THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

MFC.TO - Q3 2017 Manulife Financial Corp Earnings Call

EVENT DATE/TIME: NOVEMBER 09, 2017 / 1:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

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

Mike Doughty *Manulife Financial Corporation - President & CEO of Manulife Canada*

Paul Lorentz *Manulife Financial Corporation - Head of Global Wealth & Asset Management*

Phil Witherington *Manulife Financial Corporation - Executive VP, Interim CEO & President of Asia and Interim GM of Asia*

Rahim Hirji *Manulife Financial Corporation - Executive VP & Chief Risk Officer*

Robert Veloso *Manulife Financial Corporation - Vice President, Investor Relations*

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

Scott Hartz *Manulife Financial Corporation - EVP of General Account Investments*

Steve Roder *Manulife Financial Corporation - Senior EVP & CFO*

Steve Finch *Manulife Financial Corporation - Executive VP & Chief Actuary*

CONFERENCE CALL PARTICIPANTS

Darko Mihelic *RBC Capital Markets, LLC, Research Division - Financials Analyst*

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

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

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

Linda Sun-Mattison *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

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

Meny Grauman *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

Nick Stogdill *Crédit Suisse AG, Research Division - Research Analyst*

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

Stephen Theriault *Eight Capital, Research Division - Banking and Insurance Analyst*

Sumit Malhotra *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

Tom MacKinnon *BMO Capital Markets Equity Research - MD*

PRESENTATION

Operator

Please be advised that this conference call is being recorded. Good morning, and welcome to the Manulife Financial Third Quarter 2017 Financial Results Conference Call for Thursday, November 9, 2017. Your host for today will be Robert Veloso. Please go ahead, sir.

Robert Veloso - *Manulife Financial Corporation - Vice President, Investor Relations*

Thank you, and good morning. Welcome to Manulife's Earnings Conference Call for the Third Quarter of 2017. Our earnings release, statistical package and webcast slides for today's call are available on the Investor Relations section of our website at manulife.com. We will begin today's presentation with an overview of our third quarter highlights and the strategic update on our priorities by Roy Gori, our President and Chief Executive Officer. Following Roy's remarks, Steve Roder, our Chief Financial Officer, will discuss the company's earnings. And Steve Finch, our Chief Actuary, will discuss the annual actuarial review. After the prepared remarks, we will move to the question-and-answer portion of our call. We ask that each participant adhere to a limit of 1 or 2 questions. And if you have any additional questions, please re-queue, and we will do our best to respond to all questions.

Before we start, please refer to Slide 2 for a caution on forward-looking statements and Slide 34 for a note on the use of non-GAAP financial metrics 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 those that are stated. The slide also indicates where to find more information on these topics and the factors that could cause actual results to differ materially from those stated.

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

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

Thanks, Robert. Good morning, everyone. This is my first quarter as CEO, and I could not be more excited about the future. We have a tremendous opportunity in front of us and our global franchise has great potential. I'm pleased to have with me on the call many members of our leadership team, including Marianne Harrison and Mike Doughty in their new roles in the U.S. and Canada, respectively, and Paul Lorentz, who has started his new position as the Global Head of Wealth and Asset Management. Before I start, however, I'd like to acknowledge Steve Roder as it will be his last quarter end at Manulife. Steve has had a significant impact on the company, leading the transformation of our finance function, deepening relationships with investors and analysts and building a stronger global focus for Manulife. He has also been instrumental in helping us secure a number of our strategic partnerships and acquisitions. We've built and grown as an organization during his tenure, and I wish him all the very best in retirement.

Turning to Slide 5. Yesterday, we announced our third quarter 2017 financial results. We delivered solid core earnings and net income in the third quarter of $1.1 billion each despite the provision we took for catastrophe claims. Core earnings growth was 9%. And after adjusting for the catastrophe provision and favorable tax items, core earnings increased 22%, 8 percentage points of which relates to more favorable investment experience. Our growth drivers maintain the momentum in this quarter. We delivered strong growth in core earnings and new business value in Asia, up 17% and 21%, respectively. And in our wealth and asset management businesses, we recorded our 31st consecutive quarter of positive net flows. We ended the quarter with over $1 trillion in assets under management and administration, and we announced leadership and structural changes to position us strongly for the future.

Turning to Slide 6. I'd like to cover the priorities that I laid out at Investor Day and the progress that we made against them. We've narrowed our priorities to the things that matter most, and will make the most difference to our future success. Number one, we will aggressively manage our legacy blocks to increase profitability and cash generation, while managing risk and capital consumption. We'll pursue a variety of organic options for more actively managing claims and benefits to pricing actions and better expense management. We'll also explore reinsurance and divestitures where it makes sense and only when it's in the best interest of the shareholder. We'll accelerate growth in our highest return and highest potential businesses, such as Asia and Wealth and Asset Management. These businesses will be the focus of our capital allocation. Three, we'll be bolder and more ambitious on cost management and efficiencies. We'll reimagine how we do things, simplify and digitize our processes to drive significant savings and position the company for efficient growth. Four, we'll focus on the customer to improve on experience through innovation and digitization. This is really our opportunity to differentiate, set ourselves apart from our peers and win. We'll focus not only on customers' needs, but their preferences and how they want to engage with us. And then five, we'll enable a high-performing team and culture that improves accountability and aligns the organization around a narrower set of priorities to drive execution in the areas that matter most.

Now we've begun to make solid progress on our key priorities as demonstrated on Slide 7. First, we announced a new structure for our legacy businesses and appointed Naveed Irshad as General Manager. Naveed has strong expertise in reinsurance, product design and risk management, and recently did an outstanding job turning around our Singapore business. We've already had some quick wins with the legacy businesses, including exchanging some capital-intensive, low-return legacy blocks for New York Life's RPS business. And a number of other actions, which while smaller individually, have favorably impacted our business. The creation of a new structure will enable Manulife to build on these successes and more aggressively improve returns in our legacy businesses with strong accountability and a focus on in-force management cost efficiencies and leveraging scale. Asia and WAM businesses continue to be our biggest growth engines. Asia core earnings increased 70% versus the prior year quarter, and year-to-date core earnings were up 16%. WAM core earnings were up 36% versus the prior year quarter and up 34% year-to-date. Our success in Wealth and Asset Management to date has been driven by local execution. To continue to foster growth, we brought the WAM businesses together into our primary reporting segment that reports directly to the Global Head of Wealth and Asset Management. This new structure creates greater alignment and will enable us to better leverage our scale and operate as a global company. This will allow us to capture significant market opportunities, particularly in retirement. We've already started to better leverage our scale with the GO project, which will combine some of the back-office functions of our WAM businesses to streamline operations, while also providing improved information. Paul Lorentz has been appointed to lead our global wealth and asset management businesses and his expertise and proven track record of execution makes him ideally suited for the role. In Asia, we've appointed Anil Wadhwani as our new General Manager, effective November 13. Anil is a respected global financial services leader, who has spent his 25-year career with Citi in various growth-focused roles across consumer banking in Asia, with an emphasis on customer experience and digitization. Expense efficiencies is a top priority for us and a big opportunity. We need to be leaner and faster to succeed in the rapidly evolving landscape and to drive transformative change. We've established the structure that will allow us to be more ambitious on expenses and we'll continue to focus on a wide range of opportunities, including eliminating paper, straight through processing, simplified underwriting and predictive analytics. Work is currently underway to evaluate the possibilities and to build project plans. We're continuing to make progress on the customer and digitization front. This quarter in Asia, we've formed an exclusive bancassurance partnership with Techcombank in Vietnam that expands upon our existing relationship. As the largest and most established bank in the bancassurance space in Vietnam, Techcombank's growth potential is tremendous and they are a natural partner for Manulife Vietnam. The strength and vision of the 2 companies is highly complementary, particularly our shared focus on providing an extraordinary customer experience. We look forward to providing more holistic solutions to over 1.4 million prospective customers through their more than 300 branches. In Canada, we became the first Canadian insurer to offer all group benefits claims submissions through online, mobile and traditional channels. Our customers can now deal with all their claims through the channel that's most convenient to them. And in the U.S., we secured additional Vitality marketing partnerships, including a leading auto insurer to offer John Hancock Vitality to their customer base, and the American Diabetes Association to promote healthy living and provide information on the accessibility of life insurance to people living with diabetes.

