

MANULIFE FINANCIAL CORPORATION
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Joanne Smith, Insurance Analyst, Scotia Capital –

Our next speaker is Don Guloien, President and CEO of Manulife Financial. Donald is a Manulife veteran, having been with the company for 29 years now where he began his career as a research analyst. Don has held leadership positions in both the investment management and insurance operations and last served as Senior Executive Vice President and Chief Investment Officer until taking his current role. Bringing a wide range of experience throughout Manulife's global operations, I'd like to welcome Don and turn the podium over to him.

Donald Guloien, President and Chief Executive Officer –

Thank you. It is a great opportunity to be addressing you here today. My friend, Allen, took a couple of shots at us I think in a sidelong way, which is only fair in the competitive environment. You guys are investment people and I ask do you want to buy a stock priced for perfection or one with a little bit of risk that offers a great turnaround story. See, Allen, we'll be on the phone later today.

Joanne very kindly introduced me as a veteran of Manulife. I feel like a vet in many ways. My story here today is a positive one. I think we're doing all the right things in Manulife to not only address the issues but grow the company for the future, grow it top line and bottom line, most importantly, and grow ROE. Although much to the chagrin of many people in the room, I am not going to speculate on that and provide guidance for the reason that there's so much question about what the denominator will be long term. I think it would be inappropriate for me to speculate on that. Sufficed to say, I've said consistently that I believe that companies like ours should return something on the order of 14 percent in order to earn capital, equity capital. We invest with that perspective in mind; invest not only in new business and portfolio investments, but acquisitions and everything else we do, that is our guiding force.

If anybody has learned anything from the last few years, it is that single point estimates of ROE and earnings are less important than the fan of outcomes and that companies must be guided by the range of outcomes that would be presented not only by factors under their control, but more significantly by factors outside their control. The understanding of the fan of outcomes and the effective risk management around those is what differentiates companies.

I have got a few pages of legal disclaimers, and I will make the comment upfront that we are in distribution on our recent US debt offering of US\$1.1 billion. So, there are limits to what I can talk about today and present to you. But, we have an Investor Day planned for some time in November. I think, Mike, the date is still under consideration, but we will go through as much as we can of the growth of our operations. Where we're going with them both strategically and tactically and, hopefully, without providing guidance because we do not want to be in the guidance game, but giving you some sense of what you might expect over the long term. And it is, in fact, a positive picture.

The agenda for me today is to talk about our vision, strength and priorities. Throughout the presentation, I'm going to make use of some new branding that we're going to do. We have spent a lot of money building great brand in the United States, and I think most of you know that John Hancock is one of the best regarded brands in the US market in any field, but certainly within financial services. But, we don't enjoy that same reputation in Canada. We're certainly well known in Hong Kong and other parts of Asia,

but we have not invested in branding to the same degree and we intend to do that both here and corporately.

I'm going to talk about addressing our challenges head on. You know, I don't mind being upfront about our challenges. We have them, but we're addressing the challenges.

Financial strength and business growth - our strength is there. People are always speculating about an equity issue and other things having to do with our obvious sensitivity to equity markets and interest rates, but I believe we're in a very strong position. And more importantly, the underlying strength in the growth of the business is very, very evident, and I'll show you examples of that, and then some concluding remarks.

Our vision - and this is a key part of our branding exercise - is to be the most professional financial services organization in the world, providing strong, reliable, trustworthy and forward-thinking solutions for our clients' most significant financial decisions.

Our strengths are many and important. We talk openly about our weaknesses at Manulife. Some of our investors say that's perhaps a weakness that we talk so openly about some of the challenges we have. It's very important to keep the perspective of the great strengths the company has, the incredible franchise that we have, and its long term earnings capacity.

We're a global competitor of significant scale with established brands, broad product offerings, proven multi-channel distribution, and we are very comfortable doing that under one brand, and as a result, leading market positions.

Firmly established presences, positioned to expand in many of the fastest growing economies of the world - I'll show you an interesting slide on that.

Diversified global platform provides multiple sources of earnings and opportunities for capital redeployment. We're not stuck riding one pony. We have multiple opportunities to reposition our capital to maximize earnings and ROE.

We have a strong capital position and financial strength ratings amongst the highest in the industry - admittedly, not as high as they were before and some of the agencies have us under consideration, but amongst the highest in the industry.

Disciplined management of capital, financial leverage and liquidity, superior asset quality and a track record of success in the management of not only balance sheet assets but management of assets for third parties, which is an increasingly important part of our business. Financial strength is core to our brand. We have a track record of decisive actions, not always popular, to strengthen capital at the appropriate times.

