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PRESENTATION

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

It's my pleasure now to call up Kevin Strain, President and CEO of Sun Life. Good to see you.

QUESTION AND ANSWER

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

So I wanted to start off with you in a similar vein to what I started off with Paul because you also kind of cut your business. You provided investors with a little bit of a different perspective on your business, a different lens, I would say. You separated your business. I mean you're still reporting based on your traditional segments, but you separate your business into three categories: Wealth and Asset Management, Group Health and protection, Individual protection. And so the question is, why did you decide to do that? Why is it important for investors to look at your business through that lens of those three key categories?

Kevin Strain - ***Sun Life Financial Inc. - President, CEO & Director***

Well, first, I would say, if you think about our purpose of helping clients achieve lifetime financial security and live healthier lives. There's an important interrelation between life insurance, health insurance and our wealth and of course, our asset management business drives good returns, which actually help our life insurance, our health insurance and even more directly, our wealth business. So kind of reiterating and tying back to our purpose was important. But most of our investors continue to think of us as a life company.

So the bigger reason we did it was 40% of our income is now coming from the wealth side, about 30% from our group side and just under 30% from our individual side. But a lot of people thought about us in the history of our company, which was more on the individual side, more of the capital-intensive business. And we wanted to make sure that our investor base understood that we're an asset management and an insurance business.

And in fact, as we step back and looked at us from that sort of lens, I've had a chance to compare Sun Life asset management business to other insurance companies. And I would argue that we -- between -- from MFS into what we've built out with SLC into our wealth and asset management capabilities across Asia and Canada, we have the best asset management wealth platform of any of the insurance businesses I've looked at, and that's evident in our $1.4 trillion in assets under management. But people weren't thinking of us as an asset management company.

I think of us increasingly as an asset management company, when I stepped back and thought of us as an asset management company and compared ourselves to other asset managers that are also building on insurance. Apollo, BlackStone, Brookfield, Ares, they're all building out insurance operations. I would argue we have the best insurance business of any of those companies. And so we wanted to highlight that for investors that we're not Sun Life Insurance Company, we want to be the best asset management and insurance company in the world, and we wanted to show the strength of what we're building out on those sides.

It also is very relevant to capital, right? So again, if you think about life insurance, and I know Paul talked about this a little bit earlier in terms of capital and returns on capital. But if you think about the typical insurance it's just under 30% of our business, and that includes Asia, which is actually typically shorter duration and sort of less capital usage. That's what's driving a lot of the capital.

When you think about IFRS 17, that's where IFRS 17 is having the biggest impact. And so we wanted to make sure that investors understood that think about IFRS 17, you think about capital, you think for all these changes, that's in that 30% of the business, which is roughly in Canada, a closed block in the U.S. and Asia. Group benefits much less impacted by IFRS 17. And of course, the wealth and the asset management business wasn't impacted at all. So we thought it was important for our investors to understand how we're positioned and positioned differently in terms of changes to IFRS 17, but also in terms of growth perspectives going forward. Of course, there's nuance to that because we -- of course, think Asia is going to be fast growing, so it doesn't show up specifically in those, so you have to kind of look at the matrix.

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

I want to touch on Asia, of course, and the asset management business. But first, maybe spend a little time talking about capital deployment -- this earnings season, you announced a 3% buyback. That's the first NCIB that you have in place since 2019 now. Some of that time is the pandemic, and there were restrictions on that. But the question is why now? Why the buyback?

Kevin Strain *- Sun Life Financial Inc. - President, CEO & Director*

So it's -- again, back to if you think about the mix of business, the capital intense business, if you look at our dividend and organic need for capital we're generating about $1 billion per year in capital that we can deploy. And we had a strong capital position coming through IFRS 17. Paul talked a little bit about managing capital and the changes in IFRS 17. And the combination of having $1 billion of capital coming in each year with sort of normal market conditions, a strong capital position, we always look at our pipeline in terms of what's available in that M&A. We thought it was a good chance to give back. And in a typical Sun Life way, we're basically buying back shares at the rate we're generating new capital.

So we're actually, I think, taking a fairly conservative approach to how we do the buyback. As you noted, between COVID and we're actually quite active on the M&A side, including DentaQuest during COVID and deployment of capital, it's sort of now that, that need sort of popped up because, one, you couldn't -- you weren't allowed to do it during COVID and two, we probably did more transactions during COVID than we've done in any other sort of 3-year period.