With the recent leadership and structural change announcements, I believe we have a high-performing team in place that will position us strongly to transform our business and deliver on our ambitious goals. Our future is exciting, and I look forward to telling you more as we execute on the tremendous opportunities that we have.

I would now like to ask Steve Roder to review the highlights of our financial results for the quarter. Following Steve's remarks, Steve Finch will discuss our annual review of our actuarial methods and assumptions. And we'll then open the call to your questions. Steve.

Steve Roder - *Manulife Financial Corporation - Senior EVP & CFO*

Thank you, Roy. Good morning, everyone. Let's start on Slide 9, where we summarize our financial performance for the third quarter of 2017. We continue to generate solid results, and most of our key performance indicators showed improvements during the quarter. I'll discuss some of the key drivers of our performance in the next few slides.

Turning to Slide 10. We continue to demonstrate solid progress on core earnings. Core earnings of nearly $1.1 billion in the third quarter increased by $89 million or 9% compared to the prior year. This quarter, we had a couple of items worth noting. We took a $240 million provision for the estimated financial impact of property and casualty reinsurance claims related to hurricanes, and recognized a $110 million tax benefit from the release of provisions for uncertain tax positions from prior years. Excluding these 2 notable items, core earnings increased $219 million or 22% from the prior year, driven by core investment gains of $100 million versus $17 million in the prior quarter, a reduction in equity hedging costs, strong new business and in-force growth in Asia and higher fee income in our wealth and asset management businesses. These were partially offset by the strengthening of the Canadian Dollar. Before I continue, I'd like to take some time to discuss our Property and Casualty Reinsurance business and the provision we took this quarter. Our P&C Reinsurance business provides retrocession cover to other reinsurers for the catastrophe losses. Our business is written with a high attachment point, which means losses from an event have to reach a fairly significant level before our coverage starts. It's for this reason that we expect to incur charges infrequently. Our last substantial loss was from the 2011 Japan earthquake and tsunami, and before that, 2005 hurricanes Katrina, Rita and Wilma. We underwrite our P&C reinsurance business within board approved limits, and the nature of the business we write limits our exposure both per event and annually. We've been in this business for over 30 years and have significant expertise. It's an attractive long-term investment, which is largely uncorrelated to other risks and which has delivered appealing ROEs.

This quarter, there was significant damage in the U.S. and Caribbean caused by hurricanes Harvey, Irma and Maria. It is still very early days as industry and company loss estimates are being refined. However, we have taken the $240 million provision based on our preliminary assessment.

Turning to Slide 11. We delivered $1.1 billion of net income in the third quarter, in line with the core earnings we generated. Consistent with our previous disclosure, the annual review of actuarial methods and assumptions was largely neutral to net income. Steve Finch will discuss the components of the annual actuarial review in more detail a little later. All other items, including the mark-to-market impact from equity markets and interest rates were largely offsetting.

On Slide 12, is our source of earnings. Expected profit on in-force increased 10% from the prior year on a constant currency basis, primarily due to growth in our wealth and asset management businesses around the world, in-force growth in Asia, higher interest rates and lower DAC amortization in our U.S. VA business. The impact of new business improved versus the prior year, reflecting higher insurance sales across Asia. Experience losses of $183 million were driven by the hurricane claims provisions and other policyholder experience charges, partially offset by the favorable impact of investment-related experience. Earnings on surplus in the quarter reflects pretax gains of $164 million included in core earnings and $34 million outside of core earnings. The increase versus the prior year primarily relates to higher realized gains on AFS equities. We have a favorable effective tax rate this quarter, which reflects the mix of our earnings across the different geographies where we operate and a $110 million tax benefit.

On Slide 13, you can see that we delivered strong net and gross flows in our wealth and asset management businesses, and this quarter marked our 31st consecutive quarter of positive net flows. Net flows of $4 billion benefited from positive net flows across all 3 operating divisions and in each of our business lines: retail, retirement and institutional asset management. Gross flows of $27.5 billion were up 4% from the prior quarter. In Asia, gross flows increased 45% from the prior year quarter, driven by strong money market sales in Mainland China; continued momentum in the Hong Kong retirement market; and higher institutional gross flows. This was partially offset by lower retail and retirement sales in Canada and the non-recurrence of our record-sized retirement plan sale in the U.S.

Turning to Slide 14 and insurance sales. Insurance sales were $1.1 billion, up 10% versus the prior year. This reflects double-digit sales growth in Asia from continued growth in Singapore, Mainland China and Vietnam; higher sales in the small and medium case group benefits segments in Canada, partially offset by actions through improved retail margins and strong prior year sales in advance of regulatory changes; and favorable large case life insurance sales in the U.S. However, this was more than offset by the impact of closing stand-alone retail LTC sales to new business.

On Slide 15 is our new business value. In the third quarter, we delivered strong growth in new business value, which increased 22% from a year ago to $343 million, driven primarily by continued APE sales growth and management actions to improve margins in Asia. Asia new business value margin was 33.2% in the third quarter, up 2.1 percentage points on a constant currency basis from the prior year.

Turning to Slide 16. Our Assets under Management and Administration, or AUMA, at the end of third quarter continued to exceed the $1 trillion mark, and were up $40 billion or 8% from the prior year, driven by strong investment returns and continued positive customer inflows. Our wealth and asset management businesses achieved AUMA of $574 billion, up $49 billion or 13% from the previous year, driven by similar factors.

So in conclusion, in the third quarter of 2017, we delivered $1.1 billion of net income and core earnings in the quarter, despite taking a $240 million claims provision from hurricanes; generated core earnings growth of 17% and new business value growth of 21% in Asia; continued to generate positive net flows in our wealth and asset management businesses; and delivered 8% growth in Assets under Management and Administration.

Before I pass it over to Steve Finch to discuss the annual actuarial review in a little more detail, since this is my last quarter end, I'd like to thank the analyst and investor community, which I've had the pleasure of interacting with extensively over the last 5-plus years. It's been appropriately challenging, but a lot of fun. It's a real delight for me to be handing over to Phil Witherington. I've had the pleasure of knowing and working extensively with Phil over many years, you'll be in very capable hands.

On that note, I'll pass over to Steve.

