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## PRESENTATION

### Operator

Please be advised that this conference call is being recorded. Good afternoon, and welcome to the Manulife Financial third-quarter 2015 financial results conference call for Thursday, November 12, 2015. Your host for today will be Mr. Robert Veloso. Please go ahead, sir.

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

Thank you, good afternoon. Welcome to Manulife's conference call to discuss our third-quarter results. Today's call will reference our earnings announcement, statistical package and webcast slides which are available in the Investor Relations section of our website at [Manulife.com](http://Manulife.com).

As in prior quarters our executives will be making some remarks. We will then follow with a question-and-answer session.

Today's speakers may make forward-looking statements within the meaning of securities legislation. Certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied.

For additional information about the material factors or assumptions applied, and about the important factors that may cause actual results to differ, please consult our webcast slides for this conference call as well as securities filings referred to in the slide entitled Caution Regarding Forward-Looking Statements. We also have a note to users slide that sets out the performance and non-GAAP measures used in today's presentation.

When we reach the end of the question-and-answer portion of our conference call we will ask each participant to adhere to a limit of one or two questions. If you have additional questions please re-queue as we will do our best to respond to all questions. With that I would like to turn the call over to Donald Guloien, our President and Chief Executive Officer.

**Donald Guloien** - *Manulife Financial Corporation - President & CEO*

Thank you, Robert. Good afternoon, everyone, and thank you for joining us today. In addition to the usual crowd we have Roy Gori, our President of our Asian business here with us today. And I hope you will take advantage of Roy's presence to ask him some questions about the success that we are enjoying in Asia.

This morning we announced our results for the third quarter of 2015. As you know, the results were colored by oil and gas valuations, but seeing through that we delivered another strong quarter. We achieved 12% growth in insurance sales, 53% growth in gross flows in our wealth and asset management businesses, and a 70% increase in net flows.

Just in case my enunciation wasn't clear that is 7-0% in net flows. This brought our total assets under management and administration to CAD888 billion. For the Chinese people listening, I think a very auspicious number.

We grew our core earnings by 31% before giving effect to investment-related impacts and 15% including these impacts. As I mentioned, net income was negatively impacted by oil and gas valuation changes as well as charges associated with our annual review of actuarial methods and assumptions.

But the latter charges, or basis changes as we sometimes refer to them, were lower than expected and the absolute value of all the numbers that make up that net result were significantly lower than prior years which gives me a great deal of comfort.

We also strengthened our financial flexibility by significantly improving our financial leverage while maintaining our strong capital position. Most importantly, the results this quarter give us a lot of confidence about our near-term and long-term future. Our progression in core earnings is unfolding pretty much according to plan and I frankly have never felt better about our strategic position and prospects going forward.

As you know, we are projecting core earnings growth of 10% to 12% over the medium-term. We are comfortable with our capital position and financial flexibility. And as a result of this earnings growth and strong capital, dividends have been raised twice in the last 15 months for a cumulative 31% increase. And while I clearly can't speak for the Board, I think it is very safe to expect that we have not seen our last dividend increase.

As you know, at our Investor Day we have identified ROE to be an area of clear disappointment. As we explained, the low ROE is largely the result of legacy businesses and is exacerbated by currency and low interest rates. But the new business being added, and particularly the business in Asia and the wealth management business globally, is improving the picture dramatically. And these two areas are by far our areas of most rapid growth. So let me address that.

But for the impact of oil and gas valuations, the 9.2% core ROE we generated this quarter would have been 10.8%. And with the growth of Asian wealth and increased cross-selling of products within both Canada and the United States on a more efficient basis, this 10.8% core ROE is expected to increase considerably.

The next area I would like to address is China. Yes, China. When Steve Roder and I travel in North America one of the most frequent questions we get asked is what are you doing about the slowdown in China. Kind of ironic, we don't get asked that question from those who know China well. So let's share some basic facts.

First of all, it is not hard dealing with the impact of an economy slowing down to only 6.5%, which is roughly triple that experienced in the Western world. Let's bear in mind that China is now an CAD11 trillion economy, and two years growth in China is roughly equal to the entire economy of Australia. And five years growth in China is equivalent to creating a new German economy every five years.



Second, it was the objective of the central government in China to slow down economic growth and focus more on healthy income distribution and sustainable growth.

Third, you hear people breathlessly reporting on manufactured goods shipments or exports, ignoring the fact that the Chinese economy is switching from hard goods manufacturing to a service economy and is doing so rapidly and successfully. You are selling steel, nickel or copper, that is not necessarily good news.

But we are selling insurance, mutual funds and hopefully soon pension plans, and China is one of the few places in the world where the government has established specific targets in the five-year plan for both insurance and the establishment of retirement savings.

Finally, it is an economy where the middle class is growing and growing in numbers, growing in income and growing in wealth. The net result of all this is our insurance sales in China are up over 30% and our mutual fund sales are up over 25% -- so, so much for slow growth in China.

So, let's turn our mind to the risk of a hard landing in China and the impact that could have on the global economy. In my humble opinion most of it is either misguided or wishful thinking. Not many people accused Nouriel Roubini for being a Pollyanna.

Dr. Roubini describes the global reaction of the market crash in China as, and I quote: excessive, unreasonable and irrational. And he goes on to say the slowdown in China is neither a hard landing nor a soft landing, it is a bumpy landing. Growth is not likely to be less than 6.5% this year and 6% beyond that. This comment from a man that people commonly refer to as Dr. Doom.

And did anyone notice the Federal Reserve Board in its October 28 statement tellingly deleted the words, quote: recent global economic and financial developments may restrain economic activity somewhat and are likely to put further downward pressure on inflation in the near-term.

The Fed removed those terms in October and I frankly don't think it was by accident. The so-called reporting and analysis in the West of the Chinese stock market and Chinese prospects for economic growth and the concomitant impact on the global economy has been nothing less than sensationalist and misguided. So thank you for indulging me here.

Moving on to more prosaic matters. On slide 6 we are showing some of the performance and strategic highlights in the quarter. In Asia we delivered another record quarter of insurance sales with 14% growth in Japan, 20% growth in Hong Kong and double-digit growth in several of our other operations.

We reported lower gross flows into our wealth and asset management businesses due to weak investor confidence. Paradoxically mutual fund sales in mainland China were up 26% while sales declined in Japan and Indonesia. And we did experience higher redemptions.

We announced an agreement to acquire Standard Chartered's existing pension business in Hong Kong and to become its exclusive mandatory Provident distribution partner for a 15-year period. We launched ManulifeMOVE in Hong Kong, a wellness initiative that rewards customers for active living. And we successfully initiated insurance sales through WeChat in mainland China, one of the country's most popular messaging and payment apps, and the early results have been nothing short of fabulous.

In Canada we increased gross flows in our wealth and asset management businesses by 96%. We generated 15% growth in retail insurance sales. We launched the DrugWatch program, an innovative solution designed to ensure group benefit clients get value for money on higher cost drugs. And we enhanced our customer service experience as the first company in Canada to use voice biometrics and natural language understanding in a single interactive voice response system in both official languages.

