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MFC.TO - Q1 2018 Manulife Financial Corp Earnings Call

EVENT DATE/TIME: MAY 03, 2018 / 12:00PM GMT



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## PRESENTATION

### Operator

Please be advised that this conference call is being recorded. Good morning, and welcome to the Manulife Financial First Quarter 2018 Financial Results Conference Call for Thursday, May 3, 2018.

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

### Robert Veloso - Manulife Financial Corporation - VP, Investor Relations

Thank you, and good morning. Welcome to Manulife's Earnings Conference Call to Discuss our first quarter 2018 results.

Our Earnings Release, Financial Statements and related MD&A, Statistical Package and Webcast slides for today's call are available on the Investor Relations section of our website at [Manulife.com](http://Manulife.com).



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We will begin today's presentation with an overview of our first quarter highlights and a strategic update on our priorities by Roy Gori, our President and Chief Executive Officer. Following Roy's remark, Phil Witherington, our Chief Financial Officer, will discuss the company's financial and operating results. We will end today's presentation with Steve Finch, our Chief Actuary, who will discuss the new LICAT capital regime and the company's Embedded Value position.

After the prepared remarks, we will move to a question-and-answer portion of our call. We ask that each participant adhere to a limit of 1 or 2 questions. And if you have any additional questions, please requeue and we will do our best to respond to all questions.

Before we start, please refer to Slide 2 for a caution on forward-looking statements and Slide 37 for a note on the use of non-GAAP financial measures used in this presentation.

Note that certain material factors or assumptions are applied in making forward-looking statements, and actual results may differ materially from what is stated. This slide also indicates where to find more information on these topics and the factors that could cause actual results to differ materially from those stated.

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

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

Thank you, Robert. Good morning, everyone, and thank you for joining us today.

Turning to Slide 5. Yesterday, we announced our financial results for the first quarter of 2018. We delivered strong net income and core earnings of \$1.4 billion dollars and \$1.3 billion dollars, respectively, with core earnings increasing 22% year-over-year. We also reported our year-end embedded value of \$49.2 billion dollars as at December 31, 2017, an increase of 6% year-over-year. However, more importantly, our organic embedded value growth was a strong \$6.3 billion dollars or 14% year-over-year.

Moving to Slide 6. We continue to make solid progress transforming our business and putting the customer first, and are encouraged by the early progress we have made today. First, from a portfolio optimization perspective, we took several strategically important actions in our legacy business, addressing both profitability and capital. Second, we executed 2 initiatives as part of our priority to aggressively manage costs, enhance our competitiveness and create value. I will expand on these items in more detail later. We are accelerating growth in our highest-potential businesses, and we will continue to invest to ensure we make the most of the significant opportunity they represent.

Asia and global WAM are just two great examples of our success, and they continue to perform well in the first quarter of 2018, with each delivering core earnings growth of over 20%. We generated positive net flows of \$10 billion dollars in our global WAM business and continue to deliver solid new business value in Asia.

Companies that delight their customers outgrow their competitors, and our industry is no different. We are taking action to deliver on customers' expectations and have made significant progress in 2018 on several fronts.

We launched our award-winning ManulifeMOVE program in Singapore and enhanced the program in China with the introduction of the Apple Watch. Also in China, we enhanced our WeChat eClaims process by introducing facial recognition, which allows real time verification. We delivered significant improvements in our net promoter scores in Canada, driven by customer-focused digital enhancements. And we continue to improve our retirement offering globally with service enhancements in Canada, the U.S. and Hong Kong.

We continue to build a high-performing team and culture, and announced organization structure changes for global WAM, including a new Global Head of Retirement, our legacy business, the U.S. and Canada.

Turning to Slide 7. As I mentioned earlier, we executed several strategically important decisions in our legacy business. First, we completed the reinsurance transaction on a portion of our Canadian legacy block. This transaction reduces risk and freed up \$240 million dollars of capital while



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generating an upfront gain, and this was done with no meaningful impact to go-forward core earnings. Second, we sold ALDA assets during the quarter as part of our ALDA portfolio asset mix changes previously announced. This was followed in April by an agreement to sell two U.S. real estate properties valued at approximately \$500 million dollars to our Singapore REIT. Phil will discuss this in more detail later.

Third, in the United States, we stopped sale of lower return corporate and bank owned life insurance products.

Turning to Slide 8. We continued to take actions to drive expense efficiencies and reduce our cost base. After quarter end, we announced the consolidation of IT infrastructure vendors covering 17 legacy admin systems, which will result in meaningful run rate savings. We also announced plans to consolidate our head office premises in the United States. Over the next 12 months, we will move all our Boston-based employees to one campus in Boston's Back Bay, which will provide a more modern collaborative work environment as well as significant cost savings. Over time, these two actions are expected to produce savings of approximately \$70 million dollars pre-tax per annum.

We are setting ambitious efficiency targets and we will provide an update on our plans and progress at our upcoming Investor Day in June.

I would now like to ask Phil Witherington to review the highlights of our financial results for the quarter. Phil.

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

Thank you, Roy. Good morning, everyone. Before I discuss the quarterly results, I would like to draw your attention to some of the changes we have made to our disclosures. We have broken out our wealth and asset management businesses into a separate reporting segment to reflect that we are managing these businesses globally. Our Asia, U.S., and Canada general managers continue to be accountable for wealth and asset management results, which will ensure our WAM and Insurance businesses are integrated within each of our geographies.

Other changes we have made include enhancements to our source of earnings analysis, which provides greater transparency to the drivers of business performance. These disclosure changes reflect input from the investor community, and we welcome ongoing feedback on opportunities for further enhancement.

Turning to Slide 11 and our financial performance for the first quarter of 2018. We delivered strong results, and most of our key performance indicators showed improvement. I will highlight the key drivers of our first quarter performance in the next few slides.

Turning to Slide 12. We generated core earnings of \$1.3 billion dollars, up 22% from the prior year on a constant exchange rate basis. This was driven by \$96 million dollars of core investment gains compared to \$46 million dollars in the prior year quarter. Strong earnings growth in Asia and Global WAM, the impact of U.S. tax reform, and improved policyholder experience. We are also pleased that we delivered strong net income of \$1.4 billion dollars and that net income and core earnings were aligned. The \$50 million dollar gain from the direct impact of markets in the quarter reflected widening of corporate spreads and a higher and flattening U.S. yield curve, partially offset by unfavorable equity market movements.

