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CONFERENCE CALL PARTICIPANTS
John Aiken

PRESENTATION
John Aiken
Well, good afternoon, ladies and gentlemen. To fight off the sleepiness that we always have after lunch, we’re quite pleased to have Steve Roder from Manulife Financial. He’s the Chief Financial Officer. Steve, welcome back, as this is another return visit for you at our conference.

Stephen Roder
Any excuse to return to my home turf, as it were.

John Aiken
Always a pleasure to have you. So Steve, for those that are not necessarily intimately familiar with Manulife, was hoping that you could start off with an overview of your three main geographies and what you expect to have the growth, or what your outlook is for growth over the next 3 to 5 years.

Stephen Roder
Sure, okay. So, we operate through three geographies, John, Asia, United States and Canada, Canada obviously being the home market. We’ve been a long-established Canadian company. And we also operate, through the other lens, we operate through insurance and we operate through wealth management.

So if you look across the group as a whole, I guess you’d say the two main growth drivers are the Asian insurance story and the global wealth and asset management story, and that would incorporate pensions, mutual funds, and institutional asset management.

So what we’ve seen in the last 2 or 3 years is very, very strong growth in Asia, where we’ve been for a very long time, and we have a very broad footprint, and we’ve also seen really good growth, in fact, we’ve had 29 consecutive quarters of positive net flows into our global wealth and asset management business. So, those are the 2 drivers.

We’ve got a target ROE out there that we put out at Investor Day nearly 2 years ago of 13% core return on equity over the medium term, so maybe that’s a 3- to 5-year horizon. As of Q1 we were running at 11.1%. So we were directionally correct on that.

And we’ve been looking to do more expansion, as we really do 3 things. One is continue to grow those businesses that have the highest returns the fastest. Second is fully integrate and make accretive some of the key transactions we’ve done in the last 3 years, so that’s Standard Life Canada, New York Life pensions business in the U.S., which are both wealth deals, essentially; a major bank assurance deal we did with DBS in Asia; and then more recently a deal we did with Standard Charter Bank in Hong Kong which gives us an exclusive distribution arrangement in the Hong Kong pension space with them and actually puts us into #1 position as a scheme provider in Hong Kong pensions.

So if we can do that, add to that some more expense efficiencies, that’s how we should get ourselves to 13% return. But it’s not easy, John.
John Aiken

It’s not easy. Exactly. To drill down a little bit, we had a very strong -- you saw, a very strong result for first quarter in Asia in particular, both in terms of the sales levels but bubbling up profitability. The results that we saw early in the year, how sustainable is that level of growth for Manulife in particular but also the region in general?

Stephen Roder

Okay, so if you step back and you think about the case for Asia, it’s actually what you’ve got going on is this rise of the middle class taking place in some economies that are experiencing very strong GDP growth. So, I mean, the places I’d call out that fit that description would be Mainland China, Philippines, Vietnam, Indonesia. And these markets are all experiencing GDP growth of 6%, 7% per annum.

And what we have is this phenomenon that when people get to a certain level of income, and some people say $10,000, others says $12,000, there’s a point at which people start to think about retail financial services products. Prior to that they’re thinking about clothing, housing, food, other basics. And so the effect is somewhat logarithmic at that point, and it is a tide, if you like, that lifts all boats. So we can benefit from that.

On the other hand, we are also growing faster than the market in terms of the growth, percentage growth in premiums and bills, so, importantly, in new business value and margins. And I just think that’s a reflection of some renewed focus, energy, commitment, whatever you would like to call it over the last 4 years.

In a sense, the fact that Manulife recruited me from Asia maybe was the sort of start of that, and I think that was symbolic, and it’s continued on with some real commitment to the region, the ability to get the DBS deal done, I’d say some really good highs in leadership positions in Asia in the last couple of years. And we have really good momentum in the business there.

So I think it is sustainable from the point of view of what’s fundamentally going on in Asia, which is this middle class emergence story. I think it’s sustainable from a Manulife momentum story. But from one quarter to another we’ll get some ebbs and flows. But if you look back at the last several quarters, we’ve had core earnings growth, if you adjust for currency and other noise, if you like, if you normalize it, it’s been coming in between 13% and 18%, almost, I think, without exception now, for about 6 or 7 quarters. So long may that continue.

