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MFC.TO - Q2 2025 Manulife Financial Corp Earnings Call

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PRESENTATION

Operator

Please be advised that this conference call is being recorded. Good morning, ladies and gentlemen. Welcome to the Manulife Financial second quarter 2025 financial results conference call. I would now like to turn the meeting over to Mr. Ko. Please go ahead, Mr. Ko.

Hung Ko - *Manulife Financial Corp - Global Head of Treasury and Investor Relations*

Thank you. Welcome to Manulife's earnings conference call to discuss our second quarter 2025 financial and operating results. As part of today's call, we'll also discussing our acquisition of Comvest Credit Partners that was announced yesterday afternoon.

Our earnings materials as well as material related to the transaction, including the webcast slides for each respective presentation are available on the Investor Relations section of our website at manulife.com.

Before we start, please refer to the slides containing a caution on forward-looking statements and a note on the non-GAAP and other financial measures used in each of the respective presentations. Please note that certain material factors or assumptions are applied in making forward-looking statements, and actual results may differ materially from what is stated.

Turning to slide 4, we'll begin today's presentation with Phil Witherington, our new President and Chief Executive Officer, who'll provide a highlight of our second quarter 2025 results and a strategic update. Following Phil, Colin Simpson, our Chief Financial Officer, will discuss the Company's

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financial and operating results in more detail before we hand it over to Paul Lorentz, our President and CEO of Manulife Wealth And Asset Management, who will discuss the acquisition of Comvest Credit Partners.

After their prepared remarks, we'll move to live Q&A portion of the call. I would like to remind each participant to adhere to a limit of two questions, including follow-ups, and to re-queue if you have additional questions.

With that, I'd like to turn the call over to Phil.

Philip Witherington - *Manulife Financial Corp - President and Chief Executive Officer*

Thanks Hung, and thank you all for joining us today. It is an incredible privilege to lead this great organization and a responsibility that I take very seriously. Before we begin, I would like to take the opportunity to congratulate Stephanie Fadous on her appointment as Chief Actuary and welcome her to the Executive Leadership Team. I would also like to congratulate Steve Finch on his new role as CEO for our Asia segment. Both Stephanie and Steve bring a wealth of experience to their new positions, and I look forward to working closely with them and the entire Executive Leadership Team as we build on our success.

As I'm also new to my role, over the past few months, I've been focused on engaging with and listening to our customers, colleagues, partners, analysts, and investors. I've visited our offices in Waterloo, Montreal, Halifax, Boston, as well as spending time with Steve and our team in Asia. This has been an informative experience, allowing me to receive their insightful, constructive and encouraging feedback about our organization.

Throughout, I've had one goal in mind, further improving how we serve our customers, support our colleagues and the community, and generate greater value for shareholders.

Let me share a few key takeaways from these engagements. First, our transformation efforts since 2017 have laid a solid foundation for our next chapter of growth. We have an incredibly attractive business profile, with market leading operations in some of the highest growth markets, and significant synergies across our segments. Our leaders around the world are excited about not only sustaining performance, but taking it to the next level.

Second, we have made and continue to make tremendous progress on our digital ambition, reimagining the ways we interact with customers and embedding market-leading AI capabilities across our businesses. These efforts are contributing to both growth and increased productivity.

Finally, I remain committed to investing in our businesses to deliver high-quality, sustainable growth for the benefit of all stakeholders, including the investor community.

Our capital deployment priorities remain unchanged, and we have ample capacity given our strong cash generation and financial flexibility. And as we've said on previous calls, we will continue to deploy capital strategically, assessing inorganic opportunities for their ability to enhance our strategic capabilities or allow us to scale our business.

That's why I'm excited that we have announced that Global WAM has entered into an agreement to acquire a 75% stake in Comvest Credit Partners for USD937.5 million with a pre-defined path to acquiring the remaining 25% interest in six years.

Comvest is a highly differentiated, rapidly growing, middle-market private credit manager with USD14.7 billion on its platform. This acquisition will scale our private markets business and expand and enhance our existing private credit capabilities, driving future growth across each of our Global WAM lines of business. The acquisition will reduce our LICAT ratio by less than 3pps and is expected to be immediately accretive to our core EPS, core ROE, and core EBITDA margin. This is an example of how we're deploying capital to enhance shareholder value, and it will not impact the pace of our share buyback program. Paul will provide additional color on this exciting update shortly.

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Moving to slide 7. At our Investor Day in Hong Kong last year, we demonstrated confidence in our ability to sustainably grow the business. We announced bold but achievable targets to allow you to measure and track our progress. I remain confident that we have a clear and credible path to achieve these targets, and we're executing on our plans to reach them.

In the coming months, our Leadership Team will complete a review of our strategy with a view to assessing where we might refresh it to deliver on our longer-term ambitions. I look forward to sharing the output of those discussions with you in due course.

Moving on to our quarterly results on slide 8. Our second quarter results reflect continued strong momentum in our business growth while highlighting the diversity of our global franchise.

Our continued top-line growth was particularly encouraging, with each insurance segment generating over 30% growth in new business CSM, a key indicator of future earnings growth, and Global WAM once again generated positive net flows.

From a profitability standpoint, core EPS grew 2% from the prior year, which reflects strong underlying business growth, though it was dampened by elevated U.S. mortality and a provision in our expected credit loss. Colin will dive into these in a few moments.

Our balance sheet remains strong and provides financial flexibility with a strong LICAT ratio of 136% and a leverage ratio that is well below our 25% target. And we continue to grow our book value per share, which increased 5% from the prior year, while returning significant capital to shareholders.

Overall, I'm pleased with the operating results we've delivered this quarter, despite a challenging operating environment. I'm excited about the opportunities that lie ahead, and I'm confident in our ability to deliver high-quality, sustainable growth through a focus on meeting the needs and expectations of our customers and other stakeholder groups, including the investor community.

