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Sun Life Financial, Inc. (SLF)

Investor Day

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MANAGEMENT DISCUSSION SECTION

Leigh Chalmers
Senior Vice President, Head of Investor Relations & Capital Management, Sun Life

Hi, good morning and welcome to SLC Management Investor Day of 2021. I'm Leigh Chalmers, Head of Investor Relations at Sun Life. I'd like to welcome you to our first virtual Investor Day. Unfortunately, of course, we wish we were hosting you live; but under the circumstances, we've had to adapt. As a result, we have our presenters all live but in various geographies and locations from Toronto, London, Boston, New York and LA. I do want to highlight that all of our presenters in all of our geographies are abiding and adhering to COVID-19 health and safety precautions in each of our local jurisdictions.

So turning to our agenda, I just want to highlight we have a packed morning. So, we are here for three hours. And what we've done is we've broken up our agenda into three sections. So in our first section, you'll hear an introduction from our CEO of Sun Life, Dean Connor, followed by introductory remarks from Steve Peacher, President of SLC Management. We will follow that with a Q&A session with Dean and Steve. And Kevin Strain, President and CFO, will also join that discussion.

Our second portion of the day will be an opportunity for you to hear from each of our business leaders from all of our businesses that we've recently acquired, including BentallGreenOak, InfraRed Capital Partners, as well as Crescent Capital Group. We will stop for a short break following our second Q&A session. And then in the third part of our agenda of the morning, you'll have an opportunity to hear from our SLC Management leaders around, Sun Life co-investment opportunities, an overview on distribution, as well as we'll wrap the day up with some overview on our financial metrics and bringing it all together.

So with that, I have just some logistics. I wanted to remind you that you can submit questions by going to the bottom box of your screen. And as you submit questions, please include your name and your company name, and, of course, we'll do our best to get to all of our questions. And if we can't get to your question, we'll certainly follow-up after.

And with that final reminder, on this slide, you'll see cautionary language around the use of forward-looking statements and non-IFRS measures that we will be using today. Of course, subsequent events could render those statements inaccurate.

And with that, I'll turn things over to Dean Connor, CEO of Sun Life.

Dean Connor

Chief Executive Officer, Sun Life

Thanks, Leigh. Good morning, everybody. Thank you for joining us. I'm going to start with a reminder to you all of our four pillar strategy. And the four pillar strategy, of course, includes Canada, Asia, US group benefits and asset management. And you can say, why asset management? Where does it fit within the four pillars? Well, there's three compelling reasons behind our asset management pillar.

The first is that these are businesses that are high ROE, high cash generating, low capital requiring businesses to grow and drive future growth. The second is that the assets under management grow naturally over time, there's a natural growth to the revenue base that we like. And third, there's leverage across all four pillars. So, all of our pillars require good asset management expertise underneath our products and solutions. And, of course, we have distribution leverage that we can bring to bear as well across those other pillars.

So, there's a really compelling logic as to why asset management is a key pillar in the overall Sun Life strategy. And then within asset management, of course, we've got MFS, which is our long-only active public market business. And we very deliberately focused MFS in its space that it's so good at in terms of generating alpha for clients, in terms of building strong relationships in global distribution. And to complement that, we've been building out SLC Management, the focus of today's Investor Day, building out SLC Management to take advantage of the client demand and the opportunities to drive growth in this low for long world, and Steve Peacher will talk more about those in just a second.

When you look at what we've accomplished over the last seven years, we've built just a terrific platform of investment capabilities, and this is at an inflection point today and really this meeting today is about an inflection point where the future is about growth and it's about profitable growth. And we've got capabilities, and I'm not going to talk about the products and solutions and capabilities, what I do want to highlight is the talent and the culture, which I have to say I'm most proud of. And today you're going to see the leaders of the investment teams.

But below them, underneath them is an amazing group of investment professionals and others who've built world-class businesses coming together to form SLC, with cultures that are compatible to and aligned with Sun Life. So, I think that's actually going to be a huge hallmark of our success going forward. So in a nutshell, we're in exactly the right business with the right team at the right time.

And with that, I'm going to turn it over to Steve Peacher, President of SLC Management. Then, I'll be back during the Q&A along with Kevin Strain and Steve for questions.

Steve Peacher

President, SLC Management

Thank you, Dean. Good morning everybody. As Leigh Chalmers mentioned, we certainly wish this could be done live, but nonetheless we've put together what I think is a very substantive program for you today which I think you'll enjoy. And I think you're especially going to enjoy hearing from the leaders, the founders, of the various investment managers that comprise SLC Investment Management.

So, let's jump into it. We're going to throw a lot of information at you today. At the end of that, I hope you come away with four key messages. The first is that we have a world-class broad and deep suite of investment capabilities from investment-grade fixed income, both public and private; alternative credit; global real estate, both on the equity side and the debt side; and infrastructure. Second, that these are the asset classes in demand by institutional investors across the globe in today's low for long environment. Third, by having these entities, these capabilities connected with each other and connected with Sun Life, it means that we should be able to grow faster than any of these entities could grow on their own and also that having Sun Life connected with these investment capabilities gives Sun Life a competitive advantage as it invests its own general account to generate yield and return and diversification. And then when you put all that together, we can do an exceptional job for our client base and also be both a high growth and earnings driver for Sun Life.

And we are issuing guidance for SLC Management today. We're going to talk more about that later in the program, but I'll highlight the basic numbers today. We went out of our way to make this as easy to remember as we could. So, by 2025, we expect to have at least CAD 225 billion of assets under management and at least CAD 225 million of underlying net income. So, more to come on that later in the program.

I want to spend a moment on this slide because I think it's a great snapshot of SLC Management today. Before I do that, let me make a quick comment on currency. We report our results in Canadian dollars and I think all of the figures in my portion of the presentation are in Canadian dollars. A number of our managers, most of their assets are actually, that they manage, are in US dollars or in other currencies, euros, pound sterling or other currencies. So you will see some other figures in US dollars over the course of this presentation. I think it's well labeled but just a heads up. So there's no confusion.

When you look at this slide, I think what it clearly says is that we are a global at scale investment manager. We've got over CAD 300 billion of assets under management and that includes CAD 145 billion of assets managed for third-party investors, CAD 158 billion managed for Sun Life general account. We have 1,200 employees including over 500 investment professionals. And as you can see on the map, we're in some of the biggest cities around the world. We're in 18 countries around the world. And I think one of the most important figures on this slide is in the middle and that is that SLC Management and its various investment managers have over 1,300 institutional clients around the globe, 1,300 institutional clients. So that in and of itself is a huge opportunity for us.

We think of SLC Management in four operating units and they're shown on the bottom portion of the slide. So let me spend a minute walking through those. On the left-hand side is our investment grade fixed income operations. They operate under the name SLC Management. They're the combination of our in-house capabilities at Sun Life and the capabilities of Ryan Labs and Prime Advisors, which were two fixed income managers that we bought in 2015 and this combined group provides strategies in total return, public fixed income. They have specific expertise in liability-driven investment strategies and managing bespoke portfolios for insurance companies. And we really have one of the best, if – frankly not the best, investment grade private credit operations in North America. And in total, this group manages CAD 181 billion of which almost CAD 50 billion is for third-party institutions, and CAD 133 billion is for Sun Life general account.

Of course, our latest acquisition was – that we closed in January was on a 51% interest in Crescent Capital. Crescent is one of the longest tenured alternative credit managers in the market founded in 1991. They're leaders in mezzanine debt investing, direct lending in the US, and also in the UK and Europe. They're very active in the public high-yield markets, the leverage loan markets. They're a longstanding CLO manager. And they manage about CAD 39 billion, denominated in Canadian dollars though, almost all of their assets, if not all, are denominated in US dollars.

BentallGreenOak (BGO), of course, is the combination of Bentall Kennedy, which we purchased in 2015, and Green Oak, and that merger was consummated in July 2019. And BGO is a world-class manager of global real estate. On the equity side, they're focused on core, core-plus value add in the UK in Europe, across North America, and in Asia. They've also got a big real estate debt platform across North America and in the UK in Europe. They manage CAD 67 billion of which CAD 42 billion is on behalf of third-party institutions and CAD 25 billion for Sun Life general account.

And we closed on an 80% interest in InfraRed, which is a global infrastructure manager, in July of 2020 in the teeth of the pandemic. InfraRed invests in infrastructure projects around the world. And importantly, they're an experienced investor in renewable energy. And that's obviously on the lips of – on the minds of investors today and governments around the world. And that's an important capability for us to add at this time. They manage CAD 16 billion of AUM.

When you put this all together, you can see what the profile is on this next slide. On the left-hand side, you can see the breakdown of our assets under management. And the key point on this, the CAD 303 billion, the key point is how diversified it is across all the asset classes that I just mentioned. And one note on this slide is that this includes the general account. If you were to develop the same graph, which I think we have later in the presentation, just on our third-party assets, it would also be just as diversified, the public fixed income slice wouldn't be quite as large because that's such a big component of our balance sheet at Sun Life.

The pie chart in the middle profiles our investor base. And you can see that about two-thirds of our investors are pension funds around the world. But we also have a lot of insurance companies as clients, endowments, foundations, sovereign wealth funds. So, we're active across all the different types of institutional investors. And if you look at our investor base geographically, on the right, 69% of our investors come from the US, but we've also got a significant client base in Canada, in Europe, in the UK, and in Asia. So, a very broad platform both on the investment side but also on the client side.

I want to spend a few minutes on the next few slides in terms of what's driving the appetite by institutional investors for our products. I think it's very straightforward. I think it's understood by everybody on this call. I think this graph almost says it all, and it's about the relentless decline in interest rates, really, since the early 1980s when the Fed decided to put a knife into the double-digit inflation at that time. This is a graph of yields since the financial crisis. The light blue line at the bottom is the 10-year US Treasury yield, and as we know today, it's risen a bit but it's around 1.75%, very low. The line above it is investment-grade corporate bonds, also very low yield there, in fact, the investment-grade corporates in aggregate almost had negative real yields recently after inflation. And I think, tellingly, the top line is the yield on the high yield bond market. So, if an investor wants to go into high yield, they're still only going to yield about 4%. And the key is that chief investment officers at pension funds and other investors around the world need to get in that red bull's eye on the chart, into that 5% to 8% range to meet their obligations. So, the current markets aren't doing it. They've got to go into alternative asset classes.

And you see that they've done that. On this slide, you can see the traditional allocation, 60/40, 60% equities, 40% fixed income. That was the standard allocation for years. When I started in the business in the mid-1980s an allocation to high-yield bonds was considered exotic. Today, on the right-hand side, this comes from a Willis Towers Watson study of global pension funds, you can see that pension funds are investing about a quarter of their assets, actually a little bit more, in alternatives. Why? Because only then can they meet the return requirements that they need to meet their obligations. And that has grown, and that is going to continue to grow, which is a tailwind for us.

If you break down the asset classes, which we've done on the next slide, these are projections by Preqin based on surveys of institutional investors. You can see that we are focused on big markets and growing markets. So, when you look at the graphs for private debt real estate infrastructure, the private debt market is almost $1-trillion market, and based on these projections, going to $1.5 trillion. The institutional investment in real estate is already over $1 trillion and going higher. Infrastructure is moving toward $1 trillion. So, these are big allocations and they're projected to go up.

On the right-hand side, this comes from a McKinsey study. Actually, somewhat surprisingly, allocations to public fixed income are also rising by institutional investors despite the low yields. And why is this? It's because many pension plans around the world are in a de-risking mode. Some moving toward buyouts of their pension plan and they've got to allocate to fixed income to do that, and that's also plays to our expertise.

On this slide, I've highlighted a few of our other submarkets that we're active in which also shows that they're growing. These are not projections. They're backward looking. But if you look at the left-hand side, this is a chart of the growth in allocations to liability-driven investment strategies. And these are strategies put in place by pension funds to de-risk and better match their liabilities. And it's driven by that de-risking trend. We're experts in managing fixed income portfolios for pension funds that want to implement LDI strategies so it plays to our strength.

On the right-hand side, this is a graph of 2018/2019 the amount of assets that insurance companies are outsourcing to third-party managers. Again, we're expert in that, not only because we're an insurance company ourselves but because when we purchase prime advisors, that's exactly what they do. They manage portfolios customized for insurance companies. Why are insurance companies outsourcing more? Because they're battling a low-for-long environment as well and they need to access asset classes that they can't manage in-house. So, we think that trend is also playing to our favor.

I want to shift gears a bit and highlight the fundraising power of the platform since the beginning of 2020 so the last 14 months or so, across all these entities, we've raised almost CAD 19 billion across a number of asset classes. That's a lot of money to be raising especially given that we're squarely in the middle of a pandemic. And that's one point I want to make. With the power and the amount of money that this platform can raise but there's another key point and it relates to the diversity of our fundraising activities. And you can see on the slide just a sampling of the products that we've been raising money in the strategies over the last 14 months, and I just want to highlight a few of these. On the fixed income side, we launched the TALF Fund. TALF is an acronym for a Fed program, that was launched in the crisis. We put together the product within weeks and within weeks, we had generated $1 billion of demand from clients.

We've been raising a lot of money this year in private credit, on the investment grade side, in the US, following on our success in Canada. Crescent had a fundraising for their European Direct Lending Fund in the Spring of last year, that was given the award of Fundraising of the Year by Private Debt Investor, which is a magazine that tracks the private debt markets. And just last – in January, they closed on their third direct lending fund in the US with almost a $900 billion close. And they just priced a $500 million collateralized loan obligation.

BentallGreenOak launched the Core Plus strategy in the US in June of last year, the middle of a pandemic, and had final closings on the Europe and Asia, Value Add Funds where they hit their hard caps. InfraRed launched a new infrastructure strategy in the Fall and had follow-on offerings to their listed strategies in the UK. And I mentioned all that, because it highlights an important aspect of SLC Management. And that is – we're able to raise money across a variety of strategies, of product types and geographies, and we're not solely relying on one key strength.

