurance organizations, our platform applies a capital preservation-focused approach to real estate credit investing, supported by institutional-scale sourcing capabilities and rigorous risk oversight.

A shift in opportunity: why real estate credit, and why now?

The appeal of real estate credit isn't new. However, the forces shaping today's market have made the opportunity more pronounced and, in many respects, more attractive than in prior cycles. Rising interest rates over the past five years, along with expectations that rates may remain higher for longer, have resulted in one of the best investment periods for real estate credit, especially for Manulife Investment Management ("Manulife IM"). Manulife IM's real estate credit platform has capital to deploy in the market, and no historical positions impacted by valuation decreases.

Real estate credit returns are driven by contractual current income and fees, with less dependence on asset appreciation and minimal current cash flow. These characteristics improve predictability during periods of uncertain valuation outlook and rising interest rates, particularly when loans are appropriately underwritten and structured, secured by high-quality collateral, and partnered with experienced sponsors with strong balance sheets. Because outcomes rely more on coupon and loan structure than on a rebound in property values, investors don't need to time the market bottom to pursue attractive returns and can commit to more predictable returns over time.

A key driver has been a reset in real estate valuations. As pricing has adjusted across sectors (down 11.1% to 17.4% from peak)[1], lenders can originate new loans with leverage based on reset values and stronger structural protections. Higher base rates and wider spreads have also improved all-in yields and transferred a larger portion of current return from the equity position to the debt position.

1 Peak-to-trough calculations use indexed appreciation returns from NCREIF-ODCE. More recent data suggest that appreciation returns have turned positive, but relative to the prior cyclical peak from 2021 to 2022 (depending on property type), overall indexed values remain down.

Capitalization rates have trended up, given higher rates and valuation resets

Source: MSCI RCA; U.S. Federal Reserve (FRED).

Generating current income

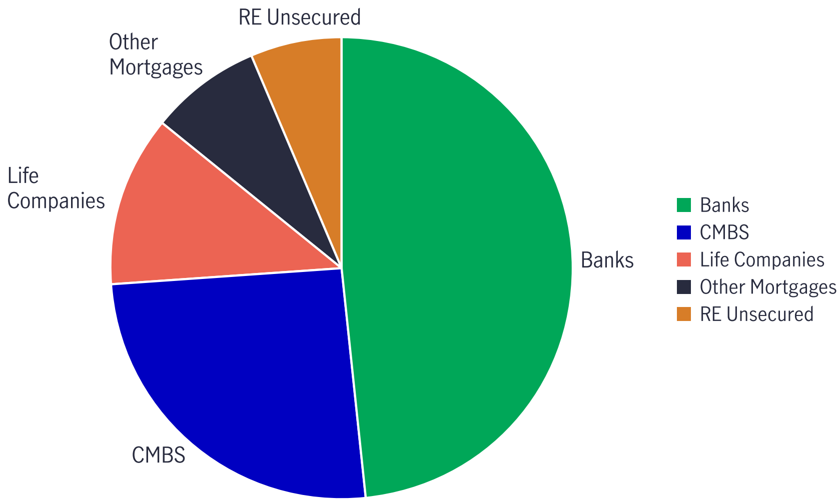
Returns are primarily driven by contractual income either from asset operations (i.e. current cash flow) or capitalized within the funding of the loan (interest reserve), limiting the dependency on asset appreciation. While asset appreciation is expected to occur when lending on transitional or construction projects, investing in a credit position can provide greater predictability, especially in periods when valuation outcomes can be volatile.

Real estate credit lending can benefit from downside protection embedded in the capital structure, as it sits senior to equity. Covenants and collateral provide additional support. Bridge and transitional loans can also play a practical role in portfolios because they tend to be shorter duration and floating rate. In a higher-for-longer world, that matters. Floating-rate coupons move with the base rate (often tied to 30-day SOFR), helping keep income aligned with the rate backdrop.

Large universe of deals

The U.S. real estate credit universe includes well over $6.6 trillion of outstanding real estate debt across public and private markets.

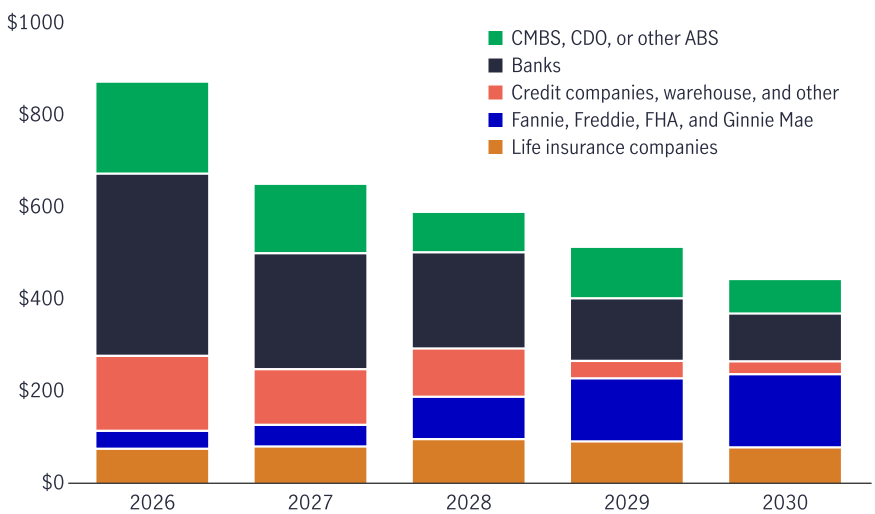
U.S. CRE credit addressable market of $6.6 trillion