Our priorities are, number one, growth, maintain strong capital financial strength, improve our ROE to manage risk and to continue to offer a great value proposition for our clients. On the right hand side, you see one of our ads, and it says we think of being strong, reliable, trustworthy and forward thinking as Canadian traits. We are proud to help bring these qualities to the world.

We have challenges as a company. Let me see if I have the challenges and investor concerns that are on your minds categorized on the slide. The challenges are the equity market risk and what it does to the VA guarantees. Let me remind you, these are very long term guarantees, but we live in a mark to market world and daily fluctuations of the stock market reflect the valuation of those VA guarantees. But, the vast majority of them are out, 15, 17 years and there's a lot of time to pass in markets before we know whether or not we've truly made a profit or incurred a loss on those VA guarantees.

Interest rate risk of long term guaranteed products - again, we have a very, very appropriate matching policy. We do not take great bets on interest rates. But, we do have a lot of business that makes long term guarantees. We do not know how much we're going to earn on a premium coming in in the 13th year, and the Canadian reserving method basically says that if you don't know what you're going to earn on the premium coming into the 13th year, you must use something akin to what is suggested by today's yield curve and today's low interest rates. So, as interest rates fall to unprecedented levels because central banks everywhere are flooding with the money supply with quantitative easing and different names, that is, of course, driving down interest rates and driving down the yield curve. But, do you believe that it is a permanent phenomena or a temporary phenomena? We happen to believe it is a temporary phenomena, but we will be taking steps to curtail the degree of exposure we have to this intra-sensitivity. But, this again is largely a mark to market phenomena if, in fact, you believe that interest rates over the fullness of time will return to more normal levels.

The morbidity risk on long term care - that is a business that Manulife grew very rapidly. There are issues. We have incurred losses on a fairly regular basis having to do with the long term care. In the third quarter, we will be taking a long look at what we think morbidity might be over a period of time and also taking steps to reduce that because these contracts are like many other contracts sold in the life insurance business, have price adjustment features where we can go to state commissioners and get price adjustments. So, the basis change that we will be taking in the third quarter is a net of two numbers. It is a net of what we think long term morbidity might be and it is netted against what we think reasonable price increases to the consumers might be allowing for some slippage between the time it takes states to approve them and some states not approving them and assessing that whole situation with plenty of help from outside advisors or experts in this field.

The investor concerns are capital adequacy, risk management - I mean, we've had--these are--you know, some people say to me, you know, I thought you had a VA problem. It looks like you've got a VA problem, an interest rate problem and a morbidity problem. And we do have the three challenges, but we're addressing all three, and growth.

So, let's talk about addressing the challenges head on. First, are the substantial revisions to our business mix, product design and pricing. And, yes, we are pulling back on certain products that have given rise to excessive risk to the company, either on a mark to market basis or a real economic basis. Reallocation of capital and resources to businesses with higher margins, lower inherent volatility, lesser capital intensity and potential for robust growth - and I pick on my CFO Mike Bell who said--I think in his first quarterly presentation, you know, the people said how are you going to get the ROE up, and he said by reallocating capital from low ROE applications to high ROE applications. Well, I'm sure there was a silence on the phone where people said, I sure hope that guy doesn't win a Nobel Prize for that observation. I mean, if it was so easy, why wouldn't you be doing it already? And Mike's no fool. What he understood is that we have a range of options within this company, having both on a geographic and a product line basis that allows us to do that and a little bit of intestinal fortitude enforcing that allocation process would reap great long term benefits for our shareholders.

Providing capital to support a high degree of financial security and to provide a buffer against capital markets volatility - I'll talk more about that. A general move to reduce interest rate risk exposure by constraining higher risk, long duration guarantee businesses, particularly those with embedded optionality--you know, strategically, the business of offering very long term guarantees in a world driven by mark to market, accounting and capital rules is a collision course. Now, I don't know who's going to provide the long term benefits that people rely upon in their daily financial planning, but when everything that we do and other people do is being mark to market on a daily basis, you have to wonder who is going to provide those benefits. We are not going to be providing benefits that expose us to too much mark to market risk or, of course, have embedded optionality and other risks of an economic basis.

