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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Manulife Financial First Quarter 2024 Financial Results Conference Call. I would now like to hand the meeting over to Mr. Ko. Please go ahead, Mr. Ko.

Hung Ko ***Manulife Financial Corporation - Global Head, Investor Relations***

Thank you. Welcome to Manulife's earnings conference call to discuss our first quarter 2024 financial and operating results. Our earnings materials, including webcast slide for today's call, are available on the Investor Relations section of our website at manulife.com.

Before we start, please refer to Slide 2 for a caution on forward-looking statements and Slide 36, for a note on the non-GAAP and other financial measures used in this presentation. Note that certain material factors or assumptions are applied in making forward-looking statements, and actual results may differ materially from what is stated.

Turning to Slide 4. Roy Gori, our President and Chief Executive Officer, will begin today's presentation with the highlights of our first quarter results and strategic update. Following his remarks, Colin Simpson, our Chief Financial Officer, will discuss the company's financial and operating results in more detail. After the prepared remarks, we'll move to the live Q&A portion of the call. With that, I would like to turn the call over to Roy Gori, our President and Chief Executive Officer. Roy?

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

Thanks, Hung, and thank you, everyone, for joining us today. Starting on Slide 6. Yesterday, we announced our first quarter 2024 financial results. We continued to execute against our strategy, driving quality growth and delivering superior results as we began 2024. Our topline growth was broad-based with record levels of new insurance business results, including double-digit growth in APE sales across each of our insurance segments, and $6.7 billion of Global WAM net inflows with positive contributions from each global business line.

This quarter, we closed the milestone reinsurance transaction with Global Atlantic, which includes the largest ever LTC block. Despite the modest impact of the transaction, we generated 16% growth in core earnings, supported by strong contributions from Asia and Global WAM. Core EPS grew by 20% as we continue to return capital to shareholders, including through share buybacks. Core ROE grew nearly 2 percentage points from prior year to 16.7% and is well ahead of our medium-term target of 15% plus. And we are delivering superior returns, while maintaining a robust balance sheet and ample financial flexibility.

Growing ROE is a key priority and a key outcome of our transformation journey, which takes me to Slide 7. During the quarter, we

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announced the largest ever Universal Life reinsurance deal in Canada, which is another milestone and a testament to our execution capabilities. We once again transacted, at an attractive earnings multiple ahead of where we currently trade. The transaction will release $800 million of capital which we plan to return to shareholders through an amendment to our existing share buyback program to repurchase up to 5% of our outstanding common shares.

After accounting for buybacks, the deal will be accretive to both core ROE and core EPS. We also expect to reduce $600 million of ALDA backing the transacted block. This transaction is another example of the value that we continue to create for our shareholders and will contribute to higher returns going forward.

Turning to Slide 8. Expanding ROE is critical to delivering value to our shareholders. We have made tremendous progress since 2017, increasing core ROE by more than 5 percentage points, up from 11.3%. We continue to take organic and inorganic actions that drive even higher ROE. Our unique footprint and strong cash generation enable us to invest in our highest potential businesses to generate superior returns.

During the quarter, we delivered 34% NBV growth, with Asia comprising approximately 70% of the balance. In addition to record topline metrics, we have generated strong bottom-line growth, and our transformation is driving increased earnings contributions from our high-return businesses, with over 2/3 of core earnings delivered by our highest potential businesses during the quarter. This is up from 60% in the prior year. Inclusive of dividends, over the past year we returned $4.1 billion of capital to our shareholders. We continued to expand Global WAM's capabilities and footprint by closing our acquisition of CQS in April. CQS's experience in alternative credit investments not only expands our presence in Europe, but also accelerates the growth of our global wealth and asset management capabilities, broadening the solutions we can offer our clients around the world.

In addition, we will return the $2 billion of capital release from our 2 recent reinsurance transactions on low ROE businesses to shareholders through buybacks. All of these actions support long-term ROE growth, and we are focused on exploring additional opportunities to continue to generate higher returns.

I am excited by our momentum in the first quarter, and by the opportunities ahead of us to continue generating shareholder value. I will now hand it over to Colin to review the highlights of our financial results. Colin.

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

Thanks, Roy. 2024 has started off well, and I am excited to go into a little more detail on the quarter's results before the Q&A. I will start with our top line on Slide 10. Our APE sales increased 21% from prior year with double-digit growth across each of our insurance segments. This increase was supported by higher sales across several Asian businesses, higher large-case group insurance sales in Canada and an increase in demand from affluent customers in the U.S. The momentum in our sales contributed to strong increases in new business CSM and new business value of 52% and 34%, respectively. Our value metrics grew by more than our volume metrics, demonstrating our focus on pricing discipline and business mix shift towards higher-margin products.

Global WAM saw strong net inflows of $6.7 billion, reflecting positive flows from each business line. As you can see, there is real momentum in our global portfolio of businesses.

Turning to Slide 11, which shows the growth in our profit metrics. Core EPS increased 20% as we grew core earnings and continued buying back shares. During the quarter, we further improved our core ROE to 16.7%, above our medium-term target of 15% plus for the fourth consecutive quarter. We remain focused on driving up ROE and have been able to demonstrate progress through the execution of our 2 recent reinsurance transactions, along with business performance improvement and astute capital allocation.

And on Slide 12, you can see that we continued to show steady growth in our adjusted book value per share, supported by an increase in our book value together with our CSM, which is a store of future earnings. This resulted in growth from the prior year quarter of 11%, or 13% excluding the effect of foreign exchange rate movements, to $33.39.