Slide 13 shows our detailed source of earnings analysis. Of note, expected profit on in-force business increased 4% from the prior year on a constant exchange rate basis, primarily due to growth in Asia and the United States. We delivered strong new business gains in the quarter, although down from the prior year, due to lower sales volumes and product mix in the U.S. Policyholder experience was neutral in the quarter as gains in the U.S. from Long-Term Care were offset by charges in Asia.

Turning to Slide 14. You can see that we delivered strong year-over-year growth in core earnings, with each of our reporting segments improving on a constant exchange rate basis. In particular, Asia and Global WAM performed well, delivering core earnings growth of 21% and 24%, respectively. Combined, these businesses represent half of our core earnings. Core ROE of 13.4% improved meaningfully over the prior year quarter, driven by strong earnings growth in our high-return businesses, and the impact of the charges in the fourth quarter of 2017.

Slide 15 shows our APE sales and new business value generation. We had a tough comparative period as the prior year quarter benefited from very strong results in Asia, a large-case group benefit sale in Canada, and elevated individual insurance volumes in Canada due to tax-exempt changes. We delivered APE sales of \$1.4 billion dollars in the quarter, down 10% from the prior year when sales grew more than 30% from the first quarter



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of 2016. We achieved strong growth in Hong Kong and Asia other markets, although this was offset by lower sales in Japan from increased competition. And U.S. sales declined, primarily due to lower variable universal life and international sales. New business value of \$384 million dollars was in line with the prior year despite lower sales, driven by changes in business mix in Asia, and the benefit of lower tax rates in the United States. In Asia, new business value increased 1% from the prior year due to business mix, and we saw a 140-basis points improvement in our NBV margin to almost 36%.

On Slide 16, you can see that despite volatile market conditions, we delivered strong net and gross flows in our wealth and asset management businesses, marking another quarter of positive net flows. Gross flows of \$36.5 billion dollars were up 16% from the prior year quarter. The increase was mainly due to growth across our institutional asset management businesses in all three of our operating regions and significant growth in our retail business in Canada. Net flows of \$10 billion dollars in the quarter were more than double the prior year and reflected net inflows from each of our three operating regions and from retail, retirement and institutional asset management.

Turning to Slide 17. Our wealth and asset management businesses achieved assets under management and administration, or AUMA, of \$627 billion dollars, up 11% from the previous year, driven by net inflows and favorable investment returns. Our strong net flows in the quarter also drove a slight increase in WAM AUMA from the prior quarter despite unfavorable equity markets. And total company AUMA continues to exceed the \$1 trillion dollar mark.

Turning to Slide 18. Our LICAT ratio for MLI was 129% compared to a supervisory target level of 100%. As this is the first quarter we are reporting under LICAT, there are no prior period comparatives. Steve Finch will provide a more detailed look at LICAT in a moment. We reported financial leverage of 29.7% in the quarter compared with 30.3% in the fourth quarter of 2017, reflecting an increase in equity due to changes in foreign currency exchange rates and growth in retained earnings.

Slide 19 outlines the capital benefit of the planned alternative long-duration asset sales. In December, we announced we were reducing the allocation to ALDA in our asset mix of portfolios backing our legacy businesses. This created an upfront charge of \$1 billion dollars, but is expected to free up approximately \$2 billion dollars in capital as ALDA assets are sold, which represents approximately 4 LICAT percentage points. As Roy mentioned, we disposed ALDA assets in the quarter, which freed up \$300 million dollars in capital, equivalent to 0.6 percentage points under LICAT. After quarter end, we entered into an agreement to sell ALDA assets to our Singapore REIT at arm's length, and in addition, obtain commitments for further asset sales. With transactions completed in the first quarter representing 15% of the total expected \$2 billion dollar capital benefit from our ALDA portfolio asset mix changes, we remain confident in our ability to deliver the total capital benefit of \$2 billion dollar we announced in Q4 of last year.

I would now like to turn it over to Steve Finch, who will discuss LICAT and Embedded Value in more depth. Steve.

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**Steven Finch** - *Manulife Financial Corporation - Senior EVP & Chief Actuary*

Thank you, Phil. Good morning, everyone. Turning to Slide 21. Effective January 1, OSFI introduced a new capital framework for Canadian Life Insurance companies. The new LICAT, or Life Insurance Capital Adequacy Test, replaces the previous MCCR framework and moves Canadian capital regulation from a primarily factor-based system to a more risk-based system. Compared to MCCR, there are higher capital charges for public equity and alternative long-duration assets, credit risk for private bonds, reinsurance counterparty credit risk and interest rate risk due to limited duration attributed to ALDA assets. However, there are now credits for participating business, which is a substantial business for us in North American in-force and a growing business for us in Asia. In addition, there are credits for adjustable business and for the diversification of risks between assets and insurance risks, and within insurance risks such as longevity and mortality. We give you a simplified calculation for the MCCR and LICAT ratios on this slide. You will notice that the numerator for LICAT includes a benefit for the surplus balance, which is PfADs for insurance and interest rate risks. Given the long-term nature of some of our businesses, this provides a substantial benefit to us, which mitigates the impact of more punitive asset charges. On a LICAT basis, our solvency ratio for MLI was 129% in the first quarter, which represents almost \$16 billion dollars of capital above the supervisory target. Importantly, it reflects all capital impacts of the fourth quarter charges for ALDA portfolio asset mix changes and U.S. tax reform, but only a small portion of the expected benefits and nothing for potential future portfolio optimization actions. We have a healthy capital position, and our priorities are: to continue execution on ALDA asset sales and look at other opportunities for portfolio optimization, to reduce leverage over the medium term, and to invest in and grow our high return businesses.

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As the scale and targets for the ratio have changed, one of the questions we are being asked is how to compare LICAT to the old MCCR, or more plainly, "what is the LICAT equivalent of the old 200% MCCR benchmark" that many in the industry use to gauge capital strength. Since the capital regimes are completely different with impacts varying by type of business, it is difficult to provide you with a conversion between the MCCR regime and LICAT that will work across the industry. However, based on Manulife's position, we view a LICAT ratio of 115% as roughly equivalent to a MCCR ratio of 200%.

On Slide 22, we provide the potential impacts to MLI's capital ratios from changes in market conditions. Importantly, the LICAT sensitivity to parallel movements in risk free rates are the opposite of MCCR. When interest rates decrease by 50 basis points, the automatic inclusion of unrealized gains on available-for-sale bonds and the increase in surplus allowance, combined with stability of the base solvency buffer in the denominator, results in a 3 percentage point increase in the LICAT ratio. Under MCCR, gains from available-for-sale bonds were only included if realized.

