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PRESENTATION

Operator

Please be advised that this conference call is being recorded. Good morning, and welcome to the Manulife

Financial Fourth Quarter 2017 Financial Results Conference Call for Thursday, February 8, 2018. Your host for today will be Mr. Robert Veloso. Please go ahead, sir.

Robert Veloso - *Manulife Financial Corporation - VP, IR*

Thank you, and good morning. Welcome to Manulife's earnings conference call to discuss our fourth quarter and full year 2017 results. Our earnings release, financial statements and related MD&A, statistical package and webcast slides for today's call are available on the Investor Relations section of our website at manulife.com. We'll begin today's presentation with an overview of our fourth quarter and full year highlights and the strategic update on our 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 operating results. After the prepared remarks, we will move to a question-and-answer portion of our conference call. We ask that each participant adhere to a limit of 1 or 2 questions. And 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 2 for a caution on forward-looking statements and Slide 38 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. This slide also indicates where to find more information on these topics and what factors could cause actual results to differ materially from those stated.

With that, I'd like to turn the call over to Roy Gori, our President and Chief Executive Officer. Roy?

Roy Gori - *Manulife Financial Corporation - President, CEO & Director*

Thank you, Robert. Good morning, everyone, and thank you for joining us today. Before we get started, I would like to officially welcome Phil Witherington into his new position as chief financial officer. We're also joined for the first time by Anil Wadhwani, our new general manager of Asia; and Naveed Irshad, the head of our North American legacy businesses.

Turning to Slide 5. Yesterday, we announced our fourth quarter and full year 2017 financial results. For the full year, net income was $2.1 billion dollars. However, it was impacted by the $2.8 billion post-tax charge related to U.S. tax reform and portfolio asset mix changes. We delivered strong operating results, ending the year with core earnings of $4.6 billion dollars, an increase of 14% from the prior year and exceeding our medium-term core EPS growth target of 10 to 12%. Our growth drivers maintained the momentum in 2017. We generated strong growth in APE sales and new business value in Asia, up 18% and 25%, respectively. And in our wealth and asset management businesses, we recorded our 32nd consecutive quarter of positive net flows. On the basis of our strong operating results and continued momentum, the board approved a 7% increase in our dividend to $0.22 cents per share. This marks our fifth increase since the first quarter of 2014.

Turning to Slide 6. As it is the end of the year, it feels like an opportune time to highlight some of our longer-term successes that we've delivered. In the last 5 years, we've delivered a 74% increase or a 15% compound annual growth rate in core earnings, as we successfully drove growth throughout our businesses, particularly our highest potential businesses, Wealth and Asset Management and Asia. Our Asia and WAM businesses now account for 44% of core earnings in 2017, up from 36% in 2013. Our strong growth in earnings has supported our ability to raise the dividend 58% in the last 5 years and that does not factor the 7% increase announced yesterday.

Turning to Slide 7 and our key priorities. I'd like to remind you that as we transform Manulife into a digital, customer-centric market leader, we're focused on what matters most. This focus is reflected in our 5 strategic priorities: One, we're optimizing our portfolio to make sure we're putting our capital to best use; Two, we're aggressively managing our costs to be competitive and create value; Three, we're accelerating growth in our highest potential businesses; Four, we're putting focus on our customers; Five, and we're building a high-performing team and culture.

Moving to Slide 8. We've made progress on our key priorities in 2017, with a clear objective to improve our returns in our legacy businesses, and we recently announced the decision to reduce our allocation to alternative long-duration assets in our portfolio asset mix, which I'll discuss in greater detail later. We also appointed Naveed Irshad into a senior leadership role to more aggressively pursue this opportunity, with stronger accountability and focus on in-force management, cost efficiencies and leveraging scale as well as potential strategic transactions for our business, where it makes sense. Managing costs is a significant priority for us, and our plans range from consolidating third-party vendors to controlling discretionary spending, digitizing our processes, simplifying our underwriting processes, and using predictive analytics to make better, more efficient decisions. We'll find creative solutions to do more with less. We began our efforts in 2017 and have plans in place to deliver savings in

2018, as there continues to be a significant opportunity. Our efforts contributed to a slowing of expense growth in 2017 despite increased strategic spend and higher expenses from areas where we see the most potential.

We will continue to invest to ensure that we make the most of the significant opportunity of our highest potential businesses. Asia and Wealth and Asset Management are just 2 examples of our successes, and I'll provide you with some more color on these businesses shortly.

We also appointed Paul Lorentz to run our global Wealth and Asset Management businesses, and Anil Wadhwani as our new General Manager of Asia.

Companies that delight their customers outgrow their competitors, and our industry is no different. We continued to make progress in 2017 to transform our company into a digital, customer-centric market leader. We're making it easier for customers to engage with us, when and how they want to and, in doing so, improving our efficiency. We entered into 2 new 15-year exclusive bancassurance partnerships, Techcombank in Vietnam and ABA Bank in Cambodia. In Thailand, we repositioned our insurance business as a lean, digital distribution pilot, which included the closing of non-digital channels and a reduction in our workforce of 50%. We've made improvements in auto underwriting, straight-through processing and e-claims. In Canada, we enabled insurance applications to be submitted by our new online tool and enabled bank deposits to be made through mobile devices. In the U.S., we launched Twine, a new app designed to help couples, who are not currently working with an adviser, save and invest together. The app is quickly gaining traction and was recently featured as Apple's App of the Day.

We also continued to expand our wellness programs around the world to help our customers live healthier lives and get savings and other benefits through their life insurance program. The success of our transformation simply won't be possible if we do not foster the right culture to execute it. We've spent considerable effort to ensure we have the right structure and teams in place, and we're proud to have been named one of the best places to work and best employers by Glassdoor and Forbes.

We continued to work to attract, retain and develop the best talent and to engage and excite our employees to rally around our customers. We're fully committed to the transformation of our business to position Manulife as a digital, customer-centric leader. We're confident that by delivering on our strategic priorities, we will succeed in delighting our customers, exciting and engaging our employees and creating substantial shareholder value.

Before I pass it off to Phil, I wanted to take a deeper dive into 2 areas of focus: portfolio optimization and accelerating our businesses with the most potential.

Turning to Slide 9. We conducted an in-depth review of our investment strategy and determined that a strategic adjustment in the strategy would optimize the return on capital of our portfolio. Our alternative long-duration asset portfolio has performed well, and we intend to continue to invest in each of our 6 classes of ALDA. However, we are lowering the proportion of ALDA back in our North American legacy businesses to free up approximately $2 billion dollars in capital or $1 billion net of the upfront charge. This will also reduce our inherent risk profile and lower earnings volatility in our legacy businesses. We expect the ALDA asset dispositions to occur over the next 12 to 18 months, at which point the net $1 billion capital benefit will be delivered. In the short term, this decision is expected to negatively impact core earnings by approximately $70 million per year after tax until we're able to redeploy the capital benefit.

Turning to Slide 10. We had an enviable history of delivering results in Asia. We've strengthened the foundation of our Asia business since 2013. We've diversified our distribution mix and geographic mix. On the distribution front, we've grown all our key distribution channels. The most notable expansion is being in the bancassurance channel.