Bringing you back to our core earnings results on Slide 13. I would like to call out some of the highlights of the Drivers of Earnings

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analysis presented relative to the prior year quarter. The first point to highlight is the 8% growth in core net insurance service result due to increases in expected earnings on insurance contracts in both our Asia and Canada segments. Secondly, an increase of 18% in our core net investment result was mainly due to a release in our expected credit loss, or ECL provision, over the quarter, compared with provisions for certain commercial mortgages in the prior year. This reflects the benign credit environment during the quarter, and the impact of reducing assets with the Global Atlantic reinsurance transaction.

Towards the bottom of the table, you will see that Global WAM was a notable contributor to the results, supported by higher average AUMA, improved margins and expense discipline. These factors were partially offset by higher workforce-related expenses, reflecting strong TSR performance included in Other core earnings.

I should also mention the net impact of the reinsurance transaction with Global Atlantic was an $18 million reduction in core earnings. Note that this included some favorable one-time items during the quarter, mostly related to the release of ECL on debt instruments sold. More information on the earnings impact is available in the appendix.

On to Slide 14. When we announced the reinsurance transaction with Global Atlantic back in December of last year, we had told you that we expect to recognize in net income, $1 billion of unrealized losses from assets disposed as part of this transaction. We actually saw a lower non-core charge of approximately $750 million across several lines, although mostly related to the recognition of unrealized losses. The charge was lower than expected due to a decrease in interest rates since the end of the third quarter of last year, which was the basis of the estimated impact we announced. Of note, there was an offsetting change in OCI, neutralizing the book value impact. We closed this transaction on February the 22nd,and are now focused on future in-force activity.

Lower-than-expected returns on ALDA resulted in a $255 million charge, largely reflecting the ongoing pressure on commercial real estate due to increasing cap rates. The 40% reduction from peak in our U.S. office values reflects the difficult market and, is also a demonstration of our disciplined approach to asset valuations where more than 95% of our real estate portfolio is appraised by external appraisers each quarter. We are encouraged to see continued sequential improvement in our ALDA experience compared to recent periods, and the charge was partially offset by a $216 million gain due to higher-than-expected public equity returns during the quarter. This meant that our net income for the quarter was $1.6 billion, much more in line with our core earnings when you exclude the impact of the reinsurance transaction.

The next few slides will cover the segment view of our results, starting with Asia on Slide 15. The first quarter was another strong quarter with double-digit growth in both top and bottom-line metrics. APE sales increased 13% from prior year quarter, largely driven by growth in bancassurance sales in mainland China as well as growth in Singapore and Japan, partially offset by lower sales in Hong Kong and continued industry headwinds in Vietnam. The overall increase in sales contributed to a 68% and 28% growth in new business CSM and NBV, respectively, which we refer to as our value metrics.

We delivered 39% core earnings growth, with meaningful increases in contribution from both Hong Kong, which is our largest in-force business, and Japan.

Moving over to Global WAM's results on Slide 16. We reported very strong net inflows of $6.7 billion for the quarter, continuing our momentum of positive net flows in 13 of the last 14 years in competitive markets. The strong net inflows this quarter were due to higher new plan sales in Retirement. We also saw demand increasing in our Retail business supported by strong equity markets, and we continued to generate strong inflows in our Institutional business. Global WAM also delivered double-digit core earnings growth, supported by higher average AUMA, which increased 9% from prior year quarter, along with our disciplined expense management. To that end, we are starting to see savings as a result of our restructuring efforts in the prior quarter, with core expenses up only 2%, which is much improved from 2023 results.

Heading over to Canada on Slide 17. We delivered another strong quarter of new business metrics. APE sales increased 54% from prior year quarter, mainly due to higher large-case sales in our Group Insurance business, which was also the main contributor to our 71% growth in new business value. Core earnings increased 3%, primarily driven by business growth and a lower ECL provision, but these were partially offset by lower investment spreads.

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Slide 18 shows our U.S. segment's results. In the U.S., we saw somewhat of a return of demand from affluent customers, which drove up APE sales, NBV and new business CSM results. The business delivered strong core earnings, which increased 18% from the prior year quarter, mainly reflecting a higher ECL provision in the prior year quarter as well as the impact of higher yields and business growth. This was partially offset by more adverse net insurance experience. In addition, the reinsurance transaction reduced core earnings by USD 19 million.

On to Slide 19 and our balance sheet. We started off the year with a strong LICAT ratio of 138% in the first quarter, which was $24 billion above the Supervisory Target Ratio. Our financial leverage ratio of 24.3% remains within our target ratio of 25%, adding to our ample financial flexibility. Through dividends and share buybacks, we returned over $0.9 billion of capital to shareholders during the [first] (added by company after the call) quarter. As previously announced, we launched a new buyback program in late February related to our reinsurance transaction with Global Atlantic. Following our Canadian UL reinsurance transaction, we announced that we plan to amend the program to purchase up to 5% of our outstanding common shares. We have now received approvals from OSFI and the TSX for the new program, which will return the freed-up capital from the two transactions to shareholders. As such, you will see an acceleration of our buyback activity from the $0.2 billion in the first quarter, to more like $0.6 billion a quarter run-rate for the rest of the year.

