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MFC.TO - Q4 2020 Manulife Financial Corp Earnings Call

EVENT DATE/TIME: FEBRUARY 11, 2021 / 1:00PM 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 Fourth Quarter 2020 Financial Results Conference Call. Your host for today will be Ms. Adrienne O'Neill. Please go ahead, Ms. O'Neill.

Adrienne O'Neill - *Manulife Financial Corporation - Global Head of Investor Relations*

Thank you, and good morning. Welcome to Manulife's earnings conference call to discuss our fourth quarter and year-end 2020 results. We are conducting this call virtually.

Our earnings release, financial statements and related MD&A, statistical information package and webcast slides for today's call are available on the Investor Relations section of our website at manulife.com.

Turning to Slide 4. We'll begin today's presentation with an overview of our fourth quarter and year-end highlights and an update on our strategic priorities by Roy Gori, our President and Chief Executive Officer. Following Roy's remarks, Phil Witherington, our Chief Financial Officer, will discuss the company's financial and operating results.

After the prepared remarks, which were recorded earlier this week to ensure optimal sound quality, we'll move on to the live question-and-answer portion of the call. We ask each participant to adhere to a limit of two questions. If you have additional questions, please re-queue, and we'll 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 40 for a note on the use of non-GAAP financial measures in this presentation. Note that certain material factors or assumptions are applied in making forward-looking statements, and actual results may differ materially from what is stated.

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

Roy Gori - *Manulife Financial Corporation - President & Chief Executive Officer*

Thanks, Adrienne. Good morning, everyone, and thank you for joining us today. 2020 was an incredibly challenging year in many respects. Countless people were affected by illness and loss as well as isolation from loved ones, putting stress on their physical and mental health and creating anxiety for their financial well-being.

We offer our deepest sympathies to those who have been directly impacted by illness and loss, and our immense gratitude to all frontline workers globally for their incredible efforts through this unprecedented time.

I also want to thank every colleague along with our agents and business partners for all they have done to make decisions easier and lives better for our customers over the past year.

Turning to Slide 6 and our 2020 financial highlights. In 2020, we delivered net income of \$5.9 billion, an increase of \$269 million from 2019. Core earnings of \$5.5 billion declined nine percent from the prior year despite positive core earnings growth in three of our four operating segments, including Asia and Global WAM. The decline was primarily due to the absence of \$400 million of core investment gains in the current year.

APE sales were \$5.6 billion in 2020, down only eight percent from the prior year, reflecting our ability to leverage digital capabilities to engage customers despite the constrained selling environment. Our capital position remains strong with a LICAT ratio of 149%, and we continue to have substantial financial flexibility.

And finally, Manulife's total AUMA reached \$1.3 trillion, the highest in our company's history, and global WAM delivered net inflows of \$8.9 billion in 2020, an outstanding result in the current environment.

Turning to Slide 7. As you've heard me say in the past, Manulife's global diversity is one of our greatest strengths, and I'm very pleased with the resilience that our franchise exhibited throughout 2020 and the results that we delivered despite significant headwinds.

Manulife entered 2020 in a position of strength thanks to the hard work that we've done over the years to de-risk our product offerings; reduce the company's sensitivity to market movements; optimize our legacy portfolio and strengthen the company's capital position; reduce our leverage; and last, but definitely not least, make meaningful investments in digital capabilities, whilst fostering a culture of expense discipline and efficiency.

Our continued momentum and strong financial performance have resulted in a history of progressive dividend increases over the last five years. Markets were extremely volatile throughout 2020, and the relatively small variance between Manulife's net income and core earnings is a testament to the effectiveness of our equity and fixed income hedging programs.

We have a strong record of delivering robust growth in new business value, and while this figure declined versus the prior year, the fact that we generated new business value of \$1.8 billion in 2020, despite significant headwinds, exemplifies the strength and diversity of Manulife's global business. I'd like to take a few minutes to comment on the outstanding results that our two growth engines, global WAM and Asia, delivered in 2020.

The turning to Slide 8. Our Global Wealth and Asset Management businesses performed very well in 2020. AUMA reached a record high of \$754 billion, an increase of 12% from 2019, benefiting from favourable markets and positive net flows. And our core EBITDA margin has improved considerably over the last five years, up 470 basis points, which reflects healthy top line growth and resilient fees, coupled with additional scale and a disciplined approach to expense management.

Our global retirement business delivered strong growth in 2020, fueled by record gross flows in Indonesia and capturing 35% of Hong Kong MPF net flows as well as the top market share position for our new business in our target markets in Canada and in our core small business market in the U.S., and in Canada retail, our mutual fund business ranked number three in terms of net flows on a cumulative three-year basis, with bank-owned fund companies taking the top two positions. Our success was driven by superior investment performance and the impact of Manulife securities, the second largest investment dealer in the financial advice channel in Canada.

Turning to Slide 9, which showcases the diversity and resilience of our businesses in Asia. Our strong and diversified presence across 11 markets in Asia was a key factor in delivering solid 2020 results in the region despite significant headwinds.

You will notice that Asia Other, which includes many of Asia's fastest-growing emerging market economies, delivered exceptional results, including record core earnings and NBV, along with impressive margin expansion as we continued to build scale. The prominence of Asia Other has grown considerably in the last few years, with Asia Other contributing 43% of Asia's NBV in 2020 compared with 29% in 2016. Strong execution was another crucial driver of our success, and I could not be more proud of how the team stepped up to quickly adapt to the changing needs of our customers throughout the region.

Turning to Slide 10, which displays our market rankings and distribution capabilities. Our Asia franchise emerged from 2020 in a stronger position, with higher market rankings in six markets, and Manulife ranked in the top five in seven markets in Asia. Manulife has a well-established agency force, which is reflected in our top ranking for agency sales in Hong Kong, China, Vietnam, Indonesia and Cambodia.

Through the organic deployment of capital, we continued to recruit high-quality agents throughout 2020, increased our agency force by 21% to over 115,000 agents. In addition to agency, our non-exclusive bancassurance partnerships and more than 100 bank partners have been key drivers of our success.

During 2020, we entered into an exclusive bancassurance partnership with VietinBank, one of the largest banks in Vietnam. And we renewed our exclusive agreement with Bank Danamon Indonesia, extending our partnership to 2036.

The deal with VietinBank is pending approval and once it closes, we'll have access to over 30 million customers through exclusive partnerships, commencing our position as one of the leading insurers in bancassurance distribution in Asia. Outstanding distribution capabilities are the backbone of success for an Asian insurer and serve as a leading indicator of growth potential.

Based on the quality of Manulife's distribution capabilities as well as our increasing scale and improving market rankings, I'm confident that we will achieve our 2022 target of 2/3 of core earnings generated from our highest potential businesses.

Turning to Slide 11. Our strategy is sound, and we continue to execute on our five strategic priorities throughout 2020. We generated \$780 million of additional capital benefits from our legacy businesses in 2020. The portfolio optimization initiatives announced to date have resulted in cumulative capital benefits of \$5.9 billion, and we will continue to pursue opportunities to further optimize our legacy portfolio.

This will include both organic and inorganic initiatives, and we will execute if they are in the best interests of our shareholders. We have a mature expense efficiency program with processes in place that enable us to be responsive to headwinds such as those encountered throughout the

pandemic. As a result, our core expenses declined by three percent in 2020, and our expense efficiency ratio of 52.9% exhibited resilience when compared with 52% in 2019. I'm pleased to announce that we have successfully completed our 2022 target of delivering \$1 billion of expense efficiencies, two years ahead of schedule, which Phil will discuss in more detail.

Our third priority is to accelerate growth in our highest potential businesses, and we aspire to have these businesses generate 2/3 of total company core earnings by 2022. Our highest potential businesses accounted for 66% of total company core earnings in 2020. However, it's worth noting that this figure benefits from the absence of core investment gains in this denominator. Normalizing for this item, our highest potential businesses would have contributed 62% of total company core earnings, which is a five percentage point increase over 2019.

Our fourth priority is about our customers and how we're using technology to attract, engage and retain customers by delivering an outstanding experience. We've invested over \$650 million in digital capabilities since 2018, and the impact of these investments on our operations is visible on Slide 29, which shows our digital KPIs.