We now have 8 exclusive bancassurance partnerships, and bancassurance in 2017 delivered 28% of our APE sales, up 11 percentage points from 2013. From a geography standpoint, we're less reliant on Hong Kong and Japan. Asia Other now contributes 30% of our new business value, up from 19% just 3 years ago, with particular strong growth in mainland China, Singapore and Vietnam. These successes contributed to more than doubling of APE sales since 2013 and new business value since 2014. In 2017, Asia APE sales also performed well, and we're up 18% from 2016. This included an almost 50% increase in mainland China. We also delivered strong growth in new business value and core earnings in 2017, up 25% and 16%, respectively, from 2016.

Turning to Slide 11. Our wealth and asset management businesses have delivered strong long-term growth with a more than doubling of AUMA and core earnings growing at a 15% compounded annual growth rate. We've also seen a notable improvement in our core EBITDA margin, which increased by 300 basis points since 2013. We've been focused on delivering excellent investment performance and rounding out our capabilities, which contributed to generating 32 consecutive quarters of positive net flows. Our Manulife Asset Management funds have delivered great investment performance, with 75% of publicly traded assets outperforming their benchmarks over a 5-year horizon. We've also broadened our offerings to North American customers with the introduction of smart-beta ETFs, which have experienced a good take-off so far. Over the last 5 years, we've more than doubled assets in our U.S. retail business, thanks in part to our unique and differentiated managed architecture model, which combined our strong internal capabilities with best-in-class third-party institutional managers. Our U.S. retail business generated almost $5 billion US dollars in net flows in 2017, which is especially impressive, as many players experienced net outflows.

We've delivered a similar success story in Canada, where we have been consistently generating positive net flows in our retail business. In fact, we ranked fifth in the country based on net flows in 2017, up 2 positions from 5 years ago. This is a significant accomplishment in a competitive market. Overall, our WAM business had a fantastic year in 2017, with core EBITDA and core earnings increasing 22% and 28% on a constant-currency basis over 2016. In 2017, we generated strong top-line growth in core earnings and identified the key priorities, which will leverage our strong foundation and make the most difference to our success moving forward. Our future is exciting, and I believe we are in a great position to further transform our business.

I would now like to ask Phil Witherington to review the highlights of our financial results for the year. Following Phil's remarks, we'll then open the call to your questions. Phil.

Philip Witherington - *Manulife Financial Corporation - Senior EVP & CFO*

Thank you, Roy. Good morning, everyone. As Roy mentioned, we delivered strong operating results in 2017. Net income was adversely impacted by the $2.8 billion dollar post-tax charge relating to the upfront impacts of U.S. tax reform and portfolio asset mix changes in our legacy businesses. However, strong full year operating performance is demonstrated by continued double-digit growth in both core earnings and sales measures. Our fourth quarter metrics were mixed, largely due to the charges I just mentioned and the nonrecurrence of some favorable items in the prior year. I'll highlight some of the key drivers of our fourth quarter and full year performance in the next few slides.

Turning to Slide 14. Core earnings remained solid, although lower than the prior year as the fourth quarter of 2016 included $142 million dollars of favorable tax settlements and an $80 million dollars catch up in core investment gains. Excluding these 2 notable items, core earnings increased by $140 million dollars, or 13% from the prior year, driven by strong new business and in-force growth in Asia and higher fee income in our Wealth and Asset Management businesses, a reduction in equity hedging costs of $33 million dollars, higher earnings on surplus from realized gains on available-for-sale equities, and gains from policy-related items in the United States compared with losses in the fourth quarter of 2016. We delivered full year core earnings of $4.6 billion dollars, an increase of $544 million dollars, or 14%, compared with the prior year despite the $240 million dollars P&C reinsurance claims provision we recognized in 2017.

Turning to Slide 15. You can see that while core earnings were strong in the fourth quarter 2017, they were offset by the $2.8 billion dollars charge related to the upfront impact of U.S. tax reform and portfolio asset mix changes in our legacy businesses. I'll address the impacts of U.S. tax reform in more detail later. All other items, including the mark-to-market impacts from equity markets and interest rates were largely offsetting, although 2 of these classified within 'other items' are worth noting. Firstly, as Roy mentioned, in the fourth quarter, we restructured our Thailand insurance business, creating a lean, digital-first pilot, which resulted in a $39 million dollar restructuring charge. And secondly, we booked a gain from a legal entity restructuring that improved the cost efficiency of our captive reinsurance agreements.

Slide 16 shows our source of earnings analysis. Of note, expected profit on in-force business increased 7% from the prior year primarily due to growth in our global Wealth and Asset Management businesses and in-force growth in Asia. The impact of new business improved versus the prior year, reflecting higher APE sales across Asia, and the favorable impact from pricing actions in Canadian retail insurance, partially offset by higher nondeferrable acquisition costs in our Wealth and Asset Management businesses. We incurred net policyholder experience charges of $34 million dollars post-tax in the quarter, including a modest charge for U.S. Long-Term Care. Long-Term Care has been back in the news recently, and I wanted to specifically address it. We remain satisfied with our Long-Term Care reserves. The Canadian IFRS valuation basis uses current best estimate assumptions plus margins for adverse deviations on all our reserves, including both the active and disabled blocks. We completed our most recent triannual review in the third quarter of 2016 and updated our assumptions at that time based on our recent experience. And since that update, our experience has been close to neutral on average.

At the end of 2017, our IFRS reserves for Long-Term Care were $34 billion U.S. dollars, including $11 billion U.S. dollars in provisions for adverse deviations and were 30% higher than U.S. statutory reserves.

Management actions and changes in assumptions reflect the pretax charges from U.S. tax reform and portfolio asset mix changes. Most of the impact of U.S. tax reform shows up here, as the majority of the impact relates to adjustments to reserves for future taxes.

On Slide 17, you can see that we delivered strong net and gross flows in our Wealth and Asset Management businesses, and this quarter marked our 32nd consecutive quarter of positive net flows. Net flows of $3.7 billion dollars in the quarter reflect a net inflow from each of our 3 operating divisions, solid institutional flows, and lower retail redemption rates in the United States. Of note, last year, we benefited from the funding of 3 large institutional mandates in Canada and Asia. Gross flows of $32.9 billion dollars were down 11% from the prior year quarter. The decrease was mainly due to the nonrecurrence of the large institutional asset management mandates referred to a moment ago as well as the lower retail sales in mainland China. This was partially offset by strong retail sales in Canada and higher flows in our retirement businesses. For the full year, net flows were $17.6 billion dollars, up $2.3 billion dollars; and gross flows totaled $124 billion dollars, up 5%.

Turning to Slide 18 and insurance sales. Insurance sales were $1 billion dollars in the fourth quarter of 2017, down 3% versus the prior year. In Asia, insurance sales increased 7% from the prior year, driven by strong growth in Singapore and Vietnam, partially offset by lower sales in Japan from increased competition in the Corporate segment. In the United States, we generated higher life insurance sales, which benefited from continued acceptance of our recently repriced term product, and higher universal life and variable universal life sales. This was partially offset by the fourth quarter 2016 being the last quarter for retail long-term care sales. In Canada, insurance sales declined 31% from the prior year, largely the result of 2017 repricing actions in retail insurance and strong prior year sales in advance of regulatory changes. For the full year, insurance sales increased by 23% to $4.7 billion dollars, driven by strong group benefit sales in Canada and continued strong growth in Asia excluding group benefits, which can be variable, and U.S. Long-Term Care, sales increased 13% from the prior year.