We generally manage our hedging programs based on underlying economics, while also taking into account the implications of accounting in capital. We will continue to evaluate our hedging programs with the implementation of LICAT but do not anticipate major changes.

The LICAT ratio is roughly as sensitive to equity market movements as MCCR on a dollar basis. However, a \$500 million capital impact is worth one LICAT percentage point but would have been almost 2.5 MCCR percentage points.

On April 11, we released our Embedded Value Report, and on Slide 23, we illustrate the change in embedded value for the company. Contributions from new business and in-force, called embedded value operating profit by some peers, increased embedded value by \$6.3 billion dollars or 14%. New business accounted for a strong \$1.4 billion dollars of this increase, and importantly, new business value was up 25% on a constant exchange rate basis from 2016. U.S. tax reform resulted in a \$1.9 billion dollar increase in embedded value as the \$1.8 billion dollar upfront charge was more than offset by the value of higher expected after-tax profits from lower tax rates. This increase was offset by the impact of capital deployment, such as the payments of shareholder dividends, the appreciation of the Canadian dollar, and the impact of our ALDA portfolio asset mix changes. Keep in mind that our 2017 year-end embedded value uses MCCR, and the impact on embedded value from the ALDA portfolio asset mix changes is quite different under LICAT.

Importantly, embedded value of \$49.2 billion dollars or \$24.88 per share reflects only a portion of the value of our businesses as it attributes no value to future new business and only tangible book value to our rapidly growing wealth and asset management businesses, our P&C reinsurance operations, and Manulife Bank.

I would now like to pass back to Roy, who will conclude with the prepared remarks.

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

So in conclusion, we are taking actions to optimize our portfolio, becoming bolder and more ambitious on driving expense efficiency, accelerating growth in high return businesses such as Asia and global WAM, improving our customer experience through innovation and digitization, and improving accountability to deliver on short-term results while executing on long-term opportunities.

Before I open the line up for questions, I want to remind you that we will be hosting our 2018 Investor Day on Wednesday, the 27th of June in Toronto. The day will include presentations focused on our legacy businesses, our cost program and our plans for our North American businesses. We look forward to seeing you there.

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

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## QUESTIONS AND ANSWERS

### Operator

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

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

Good morning. Phil, in your prepared commentary, I just wanted to clarify, you discuss positive experience in Long-Term Care, in terms of the source of earnings?

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

Yes, As you may recall, in the fourth quarter, we provided some clarification that since our more detailed review in the third quarter of 2016 our experience, total experience for Long-Term Care has been neutral. That trend has continued into the first quarter, and if we look at our overall experience, it has, in fact, been positive this quarter. Steve Finch may wish to comment further.

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**Steven Finch** - *Manulife Financial Corporation - Senior EVP & Chief Actuary*

The one thing I would add to Phil's comments is that in the first quarter, we saw elevated levels of mortality across our North American businesses, and that resulted in losses relative to our expected results in our Life Insurance businesses, like gains in our annuities business and in Long-Term Care, and that was one of the drivers of this quarter's Long-Term Care results.

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

And so on, Steve, I guess, against the news that came out yesterday from one of your U.S. competitors, is Manulife still comfortable at this point with the reserves that you have against your U.S. Long-Term Care business?

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**Steven Finch** - *Manulife Financial Corporation - Senior EVP & Chief Actuary*

Yes, we are comfortable. We provided information in the past that highlights the differences between Manulife under the Canadian reserving standards where we are updating our assumptions on an ongoing basis. Our deep dives every 3 years in updating assumptions and reflecting current market conditions in interest rates on a quarterly basis. On that basis, we have disclosed that we have significant excess of Canadian IFRS reserves over our NAIC reserves, a 30% excess because we have been truing up all the way along. And I think that puts us in a strong position from the reserving standpoint.

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

Thanks for the clarification. I will requeue.

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### Operator

The following question is from Linda Sun-Mattison of Bernstein.

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**Linda Sun-Mattison** - Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst

I have 2 questions, actually kind of related. So I want to get a little bit of clarity from Roy and Phil. The first one is the release of capital in the U.S. business net of \$1 billion. How do you plan to deploy this capital? And in relation to that, we have noted that Asia has grown very strong not only in Insurance but also in the WAM business. I look at the net flow in Asia in Q1, it is over 90%, that's very strong growth, so congratulations. But I am just wondering whether that growth will need more capital to back it? And how do we look at the long-term WAM growth in Asia, especially after the announcement that China is finally opening up to the foreign competition?

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

Yes, thank you, Linda. Someone's in an awkward location. Well, I appreciate the question, and we are obviously very keenly focused on our capital position and a lot of our effort over the last 9 months has been on looking at optimizing our portfolio so that we can release capital and ensure that we deploy that to where we can get the best possible return. And as we have stated in the presentation and previously, the actions that we took in Q4 of last year will allow for us to release \$2 billion dollars worth of capital over 12 to 18 months. And as Phil highlighted, we are 15% of the way through that journey. How we will deploy that capital is sort of answered in part by your second question. And obviously, we look to our high growth business opportunities, Asia and WAM, to grow organically and to accelerate the pace of growth. And therefore, organic growth will be one of our top priorities as we think about our capital deployment. Obviously, continuing to strengthen our balance sheet is another priority for us. We talked about the fact that our long-term target for our leverage ratio is 25%. So we see that, that's another area of focus and where we will also like to see our capital focus and deployment. Paul, do you want -- (interrupted)

**Linda Sun-Mattison** - Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst

Roy, can I just clarify on this point? So to partially deploy into high-growth area, which is good news, and then reducing the leverage ratio, does that mean you are unlikely to do share repurchase or surprise in dividend growth?

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

Well, we are not going to comment specifically, Linda, on the details of the execution around exactly how we would deploy the capital. But what I would just leave you with is, that our high-priority areas of focus would absolutely be against our organic opportunities and obviously against strengthening our balance sheet. They are in second, third order priorities which are included in what you have suggested or the areas that you've mentioned.

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

And Linda, it's Paul. Linda, it's Paul here. The only other comment I would make on Asia is the growth was broad-based, so we had strong growth across our institutional, our retirement businesses as well as retail in Malaysia and Indonesia. They were all contributing factors.

