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EDITED TRANSCRIPT

MFC.TO - Q4 2023 Manulife Financial Corp Earnings Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Manulife Financial Fourth Quarter and Full Year 2023 Financial Results Conference Call. I would now like to turn the meeting over to Mr. Ko. Please go ahead, Mr. Ko.

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

Thank you. Welcome to Manulife's earnings conference call to discuss our fourth quarter and full year 2023 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.

Turning to Slide 4. We will begin today's presentation with a highlight of our full year results and strategic update by Roy Gori, our President and Chief Executive Officer. Following Roy's remarks, Colin Simpson, our Chief Financial Officer, will discuss the company's financial and operating results in more detail. After the prepared remarks, we will move to the live Q&A portion of the call.

Before we start, please refer to Slide 2 for a caution on forward-looking statements and Slide 43 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.

With that, I would like to turn the call over to Roy Gori, our President and Chief Executive Officer. Roy?

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Roy Gori - *Manulife Financial Corporation - President & CEO*

Thanks, Hung, and thank you everyone for joining us today. Yesterday, we announced our fourth quarter and full year 2023 financial results. As you can see, our strategy and disciplined focus on execution are delivering, even in uncertain market conditions. We generated double-digit top line growth, with a record APE sales during the year,while Global WAM delivered another year of positive net inflows despite challenges in the retail fund market. That is the 13th year of positive inflows in the past 14 years. Core EPS grew 17% supported by strong core earnings growth and the impact of share buybacks. Our core ROE increased to 15.9%, achieving our medium-term target. We delivered robust growth of 9% in adjusted book value per share, and our strong LICAT ratio of 137% and low leverage ratio provide ample financial flexibility.

Turning to Slide 7. Today, we are a very different company from when we began our efforts to reshape our portfolio towards lower risk and higher returns. And 2023 was also a milestone year in that transformation journey. As part of that agenda, we further grew our highest potential businesses. In Asia, we saw double-digit growth across key new business metrics and we are a high-growth top 3 Pan-Asian life insurer. In Global WAM, we acquired CQS whose multi-sector alternative credit capabilities complement our existing fixed income and multi-asset solutions business, and are a powerful addition to our global credit offering. We also generated remittances of $5.5 billion and returned $4.3 billion of capital to shareholders through dividends and share buybacks. And I am pleased to tell you that yesterday, our Board approved a 9.6% increase in our common share dividend beginning in March.

But first, it goes without saying that meeting our customers' needs and expectations is at the core of what we do. We have sped up our processing times, reduced costs and improved the customer experience. As a result of these and other actions, we have seen a 22-point increase in our Net Promoter Score since 2017, and we are leading, or on par with our peers across the majority of our business lines. And none of this would be possible without our winning team and culture, and I am proud that for the fourth consecutive year, we achieved top quartile employee engagement results.

Finally, we ended the year with a significant milestone in our transformation journey. The announcement of the largest ever LTC reinsurance deal, which I'll touch on in the following slide. You will remember that in December, we announced the milestone LTC transaction. We transacted at attractive terms, de-risked our business and it will be accretive to core EPS and core ROE after deploying the capital released to share buybacks. The transaction, which we expect will close by the end of February, also contributes to establishing an active LTC reinsurance market. It is another example of the value we continue to unlock for shareholders as we reshape our portfolio to focus on lower risk and higher return businesses, and we are not stopping here. We continue to work on opportunities to create shareholder value through organic and inorganic actions across our legacy and low ROE businesses.

Moving to Slide 9. Our transformation journey began in 2018 when we started reshaping our businesses by reducing risk, improving ROE, strengthening capital and growing high-return businesses. Thanks to disciplined execution, today, our high-return businesses represent a larger share of our earnings. These are impressive results considering that the transition to IFRS 17, which defers the recognition of new business gains into CSM, resulted in a 2 percentage point reduction in 2022. In fact, Asia already represents over 60% of our CSM balance and 70% of our new business CSM, indicating its immense future earnings potential. And as we have changed our business mix over this time, we have significantly expanded our core ROE by almost 5 percentage points.

We have also taken significant actions to reduce risk, including our U.S. variable annuity reinsurance transactions in 2022. Our portfolio optimization actions, along with growth in our highest potential businesses, has reduced the core earnings contribution from LTC and VA significantly from 24% in 2017, and together with December's LTC transaction, this contribution is expected to further decrease to 11%. Returning capital to shareholders remains a priority. And since 2018, we have returned $18.9 billion through dividends and share buybacks. Those buybacks have generated a benefit of more than $1.3 billion as our average repurchase costs were well below our recent share price levels.

In closing, I am excited by the progress that we have made and by our momentum heading into 2024. Our unique and diverse geographic footprint, all-weather strategy and focused execution, position us well to continue delivering superior value. Given our strong capital position and cash generation, we will continue to look at opportunities to unlock shareholder value, including inorganic opportunities to deploy capital.

I will now hand it over to Colin, to review the highlights of our financial results. Colin?

