PARTICIPANTS

Corporate Participants

Dean A. Connor – President, Chief Executive Officer & Director, Sun Life Financial, Inc.

Other Participants

Meny Grauman – Analyst, Scotiabank

MANAGEMENT DISCUSSION SECTION

Meny Grauman, Analyst, Scotiabank

And we're back with our next guest which is Mr. Dean Connor, President and CEO of Sun Life Financial. Dean, good to see you.

Dean A. Connor, President, Chief Executive Officer & Director, Sun Life Financial, Inc.

Likewise, good to see you, Meny.

QUESTION AND ANSWER SECTION

<Q – Meny Grauman – Scotiabank>: I think we'll jump right into it. The first question which I've been wanting to ask all your peers really is a big picture question, comes out of the quarter that we just saw. COVID-19 certainly had an impact on the results, but I would say much less than what we thought here on the Street, I think, what management teams, including your management team and yourself thought. So, really, the first question is, what you'd ascribe that to? What are the key factors that led to this resiliency, and is it sustainable going forward? I think is also an important question to ask.

<A – Dean Connor – Sun Life Financial, Inc.>: I think – thanks for the question, Meny. I think that it really speaks to the balanced and diversified business model that we have at Sun Life, so that – and that balance and diversification shows up across a number of dimensions. So, narrowly around mortality experience, for example, we have some losses on higher life insurance claims in group insurance and retail insurance, and then we offset somewhat by savings on annuities, people dying earlier than expected.

We have the benefit of the balance of mix of business at Sun Life. So, we said before, roughly, it's sort of 20%-40%-40%. 20% of our earnings come from businesses that are affected by interest rates, for example, universal life in Canada and some of the products we sell in Hong Kong, but 40% of our income comes from group benefits, which are shorter duration products that can be re-priced and are less focused on [ph] that's just (02:04) tied to interest rates and 40% from wealth and asset management. And, of course, COVID has touched those different businesses differently. And, in fact, the – you saw in the case of MFS, assets under management are actually up and were up to, at the end of August, USD 557 billion. So, this balance of diversified model is really coming through, So – and again, within Asia, COVID has touched different companies – countries at different stages, so having some balance in diversity across Asia has helped. So, we've got China and Hong Kong and Vietnam coming through this a little faster than some of the ASEAN countries. So that's the first point.

The second point I'd make is that, we de-risked our investment portfolio in the five years leading up to this. We didn't know when there would be a crisis. We didn't know what the cause of it would be, but we thought the credit cycle was getting a little long. So, we dialed back on credit. We upped our average credit rating in our commercial mortgage portfolio from BBB to A, We fundamentally changed our real estate mix to a more defensive mix and a bunch of other changes that have set us up quite well.

And then, the third thing I'd say is just around the strength of the balance sheet. And it helps when you come into a moment like this to have a very strong, resilient balance sheet and risk profile.

<Q – Meny Grauman – Scotiabank>: It definitely sounds and also the results bear it out that the strategy really was very well suited for this kind of environment and has performed very well. But I'm curious, is there any aspect where that requires a little bit more course correction in your view? Any aspect of the business that you think needs to be addressed in more detail because of the pandemic?

<A – Dean Connor – Sun Life Financial, Inc.>: We like the four pillar strategy. We think it continues to be the right strategy as we look forward. It speaks to the demand for what we do across all four pillars, our Canadian business, US group insurance, Asia and asset management. We think that the creation of SLC, our alternatives business, starting a business from scratch is not easy, but we've gone from zero to $100 billion of AUM in six years in asset classes that we think the demand for these will be even higher in a low – super low for super long environment, so the demand for real estate and infrastructure, equity and so on and spreadier private assets.

