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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 2021 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 first quarter 2021 results. We are conducting this call virtually. The earnings release, financial statements and related MD&A, embedded value report, 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 2. I want to remind you that we are hosting an Investor Day on June 29, where we will share an update on the company's strategy with an emphasis on accelerating growth in our Asia and Global WAM businesses as well as executing on our digital strategy. To ensure a smooth viewing experience, please register in advance by clicking the link on Slide 2 or through the Investor Relations section of our website.

Turning to Slide 5. We will begin today's presentation with an overview of our first quarter 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; and then Steve Finch, our Chief Actuary, will discuss embedded value.

After the prepared remarks, which were recorded in advance to ensure optimal sound quality, we will move 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 3 for a caution on forward-looking statements and Slide 31 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.

Turning to Slide 7. Yesterday, we announced our financial results for the first quarter of 2021. We're off to a strong start with double-digit growth across a number of our key operating metrics compared with the prior year quarter. We delivered record core earnings of $1.6 billion, a 67% increase from the prior year, with double-digit growth across all our operating segments. We reported net income of $783 million, reflecting the immediate impacts of the steeping yield curve and higher risk-free rates. It's worth noting that a higher interest rate environment is beneficial to Manulife's business in the long term.

New business value increased 32%, with double-digit growth in Asia and the U.S. In our Global WAM business, our core EBITDA margin increased 340 basis points as we continued to build scale and benefited from growth in higher-margin markets. And our core ROE increased by 5.5 percentage points to 13.7%. Finally, we reported embedded value of $61.1 billion or $31.49 per share as of December 31, 2020. It's worth noting that embedded value only reflects a portion of the value of our businesses, as it attributes no value to future new business and only tangible book value to our growing Global WAM businesses as well as our P&C reinsurance operations and Manulife Bank.

Turning to Slide 8, and the progress that we've made executing on our five priorities. Our commitment to optimize Manulife's legacy portfolio remains, and we continue to seek opportunities to reduce risk and unlock value. In the first quarter, we freed up $65 million of capital through the ongoing success of our variable annuity buyout program in the U.S. Expense efficiency is deeply embedded in our culture and I'm pleased to see that reflected in our first quarter expense efficiency ratio of 48.5 percent. While there's still work to do in order to consistently achieve a ratio of less than 50%, we're on the right track.

Our third priority is to accelerate growth in our highest potential businesses, and we aspire to have these businesses generate 2/3 of the total company core earnings by 2022. Growth in our highest potential businesses has outpaced other areas for the last few years, and we're on track to achieve our target by next year. Our highest potential businesses accounted for 60% of total company core earnings in the first quarter of 2021, with Asia and Global WAM delivering exceptional results. In fact, the combined contribution from our Asia and Global WAM businesses to Manulife's core earnings was 54% in the first quarter of 2021.

Sustainability is a priority for Manulife, and our Global WAM business expanded its ESG offerings with the launch of our Sustainable Asia Bond Fund in Europe, and our Global Climate Pooled Fund in Canada, our first climate-change-themed fund developed in alignment with the principles of the Paris Agreement on climate change.

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 have continued to make progress on our digital journey across all our operating segments to better engage with our customers. In Canada, we completed the migration of our Group Benefit clients to one administration system and launched a new adviser portal across our businesses to improve the adviser experience. In the U.S., we piloted a new portal for distributors to submit forms and client information for our international products and streamlined our U.S. life insurance customer onboarding process, reducing the account opening time by as much as 80 percent.

Through our Vitality offering, we announced programs to reward customers in North America who received the COVID-19 vaccine. In Vietnam, we launched a digital sales platform that enables customers to purchase health insurance online. And in Global WAM, we launched a money market fund with OVO, Indonesia's leading digital payments platform and its strategic partner, Bareksa, Indonesia's first online mutual fund marketplace. The result combines digital money and online investment to reach a younger generation of investor in a growing and important market for us.

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 we're proud to have achieved this ranking in 2020. We continue to invest in our team and in April, we launched the Pursuit Learning Hub with LinkedIn Learning. This hub is a world-class online resource with courses taught by internationally respected subject-matter experts. This unified learning and development platform provides our team with the opportunity to learn new skills, capabilities and ways of working, which will enable us to further accelerate our digital customer-obsessed culture.

To conclude, we have the right strategy and continue to demonstrate great progress against it. We delivered strong results to start the year, despite ongoing headwinds and remain committed to our medium-term financial targets, including our dividend payout ratio. I'm optimistic for the future and confident that Manulife is well positioned to outperform as the global economy transitions to recovery.

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 10 and our financial performance for the first quarter of 2021. We started the year with the delivery of strong results, including a 14% rebound in APE sales and the highest new business value in any quarter of our company's history. And, double-digit core earnings growth across all of our operating segments resulted in core earnings of $1.6 billion, which is also a quarterly record. I will highlight the key drivers of our first quarter performance with reference to the next few slides.

Turning to Slide 11, we generated core earnings of $1.6 billion in the first quarter of 2021, up 67% from the prior year on a constant exchange rate basis. This was driven by the favourable impact of markets on seed money investments, higher new business gains in Asia and the U.S., the recognition of core investment gains in the quarter, favourable net policyholder experience, fee income from higher average AUMA in our Global WAM business and in-force business growth across all operating segments.

Net income attributed to shareholders was $783 million in the first quarter, reflecting strong core earnings and investment-related experience gains, partially offset by a net charge from the direct impact of markets as well as a restructuring charge. Of note, we delivered investment-related experience gains of $177 million in the quarter, reflecting higher-than-expected returns on ALDA, primarily driven by fair value gains on private equity investments; the favourable impact of fixed income reinvestment activities and favourable credit experience; partially offset by lower-than-expected returns on real estate. This allowed us to report $100 million of investment-related experience gains in core earnings and $77 million outside of core earnings.

The direct impact of markets in the quarter was a net charge of $835 million, reflecting the impact of non-parallel yield curve movements, primarily driven by the steepening of the yield curve in the U.S. and Canada as well as higher risk-free rates and narrowing corporate spreads. It's important to recognize that the 80 basis point steepening of the curve was an unusual event and by far the greatest steepening we have seen since we implemented our hedging programs in 2012. While net income was adversely impacted by interest rates in the first quarter, higher interest rates are a positive for Manulife in the long term, and Steve will elaborate on this when he presents our 2020 embedded value results in a few minutes.