This slide is a teaser, I want to plant a seed in people's minds. What I've done is laid out our capabilities at SLC Management, including our underlying managers at Crescent and BGO and InfraRed. And laid it out against two of the most successful managers and the biggest managers in the market, Blackstone and Brookfield. Those two firms are known to everyone on this call, wildly successful.

And the point is that if you look at our capabilities, we actually stack up extremely well. We have almost the same mix of capabilities, as these two stalwarts in the business. And so, it would be misleading, I suppose, to say that we're in the same league today as Blackstone and Brookfield. But the potential of this platform is enormous and I firmly believe that we will be mentioned in the same breath in the not too distant future. So, planting a seed for everyone on the call.

I want to talk about one of – what I view as one of our biggest competitive advantages and that is the ability to co-invest in the strategies that underlie SLC Management. You know when we first started this back in 2014, the underlying premise was to develop an institutional asset manager which offered to other institutional clients, third-party institutions the same strategies that we use on our own balance sheet at Sun Life. And there's a basic credibility in that but it also means that co-investment and seeding new products is a natural because our demands for investments at Sun Life are closely aligned with the capabilities that we've got at SLC Management.

We've committed over CAD 2 billion of co-investment as part of the acquisitions that we've made over the last few years. And this is a real win for Sun Life because this expanded set of capabilities is going to allow us to enhance our yields, enhance our returns, and also further diversify our general account. But we think of this really not just as a win, but as a win-win-win because if you think of it from a client perspective, there's no better alignment than having your manager invest money right next to you. And we can do that to a magnitude that most investors can't.

So it's a win for the clients to be – for having us invested right next to them. And by creating that relationship with our clients, it's going to allow SLC Management and its underlying managers to grow even more quickly. So, a win for SLC Management. So we really view it as a win-win-win. And we've had success with this already.

On this next slide, I list a number of the products that we've launched since 2014. And across all these products, we've invested from Sun Life's balance sheet CAD 750 million. On the back of that co-investment, we've raised over CAD 7 billion of third-party assets. And those products are still open and still growing. So, it's an example of how powerful it can be when you can invest your money next to clients. And the other point I'll make here which is not on the slide, but of that CAD 750 million that Sun Life has invested, we've actually returned almost CAD 300 million back to Sun Life which makes it available for co-investment in future strategies and future products. So we've proven that we can make this work, and it will work in the future. So we're excited about this. It's certainly a competitive advantage for us.

I want to highlight another advantage to Sun Life of SLC Management and that is around sustainability. Obviously something that everybody's talking about, it's critical. Sustainability is a core goal at Sun Life. We're proud of the fact that we're consistently ranked as one of the top 100 most sustainable corporations in the world. You probably saw this week that we announced our intention to invest CAD 20 billion in sustainable investments over the next five years on top of the CAD 60 billion that we have invested today, and the development of SLC Management just adds to that corporate objective.

InfraRed, as I mentioned, is a leader in renewable energy projects. BentallGreenOak is consistently ranked at the top of its peers by the Global Real Estate Sustainability Board, in being a sustainable developer, owner, and manager of buildings. All of our fixed income operations have signed on to the United Nations Principle of Responsible Investing. So it's completely aligned with Sun Life's goals. So a win for Sun Life. But again this is another example of what I think of as a win-win-win because this is also on the minds of all of our clients. They're all thinking about how they make their portfolios sustainable and climate friendly. And the fact that we've got offerings and strategies which fit with that goal is a win for our clients, and of course for SLC Management can be a growth driver. So, just like co-investment we think this is a win-win-win.

And finally, I want to end on a slide before we go to a Q&A session and that is what I think of as our formula for success. The first is that you've got to have the right suite, the relevant suite of investment capabilities. Fixed income, alternative credit, global real estate infrastructure are the relevant suite of capabilities today.

Secondly, it's not enough just to have a suite of capabilities. They've got to be – each one has to be – has to have strong investment performance because that's the name of the game. If you look across our platform, every strategy that we have has strong performance. We don't really have underperformance anywhere. So, we've got the performance that can do the job for our clients.

Third is clients across the globe want these strategies. We need to be able to bring our solutions to them, and we've got a distribution force across these entities that has the capabilities to bring our capabilities to a global client base and prospect base. The other thing I mentioned is scale, you know, with CAD 303 billion of assets under management we're an at-scale manager that should drive operational efficiencies over time. And I would also say that given the markets we're in, it should provide investment insights around the globe that can be used across the managers to enhance their performance.

The final point I'd make, and Dean highlighted this, is talent. It's all about talent. And when we made these acquisitions, we bought into great growth strategies, we bought into great profit streams. But what we really bought, if you ask me, is great talent and that's the name of the game. And if we put all that together, we will do an outstanding job for our clients, helping them meet their investment needs, we'll wrap it in great client service. And in this business, if you do the job for your clients, your business results will take care of themselves.

So with that, I will turn it over to Leigh Chalmers to moderate the first question-and-answer session.

QUESTION AND ANSWER SECTION

Leigh Chalmers
Senior Vice President, Head of Investor Relations & Capital Management, Sun Life

A

Great. Thank you, Steve and Dean for those introductory remarks. So, we have lots of questions coming in which is great. So, we'll start with the first question coming from Humphrey Lee at Dowling & Partners. This question is for Steve. Steve, to get to the AUM target of CAD 225 billion, do you see you can get there organically or do you anticipate some bolt-on tuck-in-type acquisitions in that target?

Steve Peacher
President, SLC Management

A

Humphrey, thanks for the question. My answer is yes and yes. And when I say that our CAD 225 billion AUM target is based on our expectation of organic growth. So we can get there organically and that's how we plan to get there. But we also think that there are a lot of opportunities to expand the footprint of the platform. And we have a perfect example. Recently, BentallGreenOak announced the signing of a deal to acquire a private equity real estate fund of funds and secondaries business called Metropolitan. That's a perfect – and the acquisition price was really nominal. And that's a great example of the type of strategy which is adjacent to our current capabilities and which can also be a growth driver. But we did not factor that kind of incremental acquisition into our guidance.

Leigh Chalmers
Senior Vice President, Head of Investor Relations & Capital Management, Sun Life

A

Great. Thanks, Steve. So, Steve, I have another one for you. This comes from David Motemaden at Evercore. Some insurers who have had a similar boutique asset management strategy have had issues when founders have retired as performance deteriorates and assets outflow. How have you worked to ensure this doesn't happen at SLC?

Steve Peacher
President, SLC Management

A

Well, David, that's a very relevant question. It's something that is at the top of our minds. As I mentioned when we invested in these entities, the primary attraction frankly was the talent and the culture. In every case, we've got long-tenured talent. We've got that succession plan. We've got that next generation of management that sit behind Sonny Kalsi and John Carrafiell at BGO or Jean-Marc Chapus and Mark Attanasio at Crescent or Werner and Chris Gill at InfraRed. So, we feel like we've got the bench strength. And then to take advantage of that, to make sure that we have continuity beyond the back-ends of these deals, we've got to make sure a couple of things are in place. One is we've got to make sure the incentive structures are in place so that we've got long-term incentive structures that are structured to go beyond the put call date. And so we've either – in these entities, we've either done that or actively working to put those in place. So, that's critical.

I think the other – maybe more critical than that though is, over the next few years, we need to make sure that all of the key leaders within these entities see that this is a great platform where they can thrive, where their teams can thrive, where they can raise more money, the benefits of things like co-investment, the stability of being backstopped by a large highly rated financial institution, the help that we can provide with distribution. So, I think it's about having the talent. We've got it. It's about having the incentives which we've either got in place or putting in place for the long term. And it's about having a platform that all of our leaders feel is a great canvas against which they can do their thing. And so that's really the key and that's what we're focused on.

Leigh Chalmers
Senior Vice President, Head of Investor Relations & Capital Management, Sun Life

A

Thanks, Steve. The next question comes from Gabriel Dechaine at National Bank, again, for you Steve. Making an asset manager built via acquisitions is very tricky. What are the key risks you've identified? And how do you plan to mitigate them in order to achieve your long-term targets, which again might tie to your last answer, but why don't you take that one.

Steve Peacher
President, SLC Management

A

Well, again, these are top-of-mind questions for us. I think the most important thing when an asset manager is acquired, these are people businesses at the very core and they're about culture. It's very similar, to me, to team sports. It's about having strong players in the field and a spirited core which allows them to perform together. And when you make an investment an investment manager, you've got to make sure that the cultures between the investing entity, in this case, Sun Life, and the investment manager, BentallGreenOak or InfraRed or Crescent, are compatible.

And kind of the good and the bad thing about these deals was they took a long time. I think the Crescent transaction, from the first introduction that I had with them to the closing, was two years, same with GreenOak and the merger with Bentall Kennedy. The importance of that is that you really get to know each other and you work through a lot of issues. So by the time you sign a deal and close the deal, you know that those cultures are compatible. So, that's the first thing.

I think the second thing and the thing that is really most important to us and I think an area where many insurance companies and banks and financial institutions fail when they invest in investment managers is giving them the leeway to run their business. I mean, I think one of the things, and you could ask them later in the presentation, that all these firms were looking for was the independence to do what they do, invest money and run their business, and we're committed to that because we think that's how asset managers should be run. That's exactly what we've done with MFS and they flourished under the ownership at Sun Life.

And then, what we're trying to do is let the businesses run themselves, just as their investors expect, but find ways to connect them in areas of mutual benefit, especially as it relates to distribution, so that we can bring all of these capabilities together and present them to our client base. And Tom Murphy will be talking more about some of the things we put in place to make sure that we're in a position to represent all of our capabilities to our client base and prospect base.

Leigh Chalmers
Senior Vice President, Head of Investor Relations & Capital Management, Sun Life

A

Great. Thanks, Steve. Our next question comes from Meny Grauman at Scotiabank. Rates remain near historic lows, but there are growing worries about runaway inflation and the implications for rates. How resilient is the SLC platform to rising rates, especially a steady and significant jump in rates?

Steve Peacher
President, SLC Management

A

Well, rising interest rates are on everyone's mind, and I think with – as we think about, hopefully, light at the end of the tunnel with the pandemic and the economic surge that may happen there, people are worried about inflation, I – and I'm – I have no particular insight on inflation, I think even with that – even in with some short-term drivers of inflation, there are a lot of global forces that are significant that should keep inflation under control. I think you saw even from the Fed announcements yesterday that there's going to be a real commitment on the part of central banks around the world to keep rates low until – and they would love to see a bit of inflation. So, I think we've got a long way to go until we see central banks start to move the rates that they control up.

Even if rates are back up from here, let's say the 10-year treasury as a benchmark rate doubles and goes to 3% or 3.25%. It's still 3% or 3.25%. I mean, extraordinarily low. And to put it in perspective, in 1982, of course, you could have bought a 10-year treasury at 15%. So even if we get a doubling of rates today, you're just barely over 3%. So, that's not anywhere close to the kind of returns and yields that our investors need, and they're still going to need alternative asset classes. And a lot of our products, the yield will rise in lockstep with a rise in rates, and that premium over lower risk yields will still be there.

So, I don't really view. We have some assets, given the duration of the assets where the value of the assets could decline if rates rise. But as Marlene will talk about later, our financial resources really aren't tied to much to that. And I think the demand for our fundamental strategies is really not overly rate-sensitive. I mean, don't forget that when you talk about alternative credit for real estate or infrastructure, it's not just about yield. It's about long-term sustained total returns and also diversification. So while that one variable is important the markets, I don't think our future success is dependent upon it.

Leigh Chalmers
Senior Vice President, Head of Investor Relations & Capital Management, Sun Life

A

Great. Thanks, Steve. I think we have time for one last question. So, this one comes from Paul Holden at CIBC. Slide 14 implies an expected return for alternatives in the high-single digit or low-double digits. What is your blended annual return expectation for SLC mandates?

Steve Peacher
President, SLC Management

A

Dean has gotten off easy here because all the questions are coming to me. But well, it's a good question, and you're right, that's the math. And I don't have a blended number in my head. Of course, if I – one of our four operating units is on investment-grade fixed income. So, that's not really considered an alternative asset class, even though our private credit operation within investment grade adds meaningful premium yields over investment-grade corporate bonds, but put that segment aside.

If you look across the strategies at Crescent and they can talk about – they will talk about this, you're talking about expected total returns in the high-single digits to low-double digits. When you look at our value-add real estate funds, they're generating net returns to investors in the teens. Our Asian real estate funds have returned over 30% net annually to investors. Our value-add infrastructure funds are returning double-digit returns and have historically. Our core real estate funds are still generating yields in the mid to high-single digit rates – range with higher total returns than that. So, I don't have the overall blended number because we have so many strategies. But the point is all of our alternative strategies generate total returns in that range, high-single digit to at least mid-double digit.

Leigh Chalmers
Senior Vice President, Head of Investor Relations & Capital Management, Sun Life

A

Great. Thanks. Steve. So, lots of questions coming in. Unfortunately, we'll have to cut it off here, but there will be two more Q&A sessions later today.

Leigh Chalmers

Senior Vice President, Head of Investor Relations & Capital Management, Sun Life

So with that, we're going to move on to the second portion of our agenda, where we'll talk more about our business capabilities and products. And Steve, I'll pass it back to you to lead that session.

Steve Peacher

President, SLC Management

Well, I think now, we're going to be – we're going to mix it up a little bit. And we've put together a video that we think you'll enjoy. What you're going to see in this is some of our employees around the globe commenting on some key questions that relate to our business in SLC Management and in their particular businesses. But one of the reasons I wanted to put this together was to give everyone on this call a bit more exposure to the talent that we've got across SLC Management and the related entities. So, I think you'll enjoy it and let's roll it then.

