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**Linda Sun-Mattison** *Bernstein - Analyst*

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## PRESENTATION

### Operator

Please be advised that this conference call is being recorded. Good afternoon and welcome to the Manulife Financial first-quarter 2016 financial results conference call for Thursday, May 5, 2016.

Your host for today will be Mr. Robert Veloso. Please go ahead, sir.

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

Thank you and good afternoon. Welcome to Manulife's conference call to discuss our first-quarter 2016 financial and operating results. Today's call will reference our earnings announcement, statistical package, and webcast slides, as well as the 2015 embedded value report, which are all 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 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



We have also included a note to users slide that sets out performance in non-GAAP measures used in today's presentation. When we reach 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 any additional questions, please re-queue and 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.

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

Thank you, Robert. Good afternoon, everyone, and thank you for joining us today. This morning we announced our results for the first quarter of 2016 and, as you know, we started the year with a very strong quarter by almost any measure.

Top-line performance was strong, due in part to excellent results from our DBS, Standard Life, and New York Life transactions. We generated a 14% increase in insurance sales, driven by record results in Asia. We achieved a 70% increase in new business value, which speaks to the quality of sales and margin that we generated this quarter.

We once again delivered positive net flows in our Wealth and Asset Management businesses -- our 25th consecutive positive quarter -- which is all more impressive given the continued volatility in global markets and the fact that some of our markets experienced outflows. And we continued to achieve strong gross flows, which grew 15%.

On the bottom line, net income was up 45%, over CAD1 billion, as a result of a variety of market-related gains, which more than offset depressed oil and gas prices in the quarter. The rebound in net income serves as a useful reminder that markets will fluctuate, both in our favor and against us, but that we should focus on long-term positioning and shareholder wealth creation, rather than short-term market fluctuations. It is for this reason that we focus on core earnings, which grew by 14% from the prior year despite zero contribution from investment gains during the quarter.

I wanted to take the opportunity to clarify a few items that resulted from our last call on the attainability of our overall objectives relative to our CAD4 billion objective. The macroeconomic environment and, in particular, energy price volatility will make us a difficult to achieve the CAD400 million of investment gains that we include in our core earnings target. But make no mistake here, we remain quite confident in our ability to deliver strong core earnings, excluding the CAD400 million of investment gains.

Turning to slide 6 where we review our accomplishments during the quarter. In Asia, we delivered another very strong sales quarter, which drove record new business value. We maintained solid gross flows in our Wealth and Asset Management businesses despite challenging market conditions. We successfully launched our exclusive bancassurance partnership with DBS in Singapore, Hong Kong, Indonesia, and mainland China.

We've continued to grow our bank distribution footprint and added new partnerships in Cambodia and Japan, and we expanded our innovative ManulifeMOVE wellness program for the Philippines, rewarding customers with discounted premiums for living a more active and healthy lifestyle.

In Canada, we delivered solid growth in individual insurance sales, driven by product enhancements. We delivered robust mutual fund flows despite challenging market conditions. We achieved our 26th consecutive quarter of Wealth and Asset Management net inflows into our pension business. And we announced an agreement with Vitality to provide Canadians with a forward-looking life insurance solution that rewards customers for healthy living and essentially reinvents the proposition of life insurance.

In the United States, we delivered strong mutual fund gross flows and solid gross flows in our Retirement Plan Services business. We expanded our exchange traded fund lineup by launching five new funds, bringing our total offering to 11, and we were named best new exchange traded fund manager by ETF.com.

And we reported core EBITDA of CAD285 million for the quarter.

In summary, I'm very pleased with the strong start to the year and the progress that we have made on both operational and strategic execution.

With that I will turn it over to Steve Roder, who will review our financial results, and then open the call to your questions. Thank you.

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**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 first quarter of 2016.

As you can see, most of our key performance indicators demonstrate positive trends. In terms of profitability, core earnings increased 14% from the prior year and net income exceeded CAD1 billion. From a growth perspective, insurance and other wealth sales were strong, particularly in Asia, which drove a 70% increase in new business value.

We generated positive net flows in our Wealth and Asset Management businesses and we delivered a 15% increase in gross flows. We also further strengthened our strong capital levels with our first US debt issuance in five years.

Turning to slide 9, we continue to generate strong growth in core earnings, up 14% compared to the first quarter in 2015. These results were driven by higher sales and improve profit margins in Asia and changes in foreign currency rates, partially offset by higher expected macro hedging costs. No investment gains were included in core earnings this quarter.

Turning to slide 10, net income exceeded CAD1 billion in the quarter and benefited from a CAD474 million gain from market-related impacts, primarily driven from interest-rate movements and realized gains on available-for-sale bonds. This more than offset investment-related experience charges of CAD340 million due to continued low oil and gas prices and lower-than-expected returns in our alternative long-duration asset portfolio.

On slide 11 is our source of earnings. Expected profit on in-force increased 5% from the prior year on a constant currency basis, primarily due to lower amortization of deferrable acquisition costs in our variable annuity businesses and a number of smaller positive factors, including normal business growth. The impact of new business improved versus the prior year, reflecting higher insurance and other well sales volumes and improved product margins in Asia, partially offset by higher non-deferrable acquisition costs in WAM businesses due to higher gross flows.

Experienced losses this quarter reflect lower-than-expected returns on alternative long-duration assets, the direct impact of equity markets and variable annuity guarantee liabilities, and unfavorable policyholder experience, partly offset by the positive impact of interest-rate movements. This quarter we incurred a CAD68 million pretax, or CAD36 million post-tax, charge for policyholder experience as adverse experience in the US was only partially offset by favorable experience in Asia.

Management actions and changes in assumptions this quarter primarily reflect gains from the sale of available-for-sale bonds, partially offset by the expected costs of our macro hedging program. And earnings on surplus increased primarily due to interest-rate-related mark-to-market gains on surplus assets.

Turning to slide 12 and insurance sales, insurance sales in the first quarter increased 14% over the prior year, reflecting record sales in Asia, driven by double-digit growth in most territories and the biennial inflation purchases in the federal long-term care program in the US, partially offset by Canada, where higher retail sales were more than offset by normal large-case variability in Group Benefits.

On slide 13, you can see the both net and gross flows remain resilient despite a very challenging economic environment in the first quarter, as all our divisions and product lines delivered net inflows. As Donald mentioned, this was our 25th consecutive quarter of positive net flows in our WAM

Gross flows, however, grew 15% from the prior year to \$28.2 billion, reflecting strong performance in our US division, driven by another quarter of robust mutual fund and midmarket pension sales, partly offset by modestly lower gross flows in Asia and Canada due to challenging market conditions.