**Linda Sun-Mattison** - Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst

Thank you. And do we expect this type of growth rate to continue? What kind of WAM growth can we expect in Asia?

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

Yes, I mean we do not really forecast growth because its dependent on markets and conditions, but we feel we have a very diversified business. And I think that comes through the results this quarter, across not only our geographies globally but even within the countries, show the different business lines. And so we feel we have a broad base to react to all market conditions, to just to make sure we continue to grow.





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**Linda Sun-Mattison** - Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst

Thank you

**Operator**

The following question is from Meny Grauman from Cormark Securities.

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

Hi. Good Morning. Question on the reinsurance transaction, and as you look at reinsurance, how does it play into your goal to free up capital? Is this a source where you have more potential to free up additional capital? And this is really a point, is this decision here that you announced, is there something that specifically precipitated this decision, the introduction of LICAT, potentially?

**Naveed Irshad** - Manulife Financial Corporation - Head of North American Legacy Business

Okay. Hi, Meny, it is Naveed Irshad here. For this, on the transaction that took place in Q1, it was with a highly rated reinsurer. It was on a level cost of insurance universal life block, about 45,000 policies and \$13 billion of some insured. Essentially, the way it works is that we are responsible for paying the expected cash flows and the reinsurer pays the actual cash flows. Essentially, we transferred full mortality and lapse risk to the reinsurer, and at least the associated capital. Now in terms of whether you can think of this in terms of future transaction, let me just tell you that we are working on a number of other reinsurance transactions on a legacy block. I mean, I think the concept of slicing and dicing the risks and seeding some of the risk and freeing up capital is something that does have the runway.

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

Thank you very much.

**Operator**

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

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

Good morning and thank you for taking my question. Just a question on the Global WAM net flows. Obviously, it was very strong in this quarter across the regions. I was just wondering if you can provide some additional color in terms of the production in the quarter, like how were the full spread across different products in different region? Do you any now have specific products that were particularly favored in the quarter or just more broad-based?

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

Yes, it is Paul here. Those were broad-based across all geographies and all business lines, and so we were quite pleased with that result. And I think it speaks to the diversification of the business we have, locally as well as the geographic diversification.



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

I guess, I were to think about the gross flow that was \$36 billion in the quarter, like what would be the largest transaction that you had, I mean, in terms of single case in the current quarter?

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

I might have to get back to you on that one. We had a number, I think the little institutional flow of \$1 billion from one an existing client. I think that was largest, but we can confirm that.

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

So okay, yes, \$1 billion of \$36 billion, that's still pretty good. I guess, you said you cannot really forecast any growth given the volatility of this business. But can you talk about the pipeline that you are seeing in the coming quarters? Like are there any mandates that you have won, but have not funded yet, or any kind of potential product launch that you are planning to do in the coming quarters?

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

Yes. I guess I will just speak generally. I mean, we are constantly looking at investing in a number of strategic priorities to make sure we have new products, new solutions that we are delivering to our customers. I would really just look historically to the net flows that we have been able to drive over a number of years. And I think it still comes back to where we are located from a geographic perspective, the diversification and really the strength of our distribution globally. And I think the retirement, the institutional and the retail, they really help diversify against one another. Our retirement business is more focused on the platform and individual participants versus the investment solutions, whereas institutional is more of a peer asset management plan. I think that bodes well for our strategy.

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

Got it. And then just a question for Steve Finch. On the LICAT, so you talked about the 115% would be comparable to a 200% MCCSR. But I guess, so should we think about the 115% as your target? Or do you simply target that as to be higher than the 115%? And then additionally, with the pending audit divestitures that are coming up, like, what would be the pro forma impact if you were to complete all the other divestiture today?

**Steven Finch** - Manulife Financial Corporation - Senior EVP & Chief Actuary

Okay, thanks. Yes, so I provided the 115% to 200% more just to give you a sense for how we are benchmarking in the industry. 200% was used by, I think, many in the industry as a benchmark to gauge capital strength. Clearly, we operated well above that. And we would continue to plan to operate with a very strong capital position. Similar to the past, we are not disclosing exact targets, but we are comfortable with our capital position and consider it quite healthy under the LICAT. In terms of the pro forma impact, I think your question was related to the ALDA dispositions. As Phil pointed out earlier, we anticipate that as we achieve that full benefit, it will be 4 percentage points on the LICAT ratio, of which we realized approximately 0.6 in the first quarter.

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

Got it. Thank you.

**Operator**

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



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

Just a quick numbers one. The hedging cost, why don't you break that out anymore? And how is that trending?

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

Thanks, Gabriel. I think you are referring to the macro hedging costs.

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

Yes.

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

So as I think we commented on this when we released the fourth quarter results. We have actually been through the process of shifting to the extent possible, our hedging program to dynamic hedging, which is then embedded within each of our businesses. So really, the macro hedging program is now a diamond in this level and the costs are just inconsequential. You will not see them going forward. If at any point we decide to scale up the macro hedging program, will start disclosing them again.

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

Okay, that was an easy one, so it will not count in my 1 to 2 quota of questions. The real questions, I guess is on the balance sheet optimization transaction that you announced here. So the \$240 million capital freed up and you got an upfront gain. Appreciate you backed that out of the quarter, great. But also no consequential material impact on your earnings on a go-forward basis. So I think of that Balance Sheet Optimization thing is a game of trade-off. And in this case, it did not really give up anything. Like how common do you expect that to be going forward? Is this one special? Or maybe you can walk through some of the trade-off decisions you are willing to make?

**Naveed Irshad** - Manulife Financial Corporation - Head of North American Legacy Business

Hi, it's Naveed Irshad here. Just to clarify, so again, there was \$240 million of free capital generated. In terms of the in-force block, where this transaction took place, there is a sort of a future core earning tradeoff. It was sort of \$11 million through ongoing. Well you can compare that \$11 billion to the sort of \$240 million that was freed up, a sense of you have the actual overall net impact of that is not material. So there is some trade-off. But in this case, we felt the trade-off was favorable for us.

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

Okay, I guess, is that going to be a typical transaction? I know that's probably an overly simplistic question. But I think, given the lack of visibility, of what kind of businesses you have on the books and the legacy blocks, that would be helpful if you could give some sort of qualitative and quantitative assessment.