We want to focus on opportunistic hedging of VA-related equity risk exposure from the legacy in-force business. We've talked about it before. I had the option of hedging it all out when I took over the company. That would have been very expensive to shareholders, had we done so at the bottom of the market. It would have cost us in terms of capital. We would have had to raise equity and we would have gotten no credit from our regulator for hedging the risk. While it is obvious that it is a good thing to hedge that risk and have all new business hedged, which we've been doing for some time, and we've hedged 51 percent of our in-force, I intend to do that on a progressive basis over time rather than panic at the bottom.

You can see the results of the actions that Michael eluded to when he talked about reallocating capital. We are actively constraining the variable annuity sales in all geographic markets to limit growth of VA related equity risk exposure, and we've done that. We substantially reduced sales of book value fixed deferred annuities in the United States to reduce exposure to risk with long term interest rate guarantees and optionality. In my opinion, these are not shareholder friendly products. So, we've eliminated the sales of those. Our US long term care product is repositioned for substantial rate increases, filed for new business and in-force policies to increase margins.

This slide focuses on our VA-related risk, and you can see that our approach has paid dividends. The amount at risk, that is, the unhedged amount of risk has declined from \$28.3 billion in-the-money as of the first quarter of '09 to \$11.4 billion in-the-money at the end of the second quarter, down 60 percent. Now, a lot of people paid a lot of attention to the fact that it had gone up from 8 to 11, but let's not forget the big story. And again, if you think today's news and concerns about the global economy, there's not very many safe places in the equity market if you take that view. If you take the view that there is going to be a slow but steady recovery and not a double dip, this in fact will improve over time.

The amount of exposure hedged or reinsured has grown from 23 percent to 51 percent. Again, you can see the reflection of a market based approach plus a huge investment in '09 in terms of the operational capability to hedge. Such that we're able to hedge in a very, very reliable way, we took it from 23 to 51 percent, essentially, doing most of it in the first quarter of '10 when markets were most favourable to us. We did not hedge any material amounts in the second quarter because equity markets have fallen back. But, with the rise in equity markets more recently, you can expect that we will be back at the hedging business.

We are targeting 70 percent hedged or reinsured within a couple of years. And frankly, my desire would be to get it to 100 percent if in fact we can. We hold \$3.2 billion in reserves against the risks associated with the unhedged risk and associated with the risk from breakage and the hedging process, which inevitably, there will be. But, our track record on breakage is pretty good.

There's a perception in the market that we're shrinking more than we're growing. And it is true. What this slide shows is the products in red that are being constrained or reduced as a result of price increases or de-risking action. It is true that those are some of our most significant products. I get that question from our--you know, most cornerstone investors say, okay, you're doing the appropriate risk management things, but you're shrinking what used to be the greatest contributors to net income of the company and you're growing some of the smaller businesses. How long is it going to take to turn around? It might be akin to BP saying, you know, as a result of the events in the Gulf, we're going to get out of drilling for oil, we're instead going to focus on renewable energy. The question people would say, well, gee, that's an interesting strategy. It's going to take 60 years or 600 years before the growth of your renewable energy businesses surpasses that of the petrochemicals side. In fact, it's going to be a lot quicker for that. The reason for that is we have a panoply of products across the world in different businesses, and most of the businesses--as you can see, most of the product lines, all the green ones are growing and the red ones are the ones that we're actively constraining or reducing.

So, what is growing? And it's significant stuff. I mean, I give this credit to us in the analogy. I used--we have very, very substantial business. Our Asian business has historically represented something to the tune of 25 to 30 percent of the company's earnings in top line, but it is growing rates in excess of 30 percent a year. It doesn't take long for that to become meaningful numbers. Our Canadian business follows a similar profile, and our US business is the one that has the greatest challenges. It's a great benefit to Manulife, and I'd like to claim this is brilliance of Mike or I or the management team. But, the area with the fastest growth has the highest margins. The area with the second highest growth has the second highest margins. And the area with the least fast growth has the lowest margins.

So, what is growing? Insurance sales are up 14 percent on a constant currency basis in the first half of 2010 versus the prior year, led by Hong Kong up 47 percent, Japan up 39 percent, other Asia up 21 percent, and Canadian individual insurance, again, a crowded market but a sensible market, up 9 percent.

Our wealth management businesses are up by more significant numbers, and these are wealth management businesses excluding the VA business, which again, we're trying to constrain - on a constant currency basis, up 17 percent in the first half, driven by John Hancock mutual funds up 75 percent, retirement pension services 45 percent, and Hong Kong individual wealth 58 percent, Canadian mutual funds 218 percent.