Moving to slide 14, other wealth sales were up 29% in the first quarter compared to the prior year, reflecting very strong sales in Asia, up 76%, driven by new product launches and expanded distribution in Japan and Singapore, partly offset by declining sales in Canada, which were impacted by challenging market conditions.

Slide 15 is our new business value. We had a very strong quarter with new business value increasing 70% from a year ago, largely driven by strong sales volume and higher product margins in Japan and Asia Other, coupled with improved product margins in US life insurance.

New business margins in Asia increased 28.8%, up 3.4 percentage points from the prior year. This was most notable in Japan, where higher volumes and product margins and improved business mix led to margin expansion of over 10 percentage points to 26.5%. These gains were partly offset by margin compression in Hong Kong due to business mix changes.

Turning to slide 16, our assets under management in administration, or AUMA, at the end of the first quarter was CAD904 billion, up CAD83 billion from the prior year. The increase was largely driven by our recent US pension acquisition and net customer inflows, as well as currency movements. Our Wealth and Asset Management businesses reported AUMA of CAD488 billion, up CAD94 billion from the prior year, driven by similar factors.

On slide 17 you can see our capital position and leverage. We successfully completed a \$1.75 billion senior debt offering in the United States. This was Manulife's first issuance outside the Canadian market in five years and was an important step in our path to diversify our funding sources. This offering was the primary driver of the strengthened capital ratio and higher leverage ratio in the quarter.

This quarter we are reporting a holdco MCCR ratio for the first time. At the end of the quarter, MFC's solvency ratio was a strong 210%, which is lower than MLI's capital ratio due to senior debt issued at the MFC level, which does not count as capital for MCCR purposes. Going forward, while we will disclose both holdco and operating solvency ratios, our focus will remain on the solvency ratio of our operating company.

On slide 18 we illustrate the change in embedded value for the Company. This quarter we released our 2015 embedded value report. Embedded value increased 21% from the prior year to nearly for CAD48 billion or CAD24.22 per share.

Just under half of the growth in EV relates to the contributions from in-force and new business we wrote during the year. Currency movements accounted for the majority of the remaining increase. And it's important to keep in mind that this figure does not take into account the value of future business in our Insurance and Other Wealth segments, nor does it take into account any amount in excess of tangible book value for our Wealth and Asset Management businesses, nor our bank in Canada.

Turning to slide 20 and turning our focus to the operating highlights of our divisions, we begin with the Asian division. Asia core earnings increased 19% on a constant currency basis, driven by improved new business volumes and product margins, favorable policyholder experience, and the benefit of reinsurance transactions. This quarter we aligned our metrics with peers in Asia and are focusing our commentary on annualized premium equivalent, or APE, sales, which consist of insurance sales plus weighted other wealth sales.

In the first quarter, we achieved record APE sales of \$590 million, up 48% from the prior year, reflecting record sales in Asia Other driven by the successful launch of our exclusive regional partnership with DBS in Singapore and accelerating growth in mainland China. And strong sales in Japan due to distribution expansion, particularly in other wealth products through both the bank and MGA channels.

Gross flow into our Wealth and Asset Management businesses were \$2.5 billion in the quarter, declining 5% from the prior year. This was a result of unfavorable market conditions that weighed on investor sentiment, partially offset by strong mutual fund sales in mainland China.



Life business for the full quarter compared to two months last year.

Insurance sales of CAD155 million declined 28% versus the prior year, reflecting normal variability in large case Group Benefit sales, partially offset by solid retail insurance sales, which benefited from recent product enhancements. Wealth and Asset Management gross flows of CAD4.2 billion declined 5% compared to the prior year, largely due to the impact of challenging market conditions on mutual fund flows.

Moving on to slide 22 and the highlights of the US division. Core earnings were \$283 million, down 6% from the prior year, reflecting more unfavorable policyholder experience in long-term care relative to the prior year, albeit an improvement from last quarter. Insurance sales in the quarter were \$122 million, up 4% from the first quarter of 2015, driven by biennial inflation purchases in the federal long-term care program.

Wealth and Asset Management gross flows of \$12.7 billion increased 31% versus the prior year, reflecting strong mutual fund gross flows, driven by institutional allocations and continued success in the retail channel and contributions from the US pension acquisition.

Turning to slide 23 and the overview of our Wealth and Asset Management businesses around the world. Core earnings of CAD140 million decreased 5% compared to the prior year, due to higher non-deferrable acquisition costs from higher sales. Assets under management and administration of CAD488 billion were up CAD94 billion from the prior year, reflecting CAD69 billion in contributions from our US pension acquisition, positive net flows, and the benefits of a strong US dollar.

We achieved net flows of CAD1.7 billion in the quarter with positive net flows in all our divisions and across all product lines. While we generated strong gross flows, net flows declined relative to the prior year due to increased mutual fund redemptions and one large midmarket termination in our US pension business.

In conclusion, in the first quarter of 2016, we delivered strong core earnings growth, reported net income of over CAD1 billion, achieved solid double-digit growth in insurance sales and gross flows, generated strong growth in new business value, and delivered positive net flows in all of our divisions despite challenging market conditions.

This concludes our prepared remarks. Operator, we will now open the call to questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Meny Grauman, Cormark Securities.

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

Good afternoon. I just wanted to ask a question about something you mentioned in your opening remarks regarding the CAD4 billion target. You talked about how -- correct me if I'm wrong -- we should really be thinking about that target as standing, but just basically taking off CAD400 million in core investment gains. So basically we should think of it as a CAD3.6 billion target for 2016? Is that the message that you are trying to convey there?



Meny, we are not trying to give any guidance at all. We had a CAD4 billion target that has been well-publicized. When I spoke at the last call, I talked about the difficulties presented by the oil and gas price depreciation and how that would make it unlikely that we would achieve that target. What I am further clarifying here today is the part that we are worried about is the CAD400 million of investment gains that are baked into core earnings.

We have not given updated guidance as to what our target would be ex that. I think you are subtracting from CAD4 billion, and I understand the math you are doing, but we are not giving any specific guidance on what the goal would be. But we still operate as if we had a target of CAD4 billion in every way or shape, but we are saying that realistically it's unlikely that we would get the investment component associated with that, the CAD400 million.

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

Okay. So basically the other components are still not really affected by maybe a more challenging operating environment you discussed in Q4?

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

I appreciate your follow-up question. Yes, we have -- there's always puts and takes across the enterprise, but we feel pretty good about the core operating businesses across the Company. I can't give you any guarantees of anything, but we feel a high degree of confidence around that. But there are puts and takes.