[Video Presentation] (00:37:30-00:44:59)

That video, we had a lot of fun putting that together. And I think – and again, I think it highlights just a small portion of the exceptional talent that we've got across these organizations. So, we kind of put that together.

We're now going to turn to a portion of the agenda which I think you'll really going to get a lot out of hearing directly from the founders of BentallGreenOak, InfraRed Capital Partners, and Crescent Capital. Before I turn it over to them, I want to spend a bit more time on our investment-grade fixed income capabilities, which is one of our operating units under SLC Management. And as I mentioned, this is the combination of our public and private fixed income teams within Sun Life, the teams that came from Ryan Labs and also Prime Advisors. And this team manages strategies across the investment-grade universe in both public markets and private markets. We've got total return public fixed income strategies with outstanding performance records. And we're in the top quartile of our competitive universe in almost all periods and have been for some time.

As I mentioned, we're expert in liability-driven investment strategies. We have great capabilities and a long tenure managing bespoke customized portfolios, fixed income portfolios for insurance companies. We have an exceptional capability, really a gem within Sun Life and our investment-grade private credit strategies. We generate premium yields, in some cases, over 100 basis points over public corporate bonds. I mean, that's a lot of value. We've been able to raise a lot of money in Canada in this strategy, and now, we're seeing the same demand in the US. And so, it's a great collection of fixed income capabilities.

If you look at how this group has done since 2016, it's grown nicely, 12% compound annual growth. And if you look at the breakdown of that growth, you can see that every area has grown. We've grown in private credit on the investment grade side. We've grown in public fixed income in Canada. Our total return fixed income in the US has grown, and our insurance asset management has grown.

Why is that? I think there are a few main reasons. One is our private credit, our investment-grade private credit offering is unique. It stands out versus other offerings in the marketplace, and we consistently see that in terms of the demand that we're attracting from institutional investors. As I mentioned in an earlier slide, despite low yields, investors are continuing to allocate to fixed income. So, that's another driver.

And the third is we've got great investor results. And so, despite the fact that we compete with some of the biggest names in the market, in many cases, in most cases, we've got better investment performance. And so, that's always also driving – has been driving our growth.

And you might ask, you often hear about SLC Management being called an alternatives manager, and I think we are with all of our alternatives capabilities. But you might would ask, well, why do you have a fixed income, an investment-grade fixed income arm? What does that add? And actually, we think it's very strategic for four main reasons. The first is, I think I can say this with confidence, every institution that we deal with has an allocation of fixed income. It serves as the ballast within any investment-grade portfolio. So, offering this means we're even more relevant to our client base. We're good at it. Managing fixed income is core to what Sun Life has done for its history. And with the managers we've acquired, we've got great track records and a lot of expertise in key areas. So, it's something clients – every client needs and we're good at it, and that's the second reason.

The third is increasingly, we see mandates where a client wants us to wrap a number of different asset classes together to create a solution. And when you do that, you really need an investment-grade fixed income capability to wrap the different asset classes into a solution with the right characteristics. We're just competing for a mandate now, a CAD 500 million mandate with a pension fund in Canada where they're asking us to wrap private credit real estate debt and investment-grade fixed income into a solution. So, it allows us to do that and we think is an advantage that we have versus other alternatives managers.

And, finally, we have a lot of relationships on the fixed income side. We have a lot of clients that have hired us to run their fixed income portfolio. And over time, we'll be able to introduce them to the extent they need it. They need the strategies through the breadth of our strategies across our platform. So, we actually think having an investment-grade fixed income offering in the public and private markets is very strategic to our platform.

So with that, I'm going to turn it over to Sonny Kalsi, who is the Chief Executive Officer of BentallGreenOak.

Sonny Kalsi

Chief Executive Officer, BentallGreenOak

Thank you very much, Steve. My partner, John Carrafiell, and I are excited to have the opportunity to introduce you to BentallGreenOak or BGO. You've already met our President, Amy Price, who kicked off the video that Steve showed. And I think she also really kicked off and discussed how we came together as a firm.

If you go to the next slide, you'll see that we are a product of the merger between Bentall Kennedy and GreenOak Real Estate, which is a firm that John and I founded in 2010. We're a global and diversified real estate asset management company. And in Canada, we are also a vertically-integrated property management and development company. We have 24 offices in 12 countries around the world, and we're growing. We're going to be adding a few more offices over the course of the year. And we are 500 people strong in our investment management and corporate functions. And if we add our real estate services business, we have 1,400 employees.

On the next slide, we'll kind of try to cover what is it, what do we do, right? I think trying to summarize what we do in a few bullet points is easier said than done. I think simplistically, the way to think about us is we invest in real estate. We invest in real estate equity, real estate debt, and we do it both in a public and private format. So really, we're a true four quadrant investor in real estate.

Again, in Canada, as I mentioned before, we also have a real estate services organization which provides real estate property management capabilities for ourselves, our clients, but also for third parties. We also have a very strong development capability in a number of places around the world but very deep in Canada.

Also, as it came up in the Q&A that Steve referenced earlier, we have a fair amount of organic growth in the business, but we also plan on having inorganic growth to add to our product mix. And so, Steve mentioned the Metropolitan Real Estate acquisition that we're in the process of closing right now. Metropolitan is focused on – primarily on secondaries and in co-investments. And we believe secondaries, for example, are very much in favor right now. And usually coming out of a dislocation, like we've come out of the pandemic, this point of the cycle, we think secondaries are very attractive. We do believe acquisitions are going to be a key part of our continued growth strategy.

If we go to the next slide, this page has got a lot of circles on it. So, we'll try to disaggregate it a little bit. The two circles on the left side of the page are kind of what we own and where we own it, and then the two on the right side of the page are our investor base. So if I just, kind of high level, as has been said already, we have CAD 67 billion or $53 billion under management globally. We also have significant dry powder. So, we have at least $15 billion worth of buying power right now, which we believe is a great place to be and will really give us the ability to go on offense as we come out of the pandemic.

If we look about where we are invested by property type, almost 50% of what we own is in, we would say, the two best, two most defensive asset classes, which are logistics/industrial and multifamily residential. Those asset classes have performed very well during the pandemic and we believe have huge secular tailwinds to them.

We do have retail exposure. Fortunately, it's only about 12% of our portfolio. That is clearly the most challenged asset class out there. We are fortunate that a lot of our retail is grocery-anchored retail, and grocery-anchored assets have been the best performing at this point of the cycle.

And then, office has the question we get asked more than anything else is what's going to happen to the future of office. Are people going to go back to work on offices? We have a – about 30% – a little over 30% of our portfolio is in office. We are generally at weight or underweight relative to our competitive set there. And we're going to have to keep a close eye on it. I think the reality is the future of office is not going to get adjudicated in the short term. It's going to take some time to get sorted out, and it's going to be very different by geography, by city, by type of tenant. So far, we have not had any kind of major negative news on that front, but time will tell.

In terms of geography, in terms of where we're located, you'll see that we're heavily concentrated right now in North America, but we have our most rapid growth in Europe and Asia. And John will cover that a little bit more. We think we're going to have significant growth in the next few years in those regions.

The right two charts on investors. So, we have a very diversified investor base. More than 90% is institutional investors, sovereign wealth funds, public and private pension plans, insurance companies, et cetera. So, that's something we are very proud of. You'll see that retail investors are a very small part of our assets under management. We think that's going to change significantly over the next few years, whether it's because of contributions and defined contribution plans or through distribution through high net worth and other channels. That's a big growth area for us.

If we move to the next slide, which is really has been a topic de jour but it's been something we've been focused on for a long time, is ESG. But I would add there's a very important subcomponent to ESG is equity, diversity, and inclusion. So, we're really proud to say we're an absolute leader in ESG and have been for a long time. The global pandemic, the climate crisis and the mass mobilization for racial justice, especially in the last year, has brought ESG to the forefront. From an environmental perspective, one-third of global emissions comes from the build environment. So we actually believe at BGO, were really well-positioned to do something about it and to address climate issues.

So if we focus on the E, right, which is environment, and we have talked about it more sustainability, we've definitely been a recognized industry leader for a long time. I'll give you a good example. Our BGO US Diversified Property Fund, which is our open-end core fund in the US, was ranked number 1 in its US peer group this past year, and has been ranked number 1 or 2 for 10 years in a row. And that kind of sustained excellent – an absolute ranking by GRESB, which is the Global Real Estate Sustainability Benchmark. That kind of sustained kind of performance is something we're super proud of. And I can give you lots of other examples from other parts of the world, but suffice it to say, we're an industry leader. We intend to stay there.

We also have an A+ rating from the United Nations Principles for Responsible Investing. And that is a – probably the only – any A+ I've ever been part of in my career or my academic career and it's something we're proud of and we don't plan on losing that grade.

I guess on a more serious note, on the S of ESG, it's social, we've been an advocate on multiple fronts internally, externally, working with third parties to address critical social issues, including racism and equity and education. This – unfortunately, this topic is more important than ever, given what's happened in Atlanta this week, and it's something that we just think is completely unacceptable and something that we are very committed to doing everything we can to change and address, both in the way we operate as a company, but then also in terms of how we invest our capital.

Recently, we made a pledge that going forward, at least two-thirds of the people we hire as a company are going to be women and minorities. I'm sad to say, my 31st year in the industry, that women and minorities are still very sadly underrepresented in the real estate industry and financial services more broadly, and we, as BGO, intend to do something about that, and we hope other people follow us.

So anyways, just to wrap up, I'd say we're very proud of our efforts in ESG across the board. We're proud of the diversity we already have, but we have a lot of work to do to continue to be a leader in the space.

So with that, I want to turn it over to my partner, John.

John Carrafiell

Senior Managing Partner, BentallGreenOak

Great. Thanks, Sonny. Good morning, everyone. I'm going to cover three things in the next four slides: first, our competitive positioning; second, our fundraising and performance; and third, areas for growth for BentallGreenOak.

What you see on this first slide is where we rank amongst the largest real estate investment managers in the world. And while we're today not in the top 10, the fact is that the gap between us and that group has narrowed considerably as a result of this merger, and we are growing rapidly, as you'll see in a few slides. But perhaps, most importantly, once you cross a $40 billion, $50 billion threshold in this business, the keys are performance and do you have the breadth geographically, both debt and equity, and from a risk return perspective, the full spectrum, do you have those within your toolbox to be able to speak with the largest institutional investors in the world. And what you see in the checks on the right side of this slide is that we clearly have all of those capabilities, and that's what allows us to have very in-depth dialogue with our investors and raise significant new capital against our strategies.

This is extremely important right now because institutional investors, for several years now, have been shrinking the number of managers that they work with. And they're focusing on managers that again, A, have performance; and B, have that breadth of capability, and that trend is increasing. In fact, in some of our areas of expertise, Value Add investing which is higher return, higher risk, we're already a top 10 player. In terms of Private Real Estate Debt, we're a top 5 player in Europe and that positions us to be a top 15 player globally even though we don't have third-party debt management yet in the US and in Asia.

And in our core low risk, income-focused strategies, our diversified fund in the US is already again a top 5 player. And our prime Canadian fund is a top 5 player, diversified as a top 10. So, as you can see, in some of the key areas: value add investing, core investing, and private debt, we are already competing in a top 5, top 10, top 15 metric.

On the next slide, what you'll see allows me to speak about our fundraising capabilities and our performance. Our most active area is our Value Add Series and that is in the US, in Asia, and in Europe. Over the past 24 months, we have just completed the third in a series for each of those regional funds and what you see on this page is that both the second series and the third series raised upwards of 2 times or more of the prior series, and that really can't be done unless you're hitting or exceeding your target returns which, in this area, are 13% to 16% net returns to investors on an IRR basis.

In our Private Real Estate Debt business, as you see, it's a European business today. We hope to expand that in the future and it targets 7% to 9% and, again, would not be able to grow its next fund in the series by upwards of 1.5 times or 2 times more unless it was also hitting or exceeding its target returns.

Last year, in the middle of the pandemic, as was mentioned in the video, we raised $4 billion of new capital. That, we believe, is amongst one of the larger manager raises during the pandemic period. We currently have 15 funds in the market and our objective, again, is to raise a further $4 billion or more of equity capital in 2021. Note, that raise during the pandemic was the largest raise we had ever achieved in our prior history.

What you see on this slide looks at our growth and you can see on the left our growth in assets under management both since the merger and on a pro forma basis for Q4 2020 based on the announced acquisition that we made announced in February of Metropolitan. We expect that AUM growth to continue. But importantly, our business is not only about the size of your assets under management. It's really about growth and we are driving revenue and performance.

And what we highlight in the middle and in the far right is the fact that Europe and Asia only represent 14%, i.e. a very small portion of that AUM, but has grown by a 53% CAGR since 2018 and has gone from 15% of our total revenues to 36% of our total revenues and matches in terms of profitability. And so you can see this sort of explosive growth we've had in Asia and we expect to continue.

And I would note that a big part of that is obviously performance, but it's also because we have had teams with longevity on the ground in Europe and Asia for upwards of 30 years. I've lived and worked in Europe and London for the 30 years of my career.

And on the final slide, I'll turn to growth. We are really excited about the growth opportunities that we have at BentallGreenOak. We were already in the key growth sectors before the pandemic. Those are logistics and distribution, multifamily rental residential, and what were niche areas before the pandemic of cold storage, life sciences, last-mile e-commerce distribution logistics, and data centers. And what we did when the pandemic hit in March of last year was to immediately form a offense committee that allowed us to take really a front foot in looking at these – what were niche areas and gaining increased exposure, and allow the firm to pivot materially to really invest in those areas.

And as a note of that, just in the past 12 months alone, we have either acquired, developed or had in design and/or under construction or contract upwards of 20 million square feet of logistics warehousing, much of it last-mile, last-touch e-commerce, much of it in the cold storage area. We believe – although this ranking doesn't exist – that on a global basis, that would put us amongst the top five logistics players who are focused on new, high-quality logistics facilities that meet the demands of the most demanding tenants in a sort of post-pandemic environment.

