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SLF.TO - Q1 2024 Sun Life Financial Inc Earnings Call

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## PRESENTATION

**Operator**

Good morning, and welcome to the Sun Life Financial Q1 2024 Conference Call. My name is Gaylene, and I will be your conference operator today. (Operator Instructions) The conference is being recorded. (Operator Instructions)

The host of the call is David Garg, Senior Vice President, Capital Management and Investor Relations. Please go ahead, Mr. Garg.

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**David Garg** - *Sun Life - Senior VP of Capital Management & IR*

Thank you, and good morning, everyone. Welcome to Sun Life's earnings call for the first quarter of 2024. 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 opening remarks from Kevin Strain, President and Chief Executive Officer. Following Kevin, Tim Deacon, 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 are also available to answer your questions this morning.

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

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

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

Thanks, David, and good morning to everybody on the call.

Turning to Slide 4, we continue to deliver on our Client Impact strategy during the first quarter as we build a leading asset management and insurance company. Underlying earnings results were mixed. Strong results in Asia and steady results in Canada and at MFS were offset by weaker performance in the U.S. and at SLC.

In Asia, individual protection underlying earnings grew 30%. Results were driven by strong sales in Hong Kong and International, and a strong overall result in India. In the U.S., we underperformed this quarter as morbidity gains moderated towards pre-COVID levels in our Health and Risk Solutions business driven by rising U.S. health care utilization rates.

Our U.S. Dental business continued to experience negative impacts from the end of the Public Health Emergency driven by Medicaid member disenrollments and higher claims ratios on the remaining members.

We are working with states to reprice our Medicaid business, with 25% repriced during the quarter at levels consistent with our profitability goals and most of the remaining 75% to be repriced by the end of this year. We expect Dental results will return to levels of profitability, more consistent with our pricing targets and expect income levels for Dental to be approximately USD 100 million for 2025.

SLC Management underlying earnings were impacted by seed mark-to-market losses. Overall, the alternatives business faces headwinds from higher interest rates, but we remain on track to achieve 2025 underlying earnings of $235 million.

We experienced strong growth in insurance sales, CSM and assets under management during the quarter. Individual protection sales were up nearly 50% year-over-year, largely driven by growth in Asia with strong individual protection sales in Hong Kong. Asia was also a leading driver of Sun Life's New Business CSM, which reached $347 million this quarter, up 50% year-over-year and contributed to total company CSM surpassing $12 billion at the end of the quarter.

We continue to see growth in our Asset Management businesses, with total company AUM reaching an all-time high of $1.47 trillion this quarter, up 8% year-over-year, reflecting the continued strength of our asset management capabilities and market appreciation.

We ended the quarter in a strong capital position with a LICAT ratio of 148% at SLF. We also announced a 4% increase to our common share dividend, and we'll continue to share buyback -- continue our share buyback program in the second quarter, demonstrating our commitment to deploying capital efficiently.

Overall, we continue to benefit from our diversified mix of businesses, taking advantage of macro trends like the emergence of the middle class and growing GDP in Asia, the increased demand for health products in Canada and the U.S. and the importance of having a broad set of global asset management capabilities from public equities and fixed income to alternatives to help meet Client needs in a rapidly changing environment.

Turning to Slide 5. This quarter, we delivered on key business initiatives to drive our Client Impact strategy forward. In Canada, we made progress on several important initiatives. We've seen strong demand for the Canadian Dental Care Plan with 1.7 million Canadians signing up by the end of April, and we are now successfully processing claims. This program allows us to play a critical role in improving oral health outcomes for Canadians, which we know impacts people's overall health.

We also launched the Diabetes Care Program as part of our online Lumino Health pharmacy app. This innovative signature solution helps plan members reach their diabetes goals and where possible, reduce blood sugar levels and reduce medications. Our aim is to improve health outcomes for our Clients and enhance the claims experience for our business.

In the U.S., we are differentiating with the large employer group benefits market by offering Health Navigator powered by PinnacleCare. This personal health care navigation and advisory service helps members get the medical diagnosis and access the right care for their specific needs. This service also improves health and productivity outcomes for employers.

We're also leveraging our expertise on leaves, absence management and return to work services to offer family leave insurance in Alabama, Arkansas, Florida, Tennessee and Texas. We are the first major group benefits provider to offer family leave insurance in these states, broadening members access to paid leave -- for paid leave to care for loved ones and giving employers the option to provide a valuable benefit to their employees more easily.

Our growth in Hong Kong reflects the strength of our quality distribution channels. Hong Kong delivered strong individual protection sales this quarter driven by our broker relationships, our bancassurance partnership with Dah Sing Bank and the momentum with our agency teams.

We're also realizing value from our strategic investments. India continues to be an important growth market for Sun Life Asia. We have a thriving life and asset management business as part of our joint venture with Aditya Birla Group.

This quarter, we sold 6.3% of our ownership interest in our asset management JV, unlocking a $98 million pretax gain and helping meet the 25% public ownership requirement of listed companies in Asia -- in India. Since the initial IPO in 2021, Sun Life has generated pretax gains of over $450 million, while still retaining 30.2% ownership of the listed entity.

In the U.S., our Health and Risk Solutions business is finding that Generative AI can securely summarize and organize lengthy and complex medical records for PinnacleCare Clients. This solution is expected to reduce turnaround time from 14 days to 1 day, unlocking greater capacity to serve more Clients.

In our Sun Life Global Investments business, we're using a Generative AI chatbot that creates better Client experience by providing faster responses to Clients on questions for segregated fund topics.

We're embracing our responsibility to create a more sustainable and brighter future. Sustainability is critical to our purpose, and we are focused on increasing financial security, fostering healthier lives and advancing sustainable investing.

SLC Management continues to invest in assets that generate a stable and attractive yield and generate a positive environmental impact. This quarter, BGO completed Ontario's first all-electric net zero carbon industrial building owned by Sun Life, a milestone in our efforts to achieve net zero greenhouse gas emissions in investments and operations by 2050.

BGO was also awarded the 2024 ENERGY STAR Partner of the Year-Sustained Excellence Award for the 14th consecutive year.

Also, InfraRed Capital Partners, our infrastructure investment manager continues to invest in assets that are helping to build a sustainable future. InfraRed acquired a portfolio of 2 operating, utility-scale renewable energy assets in the U.S.