Steve Finch - *Manulife Financial Corporation - Executive VP & Chief Actuary*

Thank you, Steve, and good morning, everyone. On Slide 19, we summarized the impact of our annual actuarial review. This year's review included hundreds of methods and assumptions covering our experience as well as a broader review of our reserving methodologies overall. The results were that our reserves were appropriate in aggregate and included an appropriate level of conservatism. And while each assumption is set in accordance with our own and with industry standards, we noted that we are more conservative in some areas and less so in others. As a result, we reviewed our approach and reduced conservatism in certain areas and increased it in others. Overall, this resulted in a charge of $2 million post tax to net income. Mortality and morbidity updates resulted in a net $285 million benefit to net income. This was driven by favorable updates to mortality in Canada, morbidity in Asian and mortality improvement assumptions, primarily in Asia and in Canada. This was partially offset by a reserve strengthening in our U.S. Life Insurance business due to the increase in our mortality assumptions, particularly at older ages, reflecting both industry and our own experience. Updates to lapse and policyholder behavior assumptions resulted in a $783 million charge to net income, reflecting lower lapse assumptions on certain insurance products in Canada and Japan and updates to lapse and other policyholder experience assumptions in Canadian segregated funds. We have strengthened lapse assumptions significantly since 2010, as emerging experience has shown that the guarantees embedded in our products are more valuable to our customers in a low-interest rate environment. On these types of products, our lapse assumptions are now at or below 1% with many products below 0.5%. This compares to up to 3% assumed lapse rates prior to the global financial crisis. We lowered our average return assumptions for ALDA and public equities, resulting in a charge of $892 million posttax. The return assumptions for interest rate-sensitive assets were impacted the most with reductions on a number of asset classes, including commercial real estate in Canada and the U.S. with reductions of 65 basis points to 125 basis points, agricultural and timber assets with reductions of 100 basis points to 125 basis points, infrastructure assets with a reduction of 50 basis points. In addition, public equity assumptions were reduced in Singapore and Hong Kong by 50 basis points to 100 basis points. We also reviewed our corporate spread assumptions and updated our approach to set long-term spread assumptions in the U.S. in a manner consistent with that in Canada. As a result, we increased our U.S. corporate spread assumptions, resulting in a benefit to net income of $344 million. We have now substantially completed a program to significantly upgrade our actuarial evaluation system and infrastructure in North America. This enabled us to refine our projections for a number of our universal life insurance product cash flows. Following these refinements, our models better reflect how our policyholder crediting rates are determined in practice, and more accurately, reflect the impact of tax timing differences on policy liabilities. These refinements resulted in a benefit to net income of $696 million.

Overall, our actuarial valuation practices continue to remain prudent, and our reserves and margins are appropriately aligned with the risks in each of our businesses. Thank you.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Stephen Theriault from Eight Capital.

Stephen Theriault - *Eight Capital, Research Division - Banking and Insurance Analyst*

First, if I would just ask a follow-up question, probably, for Steve Roder on the hurricane charges this quarter. So Steve, can we think about the $240 million as your maximum annual loss or pretty close to it? I ask because for some others that are peers, it's more of a per event maximum. You mentioned an annual maximum. It'd be nice to understand the risk a little bit better here more going forward?

Steve Roder - *Manulife Financial Corporation - Senior EVP & CFO*

Thanks, Steve. The answer is no, it's not the maximum. We're actually planning on giving some more information on maximum loss data as part of the Q4 announcement. And the reason for that is, we're in the middle of a renewal season right now. And so we think it's better for us to give that data at Q4. So that's an intention we have. It's not a maximum. There is a possibility that it could deteriorate because these things can always deteriorate, particularly where you have things like business interruption claims. But we think we've been pretty prudent. And the estimate is really based on two sources, one would be --that most of the risks that we write are pretty well modeled. And so the rate that the modeling agencies have all expressed a view on the likely quantum of the claims. And the second is the nature of this business is that we write a relatively small number of quite significant treaties. And we are able to, therefore, to speak to everyone of our seeding companies and understand how they see that the catastrophes have affected them individually. So although, it's not a maximum and it's preliminary, we do have quite a lot of data available to formulate the provision.

Stephen Theriault - *Eight Capital, Research Division - Banking and Insurance Analyst*

Okay. That makes sense. And I think that the small number of significant treaties makes sense, too. I look forward to that additional data next quarter. Second thing for me was on Long-Term Care. I saw there's a note in the report to shareholders suggesting policyholder experience deteriorating. Obviously, a bit of a sensitive area, given the last few years. We're about 1 year, I think, we are 1 year removed now from the triannual review. So Marianne or Steve, can you give us a little detail around this, has experience turned negative or is it more just less positive? And I guess, for Steve, that lapse in policyholder experience charge within the Q3 of $783 million, is any of that attributable to Long-Term Care?

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

So it's Marianne here, maybe I'll start in terms of the Long-Term Care. So we've actually seen pretty good experience since the basis change review last year. And in the current quarter, we did see an increase in incidence. But at this point in time, we don't see that there's any trend there. That's just a fluctuation in the quarter. So no concerns. I'll turn it over to Steve for any other comments.

Steve Finch - *Manulife Financial Corporation - Executive VP & Chief Actuary*

Yes, just adding to that on Long-Term Care. Year-to-date -- both year-to-date and since the annual basis review last year, LTC experience has been neutral in aggregate. We had a gain in Q1 in this quarter. The loss really offset the gain from Q1. We're not observing any trends. I think the question was around the lapse experience related to the basis change, and none of that related to Long-Term Care.

Stephen Theriault - *Eight Capital, Research Division - Banking and Insurance Analyst*

Okay, thanks. Congratulations Steve, on your retirement.

Steve Roder - *Manulife Financial Corporation - Senior EVP & CFO*

Thank you.

Operator

Our next question is from Meny Grauman with Cormark Securities.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

Just wanted more detail on the organizational change, specifically when it comes to the legacy businesses? Why you felt it necessary to make the changes? And practically, what happens now that this change is happening that didn't exist before? What does that change practically from a management point of view?

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

Thanks, Meny. Look, I think that we've been pretty open about the fact that our legacy businesses consume a significant amount of capital and are generating returns that are less than acceptable. So for us, this organizational structure change is really designed to: A, provide stronger leadership; and then, B, stronger focus around delivering better returns. So we're delighted to have Naveed Irshad stepping in as the Head of Legacy for North America. He'll report directly in to Marianne and Mike, and will be part of the executive leadership team of the organization. And as a result of that change, we're expecting that the focus that he'll be driving to really look for greater value for the shareholder will be something that will not only drive better results, but obviously will be a huge focus for the broad part of the organization.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

And then if I can ask just a follow-up in terms of how you'll actually measure success? And more importantly, how do we on the outside measure the progress when it comes to that legacy business?

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

Yes, well, look, that's something we're still thinking through. I think what you can, obviously, read from the announcement is that the shareholder returns and return on equity, in particular, is going to be a big part of the way we're measuring progress in our legacy businesses. We're still thinking through, quite honestly, what: A, targets we're going to be establishing for ourselves; and then B, what we want to disclose more publicly. So that is going to have to be one area that we'll come back to you on, Meny.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

Best of luck, Steve.

Steve Roder - *Manulife Financial Corporation - Senior EVP & CFO*

Thank you.

Operator

Our next question is from Humphrey Lee with Dowling & Partners.

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

Steve, congratulations on your retirement.

Steve Roder - *Manulife Financial Corporation - Senior EVP & CFO*

Thank you.

