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PRESENTATION

Operator

Good morning, everyone. My name is Suzanne, and I will be your conference operator today. At this time, I would like to welcome everyone to the Sun Life Financial Q3 2021 Financial Results Conference Call. (Operator Instructions)

The host of the call is Yaniv Bitton, Vice President, Head of Investor Relations and Capital Markets. Please go ahead, Mr. Bitton.

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

Thank you, Suzanne, and good morning, everyone. Welcome to Sun Life's earnings call for the third quarter of 2021. Our earnings release and the slides for today's call are available on the Investor Relations section of our website at sunlife.com.

We will begin today's call with an update on our client impact strategy and an overview of our third quarter results by Kevin Strain, President and Chief Executive Officer. Following Kevin's remarks, Manjit Singh, Executive Vice President and Chief Financial Officer, will 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 will also be 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.

Kevin Strain Sun Life - President & CEO

Thank you, Yaniv, and good morning, everybody. Turning to Slide 4. I'd like to start by sharing my thoughts on our strategy. Since becoming CEO, the executive team and I have taken the opportunity to reflect on and discuss our strategy with a focus on our Purpose, our Clients, our strengths, our priorities and on our outcomes.

We've refreshed our Client impact strategy, which builds on our strong foundation. Over the past 10 years, Sun Life has been on a strategic course that has delivered exceptional value to our stakeholders. We've built on this foundation and added emphasis on digital leadership, sustainability and Client impacts.

We've prioritized 4 growth areas: Thinking and acting like a digital company, leveraging the strength of our capabilities in both asset management and insurance, deploying capital into M&A that is strategic and adds scale or capabilities, and building on our health strategy in Canada, U.S. and Asia.

Our Purpose, to help Clients achieve lifetime financial security and live healthier lives and our 4-pillar strategy made up of Asset Management, Canada, U.S. and Asia, have served us well and will continue to be central to who we are and to what we do.

Today, with nearly half of our underlying net income being driven by asset management, we have a balanced business model where both asset management and insurance have strong foundations, with tremendous growth opportunities supported by macro trends and, most importantly, the ability to fuel our future success with the right people and culture supported by a trusted brand.

Our strategy keeps our Clients at the center of everything we do, whether helping Clients navigate health concerns, save and plan for their retirement or provide financial security for their families, our focus is on the impact we have on their lives. Our strategy focuses on digital leadership, sustainability, financial discipline and distribution excellence.

Digital leadership is about accelerating our digital capabilities as well as changing how we work together. We want to work in a more agile way, driving faster decisions that are made closer to the Client. In short, it's about thinking and acting like a digital company to create deep Client relationships and deliver exceptional Client experiences.

Sustainability is an imperative for us. Our employees, Clients and investors have told us that sustainability is important to them. We believe that to be a truly sustainably driven company, our plan must be Purpose-driven. That's why we've aligned our sustainability plan directly to our Purpose, to areas we know best: health, financial security and sustainable investing, all to the benefit of our Clients, investors and communities.

And we're continuing to emphasize measures that have supported our success, excelling in distribution, whether it be in Sun Life through our adviser channel, third parties or new innovative channels combined with a prudent approach to financial discipline that includes financial performance, risk management and strong capital management.

Our refreshed strategy brings together the elements that have been core to our success with emerging areas of increasing importance and supports our ambition to be one of the best asset management and insurance companies in the world.

Turning to Slide 5. We've made some great progress bringing our strategy to life. In October, we announced our intention to acquire DentaQuest, a leading dental benefits provider in the United States with approximately 33 million members. The acquisition is right on strategy to grow our U.S. business and advances our sustainability strategy, focusing on improving health and wellness outcomes for all. And like our existing U.S. Group Benefits business, DentaQuest is capital-light with low tail risk and re-priceable offerings, all of which support our medium-term financial objectives.

As I mentioned earlier, sustainability is an imperative for Sun Life, and this quarter, I was pleased to appoint our first Chief Sustainability Officer, Alanna Boyd, reporting directly to me. She will build on our long-term environmental and social commitments to design and lead greater sustainability performance for Sun Life.

Yesterday, we announced our goal to achieve net zero by 2050 for our operations as asset owner and manager. This includes commitments made by MFS, SLGI, InfraRed and BGO, who have all joined the Net Zero Asset Managers initiative pledging to achieve net zero greenhouse gas emissions for their portfolios by 2050.

We continue to transform our business with a focus on digital leadership. In Canada, our digital coach, Ella, continues to deliver nudges, leading to meaningful Client impacts, with nearly CAD \$600 million in wealth deposits and CAD \$800 million in insurance coverage sold this year. This past quarter, we started the rollout of a digital financial planning tool in Canada in partnership with Conquest Planning.

This tool complements our holistic advice model, addressing a broad need for all Canadians to have a financial plan. We'll be introducing

this digital capability across all wealth and insurance service platforms, enabling us to proactively respond to Clients' evolving financial needs.

During the quarter, we completed the acquisition of PinnacleCare in the U.S. and launched Health Navigator supported by PinnacleCare in our stop-loss portfolio. This solution offers a concierge approach to guiding members through the complex U.S. health care system, helping to ensure they get the right diagnosis, doctors and treatment for their conditions, leading to better health outcomes and experiences.

In Asia, we've seen a significant increase in digital adoption. 69% of new business applications were submitted digitally in the first 3 quarters of the year, up 51 percentage points over last year.