Source: U.S. Federal Reserve Flow of Funds.

With $3.1 trillion of expected maturities remaining over the next five years, the refinancing market is expected to provide a durable source of lending opportunities. Years 1 through 3 remain elevated due in part to extensions and modifications, creating a broad and recurring opportunity set for disciplined, flexible lenders who can structure for downside and stay selective.

$3.1 trillion of CRE loans to mature through 2030



Source: Mortgage Bankers Association.

As interest rates have risen, equity business plans have taken longer to come to fruition, leading to increased demand in the bridge and transitional lending market. This is due to the longer time taken to get to a stabilized outcome – either a sale or permanent financing.

Further, as real estate valuations continue to reset, acquisition volumes will increase, leading to a larger and more diversified universe of credit investment opportunities.

These factors have created an environment in which private real estate credit providers can focus on well-structured investments backed by institutional-quality assets while benefiting from bespoke loan-level protections based on equity-like diligence.

Flexibility and diversification

Real estate credit offers multiple dimensions of diversification, including property type, business plan, capital structure, loan profile, and execution channel. This breadth of opportunity allows managers to dynamically allocate capital across construction, bridge, transitional, and securities investments to capitalize on relative value opportunities throughout market cycles. With a team of investment professionals that can deploy across the real estate credit universe, Manulife IM's real estate credit platform seeks to deliver attractive risk-adjusted returns and all-weather portfolio performance through disciplined credit underwriting across varying market environments.

Delivering incremental alpha with appropriate risk management

As is common across private credit markets, prudent use of leverage will be an important component. Leveraged approaches utilize repurchase warehouse facilities and loan-on-loan financing arrangements, complemented by mezzanine loan originations where risk-adjusted opportunities are attractive. These tools will be employed with a disciplined focus on downside protection while also enabling the Fund to enhance diversification, optimize capital efficiency, and actively manage liquidity.

Although repurchase warehouses and loan-on-loan facilities carry certain risks, including: (i) dependence on capital market liquidity and lender demand, (ii) sensitivity to collateral value deterioration, and (iii) compliance with financing covenants, the benefits can substantially outweigh these considerations, particularly given the flexibility available today. The current repurchase warehouse financing market has evolved to provide real estate credit lenders with features limiting the impact of the broader market volatility on their financing structures. These changes have brought the repurchase warehouse market more in line with loan-on-loan financing, although not fully. These leverage solutions allow investors to: (i) enhance returns without materially increasing the credit risk profile of the underlying loan investments, (ii) scale investment platforms efficiently, (iii) increase diversification across a broader portfolio of assets, and (iv) benefit from reliable access to capital and greater certainty of execution.

Relative to broader public and private market investment strategies, real estate credit offers highly customizable risk-return profiles that can be tailored to investor objectives, with the potential to generate double-digit returns in certain market environments. Importantly, these returns can often be achieved while maintaining the protections associated with a senior position in the capital structure, including first mortgage security. In contrast, real estate equity investments generally offer greater upside potential but bear the first-loss risk and occupy a more subordinate position in the capital stack.

A targeted pipeline designed to capitalize on the current market environment, coupled with a well-diversified financing strategy, is essential to achieving target returns while mitigating downside risks and protecting against events that could erode performance.

Real estate credit at Manulife IM

Manulife IM's real estate credit platform leverages the firm's global real estate capabilities, which include an integrated equity and real estate research teams, combined with local market expertise with institutional-scale resources. This integrated approach provides access to a consistent pipeline of opportunities with high-quality, well-capitalized sponsors and supports rigorous due diligence to structure investments with customized downside protections. Competitively, the platform is well situated to capitalize on the market opportunity given its ability to structure and execute bespoke transactions for borrowers.

Real estate credit has historically demonstrated resilience during periods of market volatility, supported by the contractual income and structural protections inherent in debt investments. As part of one of the world's largest insurance organizations, Manulife IM applies a disciplined, risk-focused investment approach, emphasizing capital preservation, rigorous underwriting, and comprehensive portfolio oversight throughout the investment lifecycle.