At the start of 2020, I mentioned that our NPS score will be the ultimate test as to whether our digital capabilities are working. I'm happy to report that we achieved a Net Promoter Score of plus 12 in 2020, which is an 11-point improvement from the 2017 baseline and a 4-point improvement from 2019. This is a reflection of our ability to quickly adapt to the current environment, listen to our customers and leverage our digital capabilities to best serve our customers.

Our final priority is around building a high-performing team and culture. Our target is to achieve top quartile employee engagement compared to global financial services and insurance peers by 2022. And I'm proud to say that we made significant progress on this front in 2020. We ranked in the 80th percentile amongst global financial services and insurance peers on our employee engagement survey, a top quartile position and a significant improvement compared to 2019. And Manulife was voted one of the world's best employers by Forbes, ranking in the top 100 globally and one of only three financial services companies ranked in the top 100.

Finally, we're committed to invest more than \$3.5 million to promote diversity, equity and inclusion, through expanding hiring commitments, education and community support for organizations helping Black, Indigenous, and people of colour.

Moving to Slide 12. To conclude, I'm pleased with our fourth quarter and full year 2020 performance, which continues to showcase our consistent track record of execution. We delivered strong results in 2020, despite significant headwinds and remain committed to both our dividend and medium-term financial targets. There continues to be a high degree of uncertainty as we enter 2021. However, the long-term fundamentals and demographics underpinning our strategy remain unchanged, and I'm optimistic for Manulife's future.

I believe that we will unlock significant shareholder value by continuing to deliver strong results, executing against our five strategic priorities and making progress against the targets that we've established.

Thank you, and I'll hand over to Phil Witherington, who will review the highlights of our financial results. Phil?

Phil Witherington - Manulife Financial Corporation - Chief Financial Officer

Thank you, Roy, and good morning, everyone. Turning to Slide 14 and our financial performance for the fourth quarter and full year. As Roy discussed, in 2020, we delivered solid operating results and made consistent progress against our five priorities, demonstrating our resilience, amid a challenging environment. I will highlight the key drivers of our fourth quarter and full year performance with reference to the next few slides.

Turning to Slide 15. Core earnings remained solid at \$1.5 billion in the fourth quarter of 2020, largely in line with the prior year quarter on a constant exchange-rate basis, reflecting the absence of core investment gains in the quarter and lower investment income in Corporate and Other. These items were offset by the favourable impact of in-force business growth in Asia and the U.S., higher average AUMA in our Global WAM business and lower general expenses.

Net income attributed to shareholders of \$1.7 billion in the fourth quarter was up \$0.6 billion from the prior year quarter on a constant exchange-rate basis, primarily due to higher investment-related experience gains, gains from reinsurance transactions compared with losses in the fourth quarter of 2019 and a lower charge from the direct impact of markets.

Of note, we recognized a gain of \$585 million from investment-related experience in the fourth quarter of 2020, reflecting the favourable impact of fixed income reinvestment activities, higher-than-expected returns on our ALDA portfolio, primarily driven by fair value gains on private equity and the value of proceeds from the sale of NAL, and favourable credit experience, partially offset by lower-than-expected returns on real estate.

The loss of \$674 million in the fourth quarter from the direct impact of interest rates was driven by narrowing corporate spreads, primarily in the U.S., partially offset by realized gains on available for sale bonds. The gain of \$351 million from the direct impact of equity markets reflects the strong performance of global equity markets in the fourth quarter of 2020.

Slide 16 shows our source of earnings analysis. Expected profit on in-force increased by seven percent on a constant exchange rate basis, driven by in-force business growth across Asia and the U.S. As I mentioned last quarter, we continue to view six percent as a reasonable annual growth rate for our expected profit on in-force. New business gains were in line with the prior year quarter, reflecting favourable product mix in Hong Kong and Vietnam, offset by lower sales volumes in our international high net worth business related to COVID-19 and the lower sales from both group and individual insurance in Canada. As a reminder, our international high net worth business rolls up to the U.S. segment.

Overall policyholder experience in the fourth quarter was unfavourable, reflecting mortality losses from excess deaths in U.S. Life, partially offset by the impact of higher claims terminations in Long-Term Care and favourable claims experience in Long-Term Disability in Canada.

Core earnings on surplus declined compared with the prior year quarter, largely due to lower yields and change in asset mix, partially offset by higher average asset levels and the favourable impact of markets on seed money investments.

Turning to Slide 17, where I will comment on fourth quarter results compared with the prior year quarter. Core earnings increased by 15% in our Global WAM business, reflecting higher average AUMA and continued disciplined expense management. Core earnings in Asia increased by 16%, driven by in-force business growth from across Asia, new business gains relating to more favourable product mix in Hong Kong and Vietnam and disciplined expense management, partially offset by lower new business volumes in Hong Kong.

Core earnings in Canada increased by 10%, driven by favourable policyholder experience in insurance. In the U.S., core earnings were at a similar level to the prior year, reflecting higher in-force earnings and lower expenses, offset by unfavourable policyholder experience and the nonrecurrence of tax benefits in the fourth quarter of 2019.

Core losses in our Corporate and Other segment increased by \$137 million compared with the prior year quarter, reflecting the absence of core investment gains and lower investment income, partially offset by the favourable impact of markets on seed money investments.

Slide 18 shows our new business value generation and APE sales. Our NBV and APE results improved in the fourth quarter of 2020 relative to earlier in the year, and while much uncertainty persists regarding how and when global economies will emerge from COVID-19 containment, we are nonetheless encouraged by this trend. In the fourth quarter of 2020, we delivered new business value of \$489 million, down seven percent from the prior year quarter.

In Asia, new business value decreased five percent from the prior year quarter due to lower sales volumes in Hong Kong and a less favourable product mix in Japan, partially offset by higher sales and a more favourable product mix in Asia Other. In Canada, new business value increased 10% from the prior year quarter, primarily driven by higher margins across all business lines, partially offset by lower volumes in both group and individual insurance. And in the U.S., new business value decreased 26% from the prior year quarter, reflecting lower sales in our international business.

In the fourth quarter of 2020, we delivered APE sales of \$1.4 billion, down five percent from the prior year quarter. In Asia, APE sales increased by two percent from the prior year quarter as growth in Japan from COLI and growth in Vietnam and Singapore was partially offset by lower sales in Hong Kong due to the tightening of COVID-19 containment measures.

In Canada, APE sales decreased by 10% from the prior year quarter, primarily driven by lower group and individual insurance sales due to the adverse impact of COVID-19, partially offset by higher sales in our lower-risk segregated funds.

In the U.S., APE sales declined by 28% from the prior year quarter, as sales in our international high net worth business were adversely impacted by COVID-19 and domestic universal life sales decreased compared with the strong prior year quarter, which benefited from higher sales in advance of anticipated regulatory changes. The modest decline in NBV and APE sales when compared to the prior year quarter reflects our digital capabilities, which have enabled us to continue to engage with our customers in this challenging environment and we stand ready to capture growth from demand as COVID-19 impacts diminish.

Turning to Slide 19. The benefits of our geographic and line of business diversification are evident in our results, despite the challenging backdrop in 2020. Our global wealth and asset management business generated net inflows of \$2.8 billion in the fourth quarter compared with net inflows of \$4.9 billion in the prior year quarter.

In Canada, net inflows were \$2.2 billion compared with net inflows of \$1 billion in the fourth quarter of 2019. The improvement was driven by lower plan redemptions in retirement and higher gross flows across the product lineup in retail. In Asia, net inflows of \$2.2 billion were higher than net inflows of \$0.2 billion in the prior year quarter, driven by lower redemptions in institutional asset management and higher gross flows of retail money market funds in Indonesia.

In the U.S., net outflows were \$1.6 billion in the fourth quarter of 2020 compared with net inflows of \$3.7 billion in the fourth quarter of 2019. This decrease was driven by higher redemptions across all business lines, lower new plan sales in retirement and the nonrecurrence of several large sales in institutional asset management in the fourth quarter of 2019, partially offset by higher net inflows in retail from strong intermediary sales.

