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**Manjit Singh** *Sun Life - Executive VP & CFO*  
**Michael Roberge** *Sun Life - Chairman of MFS Investment Management*  
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## PRESENTATION

### Operator

Good morning, and welcome to the Sun Life Financial Q3 2022 Conference Call. My name is Michelle, and I'll be your conference operator today. (Operator Instructions) The host of the call is Yaniv Bitton, Vice President, Head of Investor Relations and Capital Markets. Please go ahead, Mr. Bitton.

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**Yaniv Bitton** - *Sun Life - VP, Head of IR & Capital Markets*

Thank you, operator, and good morning, everyone. Welcome to Sun Life's Earnings Call for the Third Quarter of 2022. Our earnings release and the slides for today's call are available on the Investor Relations section of our website at [sunlife.com](http://sunlife.com). We will begin today's call with opening remarks from Kevin Strain, President and Chief Executive Officer. Following Kevin, Manjit Singh, Executive Vice President and Chief Financial Officer, will then present the financial results for the quarter.

After the prepared remarks, we will move to the question-and-answer portion of the call. Other members of management are also available to answer your questions this morning.

Turning to Slide 2. I draw your attention to the cautionary language regarding the use of forward-looking statements and non-IFRS financial measures, which form part of today's remarks. As noted in the slides, forward-looking statements may be rendered inaccurate by subsequent events.

And with that, I'll now turn things over to Kevin.

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**Kevin Strain** - Sun Life - President, CEO & Director

Thanks, Yaniv, and good morning, everyone. Turning to Slide 4. We delivered strong third quarter results, reflecting the ability of our diversified businesses to deliver underlying earnings and top line growth even in a challenging environment. We saw the U.S. have strong sales results and almost double underlying earnings from last year with the addition of DentaQuest, strong Health and Risk Solutions results and a significant moderation of COVID-related impacts.

Asia grew insurance top line and underlying earnings as most of our markets began to emerge from COVID restrictions, and we executed well on our growth strategies. Canada also delivered a strong result for the quarter, including strong insurance sales. SLC Management had strong flows as alternative assets continued to attract commitments. MFS continued to deliver on their strategy, but saw AUM and earnings decline along with outflows as markets fell. Overall, declines in equity markets impacted our fee income across MFS and our other equity sensitive businesses, including GRS and SLGI in Canada and asset management across Asia. Interest rates are also having an impact as central banks continue to fight inflation by raising rates.

Our LICAT ratio remained at a solid 129% during the quarter despite negative year-to-date impacts related to the rapidly rising interest rates. Reported net income of \$466 million for the quarter was down 54% year-over-year as a result of market volatility, the write-down of goodwill in the U.K. and an increase in the SLC Management put liabilities. Underlying net income of \$949 million was up 5% with strong U.S., Asia and Canada earnings.

These strong results driven by our protection and health businesses were offset by lower income in wealth and asset management, which were impacted by declines in global equity markets. Our asset management businesses have strong fundamentals, focused on delivering strong performance and returns to our clients. MFS is a top 10 equity manager in the U.S. retail space with a long track record of strong performance. SLC Management, our alternative asset manager, continues to generate strong flows and crossed \$200 billion of assets under management in the quarter. Underlying return on equity of 15.5% reflected the strong earnings in the quarter, approaching our medium-term objective of 16%+. As mentioned earlier in my comments, capital also remained solid in the quarter, and we were pleased to announce a \$0.03 increase to our common share dividend.

Slide 5 provides just a few examples of business initiatives that drove our client impact strategy in the third quarter. In September, we announced our intention to acquire a majority stake in Advisors Asset Management, or AAM, a leading independent U.S. retail distribution firm. AAM will become the U.S. alternatives retail distribution arm of SLC Management, providing an important new channel in the U.S. high-net-worth market. And of course, we also announced the sale of our U.K. business to Phoenix and struck an asset management partnership with them, which we believe will be an important driver of flows for both MFS and SLC Management.

We continue to enhance and expand our offerings for high-net-worth clients in Asia. This quarter, we launched Sun Global Aurora, a savings-oriented indexed universal life product.

InfraRed Capital Partners, our global infrastructure investment manager, received 5-star ratings in the latest principles for responsible investment assessment. This is the seventh consecutive time that InfraRed has achieved the highest possible PRI rating for integration of ESG throughout its infrastructure investment practices. In addition, DentaQuest announced a new program with Partners Health Plan, a nonprofit managed care organization serving individuals with intellectual and other developmental disabilities. This partnership will increase access to oral care and help

improve outcomes for this underserved community, increasing health equity for all. And in September, Sun Life Health launched a new surrogacy and adoption benefit in Canada. This was in recognition of how people grow their families in different ways.

Slide 6 showcases digital highlights from the quarter. We continue to make great strides on our digital journey and have clearly seen the positive impacts we can have in providing excellent client, employer, advisor and partner digital experiences. These are important steps as we begin to think and act more like a digital company. As a leader in health and benefits in the U.S., we're helping clients access the right care at the right time through our new partnership with AbleTo, a virtual behavioural health therapy and coaching program for disability and critical illness members being treated for cancer. We know that medical outcomes can be improved when people can manage their mental wellness at the same time as their physical recovery.