Slide 19 shows our new business value generation. In the quarter, we delivered strong growth in new business value, which increased 11% from a year ago to $389 million dollars, driven primarily by a 15% growth in Asia NBV. Japan new business value increased 7% from the prior year, as a favorable product mix and actions to improve margins more than offset lower APE sales. Hong Kong NBV increased by a solid 21%, in line with sales growth. And Asia Other new business value increased 12%, as the impact of strong sales growth was moderated by product mix. Asia new business value margin was 37.7% in the fourth quarter, in line with the prior year. For the full year, new business value grew 24% to $1.5 billion dollars, with strong contributions from both Asia and Canada. Asia new business value margin for the full year increased by 2.3 percentage points to 34.1%, driven by product actions to improve margins and scale benefits.

Turning to Slide 20. Our assets under management and administration, or AUMA, at the end of the fourth quarter continued to exceed the $1 trillion dollar mark and were up 11% from the prior year on a constant-currency basis, driven by strong investment returns and continued positive customer inflows. Our wealth and asset management businesses achieved AUMA of $599 billion dollars, up 14% from the previous year, driven by similar factors.

Turning to Slide 21. In the fourth quarter of 2017, U.S. tax legislation was passed into a law, and lowered the U.S. federal corporate income tax from 35% to 21% and placed limits on the tax deductibility of insurance reserves. This resulted in an upfront charge of approximately $1.8 billion dollars post-tax, with an expected ongoing benefit to net income and core earnings of approximately $240 million dollars per year, commencing in 2018.

So in conclusion, in 2017, we delivered $2.1 billion dollars in net income, achieving $4.6 billion dollars in core earnings, up 14% from the prior year, generated APE sales growth of 18% and new business value growth of 25% in Asia, continued to generate positive net inflows from our Wealth and Asset Management businesses, and raised the dividend for the fourth consecutive year. This concludes our prepared remarks. Operator, we will now open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from John Aiken of Barclays.

John Aiken - *Barclays PLC, Research Division - Director and Senior Analyst*

Good morning. Roy, in light of the media reports that came out earlier this week, can you let us know where the strategic review on the North American legacy operations fit, and what options may or may not still be on the table?

Roy Gori - *Manulife Financial Corporation - President, CEO & Director*

Yea, thanks John. I guess, first thing I'll have to say as I've said many times in the past is that we're not going to comment on any rumors or speculation. That probably goes without saying. But what I want to reiterate is that we do believe that we've got great businesses in the U.S., we've got a tremendous friend, John Hancock, and we've also got tremendous employees. Having said that, we do have some legacy challenges, and we're not alone in that space. The recent appointment of Marianne Harrison as CEO and President of our U.S. division, and the appointment of Naveed Irshad to run North American legacies, I believe, really demonstrates our focus and our commitment to the U.S., but our desire to really drive stronger performance and deliver better value not just for the shareholders, but also for customers. So I think the real big takeaway I'd leave with you is that running and driving our legacy businesses for greater performance is a key priority for us and is a series of areas that we're focused on to deliver value in that space.

John Aiken - *Barclays PLC, Research Division - Director and Senior Analyst*

Roy, outside of any sale or spinoff, is there a time line when we can expect to see any material drop in the levels of contribution from the legacy businesses?

Roy Gori - *Manulife Financial Corporation - President, CEO & Director*

Well, there's not one magic silver bullet that will solve all the problems in legacy space. So I think there are many different focus areas. And obviously, looking at inorganic opportunities is something that we continue to focus on, but there are many focus areas in terms of delivering greater value. And again, Naveed can talk a little bit more about this. But it covers a wide range of focus areas from claims management to pricing, reinsurance and so on. But Naveed, you may want to share a few more thoughts on that.

Naveed Irshad - *Manulife Financial Corporation - Executive VP & Head of North America Legacy Business*

Yes. It's very clear to me that to optimize value, we need to take a targeted approach block-by-block. So as Roy said, the potential leverage to drive value include organic and inorganic options. I expect that many of these actions will have impact in 2018. So for organic, many of the initiatives are actually already under way. This includes the rerates, conversion buyout programs, operational expense efficiency programs and claims management improvements. So quite optimistic about the programs we have in place.

Operator

The following question is from Steve Theriault of Eight Capital.

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

Thanks very much. Good morning everyone. First, maybe I could ask Anil on new business value in Asia. 9%, I wouldn't call that super low in terms of the growth rate for Q4. But really, looks like the second half of '17 closer to 10% growth was well below the 20% and above growth we've been seeing and gotten used to for some time in terms of new business value growth. Can you give us some detail why that's slowing? Are you intending to slow it? And give us a sense for what you expect going forward.

Anil Wadhwani - *Manulife Financial Corporation - CEO & President of Manulife Asia*

Thanks, Steve. So just to kind of reiterate, the full year growth on NBV was 25%. On quarter 4, specifically, NBV grew by 15%. So on a constant dollar basis, if you were to kind of remove the noise that gets created on account of FX gyrations, the growth is still kind of pretty strong, in our view. So I wouldn't say that we've kind of encountered slowdown. In many ways, there are some seasonality factors that kind of come into play. But 15% we still believe is a very strong growth for Asia.

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

And should we expect generally there's some seasonality first half versus second half? Or is it a little bit of a Q4 impact?

Anil Wadhwani - *Manulife Financial Corporation - CEO & President of Manulife Asia*

That's a great question. Typically, we kind of have experienced some seasonality pressure in Quarter 4. And if you were to kind of go back and see our results of 2016, you'll probably observe similar trends. So yes, typically, the quarter 4 can see some seasonality kind of variations.

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

Okay. And just to make sure I understand, probably for Phil. I wanted to make sure there were material tax benefits last year. Is it that they were lower this year? Was there no tax? I think last year was $0.07. And should we think of it as $0.00 this year? Or how should we think about that? I mean, is there a seasonality for that as well?

Philip Witherington - *Manulife Financial Corporation - Senior EVP & CFO*

Yes, Steve, so the tax benefits that I referred to in Q4 last year they were one-time items relating to the release of some provisions for uncertain tax positions. That was resolved in the fourth quarter of 2016. So a distortion at that time.

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

Ok so no resolutions this year. I will re-que. Thank you.

Operator

The following question is from Meny Grauman of Cormark Securities.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

Hi, Good Morning. Just going back to the legacy business, we've had 2 notable transactions in the variable annuity space in the U.S. And, Roy, I'm just wondering when you analyze those transactions, what are your takeaways for Manulife specifically?

Roy Gori - *Manulife Financial Corporation - President, CEO & Director*

Yes. Thanks, Meny. Look, it's hard to read too much into the transactions from the data that we get and that is publicly available. But I guess, I just reinforced the comments that I've made before, and that is portfolio optimization for us is one of our 5 key priority areas. And therefore, improving the capital efficiency in our business is going to be a focus for us in 2018 and beyond. And within that portfolio of activities, BSO is a key lever for us and one that will get more focus and attention. And again, with the appointment of Naveed, we believe that we're going to get more resources decked against that space. But certainly, looking at the fact that there are more transactions is a positive sign, I believe.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

Okay. And then just a separate question. In your reduction of allocation to ALDA, you talk about 12- to 18-month process. And I just want to clarify, is that just tied to sort of the illiquidity of the position which just takes time to adjust? Or is there any other consideration that is a part of that 12- to 18-month period?