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

Thanks, Roy. 2023 was indeed a milestone year for Manulife, marked not only by strong business performance and the announcement of a major reinsurance transaction, but also a smooth transition to IFRS 17. We continued to deliver strong growth in new business metrics, earnings and adjusted book value in the fourth quarter contributed to that momentum. I will go into a little more detail on the quarter's results before the Q&A.

I will start with our top line on Slide 11. Our fourth quarter APE sales increased 20% from the prior year with double-digit growth across each of our insurance segments. This increase was supported by the ongoing benefit of the return of demand across various markets in Asia, higher large and mid-size group insurance sales in Canada, and a rebound in demand from affluent customers in the U.S. The momentum in our sales growth contributed to strong increases in new business CSM and new business value of 41% and 20%, respectively. Global WAM saw modest net outflows of $1.3 billion due to a large case pension plan redemption in our U.S. retirement business. On a full year basis, we generated net inflows of $4.5 billion, which is creditable in a year in which investors kept money on the sidelines, benefiting from higher short-term interest rates. I am proud of the growth we have achieved across our new business metrics, compared with 2022 despite the uncertain economic conditions, which is a testament to the strength of our global and diverse portfolio of businesses.

Turning to Slide 12, which shows the growth in our profit metrics. Core EPS increased 20%, as we grew core earnings and reduced share count. Looking at this quarter's results, we delivered a core ROE of 16.4%, above our medium-term target of 15% plus for the third consecutive quarter. Driving up ROE is a key priority, and our recent milestone reinsurance transaction did exactly that. You should expect us to continue evaluating in-force opportunities to improve our return on equity.

When we transitioned to IFRS 17, we noted we expect to see more stable growth in our adjusted book value per share as it better aligns with the economics of our business. And Slide 13 demonstrates just that. A 9% increase over the year, or 13% after excluding the effect of foreign exchange rate movements, in adjusted book value per share to $32.19.

A key driver of the CSM growth this quarter was an update to actuarial methods and assumptions. We target a risk adjustment for nonfinancial risk that is calibrated to a 90% to 95% confidence range, which is conservative relative to peers. We had been trending towards exceeding the top end of this range. And so, during the quarter, we recalibrated our risk adjustment towards the midpoint of this range. This had the impact of increasing the CSM and reducing the risk adjustment, which still sits at $18.5 billion. We will continue to monitor risk adjustment target levels across the industry and expect these to converge over time. More information is available in the appendix of this presentation.

Bringing you back to our core earnings results on Slide 14. I would like to call out some of the highlights of the Drivers of Earnings analysis, focusing on the quarter relative to the prior year. There were 3 main drivers of the increase in core net insurance service result. Expected earnings on insurance contracts increased across each insurance segment, led by Asia, which benefited from the impact of basis changes in the third and fourth quarters. Secondly, business growth in our group insurance and affinity markets businesses in Canada improved our net insurance results. And lastly, our insurance experience was favourable due to a nearly $60 million release of provisions, held in our P&C reinsurance business for catastrophes from prior years, mainly relating to Hurricane Ian. These factors contributed to a 25% increase in core net insurance service result.

In terms of our core net investment results, we continued to see the benefits of higher interest rates and business growth year-on-year. We reported no increase in our expected credit loss provision over the quarter, which has improved investment results somewhat. Towards the bottom of the table, you will see that Global WAM was a notable contributor to the results, supported by higher average AUMA. These factors were partially offset by higher performance-related costs included in "Other core earnings", along with an increase in certain corporate costs.

Our market experience for the quarter saw offsetting impacts that resulted in a modest net charge and $114 million gap between core earnings and net income. We reported a $381 million charge from lower-than-expected returns on ALDA, largely reflecting the ongoing pressure on commercial real estate due to increasing cap rates. But this was partially offset by $182 million gain due to higher-than-expected public equity returns during the quarter. Our multi-year track record in ALDA, as shown in the appendix, is a testament to our strong capabilities in managing these assets and supports our long-term return assumptions. You will also see a positive contribution to net income from the basis change that I mentioned on the previous slide.

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The next few slides will cover the segment view of our results, starting with Asia on Slide 16. Both top and bottom-line performance were once again strong. APE sales increased 11% from the prior year quarter as we continued to capitalize on the return of demand from MCV customers. The increase in sales contributed to a 27% and 5% growth in new business CSM and NBV, respectively. We delivered strong core earnings growth of 14% year-on-year with a meaningful increase in the contribution from Hong Kong, our largest in-force business. We have made great progress shifting our portfolio towards our high potential businesses of Asia and Global WAM, but the combination of the pandemic and IFRS 17, which has changed Asia's earnings profile, has led us to extend our target for Asia region to make up 50% of total core earnings by 2025 by 2 years.

Moving over to Global WAM's results on Slide 17. We recorded modest net outflows of $1.3 billion for the quarter. This was due to a large client redemption in U.S. retirement. We also saw elevated retail mutual fund redemption rates in Canada, but this was offset by continued strong inflows in our institutional business. Excluding the large-case redemption during the quarter, we generated net inflows of $1 billion. The business also delivered strong core earnings supported by higher average AUMA, which increased 5% year-on-year, along with higher fee spreads and a lower effective tax rate. Also of note, severance costs related to restructuring announced during the quarter are excluded from core earnings and will generate expense saves beginning in 2024.