With that, I'll hand it over to Colin to discuss our quarterly results in greater detail. Colin?

Colin Simpson - *Manulife Financial Corp - Chief Financial Officer*

Thanks, Phil. The second quarter was a solid one for Manulife, where the strength and stability of our diversified global franchise helped us deliver resilient results despite some short-term earnings headwinds. I'm particularly encouraged by our continued top-line momentum and strong underlying business growth in Asia, Canada, and our Wealth and Asset Management business.

Let's start on slide 10. Our continued top-line growth reflects our strong business fundamentals, evidenced by double-digit year-over-year growth across APE sales, new business CSM, and new business value. Our APE sales increased 15% from the prior year, with more than 30% growth in both Asia and the U.S.

The strong sales supported significant growth in value metrics, with 37% growth in new business CSM and 20% growth in new business value. In fact, each Insurance segment delivered over 30% growth in new business CSM, which bodes well for our future earnings growth.

Global WAM delivered another quarter of positive net flows at nearly $1 billion, demonstrating the strength of our diversified platform, with Institutional and Retirement inflows partially offset by outflows in our Retail business.

I'll walk you through the key earnings drivers on slide 11, comparing them to last year. Our Insurance businesses continue to grow, with Asia and Canada driving impressive growth in insurance service results. However, this was offset by overall unfavorable insurance experience reported in earnings, which was mainly driven by the U.S., where we saw an elevated number of claims on large policies in our life business. Given the nature of the business, there can be variability in large claims from time to time. Despite the magnitude of the charges this quarter, we believe it is normal claim volatility rather than an unfavorable mortality trend.

Moving to our net investment result, solid business growth in Asia was more than offset by a net charge in the expected credit loss or "ECL" provision.

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We continue to expect $30 million to $50 million of an ECL charge a quarter on average, though there can be variability. The charge this quarter was primarily related to certain below-investment-grade loan investments in the U.S., and we do not see any extrapolation from this across the rest of our portfolio, particularly our investment-grade book, which represents 96% of our fixed income portfolio and continues to perform well.

Given the benign credit environment last year and the resulting neutral ECL impact, the year-over-year comparison was elevated. Excluding the impact of the ECL, our core earnings growth would have been 2% compared with the prior year.

Global WAM continued to generate strong results, achieving its seventh consecutive quarter of over 20% growth in pre-tax core earnings and highlighting the strength of our global platform.

Finally, I would also add that our two recent reinsurance transactions with RGA reduced core earnings by $20 million across multiple lines of the DOE.

Turning to slide 12. you'll note that core EPS increased 2%, reflecting the modest decline in core earnings and the impact of share buybacks. If you were to normalize for the impact of the higher ECL provision, core EPS would have grown 7% compared to the prior year quarter.

We reported $1.8 billion of net income this quarter, an increase of $747 million compared to the prior year quarter, which included positive overall market experiences, largely driven by a $217 million gain from higher-than-expected public equity returns. This was partially offset by a charge of $172 million in our ALDA portfolio from lower-than-expected returns. While ALDA experience improved from the prior quarter, we continue to see headwinds from lower-than-expected returns on commercial real estate and private equity investments, partially offset by strength in infrastructure.

Turning to the segment results. We'll start with Asia on slide 13. Our high-potential Asia segment continued to generate strong growth across all new business metrics. APE increased 31% from the prior year, led by broad-based growth in Hong Kong across all distribution channels, alongside strong contributions from Mainland China and Singapore within Asia Other.

The overall increase in sales contributed to significant growth in value metrics, with new business CSM and new business value increasing 34% and 28%, respectively. And while new business value margin was approximately in line with the prior year quarter, it increased 1.9pps quarter-on-quarter, driven by expansion in Asia Other and Japan. We also generated a 13% year-on-year growth in core earnings in Asia, reflecting continued business growth momentum and favorable claims experience, partially offset by strengthened ECL provisions.

Over to Global WAM on slide 14. Global WAM had another great quarter, with a strong 19% growth in core earnings. This was again supported by higher average third-party AUMA, higher performance fees, and our ongoing focus on expense management.

We delivered positive net flows for the quarter of nearly $1 billion, reflecting the continued strength and diversity of our platform. Strong inflows in Institutional and across all regions in Retirement were partially offset by net outflows in our Retail business, primarily in North American intermediary.

We again generated positive operating leverage with a core EBITDA margin of 30.1%, which expanded 380bps from the prior year, or 170bps sequentially, reflecting the impact of our proactive expense management.

One of the key drivers of margin expansion has been expense management, some of which has been taken in advance of our upcoming transition to the new eMPF platform in Hong Kong later this year. We expect our core EBITDA margin to decline post-transition and then grow in line with the targets set out for Investor Day. This new platform, which will see the Mandatory Provident Fund Schemes Authority take on increased administrative responsibilities, ultimately centralizes and digitizes all MPF schemes, reducing the fees earned.

Currently, the MPF Schemes Authority has successfully onboarded more than half of the trustees in the market, and we are expecting to commence our transition during the fourth quarter of this year. Assuming our transition proceeds as planned, starting in the fourth quarter of this year, we expect to see some impact to core earnings in our Retirement business, with the full quarterly run-rate impact of approximately USD25 million

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beginning in the first quarter of 2026. We're committed to the market, and given our scale and unique capabilities, the MPF business continues to be an attractive business for our Global WAM franchise.

Next, we head over to Canada on slide 15, where we delivered solid results during the quarter. APE sales decreased 34% from the prior year, which reflects strong double-digit growth in our Individual Insurance business, primarily due to higher Par sales. But this was more than offset by the non-recurrence of a large case sale in our Group Insurance business in the prior year. As there is no CSM on our Group Insurance, our Individual Insurance sales drove very strong new business CSM growth of 32% year on year.