Turning to Slide 6. I am pleased to announce that we are increasing our return on equity medium-term objective to 16% plus from the previous objective of 12% to 14%. Over the past decade, we've made significant moves in our strategy to diversify our business mix and shift away from capital intense, interest-sensitive businesses.

Wealth and asset management, in addition to capital-light group and shorter duration insurance businesses, now drive approximately 80% of our underlying earnings mix. This shift, coupled with our strong track record for execution, makes this the right time to update our underlying ROE objective.

Turning to Slide 7. We delivered a strong third quarter that underscores the strength of our diversified business mix. While we're seeing a lot of progress with a wide-scale rollout of vaccines, we are still feeling the impact of the pandemic around the world. Our employees and advisers continue to be there for our Clients as we have throughout the pandemic. To date, Sun Life has delivered more than CAD \$700 million in COVID-19-related health and life insurance benefits to Clients and their families at a time when they needed it the most.

In the third quarter, reported net income increased to just over CAD \$1 billion, up CAD \$269 million over last year. Underlying net income and earnings per share increased 7% driven by strong results in wealth and asset management, partially offset by mortality and morbidity impacts from COVID-19 primarily in our U.S. and Asia pillars. We generated an underlying return on equity of 15.6% in the quarter and also maintained our strong capital position.

To sum it up, it was a strong quarter for Sun Life, reflecting the efforts and accomplishments of our employees and advisers and their continued commitment to our Purpose of helping Clients achieve lifetime financial security and to live healthier lives.

Before I turn the call to Manjit, I'd like to touch on a recent update on our executive team leadership. Last week, we were pleased to announce the appointment of Ingrid Johnson, our new President of Sun Life Asia. We're excited that Ingrid is joining Sun Life. She'll be a great addition to the executive team and will join the call in Q4.

With that, I will now turn the call over to Manjit, who will take us through our financial results.

Manjit Singh Sun Life - Executive VP & CFO

Thank you, Kevin, and good morning, everyone.

Slide 9 provides an overview of our third quarter results. Sun Life delivered record quarterly earnings, reflecting the strength and resilience of our 4-pillar strategy. Reported net income of just over CAD \$1 billion was up 36% and driven by market-related gains and higher underlying net income. Underlying net income of CAD \$902 million and underlying earnings per share of CAD \$1.54 were both up 7% from the prior year driven by good business growth, favourable credit experience and higher tax-exempt investment income. This was partially offset by unfavourable COVID-related morbidity and mortality experience in the U.S. and Asia.

Currency movements resulted in a CAD \$36 million unfavourable impact to year-over-year earnings. Underlying return on equity was 15.6%, reflecting strong business growth and our lower capital business mix.

Assets under management ended the quarter at almost CAD \$1.4 trillion, reflecting market value growth and another quarter of strong net inflows at SLC Management.

Our wealth businesses in Canada and Asia also delivered strong growth as AUM increased CAD \$25 billion year-over-year.

Book value per share increased 5% over the prior year. Excluding impacts and other comprehensive income, book value per share was up 11%.

Our balance sheet position remains strong, with LICAT ratios of 143% at SLF and 124% at SLA. The SLF ratio declined 4 percentage points from the prior quarter primarily driven by CAD \$725 million in preferred share redemptions we announced last quarter.

Cash at the holdco ended the quarter at CAD \$2.8 billion, and the financial leverage ratio was 22.2%. Subject to regulatory approval, we intend to redeem an additional CAD \$300 million in preferred shares at the end of the fourth quarter.

Upon redemption, SLF's LICAT ratio will decrease by approximately 1 percentage point, and the financial leverage ratio will decline by approximately 70 basis points.

Slide 10 outlines the performance of our business groups. Canada had strong reported net income of CAD \$393 million, in line with the prior year, as market gains from real estate investments were mostly offset by an update to allocations between the participating policyholder and shareholder accounts for prior years.

Underlying net income was also strong at CAD \$290 million and in line with the prior year driven by higher contributions from wealth management businesses and favourable credit experience, offset by morbidity in Group Benefits and expense experience.

The U.S. reported net income of CAD \$46 million, an increase of CAD \$159 million over the prior year, largely reflected lower ACMA charges. Underlying net income decreased by CAD \$14 million or 14% primarily due to mortality and morbidity experience in employee benefits.

This was driven by elevated COVID-19-related claims of approximately USD \$50 million, reflecting a significant increase in case counts in the working age population. This was partially offset by favourable stop-loss morbidity and favourable mortality claims experience in in-force management.

The U.S. Group Benefits business achieved an after-tax profit margin of 7.7% on a trailing 12-month basis, above our target of 7% plus.

Asset Management reported net income of CAD \$301 million, up CAD \$50 million from the prior year, driven by higher underlying net income, both from MFS and SLC Management.

MFS underlying net income was CAD \$327 million, an increase of CAD \$51 million over the prior year, driven by higher average net assets, partially offset by higher variable compensation expenses and the impact of foreign currency translation. MFS ended the quarter with a pretax net operating margin of 42%.

SLC Management generated underlying net income of CAD \$35 million, up CAD \$17 million from the prior year, driven by good AUM growth and gains on seed investments, partially offset by higher compensation costs.