Heading over to Canada on Slide 18. We delivered another strong quarter of new business and profit metrics. APE sales increased 44% year-on-year, primarily due to higher large, and also I might add, the highest on record mid-case sales in our group insurance business, which were also the main contributors to our growth in new business value of 60%. Core earnings increased 19%, mostly driven by business growth and a lower ECL provision as well as more favourable insurance experience in our group benefits business.

Moving to Slide 19 on our U.S. Segment's results. In the U.S., higher APE sales were driven by a rebound in demand from our affluent customers, which contributed to strong NBV and new business CSM results. Our U.S. business delivered strong core earnings, which increased 16% year-on-year, mainly reflecting higher yields and business growth as well as improved insurance experience.

On to Slide 20 and our balance sheet. We ended the year with a strong LICAT ratio of 137%, which was $22 billion above the supervisory target ratio. Our financial leverage ratio declined by 0.9 percentage points from prior quarter and is within our target ratio of 25%, adding to our ample financial flexibility. Remittances of $5.5 billion in 2023 were a result of strong operating cash generation and favourable market moves. With remittances in excess of dividend and interest payments, we are able to return capital to shareholders even after organic investments in our business and bolt-on M&A such as the CQS acquisition.

Over the last 3 years, our remittances have averaged over 85% of core earnings. While this percentage is somewhat flattered by the favourable market moves in 2023 and the U.S. variable annuity transactions in 2022, it is a testament to our ability to generate strong cash flow. In aggregate, we have returned approximately $8.7 billion of capital to shareholders through dividends and share buybacks since we resumed our buyback program in 2022. As previously announced, we plan to launch a new program in early 2024, that would allow us to purchase up to 2.8% of our common shares. And as Roy mentioned, yesterday, our Board approved a 9.6% increase in our quarterly common share dividend.

Moving to Slide 21, which summarizes how we are tracking against our medium-term targets. Our new business CSM grew 12% in 2023, modestly below our target. We generated CSM balance growth of 21%. While this was flattered by the basis change, we still generated a solid 5% growth in organic CSM. Our core EPS growth and core ROE was strong in 2023, exceeding our target ranges.

All in, we are pleased with our progress and delivered strong results with focused execution. 2023 was a milestone year. And while we continue to face an uncertain macroeconomic environment, I'm confident that we are uniquely positioned to drive and execute on our transformation agenda in 2024 and beyond.

And finally, turning to Slide 22. We are hosting an Investor Day in Hong Kong and Jakarta from Tuesday, June 25, 2024, to Thursday, June 27, 2024. It has been some time since we hosted an Investor Day in Asia, and we are excited to showcase our quality franchise. Please save the date, registration details will follow shortly.

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

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two questions, including follow-ups, and to re-queue if they have additional questions.

(Operator Instructions) Operator, we will now open the call to questions.

QUESTIONS AND ANSWERS

Operator

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

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

I wanted to ask about the global minimum tax and whether it will have a material impact on you if you could provide us, any sort of guidance in terms of how big that impact would be?

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

Yes. Thanks Meny, it is Colin here. We have looked at the draft legislation in Canada, and we are participating in the consultation process. There is really a lot to be done before the draft rules are fully integrated within existing Canadian tax law. But saying that, should the legislation become substantially enacted, we would expect to incur higher taxes just from the nature of some of the jurisdictions we operate in. We think it is going to add about 2 to 3 percentage points to our effective tax rate. And we will start incurring that once the legislation becomes substantially enacted potentially Q2, maybe Q3 this year.

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

Thanks. And then just on the risk adjustment, the change that you made. I just wanted to better understand what is driving that. The risk adjustment is trending to the upper end of the target range. And I just want to understand what is the process that drives that? Is that, that you are being overly conservative in terms of your assumptions? Or is there something else going on here that is making it track higher than you expect?

Steve Finch - *Manulife Financial Corporation - Chief Actuary*

Thanks Meny, it is Steve here. Yes, our disclosed confidence level range for the risk adjustment is 90 to 95. And we are trending to go higher. And in fact, without the change, we would have reported over that confidence level range in Q4, which is really driving the decision. We are comfortable with the range that we selected at transition. And the move was simply to move back closer to within that range. What we saw was, relative to peers, we included in the appendix, you can see some of the benchmarking versus peers, and we are more conservative than global peers here and particularly in Asia. That is, what was driving the growth above that target end of the range. We made the adjustment primarily in Asia, was the largest impact. And that leaves Asia, actually at the high end of that disclosed 90 to 95 range. Fairly simple in terms of just moving back towards the midpoint of the range.

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

And then does that have any implications for core earnings going forward, just thinking through the change, how it impacts results on a look-ahead basis in terms of the core results?

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Steve Finch - *Manulife Financial Corporation - Chief Actuary*

Yes. Modest impact in core. While we reduced the risk adjustment by just over CAD $2.8 billion that largely went to an increase in the CSM. And because the CSM amortizes slightly faster than the risk adjustment releases, we see a modest, just a hair under $20 million of benefit to run rate core earnings, and that was in our Q4 results as well.