And so those areas: international, logistics, high-demand asset classes like data centers, cold storage, and life sciences, combined with growing our three pillars of risk return, our core open-ended products, our core plus, income-focused and appreciation of capital products, and our value add high-return series all, as I mentioned earlier, 15 funds in the market today, all are in a growth and raising capital mode and are what investors are really looking for today.

And with that, I'm going to turn it over to my colleagues at InfraRed and Werner Guionneau.

Werner von Guionneau
Chief Executive Officer, InfraRed Capital Partners

Thank you very much, John. Ladies and gentlemen, thank you for the opportunity to present here today. I'm Werner Guionneau and I'm the CEO of InfraRed. And my partner, Chris Gill, and I represent SLC's infrastructure investment arm. So let me kick off with a few words who we are.

We are a global infrastructure equity investor of 150 professionals, operate from five locations: London, New York, Sydney, Mexico City, and Seoul. We develop, build, commission and operate infrastructure. We are through and through a people business, and our ability to succeed as a function of attracting, developing and retaining very talented people.

Our team consists of 28 nationalities with immensely diverse cultural, social and professional backgrounds. And what makes us coherent is our passion for the sector and the belief that a collaborative culture with driven, innovative people who share a high bar for integrity is essential for long-term success. You would see later that long-term means something very different in infrastructure than in other investment sectors. So let me move on and describe in more detail what the business is about.

The assets we build and operate provide the fabric which communities and economies need to function. We enable them to flourish and grow sustainably. Two things are driving the growth of the sector and our business. First, the inability of governments to run large projects on time and budget, combined in the current environment with very tight public finances. Second, new technology, particularly in energy and communications, are making existing infrastructure obsolescent and create huge investment requirements as we migrate into digital economies.

Until 20 to 30 years ago, governments used to be the provider of most infrastructure but they have been withdrawing step-by-step. Instead, they are creating the frameworks, allowing the private sector to step in and provide infrastructure and the related services, thereby creating a new investment sector.

Since we started our infrastructure business nearly 25 years ago, we completed over 300 transactions, roughly a dozen per year. Our investments on Europe, here, the UK, France, Germany, Ireland, Spain, Italy, and Sweden; in Asia, Singapore, Australia, and New Zealand; and in the Americas, it's the US and Canada, but we've been invested for shorter hold periods in Mexico, Colombia, and even the Caribbean dependencies of European countries.

Infrastructure assets have a very, very long life and our ownership may span many decades. We will, therefore, only invest in countries with stable political and legal frameworks. This excludes many countries, particularly in Asia and Africa, but also in Eastern Europe and South America.

So, our sector exposure on the right side of the slide reflects the evolution of infrastructure as an asset class. Way back, we started with creating new social infrastructure assets, hospitals in countries where healthcare is provided by the governments such as the UK, Canada, Australia, followed by large-scale public sector accommodation such as universities, government offices, portfolios of schools and barracks. We currently hold over 100 social infrastructure investments in our portfolio.

The wave in social assets was then followed by investment in transportation such as roads, tunnels, bridges, and rail. And in 2006, we began investing in the renewables sector. Our first investment here was an onshore wind farm in Wales which, by the way, we still own and we have grown that to a portfolio of over 80 renewables generation facilities.

Investment in the communications sector is the most recent addition and here, it's the rollout of fiber optic networks in Europe that require massive private sector capital commitment. And let me – in order to give you a better feel of what this all means, let me give you a couple of stats to fill with life what the business is about.

Our healthcare facilities serve over 10 million patients a year. We provide the accommodation for over 120,000 places in education. We've built or operate 1,300 kilometers of road and high-speed railway. And combined, our renewables generation facilities power the equivalent of 8 million homes, 2 million of which are powered by offshore wind. We are also on offshore transmission lines powering 1.7 million homes and in total, we manage over 200 assets for the benefits and Chris Gill will speak about that in more detail later for all of their stakeholders. Let me move on and add some granularity to our capital base.

We manage $10 billion of equity across two investment strategies. The first strategy, development, construction, and sterilization of new infrastructure assets. We sell those upon completion, seeking to achieve capital gain for our investors. We have completed over 70 of those projects to date, with quite a few requiring multibillion-dollar capital expenditure. This is a higher risk reward activity. It is our core competence on which we had built our business, and development, construction and commissioning large and complex assets on time and on budget. Here, we gain early insights into new and emerging infrastructure sectors.

Feeding into the second strategy, as we have seen our markets grow, we evolved our business model when we realized we were successful in managing assets once the construction had been completed. And here, we manage a growing portfolio of some 200 investments. We do this for the benefit of all stakeholders with a firm focus on very long-term, sustainable success. For us, this means long-term income stream; for management fees and for our investors, long-term delivery of stable income.

Moving on to the type of capital we manage, two-third of the money is from listed permanent capital funds and one-third is private capital. Now, this mix provides excellent stability of revenue streams for us and enables fundraising in two unrelated markets. The bulk of our investors comes from Europe and Asia. Developing investor relationships in North America has, to date, been lagging and the ownership by Sun Life will put us in a good position to strengthen our distribution in this important market. Finally, you will also see good diversification by type of investors. While the listed funds are very popular with wealth managers, pension funds anchor our Capital Gain business.

Now, let me pass on to Chris Gill, our Deputy CEO, to speak about our performance and sustainability before coming back at the end and speaking about growth. Over to you, Chris.

Chris Gill

Deputy Chief Executive Officer, InfraRed Capital Partners

Thank you, Werner. I don't want to bore you with a long description of our track record but simply said, without a good one, you can't raise fresh capital easily. Our track record is solid and we have one of the longest ones in the sector. Both our Capital Gain Funds and income-focused funds have produced solid returns for a long period of time.

You'll see on the left-hand side of the slide the yield compression in our development, greenfield or Capital Gain Fund series that Werner talked about as time has gone on. This reflects the evolution and maturing of the asset class over time and our reluctance to materially increase risk to maintain return. But there are still good opportunities to generate healthy capital gains from greenfield infrastructure development.

Turning to the right-hand side of the slide, the performance of our listed core infrastructure and renewables funds have been equally consistent. The funds are among the largest of their type in Europe. These income-oriented funds with portfolios of operational infrastructure assets have produced strong dividends and also most respectable capital growth since their inception in 2006 and 2013, respectively.

While there has been some yield compression in the secondary market as well, the funds are producing dividend yields of between 5% and 6% for investors and total returns as shown on the slide. On the back of that strong track record, we were able to raise $1.3 billion of equity capital in 2020.

And now, a few words on sustainability and you've heard it already from Steve and Sonny and on the video. Sustainability is a word on everyone's lips these days. But for us, sustainable investment has been central to our investment philosophy for a long time and for three good reasons.

First, we are an active owner of the investments we make. We sit on the boards and exercise significant control over key infrastructure assets. Secondly, our assets are long-lived and require us to take a long-term perspective. Even if we are investing for shorter term capital gain, we will be selling to a long-term investor. And third, as Werner has already mentioned, our assets touch the lives of very many people.

So, doing the right thing in the right way is central to creating and preserving the long-term sustainable value. There isn't a trade-off with profit here. If we neglect the broader stakeholders, whether they be the public sector clients, the users, or the communities and natural environment in which our assets are located, value will be impacted one way or another in the long-term.

We're engaged systematically with sustainability in 2011 and have raised the bar every year since. While we recognize it as a journey and not a destination, some of the things we've done along the way include fully integrating sustainability into the entire life cycle of an investment from initial screening through to hand back, achieving an A+ rating from the PRI every year since 2011, achieving company-wide buy-in to our corporate vision, which is investing in real assets with real purpose to create a sustainable future, and seeking to make a positive contribution to six of the UN's Sustainable Development Goals.

Three of these are ones we contribute to through the type of assets we invest in and the other three relate more to our aspirations as a team, leveraging our resources, time, money, and business relationships to make a positive contribution. And our team, this is something we are most pleased with, is fully engaged and passionate about making a difference. And finally, we've been improving our sustainability, reporting, and data capture systems year-on-year, including committing to TCFD reporting standards last year.

And now, I'll hand back to Werner to finish up the InfraRed segment.

Werner von Guionneau

Chief Executive Officer, InfraRed Capital Partners

Thank you, Chris. Let's move to growth and the synergies we expect to realize from teaming up with SLC. We've had solid growth over the past four years with 16% annual growth rates, great. And this is primarily the product of strong growth of our core and renewables income funds where we added assets we acquired to our AUM.

The Capital Gain business has less impact on assets under management. We draw capital from investors which increases our AUM and when we sell the assets at completion, the AUM decrease. In a rapidly growing market, we can definitely continue this pattern or do better for quite a while and here, it is the acquisition by Sun Life that has the potential to make a material difference.

Let's take a step back and remind ourselves that we are people business. The growth of an investment business starts with culture. Compatibility of cultures is the reason why we joined SLC and not someone else. What counts in particular here is the long-term thinking and the integrity combined with the belief that fully embracing sustainability is imperative for future success is equally embedded in both firms' DNAs. These are cornerstones that make us a good fit but there is more to it.

We set out earlier that infrastructure is a new asset class which we expect will continue to have strong growth in the foreseeable future. Being part of Sun Life will enable us to accelerate our growth. It provides us with access to co-investment capital which Steve mentioned earlier and which is important, very important in maturing markets. It will also support us in building global distribution and help us in particular to expand our investor base in North America.

Beyond growth, the relationship with Sun Life will also help us de-risk our expansion in North America by improving the access to local knowledge and additional relationships. Here, more specifically, we have planned to convert our New York-based execution platform which we've owned for well over 10 years now into a full fund management platform initially focused on renewables. And here, we intend to transfer our market-leading expertise in managing renewables for long-term income in Europe to the North American market.

We have been managing a very large renewables income fund since 2013, which Chris mentioned before and much of what we have learned and refined, we can transport into a market which continues to be less developed than the European market with respect to the penetration by renewables. The growth prospects for infrastructure in Europe are equally exciting. For us, Europe is about growing market share of our income-focused vehicles and also driving our global greenfield business which we run out of London.

I very much hope that Chris and I have managed to give you an insight into our business and equally into the evolving world of infrastructure investments. So thank you very much and let me pass you on to my colleagues, Jean-Marc Chapus and Mark Attanasio from Crescent Capital.

Jean-Marc Chapus
Co-Founder & Managing Partner, Crescent Capital Group

Thank you very much, Werner and Chris, and thank you all for joining the call today. I'm Jean-Marc Chapus and my partner, Mark Attanasio, and I will take you through an overview of Crescent Capital.

Crescent is an alternative credit manager founded in 1991. We seek to deliver attractive returns with less volatility and lower default than market averages. We're headquartered here in Los Angeles and while we invest primarily in the US, we source and provide capital globally.

Our investment philosophy is fundamental. We've performed bottom-up research on industries and issuers and evaluate their credit history and prospects. Our overwriting goal is to manage credit risk through the application of deep research and due diligence. Our focus is on capital preservation and our DNA is credit research as we continually refine our investment process to select the best risk reward opportunities in the context of our markets.

In order to perform fundamental research, we've assembled a deep team of investment professionals and we train them in our proprietary credit framework, building on our long experience in our markets. We are ultimately a people business, and we cherish and support every single one of our nearly 200 professionals in the organization.

Today, the broader team broken down in this slide, 80 investment professionals with 50 in private credit strategies and 30 in public credit. We have a full team of research analysts covering virtually every industry and all major issuers. In addition, over 95 operations and administrative professionals provide a gold standard of care and full service to all of our clients.

So what do we do? On this slide, the issuer's balance sheet is on the left and the center describes the private credit market and the right side describes the public credit market. Low investment grade issuers require debt capital for various reasons, including acquisitions, leverage buyouts, growth capital, and to execute other strategic objectives.

Low investment grade debt capital has access through Wall Street banks and other agents or directly from private lenders like Crescent. The markets are broadly defined by issuer size and liquidity. Larger issues typically with earnings in excess of $200 million, participate in the public credit markets where banks syndicate the offerings and make markets in the loans and securities. Smaller companies typically with earnings under $200 million compose the private credit markets and are generally less liquid.

The syndicated public credit markets include primarily broadly syndicated loans and public high yield bonds. Collectively, these markets are over $2 trillion in size, split about equally. The major global banks and intermediaries package and syndicate these strategies to buyers like structured loan funds, managed accounts, and mutual funds. Issuers with less than $200 million in earnings can access debt capital through banks and agents but also directly from private lenders like Crescent.

Post-2008, this middle market has developed immensely as Wall Street firms have managed their balance sheets to hold less inventory. We believe this secular shift to non-bank buyers will continue. This is similar to the shift Werner described in the infrastructure market to more private capital solutions. The private debt market is estimated to be just under $1 trillion and growing fast as we saw earlier in Steve's presentation. Crescent participates actively in this market, with several strategies focused on directly originating loan and securities from these lower middle market issuers.

Diving in a little deeper into our strategies, in the middle of this slide, you see the typical investments we originate in our private credit strategies: senior, unit tranche, and junior. Additionally, beneath the larger boxes, you'll see some selected of our private credit strategies and which investments they tend to originate. US direct lending and European specialty lending both originate senior secured and unit tranche debt to private equity-backed companies that are smaller in size. Credit solutions, formerly known as mezzanine, directly originates junior and unit tranche debt to larger companies, primarily in conjunction with private equity sponsors.

We show public credit on the right side of this slide. These investments are brought to the market by large underwriting banks as well as a few firms focusing on more narrowly syndicated opportunities. Our public credit strategies primarily invested in two assets: broadly syndicated loans and public high yield bonds. Generally speaking, broadly syndicated loans are first lien and senior in the capital structure and pay a floating coupon and public high yield bonds tend to be junior in the capital structure and pay fixed coupon.

