REFINITIV STREETEVENTS

EDITED TRANSCRIPT

MFC.TO - Q2 2024 Manulife Financial Corp Earnings Call

EVENT DATE/TIME: AUGUST 08, 2024 / 12:00PM GMT

CORPORATE PARTICIPANTS

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

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

Colin Simpson *Manulife Financial Corp - Chief Financial Officer*

Scott Hartz *Manulife Financial Corp - Former Chief Investment Officer*

Trevor Kreel *Manulife Financial Corp - Chief Investment Officer*

Steve Finch *Manulife Financial Corp - Chief Actuary*

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

Phil Witherington *Manulife Financial Corp - President & Chief Executive Officer, Manulife Asia*

CONFERENCE CALL PARTICIPANTS

Meny Grauman *Scotiabank GBM - Analyst*

John Aiken *Jefferies - Analyst*

Paul Holden *CIBC Capital Markets - Analyst*

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

Tom MacKinnon *BMO Capital Markets - Analyst*

Mario Mendonca *TD Cowen - Analyst*

Doug Young *Desjardins Securities Inc. - Analyst*

Lemar Persaud *Cormark Securities Inc. - Analyst*

Nigel D'Souza *Veritas Investment Research - Analyst*

PRESENTATION

Operator

Please standby, your meeting is about to begin. Please be advised that this conference call is being recorded. Good morning, ladies and gentlemen. Welcome to the Manulife Financial second quarter 2024 financial results conference call. I would now like to turn the meeting over to Mr. Hung Ko. Please go ahead, Mr. Ko.

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

Thank you. Welcome to Manulife's earnings conference call to discuss our second quarter and year-to-date 2024 financial and operating results. Our earnings materials, including webcast slides 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 35 for a note on non-GAAP and other financial measures used in this presentation.

Note that certain material factors or assumptions 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 second quarter and year-to-date 2024 results and a strategic update. Following Roy's remarks, Colin Simpson, our Chief Financial Officer, will discuss the company's financial and operating results in more detail. After their 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 Corp - President & Chief Executive Officer*

Thanks, Hung, and thank you, everyone, for joining us today. Starting on slide 6, we recently hosted our Investor Days in Hong Kong and Jakarta in late June. And it was truly a pleasure to have so many of you join us to hear how – we are raising the bar at Manulife. There are a few key takeaways that are worth recapping here. First, is that we've gone from being a high risk, low ROE business in 2017, to a lower risk and high ROE business today.

Second, we remain uniquely positioned to capitalize on the megatrends that are shaping the global economy, a growing middle class in Asia, an expanding global retirement gap, and the dramatic digitization of the consumer.

Third, as a result of our strategy and disciplined execution, we announced ambitious but achievable new targets and a clear path for achieving them. These include increasing our core ROE target from 15%-plus to 18%-plus, and introducing a cumulative remittances target of $22 billion-plus, both by 2027.

By delivering on these targets, we will further solidify Manulife as a high growth, high return, and high cash generation company. To achieve that, we know we must double down on execution, which takes me to slide 7.

You can see that -we have maintained our momentum and delivered another set of strong results for the second quarter.

APE sales increased 17%, led by strong growth in Canada and broad-based growth in Asia, with both segments contributing to new business CSM growth of 6%. Core earnings increased 6%, while Asia and Global WAM generated very strong growth of 40% and 23%, respectively.

This was somewhat offset by the impacts of a higher effective tax rate related to global minimum taxes or GMT as well as lower core earnings due to our recent reinsurance transactions with Global Atlantic and RGA.

As a reminder, these transactions will free up $2 billion of capital, which we committed to return to shareholders through our current NCIB program. And consequently, we ramped up our share buy-backs during the quarter.

And I would highlight that we have now decided and plan to buy-back the maximum amount of shares allowed through our current NCIB program. With the recent increase in our share price, this would represent over $3 billion that we plan to return to shareholders, which would entail a further acceleration of buy-backs in the second half of the year.

Share buy-backs have contributed to core EPS growth of 9%, or 12% excluding the impact of GMT, and core ROE expanding 20 basis points to 15.7%.

Finally, we maintained a solid balance sheet with a strong LICAT ratio and generated double digit book value and adjusted book value growth, while returning significant capital to shareholders over the past year.

Turning to slide 8, as- we highlighted at Investor Day, executing in Asia and Global WAM will be critical to achieving our expanded 18%-plus core ROE target by 2027. It is encouraging to see that we are delivering on our strategy and in turn, reshaping our earnings profile. In Asia, we are driving broad-based sales growth, with the majority of our markets generating double-digit growth in year-to-date APE sales, new business CSM, and new business value.

Importantly, – we are also driving margin growth, higher productivity and efficiency improvements, all of which contribute to our ambition of delivering high-quality, sustainable growth. And in Global WAM, we have seen strong asset growth, which reflects a combination of favorable market impacts, net inflows, and the CQS acquisition.