In Asia, reported net income was CAD \$288 million, up CAD \$52 million year-over-year. This was driven by ACMA and market-related impacts, partially offset by currency translation. Underlying net income of CAD \$145 million includes CAD \$11 million of unfavourable impact from currency movement. On a constant currency basis, earnings were down 5%, a good result driven by -- given mortality headwinds of approximately CAD \$25 million in the quarter related to elevated COVID-19 claims in the region, with Indonesia, Philippines and India seeing larger impacts. This was largely offset by strong results in our fee-based businesses across insurance, wealth and asset management in Asia, which account for nearly 2/3 of expected profit.

Corporate's reported net loss of CAD \$9 million was in line with the prior year, while the underlying net loss of CAD \$5 million improved CAD \$40 million driven by higher tax recoveries and favourable credit experience, partially offset by higher project spend.

Turning to Slide 11. We provide an overview of our sources of earnings. Expected profit was up 12% from the prior year. Excluding asset management and the impact of currency, expected profit was up 9% driven by higher fee income in Canada and Asia wealth businesses as well as growth in U.S. stop loss. New business gains of CAD \$6 million were consistent with the prior year.

Experience gains of CAD \$172 million were primarily driven by market-related impacts, including strong real estate gains. This was partially offset by mortality experience driven by COVID-19-related impacts in the U.S. and Asia as well as higher incentive compensation driven by strong year-to-date results.

Earnings on surplus of CAD \$115 million increased CAD \$19 million from the prior year driven by AFS gains and higher fair values on investment properties.

During Q3, we completed our annual review of assumption changes and management actions, which resulted in a pretax gain of CAD \$93 million. The review included favourable updates to mortality and morbidity experience, expense margins as well as model enhancements. These were partially offset by updates to lapse and other policyholder behaviour predominantly in U.S. in-force management as well as investment-related assumption updates. Investment-related assumption updates included a shift to the new ultimate reinvestment rate and net ultimate credit spreads, resulting in an after-tax loss of CAD \$79 million.

Slide 12 shows insurance and wealth sales on a constant currency basis. Individual insurance sales were down 7%. Canadian individual insurance sales were up 26%, reflecting higher participating whole life sales. Asia individual insurance declined by 16% in constant currency as a result of lower sales in Asia's International Hubs. Local Market sales in Asia increased 13% in constant currency driven by higher individual sales in the Philippines, India and Vietnam.

While the third quarter saw broader COVID-related shutdowns and movement restrictions across Southeast Asia, our advisers in the region continue to forge ahead, enabled by new digital tools and capabilities to engage with our Clients and provide solutions that meet their needs.

Group Benefits sales were broadly in line with the prior year as Canada saw a pickup in large case sales coming to the market, while U.S. employee benefits and stop-loss sales were down compared to strong sales results last year. Wealth sales, excluding Asset Management increased 7% year-over-year in constant currency.

In Canada, sales were solid at CAD \$5.9 billion, but down 13%, reflecting a large defined contribution sale in the prior year. We continue to see an increase in individual wealth mutual fund sales.

In Asia, wealth sales increased by 58% in constant currency driven by mutual fund sales in India, money market sales in the Philippines and the pension business in Hong Kong.

Asset Management gross flows were largely flat year-over-year driven by increases in SLC Management, offset by lower gross flows in MFS. SLC Management had strong net inflows of CAD \$4.6 billion, showcasing the benefit of our diversified strategy in Asset Management.

MFS ended the quarter with USD \$2.2 billion in net outflows, reflecting institutional outflows, partially offset by the 11th consecutive quarter of net retail inflows at MFS.

Value of new business generated in the third quarter was CAD \$290 million, up 14% in constant currency compared to the prior year, reflecting strong sales in Canada and higher margins in Asia.

Turning to Slide 13. Operating expenses were up 12% from the prior year. This was primarily driven by higher incentive compensation and sales distribution costs in our Asset and Wealth Management businesses, reflecting strong revenue growth.

To conclude, this quarter once again highlights the strength of our diversified business mix. Our Asset Management businesses continue to benefit from strong investment performance and demand for our broad suite of capabilities.

In Asia, we're seeing the benefits from our investments in digital as Local Market sales maintained good momentum, despite COVID-19 restrictions.

Our U.S. business continues to build out a leading health platform, including the announcement of the DentaQuest acquisition earlier this quarter.

And the Canadian business continues to leverage its leadership position in Group and Wealth Management business to deliver strong growth.

We believe that the strength of our diversified portfolio of businesses positions us well for continued growth and supports the increase to our medium-term underlying ROE objective of 16% plus.

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

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

Thank you, Manjit. (Operator Instructions) I will now ask Suzanne to pool the participants.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Meny Grauman from Scotiabank.

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

Just a question on the new ROE target. Your underlying ROE has been tracking above the high end of your previous range of 12% to 14% for some time now. But with rare exceptions, it hasn't been above 16%.

So I'm just wondering why you chose 16% plus. And I guess, putting a finer point on it, what do you see that's going to get you there to that kind of a step-up in ROE, even relative to what you've done?

Manjit Singh *Sun Life - Executive VP & CFO*

Meny, it's Manjit. So thank you for your question. As we've mentioned, we've been performing well on the ROE for quite some time, above 15%, and we have continued to add to our portfolio of strong businesses.

So you've seen us add capabilities in alternative asset management, SLC and, then more recently, with our acquisition of DentaQuest, along with continued growth in all of our existing businesses in all of our pillars.