The only component that we have a really serious concern about is the investment component, that CAD400 million.

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

Thanks for that. And then if I could just ask a follow-up, just on the investment-related experience loss of CAD340 million. Could you break out exactly how much of that was oil and gas versus I think you mentioned real estate and a few other things in there?

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

Yes, it's Steve here. Almost exactly half of that was related to oil and gas. That's direct holdings and also credit impacts, almost exactly half.

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

Okay. And the real estate component, is that in oil-impacted regions in general?

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

I'll pass that to Scott.

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

I wouldn't highlight real estate. I would say it was really -- it was kind of just weak across the board for investments. A modest credit charge; fixed income with the markets being volatile was hard to source enough transactions.

And then, yes, in the rest of the alternative portfolio real estate just didn't achieve our projected returns. But the same was true in infrastructure, private equity, and timberland, actually, so it was kind of across the board just a soft quarter.



Thanks for that.

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**Operator**

Humphrey Lee, Dowling & Partners.

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

Good afternoon and thank you for taking my questions. Looking at your strong mutual fund sales in China, I know one of your peers talked about the regulatory changes in China that restrict offshore insurance sales actually benefit them in terms of mutual fund sales and especially in money market funds. Are you seeing something similar in that nature with respect to your Asia mutual fund sales?

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**Roy Gori - Manulife Financial Corporation - Senior EVP & GM, Asia**

Thanks, Humphrey; this is Roy here. Let me kick off and Kai might want to add a couple comments at the end. But I guess the comment I would make in relation to the mutual fund sales in China is that we are just generally seeing some really good momentum there.

It's not really a function of regulatory change. I think this is a market where we've got and established quite a strong presence over the years. We are expanding our distribution through the various partnerships that we have with banks and now our agency force.

So we're not really seeing any reg changes that are impacting our volumes. That has just been a consistent trend that we've seen quarter in and quarter out, but I will ask Kai to perhaps provide for more context.

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**Kai Sotorp - Manulife Financial Corporation - EVP & Global Head, Wealth and Asset Management**

Well, the market as a whole has been getting quite robust as institutional flows are going into the money market fund category in aggregate. And that has less to do with what's available for offshore or domestic investing and it's more just the capital build up that you see in institutional investors been channeled into mutual fund flows, predominantly the money market side.

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

So would you say the mutual fund sales in China was largely money market funds?

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**Kai Sotorp - Manulife Financial Corporation - EVP & Global Head, Wealth and Asset Management**

Our sales were not. Our sales were actually in fixed income and equity. But I'm just saying the industry context is that the flows are pretty robust and it has nothing to do with the regulations driving internal versus offshore investing. It's more the capital build up and that capital build up has been benefiting money markets.

Our sales have been predominantly in equity and fixed income products.



Okay, great. Then maybe a question on the long-term care side. It was good to see the sequential improvements from fourth quarter, but I was just wondering how much of that was benefit from the seasonality in first quarter that you typically see higher terminations due to mortality.

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**Steve Finch** - *Manulife Financial Corporation - EVP & Chief Actuary*

It's Steve Finch here. I would say we do get a small amount of seasonal impact from mortality, but we also get some seasonally higher incidence. In general, we think it's a small increase that we see in Q1 claims in long-term care.

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

So net not too much benefit from the terminations, so the lower incidence relative to fourth quarter is just simply sequential improvements?

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**Steve Finch** - *Manulife Financial Corporation - EVP & Chief Actuary*

I would say we do see higher terminations in Q1, but we do see higher incidence as well, generally, on a seasonal basis.

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

Okay, got it. Thank you.

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**Operator**

Linda Sun-Mattison, Bernstein.

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**Linda Sun-Mattison** - *Bernstein - Analyst*

Thank you for taking the question. I've got primarily questions regarding your Asia business.

I noticed that the sales in Japan has been very strong and it's in other one business. I'm just wondering what kind of product are you selling and how do we look at the very strong sales growth in Q1; how sustainable this is.

And relating to that is the Hong Kong business. I'm trying to figure out how -- you grow very strongly. How much of the growth is coming from the distribution expansion, the DBS deal, and how much is from the Chinese -- mainland China is coming to Hong Kong to buy policies? There is always concern about capital control and how we look at the full-year sales.

And the other element, the third question is the core earnings benefit from very favorable policyholder experience. So I'm just wondering what that exactly means and whether this is a margin built into your assumption that it's going to unwind on an ongoing basis or is it just a one-off? Thank you.

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

Linda, first of all, I want to commend you. I know you are making the call at 3 in the morning your time, so I appreciate your interest.

Why don't we have the first two questions answered by Roy and then Steve Finch the third? Is that --?

Thank you.

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**Roy Gori** - *Manulife Financial Corporation - Senior EVP & GM, Asia*

Thanks, Donald, and thank you, Linda. Look, I think in relation to your first question we are really very happy with the progress that we're making in Japan. We started a journey some 18-plus months ago to diversify our business and to expand distribution as well as to expand our product suite. And that really is reaping some good reward for us.

We grew our sales, our total Insurance and Other Wealth sales by 24% in the quarter for Japan. And as Steve pointed out in the early part of the conversation or the call, our margins have increased quite dramatically from about 16% to about 26% in the quarter. Again, that momentum is again just something that we've seen continuously improving. It is a function of really just focus around distribution expansion as well as product expansion, and we are seeing that should continue.

Obviously, the interest-rate headwinds will pose challenges for us and we keep a very close eye on the way we price products to make sure that our margins are maintained. We are very disciplined on that front. So I guess that would be the way I would answer the first question and, more specifically, in relation to Japan.

Hong Kong, again, we are really happy with our business there. It delivers very strong margin for us, certainly the strongest margin of all of our businesses across Asia.

And again, there we've been working very hard to diversify our business, so we have expanded our bank assurance agreements there and DBS is a part of that. Very specifically to your question though, DBS does not have a strong or as strong a presence in Hong Kong as they do in Singapore, so it's still a very modest contribution from DBS to our Hong Kong business. But that is growing and the business that DBS has in Hong Kong is also growing and expanding. So we will obviously benefit from that as well as the opportunity to actually deepen the penetration of that customer base.

And then more specifically, in relation to the mainland China business in Hong Kong, we have said on previous calls that this doesn't represent a very significant percentage of our total insurance sales across Asia. In fact, it represents less than 5% of our total sales and it's a reasonably modest percentage of our sales in Hong Kong as well. So that is, again, something that we obviously keep a close eye on.

We think it's an important market for us. There is a need for a product based out of Hong Kong to support the mainland Chinese customers and we are very focused on meeting the needs of that customer base, so we will continue to do so. But it doesn't represent the bulk of our business; the majority of our business in Hong Kong is focused on the domestic Hong Kong market.