As we've stated in the past, getting our expenses into fighting shape is an integral component of our strategy and one that we must execute on in order to achieve our ambition. This includes delivering on our target of consistently achieving an expense efficiency ratio of less than 50% by 2022. To that end, we monitor and evaluate our expense base continuously and take action where we see opportunities to operate more efficiently. The restructuring charge of $150 million pre-tax or $115 million post-tax relates to actions that are expected to result in recurring annual expense savings of $250 million pre-tax by 2023. $100 million of these savings are expected to emerge in 2021, growing to $200 million in 2022. These actions pertain to a wide variety of Manulife's businesses and functions, including the U.S. and Japan.

Slide 12 shows our source of earnings analysis. Expected profit on in-force increased by 11% on a constant exchange rate basis, driven by in-force business growth in Canada, the U.S., Japan, Hong Kong and Vietnam. The year-over-year increase reflects business growth in Asia as well as Canadian group insurance and a modest benefit from the impact of the annual actuarial review. We continue to view six percent as a reasonable annual growth rate for our expected profit on in-force with high single-digit growth in Asia being balanced out by low to mid-single-digit growth in North America.

New business almost doubled compared with the prior year quarter, reflecting higher sales and favourable product mix in Mainland

China, Vietnam, Hong Kong, the U.S. and Singapore. Net policyholder experience in the first quarter was favourable, reflecting the impact of higher claims terminations in U.S. long-term care, partially offset by mortality losses in U.S. life and Canada individual insurance. Core earnings on surplus increased compared with the prior year quarter, largely due to favourable returns on seed money investments, partially offset by lower investment income due to lower fixed income yields.

Turning to Slide 13. We delivered core earnings growth of 29% in our Global WAM business, reflecting higher fees from higher average AUMA as a result of strong market performance and net inflows. Core earnings in Asia increased by 21%, driven by higher new business volumes, favourable product mix in Hong Kong and Asia Other and in-force business growth across Asia, partially offset by less favourable policyholder experience and lower investment income on allocated capital. Core earnings in Canada increased by 11%, primarily reflecting improved policyholder experience, including the nonrecurrence of the first quarter 2020 COVID-19-related travel insurance claims provision and higher in-force business earnings, partially offset by lower investment income on allocated capital and unfavourable policyholder experience in retail insurance.

Core earnings in the U.S. increased by 28%, primarily driven by the impact of COVID-19 on policyholder experience. Higher in-force earnings increased new business gains from higher sales volumes and improved product mix; and gains from the GMWB Annuities Offer program were offset by lower investment income on allocated capital. Core losses in corporate and other decreased by $348 million, primarily driven by the favourable impact of markets on seed money investments and core investment gains, partially offset by lower investment income due to lower fixed income yields.

Slide 14 shows our new business value generation and APE sales. Our insurance business delivered very strong new business value of $599 million in the first quarter of 2021, an increase of 32% versus the prior year quarter, driven by double-digit growth in Asia and the U.S. In Asia, new business value increased 39% from the prior year quarter, driven by higher sales volumes and product management actions in Hong Kong and higher sales volumes and favourable product mix in Asia Other, partially offset by lower sales volumes and unfavourable product mix in Japan due to a shift to lower margin COLI products.

In Canada, NBV was consistent with the prior year quarter as a more favourable product mix offset the impact of lower APE sales in individual insurance. In the U.S., NBV increased 30% from the prior year quarter, resulting in the strongest first quarter result in over a decade, driven by higher sales volumes and a more favourable product mix. In the first quarter of 2021, we delivered APE sales of $1.8 billion, a 14% increase from the prior year quarter. In Asia, APE sales increased by 22%, driven by strong growth in our Hong Kong bank channel and double-digit growth in both bancassurance and agency channels in Singapore, Mainland China, Vietnam and Indonesia, partially offset by lower sales in Japan as a result of the adverse impact of COVID-19.

In Canada, APE sales decreased by six percent, reflecting the nonrecurrence of a large affinity markets sale in the first quarter of 2020, partially offset by robust sales of lower-risk segregated fund products. In the U.S., APE sales increased by 13%, driven by domestic indexed universal life products and a recently launched international savings plan product. Additionally, sales of customer solutions with the John Hancock Vitality PLUS feature increased 20% compared with the first quarter of 2020, as this offering continues to be a key differentiator for us.

Turning to Slide 15. Our Global Wealth and Asset Management business benefited from the favourable impact of market performance and delivered net inflows of $1.4 billion with gross flows of nearly $40 billion during the first quarter. In Asia, net outflows of $7.4 billion compares to net inflows of $0.6 billion in the prior year quarter. This decrease was driven by a $9.4 billion redemption in institutional asset management, partially offset by higher gross flows across all business lines. In Canada, net inflows were $4.5 billion compared with net inflows of $2.8 billion in the prior year quarter. The increase was driven by higher net inflows across our retail products, partially offset by the nonrecurrence of several large equity mandate sales in institutional asset management in the first quarter of 2020.

In the U.S., net inflows were $4.2 billion in the first quarter of 2021 compared with net outflows of $0.2 billion in the prior year quarter, driven by retail inflows from strong intermediary sales and lower mutual fund redemptions as well as lower redemptions in institutional asset management. Lower net inflows in retirement were a partial offset. Overall, Global WAM's average AUMA increased by 18% compared with the prior year quarter, driven by the favourable impact of markets and higher net inflows. And, our core EBITDA margin was 30.7% in the first quarter of 2021, up 340 basis points from the prior year quarter.

Turning to Slide 16. We continue to maintain a strong balance sheet and resilient capital position. We have $23 billion of capital above the supervisory target, and our LICAT ratio of 137% is strong. The 12 percentage point decrease compared to the prior quarter was driven by the impacts of the meaningful rise in risk-free rates and the narrowing of corporate spreads, partially offset by the $2 billion capital issuance of limited recourse capital notes.

Our financial leverage increased 290 basis points from the prior quarter, driven by $1.7 billion of net issuances, which we view as prefinancing upcoming redemptions, a reduction in the value of available-for-sale debt securities due to higher interest rates and the unfavourable impact on equity of a stronger Canadian dollar, partially offset by growth in retained earnings.