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

I enjoyed working with you. I have a question related to the new business margin in Asia, definitely seeing some decent improvement on a year-to-date basis. And I'm interested in the strong pick up in Hong Kong and Asia Other. I think in the slide, you showed that there is some actions that you have taken to improve these margins. But I was just wondering if you can talk a little bit about what exactly these actions were?

Phil Witherington - *Manulife Financial Corporation - Executive VP, Interim CEO & President of Asia and Interim GM of Asia*

I think that makes sense for me to take that. This is Phil. So what we've seen in Hong Kong is a very strong improvement in the margin. And if you recall over the past couple of quarters, we had actually seen a deterioration in our margin in Hong Kong. It's our best margin in Asia. And what we've seen in the third quarter is really a return to the levels that we have seen in the past, which is really either high 50s, low 60 percentages, rather than low 50s that we've seen over the past couple of quarters. So that adjustment has given rise to significant growth in NBV in the third quarter of '17 compared with '16. That's 51% growth. And it is really consistent with what I would expect to be able to deliver in Hong Kong, what we see our competitors delivering. We've also seen a notable improvement in our margin in Asia Other. And that really does reflect the continued scale benefits and product mix improvements that we're seeing in Asia Other. We are growing our scale, partly as a consequence of the success of the partnership we have with DBS, but also the organic growth of all of our businesses in Asia Other. While we're on the topic of new business value, I think, it is worth being balanced in talking about Japan. We have seen a contraction in new business value in Japan in the third quarter. And that's something I can talk about in more detail, if you'd like me to, but essentially what we're seeing is a changing customer demand from single premium products in the bank channel and that's offset by a growth in demand for corporate products in our corporate channels. And that's given rise to an adverse mix. So I think, it's important in Japan, as we said previously that there will be some variability in our performance between quarters reflecting the third-party nature of our distribution. But stepping back and looking at the year-to-date figures, we have continued to grow strongly in Japan with new business value, year-to-date growing at 23%.

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

Got it. Thanks, Phil. Maybe a question for Marianne. So in the U.S., definitely there's a discussion of tax reform. And it looks like [ratification] could be on the table in the Senate bill. I was just wondering if you can talk about your RPS business, what you can see as a potential impact and how ready you are in terms of handling a potential ratification ? And then also, with the excise tax, I was just wondering is there any kind of corporate expenses allocation in the U.S. and maybe how we should think about that, if the excise tax were to be included in the tax reform bill?

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

So I guess, I would say that it's still early days. The 400-page report came out a week ago and I think all organizations are going through in a lot of detail to understand the implications of it. There have been some significant implications to the insurance industry. And so the insurance industry is working through what those implications are, and actually have been spending a lot of time in Washington having conversations around that. And they are looking actually at the bill now to understand better the implications to the industry and are going through some markup right now. So we're hoping that we will end up in a good spot overall, in terms of the impact that it will have. Obviously, with the corporate tax rate reduction, there are implications to us in the short term and in the long term. But I'd say, it's still pretty early at this stage. I will comment on the RPS business though. There wasn't as much in the bill as was initially discussed in terms of the impacts that it would have on contributions. But we're still working through the bill, and I think there'll be more information as that continues to come forward and we get a lot more detail.

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

But right now in terms of your offering, do you offer both Roth and the traditional 401(k) to your clients? And then if you have to handle both at the same time, are you -- is your system and your platform ready for that, if that was the case?

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

I don't think that there are any concerns at this point. As I said, we're going through the bill right now. And I haven't heard any comments on that side of it, but certainly can continue to look into that as we go through the bill.

Operator

Our next question is from Gabriel Dechaine with National Bank Financial.

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

My first question is for Steve, and thanks for giving some detail on the ALDA return assumptions that you changed. I guess my question on that is, you've reduced the best estimate return assumption. I don't know if you did the same for the padded return? What prompted these changes? Is it just what you're seeing? Or is it reflecting some of the, maybe, reduced allocations to some of the asset classes ahead of LICAT?

Steve Finch - *Manulife Financial Corporation - Executive VP & Chief Actuary*

Thanks, Gabriel. I'll comment first on how we underwent the review. We do look at these assumptions each year. This year, we certainly did a deep dive, including discussions with our Investment Division. The people in the Investment Division that are out there sourcing, acquiring these assets, looking at what the returns are available in the short term and also looking at what we expect for a through-the-cycle return. And based on all those discussions, we determined that it was appropriate to reduce our expected return assumption, as I outlined, on those certain asset classes. The way we set our margins did not change. So the level of absolute margins are similar. So our padded assumptions, our assumptions with margin, came down by the same absolute amount as the expected return assumptions. The change in assumptions, there was nothing related to our usage of ALDA. This was a review of the return assumptions themselves.

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

All right. Before I get to my question -- when I visualize the reserves, there's like a bar, if you will, there's like a best estimate component and then a PAD on top of that. Is the PAD, is it in absolute terms a certain number, that number didn't change. So the future expected unwind of profits from exceeding your best estimate return won't change?

Steve Finch - *Manulife Financial Corporation - Executive VP & Chief Actuary*

That's correct. There's no anticipated change to unwind of assumptions. In dollar terms -- in terms of unwind of the margins. In terms of dollar terms, the amount of the reduction and the expected return is roughly $25 million post tax per quarter. And that will take effect actually January 1. It's our practice to change asset return assumptions effective the start of the year.

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

Sorry, can you repeat that? The expected profit will come down $25 million a quarter next year?

Steve Finch - *Manulife Financial Corporation - Executive VP & Chief Actuary*

No, no, sorry. Let me clarify. The the return assumption that we need to hit our expected assumptions will be $25 million lower in starting Q1 of next year, $25 million per quarter post tax.

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

Got you. Okay. Then on the lapse and maybe this is my own mistake. But I understood that as the company, you look at every assumption every year, but then you do a deep dive of a certain bucket, I guess, every year as well. This year, I understand it was mortality, and there was problematic U.S. legacy, John Hancock legacy business. We all know about the Long-term Care. Next year, I believe, was supposed to be lapse or is that my mistake because it looks like a pretty big lapse charge this year. And I'm wondering what that might mean for next year?

Steve Finch - *Manulife Financial Corporation - Executive VP & Chief Actuary*

Yes, and I won't set in stone what we'll review next year. This year's review was a deep dive on lapse in Canada and parts of Asia. I anticipate we would be reviewing lapse in the U.S. next year.

And to be clear, unless, there are any significant indications, LTC, we review, the deep dive is for a very holistic approach, not looking at any one assumption. So LTC lapse is not on the slate for next year.

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

Got you. And then if I could sneak one more in. Your hedging costs, we see the macro coming down consistently, not so much the dynamic. But we're in a rising equity market environment, really low volatility, that's got to have a big positive impact on your hedging cost. Has that been something quantifiable this year?

Rahim Hirji - *Manulife Financial Corporation - Executive VP & Chief Risk Officer*

So Gabriel, it's Rahim. There's two pieces to your question. From an overall hedging cost and what we look at, that's really based on our macro hedging program. And our macro hedging program has benefited from the lower volatility in terms of lower rebalancing costs, but that doesn't go through the hedging cost item, that goes through our direct impact on our equity markets line item. And as you can see, that line has been very favorable this year with a lower volatility. That line is also impacted from the dynamic hedging program, which has also seen very favorable results coming from lower volatility. And that's coupled with our fund managers significantly outperforming their benchmark. So those two things in total have resulted in much more favorable equity market experience than expected.