Supported by disciplined expense management, this has contributed to a significant expansion in our core EBITDA margin, which is up 240 basis points from the prior year. I have commented before that given our scale, we can be judicious on M&A opportunities and our recent acquisition of CQS was no exception. After closing the acquisition earlier in the quarter, we leveraged CQS's capabilities with the successful launch of a multi-asset credit fund in US Retail. Our focused execution is driving strong core earnings growth, and as you can see these high-return businesses are contributing to a growing share of our core earnings.

Before I pass it over to Colin, I would like to take a moment to thank Scott Hartz, who has decided to retire in October after a 40-year career with Manulife. In that time, Scott has held a range of leadership roles, including leading the investment team since 2010 and being appointed Chief Investment Officer in 2019.

On behalf of the team at Manulife, I want to thank Scott for his investment expertise, his partnership and counsel over the years, and most importantly, his friendship, I am sure you will all join me in wishing him the best in his retirement.

While Scott is on the call with us today, we are also joined by his successor, Trevor Kreel, who was appointed Chief Investment Officer and Head of the General Account organization, effective August 1. In his nearly 30 years with Manulife, Trevor has held a number of leadership roles across the organization, including working closely with Scott in the general account organization over the past decade. We are fortunate to have such a strong successor ready to step in.

Now with that, I will hand it over to Colin to review the highlights of our financial results. Colin.

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

Thanks, Roy. The momentum in our financial performance continues. I will dive 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 17% from the prior year, reflecting strong growth in our Asia and Canada segments.

In Asia, we generated higher sales across multiple markets. In particular, Hong Kong and Japan, although we did see lower sales in mainland China, following the record high second quarter sales in 2023. While in Canada, we had higher large case group insurance sales.

Our strong sales contributed to a solid increase in new business CSM of 6% and another quarter of double-digit growth in new business value of 23%. Global WAM saw net inflows of $0.1 billion, mainly reflecting the strength in our Institutional business, offset by outflows in our Retirement business. These results really demonstrate the strength of our diversified global portfolio of businesses in driving growth.

Turning to slide 11, which shows the growth in our profit metrics. Core EPS increased 9% as we grew core earnings and continued buying back shares. I should note that the newly enacted Global Minimum Tax Act in Canada reduced core earnings for the quarter and core EPS would have grown 12% excluding this impact.

During the quarter, our core ROE was 15.7%, up 20 basis points from the prior year. Execution in Asia and Global WAM, our highest return businesses will be key levers to achieving the updated core ROE target, and I will touch on performance in these businesses shortly.

On slide 12, you can see we grew our adjusted book value per share by 15% from the prior year quarter to $33.96, even after returning a significant amount of capital to shareholders over the past year. This continued our track record of steady growth in our book value, together with our CSM, which is a store of future earnings.

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 analysis presented relative to the prior year quarter. The first point to highlight is that we continue to see the benefits of business growth, with strong growth in core net insurance service results in Asia and Canada, and we also generated improved insurance experience.

Secondly, our core net investment result had a modest decrease of 1% as business growth was more than offset by lower investment spreads. Our expected credit loss or ECL was roughly neutral this quarter, and this strong result was primarily driven by the regular update to our model parameters, reflecting the benign corporate credit environment, which largely offset staging impacts on a few bonds in our portfolio.

In the bottom half of the table, you will see that Global WAM continued to be a notable contributor to the results, generating higher net fee income from average AUMA growth and expanding our margin. Lastly, we had a decline in "Other core earnings" that partially offset these positive results, which included higher workforce-related costs.

A growing proportion of our earnings are coming from the core net insurance service result versus the core net investment result and higher Global WAM earnings. This is part of our road map towards an 18%-plus core ROE.

The impact of GMT was a $46 million charge in our core earnings for the quarter, adding just over 2 percentage points to our effective tax rate. We are reporting the impact of GMT in the Corporate & Other segment as GMT was not enacted in all the jurisdictions in which we operate. More information on the impact of GMT is available in the appendix. In addition, the recent reinsurance transaction with Global Atlantic impacted core earnings by $25 million across multiple lines of the DOE.

Onto slide 14. During the quarter, we saw a non-core charge of approximately $300 million of realized losses from assets disposed as part of the Universal Life reinsurance transaction in Canada with RGA, which is in line with previous disclosure.

As many of you know, there was an offsetting change in OCI, neutralizing the impact on book value from this charge. While the portfolio continued to generate a positive return in the quarter, lower than expected returns on ALDA resulted in a $450 million charge. This was mainly driven by the underperformance of our private equity portfolio, in part due to the impact of higher interest rates on valuations.

We also saw ongoing pressure on commercial real estate, but we continue to see sequential improvement with a relatively modest loss, representing the smallest charge we have reported over the past eight quarters. This was partially offset by a $143 million gain, largely due to the favorable impact of interest rate movements on derivatives outside of hedge accounting relationships.

Finally, we reflected a catch-up of $44 million related to retroactive GMT impacts on our first quarter results in non-core earnings this quarter.

Now we will cover the segment view of our results in the next few slides, starting with Asia on slide 15. Our Asia segment continued to generate strong growth in both top and bottom-line metrics. APE sales increased 7% from the prior year quarter, primarily driven by growth in Japan on the back of strong market performance generating higher sales of maturing wealth products, and Hong Kong, supported by increased sales through our agency and bancassurance channels, though these results were partially offset by lower sales in a few other markets in Asia, particularly in mainland China following strong prior-year sales as I noted earlier. The overall increase in sales contributed 10% and 19% growth in our value metrics, new business CSM and NBV, respectively.

