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PARTICIPANTS

Corporate Participants

Kevin D. Strain – Chief Financial Officer & Executive Vice President, Sun Life Financial, Inc.

Other Participants

Paul Holden – Analyst, CIBC World Markets, Inc.

MANAGEMENT DISCUSSION SECTION

Paul Holden, Analyst, CIBC World Markets, Inc.

All right. It's my pleasure to introduce our next speaker Kevin Strain, CFO of Sun Life Financial. So Kevin has been with Sun Life since 2002, and was appointed CFO in 2017, and prior to that appointment Kevin had several senior positions, including SVP, President of Sun Life Asia and SVP of Individual Insurance and Investments in Canada. Kevin, welcome and thank you for joining us today.

Kevin D. Strain, Chief Financial Officer & Executive Vice President, Sun Life Financial, Inc.

Thanks, Paul. It's a pleasure to be here, and it's good to see a good turnout in the audience today. So that's great.

QUESTION AND ANSWER SECTION

<Q – Paul Holden – CIBC World Markets, Inc.>: So where I want to start is on the topic of capital deployment. Sun Life is sitting on a lot of excess capital, and has been talking about potential M&A. So maybe you can talk us through where you're thinking in terms of M&A today, potential deployment options, and how you're thinking about valuations you're seeing as well.

<A – Kevin Strain – Sun Life Financial, Inc.>: Yeah. So on the M&A topic, and we've talked about this a lot., whatever we do in terms of deploying capital in the M&A front, we're looking at it to support our three medium-term objectives. So our medium-term objective for earnings growth is 8% to 10% earnings growth. Our medium-term objective for ROE is 12% to 14%, and we have a medium-term objective for dividends to our shareholders. And if you think about those three things, we're looking for M&A to support each of them. It's got to support our ability to create 8% to 10% earnings growth, it's got to support 12% to 14% ROE, and it's got to support the cash flow and looking at cash flow. Each M&A can have different components of those, and each of our pillars sometimes plays a slightly different role in each of those components.

So if we think about deploying in Asia versus the US or Canada or into asset management, they may play slightly different roles – in Asia, you're looking for more earnings growth and maybe less immediate cash flow, and in the other jurisdictions you might look at it slightly differently. But the end result is it has to build towards our medium term objectives, and I think that's really, really important. The second thing we look at is, are we building scale or capabilities, and if we're building new capabilities in or for building scale into one of our businesses that maybe needs scale, so we have a couple of markets in Asia, countries in Asia where we're newer or smaller, for example, Vietnam, which was a greenfield a few years ago, or Indonesia, building scale into those businesses, being an end game player in each of the markets that we're in in Asia is really important. So scale is important, but also building new capabilities.

And the next thing we look at is our ability to execute and deliver. And if you look at the past, we've had a really good run of delivering on our M&A opportunities, whether it'd be in Asia or Assurant in the US or some of the asset management acquisitions we've done. So our ability to deliver and to execute is also an important component. And so we wouldn't want to do three acquisitions in a small country like Vietnam because you put too much stress on the management team. So ability to execute becomes important, and then sort of alignment with our strategic priorities. But if you went back to the medium term objectives and you said, listen, we want to grow 8% to 10%, acquisitions in Asia really help that, we want to make sure we continue get cash flow, group benefitsacquisitions or asset management really support cash flow, and ROE, Canada, US, we have strong ROE. So it's a matter of making sure that it builds on our plan, matches the plan, building strategy, new capabilities, but really building out our MTO, our medium-term objectives.

<Q – Paul Holden – CIBC World Markets, Inc.>: Okay. And then just wondering in terms of looking at the different pillars and different options you have in front of you for M&A, how much does the role of interest rates, whether that's the current rates or future rates, like how much of a role does that play into your thinking, if at all?

<A – Kevin Strain – Sun Life Financial, Inc.>: It certainly plays into our thinking and you can see that. And if you looked at our mix of business, we're 40% to 45% of our business today is asset management. Roughly 40% is from businesses like Group Benefits, which interest rates have a lesser impact on, or else Asia, which is in a totally different interest rate environment. Asia is developing markets, higher inflation, higher growth rates, higher interest rates, so different than the sort of low for long that you see in the developed countries. And then about 20% of our business is from either individual life in Canada, our closed block in the US, and our International business in Asia.