So, we like the mix and we think the four-pillar strategy makes a lot of sense. As with all strategies, it all comes down to execution. And so, your question, what do we want to change? It's less about the strategy, it's more about just different moments of emphasis as we execute. So, for example, digital has been a huge part of our playbook. We've made great strides. It's another thing, by the way, that's helped us with resilience through this pandemic, the ability to sell digitally, the ability to connect with clients, and service clients digitally has made a real difference and that's an area that we are going to not just keep investing in, but accelerate that investment as we go forward.

<Q – Meny Grauman – Scotiabank>: And that's a really good segue to talk about the role of technology in that resiliency through the pandemic, but also to talk about your thoughts of technology and the importance of technology in the business going forward. And specifically, have your investment priorities changed? Has your view of technology changed because of the pandemic and sort of the priorities of where you feel the company needs to invest for the future?

<A – Dean Connor – Sun Life Financial, Inc.>: Our view of technology has not changed because of the pandemic. Our view of technology is informed in sort of a – we think of it as a pyramid, Meny. The bottom of the pyramid, the first tranche is digitizing everything we do end to end. So, applying for insurance, doing the illustration, finishing the application, doing the underwriting digitally using data and AI models, we've built all of that out and the end-to-end process that is without paper and is virtual and digital. And that has been part of our strategy for the past five years. We've invested a lot in that layer. We've made tremendous progress. And it's not 100% to be honest, but we've got most of those elements digitized across the spectrum and we'll continue to flesh that out and finish that.

The second layer is around personal, predictive and proactive, technology that takes all the data we've got and nudges clients or nudges an advisor to take the next best action. So – and you've heard us talk about Ella. She's in Canada, she's our bot and she – think of it this way. She kind of looks over the shoulders of our clients and says, hey, Meny, congratulations on the birth of your child, you should click here and buy some life insurance and you can do that without medical evidence for the next 30 days or hey, Dean, your 21-year old is dropping off your benefits coverage at work, click here to cover her for out of country travel or you're not taking full advantage of your company pension match, click here to join.

In the first half of this year, Ella generated $500 million of additional deposits, wealth deposits we otherwise would not have seen. This is a bot generating $0.5 billion of deposits in the first six months of the year, $190 million of additional insurance base amount.

So, this is a big part of our future. And as we look ahead, taking that layer of predictive, proactive, personalized and extending that to other parts of the company, taking it to the US group platform, taking it to Asia to build it into our retail businesses in Asia, that is in our playbook and we're going to accelerate the spend on digital to accomplish that.

The top part is brand new businesses that our new models are driven by technology. So, think of our investment in Bowtie, which is a purely digital life insurer in Hong Kong which is off to a fast start. Think of our investment in Lumino Health here in Canada which is a health platform, now complemented by our investment in Dialogue virtual healthcare business. So that's the top, just to finish off that digital strategy.

<Q – Meny Grauman – Scotiabank>: And I want to come back to those sort of, call them, fintech investments in a minute in discussion of capital. But closing the loop just on technology, do you believe that Sun Life has a competitive advantage in technology, or can it gain a competitive advantage in technology? How do you see your company stacking up versus your peers on the technology front and where can that go?

<A – Dean Connor – Sun Life Financial, Inc.>: Yeah. We do have some competitive advantages in a number of areas today. So, here in Canada, in the group benefits business and group pensions business, number one market shares in each and we've been growing those shares over the past five years, and a big part of that is technology. The number of clients where we win a new client and they say – and I was on the phone recently with one, they say, you weren't the cheapest, but your technology is ahead. And it's everything. It's the ability to take a photo of your health claim and submit it digitally and have it processed real-time and the money dumped in your bank account the next day. It's Ella nudging people. It's Lumino Health bending the cost curve saying, hey, Meny, you file this prescription at this pharmacy, if you went to this pharmacy 100 meters away, you could save this much money. And so, a bunch of things we're doing to bend the cost curve, all of that creating a competitive advantage around technology in the Canadian group benefits and group pensions space. And that not only helps with growing market share, but it also helps with profitability.