Manulife
Investment Management

Investing involves risks, including the potential loss of principal. Financial markets are volatile and can fluctuate significantly in response to company, industry, political, regulatory, market, or economic developments. These risks are magnified for investments made in emerging markets. Currency risk is the risk that fluctuations in exchange rates may adversely affect the value of a portfolio's investments.

The information provided does not take into account the suitability, investment objectives, financial situation, or specific needs of any individual. You should consider the suitability of any type of investment for your circumstances and, if necessary, seek professional advice.

This material is intended for the exclusive use of recipients in jurisdictions who are allowed to receive the material under their applicable law. The opinions expressed are those of the author(s) and are subject to change without notice. Our investment teams may hold different views and make different investment decisions. These opinions may not necessarily reflect the views of Manulife Investment Management or its affiliates. The information and/or analysis contained in this material has been compiled or arrived at from sources believed to be reliable, but Manulife Investment Management does not make any representation as to their accuracy, correctness, usefulness, or completeness and does not accept liability for any loss arising from the use of the information and/or analysis contained. The information in this material may contain projections or other forward-looking statements regarding future events, targets, management discipline, or other expectations, and is only current as of the date indicated. The information in this document, including statements concerning financial market trends, are based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. Manulife Investment Management disclaims any responsibility to update such information.

Neither Manulife Investment Management or its affiliates, nor any of their directors, officers or employees shall assume any liability or responsibility for any direct or indirect loss or damage or any other consequence of any person acting or not acting in reliance on the information contained here. All overviews and commentary are intended to be general in nature and for current interest. While helpful, these overviews are no substitute for professional tax, investment or legal advice. Clients should seek professional advice for their particular situation. Neither Manulife, Manulife Investment Management, nor any of their affiliates or representatives is providing tax, investment or legal advice. This material was prepared solely for informational purposes, does not constitute a recommendation, professional advice, an offer or an invitation by or on behalf of Manulife Investment Management to any person to buy or sell any security or adopt any investment strategy, and is no indication of trading intent in any fund or account managed by Manulife Investment Management.

No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. Diversification or asset allocation does not guarantee a profit or protect against the risk of loss in any market. Unless otherwise specified, all data is sourced from Manulife Investment Management. Past performance does not guarantee future results.

About Manulife Wealth and Asset Management

As part of Manulife Financial Corporation, Manulife Wealth & Asset Management provides global investment, financial advice, and retirement plan services to 19 million individuals, institutions, and retirement plan members worldwide. Our mission is to make decisions easier and lives better by empowering people today to invest for a better tomorrow. As a committed partner to our clients and as a responsible steward of investor capital, we offer a heritage of risk management, deep expertise across public and private markets, and comprehensive retirement plan services. We seek to provide better investment and impact outcomes and to help people confidently save and invest for a more secure financial future. Not all offerings are available in all jurisdictions. For additional information, please visit manulifeim.com.

This material has not been reviewed by, is not registered with any securities or other regulatory authority, and may, where appropriate, be distributed by the following Manulife entities in their respective jurisdictions. Additional information about Manulife Investment Management may be found at manulifeim.com/institutional

Australia: Manulife Investment Management Timberland and Agriculture (Australasia) Pty Ltd, Manulife Investment Management (Hong Kong) Limited. **Canada:** Manulife Investment Management Limited, Manulife Investment Management Distributors Inc., Manulife Investment Management (North America) Limited, Manulife Investment Management Private Markets (Canada) Corp. **Chinese Mainland:** Manulife Overseas Investment Fund Management (Shanghai) Limited Company. European Economic Area Manulife Investment Management (Ireland) Ltd. which is authorised and regulated by the Central Bank of Ireland. **Hong Kong:** Manulife Investment Management (Hong Kong) Limited. **Indonesia:** PT Manulife Aset Manajemen Indonesia. **Japan:** Manulife Investment Management (Japan) Limited. **Malaysia:** Manulife Investment Management (M) Berhad 200801033087 (834424-U) **Philippines:** Manulife Investment Management and Trust Corporation. **Singapore:** Manulife Investment Management (Singapore) Pte. Ltd. (Company Registration No. 200709952G) **South Korea:** Manulife Investment Management (Hong Kong) Limited. **Switzerland:** Manulife IM (Switzerland) LLC. **Taiwan:** Manulife Investment Management (Taiwan) Co. Ltd. **United Kingdom:** Manulife Investment Management (Europe) Ltd. Which is authorised and regulated by the Financial Conduct Authority **United States:** John Hancock Investment Management LLC, Manulife Investment Management (US) LLC, Manulife Investment Management Private Markets (US) LLC and Manulife Investment Management Timberland and Agriculture Inc. **Vietnam:** Manulife Investment Fund Management (Vietnam) Company Limited.

5279217 PM-1700200 EN 9/26