Those businesses comprised about 35% of our income in 2012. So between M&A and growth and sort of strategic focus, we closed the US block for example in 2012. So I wouldn't say that we wouldn't do acquisitions necessarily in those pieces, but it certainly would be a smaller draw. And if you look at where we've done acquisitions in the past few years, we've done them in Asia, we've done them in asset management outside of MFS, but asset management under Sun Life Capital, and we've done them with Assurant. And so the focus has been acquisitions that aren't impacted by interest rates, and you've seen us executing on that, and I think that would continue to be the focus.

<Q – Paul Holden – CIBC World Markets, Inc.>: Okay. Let's turn to MFS for a second. It accounts for roughly a third of earnings, give or take. Has a certainly, commands a big portion of the dialogue on Sun Life, probably even more than a third. What surprised me about MFS over last few years is the ability to grow earnings faster than AUM despite a lot of the industry headwinds. So how is that being achieved? Is it really sustainable, like, how should we be viewing earnings growth in that business?

<A – Kevin Strain – Sun Life Financial, Inc.>: Everybody in this room knows scale is really important in that business. And so as markets have really lifted the asset size, and assets drive the fee income and the profitability, about a third of the expenses are sort of fixed and not related to the size of assets. And so that's provided a scale that's helped. At the same time, MFS has been very diligent in controlling their expenses. So you see a combination of scale and work to hold expenses and Mike has talked about that on the call, some of the things they've done to maybe reduce some of the brand and advertising costs at different times. But they've been very diligent on the expense front to control those expenses and the rise in scale has provided opportunities there.

So MFS, when I talked to the guys at MFS, the thing that I liked most about them, is they start the conversation on investment performance and they end the conversation on investment performance, and they talk about how culture is important to their investment performance, how their research process is important, how they dealt with MiFID II for example. They start and end with investment performance. And I think if you're an asset manager and you start thinking too much about income or flows, the next thing you know those are gone because you haven't been focused on investment performance. So the approach, I mean, they're a big company, they have scale, they've invested in research, they've invested in analytical capabilities, and they're doing a lot of things right. And that growth in assets has helped alongside of the expense piece. There has been some seed capital gains the last two quarters that have supported the growth in earnings. But you're right, largely this has come down to scale covering more expenses and good expense discipline, and that can continue as we go forward.

<Q – Paul Holden – CIBC World Markets, Inc.>: Okay. So given that experience with MFS, but the industry headwinds that are pressuring fees and margins for others, like does that impact your thinking around future capital deployment into asset management at all?

<A – Kevin Strain – Sun Life Financial, Inc.>: It was about five years ago that we looked at what was happening in the alternative space. And we looked at where we're at on asset management, and MFS is a great active asset manager. But that's what they are. That's what they do, that's what they do well. And in fact, they're not that interested into spreading into the alternative space. But we can see fee pressure coming. You can see a movement more to the passive side versus the active side, and we can see the growth potential in the alternative space. And in the alternative space, we have a lot of expertise in our general account. We're big investors in real estate, in mortgages, in private fixed income. And so we saw an opportunity to grow in that space alongside of MFS. So we've made four acquisitions in the past number of years, Bentall Kennedy, and then GreenOak more recently, Prime and Ryan Labs, and we've taken our private fixed income capability that we're using for our general account assets to institutional investors, and that's grown to $3-$3.5 billion in AUM.

So the combination of MFS on the active side and then Sun Life Capital now building out into the fixed income side, the private fixed income side, and the real estate and real asset side, that combination we think really complements MFS. And so if you think about capital deployment, we've been doing a lot of capital deployment into that alternative space. It's getting to the place that we're now starting to bring those businesses together under Sun Life Capital. So Steve is doing work to make sure that we're looking for opportunities to bring back offices and middle offices together and in that space to share distribution on that space. So we think there are some synergies on that. There's probably some pieces on the alternative space where we would like to still do some acquisitions, but I think the focus would be on growing in that space.

So if you think about infrastructure investing and those types of things. So there are some places that we can continue to see some M&A in the alternative space. But we're also focused on growing what we have today, and we think that space is going to grow more rapidly. In terms of MFS, they're very protective of their culture and their research process, bringing two asset managers together is a really challenging thing to do. And in fact as there is consolidation in that space, we actually think we can pick up flows from being not in the consolidation phase, because a lot of the consultants or brokers know that there can be disruption through acquisition activity. So I think, if you think about asset management for us, what we've done in the past four or five years is a good indicator of what we're going to do - continue to manage MFS really well, continue to focus on investment performance there, continue to build out capabilities in MFS on the M&A side to focus more on Sun Life Capital in the alternative space.