So what makes Crescent unique? We feel that Crescent differentiates itself in several ways. First, our long tenure in investing through cycles coupled with our focus on developing talent. Second, as the market has grown, our focus on capital preservation with high churn income has remained a consistent cornerstone that has led to superior performance. Finally, our proprietary transaction originating platform built on franchise relationships with leading private equity firms and intermediaries has proven to be a true competitive advantage over time.

We put this next slide together to provide some context on what we do and provide some familiar names. On the left, you'll see a list of private equity sponsors with whom we have a long-standing relationship and have completed a number of investments.

In the middle, you'll see logos of some of the portfolio companies that are private credit portfolios, some of which may be recognizable to you. And on the right side, we've included logos for some of the borrowers in the public credit portfolios. Here, you'll see more familiar names.

On this slide, the left chart shows our platform split between private and public credit. Starting at the top and working clockwise, our private credit AUM in the blue is approximately $21 billion, roughly equally split between senior and junior originated debt.

Moving to the upper-left section, our public credit AUM is approximately $10 billion and is made up of broadly syndicated bank loans and public high yield bonds. In the middle chart, you'll see – you can see AUM by vehicle type. Our closed-end funds, which represent almost half of the firm's AUM, are locked-up capital and also generate performance fees. These vehicles primarily invest our capital in our private credit strategies.

Our next largest category is SMAs or separate managed accounts. This segment speaks to our ability to manage as – manage customized solutions for our investor base. Oftentimes, large institutional clients will require bespoke objectives, guidelines, reporting and system needs. Positioning Crescent to service these mandates was an investment that we've made over time.

Our permanent capital segment is largely represented by our BDC, business development company, ticker, CCAP. CCAP is a publicly listed stock with about $1 billion in AUM, which is followed by some of the investors on this call. Lastly, the chart on the right side of the slide shows our investor base by domicile. Our investor base is global and includes a full array of institutional investors, including public and corporate pension plans, insurance companies, sovereign wealth funds, and almost all other significant institutional investor types.

Now, I'll turn it over to Mark, who will talk about responsible investing, performance in fundraising, and the firm's historical and future growth.

Mark Attanasio
Co-Founder & Managing Partner, Crescent Capital Group

Thanks, Jean-Marc. Risk management has been a core element of Crescent's investment philosophy for 30 years, and has driven our underwriting practices that have led to low write-offs and helped identify future problems. We feel that responsible investing is another risk management tool for our investment strategies to employ. The growth of environmental, social, and governance principles, or ESG, has resulted in investors' holding companies to a number of higher standards. We feel this dovetails well with how we've underwritten credits for some time.

Our responsible investing approach is substantially consistent with the United Nations Principles for Responsible Investment, which investors refer to as the UNPRI. By incorporating ESG considerations into the investment decision process, Crescent believes that its investment professionals conduct more thorough credit analysis and make better informed investment decisions.

Some key points of ESG integration at Crescent include the following. Our ESG working group is responsible for the maintenance and oversight of our responsible investing policy and procedures. The group is composed of senior representatives from all strategy groups as well as members of the compliance, risk management, and investor relations teams. All of our investment professionals are required to participate in formal ESG training, and Crescent reports annually on its ESG activities to the UNPRI.

To provide additional support for our ESG due diligence, we subscribed to MSCI ESG Research. In addition to incorporating ESG factors into the research and due diligence process, our investment teams continue to monitor portfolio investments from material ESG risks. Importantly, I'll note that we will engage with portfolio companies on key ESG issues. For example, we worked with a private equity sponsor to remove controversial items of one of their portfolio companies' auction website.

Here's the last point on ESG for us. On the left side of the slide, you'll see Crescent's 2020 UNPRI ratings in two categories. I'm proud to say we received an A grade on each.

Next, I'll briefly discuss some performance metrics in our private credit practice.

As mentioned, our investment focus is capital preservation with high current income. Crescent's strategies have been able to raise larger funds, vintage-over-vintage, which we feel is a key indicator of a firm's performance and reputation in their space. Our strategies are rated highly by many leading consultants. We believe Crescent's funds have been best-in-class performance on credit quality with loss ratios of 20 basis points for our junior-focused strategies, and under 10 basis points for our senior-focused strategies. And you can see target returns on the slide here.

Crescent is currently in the market with our third US direct lending fund and eighth credit solutions fund. Our private credit platform is well-positioned, investing out of 20 active vehicles with $5.6 billion in dry powder today.

The next slide illustrates performance of selected public credit strategies at Crescent. On the left, our defensive high yield strategy invests in public high yield bonds, while maintaining an average credit rating of BB- or higher. The strategy profiled in the middle, high income, invests with a broad mandate across bonds and loans. And on the right, we have a strategy focused on narrowly syndicated bank loans. All of these strategies have increased their assets under management over time. We feel this is largely due to their strong performance and rankings relative to their peers. Several of Crescent's public credit strategies are rated highly by leading consultants. The public credit platform is well-positioned, investing out of 40 active vehicles including 12 structured loan funds.

The next slide shows that Crescent has achieved over 11% compound annual growth in assets under management over the past five years. There are two primary drivers of this, the growth of existing strategies, and expanding our platform's capabilities by adding new strategies. Specifically, our private credit business or larger fund sizes vintage-over-vintage. Our public credit businesses continue to issue new structured loan funds as well as add new separately managed accounts.

In the past several years, we've expanded private lending capabilities with the addition of European specialty lending and US direct lending strategies. We also launched several multi-strategy solutions that leverage Crescent's entire platform, such as the high income strategy and the publicly listed BDC, which Jean-Marc described. In 2020, despite pandemic challenges, we raised $2.4 billion across our strategies.

I'll conclude with a short discussion of the next phase of growth for Crescent, something we are excited about. Going forward, we expect growth to come from the continued secular shift into alternatives assets as Steve Peacher mentioned earlier. By partnering with SLC, we plan to broaden our distribution capabilities and to expand our platform through the addition of strategic adjacent strategies. We are working with SLC to enhance our ability to offer our investment strategies to geographies and institutional channels previously out of our reach. We look forward to further collaboration and the prospects of SLC's global footprint.

SLC seed capital will be an important component of our growth as we evaluate strategic adjacent strategies. In addition, we plan to use seed capital to enhance growth of existing strategies. We've already used the program for our new structured loan fund issuance and have a slate of initiatives we're considering.

In summary, we plan to do more of what successfully grew the Crescent platform historically, but expect an accelerated pace given the merits of our partnership with SLC.

Thank you for your time today to learn about Crescent and our colleagues at BGO and InfraRed. And now, I'll turn it back to Leigh Chalmers to take us through the next Q&A session.

Leigh Chalmers

Senior Vice President, Head of Investor Relations & Capital Management, Sun Life

Great. Thank you, Mark, and all of our business leaders. Obviously, that was a great deep dive into each of our businesses, asset classes, and capabilities. So, we'll now turn it over to our second Q&A session. So, we do have 15 minutes, and you'll have the opportunity to ask questions to each of our presenters today.

QUESTION AND ANSWER SECTION

Leigh Chalmers
Senior Vice President, Head of Investor Relations & Capital Management, Sun Life

A

So, the first question comes from Scott Chan at Canaccord Genuity. And this question is for John at BGO. What other types of bolt-on acquisitions would BGO consider in the future? Would the priority be to add scale to existing verticals or to expand into new ones or by geographic region?

John Carrafiell
Senior Managing Partner, BentallGreenOak

A

Great. Thank you for that question. So, as I mentioned earlier, we are extremely well-positioned with the global footprint, particularly in international footprint in Europe and Asia that many of our competitors don't have exactly the same scale with, and also across both debt and equity and throughout the risk spectrum. So, we believe that we are well-positioned to grow primarily organically, and that is our plan.

The Metropolitan acquisition was a really attractive addition to our platform. It not only brought an important team with strong performance track record, global footprint for that secondaries business, which as Sonny said, has significant growth profile and does not, in any way, interfere with our other existing strategies. It's truly its own vertical. And so, that was a really interesting acquisition.

There aren't many areas that we aren't in today that we want to be in. We are in most of the areas from a debt equity, from a regional perspective, and from a risk spectrum perspective. That was one of the actual reasons for the merger. It brought together what was previously GreenOak strength and value add with international exposure and teams in place and our private debt for real estate capabilities with the former Bentall Kennedy's capabilities across Canada, North America, and particularly in the lower-risk core open-end fund strategies as well as significant separate accounts in logistics, which as I mentioned earlier, is really where you want to be in real estate today. And so, that merger was critical in terms of bringing together extremely complementary, but not crossover capabilities.

One area that we expect to be able to grow in the future that we don't have a presence today is private real estate debt in the US. But we really benefit again from the merger because Bentall Kennedy was already managing significant debt exposure for Sun Life, the general account, in both Canada and in the US. And so, we expect to be able to create something organically in the private debt area in the US with that strong base from Sun Life.

Leigh Chalmers
Senior Vice President, Head of Investor Relations & Capital Management, Sun Life

A

Great. Thanks, John. Our next question is from Meny Grauman at Scotiabank. And this question will be for all our founders. So, perhaps what we'll do is we'll go back to John first, turn to InfraRed, and then to Crescent. So, the question is why did you decide to sell to Sun Life? What does Sun provide your business that you couldn't get with a go-it-alone strategy or from other partners?

So, John, can you kick this off and then we'll go to Werner and then to Jean-Marc. John?

John Carrafiell
Senior Managing Partner, BentallGreenOak

A

Sure, I'm happy to. Actually that's a really important question, one that we love to answer. There are two or three critical things as to why, and it was a merger and to affect the merger because GreenOak, as was reported when the deal was announced, had a higher value than the former Bentall Kennedy business. We had to sell a portion of our company to ensure that Sun Life would be just over a 50% partner.

But myself, Sonny Kalsi who you heard speak, Amy Price who was on the video, and more than a dozen former GreenOak partners and more than a dozen of Bentall Kennedy's leaders are all owners of that just under 50% that is not owned by Sun Life. So it truly was a merger. It was only a small portion we sold, just approximately 25%, to allow for that structure to happen.

So that's the first thing I'd say. We are owners. We were not interested in selling our business, and I'm sure this is the last sort of job that Sonny or I will have in our careers.

Now, strategically why did we do it? And that's really important. Sonny showed you earlier the breakdown of our investor base. What's interesting, and if you combined that with what I said about the trend for the largest institutional investors to do more with fewer managers. It's a really strong trend. I mean, just to give you an example. There are some institutions that have gone from 150 managers in real estate down to 20 or 30, right, so significant reduction.

In order to be active in that trend, obviously, again, you always have to have performance. But you have to be able to present strategies that cross the globe, cross the risk spectrum, and also cross debt and equity. And Bentall Kennedy before the merger was missing the international piece and the value add piece, and GreenOak before the merger was missing the strong presence in North America where most of those investors are, and the large open-end, diversified core lower-risk strategies that I mentioned earlier in Canada top 5, actually number 3. And in North America, top 10, actually number 9.

Now, I'll just give you one stat to highlight the power of that merger that we recognize completely. The most sophisticated investors in real estate target about a 16% allocation of their total portfolio. So, equities, debt, other alternative asset classes. Some of the Canadian institutions are actually at that level. Most institutional investors around the world are at 5% to 8%. So just think about that. They need to double to get to best-in-class allocation.

By the way, endowments are well above that. In the US, who are furthest along in that, if you just took the top 25 institutional investors in real estate in the US, they average about a 9% allocation. If they have an objective, which some of them do, many of them do actually, to get to that 15%, 16% optimal level. Just those 25 largest have to increase their allocation to real estate by [ph] $0.5 trillion (01:46:47). So, you need to be large enough and relevant enough as a manager with a broad platform to engage those top 25.

And then, the final thing I'll say is that to launch several new products, and I mentioned that we have 15 in the market today globally, every single region, across the risk spectrum, debt and equity. You need more capital than we could as private owners to seed those strategies. And so, the Sun Life seed capital that we negotiated as part of the merger is a critical component, as Steve Peacher mentioned at the beginning, of being able to grow our strategy, engage with those investors, convince them that we're the right manager to work with as they reduce the number of managers they have in their profile platform.

Werner von Guionneau
Chief Executive Officer, InfraRed Capital Partners

A

Well, thank you very much. I've got four short points on that. One is cultural, [audio gap] (01:48:00-01:48:05) and I went through that in the presentation before. Steve mentioned it that we had a really good match in our respective cultures. And that really was the key driver for us why we decided to work with Sun Life. The second one was access to co-investment capital, which is important at this stage of the market evolution for firms such as ours. Third one, the relative importance of infrastructure for Sun Life in the range of the investment scales. It's a relatively new sector. It's a growing sector, and eventually there's a good chance that infrastructure will be similar in size to the real estate sector. And there was a genuine and credible strategic interest in the asset class, which is good for our business.

Fourth one is the North American footprint. We were looking for a partner with a North American footprint. 6% of our capital comes from North America. And the overall alternative markets source over 50% of their capital from North America. So, we had an imbalance here, European-based with an outlook towards Asia on the capital raising. And we can redress that and we can de-risk our expansion in North America with Sun Life.

And, finally, what it came down to is that Dean, Steve, Kevin are people we trust. And we formed the view that they will follow through with what they promise. And it's as simple as that. So, we are comfortable, and we like the culture, and we have trust in the individuals with whom we negotiated and made the arrangements.

Back to you, Leigh.

Jean-Marc Chapus
Co-Founder & Managing Partner, Crescent Capital Group

A

Hey. Thanks, Werner, John. I think it's a great question. And when we – so, Mark and I started this business a very long time ago with the goal not only for our personal growth and edification, but also for providing meaningful careers to our Crescent partners and everyone on the team. And so, with that in mind, you've got to try to grow a firm as quickly and efficiently and effectively as you can, and we felt to provide those people career growth. If you stay stagnant in size, you have great careers for the individuals that are there, but people want to see growth and advancement in their career. So, it's very important for us to create a growth pattern for the firm.