Operator

Our next question is from Nick Stogdill with Credit Suisse.

Nick Stogdill - *Crédit Suisse AG, Research Division - Research Analyst*

Just a follow-up on the ALDA assumptions. Can you clarify which ones were not adjusted? Was it just private equity and oil and gas? When was the last time returns on the ones that were reviewed adjusted, and what percentage of the portfolio are they roughly?

Steve Finch - *Manulife Financial Corporation - Executive VP & Chief Actuary*

Yes, so maybe I'll just back up in context. Overall, we do look at these assumptions each year. The classes that I mentioned, those are significant asset classes for us. And those are the more interest-sensitive assets. We did look asset class by asset class to gain comfort with our underlying assumptions, both are our expectations. The other thing we do is the standards require us to set an assumption no greater than looking at the returns on a historical benchmark that's appropriate. And we are now with these changes comfortably below those benchmarks required by the standards on all the asset classes. So it was a pretty broad review touching a significant part of our asset portfolio. I don't have the exact split right now, but that's sort of the general context.

Scott Hartz - *Manulife Financial Corporation - EVP of General Account Investments*

Yes, it's Scott Hartz, just to add to that. So really the ones that weren't touched were, as you mentioned, oil and gas and private equity is the other big one. And combined, they represent about 25% of the portfolio. So the assumptions were changed at about 75% of the portfolio.

Nick Stogdill - *Crédit Suisse AG, Research Division - Research Analyst*

Great. And then my next question, just on the wealth and asset management business. Expenses down 3% year-over-year. Maybe you could address the sustainability of that. I know some investment spend has been trailing off, but there are still things being done on some parts of the business. So maybe just on the sustainability of the lower expenses?

Paul Lorentz - *Manulife Financial Corporation - Head of Global Wealth & Asset Management*

Yes, it's Paul Lorentz here, Nick. We have been able to be find efficiencies within the local businesses to offset a lot of the fee compression, which is driving the improvement here. And we do have some more significant investments. And Roy mentioned GO was one of them, we wouldn't be seeing benefits of those yet, but we think they're more medium and longer term that should come in. So we do believe we'll continue to drive additional benefits from a scale perspective and margin perspective. It's obviously contingent on mix and we get variability. But keeping those things consistent, we would expect to see continued improvement.

Operator

Our next question is from Sumit Malhotra with Scotia Capital.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

Let me start with Roy and go back to your press release in September regarding the structural changes. When I read the changes regarding disclosure for the two segments you highlighted, I read it as the fact that global wealth and asset management would become an official reporting segment and the North American legacy would go to being the supplementary disclosure that WAM is now. I know announcing this in the middle year gives you some time. Is that the intention that you're planning to go with when we get into 2018?

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

That's broadly right, Sumit. And you're right. Again, as we try to drive a more global business, we need to report and demonstrate to The Street how we're making progress. So we'll be reporting global wealth and asset management as a separate primary reporting line. The geographies will also be a primary reporting line, but that will be excluding the global wealth and asset management. We're looking through the disclosure that we want to provide around legacy. But they will be secondary in nature. I'll ask Steve, maybe, to provide some further comments.

Steve Roder - *Manulife Financial Corporation - Senior EVP & CFO*

Yes, so just for clarity, the intention is to make the change from the 1st of January. That's easier for everyone concerned, I think, and to emphasize the point that the primary reporting segments are intended to be global wealth and asset management and then the 3 geographies, excluding wealth and asset management. And then we're getting our heads around what the secondary disclosures would be. But legacy is not a primary reporting segment. And just for clarity, Naveed Irshad is reporting in to the leaders of the Canadian and U.S. divisions.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

Well, I'll say it from my seat and I'm sure many of your investors would agree, I think, increased disclosure on the legacy business, and specifically, earnings trends, capital allocation and our ability to see the progress as you go through some of the optimization would, in my view, be very useful to the marketplace. So looking forward to that from you guys next year.

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

Thanks, Sumit. We hear you loud and clear.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

Okay. And now back to the here and now. Just to Paul on wealth. And I agree with the last sentiment. The expenses looked really good. I remember last quarter, there was some type of a comp adjustment that you indicated flattered the expense performance previously. Just want to make sure, was that repeated this time around? Or is the numbers we're seeing in expenses more sustainable here? And then kind of related to that, despite the fact equity market performance has been so strong, your revenue grow and your flows, obviously, as well. Your revenue growth in this segment is only something like 2%, just kind of I want to get your thoughts here on how much of this is currency related? Or is it more specifically, where your asset base is growing is in lower fee-type products.

Paul Lorentz - *Manulife Financial Corporation - Head of Global Wealth & Asset Management*

Okay. Let me start with the expenses. This is a more normalized quarter. Last quarter, we did have a one-time compensation adjustment that didn't repeat that was roughly, I think, $22 million pretax and $14 million post tax. With respect to the second, we have seen, 3 different areas, where there's been some fee pressure on the revenue. One is just repricing in the U.S. retirement space. We've seen some competitive pressures there that forced us to reprice. We've seen a shift in North America around a shift of 2F class fee structures with increased disclosure on transparency for advisers and that brings down the revenue line. And then lastly, just relative to previous quarters, we've seen a mixed shift in our institutional business to more of a fixed income capabilities, so there's a business mix piece there. So those would be the 3 big drivers. There would be some minor impacts on currency in the quarter, but it would be from those 3. As I mentioned earlier, the expense savings we found within the business has allowed us to mostly offset that through the core earnings and EBITDA margin that you're seeing. And so we're trying to manage that collectively.

Sumit Malhotra - *Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services*

And last one for me. I've got to ask Steve Roder, one last time, I got to get one in numbers-wise, Steve. You told me about a year ago, when we first started thinking about U.S. tax reform, I think in my notes here the number I have is that a 1% reduction in the tax rate was worth something like $15 million to the company. Are my numbers right there? Is that still a level we should be thinking about. I know there's a long way to go before this gets across the line. But is that reflective? And would we start from the 25-ish average rate that you've had on core taxes in the U.S. as a starting point?

Steve Roder - *Manulife Financial Corporation - Senior EVP & CFO*

Okay. So we've given some disclosure in the MD&A, and I'll draw your attention to Section E1, where we talk about the disclosure we previously gave. And you're correct that we said that 1% was worth about $15 million. And the other thing we drew people's attention to was the fact that a decrease in the corporate tax rate would have a one-off adverse implication for the valuation of the deferred tax asset. So we're working through all of that. I think that guidance we previously gave is good guidance. But having said that, the Draft Legislation that's out there that Marianne was referring to, is very complex and there may be other implications. So we're going to have to give greater clarification on this as we better understand what's out there. And also we believe that what's been published so far may be subject to amendment and change. So there's a high degree of uncertainty right now.

Operator

Our next question is from Doug Young with Desjardins Capital markets.

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

Question around just the comment around aggressively managing the legacy book of business. And where I'm going with it is, my understanding is this isn't and hasn't been an expense issue, it's been more claims issues and accounting issues. And so what I'm just trying to understand is, what you can do better? Or what you can do different to better manage the legacy book? That's my first question.

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

Well, let me provide some starting comments and I'll hand it over to Marianne and Mike. Again, we think this is an area of significant opportunity for us, Doug. I think if we're absolutely honest, it hasn't had as much focus as we perhaps would've liked. I think there's no magic one silver bullet that is going to help address some of the challenges that we've got there in terms of the returns that we're getting from that business. And it will include expense management, claims management, reinsurance, the way we look at our capital pricing and so on and so forth. But I'll hand over to Marianne and Mike to provide some supplementary comments, because more recently we have actually made some good progress and actually we're reaping the benefits of that asset.