<Q – Paul Holden – CIBC World Markets, Inc.>: Okay. Another area of tremendous success for the company, and particularly over last two years, three years has been the US Group business, post-Assurant transaction executed very well, seeing big margin expansion, starting to see some top line growth there, but it's still 8%, 10% I think of total earnings. I'd love to see that business bigger. How do you get it bigger? How do you make it get to a bigger contribution?

<A – Kevin Strain – Sun Life Financial, Inc.>: Yeah. So the Group Benefits space, we're expecting significant growth out of it, and you've heard us talk about 10% plus growth from that space. We have two primary businesses in the Group Benefits space in the US; we have a stop-loss business and we have the sort of core Group Benefits business, but in the US they call it ancillary benefits life and disability. The Assurant acquisition was a great example of how to get bigger, and we are seeing the synergies come through that transaction, the expense synergies, and we've built new capabilities in. So that's been a great success story for us. The stop-loss business – and the Assurant acquisition made us bigger, it also gave us some expense synergies. So the acquisition of the Assurant business was important piece in terms of our margin, our target margin of 7% for that business. Stop-loss is also an important piece. We're one of the leading providers of stop-loss in the US. We have access to 90% of the stop-loss data. We've been in that business a long time. We're seen as a leader in that business, and that business will grow with medical inflation in the US. And so there's a higher growth rate already implicit in the stop-loss business than say in the core Group Benefits business, and then on the acquisition side of the Group Benefits business.

We're also doing some things in terms of digital and fintech in US Group Benefits. We purchased a company called Maxwell Health. We were originally an investor, we ended up buying them out. They're going to help us in terms of the technology we deploy into the Group Benefits space, both setting up new plan sponsors, setting up new business, but also attracting business on the voluntary side, really digitizing that business. And on the stop-loss side, we invested in a company called Collective Health. Collective Health is sort of in the benefits space, in the health space trying to do health on a more direct basis to US sponsors. And they wanted a leading stop-loss provider beside them, because a lot of their clients are self-insured and they're doing the processing and they wanted a stop-loss provider. So they actually came to us. So you can see a combination of continuing to get better to deploy on the Assurant acquisition, and then also building out the stop-loss business, and then connecting into some of the things that are happening in the fintech space. So I think there's a number of different things we can do on that front.

<Q – Paul Holden – CIBC World Markets, Inc.>: Got it. All right. I'll turn to Asia for just a couple of minutes. I mean, no question the long-term growth opportunity is there, and I get why you want to deploy more capital towards Asia, but Sun Life has seen a little bit of a slowdown in their Asian business over the last 12 months, right? Some of that's related to the high net worth International business. But maybe you can talk about the reasons why we've seen some slowdown in growth out of your Asian business and how that can reaccelerate.

<A – Kevin Strain – Sun Life Financial, Inc.>: So the core of our Asia business is the seven markets that we're in, the seven call it local markets or whatever you want to define the business I used to run. And in that business we've grown both top line and bottom line for over 15%. So the growth has not slowed in the core of the Asia business. The International business has really pulled down the results the last few quarters. We moved International to Asia for a couple of reasons; 90% of the clients are Asia clients, and over 90% of the sales come through Hong Kong, Singapore and Dubai, and actually most of those come through Hong Kong and Singapore. Just as we moved that business, interest rates started to shift, and for a variety of reasons we've started to see the sales slowdown in the International business. The International business historically has been in one product category, universal life, and that was a mistake, to focus all of your business in product category. It worked largely off of selling high net worth clients through banks on a finance basis, and the shift in interest rates really slowed those sales down.

So they've been building out a number of different products that they'll take to market, including a par product that came to market in May. Interest rates are now in a different place again. So the universal life sales will become supported again. But from a business strategy standpoint, we want to be less reliant on sort of one product, one sales sort of method and broaden that. And bringing it into Asia, where we were already doing some high net worth business in Hong Kong and other countries will allow us to integrate it more. So it's slowed the results in Asia, no question about it, on an overall basis. But longer term, I think there's strategic benefit to bringing it into Asia, I think it was the right thing to do. And the core of our Asia business has continued to be on thesis, at earnings over 15% and sales over 15%. So the core of Asia is not slowing down at all, and it's really of bringing this International business, broadening it, changing some of the distribution strategies, changing the product strategy and getting International bigger.

<Q – Paul Holden – CIBC World Markets, Inc.>: So on that point of core continuing to grow, is there any commentary you can provide us on how disruptive the Hong Kong protests have been?