We delivered 40% core earnings growth as we benefited from higher expected earnings on insurance contracts, favorable claims experience, and higher expected investment income. We saw notable growth from our largest in-force business, Hong Kong, as well as Japan.

Moving over to Global WAM's results on slide 16. We reported $0.1 billion of net inflows for the quarter. We continued to generate strong net inflows in our Institutional business, which included positive contributions from CQS, but this was largely offset by a large case plan redemption in US Retirement.

While net inflows were largely neutral this quarter, Global WAM delivered core earnings growth of 23%, supported by higher average AUMA, which increased 13% from the prior year quarter. We continued to generate positive operating leverage, evidenced by our strong core EBITDA margin expansion, which grew 170 basis points from the prior year quarter and drove our core earnings growth.

Bringing you over to Canada on slide 17, we delivered another strong quarter of new business metrics. APE sales increased 61% from the prior year quarter, led by Group Insurance, which delivered higher sales across all markets and benefited from a large case sale.

This was also the main contributor to our double-digit growth in new business value. Core earnings grew by a strong 7% in Canada, primarily driven by business growth in Group Insurance and affinity markets. We also saw favorable retail claims experience in individual insurance, but this was somewhat offset by lower investment spreads.

Onto slide 18, which shows our US segment's results. In the US, we saw lower sales of protection insurance products, which modestly drove down APE sales, though this was partially offset by continued demand from affluent customers for accumulation products. The decline in new business CSM was due to product mix as well as the impact of higher interest rates. Core earnings decreased 11% from the prior year quarter, which reflects more unfavorable net insurance experience as well as an unfavorable variance from the recent reinsurance transaction with Global Atlantic.

Let us now move to our balance sheet on slide 19. In the second quarter, our LICAT ratio remained strong at 139%, which is $24 billion above the supervisory target ratio. Our financial leverage ratio continues to support our financial flexibility at 24.6%, or 24% including the impact of the announced redemption of subordinated debentures. This puts us comfortably below our target ratio of 25%.

During the second quarter. We have also increased the pace of our share buybacks. And together with dividends and share buybacks, we returned approximately $1.4 billion of capital to shareholders. And as Roy mentioned earlier, we are committed to buying back the maximum 90 million common shares through the current NCIB program, representing a capital return of more than $3 billion based on the current share price.

And finally, moving to slide 20, which summarizes how we are tracking against our medium-term targets, including the new and updated targets we presented at our Investor Day. As you can see from our year-to-date results, we are showing momentum towards our new core ROE and expense efficiency targets and are continuing to deliver on our remaining medium-term targets.

We also generated 44% of earnings from the Asia region and increased our contribution from our highest potential businesses to 70%. Looking ahead, all of these factors reinforce my confidence in our ability to raise the bar on financial performance.

This concludes our prepared remarks. Before we move to the Q&A session. I would like to remind each participant to adhere to a limit of two questions, including follow-ups and to re-queue if they have additional questions. Operator, we will now open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Meny Grauman, Scotiabank.

Meny Grauman - *Scotiabank GBM - Analyst*

Hi, good morning. We've talked about ALDA returns in the past, but I wanted to revisit it in the context of what we saw this quarter, the ALDA charge widened in Q2, and now we're seeing eight quarters in a row of ALDA charges.

So, I'm wondering when we look at that, should we be concerned with that and specifically, the deterioration in the charge this quarter? Colin, you touched on it a little bit in terms of the composition. I'm just wondering how to view that those fact, patterns and in terms of where the ALDA is going and over that period of basically two years?

Scott Hartz - *Manulife Financial Corp - Former Chief Investment Officer*

Sure, Meny, Hi, it's Scott Hartz. I'll start by looking at the quarterly results for ALDA. I think the good news in the quarter was that the real estate headwinds continued to diminish. As interest rates have stabilized here, we saw in the first quarter the underperformance versus long-term assumptions come down a bit; we had about a $200 million loss on our real estate portfolio. In the second quarter, that continued to decline down to less than $150 million.

So that is playing out as we expect, and we would expect that to continue to improve in the outer quarters. The rest of the ALDA portfolio was less good. We have six different ALDA categories and in a normal quarter, some will exceed the long-term expectations, and some will underperform. This was a quarter where every category underperformed.

For most of them, it was idiosyncratic factors on a couple of investments that didn't perform well. And none of those categories was a particularly large number, but they do add up. They do not give me concern on future returns. I don't see a read-through going forward.

I would say the one category that did stand out, where there was pressure sort of across the board was in the private equity portfolio. Our private equity portfolio historically has been a very good performer. Over the last 3, 5, and 10 years, it has been the best performing ALDA category, and it has far exceeded its long-term expectations.

So again, I think in the medium term going forward and long term, I feel good about that portfolio. But it was a bit of a rough quarter, although the private equity portfolio did have a slightly positive return, it was well below the long-term expectation and it's a fairly sizable portfolio. So, it created the largest loss within the ALDA portfolio.