I will hand over to Steve, who will talk a little bit about policyholder experience.

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**Steve Finch** - *Manulife Financial Corporation - EVP & Chief Actuary*

Thanks, Roy. Regarding policyholder experience in Asia, we have seen a nice positive trend with gains over the last five quarters. And when I was looking at it this quarter what I noted was good, it was coming from a variety of different countries and areas, sort of consistent gains in mortality across the different areas.

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Can I just ask a follow-up question? So the policyholder experience; is that mainly mortality and morbidity gains or is that just mortality? Because your peers often report ongoing mortality gains simply because of a structural trend there.

I am trying to figure out whether it's kind of market structural benefit or your pricing just unwinding to these gains. And is it just mortality or you did mortality and morbidity?

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**Steve Finch** - *Manulife Financial Corporation - EVP & Chief Actuary*

Yes, I can tell you where it came from. I think I will probably need to get little bit more in-depth in Asia before I can answer that question in more detail. But it was primarily from mortality, but there was a little bit of morbidity gain as well, but it was primarily mortality.

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**Linda Sun-Mattison** - *Bernstein - Analyst*

Thank you.

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**Operator**

Gabriel Dechaine, Canaccord Genuity.

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

Good afternoon and thanks for taking the questions. Just first on the long-term care negative experience, that's a net number. You had positive experience in Asia, some in Canada. Can you tell me what the gross experience was in long-term care?

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**Steve Finch** - *Manulife Financial Corporation - EVP & Chief Actuary*

In this quarter, we had a loss in policyholder experience of US post-tax \$20 million in long-term care. And that was significantly improved from both Q3 and Q4.

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

Okay, so -- all right. And the repricing process that you started in 2013, is that pretty much done now? I haven't asked about that in a while. I just want to know what the status is on that. Going better than expected?

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**Steve Finch** - *Manulife Financial Corporation - EVP & Chief Actuary*

We continue to work away at that. We have been making progress against the rate increases that we have asked for and continue to work away at that.

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

Okay. My next question, maybe for Donald or Steve or Cindy. On the LICAT, and I'm going to tie this to your balance sheet optimization process, it's probably too early for you to give a good sense of how the LICAT is going to affect your business, but my read on it is that it kind of penalizes



And if there's been any progress on that front, I would love to hear about it.

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

Thanks, Gabriel. It's Steve here. It's too early for us to come to any conclusions on LICAT and there's a very long way to go on that exercise.

In relation to LICAT versus BSO, the two things are entirely unrelated. The BSO project was initiated many months ago and there's no read across from that to any outcomes from LICAT.

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

Okay. How about an update on the BSO?

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

Sure. So the BSO project, we have been putting a lot of work into that project. It's quite complicated to effectively analyze and size the various blocks of business and those that we would potentially maybe do something strategic with under the BSO project.

We made a huge amount of progress on that, a long way to go and I wouldn't want to get expectations too high that we will have anything to announce in Q2 or Q3. I guess in an ideal world maybe we would have something to talk about later in the year, but very good progress but still a long way to go.

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

The reason I was tying in the LICAT to that was because it appears to be a regulatory capital formula that makes you hold more capital for long-duration assets. There are some offsets, though, but the business is that you have that are the longest duration are also the ones that have the lowest returns. I wonder if that -- it doesn't sound like it factors into the thinking at all.

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

Well, it wasn't part of the thinking, but I suppose you could draw the conclusion that there's a happy coincidence there. But it certainly wasn't any of the thinking when it came to the BSO project. The BSO project is more around a focus on shareholder value creation and focus on return on equity, nothing to do with regulatory capital. Certainly not the prime motivation behind it.

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

Got you, thank you.

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**Operator**

Sumit Malhotra, Scotia Capital.



Thanks. Good afternoon. First question is going to be for Scott.

So based on that number that you give us that half of the investment losses in the quarter were in -- I'm assuming most of it is the direct energy holdings when you talk about half being in oil and gas. So you are at about CAD1.3 billion of cumulative losses that you've taken since you started talking to us about this. And please correct me if my numbers are wrong.

This has been a topic that comes up from time to time when we see oil prices moving up, which has actually happened of late. I think we're up something like [\$6] or [\$7] and things are moving around in the spot price of WTI since the end of Q1.

You've told us on many occasions there's more that goes into it. It's predominantly the forward curve that matters. But I guess the direct question I would have is: what has to happen for the write-downs you've taken against your direct holdings to become write-ups for Manulife?

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

It's Scott. Thanks for the question. It has been nice to see a bit of turn in the sentiment in oil prices. As you mentioned, the spot price has come up nicely here, most of it actually since the end of the first quarter; a little bit in the first quarter.

The longer-term prices were actually down in the first quarter and have recovered a little bit here in the second quarter, but still below where they were at the end of the year. So really to get valuation improvements in our equity holdings, we need to see those forward prices move up. But I think it's a good sign that we have seen the spot prices move up. I would expect -- my expectation is by the end of the year we will see some good movements there.

I would also say that with every -- as with everything, it's complicated. Half our holdings are in Canada and so the C dollar/US dollar affects those valuations as well, so we have to keep our eye on that.

I guess I would say the real positive for me in the spot prices is, one, about sentiment and, two, in our credit portfolio higher spot prices generates cash flow for those companies, which is supportive. Even though we did show a little bit of a credit charge this quarter, I think we were actually pleased by that. We were expecting it could be worse and so we're feeling better about that going forward based on what has happened in the markets.

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**Sumit Malhotra** - Scotia Capital - Analyst

The pace of migration in your fixed income portfolio didn't seem to be particularly severe. Your investment-grade ratings were still 95%. I know there was some movement within the buckets, but it still seems like for your investment, or your energy holdings in particular, it's the direct portfolio that, for now, matters a lot more than fixed income. Is that a fair statement?

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

That's a fair statement. I think -- and based on what has happened I think that's true. I think there was the danger that if prices had gone down and stayed down for a long time, you would've started to see maybe some significant downgrades.

But, to your point, we have not seen that and, unless we have another sustained leg down, we would not expect to see that. So it is the equity portfolio where most of the action is. We certainly -- I think your numbers are about right on the charges we've taken and we would hope to recover a fair bit of that.



Okay. Last one for Steve or Roy. Obviously DBS relationship began officially during the first quarter.

Steve, you mentioned on a couple of occasions that there is an -- let's put it this way, DBS in terms of the variable payments is incentivized to sell products that are more profitable for Manulife on the whole. For those of us on the outside, what would you say? Again, maybe you could put a little bit more meat on that statement.