Scott Hartz - *Manulife Financial Corporation - EVP of General Account Investments*

Sure. Meny, It's Scott Hartz. Yes, it is a somewhat illiquid portfolio, so it would take some time. But I would also say one of the objectives, as we sell these things, is to sell them into products that we would continue to manage to support our Asset Management franchise. And that, of course, would take yet a little bit longer time.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

Thank you.

Operator

The following question is from Nick Stogdill of Crédit Suisse.

Nick Stogdill - *Crédit Suisse AG, Research Division - Research Analyst*

Hi. Good morning. My question is just on Long-Term Care. Phil, you called the experience has been neutral. I think it was a small negative for the second consecutive quarter. So just some additional details on what you're seeing. And then my broader question is just on the pricing initiatives. We haven't had an update in a while. I believe, in the triannual review, you were looking for a 20% price increase on virtually all of the block. Maybe if you could give us an update on the progress there and how much of the price increases you're getting requested.

Philip Witherington - *Manulife Financial Corporation - Senior EVP & CFO*

Yes. Thanks, Nick. I think Steve is best placed to respond to that one.

Steven Finch - *Manulife Financial Corporation - Senior Executive VP & Chief Actuary*

Sure. On LTC, maybe I'll step back. In terms of what we saw for policyholder experience in the U.S. this quarter was a lower rate of debts, and that actually benefited our U.S. life business with a nice claims gain. We also saw, conversely, in Long-Term Care, where there were fewer debts resulted in moderate loss and also in our annuities business. So I think the point that Phil made in his comments around LTC experience since the 2016 basis change, while it's bounced around a bit quarter-to-quarter, it has been roughly neutral. And your second question with respect to rate increases, what I can tell you is we continue to make meaningful progress on the rate increases that we've been going for. We continue to believe that they are actuarially justified, and we're entitled to all the rate increases, and we are making good progress there.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

On both the number of states and the level of requests, I assume you're making progress on both sides of that?

Steven Finch - *Manulife Financial Corporation - Senior Executive VP & Chief Actuary*

On both, yes.

Operator

The following question is from Gabriel Dechaine of National Bank Financial.

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

Good morning. So when you say neutral, I mean, for the year, your experience was close to 0 for the LTC block?

Steven Finch - *Manulife Financial Corporation - Senior Executive VP & Chief Actuary*

Yes. Gabriel, it's Steve. So since we updated the assumptions in 2016 in Q3, the experience has been roughly neutral. I think for for full year 2017, we're slightly negative on Long-Term Care.

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

Okay. All right. So couple of questions here. Capital deployment. When you do free up that $1 billion net excess capital as you downsize ALDA, what are the priorities for that capital deployment to replace the $70 million dollars, I guess? And I guess, some of them that jumped out at me was largely the 2018 efficiency initiative. When will you be able to quantify the impact of those initiatives? And more importantly, I guess, is this going to be different than what we saw from the E&E program. The E&E program had a lot of fanfare. I guess, you've got $500 million dollars of cost saves, and that's great. But for shareholders, that really yielded very little to the bottom line or nothing really. Is it going to be a different outcome this time?

Philip Witherington - *Manulife Financial Corporation - Senior EVP & CFO*

Thanks, Gabriel. This is Phil. So I'll take the first one on capital deployment and then move on to the expense efficiency measures. Firstly, on capital deployment, we haven't made any decisions at this point as to how we will deploy the net $1 billion dollar benefit that we expect to generate from the change in the asset strategy of our legacy businesses. But what I can comment on is that we are in a position where we do have a number of organic growth opportunities that our divisions present us with. So we have the exposure clearly, the exposure to growth in Asia and our Wealth and Asset Management businesses. So we'll have to update on that as and when we generate that available capital. Moving onto expenses...

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

If you don't mind...

Philip Witherington - *Manulife Financial Corporation - Senior EVP & CFO*

Yes, go ahead.

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

Deleveraging seems to be an important priority, or do you not see that as a constraint when you're maybe selling some legacy businesses at a loss?

Philip Witherington - *Manulife Financial Corporation - Senior EVP & CFO*

So we don't see it as a constraint. Our capital position remains healthy, and we're satisfied with the current level of leverage. I will comment that we continue to standby the 25% long-term leverage ratio, and we do plan to transition to that in the coming years. I should highlight that in the calculation of our leverage ratio, I do think we are somewhat conservative, and that we include the perpetual preference shares in, we would classify those as debt in our leverage ratio. And that does add 4 to 5 percentage points to that ratio. But nevertheless, including the preference shares, we do expect to get back down to 25% in the medium term.

Roy Gori - *Manulife Financial Corporation - President, CEO & Director*

Yes. Let me just add, Gabriel, leverage in getting our ratio down to 25% as Phil highlighted is the priority for us. So when we look at the capital relief we get from the ALDA action we've taken plus further optimization in the capital space, we have some options. So the way we think about it is that getting our leverage ratio down will be one of the priorities, but at the same time, we've got some tremendous organic opportunities that we believe are going to also fuel growth for the franchise in the future. So it's about looking at those opportunities via the leverage objective that we have in the longer term and the decisions we've made on a case-by-case basis.

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

Gotcha.

Philip Witherington - *Manulife Financial Corporation - Senior EVP & CFO*

And then moving on to your second question, the 2018 efficiency initiatives. So yes, we have launched a number of initiatives to deliver efficiencies in 2018. Those are quantified and embedded in our internal plans. We haven't yet, at this stage, quantified them externally. I don't feel it's appropriate to do so at this point, but we will provide more information likely in the middle of the year when we're planning an Investor Day. I think when it comes to these efficiency initiatives, there are some that are very basic, which involve really instilling an expense culture within the organization and that's something that we started in 2017, and I think you can see through our cost growth in 2017 that it has been lower than in previous years. But it's not only about instilling a culture of expense efficiency and driving the discipline, particularly around discretionary expenses, it goes much deeper than that. We are making investments to automate processes, digitize processes, and these are things that are absolutely consistent with the broader strategy because the more we can automate, streamline, simplify, digitize, we are able to improve the experience for both our employees and our customers. So this is where I think you'll see the focus in actually 2018 and beyond.

Roy Gori - *Manulife Financial Corporation - President, CEO & Director*

So let me add to that, Gabriel. We've called out expenses, and expense efficiency is one of our top 5 priorities as a franchise. It's embedded in our plans and our goals and the objectives of our executive leadership team. We do think that this is a tremendous opportunity for us to drive value through the areas of focus that Phil mentioned. So I guess, we'll need to demonstrate performance in that space. But we believe that the opportunity is quite significant to extract value.

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

Thank you.

Operator

The following question is from Humphrey Lee of Dowling & Partners.

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

Good morning and thank you for taking my question. Just a follow-up on Long-Term Care. Obviously, the charge taken by GE kind of caught people by surprise. I was just wondering if you can provide some color in terms of how your block of business has been different from GE's maybe on a policy basis or on the average benefits or anything that you can provide, that would be helpful.