I think if you look at public statistics, you will find, in fact, that John Hancock mutual funds, with most of the money being managed by MFC Global, our own company, is in fact in the top ten in the United States in net sales. Defy you to find another Canadian company that has that claim to fame.

Financial strength and business growth--capital strength - Manulife has a history of operating with an MCCR well above 150 percent. And that is appropriate, given our risk profile. At the end of the second quarter, we had an MCCR of 221 percent, which is a historically number relative to where we've been, but more strong when you consider that, for instance, if you were to compare the number 221 in 2007 with 221 today, what's changed?

Well, number one, we have a cushion for equity markets and interest rate movements after having strengthened reserves for today's interest rate environment, strengthened reserves also for policyholder behavior, strengthened 51 percent of our VA related equity risk now being hedged or reinsured whereas it was a very small fraction back in 2007, and after absorbing the impact of the US legal entity reorganization, essentially all of our operating businesses in the United States comes under MCCR now, having been included under our Canadian MCCR rules. That cost us about 20 points. It was a smart thing to do for a whole variety of reasons, but that cost us about 20 points on the MCCR at the end of 2009. So, with all those changes, the most significant one being 51 percent of the VA related equity risk now being hedged or reinsured, that is a much stronger 221 than the 221 in 2007 and having strengthened reserves for today's interest rate environment. As we said before, we take a look at the yield curve, what the yield curve suggests about interest rates going forward. We don't need rates to jump up to historically high levels. We just need them to follow what today's yield curve suggests and we will have no further significant hits related to interest rate movements. So, we have provided for what we think is essentially the worst on the interest rate side.

Our ratings are among the strongest in the industry. Our risk management - Manulife Financial remains one of only a small number of North American insurers that have earned a strong enterprise risk management designation from Standard and Poor's. We continue to focus on a risk management culture, significant resources devoted to the Office of the CRO. In fact, in 2011, we're in the budget planning season, over 2007, we will have more than doubled the budget and the staff resources in risk management at our company. And they have longer teeth and sharper swords now than they've ever had before in their history.

Increased hedging and reinsurance of risk of long term guaranteed products, new business and in-force. The Board has created a separate Risk Committee and has added four new members to the Board with extensive financial capital markets and risk management expertise - Bob Harding, Brookfield, John Palmer, former Head of OSFI, Linda Bammann, Risk Management at Bank One and then JPMorgan, very talented in risk management, and more recently, Don Lindsay, with an extensive background in capital markets and finance.

Manulife Financial is a founding member of the recently announced Toronto based Risk Institute for Financial Services. That's basically our attempt and other people's attempt to drive down the cost of our natural resource. Risk management people, as you probably know, command huge salaries. If you're not happy with what you're getting paid in the asset management business, you know, you probably have what it takes to be a risk management person and you might get an increase in comp. This is an attempt to grow within Toronto some of the best risk management professionals in the world.

I think the left hand side of our balance sheet, which I of course am very proud of, speaks for itself. We do have a diversified portfolio, and that diversified portfolio has kept us out of all the things in the news. I guess what's most exciting about what we own is what we don't own, and that is the very limited exposure to RMBS, monoline wrapped bonds, European bank hybrids - they may be highly rated still today, but I feel much more comfortable having very limited exposure to them - sovereign debt of PIIGS nations or anything else that would have the residual exposure to PIIGS, hedge funds, credit default swaps.

The diversified high quality asset mix has consistently added to our balance sheet strength and will add to our earnings potential. And again, our track record on write downs, given the size of our portfolio, as you know, is exceptional.

What's not as well known is assets managed for third parties, the growth in market share recognition, and this story, I'm also very proud of. If we took the bar chart back to 2001 when I started in the investment operation, it was pretty close to the origin. We now manage \$116 billion for third parties. Let's talk about two of the businesses that contribute to that in addition to institutional asset management, which I'm sorry it competes with some of you guys, but I apologize for that. But, on the retail side, the John Hancock funds, year-to-date sales up 75 percent versus the prior year. Our market share increased from 0.98 percent last year to 1.27 percent - again, that's the US market, approximately 13 times, I think, the size of the Canadian market. Ranked sixth in net new flows this year through July, mutual fund AUM up 31 percent--19 of our funds have four and five star rating. Some of our funds are provided by outside providers, but the bulk of what's selling and is positive in that story is, in fact, managed internally by our very, very talented people.

Manulife Mutual Funds here in Canada - year-to-date sales up 218 percent. Unfortunately, it's a fraction of what it should be. Mutual Fund AUM up 153 percent year-over-year, 13 funds with four or five star ranking and received a Morning Star Stewardship rating of B.