Operator

The next question is from Gabriel Dechaine from National Bank Financial.

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

Actually, that was the question I was going to ask -- that $20 million, is that a quarter, annual, or what?

Steve Finch - *Manulife Financial Corporation - Chief Actuary*

It is a quarter, $20 million per quarter, Gabe.

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

Okay. Great, and just really dumb it down. I mean, just throwing out, we are exceeding our 90 to 95% range. What does that mean? What was going on in the business, in the Asia business, in particular, that created this variation and then caused the reshuffling of one liability category to another because it could happen again, right?

Steve Finch - *Manulife Financial Corporation - Chief Actuary*

Yes. And if we back up, the risk adjustment, you can think of it as the non-economic or the non-investment PFADs under the old IFRS 4, that is what it is. Under IFRS 17, we calibrate and we are required to disclose the confidence level range of that. And we base it off LICAT shocks and then calibrate from there. It is a fairly straightforward process. What was driving it was for Asia, we were actually above that top end of the range. And as you know, we write a lot of profitable business in Asia, that was driving because Asia was higher than the high end of the range. That was lifting up the total company. We have calibrated down, as I said, primarily in Asia, and we would expect more stability going forward in terms of where we sit within the range.

Roy Gori - *Manulife Financial Corporation - President & CEO*

Gabriel, Roy here. I might just add that, obviously, with the transition to IFRS 17, we had to make a whole lot of assumptions as did everyone else in the industry. And it's only through 2023 that we started to see where the industry started to land with their risk adjustment confidence levels and so on. We are quite pleased that we are very conservative relative to our peers. And the calibration that Steve talks to was just to bring it back into the range, which was, as he highlights and as articulated in the document that we published, very conservative relative to others. We are happy that that is where we typically land at the conservative end.

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

No, no. I get that. I am just trying to conceptualize this thing. Non-economic risks, like mortality was exceeding -- worst-case assumptions or something like that in Asia. It might be something else -- probably something else. So you moved it from risk adjustment to CSM, you are able to release those reserves sooner because it is I guess, more confidence in that assumption? I know this sounds hugely convoluted, but I am trying to get this for the layman like, you know what I mean?

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Steve Finch - *Manulife Financial Corporation - Chief Actuary*

Yes. What I would explain to you is we hold the risk adjustment, which is like the old PFADs, and we have calibrated it based on the standard to say, hey, this is at the 90 to 95th percentile in terms of confidence. We think that should -- the takeaways are, I think that should give you high confidence in the quality of the CSM because you set up CSM after you set up all the risk adjustment. And this is a fairly modest shift, risk adjustment releases into income as well, which is why you see a modest impact on core earnings. So this is just a fairly simple recalibration.

Operator

The next question is from Doug Young from Desjardins Capital Markets.

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

I apologize, but I do have to kind of just dig into the risk adjustment. And maybe, Steve, what I am more wondering is, why was it set originally at 90 to 95 because it does seem high as a confidence interval. And there must have been a reason that it was set in that range. And why would it differ versus peers? Is this just an interplay between capital and risk adjustment? Is this mix of business related? Like I know it is easy enough just to compare Manulife relative to the peers as you did on the slide, but I am just trying to dig a little deeper. Like why was it set there? Why would there be differences?

Steve Finch - *Manulife Financial Corporation - Chief Actuary*

Yes. I think under the standard, it is principles based. You have a range of judgments, and Manulife has typically been conservative in terms of setting our risk margins. I should be really clear. If you look at Asia peers, because we hold a higher risk adjustment does not mean we take more risk. We write very, very similar profile of business. You should actually look at it as we are holding higher risk adjustment for similar risks.

The other thing is it is such a significant change in accounting, right? And there is a lot of policy decisions. There is a lot of disclosure under IFRS 17. I would expect, over time, you might see a convergence of practice on this subject and perhaps other policy decisions as the results are digested and analysed.

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

I guess this is more of a statement. I am just surprised that there is such a variance, or such variances allowed between players, but I will move on. Roy, maybe I am just -- uber sensitive this morning, but in your comments, you seem to emphasize looking at all options for capital deployment, including inorganic -- I mean has M&A moved up your priority list when you think of the capital position? You got IFRS 17 mostly done, you got the excess capital, you are doing reinsurance transactions. Is M&A now moving up the priority list and not just smaller deals like you did, but more bigger type of transactions?

Roy Gori - *Manulife Financial Corporation - President & CEO*

Yes, Doug, thanks for the question. And you are right. We have been very focused on our capital. Our capital position is very strong. Our LICAT ratio is 137. And obviously, as we transition to IFRS 17, we are still trying to figure out, as was the industry how LICAT would move and how the transition would work. It was obviously very sensible for us to be prudent in that environment. But with a LICAT ratio of 137%, we have $22 billion above our supervisory minimum, $10 billion above our internal operating range. And we have been very actively buying back shares. In fact, since 2018, in fact, $5.5 billion, which has generated $1.5 billion of shareholder value.