Steven Finch - *Manulife Financial Corporation - Senior Executive VP & Chief Actuary*

Hi, Humphrey, it's Steve. I'll take that one. And it's difficult to make a comparison to GE's business. We don't know their business, and there's not a lot of public disclosure. But what I would point out or reinforce is, the reserving standards that we're subject to under Canadian IFRS are significantly different than U.S. companies. We as you know, we do deep dives on our assumptions and update them and reflect them in current period income and on the balance sheet. We've done those deep dives every 3 years and continued to track experience against those assumptions. So Phil's point about our IFRS reserves are 30% higher than our U.S. statutory basis, that's $10 billion dollars Canadian. It's a very substantial margin to what we would hold on the U.S. basis. And I think it points to the comfort level that we have been updating these assumptions over time. The other thing I'd point out, another difference is the fact that under the Canadian standards, we have to, every year, have a professional third-party actuarial peer review of our valuation. It's another check and balance on the adequacy of our reserves. It's not required in the U.S. So I think, there are a number of things that, with our management of the business, put us in a different position than some of the U.S. companies. And then the other point is then how aggressive we've been in terms of managing the business to rate increases, and the opportunities that Naveed outlined in terms of really proactively managing the claims and managing this business on an ongoing basis. We are going to commit significant resources to doing that.

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

Got it. And then maybe a question for Naveed. I think in his response to one of the questions, he talked about, there's some switch out or surrender offers that is ongoing. I was just wondering if you can provide some color, is it some VA-related surrender offers? Or is it for something else?

Naveed Irshad - *Manulife Financial Corporation - Executive VP & Head of North America Legacy Business*

Yes, we have initiated that conversion program in Canada on the seg. fund business. This is a GMWB to investment-oriented exchange program. So it's just started. We've had some initial success on that. The story there is that customers may not need the guaranteed income and may be looking for more upside, lower-fee sort of product. So that's experiment that we've been running. We expect to ramp that up further. And we're also looking at potential buyout programs, both in Canada and in the U.S., and projects are under way to launch those.

Naveed Irshad - *Manulife Financial Corporation - Executive VP & Head of North America Legacy Business*

Okay, thank you.

Operator

The following question is from Sumit Malhotra of Scotia Capital.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

Thanks, Good morning. Want to start with the ALDA portfolio, and this is probably going to be for Phil or for Scott. So in taking the charge for, I guess, the portfolio divestitures this quarter, you've been pretty clear that the sales are still to come. So fair to say that the bulk of this charge or provision that you've put through relates to the PV effect of where the replacement assets will be returning for you relative to the assets you've sold. It has more to do with that than it does with losses on sales. Is that the right way to think about it?

Philip Witherington - *Manulife Financial Corporation - Senior EVP & CFO*

Correct, Sumit. The $1 billion dollar charge, just to clarify, in no way reflects any losses on the portfolio, the ALDA portfolio itself. What it reflects is the impact of changing the assumed rates of investment return from a return on an ALDA portfolio to return on the alternative portfolio, which will be a corporate bond portfolio. So that's the entire calm liability effect of the asset portfolio change.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

So in the 6 asset classes that are comprised within ALDA, the divestitures you're contemplating here, are they in a couple of specific areas? Or is it spread out? And at least by my math, are we talking about a notional in the $5 billion or $6 billion dollar range?

Philip Witherington - *Manulife Financial Corporation - Senior EVP & CFO*

So for reasons of commercial sensitivity, we're not actually giving any details as to which asset classes we're seeking to divest or in fact the dollar amounts of the portfolio that we'll be divesting. Our focus there is really on maximizing value to our shareholders. So we'll have to update you on that in due course.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

Well, let's go about this maybe a different way and perhaps it's more philosophically for Roy. You've talked in great deal over the last year about movements in the legacy assets. I felt like, especially after you made the return assumptions review in Q3 around ALDA, it didn't seem like making that portfolio smaller was necessarily one of the top priorities. So to put this more directly, do you contemplate or are you expecting further reductions in the size of this portfolio? Or has this move gotten that book to a level you're more comfortable with?

Roy Gori - *Manulife Financial Corporation - President, CEO & Director*

Yes, look, Sumit, it's a fair question. So I think what I'd say from the outset is that ALDA is an important asset class for us, and it has performed extremely well. In fact, over the last 5 years, we've delivered a 9% return. And the review that we conducted over the last 4, 5 months of 2017 really had us come to the conclusion that, to generate some capital efficiency, we felt that we could adjust our portfolio and fine tune it, so to speak, to get to a place that we feel more comfortable with. So the short answer to your question is that we feel comfortable with this adjustment that we have the portfolio where we need it to be. So we don't expect any further changes.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

Okay. And I'm going to wrap up with, let's stay with that level of comfort and, especially, as it relates to the balance sheet and capital. So leverage right now on your current calculation that your investors are all using, you're at about 30%, MCCSR is going away, but even on that basis, to 24%, somewhat lower than we've seen from the company in the recent past. How do you characterize where your balance sheet and capital sit right now, particularly relative to some of the divestitures the company might be contemplating in the legacy portfolio?

Philip Witherington - *Manulife Financial Corporation - Senior EVP & CFO*

Okay. So this is Phil. I'll take that and then Steve Finch may wish to comment. So we do consider our capital position to be healthy. And in fact, the strength of our capital position was one of the factors that enabled us to make the portfolio decision that we've made in December to reduce the waiting of ALDA assets in our portfolio. And that's not the cash lost, that's really a valuation question. So I think that does illustrate the capital strength, providing the flexibility for us to make some strategic decisions. We don't see our capital position as a constraint. I do expect in the short term our leverage ratio to maintain, to be fairly stable at 30%, but then in the medium-term trend down towards the 25% target that we've communicated in the past. If we look forward into the LICAT regime, again, our expectation is that we're confident that our capital position will remain healthy, so not something that we see as a constraint now or in the near future. And Steve, would you like to comment further?

Steven Finch - *Manulife Financial Corporation - Senior Executive VP & Chief Actuary*

The only thing I'd add is that, as we look at any other potential opportunities, I think the ALDA change that we made is a good example. We're looking at total value to shareholders. We were willing to accept a charge to net income in order to free up a significant amount of capital. And that's the type of lens that we would be applying for any other related activities.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

And then last one. And some of this, because for Roy and Phil, it's relatively early days, some of these may be more philosophical in nature. But as you review your opportunities to make LTC and, to some extent, VA smaller parts of the business, would there be any reluctance on your part to consider opportunities that may require an external capital event? What I'm trying to say here is, if the losses are large enough, could you stomach having to externally boost capital in order to move on from these businesses and the losses that they may require? Or do you think this can be done in the context of organic capital growth?

Roy Gori - *Manulife Financial Corporation - President, CEO & Director*

So let me make a quick comment, Sumit, and I'll hand over to Phil. I guess, what I'd say is a reiteration of the comment that was made earlier, and that is we do not feel constrained in terms of our ability to execute against our ambition in the portfolio optimization space. We see that there is an opportunity for us to focus more ambitiously on managing our legacy businesses, and that will include organic opportunities, but also inorganic opportunities. And we do not feel and see that there's a limitation from a capital perspective in relation to what we want to do and how we want to do that. But I'll ask Phil to perhaps provide a little bit more color.

Philip Witherington - *Manulife Financial Corporation - Senior EVP & CFO*

Sure. Thanks, Roy. So the piece I would add is that when we think about this as the management team, as the leadership team, we are very clearly now providing a shareholder value lens. So we look at the opportunities in the context of overall how can we improve and increase the value to shareholders of the company, but also a key factor in that is capital efficiency. So it's not so much what might happen to the accounting balance sheet, but how can we make the organization more efficient from a capital point if you. And to reiterate Roy's comment, we don't feel constrained at this point. We are very clear that optimizing the portfolio is one of our highest priorities.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

Thanks for your time, guys.