Ken Asbury: Well, unfortunately, Manulife is not the only life insurance company in the region. How are you finding the competitive dynamics? We’ve heard arguments that it is just a growing pie, but are you actually seeing heightened level of competition? Is it actually increasing?

Stephen Roder

So, the competitive environment in Asia is pretty interesting. I mean, I first went to live and work in Hong Kong 21 years ago now. And at that time people talked about the margins in Asia and how sustainable was this, etc. We haven’t fundamentally seen a great change in that time, so that’s reflective in certain ways of the competitive nature of the market, competitive need, perhaps.

I think there is an argument that says the size of the opportunity is so large, it’s so big that we can’t all get there anyway, particularly in Mainland China and places like Indonesia. It’s so big, the populations are so big, it’s really tough just to get it all, and so in a sense it’s not really about competing. It’s more about executing ourselves. I still believe that’s the case.

And on the other hand, if you look at the different markets, the competitive environment is slightly different. So in Mainland China you have some very large domestic champions, people like China Life, Ping An, China Pacific. These are very large companies, and we are competing with them.

In Japan, which is more of a core return market for us than a core growth market, which is fine, given the scale in the region it’s a really good return market. Then, again, you’ve got some big national champions, people like Nippon Life, Meiji Yasuda, Dai-ichi, Sumitomo Life. But typically we’re not competing so much with them. We’re more competing against other foreign players in niche areas.
If you look at the rest of Asia, generally speaking, the big players are a small number of multinationals. And we always talk about our two main competitors, AIA and Prudential Plc. And we always regard ourselves as one of the top three platforms, and essentially we're the third platform, but I would say growing faster in certain respects than AIA and Prudential Plc. AXA is also a significant player, and then others sort of pop up a bit in different markets, but rather inconsistently.

Some have a great business in one geography or two geographies. There is one other significant player that's major competition in Singapore and Malaysia. That's Great Eastern. But there are not -- typically not a lot of domestic major players in most of the emerging markets. And it's usually us and AIA and Pru Plc and maybe AXA, and maybe somebody else is typically what it is.

John Aiken
Well, and along those lines, you mentioned the new business value had been increasing in Asia, but was wondering if you can expand upon that, and, in particular, both the agreement, the distribution agreement with DBS and how that actually -- whether it is and how that is driving that growth.

Stephen Roder
Yes, okay, so I would say if you go back 4 years ago, 4 or 5 years ago, when I joined the organization, I think it would fair to say at that point in time Asia had moved to the center of the agenda probably two years earlier, under our -- or maybe three years earlier under our new Chief Executive at the time. And I think the organization was still getting to grips with the fact that Asia had gone from a sort of nice to have as a grownup on the fringe, in a sense, to the center of the agenda.

And I don't think at that time we were still quite looking at it the right way. So, if I compared Manulife's view of how it portrayed its Asian business and how it looked at its Asian business, it wasn't the same as what I'd experienced elsewhere. And so what we've done in the last 3 or 4 years is we've really shone the torch on new business value generation and new business margin and the important of those metrics.

So, I mean, here we'll talk about (inaudible) in premium income. And anyone could stand on a street corner and sell a dollar for $0.99, right? So you'd only really have about, just driving through, the higher numbers of agents selling ever greater volumes of premium income. You've got to look at the cause here of what you're selling.

So we are very focused now, to an extent that probably were not 3 or 4 years ago, in really driving new business margin and focusing on new business value. And you'll see in our disclosures those metrics have improved remarkably over the last two years.

Now, to your point, the DBS deal has been important in that, because it gives us scale, particularly outside of Japan and Hong Kong. If you go back, again, four or five years ago, we were overly dependent on Hong Kong and Japan, whereas today we are becoming less dependent on those two territories, and you can see the growth what I would call the other Asia, or Asia at Hong Kong and Japan. And that's coming about for two factors.

One is the DBS deal, which is not all about Singapore, but Singapore is the most important component of that. And the DBS deal has gone extremely well from our perspective. We're very, very happy with it. The first year was 2016. It's basically on plan. And it's motivated, if you like, not just by premium promises. We are joined at the hip on what constitutes success, and that's really, really important.