In the United States we delivered record mutual fund gross flows of CAD7.8 billion, and that is for the quarter. And reported a 14% organic growth rate despite more generalized industry outflows. We achieved strong pension gross flows in both the small and medium case markets. We were awarded the Innovation in Action award for our Vitality product. And we entered the exchange traded mutual market -- exchange traded fund market with the six offerings which track underlying indices designed by dimensional fund advisors, a pioneer and very well-known entity in strategic beta investing.



In terms of our global wealth and asset management business, we achieved CAD477 billion in assets under management and administration, an increase of the CAD179 billion lifting our total Company figure to CAD888 billion. We delivered net flows of CAD4.5 billion, those are net flows, our 23rd consecutive quarter of positive net flows. We also launched a new fund structure to support our institutional asset management expansion into the global market.

With that I turn it over to Steve Roder who will review the financial and operating highlights in more detail and then open the call to your questions. Thank you.

**Steve Roder - Manulife Financial Corporation - Senior EVP & CFO**

Thank you, Donald, and good afternoon, everyone. Let's start on slide 8 where we summarize our financial performance for the third quarter of 2015.

As you can see, the majority of our key performance indicators are showing positive trends. Our solid core earnings reflect our continued execution on the key drivers of earnings growth, increasing scale in our wealth and asset management businesses and generating strong insurance growth in Asia.

Sales results were strong driven by our insurance businesses in Asia and wealth flows in North America. And we also maintained a high degree of financial flexibility with solid capital levels and improved financial leverage. We were, however, impacted by fair value losses related to oil and gas investments and our annual review of actuarial methods and assumptions, which led to lower net income this quarter.

Our return on equity continues to be impacted by the concurrent strengthening of the US dollar and the decline in interest rates. However, in the last year we have deployed significant resources to grow our higher return, less capital intensive businesses. While this deployment has not yet materially impacted our ROE, we do expect these transactions to lead to significant ROE expansion over time.

In the following slides I will spend time discussing our financial and business performance.

Turning to slide 9, core earnings continue to demonstrate solid progress rising 15% compared to the prior year. It is worth noting that core earnings from our underlying operations, that is excluding core investment-related experience, increased 31% over the prior year. These results were driven by contributions from our recent acquisitions, strong sales and business mix particularly in Asia and the strengthening of the US dollar.

It is important to keep in mind that interest rates and currency rates have been inversely correlated, so the benefit of a stronger US dollar is being partially offset by the impact of lower interest rates. This quarter we also benefited from higher than average realized gains on available for sale equities and favorable tax-related items.

Our year-to-date investment-related experience turned from favorable to unfavorable in the third quarter. In accordance with our definition of core earnings, we included CAD51 million of investment-related experience losses in core earnings, which fully offset the second-quarter's year-to-date investment gains. Core earnings were also impacted by unfavorable policy holder experience in North America.

Turning to slide 10, third-quarter net income was negatively impacted by adverse investment-related experience charges of CAD220 million, CAD51 million of which was included in core earnings and CAD169 million recorded outside of core earnings. In the quarter the impact of continued lower commodity prices on our oil and gas investments was partially offset by gains on our other private equity holdings and real estate investments.

It is worth highlighting that excluding the impact of continued lower commodity prices on our oil and gas related investments, our year-to-date investment-related experience gains are over CAD400 million. In other words, it is entirely as a result of the global volatility in oil and gas commodity prices that we are not generating the expected level of investment experience gains in core earnings.

The favorable impact of higher corporate spreads and lower swap spreads more than offset the impacts of challenging global equity markets resulting in a net benefit of CAD232 million. We also recorded a CAD285 million net charge as a result of changes in actuarial methods and assumptions which was within our previously provided estimate.

Moving on to slide 11, in the third quarter we completed our annual actuarial review, which covered more than 100 methods and assumptions and, as previously mentioned, resulted in a net charge of CAD285 million. Updates to lapse and other policyholder assumptions, primarily in our US and Japan insurance businesses, resulted in a CAD456 million after-tax charge to earnings.

These charges were partially offset by a CAD168 million after-tax reserve release related to updates to mortality and morbidity assumptions, which included an update to the margin for adverse deviations for certain medical insurance products in Japan and other annual updates netted to a small gain.

While the impact of the review this year netted to a greater charge than the prior year, the absolute level of the reserve update, both positive and negative, has been trending down in recent years. Although we will continue to reflect our developing experience in our updates, including at older ages and certain product durations when our experience becomes more credible, this trend does indicate to us that the impact of the macroeconomic climate has been lessening.

On slide 12 is our source of earnings. Expected profit on in force increased from the prior year largely due to the inclusion of recent acquisitions and the benefit of standardizing our methodology for attributing expected interest on assets supporting provisions for adverse deviation.

This quarter, as a result of an in-depth review, we also implemented a refinement to our source of earnings attribution related to our use long-term care business. This resulted in an increase in expected profit on in force of CAD35 million pretax, offset by a similar decrease in experience gains. There was, however, no impact on core earnings or net income.

The impact of new business improved markedly, reflecting higher insurance and other wealth sales volumes, improvement in product margins and favorable business mix particularly in Asia. Experience gains reflect the positive impacts of interest rate changes, partially offset by challenging equity markets, fair value losses on our oil and gas investments from lower commodity prices, and unfavorable policy holder experience.

Management actions and changes in assumptions reflect the results of our annual review of actuarial methods and assumptions, the expected cost of our macro hedging program and integration costs from recent acquisitions. And earnings on surplus reflects charges of CAD150 million excluded from core earnings from fair value changes in surplus assets driven by interest rate movements, partially offset by higher core earnings on surplus of CAD133 million, which included higher realized gains from available for sale equities.

Turning to slide 13 and insurance sales, insurance sales increased 12% from a year ago. This increase reflects record sales in Asia driven by continued expansion and diversification of our distribution channels and successful product launches; strong growth in retail insurance in Canada benefiting from robust universal life and term life sales due to product launches and enhancements, offset by normal variability and our group benefits business; and improved momentum in US life insurance sales.

On slide 14 you can see that both net and gross flows in our wealth and asset management businesses continue to be strong despite a very challenging macro environment in the third quarter.

Net flows of CAD4.5 billion were up CAD2.1 billion from the previous year while gross flows of CAD26 billion were up 53%, representing very strong flows in the US driven by robust mutual fund flows and contributions from our recently acquired 401(k) business; solid gross flows in Canadian mutual funds and group pensions; and continued momentum for institutional asset management, including success from new and existing customers and strong retention.

However, as expected, mutual fund net flows in some Asian markets, including mainland China, were negatively impacted by unfavorable market conditions.

Moving to slide 15, our wealth sales nearly doubled from a year ago reflecting very strong sales in Asia, primarily due to expansion of our bank distribution network and new product launches in Japan and continued growth in segregated fund sales in Canada and ongoing contributions from our recent acquisition of the Canadian operations of Standard Life.