In closing, we're confident in the resilience of our strategy driven by our diversified business mix, our people and culture, and our sustained commitment to delivering on our purpose: to help Clients achieve lifetime financial security and live healthier lives.

Now I'd like to welcome our new CFO, Tim Deacon, to his first earnings call. Tim joined Sun Life in April, and brings extensive experience in asset management, wealth, insurance, real estate and sustainability -- all areas that are critical to Sun Life. He's a great addition to our Sun Life Executive Team and has fit in so seamlessly that in many ways, it feels like he's been here for years.

And with that, I'll turn the call over to Tim to detail our first quarter financials.

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**Tim Deacon** - *Sun Life - Executive VP & CFO*

Thank you for that warm welcome, Kevin. Before I begin, I want to thank my Sun Life colleagues for all the support I've received over the last month since joining. I look forward to actively contributing to Sun Life's strategy, continued growth and value creation for our Clients, employees, communities and investors.

With that, let's begin on Slide 7, which provides an overview of our first quarter results. We delivered mixed results this quarter as underlying net income of $875 million and underlying earnings per share of $1.50 were modestly lower year-over-year by 2% and 1%, respectively, and relatively in line with the prior year when accounting for the sale of our U.K. business in the second quarter of last year.

Underlying return on equity was 16%. We remain confident in our ability to meet our medium-term ROE objective, supported by our attractive and diverse mix of businesses.

Turning to our business performance. Wealth and asset management comprised 42% of Q1 underlying earnings and was down 1% from the prior year, as higher asset management-related fee earnings was offset by higher compensation-related expenses and mark-to-market losses on seed investments in SLC.

Group Health & Protection businesses comprised 29% of underlying earnings and were down 8% year-over-year. Results reflect business growth that was more than offset by less favourable morbidity experience and lower Dental results.

Individual Protection earnings comprised 29% of underlying earnings and was down 4% versus last year, primarily driven by the sale of Sun Life U.K.

New business CSM of $347 million was up 50% from the prior year, reflecting continued strong sales in Hong Kong. Reported net income for the quarter was $818 million. The $57 million difference between underlying and reported net income was driven by unfavourable market-related impacts and amortization of intangibles, partially offset by acquisition-related and other items.

Market-related impacts were driven primarily by unfavourable real estate experience, partially offset by favourable interest and equity market impacts. Real estate experience reflects modestly negative total returns driven by holdings in the industrial sector and to a lesser extent, office, in the current quarter versus our long-term expectations of approximately 2% per quarter.

While we continue to be cautious on real estate returns in the near term, we are long-term investors in real estate and on a 10-year basis, our actual returns have exceeded our long-term expectations. We continue to view real estate as a key component of our diversified investment portfolio.

Our balance sheet and capital positions remain strong, with SLF LICAT ratio of 148%, which was lower by 1 percentage point from the prior quarter, primarily driven by strong organic capital generation that was more than offset by deployments, including our common share dividend and continued share buybacks and market impacts.

Book value per share increased 2.5% quarter-over-quarter. Holdco cash remained strong at $1.5 billion, and we remained active on our share buyback program, repurchasing 2.4 million shares this quarter. Our leverage ratio remains low at 21.1%.

Now let's turn to our business group performance, starting on Slide 9 with MFS. MFS underlying net income of USD 189 million was in line with the prior year, as higher fee income from average net asset growth was offset by higher compensation-related expenses, primarily related to the increase in the fair value of MFS shares.

Reported net income of USD 180 million was down 10% year-over-year, driven by the fair value change in shares owned by MFS management. Pretax net operating margin of 37% was in line with prior year.

AUM of USD 630 billion was up $31 billion from the prior quarter, driven by market appreciation, partially offset by net outflows of $8.6 billion. MFS long-term investment performance remains good with 97% of fund assets ranked in the top half of their respective Morningstar categories for 10-year performance.

Turning to Slide 10. SLC Management generated underlying net income of $28 million, flat compared to prior year as fee-related earnings growth was offset by mark-to-market losses on seed investments. Fee-related earnings of $69 million was up 1% year-over-year on continued growth in fee-earning AUM. Reported net income of $42 million benefited from a gain on the early termination of a distribution agreement.

Capital raising of $3.5 billion, primarily at BGO and Crescent, remained resilient and was up $1.3 billion or 52% year-over-year. Total AUM of $226 billion was up $8 billion from the prior year, this includes $21 billion that is not yet earning fees. Once invested, these assets are expected to generate an annualized fee revenue of more than $180 million.

Turning to Slide 11. Canada underlying net income of $310 million was modestly lower year-over-year as strong insurance business growth was more than offset by lower net investment results. Reported net income of $290 million included unfavourable market-related impacts. Wealth and asset management underlying earnings were down 4% year-over-year, driven by lower earnings on surplus.

Group Health & Protection underlying earnings increased 20% year-over-year, reflecting business growth and improved disability experience. Individual Protection earnings were down 19% year-over-year, which included unfavourable mortality experience. It is worth noting that there is a mostly offsetting benefit to the CSM from this negative mortality that is not reflected in earnings.

Group Health & Protection sales were up 114% year-over-year on large -- higher large case sales, while Individual Protection Sales were lower by 4% due to lower par life sales.

Turning to Slide 12. U.S. underlying net income of USD 141 million, down 20% from the prior year, driven by less favourable morbidity experience and Dental results. Reported net income of USD 71 million includes market-related impacts.

In Group Health & Protection, our Group Benefits business benefited from strong revenue growth. This was more than offset by less favourable morbidity experience from a higher loss ratio in Health and Risk Solutions, which is now normalizing closer to pre-pandemic levels compared to prior year.

Lower Dental results were driven by the continued impacts of the Medicaid redetermination process following the end of the Public Health Emergency in the U.S. last May, which decreased the number of plan members. This contributed to an increase in the loss ratio as those leaving the plan generally had lower utilization than those remaining in the plan.

U.S. group sales of USD 142 million were down 43% year-over-year, driven by large case dental sales in the prior year. Individual protection results reflected credit losses in the quarter.

Slide 13 outlines Asia's results for the quarter. Underlying net income of $177 million was up 27% year-on-year on a constant currency basis. Results benefited from strong business growth as well as favourable protection experience and higher earnings and surplus. Reported net income of $235 million included a gain related to the partial sale of our India asset management joint venture.

