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## PRESENTATION

### Operator

Good morning, and welcome to the Manulife second quarter 2021 Financial Results Conference Call. Your host for today will be Mr. Hung Ko. Please go ahead, Mr. Ko.

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**Hung Ko** - Manulife Financial Corporation - VP, Group Investor Relations

Thank you, and good morning. Welcome to Manulife's earnings conference call to discuss our second quarter 2021 financial and operating results. We are conducting this call virtually. The 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 will begin today's presentation with an overview of our second quarter highlights and an update on our strategic priorities by Roy Gori, our President & 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 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 requeue and we will do our best to respond to all questions.

Before we start, please refer to Slide 2 for a caution on forward-looking statements and Slide 32 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 & Chief Executive Officer. Roy?

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

Thanks, Hung. Good morning, everyone, and thank you for joining us today. Yesterday, we announced our financial results for the second quarter of 2021 and our strong momentum continued from the start of the year, with double-digit growth across a number of our key operating metrics compared with the prior year quarter.

Turning to Slide 6. We delivered record core earnings of \$1.7 billion, an 18% increase from the prior year with double-digit growth across our growth engines, Asia and Global WAM, and we reported net income of \$2.6 billion.

New business value increased 57%, with strong contributions across all geographies, reflecting higher sales volume and more favorable margins. Our expense efficiency ratio improved by 2.1 percentage points compared with the prior year, demonstrating our continued focus on expense management. In our Global WAM business, we continued to build scale and benefited from growth in higher-margin businesses. As a result, our core EBITDA margin increased 440 basis points from the prior year. Our NBV margin for Asia increased by 3.6 percentage points from the prior year, and this represents a tremendous growth from five years ago when the margin was in the low 30s.

Turning to Slide 7 and the progress that we've made executing on our five priorities. As we discussed at our Investor Day in June, the next phase of our strategy is focused on accelerating growth and becoming the most digital, customer-centric global company in our industry. I'm very pleased with our progress in these areas. Growth in our highest potential businesses has outpaced other areas since 2019, and that continued in the second quarter with both Asia and Global WAM delivering double-digit growth in core earnings.

Our highest potential businesses accounted for 61% of total company core earnings year-to-date 2021, and we're on track to achieve our target of 67% of total company core earnings by 2022. In Asia, we announced a three-year partnership with LIMRA, a leading global trade association for the financial services industry in order to further recruit best-in-class agents across Asia. This partnership complements our newly launched Manulife Business Academy, our region-wide unified learning and development platform for our growing number of agents. Global WAM-managed AUMA totalled more than \$1 trillion, reflecting our track record of positive net flows and strong investment performance. And we secured an Alternative Investment Fund Managers' license to offer onshore private market funds in our key European markets. This is a major milestone in driving the expansion and offering of our private market investment capabilities within Europe.

On the behavioral insurance front, we launched the Manulife Vitality Healthy Mind reward program to help our individual insurance customers improve their mental and emotional well-being. Our ambition is to be a leader in our industry when it comes to digital capabilities and customer experience, and we're executing on our strategy to attract, engage and retain customers by delivering an outstanding experience. There is strong evidence that higher NPS results in increased customer retention, higher number of products per customer, increased investment balances and higher referrals, leading to lower acquisition costs and agent recruiting costs.

Since 2018, we've invested \$750 million in digital enhancements, which have positioned us well to better engage with our customers and has contributed to our NPS of plus 19 as of the second quarter of 2021. This is an 18-point improvement from our 2017 baseline, and we're on track to achieve our NPS target of plus 31 by 2022. During the second quarter, we continued to make progress on our digital journey across all our operating segments to better engage with our customers. In Asia, we entered into a new digital collaboration with rewards, a rewards aggregator and management solution to further incentivize customers that are part of our MOVE program to be physically active.

In the U.S., we continued to enhance our digital underwriting capabilities by integrating our underwriting decision engine with iPipeline, a leading provider of no-code or low-code, content-based digital solutions to accelerate the life insurance application process. This new approach will dramatically reduce the life insurance sales cycle and offer a less intrusive way to collect medical history data with digital signatures. In our Global

WAM business, we launched a new retirement mobile app for all U.S. plan members. The new app gives members the ability to enroll in their plan, view account details, make changes to their account and use additional financial tools to provide them with guidance on their retirement savings strategies and financial priorities.

Turning to Slide 8. Expense efficiency is deeply embedded in our culture, and I'm pleased to see the benefits reflected in our second quarter expense efficiency ratio of 46.8 percent. The ratio improved by 2.1 percentage points year-over-year, reflecting pretax core earnings growth of 16% that far outpaced core expense growth of five percent. We've made significant progress towards meeting our goal of consistently achieving a ratio of less than 50 percent. In the second quarter, we freed up \$200 million of capital, primarily driven by our annuity guaranteed minimum withdrawal benefit offer program in the U.S. The GMWB offer program has reduced the guaranteed value of the USDA business by approximately seven percent since it was launched in 2019. It's a prime example of our organic initiatives to optimize capital and reduce risk.

On a cumulative basis, we've freed up \$6.1 billion of capital through our portfolio optimization efforts across multiple legacy blocks. Whilst we've exceeded our target of releasing \$5 billion of capital, our commitment to optimize Manulife's legacy portfolio, especially LTC and VA, remains, and we continue to seek opportunities to reduce risk and unlock value. As I announced at Investor Day, we plan to reduce the core earnings contributions from LTC and VA to less than 15% of total company core earnings by 2025. And I look forward to providing you with an update on our progress towards all of our 2025 supplemental goals at year-end.

Our final priority is around building a high-performing team. I believe that culture will be a sustainable long-term competitive advantage and that only a highly-engaged, high-performing team can consistently exceed customer expectations and deliver superior results. 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 continued to deliver against our goals of increasing women in our leadership ranks and our new graduate hiring of black, indigenous and people of colour talent in 2020 reached 52%, more than doubling our goal. In addition, we're continuing to develop our high-performing team and winning culture through initiatives focused on well-being, learning and recognition. Highlights include our second annual global Thank You Day for all colleagues as well as our bespoke Elevate well-being program, our global initiative to encourage and help our teams focus on their well-being. And, we're on the path to building a culture of sustainability to better our planet.

In May, we announced our commitment to net zero emissions to support climate goals worldwide, recognizing the important role that 37,000 employees, 118,000 agents and over \$1 trillion in AUMA can play in global climate solutions. Of note, I'm proud to share that we're already net zero in our operations due to the carbon removals from our substantial owned and operated forest and farmland. Our objective of net zero focuses on three key areas: through our operations, we will substantially reduce emissions to lessen our footprint; we'll actively invest for a sustainable future; with our products and services we'll develop innovative solutions that contribute to climate change mitigation and resilience.