When we set out on this endeavor to find a strategic partner, we set a couple of criteria and one of them was seed capital because we had successful experience with a past partner on seed capital program, and it helped us grow more efficiently and faster than we had before. So, that was good playbook for us, and so that was one of the criteria.

The other criteria was distribution support. Mark and I come from a research background, a discipline of corporate finance. And so, as we talked about earlier, we like to analyze companies and opportunities and industries, and we aren't so good at selling ourselves. But in this market, you've got to sell yourselves, too. And so, if there's anything we kind of we're not at the forefront on as we've developed the firm, we really focused on the performance and the numbers and – but kind of getting our story out there, we needed some support on. And so that was another criteria. And of course, valuation was overall but – a criteria as well.

So, those criteria, seed capital, distribution, valuation were important. Sun matched those all for us exceptionally well. And part of it was, what Steve mentioned earlier, things like management of our business and management of our investment process were non-negotiable. And that was very, very important. And Sun and Steve, as he described earlier, understands the people side of this business and the need to provide that kind of autonomy and support.

And so, on all those criteria, Sun made it very well. And as we've all said, we, Mark and I, view ourselves not only as providing this career paths, but also guardians of our culture. And our culture was very important and all of our colleagues here have mentioned that. And so, Dean and Kevin and Steve met that right to a tee. So, that's our answer.

Back to you, Leigh.

Leigh Chalmers
Senior Vice President, Head of Investor Relations & Capital Management, Sun Life
A

Great. Thank you. That's certainly a great question and a lot of great insights. I think we have time for one last question. This question is from David Motemaden at Evercore. Sonny, this question is for you. On the $15 billion of dry powder you have, it feels like dry powder across the industry is at record levels. How hard has it been to find attractive assets at reasonable valuations given this dynamic? How have you reflected this in your return expectations?

Sonny, that's to you.

Sonny Kalsi
Chief Executive Officer, BentallGreenOak
A

Okay. Thanks, Leigh. That's a great question. I think it's one of the big challenges that we have ahead of us right now. As we think about investing, we kind of think we have two different barbells that we're focused on, right. One is are things that are just continually at the tailwinds which were in place pre-pandemic and have continued during and hopefully post-pandemic that John talked about, so logistics, cold storage, data centers, et cetera. So, there, we are investing against growth. And to be candid, we've actually had some pretty good deployment opportunities there.

I actually think 2020 was one of our best fundraising years ever. It was actually one of our best deployment years ever. We deployed, for example, $1 billion of capital into just cold storage alone. But there, we're very much continuing to invest against growth and what we see there.

The other barbell is dislocation. And I think that's the part – look, record amount of dry powder that's on the sidelines, we have a significant amount of dry powder. We're raising more, we have pretty ambitious capital-raising objectives this year, which I think might – it may even double the dry powder that we have. And I think that dislocation is to come. I think we are in a time of the great forbearance right now. There's a lot of things that have been put on hold by lenders and by other counterparties to get through the pandemic. There's obviously been a huge amount of fiscal stimulus globally. We do believe some of that's going to start unwinding later this year. And as a result, some of the asset classes that have been hit hard, whether it's retail or hotels, office, I think people are going to separate themselves performance-wise in the next five years based upon whether they get the call right on office. We think there's going to be a lot of deal flow to come there. Distressed credit, which is a big part of what we do in the real estate space.

So, look, I hear you loud and clear. I think the last 12 months, if you think about overall transaction volumes, they are down very significantly globally. But there were pockets of opportunity, and we think that the best opportunities are to come in the next 12 or 18 months.

Back to you, Leigh.

Leigh Chalmers
Senior Vice President, Head of Investor Relations & Capital Management, Sun Life
A

Great. Thanks, Sonny, for that answer. So that's all the time we have for our Q&A. So what we'll do now is we will be taking a 10-minute break. And when we return, we'll hear from our SLC Management leaders around distribution, the financials, and Sun Life's co-investments. Thank you.

Randy Brown
Chief Investment Officer-Sun Life & Head-Insurance Asset Management, SLC Management

Welcome back from break everybody. I'm Randy Brown. I'm the Chief Investment Officer of Sun Life and the Head of the Insurance Asset Management business at SLC Capital.

So, I have four points I want to leave you with today, easy to remember, NCAA, like the sports team. We have the need to add these asset classes. We have the capacity to add them. We have the ability with the investors and the teams that you heard earlier on the call. And we have the alignment. NCAA.

So, first, let's talk about where we are in the cycles. So, as you heard from Steve, nominal rates are very low across the spectrum. The yield on the BarCap Aggregate Index which represents broadly the yields available on investment-grade fixed income in North America are about 1.5% today. So, that's in a nominal return, meaning before you adjust for inflation.

After inflation, you've got negative returns, which is quite a headwind for long-term investors. There's over $13 trillion in investments globally – bond investments globally, that are trading at negative nominal yields. So, that's not a sustainable situation globally, and it creates, again, a headwind for long-term investors. We, like others, expect rates to stay long (sic) [low] for an extended period of time. We do think that while there's nominal inflation pressures, we don't see that as a significant event, and we do not see that rising and causing yields to rise significantly.

So, we, like all long-term savers, need these types of investments. So, those are people like pension funds, insurance companies, endowments, and the like. And so, that is the need. And so, I, as CIO am adding these asset classes, things like the commercial real estate equity that you heard talked about by my partners at BGO, infrastructure equity, which we spoke about at InfraRed, and the alternative credit asset classes that you heard spoken about at Crescent Capital.

So, the capabilities have attributes that are attractive across our balance sheet. Our long-dated liabilities need both income and long-dated return, and we have that. So, the asset classes such as commercial real estate equity and infrastructure equity have not only long-term high-quality income, but they also have growth, growth in income and growth in total return performance.

Our shorter-dated liabilities are more income-oriented. So, they have the need for higher-yielding returns. And so that's more aligned with the alternative credit capabilities available from Crescent Capital. Surplus as well, has that same sort of need for high-quality income to supplement earnings. And then, lastly, there's the alignment, the alignment with Sun Life, and that is like for faster growth through the deployment of seed capital, which aligns both with our clients and with our parent.

So, as you have seen and Steve spoke about, we've committed over CAD 2 billion to the capabilities that you heard represented on the screen today. Now that sounds like a big number, but for an institution our size, that represents a little over 1% of our balance sheet. So this is a move on the margin to increase the returns for our policyholders and shareholders.

We have the capacity. As you know from prior disclosures, we have spent considerable time prior to the pandemic de-risking the balance sheet, which creates the capacity to invest here. Now these – all of these assets will follow the normal investment process and discipline that you've come to know about us at Sun Life. So, a very disciplined process. We have lots of risk tools, risk monitoring, risk models, which give us very good control over the assets on the balance sheet. So, we have that capacity and ability there.

There's an additional benefit and that benefit is in the alignment with our sustainability targets. So, as you saw two days ago, we announced that we have the aspiration to invest CAD 20 billion of our and our clients' money over the next five years into assets that we term sustainable. And so, that creates that alignment with our clients, alignment with our balance sheet and our parent, but also alignment with our employees who feel that this is really quite important as we do. And so, these are things like the renewable energy that InfraRed is bringing, the green buildings from BentallGreenOak and, of course, some of the capabilities you saw and heard talked about with Crescent Capital.

So, lastly, really, the return profile of these assets meet our duration needs, our income needs, our return needs. They support our new business pricing and our earnings both on the product and on surplus create the alignment for our sustainability targets and with our clients, our staff, and our shareholders. So, I'm really excited to be bringing these capabilities to the balance sheet into my peers around the industry. I speak to them CIO to CIO with the ability for them to invest alongside me as an asset owner.

So, with that, I'm going to turn it over to Tom Murphy, who is the Head of our Institutional Business at SLC Management. Tom?

Tom Murphy

Head-Institutional Business, SLC Management

Thank you, Randy, and good morning, everybody. In the earlier session, you heard from my colleagues about the growth plans for each of our individual business lines. And then earlier, you also heard about the deployment of seed capital and how we believe that can help accelerate future growth. For the next few minutes, I will continue the growth conversation and help you understand why we believe we can make the whole of SLC greater than the sum of the parts by bringing the entire continuum of our investment platform to our clients, and in that way, enhancing client value.

Steve talked earlier about the fact that, in a very deliberate way, we built a series of highly connected investment capabilities and connected investment teams. The graphic here in the top left you'll see is the buying center or the decision-making center from a fixed income perspective is often the same, whether it's investment-grade fixed income or alternative credit. In that way, SLC Management and Crescent are very closely aligned from a client perspective.

From a real asset point of view, it's a similar story. The buyers and the decision makers around real assets are often the same, whether we talk about real estate or infrastructure. And in that way, BentallGreenOak and InfraRed, again, are very connected in the conversations we can have with the marketplace.

And a couple of times today, we've talked about the search for income in a low-yield environment. We have now a myriad of solutions that we can bring to our clients to help solve that problem, all the way from public investment grade fixed income, private investment grade fixed income, a whole gamut of alternative fixed income, core real estate, which is income-generating, real estate debt, again, income generating. And then Werner touched on this as a specific expertise and capability of InfraRed, core income-generating infrastructure. And so as our clients and the market as a whole searches for income in this low-yield environment, we can connect the dots across all of our organizations.

Steve mentioned we have just over 1,300 institutional clients. Only about 50 of those clients have a relationship with two or more of our business lines. We have very, very deep client relationships, many of them are over a decade old. We believe we have permission to expand our conversations and to connect the dots that I touched on earlier on, to bring value to our clients, to bring value to consultants into the marketplace, and if we can do that, to expand our business. We believe this is a real opportunity for growth for SLC Management globally.

Furthering the conversation on future distribution opportunities, and Jean-Marc and some of my other colleagues touched on this earlier on, I'm going to give you some examples of initiatives that are underway today that cover geographic expansion, client channel expansion and also product innovation. From a geographic perspective, as you may have gathered from Werner's conversation, there's a very strong and formal interaction that's taking place between InfraRed, whose clients are primarily European and Asian, to move their client base and to expand their horizons into North America. So, we're working very formally with SLC's relationships, with BentallGreenOak's relationships, and with all of our distribution resources to help expand InfraRed's business.

Not surprisingly, you'll see Crescent and SLC here also in terms of that alignment around fixed income and the kind of the same buying center or decision-making center. We're working with Crescent in Canada, in the US, and across Europe and Asia to help form those synergies and to bring value to our clients. Probably relevant for many people on this call, if I look at Canada where Crescent has a handful, maybe two handfuls of clients in the Canadian marketplace, but SLC and Sun Life are recognized household brand names with hundreds, if not thousands, of relationships.

And so, in Canada, we're already seeing fantastic progress whereby we're expanding investment grade conversations with our clients into alternative credit in a very natural way to add value to them and to help grow our business. I won't go through each of these, but to look a little bit more closely at the channel expansion, we're looking at high net worth, as well as family office, as well as private clients as a new kind of area for us to work with.

The individual business lines probably didn't have the economies of scale to put the resources into new channel expansion like this, but collectively, SLC Management absolutely does. These markets are growing quite quickly. They're very hungry for alternative asset classes as they look for diversification from traditional markets. They're also really, really focused on sustainability. All of that, to my mind, plays really well into SLC Management.

And then finally, I'll touch on our product innovation. In this search for income, clients are looking for diversified portfolios that will manage risk as well as manage return, and provide income to them. If I look at just of our range of fixed income capabilities, it goes from public credit, investment grade private credit, high yield, bank loans, mezzanine debt, direct lending, real estate debt, it's a continuum of fixed income capabilities that quite frankly most of our competitors would die for. If we can package that in a way that's easily accessible from a client perspective and digestible from a client perspective, again, we believe we can innovate in the market and help us to grow our business.

I want to give you a couple of case studies to kind of bring this to life. The first case study is regarding to a global consultancy firm. The second one is directly to a client. As an institutional asset manager, it's very, very important that we have great relationships with global investment consultancy firms. The top 10 global consultants, as you can see here, account for almost CAD 46 trillion of assets under advice. The great news from our perspective is not only do we have great relationships with these consultants across the gamut of SLC Management, but with all of them, they rate, very highly rate and recommend to their clients at least one in many instances multiple part of our investment capability from their advisory perspective to their clients.

Our story here starts in the bottom left, in 2019 when we acquired GreenOak. GreenOak was very highly regarded by this global consultant for their European real estate debt strategy. We were able to expand that conversation to incorporate investment grade private debt in the US. Last year, this consultant allocated $200 million into that strategy and we believe that that allocation will grow to somewhere between $500 million and $1 billion over the coming years. The same consultants then connected the dots with one of their very largest clients in Europe, a European insurance firm, where they organized a conversation between the client, SLC Management, and Crescent such that we could have the holistic conversation about that entire continuum of fixed income capabilities.

And then lastly, InfraRed, again, using the same anchor relationship from BentallGreenOak in 2019, we were able to introduce InfraRed to the infrastructure research team at this global consultancy firm. And now we're having a conversation about InfraRed's North American Energy Transition Fund and how we can work with these consultants to bring it to the marketplace.

John Carrafiell mentioned a couple of times in the earlier session that consultants and clients are looking to reduce the number of managers that they work with. In doing that, they're looking for long-term strategic partners who have a broad suite of capabilities, we think we're extraordinary well positioned to leverage that and to grow on a go-forward basis.

And then looking to the client example, this is a global auto manufacturer, a well-known brand name that you would all recognize. They have a captive insurance firm in both Canada as well as the US. They were looking for a partner who could obviously have fantastic investment prowess on both sides of the border, but also somebody who understood asset liability modeling, who understood the regulatory issues that insurance companies face, who understands regulatory capital and how to deploy assets in that environment.