Core earnings increased by 4%, thanks to the continued growth in our Group Insurance business and higher investment spreads. However, this was partially offset by the non-recurrence of a release in ECL provision in the prior year, and to a lesser extent, the impact of the RGA Canadian universal life reinsurance transaction.

Lastly, our U.S. segment's results on slide 16. In the U.S., we delivered strong APE sales growth of 40%. With the demand for accumulation insurance products from affluent customers remaining firm, we also generated strong growth in new business CSM and new business value of 59% and 12%, respectively.

Core earnings decreased 53% from a year earlier due to unfavorable mortality experiences in our Life business, lower investment spreads, as well as strengthened ECL provisions.

While the U.S. core earnings are undoubtedly disappointing this quarter, as I noted earlier, we view the claims experience and ECL impacts as short-term headwinds that do not represent a trend. We remain confident in the U.S. segment's ability to deliver steady earnings given the strong growth in our new business metrics this year.

Bringing you to our book value on slide 17, you can see we are continuing to grow our adjusted book value per share, with 7% growth from the prior year quarter to $35.78, even after returning over $6.4 billion of capital to shareholders through dividends and share buybacks over the past year. On a stand-alone quarter basis, we returned nearly $1.4 billion of capital to shareholders, including both dividends and share buybacks during the period.

You'll notice our book value per share declined modestly quarter-on-quarter, but the majority of this was attributed to the currency translation of foreign operations, which does not reflect the fundamental performance of our business.

It's worth noting the year-over-year impact of changes in foreign exchange is largely immaterial, as the strengthening of the Canadian dollar this quarter reversed the depreciation we saw late last year.

Slide 18 provides an overview of our robust balance sheet. Our LICAT capital ratio remains strong at 136%, and our financial leverage ratio was 23.6%, continuing to stay well below our 25% medium-term target.

Despite the heightened market volatility we've seen this year, I'm encouraged that these metrics continue to reflect our strong financial resilience, underpinned by our strong balance sheet, providing ample flexibility in navigating an evolving macroeconomic environment.

And finally, on slide 19, you will see the overview of how we're tracking against our 2027 and medium-term targets. In summary, while some short-term headwinds impacted our core earnings growth this quarter, I'm proud of our overall financial performance, supported by our top-line momentum across all of our segments, demonstrating the strength and diversity of our underlying business.

As Phil highlighted earlier, we remain focused on executing against our targets, and I'm confident that we're well-positioned to continue to deliver through the economic cycle and sustainably grow our business.

I will now pass it over to Paul to discuss our acquisition of Comvest Credit Partners in more detail. Paul?

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Paul Lorentz - *Manulife Financial Corp - President and Chief Executive Officer, Global Wealth and Asset Management*

Thanks, Colin. As you highlighted, Global WAM delivered another strong set of results this quarter, a continuation of our tremendous growth. At our Investor Day last year, we highlighted how scaling our alternatives platform is one of our key value drivers, which is why I'm thrilled to announce our acquisition of Comvest Credit Partners.

Let me share with you a few of the highlights. First, the transaction will scale and enhance our private markets business, adding highly complementary private credit capabilities and when aligned with our existing direct lending business, results in a world-class private credit manager, with USD18.4 billion on the platform.

There's significant demand for private credit products today, and by leveraging our global distribution capabilities, we see a significant opportunity to provide our 19 million clients across our Retail, Retirement, and Institutional channels with Comvest best-in-class products.

Second, Comvest has a differentiated rapidly growing private credit platform, which has delivered strong risk-adjusted returns for investors through the cycle and is a strong strategic fit for existing credit business.

While we have primarily focused on sponsor-backed lending, almost half of Comvest's fee-paying AUM is deployed to non-sponsor-backed direct lending opportunities, providing us with a go-to-market-ready platform that we can offer to third-party investors.

Third, Comvest is a strong cultural fit, and our interests are fully aligned. Comvest employees will retain a 25% interest, allowing them to participate in the future value creation of the firm, and their management team will continue to manage the daily operations and investment decisions. Looking forward, we have a pre-determined path to full ownership in six years.

Finally, this transaction creates value for shareholders, as it is immediately accretive to core EPS, core ROE, and core EBITDA margin, while providing a source of predictable, capital light, recurring fee revenue for our Global WAM franchise.

Moving to the next slide. Founded in 2006, Comvest Credit Partners has a deep history of providing debt capital to the market with a focus on non-institutionally controlled businesses. Their product offering has resonated with the market, and Comvest has a track record of achieving remarkable growth, compounding fee-paying AUM at an annual rate of 50% since 2020.

They have been able to consistently raise flagship funds that are successively larger, and their current flagship fundraising round is on track to nearly double their previous fund.

These efforts are underpinned by a measured underwriting process, allowing them to effectively manage downside risk. We are thrilled to have such an exceptionally talented team join Manulife and are energized to work to jointly grow the business together, which takes me to the next slide.

This deal immediately scales our private credit capabilities, creating a world-class credit manager, resulting in nearly USD100 billion on our private markets platform.

Comvest's focus on non-sponsor-backed lending compliments both our existing private credit business and the recently acquired semi-liquid credit strategies managed by CQS, allowing us to provide a broad range of credit solutions to our clients.

With minimal investor overlap on the aligned platform, and given Comvest has been primary focused on North America when raising capital, our scale distribution globally and strong presence in Asia create meaningful upside for our private markets business.