It's worth noting that in April, we announced our intention to redeem $2.1 billion of securities, including USD 1 billion of debt on June 23, 2021; SGD 500 million of debt on May 25, 2021; and CAD 425 million of preferred shares on June 19, 2021. The impact of these redemptions will be reflected in the LICAT and leverage ratios for the second quarter of 2021. We have reflected these impacts in the pro forma metric on this slide, all else being equal.

Slide 17 outlines our medium-term financial and operating targets and recent performance. Core EPS growth, core ROE and expense efficiency all exceeded our medium-term targets in the first quarter of 2021, and our dividend payout ratio remains within the target range. Our targets remain relevant, supported by our strategic priorities, and we remain confident in our ability to continue to deliver them.

I would now like to turn the call over to Steve Finch, who will discuss embedded value. Steve?

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

Thanks, Phil, and good morning, everyone. Yesterday, we released our 2020 embedded value report, and Slide 19 illustrates the change in embedded value for the Company. We reported embedded value of $61.1 billion as of December 31, 2020, an increase of five percent from the prior year. In 2020, contributions from new business and in-force, which are characterized as EV operating profit by some of our peers, increased embedded value by $6 billion or 10 percent.

Of note, Manulife's EV operating profit has grown at a compound annual growth rate of 12% since 2015. New business accounted for $1.8 billion of the 2020 increase, an impressive outcome given the challenging environment. The $1.9 billion reduction in embedded value in other was driven by the overall negative impact of movements in interest rates and by market impacts on equities and ALDA. This was partially offset by the favourable impact of a new affiliate reinsurance agreement for Hong Kong and by a change in methodology on the Hong Kong risk discount rate.

Organic growth in embedded value was partially offset by the normal course payment of common shareholder dividends as well as currency impacts. Importantly, embedded value of $61.1 billion or $31.49 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 growing Global Wealth and Asset Management businesses as well as our P&C reinsurance operations and Manulife Bank.

Before I conclude, I'd like to draw your attention to the interest rate sensitivities published in the EV report. The sensitivity illustrates that in a scenario where all projected fixed income yields are increased by 50 basis points, we would expect the present value of future earnings to increase by $1.85 billion.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question is from Tom MacKinnon from BMO Capital Markets. Please go ahead.

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

Yes, thanks very much. Maybe a question for Phil here, just looking at Slide 16. And when we look at this pro forma capital above the supervisory target of $20 billion pro forma and $23 billion in the first quarter, if you look at that slide, sort of -- you've sort of round tripped to where you were since LICAT started. In the first quarter of 2018, it showed $16 billion above the supervisory target. You've freed up close to $6 billion. So, just maybe you can give some context perhaps as to how we should be looking at this in terms of how much actual excess capital you have? Because certainly, all the capital over the supervisory target wouldn't be classified as excess. And if you can, in giving that answer, perhaps take into account any capital constraints, if there are some associated with other jurisdictions. And then how much do you actually free up in terms of capital, assuming kind of a more of a normal environment on an annual basis? Thanks.

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

Thank you, Tom, for the question. This is Phil, and thanks for getting us kicked off today. Good questions. And I'll start with your first question on -- specifically on the capital point. You do highlight that $23 billion of excess above the supervisory target at 137% LICAT ratio. I think one thing just contextual, and you touched on this, Tom, in your question. Over the course of the past 18 months, we've seen an increase in interest rates, of course, in the first quarter. But then in 2020, we'd seen a decrease in interest rates. And the decrease last year gave rise to a benefit to the LICAT ratio in the order of 15 points. We saw a rise from 140% at the end of 2019. That went up to 155% during 2020. And then we've seen that moderate down to 137% at the end of the first quarter. What we're seeing in the first quarter is a reversal of the impact of interest rates that had flattered the ratio in 2020. And I always cautioned, in fact, that the ratio had been flattered by the market factors that we've seen in 2020.

If we think about specifically your question on excess capital, I've consistently commented that there is no magic number above which we would say capital is excess. I think the capital position is always contextual, and we will always manage the balance sheet conservatively. But having said that, I think it is fair for me to elaborate a bit further than I have in the past and say that we do have -- we do manage to an internal operating range. And the low point and the upper point of that operating range is determined with reference to stress scenarios that are calibrated to particular levels of probability. And with a LICAT ratio of 137%, we are approximately $10 billion above the upper end of that operating range. So I think that does demonstrate -- is one of the points that I can make to demonstrate that we're really happy with the 137% LICAT ratio, and it is without a doubt a strong ratio.

You also touched, Tom, on where we -- how we've evolved since we adopted LICAT in the first quarter of 2018. At that point, we were at 129% LICAT, $16 billion of capital above the supervisory target, and that was a strong capital position. And since then, of course, we've released capital through portfolio optimization, but we've also deployed capital over that period. And just one -- maybe a couple of things I'll point to there. One would be the consistent increase in the dividend that we've provided, a CAGR of 11 percent. We increased the dividend by 12% last year. We got in there before the OSFI restrictions came into place. But we also, over the course of 2018, 2019, completed net share buybacks of $1.9 billion.

So moving on to the second component of your question, Tom, and really looking at other elements of capital management, and, in particular, how much capital would be freed up on a local basis given macro conditions. As I've commented on before, the capital ratios, in particular, in some of our Asia businesses are sensitive to market factors, interest rates and equity markets. The conditions we're seeing evolved over the course of the past three to four months, where interest rates at the long end have gone up, are certainly favourable to our capital positions in the Asia region. And that means that at this point, we are in a very strong position from a local capital point of view, and that does provide potential tailwinds to remittances in the near term. We haven't pulled any of that capital back yet. But if we see these conditions being sustained, we do intend to pull some of that back later this year.

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

Okay, thanks for that, and the -- maybe just in terms -- is there a rule of thumb in terms of LICAT capital points that might be generated or should we more or less focus on a combination of LICAT points and capital from other jurisdictions, i.e., remittances? Is that the key thing to look at in terms of how we should be thinking about capital that gets freed up annually? Or is there a rule of thumb we can think about in terms of the LICAT points per year?