Operator

The following question is from Doug Young of Desjardins Capital Markets.

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

Hi. Good morning. Just back to ALDA, I guess, maybe for Phil. The decision to pare back your exposure there, how much of that was related to the pending adoption of IFRS 17? And then second part of that is, starting in Q1, should we be expecting investment gains to be a little bit higher than normal? Because your ALDA is still on the books, but you've assumed you've sold them, and you've assumed a lower return on other assets. I'm just trying to get a sense of through 2018, as you're paring this portfolio back, should we be expecting investment gains to trend a little bit higher?

Philip Witherington - *Manulife Financial Corporation - Senior EVP & CFO*

Okay. Thanks, Doug. So IFRS 17, whilst there were many factors that we did consider when we were evaluating the decision around the ALDA portfolio and portfolio mix, IFRS 17 wasn't really one of them. It's too early at this point to comment on IFRS 17. We have initiated our IFRS 17 conversion project, but it's not something that is causing us to make strategic or management decisions at this point. In terms of the investments, the outlook for Q1 experience gains, I can't really comment on what I would expect Q1 to look like. So I think that one we'll just have to wait and see and cover it during the Q1 earnings call.

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

But in theory, that's pretty well the way to think of it because you haven't sold them, you're generating higher returns relative to what you've expected in the PV. We should be expecting essentially not to quantify it, but we should be expecting potentially higher gains.

Philip Witherington - *Manulife Financial Corporation - Senior EVP & CFO*

No, I don't think we should be expecting any particular boost or gain in the short term an investment to experience from the ALDA strategy change.

Roy Gori - *Manulife Financial Corporation - President, CEO & Director*

Doug, there'll be so many other factors that will weigh in on what the Q1 investment earnings will be. So it's really very difficult to predict what that looks like and to make it a theoretical discussion around the drawdown of our ALDA sales. We'll just be looking at one aspect of many that will contribute to where our investment earnings will actually end up.

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

That's fair. And then just second on Canada. I mean, core earnings in the quarter were down 7%. I mean, on an annual basis, they were up. I think in the quarter, there were some policyholder experience headwinds. Just wanted to flush those out. And what other types of pressures are you facing in Canada? Just in the quarter, it just seems a little bit weaker than what I would have expected.

Mike Doughty - *Manulife Financial Corporation - President & CEO of Manulife Canada*

Yes. Doug, it's Mike Doughty here. There were really 2 things in the quarter. One was just comparing it to last year, there was a onetime gain from a reinsurance recapture. So that, combined with really policyholder experience on a couple of large life claims, was the big driver in this past quarter.

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

K, thank you.

Operator

Thank you. The following question is from Paul Holden of CIBC.

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

Thank you. Good morning. Just want to ask a question related to anticipated hedging costs for 2 reasons, one, obviously, fall in both equity and rates has increased this quarter, and then second point is your hedging strategies have evolved over time, so not sure if historical precedent is all that relevant. So maybe if you can just give us a flavor of, in a time period like January, what should we expect to happen to hedging costs included in core earnings?

Rahim Hirji - *Manulife Financial Corporation - Executive VP & Chief Risk Officer*

So it's Rahim Hirji here. Paul, thanks for the question. In terms of our general hedging program, our hedging program actually has worked quite effectively both in January and the first part of February. And it's right in line with what we would have expected the program to have. We have a number of different instruments in there, and both during the period of lower volatility in 2017 and earlier in 2018, we actually added some options into our program and that, that has dampened the amount of trading that we would have had to do over the first week of February. But overall, I would say our program is right in line with what we would expect, and it's been actually quite effective.

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

Okay. So effective in terms of what it's intended to do, and you're also saying effective in terms of cost efficiency as well?

Rahim Hirji - *Manulife Financial Corporation - Executive VP & Chief Risk Officer*

Yes.

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

Okay. Okay. Fair enough. And then a question regarding the Thailand digital pilot. I assume since it's called a pilot, it is a kind of testing in one specific country. If it's a success, maybe roll it out into some other Asian countries where you either have no penetration or lower penetration. So maybe you can confirm that thinking. And if that's the case, ballpark, how long do you think this pilot would need to go on for before you roll it out to other countries?

Anil Wadhwani - *Manulife Financial Corporation - CEO & President of Manulife Asia*

This is Anil. So yes, we have kind of taken a step to train our resources and our focus on driving a very high level of digital interactions with our clients in Thailand. So in many ways, as you pointed out, this serves as a very strong pilot for us to see whether we can take some of these digital capabilities to some of the other Asia markets. I just want to add that while we are doing this in Thailand, we are not kind of stopping our digital initiatives in the rest of Asia. And the way we're seeing this is, we are employing efforts both in terms of simplifying our interactions with customers at the time of on-boarding, but that also as you kind of manage the relationship with our customers through their life cycle. We have certain guardrails, and certain kind of proof points with respect to the Thailand pilot. But as I said, it's kind of pretty much initial days in terms of a launch. But as we kind of go through 2018, we should be able to kind of crystallize the impact that it's having on Thailand business and the capabilities that we would like to extend to the rest of Asia.

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

Great, thank you.

Operator

The following question is from Mario Mendonca with TD Securities.

Mario Mendonca - *TD Securities Equity Research - MD and Research Analyst*

Good morning. If you could go back to Asia for just a moment and not so much the new business value, but instead of what falls directly into the sources of earnings, the new business gains, so those gains have been very, very strong over the last couple of years, and I think you folks have done a good job describing why the product mix changes, distribution, everything else. When we think about 2018 now, is there anything available to you from a product mix perspective, cost perspective, distribution that can support the sort of margin gains that we've seen in the last couple of years? Because, clearly, the improvement in the margin is what's driving on top of the very good quantum like the size of the sales, the growth in the sales. But what else can you do? Because this has been a really special 2 years in terms of Asia new business.

Philip Witherington - *Manulife Financial Corporation - Senior EVP & CFO*

Yes. So, this is Phil. I'll make a start, and you feel free to supplement from a strategic perspective. So financially, we certainly have seen improvements in both new business value and new business gains over the past few years in Asia. I think one of the key points for us is that, as we continue to grow our scale, we will become more expense efficient. And that's one of our key priorities. So I recall at the 2015 Investor Day, we said at that time that we would expect our margins to be correlated to our improvements in scale. And I think that's still true today when we look at our business in Asia. What we can't compare to our peers in Asia is the new business value margin that we were able to achieve. And if we look at where we stand relative to our market-leading peers, I still think there's work for us to do to improve our margins, particularly outside Hong Kong and Japan. So I think that's where our focus is, scale. Anil.

Anil Wadhwani - *Manulife Financial Corporation - CEO & President of Manulife Asia*

Yes. So just couple of thoughts from my side. So I think while we are looking at increasing our distribution force, both on the agency side as well as leveraging some of the exclusive bank partnerships that we have in Asia, our overwhelming focus has been on quality as well. So we have been driving greater productivity. A good proof point of that is that our MDRT participation in '17 jumped by 40% over '16. And that, obviously, kind of augers well both in terms of kind of expanding our distribution, but also ensuring that we are getting the right productivity leverage from our distribution channels. Just to remind, we also run a very balanced set of distribution, and Roy alluded to that in his initial comments on back of some of the bank partnerships that we've been able to sign up. So that has been a key focus area, both in terms of ensuring that we grow the distribution, but also focus very, very intensely on quality.