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

You guys have been very active. And that's really where the question comes from, because sometimes we look at a buyback and sort of the question is, what can we read into that? Is that a signal that we're in a different M&A phase for Sun Life that there's just not as much out there. There's not -- the need for as much and so is that a conclusion that investors can draw?

Kevin Strain *- Sun Life Financial Inc. - President, CEO & Director*

I wouldn't draw that conclusion. I would say that we have looked at the pipeline. We do have a strong capital position. And again, we're basically buying back what we're earning. We've been pretty -- we are disciplined around how we deploy capital. So I do think that we've gone through a period where we built out SLC and we've invested a lot into building out the alternative capabilities, the addition of Bentall Kennedy and then GreenOak and the merger of those two, the addition of Crescent, Advisors Asset Management, building out our PFI capabilities and Infrared.

We've invested a lot into SLC. That's kind of an execution mode now and we want to see that execute. We've invested a lot into Asia and Asia capabilities and particularly bancassurance. We added the Dah Sing Bank last year. I was just in Hong Kong and met with their Chairman on Sunday night. So -- but we invested in Dah Sing, we invested in two bancassurance transactions in Vietnam, ACB Bank and TP. We upped our investment in RCBC bancassurance relationship in the Philippines and we bought out a competitor who was half of the CIMB Niaga relationship in Indonesia. So we've invested a lot in the bancassurance in Asia. And again, I want to see us execute on that.

Canada, we just did the Dialogue transaction, and it's not even closed yet, so we want to see us execute on that. So I would say we are in a phase where executing on our capital deployment is going to be important. We're still out there. We're still looking. Economic environment is a little different. But I would read more into it that we're in a strong capital position, we're generating capital, and we think this is a prudent sort of balance, which is sort of where we were pre 2019.

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

You mentioned Dialogue. And I just wanted to ask why did you buy Dialogue? And is it viewed as more of a one-off? Or is that a bigger strategy here?

Kevin Strain - ***Sun Life Financial Inc. - President, CEO & Director***

Increasingly, as we look at the -- we see ourselves being in the health business. If we look at our Group Benefits business in Canada and the U.S., we're extending that business from historically being payers of insurance and helping people pay for their health care to providing care navigation. We added PinnacleCare. We've got Lumino in Canada, we're adding wellness programs and increasingly, we're now becoming a provider.

And I think you've got -- Intact coming. If you think about what they do in terms of being a P&C company, and adding either auto care or else home repairs and those types of things, we're doing a similar thing with Dialogue and virtual care. We're sort of creating that extension of the health business from being a benefits payer to actually adding care navigation, which we think is really important today to actually adding wellness programs and provision.

And we're doing the same thing in the U.S. So Dialogue is that extension. I think of the group businesses as digital businesses. All the interactions we have with members are digital. Their payroll comes in and they pay when they submit claims, it's all digital. As a digital business, if we can understand the client better, if we can provide the sort of end-to-end solution for their health side, we think that's powerful.

And as I said, in the U.S., we're actually doing a similar thing. So if you think about group benefits in the U.S., we're now a top 10 player in the U.S. group benefits space. We added PinnacleCare for care navigation, that's more on the stop-loss side, but we can see that extending. Dialogue has just signed an agreement with our U.S. business. And on top of that, when we acquired DentaQuest part of what we acquired with DentaQuest was 75 dental facilities. And as we started to look at that, it's another extension into care provision. And so we own 75 dental practices there. We see the opportunity to increase that as well. And that's similar to what a lot of the big U.S. health care systems have done with physicians. It's just that we're doing it at a much cheaper price, and we can take those dental practices and make them breakeven in a period of 6 to 12 months.

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

I wanted to talk about your ROE and the impact that the buyback could have on the ROE. A little bit above 17% in the most recent quarter. When I run the numbers, it seems like the buyback can get you to 18% plus. And so I'm just wondering if you agree with that math? And then is there a path to 20% here? Like is there still more room for this ROE to expand?

Kevin Strain - ***Sun Life Financial Inc. - President, CEO & Director***

Certainly, the buyback helps. Our earnings growth also helps to drive that up. I think we put that guidance about 18% plus. We want to continue to see that grow. I think you look at the capital that's being deployed into more capital-intensive businesses, as that number has become less than 30% down to 20% because some of that 27% in the individual business isn't as capital intensive. I think that's a big piece of what's driving that ROE up. And the mix of business between asset management, which is capital-light group, capital light and what's on the more intensive individual business. So the buyback helps, earnings growth helps, our discipline around capital is important to that. I would say that as the mix shifts, you'll see that 18% plus be can -- it's a plus there for a reason.