And then the other thing driving the growth outside Hong Kong and Japan is this -- the middle class emergence story and everything that goes with it. And we've seen really, really strong growth in Mainland China, Vietnam, Philippines in particular. And Indonesia seems to be coming back, as well.

So we've seen our overall margin in Asia go up from I think it may -- I think Investor Day, May 2015, was something mid-20s across the region as a whole, and it's now more like -- I think it's 34. So that's a significant improvement. Hong Kong has actually come off of it, as has it for the market as a whole, but it's still very, very strong.
Japan we've improved through, but in really selective of our product that we pull from in Japan, if that makes sense. We pulled the yen-denominated whole life product, for instance. We don't sell it in yen. We sell it in foreign currencies. We don't sell it in yen. In the meantime, we've really focused on the protection products and higher margin products, (inaudible) products in China, etc., that bring margin expansion. This works.

**John Aiken**

Well, to (inaudible) a little bit in terms of the margin focus that you've had, I'm presuming this is what led to a change on focus on your U.S. operations, where over the past several years you've shuttered some of the products that you used to be a big seller of. Can you describe the philosophy underpinning that, and also where you do expect to grow your operations on the U.S. platform?

**Stephen Roder**

Yes, sure. So, again, I think it's sort of evolutional, in a sense. We've -- it's probably fair to say we've had an even keener focus on shareholder value creation over the last 4 years and really been (inaudible) about how we classify our business units and what role do they play in the organization. And we're pretty clear about what's a growth business and what's a core return business and what's an improved business, if you like, and what's a noncore business. And that categorization will depend on a variety of metrics and data points and views about potential, but the reality is the generating high ROEs in the U.S. insurance business is kind of difficult.

And we have quite a lot of legacy businesses there, some of which we no longer wrote for several years, and in some cases we've pulled the plug more recently as we've kind of, if you like, confronted the issue and categorized them the way that we want to categorize them.

So our challenge is that we still have quite a lot of capital pilled in some of these facilities that offer returns that in some cases are not what we want to be. Having said that, because we're a Canadian GAAP -- or Canadian IFRS reporter, that's very different from a U.S. GAAP reporter so, effectively, because we have to keep updating our assumptions. We've taken a lot of the pain of things like long-term care and variable annuity onto our balance sheets. And therefore some of these businesses are producing perfectly okay returns as things stand on an ROE-type basis. But they're not going able to offer the sorts of returns that we can generate in Asia.

Having said that, in the U.S. the businesses that have done very well for us have typically been the wealth businesses, so the John Hancock Investment's Mutual Fund Platform has been a real star over the last 4 or 5 years. The business model is a little different for most people. It basically stands between the big distributors, the wire houses and a whole network of subadvisors, including Manulife asset management.

And our business model is that we basically work with the wire houses to work out what they want, and why they want it, what they want, and bring it to market to them really, really fast, using our network of subadvisors. And so our subadvisors will typically be great fund houses who don't have a retail brand in the United States, and then we would market those funds as John Hancock Funds in the U.S.

That model has worked extremely well over the last four or five years. It incorporates active/passive target date, lifestyle funds, etc. That's gone well. And then the RPS business, the 401(k) business, has come on quite well, actually. Towards the end of 2016 we went through a period of consolidating the New York Life deal. Went through a period, therefore, of having to ensure that we retained the customers through that process.

And any process like that makes you vulnerable to attack from your competitors. But we've done a good job, I think. And towards the end of 2016 we could see momentum coming back to that business. So those are the businesses that are typically driving success for us in the U.S.

**QUESTIONS AND ANSWERS**

**John Aiken**

Fantastic. Well, I have monopolized for a little bit. Wanted to give the audience a chance in case we have any questions out there for Steve.
Unidentified Participant

Can I just ask you to characterize the margin expansion in Asia? And though we look at AIA, I mean, their margin has gone up from the 20s to 50 over the last years, although it has plateaued. Are you just wanting different products of more capital intensive, or (inaudible) in markets in which you are?

Stephen Roder

Okay, so, yes, again, in comparison with AIA, gosh, okay, the geographic footprints are somewhat different. We both have big Hong Kong businesses. Our margins in Hong Kong are very similar. In fact, a year ago -- I think when we did invest in there I've got a feeling our margins were marginally higher than this, but they're very, very similar, so pretty much all a wash.