Onto the next slide. This transaction offers extensive benefits to both Global WAM and Manulife. On the Asset Management side, the transaction instantly strengthens our platform by offering access to deal origination, underwriting infrastructure, and a more diversified set of client solutions,

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which will allow us to attract both new clients and potential strategic partners going forward. We will also be able to leverage our distribution to offer credit solutions across our Retail, Retirement, Institutional and Insurance Affiliate channels globally.

In closing, I'm incredibly excited about this opportunity and look forward to welcoming the Comvest team. We believe that combining Comvest's existing offerings, investment expertise, and strong track record with Manulife's extensive PE sponsor network, operating presence and financial resources will create significant value for both firms. We are seeing growing demand for private assets and are uniquely positioned to meet our customers' needs. And with the transaction being immediately accretive to core EPS, core ROE, and core EBITDA margin, we are supporting our growth ambition and delivering value for shareholders. More details on the transaction are available on our website. With that, this concludes our prepared remarks. Operator, we will now open the call to questions.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now take questions from the telephone lines. (Operator Instructions) John Aiken, Jefferies. Please go ahead.

John Aiken - *Jefferies - Analyst*

Good morning, Paul. I guess congratulations on the Comvest acquisition. It looks very intriguing. Can you just remind me what other areas you may want to bulk up in your operations that, whether it's organically or inorganically, you've done with Comvest? What other areas or strategies do you want to increase or improve upon?

Paul Lorentz - *Manulife Financial Corp - President and Chief Executive Officer, Global Wealth and Asset Management*

Thanks, John. It's Paul here. Thanks for the congratulations. We're super excited about the transaction. Just think there's a tremendous fit as we outlined on the call.

In terms of capabilities, I guess I'd start with what I shared at Investor Day. We feel really good just about the organic opportunities of what we have today. We've got a very broad platform across liquids, public, privates. We're one of the few firms that have on-the-ground people in terms of a lot of the Asia-specific strategies, which differentiates us.

And then with CQS and Comvest, it really builds out some of the credit side of our privates platform and alternatives platform. In addition, we already have strong capabilities within that private markets platform, whether it's our timber business, whether it's our infrastructure business, we've got a real estate team. So we feel we have a lot of the capabilities and our focus is on organic.

But we are continuing to look at where there are opportunities that could accelerate that, where are opportunities where we can add aspects to our business to accelerate the organic growth, and I think this is a good example. This is a firm that has been self-sufficient. They're raising third-party capital without the need of a large company like ourselves. And when we bring the two together, it not only enhances our platform, we have expanded distribution, but there's real synergies between the businesses and, more importantly, a culture and alignment fit. So we're very excited about the opportunities here, and really just look forward to moving to close and seeing the value we can create for investors.

John Aiken - *Jefferies - Analyst*

That's fantastic. Thanks, Paul. And just one quick follow-on. Colin, your commentary around the impact of the MPF, you said USD25 million. Was that annual or was that quarterly?

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Colin Simpson - *Manulife Financial Corp - Chief Financial Officer*

Hey John, yes, it's USD25 million a quarter.

Operator

Tom MacKinnon, BMO Capital Markets.

Tom Mackinnon - *BMO Capital Markets - Analyst*

Good morning. With respect to GWAM margins, I think, Colin, you said that they will decline and then increase. I think you have a 30% target for 2027. Maybe you can give us a little bit more color as to what you see the GWAM margins declining to and then increasing to?

Paul Lorentz - *Manulife Financial Corp - President and Chief Executive Officer, Global Wealth and Asset Management*

Hey Tom, it's Paul here. I'll take that one. So in terms of the margins, the transition to eMPF, while we didn't have the exact timing, was considered in terms of the targets we shared at Investor Day. So we've always kind of anticipated this drop and then growing back forward, and I think the fact we've achieved the 30% this quarter gives us a lot of confidence that we're on the right track.

In terms of the impact, as we shift to the centralized provider, we would expect an impact on margin of about 150bps approximately, and then we would expect to grow from there. But if you just look at how much we've grown the margin just over the last year, just in terms of market growth, positive flows, and then prudent expense management, we feel very confident that we can achieve those objectives we set out.

Tom Mackinnon - *BMO Capital Markets - Analyst*

Okay, thanks. And also, it looks like you're going to change the core definition. You're going to have amortization of intangibles acquired in business combinations now excluded from the core. I assume this is because the Comvest acquisition, and we'll have some of that, but what is the current amortization of intangibles from acquired business combinations? What would the impact be in a quarter?

Colin Simpson - *Manulife Financial Corp - Chief Financial Officer*

Hey, Tom. Yes, so you're right, we are moving the amortization of acquired intangibles below core earnings, and that's consistent with others in the sector and even broader outside the sector. We don't have much at all right now of amortization of acquired intangibles going through core earnings, and that's why you're not going to see much impact. The Comvest acquisition is probably going to add $30 million to that number, and you're going to start seeing that in non-core after close.

Tom Mackinnon - *BMO Capital Markets - Analyst*

That's $30 million annually?

Colin Simpson - *Manulife Financial Corp - Chief Financial Officer*

$30 million annually, yes.

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Tom Mackinnon - *BMO Capital Markets - Analyst*

Okay, and then the final is, would you be able to share with us -- you talked about the Comvest deal being immediately accretive -- can you share with us any other metrics, dollar amount or percent or anything like that for 2026 or 2027?

Colin Simpson - *Manulife Financial Corp - Chief Financial Officer*

Yes, I think the best way to look at this is that the acquisition is in line with industry multiples at mid-teen EBITDA multiple. That translates to roughly $0.02 to $0.03 of core EPS accretion.

Tom Mackinnon - *BMO Capital Markets - Analyst*

Okay. Annually, I assume that again.

Colin Simpson - *Manulife Financial Corp - Chief Financial Officer*

Annually and forward from 2026 onwards.

Operator

Gabriel Dechane, National Bank Financial.