To conclude, we continue to demonstrate great progress against our strategic priorities. We're executing on the next phase of our strategy with a greater focus on accelerating growth in our highest-potential businesses. Our strong results in the second quarter of 2021 showcased the strength of our Asia and Global WAM businesses, and I'm pleased with our progress towards delivering on our goals. Our commitment to continue to optimize our legacy businesses especially LTC and VA is as strong as ever. We continue to invest in our digital capabilities to both improve customer experience and deliver on our efficiency target. Whilst the challenging and uneven operating environment continues across many markets globally, we're pleased to see a path to reopening in many of the world's largest economies.

We continue to believe that Manulife is uniquely positioned to win as the global economy positions the recovery and are optimistic about the future of our franchise. Thank you. And I'll hand over to Phil Witherington, who will review the highlights of our financial results. Phil?

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

Thank you, Roy, and good morning, everyone.

Turning to Slide 11 and our financial performance for the second quarter of 2021. As Roy mentioned, our strong momentum continued in the second quarter. We delivered double-digit growth in Asia and Global WAM, resulting in record core earnings of \$1.7 billion and total company net income of \$2.6 billion. Strong customer demand, combined with favorable market sentiment during the quarter contributed to double-digit APE

sales and new business value growth across all insurance segments, as well as an increase in net flows and average AUMA in our Global WAM business. And our LICAT ratio of 137% and leverage ratio of 25.9% provide us with financial flexibility to deliver on our strategic priorities.

We will complete our annual review of actuarial methods and assumptions during the third quarter of 2021. And while this review is not yet complete, preliminary indications suggest the impact will be roughly neutral. Separately, in June 2021, the Canadian Actuarial Standards Board issued new guidance with reductions to the ultimate reinvestment rate and updates to the calibration criteria for stochastic risk-free rates. These updated standards include a reduction of 15 basis points in the URR and a corresponding change to the stochastic risk-free rate modeling and will be effective from October 15, 2021.

We expect to adopt this standard in the third quarter of 2021 and consistent with our disclosed sensitivities, we estimate that it will reduce net income attributed to shareholders by approximately \$550 million post tax. The impact of this change will be reported in items excluded from core earnings as part of the direct impact of markets. I will highlight the key drivers of our second quarter performance with reference to the next few slides.

Turning to Slide 12. We generated core earnings of \$1.7 billion in the second quarter of 2021, up 18% from the prior year on a constant exchange-rate basis. This was driven by higher new business gains across all insurance segments, higher net fee income from higher average AUMA in our Global WAM business, the recognition of core investment gains in the quarter and inforce business growth in Asia and Canada. These items were partially offset by modestly unfavorable net policyholder experience compared with net favorable COVID-19 impacts in the prior year quarter and lower net gains on seed money investments in segregated and mutual funds.

Net income attributed to shareholders was \$2.6 billion in the second quarter, reflecting growth in core earnings, gains from investment-related experience compared with losses in the prior year quarter and larger gains from the direct impact of equity markets and interest rates. Of note, we delivered investment-related experience gains of \$839 million in the quarter reflecting higher-than-expected returns on ALDA primarily driven by fair value gains on private equity, the favorable impact of fixed income reinvestment activities and favorable credit experience. \$100 million of these investment-related experience gains were reported in core earnings, with the remaining \$739 million reported outside of core earnings. The direct impact of markets in the quarter was a gain of \$177 million, reflecting strong equity market performance. The gain of \$40 million from the direct impact of interest rates was the result of lower risk-free rates and flattening of the yield curve, partially offset by a charge from the sale of AFS bonds. Our year-to-date 2021 net income attributed to shareholders of \$3.4 billion was above core earnings of \$3.3 billion despite market volatility throughout the year. This reflects the transitory nature of market impacts on our income period-over-period and our ability to manage market risks effectively over time.

Slide 13 shows our source of earnings analysis. Expected profit on inforce increased by eight percent on a constant exchange-rate basis driven by growth in Hong Kong, Japan, Vietnam and Canada Group insurance. New business nearly doubled compared with the prior year quarter, with growth across all insurance segments driven by higher sales, improved margins and a more favorable product mix in the U.S., favorable product mix and strong sales in Hong Kong as well as Asia Other and higher sales in Canada retail insurance. Net policyholder experience in the second quarter was modestly unfavorable, primarily driven by adverse claims experience in U.S. life partially offset by favorable claims experience in Canada Group insurance. Long-term care policyholder experience was approximately neutral. Core earnings on surplus decreased compared with the prior year quarter, largely due to the net impact of lower yields on fixed income investments and lower net gains on seed money investments in segregated funds and mutual funds partially offset by gains on the sale of AFS equities.

Turning to Slide 14. We delivered core earnings growth of 62% in our Global WAM business, reflecting growth in net fee income driven by higher average AUMA from the favorable impact of markets and net inflows as well as favorable business mix. Core earnings in Asia increased by 20%, driven by higher new business volumes, reflecting a lessening of the impact of COVID-19 on sales, favorable product mix and inforce business growth, partially offset by modestly unfavorable policyholder experience and lower investment income on allocated capital. Core earnings in Canada decreased by seven percent primarily driven by a lower level of favorable policyholder experience compared with the impact of COVID-19 containment measures on claims in the prior year quarter and lower investment income on allocated capital partially offset by higher inforce earnings and higher sales in our retail insurance business. Core earnings in the U.S. decreased by 10% primarily driven by a less favorable impact from COVID-19 on long-term care policyholder experience and lower investment income on allocated capital, partially offset by higher new business volumes.

Core losses in Corporate and Other, improved by \$114 million, primarily driven by core investment gains, partially offset by the net impact of lower yields on fixed income investments, lower net gains on seed money investments in segregated funds and mutual funds, gains on sales of AFS equities and lower interest on allocated capital to operating segments.

Slide 15 shows our new business value generation and APE sales. Our insurance business delivered very strong new business value of \$550 million in the second quarter of 2021, an increase of 57% versus the prior year quarter, with double-digit growth across all insurance segments. In Asia, NBV increased 48% from the prior year quarter driven by higher sales volumes in Asia Other markets, favorable interest rates, higher sales volumes and product management actions in Hong Kong and expense management actions and favorable product mix in Japan due to a shift away from the lower-margin COLI products. In Canada, NBV increased 65% from the prior year quarter due to the impact of higher sales volumes and more favorable margins.

In the U.S., NBV doubled the level of the prior year quarter, primarily driven by higher sales volumes and more favorable margins. In the second quarter of 2021, we delivered APE sales of \$1.4 billion, a 30% increase from the prior year quarter. While COVID-19 impacts on sales have moderated, the pandemic continued to have varying degrees of adverse impacts across the markets in which we operate. In Asia, APE sales increased by 34% reflecting double-digit growth in both bancassurance and agency channels in Asia Other markets and Hong Kong, which benefited from continued strong domestic demand and emerging demand from Mainland Chinese visitors, partially offset by lower COLI product sales in Japan.