In Canada, we launched a new voluntary benefit eApp where Group Benefits clients can now purchase life, critical illness and accidental death insurance coverage in one place at competitive group rates. The medical underwriting health questionnaire has been revamped and written in simple, clear language. These enhancements are already having an impact by reducing the application process for clients by up to 50%. This is a great example of how we're leveraging digital capabilities to make it easier for our clients to do business with us and achieve their health and financial security goals.

Sun Life Canada was recently recognized as one of the best workplaces for mental wellness by Great Places to Work. This is a significant recognition of the importance we place on mental health. Our goal is to ensure that all of our employees experience Sun life as a safe place to work, and we strive to empower employees to achieve optimal mental well-being fostered by a culture that values diversity, equity and inclusion. We know that giving employees everything they need to flourish helps them bring their best selves to work every day, and we're proud to offer a suite of programs and initiatives to support mental and physical well-being.

I'm proud of how the business continues to perform during these challenging conditions. Our strong performance is driven by our people and culture and our passion for helping clients achieve lifetime financial security and live healthier lives.

With that, I'll hand the call over to Manjit, who will walk us through the third quarter results.

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**Manjit Singh** - Sun Life - Executive VP & CFO

Thank you, Kevin, and good morning, everyone. Slide 8 provides an overview of our third quarter results. The results reflect the strength of our businesses and the benefits of our diversified business mix. Reported net income for the quarter was \$466 million, driven by strong underlying earnings, partially offset by market-related impacts, a charge to write-off goodwill related to the sale of our U.K. business, an increase in acquisition-related liabilities at SLC Management and lower ACMA gains compared to the prior year. Overall, our annual actuarial review resulted in a relatively neutral ACMA impact of \$7 million.

Underlying net income of \$949 million and underlying earnings per share of \$1.62 were up 5% from the prior year. Strong growth in protection and health businesses, including moderating COVID-related impacts and a full quarter of contribution from DentaQuest, more than offset lower wealth and asset management results.

Underlying return on equity was strong at 15.5% for the quarter. Book value per share was up 6% over the prior year. Excluding impacts and other comprehensive income, book value per share was up 7%. We continue to maintain a solid capital position with LICAT ratios of 129% at SLF and 123% at SLA. The Q3 leverage ratio was 26.4%. With the announced redemption of \$400 million of subordinated debt in Q4, pro forma leverage is 25.6% and SLF LICAT ratio is 127%.

Now let's turn to our business group performance starting on Slide 10 with MFS. MFS reported net income of USD 240 million, was up 7% from the prior year, reflecting fair value changes on outstanding share-based payment awards. Underlying net income of USD 212 million was down 18%, driven by lower average net assets, largely reflecting declines in global equity markets. MFS generated a pre-tax net operating margin of 41%. The operating margin increased by 5 percentage points from the prior quarter, primarily due to seasonally higher incentive compensation in Q2. AUM of USD 509 billion was down 8% from Q2, largely reflecting lower equity markets and USD 10.3 billion of net outflows.

Retail net outflows of USD 5.2 billion in the quarter were impacted by slower sales activity as investors remain on the sidelines in an uncertain macroeconomic environment. That said, retail redemption rates have improved versus the first half of the year and MFS continued to experience lower U.S. retail redemptions as a proportion of AUM compared to the industry. Institutional net outflows were USD 5.1 billion.

Turning to Slide 11. SLC Management had a reported net loss of \$97 million and underlying net income of \$20 million. Reported earnings reflect an \$80 million charge to increase the SLC Management acquisition-related liabilities. The increase reflects an update of the probability-weighted outcomes that are used to estimate the liability at the maturity of the put/call in 2026. We plan to update these liabilities around this time of the year in conjunction with our strategic planning process.

Underlying net income of \$20 million at SLC Management was down \$15 million year-over-year. This reflects investment gains in the prior year as well as continued investments in the business.

Fee-related earnings were up 12% from the prior year, reflecting higher fee income driven by strong capital raising activity and the deployment of capital into fee-earning AUM. Capital raising of \$3.8 billion in the quarter was driven by positive inflows across all asset classes. Total AUM includes approximately \$22 billion that is not yet earning fees. Once invested, these assets will generate annualized fee revenue of more than \$180 million.

On Slide 12, Canada's reported net income of \$210 million was down from prior year, mainly due to market-related impacts. Underlying net income of \$300 million was up 3% from the prior year, driven by strong investment gains and business growth partially offset by lower wealth management fee income. Protection and health businesses saw continued momentum with strong par sales in individual insurance and growth in Sun Life Health sales, while sales were lower year-over-year driven by weaker retail investor activity.

Turning to Slide 13. U.S. reported net income of USD 72 million was up USD 35 million from the prior year. And underlying net income of USD 166 million was up USD 78 million. The results were driven by strong group benefits performance and a full quarter of DentaQuest contribution. We're very pleased with the DentaQuest results this quarter, which were in line with our expectations. We are making good progress on our integration milestones and are confident that we will meet the earnings and expense synergies that we outlined last year.

Group Benefits earnings reflected the strong business fundamentals we have highlighted in prior quarters. This includes good client persistency, growing premiums and solid stop-loss pricing margins. The results also include a significant moderation of COVID-related mortality and disability impacts.