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When we talk about our priorities for capital, obviously, #1 for us has always been dividends and organic growth. We announced the dividend increase yesterday, which again further consolidates our position that dividend should be a way that we create value for shareholders. But given our unique footprint, the organic growth for us is a huge priority, and it is an area for significant growth. The second tier of priorities for us from a capital deployment perspective has always been buybacks and M&A. And we have been judicious about M&A and we will continue to be.

For us, the focus areas that we will look at when it comes to M&A is, a) is it strategic? and b) is it financially valuable for the franchise? We do not want to do anything that obviously does not create value. And as we see the uncertainty start to decrease, then obviously, our appetite for M&A will increase as well. We are pretty optimistic about the outlook organically to grow our franchise. And having the financial flexibility through our strong capital ratio and low leverage. I think really makes the M&A option one that is available to us, but we are going to be disciplined. I just want to again, reassure you that we would not be reckless.

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

Yes. Maybe a follow-up. Are you seeing more opportunities these days?

Roy Gori - *Manulife Financial Corporation - President & CEO*

Look, again, we have got a good scan of what is available. And I think in the higher rate environment, it has put some pressure on certain businesses. I think we obviously stand to benefit in a higher rate environment. Again, we do not think that necessarily we are going to see a massive increase in the longer end of the curve. But it does place opportunities for us, and we will continue to look at them. So yes, I think that the opportunities have perhaps increased in recent years, which means it is perhaps more interesting for us to focus in this space.

Operator

The next question is from Paul Holden from CIBC.

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

Going back to the risk adjustment discussion. I just want to understand if there are any potential implications for insurance experience going forward? Is there now a potential for more negative experience because of the lower risk adjustment?

Steve Finch - *Manulife Financial Corporation - Chief Actuary*

Paul, it is Steve. No, this does not impact the insurance experience going forward at all. You should not expect any impact there.

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

Okay. Got it, thanks for that. And then second question is related to Asia, obviously doing extremely well in Hong Kong. But if I look at sales and earnings ex-Hong Kong, they are down slightly year-over-year. Two-part question to that. One is what do you think is required to turn that around and get back to targeted growth in Asia outside of Hong Kong? And two, did that trend over the last year influenced at all the change in earnings contribution target from '25 to '27?

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

Paul, this is Phil. Thanks for the question. And it has been a strong year for our results in Asia. And we -- in the fourth quarter, that continued, double-digit growth in sales. And as you highlight, Hong Kong has been particularly important in that. But for us, it is not just about the volume of

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sales. It is about the quality of those sales as well, and that is something that we have made substantial progress on, as we've moved through 2023. And you can see that in the improvements in value metrics that we have reported, the 14% growth in earnings, the 27% growth in new business CSM. And you rightly point out that Hong Kong was a very important driver. That was -- in 2023, we saw the reemergence of the MCV customer segment. It is not just the MCV customer segment that is driving the Hong Kong results. We saw a notable growth in the core business, in the domestic business in Hong Kong in the fourth quarter, as well as we saw a full year improvement in the domestic business.

But what I have said throughout 2023 is that the recovery from the pandemic has been uneven across Asia. There have been some markets that have grown, and we have seen improved momentum in some key markets, especially in the fourth quarter. We have seen improvements in new business momentum in Indonesia, Vietnam, and Malaysia, for example. And Singapore, it has been a record year for APE sales as well as Mainland China.

Now as we look forward into 2024, I am encouraged by a number of tailwinds that exist. And we do expect the continuation of the MCV customer segment. I think we will see a normalized rate of growth as we go into 2024 one year after the reopening of the borders. But I am also optimistic that the domestic segment in Hong Kong will continue to grow. We saw economic GDP growth in the second half of 2023 in Hong Kong above 4%, in the first half it was about 2%. I think that bodes well for 2024. And then outside of Asia, that uneven recovery means that there is further to go as we go into 2024. And our focus is very much on driving quality new business. I am really keen to look at the value metrics of new business CSM, new business value and earnings and less so at APE sales, but we do expect APE sales to grow in 2024 as well.

Roy Gori - *Manulife Financial Corporation - President & CEO*

And I take the second part of your question. I might take the second part of your question, Paul. I will just add to Phil's comments that despite that uneven recovery that Phil mentioned, in Other Asia, we did grow core earnings for the full year by 18% in Other Asia, which again just talks to the strength of our diverse franchise. So really proud of our Asia performance despite the short-term challenges that we have seen there.

And to your second question, obviously, we are really proud of our Asia franchise. We have been in Asia for 127 years and we are -- a top 3 Pan-Asian player, actually up from #6 in 2014. And what differentiates us is that we do have a very diverse business across the various markets. And we have also got an enviable GWAM business that really spans retail, retirement and institutional and has actually great synergies with our insurance business. We will talk a bit more about that when we get you out to Asia for our Investor Day. But the delay in our goal of getting to the 50% is a function of 3 things.

Firstly, it is the short-term headwinds related to COVID that Phil sort of highlighted. The second factor was IFRS 17. Obviously, the transition to IFRS 17 means that new business gains that were in core earnings are now no longer reported in earnings and go to CSM instead. And that obviously is a bit of a headwind in the short term. But the third factor is we have had tremendous growth in North America. That is really a good problem to have. So again, we are very committed to our 50% goal and target, and we feel very confident that, that is the direction we are going in, and we will get there. Again, I will just remind everyone that Asia represents 60% of our CSM and more than 70% of our new business CSM.