And finally, moving to Slide 20, which summarizes how we are tracking against our medium-term targets. In the first quarter, we exceeded all of our medium-term targets. We also generated 44% of earnings from the Asia region and increased our contribution from highest potential businesses to 67%. As you can see, Asia continues to play a pivotal role in our earnings growth, and we are looking forward to welcoming you to Asia for our in-person Investor Day in June.

This concludes our prepared remarks. Before we move to the Q&A session, (Operator Instructions). Operator, we will now open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Meny Grauman from Scotiabank.

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

Just wanted to start off asking a question about Asia. Obviously, very strong results. If I look at the core earnings there, just wondering if there is anything that you would flag that is not sustainable? I guess I see the ECL maybe is a very small component of that, but wondering if there is anything else there that would sort of impact the run rate going forward?

Phil Witherington ***Manulife Financial Corporation - President & CEO of Manulife Asia***

This is Phil and thank you for the question. You are right to point out, it has been a strong core earnings quarter for Asia. In fact, a strong quarter for all of our value metrics across the board. The level of earnings that you see are largely sustainable, and I will peel the onion a bit on this. The driver of growth in core earnings is the fact that we have grown the CSM by adding quality new business over the course of the past 12 to 18 months. And you can see that through the CSM expansion in the balance sheet. And we also had the impact, the favorable impact of the methodology change that took effect from Q4, and we spoke about last quarter. Now, in terms of items within the core earnings this quarter that are, I suppose, not necessarily indicative of the overall run rate, I will highlight two points. One is that Asia, and this is coming from Japan, benefited by approximately USD 9 million in the first quarter from the impact of the Global Atlantic reinsurance transaction. And secondly, you may recall that last year in Q1, in Asia, there was negative policyholder experience through core earnings. This quarter, that was a modest positive of $5 million. And I would expect policyholder experience to vary from quarter-to-quarter and be approximately neutral on average. So, I feel that the core earnings that you are seeing is largely sustainable. That is underpinned by the fundamentals of our business. And we may see some variability from, modest variability from policyholder experience and ECL, I think this is a good indication of the future.

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

And then just as a follow-up, just focusing on sales and specifically, the decline in Hong Kong. If you could just talk to what you are seeing in terms of the MCV sales in particular. And I am wondering if the decline we are seeing there is just a function of the fact that, you had so much growth after coming out of lockdowns? Or, is there any other dynamic there that you are seeing when it comes to Mainland Chinese visitor sales, that would be impacting the results beyond just the fact that you had such a strong reopening?

Phil Witherington ***Manulife Financial Corporation - President & CEO of Manulife Asia***

Great. Thank you for the question, the follow-up question, Meny. It has been a really strong quarter in Hong Kong. And as I said last quarter, our focus is on value generation and value metrics. And notably, we have seen 15% growth in new business value in Hong Kong, but it is not just NBV. We have seen growth in core earnings and new business CSM as well. Now the variability in APE is caused by variability in volume through the third-party broker channel, and that is MCV broker channel. And what we are seeing with that channel is really quite fierce competition as well as possibly an element of pent-up demand in the prior year period. But I think the main driver there is intense competition. And when I look at the MCV business that we are sourcing from channels outside of third-party brokers, so the agency channel and the bancassurance channel, we are seeing strong double-digit growth. And that is what I would expect.

I said many times, the MCV customer segment is a legitimate customer segment that we expect to grow over the medium-term. It reflects approximately 20% to 25% of our business from a new business value perspective in Hong Kong. And that, the other side of that, is that our core business in Hong Kong is our domestic business, and that accounts for 75% to 80% of our NBV in the Hong Kong market. Now, that core strength domestically is really important. And I spoke last quarter of the very strong growth that we have seen in the domestic business. We saw about 15% growth in the fourth quarter of last year. That level of sales has been sustained into the first quarter. Now in terms of outlook for Hong Kong, I am confident that we will continue to see growth in value metrics. This is our focus.

And we get most value from our proprietary channels and exclusive banca channels. We will see some variability in APE from quarter-to-quarter as a result largely of the broker channel. But overall, I feel confident about the future.

Operator

Following question is from Gabriel Dechaine from National Bank Financial.

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

I will stick with that line of questioning and then I will switch over to something else. But I am wondering if you are starting to see the impact of the decline in sales on the MCV products because of that regulatory investigation running, call it, across the industry. I want to point that out. And then is there -- it is more of a risk to your sales numbers. The profit impact is probably pretty insignificant if the sales do decline because it is a small portion of your sales and I think it is a lower-margin product. Maybe you can edify me there.

Phil Witherington ***Manulife Financial Corporation - President & CEO of Manulife Asia***

Yes. Thanks, Gabriel, for the question. This is Phil again. You are right to highlight the regulatory investigation. This is not anything that is specific to Manulife. The regulatory authorities in Hong Kong have announced an investigation, and conducted an investigation to unlicensed selling of insurance policies to customers from Mainland China. This is limited to the broker channel and has no direct impact on Manulife. Of course, at Manulife, we have robust processes in place to enable compliance with all applicable laws and regulations. You asked whether that investigation in the broker channel is driving the variability that we see in Q1 in APE? It is not. And we are not seeing, at this point, any impact directly from that regulatory investigation.

Although, I will highlight two things. One is that we have seen a decline in the first quarter relative to last year in the broker channel. And that is really driven, as I said earlier, by fierce competition in that channel. But we are seeing growth in our other MCV channels, agency and bancassurance. So, I think that is one important point. I think the second important point is that while we have not seen it yet, it is reasonable to expect that the regulatory actions will or may cause some disruption in the MCV broker channel in the months to come. And that is really, -- I would expect brokers to be reviewing their processes in light of recent regulatory developments.