So, what was going on there? Unlike real estate, where it's really long-term rates that matter, those are the discount rates to get into valuations. For private equity, portfolio companies underlying those funds finance themselves with floating rate debt. So, short rates really matter for that portfolio. And short rates have been up for a while and it has pressured the private equity returns, but there had been an expectation last year, I think that the Fed would lower rates this year quite a bit. And as you know, valuations will reflect sort of the outlook for short rates. And I think this year, the economy was really strong, those expectations got pushed out quite a bit and that weighed on valuations.

So, looking forward for the private equity portfolio, I think as short rates come down and I think we're now in a position where we're expecting them once again to come down pretty sharply going forward, that will be positive.

As you know, I think, these returns on private equity are lagged a quarter. So, our second quarter results reflect first quarter valuations. The second quarter, I would say, which will get reflected in our third quarter results, not much had changed in the second quarter. So, that probably will continue to weigh a bit on the third quarter results. But then I expect as we see the cuts coming, that private equity results will resume their good performance going forward.

And Trevor, is there anything you'd like to add to that?

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

Yeah. Thanks, Scott. Thanks, Meny, thanks for the question. So, just a couple of things that I would add to what Scott had said and you know, given the mark-to-market nature of ALDA, I think the recovery is obviously not going to proceed in a straight line, we will have variability and there will be positives and negatives quarter to quarter.

And then I think the second thing I would say, just to remind you something that we've said in the past, which is that the higher discount rates that are now priced into our real estate and other real estate -- real asset valuations, I think give us confidence, more confidence in achieving our expected returns over the medium to long-term.

Meny Grauman - *Scotiabank GBM - Analyst*

Thanks for that detail. Just as a follow-up, in terms of the private equity portfolio, have you made any or are you contemplating making any more fundamental changes to this private equity portfolio? Or is it just really a function of just letting maybe rate expectations filter through and just waiting, or is there something more fundamental in the portfolio that's not working as well as you like that requires any sort of adjustments to that portfolio?

Scott Hartz - *Manulife Financial Corp - Former Chief Investment Officer*

No, we do expect as rates to come down, short rates to come down for the portfolio to perform very well. One thing I would say is because it has been such a strong performer over the last five years it has grown to a fairly large size.

So, we've been investing, and it takes a while to get this money invested. You make a commitment it gets invested over five years. A number of years ago, we really reduced our commitments there. So, I think the portfolio as a percent of our ALDA will probably decline going forward.

Operator

John Aiken, Jefferies.

John Aiken - *Jefferies - Analyst*

Good morning. Not necessarily on the quarter, but with DBS announcing the CEO succession. I have to, ask the painfully obvious stupid question, but does this have any impact on your expectations for the relationship between the two of you? And then more importantly, does Manulife have a relationship with the incoming CEO?

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

Yeah, John, thank you for the question. We don't see this as having any impact on our relationship. We've got a deep partnership with DBS, one that we're very proud of and one that we showcased at our Investor Day recently that you were at.

Clearly, we're obviously very proud of the partnership that we have with the senior leadership team and that extends beyond Piyush. In fact, Su Shan was a key part of the leadership team, that actually signed our agreement with DBS and Manulife back in 2017.

And I personally spent a lot of time with her at that time, locking in that deal and that transaction and agreeing the way that we would move forward. So we're obviously happy for Piyush and delighted that he is happy to announce his retirement, but we're equally proud of the relationship that we have with DBS and that extends beyond Piyush, to Su Shan, and the broader team there at DBS.

Operator

Paul Holden, CIBC.

Paul Holden - *CIBC Capital Markets - Analyst*

Hi, thanks, good morning. First question is related to the GMT, I mean, transparent, but it was totally absorbed in Corporate, not the business segments. But I guess my question is, of the $46 million in GMT this quarter, how much would have been allocated to Asia, if legislation had been enacted there?

And the second part of the question, is there any visibility on timeline on when it may get enacted in key countries in Asia? I guess that'd be Hong Kong and maybe Singapore.

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

Hey, John, it's Colin here. Thanks for the question. So, of the $46 million, $30 million is allocated to the Asia segment, so it's roughly two-thirds Asia segment, one-third GWAM. We do believe Hong Kong will adopt the Pillar Two tax rules in 2025.

So, we expect that tax charge to be passed through to the segments next year reporting, but until that happens, we'll keep it at Corporate. So, wait and see on that basis, but it is very much within our expectations.

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

And Paul, I might just add that Asia's contribution – Asia's contribution to earnings as at Q2 was 44%, and that includes both insurance and wealth. When we pro rata the impact across the geographies and portion that GMT that's attributed to Asia to Asia, it takes our contribution from 44% down to only 43%. So we don't see this as a significant material adjustment to our earnings contribution by segment.

Paul Holden - *CIBC Capital Markets - Analyst*

Got it. Okay. Thanks for that, and then second question also related to Asia. If I look at insurance experience, I'm going to be transparent on this, but if I look at total experience, including both P&L and CSM impacts, there was no year-over-year improvement. In fact, it was almost exactly the same number, I think.