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

And I think, Roy, you covered a lot of what it is that we can do. There still is opportunity, I think, on the expense side. We're looking at the claims processes to make sure they're running as efficiently and effectively as they can be. We're also looking from a capital perspective at policies that we have out there and are there opportunities to do any conversions or any buybacks as a potential opportunity for us in the future. There's still -- it's in the infancy at this point in time. We've spent a lot of time on reinsurance and making sure that, looking at some of the treaties that we have, whether we want to negotiate with those treaties. So there's a lot of work that's been going on thus far. But I think, Naveed's got to get in here and really understand the opportunities. But we think that, it's very hard when you're doing new business and in-force at the same time. I think giving the in-force a dedicated focus and really having us kind of go at it hard will really help us from an organizational perspective. Mike, I don't know if you want to add anything?

Mike Doughty - *Manulife Financial Corporation - President & CEO of Manulife Canada*

No, I think, everything has been covered. I'll just highlight Marianne's last point that I think the real value and the big change here is going to be the sustained very dedicated focus on uncovering every rock and really looking for the opportunities to optimize that book.

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

And I guess, Roy, --when do you hope to see some tangible results out of this, is this something where you feel there's something that can be done over the next year? Or is this more of a 5-year plan where you can potentially reap some benefits?

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

Well, I think it's hard to put a timeframe around this. And the first thing I'd say is as Marianne highlighted, Naveed still is not yet in the role. So he starts on the 1st of January and we are, obviously, going to give him some time to get his head around the business, the opportunities and where he wants to prioritize these assets. I think, again, it's not a simple one trick that will solve all our problems and they're going to be many initiatives and focus points. And we're hoping that we'll be able to demonstrate progress and results, both in the short term and medium term. But clearly, there are some aspects of our playbook that are going to bear fruit in the longer term. So it's going to have to be one aspect that we'll have to provide you more update on in later quarters.

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

I appreciate that. And then just on Asia, it's a two-part question, maybe for Phil. New business gains have obviously been strong. Is that, maybe, just a function of wealth sales and scale? And then I know, we talked a bit about new business value margins in Other Asia at the Investor Day that you had and that it was roughly about half of what you've seen in Hong Kong. Just wanted to see if you have any progress on the new business value margin in that Other Asia area?

Phil Witherington - *Manulife Financial Corporation - Executive VP, Interim CEO & President of Asia and Interim GM of Asia*

Sure. So I'll pick of the first item, new business gains. If we look at our earnings growth, 17% in Asia in this quarter, 16% year-to-date, we're seeing a contribution, both from new business gains and in-force earnings, as the book grows. So I'm happy that they're both increasing in appropriate proportions given the continued growth of our new business. If we think about new business value margins in Asia Other, we are seeing progress. So as as the scale of our business grows, the fixed costs associated with our business is spread across the wider portfolio. And so our Asia Other new business value margin in the third quarter 2017 compared to the same quarter in 2016 has increased by 4 percentage points. And as I said earlier, that's a reflection of both organic factors as our businesses in those markets continue to grow, but also the impact of the expansion of our distribution through the DBS partnership.

Operator

Our next question is from Mario Mendonca with TD Securities.

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

Could we just go back to the ALDA for a moment. You made a point that the return assumptions are such that you can generate $25 million less a quarter and still meet the expectations. So I wanted to see if I could put that in the context of return expectation. So all I've done is I just of reversed the tax effect and called it, say, $35 million, run it over for a full year and divide it by your total ALDA. And am I right in saying that this is a reduction over the return assumption by about 40 basis points globally?

Steve Finch - *Manulife Financial Corporation - Executive VP & Chief Actuary*

Mario, that's right. I forget exactly where it shows up in our disclosures, but that is there. We reduced the 20-year average return assumption by approximately 40 basis points.

Meny Grauman - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

Okay. I didn't see that you disclosed it. I was just trying to back into it. Now, did you also suggest that because you're below the benchmarks -- well below the benchmarks, this is not something you feel the need to review with this sort of precision and rigor going forward or at least in the near term?

Steve Finch - *Manulife Financial Corporation - Executive VP & Chief Actuary*

Yes, our practice is that we will review these assumptions annually. And I feel that this year's review was very fulsome. So we don't anticipate making significant changes. We will continue to watch for anything that occurs in the market. But I think your general comment is correct.

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

And now that you've got this sort of, let's call it, it's easier to hit the number, would it be appropriate to take your $100 million core each quarter and call it $125 million each quarter? I'm not trying to front run on something you're going to announce next quarter, but is that a logical assumption for me to make?

Steve Roder - *Manulife Financial Corporation - Senior EVP & CFO*

Hi, Mario. It's Steve Roder here. The intention is not to do that. So the intention is to keep the $100 million as $100 million. And if there are additional investment experience gains, well, then they fall where they fall. But we don't intend to revise the $100 million at this point.

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

The reason I asked, Steve, is this year, the increase in -- and I think, Roy, you made the same point, the increase in your core investment gains, like about from year-to-date, it's added over $400 million to earnings because this is pretax, of course, because last year wasn't such a great year. That accounts for about 1/3 of the increase in Manulife's pretax earnings this year-to-date. So if you don't make that change, given how well you've done this year, doesn't that necessarily make it, are you kind of starting from a bit of a hole relative to 2017? Like if you don't acknowledge that you're capable of generating better investment gains, aren't you sort of handicapping yourself going into next year?

Steve Roder - *Manulife Financial Corporation - Senior EVP & CFO*

No. I think the issue with the amount of investment experience gains that we've put into core, it's something that we would not want to change very frequently. We want stability in that measure. So we've made one change when we took it from $200 million to $400 million. And it's not something that we'll want to sort of true up in response to every moving part, Mario. In theory, it makes it easier for us to hit that $400 million, but it's pretty minor in the scheme of things, and we don't intend to make that adjustment at this point.

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

Okay. Then finally, maybe this is for Roy or Naveed, if he is on the line. You know that putting someone dedicated looking at the legacy business is important. But could you just talk about what Naveed's background is? Like what is it about his background, his skill set, that will increase the odds of success where others have struggled? I mean, we can all acknowledge it's been difficult to do something with this legacy business. Or is it just simply that the entire organization now is just putting their shoulder to it, and that's why this has a greater odds of success?

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

I think it's more of the latter, Mario. I think, A, this is now a much bigger and more significant priority for the organization. Mike and Marianne referenced that. And I think that is going to go a long towards helping that we make this an area of focus that actually gets a lot of traction. I think, B, Naveed's experience is also going to be incredibly helpful. He has got a very broad background that includes knowledge of reinsurance, product, risk management as well as general management capabilities. And he has demonstrated great progress in helping us turnaround our Singapore business that was, quite honestly, struggling for many years before he joined us as a leader of that franchise. So I think it is a combination of those 2 factors. And we're really optimistic. We think this is a key area of opportunity for our franchise. And we've been pretty honest about the fact that, again, the return for our legacy businesses haven't been acceptable. And with stronger focus, this is where we think we can create significant shareholder value.