Turning to Slide 20. Our average Global WAM AUMA increased by 10% compared with the prior year quarter and six percent on a full year basis, driven by the favourable impact of markets and higher net inflows. And our core EBITDA margin was 30.7% in the fourth quarter, up 340 basis points from the prior year quarter, reflecting our scale and commitment to expense efficiency.

Turning to Slide 21. We delivered over \$300 million of incremental expense efficiencies in 2020 and \$1 billion program-to-date, thanks to the success of previously announced expense initiatives, including digitization, vendor management, employee costs and real estate optimization.

Turning to Slide 22 and core expenses. Our expense efficiency program is mature and efficiency is now embedded in our culture. We continued to take action to drive efficiencies and successfully reduced core expenses by four percent in the fourth quarter and three percent on a full year basis. As a result, our 2020 expense efficiency ratio was resilient at 52.9%, despite core earnings declining nine percent year-over-year. Despite headwinds related to the global pandemic, we remain committed to achieving our expense efficiency ratio target of less than 50% by 2022.

Turning to Slide 23. Our capital position remained strong throughout 2020, and we ended the year with a LICAT ratio of 149%, representing \$29 billion of capital above the supervisory target. Compared with 2019, the ratio increased by nine points, driven by market movements, primarily from lower interest rates, net capital issuances and a capital benefit from the reinsurance of a block of U.S. bank-owned life insurance business.

Slide 24 outlines our medium-term financial operating targets and recent performance. As expected, we fell short our medium-term targets in 2020 as a result of unprecedented levels of disruption related to COVID-19. While it's reasonable to expect COVID-19-related headwinds to persist for the foreseeable future, we believe that our medium-term financial targets remain appropriate. This is well supported by both geographic and line of business diversification.

In addition, we anticipate continued contributions from our well-established expense efficiency program and robust digital capabilities. Before we open the call to questions, I will turn it over to Adrienne for some brief remarks on Investor Day. Adrienne?

Adrienne O'Neill - *Manulife Financial Corporation - Global Head of Investor Relations*

Turning to Slide 25. Prior to concluding our prepared remarks, I wanted to let you know that we will be hosting an Investor Day on Tuesday, June 29, 2021. The event will be conducted virtually, and please save the date and registration details will follow later this month. Operator, we will now open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Gabriel Dechaine with National Bank Financial. Please go ahead.

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

Good Morning. First, one on mortality, the losses in the U.S. life block, can you tell me what you're seeing there? And you know, if that's a trend that could result in a reserve charge later on Q3, typically, because we're hearing from other insurers that there's excess mortality, but that's not necessarily in the insured population. So wondering what your experience has been?

Steven Finch - *Manulife Financial Corporation - Chief Actuary*

Thanks, Gabriel. It's Steve here. I'll take that one. And I'll get to your question, I think it's important to remember the context of what we're seeing from the impact of COVID on claims across the company. We are benefiting from diversification that we've got. So we're seeing -- as you know, we're seeing losses in our life insurance business, particularly in the U.S. on claims, but we're seeing gains in other lines of business, and that's coming through the overall company experience.

With respect to U.S. Life, just a reminder that in 2019, our claims experience was in line with expectations. So in line with our evaluation, best estimate assumptions. We also did a deep dive and trued up our mortality last year, and we strengthened our mortality assumptions on older ages. So I feel good about our mortality assumptions in the U.S. life business.

What we've seen in 2020 is COVID-related claims so, we have seen COVID claims experience come through. We've also seen some variability in large cases, but I would chalk that up to normal experience. And as you've noted, we've -- as you've seen, we've had very meaningful offsets in our Long-Term Care business. One of the points of diversification. So we will continue to watch the U.S. Life claims experience, but I think that's the context, and I feel good about our assumptions.

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

Okay. The other question I have is the expense reduction. You're up to \$1 billion now. That's great. But then if I look in your notes to financials, you did talk generally about the various assumptions and how your business performed favourable, unfavourable. And expense has been an unfavourable outcome, I guess, for several years now, including 2020. I'm wondering, is there another -- amount of cost cutting you need to do? Or what needs to happen for that expense experience across the company to turn favourable or neutral?

Phil Witherington - *Manulife Financial Corporation - Chief Financial Officer*

Thanks, Gabriel. This is Phil. I'll make a start, and then I might turn it over to Steve to talk about experience when it comes to expense assumptions. You're absolutely right, we've made substantial progress, and as Roy said in his remarks that we have achieved the \$1 billion target that we set ourselves, but we are not done.

I recall very clearly at the Investor Day in 2018 when we stood up and said that we have two targets. We've got the \$1 billion cost target as well as the expense efficiency ratio target. And we do remain committed to achieving that 50% or less expense efficiency ratio consistently by 2022, and that means there is work to be done.

The ratio, if you look at 2020, was 52.9%, which I think is good in the environment. It was really resilient against a backdrop of revenue challenges. But as we look forward, there are a couple of ways to achieve that 50% cost efficiency ratio target. One is to lower expenses, and for every \$150 million of expenses we can save, that does take a percentage point off that ratio.

The other way to grow it -- to achieve the ratio, of course, is growing our revenues, and \$300 million of revenues would have a one percent impact on the ratio. Specifically, with respect to experience, I'll hand over to Steve to comment.

Steven Finch - *Manulife Financial Corporation - Chief Actuary*

Thanks, Phil. And Gabriel, I think one place that you can see where the expense actions are coming through our experience, if you look at the total company core experience on our source of earnings in the supplement on page four, what you -- what's in that core experience, it's policyholder experience. That was neutral relative to Q4 of last year, so that's not explaining the significant improvement that we're seeing in core experience. The primary driver is expenses and expense actions that we've taken that is showing up in that line. That's the primary driver.

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

Alright. Thank you.

Operator

Thank you. The next question is from Tom MacKinnon with BMO Capital Markets. Please go ahead.

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

Yes, thanks very much. A question about the remittances, \$1.6 billion in 2020. And I believe you had down-streamed \$2.5 billion into Asia in the first four months of 2020, due in part to the unusually low interest rate environment. So, does that mean like in more normal times, it would be -- the remittances would be, if we add back that \$2.5 billion, would be \$4 billion or above? Maybe you can just comment on the outlook for remittances kind of going forward, just given that little arithmetic that I did? And I have a follow-up. Thanks.

Phil Witherington - *Manulife Financial Corporation - Chief Financial Officer*

Thanks, Tom. This is Phil, and I can confirm your memory is correct. We did say -- I did say in May that we had injected approximately \$2.5 billion into our operations in Asia. And I think on the topic of remittances, one relevant point to note is that if I look at average remittances in the five years prior to 2020, the average level of remittance was \$2.5 billion.

And so looking at 2020, we have generated \$1.6 billion of remittances. That's below what we would normally expect. And the main driver of that is the injection that we had made in the first half of the year into our Asia businesses. When I think about -- thinking about where the rest of the remittances came from, it was largely coming from the U.S. and Canada, who both -- you know - both of those businesses made substantial remittance contributions in 2020.

But when I step back and, you know, look at the overall remittance generation and remittance power of the organization, I think it is a story of diversification and, you know, going back to what I said at the beginning, that on average, we have generated \$2.5 billion per year. When I look at

that period, 2015 to 2019, where the remittances were coming from, and of course, \$2.5 billion over five years is \$12.5 billion. Of that \$6.9 billion came from the U.S., \$3.7 billion came from Canada and Asia contributed \$2 billion.

So that gives me some confidence that we have a historic track record of remittance generation, but I'm also confident in the medium-term remittance power of our organization.

Now remittances are supported by strong earnings generation on a Canadian basis, but also on a local basis. And while there may be variation in timing of remittances from quarter-to-quarter and year-to-year, we have sufficient flexibility within MLI to compensate for that. So I think the outlook is favourable. I don't have particular concerns when it comes to remittance generation, Tom.

Tom MacKinnon - BMO Capital Markets - MD & Analyst

Okay, and then the follow-up. We've seen lots of transactions with private equity firms or even reinsurers just with respect to annuity blocks, albeit it's probably more related to fixed and equity indexed annuity blocks. But maybe you can comment on some of the dialogues that you may have had with respect to reinsurers, what the outlook is for transactions in this environment? And I'll leave it there. Maybe just put some colour on that. Thanks.