But for those of us on the outside, what's the best way for us to track just how those sales of higher-margin or higher-profitability products for MFC are progressing as a result of that relationship?

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

I think the best way to track it is to ask us the question and we will try and give you color, because we can't give you specific data in relation to DBS. Obviously, we have considerations for our partner in the relationship and so there are some restrictions around exactly what we can say.

But, first of all, if you look at the sales this quarter in Asia Other you will see a very dramatic increase, and you can conclude that a very large proportion of that is in relation to the DBS arrangement, particularly in Singapore. Maybe I will pass to Roy and see if he would like to talk a bit about how the relationship is going and talk about the business mix issues.

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**Roy Gori** - Manulife Financial Corporation - Senior EVP & GM, Asia

Thanks, Steve. And, Sumit, thanks for the question. I think your comment is absolutely right. The alignment of objectives is a critical component of making this ban assurance deal for us and for DBS. The commercial construct that we have created with them really does create and force that alignment.

Over and above that we really do have a strong cultural alignment between our two organizations, so we feel really good about the work that we've put in since signing the deal in April of 2015.

I guess we're not clearly disclosing DBS separately. DBS will come -- well, Singapore will come under Other Asia. And as Steve highlighted, if you look at other Asian disclosures our sales, our APE growth is about 94% on first quarter of last year, Our NBV growth is about 189% on last year, and our margins increased 7 percentage points on last year.

So you can read that obviously Singapore is a significant component of Asia Other and we're really delighted with the first step in our 15-year partnership. There's still much more for us to do and we're excited about the opportunity that brings.

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

Just to add to that, Sumit, both DBS and we are delighted. DBS has also had its earnings announcements and if you read their press release, you will see that they also are very happy with the progress.

So the business plan that was built jointly between us, we are off to a great start. And that's a very good story because, more often than not, these very large bancassurance deals in the region they seem not to start quite as well as people might have hoped for when they put the plan together. But this one is off to a great start.

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**Sumit Malhotra** - Scotia Capital - Analyst

I will add that to the reading list for today, Steve. Thanks for your time, guys.

Tom MacKinnon, BMO Capital Markets.

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

Thanks very much. Good afternoon. It's just a question about the WAM business and the EBITDA margin. Core EBITDA margin is falling off a little bit here, I think. It started -- last year it was 27%; now we're at 23.7%. We do have markets up since then.

You note that there are some strategic investments in this business as well. Maybe you can elaborate on where would you like to see this EBITDA margin go; what has been bringing it down a little bit and how we can improve it?

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**Kai Sotorp** - *Manulife Financial Corporation - EVP & Global Head, Wealth and Asset Management*

Thanks, Tom; this is Kai. The single biggest driver of the margin compression was in the US with the RPS business as a reflection of the New York Life acquisition, which represents the growth potential for us in the mid to large segment. But the large and mid segments are compressed in terms of their fees, relative to the historic business that we have had. So that's one reason.

Second is that we've seen some overall compression in fees just across the market as a whole. Third is that we have been continuing to invest in our business. We've been increasing our investments into distribution in various markets, in particular our effort into Europe in the institutional business.

So Q1 was really a compression effect of all these coming together. But the business mix shift is one big factor and that is about \$50 billion-plus in terms of New York Life.

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

Is there any way we can estimate what that impact may have had on the margin?

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**Craig Bromley** - *Manulife Financial Corporation - Senior EVP & GM, U.S. Division*

I guess, Tom -- this is Craig Bromley -- I won't try and estimate the margin impact of that deal on this portion of that EBITDA, but another factor I guess is that this is a business that we acquired that we fully expected to add profitability to. There are a number of sources of where that will come from.

One is sort of classic synergies, where both sort of revenue synergies from distribution being able to overlap better, better retention plans as they grow by now having a place for them to go, as well as the increased emphasis on in-plan advice, rollovers, basically direct participant revenues that go beyond just plan revenues. So it's kind of a longer-term plan on how we're going to grow this business. We bought a business that was not traditionally very profitable, but it's obviously our aim to make sure that it will be very profitable in the future. So please stand by.

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

Okay, thanks.

Robert Sedran, CIBC.

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

Good afternoon. Steve, I want to come back to a comment you made about MFC's and MLI's MCCR ratio.

I guess I understand why policyholders and regulators might be more interested in MLI, but as a common shareholder, I would think MFC would matter more. I look at a quarter in which you move some debt into MLI and lift that MCCR ratio as a bit of a risk transfer from policyholders to shareholders. I'm not particularly fussed by the transfer at this time, but as a common shareholder, why wouldn't I care more about MFC?

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

Thanks for the question, Rob. I really see it that way. I actually think the downstreaming of capital from MFC into MLI is a bit of a non-issue. The movements in cash between those two companies is basically unfettered. We can dividend it straight back up again if we want to.

The reasons for issuing debt at the parent company was purely a matter of pricing and demand, so we will issue debt where it makes most sense commercially. If I am a shareholder of MFC, then I care about the leverage ratio of MFC -- and the leverage ratio that we quote is the group consolidated leverage ratio, so that's important -- and I would care about the level of equity and level of PfAD in the balance sheet. I don't think I would be that fussed about the -- in the downstream you have capital through a wholly-owned subsidiary that can dividend it straight back again.

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

Sorry, I wasn't coming at it from the perspective of being concerned about it. It was more the question of really the leverage ratio corresponds more directly to MFC's MCCR than it would to MLI's. That's all I was getting at.

We look at the leverage ratio at the top of the house, and maybe I need to take this offline to better understand the new disclosure around the holding company, but I just would've thought the holding company MCCR would be a useful piece of information for a common shareholder. But as I said (multiple speakers).

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

I think maybe we will take it offline. We believe that from a solvency point of view, the key ratio is the operating company ratio. And I think a common shareholder is probably less concerned about the holding company solvency ratio.

Bearing in mind that virtually everything within this group rolls up into MLI, which is then wholly-owned by MFC.

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

Robert, I would ask you the question -- not to speak ill of our competitor, but you know the MCCR of Power Corporation?

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

I think that one was probably rhetorical, Donald. I will leave that one. (laughter)

But it's a direct parallel; I mean it's highly relevant. Sometimes I am tempted -- I used to say this to (inaudible), maybe I should buy a bunch of cement plants and a couple of retailers and stick them in MFC, and then it will clear it's an industrial holdco. Now that wouldn't exactly be kosher, but it really is -- I only use that to point out the relevancy of the comparison.

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

It's nice to see the competitive fires are burning.