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

Plus means something.

Kevin Strain - ***Sun Life Financial Inc. - President, CEO & Director***

Plus means something. It's not 18%, it's 18% plus.

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

I want to talk about Canada, I mean, we touched on Dialogue. But just more broadly about your Canadian business, you're #1 in GRS individual insurance group benefits but there are a few areas where you lag in the mutual seg fund sales arena. Question is how do you close that gap to peers? And sort of what are you focused on in Canada?

Kevin Strain *- Sun Life Financial Inc. - President, CEO & Director*

Well, we're -- as you say, I mean, we're a big brand in Canada. If you're watching the FIBA World Cup, you've seen Sun Life on the team Canada for those that are basketball fans and we're obviously a big brand in Canada. Number one, as you see in group benefits, #1 in GRS, #1 in defined benefit solutions and #1 in individual insurance sales, which we weren't for a long period of time, and we've sort of built that out. Including if you look at annuities and seg funds, we are a big player.

Where we lag in that number is in the mutual funds. Those of you who know the history for a long time, CI was our mutual fund provider. When I ran individual, we sold our CI investment to Scotia, and we started to build out SLGI, and that's grown to a sizable business for us. We have a big mutual fund dealer. I think that we'll just continue to do the basics right. It's -- the wealth business is an important part of back to the purpose. If you think about purpose, lifetime financial security, life insurance, health insurance, wealth products, I think we're well positioned to take advantage of that and increasingly find ways to bring holistic solutions.

So if we have a client that has a big life insurance portfolio with us or health insurance portfolio, introducing them to wealth, thinking about their lifetime plan, thinking about advice that fits into that, that's what's going to drive that. We started from a position where SLGI was -- we started SLGI from scratch. And as you know, the asset management business is all about scale, and that's when the profits start to come. And we've driven that SLGI towards scale now. It's profitable. And I think you'll continue to see that grow alongside of our other business, whether that's 1, 2, 3 or 4, I'm not sure that really matters as long as we're seeing first, the growth in the business, but even more importantly that tie in to the sort of holistic plans we're providing to our clients.

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

I want to talk about one aspect of the most recent results that you posted that really jumped out was the favorable insurance experience -- very favorable insurance experience mostly in Canada, $144 million in Q2. And just by comparison, $16 million in Q1 and a similar number in the same quarter a year ago. Can you just -- can we just talk about that for a little bit in terms of remind us what drove that result and how sustainable it is going forward?

Kevin Strain *- Sun Life Financial Inc. - President, CEO & Director*

Yes. In many ways, and I'm not declaring that COVID is over because there's a new strain coming out and there's different things happening. But in many ways, the last few quarters have felt like starting to emerge from that COVID overhang. We've had higher mortality experience, particularly in the U.S., and we didn't see that during the quarter. So you saw a shift in mortality because of COVID.

We started to see sales come back, particularly in Hong Kong and other parts of Asia as restrictions went away and not as related to COVID, but we started to see better experience on the morbidity side. That's a little bit to do with pricing, and we've been repricing for 2 or 3 years. There's been higher wellness claims, mental health, some of those types of things. And in the quarter, we saw a little bit lower severity and claims experience. You don't necessarily expect to see that all the time, but we have been also pricing towards that.

So if I think about the group businesses, I think of them a very short duration, very low capital, and it really comes down to pricing of those and returns. And I think that the morbidity experience is all part of how you manage the business. When I talked before about creating these wellness programs, creating Lumino, creating navigation, that makes the business stickier. It gives us pricing power, it gives a better experience for the client. So obviously, some claims experience does fluctuate quarter-to-quarter. But the pricing and how we manage severity doesn't and then I think what you're seeing is some of that. So some of it is onetime, but some of it is actually driving this through and driving the pricing through.

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

I want to talk about Asia. Obviously, we can't sit down without talking about an important market for Sun Life. I want to approach it first from a big picture. Definitely, you read every day articles about how Chinese economy is slowing and the issues that they're having there. It seemed to have turned very rapidly from a very good news story for a very long time to a very challenging story. And so the question is we'll get into sort of a shorter-term outlook, but just big picture, does it change your view of Asia in any way? What's going on right now in terms of that key growth engine of Asia, looking like it's having issues?