Roy Gori - Manulife Financial Corporation - President & Chief Executive Officer

Yes. Thanks, Tom. Let me start and let me then hand over to Naveed. Portfolio optimization has been a huge priority for us, as we declared at our Investor Day. And we did set a target of bringing up \$5 billion worth of capital by 2022, and we were really delighted that by the end of 2019, we were able to achieve that goal and actually further make progress in 2020. So this has been a big priority for us, focusing on transacting. Obviously, though, only doing that when it's in the best interest of shareholders.

And I think I'd say that in the current environment with the excess liquidity, we're certainly seeing a lot of interest. And that will continue to be the case, I believe, in 2021 and beyond. But let me hand over to Naveed, who will provide a little bit more colour and context.

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

Yes. Thank you, Roy. We're still exploring reinsurance transactions so, I think there's still some runway there for us. As Roy said, we'll transact if in the best interest of shareholders. I think the BOLI transaction from Q3 is a good example of this. It was a considerable reduction in interest rate risk as a result of that transaction. As we talked about, there is definitely a lot of activity in the market and a lot of capital chasing deals. We especially closely monitor the risk transfer market for VA and LTC and probably more robust for VA than it is for LTC.

But I mean, to reiterate, we're also heavily focused on organic work, on all of our legacy blocks. This includes rerates, buyout and transfer programs, claims management and other in-force management initiatives, so really pleased with our success there. But again, regularly monitoring the market.

Tom MacKinnon - BMO Capital Markets - MD & Analyst

Okay. Thank you.

Operator

Thank you. The next question is from Meny Grauman with Scotiabank. Please go ahead.

Meny Grauman - Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst

Hi, good morning. Just following up on the remittances discussion. If my memory is correct, the down-streaming was tied to rates, so I'm wondering if you look out to '21, is there any chance that the rate environment could reverse what we saw in 2020? And could you see that have a very positive impact on remittances in 2021? Thanks.

Phil Witherington - Manulife Financial Corporation - Chief Financial Officer

Thanks, Meny. This is Phil. You're right that the driver of the injections that I commented on in May into Asia was market conditions, in particular, interest rates, reflecting the very sensitive local basis in Hong Kong, sensitive to interest rates. But also that -- one of the drivers there was equity markets as well. And I think it's fair to say that as the macroeconomic environment improves and if we do see a sustained improvement in interest rates, that does become a tailwind for remittances. And I would expect to get some of that capital back.

Meny Grauman - Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst

Thanks for that. And then on the subject of capital, you continue to show a build in your capital over the supervisory target. But I think there's definitely some question marks about exactly what your deployable excess capital is out in the market. So I'm just wondering if you could maybe help clarify how we should think about it? And a sort of related point is just the centrality of buybacks in your capital plans for '21?

Roy Gori - Manulife Financial Corporation - President & Chief Executive Officer

Yes. I think let me start, and then I'll hand over to Phil. You know, as you rightly point out and as Phil commented in the opening remarks, we're in a very strong capital position. LICAT at 149 is where we ended the year. And that basically translates into \$29 billion of worth of excess capital over our supervisory limit. This, as you know, has been a strong focus for our organization as we've been really driving that agenda of a strong capital position, which provides us significant financial flexibility.

At the same time, over the last three years, we've reduced our leverage ratio. Our leverage ratio was north of 30%, and now we've seen that come down quite significantly. So we really do feel good about the strong capital position that we're in. In terms of deployment of capital, I think one of the things that I'd lead with is that you know, our geographic footprint puts us in a bit of an enviable position that we don't need M&A to deliver on our medium-term goals of 10% to 12% core earnings per share growth.

So I think that really is a source of strength, which ultimately means that when we do deploy capital, for any M&A, we will do that opportunistically, and we'll do that when we've got a high degree of confidence that we can execute against that agenda. And we'll be very, very disciplined on that front.

Our priorities from a capital deployment perspective, as we've said in the past, is clearly organic growth, continuing our strong track record of dividend increases and buybacks. Buybacks have been a key source of value enablement for us. In fact, we returned \$1.2 billion worth of capital to shareholders via buybacks, that's net of the drift. And when the OSFI restrictions are released that will be, again, another priority for us.

I'll sort of pause with that and see if Phil wanted to supplement with any thoughts.

Phil Witherington - Manulife Financial Corporation - Chief Financial Officer

Yes, I'm happy to add a couple of points. And Roy talked about capital deployment priorities given the financial flexibility, and dividend is very high on the list there. 2017 through 2020, our dividend CAGR has been 11%. A year ago on the call last year, we announced a 12% increase to the dividend. And I think it's also worth recognizing that from an NCIB perspective, you specifically mentioned this Meny, the -- we had through the program, and this is a net capital deployment so, net of the drip that we had in place, we deployed \$1.2 billion of capital on the NCIB, and we were actually in the market buying back shares until the 13th of March when OSFI put in place the restrictions on dividend increases and NCIB programs.

So ultimately, the dividends and the NCIB are decisions that the Board -- the Manulife Board will make, but I can assure you that it's something that is considered on a quarterly basis. We sit down with the Board and discuss capital deployment and the level of the dividend. And I think that quarterly routine that we are in puts us in a position to respond in a timely manner to changes in the external environment.

Meny Grauman - *Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst*

Thank you.

Operator

Thank you. The next question is from Paul Holden with CIBC. Please go ahead.

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

Thank you. Good morning. First question is with respect to the outlook for individual insurance sales and, I guess, sort of across geographies, namely Hong Kong, Canada and Asia, and the reason I ask is you've put a lot of effort and focus on improving digital sales channels as well as making it easier for people to buy insurance, with the lack of medical exams but we continue to see life sales down year-over-year.

So just wondering, like what is the catalyst for sales broadly to go higher? Is just as simple as the lifting of social distancing restrictions? Or are there other catalysts that could take sales higher on a year-over-year basis?

Roy Gori - *Manulife Financial Corporation - President & Chief Executive Officer*

Yes. Paul, thanks for the question, Roy here. Let me start, and then I'll hand over to Anil and Mike to provide a little bit more colour and texture as it relates to our Asia business and our Canada business. I guess, as we said in the opening remarks, since the onset of the pandemic, our business has demonstrated, I think, really strong resilience. And the fact that our APE sales are only down eight percent, given the headwinds that we saw in 2020, I think, is quite remarkable.

And I think that's a function of three key things. The first, was our global diversity. I think we really benefited in 2020 from the global diversity of our franchise. That's not just across the three broad geographies of Canada, the U.S. and Asia, but even within Asia -- the geography or the geographic diversification that we have across the different markets there, which really meant that when we saw some markets entering more restrictive conditions and environments, we saw others that were loosening or relaxing. And that diversity really was a source of strength and bodes well for us. And quite frankly, will -- I think continue to be the case in 2021 as we see still markets in varying degrees of lockdown and easing.

The second key factor for us on the sales front was the digital infrastructure. We've invested heavily in the last three years, in fact, more than \$650 million in enhancing our digital infrastructure. It wasn't because we knew COVID was coming, but we knew that there was going to be a big shift and push towards engaging with consumers in a digital way. And that's the reason why we made those investments.

And we saw our agenda of digitally engaging with customers accelerate significantly in 2020. And thankfully, that was a function of the tools that we had in place, which would -- which certainly supported that. And again, I think that's going to continue to be the theme and the flavour for '21. We'll certainly want to capitalize on that momentum, and we want to make sure that we leverage that infrastructure that we have.

The final thing I'd say is that we're benefiting significantly from the strength of our sales channels. If I just sort of highlight Asia, and Anil will talk about this, we've been very focused on growing our agency force, but also making sure that we have the most professional agency force in Asia. In Asia, we grew our agency by 21% to 115,000. And at the same time, we've also invested significantly in our banca distribution. We're certainly one of the leaders in banca in Asia, and that was started many, many years ago. And with VietinBank transaction closing, we'll have 10 exclusive bank partnerships over 100 partners in general, and the 10 exclusive gives us access to 30 million clients.

So I really feel that 2020 was a really important year for us, and it was a demonstration of the resilience of the business that demonstrates the results that we have. And I feel that's going to continue in '21. But let me hand over to Anil and then Mike to provide a little bit more colour and texture on sales momentum.