Now you are right, Gabriel, to highlight that the variability in potential sales from the broker channel has much less of an impact on value metrics. It is lower-margin business, largely because of the product mix, the savings-oriented product mix that comes through that

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channel. If we look at our Hong Kong business, only 13% of new business value comes from the broker channel. So, it's really quite modest and our results will therefore be resilient to variability in that channel. And earnings, given the IFRS 17 methodology which is driven by CSM and risk adjustment in the balance sheet, I would expect earnings also to be stable regardless of what happens to APE variability.

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

Gabriel, Roy here. I just want to add a couple of quick comments, and I think Phil captured the essence of what is actually happening in Hong Kong and our outlook quite well. But we actually welcome the regulatory scrutiny and focus on MCV and the processes that are critical to selling, and selling appropriately. We have always held a very high bar in terms of the practices that we employ both from a compliance and from a governance perspective. So, actually, we think this is a good thing for the industry to have a higher standard of care applied. And in the long-run, it is going to make this segment a much more sustainable and profitable segment. So, it is something that we have actually been quite pleased with.

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

Got you. My next question, just an update on the legacy process there. I do not know if Marc or Colin have something to add there. I know when you disposed of the LTC block last December, you isolated another $4 billion of portfolio of similar characteristics to what you sold, if that number may be expanded, or if your main struggle is what would you bundle in with that sub portfolio, if you will, because my understanding is that potential buyers would want something in addition to LTC?

Marc Costantini ***Manulife Financial Corporation - Global Head of Inforce Management***

Thank you, Gabriel. It is Marc. So yes, when we announced the transaction, as you mentioned, obviously, it was a very substantial transaction for us and the industry validated, obviously, our assumptions on our balance sheet tied to LTC and really created a lot of interest in our business in Manulife. And I would say we transacted with a world-class counterparty as well. We had, as you mentioned, some significant interest in the transaction by the other parties around the industry. And as you mentioned, we do have another block of business that has the same vintage and characteristics. And as I am sure you saw in our results for the last little while, the LTC experience is positive, right, which is another positive halo to our block and our performance overall as a firm.

And we have demonstrated, obviously, execution capability in this space. So, we do not talk about what is forthcoming, but we do have interest in the block. And we are optimistic that the validation of our assumptions and our experience stand by itself, but we have had interest in the block, and we continue to optimize, as we demonstrated by this Canadian transaction, our overall legacy business, and we do so always with very favorable economics to our shareholders. So -- and we can promise you that is what we continue to do on a daily basis around our in-force.

Operator

A following question is from Doug Young from Desjardin Capital Markets.

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

Just want to start with credit and there was an ECL release, as you talked about and there was a release even if you exclude the impact from the sale of the fixed income portfolio around the Global Atlantic deal. And so, it just seems a little counterintuitive to what I am thinking, I guess, given the macro environment. And so -- but I just wanted to kind of dig into a little bit. Are you not seeing any negative migration from Stage 1, 2 and 3? Does it change any forward-looking indicators or model ratings? Or is there anything else unusual to think about from a credit perspective? And I mean, if you can weave in how you think about credit evolving, that would be helpful as well.

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

Doug, it is Scott. Thanks for the question. And yes, it was a very good quarter for credit results. Start with that, we were not seeing much of any migration in the portfolio. So that led to very little in the way of addition to the ECL. And having a release is unusual. Normally, we would expect sort of through the cycle $30 million to $50 million addition to the ECL. Of course, it is a fairly benign credit environment. So, we would expect to do better than that until that situation changes. As far as the release goes, which is unusual, there are really 2 factors driving it. One was a small release from the reinsurance transaction. We disposed of a large number of bonds with ECL tagged to that and that led to a $16 million release.

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And then you are right, there is, as part of the ECL process, we are required to model out current market conditions, and we use a Moody's model to do that. And what drives that, are largely capital market issues such as equity markets, which were very strong in Q1, credit spreads, which continued to tighten in Q1 as well as other factors such as unemployment, which stayed low. So, the model did result in a modest release. So, those were really the drivers.

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

And just to clarify, that $30 million to $50 million addition, is that per quarter or per year?

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

That would be per quarter. And again, you will see that there will be a lot of variability in that in benign environments like today, you should expect to do better. And then to the extent we move into a recession, we will go above that, to get to that long-term average.

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

I appreciate that. And then just second, I guess, it is for Steve. Negative lapse experience again in the U.S. life book. I assume that relates to the secondary guarantee business. And I am just wondering how you are feeling around that business around the upcoming actuarial review of that book. Is the experience progressively getting better over the last -- most negative is, it progressively getting better over the last year, is it stand about the same? And if you do have to reset reserves, like do you have offsets elsewhere that you can kind of pull levers on. Just hopefully, to get some color on that.

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

Sure. Doug, thanks for the question. Yes, in terms of what we are seeing on U.S. lapses, we have seen a continuation of some of the trends. Where it is coming from, there is a portion that is coming from earlier duration lapses really related to the economic environment and higher interest rates. That is certainly more a short-term concern. In terms of the protection products, in general, I have commented a few times about how we saw a drop, a discontinuity in lapse rates when the pandemic started. And we saw that across Canadian UL, seg fund products. We have seen it trending back, fully trended back in Canadian UL, which is a similar product, trended back in seg funds, but it is not fully trended back in U.S. life. We do expect that trend to emerge over time.