Gabriel Dechaine - *National Bank Financial - Analyst*

Let's stick with that acquisition. I was going to ask along those lines, the $0.02 to $0.03 of accretion per year, that's the number? I mean that's a small percentage -- what's the justification? My real question here is, you can just use that money to buy back stock and get substantially more accretion that way. I'm just wondering what the future outlook is like for that figure?

Philip Witherington - *Manulife Financial Corp - President and Chief Executive Officer*

Gabriel, this is Phil. Thanks for the question. And on the acquisition of Comvest, I think it's really important to highlight that strategic and intentional allocation of capital towards our highest opportunity growth businesses is critical, and that's exactly what we're doing with this acquisition.

For many years, we have identified GWAM as a high opportunity growth business. And then as Paul said in his remarks at Investor Day last year, we had identified private markets as a sweet spot within Global WAM. And then within private markets, private credit is a fast-growing and in high demand strategy from our clients. And so this is not only about the accretion that occurs in Year 1, which is robust, but then it's the growth that will arise over time, and I feel very optimistic about the impact that Comvest will have in scaling our existing successful private credit platform into something that is relevant to each of our Global WAM lines of business. But in terms of other comments on the transaction, I might hand over to Paul actually to find out his perspective.

Paul Lorentz - *Manulife Financial Corp - President and Chief Executive Officer, Global Wealth and Asset Management*

Yes, maybe just two things to add. The first would be if you just look at the market, this is a market that's expected to double in the next four to five years in terms of potential opportunity to Phil's point. And if you just look at the track record of Comvest, they've grown their fee earning AUM by a CAGR of 50% since 2020. So this is a very fast-growing business. So I think point in time versus future value and making the platform stronger for investors is really what you need to look at here.

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Gabriel Dechaine - *National Bank Financial - Analyst*

Okay, well, I'm sure we can talk about it some more in the future. But in the meantime, your Asia segment had another very strong quarter for sales, and I'm just wondering there will be some tougher comps going forward, which will affect that. But the Hong Kong regulator put in some caps on the return illustrations or illustration of returns. I'm wondering what Manulife's approach has been vis-a-vis those new caps and if there's maybe a potential impact on your sales going forward?

Steven Finch - *Manulife Financial Corp - President and Chief Executive Officer, Manulife Asia*

Thanks, Gabe. It's Steve here. Yes, we're really pleased to see the broad-based sales momentum continue in Asia in Q2. APE up 31%, NBV and NBCSM up 28% and 34%, respectively. You noted the tougher comps going forward. Indeed, yes, we did see a step up in sales starting in Q2 last year, but really in Q3 of last year. So the year-over-year comparative growth does get significantly tougher going forward.

On the Hong Kong reg that you mentioned, there is an illustration sales cap on our products that was implemented July 1 of this year. What that is -- that's at time of sale. It doesn't impact how much the industry can pay out over time, so it's just at point of sale. We don't expect material impact to Manulife from that. Our products are not materially impacted by the sales cap, and we have seen this type of regulation in other markets around the world frankly.

Gabriel Dechaine - *National Bank Financial - Analyst*

Okay. So you don't have to suddenly show -- I mean the way I look at it is -- the illustrations aren't as promising or exciting for sales. It's not like a big delta between what you were advertising and what you can advertise going forward.

Steven Finch - *Manulife Financial Corp - President and Chief Executive Officer, Manulife Asia*

That's correct.

Operator

Doug Young, Desjardins Capital Markets.

Doug Young - *Desjardins Capital Markets - Analyst*

Good morning. Just back to the acquisition of Comvest. I guess when I originally saw it in the comments, that I've heard is that strategically it looks like it makes sense, but the valuation looks rich. And you've given some good statistics here, but maybe, Paul, how would you defend the valuation that you paid? Valuation multiple, whether it's a percentage of AUM or EBITDA, how would you defend that in terms of what you paid for this business?

Paul Lorentz - *Manulife Financial Corp - President and Chief Executive Officer, Global Wealth and Asset Management*

Yes, thanks for the question, Doug. It really speaks to the future value we expect to create from this and the alignment of interests. And I would say that's a shared belief of ourselves and Comvest that the two firms coming together will be able to create tremendous value. And if you just think about it, they've been able to scale this platform at a very fast pace without us, and that's mostly just in the U.S. market.

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So it's obviously they're offering strong returns through the cycle for investors and that investors want. If you just look at that growing and you look at the footprint and reach we have across our platform with our Asia business, there's tremendous opportunity for us to take these capabilities to Asia.

You've also heard a lot of discussion around alts within the retail and even in the retirement side of things, and we've got a global platform there that we believe will be future distribution, not just for these, for other capabilities we have that will be ultimately good for investors there.

And then we're also aligning our senior loans business. When you combine the two, you get a bigger business that allow these teams to take down bigger deals in the market with the same resource base that will drive efficiency. So we just continue to see more and more opportunities, and there's very little overlap in terms of the base between our business and what they have. So it really is an opportunity from a revenue synergy perspective as we look forward and just capitalizing on those opportunities.

Philip Witherington - *Manulife Financial Corp - President and Chief Executive Officer*

And Doug, this is Phil. If I could just add as well, our bar when it comes to inorganic capital deployment is high, and as well as the strategic relevance that we had called out earlier. The bar is high when it comes to the value generation criteria as well as our ability to execute.

And while we look at a good number of potential acquisition opportunities, we walk away from many of them, and the situation with Comvest is that it satisfied all of those criteria. And there were multiple intangible factors as well, such as the talent within the team, the cultural fit with the organization, the synergy with our existing private markets capability and the opportunity to create further synergies through the deployment of these strategies in our GWAM lines of business around the world.