Anil Wadhvani - *Manulife Financial Corporation - General Manager, Asia*

Thanks, Roy. And as Roy rightly pointed out, I think the diversified nature of the geography of our channel mix of our product has led to the significant resiliency that we've been able to show during the crisis. I think the investments that we continue to make in expanding our footprint, both on the agency as well as our bancassurance channel, that allows us a great mix and diversified -- our diversification strength to our channel was absolutely pivotal in kind of driving the kind of success that we saw in 2020.

Again, just to kind of illustrate that point, by taking one market and that's Hong Kong, and you referred to that in your question. So again, challenges have not been new to Hong Kong. We -- if you go back to quarter two of 2019, we were witnessing challenges due to the disruptions on account of protests right from there on.

And I think one of the things that we have been able to do well is show the execution rigor that has helped us win through some of the crisis and the challenges that we have witnessed. In fact, in Hong Kong, YTD quarter three 2020, our market share actually grew by 50%. And this is on top of the fact that we have been enforcing a strong focus on in-force management, being very disciplined about expenses, very disciplined about our product pricing and kind of responding pretty much instantly to some of the macro conditions, specifically the lower interest rate environment, so that we continue to protect value.

And towards that, as you can tell, Hong Kong core earnings, both in quarter four as well as for the full year, registered a double-digit growth. So on many counts, as I said, basis, the investments that we've made in our technology platform and our distribution, in our people, we feel very confident to be able to see the opportunity in Asia. And again, Roy mentioned in his opening remarks that we were able to gain market share in six of our geographies. And I think that was a great evidence as to how we've been able to outperform and outpace our key competitors.

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

Okay.

Mike Doughty - *Manulife Financial Corporation - General Manager, Canada*

Yes, and it's Mike here. I'll just add a few comments. I won't hit on a lot of the similar themes that are impacting the Canadian business. I mean, at a high level, we do know that coming out of the SARS crisis, we did see an increase in interest in life insurance. And I think that is one trend that we'll see around the globe, frankly, as we move forward. We've certainly seen it already.

From a Canadian perspective, I'll just -- you know -- we're certainly -- we certainly have also taken advantage of the pandemic to digitize a lot of our processes. And I think that will help with the ability to process sales and make it easier for both customers and advisers going forward. That's similar to some of the themes that Roy mentioned.

I'll just remind you, in Canada, we actually have quite a diverse product shelf. So we sell individual health and dental, that was actually up this year. Our affinity business was up. Our mortgage creditor business was up. We had a very strong first half in our sort of traditional individual life sales. That suffered when our pipeline really got depleted at the first part of the pandemic when there was a lockdown in terms of being able to get paramedical testing.

We've seen that pipeline building back up. You would have seen in our results, a nice increase from Q3, up about 17%. So we do expect that business is going to come back as that pipeline builds up over the next couple of quarters.

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

That's helpful. Thank you. Second question is also a big picture one. And going back to the earlier discussion regarding transaction activity in the U.S., a lot of folks are also talking about the Prudential Jackson National pending transaction. Now part of your answer has been talking about doing what's best for shareholders. I think it would be helpful for everyone to understand with a little bit more granularity, how you view that lens? Like how are you viewing this balancing act between engaging in transactions and what is best for shareholders? Like what are the key metrics or items that you're considering?

Roy Gori - Manulife Financial Corporation - President & Chief Executive Officer

Yes. Thanks, Paul. Let me answer that. And the short answer on the metrics is that we look at a wide variety of lenses or metrics and financials as well as non-financials to determine what's in the best interest of shareholders. And the key philosophy that we've employed, quite frankly, since we embarked on the new strategy, was that we wouldn't take anything off the table. And you've seen through the portfolio optimization focus and activity that we've achieved a lot of great results from that focus and attention.

At the same time, what I will say is -- and we saw this in 2020, one of the core strengths of our franchise is our global diversity. And the fact that we have business operations that are globally diverse across U.S., Canada and Asia really put us in a very strong position in 2020 and quite frankly, I expect that will continue to be the case in '21 and beyond. So we've said all along that we'd never rule out anything or any transaction.

But what I would say is, specifically as it relates to the Prudential transaction, that's not a high priority for us. We really do believe that the global diversity of our business is our key strength. And there is incredible opportunity for us to unlock through the agenda that we're executing today, be it inorganic transactions, and as Naveed mentioned earlier, the tremendous opportunity through organically managing our business for greater outcomes and results.

Operator

Thank you. The next question is from Mario Mendonca with TD Securities. Please go ahead.

Mario Mendonca - TD Securities - MD & Research Analyst

Good morning. Just to go to the Asia business for a moment, obviously -- I'm sorry, not -- not Asia, Wealth Management. Obviously, the last couple of quarters have been very good, the market is strong, and the margin continues to improve. What I observe, though, is that the expense level in the wealth business really hasn't changed in almost two years. So obviously, the company is doing a good job of keeping a lid on expenses and benefiting from a better environment.

Where I'm going with this is, is there any reason why -- would it be appropriate to suggest that Manulife does not need to make any big investments in the wealth business as you continue to grow assets? Or could we see sort of a step-up in expenses once you cross over, say, the \$800 billion line or \$900 billion or \$1 trillion, do you see in the horizon, any real need to invest more aggressively in the wealth business and take it to the next level?

Paul Lorentz - Manulife Financial Corporation - President and CEO, Global Wealth & Asset Management

Great. Thanks, Mario. This is Paul speaking. Well, I'll just start by saying we actually did make quite a big investment in the global infrastructure through a go-program years ago, which moved all of our business on a global platform. And we're surely seeing benefits of that as we scale, which you're starting to see in our results.

We've also, as we brought the organization together a couple of years ago, really found opportunities for efficiency to run the business better, to get better collaboration. And we've had a lot of that early wins, I would say, showing up in the results. We still think there's tremendous opportunity in the business to drive out efficiencies as we look at our global scale and make sure we leverage that for our local businesses.

I mean one of the things we do try and watch is just our expense growth relative to revenue growth. And, I think I've said historically, we try and live within half of our revenue growth with expenses to make sure we can manage fee compression continue to expand the margin, et cetera.

But we do today in our expense line already significantly invest in the business every year, and it's really a question of priorities. And so for us, we would expect that we'll see growth in expenses as the business grows. We won't be able to keep it flat forever, but we do expect we're going to be able to do that in the context of the revenue growth and continue to move the other metrics forward.

Roy Gori - Manulife Financial Corporation - President & Chief Executive Officer

Yes. Mario, if I could just add, I think you've touched on perhaps one of the biggest opportunities that we see in our Global Wealth and Asset Management business, and that is that we've got an infrastructure and a foundation that can support a business that's much larger without having to make significant investments beyond the ones that we've already made.

So we feel that this is a key driver of not just improving our margin but improving our profitability trajectory for our Global Wealth and Asset Management business going forward. Paul highlighted some of the system investments that we've made, but we've also been investing significantly on the digitization front as well in terms of the way we interact with customers.

So this is one of the reasons that we are most excited about the prospects that we see and have in the Wealth and Asset Management business as we continue to grow and build out our global footprint there.

Mario Mendonca - TD Securities - MD & Research Analyst

Okay. If we could now go back, Roy, to your answer to Paul's question. Paul was asking about the sort of the lens, or the goalpost you look at in assessing a transaction that would free up capital. Now without providing any numbers, because I know you can't negotiate a sale or a reinsurance transaction on a call like this. But would I be correct in saying that on the one hand, the company has to look at what kind of earnings would be given up and what sort of book value charge might arise, that would be one part of the scale?

And on the other side, what kind of capital relief would be achieved? And what that capital could be put to use? Is that, in a very simplistic way, the decision and the balancing act that the company faces when making decisions like this?

Roy Gori - Manulife Financial Corporation - President & Chief Executive Officer

Yes. Thanks, Mario. It's somewhat simplistic the way you've mapped it out, but I think you've just touched on some of the different components as it relates to making an assessment of whether we'd make -- we'd transact or not. And the two aspects that you've highlighted are certainly front and center for us as we look at whether we would transact or not. And again, the lens for us is best interest of the shareholder, and that will include the value that is placed by the Street in relation to each of our businesses and the capital that is being consumed by them.