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

Okay. Thanks, Tom. So just to clarify, the primary basis upon which we manage capital is the LICAT ratio. So we do look at LICAT first. And of course, there may be some short-term elements that we would ask to look through. As we saw in 2020, the ratio was flattered, but do focus on LICAT. Remittances are also important in terms of providing fungibility of capital. But we do have a couple of elements to highlight there. One is that our annual earnings generate capital, and that provides flexibility. But also we have flexibility within MLI to accommodate for any timing differences that we may see in the near-term relating to remittances.

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

Okay, thanks very much then, Phil.

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

Thanks, Tom.

Operator

Thank you. The next question is from Humphrey Lee from Dowling & Partners.

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

Good morning and thank you for taking my questions. My first question is related to the new business gains in Asia, which were very strong again in the quarter, and I think it's probably at a record level. So you talked about some of the business mix in terms of sales in the quarter helping that but I was just wondering if you can go in a little bit deeper in terms of what were the drivers for that level of new business gains in Asia? And how sustainable is it?

Anil Wadhwani ***Manulife Financial Corporation - General Manager Asia***

Hi Humphrey, this is Anil, and thanks for the question. So you're absolutely right that the new business gain -- growth rate was indeed very strong, and it was backed by a few factors. We had strong sales momentum, as Phil alluded to in his opening comments, improved product mix. We've been very disciplined about the repricing actions, as well as taken a number of steps to focus on expense efficiency, which, as you can see, is kind of coming through our numbers. I do want to underscore the point that throughout the -- throughout 2020, when we were going through the pandemic situation, our business was very resilient and we did not stop investing in our business, be it in terms of expanding our distribution or for that matter, investing in our talent and digital capabilities.

That not only allowed us, Humphrey, to be able to show the resilient performance that we did in 2020, but it positioned us in an exceedingly strong position as we transitioned from 2020 to 2021. And on the back of that, we were able to capture the rebound that we saw in some of the economies, specifically China, Hong Kong and Singapore, and the ongoing momentum that we witnessed in Vietnam. If you look at our numbers, barring the volume in Japan, we have seen a very broad level uptick in volumes across different markets in Asia. Our sales were up 22% year-on-year.

Our product mix and, specifically, our health and protection mix was up. In fact, it contributed to 32% of the overall mix as compared to 28% in quarter one of 2020. And again, just kind of goes to highlight that the health and protection needs are absolute top of mind for our clients. In fact, we are seeing that in many of our conversations with our customers. I did mention about the discipline on repricing actions as well as the expense discipline management has resulted in our expense efficiency now to come to slightly below the 45 percent mark.

As we look forward, given the diversified nature of our franchise, if you look at the geographic mix, if you look at the product mix or for that matter, the channel mix, we feel that we are in a very strong position to be able to capture the growth in Asia. I do want to emphasize at this point that you will have to account for some of the seasonality factor that's associated with quarter one, specifically the door-opening impact in China. But if you were to kind of -- if you were to normalize for that, we believe that given the diversified nature of our geography, product and channels, we are very, very well positioned.

I do want to make one more point, and then I'm going to hand it over to Steve to see whether he has any further comments to add. But just as an indicator, if you look at our past performance over the last three quarters, that should give you a good indication as to what we can deliver given the environment. And as I said earlier, if you were to kind of just normalize for the seasonality factor of quarter one, that should be a fair indication to you in terms of a new business gain and its trajectory going forward. Steve, I'm not sure whether you wanted to add anything to that?

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

Thanks, Anil. Just one comment to reinforce. When I look at the results, it is the strong underlying fundamentals, and you touched on the strong sales growth, expense discipline, success of our product re-pricings and business mix. To me, those are strong underlying fundamentals that point to sustainability with the caveats that you highlighted.

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

Humphrey, Roy here. I might just chime in and provide one more data point and reference for you. Asia Other, which represents countries and contributions from Vietnam, China, Singapore, Indonesia, Philippines, Cambodia, has been a huge focus for us as we look to diversify our business mix in Asia. And in Q1 of '21, those markets, Asia Other more broadly, contributed 50% of our new business value, up from 29% in 2016. So Anil's focus on really providing a much more diverse contribution from a geographic perspective as well as from a product perspective is really starting to gain traction, and we are seeing the benefits of that in Q1, and we expect to see that continue throughout 2021 and beyond.

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

So just to, I guess, clarify, based on the comments that you have made, it sounds like maybe what we've seen in the past couple of quarters, may be the floor, but then kind of the -- what we saw in the first quarter, may be kind of the upper end based on your existing footprint. But to Roy's point about Asia Other's continued growth, maybe that band may trend higher over time, but at least maybe in the near term, having the past couple of quarters at the lower end and the current quarter as the upper end, is that the right way to think about it?

Anil Wadhwani ***Manulife Financial Corporation - General Manager Asia***

Humphrey, that's a slightly difficult way for me to kind of frame that, but the point being that, as I said, the last couple of quarters would be a good indication. I think the important point for you to note is that we continue to invest in our driver momentum, right? So if you look at our active agent count or for that matter the momentum on our bancassurance partnership, those are critical for us to be able to drive the growth agenda that we have in Asia. And again, we've kind of mentioned this in the past as well. The secular trends in Asia continue to be very strong. The under-penetration and specifically in the Asia Other market, we continue to see that we have a fair amount of runway to be able to kind of grow our new business momentum in the future quarters, Humphrey.

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

Got it. And then just a quick second follow-up. Looking at the EBITDA margin in Global WAM, definitely, you highlighted it being very strong. Given the -- your current scale and then assuming a cooperative market condition, do you feel like the 30.7% is a sustainable level going forward or at least for the near term? Or do you see any kind of upward or downward pressure?

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

Yes. Thanks, Humphrey. It's Paul here, and I'll take that question. Yes. As you've noticed, it's been the third quarter, I think, in a row where we've delivered above the 30%, and you know we've provided that as one of our - your kind of medium-term goals for the business to continue to improve our operating leverage. And you can see in the quarter, just the strong strength we've had in our top line results, positive net flows despite a single mandate redemption, and just underlying momentum across all our geographies and business lines. If you take that redemption out, we were positive net flows in every business line in every geography. And I think that speaks just to the diversification of our business, our ability to continue to generate that top line growth.