Sales growth in the U.S. was strong, up 78% year-over-year and up 14%, excluding contribution from Dental. As a reminder, going forward, Dental sales can be highly variable quarter-to-quarter due to longer sales cycles and larger contracts in the government program space. Overall, following the DentaQuest acquisition, more than 70% of our annual benefits revenue in the U.S. will be generated by health care businesses, which have shorter terms and generate higher returns.

Slide 14 outlines Asia's results for the quarter. Reported net income was \$125 million, down 55% year-over-year in constant currency as the prior year included a large ACMA gain compared to reserve strengthening this quarter. Underlying net income of \$175 million was up 23% year-over-year on a constant currency basis. The strong result was driven by improved mortality, our moderating COVID-related experience and favourable investing gains. Our joint ventures in Asia also contributed to the year-over-year growth, including favourable mortality in India and improved policyholder and investment experience in China.

Wealth earnings were down, reflecting lower equity markets. Asia reported double-digit insurance sales growth in nearly every market, and we're seeing strong momentum as restrictions are being lifted, new products gain traction in their respective markets and from the rollout of new digital capabilities. On the wealth side, we experienced net outflows in India, the Philippines and Hong Kong, reflecting market volatility, which led to weaker investor activity. Overall, we are pleased with the third quarter results.

Throughout a period of significant volatility over the last few years, Sun Life's underlying earnings have remained resilient. As we look ahead, we expect the near-term operating environment to remain challenging. We believe our diversified business model, established business leadership positions, strong talent and prudent risk management will be key strengths in managing through this environment.

With that, I'll turn the call back to Yaniv for Q&A.

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**Yaniv Bitton** - Sun Life - VP, Head of IR & Capital Markets

Thank you, Manjit. To help ensure that all our participants have an opportunity to ask questions this morning, please limit yourselves to 1 or 2 questions and then requeue with any additional questions.

I will now ask the operator to poll the participants.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Your first question comes from Scott Chan with Canaccord Genuity.

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**Scott Chan** - Canaccord Genuity Corp., Research Division - Director of Research of Financials & Financial Services Analyst

My questions are on MFS. Manjit, you talked about the gross redemptions on that platform being better than the industry. But when I look at the gross sales, that seems to be more the issue last 2 quarters down materially sequentially. So just wondering if there's any kind of colour on the gross sales picture there? Is it performance issues? Is it products being overweight equity? Any colour would be kind of helpful looking forward.

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**Manjit Singh** - Sun Life - Executive VP & CFO

We'll hand that over to Mike, Scott.

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**Michael Roberge** - Sun Life - Chairman of MFS Investment Management

Scott, it's Mike Roberge. Yes, I mean, if you look at industry, what's happening in the industry is sales are down pretty dramatically across all product types. We see that across equity, we see that across fixed income product types. And so, when you look at our share of outflows. So again, sales -- net as a function of sales and then what clients are doing on the redemption side, we control sales. But on the net side, when you look at our net flows in the industry relative to our assets, our share of active assets, we're generating less outflows than the industry is, relative.

And that's -- so the way that we're looking at it is sales are tough right now, clearly, with the volatility of the markets. We think that they're going to stay tough for some period of time until the Fed gets to sort of the end of the cycle and volatility comes down and people can look through the other side of the economic slowdown. And so we think we're holding our own relative to the industry, but the dynamics are pretty challenging right now in the retail industry.

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**Scott Chan** - Canaccord Genuity Corp., Research Division - Director of Research of Financials & Financial Services Analyst

And if I can sneak in one more big picture question on asset management, maybe for Kevin or Mike. Like clearly MFS has challenges on the traditional side and SLC on the alternatives side is doing quite well specifically at your firm. Is there anything down the road where you could do something together like amongst the groups like in terms of product cross-selling? Or is any of that being done right now? Or is that something that you're just going to kind of leave separate for now?

**Kevin Strain** - Sun Life - President, CEO & Director

Well, Scott, we announced the Phoenix transaction earlier this quarter and that's an area where both MFS and SLC will be fund managers for Phoenix; they were both part of the strategic partnership. Of course, as we think about flows, Steve and Mike talk about things, but they're very different asset classes, right? So MFS is, of course, in the public equity and fixed income and Steve has across the alternatives space. So there's obviously discussions that happen across both, but they are run as separate entities.

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**Operator**

Your next question comes from Tom MacKinnon with BMO.

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

Just one question with -- or 2 questions. The first is on -- if we look at the impact of new business, especially in Canada, we had -- seemed to have some better sales at least in individual insurance, but the impact of new business is down significantly. Was that largely just due to DB Solutions sales being down? And maybe if that's the case, then what's the outlook for DB Solutions sales going forward, just given the interest rate environment and the macro environment as well? And then I have a follow-up.

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**Jacques Goulet** - Sun Life - President of Sun Life Canada

Tom, this is Jacques. Let me start with that. So new business gains are down and you've identified it. If you remember, Q3 2021, we had lumpy -- good, lumpy sales in Defined Benefit Solutions. We've got good sales this quarter, but not nearly as good as last time. That's the main driver. Individual insurance is -- the sales are up, but the mix is less favourable. There is more par that doesn't generate as much business gains.