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

And then just finally, when companies go through big changes like this, and it sounds like you're going to crack the whip and you want it to change. Does it make sense for the company -- we've seen this in the banks' place plenty a times, for the company to just take a larger structuring charge that the market will understand and appreciate the purpose of it. Is that a reasonable thing for you to consider?

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

Well, we clearly wouldn't comment on that. But again, we'll always look at our provisions, our reserves and how well we're positioned. So I wouldn't want to speculate on write-offs or write-downs or anything like that. But more importantly, I think at this point in time, is that we've structured our organization to really capture the opportunities that we see as significant for the franchise, and we put a lot of effort into making sure that the leadership team is now in place to drive that agenda. So feeling really optimistic about that, and also very excited about the progress that we're making.

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

Great. Steve, all the best on retirement.

Steve Roder - *Manulife Financial Corporation - Senior EVP & CFO*

Thank you.

Operator

Our next question is from Tom MacKinnon with BMO Capital Markets.

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

Just following up on a question about the legacy business. You say that recurrence may not be necessarily adequate, but what about the growth in it? Does the growth in the legacy business, in terms of earnings growth, how far off or is it inconsistent, is it materially inconsistent with your 10% to 12% core earnings growth objective? In other words, it may be consuming capital, but as it runs down, I assume it's contributing to earnings.

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

Yes. So let me start with that and then I'll hand over to Steve Roder and Steve Finch perhaps. But Tom, one of the things you've highlighted is that, it's clearly not a simple one-dimensional agenda. And success for us in legacy management is not just simply looking at return on equity, though that's going to be an important aspect. It is growth. It's also remittances and the amount of capital that we're consuming. So there are a combination of factors that we're going to be looking at and focusing on to ensure that we really make the progress that we want. But again, I think, our journey begins with an appreciation and an honest look in the mirror that really, as I said earlier, these businesses aren't generating the returns that we're looking for, and they're holding us back from achieving the long-term growth potential of the franchise. Steve, do you want to add to that?

Steve Roder - *Manulife Financial Corporation - Senior EVP & CFO*

Yes, thanks. Hi, Tom. It's Steve Roder here. So I'd put it this way, most of these legacy businesses, yes, they contribute to earnings,quite significantly contribute to earnings. But the typical return on equity on those businesses is okay, but it's not our targeted return of 13% or anything like that. So they're typically a drain on our achievement of our target ROE. So what we need to do is try and improve those ROEs through some of the measures that Marianne and Mike and Roy have been talking about. And at the same time, take off whatever opportunities we can to free up some capital and redeploy it into the growth businesses. Because we're in a very fortunate situation, in that we have some very attractive growth businesses, particularly the Asian franchise and also the global wealth and asset management businesses. And they're generating well in excess of our target overall ROE. So that puts us in a rather charmed position that we have such attractive areas that we can potentially redeploy into. So that's really what it's about.

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

Okay, thanks for that, Steve. And just one follow on with respect to leverage, creeping up to 30%. I know you talked about your long-term target being 25%. Can we talk about how you're going to try to get towards that in the next couple of years?

Steve Roder - *Manulife Financial Corporation - Senior EVP & CFO*

Yes. Tom, I'd just point out that the leverage ratio at the end of the quarter is a little inflated because we did some pre-financing. And in fact, there was a significant redemption that took place in the first week of October. So, we always knew it would tick up at the end of Q3. But on a sort of pro forma basis, it would have fallen back below 29%. So overall, it's trending marginally in the right direction. The way we will get back to 25% would be a combination of our earning our way out of it, if you like. And if the forward curve prevails, then gradually we would also be able to bring the leverage down because of the beneficial impact on capital.

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

Congratulations, Steve, as you move on into retirement. It has been a pleasure.

Steve Roder - *Manulife Financial Corporation - Senior EVP & CFO*

Thanks very much, Tom.

Operator

Our next question is from Linda Sun-Mattison with Bernstein.

Linda Sun-Mattison - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

I have a quick question regarding your Japan business. I can see this quarter struggled a little bit and there has also been some charge relating to lapse rates. It's a low growth market, you don't own the distribution, so there are a lot of fluctuations in sales there and other stuff. So I'm just wondering, what's the point of having a Japan business? And especially, where you have the opportunity to deploy capital into the global WAM business and other high-growth, high-return areas in Asia?

Phil Witherington - *Manulife Financial Corporation - Executive VP, Interim CEO & President of Asia and Interim GM of Asia*

Okay. So this is Phil, Linda. I'll make a start, and I'll allow Steve Finch to talk about the lapse adjustment that we touched on earlier. So, as I commented on one of the earlier questions, we have seen a slowdown in Japan in the third quarter. We've sustained the same level of sales as in the third quarter of 2016. But if we do look on a year-to-date basis, our Japan business in terms of APE sales has grown by 16% and new business value has grown by 23%. So as you commented in your question, we will see variability between quarters as a consequence of the third party nature of our distribution. And it's really the only market we have in Asia where we are very dependent on third-party distributors. We see Japan as an important part of our portfolio. It is a market that we have a niche position in. We're very focused on profitability. We are rational. So if competition becomes too intense, we step back, and that's partly why we may see some variability in our performance. But if you look at the first half of this year, we saw some more challenging conditions in other parts of Asia. Japan made up for that. And what we've seen in the third quarter is the slowdown in Japan being offset by strong growth in Hong Kong and Asia Other. And I think the portfolio nature of our business in Asia and our presence across the region does speak to the strength of our franchise that we're able to withstand year-on-year flat sales in a market as large as Japan and still deliver earnings growth of 17%, APE growth of 15% and new business value growth of 21%. So I think that covers why we're in Japan.

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

Yes. Thanks, Phil. And I'll just add a couple of comments just on the strategic aspects of the question, Linda. And then I think Steve Finch can get into some of the technical questions or aspects. But I think Phil summarized it well. When you think about Japan, you have to appreciate, A, that we're not a player that will play in all segments. We are a very niche player, and we'll very clearly pick where we want to play and we're going to focus on those aspects where: A, we have a capability; and B, where we can generate an acceptable return. Being in Japan gives us scale across our entire Asia footprint, and that allows us to be more competitive in the other markets in Asia. The return on equity that we get in Japan is quite good. And finally, we've made a lot of progress to improve our returns and the margins in Japan over the last couple of years. And we believe that there is further upside opportunity for us to continue that journey. So again, we might have some volatility from time to time. But if we look over a longer period, 2, 3 quarters, again, we're pretty happy with the progress that we're making, and more importantly the opportunities that we see there, and the capability that being in Japan gives us for our broader Asia game plan. But I'll ask Steve to maybe comment more specifically on some of the technical questions.

Steve Finch - *Manulife Financial Corporation - Executive VP & Chief Actuary*

Yes. Thanks, Roy.

Linda Sun-Mattison - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Roy -- sorry, can I just kind of get a little understanding on the capability and the scale. Language, the regulation and all these factors make cross-border synergies very hard to realize between Japan and rest of Asia. So I'm struggling to see what kind of capabilities you can export cross-border.