And then, what I would tell you about how are thinking about the actuarial assumption review here, just a little bit of context. As you know, we update assumptions very regularly. And we have reviewed lapse assumptions over the years. The last U.S. lapse review was in 2021, that fully reflected pre-pandemic experience. So, we were up to date. And as a result of those reviews, our long-term assumptions are, they are low. They are below 1%. So, we are taking all this information into consideration as we do our review, and too early to update you at this point, but we will update you as we get through that review later this year.

Operator

The following question is from Paul Holden from CIBC.

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

I want to ask about the strength in Asia Other sales, maybe a few more details behind what drove that strength? And maybe more importantly, how sustainable that may be?

Phil Witherington ***Manulife Financial Corporation - President & CEO of Manulife Asia***

Great. Thank you, Paul. This is Phil. You are right to highlight that we had a very strong performance in Asia Other markets. APE growth of 20% and a higher growth in value metrics relative to that. What we have seen in 2024, as we start the year and get through Q1 is a broadening of the recovery across multiple markets in Asia Other. And you may recall that I said a few times last year, that the emergence from the pandemic was uneven across Asia. We have seen some evening out of that recovery in 2024, notably with 7 out of 9 of our Asia Other markets delivering double-digit growth in sales. Now when we deep dive, peel the onion into what is going on within Asia, we have seen a record quarter in Mainland China. And we often see seasonality of sales in China, but this first quarter, it has been particularly strong. That is particularly coming from the bancassurance channel.

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And while we may see some variability quarter-to-quarter in Mainland China as a result of typical seasonality and other factors. I do feel confident about the future over the medium-term. Now in our Other Emerging markets, Indonesia has been particularly important and is delivering very strong growth, and I look forward to sharing more about that as part of our upcoming Investor Day. And we should not forget about Singapore as well. Singapore has had a really strong start to the year, and that is a very important market to us in APE terms. It is now very similar to Hong Kong in terms of volume. So, through the consistent growth in Asia Other markets and notably Singapore in recent years, we have diversified our portfolio and really developed a strong footprint within ASEAN.

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

Okay. That is great. And then my second question is just bigger picture, higher-for-longer interest rate scenario seems increasingly probable. The way I view it for Manulife, there is probably some puts and takes. So, where I would like to particularly focus on is what does that mean for the net investment result, did not increase as much as I would have expected this year. So, maybe you can address that as well. But kind of what we should expect for that line with higher for longer? And then two, what does that mean for the ALDA experience, does that mean maybe a period of underperformance relative to long-term assumed returns, for a little bit longer. So those two components, please?

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

Yes. Paul, that is a great question. And let me start, and I will sort of provide some high-level comments, and I will hand over to Steve and then Scott might want to chime in as well, because there is a lot to unpack with your question. And I think the first comment I would make is that higher rates are positive for Manulife. We have said this in the past, and quite frankly, it is a function of the fact that it means more attractive propositions for our customers in terms of the products that we offer, but it also talks to the fact that our surplus portfolio obviously benefits from the re-pricing of our fixed income portfolio, and that just simply flows through. If you look at 2023, we saw about a $200 million pre-tax, year-on-year benefit from higher rates. This year, if rates stay where they are currently, it is probably about a $40 million benefit in '24 versus '23.

So, it moderates a little bit because of the big impact that we saw and the big uplift that we saw in '23. And largely, we have hedged our portfolio and reduced the volatility and the reliance on movements in rates or quite frankly, even equity markets, but it still is a very big positive for us as we look forward. And that does not include any of the benefits from URR, which is our long-term assumption, which again, where we stand today in terms of the 30-year is significantly higher, at least in some jurisdictions versus the ultimate reinvestment rate. So, in summary, what I would leave you with is we are a beneficiary of higher rates. We are not expecting that rates are going to go much higher from here. We think that possibly the short end of the curve will come down a little bit, but the long end of the curve may be a little bit more sticky. And if you think about this from a multi-decade perspective, rates at the long end, whilst a little bit higher than where they have been for the last couple of decades, are still from a historic perspective, quite reasonable. So, we think that again will be a bit of a tailwind for our business, both in terms of the earnings, but equally importantly, from the perspective of the attractiveness of our products in the market. Steve?

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

Yes, I will just emphasize a couple of things. Roy commented on where we saw the benefit of higher rates coming through. That is largely in the surplus portfolio. We do have very robust hedging programs. So, we do not like to take interest -- large amounts of interest rate risk. And -- so you won't see it coming through the segment so much. But one other emphasis is the URR. I used to get questions all the time because our URR was above where the long-term rates are, and that was a potential headwind for the company. Now it is a potential tailwind if rates stay where they are because in our major geographies, we have URRs, that are now lower generally than the current long-term rates.

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

A follow-up on the -- on how it affects the ALDA portfolio. So, interest rates do have an impact, small move in rates will not really matter, but when we see pretty significant rate moves, it will have an impact. And we saw this when rates came down. When rates came down, that did provide a bit of a tailwind to current valuations. But you may recall, at that point in time, we actually reduced the future expected returns because if it is simply discount rates coming down, that means you get it today, but then the prospective returns are going to be lower. And we are seeing the opposite result today with higher rates. We are seeing some valuations come down. But our expected future returns are now higher. And these assets are backing very long liabilities, we intend to hold these, and we will get that back in higher

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future returns. Now it affects different asset classes a little bit differently within our ALDA portfolio. Private equity is not much affected by long-term rates, actually short-term rates matter more there because that is how the underlying companies finance themselves. And so, I do think, as Roy mentioned, we would expect short rates to come down in the future, and that will be a bit of a tailwind for private equity, whereas the longer-term rates more affect the real estate portfolio, those are the discount rates that are being used, and we are not really expecting those to come down much going forward. In fact, they have gone up by 50-plus basis points so far this year, and that represents a little bit of a continuing headwind on the real estate portfolio for the remainder of the year.