I believe a lot of their success recently has come in Mainland China, where they have grown that business very, very successfully in the last several years. We, because we don't have the same scale in Mainland China, our margins are not what theirs are there.

Having said that, our margins are improving dramatically, and we have a plan to get to where their margins are in mainland China. And I would suggest we're probably sort of five years behind where they were, if you like. I don't think our business today is that dissimilar from the one I knew when I was at AIA. So that's all good.

I think historically they probably were better at selling riders outside of China, in Hong Kong. I think they were better at selling riders there. Their rider attachment radio was higher than ours. And they had better margin in some of the populations, though. Thailand, for example, they've got a huge market share there. So they'd have some volume from benefits there.

They didn't have a Japanese business. That's not necessarily a good thing. We think Japan is a very good product for us. It gives us scale. But we did have some margin challenges, and we've responded to that by really focusing on what we do sell and pull products and launch new products and change commission rates and whatever else we have to do to make the margin accessible.

So I think it's a question of focus, in a sense. I recall back in the pre-, the olden ID days, as it were, again, I'm not sure if you look at AIA -- if you're able to look at AIA all the way back to 2007, I'm not sure they had great deal of focus on MDV and MDV margin at the time, either. And I kind of have a suspicion that during the buildup to IPO they also went through a period of closing on those things, and made improvements. And so in a sense we have kind of been doing the same thing.

So, yes, I don't see businesses as all that different from them, actually. I think we just are probably at a different stage in evolution from them, but directionally similar. I mean, (inaudible) say, because given I was the CFO of AIA, right?

Unidentified Participant

And other questions are principal in Asia and (inaudible) and (inaudible) is on the bank assurance deals and the costs with bank assurance deals and (inaudible) cross deals? I wonder if you could comment on how you see those economics (inaudible). And just like on the (inaudible), give your comments on the (inaudible), would you consider doing what both (inaudible) and (inaudible) have decided and sell (inaudible), given the U.S. business can make more sense on the U.S. (inaudible)?

Stephen Roder

So, okay. So, yes, bank assurance in Asia, if you go back 10 years ago, 10, 12 years ago, Asia was far more tied-agency dependent. I think when I began 20 years ago, I think at that time Hong Kong would’ve been 80% tied agency, maybe, at that time. Maybe more.
And then we started to see emergence of bank assurance deals. Manulife, if you compare where we are today with where we were 12 years ago, at that time we were very much an agency-dominated player, not dissimilar from AIA, frankly. We were quite similar in many, many respects. And then subsequently we recognized the -- if you don’t play in bank assurance, well, then, you’re sort of cutting yourself out of a big piece of the market.

So we’ve now varied our distribution dramatically, and in fact our tied agency today is marginally less than 50% of our total distribution, the balance being bank assurance and independent agency, primarily in Japan and a little bit of Singapore. So that’s the other 50%.

So on the bank assurance, yes, so you have to be really careful about how you line these deals up. There’s a lot of smoke and mirrors played on these deals. There’s basically three components to what you pay to your partner. One is some sort of fixed access fee. The second is some sort of variable access fee. And the third is commissions.

On a typical large bank assurance deal, if it’s successful, the commissions will massively outweigh any access fees. The real secret is that the two parties have to be motivated to achieve success and believe that success is the same thing. If they have different views of what success is, you’ve got a big problem on your hands. So I would never consummate the deal that was basically about premium volumes, because all you’ll do is you incentivize the bank to flip deposits into single premium products and razor technology. It’s pointless exercise.

So, therefore, in the negotiation of any deal such as DBS we will have to agree what success looks like in a way that works for us and works for a bank, which isn’t necessarily easy, but we think we achieved that.

The other thing you have to be very careful about is the variable access fee is not really visible to the outside world. And it may be that the variable access fee isn’t really that variable but some of it’s rather fixed. So, therefore, if you -- my philosophy, don’t try and compare that fixed payment upfront, because you can’t. And I have a strong belief that the deal we did with DBS is a very good deal. I’m very happy with it. It had to comply with every deal parameter, just like any M&A transaction for us, and we were able to build a business plan with DBS that we had a degree of confidence in, high degree of confidence in, and if it’s achieved or close to achievement, then it will be a great deal for our investors.