We continue to see strong sales momentum, particularly in Hong Kong. The strong sales results also drove new business CSM of $230 million in Asia, up 128% from the prior year. Over the past year, Asia has added almost $1 billion of CSM.

Overall, while our Q1 results were mixed, we're pleased by the strong momentum in our Asia business, solid growth in expected insurance earnings across all business groups and the steady increase to total company CSM, which is a store of future profits.

We expect to generate earnings growth in line with our medium-term financial objectives underpinned by our strong fundamentals, capital position and continued focus on execution.

Finally, turning to Slide 14. We're pleased to announce that we are hosting an Investor Day on November 13, 2024, at our 1 York Street office in Toronto. This will be an opportunity to update investors on our strategic priorities and our progress against our strategic pillars. We look forward to seeing you at this event.

With that, I will now turn the call over to David for Q&A.

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**David Garg** - *Sun Life - Senior VP of Capital Management & IR*

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

I will now ask the operator to poll the participants.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question is from Meny Grauman with Scotiabank.

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

Wanted to talk about the policyholder experience -- came in unfavourable especially relative to expectations and impacted Canada and then in the U.S. Tim, you talked about some of the dynamics around the Dental business, but I know it's also impacting Stop-Loss.

I guess the real question is just, how temporary you expect these pressures to be both in Canada and in the U.S., if you could address those both separately?

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

Meny, it's Kevin Morrissey. Thanks for that question. Maybe I'll start off with the experience, policyholder behaviour at the total company level. We had a small loss, as you would have observed in the quarter, that was coming out of Asia. It was quite small. It was across a variety of countries there. We didn't have any losses in Canada or the U.S. on policyholder behaviour in the quarter.

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

And just in terms of...

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

Sorry, Meny. This is Jacques, do you want me to address the insurance experience in Canada?

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

Yes, please.

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

Okay. So the insurance experience is unfavourable this quarter. You might recall, by the way, that it was quite strong in Q2, Q3 and Q4 last year, and this was driven by disability experience in Sun Life Health.

I want to point out that the disability experience is still quite positive. But what we're noticing this quarter is mortality losses in individual insurance, resulting from the larger number of claims and larger amounts of claims.

But as Tim pointed out in his remarks, this is offset by the release of reserves in the CSM, so we don't see mortality being outside of what I would call the normal volatility parameters on that trend.

The other item that's coming up this quarter is the higher level of claims in the non-disability part of Sun Life Health. These are the paramedical claims. They are seasonal. So Q4 and Q1 are typically elevated. The other thing I would point out is that there are built-in maximums in terms of coverage for these claims. So again, we don't see that as a trend going forward.

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

Got it.

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

Meny, it's Dan Fishbein. Just some quick comments on the U.S. insurance experience. As I'm sure you've noticed, the experience has been favourable in recent quarters, and that was primarily driven by better-than-expected results in the Stop-Loss business. As we've described, there has been lower utilization really throughout the pandemic and lingering for a long time afterwards because of shortages in the provider capacity.

Those shortages appear to have largely resolved and stop-loss experience, while still quite favourable, has returned closer to pre-COVID levels. So the favourable experience we had been getting above expectations and stop-loss has certainly -- largely moderated. And then, of course, in addition, there was unfavourable experience in the Dental business this quarter.

On the other hand, there was quite favourable experience in the group business. So when you add the 3 together, we have a small negative experience item in the U.S.

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

Just a follow-up in the U.S. So it sounds like on the Stop Loss side, it's just sort of normalizing back to pre-COVID levels. But in terms of Dental, and you addressed this last quarter as well, but just wondering what the timeline is there in terms of improving? Like, could it actually get worse before it gets better on the experience side?

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

Well, as we've been saying for quite a while, this is about a 4-quarter problem. And of course, the background on that is there were no disenrollments from the Medicaid program at all, medical or dental or otherwise, for more than 3 years as a result of the COVID Public Health Emergency. That ended in April of last year and the states were able to start disenrolling people as of that time.

Hence, we have seen declining enrollment in the third and fourth quarters last year and the first quarter of this year. That's a 14-month process by regulation that will be complete by the end of June. So there likely are some additional membership declines still in progress and still ahead of us.

The primary result of that, that's affecting our results is not just the membership itself, but the fact that those who were no longer eligible for coverage were utilizing care at a meaningfully lower rate than those who remained in the programs. That means the average experience of the people who remain is higher than the experience of the program as a whole when the disenrollments began.

The key will be the states adjusting the rates, which is mostly an annual process as those rates renew. About 83% now actually of our contracts will renew this year with revised rates. Through the end of the first quarter, about 25% of the contracts have already had new rates established. So getting the right rates is key to this, as are other initiatives that we have in progress, including additional claim management initiatives as well as expense management.

So with continued membership losses, we would not necessarily expect things to improve materially in the second quarter. But in the second half of the year, the results should start to reflect both the higher rates and those initiatives. And certainly, and as Kevin mentioned in the introduction, we expect much better results when we get to 2025.

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**Operator**

The next question is from Tom MacKinnon with BMO Capital Markets.

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

Just a question with respect to SLC. I think if Steve Peacher there, you talked about a $50 million kind of run rate for underlying earnings for that. And it's $28 million in the quarter. I think there's talk of some mark-to-market losses on some seed capital there. So just some colour with respect to SLC and the outlook there, please?

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

Yes, Tom. It's Steve. Yes, a few comments on the quarter relative to our run rate, which is really your question, given that the $28 million is lower than the run rate that I had indicated on the last quarter earnings call.

And there were 2 things that impacted us. I'll say that we think our run rate hasn't changed, our core run rate. Two things pushed us lower this quarter than our normal that we view as our quarterly run rate. One was, as you mentioned, the mark-to-market on seed assets. So let me give some colour on that.

That mark-to-market related primarily to a portfolio of industrial properties at BGO that we seeded. The impact on quarterly -- this quarter's results from that was about $10 million after tax. There was a few other items in there, but the primary driver was that, the mark-to-market on that portfolio.

That is a very strong portfolio of industrial properties across the U.S. And in fact, that portfolio was marked up in the second half of last year because of meaningfully strong performance in the underlying properties. That was actually one of the factors that helped us in the fourth quarter.