We have some advantages in the United States. We are finding this – the acquisition we did of Maxwell Health, which is this virtual online enrollment platform. Boy, the timing of that couldn't have been better, because all of our clients can't enroll people face to face. They got to do it virtually and where the growth in the number of lives on the platform is growing like a rocket, and it's a very intuitive platform. People like you buy this combination of benefits. It's simple to use. And that investment in technology is differentiated in the US market. I'm not saying that nobody else has it, but we are in a subset of providers who have that suite of enrollment tools that's making a difference as we win new clients. It is making a difference in the selection process.

We're also Investing – making a major investment in our disability claims platform, modernizing it for the 21st century and included in that will be the ability to administer paid family and medical leave benefits which are – have been a trend in the United States. I think eight states now require it. COVID is going to accelerate the demand and the requirement to have paid family medical leave and we've been investing a lot of money in this platform, will be finished next year and that will be a competitive advantage in that space.

In parts of Asia, we have a competitive advantage. In the Philippines, we've rolled out predictive models to nudge advisors on what's the next best call or the next best action. And we've done a couple of things in MFS that are really intriguing. And again, I'm not saying nobody's done those things, but they are things around distribution and technology. And I don't want to go into too much detail, but it's making a real difference, a real difference to our sales at MFS.

<Q – Meny Grauman – Scotiabank>: That's really interesting detail. I wanted to just shift and just talk about capital, excess capital. By my calculations, you have about $4.5 billion of excess, but buybacks are forbidden. So, you have a very high-class problem on your hand. But the question is, what do you do in that scenario and more complicating – making it more complicated, but again, a good problem. You say that you don't need M&A in order to deliver on your target. So, what do you do with all this excess capital?

<A – Dean Connor – Sun Life Financial, Inc.>: I think we've proven the ability to be patient and to continue to look for M&A opportunities that fit the strategy. You saw us acquire the InfraRed infrastructure business that closed in July and last year, the BGO – integrating GreenOak into the BGO to create a real global real estate platform. So, we've actually invested a lot of capital in SLC and more to come. We've acquired a majority interest, but less than 100% in those businesses and we have commitments to buy up in the coming years.

So, we've allocated a lot of capital to SLC. I think we're in good shape there. We've now – as I said, we've got $100 billion business, we've got a lot of runway, a lot of capability and a lot of work underway to grow that. We continue to look for M&A opportunities around the world. In Asia, we've grown really well organically, but we've also benefited from bancassurance deals. The deal we announced in Vietnam at the start of the year with TPBank has been a great success. It's off to a very fast start, actually exceeding our expectations on sales. And so, we continue to look for opportunities whether it's banca or acquiring other insurance businesses in Asia to give us more scale in the markets in which we already operate.

And in the US, we're at scale and we've got great businesses in the group business and stop-loss and other businesses in the US, but the market continues to consolidate. And to the extent there's opportunities, that's an area of interest as well.

I'll back up a step, Meny, and say job one is organic growth. So, opening up a new office and a branch in Singapore that we announced, that takes money, that takes capital. That's all about tapping into the high net worth opportunity in Asia. We already sell through Singaporean banks to high net worth individuals, very high-end life insurance products, but it's an offshore sale today serviced out of our Bermuda business and the opportunity to do more for onshore clients, we think, is interesting and part of our – really aligned with our high net worth strategy in Asia. So that's an allocation of capital that – and I wouldn't overstate it, it's not a big investment, but it's one of the many things we're doing to grow organically.

<Q – Meny Grauman – Scotiabank>: I want to touch on that high net worth business. But first, closing the loop on this potential acquisition value, where do fintechs fit in? I mean, you talked about investing in platforms. You do that already. But what I'm talking about is spending $1 billion or $2 billion on something really big, is that something that you would say is in the realm of possibility or is it something that is really not on your radar screen right now?