On slide 16 is our new business value which increased 65% from a year ago largely driven by improvement in product margins, strong sales and favorable business mix, particularly in Asia. New business margins in Asia increased to 34%, up 9 percentage points from the prior year. This was most notable in Japan where margins more than doubled due to improved product margins, higher volumes and a more favorable business mix driven by newly launched products.

Turning to slide 17, despite a challenging macro environment, our assets under management and administration, or AUMA, at the end of the third quarter reached CAD888 billion, up CAD225 billion from the prior year quarter. The increase was largely driven by consistent net policyholder inflows as well as recent acquisitions and currency movements.

Our wealth and asset management business achieved AUMA of CAD477 billion, up CAD179 billion from the third quarter of 2014. Our pensions, mutual funds and institutional asset management business lines all reported net inflows.

On slide 18 you can see our capital position and leverage. Our regulatory capital ratio of 226% decreased 10 percentage points from the prior quarter primarily reflecting the maturity of CAD1.7 billion in debt. We ended the quarter with a leverage ratio of 22.7%, down 350 basis points from the prior quarter and 440 basis points from the prior year.

We are pleased with the downward trend in our leverage ratio. Our leverage is however influenced by our financing activities and currency movements and therefore we do expect some normal variability from quarter to quarter.

Turning our focus to the operating highlights of our divisions, we begin with the Asia division on slide 20. Asia core earnings increased 16% on a constant currency basis driven by improved new business volumes, product margins and mix, a more favorable policy holder experience partially offset by higher expenses related to growth initiatives.

Record insurance sales of \$379 million increased 19% from the prior year, with double-digit growth in most markets including Japan, Hong Kong and Asia other, which were up 14%, 20% and 40% respectively.

Gross flows into our wealth and asset management businesses were \$1.9 billion in the third quarter, declining 8% from the prior year. This was a result of unfavorable market conditions that weighed on investor sentiment leading to lower mutual fund flows partially offset by higher pension gross flows in Hong Kong and Indonesia.

Turning to our Canadian division's operating highlights. Core earnings increased 39% over the prior year driven by contributions from our recent acquisition, in force business growth and the benefits of standardizing our methodology for attributing expected investment income on asset supporting provisions for adverse deviations, partly offset by unfavorable policy holder experience, which continued in group benefits from the increased use of high-cost specialty drugs.

Insurance sales of CAD142 million were in line with the prior year, reflecting strong momentum in retail insurance due to product launches and enhancements offset by normal variability in large case group benefit sales.

Wealth and asset management gross flows of CAD4.2 billion nearly doubled the third quarter in 2014 largely due to large case retirement sales activity and contributions from our recent acquisition and continued strong mutual fund gross flows. Excluding contributions from our recent acquisition, gross flows were up 55%.

Moving on to slide 22 and the highlights for the US division. Core earnings were \$300 million, down 4% from the prior year reflecting unfavorable policy holder experience, partly offset by tax related gains. Insurance sales in the quarter were \$126 million, up 2% from the third quarter of 2014



reflecting growth in life insurance sales from the continued strength of universal life products, and the early success of our recently revamped term product.

The momentum of our Vitality product continued to grow and we achieved a number of additional state approvals. Wealth and asset management gross flows of \$13 billion increased 55% versus the prior year or 32% excluding our recent acquisition, reflecting record mutual fund gross flows due to our strong product offering and broad placement of our funds on our distributors' recommended lists. And strong retirement plan services gross flows in both the small case and mid case market segments.

Turning to slide 23 and the overview of our wealth and asset management businesses. Core earnings increased 31% over the prior year driven by higher fee income from higher average assets as a result of our recent acquisitions and continued positive net flows and the benefits of a stronger US dollar, partially offset by higher non-deferrable acquisition costs from higher sales volumes.

Assets under management and administration of CAD477 billion were up CAD179 billion from the prior year reflecting contributions from our recent acquisitions, the benefits of a strong US dollar and positive net flows.

We achieved net flows of CAD4.5 billion in the quarter despite the market turmoil, up CAD2.1 billion from the prior year, largely due to robust mutual fund net flows in North America partially offset by net outflows in Asia due to unfavorable market conditions, strong pension inflows in Hong Kong and from mid and large cases in our North American pension businesses, and solid gross flows and retentions in our institutional advisory business.

Turning to slide 24. For those of you who missed the announcement, I wanted to highlight the exclusive Mandatory Provident Fund, or MPF partnership, with Standard Chartered in Hong Kong that we signed in September. The arrangement includes the purchase of Standard Chartered's Hong Kong MPF and occupational retirement scheme ordinance or ORSO businesses and an exclusive 15-year MPF distribution partnership.

This agreement accelerates Manulife's strategy to grow our Asia and wealth and asset management businesses and it is another example of how we are deploying capital to a higher growth, less capital-intensive higher return businesses.

With this agreement, Manulife will have access to Standard Chartered's individual and business customers in Hong Kong. And more importantly, this transaction will allow both companies to enhance their customer value proposition while delivering the benefits of economies of scale.

On slide 25 you can see the competitive landscape of the Mandatory Provident Fund market. For those of you not familiar with Standard Chartered, it is a large and International bank with a strong presence in Asia. It is one of Hong Kong's oldest and largest banks with over 6,000 employees and 79 branches in Hong Kong.

The arrangement will strengthen our position as the number two MPF provider as measured by AUM and the number one MPF provider as measured by net cash flows. The partnership is expected to begin in the first half of 2016 subject to the receipt of relevant regulatory approvals.

So in conclusion, in the third quarter of 2015 we delivered strong core earnings growth, generated excellent insurance sales and net wealth flows, and strengthened our financial flexibility. This concludes our prepared remarks. Operator, we will now open the call to questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Tom MacKinnon, BMO Capital Markets.

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**Tom MacKinnon** - *BMO Capital Markets - Analyst*

I've got a question just with respect to Asia, so maybe Roy might be able to take it. Really if we look at the gross sales in the wealth and asset management segment -- they were down 8% on a constant currency basis in Asia or down about CAD300 million. And the contributors of this look to be Indonesia and Japan.

But then if we look at Japan in what you categorize as other wealth sales, they were up CAD400 million year over year. So it seems like if you net these two things together you are doing okay and if you combine wealth with other wealth.

I am just curious as to what you are seeing in Japan, in particular on the mutual fund side and what is driving some of this increase in the other wealth. You mentioned improved distribution. And what kind of products are you pushing through in this other wealth and what would be the impact on profitability? Then I have one follow-up.

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

Yes, thanks, Tom, Roy here. So you are absolutely right, the wealth and asset management part of our business saw our gross flows down in Q3. I will comment or note though that our net flows, whilst down in the quarter, actually are up year to date. In fact, we are up about CAD1 billion in total and that is about 120% on the prior year.

So we are actually really very happy with our net flow progress year to date, notwithstanding the hiccup that we saw in Q3. And obviously that was a little bit of a reversal of what we saw in Q2 and that was a function of the market movements and in particular what we saw in China. Japan was also impacted, as you rightly point out, through the mutual fund flows.