The question -- just one more quick question on the macro hedging cost. It's not a big number, but I guess I would've thought over time I would see the expected costs trail off as opposed to build up. Is that more a question of the market environment we are dealing with or more a question of the marginal business that's being written?

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

It's more the former. We started the year with quite a high level of notionals, and in that situation and with the volatility we've experienced, the costs in the first quarter were higher than we would've liked. We would also like to see that come down over the coming quarters, but the first quarter was quite painful from a hedge cost perspective.

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

Thank you.

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**Operator**

Peter Routledge, National Bank Financial.

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**Peter Routledge** - National Bank Financial - Analyst

Thanks, just a follow-up from Rob's question. The subordinated debt and the pref shares issued at the holdco this quarter, is that regulatory capital in the holdco MCCR?

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

I think you are referring to senior debt that was issued in the holdco.

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**Peter Routledge** - National Bank Financial - Analyst

No, I know that. I meant the -- didn't you issue subordinated debt at the holdco this quarter?

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

No, no. We did a fresh share issue and we did a 10-year and 30-year senior debt issue in the holdco.



Okay, my bad.

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

That's okay. So just for clarity, that does not rank as capital at the holdco level, but it does rank as capital at the opco level having been downstreamed as capital.

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**Peter Routledge** - *National Bank Financial - Analyst*

Fair enough, fair enough. Question on long-term care. I have just noticed looking at state approval data that those states or at least some of them seem to be taking a little bit longer since 2013 to approve your premium increases than they took prior to 2013. So is there any reason for me to worry that the state's behavior is adverse to your assumptions in 2013?

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

It's Steve. I will start off and then let Craig or Steve Finch may want to add.

As Steve said, the approval process is ongoing. In fact, we have a good number of approvals done. The other thing to point out is I think it's probably likely to say that in the run-up to the US presidential selection we may well see a slowdown in that, which is what happened last time around, because nobody wants to get a newspaper headline for approving price increases in the run-up to the election.

You have to be a little bit careful interpreting some of this data. In terms of the initial assumptions we would've made, we would've obviously padded pretty heavily the initial assumption about our success in getting price increases. The first time around we comfortably beat our assumption on the upside and I don't think there's any reason right now why you should be concerned in that way in relation to this current round.

I'd just see if Steve or Craig wants to add anything.

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**Craig Bromley** - *Manulife Financial Corporation - Senior EVP & GM, U.S. Division*

I will just add something on the assumptions. When we did the last review and embedded a certain amount of rate increase assumptions, we took into account that it would take longer than the 2010 rate increases. So we planned for a longer time period and I would say we're largely consistent with that.

To Steve's point, we still expect to get all the ask that we are looking for, but it is taking longer.

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**Peter Routledge** - *National Bank Financial - Analyst*

That's really clear, thanks. Don, quick one. On the BSO project, it is conceivable at least that you have a reinsurance deal that frees up a lot of capital but that might flow through your statements as an accounting loss. Do you have the appetite to -- and does the Board have the appetite to accept accounting losses which may not look pleasant, but free up more than enough capital to justify?

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

Well, the simple answer is -- and I'm not going to give you a lot -- it's we do whatever is in the shareholders' best interests.

has some volatility of earnings and a low ROE expectation it might cost you to get rid of it, and I understand the logic of that.

But the market is a little different; there is people trying to diversify their holdings and people looking for different types of risk that correlate with their own books and so on. There seems to be actually quite a lot of interest in blocks of the type that we have. And people have different return expectations, so we hope to take advantage of that.

But, yes, there was a minor impact. We would obviously do what's in the right interest of the shareholders.

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**Peter Routledge** - *National Bank Financial - Analyst*

Okay, thank you very much.

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**Operator**

Mario Mendonca, TD Securities.

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

Good afternoon. First one quick follow-up to Rob Sedran's question.

Why do you think it is that after being public for going on 17 years, the life insurance industry that is, OSFI would decide that now is the right time to disclose the consolidated MCCSR? Are there any changes afoot that would make that disclosure more relevant today than it was a decade ago?

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

No, OSFI -- and, Mario, I think you know this well, they were looking at it about four or five years ago in the middle of the financial crisis and what they were looking at was the comparability with sort of bank holding companies in the United States. And that included some life insurance companies that had banks in them, so therefore, their holding companies had to reveal a capital ratio. They were sort of applying analogous thought to it and they thoughtfully deferred it a fair number of years.

We've been consistently worried, and I think this call is actually proving us right, that people would misunderstand these ratios. We also worry about people comparing holding company ratios in Canada with ratios in the United States of opcos and drawing negative inferences.

In Japan, it's customary have a capital ratio of 1,000%. In the United States 400%, 500%; in Canada numbers of 200% indicate a lot of strength and that's confusing to people. And it's also confusing to people when you see the opco and the holdco.

What the primary use of a capital ratio should be, in our opinion, is to measure the solvency at the opco level that gives comfort to people who are looking to the prudential regulator to look after to make sure their annuity payments are going to be made. We are smart in making use of senior debt in the holdco, because there's some people who will only by senior debt and that qualifies for their propensity.

It makes sense to source debt at the cheapest way you can. Some people like senior, some people will take subordinated in the holdco and it makes sense to avail yourself of both because that's just simply smart.

Nobody has used the expression in today's call, but I reject it; sometimes people talk about double leverage it. Well, double leverage is when you are revealing leverage at only one level of the enterprise and not disclosing it or trying to obscure it when you are raising debt at two places. Let

So this is a sensible thing where you are sourcing debt at the cheapest possible opportunity; and some people will only invest in senior debt, so we provide them with senior debt in the holdco.

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

That's helpful. I wanted to make sure there wasn't something more meaningful to the decision to disclose it now and it doesn't sound like there is.

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

No, we were worried about people misunderstanding this, especially four or five years ago. It was just set and it was agreed upon that they would do it in this timeframe. We sort of said it's not that important to make it a battle royal.

Again, the comparability. I'm not being just purely rhetorical and saying why would some companies be held to a different standard than other companies? And it's not just Power and Great West Life. It's subsidiaries of foreign enterprises.

Does anybody know this MCCSR of Swiss Re? I don't think so, because it doesn't exist. Or a subsidiary of a US company. Do you know the MCCSR of any of the US companies that operate in Canada? No, it doesn't exist -- at the holdco level I'm saying.

What you should care about is the opco, right? So no, there's no -- that's really a question for OSFI, but there is no specialty. And this was agreed to -- Cindy is agreeing with me -- it was like four or five years ago, I've forgotten. It might even have been longer than that. It was a long time ago.