In Canada, APE sales increased by 15%, primarily driven by higher sales of lower risk segregated fund products, higher retail insurance sales and higher small and midsized group insurance sales, partially offset by the nonrecurrence of a large affinity market sale in the prior year and lower large case group insurance sales. In the U.S., APE sales increased by 40% due to higher customer demand across all product lines. APE sales of products with the John Hancock Vitality PLUS feature increased by 27% as the feature continues to be a differentiator in the market.

Turning to Slide 16. Our Global Wealth and Asset Management business delivered net inflows of \$8.6 billion with gross flows of nearly \$34 billion during the second quarter and also benefited from the favorable impact of markets. In retail, net inflows were \$7.3 billion compared with net outflows of \$1 billion in the prior year quarter. The increase was driven by double-digit growth in gross flows across all geographies and lower mutual fund redemptions in the U.S. Institutional asset management net inflows were \$1.9 billion compared with net inflows of \$6.5 billion in the prior year quarter. The year-over-year change was driven by Canada from the non-recurrence of a \$6.9 billion sale in the prior year and a \$1 billion sale to an existing client in the second quarter of 2021. In Retirement, net outflows were \$0.6 billion compared with net outflows of \$0.3 billion in the prior year quarter reflecting higher member withdrawals partially offset by growth in new plan sales and member contributions. Overall, Global WAM's average AUMA increased by 26% compared with the prior year quarter, driven by the favorable impact of markets and higher net inflows.

As part of the expanded disclosures introduced at our recent Investor Day, I'm pleased to highlight the net fee income yield metric. Global WAM's net fee income yield of 44.4 basis points increased by 0.8 basis points from the prior year quarter, reflecting favorable business mix, which benefited from growth in retail net inflows. And, core EBITDA margin increased by 440 basis points, driven by a combination of higher net fee income, operational benefits from increased scale and disciplined expense management. The strong growth in average AUMA and core EBITDA margin expansion contributed to core earnings growth of 62% over the prior year quarter.

Turning to Slide 17. Our strategic expense management program is mature and efficiency is embedded in our culture. We delivered an expense efficiency ratio of 46.8% in the second quarter of 2021 with an improvement of 2.1 percentage points compared with the prior year quarter. This improvement was driven by a 16% increase in pretax core earnings, which far outpaced the five percent increase in general expenses included in core earnings. We remain committed to our goal of consistently achieving a ratio of less than 50 percent. As I mentioned at our recent Investor Day, we set our sights on achieving positive jaws in 2023 and beyond, meaning that we will endeavor to have our top line growth, the denominator of our efficiency ratio, exceed our core general expenses growth rate.

Turning to Slide 18. We continue to maintain a strong balance sheet and capital position. We have \$23 billion of capital above the supervisory target and our LICAT ratio of 137% is strong. The ratio is in line with the prior quarter as favorable impacts from market movements, mainly from lower risk-free rates and ALDA gains were offset by the impact of capital redemptions of \$2.1 billion. Our financial leverage decreased 3.6 percentage points from the prior quarter to 25.9%, driven by the redemption of debt and capital instruments of \$2.1 billion, growth in retained earnings and the favorable impact of lower interest rates on the value of AFS debt securities, partially offset by the unfavorable impact of a stronger Canadian

dollar. We remain committed to achieving our 25% medium-term leverage target, but would note that the ratio is subject to variation period-over-period due to the timing of financing activities.

Slide 19 outlines our medium-term financial targets and recent performance. Core ROE and the expense efficiency ratio met our medium-term targets in the second quarter of 2021, and our dividend payout ratio remains within our target range. We remain confident in delivering 10-12% core EPS growth over the medium term. Of note, core EPS growth of six percent in the second quarter of 2021 reflects the impact of currency translation. On a constant exchange-rate-basis, second quarter 2021 core EPS grew 17% compared with the prior year quarter.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) The first question is from Humphrey Lee of Dowling & Partners. Your line is open, please go ahead.

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### Humphrey Lee - Dowling & Partners Securities - Research Analyst

Good morning and thank you for taking my questions. My first question is related to new business gains in Asia. While it shows a good year-over-year growth, but it's a little bit softer compared to the levels we have seen over the past several quarters. I believe the sales mix had an impact on that. But I was just wondering if you can elaborate on some of the moving pieces for new business gains that we've seen in the quarter? And what is your outlook for that coming from Asia in the coming quarters?

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### Anil Wadhvani - Manulife Financial Corporation - President & CEO, Manulife Asia

Thanks, Humphrey. Thanks for the question. This is Anil. So, as you rightly pointed out, our growth of new business gain in quarter two has been very strong. We are very pleased with the 51% growth that we've seen year-on-year on a constant exchange-rate-basis, and that's on account of a few factors. One, it's been aided on account of the strong new business sales, and we illustrated during the Investor Day as well that we continue to expand our distribution, continue to improve our digital and technology capabilities as well as upscale and upgrade our talent. We were very well positioned as we entered 2021; started the year strongly and then kind of backed it up with a strong quarter two performance as well. In addition to that, we have been taking a number of steps on driving product mix. We have taken a number of repricing actions over the last 12 to 18 months as well as you would have heard Phil illustrate, we've been very disciplined around our expenses. So a combination of these factors have resulted into the growth that you're witnessing on the new business gain line.

The new business growth, we believe, is quite consistent with our sales volume. So, as you reckon, it is highly correlated with new business sales, and if you look at the correlation, it's quite consistent over quarter one and quarter two. And, to your second question, in terms of the outlook, if I were to kind of draw your attention to the trajectory of the previous three quarters, and if you were to kind of normalize that for the seasonality of quarter one, which as you know is primarily the China door-opening effect, that will give you a good indication, Humphrey, of the new business gain trajectory.

I would also like to point out, in addition to that, we've also witnessed a 16% growth on EPIF and that is our ongoing focus on driving value out of our inforce book. The only thing I would caveat in terms of outlook is that we have seen more recently, resurgence of COVID in many of our Southeast Asian markets. And while we have had a significant experience over the last 18 months to operate in a COVID environment, obviously, that's something that we are watching exceedingly closely. As you reckon, the containment measures that get enforced from time to time across markets do have an impact on the mobility of our distributors and customers that could present a challenge on momentum in the short term. But we remain very confident about our medium- to long-term targets that we had recently shared with you during the Investor Day. Thanks for the question once again, Humphrey.