So if we kind of look at that, and this is a medium-term target, we continue to see opportunities for further growth, and that's what supports our view of the 16% plus.

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

Manjit, I appreciate the medium-term target, but would your expectations be that you could get there in 2022? Would that be reasonable?

Manjit Singh Sun Life - Executive VP & CFO

I think we don't really comment on sort of one year outlooks, Meny. I think that will depend on what the environment is next year. But again, we think it's a really good and achievable goal over the medium term.

Operator

Next question comes from the line of Gabriel Dechaine from National Bank Financial.

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

About the experience items in the Group businesses in Canada and the U.S., I guess, it sounds more skewed towards the U.S. Just want a bit of, I guess, confirmation that these are issues tied directly to COVID-19, group mortality, short-term disability and the like, and not an indication that we're starting to see higher benefit utilization that's starting to eat into your group margins.

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

Yes. Gabriel, it's Dan Fishbein. I'll start out on that question for the U.S. Yes, I would confirm that the mortality and morbidity results we saw in the Group business this quarter are COVID related.

The third quarter was the worst quarter for mortality in the U.S. in the working age population since the pandemic began, and some of that is related to the Delta variant and how that interacted with vaccination rates in the U.S. The population over the age of 65 is now more than 85% fully vaccinated, but the working age population is only about 65% fully vaccinated.

So in the third quarter, we saw a big shift in mortality into the working age population. Obviously, had it not been for vaccinations, the Delta variant would have been even much worse than it was, but those who are unvaccinated in the working age population were particularly vulnerable.

The CDC reports about 120,000 deaths in the U.S. during the third quarter. And for the first time, more than 40% of those deaths were in the working age population. So that led to the highest rate of deaths in that population.

So in our own results, as Manjit noted, we had USD \$50 million after tax of mortality and morbidity that is related to COVID in the Group businesses. About half of that is mortality. About half of that was disability.

As you noted, most of that short-term disability, people with COVID often have to be out of work for some time for that reason. And there really are no signs that there are other issues beyond that mortality and morbidity in the Group business.

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

Sure. And sorry, I missed the answer to the previous question. I apologize if this is rehashing, and you can just tell me if I am. But that ROE target that you gave, the 16%-plus, that is a -- is that an indication that you expect to earn that return in the IFRS 17 world? Or is there a catch there?

Manjit Singh Sun Life - Executive VP & CFO

Gabriel, it's Manjit. So as we've mentioned before, we're not providing IFRS updates at this time. We'll provide an update closer to the time of the adoption as guidelines get finalized.

But what I can tell you is that we're very pleased with the strength and diversity of the businesses we've built. We think they have very strong fundamentals, including good opportunities for future growth. They're re-priceable over the short term, and they have lower interest rate sensitivity.

And then as you know, we've added to that a stable of businesses with the addition of SLC and DentaQuest, which are also capital light and generate high cash flows. So overall, we feel very good about the ability of these businesses to generate good returns over the medium term.

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

All right. It just seems odd that if a year from now we're changing that number because of an accounting change, it may be odd as I said.

Kevin Strain Sun Life - President & CEO

I think -- Gabriel, it's Kevin. We looked it at and we're within well in excess of 12% to 14%, it seemed more odd to me to leave 12% to 14% sitting out there than it did to actually address it and think about how we would think about the results on an IFRS 4 basis.

Operator

Our next question comes from the line of Doug Young from Desjardins Capital Markets.

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

Just to the ACMA discussion, I guess, first, lapse continues to be an issue and not just for yourself, across the industry, and I know that there's unusual items that may have occurred during the pandemic.

But I'm more curious, I mean, it was a charge of CAD \$174 million in the quarter. I'm curious as to what you're seeing, how you've built that reserve. Are you assuming that the current lapse rates stay consistent? Or are you making the assumption that the lapse rates will revert back to more a pre-pandemic level? Just hoping to get a little bit of colour on that.

Kevin Morrissey Sun Life - Chief Actuary & Senior VP

Yes. Thanks for the question. This is Kevin Morrissey. So as you noted, for the ACMA, the policyholder behaviour strengthening, it was really all in the U.S. in-force management block of business.

The review this year has a key focus on the universal life funding assumptions to better align with valuation assumptions and recent experience. So the changes we made this quarter fully addressed the recent experience's losses that we've had over the last several quarters.

So we did a lot of back-testing and analysis to ensure that our updated assumptions supported the ongoing environment. And the good news, we saw the U.S. Q3 [net] (added by company after the call) experience zero for the quarter for lapse and policyholder behaviour.

So looking forward, the policyholder behaviour will be dynamic, and it is sensitive to market dynamic conditions. So we'll continue to monitor it closely, but we feel good about the changes we've made and comfortable with how we expect experience to unfold looking forward.

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

So just to confirm, I mean, that's experience up to the end of Q2 or up to the end of 2020 that you've baked in?

Kevin Morrissey Sun Life - Chief Actuary & Senior VP

That would have been experience up until the end of last year, but we also looked at the trend into this year as well. So I would say it really reflects the full experience going back prior to this quarter.

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

Okay. And then just on Asia, obviously, COVID created some challenges, one on the sales side and second on the mortality side. Just hoping to get maybe a little bit of an update as to what you're seeing so far in Q4.

And what type of rebound you would anticipate to see in Asia as reopening starts to take off? So any updates on that front would be helpful.