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

Can we drive on to something a little different? The CAD340 million in investment-related charges this quarter; it was helpful to hear that about of it is oil and gas. The other half is not meeting the return expectations built into the assumptions for alternative assets and others.

Where I want to go with this is, to the best of my recollection, the assumed return on those alternative assets is roughly, call it, 9.5%, 9.6%. And if I'm not mistaken it has been there now for some time. So the question I want to ask is: what is the process by which the Company reviews that assumption? And is there any real risk in the near term that the Company would have to revise that downwards somewhat, just given the level of rates?

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

It's Scott; I will start on that one, Mario. It is something we review every year and we are going through that process now.

It's a long-term assumption, 50 years, whatever, so it's hard to see that based on what happens in a given year or even a couple years that you really change it. With that said, it is a judgment call on what's going to happen over the next 50 years. If we stay in a low rate environment for a long period of time, there will be downward pressure on those assumptions I'm sure.

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

So you are suggesting that there's nothing we need to be -- we need to concern ourselves with imminently?



We will make modest changes to those and we have in the past, but a massive change, I don't see that happening.

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

It's Steve here. Scott is referring to our annual planning process. That planning process is just commencing now; we've got a long way to go in that. We will have to go through that analysis and make those judgment calls in the way Scott describes. But there's nothing, as of now, that we would draw your attention to.

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

The reason why I'm pursuing this a little bit is the fact that the Company wasn't able to meet those return objectives in this quarter is what drove that, call it, CAD170 million investment loss. And I refer to CAD170 million because it's half of CAD340 million, just for that reason alone.

If you were to revise the assumptions down -- and just correct me if I've got this right or wrong -- but you revise the assumptions down and you take the charge today. But then, by definition, it's now easier to meet those return objectives and so the core earnings improve. The first point I'm asking is: do I have the mechanics correct? Have I articulated them correctly?

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

You have the mechanics absolutely right, Mario.

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

I guess the follow-up question is: doesn't that make sense to do that?

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

Mario, it makes Scott's job easier.

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

Absolutely, I'm all with you, Mario, on that one. Let's get them down to about 2% and there will be no problem.

But I will just remind you that last year obviously we had an issue with the oil and gas, a significant issue. But apart from the oil and gas, the rest of the -- all the portfolio actually created CAD360 million of gains, so we outperformed the assumptions last year. And it's just going to be a somewhat volatile number. Quarter to quarter we are going to have gains, we are going to have losses, and it's really over the long term where we expect to come out. Having had gains there for the past year, one quarter with some losses is really not that concerning. That will happen periodically.

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

I guess that's the point, it is one quarter. Thanks again.

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Mario, I got to tell you, that's a great question. That was a good discussion because we -- it's good to hear that.

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**Operator**

Doug Young, Desjardins Capital.

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

Good afternoon. Question is for Roy. I guess over the last year we've seen quite a significant increase in the impact from new business on a positive side and just tried to get a sense of the impact that's driving that.

Then I guess in the same vein, I think you've talked a bit about looking at your product mix and trying to tweak it to improve margins, bringing your costs down by bringing different functions into regional hubs. Just trying to get a sense of where you stand with that process as well, thanks.

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**Roy Gori** - *Manulife Financial Corporation - Senior EVP & GM, Asia*

Thanks, Doug. Well, I think you're right. We've been very focused on margin and our new business gains, so that has been a big part of our focus. We've really shifted away from just looking at sales to looking at the quality of our sales.

I would really say that there's probably three to four key factors that have really driven the results that you are seeing; what has contributed to the NBV in Q1 being up 68% on last year and our margin up 3.4 percentage points, as Steve mentioned earlier. The first is that we really have focused on distributing -- focusing on expanding our distribution channels.

Our bancassurance channel is up quite significantly. It's up 175% on last year and obviously DBS is a factor there, but we've got six other exclusive bank arrangements in Asia that give us access to, with DBS, a total of 17 million customers. So that's a really big opportunity for us and we're really putting a lot of effort into making sure those relationships are bearing the returns and the fruits that we believe that they warrant.

Our agency is also another big part of our growth. Our agency sales are up about 22%. Productivity of agency is up and so is the number of our active agents. In fact, that's up about 17%.

And we're focusing much more on the quality of our agency forces. One of the measures that we look at for that is our MVRT membership and that's up about 38% on the prior year.

Then finally, the third channel we have been really putting a lot of effort against is the broker channel. This is another important channel for us in Asia and one that we haven't really focused on historically. And that more than doubled for us in quarter one.

So the first part of call was really around A) expanding our distribution channels and making sure that they gave us the rewards that we were seeking or that we are seeking, and that is a continuous journey. The second one is around product, as you highlighted. We are really expanding our product range. We have talked about ManulifeMOVE on this call previously and there are many other product launches that we are very focused on.

Then the mix itself. Shifting our focus on mix towards more protection is giving us some again good margin lift.

With the sales volumes increasing we do get scale benefit. You talked about scale and cost economies. Part of that's coming from looking at centralizing more of our operations. That is a long-term journey and we've embarked on it.

spread over a much larger new business contribution. So it really is a combination of all those factors.

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

So it doesn't feel like this is the end. This feels like there is more momentum to go. Is that correct?

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**Roy Gori** - *Manulife Financial Corporation - Senior EVP & GM, Asia*

No, I think that's right. We are very optimistic about the opportunities that we have in Asia and that is again where we feel that we will continue to focus very diligently to make sure that we get quality sales.

Again, it's not just sales for the sake of sales. We want to make sure that we get the right margin and the right earnings contribution from those sales. We are certainly not declaring victory on that journey yet, where there is much more opportunity for us as we see.

I wouldn't underestimate the headwinds. There are clearly challenges. We talked about the equity market challenges and the impact on wealth and obviously interest rates in Japan are a challenge that we are grappling with. But we've got a very disciplined approach and we feel good that the other initiatives that we've got in training are going to provide good momentum for us.

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

Good, thank you.

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**Operator**

Linda Sun-Mattison, Bernstein.

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**Linda Sun-Mattison** - *Bernstein - Analyst*

Thank you for taking this additional question. It's regarding your EV disclosure.

I've got two. One is your undiscounted earnings that indicate more than 50% of the earnings would come within the next 10 years. Now, because I cover AIA and I think this compares very short or fast if I compare with AIA, AIA has less than 30% of earnings coming in within the next 10 years.

So I try to understand what are the drivers of this difference. Is it because you have -- of course, you have in North America business or is it because you have different product set?

Then is the EV sensitivity. Your Asia business appears to be more rate-sensitive, but less equity-sensitive. Again, is it because of product, like do you sell more participating product in Asia, or because of asset exposure? I'm trying to just get a little bit kind of understanding behind the drivers. Thank you.