Other wealth for us in Asia really represents a hybrid of wealth and insurance. In fact, most of our peers in Asia would call other wealth insurance. So when you compare us to our peers in Asia and they talk about insurance sales, they'll actually combine what we are calling other wealth with their insurance sales.

And on that front we have seen tremendous progress and growth, our other wealth growth for the quarter was about 93%, our insurance sales were 19% up and our total was about 31%. So that was tremendous. And as you again highlight, Japan was where we saw most of the growth in the other wealth part of our franchise and that was primarily single premium whole life products.

And there this was really a function of some new products that we had launched and specifically a focus on some channel distribution expansion. And primarily I guess complementing the bank agreements that we were achieving in the early part of the year, we extended those arrangements to new banks and new platforms. So that really translated into some good projects on the other wealth front.

And again, we are delighted with that because the margin is really very good. And as Steve highlighted earlier, we have seen our margins in Japan really increase quite dramatically. In fact, up more than 30%, and that progress is continuing quite well.

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**Steve Roder** - *Manulife Financial Corporation - Senior EVP & CFO*

Yes, Tom, just to add onto that, when we came up with the definition of insurance and WAM and other wealth, we chose to put basically single premium products into other wealth. Because a great deal of what is sold in Asia by way of single premium is really deposit substitute products and it is very low margin. So we think it is -- overall it is better to separate that out into other wealth.

But in the case of this activity in Japan, although it is single premium it is actually a very good margin. A lot of it involves the use of various currency alternatives for our customers. So, some of these products will have different additional value added features and therefore it is not typical of what you might regard as single premium product in Asia as a whole. That is why we separated it out that way.



**Tom MacKinnon** - BMO Capital Markets - Analyst

Okay, and could you just remind us, Steve, what is in the NBEV margin? It does include -- it doesn't include the WAM business, but what is in that (multiple speakers) for Asia?

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

It does include insurance and other wealth, Tom. So it's both of those two combined that make up our NBEV margin and our absolute NBEV.

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**Tom MacKinnon** - BMO Capital Markets - Analyst

Okay, so as part of the drive and the improvement in the margin in Asia, must be the other wealth then?

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

Correct, that is right. And again, as Steve highlighted, these products are high margin. So we are really happy with the growth and progress in those products.

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**Tom MacKinnon** - BMO Capital Markets - Analyst

Okay. And the net outflows you had in Asia in the quarter of CAD2 billion, and you had -- I mean you called it a hiccup in Q3 because you had a great Q2. Do you think there may have been some sort of money that got put in in the first quarter -- or in the second quarter, then taken right again in the third quarter? Are there any penalties for taking that kind of stuff out without improving the margin? Or maybe you could just elaborate as to what may have happened then.

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

Yes, look you are right, it was -- to a large extent it was a reversal of what we saw in the first two quarters of the year at largely what happened in the second quarter. There aren't a great degree of penalties associated with that. There is a lot of flexibility for the customers and the liquidity obviously facilitates that. And again, most of that really centered around China and it was a function of the market movements that we saw in China.

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**Tom MacKinnon** - BMO Capital Markets - Analyst

Okay. Thanks for that.

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**Operator**

Meny Grauman, Cormark Securities.

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**Meny Grauman** - Cormark Securities - Analyst

Just following up on that, I just wanted to know -- it is still early days in Q4, but what does the picture look like in Asia for wealth and asset management flows so far in Q4?

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**Steve Roder** - *Manulife Financial Corporation - Senior EVP & CFO*

I certainly don't want to give you forward guidance, but I can say that we are obviously quite happy with the progress we are making in Q4, that is I guess why we saw Q3 more as hiccup than an area of concern. And again, that is highly correlated to I guess a bit of a re-trade in terms of the market movements across most of the different geographies. So we are feeling again quite optimistic about our progress on the wealth side.

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**Meny Grauman** - *Cormark Securities - Analyst*

And are there any sort of changes that you have made from the performance in Q3 that you can talk about? Or is that not really something that was necessary?

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

There wasn't a lot of change to be perfectly frank. I think what we are doing quite systematically is we are trying to increase the platform that we've got in terms of the products that we have on the shelf. We're again focused quite extensively on our distribution and making sure we improve the channel diversity that we have as much as possible. And our fund performance actually stands up really very well. So we are really delighted with our fund performance and that, again, has helped us quite dramatically.

The other highlight that I will leave with you is that our pension business in Hong Kong in particular has really been doing very, very well. So we are seeing that we are really consolidating on our position of strength in that marketplace, we are obviously delighted with the Standard Chartered agreement.

But that is a business that is growing quite rapidly. There is a huge demand for growth in the pension space. Our proposition is quite solid and strong and we are absolutely taking advantage of that. So that is certainly helping us with our gross and net flows.

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**Meny Grauman** - *Cormark Securities - Analyst*

Thanks for that. And then just to follow up just in terms of Asia -- sorry Indonesia, if you could speak to just the weakness there and the outlook for Indonesia in particular.

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

Yes, Indonesia is obviously a challenged or a challenging marketplace, the economic environment there is quite difficult. We are seeing GDP growth for the year forecasted to be around 4.8% and that is effectively the sixth straight year of decline. Inflation is quite high at about 6.5% and consumer confidence is actually at an all-time low -- or actually, sorry, at a five-year low.

That is translating into I guess slowness in sales, that is affecting us but it is affecting the entire industry. We have got a strong business there; we celebrated our 30 years in that marketplace this year. And for the market data that we have actually got we're actually gaining share despite some of the challenges that I referenced in relation to the market movements.

So it is a challenging environment. We are obviously still optimistic about that marketplace, it is an important marketplace that is growing quite rapidly. And in the medium- to longer-term we see that the prospects there are still very much positive and tremendous. But certainly we are seeing challenges as is the entire industry in Indo.

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**Meny Grauman** - *Cormark Securities - Analyst*

Thank you for that.

**Steve Roder** - *Manulife Financial Corporation - Senior EVP & CFO*

Yes, if I could just add to that, it is quite interesting that -- and essentially you could say this is the joy of the portfolio effect because Indonesia is probably the location where you feel the impact of the slowdown of imports into China more than anywhere else in the region. On the other hand, we have seen some really strong growth in mainland China itself remarkably and in Singapore.

So, our mix, because of those different drivers, is changing somewhat over time. And we are going to see the emergence of Singapore more -- almost beyond doubt as our number three location before very long. So somewhere in the future, and I am not promising when, we will have to think again about some disclosures, but that is some way off yet.

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**Meny Grauman** - *Cormark Securities - Analyst*

Thanks for that.

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**Operator**

Steve Theriault, Bank of America Merrill Lynch.

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**Steve Theriault** - *BofA Merrill Lynch - Analyst*

Start with a couple questions for Don please. So, Don, now that your leverage ratio is below 25% I guess it is time to talk about your newfound flexibility and in particular do you feel at all inclined to revisit your position on share buybacks given leverage is low and the ROE -- you would like to have that a little bit higher?

And then secondly, just in your remarks you telegraphed your belief that the dividend increases have not come to an end, but you didn't address timing. Do you expect the recommendation of a dividend increase to be on the agenda the next couple of quarters? Can you be maybe a little bit more specific?