As with individual entities, it would have been very difficult for our business lines to compete for this business. But as a collective SLC and the power of what we've brought together, not only could we compete but we were successful and we secured a $350 million mandate, which we believe will grow by about $100 million a year on a go-forward basis. Interestingly, the entire exercise and due diligence was conducted virtually, a little bit like this Investor Day conference.

To this date, we've actually never physically met the client, but from my perspective, I think that's a remarkable statement of the strength of our value proposition. We have a client who has entrusted $350 million of their assets to our people. Based on our skill set in a virtual world, I think that's phenomenal, particularly given the rigorous due diligence process that they conducted and the competition that we were up against.

So, to summarize, we have built very deliberately a suite of investment capabilities that are connected in the eyes and the minds of our clients. We have a deep client base where we believe we have permission to expand our conversations, to add value to clients and, in doing that, to grow our revenue. We think we're really well-positioned in terms of the movement from traditional to alternative asset classes. We think we are really well-positioned as clients look to generate income in a low-yield environment.

If we can do all of that, then we will add value to clients. We'll have phenomenal career expectations and aspirations for our people. We will grow profitably on a go-forward basis and we'll provide a great return to Sun Life and to our shareholders.

Thank you very much for your time. With that, I will hand you over to Marlene Van den Hoogen, who is the CFO and COO for SLC Management. Over to you, Marlene.

Marlene Van den Hoogen
Chief Financial & Operating Officer, SLC Management

Great. Thanks, Tom, and good morning, everyone. I'm going to spend the next few minutes bringing together everything you've heard this morning. I'll talk about SLC Management's business in aggregate and I'll give you a sense of direction in terms of our medium-term financial objectives.

So, starting with our recent history, you can see that we've increased our third-party AUM to about CAD 145 billion at the end of 2020, and that's pro forma the acquisition of Crescent. And that's driven by organic growth and acquisitions. Through 2016 to 2018, you can see an organic growth rate of about 11% a year. In 2019, we added the assets of GreenOak to get to CAD 84 billion; and then, of course, InfraRed and Crescent in 2020 to bring us to CAD 145 billion.

I've included on this slide to the right our net annual flows over the period. These are separated out by inflows and outflows. So starting with our inflows, our recent history, you can see a good momentum in our inflows growing from CAD 8 billion to CAD 12 billion in 2020. You can think of inflows as mainly funds raised during the period as well as additional contributions from our existing clients.

I've also included here outflows. And you can see that – I think of outflows really in terms of two types. First are the outflows that you'd normally associate with an outflow. So those are client withdrawals and client terminations. The second is realization on the sale of assets. And as we've added in, closed ended funds, you'll start to see this outflow become a more regular piece of our outflows going forward.

So let me take 2020 as an example. The CAD 12 billion of outflows in 2020, a good part of that was in our fixed income business. That was the impact of COVID in the early part of the year and clients rebalanced at that time, but CAD 2 billion of that was due to distributions including the realization on the sale of assets. So you may recall back in Q1 of 2020, BGO sold a large logistics portfolio out of its European Fund II business, returned great investment performance back to its investors. So while that is an outflow to our AUM and it reduces our AUM, it's actually a good news story and we might expect to see some of that outflow hopefully come back as additional inflows in the future with that type of investment performance.

So, let me spend a little bit of time on the definition of our total AUM. As we plot the businesses on board, we have noted different market conventions for the definition of AUM by asset class, and we've also noted that the businesses as they've come on board, the definition was slightly different. So, we do want to align our definition today of AUM to include all committed capital across the business. So, the CAD 145 billion I just referred to would move to CAD 154 billion in AUM if we included all the signed commitments that were not already included in the CAD 145 billion.

So, let me take a moment to just talk about the CAD 154 billion. There's actually quite a bit going on in this chart. So, I'll take some time here. On the inner circle, the CAD 154 billion, CAD 133 billion of that is invested assets and CAD 21 billion is committed capital. And committed capital is capital that's available for investments when either those investments become available or the investment period starts.

Of the CAD 21 billion, CAD 9 billion is fee earning today. So, those fees are in our revenue stream. They are in our income statement today. CAD 12 billion of the CAD 21 billion is not yet fee earning and it will earn fees once invested. All else equal, the annual fee associated – or the annual revenue associated with that CAD 12 billion is about CAD 70 million. So, we can expect that to come into our income over time.

Then going to the outer circle here, just focusing on our total fee earning AUM. So, we have CAD 129 billion of the CAD 154 billion is fee earning today or about 85%. The CAD 12 billion of that is not yet the earnings. Those are the committed capital I just talked about. And CAD 13 billion is non-fee earning invested assets. And that's primarily leverage in our real estate and alternative credit businesses. So, the CAD 154 billion reflects our new definition of AUM and you should see this going forward in the supplement.

So each of the businesses did take you through their distribution of AUM by different categories. Here, we brought SLC Management in total. And you can see that our aim is broad based and diversified across vehicle type, asset class and geography. So, starting with vehicle type on the left-hand side, 37% of our AUM is in separately managed accounts mostly in fixed income and some of it as well in real estate, 29% is in closed-end funds and those closed-end funds have durations anywhere from five to seven to ten to twelve depending on the asset class, so finite funds. Open-ended fund represents 21% of our AUM, and those are indefinite fundraising funds. And these are primarily in our North American real estate business and in Canada. Listed funds, these are permanent vehicle types, primarily in the UK. You heard Werner talk about some of that as well as the BDC that Chris has mentioned, and CLOs representing 4% are in Crescent.

In the middle, you have our distribution by asset class. So, here, across the platform, I think of it as 43% in real assets. So, those – that's real estate and infrastructure and 57% of our assets in fixed income. And then, finally, the AUM by geography, I think some of the earlier references were really client by geography. This is actually where the AUM resides by geography. And we've got a good distribution allowing for different investment opportunities according to local markets and local economies.

So, you heard Steve talk earlier about some of the fundraising that we were able to achieve through – I think he had – through the first two months of 2021. So, here, we're showing that fundraising is diversified across different asset classes. We did have total funds raised across the platform, so that's including Crescent and the full year of InfraRed, of CAD 13 billion. And we're forecasting that to grow to CAD 23 billion in 2021.

Maybe two things I want to note here. The first is this – the actual benefit of diversification comes through here. In 2020, we had some closed-end funds that came to the end of their fundraising period. And in 2021, we're able to kind of launch some additional closed-end funds in different asset classes that will start their investment period. So, you can get it – having that diversification across the business allows for that continuation of fundraising. As well, having open-ended funds and permanent funds that are continually raising capital allows for that continued momentum as well.

The other point I would make here too is that, in 2021, you're starting to see the acceleration enabled by seed investments, so some of the additional strategies coming on board enabled by seed investments in 2021.

So, switching gears to our income statement. Going forward, you can expect us to report revenue in three different ways. So, the first is fee-related revenue. This includes management fees, includes transaction-related fees such as advisory fees, leasing fees, development fees. This is mostly on our Canadian real estate business. You heard Sonny mention that earlier in his presentation. And then catch-up fees, and catch-up fees are on the closed-end funds as they approach the end of their fundraising period, reaching back to the beginning.

The second is investment income. So this will be investment income on co-investments made by SLC within SLC. It does not include any of the co-investments made by the general account. So the general account will retain their earnings for their own purpose. This includes just the SLC co-investment made out of SLC. And then finally, performance revenue, so this is carrier performance-related revenue. I've noted here that it's generally expected in the future only. You may recall that in 2020 we did report a material performance revenue come through that was associated with one separately managed account, in particular, and it's an infrequent performance revenue that's not expected again for another eight years.

And from time to time you might see us report some performance revenue through the next little while. But as part of the acquisitions, we did not acquire the right to carry, on the current funds. We only acquired the right to carry on future funds. So the future funds have to be launched. And then the carry has to develop. So we don't expect this to be a material part of our revenue until some point after 2025. So in the medium term, I think you should take away from this that primarily the fee-related revenue will be the primary source of our revenue. And on that note, I note below that our current average fee is about 70 basis points of fee earning AUM.

So, of course, we're tracking AUM growth and revenue growth. But the two other metrics we're focused on are operating margin and underlying net income. So let me first define the operating margin, and starting with operating income – we're defining that as pre-tax underlying income net of interest, net of depreciation prior to the amortization of intangibles. And then the operating margin is that operating income on the total revenue. The important part of that metric is that it does reflect 100% of our business. So this is momentum across the whole platform and it's not adjusted just for SLC's share.

You can see over the recent history, we reported an operating margin in and around the low teens through 2019 and then that jumped to 26% in 2020. That reflects a full year of BGO's earnings, and it reflects half of year of InfraRed as well. That jump is primarily due to scale. That's what we would have expected with bringing those on board.

The second metric is underlying net income, and this reflects the share to SLC and, importantly, the money back to SLF. It is net of amortization of intangibles. It is net of the minority interests, so net of the 11% back to BGO and 49% to Crescent. And again, too, we were kind of in the mid-20s through CAD 30 million through 2019. That jumped to CAD 94 million in 2020 as bringing on the full year of BGO, half a year of InfraRed.

I might note the CAD 94 million had a few one-offs. So, it had that higher than that one-time performance fee come through. It had some higher than regular catch-up fees come through. And we had a loss on some seed investments as well. So, if you adjust for that and bring back a half a year of InfraRed and our kind of our starting point for Crescent, we think you should think of that 2020 number as CAD 100 million going forward and the amount you should kind of look to for when you're comparing the growth rates.

So where are we going from here? So, SLC Management is positioned for growth over the medium term. You heard Steve mention the asset classes that we're in and the growth potential there. You heard each of our businesses talk about their own success, their own track record in growing AUM, and their investment performance, and their ability to continue to do that. You heard Randy talk about the need of the general account to invest in these types of assets and then you heard Tom talk about the potential across the distribution platform. So we think that the continued growth in the businesses that they have enabled or accelerated by seed investment and a global distribution platform should enable us to grow AUM to CAD 225 billion by 2025.

As that AUM grows, revenue grows, and that is going to move our operating margin from 26% to between 30% and 35% by 2025. Notably here, that does not include any expense efficiencies. So when we acquired the businesses, we did not plan for any expense efficiencies in the acquisition models. And we did not forecast any here. So achieving that is based on revenue growth to the extent that we can add to it with expense efficiencies that should increase that operating margin. And then finally, the underlying net income of CAD 225 million by 2025, that puts us at the very top end of the businesses contributing to Sun Life Financial's goals and the other point I would make about the CAD 225 million and almost why we also chose 2025 – it is a medium-term date, but at the same time, that CAD 94 million or the CAD 100 million of underlying net income is comparable to the CAD 225 million going across – it's only after 2025 that you'll start to see that change as a result of the buy-up of the remaining parts of the business. So CAD 225 million is comparable to the CAD 95 million.

So we think these goals are ambitious but achievable, and we look forward to updating you on the progress of these as we move along here. So, with that, I will turn it back to Leigh Chalmers for Q&A.

QUESTION AND ANSWER SECTION

Leigh Chalmers
Senior Vice President, Head of Investor Relations & Capital Management, Sun Life

A

Great. Thanks, Marlene, Tom and Randy. We'll now move into our third and final Q&A session of the morning. Our first question comes from Humphrey Lee from Dowling & Partners. This question is for Randy. How much Sun Life co-investment or seed capital do you anticipate you'll have to deploy in order to support the AUM target? Randy?

Randy Brown
Chief Investment Officer-Sun Life & Head-Insurance Asset Management, SLC Management

A

Thank you for that question, Humphrey. So we have – as we talked about earlier, we have committed over CAD 2 billion in seed capital. So, all of that will be going in at the appropriate time. And that does create sort of core investment, but also it does create the capability for co-invest. So we think the alignment with clients will help accelerate.

So, in some cases, we are able to put in the first capital, use that to begin to acquire assets such as US – in the US renewables from InfraRed and then use that to go out and market to other investors, like-minded investors. So the answer to your question is all of it will be going in. And the thought is all of those capabilities are open to other investors. So that will help accelerate that growth, Humphrey.

Back to you, Leigh.

Leigh Chalmers
Senior Vice President, Head of Investor Relations & Capital Management, Sun Life

A

Great. Thanks, Randy. So our next question comes from Paul Holden at CIBC. And this one's for Kevin Strain. Does the investment return potential associated with SLC capabilities in the general fund simply result in a higher spread or does this also open the door to new or different insurance capabilities, for example, new products or transactions?

Kevin Strain
President & Chief Financial Officer, Sun Life

A

Well, thanks for the question, Paul. I actually think it's three things. Certainly, there is the higher spread that we expect, and that will be part of our income going forward. But maybe even more importantly, we have very long-term liabilities. And this provides additional assets like infrastructure assets that can match the cash flows and can be a really important part of our asset liability management going forward. So, it's actually both parts in the general account. They're spread, but it's also the role they have in asset liability management and bringing us closer to those investments.

And then the idea of new products, I don't have any specifics here. But you can imagine that these types of assets will help with high-net-worth products, but I think maybe more importantly with sustainability and ESG products. You heard from each of the managers, their commitment to sustainability, and this gives us a tool that we can use in product development.

Leigh Chalmers
Senior Vice President, Head of Investor Relations & Capital Management, Sun Life

A

Great. Thanks, Kevin. The next question is for Marlene, and it comes from Scott Chan at Canaccord Genuity. So, Marlene, you have a new target for 2025 net income of CAD 225 million, what is the approximate net income run rate today?

Marlene Van den Hoogen
Chief Financial & Operating Officer, SLC Management

A

Thanks, Scott, for the question. It's about CAD 100 million. So, that was the CAD 94 million. If we take out some of those one-time impacts that came through in 2020 and adjust for a starting point with all of the businesses together, we think it's around – it's about CAD 100 million. Back to you, Leigh.