<A – Kevin Strain – Sun Life Financial, Inc.>: Yeah. It's something that I know gets a lot of attention here from the media, and certainly we've been watching it closely, and having lived in Hong Kong for five years, it's really something to watch. But in terms of business results, we haven't really seen a slowdown. Now, we're less reliant on Mainland Chinese visitors than say some of the competitors are in Hong Kong. So the bulk of our base comes from Hong Kongers, not from Mainland Chinese visitors, because you've seen a huge shift particularly in August and September in terms of the number of Mainland Chinese visitors coming into the city.

But at this point, we haven't seen a slowdown of those sales. Hong Kong is a very resilient, very market-focused place and has tended to find its way through these types of things. So we keep a close eye on it. But we haven't seen a big impact yet. And the resiliency of Hong Kong I think will eventually come through. They are very good at making sure that they – they are very commercial place, it's probably the most commercial place I've ever lived. So it's a very commercial place, and I think they typically find their way through. But the fact that we're less tied to Mainland Chinese visitors I think helps us.

<Q – Paul Holden – CIBC World Markets, Inc.>: Point taken. Good. I want to ask you a question on the Canadian business, and I guess an observation I have for the industry as a whole, not just Sun Life, but there's been some pressures to ROE within Canada, particularly with investments that different companies have made. There's some offsetting operating efficiencies that the industry has been pursuing. But what I'm really curious to ask is, are there some structural reasons on why ROEs in Canada may be trending down or is this more transitory?

<A – Kevin Strain – Sun Life Financial, Inc.>: Well, our ROEs in Canada are quite strong. And I think if you look at the combination of businesses we have in Canada, we expect Canada to be a big contributor to ROE in our 12% to 14%, and also a big contributor to cash flow. We expect earnings growth from Canada to be 6%, 6%- plus. So it's a contributor to the 8% to 10%, but it's a big contribution to our ROE and to cash flow. We have a combination of businesses. Our pensions business, we're the number one provider of pensions. We're by far the biggest group benefits, we're the largest provider of group benefits, although Manulife and Great-West are about the same size. And you can think about those as being very high ROE businesses, and those are strong, growing businesses for us.

On the individual side, interest rates have certainly created a pressure on results for individual. We've been working in a low interest rate environment for a long, long time. And the industry has been repricing those products since the crisis and even before the crisis. The impact of interest rates has been felt in individual. I ran individual between 2007 and 2012, and I was the CFO before that from 2002 to 2005. Interest rates were already – they were a lot higher than they are today, but they were already on their way down and low. And we've been working through that low interest rate environment over that period of time and have been, you've seen the industry substantially repricing. So while individual does – lowering interest rates are a negative, we have been able to reprice the products so that it hasn't been seen as much of a negative. So I would see Canada continuing to be a big supporter of ROE and having ROE in excess of our sort of target range.

<Q – Paul Holden – CIBC World Markets, Inc.>: Okay. So it's a good segue to the next few questions, which will be on sort of the interest rate theme given where the markets stand today. So one of the observations regarding Sun Life is you can obviously see a lower, I think, mix of business towards let's call it the traditional life product. But within that traditional life, probably interest rate sensitivities that are roughly around average. Maybe you can talk a little bit about your asset liability matching strategies and derivative hedging strategies as well to help immunize that traditional block.

<A – Kevin Strain – Sun Life Financial, Inc.>: Yes. I will start again with – as you think about interest rates for us, it's a total company. Remember that 40-40-20. So 40%, a little bit more than that in asset management, 40% in businesses that aren't as directly impacted by the low interest rate environment, and then 20%, which is in this category. In terms of our asset liability management, we've run very closely matched portfolios forever, that's our philosophy. We try not to take either interest rate or equity risk with our policyholders' funds. So we've been moving away from guarantees, we've been shifting our mix of business even in the individual businesses. So in Canada we went back into par in 2010 because we didn't like the risk profile of universal life level COI, and it was a big chunk of our business. We're selling more term.

So we are constantly trying to use methods to shift the mix of business towards less long-term interest rate guarantees, shift the mix of business towards businesses that have less impact from interest rates, and really manage our distribution of mix in a way that drives that. And then when we are taking those risks, we're very careful in terms of our matching of durations. Some of the business is very long. So you can match cash flows pretty closely for the first 30 years. Outside of 30 years you need other instruments like equity and real-estate because there's not a lot of really long assets that are available, so you do get that piece that's a little bit mismatched. But we're very disciplined in terms of trying to get those cash flows matching and then moving away from the mix. And as I mentioned earlier, those really long-term interest types of businesses have gone from 35%

of our mix down to 20%. And remember that one of them is a closed block. So I think you can see, our focus is on building out businesses outside of that.