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**Donald Guloien** - *Manulife Financial Corporation - President & CEO*

Yes, I am on the Board but I don't constitute the entire Board, so I don't want to go too far down. We -- I think you can read in my remarks that we have lots of flexibility and it is up to the Board as to timing. But it feels pretty good. On the subject of share buybacks, we have the attitude that that is not the best use of capital, although I have always been careful to never say never.

And quite honestly, when you saw our share price impacted in August by some of these macro concerns, if I were able to day trade Manulife stock I would have mortgaged the house to do so. Of course I am not in the position to do that being an insider and so on. But it does bring to mind that there might be a use for share buybacks here for the reason that you mentioned, that we have ample flexibility.

And there are times when we would observe irrational behavior in the market and why not take advantage of that for the good of our shareholders? But we have not put such a program in place and that would take a thoughtful discussion at the Board in order to do so.

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**Steve Theriault** - *BofA Merrill Lynch - Analyst*

Okay, that is helpful. And then if I could ask -- maybe for Steve. You talked -- you went into some detail on the refinements to the long-term care attribution changes within the source of earnings. But just quickly the standardization and methodology for attributing expecting interest on the assets supporting PfADs.

I think I saw something in the Canadian division, but can you size any impact -- the impact to core earnings for this quarter? And is that mostly Canada or is that all Canada?

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**Steve Roder** - Manulife Financial Corporation - Senior EVP & CFO

I'm going to pass that one over to Cindy, she is close to that one.

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**Cindy Forbes** - Manulife Financial Corporation - EVP & Chief Actuary

Hi, Steve, it is Cindy. The impact was largely in Canada, actually it was probably when we implemented the change in Q1 of this year there was probably a benefit in Canada and a bit of a negative impact on the US. But the benefit was largely in Canada when we implemented that back in Q1 of this year.

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**Steve Theriault** - BofA Merrill Lynch - Analyst

And in terms of -- sorry, in terms of the impact on core for Q3 specifically?

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**Cindy Forbes** - Manulife Financial Corporation - EVP & Chief Actuary

In the neighborhood of CAD25 million.

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**Steve Theriault** - BofA Merrill Lynch - Analyst

Okay, thank you very much.

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**Operator**

Gabriel Dechaine, Canaccord Genuity.

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**Gabriel Dechaine** - Canaccord Genuity - Analyst

Just a question on the investment experience. So the oil and gas mark to market, not very surprising to see this quarter. But my question is how long can you withstand oil prices at current levels? And what I mean by that is if oil is at \$40 to \$50 for a year, two years, do you have to revisit your long-term return assumption for that asset class and would there be a potential hit to your earnings?

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**Donald Guloien** - Manulife Financial Corporation - President & CEO

Scott, why don't you start off and if Cindy wants to pick up on the latter part?

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

Sure. I guess -- I don't know, I can give you the technical details, this is Scott, Gabriel, but our prospective view on the returns to oil and gas actually go up as oil and gas prices go down. I know there has been a lot of concern about it given what it has done to our earnings, but it is largely a mark to market.

And as we look forward, I tend to be more optimistic about those categories that have gone down than the ones that have gone way up. So, I am not quite sure what the actuarial standards are, but I think the prospects are for better returns going forward now than they were in the past.

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**Cindy Forbes** - *Manulife Financial Corporation - EVP & Chief Actuary*

Right, thanks, Gabriel. It's Cindy. For the actuarial return assumptions we are governed by the standards of practices, as you know. That is more of a backward looking look assessment of returns. To the extent that oil and gas makes up a large component of the TSX, poor returns, slower returns in the oil and gas sector could have a negative impact on those assumptions when you go over a longer period of time like you have to when you are applying the actuarial standards. But I don't see anything material in the near-term that would have an impact.

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**Gabriel Dechaine** - *Canaccord Genuity - Analyst*

I don't mean like from a TSX standpoint, I mean it is in your ALDA portfolio, is it not?

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**Cindy Forbes** - *Manulife Financial Corporation - EVP & Chief Actuary*

The actuarial standards require us to use well-established benchmarks to establish -- to set our actual assumptions and there really isn't a well-established benchmark for oil and gas. And in the absence of a well-established benchmark the reference is back to return assumptions on a padded basis that are no more favorable than what you use for equities.

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**Gabriel Dechaine** - *Canaccord Genuity - Analyst*

So, okay -- so, if oil stays at current levels it is not really the oil price, it is the equity returns that matter?

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**Cindy Forbes** - *Manulife Financial Corporation - EVP & Chief Actuary*

It would be the impact of the equity -- on equity, the TSX that would have the impact. And so, if oil prices stay at current levels and that just means that there isn't a negative impact on the TSX, I wouldn't foresee an issue with our assumptions.

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**Donald Guloien** - *Manulife Financial Corporation - President & CEO*

Remember all this is in relation to the future curve that already anticipates that oil will be flattish for a period of time, right?

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**Gabriel Dechaine** - *Canaccord Genuity - Analyst*

Okay.

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**Donald Guloien** - *Manulife Financial Corporation - President & CEO*

So, in other words if the progression of oil, if it was a flat price for a fairly long period of time but consistent with the curve there would be no negative impact at all. Because the curve anticipates already flat prices.

Gabriel, the other aspect I guess I would bring out is we are active in trying to buy at various times properties and we can't transact the curve. So that tells you something when people are not willing to sell properties for what the curve implies.



**Gabriel Dechaine** - *Canaccord Genuity - Analyst*

Yes. Okay, thanks for that. Then the earnings question, so if I annualize your earnings excluding acquisitions, we are around CAD3.3 billion. And that would imply 20% or so required growth in 2016 to hit that CAD4 billion. Is that -- I know when that goal was initially presented we talked about back-end loaded, but is that still within the realm of possibility to hit that number? Or are we moving away from it in order to better position yourself for 10% to 12% in the long-term?

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**Steve Roder** - *Manulife Financial Corporation - Senior EVP & CFO*

No, not at all. We are not moving away from it at all. I don't think that matters -- well, you need to make a refinement to the count I think, Gabriel. So the CAD3.3 billion excludes the CAD400 million of investment experience. So I think what you have got to do is -- you can do your multiple then if you take the view that we will make CAD400 million in an average year across the cycle, which is our belief, then you would have to add that on the top.

So, I would have thought that CAD3.3 billion -- if your CAD3.3 billion excludes any investment experience I think that is pretty good progress towards CAD4.1 billion including CAD400 million of investment experience or CAD4.2 billion of whatever number you want to have.

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**Gabriel Dechaine** - *Canaccord Genuity - Analyst*

Right, well the CAD4 billion included originally CAD200 million, but we set that up. So we are expecting to surpass that. So I am looking at the -- kind of try to as it was type of number. But maybe we can pursue that when --.

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**Steve Roder** - *Manulife Financial Corporation - Senior EVP & CFO*

Yes, well let me try again (multiple speakers).