This quarter, we gave up a portion of those gains, and you saw valuations across industrial properties, not just in this portfolio, but kind of across the industry, fall in the first quarter as valuations reflected higher cap rates. And I think an appraiser's view, more modest assumptions for lease rate increases going forward. But net-net, that portfolio has had a positive mark-to-market over the last 12 months. It's just that in the first quarter, we gave back some of the positive mark in the second half of last year.

The other thing that impacted us versus our run rate this year is that we have some seasonality in compensation in the first quarter. Like many firms, we pay bonuses in the first quarter. We accrued for those bonuses throughout the year. In Q1, we paid out bonuses that were slightly higher than our accrual for the year. So that impacted us. But the bigger impact was that those bonus payments trigger related payments, such as contributions to benefit plans and that impacts Q1 proportionately.

So if you adjust our results for that mark-to-market versus what we'd normally expect for seed on kind of a run rate basis and you reflect the seasonality, it gets us back to a run rate of almost that $50 million figure that I mentioned last quarter.

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

Okay. And as a follow-up, MFS, there seems to be some higher expenses in the quarter too. Is there any seasonality associated with them? Are they kind of related to any extra compensation at MFS that can be volatile and may have happened in the first quarter?

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**Tim Deacon** - *Sun Life - Executive VP & CFO*

Tom, it's Tim Deacon...

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**Manjit Singh** - *Sun Life - President of Sun Life Asia*

Yes. Go ahead, Tim.

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**Tim Deacon** - *Sun Life - Executive VP & CFO*

Thanks for that question. There were 2 pieces really on the compensation cost for this quarter. There is some seasonality in the first quarter. We have shares that vest that are issued to MFS employees. And when they become retirement eligible, they immediately vest, and that always happens in the first quarter of the year. So we do get a bit of noise coming through that. But that relates to the second piece, which was the more material part in the quarter, it was really the mark-to-market gain on the appreciation of these shares that flows through as compensation expense.

And you'll recall, there's 2 pieces to that. One that's in our underlying earnings, and you can think of that as a long-term incentive plan. And those shares are mark-to-market based on the fair value of MFS as an enterprise value. And we saw gains in the overall increase in the MFS shares. So that's flowed through as compensation costs.

And then on the reported net income side, we have a component that relates to vested shares. So these are shares that have already been awarded and fully vested. We have to set up a liability for that and that gets mark-to-market through income and that flows through on the reported income side. So it's really the 2 pieces. We had a share appreciation, which caused compensation costs, both in underlying net income and reported net income plus the seasonality.

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

And one of those components, maybe the second one you mentioned, is that part of that margin that you give? I think you give a U.S. GAAP margin as opposed to -- and this might not be a U.S. GAAP item, but it might be an IFRS item. Do I have that right?

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**Tim Deacon** - *Sun Life - Executive VP & CFO*

Yes. So the comments that I just made around the compensation, that's all IFRS accounting. And so the margin guidance that we give is on a U.S. GAAP basis. And so those vested shares, as an example, those flow through equity. Those don't hit the P&L under U.S. GAAP.

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

Okay. It would be helpful if we just have a -- something that wasn't U.S. GAAP related, at least in IFRS 17 margin, just so we could look at that thing on an IFRS basis going forward.

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

And I would add. This is Mike Roberge. Tom, I would just add to that is, obviously, as we run the business and think about the business, year-over-year, U.S. GAAP, revenues were up 5%, expenses were up 4% and pretax income was up 7%. So if you think about those things that are controllable here, and then long-term compensation just runs through.

And so when you're in a period where the stock price is going up because year-over-year, the business is driving better results. That's going to flow through earnings. That goes the other way when the stock is going down. It's a benefit to us. But that clearly isn't how we're thinking about running the business quarterly.

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

Okay. So it seems to be more accounting nuances than anything fundamental with respect to MFS? Is that the way I should be thinking about that?

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

Yes, from an MFS perspective. And Tim, I'll let you answer from yours.

**Tim Deacon** - *Sun Life - Executive VP & CFO*

Yes. No, I think that's exactly right.

**Operator**

Our next question is from Mario Mendonca with TD Securities.

**Mario Mendonca** - *TD Cowen, Research Division - MD*

Can we start first in Asia? So the Sun Life Hong Kong sales were very strong. And I understand that Hong Kong is rather -- Sun Life is strong in the broker channel in Hong Kong. So what would be helpful, perhaps from Manjit is, what did you see in the broker channel? Was there any sort of behavioural changes in the broker channel in response to the regulatory investigation?

And then how did Sun Life do it? Because the message we're getting from the domestic players and the players -- like I'm saying folks, the domestic players in Hong Kong, is that this is having an effect on the broker channel. So perhaps you could speak to these investigations and what it might mean to Sun Life.

**Manjit Singh** - *Sun Life - President of Sun Life Asia*

Mario, it's Manjit. So as you noted, we have a strong -- we had very strong results in Hong Kong this quarter. And part of those sales results are driven by sales that we do through brokers. There are a number of different businesses that we do have that we use brokers for. So about 1/3 of the sales are related to MCI Client business. About half of that is for high-net-worth Clients where we work with brokers who have established relationships with global private banks and the remainder is for local Hong Kong and pan-Asian Clients.

I think the issue that you're talking about really relates to the first portion, which is the MCI Clients, which I said is a smaller part of our overall business.

And one of the things that we -- that's driving our growth is also we were underweight in that business prior to the pandemic. We've made some investments over the last few years to grow that business. And so that includes establishing strong relationships with quality brokers, also looking at our product lineup and revamping our product lineup, enhancing the services and interactions that we provide to our Clients, including opening up our new Client center in the TST, enhanced digital capabilities, more Mandarin-speaking staff and improved after sales Client service. And we've also made significant investments in our brand, which is also paying dividends.

So the other thing I would note, Mario, is that our overall business that we are writing continues to have very good margins and more importantly, strong persistency, which suggests the quality of business that we're writing is quite high. So overall, we're very pleased with the momentum in our Hong Kong business.

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**Mario Mendonca** - *TD Cowen, Research Division - MD*

So Manjit, do you expect any effect from the controversy in the broker channel in the subsequent quarters?

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**Manjit Singh** - *Sun Life - President of Sun Life Asia*

So far, Mario, as you know, that was just something that the HIA conducted last month. To date, we have not seen any impacts to our business.