Operator

The next question is from Lemar Persaud from Cormark Securities.

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

I want to go to this basis change start there. Is this creep above the risk adjustment target range something that could reoccur? It sounds like it is. Or should we kind of think of this as a one and done? And then at what frequency could we see this kind of adjustment? Like is this -- could this potentially be an annual thing? Any thoughts would be helpful?

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Steve Finch - *Manulife Financial Corporation - Chief Actuary*

Yes. Less likely to creep above again given the changes that we just made to bring Asia down towards -- at the top end of that range. Going forward, we would look at this typically just along with other assumption changes as part of Q3 basis changes. But like I said, Q4 was when we saw that we would have exceeded the top end of the range. So we decided to make that recalibration in this quarter.

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

Okay. That is helpful. And then I want to come back to a comment made on the industry converging over time. Do you think the industry is going to come up to your 90% to 95% level? Or is Manulife more likely to move down to, I don't know, the Canadian peers at 80% to 85% or 85% to 90%, like how should we think about the convergence there? And if you guys do move down, what impact would that have on the shift from risk adjustment to CSM? So any numbers would be helpful.

Steve Finch - *Manulife Financial Corporation - Chief Actuary*

Yes. I'll start. With significant accounting changes, it is not uncommon for industries to converge over time on -- we are talking about one specific topic, but on any number of policy decisions, especially when it is a principles-based standard. We will see, but it would not be unreasonable to expect that. We do not have any plans to recalibrate now. It will just continue to watch. If we were to make a change, you would see same type of thing, if we were to reduce the risk adjustment, it would show up in CSM, and it would look similar to what you are seeing this quarter in terms of knock-on impacts, which are quite modest.

Roy Gori - *Manulife Financial Corporation - President & CEO*

Lemar, I would just add that I do think, obviously, as a result of IFRS 17 and the assumptions that were required as part of that conversion, I think we are going to see much more reporting and benchmarking across the industry and more transparency. I think that is a good thing. Again, we typically want to be more conservative and prudent. That has worked to our advantage in the past and will continue to. But -- and this kind of reporting and benchmarking, I think, is going to continue to step up. And I think that is, again, not necessarily a bad thing. I think it is a good thing. And it will not just be on risk adjustment. It will be on discount rates, for example, and so on and so forth.

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

Okay. That is helpful. But, like I guess the way that I am kind of thinking about this is, if you guys are going to exceed the upper end of your target range, let's say pick a number, let us say it would have been 97%. So you brought it down to probably the midpoint of this 90%, 95%, so 92.5%, let us say. So 5%, and you had a $2.8 billion rebalancing here. Well, if I look at where your Canadian peers are at, if you guys were to converge down there, that would be a very big number. If you were to go to like 82.5%. So is there any way that I can kind of think about how the industry -- or is there -- or is it just not reasonable that this is going to happen in the next couple of years? Is this something that is going to happen over the next 25 years? Anything around that would be helpful? Any thoughts?

Steve Finch - *Manulife Financial Corporation - Chief Actuary*

Yes. And just a reminder that this -- it is a liability on the balance sheet. So it is geography and there is some knock-on impacts. But at the end of the day, if we were to move 5 points in the range, it is about $3.5 billion, in terms of further impact you could see. I will not predict how this would trend over time. It is not knowable now. But to Roy's point, I think ongoing benchmarking, it would be interesting to see what that drives the industry to do.

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

Okay. And then one quick one, if I may. How should we think about the core tax rate for modelling purposes for 2024 and 2025?

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

Yes, thanks Lemar. In the past, we have guided to a tax rate -- effective tax rate of between 15% to 20%. I would expect if global minimum tax is enacted as the legislation suggests that this range of 15% to 20% goes to 17% to 22%.

Operator

The next question is from Nigel D'Souza from Veritas Investment Research.

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

This was not one of my questions, but I think it is an important point of clarification. On the risk adjustment. Would it be right to think of it as that the profitability of the life insurance policy does not change over the lifetime of that contract. What this does do, the calibration is changing the timing of the recognition of those profits by having more sit in the CSM balance. And the fact that your confidence level is higher than peers is just the difference in the recognition and the timing of that profit and the fact that you are at a higher level. It is conservative because the reduction would just improve the run rate of profitability. So I think it is just an important distinction. Is that the right way to think about it?

Steve Finch - *Manulife Financial Corporation - Chief Actuary*

Yes. I think you are largely right, Nigel. It is just -- it modestly changes the run rate of profitability. And yes, I think that is a good way to think about it.

Roy Gori - *Manulife Financial Corporation - President & CEO*

And Nigel, I think you hit the nail on the head, to be perfectly frank. And I would say that, our peers who have got perhaps a lower confidence level, and therefore, less risk adjustment are benefiting from that slightly faster amortization.

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

Okay. Good. Yes, that is how I thought of it. My first question was on expected investment earnings. I noticed that was lower, quarter-over-quarter. And I assume that is related to the impact from short-term rates, but I am surprised that it outweighed the benefit on, I guess, your longer duration assets, given that cash and short-term instruments is only about 5% of your invested asset portfolio. Could you kind of provide more colour on the sensitivity to changes in the yield curve on the run rate of that number?