So certainly, not a single dimensional decision point, and you touched on at least two of the key aspects that we are -- we always consider when we decide on whether to transact or not, there are a few others. But you're broadly right.

Mario Mendonca - TD Securities - MD & Research Analyst

Thank you.

Operator

Thank you. And the next question is from John Aiken with Barclays. Please go ahead.

John Aiken - Barclays Bank PLC, Research Division - Head of Research (Canada) & Senior Analyst

Morning. Phil, I don't want to -- with my line of questioning, I don't want to downplay the success you've had on the expense efficiency and the reduction of expenses. But when I take a look at what happened in 2020, you did have expense reductions in all of the operating segments, but we actually have seen inflation in Corporate and Other.

I was wondering if you could talk about what's driving this? Is this the cost of digital initiatives being absorbed by Corporate? Or is there just some change in terms of how the cost allocations have been -- are being made?

Phil Witherington - Manulife Financial Corporation - Chief Financial Officer

Thanks, John. That's a good question and a good observation from our results. What you're seeing in Corporate and Other on the expense line is an increase in expenses in the order of \$50 million. And what's driving that is a onetime charge relating to the write-down of some IT assets on the balance sheet. And really, that's -- it's nothing to be alarmed about in the context of everything that's going on in the backdrop of the pandemic and us looking very hard at our digital strategy and pivoting projects in certain ways as we prioritize certain digital investments in this environment.

We've looked hard at everything that we've got capitalized on the balance sheet and written certain items down, but that's a onetime exercise. So not something that you should project forward. I think just touching on the question of Corporate and Other, one point that I do want to be transparent about is -- I referenced this in my remarks, that we are in a lower interest rate environment, and that does impact the yield that we can generate on the surplus asset portfolio.

And that you know, if we compare the Q4 2020 with Q4 2019, the headwind there is in the order of \$50 million.

John Aiken - Barclays Bank PLC, Research Division - Head of Research (Canada) & Senior Analyst

Thanks, Phil. And when we take a look at the write-down of these IT assets, when you talk about this being onetime, this is then still included in your definition of what your core earnings are?

Phil Witherington - Manulife Financial Corporation - Chief Financial Officer

Correct. Yes, yes, we are very disciplined about what we include in core earnings. I'll be transparent. What we decided to do in this case is, report them in aggregate, in Corporate and Other, so that we don't distort the underlying operating results of our businesses, but absolutely, it's part of core.

John Aiken - Barclays Bank PLC, Research Division - Head of Research (Canada) & Senior Analyst

Understood, thanks. I'll re-queue.

Operator

Thank you. The next question is from Doug Young with Desjardins Capital Markets. Please go ahead.

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

Hi, good morning. I think it was Phil, and I think it's in the report as well, but your ALDA experience, you mentioned that real estate returns fell short of expectations, and maybe Scott can touch on it. Was this related to the office real estate book? I think that's something that you mentioned you have some concerns with on a go-forward basis? Just trying to get a bit of an update on that.

Scott Hartz - Manulife Financial Corporation - Chief Investment Officer

Sure. Thanks, Doug. It is Scott, and yes, we didn't have a loss in that portfolio but as you know, if we don't achieve our assumed returns and they fall below that, a loss does show up through our income statement. And that's what happened in the fourth quarter and for the full year. In fact, our real estate returns were about 0.5% in the fourth quarter. So still positive, but below the assumed return.

And you're also correct, office is the biggest driver of that, office is 2/3 of our portfolio. And we're just not seeing sort of the appraisal gains that we have historically seen and would need to see to get to those assumed returns. The income returns are still where they were. So it is something that we're watching going forward, I think it's still to be determined how this will play out.

I would say a protection on that part of the portfolio is that 25% of our real estate portfolio is in Asia, and we're not seeing the same dynamics of the work-from-home in Asia, so less concerned there.

And then in North America, I mean, it is still to play out. There are folks that believe that there will be more spacing, which will create more demand. And we just have to see once we can all get back to the office where the demand will settle out.

We do have a little over a six-year average remaining lease term and 92% occupancy in the portfolio. So those should help us weather sort of the short-term here. But yes, basically, we're not seeing the appraisal gains we need. And on the office portfolio, even slight appraisal losses that give us that 0.5% total return in the fourth quarter.

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

And just can you remind us how much of your office portfolio Manulife actually occupies?

Scott Hartz - Manulife Financial Corporation - Chief Investment Officer

Yes. Of the -- about 2/3 of the portfolio is in office, about just under 50% is non-occupied. And then I should add that the rest of the portfolio is largely industrial warehouses and multifamily, where we have much less concern. There's only about 3% in retail, which would obviously be a much bigger concern if we had significant retail holders.

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

Okay. And then just second, Steve, I think there was negative lapse experience again in the U.S. that offset some of the gains in Long-Term Care insurance? Am I right? And can you quantify? And can you talk a bit about what you're seeing? I think you took a reserve charge for lapse last year -- or sorry, last Q3? I think in Q3, you had some negative lapse experience. Just hoping to get an update on that front.

Steven Finch - *Manulife Financial Corporation - Chief Actuary*

Sure, Doug. Yes. So one of the things that we're seeing in the U.S., and again, in the context of we've seen diversification in terms of business results. So some of the sort of more second order impacts of the pandemic, we've seen, in our medical and health businesses, we've seen people not going to receive care, and we've seen gains there.

In the U.S. Life business, what we've seen is that in our protection-oriented products, our customers are hanging on to their -- they value the coverage that they've got. They're hanging on to it longer than what we saw pre-pandemic. And we've seen that our lapse rates on that business is 20% to 25% lower than pre-pandemic trends. We -- and that's roughly a \$25 million impact in the quarter from what we saw.

We do anticipate that these trends will revert back towards pre-pandemic levels over time. We'll watch those trends very closely. But it's -- you're pointing out one of the things that we're seeing is what we consider short-term aberrations as a result of the pandemic.

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

Okay, I'll leave it there. Thank you very much.

Operator

Thank you. The next question is from Darko Mihelic with RBC Capital Markets. Please go ahead.

Darko Mihelic - *RBC Capital Markets, Research Division - Equity Analyst*

Hi. Thank you. I have two questions. The first one, I think is for Phil and maybe, Steve, I'm not sure, but it should be relatively straightforward. I think, Phil, in your prepared remarks, you mentioned six percent EPIF growth is still reasonable, but I did see it fall in Canada. So I wonder if you could talk -- I mean, quarter-over-quarter. And I wonder if you could talk a little bit about EPIF growth by segment, really Asia, Canada and U.S.? Any kind of help there would be much appreciated.

Steven Finch - *Manulife Financial Corporation - Chief Actuary*

Sure. I can take that, Darko, thanks. So Phil commented in his remarks that we expect roughly six percent growth in earnings on in-force on an annual basis. We expect higher growth -- close, eight to nine percent in Asia and then lower expected growth in Canada and the U.S., as we've got higher proportion of legacy business. What we saw in the quarter, specifically in Canada, you mentioned quarter-over-quarter. We do see some seasonality; we see stronger expected profit in our group business in Q3. So the drop from Q3 was really seasonality.

The other thing that -- it's not a big driver of the trends, but as you talk about by segment, in the basis change last year, as we pushed through all the changes mechanically, we saw a modest increase in our earnings on in-force in Asia and the U.S. and a modest decline in Canada. Total company, it was not a material change. So those spurred some of the drivers and expectations that we're seeing on earnings in in-force.

Darko Mihelic - *RBC Capital Markets, Research Division - Equity Analyst*

Okay. Thank you for that. My second question relates to portfolio optimization. It was good to hear Naveed talk about transactions and organic opportunities. But when I sit back now and I think about other things, apart from lowering Long-Term Care exposure of variable annuities, one thing that pops out in this kind of market environment is perhaps is it time to revisit ALDA? I'm sitting here reading about Wall Street bets. I've got cryptocurrencies going crazy, equity markets going nuts.

Your ALDA portfolio is down. I acknowledge it's 9.5% now. I think 2019, 2018, it was 10%. But is it possible that we could perhaps free up capital and reduce ALDA? And is that something that you would be considering going forward, given, I think you mentioned excess liquidity in the marketplace. Whatever it is, is there a chance here that Manulife might consider once again reducing ALDA as a proportion of investments? And if not, why not?