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**Mario Mendonca** - *TD Cowen, Research Division - MD*

Okay. A much broader question now, probably for Kevin, maybe for Tim. When a company of Sun Life's caliber reports a quarter like this, like a meaningful miss relative to what the Street was looking for, it can either -- it can go one or two ways, either management confidently declares that this quarter was the anomaly and earnings power is not meaningfully affected, or the message is estimates are just too high for the company, not just for the quarter, but on a go-forward basis.

It'd be helpful to hear, probably from Kevin first, if -- like, let me know which of those two, is this a message that our numbers need to come down or is this the anomalous quarter?

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

Thanks for the question, Mario. It's Kevin.

Outside of the U.S., and more specifically, DentaQuest, the negative items that hit us this quarter were largely normal volatility and were unique to the quarter. So for Canada, MFS and SLC, we'd expect results to normalize. And as you noted, Asia showed good momentum, in particular in Hong Kong and International.

I think you heard from Jacques and Mike and Steve on that. And as I already discussed in my opening remarks, SLC, we should see building nicely the rest of the year towards the $235 million target from their Investor Day for 2025. So that sort of puts those pieces in context.

The U.S., outside of DentaQuest, is in a similar situation to the other businesses. In fact, in the quarter, as Dan mentioned, Group Benefits business maintained very strong margins. DentaQuest is going to take some time. And we expect DentaQuest will take the rest of the year for the repricing to work its way through and claims experience, by the way, in Dental continues to be high in April.

So in 2025, we're looking at getting closer to the USD 100 million for DentaQuest. But this year, I think there'll still be some headwinds in terms of the DentaQuest piece. I would also point out that the global minimum tax is expected to begin as early as next quarter and will impact us by 1% to 2%, which we previously signaled.

So I think the answer to your question is probably specific into the business groups. And the one piece that I think continues to have a bit of that headwind is DentaQuest, and it's to do with the repricing that Dan talked about, but also the continued sort of higher claims experience.

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**Mario Mendonca** - *TD Cowen, Research Division - MD*

That was a very precise answer. So if I could paraphrase then. If DentaQuest is the one area that may take more time to get back to normal and everything else feels like it should normalize relatively quickly, then what I'm hearing then is that a very modest part of Sun Life because, let's be clear, we're talking about $30 million at the best of the quarters in terms of earnings from Dental. Against a much, much bigger company than that. It sounds to me than that, for the most part, this was the anomalous quarter with that modest exception of Dental.

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

I think, Mario, your math is accurate as always, and I think that's a good interpretation of what we're seeing.

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**Operator**

The next question is from Doug Young with Desjardins.

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

Maybe back to Dan, and you talk about -- or Kevin, you talked about repricing the DentaQuest business. And so I assume, before you were thinking of growing earnings and revenues in '24 versus '23, I assume that's off the table, but you can kind of correct me if I'm wrong.

But what I'm more curious is how hard is it to push through price increases by state in DentaQuest? I mean, can they just say no? Like can you talk a bit about that? Obviously, when you involve trying to push through pricing in states for certain categories of the population, it can get difficult. So just curious.

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

Yes. Thanks, Doug. Just a quick comment on the revenue. DentaQuest continues to win business and in fact, more so than competitors and from competitors in some situations. So we've actually -- we're actually anticipating, from a revenue perspective, being largely back to where we were. There's a little bit of a range there, but we're approximately or will be approximately in the pre-COVID range, and then expect to continue growing from there.

Medicaid historically has a 6% compound annual growth rate just in the program itself, and then we continue to win contracts. So in the longer term, we think that the business is very well positioned from a growth perspective. Obviously, this is a once in a century pandemic that we're dealing with, with very unique after-effects in this case, in particular, the government saying that the normal disenrollment from Medicaid, which is substantial annually, was frozen in place for more than 3 years. So this has to correct.

In terms of the price changes. Now, these really aren't a typical negotiation. The state governments set the rates. Now they certainly listen to the input of the contractors, and there are many contractors, not just dental, but medical as well, and we're not the only dental contractor. We certainly provide input and data where we can, but ultimately, the states set those rates.

Now the reason we're confident that they will reset the rates to the appropriate level is there's a more than 20-year history here of the state setting the rates very fairly and within a very narrow range of what's needed. This is obviously a shock event that's never happened before. The states really -- even though I think they anticipated some of this impact, did not anticipate this big of an impact on the average utilization and the loss ratio as they disenrolled the non-utilizers or the lower utilizers.

So the states have the programs properly funded. That's a long history, and we fully expect that they'll put the rates back at acceptable and appropriate levels. But they do that as per their natural schedule. So that's why we talk about -- we've -- there's actually 18 major contracts that constitute the 83% of the business that should be fully repriced by November.

And so far, we've gone through 8 of those contracts, and 7 of them have repriced at/or better than the rates that we think are needed based on the emerging experience. So far, so good, but we have a ways to go as well.

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

Okay. Perfect. And then just, Kevin, I know I think I've asked you this before, but I'll throw it out here again. You have this in-force management business from time to time, it gives you a little volatility this quarter. I think it was on the credit side. And I guess the argument about not needing the capital and it generating a nice earnings and ROE. But again, it puts up volatility from time to time. At what point do you pull the trigger and reinsure that business? And what would be the driver to do that?

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

So there's a number of things. That business continues to hit our hurdle rates for ROE and how we think about it. It's also a good provider of cash flow back into SLC. If you think about a lot of SLC's competitors in the U.S., they're buying closed blocks of business because they like the cash flow.

So that -- those would both be parts of us factoring into our thinking. We're always looking for different solutions to make it more capital efficient. So we would, time to time, see different things and assess them. But at this point, the combination of the results and also the cash flow into SLC, we think, is important.

Kevin wanted to add a comment.

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

Yes, Doug, it's Kevin Morrissey. The only thing I wanted to add there is on the credit side. What you're seeing in that credit line is the losses that we experienced in the quarter and the release of the provisions is in the expected investment earnings. So on a net basis, we actually have a net gain. So if you look at credit, with large from an overall perspective on that block, it was a net positive contributor to underlying earnings.

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

Kevin, I understand. But can you tell us, maybe at the consolidated level, what is the typical annual release of the credit provision? And then in the credit line, like typically, what would you expect? Like would you expect between the net -- between the 2 to kind of be breakeven? Like can you kind of talk a bit about that?