In terms of the outlook in Defined Benefit Solutions, as you know, the key metric there where clients execute, or not, an annuity buyout is their funded ratio. And funded ratios remain fairly healthy. The pipeline going into Q4 is looking very strong right now. So, I've said many times before that this is a growth market for us. I mean when we compare to other jurisdictions that are way ahead, whether it's U.S. or U.K., it's still relatively a nascent market. We've got a great team of actuaries and we tend to do very well and particularly deals are innovative and complex. So we're quite confident about the growth potential of DBS going forward.

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

Well, that's great. And the follow-up question is, if I look at the earnings on the surplus, the investment income component of that, the first quarter was \$90 million; second was \$122 million; third quarter, \$163 million. Like I mean what -- interest rates must be helping, but maybe you can give a little bit more colour because as you're longer term, you wouldn't -- these things wouldn't necessarily be mark-to-market. There's no gains. This is just strictly coupon clipping. So maybe talk about what you've got here and what the outlook would be for earnings -- the investment income component of earnings on surplus as interest rates rise.

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**Manjit Singh** - Sun Life - Executive VP & CFO

Thank you for your question, Tom. It's Manjit. Yes. So you're right. The main factor driving that growth in investment income has been the significant increase that we've seen in interest rates really throughout the year. And then that does take a little bit of time to work its way through. But really, you saw significant increases in Q2 and in the first part of Q3 that really helped to drive that quarter-over-quarter increase.

Now there are a few other components within the earnings on surplus like available-for-sale gains and other impacts that you can have on securities, but those are more moderate and those can shift a little bit from quarter-to-quarter. But the big impact was the impact from the interest rate increases.

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

So -- but if you were invested in longer-term bonds, you just clipped the same coupon, there's no market value impact here. So is anything unique about what you're invested in?

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**Manjit Singh** - *Sun Life - Executive VP & CFO*

Yes, we do have a fair bit of short-term instruments and including -- and we also have some floating rate assets as well. So as short-term interest rates go up, you do get an increase in the investment income.

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

Okay. And if I could just squeeze one quick one in. Just with respect to morbidity, the outlook in the U.S. seems to be improving significantly. How should we be looking at that going forward? You had some troubles before. We've got an uncertain economic environment. Is breakeven best because the quarter seemed to suggest that it would be better than that?

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**Daniel Fishbein** - *Sun Life - President of Sun Life U.S.*

It's Dan Fishbein. So on morbidity, we -- there's obviously different parts to this. First of all, the biggest positive impact in the quarter certainly continued to come from our stop-loss business where experience was still quite strong. That's mostly due to good pricing and underwriting. There's also a bit of benefit there still from lower utilization in hospitals due to COVID impacts, making capacity in hospitals less available, but most of the impact came from underwriting and pricing.

Then in our disability businesses, we did see a more direct reduction from COVID incidence in the quarter. Sequentially, STD and LTD experience was somewhat better. Obviously, you know we're coming off of what was a very difficult Q4 and Q1 in terms of COVID incidence. And of course, disability claims can last a while. They tend to -- some of those, obviously, still related to that earlier incidence. But both of those -- we hope that LTD and STD incidence will continue to improve, and we're confident that the stop-loss morbidity is strong and is mostly related to our actions.

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**Operator**

Your next question comes from Meny Grauman with Scotiabank.

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

A question on the U.S. Certainly, overall resilience is definitely a hallmark of the results this quarter, but I wanted to understand better downside risks from recession in the U.S. as we look out to 2023. It's something we've talked before about, but I wanted to revisit it in terms of the implications for the U.S. business.

And specifically, the vulnerability really, if we need to see a big spike in the unemployment rate for that business to really get impacted. Presumably, the Group Benefits business is more at risk than the Dental business. I wanted to understand some of the dynamics in terms of thinking through downside economic scenarios in the U.S. for that -- for your U.S. business next year?



**Daniel Fishbein** - *Sun Life - President of Sun Life U.S.*

Sure, Meny. This is Dan again. A few thoughts on that. First of all, obviously, the biggest economic impact we're seeing right now is inflation. And inflation at least in the U.S. Benefits business actually tends to give a boost to results. Benefits are -- many of the benefits we offer are based on wages. So as wages go up, the volumes go up as well.

Also in a very tight job environment, we're finding that employers are very interested in providing very attractive and competitive benefits. So that's driving up the uptake rates and the amount of benefits being offered. If we end up in a recessionary environment, kind of to your point, one of the things we typically see is some uptick in long-term disability incidence. However, historically, that does take a few years to play out, but that's certainly one thing we would have to watch closely.

As far as the recession causing some reduction in benefits, what we're finding coming out of the worst of the pandemic is that both employers and employees value benefits even more than they did before the pandemic. And we think those trends will continue. So benefits are one of the last things we think that employers and their employees would move away from. So we're less concerned about volume. But of course, as always, if there is a recession, there might be some pressure on LTD incidence.

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

And then just as a follow-up in the Group Benefits business in particular, we talked a lot about the after-tax profit margin and you reiterated the 7% guidance last quarter. Just wondering how that -- we don't really have a good history for that measure. But based on your experience, what could that profit margin look like in a recessionary scenario? Is there any way to kind of approach that question from your perspective?