Operator

Following question is from Mario Mendonca from TD Securities.

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

First, on the global minimum tax. Colin, would it be fair to say that we will start to see the increase in the Asia and wealth management tax rates as early as next quarter? And should we be sort of budgeting for something like 15% tax rate in Asia?

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

Good to hear from you. Yes, you are right. It all depends on when GMT is substantively enacted in Canada. And so, our expectation is Q2 and effective 01/01/24. So, if that happens, we will have a catch up in the second quarter for both the first quarter and the second quarter. You highlighted Asia, that is right. I mean you can see from our effective tax rates that we pay a little lower than average tax in our Asian businesses, and that is predominantly in Hong Kong. So, you would expect those rates to creep up. As we said before and actually on the last call, a good guide for our future effective tax rate range is about 17% to 22%.

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

Slightly different question. For 2 quarters, in the last quarter, we saw the change in CSM, the methodology change. This quarter, we are seeing a greater allocation of investment income I believe, to Asia and wealth management. Now maybe, -- what I am trying to get at here is the greater allocation investment into Asia and wealth management, is this something that's happened before? Or is this like a first-time thing?

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

Yes, you are right. And just to be clear, what you are talking about is the allocation of surplus across the businesses. So, we take -- we carry out an exercise every year, once a year. We look at overall surplus and we allocate it to each of the segments accordingly. Now because yields have increased and actually certain businesses have got bigger, some businesses are getting bigger allocations than others. Because we did it at the start of the year, we sort of -- there is a bit of a lag. So, you will not obviously notice it in Q2, Q3, Q4, but -- so Q1, it seems a little more outsized. But it really reflects the yield environment and the change in size of the businesses, completely unrelated to the CSM, the yield cycle basis change that happened last quarter.

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

Yes, I appreciate that they are not related, but they -- I connect them because in both cases, they actually put Manulife in a better light. So, what I am asking is, did you expect any other changes of this nature that either maybe allocate more income to the high-growth segments or speed up the pace of CSM amortization or anything else of that nature?

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

An interesting question, Mario. I mean I would not argue that it paints Manulife in a particularly better light, because when I look at everyone's valuation models, no one really looks at us on a sum of the parts valuation methodology. So, I do not view it as a way for us to improve the Manulife performance, but we are very proud of our Asia and our GWAM performance. In terms of outward looking perspective, there is nothing on the horizon that you would expect of this nature or magnitude.

Operator

Following question is from Lemar Persaud from Cormark Securities.

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Lemar Persaud ***Cormark Securities Inc., Research Division - Research Analyst***

Bigger picture question here for my first one, I am probably front running the Investor Day, but the core ROE has been ahead of your target for the past kind of 4 quarters. Are there some specific factor that you expect to cause Manulife to move back down to that target? Or is the kind of mid-16% ROE an appropriate way to think about this company now? Yes, any thoughts would be helpful on that one.

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

Yes. Lemar, Roy here. Let me tackle that and to some extent, front-running our Investor Day. So, I would certainly welcome everyone a), to join that, but b), to highlight that we are going to be talking about core ROE and our outlook for that in the future. ROE and the improvement of our returns has been a huge focus for us over the last 6 years, and I have mentioned this on prior calls, but we have been very deliberate about reducing the risk profile of our franchise and improving the returns. Our ROE, back in 2017 was circa 11%, and we took that up to almost 16% at the end of '23. That story has continued into '24 off the back of really solid momentum and good results. We delivered a core ROE in Q1 of 16.7%, 2% up on prior year. We are really pleased with that progress, and it has been a function of a couple of things.

The first is that we have divested low ROE businesses. We freed up $11 billion worth of capital over the last 6 years, and that is capital that was being dedicated towards low ROE franchises, and obviously, deploying that capital towards buybacks. In fact, we bought back $5.5 billion worth of shares over the last 5 years has been obviously a tailwind to our ROE story. At the same time, we have increased our capital buffers. So, that has been something that, again, we are very proud of, and it gives us ammunition for future actions in the future. The second big focus for us is that we have improved the ROE on our new business across the board. Every segment has improved the lifetime return on capital, of all of our new business, which means that as we write new business, it is going to improve our earnings and our return outlook for the future.

As we grow those higher ROE businesses, as you have seen and heard, Asia and WAM in particular, that changes the portfolio mix of our franchise and has been, again, another big positive. The final thing I would say is that on the expense front, we have driven a much greater focus on efficiency, which again is accretive to ROE. So, in summary, I would not say that we would expect to go backwards from where we are to the 15-plus percent guidance. We think that what we are able to deliver in '23 is a baseline, and we see further upside for improvement. I am going to have to ask you to sort of wait to hear more about that at our Investor Day.

Lemar Persaud ***Cormark Securities Inc., Research Division - Research Analyst***

That is fair. And then my second question, just continuing on the credit losses from an earlier question. You guys mentioned $30 million to $50 million being kind of normal and explain the reasoning for the release this quarter. But I am wondering does Manulife make use of expert credit judgment to smooth out credit loss provisioning? Or is it simply whatever the model spits out is what makes its way into the DOE, so, we should expect kind of more volatility in the ECL line.