**Naveed Irshad** - Manulife Financial Corporation - Head of North American Legacy Business

We started with maybe the lowest-hanging fruit, I would say. So I think this one is probably one of the most favorable ones. We think it would work. We talked to our reinsurance partners regularly, talk about different views on types of business. If your existing risk profiles and what works for



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them, works for us. This one was the most obvious one. As I said earlier, there are others that we're looking at. But I would characterize this one is probably, what was the better one.

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

Gabriel, the only other thing I would add is that we want to actually spend a lot of time talking about portfolio optimization at our upcoming Investor Day. That and cost will be the 2 key focus areas. So what we are hoping to do there is to give you a little bit of color on our game plan, our thinking from a prioritization perspective. I will demonstrate also some of the actions that we have taken today, then what we see is that perhaps more short- and medium-term opportunities and perhaps where our thoughts are from a longer-term perspective. So we really think this is an important area of focus for us. Naveed's been in the role now for 4 months or so. And I think it is the right time to give you more color, and that is clearly what everyone is looking for.

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

Okay, I cannot wait. My next one is on the experience gains line. So I know there is a lot that goes into that line. Consolidated on a core basis, \$18 million positive. You talk about policyholder experience being positive in the U.S., offset by charges in Asia. But when I look at Asia, it looks like it was flat. There is nothing going on there. So can you help me kind of understand what's policyholder experience? Why Asia had no policy experienced gains and losses? And what the offsets are?

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**Steven Finch** - Manulife Financial Corporation - Senior EVP & Chief Actuary

Sure, Gabriel. It is Steve here. So in addition to policyholder experience, what we are showing in the core experience gains or losses includes expense-related experience, a number of other smaller items as well as in Asia, it includes our unallocated regional overhead costs. In terms of what was going on in Asia, yes, you can see that it was the total experience gain was neutral in the quarter. We had some favorable reinsurance items that was offset by the impact of expenses and some modest policyholder experience losses. And then in the U.S. and in Canada, what was going on in terms of policyholder experience was, as I mentioned earlier, the impact of elevated mortality level, so losses in Life Insurance, but gains in annuities and in Long-Term Care. And in the U.S., the last piece of sort of translation between policyholder experience and the experience gained line was, as we had noted in our disclosures, a onetime reinsurance gain.

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

Okay. I will leave it at that. Thanks.

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**Operator**

Thank you. The following question is from Tom MacKinnon of BMO Capital.

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

Thanks very much. Good Morning. Roy, you mentioned the actions you are taking to improve expenses, and you cite \$70 million pretax and expense saves as result of some of the rationalization of real estate in the U.S. and consolidation of IT vendors. How much of this amount that you mentioned would flow to the bottom line? Or does it all just kind of get reinvested? And I have a follow-up.



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

Well, that's, I think, that's a very important question, Tom, and one that we have to provide a lot more clarity on. So what I will start by saying this again, at Investor Day, we are really going to be focusing in on our expense ambition, what our targets are, at least the range of our targets and how we are planning to go about that. And whilst we clearly need to continue to invest in the franchise, we want to see a very significant improvement in our run rate as it relates to growth. Phil, you might want to add?

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

Yes. Thanks, Tom, for the question. I think it is fair to expect about half of that to flow through to the bottom line in 2019. The other half of it will take a number of years to reach full execution. But I think the point is that, here, we enter execution. So Roy commented that managing the cost base of the organization is a very important priority to us. We have already got started. We saw the growth rate of our expenses come down in 2017. We are very focused, now that we are in 2018 on making some important strategic decisions that help us to take costs out of the organization. And this is really is the start of that, so we will share more at the Investor Day.

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

Okay. And then a follow-up for Steve Finch. Just to help us understand kind of your risk tolerances now with LICAT and maybe your approach to target capital under this framework. Can you share with us some of the assumptions that go into your pricing with respect to LICAT, and how to relate it to MCCR? I believe you said you sort of priced to a 14% hurdle, let us say, for North American Insurance. And what did you assume for an MCCR when you priced to that hurdle? And what do you assume for a LICAT ration, when you price this hurdle now?

**Steven Finch** - *Manulife Financial Corporation - Senior EVP & Chief Actuary*

Yes, thanks, Tom. I guess what I would point to is, we disclosed in our Embedded Value Report the assumptions underlying our embedded value, and we are not really changing those items. With respect to how much capital we are pricing for, we have not changed our philosophy, and we will be pricing for a similar level of capital as we are under MCCR. What will be different is that some of the risks will generate higher capital under LICAT versus MCCR, such as long-duration guarantee businesses. But other business lines will actually generate less required capital in the products, such as adjustable products and participating products. But really, no change in the overall target returns that we are looking for, or in how much capital in total we are allocating to new business.

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

Right. And you were held to somewhat of a higher capital standard versus under the MCCR, in part due to the fact that, that calculation was not as robust enough with respect to some alternative assets. Now that LICAT is, do you see yourself in around, less than what a 220 would have been, say, under MCCR, it may be closer to a 200? I am just trying to gauge this because the way we are -- we have got a much more robust capital standard now.

**Steven Finch** - *Manulife Financial Corporation - Senior EVP & Chief Actuary*

Yes. So under the new capital standard, it is more risk-based. It reflects the risks in the underlying businesses. And when you look at our in-force, we are seeing higher capital requirements related to ALDA and long-duration guarantee businesses. We are seeing less capital on our, because of the reflection of the underlying risk on our participating and our pass-through business. In terms of our new business portfolio, relative to 5 to 10 years ago, where we have shifted strategically, where we are writing far less of those products with much greater risks. So our new business portfolio, we have made the strategic changes to be an effective strategy, a product strategy under LICAT. Now we will, as you can imagine, we will be evaluating on a product-by-product basis, reinsurance, asset strategies. But I view that as more tactical. We have made the strategic changes that we needed to make.



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

Ok. Thanks.

**Operator**

Thank you. The following question is from Sumit Malhotra of Scotia Capital.

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

Thank you. Good Morning. I want to start with Phil, going back to the experience line. And it is helpful to provide this on a quarter basis since it strips out a lot of the market volatility that we have seen from the company over time. But just, first off, clarify what is in here now. When we look at the core experience line, am I right to say that this is now essentially showing us only the trend in what happens with policyholder experience relative to your assumptions and expenses? So there is no more market factors in here?

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

Thanks, Sumit. It takes out all of the investment components that fall outside of core earnings. The core components of experience includes everything else, the principal points being a policyholder experience and expense, expense experience. So you are right.