Kevin Strain Sun Life - President & CEO

Doug, it's Kevin on Asia. And you're right, we certainly saw the impacts of COVID during the quarter from both a claims experience and a sales experience side.

Although we fought through that in our Local Markets, right, and we had the Philippines that was up 25% in local currency and 17% in Canadian dollars. But there was sort of widespread lockdowns, which had impacts.

What we're seeing is the vaccine rates are going up across the ASEAN countries we're in, and we're seeing the economies opening back up. It's a little bit early to tell whether that will continue because like the U.S., the Delta variant has been quite impactful, but we are seeing those economies open back.

I mean, to just give an example of Vietnam, right? You saw our sales were up in Vietnam, but we would have expected them to be up a lot more. The country was in essence in lockdown because they had very low vaccine rates, and the Delta variant had started to spread. And so people weren't going into the bank, and they weren't buying bancassurance products.

That's started to reopen now this quarter, and we should see some flows come back. Vaccine rates have gone up significantly, although many people have only got their first vaccine.

And so that's just an example, and each market is playing out in its own sort of rate. So we are seeing the economies start back up, and we are seeing more vaccine rates. But it is early to say what will happen because COVID has taken paths that have been unexpected.

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

And maybe, Kevin, just to kind of finish off with that, I guess, what we should be thinking of as more of a gradual -- one of your peers talked about more of a gradual kind of impact as reopening happens. Is that the way you would kind of think of how we should think of Asia over -- through 2020, essentially?

Kevin Strain *Sun Life - President & CEO*

Yes. I do think it's quite different by market, though, right? Like if you look at China, Hong Kong, they're focused on opening up the China-Hong Kong border. They've really closed that down.

Inside of China, it's been quite open from a kind of movement and flows perspective. So every country is a little different. And the thing to watch, I think, is the vaccine rates and is the economy opening up.

But I do expect -- I think you're right, that will be gradual. And then for businesses like our high net worth, which do rely on a bit of travel where the sales are made primarily through Singapore and Hong Kong, that is going to take a while to really open up. There's still -- again, vaccine rates have to be much higher before they're going to be fully open to travel.

Operator

Next question comes from the line of David Motemaden from Evercore ISI.

David Kenneth Motemaden *Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst*

I just had my first question on the ROE, the 16% ROE. How much of that is driven by a mix shift to capital-light businesses -- a continued mix shift to capital-light businesses versus improving the ROE in the segments that require capital?

Because if I look at 2018, 2019 ROEs, which are cleaner than the last few years, ROEs in the U.S. and Canada were around 14%, 15% and around 10% in Asia. So just wondering how you're thinking about the source of getting to that 16% target.

Manjit Singh *Sun Life - Executive VP & CFO*

David, it's Manjit. I mean, I think we're looking at the portfolio of businesses that we have now and how those businesses will perform looking forward. And I think as we look across all of those businesses, we see opportunities for growth across each one of those businesses.

In addition, we see lots of opportunities for those businesses to work more integrated together and kind of leverage the strong capabilities we've built across various platforms. So when you put all that together, we feel that the 16%-plus ROE is very achievable.

David Kenneth Motemaden Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst

Okay. And then maybe just switching gears to MFS. I just wanted to just talk a bit about what was driving the outflows overall. I understand the retail flows have been positive for -- I think, it was 11 straight quarters. But there, I guess, the -- they're falling in terms of absolute dollars as well as a percentage of the beginning of period AUM.

So when I sort of look through it, it looks like the redemptions are actually under control. And it looks like sales have been, I guess, weaker than what I would have expected. So could you just talk about, I guess, the outlook on sales and why sales had been so weak?

Michael Roberge Sun Life - CEO & President of MFS Investment Management

David, this is Mike Roberge. Appreciate the question. The same themes that we've talked about actually over the last couple of quarters, first would be on the institutional side with the virtually entire equity booked in the institutional block of business. We continue -- as the market trades at all-time highs, we continue to see rebalancing activity and derisking activity in that book. So that's what's driving the institutional flows.

On the retail side, I think if you look at it year-over-year, you see a reduction in sales. I think what -- it's probably speaks to call out last year was we had such a massive increase in sales out of 2019. And again, much of that was an allocation back to equities, and we were well positioned for that.

When you look at our sales rate now relative to the industry, industry sales and active mutual funds have come down, and our sales rate has come down in line with the industry. So there's nothing going on in our sales that's any different than what we're seeing in the industry.

I think there's hesitancy as the market makes all-time highs in retail to continue to allocate -- net new allocations to equities, and we're seeing that same thing in our books. So it's the same themes that we've talked about over the last couple of quarters.

David Kenneth Motemaden Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst

Got it. And maybe the performance metrics that you provide, it looks like the 3-year numbers have fallen a bit over the last several quarters. But I'm more interested in the percentage of your AUM that's in the top quartile compared to your peers versus the top half because my understanding is that is what's really driving new business. So I'm wondering if that has changed to a similar magnitude as the percentage that's in the top half of the categories.

Michael Roberge Sun Life - CEO & President of MFS Investment Management

Well, we've definitely seen the top quartile come down as well, and I think it speaks to a couple of things. One is I think the performance, if you go back, was pretty unsustainably strong, when virtually all of your products were outperforming at a large percentage or in the top quartile.