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

Lemar, it is Scott. So, there is a model which is formulaic, which is from Moody's that we and a number of other people use. But we also have a process to go through it and apply judgment on top of that. And we have applied that judgment in the past. We tend to apply it in a more conservative nature, I would say, particularly if things are happening after the end of the quarter, if you looked at the first quarter of last year, I believe the model suggested we should have a release, and we were a bit concerned given what was going on with Silicon Valley Bank and so forth. So, we overrode the model not to do that. So yes, we do have a governance process and apply expert judgment on top of the model.

Operator

Following question is from Tom MacKinnon from BMO Capital Markets.

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

I think, Roy, you mentioned higher rates are a positive in the surplus portfolios, benefiting from this re-pricing. If I look at expected earnings on surplus though at [$253 million] in the quarter, it is down over the last 5 quarters. So, help me understand that. And

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obviously, your surplus portfolio must be growing, your LICAT is growing, your remittances are increasing as well. So, help me understand why that earnings on surplus is falling sequentially and has fallen over the last 4 quarters? And how should we be thinking about earnings on surplus going forward?

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

Tom, it is Colin. You are right. Earnings on surplus fell $11 million quarter-on-quarter and actually $30 million year-on-year. There are 2 things happening here. The first is the share buyback is reducing surplus, and that had a $20 million impact throughout the entire year. The second item, you will see this in the last quarter is the line item that you refer to does not capture the earnings on surplus for our GWAM business. And so, as part of the surplus allocation exercise that I talked to Mario about, GWAM got a little bit more surplus allocated to that. So that reduced the line item that you are referring to. But you are right, in terms of the yields going up, yields went up 2.8% to 2.9% during the quarter. But because of all the allocation and inter-account balance settlements, the actual surplus amount fell from $39 billion to $38 billion.

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

So, should we be thinking that this number should -- with increases in buybacks that it should continue to decline going forward? Or it just stabilizes -- what you lose in the buyback is offset by what you are gaining from just generally having more surplus. How should we be thinking about that going forward?

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

I think -- well, first point -- and sorry, you did ask this in the first part of the question, is Q1 is a good run rate to consider for the rest of the year. Yes, as we make money and we are returning capital through dividends and buybacks, you would expect a fairly stable surplus balance. So, no great movements there. And just as a -- to remind you, for every 50 basis points increase in interest rates, we will see $25 million of earnings coming through this line. So those numbers are also quite modest relative to movements in interest rates.

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

And then a follow-up with the expected investment in earnings. That is flat year-over-year. Now what you end up having here is you have got higher rates. So, I think this is kind of net of the discount on the reserves, but still you would assume that that spread is probably, if anything, has picked up, how should we be thinking about that expected investment earnings line going forward? And why it is just relatively flat year-over-year?

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

Yes. Tom, it is Steve. There is a couple of things going on in this quarter. One is we do see a reduction from the Global Atlantic transaction of about $20 million in the quarter. And then as we implemented IFRS 17 last year, there were a couple of methodology refinements, which is a bit of a headwind on that investment earnings. There is a partial offset where a portion got moved actually up into the insurance service results in the short-term insurance business. The Q1 of this year is a good run rate that we expect to grow as the business grows over time.

Operator

Our following question is from Nigel D'Souza from Veritas Investment Research.

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

I wanted to touch on your ALDA dispositions this quarter. I noticed that the sale of ALDA assets mainly comprised of private equity, timberland and infrastructure. So, it is not proportional to your current ALDA portfolio. And what I am getting at here is if that continues as you go through more ALDA dispositions, is that going to result in ALDA portfolio that becomes more indexed to real estate? And does that have any implications for expected investment returns or volatility of ALDA experience going forward?

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

Sure, Nigel, it is Scott. Thanks for the question. So yes, we -- as you point out, we have largely covered off the amount of ALDA sales we need for the Global Atlantic transaction. And I will point out we did it at values a bit above of where we had last valued those investments. And a couple of thoughts went into what parts of the portfolio to sell. One was we really did want to lean into private equity. It is the most volatile part of the portfolio, and it has grown over the years given the good performance there. So that was sort of a

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proactive move to reduce the size of that portfolio.

As you would expect, we did not do anything in real estate, given that the bid offer in that market is wider than anywhere else. And we do expect that bid offer to narrow. We have seen it start to narrow already. And we certainly would have plans to continue to rebalance the portfolio away from these transactions based on the sizes we want. And I would expect over the next couple of years, while we did not do anything in the really short-term given the kind of disruption in that market that we will rebalance the portfolio to where we want it. So, I do not see real estate becoming really a bigger proportion of the ALDA portfolio going forward.

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

Roy here, I just might chime in and add a couple of thoughts. The first is that the $1.7 billion sell-down of ALDA that relates to the GA reinsurance transaction reduces our ALDA by about 6%, and we have, through Scott's leadership, worked very hard to diversify our ALDA portfolio over the years. ALDA comprised of about 50% real estate -- commercial real estate some 10 years ago and now it represents approximately 30% or slightly less than that. So, actually our portfolio is actually quite diverse. And actually, that is what we like. We like to see a diverse portfolio because it allows us to weather all sorts of economic environments, which I think puts us in a very strong position.