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

That's helpful, but I guess looking back at the past several quarters, there's probably around \$170 million of new business gains in quarter three and quarter four. And then obviously, Q1 was very strong because of the door opening in China. And then this quarter is kind of around \$160 million. So it seems a little bit lighter than like, I guess, the second half of last year, where your APE sales were kind of comparable? Like just how to think about that change?

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

Yes. So I think, as I pointed out, I think from a year-on-year perspective, our growth has been pretty solid, as you would have seen from our disclosures. I guess you will always have some level of variability depending upon the geographic mix as well as product mix, as you highlighted in your question. But as I said, the correlation between new business sales, and new business gain in our reckoning, has been pretty consistent. If you do normalize for quarter one seasonality, it should kind of give you a good indication of our new business gain estimate.

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

I'll just add on, I think Anil covered it quite well. But I would just say that seasonality isn't just affecting necessarily our total sales. It will also affect the sales by geography. And as you highlight, Q3, Q4 isn't radically off what you saw in Q2 from a results perspective but the makeup of our results does vary based on seasonality. It's obviously more pronounced with Q1 in China, but there is a bit of a mix across the different markets and Q2 isn't radically different to Q3, Q4, as you've highlighted. I wouldn't look at that as a big difference.

And again, it really goes to the core of the geographic diversity that's really very helpful for us and has allowed us to continue to deliver strong results and quite frankly, gain market share across many markets in Asia, not only in 2020 but in '21 as well.

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

Thank you. I appreciate that. My second question is related to Global WAM. You saw very strong retail net flows in the quarter. And as you pointed out, strong gross sales across geographies and low redemption. Can you just talk about where you're seeing traction in terms of kind of which geography is getting stronger inflows and then also what type of asset classes are getting the inflows?

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**Paul Lorentz** - Manulife Financial Corporation - President & CEO, Manulife Investment Management

Yes, thanks, Humphrey, it's Paul here, and I'll answer the question. Yes, as you mentioned, we had a very strong quarter this quarter in terms of gross flows and net flows and retail was the primary driver there. And Phil mentioned in his opening remarks, we did see double-digit growth across all three regions in gross flows. I think that just speaks to just the underlying quality of the franchise and the diversification. It's also worth noting that in our U.S., it was the fourth straight consecutive quarter of positive net flows in our U.S. business. That's also contributing here. We've seen continued momentum in that business, building off the last three quarters. The other thing helping us here is in terms of your question on mix, if you look back to maybe the start of 2020, we were selling quite a bit of fixed income. We're seeing a much more balanced mix of sales now, particularly within the retail channel to equity and to balanced mandates. So that's also helping drive the overall flows and profile of the business but also support that net yield that we're now disclosing.

So we're -- the fundamentals of the business are very strong. And I would say they're also strong in the other channels as well, just not as pronounced as retail where we're seeing a big impact.



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

Got it. Thank you.

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**Operator**

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

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

Yes, thanks very much. Good morning. I want to talk a little bit about the policyholder experience losses in the quarter. And if we look at overall, the experience gains and losses on a core basis were \$34 million, seem to be in line with what we were looking for despite probably higher policyholder experience losses. So maybe you can kind of explain what other experience gains or losses might have been in there? So I guess to summarize, it would just be a little bit more color on the policyholder experience losses by geography, and what were the other core experience gains or losses that contributed to the minus \$34 million that you reported? Thanks.

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

Thanks, Tom. It's Steve here, and I'll be happy to answer that question. As Phil noted, our overall policyholder experience was slightly unfavorable at \$15 million loss and the big -- the drivers there that Phil called out, the U.S. life claims experience -- the one piece of color I'd add there is the bulk of what we saw in terms of coming through as a loss occurred at the start of the quarter in April. I think we're seeing some COVID trends in those results, but it got better over the course of the quarter. Those were offset by gains in our Canadian Group insurance business, primarily in our long-term disability business, where we saw strong recoveries.

And then Asia was close to neutral, some modest claims gains and some lapse losses that were across a number of geographies, not concentrated in any one area. And then in terms of what else goes into core experience, what goes in there as well is our expense-related experience and a reminder that, that includes our regional overhead costs in Asia. And then what we see is -- we do see some variability in that line from reinsurance-related items and we had some -- a number of small positives there in this quarter. So those are the key drivers of what we're seeing in policyholder experience and the core experience line.

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

Okay. And what about -- did you mention long-term care? What was -- that was neutral in the quarter. And I think you mentioned that there's been sort of a COVID impact that's been progressing from April and, I guess, improving maybe in your U.S. life. Maybe you can shed how that sort of COVID impact has impacted long-term care and what you would expect going forward with respect to long-term care experience?

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

Sure. In long-term care, what we saw in the quarter, it was a small positive result close to neutral, but small positive. And, you know, for context, I'd remind people that the vaccination effort in the U.S. for the population over 65, the vaccination program has been very successful with 80% of that population fully vaccinated and 90% with at least one dose. So how that's translating, we saw in long-term care a reversion back towards more normal trends. We had reported in the past that we had seen customers suspending care and not seeking care, and we provided for that in our IBNR. What we saw this quarter is that we saw a greater trend to resumption of care where care had stopped, and we saw a trend to more normal initiation of care.

And then in terms of the impact on claim terminations, we saw that because of those vaccine efforts, the rate of claim terminations, so deaths of our insureds on claim, that came back down more towards more normal levels as well. And while it's difficult to predict exactly how this plays out over the course of the year, our expectation is that we will continue to see a trend back to more normal experience.

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

Okay. And any update on the U.S. variable annuity legacy transaction that you flagged at your Investor Day?

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**Naveed Irshad** - *Manulife Financial Corporation - Global Head of Inforce Management*

Hi Tom, it's Naveed here. What I can say is that it's certainly a robust market for VA. There's lots of buyers with interest in variable annuities in the U.S. We are continuing discussions and engaging with prospective buyers, and we continue to believe that a deal is possible in 2021.

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

Okay, thank you.

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**Operator**

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

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

Hi. Good morning. I guess it's back to Anil on Asia and specifically on new business value margins. Just hoping to get some color. On one side, we did see a decline of 4.3 points in Other Asia, and on the flip side, we did see Hong Kong new business emerging 75.8 percent. I think that's the highest I can recall. And so I was just trying to get a sense if there's some unusual items here. What's really kind of flexing these two margins in different directions?

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

Thanks for the question. And let me start with Hong Kong first. So the Hong Kong new business value was driven on account of a few reasons. One, we saw a growth of seven percent on sales. But importantly, we have been focusing on driving value across all our geographies. And obviously, Hong Kong being our flagship and scaled business, it's most evident in terms of the scale as well as some of the initiatives that we are driving in our Hong Kong market. Clearly, product mix has been a key driver of it. It's been aided by some of the repricing actions that we've taken in Hong Kong, now for multiple quarters as well as despite the growth that we have witnessed in Hong Kong now for multiple years we have been exceedingly disciplined about our expenses. So a combination of that has kind of resulted into the strong growth that we have witnessed on the new business value margin in Hong Kong.