So I wouldn't just look to accretion in Year 1 to see the financial significance of this one, I think it's highly relevant to GWAM's future performance, and it's accretive to the targets that we had laid out.

Doug Young - *Desjardins Capital Markets - Analyst*

And Phil, can you remind us what some of those hard targets are when you analyze these types of transactions?

Philip Witherington - *Manulife Financial Corp - President and Chief Executive Officer*

Well, I won't specifically comment on what our hurdles are, but what I would point to is at Investor Day last year, we set out a go-forward target -- a 2027 ROE target for the group of 18% plus. And if I look at our business case for Comvest, it achieves and exceeds that target, and that's over the medium-term naturally, but we feel very confident about the impact that Comvest will have, and it will be accretive to our overall financial performance.

Doug Young - *Desjardins Capital Markets - Analyst*

And then just a maybe a finer detail. Are you buying carried interest on the existing or just the new funds? I'm just trying to think of the economics here.

Paul Lorentz - *Manulife Financial Corp - President and Chief Executive Officer, Global Wealth and Asset Management*

It's Paul here, Doug. So just on that, carried interest is excluded from the incentives, and if you actually look at earnings go forward, most of it is from management fees and annual incentive fees. In terms of carry, it's not as material in this business as it is in some of the other businesses you may be familiar with.

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Doug Young - *Desjardins Capital Markets - Analyst*

It's mostly management fees, okay. And then maybe just second question going back to Asia. Definitely in Japan, a good quarter for sure across the board, but in Japan you saw decline in sales and new business value and in margins. I know Japan is less of a driver than it was 10, 15, 20 years ago, but can you talk a bit about what you're seeing in that marketplace, what's driving this, and maybe the outlook?

Steven Finch - *Manulife Financial Corp - President and Chief Executive Officer, Manulife Asia*

Thanks, Doug, for the question. We continue to see opportunity for growth in Japan. And I'll first comment on what the drivers in the quarter were that you commented on. And the decline in sales, it was really driven by an unusually strong Q2 of last year. We had a product that was significantly benefited from macro tailwinds, including FX and interest rate and equity market conditions.

So we're quite satisfied with the sales that we're seeing and we've been diversifying both our product offering and distribution channel to increase the growth potential of the business, really capitalizing on the significant opportunity in retirement saving and building wealth with the aging population and funding gaps. So we're quite optimistic there over the medium term.

And the other thing I'd point out, any variability in sales that we see doesn't impact IFRS earnings as the CSM comes in over time, and as was pointed out by Colin, really broad-based sales success, so the benefits of a strong diversified platform in Asia for the quarter. Thanks.

Doug Young - *Desjardins Capital Markets - Analyst*

Maybe I'll take this moment just to sneak one quick one. I get the eMPF impact, is there anything you can do to offset that $25 million drag quarterly?

Paul Lorentz - *Manulife Financial Corp - President and Chief Executive Officer, Global Wealth and Asset Management*

It's Paul here. That's some of the actions we've been taking as we've been leading up to it. We're still running the platform, so you've noticed the improvement in our efficiency ratio and just the management of expenses. Some of that was to get ahead of this. We will be able to eliminate some expenses once the transition completes, but that is the net impact we would expect once we're fully transitioned. And then we would expect to grow from there.

And just to put it in context, the impact, it's worth a couple of years' growth for us, so we would expect to get that back as this business grows. And then that's just with regular growth, just looking at the global trends and the massive retirement funding gap, our leadership position, the leverage we get with Steve's business, with the agents of providing a holistic solution here, we still feel there's tremendous opportunity for growth for us here.

Operator

Paul Holden, CIBC. Please go ahead.

Paul Holden - *CIBC - Analyst*

Good morning. Another question on Comvest. So I get the EPS accretion and maybe the ROE hurdling over the medium term. We also stated that ROE accretion is expected to be positive immediately. I'm just kind of wondering if you could help me wrap my head around that math.

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Colin Simpson - *Manulife Financial Corp - Chief Financial Officer*

Hi Paul, it's Colin. Yes, it's quite simple, really. We're using existing resources. Currently, our surplus earns about 2.8%. So if you take surplus of roughly USD1 billion and 2.8%, and we swap that for an acquisition of Comvest, which will earn more than that, you can see that it's immediately accretive.

Paul Holden - *CIBC - Analyst*

Okay, so you're talking about ROE versus ROI on the investment itself?

Colin Simpson - *Manulife Financial Corp - Chief Financial Officer*

Yes, we're talking about ROE as a company basis, not talking about the ROI of the lifetime of the business.

Philip Witherington - *Manulife Financial Corp - President and Chief Executive Officer*

This is Phil. Just to supplement, Paul, Comvest is an existing at-scale platform that is profitable. So we're actually buying into an earnings stream. And it's not just accounting earnings, it's cash-generative fee income that generates remittances. So I think there are multiple financial angles that the transaction satisfies.

Paul Holden - *CIBC - Analyst*

Got it. And then sort of sticking with the ROE theme, given the change in the Hong Kong MPF, maybe you can sort of talk about the margins and really, I guess, the ROE in that business -- it's still an attractive business from an ROE perspective?

Philip Witherington - *Manulife Financial Corp - President and Chief Executive Officer*

This is Phil. Maybe I'll take that one. So our ROE is really most relevant at the top of the house -- total company. When we were setting our Investor Day targets for 2027, and we presented those last year in Hong Kong, 18% plus. We did actually take into account the anticipated headwind that would arise and transition to eMPF.

We didn't know what the timing would be. There was uncertainty about that. And while we're still not sure about the timing, we now have greater clarity that it will be later this year. Hence, why we're talking about it today and included an estimated quantification in our results.