Kevin Strain *- Sun Life Financial Inc. - President, CEO & Director*

Well of course, China is a big economy in Asia and if the Chinese economy is struggling that is going to have some ripple impacts. But at the same time, there's ripple impacts across Asia for that, you are seeing other changes in the Asian economy in terms of China Plus One as U.S. changes manufacturing locations as other western countries change. And you're seeing India, Philippines, Indonesia, Vietnam, have a benefit of that China Plus One strategy.

If you look at our biggest businesses, ASEAN, India, Hong Kong, our biggest businesses, Mainland China is not our biggest business. It's an important business for us, but it's not our biggest business in terms of income. I think Hong Kong's economy is a little bit different. Think about China's 1.4 billion people and Hong Kong is 7 million. Hong Kong is really a hub to the world of access into China. You are seeing much more flow of people from Mainland China visitors coming from Mainland China into Hong Kong.

I was in Hong Kong this weekend. Certainly, it's buzzing. It's -- even the fact there was a typhoon, the typhoon -- I got there Friday morning. Typhoon hit on noon on Friday, by Saturday afternoon, people were back in the shopping malls and the stores were all open. Trees were down all over the place, but the malls are open and people were shopping. So it's -- I think if you think about Hong Kong, volumes coming back in, it operates differently. You see a lot of activity there. We're seeing a lot of activity. The industry is seeing a lot of activity. So Hong Kong is more tied to emerging affluent people coming in, driving that, driving the Hong Kong economy. ASEAN, a whole difference set.

And India is actually seeing -- I was in India a few months ago, the energy and the optimism in India is almost too much, right? It's almost worries you because it's so great. And so I think that, yes, China has things that are driving its economy, and you've certainly seen a real estate bubble there and some real estate impacts. I will say at the same time, I think China is doing -- China has a very managed economy, right? It's SOE driven, it's policy and state driven. One of the things I've been seeing and watching closely is if you talk to people in China, and you talk to people in the government in China, they're very focused on climate change and investing in electronic vehicles, solar wind farms, probably carbon capture, that change to green energy. I can see that -- them using that the same way they use real estate to help drive the economy. It's a big economy. So it's hard to get an exact read on what's happening, but I do think that kind of like the U.S., I wouldn't totally bet against it, and I do think they have other levers to drive growth. It is not the place that we are -- where we're getting most of our income from, right? Our income is coming from ASEAN, India and Hong Kong.

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

Focusing on Hong Kong, you saw a big jump in sales in Hong Kong this past quarter, and you highlighted the role that Mainland Chinese visitors are playing in that market. So if you could just kind of highlight how impactful that was in the quarter? And then just in terms of your strategy, your business judge in Hong Kong, how much is it tied to this important market?

Kevin Strain *- Sun Life Financial Inc. - President, CEO & Director*

Historically, we've under-punched in Mainland Chinese visitors. Historically, when I was there, and we had ideas of how to fix it, but we never actually did. The industry was 30% to 40% Mainland Chinese visitors, and we are running less than 10%. We're still running less than the industry, but we're catching up. And we've been building out strategies to work with brokers and our agents to attract more Mainland Chinese visitors to Sun, including brand work and aligning the products.

We've also, and it just started to come through in July so we didn't see it in the last quarters, we've launched our Dah Sing bancassurance deal. We're starting to see flows through the bank. I had dinner with the Chair when I was in Hong Kong, and they're very happy with the relationship and with the drivers. So I think we are building out capabilities to grab that business. It is increasing, and we are starting to see that steady flow that was basically zero. That affluent business was going to Macau up until the last 3 or 4 months, and now has shifted to Hong Kong.

So I think that -- I think the whole industry is seeing growth, and I think we're well positioned to capture that. And now we've added the Dah Sing Bank, which is an additional capability in Hong Kong. We've been in Hong Kong 130 years. We have a big force, we have 2,500 agents. We've got good broker relationships and now we have bancassurance and with the number [2] by flow MPF business, it's interesting two Canadian businesses, [Roy] probably talked about this here, are the biggest pension providers in the Hong Kong market. So I'm pretty bullish on Hong Kong, and I do see Hong Kong as having a different sort of economic environment than Mainland China.

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

I wanted to just focus on the U.S. a little bit. You touched on it and you talked about dental a little bit, but just more broadly speaking, you've built out the U.S. business. The most recent piece was the dental piece. So as you look at that U.S. business now, is there any gap there that you see that needs to be filled or anything obvious that where you can continue to extend?