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

Yes. Nigel, it is Colin here. You are right. It did go down by about $30 million quarter-on-quarter. I think I would point you more to the year-on-year change, which shows quite a decent increase, and that is driven by the increase in interest rates. You pointed out -- short-term interest rates being soft quarter-on-quarter. There is a lot that goes into that number, to be honest, especially after a basis change. So while we are down quarter-on-quarter by $30 million, I would expect business growth to push that number back up closer towards where we were in the third quarter and to go from there onwards.

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

Okay. Any comments on how the yield curve impacts steepening versus parallel shifts, flattening, inversion? Just any comment on sensitivity to changes in the yield curve?

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

You really would not expect to see that in that line. But clearly, the steepening of the yield curve in Canada benefited us in other parts of the P&L and balance sheet.

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

Okay. Got it. And my second question was on non-directly attributable expenses in the corporate segment. That seems to be trending higher. Any colour on -- is there just a noise this quarter? What is the run rate of that going forward? And why is that moving higher?

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

Yes, Nigel. Colin, again. A little bit of both, actually. Last year, there was a $42 million favourable pension true-up that benefited last Q4's nonattributable expenses. And in this quarter, we had increased performance-related costs and as well as a couple of IT projects and just a bit more expenses in the centre. When you put all that together, you do see quite a jump up in corporate costs. If you had to look at expenses overall, actually, the segment expenses are going great. And we were running it -- and as a whole, we were running at 12% in Q2 and Q3, we are down to 7%. GWAM took action, and so really impressive segment growth. And it is -- it is something that happened in Q4 related to centre and performance-related costs. And we are set up for a good expense discipline in 2024. And if you look at our ratio as well, down to 45.5% from 60% 5 years ago. The story is good and it is really important for us to be producing these types of numbers.

Operator

The next question is from Mario Mendonca from TD Securities.

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

Colin, I had to go back to this tax thing, but I want to clarify something. Your guidance or the outlook of 15% to 20% previously, the benefit of looking at Manulife over the long-term, I do not think I have ever seen the tax rate approaching 20%. Is there something in your mind there when you talk about 20% or possibly even 22%, what would cause it to be that high? Again, I have just never seen it.

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

Yes. Mario, I mean I think it is a wide range for a reason. It depends on where the investment positives or negatives land, could cause volatility in the number. But really, I think the point to note is take this year's tax rate, add 2 to 3 percentage points, and that's a good go-forward piece. We give ourselves lots of wiggle room with a broad range. Please don't think that the current 14% is going to go to 22% overnight.

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

Yes, okay. The other thing I wanted to follow up on this global minimum tax, the 2% to 3%. Presumably, it would affect the segments of the company with the lowest effective tax rate, which would be Asia and GWAM. Is that correct?

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

To be specific, Hong Kong and also, we operate the high-net-worth business out of Bermuda, that would also be impacted, Singapore as well. Yes, broadly correct.

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

So Asia and GWAM might see the -- because Canada and the U.S. looked like they are pretty heavy tax rates anyway. And then the final...

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

Absolutely, yes, in Japan.

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

In Japan, right. And Roy, the final question is for you. This comment about the reinsurance transaction sort of reopening or establishing reinsurance market for long-term care. I want to make sure I understand what you mean by this. Are you seeing activity in the market? And I am not asking about Manulife, but you are closer to this than I am. Are you seeing activity like new players coming in, insurance companies, the other side of the reinsurance transaction, private equity. What is happening that would make you believe this is established or starting to establish a reinsurance market for long-term care?

Roy Gori - *Manulife Financial Corporation - President & CEO*

Yes. Thanks for the question, Mario. I am going to start and then hand it to Marc. What I would say is we are obviously -- we have a very close finger to the pulse on what is happening in the reinsurance market. And we have been constantly looking at our portfolio and specifically the assets where the returns, quite frankly, are lower than what we would expect to be generating from our capital. And we have been very active there. We have, as you know, freed up $10 billion worth of capital since 2017. And in '22, we did the variable annuity transaction. And again, in that space, 2 or 3 years earlier, there was very little chance of a VA transaction actually taking place. And we saw the bid offer spread narrow. And we also saw many new players enter the market and actually want to engage with us in a conversation there. And we have seen the same, I guess, trend on the LTC front. I think we have seen new players looking at that portfolio. The fact that we have got more credible data and as data matures, we are able to have greater confidence around the assumptions, that has made it more interesting to different stakeholders or different third parties, reinsurers in particular.

So that trend line, I think, is a good trend. I will be honest, the higher rate environment is not hurting either on that front. But -- so we do feel that, that has been the trend line. Completing our transaction, we think, was a milestone for our company, but also, we think it does open up an opportunity to have conversations. And quite frankly, since doing the transaction, we have had a lot of folks want to come and talk to us about LTC and other parts of our portfolio. But let me quickly hand to Marc, who can provide a little bit more colour.