<A – Dean Connor – Sun Life Financial, Inc.>: Well, specific to technology, it's not likely that we would invest at that scale in technology. Our strategy around the investments we made in technology, and that includes Maxwell Health; Collective Health in the US; Bowtie in Hong Kong, and a number of others, Rise here in Canada, which is an HR and benefits platform, the investment we've made in Dialogue, the virtual healthcare provider in Canada. All of those investments are around technology capabilities that somehow integrate or touch our business and that we can leverage to help grow our business faster, and in the same process, to help grow their business faster.

In the case of Maxwell, we started out as a tech investment. We ended up liking the company so much, we bought the whole thing and integrated it with our business. And that's a potential model for some of these in the future. So, that's our strategy. Most of the technology spend is organic, internal, tied closely to the client journeys we're building. And we think our people closest to the coalface with clients are best positioned to create those really magical tech opportunities as we look ahead. So, I don't think – long answer, but you're not likely to see us doing $1 billion, $2 billion tech investment.

<Q – Meny Grauman – Scotiabank>: I wanted to talk about rates. Given the kind of environment we're in, we've been in for a long time, definitely hard to have a conversation with a lifeco CEO and not talk about rates. We've touched on this topic for many years now as lower for longer has become even longer and longer. But one area I want to focus on is yield enhancement. Definitely, we're seeing Sun Life, your peers, everyone needs to get more yield. And so, we saw in Q1 and Q2 significant benefits from yield enhancement at Sun Life. And the question is, how are you achieving that and how sustainable it is? And how do you make sure that – you talk about coming into this crisis with the right kind of risk profile, how do you make sure that you're not going too far up the risk curve when you're reaching for yield?

<A – Dean Connor – Sun Life Financial, Inc.>: Yeah. So, as we came into the crisis, as I said earlier, we de-risked the balance sheet quite a bit across a number of dimensions. [Technical Difficulty] (19:05) we went up in credit. And specific to the yield enhancement we did at the end of the first quarter and early in the second quarter as spreads moved out, we had late last year taken a big chunk of assets and moved them into risk-free government bills and kind of parked that money as dry powder on the sideline and then – so, we sold corporate credit in the fourth quarter, put a bunch of that into government paper. And then, when spreads blew out in the first quarter, we put a bunch of that back into credit at very wide spreads, and then we did some more in April when spreads were still wide.

So, I give our investment team a lot of credit for that. It's an example of just being nimble. And you're getting late in the stages of a credit cycle and putting some money, moving some money from corporate credit into risk-free governments that we've made – and the spreads had collapsed so much in corporate, you recall last year that it wasn't a big cost to doing that trade. So that worked out well. I think going forward, we've guided investors to think about investing gains of CAD 10 million to CAD 20 million a quarter after tax. Clearly, we were outsized in the first half of this year. And over time, you should start to see those investing gains trend back to that kind of CAD 10 million to CAD 20 million a quarter.

<Q – Meny Grauman – Scotiabank>: Got it. I wanted to talk about the high net worth business in particular. I was quite surprised to see the strength in the high net worth business in Q2 just because I thought you're talking about very high-end products. You need that face to face interaction and those medicals, which were exceedingly difficult in the lockdown stage across the globe. So, just wondering how you were able to achieve such good results in that business specifically given all those challenges?

<A – Dean Connor – Sun Life Financial, Inc.>: So, it's a mix of things. Meny, the first is that – is – coming into the crisis, there's a pipeline of deal flow that was already there where we were able to finish the sales and finish the product process in the second quarter. And so, the medicals were done before COVID. The work-ups were done before COVID and so, that was a bit of a tailwind in that sense.

On the other hand, we've also made a lot of investment and progress in reducing the number of cases where we need medical evidence. So, we've created artificial intelligence driven models to look at new factors around underwriting. That's reduced the reliance on medical labs and attending physician statements and so on.