But how you've allocated it between P&L and CSM has changed. So, maybe you can walk us through sort of what's happening in experience in Asia. If there has been any sort of improvement in those unfavorable experience items from last year and why the allocation between P&L and CSM has changed this year? Thank you.

Steve Finch - *Manulife Financial Corp - Chief Actuary*

Sure, thanks. It's Steve here. I'll take that. So, the drivers of the experience in Asia for the quarter and then relative to prior year; in the quarter, we saw some claims gains in both Vietnam and in Japan, and that is what you are seeing in the P&L.

And then what's going through the CSM primarily is a continuation of some adverse persistency results primarily in Vietnam to a smaller degree, some lapse impact in Singapore. In Vietnam, this resulted from some of the broader-based industry macro challenges. We saw a modest improvement in Q2 on the Vietnam persistency, and we do have clear line of sight to improvement over the second half of the year on that front. As you know, as things have stabilized and begin to move in a positive direction there. So, we feel pretty good about the outlook.

Paul Holden - *CIBC Capital Markets - Analyst*

And sorry, if I remember correctly, wasn't that persistency issue in Vietnam -- didn't that flow through P&L in the year ago period?

Steve Finch - *Manulife Financial Corp - Chief Actuary*

No, it would have been through CSM.

Operator

Gabriel Dechaine, National Bank Financial.

REFINITIV

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

Hi, good morning. Nothing too complicated here. In the wealth flows, I apologize if you've already mentioned it in your opening remarks, but I saw Canada had big outflows in the Retail business. Is that tied to the higher capital gains inclusion rate that became effective at the end of the quarter? People are getting out of their funds before that change.

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

Yeah, thanks, Gabriel. It's Paul Lorentz here. Yeah, that was an impact for the industry. We did see elevated redemptions coming through the Canada Retail business ahead of that capital gains inclusion rate, it wasn't unique to us. We have since seen those redemption rates moderate. So, we would expect that to kind of moderate, go forward.

And then just looking at the Canada region, there was also a large case redemption in there that is skewing the results for the quarter. That was our remaining redemption from a large client announced in Q1, but that was quite material, it was $1.8 billion for the quarter, so when you actually factor those two -- and we're quite optimistic.

The other thing I would say just in terms of Canada specifically, is we're seeing a lot of advisor -- new advisor interest in our wealth platform. We made an investment earlier this year. And the pipeline for advisors that are interested in joining in the second half of the year is quite strong. So, we're quite optimistic as we look forward for the Canadian market.

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

Okay, great. Thanks, Paul. Question on the tax rate guidance, so the 17% to 23%, it's a very wide range. So, wherever you end up on that spectrum could have a pretty meaningful impact on the quarter, at any given quarter.

I mean, I can come up with my own answers here as to how you end up at the low end or high end, you know, more growth in Canada and the US versus Asia. I mean, is there anything else that could cause that to swing around a lot? And I guess, if Asia is going to continue to grow at maybe not the rates we saw this quarter, but higher than anywhere else, should we be biased towards the lower end as we're forecasting?

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

Hey, Gabe, It's Colin again. Yeah, I think you've nailed it really. As Asia becomes a bigger proportion of our earnings, we would see some of the lower tax jurisdictions contribute to a lower overall tax rate. And as has been noted already, we are at the low end of the range. Actually, we are below the 17% to 23% this quarter, but we're up 2% from the 14% we reported last quarter. So, we are staying close to the low end, and we expect to continue that way. But as you as you noted, if Canada and the US grow earnings more, you would expect to see that rate go up.

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

Any technical, I mean, I don't know if there are any other factors at play other than geography. I mean the amount of --

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

There really aren't, Gabe. It's quite straightforward.

Operator

Tom MacKinnon, BMO Capital Markets.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Yeah, thanks. Good morning. Question with respect to Asia, looking at APE for Asia Other, it continues to be kind of sluggish down 5% and I think year to date, maybe up just modestly. One thing I did note though, is the number of agents you have in Asia Other, kind of running flat for several quarters in a row and then up 9% quarter over quarter in the second quarter of this year.

So, what's happening there? Are you beefing up the salesforce here in Asia Other to try to help rebalance some of these -- some of the Asia Other APE? How should we be thinking about those sales going forward? And how should we be thinking about them in light of this increase in the number of agents.

Phil Witherington - *Manulife Financial Corp - President & Chief Executive Officer, Manulife Asia*

Great. Thank you for the questions, Tom. This is Phil. So, I'll start actually by highlighting that it's been a really strong quarter for our Asia business. Our core earnings are up 40%. We've seen a growth in NBV of 19%, and that comes from a mix of both volume growth with 7% growth in APE sales and margin enhancement across multiple markets.

Now, Tom, you picked up in your question on the modest decline in APE sales in our Asia Other segment. And Colin touched on this briefly in his opening remarks. But what's happening there is that we've seen strong growth across multiple markets in the Other Emerging Asia sub-region. But what has happened is that we've seen a moderation of sales growth in China.