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

Sure. I can give you a kind of a high level. We see a release in the expected investment earnings of about $35 million per quarter. And so you can see that, that's a net positive. Longer term, that's our expectation, right? So we would expect to see kind of that largely neutral, that has an expected component and a risk margin. So maybe over time, we'd expect to see a slight positive from that in terms of net release of those risk margins. But that gives you a sense for kind of what we would expect longer term.

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

Appreciate the colour.

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**Operator**

The next question is from Gabriel Dechaine with National Bank Financial.

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

Yes. First question, just on the CRE stuff, both in the -- on the investment experience and it sounds like at SLC. I heard the negative investment experience in CRE mostly was tied to industrials this quarter. And then in addition to that, there is seed capital losses or no gains, whatever, in an industrial front? Is that the -- what I'm hearing?

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**Randy Brown** - *Sun Life - CIO*

Gabriel, it's Randy Brown. So thank you for the question. Yes, the losses that we saw in CRE this quarter, I'll talk about the overall level. And then if Steve wants to comment on SLC.

So we were down about 1% total rate of return. So despite the headlines and everything we read about the disaster in real estate, portfolio is actually faring quite well, really benefiting from the restructuring that I talked about in the past.

The valuation drop was mostly industrial, but also office. On industrial specifically, the valuation changes, Steve touched on it, were really based on a couple of factors. For us, for the general account was primarily in the Inland Empire, Inland from L.A., so it's services support.

We had seen outsized gains there in prior quarters. This quarter, we had a cap rate and yield decompression, which we expect, but also a drop in the achievable rents. So there had been very strong development completions and extensive growth in that specific area throughout the pandemic, which led to an oversupply bubble that's putting downward pressure on rents. So it's not only cap rates decompressing. You saw forward rent growth expectations drop.

Now that oversupply, we expect to be temporary as industrial completions dropped to the lowest level in 14 years there. Overall, that being said, our portfolio there, 100% occupied, strong tenants, extended lease terms. So doing quite well. Office continues to experience negative valuation changes again as the market seeks a floor. But we've seen the pace of those drops slowing down.

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

Yes. So it sounds like a temporary supply issue, not a secular type thing we're seeing in office.

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**Randy Brown** - *Sun Life - CIO*

Yes, completely.

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

Okay. And moving on to this DentaQuest stuff. This is a -- my question, I mean a silly one, but were you caught off guard by this -- the redetermination impact and then the kind of the claims dynamic where the coverage that was trimmed or purged had lower utilization rates because -- I mean, it certainly caught me off guard and because this is the year where we were expecting to hit that USD 100 million of earnings contribution and that, I guess, is getting pushed back to next year, right?

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

Yes. So we certainly expected the redeterminations to happen. And there was some uncertainty if you go back to when the transaction was announced as to when that would occur. And the Biden Administration decided to extend the Public Health Emergency longer and longer until the spring of last year. So membership had -- excess membership had certainly accumulated.

We certainly expected that there would be some impact on the loss ratio because those who were being disenrolled were more likely to already have other coverage from getting a job or so forth. So we knew there would be that effect. The size of that impact, though, I think, has surprised everyone, including us and including the States. So I think this was anticipated, but the size of the impact was greater than we anticipated.

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

I guess another way to look at it is maybe the redetermination -- as you alluded to, the redeterminations were pushed out. So maybe the stuff that you would have expected to happen in late 2022 into 2023, and you'd be back on track in '24, it's more of a kind of a byproduct of -- extension of a pandemic relief program, right?

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

Yes. I think exactly. And in fact, we were -- during the pandemic, our earnings were quite favourable and grew and grew at a stable rate, which is kind of remarkable with all of the impacts that we were having. So we were benefiting in the Sun Life U.S. business from a uniquely diversified set of businesses. Of course, there was a very big negative impact on our Group Life business. And then there were positive impacts on the stop-loss business from lower health care utilization and in the dental business from the inflated Medicaid membership.

Thankfully, the mortality impact in Group Life wound down about a year ago, whereas these 2 more positive tailwind effects in stop-loss and dental are winding down now. Have they all wound down in synchrony at the same time, we hardly would have noticed this.

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

Okay. And if I could sneak one more in there, apologies to the IR team. But Kevin had mentioned in his opening remarks that the morbidity experience in group is now in line with pre-COVID levels, something along those lines. There's been a lot of more positive quarters in that morbidity bucket over the past couple of years and back to normal.

Is there a run rate? Do you price for an expectation of morbidity gains? And if so, what kind of range we should be anticipating because like last quarter, it was really high, didn't view that as sustainable. Maybe this quarter is more normal. I just want to get a better sense of that, please.

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

Yes. And what that is specifically referring to is Stop-Loss. The Stop-Loss portion of group. Throughout the pandemic, we were experiencing exceptional morbidity well -- the loss ratio was well below what we priced for. And we've been saying throughout that period that it would gradually return to what we price for, it has to.

And in the first quarter, the loss ratio is now fairly close to our pricing loss ratio. We price to about a 72.5% loss ratio and we're approaching that number. That still generates very favourable margins. And in fact, we're still somewhat favourable.

So I think the way of thinking about it is stop-loss is still performing well, generating higher than its -- strong margins, but just not as favourable as it was during the pandemic and after-effects of the pandemic.

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

It's Kevin. I might add 2 things to that. First, we're a leading provider in the Stop-Loss business in the U.S. and we have been for years. So we have really strong capabilities, and we've been adding things like PinnacleCare, which makes that -- those pricing ratios even more sustainable.

And as Dan was saying, you were seeing earlier on higher mortality through COVID and better morbidity. You're seeing both of these have a very strong margin. The combined group benefits was over 9% in the quarter. So you're seeing that business do well. And our expectation is we would continue to do well, given our position and our investments and our investments into digital.

The other thing I would say is on the DentaQuest because I know there's a lot of questions about DentaQuest. We still think it's a very good acquisition. It added capabilities we didn't have, it added scale. We are pushed back probably approximately a year a little bit if you think about that USD 100 million in 2025.

But we're still a big believer in this business and the acquisition we did and that it's going to meet the long-term objectives we had for the business. And I think you've heard that from Dan, as he talked about what's happened. It's not been a straight line; you can see that. But we think we still have the thesis that we started with and the capabilities and the scale that it built.

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

Okay. Have a good weekend.

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**Operator**

Next question is from Paul Holden with CIBC.