So while there may be a [USD25 million] (corrected by company after the call) sort of notable impact that comes into the run rate from 2026, when you sort of step back and look at it over the couple of years prior and the couple of years post, it's a bit of a non-event because we've been taking actions to mitigate the impact over the past couple of years. There are still some actions that we can take. But as Paul said, the attractiveness of the platform, because we're at scale, we are profitable, it's growing fast, it only takes a couple of years for us to grow out of the sort of USD25 million run rate adjustment that you will see per quarter from 2026.

Operator

Tom Gallagher, Evercore ISI.

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Tom Gallagher - *Evercore ISI - Analyst*

Good morning. Just a few U.S. questions. First, I just wanted to confirm your triennial review coming in 3Q. Is that on long-term care? Will that be included, U.S. long-term care, in that review?

Stephanie Fadous - *Manulife Financial Corp - Chief Actuary*

Hi Tom, it's Stephanie. You are right. In the third quarter, this year will be the triennial review of our long-term care business. Maybe just to recap what we've seen in the past few quarters, we have seen a trend of utilization losses that was more than offset by lower incidents and higher claims termination. And the experience overall since the prior review has been largely in line with expectations to a small positive.

Tom Gallagher - *Evercore ISI - Analyst*

Got you. So underlying I guess you've had 2 offsetting trends. You've had better terminations but higher claim frequency, I believe, if I was to generalize what's happened. Is it fair to say that's the case? And would you say that's probably something you could extrapolate?

Stephanie Fadous - *Manulife Financial Corp - Chief Actuary*

I think just to clarify, what we've seen is utilization losses, so higher claim costs. We had lower incidents, so lower frequency of claims and higher termination of claims. And in total, on average, largely in line with expectations to small positives.

Tom Gallagher - *Evercore ISI - Analyst*

Got you. And how have rate increases been since 2022? Have those been trending positive or in line?

Marc Costantini - *Manulife Financial Corp - Global Head of Strategy and Inforce Management*

Hi Tom, it's Marc Costantini here. Maybe I'll answer that one. So as you mentioned, when we do our triennial, we put a provision and for future rate increases, and we're pretty prudent when we do so. To remind you, the last cycle in '22, we put around $2 billion out of a total of $6 billion that we had. And as we sit here today, we can tell you that we've achieved well over 90% of those rate increases, and you'll get further details once Stephanie updates our assumptions next quarter.

Tom Gallagher - *Evercore ISI - Analyst*

Great. And just one other quick one, if I could. So it sounds like the elevated U.S. mortality claims volatility is what you would view as normal volatility. There were two reinsurers, RGA and Munich Re, who also called out large claim severity this quarter being pretty unusual.

Do you feel pretty confident that there won't be a knock-on effect, meaning that you won't get hit by reinsurance price increases based on the trends that are out there? Or are there any indications on that, I guess, would be my question.

Marc Costantini - *Manulife Financial Corp - Global Head of Strategy and Inforce Management*

Tom, it's Marc here again. Maybe I'll take that one as well, given my interactions with that market on an ongoing basis. I would tell you that what you saw, and I'm sure you heard this from the two companies you mentioned, was an aberration in the claims, but not something unusual you see when you deal in the large case market. So I wouldn't say this is a trend. It's something that happens once in a while when you deal in those markets. I wouldn't say it has any impact on future approach to pricing this market.

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Operator

Lemar Persaud, Cormark Securities.

Lemar Persaud - *Cormark Securities - Analyst*

I want to come back to the credit losses and the spike this quarter from the below-investment-grade loans. Was there a specific sector that drove this loss? What was special about Q2 that caused these losses in the quarter? It's just a bit peculiar, given some of the large banks are talking about how credit is evolving more positively than expected. So to see deterioration from you guys this quarter kind of begs the question as to why?

Trevor Kreel - *Manulife Financial Corp - Chief Investment Officer*

Hello Lemar, it's Trevor. Thanks for the question. So as you noted, the $82 million post tax charge in the quarter was larger than we saw in Q1 and we've seen recently. We have, to your point, had strong credit experience for many years, and our portfolio does remain 96% investment grade. But I think credit losses are, by their nature, quite variable, and so it's no surprise to see quarterly volatility, particularly in our below-investment-grade portfolio, which is quite small. I think even with the Q2 results, over the last three years we are at the low end of our guidance of $30 million to $50 million a quarter that we have mentioned in the past.

So more specifically to Q2, I think the majority of the additional impact was from U.S. credit experience, but really only on a few of below-investment-grade loans and mortgages. In addition to that, there was, I think, fairly substantial growth in the overall balance sheet invested assets, and that also led to a reasonable increase in the ECL.

Drilling down a little bit into the source of those charges. They were in a handful of names. Really no common themes to sort of talk about. So we're seeing some legacy office mortgage exposures that we wrote down a little bit and also some business-specific issues, but again, nothing really to sort of point to and certainly no read across to the broader portfolio, which is actually performing well.

So in terms of sort of the outlook, which I guess is the core of your question, I mean, quarter-to-date has been quite volatile -- sorry, has been less volatile. But it is a little bit too early to say how it's going to play out. But the portfolio is in good shape. It does remain 96% investment grade. And so we do still feel $30 million to $50 million a quarter is an appropriate run rate. So no real concern from my side. Thanks for the question.

Lemar Persaud - *Cormark Securities - Analyst*

So it'd be appropriate to stick to that kind of $30 million to $50 million with volatility. That's kind of the bottom line?

Trevor Kreel - *Manulife Financial Corp - Chief Investment Officer*

Yes, exactly.

Lemar Persaud - *Cormark Securities - Analyst*

Okay. Perfect. And then maybe just going to the Comvest acquisition, just continuing along the lines of the questioning on this call, it sounds like there's a big growth in cross-sell opportunity. Paul, I'm wondering if there's anything you could do to quantify those revenue synergies just to wrap our heads around the price? Because it seems like that's really the bottom-line, big opportunity here. So anything you could offer just to put some numbers to that would be helpful.