And then, the third thing I would add is as we look ahead, medical offices and clinics are starting to open up and those medicals are accessible like they weren't – when things were in total lockdown in the second quarter. So, I think when you put all those factors together, we still see decent prospects for the high net worth business.

I should say – I should add another factor. We've also been very active at rolling out new products in the high net worth space. We're not done doing that. We are, like every company, rethinking those products in a lower for longer interest rate world. And we're looking – rethinking those products and the pricing of those products to make sure we've got the right balance between the client benefits, the client interest and shareholder interest. So, there's work underway to do that. And that's not new work, that's continual work.

So, for example, we bumped up our prices in Canada for a number of our long-dated products back in April, and just part of an ongoing refresh, to make sure the pricing is current with where the interest rate picture is.

<Q – Meny Grauman – Scotiabank>: Wanted to ask about Asia. You talked about Singapore. Are there any other markets that are attractive to you that you're not in now that you're thinking about entering and how would you sort of rank that? And in what way would you enter these markets, is it an organic strategy? Is – maybe some markets more suited towards buying into the market, how do you think about that?

<A – Dean Connor – Sun Life Financial, Inc.>: Well, Meny, we're happy with the eight markets we're in now, including Singapore. And just to be clear, the decision to open up a branch in Singapore, it was really centered around clients and clients we were already selling through banks in Singapore to serve their high net worth clients, and those banks and those partners and distribution partners and brokers said to us, it's great working with Sun Life when a client needs an offshore product. Can't we also serve them up an onshore product here in Singapore? So, the client doesn't have to leave Singapore to buy it. They can stay in Singapore and buy it.

And so, it was really – it was less about going to Singapore as a brand new market, and more about, hey, we already have existing relationships with these banks and with these brokers, and we're already doing business in Singapore, but just with an offshore product. Let's have – create the capacity to serve up an onshore product and because we think there'll be more money coming to Singapore in the future and more opportunity there. Your – so, we like the eight markets in which we're operating already. And job one is to get bigger in those eight markets. So, you're unlikely to see us adding a 9th or a 10th.

<Q – Meny Grauman – Scotiabank>: And just, in the last minute here, in terms of the impact of COVID on the Asian business, during the call, you talked about some markets moving faster into recovery than others. Has there been any change in that in the last little while since we last spoke in Q2 in terms of the outlook there and the pace of recovery for your key markets?

<A – Dean Connor – Sun Life Financial, Inc.>: It's – it is a dynamic picture. We – we're back in the office in China. We were back in Hong Kong, and then Hong Kong had another outbreak, so we pulled people out of the office. I think – and in Indonesia, we're 50% back in the office. In Malaysia, we're 70% back in the office. Not that working in the office is the be all and the end all, but it's a reflection of what's just going on in the marketplace and kind of the opening up of the economy.

I think the picture is still quite mixed across Asia. Again, balance – the benefit of a balanced portfolio of businesses where there's good growth in China and Hong Kong in the industry and markets in Southeast Asia, India are more challenged right now just because they're still wrestling with COVID in a pretty profound way. So, the ability – all the sales are still non-face to face. They're all virtual sales. I have to say that's been a kind of inspiring aspect of COVID in the sense that the technology investments we've made have allowed advisors to still connect with clients, to still sell, to still service clients. There's a learning curve for advisors as they have to learn how to use this technology. But more and more – with every day, there are more advisors that are adopting it and pressing through. And I think that will be a lasting benefit, frankly, of this. This is an opportunity for a step change in productivity, if you don't have to drive two hours across Jakarta to go see a client.

Meny Grauman, Analyst, Scotiabank

So, we're out of time, but it's nice to end on a positive note. I want to thank you again, Dean, for speaking with us this morning and speak to you soon. Thank you.

Dean A. Connor, President, Chief Executive Officer & Director, Sun Life Financial, Inc.

Thank you, Meny. Thanks. All the best.

Meny Grauman, Analyst, Scotiabank

Bye.