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**Donald Guloien** - *Manulife Financial Corporation - President & CEO*

Gabriel, I think in this one what you are really asking -- other people might be wondering. For a few years we used the expectation of CAD200 million of investment gains in our definition of core. And we and the Street came to the conclusion that was probably too conservative. And we upped to CAD400 million at the start of this year. Right, you remember all that?

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**Gabriel Dechaine** - *Canaccord Genuity - Analyst*

Yes.

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**Donald Guloien** - *Manulife Financial Corporation - President & CEO*

And our timing quite honestly was poor because this is the year when we haven't generated those gains and it's kind of interesting the first year you up it you don't deliver. So we have obviously asked ourselves quite thoroughly the question of would that change our long-term view. And feel very, very strongly that this shouldn't change the view at all, that we feel that CAD400 million -- I mean not guaranteed, but CAD400 million is eminently attainable.

So if you add that back to this year establishing a base you come out at quite a different outcome as to whether it is back-ended or not, CAD4 billion in 2016. We think it is eminently attainable. And there is nothing that would suggest, based on what we know, that anything to do with the CAD400 million is impaired for next year based on what we have experienced this year.



**Steve Roder** - *Manulife Financial Corporation - Senior EVP & CFO*

Gabriel, another way of looking at it is if we had had CAD100 million of investment experience gains this year -- this quarter in core, rather than having to back out CAD51 million which was to equalize us to zero, core this quarter would have actually have been over CAD1 billion.

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**Gabriel Dechaine** - *Canaccord Genuity - Analyst*

Right. But let me ask it this way, because in the past you had said like on a quarter-to-quarter basis you are on track or above with your internal targets, because you have internal targets that we can't see. So how would this quarter feel to you? Last quarter was frothy I believe the word you used, but this quarter would be --?

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**Steve Roder** - *Manulife Financial Corporation - Senior EVP & CFO*

Oh, okay. So, well two things. I think leaving aside the investment experience this quarter I think we are very, very comfortable with the quarter. And in terms of noise in the numbers, and there is always something in financial statements, that is the nature of the beast. But I would characterize this quarter as fairly neutral in that respect.

We highlighted some fairly modest positives, if you like, from some tax effects and available for sale gains. On the other hand, our policyholder experience this quarter was probably more adverse than we have typically experienced. So I would say by and large it is a bit of a wash this quarter.

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**Gabriel Dechaine** - *Canaccord Genuity - Analyst*

Okay, thank you. I have taken up too much time here.

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**Operator**

Robert Sedran, CIBC.

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**Robert Sedran** - *CIBC World Markets - Analyst*

Just a couple of numbers questions and I want to start with Asia. The earnings growth has been pretty good, but there has been no year-to-date expected profit -- progress. And I am wondering if there is a relationship between the progress shown on strain and the lack of progress shown in expected profit. And should we be considering those two things together or is there something else going on in the expected profit?

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**Steve Roder** - *Manulife Financial Corporation - Senior EVP & CFO*

Okay, thanks. I will just start off and then Cindy can elaborate. So, there are some aspects particularly in relation to Japan. So we have got the variable annuity in Japan running off, so that is a piece of it. And then there are some other technical aspects in relation to Japan in relation to basis changes. Cindy, do you want to add to that?

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**Cindy Forbes** - *Manulife Financial Corporation - EVP & Chief Actuary*

Sure, Steve. Yes so basis changes that we implemented in Q3 have had a slightly negative impact on earnings on in force or expected profit on in force for Asia. We referenced a change in the level of margins that we hold on our -- for morbidity on some of our Japan medical products and a reduction in those margins and flows through to lower expected profit on in force.



**Steve Roder** - Manulife Financial Corporation - Senior EVP & CFO

The only other thing I would add is that the reduction that you referenced is on a reported currency basis. On a constant currency basis the expected profit is actually -- has grown by 2%.

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**Cindy Forbes** - Manulife Financial Corporation - EVP & Chief Actuary

Right. That is correct.

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**Robert Sedran** - CIBC World Markets - Analyst

Okay, so there is nothing related to that decline to the positive impact of strain and product mix, it just has to do with those things that you mentioned?

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**Steve Roder** - Manulife Financial Corporation - Senior EVP & CFO

Right.

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**Cindy Forbes** - Manulife Financial Corporation - EVP & Chief Actuary

That is correct.

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**Robert Sedran** - CIBC World Markets - Analyst

Okay, and just a quick second question, the wealth and asset management EBITDA margin -- obviously some strong asset growth, but there is a lower margin quarter on quarter and year on year. And I know it is not supposed to be a straight line, but I know it is also supposed to track higher as the asset growth comes in and the fixed costs are over a larger asset base. So is it geography, is it business mix, is it currency or something else altogether?

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**Steve Roder** - Manulife Financial Corporation - Senior EVP & CFO

Okay, so it is Steve. I'll just start and then passed to Kai. So, yes, that is correct, but then we have to factor into this the implications also of the recent acquisitions we have made. So, the Standard Life Canada acquisition and then the US 401(k) acquisition. And so, they have some distorting effects on that trend line. So I will just pass to Kai and he can collaborate.

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**Kai Sotorp** - Manulife Financial Corporation - President & CEO, Manulife Asset Management & EVP, Global Head of Wealth & Asset Management

Yes, so quarter to quarter relative to the third quarter last year we are ahead of the last quarter's margin by a steady amount. The two impacts were -- one was a New York Life transaction, the second was the sales impact on China which happened to affect the margin short-term in terms of Asia. But if you look at the inherent productivity of the remaining franchises and add those up, the margin is actually ahead of Q3 2014.

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**Robert Sedran** - CIBC World Markets - Analyst

Is there any way to quantify that, Kai?



**Kai Sotorp** - *Manulife Financial Corporation - President & CEO, Manulife Asset Management & EVP, Global Head of Wealth & Asset Management*

It is up by 20 basis points. So instead of 2 -- 27.8% it is close to 28%.

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**Robert Sedran** - *CIBC World Markets - Analyst*

Thank you.

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**Operator**

Humphrey Lee, Dowling & Partners.

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**Humphrey Lee** - *Dowling & Partners - Analyst*

Just a follow-up on the Japan single premium whole life sales. My understanding the product is a little bit related to estate planning. How much of the strong sales is the effect of the inheritance tax change in Japan and you are taking an opportunity in that market?

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

Well, it is not just estate planning, it basically is a wealth product that includes a protection element. So -- and it is used quite broadly both by us and by the industry. So again, the growth for us has primarily been a function of, A, the product creation, and then secondly the distribution expansion that we have had through the various banks that we signed up in the early part of the year and the expansion of that into Q3.

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**Humphrey Lee** - *Dowling & Partners - Analyst*

Okay, and then following on the new business value. So obviously it improved significantly in the quarter. Do feel like the current level of production is sustainable? And how fast will this new business value convert into the core earnings?

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**Steve Roder** - *Manulife Financial Corporation - Senior EVP & CFO*

Okay, so -- well, first of all there's a lot of drivers to the growth of new business value in Asia, but in particular one of the main drivers is going to be scale and the growth coming through with the DBS arrangement in Singapore and other territories.