Roy Gori - Manulife Financial Corporation - President & Chief Executive Officer

Yes. Darko, let me start, and then I'll hand over to Scott. As you know, we did take some actions to reduce our ALDA return assumptions. And I'll remind everyone that the all-in padded assumption for us is 6.1% annual return. And again, we wouldn't rule anything out. But one thing that we will say is ALDA is an incredibly valuable asset class for us. And that's, I think, certainly the case even maybe more so now in an environment of lower interest rates.

So having a diversified investment portfolio and having the experience and knowledge of alternates, I think, has been a huge source of strength for us over several decades. And I think actually, that will come to the fore even more so in the decade ahead with a lower interest rate environment. So for us, diversification is really critical, having assets that can back our long-term liabilities and deliver through the cycle is certainly a huge priority for us. So let me hand over to Scott to provide some further commentary.

Scott Hartz - Manulife Financial Corporation - Chief Investment Officer

Yes. Thanks, Roy. And that's really well said. I mean, it's really the right way to invest for long-term liabilities, speaking as an investment person, and you'll see that at the pension funds, that we have very long liabilities that don't have liquidity issues. So backing them with ALDA makes a lot more sense. And as Roy points out, in the current environment where fixed income is returning that much lower, it makes that much more sense, and we're starting to see peers talk about doing more of it.

So unfortunately it comes with accounting noise as we saw this year. We saw it in the financial crisis, we saw it this time. So periodically, we're going to have some bad quarters when markets are upset. But relative to a fixed income strategy, the long-term earnings are much higher. And to your remarks on GameStop and bitcoin, there are definitely bubbles out there, but we're not seeing bubbles in our ALDA portfolio.

So it's not like, if you like, this is a good time to be liquidating the ALDA portfolio. We think there's still relatively reasonable value and expect we'll be able to achieve our expected returns going forward.

Darko Mihelic - RBC Capital Markets, Research Division - Equity Analyst

I guess where I was going with that is if we did see bubbles in the ALDA portfolio, would you consider? I mean when I think of the pushback I get on Manulife is Long-Term Care, variable annuities, and ALDA. So the question is, we are seeing bubbles, if we start to see stuff in ALDA, wouldn't this be an opportunity to reduce? And/or and I guess the answer is -- sounds like almost flat out no, is that the way I would interpret your answer?

Scott Hartz - Manulife Financial Corporation - Chief Investment Officer

No, the way I would put it more is, we value diversification significantly. So we're in six different ALDA categories, and we're always looking at new opportunities. So if we were to see bubbles in one particular category, we would de-emphasize it, we would look to sell down. Now it's not the most liquid portfolio, so it takes time to do that. But we are always evaluating the value in each of the categories.

As you saw, we sold NAL, and that was for other reasons, not because it was in a bubble, but we're constantly looking at the portfolio and determining where the best value is and focusing on that.

Darko Mihelic - *RBC Capital Markets, Research Division - Equity Analyst*

Thank you.

Operator

Thank you. The next question is from David Motemaden with Evercore ISI. Please go ahead.

David Motemaden - *Evercore ISI, Research Division - Research Analyst*

Hi. Thanks. Good morning. Thanks for fitting me in here. Just a question for Phil and Naveed. I was just -- excuse me, I was just wondering if you can just update us on the amount of -- excuse me, the amount of capital and earnings you still have tied up in legacy businesses that can be unlocked? You guys have obviously made good progress. So I think you said in 2018, it was around \$23 billion of capital, and I think, \$2 billion of earnings. Just wondering where that stands today?

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

I can take that question. Yes, this is Naveed here. So David, thanks for the question. As you can see, we've taken considerable action on the capital front on the legacy side. I don't have the exact number, but the total capital allocated to legacy business is a bit lower than what we showed in 2018. And the earnings, despite the give-up on some of the transactions, is sort of in line with where it was in 2018. So that gives you some reasonable guidance.

Phil Witherington - *Manulife Financial Corporation - Chief Financial Officer*

And just to add to that, when we regroup for the Investor Day later in the year, I think that's a good time for us to provide a more holistic update on execution of each of our strategies, including portfolio optimization.

David Motemaden - *Evercore ISI, Research Division - Research Analyst*

Okay. Great. And then I guess, just another question for Phil. Just circling back on the six percent growth and expected profit on in-force, I guess I'm kind of scratching my head because that's the largest component of core earnings. It's 70% to 75% of core earnings, if I assume that you guys have \$400 million of investment gains.

So I'm just trying to bridge between six percent and you guys getting to the 10% to 12% medium-term EPS growth target. If the -- I guess, I'm just wondering how to bridge that six percent growth on 75% of your core earnings? And how you guys plan to get to that 10% to 12% EPS growth target, if that's the case?

Phil Witherington - *Manulife Financial Corporation - Chief Financial Officer*

Yes. Thanks, David. And it's a good question to ask. We are committed to the 10% to 12% target. And with EPF -- EPIF growing consistently with our expectations, we would expect six percent over the medium term. The components that will be accretive to that, we've got the impact of new business in our insurance businesses around the world, in particular, in Asia where we're seeing substantial growth as well as the opportunity to generate value through the impact of scale.

But in addition to new business, we've got Wealth and Asset Management, which we anticipate being accretive to our overall level of earnings growth. We have expenses -- expense efficiency, as you've seen over the past three years, expense efficiency is something that is accretive to the bottom line.

And just to highlight as well, when we talk about 10% to 12%, that is growth in earnings -- core earnings per share. And so to the extent that we are permitted to do so and that it's appropriate given the external environment, we would also consider buying back shares in order to increase the per share component or make it per share contribution to that 10% to 12% growth rate.

David Motemaden - *Evercore ISI, Research Division - Research Analyst*

Got it. Thank you.

Operator

Thank you. The next question is from Humphrey Lee with Dowling & Partners. Please go ahead.

Humphrey Lee - *Dowling & Partners Securities, LLC - Equity Research, Head of Life Insurance & Retirement Services*

Good morning and thank you for taking my questions. Just to stay on the topic of EPS growth. I know the medium-term target of 10% to 12%. But looking for 2021 kind of versus 2020, still -- it looks like you are kind of positioned to see a little bit stronger growth given the -- hopefully, a positive inclusion of core earnings, core investment gains and then some of the COVID-related headwinds would abate. Any reason why 2021 would not be higher than the longer-term target?

Roy Gori - *Manulife Financial Corporation - President & Chief Executive Officer*

Yes. Thanks, Humphrey. Let me start, and then I'll hand over to Phil, who could supplement. Again, we obviously spend a lot of time thinking about 2021. And the first thing I'd say is that there is, obviously, a lot to be optimistic about when we think about the year ahead. But there's still a lot of uncertainty. And I think we're going to see a tale of certainly two halves and maybe even more challenging in the second half than what many are expecting.

And I think that uncertainty is really going to come from a couple of things. The first is the vaccine deployment and the speed of the vaccine deployment. That's a key critical enabler for lockdown restrictions being eased. And I think the other big factor, and everyone is across this, is really a big question mark around the effectiveness of the vaccine against the various mutations.

So the first thing I'd say is that there is certainly a lot to be optimistic about, but there is still a lot of uncertainty as to how 2021 will unfold. And that level of caution is something that we're absolutely focused on. Having said that, we are feeling incredibly optimistic about our future. And I highlighted a few things earlier, but I'll reinforce them.

The first is around the fact that we have a very globally diverse franchise, and we've demonstrated in 2020, the resilience of our business to offset and overcome headwinds. The second was around our efforts to digitize. I think that, again, will be a critical enabler for us in 2021. And the third, and Mike highlighted this, we're seeing the increase in value and importance being placed on insurance protection and wealth. And obviously, those are our businesses, and that, I think, is going to be an incredible driver for us.

And the last thing I'd say is that we do have, as, quite frankly, one of the core competencies of our franchise, an incredibly strong presence in many of the fastest-growing economies of the world, which have, by the way, the lowest insurance and wealth penetration. Asia, we've described as our jewel in the crown, has become a really big part of our franchise. When you think about Asia geography, and there I'm grouping both insurance and wealth, and when you normalize for core investment gains, in 2016, Asia represented about 35% of our earnings.