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**Daniel Fishbein** - *Sun Life - President of Sun Life U.S.*

Yes. I think that's really hard to say. Again, based on the comments I just gave, there would obviously be some pressure on LTD, but not necessarily in other areas. I would point out on the profit margin, by the way, it is a 4-month -- a 4-quarter trailing indicator. So as we drop off some of the prior really weak quarters from last Q4, last Q1, we'll see that go up. But in terms of what would happen in a recession, it's really very hard to predict.

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**Operator**

Your next question comes from Mario Mendonca with TD Securities.

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

Manjit, my first question, it's a little bit accounting intensive, but I want to understand how those SLC acquisition liabilities that were booked in the quarter. How do those liabilities eventually come off the balance sheet? Are they -- is there an actual payment that's made? Or is it offset against some other accounting items? Can you help me understand that?

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**Manjit Singh** - *Sun Life - Executive VP & CFO*

Sure, Mario. You're right. So we're accruing for what we think the liability will be at the maturity in 2025 and 2026 when we have the put option or call option. And so once we exercise that, the liability will come up and the offset will be a cash payment.

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

Yes. So the liability never flows back into earnings in any way. It's actually a payment.

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**Manjit Singh** - Sun Life - Executive VP & CFO

Correct.

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

Okay. The other thing I wanted to just quickly touch on then is -- and this is more something that just impresses me with MFS. I appreciate there's a challenge here, but I've been kind of surprised by how quickly the expenses have ratcheted down. What are we seeing there? Is that simply just that commissions have really fallen as gross sales have fallen? Or are there other activities? Is there just a lot more of a variable component here that may be appreciated?

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**Michael Roberge** - Sun Life - Chairman of MFS Investment Management

Hey, Manjit, I'll take that. It's Mike Roberge. If you look at our cost base, 70% of our costs are fairly formulaic and that the compensation pool flexes down with profitability in an environment like this. Asset-based payments we pay to dealers flex down as assets come down and then in a tougher sales environment, sales commissions will come down as well. And so, we prefer to pay up sales commissions even in a tougher environment, but that's not the environment that we're in now.

And so, there's a fairly variable component to our expense base and that obviously helps, although there's clearly some negative operating leverage in the business because we do have some fixed costs even as we make our way through the cycle.

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

That's actually the observation I was making that the company is actually generating positive operating leverage despite everything that's going on. So it just seems so odd to see.

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**Michael Roberge** - Sun Life - Chairman of MFS Investment Management

But if you look -- you got to look at it year-over-year. So as Manjit mentioned, we do have -- if you look at quarter-over-quarter, you have the seasonality in the first half of the year where we amortize long-term stock compensation.

If you look at the last year-over-year third quarter, ANA down 17%, pre-tax down 18%. So it has flexed downward. There's some -- there are a couple of offsets to that, interest income being one of them, which has helped us as interest rates have gone up. But effectively, if you look at it year-on-year, you're going to see profitability tends to follow what ANA is.

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**Operator**

Your next question comes from Doug Young with Desjardins.

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

Just wanted to go to Asia and look at the new business losses. And you pointed out that sales were strong in all of the regions. I think Manjit, you mentioned that in your comments. But we're not -- and obviously, interest rates have been moving higher, but we're seeing a deterioration in new business losses, not an improvement. I'm just wondering what the mechanics are and why that is unfolding.

And then in the same vein on Asia, underlying earnings up 23% constant FX. Can you break out how much of that was driven by local markets versus international on an underlying basis?

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**Ingrid Johnson** - Sun Life - President of Sun Life Asia

It's Ingrid Johnson here. So to your question on new business strain, if you look actually previous year on this year, it's actually a small \$3 million down and that's really a function of international where the sales are lumpy, and so we wouldn't necessarily have that come through every quarter. And then clearly, we're also investing in the business as we build scale. So you would see strong insurance but also then reinvestments, particularly on the digital side.

If I then move just to the local markets versus hubs, I'd rather actually just deal through each of the individual businesses because what you'll see in a hub, which is a Hong Kong, Mainland China as well as high-net-worth, that is effectively either through selective origination, where you would see some variability in the sales but much more positive on new business gains as we make sure we have positive net VNB.

From a China perspective, still constrained in the cross-border MCV fix, but yet within China, we're seeing good momentum, particularly in banca. Hong Kong was very encouraging with the emergence of sales, but off a very weak prior year quarter. Again, absence of Mainland Chinese visitors, but some good product innovation that we've seen good take-up, albeit slightly less profitable mix.

From the local markets, also extremely encouraging. You see very strong momentum on all the sales even in Indonesia, where we've seen strong banca growth. So that is a common theme across all of our markets, in fact, including India, China, Malaysia and Indonesia.

And then the other important aspect is the focus on specific client segments where we've enhanced the case size. So again, that's flowing through into our underlying net income. So, insurance income is clearly showing the benefits of emergence from the pandemic. However, wealth is similar to, as Mike Roberge described, we're seeing those same effects in Asia where there's a risk of mindset and a flow away from money market funds to more competitive bank products. So, we see that flow comes through in underlying net income as an adverse. And clearly, that's the cycle we're in.