With respect to Asia Other and again, I do want to kind of highlight the fact that Asia Other continues to perform exceedingly strongly. The new business value growth year-on-year stood at 59 percent. And again, that should not surprise us given the constitution of Asia Other. We have markets like China, Singapore, Indonesia, Vietnam, that kind of constitute Asia Other. So it not only provides diversification strength to Asia but also provides diversification strength to the Asia Other segment.

The new business value margin largely from a year-on-year basis or a quarter-on-quarter basis, has been impacted on account of, again, some of the market mix or the geographic mix that we witnessed that could change from quarter-on-quarter as well as some of the product mix that could drive the new impact on new business value margin. But suffice to say, just kind of given the diversity strength as well as our significant market

position in many of our geographies in Asia, other combined with the under-penetration that exists in many of these markets, we believe that we are very well positioned to be able to capture the growth opportunity in the Asia Other segment.

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

And just a follow-up on the Hong Kong. Is that -- it sounds like you think that 75% is sustainable given -- I mean there's going to be seasonality, obviously, but that you feel that it's a sustainable level?

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

Yes. We believe, as I said, it's also represented -- representation of the fact that Hong Kong is our flagship business and a scaled operation. We have been gaining market share now for multiple quarters in Hong Kong. And again, quarter one of this year has been no exception.

Hong Kong, however, does tend to be a little bit sensitive to interest rates. So that's something that we will have to take in account quarter-on-quarter. But again, I think what we are focused on are the core drivers of what drives NBV. And that is, as I said, higher volume, product mix, as well as some of the repricing actions combined with our expense discipline. So we feel good about the opportunity in Hong Kong and again, the scale nature of Hong Kong should be able to help us deliver the growth at very healthy margins going forward.

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

Okay. And just second, in Japan, there was a five percent quarter-over-quarter drop in agents. I think you talked a bit about repositioning that business following the shift with COLI. And -- so is this just part of normal turnover or was there some culling -- or was there something a little bit more deliberate in what you're doing in Japan?

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

Yes. I think we have been emphasizing in Japan, in light of some of the changes that we are witnessing in the COLI market, our emphasis, as we have mentioned on previous calls, has been in terms of driving inforce as well as expense efficiency. And the number of initiatives that we have taken on both these accounts have resulted into positive attribution both on core earnings in Japan that grew at eight percent year-on-year as well as new business value that grew by 13% year-on-year. We would, as I said, see some level of fluctuation quarter-on-quarter from an agent head-count growth but as I said, the market in Japan is in transition, and we are adapting to some of these transitions by focusing on inforce, focusing on driving the right product mix as well as driving a much higher expense efficiency.

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

Doug, I would just add that five percent of our agent base in Japan is not a really significant number unlike in other markets where we have very significant agent count. In Japan, we have a smaller agency force and five percent isn't really a huge number of agents that would be in the normal course of movement from quarter-to-quarter. But as Anil highlights, our focus on agency across Asia has been strong, and we've seen significant increases not just over the last few years, but certainly in the quarter on last year as well.

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

Thank you.

**Operator**

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

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

Merci. Two questions. One, has the 10-year drop affected the transaction activity in the legacy book or potential thereof? And two, more importantly, can you give us a sense of the duration of the product you're selling in Asia? I know there's going to be some variability there, but trying to get a sense of what kind of amortization schedule we're going to be facing when these new business gains are transitioned to IFRS 17? Thanks.

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**Naveed Irshad** - *Manulife Financial Corporation - Global Head of Inforce Management*

Yes, I'll start. This is Naveed. In terms of the interest rates and potential transactions, we do stay closely connected to potential buyers, investment bankers really have the -- our finger on the pulse of the market. We were seeing certainly that pricing was previously improving as interest rates have gone up and yield opportunities have gone up. And we haven't really seen a big pullback yet. So we do see a lot of activity in the market, a lot of capital continue to make deals. And so from our end, we're continuing to regularly test potential opportunities to transact, evaluate the bid-ask spread for every block and certainly will transact if it generates value.

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

Thank you.

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

And Gabe, it's Steve. I can touch on your second question. While we don't disclose product-by-product the duration, one thing I'd point you to in our embedded value disclosure is we do disclose there the emergence of our free surplus generation. And when we get to IFRS 17, one of the disclosures that are required is illustrating how that CSM will amortize over time.

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

Right.

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

So in the meantime, I'd direct you to the embedded value disclosure. We've got products that are shorter term; we've got products that are longer term; but I think the EV disclosure gives some indication of how it evolves now, and then we'll provide that information when we transition to IFRS 17.

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

Okay, we'll follow up offline I guess. Have a good summer.

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**Operator**

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

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

Hi, good morning. Another question on new business gains. We're seeing that it's a big driver of core EPS growth this quarter and for some time. I'm trying to think through what that means in an IFRS 17 world? In terms of you know, if new business gains are amortized that that impact is more muted in terms of the overall contribution to core EPS. How -- what steps into the breach in terms of the SOE line to -- to keep the growth going? So just wondering if you could help me kind of think through that from a growth -- from a core earnings growth perspective?

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

Hi Meny, this is Phil. Thanks for the question. And you're absolutely right that new business gains are treated differently on an IFRS 17 basis. So as we transition from IFRS four, the current basis, to IFRS 17, what you'll see is the equivalent of new business gains are deferred as where a liability is established in the balance sheet as contractual service margin. And so I think that will be a really important metric or movement in the contractual service margin will be a really important metric in terms of measuring growth. And while it's too early to be specific about the impact of IFRS 17 on our financials, and that's really because the guidance of interpretations do continue to evolve. What I can confidently say is that whether you're looking at IFRS 17 earnings or movements in CSM or a combination of the two, I think the underlying growth power of our insurance businesses will be clear under IFRS 17.

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

So in terms of sort of assessing the earnings growth power, is it going to be important to kind of look at both like we're not just going to be able to look at core EPS growth, but we'll have to look at that sort of underlying servicing margin as well. Is that kind of what you're suggesting in terms of thinking about that issue?

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

Absolutely. I think both earnings and movement in CSM will be really important metrics to look at under IFRS 17.

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

Yes. I think you hit the nail on the head, Meny. CSM is going to be a key measure through which to assess insurance companies going forward under IFRS 17. And the growth of CSM will be a good leading indicator for future profitability as it obviously gets amortized. So I think you're on the right train as it relates to CSM and looking at growth as a key driver of value in the future. This is a topic that we're going to have to spend a lot more time discussing with you all. So we're looking forward to that as we are able to provide much more clarity in the coming quarters.

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

Thanks.