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

Thank you, good morning Mario. I guess, I will take us back a few months where our objective was to reset the dialogue with respect to our balance sheet, how we provision, how we have kept our assumptions current in this block of business and to demonstrate that we could trade the block at very close to book value given that. And I will remind everybody that the negative cede on it was the risk return profile of the buyer and the actual underlying expected assumptions were pretty much lined up.

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And as you mentioned, we had a great partner there in Global Atlantic in the transaction. And I would say, following the transaction, which was, as you say, a bit of a surprise and tied to everything that Roy just mentioned. We have had a lot of activity inbound about the transaction from various players. There were other companies that were involved in the process as we had discussed and we are re-engaging with some of those players. And we feel that this block is representative of the rest of the business we have. And as we had discussed, there was over 65% of the lives that were active lives. We have other blocks of business that have a very similar profile.

Some of the components of the benefits were relatively more aggressive than the rest of our block. And we -- this has spawned a lot of curiosity, I would say, in the market, a lot of curiosity as to how we went about what we did. And we feel quite confident that it has restated the profile of our business and it has restated the profile of our balance sheet and the ability to - Manulife to execute the first of its kind transaction in this space. We are hoping that, that obviously spawns very good things to come.

Operator

(Operator Instructions) And the next question is from Darko Mihelic from RBC Capital Markets.

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

Just a couple of questions. They are modelling ones, and I am sorry to get into deep into the weeds here. Probably for Steve. With respect to some of the disclosures we got on an annual basis, one of the things that we can see is the sort of roll forward for the contractual service margin. And I am curious about how I should look at it because if I look at that annual disclosure, it would have suggested for example, that you would have had about $1.6 billion of CSM in 2023. And in fact, you had almost $2 billion. Now we just heard about the $40 million, presumably new business CSM added to that. But is there anything else that helped this year's CSM relative to the sort of, I suppose, guidance we get out of the annual disclosure?

Steve Finch - *Manulife Financial Corporation - Chief Actuary*

Yes. And I know which disclosure you are talking about, and what that really is. I think of it like our embedded value disclosure, where we show the runoff of the in-force like when will that embedded value emerge. That is how I think about that CSM disclosure. It gives you buckets of years as to when the in-force CSM will amortize into income. It does not include any new business, and it does not include interest on the CSM as well. I would be happy to walk you through it in more detail. But I think, broadly speaking, use it to look at when will our existing in-force CSM show up in earnings.

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

Okay. All right. Fair enough. The second question is with respect to the commercial real estate. And clearly, another mark. But what was interesting to me, typically, when I have been listening to commentary on commercial real estate, the suggestion is that we have high-quality real estate, we do not dislike real estate, we are in it for the long term. All these things that suggest these are just marks and you are holding the commercial real estate possibly for decades. It is a cash flow thing, and so on. But one thing, also in the annual statements is, it does show that you have lowered your risk appetite for commercial office space. I wonder if you can provide any commentary on that because I would have thought, and I have heard from some others that there might be opportunities in the office space to pick up properties. But in your case, you actually lowered your risk appetite for office commercial real estate. I wonder if you can just provide some commentary around that?

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

Sure, Darko. Thanks for the question. It is Scott. And yes, I think what we have seen happen to real estate over the last year or two, is a couple of things. One has been sort of the secular headwinds in office in North America, in particular. And the second has been rising interest rates and the rising discount rates, which has hit all property types. And that second part is, it reduces values, but it increases prospective returns. With the long-term hold, we do not see that as value destroying at all.

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Within office and you are right, we have reduced our office. 10 years ago, it used to represent 40% of our overall ALDA portfolio, North American office and currently, it is down to 10%. We have reduced it significantly as a percent. Part of that is growing other parts of the ALDA portfolio, but we have sold a lot of office over that time period as well. And I remain -- if I look across the portfolio, where do I have the most concerns going forward? It is probably North American office. We have -- it is still unclear on the return to office. I do think there are other secular headwinds. AI will probably reduce white-collar jobs that sit in offices. I think there are areas in office that still work, brand-new offices in certain locations, in cities, have done pretty well. But overall, as an asset class, I think we will continue to sort of de-emphasize office -- North American office going forward.

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

And to be clear, that is irrespective of what rates do and cap rates and so on?

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

Yes. I think cap rates is that secondary impact, it is all real estate, and that just is sort of cyclical. And if rates decline, those values will increase. If rates do not decline, we will get that back over time in the run rate earnings. I don't worry as much about interest rates. Office is really, what is the future of the office. It is very unclear. And so, it feels like certainly a riskier segment of the real estate market.

Roy Gori - *Manulife Financial Corporation - President & CEO*

Darko, I just want to add a couple of quick comments to Scott. I would say that one of the big focuses for us, not only across our ALDA portfolio, but certainly across our real estate portfolio is the diversity of our portfolio. And 38% of our real estate portfolio is U.S., but 32% is Canada and 26% is Asia. And 30% of our office portfolio is also Asia, which, again, provides us good diversification. So, we feel that having a diverse portfolio is a really important part of our strategy in a way that we can, a) reduce volatility, but also optimize returns.

Operator

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

Hung Ko - *Manulife Financial Corporation - VP, Group 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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