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Paul Lorentz - *Manulife Financial Corp - President and Chief Executive Officer, Global Wealth and Asset Management*

Thanks for the question, Lemar. I don't have any numbers I'm going to share today, but I would say that we're very optimistic. We're not going to wait for the transaction to close to start thinking of those opportunities and getting the teams together so that we can hit the ground running. But once it closes and we start reporting on results, we can share how that progress is working and how that's comparing to our expectations.

Operator

Mario Mendonca, TD Securities.

Mario Mendonca - *TD Securities - Analyst*

Can we just go to one sort of a specific question around the U.S.? Because of the reinsurance transactions, the risk adjustment release, the CSM, the expected investment results have all trended down. I think I understand why. Where I'm going with this now is at Q2 '25, this current quarter, are we pretty much now steady state? Or should we see further declines in those 3 lines going forward?

Brooks Tingle - *Manulife Financial Corp - President and Chief Executive Officer, John Hancock*

Hi Mario, it's Brooks. Thanks for the question. I would look at Q1 of this year for a general frame on steady state post all of that activity that you mentioned. And frankly, if you look at the difference between Q1 and Q2, the big drivers were this unusual variability in large claims and ECL. So I would point to Q1'25 in that regard.

Mario Mendonca - *TD Securities - Analyst*

So those 3 lines that have historically been impacted by the reinsurance transactions were done unless, of course, you do more reinsurance transactions.

Colin Simpson - *Manulife Financial Corp - Chief Financial Officer*

Sorry, Mario, it's Colin here. Just to bear in mind, we still have the impact of the latest RGA LTC transaction to come through, but that was very modest, and it's $70 million for the full year.

Mario Mendonca - *TD Securities - Analyst*

That makes sense. And sticking with the U.S. now. So clearly, this was a challenging quarter. But as I look across the U.S. franchise over time, it looks like it has softened a fair bit. And I appreciate the reinsurance transactions are having some effect there. Do you have an outlook for us on how this business should grow over time? And it's clearly not Global WAM, it's not Asia growth, but could it be like Canada, like a single-digit, mid-single-digit grower over time?

Brooks Tingle - *Manulife Financial Corp - President and Chief Executive Officer, John Hancock*

It's Brooks again. Thanks, Mario. We're really bullish on our prospects in the U.S. If you look at the top line for Q2, you see very strong year-over-year growth in APE, 40%. And notably, with respect to future earnings power of the franchise, a 59% year-over-year growth in new business CSM. We have a highly differentiated franchise. There are some unique things with our living benefits in Vitality and so forth. So most of the somewhat lengthy period of what we've been trying to do in the U.S., and we've done it successfully, derisk, free up capital, improve ROE. We feel very satisfied for largely having accomplished, and now we're focused on growing from here and contributing reliably and significantly to the earnings power of Manulife overall.

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Philip Witherington - *Manulife Financial Corp - President and Chief Executive Officer*

And Mario, this is Phil. If I could just add to that because I think it's very relevant. As I look at the portfolio as CEO, the U.S., without doubt, plays a very important role in our overall global portfolio. When I look at our U.S. business, it has many positives. We've got a really strong brand with John Hancock. We've differentiated our new business proposition through the 10-year partnership with Vitality. And to what Brooks was getting at, in recent years, we've completely transformed the new business portfolio into one that is within risk appetite and generating high margins and profitability, that's not incredibly visible when you look at the overall results because of the impact of some of the de-risking transactions that have created a lot of value but resulted in lower CSM amortization and risk adjustment, as you highlighted, Mario.

But there's also one other very important role that the U.S. plays, and that is in the generation of capital and remittances. That's been true in the past and I expect that to continue to be true in the years to come. And having that balance of strong capital generation in the portfolio is really important to us and something that we value.

Mario Mendonca - *TD Securities - Analyst*

And then Phil, another question for you. We can all play with numbers. Everybody on this call is pretty good at that. And when I try to come up with the 18%-plus ROE, the sort of growth and buyback assumptions you need to make are meaningful. The EPS growth, the buybacks are meaningful. The question is this, can you describe your level of confidence in achieving an 18% ROE or 18% plus in 2027?

Philip Witherington - *Manulife Financial Corp - President and Chief Executive Officer*

That's a great question, Mario. And when I look year-to-date at our core ROE, 15.3%, that's some way off the 18% plus target that we've laid out for 2027. And I think that's what you're getting at.

I've been on the leadership team since 2017. I've been very involved in the development of the ROE target along with our other Investor Day targets. I fully believe that the ROE target, along with the other targets that we've laid out, are achievable, that we have a credible path, a tangible path of actions to get there.

And to put some substance behind that, the 15.3% core ROE that we've delivered year-to-date in 2025 is after some highly unusual items -- the elevated level of ECL in Q2, the elevated mortality that we just touched on in the U.S. as well as if you recall in the first quarter, we recognized a P&C reinsurance charge in connection with the California wildfires.

And since we had set the 18% plus core ROE, there's been some movements in foreign exchange rates, that foreign exchange rates move from time to time. So I'm not necessarily believing that's necessarily locked in for the long term.

So if I adjust for those items, actually, our core ROE in 2025 year-to-date would be 17%, around 17%. So I think that puts us on a credible path to getting to the 18%. And the underlying business performance, look at the performance of Asia and GWAM, that remains strong. So I'm encouraged by that. Thanks, Mario.

Operator

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

Hung Ko - *Manulife Financial Corp - Global Head of Treasury and Investor Relations*

Thank you, operator. We'll be available after the call if there are any follow up questions. Have a good day, 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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