What I would say is the market environment over -- certainly the last year and over the last few years, we've had a very, very strong backdrop to the market. Our investment style is generally investing in higher quality businesses with high ROEs trading at reasonable valuations.

And the market has gone up, and we've seen a lot of speculative parts of the market outperform. And so we're not surprised by the relative performance given what the market has done.

We think that Clients put us on the platforms because they understand our investment process, they understand when we'll perform well in their market environments that are more challenged. And what we haven't seen is that slight decline in performance have any impact on our relative flows.

Operator

Next question comes from the line of Tom MacKinnon from BMO Capital.

Tom MacKinnon BMO Capital Markets Equity Research - MD & Analyst

A question on dividend, share buybacks and then a follow-up. So with respect -- assuming we get the green light here later on this afternoon in terms of dividends and share buybacks, that's been -- I assume we would be looking at a fourth quarter '21 increase.

It'd be like over 2 years since you had last given an increase, and you've been running sort of certainly north of the top end of your 8% to 10% underlying EPS growth objective. So how does -- does that translate into like a given an increase potentially of at least 20% and perhaps even higher just given the fact that you're running lower than your target payout ratio?

And while you're thinking that, if you can talk about share buybacks as well because you were active in buying back stock prior to the OSFI restrictions as well.

Kevin Strain Sun Life - President & CEO

Tom, it's Kevin. I'm going to take this, and Manjit may jump in. But if you look, we've got our guidance out there of 40% to 50% of our underlying earnings for the dividend, and we've talked about that in the past that, that's what our objective would be. Of course, our dividend needs to be approved by the Board, right? So I'm not going to talk about what we're going to do in advance.

But getting back into that 40% to 50% would be our target, and we need OSFI to allow for that. On the buyback, our position hasn't changed, right? We deploy capital into our organic growth, towards the dividend as our first objective, into M&A when it's there. And we look at the M&A pipeline and when we can -- we don't have enough in the pipeline for the capital we're generating, then we use the buyback program.

And so it would be very specific to the timing of what's going on, what's happening, what's in the M&A pipeline, what's in our organic growth objectives. So we look at all those things when we make that decision, and that's how we think about capital deployment.

Tom MacKinnon BMO Capital Markets Equity Research - MD & Analyst

Okay. And a question for Dan. Maybe just as we move into the fourth quarter, that seems to be the busy quarter for pricing and then stop-loss and employee benefits. What are you seeing here, especially given the fact that experience hasn't been as good as would have been anticipated as a result of COVID? So can you talk about the outlook for the pricing environment?

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

Yes. Thanks, Tom. This is Dan. It's a great question because we are, of course, heading into the quarter. We're in the quarter that has most of our sales activity. It's actually a good time to remind that the third quarter is actually not a big sales quarter. Only about 15% of our sales happen in the third quarter.

But what we're seeing is a competitive marketplace right now, and it's somewhat more competitive probably than it has been over the past couple of years. So we're still selling at very high levels. We're leading the industry by a wide margin in stop-loss sales. Our sales are up year-to-date in our Group business, which is great, but we are sticking to our pricing target.

So if we have to make trade-offs, it will be to sacrifice a little bit of volume to maintain our pricing targets and our margins. And we are seeing a somewhat heightened level of competition at the moment.

Operator

Next question comes from the line of Paul Holden from CIBC.

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

So I just noticed that part of your ACMA changes this quarter were for a reduction in the best estimate real estate assumptions. So just wondering if you can tie that back to what you're seeing at SLC and the real estate funds you run there. And if the continued uncertainty, I guess, particularly in commercial real estate, is impacting demand at all -- demand and returns of those products.

Kevin Morrissey Sun Life - Chief Actuary & Senior VP

I was going to maybe just address the ACMA, and then Steve, I'll let you talk about the experience in the quarter. So Paul, maybe just a comment. We did strengthen the real estate assumption. And I do want to specify that the fact is that we look at, it's a very long-term assumption, right? It's always kind of long-term through the cycle. So we look at past performance as well as future expectations, levels of interest rates and risk premium for these types of asset classes.

So we did make an assumption change in the quarter to reduce the best estimate, despite the fact that we had really positive experience in the real estate in the quarter.

So maybe, Steve, I'll hand it over to you to talk about the real estate for the quarter.

Steve Peacher Sun Life - President of SLC Management

Yes. Thanks, Kevin. And Paul, certainly, in -- through the pandemic, there were certain sectors, retail office that were weaker, but there have been other sectors such as industrial, subsectors such as cold storage, which have been extremely strong.

If you look across the BGO, BentallGreenOak, funds there have been overweight sectors like that. So actually, if you look at the kind of a variety of funds in Europe and North America, U.S., Canada, also in Asia, the fund performance has been quite strong.

In fact, their U.S. core fund had one of the best quarterly returns it's ever had. Their Asia funds have delivered recently over 30% returns net. So -- and they've had a very active year in terms of attracting new capital. So -- and I would attribute part of that, maybe I'm trying to connect it back to the ACMA charges.

If you look at BentallGreenOak on the SLC side, a lot of those -- a lot of their money is in core-plus or value-add real estate, where it's, in some ways, less about general terms in real estate and more about value buys and then making improvements to properties and then selling them for a total return.

So I would say that the interest in real estate, we feel like, continues to persist based on what we're seeing from our investors, and the returns have continued to be pretty strong.