Getting brand recognition because, you know, we're proud of what we're doing and we're actually starting to tell the story. Bloomberg ranked us number one in terms of global equity funds, and nice picture of Chris Arbuthnot, who manages that fund along with a very talented team. Chris is a smart guy and so is his team, and what they do is make use of the global resources and intelligence of Manulife across the world.

I've talked a bit about brand throughout the presentation. What you see on the right hand side of the screen sort of competing with me for your attention are some of the ads that we're running in Canadian media. The objective is to reinforce our qualities to the consumers - strong, reliable, trustworthy and forward-thinking, to support growth and premium pricing. When you're hiking the price of products, it makes sense to remind people that you're a very high quality company with a great reputation. Facilitate increased cross-selling, reminding our producers of other things that we sell and attract and retaining the best talent for the company. We're trying to communicate to our multiple audiences that we are much more than insurance. We are for their future with multiple solutions to their needs. We have significant Asian franchise that we don't believe is fully reflected in our stock price. When you look at the price that the PRU of the UK tried to pay for AIG's assets and I was pretty open with the Street on the fact that I thought that price was ridiculously high, but even if you take a percentage of that price, knock off whatever you think an appropriate debit would be and then apply that to Manulife's Asian business, you realize that our stock price does not give the appropriate credit for the quality of that business. We want to keep reminding Canadians, our industry should do a better job of this, the value to the Canadian economy.

Going to talk now about our Asian growth strategy, which is, I think, the most exciting part of Manulife, although if you look at our Canadian business, you will find it has equally compelling virtues. Manulife is one of only a handful of companies with a significant Pan Asian strategy. We've been there for a long time. We execute extremely well. Our competitive advantages in Asia include the long established presence and the breadth of our agency force distribution and increasingly, bank distribution. This ad says people are currently excited about Asian markets. We opened in Hong Kong over 100 years ago. We'd call that forward thinking. We actually opened in Shanghai within a couple years of that date. This is taken out of an article in the Wall Street Journal. It was kind of interesting. I opened the thing that day and it was telling the story that China has now surpassed Japan in terms of size of economy, not only adjusted for differences in purchasing power parity, which is the dark blue, but in the lighter blue is market exchange rates that China has actually outstripped Japan in terms of the size of its economy, and its domestic economy is, in fact, growing very significantly. What struck me about the slide is that you don't have to choose. You don't have to make up your mind whether Japan is growing faster than China or China is growing faster than the United States. If you buy MFC stock, you're represented in the top three economies in the world, and other companies can't make that claim, and in fact, represented in four of the top ten, including Canada.

We're one of the few large Pan Asian operators that exist. On the right hand side, we show a number of very large companies, but they tend to be single country dominated. On the left hand side are those that have truly diversified businesses throughout Asia, and that's very important. Of course, we are among a handful of the companies that have a Pan Asian strategy.

The growth is impressive, and it's not just the growth in China. People talk about China, and China may be, you know, part of what lifts all boats. But, all the economies in Asia are growing very rapidly. And of course, we're having phenomenal success in Japan - 28.7 percent compound annual growth rate from \$139 billion in net income to \$1.7 billion in 2009 generated from Asian business, funds under management growing from \$7.2 to \$57 billion and premiums in deposit growing from \$1.9 to \$9.3 billion.

This slide shows our historic profitability. And, you know, we've drawn attention to the fact that on a Canadian GAAP basis, we are punished for low interest rates, whereas on a US GAAP basis, there is nowhere near that recognition. This slide shows both, and the blue bars are the US GAAP results, the green bars are the Canadian GAAP results. I don't know what you would say the earnings potential of the company is looking at those graphs as an investment analyst. I have my view internally, but again, I'll make those more public at our Investor Day later in November. But, if you think of the earnings potential looked at as a US GAAP or Canadian GAAP basis, for a period of time, Canadian GAAP accelerated relative to US GAAP and then gave it back. I think it's useful, and I intend to be publishing both measures so that people can make their own judgments, plus IFRS, if it comes out or takes any currency.

If you evaluate the earnings potential of Manulife between \$3 and \$4 billion, that is what I would like to do with our earnings over the coming years. That is the objective of the Manulife team, not to necessarily get it back because back is the wrong word. It'll be an entirely different mix of products. I certainly would like to see our earnings accelerate between \$3 and \$4 billion over a period of time.