And probably one of the key assumptions was that we should be able to make DBS just as successful with its client base in Singapore as the other large banks. And in fact DBS had been a -- underperformed historically. If you compare its penetration and its premium generation and volume generation, etc., with its competitive banks, OCBC and UOB, nowhere close. So that was a key underpin, if you like, of the transaction.

Now, one of the great things about the DBS deal is the -- am I all right, you’re good with this? Yes? I could on forever on this deal. One of the great things about the deal from our perspective was we had an 8-month lead time prior to day one. That doesn’t normally happen. So comparing the trials for the AIC city deal (inaudible) I think the lead time there was 10 days. Well, that isn’t really very practical, frankly.

We had eight months, which meant that on Day 1 we had 13 products ready to go in each of four territories. We also had built straight through processing from the DBS Relationship Manager’s point-of-sale technology on his iPad straight through to our back office. So no paper handles. No ugly consumer process.

So the DBS relationship managers Day 1 said, well, this is great. We’ve got all the products we had before thought of and more, and the technology better than anything we’ve had before. Well, (inaudible), these are good. And that’s really important, right? So we had that going from the outset.

And so without the lead time we would not have been in that situation. So I think that was really, really good. And then it’s been very reciprocal. So, and at the end of the day the two parts need to really sort of want to work together and believe in each other and act in a true fashion of partnership. And that has happened.

So DBS has probably given us extra bits of business, and we did a (inaudible) in Singapore which they led with a Singapore commercial real estate IPO. Well, it’s U.S. real estate IPO in Singapore, which they led. And so we’ve really enjoyed the relationship.
John Aiken

And, Steve, with all that, before we go off on the U.S. side of the second question, with all those components, how reputable would this deal be to other potential deals in the region? Because it does sound like you had a willing partner who’s put the time in with you. Do you think you envision being able to do that with other private partners (inaudible)?

Stephen Roder

Oh, for sure. We’ve got actually seven explosive deals in the region. So we have a deal in Indonesia with Bank Danamon. We have a deal in Philippines with China Bank. We have a deal in Malaysia with Alliance Bank. We have a deal in Vietnam with Saigon Commercial Bank. Got another one in Indonesia with Bank Muamalat, which is a very recent deal, as well.

So, yes, no, absolutely. So I guess the only reason we only sort of singled DBS out is the size of the deal. To be able to do another DBS size of deal is really tough, because if you look at the big players in the region and their bank assurance relationships, in theory nothing is going to come up for quite some time.

So the DBS deal was important in that sense. And the only other thing I’d say about the DBS deal is it was very beneficial for our organization in many respects. I think it really put us on the map in Asia, and it’s massively improved our ability to attract and retain talent. I mean, and people who started coming to us to say wow, you guys seem to have kind of woken up. And there are some opportunities for us at Manulife kind of thing in a way I’ve not seen before. So it’s been really good from that perspective.

On the U.S., maybe I should move off that, yes, we talked probably about a year, maybe 18 months ago now. We wanted to make it clear that we really had this focus on ROE and ROE generation. And so we talked about what we call balance sheet optimization, which basically means we have an open mind when it comes to books of business in North America.

And we’ve indicated that we’ve had conversations with people about books of business. And whether someone else may have a different return requirement or different set of regulations that they have to comply with, there may be an opportunity to do a deal with someone for some book of business or whatever.

And we have had conversations, but we’re coming from a position of strength. We don’t to do anything. And we haven’t quite got a deal yet that we are prepared to recommend to our board of directors. That’s not saying it won’t happen. I don’t see it as a point-in-time analysis. I see it as a sort of continuing program of continue to have dialog with people and stay close to (inaudible).

We’re obviously aware of what one or two of our competitors in the industry are doing. We’re obviously considering, taking careful note of those developments, and we’ll continue to consider the various options available to us. But at the end of the day we have to do what works best for our shareholders, and we need to work out what that is.

John Aiken

Well, Steve, along those lines, the Canadian regulatory environment, who’s, should we say, a little bit usual -- yes, I know. We still had time left.