And recall the history here is in the second quarter of 2023, we had seen a tripling of sales in mainland China as the borders with the rest of the world reopened and consumer sentiment was very strong. This year, we've seen a slight pullback in that, a 20% decline in sales in China, and that has had the effect of moderating the Asia Other sales. But, I do remain confident in the prospects for our Other Asia markets individually and collectively.

You also touch Tom on our agent numbers. And we have seen an improvement and increase in agent numbers, particularly from our Emerging Markets during the second quarter. But, I do want to highlight, our focus is not really on the number of agents, it is on the quality and the productivity of agents.

So, I won't dwell too much on sort of the 9% quarter-on-quarter increase that you referenced. Our focus is really on driving productivity of agents, driving value for both customers and Manulife. And when I look at the results in the second quarter, I believe it supports the messages that we delivered at Investor Day with high-quality, sustainable growth, 19% improvement in new business value.

And when I think about the future, the quarters ahead, I also remain confident about the prospects. We've seen very strong performance across multiple markets in Asia in the second quarter.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Okay, thanks. And then a quick follow-up here with respect to the lapse experience in the US continuing to be negative here. How should we be thinking about that going forward, especially as we move into your third quarter reserve review with respect to that aspect?

Steve Finch - *Manulife Financial Corp - Chief Actuary*

Yeah, thanks, Tom. It's Steve. I'll take that one. So, as you noted we did see a continuation of lapse losses in the US that's been -- since the pandemic, as I've noted before, we saw a drop in lapse rates across many product lines.

In similar product lines in Canada, those lapse rates have trended back to pre-pandemic levels, but it's been a much slower process in the US. We've seen some trending back, but not on all products and not all the way.

I've also commented before with respect to how you think about the Q3 assumption review, which I'll note when we transition to IFRS 17, last year, we stopped providing detailed guidance at Q2, so you'll get the full disclosure at Q3.

But in terms of thinking about how we're looking at this, we're very comfortable with the ultimate lapse rates. Those are very low and that's not what's causing the issues here, it's more the intermediate durations on protection products and some higher lapse rates in early durations from the economic environment.

We'll take all the data into account as we review the lapse rates. But what I can say is on the overall review, you can expect, as usual, some pluses and minuses. So that's how I think you should be thinking about that right now.

Operator

Mario Mendonca, TD Securities.

Mario Mendonca - *TD Cowen - Analyst*

Thank you. Just one quick clarification on that last question from Tom, it's always -- it's very unclear for me on what assumptions go through earnings and what goes through the CSM? Would an update to intermediate lapse assumptions in the US be an earnings issue or a CSM issue?

Steve Finch - *Manulife Financial Corp - Chief Actuary*

Thanks, Mario. So, for specifically on US Life, those lapses, be they would go through primarily CSM, unless CSM were depleted, and then it would go through the P&L. And there is one nuance in terms of the discount rates, there's a little bit that would go through OCI based on what interest rates were when we locked them in at the time of transition versus current interest rates. So it's a little bit complicated, but CSM; if depleted, through P&L.

Mario Mendonca - *TD Cowen - Analyst*

Yeah, next question, then has the CSM been depleted?

Steve Finch - *Manulife Financial Corp - Chief Actuary*

At this point, on some products in the US, as you can see in the quarter in US, we've got some life lapse losses going through P&L. So some cohorts have been depleted, but not all of the cohorts.

Mario Mendonca - *TD Cowen - Analyst*

My second question this might be for Colin. Go to page 29 of your presentation. So deep into your appendix and I appreciate it is in the weeds, but it matters to book value growth, that net impact of $732 million, it's positive this quarter, so that's fine.

But I'm surprised that kind of, that size of a contribution from changes in corporate spreads and interest rates. It was my understanding that with the implementation of IFRS 17, that those two lines, the fair value of the liabilities relative to fair value of the assets would be fairly well-matched and we wouldn't see big changes. So maybe talk me through why it was big this quarter? And could we see big swings to the negative if rates and spreads move the other way?

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

Yeah, thanks, Mario. I mean, you addressed it to me. So, I'll start, and I'm sure Scott's got quite a bit to say on this topic. So effectively, our sensitivities don't necessarily -- don't capture the spread environment. And what we saw during the quarter was a steepening of the spread curve and that drove big gains.

Obviously, if that reverses, then the opposite could happen, but we've done a lot of work to make sure that our interest rate exposures is really minimized through extensive hedging. But what you see here is really the spread impact. Scott?

Scott Hartz - *Manulife Financial Corp - Former Chief Investment Officer*

Yeah. And to explain that a little bit more, Mario, so if you think of our liabilities are very long and we can't get the asset portfolio long enough to match them, so we use derivatives to get the matching on the interest rate and immunize ourselves against that. But what that means is the derivatives do not have a spread component, whereas the liabilities and the assets have a spread component.

So, we have overall spread risk, call it spread duration. The spread duration on our assets is shorter than the spread duration on our liabilities. So overall, higher spreads decreased the liabilities more than they decreased the assets.

And then the steepness matters a lot too, because liabilities are pretty long and where the mismatch is, we don't have assets as long as our liabilities. So, really spreads at the long end versus the intermediate part of the curve where a lot of our assets are stacked up, matters. So, bottom line, wider spreads creates positive here and a steepening of the spread curve creates a positive. And that's really what happened in the second quarter.