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

So and that leads to the obvious one on the numbers that you have provided us. The last 2 years, I will average here the experience line on this new core basis on a full year basis was a \$650 million dollar per year loss, and you have got a slight positive here today as was referenced. So what is the bigger delta here from where you were running the last 2 years this quarter? You have talked about LTC being a modest positive. There was a comment on Canada having improved disability experience. What was the bigger source of improvement relative to where you had been running? Is it a policyholder side? Or in your view, is it significant outperformance on expenses?

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

Yes, I will hand over to Steve to elaborate on that one in more depth.

**Steven Finch** - *Manulife Financial Corporation - Senior EVP & Chief Actuary*

Maybe I could go back to what our policyholder experience has been, to give you a sense for how to gauge the first quarter here, and we have disclosed the policyholder experience in the past. It has ranged from, in 2017, from losses, from \$30 million to about \$90 million pretax the -- (interrupted).

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

Per quarter?



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**Steven Finch** - *Manulife Financial Corporation - Senior EVP & Chief Actuary*

Per quarter. And of just one item of note is that line was reported at the P&C claim that we had incurred in the third quarter, so I have not included that in there. But this quarter was favorable relative to past quarters, being roughly neutral in the quarter.

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

All right. So from that, you are telling me that there was a significant improvement on the policyholder side?

**Steven Finch** - *Manulife Financial Corporation - Senior EVP & Chief Actuary*

Yes, and if you recall, the last couple of basis changes. We had strengthened our LTC assumptions and saw a benefit in the experience gain line. Last year, we had disclosed that as part of the assumption reviews, we have further strengthened reserves and improved that policyholder experience line. We will see this continue to bounce around quarter-to-quarter, but Q1 was a favorable result.

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

And I will tie in the expense commentary here, and maybe this is more for Roy or Phil. I don't want to set the bar too high for June 27. I am sure that is already taking place internally. But the commentary on efficiency being a major initiative going forward, you mentioned just now that some of the U.S. savings or half of it will hit the bottom line. You have also given us this unallocated overhead disclosure, and that something that has been talked about with respect to Manulife for a couple of years. In your view, Roy, for us on the outside, what is the best way to measure your progress on the efficiency mandate? And I do not want to go too long here, but I think in previous years, it was commentary from the company that we have reached an initiative or exceeded it. But it was difficult to see where it was actually benefiting the financial performance. So there is a lot there, but just wanted to ask you, what do you think is the best metric for us to track on how Manulife is progressing on efficiency?

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

Yes, look, thanks Sumit, and it is really good question, and it is the one that we spent a lot of time discussing internally as a management team. And appreciate the frustration that maybe we have not been as transparent as you would have liked, in relation to the efforts on expenses in the past. So I am going to sort of pump this a little bit to our Investor Day because we are going to spend a lot of time focused on how you should be measuring up and how we are holding ourselves accountable to a higher bar on expenses. And a big part of that will be to demonstrate how it drops the bottom line. We think it is critical that you see a tangible, I guess impact of our expense efforts and that it is not just a reporting exercise. So I am going to pump that a little bit and just sort of ask you to wait until our June Investor Day. But it is a huge area of focus for us. We are really being very bold on our focus efforts. And we think that we have got a good game plan that will get us to what we are trying to achieve.

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

I will wait patiently for the, or maybe impatiently for the 27th of June. Last one for me. We talk a lot about the legacy assets at Manulife. One asset I feel like we have not discussed very much and maybe we are getting a chance to do more of it now, is Manulife Bank here in Canada. You have given us some disclosure that shows us it is a \$200 million pretax business. I also, for the first time in what feels like a few years, seem to be seeing a lot more advertising for Manulife Bank. So simply put, is this a legacy asset that you do not view as core to the future of the company going forward? Or is that not the right way to think about it?

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

So we do not see Manulife Bank as a legacy business. I will ask Mike to provide some commentary, but we have really made some great progress with our bank. And quite frankly, when we talk about holistically meeting our customer needs, we are thinking how we can really integrate the





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bank more into that offering. But I will really hand over to Mike, because he has spent a lot of time with the team thinking about this and strategizing on how we can do better on that front.

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

Yes, thanks, Roy. I mean, I think you have covered a lot of it. I know there have been other questions just about the disclosure. And I think it is really just reflecting that the bank has grown to become an important part of our business. We do view it as a great differentiator for us. And we serve about a third of all the Canadian households. None of our kind of core competitors can offer some of the things that we can offer through Manulife Bank, so we do think that there is a strategic value to it from our perspective, in terms of not only reaching new Canadians but more deeply serving the customers that we do have.

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

Thanks for your time guys.

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**Operator**

The following question is from Paul Holden of CIBC.

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

Thank you. Good Morning. Two questions. So first, I want to go back to the discussion on policyholder experience and particularly for Canada. So group disability is a line of business that seems to bounce a lot around from quarter-to-quarter, not just for Manulife but also for your competitors. So wondering if there is specific actions you can point to that would suggest going forward, the experience might be more consistent or, and/or more favorable?

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

Yes, it is Mike. Again, I will take this one. Certainly, group disability is a business that the experience does bounce around. We pay a lot of attention to that line of our business. And as you know, it is an area that, where you can impact the price in a number of ways. You can do it by working with individual plans to change their plan design and to pay attention of the disability happening in their companies. You can do it through repricing, which we do on an annual basis based on experience and working particularly with plan sponsors. And of course, we can do it through very active management of the business. So it is in the area where we had unusually bad results in Q1 of last year. We have seen a big improvement, but we continue to be very, very focused on that area.

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

Okay. And then second question is with respect to LICAT. I want to get a better sense of how you are thinking about the total ratio versus core and maybe how or at least your understanding of how OSFI is thinking about total versus core? My view and understanding is that total is the focus for now, but core over time to become more of a focus.

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**Steven Finch** - *Manulife Financial Corporation - Senior EVP & Chief Actuary*

Sure, it Steve. I will take that one. Just remind everyone that under the LICAT ratio, there are now 4 ratios, total and core for both operating company and holding company. That is actually the same as under MCCR. So that is not new. I think, though, your comment that over time, core is a focus of the regulator as part of their supervisory framework to focus on the level of equity-like capital. And currently, we are continuing with our past



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disclosures of focusing on the operating company total ratio. We think that is appropriate. And I think it is an indicator of the overall strength of the capital position of the company, and we will see how it evolves over time.

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

Thank you.