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

There are many aspects. I mean, I'd start with technology platforms. Again, we are driving more commonality of the platforms and technologies that we use. And having a presence in Japan allows us clearly to diversify our costs across all of our markets. And yes, there are specific nuances associated with language that we need to cater for. But we need to cater for that across all of the different geographies that we operate in. We're putting a lot of effort into product design, into customer experience, and we've got a center of excellence that helps us drive that agenda. And again, having the ability to actually diversify our cost across many markets is also another advantage. So again, as you know, Linda, Asia is not a homogeneous body. Each market is very nuanced and very different. And we have been in Asia for 120 years, which is quite unique. And being a scaled player in Asia is a critical enabler for success. And while some markets have bigger upside opportunity from a growth and return perspective, having scale and size is certainly an asset for us and something that we believe that we can leverage and can continue to leverage.

Steve Finch - *Manulife Financial Corporation - Executive VP & Chief Actuary*

And Linda, very, very quickly, high-level, the last adjustment in Japan. It was related to a flexible whole life product where essentially the assumptions that we made around how the policyholders would use the benefits in the contract, as we looked at the experience, we found that they were using the benefits more efficiently. In the update, we've effectively reflected optimal efficiencies. So there's no further exposure on this particular situation. And just a reminder that the balance sheet in Japan is quite large. It's our largest balance sheet in Asia.

Operator

Our next question is from Paul Holden from CIBC.

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

I'll just ask one question and that's with respect to the arc of the potential cost savings versus technology investments you plan to make across the business lines, a holistic view if you will. What should we expect in terms of the net benefit, if any? And part of the context I ask this question is what happened in WAM and sort of the earlier net benefits to expenses then, I think, many of us would have assumed.

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

Okay. Paul, let me kick that off, and then I'll hand over to Paul to get more specifically into your question as it relates to WAM. But what I'd say from the outset is that a much stronger focus on cost efficiency and expense management is certainly one of the most important pillars of attention that we're looking at. And I guess, it really starts with the realization that in the rapidly evolving landscape, being leaner and faster is key and critical. And we're really at the early stages of this journey. But we're thinking through how we need to be bolder and more ambitious, and how do we drive greater degree of accountability. There's a close synergy between what we want to do on expenses and what we want to do on the customer front. As we attempt to simplify our business and digitize it, that also is very much aligned with getting cost out. So we see that there's a huge synergy between trying to simplify our business and being more customer-centric and taking cost out. Technology, you rightly point out, is going to be key enabler to digitizing and simplifying. And what I'd say there is that we're not underinvesting in technology. So we are making significant investments in technology, in fact more than $1.5 billion a year is invested in technology. The issue that we have, though, is a lot of that spend is directed towards legacy systems and maintaining the legacy systems as opposed to driving some of the transformation that we're referencing now. So we are in the process of thinking through how we'll pivot. Technology investing is going to be key to that. But we believe that the benefits that we'll accrue from those investments in the pivoting will be significant. But I'll turn over to Paul now to answer your more specific wealth and asset management question.

Paul Lorentz - *Manulife Financial Corporation - Head of Global Wealth & Asset Management*

The only thing I'd add, Roy, is that we have been able to drive efficiency and unit margin within the local businesses that we have. We haven't taken a step back to look at really leveraging our global scale to the full extent possible. We do have some initiatives underway from a technology perspective that are trying to do that, but there's much more that we can look at. So we'll be working through that in terms of the new organizational structure and how to capitalize on that. Right now, we have just begun working through the structure of the new organization, and we expect to have more updates on that next quarter. And then from there we'll start looking at what are these opportunities that we can do to continue to drive efficiencies and synergies in our business.

Operator

Our next question is from Darko Mihelic with RBC Capital Markets.

Darko Mihelic - *RBC Capital Markets, LLC, Research Division - Financials Analyst*

First, let me thank you very much for being patient in taking the time to answer all questions, even if it goes beyond an hour. Kudos to you guys. I think it's a great move and I think it shows up in some of the other companies that we cover. So let me get into my questions. The first is for Steve Finch. When I look at Page 19 of your presentation, a whole whack of things, all sort of offsetting down to about $2 million. But clearly, there are some areas that would be impacted more than others. And so the question is, is there any segment here after this review that would have a different profit emergence going forward, either up or down? Or is there any one segment that's affected more than the others?

Steve Finch - *Manulife Financial Corporation - Executive VP & Chief Actuary*

Sure, Darko. The biggest change is with respect to U.S. life mortality, where that review has resulted in strengthening the reserves, so higher expected claims embedded in our reserves of roughly $15 million post tax per quarter. So that would be the run rate benefit impact that we would see with that change. The other material one that emerges is related to the ALDA, which we already discussed. Other changes are not really notable.

Darko Mihelic - *RBC Capital Markets, LLC, Research Division - Financials Analyst*

And would it also be fair to say that if I look at the annual review of the actuarial methods and assumptions, let's say, for the last 4 or 5 years, the legacy business has been the recipient of significant reserve increases. And I guess, what I'm driving at is, I'm wondering to what extent do these annual reviews keep building reserves for the legacy business? And at what point does it make Naveed's job just a lot easier simply because you keep building these reserves?

Steve Finch - *Manulife Financial Corporation - Executive VP & Chief Actuary*

I think you're broadly accurate, in that some of the strengthening that we've had over the years has been heavily focused on the legacy business. Whether it's been in investment return assumptions that have flowed through on a quarterly basis or the lapse strengthening that I talked about earlier or the ALDA strengthening. I'll have to remind Naveed that his job is easier. I think if we look at the context, that's why I gave the context around the lapse rates in terms of where we sit today, in terms of just how much has been done. But I think as we review any opportunities here, we're certainly looking at it from a lens of, will any actions benefit shareholders. As Steve mentioned, that's largely looking at ROE capital that we're freeing up. So we will look quite broadly at what opportunities we can pursue.

Darko Mihelic - *RBC Capital Markets, LLC, Research Division - Financials Analyst*

And one last one I'll sneak in just because you guys are patient. A question for Mike. When I strip out the tax release in Canada, and I look at the earnings and true up year-over-year for Q3, it's still quite strong at around 7%. But when I look at year-to-date, Canada is really lagging on a core basis, if I strip out that tax benefit, you're looking at about 2% year-to-date growth. Now that wouldn't be too dissimilar from many of your peers. I mean, it looks like Canada is basically slowing in terms of sales and new business embedded value. So what can you tell us, I mean, now that you're stepping into this role and you're sort of taking over Canada, what should we expect in terms of sales growth going forward once you finish lapping these tougher quarters and earnings growth particularly, what kind of expectations should we be building for Canada?

Mike Doughty - *Manulife Financial Corporation - President & CEO of Manulife Canada*

Well, thanks, Darko. I'm not going to give you numbers. But I can tell you our ambition for Canada, it's our home marketplace, and we expect to be a leader across all of the very strong businesses that we have. I think you can look at one of the drivers we've talked a lot about already in terms of Canada is the legacy optimization. Our in-force block is a big chunk of our business. And so as Naveed and his team start digging into that, that could have a material benefit. But we need to be strong in all of our businesses, and we're going to be putting plans together to do that.

Darko Mihelic - *RBC Capital Markets, LLC, Research Division - Financials Analyst*

Would it be fair to say that, that 2% sort of year-to-date growth that we're seeing in earnings that that's below an optimal level of earnings growth?

Mike Doughty - *Manulife Financial Corporation - President & CEO of Manulife Canada*

Yes, I would say that, yes.

Darko Mihelic - *RBC Capital Markets, LLC, Research Division - Financials Analyst*

Steve, have a great retirement. I'm sure it will be fun.

Steve Roder - *Manulife Financial Corporation - Senior EVP & CFO*

Thanks, Darko.