Roy Gori - *Manulife Financial Corporation - President, CEO & Director*

So Mario, I'll just add a couple of comments. I think Phil and Anil covered the key points. But on distribution, I still think that there is more opportunity for us in Asia. And as Anil highlighted, on the bancassurance space, we've now been very successfully in signing up exclusive partners, but the penetration of the customer base of the partnerships that we have is still relatively low. So we think there's further opportunity to dive deeper in and improve our penetration rates in the bancassurance space, obviously, continue to scale the quality of our agency force. And then finally, the comment that Phil made around scale is, again, another important one. Three years ago, we shared at our Investor Day in 2017 that 3 years ago, there were only 3 businesses in Asia that had more than $100 million of annual APE sales and now we have 7. And that scale benefit will continue to drive efficiency upside and improve our margins.

Mario Mendonca - *TD Securities Equity Research - MD and Research Analyst*

So not to put too fine a point on it. But in 2017, the APE in Asia was up 14%. The new business gains recorded that the sources of earnings were up 68%. So clearly, there was a margin benefit. Not to put words in your mouth, but is it fair to say that going into '18, the APE growth could remain strong, but that disparity between the new business gains growth and the APE growth maybe won't be as wide. Is that a fair statement?

Steven Finch - *Manulife Financial Corporation - Senior Executive VP & Chief Actuary*

Mario, it's Steve. Maybe I'd make one comment on that. I think we'll be cautious about projecting forward that type of situation. We do see new business gains bounce around a bit. But I think the key points here were that the underlying fundamentals of the business have been sound and are what driving the margin improvement, and that's sustainable. And I think there is more upside there as Anil executes and drives the same type of activity. But I don't think we should speculate on just how much that will flow through the new business gain, Mario.

Mario Mendonca - *TD Securities Equity Research - MD and Research Analyst*

But still some upside to the margin, I guess, Steve, is the takeaway than for me.

Steven Finch - *Manulife Financial Corporation - Senior Executive VP & Chief Actuary*

Sure, yes.

Anil Wadhwani - *Manulife Financial Corporation - CEO & President of Manulife Asia*

Absolutely.

Philip Witherington - *Manulife Financial Corporation - Senior EVP & CFO*

Just on that point, Mario, this is Phil. To improve the transparency around new business gains, recognizing that our business in China does get recognized 100% in the SOE analysis, we are planning to revise SOE analysis before we release our first quarter results to provide greater granularity in the SOE, and that will include splitting out the minority interest component, so you actually get to see the Manulife shareholder impact of new business gains. And just for clarity, the impact of minority interest was in the order of $28 million in the fourth quarter.

Mario Mendonca - *TD Securities Equity Research - MD and Research Analyst*

I think that can be really helpful to see. My second question then goes back to the ALDA. Now IFRS 17, I've done everything I can to understand, it is not as easy as I'd like it to be. But one thing I have understood is that the connection between the expected return on the assets and the rate at which you discount the reserves, that just doesn't exist in the same way it has in the past. And Steve, if you want to correct me on that, I'm happy to take a lesson from you on this. But if that's true, if I have got that understanding, if I understand that correctly, then I don't really see how ALDA fits in to IFRS 17. So it may not have been an immediate consideration. But is it a consideration going forward so far as the extent to which you use ALDA?

Steven Finch - *Manulife Financial Corporation - Senior Executive VP & Chief Actuary*

Well, I'll start, Mario. Your understanding is correct in terms of the disconnect between the assets and the liabilities. I'll probably pass it over to Scott. But before I do, there's accounting treatment, but then there's the underlying economics and the appropriate asset classes to back our business. And that's the way we like to manage the business, recognizing also the implications on the accounting. So Scott?

Scott Hartz - *Manulife Financial Corporation - EVP of General Account Investments*

Yes, Steve, thanks. It's exactly the point I was going to make. We really start with the economics. And for these long businesses, it clearly makes sense to invest a healthy amount into ALDA. The returns are greater, as Roy has mentioned. And I guess, the other thing I would point out is that one of our concerns with ALDA is the volatility that runs through our earnings, and so one of the benefits of scaling back is a little bit less volatility. That's going to be no different in IFRS 17. In fact, again, IFRS 17, as I understand, is still evolving, but I think we will pick up probably more volatility in the fixed income, as that's more truly mark-to-market. The ALDA is really not going to change from a quarter-to-quarter perspective. But I would go back to, we think it's the right economic strategy, and that's going to be a big driver of our investment strategy going forward.

Mario Mendonca - *TD Securities Equity Research - MD and Research Analyst*

So just to sort of finish up here then. If the decision is all economics, then why reduce the portfolio at all? I mean, this decision to sell $4 billion, $5 billion, $6 billion, well, we'll take a stab at the number. If economics is the driving force, then I'm not sure I follow why you would sell in the first place.

Scott Hartz - *Manulife Financial Corporation - EVP of General Account Investments*

I would say it's where we start, Mario, and, of course, we need to consider sort of the accounting. But I will tell you as we thought through this decision, another factor playing in is, where do we see markets today and is now a good time to reduce. If we had felt that these assets were undervalued and it was economically the incorrect thing to reduce it, we probably would not have made the same decision.

Mario Mendonca - *TD Securities Equity Research - MD and Research Analyst*

Okay. So you're done selling all and maybe that's the right approach and this is it, you're done. Is that fair?

Scott Hartz - *Manulife Financial Corporation - EVP of General Account Investments*

That's our current position. Market conditions change, other things change, but, again, economics should be the biggest driver in the decision, and that would indicate it will continue to be an appropriate strategy.

Mario Mendonca - *TD Securities Equity Research - MD and Research Analyst*

Okay. Thank you for the time.

Operator

The following question is from Tom MacKinnon with BMO Capital.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD*

Yea, thanks. Question just really about the dividend increase. You had 14% growth and that was probably even higher to take out the impact of currency in 2017. Your remittances went up 18%, and you still reiterated the 10% to 12% medium-term core earnings growth objective. So the dividend went up 7%. Can you talk about that little bit of disconnect? It seems like your payout ratio might be closer to the midpoint, but maybe you can give us a little bit of color there.

Roy Gori - *Manulife Financial Corporation - President, CEO & Director*

Tom, let me start, and I'll hand over to Phil. I think you're highlighting the right things and that is the payout ratio. For us, our target is to have a payout ratio between 30% to 40%. And with this dividend increase, we're pretty much at the higher end of that payout range. So we feel comfortable with that. And there are, as you highlight, a number of factors that will figure into a decision around the dividend increase. But we feel that we really abide by this philosophy of having consistency with our dividend increases and wanting to have a sustainable long-term position on that. So from a philosophic perspective, that's sort of the grounding behind the final decision that we made. But I'll ask Phil to provide some further commentary.

Philip Witherington - *Manulife Financial Corporation - Senior EVP & CFO*

Yes. I think the only point that I would add is that we are confident about the future outlook for growth. And I think there are some headwinds and the strength of the Canadian dollar could be an earnings headwind for us. We actually have tailwinds as well, for example, the higher earnings that we expect to achieve as a consequence of the tax reform changes in the United States. So on balance, the outlook is good. But for all the points that Roy states, we felt that the 1.5 cent increase in the dividend was the right approach and that's what the board had approved.

Operator

The following question is from Darko Mihelic of RBC Capital Markets.