**Operator**

The following question is from Mario Mendonca of TD Securities.

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

Good Morning. Just kind of hard to poke holes in this quarter, but I am going to give it a try, anyway. If we look at the Asia business, new business gains, they remain strong, no doubt, but we are not seeing the level of growth this quarter that we have seen throughout 2017/'16, I think, going back a fair bit. What is your outlook on new business gains, specifically in Asia? And maybe you could take that in the context of both the volume of sales and the margins on those sales.

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

Yes, hi. So this is Anil here and I will take that. So if you look at the trajectory in quarter 1, I think the Hong Kong and other Asia combined has kind of grown pretty well. So if you were to kind of remove the impact of Japan, the growth in APE is at 14%, and the growth in NBV is 28%. And that is on account of the fact that we are seeing some good, consistent momentum in markets like Hong Kong, Singapore, China, Indonesia and Vietnam. And you have kind of seen that trajectory pretty much throughout 2017. We believe that we have kind of got the focus on building the foundational stuff, so be it expanding distribution, leveraging our banker relationships, investing in customer experience as well as building up digital properties. And some of this impact is starting to kind of make its way in terms of the impact that you are kind of seeing on new business gain. Also, we are getting scale in a lot of markets, Hong Kong being a great example of that. And as we start to kind of get sequential growth in some of the other Asia market, you will see some of those benefit translate to the new business gain, and to new business values. So we feel pretty confident, and hopefully, we will be able to demonstrate sustained growth in the coming quarters as well.

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

I will just add, if you do not mind, Mario. I will just add to Anil's comment that, he highlighted x Japan. Our new business value grew about 28%. And Japan had an exceptional quarter in 2018. In fact, new business value grew 50% in Q1 of 2017 versus the prior year, and there are a variety of reasons for that. But we really are delighted with the progress across our markets. We are building scale. And we have said in the past that scale is the path towards improved margins, and we feel that, that trajectory will continue.

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

So you feel like Japan will continue to make a contribution to new business gains going forward?

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

Yes, we do. We do. We think, there are some headwinds there, the competitive pressures on some of our products and some of our distribution channels will be something we will have to work hard to overcome, but that is not something that we have not had to do in the past.



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

Okay. And then just finally, on Asia. Looking at expected profit, and one measure I look at, I suspect others do as well, is your expected profit to the average assets in the business, so it is just a way of looking at a margin, if you will. That margin has shown a little bit of deterioration over time, to the extent that we have the new disclosure, or we are only going back a few quarters now, of course. Is there anything you could highlight because it would appear that the embedded profit in this business has started to shrink a little bit. And I am trying to understand, this is, guys, on a per-dollar basis, of course. I am trying to understand what are we seeing here? Why would this margin be coming off a little?

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

So I will kind of speak to that end, and maybe Phil can then kind of offer his kind of comments. But if you specifically look at the new business value of margin, that has kind of improved year-on-year. And that is on account, Roy mentioned about the scale that we are kind of getting in, in a few markets as well as some of the product mix changes that we are driving in certain geographies. So that is starting to kind of translate into some of the margin improvements that you are witnessing.

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

But I was referring to expected, sorry, just to be clear, I was not referring to the new business margin. I was thinking about the expected profit average assets. Is it just not something you have focused on? And maybe it is not even fair to ask that question, because it is something I care about, but.

**Steven Finch** - Manulife Financial Corporation - Senior EVP & Chief Actuary

So Anil, or sorry, Mario, it is Steve. I think Anil's highlighted the key point that we view that value generation from the Asia new business is increasing. I think your question is more of where is it showing up in the results. It will show up in the new business gains, the expected profit on in-force. And maybe we will take it away, because we have not sort of looked at it in that fashion, in terms of which individual component would be contributing to the increases. Certainly, new business gains have been a driver.

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

Sorry, and I think, and just to supplement, I think it is fair to say that we are not seeing a dilution of our total value of the business generated in Asia, so as our scale has grown, it is remained as profitable as it was in the past.

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

Can I just restate the question, because I am not sure I expressed it properly. What I am getting at is expected profit. Nothing to do with new business gains, now. I am talking about the actual expected profit. Is that the question you are answering? And then maybe we are not interpreting it correctly?

**Steven Finch** - Manulife Financial Corporation - Senior EVP & Chief Actuary

I think that is the question we should take away. Your question is the expected profit relative to the assets.

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

Right. Okay. Is it something that you do not look at, that is fine. That is the way I think I look at it. And I suspect a lot of people do, and that margin has been deteriorating. But if it is something maybe would take offline, it would be helpful. Thank you.

**Operator**

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

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

Hi. Good Morning. Lots of my questions have been asked and answered. But Steve, maybe just on the Long-Term Care insurance, in light of recent events and the questions that I seem to be getting, I think there is still confusion as the difference between you and your U.S. peers. And so I was hoping maybe you could just flesh that out a little bit more. That is my first question.

**Steven Finch** - Manulife Financial Corporation - Senior EVP & Chief Actuary

Sure. So I think on the reserving, and I would state as well, that we are planning on providing additional information at Investor Day. It is been clear, that has very clear feedback that there is a desire for more information, and we do intend to do that. The real differences in the reserving is that we have been updating assumptions frequently over time. The U.S. companies really only update assumptions under their reserving regime once all the margin's gone. So the fact that we have been updating assumptions all the way along prompted us to be very early to be raising premiums on the in-force business, and that has been a key hallmark of managing that business. On the reserving front, we have got, under our IFRS reserves, as we have updated them over time, we have a 30% higher IFRS reserves versus NAIC reserves, which represents very significant margins to defuse the future claims. Another difference that I point out is that under the Canadian standards, I am subject each year to a full review of our actuarial assumptions by a professional third-party reviewer, which is not a requirement in the U.S. And in terms of the mix of our business, this is where we will provide more information at Investor Day. But one factoid: In terms of the underlying risk of our portfolio, I believe is relatively less than industry average. One point is the amount of lifetime benefits, which are the riskiest benefits in the business. That is 14% of our policies, have lifetime assets. So I think those are the key differences, and we look forward to providing more at Investor Day.

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

And just that 14%, you know what it would be for the industry?

**Steven Finch** - Manulife Financial Corporation - Senior EVP & Chief Actuary

I do not have an average number. I know it is higher, but I do not have an average.