If you think back to when we showed our margins at Investor Day, we showed I think very, very agreeable margins in Hong Kong. Our margins in Japan were okay, but we have been talking today about how the margins have improved there through product mix and scale. And then the opportunity for us was really to grow outside of Hong Kong, Japan and the other Asian markets and the DBS transaction is fundamentally important to that. So that is a big driver.

And what we are also seeing is very, very good growth in margins in some of the other Asia territories such as -- particularly mainland China with the volume growth there. So there's a lot of drivers. So I think in general we are very comfortable about the sustainability of the momentum, but we'll just see if Cindy or Roy wants to add further to that.



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

Look I think you covered it, Steve. I think the sales volumes themselves are helping us, the scale benefit impact that we are capitalizing on. I think the product mix, we're obviously, as we mentioned at Investor Day, not just focused on absolute sales but we are focused on the quality of those sales and the profit contribution. So the mix is changing and that is improving our margin and the absolute NBEV.

But we have also taken management action to improve the profitability of our products and that includes pricing as well as commissions and so on. So the 67% growth in new business value is something we are pleased with, but we still see further opportunity for improvement in the absolute margin and obviously the absolute NBEV as well. Cindy, I'm not sure if you have got anything.

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**Cindy Forbes** - Manulife Financial Corporation - EVP & Chief Actuary

I have nothing more to add, thanks.

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**Humphrey Lee** - Dowling & Partners - Analyst

All right, thank you.

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**Operator**

Sumit Malhotra, Scotia Capital.

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**Sumit Malhotra** - Scotiabank - Analyst

I want to start with Steve back on the investment portfolio and specifically oil and gas. If I work with some of the numbers you gave us in terms of what the investment gain experience would have been without the oil and gas write downs, it sounds like you have taken over CAD600 million of charges year to date, is that in the ballpark?

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**Steve Roder** - Manulife Financial Corporation - Senior EVP & CFO

Oil and gas, yes, that is correct.

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**Sumit Malhotra** - Scotiabank - Analyst

So, and that is for year to date and you have obviously been talking about this issue for four quarters now in terms of its impact on investments or the investment portfolio. But when I look at page 25 and your aggregate holdings, it doesn't look like the numbers change too much, it has been in and around CAD1.9 billion at September this year, at September last year.

So, is the right way to think about this that effectively whatever has been written down has been replaced with new investments on the market? Or is there more to it than that?

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**Steve Roder** - Manulife Financial Corporation - Senior EVP & CFO

Okay, we will pass that one to Scott Hartz.

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

Yes, it is a combination of two things. One, yes, we have had some new acquisitions -- although I would say our acquisitions are focused in the midstream space that aren't as sensitive to oil prices. We are sort of still holding our powder dry in terms of making acquisitions that are very price sensitive.

And the second factor you have to reflect is the currency changes, because nearly half our holdings are in the US and the currency changes increases the value of those investments. That doesn't go through earnings but just the carrying value.

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**Sumit Malhotra** - *Scotiabank - Analyst*

So some new, Don has talked about it, there have been press reports that have indicated you want to get more involved in this area. So there has been some investment, but currency comes into play. And I guess just to make sure for me, I am focusing on the direct holdings. I am -- it is safe to assume there hasn't been too much in the way of charges related to the fixed income portfolio if any relating to energy?

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

Yes, there certainly have been no impairments. We have had some modest downgrades, but as you saw in Steve's presentation, or I think it is maybe in the appendix to it, that the credit results have continued to be quite positive this year. So there has been a modest downgrade charge, but nothing significant.

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**Sumit Malhotra** - *Scotiabank - Analyst*

All right. And the second question is for Kai and looking at wealth and asset management, specifically the institutional managed funds here. There has been some commentary from your global peers, from press reports as well, that have indicated sovereign wealth funds have been one of the key drivers that have been impacting outflow activity of late.

You guys certainly didn't seem to have that anywhere near as much as some of your peers. Could you maybe educate me how important the sovereign funds are to your institutional wealth franchise and whether that is a potential negative to the business that we may see in the interim?

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**Kai Sotorp** - *Manulife Financial Corporation - President & CEO, Manulife Asset Management & EVP, Global Head of Wealth & Asset Management*

Okay, so this context would be that institutional is about CAD66 billion out of the total number of assets that we have got. It is a relatively new segment for us over the past three years. The sovereigns are actually a positive flow for us, we are probably benefiting from changes in management structure that maybe some of our peers who have been at that game for longer have been suffering from.

In terms of the magnitude of the total amount, out of the CAD66 billion about CAD8 billion is from sovereign -- no, sorry, about CAD12 billion is from sovereign. So it is not a hugely material aspect year to date. Sorry, to date for our book of business. But notably we are seeing a tremendous strength of pipeline from both existing and new clients. So I am having the opposite of experience of many of the peers that you cited.

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**Sumit Malhotra** - *Scotiabank - Analyst*

Thanks for that color, that is very helpful.

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**Operator**

(Operator Instructions). Doug Young, Desjardins Capital Markets.



**Doug Young** - *Desjardins Securities - Analyst*

First question just on the policyholder experience -- hopefully these are quick number questions. But, Cindy, was there any adverse experience on the long-term care book? And if so can you describe and maybe quantify it?

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**Cindy Forbes** - *Manulife Financial Corporation - EVP & Chief Actuary*

I can describe it, there was adverse experience. And as we've said in prior quarters, the LTC experience tends to move around a bit from positive to negative. This quarter was a negative quarter. And the impact was largely due to higher benefit utilization.

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**Doug Young** - *Desjardins Securities - Analyst*

And is it outside the normal variance that you would expect or --?

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**Cindy Forbes** - *Manulife Financial Corporation - EVP & Chief Actuary*

It would have been on the high end of what we would have seen in terms of policyholder experience impacts.

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**Doug Young** - *Desjardins Securities - Analyst*

And is it due to -- and so, is this related more to a particular product category, anything in particular that is different than in the past?

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**Cindy Forbes** - *Manulife Financial Corporation - EVP & Chief Actuary*

No, I think it is the same noise that we see quarter to quarter. And in fact, although who knows how the fourth quarter will play out in the end, but early experience in the fourth quarter has been favorable. So I think we're just seeing more noise quarter to quarter variation due to just the flow of claim seasonality, that sort of thing.

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**Doug Young** - *Desjardins Securities - Analyst*

Okay. And then just quickly back to maybe Scott on the oil and gas investment, just so I have my numbers right. I think you have taken about CAD978 million or just under CAD1 billion of write -- fair value write-downs on arguably what was started out to be about a CAD2 billion portfolio. So just wanted to know that my numbers are roughly correct.

And in terms of if the curve stays where it is today, any other fair value noise you would anticipate? I mean, has most of that -- the expectation from the independent consultants, has that kind of come into line where the curve is?

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

Yes. So, I think your numbers are roughly correct, maybe slightly lower, but you are very close to the right number in total. And maybe we started a little higher, a little over CAD2 billion. But you are pretty close to correct. So what I would say is that do we expect further losses going forward?