The question is how long, and we plan to be more fulsome in sharing those expectations with you at our November Investor Day meeting.

Return on equity, as I said in my opening remarks, I'm not going to speculate on because there's so much question about what the denominator in fact will be over time and other changes that could impact ROE. But, the fact is we use 14 percent return on equity as our guidepost in making our acquisition decisions and committing capital to new business ventures and investing in new business growth. So, that will, in fact, produce something on the order of 14 percent over the fullness of time if we meet our objectives.

To sum up, the global competitor of significant scale with established brands, broad product offerings, proven multi-channel distribution, and as a result, leading market positions, firmly established presences, position to expand in many of the fastest growing economies in the world, and I'd argue, positioned better than anyone in that reflection, diversified global platform providing multiple sources of earnings and opportunities for capital redeployment, strong capital position, financial strength ratings amongst the highest in the industry, disciplined management of capital, leverage and liquidity, superior asset quality and track record of success in management of balance sheet assets and assets managed for third parties, financial strength is core to our brand, a track record of decisive actions to strengthen capital. And with that, I'll be happy to take questions and answers.

Q & A

Unidentified Woman –

Mine had two parts. Well, two really quick ones - first of all, in--with the US consumer under severe financial stress, are you seeing any impacts on your life business in the US? And secondly, what are the margins of your Asian business versus that of your North American?

Donald Guloien –

The first one, yeah, there are fewer people buying life insurance policies generally in the United States. That is a minor impact to us, frankly. You know, the changes that we're making to pricing a product and, you know, withdrawing things like guaranteed UL in terms of repricing it and making it more expensive as opposed to withdrawing but pulling back from that market is a much more significant phenomena for us than the consumer propensity to buy the product. So, those are active decisions. On the other hand, you know, despite worries about equity markets, you know, you look at our sales of mutual funds, I think-- don't hold me to this exactly, but I think through August or July, we sold more than we did the entire last year. So, you know, people are concerned about the economy, but, we are enjoying a great track record there. Pension sales are great, other things are great. So, despite a tough US economy, we are making growth in areas where we want to make growth and we're pulling back on areas that we perceive too much risk. We're not going to blame it on the consumer not spending.

The second question was margins in Asia. They vary across Asia and some of those are proprietary secrets. But, the fact is that we can make well in excess of 14 percent quite easily, so it's well above our targets. And choice is what we balance is how fast to grow, how much capital to commit and perhaps bring down that return. But, it's well above 14 percent - very, very comfortable margin. The other thing is

the products, you know, they tend to be par products and have more adjustability in them. So, they expose the company to less financial risk than some of the products, for instance, in the United States that have very heavy guarantees. So, you can see multiple reasons why we're doing that capital redeployment so significantly.

Unidentified Man –

Can you put any parameters around the size of the impact on the long term care side that you think you might take in the third quarter? And I guess, secondly, it bothers me that, although you've now hedged 51 percent of your exposure, your sensitivity doesn't seem to go down much [inaudible] percent change.

Donald Guloien –

Yes, I won't give any quantification beyond what Mike Bell did on our second quarter conference call. That'd be inappropriate for me.

As to the hedging, I'm glad you raised that question. It's important. The 51 percent of the notional amount hedged. For a small change in market, that doesn't provide us with 51 percent protection because essentially what we're doing is hedging as they come with the account value and the guaranteed value close. But, for big market moves, it does give significant protection. We are not particularly worried with our level of MCCR about 4 and 5 percent market movements. The thing that we have to be concerned about is a 30 percent movement or a 40 percent movement and believe me, having that hedge provides very, very substantial protection. But, no, it does not the markets go down 4 percent, you wouldn't expect our equity sensitivity to be down 51 percent as a result of that.

The second thing is, as markets go up, which they will do, that's why, some people would say, boy oh boy, you must be very envious of other companies getting into the variable annuity business because they're getting in at a low and you're sort of getting out and--or pulling back. You know, that's a too easy interpretation because these products have resets and so on. And one of the things people have to fear is markets going up because of those resets. So, having that 51 percent hedged is a huge achievement. It is a massive risk reduction over the fullness of time and is not at all reflected--the value of that is not reflected in what happens to our interest rate sensitivity or our equity sensitivity for a 3 percent movement in equity markets. It's what happens when markets move up 50 percent and then come down 25, which as you know, sometimes happens, or if markets go down 40 percent because there's a double dip or something crazy.

Joanne Smith -

Okay. Thank you very much, Don.

Donald Guloien -

Thank you.