In 2020, they represented 41%. And our expectation is that by 2025, our Asia geography, again, insurance and wealth, will represent 50% of our franchise. So it is something that we're incredibly optimistic about. But at the same time, there is a degree of uncertainty that makes us somewhat

cautious around putting down a firm commitment on how earnings per share will unfold. And we think of that more through the medium term and through the cycle.

But let me hand to Phil to see whether he has any other supplements that to add.

Phil Witherington - *Manulife Financial Corporation - Chief Financial Officer*

I think you've covered it really well there, Roy. And I'd just reinforce, I think there is a lot to be optimistic about. We've seen a lot of challenges over the course of the last 12 months. But since the last time we spoke, the fact that there is now a number of vaccines having been developed and put to market and being rapidly manufactured and deployed, I think that's one -- just one example of the many things that are to be optimistic about. But given the overall backdrop of uncertainty, I think it is hard to call a central scenario for the next 12 months, which is absolutely why we're looking at it from a medium-term perspective.

Humphrey Lee - *Dowling & Partners Securities, LLC - Equity Research, Head of Life Insurance & Retirement Services*

Got it. I appreciate that colour. Looking at kind of the growth aspiration for Asia and then especially thinking about how Asia Other has grown over the past few years, given the opening of the regulations to -- in China for foreign Hong Kong insurers, do you have any appetite to take on a higher stake in your China JV or even take a full ownership?

And if you were to do so, like how much of core earnings contribution from Asia Other would go up?

Anil Wadhvani - *Manulife Financial Corporation - General Manager, Asia*

Thanks for the question, Humphrey. So I guess, the short answer is yes, we would, but we have two joint ventures in China, so let me kind of start with talking about our joint venture on the insurance side with Sinochem, and I'll then ask Paul to chime in on the TADA side.

So as you know, on the insurance side, we have a joint venture with Sinochem, where we have a management control. They have been an excellent partner and really a big contributor to the success and the trajectory that we've kind of set for ourselves in China. As you know, in China, we have extensive access in terms of distribution. So we have now with the approval of the recent Shaanxi branch, 52 cities and across 15 provinces in terms of access.

So clearly, we would be keen to increase our shareholding, Humphrey, but as I said, we have to necessarily kind of align our objectives with our shareholders.

Just before I hand it over to Paul, in terms of Asia Other, again, Asia Other is the fastest-growing part of our business. Again, no surprises there, right? You mentioned the fact that, and Roy alluded to that as well, we have markets like China, Singapore, Vietnam, where we have a market leadership position, Indonesia, they are all growing at a fair clip. And have huge runway for us given the under-penetration on insurance, and towards that, we have been doubling down in terms of increasing our distribution.

In fact, our agency growth in Asia Other is even faster than what you kind of see at an overall Asia level. And again, no surprises there, and importantly, we are also experiencing a 17% growth in active age income. A lot of our bank partnerships, including the one that we signed recently, the VietinBank, is in Asia Other. The early renewal of Danamon, again, a key force for us to kind of grow our business in Indonesia. So there's a lot going on for us in Asia Other. And as you can tell, in quarter four, Asia Other contributed to in excess of 35% of our core earnings. So it's likely to be an even bigger growth engine for us as we look into the future.

So I'm now going to hand it over to Paul for his comments on TEDA.

Paul Lorentz - *Manulife Financial Corporation - President and CEO, Global Wealth & Asset Management*

Yes. Thanks, Anil, and very similar themes to what Anil just shared in that China from a Wealth and Asset Management perspective is a very important market for us. And we do operate with our own wholly-owned foreign entity there, WOFE, that does allow us to bring in some international capabilities as well as private market capabilities. But our partnership with TEDA is also a really important pillar for our growth there in terms of the ability to bring domestic equity and fixed income capabilities to both local investors and foreign investors. And we've had a great partnership.

We're very committed to that market and really look forward to continuing to grow China by leveraging that relationship and all the other aspects we have in the region.

Phil Witherington - *Manulife Financial Corporation - Chief Financial Officer*

And this is Phil. If I could just add, when we look at our businesses in China, I think the future is more relevant than the current state. And you asked a question about earnings there, Humphrey, and in the ballpark of \$140 million came from China in 2020, the full year 2020 earnings. But I think it's not really about the \$140 million, it's about what that could grow to in the years to come.

Humphrey Lee - *Dowling & Partners Securities, LLC - Equity Research, Head of Life Insurance & Retirement Services*

I appreciate that. Thank you.

Operator

Thank you. The next question is from Nigel D'Souza with Veritas Investments. Please go ahead.

Nigel D'Souza - *Veritas Investment - Investment Analyst*

Thank you. Good morning. I wanted to touch on core investment gains. And when I look at the last challenging year you had for core investment gains in 2015, those gains didn't fully recover or get recaptured until 2017. So I wanted to get a sense of your expectations for 2021. Do you expect to fully recapture the \$100 million in per quarter core investment gains?

Scott Hartz - *Manulife Financial Corporation - Chief Investment Officer*

Yes. Thanks, Nigel. It's Scott. Thanks for the question. Our core investment gains is an assumption over the cycle. And it's really difficult to predict in any given year. So as Roy highlighted, 2021 is still going to be a very uncertain year. The trajectory looks good at this point but who knows. There's lots of risk out there. So we are going to have periods where we will underperform largely driven by ALDA which is market-to-market, as you know.

And -- but as we look at last year, we saw underperformance in the first two quarters and then I feel like we got a lot of that behind us, and in the third quarter and fourth quarter, we achieved and overachieved our \$100 million per quarter run rate. So my best estimate at this point is that we will, but there continues to remain a lot of uncertainty, and it is really a number we expect to achieve through the cycle, not necessarily in any given quarter or any given year.

Phil Witherington - *Manulife Financial Corporation - Chief Financial Officer*

And Nigel, this is Phil, I could just add, the methodology that we apply, it does reset at the beginning of the calendar year. So the reason in Q3 and Q4, we didn't recognize the investment gains through core earnings is because we were behind from Q1 and Q2. As we're now in a new calendar year, if we generate a favourable investment experience, up to \$100 million would flow through core earnings per quarter.

Nigel D'Souza - *Veritas Investment - Investment Analyst*

Thanks. That's helpful. And the second question I had, if I could touch on earnings on surplus funds. And I want to get your sense on what the pathway is to getting that number back to 2019 levels. In other words, is the only way you get there through higher yields? Or can you get there through changes in asset mix or asset levels?

Phil Witherington - *Manulife Financial Corporation - Chief Financial Officer*

Thanks, Nigel. Let me make a start. Scott may wish to comment on this as well. I touched on it earlier. There is a headwind that exists when it comes to earnings on surplus. And that is that interest rates have fallen. And we do take a conservative view quite rightly on how the surplus investment portfolio is managed. A large proportion of it is held in U.S. Treasuries, which is part of our overall interest rate risk management strategy.

And that does give rise to a very real headwind in the order of \$50 million a quarter if we compare Q4 2020 compared to the fourth quarter of 2019. And there's not really a way of getting that back without interest rates coming back and the impact of that flowing through to yields over time.

So I think that is one of the headwinds that we need to accept. And we don't really have an awful lot of appetite for materially increasing the risk of the investments in our surplus portfolio. The reason they're there is to provide stability and resilience in times of uncertainty, and that's exactly what we saw happen in 2020.

Scott, I don't know whether you have anything to add.

Scott Hartz - *Manulife Financial Corporation - Chief Investment Officer*

I really don't, that was a very, very good and complete answer. Obviously, what will turn it around is if we get higher yields, and that will grow the earnings on surplus. But absent that, we do hold those long liquid government bonds as a hedge against market risk, and we'll continue to do that.

Nigel D'Souza - *Veritas Investment - Investment Analyst*

Thanks, that's very helpful. I appreciate the colour.

Operator

Thank you. There are no further questions registered at this time, so I will turn the meeting back over to Ms. O'Neill.

Adrienne O'Neill - *Manulife Financial Corporation - Global Head of Investor Relations*

Thank you, operator. We'll be available after the call if there are any follow-ups. Have a nice morning, everyone.

Operator

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

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