There is a little bit of lag effect in some of this, so I would expect a modest charge, but nothing like what we have seen in the fourth quarter if things I stay where they are. But beyond that I would expect as long as oil prices follow sort of the curves that are in our valuation that we would not expect anything additional.



**Doug Young** - *Desjardins Securities - Analyst*

So, maybe a modest charge Q4, but nothing unless there is a significant change from where we stand today?

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

Exactly. So you just have to look at what is happening to the spot pricing and more importantly the forward price and we saw massive changes in the third quarter. So I think as someone else suggested, it shouldn't have been a surprise that there was a significant charge this quarter.

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**Doug Young** - *Desjardins Securities - Analyst*

No, that is fair enough. Okay, thank you very much.

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**Operator**

Mario Mendonca, TD Securities.

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**Mario Mendonca** - *TD Securities - Analyst*

Maybe for Cindy or Donald. The policy holder experience, it has always been my view that at some point that should approach zero or at least be positive sometimes, negative sometimes. But it has been negative for a long time and getting a little worse. Where I am going with this is is there some either reserving or institutional reason why for Manulife in particular it remains negative?

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**Cindy Forbes** - *Manulife Financial Corporation - EVP & Chief Actuary*

So hi, Mario, it is Cindy. I don't think that there is an institutional reason. We do see volatility, we do see positive experience from time to time. It probably does reflect a bit that we have seen reserve changes for losses for policy holder experience. And as we make those changes probably in the preceding periods you would have seen some contribution from lapses.

But I don't really see any bias. In our experience we see positive results generally from Asia, Canada vacillates back and forth and the US as well. The US has more volatility because of the large amounts of some insured in terms of our target market in the US that we have targeted the affluent market so we see more variability. And then as we said, LTC has tended to bounce around quarter to quarter.

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**Mario Mendonca** - *TD Securities - Analyst*

Okay, my second question relates to the surplus account, that CAD150 million fair value change related to rate movements. What security or instrument would that be because I wouldn't have expected fair value changes to go through your surplus.

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**Kai Sotorp** - *Manulife Financial Corporation - President & CEO, Manulife Asset Management & EVP, Global Head of Wealth & Asset Management*

I think that is the increase in the value of the treasury bonds that we hold in surplus with rates down in the quarter.

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**Mario Mendonca** - *TD Securities - Analyst*

But those -- I would have thought those securities are -- the change in the value of those securities, because they are available for sale securities, wouldn't go through P&L?

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**Kai Sotorp** - *Manulife Financial Corporation - President & CEO, Manulife Asset Management & EVP, Global Head of Wealth & Asset Management*  
They don't go through P&L, I do believe they go through the capital accounts.

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**Mario Mendonca** - *TD Securities - Analyst*

Then why would it affect earnings on surplus?

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**Kai Sotorp** - *Manulife Financial Corporation - President & CEO, Manulife Asset Management & EVP, Global Head of Wealth & Asset Management*

And I am getting that -- some of these bonds are in Asia where they are not available for sale. So that those do go through. So I apologize, less so the US holdings which would have increased in value but don't go through P&L, but the ones in Asia where rates were down do go through P&L.

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**Mario Mendonca** - *TD Securities - Analyst*

So, these are not preferred shares, these are bonds that are not AFS but rather mark to market?

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**Kai Sotorp** - *Manulife Financial Corporation - President & CEO, Manulife Asset Management & EVP, Global Head of Wealth & Asset Management*

Yes. And in addition, there is also some COLI holdings in surplus which would have bonds in them which would have appreciated in value and those are mark to market and run through earnings.

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**Mario Mendonca** - *TD Securities - Analyst*

Okay, thanks.

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**Operator**

Dan Bergman, UBS.

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**Dan Bergman** - *UBS Securities LLC - Analyst*

Your press release provided updated guidance for just a 3 point initial impact on the MCCSR from the DBS distribution deal, which I think was down from prior guidance for up to 10 points. Now that you have seemingly gotten some more clarity on the accounting treatment of the upfront payment for this deal, I was hoping you could provide a little more color on how the accounting is expected to work and what implications, if any, there are for the capital impact and the earnings trajectory of the DBS deal over time?

**Steve Roder** - *Manulife Financial Corporation - Senior EVP & CFO*

Yes, for sure. So basically we've been breaking new ground effectively in relation to the accounting for this transaction because there is not a huge amount of precedent. So we have had to go through a long process to get to the right answer for the accounting. And essentially where originally we gave guidance that this could result in a 10 point hit to the MCCSR, we have now reached a satisfactory conclusion with all parties.

And fortunately the outcome is much better than that and it is a 3 point hit to the MCCSR. And that is because of the accounting which classifies a proportion of the payment as a prepaid expense. So that is the first piece to understand, the prepaid expense doesn't suffer the same adverse treatment as an intangible asset would do for regulatory capital purposes.

The second part of it is that the amortization of these items, both the prepaid expense and the intangible, will essentially take place in accordance with the derivation of value from the arrangement in accordance with the business plan that we have laid out and upon which our transaction was based.

So you are going to see pretty modest amortization initially and as the sales momentum builds up you'd expect to see that amortization charge increase. And of course, like all these things, we will have to revisit this on a continuing basis and ensure that we continue to be happy with the carrying value and that assessment will largely consist of understanding how the reality is turning out compared with the assumptions we made at the time we did the transaction.

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**Dan Bergman** - *UBS Securities LLC - Analyst*

Great, that is very helpful. And maybe just in general stepping back from the accounting, with the effective date of the DBS deal quickly approaching, I just wanted to see if you had any updated thoughts around the deal, the implementation plan or kind of the go-forward strategy?

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**Steve Roder** - *Manulife Financial Corporation - Senior EVP & CFO*

Yes, we can ask Roy to give you an update on the implementation plan. He has probably got a lot of good color he can give you around that.

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

Yes, a lot of progress has been made on that front. And as you rightly point out, the effective live date is January 1, 2016. That affects us more in Singapore than anywhere else where DBS had an existing partnership. But a lot of work and partnership has gone into creating the integration of our platforms into their front-end systems.

There is tremendous progress that's been made on that front. The teams are working very collaboratively. There are regular weekly status meetings that are making sure everyone is kept on track. And from our perspective it is absolutely critical that we provide for a seamless transition such that we can cut over incredibly well and then build on that cutover to build our business and grow beyond.

Obviously in other markets like Hong Kong and Indonesia where we already have an agreement with DBS we are already increasing and seeing an increase in our volumes. And we are expecting that that cutover will obviously be an even easier transition. But we are delighted with progress, collaboration is really very strong and solid and we are very excited about getting to launch date.

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**Dan Bergman** - *UBS Securities LLC - Analyst*

Great, that is very helpful. Thank you.

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**Operator**

Thank you. This concludes the question-and-answer session. I will now turn the meeting back over to Mr. Robert Veloso. Please go ahead, sir.

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

Thank you, operator. We will be available after the call if there are any follow-up questions. Thank you and good afternoon, everyone.

**Operator**

Thank you. The conference call has now ended. Please disconnect your line at this time. And we thank you for your participation.

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