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

Most of the questions have been taken, but one more on U.S. group. Lots of references to run rate, earnings in Dental of USD 100 million a year. Are you able to give us what it was for the quarter? Just to give us a sense of upside from here.

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

Well, in Dental in the quarter, it was $6 million for the quarter, and that's in our materials. And just an additional comment on the $100 million that we've mentioned several times, that's really what we're saying is our thinking for 2025.

But as Kevin just said, longer term, we think it's obviously higher than that. It's still equal to or greater than what we anticipated when we announced the transaction. The growth trajectory of the business is very good. This temporary redetermination issue notwithstanding. And in fact, we're winning new contracts. So we're winning major new contracts. We're winning contracts from competitors.

We also have significant opportunity to grow, not just in the Medicaid business, but in Medicare Advantage and in Commercial. The Commercial business has had a really good growth trajectory in the past year. And as of January 1, we added our largest Medicare Advantage contract ever. So there's a lot of future potential here to continue growing this business.

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

Got it. Okay. And then I want to go back to the discussion quickly on MFS and expenses there. I mean if I just look at the average asset growth versus the earnings growth, there's a pretty big difference there. So I get that some of it was attributable to the additional compensation expense. But I'm assuming like that's not normally what we would expect over time.

So again, was there any kind of true-up or top-up? Maybe it's related to time of year on that? And if we thought about sort of 8% type average earnings asset growth over time, what kind of earnings growth should we attribute to that?

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

Yes. Maybe -- this is Mike. Maybe I'll take you back where, as I said before, is if you think about it in U.S. GAAP, is we had revenues up 5% year-over-year in the quarter. We had expenses up 4%. We had earnings -- pretax earnings up 7% in the quarter. And then there's deferred comp and the stock price, which comes through the P&L for IFRS perspective.

And so from a U.S. GAAP, in terms of the model that we manage to, the business performed as you'd expect, with revenues up, as ANA was up, some operating leverage relative to that. And the things that run through the P&L from a deferred comp true-up on the stock price side are issues that impact longer-term compensation, and they'll come in and they'll come out of the profitability of the quarter. But we think U.S. GAAP is a better representation from our perspective of how the business is being managed.

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

Okay. So again, really just IFRS noise. Okay. One more I want to sneak in, if you don't mind. Just on SLC, wondering if you can provide us an update on the capital fundraising outlook for the year?

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

Yes, Paul. It's Steve. You saw in the quarter that we raised -- garnered new commitments of about $3.5 billion. We were a positive net flow, which also takes into account our ability to put money to work of about $2.9 billion into fee earning AUM.

And we would expect fundraising to increase over the year for a couple of reasons. One -- and that's largely related to some big funds that we have that we're initiating fundraising on. So in particular, we have 2 large Crescent funds, one that is on its fourth series, one that it's on its ninth series. We should be seeing first close this year for both of those funds. So that will have an impact.

One thing I would say, though, in general, especially on the real estate side, is that with interest rates over the last couple of years having gone from effectively 0 to slightly above 5%. On the real estate side, that is a headwind for fundraising. So we think fundraising will increase given the different funds we have in the market, which are very specific industrial fund, cold storage fund and Asia fund that's done very well.

We are facing a headwind, especially in real estate in terms of interest rates. And obviously, there was a projection in the market going back a few months that we would see the Fed cutting rates and interest rates going down that would have obviously help us. I think those expectations have been tempered. And so we have to deal with that reality in the marketplace. But we do have some big funds coming online, which will help us over the course of this year and into next.

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**Operator**

The next question is from Lemar Persaud with Cormark.

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

Yes. So I'll start off on SLC. I wonder if you could talk about what gives you the confidence in this -- in the $235 million by 2025 in the context of higher for longer rates? Like is there a real risk that we could be talking about more mark-to-market losses in this business kind of weighing down earnings? Or is the rate outlook not a material consideration in getting to this $235 million?

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

Well -- thanks, Lemar, for the question. I would say a couple of things. One is the rate environment is a significant market environment that comes into play. And it has some puts and takes for us. But I would say net-net, higher rates are negative for us like they are for most investment businesses.

On the negative side, it makes -- it's tougher to raise real estate funds when rates are higher. Rates impact the ability to deploy money because of the dislocation, especially in real estate between buyers and sellers.

And deploying money is important to us because we have a big $20-ish billion of committed, but yet uninvested capital, and we generally get paid fees when we invest that capital. It can have an impact, obviously, on valuations in real estate and in fixed income and our fees are paid on valuations. So that can be a headwind. It can help us, though.

So it makes fixed income assets in general more attractive on a relative value basis. So we've seen good demand for our fixed income capabilities. And the other thing is on our private credit capabilities, those tend to be floating rate. So you can earn 10-plus percent on a private credit portfolio today, and that's attractive for investors on a relative value basis. But that's certainly a headwind that we have to face.

I think what gives us -- a couple of things that give me confidence as we go into next year. One is that we have a -- I think this was intentional as we built SLC. We have a very diversified platform. So our asset classes go from investment-grade fixed income, both on the public and private side, below investment grade, both public and private in fixed income, real estate equity, but also real estate debt, which is an important area for us, and that's particularly attractive to be a real estate lender in this market. We've got infrastructure, of course.

So I think you see the diversity of that, of SLC when you look at how our fundraising changes quarter-to-quarter. And I think that gives us confidence that while we have to deal, we're always going to have to deal with some headwinds and tailwinds in the market, and that it should allow us to do that.

The other thing that I'll say is that we've intentionally really managed what we call the affiliates, so BGO, Crescent, InfraRed, separately during this interim period between our initial investment and the back end of those deals. We're approaching the back end of those deals we call it the -- we internally refer to them as the put-calls.

As we do that, as we start to announce leadership that will transcend the put-call, I think we're going to start to think increasingly about what are synergies across the platform, what are dots we can connect across the platform. And I think those are going to be especially prevalent on the distribution side. And so I think that's going to help us turbocharge growth at the platform level.

So I'll give you one quick stat. I think across the platform, we've got something like 1,300 institutional Clients. Only about 50 of those Clients invest with us in more than one area across our platform. That number should be much higher. And I think as we start to really try to connect those dots, we're going to -- that's going to -- we're going to see that help us as well.

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

So bottom line, you feel like you can still deliver on this even if we're -- even if rates don't really move into 2025, just given the puts and takes, is that kind of the bottom line?