**Operator**

Thank you. The next question is from Lemar Persaud of Cormark Securities. Please go ahead.

**Lemar Persaud** - *Cormark Securities - Equity Research Analyst*

Yes, thanks. My question is on the core EBITDA margin improvement in wealth management. So certainly, I think it's possible for the core EBITDA margin to move higher but my question is more so on the sustainability of the rate of improvement. So could you really -- could you talk to me about what's the outlook for the core EBITDA margin improvement over time? Like usually, when I think of these businesses and margin improvements, I think of it as being a little bit more gradual, but we're seeing quite the step up so far this year. Thanks.

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**Paul Lorentz** - *Manulife Financial Corporation - President & CEO, Manulife Investment Management*

Yes. Thanks for the question, Lemar, it's Paul here. Yes, you know, as you mentioned, in terms of the EBITDA margin, we have seen a pretty big pick-up over the last year, and we're now four consecutive quarters being above 30, which was our previous guidance of trying to get to that mark, which is obviously a new threshold we've surpassed and are feeling quite comfortable where we are. What I would say is, as we've highlighted previously, we try and target expense growth at about half of revenue growth in the GWAM business but you do need to look at this over a longer-term time frame. We will need to invest in the business you know, expenses will move around a little bit quarter-to-quarter so it's not going to be you know, a straight trajectory on the way up. We're going to have to invest and a lot of it is dependent on markets.

What we're focused on is what we can control. And I think as you look at our franchise and the diversification and frankly, the strategic choices we have by region, where margins are different, particularly in Asia and Canada and by channel. Just with the strength of our retail franchise, again, where we tend to see higher margins. We're feeling really good just about our ability to consistently deliver positive net flows over the long term and our ability to drive efficiencies out of the global franchise. One of our milestones this quarter as we surpassed \$1 trillion in assets under management and administration for total GWAM that gives us tremendous scale for the business so we do believe we can continue to drive margin improvement as we go forward but that's going to be dependent on market levels, mix of business, investor preferences, et cetera. But overall, I would say, fundamentals of the business are good. We feel we can continue to drive this margin higher over the long term.

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

Lemar, I would just add as well, I would highlight that this was our fourth straight quarter where our core EBITDA margin was greater than 30 percent. That was a huge milestone for us to continue to demonstrate success in growing our core EBITDA margin, and we've consistently done that, notwithstanding Paul's comments that we are going to see some variability.

Two big factors that are helping us are, a) our global scale, which is really coming to the fore when you're able to defray or to leverage your expense base across multiple markets, that's certainly an advantage for us on margin. The second, as Paul highlighted, is that we have tremendous growth opportunities in geographies, which have very high margins. And whilst we may see some competitive pressures, on fees in certain geographies, the fact that we're growing in other geographies that are higher margins is certainly a tailwind for us and something that we're very excited about, which is why at Investor Day, we highlighted that Global WAM was a key opportunity for us as we look forward to not just the next couple of years, but quite frankly, the next decade.

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**Lemar Persaud** - *Cormark Securities - Equity Research Analyst*

Great, thank you. And then my second question is on expenses so it's maybe more appropriate for Phil. So, so far in 2021, the efficiency ratio has been meaningfully below your less than 50% target. What this seems to suggest to me is one of two things, either are likely to see the target move down to something lower or a higher mix ratio. So can you talk to me about which of those two are more likely in your view? And if a higher mix ratio is more likely what's going to drive that? Thank you.

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

Hi Lemar, thanks for the question and your observation is absolutely right. We've been notably below the 50% benchmark the target that we've set ourselves for 2022 and that -- it's been below it for a couple of quarters now. What I would highlight, though, is that when we talk about a 50%

cost efficiency ratio, we're looking at consistently delivering that over a period of time, and there always is some seasonality with expenses. And I'm not yet satisfied that we are consistently delivering an efficiency ratio below 50% so that's something that I think we need to observe over a number of more quarters.

There is a tailwind at the moment in that pretax core earnings has been growing very strongly in the first half of the year, and that is favorable for the efficiency ratio. But I want to emphasize from an expense management perspective, our priority is very much strategic expense management, strategic cost management, so it's not about belt tightening. Our program is mature, and we're looking to link efficiency with other elements of our strategy, in particular, the digital and customer elements of our strategy and our ability to deliver scalable growth.

And this touches on your earlier question to Paul. You know, there's a real link between our ability to scale the organization and our efficiency program because we're then able to grow the business in an efficient manner, which is why both on the insurance side and on the wealth and asset management side, you see that operating leverage emerge.

You touched on the future and one of the things that I commented on at Investor Day is what happens beyond the -- beyond consistently delivering a 50% cost efficiency ratio. And what we said there is that we really target to deliver positive jaws, which means we expect the growth in our pretax, pre-expenses, core earnings to outpace the growth in our expenses and I think that does speak to ongoing operating leverage that would take the ratio below 50% beyond 2022.

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**Lemar Persaud** - *Cormark Securities - Equity Research Analyst*

Alright. Thank you.

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**Operator**

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

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

Thank you. Good morning. I wanted to follow up on U.S. life experience in this quarter. And with the emergence of the Delta variant, we're seeing COVID trends diverge on a state-by-state basis with some states having more adverse experience. I was wondering if you could refresh us on your U.S. life policyholder mix geographically? Are there certain states that you're more concentrated in, in the U.S. or less concentrated in? And how do you expect that to translate into claim experience on the life side in the near term?

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

Thanks, Nigel. It's Steve. I can start and Marianne can add comments if she would like to, as well. You know, reminder of some of what we saw during the pandemic last year was we saw a diversity in terms of our mortality and our longevity risk. So we saw -- while we saw losses on our mortality business in U.S. life, we saw gains in long-term care. Now -- and those trends can deviate a little bit quarter-to-quarter, but the diversification is there. My expectation is that we -- if we predict how the variant evolves, but if we watch the trends right now, the rates of mortality have come down substantially and I mentioned earlier the protection that the population over 65 has received, I think, is a positive sign. So, depending how this emerges, I would still expect to see offsets. I think it's just difficult to predict right now what the variants might do. I don't know if Marianne wants to comment on geographic mix.



**Marianne Harrison** - *Manulife Financial Corporation - President & CEO, John Hancock*

Yes. Happy to, Steve. Thank you. From a geographic mix, we are across the entire U.S., but we are concentrated definitely more so in the big states like California in the past, New York, Florida, New England states. We have actually stopped selling in New York any new business. We still have some product offerings that are there. But we have pulled out of New York temporarily, but we are generally all across the U.S.

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

And that would apply for long-term care as well. So I was just adding that, that would apply for long-term care as well. So the comment around the diversification benefit I expect to continue to exist.