Kevin Strain *- Sun Life Financial Inc. - President, CEO & Director*

No. We're pretty happy with the breadth of the business, and we're starting to see all three of those businesses do very well. Our stop-loss business, which plays in the broader medical group benefits in both disability and family and leave absence and now in the bigger dental and vision sort of businesses. So I think we've got good coverage there. If opportunities come up, we look at all of them, but we don't really need additional capabilities. We are now a big player in the group space.

I was speaking to -- I was with another group of CEOs and one of the big group players in the U.S. who you would know the name of, but somebody asked him from Europe, who's your big competitor in the United States, and he pointed at me and said, Sun Life is one of our big competitors, and they probably wouldn't have said that 10 years ago in the group space. So I think we've got the capabilities we need. We will continue to think about that continuum of being -- providing insurance and being a payer of benefits into navigation, wellness and provision. I did mention building out the dental practices is an example of something we'll do to continue to see that evolution of that business, more digital, more broad health.

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

That build out to dental practices, does that happen through big M&A? Or is it a lot more?

Kevin Strain *- Sun Life Financial Inc. - President, CEO & Director*

No it's small activity. And you can imagine that setting up a dental practice is relatively cheap. We do it in a way that the dentists come on a salary basis, when we're -- it allows them to focus on the care they're giving and not upselling and those types of things. And because we have 40 million Americans that we cover their dental or close to 40 million. We actually get these practices full relatively quickly and they break even relatively quickly. So there's an organic cost, but it breaks even within a 12 months plus or minus 6.

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

I want to talk about asset management, a big part of your story. You referenced SLC and a very successful build-out of that alternative asset management platform. But specifically, I was looking for an update on an acquisition that you recently did, the AAM acquisition and I don't think it's well understood. So I was hoping you could go into little more detail in terms of the strategy there and then also talk about implementation and how that's been going in terms of part of the Sun Life family.

Kevin Strain *- Sun Life Financial Inc. - President, CEO & Director*

Well, when we look at the alternatives business, and we have built out capabilities, I think outside of private equity, if you looked at real estate, infrastructure, private fixed income, high-yield credit, we've got all the capabilities in the alternative space. And one of the things we saw was that there was an opportunity with high net worth individuals. We think high net worth individuals should have 5%, 10%, 15% of their assets in alternatives. And that's not the case in anywhere in the world right now. And so we're starting with the U.S. with AAM. And in the U.S., we wouldn't have access to the wirehouses. So buying AAM, they were already dealing with high net worth individuals, they were dealing with all the wirehouses. We've now built product, it's just starting to go into their wholesaling system to drive that out.

So we saw this opportunity to bring a retail alternative product to high net worth individuals. We're starting in the U.S. We don't think we need to buy something in Canada to do it. We can work with the different banks and find ways to bring that capability to Canadians. And I think over time, we'll take the learnings from what we do in the U.S. and eventually in Canada and also apply it to Asia. So the alternatives business will always be a big institutional business, and we think it's very important in the institutional side. But we see this opportunity to also bring alternatives to retail -- high net worth retail clients and the starting part is this AAM acquisition in the U.S.

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

I wanted to ask about MFS as well, continuing net outflows and just your outlook for that business. I mean definitely, cash is becoming more attractive. And so that's presenting a challenge in a higher rate environment. What's your outlook for that business and then the strategy going forward?

Kevin Strain - ***Sun Life Financial Inc. - President, CEO & Director***

One of the things I look at is how is MFS doing versus its peer group? And how is it doing in terms of its commitment to its asset management style and philosophy, strength of the management team, its performance and flows versus competitors. And when I step back, very strong management team, good performance, dedicated to their approach and their flows are better than the industry. So they are suffering from outflows, but it's largely to do with the current economic environment. As you said, if investors can put in cash at 5% to 6%, you're seeing a lot of people at least put a portion there. And so MFS is performing better than competitors, but they are seeing that more macro trend. I don't think that will continue forever.

And I think we've owned MFS since the early 1980s. If you take a long-term view, it's just been a great business for us. It drives strong income and equity markets have been going up. So equity markets going up, drive up the income from their good income, good dividend cash flow to us, great ROE, strong management team, doing all the right things, built out distribution and performing better than peers. I think there's not more we can ask for other than make sure we have some patience.

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

Time is running out. So I really appreciate you being here, Kevin. Always great talking to you. And thanks so much.

Kevin Strain - ***Sun Life Financial Inc. - President, CEO & Director***

Thanks, Meny. Thanks for having us. Thank you.