And that's just one side of it. The other side is then the expense management. We typically try to target our expense envelope to half of revenue, and were quite consistent with that again this quarter. And as Phil mentioned in his comments, it's a big focus for us as we brought this business together. We continue to see opportunities for leverage with our scale and just getting more efficiencies out of the business. So we do expect to see improvement still from this point as we go forward, and we drive growth and manage expenses. And again, you saw that this quarter with average AUMA up very strong, but earnings growth was higher than that because of that strong expense management.

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

Got it. Thank you.

Operator

Thank you. The next question is from Scott Chan from Canaccord Genuity. Please go ahead.

Scott Chan ***Canaccord Genuity Group Inc. - Managing Director, Research, Financials***

Good morning. Maybe, Paul, sticking with you on Global WAM. Like in Canada, we see retail being very strong. And it looks like in the U.S., it's kind of the same story, and Manulife produced solid retail net sales in the U.S. Can you maybe describe the U.S. market, where you're, you know, from an industry perspective? And how is Manulife, perhaps in terms of asset classes, benefiting you know, from that trend?

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

Yes. Thanks, Scott. Yes. So maybe I'll just give a little bit of colour on the flow perspective and then do a deeper dive on the U.S. We talked earlier just on the strong gross flows we've seen, the $39.7 billion. That was a record quarter for us in terms of top line growth. So we are really seeing the momentum. And even on the net flows, that was really driven by retail at $6.5 billion and in our retirement business. And what's driving a lot of that is just the strong underlying investment performance. If we look at percentage of our assets, you know, above peers or benchmark, 67% is above the median of one-year, 72% on a three-year and 79% on a five-year basis. So, it's backed up by strong performance of the offerings that we have in the market.

And looking to U.S., in particular, because we have talked about that in previous quarters. U.S. retail had its best sales quarter ever. It was our third straight quarter of positive net flows in our U.S. retail business, and we improved our market share position. So we have been slowly building momentum in that business. And a lot of that has to do just with the broad offering that we have, the quality of the capabilities that we bring to the market. And we try and make sure we have capabilities for all types of market cycles. And we've really benefited from that as our performance has improved. And it's also an opportunity you know for us to make those offerings available within our retirement platforms and other record-keeping platforms. So we do get some leverage across our franchise as well for that business.

Scott Chan ***Canaccord Genuity Group Inc. - Managing Director, Research, Financials***

Thanks. And second question, maybe for Scott. You kind of talked about lower-than-assumed returns on real estate. I'm assuming that's office and retail, and maybe you can confirm that. And when you talk about that lower assumed returns, is that referring to your long-term assumption?

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

Yes. Thanks, Scott, for the question. I am -- I have said in prior quarters, I am worried in the near-term about achieving our assumed returns on real estate in office, in particular. I would be concerned with retail as well, but we have virtually no retail. So that's not an issue. Multifamily and industrial, I think, are performing quite well in this environment. So the big concern, of course, has been when will people come back to the office? How much space will they take up? So what is the demand? What are the lease rates going to be? And while I continue to be concerned, it has yet to play out. I would say, relative to prior quarters, I'm feeling a bit better. We're seeing green shoots. We're seeing a lot of companies announce coming back to the office.

Now albeit in a bit of a hybrid way, but the offset to the hybrid way is that I think they'll be looking for more space per employee and in a lot of cases coming back in a hybrid manner where everybody is in the office on a given day. So it becomes really hard to release space in that environment. So I continue to be cautious, and we need to see this play out, but I'm feeling a little bit better. But -- and all that is really a commentary on the next year or two with respect to real estate. Long term, I continue to have confidence that's a good asset class to be in, and we should be able to achieve our long-term return assumptions.

Scott Chan ***Canaccord Genuity Group Inc. - Managing Director, Research, Financials***

Thanks very much.

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

And just if I could -- if I could just add, Scott, just a couple of points of resilience. One is that, on average, our remaining lease term is about five years. And also a meaningful component of our real estate portfolio is owner-occupied, which also provides that point of resilience and allows us to have some confidence as well that this is something that is more stable than maybe the case for portfolios that don't have an owner-occupied element.

Scott Chan ***Canaccord Genuity Group Inc. - Managing Director, Research, Financials***

Okay, great thanks Phil.

Operator

Thank you. The next question is from Gabriel Dechaine from National Bank Financial. Please go ahead.

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

Good morning. Just a couple of quick questions here. One, I know like the interest rate sensitivity was negative this quarter. I don't want to go into that necessarily. But I was caught off guard by equity market sensitivity. It was a tiny, insignificant gain. I'm wondering why that wasn't a bigger number given your stated sensitivities. And two, book value per share. I know there's a big AOCI component there, and I tried to factor some of the impact of FX and rates into a decline this quarter, but still it was a sequential drop of six percent, which was more than I'd forecasted. And I'm wondering if there's any particular characteristics of your AFS portfolio that yielded that decline -- sequential decline?

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

Sure. Thanks, Gabriel. It's Scott. Maybe I'll start with your first question on the impact of equity markets on our financials. So the bridging item relative to the sensitivities is the result in our variable annuity hedging program where we saw a charge of a little over $100 million. And that was really driven by two major factors. The first one and the biggest one is we tend to think of variable annuity as hedging equity markets, but our liability is really pushed around by interest rates as well. So we do have a significant part of that program is hedging interest rates. And as Phil had mentioned earlier on the call, we saw a really significant move in interest rates this quarter, a bigger upward rise than we've seen since we've been hedging.

And so we did see some rebalancing costs in the interest rate hedging that we did during the quarter. So interest rates were volatile and upward moving. A second component is on the equity side, where markets were much more stable there and were positive, but we saw implied volatilities on our options, and we do use options fairly extensively to hedge the equity part of the book. The implied volatility came down, which reduced the value of those equity options. So in stable times, we tend to see that, although we had very little in the way of rebalancing costs on the equity side. So those two components really drove the charge of over $100 million. I would point out, however, that the liability moved significantly. So even with that charge, the program was 96% effective in offsetting the change in the liability.

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

Okay. Thank you for that colour.