<Q – Paul Holden – CIBC World Markets, Inc.>: Got it. And in terms of your appetite to continue to hold that closed block, which is kicking off earnings, cash flow, but there is some reinvestment risk associated with it. Like, how do you think about selling, reinsuring that business?

<A – Kevin Strain – Sun Life Financial, Inc.>: So I think there is two things we think about; one, again, with each business we look at its contribution to our medium-term objectives, and again it can have three contributions - earnings, ROE and cash flow. And if you think about some of these closed blocks, they can throw off strong ROEs and strong cash flow. And so they're not going to provide earnings growth. They may in the short-term, but you know that earnings are obviously in a closed block, they're going to decline over time. So we look at all three. And then, we look at – we do think about other deals that we see in the market and what's the pricing look like on those deals and those transactions, and will they give us more, would selling it contribute more to our medium-term objectives or does keeping it provide more?

So it really comes back down to our overall business plan. You can think about a closed block. One of the things they do is, on an annual basis they throw off capital. So that capital is also reinvested. So while the earnings may not be growing, let's say, the earnings are flat, it's throwing off capital that can be reinvested into growth. So I think all closed blocks you can't just sort of say are good or bad, you have to think about it strategically in terms of how it fits into the medium-term objectives, and what does it provide for ROE and cash flow, not just looking at it from a earnings perspective.

<Q – Paul Holden – CIBC World Markets, Inc.>: Got it. And then another follow-up question to your first answer is, in terms of investment allocation, are current sovereign yields impacting how you're allocating investments in order to get a necessary yield and spread and ROE, et cetera?

<A – Kevin Strain – Sun Life Financial, Inc.>: Yeah. You've certainly seen a growth in our use of private fixed income to generate spread, and that can occasionally look like we're moving sort of down the sort of risk categorization because they typically have a lower rating, and we use internal ratings on those types of investments. In terms of the private fixed income investments though, we do, you get a lot more diligence and you get collateral. And so we've used the private fixed income capabilities and we're one of the largest private fixed income investors in Canada, and we're a large private fixed income investor in the US, and the capability for building out in Sun Life Capital are also supporting that. So we're looking at the private fixed income space as sort of being the provider of that additional spread.

In fact, we are getting interest from institutional investors in our private fixed income capabilities, and part of the Sun Life Capital mandate and strategy is to bring those capabilities to the market. And I think that also gives us a broader footprint there. So we've been using the private side to drive the additional spread. But it is remarkable what's happened in the interest rate environment over the last few years. And if you look at the developed markets globally, the number of developed markets that are in a negative interest rate space is really quite a remarkable development, and the fact that Canada and the US are still in positive interest rates, and you can still do work on corporates and create some spread I think is positive to our business in Canada and the US.

<Q – Paul Holden – CIBC World Markets, Inc.>: But that's a great segue to the next question, as you look around the world and you see, whether it's zero or negative rates, and you think about the possibility that North America gets dragged down into that, how does that influence your thinking around the business and your planning, and there's got to be a scenario everyone is thinking about, right, risk management?

<A – Kevin Strain – Sun Life Financial, Inc.>: So I mean, back to the 40-40-20, I think that's even more important. So if you think about growth in Asia, developing markets where interest rates are naturally higher is important, building out group benefits businesses that are less subject to interest rates is important, building out the alternative space in Sun Life Capital is important. And the fact that our more interest sensitive businesses are in Canada is somewhat helpful, because as we discussed earlier, the re-pricing in Canada has been pretty rational. And the fact that we've closed our US life block is an important factor, the fact that we're not in things like variable annuities and long-term care in the US is an important factor.

I think you can see from our actions over the past five years what our philosophy has been, not be in long – exit variable annuities in the US, closed the life block in the US, not being in long-term care in the US, building out Asia, acquiring businesses in Group Benefits, acquiring businesses in Sun Life Group Benefits in the US, acquiring businesses in Sun Life Capital. That we've already been thinking. We've been thinking a long time about low interest rates, and we've been operating for a long time in low interest rates. And I think our actions give you an indication of how we think about that.

Paul Holden, Analyst, CIBC World Markets, Inc.

Okay. That's probably a good note to close it on. Thank you very much for joining us again.

Kevin D. Strain, Chief Financial Officer & Executive Vice President, Sun Life Financial, Inc.

Good. Thanks Paul. Thanks everyone.