And that's by the way, I should say that's part of the reason we chose to go fair value through OCI. I mean, that's noise that, that won't really affect cash flows or anything till many, many years in the future. And so much will change between now and then it really is an artifice of the PV of all of this. And so it's noise that really does not belong in the P&L from my perspective.

Mario Mendonca - *TD Cowen - Analyst*

Enjoy your retirement and thank you for tolerating us over the years.

Scott Hartz - *Manulife Financial Corp - Former Chief Investment Officer*

Well, thank you, Mario. And I will say, I miss a lot about this place and this exercise is something I'll miss. You all keep us on our toes. I feel very good about our investment portfolio and investment team, and I enjoy talking about it. So, I have enjoyed our conversations. Thank you.

Operator

Doug Young, Desjardins Capital Markets.

Doug Young - *Desjardins Securities Inc. - Analyst*

Hi, good morning. Hopefully, this will be relatively quick, but the non-attributable expenses were up little more than I had expected sequentially. I think there was some reclassification of expenses from maintenance expense into this bucket. So, I'm just hoping to get a little bit of quantification of what that was and how to think about that line item and whether there's future kind of reclassifications that potentially could be coming.

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

Hey, Doug, it's Colin here. You're right to point out the increase in NDA, non-directly attributable expenses, they're up 37% -- $37 million quarter on quarter. Now some of that's due to higher expenses in items that we classify as non-directly attributable, things like our build-out of generative AI or some entity-sustaining expenses. So, you would expect a bit of an increase on that.

The other part, as you mentioned was a re-classification, and what's going on here is that we completed our expense experience exercise. This is the first one we've done since IFRS 17. So, we went really deep into our expense experience, and this did involve a little bit of reclassification between maintenance and NDA.

I would consider this quarter's NDA as a good run rate to use going forward. And I would remind everyone we really focus on total expenses and total efficiency ratio, and very committed to improving that efficiency ratio.

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

Hey, Doug, I might just add to Colin's comments that whilst, as Colin mentioned, obviously we go through a process to really assess and evaluate non-directly attributable expenses and make sure that they're as accurate as possible. We also benchmark ourselves versus our peers, and we believe that actually we're well-positioned on that front as well as quite conservative, which is where we want to be.

Doug Young - *Desjardins Securities Inc. - Analyst*

Perfect, and then maybe Steve, can you refresh us on what you're seeing in the long-term care insurance book and just the negative P&L experience. The offset by the experience in the CSM this quarter, the CSM wasn't a full offset, so the impact was net negative.

I think the numbers are fairly small, but just hoping that maybe you can flesh that out and what impacted the reinsurance transaction you have on these patterns, if anything. And what cohort are you seeing the negative experience in the P&L versus what you're seeing in the CSM. I'm just hoping to get some color on those items. Thanks.

Steve Finch - *Manulife Financial Corp - Chief Actuary*

Sure, Doug. Thanks. Yes, and you're correct. Q2 was a modest negative all in combined P&L and CSM, which is really how we look at the overall experience. And you notice as well, that is the first time in nine quarters that we've had any negative in LTC in the experience.

So certainly, not the beginning of a trend, but what we have seen a continuation of trends is that for those on claim, the cost of providing care is higher than the valuation assumptions, and that's what's going through the P&L, but that has been offset, more than offset over time by less people going on claim, so favorable incidence.

And we believe these two are related in terms of some of the dynamics. In the quarter specifically, we had been seeing claim termination gains. But Q2 was -- we didn't see those gains coming through. There were some losses on claim termination, but again, those can vary quarter to quarter. So, those are the dynamics of what we've seen. We've seen overall mortality levels, including in long-term care trend back to normal levels, but we do see this continued higher cost of care offset by significantly lower incidence.

Operator

Lemar Persaud, Cormark Securities.

Lemar Persaud - *Cormark Securities Inc. - Analyst*

Yeah, hopefully, just a quick one here, maybe for Scott or Trevor. Can you guys quantify the ALDA charge related to PE? I mean, you gave the real estate at around $150 million and then there's the PE piece and then some other idiosyncratic issues. Just wondering if you could give that component to PE piece specifically.

Scott Hartz - *Manulife Financial Corp - Former Chief Investment Officer*

Sure, Lemar. This is Scott. The real estate loss was a bit less than $150 million and the PE loss was a bit more than $150 million.

Lemar Persaud - *Cormark Securities Inc. - Analyst*

Okay. And then how much do we need to see short rates come down to provide relief on that portfolio? Is it like, are we talking like 50 basis points? So, Q3 might be a tough quarter as you kind of alluded to, but how much do you need to see rates come down in the US to provide relief on that portfolio?

Scott Hartz - *Manulife Financial Corp - Former Chief Investment Officer*

Yeah, I think any amount of decrease will be helpful, and I don't think we need short rates to get down close to zero, the way they were before, to start meeting our long-term assumptions, but it's difficult to quantify that exactly. I think if we get the markets now expecting 75, 100 basis points of drop in short rates by the end of the year. If we get something like that, that will be very positive for that portfolio.