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

No, that's fair. And then maybe Roy or Phil, just when I think of in your business value margin expanding but new business value as a whole, it was flat. And I know last year is a tough comp on the sales side, with single premium sales in Japan and increased competition, and no BOLI sales or COLI sales or getting out of that business in the U.S. and in Canada, it was a tough comp. But when you look at this, which is more important, is it new business value margin expansion? Or is it just absolute new business value growth?



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

They are clearly both important, but I would certainly prioritize new business value. Absolute value increasing is certainly a big priority. The margin reflects the, I guess, the underlying profitability of the products that we are writing. And whilst it is flat, total new business value, it does, as I mentioned earlier, it is a bit of an unfair comparison, because Q1 was an exceptional one, not just for Asia but actually for other parts of our business. And again, I cited the 50% growth in Japan which is a serious contributor to the new business value for our Asia business. But the profitability of the business that we are booking is a key driver and a key way that we are looking at, as the quality of our sales, so this will continue to be a big focus for us.

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

Yes, I completely agree with everything that Roy said. And the way we think of this is, that with the focus being on absolute value generation, one of the tools that we have at our disposal is improving mix, generating higher margin. That contributes to improved NBV. But of course, the other component is growth in our scale. And whilst we have not seen that the growth in the overall scale, this quarter it is something that we remain confident about in the future as the demographic demand, particularly in Asia, remains very strong.

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

Okay. Thank you.

**Operator**

Thank you. The following question is from Darko Mihelic of RBC Capital.

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

These are questions for Steve, with respect to LICAT. The first question, Steve, is I calculate a core ratio of 90% at MLI, is that correct?

**Steven Finch** - Manulife Financial Corporation - Senior EVP & Chief Actuary

That is correct. And just for everyone, it can be calculated off the supplement. The information is available in the supplement for that calculation.

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

Okay. And secondly, though, when it comes to the MFC's LICAT ratio at 117, you say predominantly \$4.9 billion of senior debt is deducted, but there is still something else, because I need to get to past \$6 billion. What else is being removed from that ratio? The reason why I ask is I am trying to also calculate the core for MSC.

**Steven Finch** - Manulife Financial Corporation - Senior EVP & Chief Actuary

The biggest item is the one you mentioned. I do not have handy what the other items are, but we can follow-up offline.

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

Okay. And I guess, lastly, Steve, the reason why I am asking these questions, of the 3 ratios that I see, you mentioned in your prepared remarks that you have about \$16 billion dollars of capital over and above the supervisory target for the total ratio, but it is only \$15 billion for the MFC LICAT



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ratio, and it is only \$11 billion using the core ratio. So in other words, the core ratio seems to be the one that is the binding constraint, not the total. So I guess the question is, why should I not look at the core ratio because you only have \$11 billion of buffer there, if I burn down your equity by that much, you would trip that ratio long before you tripped your total.

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**Steven Finch** - *Manulife Financial Corporation - Senior EVP & Chief Actuary*

Yes. So in terms of the various ratios, I think we have got a healthy position on all of our ratios. One of the things, in terms of transitioning to the LICAT, there were some changes in terms of how some of the debt that we raised counts as capital. We have been transitioning over time our debt structure, which benefits the MLI core ratio over time. So that is why I say, over time we believe that the MLI total ratio will be a good indicator of the overall capital strength.

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

Okay. Thank you.

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**Operator**

(Operator Instructions) Thank you. The following question is from Steve Theriault of Eight Capital.

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

Just a couple of follow-up question for me. If we could circle back, just quickly to the, all the disposals, you are 15% of the way there, as you mentioned, and you show it in the deck. But you mentioned you have commitments for additional transactions. Can you size that up for us? Or I guess, give us a sense of what percent of the assets have been dealt with so far on more of a pro forma basis?

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

Yes. Steve, it's Scott Hartz here. So as you point out, for first quarter, we have got 15% of our goal. I think we also announced the sale of 2 real estate properties for \$500 million that was publicly announced, so we did not include that disclosure this time. And that will further us towards the goal. We have been a little circumspect around describing exactly the amount of assets we plan to sell and what specifically they are for sort of the obvious reasons. So I guess, I just give you the bigger picture in that we are ahead of the pace we had assumed internally, and we remain very confident that we will get to our goals by the end of the year.

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

Are you saying that \$500 million is included in the 15%? I don't think so, right? So if I, if it's \$300 million and \$500 million, is that like 40% of the way there?

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

So again, and no, the \$500 million is not included in the 15%. So that furthers our progress. And that will occur in the second quarter, but there are other things on the go as well in the second quarter, so we will achieve more than that in the second quarter.



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

And just to clarify, the \$300 million benefit that we referred to earlier, that is a capital benefit. The \$500 million that Scott is referring to is the fair value of the real estate that has been transferred to the REIT.

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

Got you. Okay. And then secondly, I know it is the part where we are just getting into, I know it is a priority to improve the overall momentum in Canada, and I noticed a couple of times on the call today that par products were mentioned in a favorable light. Is there any consideration being given to reintroducing a traditional par product in Canada at this point?

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

Yes, it is Mike here. Actually, yes, there is. And there was discussion earlier about, under LICAT the fact that these products have significantly better capital treatment than some of the sort of guaranteed long-duration products. It also represents about 50% of all the sales of Life Insurance in Canada. So we have been actively working to re-enter the participating space, and we expect to do that by the end of the second quarter, and so we are quite excited about that opportunity.

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

Okay, that is great. And then last for me, to Steve Finch, please, in the Long-Term Care, some good disclosure on mortality helping this quarter, so maybe this is a little granular, but when as your competitors have been having issues, there has been no obviously talk of incidents of claim and last. Can you give us a sense this quarter what the experience was like in terms of claims incidents and lapse in the Long-Term Care block?

**Steven Finch** - *Manulife Financial Corporation - Senior EVP & Chief Actuary*

Yes, we did see some higher levels of claims incidents in Q1. That is pretty typical. Seasonally, we tend to see that. But that was more than offset by the impact of elevated levels of mortality on both the active life and on our, on the policies on claim as well, so higher claim terminations. Those were the key drivers in the quarter.

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

Okay. Thanks for that. Appreciate it.

**Operator**

There are no further questions registered at this time. I will turn the meeting back over to Mr. Veloso.

**Robert Veloso** - *Manulife Financial Corporation - VP, Investor Relations*

Thank you, operator. We will be available after the call for some follow-up questions. And if not, have a good morning, everyone. Thank you.

**Operator**

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





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