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

And maybe just to simplify it, are you seeing new business gains in international and new business losses in local markets? Is that -- can I make that inference? Or is that not the case?

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**Ingrid Johnson** - Sun Life - President of Sun Life Asia

I think it's driven by a multiplicity of factors because international will be focused on new business gains. Otherwise, we wouldn't wish to write the business. Whereas you are going to see more of an adverse in some of the other markets where we are investing.

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

Okay. And then on -- just on the underlying earnings, when we look at international versus local markets, like any sense of drill down on - is more of that underlying earnings coming from the international side because of those new business gains?

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**Ingrid Johnson** - Sun Life - President of Sun Life Asia

I mean international is definitely more profitable, which is what we've seen. So those sales would have been down, that would have been more profitable. But again, that's also a function of likewise for Hong Kong and emergence from the pandemic. So you're going to start to see a more positive impact.

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

Yes. Okay. That's fine. And then just one for Dan on the DentaQuest. I think you show reported earnings, I think, for Dental of US\$9 million. I'm more curious as to what the underlying earnings contribution from DentaQuest was if you can quantify that? And can you provide a bit of an update on how the integration is going? Because from the outside looking in, it looks like it's going well. Just wanted to get a little more detail.

**Daniel Fishbein** - *Sun Life - President of Sun Life U.S.*

Sure, Doug. If you look at the integration expense line that we show, the US\$18 million there is essentially all DentaQuest. So you can make that inference and just add the US\$18 million and the US\$9 million back together and you get US\$27 million. The US\$24 million of that comes from DentaQuest in the quarter. And of course, this is our first full quarter. And there's a few puts and takes. But basically, that is in line with the accretion target that we set when we announced the transaction. So we're very pleased, obviously, to be on the mark in the first full quarter.

Overall, the integration is going very well. We're on target for our expense synergies. The integration itself in terms of putting teams together and making decisions is on schedule and going well. And I'll also add that DentaQuest has a very good pipeline, one of the strongest pipelines they've ever had. Now with government sales, which is a big portion of what they do, they tend to be lumpy. So sometimes you get a quarter where there's a couple of big sales and sometimes you don't. But as I said, the pipeline is very strong.

**Operator**

Your next question comes from Gabriel Dechaine with National Bank Financial.

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

Yes. I just want to follow up on the earnings on surplus and the makeup of that portfolio. Can you maybe provide some duration characteristics of the portfolio, what percent is in cash and floating rates and how that could change, if it hasn't changed already - in the next little while - if you're considering locking in some higher bond yields. I expect you're not going up to the 5-year end of the curve, maybe 2 year, but educate me.

**Manjit Singh** - *Sun Life - Executive VP & CFO*

So I'll start that, Gabe. It's Manjit. So I would say, it isn't the sort of floating rate aspect I spoke about earlier in terms of what's driving the investment income related to the interest rate increases. That doesn't move around a lot from quarter-to-quarter. Obviously, we do look at our portfolio on a regular basis. And we would rebalance it as we see fit, but that's not really what's driving the earnings on surplus this quarter.

**Randy Brown** - *SLC Management - CIO*

Yes. This is -- Gabriel, it's Randy Brown. So I would add to that. Surplus money comes in and out of the surpluses, dividends come in and out and needs for various business needs or collateral posting, et cetera. So it does move around a bit, but it's a big portfolio. And what I'd say is we anticipated short rates rising and did move into floating rate assets purposefully and we did get the benefit of that.

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

So there is a tactical decision made at some point. It should continue to generate similar levels of income until rates are cut? Or are you making any other decisions there? Trying to get a sense of...

**Randy Brown** - *SLC Management - CIO*

We are seeing the...

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

Is it sustainable?

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**Randy Brown** - *SLC Management - CIO*

Well, we have seen from yesterday's Fed announcement, the market reaction is an expectation of continued short rate rises. So we should be able to benefit from that. And as some of the coupons reset. But in longer term, we will get to a point of peak rates and would expect those forward expectations to begin to drop.

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

Right. Okay. I really just want to know if the mix has changed and if you're making any allocation decisions, or no -- if not...

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**Randy Brown** - *SLC Management - CIO*

No. No big allocation decisions or changes, Gabriel.

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**Operator**

Your next question comes from Lemar Persaud with Cormark Securities.

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

I just want to come back to DentaQuest. Now that you're a couple of months into having it under Sun Life. I'm wondering if we could revisit the topic of potential revenue synergies. I seem to recall that at announcement, the synergies estimate was just talking about expenses but not revenue. So is that correct? And I'm wondering if you could size that up for us.

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**Daniel Fishbein** - *Sun Life - President of Sun Life U.S.*

Yes. I can make some qualitative comments on that. So, of course, DentaQuest is primarily focused on the government programs business in Dental, which is an area that we were not in before. So, there's not a big overlap there. But, where there very possibly can be revenue synergies is as we put the commercial businesses together and really charge up the legacy Sun Life and even Assurant commercial business with the capabilities that come from the much larger at-scale DentaQuest business.