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

Okay. That makes sense. And if I could tie that together with your longer-term strategy of reducing the contribution to core earnings from LTC and VA, tying your previous comments together, if we have variants that are more vaccine resistant or escape the vaccine and COVID-19 becomes more endemic instead of a pandemic, can you explain or just provide more color on how that fits with your long-term strategy to reduce the LTC and VA exposure? Wouldn't you want that longevity exposure offset to exist or to be substantial if mortality risk is elevated in an endemic COVID-19 scenario? How do you think about it long term?

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

Sure. What we've seen through the pandemic is that while we've taken some losses on the mortality side, relative to a balance sheet position, they've not been that material. So in terms of the overall mortality risk that the company has, quite comfortable with that. And the focus that we've got on optimizing legacy, we believe that, that is a very desirable, prudent approach to take even if we did end up with a little bit less diversification on the mortality side, but does that -- we don't think that would be material for the company.

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

I would just chime in and add, I think Steve answered the question correctly. The diversification has certainly helped us, and we saw that not just in the last couple of quarters, but quite frankly, over the course of 2020. But the gross impacts on both sides of those equations aren't that significant in the scheme of things. And again, we see a lot of value in continuing to focus on reducing our legacy businesses. And as we mentioned at Investor Day, LTC and VA will command a much greater focus for us, and that certainly isn't going to change.

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

Okay, appreciate the color. Thank you.

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**Operator**

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

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

Hi. Thank you. Good morning. I have three questions, but I'll adhere to the two-question limit.

The first question is an easy one, I think. In the U.S. you had very good sales and very good new business gains. What I'm interested in knowing is, what was the biggest driver of the increase in the new business gains and how sustainable do you think this new level is?

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**Marianne Harrison** - *Manulife Financial Corporation - President & CEO, John Hancock*

Thanks, Darko, for the question. It's Marianne. Certainly, in the first half of 2021, we certainly benefited from higher customer demand, really across all of our product lines and our new business growth rates continue to be quite strong. The new business gains specifically were a combination of our strong sales as well as favorable margins. And the margin increase, as you can imagine, with the strong sales, you know, we get efficiencies of scale. But it's also as a result of some of our continued discipline that we have in our pricing of our products, new product development, as well as significant expense management that Phil was talking about earlier, which were all part of our strategic plan that we had set back in 2018 and so we've been really working on the profitability of the overall business.

So we're quite pleased with where we have landed. We also tend to play in the portions of the market that have the highest margins as well. And I do think that makes a difference. And just a reminder that our high net worth international business that's run out of Bermuda, is also part of our U.S. segment as well and the margins on that business are very, very high. And we do see a competitive advantage with Vitality, and as we continue to go forward, you know, all of these factors together, we think the fundamentals are strong, and there will be variabilities similar to what Anil was talking about in terms of gains, but I think we feel good about the future as well.

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

Okay. Thank you, and so just to further emphasize, do you think -- I mean, obviously, there's variability, but we've hit sort of like a new run rate level, give or take a few -- give or take \$10 million or \$20 million?

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**Marianne Harrison** - *Manulife Financial Corporation - President & CEO, John Hancock*

Yes. I think that we're feeling pretty good about where we are, again, based on some variability. I don't want to commit to a new run rate. Obviously, the sales growth was a significant factor to this. But on the margin side, we feel good about where the margins are and a lot of the work that we've done in order to get the profitability in a good spot.

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

Okay. Thank you very much for that. My second question is probably for Steve, but may also include you, Marianne. So we were reading today about massive changes in Canada with respect to long-term care, possibly resulting in significantly higher costs to run long-term care homes in Canada, clearly a different paradigm in the U.S. But I know next year, you're going into the large assumption review. So the question is, is this something that's on your radar screen? How sensitive and how big a magnitude is there possibly for a change to expense assumptions in the long-term care blocks? And then an addendum to that is how quickly can you adjust premium rates based on significantly higher expenses for long-term care? I realize there's a lot of parts to that question. But any kind of insight there would be interesting and helpful. Thank you.

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

Thanks, Darko. It's Steve. I can start and Marianne may wish to add. We're watching closely all the potential implications over time from the pandemic and that would include what the trends are in long-term care. Will there be a shift in care setting? Will more care be delivered at home? What might the cost of long-term care services be? And the short answer is, right now, we don't know. I think what we saw in the second quarter is customers are just starting to feel comfortable resuming care of some kind. But in terms of the longer-term trends, we're going to have to study that really, really closely.

In terms of how -- if we -- if there were trends that emerged, the question around adjusting premiums, that has been a lever that we have been able to use, giving customers options. We disclosed at Investor Day that we've achieved \$9 billion of premium increases over time and continue to make progress against our filings with the state. So it has been a very effective lever. If there are clearly defined trends, those are things that we

can file for rate increases. So once there are very clear trends, we can and would take action. So Marianne, I'll pass to you if you have anything to add.

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**Marianne Harrison** - *Manulife Financial Corporation - President & CEO, John Hancock*

Yes, I think you covered it very well, Steve. I really don't have anything to add in to that.

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

So just a quick follow-up on that, Steve. So the suspicion that I have brewing is you'll do your work and you as a company may decide to get ahead of that expense curve and possibly result in a large reserve build. And then only afterwards, once there is clear evidence of an increase in cost, can you go back and ask for premium rate increases. Is that a possible outcome here or a likely outcome?

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

No. No. Let me be clear. On the reserving side, given that we're talking about a long-term exposure, I would not adjust reserves until there were very, very clear trends. That's either positive or negative, by the way. So the reserving -- my expectation the reserving would line up with we need to have confidence in the trends before we would change premiums. We need confidence in the trends before we change assumptions. And in long-term care, there are -- there's a variety of different things going on.

As I mentioned, you talked about the potential for higher cost. I don't know if that will occur. I have not settled on that. Other trends that could be positive would be more home care, which tends to be less expensive. So I think we need to watch the trends and there won't be any knee-jerk reactions.

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

Okay, that's very helpful. Thank you Steve.

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**Operator**

Thank you, the next question is from Paul Holden of CIBC. Please go ahead.

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

Thank you. Good morning. So, first question is related to premium rate increases in long-term care, while we're on that topic. It seems like we've been waiting for some of those additional rate increases to come through. Are there any updates there?

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**Naveed Irshad** - *Manulife Financial Corporation - Global Head of Inforce Management*

Hi Paul, it's Naveed here. I'll take that question. So we're continuing to make progress as we're seeing rate increases in line with our original expectation. We had recent favorable LTC policyholder experience, but we don't think that will be detrimental to IFRS. Our rate increases, as we've laid out are based on long-term expectations in production and our long-term expectations haven't changed. We actually also haven't seen any material impact on responsiveness from the states on contractually permitted rate increases. The pace of approval actually is stable overall and it's consistent with the last few years. We continued to get approvals in Q2, and we're tracking well relative to our plans and what's embedded in our reserve.