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

That's great, that's great. And then I just have one additional question that relates back to the lapse discussion. I just want to verify that sort of these lapse assumption changes we've seen over time have really related to legacy product and that newer products being sold is less dependent on lapse assumptions. Is that correct on my part?

Kevin Morrissey Sun Life - Chief Actuary & Senior VP

Paul, that's right. It's because more -- so the lapse experience that's been -- that we've seen over the last few years as well as the strengthening have all been in closed legacy block. It's not related to the new business we're seeing, that's right.

Operator

Next question comes from the line of Darko Mihelic from RBC Capital Markets.

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

I just -- I realize that the expense allocation and investment allocation from the par is small, but I just wanted to ask you for a little bit of colour on that. And the reason why I ask is, typically, we think -- we all know the par is passed through and never really has any sort of ultimate large risk.

But I guess you pulled seed money out of it before. And so now I'm wondering, is this sort of an asymmetric risk that sort of, going forward from now on, the only thing that can happen is potentially an allocation like this that could affect the company in the future?

And you continue to sell, I understand, a lot of par policies, which will only make this bigger as time goes on. Can you maybe just touch on that just to sort of assure us that, though small, the prospect of possible future reallocations like this really won't happen and affect you?

Kevin Morrissey Sun Life - Chief Actuary & Senior VP

Darko, this is Kevin. Thanks for that question. So this was not a cost associated with the risk of the par policy of what we've seen in the past. This was a one-time prior period par adjustment. And it was really a refinement to pre-2016 allocation of investment income and expenses between par and shareholders.

So the structure of this mutualization agreement results in the need to allocate different costs, like investment income and expenses across the 2 accounts. And the quarter adjustment resulted in a benefit to the par account this quarter and the cost to the shareholders of CAD \$85 million.

About half of that was just adjustments to the prior period allocations, and half of that was interest accrued to bring back to the current quarter.

And those allocation adjustments happened between 2008 and 2016, so some time ago.

It's quite complicated, and it's related to the accounting changes back in 2007 and the interaction with the demutualization par account structure. So there is no impact to future earnings, and I'd say this isn't something that's likely to occur again. And it really is not related at all to the profile of the products and the pass-through features of the par products that we're selling there.

Operator

Next question comes from the line of Nigel D'Souza from Veritas Investment.

Nigel R. D'Souza Veritas Investment Research Corporation - Investment Analyst

The first question I had was a follow-up on your adverse unfavourable mortality experience in Asia, and I think you highlighted Indonesia, the Philippines and India.

I was wondering if you could provide more colour on the trends you're seeing for mortality related to COVID-19 in your insured population versus the general population and whether or not you expect that unfavourable mortality experience to -- continuing to persist at least in the short term.

Kevin Strain Sun Life - President & CEO

It's Kevin, Nigel. Yes. We saw heavy COVID death rates in the countries where the vaccine rates were lower that we talked about earlier and where the Delta variant was more prevalent. So you're right, in particular, Indonesia, the Philippines and India had higher mortality rates.

It's a difficult time for those markets, and we were certainly proud to be there for our Clients when they needed us the most. What we're looking at is vaccination rates and the improvement in vaccination rates in those countries, and that's what's going to really help.

They continue to see social distancing and masking across Asia. Vaccine rates going up. I think our experience would be roughly in line with what you were seeing in the country. You were seeing higher mortality rates in India, in Indonesia and in the Philippines.

So that's -- it's really difficult to say, as I answered earlier, what's going to happen from a claims perspective with new variants. And the fact is that they're not at the vaccine rates that we are today.

So this idea of getting vaccination rates higher, and it's not an issue of people not wanting to get the vaccine, it's an issue of the vaccine being available. So that availability is an important step to see happen.

So it's something we're watching closely, but it really is around finding ways to get more vaccine into the countries. In fact, we're helping our employees get vaccines in many of those jurisdictions.

Nigel R. D'Souza Veritas Investment Research Corporation - Investment Analyst

That's helpful. And does it change the way you look at your insurance risks in Asia? I mean, your longevity exposure sits outside of Asia. So are you changing the way you look at managing that insurance risk? Or is it more so you're looking towards the vaccination program through rolling out a more equitable vaccine distribution as kind of light at the end of the tunnel for mortality-related risk area?

Kevin Strain Sun Life - President & CEO

Yes. I think if you look longer term, Asia is going to end up getting to vaccine rates like you see in other places, and so that's going to certainly help. And we are seeing even a little bit of curbing of the amount of death this quarter. I'm just -- things can change, the variants can change and those types of things, but it's really not changing our commitment and our Purpose in those markets.

Nigel R. D'Souza Veritas Investment Research Corporation - Investment Analyst

And if I could end on a broader question on your inflation and interest rate expectations. Are you expecting a persistently low rate environment or a rising rate environment? And the reason I ask that is, does that impact the way you look at your business mix?

So if you have a low rate environment that's more supportive of financial market conditions, is that leading you to have a higher preference for your asset management side?

Or if we have a rising rate environment, does it change your preference to have a higher growth in the insurance business? Or do you even think about interest rates and business mix? Could you perhaps elaborate?

Kevin Strain Sun Life - President & CEO

I might start and let Randy talk about our -- how we're thinking about inflation. And you've got a good look at our sensitivities and our disclosure. We do a very good job on risk management and matching cash flows. We try not to predict where interest rates are going to go.