So, you're right that we didn't put a lot in our projections around that. That would potentially be upside for us. That will emerge over a longer period of time, but we're already seeing some benefits from that. For example, this year, our commercial Dental sales are up significantly and that's great because that's one of our highest margin, highest ROE products. And we also anticipate going forward, a more competitive product and also more opportunities in our partnership business.

In fact, during the quarter, we made major progress with a significant new commercial partnership. And it was the first time that DentaQuest and our Fullscope business had collaborated together to offer a broader array of products to a potential partner. So to your point, we definitely see opportunity and upside there. And we'll obviously have more to say about that as those things emerge.

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**Operator**

Your next question comes from Paul Holden with CIBC.

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

I just want to quickly go back to the discussion on SLC Asset Management and that liability associated with the future buyout. I guess what I want to better understand is what exactly is driving the increase in the future liability. And I'm assuming it implies that there are certain components associated with the future buyout that are exceeding your prior expectations and assumptions. So what exactly is it that's exceeding your prior assumptions, if I'm correct?

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**Manjit Singh** - Sun Life - Executive VP & CFO

Paul, it's Manjit. So as we said, the liability is out into the future. So one of the things we have to try to do is to think about what the -- and it's largely driven by EBITDA as well. So we have to try to project what the EBITDA will be doing. And so we have -- we run some scenarios as to what that number would look like in 2025 and 2026.

Obviously, as we get closer to that time-line, we could narrow those scenarios because we have more line of sight. So that's what you're sort of seeing this quarter is that we were able to narrow those range of outcomes and that resulted in the higher liability.

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

Okay. And when you say narrowing, I understand narrowing of the range, but is maybe the average of that range also moving higher...

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**Manjit Singh** - Sun Life - Executive VP & CFO

It will be the average of that range. And I guess, if you look at the scenarios that we run, the average would be higher. Yes. But remember, the target that we set at Investor Day was a base number. And so that base number is different than what the average that we're using for the liability.

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**Kevin Strain** - Sun Life - President, CEO & Director

Paul, it's Kevin Strain. Fundamentally, it's a good thing when we see this liability going up because it means we're generating value in the investments we've made in SLC and that generation of value will be reflected as Mario asked earlier in the purchase price. So, it's really a reflection of our estimate of value creation inside of the SLC businesses.

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

Totally get that. I guess I'm just trying to understand what is it that's transpiring that's exceeding your initial expectations and Manjit gave some details around EBITDA. And maybe to drill down, is it asset growth and flows have exceeded expectations? Is it margins are exceeding expectations? Or are there other factors? I think that's kind of what I'm trying to understand.

**Kevin Strain** - Sun Life - President, CEO & Director

It's Kevin. I was CFO at the time. And we were -- when we bought these things, we were looking at a 5-year time period, and there was a fair amount of uncertainty of what equity markets and real estate markets and interest markets and those types of things would look like. So, when you set up your initial estimate, you factor in all of those things. And over time, we get more certainty of what that's going to be in '25 and '26.

**Steve Peacher** - Sun Life - President of SLC Management

This is Steve Peacher. Maybe I can just throw in a comment or 2. If you look at the underlying drivers of the business, it's all about are you raising -- is your investment performance strong, do you have the right products and that will manifest itself in higher AUM. So, if you look at our 2 AUM measures, AUM and then fee-earning AUM, both are growing at pretty good rates. So, when we think about that going forward, we continue to feel good about that. That drives then management fee revenue. And as that grows, there should be some positive operating margin in the business.

We expected that. And I think the more we get into this, to some extent. We've got ups and downs, but the better we feel all in, and then that reflects kind of the weighting of the various scenarios that we look at when we try to have to project the future as we have to kind of boil that down into a liability every quarter. But the fundamental view is that we feel pretty good about the momentum we have, and then we feel good about that continuing over the next few years, which will drive our ultimate payout in these deals.

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

Okay. Okay. That's helpful. And then one quick follow-up. And I guess this is for Dan. You mentioned inflation tailwinds behind pricing and I think stop-loss and Group Benefits. Just wondering if you can give any more sort of colour or flavour around your view on the upcoming renewal cycle. I imagine based on the commentary you said that it looks strong, but any further thoughts there would be appreciated.

**Daniel Fishbein** - Sun Life - President of Sun Life U.S.

Yes. Sure. We're obviously in the biggest sales and renewal time of the year. So, in the stop-loss business, for example, 70% of the business is sold and renews during the fourth quarter for January 1 date. And we're also in the same season for the Group and Dental businesses as well. What I would say is that, as always, the market is quite competitive and we always have some competitors who are perhaps being overly aggressive, we will always tilt towards margins versus sales volumes. So that will play out over the next several weeks. Especially in the stop-loss business, no question, there's a little bit of pressure there right now.

At the same time, there are inflationary pressures. And then in the Group business, especially, the impact of COVID mortality is causing all participants to need to raise their prices appropriately. So, we have a couple of counterbalancing forces there. Definitely some inflationary and experience-related price increases and a significantly competitive environment.

**Operator**

Your next question comes from Darko Mihelic with RBC Capital Markets.

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

I apologize if this has been asked. I had some difficulties with the phone. So, the first question is with respect to Asia. It does look like sales are on fire in Vietnam, which is great. But at the same time, we had some policyholder updates there, some adverse lapse. Can you maybe just talk to the lapse issue and what it was that caused that? And how should I think about the strength of Vietnam going forward?