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

Yes, I'll say it in a different way. I don't think our ability to achieve that, to hit that target is dependent upon rates falling. I hope they do. It will make things easier for us, but I think we can work through it if they don't fall from here.

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

Okay. Appreciate it. And then my second question just on the expectation for Dental earnings in 2024. So $6 million this quarter and a weak Q2, so say somewhat in line with that. But then what happens in the back half of the year? Is it just a gradual build to get into that kind of $25 million a quarter in 2025? I'm just trying to figure out how the model is for the remainder of the year, just given all the moving parts of redeterminations, the repricing of DentaQuest and premiums from 2023 sales coming online. So any help there would be helpful.

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

Yes. I don't think we can give specifics quarter-by-quarter. But generally, we would expect the results to start getting significantly better in the third and especially the fourth quarter. And that relates to the timing of the rate increases. So we have 3 very large contracts yet to have their rates reset. One is on 7/1, one is on 9/1, and one is on 10/1. So that affects the way we think about it.

In addition, we have other initiatives, expense initiatives, claim management initiatives that are coming into play as well. Many of those are playing out in May and June. So that would actually start to help us in the third quarter. But we would expect meaningful improvement in the third and especially the fourth quarter.

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**Operator**

The next question is from Nigel D'Souza with Veritas Investment Research.

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

I wanted to first follow-up and clarify on less favourable U.S. morbidity experience for stop-loss. I just want to confirm if I understand it correctly, the utilization rates that normalized pre-pandemic levels. I think I heard you say that was driven by a resolution of capacity issues. Just want to confirm if that's correct. And of course, the implication there is that we're now at, I guess, the normal run rate for morbidity experience for that business. Is that the right way to think about it?

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

Well, the first part of what you said is what we said, absolutely. We've seen provider capacity, and that's largely been a staffing issue, recover to pre-pandemic levels, or at least very close to pre-pandemic levels. And we've seen utilization move in concert with that. It seems to be stabilizing, and this is based on external data.

The way I would think about that for our business is we've seen the morbidity, which had been favourable beyond our expectations, return back close to where we would expect them to be, not quite where we'd expect them to be, but close to that level.

So we still are generating favourable margins and favourable to our pricing, but certainly not as favourable as in the past. Whether -- I'm not sure we can predict precisely what the morbidity will be each quarter. Remember, there is some volatility in this as well. But certainly, we're close to the pre-pandemic levels at this point.

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

Great. And then...

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

Sorry, Nigel. Sorry, it's Kevin. I put back that -- like all of our businesses, and especially if you think about Health and Risk Solutions, the Stop-Loss business in the U.S., given the investments we've made, we expect that business to grow top line and bottom line alongside of it. So as Dan talks about the margins coming back in, we still expect growth in that business overall for the long-term because we really have a unique position there versus our competitors.

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

Got it. That makes sense. And I think where we're going with this is, when you look at your experience gains last year, it was about $300 million, favourable. And trying to think through what picks up for that shortfall, if assuming experience is more neutral this year, I think you could point to growth in Asia, higher CSM amortization, Sun Life Asset Management delivering, higher underlying income as well.

But I was wondering, if you could touch on another component, the investment earnings and earnings on surplus. What do you expect your outlook for that this year? The growth this quarter was relatively soft despite pretty constructive financial market conditions at the start of the year. So any colour there would be helpful.

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**Tim Deacon** - *Sun Life - Executive VP & CFO*

Nigel, it's Tim. I can take the question on the earnings on surplus. So you'll see in our disclosures, we break that into 3 components. We have what we call core investment income, and that's really from the portfolio that's backing our surplus, and that's predominantly in fixed income like securities.

And so you see a nice uptick from year-over-year and even quarter-over-quarter and that's really because of the higher yields that we're generating in that portfolio given the current environment. But there's a couple of other pieces that are a little bit more variable.

The second one being the realized gains or losses that are realized on the fair value through OCI securities. In last year, we had strong gains, particularly in Canada on that portfolio. We had modest gains this quarter. We had slight losses last quarter, so that bounces around a little bit. And that's really dependent on rate environment in terms of what's the accumulated unrealized gain or loss balance in that portfolio.

And then finally, the last item, which we described as Other, really has mark-to-market components from derivatives and other hedging activities, and that bounces around a little bit, but it's not as material.

So overall, you've seen healthy earnings on surplus. And offsetting all of that, we have interest on debt and that's come down a bit just because we've had some repayments of some of our financing. So healthy portfolio, mostly fixed income, will be rate dependent.

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

Anything on investment?

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**Randy Brown** - *Sun Life - CIO*

Yes. Nigel, it's Randy. I'll address. I think what you're getting at here is credit. I think Kevin Morrissey covered in a sense. Overall credit experience -- overall was positive for the quarter. The actual experience being less than what's assumed and the assumption -- what's used in the assumption for liabilities.

We did, however, see 3 impairments that I would say are not systemic, but rather specific liquidity issues that all 3 began during COVID and then just manifested over time. So having literally thousands of credit, not unexpected to have a couple to hit issues at any given time.

Net migrations were flat. ECL was lower than in prior quarters. So you did see lumpiness by business group, but we manage on a global basis and globally, the diversified portfolio is performing as expected.

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

Okay. That's helpful.

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**Operator**

We have a follow-up question from Meny Grauman with Scotiabank.

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

Just wanted to follow-up on Mario's question. Just ask -- is there any reason to believe that you won't be able to hit an 18% ROE for the remainder of the year? It sounds like dental redemptions are too small to push you off track on that. But just wanted to get your thoughts on that, connecting it to the ROE.

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

Well, our ROE [at 18%+] (corrected by company after the call), it's a -- sorry, there's feedback there, is a medium-term objective, and we still feel confident that we'll deliver on that. The -- I think I addressed the earnings, and you can figure out the ROE from the earnings sort of comments. As we said earlier, we think DentaQuest will have a more difficult year and will grow more slowly, but the other pieces were sort of more negative volatility than we would normally see and were specific to the quarter.

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**Operator**

We have no further questions at this time. And I will turn the call back over to Mr. Garg.

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**David Garg** - *Sun Life - Senior VP of Capital Management & IR*

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

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**Operator**

This brings to an end today's conference call. You may disconnect your lines. Thank you for participating, and have a pleasant day.