Leigh Chalmers
Senior Vice President, Head of Investor Relations & Capital Management, Sun Life

A

Great, Marlene. I have another one for you, Marlene, from Tom MacKinnon at BMO Capital. How should we think about the 70 basis points average fee earning revenue as a percent of AUM will trend towards your 2025 goal? And how should we think about how margins will trend as we move towards your 2025 goal for SLC?

Marlene Van den Hoogen
Chief Financial & Operating Officer, SLC Management

A

Thanks, Tom, for the question. In terms of the basis points, the 70 basis points, that is an average across the business today reflecting the current asset mix. The spectrum of our fees is really, if you think of public fixed income through private fixed income through alternatives, real estate and infrastructure, it's on a spectrum of about 10 basis points through to 100-plus. So, depending on how that mix comes through over the course of the next few years, that will impact that average fee. But it's 70 basis points today. And in terms of the margin growth, I may have mentioned this in the presentation that a lot of that margin growth from 26% to 35% is purely based on scale and revenue coming through. It does not anticipate expense efficiencies.

Back to you, Leigh.

Leigh Chalmers
Senior Vice President, Head of Investor Relations & Capital Management, Sun Life

A

Great. Thanks, Marlene. So, the next question is for Steve. Steve, the question comes from Nigel D'Souza at Veritas. How does Asia play into long-term targets for SLC? How has SLC capitalized on maturing markets in Asia as penetration rates for financial products increase? Steve?

Steve Peacher
President, SLC Management

A

Nigel, thanks for the question. Asia is an important area for us today. But I think it's an opportunity for growth going forward. Sonny Kalsi and John Carrafiel mentioned how much success they've had on the real estate side in Asia. That's been particularly focused on their funds that invest primarily in Japan and Korea. We've got a nation effort in India. If you look at some of our competitors, they've raised a lot of money in the Indian market. Things are looking up there from – in terms of GDP and in terms of – and there are a lot of opportunities there on the real estate side both in terms of equity real estate but also lending to real estate.

When you look at Sun Life, Sun Life, of course, has a broad footprint in Asia, tied into different markets that could provide distribution for some of our products. Our international high-net-worth business has a lot of very large family office-type clients in Asia. We haven't tapped into that yet. It's something that we're going to explore.

So, Asia is, to just state the obvious, a big complicated region.

We've got a toehole, more than a toehole. We're active there. We've got some high growth areas there in our existing businesses. But I think there's also a lot of opportunity. We haven't scoped it all out yet. So I think that there's a lot for us to digest. But it's obviously a growth year for Sun Life and I think it'll be – I think we'll look back in five years, in 7 years and 10 years and find that our overall business in Asia has increased significantly.

Leigh Chalmers
Senior Vice President, Head of Investor Relations & Capital Management, Sun Life

A

Great. Thanks, Steve. Our next question comes from Doug Young at Desjardins Capital Markets. And this is for Steve and Marlene. On the targets, I calculate third-party AUM CAGR of 9%, an underlying earnings CAGR of 19%, how much of underlying earnings growth comes from SLF taking a growing ownership stake in Crescent, BGO, and InfraRed? And does this exclude the amortization of acquisition-related intangibles? So, both for Marlene and Steve.

Marlene Van den Hoogen
Chief Financial & Operating Officer, SLC Management

A

Thanks, Leigh. Maybe I'll start and then pass it to Steve. Thanks, Doug, for the question. And, yes, those are – I think you have the percentages right there. In terms of the underlying growth rate, so the – going from CAD 94 million or CAD 100 million of run rate to CAD 225 million, it does not anticipate an increase in the ownership. We are already reflecting 100% of the InfraRed earnings in that number and the remaining buy-ups come out in 2026, so after that target period.

It is after the amortization of intangibles. So it does – it includes – it is net of the amortization of intangibles. So maybe, Steve, I can turn it to you if you want to add anything?

Steve Peacher
President, SLC Management

A

Well, yeah. Maybe I'll just – this will overlap a bit, Marlene, with your answer. But if I just step back and kind of think about the basic math behind our growth. I think it's summarized at this way. I think we – as you know, Doug, I think, we think we can grow AUM in these numbers. It incorporates an AUM growth of a high-single-digit annual rate. To a previous question, we think the average fee rate is likely to tick up as our mix moves even more to alternatives, which means our revenue growth rate is going to be slightly higher than our AUM growth rate.

And then just because of scale, we're going to get some scaled benefits in our expense base even if we don't pursue significant expense saving, we're going to get a benefit there, so we're going to get some operating margin expansion because of scale. And that's going to lead our increase in operating margin. And then between operating margin and underlying net income, you have basically amortization, which will be generally fixed.

You've got non-controlling interest which will grow as our earnings grow, and you have taxes which will grow as earnings grow. So, you go from kind of a high-single-digit growth rate in AUM as you noted to almost 20% growth in underlying net income. And the only other thing I would say is that I think that those are attractive growth rates for underlying net income.

We have a lot of opportunity that we have not built into this figure. We've got new markets we can attack. We've got new geographies we can go into. We've got new strategies we can develop that because they're not fully thought through, because we're not pursuing them today, they're not in this number. So, there's a lot that's not here that could drive growth even more.

Back to you, Leigh.

Leigh Chalmers
Senior Vice President, Head of Investor Relations & Capital Management, Sun Life

A

Great. Thanks, Steve and Marlene. So, our next question comes from Mario Mendonca at TD. And this question is for Kevin Strain. Are there any guidelines with IFRS 17 that would mandate Sun Life or other life insurance clients of SLC Management to reduce the duration of their investment portfolios to stabilize earnings or provide capital relief?

Kevin Strain
President & Chief Financial Officer, Sun Life

A

Well, thanks for the question, Mario. Of course, IFRS 17 is a project that's coming January 1, 2023. It's a big project for us and we're spending a lot of time on it. I will start by saying there is nothing under IFRS 17 or any accounting regime that changes the risk of the product or the cash flow matching, right? So, one of the principles for us is around proper risk management, is taking the duration of the liabilities, the cash flow of the liabilities and trying to match it with the cash flow and duration of the assets. And I think that's really important.

As we as we look at IFRS 17, there's nothing we see today that suggests that the level of commitments for seed capital, the structure of SLC becoming part of Sun Life where it would be negatively impacted. So that's early stages. There's a number of things we're looking at and there's a lot of work being done on discount rates of the assets and discount rates of the liability. So, more to come on IFRS 17. But if you think about economics and risk, there's still a lot of really good – a good sort of matching of those two things inside of these sorts of assets and the liabilities we have.

Leigh Chalmers
Senior Vice President, Head of Investor Relations & Capital Management, Sun Life

A

Great. Thanks, Kevin. So, our next question is from Doug Young at Desjardins Capital Markets for Marlene. CAD 225 million in underlying earnings by 2025 implies an 11% return on CAD 2 billion deployed on acquisitions. Is this reasonable and what is your target return on invested capital?

Marlene Van den Hoogen
Chief Financial & Operating Officer, SLC Management

A

Thanks, Doug, for the question. That is reasonable given the math of getting through 2025. Of course, beyond that, we will buy up the remaining parts of the businesses. And you can think of the additional NCI coming through, the NCI that's been deducted. And at that time, too, we expect to then start reporting performance revenue as well. So, you may see that come down a little bit as the acquisition accounting kind of pulls it down through 2026. But beyond that, we expect it to grow beyond 11% and further with the 100% ownership and performance revenue coming through as well. Back to you, Leigh.

Leigh Chalmers
Senior Vice President, Head of Investor Relations & Capital Management, Sun Life

A

Great. Thanks, Marlene. So the next question from Paul Holden at CIBC is for Steve and Marlene. Are you able to provide a sense of average performance fees carried interest relative to AUM recognizing that it's not accruing to Sun Life today? Over to Steve and Marlene.

Steve Peacher
President, SLC Management

A

Marlene, you may have a specific – do you have a – I don't know if you have a specific answer. I don't, but I could comment on it.

Marlene Van den Hoogen
Chief Financial & Operating Officer, SLC Management

A

You can start.

Steve Peacher
President, SLC Management

A

Okay. It's – I don't know have that answer, because a certain – meaningful percentage of our asset base aren't – don't have performance fees, don't have carried interest. For those that do, it can actually often be a big driver over time. If you take a typical closed-end private equity style fund in real estate or in mezzanine debt or in infrastructure, you can have management fees at the 1% level and then you might get 20% of excess return over hurdle rate. And let's say that hurdle rate is 7% or 8%.

So if you start to do the math and you've got funds that have historically returned in that mid double-digit range and you start to then calculate what could that performance fee be over time by the end of that fund. And then of course, some of that performance fee importantly gets allocated to the investment team because that's mandated by the investors because that creates this alignment between the investment team and the client portfolio. But then the rest of that comes back to the house, so to speak. So for a given fund that includes performance fees, carried interest, it can be quite significant. Unfortunately, I don't have the math to say for the percentage of our products that have carried interest. What could that carried interest be kind of as a percentage of our overall AUM or as a percentage of revenue. I'll have to do that. But I fully expect that down the road, performance fees accruing to SLC Management are going to be significant because of our asset base.

If I could take the opportunity just to make a comment on Doug's previous question about the acceptability of these returns. I'd make a couple of points. One is, and maybe these are obvious, but I think they're worth repeating. The first is this is a cash business. So our earnings, you can think of our earnings not only as cash earnings but to some extent cash earnings could be higher in some ways than underlying net income because that's after noncash amortization.

So this is a business that generates a lot of cash. Secondly, it's not a business that requires additional capital to be set aside as you sell new products. Unlike some of our other businesses at Sun Life. It requires a capital outlay when we buy the business. But once we have bought it and start selling product, that doesn't attract new capital. So that's also an attractive characteristic of the business.

And then as I mentioned before, I think over time, you're going to find that this business can be much, much bigger than the CAD 225 million suggestion. Frankly, that goes back to my slide comparing us to firms like Brookfield and Blackstone. We can rival those firms over time.

Leigh, back to you.

Leigh Chalmers
Senior Vice President, Head of Investor Relations & Capital Management, Sun Life

A

Great thanks, Steve. So our next question comes from Mario Mendonca at TD and this one is for John at BGO. If in fact retail and office real estate deteriorates in value over time, what is the process and timing over which the decline in value would be recognized in your performance? Are your investors expressing concern about your exposure to affected real estate sectors, John?

John Carrafiell
Senior Managing Partner, BentallGreenOak

A

Portfolio outline, we have about 12% of retail while not all of our peers report that figure, we're highly confident that that is materially below the vast majority of our peers. Second, so they also mentioned that retail, more than 80% of that small portion i.e. 12% is grocery anchored. The valuation for grocery anchored through the pandemic has held up or increased over time.

And so there's been no performance deterioration that's meaningful from that perspective. And we actually expect that to continue because we think some of the consumer habits are going to continue post pandemic of people ordering things that are delivered from the supermarket to their home increasingly. So that's with respect to retail. Very low percentage, and again this figure might be somewhat off. But for instance for our US core open-ended diversified fund, our percentage versus the benchmark of all the other funds that we compete with is nearly half with respect to retail and nearly all of that retail is grocery anchored.

So we don't expect any material performance reduction at all. With respect to office it's a really good question. So with respect to office, as Sonny mentioned, you need to pull this apart by geography. There's really been zero impact in Asia. Asia office has not missed a beat. There's been very limited impact in Europe. And when we have more time, I'm happy to explain why that's the case. The impact is really in North America. And it's particularly relevant in cities which are large cities, densely populated where the industries dominating those cities have more of an ability to work from home, particularly the coastal cities.

With respect to that, what will be key to not see deterioration in value and where BentallGreenOak has been focused materially pre-pandemic and importantly through and post-pandemic is offices that people want to actually be in from a health, wellness, well-being and health security perspective. And BentallGreenOak has invested heavily in its offices to ensure that they are attractive from that perspective, again, pre pandemic, and increased investment in their offices during the pandemic.

And so we actually think, as Sonny said, over the next several years you're going to see a bifurcation in valuation between those buildings that are extremely well located, but more importantly meet the health, wellness and well-being needs of their tenants and the tenants' employees versus those that aren't. And because BentallGreenOak has been on the forefront of that for years pre-pandemic, we actually believe our office values will hold up well and not impact performance in a material way.

Leigh Chalmers
Senior Vice President, Head of Investor Relations & Capital Management, Sun Life

A

Thanks, John. I think we had a bit of technical difficulties at the beginning. But, John, I noticed you repeated your response. So thanks for that.

Leigh Chalmers
Senior Vice President, Head of Investor Relations & Capital Management, Sun Life

So, unfortunately, we have run out of time. It's been certainly a great morning. We packed a lot in. So, if we have not got to your questions, certainly, feel free to reach out to myself or my team, and we will get back to you.

I appreciate all of the interest and the questions. And with that, I'll pass it back to Steve to do our final concluding remarks.

Steve Peacher
President, SLC Management

Thank you, Leigh, and just a couple of comments before we wrap it up. The first thing I want to do is thank all the people, all my colleagues across SLC who've made this possible. There's a ton of people behind the scenes. Putting one of these together live is – takes a lot of effort. Putting one together virtually takes an extraordinary amount of effort. It may not have been obvious to everybody watching, but I think we had presenters, if my count is right, in six different cities from London across to LA. And so, I really appreciate all the effort that was put into this, and I think it showed.

I want to thank all of our – everyone watching for allocating three hours to listen to our story. And hopefully, we were able to highlight that we've got exceptional investment capabilities, that we're well-positioned in the current market environment and that we're poised to continue to deliver for all of our institutional clients and also poised to become a significant growth driver for Sun Life in the years ahead. So, thank you very much for tuning in.