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

So thanks, Scott, and Gabriel, thanks for the question. Maybe I'll pick up on the book value per share point. And I think that's really a story that's told in the statement of changes in equity, which is actually on Page 10 of our SIP, and the book value per share metrics are provided on Page 7 of the SIP. Really what's going on is that the fair value movements on the available-for-sale bond portfolio as well as a small available-for-sale equity portfolio, that's having an impact on the overall book value of the company. That flows directly through equity rather than P&L as well as a more modest impact from currency translation, the impact of translating non-Canadian dollar subsidiaries to Canadian dollars.

So just to put some numbers around those. In the first quarter, the AFS portfolio moved down in terms of valuation by $2.6 billion. The impact of CTA was a negative impact of $0.8 billion. But that, of course -- those impacts are offset by the retained earnings that was generated in the period as well as the $2 billion inflow from the capital issuance from the first quarter. If we look at the sequential movement in book value per share, excluding AOCI, it's actually very stable period-on-period, so $21.84 in the first quarter compared to $21.74 in the fourth quarter of last year.

Operator

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

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

Hi, good morning. Just going to the hit on net earnings from interest rates and correct me if I'm wrong. I think a big chunk of that is related to your hedge book, which is obviously really important to your risk management strategy. But what I'm wanting to understand, is there -- and I get that this isn't something that happens this type of movement every quarter, but we have seen it in the past. Is there anything you can do to soften the blow from the shift of the yield curve on a go-forward basis?

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

Thanks, Doug. It's Steve, and I'll take that question. I think an important context worth reiterating is the fact that higher interest rates are good for the company over the long-term in terms of the product portfolio that we can offer to our customers, higher earnings as we've highlighted in the sensitivities disclosed in the embedded value report. So overall, it's positive. In terms of the impacts in the quarter, yes, the charge was driven -- roughly half of it was from the non-parallel yield moves, primarily the steepening of the yield curves, which Phil pointed out, were an unusual move, over 80 basis points of steepening between the one and the 10-year.

And part of the cause of that is accounting differences between how we value the liabilities under the IFRS standards and the valuation of the assets, which come through on a mark-to-market basis. And some of those accounting differences create this charge when rates steepen. We do see the offsetting impact if rates were to flatten. So either if short-term rates were to increase or if long-term rates were to come down, we would see the offsetting impact. And those accounting differences do make it difficult to match those hedges for a steepening. You can see that we've largely immunized the company against parallel changes in yield curve. The impacts there are quite nominal given the overall size of the book. But that's really the drivers of what's going on in the quarter.

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

And Doug, if I can just chime in and add another data point. Steve mentioned the fact that interest rates increasing is obviously a tailwind for our business and something that we're obviously very positive and optimistic about. I'd just refer you to the embedded value report where our sensitivities illustrate that a 50 basis point increase in rates translates into a $1.8 billion increase in the PV of future earnings. Now that increase will drip in over time but that really is -- I think, it will give you at least a bit of an indicator of how interest rates actually ultimately benefit our business in the medium to longer term.

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

Yes. No, I fully get that. I just -- from the questions I'm getting, I think there's just some frustration with some of the noise that's been coming through and I guess that was the gist of my question but it doesn't feel like there's much you can do. I mean I get why you approach it this way. It's just a function of the accounting noise that has confused a lot of people. And maybe second, and maybe this is for Phil, and I know you went into a little bit about -- on the LICAT in the first question. But can you itemize a little bit more of what drove the 12 basis point quarter-over-quarter decline in LICAT? Because it was bigger than that because then you added in the LRCN. And so I'm just trying to get a sense of how much of that decline came from rates and a little bit more detail on that.

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

Thanks, Scott -- sorry, thanks, Doug. Yes, I'll take that one. This is Phil. So, 12-point movement in LICAT. If you were to apply the published sensitivities that we included in our Q4 results, the interest rate sensitivities and then adjust for the LRCN issuance in the first quarter, you'd work out to a movement of nine points. What actually happened was a movement of 12 points and really, the difference between that nine and 12 points is, I think, best described as the frictional impact of -- that arises from hedge rebalancing and the hedge rebalancing activity that has been carried out in the first quarter in response to the quite significant movements in the rate environment that we've seen. And that when we rebalance hedges, there's an efficiency element of that, but there's also an impact on the amount of required capital that needs to be held. So I would say that's the main driver of the residual three percentage points.

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

Okay. Thank you.

Operator

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

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

Thank you. Good morning. Phil, I have another question for you on the LICAT ratio. And thanks for the additional colour you provided on sort of how you calibrate your operating range. And that's where I want to ask a question on, to get a better understanding of that operating range changes for interest rate movement similar to the reported LICAT ratio. Or if that operating range is more of a sticky number? So i.e., will that gap between actual LICAT and operating range change with interest rate moves or will it be a little bit more consistent?

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

Paul, thanks for the follow-up question on LICAT. Generally speaking, the operating range itself is fairly stable. We do review it at least on an annual basis as part of our overall stress scenario testing that we carry out. But on the whole, it tends to be fairly stable. Having said that, I think the operating range is one data point. It's an internal operating range that we apply and I do think the amount of capital that we hold is always contextual. And I personally -- and I know the company, my colleagues also have a conservative skew when it comes to management of capital.

We do value the flexibility that holding high levels of capital provides. And that flexibility does allow for capital deployment as and when there are opportunities to deploy. But we also value having that flexibility, which means that if we were to deploy, we may also replenish. So I don't think there is any particular magic number that we can refer to, to say, above which that is what we would distribute out. But I do think it's all contextual. And that's why when we looked back at the course of the last 12 months, we looked through some of those short-term factors in determining how much we would really articulate as being true excess.

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

Understood. That's helpful. Thank you.

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

And Paul, it's Steve. I'll add one comment there, just to illustrate one example of the things that we do take into account. You would have seen that our LICAT sensitivity to interest rates actually decreased in the quarter. So, the sensitivity to an increase in interest rates decreased, and that's a function of the underlying LICAT calculations. And if interest rates were to increase further, that sensitivity would also further decrease. That's the type of thing that we -- one of the things that we would factor into in terms of looking at the operating ranges.

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

Got it. That's also helpful. Second question, I want to see if there's any updated thoughts on the possibility and opportunities within U.S. variable annuities and what we're seeing there in terms of interest on the part of reinsurers and how you're weighing that option today? Just to see if anything has changed over the last couple of months.