**Ingrid Johnson** - Sun Life - President of Sun Life Asia

Thank you very much for your question. It's Ingrid Johnson. We are very excited about Vietnam and the opportunity, and we're seeing a twofold in both the bancassurance relationships with TP Bank and ACB as well as agency as we attract the very quality agents that we're already seeing uplift on sales. So that is a positive momentum that we should expect, but clearly off a low base, so the percentages would meet over time.

On the bancassurance, these are early bancassurance relationships, and we would have observed some initial sales relative to bank products that we needed to change as we experience some less negatives and that's what we've corrected this quarter. So going forward, we should expect a more positive outcome as we've shifted to understand more relevant client segments that are appropriate for the products that we sell and reduce the mix of insurance sales relative to short-term bank loans.

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

Okay. Great. That's helpful. So, the product hasn't changed. And my next question is for Manjit, maybe Kevin Morrissey. You guys provided a very helpful update in May on IFRS 17. And the one thing that -- I haven't seen anything in any of your work this quarter, so I just wanted to confirm that nothing's really changed since then. You've probably got a better understanding of how things look under IFRS 17. So just wanted to confirm that when we think about forward numbers for 2023 under IFRS 17, we should still expect positive underlying net income growth off of 2022. Is that a good assumption for me to make? And are there any learnings so far that would change any of your thoughts or ideas that you had since May?

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**Manjit Singh** - Sun Life - Executive VP & CFO

So I'll start and then Kevin can chime in as well. So overall, there is no new information that we're providing this quarter, Darko. So the information that we provided at May 31 is still appropriate. As you said, we're still working through all the impacts, and we're continuing to do our dual runs this quarter.

The underlying earnings, just like they are under IFRS 4, take into account a number of factors, including the market environment. So that will be also a factor in terms of what the year-over-year underlying earnings growth will be.

I don't know, Kevin, if you want to add anything?

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**Kevin Morrissey** - Sun Life - Chief Actuary & Senior VP

Yes. Not a lot to add. Darko. It's Kevin Morrissey here. We have been going through, as you mentioned, our dual reporting. So we've gone through a couple of quarters. We're into our third one now. I'd say it's quite good news in that it's just confirming the information and deepening our understanding of the business. But we aren't seeing any changes. So I think that's the good news is it's not changing any fundamental messages from the update we gave in May.

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

Okay. Great. Thank you very much for that confirmation.

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**Operator**

Your next question comes from Nigel D'Souza with Veritas Investment Research.



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

I wanted to follow up on the debt side. You had 2 sizable redemptions last quarter and this quarter. And those are of lower coupon yielding debt. So just trying to get a sense of how that impact impacted the interest on debt component of earnings on surplus going forward. That component is higher quarter-over-quarter, is higher year-over-year. Should we expect that to trend upwards in a higher rate environment, and I guess, place pressure on earnings on surplus going forward?

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**Manjit Singh** - *Sun Life - Executive VP & CFO*

Nigel, it's Manjit. So, the increase in the debt cost was also related to the fact that we closed DentaQuest last quarter. So you had the debt that we issued for DentaQuest. So that's showing up there. And then we also did an early issuance of the sub-debt that is maturing in November. So those were the 2 components that contributed to higher debt costs and earnings on surplus that you're seeing.

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

Any comments on that component going forward? Should that continue to trend higher? Or has it stabilized at this point?

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**Manjit Singh** - *Sun Life - Executive VP & CFO*

Well, we're going to see -- we're going to -- as I mentioned in my prepared remarks, we're going to redeem the maturing debt in November, that will be outstanding for some of the period. And some of that debt is floating rates. So as interest rates go up, you're going to see, obviously, some changes in that number as well.

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

Okay. Great. And my second and last question was on the ACMA side. I noticed that you had a favourable impact related to mortality, particularly in U.K. and Group Retirement. Just trying to get a sense of is there, down the line, an impact that might be unfavourable to mortality driven by COVID? So far we're only seeing a favourable impact show up in experience. Any sense of when that could show up on the actual liability side?

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**Kevin Morrissey** - *Sun Life - Chief Actuary & Senior VP*

Thanks for the question, Nigel. This is Kevin Morrissey. So, you're right, we did see some very favourable impacts from ACMA in mortality, both in Canada and in the U.K. And that was on payout annuity business, but it was not related to COVID. So I do want to emphasize the fact that we did get some favourable experience going through COVID. But the update that we made to the actuarial assumptions did not include that. There was no significant impact from that.

And longer term on other businesses, I'd say we're still observing and we'll see what the future will hold, but we have, say, kind of a neutral expectation as we've seen on the life insurance business. On some of the longer-term business, it's been fairly benign and on some of the businesses where it's been more severe, it's in a shorter pricing valuation cycle like the group business. So...

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**Operator**

We have no further questions at this time. And I will turn things to Mr. Bitton for closing remarks.

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**Yaniv Bitton** - *Sun Life - VP, Head of IR & Capital Markets*

This concludes today's call. A replay of the call will be available on the Investor Relations section of our website. Thank you, and have a good day.

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