Operator

Nigel D'Souza, Veritas Investment Research.

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

Thank you. Good morning. I wanted to circle back on ALDA. The weaker than expected performance in private equity, wondering how that ties into the recent reinsurance transactions. I believe the intention is to have dispositions in ALDA, specifically private equity assets. Does this make it more difficult to transact, or is there any change in, I guess your intentions or timing of those ALDA dispositions?

Scott Hartz - *Manulife Financial Corp - Former Chief Investment Officer*

Sure. Thanks, Nigel. I'll start by saying, for the long-term care transaction we closed in the first quarter, we've pretty much completed the ALDA dispositions. We were intended to sell $1.7 billion of ALDA, and we've sold $1.6 billion. $500 million of that was private equity. And in total, we achieved a higher value than our last value on our books. So, we feel very good about that, and that's pretty much done. For the Canadian reinsurance transaction we closed in the second quarter. We sold the roughly $600 million of public equity that was backing that block in the second quarter, and we have $600 million of ALDA to sell in Canada. We expect to complete that during the balance of the year, probably not much of that will come out of private equity. So, no bottom-line, I don't not think the underperformance we've seen recently in public equity will affect any of that.

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

Nigel, Roy here. I might just add some strategic thoughts as it relates to ALDA because there's been some really good questions on ALDA and rightfully so. I would say a couple things. First, is that ALDA has been a really good asset class for us. It is great for our business because we've got long duration liabilities, and to match that with great long-term assets from a tenure perspective, but also with an asset class that's delivered superior returns with lower volatility than equities, is we believe a source of strength.

And it's something that we've got a lot of experience in, in fact, more than 20 years, and we now see on the Retail and on the Institutional side a lot more interest in this asset class, and we're well-positioned to even provide value there. We are going to see some volatility from time to time. What we've seen though is in historic times where we've underperformed our long-term assumptions, we've typically seen periods of outperformance that follow. In 2020, you'll remember that we had a $1.4 billion negative versus our long-term assumption, and in the following year, in '21 we saw a $1.6 billion outperformance.

So yeah, we are seeing some volatility there and that's a function of the current market environment and certainly rates is a factor there. But much more so is the uncertainty from a market's perspective, but we still have a lot of conviction as it relates to this asset class and believe it's a source of strength for our business.

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

Great, that's helpful, and then on the NCIB, I believe that's upsized now from $2 billion to $3 billion in terms of the capital that was freed up from your transactions. So, wondering if you could expand on, is there an impact of the LICAT here from upsizing that NCIB? And is it also going to result in a reduction in surplus assets or earnings on surplus run rate? And wondering if the math and arithmetic on those deals, if it's still net accretive to core EPS.

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

Yeah, let me start on that, and I'll ask Colin to chime in if he would like. You are right, we are upsizing our NCIB, and it's a function of a few things. First, is that we're in a very strong capital position, as highlighted by Colin earlier. We have $24 billion of capital in excess of our supervisory minimum, $10 billion in excess of our upper operating range. So, we feel really good about our capital position.

I will also note that our leverage ratio is now lower than 25% on a pro forma basis, actually 24%. At Investor Day, we articulated some pretty ambitious plans for the franchise to deliver an 18%-plus ROE, 10% to 12% core earnings per share growth, and strong cumulative remittances of about $22 billion.

So, while we previously had articulated that we would at least deploy the capital that we freed up from the transactions to buybacks. Now we believe and are confident and have conviction that we'll actually deploy the full amount of our buyback, which will be in excess of $3 billion.

It should not impact our LICAT ratio because as we free up capital from the sale and disposal of ALDA, that will translate into the capital that we're deploying. But Colin, you may want to chime in with some perspectives as well.

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

Yeah, Nigel, the only thing to add is that we're currently earning a blended rate of 2.9% on our surplus. So, when we are using our surplus to buy back stock, you can see the sort of value enhancement from this type of capital allocation activity.

Operator

Mario Mendonca, TD Securities.

Mario Mendonca - *TD Cowen - Analyst*

I'll be quick. Have you seen any impact in Japan from the recent volatility? I know the market's sort of stabilized since, but that was quite a shock to the system and rates are changing there. Is there any change in behavior that you would point us to? Probably for Phil.

Phil Witherington - *Manulife Financial Corp - President & Chief Executive Officer, Manulife Asia*

Thanks, Mario, for the question. Simple answer is no. It's very early days. What I do expect is the very strong sales growth that we've seen in recent quarters in Japan and notably in the second quarter. I do expect that to moderate in future quarters as macro conditions normalize. It has been boosted by current -- well, I say current, but foreign exchange rate levels in the second quarter, as well as equity market conditions.

But I think it's really important to highlight, from a macro perspective, the movements we're currently seeing in the macro environment in Japan don't really impact us materially from a balance sheet perspective. We're well matched from an ALM point of view and naturally it's something we manage very carefully.

More broadly on the topic of Japan, I do remain optimistic. The environment is favorable in terms of government policy encouraging customers to provide for their own retirement needs and long-term saving needs. So, I think this is something that will sustain growth, albeit at more normal levels in the quarters to come.

Operator

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

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

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