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

Hi Paul, it's Naveed Irshad here. I'll take that one. Certainly, there's an active market for variable annuity reinsurance in the U.S., which is something we follow very closely. I think we're seeing the private buyers of VA blocks recognize that the public markets may not be appreciating the value within those blocks. I'd say we're very connected to the market. We talk to the players and the associated bankers on a regular and ongoing basis. And we regularly explore inorganic options to understand sort of the bid-ask spreads and will transact if in the best interest of shareholders. That said, our VA business continues to perform well, generate earnings and cash. We're well hedged. The hedging program is holding up quite well through periods of high volatility.

The block is reaching a mature stage. Areas of policyholder uncertainty are decreasing as our GMWB customers start to take income, making the block relatively more attractive to manage. For example, 55% of our U.S. VA block is now taking income. So actually, the feedback we get when we talk to third parties is that they like our block and they like the way we're managing it. We're also pretty pleased with the success we're having on organic initiatives, like the buyback program. We're in the midst of running one right now, targeting about 40% of the U.S. GMWB block. So I guess the bottom line is that we're evaluating options, but we have a lot of strategic options here.

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

Okay, got it. Thank you.

Operator

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

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

Hi, good morning. A question on leverage, pro forma, 27.1 percent. I'm just wondering how you expect that to trend through the remainder of the year and when you expect to get back to that medium-term target range? And kind of as a follow-up there as well. Is there any change in the way you're viewing leverage these days? 27.1%, definitely better than the 29.5% reported, but still quite a bit higher than anything we've seen over the past few years.

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

Thanks, Meny. This is Phil. So I'll answer the second part of your question first and then come back to the first part. There's no change in the way we're looking at the leverage ratio. Our medium-term target remains 25%, and we expect to manage to that over the medium term. In the short term, I think 27.1% that we reported in the first quarter on a pro forma basis, reflecting the impact of the redemptions that we've already announced, that's a fairly good base case scenario. I think for the next couple of quarters, I do expect the leverage ratio to move around from quarter-to-quarter, reflecting the level of equity, but also reflecting the timing of issuances and redemptions.

I think there is an opportunity presented in volatile markets to raise capital and redeem certain instruments, and that's exactly what's happened over the course of the past 12 months. And just looking at the redemptions -- issuances and redemptions this year, there is a $12 million benefit to us. So overall, issuances and redemptions in 2021 so far have been approximately neutral. The net-net redemptions of $400 million if we look to the end of the second quarter but we've been able to reduce the cost of that borrowing by $12 million per annum. So expect it to move around a little, but grade towards 25% in the medium term.

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

So when all is said and done for '21, would you expect the leverage ratio to be higher or lower than what you ended 2020? Is that something you can sort of comment on?

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

I'd expect it to be at a similar level to -- that we've reported in the first quarter so I wouldn't expect it to move materially. But there are a lot of factors, of course, that can impact leverage: capital deployment, the level of equity as well as, of course, the timing of issuances.

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

I would just add, if I may, Meny. As Phil highlighted, we're very comfortable with our leverage ratio. It's significantly down from where it was three years ago. And that has been a focus for us to create greater flexibility in relation to how we manage our business and the balance sheet. We're looking to, again, achieve our aspiration of 25%, but we're in no major rush to get there. We think we're at a very solid point with 27%. And as Phil highlighted, we've significantly reduced the cost of our debt over the last several years with lower interest rates. So that's certainly helping us as well.

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 Darko Mihelic from RBC Capital Markets. Please go ahead.

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

Hi, good morning. First question for Phil. Just if I assume the savings and the restructuring charge are sort of half and half U.S. and Asia, would that be okay or should I get a little more granular than that?

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

Thanks, Darko, for the question. The restructuring charge savings actually do relate to our global operations. I think if we look at some of the early actions we've taken, the U.S. and Japan certainly are a notable component of it, but account for about 50% of the overall charge and benefit. The rest would be evenly spread across the world. And just to put some colour around why that's the case, strategically, we're very focused on improving our customer experience, and that does mean that we're investing in digitization; we're investing in streamlining of processes and automation of processes.

And that's not something we do in any one particular business unit. It's really reflecting the transformation of our global operations and technology functions. And as Anil talked about earlier and Paul talked about in the context of Asia and WAM, the key element of the margin improvement that we're being able to deliver around the world is not only being disciplined when it comes to managing costs, but also the improvements we're making in terms of providing scalable growth in a cost-efficient manner. So overall, just in terms of those paybacks, $250 million by 2023, that's an ongoing benefit that will be in the run rate by 2023 for $150 million investment in 2021. And you'll see $100 million of that emerge this year, and then another $100 million next year.

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

Okay. That's very good colour, thank you very much for that Phil. And my second question is with respect to -- and again I appreciate that you guys have put out a statement saying that you had a favourable outcome in the Mosten litigation. But as I see it, the contract was overruled in the appeals court, which means there could be possibility for a similar type of, sort of, action outside of places with the Saskatchewan regulation. Is this -- should I not be -- should people not be worried about that? Do you not have contracts in other jurisdictions where people can try and copycat what Mosten tried to do? Is there a reason that, that risk is very low and you're not concerned about it? Or should we be concerned about it? And what is the possibility of appeals here that -- I'm no a lawyer, but I understand you have 60 days to appeal the ruling. So it does possibly open up the probability that the regulation itself is overturned. So maybe just a statement or two on why we shouldn't be concerned about this kind of behavior outside of provinces with regulation of similar to Saskatchewan.

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

Yes, Darko, Roy here. Thanks for the question. Look, a couple of comments that I'd make, include, as we've said quite consistently all along that we feel that we would ultimately -- and felt that we would ultimately prevail in this matter and that we thought that the case didn't make any sense at all. And we're, therefore, pleased that the court of appeal specifically ruled that the government of Saskatchewan's regulation apply to all UL policies in Saskatchewan, including those in this litigation. And that, for us, really, again, continues to validate our position. And it effectively means that the scheme that was being proposed by the plaintiff is really not actionable.

In terms of other provinces, we've seen them also implement similar legislation to that, which was enacted -- or similar legislation or regulation that were similar to that, which was enacted in Saskatchewan. And those provinces include Ontario, PEI, Alberta, Nova Scotia, and New Brunswick. So again, we feel that there is a very consistent perspective in relation to what was being proposed, both from a regulatory perspective and from a legislative perspective. So we feel, again, very confident in our position here, and we don't think this is a matter that is a risk for our franchise at all.