It's Steve here. I guess it's going to be a challenge to comment on the comparison versus AIA. I guess I would say that on our embedded value disclosure, what we are showing here is the after-tax discounted distributable earnings. I think, in general, we are starting -- over the last number of years as we de-risk we are starting to sell less of the very long-term products, so those types of products would release into earnings more quickly.

We think this is quite a nice picture in terms of the emergence of the earnings of our in-force business and the fact that we do get the earnings out in a reasonable timeframe.

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**Linda Sun-Mattison** - Bernstein - Analyst

Yes, got you.

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

Did you want to follow up on that or are you happy with that?

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**Linda Sun-Mattison** - Bernstein - Analyst

So I'm trying to understand that the Asia business in terms of the EV sensitivity disclosed in the EV disclosure, Asia business looks to be more rate-sensitive and less equity-sensitive. So I'm trying to understand whether this is because the products sold in Asia, for example you sell more participating spread product, or is it because of investment -- the asset allocation in Asia is different?

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

Sorry, Linda, is your question in relation to elsewhere in the group for us, or are you talking about versus our competitors?

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**Linda Sun-Mattison** - Bernstein - Analyst

No, no, sorry, sorry. It's versus your US and Canada business. It's on page 8 of your EV disclosure. Just Asia versus Canada and the US.

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

Right. I think a large piece of the reason for that would be the regulatory environments are different. I think that would be a piece of it. Just seeing of Steve has got anything else to add to that.

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**Steve Finch** - Manulife Financial Corporation - EVP & Chief Actuary

Yes, I was thinking it's -- because Asia is on the local basis here, there could be some differences in terms of how the earnings emerge. I think we might need to take that one away.

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

Can we come back to you offline on that one, Linda?



Sure. Thank you very much.

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

It is refreshing to get questions on embedded value. We haven't had those for a long time. So that's great. Thank you.

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**Linda Sun-Mattison** - *Bernstein - Analyst*

Thank you. Thank you for the disclosure.

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**Operator**

Humphrey Lee, Dowling & Partners.

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

Thank you for taking the follow-up. Just on Wealth and Asset Management, so with 25 consecutive quarters of positive net flows, which is definitely a phenomenal achievement by your team, but given the backdrop of the industry facing [net outflows], what are you doing to sustain the positive flows going forward? Or should we expect the flows would turn positive -- sorry, turn negative at some point in the near horizon?

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**Kai Sotorp** - *Manulife Financial Corporation - EVP & Global Head, Wealth and Asset Management*

This is Kai. Our gross production has been relatively consistent across the quarters and the reason for that has been the product mix. We have been positioning for products like absolute return strategies and we've been selling a lot of global absolute return strategy, because that's where clients want -- their appetite is taking them.

We have also had some well-performing US and global equity products that have been sort of in the sweet spot of people's demand set. So I think that we have had right product array relative to the demand that we have been seeing in US and Canada.

In Asia, it has been a function of, quite frankly, the equity demand driven out of China with a number of IPOs. That may not be as replicable, but the quantum of gross flows and net flows are really in favor of the consistency we see out of US and Canada. And there our product mix, I think, is well-positioned.

The final point I would say is on the institutional side. Institutions have a demand set for core product, large unconstrained strategies in fixed income, and we have a leading flagship strategy called strategic fixed income that's been benefiting from that. And they have been seeking large-cap quality exposure as well and we've got very good performance in those areas.

I would say that we've got a sustainable ability on the gross side. The net side becomes more a function of kind of where the market demand takes you in that sense that retail is always pro-cyclical. And so you saw a big change in terms of people's redemption pattern for Q1, but that was with a very, very sharp downside movement in markets in the first eight weeks of the quarter and then a pretty rapid uptick.

I would expect that those kinds of volatility shocks are not going to be as pronounced as we saw in the first quarter, and I would expect that our net new money generation would be more consistent with historical quarters as opposed to what we saw this one.

Thank you for the color. Then just one last question for Craig. In terms of the DOL final rule, any thoughts after having a chance to review the final rules?

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**Craig Bromley** - *Manulife Financial Corporation - Senior EVP & GM, U.S. Division*

I think the industry in general was pretty pleased with how the final rules came out. There are some parties in the industry that would prefer not to have the rules at all. But in terms of the DOL consulting with industry and formulating their final opinion based on that consultation, I think there was certainly some easing up of some of the most onerous provisions and timelines.

That having been said, the spirit of the regulation has been very consistent from the beginning. It's been consistent with the position of the DOL for some time, really trying to stress transparency fees and fairness and customer centricity. I don't think that changed.

I would say I actually it kind of went a little bit full circle with a real emphasis on rollovers and making sure that, when people are leaving pension plans, they are leaving to as good or better situation than they are leaving. And that's sort of what we expected; that's what it was intended to do in the first place and that's where they landed. So I don't think there's big surprises there.

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

But in terms of the impacts on John Hancock, how do you see any potential positives and negatives?

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**Craig Bromley** - *Manulife Financial Corporation - Senior EVP & GM, U.S. Division*

This is a regulation that is primarily focused at distributors. And a lot of our businesses obviously in the US, our big businesses, are manufacturing businesses, so I guess I would answer it in two ways.

To the extent that we have distribution businesses, so we have a fairly significant broker-dealer, they will need to take some steps from a compliance perspective, from an IT perspective to implement the BIC exemption. And that's the same as any other broker-dealer the industry.

I think the good thing with them is that they already have a full array of products and are pretty product-agnostic and quite independent already, so they are probably less impacted than some other broker-dealers. But there will be some costs and some adjustments to make.

The same would go with our rollover business, which is sort of a direct-to-consumer distribution business. You will need to make some adjustments, but from what we have seen, there are ways to continue on business just being compliant and should not have a major disruption to the sales levels.

The manufacturing businesses are a little bit different. They are more dependent on other distributors and how they react to changes in the regulation and what the impacts are on them. Right now, we think that the distributors, just like ourselves, will adjust to the new rules and there will be a somewhat muted impact, but we need to wait and see as to exactly what they actually do to react to the regulations.

Overall, not a big impact on us, at least in the short term. How the industry then adjusts may have impacts in the medium term.

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

Okay, got it. Thank you.

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Thank you. This will conclude the question-and-answer session. I would like to turn the meeting back over to Mr. Veloso.

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

Thank you, operator. We will be available after the call if there's any additional follow-up questions. Have a good afternoon, everyone.

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**Operator**

Thank you. The conference has now ended. Please disconnect your lines at this time and thank you for your participation.

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