So we've worked in a low interest rate environment for a long time now. We've really geared our businesses towards that. That's -- adding SLC has been helpful on that front. MFS has obviously benefited from higher equity market results that also have a relation to lower interest rates. But rising interest rates aren't a bad thing for the insurance industry as they rise on a sustainable basis.

So we think we're quite well positioned. The diversity of our business, the mix of our business, the fact that we're lower capital, the way we do risk management, we feel like we're positioned to different economic conditions, and that's supported by the diversity.

But maybe Randy could talk about our views on inflation and how we're seeing that.

Randy Brown Sun Life - CIO, Head of Insurance Asset Management of SLC Management

Sure. Happy to. This is Randy, Nigel. So on inflation, we've had the view for several years now that we think that inflation will be less transitory than central banks are trying to portray. So we're seeing both supply and demand side inflation creeping into the system. And the transitory, we think, is more measured in several years than months, and I think that central banks are coming around to that view.

So what you heard from us at Investor Day is that, given the negative nominal and real rate to return available on high-quality fixed income, we have done a moderate but a shift in our portfolio to nonfixed income and, in particular, real estate, as noted, which will do well in a moderately inflationary environment.

So we don't see inflation being run away by any means, but we do think central banks are going to err on the side of letting inflation be a little bit higher for longer to move away from that deflationary edge that they're so worried about. So thank you.

Operator

Next question comes from the line of Lemar Persaud from Cormark Securities.

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

So there's some discussion already on the trajectory of the recovery from COVID in Asia. I'm just wondering if it's going to be the same in the U.S. It sounds like you're suggesting there's going to be a more gradual earnings recovery in Asia.

Is that how we should be thinking about the U.S.? Or will the simple availability of vaccination suggest a faster recovery in U.S. versus Asia?

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

Well, thanks. This is Dan. Let me take that for the U.S. portion. I think it's important to look at the overall statistics and deaths in the U.S. and the Delta variant surge peaked on or about September 23.

And in our results, it takes about 30 days for us to get those claims in for people to submit them. So you can imagine, October certainly continued to be a very adverse month for mortality.

Now since September 23, deaths have come down on a 7-day average, about 40% in the U.S. We're certainly hopeful that they'll continue to come down. But of course, that's very hard to predict. So we would expect that our own experience will start to moderate, consistent with what's happening in the broader population.

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

Got you. That's helpful. And then I guess, then on Slide 6, you guys showed the business mix and how that's shifting away from traditional insurance to wealth and group and other short-duration insurance from 2012 to 2020. We look forward another 8 years, how do you see this evolving? So more of a big picture question.

Kevin Strain *Sun Life - President & CEO*

As we deploy capital and see growth, we're seeing faster growth in the businesses that have less of the sort of traditional insurance, long duration, more guarantees. So I would expect that, over time, that would trend down a little bit, but it depends on a lot of factors.

Operator

Next question comes from the line of Scott Chan from Canaccord Genuity.

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

Kevin, you talked about, I guess, near-term capital priorities, focus on organic and dividends. And then you mentioned NCIB would depend on your M&A pipeline. So I'm just wondering what the M&A pipeline is now, say, versus pre-pandemic.

Kevin Strain *Sun Life - President & CEO*

Well, thanks, Scott. We've always got a good pipeline that we're looking at. There seems to be things -- given our diversity and the number of businesses we're in, I would point out, we really talked about, and I mentioned it in my strategic objectives, that we have a programmatic approach to M&A.

And if you look at the last few years through COVID, we've done 10 different M&A transactions. And they've spanned across all 4 pillars, things like DentaQuest and PinnacleCare in the U.S., ACB bancassurance transaction in Vietnam, the Crescent and InfraRed transactions in Steve's businesses and the addition of Dialogue in Canada.

So that gives you a sense of how we're looking and what we're thinking about. We have a broad diverse business. And in each case, we were able to add either scale or capabilities. We had confidence in our ability to execute, and they met our medium-term objectives.

So when we look at the pipeline, it is about achieving those things. That changes over time. At this point, we've done the DentaQuest acquisition. That was a big one, but there is always something going on around the world in the Sun Life world, and we look for those things. Will it meet our medium-term objectives? Is it on strategy? And can we execute on that?

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

Got it. And last thing maybe for you, Kevin, as well. You talked about 4 key priorities on Slide 4, and one of them being realizing synergies between Asset Management and Insurance businesses. And maybe this ties into your 16%-plus ROE target. But perhaps, could you elaborate on the synergies? And maybe is it more revenue or cost focused?

Kevin Strain *Sun Life - President & CEO*

Yes. This is one of the reasons we were able to build out SLC so successfully, right? Because we had this Insurance business that provides cash flow on a regular basis, provides asset opportunities, provides seed capital. And SLC was able to step in and provide returns and duration and long-duration assets.

This continuing to leverage the synergies between Asset Management and Insurance looking for them, I'll give you another example. We built out the Defined Benefit Solutions business as part of GRS, where we had an expertise in mortality, we had an expertise in longevity with ability to compete from a liability standpoint here, but we needed these long-duration assets to support that, and that's what we were able to build out in SLC.

So it's really about looking for and making sure we're uncovering all of the opportunities to drive that efficiency and that synergy between the Asset Management and the Insurance business.

Operator

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

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

I would like to thank all of our participants today. Should you wish to listen to the rebroadcast, it will be available on our website later this afternoon. Thank you, and have a good day.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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