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

Okay, thanks for that.

Operator

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

Mario Mendonca ***TD Securities - MD & Research Analyst***

Morning. I'll try to be really brief here. In prior years, when the company has reported charges of the nature that we saw this quarter with a steepening yield curve, I think -- I would sort of remember the company saying that these charges reverse over time as the hedge instruments mature. Is that still the case here? Or perhaps did I misunderstand you in the past?

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

Thanks, Mario. It's Steve. I guess, a good way of looking at this is if we look over the last five years and we look at direct impact of markets, interest rate moves, all-in, corporate spreads and so on, that's been roughly neutral over the last five years. So we view these -- that particularly steepening and flattening, those are things that occur at points in time. But largely, we view our hedging programs as hedging the overall movement in the yield curve. So we view that these temporary -- we view these impacts as temporary that normalize over time.

Mario Mendonca ***TD Securities - MD & Research Analyst***

But if the yield curve would have stayed as steep over the life of the hedge instrument, then the charge wouldn't reverse. Is that true?

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

So yes. Sorry, the -- so the impact of having higher interest rate is a positive. And again, we point back to the embedded value results. So we see that, over time, we will see higher earnings if rates stay higher than they were at year-end.

Mario Mendonca ***TD Securities - MD & Research Analyst***

Steve, that's not what I was asking. What I asked was, if the yield curve remains this steep, does the significant charge we saw this quarter -- does it remain there? Or does it reverse as the hedges mature?

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

So we do see the impact of the higher rates coming through over time. Perhaps we can follow up in turn -- I want to make sure I answer your question appropriately in terms of reversing. I'm saying that we do see the benefit of higher rates coming through over time through our earnings.

Mario Mendonca ***TD Securities - MD & Research Analyst***

Okay.

Operator

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

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

Thank you. Good Morning. My first question was on the dividend payout ratio. So when I look at the payout ratio this quarter, it's nearly the midpoint of your target range. And we're not in a normal economic environment just yet, but I would say your core earnings are closer to a normalized run rate. So would it be fair to say that we should expect the dividend increase to move in line with core earnings? Or do you think of the dividend differently?

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

Thanks, Nigel. Let me start. I guess I'll reiterate one of the points that Phil made earlier, and that is that we did, in fact, increase our dividend in Q1 of 2020, before the new restrictions were put in place by OSFI. And in fact, that was a 12% increase in our dividend. And as you highlight, our target dividend payout is 30% to 40% of core earnings. So we're pleased that we've been able to achieve that consistently over time. And again, our expectation would be that when the restrictions are lifted, that we get back into a regular cadence of increasing our dividend and to be able to deliver not only consistent increases in our dividend, but to make sure that we're in that payout range. But again, clearly, the uncertainty of markets and the environment are a factor that we'll also consider when we're thinking about dividend increases and so on.

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

Okay. That's helpful. And then on embedded value, I think the message there really is perhaps to look past the near-term capital headwinds and maybe look ahead to the long-term benefits from the higher rate environment. And I think what might be helpful is if you could maybe provide more colour on the timing of the benefit to core earnings from higher interest rates. I know you mentioned medium term, but do you expect some of that benefit to start trickling through in 2022 core earnings? Or is it further out than that? And then perhaps you could touch on -- I can understand LICAT right now might be restrictive on inorganic options, but maybe you can touch on how you intend to pursue organic options to generate core earnings growth going ahead?

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

Sure. It's Steve. In terms of how the higher income -- higher earnings will emerge, it really is over time. So we won't see one big change, but we've got long-term businesses. So I think of it as emerging over 20 years, is how we should think about the benefit of higher rates coming through our earnings over time.

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

Yes. This is Phil. Just to supplement. It's really coming through from the unwind of PfADs over time. And that will be over a period of 15, 20 years. And I suppose the link here to Mario's earlier question is that, that would be -- that would assume a base scenario, things stay as they currently are. But in a scenario where the yield curve -- some of that steepening of the yield curve reverses and we see interest rates at the shorter end increase, giving rise to a flattening, some of the -- all the market value charges, the direct market impact charges that we've seen in the first quarter would reverse or partially reverse. So steepening is -- steepening gives rise to a charge. Flattening gives rise to a gain.

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

Right. So I mean, just to touch on that. So if we have central bank policy moving a bit higher in 2022, that could actually be a benefit to you if I understand that correctly?

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

Yes. That's a reasonable expectation. I think you also asked a question there around deployment of capital and opportunities to pursue organic growth as well. And that's something that organic growth, along with sustainable -- the increases in our dividend are key elements of our capital deployment strategy, and you should expect us to focus on those in the near term.

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

Okay, thanks for that.

Operator

Thank you. The next question is from Francois Macheras from Evercore ISI. Please go ahead.

Francois Macheras ***Evercore ISI - Equity Research Vice President, Global Insurance***

Good morning, thank you. Two-part question. Is there a simple maybe rule of thumb to think about how much capital is required for $100 of sales in Asia? And then second on the free cash flow conversion ratio. If we think about the growth in the region and -- but also the current capital position there and potential remittances that were mentioned for later this year, how can we think about that free cash flow ratio? Thanks.

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

It's Steve. I can start in terms of capital deployment in Asia. We don't look at a simple rule of thumb in terms of how much capital is required to support the business. We do have -- we do make organic capital investments to write the new business. But we look at it holistically in terms of the capital, the free cash flow that our in-force business is generating. We also make sure that the capital investments that we're making in products, that we see a return through free cash flow generation in a reasonably short period of time to make sure that we're earning an appropriate return on that capital. And we are generating free cash flow in Asia when you consider both the all-in impact of new business and our in-force.

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

I would just add if I may. Another data point for you to look at is that if you look at the five-year period from 2015 to 2019, Asia remitted $2 billion despite very significant growth over that period. So we feel actually very good about the cash generation that's coming out of all of our businesses, including Asia, which is obviously a growth business and where we're deploying a lot of organic capital.

Francois Macheras ***Evercore ISI - Equity Research Vice President, Global Insurance***

Thank you.

Operator

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

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

Thank you, Donna. We'll be available after the call if there are any follow-up questions. Have a nice morning.

Operator

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