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

Okay. That makes sense. And if I could just have some general questions about Asia. That is a strong growth driver for you. You want that, I believe, to get to Asia and wealth to get 50% of your core earnings. So just two questions here. Could you remind us on the number of agents that is declining in Asia. What is the trend that is driving that given the growth? And then the second aspect is just more recent market volatility in regards to the Japanese yen. Are there any implications for your franchise in Japan from yen volatility other than currency translation?

Phil Witherington ***Manulife Financial Corporation - President & CEO of Manulife Asia***

Well, thank you, Nigel, for the question. This is Phil. I will start with your question on agent numbers. And what we have seen in the first quarter is actually stability with the fourth quarter. Year-on-year, you will see a decline, and that has been driven by Vietnam and Mainland China. But I think what is more important than absolute agent numbers is actually the productivity of agents. And this is consistent with our strategic focus, and we have been talking about this for many years, professionalism, full-time agents that are equipped with digital tools in order to be highly productive. And we see that as being consistent with the notion of helping customers identify more complex financial planning needs that they have, which we believe is good for customers, but it is also good for us in terms of the quality of business that we write and the quality of agents that we attract. So new business value per active agent is actually up by 41% year-on-year despite the year-on-year decline in number of agents.

The second thing that you asked about was Japan and the impact of the weaker yen. Now as you may know, most of our business in Japan is foreign currency denominated business, largely U.S. dollars, some Australian dollar as well. And what we see is, as the yen declines, actually, there is more interest in diversification within investment portfolios of our customers in Japan. Now we are naturally very cautious when it comes to our sales process here. But we have launched some new products in Japan over the course of the last quarter. That has driven a quite strong rebound in sales and value metrics as well. So, I do feel optimistic about the prospects for Japan.

But just to remind, when we think about Japan, our strategy is one of value maximization. We are seeing that strategy being very successful in terms of earnings generation and value metric generation. And I expect that to continue in our medium-term expectations for Japan, a high single-digit growth in key value metrics and core earnings.

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

And Nigel, while we might have some earnings currency translation, and by the way, the larger part on that is the U.S. appreciation, which is obviously a positive for us from a currency translation perspective. In each of the markets that we operate in, we typically match our asset currency with our liability currency. So, we do not like to take foreign currency risk in terms of matching our liabilities with the assets in the markets that we operate in.

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Operator

(Operator Instructions) The following question is from Tom Gallagher from Evercore ISI.

Thomas Gallagher ***Evercore ISI Institutional Equities, Research Division - Senior MD***

Just a few questions on U.S. life insurance. Steve, just a follow-up on the SGUL lapse rate question. I know you mentioned that your ultimate lapse rate assumption is below 1%. Can you be a little more specific? And the reason I ask is, if it is around 90 basis points, I think that would still probably be at a level above the industry study that was conducted a few years ago, from what I understand the average lapse rate that they were implying was about 40 to 50 basis points. And if you are on the higher end, like above the 40 to 50, would that still imply you may have an impact if there is a reset made with the actuarial review?

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

Yes. Sure, Tom. Thanks. And as I am sure you can imagine, the -- it is not as simple as one lapse rate, which is why I refer to less than 1. It varies by single, survivorship, size of policy, etc. So, there is a variety in there. In terms of our ultimate lapse rates, when I look at it, I think we are in line with what the industry has got overall. I think what we are seeing more right now is what is happening in the current environment with respect to the pandemic and how does that trend out over time.

Thomas Gallagher ***Evercore ISI Institutional Equities, Research Division - Senior MD***

Got you. So, you would be more in line with, we will say, that industry study that had come out and the implication there you'd be at least directionally close to that level. Is that fair to say?

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

That is my view, yes.

Thomas Gallagher ***Evercore ISI Institutional Equities, Research Division - Senior MD***

Okay. Great. And then the second question is, this last quarter, we have seen kind of a number of reinsurance and litigation charges for the U.S. life insurance business. Some insurers took charges for cost of insurance litigation. Others due to arbitrations with reinsurers for rate increases. Curious if you have either one going on? And if so, whether you've provisioned for these?

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

Yes. Thanks, Tom. In terms of reinsurance, we have got ongoing relationships with our reinsurance partners, and that is a pretty comprehensive relationship, including looking at new business, future opportunities and a variety of in-force management initiatives to drive alignment of interest on performance of the business. Over the years, part of that in-force management has at certain times resulted in rate increase requests from reinsurers. We work with them constructively on that. It is an ongoing part of managing this business.

In certain situations, we dispute those right to rate increases, but look at it really as part of the ongoing relationship management. What I would tell you is that when we look at our reserves in aggregate, and that is how we manage the balance sheet, when we look at reserves in aggregate, I am confident in saying they are overall adequate and prudent including the ongoing management of these reinsurance relationships.

Thomas Gallagher ***Evercore ISI Institutional Equities, Research Division - Senior MD***

Got it. And the COI litigation?

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

I will pass to Brooks on that one.

Brooks Tingle ***Manulife Financial Corporation - President & CEO of John Hancock***

Yes. Thanks, Tom. It is Brooks Tingle. So, we did undertake a COI increase on a block of UL policies in 2018. As is the case in the industry when those events occur, litigation ensues. We have now settled all federal and state litigation regarding that. 100% of the disputes have been resolved. We made certain payments. But importantly, the increases stay in effect going forward.

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Operator

We have no further questions registered at this time. I would now like to turn the meeting back over to Mr. Ko.

Hung Ko ***Manulife Financial Corporation - Global Head, Investor Relations***

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

Operator

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

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