Darko Mihelic - *RBC Capital Markets, LLC, Research Division - Financials Analyst*

Hi, thank you. I have 2 questions. The first one is for Marianne and maybe also for Naveed, I'm not sure. But when I look at Slide 19 and I see new business value of the U.S. of $51 million down from $59 million and really relatively small in the grand scheme of things, the question is, going forward, why bother selling stuff in the U.S. at all? Is that something that you're considering as part of a change to the overall U.S. business? I suppose the tax rate may have an impact here. But can you speak to what the view is on the relatively small, almost inconsequential addition of sales that the U.S. is having? And what's your plans are to either improve that or maybe change it?

Marianne Harrison - *Manulife Financial Corporation - President & CEO of John Hancock*

So it's Marianne here. So I'll start then, and maybe if you have anything that you want to add, please feel free to. I would say that what you see in the results is no LTC sales. So that has an impact on the year-over-year perspective. And I would also say the mix of sales as well has an impact. We had higher sales this year on the term side and less on the international side because of some of the repricing we did, and so that has impacted the NBV. But stepping back more, I guess, I'll say, strategically, we're in the midst right now, actually, of going through a strategic review in the U.S. And we have been looking at the U.S. insurance business. And we really believe that there are opportunities for us in this space. First of all, the market in the U.S. is significant. And although the insurance business growth hasn't been that substantial, the size of the market is huge, and the need is certainly there. And so we're looking at how do we want to address that going forward and are there opportunities for us to turn that business around, and we really believe that there are. As I said, we're still going through our strategic process right now. But I'm pretty confident that there is a place for it, especially when we look at trying to meet sort of holistic needs of consumers. We believe that the life insurance plays a key role. And I also expect to see that, that new business value in the next 5 years will be going up quite substantially as well. Maybe I don't know if you want to add anything.

Darko Mihelic - *RBC Capital Markets, LLC, Research Division - Financials Analyst*

Okay. And my second question is for Phil and perhaps Steve as well. With respect to the Long-Term Care issue that sometimes comes up, and it's not your fault, there are other things happening in the marketplace. But are you considering perhaps providing more disclosure maybe in mathematical form that would help us better understand perhaps, for example, your success in rate increases, perhaps giving us proportion of states that are allowing it, and the degree of success there maybe giving us some information on the book in terms of what's group, what's not, maybe perhaps what's lifetime benefit, what's non, things like that, that would help round out our understanding. And perhaps it, given on a quarterly basis, would help us sort of answer questions instead of saying I don't know many times to people when they ask questions on Long-Term Care. Have you given some thought to that as perhaps something that's coming with the Investor Day?

Philip Witherington - *Manulife Financial Corporation - Senior EVP & CFO*

Darko, this is Phil. At this point, we don't have any plans for additional disclosure. But we are putting thoughts into how we will structure Investor Day and how we will structure our disclosures going forward. So happy to have feedback on that and to consider it during the course of 2018. And on your specific points, I'll hand over to Steve to find out his thoughts.

Steven Finch - *Manulife Financial Corporation - Senior Executive VP & Chief Actuary*

Yes. We appreciate the feedback. And certainly, the size of the charge that GE announced, I think, was very notable to many in the market. And I think as we look at that, we should consider when this business line is in the media more, if there are additional items we can provide that could be helpful, we'll give that some thought.

Marianne Harrison - *Manulife Financial Corporation - President & CEO of John Hancock*

And it's Marianne here. I would add to that on the rate increase. There is a little bit of sensitivity there in terms of going to the states and trying to get increases, one state versus another. So we do want to be careful too as well in terms of how much we disclose.

Darko Mihelic - *RBC Capital Markets, LLC, Research Division - Financials Analyst*

Fair enough. Thank you.

Operator

The following question is from Liyang Lu of Bernstein.

Liyang Lu - *Sanford C. Bernstein (Hong Kong) Limited - Analyst*

Thank you for taking questions. I have 2 questions regarding Asia. One part is on the Asia WAM business. We noticed a quite strong growth over the year for the consecutive quarter and the years. Just wonder any details regarding that, where does the flow really come from, from institution or just retail? And any comments on the future run rate would be appreciated. And the other second part is...

Paul Lorentz - *Manulife Financial Corporation - Head of Global Wealth & Asset Management*

Yes. So it's Paul. No, go ahead.

Liyang Lu - *Sanford C. Bernstein (Hong Kong) Limited - Analyst*

The second part is really just regarding the China business, understanding the JV right now and according to the news that China is considering probably to open up like in the next 3 to 5 years to allow insurers to hold 100%. So just want to get comments regarding the company, how to think going forward, any strategic direction about it.

Paul Lorentz - *Manulife Financial Corporation - Head of Global Wealth & Asset Management*

Okay, great. It's Paul here. I'll start and then I'll hand it to Anil for your second question. In terms of sales, we're quite happy with the sales in Asia. It's a little bit disconnected from last quarter, because we did have some large sales, as was mentioned earlier, in Japan and Canada that are skewing the growth rate going forward, that didn't occur in the fourth quarter. But when you look at that across other retail business as well as the retirement business, they're both extremely strong. Hong Kong continues to drive #1 market share in both flows and AUM from a retirement perspective. And on the retail side, most of the countries were up year-over-year, China as well. The only pullback was a little bit of net sales in China due to money market. But again, the quality of those sales relative to what we're selling is not a concern to us. So we're quite happy with it in terms of the outlook, the flows and how we're positioned. Anil, do you want to add anything to that?

Anil Wadhwani - *Manulife Financial Corporation - CEO & President of Manulife Asia*

No. I guess, Paul, you covered that. I'll address the second question, which is with respect to the reforms in China. So we welcome any kind of reforms that opens up insurance sector. And to that extent, we are monitoring the situation very closely for specific guidelines. As you know, we have a joint venture partnership with Sinochem. And on the ground, that partnership has worked exceedingly well for us. Sinochem has been a great partner and both Manulife and Sinochem have been delighted with the progress that we've kind of seen in the China market. And that's demonstrated by the traction that we've seen both on APE as well as NBV sales in China. So we like the partnership, and we continue to remain very, very optimistic about our prospects and the way we can serve the Chinese customer while monitoring the situation for specific guidelines as the market opens up.

Liyang Lu - *Sanford C. Bernstein (Hong Kong) Limited - Analyst*

Okay. If I may just squeeze a very small question/comment. We see that Asia Other business getting pretty big right now. It's like 1/3 of the NBV or APE. Just wondering if the management is considering like breakdown and giving more details on a constant regular basis instead of just showing the details on the Investor Day.

Philip Witherington - *Manulife Financial Corporation - Senior EVP & CFO*

Okay. Liyang, this is Phil. So we did provide some additional breakdown of the various components of Asia Other at our recent Investor Day held in Hong Kong and Vietnam. We have no plans at this point to provide quarterly updates in more granularity within Other Asia. But similar to the earlier comments, we're happy to receive feedback on how we could improve our disclosure and make it more helpful to the investor community. So we can talk about that offline, and we can take it into account in our evaluation of our disclosures.

Liyang Lu - *Sanford C. Bernstein (Hong Kong) Limited - Analyst*

Alright. Thank you.

Operator

Thank you. This concludes today's conference.

Robert Veloso - *Manulife Financial Corporation - VP, IR*

All right. Thank you, operator. We'll be available after the call if there's any follow-up questions. Have a good morning, everyone. Bye-bye.