Stephen Roder

(inaudible) but (inaudible).
John Aiken

I want you to discuss the upcoming changes in terms of the community regulatory, so one acronym to another, what it’s potentially going to mean, but then in a broader sense what is Manulife’s philosophy when it comes to capital, excess capital and return to shareholders?

Stephen Roder

Yes, okay. So we have the new regime coming in, which is called LICAT, which will take over basically 1st of January 2018. So we will move from having from the so-called MCCSR ratio to the LICAT ratio.

First of all, a couple of data points. The regulators said something like a public statement, we believe the capital in the industry to be adequate. So in total we do not expect the industry to be having to raise capital.

That’s good. We are a pretty big player. So if we had some major problem, then that would be a strange statement for them to be making. And we obviously have an ongoing dialog with OSFI, and they come and talk to our board of directors formally every year. And I can tell you we’re in a pretty good place. So that’s the starting point.

Having said that, the LICAT journey has been a long and arduous one, full of all sorts of unpredictable twists and turns. And it’s tough when people will introduce a new draft rule and regulation that’s got all sorts of nuances to it. And we’re pretty complicated, because we trade in different jurisdictions and we’re regulated on a consolidated basis.

So we’ve found that the answer can go up and down and up and down and up and down. And we’ve done, I think, 7 quantitative [endpoint] studies, and there’s been quite a lot of volatility in the result. And we’ve gradually worked with OSFI to, if you like, eradicate unintended consequences.

So we’re pretty -- well, we’re very happy with the process we’ve gone through. There are some remaining challenges. We’re not all the way there yet. There are various levers that are positive and negative potentially for us. The one that gets often quoted is some of the asset charges that I talked about under LICAT are quite penal when it comes to some of the long -- what we call alternative long-duration assets, things like infrastructure.

I tell OSFI and I tell -- in fact, I even wrote to the Governor of the Bank of England to tell him that I think the idea that investing in a public highway is five times as risky as investing in the stock of pick a pharmaceutical company or a bank or whatever you want to do, which is what the regulations tell us, it strikes me as rather insane. And if you challenge people on that they’ll say, oh, but there’s no promise to pay. That share of that highway that you own, there’s no promise from anyone to pay you. You say, what, so you’re telling me nobody’s going to drive up and down it, then. Is that what you’re saying? Have you ever gone and looked at it?

And that’s the regulatory attitude not just in Canada. It’s quite widespread around the world. The regulators think it’s the better idea for you to invest in public (inaudible) than to invest in infrastructure. Oh, by the way, though, we had identified the fact globally that we have an infrastructure spending gap that everyone would like us to help fill. Okay, well, tell us which you want. Anyway, I’ll stop there, because I think (inaudible) on that.

So we do have those challenges, but I think we’ll come out in an okay place.

Now, two other headlines. First of all, it’s going to look different. So we have to educate people how this thing looks different. And the big how does it look different is that one point on the LICAT I think is going to be worth about CAD $500 million, whereas one point under MCCSR is worth about CAD $200 million. Now, obviously it’s a lot more complicated than that, but big picture that’s sort of how it is.

And the other is that under LICAT there’s a shift from what’s called Pillar 2 to Pillar 1, effectively. So currently, because we do have a longer book of business, on average, and therefore we do have more of these long-directional assets on average, and therefore we do have, unfortunately, a susceptibility to market-to-market volatility in our income statement, on average, we tend to carry a slightly higher MCCSR ratio.

And if you look back historically we have always been a bit above the average. And that’s a deliberate act by us, because we’re aware that we have a bit more volatility. We want to be able to absorb that easily. Under LICAT that should all be absorbed in the LICAT calculation. So that Pillar 2 stuff,
if you like, disappears into Pillar 1. So I would expect, I don't know, but I would expect that we will probably end up falling into the sort of pack, because there’s no reason for us to stand out.

So just purely theoretically I think that's what's going to happen, and that’s fine. So we'd expect to see a lot of volatility under LICAT. We were saying the other day, we could go into a $300 million pref issue and it might not change our LICAT ratio, because it would get rounded out. So there's an education thing that we have to get done.

John Aiken
Fantastic. Well, Steve, I think we're butting up against our time.

Stephen Roder
Okay.

John Aiken
So thank you very much. We really appreciate it.

Stephen Roder
Thank you, John. Thank you.