On Investor Day, we announced that we received over \$1 billion of -- we assumed \$1.9 billion embedded in our padded reserves. And of the \$6 billion that we have actuarial justification for and we're still pursuing, still \$5 billion is still outstanding and that we're actively working on. And as Steve said, overall, that's \$9 billion of approvals on the program to date. So really a track record of execution.

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

Okay. Got it. Yes. Obviously, the reason I ask is it's a large number. So second question I had and coming back to Naveed. Part of your answer around VA again was you'll transact if it generates value for shareholders. And I think I tried to ask this on the last conference call. But again, I think it's important to set the table for everyone in terms of what is the crack lens for viewing creation of shareholder value on a VA transaction? Just so the day a press release comes out, everyone can kind of look at it and understand what lens we should be viewing it in terms of shareholder value creation?

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**Naveed Irshad** - Manulife Financial Corporation - Global Head of Inforce Management

Yes. So I would say, I mean, the focus on any potential VA transaction is risk reduction, such as the contingent capital risk on VA. And as you pointed out, transacting at a price point that's in the best interest of shareholders, I guess you're trying to get at how we determine that. Obviously, there's a lot of factors. I mean the risk reduction is a factor in that we know that earnings on variable annuities are discounted, different analysts do different sum-of-the-parts analysis and value of it being in a different way, but we know there's a range there. And we look at that range, we look at what the pricing on a VA transaction would be in terms of capital release versus that range of multiples and that's sort of how we determine whether a transaction is in the best interest of shareholders along with, obviously, the risk reduction benefits.

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

And then maybe a follow-up on that one. Is it also fair to assume that you're going to free up some capital, obviously, with a VA transaction, and therefore, the potential redeployment of that capital also goes into that value creation equation. Is that a fair assumption?

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**Naveed Irshad** - Manulife Financial Corporation - Global Head of Inforce Management

Yes, that's a fair assumption.

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

Okay. Thank you.

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**Operator**

Thank you. The next question is from Mike Rizvanovic of Credit Suisse. Please go ahead.

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**Mike Rizvanovic** - Cr dit Suisse, Research Division - Research Analyst

Good morning. A question for Anil. I want to go back to the Asia business. And just looking at the 20% growth rate that you've talked about year-over-year basis, and you had a pretty big sequential step function up in Q3 of 2020. So it looks like you're coming up against a very tough comp year-over-year next quarter. So I'm just wondering, what is it that changes in the business in the near term that's going to get you there and keep you on that 15%-plus targeted growth rate? Because when I do look at the last four quarters, you haven't really had much movement even on a CER basis in terms of your core ROE in U.S. dollars?

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

Thanks for the question. So in terms of the way we can think about the business is through a lens of how we're faring on our drivers and towards that, I had emphasized the fact that we continue to expand our distribution. We now have 117,000 agents in Asia. We have 10 exclusive bank partnerships. And across both the agency growth as well as penetrating further our bank partner base, we have significant opportunity to be able to drive momentum on an ongoing basis. I also do want to kind of highlight the fact that we have made significant investments and continue to do so in improving our digital experience and specifically, when it comes to how distributors interact with our customers. And that has a couple of knock-on impacts, one, it allows us greater expense efficiency, but also it allows us greater productivity and a higher customer experience on account of the investments that we are making on digitization.

One of the other points that we've illustrated in the past, and Roy alluded to that as well. One of the key strengths within our Asia franchise is the diversity of our operation. And from time to time, you would have noticed that if we do face a headwind in one market, it does kind of then get compensated by a tailwind in the other. And that is something that we would continue to kind of amplify as we kind of think about all our reported segments going forward.

So in the short term, we might have some momentum challenges on account of the resurgence of COVID, and that's something that I mentioned earlier as well, specifically impacting our Southeast Asian markets like Vietnam, Philippines, Indonesia, Malaysia, they have kind of seen a significant increase in COVID. But as I said, we've also gained experience over the last 18 months to operate in a COVID environment. So we're watching that very closely.

But from a medium- to longer-term perspective, just the secular trends in Asia given our significant market positions in many of the geographies that we operate in as well as our ongoing investments in driving momentum and digitization, we feel pretty good about capturing the growth opportunity in Asia.

**Mike Rizvanovic** - Crédit Suisse, Research Division - Research Analyst

Okay, thanks, so you would expect most of that growth to come into the expected profit line going forward, correct?

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

I would not -- I would say on both, right? We've kind of -- and I again mentioned that we have been applying specific emphasis on inforce and you can see the robust growth that we have been able to deliver in quarter two, 16% in quarter two of this year. But you will also have to combine that with new business gain momentum as well, which as you know, is going to be highly correlated to new business sales volumes, as I alluded earlier as well. And that's where the importance on ensuring that the distribution is kind of lined up. Your growth drivers are kind of pretty much in order is going to be a key emphasis for us. So I guess it's going to be both across EPIF as well as new business gain.

**Mike Rizvanovic** - Crédit Suisse, Research Division - Research Analyst

Okay, thanks for that, and then just one quick one, maybe best for Phil. Just wanted to ask about the \$328 million new business gains, which is, of course, a net number. Can you provide any color on how much strain there might be in that number? I'm trying to get a sense of what the actual new business gains were on a gross basis, which would be reduced by any negative strain. Do you have negative strain in some products that you sell and positive in others? What would be the mix more broadly?

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

Thanks, Mike, for the question. This is Phil. So \$328 million new business gains, that is a net number that does include certain products that generate strain. I don't have the specifics in front of me of how much strain is embedded within that. Steve, I don't know whether you have any additional comment to make there.

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

Thanks, Phil. I don't have the numbers in front of me. But as you can imagine, we -- given that you -- it's a drag on earnings, and it -- we do focus on where we see strain coming through, we're constantly focused on looking at how we can improve profitability, et cetera. So where we do have it, it's management's intention to drive margin improvement.

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**Mike Rizvanovic** - Crédit Suisse, Research Division - Research Analyst

So is it fair to assume that it's a small number. The strain portion would be a small number to get to that net \$328 million?

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

Mike, certainly it's smaller than the gross number, but I don't want certainly smaller than the gross number but like I said, I don't have that handy. We could follow up with you, but I think that's the conclusion.

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**Mike Rizvanovic** - Crédit Suisse, Research Division - Research Analyst

Yes, maybe you could follow up. Thanks very much for the color, appreciate it.

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

Thanks, Mike.

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**Operator**

Thank you. There are no further questions registered at this time. I would now like to turn the meeting over to Mr. Ko.

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**Hung Ko** - Manulife Financial Corporation - VP, Group Investor Relations

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

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**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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